NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

Budget Request Guidelines Fiscal Year 2027

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 FY27 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 FY27.

II. Revenue Outlook

The U.S. economy has so far avoided recession and continued moderate growth through the first half of 2025, though mixed economic signals point to increased uncertainty ahead. Real GDP grew at an annual rate of 3 percent in the second quarter of 2025, following a 0.5 percent decline in the first quarter, according to the U.S. Bureau of Economic Analysis. While consumer spending and business investment remain supportive of growth, they have shown signs of cooling and the labor market is weaking with job gains slowing, and the labor force shrinking. Inflation has eased from pandemic-era peaks but is expected to remain above the Federal Reserve's 2 percent target through FY27, while recent increases in effective U.S. tariff rates are expected to place upward pressure on prices. National forecasters expect the Federal Reserve to gradually lower the federal funds rate toward its neutral level near 3 percent by late 2026 or early 2027.

Federal policy changes enacted since the last forecast are already reshaping the state's economic and fiscal landscape. Provisions in the latest federal reconciliation bill will reduce personal and corporate income tax revenues in New Mexico by changing federal tax deductions and credits to which the state conforms, while new Medicaid eligibility requirements and payment limits will reduce federal healthcare funding, insurance premium tax collections, and related gross receipts tax revenues. Federal royalty rate reductions for oil and gas produced on federal lands will maintain lower long-term rates, while shifts in federal spending priorities—higher defense and border security spending paired with lower Medicaid outlays—will have uneven effects on the state economy.

While recurring revenue is $3.27 billion more than prior year recurring spending, nonrecurring spending has grown rapidly in recent years and now represents more than 26 percent of spending in a single session and more than a third of spending in a single year. Total revenues less total prior year spending, or a measure of total new money, more accurately reflects new general funds available over prior years, which has fallen from $659.6 million in FY26 (previous year) to $484.8 million in FY27 (current budget year).

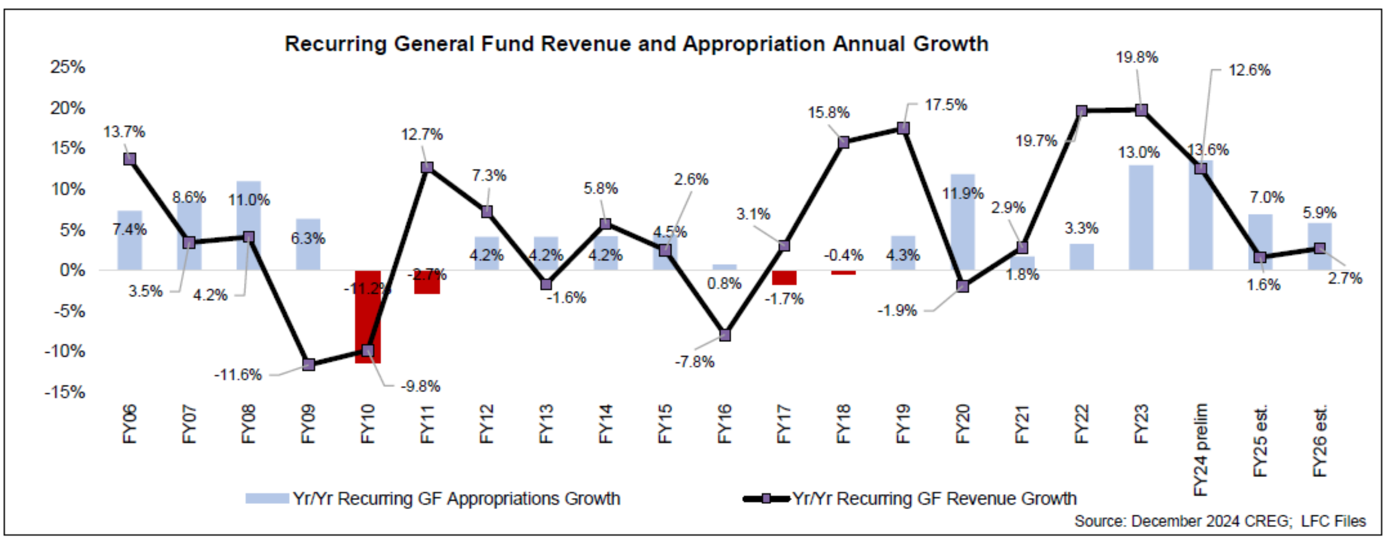
Despite the steady outlook, significant revenue volatility remains due to fluctuations in global energy markets, broader economic cycles, and federal and state policy changes. A sharp oil price decline during the forecast period could reduce general fund revenues by $1.1 billion in FY26 and $1.6 billion in FY27 relative to baseline. While reserves and prudent recurring budget management would likely protect core services, such a scenario could require reducing special appropriations, drawing down reserves, or reallocating other funds by as much a 25 percent of recurring appropriations.

As the current revenue surge tapers, the Legislature continues to emphasize volatility management and long-term budget planning consistent with national best practices. Oil and gas remain the primary driver of current revenue strength but are also expected to slow future growth as global demand levels off. Without moderation in recurring spending, slower revenue growth will be insufficient to sustain current budget levels, heightening the risk of structural deficits. Revenue-reducing tax changes could accelerate these pressures if they fail to generate sufficient offsetting economic activity.

New Mexico's revenue volatility remains the highest in at least four decades, underscoring the need for fiscal strategies that stabilize revenues and support long-term budget sustainability.

III. FY27 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. Additionally, the state will face new challenges and opportunities stemming from federal budget reconciliation. 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 untenable and would lead to spending outpacing revenues in coming years. While general fund revenue has continued to grow year over year since before the Covid-19 pandemic, growth has slowed. Analysts should consider 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 state funds should be prioritized if it does not jeopardize the sustainability of that other state fund. Federal revenue reductions will also need to be evaluated as part of analysis for the FY27 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 FY27 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. 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. Additionally, expansion requests or requests to backfill lost federal revenue should be considered in the context of fund balances, enrollment, budget adjustments, and recent agency reversions. 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 almost $2 billion dollars or 70 percent (FY25). 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.

The committee will seek to maintain general fund reserve levels of 30 percent, because of continued dependence on volatile energy revenues.

Agency Hearings

Like FY26, FY27 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 61 percent of general fund appropriations. For FY27, 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 as in previous years (FY25 and prior budgets). However, smaller agencies meeting certain criteria may be asked to participate in a subcommittee or full committee hearing at the recommendation of LFC staff. These criteria include elected officials, agencies with significant audit findings, agencies with needs for in-depth discussion due to revenue loss or reversion, or significant expansion requests. Additionally, analysts are encouraged to consider longer-term (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 where available, notably in the areas of public safety, early childhood, child welfare, and behavioral health programs. In select cases, analysts may recommend new performance measures from what DFA approved during the interim for agencies to include in their FY27 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

Considering recent trends of consistent (average) pay increases from the legislature, the implementation of the statewide Job Architecture study, and an increasing trend of agencies overspending their 200's (personnel) category, many state agencies are likely entering a maintenance phase of personnel funding. As such, analysts should use caution in considering any requests for targeted compensation. Given significant compensation increases in recent years, analysts should be judicious in recommending targeted pay increases within agency op buds, any targeted pay increases need to align to SPO classification changes and study. LFC could consider providing guidance discouraging significant targeted compensation along with instructions to analysts on considerations for personnel appropriations which would include analysis of prior year transfers out of personnel in prior years, requests for deficiency and supplemental appropriations, and existing need as informed by the SPO study. Furthermore, analysts should include analysis of prior year BAR's (e.g. transfers to or from the 200's category), vacancy rates, recent pay increases, requests for supplementals and deficiencies, and data from the completed Job Architecture study when building agency personnel budgets. Overall pay rates will need to consider increased employee contributions for health insurance, which will need to grow to maintain solvency of the state's health benefits fund.

Historically, consistently high vacancy rates have permitted some agencies to transfer large amounts of personal services and employee benefits appropriations to other areas of the budget. Analysts should consider the ongoing need for long-vacant positions. These considerations should also be included in agency base budget recommendations.

Benefits. Revenue raised for the state's group health benefits fund continues to lag program expenditures, even as costs continue to rise. A 10 percent rate increase for FY25 was critical for the solvency of the fund, but rates will likely need to rise to close the gap and account for medical inflation. Analysts will consider requests from the Public School Insurance Authority and the Health Care Authority Department for the ability of the program to cover expenses and the sustainability of rate increases in the future. Analysts will evaluate whether separate insurance pools for state and school personnel is a cost-effective approach and whether differences in employer benefit contributions affects retention rates 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 FY27 will consider eliminating authorized but vacant positions to reflect historic staffing levels. Recommendations to reduce funded vacancy rates should reflect workload analysis and any waiting lists for services.

Contractual Services

Analysts shall examine requested expenditures for professional services and other contracts to ensure contracts address legislative priorities, are in compliance with the Procurement Code, and adhere to performance criteria. Analysts shall use the monthly contracts report provided by DFA, information in the New Mexico Sunshine Portal, and SHARE (the state's accounting system) to analyze an agency's historical use of contractual services. Analysts should note shifts of workload from FTE to contractors and ensure the cost of performing work is not double funded.

Revenues and Cash Balances

Use of other state funds and federal funds shall be maximized based on grants, awards, agreements, budget adjustment request (BAR) activity, and program history. To reduce the need for revenue from the general fund, cash balances shall be used in the FY27 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 could potentially include using the Legislating For Results 7 Elements rubric. 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. Analysts shall track all federal funds received under federal stimulus acts and determine the availability of all stimulus funds for FY27. Analysts should also examine opportunities to use remaining American Rescue Plan Act funding keeping in mind that all funds should have been obligated by December of 2024 with a deadline for expenditure by December 31, 2026. 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. 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 summer of 2025, DFA and LFC provided training to agencies setting expectations for planning and oversight of GRO awards that will have to be met prior to receiving ongoing recurring funding.

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 FY27 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 almost $1.6 billion (about a 700 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. Requests for deficiencies and supplementals continue to grow and the Office of the State Auditor (OSA) is expressing concern regarding the increase. LFC staff should review OSA findings and implement recommendations, 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. Recognizing the concerns with growing supplemental and deficiency requests as cited by the OSA (see Transparency Report 2005-001; State Agency Deficiency Appropriation Requests), 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 recurring information technology and facility maintenance funding for agencies with critical needs, which leverage other funds, and have multi-year plans to address enhanced services and efficiencies. 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.

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, and evaluate operational implications. 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

Changes to federal tax law are expected to reduce New Mexico’s personal and corporate income tax revenues as provisions at the federal level flow through to the state tax base. These losses will reduce recurring general fund revenues without any legislative action at the state level and will have similar effects on the state budget as a large, state-initiated tax cut. In practical terms, this means a significant reduction in the Legislature’s capacity to allocate resources, particularly in the context of other recurring federal budget cuts that the state may be called upon to backfill. These federally driven revenue losses will shorten the window of the current budget surplus and further constrain long-term recurring spending capacity, especially as underlying revenue growth moderates to historical averages.

As in prior years, recurring tax cuts—whether initiated by the state or driven by federal changes—carry meaningful opportunity costs. Reducing recurring revenues limits the Legislature's ability to respond to emerging needs and restricts the scale of future investments. Since 2019, legislative changes have reduced general fund recurring revenues by an estimated $2.8 billion in FY27, the equivalent of 25.5 percent of FY26 recurring spending levels. Without offsetting revenue-raising measures, the capacity for additional tax reductions may be limited.

However, opportunities remain to improve the tax code without eroding revenues, either through revenue-neutral adjustments or by coupling tax relief with targeted revenue-raising provisions. For instance, revenue savings could be used to eliminate the marriage penalty in the personal income tax, improving both horizontal equity and simplicity. Although the 2024 legislative session addressed progressivity and bracket compaction, the new structure maintains higher marginal rates for married filers with combined incomes equivalent to two single filers.

Additional reform opportunities include the evaluation and elimination of unproductive or inequitable tax expenditures. In 2025, the LFC is undertaking a systematic review of tax incentives and their economic impact to aide in the evaluation and identification of productive tax expenditures. Credits, deductions, and exemptions—including those adopted in recent years—have narrowed the tax base and, in doing so, have required higher rates elsewhere. These provisions can create inconsistencies across income groups and industries, undermining equity and economic efficiency. Reform efforts should consider comprehensive review processes to cap, sunset, or repeal tax expenditures that do not meet intended goals.

Although the 2022 legislative session reduced the state gross receipts tax (GRT) rate, improving New Mexico's competitiveness and mitigating some pyramiding effects, local GRT rates have continued to rise. While New Mexico's state GRT rate ranks 35th highest nationally, the combined state and local rate remains the 17th highest in the country. As such, GRT reform proposals must account for local tax behavior, particularly where it undermines the intent of state-level changes.

All tax proposals, in addition to aligning with LFC's general tax principles, should be evaluated based on their impact on economic diversification, the business climate, personal income growth, and quality of life. Just as importantly, tax changes should be assessed for their long-term revenue sustainability, particularly in the context of other budgetary priorities and obligations.

VII. Other Financial Issues

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

Analysts should evaluate cost-saving initiatives such as administrative cost ratios, payment and delivery system improvement initiatives, appropriateness of various rate structures, changes in federal requirements, client-generated revenue, and consider ways the state can leverage Medicaid or other federal funding for services that improve outcomes.

Public Schools. Funding for public schools represents approximately 44 percent of total general fund appropriations—the largest category of general fund spending in New Mexico. In FY26, the Legislature appropriated $4.8 billion to public schools, an increase of $333.5 million, or 7.5 percent, over the prior year. Since the *Martinez-Yazzie* ruling in 2018, student outcomes and achievement gaps remain largely the same—despite almost a $2 billion, or 70 percent, increase in recurring public school appropriations. Since 2019, statewide enrollment has dropped by 31.2 thousand students (or 9.6 percent), schools have added 1,102 FTE (or 2.8 percent), and school unrestricted cash balances have grown by $464.2 million (or 170 percent). As such, analysts should refrain from recommending recurring funding increases for programs and initiatives that lack evidence of improving student outcomes. Note that although school cash balances have increased and now sit at over $700 million (FY25), there is variability with trends among districts and some districts have seen reduced balances. 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 remedies and action plan 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). In addition to covering essential operational needs, analysts should identify opportunities to strategically staff schools, consider workload adjustments, reduce or eliminate ineffective interventions and reallocate resources accordingly. Analysts may consider a public education reform fund appropriation for existing programs that fit within the aforementioned framework of building a world-class education system; however, funding for programs or interventions demonstrating no statistically significant effects, lacking evidence of effectiveness, or demonstrating proven harm shall be repurposed 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 FY27 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. CYFD cannot be expected alone to solve challenges associated with child maltreatment and analysts should examine opportunities for a broader and more collaborative approach across agencies to address underlying challenges families face. Following several years of significant budget operating budget increases, 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, while enhancing oversight and accountability related to these increases. 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 FY27 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, between FY22 and FY26 recurring spending within Medicaid Behavioral Health grew significantly, primarily because of rate adjustments, including increasing the Medicaid reimbursement rate from 90 percent of Medicare to 150 percent of the Medicare's rate starting in January 2025. With these investments, the Human Services Department (HSD) and the Children, Youth and Families Department (CYFD) should ensure behavioral health networks continue to grow and are sufficient and effective at meeting the needs of the state's most vulnerable populations by offering high-quality evidence-based services. Working together with HSD and CYFD, analysts will analyze access, costs and expenditures, outcomes, and services available to best address gaps and improve outcomes with limited resources, including reallocating resources and maximizing federal revenue. 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 high crime rates continued to raise concerns at the Legislature, and lawmakers have addressed several evidence-based policy areas with investments in law enforcement, criminal justice partners, and expansion of available workforce. Improved performance management and coordination among the various state and local criminal justice agencies (courts, district attorneys, law enforcement, public defender, counties), combined with effective implementation of evidence-based criminal justice reforms offers New Mexico a path towards improved overall public safety. Effective reforms, including technical parole violation revocation practices, offer potential for taxpayer savings from reduced costs associated with incarceration and repeated incarceration. Analysts should examine opportunities for investments in proven public safety programs and potential savings that can be reinvested further in public safety, including ensuring appropriate and efficient prison space is available, and investments in evidence-based behavioral health efforts. Analysts should also consider the continued need for better data collection and sharing among criminal justice partners to inform effective policymaking. The need for better data sharing among criminal justice, health, and work force partners includes the need for data being responsibly shared amongst multiple levels of government (federal, state, and local), multiple agencies, and multiple branches of government. Improved availability and quality of data can strengthen performance management, guide resource allocation, and support evaluation of reforms. Emphasizing evidence-based practices requires agencies to adopt consistent metrics, track outcomes rigorously, and use this information to refine and expand programs that deliver proven results.

Medicaid. In June 2025 there were 809,976 New Mexicans enrolled in Medicaid, about 19 percent fewer than the 1,001,599 that were enrolled during the peak of the pandemic Medicaid rolls continue decreasing and will likely continue decreasing over the next few years with new federal work requirements and policy changes that increase requirements for individuals to remain enrolled. 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, especially for hospitals, 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 FY26, the Legislature appropriated $1.4 billion from the general fund for higher education including fully funding the tuition-free college through at least FY27. Additionally, the Legislature made significant nonrecurring appropriations for specific endowments, to support improved student retention, and to pay tuition for workforce training, among other initiatives. These investments positioned higher education institutions to make meaningful progress in improving student outcomes, but these gains may take several years to realize.

In-depth analysis and consideration shall be given to the I&G study recommendations when updating the higher education funding formula. Current funding levels are sufficient to support operations of higher education institutions statewide, but it is unclear if the distribution methodology of the higher education funding formula sufficiently rewards improved performance. Staff should examine opportunities to streamline the formula and to make alterations to better reward improved outcomes, including student graduation. Additionally, the staff should continue to evaluate the single line-item research and public service (RPSP) appropriations ensuring that those items that are instruction and general 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. Additionally, analysts should look for opportunities to add performance measures for adult education (e.g. improvement in adult literacy or successful completion of high school equivalency credentials). Finally, staff should consider sufficiency of state and federal funding for adult education.

Natural Resources. In 2025, the Legislature invested almost $176.2 million in non-recurring funds for over 36 different projects spread over four agencies, created a $210 million permanent fund for reduction of emissions and development of resource optimization, and increased the recurring spending of natural resource agencies by a combined $3.7 million. Additionally, the Legislature passed substantial changes to the Department of Game and Fish, increasing permit costs and changing the scope of the agency. Due to this sustained growth, and the augmenting of an agency, analysts should examine implementation of the changing increasing recurring funding and the transition of the newly minted Department of Wildlife. 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 the various special appropriations, ensuring funds are being used along proper timelines. Significant investments have been made over the past 6 years to further the goal of a healthy and resilient natural resource environment in New Mexico. However, it must also be paired with effective and measured stewardship of state funds.

Economic Diversification. The current growth and efforts to diversify New Mexico's economy will require collaboration across agencies, local governments, tribes and the federal government and a focus on clear state goals, key industries, and effective strategies, including coordination with local governments, tribes and the federal government. Analysts should review special and recurring funding requests within the lens of the state's economic development strategic plan and ensure programs and agency efforts are aligned, grow the state's economic base, create jobs, leverage federal incentives, and offer a strong return on investment. As with expansion requests, analysts should ensure key elements of an effective program, while also encouraging innovation and national best practices. Analysts should consider recent recurring and nonrecurring appropriations to the Economic Development Department, including investments to support growth and innovation in science and technology sectors and infrastructure initiatives.

Workforce Development. Low labor force participation is a persistent challenge in New Mexico. The Legislature has made significant investments in workforce development programs in recent years, including a total of $80 million across FY24 and FY25 for non-credit bearing training at higher education institutions, $8 million for apprenticeship programs delivered by Workforce Solutions, and $45 million from PED. While implementation of these expanded programs will take time, the state currently lacks outcome and performance information about these investments. Analysts should prioritize evidence-based programs that target adults not participating in the labor force and high-demand industries, while looking for implementation plans that include outcome evaluation when considering new or expanded programs. 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 in light of significant budget increases received by some agencies, and analysts should review requests for adjustment authority in light of historic usage of this authority. Budget adjustment requests should be consistent with legislative intent and based on specific authority included in the General Appropriation Act. Staff should review authorization language to ensure it is sufficient to provide needed flexibility without opening the door to adjustments that contravene legislative intent.

NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

Legislating for Results: **Budget Development Tool**

Agency Expansion Request Justification

New Mexico agencies making significant requests to expand agency budgets, other than workload changes, or for large special appropriations that appear to expand an agency's recurring budget are being asked to assess the proposals and report on their purpose, potential for success, and plans for implementation and accountability in accordance with the Budget Guidelines of the New Mexico Legislative Finance Committee (LFC) and LFC's Legislating for Results Framework.

1 Program Premise

What public problem does this program seek to address? How will this program address the problem? Does the proposed program link to a goal in the agency's strategic plan?

2 Needs Assessment

What is the extent of the problem stated in numerical, geographic, and equity terms? What portion of the total need identified does this program seek to address?

3 Program Description

What specific activities in the program will achieve these expected program outcomes? What are costs per person or activity? Once the program is fully operational, what are the estimated ongoing annual costs?

4 Research and Evidence

Is the program based on evidence or research or a promising practice? Will it need formal evaluation?

5 Implementation Plan

What activities are needed to implement the program? How much will it cost? What is the timeline for each startup activity?

6 Fidelity Plan

Will the program be implemented with equity and fidelity? Do you have a checklist of the program components need to achieve the impacts?

7 Measurement and Evaluation

What specific outcomes are expected? What are key performance measures? How often will the program be measured and evaluated?

Agency and Expansion Request Information

Agency: Click or tap here to enter text.

Short Title of Request:Click or tap here to enter text.

Point of contact for follow-up information:

Name: Click or tap here to enter text.

Title:Click or tap here to enter text.

Phone:Click or tap here to enter text.

E-Mail:Click or tap here to enter text.

Is the requested expansion solely the result of a workload change? Choose an item.

If yes, no further information is needed. If no, please provide narrative responses addressing item below.

1. Program Premise

In this section, provide information describing the problem this funding is proposed to address.

a. Why is this expansion needed and what problem or need it is attempting to address?

Click or tap here to enter text.

b. How does this request differ from existing programming?

Click or tap here to enter text.

c. How does the requested program fit into the agency's strategic plan?

Click or tap here to enter text.

d. Has the agency developed a logic model describing the agency's theory of change?

Choose an item.

e. If yes, please provide a copy of the logic model as a picture below or as an additional attachment with the form as part of the agency's submission in BFM. If no, please contact your LFC or DFA analyst for assistance in developing a logic model.

2. Needs Assessment

In this section, provide specifics on the extent of the problem this proposal proposes to solve.

a. What is the extent of the problem to be addressed?

Click or tap here to enter text.

b. What is the total statewide need in numerical or geographic terms? If applicable, this may include a description and analysis of historically unserved or underserved populations.

Click or tap here to enter text.

c. What percentage of the previously identified total statewide need does this request seek to address?

Click or tap here to enter text.

3. Program Description

In this section, provide information detailing activities, costs, and benefits of the proposal.

a. How much is the agency's request for FY26 and from what source is the agency requesting additional funding?

Click or tap here to enter text.

b. Provide a list of specific activities that will be carried out if this request is granted.

Click or tap here to enter text.

c. Provide a cost per unit for the funding (such as the cost per individual or cost per activity).

Click or tap here to enter text.

d. If available and applicable, provide a benefit-to-cost ratio for this program (the total monetized benefits divided by total costs).

Click or tap here to enter text.

e. Does the agency anticipate additional increases above the FY26 request will be needed in future years to continue to operate the program? If so, please describe these additional expenses and projections of future financial needs.

Click or tap here to enter text.

4. Research and Evidence Categorization

In this section, provide information regarding the evidence and research supporting your request.

a. As defined in New Mexico's Accountability in Government Act, specify whether your program is evidence-based, research-based, a promising program or practice, or none of the above.

Choose an item.

b. Please provide any references or links to relevant research supporting your categorization. For example, sources may include published research or categorization provided by clearinghouse databases.

Click or tap here to enter text.

c. How will you evaluate the program to confirm your categorization?

Click or tap here to enter text.

5. Implementation Plan

In this section, describe all activities related to implementation of your proposal (What, when, where, who, and how) by addressing the following items:

a. What are the training and startup requirements for the proposed program?

Click or tap here to enter text.

b. Provide an estimated timeline for implementation of activities. Include planned benchmarks, milestones, and a target date for full implementation. If the request includes new FTE, provide your current vacancy rate and plan for recruitment.

Click or tap here to enter text.

6. Fidelity Plan

In this section, provide information regarding how you will ensure your proposal is delivered as intended.

a. Describe key components critical to the success of your program.

Click or tap here to enter text.

b. Provide a checklist or specific process metrics you will use to ensure component parts are implemented, including equity if applicable.

Click or tap here to enter text.

7. Measurement and Evaluation Plan

In this section, provide information about measuring outcomes and the impact of your proposal.

a. What measurable outcome is the agency trying to achieve with the requested expansion?

Click or tap here to enter text.

b. Will the requested program affect any existing performance measures?

Choose an item.

i. If yes, which performance measures will be affected?

Click or tap here to enter text.

c. What program outputs will the agency measure?

Click or tap here to enter text.

d. What efficiency metrics will the agency monitor?

Click or tap here to enter text.

e. Does the agency have baseline data for the proposed measures?

Choose an item.

i. If yes, please provide baseline data.

Click or tap here to enter text.

ii. If no, when and how does the agency anticipate collecting baseline data?

Click or tap here to enter text.

f. How often will the agency collect and report on these performance metrics?

Click or tap here to enter text.

g. How do you plan to share the results of your program with the public and the Legislature?

Click or tap here to enter text.