GUIDELINES FOR FY17
LFC APPROPRIATION RECOMMENDATION

I. PURPOSE

The Legislative Finance Committee (LFC) budget guidelines provide analysts with direction on performance-based budgeting, the preparation of the budget narrative, and the development of FY17 recommendations on recurring appropriations, priority capital spending, and other one-time investments. The guidelines also serve to inform state agencies and the general public about the LFC priorities and the committee's approach to budget recommendations for FY17.

II. REVENUE OUTLOOK

The August 2015 consensus revenue estimate projects FY16 recurring revenue will be $6.25 billion, and FY17 recurring general fund revenue will be $6.53 billion. Preliminary FY15-ending reserve balances are estimated at $625.6 million, or 10.1 percent of recurring appropriations. Projected FY16-ending reserve balances are $609.1 million, or 9.8 percent of recurring appropriations, prior to any current-year appropriations made by the 2016 Legislature. "New Money" in FY17, defined as FY17 projected recurring revenue less FY16 recurring appropriations, is projected to be $292 million, or 4.7 percent of appropriations.

III. FY17 PRIORITY AND APPROACH

The goal of the committee is to propose a balanced budget for the operations of government that improves service levels, increases accountability, and ensures at least a 10 percent general fund reserve. The committee will recommend a balanced budget focused on improved education, early childhood investment, public health, workforce development, improved public safety outcomes, the protection of vulnerable citizens, increased economic growth, and maximizing use of all funding sources. The committee will also prioritize funding for broad-based, targeted, and performance-based compensation increases.

Overall, the committee will emphasize limited general fund appropriation growth in most state agency budgets. However, targeted investments will be considered to address growth in the Medicaid program, at-risk public education student funding, higher education-institutional formula funding, healthcare workforce development, substance abuse prevention, and behavioral health. Growth in base general fund appropriations will be considered on a case-by-case basis to address changes in program caseload, workload, waiting lists, and medical and per diem inflationary costs.

Further, LFC analysts shall:

- Consider committee direction when evaluating agency base budgets and requests for additional funding or staff;
- Identify opportunities for consolidating or streamlining duplicate programs and activities, eliminating earmarks, and enhancing efficiency;
- Identify successful programs that provide the best return to taxpayers and programs not producing positive results or of lower priority to the state;
- Use cost-saving opportunities and evidence-based analysis to prioritize agency funding and improve performance outcomes; and

- Consider whether funding supports existing service levels and caseloads.

IV. PERFORMANCE AND ACCOUNTABILITY

The Accountability in Government Act (AGA) remains a top priority. Analysts shall integrate agency performance results into their budget analysis and, whenever possible, align budget recommendations with program achievement. Consideration for continued base funding should be given to those programs that demonstrate results, effective design, and strong planning and management. Analysts should follow these guidelines in reviewing agency performance:

- 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. Analysts should recommend new or alternative performance measures that better gauge program outcomes as necessary.
- Performance data and results from recent LFC program evaluations should be used to identify programs that are ineffective or producing marginal results or, conversely, are achieving desired outcomes.

Analysts shall use Results First cost benefit analysis where available, notably in the areas of public safety, early childhood, child welfare, and behavioral health programs.

Analysts' FY17 budget recommendations will ensure all programs, sub-programs, and initiatives are reviewed to identify those that:

- Are no longer needed because goals or other conditions have been met or changed;
- Exhibit mission drift or have demonstrated limited success in fulfilling their missions;
- Are restricted in scope, thus limiting impact or efficiency;
- Are unfocused, cannot demonstrate effectiveness, or cannot be evaluated;
- Are not effective according to external evaluations;
- Cannot clearly exhibit benefits;
- Are high cost; or
- Could be funded by user fees or other alternative funding sources.

In select cases, analysts may recommend additional performance measures in the FY17 budget to hold agencies accountable for achieving program results.

V. BUDGET GUIDELINES

The following budget guidelines apply to all agencies.

Compensation, FTE, and Vacancy Rates. State employment in New Mexico remains significantly below peak employment levels seen prior to the Great Recession of 2008; however, it has been on the rise. Lower employment levels have persisted for several years though funding appropriated for personal services and employee benefits (PS&EB) continues to increase. As a result, agencies continue to maintain high vacancy rates and revert large amounts of PS&EB funding or transfer large amounts of PS&EB funding to other areas of the budget. In calculating recommendations for PS&EB appropriations, analysts shall consider:

- Reversions and budget adjustments that transferred funds out of PS&EB in previous fiscal years;
- Historical agency vacancy rates, funded vacancy rates in the current fiscal year, and the actual agency vacancy rate at the time of budget submission;
- Funding levels that enable agencies to improve AGA performance outcomes;
- Budgeting vacant positions at a salary level that ensures effective recruitment and retention of qualified candidates;
- Authorizing out-of-cycle salary increases or reclassification of high-turn-over job classifications; and
- Aligning salary with regional and national salary averages for existing employees in job classifications which are significantly lower than market averages (e.g. healthcare workers, social workers, college and university faculty, IT professionals, etc.).

The State Personnel Office reports the state's salary structure is estimated to be 18 percent lower than the market. In certain job fields, such as health care and public safety occupations, contracts and additional overtime are necessary to ensure delivery of services. Analysts should consider the need for targeted compensation increases to address jobs with high turnover or recruitment difficulty and which impact public safety and vulnerable citizens. Additionally, the committee may also consider general salary increases for state employees to offset inflation and health insurance premium increases.

Expenditures and Contractual Services. Analysts are directed to analyze requested expenditures for professional services contracts. This analysis should address: 1) whether the proposed contracts address agency priorities; 2) performance criteria; and 3) agency monitoring activities. Analysts shall use the monthly Contracts Report provided by DFA and information in the New Mexico Sunshine Portal to analyze an agency's historical use of contractual services. Analysts should note shifts of workload from FTE to contractors and ensure the cost of performing the work is not double funded.

Revenues and Cash Balances. Analysts shall determine if estimates of other state funds and federal funds in the agency requests (other revenues and other transfers) are reasonable based on grants, awards, agreements, budget adjustment request (BAR) activity, and program history. To reduce the need for revenue from the general fund, analysts shall examine cash balance levels and, where possible, use cash balances in the FY17 budget recommendation. Governing statutes shall be reviewed to determine if funds are budgeted appropriately and if they can be used for other purposes. Analysts shall scrutinize expenditures where an earmarked revenue is in decline or unavailable.

Federal Funds/Sequestration. Federal funds should be leveraged to the extent possible in keeping with the committee's policy priorities to ensure these funds are accurately reflected in the budget recommendation. Analysts are directed to compare information on R-forms provided in the budget requests with deviations from appropriations, the database provided by the Federal Funds Information for States (FFIS) service, and other sources of information on federal funds. Analysts shall also use historical budget adjustment request (BAR) information to determine if the level of federal funds is accurately reflected in the agency request. Analysts shall take into account ongoing sequestration of federal funds.

Expansion. In general, LFC will only consider expansion proposals identified as committee priorities that are evidence-based or tied to enhanced service delivery. Analysts shall critically review the merits of any request to expand base programs or create new programs. Workload growth is not considered an expansion. Analysts shall avoid financing expansions with nonrecurring revenue. Generally, expansions not identified as a committee priority must be financed within current appropriation levels through reprioritization. All expansions must be tied to enhanced performance and explained in the budget document accordingly. Expansion FTE should be budgeted for a partial year if it is unlikely they will be filled by July 1, 2016.

Capital Outlay, Building Use Costs, and Space Allocation. To achieve greater efficiency with the state's limited resources, analysts should evaluate capital projects based on critical public health and safety, other initiatives in progress, and state and federal code compliance. Analysts shall evaluate the effectiveness of agency owned and leased space and operating budget implications, including maintenance and renewal costs in future years, space utilization standards adopted by the Capitol Buildings Planning Commission, lease costs, and square feet per employee, when reviewing requests for new facility construction, renovation, expansion, demolition, or leased space. Analysts shall review agency Infrastructure Capital Improvement Plans (ICIP), agency compliance with Executive Order 2012-023 (Facility Master Planning Guidelines) and Executive Order 2013-006 (Uniform Funding Criteria, Grant Management, and Oversight), LFC quarterly reports, and the progress and project outcome of significant capital appropriations made in previous years, including water projects authorized in 2014.

Information Technology Request. Analysts shall consider operating budget implications, such as ongoing maintenance, training, and impacts on operations, when reviewing requests for new or extended information technology (IT) projects. Staff shall review IT appropriations from previous years and monitor the progress and outcome of ongoing IT projects. Recommendations for new IT projects shall be based on conformance with stated agency priorities, agency and statewide IT plans, the quality of the specific business case, and available funding. Analysts must ensure all IT funding requests are submitted through the legislatively established protocol (whereby requests are submitted directly to DFA, LFC, and DoIT using the “C2” request form separate from the agency’s annual budget request) to ensure these requests receive the appropriate level of analysis prior to approval.

Agency Audit Reports. Analysts shall use the agency’s financial audit reports in preparing the FY17 budget recommendation and pay close attention to general fund appropriation reversions, unreserved/undesignated fund balances, and any long-term outstanding debt. Significant deficiencies and material weaknesses identified in the audit shall be reported to the LFC. Additionally, analysts shall identify significant, long-existing fund balances, barriers to expenditure, and potential reprioritization of accumulated balances.

VI. TAX EXPENDITURES

The committee shall review tax expenditures and earmarked revenues to identify uses of state funds that do not meet the intended purpose or are not cost-effective and can be re-directed to higher priority uses.

VII. OTHER FINANCIAL ISSUES

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

Medicaid Expansion Due to the Patient Protection and Affordable Care Act. Pursuant to the federal Patient Protection and Affordable Care Act (ACA), New Mexico expanded Medicaid eligibility for adults with incomes up to 138 percent of the federal poverty level starting on January 1, 2014. The federal government will cover 100 percent of the cost of these new enrollees through calendar year 2016; however, federal support will gradually decline to 90 percent by calendar year 2020 and beyond. In FY17, enrollment of newly eligible adults is expected to reach 247 thousand with an estimated additional general fund impact of $43.4 million – which is estimated to grow to $165 million by calendar year 2020. Analysts should evaluate cost-saving initiatives such as payment and delivery system improvement initiatives and consider ways the state can leverage Medicaid dollars for services. Finally, rate increases or adjustments, program or state plan changes, waiver changes, and new enrollment slots for capped services in Medicaid should be treated as expansion requests and fully documented and justified in agency requests.

Public School Funding Issues. The more than $2.7 billion investment in public education continues to show slow progress in improving student achievement. Certain components of the formula are not aligned with improving student achievement, accountability for both formula funding and PED flow-through grant funding continues to be of concern, and districts continue to note they are not able to compete with neighboring states when it comes to teacher pay. Priorities of the committee include alignment of the funding formula in a way that supports improved student achievement and closing the achievement gap, ensuring accountability for appropriations made for public education, and increasing compensation for school employees through broad-based, targeted, and performance-based compensation initiatives that will assist districts in recruiting and retaining the highest quality employees. Continued focus will be placed on the two education sufficiency lawsuits and federal special education maintenance of efforts requirements. Additionally, early elementary programs that promote literacy will again be prioritized, including K-3 Plus – which has demonstrated increased learning for participants.

Road Fund. Projections for the state road fund indicate revenues will be relatively flat and current funding levels are insufficient to improve road conditions. Analysts shall consider recommendations of the interim Transportation Infrastructure Revenue Subcommittee and policy options to generate new, long-term recurring revenue necessary to address the sustainability of state transportation infrastructure, including major investment projects critical to economic development and public safety.

Economic Growth and Workforce Development. New Mexico's economy is currently growing at a faster pace than in recent years, but it continues to fall behind neighboring states and the national average for job creation and total employment remains slightly below pre-recession levels. The state's workforce training and development programs are coming under increasing pressure to prepare and retrain citizens for current and prospective job opportunities, especially in light of underemployment and regional unemployment levels in New Mexico. However, these programs often overlap, duplicate administrative costs, are fragmented, and do not report on outcomes. Many other economic development programs and tax incentives focus on short-term results, ignoring long-term structural issues such as infrastructure and workforce education and readiness. However, nearly every survey of business executives and site selection consultants ranks these two issues as the most important for expanding and relocating businesses. Analysts shall review existing and proposed programs related to economic development and workforce training to address these concerns, improve accountability for recently approved funding, calculate the cost per job created when possible, and identify evidence-based investments to improve agency coordination and reporting, reduce fragmentation, improve labor force quality, assist job growth, and promote increasing personal income levels.

Child Welfare. Although funding for early childhood initiatives increased over the last three years, early childhood services programs are under increasing pressure to improve statewide quality standards which typically increase costs. Additionally, program growth must be invested in a deliberate manner so that communities can grow local capacity and infrastructure responsibly. New Mexico continues to struggle to meet quality standards tied to workforce, such as the providers' level of technical skills, education, and stability among caregivers; workforce development for providers will be crucial to improving child welfare. Priorities for FY17 include expanding programs to reach targeted populations, especially from birth to age 3. LFC analysis indicates children from birth to age 3 are most in of continued capacity growth of services in order to serve this at-risk population.

Behavioral Health. The behavioral health system experienced significant disruptions recently due to controversy involving billing and replacement of providers; the Behavioral Health Collaborative is experiencing difficulty providing services. Analysts should make the restoration and expansion of services across the spectrum a priority for FY 17 while emphasizing the importance of the quality and cost effectiveness of services.

SHARE and Cash Reconciliation. The state has struggled with performance issues with SHARE, the state's accounting system, since the initial implementation of the program in 2006. The system, despite one remediation project, is still not fully integrated. Third party payment systems (such as for HSD Medicaid, CYFD foster care, WSD unemployment, and TRD tax refunds) in particular continue to pose a problem for book to bank reconciliation for agency funds, and consequently a risk to the state general fund if agencies overspend, such as HSD has. Historical imbalances between the state's book (SHARE) and the bank resulting from incomplete implementation are still undetermined, and pose a risk to the state's bond rating, which could lead to more costly borrowing and diminished capital outlay funding. The Legislature appropriated $3.9 million to DFA in 2015 (Subsection 14 of Section 6 of Chapter 101 of Laws 2015) to address system functionality and historical imbalances and reauthorized a $5 million IT appropriation made to DoIT in 2013 (Subsection 7 of Section 7 of Chapter 101 of Laws 2015) to upgrade SHARE software and hardware. However, after these efforts, it is likely some functionality issues will remain that will need to be addressed in the future to ensure the state's accounting is reliable.