Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR _	SFC		ORIGINAL DATE LAST UPDATED		HB	
SHORT TITLE		Municipal Environmental Gross Receipts Rate			SB	324/SFCS/aHTRC

ANALYST Gutierrez

REVENUE (dollars in thousands)

	Estimated Revenue	Recurring or Non-Rec	Fund Affected	
FY09	FY10	FY11		
	\$0 to \$1,747.6	\$0 to \$1,807.6	Recurring	Municipalities
	\$0 to (\$57.2)	\$0 to (\$59.2)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

<u>Responses Received From</u> Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment to Senate Finance Committee substitute for Senate Bill 324 strikes "of any kind unless required by a municipal charter" when referring to the referendum on page 2.

Synopsis of SFC Substitute

The Senate Finance Committee substitute for Senate Bill 324 amends Section 7-19D-10 to allow the governing body of a municipality in a class B county with a net taxable value used for ratesetting purposes for the 2008 property tax year of greater than \$750 million and a population of less than 25,000 (currently only Lincoln County) to impose the municipal environmental services gross receipts tax at a maximum of one-half of one percent (0.5%). The tax can be imposed in one-fourth percent increments. The tax can only be imposed in municipalities within the eligible county (Lincoln) that have a population of more than 7,500 but less than 7,800 (Ruidoso) or more than 1,500 but less than 2,000 (Ruidoso Downs).

Because no effective date is provided in the bill, its provisions will become effective June 19, 2009, ninety (90) days after the 2009 legislative session adjourns.

FISCAL IMPLICATIONS

The fiscal impact of this bill depends on if and when the eligible municipalities choose to impose the environmental services gross receipts tax. To illustrate the potential fiscal impacts of the bill, the table below shows the amount of revenue that could be generated by each eligible municipality if the newly allowed 1/2 percent (0.5%) environmental services gross receipts tax is imposed in FY10. Eighty-three municipalities already impose the tax (at 1/16 percent) and this estimate assumes all eligible municipalities (Ruidoso and Ruidoso Downs) will impose another 1/2 percent increment of the tax. About \$1.7 million could be generated by eligible municipalities if all fully impose the tax in FY10.

The table below also indicates the potential general fund revenue loss that will occur if all eligible municipalities fully impose this tax in FY10. The food and medical gross receipts tax deductions enacted in 2004 include "hold harmless" provisions to protect local governments from associated revenue losses. In 2007, legislation froze the tax rate at which some local governments are held harmless from the food and medical deductions. However, in smaller cities, the general fund hold harmless distribution grows larger when higher local option taxes are imposed. The table below shows that the general fund revenue loss will be about \$57 thousand in FY10 if all eligible municipalities choose to impose the tax. Fiscal impacts are expected to grow by 2.5 percent in FY09, 0.9 percent in FY10 and 3.4 percent in FY11, which is the rate at which the February 2009 consensus revenue estimate expects gross receipts tax collections to grow.

Illistration of Potential Revenue from Additional Municipal Local Option Increments - Fiscal Year 2010

	Potential Revenue: 1/2% Municipal Environment GRT	Potential General Fund Loss Due to Hold Harmless Distribution: 1/2% Municipal
Municipality	Increment	Environment GRT Increment
Ruidoso	1,321,641	(57,240)
Ruidoso Downs	425,968	Hold Harmless Rate Frozen
TOTAL ALL MUNIS	\$1,747,609	(\$57,240)

Source: Taxation and Revenue Department, Reports 500 and Reports 80

SIGNIFICANT ISSUES

New Mexico's municipalities and counties are authorized to impose over 4 percent of local option gross receipts taxes (that figure excludes several additional local option taxes that have been authorized for selected local governments). On average, a local option gross receipts tax of about 2.16 percent is actually imposed by local governments statewide. Combined with the state gross receipts tax of 5 percent, the statewide tax rate is therefore 7.16 percent.

Ruidoso's current tax rate is 7.8125 percent and this bill could potentially bring that rate to as high as 8.3125 percent. Ruidoso Down's current tax rate is 6.8125 percent and this bill could potentially bring that rate to as high as 7.3125 percent.

Senate Bill 324/SFCS/aHTRC – Page 3

ADMINISTRATIVE IMPLICATIONS

The administrative impact on TRD will be minimal.

TECHNICAL ISSUES

TRD:

The existing one-sixteenth percent excise tax authorized in Section 7-19D-10 is referred to as the "municipal environmental services gross receipts tax." It has certain referendum guidelines and limitations on the use of its revenue. The proposed excise tax is inserted into the same Section of statute but it would have no limitations on how municipalities use the revenue it generates, and it has no referendum guidelines. It is ambiguous if it could even be referred to with the same name.

The effective date should be July 1, or January 1, to be consistent with the effective dates for gross receipts tax rates.

BLG/mt:mc:svb

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

- 1. Adequacy: revenue should be adequate to fund government services.
- **2.** Efficiency: tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- **3.** Equity: taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- **4. Simplicity**: taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- **5.** Accountability/Transparency: Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc