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

FISCAL IMPACT REPORT

		LAST UPDATED	2/6/24
SPONSOR	Sen. Hamblen/Rep. Parajón	**ORIGINAL DATE**	2/1/24
SHORT TITLE	Metro Development Project GRT Increments	**BILL NUMBER**	Senate Bill 236
		ANALYST	Graeser

REVENUE*
(dollars in thousands)

Type	FY24	FY25	FY26	FY27	FY28	Recurring or Nonrecurring	Fund Affected
TRD/GRT					Indeterminate but minimal gain	Recurring	General Fund
TRD/GRT			Indeterminate but minimal gain	Indeterminate but minimal gain	Indeterminate but minimal gain	Recurring	Local Governments – Primarily Albuquerque and Santa Fe

Parentheses ( ) indicate revenue decreases.
*Amounts reflect only the incremental impact of the change in procedure.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD		$1,366.0		$1,366.0	Nonrecurring	General Fund
Total		$1.7	$234.3	$235.0	Recurring	**General Fund**

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files
LFC FIR for 2023 SB251

Agency Analysis Received From
Taxation and Revenue Department (TRD)

Agency Declined to Respond
Department of Finance and Administration/Board of Finance (DFA/BOF)

SUMMARY

Synopsis of Senate Bill 236

Senate Bill 236 (SB236) amends Section 3-60A-21 NMSA 1978 of the Metropolitan Redevelopment Code, enacted in 2023, to clarify the procedure for determining the gross receipts tax increments used to fund the metropolitan redevelopment area (MRA) projects. Redevelopment districts are created primarily to allow for certain tax revenue—the additional revenue generated by economic activity in the area—to be diverted to finance infrastructure. Notably, the procedure proposed in SB236 deletes the exclusion of new, post-approval construction in determining the GRT base.

This bill also resets the effective dates of provisions of the Metropolitan Redevelopment Code, moving the effective date from July 1, 2024, to January 1, 2025.

FISCAL IMPLICATIONS

TRD notes the fiscal impact of the procedural changes is largely indeterminate:

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY24	FY25	FY26	FY27	FY2028		
--	--	--	--	(Unknown)	R	General Fund
--	--	--	--	(Unknown)	R	Sponsoring Local Governments

> The bill's fiscal impact is uncertain and cannot be fully quantified. The lack of information such as (1) the number of MRA projects that would seek dedication of local government and state GRT increment, (2) which projects would seek increments from both local governments (municipal and county) and the state, (3) the increment dedication approved by any local government's governing body or the state's Board of Finance, (4) the size of the project, and (5) whether the project will succeed in generating GRT revenue to distribute after the base year, prevent TRD from being able to provide an estimation of the revenue loss with precision. Based on the amended timeline on the procedures for GRT increments to fund the MRA projects, the earliest fiscal impact will be in FY2028.
>
> As many of the Metropolitan Redevelopment Code provisions are similar to those of the Tax Increment for Development (TIDD) Act, 5-15-1 NMSA 1978, the scope and potential growth of a fiscal impact may be seen from examining these districts. See the T*ax Expenditure Report* published by the Taxation and Revenue Department for data and discussion on TIDDs[1].

LFC staff notes that Albuquerque currently has approved 22 metropolitan redevelopment areas[2]. Santa Fe has recently appointed a director of its metropolitan redevelopment agency and may use the provisions of the Metropolitan Redevelopment Code to assist in the development of the mid-town campus area. LFC anticipates there will be substantial utilization of the MRA provisions in the future. In analysis for the bill that created the code in 2023, LFC staff noted the following:

[1] See https://www.tax.newmexico.gov/forms-publications/
[2] https://www.cabq.gov/mra

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY23	FY24	FY25	FY26	FY27		
		Initial revenue diversions on the order of ($1,000.0) or more per project followed by smaller diversions for 20 years			Recurring	General Fund
		Initial revenue diversions on the order of ($800.0) or more per project followed by smaller diversions for 20 years			Recurring	Sponsoring Counties and Municipalities

The change in procedures may decrease the increment base by excluding new post-MRA-approval construction.

Also of note, the Metropolitan Redevelopment Code allows local governments to dedicate a portion of their own local option GRT to the MRA without applying to state Board of Finance for dedication of state GRT. In fact, it is likely that Albuquerque will take this approach. Costs of applying to the state for a TIDD, have been estimated to be as much as $500 thousand. It is unlikely the benefits for a smaller-sized MRA would justify the costs of the application for state increment.

TRD has also noted that any state impact would probably be delayed until FY28.

SIGNIFICANT ISSUES

The underlying MRA increment does not narrow the GRT base, nor does the change in procedures proposed in this bill. The MRA approval will affect local and, possibly, state revenues by diverting some of the local or state revenue to the specific MRA. It is not certain that this should be considered a tax expenditure.

TRD notes the following policy implications:

> This bill adds clarity to executing and implementing the MRA mechanisms and calculations for distributions of GRT revenue introduced and passed into law under SB251 in the 2023 legislative session.
>
> Positive dynamic fiscal effects might be derived from the MRA projects. Tax incentives like those promoted by the Metropolitan Redevelopment Code can influence economic growth, job creation, and new industries' development in local governments if they are strategically targeted to the right sectors. Local governments can use these projects to maximize economic, fiscal, and social benefits. These projects might allow local governments to prioritize areas of high need and advanced industries with high growth and job creation potential. And over time, those local governments will be equipped with a more robust productive apparatus to cope with economic, fiscal, and social transformations.
>
> As this proposal is similar to the tax increment development district (TIDD) laws for setting a gross receipts tax (GRT) or property tax increment, this proposal introduces more complex distributions for TRD to execute annually that may have otherwise been mirrored using the TIDD process. The diversity of special funds and distributions across the Tax Administration Act is becoming intricate, leading to a more complex tax

management process. The proliferation of new funds and distributions fragments the existing boundaries that determine service obligations and the parameters of intergovernmental relationships between the State and local governments.

Calculation of "baselines" of GRT revenue, required both by the TIDD laws and the MRA statutes, have been complicated by the move from "origin-based" sourcing of gross receipts, which looked to the physical location of the business to determine sourcing, to "destination" sourcing, which looks to where the property or product of a service is delivered to determine sourcing. This bill attempts to deal with the complications but has the noted effect of pushing the calculation of the impact of designation of a MRA (or a TIDD) out by one year.

PERFORMANCE IMPLICATIONS

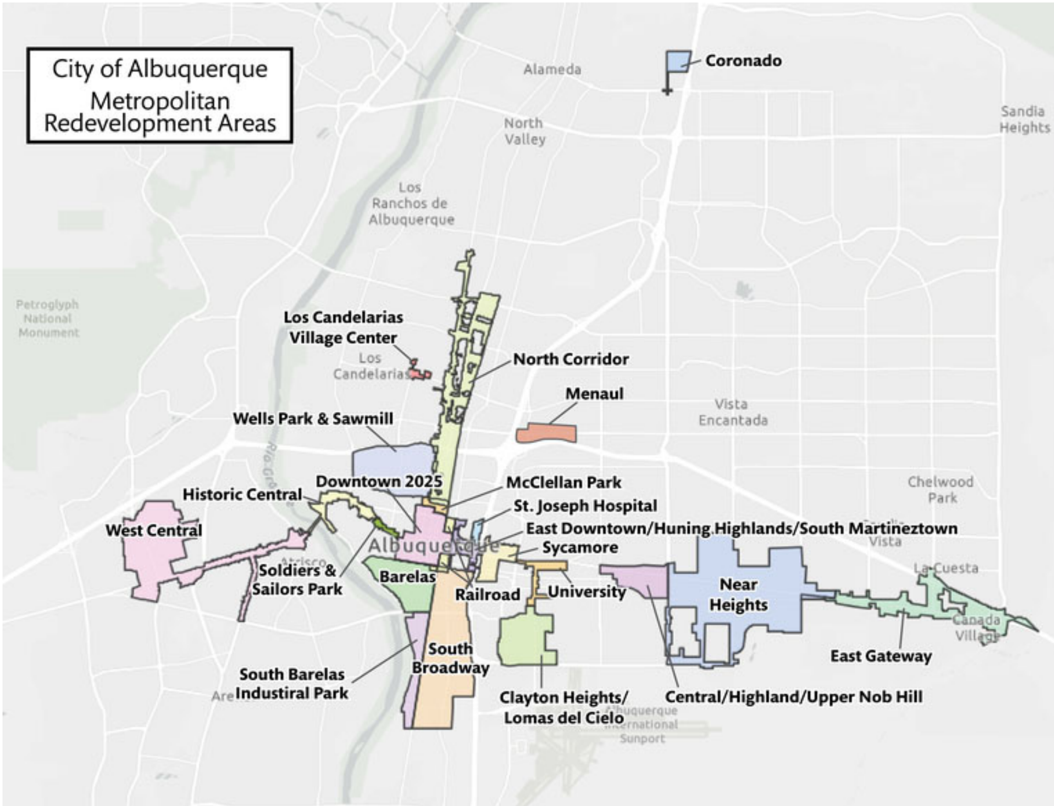
The LFC tax policy of accountability is met since all TIDD or MRA diversions are and will be reported by TRD monthly.

ADMINISTRATIVE IMPLICATIONS

TRD reports significant administrative costs in implementing MRA increments into the GenTax processing system. However, those costs are not attributed to the procedural changes proposed in this bill.

LG/al/hg/rl/ss/ne

Attachment



[View a PDF Map of Metropolitan Redevelopment Areas]

- Barelas
- Central/Highland
- Clayton Heights
- Coronado
- Downtown 2025
- East Downtown
- East Gateway
- Historic Central
- Los Candelarias
- McClellan Park
- Menaul
- Near Heights
- North Corridor
- Railroad
- Sawmill/Wells Park
- Soldiers & Sailors
- South Barelas
- South Broadway
- St. Joseph Hospital
- Sycamore
- University
- West Central