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FISCAL IMPACT REPORT

SPONSOR: Heaton DATE TYPED: 3/14/03 HB 28/aH AFC

SHORT TITLE: Dynamic Forecasting Pilot Project SB _____

ANALYST: Smith

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
			See Narrative		

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

Responses Received From

Department of Finance and Administration
State Highway and Transportation Department

SUMMARY

Synopsis of HAFC Amendment

The House Appropriations and Finance Committee amendment removes the appropriation from the bill. Funding for this project is provided in one of the general appropriations bills.

Synopsis of Bill

House 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.

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:yr