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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/1/22

SPONSOR HAFC LAST UPDATED 2/16/22 HB 2/HAFCS/aSFC/CC

SHORT TITLE General Appropriation Act of 2022 SB \_\_\_\_\_

ANALYST Sallee

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY22	FY23		
	\$8,289,636.7	Recurring – Sec. 4	General Fund
	\$152,513.1	Recurring – Sec. 8	General Fund
	\$4,785,863.3	Recurring	Other State Funds
	\$746,523.2	Recurring	Internal Service Funds/Interagency Transfers
	\$10,017,170.7	Recurring	Federal Funds
\$1,853,124.6		Nonrecurring	General Fund
\$406,456.4		Nonrecurring	Other State Funds
\$69,043.7		Nonrecurring	Internal Service Funds/Interagency Transfers
\$283,470.7		Nonrecurring	Federal Funds

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

### SUMMARY

#### Synopsis of Conference Committee Amendment

The conference committee for HB2 struck the Senate Finance Committee amendments and replaced them with five changes. See other substantive issues.

#### Synopsis of SFC Amendment

Senate Finance Committee (SFC) amendment to House Appropriations and Finance Committee Substitute for House Bills 2 and 3 (HB2) amends Sections 4 through 13. See fiscal implications and other substantive issues.

Synopsis of Substitute Bill

House Appropriations and Finance Committee Substitute for House Bills 2 and 3 (HB2) appropriates money from the general fund, other revenue, internal services funds/interagency transfers, and federal funds for the FY23 operation of state agencies, higher education, and public schools.

- Section 1, Short Title
- Section 2, Definitions
- Section 3, General Provisions
- Section 4, FY23 Appropriations
- Section 5, Special Appropriations
- Section 6, Supplemental and Deficiency Appropriations
- Section 7, Information Technology Appropriations
- Section 8, Compensation Appropriations
- Section 9, Transportation Appropriations
- Section 10, Other Special Appropriations
- Section 11, Fund Transfers
- Section 12, Additional FY22 BAR Authority
- Section 13, FY23 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 upon signature of the governor.

**FISCAL IMPLICATIONS**

The appropriations contained in this bill can be summarized as follows:

CC/Final HAFS Substitute for HB 2 & HB 3 - General Appropriations Act					
(Amounts in thousands)	General Fund	Other State Funds	Internal Service Funds/ Interagency Transfers	Federal Funds	Total
Section 4. Recurring Appropriations					
<i>GENERAL APPROPRIATION ACT:</i>					
A. LEGISLATIVE	\$4,563.0	\$0.0	\$0.0	\$0.0	\$4,563.0
B. JUDICIAL	\$348,719.9	\$32,929.8	\$15,247.9	\$5,606.6	\$402,504.2
C. GENERAL CONTROL	\$166,447.6	\$1,626,512.0	\$119,214.4	\$27,670.5	\$1,939,844.5
D. COMMERCE & INDUSTRY	\$77,121.2	\$104,088.9	\$21,374.4	\$1,149.6	\$203,734.1
E. AGRICULTURE, ENERGY & NATURAL RESOURCES	\$90,986.1	\$91,927.6	\$16,736.9	\$44,518.1	\$244,168.7
F. HEALTH, HOSPITALS & HUMAN SERVICES	\$2,301,576.1	\$388,086.6	\$492,214.4	\$8,084,343.5	\$11,266,220.6
G. PUBLIC SAFETY	\$491,536.8	\$117,107.8	\$24,927.1	\$69,915.7	\$703,487.4
H. TRANSPORTATION	\$0.0	\$675,729.0	\$8,300.0	\$521,017.7	\$1,205,046.7
I. OTHER EDUCATION	\$56,713.4	\$73,071.7	\$2,505.7	\$46,063.6	\$178,354.4
J. HIGHER EDUCATION	\$939,050.4	\$1,663,008.6	\$46,002.4	\$730,585.4	\$3,378,646.8
K. PUBLIC SCHOOL SUPPORT	\$3,812,922.2	\$13,401.3	\$0.0	\$486,300.0	\$4,312,623.5
Recurring Grand Total Section 4	\$8,289,636.7	\$4,785,863.3	\$746,523.2	\$10,017,170.7	\$23,839,193.9
Sections 5, 6, 7, 8, 9, 10 & 11					
Section 5. Special Appropriations	\$280,594.5	\$297,934.8	\$4,986.9	\$750.0	\$584,266.2
Section 6. Supplemental and Deficiency Appropriations	\$9,324.6	\$24,409.0	\$0.0	\$60,615.5	\$94,349.1
Section 7. Information Technology Appropriations	\$0.0	\$4,112.6	\$64,056.8	\$78,505.2	\$146,674.6
Section 8. Compensation Appropriations	\$184,072.5	\$0.0	\$0.0	\$0.0	\$184,072.5
Section 9. Road Appropriations	\$373,500.0	\$0.0	\$0.0	\$0.0	\$373,500.0
Section 10. Other Special Appropriations	\$803,132.3	\$80,000.0	\$0.0	\$143,600.0	\$1,026,732.3
Section 11. Fund Transfers	\$235,000.0	\$25,000.0	\$0.0	\$0.0	\$260,000.0
Nonrecurring Grand Total	\$1,885,623.9	\$431,456.4	\$69,043.7	\$283,470.7	\$2,669,594.7

Appropriations from the general fund revert to the general fund at the end of FY23, unless otherwise indicated in the bill or provided by law.

**OTHER SUBSTANTIVE ISSUES**

The conference committee for HB2 made the following changes to nonrecurring sections of the bill: increase funding by \$1 million for operations of the cannabis program at the Regulation and Licensing Department from the mortgage regulatory fund; \$500 thousand to the Crime Victims Reparation Commission for law enforcement-based advocates for victims of gun violence and violent crime; \$5 million increase for executive agency compensation increases; \$75 million decrease to the hydrogen hub appropriation and change of purpose to public private partnerships; and removal of language making law enforcement recruitment and retention stipends dependent on SB231. The changes would increase reserves, up from the Senate Finance Committee amendment.

The Senate Finance Committee (SFC) amendment to HB2 makes recurring general fund appropriations for FY23 of \$8.48 billion, up 13.9 percent from FY22, when combined with HB1 and the supplemental GAA. The amendment itself appropriates \$8.28 billion in recurring appropriations and \$1.92 billion nonrecurring appropriations from the general fund. The amendment increases recurring spending by \$11.1 million above the House version, including \$3.5 million for further judges salary increases, an increase of \$500 thousand for domestic violence services at CYFD, \$500 thousand for outdoor classrooms, \$1.5 million each at NMSU

and UNM for athletics, \$1 million for ENMU instruction, and \$4 million above the House version for the executive agency compensation plan. The amendment adds \$1 million recurring and \$1 million nonrecurring for sexual assault victim services.

The SFC amendment adds \$141.6 million in nonrecurring appropriations to the House version. The SFC amendment increases the appropriation for evidence-based criminal justice initiatives by \$42 million to \$67 million total by adding funding for law enforcement recruitment and retention stipends, and adds another \$25 million for a total of \$50 million for LEDA grants. The amendment adds \$10 million each to the housing trust fund and housing for homeless individuals, adds \$16 million for a total of \$24 million for the executive's food initiatives, moves \$10 million from the lottery scholarship appropriation to the opportunity scholarship for free college tuition at community colleges, and funds \$15 million for NMSU and UNM to upgrade to schools of public health. The amendment also adds \$27 million to various transportation projects. The amendment to HB2 leaves approximately \$400 million for tax-related initiatives. The rest of this narrative refers to the amendment to HB2 as HB2.

**Public Education.** HB2 includes \$3.87 billion for public schools, a \$424.9 million, or 12.3 percent, increase from the prior year. The substitute raises minimum salaries for level 1, 2, and 3 teachers and principals to \$50 thousand, \$60 thousand, and \$70 thousand, respectively. HB2 further provides an average 7 percent salary increase for all school personnel or an average 10 percent salary increase for all personnel in schools that participate in K-5 Plus or extended learning time programs. HB2 includes sufficient funding to pay all school employees at least \$15 per hour and targets pay for hard-to-staff positions. HB2 also increases recurring appropriations for school transportation, Indian education fund allocations, early literacy initiatives, and at-risk student interventions.

**Higher Education.** HB2 boosts instruction and general funding for higher education by \$28 million or 3 percent with no base budget reallocation. HB2 includes a \$12 million recurring appropriation and \$63 million nonrecurring appropriations to expand executive initiatives for opportunity scholarships, in effect free tuition. The higher education initiatives include project ECHO, equalization of funding for regional colleges and expanding nurse practitioner slots at UNM. Section 5 and 10 of HB2 include significant investments in university endowments, nurse education, technology research development and social work programs. HB2 also fully funds lottery tuition scholarships for four years. The amendment adds \$5 million to endow positions in Native American studies programs at UNM, and funded comprehensive financial aid programs, including covering cost of attendance, for students to obtain teaching or nursing degrees for free at selected institutions. The financial aid funding should provide more certainty over the cost for students to obtain degrees in New Mexico for at least the next four years, with no tuition costs and significant aid for fees, room, and board at four year institutions for traditional students moving from high school to college. The amendment provides for free community college for those same students and adults returning to upskill through the opportunity scholarship which has \$63 million through FY25 in nonrecurring revenue and \$12 million recurring. Combined the opportunity scholarship will be able to award almost \$100 million over the next three years to provide free tuition and provide other assistance to students for up to 60 credits, enough to obtain an associates degree or in-demand work certificate.

The endowments for expanding teaching faculty total \$130 million for nursing, teaching, and social work programs at institutions of higher education. The bill contains a maintenance of effort requirement to ensure the faculty positions result in a net increase of programs' capacity to

educate and graduate students in high demand fields or areas with worker shortages. The endowments are fully funded and do not require institutional matching funds. As a result, institutions will be able to add faculty lines with those positions funded in perpetuity. Expanding the teaching capacity of the programs will generate additional tuition revenue to the extent the programs attract new students. The bill contains another \$5 million, with match requirements, for other types of faculty through the traditional higher education endowment fund.

Finally, Section 10 of the amendment funds operating costs through FY24 to expand public health programs at UNM (\$10 million) and NMSU (\$5 million) to become fully accredited schools of public health. Each will need to add faculty positions to meet accreditation standards and create doctoral programs to move from a public health program to a school of public health. The funding will about double each program's teaching capacity, with the expectation of significantly increasing the number of students graduating with public health degrees.

**Health and Human Services.** The budget includes \$1.3 billion in general fund revenue for Medicaid. The state's Medicaid Program includes \$28 million in state funds for hospital and nursing home labor costs in response to the Covid-19 crisis, another \$11 million in FY23 to increase hospital provider rates, \$14.4 million to provide postpartum healthcare for a year after delivery, and \$4.2 million to help boost the healthcare workforce, including in rural areas. The budget includes additional support for behavioral health, including \$20 million to develop providers, including start-up costs, to implement Medicaid evidence-based behavioral health services for adults and children and child welfare services, \$4 million for the 988 Crisis Now hotline, and \$1.3 million for non-Medicaid behavioral health provider rates. The Human Services budget also includes \$10 million to provide assistance to low-income state residents of up to \$750 per household, \$1.7 million to directly pay child support families for Temporary Assistance for Needy Families (TANF) recoveries, \$1.8 million for a TANF cash bonus assistance, and \$8.5 million for the Supplemental Nutrition Assistance Program's settlement payment of the federal overpayment claim. Overall the Human Services Department's budget for FY23, including federal funds, totals to \$9.2 billion.

General fund appropriations increased \$27.6 million, or 8.7 percent, to the Department of Health (DOH). Significant increases include \$750 thousand for a Naloxone substance use disorder treatment program, \$1.7 million for violence intervention, \$300 thousand for the office of gun violence prevention, \$700 thousand for suicide prevention, \$17.9 million for DD waiver provider rates and eliminating the wait list, and \$4.3 million for state hospitals and long-term care facilities administered by DOH. The SFC amendment reappropriates an estimated \$120 million in freed up revenue as a result of a 10 percent increase in home and community based Medicaid matching rates included in the American Rescue Plan Act. The freed up revenue will be rematched with federal funds for over \$750 million in funding through FY25 to eliminate the DD waiver waiting list and provider pandemic assistance payments, including other activities to strengthen the system of services. Any savings in general fund revenue have to be reinvested. Additionally, HB2 increased youth suicide prevention funding by \$2.4 million from the early childhood education and care fund contingent on legislation increasing the fund distribution.

FY23 appropriations for CYFD are \$16.6 million, or a 7.8 percent increase over the FY22 operating budget. The budget prioritizes evidence based services such as early intervention, intensive case management, functional family therapy, multisystemic therapy, wraparound services, and extended foster care and supportive housing for those aging out of foster care. In conjunction with the adopted 7 percent statewide salary adjustment, the budget would improve

recruitment and retention, reduce caseloads, and sufficiently fill 43 vacant positions in the Protective Services Program. The budget also includes recurring funding to meet the needs of the Kevin S. lawsuit settlement.

**Early Childhood.** Appropriations to the Early Childhood Education and Care Department increase distributions from the early childhood education and care fund by \$15.3 million. Significant increases included \$2 million for home visiting, \$1.4 million for tribal early childhood services, \$10.6 million for prekindergarten, of which \$5.3 million is contingent on legislation increasing the fund distribution, and \$1 million for workforce supports such as scholarships and wage supplements.

**Judiciary & Public Safety.** HB2 implements a system to improve public safety that prioritizes treatment and violence prevention over punishing low-level offenders, supports improved policing to ensure swift and certain justice for serious violent crime, and effectively addresses the needs of victims and communities who have suffered from the failures of the existing criminal justice system.

Within the Department of Public Safety, HB2 provides a 11.2 percent increase in recurring general fund revenue and aims to improve policing with raises of almost 16 percent for state police officers, targeted pay increases for other positions key to addressing and reducing violent crime, and almost \$700 thousand for the Law Enforcement Academy Board, which oversees officer training, certification, and misconduct allegations for all law enforcement officers statewide. Within the Corrections Department, HB2 keeps the recurring general fund appropriation essentially flat with FY22, but an inmate population decline of almost 7 percent over the past year allows the prioritization of treatment over punishment through reinvestment of \$2.1 million in prison cost savings into evidence-based recidivism reduction programming and transitional housing for offenders reentering the community. The appropriations to the Crime Victims Reparation Commission to fund services for victims of sexual assault are increased by \$3.6 million (including \$1.3 million from the general fund) to more effectively address these victims' needs and close gaps in the existing system.

The amendment for courts included a 30 percent raise for judges. The compensation recommendations for an additional 2 percent increase for judicial employees are in addition to a 7 percent increase contained in Section 8 of the bill. Overall, HB2 has an increase of \$9.2 million, or 4.9 percent from the FY22 operating budget. For District Attorneys, HB2 includes a 3 percent salary increase for attorneys in all districts in addition to 3.5 percent for attorneys in rural areas, and 10 percent for elected District Attorneys. Overall, the amendment includes a \$5.1 million, or 6.3 percent increase over FY22.

**Economic Development.** The Economic Development Department's FY23 operating budget includes about \$2.6 million more general fund revenue, or an 18.9 percent increase over FY22. The budget addresses the agency's top priorities, such as adding an additional \$1 million in recurring job training incentive program (JTIP) funding, filling vacancies in the film department, creating a justice, equity, diversity, and inclusion office and expanding the number of regional representatives available to local communities. In addition to the operating budget increase, the bill includes \$50 million in nonrecurring funding for the local economic development act fund (LEDA) and \$70 million for business space development. EDD also received \$10 million in nonrecurring funding during the 2021 second legislative session for outdoor recreation.

The Tourism Department received a 15 percent general fund revenue increase over the FY22 operating budget, including \$1.8 million in recurring marketing money. The budget also supports top agency priorities such as ecommerce expansion and increased event production contracts. In addition to the recurring budget increases, the Legislature appropriated \$15 million in nonrecurring funding to the department during the second special session of 2021 for marketing and tourism revitalization, and the amendment adds another \$5 million for FY23 marketing and local events promotional activities.

**Natural Resources.** The Energy, Minerals and Natural Resources Department received a \$2.9 million, or 12 percent, general fund increase, largely for new positions in the Oil Conservation Division, Program Support, the State Forestry Division, and the Energy Conservation and Management Division. The increase will also support vacancy reduction, work on emissions reduction planning and grid modernization, seasonal State Parks employees, and park maintenance and repairs. The State Engineer received a general fund increase of \$4.3 million, or 21 percent, primarily to replace revenue from the irrigation works construction fund and the improvement of the Rio Grande income fund, and to hire staff. The Environment Department received a \$2.5 million, or 16 percent general fund increase, the majority of which is allocated for two expansion items: a new Climate Change Bureau and the addition of staff to the current hemp program to create a Cannabis and Hemp Bureau. Other significant increases include federal grant match for watershed and wetland restoration, new FTE for drinking, surface, and ground water programs, and recruitment and retention.

**Compensation.** HB2 appropriates \$139.8 million to provide a 7 percent average salary increase to employees of the Legislative, Judicial, and Executive branches and to Higher Education institutions. A non-recurring 3 percent across the board salary increase, including for public schools, is included in Section 8 of the bill to be given during the fourth quarter of FY22. The bill then provides for an additional amount for an average 4 percent raise for FY23, with the cost of the full 7 percent built into the recurring appropriation. The full cost for schools for FY23 is built into the State Equalization Guarantee (SEG) – see below. The SFC amendment and conference committee amendment adds \$9 million to state agency compensation to ensure professional employees receive an average of 7 percent raise under the executive agency compensation plan. The bill includes funding in agency base budgets in Section 4 for additional increases above 7 percent for targeted positions, such as State Police who will receive an average 16 percent increase. The bill also provides funding to allow for a 2 percent increase in employer contributions to ERB in FY23, with 1 percent per statute and another 1 percent contingent on enactment of legislation further increasing the employer contribution rate.

For public schools, HB2 includes \$180.3 million to provide a 7 percent salary increase for all employees, \$76.8 million to increase teacher level salaries, and \$64 million to provide an additional 3 percent salary increase for employees at K-5 Plus or extended learning time schools.

The appropriations include sufficient funding to provide a base salary of at least \$15/per hour to all public employees.

**Special & Supplemental Appropriations.** Special, supplemental, and deficiency appropriations total \$597.3 million, of which \$259.9 million is from the general fund. General fund appropriations include \$10 million to the Energy, Minerals and Natural Resources Department for a community energy efficiency program in underserved communities, \$5 million to the

Department of Public Safety for law enforcement retention stipends, \$50 million general fund revenue for traditional LEDA projects, \$8 million for building renewal and replacement at higher education institutions, \$1.7 million general fund revenue for cybersecurity at higher education institutions.

**Other Special Appropriations and Fund Transfers.** HB2 appropriations of federal American Rescue Plan Act (ARPA) funds to assist in the state’s pandemic recovery in the areas of economic recovery, education and workforce development, healthcare, workforce, transportation and infrastructure, and natural resource protection. Addressing the tight labor market, the bill invests in endowed faculty positions for nurses, teachers and social workers, further endows the lottery tuition and opportunity scholarship funds, and provides for greater work-study financial aid to assist students with the cost of attendance.

For infrastructure upgrades, the amendment increased Department of Transportation (DOT) appropriations by \$37 million, including an additional \$30 million for major road projects and maintenance totaling \$247.5 million for road projects statewide including the Interstate 40 corridor in Cibola and McKinley Counties, a new road in Santa Teresa in Dona Ana County, and upgrading Cerrillos road in Santa Fe. The amendment added other projects, including Isleta blvd in Bernalillo County and an interchange in Valencia County, along with general maintenance of state roads. Other DOT appropriations would improve local roads, upgrade rest stops, purchase road equipment, and further upgrade airports and the amendment adds additional funding for rural air service and corridors for wildlife to pass safely through state roads. Transportation projects total \$373.5 million in the amendment.