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**FISCAL IMPACT REPORT**

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<th>ORIGINAL DATE</th>
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<th>HB</th>
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**REVENUE (dollars in thousands)**

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(Parenthesis ( ) Indicate Expenditure Decreases)

**SOURCES OF INFORMATION**

LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

**SUMMARY**

**Synopsis of Bill**

House Bill 299 would increase the share of compensating tax revenue transferred to the small cities assistance fund from 10 to 15 percent. In addition, it would increase the minimum amount per city from $35 to $75 thousand. Finally, the “municipal share” used to calculate municipal distributions would be decreased from 1.35 to 1.225 percent.

The effective date of these provisions is July 1, 2006.

**FISCAL IMPLICATIONS**

Under current law, 10 percent of compensating tax revenues goes to the small cities assistance fund, 10 percent goes to the small counties assistance fund, and the remaining 80 percent goes to the general fund.

The bill would reduce general fund revenue by 5 percent of compensating tax revenue and increase small cities assistance fund revenue by 5 percent of compensating tax revenue. According to the December 2005 consensus revenue estimate, general fund compensating tax revenue will
be about $48.6 million in FY07. This implies that total compensating tax revenue will be about $60.8 million ($60.8 million X 80 percent). The fiscal impact of House Bill 299 will then be about $3.0 million ($60.8 million X 5 percent).

TRD provided a table illustrating the estimated FY07 impact of HB299 on each of New Mexico’s small municipalities, which is found at the end of this analysis.

SIGNIFICANT ISSUES

The formula by which small cities assistance fund revenues are distributed to municipalities is found in Sections 3-37A-1 to 3-37A-3 NMSA 1978. The distribution is calculated each February and funds are distributed in March. TRD reports that this formula is very complex and uses a large amount of data from numerous sources and time periods.

ADMINISTRATIVE IMPLICATIONS

TRD reports that House Bill 299 will cause minimal administrative impacts.

TECHNICAL ISSUES

TRD notes that the calculation contained in House Bill 299 is very complicated and that all changes to the current tax code should be kept as simple as possible.

SS/mt
Illustration: Possible Fiscal Impacts of the Proposal Changes in Small Cities Distributions

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<tr>
<th>MUNICIPALITY</th>
<th>Estimated distribution in March 2007 with HB299 changes</th>
<th>Estimated March 2007 distribution under Present Law</th>
<th>Change in Distribution</th>
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