BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

March 4, 2025

Bill: SB-383 **Sponsor:** Senator Candy Spence Ezzell

Short Title: Flood Recovery Bonds & Gross Receipts

Description: This bill amends Sections 3-31-1 and 3-31-1.1 NMSA 1978 to provide for flood recovery revenue bonds. It adds a new section to the Municipal Local Option Gross Receipts and Compensating Taxes Act to allow for the enactment of a new increment of tax called the municipal flood recovery gross receipts tax, not to exceed 1/4 percent, that may be imposed until the flood recovery bonds issues are fully discharged. Only certain municipalities may impose the new increment and issue the bonds. The flood recovery bonds must be paid for from the revenues of the new municipal flood recovery gross receipts tax. A new section is also added to the Gross Receipts and Compensating Tax Act to provide a deduction from governmental gross receipts tax (GGRT), prior to July 1, 2028, for receipts from selling a service or tangible personal property to an eligible municipality for the purpose of rebuilding, repairing, replacing or hardening the municipality's property that was damaged by a flood.

Effective Date: Emergency clause; effective immediately upon signing by the Governor. The effective date of the bill is the first day of the month following the date the act takes effect.

Taxation and Revenue Department Analyst: Pedro Clavijo

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	FY2026	FY2027	FY2028	FY2029		
--	--	--	$4,000	$4,100	R	Section 3: City of Roswell
--	No fiscal impact. See narrative.				R	Section 4: General Fund

* In thousands of dollars. Parentheses ( ) indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact:

[Section 3:] It is unknown whether any eligible municipality will adopt the new municipal flood recovery gross receipts tax, nor whether they will issue bonds backed by such revenues. Per Section 7-20E-3 (B) NMSA 1978, the effective date of the new tax increment would be at least three months from the date the adopted ordinance is mailed or delivered to the Taxation and Revenue Department (Tax & Rev). Therefore, the new local option could be in effect beginning on July 1, 2027 for eligible municipalities that adopt it. Tax and Rev used data on taxable gross receipts reported in the RP-80 for fiscal year 2024 to determine the impact of the new tax rate. The estimated impact is based on the bill's proposed higher tax rate for an eligible municipality located in a class-B county with a population greater than 45,000 and a net taxable value for property greater than $1,500,000,000. Currently, the City of Roswell is the only municipality that meets such criteria.

[Section 4:] The state imposes a governmental gross receipts tax (GGRT) of 5% on the receipts state and local governments receive for services, with some exceptions. By allowing a GGRT deduction, the bill does not relieve the government from paying tax on those goods and services purchased by the government to rebuild, repair, replace, or harden the municipality's property damaged by a flood when those goods and services are sold to the municipality by private sellers Such receipts are subject to the regular gross receipts tax (GRT) and not GGRT. To provide relief on the payment of taxes on services purchased by a governmental entity related to flood recovery, a deduction for the sale of such services to the government may need to be deductible from GRT. In addition, receipts from the sale of tangibles to a government entity are already deductible under 7-9-54 NMSA 1978.

Policy Issues: Following a flood, public investment typically focuses on infrastructure repairs and upgrades to mitigate future flood damage and make communities more resilient to its impacts. This investment might help foster the economic activity of the affected areas without excessive disruptions. Recent floods have hit New Mexico severely and in the City of Roswell flash floods that ensued caused widespread damage to the town. However, there are some caveats with public investment based on debt. For example, higher taxes designed to pay debt might have the opposite effect to that which is intended: revenues might decrease. Put differently, since higher taxes have a contractionary effect, spending and demand might decrease, weakening economic activity and, therefore, tax collection. Because the City of Roswell is a hub for tourism, some of the GRT imposed in the city is "exported" to visitors from outside the city. However, the GRT burden on local residents who live or work in the city may grow even higher due to this bill. There is also the risk that temporary taxes become permanent once the communities have assimilated them, making the higher burden persistent.

Tax & Rev finally notes that the proposed legislation is contrary to the policy carried out in "de-earmarking" legislation enacted in 2019 (HB479) whereby local governments were given more flexibility to use GRT revenues for local priorities. Better tax policy is to allow the funding of any project from general municipality local option gross receipts tax revenues, imposed pursuant to Section 7-19D NMSA 1978. Currently, the GRT rate in the City of Roswell is 7.8958% and Sections 7-19D(C)(1) and 7-19D(C)(2) NMSA 1978 still allow for GRT increments the City might impose and dedicate to infrastructure repairs and upgrades.

Technical Issues: None.

Other Issues: The emergency effective date does not allow time for Tax & Rev to develop and implement the separately stated deduction in GenTax, the tax system of record, and update forms and publications. An effective date of January 1, 2026, would allow for thorough development and testing.

Administrative & Compliance Impact: Assuming voters approve this increment, updates to rates in GenTax, testing, and changes in reports will have a cost for the Tax & Rev's Information Technology Division (ITD) and Administrative Services Division (ASD). The implementation of the bill will entail approximately 3 months and $126,500 in contractual costs for ITD and 80 hours for two ASD staff focused on testing the distributions and reports.

Estimated Additional Operating Budget Impact*				**R or NR****	**Fund(s) or Agency Affected**
FY2025	**FY2026**	**FY2027**	**3 Year Total Cost**		
$2.6	--	--	$2.6	NR	ASD - Operating
$126.5	--	--	$126.5	NR	ITD - Contractual Cost

* In thousands of dollars. Parentheses ( ) indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).