



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

New Mexico's Budgeting Process

Jon Courtney, LFC Deputy Director
July 23, 2024

Overview




- What is the Legislative Finance Committee?
- What is included in the state's budget?
- What is the current state budget process and related activities?



Citizens' Guide to the New Mexico State Budget

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LFC Overview & Opportunities	Committee Members and Meetings	Annual Budget, Policy and Session Reports	Program Evaluation Unit Reports	Agency Report Cards & Accountability	Newsletter	Understanding Government Finances	Information for State Agencies
Revenue, Economic Reports & Tax Policy	Capital Outlay	Early Childhood & Education	Economic & Workforce Development	Health & Human Services	Justice & Public Safety	Natural Resources	General Government

Legislative Finance Committee



Citizens' Guide to the New Mexico State Budget

LFC Site Search

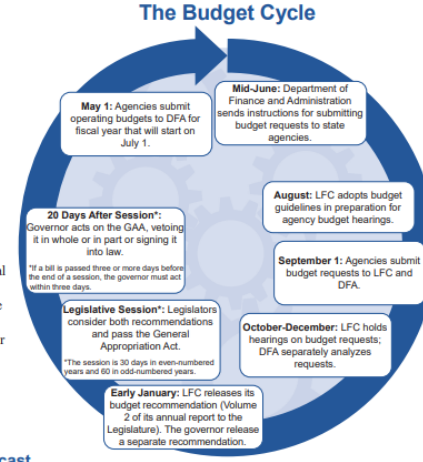
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Citizens' Guide to the New Mexico State Budget, June 2024

Although state spending includes capital investments, special initiatives, and tax breaks, references to the "state budget" generally mean the ongoing and one-time spending authorized in the annual General Appropriation Act. The creation of the budget that will be in the next act starts now.

Citizens' Guide to the New Mexico State Budget

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.

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.

About Me



Grew up in Española NM
BA from UNM (2000)
PhD from TCU (2006)



2007-2008
Research and contract
management supporting
the Air Force Research
Laboratory (contractor)



2008-2011
Research and budget
work for CYFD Protective
Services



2011-Present
Budget analysis and program
evaluation for the Legislative
Finance Committee

Legislative Finance Committee (LFC)

History and structure

- Established in 1957
- Joint Interim Budget Committee-16 members
- Holds monthly hearings, traveling around the state during the interim (*next meeting=August 20-22 in Ruidoso*)
- Non-partisan staff of 40+

Relevant LFC Authority and Duties

- Makes comprehensive budget recommendations, separate from Governor, to full legislature
- NM is 1 of 5 states where the legislature (LFC) and the executive (Department of Finance and Administration or DFA) makes separate recs
- The LFC may recommend changes to laws governing the state to improve government effectiveness and efficiency.

The Mission: LFC Mission Statement



To provide the Legislature with objective fiscal and public policy analyses, recommendations and oversight of state agencies to improve performance and ensure accountability through the effective allocation of resources for the benefit of all New Mexicans.



Legislative Finance Committee Nonpartisan Staff:

Non-Partisan, Masters/Doctoral Level Education

Economists

- Forecast revenues and economic conditions
- Perform tax policy analysis

Fiscal Analysts

- Develop the LFC budget recommendation
- Assess the fiscal impacts of legislation

Program Evaluators

- Conduct evaluations of state agencies, higher education, schools, and local governments.
- Make recommendations for improvement to the legislature and others.



State Budget

Legislature constitutionally required to produce a balanced budget for each state fiscal year (July 1-June 30).

- Also known as the General Appropriations Act (GAA) or House Bill 2 (HB2).
- Funds ongoing (recurring) and one-time (nonrecurring) spending.
- The budget appropriates state general funds along with other funding sources including federal funds.

FY25 Budget Fast Facts

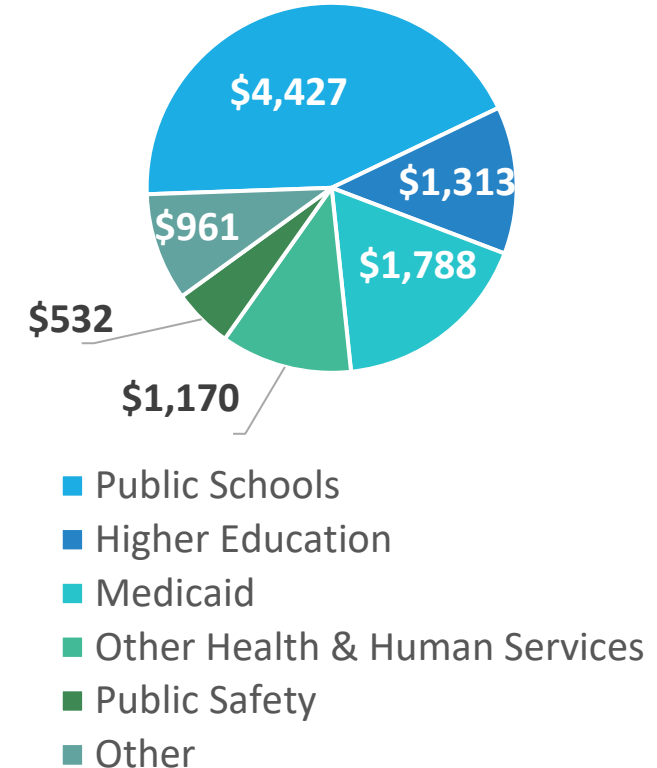
- \$29 billion in recurring spending
- Revenue sources
 - \$12.1 billion in federal funds
 - \$10.2 billion in state general fund
 - Other sources include fund balances and transfers
- Resources
 - [HB2 and fiscal impact report](#)
 - [LFC's Post-Session Review](#)

FY25 General Fund=\$10.2 billion (6.7% growth)

- Public schools and higher ed make up over half of general fund appropriations
- Medicaid and health and human services make up about a third of general fund appropriations
- When counting all funds, the Health Care Authority is the state's largest cost center (\$12 billion)
- FY25 budget includes 3% compensation increase



FY25 Recurring General Fund
Appropriations
\$10.2 (In millions)



Accountability in Government Act (AGA)

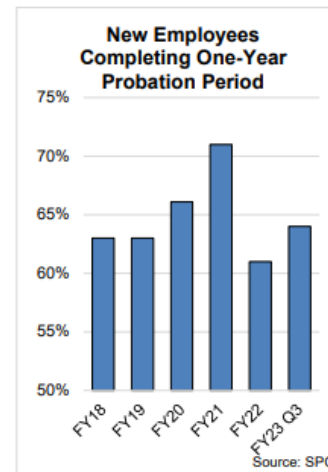
- In 1999, the state moved from budgeting on granular line items to putting more focus on performance.
- Agencies received more flexibility in how their funding is allocated in exchange for focus on performance reporting
- In 2019, the AGA was amended to provide definitions of key terms like “evidence-based” and to ask agencies to provide program inventories of services offered.
- LFC publishes quarterly report cards reflecting agency performance.



PERFORMANCE REPORT CARD State Personnel System Third Quarter, Fiscal Year 2023

ACTION PLAN

Submitted by agency?	Yes
Timeline assigned?	No
Responsibility assigned?	No



The state continues to face challenges related to employee recruitment and retention. The State Personnel Office (SPO) reports the classified service vacancy rate is 23.6 percent, up 19 percent from the rate in FY21, and fewer employees are completing their probationary period, with only 64 percent completing it in the third quarter. However, pay increases have improved the competitiveness of the state’s salary schedules, and SPO reports agencies have reduced the time it takes to fill positions by a week, from 72 days in the first quarter to 65 days in the third quarter. SPO has created a task force with agency human resources officers to reduce the time it takes to fill vacant positions.

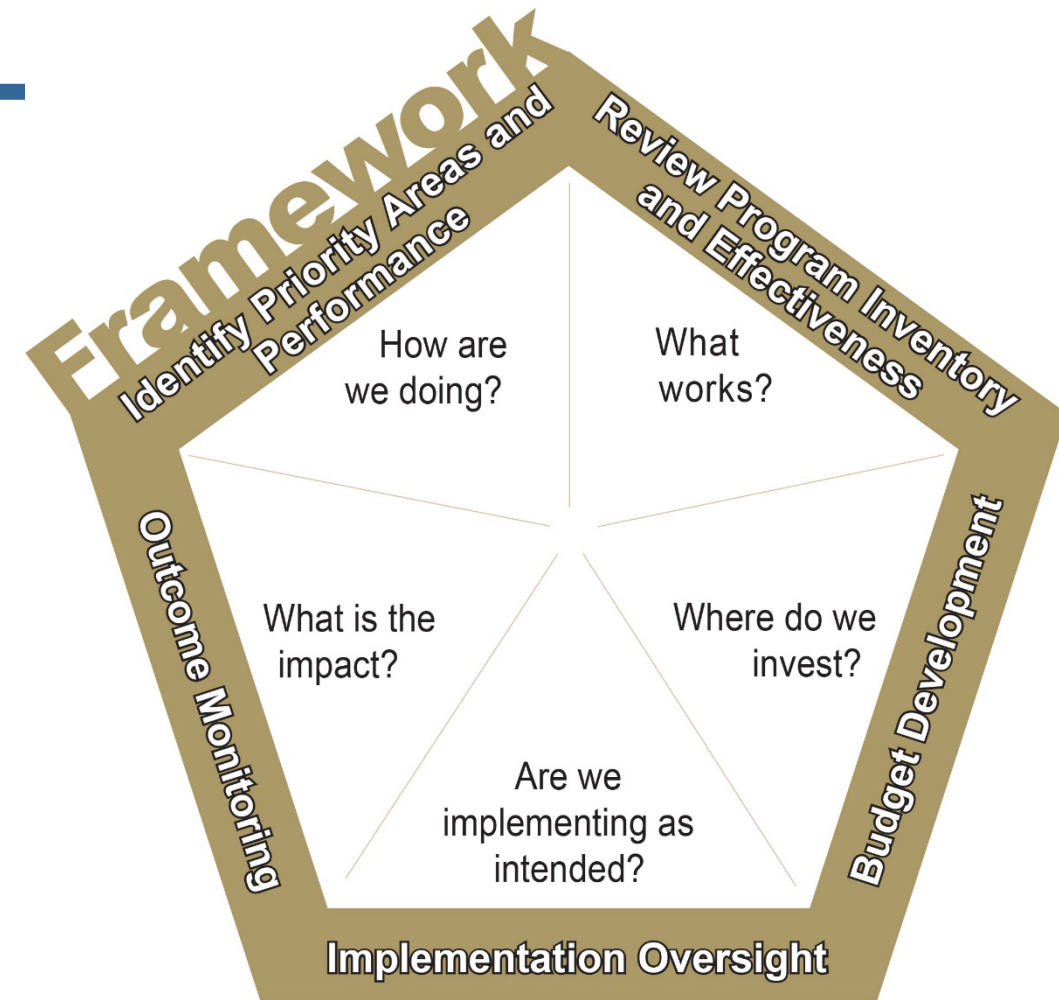
At SPO’s request, a number of measures are classified as explanatory, meaning they do not have performance targets. However, ratings were given based, in part, on prior-year performance.

	FY21 Actual	FY22 Actual	FY23 Target	FY23 Q1	FY23 Q2	FY23 Q3	Rating
Budget: \$4,117.6 FTE: 46							
Average number of days to fill a position from the date of posting*	50.5	69		72	72	65	Y
Classified service vacancy rate*	19.9%	22.8%		24.3%	23.7%	23.6%	R
Percent of classified employees who successfully complete the probationary period*	71%	61%		63%	65%	64%	R
Average classified employee compa-ratio*	103%	105%		98%	98%	98%	G
Average classified employee new hire compa-ratio*	98.6%	101.5%		96%	97%	97%	G
Number of hires external to state government*	1,996	2,969		775	810	704	G
Number of salary increases awarded*	NEW	NEW		56	95	807	
Average classified service employee total compensation, in thousands*	NEW	NEW		\$98.3	\$100	\$99.3	
Cost of overtime pay, in thousands*	NEW	NEW		\$10,656	\$8,304	\$10,048	
Program Rating	R	R		R	R		Y

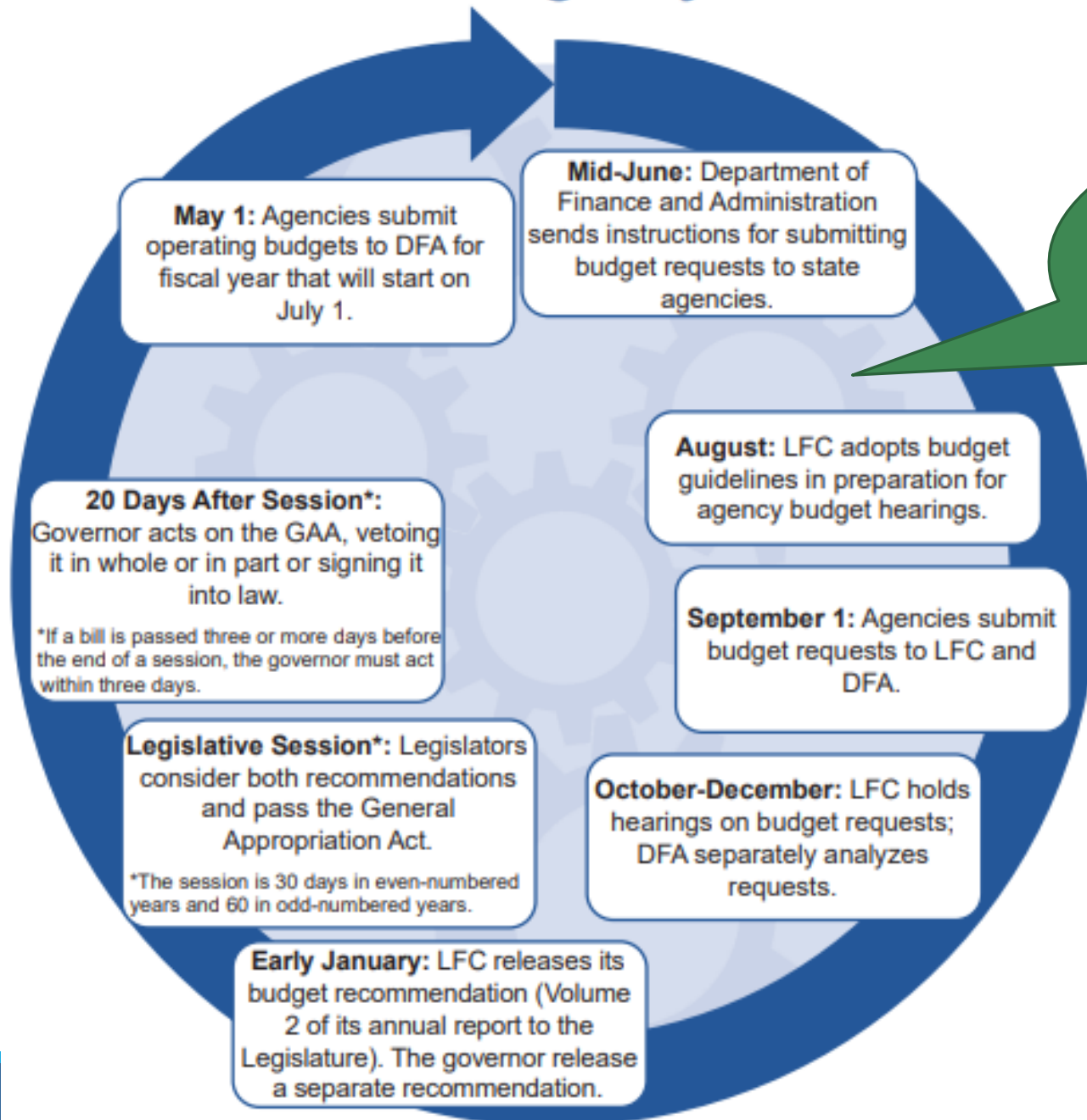
*Measure is classified as explanatory and does not have a target.

LFC's *Legislating for Results* Framework: Evidence-Based Policy and Budgeting

- LFC has been recognized as a national leader in evidence-based budgeting
- Framework provided by the Accountability in Government Act (AGA)
- The state budget process and defined outputs, outcomes and performance measures are used to evaluate performance and need



The Budget Cycle



We are here

Budget development starts a full 13 months prior to the start of the fiscal year

LFC interim work (end of session to Jan)

- At the first meeting of the interim, LFC reviews and approves staff work plans
- LFC analysts will spend the interim learning about agency needs and operations, touring agency facilities, speaking to customers, and providing quarterly updates in report cards
- LFC evaluators will spend the interim doing deep dive research projects into issues selected by LFC
- The committee will hold hearings in different areas of the state to hear from local officials and tour operations in communities, these vary by year
- LFC 2024:
 - May-Grants and Gallup
 - June-Carlsbad
 - July-Socorro
 - August-Ruidoso
 - September-Albuquerque



June 2024 LFC hearing in Carlsbad New Mexico

LFC Budget Guidelines and Revenue Estimate (August)

- LFC approves budget guidelines in the summer for use in budget development
- Goal: “To propose a balanced budget that supports essential growth in programs and services that result in better outcomes and improved quality of life for New Mexicans.”
- Budget guidelines help set priorities and guardrails
- Recent years has seen some common themes:
 - Prioritization for investments with evidence of improved outcomes and cost-effectiveness
 - Opportunities to offset general fund revenue with other state and federal funds
 - Funding to provide appropriate staffing levels
 - Healthy reserve level targets (FY24 target=30%)
- **August also marks the initial consensus revenue estimate by state economists (LFC, DFA, TRD, and DOT)**

Revenue Estimation (August and December)

Consensus revenue estimating group

- Economists from multiple agencies work together to provide a revenue forecast.

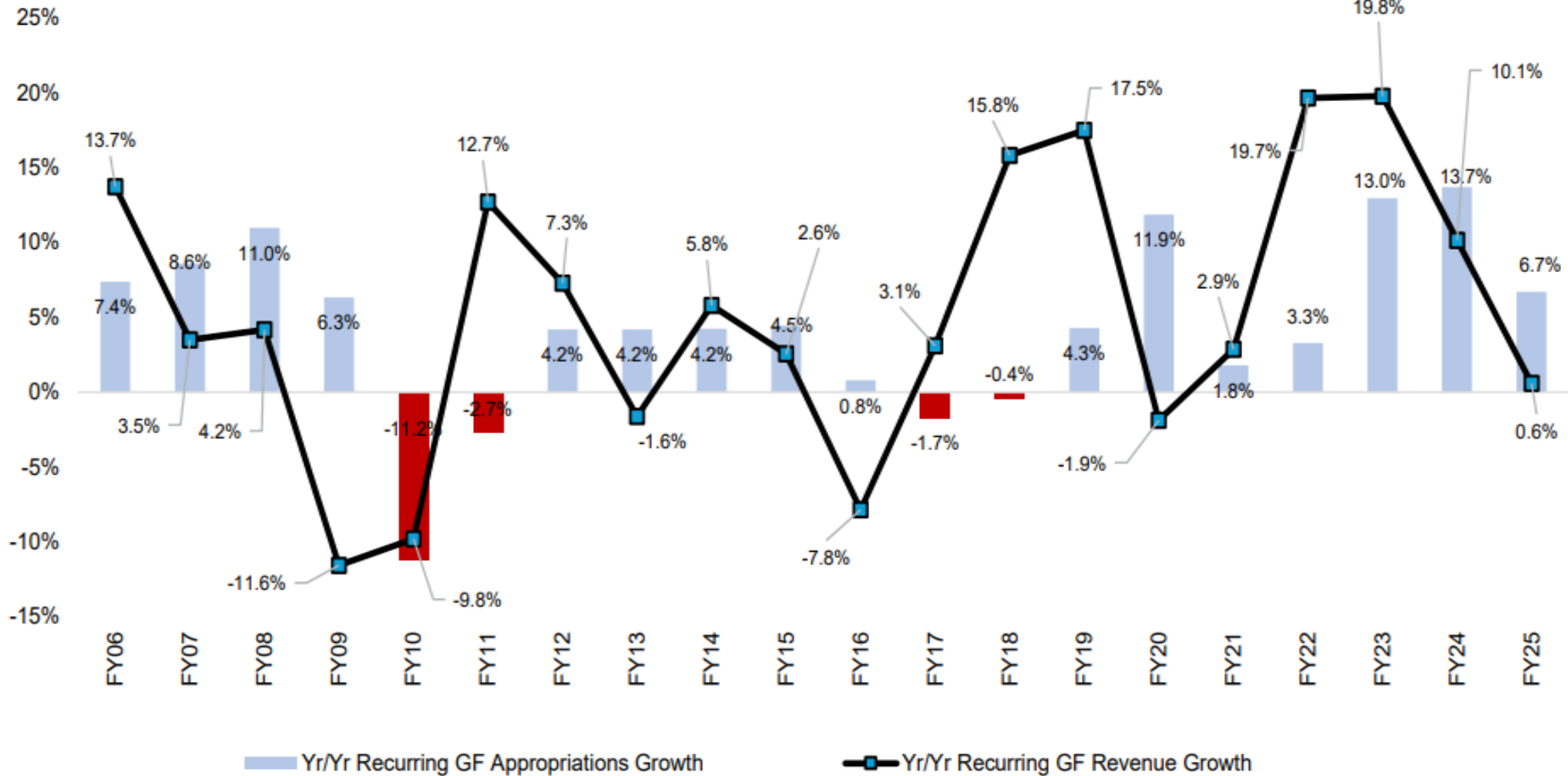


Fiscal Outlook: Roller Coasters Aren't Always Fun



Actual General Fund Roller Coaster

Recurring General Fund Revenue and Appropriation Annual Growth

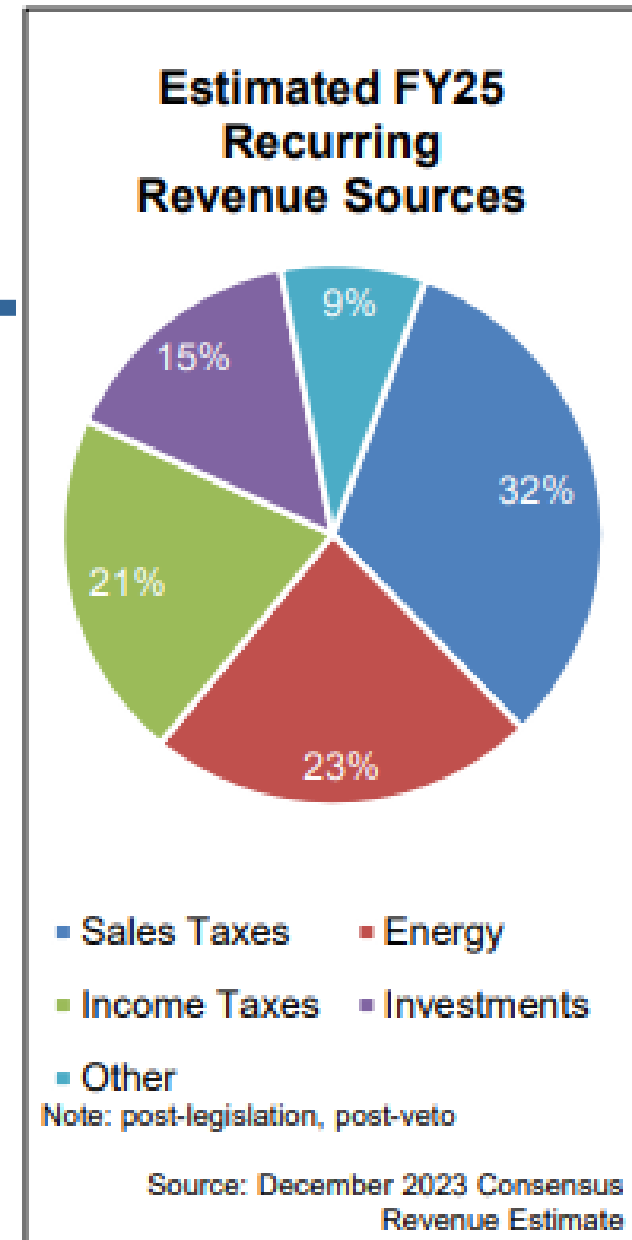


Source: LFC Files

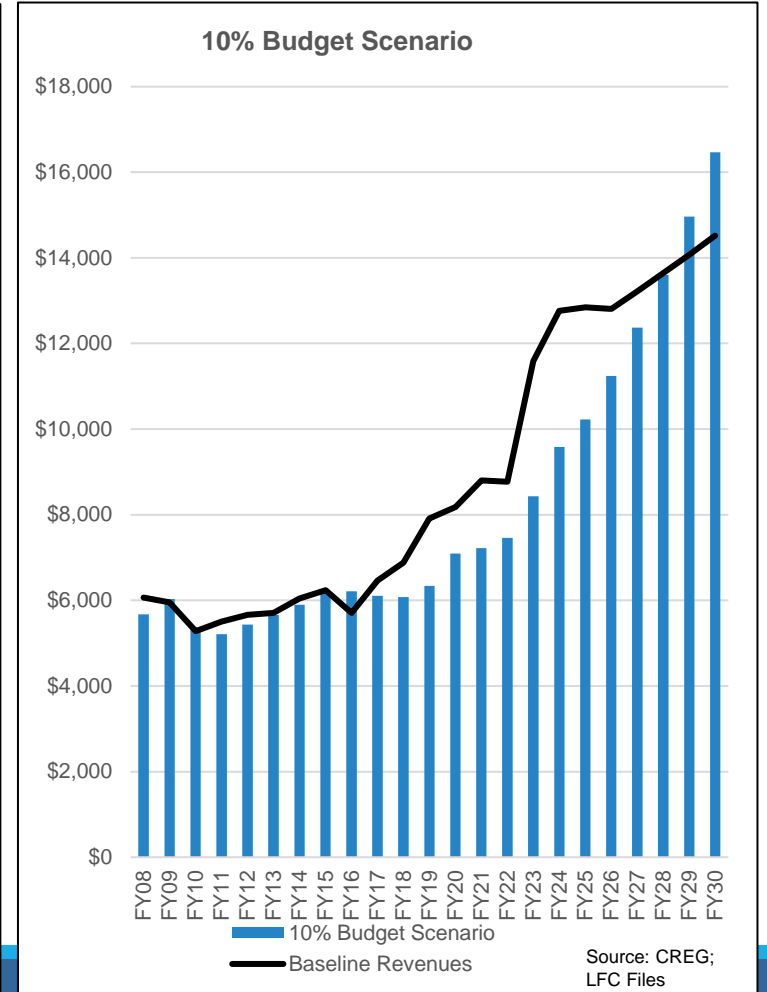
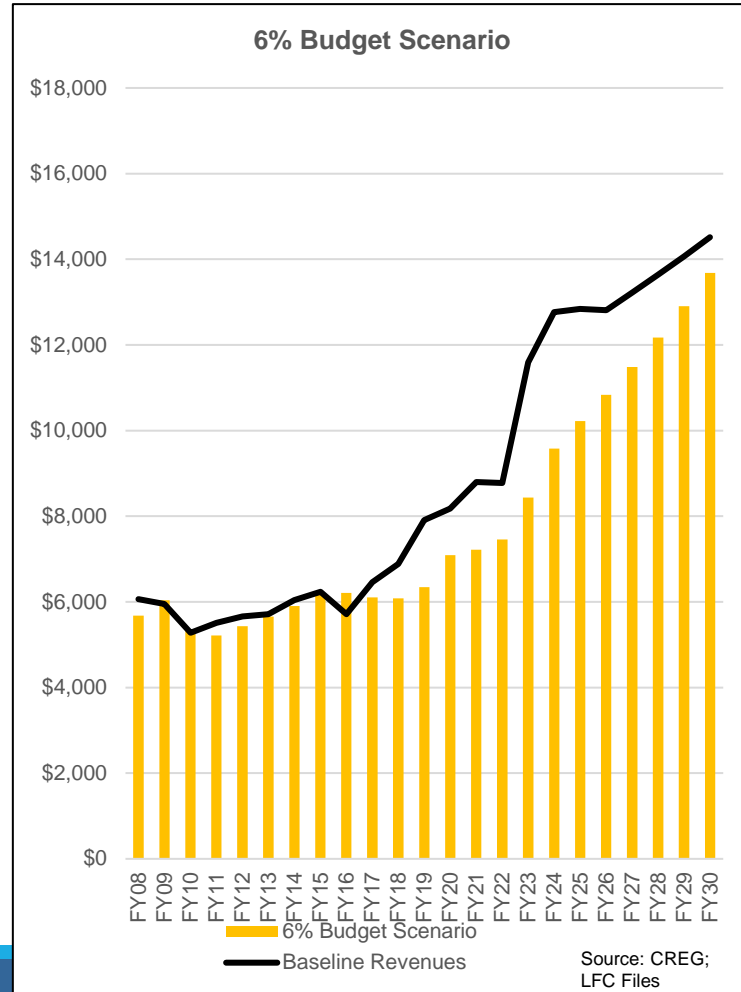
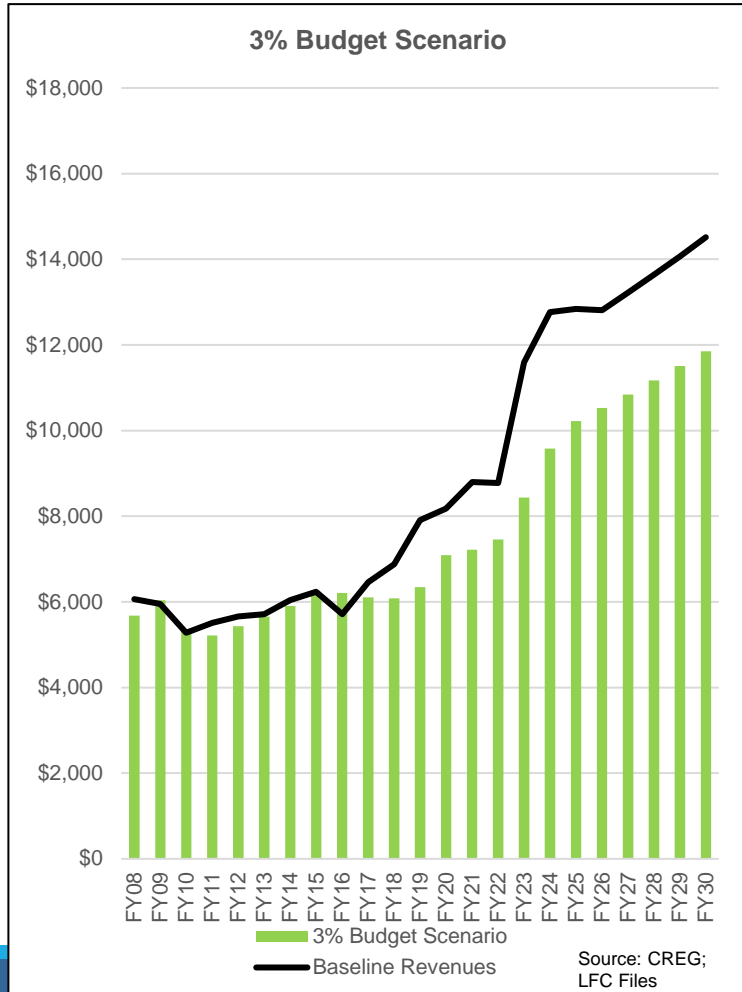


Recurring Revenue Sources (FY25 estimated \$13B)

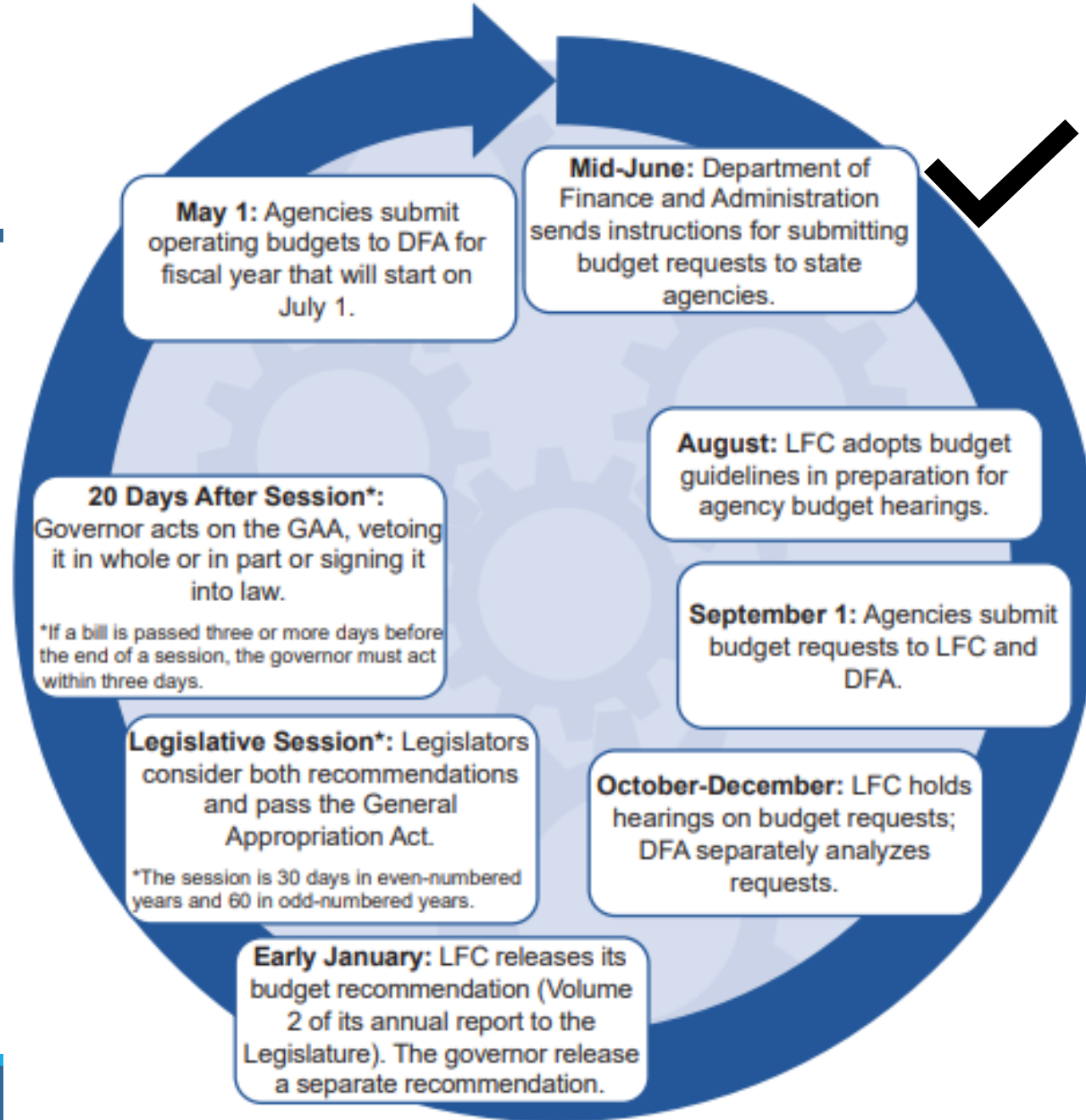
- Sales Tax: **GRT**, tobacco excise tax, liquor excise tax, insurance premium tax, motor vehicle tax, gaming excise tax
- Energy: Severance taxes, revenue payments from the federal government for leasing mineral rights, State Land Office income
- Income Taxes-More than 80% personal income tax (PIT)
- Investments-Land grant and severance tax permanent funds
- Other-Revenue sharing from tribal gaming, license fees, reversions of unspent funds from state agencies



The state's budget needs are expected to grow, so balancing near-term and long-term needs is constant.



The Budget Cycle



LFC Budget Requests & Hearings (Sep-Dec)

- Agencies will submit budget requests for FY25 on September 1st
- Requests include recurring spending, operational costs, FTE, and expansion requests.
- From October to December LFC will hold budget hearings for agencies based on their budget requests from September
- For these hearings LFC staff prepare an analysis of the budget request and agency leadership and staff can discuss needs with the committee
- This information helps form recommendations from LFC and the executive

TENTATIVE AGENDA
Legislative Finance Committee
State Capitol, Room 307 - Santa Fe, New Mexico
October 17 - 20, 2022

Monday, October 17

9:45 -- [Tour of Historical Los Alamos National Laboratory](#)

Tuesday, October 18

8:30 -- [Veterans' Services Department \(670\)](#) -- Sonya Smith, Secretary, Veterans' Services Department

9:30 -- [Tourism Department \(418\)](#) -- Jen Schroer, Secretary, Tourism Department

- LegisStat Follow-Up -- Amanda Dick-Peddie, Analyst, Legislative Finance Committee
- Budget Request
- Intertribal Ceremonial Office (538)

10:30 -- [Indian Affairs Department \(609\)](#) -- Lynn Trujillo, Secretary, Indian Affairs Department

11:15 -- [Department of Homeland Security and Emergency Management \(795\)](#) -- David Dye, Secretary Designate, Department of Homeland Security

12:00 -- [Working Lunch: Presentation from Agriculture Producers](#)

Oct 2022 LFC Agenda

Rev Forecast and Budget Recs (Dec-Jan)

- In December, economists deliver their revenue estimate for the upcoming fiscal year (FY25)
- Soon thereafter in January, LFC and Governor’s Office (DFA) release their budget recommendations
- These budget recommendations are the starting point for discussion in HAFC who will start holding their own agency budget hearings in January

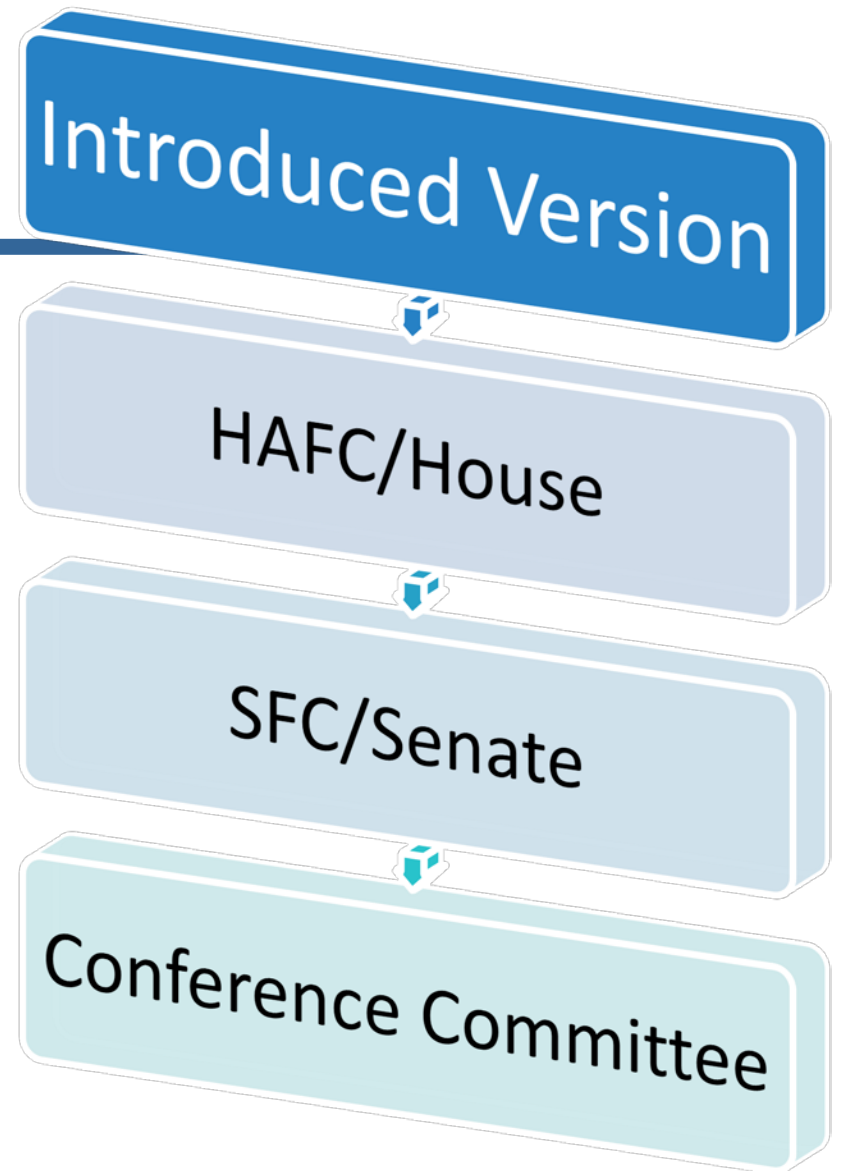
General Fund Consensus Revenue Estimate

December 2022 Consensus General Fund Recurring Revenue Estimate			
(in millions)			
	<u>FY22</u>	<u>FY23</u>	<u>FY24</u>
August 2022 Consensus	\$9,216.6	\$9,847.1	\$10,859.0
December 2022 Adjustments	\$458.7	\$928.0	\$1,135.9
December 2022 Consensus	\$9,675.3	\$10,775.1	\$11,994.9
Annual amount change	\$1,590.1	\$1,099.8	\$1,219.8
Annual percent change	19.7%	11.4%	11.3%

Note: Parentheses () denotes a negative number; General fund amounts above do not include oil and gas emergency school tax revenues in excess of the five-year average distributed to the tax stabilization reserve.

Legislative Session

- **Starting week before session:** House Appropriations and Finance (HAFC) and Senate Finance Committee (SFC) holds agency hearings
- HAFC drafts a rewrite of the bill based on decisions made in committee and votes on the state budget and sends to House for discussion and vote
- The budget then goes to SFC, which usually amends the version the House sending to the Senate floor for discussion and vote
- If the House concurs the budget is sent to the Gov.
- If the House does not concur the budget goes to a Conference Committee who negotiate the differences after which the House and Senate consider the committee report.



Governor has 20 days after the session to act.

- Can sign as is, veto in whole or veto in part (line item vetoes).
- Page 221 of FY25 Budget, funding for paid family medical leave was vetoed
- Veto message stated: “The contingency attached to this appropriation has failed.”
- After the budget is signed, agencies work on OpBuds submitted to DFA May 1.

Item	General Fund	Other State Funds	Intrnl Svc Funds/Inter-Agency Trnsf	Federal Funds	Total/Target
1 (17) OFFICE OF SUPERINTENDENT					
2 OF INSURANCE	1,500.0				1,500.0
3 For risk-focused financial analysis services.					
4 (18) OFFICE OF SUPERINTENDENT					
5 OF INSURANCE		377.6			377.6
6 For personal services and employee benefits. The other state funds appropriation is from the insurance					
7 operations fund.					
8 (19) INDIAN AFFAIRS DEPARTMENT	1,800.0				1,800.0
9 For capital outlay expenditures from fiscal year 2022.					
10 (20) AGING AND LONG-TERM					
11 SERVICES DEPARTMENT	2,000.0				2,000.0
12 To supplement personal services and employee benefits in fiscal year 2024.					
13 (21) WORKFORCE SOLUTIONS					
14 DEPARTMENT	24,000.0				24,000.0
15 To the paid family and medical leave fund to implement the Paid Family and Medical Leave Act contingent					
16 on enactment of House Bill 6 or similar legislation of the second session of the fifty-sixth legislature					
17 creating the paid family medical leave program for expenditure in fiscal year 2024 and fiscal year 2025.					
18 (22) DEVELOPMENTAL DISABILITIES					
19 COUNCIL	94.9				94.9
20 For prior-year shortfalls in the office of guardianship.					
21 (23) MINERS' HOSPITAL OF					
22 NEW MEXICO	3,500.0				3,500.0
23 For shortfalls related to hospital operations.					
24 (24) DEPARTMENT OF HEALTH	11,267.8				11,267.8
25 For shortfalls in the facilities management program in fiscal year 2024.					

Additional Resources

- [LFC's Citizens' Guide to the Budget](#)
- [LFC Budget Recommendation](#)
 - Volume 1: Policy and Performance
 - Volume 2: Budget Recommendations
 - Volume 3: Supplemental Information
 - Post Session Review
- [LFC Finance Facts](#)
- [Revenue Estimates and Tracking](#)
- [Executive Budget Recommendation](#)
- [FY25 State Budget](#)



Summary



- LFC and other state agency staff will be working on the FY26 budget for the next 13 months.
- There is a wealth of information available on state finance, budget, and process.
- LFC staff are continuously working to provide faster and better information to the public.





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For More Information

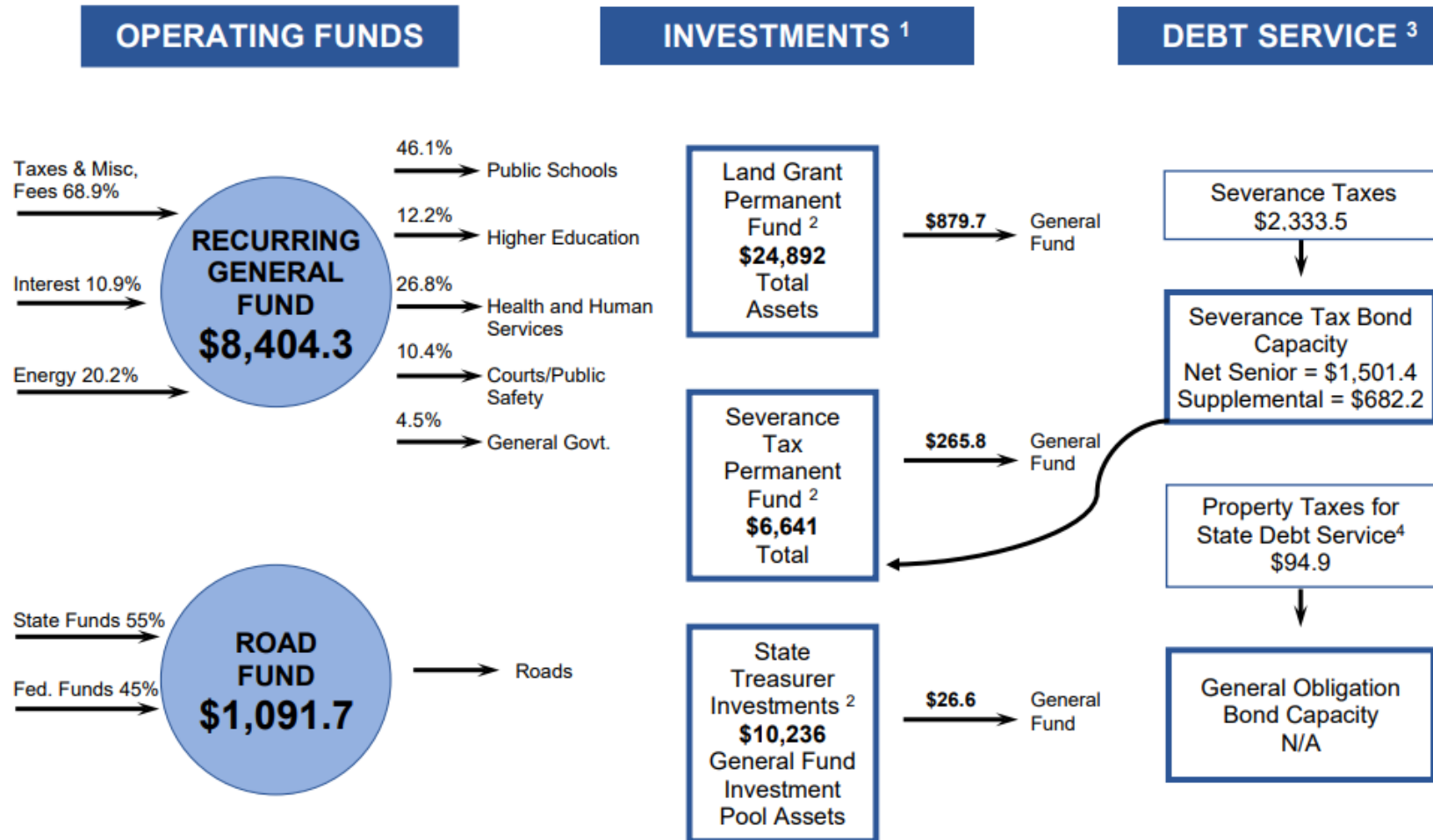
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State Government Fiscal Overview

OVERVIEW OF NEW MEXICO FINANCES: FY23 OPERATING BUDGET

(in millions of dollars)



¹Investments exclude retirement funds

²As of October 2022; excludes federal relief funds

³Includes only state debt service

⁴Tax year 2021; GO bonds are issued every other year