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

SPONSOR Cisneros **ORIGINAL DATE** 01/30/19 **LAST UPDATED** 02/27/19 **HB**

SHORT TITLE Fed Mining Revenue To State Fund **SB** 401/aSFC

ANALYST Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	**FY20**	**FY21**	**FY22**	**FY23**		
$0.0	$0.0	$0.0	$45,000.0	$0.0	Recurring	Tax Stabilization Reserve (General Fund Reserve)
$0.0	$0.0	$0.0	($45,000.0)	$0.0	Recurring	General Fund Operating

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
$0.0	$0.0	$0.0	$0.0	n/a	n/a

Parenthesis ( ) indicate expenditure decreases

SOURCES OF INFORMATION
LFC Files

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee (SFC) amendment for Senate Bill 401 changes the effective date of the bill to July 1, 2021. This removes the FY21 fiscal impact of the bill. The amendment also clarifies the bill's distribution is made from the receipts of federal mineral leasing payments, as term "net receipts" does not apply to this revenue source.

Synopsis of Original Bill

Senate Bill 401 distributes revenue in excess of an annual five-year average for federal mineral leasing payments to the tax stabilization reserve, which is a general fund reserve and often referred to as the state's "rainy day fund". The effective date of this bill is July 1, 2020.

FISCAL IMPLICATIONS

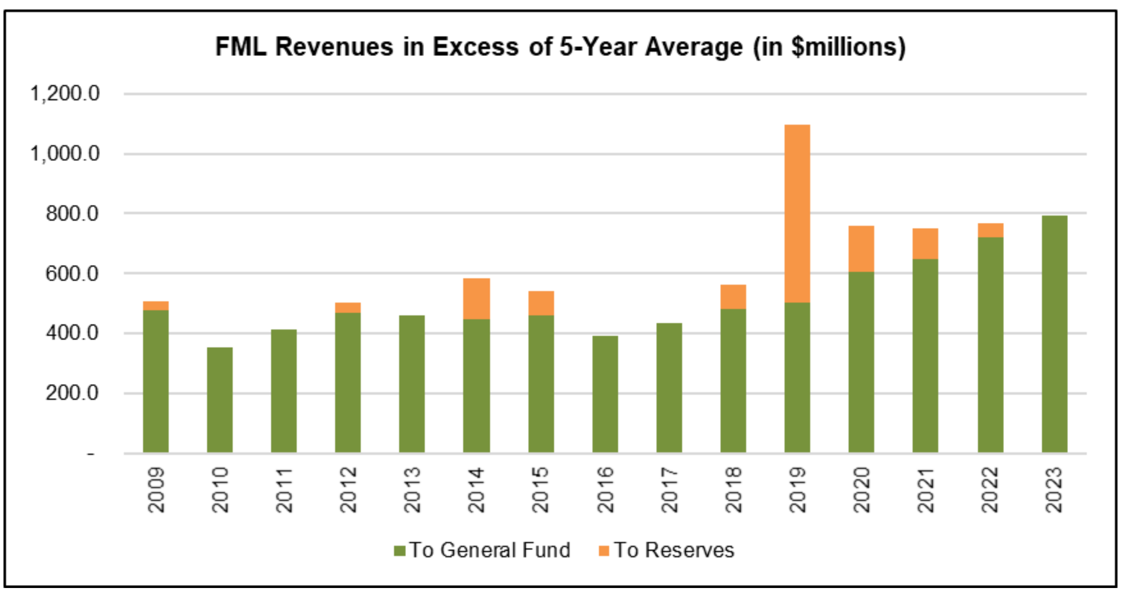
Federal mineral leasing (FML) revenues are distributions from the federal government to New Mexico for the state's share of royalties for production activities on federal land. Additionally, FML revenue includes the state's share of bonus payments for lease sales of federal land. Oil and gas production activity accounts for over 95 percent of federal royalty payments in New Mexico, making this revenue source particularly sensitive to changes in oil and gas prices and production levels. Distributing FML revenues in excess of the five-year average to the tax stabilization reserve fund would capture revenue windfalls from the oil and gas industry and help stabilize general fund revenues over time.

The table below shows the estimated impact of this bill using the December 2018 consensus estimate for FML revenue.

Table 1. Estimated Distribution to Tax Stabilization Reserve

	School Tax (in thousands)		
FY	Revenue (Dec 2018 CREG)	Five-Year Avg.	Excess of Avg.
2021	$752,300.0	$649,200.0	$103,100.0
2022	$766,700.0	$721,700.0	$45,000.0
2023	$792,700.0	$833,600.0	$0.0
		Total to Tax Stabilization Reserve	$148,100.0

To demonstrate the smoothing effect of oil and gas revenues received in the state, the graph below illustrates FML revenue that would have gone to the tax stabilization reserve if this bill had been enacted in FY09. As shown below, general fund revenues from this tax would still have been allowed to grow; however, in periods where revenues spiked above the five-year average (e.g. period of high prices or exceptionally large bonus payments), those excess amounts would be transferred to the reserve. Thus, general fund revenue, as indicated by the green lines, reflects less volatility.



Due to the state's economic and budgetary reliance on the oil and gas industry and tendency to fluctuate with oil and gas industry growth, this bill assumes the general fund is able to absorb distributions to the tax stabilization reserve without significant negative effects on the state budget.

SIGNIFICANT ISSUES

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. The general fund reserves are measured as a percentage of recurring appropriations (i.e. planned ongoing spending). They are made up of several distinct accounts: the operating reserve, tax stabilization reserve, appropriation contingency fund, and state support reserve fund.

This bill does *not* change how funds are appropriated from the tax stabilization reserve and does *not* change or diminish legislative appropriation authority. Under current law, money in the tax stabilization reserve may only be appropriated if (1) the governor declares it "necessary for the public peace, health and safety" and only with the vote of two-thirds of both the House and Senate, or (2) if revenues are determined by the governor to be insufficient to meet authorized appropriations for the current and next fiscal year and the House and Senate approve a transfer to the general fund with a majority vote to cover the projected insufficiency for either or both fiscal years.

Several states have either constitutional or statute-defined economic or budget stabilization funds, otherwise known as "rainy day funds," to provide options during serious economic downturns. Purposes for the funds vary among states but may be summarized by these categories: cover revenue shortfalls or budget deficits; finance emergency situations as defined by legislation; and, general purpose appropriations. Most states cap the size of their funds tying them to a percentage of prior years' general fund revenues or a specified dollar amount. If the additional transfer of revenue to the tax stabilization reserve is intended to establish a budget stabilization fund, then further definition and purpose of this fund appears warranted.

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