

LFC Requester:	
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AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

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(Analysis must be uploaded as a PDF)

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Date Prepared: 2/20/2025 *Check all that apply:*
Bill Number: SM8-341 Original Correction
 Amendment Substitute

Sponsor: Sen. Campos **Agency Name and Code** DFA-341
Short Title: STUDY DEFICIENCY **Number:** _____
APPROPRIATION **Person Writing** Andrew Miner
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		

(Parenthesis () indicate expenditure decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		

(Parenthesis () indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

Senate Memorial 8 (SM8), requests the state auditor to convene a work group to study financial oversight and the causes of deficiency appropriation requests. The memorial emphasizes the need for more transparent, accountable, and legally compliant fiscal management processes to address the root causes of deficiency appropriation requests. The memorial aims to implement recommendations from the state auditor's office to address these issues. Key provisions include:

- **SM8 Background:** The state auditor was asked to review state agency deficiency appropriation requests due to their increasing frequency and magnitude, which create opportunity costs for appropriated funds.
- **SM8 Findings:** A transparency report revealed that deficiency appropriation requests increased by \$137.5 million from 2014 to 2024.
 - Issues identified include over-expenditures, improper reversions, hidden deficits, and noncompliance with budget authority.
- **SM8 Recommendations:**
 - Improve transparency by requiring detailed justifications and supporting documents for deficiency requests.
 - Add more audit procedures to ensure compliance with state laws.
 - Enhance review processes to determine whether to continue funding deficiency requests and develop strategies for deficit balances.
 - Review and potentially update penalties for budget violations.
 - Consider updating the SHARE financial management system and related statutes.
- **SM8 Recommended Action:** The memorial calls for the state auditor to form a work group with representatives from various state financial oversight entities to draft legislation for the legislative finance committee's endorsement. The proposed legislation should focus on transparency, compliance, enforcement mechanisms, and centralized oversight by the Department of Finance and Administration.

FISCAL IMPLICATIONS

Overall, SM8 may create upfront costs associated with implementing the memorial's

recommendations, but the potential for improved financial management and reduced deficiency appropriation requests could lead to long-term fiscal benefits for the state.

- **Increased Administrative Costs:** Convening a workgroup and implementing additional audit procedures may require additional resources, including staff time and administrative support.
 - DFA estimates that the State Budget Division Director, State Controller, and one senior staff member from each division (SBD and FCD) would need to serve on it to represent the agency effectively.
 - If each of these staff contributed 2 hours per week for 3 months of serving on the work group, this would be 104 total staff hours. This would represent an approximate cost to DFA of \$7,000 in staff time.
- **Cost of Compliance and Enforcement:** Enhancing compliance and enforcement mechanisms could increase the costs for state agencies to adhere to new requirements and for oversight entities to monitor compliance.
- **Potential Savings:** Improved financial oversight and transparency could lead to better budget management, potentially reducing the frequency and magnitude of deficiency appropriation requests.
 - This could result in long-term savings by preventing over-expenditures and improper financial practices.
- **System Upgrades:** Updating the SHARE financial management system and reviewing related statutes may involve significant initial investment but could improve financial management efficiency and accuracy, leading to cost savings over time.

SIGNIFICANT ISSUES

- **Necessary Context:** The SM8 description of OSA’s report and findings removed the necessary context regarding deficiency appropriations and failed to mention that many of its recommendations have already been implemented. For example:
 - “[A] transparency report ... showed that state agency deficiency appropriation requests increased by one hundred thirty-seven million five hundred thousand dollars (\$137,500,000) from 2014 to 2024.”
 - This statement is not indicative of a trend but rather a year-over-year data point from two years. Between FY20 and FY25, 47 deficiency appropriation requests were submitted by state agencies for a total request of \$237 million from all funding sources.
 - However, \$143.1 million of these requests were for the singular issue of the employee health benefits fund solvency.
 - Between FY20 and FY25, only one other request from PED over \$10 million—\$60 million was made to fund potential FY20 impact aid liabilities.

- The remaining 43 requests total \$34.25 million, or an average of approximately \$800,000 per request.
 - This information provides vital context to illustrate the impact and frequency of most deficiency appropriations.
 - FY24 Deficiency Requests - DFA records do not identify \$137.5 million in deficiency requests in FY24.
 - DFA records show deficiency requests totaling \$96 million (including \$69.8 million for the health benefits fund) were submitted in FY24, with \$78.2 million being recommended for funding by the Executive.
 - It is essential not to conflate deficiency requests with supplemental appropriation requests.
 - Supplemental appropriation requests, seek appropriations for additional needs or anticipated budget shortfalls in the current fiscal year and do not result from any audit finding.
 - Deficiency requests seek appropriation for deficiencies in the previous fiscal years based on audit findings.
- **Current Process Clarification:** SM8 identifies several recommendations from the OSA that are currently incorporated into the Deficiency Request and/or budgetary process. For example:
 - OSA Recommends - “the department of finance and administration and the legislative finance committee collaborate to improve the transparency of deficiency appropriation requests during budget hearings.”
 - Deficiency requests, along with other nonrecurring appropriation requests, are discussed at agency budget hearings in both the House Appropriations and Finance Committee (HAFC) and Senate Finance Committee (SFC).
 - OSA Recommends - “if deficiency appropriation requests are funded, a more formal process be used, which would include increased rigor, transparency, accountability and performance metrics related to budget and appropriation adherence;”
 - Deficiency appropriation requests are already integrated into the formal budget request process, which requires documentation and justification. Such requests can be made public and are discussed at several public hearings throughout the process.
 - OSA Recommends - “if state agencies fail to submit the required information for review of deficiency requests, the legislature consider withholding funding for those requests.”

- This is already standard practice for SBD and LFC in developing their budget recommendations. It is unclear what more SBD and/or LFC could do in this area.
- OSA Recommends - “the department of finance and administration and state agencies prepare for the possibility that deficiency appropriation requests will not be granted by the legislature and develop strategies to address deficit balances when requests are not granted;”
 - It is unclear what strategies could be used to address deficiencies if the legislature did not fund them. Audit findings remain on agencies’ books year after year and affect the state’s financial ratings, borrowing capacity, and borrowing costs.
 - It is crucial to note that even if agencies can remedy deficiencies using their already appropriated funds rather than the new general fund appropriations, they still need appropriation authority from the legislature to address deficiencies.
- OSA Recommends - “the legislature's and the department of finance and administration's review of whether additional measures are needed to enforce budgetary discipline, given the fact that current law only considers penalties for violations such as the failure to close the year with a positive fund balance;”
 - Agencies are already prohibited from exceeding their budgets, which are appropriated by the legislature, established in SHARE, and adjusted through legally authorized budget adjustment requests (BARs).
 - Standard accounting practices necessitate that agencies frequently hold temporary negative cash balances due to budgeted but receivable revenue, such as when awaiting legally obligated federal funding reimbursements.
 - While updates to Chapter 6, Article 10 may be necessary, the discussion should include a path for agencies to recover deficiencies from the legislature prior to changing penalties in the statute.
- OSA Recommends - “legislation proposed by the work group should be developed with consideration of the proposed reforms recommended by the state auditor and focus on increased transparency in budget hearings, the implementation of stronger compliance and enforcement mechanisms and inclusion of a more centralized department of finance and administration oversight function”
 - It is unclear what is meant by “inclusions of a more centralized department of finance and administration oversight function.” Oversight of the state budget falls under the responsibility of the State Budget Division and Financial Control Division.
 - These two divisions work together closely on matters of joint budget oversight; however, they have clearly defined separate statutory duties, distinct functions, and professional expertise. It is unclear how the state

would benefit from centralizing these functions further.

- OSA Recommends - “the department of finance and administration and the legislative finance committee require state agencies to provide more written details and supporting documents for deficiency appropriation requests in their annual budget submissions”
 - All agencies are required to provide written justification and supporting documents for deficiency requests, and in 2024, the State Budget Division’s budget guidelines stressed the increased importance of including financial statements and audit findings in such requests as justification for their need.
- SHARE System Clarification: SM8, Subsection D (3) requires consideration of whether the state should replace the SHARE ERP system.
 - DFA has already performed this process via a statewide committee in 2024. The committee determined SHARE did not need to be replaced. A copy of that report can be found on the DFA website.

PERFORMANCE IMPLICATIONS

N/A.

ADMINISTRATIVE IMPLICATIONS

Overall, SM8 will lead to increased administrative responsibilities for various state entities to improve financial oversight, transparency, and compliance with budgetary controls. The administrative implications of SM8 include:

- **Formation of a Work Group:** The state auditor will need to convene a workgroup, including representatives from the Legislative Finance Committee, the Department of Finance and Administration, the Office of the State Treasurer, and other executive branch members. This will require coordination and allocation of time and resources from these entities.
- **Enhanced Audit Procedures:** The office of the state auditor may need to implement additional audit procedures and require more comprehensive internal reviews. This will increase the workload for the auditor's office and potentially for the agencies being audited.
- **Legislative Drafting and Review:** The work group will draft legislation based on the state auditor's recommendations. This involves significant administrative effort in researching, drafting, and reviewing proposed legislative changes.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

N/A.

TECHNICAL ISSUES

- **Separating Supplemental and Deficiency Requests:** Due to the large volume of non-recurring appropriation requests submitted in recent years, it may be advisable for HAFC and SFC to hold separate hearings on supplemental and deficiency appropriation requests.

OTHER SUBSTANTIVE ISSUES

N/A.

ALTERNATIVES

N/A.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

N/A.

AMENDMENTS

N/A.