MINUTES OF THE
NEW MEXICO STATE BOARD OF FINANCE

SPECIAL MEETING

Santa Fe, New Mexico

March 3, 2016

A Special Meeting of the New Mexico State Board of Finance was called to order on this date at 3:30 p.m. in the Governor's Cabinet Room, Fourth Floor, State Capitol Building, Santa Fe, New Mexico.

1. ROLL CALL: QUORUM PRESENT

Members Present:
Mr. Michael Brasher, Public Member, Secretary
Mr. Robert J. Aragon, Public Member
Mr. Adelmo Archuleta, Public Member [telephonically]
Mr. John Kormanik, Public Member

Members Absent:
The Hon. Susana Martinez, President
The Hon. John A. Sanchez, Lt. Governor
The Hon. Tim Eichenberg, State Treasurer

Staff Present:
Dr. Thomas E. Clifford, Secretary of Finance and Administration
Ms. Leila Burrows Kleats, Director, State Board of Finance
Mr. Jeff Primm, Deputy Director, State Board of Finance

Legal Counsel Present:
Ms. Sally Malavé, Attorney General’s Office

Others Present:
[See sign-in sheets.]

2. APPROVAL OF AGENDA

ANNOUNCEMENT: NEXT REGULAR MEETING – TUESDAY, MARCH 15, 2016

Mr. Aragon moved approval of the agenda. Mr. Kormanik seconded the motion, which passed 4-0 by voice vote.
DEPARTMENT OF FINANCE AND ADMINISTRATION

Presenter: Duffy Rodriguez, Deputy Cabinet Secretary

3. Department of Finance and Administration – Requests Approval of Reduction in Fiscal Year 2016 General Fund Operating Budget ($31,000,000)

Mr. Brasher stated for the record that Member Archuleta is participating by telephone.

Ms. Kleats introduced this item by advising the Board of its role in this process. The Board is being asked to review allotment reductions as outlined in House Bill 2 from the Laws of 2016, Chapter 11 to ensure that the calculations provided by Department of Finance and Administration are consistent with the legislative directives set out in Section 10. In exercising its approval authority, the Board of Finance must determine whether the Section 10 guidelines are being properly implemented. Under no circumstances may the Board of Finance attempt to substitute its judgment for that of the Legislature, implement additional guidelines, or create additional exceptions, other than those established by the Legislature.

Ms. Rodriguez stated that the legislature enacted the General Appropriation Act of 2016 this year, which includes a section that requires the Governor, with the approval of the Board of Finance, to reduce the operating budget and general fund allotments for various agencies and other recipients whose budgets are contained in Section 4 of the General Appropriation Act of 2015. The General Appropriation Act of 2015 sets forth the Fiscal Year 2016 operating budget for those agencies and other recipients of general fund appropriations. In addition, Section 10 of the 2016 General Appropriation Act further requires that we provide reductions to legislative agencies detailed in Laws 2015, Chapter 1 (the “feed bill”) and specifies the sections and agencies whose budgets need to be reduced as well. Excluded are the Medicaid Program and Medicaid Behavioral Health Program of the Human Services Department and the Developmental Disabilities Support Program of the Department of Health. The Department of Finance and Administration, excluding the three programs which are over a billion in total dollars, proportionately reduced agencies and other recipients budgets in accordance with their proportional share of the total general fund appropriated in Section 4 and worked through the calculations based on the provisions of Section 10.

Mr. Kormanik stated that there were exceptions made for the feed bill. There was not an across-the-board reduction there. Which were the exceptions?

Ms. Rodriguez, in response to Mr. Kormanik, said the exceptions were interim expenses of the legislature and information technology program.

Mr. Kormanik asked if this meant agencies received the reduction, but legislative per diem did not.

Ms. Rodriguez stated that is correct.

Ms. Rodriguez described the spreadsheet as follows: Column A – General fund Fiscal Year 2016 Operating Budget; Column B – Programs Excluded from Reduction; Column C – Less Exclusions (subject to reduction); Column D - Percent of total less exclusions; Column E – Apportioned $31 million Reduction; Column F – Reduced Component; Column G – Total Revised Fiscal Year 2016 after Cut; Column H – Percent Change from initial Operations Budget.
Dr. Clifford stated that the last column is the 0.6 percent reduction previously discussed. The Department of Finance and Administration will apply this as a one-time negative adjustment, which is easier for agencies. Agencies were given program transfer authority. They have maximum flexibility to determine which of their programs the money comes out of and whether it comes out of personal services, contracts, or other. There is a great deal of flexibility built in to the budget to enable them to manage this impact in the current budget pretty well. This is not going to hit too hard. Amounts for Fiscal Year 2017 were all reduced, in some case quite significantly by several percent. Agencies will have to tighten their belt to get through Fiscal Year 2017. Dr. Clifford stated DFA believes these cuts will be manageable, especially with that extra budget flexibility that agencies have. The budget that was passed left 10 percent in the operating reserves. The 10 percent left in the reserve is to accommodate the remaining uncertainty that we have in our revenue outlook. This has led to flat spending in the budget for Fiscal Years 2016 and 2017. Ten percent reserve is on hand in the event revenues fall any further.

Ms. Rodriguez said under these urgent circumstances due to the lateness of the fiscal year, the agencies can plan their spending between now and the end of June with these reductions.

Mr. Kormanik discussed the application of the negative allotment. He stated there are a couple of ways the department could handle the reduction. One approach would be to reduce each allotment going out in the future or as DFA chose to do reduce an allotment that has already been made, which is called a negative allotment. He stated he thought it is the best and most simple approach. It notifies the agencies early on as to what they have to deal with in regard to the budget reductions.

Ms. Rodriguez said all of this will be done within the Department of Finance and Administration Budget Division’s budget reporting and preparation system and then uploaded to the SHARE system, and all of this including the negative allotment will be tracked and accounted for properly pursuant to very sound accounting principles. Step 1 is to reduce the operating budget, step 2 to record the negative allotment, and step 3 agencies will be asked to show where they are going to make the reductions.

Mr. Aragon stated that the budget projections may not be as good as we would like them to be. He asked if there is room in the reserves to cover a shortfall up to about 10 percent of the budget and whether the various agencies and departments have enough flexibility within their budgets to address budget decisions they have to make.

Dr. Clifford responding to Mr. Aragon stated, reserving does not occur at the department level. They have a budget they have to live within. Next year, being an election year there will be a 50 percent rule. They have to be careful not to overspend 50 percent of the budget in the first half of the year. The agencies have to manage within their budget. With revenue outlook itself, there is definitely a downside risk as long as oil prices and drilling activity remain this low. This amount of reserve transfer authority of about six percent should be adequate to get through Fiscal Year 2017. The condition of New Mexico finances is not nearly as bad as that of some other states. Our economic footprint is different so what we have is a flat budget. It is a compromised budget with an increase in public safety, Medicaid, corrections and public education.

Mr. Brasher said Section 10 guidelines give directors and managers latitude to allow for the reduction with the money they have to operate.
Ms. Rodriguez said they have to tighten their belts on the administrative side and not the services that directly impact the citizenry.

Mr. Kormanik asked about the process that the Department of Finance and Administration went through to bring the plan to the Board of Finance. Was an analysis performed by the Budget Division and the Secretary and then reviewed by the Board of Finance?

Dr. Clifford responding to Mr. Kormanik said, yes. The Board of Finance did an independent review of what was done by the Department of Finance and Administration.

Ms. Kleats confirmed that she did not see any errors and is confident in the calculations.

Mr. Aragon moved approval of the reductions as set forth by the Department of Finance and Administration as presented. Mr. Kormanik seconded the motion, which passed 4-0 by voice vote.

ADJOURNMENT

Its business completed, the State Board of Finance adjourned the meeting at 4:05 p.m.

Susana Martinez, President

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Date

Michael Brasher, Secretary

3/15/2016

Date