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## FISCAL IMPACT REPORT

SPONSOR Little ORIGINAL DATE 02/12/15  
 LAST UPDATED 03/02/15 HB 227

SHORT TITLE Combine Cultural Affairs & Tourism Departments SB \_\_\_\_\_

ANALYST Cerny

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

	FY16	FY17	FY18	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		See narrative				

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with SB 450

### SOURCES OF INFORMATION

LFC Files

#### No Response Received

Cultural Affairs Department (DCA)  
 Tourism Department (TD)  
 Department of Finance and Administration (DFA)  
 Attorney General's Office (AGO)

### SUMMARY

#### Synopsis of Bill

House Bill 227 would enact the Cultural Affairs and Tourism Department Act by combining the DCA and TD and provides for the transfer of functions, money, appropriations, property, contractual obligations from TD to DCA, as well as all statutory references.

This bill merges the Department of Cultural Affairs (DCA) with the Tourism Department (TD), to become the Cultural Affairs and Tourism Department (CATD). It combines 16 divisions of the current DCA with two of the four divisions of TD (Tourism Development and New Mexico Magazine) for a total of 18 divisions in the new CATD. The bill adds seven new duties to the Secretary of CATD.

The bill also administratively attaches the New Mexico State Fair, the Intertribal Ceremonial Office, and the Racing Commission to the CATD. Currently, all three are administratively attached to the TD.

The bill repeals the Intertribal Ceremonial Act, which includes the Intertribal Ceremonial Board and the Intertribal Ceremonial Fund (Section 9-15A-1 through 9-15A-11). In Section 12, which addresses additional duties of the Secretary, “promote the intertribal Indian ceremonial” is listed in paragraph G.

The bill also repeals the Tourism Department Act (Section 9-51-A1 through 9-15A-11 NMSA 1987), which includes the Tourism Commission and Tourism Enterprise Fund, and also repeals language that created the Fort Stanton Development Commission and the Fort Stanton Development Fund. These are re-established in the new CATD in Sections 20-24 of the bill.

The bill amends all current statutes in which either DCA is mentioned or where TD is mentioned, to change the name of the department where it appears to CATD.

### **FISCAL IMPLICATIONS**

HB 227 carries no appropriation.

While not providing any dollar-value estimates, DCA in previous analysis of a similar bill states the merger of the DCA with the TD is projected to achieve savings as programming synergies and administrative efficiencies are realized, with duplicative services eliminated or streamlined.

At the very least, the top levels of the administration will be reduced to a single Cabinet Secretary and possibly a single Deputy Cabinet Secretary and ASD Director. Additional savings will be identified as operations combine and duplicative services are eliminated.

### **SIGNIFICANT ISSUES**

The legislation creates the new Cultural Affairs and Tourism Department (CATD) using the current DCA statutes as an administrative foundation. The CATD cabinet secretary retains the current powers and duties of the DCA cabinet secretary, and adds additional duties relating to the TD. The current TD statutes are mostly moved as they currently stand to the current DCA sections of the NMSA. The bill also amends all current statutes in which either DCA or TD is mentioned to change the name of the department when it appears to the CATD.

The bill repeals statutes related to the Fort Stanton Development Commission and the Fort Stanton Development Fund and the Tourism Department Act. These are all re-established in the new CATD in Sections 20-24 of the bill. The funds would be unaffected; however, it appears that the commissions may be subject to reappointment since they are new commissions. The repeal of the Intertribal Ceremonial Act brings language up to date as there is no longer an Intertribal Ceremonial Board, but a separate non-profit that oversees that event.

Although the legislation provides the framework for the merger of TD and DCA, it cannot address two critical issues: 1) whether there is a compelling and natural fit between the two organizations and; 2) whether the intangible costs involved in integration may potentially override any tangible fiscal benefits. On the first point, the defined mission of DCA is “to preserve, foster, and interpret New Mexico’s diverse cultural heritage and expression for present generations, enhancing the quality of life and economic well-being in the state.” Although it is accurate to state that the TD mission involves the marketing of the state’s cultural heritage, there is no obvious fit between the two organizations other than a potential synergy focused on

marketing the vast cultural and artistic heritage of the state. A legitimate question would be whether TD could provide its expertise in this area without a merger. On the second point, given the organizational asymmetries between the two agencies, another question would be whether the intangible costs involved in organizational integration – information technology systems, building use, etc. – would override any estimated financial benefits. Additionally, by placing tourism under the scope of cultural affairs instead of keeping it as a cabinet level agency, the result could be a decreased focus on tourism advertising and research.

According to the January 2015 LFC report to the 52<sup>nd</sup> Legislature (vol. II, p. 127), in 2013, the tourism industry experienced a second record year of visitor and spending levels... Tourists spent nearly \$6 billion in New Mexico during 2013, an increase of \$300 million or 7 percent. The LFC recommendation increases advertising funding in FY 16 by \$2 million to \$10.6 million. TD, with a budget of \$16.8 million and 68.5 FTEs, is considerably smaller than DCA, which has a budget of \$43.9 million and 507 FTEs. One question that arises is whether tourism will “get lost” in such a large agency and whether TD’s non-cultural initiatives, such as adventure tourism, will suffer.

Previous efforts at re-organization in the state suggest the effort does not always lead to organizational or economic efficiencies.

## **PERFORMANCE IMPLICATIONS**

Previous DCA analysis on a similar bill stated:

The Tourism Department and the Cultural Affairs Department will merge and combine administrative services functions to provide services more efficiently. Under the leadership of the Cabinet Secretary, the department staff will work together with their diverse constituencies to develop a new strategic plan that encompasses the goals of the newly merged department.

While potentially improving the financial performance of the resulting department, evidence has not been provided by DFA or other agencies that the merger of the agencies and commissions will either improve or degrade performance.

## **ADMINISTRATIVE IMPLICATIONS**

Combining departments, particularly departments with complicated internal organization, takes a great deal of management time and attention. There will also be some costs associated with the merger, such as signage, stationery, and relocation of offices to reflect a new internal organization. It is possible that after a transition period of unknown duration, the merger of DCA and TD could result in operational synergy and improved efficiency. That operational synergy is not however guaranteed, and has not always been successfully achieved in other departmental mergers.

## **CONFLICT**

HB 227 conflicts with SB 450 Museum and Monument Board and Director which affects many of the same statutes and does not call for a merger.

**TECHNICAL ISSUES**

Section 21 of the bill re-establishes a Tourism Commission, administratively attached to CATD, and charged with providing “advice to the department on tourism-related policy matters.” Section 20, paragraph C1 provides that the commission shall “develop and recommend policies and provide policy and program guidance for the department.” The bill does not indicate whether these policies and guidance apply only to tourism aspects of the CATD or whether the intention is to have them apply as well to the cultural affairs components of the department.

CAC/JC/bb/jc/aml