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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/2/18  
 SPONSOR Morales LAST UPDATED 2/9/2018 HB \_\_\_\_\_  
 SHORT TITLE Food Gross Receipts Hold Harmless Changes SB 154  
 ANALYST Graeser

### REVENUE (dollars in thousands)

Estimated Revenue						Recurring or Nonrecurring	Fund Affected
FY18	FY19	FY20	FY21	FY22	FY23		
	(\$1,180.0)	(\$1,830.0)	(\$2,620.0)	(\$3,410.0)	(\$4,300.0)	Recurring	General Fund
	\$410.0	\$630.0	\$890.0	\$1,160.0	\$1,450.0	Recurring	Gallup
	\$160.0	\$240.0	\$340.0	\$440.0	\$550.0	Recurring	Las Vegas
	\$90.0	\$180.0	\$290.0	\$410.0	\$550.0	Recurring	Los Alamos
	\$210.0	\$310.0	\$440.0	\$560.0	\$700.0	Recurring	Los Lunas
	\$50.0	\$110.0	\$180.0	\$240.0	\$320.0	Recurring	Portales
	\$260.0	\$360.0	\$480.0	\$600.0	\$730.0	Recurring	Silver City

Parenthesis ( ) indicate revenue decreases

Programming this change may pose some difficulties in order to accommodate Los Alamos.

### CONFLICTS, COMPANIONS, DUPLICATES

HB-191 is a duplicate

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

New Mexico Municipal League

### SUMMARY

#### Synopsis of Bill

Senate Bill 154 would change the food and medical hold harmless distributions to municipalities and H counties with population between 10,000 and 25,000 at the last decennial census, provided that that municipality does not have an increment of the municipal hold harmless GRT in place. The bill also clarifies the distribution categories for both municipalities and counties, by defining a maximum distribution. Municipalities in the new category will receive 82 percent of the maximum distribution and will retain that 82 percent after the scheduled phase out effective July 1, 2029. The definition of maximum distribution for the new category allows the 82 percent

distribution to be calculated to include any local increments of GRT imposed after January 1, 2007.

The effective date of the bill is July 1, 2018. There is no sunset date of the provisions. The bill removes the July 1, 2029 sunset for non-enacting municipalities of population between 10,000 and 25,000.

**FISCAL IMPLICATIONS**

This bill may be counter to the LFC tax policy principle of adequacy, efficiency, and equity. Due to the increasing cost of tax expenditures, revenues may be insufficient to cover growing recurring appropriations.

The fiscal implications of this bill have been modeled using a spreadsheet maintained by LFC staff. To estimate future impacts, food costs were allowed to grow at 2.5 percent per year and medical deductions at 4 percent per year. In addition to the six municipalities in the Fiscal Impact table, LFC staff also checked Artesia, Deming, Espanola, Lovington and Sunland Park which would qualify in the new 10,000 to 25,000 population category for 82 percent distribution, but that currently have an increment of hold harmless GRT enacted. In all cases, the revenue yield from the hold harmless GRT far exceeded the additional amount of the hold harmless distribution. Grants and Socorro with 2010 population in excess of 9,000 might move into this category following the 2020 census.

By FY28 and thereafter, this bill will cost the general fund more than \$10 million annually.

FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29	
(1,180.0)	(1,830.0)	(2,620.0)	(3,720.0)	(4,700.0)	(5,700.0)	(6,770.0)	(7,880.0)	(9,050.0)	(10,260.0)	(11,540.0)	General Fund
410.0	630.0	890.0	1,160.0	1,450.0	1,750.0	2,070.0	2,390.0	2,740.0	3,100.0	3,480.0	Gallup
0.0	0.0	0.0	200.0	250.0	320.0	380.0	450.0	520.0	600.0	670.0	Grants
160.0	240.0	340.0	440.0	550.0	660.0	790.0	910.0	1,040.0	1,180.0	1,330.0	Las Vegas
90.0	180.0	290.0	410.0	550.0	680.0	820.0	970.0	1,140.0	1,290.0	1,470.0	Los Alamos
210.0	310.0	440.0	560.0	700.0	840.0	1,000.0	1,160.0	1,330.0	1,500.0	1,680.0	Los Lunas
50.0	110.0	180.0	240.0	320.0	400.0	470.0	570.0	650.0	750.0	850.0	Portales
260.0	360.0	480.0	600.0	730.0	870.0	1,020.0	1,170.0	1,330.0	1,500.0	1,670.0	Silver City
0.0	0.0	0.0	110.0	150.0	180.0	220.0	260.0	300.0	340.0	390.0	Socorro

Note: because of the way the bill was drafted, the newly qualifying municipalities will receive the 82 percent based on their current local option rate, whereas in the absence of the bill, their phased-down distribution would be based on their July 1, 2007 rate. Thus, Gallup, Las Vegas, Los Lunas and Silver City would receive more revenue pursuant to the bill than nominally expected, while Grants, Los Alamos, Portales and Socorro have not increased GRT local option rates since 2007 and would receive what is expected.

			Hold-Harmless GRT?	July 1, 2007 rate	Current Rate	Current Rate ex HH/GRT
<b>13114</b>	21,678	<b>Gallup</b>	OK	1.8125	2.0625	2.0625
<b>33227</b>	9,182	<b>Grants</b>	OK	1.8125	1.8125	1.8125
<b>12122</b>	13,753	<b>Las Vegas</b>	OK	1.8125	2.0625	2.0625
<b>32032</b>	17,950	<b>Los Alamos</b>	OK	1.4375	1.4375	1.4375
<b>14316</b>	14,835	<b>Los Lunas</b>	OK	1.5625	1.8125	1.8125
<b>11119</b>	12,280	<b>Portales</b>	OK	1.5625	1.5625	1.5625
<b>8107</b>	10,315	<b>Silver City</b>	OK	1.4375	1.8125	1.8125
<b>25125</b>	9,051	<b>Socorro</b>	OK	1.4375	1.4375	1.4375
<b>3205</b>	11,301	<b>Artesia</b>	.25% 7/15	1.5525	2.3125	2.0625
<b>19113</b>	14,855	<b>Deming</b>	.375% 7/17	1.375	1.75	1.375
<b>17215</b>	10,224	<b>Espanola</b>	.375% 7/14	1.8125	2.4375	2.0625
<b>6405</b>	11,009	<b>Lovington</b>	.375% 1/15	1.375	1.875	1.5
<b>7416</b>	14,106	<b>Sunland Park</b>	.375% 7/15	1.4375	2.0625	1.6875

**SIGNIFICANT ISSUES**

This rewrite of Sections 7-1-6.46 and 7-1-6.47 using a “maximum distribution” concept makes it far easier for the reader to understand how the hold harmless distributions work for the various categories of counties and municipalities.

In accumulating into one category of municipalities with population less than 25,000, the maximum distribution amount for the 10,000 to 25,000 population group increases slightly. As a member of the former category with population over 10,000, the maximum distribution did not include any local option GRT rates imposed after January 1, 2007. Of the six qualifying municipalities, only Los Alamos did not enact new rate after January 1, 2007.

There is a slight incentive established by this bill for all municipalities in the 10,000 to 25,000 population category. Toward the end of the phase-out period and beyond, municipalities in this population range, but with a hold harmless GRT option in place could choose to repeal the option and begin receiving the 82 percent hold harmless distribution. It is unlikely that this would be a net revenue gain for the municipality, but the taxpayers within the jurisdiction would receive a .125 to .375 percent reduction in tax rate.

**PERFORMANCE IMPLICATIONS**

The LFC tax policy of accountability is nominally met because GRT distributions are fully transparent since the Department publishes a number of reports, including the RP500, the RP80, the 455 report and the new V-9 and range reports. The first two are available monthly on the Department’s website, while the 455, V-9 and range reports are available to county and municipal officials by request.

**ADMINISTRATIVE IMPLICATIONS**

TRD may have moderate difficulty with programming this provision for Los Alamos. In other respects, TRD should be able to implement this in its regular six-month update cycle.

LG/al/jle