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## FISCAL IMPACT REPORT

ORIGINAL DATE 3/4/17

SPONSOR HTRC LAST UPDATED \_\_\_\_\_ HB 528/HTRCS

SHORT TITLE Creating the Emergency Reserve SB \_\_\_\_\_

ANALYST Graeser

### REVENUE (dollars in thousands)

Estimated Revenue					R or NR **	Fund Affected
FY17	FY18	FY19	FY20	FY21		
	(Dependent on Economic Conditions)				Conditional Recurring	General Fund
	Dependent on Economic Conditions				Conditional Recurring	Emergency Reserve

Parenthesis ( ) indicate expenditure decreases. \*\* R = recurring; NR = non-recurring

### SOURCES OF INFORMATION

LFC Files

### SUMMARY

#### Synopsis of Bill

HTRC Substitute for HB 528 creates a true rainy day fund called the “emergency reserve.” Each year in December, the Consensus Revenue Estimating Group (CREG) will calculate two estimates for the budget year: the conventional revenue forecast for the current and budget years, and an “available revenue baseline”. The available revenue baseline is calculated by adjusting the December CREG forecast for the current fiscal year for inflation and state. If the general fund revenue forecast for the budget year is greater than the available revenue forecast for that same year, then 50% of the difference will be transferred by DFA to the emergency reserve. The residual 50 percent, along with the available revenue baseline may be appropriated by the legislature for the budget year.

Money in the emergency reserve could be expended by 2/3<sup>rd</sup> vote of the members of both houses.

There is no effective date of this bill. It is assumed that the new effective date is 90 days after this session ends (June 16, 2017). LFC staff interprets this to mean the provisions of the act will begin limiting appropriations for the budget developed in early 2018 to appropriate revenues for FY 19.

**FISCAL IMPLICATIONS**

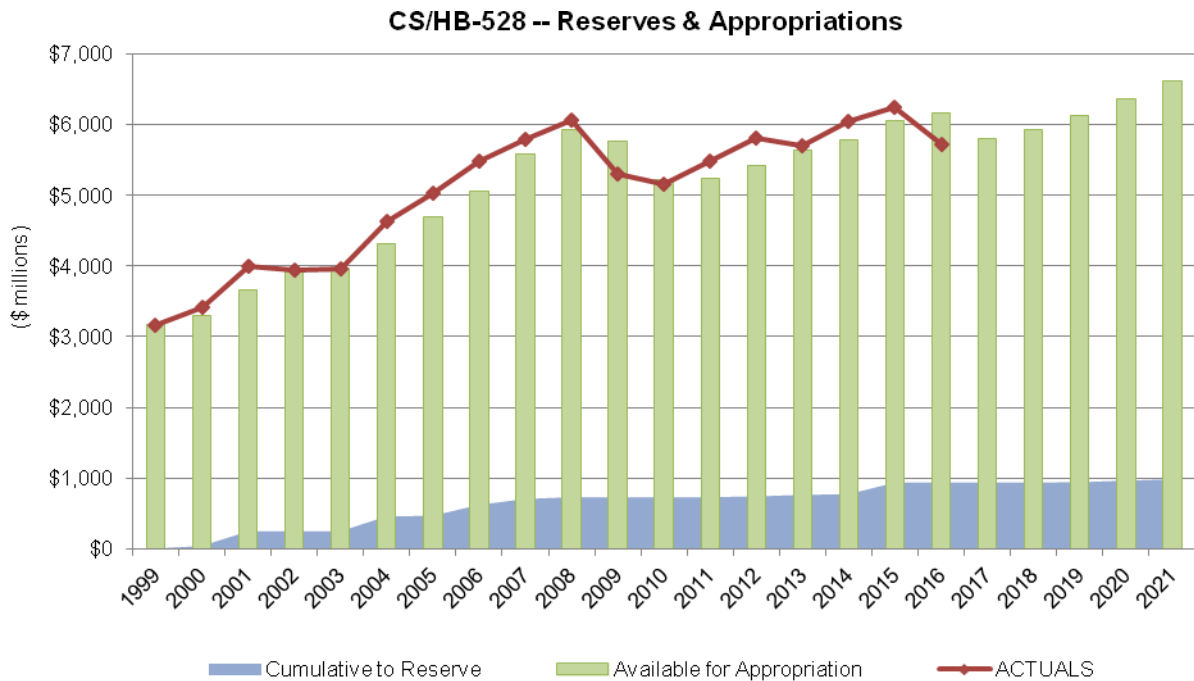
This bill creates a rainy day fund, which in years of deficits (such as FY 09 and FY 10, and FY 16 through FY 18), any money in the rainy day fund could be pulled back into the general fund to cover deficits.

If the provisions of this bill had been implemented in at the beginning of FY 98, about \$936 million would have been transferred to the emergency reserve by 2016. The presumed fund balance of such a reserve by FY16 would have depended on whether and how much the Legislature may have appropriated from the fund during the given timeframe. However, had this bill been in place, \$163 million would have gone to the reserve in 2015 alone, and those funds would have been available to cover shortfalls in FY16.

**Distribution to Emergency Reserve if Previously Enacted in FY98 (in millions)**

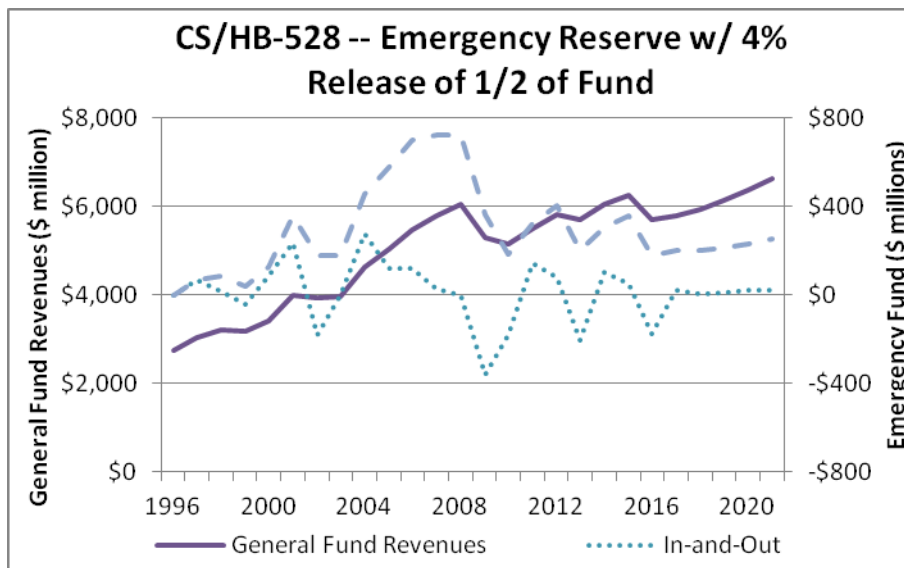
FY	Dec. Forecast	Available Revenue Baseline*	Available for Appropriation	Amount to Reserve	Actual Revenues
1998	\$3,123.4				\$3,204.1
1999	\$3,179.9	\$3,219.5	\$3,179.9	\$0.0	\$3,171.7
2000	\$3,334.7	\$3,268.3	\$3,301.5	\$33.2	\$3,421.3
2001	\$3,876.6	\$3,457.9	\$3,667.3	\$209.4	\$3,994.5
2002	\$3,922.4	\$4,037.0	\$3,922.4	\$0.0	\$3,935.9
2003	\$3,967.1	\$4,014.5	\$3,967.1	\$0.0	\$3,958.0
2004	\$4,533.6	\$4,105.6	\$4,319.6	\$214.0	\$4,625.7
2005	\$4,702.2	\$4,688.0	\$4,695.1	\$7.1	\$5,030.1
2006	\$5,220.7	\$4,909.2	\$5,064.9	\$155.7	\$5,479.1
2007	\$5,666.4	\$5,495.9	\$5,581.2	\$85.3	\$5,796.5
2008	\$5,949.2	\$5,901.3	\$5,925.2	\$24.0	\$6,062.6
2009	\$5,762.8	\$6,254.6	\$5,762.8	\$0.0	\$5,300.4
2010	\$5,213.7	\$5,903.1	\$5,213.7	\$0.0	\$5,152.8
2011	\$5,231.6	\$5,332.8	\$5,231.6	\$0.0	\$5,489.3
2012	\$5,431.5	\$5,407.8	\$5,419.6	\$11.9	\$5,817.1
2013	\$5,666.6	\$5,625.6	\$5,646.1	\$20.5	\$5,708.6
2014	\$5,800.9	\$5,776.8	\$5,788.9	\$12.1	\$6,045.6
2015	\$6,222.3	\$5,896.0	\$6,059.2	\$163.1	\$6,243.0
2016	\$6,170.5	\$6,267.9	\$6,170.5	\$0.0	\$5,712.1
<b>Total to Emergency Reserve Over Time</b>				<b>\$936.18</b>	

\*Calculated as the previous year's December forecast amount adjusted for inflation and population growth.



Note: We do not know what actual revenues will be in a given year; however, we cannot send funds to reserve if revenues are insufficient. For purposes of illustration, the graph assumes revenues are always sufficient.

Another way to look at this proposal is to assume that the provisions of this bill had been implemented at the beginning of FY 96, and 50% of the balance of the money in the fund had been withdrawn whenever the difference between the available revenues and total revenues was negative and the deficit greater than 4% of revenues, the balance in the fund at the end of FY 16 would have been about \$178 million. At peak in FY 2007 just before the great recession of Dec 2007 – June 2009, the balance in the emergency fund would have been \$725 million. With the 4% or revenues threshold for withdrawal of funds, we would have drawn out funds in FY 99, FY 02, FY 09, FY 10, FY 13 and FY 16. In the chart below, a withdrawal from the fund is shown as a negative number. The circle outlines the withdrawals which would have occurred to assist us in weathering the great recession.



The 4% revenue trigger and 50% withdrawal are not mandated, but illustrative. The legislature could withdraw funds every year or never, subject to approval of 2/3<sup>rd</sup> of both houses.

## SIGNIFICANT ISSUES

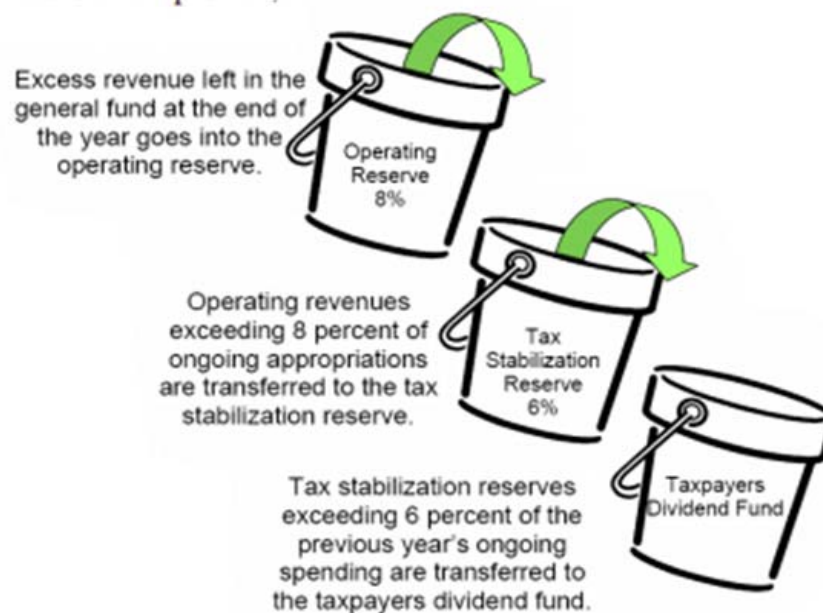
Many states have implemented rainy day funds. PEW Center for the Study of the States has prepared a comprehensive report entitled “Building State Rainy Day Funds: Policies to Harness Revenue Volatility, Stabilize Budgets, and Strengthen Reserves”.<sup>1</sup>

## TECHNICAL ISSUES

Using “look-back” values of CPI and population might not be as appropriate as using forecasted values. The consensus revenue estimating group (CREG) could use IHS Global Insight forecasts of CPI-U and BBER could be asked to estimate future population growth.

## OTHER SUBSTANTIVE ISSUES

In 1987, newly elected Governor Carruthers encouraged the legislature to implement some sort of budget limitation measures and wanted the measure of appropriate growth of appropriations to be the sum of CPI and population growth. The legislature indicated their unwillingness to let one legislature tie the hands of a subsequent legislature and the proposed bill was not enacted. In its stead, the legislature enacted the “bucket brigade” which required the Governor’s budget to be limited to the proposed growth factors. The “bucket brigade” set statutory targets for various classes of general fund reserves.



LG/al

<sup>1</sup> <http://www.pewtrusts.org/en/research-and-analysis/reports/2014/07/15/building-state-rainy-day-funds-policies-to-harness-revenue>