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## FISCAL IMPACT REPORT

SPONSOR Campos LAST UPDATED \_\_\_\_\_  
ORIGINAL DATE 2/19/2024  
BILL  
SHORT TITLE Study Deficiency Appropriation Requests NUMBER Senate Memorial 8  
ANALYST Ortega

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT\*

(dollars in thousands)

| Agency/Program | FY25             | FY26                      | FY27             | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|----------------|------------------|---------------------------|------------------|-------------------|---------------------------|---------------|
| DFA            | No fiscal impact | Indeterminate but minimal | No fiscal impact |                   | Nonrecurring              |               |

Parentheses ( ) indicate expenditure decreases.

\*Amounts reflect most recent analysis of this legislation.

### Sources of Information

LFC Files

#### Agency Analysis Received From

State Auditor (OSA)

Department of Finance and Administration (DFA)

#### Agency Analysis was Solicited but Not Received From

State Treasurer (STO)

## SUMMARY

### Synopsis of Senate Memorial 8

Senate Memorial 8 (SM8) asks the Office of the State Auditor (OSA) to convene a work group—including representatives from the Legislative Finance Committee (LFC), the Department of Finance and Administration (DFA), the Office of the State Treasurer (STO), and other executive branch members—to draft legislation aimed at improving financial oversight and addressing state agency deficiency appropriation requests.

SM8 calls for:

- A comprehensive study to analyze the factors driving deficiency requests.
- Increased transparency in budget hearings and financial reporting.
- Stronger compliance and enforcement mechanisms to prevent overspending.
- A more centralized oversight role for DFA in budget management.
- Legislative recommendations to improve fiscal accountability across state agencies.

This memorial 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

Convening a work group to implement SM8 and study financial oversight and deficiency appropriation requests may require OSA, LFC, DFA, STO, and other participating agencies to dedicate staff time and resources to research, data collection, and legislative drafting. While these efforts may be absorbed within existing agency budgets, additional costs could arise if external consultants, expanded audit procedures, or technology updates are needed to implement recommendations. If future legislation results from the work group's findings, there may be long-term fiscal impacts associated with enforcing stricter financial oversight, compliance measures, or potential system upgrades such as improvements to the state's financial management system (SHARE).

DFA states that implementing SM8's recommendations may create upfront administrative costs but could result in long-term fiscal benefits for the state. Additionally, DFA notes enhancing compliance and enforcement mechanisms may increase costs for state agencies to meet new financial oversight requirements and for oversight entities to monitor compliance effectively. The department anticipates that participation in the work group would require staff time from the State Budget Division Director, State Controller, and senior staff from key divisions.

## SIGNIFICANT ISSUES

OSA states it identified several issues related to state agency deficiency appropriation requests in its August 2024 transparency report. The report, developed at the request of the Senate Finance Committee (SFC) and in collaboration with LFC and DFA, found that deficiency requests had increased by approximately \$137.5 million from 2014 to 2024. However, justifications for these requests were not always available, and when they were, they often cited overspending, failure to adhere to budget authority, and unpaid prior-year expenditures. In October 2024, LFC asked OSA to expand its review of budgetary control statutes, leading to a comparative analysis of New Mexico's statutes and budgetary controls in neighboring states. According to OSA, this analysis, published in January 2025, formed the basis for Senate Memorial 8.

DFA provided additional context regarding the deficiency appropriations process, noting that the OSA's findings failed to distinguish between deficiency requests and supplemental appropriation requests. According to DFA, while deficiency requests had increased, much of the total was due to a single issue—the solvency of the employee health benefits fund—rather than a systemic trend of financial mismanagement. Additionally, DFA states that many of SM8's recommendations are already part of the existing budgetary process. For example, deficiency requests are discussed in legislative budget hearings, agencies are required to provide written justification and supporting documents, and both the State Budget Division and the Financial Control Division work together to provide oversight.

DFA also notes that any new penalties for overspending should be considered alongside potential solutions for agencies to address deficiencies before legislative action, emphasizing that while financial accountability is critical, imposing stricter penalties without providing agencies with viable mechanisms to resolve budget shortfalls could lead to unintended consequences, such as operational disruptions or the inability to meet essential service obligations. Additionally, DFA highlights that a statewide committee in 2024 conducted a comprehensive review of the SHARE financial system, evaluating its capabilities, limitations, and potential alternatives. The

committee ultimately determined that while system improvements and updates may be beneficial, a full replacement of SHARE was unnecessary and would require significant financial investment without clear long-term benefits.

## **ADMINISTRATIVE IMPLICATIONS**

OSA notes its role in implementing SM8 will be limited to providing recommendations rather than directing financial operations, as direct involvement in designing state financial systems could compromise its independence as an auditor. Instead, OSA states it will focus on offering guidance and analysis to help build consensus among stakeholders for any proposed changes to budgetary controls and financial oversight.

DFA anticipates that SM8 will increase administrative responsibilities across multiple agencies by requiring the formation of a work group, enhanced audit procedures, and extensive legislative drafting. Additionally, DFA notes that OSA may need to expand its audit procedures and internal reviews, increasing workload demands on both OSA and agencies being audited.

AO/hj/SL2