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## FISCAL IMPACT REPORT

<b>SPONSOR</b> <u>Small/Dixon</u>	<b>LAST UPDATED</b> <u>2/21/25</u>
<b>SHORT TITLE</b> <u>General Appropriation Act of 2025</u>	<b>ORIGINAL DATE</b> <u>2/20/25</u>
	<b>BILL NUMBER</b> <u>CS/House Bills 2 and 3/HAFCS</u>
	<b>ANALYST</b> <u>Courtney</u>

<b>APPROPRIATIONS</b> (dollars in thousands)			
<b>FY25</b>	<b>FY26</b>	<b>Recurring or Nonrecurring</b>	<b>Fund Affected</b>
	\$10,635,751.6	Recurring Section 4	General Fund
	\$136,241.8	Recurring Section 8	General Fund
	\$6,086,928.9	Recurring	Various Other State Funds
	\$1,870,039.5	Recurring	Internal Service Funds/Transfers
	\$14,413,884.4	Recurring	Federal Funds
\$983,862.0	\$2,121,336	Nonrecurring	General Fund
\$124,122.0	\$267,386.0	Nonrecurring	Various Other State Funds
\$40,345.3		Nonrecurring	Internal Service Funds/Transfers
\$105,713.6	\$159,003.2	Nonrecurring	Federal Funds

Note some nonrecurring appropriations including the government results and opportunity fund and the public education reform fund appropriations to be distributed from FY26 through FY28 as indicated in House Bill 2.

### Sources of Information

LFC Files

## SUMMARY

### Synopsis of the HAFCS Substitute for House Bills 2 & 3

The HAFCS substitute for House Bills 2 and 3 (HB2) appropriates money from the general fund, other revenues, internal services funds/interagency transfers, and federal funds for the operation of state agencies, higher education, and public schools.

- Section 1, Short Title
- Section 2, Definitions
- Section 3, General Provisions
- Section 4, Fiscal Year 2026 Appropriations
- Section 5, Special Appropriations
- Section 6, Supplemental and Deficiency Appropriations
- Section 7, Information Technology Appropriations

- Section 8, Compensation Appropriations
- Section 9, Government Results and Opportunity Expendable Trust
- Section 10, Fund Transfers
- Section 11, Special Transportation Appropriations
- Section 12, FY25 Additional BAR Authority
- Section 13, FY26 BAR Authority
- Section 14, Transfer Authority
- Section 15, Severability

There is no effective date of this bill; however, a general appropriation act goes into effect on the signature of the governor.

## FISCAL IMPLICATIONS

The appropriations contained in HB2 are summarized as follows:

<b>HAFCS Substitute for HB 2 &amp; HB 3 - General Appropriation Act of 2025 (in thousands)</b>					
	<b>General Fund</b>	<b>Other State Funds</b>	<b>Internal Service Funds/ Interagency Transfers</b>	<b>Federal Funds</b>	<b>Total</b>
<b>Section 4. Recurring Appropriations</b>					
<i>GENERAL APPROPRIATION ACT:</i>					
A. LEGISLATIVE	\$6,034.7	\$0.0	\$0.0	\$0.0	\$6,034.7
B. JUDICIAL	\$458,419.2	\$31,061.6	\$14,087.3	\$5,108.0	\$508,676.1
C. GENERAL CONTROL	\$210,629.7	\$1,556,742.6	\$169,760.6	\$29,462.8	\$1,966,595.7
D. COMMERCE & INDUSTRY	\$105,643.3	\$129,682.5	\$33,058.5	\$1,940.8	\$270,325.1
E. AGRICULTURE, ENERGY & NATURAL RESOURCES	\$130,823.1	\$146,817.3	\$18,464.6	\$146,885.2	\$442,990.2
F. HEALTH, HOSPITALS & HUMAN SERVICES	\$3,066,524.6	\$1,150,385.1	\$1,532,567.2	\$11,820,508.5	\$17,569,985.4
G. PUBLIC SAFETY	\$569,609.4	\$183,388.8	\$26,790.2	\$308,450.2	\$1,088,238.6
H. TRANSPORTATION	\$0.0	\$713,839.5	\$10,300.0	\$579,513.8	\$1,303,653.3
I. OTHER EDUCATION	\$94,024.6	\$8,475.8	\$8,127.8	\$34,563.5	\$145,191.7
J. HIGHER EDUCATION	\$1,387,568.5	\$2,165,035.7	\$56,883.3	\$907,951.6	\$4,517,439.1
K. PUBLIC SCHOOL SUPPORT	\$4,606,474.5	\$1,500.0	\$0.0	\$579,500.0	\$5,187,474.5
<b>Recurring Grand Total Section 4</b>	<b>\$10,635,751.6</b>	<b>\$6,086,928.9</b>	<b>\$1,870,039.5</b>	<b>\$14,413,884.4</b>	<b>\$33,006,604.4</b>
<b>Sections 5, 6, 7, 8, 9, 10, 11</b>					
Section 5. Special Appropriations	\$1,367,823.2	\$105,431.5	\$850.3	\$45,798.6	\$1,519,903.6
Section 6. Supplemental and Deficiency Appropriations	\$114,691.6	\$2,390.5	\$0.0	\$0.0	\$117,082.1
Section 7. Information Technology Appropriations	\$0.0	\$5,000.0	\$39,495.0	\$59,915.0	\$104,410.0
Section 8. Compensation Appropriations*	\$136,241.8	\$0.0	\$0.0	\$0.0	\$136,241.8
Section 9. Expendable Trust	\$0.0	\$273,686.0	\$0.0	\$159,003.2	\$432,689.2
Section 10. Fund Transfers	\$1,455,683.2	\$5,000.0	\$0.0	\$0.0	\$1,460,683.2
Section 11. Transportation	\$167,000.0	\$0.0	\$0.0	\$0.0	\$167,000.0
<b>Non-Recurring Grand Total</b>	<b>\$3,105,198.0</b>	<b>\$391,508.0</b>	<b>\$40,345.3</b>	<b>\$264,716.8</b>	<b>\$3,801,768.1</b>

\*Note non-recurring grand totals in the above table do not include Section 8 (Compensation Appropriations) as these appropriations are categorized as recurring. Appropriations from the general fund revert to the general fund at the end of FY26, unless otherwise indicated in HB2 or provided by law.

## SIGNIFICANT ISSUES

**Recurring Appropriations.** Appropriations for recurring expenses include Section 4 fiscal year 2026 appropriations and Section 8 compensation appropriations. Recurring appropriations in Section 4 include funding for agency operating budgets with revenue sources including the general fund, other state funds, internal service funds or interagency transfers, and federal funds. Expenditure categories for agencies include personal services and employee benefits, contractual services, other, and other financing uses, terms that are defined in Section 2 of HB2. Each fiscal year agencies typically have statutory budget adjustment authority authorized in Sections 12 and 13 to transfer money between categories and increase revenues, except for the general fund, within limits set by the Legislature.

For FY26, overall recurring appropriations represented in HB2 in Section 4 and Section 8 total just over \$33.1 billion in all revenue sources including recurring funding of \$10.8 billion in Sections 4 and 8 from the general fund, representing a 5.8 percent increase over FY25 operating budgets. Appropriations in Section 8 would provide employees of state agencies and higher education with an average salary increase of 4 percent. Notably, there is also an average 4 percent salary increase for public school employees; however, that funding is built into the public school support budget of Section 4. Section 8 also includes \$1.5 million for the Office of the State Engineer for the personal services and employee benefits category and \$741.5 thousand to the judiciary to provide an additional 2 percent increase to the court employees in lower pay bands. Additionally, Section 8 provides \$17 million for risk premiums and another \$17 million to implement a new single pay plan for classified employees in the executive branch.

**Nonrecurring Appropriations.** House Bill 2 also appropriates a total of \$3.8 billion in nonrecurring appropriations and fund transfers in Sections 5, 6, 7, 9, 10, and 11. Of this amount \$3.1 billion is from the general fund. Nonrecurring appropriations include \$1.37 billion from the general fund for special appropriations (Section 5), \$115 million from the general fund for supplemental and deficiency appropriations (Section 6), \$1.46 billion from the general fund for fund transfers (Section 10), and \$167 million from the general fund for transportation (Section 11). In Section 9, House Bill 2 appropriates \$433 million for three-year pilot projects (FY26 through FY28) with funding from the Government and Results Opportunity Program (GRO) fund, the public education reform fund, and federal funds. Section 9 appropriations relate to House Bill 181 and Senate Bill 201, both endorsed by the Legislative Finance Committee, that would provide LFC, in partnership with other agencies, to better set expectations and examine implementation, accountability and evaluation for three-year pilot projects.

**Education.** HB2 includes \$4.7 billion in recurring general fund appropriations for public education, a 6 percent increase over the FY25 operating budget. Recurring Section 4 appropriations for public schools include funding for a 4 percent average salary increase for school personnel and increases in annual salary minimums for teachers of \$5,000 per license level. The student equalization guarantee, the pool of funds distributed to schools through a funding formula, increases to just over \$4.4 billion from the general fund. Nonrecurring appropriations for public education include nearly half a billion dollars, including \$343 million from the general fund, \$89 million in public education reform funds, and \$68 million in other state funds and inter-agency transfers. Significant initiatives include \$40 million for career and technical education and innovation zones, \$30 million for secondary education reforms, \$20

million for educator fellows initiatives, \$3 million for STEAM initiatives, \$4 million for special education initiatives, and \$30 million for Indian education initiatives, along with \$500 thousand each for the Black Education Act, the Bilingual Multicultural Education Act, and the Hispanic Education Act. Nonrecurring appropriations also include \$6.3 million to support unhoused students, \$1 million for wellness rooms, and \$1.5 million for school panic buttons.

Higher education recurring spending grows by almost 3 percent, or \$36 million, including increases for a 2.5 percent increase in the base funding formula, \$3 million for mental health and student supports, and an increase for raises for graduate student workers. Additionally, HB2 has nonrecurring investments for higher education that include \$40 million for building renewal and replacement, \$20 million to the technology enhancement fund, \$20 million for the health professional loan repayment program, and \$5 million for the teacher loan repayment program.

**Early Childhood and Child Welfare.** The HB2 recurring appropriations for the Early Childhood Education and Care Department (ECECD) for FY26 increase revenue by \$170 million, or 21.6 percent. The overall increase supports a home visiting rate increase, prekindergarten, childcare assistance and tribal language supports. HB2 increases distributions to the department from the early childhood trust fund to \$400 million contingent on legislation.

The HB2 appropriations for the Children, Youth and Families Department (CYFD) budget includes continued targeted investments to address system issues through special appropriations (Section 5) and GRO multi-year pilot funding (Section 9) to address Child Protective Services caseloads, pilot a child welfare training academy, and fund liability insurance premium increases in a way that heightens oversight and accountability. Appropriations include over \$41 million in recurring appropriations to address systemic challenges, including \$29.4 million from the GRO fund (Section 9), and an additional \$7.9 million in matching federal funds for the three-year pilots funded by GRO. In addition, HB2 includes a multiyear, nonrecurring appropriation to recruit, train, and support treatment foster care providers and to establish a child welfare training academy. HB2 also includes nonrecurring appropriations to seek technical assistance related to the recent decline in federal revenue to potentially recover and maximize federal dollars.

**Health.** HB2 appropriates a total of \$15 billion to the Health Care Authority (HCA), representing an additional \$2.8 billion over FY25, a 23.3 percent increase. The appropriations include almost \$2.1 billion in recurring general fund revenues for FY26. The HCA budget supports a range of health and human services programs, including Medicaid. For Medicaid, behavioral health, and developmental disability supports (DD waiver), HB2 increases general fund spending by \$75.4 million, or about 4 percent. HB2 increases for the agency include continuing provider rate adjustments enacted in FY25 for the full fiscal year in FY26, healthcare inflation, enrollment considerations, accommodation of federal Medicaid matching reductions, and new payment rate adjustments for all-inclusive care for the elderly and assisted living facilities. Appropriations for changes in the federal Medicaid matching rate (the federal medical assistance percentage or FMAP) and healthcare inflation for FY26, estimated at about \$40.9 million, are also included. For FY26, HB2 increases the Department of Health (DOH) general fund revenue by \$9.9 million, or 4.9 percent, including a significant increase for state facilities operations and funding for mobile health unit staffing. HB2 increases the Aging and Long-Term Services Department (ALTSD) general fund revenue by almost \$3 million, or 4 percent.

HB2 also includes a number of nonrecurring appropriations to support increased access to behavioral health services, including \$1.7 million from the general fund to the Administrative

Office of the Courts for regional behavioral health planning and sequential intercept mapping of individuals with mental health and substance use disorder movement through the criminal justice system. The nonrecurring appropriations also include \$11.5 million from the general fund to HCA for 24 regional mobile crisis response, \$7.5 million for 24-hour crisis response facilities and associated services, \$28 million from the general fund to HCA for grants to local governments for regional transitional acute care facilities and certified community behavioral health clinics, \$10 million from the general fund to HCA for grants to local and tribal governments for assisted outpatient treatment, medication-assisted treatment, assertive community treatment or other evidence-informed services, and \$11.5 million to HCA for grants to local and tribal governments for mobile crisis and recovery response and intervention and outreach teams. HB2 also includes a number of appropriations to support housing stability, including \$110 million to the Department of Finance and Administration (DFA) for transitional housing and behavioral health supports, \$8.1 million to HCA for start-up costs to build capacity for housing providers, \$5 million to DFA for local governments to support housing encampment response, and \$2 million to DFA for housing projects for senior citizens, \$2 million to the Corrections Department (NMCD) to expand reentry services, including housing opportunities.

**Natural Resources.** HB2 appropriates \$227 million to the Energy, Minerals and Natural Resources Department (EMNRD), reflecting a 19.5 percent, or \$37 million, overall increase. The EMNRD budget includes \$1.24 million for Hot Shot firefighting crews, watershed management, and forest restoration. HB2 recurring appropriations to the Office of the State Engineer (OSE) include an additional \$1.1 million from the general fund, or 3.4 percent over FY25, with an additional \$1.5 million included in Section 8 for salaries and benefits. Appropriations to OSE include funding for the Water Resource Allocation Program's district office lease increase, contract work for implementation of the 50-year water plan, and higher field work costs. HB2 also reflects a reorganization of the Environment Department (NMED), including the creation of a Compliance Enforcement Division, keeping the agency's general fund budget flat at NMED's request. NMED is also appropriated \$50 million for the investigation and remediation of neglected contaminated sites. Nonrecurring appropriations for natural resources in HB2 include multiple investments, many of which support water projects, including \$25 million to OSE for Indian water rights settlement agreements, \$40 million to NMED for the strategic water supply program, and a \$200 million transfer to the water project fund in Section 10 (fund transfers).

**Judiciary and Public Safety.** The Administrative Office of the Courts budget reflects a 5.2 percent overall increase and a 17.6 percent, or \$8.8 million, general fund increase that includes consolidating statewide pretrial services to a single program in AOC's budget. AOC's budget also includes funding for increased interpreter pay and increased personnel funding for pretrial services. District attorney budgets reflect an overall \$4.1 million, or 3.8 percent general fund increase, and the Public Defender Department budget reflects a \$3.2 million, or 4.1 percent general fund increase. There are also nonrecurring appropriations for the judiciary, including \$3 million to the 2nd Judicial District Attorney for the organized crime commission. The Office of the Attorney General budget reflects an overall increase of \$3.7 million or 7.1 percent over FY25, including funding for a pilot project that funds five positions in the Consumer and Civil Rights Division.

The Department of Public Safety's (DPS) budget is \$225.7 million across all funding sources, with an \$8.2 million, or 4.4 percent, increase from the general fund. The DPS budget includes \$5.3 million for fleet improvements, \$1.6 million for step pay increases to prevent salary compaction for New Mexico State Police, \$700 thousand for contractual services and a new

position, and \$500 thousand for recruitment and grant support. The Corrections Department (NMCD) reflects a \$10 million, or 3 percent, increase that includes funding for private prison per-diem rate increases, personnel, and enhanced evidence-based reentry initiatives. Nonrecurring appropriations for justice and public safety include a number of items to improve behavioral health programming in state and community providers, \$5.7 million for state crime laboratories to address backlogged DNA cases, and continued support for information technology projects, including the Intelligence Led Policing project at DPS (Section 7). Section 9 also contains multiyear funding to support those reentering the community from incarceration and for medication-assisted treatment. Additionally, CVRC receives an additional \$500 thousand in recurring funding and \$2 million in non-recurring funding for victims of sexual assault and domestic violence.

**Commerce and Industry.** The Economic Development Department (EDD) recurring budget would grow by over \$1.7 million, or 6.5 percent, compared to FY25, including funding for personnel costs for the Office of Strategy, Science, and Technology. Additionally, HB2 nonrecurring funding to EDD includes multiple appropriations to support entrepreneurship, infrastructure, and site readiness, including \$24 million for site readiness, \$15 million for business accelerators and other entrepreneurship incubators and venture studies, \$10.8 million for talent recruitment and retention in emerging high-tech fields, \$8 million for proposals in advanced energy innovation and commercialization, \$4 million for science and technology business start-up grants, and \$7 million for Local Economic Development Act investments.

HB2 also contains a number of additional nonrecurring appropriations related to improving quality of life and economic development, including \$75 million to DFA for the New Mexico match fund, which provides agencies with the state dollars they need to attract federal and other matching funds. The appropriation also includes \$2 million for capacity building grants, \$50 million to DFA for regional recreation centers and quality of life grants, \$10 million to EDD for the Trails+ program, \$16 million to the Tourism Department for national and international marketing, \$90 million to EDD for trade port grants, and \$50 million to EDD to establish a research, development, and deployment fund.

**Compensation.** Section 8 includes \$100 million for a 4 percent average pay increase for all state and higher education employees, which is categorized as recurring spending. Section 8 also includes \$1.5 million for the Office of the State Engineer for personnel and \$741.5 thousand to the judiciary to provide an additional 2 percent increase to the court employees in lower pay bands. Section 8 appropriations include \$17 million for the General Services Department risk fund and \$17 million to implement recommendations of a statewide staffing study contracted by DFA, LFC, and the State Personnel Office. Additionally, the Section 4 public school support appropriation includes \$135.1 million for a 4 percent average salary increase for school personnel, \$4.4 million to increase the minimum salary of each tier of the teach pay schedule by \$5,000 (Level 1=\$55 thousand, Level 2=\$65 thousand, Level 3=\$75 thousand), and \$2.3 million for a 4 percent average salary increase for school transportation employees.

**General Fund Reserves.** HB2 would leave FY26 general fund reserves at 31.2 percent of recurring appropriations.

## PERFORMANCE IMPLICATIONS

HB2 includes multiple performance measures and performance targets for most agencies as part of the Accountability in Government Act, which is a statutory basis to use performance information to inform budget development and monitor results of spending by agencies on outcomes important to agencies, the executive, the Legislature, and the public.

## **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

State agencies, higher education and public schools will not have the authority to budget or expend money necessary for the operation of government.