LFC Requester:	

AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO
AgencyAnalysis.nmlegis.gov and email to **billanalysis@dfa.nm.gov**
(Analysis must be uploaded as a PDF)

SECTION I: GENERAL INFORMATION
{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Date Prepared: *2/10/2025*
Bill Number: *HB325*

Check all that apply:
Original *X* Correction __
Amendment __ Substitute __

SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		
$0	$0		

(Parenthesis ( ) indicate expenditure decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		
$0	**$0**	**$0**		

(Parenthesis ( ) indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:

SECTION III: NARRATIVE

BILL SUMMARY

Housing Bill 325 (the Bill) proposes amendments to the state's tax code to encourage the construction of new residential housing by providing a flat deduction in the amount of gross receipts tax (GRT) liability due on the construction of a new home. The Bill provides for a flat deduction of $125,000 for new homeownership units and $75,000 for units for lease. The Bill also establishes hold harmless distributions to municipalities and counties to offset potential revenue losses. This is a broad-based approach at increasing housing supply and alleviating housing scarcity driven affordability issues.

FISCAL IMPLICATIONS

Because the Bill would reduce the amount of gross receipts tax liability for a given home's construction, it would decrease construction-related GRT tax revenue, which would directly impact the State financially given the hold harmless clause. The amount of revenue would be significant given the high dollar amounts involved with home construction.

What is difficult to model would be the potential for increase overall housing development above current averages, and the subsequent increases in total gross receipts tax revenue, which could make up some of the lost income from current production levels. Because New Mexico's approach to taxation on new construction is unique among states, there are no examples from other states to draw comparisons from.

Unfortunately, New Mexico lacks comprehensive housing market data that includes accurate permit issuance numbers and housing construction costs, but estimations can be made using publicly available data and conservative assumptions. Using the 2023 Census Permit Survey records, there were a reported 6,835 single family residences constructed in the state. If you assume a 7.5% GRT rate, similar to the current effective rates in the City of Albuquerque and Rio Rancho, and an average hard construction cost of $250,000 per housing unit, this would arrive at a per unit GRT liability of $18,750. This scenario would generate $119,718,750 in total construction GRT revenue in 2023. The proposed decrease in liability would lower the GRT owed per unit to $9,375, and lower total revenue to $59,859,375 overall. To cover this gap, this would require a doubling of housing construction activity to balance out the decreased per-unit tax revenue.

It is unlikely that given the current state of construction capacity and developable land with requisite land use entitlements, that even in a best-case scenario housing construction could increase 100%, even over a number of years.

It's important to note that there are multiple other fiscal benefits to state and local governments associated with housing construction, including increased property tax base and increased consumer spending activity.

SIGNIFICANT ISSUES

Urgent Need for Increased Housing Production

New Mexico is facing a significant housing shortage. Underproduction of housing since the Great Recession is a critical driver of New Mexico's current housing affordability challenges. Estimates vary, but current housing needs to balance demand imbalance range between 30-40,000 additional units statewide. A 2024 Albuquerque Housing Needs Assessment estimates a need for an additional 55,100 to 59,850 housing units just in the Albuquerque metro area by 2045. But according to preliminary Census Building Permit Survey data, building permits in New Mexico are in decline, with 9% fewer units permitted in 2024 than in 2022.

New Mexico's Unique Tax Structure

New Mexico's taxation structure that applies gross receipts tax to both labor and materials on construction is unique among states and places a high financial burden on new construction projects. In the past few years, New Mexico has experienced a precipitous rise in the cost of construction, and this coupled with dramatic increases in interest rates, mean that the hard cost to build a new housing unit has increased as much as 50% in some communities. This means that the amount of gross receipts tax liability has increased significantly as well. This is also reflected in the prices of newly built homes which according to the National Association of Homebuilders *Priced Out* study, have increased over $115,000 (36%) in just 5 years. The current median new home in New Mexico is now estimated at $442,000, a price which is unaffordable to nearly 82% of New Mexican households.

Potential for Increased Housing Production
By providing a discount on the overall hard cost to construct a housing unit, this could move some projects that are currently on the edge of financial feasibility into feasible territory. For instance, a 300-unit project, which would benefit on average $9375 per unit, would reduce hard development costs just over $2.8 million.

Similarly, this would directly benefit every affordable housing development project in the state, nearly all of whom currently need gap subsidy to reach financial feasibility. This tax benefit could decrease reliance on state housing trust funds, appropriations and capital funds for gap financing.

Ultimately, at a rough estimated cost of $60m, this is less than the $100m request for capital funding for affordable housing projects just in Albuquerque and Bernalillo County for this year. An approach like this could be worth piloting on short-term basis to see if it is successful in increasing overall unit production in the state. This would require a different level of data gathering an evaluation than the state currently employs around housing.

PERFORMANCE IMPLICATIONS
None

ADMINISTRATIVE IMPLICATIONS
This tax deduction would create an increased administrative burden on the Taxation and Revenue Department, which would depend on how the program was ultimately structured.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP
A reduction of gross receipts tax for the material cost portion of construction is currently eligible for nonprofit organizations who have in their mission to promote homeownership for low- and moderate-income households.

TECHNICAL ISSUES
The process for administering the tax credit could be challenging given the current GRT reporting systems the NM TAP.

OTHER SUBSTANTIVE ISSUES
It is unclear from the legislation the approach that was used to arrive at the deduction amounts. Generally, multifamily units are more costly to produce than single family housing and have seen a greater decline by percentage in overall permit issuance, with a 24% drop through Q3 of 2024 according to the National Association of Homebuilders. This would imply they would need a larger, not smaller deduction.

Because this would apply to all new housing, including luxury housing, it could be interpreted as subsidizing housing construction which does not need financial support from the public sector. Similarly, with no income or price targeting associated with the policy, there is no guarantee this will create more entry-level or affordable housing, nor that those benefits provided by the deduction will be passed on to buyers, although eventually market competition pressures would incentivize this.

ALTERNATIVES

Price Threshold

One way to increase the effectiveness of this legislation would be to have it only apply to entry-level housing. This would provide a benefit to market actors to explicitly target the type of housing most needed, that which serves entry-level buyers and New Mexico's workforce. A simple price threshold under which the deduction applied, such as $450,000 (roughly equivalent to the current new median home sales price), would decrease the fiscal impact to the state and incent the market to work in those lower price points, without providing costly financial benefits to the development of higher end housing. For instance, the median new home price in Santa Fe County now exceeds $900,000, reflecting the large percentage of new luxury and custom homes being developed, an activity that does not warrant any sort of public sector benefits.

Include Sunset Date

We are currently dealing with an unprecedented cost environment for housing construction. There are many other opportunities for lowering the cost to develop housing in New Mexico which have not been utilized yet, and this model is unproven for increasing units or decreasing the overall cost of housing for consumers. A sunset date could make any negative financial impact short-term and create time to evaluate the initiative to assess its impact on housing markets. It would also create time to enact other best practice approaches to lowering development costs in the state.

Other Development Cost Reduction Approaches

There are a large number of state and local regulatory, land use, and building code reforms that can have a significant impact on housing development costs. For instance, Santa Fe County's Affordable Housing Plan identified that it now takes between 3-4 years to win approval for a large-scale housing development. Decreasing that time to 12-18 months through expedited approval processes could save up to $80,000 per housing unit in holding, overhead, and legal costs. A recent effort in Virginia to "right size" building codes, removing costly compliance with little impact on life safety, netted an average decrease in hard development cost of $24,000 per unit, more than double the tax benefit proposed for a single-family home.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

New Mexico's housing affordability challenges are acute and having widespread impacts in the state. According to a recent Pew Charitable Trust article, since 2017 New Mexico has experienced rent growth more than twice the national average, along with an 87% uptick in homelessness, 47% higher than the national average. 2024 data from U-Haul indicates that New Mexico is among the top states for a decrease in one-way moving truck rentals, indicating that despite record economic and job growth, we are seeing a slowing of in-migration. Without adequately addressing our housing supply shortage affordability and homeless issues will continue to grow and the state risks constraining its overall economic growth and displacing multi-generational New Mexicans.

AMENDMENTS