LFC

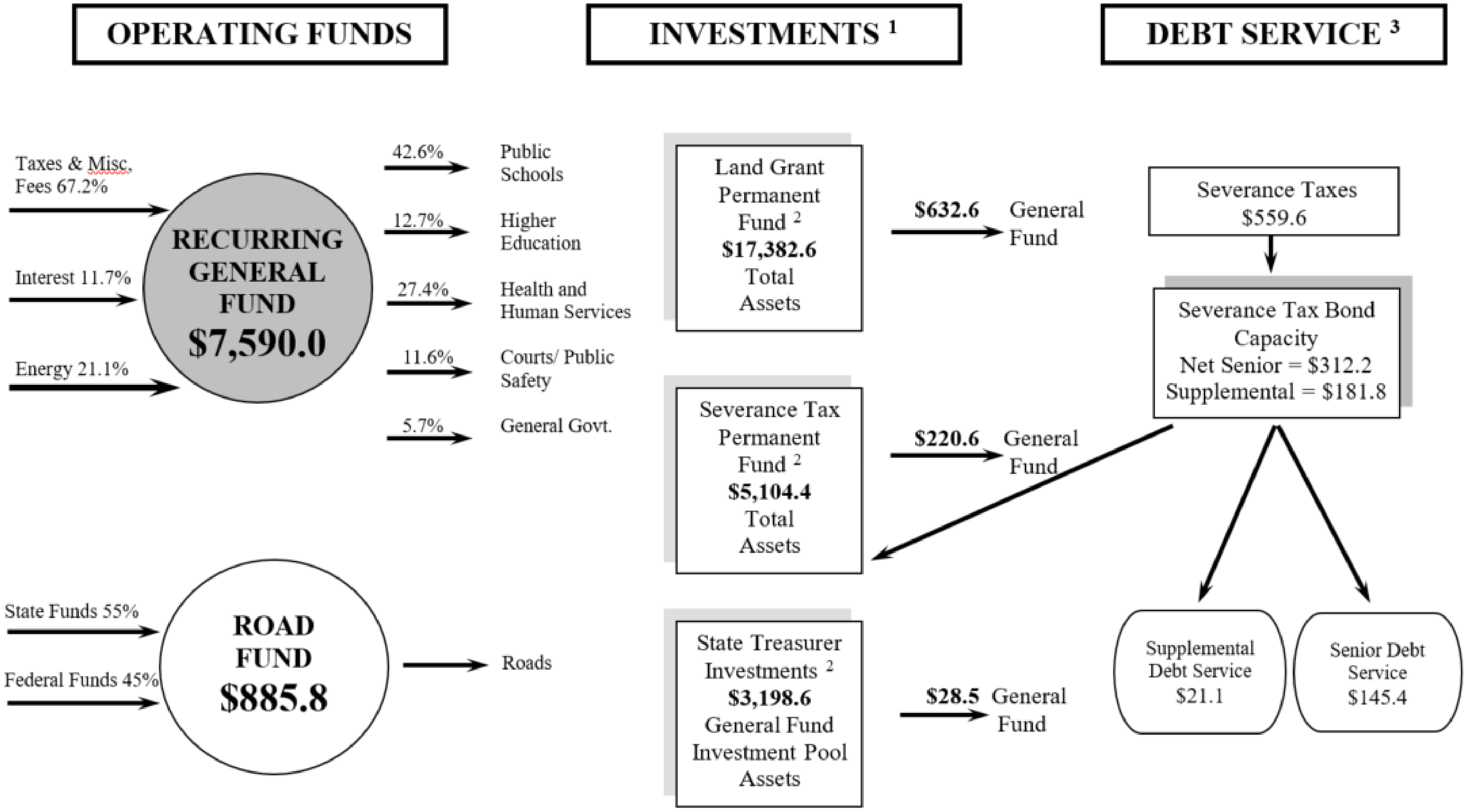
April 4, 2019

About LFC

- First established as a fiscal and management arm of the New Mexico Legislature in 1957.
- Comprised of eight senators and eight representatives. Political parties are represented in proportion to membership in each house of the legislature.
- Maintains a permanent staff of fiscal analysts, professional performance auditors, and economists.
- Makes budgetary recommendations to the whole legislature for the funding of state government, higher education and public schools.
- Conducts public hearings, usually about once a month, to consider budget recommendations and to examine finance and management issues.

OVERVIEW OF NEW MEXICO FINANCES: FY19 OPERATING BUDGET

(in millions of dollars)



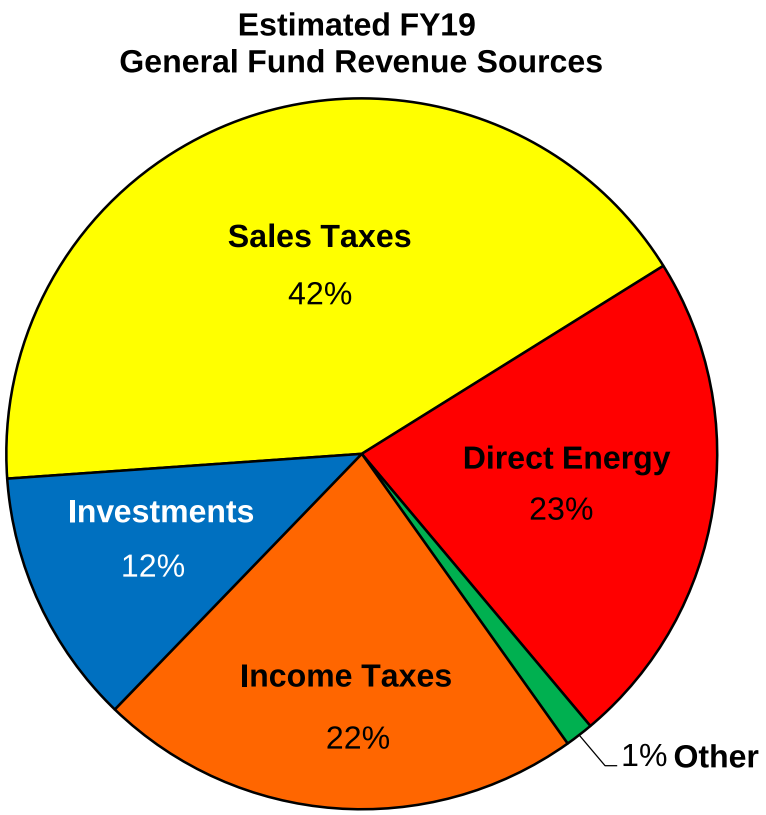
1 Investments exclude retirement funds
2 October 31, 2018 Value
3 Includes only state debt service

Source: LFC Files

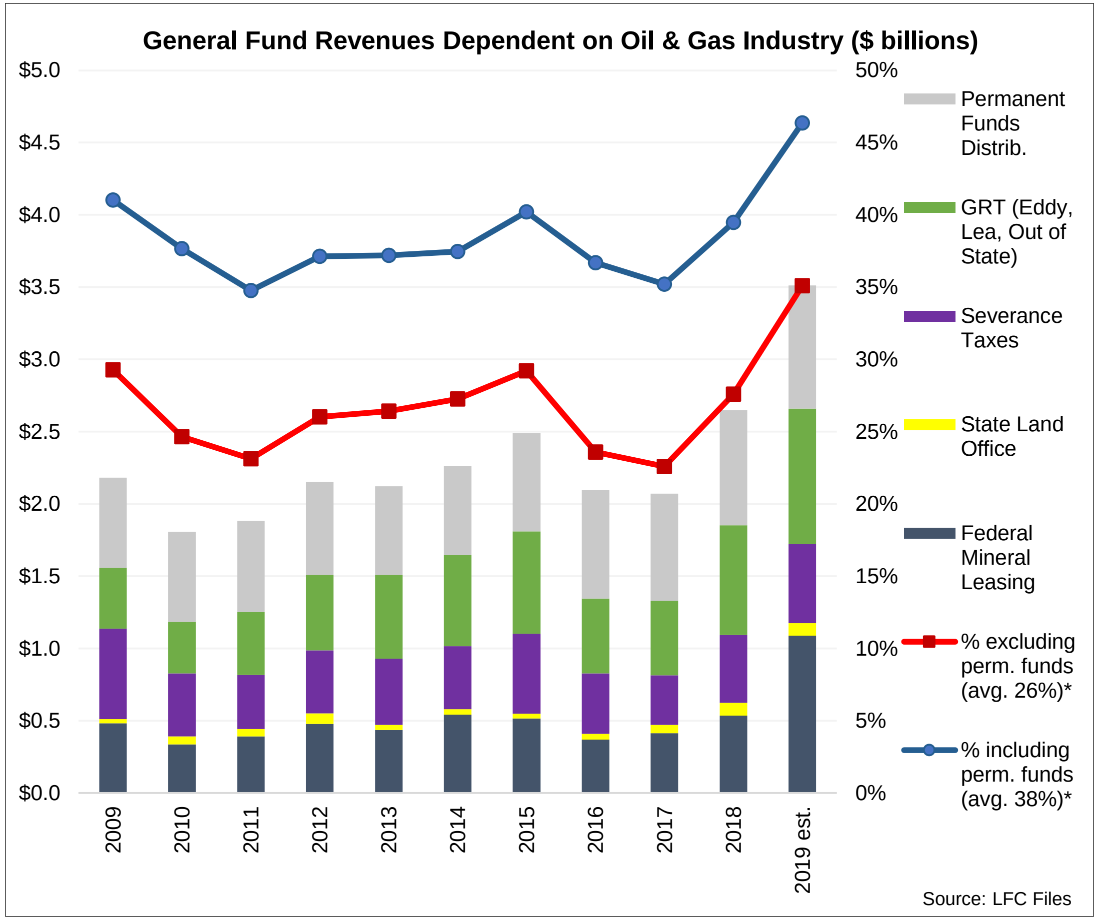
The General Fund

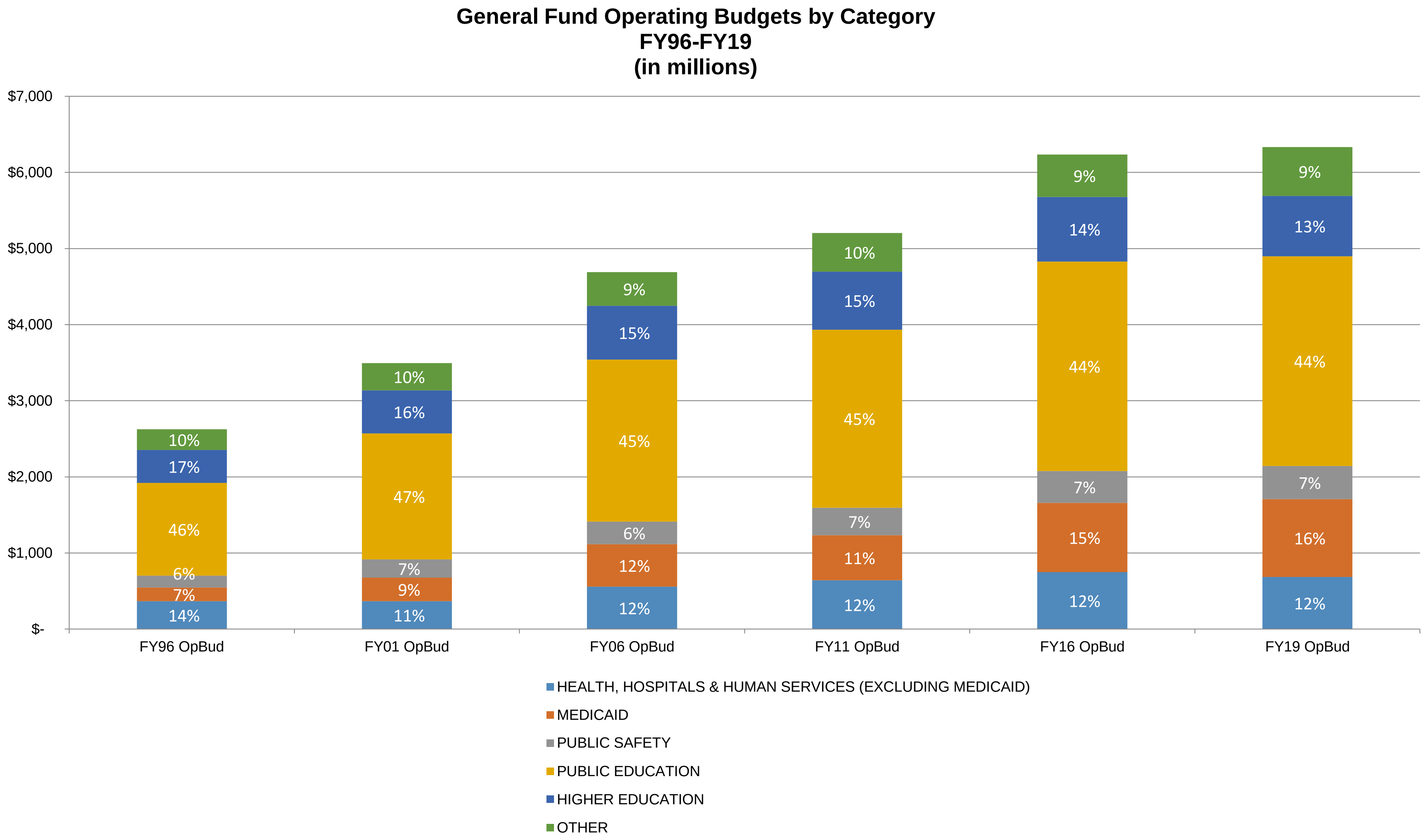
- Primary state fund from which the ongoing expenses of state government are paid.
- About 80 percent of the fund comes from revenue from the gross receipts and compensating taxes, selective sales taxes, income taxes, and interest earnings from the land grant and severance tax permanent funds and balances held by the State Treasurer.
- More than half the fund is spent on public schools and higher education, with another quarter of the money spent on health and human services.

General Fund Revenues



Source: Dec. 2018 Consensus Revenue Estimate





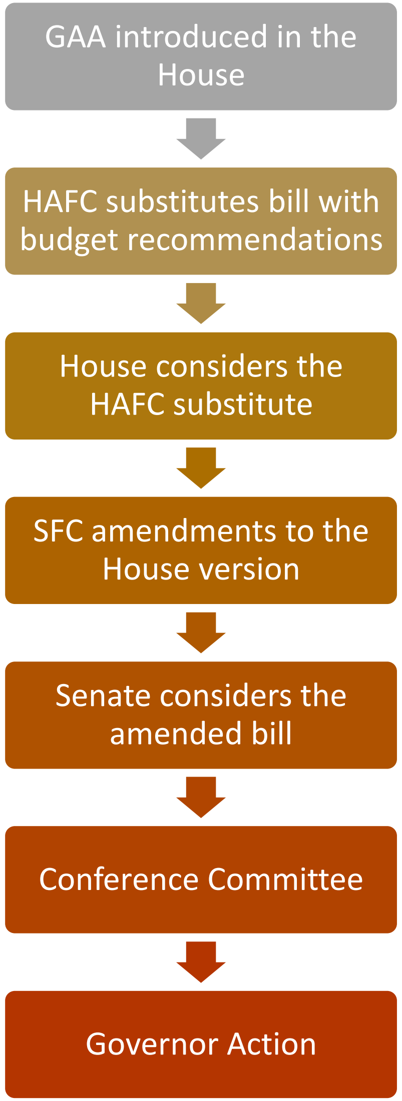
Source: LFC Files

Creation of the State Budget

- Begins mid-June when Department of Finance and Administration (DFA) sends budget request instructions to agencies. Ends when the General Appropriation Act becomes law.
- Before the legislative session
  - Agencies submit budget requests by September 1 to DFA and LFC.
  - September – December, executive and legislative staff separately analyze the requests to develop the governor’s and LFC’s budget recommendations.
  - State economists develop the consensus revenue estimate in August and December.
  - LFC finalizes its budget recommendations in December.
  - State law requires the governor to submit a budget to the LFC and the legislature in early January.

Creation of the State Budget, continued

- During the session
  - On the first day of the legislative session, a General Appropriation Act (GAA) reflecting the executive recommendation is introduced in the House of Representatives.
  - The House Appropriations and Finance Committee (HAFC) considers a side-by-side comparison of the LFC and executive budget recommendations.
  - HAFC creates a committee substitute for the GAA for consideration by the full House.
  - Once passed from the House, the Senate Finance Committee (SFC) usually amends the House bill and submits it to the full Senate for consideration.
  - Once passed from the Senate, legislative leadership appoints a conference committee to negotiate the differences between the House and Senate and draft a final version of the GAA.
  - The governor may sign the GAA into law, veto the entire bill, or veto specific items through a "line-item veto".



Fiscal Impact Reports (FIR)

- During the session, LFC staff analyze and provide a written FIR on each piece of legislation introduced.
- Goals of the FIR process is to provide timely and accurate information on proposed bills to the sponsor, the Legislature, and the public.
- Bills are assigned to LFC analysts based on bill topics, and analysts request a bill analysis from each impacted agency.
- Primary emphasis on immediate and long-term fiscal implications; also analyzes administrative and/or technical impacts.

Capital Outlay Process

- Capital outlay funds are used to build, improve or equip physical property that will be used by the public.
  - Includes roads, computers, museums, playgrounds, schools, irrigation ditches, hospitals, lands, and furniture.
- Much of the state's capital outlay is funded through three sources: general obligation bonds, severance tax bonds, and nonrecurring general fund revenue.
  - Amounts vary from year to year depending on the economy.
  - General obligation bonds are repaid through property taxes and must be approved through a general election.
  - Severance tax bonds generally are repaid with revenue from taxes on oil, gas, coal and other natural resources "severed" from the land.
- The state also issues bonds for state transportation projects, projects funded by the New Mexico Finance Authority, and other projects.
  - Typically, those bonds are repaid with other revenue.

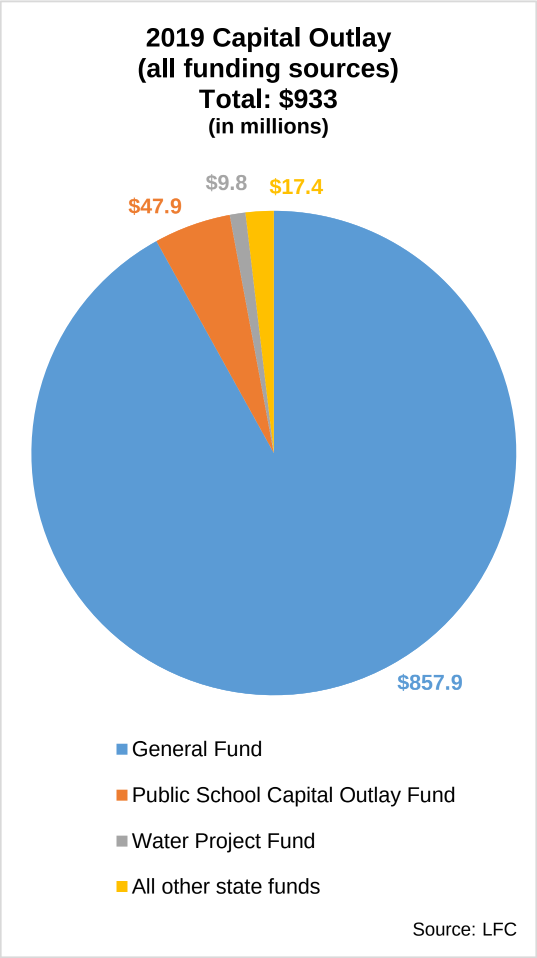
Capital Outlay Process, continued

- The DFA and the General Services Department are required by state law to develop a five-year plan for major state capital improvement projects and jointly identify and prioritize all state-owned improvement projects.
- State agencies develop lists of projects internally and are required by law to enter their priority projects into the Infrastructure Capital Improvement Plan (ICIP) database by July 1.
- Although local governments are not required to prepare ICIPs, almost all county, municipal, tribal, and special districts participate.
- Agencies present their priorities to a panel of executive and legislative staff in October of each year, and LFC staff prepares a recommendation, prioritizing regional and state-owned and -operated projects. The recommendation becomes the capital outlay bill – or bills during even-numbered years – introduced during the legislative session.
- During the session, the House and Senate finance committees hold hearings on the projects but take no action. Afterwards, either the House Taxation and Revenue Committee or the Senate Finance Committee, depending on where the bill was introduced, holds hearings on other statewide projects approved by legislative leadership for potential inclusion in the substitute bill that will eventually replace the original legislation.

Capital Outlay Process, continued

- After funds are allocated to statewide projects, any remaining money is divided between the House and Senate. Each chamber then allots an equal amount to each member for possible projects. However, this process has not been formalized in law or legislative rules.
- A substitute bill with member projects and the statewide projects approved by the originating committee is generally developed in the last two weeks of the session.
- Finally, the governor acts on the bill, often using line-item veto authority to strike some proposed projects.

2019 Capital Outlay



- Appropriations total $933 million for 1570 projects
- Significant revenues allowed the use of general fund rather than severance tax bonds
- Projects funded include:
  - The Children, Youth and Families Department's Child Wellness Center
  - Public safety facilities, including the Department of Public Safety's evidence and crime lab facility
  - Correctional facilities statewide
  - Museums and historic sites statewide
  - Renewable energy infrastructure improvements
  - Airports
  - Public safety radio and communications
  - Rural broadband

2019 Capital Outlay – Road Funding

- Significant additional recurring and nonrecurring funding for local governments, state-funded construction projects, and major investment projects

➢ **Nonrecurring (GAA Section 9)**

- $250 million in statewide projects
- $89 million for prioritized statewide transportation improvement program (STIP) project. Additional $11 million if revenues exceed the forecast
- $50 million to new local government transportation project fund (includes up to $5 million for construction of a relief route on U.S. 285 in Carlsbad)

➢ **Recurring**

- HB6 increased motor vehicle excise tax (MVX) from 3 percent to 4 percent

  FY20-FY21: the additional MVX revenues ($52 million) sent to DOT to mitigate emergency road conditions in district 2 (Southeast NM)

  Beginning FY22: the additional MVX revenues plus $26 million of existing MVX revenues to be split equally between state road fund and local government road fund