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

SPONSOR Cravens **ORIGINAL DATE** 2/20/07 **LAST UPDATED** **HB**

SHORT TITLE Limit Legislative Expenditure Increases, CA **SB** SJR 17

ANALYST Schardin

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	(See Narrative)	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates HJR 9

SOURCES OF INFORMATION
LFC Files

Responses Received From
Higher Education Department (HED)
Attorney General's Office (AGO)
State Investment Council (SIC)
Public Education Department (PED)
Department of Health (DOH)

SUMMARY

Synopsis of Bill

Senate Joint Resolution 17 would ask voters to amend the New Mexico Constitution to limit state expenditure growth. The resolution would limit FY10 expenditure growth over actual FY08 expenditures to 3.6 percent plus the growth rate of population in the most recent calendar year for which data is available. For FY11 and beyond, the resolution would limit expenditure growth over the prior fiscal year expenditure limit to 3.6 percent plus the growth rate of population in the most recent calendar year for which data is available.

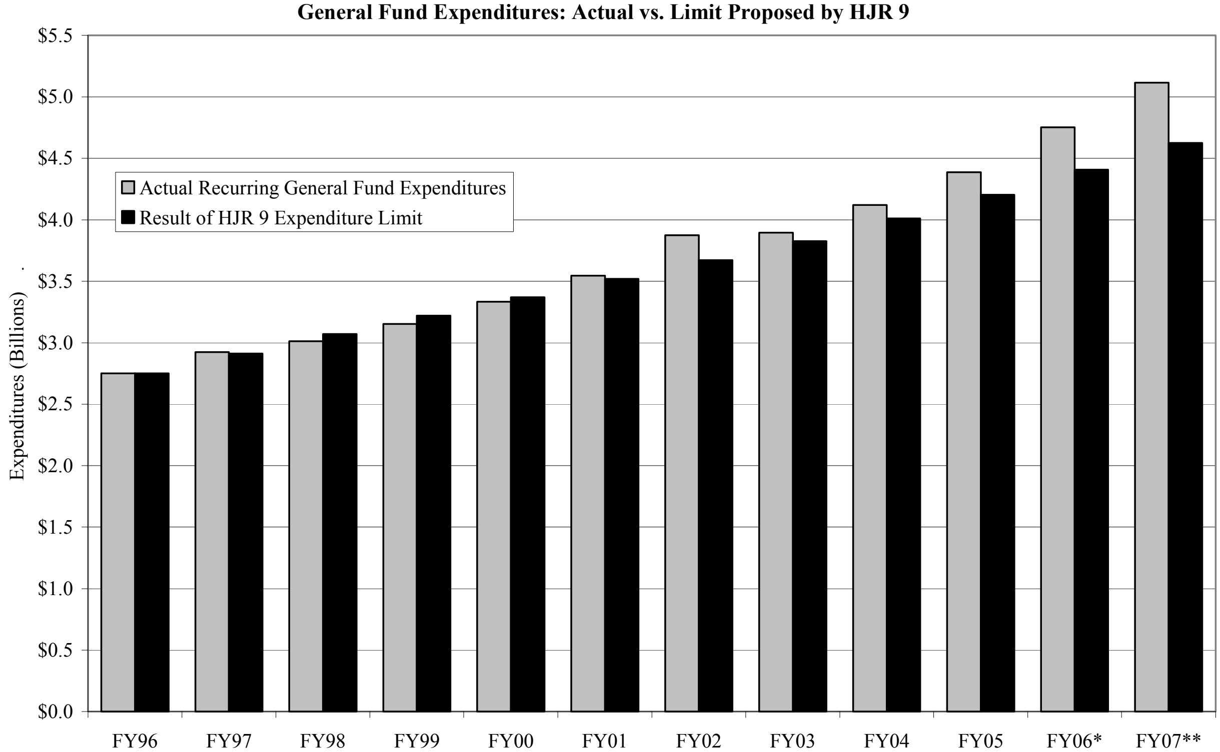
The resolution provides that in FY10 and beyond, money in the general fund in excess of the expenditure limit on June 30 will be distributed as follows: 60 percent will be transferred to the severance tax permanent fund (STPF) and 40 percent will be returned on an equal per capita basis to everyone who filed a personal income tax return in the prior calendar year.

Finally, the resolution provides that the amendment proposed in this resolution will be submitted to voters at the November 2008 general election or any special election prior to November 2008 called for that purpose.

FISCAL IMPLICATIONS

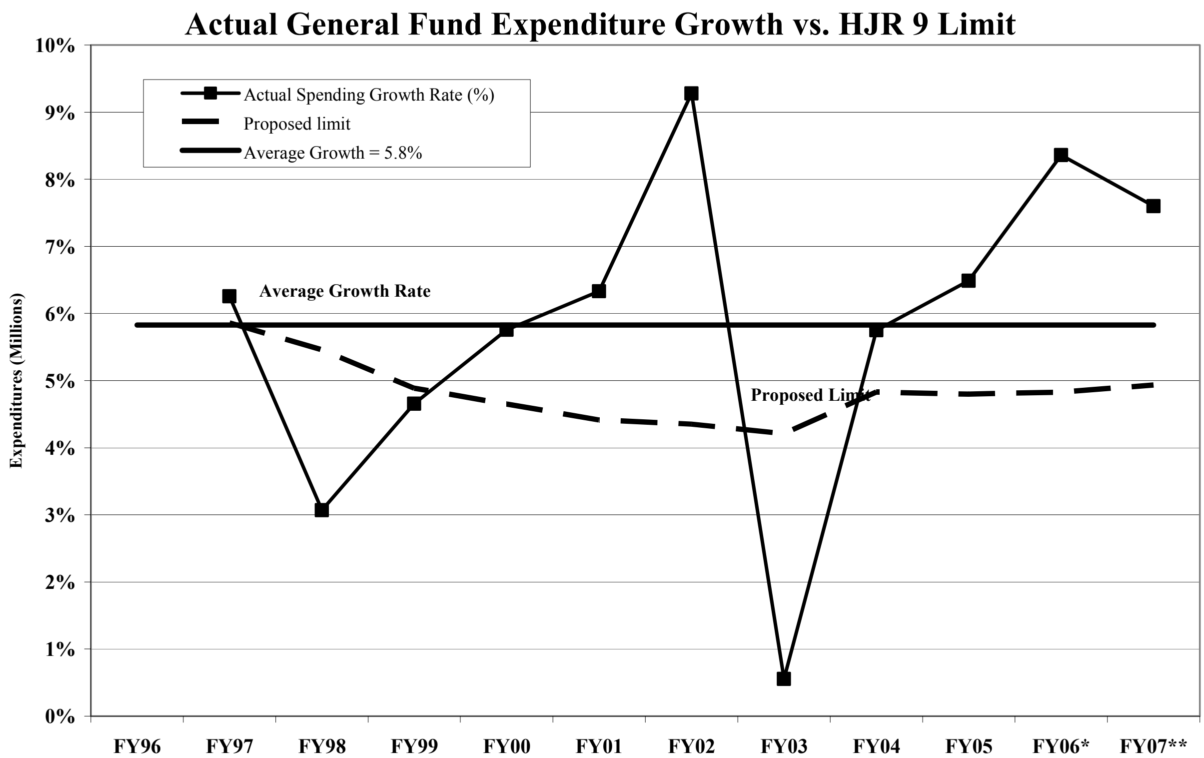
If adopted, this constitutional amendment would decrease the average rate of appropriation growth and decrease reserve fund balances by mandating that revenues in excess of the expenditure limit be transferred to the STPF and refunded to taxpayers. It is difficult to estimate how much the constitutional amendment would reduce expenditures, but the chart below illustrates how general fund expenditures would have been different if an identical expenditure limit had been in place since FY96.

General Fund Expenditures: Actual vs. Limit Proposed by HJR 9



* Preliminary; ** Operating budget

The chart below compares actual general fund expenditure growth with the limit that would have applied if the provisions of the proposed constitutional amendment had been in place. While expenditure growth averaged 5.8 percent between FY96 and FY07, it fluctuated from 0.6 percent in FY03 to 9.3 percent in FY02. Fluctuations in expenditure growth rates are attributable primarily to volatility in energy-related revenues. The limit proposed in the resolution would have been lower than average expenditure growth in every year.



* Preliminary; ** Operating budget

The general fund receives a constitutional distribution equal to 4.7 percent of the five-year average market value of the STPF. By mandating that 60 percent of revenue that exceeds the expenditure limit is distributed to the STPF, the bill may indirectly increase general fund revenue.

SIGNIFICANT ISSUES

UNM's Bureau of Business and Economic Research (BBER) projects that New Mexico's population will grow by about 1.2 percent per year in the next few decades. If these projections are correct, the proposed constitutional amendment would limit state expenditure growth to about 4.8 percent per year.

By basing each year's expenditure limit on the prior year's expenditure limit rather than on the prior fiscal year's actual expenditures, the resolution avoids one of the most troubling aspects of similar amendments that have been approved in other states. Many other states' limits base the limit on actual prior year expenditures so that a sharp revenue and expenditure decline in one year reduces expenditure limits in all future years. This resolution would allow state expenditures to recover from temporary revenue shortfalls.

Expenditure limits such as the one proposed in this resolution may be unreasonable for government programs. Many government programs exist due to the failure of private markets to provide services deemed necessary by society. For example, government health programs are designed primarily to serve individuals who cannot afford purchasing private insurance or whose poor health makes them too expensive for private companies to insure. The presence of such market failures suggests the costs of many government services should be expected to grow faster than many private sector costs. In addition, many state programs are federally mandated, taking expenditure choice away from state policymakers.

The resolution limits expenditure growth in FY11 and beyond using the prior fiscal year as a base. However in FY10, the base is two years prior (FY08). By basing the FY10 expenditure limit on FY08 instead of FY09, the resolution eliminates one year of natural expenditure growth.

PERFORMANCE IMPLICATIONS

Proponents of the resolution believe that it will force government program control cost increases to become more efficient. Opponents of the resolution fear that the expenditure limit will leave critical government programs without adequate funding.

ADMINISTRATIVE IMPLICATIONS

It is unclear which department will be responsible for calculating the expenditure limit required by the resolution.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Joint Resolution 17 duplicates House Joint Resolution 9.

TECHNICAL ISSUES

It is unclear whether a revision to state population growth could require expenditure reductions in a fiscal year that has already begun.

The resolution does not clearly define the base on which the expenditure limit is calculated. The intent may be for "state expenditures" to mean only those contained in the general appropriation act (GAA). However, limiting GAA appropriations could have the unintended consequence of increasing special, supplemental and deficiency appropriations as well as capital outlay expenditures. Additionally, the GAA contains federal funds and other non-state sources.

The resolution does not state whether revenues deposited in reserve funds will count toward the expenditure limit. If so, building reserves will be in competition with all other state spending.

The resolution states that each year's growth limit is to be based on population growth in the most recent prior calendar year for which data is available. Population estimates are released by the Census each July 1 rather than January 1, so calendar year population growth rates are not available. The resolution should be amended so that the limit is based population growth in the most recent fiscal year for which data is available.

SS/csd