FISCAL IMPACT REPORT

SPONSOR: Vigil DATE TYPED: 03/12/03 HB 725/aHEC/aHAFC

SHORT TITLE: Create Highlands Loan Fund SB

ANALYST: Williams

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	**FY04**	**FY03**	**FY04**		
	NFI				

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to SB 655

SOURCES OF INFORMATION

LFC Files
Commission on Higher Education (CHE)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of HAFC Amendment

The House Appropriation and Finance Committee amendment removes the appropriation and makes technical corrections to the fund name.

Synopsis of HEC Amendment

The House Education Committee amendment changes the name of the fund to the New Mexico Highlands University Loan Fund.

Synopsis of Original Bill

House Bill 725 appropriates $1,600.0 from the general fund to the newly created highlands loan fund for the purpose of assisting New Mexico Highlands University (NMHU) with liquidity problems due to outstanding federal government accounts receivable. The fund would be administered by the Secretary of the Department of Finance and Administration.

NMHU is authorized to apply for a loan from the fund by identifying account receivables contributing to a liquidity problem. The loan would not bear interest and would be repaid to the fund within thirty days of payment of the account receivable.

<u>Significant Issues</u>

CHE presents a brief chronology of funding concerns facing NMHU. In June 2000, then President Rael notified the CHE of serious financial difficulties due to: 1) entering an incorrect infrastructure allotment into the financial system and 2) escalation of a deficit in the area of athletics. Subsequently, CHE conducted inter-agency oversight meetings with NMHU and placed the institution on “fiscal watch” in January 2003.

According to the LFC budget document, the CHE convened a fiscal watch task force of institutional representatives to develop a system to allow the commission to monitor the financial condition of institutions and to develop “triggers” to flag potential financial problems and place the institution on “fiscal watch.” The fiscal watch is based on two key components: 1) An examination of five financial ratio (primary reserve, return on new assets, net operating revenues, viability and debt burden) submitted by an institution to CHE annually upon completion of an independent financial audit and 2) certification by the president or chief financial officer that the governing board has been notified of the financial condition of the institution.

NMHU received disclaimed audit opinions on their 1999-2000 and 2000-2001 fiscal year audits and a qualified audit opinion on the 2001-2002 fiscal year audit.

The LFC budget recommendation reflects that the ratio analysis and associated reports should be submitted on a quarterly basis. Further, the LFC budget recommends CHE develop a meaningful performance measure to reflect that agency’s efforts to monitor financial conditions of institutions.

FISCAL IMPLICATIONS

The appropriation of $1,600.0 contained in this bill is a non-recurring expense to the General Fund. Any unexpended or unencumbered balance remaining would not revert.

This bill creates a new fund and provides for continuing appropriations. The LFC objects to including continuing appropriation language in the statutory provisions for newly created funds. Earmarking reduces the ability of the legislature to establish spending priorities.

TECHNICAL ISSUES

Both DFA and CHE note due to the Commission’s oversight responsibility, the loan request could be submitted to the Department of Finance and Administration via the CHE.

A clarification between the recurring versus non-recurring nature of the appropriation could be made by include a reference to “one time”.

OTHER SUBSTANTIVE ISSUES

CHE notes the Commission has not reviewed this proposal.

POSSIBLE QUESTIONS

1. What is the magnitude of the liquidity problem?
2. What is the amount of the federal government accounts receivable?
3. To what extent are these accounts receivable collectable and over what time frame?
4. What is the cost/benefit to the state and to the institution of a loan fund approach to address the problem?
5. What other mechanisms were considered to address this problem?

AW/prr:yr