GUIDELINES FOR FY11
LFC APPROPRIATION RECOMMENDATION

I. PURPOSE

The LFC budget guidelines provide analysts with direction on performance-based budgeting, the preparation of the budget narrative, and the development of FY11 recommendations on recurring appropriations, priority capital spending, and other one-time investments. The guidelines also serve to inform state agencies and the general public about LFC priorities and the committee's approach to budget recommendations for FY11.

II. REVENUE OUTLOOK AND FY10 SOLVENCY

The February 2009 consensus revenue estimates projected and 2009 regular session appropriations assumed general fund balances for FY09 and FY10 would be around $600 million, or 10 percent of spending (see page 49, *2009 LFC Post-Session Review*). However, at the start of FY10, it appears FY09 revenue has fallen $309 million below the February estimate, primarily due to weakness in personal and corporate income taxes, a phenomenon being experienced in many other states. Further, New Mexico general fund revenue will fall short in FY10 by $433 million. Under this scenario FY10 balances would fall slightly into negative territory – an inadequate level. Further the 2009 General Appropriation Act did not authorize a draw on general fund reserve accounts to cover a revenue shortfall in FY09 or FY10. The Governor and legislative leaders agreed to a special session to continue government operations.

Restoring fiscal solvency should involve the same four-pronged approach used during the 2009 regular session: (1) authorize use of general fund reserves; (2) transfer surplus balances from other state funds in the treasury to the general fund; (3) void capital outlay authorizations; and (4) reduce FY10 operating budget and special appropriations.

The August 2009 revenue forecast anticipated a recovery of the U.S. and state economies and energy markets in 2010 would contribute to 6.8 percent revenue growth in FY11 and 4.9 percent growth in FY12. FY11 new money will be a negative $90 million, i.e. FY11 revenue will be below the currently authorized FY10 appropriation level. Further, the FY10 budget used $331 million of one-time federal stimulus funding for public education and Medicaid, of which approximately $150 million must be replaced in FY11 (see page 62, *2009 Post-Session Review*). An additional $125 million could be required in FY11 to replace cash balances used in FY10, to cover deferred spending for school text books and police vehicles, and continue implementation of higher employer contributions to retirement funds. In sum, the FY11 budget could require $500 million additional general fund revenue or more to keep programs flat without consideration of inflationary or workload increases.

III. FY11 PRIORITY AND APPROACH

The goal of the committee is to propose a balanced budget for the operations of government that preserves the state's most critical services. The committee will continue to emphasize essential services to the most vulnerable of the population and ensure the citizens of the state are safe.

The committee will prioritize funding for existing programs that demonstrate efficiency and effectiveness, are linked to agency strategic plans and performance goals, and do not duplicate bureaucratic structures.

The LFC is committed to avoiding across-the-board cuts to agency budgets, furloughs, layoffs, and budget reductions that create commitments for future legislatures.

General fund revenue options the committee might consider are eliminating or reducing revenue earmarked to other state funds, eliminating or reducing dedicated revenue sources, and enhancing license fees or other user revenue. In addition, the committee will revisit the recommendations of the 2003 Blue Ribbon Tax Reform Commission (BRTRC) and examine tax exemptions and credits adopted since 2003.

IV. PROCESS FOR IDENTIFYING DUPLICATION, EXCESS OVERHEAD, AND LOWER PRIORITY PROGRAMS

Given the state's ongoing fiscal constraints, the committee's budget recommendation for FY11 will place greatest emphasis on results and accountability. Accordingly, analysts shall submit to the director no later than August 15, 2009, a report that

- Identifies opportunities for consolidation of duplicate programs and activities, elimination of earmarks, and enhancement of efficiency;
- Focuses on successful programs and those that provide the best return to taxpayers;
- Identifies programs that may be of lower priority to the state in a revenue-constrained environment.

Consideration for continued base funding should be given to those programs that demonstrate results, effective design, and strong planning and management. Those programs that do not demonstrate results and accountability should be identified for possible reduction or elimination.

Analysts' FY11 budget recommendation will ensure that all programs are reviewed to determine those that:

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

- Particular consideration should be paid to the following:
  - Services that duplicate those provided elsewhere within the public sector or by nonprofits should be reviewed to determine the most cost-effective method.
  - Provider rates for subsidized medical, long-term care and child care should be consistent with federal Medicaid and Medicare and other guidelines. Requests for rate increases must be thoroughly reviewed and be based on justification of need and not just a desire and the length of time since the last increase.
  - Leveraging federal funds to maximum extent possible.
  - Eligibility for services should be compared with national averages and recommendations for adjustment must be made based on revenue estimates.

V. PERFORMANCE AND ACCOUNTABILITY

The Accountability in Government Act (AGA) remains a top priority of the LFC. Analysts should integrate agency performance results into their budget analysis and, whenever possible, align budget recommendations with program achievement.

Analysts should follow these guidelines in reviewing agency performance:

- Agency strategic plans should ensure (1) the stated mission, goals and objectives are consistent with statute and state policies, (2) overarching programs are coordinated among divisions and, where applicable, across agencies, and (3) programs are consistent with current resources and conditions.

- Agency resources should be aligned with agency's strategic direction and performance results. Additionally, the committee recommendation and policy discussions should be aligned and focused on the achievement of the agency's strategic goals.

- Performance targets should be benchmarked for priority programs whenever possible. Suggested resources for benchmarking include federal standards, best practice standards set by other agencies, historical data, and desired results.

- Where inadequate performance measures exist that impede the ability to make informed performance-based budget recommendations, analysts should recommend new or alternative performance measures that better gauge program outcomes. Every effort should be made and documented to reach consensus with the Department of Finance and Administration and the agency.

- Performance data and results from recent LFC program evaluations should be used to identify programs that are ineffective or producing marginal results. Analysts should ask agencies to provide additional information to explain under-performance or changes in targets. Analysts should, if necessary, recommend appropriate corrective action plans or a reprioritization of resources. Additionally, analysts may recommend various actions that reduce agency budget flexibility when poor performance or lack of progress in implementing the AGA or resolution of problems identified in LFC program evaluations exist.

Analysts are encouraged to consider incentives for programs that have achieved or exceeded performance targets. Incentives suggested by the National Conference of State Legislatures Legislating-for-Results Advisory Group include suspension of general fund reversions, additional appropriations for productivity-enhancing uses, employee recognition programs, or lump-sum appropriations. In addition, less restrictive budget adjustment authority may also be considered.

VI. BUDGET GUIDELINES

The following budget guidelines apply to all agencies.

Full-Time Equivalents (FTE) and Vacancy Rates. Analysts shall reconcile FTE by classification (permanent, term, temp), by program with the FTE by classification, and by program as authorized in Laws 2009, Chapter 124. Deviations or increases in base FTE should be presented as program expansions and supported by evidence of enhanced agency performance. Department of Finance and Administration (DFA) instructions require agencies to submit a detailed listing of each agency position by revenue source supporting each position. Staff should review the personnel listing and recommend elimination of nonessential positions.

Analysts may use discretion on the need and funding level for vacant positions. Staff will apply a vacancy savings factor to agencies with more than 25 FTE based on review of historic turnover rates and past budget adjustments moving funds from the personal services and employee benefits category. In their recommendations, analysts will compare the applied vacancy rate to the historical vacancy rate for the agency. Vacant positions not eliminated should be budgeted at entry-level pay with the lowest health insurance rates, unless otherwise justified. Requests for overtime should be evaluated to assure that best practices are in place to constrain overtime costs.

Analysts shall identify employees working for one agency but being paid from a funding source at another agency and recommend shifting the funds to the agency where the employee is officially working. A “state agency” is defined in Section 6-3-1 NMSA 1978,

Expenditures and Accounts Payable. Agency FY09 expenditures should include valid accounts payable for goods and services delivered in FY09 under the modified accrual basis of accounting. Analysts shall carefully analyze FY09 expenditures that may include any large dollar amounts for accounts payable to ensure that that they have “cleared” the agency’s financial records in a reasonable period of time. Analysts shall consider adjusting downward as necessary.

Contractual Services. Staff is directed to analyze requested expenditures for professional services contracts. This analysis should address (1) whether the proposed contracts address agency priorities, (2) performance criteria, and (3) agency monitoring activities. Analysts shall use the monthly *Contract Report* provided by DFA to analyze an agency’s historical use of contractual services.

Cash Balances. To reduce the need for revenue from the general fund, staff will analyze cash balances and, where possible, include all or a portion of the cash balance in the FY10 budget recommendation. It is preferable that cash balances be recommended for nonrecurring purposes. Governing statutes shall be reviewed to determine if funds are budgeted appropriately and if they can be used for other purposes. To validate cash balances, analysts will review and analyze SHARE reports, as well as reports produced by the DFA Financial Control Division and available agency audit reports. Analysts should scrutinize expenditures where an earmarked revenue is in decline or unavailable.

Building Lease Costs. For agencies with significant general fund lease costs, alternatives to leasing should be evaluated, such as relocation to existing vacant state buildings or use of capital funds for new facilities.

Federal Funds. Staff is directed to compare the information on the R-forms provided in the budget requests with historical budget adjustment activity, deviations from the General Appropriation Act in the operating budget, the LFC federal funds schedule for key agencies, and the database provided by the Federal Funds Information Service (FFIS) to ensure federal funds are accurately reflected in the budget recommendation. Staff shall also use historical budget adjustment request (BAR) information to determine if the level of federal funds is accurately reflected in the agency request.

Base Expansion. Staff will critically review the merits of any expansions of existing base programs. (Workload growth should not be considered as program change.) Analysts must avoid financing expansions with nonrecurring revenue. Generally, expansions, other than those identified as a committee priority, must be financed through reprioritization of current appropriation levels. All expansions must be tied to enhanced performance and explained in the budget document accordingly.

Expansion positions should be budgeted for a partial year if it is unlikely they will be filled by July 1, 2010.

Capital Outlay. Staff shall consider operating budget implications when reviewing requests for capital outlay. Staff shall review agency Infrastructure Capital Improvement Plans (ICIP) and significant capital outlay projects made during the 2008 and 2009 legislative sessions, report outcomes, and address funding issues for maintaining those programs in future years.

Agency Audit Reports. Staff will use the agency's financial audit reports in preparing the FY11 budget recommendation. It is important to have timely completion of the audit. Significant audit findings will be reported to the LFC.

Budget Adjustment Requests. Budget adjustment information can provide insight into an agency's needs. Analysts should use prior-year BARs to identify opportunities to evaluate the adequacy of program funding and the potential to shift funding to other areas. Staff is directed to review BAR language in the General Appropriation Act and to propose modified language that will clarify any ambiguities or close loopholes.