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

ORIGINAL DATE 1/31/19
SPONSOR Stefanics **LAST UPDATED** **HB**

SHORT TITLE Local Economic Development Taxes **SB** 113

ANALYST Clark

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	**FY20**	**FY21**	**FY22**	**FY23**		
NFI	Indeterminate; does not directly impact revenues but allows local governments to significantly increase gross receipts tax rates				Recurring	Local Government Revenues

Parenthesis ( ) indicate revenue decreases

Duplicates HB 155

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Department of Finance and Administration (DFA)
Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

Senate Bill 113 amends the Local Economic Development Act (LEDA) to increase the limit on the amount of local option infrastructure gross receipts tax (GRT) revenue that may be used towards professional services expenditures of an economic development project from the greater of $50 thousand or 10 percent of the revenue collected to $250 thousand or 20 percent of the revenue collected.

The bill amends the Municipal Infrastructure Gross Receipts Tax Act by increasing a municipality's authority to impose infrastructure gross receipts taxes by 0.375 percent, going from a maximum of 1/4 percent to 5/8 percent.

The bill also amends the County Infrastructure Gross Receipts Tax Act by increasing a county's authority to impose infrastructure gross receipts taxes by 0.5 percent, going from a maximum of

1/8 percent to 5/8 percent. A referendum will now be required for counties for any infrastructure gross receipts tax increment in excess of 1/8 percent and for any tax increment devoted toward economic development purposes.

The effective date of this bill is July 1, 2019.

FISCAL IMPLICATIONS

The Department of Finance and Administration (DFA) provided the following fiscal analysis.

Municipal budget implications: average infrastructure GRT collection rate has potential to increase up to 0.375 percent.

*City of Albuquerque recently raised GRT by .375 percent (3/8) and it is expected to raise $52 million. (reported in ABQ journal)

County budget implications: average infrastructure GRT collection rate has potential to increase up to 0.5 percent.

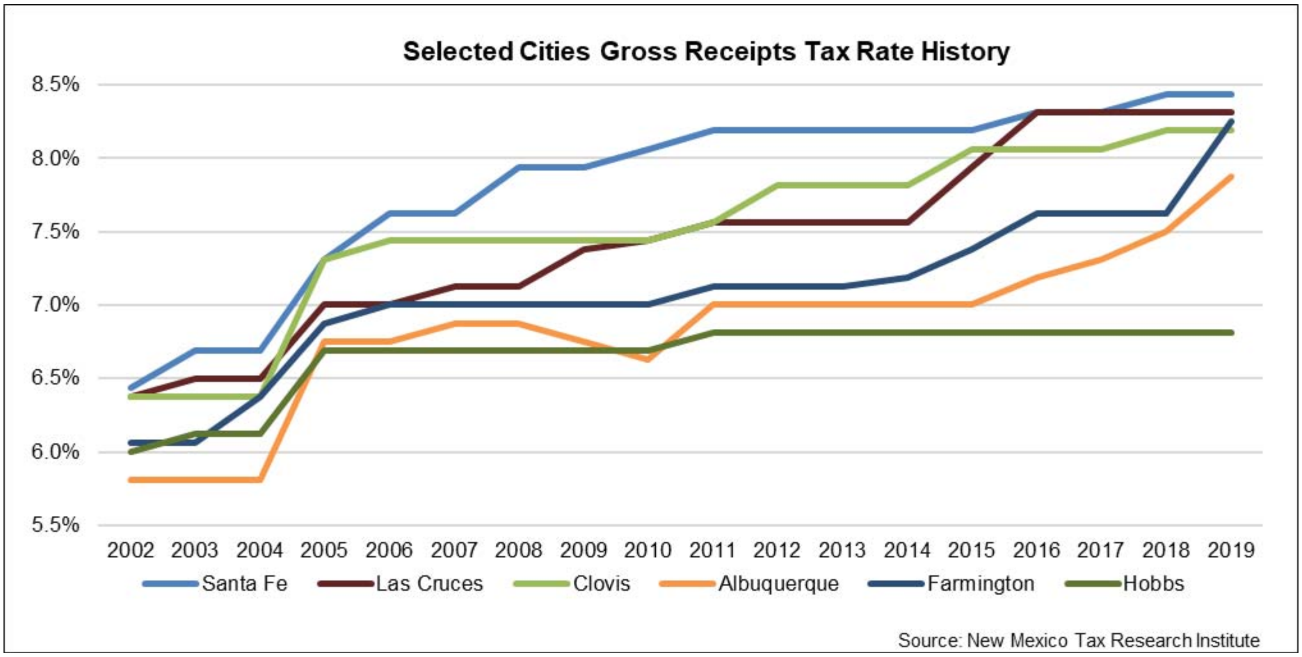
*Torrance County 2017-18 interim budget revenue reported county infrastructure GRT at $80,000, this number could potentially grow five-fold; in comparison, county jail fund is $520,000.

SIGNIFICANT ISSUES

This bill has the potential to increase funding for economic development purposes, which might help expand and diversify local economies. However, it also provides the capacity to significantly increase GRT rates at a time when a common tax complaint by businesses and consumers is high GRT rates.

For example, discussions about tax reform focus on GRT issues because of the significant state and local rate increases over the last 15 years as shown in the graph below for several sample cities. One tax reform package introduced this session (HB 6) goes to significant effort to raise enough revenues to reduce the GRT rate by 0.5 percent; this bill has the potential to increase rates by more than that possible rate reduction.

Still an issue in many industries, the increase in GRT rates has also exacerbated the effect of tax "pyramiding" – the addition of extra layers of taxes when the GRT is applied to each business-to-business transaction at each state of production. Pyramiding leads to higher effective tax rates for the final product or service sold to the end customer. When rates are low, pyramiding does not create as many distortions in the markets, but as rates rise, the effective tax rate can become so burdensome it shifts business and consumer behavior.



The Taxation and Revenue Department (TRD) provided the following analysis.

> The legislation would increase the tax burden on New Mexicans in disparate ways based upon the varied and currently unknown levels of implementation of the increased taxation authority given to local governments, based on election. Relative to other states, New Mexico has a relatively high gross receipts/sales tax, the legislation further increases this distortion. Counties that currently do not impose the optional tax under 7-20E-19 NMSA 1978 and that impose up to the first one-eighth for purposes other than economic development would be able to do so without a referendum or vote.
>
> The bill may result in an increase in infrastructure projects that are contained within an individual local government that elects to enact an increase in the infrastructure gross receipts local options tax. Increases in infrastructure projects may lead to increases in employment, construction gross receipts, and general economic activity.

DFA provided the following analysis.

> This bill gives local governments the ability to increase tax revenue and raise the cap of professional service contracts toward economic development. This will increase readiness and result in more projects properly planned at time of funding and more timely expenditures for LEDA, capital outlay, and community development block grants.
>
> Increasing cap for professional services expenditures from 10 percent to 20 percent of revenue collected is more proportionate to average engineering cost. Increasing the cap from $50,000 to $250,000 allows entities with larger tax bases the ability to spend a more proportionate amount of money on professional services for larger scale projects.
>
> Local governments are more able to raise revenue for infrastructure and economic development purposes. This bill greatly increases a county's ability to impose

infrastructure gross receipts taxes which could fill major gaps in funding for county roads/highways and county jails/detention centers.

Increased ability for municipalities and counties to secure cash match /leveraging required in order to apply for state/federal funding sources.

The Economic Development Department (EDD) provided the following analysis.

This legislation does give the local municipal and county governments significant new resources for funding infrastructure projects related to economic development projects and it also give these local entities more flexibility in use of the funds for promotion of their economic development efforts.

This legislation could prove to be an improved resource for these local government entities to make their local industrial parks and other economic development properties shovel-ready for development by providing the basic infrastructure to these sites.

It may also give these local governments a better resource for promotion of their assets as well as creating enhanced matching funds for larger capital projects.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill duplicates HB 155.

TECHNICAL ISSUES

DFA reports clarification may be needed on page 9, line 24. "An ordinance of the first one-eighth percent is not subject to referendum" however line 22 adds the requirement that the tax must be imposed in increments of one-sixteenth by separate ordinances.

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

JC/gb/sb