GUIDELINES FOR FY12
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 FY12 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 FY12.

II. REVENUE OUTLOOK AND FY10 SOLVENCY

At the close of the 2010 legislative session, FY11 recurring revenue – including revenue enhancement legislation from the 2010 sessions – was forecast to grow by 9.9 percent, to a total of $5.3 billion. The July 2010 update to the revenue forecast reduced FY10 revenue by $43.6 million and reduced FY11 revenue by $159.3 million to $5.17 billion. As a result, FY11 budgeted appropriations of $5.4 billion exceed forecast revenue by $184 million. After closing FY10, only $32.3 million of additional reserve transfers has been authorized. Section 14 of the General Appropriation Act requires the Governor, with the approval of the Board of Finance, to reduce allotments to all agencies other than the Medicaid program until the resulting appropriations level equals the revised revenue forecast plus authorized transfers. The required reductions would total $151.7 million or 3.2 percent of FY11 budgeted appropriations to these agencies.

Revised FY12 revenue will equal $5.4 billion. Assuming FY11 appropriations are reduced as described in the previous paragraph, total FY11 general fund appropriations would equal $5.2 billion. Maintaining a flat current services budget in FY12 will require: (1) $5.2 billion of continued general fund appropriations; (2) $354.8 million to replace temporary federal funds in the FY11 budget; and (3) $42 million to restore one-time savings in the FY11 budget. These calculations yield total required appropriations of $5.6 billion, leaving a budget gap of $170 million to maintain current services in FY12. The above calculations assume the Legislature will extend – through new legislation – the temporary shift of retirement contributions to employees and other temporary savings adopted in the FY11 budget.

III. FY12 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. This should be accomplished while continuing to emphasize education, public health, public safety, all the while ensuring the states vulnerable citizens are cared for.

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. Consolidation of agencies, programs, and staff will be considered where either operational efficiencies or financial savings can be realized without reducing services.

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

The LFC recommendation shall reflect FY11 budget reductions pursuant to Laws 2010 Chapter 6, Section 14. As required by Section 14, the executive shall reduce general fund allotments when consensus revenue forecasts project a shortfall. July consensus forecasts indicate a 3.2 percent reduction is necessary to balance the budget. Analysts will adjust FY11 operating budgets when recommending FY12 funding levels.

General fund revenue options the committee might consider include 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.

The LFC may consider whether to continue deferring certain expenditure or revenue replacement commitments in order to balance the budget including replacing tobacco revenue in the Medicaid program, restoring instructional material funding levels in the school funding formula, resume enhanced education retirement contributions, restoring the employer share of education and public employee retirement contributions in order to balance the budget.

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

Given the state's ongoing fiscal constraints, the committee's budget recommendation for FY12 will place greatest emphasis on results and accountability. Accordingly, analysts, in developing budget recommendations shall:

- Identify opportunities for consolidation or streamlining duplicate programs and activities, eliminating earmarks, and enhancement of efficiency;
- Focus on successful programs that provide the best return to taxpayers;
- Identify programs that may be of lower priority to the state in a revenue-constrained environment; and
- Continue to search for cost-saving opportunities in all areas of the budget.

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.

Budget recommendations should also take into account alternatives to existing practices such as moving away from printed textbooks in the schools and toward electronic versions and increasing the use of in-house computer labs by extending the hours schools are open and utilized.

Analysts' FY12 budget recommendation will ensure that all programs, sub-programs, and initiatives 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 or other alternative sources.

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;
- Identifying opportunities to consolidate administrative functions of small agencies to reduce costs and increase efficiency;
- Re-evaluating rent rates and space utilization in light of lower staffing levels, consolidations, and new market factors affecting commercial property such as commercial property vacancy rates;
- Ensuring that employment levels are consistent with averages in other states and reviewing where New Mexico is above the average, such as in higher education institutions; and
- Incorporating recommendations of other interim committees and restructuring taskforces or studies that align programs and activities that achieve an improved level of efficiency, service, or prioritization.

V. PERFORMANCE AND ACCOUNTABILITY

The Accountability in Government Act (AGA) remains a top priority. 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 2010, Chapter 6 Second Special Session. 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 FY10 expenditures should include valid accounts payable for goods and services delivered in FY10 under the modified accrual basis of accounting. Analysts shall carefully analyze FY10 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 Repor*t 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 FY12 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. Analysts shall consider reduced staffing levels and the continued need for space in leased and state-owned buildings.

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, 2012.

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 2009 and 2010 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 FY12 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.

VI. TAX EXPENDITURES AND CLOSING LOOPHOLES

General fund revenue options the committee might consider include 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 conduct a thorough review of tax expenditures to identify uses of state funds that do not meet the intended purpose or that are not cost-effective and hence can be re-directed to higher priority uses.