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FISCAL IMPACT REPORT

ORIGINAL DATE 6/18/2020
LAST UPDATED 6/25/2020 **HB** 1/aHAFC
SPONSOR Lundstrom
SHORT TITLE General Appropriation Act Sanding **SB** _____
ANALYST Jorgensen/Sallee

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY20	FY21		
	(\$414,479.9)	Recurring	General Fund
(\$101,689.2)	(\$183,661.0)	Nonrecurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

SUMMARY

Synopsis of HAFC Amendments

The House Appropriations and Finance Committee amendment to House Bill 1:

1. Removes a reduction of \$750 thousand to the New Mexico Corrections Department in the Inmate Management and Control program;
2. Decreases the federal funds swap for higher education institutions by \$6.9 million in Section 4;
3. Increases the public school support appropriation by \$15.5 million including an increase of \$32.4 million to the state equalization guarantee to reduce the sanding from 2 percent to 1 percent, a reduction of \$16.5 million for compensation increases, and a \$306.8 thousand reduction for transportation;
4. Removes language and appropriations to provide a 1.5 percent salary increase to state, public, and higher education employees earning less than \$40 thousand and a 0.5 percent increase for those earning \$40 thousand or more;
 - a. Adds language authorizing an average 1 percent salary increase for non-supervisory school personnel and requiring a report to the Public Education Department on the implementation of salary increases;
 - b. Adds a \$1.7 million general fund appropriation to the Department of Finance and Administration to be used in combination with existing personnel appropriations

to provide state employees earning less than \$50 thousand a 1 percent salary increase to cover new employee benefits costs;

5. Adds language prohibiting schools from paying an increase over 6 percent for group health insurance premium increases taking effect in FY21;
6. Adds language requiring that, should the Department of Finance and Administration use a formula to distribute federal funds directed to local governments, that formula should use the most recent estimate of population available through the U.S. Census Bureau;
7. Adds a \$500 thousand special appropriation from the general fund to the Administrative Office of the Courts for new judgeships;
8. Adds a new provision authorizing the governor, with approval of the state Board of Finance, to transfer up to \$37.5 million to the Human Services Department in the event the federal government does not provide funding to extend federal medical assistance percentages (FMAP) enhancements for COVID-19 response; and
9. Makes technical corrections.

Passage of House Bill 1 as amended will generate an estimated \$414.5 million in recurring savings to the general fund and \$285.4 million in nonrecurring savings over FY20 and FY21.

Synopsis of Original Bill

House Bill 1 reduces general fund appropriations in Laws 2020, Chapter 83 by \$710.3 million, enables use of federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding, and authorizes transfers from the tax stabilization reserve fund to the general fund to ensure the state maintains a balanced budget in fiscal year 2021. Of the total amount of reductions, \$418.1 million is recurring savings, while \$292 million is related to nonrecurring expenditure reductions.

The bill achieves savings by reducing general fund allotments for FY21 by an average 4 percent, though appropriations to the state equalization guarantee and Department of Health are reduced by 2 percent, and Medicaid is reduced by 3 percent, and certain higher and public education appropriations are reduced by 6 percent (see Fiscal Implications).

Appropriations for salary increases are reduced from 4 percent across-the-board to an average 1.5 percent for employees earning less than \$40 thousand and 0.5 percent for those earning \$40 thousand or more.

Nonrecurring special, supplemental, and IT appropriations found in Sections 5, 6, and 7 of the 2020 General Appropriations Act (GAA) were reduced by \$59 million as was an appropriation for transportation funding in Section 9 of the GAA.

The bill also authorizes the transfer of funds from the tax stabilization reserve fund to the general fund to cover any shortfall remaining after implementation of the provisions of this Act.

This bill affects general appropriations and will be effective immediately upon signing.

FISCAL IMPLICATIONS

Sections 1 and 2 apply across-the-board FY21 general fund reductions of 4 percent for legislative, judicial, and executive agencies with the following exceptions:

- 2 percent for the Department of Health;
- 3 percent for Medicaid;
- 6 percent for dues and membership fees at the Department of Finance and Administration, most non-instruction & general expenditures for higher education institutions, regional education cooperatives, and public education department special appropriations.

These reductions to recurring appropriations will reduce recurring general fund expenditures by \$150.5 million.

Section 3 includes additional targeted FY21 general fund reductions to state agencies totaling \$41 million. This section includes a general fund reduction of \$17 million for Medicaid. This reduction is offset by an increase of \$17 million from the tobacco settlement fund in Section 16.

Section 4 reduces FY21 general fund appropriations to agencies to account for federal funding, creating \$168.5 million in general fund savings.

Section 5 reduces the FY21 state equalization guarantee (SEG) distribution to public schools by \$162 million to account for the following changes:

- \$6 million reduction for elementary physical education programs,
- \$40 million reduction for K-5 Plus programs,
- \$4.2 million reduction for mentorship stipends,
- \$2 million reduction for early literacy interventions,
- \$76.1 million reduction for school personnel salary raises,
- \$64.7 million reduction to reflect a 2 percent sanding of the base SEG appropriation, and
- \$31 million increase to reflect a lower federal Impact Aid credit assumption.

In addition to reductions to the SEG, Section 5 reduces categorical appropriations an additional \$9.3 million, and reduces PED special appropriations by \$5.3 million.

Section 6 increases the FY21 budgets of the Department of Finance and Administration and the Human Services Department by \$17 million to allow the funding brought into the budget in Section 16 to be budgeted. There is a corresponding reduction of general fund in Section 4.

Sections 7 through 10 reduce FY20 nonrecurring appropriations including special, supplemental, and IT appropriations by \$59 million (found in Sections 5, 6, and 7 of the General Appropriations Act).

Section 11 reduces appropriations for compensation by \$49.9 million and provides for a salary increase of 1.5 percent for employees earning less than \$40 thousand per year and an increase of 0.5 percent for employees earning \$40 thousand or more per year.

Section 12 reduces a nonrecurring general fund appropriation to the Department of Transportation for major road projects by \$45 million in FY20.

Section 13 reduces the transfer from the general fund to the early childhood endowment fund by \$20 million

Section 14 allocates CARES funding as follows: \$130 million for state COVID-19 expenses; \$150 million to municipalities for direct COVID-19 expenses; \$15 million for select county and municipal government COVID-19 expenses; \$23 million for Tribal government COVID-19 expenses; and \$750 million funding to the general fund appropriation account.

Section 15 provides that if there is a revenue shortfall after reductions to budgets and transfer of federal funds, the tax stabilization reserve may be used to cover the shortfall.

Section 16 transfers 100 percent of revenue received from the tobacco master settlement agreement to the medical assistance program (Medicaid) of the Human Services Department. LFC staff estimate this transfer to be approximately \$17 million

Section 17 authorizes the Department of Finance and Administration to reduce state agency budgets an additional 2 percent should general fund revenues be insufficient to cover expenses after budget reductions contained in this Act. Reductions to non-executive agencies will be made by the Administrative Office of the Courts, and the Legislative Council.

Section 18 grants the Department of Finance and Administration authority to reduce allotments to comply with this bill.

Section 19 appropriates \$270.5 thousand for the cost of the special session.

Section 20 extends a 2019 special appropriation of \$3.5 million for 2020 Census efforts.

Section 21 provides that SEG appropriations revert to the state-support reserve fund.

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.