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

SPONSOR	House Commerce and Economic Development Committee	**LAST UPDATED**	03/18/2025
		ORIGINAL DATE	03/11/2025
SHORT TITLE	Short-Term Rental Work Group	**BILL NUMBER**	CS/House Memorial 52/HCEDCS
		ANALYST	Gygi

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
EDD		See Fiscal Implications	See Fiscal Implications	See Fiscal Implications	Nonrecurring	General Fund

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

Relates to Senate Bill 186

Sources of Information
LFC Files

Agency Analysis Received From
Governor's Office on Housing
Mortgage Finance Authority (MFA)

Agency Analysis was Solicited but Not Received From
Department of Tourism (NMTD)
Economic Development Department (EDD)
New Mexico Counties
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HCEDC Substitute for House Memorial 52

The House Commerce and Economic Development Committee substitute for House Memorial 52 (HM52):

1. Provides the Lodger's Tax Act definition for a short-term rental, which is "a furnished accommodation rented for less than 30 consecutive days" and which encompasses various property types, including single-family homes, condominiums, apartments and casitas;
2. Deletes the findings and statistics previously reported regarding the economic impact of short-term rentals and the composition of the market;
3. Deletes language asserting that homeowners will lose their homes because of reclassification of short-term rentals as commercial properties; and
4. Adds the Governor's Office of Housing and the Mortgage Finance Authority to the membership of the work group.

Synopsis of House Memorial 52

House Memorial 52 (HM52) directs the Economic Development Department (EDD) to create a work group to evaluate short-term rental taxation policies, the impact on nonresidential property tax classifications, zoning and permitting regulations and potential pathways for a "fair and balanced" regulatory framework for short-term rental operators and local communities.

The work group will be composed of representatives from the Economic Development, Tourism, Taxation and Revenue departments, the New Mexico Short-Term Rental Association, the New Mexico Association of Realtors, and the Assessor's Affiliate of the New Mexico Association of Counties.

HM52 tasks this work group with providing a report of its findings and policy recommendations to interim legislative committees by December 1, 2025. The memorial further requests that county assessors suspend revaluations until the work group has presented its report.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or June 20, 2025.

FISCAL IMPLICATIONS

Memorials do not carry an appropriation nor the weight of law.

EDD is charged with convening the work group and reporting its findings; this analysis assumes that the work group's evaluation can be completed within existing resources. However, it is possible that EDD will need to allocate minimal additional resources, such as hiring a contractor, to conduct the study requested. The economic impact study has already been completed (see below). LFC estimates it will cost at least $50 thousand for a tax analysis study.

There will be no impact on tax revenues from this memorial alone. However, there likely will be increased revenues from property taxes if short-term rentals are reclassified as nonresidential properties. As explained in the LFC fiscal impact report for Senate Bill 186, which would change the valuation framework for multifamily properties, many investment properties in New Mexico are undervalued, resulting in significant revenue losses from taxes not imposed or collected.

SIGNIFICANT ISSUES

HM52 seeks to develop a consistent statewide regulatory and tax framework for short-term rentals that balances the economic benefits from tourism, temporary worker housing, and income for homeowner hosts with the potentially negative impacts on housing availability and affordability, and the undervaluation of the properties.

According to a 2023 industry association study cited in the memorial,[1] the total economic impact of short-term rentals in New Mexico in 2023 was $1.01 billion, with $746 thousand in direct

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[1] See study commissioned by Short-Term Rental Association at https://newmexicostra.org/2023-new-mexico-str-economic-impact-study/

visitor spending which supported 14.1 thousand jobs (households) statewide, 6,083 of those translating into traditional jobs and 8,472 into home hosts. The study indicates there are 14 thousand short-term rentals in the state, with 51 percent operating as full-time or semi-full-time rentals, and 49 percent as part-time. These percentages vary from county to county, with higher numbers of short-term rentals in urban areas and tourist destinations. Short-term rental properties have become a large part of the tourism economy for Bernalillo, Santa Fe, Lincoln, and Taos counties.

The Governor's Office on Housing points out:

> Short-term rentals have grown significantly in popularity due to the prevalence of online platforms which allow for people to rent private properties through booking platforms with widespread marketing reach. A 2019 report by the housing nonprofit Homewise found a 380 percent increase in whole-unit short-term rentals in Santa Fe between 2014 to 2018.

The memorial asserts that recent actions by county assessors to reclassify properties used as short-term rentals as nonresidential properties:

> Carry substantial economic and legal ramifications, potentially forcing many New Mexicans to cease offering short-term rentals, and it is therefore in the public interest to conduct a comprehensive study before permanent changes are made.

Given the positive economic impacts and potential negative impacts on increased taxes on supplemental incomes for homeowners, the memorial requests that county assessors suspend reclassification until completion of the proposed study.

The definition of "Residential Housing" in NMSA 7-35-2 states that "the term does not include structures when used primarily for temporary or transient human habitation such as hotels, motels and similar structures." The Governor's Office on Housing explains that:

> State law caps taxes on all residential properties to 3 percent increase a year, regardless of whether those homes are used as a primary occupancy for an owner, or even long-term housing. This has the effect of subsidizing the property tax rates for second homes and short-term rentals.
>
> Reclassification to nonresidential status would bring a property to current and correct value, which can have a significant impact on property tax liability, with greater impact on those who have owned their properties for longer periods of time. Non-residential classification also means that properties can now be subject to a 30 percent annual increase in valuation.

Further, tax rates play a critical role in housing affordability and the feasibility of building new housing, and "increased variation in treatment of properties is generally seen as counterproductive for efficient delivery of new housing." The office notes:

> While short-term rentals do provide financial benefits to owners and local economies, they also have mixed impacts. Short-term rentals of entire homes or apartments are typically more lucrative for property owners than long-term rental rates. The significantly higher revenue that can be realized through short-term rental can place speculative pressure on home sales price, with the income derived from short-term rental supporting higher debt capacity, and therefore higher purchase prices than people might be willing to pay for long-term housing. The transition from long-term occupancy to short-term

> occupancy reduces housing availability, which can have significant impact on housing affordability.

New Mexico, like much of the United Sates, is experiencing a severe housing shortage, particularly for renters, which is exacerbated by short-term rentals. According to Governor's Office on Housing: "In high desirability such as tourist destinations and urban centers, the concentration of short-term rentals can have a significant impact on the neighborhood character, and the transient nature of short-term occupants can be disruptive to surrounding communities.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Memorial 52 relates to Senate Bill 186, which addresses issues in the valuation and tax framework for multifamily residential units.

OTHER SUBSTANTIVE ISSUES

As originally written, the work group proposed by HM52 was narrow, lacking both the state's housing agency, the Mortgage Finance Authority (MFA) and the Governor's Office on Housing. The HCEDC committee substitute resolves this issue.

The Governor's Office on Housing requests broader representation as follows:

> The subject matter of the work group relates closely to issues of housing availability, affordability and explicitly cites issues of local zoning and housing regulations, all areas of focus for the Office of Housing. For this reason we would ask that HM52 be amended to include the Office of Housing in the work group process. This issue also has a significant impact on local governments, so we would encourage the inclusion of the New Mexico Municipal League representative in the work group.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Short-term rentals will continue to be taxed as residential properties, effectively providing a subsidy to property owners, unless county assessors reclassify the short-term rentals as commercial properties. Whether enacted or not, short-term rentals together with second homes will continue to contribute to housing shortages and cost increases, particularly in urban and tourist communities.

ALTERNATIVES

The appropriate state agencies could provide guidance to county assessors on a uniform approach to reclassification of short-term rentals when appropriate.

KG/hj/SL2/hg/sgs