EVALUATION BRIEF
Legislative Finance Committee Evaluation Unit

DATE: September 25, 2025

PURPOSE OF HEARING: Detail trends in local government finances

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EXPECTED OUTCOME: Informational

Scan for Interactive Report

Local Government Finances

This is the first part in a series of evaluation briefs that will describe the trends found in local government financial statements. The series will emerge on the LFC website through the fall and winter of 2025-2026 and will culminate with an interactive dashboard of the fiscal health of local governments in New Mexico. The purpose of this brief is to present trends observed in county fund balances between FY18 and FY24, which is data that counties pull from their general ledger at the close of the fiscal year. Subsequent briefs will focus on revenues and expenditures as well as include analysis of municipal government financial statements.

Total governmental fund balances aggregated across county governments increased by 140 percent between FY18 and FY24, from $1.6 billion to $3.9 billion. County general fund balances increased by 165 percent over the same period. In the average county about 75 percent of the general fund balance is unassigned, however, as a percentage of general funds, unassigned fund balances range from between 6 percent in Bernalillo County to 100 percent of general funds categorized as unassigned in Hidalgo or De Baca counties, for instance. Current assets associated with county general funds have increased by roughly 158 percent while current liabilities associated with general fund balances have increased by 66 percent over the same period of time.

Key Points

- Non-recurring appropriations for FY26 were 1,328 times larger than non-recurring appropriations for FY18. Capital outlay increased by 461 percent over the same time period. Page 4.
- County fund balances have increased by $2.3 billion because current assets outpacing current liabilities. Page 6.
- Counties have sufficient short-term assets to cover short-term liabilities. Page 9.
- The Local Government Division reviews local government finances to catch or prevent problems. Page 11.
- Link to Interactive Reports

Background on Financial Statements

Local governments undergo annual financial audits which result in yearly submission of audited reports to Office of State Auditor (OSA). OSA publishes audits online, but up to now no state government entity has compiled financial data reported in the financial statements that are contained in the audits. The data contained in the financial statements, such as fund balances, is useful for state legislators and other stakeholders when reviewing budget requests from local governments and formulating appropriations. LFC staff has developed a data visualization mechanism for stakeholders to interact with financial data, e.g. fund balances, revenues, expenditures and financial ratios over time, by county.

One of many revenue sources for local governments is state funding. The legislature primarily appropriates funding to local governments through the General Appropriations Act and Capital Outlay bills. Local government balance sheets report current assets, current liabilities, and fund balances. At this time LFC staff have not linked state appropriations directly to financial statements but data analyses of both state appropriations to local governments and of local government fund balances reveal substantial growth over time – non-

recurring state appropriations for FY26 are 1,328 times larger compared with FY18.

Local Government Revenue Sources

To pay for the municipal or county services and infrastructure (capital projects) local governments are empowered to generate revenues by charging fees for services, taxing business activities and property, and from interest on investments. Additionally, local governments may receive revenue through intergovernmental transfers from state or federal governments. Counties and municipalities have a different mix of revenues. A substantial portion of revenue is generated from local GRT for both county and municipal local governments. However, counties receive a substantial portion of revenue share from property taxes and other taxes, whereas municipalities receive a large chunk of revenues from a share of the state GRT. Table 1 describes some major sources of revenue for New Mexico's counties and municipalities in addition to their own taxes, fees, and enterprise activities to pay for services.

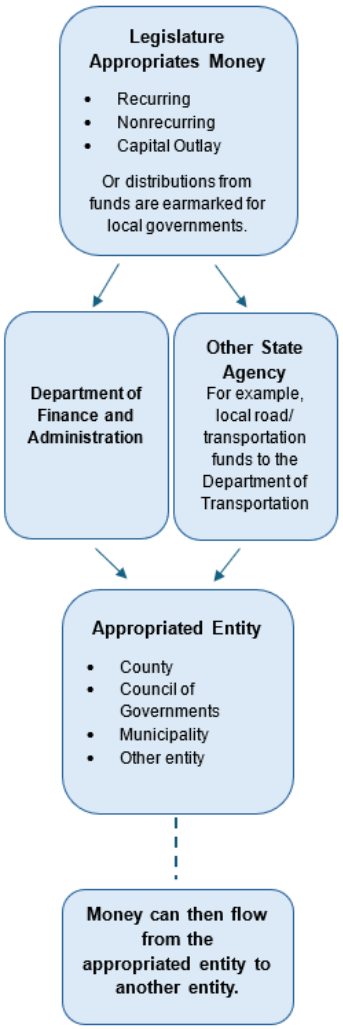
Table 1. Major Local Government Revenue Sources

Revenue Source	Description
Gross Receipts Taxes (GRT)	Counties and municipalities are authorized to impose a local GRT on taxable gross receipts of businesses located in the county or municipality. In addition to the GRT levied by local governments, municipalities receive a share of the state's GRT collections.
Compensating Taxes	The compensating tax is applied to the value of tangible personal property manufactured by a business using the property in the state or to property acquired that was not subject to the GRT.
Property Taxes	Local governments are allowed to impose a tax on the assessed value of property within their boundaries using mill rates. A mill rate represents a one-dollar tax rate per every $1,000 of a property's assessed taxable value. The NM constitution limits the combined operating levies that can be taxed for the purpose of maintaining operating budgets at 20 mills.
State Funds Dedicated to Local Governments	Several state funds have earmarks for local governments, providing distributions for specific purposes. The fire protection fund, local government road fund, and the DWI grant fund represent some of the larger distributions to local governments.
Legislative Appropriations	In addition to capital outlay, local governments receive funding through appropriations, both within the General Appropriations Act and special appropriations.
Cannabis Excise Taxes	Counties and municipalities receive a distribution of the total revenue from the state enacted a special excise tax on retail sales of cannabis. The tax rate was 12 percent prior to July 1, 2025 and increases by 1 percent a year until it reaches 18 percent by July 1, 2030.

Source: LFC files

Generally, local governments spend the greatest proportion of their revenues on public safety, including police and fire services, and general government. A September 2023 LFC hearing brief on local government finances showed that, after public safety and general government, municipalities spent more on parks and recreation and capital outlay, while county governments spent more on health and welfare and public utilities. Though local government revenues and expenditures will be explored further in the next brief of this series; preliminary analysis indicates large and small county governments make and spend money somewhat differently.

Figure 1. State Funding to Local Governments Money Flow Map



Note: dashed lines represent that some money could flow in this way, though not primarily.

Source: LFC files

Summary of State Appropriations to Local Governments

Federal and state governments transfer revenue to county, municipal, and other lower-level governments using grants and loans or through revenue sharing policies – see Hearing Brief – and the legislature appropriates funding to local governments through recurring and non-recurring appropriations. State appropriations to local governments have increased since FY18 – both in terms of the number of appropriations and the dollar amount.

State distributions to local government through dedicated funds increased by 31 percent between FY19 and FY25, totaling more than $168.4 million. Local governments have benefited from several dedicated state funds. The fire protection fund, local government road fund, and the DWI grant fund are among larger distributions to local governments. Distributions to local governments from the law enforcement protection fund have increased by nearly 300 percent and distributions from the county detention fund have roughly doubled. The Local DWI distributions increased by 20.5 percent between FY25 and FY18. Finally, the legislature appropriates between $20 million and $30 million per year in recurring appropriations from the General Appropriation Act, such as the acequia and community ditch program, the statewide teen court or the appropriation for local fiscal agents.[1] Figure 1 describes the flow of funds from

Table 2. State Funds Dedicated to Local Governments
(in millions)

Fund	Intended Use	Distributed to	FY19	FY23	FY25	% Change FY19 - FY25
Fire Protection Fund	Fire Department Operations	Cities	$32.8	$30.4	$32.5	36.9%
		Counties	$23.0	$41.3	$43.9	
Local Government Roads	Construction and maintenance of roads and transit	Cities & Counties	$25.5	$26.1	$28.5	11.8%
Local DWI Grant	DWI prevention and treatment	Counties	$13.2	$16.4	$15.9	20.5%
Small Cities Assistance	Cities with populations of <10,000	Cities	$15.2	$14.3	$16.4	7.9%
Small Counties Assistance	Counties with populations of <48,000	Counties	$7.0	$7.0	$8.5	21.4%
Law Enforcement Protection	Police Equipment and Training	Cities	$3.2	$6.6	$12.6	284.8%
		Counties	$1.4	$2.7	$5.1	
County Detention	Housing offenders in county jails	Counties	$2.4	$5.0	$5.0	108.3%
		Total Change	$128.3	$150.1	$168.4	31.3%

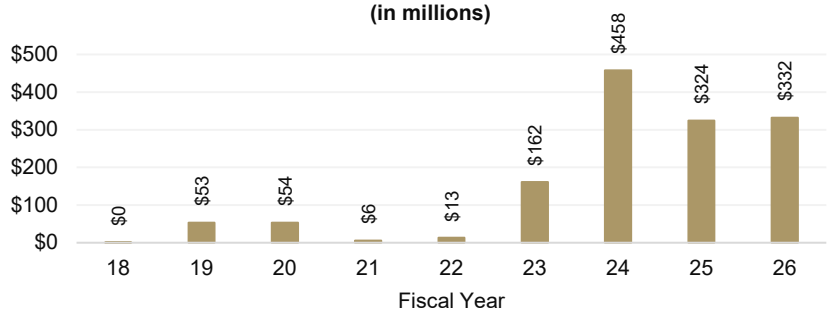
Source: Department of Finance and Administration, TRD, New Mexico Department of Homeland Security

[1] Total state distributions to local governments may be somewhat understated, as it does not include all possible funding sources which could include additional grants or subsidies through targeted programs or grants to counties from agencies.

state appropriators through state agencies, to local fiscal agents, and on to other entities.

Non-recurring appropriations for FY26 were 1328 times larger than non-recurring appropriations for FY18. In addition to dedicated state funds, local governments receive funds through special appropriations both with the GAA and other legislation. The number of non-recuring appropriations that the state legislators made to local governments jumped from one line-item entry for FY18 for $250 thousand – remediation of the Carlsbad brine well – to 33 line-item appropriations for FY26. Notably, there was a spike in FY24 where appropriators allocated $458 million in the General Appropriations Act – including $232 million to locals for transportation through the Department of Transportation, $57 million for local law enforcement, and $40 million for regional recreation center. In FY26, the GAA included $332 million in non-recurring appropriations to local governments.

Chart 1. Sum of Non-Recurring Appropriations in HB2 to Local Governments FY18-FY26
(in millions)



Source: LFC Analysis of HB2

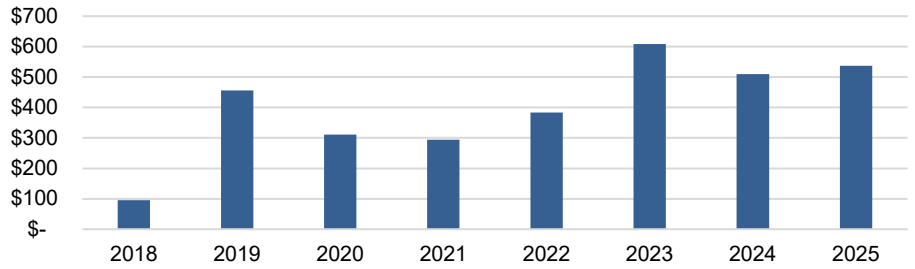
Table 3. Top Ten Largest "Local" Capital Outlay Appropriations in 2025
(in millions)

Category	County	Amount
Housing Projects	Multiple	$13.5
Water Infrastructure	Curry	$12
Water Infrastructure	Bernalillo	$10.3
Housing Projects	Santa Fe	$9
Health Facilities	Valencia	$8.5
Community Facilities	Taos	$8
Housing Projects	Bernalillo	$7.6
Health Facilities	Colfax	$7.5
Heath Facilities	San Juan	$7
Health Facilities	Dona Ana	$5.5

Source: LFC Files

Local capital outlay appropriations increased by 461 percent between 2018 and 2025. Capital outlay is appropriated in the legislative session to build, repair, and improve buildings, parks, roads, and other assets. Appropriations categorized as "local" are those funded by the member and governor share of capital funding that representatives can give to their districts for capital projects. The recipients are primarily local (county and municipal) and tribal governments, but also some other local entities like water districts. In 2018, there were 686 different local capital outlay appropriations totaling $95.8 million. This has since increased to 1,238 local capital outlay appropriations in 2025 totaling $537.5 million. This represents a 461 percent increase.

Chart 2. "Local" Capital Outlay Appropriations to Local Governments
[in millions]



Note: Only includes projects categorized as "local", not statewide or higher education projects.
Note: Capital outlay is shown here by the year they were appropriated by the legislature, not the fiscal year the appropriation was meant to be used.

Source: LFC analysis of captial outlay

The Legislature increased the number and total amount of appropriations to local governments over the past seven to nine years by orders of magnitude. State appropriations are recorded as assets on county balance sheets and may be included as part of general funds, major funds, or as part of the non-major funds. Finally, local governments draw on their fund balances to pay for services.

Summary of County Government Balance Sheets

New Mexico recognizes 33 county governments. Given the large increases in appropriations to local governments, this brief examines the following questions.

- How have county government fund balances changed over time?
- To what extent did counties experience similar changes in their fund balances from FY18 to FY24?
- To what extent are counties able to cover their operating liabilities with their current or operating assets?

In the aggregate, total governmental fund balances in counties have increased by about 140 percent from FY18 to FY24 – from $1.6 billion to $3.9 billion. As the median, total governmental fund balances in Taos County increased by 88 percent, while total governmental funds in Lea County jumped by more than 750 percent to $679 million, surpassing Bernalillo County by $110 million in FY24. On the other end of the spectrum, total governmental funds in Guadalupe County decreased by 77 percent. Colfax County governmental fund balance decreased by 7 percent at the end of FY23 relative to FY18 and is behind on submitting their audit for FY24. Total governmental fund balances in Lincoln County increased by about 14 percent and 20 percent in Curry County.

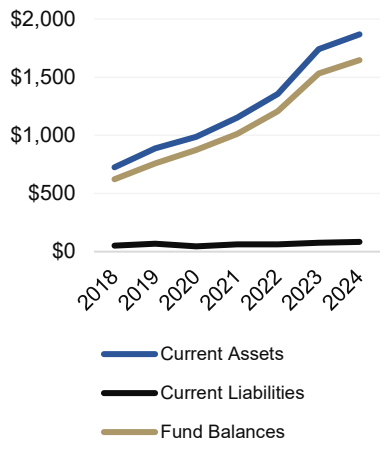
Fund Balances
=
(Current Assets + Deferred Inflows)
–
(Current Liabilities + Deferred Outflows)
Source: GASB

County population size accounts for about 70 percent of the observed differences in levels of total governmental fund balances but does not account for the differences in growth rates between counties.
Source: LFC Analysis

Balance sheets report short term assets, liabilities, and fund balances by Fund. The Statement of Net Position is similar to a balance sheet but includes long-term entries.

Source: GASB

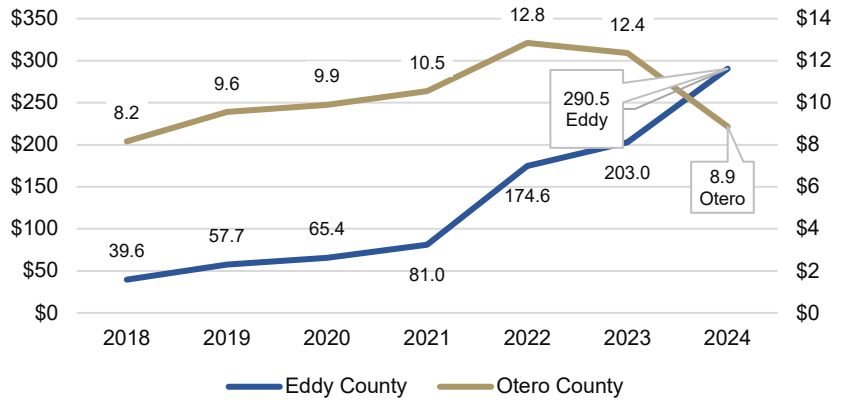
Chart 3. County General Fund Balances
(in millions)



Source: LFC Analysis of Balance Sheets in Audits

General fund balances, aggregated over counties, increased by nearly 165 percent between FY18 and FY24 – from $622 million to $1.6 billion. General funds, which are a portion of total governmental fund balances, are used by local governments for managing day-to-day operations. General fund balances in the median county, Sandoval, increased by 106 percent from about $10 million in FY18 to nearly $21.4 million in FY24. Eleven counties (one third of New Mexican counties) experienced increases in general fund balances in excess of 200 percent. General fund balances in Eddy County increased by 634 percent from nearly $40 million in FY18 to $290 million in FY24. General fund balances increased by over 400 percent in Socorro and Chaves counties, and by 300 percent or more in Torrance and Los Alamos counties. Finally, by 293 percent in Lea County. Although Colfax County is delayed with their FY24 audit, their FY23 general fund balance is 56 percent lower than FY18 and 72 percent lower than FY22, which was 53 percent higher than FY18 general fund balances. General fund balances in De Baca and Otero counties were 12 percent and 11 percent greater in FY24 than FY18, respectively. County population size accounts for about 55 percent of the differences in levels of general fund balances between counties but does not account for differences between counties in growth rates.

Chart 4. Tail of Two Trends - General Fund Balances of Eddy County and Otero County
(in millions)



Note: Eddy County had the highest growth while Otero County had the lowest growth in General Fund Balances. Eddy county is tracked on the primary or vertical axis on the left, and Otero county is tracked on the secondary or vertical axis on the right.

Source: LFC Analysis of Balance Sheets in Audits

Table 4. Fund Balance Liquidity
(from least to most liquid)

Status	Definition
Non-spendable	Resources that cannot be spent.
Restricted	Resources legally constrained by organizations or persons external to a government.
Committed	Resources legally constrained by a government itself using its highest level of decision-making authority.
Assigned	Resources a government intends to use for a particular purpose.
Unassigned	Resources available for any purpose.

Source: GASB

Unassigned general fund balances, aggregated over counties, increased by 290 percent from nearly $250 million to nearly $970 million. Counties categorize their fund balances to differentiate fund balances that are reserved for specific uses from unassigned funds. Aggregated across counties, unassigned fund balances as a percentage of general funds have increased from about 40 percent to about 58 percent. The five counties with the largest populations reserve more of their general fund balances as compared to the other 28 counties. The majority of counties reserve roughly 25 percent of general fund balances while the five largest counties reserve roughly 75 percent of their general fund balances. Furthermore, the trend for the five largest counties is that they tend to be categorizing more general fund balances as unassigned, whereas the percentage of general funds that the other 28 counties

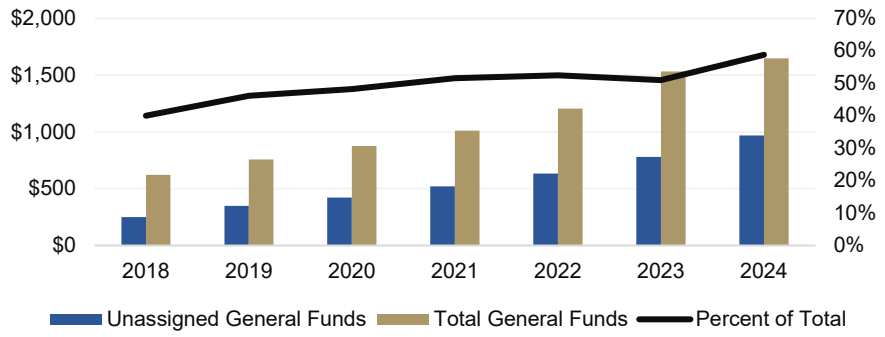
Table 5. Percentage of General Fund Balances That are Unassigned

Year	Largest 5 Counties	Other 28 Counties
2018	15%	73%
2019	19%	79%
2020	22%	80%
2021	23%	82%
2022	23%	83%
2023	21%	76%
2024	36%	75%

Source: LFC Analysis of Balance Sheets in Audits

are categorizing as unassigned has remained flat or increased then decreased on average. There are a handful of small counties that occasionally, or in the majority of years LFC staff analyzed, categorize all of their general fund balances as unassigned. In FY24 Catron County is the only county to categorize all of their general fund balances as unassigned.

Chart 5. Unassigned General Fund Balances Aggregated Across Counties Compared with Total General Fund Balances
(in millions)

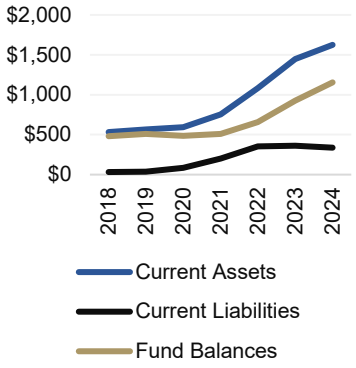


Note: Fiscal Year 2025 data will be at the end of December 2025

Source: LFC Analysis of Balance Sheets in Audits

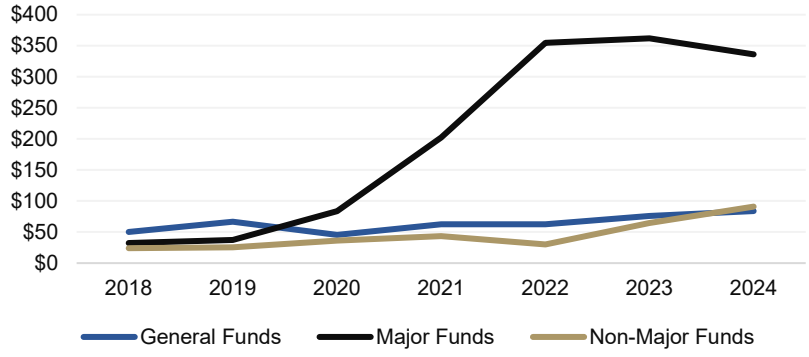
Major fund balances, aggregated over counties, have increased by 140 percent between FY18 and FY24. Between FY18 and FY21, major fund balances hovered around $500 million. In FY22, aggregated major fund balances reached roughly $650 million, then they increased by about $300 million per year to $1.15 billion in FY24. Current liabilities associated with major county funds increased more rapidly when compared with either general or non-major funds, even if current liabilities began to taper and hover around $330 million.

Chart 6. County Major Funds
(in millions)



Source: LFC Analysis of Balance Sheets in Audits

Chart 7. Growth of Current Liabilities by Fund Type
(in millions)



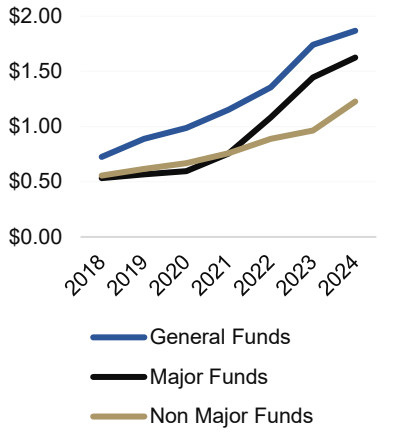
Note: Fiscal Year 2025 data will be at the end of December 2025

Source: LFC Analysis of Balance Sheets in Audits

Funds are considered major under three circumstances

- if revenues or expenditure exceed thresholds;
- if they are the general fund;
- if the government considers the fund important to report separately.

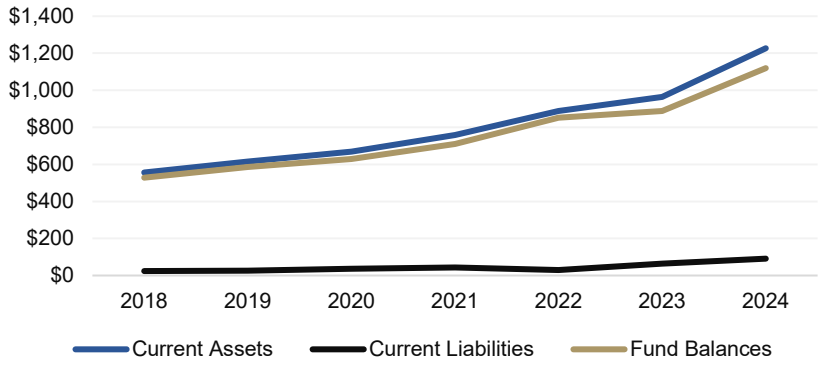
Chart 8. Growth of Current Assets by Fund Type
(in billions)



Source: LFC Analysis of Balance Sheets in Audits

Non-major fund balances, aggregated across counties, increased by more than 110 percent from FY18 to FY24. Current assets rose in all fund categories. Current assets associated with general funds grew by roughly 150 percent from FY18 to FY24. Current assets linked to major funds grew by about 200 percent and current assets linked with non-major funds grew by nearly 120 percent from FY18 to FY24. Overall, the aggregated current assets across all fund types grew by more than 150 percent from $1.8 billion to $4.7 billion over the same time period.

Chart 9. County Non-Major Funds
(in millions)



Note: Fiscal Year 2025 data will be at the end of December 2025

Source: LFC Analysis of Balance Sheets in Audits

Current Assets are short term-assets or assets that can be converted to cash for use by the government for day-to-day operations. Current Assets include cash and cash equivalents, investments, receivables, and inventories for example.

Current Liabilities are bills or obligations that are due within a year, usually considered as operational expenses. Current Liabilities include accounts payable, payroll and benefits, and unearned revenues, for example.

General fund balances grew by about 165 percent, from $620 million to $1.65 billion. Non-major fund balances grew by about 110 percent from $530 million to $1.1 billion and major fund balances had similar growth of about 140 percent from about $480 million to $1.1 billion. Overall fund balances grew from $1.6 billion in FY18 to nearly $4 billion in FY24.

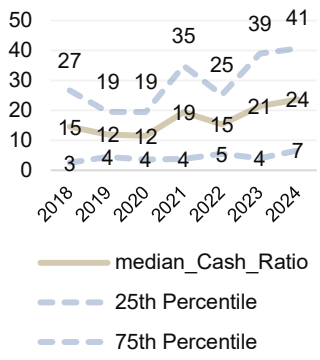
Governmental balance sheets report current assets and current liabilities. Balance sheets provide the information for the analysis of liquidity ratios. Liquidity ratios measure the governments' ability to meet short-term obligations.

Table 6. Liquidity Ratio Calculations and Definitions

Ratio	Calculation	Definition
Current Ratio	current assets/ current liabilities	Measures the government's ability to pay its short-term bills and debts with short-term assets like cash, short-term investments, and money people owe to the government.
Quick Ratio	(cash + short-term investments + receivables)/ current liabilities	A more conservative measure of liquidity than the current ratio, measuring how easily a government can pay short-term bills with only its most available money, without having to sell things like inventory.
Cash Ratio	cash and cash equivalents/ current liabilities.	The most conservative liquidity ratio, shows whether the government can pay for its bills, if due today, with cash on hand, without waiting to collect money or sell anything.

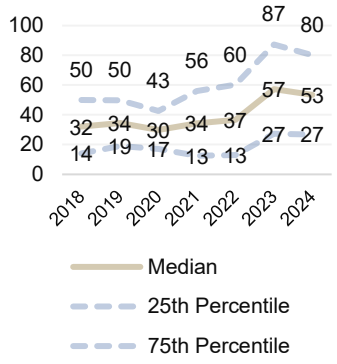
Source: GASB

Chart 10. Statewide Median Trend of Cash Ratios



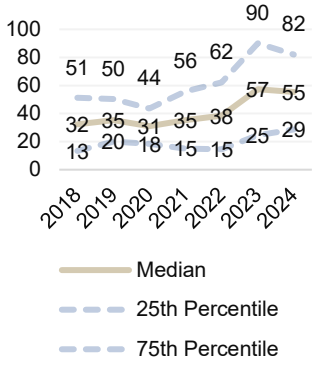
Source: LFC Analysis of Balance Sheets in Audits

Chart 11. Statewide Median Trend of Quick Ratios



Source: LFC Analysis of Balance Sheets in Audits

Chart 12. Statewide Median Trend of Current Ratios



Source: LFC Analysis of Balance Sheets in Audits

By all three measures of measures of liquidity, New Mexico counties are well positioned to cover their day-to-day obligations with their current assets. LFC staff analyzed balance sheets to understand the extent to which local governments can cover their current liabilities with their current assets in an emergency struck. The average current ratio in FY18 was roughly 32. In other words, the typical county had $32 of assets for every $1 of liabilities in FY18, and this ratio increased to roughly 55 by FY24. The quick ratio which divides a subset of the current assets (cash and receivables) by current liabilities,

Table 7. Cash Ratio Trends

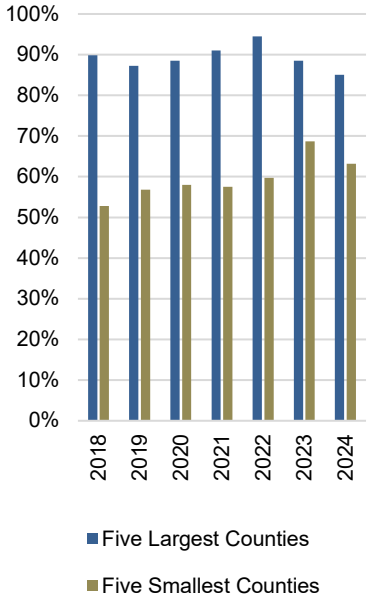
County	2018	2019	2020	2021	2022	2023	2024	Trend
Bernalillo	7.3	7.8	11.5	10.1	10.4	8.9	8.1	M
Catron	36.2	12.0	25.7	30.3	12.4	39.6	23.7	M
Chaves	8.4	5.5	8.5	2.7	25.3	6.1	6.9	M
Cibola	3.2	13.5	3.0	22.2	15.3	59.4	36.4	U
Colfax	48.6	12.6	134.0	111.5	62.7	6.8		D
Curry	27.0	36.7	26.3	78.3	62.3	70.5	53.6	U
De Baca	58.0	33.7	31.8	142.6	111.0	81.5	50.9	M
Dona Ana	0.1	0.0	3.1	1.2	0.3	0.1	0.1	M
Eddy	2.5	8.0	4.2	15.3	22.3	37.6	70.1	U
Grant	6.3	4.4	7.4	2.2	0.9	0.8	29.2	M
Guadalupe	29.5	20.1	19.1	20.3	21.0	8.6	18.6	M
Harding	149.0	119.4	167.2	115.5	113.0	116.1	107.4	D
Hidalgo	31.3	102.7	22.3	65.1	110.6	277.0		U
Lea	50.2	72.1	103.7	93.2	20.2	60.4	42.8	M
Lincoln	26.0	23.4	16.3	59.8	57.0	38.7	2.2	M
Los Alamos	4.6	10.4	9.6	10.7	13.0	14.4	17.9	U
Luna	17.9	19.0	23.0	28.5	8.1	0.9	1.1	D
McKinley	2.4	22.3	4.5	3.7	7.0	3.6	7.1	M
Mora	14.6	11.1	8.2	4.6	3.2	22.2		M
Otero	1.0	0.8	1.1	0.1	0.3	0.5	0.2	D
Quay	12.7	8.0	11.0	11.3	15.9	8.4	7.8	M
Rio Arriba	17.6	20.8	17.3	28.1	68.8	74.3	49.3	U
Roosevelt	16.7	9.5	16.8	19.4	14.5	30.6	47.3	U
San Juan	7.9	7.9	6.9	6.3	10.3	13.6	16.0	U
San Miguel	6.5	6.6	5.0	3.3	7.9			M
Sandoval	6.4	11.2	3.6	9.6	10.3	15.2	11.5	M
Santa Fe	45.7	36.3	44.5	35.7	32.7	28.4	30.5	D
Sierra	59.7	63.0	44.7	27.5	50.7	33.1	50.6	M
Socorro	1.2	8.7	3.5	2.3	13.7	4.9	12.2	M
Taos	0.0	10.9	8.6	7.3	8.3	20.8	26.8	U
Torrance	1.4	1.4	0.9	0.3	0.2	0.0	6.5	M
Union	40.7	38.2	60.5	39.6	60.4	65.0	78.5	U
Valencia	15.8	32.6	32.7	27.0	101.0	100.0	85.4	U

Note: M = Mixed , D = Down, U = Up

Source: LFC Analysis

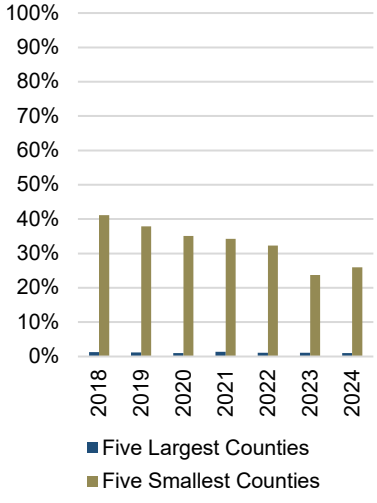
has a similar trend as the current ratio and ranges from 32 to 53 in FY24. Finally, the cash ratio measures the size of the most liquid assets relative to liabilities. The typical cash ratios are lower than either the current or the quick ratios, roughly 14 and 24. For all these liquidity ratios, a value greater than two is the typical standard for sufficient liquidity, but it is recommended that local governments compare their liquidity ratios with their peers, because liquidity ratios for government entities are generally much higher than for other types of organizations. Low ratios may be a result of management decisions and not indicate fiscal distress. For example, Otero County has low cash ratio which may indicate that they have invested their cash. New Mexico's Local Government Investment Pool (LGIP) enables local governments to withdrawal principal or interest earnings quickly without penalties and fees. For this reason, it is important to review the notes in the audit, which include details on the government's investment portfolio.

Chart 13. Percent of General Revenue from Taxes Small versus Large Counties



Note: Neither Mora or Hidalgo counties have submitted FY24 audits, therefore Guadalupe was included.
Source: LFC Analysis of County Audits

Chart 14. Percentage of General Reveues From Intergovernmental Transfers Small versus Large Counties



Source: LFC Analysis of County Audits

County Revenues and Expenditures

The focus of this brief is not on the revenues and expenditures of county governments, however, to provide context to the analysis of fund balance trends LFC staff analyzed the statement of revenues, expenditures, and changes in fund balances of the five largest and five smallest counties in terms of population size. The five largest counties are Bernalillo, Doña Ana, Santa Fe, Sandoval, and San Juan and collectively account for about 66 percent of the state's population. The five smallest counties are Harding, De Baca, Catron, Union, and Hidalgo and account for less than one percent of the state's population. The analysis presented below addresses the following questions for the five largest and five smallest counties:

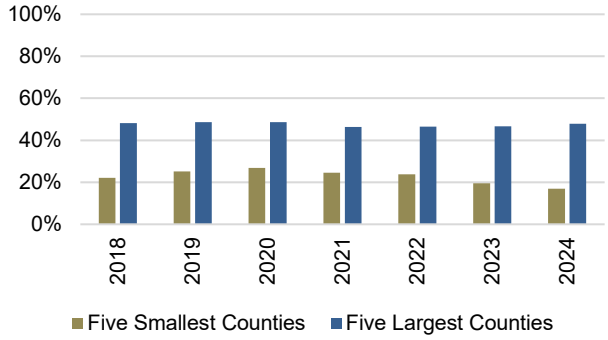
- How do counties generate operating revenue?
- How do counties spend their operating revenues?
- Are there differences between the largest and smallest counties in terms of their operating revenue and expenditure?

The statement of revenues, expenditures, and changes to fund balances provides details for the changes in county balance sheets from one year to the next. The focus of this brief is on balance sheets, however, LFC staff will complete the data collection of the remaining counties and will provide a more complete analysis of the county revenues and expenditures in the next brief. The next iteration of the interactive report will include trends for all counties regarding their yearly revenues and expenditures.

Taxes generate 87 percent of operating revenues among the largest counties, whereas in the smallest counties only 60 percent of revenue is generated through taxes. Meanwhile, 33 percent of the operating revenues for the five smallest counties are generated through intergovernmental transfers, whereas for the five largest counties, less than 5 percent is reported from intergovernmental transfers. Six percent of the largest counties' operating revenues, and only 1.5 percent for the smallest, come from licenses, permits, or fees. Neither group of counties generated much operating income through investments, and about 4 percent of the smallest counties' revenues came from miscellaneous sources, such as the one-time sale of assets. For large counties, miscellaneous sources account for about 1.7 percent of operating revenues.

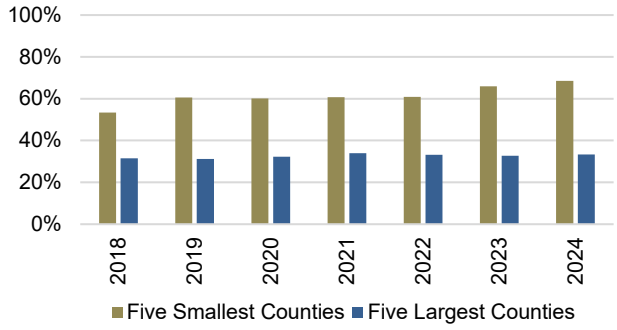
The five largest counties spent roughly 50 percent of actual current expenditures on public safety, while the five smallest spent about 25 percent on public safety. The smallest counties spend more on general government, approximately two thirds of total current expenditures there while large counties spend about 30 percent in this area. Additionally, the small counties spend more on public works, while large counties spend a greater share on health and welfare and culture and recreation projects.

Chart 15. Percentage of Actual Operating Expenditures on Public Safety by County Size



Source: LFC Analysis of County Audits

Chart 16. Percentage of Actual Operating Expenditures on General Government by County Size



Source: LFC Analysis of County Audits

Oversight of the Local Government Budget Process

LGD Recommendations for Local Governments Facing Financial Challenges

1) Adopt and apply a formal policy that strictly disallows using cash balances for recurring expenditure.
2) Implement an immediate freeze on all current vacant employee positions (excluding health and public safety services positions) as well as prohibit increases to employee salaries (excluding union contractual obligations).
3) Implement an immediate freeze on any new non-essential contracts that affect the general fund.
4) Discontinue the practice of providing funds to any non-profit organization that are not tied to a legislative appropriation.

The Local Government Division (LGD) of the Department of Finance and Administration reviews and approves all local government's yearly operating budgets. Chapter 6, Article 6 of the New Mexico Statutes Annotated 1978 requires LGD's Financial Management Bureau to make rules and regulations relating to budgets, records, reports, and the disbursement of public monies, including transfers between funds. For the budget process, all local governments are required to submit their operating budget to LGD, which they review with a checklist covering standard revenue projections, special revenues, property taxes, and other elements needed for a balanced budget. Increased oversight might be triggered by issues like ongoing general fund depletion or failure to maintain self-sustaining service funds. This can result in monthly reporting requirements, recommendations to adjust service rates, or, in more serious cases, classification as a financial hardship. One specific requirement held by LGD is that municipalities must maintain $1/12^{th}$ of their budgeted general fund expenditures in the fiscal year ending cash balance, and counties are required to maintain $3/12^{th}$ as well as $1/12^{th}$ of their budgeted road fund expenditures. Reserve requirements like this are meant to help local governments have adequate cash flow if there are shortfalls in gross receipts and property tax collections.

The division also reviews quarterly reports from local government to analyze current fiscal conditions to detect financial difficulties early and to ensure that each local government or other entity maintains fiscal stability. The reports show year-to-date actuals for revenues, expenditures, and transfers across all funds. LGD's Budget and Financial Bureau reviews them to ensure counties do not exceed their budgets, prevent negative or rapidly depleting cash balances, and verify that special fund distributions are properly budgeted and used. LGD assesses key red flags include cash balance drops over 10 percent, negative cash

balances, budgeted revenues not materializing (e.g., gross receipts tax), imbalances in fund transfers, or overspending or underspending special funds.

In coordination with the Department of Finance and Administration's Financial Control Division, LGD reviews the local government's financial audits once they are published to the Office of the State Auditor's website. They look for significant audit findings related to areas like internal controls, capital assets, procurement, and repeat issues. Local governments are required to submit a corrective action update and a signed memo from their governing body acknowledging the audit presentation. This information informs risk assessments for the legislative appropriations and capital outlay agreements. While LGD provides input, the Financial Control Division determines any special conditions based on the findings and overall audit compliance.

Though there is a review process, the division does not compare a county's finances to their trends over time or to other governments, so they might only catch problems as they come up. The goal of the interactive report is to provide the time and peer comparison to help further understand and catch a local government heading toward a financial challenge.

Figure 2. Local Government Budget Cycle