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

		ORIGINAL DATE	01/23/08		
SPONSOR	Gonzales	**LAST UPDATED**	02/05/08	**HB**	218/aHTRC
SHORT TITLE	Amend Small Counties Assistance Act			**SB**	
				ANALYST	Propst

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY08	**FY09**		
	NFI		

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to SB 171

SOURCES OF INFORMATION

LFC Files

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

SUMMARY

Synopsis of Amendment

On page 1, line 13, after “Counties”, strike the remainder of the line, strike all of line 14 and strike line 15 up to the period.

On page 5 through 9, strike Section 2 in its entirety.

Synopsis of Original Bill

House Bill 218 amends the current Small Counties Assistance Act by revising the definition of the inflation factor within the calculation that provides the distribution of funds to qualifying counties. HB 218 includes additional language that will require the first use of the Small Counties distribution to be utilized to comply with the Audit Act.

FISCAL IMPLICATIONS

The Small Counties Distribution for FY08 in this model includes the corrected "inflation factor" that is introduced in HB 218. The net increase in the total distribution for FY09 is $217.9 million. Projections for all subsequent fiscal years are calculated with a 10% growth rate per year. Although a growth rate of 10% is rather high for this distribution, it appears as though the fund can support the adjustment to the inflation factor.

This model also includes counties that qualified for funding in FY08. Since the formula contains variables for property valuations, population values and GRT increments; the number of qualifying counties may or may not change in the future.
Section 7-1-6.5 governs the distribution equal to 10% of the compensating tax to the Small Counties Assistance Fund. Estimates from the Taxation and Revenue Department were incorporated into this model to illustrate the capability of the fund and the revenue flow.

FY	Compensating Tax Receipts	Small Counties Asst Fund	Small Counties Distribution Estimates	Estimated Reversion
2008	$79,982,500	$7,998,250	$4,358,000	$3,640,250
2009	$83,421,748	$8,342,175	$5,273,180	$3,068,995
2010	$87,008,883	$8,700,888	$5,800,498	$2,900,390
2011	$90,750,265	$9,075,026	$6,380,548	$2,694,478
2012	$94,652,526	$9,465,253	$7,018,603	$2,446,650

The overall Small Counties Distribution in this model will increase over time and the reversion to the General Fund will decrease; this is the only significant impact to the General Fund and reflects the original design of the amendment that was introduced and passed in the 2004 Legislative Session. HB 218 serves as a correction to that amendment.

SIGNIFICANT ISSUES

According to DFA, the purpose of the Small Counties Assistance Act [Section 4-61-1 through 4-61-3 NMSA] is to provide a distribution of funds to qualifying counties based upon property values, census data, inflation factors and additional increments that are based on defined gross receipts taxes that are imposed at the county level.

Various amendments were incorporated into the statute in the 2003, 2004 and 2005 legislative sessions. The language adding the adjustment factor was introduced and passed in 2004.

DFA notes the that the language describing calculation of the inflation factor (Subsection D, Section 4-61-2) does not interact with application of the inflation factor to the distribution amounts (Subsection D, Section 4-61-3) in the way intended.

The inflation factor is calculated as the ratio of the value of an inflation index (specifically the GNP implicit price deflator for state and local government purchases of goods and services) for last calendar year over the index value for the previous year. This ratio is than multiplied against the distribution amounts in the table to produce the value of the distribution in the current year. It was anticipated that, as time went by, this year’s ratio would be applied against the distribution amounts actually distributed the previous year. However, that is not what the language actually states and the Department of Finance and Administration was instructed only to multiply this year's ratio against the (unadjusted) table amount.

Compared with the construction of the "adjustment factor" (Subsection A, Section 4-61-2) which adjusts the bracket ranges. The calculation is against base property tax values in 2002. This year's factor is the ratio of last year's property tax valuations over 2002's. Since statewide values grow every year and 2002's are fixed, the bracket ranges will always expand.

The inflation factor in contrast is not anchored in a specific year, thus creating a problem in the overall calculation. The intent was to avoid measurement issues when the federal government re-calibrates the GNP indices. This happens every ten years and involves changing the base year and makes changes to what is counted.

The language in HB 218 solves these issues and provides a base year of 2004 for the inflation factor; this correction was completed with the assistance and participation of the Association of Counties.

The additional language of HB 218 requires the first use of the distribution by a county to comply with the Audit Rule is similar to language in SB 171 amending the Small Cities Distribution.

The Local Government Division (LGD) is currently trying to address this issue of local governments' compliance with the Audit Act with the proposed "Budget Certification Rule". A public hearing is scheduled for February 18, 2008 in Santa Fe to address this new rule. This proposed rule, developed by the LGD in conjunction with the State Auditor's Office, stipulates steps in which the LGD will address local governments' lack of compliance to the Audit Act. This rule is intended to address the issue of past due audits by working with local governments to be current with their annual audits.

TRD added the following analysis:

The Tax Administration Act requires that ten percent (10%) of net receipts from the compensating tax be distributed to the Small Counties Assistance Fund. Qualifying counties are provided with distributions based upon their population and total assessed value for property tax purposes. The base distribution amount for each qualifying county is determined in accordance with the table below; provided that the amounts in the first two columns of the table shall be adjusted annually by the adjustment factor; and the amount in the last column shall be adjusted annually by the inflation factor. If the county's total valuation for the preceding property tax year is:

at least:	**but less than:**	**and population is:**	**Then the distribution amount is:**
$0	$100,000,000	under 1,000	$450,000
$0	$100,000,000	at least 1,000 but under 4,000	$325,000
$0	$100,000,000	at least 4,000	$250,000
$100,000,000	$230,000,000	under 12,000	$175,000
$100,000,000	$230,000,000	at least 12,000	$125,000
$230,000,000	$1,400,000,000	under 48,000	$75,000

Under current law, the term "inflation factor" is defined as a fraction where the numerator is the annual implicit price deflator index for state and local government purchases of goods and services for the calendar year one year prior to the year in which the distribution is to be made; and the denominator is the same index for the year two years prior to the year in which the distribution is to be made, i.e., (Index Last Year)/(Index Two Years Ago). Given the manner in which both the numerator and denominator roll forward from year to year, the formula fails to adequately capture the effects of inflation and adjust the base distributions accordingly. This bill would amend the definition of "inflation factor" to anchor the inflation factor to a base year (2004). The inflation factor would become (Index for Last Year)/ (Index for 2004). The base distributions would grow by the annual rate of inflation, as measured by the annual implicit price deflator index for state and local government purchases of goods and services for the year prior to distribution. The bill would also require that the first use of the distribution would be to timely comply with all requirements of the Audit Act.

Effective Date: July 1, 2008.

Estimated Revenue Impact*						**R or**	
FY2008	**FY2009**	**FY2010**	**FY2011**	**FY2012**	**FY 08-12**	**NR****	**Fund(s) Affected**
$0	($459)	($482)	($506)	($531)	($1,976)	R	General Fund
$0	$459	$482	$506	$531	$1,976	R	Small Counties Assistance Fund

* In thousands of dollars. Parentheses ( ) indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

DFA's actual distributions in FY08 for FY07 served as the basis for the estimated revenue impact. A comparison was made of the base distribution under the current law with the base distribution under the proposed amendment. In FY08, the net impact to the General Fund would have been $436 thousand under the terms of the proposed amendment. The bill would increase this amount annually with inflation. According to the index, the annual rate of inflation in 2005, 2006 and 2007, was 6.4%, 5.43%, and 5.45%, respectively. An annual inflation rate of five percent is assumed in the estimated revenue impacts from FY09-12.

The impact that individual counties would have experienced in fiscal year 2008 had the proposed changes been in effect are reflected in the following table. These figures served as the basis for the estimated revenue impact. In future years, they would grow with inflation, as measured by the annual implicit price deflator index for state and local government purchases of goods and services for the year prior to distribution.

COUNTY	2008	2009	2010	2011	2012
Catron	$41,745	$43,832	$46,024	$48,325	$50,741
Cibola	$16,056	$16,858	$17,701	$18,586	$19,516
Colfax	$0	$0	$0	$0	$0
Curry	$9,633	$10,115	$10,621	$11,152	$11,709
De Baca	$41,745	$43,832	$46,024	$48,325	$50,741
Grant	$9,633	$10,115	$10,621	$11,152	$11,709
Guadalupe	$32,111	$33,717	$35,403	$37,173	$39,031
Harding	$57,800	$60,690	$63,725	$66,911	$70,257
Hidalgo	$32,111	$33,717	$35,403	$37,173	$39,031
Lincoln	$0	$0	$0	$0	$0
Los Alamos	$0	$0	$0	$0	$0
Luna	$16,056	$16,858	$17,701	$18,586	$19,516
Mora	$32,111	$33,717	$35,403	$37,173	$39,031
Quay	$32,111	$33,717	$35,403	$37,173	$39,031
Rio Arriba	$0	$0	$0	$0	$0
Roosevelt	$16,056	$16,858	$17,701	$18,586	$19,516
San Miguel	$9,633	$10,115	$10,621	$11,152	$11,709
Sierra	$16,056	$16,858	$17,701	$18,586	$19,516
Socorro	$16,056	$16,858	$17,701	$18,586	$19,516
Taos	$9,633	$10,115	$10,621	$11,152	$11,709
Torrance	$16,056	$16,858	$17,701	$18,586	$19,516
Union	$32,111	$33,717	$35,403	$37,173	$39,031
TOTAL	**$436,714**	**$458,549**	**$481,477**	**$505,551**	**$530,828**

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