Budget Request Guidelines Fiscal Year 2025

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 FY25 recommendations on recurring appropriations, and priority capital spending and other one-time investments. The guidelines also serve to inform state agencies and the public about new LFC priorities and approaches to budget recommendations for FY25.

II. Revenue Outlook

Despite experts' warnings of a potential recession, the U.S. economy exhibited remarkable resilience. The real gross domestic product (GDP), which represents the value of all goods and services adjusted for inflation, experienced a year-over-year growth of 2.4 percent in 2023. This growth rate, though slightly slower than the 4 percent expansion observed in 2022, exceeded projections of a more abrupt deceleration. Notably, robust economic indicators such as job creation, low unemployment rates, and robust consumer spending paint an optimistic picture. Despite the Federal Reserve's implementation of substantial interest rate hikes to counter inflation, there are indications that a "soft landing" might be attainable. This scenario entails a cooling of inflation without the economy spiraling into a recession.

S&P Global's predictions align with this perspective, forecasting GDP growth of 1.1 percent throughout FY24 and a subsequent rise to 1.5 percent in FY25. These predictions are fed through the New Mexico economy's similarly rosy outlook which have been confirmed by high and growing employment, rising wages, and robust oil production. Most especially, the expansion of the oil and gas sectors has propelled severance tax and federal royalty collections well beyond their five-year averages and contributed significantly to gross receipts and income taxes.

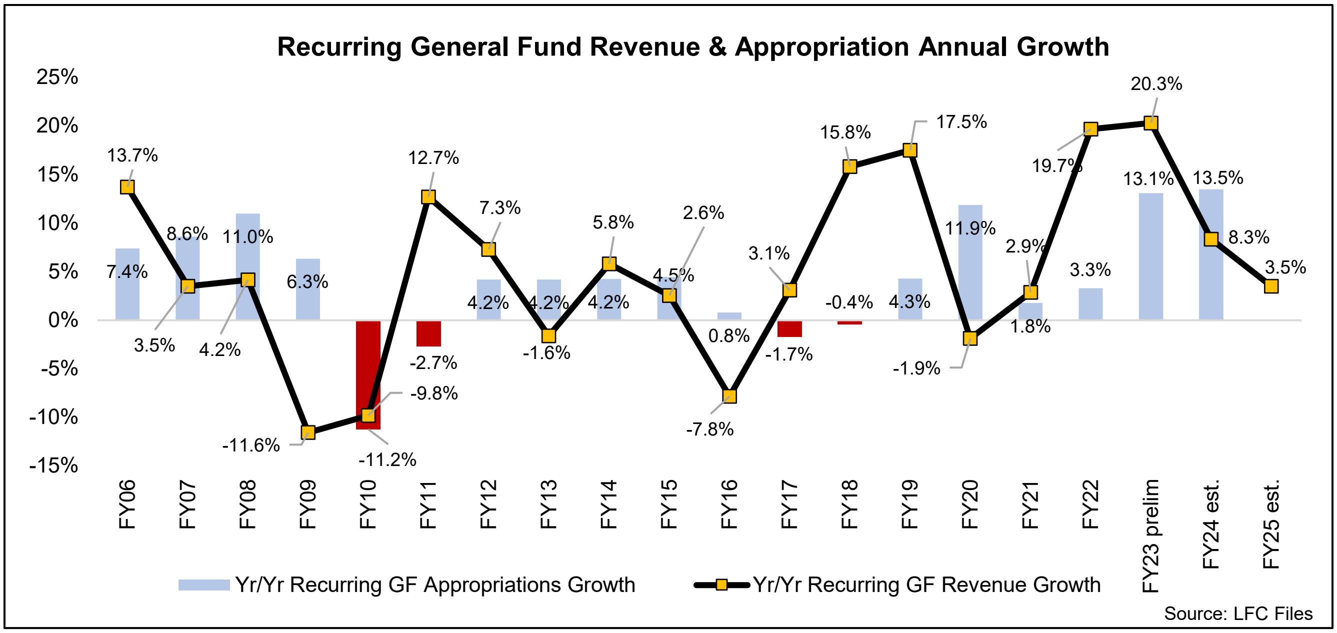
The concept of "new money," which refers to the projected recurring revenues for the upcoming fiscal year minus the current year's recurring appropriations, is estimated at $3.48 billion for FY25. This represents an impressive growth of 36.4 percent from the FY24 recurring budget. The healthy influx of revenues has fortified reserves, which in turn are insulated from volatility due to new provisions diverting excess oil and gas windfalls to the severance tax permanent fund.

Despite this positive outlook, revenue instability persists due to fluctuations in global energy markets, broader economic cycles, and uncertainties in legislative modifications to tax programs. For instance, a crash in oil prices within the forecast horizon could result in general fund, severance tax, and federal mineral leasing revenue falling short of baseline expectations by $1.7 billion and $2.1 billion in FY25 and FY26, respectively.

As the state enters a short- to medium-term revenue surge, the Legislature has initiated long-term revenue and budget planning in accordance with national best practices. In July 2023, the consensus revenue estimating group found long-term revenues would be sufficient to keep up with the current budgetary trends depending on the rate of recurring spending in the near-term. The estimate highlights oil and gas strength as driving current revenues while later becoming a drag on revenue growth as global demand wanes. Because of slower future revenue growth, continued high recurring spending will be unsustainable, demonstrating the importance of moderated spending growth in the near term. Furthermore, changes to the tax code which reduce revenues could only accelerate structural budget deficits if the changes are unsuccessful in producing sufficient economic benefits.

III. FY25 Priority and Approach

The Committee's goal is 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. The general approach to budget development should emphasize balancing todays' needs for improved outcomes, particularly education, health, and employment that boosts personal income, with the long term sustainability of today's financial investments. While general fund revenue has grown year over year since before the Covid-19 pandemic, analysts should consider small to medium growth in agency budgets given the recent significant growth in appropriations. Long-term revenue forecasts also signal the need for responsible growth in budgets given the future decreased potential revenue from oil and gas.



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

Overall, the committee will consider general fund appropriations adjustments in most state agency budgets. Larger increases to improve outcomes for New Mexicans will be considered with prioritization for research-based, evidence-based, and demonstrated innovative and cost-effective programs and strategies. Adjustments will recognize changes in public and higher education enrollment, Medicaid enrollment, *Martinez-Yazzie* related initiatives, program caseloads, 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 nonrecurring funding in agency operating budgets, including federal stimulus funding using criteria similar to those for expansions. 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, social services and transportation. Additionally, expansion requests should be considered in the context of fund balances and recent agency reversions. The committee will seek to maintain general fund reserve levels of 30 percent, excluding the tobacco settlement permanent fund, because of continued dependence on energy revenues.

IV. Performance and Accountability

Analysts shall integrate agency performance results into their budget analysis and, whenever possible, align budget recommendations with program achievement. Continued base funding should be considered for 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 policymakers 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.
    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 opportunities for efficiencies and to identify marginally effective or ineffective programs or, conversely, strategies and programs that 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 FY25 budget request.

The committee will also focus on the Legislating for Results framework. The Legislating for Results framework, reflected in the state's Accountability and Government Act, provides for the use of performance data to help inform policy, budget, and cost-benefit analysis. Performance accountability has matured, and agencies need to effectively use performance indicators, action plans with timelines, 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 move 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

The following budget guidelines apply to all agencies.

Compensation, Staffing Levels, and Vacancy Rates

Competition in the labor market for qualified workers is a continued post-pandemic challenge, as is increasing wage inflation nationwide. Employee-paid contributions for health insurance rates will likely need to grow. To stay competitive, the State of New Mexico should examine providing salary increases sufficient to pay for increased benefit costs and reflect the increasing cost of living. Consistently high agency vacancy rates have resulted in large amounts of personal services and employee benefits (PS&EB) funding being transferred to other areas of the budget. Analysts should consider the ongoing need for long-vacant positions, and targeted compensation increases should also be examined for hard-to-fill positions. These considerations should also be included in agency base budget recommendations.

Benefits. Revenue raised for the state's group health benefits fund continues to lag program expenditures, even as costs continue to rise. A 10 percent rate increase for FY24 was critical for the solvency of the fund, but rates will likely need to rise in FY25 to close the gap and account for medical inflation. Analysts will consider requests from the Public School Insurance Authority and the Health Care Authority Department for the ability of the program to cover expenses and the sustainability of rate increases in the future.

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 FY25 will consider eliminating authorized but vacant positions to reflect historic staffing levels. Recommendations to reduce funded vacancy rates should reflect workload analysis and any waiting lists for services.

Contractual Services

Analysts shall examine requested expenditures for professional services and other contracts to ensure contracts address legislative priorities, are in compliance with the Procurement Code, 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 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 FY25 budget recommendation. Governing statutes shall be reviewed to ensure funds are budgeted appropriately and whether they may be used for other purposes. Analysts shall determine where opportunities exist to raise fees and other revenues for agency operations. Analysts should work to assess agency category needs in order to avoid significant end-of-year agency BARs.

Federal Funds

Federal funds should be leveraged in keeping with the Committee's policy priorities to ensure these funds are leveraged and accurately reflected in the budget recommendation. Analysts should ensure state funding is not supplanting federal funding, 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) and other sources of information on federal funds. Analysts shall track all federal funds received under federal stimulus acts and determine the availability of all stimulus funds for FY25. Analysts should also examine opportunities to use remaining American Rescue Plan Act funding. Additionally, analysts will use historical budget adjustment information to determine if the level of federal funds is accurately reflected in the agency request. Analysts should also consider potential needs for backfilling federal funds where federal funding sources have been reduced or discontinued using criteria for expansion requests.

The federal government also enacted the Federal Infrastructure Investment and Jobs Act in 2021, and the Inflation Reduction Act in 2022 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 evidence-based committee priorities, tied to enhanced service delivery, and are appropriate functions of state government. Analyst should evaluate the requests using the following elements: purpose; needs assessment; program description; evidence and research; implementation plan; plan for ensuring fidelity of implementation; and performance and research plan. Workload growth is not considered an expansion. Analysts shall avoid financing expansions with nonrecurring revenue or without a long-term financial plan. Generally, expansions should be financed within current appropriation levels through reprioritization. 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, 2025.

Language

Analysts shall review agency requests for language to ensure it is necessary, consistent with LFC priorities, does not undermine the intent of the Committee's funding recommendations, and provides necessary direction for use of appropriations within statute. Analysts should refrain from considering or recommending "notwithstanding" language consistent with guidance from the Committee.

Agency Audit Reports

Analysts shall use the agency's financial audit reports in preparing the FY25 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 Committee. 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

Analysts should refrain from recommending nonrecurring funding for recurring needs, and analyze large programmatic requests for multi-year funding using expansion request criteria. 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 service needs. Priority will be given to 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. Analysts shall review appropriations from revenue from the American Rescue Plan Act and look for opportunities to spend any remaining funding.

Investments in Technology and Facilities

Recurring annual investments in agency-based operating budgets for information technology upgrades, equipment replacement, and basic maintenance of state facilities have lagged due to multiple rounds of solvency actions over the past decade. However, agencies invested significantly in refreshing technology each year since FY19. 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 intends to review staff recommendations for a capital outlay framework. Analysts should evaluate capital projects based on whether they will address a risk or hazard to public health or safety, support core government functions, and promote operating savings or efficiencies. Other considerations should include compliance with federal codes and accreditation standards, the potential to leverage other funding or resources, and whether the requested funding would complete a fully 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, including broadband projects. Additionally, analysts should consider whether staffing and compensation within departments tasked with managing capital projects, including appropriations to local projects, is appropriate to the current workload and the level of support required for entities to effectively spend capital appropriations. Analysts should also 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 teleworking arrangements that allow for working from multiple offices without reductions in space per FTE. 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 increased 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.

House Bill 547 passed by the Legislature in 2023 was significantly pared back, with the governor vetoing numerous tax reforms. Given the vetoes, analysts should continue examining potential tax reform policies that broaden the GRT base and lower rates to help mitigate the impact of pyramiding and alleviate the taxpayer burden created by high rates. Tax changes passed in the 2019 legislative session contained several base-broadening efforts, including the addition of internet sales and nonprofit and government hospital receipts to the GRT base; however, the revenue generated from the 2019 tax changes effectively paid for additional film tax credits rather than lowering GRT rates.

New Mexico's current income tax structure was intended to be progressive, with the tax rate increasing gradually as income and ability to pay rise. 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.

Targeted tax credits or rate reductions result in a recurring loss of revenue for the state. In addition to LFC's general tax principals, tax changes proposals should also be analyzed, both costs and benefits, in light of the potential impact on economic diversification, impact on overall business climate that leads to improved personal income levels, and long-term sustainability of the forgone revenue relative to other spending obligations. Analysts should ensure understanding of any potential tax policy changes through a collaborative effort with a diverse group of stakeholders.

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.

Public Schools. Funding for public schools represents approximately 44 percent of total general fund appropriations—the largest category of general fund spending in New Mexico. In FY24, the Legislature appropriated $4.2 billion to public schools, an increase of $302 million, or 7.8 percent, over the prior year. Notably public schools are seeing a continuing trend of increased operating reserves. As of June 2023, public school unrestricted fund balances grew to $623 million statewide, an increase of $97.5 million compared with the previous year.

Lost learning time from Covid-19 school closures continue to 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 continue to prioritize evidence-based programs and initiatives that enhance school leadership and teacher quality, provide extended learning opportunities, ensure student college and career readiness, improve accountability, and address at-risk student needs.

With $185 million of nonrecurring appropriations for education initiatives, paid mostly from the public education reform fund and set to expire at the end of FY24, the state must determine which programs to continue or discontinue. Federal pandemic aid totaling $1.5 billion to New Mexico schools will also expire at the end of FY24.

In addition to backfilling essential operational needs, 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 FY25 include targeting existing services to infants and toddlers, 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- and 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. CYFD cannot be expected alone to solve challenges associated with child maltreatment and analysts should examine opportunities for a broader and more collaborative approach across agencies to address underlying challenges families face. In FY24, the Legislature provided a nearly 10 percent increase in funding from the general fund, newly reallocated federal TANF block grant revenue, and a 14.1 percent increase in all funds to the protective services program. Findings from a recent LFC 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. Pandemic disruptions exacerbated existing challenges in access and quality of care. A 2022 LFC Program Evaluation secret shopper survey found only 1 in 10 calls resulted in the ability to make a behavioral health appointment with Medicaid providers. In FY24, the Legislature included support for the 988 Crisis Now hotline, additional general fund revenue to support increasing rates to 120 percent of Medicare rates, evidence-based children's behavioral health services, and investments from opioid settlement revenues. The Human Services Department (HSD) and the Children, Youth and Families Department (CYFD) should 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 involved in the criminal justice system or that need housing to alleviate homelessness.

Public Safety. New Mexico's high crime rates continued to raise concerns at the Legislature, and lawmakers have addressed several evidence-based policy areas with investments in law enforcement, criminal justice partners, and expansion of available workforce. 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 and efficient prison space is available, and investments in evidence-based behavioral health efforts.

Medicaid. At the end of FY23, 936,748 New Mexicans were enrolled in Medicaid, a decrease of about 50 thousand from September 2022. Enrollment in Medicaid increased due to the Covid-19 public health emergency (PHE), however measures have now started to unwind PHE related policies and Medicaid enrollment is declining. In June of 2023 alone, HSD disenrolled 23 thousand from the Medicaid rolls and added 27 thousand beneficiaries to a pending status to still be reviewed. As numbers in the Medicaid rolls change analysts should work with HSD discussing forecasts to determine funding needs for FY25. The FY24 appropriation for Medicaid totals over $1.4 billion, an increase of 20.7 percent above the FY23 operating budget. However, 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.

Transportation. Transportation infrastructure, including state and local roads, bridges, airports, and distribution hubs, requires significant recurring and nonrecurring funding increases to meet regular maintenance and improve the system overall. New Mexico's gas tax of 17 cents per gallon is the 5th 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 help bridge the funding gap, the legislative tax package included additional revenue to ensure the department had sufficient funding to continue investments in road improvements statewide, but related provisions were vetoed by the governor. The Legislature has also allocated significant nonrecurring appropriations for major state road projects, with $232 million for transportation projects in House Bill 2. 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. Transportation agencies have been particularly exposed to rising costs from inflation and supply chain issues, limiting the impact of additional revenue. 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. Recently the governor proposed a requirement that by 2026 at least 43 percent of cars and 15 to 20 percent of trucks sold in New Mexico be electric with this rate increasing to 82 percent and 40 to 75 percent respectively by 2034. 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 subcommittee review financing and other relevant policy and performance topics for higher education during the 2023 interim. For FY24 the Legislature appropriated $1.2 billion in recurring funding for higher education, an increase of $187 million or 18.3 percent over FY23. The majority of new funding, $134 million, was directed to the opportunity scholarship. Additionally, the Legislature provided a supplemental appropriation of $45 million to cover FY23 program costs. Analysts should examine enrollment and tuition costs to help determine future needs for state-funded financial aid programs including the opportunity and lottery scholarships.

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 five 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 (I&G). Analysts should analyze the need for noninstructional funding that focuses on supporting student success and improved institutional efficiency, such as wraparound student support services, and ensuring the support for developing high priority and high demand degrees, including STEM-H, early childhood, social work, and education. Analysts should examine other opportunities to improve the upskilling of the workforce to ensure a skilled workforce, including certification programs through adult education, CTE and apprenticeships. 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.

Natural Resources. In 2023, the Legislature invested almost $500 million in recurring spending increases and non-recurring special appropriations for natural resources agencies and projects. While many natural resource agency operating budgets rely heavily on other state funds, general fund appropriation increases remained flat or declined from FY14-FY18, largely due to solvency issues the state faced at the time. Since FY19, general fund appropriations have increased from 60-100 percent for the Energy and Natural Resources Department, State Engineer and Environment Department. As part of revenue diversification, analysts should examine whether fee revenue for natural resources agencies is sufficient to cover operating costs and the need for general fund revenue to ensure the agencies can carry out their statutory duties. Analysts should also examine opportunities for federal grant investments across the natural resources needs from recently enacted federal legislation and for special appropriations to further goals around a healthy and resilient New Mexico natural resource environment, including clean air and water, water supply, forests, and regulatory permitting and enforcement.

Economic Diversification. The current growth and efforts to diversify New Mexico's economy will require collaboration across agencies with singular focus on clear state goals and strategies, including coordination with local governments, tribes, and the federal government. Analysts should review special and recurring funding requests within the lens of the state's economic development strategic plan and ensure programs and agency efforts are aligned, maximize efforts to leverage federal incentives, and offer a strong return on investment. As with expansion requests, analysts should ensure key elements of an effective program, while also encouraging innovation and national best practices. In addition, analysts should review the cost-effectiveness of the Local Economic Development Act (LEDA) program and continuing need in light of other business incentive programs.