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## FISCAL IMPACT REPORT

ORIGINAL DATE 10/19/09

SPONSOR Taylor LAST UPDATED 10/21/09 HB 15

SHORT TITLE Reduce Certain Executive Agency Budgets SB \_\_\_\_\_

ANALYST Chabot

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY09	FY10		
	(\$433,000.0)	Recurring	Not specified
	(\$217,000.0)	Nonrecurring	Not specified

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB3, HB16, HB17

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
<b>Total</b>			(\$433,000.0)	(\$866,000.0)	Recurring	Not specified
			(\$217,000.0)	(\$217,000.0)	Nonrecurring	Not specified

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Department of Finance and Administration

### SUMMARY

#### Synopsis of Bill

House Bill 15 directs the governor to reduce fiscal year 2010 budgets of executive agencies by “at least” \$433 million in recurring expenditures which will also be reflected in the fiscal year 2011 executive budget recommendation. In addition, the governor shall reduce the nonrecurring expenditures by \$217 million in executive budgets under his control.

The bill contains an emergency clause.

## **FISCAL IMPLICATIONS**

If enacted the bill will require the governor to reduce executive agency appropriations by a total of \$650 million (\$433 million recurring and \$217 million nonrecurring) in fiscal year 2010. Reductions coming from recurring appropriations will be continued in the executive 2011 appropriation request.

The governor can determine the revenue sources to be reduced as long as it meets the recurring and nonrecurring revenue requirements and reductions may be taken from a combination of executive agency appropriations to reach the required reductions.

Legislative and judicial branch appropriations will not be reduced.

## **SIGNIFICANT ISSUES**

Revenue estimates indicate the FY10 expenditures from the general fund needs to be reduced by \$653 million to sustain a 6 percent reserve level. Absent legislative action, general fund balances are projected at negative \$324 million. The constitution limits borrowing to meet revenues shortages to \$200 thousand (Article 9, Section 7).

While there is not an exact definition of “budgets of executive agencies under his control,” this analysis excludes budgets for the legislature, judiciary, elective officials, boards and commissions, public school support and higher education institutions. It includes all other executive agencies including the Public Education and Higher Education Departments. Using this definition, the governor has control of \$2.045 billion. A reduction of \$433 million in recurring expenditures would require an overall reduction of 21.2 percent from those agencies. The nonrecurring cuts are more difficult to assess because it would include Section 4 appropriation some of which are nonrecurring and some of Sections 5, 6 and 7. However, since most of the appropriations are in Section 4, the nonrecurring cut would be an additional 10.6 percent

DFA is states “It appears...passage of HB 15 would result in a limited number of Executive agencies producing the General Fund savings required to cover the projected FY10 budget shortfall.” It is also unclear whether budgets of boards and commission would be under the control of the Governor. If reductions are extended to other elected officials, the Legislature, judiciary and boards and commissions, the budget reduction amounts required by the Executive branch would be lower.

## **PERFORMANCE IMPLICATIONS**

Reductions in appropriation may reduce executive agency’s ability to meet performance targets related to performance measures in the 2009 General Appropriation Act (Laws 2009, Chapter 124). Impact will have to be assessed as specific agency reductions are made by the governor.

## **ADMINISTRATIVE IMPLICATIONS**

The governor through the Department of Finance and Administration will need to direct agencies of specific reductions in expenditures required by this bill. According to DFA, this could place some additional administrative burden on the agency.

**TECHNICAL ISSUES**

The bill should be amended to specify what funds are to be reduced.

The bill specifies the governor shall reduce budgets by “at least” \$433 million. An upper limit should be specified or instructions for determining an upper limit should be included in the bill.

Section 6-3-21 NMSA requires the governor to submit to the Legislature Finance Committee and the members of the Legislature the proposed budget for the next fiscal year and may “change the tentative budget by adding new items, increasing or decreasing or eliminating items;” this may conflict with the requirement to continue reductions for fiscal year 2010 into the fiscal year 2011 executive budget recommendations.

DFA states the term “under his control” is unclear.

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

If this bill or similar legislation is not passed, appropriated expenditures for FY2010 will exceed revenues.

**POSSIBLE QUESTIONS**

1. What funds are anticipated to be reduced?
2. Are there any programs that should not be reduced? Should these be specified?

GAC/svb