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FISCAL IMPACT REPORT

SPONSOR <u>Hernandez, JF</u>	LAST UPDATED _____
	ORIGINAL DATE <u>2/17/2025</u>
SHORT TITLE <u>Governmental Accounting Class & Compensation</u>	BILL NUMBER <u>House Bill 386</u>
	ANALYST <u>Ortega</u>

APPROPRIATION* (dollars in thousands)

FY25	FY26	Recurring or Nonrecurring	Fund Affected
	\$500.0	Nonrecurring	General Fund

Parenteses () indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency Analysis Received From
The Office of the State Auditor

SUMMARY

Synopsis of House Bill 386

Senate Bill 386 appropriates \$500 thousand from the general fund to the Office of the State Auditor (OSA) for the purpose of conducting a class and compensation study specific to the governmental audit and accounting sector that would assess and analyze classification and salary structures within the agency’s audit and accounting procedures. The funds will be available for expenditure in fiscal years 2026 through 2028.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or June 20, 2025.

FISCAL IMPLICATIONS

The appropriation of \$500 thousand contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY28 shall revert to the general fund. Any long-term implementation of study recommendations could require future legislative appropriations. The Legislative Finance Committee (LFC), Department of Finance and Administration (DFA), and State Personnel Office (SPO) are conducting an ongoing review of overall compensation and classification for the state that could reduce the need for targeted compensation.

SIGNIFICANT ISSUES

OSA reports that a nationwide shortage of accountants has made it increasingly difficult to compete for qualified professionals. Unlike other state agencies, it must adhere to strict industry standards, such as those set by the American Institute of Certified Public Accountants (AICPA) and Generally Accepted Government Auditing Standards (Yellowbook), which mandate accountants and auditors to meet specific educational and certification requirements, such as obtaining a Certified Public Accountant (CPA) credential, to advance within the agency. OSA states that competing agencies in New Mexico often have less rigorous hiring and advancement requirements, making it harder to attract and retain skilled professionals needed to fulfill its statutory audit responsibilities.

PERFORMANCE IMPLICATIONS

OSA notes that many of its auditor positions have mandatory educational and experience requirements that are unique to the agency, but these positions are classified at the same level as accounting positions in other state agencies that do not require similar qualifications. For example, OSA's staff auditor position requires a bachelor's degree in business administration, accounting, or finance, at least 18 credit hours in accounting, and one year of experience conducting financial audits of government agencies. However, the State Personnel Office (SPO) has placed these positions in the same classification as other state accountant/auditor roles that do not perform comparable financial audit work, making it more difficult for OSA to compete for qualified candidates.

Additionally, its State Auditor Coordinator (Staff Audit Manager) position has been placed in an alternative pay band 85, and would revert to pay band 80 after 2024, requiring OSA to offer lower salaries for CPAs in 2025 than in 2024. OSA argues that without appropriate classification and compensation adjustments, its ability to recruit and retain skilled auditors will continue to decline, reducing its ability to meet statutory financial audit responsibilities.

ADMINISTRATIVE IMPLICATIONS

OSA notes:

HB386 is part of OSA's approach to the accounting pipeline shortage. It helps meet OSA's strategic goals of:

- Conducting a comprehensive review of public accounting compensation and classification, including the need to bring OSA auditor classifications in line with public accounting to create a parity for OSA auditors with their public accounting peers...

ALTERNATIVES

OSA provided the following alternative:

OSA may explore options for reclassifying audit staff from the SPO classified service to governor-exempt positions. This would allow the OSA to pay competitive salaries, recruit and retain high quality employees, and provide management with at-will employees.

AO/rl