NOTE: As provided in LFC policy, this report is intended only for use by the standing finance committees of the legislature. The Legislative Finance Committee does not assume responsibility for the accuracy of the information in this report when used for other purposes.

The most recent FIR version (in HTML & Adobe PDF formats) is available on the Legislative Website. The Adobe PDF version includes all attachments, whereas the HTML version does not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

## FISCAL IMPACT REPORT

SPONSOR:	Beffort		DATE TYPED:	1/29/03	НВ	
SHORT TITL	E: <u>Dynar</u>	nic Forecasting	g Pilot Project		SB	96
				ANALYST:		Smith

#### **APPROPRIATION**

Appropriation	on Contained	Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
	190.0			Non-Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

**Duplicates HB28** 

## **SOURCES OF INFORMATION**

Responses Received From

Department of Finance and Administration State Highway and Transportation Department

## **SUMMARY**

## Synopsis of Bill

Senate Bill 28 appropriates \$190,000 from the general fund in FY04 and FY05 to develop and implement a dynamic forecasting pilot project. The draft proposes to amend Section 2-5-4.1 NMSA 1978 for the purpose of conducting a two-year pilot project to dynamically assess the fiscal impacts of pending legislation. Presently, fiscal impacts are assessed in a mostly static framework, which does not fully capture probable long-term behavioral responses to tax reforms. The draft requires coordination among executive departments and the legislative finance committee to determine if dynamic fiscal impact analysis provides a reliable and reasonably accurate analytical tool, if such analyses can be accomplished with a reasonable amount of resources and if the results of the analyses can be easily understood. The appropriation requires purchase of an economic model of New Mexico and includes fees for consulting services. Dynamic forecasts would determine behavioral responses by individuals, businesses, and others resulting from legislation with a static impact greater than \$10 million when fully implemented.

## Senate Bill 96 -- Page 2

## TECHNICAL ISSUES

SHTD notes that the bill requires dynamic forecasting of bills introduced during the "second session of the forty-sixth legislature and the first session of the forty-seventh legislature" (Section 1, Subsection B, Paragraph 1 on page 2). This specification might be reformulated to accommodate a special session, in the event one is called.

SHTD also notes that it is unclear how the dynamic forecasting requirement may affect substitute bills prepared late in a legislative session. A substitute bill combining the provisions of multiple bills may reach the \$10 million threshold while the individual bills did not. It may be quite difficult to perform a dynamic forecast when a bill involves multiple small provisions that add up to \$10 million.

# **OTHER SUBSTANTIVE ISSUES**

Many people believe that the traditional "static" approach to evaluating the fiscal impact of a bill may overestimate or underestimate the ultimate actual fiscal impact by ignoring economic feedback effects triggered by provisions of the bill. In many cases, the economic feedback effects of legislative initiatives may take considerable time to exhibit their full effect, and may be beyond the budget horizon. Thus, the "static" and "dynamic" forecast of the fiscal impact of a bill may be quite similar over the first few years.

SS/njw