NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

Budget Request Guidelines Fiscal Year 2026

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 FY26 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 FY26.

II. Revenue Outlook

The U.S. economy defied recession fears in 2023 and continued steady economic growth in the first half of 2024; however, slowing job gains and high interest rates are stoking new fears for the latter half of 2024. Real gross domestic product (GDP), the inflation-adjusted value of all goods and services, increased at an annual rate of 2.8 percent in the second quarter of 2024, according to the U.S. Bureau of Economic Analysis. This was up from 1.4 percent in the first quarter. S&P Global is expecting GDP growth of 2.4 percent through 2024 and 1.5 percent in FY25 as inflation moderates slightly above 2 percent and interest rates remain higher than in the previous decade.

S&P Global also forecasts unemployment rates to rise to 4.8 percent by 2027 as the labor market continues to cool. Labor force participation, the share of the working age population with jobs, has yet to recover fully from pandemic lows and is stable at around 62.6 percent, still depressed from the prepandemic level of 63.3 percent. 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.

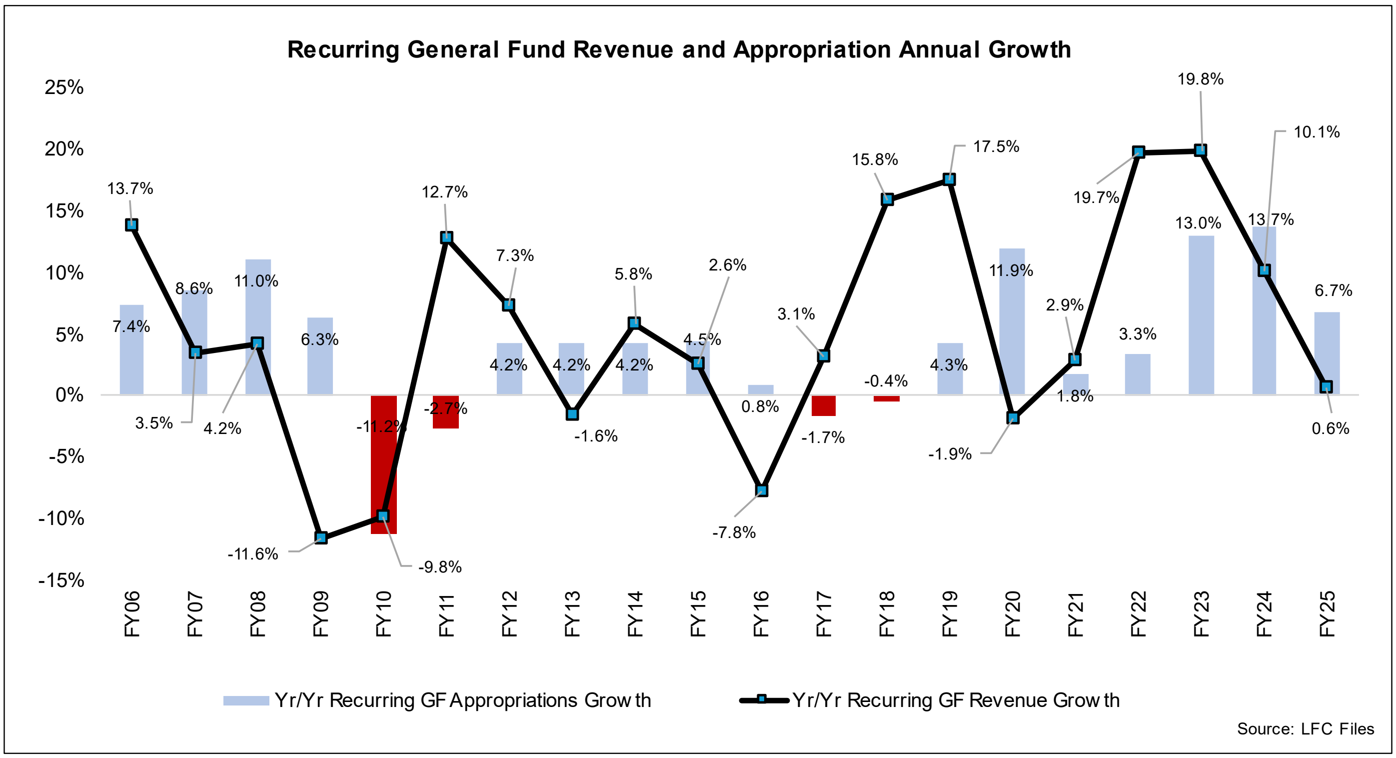
While recurring revenue is $3.16 billion more than prior year recurring spending, nonrecurring spending has grown rapidly in recent years and now represents more than 27 percent of spending in a single session and potentially a third of spending in a single year. Total revenues less total prior year spending, or a measure of total new money, more accurately reflects new general funds available over prior years, which is $659.6 million in FY26.

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 revenue falling short of baseline expectations by $1.2 billion and $1.7 billion in FY25 and FY26, respectively. The resulting budgetary impact is unlikely to affect recurring budgets due to prudent fiscal restraint, however special appropriations may need to be reduced, reserves used, or other funds tapped up to nearly 33 percent to maintain a balanced budget in this scenarios.

As the state slowly ends its revenue surge, the Legislature continues to review volatility and long-term revenue and budget planning in accordance with national best practices. The estimates highlight 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. Finally, state finances have exhibited the most revenue volatility in 40 years and the most continuous volatility in state history. Prioritizing fiscal strategies that stabilize state revenues is integral in securing sustainable state budgets.

III. FY26 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 today's needs for improved outcomes, particularly education, health, and employment that boosts personal income, with the long-term sustainability of today's financial investments. Long-term revenue forecasts signal the need for responsible growth in budgets given the future decreased potential revenue from oil and gas. Specifically, long-term revenue estimates have shown continued growth at levels from prior years (e.g. FY24, at 13.7 percent) is untenable and would lead to spending outpacing revenues in coming years. While general fund revenue has continued to grow year over year since before the Covid-19 pandemic, growth has slowed. Analysts should consider manageable growth in agency budgets given the recent significant growth in appropriations. Analysts should consider right-sizing budgets, taking into account future needs, current operational capacity, existing fund balances, recent reversions, and budget adjustment requests.



Education and health and human services remain the state and Legislature's highest priority and biggest fiscal and policy challenge. Other Committee priorities for FY26 include investments that will increase educational attainment and boost earned per capita income, expand access to high quality healthcare, and improve quality of life for New Mexicans.

Overall, the committee will consider general fund appropriations adjustments in state agency budgets. Expansion of agency budgets will only be considered for programs to improve outcomes for New Mexicans with prioritization for research-based, evidence-based, and demonstrated innovative and cost-effective programs and strategies. Additionally, expansion requests should be considered in the context of fund balances and recent agency reversions. Adjustments will recognize changes in public and higher education enrollment, Medicaid enrollment, program caseloads, workload, waiting lists, and medical and per diem inflationary costs. Since the Martinez-Yazzie school finance ruling the state has increased recurring school spending by over $1.6 billion or 58 percent. Efforts need to shift to ensuring the state builds leadership capacity and that all funded reforms improve outcomes.

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.

The committee will seek to maintain general fund reserve levels of 25 percent, because of continued dependence on energy revenues.

Agency Hearings

FY26 LFC budget hearings will be dedicating increased time to larger budgets and budgets that impact large portions of the state population compared to previous years reflecting previously identified Committee priorities. Currently, there are 34 state agencies with general fund revenue below $5 million. Since FY19, the general fund revenue of these 34 agencies has increased by $27.3 million, or by 10 percent. Although this may seem substantial, the general fund revenue for these 34 agencies in FY23 was $63.1 million, which accounts for 0.62 percent of all general fund appropriations in FY25. This is in comparison to the Health Care Authority (HCA) and Public Education Department (PED) which has a combined general fund revenue of $6.4 billion, which accounts for 63 percent of all general fund appropriations in FY25. For FY26, smaller agencies and non general fund agencies (e.g. agencies with budgets under $5 million) may be considered in staff reports to the Committee as opposed to having hearings in subcommittees as in previous years. However, smaller agencies meeting certain criteria may be asked to participate in a subcommittee or full committee hearing at the recommendation of LFC staff. These criteria include elected officials, agencies with significant audit findings, agencies with needs for in-depth discussion due to revenue loss or reversion, or significant expansion requests. Additionally, analysts are encouraged to consider longer-term (2-year) needs of agencies not requiring large expansions considering inflation, rates, and cost of living adjustments.

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; 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 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 challenge, as are increasing wage inflation nationwide. A recent review of state employee compensation found pay for some state employee job classifications, including some high demand fields, lagged the broader job market. While overall state employee compensation was competitive with the government job market ,to stay competitive, the State of New Mexico should examine providing salary increases where date suggests pay is below market which could include funding a new pay plan if employees were validated in a new job class. Overall pay rates will need to consider increased employee contributions for health insurance, which will need to grow to maintain solvency of the state's health benefits fund.

Consistently high vacancy rates have permitted some agencies to transfer large amounts of personal services and employee benefits appropriations to other areas of the budget. Analysts should consider the ongoing need for long-vacant 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 FY25 was critical for the solvency of the fund, but rates will likely need to rise in FY26 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 FY26 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 FY26 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 FY26. 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. Generally, expansions should be financed within current appropriation levels through reprioritization or on a multi-year period to demonstrate results through the Government Results and Opportunity (GRO) fund. 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 the start of the fiscal year.

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 FY26 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. Nonrecurring requests for pilot programs or to expand agency activities should use the framework established by the Government Results and Opportunity Expendable Trust. Priority will be given to appropriations that provide a results-based, multi-year funding proposal and for those that provide future sustainable funding sources, such as federal matching opportunities. Analysts should begin working with agencies early in the budget process to identify one-time investments to improve the state's major performance challenges, including 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.

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.

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

Recurring revenue decreases through tax cuts reduce the Legislature's ability to allocate resources and have the same effect as increases to recurring appropriations. In other words, tax reductions, like all other appropriations, carries an opportunity cost. Reducing revenues through tax expenditures or rate cuts shortens the timeframe of the state's current budgetary surplus as revenue growth slows to historical levels.

The 2024 tax package is estimated to reduce recurring general fund revenues by up to $265.5 million, $65.5 million, or 32.3 percent, higher than the $200 million included for tax changes in the FY25 LFC budget recommendation. The changes were headlined by a $176 million cut for income tax rate and bracket restructuring and $126 million for environmental initiatives. In total, 2024 legislation reducing revenues is projected to decrease general fund revenue by $220.1 million in FY26. This is the equivalent of a 2.2 percent budget increase over FY25. In total, tax changes since 2019 are expected to reduce general fund recurring revenues by $2.24 billion in FY26, reflecting the Legislature's prioritization of tax cuts equivalent to 22 percent budget growth from FY25 spending levels. In aggregate, tax changes in this period have flattened revenue growth to only 1.9 percent in FY26 from FY25, constraining recurring appropriations. Without offsetting revenue raisers, there is little capacity for further tax cuts without facing revenue declines.

However, there are tax issues that can be addressed without eroding revenue, either by focusing primarily on revenue-neutral changes or including revenue raising measures alongside tax cuts.

If revenue raisers are considered, savings could be used to eliminate the marriage penalty in the personal income tax. Although progressivity and compaction of the personal income tax was somewhat addressed in the 2024 legislative session, the new brackets maintain the marriage penalty of higher marginal rates for the equivalent of two single filers filing for the same income level. Eliminating the marriage penalty would improve simplicity and horizontal equity in the personal income tax.

Further opportunities for reform and revenue offsets include evaluation and elimination of unimpactful tax expenditures. Various tax credits, deductions, and exemptions, including those passed in recent sessions, have narrowed the tax base and require higher tax rates than without those expenditures. Narrowing the tax base, especially with piecemeal or special interest tax breaks, often results in inequities in taxation across demographics or income levels and creates uneven playing fields for businesses providing the same products or services. Tax reform should include a comprehensive review eliminating, capping, or adding sunsets to existing tax expenditures to broaden the tax base and reduce tax rates.

Tax reform discussions over the years have often considered lowering the GRT rate or expanding anti-pyramiding provisions in the tax code. Tax changes passed in the 2022 legislative session lowered the state GRT rate, helping mitigate the impact of pyramiding and alleviated the taxpayer burden created by high rates, improving the state's economic conditions and competitive position. While New Mexico's state GRT rate is relatively low compared with other states, ranking 34th as of January 2024, the combined state and local average rate is the 17th highest in the nation. As the state reduced its GRT rate, local governments have increased their rates resulting in revenue shifting to local governments and mitigation of the intended impacts.

In addition to LFC's general tax principals, tax change proposals should also be analyzed, both costs and benefits, considering the potential impact on economic diversification, impact on overall business climate that leads to improved personal income levels and quality of life, and long-term sustainability of the forgone revenue relative to other spending obligations and priorities.

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 43 percent of total general fund appropriations—the largest category of general fund spending in New Mexico. In FY25, the Legislature appropriated $4.4 billion to public schools, an increase of $251 million, or 6 percent, over the prior year. Notably public schools are seeing a continuing trend of increased operating reserves. As of June 2024, public school unrestricted fund balances grew to $656 million statewide, creating an average cash balance of 16 percent across school budgets.

Lost learning time from Covid-19 school closures and continued student disengagement after the pandemic continue to slow the academic and social recovery of students. 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 access to data and the use of data to inform instruction, and address at-risk student needs highlighted in the Martinez-Yazzie education sufficiency lawsuit.

Schools made considerable budget adjustments for FY25 due to low unit value projections, transportation formula changes, high insurance premiums, reduction in school days, high construction costs, expiration of federal pandemic aid, and elimination of nonrecurring programs. Analysts should coordinate funding recommendations with other programs and agencies that intersect through multiple state agencies (e.g. early childhood, higher education, workforce, health and public safety).

In addition to covering essential operational needs, analysts should identify opportunities to strategically staff schools, consider workload adjustments, reduce or eliminate ineffective interventions and reallocate 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 FY26 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 resulting in 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. Following several years of significant budget increases, in FY25 the Legislature increased CYFD's operating budget by 0.6 percent, including $2.5 million from the General Fund and an increase of $1 million from TANF to support youth aging out of foster care. The Legislature appropriated $18.6 million in targeted, multi-year appropriations through the GRO fund to pilot and evaluate programs to incentivize master's-level social work licensure, retain caseworkers, to implement differential or alternative response, for family preservation services, as well as recruitment and retention of foster (resource) families.

Analysts should prioritize funding for evidence- based services and strategies to stabilize Protective Services, including recruiting and retaining professional social workers and addressing high caseloads, while maximizing federal revenue sources. Analysts should examine cost savings opportunities from decreased need for out-of-home placements and intervention strategies.

Behavioral Health. Because of a lack of access to services and the need to address growing behavioral health and substance abuse needs, especially in rural communities, the Legislature in the past several years invested heavily in capacity building, workforce, and treatment. Agencies within the behavioral health collaborative received $407 million in nonrecurring funding between FY23 and FY25 to build capacity, increase the workforce, and improve treatment. Additionally, between FY22 and FY25 recurring spending within Medicaid Behavioral Health will grow by 25 percent, primarily because of rate adjustments, including increasing the Medicaid reimbursement rate from 90 percent of Medicare to 150 percent of the Medicare's rate starting in January 2025. With these investments, the Human Services Department (HSD) and the Children, Youth and Families Department (CYFD) should ensure behavioral health networks continue to grow and are sufficient and effective at meeting the needs of the state's most vulnerable populations by offering high-quality evidence-based services. 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. 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. In April 2024 there were 878,841 New Mexicans were enrolled in Medicaid, about 6 percent fewer than the 941,347 that were projected int eh Health Care Authority's (HCA) January 2024 budget projection and amounting to about $9.5 million in general fund revenue. Following the end of the public health emergency, Medicaid rolls continue decreasing, despite the department's projections indicating otherwise. In addition, in FY24 the Legislature appropriated funding to increase rates for maternal and child health and physical health services to 120 of Medicare rates. In FY25, the HCA received an appropriation allowing the authority flexibility to increase rates again up to 150 percent of Medicare. Since then, the department indicated that it would increase the rates to 150 percent of Medicare starting in January, or for one-half of the fiscal year. The department's planned adjustments, if they are to be implemented on an ongoing basis, will require another increase to ensure the rate adjustments are funded for a full fiscal year. Given the uncertainty in costs related to these changes and others, analysts will work to develop budget projections that more accurately reflect projected Medicaid rolls and the effects of rate adjustments and other changes.

Additionally, 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 prioritizes 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 Legislature has allocated significant nonrecurring appropriations for major state road projects. 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 for ongoing maintenance. Analysts should also consider making the Department of Transportation a general fund agency.

Higher Education. For FY25 the Legislature appropriated $1.3 billion in recurring funding for higher education, an increase of $44 million or 3.5 percent over FY24. Recognizing the increasing costs of scholarship programs, the Legislature passed and the governor signed Chapter 61 (Senate Bill 159) creating a higher education trust fund. The law transfers $959 million from the tax stabilization reserve fund to the higher education trust fund to be invested by the State Investment Council. The trust fund would then make annual distributions of 5 percent of the fund balance to the higher education program fund for use to pay student tuition and fees for state financial aid programs authorized by law. The fund will provide approximately $48 million for this purpose in FY25. The Legislature created the opportunity scholarship in 2022 to pay tuition and fees for returning and part-time students. At the time of enactment, the program was anticipated to cost $100 million. After the first year of opportunity scholarship program awards, the cost estimate was revised to $146 million, which was included in the HED recurring base budget in FY24. However, the costs continue increasing due to increasing tuition and enrollment and are projected to be approximately $160 million in FY25.

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. 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.

Natural Resources. In 2024, the Legislature invested almost $350 million in non-recurring funds for over 15 different projects spread over four agencies, created a $350 million endowment for natural resource agencies, and increased the recurring spending of natural resource agencies by a combined $12 million. Due to this sustained growth, analysts should examine if fee revenue for natural resource agencies are sufficient to cover aspects of operating costs and allow them to carry out their statutory duties. Analysts should also examine how agencies are utilizing the large federal investments available and if more opportunities can be utilized. Further, analysts should monitor the spending and progress of the various special appropriations, ensuring funds are being used along proper timelines. Significant investments have been made over the past 5 years to further the goal of a healthy and resilient natural resource environment in New Mexico. However, it must also be paired with effective and measured stewardship of state funds.

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.

Workforce Development

Low labor force participation is a persistent challenge in New Mexico. The Legislature has made significant investments in workforce development programs in recent years, including a total of $80 million across FY24 and FY25 for non-credit bearing training at higher education institutions, $8 million for apprenticeship programs delivered by Workforce Solutions, and $45 million from PED. While implementation of these expanded programs will take time, the state currently lacks outcome and performance information about these investments. Analysts should prioritize evidence-based programs that target adults not participating in the labor force and high-demand industries, while looking for implementation plans that include outcome evaluation when considering new or expanded programs.

Budget Adjustments. Authorization to request budget adjustments from the Department of Finance and Administration provides agencies with flexibility to alter operating budget to adjust for unforeseen circumstances, particularly in times when agencies budgets are tight. Historic budget adjustment authority has not always been adjusted in light of significant budget increases received by some agencies, and analysts should review requests for adjustment authority in light of historic usage of this authority. Budget adjustment requests should be consistent with legislative intent and based on specific authority included in the General Appropriation Act. Staff should review authorization language to ensure it is sufficient to provide needed flexibility without opening the door to adjustments that contravene legislative intent.