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FISCAL IMPACT REPORT

ORIGINAL DATE 2/6/07

SPONSOR Campos LAST UPDATED _____ HB 472

SHORT TITLE Municipal Tax Distributions SB _____

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(5,650)	(11,300)	Recurring	General Fund
	5,650	11,300	Recurring	Local Governments

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)
 Department of Finance and Administration (DFA)
 New Mexico Municipal League

SUMMARY

Synopsis of Bill

House Bill 472 creates a mechanism for municipalities to share personal income tax revenues in exchange for gross receipts tax revenues. The bill creates a municipal income tax distribution equivalent to 0.275 percent of the adjusted gross income (AGI) for residents within the municipality. If the new distribution exceeds 0.225 percent of gross receipts, the municipality can forego 0.225 percent of gross receipts distribution in exchange for the PIT distribution. The Taxation and Revenue Department (TRD), the Department of Finance and Administration (DFA), and the NM Municipal League (NMML) must report annually to the revenue stabilization and tax policy committee (which sponsored HB472) on the distributions and

FISCAL IMPLICATIONS

TRD estimates that the impact will be an \$11.3 million reduction in general fund revenue. Since the effective date is January 1, 2008, half of a full year impact is accrued to FY08. The impact is estimated using current zip codes from personal income tax returns.

SIGNIFICANT ISSUES

The NM Municipal League, an association that represents the state’s municipalities, reports that the municipalities are too dependent on gross receipts tax for general purpose revenue and suffer during recessions. Including a distribution on personal income taxes, according to NMML, would diversify municipal revenues.

TRD:

The table below provides approximate estimates of the net impact on municipalities using personal income tax information from tax year 2004 and estimates of the gross receipts tax base for calendar year 2006. Thus, the estimates should be viewed as approximating effects if the bill were in place as of calendar year 2006. **These are only approximate estimates and are not intended to indicate the exact amount that would be distributed to any community. There is not enough information currently available to make that calculation.**

Illustration: Estimated Impacts Proposed Legislation by Municipality

Municipality	Estimated FY06 Distribution	Estimated New Distribution	Change from Estimated Distribution
Alamogordo	7,645,621	7,645,621	-
Albuquerque	187,290,651	187,290,651	-
Angel Fire	1,015,537	1,015,537	-
Artesia	4,495,551	4,630,160	134,609
Aztec	1,793,009	2,055,529	262,520
Bayard	231,704	262,375	30,671
Belen	2,594,947	2,819,107	224,160
Bernalillo	1,156,220	1,251,977	95,757
Bloomfield	2,299,708	2,389,421	89,713
Bosque Farms	428,774	627,581	198,807
Capitan	178,085	217,403	39,318
Carlsbad	7,862,965	7,862,965	-
Carrizozo	143,156	156,008	12,853
Causey	4,367	5,680	1,313
Chama	302,105	302,105	-
Cimarron	124,817	142,324	17,507
Clayton	483,100	483,100	-
Cloudcroft	268,888	298,841	29,953
Clovis	9,698,928	9,698,928	-
Columbus	81,688	370,317	288,629
Corona	29,535	40,475	10,939
Corrales	1,121,491	1,646,724	525,234
Cuba	257,210	432,513	175,303
Deming	3,347,633	3,347,633	-

Illustration: Estimated Impacts Proposed Legislation by Municipality

Municipality	Estimated FY06 Distribution	Estimated New Distribution	Change from Estimated Distribution
Des Moines	31,580	159,714	128,134
Dexter	296,594	346,943	50,349
Dora	40,447	53,961	13,514
Eagle Nest	78,349	78,349	-
Edgewood	916,761	1,259,679	342,918
Elephant Butte	166,367	294,622	128,254
Elida	28,707	215,376	186,669
Encino	13,860	18,058	4,198
Espanola	4,206,885	4,206,885	-
Estancia	414,897	414,897	-
Eunice	958,740	958,740	-
Farmington	26,387,168	26,387,168	-
Floyd	37,451	650,525	613,075
Folsom	7,196	12,953	5,757
Fort Sumner	193,890	193,890	-
Gallup	8,514,177	8,514,177	-
Grady	12,456	351,375	338,918
Grants	2,316,516	2,316,516	-
Grenville	680	101,570	100,890
Hagerman	142,165	156,564	14,399
Hatch	311,914	332,022	20,108
Hobbs	14,966,735	14,966,735	-
Hope	4,826	261,686	256,859
House	37,903	38,488	586
Hurley	145,742	150,023	4,281
Jal	358,167	362,380	4,213
Jemez Springs	69,894	183,334	113,440
Lake Arthur	26,691	82,756	56,065
Las Cruces	28,695,585	28,695,585	-
Las Vegas	3,447,927	4,422,414	974,487
Logan	114,145	285,178	171,033
Lordsburg	576,048	576,048	-
Los Alamos	9,454,618	9,454,618	-
Los Lunas	4,177,966	4,806,133	628,167
Los Ranchos	1,112,030	1,206,394	94,364
Loving	112,685	133,445	20,760
Lovington	2,713,893	2,713,893	-
Magdalena	141,247	255,724	114,477
Maxwell	28,405	45,226	16,821
Melrose	79,163	93,328	14,165
Mesilla	382,545	544,492	161,947
Milan	898,387	898,387	-
Moriarty	971,691	974,400	2,708
Mosquero	17,123	64,560	47,437
Mountainair	136,428	155,222	18,795
Pecos	141,258	207,444	66,186
Portales	2,313,386	2,313,386	-
Questa	212,649	331,285	118,636

Illustration: Estimated Impacts Proposed Legislation by Municipality

Municipality	Estimated FY06 Distribution	Estimated New Distribution	Change from Estimated Distribution
Raton	1,579,886	1,579,886	-
Red River	417,377	439,577	22,199
Reserve	55,598	73,330	17,732
Rio Rancho	12,382,570	12,636,025	253,456
Roswell	11,558,942	11,600,528	41,586
Roy	28,497	438,170	409,674
Ruidoso	3,146,948	3,146,948	-
Ruidoso Downs	1,341,714	1,341,714	-
San Jon	73,900	2,566,076	2,492,176
San Ysidro	52,051	53,785	1,734
Santa Clara	43,355	183,339	139,984
Santa Fe	39,752,907	39,752,907	-
Santa Rosa	993,013	993,013	-
Silver City	3,773,987	3,773,987	-
Socorro	1,994,658	2,050,706	56,049
Springer	98,610	115,596	16,987
Sunland Park	1,376,145	1,376,145	-
Taos	4,679,004	4,679,004	-
Taos Ski Valley	508,463	508,463	-
Tatum	247,803	383,628	135,825
Texico	34,895	73,889	38,994
Tijeras	413,503	834,898	421,394
Truth or Consequences	1,011,317	1,136,931	125,613
Tucumcari	1,415,397	1,421,860	6,463
Tularosa	345,482	441,625	96,143
Vaughn	104,785	131,356	26,571
Virden	2,276	5,363	3,086
Wagon Mound	66,931	66,931	-
Willard	5,416	14,847	9,432
Williamsburg	25,685	43,141	17,456
Totals	436,800,739	448,103,189	11,302,449

ADMINISTRATIVE IMPLICATIONS**TRD:**

The PIT forms would need to change in tax year 2008 to determine the site of residence of income tax payers, which is not reported on current tax returns. These changes could not be made before tax year 2008. Therefore, this information would not be available when the modified distribution formula takes effect. Although the proposal authorizes the Department to come up with an alternative means of determining local distribution in 2007, the lack of accurate residence information will make it difficult for the Department to do so.

TECHNICAL ISSUES

Taxpayers who recognize losses in a given year often report negative figures for adjusted

gross income. In tax year 2004, total adjusted gross income in one municipality – Causey--summed to a negative amount. The proposal should probably be amended to specify that AGI totals on which the proposed distributions would be based would exclude returns which report negative AGI. The fiscal impact estimates shown above are based on this presumption.

The proposal does not specify what revenue source TRD is to use in making the required distribution. The bill should specify the intended source. Distributions based on AGI would presumably be from individual income tax revenues. The largest component of income tax payments is made through the Withholding Tax. This would be an appropriate source for the proposed distributions

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