



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

New Mexico State Government Finances Military and Veterans' Affairs Committee

Jon Courtney, LFC Deputy Director
July 6, 2023

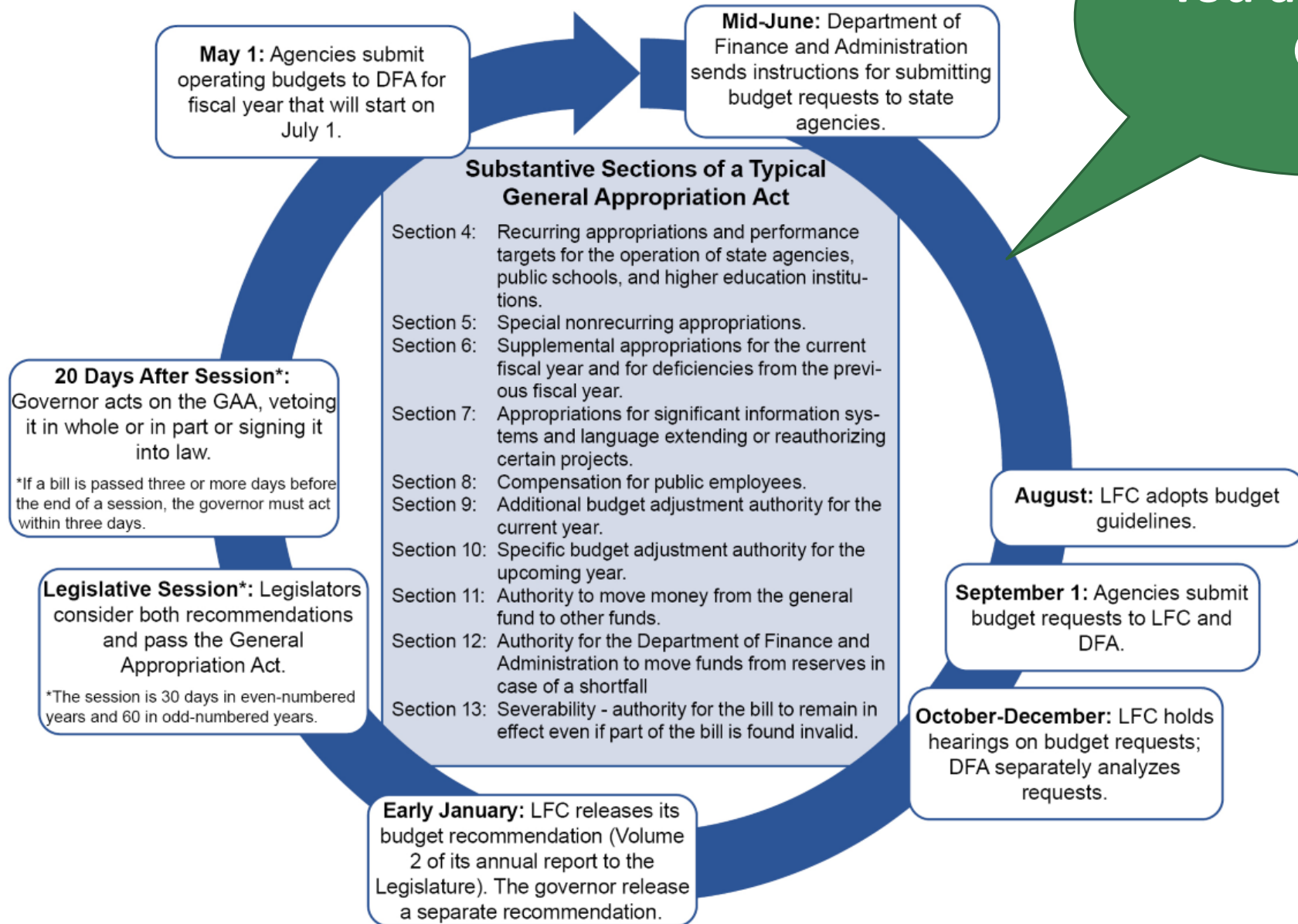
Overview



- Post Session Review
- Appropriations Process & Legislating for Results
- Fiscal Outlook
- Legislative Session Update



Appropriations Process

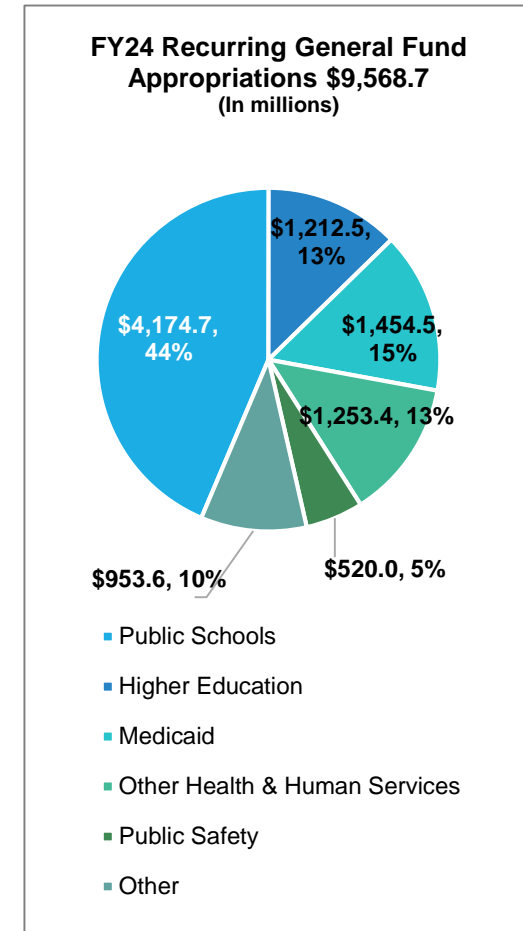


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FY23 General Appropriations Act (aka GAA or HB2) Highlights

- Continued revenue growth leading to \$12B in general fund revenue and \$3.6B in new money
- The legislature passed HB2 which funds programs for FY24 (July 1 2023-June 30 2024)
- FY24 spending will approach \$9.6 billion
- 14% growth over FY23
- FY24 reserves projected at 37% or \$3.5 billion
- Largest categories of spending are education, Medicaid, other HHS and public safety



What did the Legislature do with all that money?

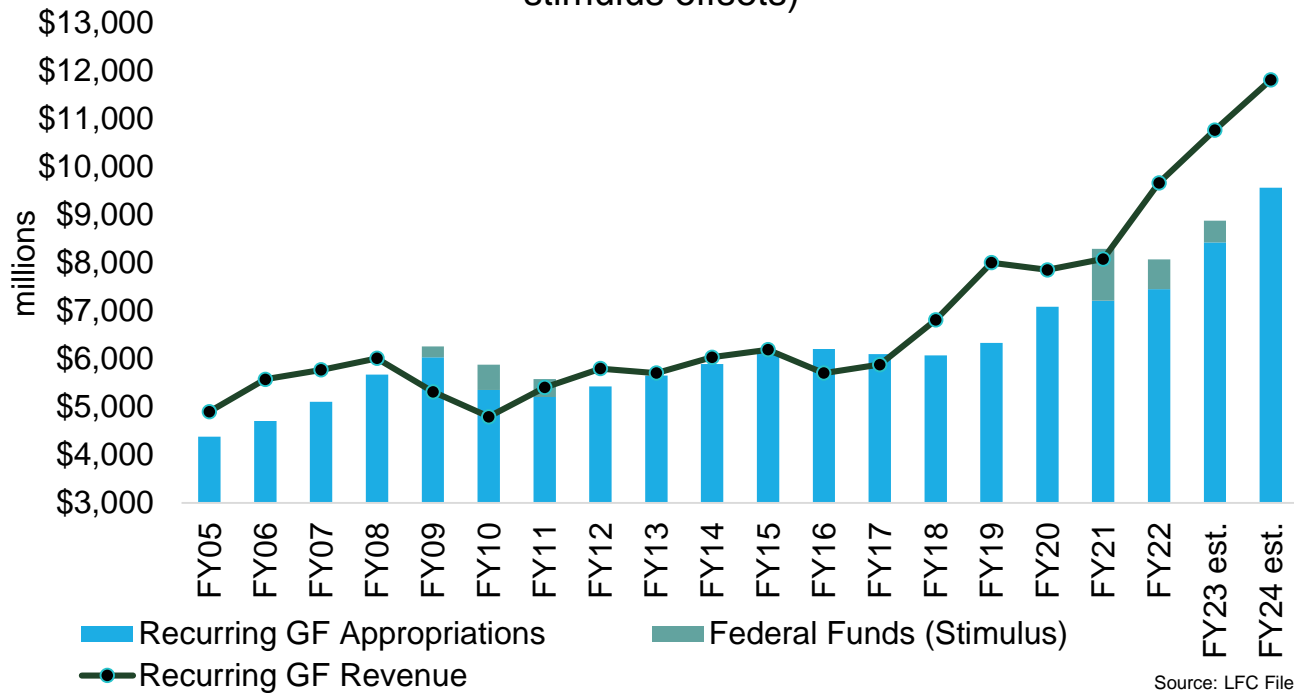
- General Fund increases for agency operating budgets by \$1.1B, or 14%
 - \$302M for public schools, including reallocating \$250 million unused funding for new extended learning requirements
 - \$132M, or 67%, for early childhood from school permanent fund for Pre-K and another increase of \$120M mostly for child care from EC trust fund
- Over \$200M for Medicaid, including funding for provider rate increases.
- Big investments in staffing and evidence-based child welfare interventions at Child Protective Services

What did the Legislature do with all that money?

- Unprecedented nonrecurring appropriations and transfers to permanent funds
 - Special non-recurring appropriations from the general fund of \$1.4 billion
 - Cash finance capital outlay projects totaling almost \$1.1 billion for 1,497 projects
 - Tax cuts and rebates (significantly reduced by line item vetoes)

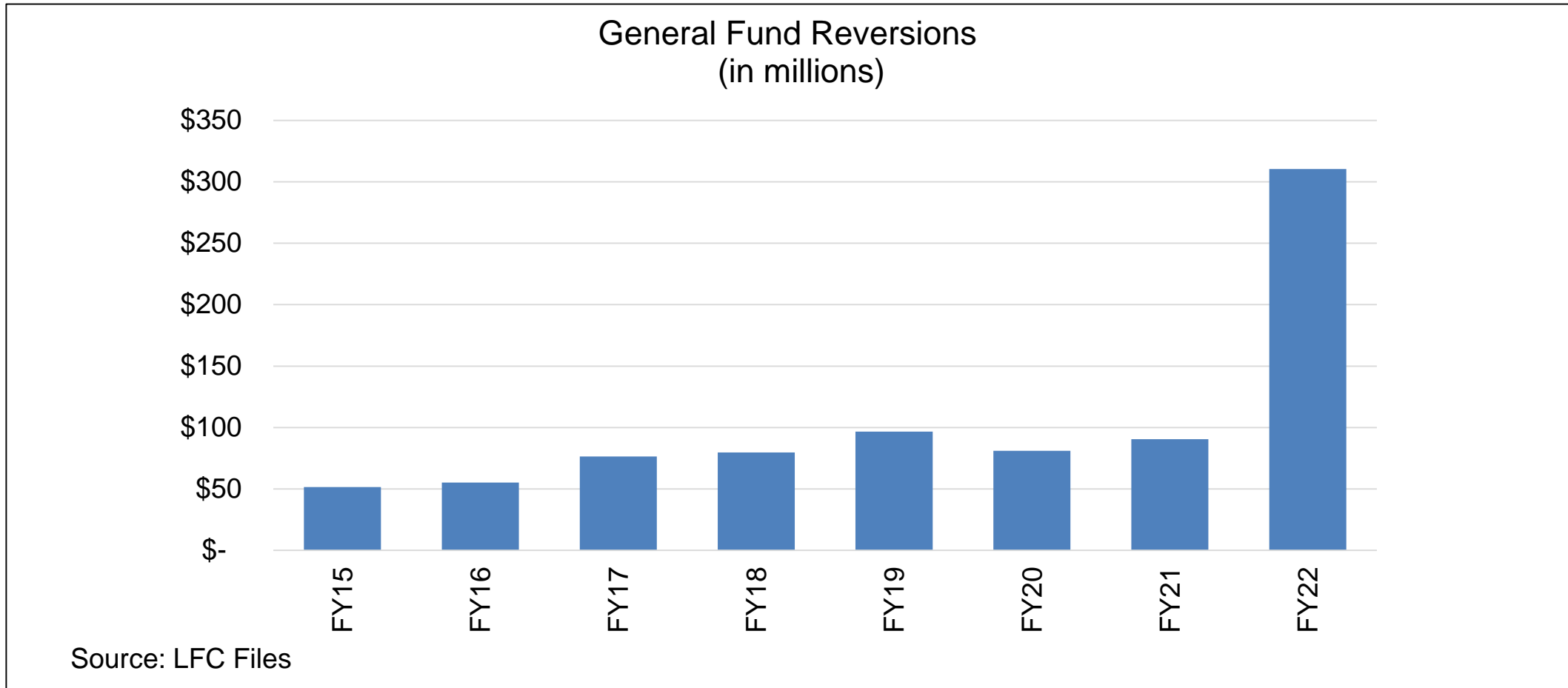
State Government Fiscal Overview

Recurring General Fund Revenues & Appropriations
(including Great Recession & Covid-19 pandemic federal stimulus offsets)



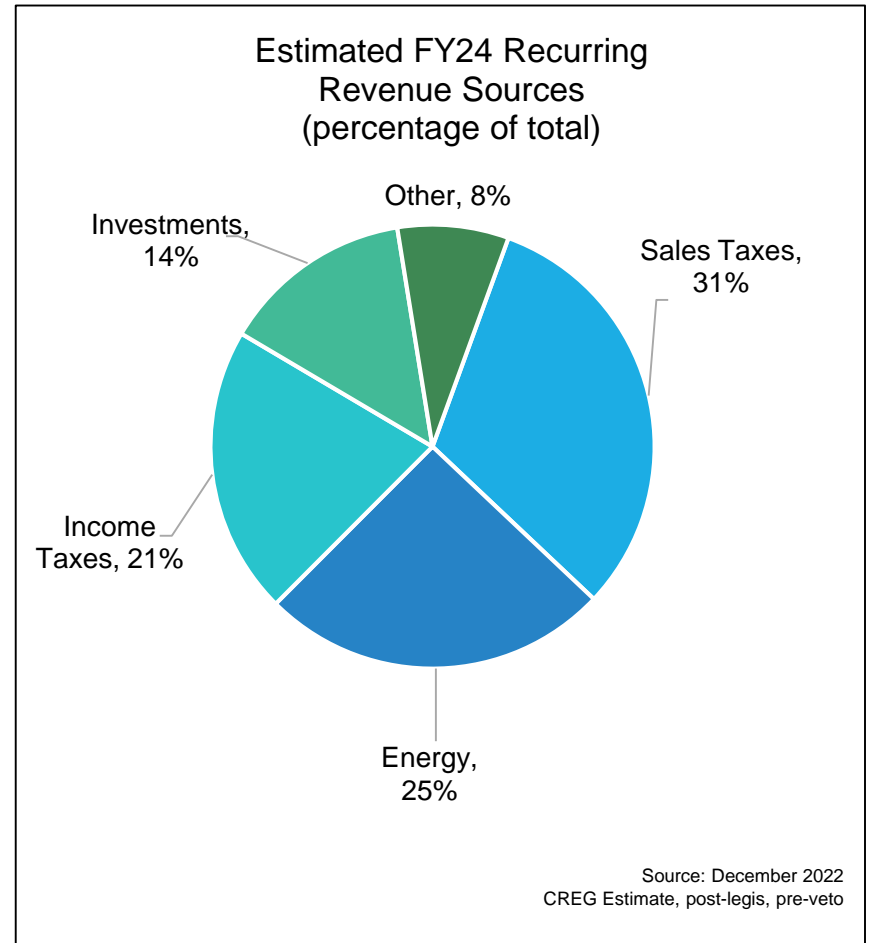
- FY24 saw continued increase in revenues and appropriations
- FY24 revenues estimated at \$12 billion
- FY24 “new money” was estimated at \$3.6 billion
 - New money=
 - projected FY24 recurring revenues (\$12B)-
 - FY23 recurring GF approps (\$8.4B)
- FY24 appropriations approaching \$9.6B
 - Does not include over \$1B to infrastructure and capital

Capacity Limits and Best Use of Revenue Windfalls

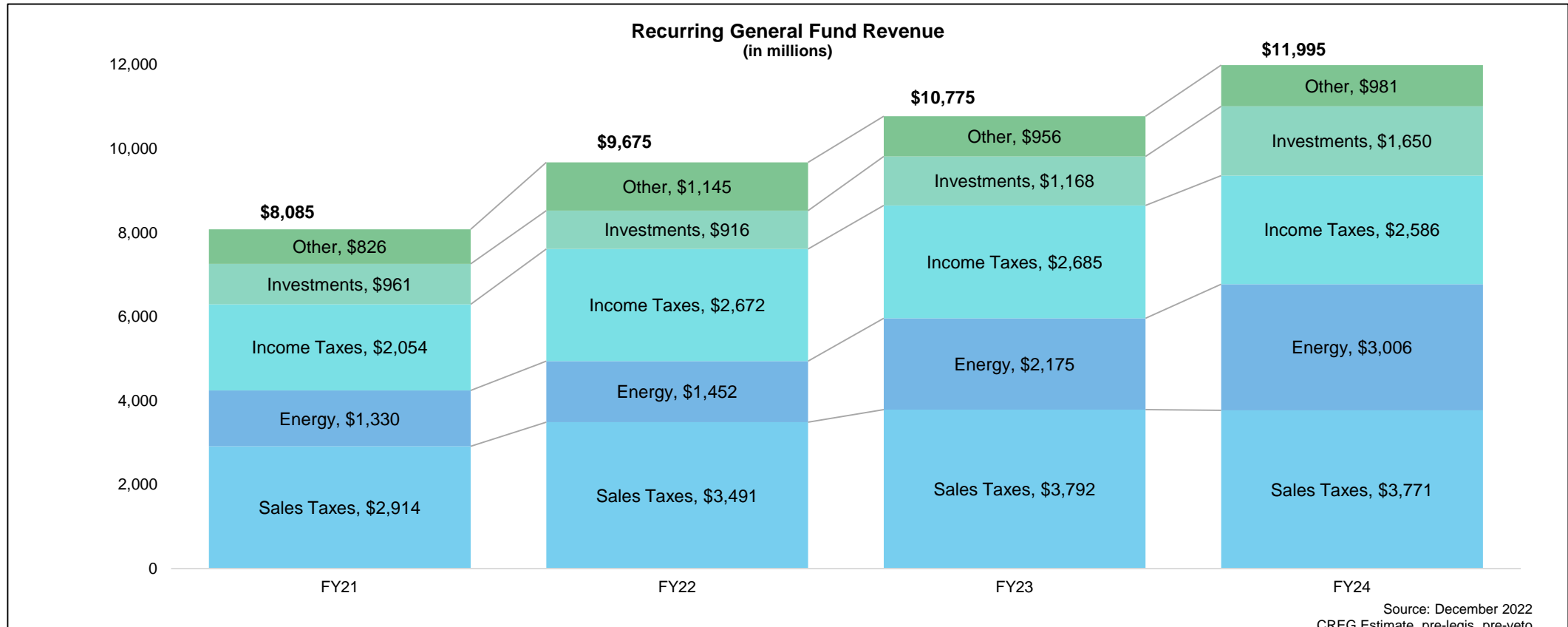


Recurring Revenue Sources (FY24 estimated \$12B)

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



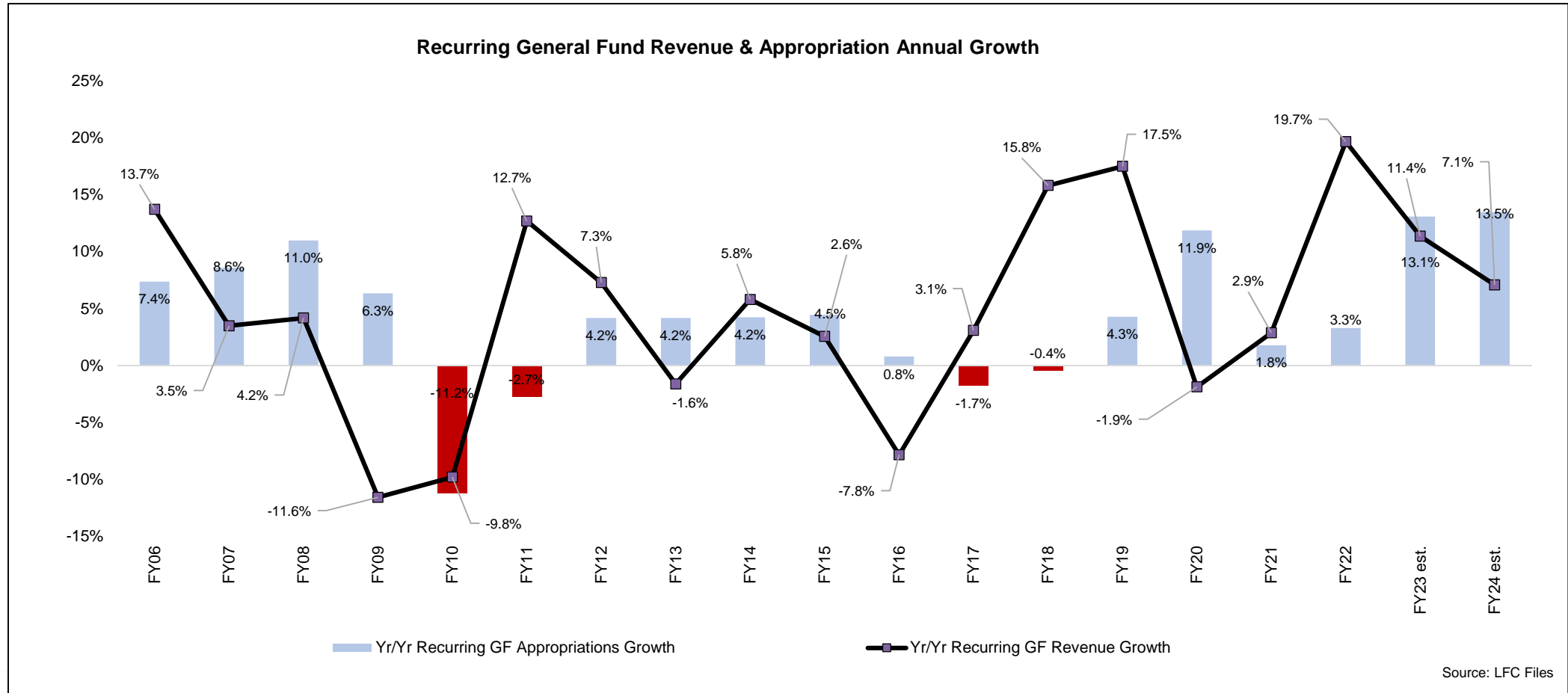
Oil Revenue Driving Overall Revenue



Fiscal Outlook: Roller Coasters Aren't Always Fun



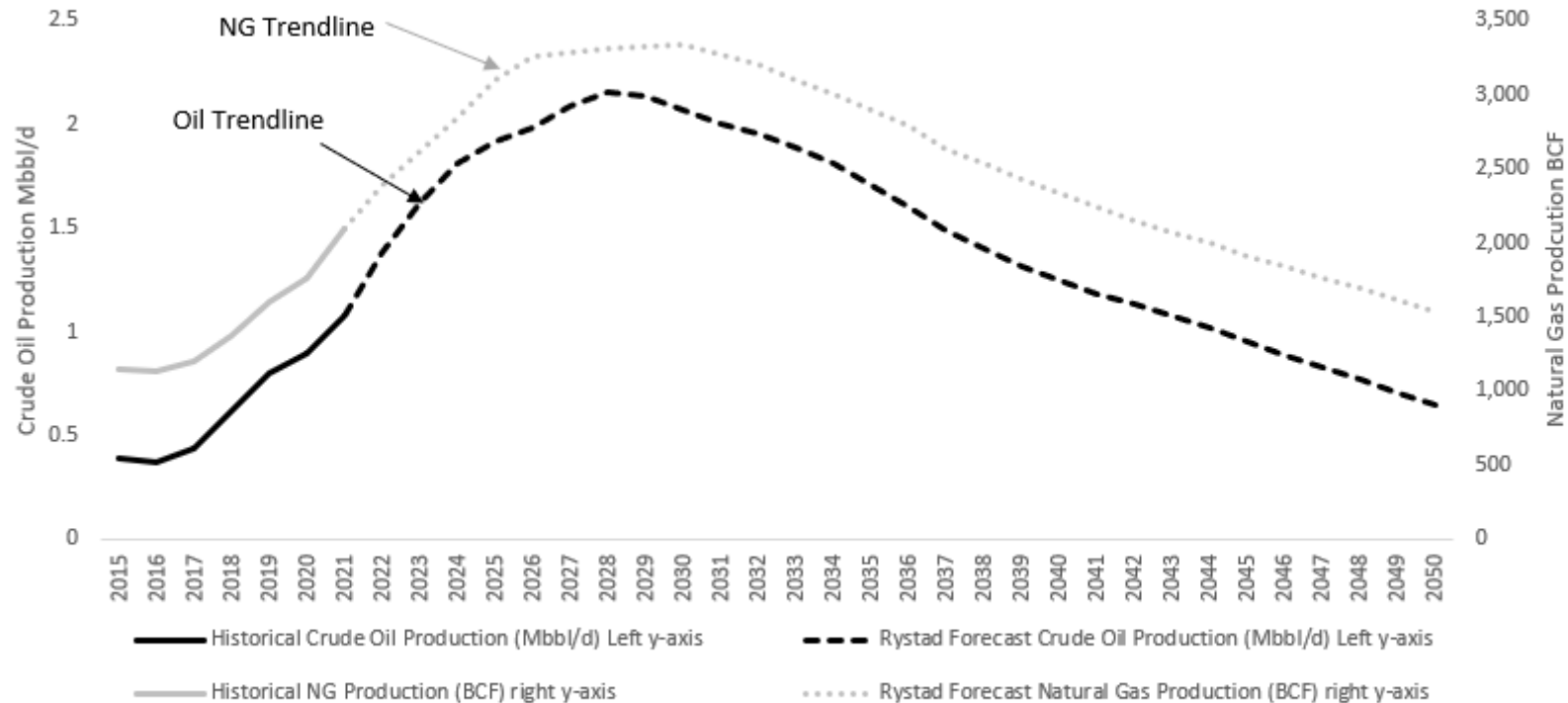
Actual General Fund Roller Coaster



NM Oil Production Long-Term Forecast

NM Crude Oil Production Forecast (CY 2022 to 2050)

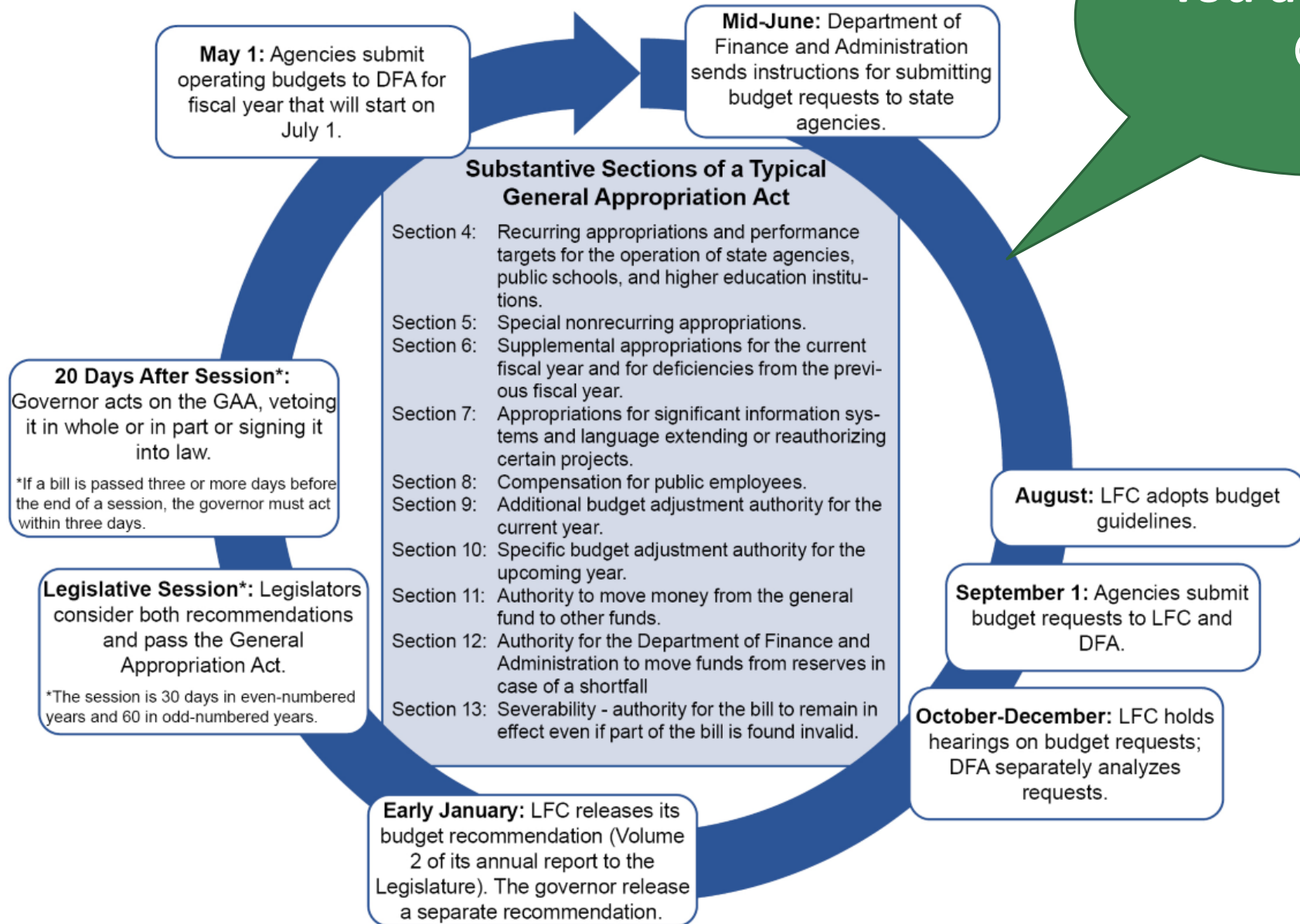
NM Natural Gas Forecast (CY 2022 to 2040)



Source: Rystad Energy

- NM specific forecast of oil and natural gas production falls in line with national expectations

Appropriations Process



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LFC interim work (end of session to Jan)

- At the first meeting of the interim, LFC reviews and approves staff work plans
- LFC analysts will spend the interim learning about agency needs and operations and provide quarterly updates in report cards
- LFC evaluators will spend the interim doing deep dive research projects into issues selected by LFC
- LFC staff will listen to and work with other interim committees to gauge member priorities and community needs



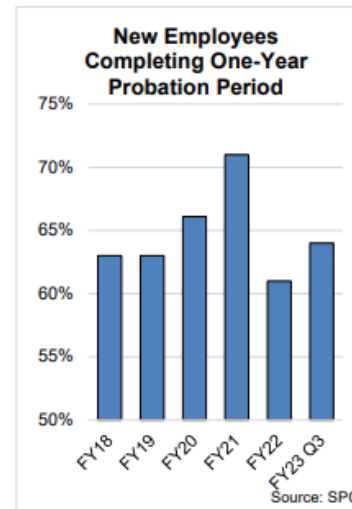
PERFORMANCE REPORT CARD State Personnel System Third Quarter, Fiscal Year 2023

ACTION PLAN

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

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

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

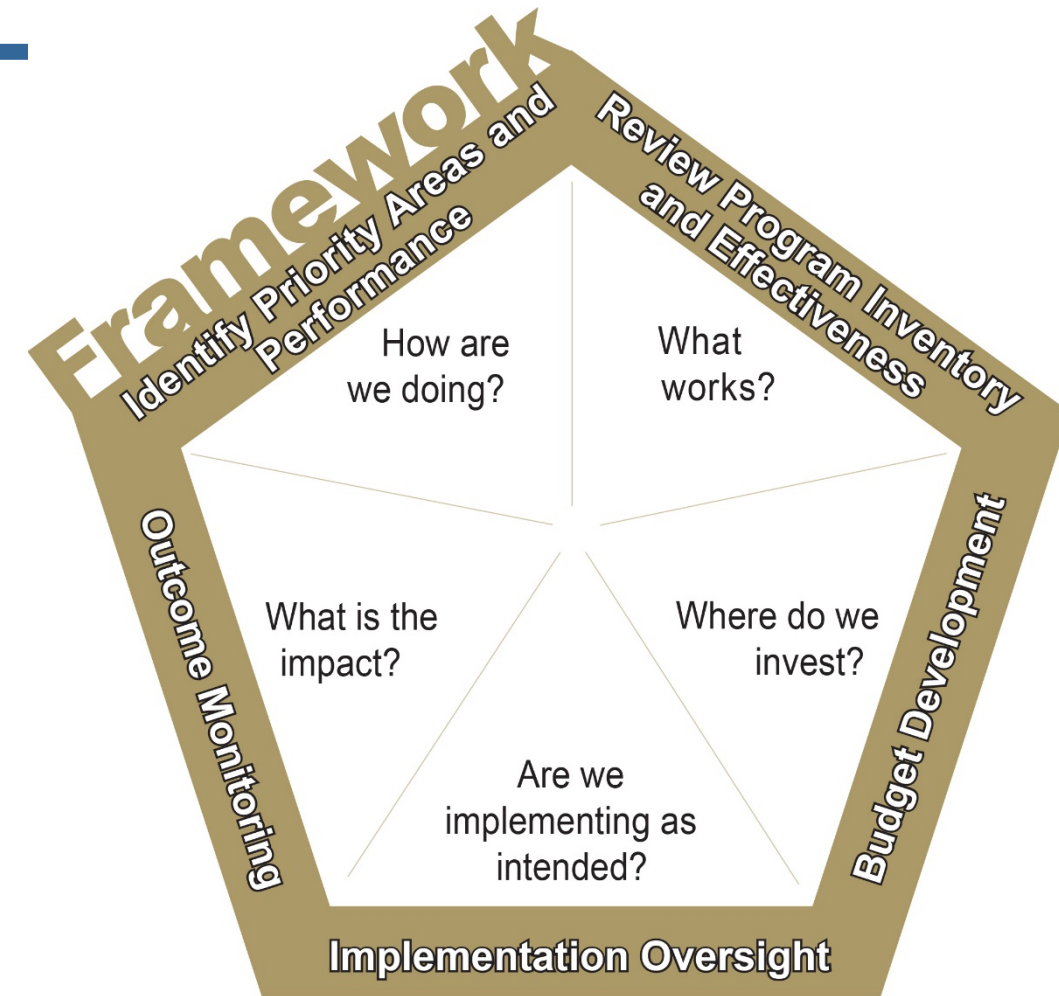


	FY21 Actual	FY22 Actual	FY23 Target	FY23 Q1	FY23 Q2	FY23 Q3	Rating
Budget: \$4,117.6 FTE: 46							
Average number of days to fill a position from the date of posting*	50.5	69		72	72	65	Y
Classified service vacancy rate*	19.9%	22.8%		24.3%	23.7%	23.6%	R
Percent of classified employees who successfully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

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

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

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



LFC Budget Guidelines and CREG forecast (August)

- LFC approves budget guidelines in the summer for use in budget development
- Budget guidelines help set priorities and guardrails for decision making
- Recent years has seen some common themes:
 - Prioritization for investments with evidence of improved outcomes and cost-effectiveness
 - Opportunities to offset general fund revenue with other state and federal funds
 - Funding to provide appropriate staffing levels
 - Healthy reserve level targets (FY24 target=30%)
- **August also marks the initial consensus revenue estimate by state economists (LFC, DFA, TRD, and DOT)**

LFC Budget Requests & Hearings (Sep-Dec)

- Agencies will submit budget requests for FY25 on September 1st
- From October to December LFC will hold budget hearings for agencies based on their budget requests from September
- For these hearings LFC staff prepare an analysis of the budget request and agency staff can discuss needs with the committee
- This information is also used in creation of the LFC budget recommendation

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

Monday, October 17

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

Tuesday, October 18

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

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

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

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

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

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

Oct 2022 LFC Agenda

Rev Forecast and Budget Recs (Dec-Jan)

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

General Fund Consensus Revenue Estimate

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

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

Conclusion



- New Mexico has booming revenues, ongoing education litigation, a growing early childhood system and consistent significant Medicaid costs.
- New Mexico needs to strategically target funding to what works, ensure effective implementation and monitor spending and changes in outcomes.





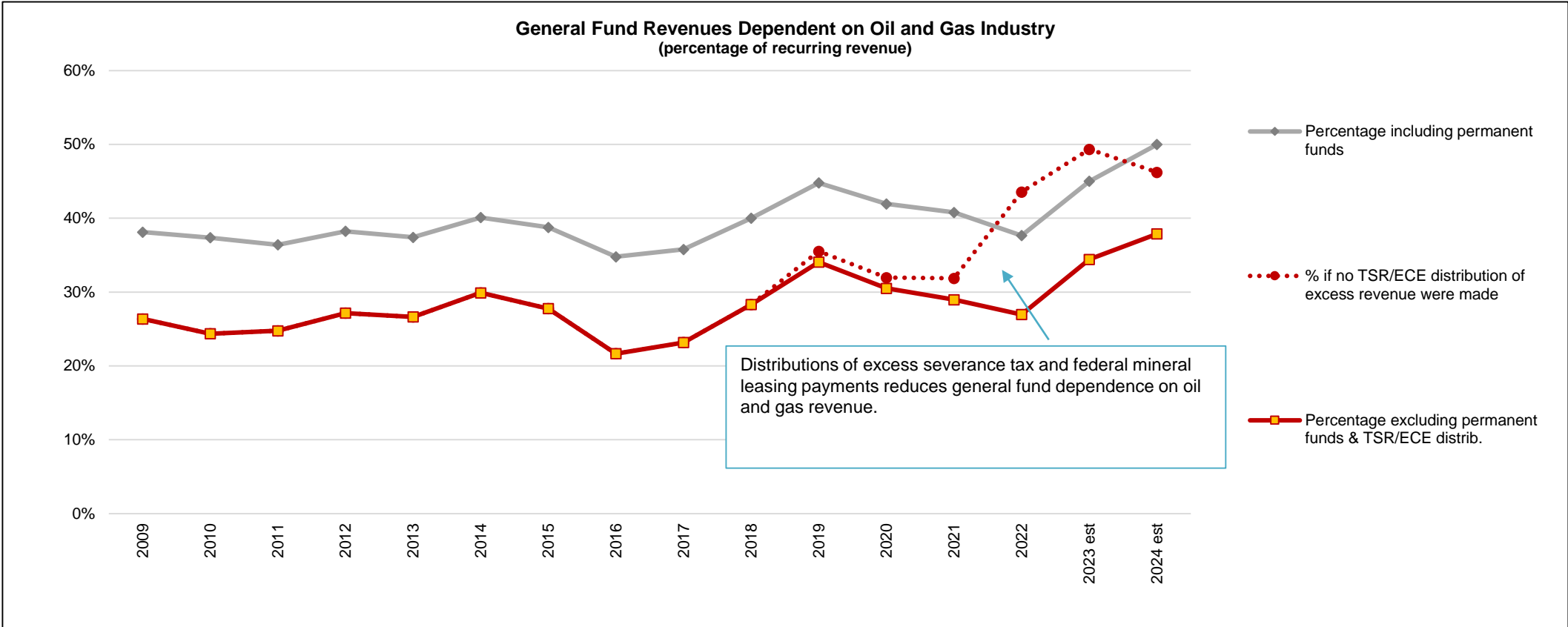
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For More Information

- <http://www.nmlegis.gov/lcs/lfc/lfcdefault.aspx>
 - Session Publications – Budgets
 - Performance Report Cards
 - Program Evaluations

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Oil Revenue as a Share of Total General Fund Revenues



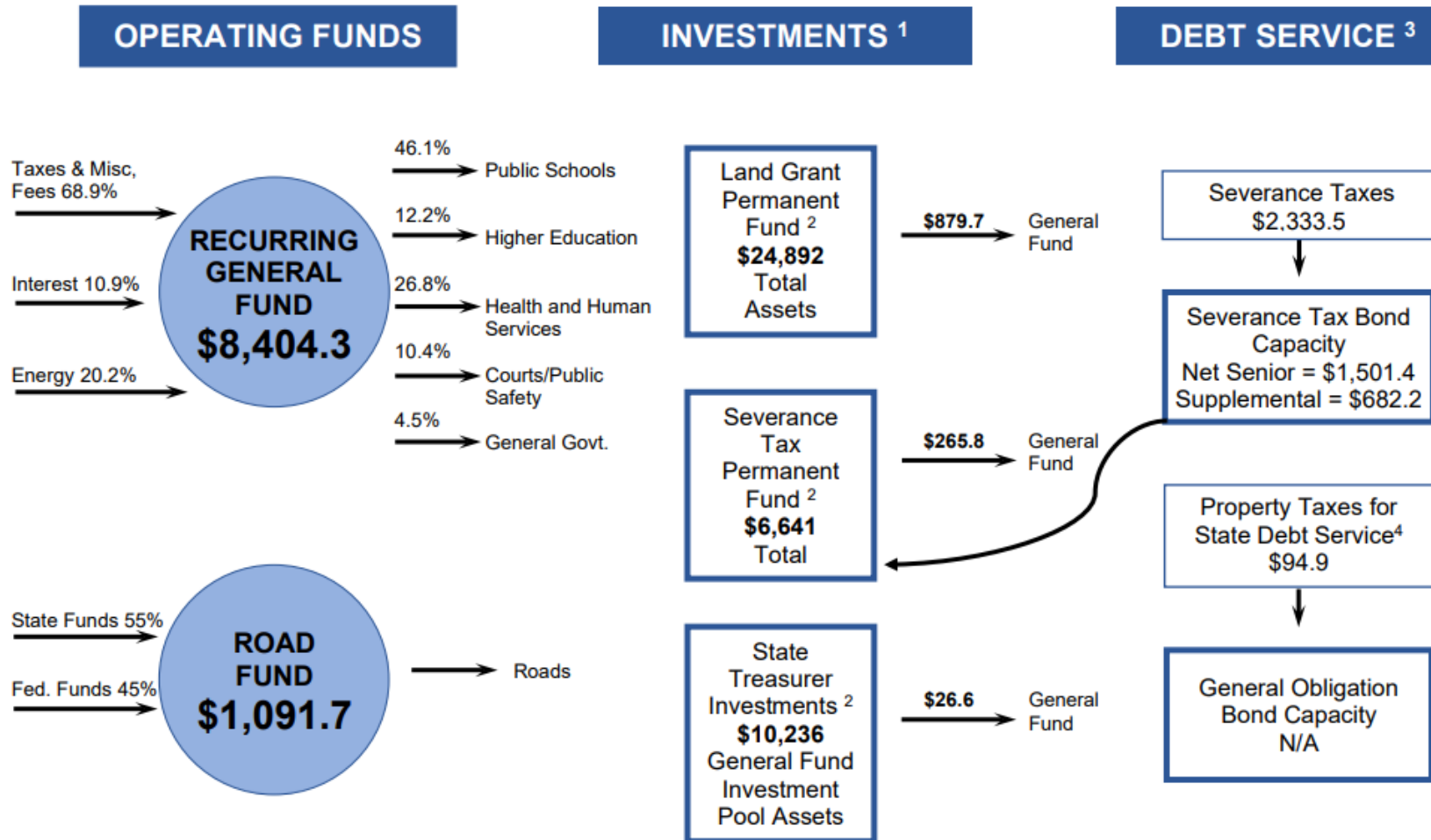
The Early Childhood Trust Fund is Projected to Hit \$5.4 Billion By the End of this Calendar Year, Greatly Outpacing Expectations.

Early Childhood Trust Fund Forecast - January 2023								
(in millions)								
Calendar Year	2020	2021	2022	2023	2024	2025	2026	2027
	Actual	Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Beginning Balance	\$300.0	\$300.0	\$314.1	\$3,470.6	\$5,376.5	\$7,805.6	\$9,200.1	\$9,889.8
Gains & Losses	\$6.1	\$34.1	\$2.2	\$138.8	\$215.1	\$312.2	\$368.0	\$395.6
Excess Federal Mineral Leasing	\$0.0	\$0.0	\$1,501.5	\$1,917.1	\$1,113.5	\$612.9	\$220.9	\$ -
Excess OGAS School Tax*	\$0.0	\$0.0	\$1,682.8	\$0.0	\$1,253.2	\$746.9	\$473.9	\$231.0
Distribution to ECE Program Fund	\$0.0	(\$20.0)	(\$30.0)	(\$150.0)	(\$152.7)	(\$277.5)	(\$373.0)	(\$448.3)
Ending Balance	\$306.1	\$314.1	\$3,470.6	\$5,376.5	\$7,805.6	\$9,200.1	\$9,889.8	\$10,068.2
*Excess OGAS School Tax distributed to Early Childhood Trust Fund if general fund reserves are at least 25% throughout forecast period, and distributions occur for prior fiscal year in January of the following calendar year.								
Note: Investment return assumed at 4% and distributions occur on July 1, based on previous calendar year-ending balance.								
		FY21	FY22	FY23	FY24	FY25	FY26	FY27
Distribution to ECE Program Fund		\$0.00	\$20.00	\$30.00	\$150.00	\$152.69	\$277.55	\$373.04
Source: January 2022 Consensus Revenue Forecast								

State Government Fiscal Overview

OVERVIEW OF NEW MEXICO FINANCES: FY23 OPERATING BUDGET

(in millions of dollars)



¹Investments exclude retirement funds

²As of October 2022; excludes federal relief funds

³Includes only state debt service

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