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### FISCAL IMPACT REPORT

SPONSOR Ro		ella	ORIGINAL DATE LAST UPDATED		НВ	497/aHAFC
SHORT TITI	LE _	Fire Protection	Fund Distributions		SB	
				ANAI	YST	Schardin

### **REVENUE (dollars in thousands)**

	Recurring or Non-Rec	Fund Affected			
FY06	FY07	FY08			
(\$28,600.0)			Non-Recurring	General Fund	
	(\$9,600.0)	(12,900.0)	Recurring	General Fund	
	\$5,100.0	\$5,800.0	Recurring	Local Govern- ments	
	\$2,300.0	\$4,700.0	Recurring	Fire Protection Grant Fund	

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates SB458. Relates to HB309. Conflicts with HB310.

### **SOURCES OF INFORMATION**

LFC Files

Responses Received From

Department of Finance and Administration (DFA)

### **SUMMARY**

### Correction

House Bill 497 as passed by both houses contains drafting errors that could prevent the annual fire protection fund reversion to the general fund in FY06. Language stating that the reversion is to take place on or before June 30 of each fiscal year (page 8, line 9) is replaced (page 9, line 8) with language stating that the reversion will take place on July 1 of each year. This means that unless action is taken to ensure that the FY06 general fund reversion takes place before the effective date of this bill (May 17, 2006), FY06 general fund revenue will be reduced by \$28.6 million. This amount is higher than the general fund reversion forecast in the January 2006 consensus estimate, and is based on new analysis.

### House Bill 497/aHAFC- Page 2

Further, by deleting the text on page 8 lines 4-7, the bill erases an earmark that currently distributes money from the fire protection fund to pay 75 percent, or about \$3.2 million, of the state fire marshal and state fire academy budgets. However, since this amount is specifically appropriated in the General Appropriation Act, DFA believes the state fire marshal will still receive this money for its FY07 operating budget.

The corrected revenue table also includes an increase in funding to local governments due to the increased distributions the state fire marshal will be allowed to certify.

Finally, an analytical error in the original FIR underestimated the fiscal impact the bill would create by increasing the minimum distribution amounts the state fire marshal may certify to each fire district. The fiscal impact of increasing these minimum levels will increase the recurring revenue loss of the bill to about \$9.6 million in FY07 and \$11.4 million in FY08.

Consultations between LFC, DFA, and PRC produced the following options that that should be considered before the governor takes action on HB497:

- By signing HB497 and taking no special action, the general fund will incur a \$28.6 million nonrecurring revenue loss in FY06. This option is reflected in the revenue table on page 1.
- By vetoing HB497 in its entirety, the governor can prevent a \$26.8 million nonrecurring revenue loss to the general fund. This option would have no revenue impact versus current law.
- By vetoing Section 5 of the bill in its entirety, the governor could allow the minimum distributions to fire districts to increase but prevent the complications found in this bill. However, this option would eliminate the gradual reduction of the general fund reversion.

Estimated	Recurring or Non-Rec	Fund Affected		
FY06	FY07	FY08		
(6,500.0)	\$(7,200.0)	(\$7,900.0)	Recurring	General Fund
	\$7,200.0	\$7,900.0	Recurring	Local Govern- ments

It should be noted that the General Appropriation Act passed by both houses appropriates \$2 million from the fire protection fund to the PRC to improve equipment and training at the state's lowest ranked fire departments.

### **Synopsis of HAFC Amendment**

The House Appropriations and Finance Committee amendment to House Bill 497 amends the membership of the newly-created fire protection grant council so that it will consist of a representative from the New Mexico Municipal League, a representative of the New Mexico Association of Counties, two members appointed by the PRC, three members appointed by the governor who must represent three different congressional districts, one member appointed by the speaker of the house, one member appointed by the senate pro tempore, and the state fire marshal. The

### House Bill 497/aHAFC- Page 2

amendment also ensures that council members appointed by the governor, house speaker or senate pro tempore may not be members of the PRC, Superintendent of Insurance, or an active member of a county or municipal fire district or department. Finally, the amendment states that the fire grant council will elect a chair from its members.

## Synopsis of Original Bill

House Bill 497 makes several changes to the way the fire protection fund is operated.

The bill phases out the reversion of the fire protection fund to the general fund over a period of ten years and increases the base funding amount for municipal and county fire stations by about 42 percent.

The bill also creates the fire protection grant council, which will grant funding to fire districts based on need from the newly-created fire protection grant fund. The council will consist of a representative from the New Mexico Municipal League, a representative of the New Mexico Association of Counties, two members appointed by the PRC, three members appointed by the governor, and the state fire marshal (see HAFC amendment synopsis).

The effective date of these provisions is May 17, 2006.

### FISCAL IMPLICATIONS

The fire protection fund receives insurance premium taxes paid to the state for property and vehicle insurance. Currently, the sum of 75 percent of the state fire marshal's operating budget, 75 percent of the fire academy's operating budget, the amount of volunteer firefighter's retirement, distributions to local fire districts in the pervious fiscal year, and an additional \$100 thousand are subtracted from total fire protection fund revenue. Remaining revenue above this sum reverts to the general fund. In FY07, total fire protection fund requirements are expected to total \$28.7 million, and the general fund reversion is expected to be \$27.9 million.

House Bill 497 would gradually eliminate the annual reversion of fire protection fund revenue to the general fund between FY07 and FY16. DFA estimates the general fund reversion will fall by \$600 thousand in FY07, \$4.2 million in FY08, \$8.2 million in FY09, \$12.2 million in FY10, \$16.5 million in FY11, \$20.8 million in FY12, \$25.4 million in FY13, \$30.0 million in FY14, \$34.8 million in FY15, and \$39.7 million in FY16.

#### SIGNIFICANT ISSUES

The 2003 Legislature appropriated \$250 thousand for the PRC to conduct a needs assessment. The study found that \$56 million was required to bring all fire districts currently rated 9 or 10 by the insurance service organization (ISO) up to a rating of 8. This bill addresses the recommendations of this study. However, DFA asserts that the slow phase-in of additional funding to local fire districts may mean that improvements will not be realized for several years.

According to the needs assessment study, PRC, the New Mexico Firefighter's Association, the New Mexico Municipal League, and the New Mexico Association of Counties have passed resolutions in support of this effort.

# **House Bill 497/aHAFC- Page 3**

### PERFORMANCE IMPLICATIONS

Increasing funding available for improvements to local fire districts will reduce the risk of fire and may decrease insurance premiums by decreasing the risk of fire.

### **ADMINISTRATIVE IMPLICATIONS**

PRC's needs assessment survey recommended three additional FTE to improve inspections and fiscal compliance.

# CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 497 duplicates Senate Bill 458. It relates to House Bills 309, which appropriate general funds to the fire protection fund to improve fire districts with poor ISO ratings. It conflicts with House Bill 310.

SS/mt:nt

Maximum amounts to be certified General Fund Distribution

Present	t Law																
recen	A	В	С	D	Е	F	G										
				50% Appropriation		E+	Certified Dist			Annual	75% Fire Marshal &		75% of PRC Admin		Ending		
	Certified		50% Change	to vol firefighters		A(t-1) or	is the Greater		FPF Balance	Pro-Rata	Fire Academy	Certified	Program Support	Volunteer Firefighters	Balance:		
	Distributions	(4% growth)	FPF	retirement fund	C-D	H(t-1)	G(t-1) or A(t-1) and F		(4% growth)	Distribution	Budgets (3% Growth)	Distribution	(GAA)	Fund (10-11A-3)	General Fund		
FY04	23,506,655	52,039,544	4 540 000	075 000	4.444.000	04.047.004	04.047.004	E)/05	FF 074 000	400.000	0.005.005	04.047.004	400.050	750.000	07.450.000		
FY05 FY06	24,647,864	55,071,962 57,274,840	1,516,209 1,101,439	375,000 375,000	1,141,209 726,439	24,647,864	24,647,864	FY05 FY06	55,071,962 57,274,840	100,000	2,235,225 2,302,282	24,647,864 25,374,303	182,250 174,150	750,000	27,156,623 28,574,105		
FY07		59,565,834	1,145,497	375,000	720,439	25,374,303 26,144,800	25,374,303 26,144,800	FY07	59,565,834	100,000 100,000	2,302,262	26,144,800	,	750,000 750,000	30,020,309		
FY08		61,948,467	1,191,317	375,000	816,317	26,961,117	26,961,117	FY08	61,948,467	100,000	2,442,491	26,961,117		750,000	31,510,104		
FY09		64,426,406	1,131,317	375,000	863,969	27,825,086	27,825,086	FY09	64,426,406	100,000	2,515,765	27,825,086	,	750,000	33,045,256		
FY10		67,003,462	1,288,528	375,000	913,528	28,738,614	28,738,614	FY10	67,003,462	100,000	2,591,238	28,738,614		750,000	34,627,602		
FY11		69.683.601	1,340,069	375.000	965.069	29,703,683	29.703.683	FY11	69.683.601	100,000	2.668.976	29.703.683	201.888	750.000	36.259.054		
FY12		72.470.945	1,393,672	375,000	1,018,672	30,722,355	30,722,355	FY12	72.470.945	100,000	2.749.045	30,722,355	. ,	750,000	37,941,600		
FY13		75,369,782	1,449,419	375,000	1,074,419	31,796,774	31,796,774	FY13	75,369,782	100,000	2,831,516	31,796,774	214,183	750,000	39,677,309		
FY14		78,384,574	1,507,396	375,000	1,132,396	32,929,170	32,929,170	FY14	78,384,574	100,000	2,916,462	32,929,170	220,608	750,000	41,468,334		
FY15		81,519,957	1,567,691	375,000	1,192,691	34,121,861	34,121,861	FY15	81,519,957	100,000	3,003,955	34,121,861	227,226	750,000	43,316,913		
FY16		84,780,755	1,630,399	375,000	1,255,399	35,377,261	35,377,261	FY16	84,780,755	100,000	3,094,074	35,377,261	234,043	750,000	45,225,377		
D	- d I																
Propos	ea Law A	В	С	D	Е	F	G										
	Certified	_	·	100% Appropriation	-	E+	Certified Need			FPF		Volunteer		10% Annual Increase	Ending		Incremental
	Distributions	FPF Balance	100% Change	to vol firefighters		A or	is the Greater		FPF Balance	Appropriations		Firefighters	Remaining	of remaining balances	•	Change	Increase
	(20% Change)	(4% growth)	FPF	retirement fund	C-D	H(t-1)	of A or G(t-1) and F		(4% growth)	(3% growth)	Certified Distribution	Fund	Balances	to FP Grant Fund		•	Certified Need
	( 3-,	( 3 ,				(- /			( 3 ,	(**************************************							
FY05	23,506,655	52,039,544															
FY06	29,577,437	55,071,962	3,032,418	750,000	2,282,418	\$31,859,855		FY06								(28,574,105)	
FY07		57,274,840	2,202,878	750,000	1,452,878	\$33,312,733	31,859,855	FY07	57,274,840	3,397,600	31,859,855	750,000		2,126,739	19,140,647	(10,879,662)	
FY08		59,565,834	2,290,994	750,000	1,540,994	\$34,853,727	33,312,733	FY08	59,565,834	3,499,528	33,312,733	750,000		4,400,715	17,602,858	(13,907,246)	, ,
FY09		61,948,467	2,382,633	750,000	1,632,633	\$36,486,360	34,853,727	FY09	61,948,467	3,604,514	34,853,727	750,000		6,822,068	15,918,159	(17,127,097)	
FY10		64,426,406	2,477,939	750,000	1,727,939	\$38,214,299	36,486,360	FY10	64,426,406	3,712,649	36,486,360	750,000		9,390,959	14,086,438	(20,541,164)	
FY11		67,003,462	2,577,056	750,000	1,827,056	\$40,041,355	38,214,299	FY11	67,003,462	3,824,029	38,214,299	750,000		12,107,567	12,107,567	(24,151,487)	
FY12 FY13		69,683,601	2,680,138	750,000	1,930,138	\$41,971,493	40,041,355	FY12 FY13	69,683,601	3,938,750	40,041,355	750,000		14,972,098	9,981,398	(27,960,202)	
FY14		72,470,945 75,369,782	2,787,344 2,898,838	750,000 750,000	2,037,344 2,148,838	\$44,008,837 \$46,157,675	41,971,493 44,008,837	FY14	72,470,945 75,369,782	4,056,912 4,178,619	41,971,493 44,008,837	750,000 750,000		17,984,777 21,145,860	7,707,762 5,286,465	(31,969,548) (36,181,869)	
FY15		78,384,574	3,014,791	750,000	2,146,636	\$48,422,466	46,157,675	FY15	78,384,574	4,303,978	46,157,675	750,000		24,455,628	2,717,292	(40,599,621)	
FY16		81,519,957	3,135,383	750,000	2,385,383	\$50,807,849	48,422,466	FY16	81,519,957	4,433,097	48,422,466	750,000		27,914,393	2,111,292	(45,225,377)	, ,
1110		01,010,001	0,100,000	750,000	2,000,000	ψ50,001,045	40,422,400	1110	01,010,001	4,400,007	40,422,400	700,000	21,514,000	21,014,000	_	(40,220,011)	10,430,230
Scenari	io 2: Proposed L	aw, Strike Sect	tion 5														
	Α	В	С	D	Е	F	G								Endina		
	Certified	-	•	100% Appropriation	-	Ē+	Certified Need			Annual	75% Fire Marshal &				Balance:		Incremental
	Distributions	FPF Balance	100% Change	to vol firefighters		A or	is the Greater of		FPF Balance	Pro-Rata	Fire Academy	Certified	75% of PRC Admin	Volunteer Firefighters		Change	Increase
	(20% Change)	(4% growth)	FPF	retirement fund	C-D		A(t-1) or G(t-1) and F		(4% growth)	Distribution	Budgets (3% Growth)	Distribution	Cost (GAA)	Fund (10-11A-3)			Certified Need
	( 3-,	( 3 ,				(- /	(* ) * * (* ) * *		( 3 ,		3 ( ,		,	( ,			
FY05	23,506,655	52,039,544															
FY06	29,577,437	55,071,962	3,032,418	750,000	2,282,418	\$31,859,855		FY06	55,071,962	100,000	2,235,225	24,647,864		750,000	27,156,623	(6,485,551)	
FY07		57,274,840	2,202,878	750,000	1,452,878	\$33,312,733	31,859,855	FY07	57,274,840	100,000	2,302,282	31,859,855		750,000	22,088,554	(7,167,933)	7,211,991
FY08		59,565,834	2,290,994	750,000	1,540,994	\$34,853,727	33,312,733	FY08	59,565,834	100,000	2,371,350	33,312,733		750,000	22,852,376	(7,892,610)	
FY09		61,948,467	2,382,633	750,000	1,632,633	\$36,486,360	34,853,727	FY09	61,948,467	100,000	2,442,491	34,853,727	184,756	750,000	23,617,494	(8,661,274)	8,708,927
FY10		64,426,406	2,477,939	750,000	1,727,939	\$38,214,299	36,486,360	FY10	64,426,406	100,000	2,515,765	36,486,360	,	750,000	24,383,982	(9,475,684)	9,525,243
FY11		67,003,462	2,577,056	750,000	1,827,056	\$40,041,355	38,214,299	FY11	67,003,462	100,000	2,591,238	38,214,299	,	750,000	25,151,918	(10,337,671)	10,389,213
FY12		69,683,601	2,680,138	750,000	1,930,138	\$41,971,493	40,041,355	FY12	69,683,601	100,000	2,668,976	40,041,355		750,000	25,921,383	(11,249,138)	
FY13		72,470,945	2,787,344	750,000	2,037,344	\$44,008,837	41,971,493	FY13	72,470,945	100,000	2,749,045	41,971,493	- /-	750,000	26,692,462	(12,212,063)	12,267,810
FY14 FY15		75,369,782 78,384,574	2,898,838 3,014,791	750,000 750,000	2,148,838 2,264,791	\$46,157,675 \$48,422,466	44,008,837	FY14 FY15	75,369,782 78,384,574	100,000 100.000	2,831,516 2,916,462	44,008,837 46,157,675	214,183 220,608	750,000 750,000	27,465,246 28,239,829	(13,228,505) (14,300,605)	13,286,482 14,360,901
FY16		78,384,574 81,519,957	3,135,383	750,000 750.000	2,264,791	\$48,422,466	46,157,675 48,422,466	FY15 FY16	78,384,574 81,519,957	100,000	2,916,462 3,003,955	48,422,466	,	750,000 750,000	28,239,829 29,016,308	(45,225,377)	15,493,296
FIIO		01,010,007	3,133,303	130,000	2,300,303	ψυυ,ουτ,049	40,422,400	L110	01,313,337	100,000	3,003,933	40,422,400	221,220	1 50,000	29,010,300	(40,220,377)	10,490,290