F I S C A L   I M P A C T   R E P O R T

SPONSOR Martinez **ORIGINAL DATE LAST UPDATED** 1/27/15 **HB**

SHORT TITLE County Gross Receipts for School Improvements **SB** 105

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	**FY16**	**FY17**	**FY18**	**FY19**		
0.0	$3,090.0	$3,060.0	$3,030.0	$3,000.0	Recurring	Rio Arriba County GRT

(Parenthesis ( ) indicate revenue decreases

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Public Education Department (PED)

SUMMARY

Synopsis of Bill

Senate Bill 105 creates a new section of the statute governing county local option gross receipts taxes (GRT) to create authority to impose a special county education gross receipts tax of 0.75 percent. The GRT revenue would be dedicated to payment of special county education gross receipts tax revenue bonds for public school capital improvements for participating school districts, locally chartered charter schools and state-chartered charter schools in the county. The imposition may not exceed the lesser of 20 years or the time necessary to pay the principal and the interest of such bonds.

The bill permits the boards of participating school districts and charters within a county school governing county commissions to submit a resolution to require a county commission, subject to a majority vote of county voters, to impose the tax and to issue the bonds for funding public school capital improvements for participating school districts and charter schools. Revenues must be distributed proportionately to each of the participating school districts and charter schools based on their proportional 40th-day enrollment.

The bill only authorizes a class B county with a population less than 45 thousand according to the 2010 census and a net taxable value for property tax purposes for the 2012 property tax year of more than $1.5 billion is to impose the tax.

The effective date of the provisions of SB 105 is July 1, 2015.

FISCAL IMPLICATIONS

TRD notes that if the bill were enacted and a resolution were adopted, this proposal would increase revenues for Rio Arriba County by approximately $3 million annually, based on FY2014 taxable gross receipts and average growth rates of -1.03% for the county for the past four years.

SIGNIFICANT ISSUES

As written, only Rio Arriba County qualifies for this county local option tax increment. This county local option tax would apply county-wide, including inside of municipalities.

Volume I of LFC's Report for Fiscal Year 2016 discusses trends in New Mexico Taxation, including the increase in GRT rates, both state and local, over the last decade. Creating additional rate authority for counties could drive rates even higher. As of January, 2015, GRT rates were 8.57 percent in the portion of Espanola that is in Rio Arriba County.

TRD shows the impact on GRT rates in the following areas within Rio Arriba County pursuant to the rate authority granted in this bill:

	Rate As of January 1, 2015	Rate with new 0.75% Increment
Rio Arriba County	6.5000%	7.2500%
Chama	8.1875%	8.9375%
Espanola	8.5625%	9.3125%

High gross receipts tax rates paired with the problem of tax pyramiding have been identified as an impediment to economic development in New Mexico. As part of the hold harmless phaseout bill enacted after the 2013 legislative session, counties and municipalities each have authority to impose an additional a 3/8 percent hold harmless GRT increment, which could further increase total GRT rates.

OTHER SUBSTANTIVE ISSUES

PED's analysis of SB 105 notes the Legislature has committed the annual revenues generated from Supplemental Severance Tax Bonds to be used to support a statewide standards based awards process for school construction. This process was put in place in response to the Zuni lawsuit that claimed that districts with low property valuations were at a disadvantage in providing adequate facilities for their students. These locally generated capital funds could put the agreements in place because of the Zuni case at risk because certain counties have a higher capacity to generate funds resulting in substantial difference in the quality of facilities among districts. Consideration should be given to including these revenues as local sources when determining the state/district share of construction projects.

The school districts residing within Rio Arriba County are: Chama Independent Schools, Dulce Independent Schools, Espanola Public Schools (one locally chartered charter school, two state-chartered charter schools), and Jemez Mountain (one locally chartered charter school).

At this time, this revenue stream would not affect the calculation of the district's share for Public School Capital Outlay projects because this type of revenue is not incorporated in the formula that calculates the state and local share percentages. Changes to the standards based formula should be considered to include these funds as local capacity to pay for facilities.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

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