LFC Requester:	

AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

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(Analysis must be uploaded as a PDF)

SECTION I: GENERAL INFORMATION

{Indicate if the analysis is on an original bill, amendment, substitute, or a correction of a previous bill}

Date Prepared: *2/27/2025*
Bill Number: *HB 493*

Check all that apply:
Original _x Correction __
Amendment __ Substitute __

Sponsor: Rep. Borrego
Short Title: PUBLIC FINANCE ACCOUNTABILITY ACT

Agency Name and Code Number: DFA-341
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		

(Parenthesis ( ) indicate expenditure decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		

(Parenthesis ( ) indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	0	$2,620.43	$2,084.03	$4,704.46	R	GF

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

House Bill 493 (HB493), the Public Finance Accountability Act, aims to establish funding criteria, grant management, and oversight requirements for appropriations and enumerate the duties of the Department of Finance and Administration (DFA) in New Mexico.

- Definitions:
    - "Annual audit" refers to the financial audit required by the Audit Act.
    - "Department" refers to the Department of Finance and Administration.
    - "Grant" is a non-exchange transaction involving capital outlay or special purpose appropriations.
    - "Grant agreement" is a written agreement for such appropriations.
    - "Grantee" is the entity receiving the appropriation.
    - "Independent auditor" is a certified public accountant approved by the state auditor.
    - "State agency" includes any state government department, institution, board, bureau, commission, district, or committee.
- **Funding Criteria:**
    - Grantees must have completed an annual audit for one of the past two fiscal years, with the most recent audit being a public record.
    - If audits show material weaknesses or deficiencies, grantees must prepare an actionable plan with state agency support or have another entity act as a fiscal agent if issues persist.
    - Grantees not required to have annual audits must demonstrate adequate accounting methods and procedures.
    - Grantees must comply with financial reporting requirements and have an approved budget for the current fiscal year.
    - These criteria must be met before state agencies can certify bond issuance or make grants.

- **Grant Management and Oversight Requirements:**
    - State agencies must ensure legal compliance in sales, leases, and licenses of capital assets acquired with appropriations.
    - Agencies must confirm the adequacy of consideration received for capital assets.
    - Agencies must use grant agreement templates developed by the DFA.
    - Field audits of capital outlay projects must be conducted as per DFA procedures.
- **Duties of the Department:**
    - The DFA must prescribe procedures, policies, and documents to implement the funding criteria and grant management requirements.
    - The DFA must provide capital outlay grant agreement templates.
    - The DFA must develop criteria for granting deviations from standard templates and requirements.
    - The DFA must monitor and enforce compliance with the act's criteria and requirements.
- **Effective Date:** The act will take effect on July 1, 2025.

FISCAL IMPLICATIONS

Overall, HB493 will require initial and ongoing costs associated with implementing and maintaining the requirements of the Public Finance Accountability Act, which may offset the benefits of improved financial oversight and accountability of appropriations.

- **Administrative Costs:** the Department of Finance and Administration (DFA), particularly its Local Government Division (LGD) and Financial Controls Division (FCD), will incur costs related to developing and implementing the new procedures, policies, and processing documents required by the act.
    - **Local Government Division**: HB 493 would require LGD to monitor and maintain compliance in the most recent single or special audits.
        - Currently, LGD staffing is suited for reviewing and approving budgets and other financial submittals in support of its responsibilities under § 6-6-2 (K), NMSA 1978.
        - However, LGD staff does not possess the professional and technical expertise necessary to provide technical assistance, monitor compliance with HB493's requirements, or perform field audits.
            - LGD's budget and finance bureau currently supports 795 local

entities (33 Counties, 106 Municipalities, 633 Special Districts, and 23 Tribal Governments).

    - LGD's budget and finance bureau has 5 FTEs, and its average workload is 137.8 entities per FTE. LGD believes the optimal workload for budget and finance efficiency is 50 entities per individual.

    - Using LGD's budget and finance bureau as a model, LGD would optimally require 13 FTEs (689 total entities (2024)/ 50 per FTE = 13.78 FTEs) to support the increased workload, technical and educational expertise, and appropriately proscribed internal controls purposed by HB493.

        - To maintain its current workload ratio, LGD would require 5 FTEs.

    - LGD anticipates due to the anticipated skills and education requirements, new FTEs will be brought in at Pay-band 80:

        - $141,362.00 per FTE (13 FTEs = $1,837,706.00 for Year 1); $1,801,306 recurring thereinafter ($1,837,706.00 - $36,400 (nonrecurring supply costs)).

- Financial Controls Division:

    - FCD anticipates the need for an additional 2 FTEs to manage the audit review requirements of HB493 adequately. This includes one higher-level accountant, preferably a CPA or CGFM, as well as a mid-level accountant.

        - FCD staff operate outside of other DFA Divisions, separating the financial review duties from programmatic oversight.

    - FCD additionally anticipates the need for seed money to develop a database that can house local entity audits and provide an electronic communication method between DFA and the local entity being reviewed. FCD estimates the database creation will cost approximately $500K.

- **Audit and Compliance Costs:**

    - Grantees may face increased costs associated with completing the required annual audits and preparing actionable plans to address any material weaknesses or deficiencies identified in those audits.

        - State agencies may need to allocate resources to support grantees in preparing and implementing these plans.

- **Potential Savings:**

- Improved oversight and management of grant expenditures will likely lead to more efficient use of state funds and potentially reduce instances of financial mismanagement or fraud.

- Ensuring that grantees have adequate accounting methods and procedures may result in better financial accountability and transparency, potentially leading to long-term savings.

SIGNIFICANT ISSUES

- **Funding Criteria:**

  - HB493 requires grantees to complete an annual audit for one of the past two fiscal years, with the most recent audit being a public record, to be eligible for state funding.

  - Additionally, where a grantee's most recent audit documents material weaknesses or significant deficiencies, the grantee must:

    - Prepare an actionable plan to address these issues.
    - Receive support from the state agency making the grant to prepare and implement the plan.
    - If the grantee has repeated material weaknesses and deficiencies for more than two consecutive fiscal years, another appropriate entity must be determined to act as the fiscal agent for the grant.

  - If a grantee is only required to complete one annual audit in the past two fiscal years to be eligible for state funding, state agencies will be unable to assess repeated material weakness or significant deficiencies and/or the effect of any actionable plan to address issues identified in audits.

- **Accounting Methods for Non-Audited Grantees:**

  - HB493 requires grantees not required to have annual audits to demonstrate adequate accounting methods and procedures to manage and expend grant funds in accordance with applicable law.

  - However, HB493 does not specify the exact accounting methods that grantees must use. HB493 does require non-audited grantees to demonstrate adequate accounting methods and procedures to (1) manage and expend grant funds in accordance with applicable law and (2) account for and safeguard grant funds and assets acquired by grant funds.

    - In general, this implies grantees should use accounting methods that ensure transparency, accuracy, and compliance with generally accepted accounting principles (GAAP).

  - Since no particular accounting method or principles are explicitly stated in HB493, state agencies may struggle to evaluate whether a non-audited entity's accounting methods and procedures comply with HB493's requirements.

        - To ensure compliance with HB493's requirements, DFA would recommend the bill explicitly identify an accounting standard or principles similar to the State's Model Accounting principles.

PERFORMANCE IMPLICATIONS

N/A.

ADMINISTRATIVE IMPLICATIONS

HB493's administrative implications include several responsibilities and requirements for both the Department of Finance and Administration and state agencies.

- **Establishment of Funding Criteria**:
    - DFA must establish funding criteria that grantees must meet to be eligible for capital outlay appropriations or other special purpose appropriations.
- **Grant Management and Oversight**:
    - DFA must establish grant management and oversight requirements for state agencies, including ensuring compliance with applicable laws for sales, leases, and licenses of capital assets acquired with grant funds.
    - State agencies must use the appropriate capital outlay grant agreement templates developed by DFA.
    - State agencies are required to conduct field audits of capital outlay projects based on statistical or stratified sampling.
- **Support for Grantees**:
    - State agencies must provide support to grantees in preparing and implementing plans to address any material weaknesses or significant deficiencies identified in audits.
    - If a grantee has repeated audit findings of material weaknesses and deficiencies, the state agency must determine if another entity can act as the fiscal agent for the grant.
- **Compliance Monitoring**:
    - DFA must monitor and enforce state agencies' compliance with the funding criteria and grant management and oversight requirements.
    - DFA is responsible for prescribing procedures, policies, and processing documents to implement the funding criteria and grant management requirements.

- **Development of Templates and Criteria**:
  - DFA must develop capital outlay grant agreement templates for use by state agencies.
  - DFA must also develop criteria for granting requests for deviations from its grant agreement templates and grant management and oversight requirements.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

N/A.

TECHNICAL ISSUES

N/A.

OTHER SUBSTANTIVE ISSUES

N/A.

ALTERNATIVES

N/A.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

N/A.

AMENDMENTS

N/A.