



LFC Newsletter

A publication of the Legislative Finance Committee

Senator George Muñoz, Chairman
Representative Nathan Small, Vice Chairman
Charles Sallee, Director

Volume 24 Issue 07

January 2024

From the Chairman

An Important Time

New Mexico begins a short but most important legislative session on January 16 where we will build on our momentum. The Legislature will consider many promising funding opportunities to improve our education, healthcare, economy, and employment opportunity.

The interim work of the legislative committees is of growing importance in the legislative process to ensure we remain fiscally responsible and serve our duty of holding the executive branch accountable. This session, the Legislative Finance Committee is presenting a new funding-forward process for state agencies to provide support for new and innovative ideas beyond the current year-to-year process.

The short session is the culmination of many hours of hard work from dedicated state employees and the many constituencies working to improve New Mexico's future. I thank them for their work and would like to stress that our work is not yet complete. We are blessed to have historic financial resources to fund state government. The burden of building a better future is not just a challenge for the legislature. We're in this together, and New Mexicans from across the state must put their heads together to find the best way forward.

Although the session is short and the governor controls the important topics to be considered in the next four weeks, there will be many important bills building on our current momentum in the recovering economy. We have the wind at our backs while we move New Mexico forward. Our local governments, tribal nations, and agencies are at hand to provide funding proposals. Although some will fall short, I believe the best ideas will present themselves at the governor's desk when the session ends.

On behalf of the New Mexico House and Senate, I welcome visitors to the Capitol. I would like to remind visitors that our session is short, and that each individual legislator is working hard on managing their time between committees and constituent meetings. Please remember that in a short session, the success of your visit will in part depend on the short and concise message to your elected officials regarding your concerns, hopes, and ideas. Let's keep this momentum going and have a great session.

Senator George Muñoz
Chairman

Fund for Pilot Projects Tops Potential Bills List

A proposal to create a trust for multiyear funding for pilot and demonstration projects tops the list of legislation the committee will consider endorsing when it meets on January 15.

The committee, which will be meeting for the last time before dissolving for the legislative session, is scheduled to discuss seven proposals for possible endorsement.

The bill creating the government accountability expendable trust would include program and reporting requirements for any funded programs, which would be evaluated over the four-year period they would receive distributions.

Other legislation under consideration:

- **Early Childhood Care and Education Fund.** This bill would increase the distribution of the early childhood education and care program fund from a projected \$155 million to \$250 million in FY25 and would provide for appropriations from the fund following FY25 to be based on an amount equal to the greater of 5 percent of the average of the year-end market values of the fund for the immediately preceding three calendar years or \$250 million. Because the fund is supported with oil and gas revenues, it has grown dramatically since its creation and now has a balance of \$5.5 billion.
- **Higher Education Financial Aid Endowment Fund.** This bill would create an interest-earning fund that would endow financial support for students in higher education. The

fund would distribute 5 percent of the end-of-year balance per year. The revenue generated would be sufficient to cover cost increases of the Opportunity Scholarship and backfill nonrecurring appropriations for the Lottery Scholarship.

- **Severance Tax Bonding Fund Transfers.** The bill would ensure savings from avoided debt transfers to the permanent fund.
- **Tobacco Settlement Permanent Fund.** The bill would remove the tobacco settlement fund from general fund reserves. Including the tobacco settlement, which has specific uses, with reserve funds inflates the amount in reserves.
- **LEDA Reforms.** The bill would add evaluation and reporting requirements to the Local Economic Development Act (LEDA), which pays for infrastructure as an incentive to businesses to move to or grow in New Mexico. Currently, the LEDA only includes an application process and evaluation for local and regional governments.
- **Infrastructure Division.** The bill creates the Infrastructure Planning and Development Division within the Department of Finance and Administration through a reorganization of the Local Government Division. The goal is to create a central coordinating entity for financing infrastructure projects and to enhance state support available to local communities to fund and complete projects.

LFC Rec Attempts To Stretch Surplus

The committee's FY25 budget recommendation includes a number of provisions intended to stretch out the availability of the record revenues of the last two years, including creating a pool of money that would provide multiyear appropriations for demonstration projects, the LFC director told the House Appropriations and Finance Committee during pre-session hearings.

In his presentation on the \$10.1 billion recommendation, LFC Director Charles Sallee told the HAFC members the Legislature has used the surplus to pay for capital outlay, taking pressure off of bonding funds, and has increased deposits in investments funds—steps

that will ensure today's surplus helps produce revenues in the long-term—but the pilot project fund, to be called the government accountability expendable trust, will help with funding in the mid-term.

He noted many agencies that have received big increases over the last few years have been unable to spend it all in one year. In addition, appropriations to agency base budgets tend to be continued year-to-year even if they don't improve performance.

The programs that would receive funds through the new trust would be required to monitor performance and report on results.

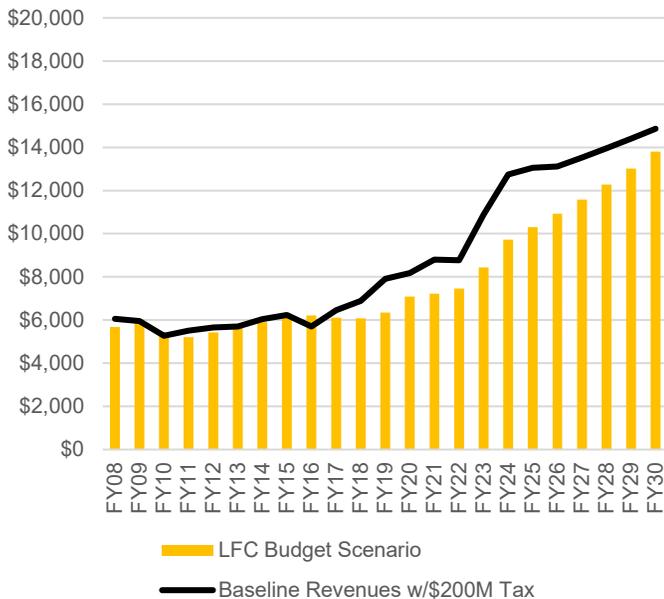
Budget Plan Allows for Sustainable Growth

Projections of state revenue and spending that assume 6 percent growth in spending per year and a \$200 million tax cut this year show New Mexico will be able to sustain that growth at least through FY30, LFC analysis shows.

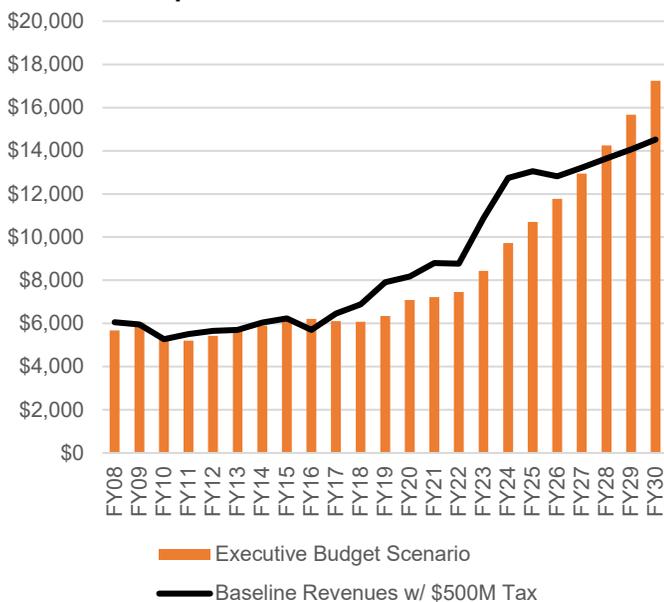
However, projections of slightly higher growth—10 percent—combined with a \$500 million tax cut this year suggest that level of growth can't be sustained beyond FY27.

The LFC budget recommendation for FY25 is a 5.9 percent increase over FY24 planned spending. Total recurring general fund spending in the proposal is \$10.1 billion, \$566 million more than the FY24 budget.

Budget Growth Projection: 6 Percent per Year and \$200 Million in Tax Cuts



Budget Growth Projection: 10 Percent per Year and \$500 Million in Tax Cuts



On the Table

Capital Outlay Projects On Hold

A total of 106 capital outlay projects funded in 2023 were stalled due to readiness, audit compliance, anti-donation or other issues as of January, the Department of Finance and Administration reported. As of January 5, 19 projects with total appropriations of \$11 million were on hold because readiness questionnaires were not returned by grantees; 13 projects with total appropriations of \$3.9 million were stopped because the recipients reported they were not ready to proceed; and 74 projects with total appropriations of \$15 million were considered ready but had not submitted an audit, a condition of receiving capital outlay funds.

Healthcare Investment Pay Off Unclear

State-provided Medicaid funding to New Mexico hospitals intended to improve healthcare access has increased multifold over the last four years, but the investment might not be paying off, LFC analysis indicates. Between 2020 and 2024, the state increased Medicaid supplemental hospital payments for such things as targeted access by \$152.6 million, from \$212.4 million to \$365 million, and increased directed payments to hospital funding for trauma, rural obstetrics, and other services by about \$310 million, from \$30 million to \$340 million. However, while the payments are partially intended to ensure continued access to services to offset some hospital operating losses, it is unclear if the payments are being distributed in a way that maintains or improves access. The Hospital Association is considering promoting tax legislation during the legislative session that would, with federal Medicaid matching dollars, generate an estimated \$1.1 billion.

New Mexico WIC Participation Low

New Mexico has the highest percentage of women and young children eligible for the federal WIC food assistance program—66 percent, or over 100 thousand individuals—but the lowest percentage of eligible women and children who actually enroll among neighboring states—40.5 percent, or nearly 35 thousand individuals, the U.S. Department of Agriculture reports. The Special Supplemental Nutrition Program for Women, Infants, and Children, administered in New Mexico by the Department of Health, serves low-income women who are pregnant, postpartum, or breastfeeding, along with young children up to age 5. In addition to monthly food benefits, WIC provides access to health screenings and referrals, breastfeeding support for new moms, and nutrition education for young families. If DOH were able to reach the national average WIC participation rate of 52 percent, they would reach over 17 thousand additional low-income women and young children.

Transitions

The Children, Youth and Families Department has named a new leadership team, including three deputy secretaries and directors for all the agency's divisions: Valerie Sandoval, a long-time CYFD employee, is now the deputy secretary of Protective Services and Juvenile Justice. Kathey Phoenix Doyle, who previously led the CYFD Prevention Bureau, has been named deputy secretary over behavioral health and family services. Melissa Salazar, previously the director of the Boards and Commissions Division at the Regulation and Licensing Department, is now the deputy secretary for Program Support. Mark Velarde, a former Albuquerque Police commander hired last month as the director of the Juvenile Justice Division, is now the director of Protective Services. Bob Cleavall, former chair of the Sentencing Commission, is now the director of Juvenile Justice.

Tucumcari Public Schools Superintendent Aaron McKinney, the second longest serving superintendent in the state at 18 years, has retired after serving a total of 29 with the district. Assistant Superintendent Dave Johnson will serve as interim superintendent once McKinney retires.



LFC Newsletter

2023-2024 Fiscal Year, Month 7

Published monthly in the interim by the Legislative Finance Committee.
Editor - Helen Gaussoin

Questions, comments: 505-986-4550
www.nmlegis.gov/Entity/LFC/Default

Please contact Adreena Lujan at adreena.lujan@nmlegis.gov if you would prefer to receive this newsletter electronically.