



**Representative Luciano "Lucky" Varela**  
**Chairman**

Representative Donald E. Bratton  
Representative Rhonda S. King  
Representative Henry Kiki Saavedra  
Representative Nick L. Salazar  
Representative Edward C. Sandoval  
Representative Don L. Tripp  
Representative Jeannette O. Wallace

**State of New Mexico**  
**Legislative Finance Committee**

325 Don Gaspar, Suite 101  
Santa Fe, New Mexico 87501  
(505) 986-4550 Fax: (505) 986-4545

**DAVID ABBEY**  
**DIRECTOR**

**Senator John Arthur Smith**  
**Vice Chairman**

Senator Sue Wilson Beffort  
Senator Pete Campos  
Senator Carlos R. Cisneros  
Senator Stuart Ingle  
Senator Carroll H. Leavell  
Senator Mary Kay Papen  
Senator John M. Sapien

January 7, 2011

Contact: David Abbey, 986-4550

## **LFC Releases Budget Recommendation**

*Editors: The LFC budget recommendation will be posted on the committee's website, [lfc.nmlegis.gov](http://lfc.nmlegis.gov), next week.*

The Legislative Finance Committee today released a budget recommendation for the 2011-2012 fiscal year that calls for spending \$5.39 billion from the state's general fund, a \$187 million increase from the FY11 adjusted spending levels.

While almost every area of state government would be cut, those cuts are offset by increases of hundreds of millions of dollars for Medicaid and tens of millions for public school support, for an overall increase of 3.6 percent increase.

Those two areas of the budget -- which make up the bulk of state spending -- have been substantially protected from cuts during the last two years of fiscal crisis through an influx of temporary federal stimulus funds. Those funds are not expected in FY12.

To cut spending throughout state government, the committee's recommendation assumes lower rates for computer and other services provided by the General Services Department, reduced spending on building space because of the shrinking workforce, and an extension of the temporary shift of retirement contributions from employer to employee.

The committee's recommendation continues to emphasize public education and access to health care and, with the continuing economic crisis, focuses on programs that demonstrate efficiency and effectiveness. To preserve critical services while cutting spending, the committee recommendation targets savings in contracts and personnel, including eliminating positions vacant for long periods of time and nonessential public information officers, deputy directors, and other managers.

"The committee faced the challenge of building a budget that would address needs far in excess of revenue growth," LFC Chairman Luciano "Lucky" Varela, D-Santa Fe, said. "State spending on public schools and Medicaid had to take a big jump up to cover the loss of federal funds."

Projected general fund revenue for FY12 is \$186 million more than FY11 appropriations adjusted for cuts made through executive order. With the LFC spending plan, the general fund reserve would be 5 percent, a level considered less than minimally acceptable.

The committee's general fund recommendation of \$3.1 billion for education is an increase of less than a half percent from the FY11 adjusted budget, reflecting an overall increase of \$37 million for public schools and an overall decrease of about \$29 million for the state's colleges.

The public schools recommendation includes more than \$88 million to replace the disappearing federal funds and assumes program cost reductions of \$38.6 million by eliminating funding for one non-instructional professional development day, shifting the employee's portion of the Education Retirement Board contribution for return-to-work employees from the employer to the employee, and formula adjustments, such as tightening eligibility for small school and small district funding units.

Similar to the recommendation for public schools, the recommendation for the Human Services Department includes an increase in general fund spending mostly to cover the loss in federal stimulus funds. The recommendation places a priority on maintaining the department's essential services and anticipates the department will find administrative and nonessential program savings in FY12 to continue the most critical functions – Medicaid healthcare coverage, cash assistance and support services for poor families, and substance abuse and mental health services.

The combined recommendation from the general fund for Medicaid is \$854.5 million, a \$253 million increase from FY11, or 42.2 percent. In addition to replacing federal funds, the recommendation supports enrollment that is at its highest point in state history. However, it also assumes the department will pursue additional cost containment, from provider rate decreases to a redesign of the long-term services waivers.

The legislative session starts Jan. 18.

January 7, 2010

## **LFC Recommendations and Highlights**

**Revenue.** Projected FY12 recurring revenue is \$5.39 billion, up \$226 million, or 4.4 percent over FY11. This reflects steady growth of major revenues plus a strong increase in corporate income taxes as the economic recovery gathers momentum. Revenue estimates will be reviewed in mid-February.

**Recurring Appropriations.** The LFC appropriation recommendation for FY12 is \$5.3895 billion, matching recurring revenue; and 3.6% greater than the adjusted operating budget for FY11. The FY12 recommendation is \$194 million, or 3.5 percent, below the FY11 operating budget adjusted to include \$380 million of one-time federal stimulus funds.

The FY12 recurring appropriation recommendation prioritizes core government services including education instruction, healthcare and the judiciary. However, with revenues tight, decreasing general fund spending remains necessary.

**Assumptions and Approach.** The approach to the recommendation includes the following:

- Maximizing federal and other state funds;
- Not funding inflation, which is projected to remain low;
- Eliminating management and long-vacant positions;
- Reducing contracts;
- Applying GSD rates at or near FY10 and FY11 levels;
- Extending Laws 2009, Chapter 127, which temporarily shifted 1.5 percent of the employer retirement contribution rate to the employee;
- Reducing building lease costs;
- Deferring purchases of vehicles and equipment; and
- No across the board cuts

**Public Education.** The overall public education recommendation of \$2.4 billion prioritizes classroom funding and statewide programs. The program cost recommendation is a decrease of \$34 million, or less than 1.5 percent, compared with a flat level of funding. The recommendation replaces \$88.3 million in federal fiscal stabilization funds and then makes reductions of \$38 million that should have minimal direct impact on classroom and instructional funding, including the elimination of one professional development day (\$12 million) and shifting responsibility for the employee's portion of ERB contributions for return to work employees back to the employee (\$5 million).

The program cost recommendation also assumes \$22 million of formula reductions to address duplication and inefficiency. Formula adjustment options include changing eligibility requirements for small school units and small district units, removing special education related services staff from the teaching and experience unit calculation, and reducing the 1.25 unit/member multiplier for 12<sup>th</sup> grade students.

The LFC recommendation for the state equalization distribution reflects a \$13 million increase in Federal P.L.874 and property tax revenues.

**Higher Education.** The LFC recommends \$590 million in higher education instruction and general funding, a reduction from the FY11 adjusted budget of \$15 million or 2.6 percent. This reflects a \$100/student tuition credit reducing the General Fund need by \$14 million, a \$7 million reduction for equipment funding and \$10 million reduction for two out of state tuition waivers. Increases in higher education funding formula workload, driven by student course load, pushed up FY12 costs by \$20 million.

The LFC recommendation reduces funding for “below the line” research and public service projects by \$10 million, or 10 percent.

**Medicaid and TANF.** Mostly because of the need to replace ARRA funds, the Medicaid recommendation from the general fund is \$854.5 million, a 42.2 percent increase from FY11. The recommendation supports total Medicaid spending of \$3.61 billion – a 1 percent reduction from the October Medicaid projection. The recommendation assumes total enrollment growth (Medicaid, SCI, and others) of 1.4 percent, or a monthly average of more than 574,000 individuals. To accommodate this growth, the department will need to take additional cost containment actions, such as changes to the Coordination of Long Term Services program, provide rate reductions, and reductions in managed-care capitation payments.

Due to declining cash balances and ending federal ARRA funds, the recommendations for TANF and the Income Support Program emphasize cash assistance, workforce programs and childcare programs at CYFD.

**Health.** Also primarily to replace ARRA funds, the recommendation from the general fund for the Department of Health is \$282.7 million, a \$22.7 million, or 8.7 percent, increase from FY11. The committee recommends total expenditures of \$528.9 million at DOH. To maintain enrollment and critical services in the developmental disabilities waiver program, the recommendation assumes the average annual budgets for individuals covered by the developmental disabilities Medicaid waiver will be capped at \$72.5 thousand.

**Children Youth and Families.** The general fund recommendation for the Children, Youth and Families Department (CYFD) is \$191 million, a 3.8 percent increase from the adjusted FY11 operating budget. The recommendation supports reducing CYFD’s vacancy rate to 6.8 percent and addressing lost TANF funding for child care and prekindergarten. LFC recommends \$26.1 million in TANF funds transferred from the Human Services Department and a \$5.9 million increase from the general fund to fund childcare assistance at \$79.7 million in FY12.

The recommendation emphasizes services for early childhood, and safety and welfare of children. This includes supporting a relatively flat budget for the Juvenile Justice Facilities Program, funding increases for the Protective Services Program, and maintaining the funding for home visiting services and prekindergarten at the FY11 adjusted operating budget.

**Public Safety.** The general fund recommendation for the New Mexico Corrections Department is \$251.9 million, a 4.1 percent decrease from the agency's adjusted FY11 appropriation. As of August 2010, the department had a total of 6,408 inmates, 5,826 males and 582 females. The average cost per inmate per day in department-operated institutions is \$123, as opposed to \$84 dollars in privately-operated facilities. Questions have been raised concerning the department's oversight of private prison contracts and the associated operational costs. The committee recommends that department perform staff vacancy rate compilations to assist the cabinet secretary in enforcing contractually required staffing patterns and associated penalties.

The general fund recommendation for the Department of Public Safety is \$86 million, a 2.4 percent decrease from the agency's adjusted FY11 general fund appropriation. A central issue facing the department for FY12 is State Police staffing and assignments. The department should review these staffing levels and, if warranted, reassign officers to meet the needs of understaffed district offices.

**Judicial.** The committee recommends \$167 million in total appropriations for the courts and related judicial agencies, including \$136.7 million from the general fund, a 1 percent decrease from FY11. The recommendation includes \$1 million from liquor excise tax revenues for statewide drug-court programs. The recommendation for the Administrative Office of the Courts includes \$3.8 million for jury and witness payments and \$100 thousand for judges pro tem contracts.

The general fund budget recommendation for the district attorney offices is \$54 million, a 0.9 percent decrease from the FY11 adjusted appropriation.

**Department of Transportation.** The committee recommends a total expenditure level of \$827.9 million, a 3.1 percent increase over the FY11 operating budget. State road fund revenue declined substantially in recent years, from a peak of \$394 million in FY07 to a low of \$365.2 million in FY10. Modest revenue growth provides an opportunity to boost spending on road maintenance and reconstruction.

**Compensation.** The LFC recommendation avoids general layoffs or furloughs for public employees. However, the recommendation extends the 1.5 percent employer/employee contribution switch and includes an additional 1.75 percent switch to reduce general fund appropriations \$49.7 million.

**Reserves.** The LFC recommendation leaves general fund reserves ending FY11 and FY12 at 5 percent.

**FY12 Budget Outlook**  
**(\$ millions)**

<u>Item:</u>	<u>DFA</u>	<u>LFC</u>	<u>Difference:</u> <u>LFC - DFA</u>
Recurring revenue	\$5,389.8	\$5,389.8	\$0.0
Appropriations:			
FY11 general fund	\$5,203.0	\$5,203.0	\$0.0
Medicaid	\$377.0	\$279.8	(\$97.2)
Replace tobacco revenue for Medicaid	\$19.6	\$0.0	(\$19.6)
Child care/Replace TANF	\$14.0	\$33.0	\$19.0
Higher education	\$10.9	\$0.0	(\$10.9)
Public education	\$88.9	\$88.9	\$0.0
ERB contribution	\$18.7	\$0.0	(\$18.7)
Retirement shift	\$33.3	\$0.0	(\$33.3)
Judiciary requests	\$9.8	\$0.0	(\$9.8)
Rest of state government	\$24.8	\$0.0	(\$24.8)
<b>Total</b>	<b>\$5,800.0</b>	<b>\$5,604.7</b>	<b>(\$195.3)</b>
<b>Net surplus(deficit)</b>	<b>(\$410.2)</b>	<b>(\$214.9)</b>	<b>\$195.3</b>

\*LFC assumed continuation of these temporary provisions in FY11 budget

DFA included these amounts in their spending scenario:

-- Tobacco settlement revenue for Medicaid	19.6
-- ERB (sixth year 0.75% increase)	20.0
-- Increase employee RHCA	11.5
-- Increase employee ERB/PERA	42.2

**FY12 RECURRING GENERAL FUND SCENARIO**  
**(\$ in Millions)**

	Adjusted FY11 OpBud	LFC Rec	FY12	% Change from Adjusted FY11 OpBud
<b>REVENUES:</b>				
October Estimate			5,348.1	
Change in December Rev Estimates			41.6	
<b>Total Recurring Revenues</b>			<b>5,389.7</b>	
<b>APPROPRIATIONS:</b>				
<b>Public School Support</b>				
Public Education Dept.	14.0	(1.5)	12.5	-10.7%
SEG	2,194.8	40.7	2,235.5	1.9%
Other Below the line	130.5	(2.0)	128.5	-1.5%
<b>Higher Education</b>				
Higher Education Dept.	38.9	(1.4)	37.5	-3.6%
I&G	605.4	(15.7)	589.7	-2.6%
Other Below the line	118.0	(11.9)	106.1	-10.1%
<b>Subtotal</b>	<b>3,101.6</b>	<b>8.2</b>	<b>3,109.8</b>	<b>0.3%</b>
Medicaid	601.1	253.4	854.5	42.2%
Other Human Services	104.3	(4.9)	99.4	-4.7%
Department of Corrections	262.8	(10.9)	251.9	-4.1%
Department of Health	259.9	22.8	282.7	8.8%
Department of Public Safety	88.1	(2.1)	86.0	-2.4%
Department of Finance & Administration	14.1	(0.6)	13.5	-4.3%
DFA (Special Approps)	10.0	(1.7)	8.3	-17.0%
Economic Development Dept	7.7	(1.2)	6.5	-15.6%
Cultural Affairs Dept	29.4	(1.6)	27.8	-5.4%
Children, Youth & Families Dept.	183.5	7.1	190.6	3.9%
General Services Department	14.2	(0.6)	13.6	-4.2%
Energy, Minerals & Natural Res. Dept.	21.7	(1.4)	20.3	-6.5%
Environment Department	14.2	(0.8)	13.4	-5.6%
State Engineer	17.5	(1.6)	15.9	-9.1%
Tourism	9.1	(0.8)	8.3	-8.8%
TRD	61.6	(3.4)	58.2	-5.5%
Workforce Solutions Dept	4.8	(2.4)	2.4	-50.0%
Aging & Long-Term Care Dept.	44.8	(3.9)	40.9	-8.7%
Courts	138.1	(1.4)	136.7	-1.0%
District Attorneys'	56.4	(0.6)	55.8	-1.1%
Public Defender	39.7	(0.7)	39.0	-1.8%
All Other Agencies	118.3	(9.6)	108.7	-8.1%
<b>Subtotal Recurring</b>	<b>5,202.9</b>	<b>241.3</b>	<b>5,444.2</b>	<b>4.6%</b>
1.75% Retirement Swap		(49.7)	(49.7)	#DIV/0!
Govt Restructuring Task Force		(5.0)	(5.0)	
<b>Subtotal Recurring</b>	<b>5,202.9</b>	<b>186.6</b>	<b>5,389.5</b>	<b>3.6%</b>
<b>Recurring Surplus (Deficit)</b>			<b>0.2</b>	

**General Fund Approps. And Other State Funds & Federal Funds Supplanting General Fund: FY09-  
FY12  
(dollars in millions)**

	FY09 Op Bud				FY09 Solvency			
	General Fund	Federal Funds	Other State Funds	Total	General Fund	Federal Funds	Other State Funds	Total
Public Education - SEG	2,383.6	-	-	2,383.6	2,364.3	-	-	2,364.3
Other Public Education	224.5	-	-	224.5	224.5	-	-	224.5
Higher Education - I&G	685.1	-	-	685.1	667.9	-	-	667.9
Other Higher Education	199.7	-	-	199.7	194.9	-	-	194.9
Medicaid*	885.5	-	-	885.5	717.6	227.7	24.5	969.8
Other	1,648.4	-	-	1,648.4	1,693.4	-	-	1,693.4
<b>TOTAL</b>	<b>6,026.8</b>	<b>-</b>	<b>-</b>	<b>6,026.8</b>	<b>5,862.6</b>	<b>227.7</b>	<b>24.5</b>	<b>6,114.8</b>

	FY10 Post Solvency w/EO**			
	General Fund	Federal Funds	Other State Funds	Total
Public Education - SEG	2,105.8	210.2	-	2,316.0
Other Public Education	170.3	-	-	170.3
Higher Education - I&G	642.2	15.5	-	657.7
Other Higher Education	170.7	-	-	170.7
Medicaid*	639.5	300.9	28.1	968.5
Other	1,541.1	-	-	1,541.1
<b>TOTAL</b>	<b>5,269.6</b>	<b>526.6</b>	<b>28.1</b>	<b>5,824.3</b>

	FY11 Post-Sanding and 2nd Stimulus			
	General Fund	Federal Funds	Other State Funds	Total
Public Education - SEG	2,194.8	88.3	-	2,283.1
Other Public Education	144.5	0.5	-	145.0
Higher Education - I&G	805.4	10.9	-	616.3
Other Higher Education	156.9	-	-	156.9
Medicaid*	664.1	279.8	20.0	963.9
Other	1,437.8	-	-	1,437.8
<b>TOTAL</b>	<b>5,203.5</b>	<b>379.5</b>	<b>20.0</b>	<b>5,603.0</b>

	FY12 LFC Recommendation			
	General Fund	Federal Funds	Other State Funds	Total
Public Education - SEG	2,207.7	-	-	2,207.7
Other Public Education	140.9	-	-	140.9
Higher Education - I&G	578.5	-	-	578.5
Other Higher Education	143.7	-	-	143.7
Medicaid*	946.4	-	19.8	966.2
Other	1,372.3	-	-	1,372.3
<b>TOTAL</b>	<b>5,389.5</b>	<b>-</b>	<b>19.8</b>	<b>5,409.3</b>

**Table 6  
Total Appropriations Including Temporary Funds  
(Dollar amounts in millions)**

Category:	FY12 LFC Recommendation			
	Change From FY11 Post-Solvency		Change From FY09 Post-Solvency	
	\$ Change	% Change	\$ Change	% Change
Public Education - SEG	(75.4)	-3.3%	(108.3)	-4.6%
Other Public Education	(4.1)	-2.8%	(83.6)	-37.2%
Higher Education - I&G	(37.8)	-6.1%	(89.4)	-13.4%
Other Higher Education	(13.2)	-8.4%	(51.2)	-26.3%
Medicaid*	2.3	0.2%	(3.6)	-0.4%
Other	(65.5)	-4.6%	(321.1)	-19.0%
<b>TOTAL</b>	<b>(193.7)</b>	<b>-3.5%</b>	<b>(705.5)</b>	<b>-11.5%</b>

\*Includes general fund appropriations to HSD & DOH for the Developmentally Disabled Medicaid waiver program.

\*\*The general fund total of \$5,269.6 includes \$87.2 million of executive orders and furloughs.

### General Fund Approp's and One-Time Funds Supplanting General Fund (million dollars)

