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FISCAL IMPACT REPORT

ORIGINAL DATE 03/08/21
SPONSOR HAWC **LAST UPDATED** 03/16/21 **HB** 33/HAWCS
SHORT TITLE Livestock Board Meat Inspections **SB** _____
ANALYST Wan

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY21	FY22	FY23		
NFI	Up to (\$4,600.0)	Up to (\$4,600.0)	Recurring	General Fund
NFI	Up to (\$2,900.0)	Up to (\$2,900.0)	Recurring	Local Governments
NFI	Minimal, but negative	Minimal, but negative	Recurring	GGRT Recipients

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	\$0-500.0	\$0-\$1,970.0	\$0-\$1,614.0	\$0-\$4,084	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Conflicts with SB118.

SOURCES OF INFORMATION

LFC Files

Lillywhite, J. M., & Parker-Sedillo, L. (2020). *Operational Costs of a New Mexico State Meat Inspection Program*. New Mexico State University.

Responses Received From

Department of Agriculture (NMDA)

Economic Development Department (EDD)

Livestock Board (NMLB)

Environment Department (NMED)

SUMMARY

Synopsis of Bill

The House Agriculture and Water Resources Committee substitute for House Bill 33 amends Section 77-2-7 NMSA 1978 to define and provide a mechanism for the New Mexico Livestock Board's (NMLB) authority to promulgate rules for meat inspection. The new language specifies NMLB may adopt meat inspection rules "to ensure the safety and quality of meat for human consumption." HB33/HAWCS amends the definition of "animals or livestock" as used in the Livestock Code to include wild animals, poultry, and birds used for human consumption for the purpose of the rules governing meat inspection.

The bill also removes language that limits NMLB to employing only livestock and brand inspectors, creating the ability for the agency to employ inspectors of slaughter facilities and meat and poultry processing facilities.

HB33/HAWCS also expands the exemption of agricultural products from the gross receipts tax (GRT) and governmental gross receipts tax (GGRT) to sales of all agricultural products. The current exemption applies only to "unprocessed" agricultural products, as well as certain livestock, live poultry, hides, and pelts. The bill also stipulates this exemption applies to persons engaged in buying and selling meat on their own account. (Note: this provision may violate the New Mexico Constitution's prohibition on "logrolling." See "Significant Issues" for more information.)

There is no effective date of this bill. It is assumed the effective date is 90 days following adjournment of the Legislature.

FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) projects reductions in general fund, local government, and GGRT revenues as a result of the bill's expanded receipt exemption on agricultural products. TRD used taxable gross receipts data classified by industry subsector to determine the current taxable base for agricultural products that are not "unprocessed." State and local government effective tax rates were then applied to the base calculation to estimate potential revenue losses. The estimated recurring revenue reductions are up to \$4.6 million per year for the general fund and up to \$2.9 million per year for local governments. TRD provided these estimates as maximums because it is possible a minimal amount of non-agricultural products are included in the taxable base calculation. TRD also expects small, recurring revenue losses for recipients of GGRT funds.

As written, HB33/HAWCS would have no fiscal impact on NMLB or any of the other responding agencies. However, HB33/HAWCS authorizes NMLB to conduct inspections of meat processing facilities, and if the agency does so, it would incur a significant cost.

NMLB projected the following expenses associated with creating a meat inspection program for FY21-23:

- \$500 thousand in FY21 for startup costs to enable the program to launch in FY22, consisting of

- \$80.8 thousand in personnel costs to hire 5 FTE (a program director, financial specialist, information technology specialist, human resources manager, and attorney) for May and June of 2021
- \$419.2 thousand in other costs for vehicles, computers, office furniture, and other miscellaneous expenses associated with new FTE
- \$1.579 million in FY22 for program operations, consisting of
 - \$1.375 million in personnel costs for 17 FTE
 - \$8.4 thousand for information technology (IT) services
 - \$195.1 thousand for miscellaneous operating expenses such as vehicle purchases, outfitting, and maintenance; fuel; IT equipment; training; and leased office space
- \$1.614 million in FY23 (and subsequent years) for program operations, consisting of
 - \$1.375 million in personnel costs for 17 FTE
 - \$8.4 thousand for IT services
 - \$230.8 thousand for miscellaneous operating expenses such as vehicle purchases, outfitting, and maintenance; fuel; IT equipment; training; and leased office space

New Mexico State University, under the direction of the Department of Agriculture (NMDA), completed a study on the operational costs of a state meat inspection program and estimated the cost to be \$1.97 million in the first year and \$1.58 million annually in subsequent years. This includes funding for 10 FTE, the number the researchers determined to be appropriate for New Mexico based on number of inspected facilities, state geography, data from other state meat inspection programs, and other similar factors.

Some, but not all, of the cost of the program will be offset by inspection fees, and on audit and certification of New Mexico's program, the U.S. Department of Agriculture (USDA) may reimburse up to 50 percent of program costs. However, NMDA warns the state would likely need to fully fund the program for at least the first three years of implementation.

Though NMLB is largely funded by revenue collected by the agency, current revenue would be unable to sustain a programmatic expansion of this size. Some nonrecurring expenses related to program startup could be covered by NMLB's fund balance, \$3.1 million at the end of FY20, but funding for recurring operating costs in excess of new inspection fee revenue and federal funding would likely be requested from the general fund.

SIGNIFICANT ISSUES

Meat inspections in New Mexico are currently conducted by the USDA Food Safety and Inspection Service (FSIS), but states are allowed to run their own inspection programs as long as they meet requirements "at least equal to" those of FSIS. Prior to 2007, NMLB managed a state meat inspection program, but its USDA certification was revoked due to repetitive noncompliance with federal standards, and FSIS took over the responsibility. If meat inspection responsibility returns to the state, steps will need to be taken in the design and implementation of the program to ensure NMLB can meet federal requirements and avoid the problems that caused the original program to be shut down.

The provision of the bill that creates a GRT and GGRT exemption for all agricultural products likely violates Article 4, Section 16 of the Constitution of New Mexico, which states "the subject of every bill shall be clearly expressed in its title, and no bill embracing more than one subject shall be passed except general appropriation bills and bills for the codification or revision of the

laws.” The proposed GRT and GGRT exemption is unrelated to the subject of the bill stated in the title, “relating to the New Mexico Livestock Board.”

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 118 would create a meat inspection program in NMDA.

CW/sb/al