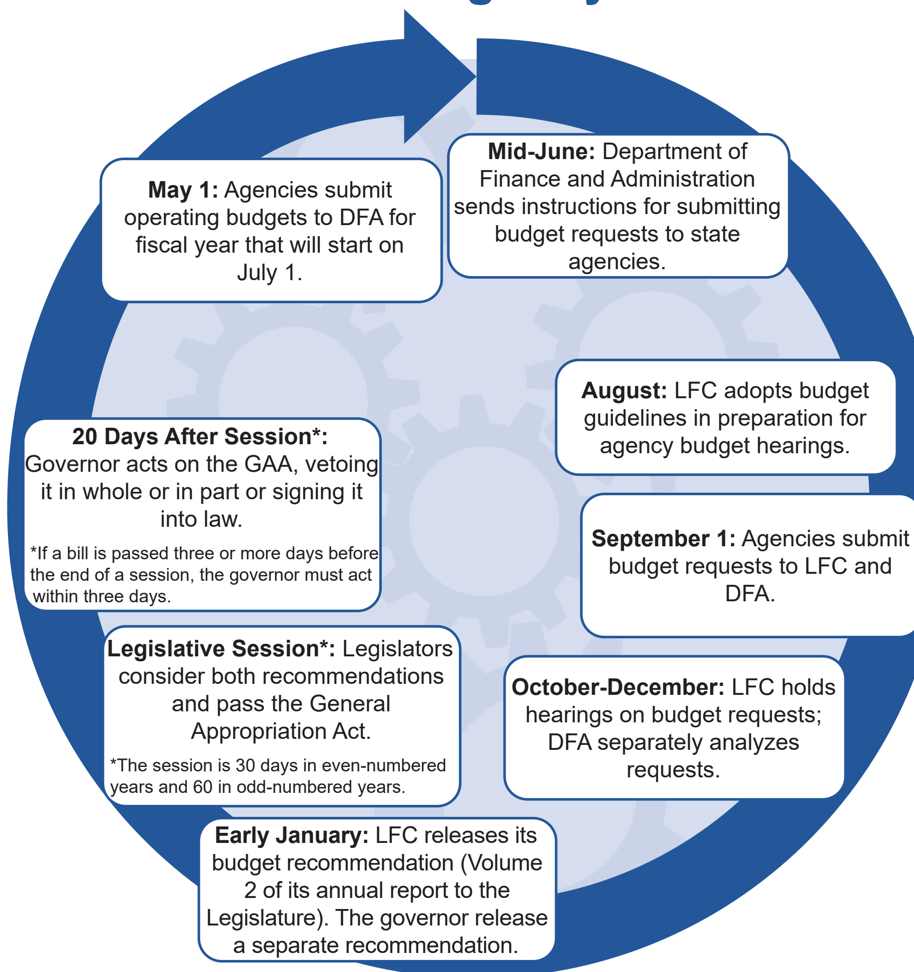
Citizens' Guide to the New Mexico State Budget

NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

Although state spending includes capital investments, special initiatives, and tax breaks, references to the "state budget" generally mean the ongoing (recurring) and one-time (nonrecurring) spending authorized in the annual General Appropriation Act, often called "House Bill 2." The Legislature is constitutionally required to produce a balanced budget for each state fiscal year, or July 1 to June 30.

The creation of the General Appropriation Act starts in mid-June, almost 13 months before the year being budgeted, with agencies developing their budget requests. The Legislative Finance Committee and the executive (the governor and the state agencies under the governor) enter "budget season" in the fall, reviewing agency requests and available revenues to develop separate budget recommendations. The Legislature considers both recommendations, builds the General Appropriation Act, and generally passes it by the end of the legislative session in mid-February or mid-March, handing it off to the governor for final action. The budget cycle ends with state agencies submitting operating budgets based on the enacted General Appropriation Act by May 1.

The Budget Cycle



Consensus Revenue Forecast

Before the Legislature or executive agencies can decide how much they can spend, they need to know how much money they have. Career economists with LFC and several state agencies work together to develop a consensus revenue forecast that provides a common starting point for the Legislature and the executive. The staff-driven, analytical process is intended to be isolated from political influence. Only staff economists of LFC and the executive departments of Finance and Administration, Taxation and Revenue, and Transportation are members of the consensus revenue estimating group; agency directors and political officials are excluded to protect the process from partisan pressure.

The consensus estimating group provides forecasts in August—in time for LFC and executive budget drafters to start work—and in December—in preparation for the legislative session. The group also provides an update midway through the legislative session and has sometimes produced additional reports during particularly volatile economic times.

The consensus estimate, which includes an assessment of the potential for a recession or other risk to the forecast, provides two pieces of information critical to the development of the next year's budget. The first is the amount of "new money" that will be available for the upcoming budget. This is the difference between the current year's recurring spending levels and the recurring revenue expected in the upcoming budget year and tells budget drafters how much recurring spending can grow or must, on rare occasions, shrink.

The second is the difference between expected revenue and actual revenue for the current budget year. When this amount is larger than expected, budget drafters can use the surplus to either beef up reserves to prepare for a downturn in revenue, spend it on one-time expenses that don't create a long-term commitment, or both. If it's lower, the difference likely can be covered by reserves. If reserves aren't enough, budgets are cut.

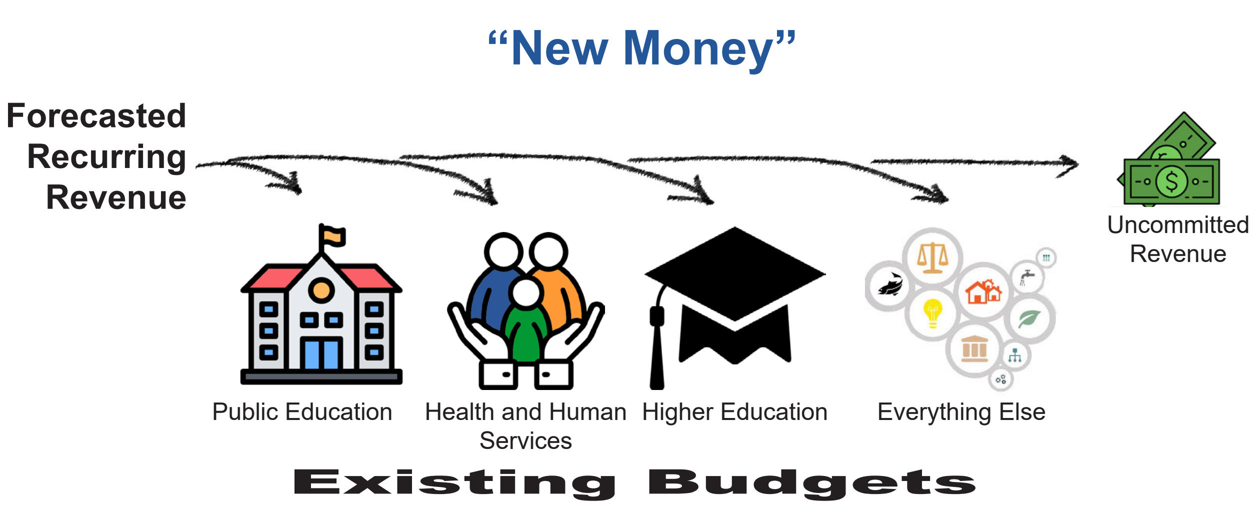
Forecast Risks

The biggest risk to the forecast is usually the oil and gas industry, an industry with an outsized impact on state revenues and New Mexico's economy. Forecasting oil prices is especially difficult because demand and supply can change with the weather, geopolitics, and other unpredictable conditions. The estimates produced by the revenue models can also be overwhelmed by sudden shifts in taxpayer behavior, significant revenue losses from the exploitation of tax loopholes, and other factors. Revenue models are also dependent on the underlying state and national economic forecasts provided by outside organizations. If the economic forecasts are wrong, the revenue forecasts are almost certain to be wrong as well.

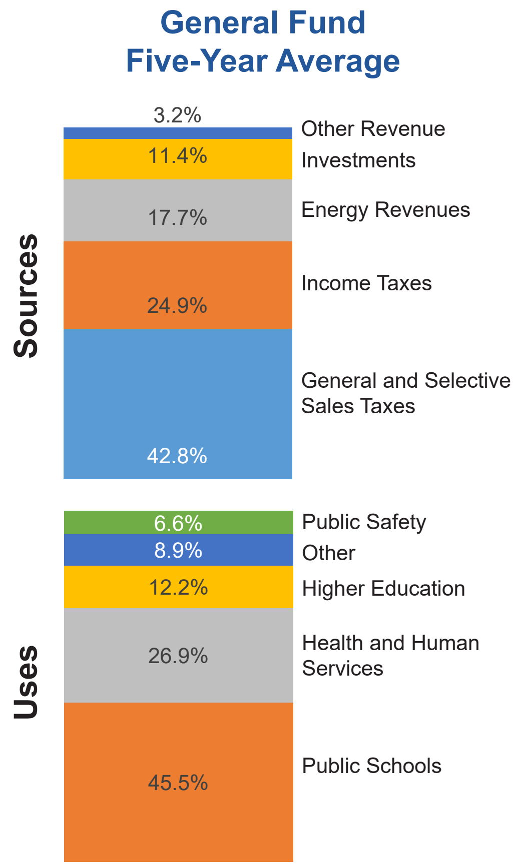
In assessing the positive and negative risks to the forecast, some economists aim for the midpoint between the most and least revenue the state could actually receive. However, the impacts of an estimate that is too high or too low are asymmetrical. While an underestimate of revenue might result in potentially unnecessary constraints on spending, an overestimate can encourage overspending and force substantial, unplanned cuts. Further, because the first opportunity to cut spending comes halfway through the fiscal year, it must be completely absorbed in the second half of the year, doubling the impact. Underestimating revenue also has consequences, however. While excess funds from stronger-than-expected revenues can be used to boost the general fund reserve and a strong reserve is considered a must for New Mexico because of its volatile revenues, state spending has a positive impact on the state's economy. The state buys goods and services from New Mexico businesses, pays employees who buy goods and services, and supports low- and middle-income New Mexicans who also spend money. Cuts in state spending not only depress economic activity but also reduce tax revenues, causing state revenues to decline further. Underestimating the state's ability to spend because of a low forecast can put money in the reserves that could be used to stimulate the economy.

The General Fund

Although the state has a wide variety of sources of revenue earmarked for specific purposes—from cosmetician licensing fees to federal grants for wildlife habitat—the consensus forecast and budget development primarily focus on the state revenue in the general fund. General fund revenue in the 2024-2025 fiscal year is projected at just over $13 billion; planned general fund spending is $10.2 billion.



Money In: About 40 percent of general fund revenue is generated through general and selective sales taxes, with the gross receipts tax on the sale of services and goods the largest contributor. Income taxes are the second-largest source of general fund revenue, historically making up about 25 percent of the total. More than 80 percent of that is personal income tax collections. Energy-related revenues, typically 17 percent of the total, are the next largest source of general fund revenue. These include severance taxes (so-called because they are a tax on resources "severed" from the ground), federal government payments to the state for certain oil and gas activity, and some of the income generated by the State Land Office. About 11 percent of general fund revenues are attributable to investment earnings. This includes substantial income from the state's land grant and severance tax permanent funds and a much smaller amount from earnings on balances held in the state treasury.



Notably, while severance taxes and other direct revenue from oil and gas activity make up 17 percent of general fund revenue, the industry also influences gross receipts and income tax collections, and up to 40 percent of all general fund revenue is related to the oil and gas industry.

Money Out: Public education typically receives the largest share of state general funding (around 45 percent) and higher education generally receives 14 percent, making education the biggest recipient of state general funds. Health and human services historically receive about 26 percent of the general fund budget, leaving 15 percent for the rest of state government. The disproportion between the biggest recipients and the rest of government means big changes in small agency budgets have little impact on the overall numbers, while even small changes to the big agencies can represent substantial amounts.

While the general fund is the primary source of state funds for ongoing operations, the General Appropriation Act also appropriates billions in federal funds and smaller amounts of other state funds for ongoing agency operations. Some state agencies are completely or almost completely funded with other state funds that do not go into the general fund. Occupational licensing boards are funded through licensing fees, and the Department of Game and Fish relies on hunting and fishing fees. The Department of Transportation, among the largest of the agencies funded outside the general fund, is supported by the state road fund and federal funds. When all revenue sources are considered, the share of the budget for education, about 60 percent of general fund spending, drops to around 25 percent, while the share for health and human services, the recipient of federal Medicaid matching dollars, increases from about 25 percent to almost 50 percent.

For the Public Schools

A larger share of state dollars is used for public education in New Mexico than in many other states but that is because of how New Mexico funds public education. While most states fund education through local property taxes, with state dollars sometimes used to subsidize property-poor areas, New Mexico uses its general fund. New Mexico's centralized process for public schools was created to equalize support no matter the economic conditions in the local school district.

The pool of money appropriated for public schools, called the state equalization guarantee, is distributed to schools through a funding formula that takes into account the cost of serving students with different needs. The formula starts with enrollment, then uses multipliers for the number of students in different grades, the number of students receiving special services or at risk of failing, the size of the district and school, and other factors. Hawaii, which has just one school district and no local school boards, is the only other state with similar centralized funding.

General Appropriation Act

Most sections within the General Appropriation Act appropriate funds for government operations, but the way the funds are used varies. Section 4 funds the ongoing operations of state agencies, public schools, and higher education institutions. This includes appropriations from the general fund, other state funds, and federal funds.

An Excerpt from Section 4

TOTAL COMMERCE AND INDUSTRY	100,601.8	211,723.7	32,173.9	[illegible]	[illegible],298.6
E. AGRICULTURE, ENERGY AND NATURAL RESOURCES					
CULTURAL AFFAIRS DEPARTMENT:					
(1) Museums and historic sites:					
The purpose of the museums and historic sites program is to develop and enhance the quality of state museums and monuments by providing the highest standards in exhibitions, performances and programs showcasing the arts, history and science of New Mexico and cultural traditions worldwide.					
Appropriations:					
(a) Personal services and employee benefits	24,417.2	2,607.7		47.5	27,072.4
(b) Contractual services	562.4	625.5			1,187.9
(c) Other	5,381.0	2,587.3			7,968.3
Performance measures:					
(a) Outcome: Number of people served through programs and services offered by museums and historic sites					1,450,000
(b) Outcome: Amount of earned revenue from admissions, rentals and other activity					$4,000,000
(2) Preservation:					

While one-time funds, such as a state revenue surplus or short-term awards from the federal government, can be used to pay for ongoing operations, this is a bad practice because, while the state service or program is expected to continue year-to-year, the money will not.

Substantive Sections of a Typical General Appropriation Act

- Section 4: Recurring appropriations and performance targets for the operation of state agencies, public schools, and higher education institutions.
- Section 5: Special nonrecurring appropriations.
- Section 6: Supplemental appropriations for the current fiscal year and for deficiencies from the previous fiscal year.
- Section 7: Appropriations for significant information systems and language extending or reauthorizing certain projects.
- Section 8: Compensation for public employees.
- Section 9: Additional budget adjustment authority for the current year.
- Section 10: Specific budget adjustment authority for the upcoming year.
- Section 11: Authority to move money from the general fund to other funds.
- Section 12: Authority for the Department of Finance and Administration to move funds from reserves in case of a shortfall
- Section 13: Severability - authority for the bill to remain in effect even if part of the bill is found invalid.

Section 4 is grouped by the type of services provided—such as "judicial" and "health, hospitals, and human services"—then further organized by agency. The funding for each agency is allocated by program in three categories: personnel, contracts, and other. Most program sections also include performance measures and targets, and some include language directing how some of the funds are to be spent. Every agency has performance measures with data on how efficiently or effectively the agency provides services, but not all performance measures are in the General Appropriation Act.

Section 5 appropriates funds for special nonrecurring appropriations, such as one-time training materials, employee recruitment bonuses, or studies. While these appropriations might include projects that could continue in subsequent years, additional appropriations are not guaranteed.

Other sections include funding for agencies that need to make up for underfunding in previous years or that expect to run short of funds for the current fiscal year. The General Appropriation Act also transfers money from one fund to another and authorizes agencies to move limited amounts of money among spending categories. The number of sections and section designations can change with changing circumstances. In 2024, for example, the bill included a section with multiyear pilot projects and other projects funded through a newly created fund.

Creating the General Appropriation Act

New Mexico is one of only five states in which both the governor and a legislative agency propose a comprehensive state budget. The Department of Finance and Administration (DFA) sends instructions for submitting operating budget requests to state agencies in mid-June and most operating budget requests are due to LFC and DFA by September 1. (The request for public school funding formula support is not due until November 30.) Agencies must include actual expenses and revenues and a performance report for the budget year that has just ended, expected revenues and recurring operating expenses for the current year, and their request for appropriations, expenses, and performance measures and targets for the upcoming fiscal year, as well as any requests for information technology funding. Requests for one-time appropriations are due to DFA and LFC in late fall. (Requests for capital outlay for one-time construction and equipment costs follows a different process.)

LFC staff analyze the requests and prepare preliminary internal recommendations for both recurring and nonrecurring appropriations in preparation for public committee hearings held monthly from September to December. The committee makes a final decision in December and releases its annual report to the Legislature with its recommendation in early January. The annual report, *Legislating for Results*, is three volumes. Volume 1 contains highlights of the appropriation recommendations, a policy discussion, and the annual performance report cards for key agencies. It also includes a spreadsheet of the committee's recommendations for nonrecurring appropriations. Volume 2 contains the specific recurring appropriation recommendation and the recommendation for performance measures and targets for each agency. Volume 3 consists of tables and charts of data supporting the recommendation.

Evens and Odds

New Mexico has a part-time Legislature that meets in session for 30 days or 60 days depending on the year, although interim committees meet throughout the time between sessions and the House Appropriations and Finance Committee starts meeting a week early before the "short" session. Until the mid-1960s, the New Mexico Legislature met only every other year and passed two-year budgets. In amending the state constitution in 1964 to provide for annual sessions, voters created the 30 day session to be held in even-numbered years and limited the matters to be considered to the budget and proposals raised by the governor.

In financially strong years, the committee generally leaves room for additional spending, which could be special requests from legislators, a tax package (which often creates indirect costs through lower tax collections or new tax breaks), or both.

The executive budget development process is internal. The State Budget Division in DFA does not hold public hearings but takes a similar approach to analyzing the requests and developing recommendations. After a DFA review, the recommendation is presented to the governor, who makes the final decisions. Depending on the governor, the recommendation can be very general, with one recommendation for a block of agencies, or very specific. Governors also differ on the level of agency involvement in the recommendation. State law provides that the governor present the executive recommendation to the Legislature by January 5 in even-numbered years, during which the legislative session is 30 days, and January 10 in odd-numbered years, when the session is 60 days.

Enacting and Implementing the Budget

Once the legislative session starts, the House Appropriations and Finance Committee (HAFC) and Senate Finance Committee (SFC) take over budget development. The proposed General Appropriation Act is introduced on the first day of the session as House Bill 2. As introduced, House Bill 2 reflects the executive recommendation; however, this version, which contains little detail, is just a placeholder.

Work on the proposal traditionally starts in HAFC, which typically holds hearings on every agency with the agency head and the analysts for both DFA and LFC. HAFC starts budget hearings a week before the session starts when the session is 30 days. The analysts present information on the differences between the two recommendations. Committee members compare the proposals and often adopt one or the other, sometimes with alterations that reflect House priorities. Complicated proposals are generally tabled for further negotiations. The committee provides time for comments from the public throughout the process.

Once the details are worked out, a substitute bill is drafted and sent to the full House for consideration. The transportation section, drafted by the House Transportation, Public Works and Capital Improvements Committee, is then rolled into a committee substitute. Other sections might also be drafted by other committees. The "feed bill," which funds the legislative session and legislative agencies, is passed separately, usually early in the session.

The Senate Finance Committee also holds budget hearings as soon as the session starts, although the committee generally only holds discussions with major agencies and the offices of elected officials, like the State Treasurer.

Generally, following passage in the House, the Senate Finance Committee amends House Bill 2 to reflect its priorities—replacing all appropriation sections of the bill rather than just the language for each change for simplicity—and submits the amended bill to the full Senate. The full House can approve or reject the amendments. If the House rejects the amendments and the Senate refuses to withdraw them, a bicameral conference committee negotiates the differences, creates a new version of the bill through amendments, and submits that version to both chambers for an up-or-down vote. This version of the bill cannot be modified through floor amendments. Once both the House and Senate have passed the same version of the bill, it goes to the governor for final action.

The governor can sign the bill into law, veto it, or veto parts of it—an action called a line-item veto. While the governor has the authority to partially veto the bill, the power is guided by various state Supreme Court decisions, which provide that the veto power is "negative"—it can only be used to negate legislative action, it cannot be used to create new law—and it cannot distort legislative intent. The governor can, however, veto legislative language that encroaches on the executive's proper management powers.

State agencies must submit their operating budget plans to DFA and LFC by May 1, the final deadline in the budget process and two months before the start of the new budget year on July 1.

Legislative Session Action on the General Appropriation Act

The General Appropriation Act is introduced in the House as House Bill 2 and referred to House Appropriations and Finance Committee.

HAFC holds hearing on all agency requests. At the end of each hearing, HAFC votes to adopt the LFC or executive recommendation or some combination of the two or sets it aside for further discussion. Complicated or conflicted recommendations are discussed by a subgroup of the committee, which resolves the differences.

HAFC drafts a rewrite of the bill and adopts the committee substitute. The bill then goes to the full House.

The House votes on the bill, possibly adopting amendments before final passage. Under joint House and Senate rules, the House must take final action on the bill no later than the 16th day of a 30-day session or the 35th day of a 60-day session.

The House fails to pass the committee substitute and the bill is dead.*

The House passes the committee substitute and sends it to the Senate for consideration.

A GAA might also be introduced in the Senate. This version of the bill generally reflects the LFC recommendation.

SFC holds hearings with key agencies.

The bill is referred to SFC, which generally amends the House committee substitute. The bill then goes to the full Senate.

The Senate votes on the bill, possibly adopting amendments before final passage. Under joint House and Senate rules, the Senate must take final action on the bill by the 21st day of a 30-day session or the 50th day of a 60-day session.

The Senate passes the bill with amendments and sends it back to the House.

The Senate passes the bill without amendments and sends it to the governor.

The Senate fails to pass the bill and the bill is dead.*

The House considers the Senate amendments.

The House concurs with the Senate amendments and sends it the governor.

The House fails to concur with the Senate amendments and asks the Senate to recede from (remove) their amendments.

The Senate says yes and the bill goes to the governor.

The Senate says no and the bill goes to a conference committee. The conference committee negotiates the differences, adopts a conference committee report, and sends it to the full House and Senate. The House and Senate can adopt or reject the conference committee report; they cannot amend it.

The House or Senate rejects the committee report and conference committee negotiations continue.

The House and Senate adopt the committee report and send the bill to the governor.

*The failure of the House or Senate to pass the bill is rare because most issues are negotiated before a vote by the full House or Senate. If the bill dies, the Legislature has several options to still pass a budget, including by working on a different bill, such as the GAA version introduced in the Senate.