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

**SPONSOR** Cravens **ORIGINAL DATE** 01/25/10 **LAST UPDATED** **HB**

**SHORT TITLE** Taxpayer Protection Act & Expenditure Formula **SB** 54

**ANALYST** Clifford

## APPROPRIATIONS (dollars in thousands)

| Estimated Revenue | | | Recurring or Non-Rec | Fund Affected |
|---|---|---|---|---|
| **FY10** | **FY11** | **FY12** | | |
| | (Indeterminate) | (Indeterminate) | Recurring | General Fund |

(Parenthesis ( ) Indicate Revenue Decreases)

**SOURCES OF INFORMATION**
LFC Files

Responses Received From
Public Education Department (PED)
Higher Education Department (HED)

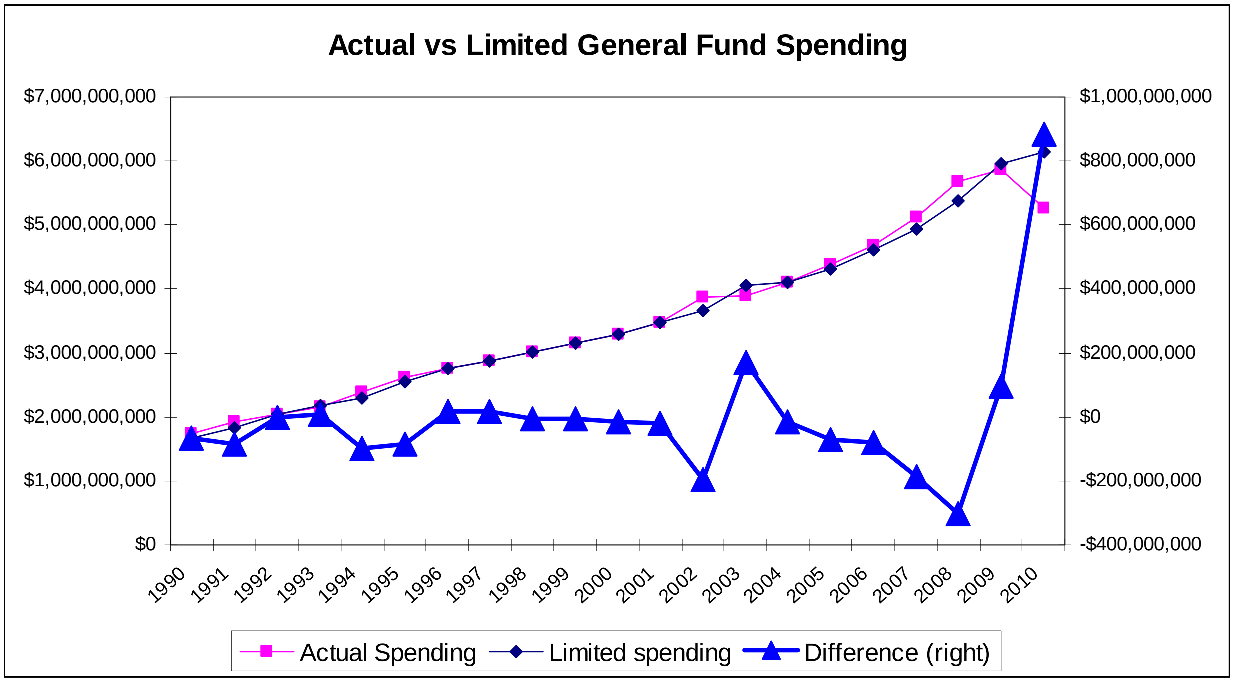
**SUMMARY**

Synopsis of Bill

Senate Bill 54 would require the legislature to establish an expenditure limit for each budget equal to the prior year's budget plus 3.6 percent and plus the annual percent increase in population. 60 percent of general fund revenue in excess of the expenditure limit would be transferred to the severance tax permanent fund. The other 40 percent would be rebated to income taxpayers by the Taxation and Revenue Department on an equal per capita basis. A new "expenditure limit credit" is authorized that would be applied against a taxpayer's income tax with any excess to be refunded to the taxpayer. The provisions are contingent on the adoption by the voters of a constitutional amendment limiting the legislature's ability to increase state expenditures.

**FISCAL IMPLICATIONS**

Fiscal implications depend on the likely future growth rate of general fund expenditures. The following chart compares actual general fund expenditures over the last 20 years compared with the amounts that would have been expended if the limit had been in place. Over this period, population growth was slightly less than 1.4 percent per year, so the permitted spending growth would have been about 5 percent per year. For most of the 1990's, expenditures grew at a rate that was consistent with the rate allowed by the limit. In the period after 2000, however, spending grew significantly faster than the limit would allow. In 2008 alone, the difference would have been $300 million, i.e. actual spending was $300 million higher than the amount that would have been permitted by the limit. In 2010, in contrast, spending will fall almost $900 million short of the amount that would have been permitted by the limit. Thus, it appears that the limit would reduce spending during periods of rapid revenue growth but would not be binding during periods of slow revenue growth. Over long periods of time, the total level of spending would not be substantially different.




## SIGNIFICANT ISSUES

The formula for calculating excess revenue distributions is unclear. The balance in the general fund on June 30 would be compared with the expenditure limit for the year. The balance at the end of the year is typically a much smaller amount that the yearly expenditure total. A better approach might be to require the portion of the year end balance that is attributable to the excess of revenue over the expenditure limit would be distributed as provide in the bill. This formula still raises questions because it does not address the question of whether the wear end balances are sufficient to constitute an adequate reserve level.

## CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SJR 3 would propose the constitutional amendment that is referred to in SB 54.

## TECHNICAL ISSUES

The expenditure limit credit appears to be intended as the mechanism for returning the rebate to taxpayers. This is not clear from the language.

PED notes:

> This bill does not address if the cap would be reduced if there is a population decline. Ostensibly, New Mexico could see “negative growth” that could decrease the cap, but it is not directly addressed. Also, this bill uses the term “unexpended or unencumbered” to describe the funds that must be redistributed as “excess revenue”. This leaves some ambiguity as to whether funds that were encumbered but unexpended would be subject to redistribution. If encumbered, but unexpended, funds were subject to the “excess revenue” redistribution, this could pose a risk to the PED of not having money to reimburse correctly expended late-year expenses from the school districts.

**POSSIBLE QUESTIONS**

Would the limit apply to spending of federal funds or only to state-generated revenue?

TC/svb