

# 2020 SPECIAL SESSION BUDGET SUMMARY



The New Mexico Legislature was called into a special session on June 18, 2020, in order to address revenue shortfalls in the state budget. The shortfalls were the result of the loss in tax revenue due to the economic downturn resulting from the COVID-19 pandemic and the global drop in oil prices. Earlier this year, the U.S. Congress passed relief packages – the Families First Coronavirus Response Act (Families First) and the Coronavirus Aid, Relief, and Economic Security (CARES) Act\* – which helped address some of the state’s budget shortfalls and virus-related costs. However, even with federal funding, the state had to trim the budget they had passed in January 2020 by \$580 million.

About \$400 million of that amount is recurring (meaning it’s used for operating expenses that occur each year) and \$180 million is nonrecurring (meaning it’s for one-time expenses). These cuts include essential services such as education and health care, which are critical for the health and well-being of New Mexico’s children and families. Though revenue-raising measures were not considered during this emergency session, state policymakers must raise new revenue in the next legislative session (beginning in January 2021) in a way that makes our tax system more fair and ensures that the state does not face more cuts to essential services that limit the ability of our families, communities, and state to survive the pandemic and rebuild our economy afterwards.

## STATE BUDGET OVERVIEW:

- Revenue for the FY20 budget, which just ended on June 30, was almost \$400 million short of what had been appropriated. This hole was fixed by drawing from the state’s reserves.
- Revenue for the current budget year – FY21, which started on July 1 – was estimated to be \$1.98 billion – or about 25% – short. This hole was fixed with a combination of: drawing from the state’s reserves; appropriating federal relief dollars from the Families First and CARES Acts; pulling back some money budgeted for capital outlay (infrastructure); and cutting more than \$570 million in funding (see other side for details).
- When passed in February 2020, the FY21 budget was a 7.5% increase over the FY20 budget. The reduced FY21 budget is now about 1.5% higher than the FY20 budget. This means that the planned – and needed – increases for FY21 were scaled back to varying degrees, leaving some programs, like Medicaid, dangerously underfunded.
- For FY21, the Legislature authorized across-the-board cuts of 4% for all state agencies, with the following exceptions:
  - Public Education Department: 1% cut for K-12 schools and the state equalization guarantee (SEG) distribution (see other side for details);
  - Department of Health: 2% cut;
  - Human Services Department: 3% cut for Medicaid; and
  - Higher Education Department: 6% cut for non-instructional higher education.

*\*For more on how the federal relief packages will impact New Mexico, please see our series of fact sheets, “How the Federal COVID-19 Response Impacts New Mexico.”*



# BUDGET SPECIFICS

## Pay Increases:

- Instead of getting the 4% pay raise that was planned, New Mexico teachers, most school employees, and all state employees earning less than \$50,000 annually will get a 1% pay increase; and
- The 4% pay raises planned for school administrators and state employees earning more than \$50,000 were cut.

## Human Services Department:

- The total (state and federally funded) Medicaid budget grew by 9.6% because Congress temporarily increased funding for state Medicaid programs by increasing the federal match rate (FMAP) in the Families First Act; and
- The governor is also authorized to transfer up to \$37.5 million from the tax stabilization reserve to the Human Services Department in the event that the federal government does not extend the FMAP increase for a longer period of time.

## Early Childhood Education and Care Department (ECECD):

- \$5 million was cut from program support, public pre-k, and the department on top of the 4% reduction; and
- \$20 million was taken from the newly created endowment fund.

## Public Education Department:

The 1% (\$146 million) cut was accomplished with the following changes:

- \$6 million was cut from elementary physical education programs;
- \$40 million was cut from K-5 Plus programs;
- \$4.2 million was cut from mentorship stipends;
- \$2 million was cut from early literacy interventions;
- \$92.6 million was cut from the planned school personnel salary raises;
- \$32.4 million was cut from the base SEG appropriation; and
- \$31 million was added to reflect a lower federal Impact Aid credit assumption.

## Higher Education Department:

- Funding for the new Opportunity Scholarship was cut from \$17 million to \$10 million.

## Federal CARES Act:

The \$1.25 billion received from the federal CARES Act

was allocated as follows:

- \$750 million was allocated to the general fund appropriation account for solvency (federal authorization for general fund use of the \$750 million has not been given but is expected);
- In signing the budget, the Governor stated the Legislature did not have the authority to appropriate the remaining funds. The Governor will appropriate the remaining CARES money as follows:
  - \$140 million will be allocated to the state for COVID-19 expenses;
  - \$182 million will be allocated to Albuquerque and Bernalillo County for COVID-19 expenses;
  - \$150 million will be allocated to other cities and counties for COVID-19 expenses;
  - \$28 million will be allocated to tribal governments for COVID-19 expenses.

## Other Emergency Provisions/Powers:

- The rainy-day fund may be used to cover any additional revenue shortfall (and in the event that the \$750 million in federal funds is not allowed to be used for general fund solvency); and
- The Department of Finance and Administration is authorized to further reduce all state agency budgets by an additional 2% if revenue shortfalls continue.

## OTHER BILLS IMPACTING BUDGETS AND REVENUES

### Tax Changes (HB6):

- Provides for a temporary waiver of interest and penalties due on some tax liabilities like personal income taxes and gross receipts taxes (GRT);
- Doubles the distribution of internet GRT revenue to local governments (from \$24 million to \$48 million) for FY21 due to the increase in online purchasing and the decrease in brick-and-mortar purchasing; and
- Decouples from the federal corporate tax changes made in the CARES Act regarding business net operating losses, saving the state from losing between \$20 million and \$40 million in corporate income tax revenue.

### Capital Projects (SB5):

- Claws back \$141 million that had been appropriated for capital outlay and road projects.