

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).

FISCAL IMPACT REPORT

SPONSOR Anderson/Sweetser ORIGINAL DATE 02/02/21
LAST UPDATED 03/01/21 HB 165
SHORT TITLE Biennial Budget Pilot Project SB _____
ANALYST Nichols

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	NFI	Minimal	Minimal	Minimal	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

National Conference of State Legislatures (NCSL)

Responses Received From

Regulation and Licensing Department (RLD)

New Mexico Medical Board (NMMB)

Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

House Bill 165 creates a four-year pilot project with two budget cycles to determine if biennial budgeting will enhance the budget process. Agencies participating in the pilot include the Department of Finance and Administration (DFA), the Legislative Finance Committee (LFC), Regulation and Licensing Department (RLD), and other state agencies with less than a \$5 million annual operating budget. For purposes of conducting the pilot, the bill modifies existing statutory language.

The bill establishes an evaluation team composed of LFC and DFA staff to monitor and report on the biennial budget pilot program including:

1. Submitting a plan for administering the pilot program to DFA, LFC, and the Legislative Council by December 1, 2021.
2. Determining a baseline data on:

- a. Performance measures;
 - b. Number of budget analysts employed by agencies, including job titles and hours spent by each employee on budget preparations;
 - c. Estimated cost of printing, postage, and other supply costs for budget preparation;
 - d. Overtime or compensation time provided to employees for budget preparation;
 - e. Number of budget hearings attended by agency employees;
 - f. Number, type and amount of budget adjustment requests submitted by each agency program; and
 - g. The number and amount of supplemental and deficiency appropriation requests by budget program.
3. Identify baseline data changes resulting from biennial budgeting
 4. If funding is available, contract with the National Conference of State Legislatures for external consultation
 5. Report and consult regularly with an LFC subcommittee
 6. By September 1 of each pilot year, submit an annual report to the LFC, Legislative Council, and the Governor with updates from the pilot program comparing each participating agency’s performance measures and budget preparation costs and any changes to staffing as a result of biennial budgeting
 7. Submit a final report to the LFC, Legislative Council, and Governor by August 2026 including the following, as applicable:
 - a. A recommendation on whether to continue biennial budgeting;
 - b. Recommendations on changes to the biennial budgeting process
 - c. Expansion recommendations; and
 - d. Modification recommendations.

The biennial budget process for participating agencies would be implemented by the below schedule:

<i>Odd-Numbered Years</i>	
Deadline	Budget Activity
January 10	Governor submits biennial budget recommendations for participating agencies to LFC and the Legislature
May 1	Participating agencies submit operating budgets for the next two fiscal years to DFA
June 15	DFA sends supplemental and deficiency budget forms to participating agencies
September 1	Participating agencies submit supplemental and deficiency budget forms to LFC and DFA

<i>Even-Numbered Years</i>	
Deadline	Budget Activity
January 5	Governor submits supplemental and deficiency recommendations for participating agencies to LFC and the Legislature
June 15	DFA sends biennial budget forms to participating agencies
September 1	Participating agencies submit biennial budget form to LFC and DFA

The pilot project would begin with the preparation of the fiscal biennium 2024-2025 budget in 2022 and conclude at the end of fiscal biennium 2026-2027.

FISCAL IMPLICATIONS

HB165 may incur some minimal administrative and IT costs for DFA and LFC to set up new biennial budgeting processes.

SIGNIFICANT ISSUES

Currently, executive and legislative agencies devote considerable time and expense to prepare, approve and implement annual budgets for small state departments that might be reduced through a biennial budget process. Small agencies are currently required to produce an annual budget request, submit it to DFA and LFC, attend up to three legislative hearings and one executive meeting on the request, reply to questions about the request from DFA and LFC analysts, and submit annual operating budgets to DFA to implement the adopted budget. Additionally, DFA and LFC staff review the annual requests in detail, prepare and edit text and budget recommendations, and prepare and edit appropriation amounts for the General Appropriation Act. Many smaller agencies have budgets that do not change substantially from year to year or for which changes could be handled more efficiently through supplemental budget requests midway in a biennium.

A biennial budget process should not result in inflexible budgets for small agencies. In the middle of a biennium, agencies could still receive appropriations for across-the-board pay increases or for other across-the-board increases provided in the General Appropriation Act, as well as submit requests for supplemental appropriations if contingencies arise that were not anticipated when the biennial budget was prepared.

There are several potential advantages of biennial budgeting:

1. The Legislature and executive could devote more time to consideration of major policy issues confronting the state by reducing time devoted to preparing budgets and holding hearings on small agency annual budgets.
2. Reduction of time devoted to budget preparation could free up resources for oversight of all agencies by the LFC and DFA.
3. Biennial budgeting could reduce government spending by reducing the need to process volumes of paper for annual budget requests and the need for overtime, per diem, supplies and other costs related to annual budget preparation.
4. Biennial budgeting could increase predictability for state agencies by providing long-term commitments to programs and policies.

RLD notes that it has over 40 boards and commissions regulating a large number of licensees, and those entities are funded solely through license fee revenues. Changes in numbers of licensees and other factors can impact revenues from year to year, and RLD sometimes uses fund balance when fee revenue is expected to decline. RLD suggests an annual working group to include RLD, DFA, and LFC staff to discuss revenue analysis to ensure accurate biennial budgeting.

RLD also notes that certain programs within the agency receive interagency transfers from state agencies not included in the biennial budget pilot program. For example, the Construction Industries Division (CID) receives revenue from the Public School Facilities Authority (PSFA) in the form of an annual interagency transfer. To ensure adequate funding exists for two years

within CID, two fiscal years of revenue transfer from the PSFA fund to the RLD should be earmarked. Likewise, the Substitute Care Advisory Council is administratively attached to RLD and receives an interagency transfer from the Children Youth and Family Department (CYFD). Two years of revenue transfer from CYFD to RLD would need to be earmarked.

DFA notes that the state is currently in the process of implementing a new budget system, which is expected to be in use for the FY23 request cycle. The new system – like the current system – is designed around annual budgeting, and DFA notes that a biennial budget process could introduce change requirements to the new system during implementation, complicate agency training, and introduce risk factors into successful completion of a large and complex budget system implementation.

DFA also indicates that because the state’s accounting system is based on annual budgeting, shifting to biennial budgeting could require restructuring of current processes. In addition, all agencies are required to conduct annual financial audits. Agencies participating in the biennial budgeting pilot would revert money on a biannual basis, could complicate the annual audit process for these agencies.

PERFORMANCE IMPLICATIONS

The bill does not specify whether agencies participating in the biennial budgeting pilot project would submit performance measures annually or biannually. If biannually, less frequent reporting of performance measures could hinder evaluation of agency performance.

OTHER SUBSTANTIVE ISSUES

According to a National Conference of State Legislatures (NCSL) brief, the number of states enacting biennial budgets has shrunk over the past 70 years, as legislatures began to meet annually, state budgets grew larger and more complicated, and state revenues became more volatile due to greater reliance on sales and personal income taxes. Some states, such as Arizona and Kansas, use a hybrid system in which larger agencies receive annual budgets and smaller agencies receive biennial budgets. NCSL indicates that there are not clear advantages or disadvantages of biennial budgeting, but points to evidence that biennial budgeting reduces budgeting costs somewhat for executive agencies and also facilitates program review and evaluation.

Participating Agencies for Biennial Budget Pilot Project

Business Unit	Agency
11200	Legislative Finance Committee
11400	Senate Chief Clerk
11500	House Chief Clerk
11700	Legislative Education Study Committee
11900	Legislative Building Services
13100	Legislature
20800	New Mexico Compilation Commission
21000	Judicial Standards Commission
30800	State Auditor
34000	Administrative Hearings Office
34100	Department of Finance and Administration
35400	New Mexico Sentencing Commission

House Bill 165 – Page 5

35600	Governor
36000	Lieutenant Governor
36900	State Commission of Public Records
37800	Personnel Board
37900	Public Employee Labor Relations Board
39400	State Treasurer
40400	Board of Examiners for Architects
41000	Ethics Commission
41700	Border Authority
42000	Regulation and Licensing Department
44600	Medical Board
44900	Board of Nursing
46400	State Brd of Lic for Engin & Land Surveyors
46900	State Racing Commission
47900	Board of Veterinary Medicine
49100	Office of Military Base Planning and Support
52200	Youth Conservation Corps
53800	Intertribal Ceremonial Office
60300	Office of African American Affairs
60400	Comm for Deaf and Hard-of-Hearing Persons
60500	Martin Luther King, Jr. Commission
60900	Indian Affairs Department
64500	Governor's Commission on Disability
66800	Office of the Natural Resources Trustee
76000	Parole Board
76500	Juvenile Public Safety Advisory Board
94900	Education Trust Board

AN/rl