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

SPONSOR Muñoz **ORIGINAL DATE** 2/20/15 **LAST UPDATED** 2/25/15 **HB**

SHORT TITLE Exclude Some Local Gov'ts from Hold Harmless **SB** 555

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	**FY16**	**FY17**	**FY18**	**FY19**		
$0.0	$0.0	($454.00)	($942.67)	($1,461.00)	Recurring	General Fund
$0.0	$0.0	$69.50	$144.67	$223.50	Recurring	Deming
$0.0	$0.0	$202.50	$420.00	$651.00	Recurring	Gallup
$0.0	$0.0	$84.50	$176.00	$273.00	Recurring	Las Vegas
$0.0	$0.0	$97.50	$202.67	$313.50	Recurring	McKinley County
$0.0	$0.0	$0.00	$0.00	$0.00	Recurring	Total

(Parenthesis ( ) indicate revenue decreases

Relates to HB 421, SB 101, SB 266, SB 274, SB 621, SB 633

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 555 creates a new section of the Tax Administration Act to except certain municipalities and counties from the phase-out of hold-harmless distributions.

The bill excepts municipalities in a county with a poverty rate greater than 30 percent that do not have in effect a municipal hold harmless GRT from the phase-out if:

- For fiscal year 2017, the growth of the taxable GRT base from FY13 to FY15 is less than 2 percent of the average of the taxable GRT base for FY12, FY13, and FY14; or

- Each subsequent fiscal year, the growth of the taxable GRT base from FY13 to the FY that ended 12 months prior is less than two percent of the average of the taxable GRT base for FY12, FY13, and FY14.

The bill excepts counties with a poverty rate greater than 30 percent that do not have in effect a county hold harmless GRT from the phase-out if:

- For fiscal year 2017, the growth of the taxable GRT base from FY13 to FY15 is less than 2 percent of the average of the taxable GRT base for FY12, FY13, and FY14; or
- Each subsequent fiscal year, the growth of the taxable GRT base from FY13 to the FY that ended 12 months prior is less than two percent of the average of the taxable GRT base for FY12, FY13, and FY14.

The effective date of the bill is July 1, 2016.

FISCAL IMPLICATIONS

In its analysis TRD estimated the cost to the general fund to equal the hold harmless payments the qualifying local governments would receive in lieu of the payments otherwise being phased out. That is, if a county or municipality is otherwise excluded from reductions under current law, for being under the population threshold, they are not considered here, as they would not be impacted by this bill. Because this bill is implemented on July 1, 2016, the first-year phaseout of 6 percent would take effect and this bill would halt further phaseouts for qualifying local governments.

According to the U.S. Census Bureau's Small Area Income and Poverty Estimates (SAIPE) released in December 2014, four New Mexico counties – McKinley, San Miguel, Cibola, and Luna – have poverty rates greater than thirty percent, and would be permanently excluded from hold harmless reductions in the absence of enacting hold harmless gross receipts tax increments. The bill would only affect McKinley County as the other three counties are below 48,000 in population and would only experience hold harmless reductions if they enact the hold harmless gross receipts tax.

Three municipalities would also be excluded from hold harmless reductions that would otherwise have had distributions reduced, as long as they do not enact the hold harmless tax, because they are in the listed counties – Gallup, Deming, and Las Vegas.

TRD reports the taxable gross receipts growth threshold is harder to predict, since it requires a rate of growth calculated with FY15 taxable gross receipts, which is not yet complete. Once FY15 is complete, a precise measure of this threshold will possible. In its absence the most recent data available is used to calculate the growth rates for the estimate. That is, the average annual growth of the taxable gross receipts from the end of fiscal year 2012 to the end of fiscal year 2014 is calculated and compared with the average of the taxable gross receipts for fiscal years 2011, 2012 and 2013. By this method, all locations that met the poverty threshold fall below the two percent threshold. TRD assumed growth rates do not increase above two percent in the near future and estimates the impact of this bill would be a negative to the general fund and a positive to the locations listed in the amount that would have been reduced from hold harmless distributions each year.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the general fund revenue reductions caused by provisions in this bill revenues may be insufficient to cover growing recurring appropriations.

SIGNIFICANT ISSUES

A political subdivision could have average tax base growth below 2 percent for the first several years of the phase-out and be excluded. If its average tax base growth were to rise above two percent, the phase-out would be restored on the same schedule as all other local governments. This could contribute to a significant decrease in the local government's hold harmless payment.

TECHNICAL ISSUES

TRD identifies a technical issue concerning the timing of the implementation of the bill. The department points out the prohibitions against reductions apply to fiscal years 2017 and beyond. However, current statute provides for a six percent reduction scheduled for July 1, 2015 to June 30, 2016.

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

PvM/bb