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FISCAL IMPACT REPORT

ORIGINAL DATE
LAST UPDATED 02/17/15 **HB** 264

SPONSOR Herrell

SHORT TITLE Balanced Budget Compact **SB** _____

ANALYST Sanogo

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	See "Fiscal Implications"					

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files
 United States Department of the Treasury
 Office of Management and Budget (OMB)
 Bureau of Economic Analysis (BEA)

No Responses Received From
 Secretary of State (SOS)
 New Mexico Supreme Court
 Attorney General's Office (AGO)
 Department of Finance and Administration (DFA)

SUMMARY

HB 264 would enact the "compact for a balanced budget amendment" (BBA), adding New Mexico to a list of states applying for a constitutional convention under Article 5 of the US Constitution.

The amendment sets prospective fiscal limits on the United States by prohibiting the issuance of debt in excess of the amount authorized by the states. On the effective date of the amendment, the initial authorized limit would be set to 105 percent of outstanding US debt. To increase this authorized limit, a simple majority of the state legislatures must approve of the measure within 60 calendar days.

BBA would make it an impeachable misdemeanor for the President of the United States to fail to freeze certain expenditures if total outlays reach 98 percent of the limit; Congress is authorized to concurrently design its own expenditure freeze.

Furthermore, BBA prohibits any new or increased general revenue tax that is not approved by a two-thirds vote of both houses of Congress, unless the proposed tax replaces every existing income tax.

FISCAL IMPLICATIONS

New Mexico is projected to receive \$5.0 billion in federal distributions in 2015, 22 percent of which is discretionary in nature.

Given the emergency clause of HB 264 and its narrative detailing a strong impetus behind the compact for a balanced budget, the following table displays the fiscal impact, should the amendment be enacted by December 31, 2015. Under current federal outlays, the outstanding debt of the United States will exceed the initial BBA limit in two years (see table 2, page 3).

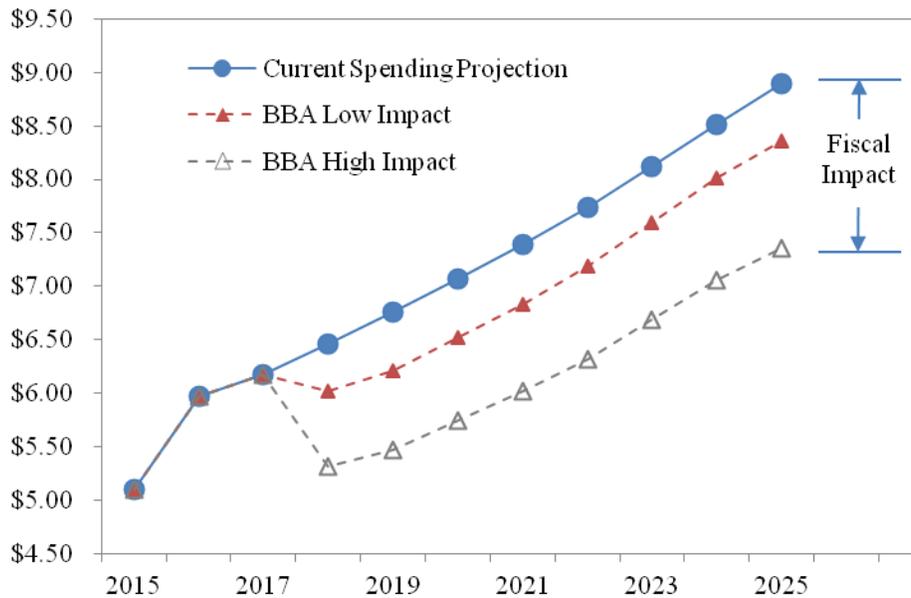
ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT

	FY15- 17	FY18	FY19	FY20	Recurring or Nonrecurring	Fund Affected
Total	NFI	\$0.44 billion - \$1.15 billion	\$0.55 Bn - \$1.29 Bn	\$0.55 Bn - \$1.32 Bn	Recurring	Various

(Parenthesis () Indicate Expenditure Decreases)

Federal outlays routinely exceed federal receipts (see tables 5 and 6, page 5). The amounts above reflect the automatic reduction in discretionary outlays to New Mexico as appropriations shift to mandatory programs (see table 3, page 4). The lower amount assumes an equal, “across-the-board” reduction in all discretionary programs; the higher amount assumes that national defense spending is prioritized before all other discretionary programs¹.

Federal Distributions to New Mexico
(in billions USD)



Source: LFC Analysis of OMB, US Treasury data

¹ According to the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB), 98 percent of the national defense function is classified as discretionary.

TABLE 1 - Current Budget Projections

(in billions of USD)

	2014	2015	2016	2017	2018	2019	2020
Total Receipts	\$ 3,022	\$ 3,176	\$ 3,523	\$ 3,743	\$ 3,917	\$ 4,096	\$ 4,287
Total Outlays	\$ 3,506	\$ 3,759	\$ 3,999	\$ 4,218	\$ 4,423	\$ 4,653	\$ 4,886
Mandatory	\$ 2,385	\$ 2,612	\$ 2,831	\$ 3,043	\$ 3,255	\$ 3,480	\$ 3,704
Discretionary	\$ 1,121	\$ 1,146	\$ 1,168	\$ 1,175	\$ 1,169	\$ 1,172	\$ 1,182
Fiscal Gap	\$ 577	\$ 582	\$ 476	\$ 475	\$ 507	\$ 557	\$ 599
Outstanding Debt	\$ 18,141	\$ 18,723	\$ 19,200	\$ 19,675	\$ 20,181	\$ 20,738	\$ 21,337

Source: LFC Analysis of OMB, US Treasury data

TABLE 2 - HB 264 Applied to Current Budget Projections

(in billions of USD)

Authorized Limit Reached?	2014	No 2015 ¹	No 2016	No 2017	Yes 2018	Yes 2019	Yes 2020
Total Receipts	\$ 3,022	\$ 3,176	\$ 3,523	\$ 3,743	\$ 3,917	\$ 4,096	\$ 4,287
Total Outlays	\$ 3,598	\$ 3,759	\$ 3,999	\$ 4,218	\$ 3,999	\$ 4,096	\$ 4,287
Mandatory ²	\$ 2,385	\$ 2,612	\$ 2,831	\$ 3,043	\$ 3,191	\$ 3,358	\$ 3,521
Discretionary	\$ 1,121	\$ 1,146	\$ 1,168	\$ 1,175	\$ 807	\$ 738	\$ 766
Fiscal Gap	\$ 577	\$ 582	\$ 476	\$ 475	\$ 82	\$ -	\$ -
Outstanding Debt ³	\$ 18,141	\$ 18,723	\$ 19,200	\$ 19,675	\$ 19,757	\$ 19,757	\$ 19,757
Authorized Limit		\$ 19,757	\$ 19,757	\$ 19,757	\$ 19,757	\$ 19,757	\$ 19,757

(1) Illustrative effective date of December 31, 2015

(2) Adjusted to reflect net interest savings (see, below).

(3) Subject to 2015 authorized debt limit

Outstanding Debt Service, under BBA

(in billions of USD)

	2015	2016	2017	2018	2019	2020
Net interest	\$ 229	\$ 283	\$ 361	\$ 424	\$ 483	\$ 544
Net interest, under authorized limit	\$ 229	\$ 283	\$ 361	\$ 361	\$ 361	\$ 361
Net Interest Savings ¹	\$ -	\$ -	\$ -	\$ 63	\$ 122	\$ 183
Total outlay, given net int. savings	\$ 3,759	\$ 3,999	\$ 4,218	\$ 4,360	\$ 4,530	\$ 4,704
Mandatory	\$ 2,612	\$ 2,831	\$ 3,043	\$ 3,191	\$ 3,358	\$ 3,521
Discretionary	\$ 1,146	\$ 1,168	\$ 1,175	\$ 1,169	\$ 1,172	\$ 1,182

(1) Assumes that interest expenses do not change, i.e. the cost to rollover outstanding debt is constant. Does not include the retirement of debt.

Source: LFC Analysis of OMB, US Treasury data

TABLE 3 - Federal Distributions to NM under Balanced Budget Amendment

(in billions of USD)

	2015	2016	2017	2018	2019	2020
			Est.	Est.	Est.	Est.
Total outlays current spending projection	\$ 3,176.10	\$ 3,523.10	\$ 3,743.00	\$ 3,916.50	\$ 4,095.90	\$ 4,287.20
Federal grants, % of total outlays	16.7%	16.3%	16.5%	16.5%	16.5%	16.5%
Distributions to NM, % of total federal grants	0.96%	1.04%	1.00%	1.00%	1.00%	1.00%
Distributions to NM	\$ 5.10	\$ 5.97	\$ 6.18	\$ 6.46	\$ 6.76	\$ 7.07
Discretionary grants, % of total federal grants	23.1%	21.4%	22.0%	22.0%	22.0%	22.0%
Discretionary distributions to NM	\$ 1.18	\$ 1.28	\$ 1.36	\$ 1.42	\$ 1.49	\$ 1.56
Reduction in federal discretionary outlays BBA	0.0%	0.0%	0.0%	-30.9%	-37.0%	-35.2%
Reduction in discretionary distributions to NM	\$ -	\$ -	\$ -	\$ (0.440)	\$ (0.551)	\$ (0.548)

Source: LFC Analysis of OMB, US Treasury data

**TABLE 4 - Federal Distributions to NM under Balanced Budget Amendment
National Defense Priority Option**

(in billions of USD)

	2015	2016	2017	2018	2019	2020
			Est.	Est.	Est.	Est.
Discretionary distributions to NM current spending projection	\$ 1.18	\$ 1.28	\$ 1.36	\$ 1.42	\$ 1.49	\$ 1.56
Reduction in federal discretionary outlays BBA	-	-	-	-80.8%	-86.6%	-85.0%
Reduction in discretionary distributions to NM	\$ -	\$ -	\$ -	\$ (1.148)	\$ (1.287)	\$ (1.323)

Source: LFC Analysis of OMB, US Treasury data

TABLE 5 - Total Receipts of the United States
(in billions of USD)

	2014	2015	2016	2017	2018	2019	2020
Individual income taxes	\$ 1,394.60	\$ 1,478.10	\$ 1,645.60	\$ 1,770.30	\$ 1,886.90	\$ 1,999.80	\$ 2,118.40
Corporation income taxes	\$ 320.70	\$ 341.70	\$ 473.30	\$ 499.80	\$ 503.00	\$ 507.20	\$ 512.50
Social ins. and retirement	\$ 1,023.50	\$ 1,065.00	\$ 1,111.90	\$ 1,173.30	\$ 1,228.60	\$ 1,280.40	\$ 1,332.20
Excise taxes	\$ 93.40	\$ 95.90	\$ 112.10	\$ 120.30	\$ 122.40	\$ 124.30	\$ 126.40
Estate and gift taxes	\$ 19.30	\$ 19.70	\$ 21.30	\$ 30.50	\$ 33.00	\$ 35.70	\$ 38.50
Customs duties	\$ 33.90	\$ 36.80	\$ 38.40	\$ 41.90	\$ 44.90	\$ 47.40	\$ 49.80
Misc. receipts	\$ 136.10	\$ 138.90	\$ 120.50	\$ 106.90	\$ 97.70	\$ 101.10	\$ 109.40
Total Receipts	\$ 3,021.50	\$ 3,176.10	\$ 3,523.10	\$ 3,743.00	\$ 3,916.50	\$ 4,095.90	\$ 4,287.20

TABLE 6 - Total Outlays of the United States
(in billions of USD)

	2014	2015	2016	2017	2018	2019	2020
Total, Net Outlays	\$ 3,506.09	\$ 3,758.58	\$ 3,999.47	\$ 4,217.80	\$ 4,423.30	\$ 4,652.64	\$ 4,886.37
Mandatory	\$ 2,384.68	\$ 2,612.44	\$ 2,831.28	\$ 3,042.77	\$ 3,254.66	\$ 3,480.16	\$ 3,703.92
Discretionary	\$ 1,121.41	\$ 1,146.14	\$ 1,168.19	\$ 1,175.03	\$ 1,168.64	\$ 1,172.47	\$ 1,182.45

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