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FISCAL IMPACT REPORT

ORIGINAL DATE 09/22/11

SPONSOR Kintigh LAST UPDATED HB 30

SHORT TITLE Merge Homeland Security Dept. & DPS SB

ANALYST Haug/Sanchez

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		(\$146.0)	(\$292.1)	(\$438.1)	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

- Department of Information Technology (DoIT)
- Energy, Minerals and Natural Resources Department (EMNRD)
- Department of Military Affairs (DMA)
- Department of Finance and Administration (DFA) – including responses from:
 - Department of Public Safety (DPS)
 - Department of Homeland Security and Emergency Management (DHSEM)

SUMMARY

Synopsis of Bill

House Bill 30 merges the DHSEM with DPS, adding the Homeland Security and Emergency Management Division in the Department. No other organizational entity within state government is affected by this proposed merger.

FISCAL IMPLICATIONS

Mergers of departments are frequently justified by the logic of synergies created in the operations of the consolidated department. Additionally, cost savings resulting from combining the overhead operations of two related agencies are usually projected. Synergistic effects may turn out to be very real and may have substantively improve the effectiveness of the new department. While such synergistic effects may be anticipated and may yield highly desirable results, determining a financial impact in advance is largely speculative, and seldom result in lower operating costs. Hence, they are not considered in this fiscal impact analysis.

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Combining overhead operations can lead to real reductions in operating costs. These cost savings typically result from:

- 1) elimination of top management positions duplicated in the merged agencies.
- 2) consolidation of Administrative Services Divisions (ASD).

This analysis attempts to standardize a method for evaluating the potential reduction in costs resulting from the elimination of duplicate top management positions in the merged agencies. Cost savings produced by the consolidation of ASD are more problematic to estimate, particularly in the cost estimation time lines for operating budget impacts in the table above. Experience from previous agency mergers would not necessarily provide a great deal of reassurance as to the speed or inevitability of significant cost savings from this aspect of a merger. Nevertheless, this analysis attempts to provide a means of at least estimating the longer term possible cost effects of combining ASDs.

Details of the method used to arrive at a potential cost savings from elimination of duplicated top management positions and consolidation of ASDs are contained in the attachment to this FIR. In brief, the method for top management positions uses the midpoint salaries of exempt positions plus assumed benefits at 35 percent, and an assumption of five exempt staff remaining after the merger to estimate the potential impact. This method overestimates the potential savings at present since all current exempt positions are either vacant or paid at lower than midpoint salaries. In addition, the estimate does not reflect the possibility that some positions presently categorized as exempt will be reclassified to meet level management requirements. As a result, the potential cost savings from this element is estimated generously.

A complete consolidation of ASDs is not included in the table estimates. See the attachment for estimates of longer term potential savings from this aspect of consolidation. Any exempt positions in an ASD are considered in the top management analysis.

The net potential cost saving reflected in the table above is:

Reductions in top management position: (\$292.1)

For FY12 this estimated impact is reduced by 50 percent to \$146.0 since FY12 is nearly one third over and it would be unlikely that major organizational changes would occur before the beginning of 2012.

This analysis relies on the September 1, 2011 Organizational Listing Report for numbers of positions. It does not consider any reductions in staff or internal reorganization efforts conducted prior to the date of the report. Further, the use of midpoint salaries for assessing potential savings is independent of current incumbents who may be paid more or less than previous or future occupants of the positions.

The DFA in a consolidated response with DPS and GSD asserts:

The merger of these two agencies would generate some cost savings but just as important would generate greater efficiencies and effectiveness of operations.

Based upon a review of the general fund positions, some redundancies in administrative positions can be eliminated and could result in a general fund savings of \$450.0. Earlier estimates of higher savings in personnel services costs via the elimination of 12 general fund positions cannot be supported as this would eliminate operational, not administrative, positions that are unique and required for current homeland security functions. It should be noted that under the current administration's mandates to delete vacant exempt positions at lower salaries, the current operating budget for these two agencies reflect \$417.5 in savings.

The grants management function of DHSEM is very large and complex. The DPS ASD Grants Management Bureau is 100 percent dedicated to specific grants already managed by the Department (Byrne, JAG, HIDTA, ARRA, etc.). These employees are paid for out of the grants that they are hired to manage and, therefore, cannot be utilized to manage the Homeland Security grants.

Cost savings for supplies, in-travel and other general support costs are unknown, although some cost savings relating to the reduction in FTE can be assumed.

SIGNIFICANT ISSUES

Although the legislation provides the framework for the merger of DPS and HSEMD, it cannot address whether the intangible costs involved in organizational integration would override any estimated financial or efficiency/effectiveness benefits. Previous efforts at re-organization in the state suggest the effort does not always lead to organizational or economic efficiencies.

House Bill 30 proposes a less comprehensive consolidation of public safety related entities within state government than the Government Restructuring Task Force (GRTF) proposal considered in the 2011 Regular Session. The most significant entities omitted in House Bill 30 are the State Fire Marshall and Enhanced 911 services. The reasoning for omission of these entities, as well as changes for smaller entities included in the GRTF proposal is unknown.

A brief history of the Homeland Security and Emergency Management Department includes:

The New Mexico Office of Emergency Management was first created in 1959 as the Civil Emergency Preparedness Division (CEPD) of the Office of Military Affairs. The State Civil Emergency Preparedness Act redefined the purpose and function of the Division. In 1979, the Federal Emergency Management Agency (FEMA) and CEPD were reorganized to meet the FEMA structural requirements. In 1987, the office was moved from Office of Military Affairs to DPS. In 1990, the name of the agency was changed to the Office of Emergency Management, DPS. In 2003, the governor created the Governor's Office of Homeland Security that worked in conjunction with the Office of Emergency Management. In 2007, Chapter 291 (House Bill 227) created the Homeland Security and Emergency Management Department. The law removed the Emergency Management and the Homeland Security Support Program from DPS and the Office of Homeland Security from the Governor's Office to create DHSEM.

PERFORMANCE IMPLICATIONS

The Department of Public Safety will realize performance efficiencies through the elimination of redundancies and consolidation of similar functions. DPS and DHSEM both respond to

disaster and other incidents that require both law enforcement and resource incident management response. Both DPS and DHSEM utilize the incident command structure and operate in coordination with each other during critical incidents. The sharing of essential information and resources could be better facilitated through the merger of DPS and DHSEM.

The sharing of essential information and resources could be better facilitated through this merger. This merger will allow for a coordinated effort to provide critical training to fire, EMS and law enforcement personnel throughout the State. An added benefit would be the merger and coordinated effort in the grants management area, providing necessary federal and state funding to emergency response agencies eligible for this funding.

GH:AS/svb

Attachment to HB30

Methodology for Operating Budget Impact resulting from:

Elimination of Duplicated Top Management Positions

Without reference to the current incumbent or the incumbent's salary or whether the position is filled or vacant, the Department of Public Safety positions with the midpoint salary are:

Cabinet Secretary	\$131,040
General Counsel	\$ 97,698
Division Director 2	\$ 93,059
Division Director 2	\$ 93,059
Total possible midpoint salary	<u>\$414,856</u>

The Homeland Security and Emergency Management Department has four (4) exempt positions listed on the September 1, 2011 Organizational Listing Report:

Cabinet Secretary	\$131,040
Deputy Cabinet Secretary	\$107,723
Public Information Officer II	\$ 70,678
Total possible midpoint salary	<u>\$309,441</u>

The total top management costs for the two separate agencies at mid point salaries would be \$724,297.

Top management jobs under a merged agency are assumed to be:

Cabinet Secretary	\$131,040
General Counsel	\$ 97,698
Division Director 2	\$ 93,059
Division Director 2	\$ 93,059
Division Director 2	\$ 93,059
Total possible midpoint salary	<u>\$507,915</u>

The difference (\$216,382) between the separate agencies total (\$724,297) and the assumed positions in the merged department (\$507,915) is the salary cost savings assuming midpoint salaries for all positions. Including benefits savings at 35% of salaries would yield an additional \$75,314 reduction for a total of \$292,116. Should positions be filled at lower than midpoint salaries, cost reduction will be less. Should positions be filled at higher than midpoint salaries, cost reduction will be more.

Consolidation of Administrative Services Divisions

The operating budget impacts table reflects no additional cost reduction within the fiscal year horizon in the table from the consolidation of Administrative Services Division given the need for agencies to merge these functions in some rationally workable manner over a one to two year period. Assuming Administrative Services Division duplication of effort will be handled through attrition and reassignment within the new department, one method of estimating the longer term effect of consolidating the ASD's is to use an average ASD salary, excluding any exempt positions considered in the top management consolidation. (\$61,650 for HSEMD, \$59,354 for DPS with benefits.). This average excludes DPS IT, janitorial and maintenance personnel to provide a truer comparison of like positions. Additionally, this estimate does not consider positions used for administrative purposes in operational divisions of either department.