F I S C A L   I M P A C T   R E P O R T

SPONSOR Smith **DATE TYPED** 1/28/05 **HB**

SHORT TITLE Biennial State Budgets **SB** 211

ANALYST Hadwiger

APPROPRIATION
(in $000s)

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
	None				

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates HB 404.

SOURCES OF INFORMATION
LFC Files
"Annual and Biennial Budgeting: The Experience of State Governments" (NCSL, October 2004)

Responses Received From
Department of Finance and Administration (DFA)
Department of Transportation (DOT)
Administrative Office of the District Attorneys (AODA)

SUMMARY

Synopsis of Bill

Senate Bill 211 amends existing budget statutes to establish a biennial budget process for the State of New Mexico beginning on July 1, 2007. The biennial budget would be approved, implemented and modified according to the schedule below:

ODD-NUMBERED YEARS	***BUDGET ACTIVITY***
By January 10	Governor submits biennial budget request to legislature.
January-March	Legislature adopts biennial budget
By May 1	Each agency submits operating budget to the Department of Finance and Administration (DFA) to implement the approved budget for the ensuing two years.
By June 15	DFA sends supplemental budget forms to be submitted by state agencies that plan to request a deficiency or supplemental appropriation.
June 30	Close of biennium; unexpended general fund appropriations revert to the general fund.
By September 1	Agencies submit requests for supplemental and deficiency appropriations.
EVEN-NUMBERED YEARS	
By January 5	Governor submits supplemental and deficiency budget to legislature.
By June 15	DFA sends biennial budget request forms to agencies
By September 1	Agencies submit performance-based biennial budget requests to DFA and the LFC

Significant Issues

Proponents indicate that biennial budgeting would improve the New Mexico budget process by reducing time devoted to crunching the numbers for annual budgets and increasing the time available for consideration for policy and performance aspects of budgets and for agency oversight by the legislature and Department of Finance and Administration (DFA). Biennial budgeting may also reduce government spending, by reducing the need to process volumes of paper for annual budget requests, possibly reducing the need for overtime, per diem, supplies and other costs related to annual budget preparation. Proponents of biennial budgeting also indicate that this reform will increase predictability for state agencies, providing long-term commitments to programs and policies.

According to DFA, the current annual budgeting process has been seen as time-consuming for state agencies; biennial budgeting would 'free up' time for those involved in the process to manage for outcomes because agencies would only have to build a budget every two years and supplement the appropriated budget with requests for a deficiency and/or supplemental during the interim year.

Prior to 1940, 44 states used biennial budgets. According to a study by the National Conference of State Legislatures (NCSL), the number of states with biennial budgets declined through the 1970s, primarily because legislatures shifted from biennial sessions to annual sessions and adjusted their budget cycles accordingly. In the last decade, this trend has reversed somewhat. Connecticut returned to biennial budgeting in 1991; Arizona enacted a biennial budget in 1999, now limited to smaller state agencies. In all, today 21 states adopt budgets biennially. Both President Bill Clinton and President George W. Bush recommended biennial budgeting at the federal level in their FY2001 and FY2002 budget submissions to Congress.

In *Moving New Mexico Forward: Further Along*, which was released in August 2004, Governor Bill Richardson's administration recommended adoption of a biennial budget model similar to that used in Arizona and Kansas, whereby biennial budgets would be adopted for smaller agencies and annual budgets would be prepared for large agencies. In Governor Richardson's proposal, biennial budgeting would be used for 72 agencies with budgets under $5 million.

The primary concern raised by biennial budgeting is the need to address rapid changes in agency budgets driven by changes in federal funding, state revenues, client populations, federal regulations, etc. DFA indicated concern that biennial budgeting might create difficulties in those agencies that have volatile revenue sources (i.e. Medicaid) and are driven by unforeseen circumstances (i.e. the Department of Corrections' inmate population growth). State agencies that typically have little growth from year-to-year and that have steady sources of revenue would be more apt to succeed in the biennial budgeting process due to their ability to forecast their future expenditure and FTE needs. For example, the Administrative Office of District Attorneys noted that, while a biennial budget process would reduce the work associated with preparing, submitting and justifying an annual budget request, it would also make the district attorneys less able to respond to emerging crime trends and changes in federal grant status which can have significant fiscal implications. The provision for supplemental and deficiency appropriations in the middle of the biennium would help to address this concern.

PERFORMANCE IMPLICATIONS

DFA noted that the biennial budget process would assist the smaller agencies by only requiring the time consuming budget development process on alternate years. The agency would have more time to manage, implement and measure their performance goals. The two budget agencies (State Budget Division of DFA and Legislative Finance Committee - LFC) would not need to review every state agency's budget annually, but would have to review the budget for the supplemental and deficiency requests which could be significant for some agencies. Review of all agencies would be required and assistance throughout both years, however, those agencies that maintain level operating budgets would require less time for review compared to the amount of time that the annual budget process requires now. The process would allow for more time for the management and oversight of budgets.

FISCAL IMPLICATIONS

There would be savings from reduced paperwork and staff time devoted to preparation, review, and implementation of annual budgets. To the extent that DFA and LFC staff devote greater time to performance and policy activities, these savings may be partially offset.

DFA commented that expenditures will decrease in budget preparation time and resources for state agencies as well as the State Budget Division, and Legislative Finance Committee every other year. Decreases may be seen in overtime, comp time, office supplies, and per diem rates in years without a budget request. However, funds could be then reallocated for training, site visits and other activities related to management and oversight.

ADMINISTRATIVE IMPLICATIONS

DFA noted that the administration of SB211 will occur at the agency level, State Budget Division and the Legislature. Currently, both the State Budget Division and the Legislative Finance Committee have responsibilities during the request, appropriation and operating aspects of the budget process. These aspects include the statutory deadlines for the budget submissions and performance measures development and release of budget recommendations, and the hearings that the Legislative Finance Committee schedules with each agency. DFA indicated that each agency involved in the budgeting process has sufficient staff and resources to carry out the legislation. The resources and staff would have to reallocate the work hours and associated costs for the tasks associated with each year of the biennial budget.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill duplicates House Bill 404.

OTHER SUBSTANTIVE ISSUES

The Department of Transportation identified several ideas which should be considered in evaluating SB211, including:

- Agencies would continue to require budget adjustment authority and may require greater flexibility to implement a biennial budget.
- The DFA and LFC may need to develop a process, in addition to supplemental and deficiency appropriations, to evaluate policy initiatives that the legislature or executive may wish to undertake in the middle of a biennium.
- The bill does not address capital outlay budgeting.

DFA noted that consideration should be given to agencies headed by elected officials to assure that newly elected officers don't take over an agency with one year left on a depleted budget.

ALTERNATIVES

DFA favored the approach included in *Moving New Mexico Forward: Further Along*. According to DFA, by implementing the process statewide, several of the larger agencies will experience difficulty with biennial budgeting due to the size and volatility of the associated revenues and expenditures.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

The state would continue to adopt annual budgets.

DH/lg