NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

David Abbey
Director

2013
Legislative Session
New Legislator Orientation

2012
LEGISLATIVE FINANCE COMMITTEE MEMBERSHIP

Senator John Arthur Smith, Chairman

Representative Luciano "Lucky" Varela,
Vice-Chairman

Senator Pete Campos
Senator Carlos R. Cisneros
Senator Stuart Ingle
Representative Rhonda S. King
Representative Larry A. Larrañaga
Senator Sue Wilson Beffort
Senator Carroll H. Leavell
Senator Mary Kay Papen
Representative Henry "Kiki" Saavedra
Representative Nick L. Salazar
Representative Edward C. Sandoval
Senator John M. Sapien
Representative Don Tripp
Representative William J. Gray
Representative James P. White

BACKGROUND

The Legislative Finance Committee (LFC) was first established as a fiscal and management arm of the New Mexico Legislature in 1957. Since its inception, the committee's role in the state budget process has grown as the complexity and size of the budget has increased. In 1991, the LFC assumed responsibility for the performance audit program, previously a part of the Office of the State Auditor.

The committee makes budgetary recommendations to the Legislature for funding state government, higher education and public schools. The committee also prepares legislation addressing financial and management issues of state government. The program evaluation unit, formerly the performance audit unit, reviews the costs, efficiency and effectiveness of activities of state agencies and political subdivisions and recommends changes to the Legislature.

New Mexico is rare in that both the governor and a legislative agency (LFC) propose comprehensive state budgets to the Legislature. The New Mexico budget currently amounts to about $6 billion in general fund appropriations and about $14.7 billion in total funds. Four areas account for seventy-eight percent of the general fund budget: 43 percent for public schools, 15 percent for higher education, 13 percent for Medicaid and 7 percent for public safety

LFC MEMBERSHIP

The LFC is comprised of eight senators and eight representatives. Political parties are represented in proportion to membership in each house of the legislature. Three legislators—those appointed to chair the House Appropriations and Finance, House Taxation and Revenue and Senate Finance Committees—are automatically members by law. Remaining members are appointed by the leadership of their respective houses. The chairmanship of the committee rotates between the House and Senate every two years.

LFC STAFF

The LFC maintains a permanent staff of fiscal analysts who examine budgets and review the management and operations of state agencies, higher education institutions and public schools and participate in the state's revenue estimating process. The committee also employs professional performance auditors to perform detailed reviews of the finances and effectiveness of state-funded programs. During the legislative sessions, the LFC staff assists the legislature's finance committees in enacting the state budget and revenue measures. Key roles of the staff are budget development, agency oversight, and member services.

NEW MEXICO APPROPRIATION PROCESS SUMMARY

July	State Budget Division of the Department of Finance and Administration distributes operating budget request instructions to agencies.
September 1st	Operating budget requests are due to the State Budget Division and Legislative Finance Committee (LFC).
September through December	State Budget Division and LFC analyze budget requests, and hold budget hearings/ meetings.
December	Legislative Finance Committee finalizes budget recommendations and begins production of budget document. State Budget Division begins production of the Executive Budget and Budget in Brief.
January—Near Beginning of Legislative Session	Legislative Finance Committee and State Budget Division complete budget documents and respective staffs meet to prepare "difference sheets" - a report, by agency and program, that shows the difference for base, expansion and total budget by revenue source and expenditure object. The report includes a narrative of the differences.
Third Tuesday in January	Executive submits budget to the LFC—January 5 (even-numbered years) or January 10 (odd -numbered years). The General Appropriation Act (GAA) is introduced in the House of Representatives. Other general appropriation related bills introduced include the Feed Bill, which funds the legislature's expenses; the Education Appropriation Act, which is referred to the House Education Committee; the Highway and Transportation Act, which is referred to the House Transportation and Public Works Committee; and the State Fair Appropriation Act and the Game and Fish Appropriation Act, which are referred to the House Health and Government Affairs Committee. All appropriations bills are eventually referred to the House Appropriations and Finance Committee (HAFC) where they are usually rolled into the General Appropriation Act.
HAFC Budget Hearings	The House Appropriations and Finance Committee (HAFC holds budget hearings for each agency beginning the first day of the session or during a 30-day session HAFC begins at least one week prior to the first day of the session. The executive staff analysts and the LFC staff analysts present the difference sheets to the committee. The committee either adopts the executive recommendation, the LFC recommendation, a combination of the two recommendations, or its own recommendation. Budget recommendations are finalized, the HAFC version of the GAA is prepared and the bill is debated on the House floor. Based on Joint Rule (9-1) during a 60-day session final passage occurs no later than the 35th calendar day and in a 30-day session, final passage occurs no later than the 16th calendar day.
SFC Budget Hearings	The Senate Finance Committee (SFC) gives Senators a set time frame to propose amendments to the HAFC version of the GAA. The amendments are entered into a database to create a listing that may be sorted by bill page and line order or by sponsor. Each amendment is considered by the SFC and is either adopted at the amount requested, adopted at a different amount, or not adopted. Once the amendments are adopted, the SFC version of the GAA is prepared, debated on the Senate floor and forwarded to the House for concurrence. If there is concurrence, the bill is enrolled and engrossed by the LFC and delivered to the governor for signature. If there is no concurrence and if the Senate does not recede from its amendments, a conference committee of three members from each chamber is appointed.
Conference Committee	The conference committee meets to negotiate the differences between the two chambers. A conference committee report is prepared and adopted by both chambers. Then the bill is enrolled and engrossed by the LFC and delivered to the governor for signature.
May 1st	Operating budgets for the fiscal year beginning July 1 are established in the state's accounting systems.

LEGISLATIVE FINANCE COMMITTEE BUDGETING PRINCIPLES

Balance recurring spending with recurring revenues.

Incorporate evidenced-based programs or principles when considering new program initiatives.

Emphasize performance outcomes to evaluate funding levels, as opposed to inputs (number of workers, or classes, or trips, etc).

Do not appropriate reserves for recurring spending.

Do not start, or fund, new programs with nonrecurring revenues.

Identify opportunities for consolidating or streamlining duplicate programs and activities and enhancing efficiency.

Identify successful programs that provide the best return to taxpayers (reprioritization).

Align budget recommendations with program achievement.

LEGISLATIVE FINANCE COMMITTEE TAX POLICY

"Taxes Should be Low and Broad"

Adequacy: Revenue should be adequate to fund needed government services.

Efficiency: Tax base should be as broad as possible and avoid excess reliance on any one tax.

Equity: Different taxpayers should be treated fairly.

Simplicity: Collection should be simple and easily understood.

Accountability: Preferences should be easy to monitor and evaluate

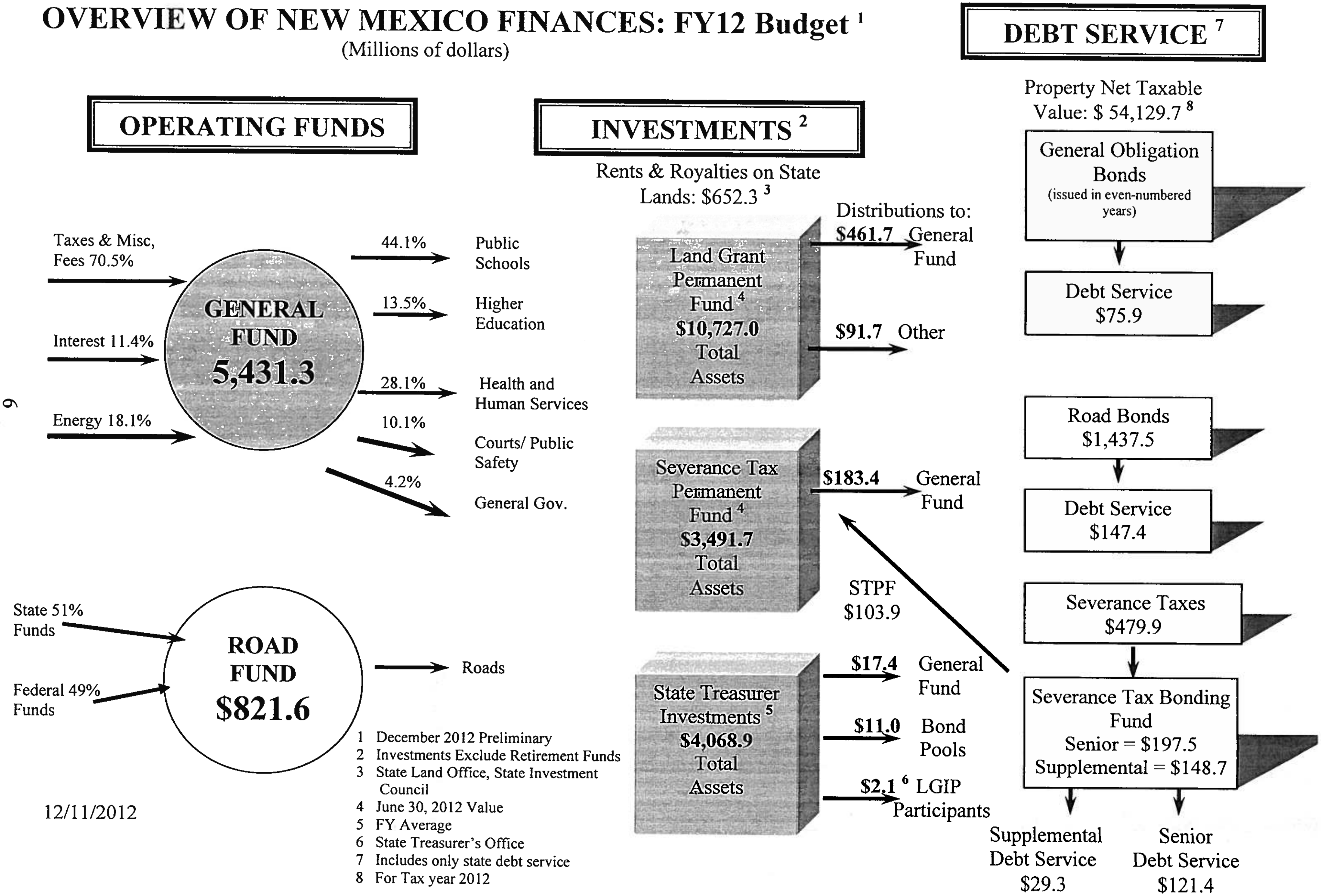
Earmarking: Revenue should not be obligated for specific programs, expenditures, or purposes.

Transparency: Tax expenditures should be reported annually and evaluated often to ensure compliance with desired objectives.

No retroactivity: Changes in tax law should not be retroactive

OVERVIEW OF NEW MEXICO FINANCES: FY12 Budget [1]

(Millions of dollars)



1 December 2012 Preliminary
2 Investments Exclude Retirement Funds
3 State Land Office, State Investment Council
4 June 30, 2012 Value
5 FY Average
6 State Treasurer's Office
7 Includes only state debt service
8 For Tax year 2012

12/11/2012

General Fund Financial Summary - December 2012 Consensus Revenue Estimate

(in millions of dollars)

	Estimated FY2012	Estimated FY2013	Estimated FY2014
APPROPRIATION ACCOUNT			
REVENUE			
Recurring Revenue			
August 2012 Consensus Forecast	$ 5,746.3	$ 5,687.5	$ 5,922.1
Adjusted for Legislation			*$* -
December 2012 forecast update	*$ 56.1*	*$ 19.9*	*$ 10.6*
Total Recurring Revenue	$ 5,802.4	$ 5,707.3	$ 5,932.7
Nonrecurring Revenue			
December 2012 Consensus Forecast	$ 14.7	$ (3.3)	$ (0.9)
Adjusted for Legislation	$ (40.0)	$ -	$ -
Total Non-Recurring Revenue (1)	$ (25.3)	$ (3.3)	$ (0.9)
TOTAL REVENUE	**$ 5,777.1**	**$ 5,704.0**	**$ 5,931.8**
APPROPRIATIONS			
Recurring Appropriations			
General Appropriation	$ 5,431.3	$ 5,649.6	
Special/New Initiatives Appropriations	$ 40.9		
Total Recurring Appropriations	$ 5,472.2	$ 5,649.6	
Nonrecurring Appropriations			
2012 Regular Session	$ 5.8		
2013 Regular Session - Capital Outlay		$ -	
2013 Deficiencies, Supplementals, Specials and IT	$ 59.9	$ -	
Total Nonrecurring Appropriations	$ 65.7	$ -	
TOTAL APPROPRIATIONS	**$ 5,537.9**	**$ 5,649.6**	
Transfer to(from) Reserves (2)	$ 239.3	$ 54.4	
GENERAL FUND RESERVES			
Beginning Balances	$ 503.3	$ 754.8	
Transfers from (to) Appropriations Account	$ 239.3	$ 54.4	
Revenue and Reversions	$ 176.4	$ 83.8	
Appropriations, expenditures and transfers out	$ (164.1)	$ (88.7)	
Ending Balances	**$ 754.8**	**$ 804.3**	
Reserves as a Percent of Recurring Appropriations	*13.8%*	*14.2%*	

New Money in FY14 is $282M

Notes:

(1) FY12 includes $18.3 in nonrecurring revenue: $11.4 million fund transfer for solvency, and $6.9 million for tax amnesty. The nonrecurring revenue reductions in FY13 and FY14 reflect accelerated revenue collections due to the tax amnesty program.

(2) Pursuant to Section 10, $40 million was transferred from the Appropriation Account to the Appropriation Contingency Fund in FY12.

General Fund Financial Summary - December 2012 Consensus Revenue Estimate
RESERVE DETAIL
(in millions of dollars)

	Estimated FY2012	Estimated FY2013
OPERATING RESERVE		
Beginning balance	$ 275.9	$ 417.0
BOF Emergency Appropriations/Reversions	$ (1.3)	$ -
Transfer out (1)		$ -
Transfers from/to appropriation account (1)	$ 239.3	$ 54.4
Transfer to tax stabilization reserve	$ (96.9)	$ (33.7)
Ending balance	$ 417.0	$ 437.8
APPROPRIATION CONTINGENCY FUND		
Beginning balance	$ 5.2	$ 27.6
Disaster allotments	$ (17.6)	$ (16.0)
Other appropriations	$ -	$ -
Transfers in (1)	$ 40.0	$ -
Revenue and reversions		$ -
Ending Balance	$ 27.6	$ 11.6
Education Lock Box		
Beginning balance	$ 47.1	$ 38.1
Appropriations (GAA Section 5&6) (2)	$ (9.0)	$ -
Transfers in (out)	$ -	$ -
Ending balance	$ 38.1	$ 38.1
Total of Appropriation Contingency Fund	$ 65.7	$ 49.7
STATE SUPPORT FUND		
Beginning balance	$ 1.0	$ 1.0
Revenues	$ -	$ -
Appropriations	$ -	$ -
Ending balance	$ 1.0	$ 1.0
TOBACCO PERMANENT FUND		
Beginning balance	$ 148.0	$ 148.2
Transfers in	$ 39.3	$ 39.0
Appropriation to tobacco settlement program fund	$ (19.7)	$ (19.5)
Gains/Losses	$ 0.2	$ 11.1
Additional transfers to Program Fund	*$ (19.7)*	*$ (19.5)*
Ending balance	$ 148.2	$ 159.3
TAX STABILIZATION RESERVE		
Beginning balance	$ 26.1	$ 123.0
Transfers in	$ 96.9	$ 33.7
Ending balance	$ 123.0	$ 156.7
GENERAL FUND ENDING BALANCES	**$ 754.9**	**$ 804.5**
Percent of Recurring Appropriations	*13.8%*	*14.2%*

Notes:
(1) Transfer from FY12 appropriation account to replenish the Appropriation Contingency Fund.
(2) DFA scores this appropriation as $8 million in FY12

LFC FINANCE FACTS

Understanding State Financial Policy

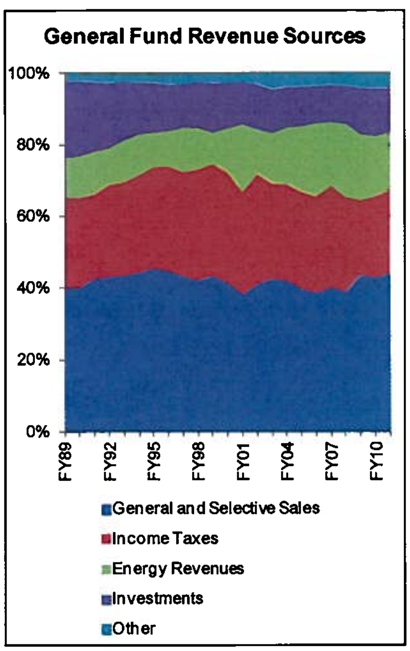
The General Fund

The general fund is the primary state fund from which the ongoing expenses of state government are paid. About 80 percent of the fund comes from revenue from the gross receipts and compensating taxes, selective sales taxes, income taxes, and interest earnings from the land grant and severance tax permanent funds and balances held by the State Treasurer. More than half the fund is spent on public schools and higher education, with another quarter of the money spent on health and human services.

Money In

About 40 percent of general fund revenue is attributable to general and selective sales taxes. The largest of these is the gross receipts tax. Other smaller sales taxes include the compensating tax, tobacco excise tax, liquor excise tax, insurance premium tax, motor vehicle excise tax, and gaming excise tax.

Income taxes are the second-largest source of general fund revenue, historically making up about 30 percent of the total. Three-quarters of that is personal income tax collections.



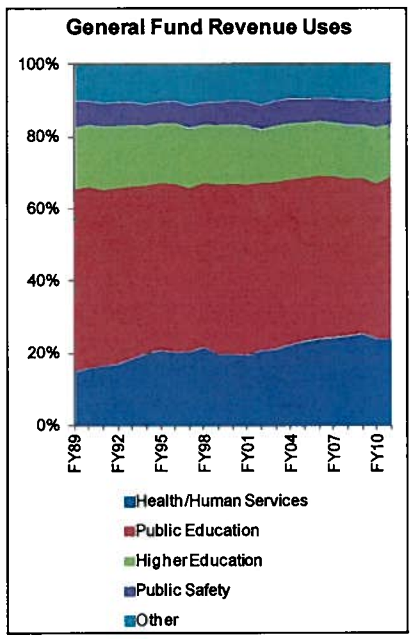
Energy-related revenues, typically 15 percent of the total, are the next largest source of general fund revenue. These include severance taxes, revenue payments from the federal government for leasing mineral rights, and income generated by the State Land Office.

About 10 percent of general fund revenues are attributable to interest earnings. This includes substantial income from the state's land grand and severance tax permanent funds and a much smaller amount from earnings on balances held in the state treasury.

A number of other small revenue sources contribute to the general fund. These include revenue sharing from tribal gaming facilities, license fees, reversions of unspent funds from state agencies, and numerous miscellaneous receipts.

Money Out

Public education has typically received the largest share of state general funding (around 45 percent) and higher education has generally received 15 percent, making education the biggest recipient of state general funds. Health and human services has historically received about 25 percent of the general fund budget, leaving 15 percent for the rest of state government.



However, while the general fund is the primary source of state funds for ongoing operations, the total budget includes significant levels of federal funding and smaller amounts of other state funds. When all revenue sources are considered, the share of the budget for public schools, which are primarily state-funded, drops to 22 percent. With federal funds, higher education receives about 17 percent of the total state budget. The share for health and human services, the recipient of billions in federal Medicaid matching dollars, increases to close to 40 percent when all revenue sources are included.

Transportation is the only area of state government that receives no general fund appropriations. Transportation is funded primarily by the state road fund and also receives a sizeable amount of federal revenue.

For More Information:

- Consensus revenue estimates may be found online at: www.board.nmdfa.state.nm.us.
- Details on state expenditures may be found in LFC's Post-Session Fiscal Review and LFC budget recommendations on the committee's fiscal reports web page: http://www.nmlegis.gov/lcs/lfc/lfcfiscalreports.aspx.
- The general fund is created in Section 6-4-2 NMSA 1978.

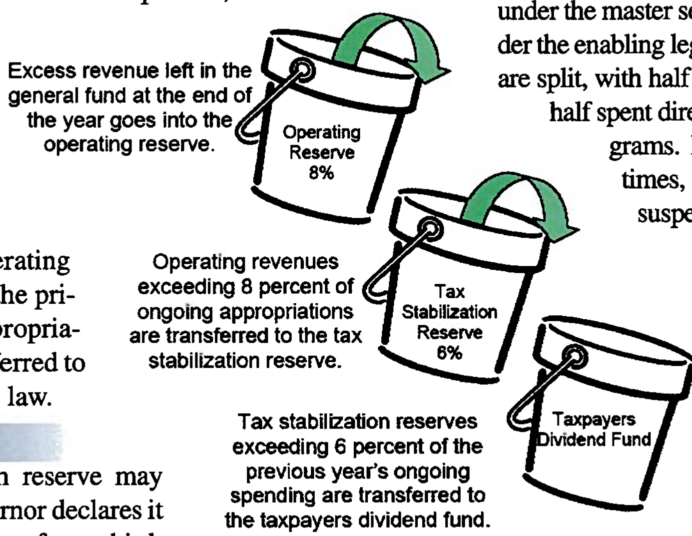
LFC FINANCE FACTS
Understanding State Financial Policy

General Fund Reserves

Because the New Mexico Constitution requires a balanced budget, state government maintains general fund reserves to cover any shortfalls if revenues are unexpectedly low or expenses are unexpectedly high. These rainy day funds are measured as a percentage of recurring appropriations – planned ongoing spending. The general fund reserves are made up of several distinct accounts: the operating reserve, tax stabilization reserve, appropriation contingency fund, taxpayers dividend fund, and state support reserve fund.

Operating Reserve

Revenues left at the end of the fiscal year are transferred to the operating reserve. If revenues come up short, the governor may transfer money from the operating reserve to cover authorized expenses. The amount the governor can transfer is capped by the Legislature each year in the General Appropriation Act. Once the operating reserve fund hits 8 percent of the prior budget year's recurring appropriations, the excess must be transferred to the tax stabilization reserve by law.



Tax Stabilization Reserve

Money in the tax stabilization reserve may only be appropriated if the governor declares it necessary and only with the vote of two-thirds of both the House and Senate. When the tax stabilization reserve balance reaches 6 percent of the previous fiscal year's recurring appropriations, state law requires the transfer of the excess funds to the taxpayers dividend fund.

Taxpayers Dividend Fund

If the taxpayers dividend fund balance exceeds 1 percent of state personal income tax collection, the governor must propose a method to refund the balance to the state's taxpayers in legislation to be considered at the next legislative session.

Appropriation Contingency Fund

The Legislature authorizes revenue going in and out of the appropriation contingency fund. A limited amount of the revenue in the fund can also be spent when the governor declares an emergency. The fund is mostly used to set aside money for use if certain circumstances come into play, such as the start-up of a new program moving faster than funded.

Tobacco Settlement Permanent Fund

The tobacco settlement permanent fund was created to hold payments to New Mexico from cigarette companies under the master settlement agreement of 1998. Under the enabling legislation, the settlement payments are split, with half going to the permanent fund and half spent directly on health and education programs. However, during economic hard times, the Legislature has temporarily suspended deposits into the permanent fund and put the entire amount into direct spending.

Money in the tobacco settlement permanent fund is invested by the State Investment Council and interest is credited to the fund. The Legislature may authorize spending from the fund for a budget shortfall only after balances in all other reserve accounts have been exhausted.

State Support Fund

On the first day of each fiscal year, remaining balances over $1 million in the public school district general obligation bonds loan fund are transferred to the state support reserve fund. Money in that fund may only be used to augment appropriations to public school districts for the state equalization guarantee distribution.

For More Information:
- The status of the New Mexico's reserve accounts can be found in the state's general fund financial summary, which is published on the State Board of Finance's website: www.board.nmdfa.state.nm.us.
- Statutes governing New Mexico's general fund reserves include: 6-4-2.1, 6-4-2.2, 6-4-2.3, 6-4-4, 6-4-9, 12-11-24, 22-8-31 NMSA 1978.

LFC FINANCE FACTS
Understanding State Financial Policy

Capital Outlay Process

Capital outlay funds, in the context of government, are those used to build, improve or equip physical property that will be used by the public. Roads, computers, museums, playgrounds, schools, irrigation ditches, hospitals, lands, and furniture can all be capital outlay projects. In New Mexico, state capital outlay is authorized by the Legislature and generally is nonrecurring – one-time – money. Because of provisions in the New Mexico Constitution, capital outlay can only be used for government-owned facilities.

Sources of Capital Outlay

Much of the state's capital outlay is funded through three sources: general obligation bonds, severance tax bonds and nonrecurring revenue in the general fund. Amounts vary from year to year depending on the economy. Nonrecurring general fund moneys are particularly unpredictable. The state also uses bonds for state transportation projects, projects funded by the New Mexico Finance Authority, and other projects but those bonds are repaid with other revenue.

General obligation bonds are repaid through property taxes and must be approved through a general election. As a result, that money is only available in even-numbered years. General obligation bonds typically support projects for higher education, senior citizens, public schools, and libraries. State buildings, parks, roads, and equipment have been unpopular with voters in recent years, and elections on bonds to pay for projects in those areas have failed.

Severance tax bonds generally are repaid with revenue from taxes on oil, gas, coal and other natural resources "severed" from the land. The amount available through severance tax bonds is largely dependent on the health of the oil and gas industry.

Nonrecurring revenue in the general fund, the primary repository of state revenue, is typically the money left over after the Legislature has funded state government and public school operations and set money aside for reserves.

Priority Projects

The Department of Finance and Administration and the General Services Department are required by state law to develop a four-year plan for major state capital improvement projects. State agencies develop lists of priority projects internally and transmit those to a panel put together by the two lead agencies. That panel develops a statewide priority list based on a variety of factors, such as public safety and federal mandates. The list becomes part of the executive budget recommendation presented to the Legislature on the first day of the legislative session.

The Local Government Division of the Department of Finance and Administration develops the Infrastructure Capital Improvement Plan of projects sought by local governments. Although participation in the plan is voluntary, almost all county, municipal, tribal and special districts participate in the process.

Legislators generally introduce legislation for capital projects requested by advocates, constituents, and the local governments within their districts. Few legislators sponsor the high-ticket projects in the Infrastructure Capital Improvement Plan because of the limited share of funds allotted to individual legislators.

Legislative Process

During the legislative session, legislators introduce House or Senate capital outlay requests. The House Taxation and Revenue Capital Outlay Subcommittee holds hearings on all proposed capital outlay projects. The Senate Finance Committee holds hearings only for large state agency and higher education projects and as requested by the sponsor. When the economy is strong and ample capital funds available, the House, Senate and executive split the available capital outlay funds into thirds. More commonly, the Legislature and the executive fund some statewide and regional projects before splitting the remainder for local projects. When money is tight, generally only state-owned and -operated projects are funded. The selected projects then become part of the capital outlay bill, sometimes referred to as the "pork" or "Christmas tree" bill. That bill is generally developed in the last two weeks of the session.

For More Information:
- Various reports on the status of capital outlay proposals and projects are available on the LFC website at www.nmlegis.gov/lcs/lfc/lfccapitaloutlay.aspx.
- Capital outlay requests and reauthorization request forms can be found through the legislative bill finder: www.nmlegis.gov/lcs/BillFinder.aspx

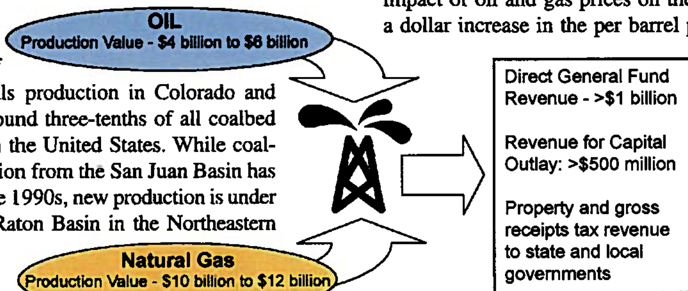
LFC FINANCE FACTS
Understanding State Financial Policy

Oil and Natural Gas

New Mexico is a leading producer of crude oil and natural gas in the United States. Major oil and gas deposits are located in the Permian Basin in the southeast and in the San Juan Basin in the northwest. The energy industry plays a critical role in the New Mexico economy and is an economic driver, both when prices are up and when prices are down.

Natural Gas

New Mexico natural gas production accounts for close to one-tenth of the U.S. total. The San Juan Basin gas area is the largest field of proven natural gas reserves in the United States and the leading coalbed-methane-producing region. New Mexico production of coalbed methane, about one-third of the state's total, rivals production in Colorado and is responsible for around three-tenths of all coalbed methane produced in the United States. While coalbed methane production from the San Juan Basin has declined since the late 1990s, new production is under development in the Raton Basin in the Northeastern part of the state.



Although more than two-thirds of New Mexico households use natural gas as their primary source for home heating, less than one-tenth of New Mexico's natural gas is used in the state. The majority of New Mexico's supply is delivered to the West Coast and to market centers in West Texas that supply the Midwest. New Mexico's Blanco Hub, in the San Juan basin, is a major gathering point for Rocky Mountain natural gas supplies heading to West Coast markets. Due to restricted access to markets, particularly the Midwest, the price for New Mexico natural gas is usually lower than the Henry Hub, Louisiana, price used as a national indicator. Sixty-three percent of natural gas production is on federal lands and 16 percent is on state land.

Oil

New Mexico crude oil output is typically just over 3 percent of the annual U.S. total. The Permian Basin, mainly in West Texas, is one of the most productive areas in the United States and contains three of the 100 largest oil fields. New Mexico has three oil refineries in Artesia, Bloomfield and Gallup. New Mexico also uses several petroleum product pipelines to connect the refineries to state and area markets. Giant Industries purchases almost all of the San Juan Basin's oil, refining it into gasoline and diesel at facilities in Bloomfield and Thoreau.

Since N.M. crude oil has a higher sulphur content — it's called "heavy" crude — it requires additional processing and attracts a lower price. Over the last three years, the price has been slightly behind the price for West Texas Intermediate, the national indicator. Forty-two percent of oil production is on federal land and 38 pecent on state land.

Revenue

New Mexico receives about $2 billion in direct revenue from oil and gas production through severance taxes, property taxes, and royalty and rental income. Additional indirect income comes from sales and income taxes on oil and gas drilling and service, which generate about $300 million.

In addition to these taxes, New Mexico collects royalties from oil and gas production on federal and state land and imposes property taxes both on the assessed value of the products severed and sold and on the production equipment.

Most oil and gas revenue is deposited into the general fund. Most years, oil and gas revenue make up about 15 percent of total general fund revenue, although that figure fluctuates depending on economic conditions and the health of the energy industry. Based on a "rule of thumb" for assessing the impact of oil and gas prices on the state's general revenues, a dollar increase in the per barrel price of oil translates into about $4 million for the general fund, while a 10 cent increase in the price per thousand cubic feet of natural gas translates into $10 million in additional revenue.

The taxable value for natural gas is based both on "dry" gas (methane) and natural gas liquids, such as propane and butane. New Mexico produces lower volumes of liquids from natural gas wells but the price tends to be much higher. The natural gas price in LFC economic forecasts reflects both the market value and the value added through the natural gas liquids premium.

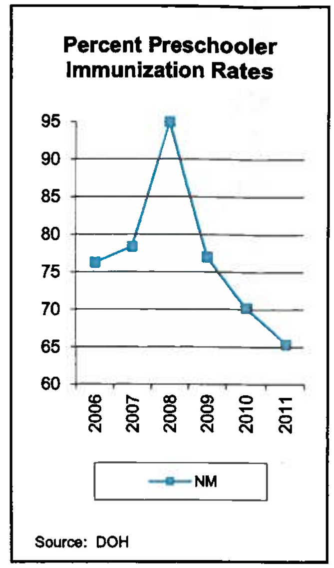
Most of the revenue deposited in the general fund comes from two sources: the oil and gas emergency school tax – a severance tax on oil, gas, helium, carbon dioxide and other hydrocarbons – and federal mineral leasing – money passed on to the state for mining activity on federal land. Although taxes are assessed on all mining activity, income from oil and natural gas overwhelm other mining sources.

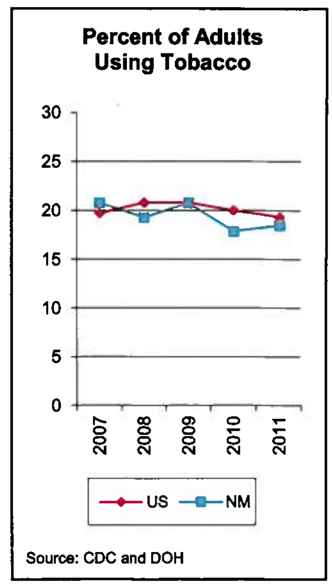
Revenue from oil and gas production also supports the state's two permanent funds. The royalties collected from mining and other activity on state trust land, set aside at the time of statehood, are distributed to the land grant permanent fund. The State Investment Council is responsible for investing the fund and 21 trust land beneficiaries, such as public schools and hospitals, receive interest payments each month based on the income generated by the land in their specific trust. The beneficiaries also receive payments from leases, rentals and other renewable uses of the trust land. The common school fund, which benefits public schools and is part of the general fund, is the largest trust beneficiary.

The severance tax permanent fund is funded by taxes on the extraction of oil and gas, primarily, but also other minerals such as coal and copper. The revenue is used to retire debt for government projects. The State Investment Council also invests the severance tax permanent fund. At over $14 billion, the two funds make up one of the world's largest educational endowments.

For More Information:
- Consensus general fund revenue estimates for severance taxes and rents and royalties can be found at the state Board of Finance website: www.board.nmdfa.state.nm.us
- National and state data on energy production can be found at the U.S. Department of Energy's Energy Information Administration: www.eia.doe.gov
- Information on energy regulations may be found at the U.S. Federal Regulatory Commission website (www.ferc.gov) or the N.M. Energy, Minerals and Natural Resources Department's Oil Conservation Division website (www.emnrd.state.nm.us/ocd/).

The Department of Health (DOH) completed FY11 meeting fewer than 40 percent of the performance targets for its measures, resulting in red or yellow overall program ratings. In some instances, the ratings were due to data being unreliable and measures not reflecting the core function of the program, significant budget expenditures, or stated strategic and mission objectives. The agency should include more meaningful outcome measures and more national benchmark measures for the Public Health, Developmental Disabilities Support, and Facilities Management Programs, and more efficiency measures denoting average cost per client for the Developmental Disabilities Support Program. The Department of Finance and Administration (DFA), at the request of the agency, has approved fewer FY13 performance measures for the DOH and this change will result in less performance accountability. The agency should consider adding outcome measures for teen pregnancies, suicide, hepatitis, tuberculosis, childhood obesity, medical cannabis, and adult immunizations to align with its stated goals and objectives. Inclusion of an Epidemiology and Response Program measure to gauge the readiness and capacity of the public healthcare system in New Mexico would be desirable. The Facilities Management and Developmental Disabilities Support Programs are both of such a size and importance that they both merit additional outcome measures for patient care and services, as well as enhanced measures of financial performance.

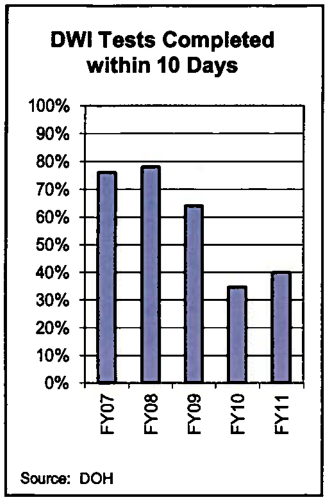




Public Health Program. Immunization rates in many states, including New Mexico, have decreased because the Centers for Disease Control (CDC) have changed the standard series of vaccines by which preschool children's rates of immunization are measured. The quarterly data for the Women, Infants and Children (WIC) Program does not support the annual data conclusion. Adult tobacco use showed a slight improvement, ending 0.5 percentage points below the target.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of preschoolers fully immunized	70.2%	82%	65.4%	R
Number of eligible women, infants and children program participants receiving services	118,299	123,000	112,324	R
Number of visits to agency-funded school-based health centers	60,817	40,000	55,616	G
Percent of adults who use tobacco	17.9%	19%	18.5%	G
			Overall Program Rating	Y

Epidemiology and Response Program. The number of health emergency exercises exceeded the FY11 target by 46, so a more ambitious target should be considered. One new trauma center was supposed to have been verified and designated by the end of FY11, which would have brought the total to 10, but the center received an extension to designate in FY12.



Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of health emergency exercises conducted to assess and improve local capability	105	60	106	G
Number of designated trauma centers in the state	8	10	9	Y
			Overall Program Rating	Y

Laboratory Services Program. Results for the Laboratory Services Program were impacted by staffing vacancies, increased sample load, and a large number of subpoenas, discovery orders, and court testimonies.

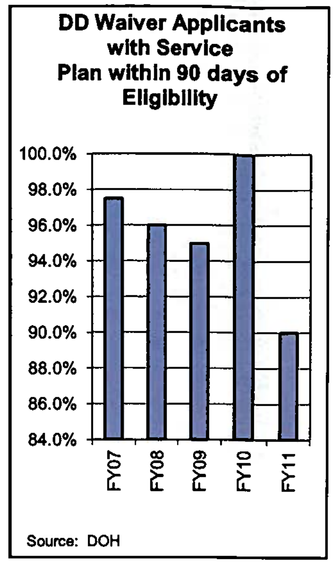
Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of blood tests from driving-while-intoxicated cases analyzed and reported within ten business days	34.6%	75%	40%	R
Percent of public health threat samples for communicable diseases and other threatening illnesses analyzed within specific turnaround times	95.4%	98%	94.4%	R
			Overall Program Rating	R

Facilities Management Program. The results for substantiated cases of abuse are commendable and reflect a strong emphasis on day-to-day care for residents; however, one substantiated case of abuse changed this trend. A program of this size ($131.6 million) and importance needs additional outcome measures for patient care and services, as well as enhanced measures of financial performance.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of substantiated cases of abuse, neglect and exploitation per hundred residents in department of health long-term care programs confirmed by division of health improvement	0	0	0.24	R
Percent of billed third-party revenues collected at all agency facilities	NA	75%	60%	R
			Overall Program Rating	R

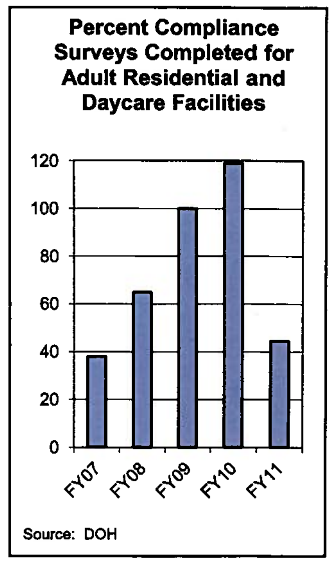
Developmental Disabilities Support Program. The Developmental Disabilities Support Program did not report its performance measure data in a timely manner. Cost inflation is a major issue within this program with increased service utilization and exceptions driving up average cost per client, which limits the availability to bring in new clients from the waiting list. A program of this size and importance could benefit from additional outcome measures and data, as well as performance data on average cost per client and overall cost reduction strategies that are measurable.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of adults receiving developmental disabilities day services engaged in community-integrated employment	32%	30%	35%	G
Percent of developmental disabilities waiver applicants who have a service plan in place within ninety days of income and clinical eligibility determination	100%	98%	90%	R
Number of individuals on the developmental disabilities Medicaid waiver waiting list	4,988	4,720	5,401	R
			Overall Program Rating	Y



<u>Health Certification, Licensing and Oversight</u>. The Health Certification, Licensing and Oversight Program did not meet any of its performance measures. The department reports compliance surveys are being negatively impacted due to budget cuts and hiring freezes. The agency's action plan indicates priority is given to statutorily required investigations and serious complaints while other incidences will remain uninvestigated until staffing is restored.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of required compliance surveys completed for adult residential care and adult daycare facilities	119%	95%	44.5%	R
			Overall Program Rating	R



CURRENT PROJECTS

- Charter School Leases
- Behavioral Health Programs
- Gaming and Racing
- Readiness for Healthcare Reform
- IT Project Reviews

RECENT PROJECTS

Teacher Effectiveness

- Strengthen the three-tiered career ladder to better align with student achievement
- When used appropriately, value-added models can identify effective teachers and drive student performance

Educator Preparation

- Improve quality by raising admissions and licensure standards
- Use student outcome data and teacher retention rates in the higher education funding formula

Medicaid

- Medicaid should fund evidence-based home visiting programs to positively impact health and well-being outcomes for children and families

Reducing Recidivism in Adult Corrections

- Strategic budget development can save millions and improve public safety

Others

Public Health Offices, Early Literacy, Corrective Action Fund, Dual Credit, Community Colleges, Motor Vehicles Division, Office Space Utilization, Capital Outlay

Legislative Finance Committee

Program Evaluation

OVERVIEW

The Legislative Finance Committee's program evaluation unit conducts in-depth studies of how the state spends taxpayer dollars and recommends legislative and agency actions to improve desired results for New Mexicans.

Program evaluations provide legislators with timely, accurate, and objective information to inform policy decisions. The LFC has produced roughly 12 evaluations per year, spanning all areas of state government.

The quality of these evaluations has been recognized in numerous "Impact Awards" from the National Conference of State Legislators.

PURPOSE OF WORK

Program evaluations provide policymakers and the public with objective and independent assessments of public agencies to:

- determine whether taxpayer expenditures are producing desired results;
- improve the efficiency and effectiveness of state government operations;
- improve fiscal and program accountability; and
- determine whether policy alternatives could improve operations and save taxpayers money.

SOURCES OF WORK

Program evaluations are undertaken under the general direction of the Committee.

Sources of evaluation topics include:

- Committee or other legislative requests;
- statutory requirements; and
- staff recommendations based on an annual assessment of state government, including major expenditures on programs and service, performance, public safety, and results of previous LFC studies.

TYPES OF PROJECTS

Program Evaluations - Large projects that assess the results of agency spending and activities

IT Project Evaluations - Assess IT project implementation and whether the investment was worthwhile

Special Reviews - Answer specific questions within a short time frame – also called rapid-response reviews

Legislative Services - Briefs or testimony regarding policy issues, best practices, or summaries of recent work

On the Web: http://www.nmlegis.gov/lcs/lfc/lfcprogeval.aspx

FISCAL IMPACT REPORT

		ORIGINAL DATE	01/26/12		
SPONSOR	Smith	**LAST UPDATED**	02/23/12	**HB**	
SHORT TITLE	Temporary Unemployment Fund Contributions			**SB**	32/aHJC
				ANALYST	Aledo-Sandoval

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
CY12	CY13	CY14		
($81,400.0)	($78,500.0)*	Unknown	Recurring	Unemployment Compensation Fund

(Parenthesis ( ) Indicate Revenue Decreases)
***Assuming difference between Schedule 3 and Schedule 2 in CY13.**

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY12	FY13	2 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	$178.0	$178.0	$356.0	Recurring	Federal Funds

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Workforce Solutions Department (WSD)
Economic Development Department (EDD)
Attorney General's Office (AGO)

SUMMARY

Synopsis of HJC Amendment

The House Judiciary Committee Amendment to Senate Bill 32 strikes the section in the bill that gave the Secretary, with approval of the governor, the ability to increase the contribution rate to the rate specified in Contribution Schedule 3, if, as of June 30, 2012, the total assets of the unemployment compensation fund are less than or equal to thirty percent of the total amount of benefits paid in calendar year 2011.

Synopsis of Bill

Senate Bill 32 proposes to: (1) implement unemployment insurance (UI) contribution schedule 1 effective January 1, 2012 through December 31, 2012; (2) implement contribution schedule 2 effective calendar year 2013; (3) provide the WSD secretary, with the approval of the governor, the authority to increase the employer contribution rate to the rate specified in contribution schedule 3 for calendar year 2013 if as of June 30, 2012 the total assets of the trust fund are less than or equal to 30 percent of the total amount of benefits paid in calendar year 2011.

Under current law, the UI Contribution Schedule 3 is implemented from January 1, 2012 through December 31, 2012 and Schedule 2 for calendar year 2013, beginning with calendar year 2014 the contribution schedule would be determined by the reserve ratio formula.

FISCAL IMPLICATIONS

SB 32 proposes to implement employer contribution schedule 1 on January 1, 2012 through December 31, 2012. Most recent WSD projections estimate a change to schedule 1 in 2012 would decrease employer contributions by an estimated $81.4 million for calendar year (CY) 2012.

CY12 WSD Projected Contributions

	Schedule 1	Schedule 2	Schedule 3
(in millions)	$234.5	$254.1	$315.9

CY12 WSD Projected Benefit Payout

	Schedule 1
(in millions)	$254.4

According to WSD, the trust fund balance as of December 31, 2011 was $79.5 million. However, the LFC has not received the final Financial Management Bureau figures for the 4th quarter of CY11.

Based on current WSD projections, contribution schedule 1 in CY12 would result in total revenues of $234.5 million. Total expenditures for the same period are projected to be $254.4 million. The projected deficit between contributions and expenditures in CY12 is $19.9 million with schedule 1 in effect in CY12.

A shift to Schedule 1 in CY12 is projected by WSD to conclude each quarter of 2012 with positive fund balances. At Schedule 1, the fund balance at the end of CY12 is projected to be $59.6 million. At Schedule 2 for CY13, the fund balance at year end is projected at $41.3 million. Contrastingly, if Schedule 3 continues through CY12 and CY13 the year end fund balance is estimated at $141 million and $201.2 million, respectively.

Per SB 32, with Schedule 1 in effect for CY12, two scenarios can occur for CY13. If Schedule 2 applied for CY13, then the projected trust fund balance at the end of CY13 is $41.3 million. At Schedule 3 for CY13, the projected CY13 year-end trust fund balance is $103.6 million.

The Workforce Solutions Department is no longer using the estimated average contribution per employee table. The WSD asserts the table does not provide an accurate representation of employers' contributions.

SIGNIFICANT ISSUES

Moving to Schedule 1 for CY12 and Schedule 2 for CY13 may require a transfer from the general fund or a short term financing mechanism to avoid any possible cash flow problems and borrowing from the federal government.

According to the Economic Development Department, increased employer contributions will increase costs to the state's employers, which will only magnify the detrimental impact of the poor economy.

ADMINISTRATIVE IMPLICATIONS

The proposed legislation will require the Department to reprogram its legacy unemployment insurance tax system and the newly designed UFACTS system to be able to implement Contribution Schedule 1 for CY12 at a cost of approximately $95,000.

Additionally, the Department states it will be required to reprint and distribute wage and contribution reports to all contributing employers in the state at an approximate cost of $83,000. The Department should be able to cover these costs with federal funding.

TECHNICAL ISSUES

The bill authorizes the secretary to increase the contribution schedule to schedule 3 if the total assets of the fund are equal to less than 30 percent of the total benefits paid in calendar year 2011. Senate Bill 32 does not specify if the fund balance is the Financial Management Bureau fund balance or the U.S. Treasury fund balance which will show different balances. The U.S. Treasury fund balance includes UI modernization and Special Administration funds (Reed Act). These funds are not used for the payment of benefits even though they are fund assets. The Financial Management Bureau fund balance best represents the assets available for payment of benefits. This is also the figure used for the reserve ratio in statute that triggers the contribution schedules.

OTHER SUBSTANTIVE ISSUES

The WSD contends that SB 32 vests considerable discretion in the Executive Branch, namely the secretary and the governor, to move to a UI Contribution Schedule 3 if the circumstances of the UI Trust Fund are less than or equal to thirty percent of the total amount of benefits paid in CY11. WSD notes that SB 32 provides a seeming broad grant of discretion to move to Contribution Schedule 3 which poses potential constitutional issues involving separation of powers of the respective branches of government.

According to the Attorney General's Office, the authority granted to the executive to increase the contribution rate for the year 2013 is *permissive* rather than mandatory. The bill states the executive "may" increase the rate if certain conditions are met (as opposed to "shall").

SB 32 provides restrictions and arguably reasonable guidance to exercise the conferred executive use of discretion of whether to increase contribution schedules in 2013. SB 32 states the discretion is based upon the fund balance reaching 30 percent of the total amount of benefits paid in calendar year 2011 and the secretary can only increase it to Contribution Schedule 2, which provides specific rates based on an experience rating system.

The WSD observes that retroactive civil legislation does not raise constitutional questions on account of its retroactivity, if the legislative intent of retroactivity is expressly stated.

MAS/svb:lj

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

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

		ORIGINAL DATE	02/02/12		
SPONSOR	HTRC	**LAST UPDATED**	02/15/12	**HB**	184 & 256/HTRCS
SHORT TITLE	"Construction Service" For Gross Receipts & Manufacturing Property Gross Receipts			**SB**	
				ANALYST	Walker-Moran

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY12	**FY13**	**FY14**	**FY15**	**FY16**		
Manufacturing GRT Deduction						
	~20%	**~40%**	**~60%**	**~80%**	**100% deduction after FY17**	
$0.0	($2,370.0)	($7,450.0)	($12,900.0)	($18,620.0)	Recurring	General Fund***
$0.0	($1,420.0)	($4,430.0)	($7,830.0)	($11,730.0)	Recurring	Local Governments
$0.0	($35.0)	($60.0)	($100.0)	($150.0)	Recurring	Small Counties Assistance
$0.0	($30.0)	($50.0)	($80.0)	($125.0)	Recurring	Small Cities Assistance
$0.0	($10.)	($17.0)	($30.0)	($40.0)	Recurring	Muni Equivalent Distribution
Construction-Related GRT Deduction *This estimate is the lower bound. The impact could be much higher*						
	Half-year	**Full-year**	**Full-year**	**Full-year**		
	($6,830.0)	($14,290.0)	($14,930.0)	($15,570.0)	Recurring	General Fund***
	($3,430.0)	($7,180.0)	($7,500.0)	($7,820.0)	Recurring	Local Governments
Small Cities Assistance & Small Counties Assistance						
	Half-year	**Full-year**	**Full-year**	**Full-year**		
		($5,060.0)	($5,150.0)	($5,190.0)	Recurring	General Fund (Cities)***
		($860.0)	($1,110.0)	($1,370.0)	Recurring	General Fund (Counties)***
		$5,060.0	$5,150.0	$5,190.0	Recurring	Small Cities Assistance
		$860.0	$1,110.0	$1,370.0	Recurring	Small Counties Assistance

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicate of SB 276 Substitute

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenues Department (TRD)
joint analysis with Department of Finance and Administration (DFA)
Economic Development Department (EDD)

SUMMARY

Synopsis of House Taxation and Revenue Committee Substitute Bill for HB 184 and HB 256

Small Cities Assistance Fund: 1) House Bill 184 and HB 256 substitute modifies the minimum amount distributed from $35,000 to $90,000. The effective date of the small cities distribution minimum is January 1, 2014. 2) The bill also modifies the formula for the Small Cities Distribution. The distribution increases to fifteen percent from the existing ten percent of the net receipts attributable to the compensating tax. Effective date is January 1, 2013.

Small Counties Assistance Fund: House Bill 184 and HB 256 substitute changes the distribution formula to increase the amounts distributed.

The effective date of the small cities and counties assistance fund formula is July 1, 2013.

Manufacturers Gross Receipts Deduction: House Bill 184 and HB 256 substitute amends section 7-9-46 NMSA 1978 to expand the existing deduction for tangible personal property to include the property consumed in the manufacturing process; provided that the tangible personal property is not a tool or equipment used to create the manufactured product.

The existing deduction extends only to tangible personal property incorporated as an ingredient or component part of the products that the buyer is in the business of manufacturing. Because utilities are defined as "tangible property" for GRT purposes, the proposed deduction would cover utilities.

The bill provides for an increasing deduction each year. Prior to CY14, twenty percent of receipts may be deducted; in CY14 forty percent of receipts may be deducted; in CY15 sixty percent of receipts may be deducted; in CY16 eighty percent of receipts may be deducted; and in CY17 and beyond, one hundred percent of receipts may be deducted. The full impact of the deduction will not be until FY18.

The purpose of the deduction is to encourage manufacturing businesses to locate in New Mexico and to reduce the tax burden, including reducing pyramiding, on the tangible personal property that is consumed in the manufacturing process and that is purchased by manufacturing business in New Mexico.

Construction Gross Receipts Deduction: House Bill 184 and HB 256 substitute amends section 7-9-52 NMSA 1978 to identify the definition of "construction-related services" in the Gross Receipts Tax deduction for construction services to persons engaged in the construction business. The bill also adds a new section to allow a deduction for receipts from leasing construction equipment if it is leased to a person engaged in the construction business who delivers a nontaxable transaction certificate to the person leasing the construction equipment. The service deduction and the equipment leasing deduction would be available only for sales to a construction business for use in a taxable construction project.

The effective date of the manufacturing and construction GRT deductions is January 1, 2013.

There is no sunset date. The LFC recommends adding a sunset date.

FISCAL IMPLICATIONS

This bill may be counter to the LFC tax policy principle of adequacy. According to the LFC staff General Fund Recurring Appropriation Outlook for FY14 and FY15, December 2011 forecasted revenues will be insufficient to cover growing recurring appropriations.

<u>***Full Implementation</u>: When fully implemented the total impact on the general fund of the measures in this bill in FY17 is at least $50 million.

Historically the Small Cities and Small Counties Funds have not reverted large amounts to the general fund therefore the impact to the general fund from the distribution change will be significant. Currently, the formula for Small County Assistance does not distribute the full amount of compensating tax distributed to the program. The remainder reverts to the General Fund. The proposed changes would increase the amount of the current earmark of compensating tax that is distributed each year thus reducing the General Fund reversion. The fiscal impact applies to distributions beginning in FY14. The increase in the distribution amount from ten percent to fifteen percent going to the Small Cities Assistance Fund decreases the amount going to the general fund starting on January 1, 2013. The calculation uses the compensating tax estimate in the December 2011 Consensus Revenue Estimate.

Per DFA, the small cities and small counties assistance changes were computed using 1) the consensus forecast of total compensating tax revenue, (2) worksheets used by the Taxation and Revenue Department (TRD) and the DFA to make annual distributions under each program. The small cities assistance changes were calculated using 2010 U.S. Census population totals and FY11 taxable gross receipts data provided by TRD.

<u>Manufacturing Deduction</u>: The negative impact to the general fund in FY13 for half a year is $2.4 million; $7.5 million in FY14; $12.9 million in FY15; and $18.6 million in FY16. There is also a negative impact on the local governments, the small cities assistance fund, the small counties assistance fund and the municipal equivalent distribution. The estimate above uses data from the U.S. Bureau of Economic Analysis, the U.S. Census Bureau's Economic Census, and the Taxation and Revenue Department (TRD) to calculate the gross receipts tax (GRT) base. The impact uses the average state gross receipts rate of 7 percent and a 60/40 split of GRT between general fund and local governments to estimate the impacts. The estimate applies the consensus revenue growth rate for GRT and compensating tax to determine the fiscal impact in the out years. The first year impact is ½ of an annual total, as the legislation takes effect halfway through FY13. The estimates represent 20% of receipts in CY2013, 40% in CY2014, 60% in CY2015, 80% in CY2016 and 100% in CY2017 and thereafter.

The revised manufacturing GRT deduction estimate includes oil and gas extraction, 50% of mining support activities, and power-generation. "Manufacturing" as determined by the GRT statute includes natural gas processing and refining, but does not include production. The inclusion of these sectors increases the estimated impact by about 16%. Since this figure includes production, the total fiscal impact is likely smaller.

Construction-Related Deduction: Recognizing that the estimate may be underestimated due to the uncertainty in the data that is available, the estimate could be a lower bound of the actual deduction. The lower bound impact to the general fund in FY13 for half a year is $6.8 million; $14.3 million in FY14; $14.9 million in FY15; and $15.6 million in FY16. These impacts could increase by up to 20 percent. There is also a negative impact on the local governments.

Per TRD and DFA, the construction GRT estimate is highly uncertain. Input-output data from the U.S. Census Bureau were used to determine the total amount of business-to-business sales in the construction industry in New Mexico. Roughly 50% of professional services provided to the construction industry were assumed to be eligible for the proposed new deduction. The estimate also assumes 80% of construction-related leasing services would be eligible for the deduction. The combined state and local average GRT rate was applied to calculate the fiscal impact.

The revised construction GRT deduction estimate takes into account oil and gas drilling, which is included in the Taxation and Revenue Department's regulated definition of "construction." This inclusion increases the total fiscal impact by about 20 percent. Due to the language in Section 5, Subsection B, which limits the deduction to projects subject to GRT upon completion, the total impact of oil and gas drilling will likely be small.

SIGNIFICANT ISSUES

According to the TRD, this proposal could reduce the incidence of "pyramiding" or multiple points of taxation of manufactured goods. With total gross receipts tax rates close to 7 percent statewide, the economic impacts of "pyramiding" in the GRT have increased significantly. Pyramiding occurs when inputs sold by one business to another in a multi-stage manufacturing process are not deductible. Under present law, the final price of a manufactured product, for example, includes the gross receipts tax at least twice, once on each input billed to the business that is manufacturing a product, and once on the final sale of the product.

According to EDD, GRT relief for manufacturing entities will encourage greater capital investment and employment growth in New Mexico.

There is a question on how many new jobs if any the construction deduction will create. This analysis does not estimate the economic impact of either one of the deductions.

A recent study by Ernst & Young ranked New Mexico last in terms of tax competiveness on new investment. Gross receipts tax imposed on business inputs was largely to blame for the low ranking. In contrast, Oregon, which was ranked second best, imposes no sales tax on business inputs. According to a new Ernst & Young study released January 23, 2012 after incentives are included New Mexico still ranks first in some industries compared to 8 other states but its rank improves for other industries when incentives are included. [1]

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[1] For more detail please refer to "New Mexico Business Tax Competitiveness and Simulations of Selected Tax Policy Changes" by Ernst & Young, January 23, 2012.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met since TRD is required in the bill to report annually to the Revenue Stabilization and Tax Policy committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose. The taxpayer is also required to report the amount deducted separately for each deduction.

ADMINISTRATIVE IMPLICATIONS

Per TRD, developing a list of construction services and leased equipment that will be deductible pursuant to this bill may be difficult. The Department's role will be to approve the request of a contractor to issue construction services non-taxable transaction certificates. (CS-NTTC). In the past, the Audit and Compliance Division of TRD has enforced this restricted interpretation by auditing architects and construction-related services providers. The architect or other service provider cannot accept the Type-6 NTTC in good faith to prove a deduction. The estimate reported above assumes that construction-related service providers are compliant. However, if there is an increase in non-compliance as a result of the bill, the fiscal impacts could be higher than those shown. One effect of this bill would be to bring construction-related service providers into compliance with the law.

TECHNICAL ISSUES

"Consumed in the manufacturing process" needs to be defined through regulation. A definition of tool or equipment would be beneficial and regulations would need to be promulgated. The definition and instructions should make clear the types of tangible personal property that would be considered as eligible.

ALTERNATIVES

The EDD recommends that in order to stimulate the New Mexico economy, the manufacturing sector should be reviewed for any impediments to growth; a reduction in the cost of doing business will create jobs for the state and all options should be considered.

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

EWM/svb:amm

Estimated Change to Small Cities Distribution under HTRC Substitute for HB184 and HB256

Distribution Rate	10%	15%	Difference	% Change	Per Capita
Minimum	35,000	90,000			Change
Angel Fire	35,000	90,000	55,000	157.1%	$45.23
Aztec	253,296	309,423	56,128	22.2%	$8.30
Bayard	253,296	452,150	198,854	78.5%	$85.42
Belen	178,750	178,750	0	0.0%	$0.00
Bernalillo	253,296	306,092	52,797	20.8%	$6.35
Bloomfield	35,000	90,000	55,000	157.1%	$6.78
Bosque Farms	253,296	452,150	198,854	78.5%	$50.94
Capitan	253,296	277,976	24,680	9.7%	$16.58
Carrizozo	176,338	176,338	0	0.0%	$0.00
Causey	35,000	90,000	55,000	157.1%	$528.85
Chama	49,652	90,000	40,348	81.3%	$39.48
Cimarron	41,759	90,000	48,241	115.5%	$47.25
Clayton	253,296	259,028	5,732	2.3%	$1.92
Cloudcroft	35,000	90,000	55,000	157.1%	$81.60
Columbus	253,296	440,627	187,331	74.0%	$112.58
Corona	35,000	90,000	55,000	157.1%	$319.77
Corrales	253,296	452,150	198,854	78.5%	$23.87
Cuba	35,000	90,000	55,000	157.1%	$75.24
Des Moines	35,000	90,000	55,000	157.1%	$384.62
Dexter	75,153	90,000	14,847	19.8%	$11.73
Dora	35,000	90,000	55,000	157.1%	$413.53
Eagle Nest	35,000	90,000	55,000	157.1%	$189.66
Edgewood	35,000	90,000	55,000	157.1%	$14.73
Elephant Butte	191,685	191,685	0	0.0%	$0.00
Elida	35,000	90,000	55,000	157.1%	$279.19
Encino	35,000	90,000	55,000	157.1%	$670.73
Estancia	67,053	90,000	22,947	34.2%	$13.87
Eunice	35,000	90,000	55,000	157.1%	$18.82
Floyd	35,000	90,000	55,000	157.1%	$413.53
Folsom	35,000	90,000	55,000	157.1%	$982.14
Fort Sumner	91,279	91,279	0	0.0%	$0.00
Grady	35,000	90,000	55,000	157.1%	$514.02
Grants	35,000	90,000	55,000	157.1%	$5.99
Grenville	35,000	90,000	55,000	157.1%	$1,447.37
Hagerman	238,938	238,938	0	0.0%	$0.00
Hatch	175,061	175,061	0	0.0%	$0.00
Hope	35,000	90,000	55,000	157.1%	$523.81
House	35,000	90,000	55,000	157.1%	$808.82
Hurley	253,296	351,002	97,707	38.6%	$75.33
Jal	131,381	131,381	0	0.0%	$0.00
Jemez Springs	35,000	90,000	55,000	157.1%	$220.00
Lake Arthur	101,514	101,514	0	0.0%	$0.00

Distribution Rate	10%	15%	Difference	% Change	Per Capita
Minimum	35,000	90,000			Change
Logan	58,836	90,000	31,164	53.0%	$29.91
Lordsburg	38,015	90,000	51,985	136.8%	$18.59
Los Ranchos De Albuquerque	253,296	452,150	198,854	78.5%	$33.01
Loving	229,488	229,488	0	0.0%	$0.00
Magdalena	209,169	209,169	0	0.0%	$0.00
Maxwell	66,013	90,000	23,987	36.3%	$94.44
Melrose	126,029	126,029	0	0.0%	$0.00
Mesilla	229,864	229,864	0	0.0%	$0.00
Milan	35,000	90,000	55,000	157.1%	$16.95
Moriarty	35,000	90,000	55,000	157.1%	$28.80
Mosquero	35,000	90,000	55,000	157.1%	$591.40
Mountainair	189,855	189,855	0	0.0%	$0.00
Pecos	253,296	291,704	38,409	15.2%	$27.59
Peralta	253,296	452,150	198,854	78.5%	$54.33
Questa	253,296	287,862	34,566	13.6%	$19.53
Raton	253,296	452,150	198,854	78.5%	$28.88
Red River	35,000	90,000	55,000	157.1%	$115.30
Reserve	35,000	90,000	55,000	157.1%	$190.31
Roy	36,140	90,000	53,860	149.0%	$230.17
Ruidoso	35,000	90,000	55,000	157.1%	$6.85
Ruidoso Downs	35,000	90,000	55,000	157.1%	$19.54
San Jon	35,000	90,000	55,000	157.1%	$254.63
San Ysidro	35,000	90,000	55,000	157.1%	$284.97
Santa Clara	253,296	440,910	187,614	74.1%	$111.28
Santa Rosa	35,000	90,000	55,000	157.1%	$19.31
Socorro	253,296	452,150	198,854	78.5%	$21.97
Springer	164,232	164,232	0	0.0%	$0.00
Taos	35,000	90,000	55,000	157.1%	$9.62
Taos Ski Valley	35,000	90,000	55,000	157.1%	$797.10
Tatum	89,157	90,000	843	0.9%	$1.06
Texico	216,653	216,653	0	0.0%	$0.00
Tijeras	35,000	90,000	55,000	157.1%	$101.66
Truth or Consequences	253,296	452,150	198,854	78.5%	$30.71
Tucumcari	201,595	201,595	0	0.0%	$0.00
Tularosa	253,296	452,150	198,854	78.5%	$69.97
Vaughn	69,277	90,000	20,723	29.9%	$46.46
Virden	44,560	90,000	45,440	102.0%	$298.95
Wagon Mound	78,961	90,000	11,039	14.0%	$35.16
Willard	54,852	90,000	35,148	64.1%	$138.92
Williamsburg	119,866	119,866	0	0.0%	$0.00
Total	**9,490,446**	**14,235,669**	**4,745,223**	**50.0%**	**$27.39**

This estimate was derived from the U.S. Census Bureau's 2010 population estimates, FY11 taxable gross receipts data from the Taxation and Revenue Department, and the December 2011 consensus revenue estimate for compensating tax.

Estimated Small Counties Distribution under HTRC Substitute for H184 and H256

	HTRC Substitute	Current	Difference	% Change	Per Capita Change
Catron	$483,000	$424,000	$59,000	114%	$15.82
Cibola	$259,000	$213,000	$46,000	122%	$1.69
De Baca	$553,000	$474,000	$79,000	117%	$39.17
Grant	$161,000	$133,000	$28,000	121%	$0.95
Guadalupe	$442,000	$376,000	$66,000	118%	$14.08
Harding	$742,000	$637,000	$105,000	116%	$151.73
Hidalgo	$442,000	$376,000	$66,000	118%	$13.55
Los Alamos	$161,000	$133,000	$28,000	121%	$1.56
Luna	$181,000	$148,000	$33,000	122%	$1.31
Mora	$442,000	$376,000	$66,000	118%	$13.54
Quay	$442,000	$376,000	$66,000	118%	$7.32
Rio Arriba	$181,000	$148,000	$33,000	122%	$0.82
Roosevelt	$259,000	$213,000	$46,000	122%	$2.31
San Miguel	$181,000	$148,000	$33,000	122%	$1.12
Sierra	$331,000	$278,000	$53,000	119%	$4.43
Socorro	$239,000	$198,000	$41,000	121%	$2.30
Taos	$181,000	$148,000	$33,000	122%	$1.00
Torrance	$259,000	$213,000	$46,000	122%	$2.81
Union	$442,000	$376,000	$66,000	118%	$14.48
TOTAL	**$6,381,000**	**$5,388,000**	**$993,000**	**118%**	**$3.28**

This estimate was derived from the U.S. Census Bureau's 2010 population estimates, PTY2010 residential and non-residential property valuations, the U.S. Department of Commerce's 2010 implicit price deflators for state and local government, and PTY2010 imposed mill levies.

Legislative Finance Committee Outputs and Resources

(Most available on LFC website)

Staff Expertise:

Consensus Revenue Estimates

Budget Documents:
- Policy and Performance Analysis (Volume I)
- Agency Appropriation Recommendations (Volume II)
- Supplemental Tables and Charts (Volume III)
- Post Session Fiscal Report

General Appropriation Act (Bill Drafting)

Monthly Newsletter

Performance Evaluations

Agency Performance Report Cards

Finance Facts and Fiscal Terms

Capital Outlay Reports
- Projects Greater Than One Million Dollars (Updated Quarterly)
- Projects Sorted by District (Updated Annually)

Quarterly Investment Performance Reports

Testimony and Presentations

Fiscal Impact Reports (Preparation)
- Available on the Legislative Webpage—Bill Finder

LEGISLATIVE FINANCE COMMITTEE-STAFF ASSIGNMENT

David Abbey, Director
David Lucero, Deputy Director-Chief Budget Analyst, Fiscal Review, Biennial Report
Charles Sallee, Deputy Director-Program Evaluation

Health/Human Services

ESQUIBEL, Ruby Ann (4573)
601 Commission on the Status of Women
624 Aging & Long Term Services Dept.
647 Dev. Disabilities Planning Council
662 Miners Hospital
665 Department of Health
669 NM Health Policy Commission
670 Veterans' Services Department
FFIS/FEDERAL Liaison
Monthly BAR Reporting & Authority

GEISLER, Greg (4560)
604 Comsn Deaf/Hard of Hearing
606 Commission for the Blind
609 Indian Affairs Department
630 Human Services Department
644 Division of Vocational Rehab
645 Gov's Commission on Disability
385 New Mexico Mortgage Finance Authority
AGA/PBB Workgroup-Lead

ALEDO, Milagros "Mimi" (4574)
603 Office of African-American Affairs
605 Martin Luther King, Jr., Comsn
631 Workforce Solutions Department
632 Workers' Comp. Administration
690 Children, Youth & Families Dept.
765 Juvenile Public Safety Advisory Board
Federal Funds

PROGRAM EVALUATION

SALLEE, Charles – Deputy Director for Program Evaluation (4528)

CANNEY, Jeff
COURTNEY, Jon
CRESPIN-TRUJILLO, Valerie
EVANS, Jack
FRESQUEZ, Brenda
GALBRAITH, Pamela
GRIEGO, Maria
MERCER-SMITH, Rachel
PAHL, Matthew
WEINBERG, Michael

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HARTZLER-TOON, Tracy (4548)
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950 Higher Education Department
953 Higher Education Institutions
Children's Psych/Carrie Tingley Hospital
University Hospital/ Medical School
978 NM Military Institute
979 NM School for the Blind/Visually Impaired
980 NM School for the Deaf
Performance-Based Budgeting

GUDGEL, Rachel (4566)
924 Public Education Department
930 Regional Education Cooperatives
940 Public School Facilities Authority
993 Public School Support
State Equalization Guarantee (Funding Formula)
-Staff PSCOC
-Staff PSCOCTF

SUPPORT SERVICES

LEGER, Jeannae – Administrative Services Mgr (4543)
BOYLAN, Sharon– Admin. Asst III
LUJAN, Adreena – Admin Asst I
MONTOYA, Bianca – Admin. Asst II
MONTOYA, Annamae-Financial Assistant II
WOJAHN, Beth – Committee Services Coordinator
LFC Newsletter-staff editor

Resources & Infrastructure

SODERQUIST, Randall (4557)
305 Attorney General
369 State Commission of Public Records
370 Secretary of State
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378 Personnel Board Compensation Issues & Other State Employee Benefits
379 Public Employee Labor Relations Bd.
505 Department of Cultural Affairs
805 NM Department of Transportation

MCCOY, Mary (4515)
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521 Energy, Minerals & Natural Resources Department
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550 State Engineer/Interstate Stream Commission
539 State Land Office
667 Department of Environment
668 Office of Natural Resources Trustee

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Capital Outlay Funding/Monitoring
-Constituent work for legislators
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SNYDER, Sonya (4577)
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495 NM Spaceport Authority
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VAN MOORSEL, Peter (4563)
New Mexico Finance Authority (bonds & investments)
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Budget Glossary

ABE Adult Basic Education

Accountability in Government Act The state law that requires performance measures and performance reporting from all state agencies. Often referred to as AGA.

ad valorem A tax on the value of the goods or property.

AFSCME American Federation of State, County and Municipal Employees

AG Attorney General

ALTSD Aging and Long-Term Services Department

anti-donation clause A provision of the state constitution that forbids the state from appropriating money directly to a private entity. To avoid the issue, the Legislature usually appropriates the money to a state agency and specifies how it will be spent.

appropriation contingency fund A fund within the general fund that can be spent only with the specific authorization of the Legislature. The fund is typically used for potential expenses that might occur if conditions change.

BAR Budget adjustment request. A request from a state agency to move money from one area to another within the limits set in the General Appropriation Act. Agencies must submit their requests to the LFC for review but the LFC has no power to stop a transfer that complies with the law.

base budget The cost of continuing existing levels of service in the current budget year.

bbl Billions of barrels. Used to describe crude oil production and price. A $1 increase in the price per barrel of oil translates roughly into an additional $3.5 million in general fund revenue for the state.

BCMC Bernalillo County Metropolitan Court

blast out of committee To remove a bill from any remaining committee hearings and place it on the calendar for a floor vote.

blue chip stock Stock in a company known for its long-established record of making money and paying dividends.

BoF State Board of Finance

budget The bill, usually House Bill 2, or package of bills that pay for the operating costs of state government. The main bill is the General Appropriation Act.

budget recommendation The recommendation of either the executive or the Legislative Finance Committee for total appropriations and spending authorization for the coming fiscal year. It sometimes includes provisions allowing spending for several fiscal years. New Mexico is unusual in that both the executive and legislative branches prepare a recommendation.