NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

Budget Request Guidelines Fiscal Year 2028

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 FY28 recommendations on recurring appropriations, 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 FY28.

II. Revenue Outlook

The U.S. economy has so far avoided recession, though the outlook has grown more tepid. Real GDP growth slowed to a 1.5 percent annualized rate in the second quarter of 2026, down from 2.1 percent in the first quarter, according to the U.S. Bureau of Economic Analysis. Consumer spending and business investment have held up but are showing signs of fatigue, and the labor market has weakened sharply: employment fell by 23,000 in July, three-month average job growth collapsed from 77,000 in June to just 20,000 in July, and the labor force has contracted by nearly 1.4 million Americans since the start of the year. The unemployment rate ticked down to 4.1 percent, but for the wrong reasons as people stop looking for work, and is expected to keep drifting higher, peaking near 4.7 percent in 2027. Inflation remains stuck above the Federal Reserve's 2 percent target — the 12-month change in the CPI was 3.4 percent in July, and the Fed's preferred gauge, the PCE deflator, has eased only to 3.7 percent — with renewed U.S.-Iran hostilities and elevated U.S. tariff rates both adding upward pressure on prices. Rather than the rate cuts previously anticipated, the Federal Open Market Committee is now increasingly under pressure to hike rates rather than cut them.

At the state level, though, recent tax and revenue changes are working against the outlook rather than for it. Legislation enacted in the 2026 session is contributing to falling personal income tax growth of 2.0 percent in FY27 and just 1.2 percent in FY28, while new earmarks — HB 4 diverting insurance premium tax collections into the Health Care Affordability Fund and HB 80 diverting oil and gas conservation tax revenue into conservation-related funds — produce a sharp "cliff" in FY28, when general fund insurance tax revenue falls $94.8 million (16.9 percent) and conservation tax revenue falls $48.4 million (38.8 percent), contributing to FY28's slowdown to 1.5 percent overall recurring growth. Without these changes, revenues would be growing at double the rate. These changes stack on nearly a decade of legislative tax cuts and credits that, cumulatively, are now reducing general fund revenue by roughly $2.2 billion in FY26, growing to about $2.9 billion by FY29, relative to a no-change baseline.

Investment income, by contrast, is increasingly what's powering revenue growth. Combined distributions from the Land Grant Permanent Fund, Severance Tax Permanent Fund, and State Treasurer's Office are growing an estimated 11.5 percent a year on average from FY26 through FY30, and for the first time, total investment earnings are expected to overtake personal income tax collections to become the general fund's second-largest revenue source starting in FY27. Because permanent fund distributions are set off a five-year average balance, they are also the most stable major revenue source in the general fund, a useful counterweight to increasingly volatile oil and gas collections.

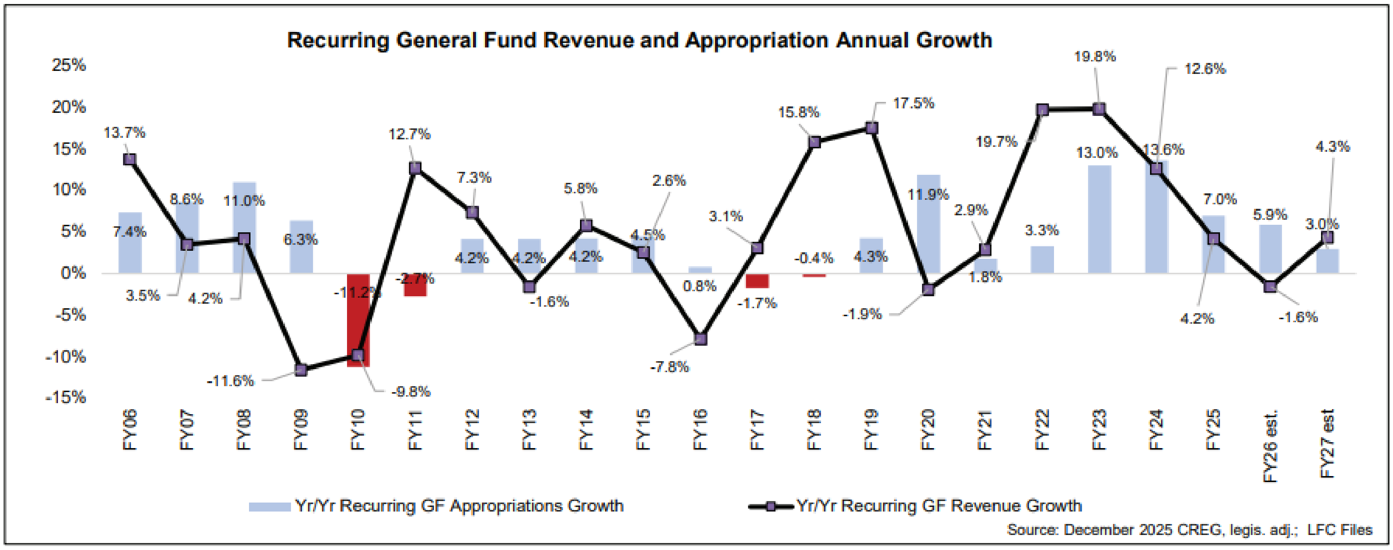
Recurring revenue in the budget year (FY28) is expected to be $3.59 billion more than FY27 recurring spending enacted in the 2026 legislative session. Nonrecurring spending has grown rapidly in recent years and continues to represent a substantial share of total spending representing over 20 percent each fiscal year, in addition to recurring expenditures. Total revenues less total prior year spending, a more accurate measure of new general funds available over the prior year, rose sharply, from $105.7 million in FY27 (previous year) to $924.2 million, or 6.7 percent, in FY28 (current budget year).

The revenue outlook has notably improved in the previous and current fiscal year: stronger-than-expected gross receipts tax collections and a sharp rebound in corporate income tax revenue lifted FY26 recurring revenue growth to 3.0 percent and FY27 to 3.8 percent, well above previous tracking when income taxes had fallen dramatically. Growth is expected to slow to a more modest 1.5 percent in FY28, however, as new legislative earmarks divert a larger share of general fund revenue into project-specific funds, before returning to a more typical 3.5 to 3.8 percent pace in FY29 and FY30. Oil and gas remain the primary driver of current revenue strength and the state's greatest source of volatility, while the renewed U.S.-Iran conflict, and a softening labor market close in as strong secondary risks. New Mexico's revenue volatility remains among the highest in the nation, underscoring the continued need for fiscal strategies that stabilize revenues and support long-term budget sustainability.

Under CREG's low-oil-price stress-test scenario, general fund revenues would come in $789 million below the consensus forecast in FY27 and $1.73 billion below in FY28 relative to baseline — with roughly 60 percent of the total $4.3 billion FY28 impact absorbed first through reduced trust-fund and severance tax permanent fund distributions rather than hitting the general fund directly. While reserves and prudent recurring budget management would likely protect core services, the state would need $2.5 billion in reserves or other funds, with flat spending, to avoid budget cuts through FY28 under this scenario. By maintaining at least 30 percent in dedicated reserves, the state would maintain sufficient liquidity to meet such a scenario.

III. FY28 Priority and Approach

The Committee’s continued 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 13.6 percent) is unsustainable. While general fund revenue has continued to grow year over year since before the Covid-19 pandemic, growth has slowed. Analysts should consider agency needs given recent significant growth in appropriations. Analysts should consider right-sizing budgets, considering future needs, current operational capacity, existing fund balances, recent reversions, and budget adjustment requests. Furthermore, opportunities to generate revenue and promote state agency self-funding mechanisms should be encouraged and developed. Opportunities to leverage other state funds should be prioritized if it does not jeopardize the sustainability of that other state fund. Federal revenue changes will also need to be evaluated as part of analysis for the FY28 budget. Potential backfilling of lost federal revenue for state agencies should use the same criteria as expansion requests and recommendations should depend on impacted services, justification, available resources, competing priorities and persistence of demand on services. Consideration of opportunities for investments in permanent funds should weight the return on investment from spending “today” dollars now against the potential future revenue generated by saving them.



Education and health and human services remain the state and Legislature's highest priority and biggest fiscal and policy challenge. Other Committee priorities for FY28 include oversight and accountability to ensure that recent investments are resulting in desired outcomes including increased educational attainment and increased per capita earned income, expanded access to high quality healthcare, and improved quality of life for New Mexicans.

Overall, the committee will consider general fund appropriations adjustments in state agency budgets. Expansion of agency budgets or backfilling of federal revenue will only be considered for programs that improve outcomes for New Mexicans with prioritization for research-based, evidence-based, and demonstrated innovative and cost-effective programs and strategies, previously through GRO demonstration pilots. Analysts should, to the extent possible, integrate elements of dynamic scoring into their evaluations of new appropriations, considering the broader economic, fiscal, and social impacts over time. This includes estimating potential revenue generation, cost offsets, and long-term savings, as well as assessing the return on investment to ensure state resources are directed to programs and projects that provide the greatest overall benefit. Revenue 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 2018 Martinez-Yazzie school finance ruling, the state has increased recurring school spending by over $2 billion dollars or 83 percent (FY26). Efforts need to shift to ensure the state builds leadership capacity, implementation strategies, 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 or federal funding using other state funds first and using the same criteria as used 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.

General Fund Reserves

The committee recommends maintaining a general fund reserve target of 30 percent of recurring appropriations. The state's growing reliance on volatile revenue sources—including oil and gas revenue, corporate income tax collections, and short-term market sensitive returns in the general fund—increases the likelihood and potential size of sudden revenue shortfalls, warranting a reserve buffer sized to match that risk. Within the 30 percent target, reserves should also be more liquid. The committee recommends building the operating reserve toward its statutory cap of 8 percent of recurring appropriations, since it is the state's only reserve component that can be accessed immediately to manage in-year cash flow volatility. By contrast, the tax stabilization reserve—which holds the large majority of reserve balances—requires an estimated six to eight months to liquidate, making it unsuited to respond to short-term revenue swings even though it remains essential to weathering sustained downturns. The combination of a fully funded operating reserve and a robust tax stabilization reserve will become more important in maintaining the 30 percent target as other reserve components roll off in coming years, such as the behavioral health trust fund, leaving these two accounts to carry a larger share of total reserve balances.

Agency Hearings

Like FY27, FY28 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. Public education and Medicaid continue to be the largest cost centers of the state budget accounting for 60 percent of general fund appropriations. For FY28, smaller agencies and non-general fund agencies (e.g. agencies with budgets under $5 million) will be considered in staff reports to the Committee as opposed to having hearings in subcommittees. 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 (multi-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. If an agency has been meeting or exceeding performance targets in previous years, a more ambitious target should be considered.
- 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 and evidence-based clearinghouses to inform recommendations where applicable (see subsequent PIVOT section of Budget Guidelines), 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 FY28 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. Analysts should ask agencies to provide an explanation for performance below target levels. For programs with persistent low performance (red for 3 or more years) agencies will be asked to provide an active intervention plan.

V.A. Budget Guidelines

The following budget guidelines apply to all agencies.

Compensation, Staffing Levels, and Vacancy Rates

Overall staff compensation has grown significantly in recent years, with consistent average pay increases from the legislature, the implementation of the statewide Job Architecture study, and enhanced subsidies for employee health insurance. As a result, many state agencies are likely entering a maintenance phase of personnel funding and analysts should use caution when considering requests for targeted compensation. Given significant compensation increases, analysts should be judicious in recommending targeted pay increases within agency operating budgets and any targeted pay increases need to align to the Personnel Board's classification changes and study. For the classified service, analysts should not recommend increases without receiving an agency compensation policy that has been approved pursuant rules of the Personnel Board. Agency compensation policies should make full use of approved pay bands and avoid policies that compact salaries to the top half of approved pay bands.

Analysts should include analysis of prior year budget adjustment requests (BARs) transferring funds to or from the personnel category, vacancy rates, recent pay increases, requests for supplemental and deficiency appropriations, and data from the completed Job Architecture study when building agency personnel budgets. Analysts should consider the ongoing need for long-vacant positions. These considerations should also be included in agency base budget recommendations.

Benefits. According to the most recent projections, the State Health Benefits fund will be solvent this year and begin to build a small fund balance following recent reforms. However, other benefits programs such as the New Mexico Public School Insurance Authority (NMPSIA) may experience shortfalls with rates not keeping up with expenditures. Analysts will consider requests from the NMPSIA and the Health Care Authority to determine whether program rate revenue will cover costs. Analysts will evaluate whether separate insurance pools for state and school personnel is a cost-effective approach and make recommendations that maximize health benefits, reduce costs, mitigate risks, and support staffing needs, including the potential merger of health insurance programs.

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 FY28 will consider eliminating authorized but vacant positions to reflect historic staffing levels. Analysts should use caution when recommending additional FTE, as agency priorities may shift in the new administration. 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, BAR activity, and program history. To reduce the need for revenue from the general fund, cash balances shall be used in the FY28 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 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. Given federal budget activity, including reconciliation, there will likely be requests for backfilling of federal funding. Most of these could be treated as expansion requests meaning agencies should justify the need for backfilling and such justification would be considered in the budget making process. Required information should include using the Legislating For Results 7 Elements rubric and being considered for GRO pilot funding, especially if the program has demonstrated results or is promising. If existing performance data for such programs is valid and reliable but has not demonstrated value of the program, analysts should consider not recommending for GRO pilot funding. Analysts should prioritize identifying non-recurring or temporary state funding options before committing recurring dollars, examine cases where federal funding is frozen, and evaluate whether existing or future appropriations or programs could be more effectively administered at the state level without federal conditions. 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. 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.

Expansion

Expansions will be limited to evidence-based committee priorities, tied to enhanced service delivery, and are appropriate functions of state government. Analysts 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 over a multi-year period to demonstrate results through the Government Results and Opportunity (GRO) or Public Education Reform funds (PERF). 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.

Government Results and Opportunity (GRO) and Public Education Reform funds (PERF)

Agency requests for GRO or PERF funding should include information about the program premise and goal, a needs assessment, a program description of specific activities, the research and evidence base of the proposal, an implementation plan including timeline, a fidelity plan including a checklist of program components needed to achieve impacts, and an evaluation plan to include key performance measures. These "7 elements" that are a part of agency expansion request justifications are included in a budget development tool on LFC's website: [Budget Development Tool Link.]() Analysts will then use this information to inform their budget recommendation. Agencies should reference the Legislating for Results 7 elements Budget Development Tool and reach out to LFC analysts for assistance as needed. A strong application for an expansion request through the GRO includes describing program premise, providing a needs assessment, providing a program description, providing information about the program's research base, providing an implementation plan, providing a fidelity plan, and providing information about measurement and evaluation.

Note that LFC staff are instructed to hold total annual GRO recommendations under 1 percent of the total general fund recurring budget, and to hold annual PERF recommendations under 1 percent of the total public school support recurring budget as to not create an untenable liability for future legislatures. Additionally, analysts should consider whether an appropriation request lends itself to causal evaluation prior to recommending funding the appropriation through GRO. If GRO funding is awarded, an agency should work with their DFA and LFC analysts to keep them updated on implementation and evaluation of the program. In the interim of 2026, DFA and LFC provided training and offered office hours to agencies setting expectations for planning and oversight of GRO awards that will have to be met prior to receiving ongoing recurring funding.

Proposed and ongoing GRO projects (projects not in their final year) shall be evaluated by LFC staff using a four-item rubric on a five-point scale including the following elements:

- Logic model quality;
- Performance measure quality;
- Evaluation plan quality;
- Plan to communicate results.

GRO projects in their final year will be evaluated using a four-item rubric scored on a five-point scale that also considers outcomes and impacts of GRO investments as communicated by the agency's final evaluation. Final evaluations on GRO projects should be submitted by agencies on September 1 of the final appropriation year of projects. Evaluation criteria for GRO projects in their final year include the following elements:

- Project goal quality;
- Study quality;
- Data collection;
- Results and impact.

Analysts are directed to consider rubrics results in funding recommendations with GRO projects. GRO projects that perform strongly on the rubric and demonstrating positive causal impact should to be considered as candidates for recurring funding in agency operating budgets. GRO projects that are exhibiting unmeasurable or unclear goals, weak study quality (anecdotal results or lack of a counterfactual), problematic data collection (unreliable data or inadequate sample size), or non-impactful results should not be considered for recurring funding and instead can result in additional time for the pilot or result in no further funding.

Program Inventories for Values, Outcomes, and Transparency Agencies

Program Inventories for Values, Outcomes and Transparency (PIVOT) was established from the Evidence and Research-Based Funding Requests Act, which was adopted in 2019 and amended the Accountability in Government Act by requiring certain agencies to collect and report on the different programs being implemented by the agency and to what degree those programs are backed by evidence. The Act also provides consistent definitions for evidence-based, research-based, and promising programs. The information required by the Act provides legislative and executive staff a better understanding of what programs New Mexico is funding and to what degree those programs have evidence behind them. According to the Act, DFA and LFC shall jointly select agencies to participate in the PIVOT process each year. In 2026, LFC and DFA jointly selected the Public Education, Workforce Solutions, Corrections, Children, Youth and Families, Early Education and Care, and Health Departments, as well as the Health Care Authority to complete program inventories on some of their programs.

Following other states' best practices, agency divisions selected for PIVOT should aim to have at least 75 percent of their programmatic spending on programs or initiatives that are backed by evidence (Oregon requires many of its agencies, including Corrections, to spend 75 percent of their budget on evidence- or research-based programming). New Mexico can establish this target to help agencies fund more programs shown to work when run as expected. PIVOT information is due from agencies with their budget requests on September 1 each year. Analysts should use information provided by agencies in PIVOT, as part of their budget requests, to inform programmatic budget recommendations.

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. Analysts shall review language provisions from the previous three years and ensure consistency in language unless a clear justifiable reason for the language change or language omission is provided.

Agency Audit Reports

Analysts shall use the agency's financial audit reports in preparing the FY28 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

Requests for special appropriations ("Section 5" of the General Appropriations Act) represent nonrecurring one-time time-limited funding. Requests for special appropriations by agencies shall include a plan for deployment. LFC staff will refine the plan with the agency to ensure the funding will be spent efficiently. Analysts should refrain from recommending nonrecurring funding for recurring needs and should analyze large programmatic requests for multi-year funding using expansion request criteria. Analysts should also not recommend use of special appropriations as bridges to recurring funding in a future year (e.g. rates, administrative overhead, other ongoing programmatic or operational needs). If requests are made to support local government operations, analysts should examine recent audits to confirm need or lack of resources (e.g. fund balances) and consider strategies for cost-sharing or transition of costs to local government. Furthermore, analysts are instructed to crosswalk nonrecurring requests with requests in other parts of the budget (e.g. capital outlay requests) to avoid duplication of funding. LFC and DFA analysts should come to a consensus on what should be a fund transfer versus an appropriation to honor statutory requirements and legislative intent.

Since 2018, the amount appropriated through special appropriations has grown from about $200 million to $1.5 billion (about a 650 percent increase). Several LFC reports on nonrecurring funding have raised concerns regarding agencies not using funds for intended purposes or agencies not encumbering or expending nonrecurring funding. Analysts should consider requests in the context of the Legislating for Results budget development tool potentially using elements of that rubric for consideration of nonrecurring requests with the understanding that these elements may not translate to all requests.

Several previous nonrecurring appropriations have been underspent or unspent while others that have been spent are not tracking outcomes. Additionally, there is increasing concern regarding agencies using nonrecurring appropriations for purposes that stray from the original legislative intent. LFC could consider additional criteria to apply to nonrecurring appropriations which could include similar criteria used for expansion requests including the 7 elements used for expansion requests (premise, needs, description, evidence, implementation plan, fidelity plan, measurement and evaluation). Agencies should explain why past one-time appropriations remain unspent, while analysts should assess both areas where agencies have effectively utilized funds and where additional funding could strengthen a program, as well as consider whether proposed funds are tied to time-sensitive projects or integral to a broader strategic plan.

Supplemental and Deficiency Requests

Supplemental and deficiency requests often reflect unanticipated costs of an agency. In 2026, LFC and Office of the State Auditor (OSA) issued a Joint Risk Advisory highlighting risk related to agency spending exceeding appropriations and budget authority which can have operational and legal consequences. LFC staff should review the Joint Risk Advisory, including providing additional screening criteria and transparency to these requests. Special and supplemental funding requests will be subject to heightened scrutiny and evaluated in the context of competing federal backfilling demands within the same agency. Analysts should provide rigor to requests for supplemental and deficiency requests. Analysts should work with DFA and agency staff to obtain documented cause and supporting information for supplemental and deficiency requests. This should include supporting documentation detailing an explanation of the unanticipated costs, a projection of sources and uses of funds for the fiscal year under consideration, and rationale regarding why the agency cannot address the shortfall through cost containment strategies and existing budget. Consideration should be given for shortfalls in extraordinary circumstances where an agency provides documented cause due to factors beyond the agency's control (e.g. an emergency such as a pandemic, fire, flood, etc.) or documentation of imminent need to continue operations of government due to extraordinary circumstances or cybersecurity threats.

Agencies requesting supplemental or deficiency funding that cannot provide explanation or documentation, that are making requests due to avoidable policy decisions, or requests that violate statute, may not be considered.

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, and the state has passed historically large capital appropriations packages several years in a row. The Committee will consider appropriations for 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. Analysts will prioritize ensuring adequate funding for planning and design phases that position projects to be completed more efficiently and cost-effectively.

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, community well-being, and quality of life.

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.

For new construction requests for both state agencies and higher education institutions, analysts should attempt to phase funding for design separately from construction. The committee expects higher education institutions to share in the cost of design phase funding. Construction funding should be prioritized to projects that can demonstrate completion of a level of design sufficient to identify cost drivers, validate cost estimates, evaluate operational implications, and provide some level of certainty about project timelines. Agencies and institutions should aim to provide Class 3 estimates to justify requests when seeking major construction funding. Analysts should consider soliciting the services of independent construction cost estimators to identify cost drivers of particularly high-cost projects before recommending funding for those projects. For higher education projects, staff should distinguish between on-campus and online enrollment when evaluating the need for new facilities and ensure that current space is fully utilized before additional space is added. Finally, staff should review facility master plans to ensure that facility requests align with academic priorities.

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. Agencies must also provide transition plans for new IT projects to ensure a seamless transition into the new administration. 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

Federal tax conformity remains a source of volatility for state revenues. Because New Mexico is a rolling conformity state, federal changes automatically flow into the state tax base unless the Legislature acts to decouple, and this dynamic played out on both sides of the ledger this year. Early in FY26, personal and corporate income tax collections softened in part because provisions of the federal reconciliation act (H.R.1)—including expanded bonus depreciation, first-year expensing, and broader business interest deductions—reduced current-year liabilities before the state could respond. The Legislature then acted during the 2026 session, decoupling from those three provisions and adding certain foreign-controlled corporate income to the state tax base through Chapter 69 (Senate Bill 151), recovering some of the revenues lost. This sequence illustrates both the state's exposure to federal conformity and its ability to respond—but only after a period of unplanned revenue loss, underscoring the continued need to monitor federal changes closely and act promptly.

That same decoupling bill, along with other 2026 legislation, also added new tax expenditures: refundable credits for local news organizations and printers, a gross receipts tax deduction for affordable multifamily housing construction, a new credit for physicians meeting service-hour thresholds, and an extension of the high-wage jobs tax credit through 2036. Combined with other bills redirecting recurring general fund revenue to dedicated funds—for health care affordability, oil and gas well reclamation, and utility regulation—total 2026 legislation is estimated to reduce recurring general fund revenue by $98.1 million in FY28, growing to about $200 million in FY29 and beyond. These changes come on top of the substantial tax policy shifts the state has already made: since 2019, legislative changes have reduced general fund recurring revenues by an estimated $2.7 billion in FY27, equivalent to 25.1 percent of FY26 recurring spending. Many of these changes, including several enacted just this session, were adopted to target specific industries, behaviors, or outcomes whose results have not yet been demonstrated. Given this track record, and as long-term forecasts point to declining oil and gas revenue narrowing future capacity, any additional tax code changes—and the continued maintenance of existing tax expenditures—should be subject to rigorous assessment of their actual or likely effectiveness, not adopted or preserved on the basis of intent alone.

Every dollar of forgone revenue is a dollar unavailable for other uses of state resources. The Revenue Stabilization and Tax Policy Committee's FY28 guidelines formalize this expectation, directing that proposals be evaluated against the same rigor and transparency used in the state budget process. Changes to the tax code should include a clearly stated purpose, a theory of change, measurable goals, a fiscal impact estimate, a sunset date, an expenditure cap where feasible, effective targeting, and reporting requirements sufficient to monitor utilization and outcomes. Proposals lacking these elements should receive lower priority. All tax proposals, in addition to aligning with the revenue and tax committee's tax principles, should be evaluated based on their impact on economic diversification, the business climate, personal income growth, and quality of life, and assessed for long-term revenue sustainability in the context of competing budget and tax 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 44 percent of total general fund appropriations—the largest category of general fund spending in New Mexico. Since the *Martinez-Yazzie* court order in FY18, student achievement gaps remain largely the same—despite almost a $2.1 billion, or 74 percent, increase in recurring appropriations. Since FY18, statewide enrollment has dropped by 31.2 thousand students (or 9.6 percent) and school unrestricted cash balances have grown by $420 million (or 153 percent). Analysts should prioritize recurring funding for programs and initiatives most likely to substantially reduce the achievement gap. New initiatives may be considered for a public education reform fund appropriation if proposals include an accountability and evaluation plan that meets requirements set by LFC, LESC, and DFA. Otherwise, proposals must be evidence-based and aligned with court-ordered actions for the *Martinez-Yazzie* lawsuit to receive consideration.

To build a world-class education system in New Mexico, the Committee will continue to prioritize its framework of evidence-based programs and initiatives that enhance school leadership and teacher quality, target extended learning opportunities to students needing additional support, boost student college and career readiness, improve access to data and the use of data to inform instruction, and provide access for at-risk students to educational opportunities that close achievement gaps identified in the *Martinez-Yazzie* education sufficiency lawsuit.

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) and eliminate duplication of effort. In addition to covering essential operational needs, analysts should identify opportunities to strategically staff schools and enhance services. Funding for programs or interventions lacking evidence of effectiveness, missing statutorily required reporting for multiple years or demonstrating proven harm shall be repurposed, reduced, or discontinued.

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 FY28 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 and repeat maltreatment resulting in out-of-home placement of children in foster care and other settings. And, in the last five years, the number of children in custody has increased over 25 percent. 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. After several years during which the Legislature prioritized investment in multi-year, non-recurring appropriations to address core functions and pilot and evaluate strategies to address systemic challenges in the child welfare system--including workforce recruitment and retention, community-based placements, and prevention and early intervention strategies—the Legislature provided a 5.6 percent general fund increase for the agency in FY27 while continuing to invest targeted, non-recurring funding. Among both non-recurring and operating budget investments, CYFD has experienced implementation challenges.

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 as the agency implements evidence-based prevention and early intervention programs as required by recent legislation. Analysts should prioritize programs that are eligible for federal reimbursement to ensure the state is fully leveraging federal funds. Analysts should prioritize investments in instances in which the child welfare system has demonstrated the ability to implement and track outcomes and consider the multi-year appropriations CYFD that will be available in FY28 when considering increases for the operating budget.

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 and passed legislation to overhaul the state's behavioral health system. For FY26, agencies that touch upon behavioral health received $555 million in nonrecurring funding beyond the $407 million allocated between FY23 and FY25 to build capacity, increase the workforce, and improve treatment. Additionally, since FY22, recurring spending within Medicaid Behavioral Health grew significantly, primarily because of rate adjustments, including increasing the Medicaid reimbursement rate . With these investments and reforms, analysts should continue to oversee reform efforts and ensure spending is evidence-based. Working together with agencies that touch on behavioral health, 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. Analysts should consider nonrecurring behavioral health investments based on recommendations provided by the Behavioral Health Executive Committee. 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 crime rates remain a central concern of the Legislature, which has responded in recent years with substantial investments in law enforcement, criminal justice partners, and workforce expansion. Following this period of significant growth, the focus for FY28 shifts from expanding budgets to ensuring prior investments deliver results. Consistent with the Committee's broader approach, analysts should right-size public safety budgets in light of vacancy rates, reversions, fund balances, and demonstrated operational capacity, and should expect new recurring funding to be limited to essential, well-justified needs. Requests for program growth should first be addressed through reprioritization within existing base budgets; where new investment is warranted, nonrecurring

appropriations, supported by clear implementation plans, are the preferred vehicle for capacity building, pilots, technology, and other time-limited needs.
Improved performance management and coordination among state and local criminal justice agencies, including courts, district attorneys, law enforcement, the public defender, and counties, combined with effective implementation of evidence-based reforms, offers a path toward improved public safety without commensurate growth in recurring spending. Effective reforms, such as improved technical parole violation revocation practices, can generate savings from reduced incarceration and recidivism that may be reinvested in proven public safety programs, including ensuring appropriate and efficient use of prison space and evidence-based behavioral health efforts. Analysts should also continue to press for better data collection and responsible data sharing among criminal justice, health, and workforce partners across levels and branches of government. Improved data availability and quality strengthen performance management, guide resource allocation, and support evaluation of reforms and agencies should be expected to adopt consistent metrics, track outcomes rigorously, and use that information to refine or discontinue programs based on results.

Medicaid. In June 2026 there were 818,515 New Mexicans enrolled in Medicaid, about 18 percent fewer than the 1,001,599 that were enrolled during the peak of the pandemic. Medicaid rolls are stable following the pandemic but will likely decrease over the next few years with new federal work requirements and the exclusion of certain immigrants from the program. Concurrently, between FY24 and FY26, the Legislature appropriated about \$2.3 billion to increase rates for hospitals, maternal and child health, primary care, behavioral health, and other services. Over the next several years, the reconciliation bill and other proposed federal executive actions will roll many of these provider rate increases back. The Medicaid provider rate reductions and further projected decreases in enrollment will lead to concerns about provider viability, as they will experience higher rates of uncompensated care and lower reimbursement rates. Given these changes, analysts will focus their recommendations on minimizing the impact on provider networks and maintaining services that improve outcomes.

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 prioritize 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 and other potential sources of revenue.

Higher Education. New Mexico is ranked second in the nation for state higher education funding per student but routinely appears in the bottom five states in the nation for graduation. In FY27, the Legislature appropriated \$1.5 billion from the general fund for higher education including fully funding the tuition-free college through at least FY28. However, scholarship costs have increased at a faster rate than enrollments, straining financial sustainability of the programs. Staff should continue examining options to improve the financial position of the scholarships, including limits to tuition increases.

Current funding levels are sufficient to support operations of higher education institutions statewide, the distribution methodology of the higher education funding formula, last comprehensively examined in 2013, lacks measures of retention, enrollment, and student outcomes. . The Legislature made several changes to the formula in the past three years and now includes increased weight for workforce training credits, doubled the proportion of new money distributed based on performance, and streamlined the number of measures in the formula. The full impact of these changes to institutional incentives may take several years to fully realize. Staff should consider the impact of inflation on institutional costs and recognize the potential for improved efficiency to free up existing resources to support other spending priorities.

Staff should continue evaluating the single line-item research and public service (RPSP) appropriations ensuring instruction and general items are counted in the recurring base, where they are subject to formula increases, rather than maintaining them as independent line items. Analysts should examine opportunities to transition institutions to I&G performance-based formula and collapsing more RPSP's into institution's base budgets.

When analyzing nonrecurring appropriation requests, analysts should prioritize those projects which are statewide are directly tied to improved academic outcomes, and have post-graduation impacts on wages or employment. Similarly, when analyzing the impact of prior year GRO appropriations, analysts should only recommend extending funding for those programs that have an empirically demonstrated positive impact on student graduation or workforce outcomes.

Natural Resources. As the states climate continues to change, as evidenced by a historically warm winter, a persistent drought, and an expanding wildfire season, the Legislature has responded to the change with record investment in its natural resource agencies. For nonrecurring appropriations, the Legislature continued to invest into the state's water quality and quantity, as well as investing in community energy, geothermal expansion, industrial decarbonization, uranium and neglected site cleanup, brackish water augmentation, and the purchasing of disaster impacted land, All told, the Legislature invested $291.2 million in nonrecurring funds for these projects, as well as increasing the state's natural resource agencies recuring budgets to account for increasing insurance and operations costs. Additionally, the Legislature passed cosmetic changes to the Land of Enchantment Legacy Fund, ensuring the nearly half a billion fund designed to enhance the state's natural resource agencies recurring budget follows best financial practices and grows at a competitive rate. Due to the sustained growth of both agency's recurring and nonrecurring budgets, analysts should ensure legislative intent is followed and funding is mobilized quickly and efficiently. Analysts should also examine how agencies are utilizing existing federal investments and monitoring viability of those funds. Further, analysts should monitor the spending and progress of previous special appropriations, ensuring funds are being used along proper timelines. The challenges the state is projected to face, from a dwindling water supply, the specter of large-scale wildfires and flooding, and a rapidly evolving climate, need to be met with consistent and measured investment. This investment must also be properly utilized, to ensure the effective and productive stewardship of state funds.

Economic Diversification. New Mexico's economy has long relied on the oil and gas industry, retail trade, and government employment. Although these sectors remain critical to the state's economy, expanding into new industries could create more economic opportunities, stabilize government revenues, improve residents' quality of life, and increase per capita income. To support economic diversification, the Legislature has made significant nonrecurring investments in economic development initiatives. Over the past two legislative sessions, the Legislature appropriated nearly $500 million for science and technology initiatives, quality-of-life projects, marketing and promotion, and economic development infrastructure. Given the scale of these investments, analysts should evaluate whether expenditures align with legislative intent and produce intended outcomes, including expanding the state's economic base, creating jobs, and generating a strong return on investment. Analysts should also monitor emerging economic development trends and challenges to help ensure agencies adapt their strategies and the Legislature invests in effective, innovative approaches.

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, directing over $250 million for non-credit bearing training at higher education institutions, , career technical education through the Public Education Department, and apprenticeship programs delivered by the Workforce Solutions Department since FY24. 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. Analysts should identify opportunities to optimize workforce funding by leveraging local job boards where appropriate.

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 considering 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.

Executive Orders. New Mexico has increasingly relied on executive orders to finance disaster response and recovery, drawing substantial amounts from the Appropriation Contingency Fund and General Fund Operating Reserve. The current emergency funding system hinders the state's financial stability and impedes the legislative branch's appropriation authority by spending into general fund accounts without explicit authorization. From 2023 through 2026, the executive committed approximately $553.8 million through emergency orders, including $466.2 million for natural disasters, while $331.8 million has been drawn from the General Fund Operating Reserve since FY22. While executive orders are an important tool for addressing immediate threats when the Legislature is not in session, the longer-term recovery costs can continue for years after the initial emergency and increasingly resemble ongoing appropriations rather than short-term emergency response. Foreseeable disaster costs should be incorporated into the regular legislative appropriations process, with executive-order funding reserved principally for immediate and genuinely unforeseen needs. Analyst recommendations should incorporate research-based approaches such as using historical disaster spending, risk projections, and dedicated disaster accounts to improve long-term planning and budgeting. Analysts should also work with agencies to identify funding opportunities and revenue sources for longer-term response, recovery, mitigation, and state-match needs, which would improve legislative oversight and transparency while preserving the executive branch's ability to respond rapidly to emergencies.