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

SPONSOR Lechuga-Tena/Trujillo, CH **ORIGINAL DATE** **LAST UPDATED** 02/14/16 **HJR** 22

SHORT TITLE Permanent Funds Distributions **SB**

ANALYST Keyes

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY17	**FY18**	**FY19**		
(63,807.4)	**(68,537.3)**	**(71,893.6)**	Recurring	LGPF
54,019.0	58,023.7	60,866.1	Recurring	General Fund (Early Childhood)
9,788.4	10,513.6	11,028.5	Recurring	Other LGPF beneficiaries

Parenthesis ( ) indicate revenue decreases

SOURCES OF INFORMATION
LFC Files

Responses Received From
State Investment Council (SIC)
Children Youth and Families Department (CYFD)
State Land Office (SLO)

Responses Not Received From
Public Education Dpeartment (PED)

SUMMARY

House Joint Resolution 22 proposes an amendment to Article, XII, Section 7 of the New Mexico Constitution, which governs the distributions from the Land Grant Permanent Fund (LGPF).

If approved by voters in a statewide referendum, the state constitution would require the Land Grant Permanent Fund (LGPF) to distribute to LGPF-defined beneficiaries, in addition to the annual LGPF base distribution of 5 percent, an additional 0.5 percent of its five-year average value, earmarked for “school programs as provided by law”.

A three-fifths majority in both the House and Senate can vote to suspend the additional distributions, and the additional distribution would be suspended should the 5-year LGPF average drop below $10 billion.

There is not a delayed repeal provision in HJR 22.

The joint resolution seeks approval of this constitutional amendment by the voters of New Mexico at the next general election or in a special election called for this purpose.

FISCAL IMPLICATIONS

The State Investment Council takes no official position regarding HJR 22, but has identified various legal and performance-related concerns, which the legislature may wish to consider when evaluating the bill's impact.

In the short term under HJR 22, additional distributions from the LGPF will produce significantly more revenue to the general fund and other LGPF constitutional beneficiaries, primarily public education (84.66 percent LGPF share as of 12/31/15).

In the long term, weighing the impact of HJR 22 is more complex, especially taken in tandem with other critical fund variables including investment returns (the Council in 2015 lowered its long-term investment target from 7.5 percent to 7.0 percent) and reduced oil and gas revenue (today's in-flows are approximately half of 2014 levels).

While clearly the benefits of HJR 22 would offer additional education funding at a time when the budgetary dollar is in short supply, this short term benefit will come at a significant cost down the road, not only to the permanent fund, but also via lessened annual distributions to the general fund due to lowered earnings power/income generation that a smaller endowment will bring to its beneficiaries.

HJR 22 also results in increased risks to the stability of the fund and its annual benefits, related to reducing the fund's ability to recover from negative market events like the global financial crisis and its subsequent recovery.

The next chart shows the end-year values of the LGPF, as well as projections for LGPF values and distributions for the next dozen years, at both the 5 percent rate, and the 5.5 percent rate proposed under HJR 22.

Cal.Year	LGPF ($B)Value (5% rate)	Base LGPF Dist (5.0%)	LGPF ($B) Value (5.5% HJR22)	LGPF Distribution (5.5%)	Distr Difference	Fiscal Year
2014	14.508253627	$ 655,785,169	14.508253627	$ 655,785,169		**2016**
2015	14.402624633	$ 638,074,458	14.402624633	$ 701,881,904	$ 63,807,446	**2017**
2016	15.140670670	$ 688,882,767	15.108766947	$ 757,420,102	$ 68,537,335	**2018**
2017	15.911616993	$ 733,468,517	15.811403330	$ 805,362,077	$ 71,893,560	**2019**
2018	16.686519689	$ 766,496,856	16.509376263	$ 839,744,673	$ 73,247,817	**2020**
2019	17.474533822	$ 796,159,658	17.212951097	$ 869,496,345	$ 73,336,687	**2021**
2020	18.283999331	$ 834,973,405	17.931598312	$ 908,315,055	$ 73,341,650	**2022**
2021	19.113460755	$ 874,701,306	18.664109699	$ 947,423,826	$ 72,722,520	**2023**
2022	19.959225270	$ 915,177,389	19.406735608	$ 986,972,481	$ 71,795,092	**2024**
2023	20.821554015	$ 956,527,732	20.159788740	$ 1,027,127,018	$ 70,599,286	**2025**
2024	21.700745574	$ 998,789,849	20.923444837	$ 1,067,942,449	$ 69,152,600	**2026**
2025	22.597036737	$ 1,041,920,224	21.697780907	$ 1,109,370,458	$ 67,450,234	**2027**
2026	23.510683162	$ 1,085,892,448	22.482875774	$ 1,151,376,885	$ 65,484,437	**2028**
Totals		**$ 10,331,064,609**		**$ 11,172,433,273**	**$ 841,368,664**	

Forward looking assumptions in the data:

- Passage of HJR 22, with distributions beginning in second half of FY17 (tied to CY2015 5-year LGPF average) and ending in FY27.
- Council's targeted rate of return of 7.0 percent (6.7 percent net of fees)
- $420 million annual inflows from oil and gas royalties, (both the 15-year average contribution to the LGPF, and consistent with current inflows, which are around $35 million/month).
- This calculation does not take into account potential future growth in state population, or the impact of inflation on the real dollar value and benefits of the LGPF.
- The 12-year time frame was chosen for a comparison basis, as the most recent constitutional amendment requiring additional distributions from the LGPF was 12 years in length, from FY2005-2016, and resulted in $747 million of additional pay-outs over and above the base 5 percent, to LGPF beneficiaries during that time.

Some observations regarding the impact of HJR 22, compared to the current 5 percent base rate:

- Barring market corrections, negative return years (like calendar year 2015) or sharp drops in oil/gas revenue like we are seeing today, the LGPF will continue to grow on a nominal basis, though real dollar value may not keep up in a high inflation environment over time.
- At 5.5 percent, the LGPF would deliver an additional $841 million to beneficiaries over the next 12 years.
- That projected $841 million to be deployed is slightly more (1.13x) the additional amount drawn down from the permanent fund ($747 million) from the FY2005-2016 Constitutional Amendment.

- At the 5.5 percent rate, at the end of a dozen years, the LGPF value will be diminished by a projected $1.03 billion, compared to the 5 percent current base rate.

- In expending the additional $841 million over and above the base 5.0 percent, the net impact to the combined LGPF corpus and its annual distributions is $186 million.

- This opportunity cost (value lost through diminished compounding of investment returns) will continue to grow every year due to a lessened LGPF corpus.

- To illustrate, on year 13, the LGPF as it currently is projected would be $23.5 billion, but under HJR 22 it would be $22.5 billion. Assuming 7 percent returns, the HJR 22 LGPF would earn $71 million less that year, and even less the subsequent year, and so on.

RVK, which acts as an independent fiduciary and investment advisor to the Council, has developed an Intergenerational Equity Index (IEI) to project estimated value and distributions from the LGPF 50-years from now. The IEI takes reasonable assumptions regarding investment returns, fund inflows, state growth, and inflation, and projects them 50 years forward, to assess whether the LGPF is on track to maintain the benefits provided to New Mexicans in 2016, and deliver the same benefits in 2066. An ideal score on the IEI is a 50, which gives an equal chance that the LGPF benefits in 2066 will be the same as they are in 2016. A lower score means there is less of a chance to deliver equal benefits, while a higher score means there is a better than 50 percent chance the fund will produce greater benefits. The following chart shows the IEI projections at the current spending policy of 5 percent, 5.5 percent, 5.8 percent, 6.5 percent, 7.0 percent, and 7.3 percent (a combination of SJR2 and SJR3).

	Baseline (run as of 3/31/2015)	Updated to 11/30/2015 Market Values
Distribution Policy	Probability of Attaining Full Objective	Probability of Attaining Full Objective
7.30%	11.3%	11.5%
7.00%	14.2%	14.4%
6.50%	21.2%	21.7%
5.80%	34.1%	34.6%
5.50%	39.8%	40.3%
Under Current Policy:	***51.2%***	***51.5%***

While the current 5.0 percent distribution rate produces a slightly better than average chance the LGPF will deliver equal benefits to beneficiaries in 2066, increases in distributions result in ever- growing statistical challenges to the LGPF's long-term health.

SIGNIFICANT ISSUES

HJR 22 specifies that 0.5 percent of the additional annual LGPF distributions shall be used for "school programs as provided by law". While one can assume the largest LGPF beneficiary, public education, will be able to effectively deploy the additional revenue as intended, nine of the 21 LGPF beneficiaries listed below have core missions likely unrelated to "school programs".

INSTITUTIONS	% OF FUND
COMMON SCHOOLS	84.638561%
UNIVERSITY OF N.M.	1.358980%
UNM SALINE LANDS	0.044485%
NM STATE UNIVERSITY	0.433124%
WESTERN NM UNIV	0.025238%
N.M. HIGHLANDS UNIV	0.025107%
NO. NM COLLEGE	0.020298%
EASTERN NM UNIVERSITY	0.078672%
NM INST. MINING & TECH	0.191261%
N.M. MILITARY INSTITUTE	3.121875%
NM BOYS SCHOOL	0.005417%
DHI MINERS HOSPITAL	0.900607%
N.M. STATE HOSPITAL	0.327613%
NM STATE PENITENTIARY	1.913256%
NM SCHOOL FOR THE DEAF	1.900687%
SCH. FOR VISUALLY HAND.	1.896599%
CHAR. PENAL & REFORM	0.801869%
WATER RESERVOIR	1.011426%
IMPROVE RIO GRANDE	0.226442%
PUBLIC BLDGS. CAP. INC.	1.077062%
CARRIE TINGLEY HOSPITAL	0.001419%

Given this wording, there is a possibility highlighted beneficiaries would either receive money this legislation had not intended them to, or that these beneficiaries will receive money they cannot put to work in the manner intended under this constitutional amendment.

Should that be the case, there is a heightened possibility that HJR 22 may face legal challenge.

It is noteworthy that the 2003 constitutional amendment requiring additional distributions to be put toward education reforms was never approved by the US Congress, despite an opinion from the NM Attorney General at the time, indicating such changes would require Congressional blessing.

HJR 22 does not contemplate or seek US Congressional approval prior to passage.

PERFORMANCE IMPLICATIONS

Below is preliminary investment performance data for the LGPF, as of 12/31/15:

Investment Returns 12/31/15	1 year	3 year	5 year	10 year	15 year	20 year
LGPF - gross returns	0.15 percent	7.55 percent	7.13 percent	5.65 percent	5.14 percent	6.98 percent

While the three-year and five-year annualized investment returns slightly exceed the SIC's annual return target of 7.0 percent, such outperformance is not something the Council anticipates with consistency moving forward over the next decade. It is also noteworthy that even with the near historic bounce back from the 2008 financial crash, the LGPF's annualized returns for the last decade remain below 6 percent for 10 and 15 year periods.

The fiscal crisis of 2008/2009 has vividly illustrated the impact of a market downturn when combined with an aggressive spending policy and/or impaired funding matrix. The differences in the LGPF and Severance Tax Permanent Fund (STPF) offer a prime example of this:

Today the LGPF has recovered from the 2008 market crash and is today more than $3 billion above its 2007 high water mark. The STPF, with a relatively less aggressive spending policy at 4.7 percent, remains a quarter-billion dollars below its all-time highs, years after the crisis.

The primary reason for the difference between the funds is the LGPF receives monthly in-flows which are reinvested steadily over time, while the STPF only receives inconsistent and minimal infusions once or twice a year, of an average between 5 percent and 10 percent of the state's hundreds of millions in annual severance taxes. The conclusion that can be drawn is that altering an endowment's funding formula or spending policy even slightly may have significant long-term results, up to and including impairment of a fund to the degree it is currently unable to grow long-term, despite an extremely attractive investing and economic environment.

There are dozens of examples of pensions across the US that today find themselves in a bind because of high rates of future unfunded liabilities, for which their funds are no longer of adequate size to "invest themselves out of trouble." In nearly all cases, these pensions cite the primary cause of the hole they are in today, as being the overly optimistic return expectations and generous benefit packages provided in the past. When that previous optimism proves unfounded, and benefits are overly aggressive, the financial burden of today is unavoidably shifted onto future generations.

Institutional funds with broken or substandard endowment models not only have a far greater challenge in meeting long-term maintenance and growth goals, they are also far more susceptible to being damaged or even crippled by a market shock incident, which investors have experienced twice in just the past 15 years.

It has been suggested that to counter a spending policy above 5.0 percent, the Council may have to take an aggressive investment approach to be able to maintain the corpus of the fund. The past few years the Council has taken the opposite approach however, reducing its annual return target to a more realistic 7.0 percent return, from the previous 8.5 percent.

The decision to increase diversification and lower investment risk (and reduce our risk-adjusted return target) was based on an extensive asset allocation study, guidance of investment consultants, and also mirrored many institutional investors around the country. Assuming current distributions, average market returns, low to mild inflation rates, and continued contributions from oil and gas industry, the Council believes it can continue to maintain or slightly grow the inflation-adjusted value of the LGPF over time, so that it may provide the same or greater dollar for dollar benefit to tomorrow's generations of New Mexicans as it does to those today. Changes to any of those variables (returns, inflation, inflows or distributions), materially increases the risk that the LGPF will not be able to perform as a permanent endowment is intended to.

Taking a simpler point of view, the typical endowment investment model is structured to achieve balance among its three key components: in-flows, investment returns, and distributions/spending policy. This "three-legged stool" is effective only when it can achieve and maintain balance among the three variables, making the stool stable enough to withstand inevitable short-term volatility in the model. As long as the imbalances are short-term, and not systemic and repetitive, the endowment will create new wealth and added value through long-term compounding of investment returns. It should be noted that just as an endowment can leverage today's assets and create new wealth for tomorrow, actions limiting this compounding ability via policy decisions to "rebalance" the stool's structure, can have the opposite effect, namely unintended and exponential negative impacts when applied over longer time periods.

ADMINISTRATIVE IMPLICATIONS

There are other basic issues to consider, relative to the permanency of the LGPF and best practices in deployment and use of such permanent endowments and trust funds:

- The LGPF is a permanent endowment fund. Nationally, permanent endowments follow generally accepted distribution policies/spending policies. The most widely followed policy allows annual distributions of between 3 percent and 5 percent of the corpus/principal of the fund.

- Some state funds prohibit increased distributions altogether; others only allow increases for extreme emergency situations for which other funding is not available.

- As the principal of the LGPF grows, annual distributions will automatically increase – even if the percent distributed remains the same. Educational institutions and early childhood programs will benefit from those increased amounts, and share in a much greater benefit as time goes on.

- The principal of the fund must increase in order to offset potential inflationary impact.

- The principal of the fund must increase in anticipation of inevitable (in the LGPF's case) diminished contributions due to the finite nature of our state natural resources.

- Even if the investment returns plus annual contributions to the fund increase, invading the principal is arguably not prudent. The fund was established (and should be held inviolate) in order to assure intergenerational equity. Contributions from NM's public lands and their underlying resources will decrease over time; our minerals are depleting resources and the revenues they generate must become part of the principal of the endowment so earnings from those revenues can provide funding for education and other needs in the years after the resources are exhausted.

- If distributions from the permanent funds were increased to the suggested level, the SIC, as fiduciaries for the fund, may have to seek increased investment risk, or apply leverage to the LGPF in order to achieve the returns necessary to permit that level of payout. Fund assets/principal could be subject to sub-optimal returns as a result of incurring such additional risk.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Related to SJR2, which seeks additional annual distributions of 1.0 percent from the LGPF for early childhood education programs.

Related to SJR3, which seeks to increase the base distribution rate of the LGPF to 5.8 percent.

Related to HJR10 which seeks to increase the base distribution rate of the LGPF to 5.5 percent, with an additional 1.5 percent distribution earmarked for early childhood funding.

TECHNICAL ISSUES

HJR 22 includes an asset value "safety valve" intended to protect the fund from additional distributions during times of financial duress should the 5-year average of the fund drop below $10 billion at calendar end of any given year.

The construction of the LGPF distributions are based on a 5-year fund average with the goal of steadying pay-outs in a smooth, consistent manner, to better accommodate legislative advance planning.

However, the safety valve sought to protect the fund in HJR 22 fails completely in this regard, as the LGPF could technically go to $0 in 2016, and the 5-year average would still be $10.7 billion.

A better technical safety-valve might better be tripped when the current LGPF corpus value itself drops below $10 billion, or some similar appropriate value.

OTHER SUBSTANTIVE ISSUES

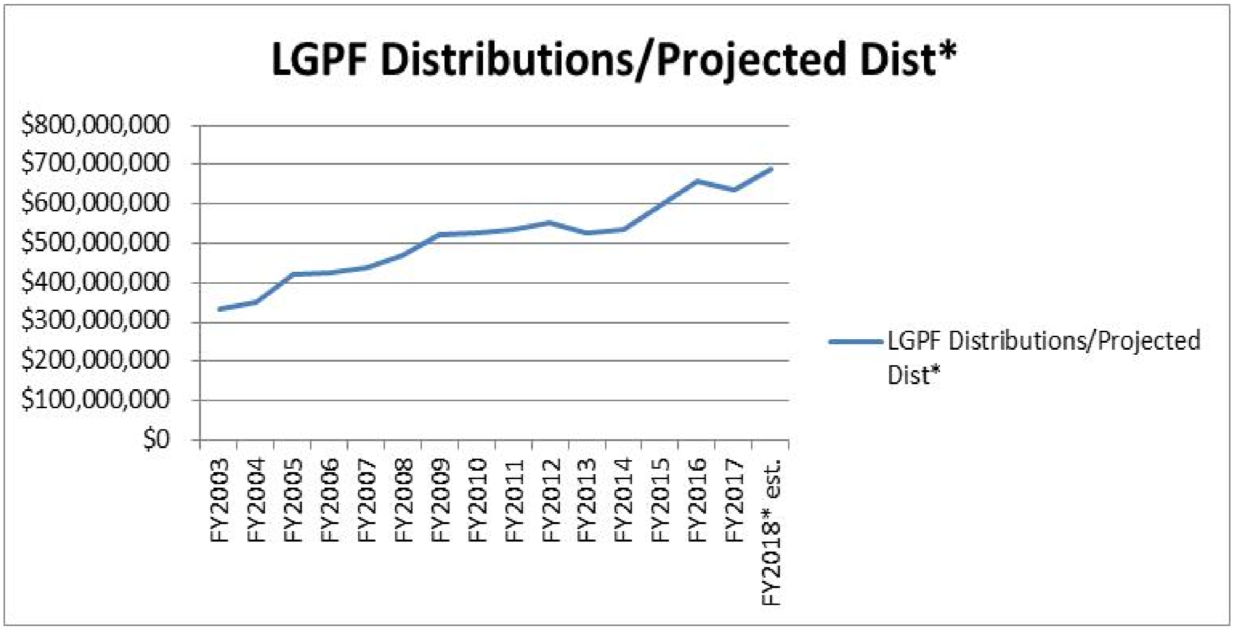
The so-called "tipping point" has been identified in previous years as a clear illustration of how a bigger fund can generate much greater benefits over time due to compound investment returns.

Given an assumption of normal investment returns and average contributions, the tipping point will occur approximately 30 years after the first increase, where the fund corpus at 6.0 percent will actually begin to provide lesser benefits every year, compared to what a 5 percent distribution would have produced from a much larger corpus, not saddled with the additional withdrawals.

Recent LGPF distributions help illustrate the argument that the bigger the fund, the bigger the benefits, as seen in the LGPF distribution growth over the past several years. While there will be a drop of $17 million from FY16 to FY17, this is simply due to the lowering of the rate from 5.5 percent to the 5.0 percent base rate. Note the negative impact in FY17 is $10 million less than when the distribution rate shifted from 5.8 percent to 5.5 percent in FY13, due to the growth of the corpus.

Fiscal Year	LGPF Distributions/Projected Dist*	LGPF Dist. Rate
FY2003	$332,784,132	4.7
FY2004	$352,525,968	4.7
FY2005	$422,198,985	5.8
FY2006	$426,443,668	5.8
FY2007	$438,945,139	5.8
FY2008	$469,998,264	5.8
FY2009	$521,520,996	5.8
FY2010	$525,512,604	5.8

FY2011	$535,903,003	5.8
FY2012	$553,418,314	5.8
FY2013	$526,846,546	5.5
FY2014	$535,156,608	5.5
FY2015	$595,993,902	5.5
FY2016	$655,785,169	5.5
FY2017	$638,074,538	5.0
FY2018* est.	$689,000,000	5.0



ALTERNATIVES

If passed and subsequently approved by voters, HJR 22 will initiate deployment of hundreds of millions of additional dollars from the LGPF to the general fund over the coming years, and maintain the current distribution percentage of the LGPF.

What HJR 22 does not include would be metrics to evaluate the effectiveness of the expenditure, and whether the state is receiving positive outcomes on scale associated with the additional tens of millions of dollars to be spent annually.

There is also a question of whether the additional permanent fund dollars sought through HJR 22 could be used to supplant general fund dollars previously earmarked for education, allowing their use for other legislative priorities, and seeming to run contrary to the overall goal of increased education spending.

By placing metrics, hurdles, or milestones that measure and reward successful education programs and limit unsuccessful efforts and waste may be appropriate for consideration.

From an investor's point of view, any time the Council makes a commitment to a fund manager or investment partner, there is extensive due diligence, typically multiple examples of success in the manager's past, and a well-thought-out and fully articulated business plan for how this investment intends to create wealth through strategic investment.

When it comes to placing capital, the Council believes that there is value to be had by looking at best practices and the actions of our peers.

The vast majority of other states with permanent funds, as well as similar university endowments are taking a more conservative approach to fund spending policies than they had in recent years:

- Annual distributions by domestic sovereign wealth funds:
    - Alabama: 5 percent of rolling 3-year average
    - Alaska: seeking 5 percent cap; principal may not be spent
    - Idaho: 5 percent of 3-year average with adjustments; current rate below 4 percent
    - Wyoming: 5 percent
    - Texas Perm School Fund: 3.3 percent; returns must exceed distributions over 10yrs
    - North Dakota Legacy Fund: distributions may begin in June 2017

Alaska is the largest of the Permanent Funds at $51 billion – they write checks to their citizens based on earnings, but are seeking to cap annual distributions at 5 percent or less. Wyoming, which has more than $18 billion in various permanent endowment funds, has a current distribution policy of 5 percent. The Texas Permanent School Fund with more than $35 billion will only expend 3.3 percent in FY16. Arizona voters in 2012 by a narrow 51-to-49 percent margin, increased their distributions to 2.5 percent for their relatively young $4 billion endowment. And the North Dakota Legacy Fund – created a few years ago with their significant oil/gas windfall, won't distribute any dollars until 2017 at the earliest, following exhaustive study and planning by lawmakers.

International sovereign wealth funds also have varying rates of spending, often predicated on the size of their fund, the amount of natural resources available in their country, and the long-term goals of their government. The largest fund in the world belongs to Norway, which has a 4 percent spending rule. Norway announced in January 2016 that they would not be dipping into their fund or increasing distributions in reaction to plummeting global oil/gas prices, but would instead rely on free cash-flow produced by their massive $780 billion fund to prop up budgetary needs. Norway has grown its permanent fund to such a degree that it effectively stabilizes the country's economy and its budgeting process, even during times of fiscal crisis.

- University endowments:
    - University of Texas: 3.5 percent-5.5 percent
    - Yale: 5 percent of market value average
    - Stanford: 5.25 percent with a previous year adjustment
    - University Pennsylvania: 4.7 percent of 3-yr average
    - Columbia: 4.5 percent of market value average
    - Texas A and M: capped at 5 percent of rolling average
    - Washington: 3 percent-5.5 percent based on 5-year average

University endowments are also similar to the LGPF, as they raise money, are bequeathed gifts, and see significant inflows every year, combining to strike a balance with their distributions and their investment returns.

In January 2016 the National Association of College and University Business Officers and Commonfund Institute released their most recent study, aggregating data on hundreds of public and private university endowments and their distribution rates/spending policies. As detailed in the chart below, these endowments largely continued the trend of lowering rates, with averages ranging between 3.8 percent and 4.5 percent. Institutions larger than $1 billion averaged spending rates of 4.3 percent, while public institutions were lower yet at 4.0 percent.

2015 NACUBO-Commonfund Study of Endowments

Average Annual Effective Spending Rates* for U.S. College and University Endowments and Affiliated Foundations, FY2014 to FY2005

Size of Endowment	**2015 %**	**2014 %**	**2013 %**	**2012 %**	**2011 %**	**2010 %**	**2009 %**	**2008 %**	**2007 %**	**2006 %**
Over $1 Billion	4.3	4.6	4.8	4.7	5.2	5.6	4.6	4.2	4.4	4.6
$501 Million to $1 Billion	4.1	4.3	4.6	4.7	5.2	5.7	4.9	4.5	4.4	4.5
$101 Million to $500 Million	4.1	4.3	4.4	4.3	5.0	4.9	4.4	4.2	4.5	4.6
$51 Million to $100 Million	4.4	4.4	4.4	4.3	4.5	4.6	4.7	4.6	4.8	4.7
$25 Million to $50 Million	4.0	4.2	4.3	3.8	4.0	4.1	4.3	4.3	4.8	4.8
Under $25 Million	4.5	4.6	4.1	3.7	3.7	3.5	3.9	4.1	4.6	4.6
Type of Institution										
All Public Institutions	**4.0**	**4.1**	**4.1**	**4.0**	**4.5**	**4.1**	**4.2**	**4.6**	**4.5**	**4.5**
Public College, University or System	*3.8*	*3.8*	*4.2*	*3.9*	*4.3*	*4.3*	*3.7*	*4.0*	*N/A*	*N/A*
Institution-Related Foundations	*4.2*	*4.3*	*4.0*	*4.0*	*4.1*	*3.9*	*4.3*	*4.1*	*N/A*	*N/A*
Combined Endowment/Foundation	*3.9*	*4.2*	*4.4*	*4.2*	*5.9*	*4.6*	*4.5*	*4.4*	*N/A*	*N/A*
All Private Colleges and Universities	**4.3**	**4.5**	**4.6**	**4.3**	**4.6**	**4.8**	**4.5**	**4.4**	**4.7**	**4.7**
Average (All Institutions)	**4.2**	**4.4**	**4.4**	**4.2**	**4.6**	**4.5**	**4.4**	**4.3**	**4.6**	**4.7**

*The effective spending rate represents the distribution for spending divided by the beginning market value (endowment value on or around the beginning of the fiscal year). The distribution for spending is the dollar amount withdrawn from the endowment to support expenditures on student financial aid, faculty research, maintenance of facilities, and other campus operations, as determined and defined by each institution. The rate is calculated **net** of any investment fees and expenses for managing the endowment.

IN FY2015, NACUBO reports the average spending rate for the 812 participating institutions averaged 4.2 percent, down slightly from 4.4 percent last year.

NACUBO also reports that endowments with assets greater than $1 billion relied on the annual endowment distributions to fund 16.5 percent of operating budgets in FY15. The sometimes overlooked LGPF/STPF distributions of $839 million in FY17 are approximately 13.5 percent of the $6.2 billion projected to be needed for the FY17 New Mexico state budget.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

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