

New Mexico



VOICES
for Children

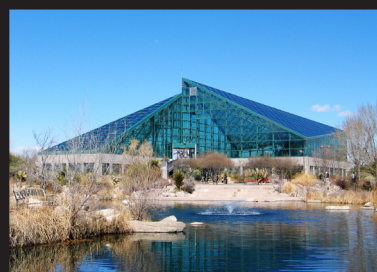
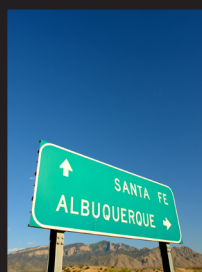


Taking a closer look at tax and budget policies
affecting New Mexico's quality of life

New Mexico Fiscal Policy Project

CITIZEN'S GUIDE TO THE NEW MEXICO STATE BUDGET

HOW THE STATE SPENDS MONEY AND WHY IT MATTERS



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Other Citizen's Guides:

Citizen's Guide to New Mexico's Tax System

Advocate's Guide to the New Mexico State Budget

Citizen's Guide to Legislative Advocacy in New Mexico

A New Mexico Citizen's Guide to Children's Issues



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INTRODUCTION

When you create a budget for your family, it reflects your family's priorities and values. Housing, utilities, and food will undoubtedly be at the top. Family vacations and entertainment expenses will almost certainly rank much lower.

Government budgets also reflect priorities and values—those of the policy makers who create the budgets and, hopefully, those of the people who elected them. The government's budget determines who will benefit the most from the government's limited resources.

Most government spending benefits every citizen almost every day. Every time you drive on a road or highway, travel by airplane, visit the park, deposit money in the bank, borrow a library book, or send your kids off to school, you benefit from government spending. Even before you leave the house for work, you've benefited. Police and firefighters protect you. Garbage collectors take your trash away. Even the grids of pipes and wires that bring water and electricity into your home were paid for, at least in part, by the government. Government spending provides the services and infrastructure that make our modern way of life possible.

In addition, most Americans believe that as a society, we have a collective duty to extend a hand to those who need extra help. Over the last century this has included providing Social Security and health care for our senior citizens; job training, food, childcare assistance, and more for our low-income families; and health care for children whose parents cannot afford it on their own.

This guide seeks to de-mystify the budget process by reviewing the technical elements of the budget and budget process. The companion guide, *Advocate's Guide to the New Mexico State Budget*, provides suggestions for



advocates on how to promote their priorities throughout the budget process. Another companion guide, *Citizen's Guide to New Mexico's Tax System*, explains more fully where the state gets its money.

This guide focuses on the operating budget—the annual spending for ongoing programs and services that affect the lives of every New Mexico resident. The state also has a capital budget, which funds things like building schools and community centers. The two budgets are developed through two distinct processes with different time frames and revenue limits. This guide does not examine the capital budget process.

Some Tips for Using This Guide

Words that appear in boldface are defined in the yellow *Technical Terms* and *Budget Basics* boxes. All of the acronyms used in this guide are written out below. Online resources are listed on page 28.

Acronyms

DFA – Department of Finance and Administration

FIR – Fiscal Impact Report

GAA – General Appropriation Act

HAFC – House Appropriations and Finance Committee

HB2 – House Bill 2

LFC – Legislative Finance Committee

LCS – Legislative Council Services

SBD – State Budget Division (of the DFA)

SFC – Senate Finance Committee

WHERE THE STATE GETS MONEY

Just like a family's budget, state budgets are limited by two constraints: the amount of income and the amount of money that can be borrowed. New Mexico has more than one budget, and money from different sources is stored in different funds. Borrowed money, for example, goes into the **capital budget** and pays for buildings and transportation projects; it cannot be used to support the **operating budget**. Most of the income for the operating budget comes from **federal funds** and the state's **general fund**. General fund revenue consists mostly of taxes, interest and fees. Federal funds are not counted as part of the general fund.

The general fund is the state's most flexible pool of money because it can be used for any legal public purpose. Some revenue collected by the state—from federal funding, for example—can only support specific programs such as Medicaid.

New Mexico also maintains a **reserve** or **rainy-day fund** that can be tapped during years when revenues are lower than expected, and a **permanent fund**, which cannot be tapped except by legislative action.

Technical Terms

General Fund – Money used for operating programs and services like public school education. The general fund supports the operating budget and includes revenues from income and gross receipts taxes.

Permanent Fund – A pool of money set aside for investments. The interest paid on these investments goes into the general fund.

Reserve Fund – A “rainy-day” fund for use when revenues are much lower than expected.

Road Fund – Money for building and maintaining roads and highways from revenue sources such as gasoline taxes.

Federal Funds – Federal money that supports specific programs such as Medicaid. This money does not go into the general fund but is part of the operating budget.

General Fund Revenue Sources

All decisions made about funding—whether to increase or decrease spending on existing programs or provide money for new programs—are based on how much revenue is available to the state. The largest amount of general fund revenue (44 percent) comes from sales and **excise taxes**. New Mexico’s sales tax is actually a **gross receipts tax** because it is levied on the seller of goods *and* services (while most sales taxes are only levied on the sale of goods).

Mineral revenues (12 percent)—often referred to as **severance taxes**—include taxes on the extraction of natural resources from state land (primarily crude oil, natural gas, and coal) as well as rents and royalties from the use of mineral-producing land.

Some 12 percent of general fund revenue comes from interest paid on investments the state has made using permanent fund revenue. Revenue sharing from tribal casinos and other

Our state constitution requires that the annual state operating budget be balanced—meaning we can’t spend more money than we collect.¹

Excise taxes are levied on specific goods and services such as gasoline, cigarettes and alcohol. **Income taxes**, which include both personal and corporate income tax, make up the next largest revenue source at 28 percent.

gaming venues make up just 1 percent of total revenue. Another 3 percent comes from other sources (see Chart I, page 8). For a more complete picture of state revenue sources, see the companion publication *Citizen’s Guide to New Mexico’s Tax System*.

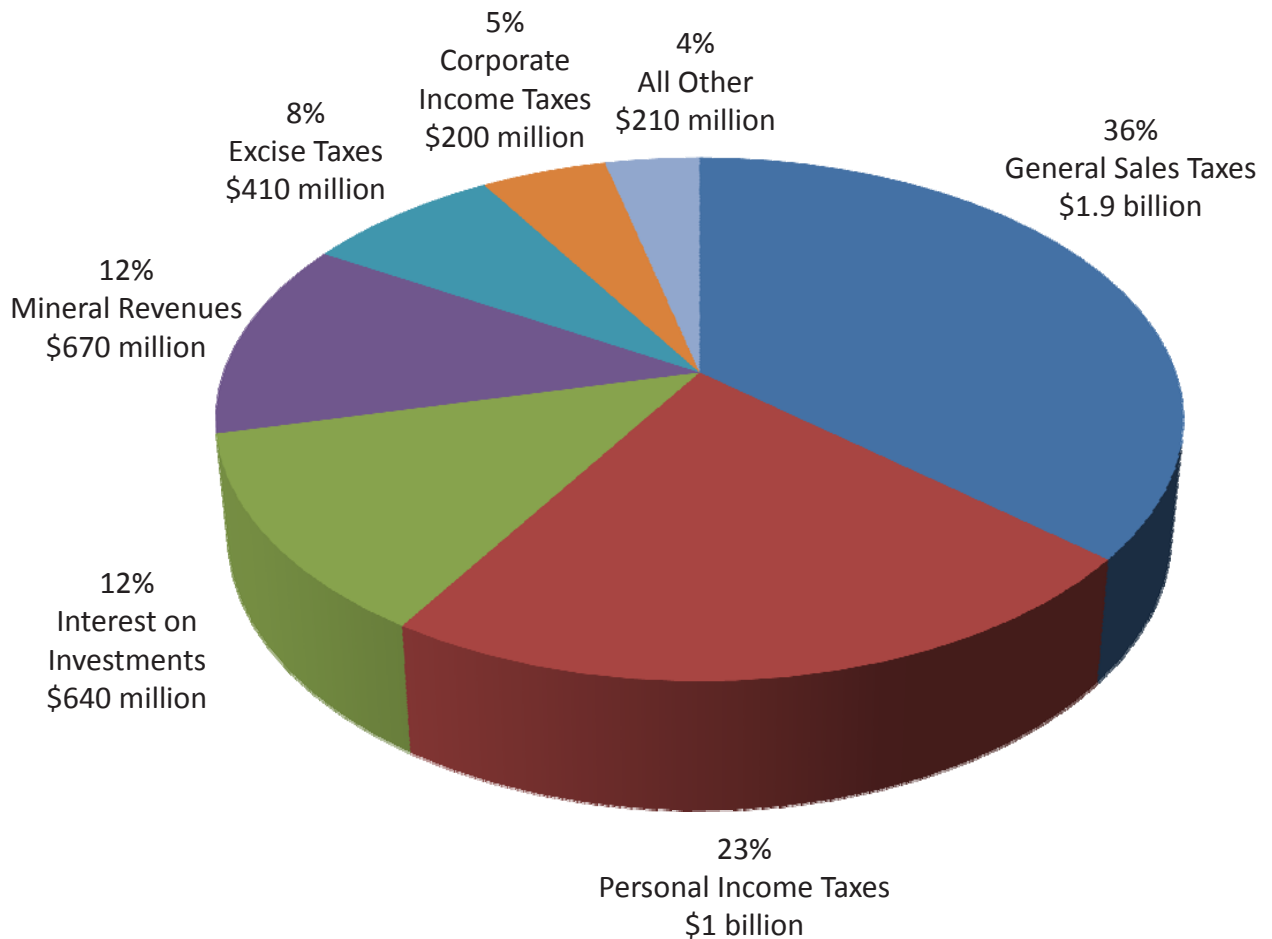
Technical Terms

Operating Budget – The budget that determines recurring spending, such as operating programs and services like public school education, and some non-recurring spending. Operations money comes from the state general fund and from federal funds.

Capital Budget – The budget used for non-recurring spending, such as building schools and community centers. This spending is referred to as “capital outlay” and can be borrowed, often through the issuing of bonds.

Current Services Budget – The amount of money needed to offer the current level of services. The amount must increase every year because of population growth and inflation.

Chart I
New Mexico's General Fund Revenue Sources for Fiscal Year 2010
 (by percentage and amount)



Source: Legislative Finance Committee's 2009 Post Session Review, Appendix H

Technical Terms

Gross Receipts Taxes – Taxes collected on the sale of most goods and services.

Excise Taxes – Taxes levied on specific goods, such as cigarettes, alcohol and gasoline.

Income Taxes – Taxes paid on a resident's personal income and a company's profits.

Severance Taxes – Taxes paid on natural resources such as crude oil and natural gas, so named because these resources are 'severed' from the ground.

HOW THE STATE SPENDS MONEY

Indirect Spending

The state spends money both directly and indirectly. We'll get to direct spending in a moment. Indirect spending means the state has chosen to forego collecting certain tax revenues. Over the years, the Legislature has enacted tax exemptions, deductions and credits, which are called **tax expenditures**. Many tax expenditures are touted as necessary for economic development because they can promote job growth. Tax credits for the film industry are a good example. Some expenditures are intended to help working families, for example when the Legislature exempted most food from the gross receipts tax.² As a result, when you go to the grocery store to buy bananas, bread, and other food you are no longer charged tax on them.

Another result of enacting tax expenditures is that the state collects less revenue. That means the state will either have to cut its direct spending or it will have to raise other taxes or fees to make up the difference. Be-

fore any legislation to enact a tax expenditure is passed, however, the state researches how much the tax cut or deduction will cost. These estimates are released in a fiscal impact report (FIR). Unfortunately, the long-term fiscal impact of a tax expenditure—not to mention the cumulative cost of many expenditures over many years—is seldom revisited by the

In fiscal year 2008, tax expenditures cost the state some \$5 billion in lost revenue—or almost as much as the state's direct spending.

Legislature. In fiscal year 2008, tax expenditures cost the state some \$5 billion in lost revenue—or almost as much as the state's direct spending.³ And yet, the

Legislature does not consider whether these expenditures have had the desired effect.

Most states (and the federal government) create tax expenditure reports⁴ so those expenditures can be scrutinized in much the same way that direct spending is. New Mexico's Legislature passed a bill in 2007⁵ that would have required the state to produce an annual tax expenditure report, but it was vetoed by the governor.

Technical Terms

Tax expenditures – Tax exemptions, deductions and credits that have been made to the tax code that reduce the state's revenues. Many tax expenditures are put in place as incentives for businesses to set up shop in New Mexico.

Direct Spending

Every year, the state spends money on public services and programs such as education, social services, transportation, etc. This is direct spending and must be approved annually by the Legislature and enacted by the governor in the General Appropriation Act (GAA).

The general fund gets the most attention because it has the most flexibility (see Chart II, page 11). Other sources of revenue, such as federal funds or fee collections, are earmarked for particular services and programs.

However, even with its flexibility, there are limitations to general fund spending. In recent years, the general fund has approached \$6 billion,

but the recession has taken a toll on the state's revenue collection. (For more on the recession, see page 11.)

General fund expenditures are expected to keep up with current services—that is, we want to be able to offer the same levels of services year after year. That means the **current services budget** should grow by about 5 percent annually in order to keep up with in-

flation (which is at 3 percent) and population growth (2 percent). We'll also have to retain the current level of government employees in order to continue to serve the same number of public school students, Medicaid recipients, state prisoners, etc.

The Medicaid program is a good example of a program that grows every year in ways that usually require increased funding. Medicaid provides health care for low-income mothers and children as well as health and nursing

home care for elderly and disabled residents. Medicaid costs increase for many reasons. Aside from population growth and inflation, the state's population is

aging. For such reasons, the cost of health, hospitals, and human services as a share of the general fund operating budget has risen to 25.3 percent in FY10 from 21.4 percent in FY03.

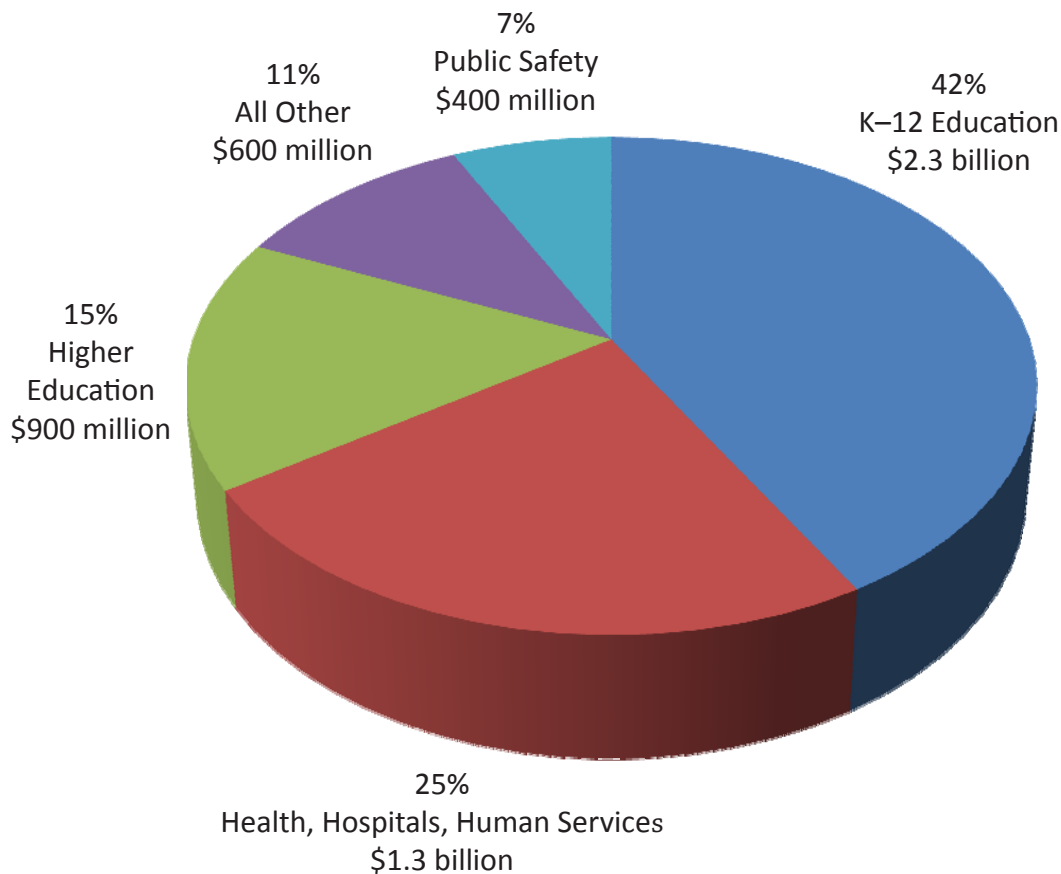
It is seldom the case that public priorities become *less* expensive. This is because most of the costs of state-provided services are driven by personnel costs and population increases.

State spending must increase by at least 5 percent every year in order to provide the same level of services as the year before.

Budget Basics **The Cost of Education**

Public education is the largest share of the state's operating budget. That's because of the way we fund education, not the overall amount we spend on it. (In 2006-07, we ranked just 33rd in the nation in overall per-pupil spending, and 36th in education-related salaries.⁶) In most states, education is funded primarily with local (city and county) property taxes. New Mexico's funding system is much more centralized, with the vast majority coming from state income and gross receipts taxes. Hawaii is the only other state to have such a centralized tax system.

Chart II
New Mexico's \$5.5 Billion General Fund Operating Budget for FY10
(by percentage and amount)



Source: Legislative Finance Committee, 2009 Post-Session Review, Appendix D

State Spending, the Private Sector, and the Economy

Many people think of government spending as separate from the state's economy, which people tend to see as driven entirely by private-sector business. But the two are very closely linked. In fact, the vast majority of state spending ends up in the private sector either directly or indirectly—directly when the state purchases goods (like raw building materials, paper, computers, etc.) and services (construction crews, school bus drivers, etc.),

and indirectly through the paychecks of public employees (firefighters, teachers, police officers, etc.). The Medicaid program is a good example of direct government spending. Just 3 percent of Medicaid funds go to the administration of the program. The vast majority pays the salaries of private-sector doctors, nurses, and their many technicians and staff members, helps maintain and stock private-sector hospitals and doctor's offices, and goes

to pharmacies, pharmacists, and their support staff. The list goes on.

Even though a public employee's paycheck comes from tax revenue, most of it is spent in the private sector on things like rent or mortgage, groceries, gas, car insurance, entertainment, and just about everything else we use and enjoy in our daily lives.

In this way, the state plays an enormous role in the economy. Just like the national economy, the state's economy moves in

During an economic downturn states are tempted to cut back on their spending, but that only makes the recession worse.

cycles, and is susceptible to depressions and recessions. During a recession, the state collects less money in the way of taxes because business is sluggish, unemployment goes up, and people's salaries are frozen or their work hours are cut back. As more people lose their income, more come to need the very social

services that those declining tax revenues are funding. State universities and colleges also experience higher enrollment as people seek to develop new skills or earn a degree. Unlike the federal government, however, states cannot run on deficits.

During an economic downturn states are tempted to cut back on their spending, but that only makes the recession worse.⁷ When the state takes huge amounts of money out of the economy, that economy is weakened.

Businesses that have contracts with the state lose out, and may have to lay off workers. As unemployment goes up, personal spending goes down. Raising taxes on working families also takes money out of the economy by decreasing the overall amount of money those families have to spend. A better way of

recovering from a recession is to raise taxes on the highest income groups.⁸ While this decreases their overall amount of money, it removes less from the economy because the wealthy often park large amounts of their income in savings.

Budget Basics

Medicaid and the Federal Multiplier

Health, hospitals and human services makes up the second largest share of the operating budget, with most of that spending going to the Medicaid program. But the more money the state spends on Medicaid, the more it gets from the federal government. The federal government matches the state's Medicaid spending at almost four to one.⁹ So for every dollar we spend on Medicaid, the feds spend \$4. In other words, \$1 in state money buys \$5 in Medicaid services. That's an excellent return on investment. But look at it this way—every dollar we cut from our Medicaid spending means we lose \$5 worth of services.

WHY IT MATTERS

Most Americans believe in the “American Dream”—that, given the right work ethic and enough determination, anyone can achieve just about anything. While the idea of “equal opportunity” is very appealing, the reality is that not everyone starts off life with the same assets. Some children do not get enough nutritious food or receive adequate health care. Some grow up in households plagued by chronic stress or simply don’t have enough of the enriching experiences that prepare them for success in school.

A child who lacks key supports like these is a child who is less apt to grow up to be a contributing member of society. There are exceptions, of course, but as a rule children who start out behind stay behind. Even those who are not a “burden on the system” as adults may still have lost much of their unique potential. This is more than just a personal tragedy. Society as a whole loses out—because everyone does better when everyone does better.

A society that values its children is a society that makes available the support systems that families need in order to raise healthy children. This isn’t at all the same thing as having a government tell you how to raise your kids. This is simply a way of offering a collective hand to those who might need it. It’s a way of making sure no one gets left behind.

One way to value children is to make sure every child can see a doctor. Another is to make high quality childcare affordable so parents can work and children can get the preparation they

need to start school.

Families are valued when parents earn a decent wage for their full-time work—a wage that allows them to support their families with dignity. Families are valued when parents can take time off of work to care for a sick child without the fear of losing wages or losing their jobs. Families are valued when the cycle of poverty-to-prison is broken with prevention programs instead of just punitive measures.

We can tell if families and children are a high priority by looking at how a government collects and spends its peoples’ money. Unfortunately, when looking at the spending policies of the last four decades, it’s clear that American children have become a lower a priority while the wealthy and powerful few have become a bigger priority.

Too many of our public policies have actually hurt American families. Policies such as trade agreements that ship good American jobs overseas. Tax policies that allow profitable corporations to skip out on paying their fair share. Spending policies that shrink programs that serve our most vulnerable population—our children.



HOW THE BUDGET IS BUILT

Step One: The Budget Recommendation Process

In most states and in the federal government, the executive branch develops a budget proposal that is considered and revised by the legislative branch. The executive branch has significant power in a budget process structured like this because its document frames the budget debate. While the legislative branch has the power to **appropriate**—that is, to authorize spending—the detailed review and analysis that is contained in the executive budget proposal reinforces the executive branch’s ability to steer the debate. Not so in New Mexico.

New Mexico is one of the few states in which both the executive and the legislative branches produce budget proposals. The Legislature has its own committee that independently develops a budget proposal based on the same agency requests that are submitted to the governor’s office. This structure significantly increases the power of the

Legislature in the budget process; the Legislature is not simply adjusting the governor’s budget, but is suggesting its own priorities.

The operating budget is made up of the separate budgets of the state’s various agencies. Each state agency may have separate program budgets within their overall budgets. For example, the Human Services Department oversees the Medicaid program, and the Medicaid program has its own budget within the Department’s budget. However, in some

agencies many programs are combined into one budget. For example, the Children, Youth and Families De-

partment (CYFD) oversees the state’s foster care program, but that program does not have its own budget. In the appropriation, the foster care program is simply part of a larger program budget within the CYFD.

New Mexico is one of the few states in which both the executive and the legislative branches produce budget proposals.

Technical Terms

Appropriate – To authorize the spending of public (tax) money by state agencies. This is done by the Legislature and enacted by the governor.

Statute – A state or federal law that has been passed by the legislative branch and signed by the executive.

In general, the state budget process is a base-plus system. That means next year's operating budget will use the agencies' current budgets as a planning base. Funding can be added to (or subtracted from) this base. While these base expenditures are rarely reviewed in detail, several factors influence the overall funding levels provided for different agencies:

- Available revenues;
- Price increases in programs that deliver services that are considered mandatory, such as Medicaid and corrections;
- Changes in service levels as a result of population changes, such as increases or decreases in college enrollment;
- Increases in state employee salaries and benefits;
- Increases to meet commitments made in prior budget years, such as requiring a new licensing system for public school teachers or honoring collective bargaining agreements;
- Replacement of lost federal funds for

programs that the state wants to continue, such as a regional drug trafficking reduction program; and

- Executive and legislative initiatives to either expand existing programs or create new programs based on newly identified priorities.

State agencies begin developing their budgets more than a full year in advance of the fiscal year in which the budget will be used. This means that agencies are beginning to formulate their budget proposals for the next fiscal year before the start of the fiscal year for the budget that was just enacted. For

“More than ever before, there is a global understanding that long-term social, economic, and environmental development would be impossible without healthy families, communities, and countries.”

—Gro H. Brundtland

example, agencies started developing their budget proposals for fiscal year 2011 in June of 2009—one month before fiscal year 2010 even begins. This makes estimating expenditures difficult.

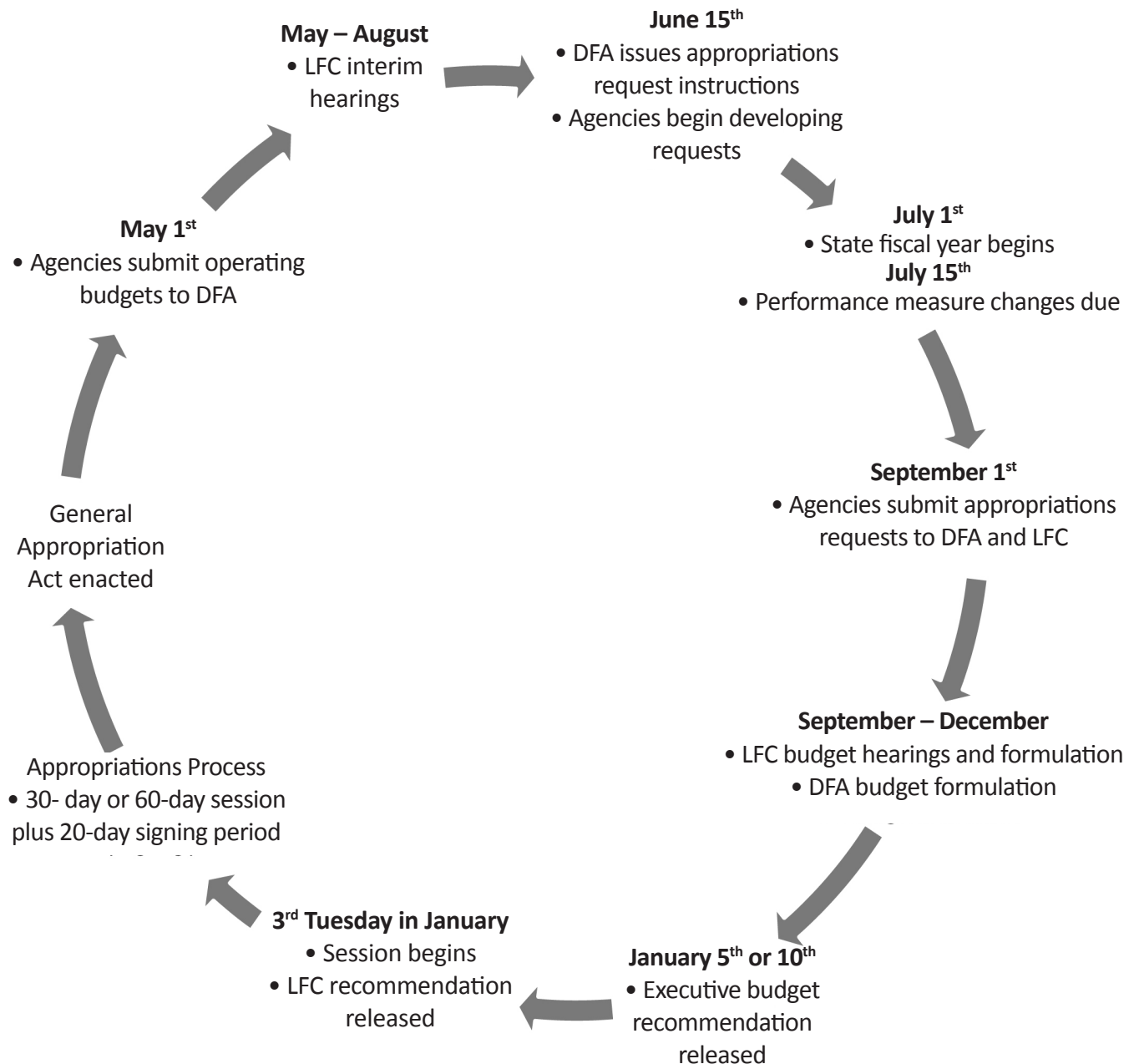
Technical Terms

Fiscal year – The financial year for a government or business. New Mexico's starts on July 1 and ends on June 30. The fiscal year is named for the calendar year in which the fiscal year ends. For example, fiscal year 2010 ends on June 30, 2010. Fiscal year 2010 is abbreviated as FY10.

The State Budget Division (SBD) of the Department of Finance and Administration (DFA) releases budget preparation instruc-

tions to state agencies every year on June 15, as required by state law (see Graph I, below). These instructions are usually called “ap-

Graph I The Operating Budget Cycle



propriations request instructions.” Larger agencies often start developing their budget for the upcoming fiscal year even earlier. By **statute**, agencies must submit their budget requests on September 1 to the governor (via the State Budget Division) and the Legislative Finance Committee (LFC).

At this point, the SBD and the LFC begin separate budget development processes that will result in two independent budget recommendations. However, during this time, there is often close coordination between the two staffs on technical issues related to the budget.

Forecasting Financial Weather

In order to develop a budget proposal, the governor and Legislature must have an idea of how much money will be available. So they rely on **revenue estimates**. The amount of money available for agency budgets can vary from year to year as a result of economic conditions, changes in tax law, and other factors. While the estimates are based on tried-and-true forecasting methods, they are also uncertain. Economic conditions can change

between the time the budget is developed and when it is implemented. State agencies must always be ready to adjust their budgets based on actual revenue collections versus what was estimated six or twelve months before.

New Mexico has a **consensus forecasting** process to ensure that both the governor and Legislature use the same estimates in developing their budget recommendations. The forecasting group provides consensus estimates for general fund revenue.

The group that creates the consensus revenue estimates is made up of career economists from the DFA, the Taxation and Revenue Department, the Department of Transportation, and the LFC. The group generally meets four times a year and their estimates are used both during the budget development process and during the legislative session.

This forecasting group also tracks ongoing revenue collections to monitor whether enough money is coming in to support the current general fund budget.

Technical Terms

Revenue estimates – An educated guess as to how much money will be available for the state to spend in an upcoming year. In New Mexico, revenue estimates are released every quarter.

Consensus forecasting – The process used to enable experts from different departments to come up with an agreed-upon revenue estimate that is given to both the executive and legislative branches

Developing the Executive Budget

By statute, the governor must submit the executive budget recommendation to the Legislature in early January. The governor's budget recommendation usually takes the form of two separate documents: the *Budget in Brief* and the *Executive Budget Recommendation*.

The Budget in Brief is usually released during the first week of the legislative session. It highlights the governor's major priority areas for the budget and includes **non-recurring** funding proposals, such as special projects and upgrades to information technology. The Executive Budget Recommendation is released earlier and contains the **recurring** operating budget recommendations for every state agency.

The State Budget Division does not conduct public hearings regarding the executive budget. The governor may choose to indicate some of his or her priorities through press releases and public appearances, but the overall executive budget development process is almost entirely internal. SBD staff members review the agency requests for both recurring operating expenses as well as non-recurring

expenses. The SBD's staff develops its own recommendations regarding proposed funding levels. These are reviewed within the DFA and approved recommendations are then presented to the governor.

The governor makes the final decision on all budget recommendations. The recommendations can be either general or very detailed depending on the governor. Some governors approve budget recommendations in large

"It may well be that our means are fairly limited and our possibilities restricted when it comes to applying pressure on our government. But is this a reason to do nothing?"

—Elie Wiesel

blocks—such as “the judiciary,” “boards and commissions,” etc.—based mostly on staff recommendations, while others review and approve the budget for every agency. Each gover-

nor also decides how much state agencies will be involved in final budget decisions. Under some governors, agencies know the final recommendations and can appeal decisions before the budget is released. Under other governors, agencies will not know the final recommendations until the budget is officially released.

When the Executive Budget Recommendation is released, paper copies must be provided to members of the Legislature and each agency. Limited paper copies are made available to the public, but an electronic version is available online (see Resources, page 28).

Developing the Legislative Budget Recommendation

The Legislative Finance Committee conducts public hearings as part of its budget development. The LFC holds monthly meetings from September to December to review each agency's budget request. The LFC staff reviews the agency budget requests and prepares preliminary recommendations for both recurring and non-recurring expenditures. These are reviewed internally and then provided to the members of the LFC in preparation for the public hearings. At the public hearing, the person who heads each agency presents their agency's budget request to the Committee. LFC budget hearings rarely allow for public comment. Public lobbying for budgetary

governor. Few paper copies are available to the public, but an electronic version can be found online.

By statute, the LFC must release its budget recommendation no later than the first week of the legislative session. Recommendations are usually broken into three volumes: Volume I is the policy discussion and issue overview, and it includes recommendations for nonrecurring funding; Volume II includes the recurring operating budget for every agency; and Volume III provides data to back up the recommendations.

Technical Terms

Recurring (appropriation) – Funding for ongoing operations of an agency that will form the basis of the agency's budget for the next fiscal year.

Non-recurring (appropriation) – Funding that is only available on a one-time basis.

issues must begin much earlier in the budget process. For more on advocating for budgetary issues, see the companion publication, *Advocate's Guide to the New Mexico State Budget*.

The Committee makes its final decisions in December, after which no changes are made. The budget recommendation is generally known as the *LFC Recommendation*. Paper copies are provided to the Legislature and the



Step Two: Approving the State Budget

When the Legislature meets in January, it has two separate budget recommendations to consider—the one the **Legislative Finance Committee** developed and the one proposed by the



governor. To assist the Legislature in its review, the staffs of the LFC and the State Budget Division meet and prepare difference sheets. These sheets look at the differences between the two budget recommendations for each agency as well as each budgeted program within each agency. Difference sheets are presented at public hearings to the two committees that hold hearings on the budget proposals—the House Appropriations and Finance Committee (HAFC) and Senate Finance Committee (SFC).

A bill must be introduced before the Legislature can officially consider the budget proposals. This is tradi-

Budget Basics

The LFC and the On–Again/Off–Again Committees

Aside from creating the budget recommendation, the Legislative Finance Committee (LFC) is the legislative body that provides ongoing review of budget issues throughout the year when the Legislature is not in session. Once the legislative session convenes, the Committee disbands. (However the LFC staff remains to support the budget process throughout the session.) During the session, the two budget committees are the House Appropriations and Finance Committee (HAFC) and the Senate Finance Committee (SFC). The LFC is made up of members from both the House and Senate, but LFC members generally also serve on these committees during the session. The HAFC and SFC do not have to adopt the budget recommendations the LFC has made prior to the session.

tionally done in the House of Representatives. That bill—the General Appropriation Act—is referred to as House Bill 2 (or HB2) and is usually introduced during the first week of the legislative session. This initial draft is based on the executive budget recommendation and is not broken out into specific agencies, but overall areas such as “legislative branch,” “judiciary,” and “health and human services,” instead. This is because the initial HB2 is merely a first draft that will be amended several times during the session.



Budget Basics

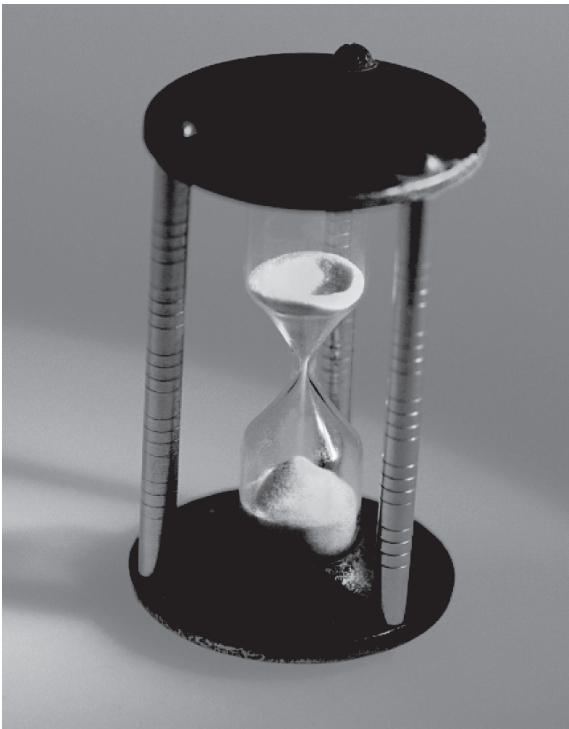
Performance–Based Budgeting

With the enactment of the Accountability in Government Act, New Mexico joined the federal government and most other states in implementing “performance–based budgeting.” The idea is to determine whether citizens are benefiting from the funding provided to state programs and services. Each agency has performance measures that show its progress in meeting certain goals. In developing budgets, the question is no longer “show that you are spending the money” but rather “show the results achieved from the money you spent.” At this point, the link between performance results and budget decisions is still tenuous and whether a direct link can be made is a subject of ongoing debate. However, measures developed to assess performance provide additional information as lawmakers and the governor make decisions about funding levels for programs and services.

House Appropriations and Finance Committee Budget Hearings

As with all legislation, a bill does not go to the full House or Senate for a floor vote until it has been through at least one committee. The HAFC will hold hearings on every agency budget. At these hearings, the LFC and SBD budget analysts discuss the differences between the two recommendations, although the difference sheets are generally not made available to the public. The agency head will present its request and stand for questions. There is usually no scheduled time for public comment, although occasionally an outside group or individual advocate will be allowed to speak.

The Committee will usually vote to adopt one of the two budget recommendations, possibly with modifications. If there are outstanding questions or particularly complicated budgets, the Committee may table the budget decision—meaning that it will review the budget internally and take a final public vote later. The last of these HAFC meetings is often called “catch-up, clean-up.” This is the meeting in which all the budget decisions are finalized, including those that had been tabled. Agency representatives and interested groups also attend this hearing, in case the Committee has questions.



Budget Basics

House Bill 2 Deadlines

Every movement of the budget process is governed by deadlines established by legislative joint rule. The legislative chamber that initiates the GAA (usually the House) must transfer the bill to the other chamber within a certain allotment of days; the legislative chamber that receives the bill also must act upon it within a certain time frame; the GAA must then be approved by both chambers and transmitted to the governor by another predetermined deadline. Usually this process takes one or two months, depending on whether it is a short or long legislative session.

Once HAFC finalizes its recommendations, the original HB2 is substituted with a revised bill to reflect these recommendations. At this point, other stand-alone appropriations bills are incorporated into HB2. Those that are always included are: The Education Appropriation Act (public schools funding); The Department of Transportation Appropriation Act; The State Fair Commission Appropriation Act; the Department of Game and Fish Appropriation Act; and a bill for public employee salary increases if they are proposed. All these bills will have had separate hearings before being reported to HAFC and added to HB2.

Hundreds of other stand-alone appropriations bills will be introduced, but if the funds proposed in them are not included in HAFC's version of HB2, there is little likelihood that these stand-alone bills will receive any further

consideration by HAFC.

An exception is in years where there is enough funding for a **“junior” appropriations bill**. In these cases, HB2 will go to the House floor for

approval. Only rarely are amendments made from the floor. Usually it is passed “as is” and sent on to the Senate for consideration.

“All political power is vested in and derived from the people.”
—*New Mexico Constitution*¹⁰

Budget Basics

“Junior” Appropriations Bills

A “junior” appropriations bill provides non-recurring funding for specific projects or initiatives by agency, though some of this funding can be added to existing agency programs. These bills usually incorporate funding proposals included in many stand-alone appropriations bills that have already been introduced, but can also include entirely new proposals. Such bills generally result from additional general fund revenue that is available above and beyond that used for the General Appropriation Act. Junior bills have been passed in the last six out of nine years.

The Senate Finance Committee Process

Before receiving HB2 from the House, the SFC also holds budget hearings. However, in contrast to HAFC, SFC often only hears the budgets of major agencies and those agencies headed by elected officials (such as the Secretary of State's office). At these hearings, the LFC and SBD budget analysts and the agency heads are present. The format may follow that of HAFC hearings, but often the discussion focuses more on question-and-answer sessions with the agency. There is usually no scheduled time for public comment, although occasionally an outside group or individual advocate will be invited to present. At these hearings, the Committee will not vote to adopt specific budget recommendations. SFC withholds all public decisions until it receives HB2 from the House.

Once HB2 is sent to SFC, the Committee initiates the amendment process. Amendments can be proposed by senators and the

governor. A group or individual can propose an amendment, but a senator must sponsor it in order for it to be considered. The public amendment process is usually limited to a 72-hour period. Staff of the SFC and LFC help legislative members and outside groups enter amendments into the official database. The SBD enters amendments on behalf of the governor. SFC staff review the amendments, the SFC considers them internally and then votes to adopt amendments at a public hearing. However, there is no public discussion of individual amendments and often a list of proposed amendments is not publicly available.

Once the SFC finalizes its budget decisions, it releases its version of HB2. Instead of a substitute bill, it usually takes the form of proposed amendments that replace all the sections of the bill containing appropriations.

Technical Terms

Line-Item Veto – To delete a specific portion of a bill without having to veto the entire bill.

Pocket Veto – If the governor takes no action on the bill during the 20-day signing period, the bill is effectively vetoed.

Conference Committees

Once the SFC amends HB2, it's no longer the same bill that was passed by the House. Therefore, the bill must go to Conference Committee where members from the House and Senate work to develop a compromise bill. Due to recent legislation, all conference committees held for the purpose of discussing public business are open to the public. (Excluded from this rule are meetings dealing with personnel, adjudicatory, or investigative matters, as well as proceedings related to eth-

ics and conduct or to a caucus of a political party.) In general, the compromise bill will include elements from both bills but occasionally entirely new appropriations are included during this process. Once the Conference Committee finalizes its recommendations, it releases its version of HB2, which again takes the form of proposed amendments that replace all the sections of the bill containing appropriations.

Budget Basics

Why Some Sessions are Longer than Others

New Mexico has a citizen legislature, meaning the members are unpaid (although they do get a *per diem* to cover their travel, food and accommodations costs during the session). The full Legislature meets only once a year. In odd-numbered years, the session lasts 60 days, during which all types of legislation are considered. In even-numbered years, the session lasts 30 days, during which only the following types of bills are supposed to be considered: fiscal and revenue bills; bills from the previous session that were vetoed by the governor; and bills introduced by special message of the governor. In the last few years the scope of bills considered during 30-day sessions has expanded significantly beyond fiscal and revenue bills through increased use of the governor's special message authority.¹¹

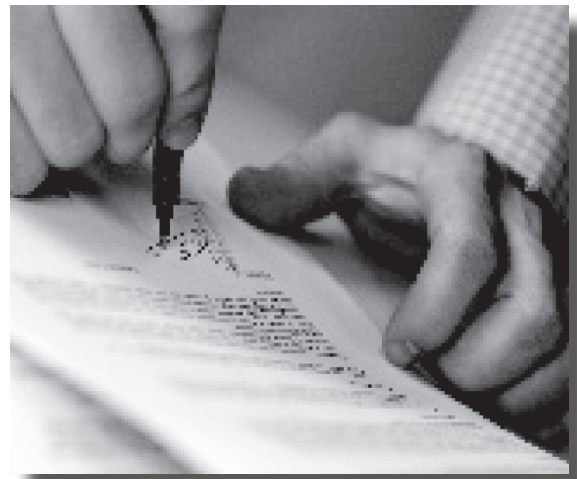
Step Three: Final Passage and the Governor's Action

The Conference Committee version of HB2 then goes to the House and Senate floors for approval—or final passage—by majority vote. At this point, amendments from the floor are prohibited by Joint Rule. Once both the House and Senate approve HB2 it is sent to the governor for his or her signature. If the bill is passed any time before the final three days of the legislative session, the governor only has three days to act on the bill. If the governor does not act within that time frame, the bill is automatically enacted. If the Legislature sends the bill to the governor during the last three days of the session, the governor has the entire 20-day signing period after the close of the session to act on the bill.

In New Mexico, the governor has **line-item veto** power over appropriations bills. This means that the governor can strike out individual appropriations as well as language in the bill. Unless the Legislature overrides the veto through a two-thirds vote of both chambers, these vetoes are final. While the Legislature has the sole power to appropriate, the veto gives the governor the power to

take away or reduce appropriations. However, there are limits to the governor's line-item veto power, but these limits are beyond the scope of this guide.

The governor receives recommendations for line-item vetoes from his staff, the SBD, executive branch agencies, and other interest groups. Once the governor makes final decisions on line-item vetoes and signs the bill, the General Appropriations Act is enacted. If the bill is enacted during the 20-day signing period when the Legislature is already out of session, a veto override is possible if the Legislature calls itself back into an extraordinary session.¹²



Step Four: Implementing the Budget

Even though the budget has been enacted, it cannot be implemented until it is translated into an operating budget for each agency. While this may seem straightforward, given

that agencies' budgets were already appropriated in the General Appropriations Act, establishing an operating budget can take up to two months. This is because most agen-

CONCLUSION

cies must translate the appropriated program budgets into division-level budgets. Also, the GAA often includes modifications to agency budgets such as salary increases and across-the-board reductions to general fund appropriations. In the past, other modifications have included reductions for new purchasing agreements and telecommunications rate reductions.

Agencies often also revise their federal funding amounts in the operating budgets. Therefore, an agency's final operating budget will often look slightly different from the direct appropriations

provided to the agency in the GAA. Operating budgets pass through the Department of Finance and Administration for final approval and must be in place before the start of the new fiscal year.

There is currently no public document that shows agency-specific operating budgets as finally implemented. A higher-level overview of the enacted operating budget is always available through the Legislative Finance Committee's *Post-Session Review*, which is a summary document usually published a month or two after the end of the legislative session. The DFA occasionally provides an overview in its general fund report.

Although there are specific processes and time lines for developing the state budget, watching it in “real time” may seem confusing and messy. But consider what your family budget process would be like if every member of the family had an equal voice in setting the family priorities and budget. There would probably be many heated discussions around the din-

“It was once said that the moral test of government is how that government treats those who are in the dawn of life, the children; those who are in the twilight of life, the elderly; and those who are in the shadows of life, the sick, the needy, and the handicapped.”

—Hubert H. Humphrey

ing-room table before compromises and final decisions were made. This is what has to happen when the 112 legislators and one governor meet each year and try to develop a budget for the state that reflects the needs, priorities, and values of all New Mexicans.

The budget process isn't perfect but it does provide a structure for discussion and consensus-building about the best use of the state's dollars to serve New Mexicans.

A companion guide, *Advocate's Guide to the New Mexico State Budget*, provides more information on how you can become involved in helping to set the state's budget priorities. It is available as a pdf at www.nmvoices.org.

RESOURCES

NM Legislature <http://www.nmlegis.gov/lcs/>

Governor's Office <http://www.newmexico.gov/>

Executive Budget Recommendation <http://budget.nmdfa.state.nm.us>

LFC Recommendation <http://www.nmlegis.gov/lcs/>

Endnotes

1 New Mexico Constitution, Article IX, Section 7

2 HB625, 2004; <http://legis.state.nm.us/Sessions/04%20Regular/final/HB0625.pdf>

3 Calculation by NM Voices for Children from estimates from NM TRD Tax Research Unit

4 *Promoting State Budget Accountability Through Tax Expenditure Reporting*, Jason Levitis, Nicholas Johnson, and Jeremy Koulish, Center on Budget and Policy Priorities (CBPP), Washington, DC, 2009; <http://www.cbpp.org/files/4-9-09sfp.pdf>

5 HB235, 2007; <http://legis.state.nm.us/Sessions/07%20Regular/final/HB0235.pdf>

6 Public Education Finances 2007, US Census Bureau, 2009; <http://www2.census.gov/govs/school/07f33pub.pdf>

7 “50 Herbert Hoovers,” Paul Krugman, *New York Times*, Dec. 29, 2008; http://www.nytimes.com/2008/12/29/opinion/29krugman.html?_r=1&scp=8&sq=krugman+hoover&st=nyt

8 “New Fiscal Year Brings No Relief From Unprecedented State Budget Problems,” by Iris J. Lav and Elizabeth McNichol, Center on Budget and Policy Priorities, Washington, DC, August 12, 2009

9 Federal Register: November 26, 2008 (Volume 73, Number 229) [Page 72051-72053]; <http://aspe.hhs.gov/health/fmap10.htm>

10 New Mexico Constitution, Article II, Section 2

11 New Mexico Constitution, Article IV, Section 5

12 New Mexico Constitution, Article IV, Section 6



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