

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current and previously issued FIRs are available on the NM Legislative Website ([www.nmlegis.gov](http://www.nmlegis.gov)) and may also be obtained from the LFC in Suite 101 of the State Capitol Building North.

## FISCAL IMPACT REPORT

**SPONSOR** Smith/Ingle                      **ORIGINAL DATE** 9/30/16  
**LAST UPDATED** 10/05/16      **HB** \_\_\_\_\_

**SHORT TITLE** Reduce Certain Legislative Appropriations      **SB** 9/aHAFC

**ANALYST** Lucero

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY17	FY18		
(\$176,100.0)		Recurring	General Fund
\$1,000.0		Non-Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY17	FY18	FY19		
\$7,500.0	\$7,500.0	\$7,500.0	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

### SUMMARY

The House Appropriations and Finance Committee (HAFC) amendment increases the appropriation reduction percentage to 3 percent from 2.5 percent in the original bill for the Legislature and 5.5 percent for agencies identified in Section 2(A) of the original bill.

The amendment adds a new subsection to Section 2 to identify higher education institutions, including special schools, will be reduced 5.5 percent instead of 5 percent in the original bill.

The amendment increases the reductions in the original bill for the Department of Cultural Affairs from 1.5 percent to 5.5 percent and all programs, except the Facilities Management and Developmental Disabilities Waiver programs, of the Department of Health from 2.5 percent to 5.5 percent.

The amendment exempts the Children Youth and Families Department, Department of Public Safety, and sexual assault services and prevention contracts at the Department of Health from any reductions.

The amendment reduces the public school categorical and related recurring initiatives appropriations reduction in the original bill by \$3 million each. The amendment requires the Secretary of PED to set the final unit value 1.5 percent lower than the preliminary unit value by December 15, 2016. The 1.5 percent reduction to the SEG and language requiring the Secretary of Education to reset the unit value 1.5 percent lower than the preliminary unit value prohibits PED from allocating any undistributed SEG. This will result in a reversion of \$7.5 million in addition to approximately \$15 million already assumed in the consensus revenue estimate reversion amount. The amendment also provides flexibility to meet maintenance of effort requirements.

The amendment adds a new Section 5 to the original bill to provide additional budget flexibility in FY17 to higher education institutions.

#### Synopsis of the Original Bill

This bill reduces general fund appropriations in Laws 2016, Chapter 11 (General Appropriation Act) Section 4 by \$174.6 million, or about 2.8 percent. Agency FY17 operating budgets and allotments are being adjusted downward with most agencies being reduced 5 percent unless specifically identified otherwise. The bill provides additional flexibility to the Public Education Department for school districts use of instructional material and transportation funding for operations. The bill requires the Department of Finance and Administration, Higher Education Department, Public Education Department to report on implementation of the reductions required in this act.

The appropriation of \$1 million contained in this bill is a nonrecurring expense to the general fund for the Department of Finance and Administration to distribute in FY17, with Board of Finance approval, to agencies that experience a hardship due to this act. Any unexpended or unencumbered balance remaining at the end of fiscal year 2017 shall revert to the general fund.

This bill contains an emergency clause.

#### **FISCAL IMPLICATIONS**

**Section 1** reduces legislative branch appropriations in Laws 2016, Chapter 1, Sections 3 through 8 by 2.5 percent and provides the New Mexico Legislative Council with flexibility to implement the reduction among council programs.

**Section 2 (A)** reduces general fund appropriations of agencies in Section 4 of the 2016 General Appropriation Act by 5 percent except as specifically specified in Subsections B through I of this section.

Subsection B reduces the judiciary branch 3 percent;

Subsection C reduces various programs and agencies 2.5 percent; including the

Legislative Building Services program, all programs in the Human Services Department except for Medicaid and Medicaid Behavioral Health, all Department of Health programs except for the Developmental Disabilities Waiver and Facilities Management programs;

Subsection D reduces various programs and agencies 1.5 percent, including the Department of Cultural Affairs; the Juvenile Justice Facilities, Behavioral Health Services, and Program Support programs of Children, Youth and Families Department; the Inmate Management and Control, Community Offender Management, and Program Support programs of the Corrections Department; the Law Enforcement and Statewide Law Enforcement Support, and Program Support programs of the Department of Public Safety;

Subsection E exempts various programs and agencies from any cuts, including Energy Council Dues in the Legislative Council Service; the Medical assistance and Medicaid Behavioral Health programs of the Human Services Department; the Facilities Management and Developmental Disabilities Support programs of the Department of Health; the Veterans' Services Department; and the Protective Services and Early Childhood Services programs of the Children, Youth and Families Department;

Subsection F exempts Prekindergarten, K-3 Plus, and Early Reading Initiative from a "below-the-line" Public Education Department reduction of \$25 million. With the exceptions, the language provides the department with flexibility on the allocation of the cut. Reduces the State Equalization Guarantee \$37.8 million, or about 1.5 percent. Reduces Categorical appropriations \$33 million;

Subsection G provides additional flexibility for the use of Instructional Material and Transportation cash balances and requires the Legislative Finance and Legislative Education Study committees a report on how the funds were spent;

Subsection H provides additional flexibility for the use of property tax revenue generated from an election pursuant to the Public School Capital Improvements Act and the Public School Buildings Act or cash balances derived from property taxes; and

Subsection I provides additional flexibility for the use of FY17 Instructional Material allocations and cash balances.

**Section 3** Provides the executive authority to reduce FY17 general fund allotments; adjust other state funds, internal service/interagency transfers, and federal funds as necessary; and operating budgets in order to comply with this act.

**Section 4** Requires the executive to provide reports to the Legislature on the operating budget adjustments required in this act.

**Section 5** Appropriates \$1 million of nonrecurring general fund to Department of Finance and Administration for distribution with Board of Finance approval to agencies experiencing a hardship in FY17 as a result of the solvency measures.

**Section 6** Provides that the bill take effect immediately.

## **SIGNIFICANT ISSUES**

Market pricing for oil and gas commodities collapsed contributing to weakened revenue projections for FY16 and FY17. Gross receipts, compensating tax, corporate income tax, and severance tax revenues also declined as various other sectors grew at a very slow pace.

It is necessary that the Legislature and the governor move to address this shortfall. This bill is part of a comprehensive approach to address fiscal solvency and leave an adequate reserve level at the end of FY17.

This bill along with its companion bills will address the FY16 \$617 million shortfall (based on the August 2016 revenue estimate) and the FY17 \$458.2 million shortfall. If all companion legislation is enacted, reserves are projected at 2 percent at the end of FY17. LFC believes these actions are necessary to avoid possible legal issues and to comply with a constitutional mandate that appropriations not exceed revenues.

Impacts to agency FY17 operating budgets will likely result in higher agency vacancy rates, increased caseloads, and longer wait times for services and may impact performance outcomes. Public Schools were prioritized from having general fund support reduced, resulting in only a 1.5 percent reduction in state equalization guarantee funding and school districts will need to dip into cash reserves to replace general fund appropriations. Categorical appropriations for instructional materials, transportation, dual-credit, standards-based assessments, etc are also reduced. However, public schools were given increased flexibility to spend cash balances and current year allocations for instructional materials and transportation. Extraordinary budget flexibility was granted to agencies to adjust FY17 budgets in the General Appropriations Act of 2016. This increased flexibility will allow agencies and school districts to further rearrange operating budgets to prioritize funds where they are needed most.

#### **ADMINISTRATIVE IMPLICATIONS**

Department of Finance and Administration (DFA) will be required to reduce the operating budgets, appropriations, and adjust agency allotments distributions accordingly and report to the Legislature the impact of this act on FY17 agency operating budgets.

The General Appropriation Act of 2016 provided budget adjustment request (BAR) authority to rearrange budgets between programs and expenditure categories thus allowing agencies to prioritize funding and flexibility to manage the reductions in this bill.

#### **COMPANIONSHIP, RELATIONSHIP**

This is a companion bill and relates to other bills that are also part of a solvency solution.

- A bill that voids capital outlay and swaps general fund appropriated for certain projects and replaces it with severance tax bond funding.
- A bill which transfers money from various state funds in the treasury to the general fund and transfers money from the tobacco settlement fund reserve account to the appropriation account.
- Various revenue bills.
- A bill to take credit in the state equalization guarantee for school district cash balances and swaps the credit for general fund appropriations.

#### **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

1. Failing to pass solvency measures would result in a violation of Section 6-4-6

NMSA 1978 and possibly require the Secretary of Department of Finance and Administration to suspend issuing warrants and the State Treasurer to suspend the redemption of warrants.

2. The state will incur a budget deficit in violation of Article IX of the New Mexico Constitution.

DL/al