FY24 Appropriation Request Budget Guidelines

NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

I. PURPOSE

The Legislative Finance Committee (LFC) budget guidelines provide analysts with committee directions on performance-based budgeting, the preparation of the budget narrative, the development of FY24 recommendations on recurring appropriations, and priority capital spending and other one-time investments. The guidelines also serve to inform state agencies and the general public about new LFC priorities and approach to budget recommendations for FY24.

II. REVENUE OUTLOOK

State revenues are growing rapidly as persistent inflation, consistently strong financial markets in 2021, a tight labor market, and high consumer spending are pushing income and gross receipt tax revenues to record levels. Furthermore, the Russian invasion of Ukraine and subsequent supply disruptions have spiked energy prices and encouraged production growth in New Mexico beyond expectations, raising oil and gas related revenues to record levels. Recurring revenues for FY22 are estimated at $9.2 billion, up $1.13 billion, or 14 percent, from FY21.

Oil and gas prices are expected to remain elevated due to geopolitical turmoil in Europe and supply-side constraints outside of the Permian Basin. High prices and growing production has caused severance tax and federal royalty collections to soar. Both revenues are well above their five-year averages, resulting in large transfers to the newly created early childhood trust fund. The spike in total taxable values of New Mexico's commodities has boosted the five-year average, allowing significantly more energy-related revenues to reach the general fund than ever before.

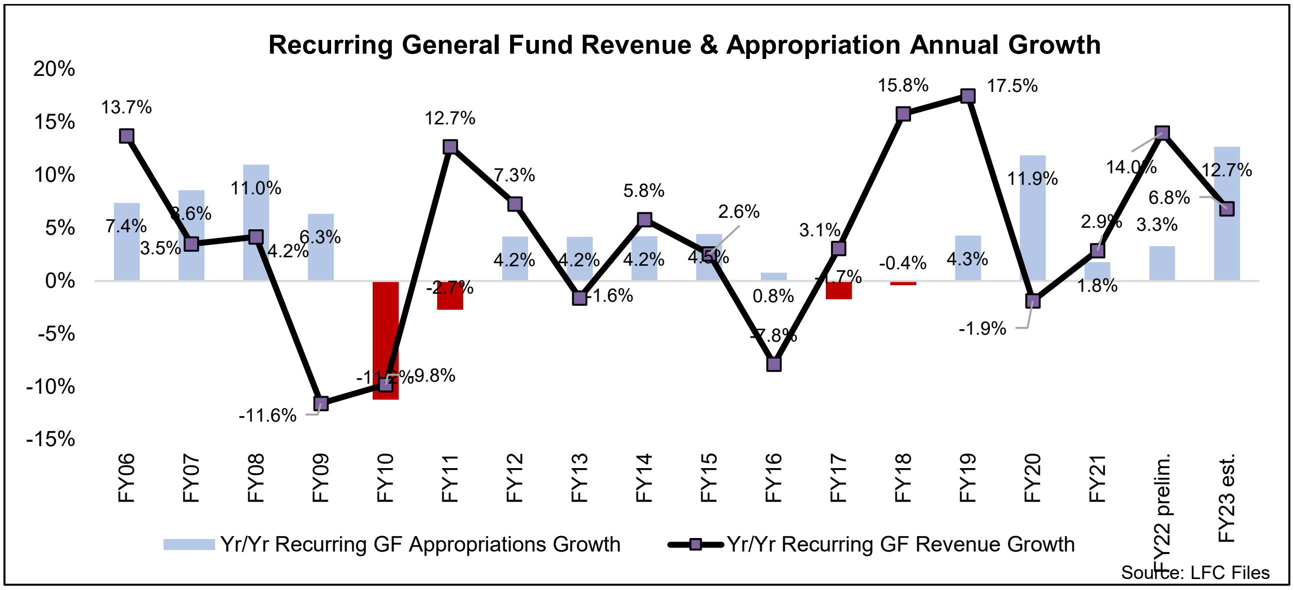
As the underlying economic conditions persist through 2022 and beyond, FY23 recurring revenues are expected to remain strong growing another $630.4 million, or 6.8 percent, over FY22 reaching $9.847 billion. FY24 recurring revenues are expected to grow over $1 billion from FY23 levels as the five-year average continues to climb higher and severance taxes and royalties in the general fund grow more than 33 percent, year-over-year. Strong energy revenue growth, steady personal income tax, and slight gross receipts tax growth contribute to an estimated $10.86 billion FY24 recurring revenue estimate. "New money," defined as projected recurring revenues for the following fiscal year less current year recurring appropriations, is estimated at $2.455 billion for FY24, or 29.2 percent growth from the FY23 recurring budget.

Due to the higher than anticipated revenues, reserves remain strong. During the 2022 special session, the Legislature recognized strong revenues could be returned to tax payers while maintaining the previously recommended reserve levels of at least 30 percent and provided for substantial rebates to all New Mexican tax payers. After accounting for rebates and strong revenues, FY22 ending reserve balances are estimated to be 34 percent. Before any additional spending in the upcoming session, strong revenues in FY23 are estimated to boost reserve balances to $3.75 billion, or 44.7 percent

Revenues remain at risk to fluctuations in global energy markets, high inflation, recession expectations, and uncertainty in changes to tax programs. For example, an oil price crash would significantly reduce total general fund, severance tax, and federal mineral leasing revenues. Strengthening revenue stabilizing mechanisms, making distributions of above average revenues to investment earning accounts, and appropriations that fund programs for multiple years would help insulate the budget from volatility in general fund revenues and leverage current peak revenues for future income, reducing the state's reliance on oil and gas revenues in the long-run.

III. FY24 PRIORITY AND APPROACH

General fund revenue growth has again plummeted during the COVID-19 pandemic and then significantly increased since the Great Recession and oil price collapses. The committee's goal is to propose a balanced budget that supports essential growth in programs and services that result in better outcomes for New Mexicans. This will involve a three pronged strategy of healthy recurring appropriations to agency based budgets, major one-time investments that can result in lasting improvements to service delivery and outcomes for the State or act as a bridge to a recurring source of revenue, and setting aside funding capacity for tax changes to spur the state's economic competitiveness.



Education continues to be the state and Legislature's highest priority and biggest fiscal and policy challenge. Other committee priorities include early childhood investments, public health, workforce development, public safety, protection of vulnerable citizens, and increased economic growth, and improving transportation infrastructure.

Overall, the committee will consider general fund appropriations adjustment in most state agency budgets. Priority for larger increases will be considered for investments with evidence it would lead to improve outcomes for New Mexicans, including evidence-based programs, and demonstrated cost-effectiveness. Adjustments will recognize changes in public and higher education enrollment, Martinez-Yazzie school finance litigation responses, program's caseload, workload, waiting lists, and medical and per diem inflationary costs.

In order to maintain as much funding as possible for prioritized programs, the committee will consider offsetting general fund revenue with other state and federal funds for multi-year investments, and targeted cost savings where appropriate, focusing on duplicated services, non-critical or ineffective initiatives, areas where efficiencies have been created, or where there is no evidence a program is working. In other cases, consideration will be given to backfill depleted non-recurring funding in agency operating budgets, including federal stimulus funding for Medicaid. Finally, requests for inflation-adjusted budgets will not be recommended across the board, and instead adjustments will recognize other offsetting savings on a case-by-case basis.

Given continued reliance on volatile revenue sources, the committee will also focus on fiscal stability measures, such as stabilization funds that could provide a source of future revenue to priority areas, including public schools, higher education, and the Medicaid waiver for people with developmental disabilities. The committee will seek to maintain General Fund reserve levels of 30 percent because of continued dependence on energy revenues.

IV. PERFORMANCE AND ACOUNTABILITY

Analysts shall integrate agency performance results into their budget analysis and, whenever possible, align budget recommendations with program achievement. Consideration for continued base funding should be given to those programs that demonstrate positive results, effective design, and strong planning and management. Analysts should follow these guidelines in reviewing agency performance:

- Analysts should recommend new or alternative performance measures, as necessary, to enable policy makers and the public to better gauge program outcomes, conversion of "explanatory" measures to outcome measures, and report results quarterly.
- Agency strategic plans should ensure: 1) the stated mission, goals, and objectives are consistent with statute and state policies; 2) overarching programs are coordinated among divisions and, where applicable, across agencies; 3) programs are consistent with current resources and conditions; and 4) resources are aligned with the agency's strategic direction and performance results.
- Performance targets should be benchmarked for priority programs whenever possible. Suggested resources for benchmarking include federal standards, best-practice standards set by other agencies and states, historical data, and desired results.
- Performance data and results from recent LFC program evaluations should be used to identify ineffective programs or producing marginal results or, conversely, are achieving desired outcomes.

Analysts shall use Results First cost-benefit analysis where available, notably in the areas of public safety, early childhood, child welfare, and behavioral health programs. In select cases, analysts may recommend new performance measures from what DFA approved during the interim for agencies to include in their FY24 budget request.

The committee will also focus on Managing for Results. Performance accountability has matured and agencies need to effectively use performance indicators and tools, such as cost-benefit analysis, to ensure limited resources are used to cut ineffective programs and bolster effective ones. Information and improvement efforts on the part of agencies participating in the Committee's LegisSTAT performance hearings shall be given priority for future funding requests. These would prioritize funding recommendations that are evidence-based and focus on improving key performance challenges highlighted during the collaborative LegisSTAT hearing process. Further analysts should prioritize agency requests to reprioritize funding toward activities to support Results Focused Government best practices encouraged by the Committee, or as appropriate, recommend expansion funding if an agency budget does not allow for reprioritization. In either case, requests should include an action plan to implement improved performance management and evaluation activities.

V.A BUDGET GUIDELINES FOR RECURRING SPENDING

The following budget guidelines apply to all agencies.

Compensation, FTE, and Vacancy Rates.

Higher-than-normal inflation continues to push wages up nationwide. Significant increases authorized for FY23 led to large increases for some employees, particularly employees with lower salary levels, but to stay competitive, the State of New Mexico should examine providing across-the-board salary increases sufficient to pay for increased benefit costs and reflect the increasing cost of living. For FY23, the Legislature authorized an average 7 percent salary increase for state employees. The State Personnel Office used the flexibility included in the budget to implement a salary adjustment plan, which provided increases between 7 percent and 45 percent, depending on an employee's position within the state's salary structure. However, some in-demand employees received only the minimum increase. Moving forward, analysts will explore a combination of across-the-board and targeted increases based on state agency need for critical positions that are difficult to fill.

Benefits. In FY24, employer-paid pension contributions for educational and state employees are scheduled to increase, as should health insurance rates. Most public employees receive insurance through separate plans operated by the General Services Department, the Public Schools Insurance Authority, and Albuquerque Public Schools. While health insurance rates have increased steadily for school employees, the General Services Departments has not increased rates since 2019, leading to a $65.1 million deficit in the state's group health benefits fund, which should not continue to receive 100 percent bailouts from the general fund. The deficit came despite the Legislature appropriating millions over the past several years to cover shortfalls. The higher cost of coverage and cost sharing ratios has led to educational employees paying different premiums compared with state employees. Further, the General Services Department health insurance pool provides coverage to some local government and public university employees, but carries liabilities on the state balance sheet, effectively subsidizing certain local government and university employers at the expense of state funds. Analysts will examine disparities in insurance costs between different groups of public employees and study options of reducing health insurance coverage costs by consolidating health care purchasing to increase insurance pool size.

Authorized FTE. LFC's funding recommendations do not authorize specific FTE amounts, but rather examine how agency resources match the agency's need to perform a given function. Analysts shall review historic staffing levels and determine an appropriate vacancy rate to be applied to agency budgets. Recommendations for FY24 will consider elimination of authorized, but vacant, positions to reflect historic staffing levels. Recommendations to reduce funded vacancy rates should reflect analysis of workload and any waiting lists for services.

Contractual Services. Analysts shall analyze requested expenditures for professional services and other contracts to ensure contracts address legislative priorities, and adhere to performance criteria. Analysts shall use the monthly Contracts Report provided by DFA information in the New Mexico Sunshine Portal and SHARE, the state's accounting system, to analyze an agency's historical use of contractual services. Analysts should note shifts of workload from FTE to contractors and ensure the cost of performing the work is not double funded.

Revenues and Cash Balances. Use of other state funds and federal funds shall be maximized based on grants, awards, agreements, budget adjustment request (BAR) activity, and program history. To reduce the need for revenue from the general fund, cash balances shall be used in the FY24 budget recommendation. Governing statutes shall be reviewed to ensure that funds are budgeted appropriately and whether they may be used for other purposes. Analysts shall determine where opportunities exist to raise fee and other revenues for agency operations.

Federal Funds. Federal funds should be leveraged to the extent possible in keeping with the committee's policy priorities to ensure these funds are accurately reflected in the budget recommendation. Analysts should ensure state funding is not duplicating what could be used with federal funds, and to account for federal funds carrying over from year to year. Analysts are directed to compare information on revenue forms provided in the budget requests with deviations from appropriations, the database provided by the Federal Funds Information for States (FFIS) service, and other sources of information on federal funds. Analysts shall track all federal funds received under federal stimulus Acts in 2020 and 2021 and determine availability of all stimulus funds for FY24. Additionally, analysts will use historical budget adjustment information to determine if the level of federal funds is accurately reflected in the agency request.

The federal government also enacted the Federal Infrastructure Investment and Jobs Act in 2021, increasing funding across a range of existing and new federal programs, including transportation, water infrastructure, environmental remediation, energy resiliency, broadband and cyber-security among others. Analysts shall ensure new funding is appropriately budgeted and encourage agencies effectively apply for competitive grant opportunities and also include in funding recommendations.

Expansion. Expansions will be limited to committee priorities that are evidence-based, tied to enhanced service delivery, and are appropriate functions of state government. Workload growth is not considered an expansion. Analysts shall avoid financing expansions with nonrecurring revenue or that lack a long-term financial plan. Generally, expansions must be financed within current appropriation levels through reprioritization, or for significant expansions, justification through a review of evidence of effectiveness. All expansions must be tied to enhanced performance and explained in the budget document accordingly. Expansion FTE should be budgeted for a partial year if it is unlikely they will be filled by July 1, 2024.

Language. Analysts shall review agency requests for language to ensure it is necessary, that is consistent with LFC priorities and does not undermine the intent of the Committee's funding recommendations, and provides necessary direction for use of appropriations within statute framework.

Agency Audit Reports. Analysts shall use the agency's financial audit reports in preparing the FY24 budget recommendation paying close attention to general fund reversions, unreserved/undesignated fund balances, and any long-term outstanding debt. Significant deficiencies and material weaknesses identified in the audit shall be reported to the LFC. Additionally, analysts shall identify significant, long-existing fund balances, barriers to expenditure, and potential reprioritization of accumulated balances.

V.B. BUDGET GUIDELINES FOR NONRECURRING SPENDING

Special Appropriations. Given projections for continued strong state revenues, analysts should recommend substantial carve outs for nonrecurring appropriations. Analysts shall begin working with agencies early in the budget process to identify one-time investments that will improve the state's performance in the areas of public education, child welfare, early childhood education and care, behavioral health and substance abuse, public safety, delivery of and access to healthcare services, transportation, higher education, economic development, workforce development, and tribal services. Priority will be given for appropriations that could provide multi-year funding opportunities (expendable trusts/endowments), that provide future sustainable funding sources (such as future federal matching funds), and that would help improve major performance challenges facing the state.

Non Recurring Federal Funds. Analysts shall review appropriations from revenue from the

American Rescue Plan Act during the 2021 special session and the 2022 regular session to determine whether spending is on track and whether funding should be reauthorized for other priorities. The Committee will also make recommendations to authorize the use of the remaining $140 million in American Rescue Plan Act state fiscal recovery fund revenue at the 2023 regular session. Analysts should also consider other federal revenue available through the Infrastructure and Jobs Act for agency projects. The state made significant state investments for natural resources and rural jobs in in the 2022 session, while federal investments will also increase for drought response, climate resilience, and greenhouse gas emissions (GHG) reductions. As such, analysts should review and prioritize projects that build on these investments, such as projects for land and watershed health, incorporate federal matching funds, and that help meet state economic development and environmental goals, such as outdoor recreation.

Investments in Technology and Facilities. Recurring annual investments in agency based operating budgets for information technology upgrades and replacement of equipment, and for basic maintenance of state facilities has lagged due to multiple rounds of solvency actions over the past decade. However, agencies made significant investments into refreshing technology in FY19, FY20, and FY22. The committee will consider appropriations for recurring information technology and facility maintenance funding for agencies with critical needs, which leverage other funds, and have multi-year plans to address enhanced services and efficiencies.

Capital Outlay, Building Use Costs, and Space Allocation. The Committee has created a Capital Outlay subcommittee to review staff recommendations for a capital outlay framework. Analysts should evaluate requests and prioritize capital projects that address a risk or hazard to public health or safety, support core government functions, and promote operating savings or efficiencies. Other factors to consider include compliance with federal codes and accreditation standards, potential to leverage other funding or resources, and whether the requested funding would complete a functional phase of a project and advance long-term economic development. Analysts should identify stalled or substantially underfunded projects, including projects that may need additional revenue to complete due to inflation or that are not viable. Additionally, analysts should consider whether staffing and compensation within departments tasked with managing capital projects, including appropriations to local projects, is appropriate to current workload and the level of support required for entities to effectively spend capital appropriations. And analysts should consider the support some agencies may need to provide other government recipients of capital outlay to ensure economical use of state resources, such as encouraging regional water projects.

Analysts shall evaluate agency use of state- owned and leased space, based on space utilization standards adopted by the Capitol Buildings Planning Commission, lease costs, and square feet per employee. Further, analysts should consider space utilization in light of continued teleworking arrangements that began during the state office closers from the COVID-19 public health emergency. Analysts should consider opportunities to reduce space for agencies whose employees will continue to telework on a full- or part-time basis and should consider the extent to which telework, or enhanced online services, will impact agencies future facility needs. For agencies with significant general fund lease costs, alternatives to leasing should be evaluated, such as relocation to existing vacant state buildings or the proposed executive office building. Analysts should consider opportunities to generate recurring revenue through a building-use fee to maintain state-owned facilities. Funding maintenance costs through annual fees will increase severance tax bond proceed availability for larger projects.

Agency infrastructure capital improvement plans must comply with Executive Order 2012-023 (Facility Master Planning Guidelines) and 2013-006 (Uniform Funding Criteria, Grant Management, and Oversight), and analysts should consider progress and outcomes on previous capital outlay appropriations. Analysts should evaluate if the agency has long-term debt outstanding and if so, the sufficiency of dedicated revenue to make annual debt payments.

Information Technology Requests. Several projects are slated for completion this fiscal year or next, however substantial delays to a number of outstanding projects continue to result in cost increases over time and increase risk of failure. Therefore, those projects nearing completion and state information technology (IT) projects most critical to agency functions will be priorities for funding. Funding recommendations will be based on conformance with agency priorities, agency and statewide IT plans, the quality of the specific business case, including cost-benefit analysis, and available funding, including contributions of operating or federal funding sources and prior state appropriations. . Agencies must demonstrate potential cost savings and/or efficiencies gained in impacted business processes. Analysts shall consider operating budget implications, such as ongoing maintenance, training, and impacts on operations, when reviewing requests for new or extended IT projects. Staff shall review IT appropriations from previous years and monitor the progress and outcome of ongoing IT projects. Analysts shall not consider IT funding requests not submitted through established protocol (i.e., requests must be submitted directly to DFA, LFC, and DoIT using the "C2" budget request form separate from the agency's annual budget request) and shall generally recommend no more than two reauthorizations for project funding, unless an agency demonstrates extenuating circumstances. .

VI. TAX EXPENDITURES AND RATES

New Mexico's tax revenues are outpacing the state's budget growth and spending capacity, resulting in larger reserves and funding available to enact structural and meaningful tax reform.

Tax reform discussions over the years have often considered lowering the GRT rate or expanding anti-pyramiding provisions in the tax code. Such actions would reduce the burden of doing business in New Mexico with the goal of improving the state's economic conditions and competitive position. Tax changes passed in the 2022 legislative session lowered the GRT rate, helping mitigate the impact of pyramiding and alleviate the taxpayer burden created by high rates. While New Mexico's state GRT rate is relatively low compared with other states, ranking 32nd as of January 2022, the combined state and local average rate is the 16th highest in the nation.

Tax pyramiding occurs when the GRT is applied to business-to-business purchases of goods and services, creating an extra layer of taxation at each stage of production. New Mexico currently has anti-pyramiding provisions for many goods-based inputs, but service-based inputs are still largely taxed, which can be particularly difficult for businesses unable to bring those services in-house and instead contract for services like accountants, attorneys, engineers, and human resource functions. In a 2016 memo, LFC economists estimated the costs of eliminating all pyramiding of business-to-business services could cost the state up to $490 million, and the exact cost is unclear due to lack of sufficient data. More targeted anti-pyramiding measures could limit the expected costs and provide relief for industries most affected by GRT rate pyramiding.

New Mexico's current income tax structure was intended to be progressive, with the tax rate increasing gradually as income and ability to pay rises. Over time, as incomes rose with inflation and piecemeal legislation eliminated some brackets, the income tax bracket structure has been rendered effectively flat. A large portion of the tax base, 44 percent, falls into the second-highest tax bracket at a rate of 4.9 percent, while only 11 percent of taxpayers are in the second and third brackets at a rate of 3.2 percent and 4.7 percent. Additionally, the income ranges of the brackets are extremely compact at the bottom. The bottom three brackets apply to taxpayers with annual incomes of only up to $16 thousand, while the fourth bracket applies to those earning $16 thousand to $210 thousand. Expanding the income range and rates of the lower brackets to be more gradual and include more taxpayers may be needed to update the rate structures to better reflect the current state of income among New Mexicans.

VII. OTHER FINANCIAL ISSUES

In addition to agency operating budgets and revenues, analysts should consider other financial issues.

Analysts should evaluate cost-saving initiatives such as administrative cost ratios, payment and delivery system improvement initiatives, appropriateness of various rate structures, changes in federal requirements, client-generated revenue, and consider ways the state can leverage Medicaid or other federal funding for services that improve outcomes. Analysts should also examine nontraditional ways to improve state operations and state competitiveness, such as improving economic development by ensuring state permitting and licensing processes at the Regulation and Licensing Department.

Public School Funding Issues. Funding for public schools represents approximately 45 percent of total general fund appropriations – the largest category of state spending in New Mexico. In FY23, the Legislature appropriated $3.9 billion to public schools, an increase of $423 million, or 12 percent, over the prior year. Federal aid will also contribute $1.5 billion to New Mexico schools in response to the Covid-19 pandemic until FY24.

Lost learning time from Covid-19 school closures will exacerbate existing student achievement gaps, a key deficiency highlighted in the *Martinez-Yazzie* education sufficiency lawsuit. To help students recover from the Covid-19 slide and build a world-class education system in New Mexico, the committee will again prioritize evidence-based programs and initiatives that enhance school leadership and teacher quality, provide extended learning opportunities, ensure college and career readiness, improve accountability, and address at-risk student needs.

Aside from using the public education reform fund to implement evidence-based educational interventions and backfill general fund revenue, analysts should identify opportunities to maintain and build on the education reform efforts, including school governance, by recognizing evidence-based interventions, workload adjustments, administrative efficiencies, reducing or eliminating ineffective interventions and reallocating resources accordingly.

Child Welfare and Early Childhood Care and Education. Although funding for early childhood initiatives increased over the previous decade, early childhood programs are under increasing pressure to improve statewide quality standards, which typically increase costs, and coordinate expansion to avoid duplication of services. Priorities for FY24 include targeting existing services to children birth to age 4, enhanced accountability for all the programs transferred to the Early Childhood Care and Education Department, and building capacity for providers to implement services, including PreK for 3 year olds, high quality infant care, and Medicaid financed home visiting. Analysts should examine agency coordination and planning to avoid duplication of service funding for 3 & 4 year olds in preschool settings; and infants and toddlers in home visiting programs. New Mexico continues to struggle in some areas to meet quality early childhood program standards, such as the providers' level of technical skills, education, and stability among caregivers. Investment in workforce development will be necessary to meet continued growth of early childhood services. Priority for funding will be given to early childhood programs that have a demonstrated impact on education, health and child well-being, including through performance reporting and rigorous research of program models. Analysts should consider other beneficial uses for revenue from the Early Childhood Education and Care endowment fund using the same criteria, and for expanded purposes that support children and families. Analysts should examine recent expansion of childcare eligibility requirements, and look for statutory changes to ensure legislative changes on income/poverty limits for childcare get legislative approval.

New Mexico continues to face high rates of child abuse and neglect, in large part driven by parental substance use disorders, and out-of-home placement of children in foster care and other settings. Findings from LFC analysis and evaluation determined the state sometimes intervenes with foster placements when less traumatic and costly alternatives are available. Short-term placements sometimes unnecessarily traumatize children and are costly to the state. Analysts should prioritize funding for evidence based child welfare prevention and early intervention services, including differential response, and identify savings in other areas including short-term foster care placements and programs that can leverage more federal revenue. Analysts should examine cost savings opportunities from decreased need for out of home placements and reinvestment options.

Behavioral Health. The state has not recovered from the pandemic's disruptions to the behavioral health system which exacerbated existing challenges to access and quality care. Funding increases to improve the network of behavioral health was largely left intact for FY23, along with further infusion of funding to build provider capacity. The Human Services Department (HSD) and Children, Youth and Families Department (CYFD) should continue to ensure the behavioral health network is sufficient and effective to meet the needs of the state's most vulnerable populations. Working together with HSD and CYFD, analysts will analyze access, costs and expenditures, outcomes, and services available to best address gaps and improve outcomes with limited resources, including reallocating resources and maximizing federal revenue. For non-Medicaid behavioral health administered by HSD's Behavioral Health Services Division, analysts will assess changes as clients move from state-funded services to Medicaid-funded services and determine the best use for any additional savings realized and take into consideration increased federal funding available for services. Additionally, analysts should assess the need for recurring funding to support services that cross systems for individuals with mental health and substance use disorders that also are involved in the criminal justice system or that need housing to alleviate homelessness.

Medicaid. By the end of FY23, an estimated 924 thousand New Mexicans will be enrolled in Medicaid, according to current program projections, down from a high of over 980 thousand in the summer of 2022. Enrollment in the program increased due to the COVID-19 public health emergency, and federal requirements prevent disenrollment of individuals no longer eligible for Medicaid during the public health emergency. An enhanced federal FMAP through the emergency extended through at least half of FY23 helped stabilize funding, but whether the federal government continues enhanced federal aid into the latter half of FY23 remains unknown. The federal funds swaps in the summer of 2020 were largely restored in the 2022 legislative session. Some of the replaced federal funds were contingent on Medicaid no longer receiving an enhanced FMAP due to the ending of the public health emergency. The contingency was not met and the Medicaid operating budget reduced by $80 million in general fund revenue. Continued significant backfilling of general fund revenue should be examined by analysts for the FY24 budget. Medicaid service providers received multiple rate increases from FY19 through FY22, but performance outcomes remain sluggish, particularly for children's prenatal and preventive care, and in multiple areas of behavioral health. Analysts should ensure Medicaid funding is appropriately leveraged across multiple departments and examine options for other state funds to replace or augment general fund revenues, such as intergovernmental transfers, and pharmacy rebates. Analysts should monitor Medicaid spending and identify opportunities for enhancing healthcare workforce and quality, for savings that priorities access to effective services and examine savings opportunities in overhead costs, ineffective programs, and higher than needed payment rates.

Public Safety. Improved performance management and coordination among the various state and local criminal justice agencies (courts, district attorneys, law enforcement, public defender, counties), combined with effective implementation of evidence-based criminal justice reforms offers New Mexico a path towards improved overall public safety. Effective reforms, including technical parole violation revocation practices, offer potential for taxpayer savings from reduced costs associated with incarceration and repeated incarceration. Analysts should examine opportunities for investments in proven public safety programs and potential savings that can be reinvested further in public safety, including ensuring appropriate prison space is available, and behavioral health efforts.

Transportation. Transportation infrastructure, including state and local roads, bridges, airports and distribution hubs, require significant recurring and non-recurring funding increases to meet regular maintenance and improve the system overall. New Mexico's gas tax of 17 cents per gallon among the lowest in the nation and is insufficient to meet the maintenance needs of the transportation network, particularly considering revenue generated per mile of roads to maintain. To bridge the funding gap, the Legislature allocated significant non-recurring appropriations for major state road projects and increased revenue from the Motor Vehicle excise tax for recurring transfer to the road fund and authorized the sale of road project bonds in 2021. The appropriation increases have helped improve the system, additional revenue will be needed to prevent further deterioration and address major investment projects beyond simple heavy maintenance. For example, state and federal policymakers have increased resources available for infrastructure projects, transportation agencies face rising costs from inflation and supply chain issues, limiting the impact of additional investments as additional revenue will be needed to prevent further deterioration and address existing major investment projects. Additional investments in major infrastructure road projects should be for projects in line with LFC priorities. Currently, New Mexico receives no road maintenance revenue from the operators of electric vehicles (EVs). Twenty-eight states have approved additional registration fees on EVs to offset loss of fuel tax revenue. Analysts will consider how fees could be assessed on EVs to ensure all users of New Mexico roads pay their fair share.

Higher Education. The Committee intends to continue to have a Higher Education Subcommittee review financing and other relevant policy and performance topics for higher education during the 2022 interim. More than eight years ago, the Legislature transitioned from an input-based funding formula to one based on student performance from which to base funding recommendations. Now, recommendations allocating state funding to 24 institutions are managed using an outcomes-based funding formula. State higher education institutions have seen declining enrollment for the past decade while appropriations have grown slightly. The transition from an output- to an outcome-based higher education funding formula helped increase the number of awards made despite the declining enrollment. While overall cost per degree has fallen over the past 5 years, there is a wide disparity in funding on both a per-degree and per-student basis. Staff should examine opportunities to streamline the formula, ensure incentives are strong enough to encourage performance and fair enough for the wide spectrum of missions and size of higher education institutions, avoid redistribution mechanisms so institutions can focus on improved outcomes. Further, funding for categorical and research and public service projects has outpaced increases for Instruction and General. Analysts should analyze the need for non-instructional funding that focuses on supporting student success and improved institutional efficiency, such as wraparound student support services, and to address disparities in per student I & G funding at comprehensive institutions. Finally, the opportunity scholarship aims to create tuition-free college in New Mexico, but does not have sufficient recurring funding to ensure stable awards in the future. Analysts should prioritize the need for stable opportunity scholarship in recommendations for higher education sector funding.