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FISCAL IMPACT REPORT

ORIGINAL DATE
LAST UPDATED 06/08/15 **HB** 1-SS

SPONSOR Gentry

SHORT TITLE Supplemental General Appropriation Act **SB** _____

ANALYST Lucero/Chenier/Chavez

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY15	FY16		
\$112.0		Nonrecurring	Legislative Cash Balances
\$4,000.0		Recurring	General Fund
\$300.0		Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	\$4,000.0	\$4,000.0	\$4,000.0	\$12,000.0	Recurring	General Fund
Total	\$300.0	\$300.0	\$300.0	\$900.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

SUMMARY

Synopsis of Bill

House Bill 1 appropriates \$112.0 thousand from legislative cash balances to various legislative agencies for the purpose of funding the necessary expenses of the 1st Special Session of the 52nd Legislature and includes \$15.0 thousand to the Legislative Council Service for expenses of the council and joint bill room.

House Bill 1 authorizes standing committees necessary for the development of the state budget to meet the week before the 2016 legislative session.

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House Bill 1 appropriates \$4.3 million from the general fund with \$4.0 million appropriated to the Department of Health (DOH) and \$300.0 thousand appropriated to the Administrative Office of the Courts (AOC) to address FY15 projected shortfalls in each agency.

FISCAL IMPLICATIONS

The legislative cash balance appropriation of \$112.0 thousand is a nonrecurring expense. The funds are appropriated as follows:

House expenses:	\$50.0 thousand
Senate expenses:	\$47.0 thousand
Legislative Council:	\$15.0 thousand

The appropriation of \$4.3 million to Department of Health and the Administrative Office of the Courts contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY15 shall revert to the general fund.

SIGNIFICANT ISSUES

Department of Health

Leading up to the 2015 Legislative session, the Department of Health (DOH) requested a \$6.4 million supplemental appropriation from the general fund and at that time, stated the appropriation would bring FY15 appropriations in line with FY14 expenditure levels. The executive recommended \$1 million but the GAA was passed without a supplemental appropriation for DOH. However, the Legislature authorized extraordinary budget adjustment authority (BAR) for DOH including \$4 million in program transfer authority between certain programs to address the projected shortfall. In the last five months of FY15, DOH continued to spend about \$10.2 million on newly hired employees, new contracts, contract amendments, supplies, and capital upgrades.

To address the shortfall and reduce the department's dependence on contracted nursing staff, a Legislative Finance Committee (LFC) evaluation in January recommended the department establish a pool of casual employees for each facility and create a traveling nursing pool, proposed a graduate nurse internship program, and the implementation of a common staffing methodology across facilities.

At a May 2015 LFC hearing, the department reported a projected \$5.9 million deficit. Since the May LFC hearing, LFC and Department of Finance and Administration (DFA) staff have been working with DOH to find solutions and constrain spending in the department. LFC staff recommended the department consider a review of all encumbrances – especially contractual services, place a freeze on new hires, seek reimbursement for facility expenses through the capitol building repair fund, consider the possibility of furloughs, and request a loan from the Board of Finance.

Since these discussions were held, the department renewed efforts to control spending, asked the University of New Mexico Health Sciences Center to reduce spending by \$500 thousand, and prepared a \$1.5 million loan request from the Board of Finance. However, these efforts were not enough to fill the deficit without negatively impacting public health services statewide.

DOH Budget Deficit as of March 2015						
Agency-Wide Rollup						
Rev Code	Description	FY14 Revised Actuals	FY15 Adjusted OpBud	FY15 Year to Date Revenue March	FY15 Projected Revenue thru 6/30/2015	FY15 Projected Over / (Under) Budget
111	General Fund	\$ 302,270.6	\$ 307,980.7	\$ 232,180.8	\$ 307,980.7	\$ 0.0
112	Other Transfers	\$ 24,493.4	\$ 28,608.0	\$ 6,236.5	\$ 26,331.9	\$ (2,276.0)
120	Federal Funds	\$ 88,957.9	\$ 104,051.9	\$ 53,640.1	\$ 93,260.7	\$ (10,791.2)
130	Other State Funds	\$ 108,686.9	\$ 118,649.4	\$ 66,540.9	\$ 115,756.6	\$ (2,892.8)
150	Fund Balance	\$ 2,000.0	\$ 250.0	\$ 291.0	\$ 2,291.0	\$ 2,041.0
	Total	\$ 526,408.8	\$ 559,540.0	\$ 358,889.3	\$ 545,621.0	\$ (13,919.0)
				FY15 Year to Date Expenditures March	FY15 Projected Expenditure thru 6/30/2015	
	Expenditures					
200	Salaries & Benefits	\$ 203,080.3	\$ 205,596.5	\$ 157,314.7	\$ 213,862.7	\$ (8,266.2)
300	Contracts	\$ 84,013.0	\$ 89,092.2	\$ 45,808.2	\$ 83,108.2	\$ 5,984.0
400	Other Costs	\$ 140,700.3	\$ 152,866.9	\$ 89,960.1	\$ 143,812.2	\$ 9,054.7
500	Other Financing	\$ 95,367.1	\$ 111,984.4	\$ 69,509.6	\$ 107,344.9	\$ 4,639.5
	Total	\$ 523,160.7	\$ 559,540.0	\$ 362,592.5	\$ 548,128.0	\$ 11,412.0
						Projected Surplus / (Deficit) w/o DDW 500's
						\$ (5,879.9)

DOH Deficit Reduction Plan		
Division	Projected Surplus / (Deficit)	\$
		5,879.9
Facilities	Adjustments to revenue and expenditure plans; State Veteran's Home increased projected net revenue for the year; additional enrollment for Medicaid eligible patients; new intensive outpatient services in at-risk regions; outstanding contract amounts for non-critical items are deferred (total could be \$500 thousand to \$1 million)	\$ (500.0)
Public Health	Vacancy savings, and contracts/provider agreements not materializing in FY 15	\$ (750.0)
University of New Mexico	Services not completed by 6/30/15 per UNM	\$ (500.0)
Epidemiology and Response	Deferred marketing and printing services	\$ (140.0)
Medical Cannabis Program	General fund allocation to Medical Cannabis per time study	\$ (100.0)
	Total of reductions	\$ (1,990.0)
	Grand Total	\$ 3,889.9

Administrative Office of the Courts

According to the Administrative Office of the Courts (AOC), almost 180,000 cases are resolved each year by 67 magistrate judges in 48 court locations in 32 counties throughout New Mexico. In FY14, magistrate courts collected \$15.9 million in fines and fees, including \$4.5 million deposited in the general fund.

A significant source of revenue for the Magistrate Court Program of the Administrative Office of the Courts (AOC) historically was a \$4 Magistrate Court operations fee assessed on penalty misdemeanors, which generated approximately \$530.0 thousand of revenue annually. This fee expired in FY14. Senate Bill 84, passed by the 2014 Legislature, renewed the fee through FY19 but was vetoed by Governor Martinez, who stated in part, Magistrate Court operations should be funded through the general fund, not by fees. In its 2015 budget request, AOC noted the funding gap from this lost revenue was covered by depleting balances from the warrant enforcement and magistrate mediation funds.

For FY16 AOC requested an increase of \$3 million, of which \$2 million was requested to offset non-recurring other state funds used to cover FY15 expenses. The Legislature appropriated a supplemental general fund appropriation of \$750 thousand to replace the vetoed revenue. However, this supplemental appropriation was also vetoed by the governor.

In an April 2015 letter to the Board of Finance (BOF), AOC reported a FY15 year-end shortfall of \$821.5 thousand for the Magistrate Court Program and requested a \$750 thousand grant to replace the vetoed funds. The agency proposed to cover the remainder of the shortfall by eliminating all but emergency purchases of supplies, in-state travel, assignment of paid pro tempore judges, and by imposing a hiring freeze and has since reduced the shortfall to \$726.3 thousand through these measures. AOC noted that if a BOF grant was not received, the agency would cover the shortfall through nonpayment of Magistrate Court leases for the month of June and by not paying the second half of General Services Division (GSD) rates for the Magistrate Court Program.

The agency’s request for the \$750 thousand BOF grant was not approved at the May 21, 2015, meeting. The BOF proposed AOC had authority to cover the shortfall by using fund balance from the warrant enforcement fund. By statute, the purpose of the fund is primarily to employ personnel and purchase equipment and services to aid in the collection of fines, fees, or costs owed to magistrate courts, with a secondary purpose of partially reimbursing law enforcement agencies for the expense of serving bench warrants used by the Magistrate Courts.

In recent years the Legislature has appropriated fund balance from the warrant fund for use in other Magistrate Court operations, appropriating \$1.2 million in FY15 and \$700 thousand in FY16. Additionally, the 2015 General Appropriation Act (GAA) included budget adjustment authority (BAR) allowing budget increases up to \$250 thousand from warrant fund balances to pay for Magistrate Court lease payment shortfalls. At the BOF hearing, DFA suggested AOC use the warrant fund balance to cover the entire shortfall, arguing that because the fund is appropriated to AOC, they have authority to use the funds without additional authorizing language. However, there was some disagreement with this assessment. After appropriations from the warrant fund for capital outlay in the special session, little fund balance remains to cover the Magistrate Court Program shortfall. (See table.)

Warrant Enforcement Fund Uses and Available Balance

(in thousands)

FY15 Year-End Balance	\$1,459.2
FY16 GAA Appropriation	(\$700.0)
Budget Adjustment Request to pay Magistrate Leases	(\$250.0)
Budget Increase in Warrant Enforcement Program	(\$64.0)
Capital Outlay Appropriation in SB 1 Special Session	(\$300.0)
Remaining Warrant Fund Balance	\$145.2

Source: AOC

OTHER SUBSTANTIVE ISSUES

SHORTFALL COVERAGE. The Administrative Office of the Courts (AOC) reduced the projected shortfall by eliminating all but emergency purchases of supplies, in-state travel, assignment of paid pro tempore judges, and by imposing hiring freezes. The agency recently submitted a budget adjustment request (BAR) for \$250 thousand as prescribed by the additional BAR language in the 2015 GAA. The agency also used its 5 percent budget increase authority to submit a BAR to add \$64 thousand to the budget from the warrant enforcement fund to pay for personal services and employee benefits related to the Warrant Enforcement Program. GSD premiums for the Magistrate Court Program for the second half of the year totals \$164.8 thousand. AOC will pay a portion of those premiums, leaving a partial non-payment of \$112.3

thousand. Without the appropriation contained in this bill, the remainder of the shortfall will be covered through nonpayment of a proportion of Magistrate Court leases for the month of June.

Magistrate Court Shortfall Recovery

(in thousands)

Total Shortfall (5/19/15)	\$726.3
Budget Adjustment Request to pay Magistrate Leases	(\$250.0)
Budget Increase in Warrant Enforcement Program	(\$64.0)
Nonpayment of GSD premiums	(\$112.3)
Appropriation for HB 1 Special Session	(\$300.0)
FY15 Year End Balance	\$0.0

Source: AOC

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