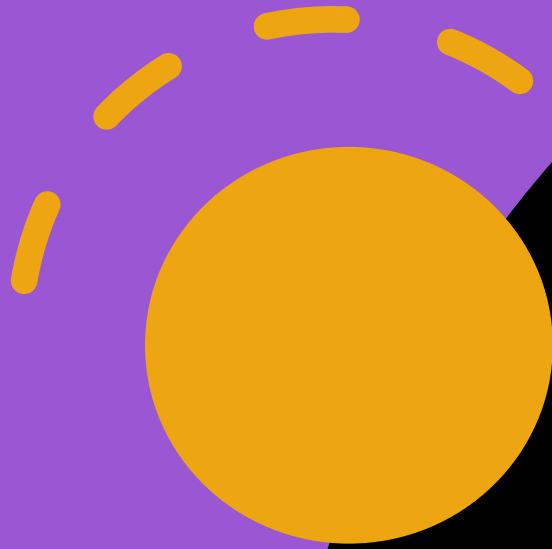




New Mexico
Department of Finance
and Administration

Budget Boot Camp Module 2: New Mexico's Budget Past, Present and Future

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Introduction

- Budgeting is a core function of government – raise revenue and appropriate expenditures
- The budget document is the most significant indicator of preferred policies by executive and legislative leadership
 - Crafted by legislators, signed by governors, proposed by agencies, planned and executed by civil servants

Module Overview

1. History of Public Budgeting in the US and New Mexico
2. Comparative Budgeting Among States
3. New Mexico Budget Overview
4. Saving and Potential Challenges
5. Aaron Wildavsky, Budgeting Scholar
6. Components of a Good Budget Request

Poll: Government spends too much overall, too little in specific areas

A majority of U.S. adults say federal spending is too high, but far fewer say the same when asked about specific priorities like education and Social Security, according to a new AP-NORC poll.

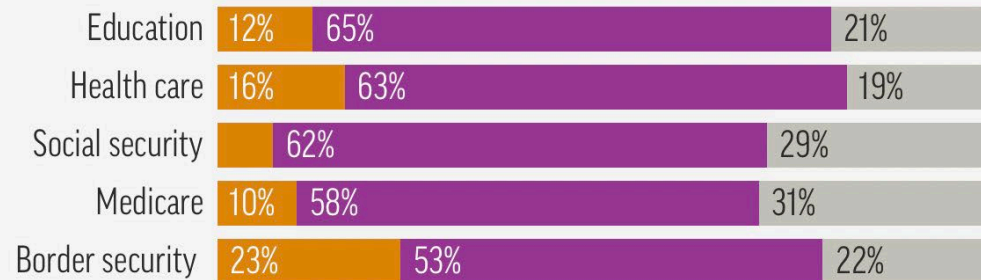
Percentage who say government spending is:

Too much Too little About the right amount

Overall



Spending on ...



Results are based on a survey of 1,081 U.S. adults conducted March 16-20, 2023.

The margin of error is ± 4 percentage points.

Source: AP-NORC Center for Public Affairs Research





History of Public Budgeting in the U.S.

Marked by struggle between legislatures controlling the purse strings and executive authority seeking to maximize its power

Prior to the American Revolution

- Colonial legislatures tried to control governors through fiscal restraints such as requiring taxes and salaries to be renewed annually
- Stamp Act, etc. were attempts by Parliament to free appointed governors from colonial legislative control

First constitutional US budget, 1789: One page long and \$689,000 (about \$26.2 million today)

Congress dominated the budget process for the first century of U.S. history

- Line-item advocates won out over Federalists who wanted agencies to have broad spending power
- Over time agencies gradually increased their power, such as ability to transfer funds from one purpose to another

History of Public Budgeting in the U.S.

Careful balancing act between political groups

- Federalists (Hamilton) wanted deficit spending for internal improvements, allied with Whig industrialists who would impose high tariffs for this purpose
- Jeffersonians: deficit spending gave too much power to the central government, interest payments redistributed wealth from poor to rich
- Slow growing, balanced budget was the general result

Civil War: financial controls went out the window and were difficult to reimpose afterward

- Presidents gained more discretion over funding, agencies demanded it
- “Iron triangles” among agencies, public stakeholders, and Congressional allies begin to form – insider access wins the day. Eventually: military-industrial complex that Eisenhower warned about in 1961 farewell address



History of Public Budgeting in the U.S.

- Progressive Era, 1900-1920
 - Party boss system fostered widespread corruption and waste in city governments, which spurred budget reforms for transparency
 - Progressive reformers applied scientific method to create unbiased, practical system of appropriating funds
 - Reformers believed budgeting should be left to administrators divorced from politics
 - Politics vs Administration dichotomy – how responsive should budget administrators be to public demands?
- Large WWI debt prompted Congress to reform
 - 1921 Budget and Accounting Act established modern executive budget process, Bureau of the Budget (become OMB), gave President much larger control over agency budgets
 - Most modern state budget processes follow this model



Further Budget Reforms

Introduction of Performance Budgeting in 1940s-1950s

- Response to growth in federal government after New Deal and WWII
- Design budgets that achieve program objectives as efficiently as possible

Congress attempts to reassert control

- 1974 Congressional Budget and Impoundment Act created more budget committees and Congressional Budget Office as counterweight to OMB (in NM: LFC to SBD)
- 1985 Emergency Deficit Control Act: set deficit reduction goals for each year, which were missed
- 1990 Budget Enforcement Act: replaced deficit reduction targets with pay-as-you-go requirements (any new spending must not adversely affect the deficit)

Today: Occasional attempts at austerity followed by large spending increases or revenue cutbacks. Budget gridlock often results in lurching forward through continuing resolutions

- Last balanced budgets passed in late '90s
- Growth in entitlement (formula-driven) spending
- Bush and Trump tax cuts
- War on Terror, 2001-21 (?)
- Great Recession (ARRA) and COVID (CARES Act)
- "Bidenomics" (ARPA, Inflation Reduction Act)
- One Big Beautiful Bill Act



Modern Challenges to Budgeting

Earmarks

- Increased dramatically in 20th century as legislators fought back against increased agency budget authority and directed funds to specific projects
- External actors including interest groups reap rich rewards through earmarks
- “Pork barrel politics” or “bringing home the goods” to make deals and get budgets done?

Contracts

- “Run government like a business” by farming out work to ever-increasing number of contractors who compete for government funds
- Salaries and overhead costs are actually often much higher than government workers
- Competition for contracts has declined, accountability is lacking
- Size of federal contractor workforce: 80% of IT staff, 90% of all Department of Energy operations (including Los Alamos and Sandia). Federal contractors are a “shadow workforce” of up to 7.5 million people, compared to 2.1 million actual federal employees (besides the military and USPS)

U.S. Budgeting History Conclusion

- Despite many conflicts among differing groups, traditional budget process served U.S. well for almost 200 years
 - Growth of entitlement and deficit spending has greatly complicated matters
 - “Entitlement” = formula-driven mandatory spending, no connotations in original meaning
- Reforms have attempted to be large in scope but only small, gradual steps have been achieved.
 - Limited by politics and (in 20th century) large growth in entitlement spending.
- Budget itself grew very incrementally from 1971-2010, with only spikes in response to major events – Civil War, Great Depression, WWII



Budgeting History in New Mexico

General budgeting process has been much the same throughout NM history

Similar contests between the executive and legislative branches over control of the budget have played out in New Mexico

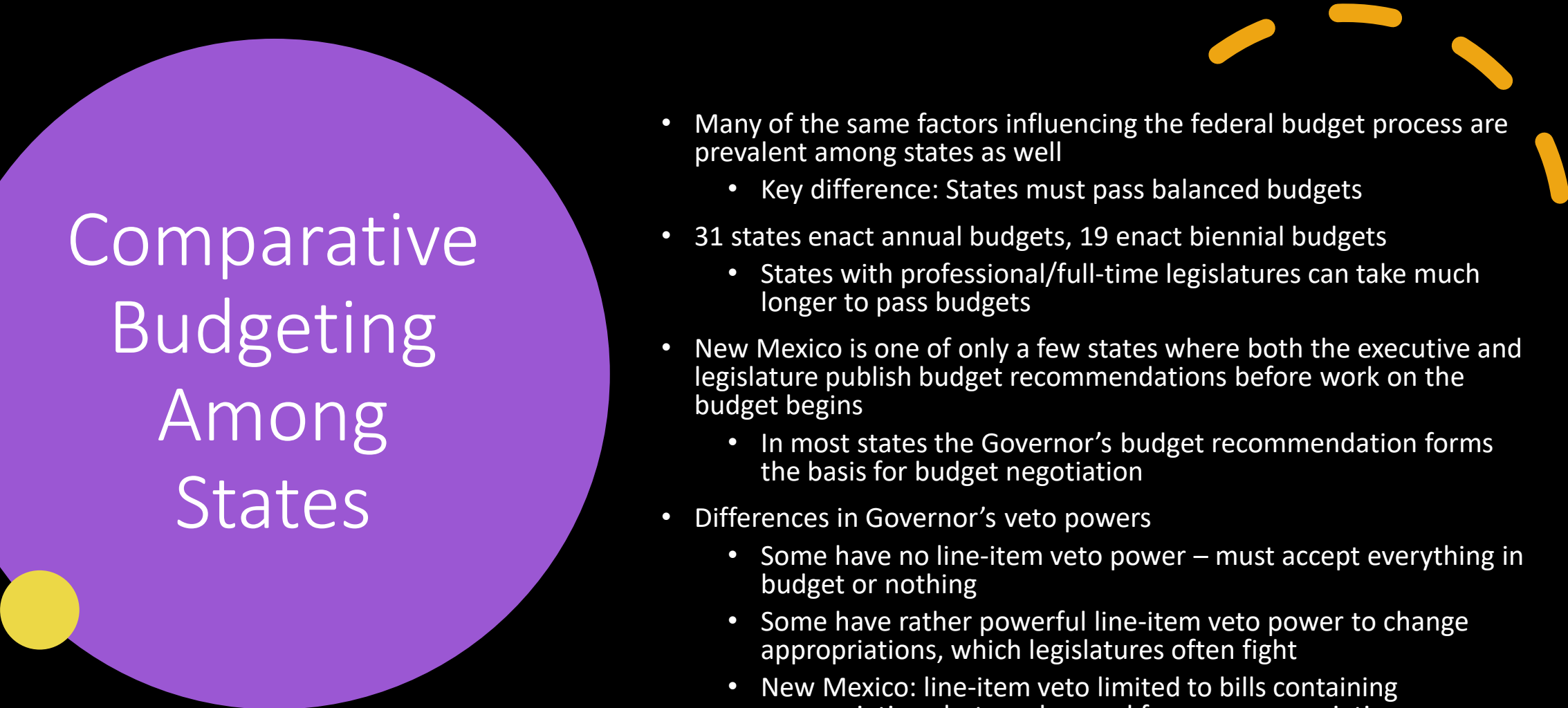
Debates over use of and reliance on oil and gas revenue (land grant permanent fund)

Consolidation of expenditure categories

- Expenditures were formerly more specifically defined in the GAA, such as travel, supplies and materials, and maintenance and repairs
- Adoption of AGA in 1999 - performance measures are added to GAA in 2002, but expenditure categories are reduced and consolidated in 2001

“Junior” budget bills – a recent development, here to stay? Replaced by GRO “member” allocations?

- Supplemental budget bills containing a variety of appropriations for many state agencies at the wish of legislators
- Constitution limits GAA appropriations to those expenditures required under existing law
- Legislators responding to voters and interests or an unnecessary complication of the budget process?



Comparative Budgeting Among States

- Many of the same factors influencing the federal budget process are prevalent among states as well
 - Key difference: States must pass balanced budgets
- 31 states enact annual budgets, 19 enact biennial budgets
 - States with professional/full-time legislatures can take much longer to pass budgets
- New Mexico is one of only a few states where both the executive and legislature publish budget recommendations before work on the budget begins
 - In most states the Governor's budget recommendation forms the basis for budget negotiation
- Differences in Governor's veto powers
 - Some have no line-item veto power – must accept everything in budget or nothing
 - Some have rather powerful line-item veto power to change appropriations, which legislatures often fight
 - New Mexico: line-item veto limited to bills containing appropriations but can be used for non-appropriation purposes in those bills

The Power of Wisconsin's Frankenveto

Tony Evers uses veto powers to extend annual increases for public schools for the next four centuries

Molly Beck and Jessie Opoien
Milwaukee Journal Sentinel

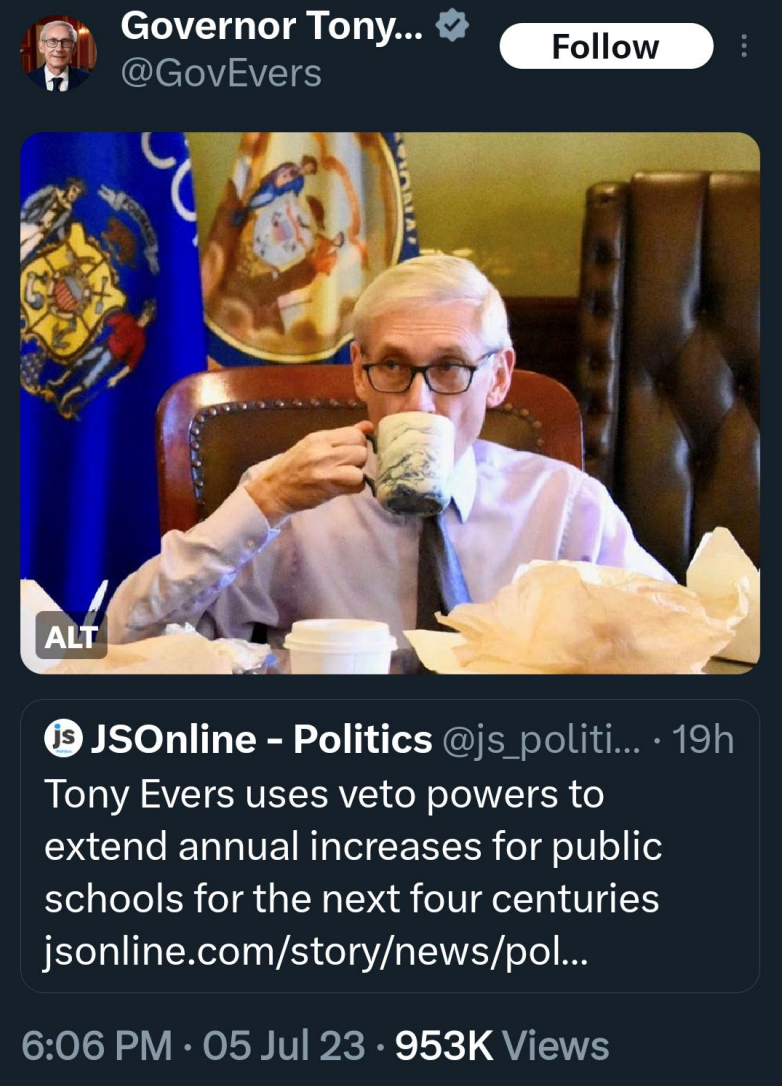
Published 11:58 a.m. CT July 5, 2023 | Updated 3:41 p.m. CT July 5, 2023

SECTION 402. 121.905 (3) (c) 9. of the statutes is created to read:

121.905 (3) (c) 9. For the limit for **the 2023–24 school year and the 2024–25 school year**, add \$325 to the result under par. (b).

**Vetoed
In Part**

Gov. Tony Evers vetoed the words and numbers in red, creating a \$325-per-student increase in school funding each year until 2425. *State Of Wisconsin*

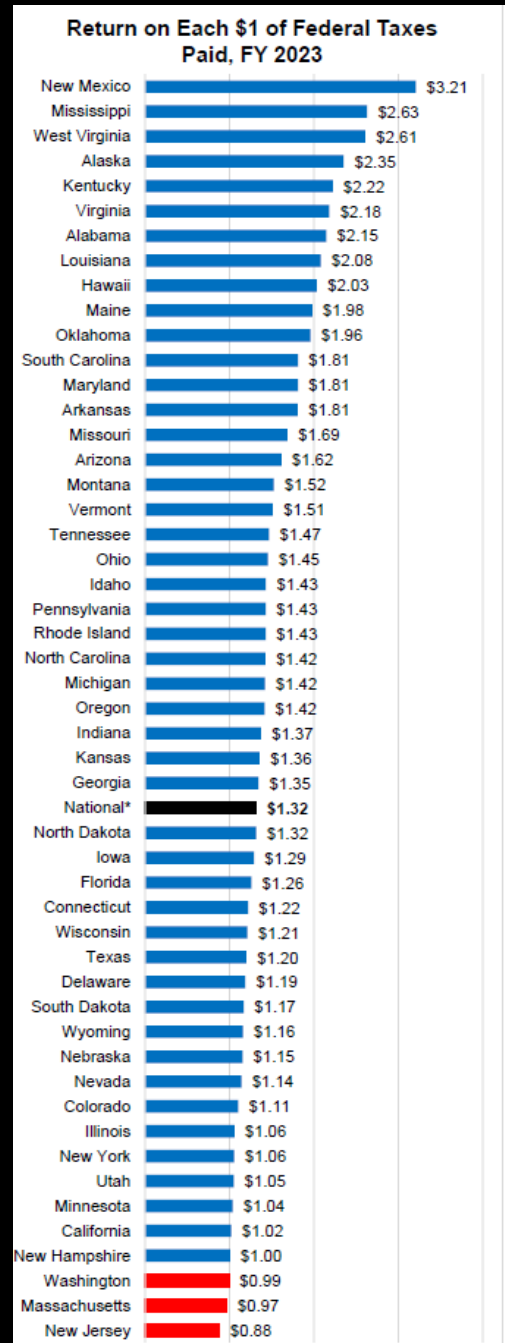


Comparative Budgeting Among States

- Differences among revenue structures
 - 7 states with no income tax (AK, WA, TX, FL, WY, SD, NV), 2 only tax interest and dividend income (TN, NH)
 - 5 states with no sales tax (AK, OR, DE, MT, NH). States with no sales tax exemption for food: AL, HI, ID, MS, SD, MO, IL, AR, TN
 - “Energy” states like Alaska or NM generate significant revenue from severance taxes
 - Different reliance on federal revenue depending on wealth of state and presence of federal facilities
- Appropriations and expenditures
 - Education, health and human services dominate most state budgets
 - Many different options in appropriations, from high level lump-sum to very specific
- For more info, check out:
 - National Association of State Budget Officers: www.nasbo.org
 - National Conference of State Legislatures: www.ncsl.org



The State-Federal Balance of Payments



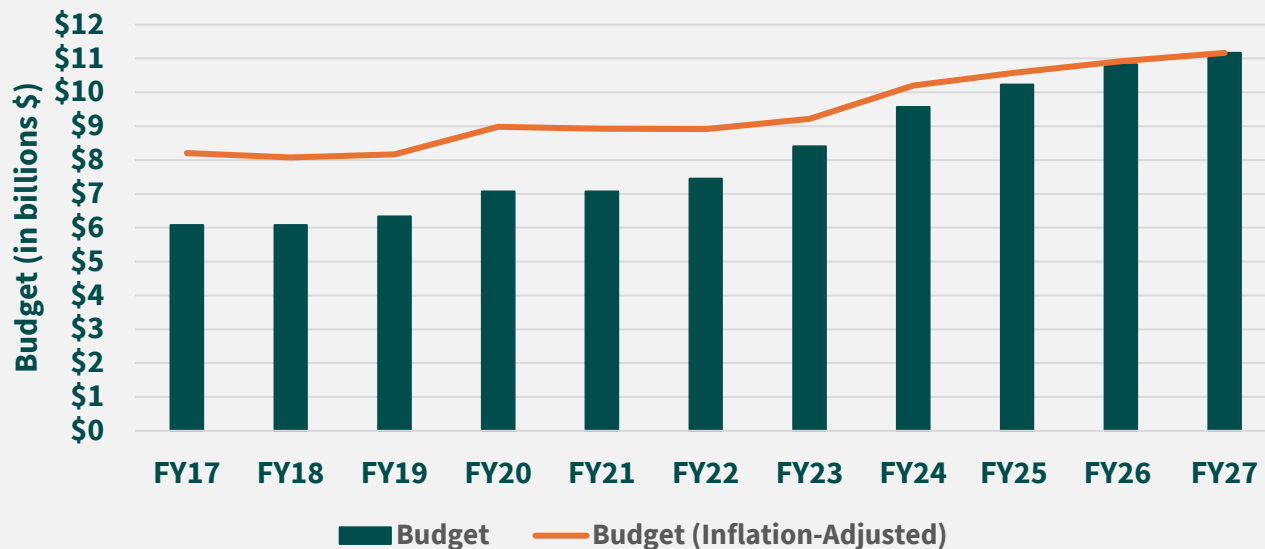
Why is New Mexico #1?

- Relatively high percent of population on federal entitlement programs (Medicaid, SNAP, etc.) NM is not #1 here – several states are higher per capita, including Florida
- National labs and military bases
- Federal spending on tribal lands and communities
- Federal mineral leasing payments

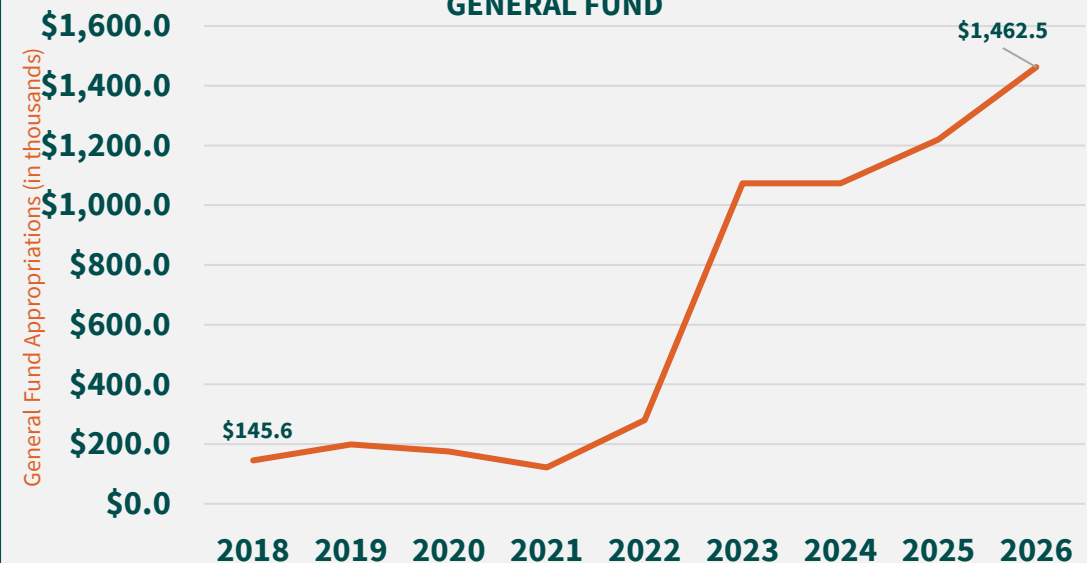
NM General Fund Budget History

- NM's recurring General Fund budget has grown by 84%, from \$6.07 billion in FY18 to \$11.16 billion in FY27
- Significant applications of the General Fund increase:
 - Statewide compensation increases for all employees, including public schools
 - Other K-12 education increases and reforms to the public school funding formula (FY18: \$2.6 billion, FY27: \$4.8 billion)
 - Medicaid (FY18: \$930 million, FY27: \$1.43 billion)
 - Higher education, including the Opportunity Scholarship
 - Various economic development, public safety and natural resource initiatives (also nonrecurring)

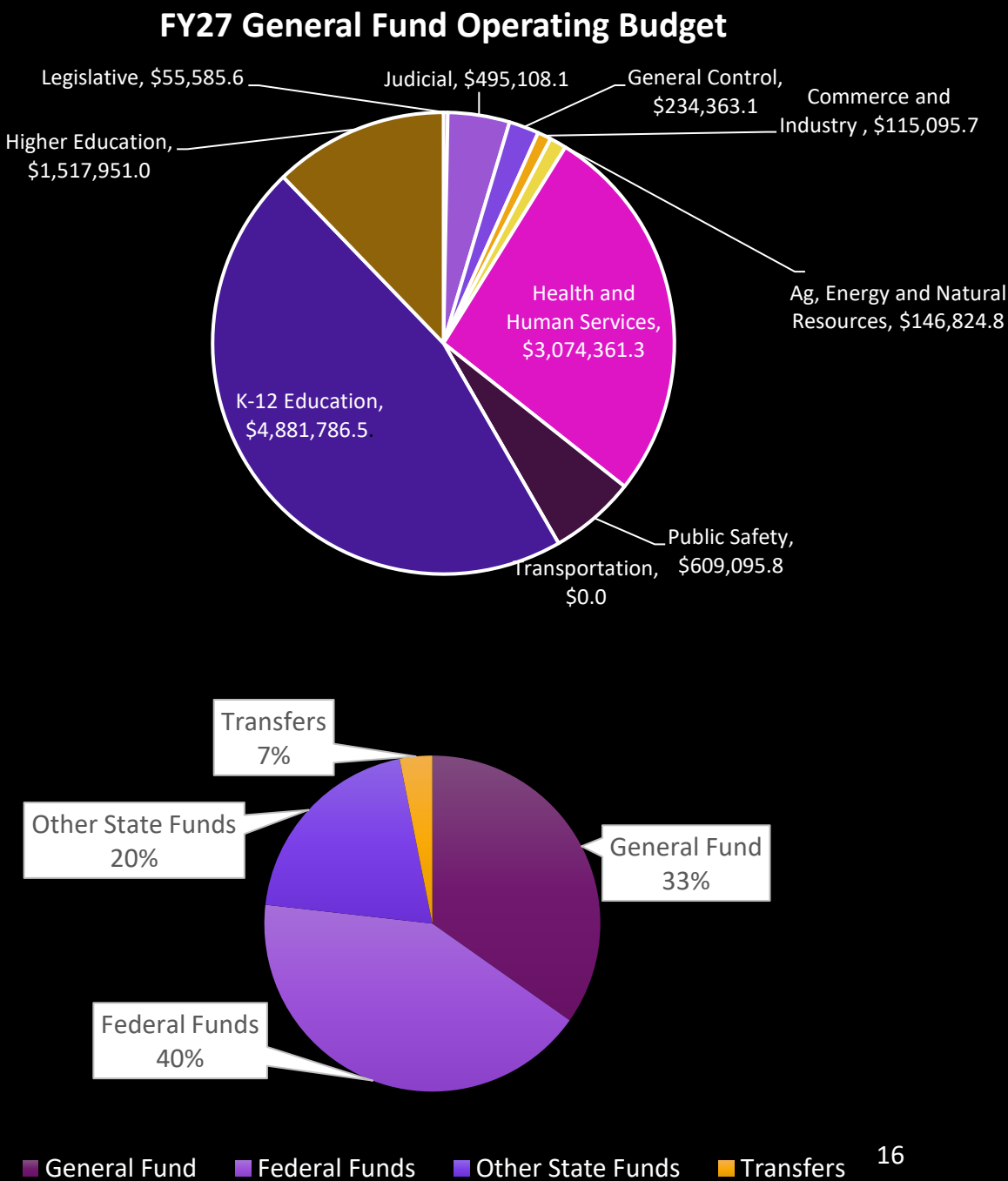
STATE OF NEW MEXICO BUDGET: YEAR-OVER-YEAR COMPARISON
RECURRING GENERAL FUND APPROPRIATIONS



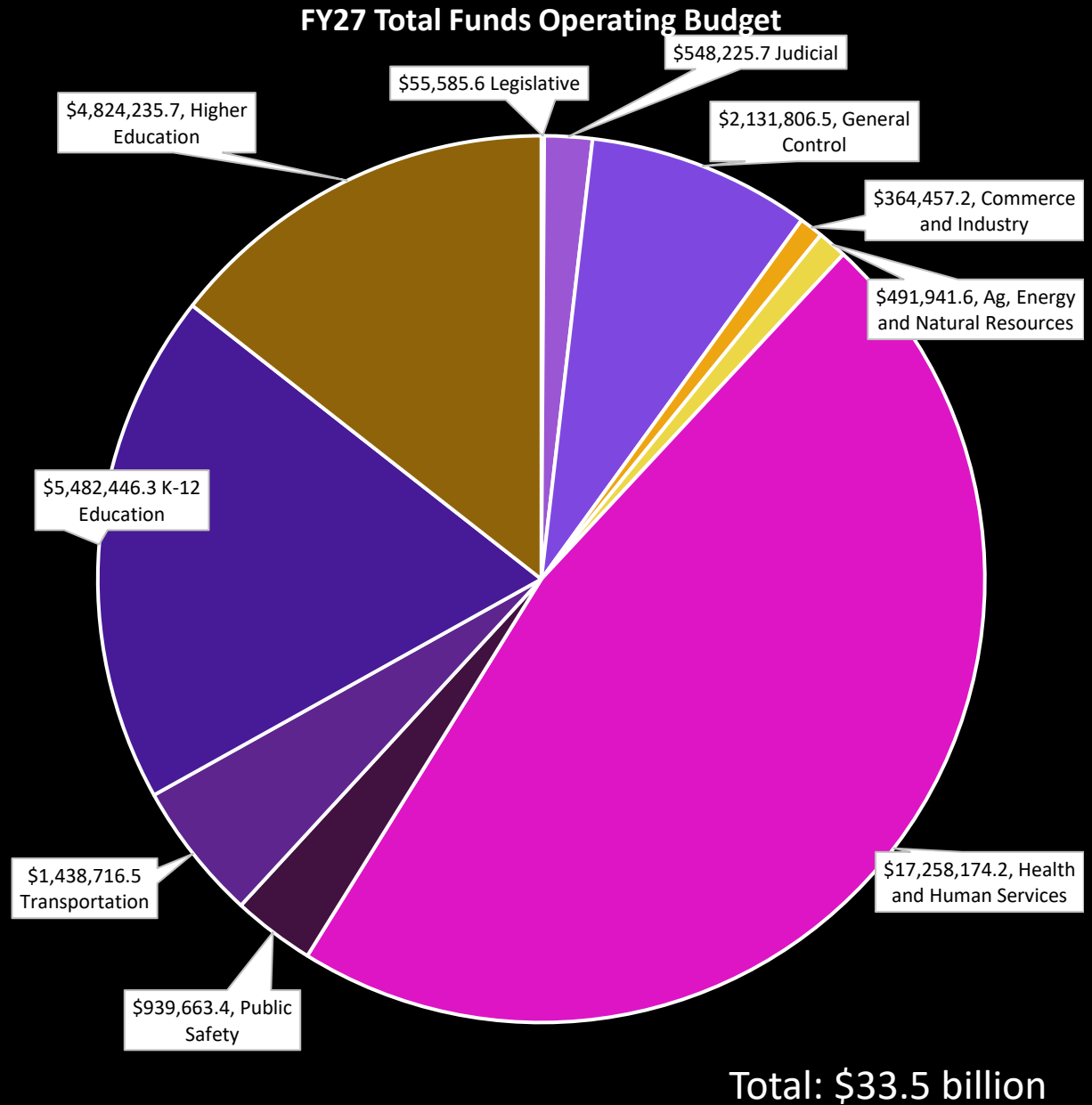
SECTION 5 GAA (HB2)
SPECIAL APPROPRIATIONS BY YEAR
GENERAL FUND



New Mexico FY27 State Operating Budget and Revenue Sources (\$ in thousands)



New Mexico FY27 State Budget Total Funds



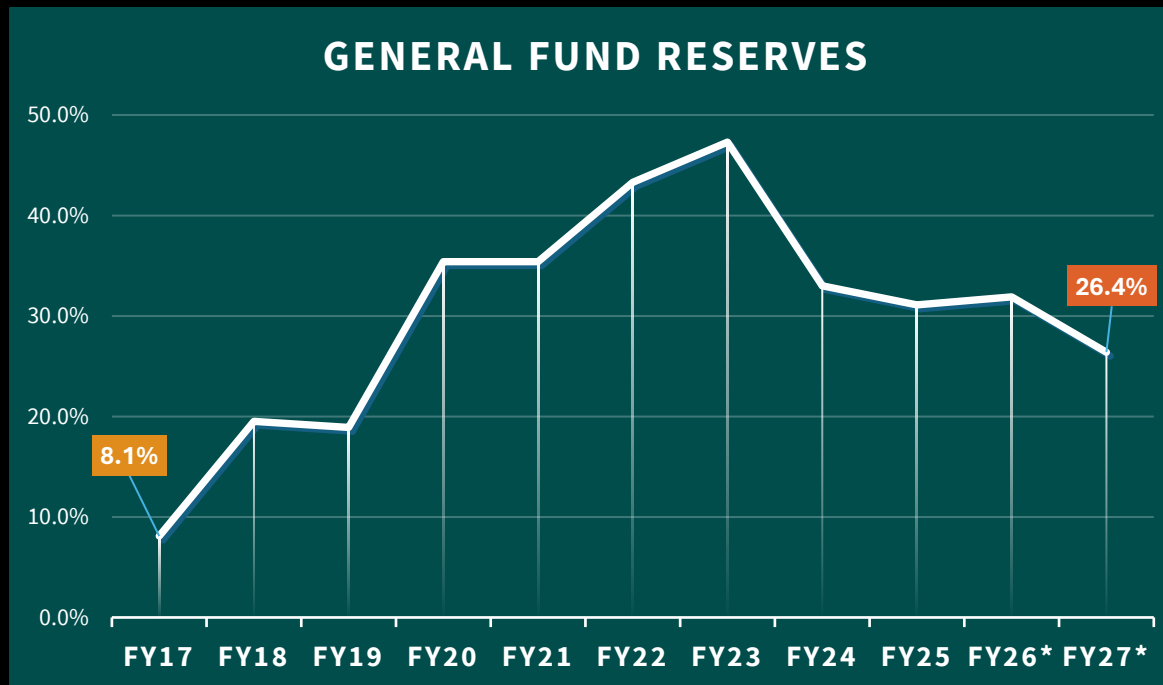
FY27 Revenues vs Expenditures

• FY27 Estimated Recurring GF Revenue	\$13,963.2
• FY27 Recurring GF Appropriations	\$11,165.8
• FY27 Nonrecurring GF Appropriations	\$2,223.2
• FY27 Capital GF Appropriations	\$443.3
• Total Appropriations	\$13,832.4
• Transfer from the Operating Reserve	\$130.8
• Projected ending FY26 General Fund Balance	\$3,454.8
• Projected ending FY27 General Fund Balance	\$2,945.9
• Projected ending FY27 General Fund Reserves	26.4%

Projected FY27 reserves are under 30% due to the legislature removing the Government Results and Opportunity Fund as a reserve fund starting in FY27

GF Reserves and Saving for the Future

- Reserves have steadily grown over the past decade due to increased revenue and setting aside more money into reserve funds, some new
 - Maintaining 25%-30% reserves is advisable due to New Mexico's relatively high reliance on oil and gas revenue
- 2023 SB 26
 - Directs \$8.8 billion in excess oil and gas revenues in FY26-FY30 to the Severance Tax Permanent Fund (STPF) where it will earn interest (expected 5.7% return) and will not be available for appropriation (Dec. 2025 estimate)
 - STPF is expected to grow from \$10.5 billion in 2024 to \$45.6 billion by 2035, reducing NM's reliance on oil and gas revenue



Projected FY27 balances in certain reserve funds

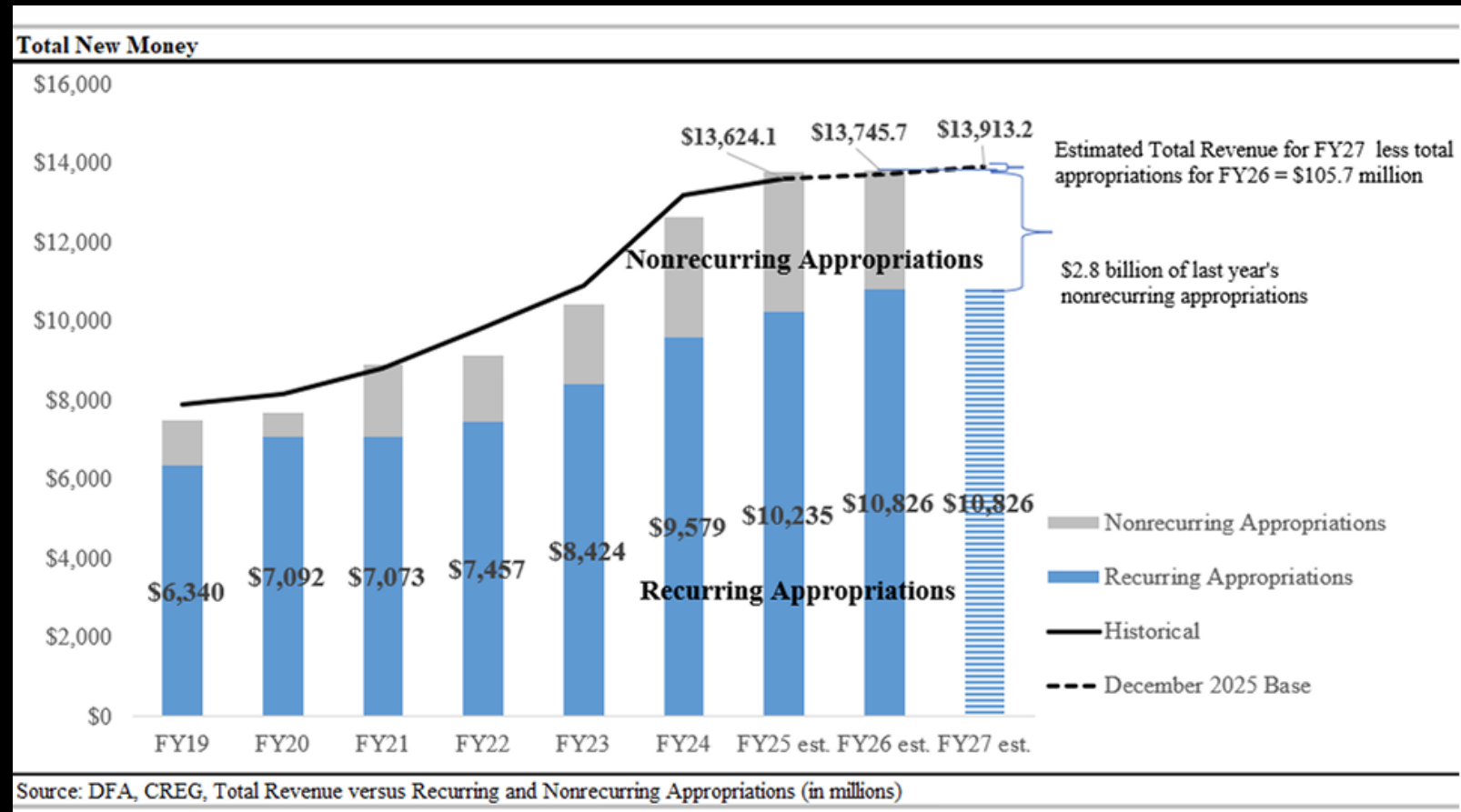
- Tax Stabilization Reserve: \$2.53 billion
- Behavioral Health Trust Fund: \$262 million

Credit Rating Updates

- New Mexico: Moody's upgraded credit rating from Aa2 to Aa1 in January 2026
- United States: Rating downgraded from Aaa to Aa1 in May 2025

“New money” and future forecasts

- “New Money” used to be calculated by subtracting current year recurring appropriations from next year’s total expected GF revenue
- Beginning in FY26 the Consensus Revenue Estimating Group (CREG) took into account the large amounts of nonrecurring appropriations in recent years, effectively reducing projected “total new money”
- General forecast is for modest GF revenue growth in the next few years, but lower than the FY22-FY24 boom years
- New Mexico’s recurring GF budget could survive a fairly significant revenue shock intact – reductions would need to be made to nonrecurring appropriations however
- Next CREG revenue estimate will be in August 2026



Past actions required during times of constraint

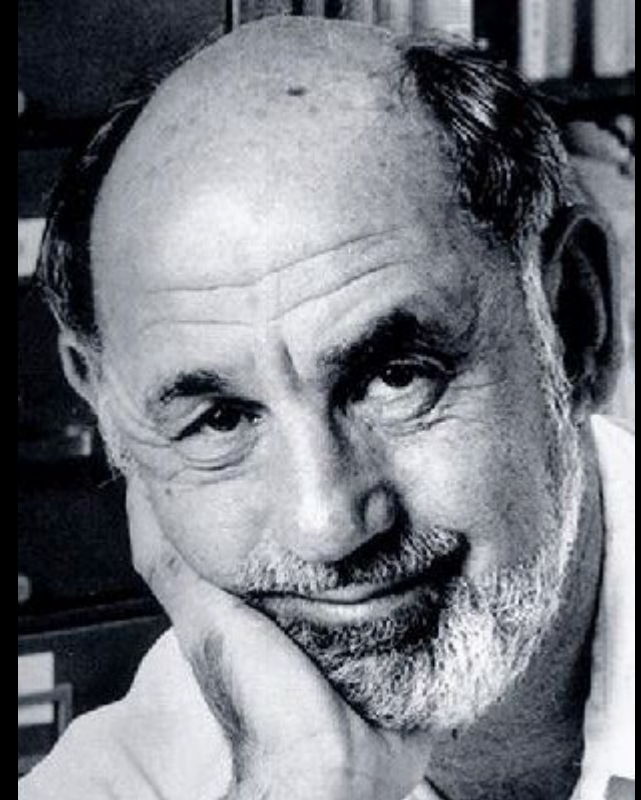
- The last time any of these actions were required was during 2020, during the relatively short-lived covid-induced revenue shock. Before that – 2016/17, Great Recession
- Actions needing legislative approval
 - Across-the-board general fund budget reductions
 - Clawbacks of capital or nonrecurring appropriation balances
 - Sweeping balances of agencies' special revenue funds to transfer to the general fund
 - Repealing statewide salary increases
 - Replacing general fund in the budget with other available revenue sources (federal funds, special revenue, etc.)
- Executive actions
 - Hiring freezes and other HR actions
 - Delaying “optional” expenses to shift budget to required expenses
 - State Budget Division can reduce non-general fund budgets if revenues do not materialize

Factors that will influence future budgets

- FY28 GF revenue forecast will be released in August
 - Price of oil and level of drilling activity. Current market prices indicate a minimum of flat production levels or modest growth in the Permian Basin are expected (complete update in August)
 - Impact of tariffs, war in the Middle East and other current/projected economic conditions – inflation, tourism, labor market, changes in consumer confidence/consumption, GDP trends, etc.
- Impact of federal funding changes
 - Current grant and other funding cuts
 - One Big Beautiful Bill Act implementation (HR1)
 - Medicaid and SNAP changes
 - Increased defense spending? (labs and NM bases)
 - Big decisions: What federal funding reductions can or should be replaced with state funding?
- Long-term funding for universal childcare program (likely through Early Childhood Trust Fund)

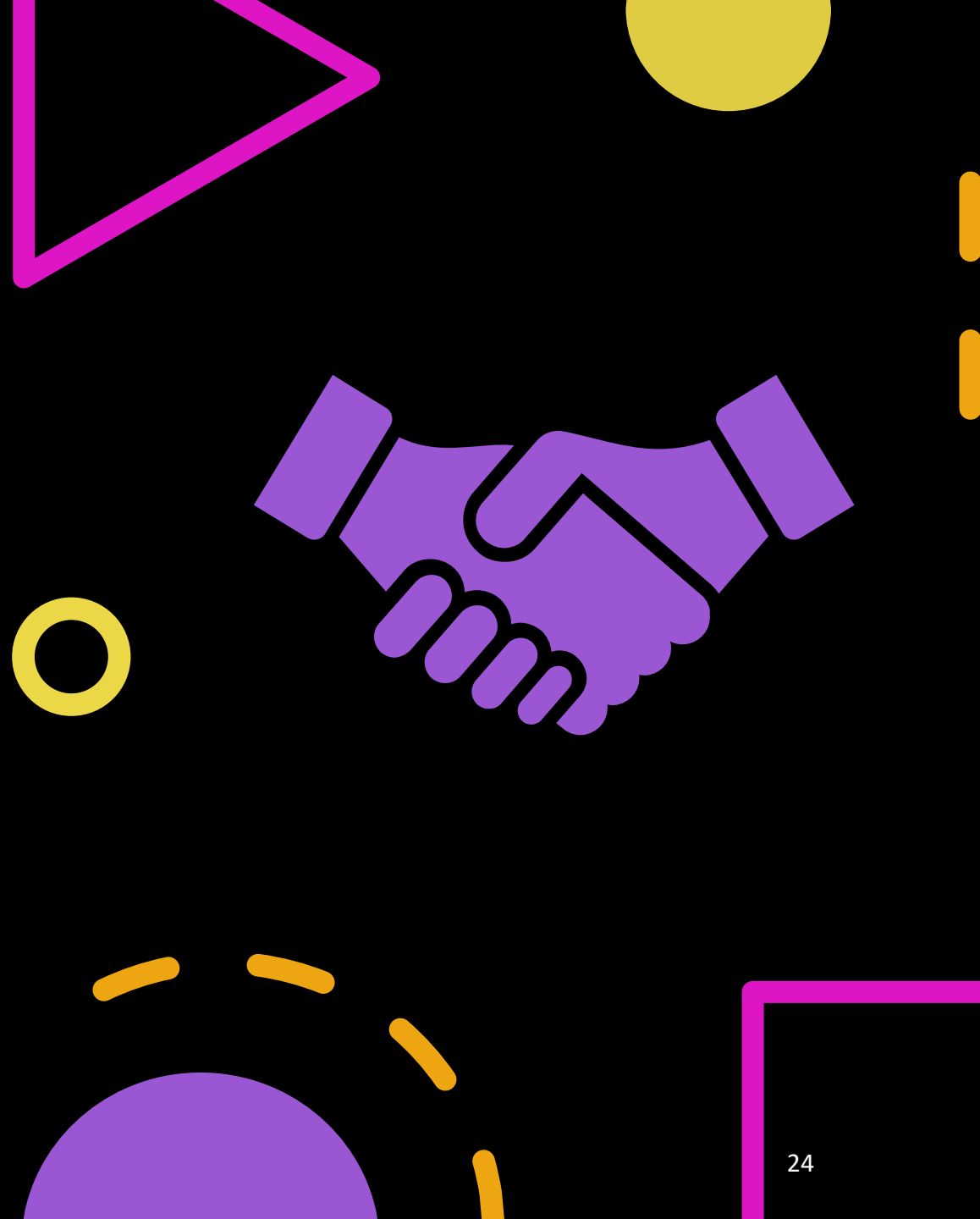
Budgeting Scholarship: Aaron Wildavsky

- *The Politics of the Budgetary Process* (1964)
 - Inseparably connected budgeting with the political system – no longer on the administrative side of the dichotomy
 - Public and policymakers need to be well-informed
 - Realist: compromises in democratic budgeting process spread dissatisfaction to all parties, but better than any alternative
 - Incrementalist: Use prior year's budget as baseline, focus on narrow increases – but enables budgets to evolve over time
- *The New Politics of the Budgetary Process* (1988)
 - Political and budgetary ramifications of the rise of entitlement spending
 - Less emphasis on eliminating budget deficits – inevitable result of values-driven political conflicts



Budgeting Scholarship: Aaron Wildavsky

- Necessity of compromise in budget: accepting the budget you want means accepting the budget of something else you're indifferent or hostile toward
- Agencies' budgetary strategies
 - "Goldilocks" approach: ask for just the right amount of budget increase – not too big, not too small
 - Look for signals from legislators, the executive, their constituencies to determine budget request amount
 - Entitlements opened up the budget to new clientele groups that agencies work with to increase budget
- Clientele (interest/advocacy) groups
 - Anyone affected by a government program. Build networks at all levels to influence government programs
 - Often interact with executive and legislative actors on behalf of agencies
 - More influential if broadly-based, spread across wide geographic area, intensely devoted to their cause (Social Security)
 - Hard to lobby to create entitlements, but their existence is strong incentive to defend them



Components of a Good Budget Request

- Identify and explain the problem that the request is addressing
 - Societal issue? Remedying an externality? Operational inefficiency?
 - Be specific, provide data and evidence demonstrating the problem
 - Compare problems, data and possible solutions with other (relevant) states
- Demonstrating a need
 - Be realistic about what your agency needs, meet the actual demand rather than the perceived demand
 - Does this request address federal or state mandates?
 - Provide history of caseload, expenditure and revenue trends; inflationary costs
 - Carefully review the methodology used to determine the request's cost
 - Tie proposed solution to agency's performance measures – how will they be affected/improved?

Components of a Good Budget Request

- Funding Amounts and Alternatives
 - Are there options for non-general fund revenue?
 - Does the request need to be recurring – can it be nonrecurring or phased-in?
 - Will the new program be fully operational on July 1 of the new FY or should a lower amount be requested for the first year?
 - Remember to be realistic about vacancy rates when requesting PSEB
 - Think about potential hidden or delayed costs that could impact future budgets
- Final Gut Checks
 - Is this problem real, should the government respond, and will it work? Are we duplicating someone else's effort?
 - Is the math right? Do the numbers match the narrative? Is the request in line with historical trends?
 - Should we eliminate nonworking programs to make budgetary room for new ones?
 - How well are we using data and evidence to support this request, from identifying the problem to proposing an effective solution?



Conclusion: Implications for Public Administrators

Role of budget and finance professionals –
You are important, and you're not just a cog!

- Do not operate in a vacuum. Integral part of producing the budget and vital policy. “Show me your budget, and I’ll tell you what you value.” – Joe Biden
- Must fully understand the political world that surrounds them and the myriad factors and forces at work to produce results.
- Balance being properly responsive to will of the electorate while still performing administrative, technical roles of their jobs to the best of their ability
- Americans expect well-run, efficient and generous government services but don’t want to pay much for them – this is the balancing act budget administrators constantly grapple with.

