STATE OF NEW MEXICO

REPORT OF THE LEGISLATIVE FINANCE COMMITTEE TO THE FORTY-SEVENTH LEGISLATURE SECOND SESSION

JANUARY 2006
FOR FISCAL YEAR 2006 - 2007

VOLUME I

LEGISLATING FOR RESULTS:
POLICY AND PERFORMANCE ANALYSIS

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January 17, 2006

Honorable Members
Forty-Seventh Legislature, Second Session
State Capitol
Santa Fe, New Mexico 87501

Dear Fellow Legislators,

Pursuant to Section 2-5-4 NMSA 1978, the FY07 budget recommendation of the Legislative Finance Committee is provided to you. The committee recommendation for recurring appropriations from the general fund is $5.1 billion, a 8.2 percent increase over the FY06 operating budget. In anticipation of slowing revenue growth, the budget recommendation emphasizes existing commitments over new initiatives, with particular attention to ongoing implementation of numerous public school reforms.

Approximately half of the $404 million in new spending in the recommendation is directed to public schools and includes full funding for the fine arts education program for elementary schools, the fourth year of the five-year phase in of the three-tiered teacher ladder, and a combination of salary and other benefit increases that translate into an average 6 percent compensation increase for all public school employees. Teaching assistants would receive an additional 5 percent increase.

In addition, the committee recommends the same compensation package for higher education employees, average salary increases of 5 percent for state employees with additional increases for state police officers, motor transportation officers, probation and parole officers, and judges, and significant increases for Medicaid and the Corrections and Children, Youth and Families departments.

The recommended level of recurring spending sets aside $125 million in recurring revenues for FY08, when revenue growth is expected to slow dramatically, and leaves $40 million for projects proposed during the legislative session.

I would like to thank the membership of the Legislative Finance Committee for their long hours and dedicated service on behalf of the people of New Mexico. Together, we have prepared a responsible budget that addresses our state's many critical needs.

Sincerely,

Lo "Lucky" Varela

Representative Luciano "Lucky" Varela
Chairman

Contents

Summary of Recommendations and Highlights 1

Economic Forecast 10

Policy and Performance
- Policy Analysis: Public Education 18
  - Performance: Public Education 27
- Policy Analysis: Higher Education 29
  - Performance: Higher Education 37
- Policy Analysis: Health Care 39
  - Performance: Health Care 47
    - Aging and Long-Term Services Department 47
    - Medical Assistance Division 48
    - Department of Health 49
- Policy Analysis: Workforce Development 51
  - Performance: Workforce Development 54
    - Labor Department 54
    - Office of Workforce Training and Development 54
    - Income Support Division 54
- Policy Analysis: Social Services 55
  - Performance: Social Services 66
    - Children, Youth and Families Department 66
    - Child Support Enforcement Division 68
- Policy Analysis: Natural Resources 69
  - Performance: Natural Resources 78
    - Energy, Minerals and Natural Resources Department 78
    - State Engineer 79
    - Department of Environment 79
- Policy Analysis: Transportation 81
  - Performance: Transportation 88
- Policy Analysis: Public Safety 89
  - Performance: Public Safety 94
    - Corrections Department 94
    - Department of Public Safety 94
- Policy Analysis: Economic Development 96
  - Performance: Economic Development 100
    - Economic Development Department 100
    - Tourism Department 100

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VOLUME I
LEGISLATING FOR RESULTS: POLICY AND PERFORMANCE ANALYSIS

JANUARY 2006
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REPRESENTATIVE
LUCIANO “LUCKY” VARELA
CHAIRMAN

SENATOR JOSEPH A. FIDEL
VICE CHAIRMAN

DAVID ABBEY
DIRECTOR

Contents

Policy Analysis: Taxation and Revenue 101
Performance: Taxation and Revenue 104

Policy Analysis : Pensions and Investments 106

Policy Analysis : Internal Services 112

Policy Analysis: Budget Adjustment Requests 115

Policy Analysis : Public Employee Compensation 116

Policy Analysis : Capital Outlay 123

Policy Analysis: Information Technology 135

Special, Deficiency and Supplementals 137

Accountability in Government 139

Performance Audit Activity 142

Table 1: General Fund Agency Recommendation Summary 148

Table 2: U. S. and New Mexico Economic Indicators 152

Table 3: General Fund Consensus Revenue Estimates 153

Table 4: General Fund Financial Summary 154
General Fund Reserve Detail 155

Table 5: Public Employee Compensation FY07..........156

Table 6: Special, Supplemental and Deficiency Appropriation Requests 158

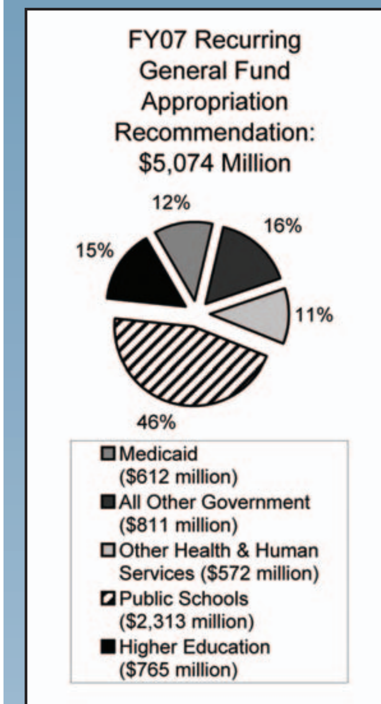
Table 7: Information Technology Requests 163

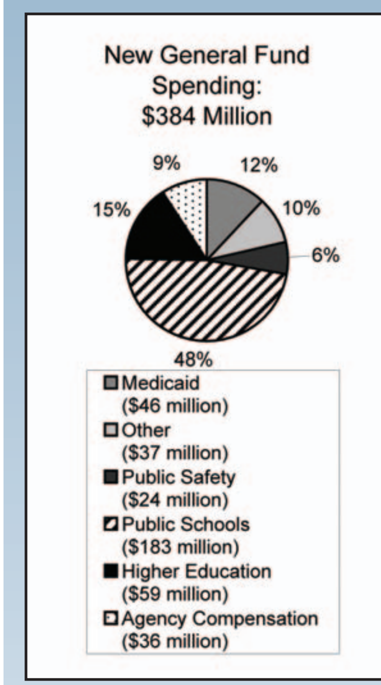
Summary of Recommendations and Highlights

The Legislative Finance Committee (LFC) fiscal year 2007 budget recommendation emphasizes the adequate funding of existing programs instead of expansion or initiation of new programs. In developing the FY07 recommendations, the committee prioritized education, health care, public safety, and public employee compensation. The recommended $5.1 billion general fund budget is an 8.2 percent increase, including $40 million for additional recurring spending proposals during the 2006 legislative session and leaving another $125 million in recurring revenues to carry over to FY08. Nearly half of the $404 million in new spending, or $183 million, is for public schools. (The new spending increase is based on FY06 recurring appropriations which are $18 million higher than the operating budget set by Department of Finance and Administration - See pages 2 and 3 for details.) Most of the balance of the new money would go to higher education, Medicaid and the Corrections and Children, Youth and Families departments. Over $8 million would be used to replace a reduction in federal funds from drug courts, federal Reed Act, and programs for foster and adoptive children.

Although the state is anticipating a revenue windfall in FY07 with recurring revenues coming in $528 million over FY06 recurring expenses, the recommendation recognizes the slowdown in revenue growth expected in FY08. The revenue forecast for FY08 indicates general fund revenue growth at 0.8 percent, thus the committee recommends $125 million in recurring revenues carry over to FY08 which would allow for at least 3 percent spending growth.

Total education spending, both public schools and higher education, is recommended to increase by $242 million. The recommendation also includes $33 million to increase salaries and benefits for state employees by an average of 5 percent, with the highest increase aimed at employees at the low-end of the salary ranges. Additional pay increases are recommended to improve the pay schedules up to 5 percent more for state police officers, motor transportation officers, probation and parole officers, and judges. The LFC recommendation increases general fund spending for Medicaid by about $46 million, or about 8 percent. About $4 million of the increase would cover enrollment growth expected to result from the executive's return to allowing Medicaid clients to re-apply every 12 months. A six-month recertification requirement in place for about a year resulted in enrollment reductions. The recommendation also provides $5 million to increase the reimbursement rats for doctors and others serving Medicaid patients. The Corrections Department would receive a significant increase of $19 million, or 9 percent over the FY06 spending level. The additional spending is to cover inmate population growth and to hire 16 new probation and parole officers. The recommendation for the Children, Youth and Families Department is a $14 million, or 9 percent, increase over FY06. Almost $5 million of the increase will replace federal funds cut from the foster care program. The new





spending would also go to growth in the foster care caseload and foster family subsidy, efforts to place children in permanent homes more quickly, and intervention, community, and vocational programs for juvenile offenders. The committee also recommends $8 million for pre-kindergarten and $6.5 million to reduce the waiting list for community services for the elderly and developmentally disabled, both Medicaid programs. Finally, the LFC recommendation leaves $1.16 billion of reserve balances in the general fund at the end of FY07, an amount equal to 23 percent of recurring spending.

Fiscal Year 2007 Appropriation Recommendation. The committee recommendation for recurring appropriations from the general fund totals $5.1 billion, a 8.2 percent increase over the FY06 operating budget level (this excludes the $40 million set aside for additional spending proposals.)

FY07 General Fund Recommendation Compared with FY06 Operating Budget

(Dollars in Thousands)

Category	FY06 Operating Budget	FY07 Requests	FY07 Recomm	Dollar Change	Percent Change
Legislative	16,113.4	16,811.7	16,811.7	698.3	4.3%
Judicial	161,488.3	180,945.0	166,286.7	4,798.4	3.0%
General Control	150,216.3	171,048.0	155,097.0	4,880.7	3.2%
Commerce & Industry	46,657.3	52,098.6	47,800.5	1,143.2	2.5%
Energy, Agriculture & Natural Res	68,769.0	74,131.2	70,667.3	1,898.3	2.8%
Health, Hospitals & Human Svcs	1,115,165.3	1,181,866.3	1,184,099.5	68,934.2	6.2%
Public Safety	295,101.2	317,951.3	318,995.9	23,894.7	8.1%
Transportation	–	-	-		0.0%
Other Education	10,700.3	31,990.0	28,505.0	17,804.7	166.4%
Higher Education *	706,440.2	36,853.4	765,255.7	58,815.5	8.3%
Public Education	2,118,958.0	2,313,790.9	2,284,316.1	165,358.1	7.8%
State Employee Compensation		-	33,111.3	33,111.3	0.0%
Special Compensation			2,575.3	2,575.3	0.0%
TOTAL	4,689,609.3	4,377,486.4	5,073,522.0	383,912.7	8.2%

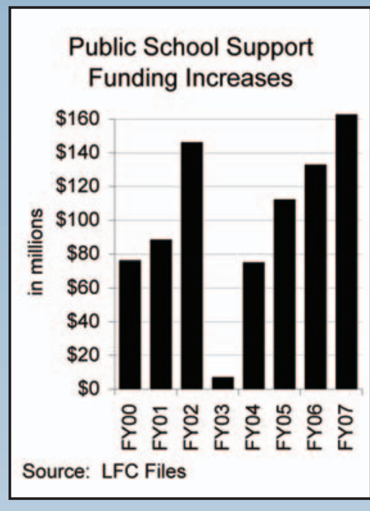
* Note: LFC did not receive a comprehensive budget request for higher education institutions from the Department of Higher Education

After the 2005 legislative session, LFC classified $28.4 million of Laws 2005, Chapter 34 (Senate Bill 190), as recurring appropriations as indicated in the 2005 Post-Session Fiscal Review, general fund financial summary report. Subsequent to the annual submission of operating budgets on May 1, the Department of Finance and Administration (DFA) classified only $10.7 million of Laws 2005, Chapter 34 (Senate Bill 190), appropriations as recurring and adjusted agency operating budgets accordingly. The criteria DFA applied to classify items as recurring is not readily transparent. The difference between the classification of recurring appropriations by DFA and LFC in Laws 2005, Chapter 34 (Senate Bill 190), results in a decrease of $17.7 million from the FY06 recurring base and increases the amount of "new money" available in FY07 for recurring appropriations. The section below is a high-level reconciliation beginning with FY06 appropriations and FY06 adjustments and ending with the final FY06 operating budget as adjusted.

Summary of Recommendations and Highlights

FY06 Recurring Operating Budget:		
Appropriations		4,663,510.3
Feed Bill		12,584.8
	Subtotal	4,676,095.1
Other Appropriations		
Sec 5 recurring Judgeships		1,249.0
Additional Judgeships - HB901, Chapter 284		1,840.5
Senate Bill 190		28,393.5
Failed Contingencies		(150.0)
	Subtotal	31,333.0
	Total Appropriations	4,707,428.1
DFA Adjustments to FY06 Operating Budget:		
Nonrecurring portion of HB901		(256.2)
SB190 LFC booked as recurring - DFA booked as nonrec		(17,562.5)
Compensation distribution		(0.3)
	Total Adjustments	(17,819.0)
Total Operating Budget		4,689,609.1

Highlights of the FY07 budget recommendations are summarized below:

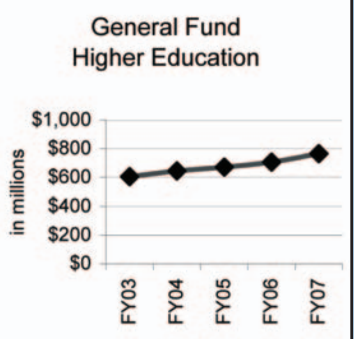


Public Schools. The committee recommends $2.3 billion for public school support, an increase of $183.2 million, or 8.6 percent. The recommendation includes $81.3 million for a 4.5 percent pay increase for all public school employees and $3.7 million for an additional 5 percent pay increase for educational assistants. Additionally, the recommendation includes $7.5 million for the fourth year of the five-year phase in of the three-tier career ladder for teachers and $27.2 million for a 1.5 percent employer contribution to the education retirement fund and $16.5 million for enrollment growth. For FY07, public school support accounts for 46 percent of the general fund recommendation.

The recommendation implements the committee's education priorities by continuing to fund public school reform efforts, in particular three-tiered teacher licensure minimum salaries; adequately funding increased insurance costs; and expanding kindergarten plus services to schools with high Native American populations. The committee recommendation includes $8 million to continue the pre-kindergarten pilot program. The committee remains concerned, however, about rolling-out the pre-kindergarten program without substantive performance data being available. Elementary fine arts are fully funded in the recommendation.

The committee recommendation for the Public Education Department (PED) includes additional FTE to support behavioral development, truancy prevention, and physical education programs. The committee is concerned about the achievement gap, particularly among those students living in high-poverty areas. While the department is focusing on only 18 schools in restructuring II status, the committee recommends PED increase support to the entire corrective action program and expand direct intervention to all schools in restructuring II. The committee further recommends the department identify multiple programs with specific performance measures to better manage for results.

Higher Education. The committee recommends $765.3 million from the general fund for higher education in FY07. This represents an increase of $58.8 million, or 8.3 percent, from the prior year. The committee recommendation fully funds the higher education workload, including phase-in of branch campuses, and calls for keeping tuition low for students and their families through a 2 percent tuition credit. The recommendation provides $11.5 million in FY07 for special project block grants, as well as expansion and nonrecurring funding to address the fiscal needs of the University of New Mexico Health Sciences Center.



Source: LFC Files

The committee recommendation invests in faculty and staff salary needs through a 4.5 percent direct compensation increase and provides incremental funding for three-tier teacher licensure impacts at the New Mexico School for the Deaf. As well, the committee recommendation includes $5.7 million for the second increment of the employer contribution share of educational retirement for higher education employees in FY07 and accelerates the third increment increase in FY08 with an additional $5.7 million to the Higher Education Department to be transferred to the Educational Retirement Board.

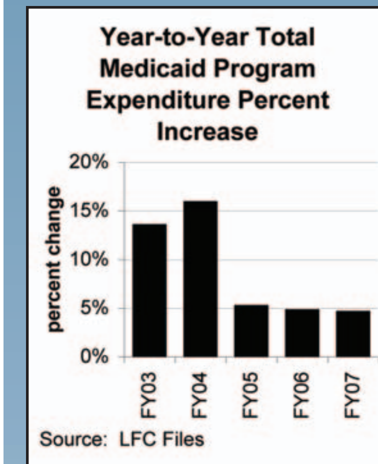
The committee recommendation continues to invest in the state's workforce investment initiatives through an incremental $1 million for nursing education programs, $400 thousand for dental hygiene initiatives, and $600 thousand to maintain high-skills training at two-year institutions.

The recommendation also includes one-time appropriations for higher education of $111 million, including $60 million to address the backlog of deferred maintenance of facilities and $50 million for the new need-based student financial aid program being implemented pursuant to the 2005 College Affordability Act.

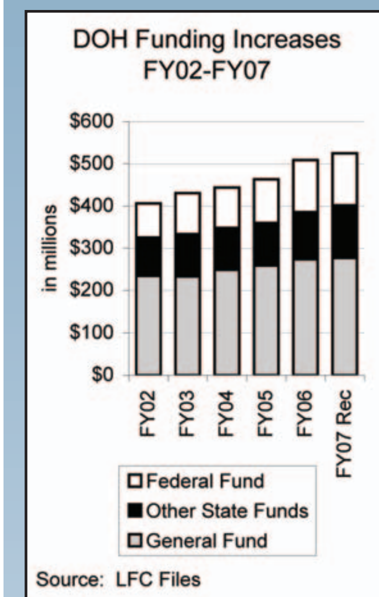
While the recommendation prioritizes higher education funding, the committee continues the call for accountability and performance improvements. Higher education entities need to improve planning and performance reporting, make timely submissions and use that information to achieve targeted outcomes. The recommendation provides $10 million of nonrecurring general fund monies to the higher education performance fund for awards to public, post-secondary educational institutions that meet or exceed performance targets for freshmen enrollment and persistence, including minority students.

Human Services Department. The committee recommendation totals $3.33 billion, a 5.4 percent increase over FY06. The general fund recommendation of $663.1 million, $46.9 million more than FY06, includes $2.2 million for expansion items.

Expenditures in the Medical Assistance Division for FY07 would rise to $2.7 billion, requiring $612.1 million in general fund appropriations, a $45.5 million, or 8 percent, increase over FY06. This general fund recommendation is augmented by $1.3 million in tobacco settlement funds included in the other state funds revenue category. Due to a smaller decline in federal medical assistance, the percentage increase in general fund appropriations is reduced relative to the FY06 increase of 15 percent. The appropriation fully funds the projected Medicaid caseload, including $4.2 million to return to 12-month eligibility and $5 million for provider rate increases. Volume III contains a table summarizing the Medical Assistance Division requirement from the general fund.

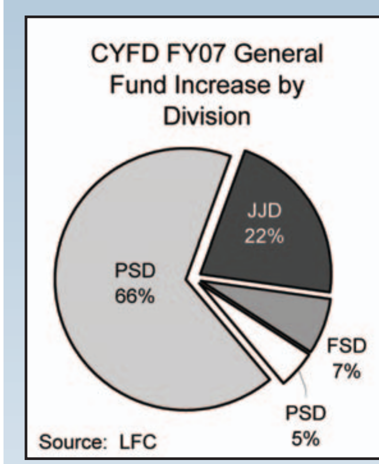


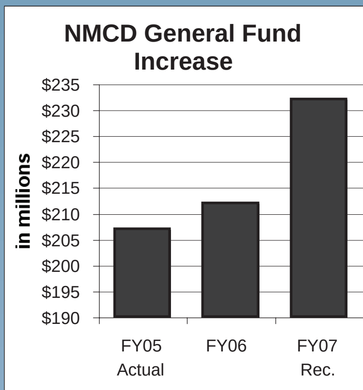
The committee recommends $556.3 million, including $43.2 million from the general fund, for the Income Support Division (ISD). The committee recommendation for temporary assistance for needy families (TANF) totals $149.9 million—$32.8 million from the general fund and $117.1 from federal funds. This recurring revenue level supports $10.8 million for administration, $68.6 million in total cash assistance, $9.8 million for work contracts, $32.2 million for child care, and $21.2 million for programs in other agencies, leaving $12.3 million to distribute over the other programs.



The committee recommendation for the Child Support Enforcement Division (CSED) totals $28.7 million, a 1.5 percent increase over FY06. The recommendation includes $6 million from the general fund, a 2.5 percent increase over FY06. The committee recommendation for Program Support totals $40.4 million. Approximately $23 million and 66 FTE were transferred to Program Support from other HSD programs in response to legislation authorizing a consolidated Information Technology Division.

Department of Health. The committee recommends a total expenditure of $525.1 million, with $276.8 million from the general fund. This is an increase of $3.3 million from the general fund, or 1.2 percent. The key elements of the general fund recommendation include $2 million for school-based health centers, $1 million to fully fund the hepatitis C extension for community health outcomes (ECHO) project, a $5 million increase for developmental disabilities Medicaid waiver services to move 304 people into developmental disabilities care slots, a $729.5 thousand increase for medically fragile Medicaid waiver services to eliminate the waiting list, and $1 million to incorporate various items previously funded in Laws 2005, Chapter 34 (Senate Bill 190). These





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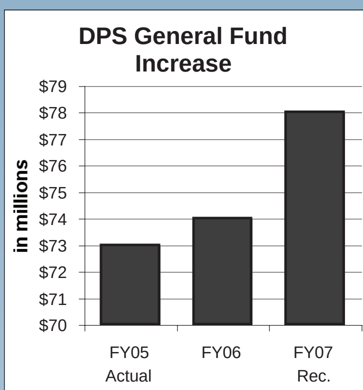

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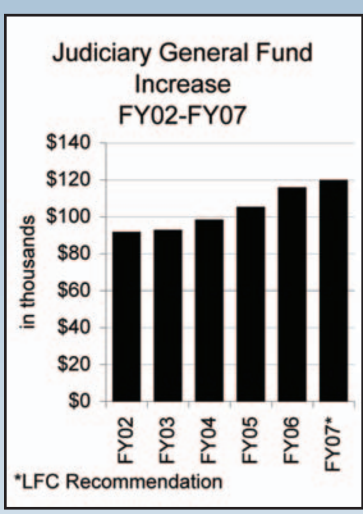


items include case management for medically fragile children, youth suicide prevention programs, newborn screening, hepatitis C programs in collaboration with the New Mexico Corrections Department, additional funding for Rural Primary Healthcare Centers, and a public health and social services delivery program for low-income and indigent residents in Bernalillo County. The increase to other state funds is due primarily to additional tobacco settlement program revenue, funded in FY07 at $9.2 million. Additionally, the recommendation allows for compliance with both the Lewis and Jackson lawsuits.

Children, Youth and Families Department. The committee recommends $159 million from the general fund for FY07, a $13.6 million, or 9.3 percent, increase over the FY06 operating budget.

The committee recommends a $10.5 million increase in general fund appropriations for the Protective Services Division (PSD). This increase replaces $4.8 million in federal funds from the Medicaid Title XIX targeted case management (TCM) and foster care and adoption assistance (Title IV-E) programs; provides an additional $1.6 million to ensure foster children receive adequate care; another $1.6 million for the Joseph A consent decree; and $750 thousand to increase the foster and adoption family rate subsidy approximately $100 per month per child. Finally, the committee supports PSD's effort to attract and retain qualified staff by recommending funding for a 4 percent vacancy rate for personnel.

The committee recommends a lump-sum appropriation of $1.4 million from the general fund to continue recurring appropriations in Laws 2005, Chapter 34 (Senate Bill 190), for the Family Services Division (FSD) for programs such as domestic violence and early childhood, youth, and family programming.

During the first quarter of FY06, the Juvenile Justice Division (JJD) was mired in controversy. A potential lawsuit from the American Civil Liberty Union (ACLU) identified inadequate medical and behavioral health services, as well as unsafe conditions, at the New Mexico Boys' School in Springer. The committee recommends $1.4 million from the general fund to properly fund the medical and behavioral health service contracts at all juvenile detention facilities and an additional $1.5 million for "front-end" or community-based services for juveniles on probation and parole. Finally, the committee recommends $200 thousand for gang intervention and $300 thousand for vocational training programming in the detention facilities.

Corrections Department. The committee recommends a $19.1 million increase in general fund revenue over the FY06 operating budget, providing for an additional 314 inmate beds in FY07, 15 new probation and parole officers, and adequate funding for inmate population growth without the need for contingency language, including

$2.9 million to operate the Camino Nuevo facility. The committee notes that the recommendation does not address overcrowding of level one and two male inmate beds, and the department will incur additional costs should it take over operations of the Springer juvenile facility.

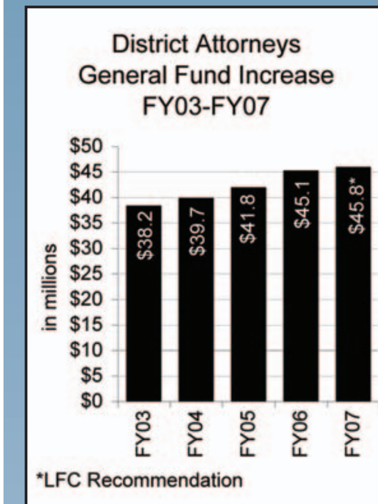
Department of Public Safety. The committee recommends a $4.4 million increase in general fund revenue over the FY06 operating budget. To comply with DFA instructions, the department did not request sufficient funding for various operating expenses. The recommendation is more comprehensive in that it includes a $796.3 thousand increase for gasoline in the Law Enforcement Program (LEP), a $635 thousand increase in telecommunications in LEP for computer-aided dispatch satellite fees, and a $385.8 thousand increase in Program Support for software licenses and equipment maintenance contracts. The committee recommends an additional $1.7 million in LEP to bring the budgeted vacancy savings rate of 9.4 percent to 5 percent. Also, the overtime in LEP is reduced by $2 million based on the actual expenditures over the past three fiscal years.

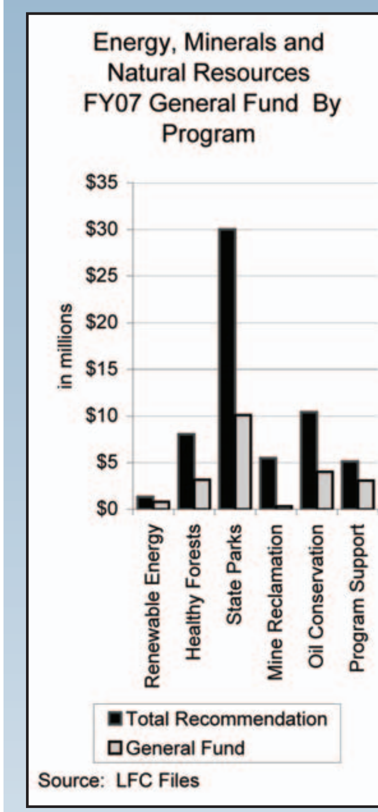
In lieu of additional transfers from the road fund, the committee recommends $1.1 million in general fund revenue for the department's Motor Transportation Division, bringing its total recommended appropriation to $9 million. The general fund revenue bridges a discrepancy in the requests made by the Department of Public Safety and the Department of Transportation.

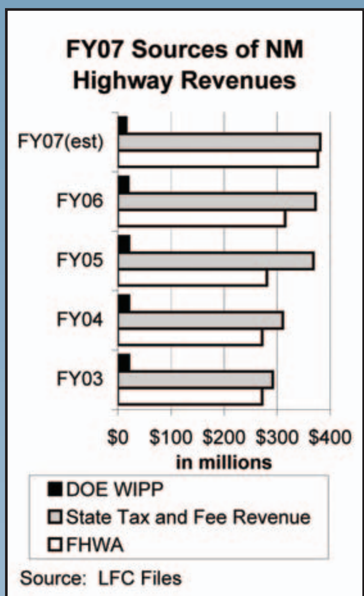
Courts and Judicial Branch Agencies. The committee recommends $119.1 million in total appropriations for the courts and related judicial agencies, including an additional $3.8 million, or 3.3 percent, in general fund monies over FY06. The increase includes approximately $1.2 million to replace lapsing federal and county drug court funds and $197 thousand in new funds for children's programs. The recommendation funds 3 FTE expansions, one each for the Supreme Court and 6th and 10th district courts. Recurring items funded in Laws 2005, Chapter 34 (Senate Bill 190), totaling $1.8 million, are included in the base recommendation for FY07.

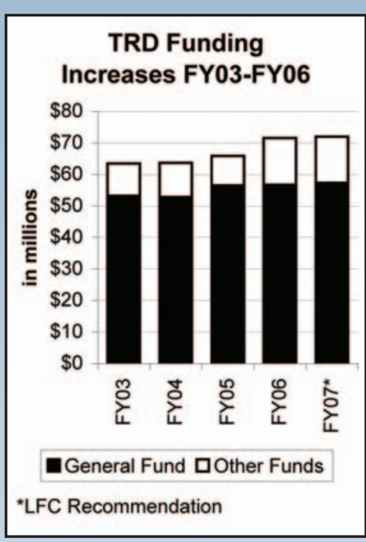
District Attorneys. The committee recommends $52.7 million in total appropriations, including $47.1 million from the general fund, a 2.1 percent increase over FY06. The recommendation includes $699 thousand for judgeship expansion and $560.6 thousand for projects funded in Laws 2005, Chapter 34 (Senate Bill 190). The recommended expansion of $348.7 thousand addresses the increase in attorney caseloads and DWI and domestic violence prosecution initiatives.

Energy, Minerals and Natural Resources. The committee recommends a total expenditure of $60.5 million for FY07. This represents a $319 thousand, or 1.5 percent, general fund increase over FY06. The general fund recommendation includes expansions of 3 FTE









in the Healthy Forests Program and 4 FTE in the State Parks Program. Additionally, the committee recommends 6 new term FTE in the Oil and Gas Conservation Program supported by other state funds.

As appropriated in Laws 2004, and extended in Laws 2005, the committee recommends extending the $1.7 million for new park development and park expansions and the $1.8 million for the new Mesilla Valley Bosque State Park. Both projects remain in active development.

Department of Transportation. The committee recommends a $67.9 million, or 9.4 percent increase, over the FY06 operating budget. Included in the recommendation is $18 million for the state construction program, specifically designated for highways in rural counties that do not qualify for prioritization of construction monies under either Governor Richardson's Investment Partnership (GRIP) or the Statewide Transportation Improvement Program (STIP).

The implementation of the $1.585 billion GRIP program requires the department to fill its personnel vacancies in a timely fashion and plan for inflationary pressures to avoid project delays. The department should continue to report quarterly on the status of vacancies and inflationary pressures and on the specific actions being taken to address these issues.

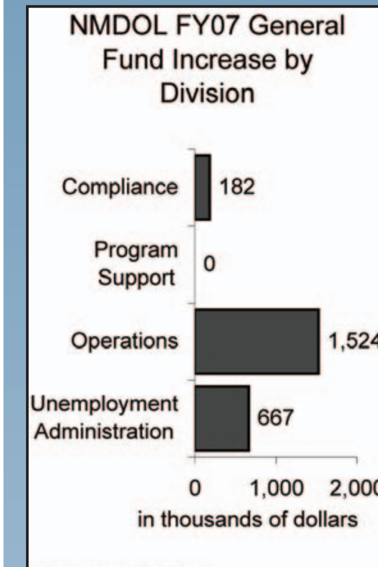
Taxation and Revenue Department. The committee recommends $57.3 million from the general fund, a 0.9 percent increase over the FY06 operating budget. With all other funds, the committee recommendation totals $72 million, a 0.5 percent increase over FY06. The general fund recommendation incorporates additional funding for the Property Tax Division, two expansions in the Revenue Processing Division—one to outsource temporary labor and one to meet costs from the U.S. postage rate increase—and an expansion of two driving-while-intoxicated (DWI) hearing officers in Program Support.

The committee recommends an expansion of $216 thousand in federal funds to support 5 FTE in the Federal Royalty Audit Unit of the Audit and Compliance Division. The state and federal government share the revenue generated by the unit's audit activities.

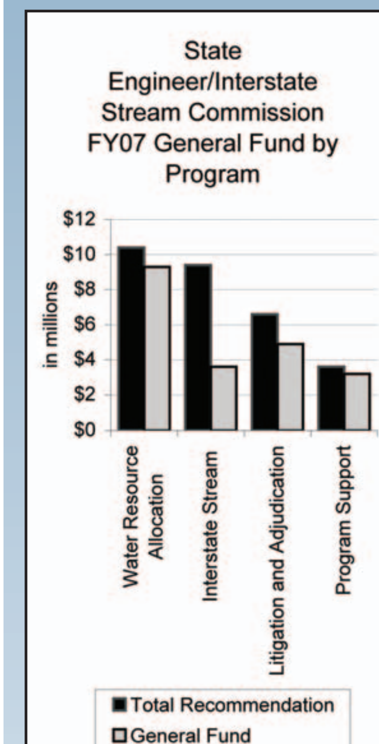
Labor Department. The committee recommends a $2.4 million, or 282 percent, increase from the general fund to replace expiring federal funds. Federal funding through the Reed Act, which provided the New Mexico Department of Labor (NMDOL) with $38 million of nonrecurring money, is diminishing and is expected to be exhausted by FY08. The committee recommendation for NMDOL reduces the base operating budget by $1.2 million, primarily in personal services and employee benefits. The $1.2 million reduced base is offset by a recommended expansion of $3.2 million and 58 term positions, funded by Temporary Assistance for Needy Families (TANF), to provide one-stop services in the central region of New Mexico and $76 thousand of other program revenue for 2 new full-time positions. The net increase is $2.1 million.

State Engineer. The committee recommends a total expenditure of $45.8 million for FY07. This represents a $1.7 million, or 8.8 percent, general fund increase over FY06. The agency received a FY06 appropriation of $2 million to convert 38 term positions to permanent, and this funding has been included in the agency base for FY07. Additionally, the FY07 recommendation includes $1.4 million in general fund revenue to convert the remaining 34 term positions to permanent. All permanent positions will now be considered fully funded by recurring general fund revenues.

The agency maintains a large number of contracts funded with trust fund revenue to support day-to-day operations. This is particularly apparent in the Litigation and Adjudication Program where, for FY07, the agency submitted a $1.7 million base request to fund contracts for private legal and adjudication services. The committee is concerned with the rising costs of legal services contracts and recommends the agency assign existing legal staff to litigation activities.

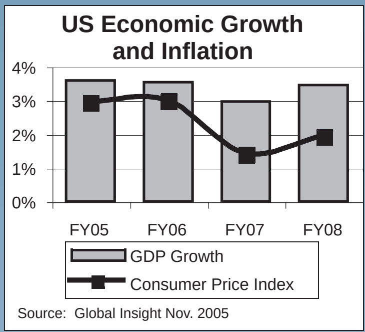


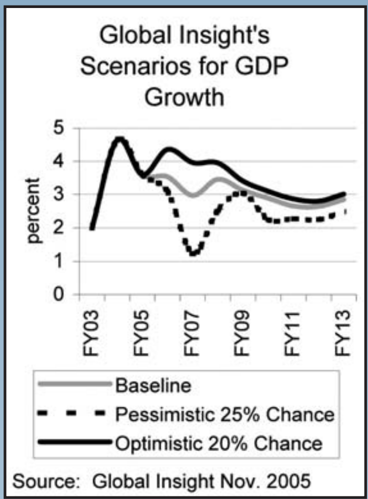
Source: LFC Files

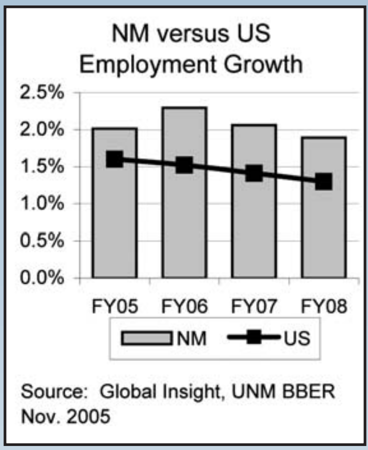


Source: LFC Files

Economic Forecast







The New Mexico economy continues to perform well compared with the national economy but the state could be disproportionately affected by high fuel costs (both gasoline and home heating), both to the positive and negative. Nationally, the economy has been resilient in the face of the hurricanes that struck the Gulf Coast in August and September.

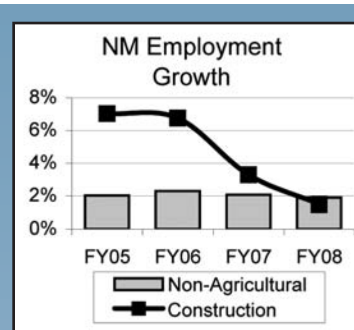
State economists rely on Global Insight, a national economic consulting firm, PIRA Energy Group, a provider of energy market data and analysis, and the University of New Mexico Bureau of Business and Economic Research, to develop their economic forecast assumptions. Economic assumptions represent key variables that drive the revenue forecast. All national and New Mexico economic assumptions used in developing the December 2005 revenue forecast are presented in Table 2 at the end of this document.

U.S. Economy. The U.S. economy was not battered by Hurricanes Katrina and Rita, which devastated the Gulf Coast region, including completely shutting down New Orleans, a city of half a million people. During September, refining capacity was significantly affected with 5 percent to 20 percent of capacity offline at various times. As of November, almost 30 percent of gulf coast natural gas production was still shut-in. However, 3rd quarter growth in the U.S. economy as measured by gross domestic product (GDP) was 4.3 percent, a surprisingly strong number considering the damage caused by the hurricanes. July and August were strong enough to weather September and personal consumption did not fall off as much as expected. For FY06, Global Insight is predicting 3.5 percent annual growth, down slightly from the 3.6 percent growth in FY05.

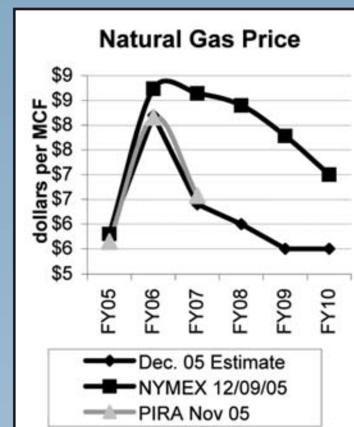
With gas prices still higher than last year and the winter season upon us, the big question is: What will be the effect on consumer spending? Over the last few years, consumers have been pulling the economy along, making the recession mild and the recovery possible. Now that a much larger portion of their disposable income is going to fuel bills, an economic slowdown is a real risk. In the third quarter, personal consumption rose but disposable personal income only grew at 2.8 percent, causing real income (inflation-adjusted) to decline. The negative savings rate points to where consumption is coming from: debt or reduced wealth.

Employment nationally will still be lackluster, going from 1.6 percent growth in FY05 to just over 1 percent in FY08. Global Insight's estimates of both optimistic and pessimistic scenarios indicates that 4 percent growth going forward is unlikely and there's a 25 percent chance for growth to slow to 1.5 percent in FY06.

New Mexico Economy. The New Mexico economy has actually performed better than the country as a whole over the last few years. However, since New Mexico is a sparsely populated state, gasoline prices have a much larger impact on consumer spending. The hurricanes may have a dual impact on the construction industry. First, the devastation wiped out a significant amount of construction inputs, like timber, and caused delays in imports. With an already tight market for cement, these dynamics will raise the price for construction across the country. Second, because there will be such a massive rebuilding effort in the Gulf region, the availability of construction workers and contractors might shrink. Construction has been a major driver of the state's economy over the last few years and slower construction growth could have ramifications in all other industries. Construction represents roughly 5 percent of total nonagricultural employment but represented 20 percent of the growth from FY04 to FY05. Although residential construction is expected to decline in 2006, the huge surpluses the state is enjoying might lead to significant capital projects that will bolster the nonresidential and heavy construction sectors.



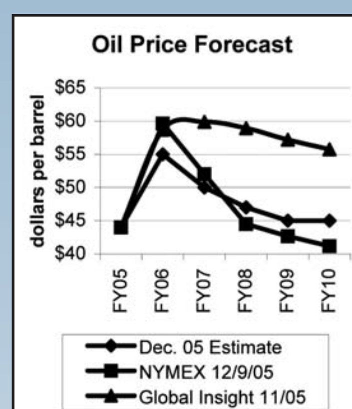
Source: UNM BBER Nov. 2005



Source: WSJ; PIRA; Consensus Revenue Group

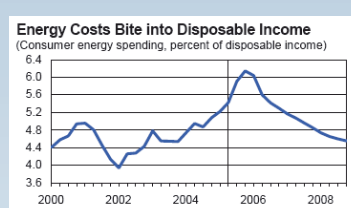
Energy Markets. The energy picture in New Mexico seems to change daily. In February 2005, the consensus forecast for natural gas was \$4.80/mcf (thousand cubic feet) for FY06. In July, the consensus forecast was raised to \$5.70/mcf. In December, that projection jumped to \$8.20/mcf, a \$2.50 increase. The rule of thumb for revenues is every 10 cent increase in the price of natural gas returns \$12 million in general fund revenues; this difference alone is worth \$420 million.

The story is similar with the price of a barrel of crude oil. Crude oil prices in the first few months of FY06 have been above \$60/barrel as compared with a July forecast price of \$47.50/barrel. There are indications that the price will remain in the high 50's throughout the first half of FY06 and then gradually decline to the mid to low \$50s. New Mexico is the sixth largest crude producer compared with being the fourth largest natural gas producer so the impact of the price of crude oil on revenue is not as significant.



Source: WSJ; Global Insight; Consensus Revenue Group

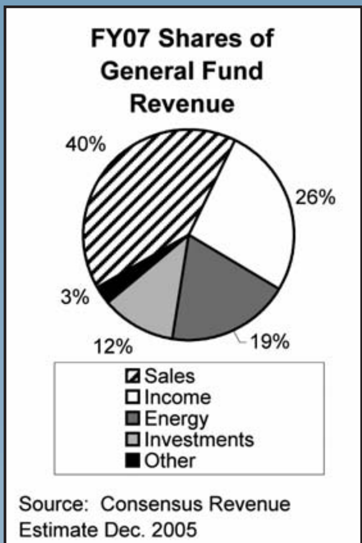
The downside to the strong energy market is increased gasoline and heating costs for consumers. Regular gasoline spiked above \$3.00 in September as a result of Hurricanes Rita and Katrina. These hurricanes halted 20 percent to 25 percent of refinery production in the United States and caused major disruptions in the natural gas market. Those gas prices came down quickly however and the fear of long term high gasoline prices has abated. Heating bills nationally and locally are expected be double those of last winter. The high natural gas prices will affect not only those who heat their homes with natural gas but all electricity consumers since a significant amount of electricity in New Mexico is generated from natural gas.



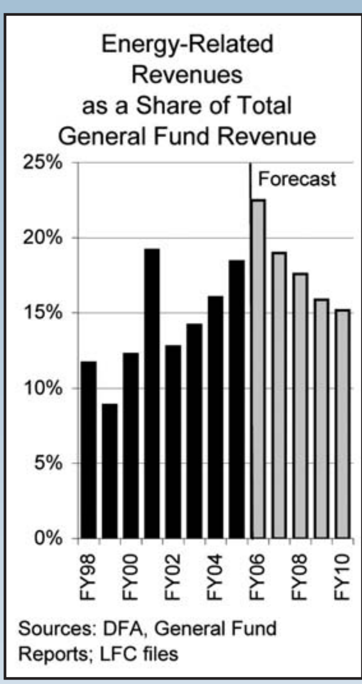
Source: Global Insight, Oct 2005

Global Insight projected in October that the increased energy costs would drive up energy as a share of disposable income to over 6 percent in the winter of 2005-2006. However, early forecasts predict a mild winter in the West (the primary market for New Mexico natural gas)

Economic Forecast



Top Tax Rate	Original 2003 Legis-lation	2005 Regular Session	2005 Special Session
2005 Tax Year	6.0%	6.0%	5.7%
2006 Tax Year	5.3%	5.8%	5.3%
2007 Tax Year	4.9%	5.3%	5.3%
2008 Tax Year	4.9%	4.9%	4.9%



which will keep the amount of energy used low. It is likely that energy costs will not take as big a bite out of disposable income as originally forecast (or contribute as much to the state's revenues).

Revenue Forecast. General fund revenue estimates for FY06 through FY08 are presented in Table 3 at the back of this document. The FY06 column compares the new December 2005 estimate with the January 2005 estimate which was used to build the FY06 budget. The state's general fund revenue outlook is positive and is expected to remain so through FY07. The December 2005 estimate predicts FY06 revenue to total $5.4 billion, $727 million higher than was expected when the FY06 budget was crafted. The large increase in estimated revenue is due substantially to higher energy prices. In FY07, revenue is expected to reach $5.2 billion, or 2.8 percent below FY06. "New money," recurring revenue in excess of prior-year recurring appropriations, for the FY07 budget totals $528 million.

Gross Receipts Tax. Gross receipts tax (GRT) collections are estimated to be $1.65 billion in FY07. GRT collections have shown significant strength even though the food and medical deduction which went into effect in January 2005 is expected to cost $36 million higher than expected, according to latest taxation and revenue department numbers.

Personal Income Tax. Personal income tax (PIT) collections are expected to decline in FY06 and FY07 due to the acceleration of the tax cuts. In the 2005 regular session, the phase-in of the rates was delayed by one year. With an improved revenue forecast, the rates were accelerated in the 2005 special session. PIT collections are estimated to be $1 billion in FY07.

Energy Revenues. Energy revenues significantly bolstered general fund revenues and reserves in FY05 and FY06. FY07 energy revenue is expected to decline, though remain above historic levels at just under $1 billion. Energy revenues have grown to over 20 percent of general fund revenues but will head back towards 18 percent after FY08.

Corporate Income Tax. Corporate income tax (CIT) collections were higher than ever in FY05 and that trend is expected to continue through FY07. The FY07 collections are estimated at $325 million. The share of tax revenue from mining operations, which includes oil and gas producers, now represents more than half of the total collections from the largest taxpayers. This is up from approximately 37 percent in FY04. CIT collections are expected to follow the oil and gas revenue trends.

Interest Income. Income from the state investments were $16 million lower than forecast in FY05 and are estimated to be $605 million in FY07. The rising interest rates and the increased balances from the oil and gas revenue have contributed to rising interest income.

Other Revenues. The FY07 estimate for remaining revenues is $138.9 and represents a decline. This is largely due to the expiration of the diversion of tobacco settlement payments to the general fund. Those payments, which have been around $34 million, will once again be split between the tobacco settlement permanent fund and the tobacco settlement program fund.

Forecast Risks. The risks to the forecast are substantial. Currently, New Mexico is in very strong financial shape, primarily due to extraordinary oil and natural gas prices. However, most forecasts see these prices coming back down in the not-so-distant future (2008 and beyond). New Mexico's other major revenues have experienced less impressive growth. The gross receipts tax has suffered some base erosion due to food and medical deductions, and might soften further as high energy prices evaporate consumers' disposable income. The personal income tax should be declining due to the tax rate cuts but is being buoyed by oil and gas income.

Risk	Downside	Upside
Los Alamos National Labs	New managers may have existing supply relationships with out-of-state vendors	When the new contract is anounced, some or all of the gross receipts from the facility may be subject to gross receipts taxes similar to Sandia.
Consumer and Producer Price Inflation	High energy prices depress consumer demand High energy prices raise costs of production	Core price index (excludes food and energy) not impacted
Construction	Housing bubble exists and deflates Cement and other inputs continue to rise in price Higher interest rates	No housing bubble Demand remains high Non-residential picks up any slack
Corporate Profits	Recent surge related to federal one-time actions Energy prices decline Employee and retiree benefits	Global trade benefitting US Technology sector comeback Energy and defense remain strong

Financial Summary. At the end of FY05 general fund reserves totaled $686.5 million, representing 15.6 percent of recurring appropriations. Statute requires that if the general fund operating reserve exceeds 8 percent of the previous year's appropriations any excess revenue must be transferred to the tax stabilization reserve. As a result, $56 million will be transferred to the tax stabilization reserve.

Economic Forecast

High revenue growth due to natural gas and oil prices is expected to build general fund reserves to $1 billion by the end of FY06, a record 22.1 percent of recurring appropriations. Absent further legislative action, another transfer of $333.9 million from the operating reserve to the tax stabilization reserve is scheduled at the end of FY06. When the tax stabilization reserve exceeds 6 percent of the previous year's recurring appropriations, revenue in excess of 6 percent must be transferred to the taxpayer dividend fund. The current financial summary indicates that absent further legislative action $220.3 million will be transferred to the taxpayer dividend fund at the end of the fiscal year. This fund can only be used for refunds to the taxpayers and a mechanism for distribution would be decided in the 2007 regular session.

Baseline Expenditure Forecast. The baseline expenditure forecast for FY07 is based on the LFC recommendations and thereafter shows expenditures increasing at about 4 percent per year. In FY10, the rate of growth is at 4.1 percent. This is largely due to the expected costs of Medicaid, which have been growing at 10 percent over the past four years. The Congressional Budget Office expects Medicaid expenditures to grow at 8 percent over the next five years. Medicaid made up 10.8 percent of expenditures in FY05 and could rise to over 13 percent by FY10.

	Prelim	Op.Bud.	LFC Rec.	Baseline Forecast		
Expenditures:	FY05	FY06	FY07	FY08	FY09	FY10
Legislative	15.5	16.2	16.8	17.1	17.5	17.8
Judicial	147.5	160.8	166.3	171.2	177.1	183.1
General Control *	145.3	150.8	155.1	157.7	161.2	164.6
Commerce and Industry	49.5	47.9	47.8	48.6	49.7	50.7
Ag, Energy & Nat. Resources	65.0	70.2	70.7	71.9	73.4	75.0
Health and Human Services	1,010.3	1,118.7	1,184.1	1,243.7	1,309.8	1,379.1
Medicaid	474.7	558.7	609.3	651.9	697.5	746.2
Other Health and Human Services	535.6	560.0	574.8	591.8	612.3	632.9
Public Safety	288.8	296.9	319.0	328.4	339.8	351.2
Corrections	207.6	211.7	232.0	238.9	247.2	255.5
Other Public Safety	81.2	85.2	87.0	89.6	92.7	95.8
Higher Education	671.9	714.1	765.3	787.9	815.2	842.6
Public Education	1,993.3	2,132.0	2,348.5	2,456.3	2,560.3	2,666.1
Total	**4,387.1**	**4,707.4**	**5,073.5**	**5,282.9**	**5,504.1**	**5,730.3**
Spending Increase	279.1	320.3	366.1	209.4	221.2	226.3
Spending Growth Rate	6.8%	7.3%	7.8%	4.1%	4.2%	4.1%

Notes
1) Medicaid spending grows according to CBO projections of Federal Medicaid spending.
2) Corrections spending grows at inflation plus overall population growth rate
3) Public schools grow at projected rate of enrollment growth plus inflation. Additional amounts included for Education Retirement Board and three-tier licensure for teachers.
4) All other agencies grow at the expected rate of inflation.
5) Sources for economic growth, inflation, and demographics include Global Insight, UNM, & the U.S. Census

For other major categories, the forecast of expenditure is linked to the Global Insight forecast of the consumer price index (CPI) and in some cases BBER's forecast of population. As of the latest forecast, the growth rate in CPI is expected to increase approximately 2 percent annually while population is expected to grow approximately 1 percent per year.

	Preliminary			Forecast		
Revenues - Expenditures	FY05	FY06	FY07	FY08	FY09	FY10
Total Recurring Revenue	4,906.3	5,386.9	5,237.7	5,278.9	5,351.5	5,518.0
Total Recurring Expenditures	4,387.1	4,707.4	5,073.5	5,282.9	5,504.1	5,730.3
Baseline Balance	**519.2**	**679.5**	**164.2**	**-4.0**	**-152.6**	**-212.4**

This baseline summary shows that by FY09, expenditures will have outpaced revenues and there will be a shortfall. While this will pose no problems if oil and gas revenues are higher than forecast, a drop in the prices or volumes of natural gas or oil will necessitate budget adjustments.

Tax Expenditures. During the interim, both LFC and the legislative Revenue Stabilization and Tax Policy Committee (RSTP) heard testimony regarding tax expenditures and the best way to assess their impacts. The two broad categories of tax expenditures are tax incentives and deviations from the base.

Tax Incentives. Tax incentives are abatements or credits for the purpose of economic development. Currently, the Economic Development Department uses over 20 incentives to attract, retain or expand business in New Mexico.

EDD also has set up an ad-hoc task force on tax incentive accountability, which includes LFC, the Taxation and Revenue and Labor departments, and private sector input. This task force is considering ways to assess tax incentives that provide real information while protecting the confidentiality of recipient taxpayers. They have performed an initial review of other states' incentive assessments.

- California is assessing the "effectiveness and appropriateness" of their research and development (R&D) credit.
- Georgia has researched its program and found that only 20 percent of eligible firms take advantage of the credit. Reasons cited by firms that did not participate: zero corporate income tax liability, lack of knowledge of programs, resistance to paperwork, fear of audit, and concern about perception of corporate "welfare." Among firms that took the credit, the concentration was in the better-off counties. The report estimated that only 28.9 percent of the jobs created would not otherwise have been created.
- North Carolina concluded that the companies receiving credits had created 135,000 jobs and generated $3.3 billion in R&D over eight years at a cost of $1.48 billion in credits; 289 companies received 80 percent of the credits.

Key Tax Incentive Programs
- **Rural Jobs Tax Credit**
- **High Wage Jobs Tax Credit**
- **Industrial Revenue Bonds**
- **Investment Tax Credit**
- **Job Training Incentive Program**
- **Film Production Rebate**

Major Tax Expenditures
- **Motor Vehicle Excise Tax**
- **Double-weighted Sales Apportionment for Manufacturers**
- **Head of Household Property Tax Exemption**

REMI Model Pros and Cons

Pros:
- Calibrated to NM economy.
- A long-term model that can show income and employment effects of policy changes.
- Useful in broader demographic and industry research.

Cons:
- Not a useful tool for type of fiscal analysis done in the session as it takes several days or even weeks to do a comprehensive and accurate run.
- Not a useful tool for forecasting revenues.
- Not reliable for forecasting expenditures.

- Michigan commissioned a report where the first recommendation was to cancel the program that was being evaluated (the Michigan Economic Growth Authority (MEGA)) because the program had not lived up to its promise. The authors were especially critical of the assessment methodology that MEGA was using to validate programs.

Tax Expenditures. Deviations from the base are parts of the tax code that deviate from what is the normal or common policy. An example would be an item subjected to its own excise tax rather than to the gross receipts tax. The difference in tax revenues collected would be the amount of the tax expenditure. A partial listing of tax expenditures is included in Volume III.

The New Mexico Tax Research Institute has been presenting information to both LFC and RSTP and is considering putting tax expenditures on their research agenda.

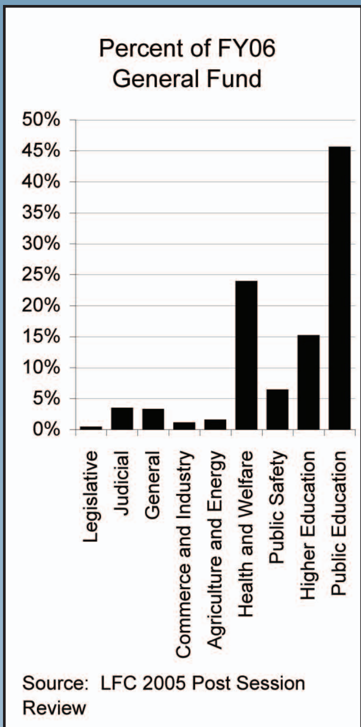
Dynamic Scoring. In 2003, the Legislature made an appropriation for a dynamic scoring pilot project administered by DFA with significant input from LFC. Regional Economic Modeling, Inc., (REMI) of Amherst, Mass., was selected to provide a model and training. There were no analyses done using REMI in the 2004 Session due to problems calibrating the model appropriately to New Mexico's fiscal environment. In the 2005 session, no legislator requested dynamic analysis for legislation although DFA analyzed several bills as experiments.

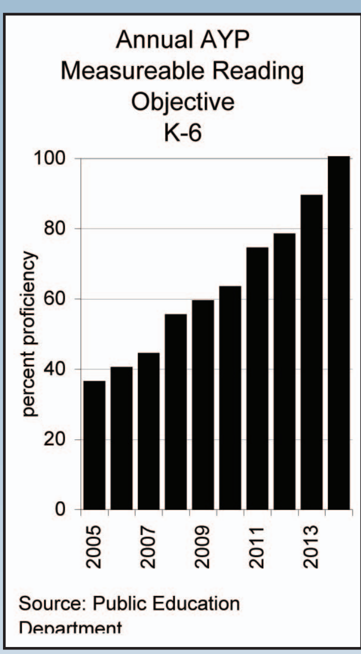
Other issues:
- Regional Economic Modeling, Inc., was awarded a contract for econometric software in 2003 for the purpose of dynamic scoring of legislation.
- No major legislation except for the 2003 tax rate cuts have been analyzed by REMI for public dissemination.
- The Legislature has made no requests for dynamic analysis of legislation.
- REMI's staff and time requirements make fiscal impact reporting difficult.
- REMI can be used for economic impacts of legislation but is not suitable for revenue and expenditure forecasts.
- There are alternatives to REMI for economic-impact analysis but not for revenue and expenditure forecasts.

One of the main constraints of the REMI model is the time it takes to perform an acceptable analysis. This time is measured in days and weeks rather than hours. The current expectation for fiscal impact reports (FIRs) is that the analysis be complete within 24 hours of the bill's introduction or amendment. This makes REMI virtually unusable for FIRs.
In addition to the time it takes to perform an analysis, REMI consultants

estimate it takes an analyst two to three years to become a reasonably competent user of the model. DFA economists have spent two years training and developing their expertise but other state agencies have not been able to dedicate the time to learning and using the model. However, no DFA staff is dedicated exclusively to REMI analysis and DFA economists have competing responsibilities.

Policy Analysis: **Public Education**





The Legislature continues to invest heavily in public education, funding a three-tier licensure and career system for teachers to bring compensation to regional averages, implementing full-day kindergarten, initiating a fine arts curriculum in elementary schools, establishing an Office of Indian Education, expanding charter schools, establishing a pre-kindergarten pilot program, and dedicating a funding stream to bring all school buildings to adequacy to assure a proper learning environment for all students. Despite these efforts, an increasing number of New Mexico schools continue to fail to meet achievement standards required by the federal No Child Left Behind (NCLB) Act and the achievement gap among demographic groups of students continues to vary widely. Further, findings included in an LFC performance audit of the Public Education Department (PED) school-improvement efforts suggest areas of possible change in public education policy and PED practices.

Adequate Yearly Progress. Under NCLB requirements, school districts and individual schools are required to make annual yearly progress (AYP). To meet these requirements schools must

- Achieve a 95 percent participation rate in state reading and math assessments in the school and among eight subgroups based on ethnicity, economic status and special needs.
- Either reach targets for proficiency or decrease non-proficiency in reading and math. The option to decrease non-proficiency is not applicable for the 2005-2006 school year because this is the baseline year for the standards-based assessment.
- Achieve targets for attendance in the fourth and eighth grades and graduation targets for high schools.

For a district to achieve AYP, all of the above requirements must be met at the elementary, middle, and high schools. A district must miss performance targets in all three grade spans in the same content area before being designated as not making AYP.

Targets for proficiency increase annually, reaching a goal of 100 percent proficiency by the year 2014. Similarly, high school graduation rate targets reach 100 percent by 2014. These targets, while noteworthy, are probably not achievable beyond 85 or 90 percent.

Concerns continue with regard to methodologies used to calculate AYP and the effect of these methodologies on students, schools, and school districts. The definition of AYP, used to identify schools at risk, examines the percentage of students reaching the minimum level required to be considered "proficient" in each grade tested in a school. Currently, AYP judges a school as failing for a particular student if that student is below the proficiency level when tested; it does not measure or account for student growth. Categorizing students based on current proficiency might lose information about the performance of the school. Further, AYP might encourage teachers to concentrate efforts on those students just below proficiency levels to the detriment of students who are very advanced or very far behind. This phenomenon is similar to "teaching to the test" in that academic focus is narrowed to achieve targeted results. In addition, NCLB penalizes schools if targets are not met within disaggregated subgroups leading to incomplete and inaccurate information to provide comprehensive public accountability.

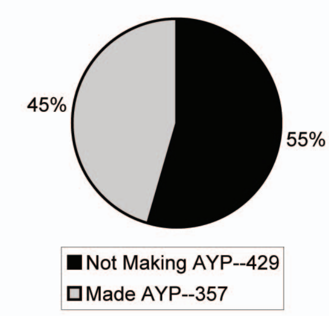
Schools enter the school improvement process as a school in need of improvement (SINOI) after two consecutive years of failing to make AYP. The school improvement process is a progressively aggressive implementation of interventions beginning with the development and implementation of a school improvement plan and leading ultimately to school restructuring, which might include replacing all staff and submitting to state takeover. PED reports for the 2005-2006 school year, 237 schools are in the school improvement cycle, an increase of 105 schools over 2004-2005. Of these schools, 27 are classified as restructuring II, requiring that, by the beginning of the school year, the schools be restructured according to the alternative governance plan approved during the previous school year.

An LFC performance audit, *Evaluation of School Improvement Framework and Funding To Close the Achievement Gap*, notes PED has implemented a one-year moratorium, delaying until school year 2006-2007, restructuring required under federal law. Further, PED plans to limit the required restructuring to those schools whose total student populations have not made AYP (18, the same number as 2004-2005), regardless of the performance of any subgroups, again despite the requirements of state and federal law. PED notes the plan does not necessarily deviate from NCLB as the implementation of alternative governance may include alternative interventions, but PED has not requested a waiver from the federal government. These actions may jeopardize federal funding and the department should obtain waivers as necessary to assure plan compliance with NCLB.

Of further concern is the school improvement unit charged with implementing interventions for schools in need of improvement. From FY03 through the middle of FY05, the unit was moved within the organization four times under five different executive level supervisors. In the same timeframe, the unit changed program managers five times and turned over a total of 21 educational administrators leading to a greater than 300 percent turnover and a significant vacancy rate.

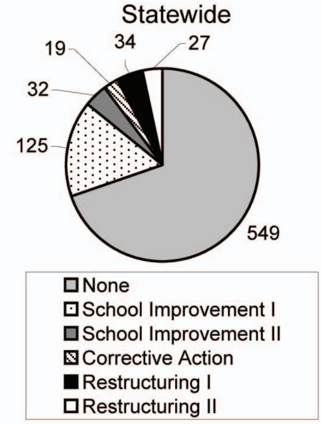
Also of continuing concern to the committee are the large number of schools in corrective action, restructuring I and restructuring II serving Native American and Hispanic populations in high poverty areas. Of the 237 schools with NCLB designations, 50 serve primarily Native American students, 66 are in rural areas, 16 Albuquerque schools are from the West side of the city, and 70 percent serve an extremely impoverished population. The committee recommends PED implement

2004-2005 Adequate Yearly Progress All Schools



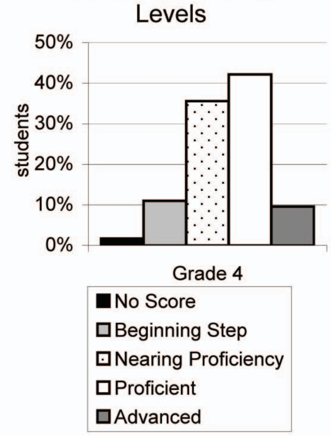
Source: Public Education Department

School Designations Statewide

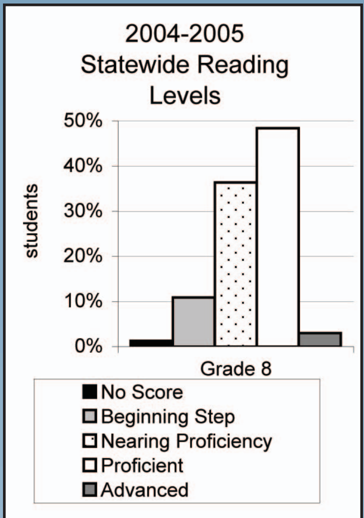


Source: Public Education Department

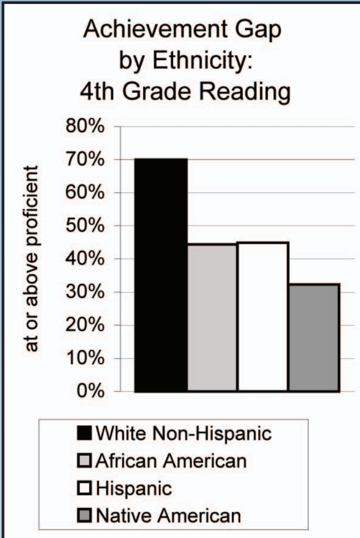
2004-2005 Statewide Reading Levels



Source: PED 2005



Source: PED 2005



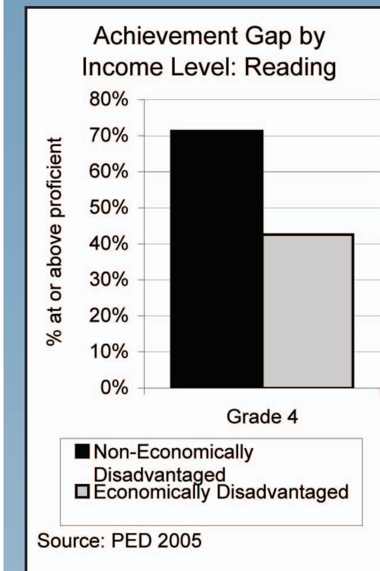
Source: PED 2005

actions to provide increased support to all corrective action and restructuring I and II schools, and expand direct intervention beyond those 18 schools already selected by the department to all schools in restructuring II.

Achievement Gap. A persistent issue is the achievement gap among different groups of students. The achievement gap is reflected by two components: (1) the *performance gap*, which refers to significant discrepancies in academic performance among groups of students and between individual students and their potential, and (2) the *resource gap*, the disproportionate access of students to educational opportunity as evidenced by inequities in funding, access to highly competent teachers, and access to rigorous curriculum. These differences are noted in the 2004-2005 statewide test results for fourth grade reading; 70 percent of white, non-Hispanic students were proficient or better as compared with 44.4 percent of African-American students, 44.9 percent of Hispanic students, and 32.3 percent of Native American students. When performance is compared on the basis of income level, 71.3 percent of students from non-economically disadvantaged families scored at or above proficient as compared with 42.6 percent of those students from economically disadvantaged families.

The LFC audit on school improvement notes the primary factors affecting the achievement gap in New Mexico are the state's high poverty rate and the disparity in the quality of teachers. An Educational Testing Service (ETS) study identified deficits related to rigor of curriculum, teacher preparation, teacher experience and attendance, class size, technology-assisted instruction and, school safety as having a particular effect on student performance. However, in addition to these disadvantages, ETS notes that, of all the educational disparities poor children face, none is more significant than the disparity in the quality of their teachers. An Education Trust study in 2004 reports the difference in state and local funding for low-poverty and high-poverty schools in New Mexico amounted to only $30. Given the additional resources needed to improve student achievement in low-performing high-poverty schools, it may be worthwhile to change the method of funding for high-poverty schools.

In 2004, PED embarked on the implementation of *Project Excel*, an effort to close the achievement gap and improve statewide proficiency. The initiative identifies 10 components ranging from the creation of the Advisory Council for Excellence and Equity in Education to personalized support for superintendents. Some components such as creation of the advisory council, targeted district and school planning, and standards alignment have been implemented. Others are still under development and it is not clear how or when they will be implemented. A concern remains as to how effective this project will be in impacting educational change in schools because the underlying factors causing the achievement gap are not addressed: poverty and the lack of high-quality teachers. It is important to note the large increase in the number of schools entering the school improvement cycle in 2005. Further, the department's school improvement framework and *Project Excel* do not provide intensive site-based interventions to schools in need of improvement, spreads already thin resources across 132 sites, and are designed to keep schools out of corrective action rather than assisting the exit of those already in the cycle.



The LFC audit recommends implementation of incentives for recruitment and retention of high-quality principals and teachers for low-performing, high-poverty schools and a shift of monitoring and compliance to a high-impact intervention strategy to reduce the number of schools in corrective action, restructuring I, and restructuring II. Additional proposals suggested by LFC and others include longer school days, extended teacher contracts for intense professional development before and after the regular school year, teacher incentives for high performance, commercial short cycle assessments, and learning programs. All of these interventions will require considerable resources from the department and individual school districts to implement, causing significant financial impacts, and should be considered carefully.

Highly Qualified Teachers. The Education Trust, in its study, *Education Watch: The Education Trust National and State Data Book*, documents the clear relationship between low standards, low-level curriculum, under-educated teachers, and poor results. Of the various factors noted, the single most important factor in student achievement is teacher quality and the willingness to challenge students with a high quality curriculum. The study concludes if "states took the simple step of assuring that poor and minority children had teachers of the same quality as other children, about half of the achievement gap would disappear. If states went further and assigned the best teachers to students who most need them, there is persuasive evidence to suggest the gap could be closed completely." Given these findings and the NCLB deadline for ensuring that by the end of the 2005-2006 school year all teachers are highly qualified, expectations are high achievement scores will rise. Preliminary data on the percent of classes taught by highly qualified teachers statewide are:

- Elementary Schools: 89.3 percent
- Middle Schools: 75.8 percent
- High Schools: 85.2 percent

The challenge PED faces in implementing this requirement are a number of exceptions provided by NCLB. These include an extended period of time for teachers in rural districts, science teachers, and multi-subject teachers to meet the requirements. Additional flexibility is provided for current teachers to demonstrate subject-matter competency using alternatives to new teacher requirements. By applying these alternative requirements, the state will not achieve 100 percent compliance

To be deemed highly qualified, teachers must have

- A bachelor's degree,
- Full state certification or licensure, and
- Prove they know each subject they teach.

Family income has a great deal to do with how well a child does on readiness tests when entering kindergarten. The school readiness gap is steepest for children from families with the lowest incomes and continues through middle income families, decreasing as income rises.

by the end of this school year. The committee is concerned this delay in compliance will negatively affect student performance, resulting in continued low achievement scores statewide.

Pre-Kindergarten Implementation. The governor, in September 2004, introduced his initiative for a voluntary half day pre-kindergarten program to be phased in over a five-year period at an estimated cost of $60 million. The Legislature in 2005, recognizing that participation in quality pre-kindergarten has a positive effect on children's developmental growth, funded a one-year pilot program to begin studying the effectiveness of pre-kindergarten programs on students' readiness for entering kindergarten. Laws 2005, Chapter 170, placed responsibility for the program with both PED and the Children, Youth and Families Department (CYFD) and the legislature appropriated $4.95 million to establish the pilot program. The program is targeted at areas where public elementary schools are designated as "Title I" schools because of low-income students, are not meeting the proficiency component required for calculating AYP, and have at least 66 percent of students qualifying for the federal free lunch program. To resolve a number of constitutional issues raised with regard to private providers, some of whom are considered faith-based, the legislation required contracts with eligible providers specify and ensure that funds not be used for any religious, sectarian, or denominational purposes, instruction, or material. An expenditure plan submitted to LFC and the Legislative Education Study Committee reports funds will be expended as follows:

- $3.849 million - Per student reimbursement
- $21 thousand - Grant writing workshops
- $450 thousand - TEACH® scholarships
- $250 thousand - Program and in-service training
- $200 thousand - Higher Education – Assessments and courses
- $180 thousand - Program evaluation – DFA/Office of Educational Accountability

A unique feature of the program is implementation in both the public and private sectors. The program assumes a per-pupil cost of $2,278.81 for 540 contact hours. Private providers have raised concerns regarding the reimbursement rate, claiming they have additional facility costs public schools do not. However, a CYFD assessment concluded, for initial implementation, the reimbursement would be sufficient because private providers are paid less than public school teachers, who fall under the three-tier career ladder. From a student success standpoint, this may prove to be problematic. A study published in the journal *Developmental Psychology* regarding the Oklahoma pre-kindergarten program notes the effectiveness of the program is particularly high based solely on the requirement that all pre-kindergarten teachers be state certified with endorsements in early childhood education (ECE). This raises the question whether the current implementation scheme will be particularly effective if private providers are not held to the same standards as public school teachers. The *New Mexico Pre-Kindergarten Program Stan-*

dards notes the desire for "programs outside the public schools to have a program director with a valid New Mexico Early Childhood Teacher License: Birth through Third Grade and the Early Childhood Program Administrative Credential within the first five years of operation," but does not address individual teacher or educational assistant licensure. CYFD has promulgated rules requiring staff providing educational services to complete a 45-hour entry level course or approved three-credit early care and education course prior to or within six months of employment. This coursework is not, however, equivalent to a licensed teacher preparation program.

An analysis of the current program raises questions as to how PED and CYFD will monitor the implementation of contracts to ensure appropriate teacher qualifications, high-quality curriculum and instructional materials, and whether those children targeted for services are being reached. Concerns also remain as to the extent of coordination between pre-kindergarten programs and existing childcare programs and funding. It appears that at present some providers with full-time childcare programs are being reimbursed for pre-kindergarten services in addition to their full-day childcare reimbursement for serving the same children. While acknowledging the program is in its infancy, the committee remains very interested in program evaluation efforts to determine the effectiveness of these services on those children targeted for services and whether provider performance is meeting expectations. Other considerations include additional costs for transportation and support services, particularly special education, capital costs for facilities, and per pupil costs in different program settings.

Cost Estimates. In testimony before the 2005 Legislature regarding program costs, the executive estimated the program would only serve children not served by child care, Head Start, or school programs. The 2005 estimate assumed an 80 percent participation rate when fully implemented and a cost of $22.9 million. The reality is that it would be difficult to deny services to students enrolled in childcare programs of lesser quality. Approximately 26,000 4-year-old children reside in the state. Of these, approximately 5,200 are enrolled in Head Start and public school programs for 3-and 4-year-old developmentally delayed students. Using the 80 percent participation rate assumed by the executive, LFC estimates 16,640 children would participate in a fully funded, half-day program at a cost of $37.9 million. Additional costs calculated at 25 percent of per-child costs for teacher scholarships, professional development training, classroom start-up costs and, evaluation costs would increase the total need to approximately $47.5 million at current reimbursement rates and estimated program costs. This amount differs from the executive estimate by approximately $13.3 million. This estimate does not include facility capital costs for those public schools that may not have sufficient room to implement the program. A significant challenge to reduce the ultimate costs of the program is to coordinate with Head Start providers to assure service overlap does not occur.

Enrollment at PED Pre-Kindergarten Programs

Albuquerque Public Schools
80 Funded 75 Enrolled

Bernalillo Public Schools
54 Funded 51 Enrolled

Central Consolidated Schools
72 Funded 72 Enrolled

Cuba Independent Schools
16 Funded 16 Enrolled

Gadsden Schools
160 Funded 160 Enrolled

Gallup McKinley Schools
194 Funded 154 Enrolled

Los Lunas Public Schools
20 Funded 20 Enrolled

Magdalena Schools
20 Funded 19 Enrolled

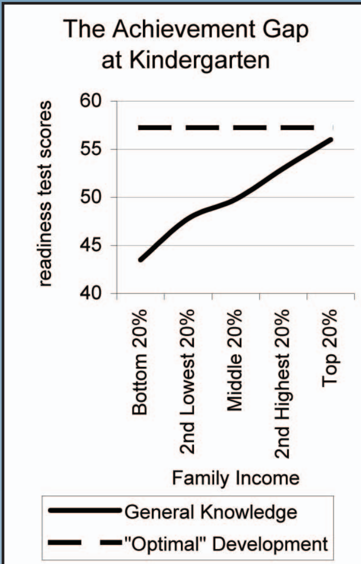
Roswell Independent Schools
45 Funded 44 Enrolled

Santa Fe Public Schools
20 Funded 20 Enrolled

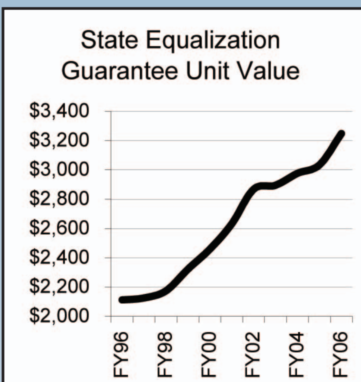
Zuni Public Schools
89 Funded 89 Enrolled

770 Students Funded
718 Students Enrolled

Source: New Mexico Public Education Department



Source: Preschool Policy Matters, April 2004, National Institute for Early Education Research



Source: LFC Files

PED has developed and published learning outcomes and learning standards for the program and is currently collecting data regarding program effectiveness. The program has been in place for two quarters and significant data regarding student performance will not be available until late FY06 or early FY07.

Funding Formula Task Force. The objective of the Public School Finance Act (Sections 22-8-17 through 22-8-25 NMSA 1978) is to equalize educational opportunity at the highest possible revenue level and guarantee each public school student equal access to programs and services appropriate to educational need despite geographic location or local economic conditions. The distribution is in the form of a block grant, which allows local boards to determine priorities. More than 90 percent of a school district's operational revenue is generated from the state equalization guarantee (SEG). SEG is the mechanism used to distribute funds appropriated to PED for distribution to individual school districts. The last comprehensive review of the funding formula was in 1996. Changes to the formula (i.e. training and experience, elementary fine arts) have been rather piecemeal without significant consideration to the overall impact on distributions.

Laws 2005, Chapter 49, established a funding formula task force to study the public schools funding formula and make recommendations for changes to the Legislature and executive by December 15, 2005. Despite a veto of the appropriation made to fund taskforce activities, the Legislature initiated the taskforce during the 2005 interim. The task force, however, chose to conduct field hearings and defer most analysis and development of recommendations for the 2006 interim.

A major consideration of the task force will be how to integrate the three-tier career ladder into the funding formula. For FY06, $51.8 million for the third-year implementation was removed from SEG and distributed categorically, reducing the unit value accordingly. This was prompted by concerns that distribution through the formula would favor those districts that generate relatively high units per student. Other issues under consideration include declining enrollment in rural school districts that necessitates the use of emergency supplemental funding, high-growth district expansion, small-school adjustments for charter schools, and minimum salaries for ancillary support providers and educational assistants. Additionally, the task force will consider the issues associated with the funding of schools or school activities outside of the funding formula, such as special initiatives, direct legislative appropriations, and other categorical allocations.

Other Cost Pressures. Additional factors that place pressure on SEG appropriations include a steady annual increase in student enrollment growth. In FY05 this funding for growth jumped from $5.2 million to $14.7 million and is expected to grow to $16.5 million in FY07.

Employee insurance also plays a large factor; annual contributions have averaged greater than $17 million over the last four fiscal years.

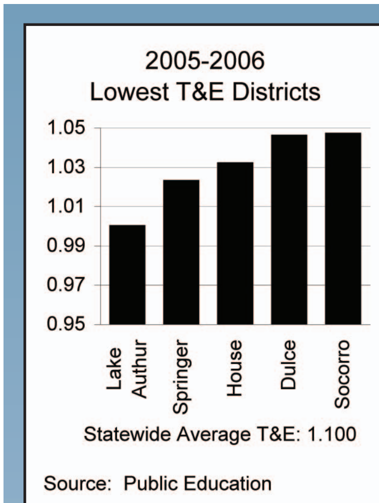
Three-Tier Licensure. Implementation of the three-tier career ladder for teachers continued with an FY06 appropriation of $51.8 million to move all Level 2 and Level 3 teachers to a minimum salary of $40 thousand. For FY07, Level 3 salaries rise to $45 thousand a year at a cost of $7.5 million after compensation increases are factored in and to $50 thousand in FY08 at a cost of approximately $14 million. A positive outcome of the three-tier implementation has been the decline in the number of teachers on waivers. Currently 3.5 percent of teachers are teaching under a waiver, down from 15.7 percent when the career ladder was implemented.

While increasing teacher compensation improves recruitment and retention, the three-tier ladder does not tie pay to outputs, specifically improved student performance. The continued disappointing performance of so many schools, the increased number of schools entering the school improvement cycle, and the large number of high-poverty schools not demonstrating improvement is of great concern. The committee urges the Legislature, the governor's office and PED to look at more effective educational accountability alternatives to assure the success of all students.

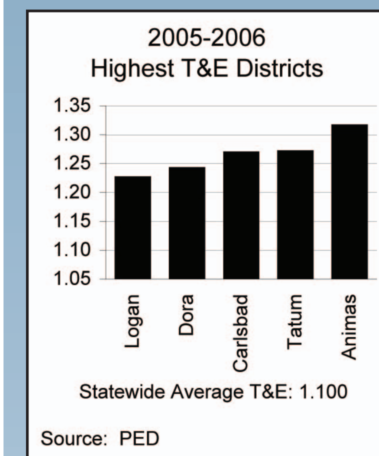
High School Initiative. PED in November 2004 convened a town hall to set educational priorities for New Mexico's high schools. The result of the town hall is The *New Mexico High School Initiative: Consensus Document*. While the document makes 18 recommendations, PED is focused on four – standards, alignment of curriculum, collaboration with business and community, and parent and family expectations. The highest priority of the department is to develop a rigorous and innovative curriculum to address college and workplace readiness.

To begin addressing the four recommendations, the department, through a pilot, high schools that work (HSTW), is coordinating with 10 high schools to integrate career-technical education, humanities, math, and science. Key factors to the pilot's success are the setting of high expectations, increasing access to career-technical studies, providing a rigorous program of study, integrating school based and work-based learning opportunities, supporting teacher collaboration, actively engaging students, providing comprehensive guidance to students and parents, providing a structured system of extra help, and using student assessment and program evaluation data to drive program improvement.

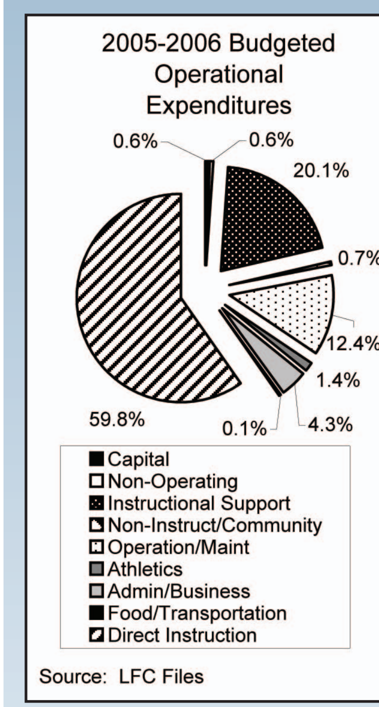
Although the department points to the need for a rigorous curriculum, the program recommends but does not mandate such a curriculum above the existing graduation requirements of 23 credits and applies only to those 10 schools participating. It is not clear how effective the high school initiative will be in improving student success when expanded



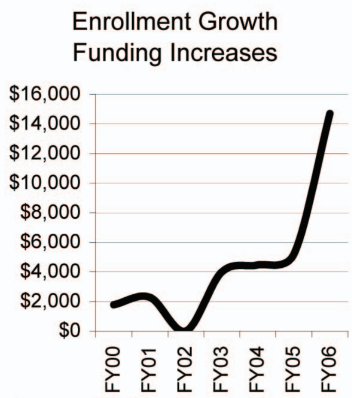
Source: Public Education



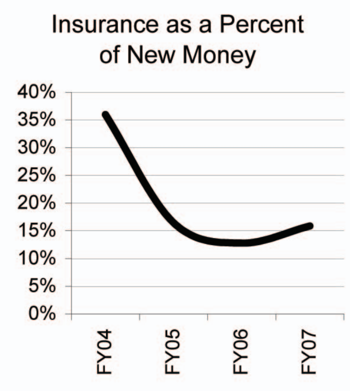
Source: PED



Source: LFC Files



Source: LFC Post Session Review



Source: LFC Post Session Review

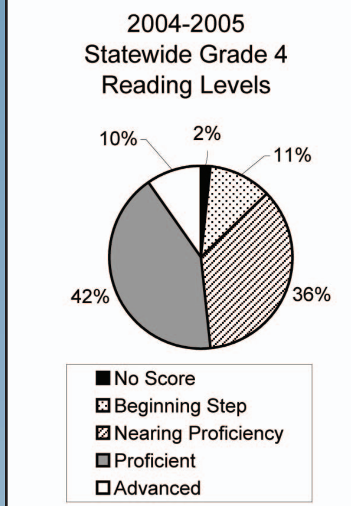
Research on low-performing schools indicates that many schools in corrective action cannot improve themselves but need external change agents and additional resources to turn around. Research indicates states should target specific interventions on the unique needs of each school.

academic requirements are not implemented. Further concerns are the limited number of schools participating in HSTW and how this will lead to improvement statewide. The department notes full implementation of HSTW is phased over four or five years, with federal Perkins funds initially being used to implement the program.

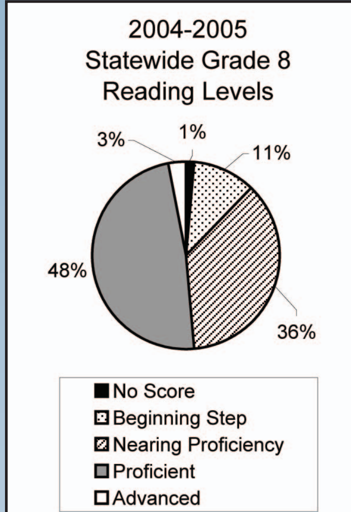
Indian Education. According to PED, Native American students comprise approximately 11 percent of the New Mexico public school enrollment and make up the second largest minority group behind white non-Hispanic students. Laws 2003, Chapter 151, created the Indian Education Act to ensure equitable and culturally relevant learning environments, educational opportunities, and culturally relevant instructional materials for Native American students enrolled in public schools. Although the Legislature has appropriated $7 million to the department over the past three years for this use, the program has been very slow to develop, with less than 30 percent of appropriations expended. Program activities to date do not align with expectations contained in the act and performance of grantees is not being measured as a condition of monetary awards.

The committee acknowledges that in New Mexico the vast majority of schools currently under restructuring or corrective action are schools with a predominantly Native American population whose students fall within the lowest income brackets. The LFC audit on the achievement gap concludes the achievement gap is driven by poverty. Lower-performing schools have fewer quality teachers, weaker leadership and higher teacher and principal turnover and about half of these schools need external assistance and additional resources. The committee strongly urges PED and the Indian education program to develop innovative approaches to funding initiatives which address the above noted deficiencies.

The Public Education Department (PED) was created on May 19, 2004, replacing the State Board of Education as the agency responsible for overseeing public education in the state. The department is responsible under the Accountability in Government Act (AGA) to identify programs and performance measures to be used by the Legislature and the general public to evaluate agency performance. The department is approximately four years behind in implementing performance based budgeting as required by the AGA. For FY05, no programs or performance measures were identified for the department; however, measures were included in GAA for public school support. For FY06, measures were included for both. These measures focus on student proficiency in math and reading in the fourth and eighth grades. In addition, measures are in place to measure the percent of classes being taught by highly qualified teachers and to measure stakeholder satisfaction among the various schools. A shortcoming is that many measures are only available annually. However, two measures are excellent for quarterly reporting: (1) percent of classes being taught by "highly qualified" teachers in high-poverty schools and (2) percent of classes being taught by "highly qualified" teachers in all schools. Because No Child Left Behind (NCLB) requires 100 percent of core classes to be taught by highly qualified teachers, by the end of the 2006-2007 school year these would be excellent measures to track.



Source: PED 2005

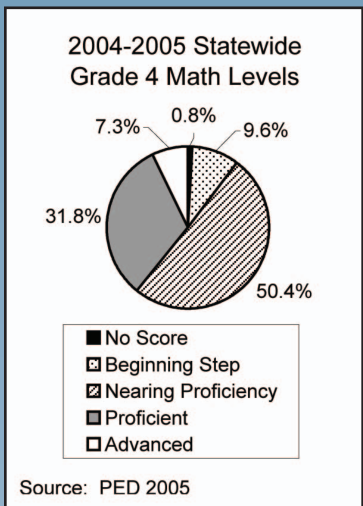


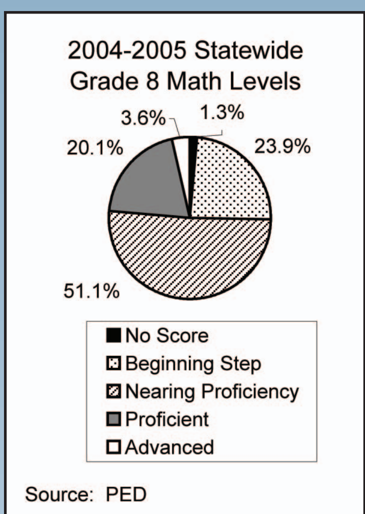
Source: PED

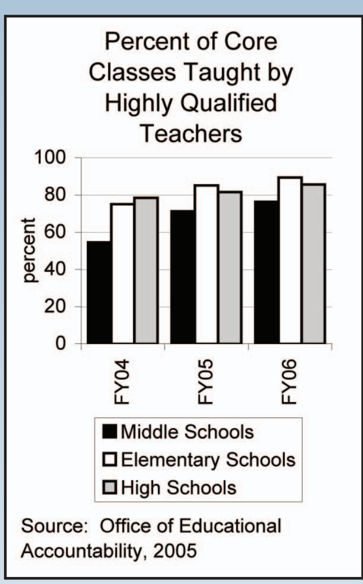
For FY06, the entire department is designated as a single program with eight performance measures identified. These measures do very little to measure the overall effectiveness of the department, do not provide the secretary with any useful data to manage for results, and do not give the Legislature or executive a clear picture of how the agency is performing. The agency currently has 10 FTE with titles of secretary, deputy secretary, or assistant secretary. Given the large number of executive staff and the enormous responsibility of the department, the committee recommends the agency designate a minimum of four programs and develop meaningful measures and targets that assess the wide variety of activities conducted by the various bureaus.

Fiscal year 2005 performance results for public school support were mixed with student outcomes in math proficiency well below targets and reading proficiency only slightly off. In reading, 51.7 percent of fourth graders and 51.4 percent of eighth graders scored as proficient or higher. Math scores, however, were well below expectations with 39.1 percent of fourth graders and 23.7 percent of eight graders scoring at proficient or better. These scores are well below the targets of 61 percent and 56 percent respectively. A drop in scores was expected as the form of assessment was changed to a standards-based test; however, a drop this significant is cause for considerable concern.

With regard to the number of classes taught by highly qualified teachers in high-poverty schools, the department collects data by district, not by individual schools. Using this methodology, 77.5 percent of classes are







taught by highly qualified teachers, below the target of 90 percent. It is important to note that the majority of high-poverty schools are also considered to be rural schools and NCLB allows an additional three years for teachers in these districts to achieve highly qualified status.

Although many students are not meeting achievement goals, parents rate their involvement with public schools as positive. As presented in the state *Quality of Education Survey*, an average 83 percent of parents rate their involvement as positive. The data is presented using 10 different indicators. Of those indicators, consistent discipline and the availability of extra-curricular activities rate the lowest while student responsibility for learning and academic progress reporting rates the highest.

Governor's Performance and Accountability Contracts. Measures included in the governor's contract encompass what is important to educate children in New Mexico but are not focused specifically on what schools do to positively impact educational services. Some measures included get at the heart of what is expected of schools and PED; however, in general the recommendations are a panacea for all of the governor's initiatives and many are not meaningful in managing for results. Many of the measures are too detailed for the department and are better suited to evaluating individual teachers' effectiveness while others focus on behaviors that should be measured as part of a school district's report card. Many of the contract measures are focused on behaviors and results over which PED has no control. The committee recommends the department integrate those measures appropriate to the agency mission into its quarterly reporting strategy and include others relevant to public school support accordingly.

Policy Analysis: **Higher Education**

Higher education and its importance for the nation's economic future are surfacing on the national radar screen on several fronts. The National Conference of State Legislatures has appointed a Blue Ribbon Commission on Higher Education; New Mexico Senator ProTem Ben Altamirano serves on the panel. The group is reviewing national concerns that the United States is losing ground on the quality and success of its higher education system to the point of crisis, and higher education and students are changing rapidly. The group is discussing the importance of investing in higher education, including state economic benefits.

Other initiatives are addressing related concerns. For example, the secretary of education has appointed a Commission on Higher Education to develop a "comprehensive national strategy" on higher education. The final report is expected by August 2006.

The committee's higher education recommendation fully funds workload and provides a significant compensation package. To the extent the state's strong financial position creates an opportunity for investment, the committee recommendation provides a significant package to address current needs and to reduce future operating costs.

Overview of Higher Education Finance. The current higher education funding formula uses the current-year appropriation as a base to assure that each institution begins the process with a consistent and predictable funding level. All instructional funding is calculated on prior-year student credit hours. Effectively, this results in a two-year lag between generating of student credit hours and the funding year. Workload adjustments are triggered only when enrollment exceeds three percent or declines by five percent or more, known as the "enrollment band." Changes in fixed costs in the base allow institutions to request inflationary increases for utilities, library acquisitions, health insurance premiums, and risk management insurance, a feature not considered in the previous higher education funding formula. The funding formula funds summer school and extended learning at the same rate as all other credit hours. However, incremental funding for institutions is input driven.

The higher education funding formula also provides for five incentive funds to support higher education institutions in pursuing excellence in carrying out missions and to recognize success in meeting the needs of students, communities, and the state. The program development enhancement fund is intended to facilitate the development or enhancement of academic and student support programs defined as priorities for the future development of New Mexico. Programs must focus on outcomes and can include initiatives to address teacher shortages, programs that meet a specific statewide workforce need, or programs that improve student retention. The workforce development fund would provide for the development, expansion, and support of

NCSL Blue Ribbon Commission on Higher Education Focus Areas

- Funding (college costs and state support)
- Accountability
- Access
- Public support

Higher Education Funding Formula

PRIOR YEAR BASE
+ ADJUSTMENTS, such as workload

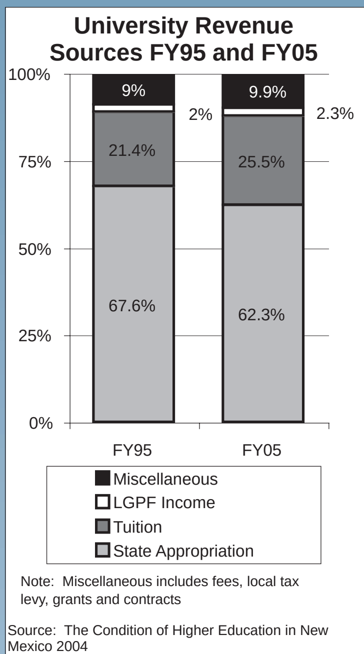
+ Net Transfers
- Revenue Credits

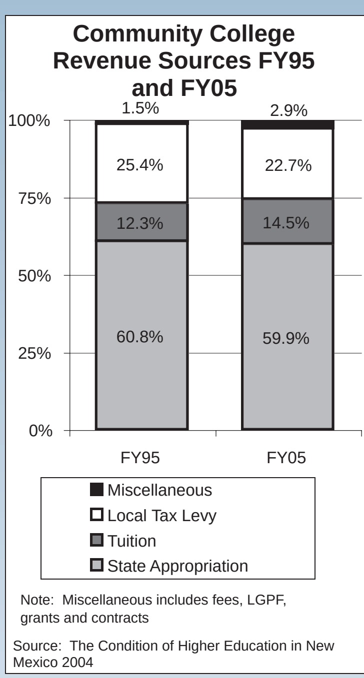
+ INFLATIONARY FACTORS AND COMPENSATION INCREASES

+ INCENTIVE FUNDS

+ RESEARCH AND PUBLIC SERVICE PROJECTS

There are a total of five incentive funds, with three falling into the specific classification of economic development: program development enhancement fund, performance fund, work force skills development fund, faculty endowment fund and technology enhancement fund.





broad-based, entry-level, high-skills training programs at community colleges statewide. The technology enhancement fund for economic development would support innovative, applied research to enhance New Mexico's economic growth. Research areas would include agriculture, biotechnology, biomedicine, energy, materials science, microelectronics, water resources, aerospace, telecommunications, and manufacturing science. Institutions would be required to obtain matching funds from sources other than state funds. Other than the faculty endowment fund, the legislation enacted authorizing statutes and established funds in the state treasury but has not provided general fund appropriations to these incentive funds.

In November 2005, HED convened a formula enhancement task force to review the funding formula. Most of the work will occur in 2006, but the group is considering a recommendation for the performance fund.

Institutional Revenue Sources. As shown in the accompanying charts, for institutional unrestricted instruction and general (I&G) budgets, the principal revenue source is the state appropriation. State appropriations have increased significantly in nominal terms and have decreased only slightly as a percentage of total revenues over the last ten years. The second most significant institutional revenue source is tuition. Community colleges also rely heavily on local property taxes

Tuition and Tuition Credit. An October 2005 study by the College Board found that tuition increases at public four-year colleges nationwide averaged 7 percent in 2005-06, the smallest growth in four years and significantly lower than the prior year's 10 percent increase, but still far above the inflation rate. Nationally, average tuition and fees at four-year public colleges are $5,491, up $365 from the prior year, while the average cost of attending a two-year public institution is $2,191, up $112.

The customary practice in developing the New Mexico higher education budget is to assume that post-secondary institutions will increase tuition as a source of revenue. The tuition credit effectively reduces the general fund appropriation to each institution.

In reviewing LFC data since FY93, universities on average have consistently imposed resident undergraduate tuition rates greater than the tuition credit. In contrast, in the mid-1990s, two-year institutions imposed resident undergraduate tuition rates lower than the assumed tuition credit. In the late 1990s, when the state did not assume a tuition credit, the two-year institutions imposed tuition increases. More recently, on average, tuition increases at these institutions have been higher than that assumed in developing the state appropriation.

Who pays? A landmark study funded and published by the Carnegie Commission for Higher Education in the 1970s recommended students and their families (via tuition) should finance one-third of total educational costs and state and the federal government should bear the remaining two-thirds of the direct cost.

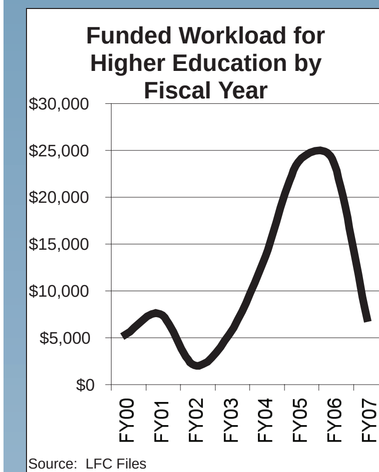
State higher education policy needs to better balance increases in state appropriations for student financial aid with increases in tuition rates and increases in state appropriations to institutions. Further, institutions should address cost containment and productivity gains.

After calculating the cost of workload, the higher education funding formula attempts to address the "cost of opening the doors," similar to the methodology used for public schools. Categories for inflationary adjustments included in the New Mexico higher education funding formula are benefits, including group insurance, workers' compensation, unemployment compensation and retiree health care; risk insurance, including property and liability coverage; utilities, including gas and electricity; and library acquisitions. In developing the new inflationary factors, CHE was to identify appropriate sources of data regarding actual and projected cost increases for each factor.

Nationally, the higher education cost indices have risen by more than general inflation. Some researchers have argued higher education is a labor-intensive industry unable to benefit from productivity improvements through the application of technology like other sectors of the economy. Further, cutting-edge technology needed by the industry is expensive.

Due to the escalating cost of formula workload and the need to provide for compensation increases for faculty and staff, the inflationary adjustments did not receive funding from the general fund in FY05 and FY06. In FY04, the first year of the new funding formula, utilities inflation was funded at 2 percent, or $635 thousand, and library inflation was funded at 1.5 percent, or $150 thousand.

Health Insurance. Like other employers, a significant cost driver for higher education is health insurance. Recent increases in the cost of medical insurance have slowed somewhat, but are still in the 12 percent to 15 percent range. At the August 2005 LFC hearing, the Council of University Presidents discussed group health insurance increases of just over 4 percent in FY05, after four years of double-digit increases from 11 percent to 20 percent. Reflective of cost-control techniques, a September 2005 survey by the College and University Professional Association for Human Resources found in the 2005 fiscal year almost 80 percent of colleges and universities across the nation and nearly two-thirds of their employees paid more for health care than in the previous year, with the median increase at 10 percent. Plan sponsors that provide preferred provider organizations, point-of-service plans or health maintenance organizations are expected to experience costs increases of around 12 percent in 2006 (2006 Segal Health Plan Cost Trend Survey).



For policy makers, two key questions which need to be addressed:

1. What is the most appropriate way to account for inflationary pressures faced by higher education institutions?
2. Are the inflationary pressures for higher education different from any other organization, and, if so, should this be recognized?

Recent changes in state statute may also be impacting the cost of group health insurance for public, post-secondary institutions. For the first time in nineteen years, Laws 2004, Chapter 82, (House Bill 451) authorized the state share of employee benefit costs (health, dental, vision, disability, and life insurance) to change. The legislation allows the state to cover up to 80 percent of the cost of these employee benefits for all employees with a salary under $30 thousand and 70 percent for employees earning between $30 thousand and $40 thousand in FY05. In comparison, the previous state share was capped at 60 percent of the cost for employees making over $25 thousand. In FY06, the bill allowed for an additional increase in the state share. Implementation of these revised brackets is dependent on the availability of funding. The statute notes "participating entities pursuant to the Public School Insurance Authority Act and institutions of higher education **may** contribute up to eighty percent of the cost of the insurance of all employees." Although salary schedule structures vary, the following two-year institutions may cover 80 percent for some employees earning under $30 thousand per year: New Mexico State University, University of New Mexico, Santa Fe Community College, San Juan College, Clovis Community College and Albuquerque Technical Vocational Institute.

Technology Costs. Technology costs are not specifically included in inflationary factors of the higher education funding formula; however, the formula includes a component for equipment renewal and replacement. Colleges and universities have significant annual costs for computer-related equipment and resources for academic and administrative purposes. Productivity improvements in academic and administrative functions appear yet to be realized.

Information on the value of technology in reducing cost of instruction (example, distance learning technologies for nontraditional means of instruction) is mixed. Many higher education administrators point to technology as a driver of escalating costs. On the other hand, a recent analysis suggests application of certain methods of online instruction to redesign the most commonly taken 25 courses at universities and colleges around the nation could decrease the cost of instruction up to 16 percent per year, and student learning and retention would improve. The National Center for Academic Transformation (NCAT) partnered with 30 colleges and universities throughout the nation to fund pilot projects in course redesign to more effectively use technology in student learning, focusing on large-enrollment, introductory courses that reach significant numbers of students. Of the thirty course redesign projects completed thus far:

- Twenty-five showed a significant increase in student learning, while the other five showed learning equivalent to traditional formats.
- Eighteen of 24 projects measuring retention showed a decrease in drop-failure-withdrawal rates and an increase in course completion rates

Using Technology To Decrease Cost and Increase Effectiveness

National Center for Academic Transformation (NCAT)

NCAT – Key Quality Improvement Strategies

- Online tutorials
- Continuous assessment and feedback
- Increased interaction among students
- On-Demand support
- Mastery learning

NCAT – Key Cost Reduction Techniques

- Online tutorials
- Automated assessment
- Course management systems
- Shared resources
- Staffing substitutions

The University of New Mexico NCAT course redesign project results: (1) 23 percent of traditional psychology students received a C- or below, down from 41 percent; (2) the cost of the course was reduced from $161,184 to $82,340, down 49 percent.

- Redesigned courses reduced costs by an average of 37 percent, with a total annual savings for institutions participating in the pilot projects of approximately $3 million.

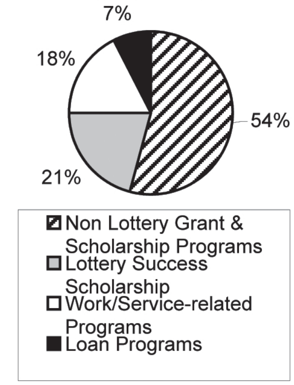
Financial Aid. Student financial aid is provided by several major groups: federal government, state government, the institution itself, and private sources. Typical challenges facing financial aid include the adequacy and availability of student aid funding compared with costs for families, shifting nature of federal aid from grants to loans, and institutional focus on awarding merit-based financial aid, instead of need-based.

State grant and scholarship aid is divided into two categories: need-based and merit-based. Need-based grants are designed to ensure students are not denied access because of their financial circumstances. Merit scholarships are awarded to students who excel academically, without regard to their financial circumstances. In New Mexico, the lottery scholarship program supports students with a 2.5 grade point average. An October 2005 study of the College Board noted tuition tax breaks and merit-based aid provide a disproportionately high benefit to families who make over $50 thousand per year. The study found this group received 43 percent of education tax credits and 70 percent of the benefits of federal tuition tax deductions in 2003.

New Mexico Need-Based Student Financial Aid Funding. Total state general fund support for student financial aid programs is approximately $23.5 million for FY06. At $12.1 million in FY06, the largest program is the state student incentive grant (SSIG) for resident undergraduate students with substantial financial need who attend public and private nonprofit institutions in New Mexico. The awards can range from $200 to $2.5 thousand per year, as determined by the institution. The second largest of the general-fund-based student financial aid programs in FY06, at $5.7 million, is the work-study program, which provides employment opportunities for qualified resident students. The state's contribution for need-based programs is small when compared with the federal investment, a significant driver of the state's low ranking in the affordability category.

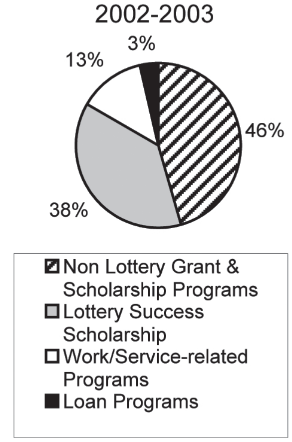
Laws 2005, Chapter 192 (Senate Bill 669), the College Affordability Act, provides for a new program to "encourage New Mexico students with financial need to attend and complete educational programs at public, post-secondary educational institutions in New Mexico." The new needs-based student financial aid program will follow the federal eligibility requirements for awarding Pell grants when determining student need. Although the program received no funding in 2005, HED announced its top priority for the 2006 legislative session is to fund the endowment created by the College Affordability Act. The LFC recommends a special appropriation to the endowment of $50 million.

Summary of New Mexico State Student Financial Aid Programs, 1998-1999

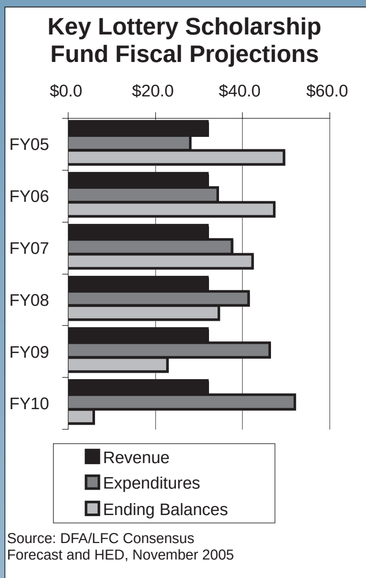


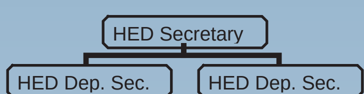
Source: The Condition of Higher Education in New Mexico, HED, various years

Summary of New Mexico State Student Financial Aid Programs, 2002-2003



Source: The Condition of Higher Education in New Mexico, HED, various years





Lottery Scholarship Funding Issues. Lottery tuition fund balances were $63 million as of the end of October, compared with $52.9 million in August 2004. Net transfers to the lottery tuition fund by the Lottery Authority in FY05 were $32.2 million, a decline of $3.7 million from $35.9 million in FY04. The FY05 transfer represented the first decline in transfers to the fund and was driven by weak sales, particularly Powerball revenues due to a lack of substantial jackpot run-ups. Further, costs of scholarships rose to $28.3 million in FY05, due to strong enrollment growth and increases in tuition rates.

The latest projections for the lottery tuition scholarship fund are shown in the sidebar. Annual revenues are projected by LFC and Department of Finance and Administration economists to be relatively flat in the $32 million to $35 million range from FY06 to FY10. These revenues reflect underlying assumptions for revenue growth consistent with the core inflation rate as forecast by Global Insight as well as expenses as determined by the New Mexico Lottery Authority. In contrast, annual expenditures for lottery tuition scholarships are projected by HED to rise from $28.3 million in FY05 to $52.3 million in FY10. In sum, under current law, projected revenues are expected to be somewhat lower than projected expenditures in FY06, with fund balances declining to about $6 million in FY10.

HED's Number 2 priority for the upcoming legislative session is an expansion of eligibility for the lottery tuition scholarship program to include a two-year wait-out period after high school graduation. However, HED noted it might defer this proposal to 2007 to focus legislative support on funding for the new College Affordability Act. The proposal would accommodate students who delay college entrance for personal and academic reasons, including work and financial need, study abroad, and temporary out-of-state relocation. From a performance outcome perspective, national studies have shown a wait-out period might negatively impact student success in college.

Further, Senate Joint Memorial 74 directed the Legislative Council to appoint an interim committee to study the lottery tuition scholarship program and make recommendations by December 15, 2005. As of this writing, recommendations had not been released.

Department of Higher Education. Laws 2005, Chapter 289, (House Bill 745) abolished the Commission on Higher Education (CHE) and created the Department of Higher Education, a cabinet-level agency. Authority of the department was expanded from that of the previous CHE. Section 4 of the General Appropriation Act included a contingent appropriation increase of $400 thousand for personal services and benefits and 4 FTE for the new agency.

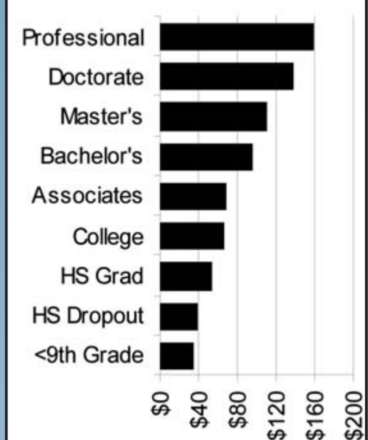
FY07 Nonrecurring Investment Package. The Legislature in 2006 will have an unprecedented opportunity to use fiscal resources to address current and future state needs. The benefits of higher education are multifold, including increased earning potential for individuals and families, decreased unemployment rates, expansion of a state's tax base, and an improved quality of life for all citizens. Recently, state spending on higher education has been constrained by the condition of fiscal affairs; as such, few states have had an opportunity to invest in higher education. With the strength of energy-related revenues, Wyoming used its surplus to create an approximately $100 million endowment for higher education faculty and is moving toward a $400 million endowment for student scholarships. Interest income from the faculty endowment fund will be distributed to the University of Wyoming and the state's community colleges. Using its energy surplus, the Canadian province of Alberta is establishing a $17 million (U.S.) trust fund and funding an additional 1,000 students at provincial colleges and universities. The new scholarship program would be available to 325 students, 25 for each of Canada's 13 provinces and territories "for Canadians who need a bit of financial help to achieve their educational goals."

Facilities. Many of the state's post-secondary educational structures were built between the late 1950s and early 1970s and have changed little since. At four-year institutions, many buildings are approaching nearly 100 years of age. The buildings and infrastructure at the state's campuses now require a substantial investment for "deferred maintenance and renewal," a term that refers to the slow deterioration of facilities along with a backlog of necessary repairs and maintenance. The long list of repairs and renovations along with the lack of adequate funding results in the minimum performance of repairs and maintenance tasks necessary to keep buildings at a "safe and healthy" level for consumers. The Commission on Higher Education engaged 3D/International to perform a facility condition assessment on the state-funded campuses of higher education to determine the condition status and identify the cost associated with returning the buildings to good condition in 2001. This square footage represents 35 percent of building area of state-funded post-secondary institutions. The analysis found $820.7 million statewide of deferred maintenance backlog for higher education institutions. An update of the assessment is in progress.

The committee recommends a special appropriation of $60 million to the Higher Education Department to flow-through to these institutions based on priority needs listed on the New Mexico facility condition index maintained by HED. The department is to report back to the LFC and the Department of Finance and Administration on financial and performance accountability for all funding provided for capital outlay.

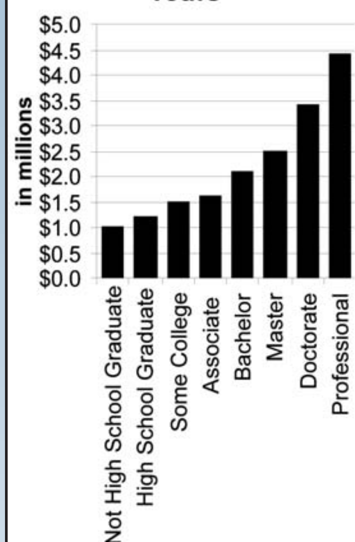
Faculty Endowments. The committee recommends consideration of up to $50 million for endowed chairs at the state's four-year and two-

Average Family Income by Educational Attainment of Householder, 2002

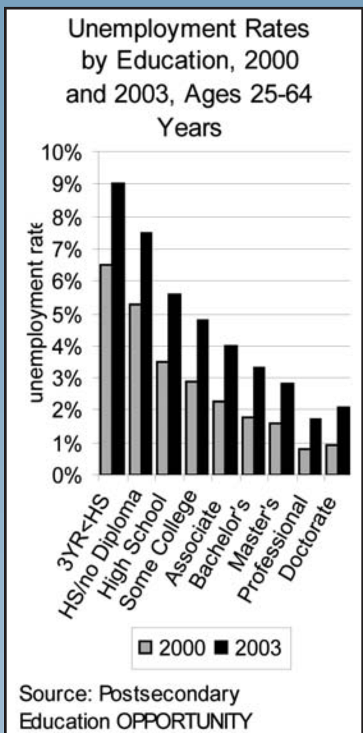


Source: Postsecondary Education OPPORTUNITY

Work-Life Earnings for Full-Time, Year-Round Workers by Educational Attainment 1997-1999 Work-Life: 25-64 Years



Source: Postsecondary Education OPPORTUNITY

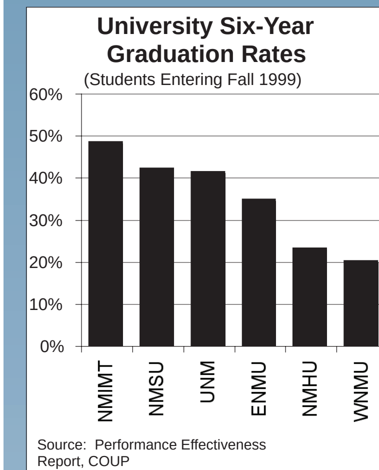


year post-secondary institutions. The endowed-chair funding achieves several legislative objectives. The funding provides a mechanism for a partnership with state funds and non-institutional matching funds to support faculty; attract and retain talent, create incentives for enhanced student learning, scholarship and research and encourage quality as well as support the multi-faceted missions of the state's institutions. The surplus of nonrecurring general fund monies provides an opportunity to invest in this initiative because the distributions from the endowment are used for operating purposes of the endowed faculty positions. This funding will be provided to the Higher Education Department to award, subject to the availability of matching funds. Funding is to be made available on a first-come, first-serve basis, although the department should establish criteria to provide an element of equity to regional institutions that may need more time to obtain the required match. Expansion of the program to two-year institutions will require changes to 21-1-27.1 NMSA 1978 to reward enhanced student learning activities of faculty at those institutions.

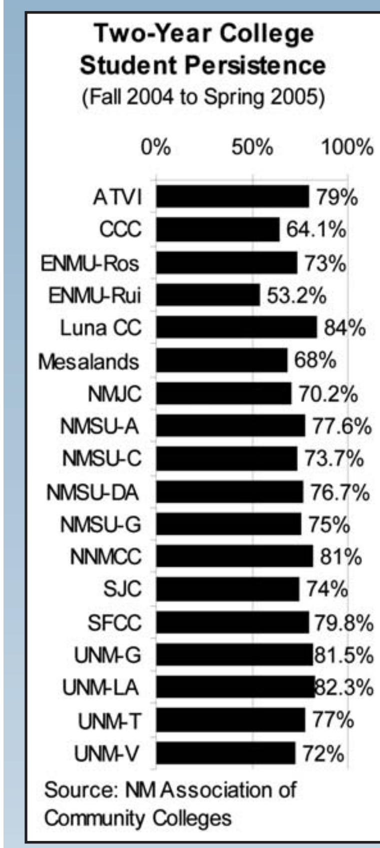
Student Financial Aid. The department requested nonrecurring general fund support in the form of a special appropriation of $50 million for a need-based financial aid trust fund established under the College Affordability Act. Laws 2005, Chapter 192 (Senate Bill 669), the College Affordability Act, provides for a new program to "encourage New Mexico students with financial need to attend and complete educational programs at public, post-secondary educational institutions in New Mexico." The proceeds from this endowment fund would be distributed as student financial aid awards. The new needs-based student financial aid program will follow the federal eligibility requirements for awarding Pell grants when determining student need. Although authorizing language was enacted, the program has yet to receive funding. Given the state's F in providing need-based aid in the national 2004 Measuring Up report, the committee recommends $50 million be appropriated for this new program.

Performance Funding. The committee remains concerned about low rates of student persistence and graduation for students in New Mexico's public post-secondary system. The 2004 Measuring Up report gave New Mexico a D for completion. Further, the state needs to move toward funding performance outcomes because the higher education funding formula is input-driven. Based on the recommendations of the Higher Education Department formula enhancement task force, the committee recommendation includes $10 million from the general fund to the higher education performance fund for expenditure in fiscal years 2006, 2007 and 2008 for performance awards to public, post-secondary educational institutions that meet or exceed performance targets for freshmen enrollment and persistence, including minority students. In addition, performance awards may be developed to increase graduation rates, including minority students. In developing its rules for the performance measures, the Department of Higher Education should coordinate with the Department of Finance Administration and LFC.

Currently, the state does not have a formal strategic plan for its higher education system. Laws 2005, Chapter 289 (House Bill 745), directs the Department of Higher Education (HED) to "cooperate with colleges and universities to create a statewide public agenda to meet higher education needs and goals." The plan is expected in 2006. However, the need to address student preparation, participation, access, persistence, completion, affordability, and learning are clear. Significant national studies are available to identify areas for improvement in New Mexico along with a great deal of institution-specific data.



HED and higher education institutions are reporting annual and quarterly performance measures. The four- and two-year institutions are using benchmarks and gap analysis to enhance understanding of performance data and enhance target setting; however, two-year institutions did not submit an annual report or benchmarking report in Fall 2005. With respect to the draft *Governor's Performance and Accountability* contracts released late September 2005, higher education measures are predominantly different than those currently collected and are extensive; new measures significantly reflect target setting by the new department for statewide policy issues as well as aggregated performance measure targets for the system as a whole. Most measures would be applicable on an annual basis. New measures for statewide workforce-related issues include doctors, nurses, healthcare practitioners, dentists, allied health, career-technical programs, education, and media arts.



HED is required to report quarterly performance on specific measures, while public, post-secondary institutions are currently only reporting on student persistence, the rate at which students either continue from studying in the fall to the spring **<u>or</u>** from the fall to the next fall.

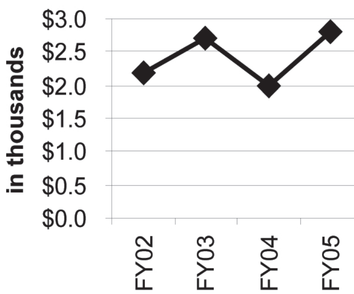
Generally speaking, the HED quarterly report does not meet most of the guidelines for agency quarterly reports; The report does not focus on outcomes or link agency performance to resources. HED is moving to make improvements in the report.

The reports for two-year and four-year public, post-secondary institutions meet all of the guidelines as specified to agencies by DFA and LFC, but it is difficult to draw comparisons and conclusions. Certain institutions provided significantly more details on their action plans to address institutional improvements in the student persistence area.

Because most student outcome measures center on an academic year, public, post-secondary institutions were asked to report on one performance measure reflecting student persistence on a semester basis. The April 2005 quarterly report of the community college reports student persistence from fall 2003 to fall 2004 semester. The April 2005 quarterly report of the four-year institutions reports fall-to-fall

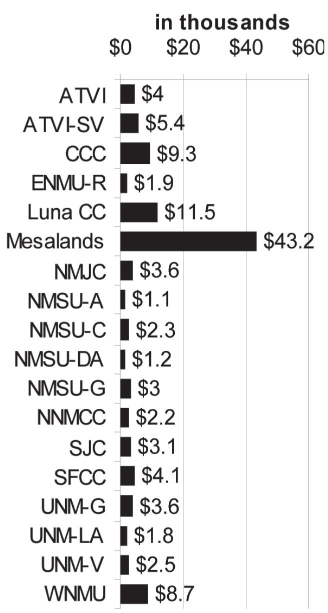
ENMU notes, "This dramatic drop (in student persistence) was unanticipated and an explanation for it is difficult to pinpoint. No trends or data predicted this decline."

State SBDC Cost per Job Created or Saved



Source: Small Business Development Centers

State SBDC Cost per Job Created or Saved in FY05



Source: Small Business Development Centers

retention, but emphasizes fall-to-spring data. National comparative data is readily available for fall-to-fall persistence; however, very little data is available to benchmark fall-to-spring persistence. Generally speaking, based on four-years of historical data, two-year institutions with student persistence below the statewide average established a mid-run performance target at the statewide average. Interim annual targets are developed to align with achieving this target. For institutions already performing above the statewide average, a higher mid-run target was established. Four-year institutions attempted to use data from comparable institutions nationwide as benchmarks.

In both cases, it is not clear that the mid-term target established through benchmarking is high enough. Many of the institutions are already performing above these averages. However, it is clear from the national rankings discussed above that New Mexico stakeholders need to exhibit improvement in student persistence measures.

For the two-year public, post-secondary institutions, most institutions are showing some improvement in the last year on student retention. In some cases, detailed action plans are available to reflect the who, what, and how of institutional efforts to improve student retention and persistence.

Four-year institutions are generally showing an improvement in student persistence over the last four years. The importance of monitoring performance data is evident in the recent dramatic drop in student persistence at Eastern New Mexico University. Fall-to-spring student persistence dropped in spring 2005 to 78.3 percent. Data reflects this measure consistently falling off from 86.2 percent in spring 2001, and then dropping to 78.3 percent in spring 2005.

Small Business Development Centers. The charts show the value of tracking performance outcomes. The data shows a range on the cost of jobs created or saved by Small Business Development Centers across the state.

Special Schools. New Mexico Military Institute, New Mexico School for the Deaf, and New Mexico School for the Visually Handicapped do not currently report quarterly performance measures. For FY06, annual performance measures and targets were included in the General Appropriation Act for the first time for all of these schools.

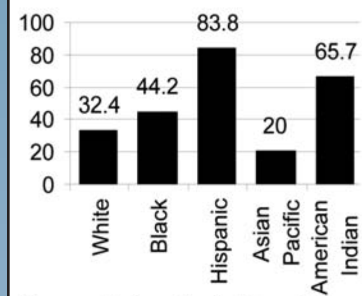
Key variables for the quality of health care in New Mexico are provider access, insurance accessibility, infrastructure, prevention efforts, and, to a large degree, the success of the Medicaid program. The Department of Health (DOH), Human Services Department (HSD), and the Children, Youth and Families Department (CYFD) are influential for all of these issues.

Healthcare Outcomes in New Mexico. DOH, in its strategic plan, indicates three of its four top four priorities are to improve access to health care, assure quality in the healthcare delivery system, and reduce health disparities for minority populations. However, in some of the areas identified as priorities, New Mexico lags behind national trends.

Health Disparities. One of DOH's top priorities is to reduce health disparities for minority populations in New Mexico. As shown in the sidebar, minority populations have higher teen birth rates and higher obesity rates than non-minority populations. With regard to teen birth rates, DOH indicates from 1990-2002 the rates for white non-Hispanics, African-American, and Native American teens dropped nearly 40 percent, but Hispanic teen birth rates decreased only 12 percent. DOH is implementing strategies such as teen pregnancy prevention services in local public health offices and school-based health centers and promotion of male involvement in reproductive health to combat this rate. DOH also indicates 21.5 percent of New Mexicans are obese. Because obesity is linked to heart disease, cancer, diabetes, and arthritis, DOH has taken a proactive role to focus on children. Teaching children healthy eating and exercising habits early promotes a healthy lifestyle in their adult years. DOH is working to eliminate unhealthy snack food in school vending machines and expand wellness and fitness programs tailored to specific populations such as seniors, women, adolescents, and Native Americans.

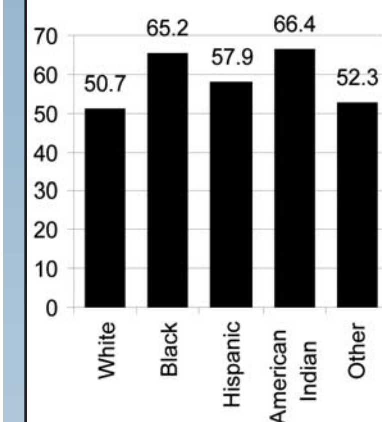
Healthcare Access. According to Quick Facts 2005, a document produced by the Health Policy Commission (HPC), "The majority of New Mexico counties are considered health professional shortage areas (HPSA) and/or medically underserved areas." In fact, as of December 2004, 18 of New Mexico's 33 counties were considered HPSA for primary care and 27 of the counties were considered medically underserved areas. HPC indicates over the last 10 years, the number of dental health professionals and physicians have shown the least amount of growth of all healthcare professionals. The University of New Mexico and the Higher Education Department offer incentives, such as loans and special programs, to students in the healthcare profession to increase recruitment and retention. DOH is using telehealth services to increase access to medical and dental care in rural and underserved areas in the state. Additionally, Medicaid enrollment facilitates healthcare access in New Mexico by ensuring a payor for medical services rendered.

New Mexico Rate of Teen Births per 1,000 Population by Race/Ethnicity, 2002



Source: Kaiser Family Foundation State Health Facts

New Mexico Overweight and Obesity Rate by Race/Ethnicity, 2002

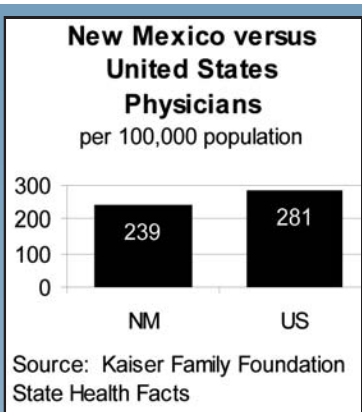


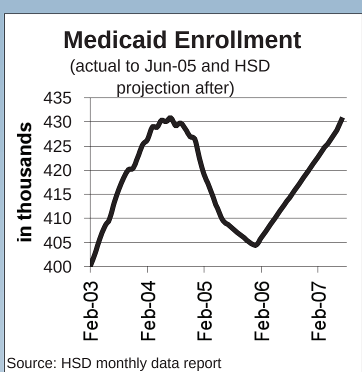
Source: Kaiser Family Foundation State Health Facts

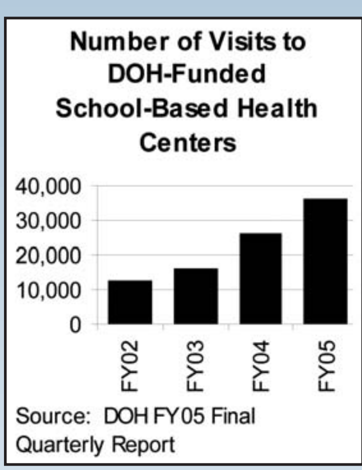
Counties Designated as Primary Care HPSA, December 2004

San Juan, McKinley, Cibola, Catron, Hidalgo, Valencia, Socorro, Sierra, Torrance, Mora, Guadalupe, DeBaca, Chaves, Eddy, Roos-evelt, Quay, Harding, Union

Policy Analysis: **Health Care**







Medicaid Enrollment. Medicaid enrollment has declined in recent months, a turnaround from years of growth. While the program has not been subjected to any direct eligibility restrictions, administrative changes contributed to slowing or reducing enrollment. Among those changes was a move to a six-month recertification requirement from the previous 12-month requirement. Notices were sent out in July 2004 and the change took effect January 2005. It was estimated by HSD the recertification would save $4.6 million from the general fund. Other changes related to enrollment included automatic closure for non-recertification, saving $4.5 million, and minimizing outreach, saving another $3.1 million. These three efforts together were estimated to constrain Medicaid general fund costs by $12.2 million or almost $50 million with federal matching funds. HSD projects enrollment to drop to a low of 404,000 in January 2006 and then rebound to 430,000 by July 2007. HSD indicated surprise the enrollment fell so quickly and to such a low level and will resume outreach in an effort to turn around the decline. The uncertainty associated with future Medicaid enrollment adds great risk to the potential general fund requirement for both FY06 and FY07.

School-Based Health Centers. School-based health centers (SBHC) are intended to help improve the lives of New Mexico's children by placing healthcare services within schools. The typical SBHC is designed for the provision of integrated medical and behavioral health services. According to HPC, SBHC provides a trained healthcare professional who can

- Assess health care and illness conditions,
- Treat illness and prescribe medication,
- Counsel students and their families about wellness, illness management, and other resources, and
- Make referrals and coordinate outside services such as X-rays and dental work.

HPC also suggests national experience indicates, when a health center is placed inside a school, students are less intimidated about seeking services, comply with scheduled appointments, have access to on-site providers who have the ability to touch base informally with the student, and have care integrated with primary care or behavioral health clinicians. Currently DOH funds 34 SBHCs with $2.5 million from the general fund.

Insurance Access. Insuring New Mexicans is a continuing problem. For the last 10 years, the number of New Mexicans insured is well below the national average. Using a three-year average, HPC indicates New Mexico had the second highest proportion of uninsured population in the country, with 22 percent uninsured, or approximately 400 thousand people. Texas was the highest at 24.6 percent uninsured and Minnesota was the lowest at 8.6 percent uninsured.

State Coverage Insurance. The State Coverage Insurance (SCI) was implemented July 1, 2005, and is available to employees or individuals who have not voluntarily dropped health insurance in the last six months and to employers who have not voluntarily dropped health insurance to their employees in the last 12 months. Eligibility is based solely on income at up to 200 percent of the federal poverty level. There are no limitations for pre-existing conditions. Employers pay about $75 per month and employees up to $35 per month based on income. Individuals without an employer sponsor are eligible but must pay both portions of the premium. Likewise co-pays will be on a sliding income-based scale. The state share is eligible for a State Children's Health Insurance Program federal dollars match of 80.36 percent. The $4 million state share appropriated during the 2005 session will generate federal funds of over $16.4 million that will be added to the private share estimated at about $6.5 million.

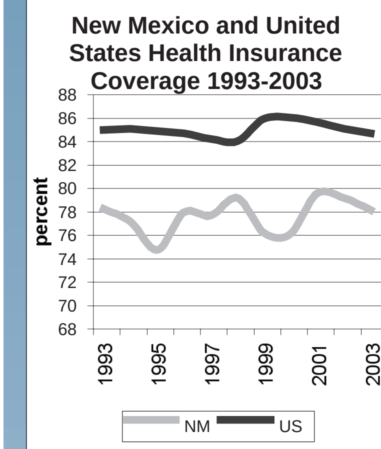
HSD's goal is to have 10,000 enrollees by June 30, 2006. The FY06 monthly premium for this program is $355 and after an employee and employer payments and the federal contribution, the net state cost is about $50 per employee per month. The $4 million allotted for SCI in the FY06 budget would be sufficient for nearly 6,700 full year members.

Other Health Insurance Initiatives. In conjunction with SCI, legislation in 2005 passed bills aimed at expanding health insurance coverage including the following:

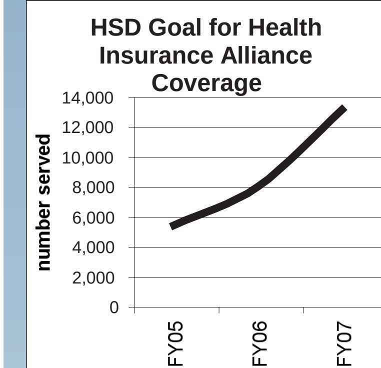
- Expansion of purpose and rate reduction for the Health Insurance Alliance, which might impact 10,000 additional lives;
- Extension of individual healthcare coverage of unmarried dependents until age 25, which may impact 4,000 lives;
- Expanded employer coverage for certain part-time employees, which might impact 4,000 lives, and
- Development of the small employer insurance program, which might impact 3,000 lives.

The Health Insurance Alliance is a consortium of private insurers created in 1994 by the Legislature to provide increased access to voluntary health insurance for small businesses, self-employed, and qualified individuals. As a lead agency in the insurance initiative, the Human Services Department's goal is for the Alliance to increase coverage from 5,200 lives in FY05 to over 13,000 by the end of FY07. Currently 10 private insurers participate.

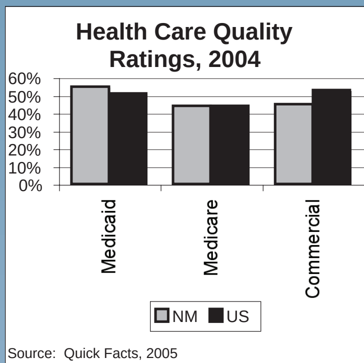
The small employer insurance program, a self-insurance pool for entities with 50 or fewer employees created in 2005 legislation, is still in the development stage. It is anticipated the General Services Department will administer the program but funds for a start up risk pool could be an obstacle. The goal is to have 2,000 participants in the program by the end of FY07.



Source: Quick Facts 2004 and Kaiser Family Foundation



Source: LFC Files



DOH Capital Outlay Funding in 2005

- $48.8 million for the Scientific Laboratory
- $10.3 for the New Mexico Rehabilitation Center
- $11 million for the Behavioral Health Institute at Las Vegas
- $4 million for Fort Bayard Medical Center
- $3.5 million for School-Based Health Centers
- $2.5 million for the Behavioral Health Capital Fund
- $1 million for DOH facilities in general
- $1 million for technology and related infrastructure for various projects

Quality of Care. DOH facilities are often called the health "safety net" because of their responsibility for providing direct care to those individuals who otherwise would not have an appropriate provider. To ensure quality of care, DOH is working to ensure DOH facilities meet or surpass national quality and safety standards and employ healthcare best practices and is offering opportunities for patient participation in treatment and discharge plans. HPC studied quality of care surveys for New Mexicans and found a mixed bag of the state versus the nation in quality of care ratings, as shown in the sidebar.

Health Facilities. DOH contracted for a facilities capital outlay needs assessment by the engineering firm 3D/International, which indicated a need for approximately $100 million for repairs and upward of $320 million for replacement costs of DOH facilities. The Legislature in 2005 passed, and the governor signed, two major bills authorizing the expenditure or issuance of bonds totaling $82.1 million for the purpose of funding new construction or for making improvements to DOH facilities identified as critical to correct substandard conditions or to address licensing and certification issues.

For FY07, the department has requested $6.5 million in their *Local Infrastructure Capital Improvement Plan* for new windows at the New Mexico Veterans' Center, a new kitchen and construction of a new Ponderosa Nursing Home pod in the Meadows Complex at the Behavioral Health Institute at Las Vegas, and breathalyzer testing instruments for the State Laboratory.

Fort Bayard Medical Center. Per Laws 2005, Chapter 317, DOH seeks to have a private entity operate Fort Bayard Medical Center (FBMC) and at the same time provide a new building. A request for proposals (RFP) for this purpose was issued on August 5, 2005. To date, DOH indicates a short-term contract is now in place with Geo Care and DOH intends to have a second contract in place for the management of FBMC at a new location within six to eight months.

Los Lunas Community Program. After a number of problems surfaced at the facility in FY05, DOH sent an audit team to Los Lunas to investigate allegations. To date, DOH has hired a new facility administrator and deputy administrator who have worked to increase cost-effectiveness in the 134-bed program.

The Attorney General (AG) is currently investigating the Los Lunas Community Program (LLCP) for the period prior to August 2004. AG has found that a "substantial" amount of funds are due to the state and the federal government – approximately $5 million – and is working to find a way to repay the federal government. AG has only completed the respite care billing component of the investigation and indicates the overpayment could include Medicaid, Medicare, funding from the managed-care organizations, and the Medicaid waiver funding. DOH indicates it has corrected the problem, insisting on proper documentation and improved programming and quality of care.

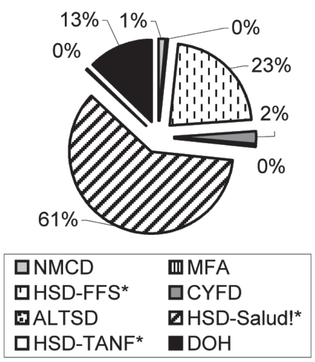
With regard to the quality of behavioral health care in the state, the Behavioral Health Purchasing Collaborative contract with ValueOptions is an integral piece in determining quality of care in the outlying areas of the state.

Managed-Care Changes. Beginning in FY06 the managed-care portion of Medicaid was divided into two pieces, physical health and behavioral health. Prior to that time each of the three managed-care organizations (MCOs) provided both physical and behavioral health care. Legislation creating the behavioral health collaborative allowed for a contractual relationship with providers for all state behavioral health services. The collaborative decided on a single entity concept and chose ValueOptions to oversee the services. ValueOptions will function as a managed-care insurance organization in the same fashion as the prior structure of the original MCOs. The new concept with ValueOptions as the single behavioral health provider was implemented July 1, 2005 with the beginning of FY06. Experience with the new structure is insufficient to determine the quality of the ValueOptions services. HSD indicates benchmark data is being collected but performance measures will not be offered until FY07. This is very late considering the behavioral health change was predicated on higher quality services yet comparative evaluation will not take place until almost two years after implementation. By this time ValueOptions will be compared with itself rather than with the prior providers. In addition, the collaborative indicates costs are not expected to drop with the single entity concept but services should be expanded and improved. This was to be accomplished in a cost-neutral environment, however, inquiries to HSD to validate the cost neutrality of the program went unanswered.

Medicaid use of managed care is expanding even into what was originally defined as fee-for-service. Presently a managed-care function is already providing pharmacy services in the fee-for-service portion of Medicaid. In addition, varied services such as transportation, dental services, and certain long-term care might fall under the auspices of the managed-care concept. HSD will need to develop sophisticated contract management capabilities to ensure quality and efficiency of the expanded managed-care role.

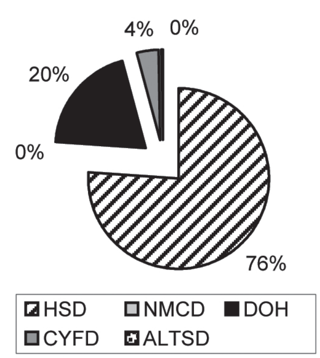
Public Employee Health Care. Double-digit increases in health- benefit costs continue to impact public and private sector budgets. For 2006, the Segal Company is predicting cost increases of approximately 12 percent for healthcare plans and 14 percent for prescription drugs. In New Mexico, three state agencies currently administer healthcare plans for more than 135,000 state and municipal employees, teachers, and retirees. The Retiree Health Care Authority, General Services

ValueOptions Phase One Funding Sources
(Total: $289.3 million)

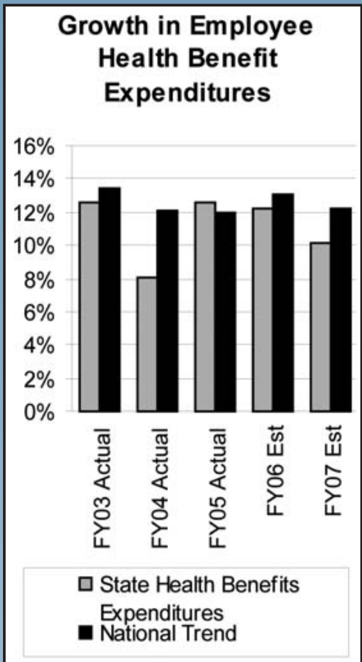


* HSD Medicaid numbers are estimates
Source: HSD, Leslie Tremaine, BHPC

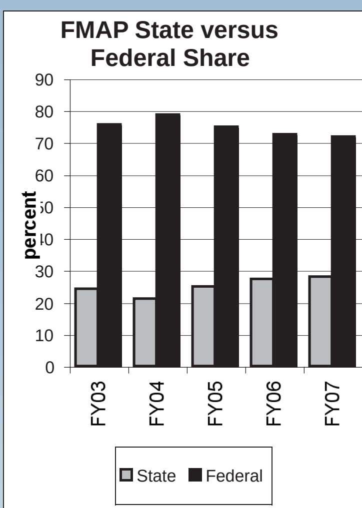
Estimate of ValueOptions Phase Two Funding Sources
(Total: $262.7 million)



Sources: October 2005 Medicaid Projection and FY07 agency budget



Source: Agency Budget Submissions, Segal Corp. data



Source: LFC Files

Department, and Public School Insurance Authority are requesting a total of $619 million for health benefits in FY07, a 10.2 percent, or $57.3 million increase over FY06

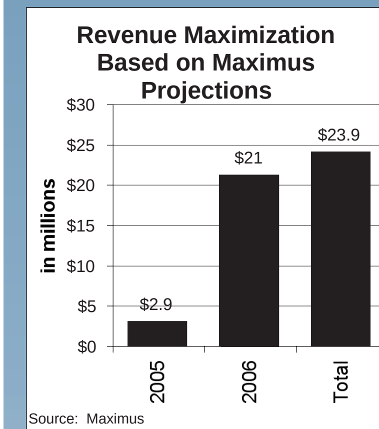
Including the FY07 request, the average yearly increase over five years in health expenditures for the three state agencies is 11.1 percent, slightly less than the medical and prescription drug average yearly increase of 12.5 percent calculated from Segal Company health plan cost survey data. Contributing factors to moderate growth in New Mexico's costs are higher use of low cost generic prescription drugs, as well as medical plan changes such as co-pay increases and implementation of co-insurance in some plans.

Healthcare Revenue. With the limits in healthcare access, Medicaid enrollment numbers, DOH facility deterioration, managed-care organization changes, and insurance and public health employee costs, the state must be smart about adequately funding health care and be innovative on revenue maximization.

Medicaid State Funding Requirement. To support the Medicaid program in FY07, the entire state share from all revenue sources is anticipated to be over $725 million. This entire state share is derived by using the effective FY07 federal medical assistance percentage (FMAP) of 71.85 percent federal funds to 28.15 percent state funds. The sidebar graph tracks the state versus federal share from FY03 through FY07. The state share has generally increased during this period with the exception of FY04 due to a one-time federal allowance of 2.95 percent. Although the FMAP increased nearly 0.5 percent for the 2007 federal fiscal year, the state share still went up slightly due to a combination of the service mix and aligning the state fiscal year with the federal fiscal year. The result is a 0.82 percent increase in the state requirement from FY06 to FY07. Future federal congressional changes are expected to continue the trend of greater state participation requirements. It is expected additional cost sharing requirements for enrollees in the form of co-pays and premiums may be part of new federal regulations. In addition, limitations on certain state Medicaid taxes may be enacted that indirectly make the programs more expensive for states.

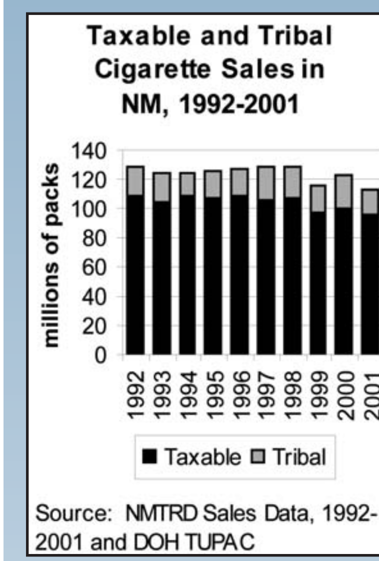
Revenue Maximization Efforts. Revenue maximization and fraud and abuse recovery have continued over the past year although with limited success. In 2004, HSD contracted with Maximus, Inc. of Virginia to initiate and carry out new strategies to better leverage state funds, recover Medicaid overpayments and detect fraud and abuse. Department of Health and Children, Youth and Families have also participated in this effort utilizing the same contract.

HSD has paid almost $1.2 million to Maximus, Inc. and had recovered about $3.6 million as of September 2005. While HSD has approved 14 initiatives, only four have generated any revenue. With Maximus' assistance, HSD received a one-time payment of $2.1 million in previously unclaimed enhanced federal Medicaid funds and reallocated the funds to offset a shortfall in FY05. The three other initiatives involved Medicaid overpayments and have recovered the remaining $1.5 million. HSD must rebate the federal portion of these recoveries making the total amount of state funds recovered only about $400 thousand.

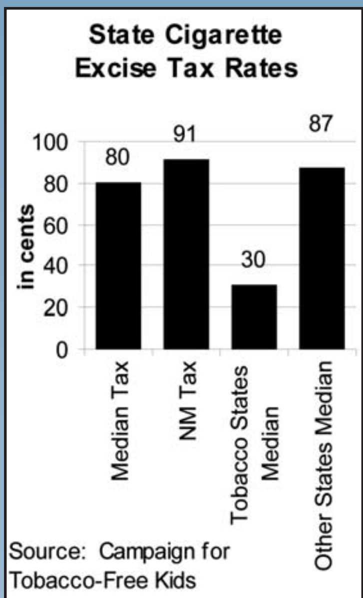


Other opportunities exist for increasing the amount of revenue recovered. Maximus projects about $21 million in recoveries during FY06 across HSD, DOH, and CYFD. However, these recoveries depend heavily on the efficiency of each agency providing the necessary staff time and data and, ultimately, approval of new plans by the federal oversight agencies. Should these projections materialize, some of the funds may be eligible for use in the 2007 budget.

University of New Mexico Hospital. In July 2005, Governor Richardson requested through the University of New Mexico Board of Regents that a special, statewide University of New Mexico Hospital "UNMH Summit" be held to address what is perceived to be a lack of transparency in the hospital's funding, expenditures and policy decisions. The regents responded by engaging a third party accounting firm to help produce impartial financial data to "open the books" for the summit. This financial information points to an uncompensated care burden of approximately $44 million in FY05 based on a generally accepted methodology to determine such shortfalls. A variety of revenues sources make up for the uncompensated care but the net income in FY05 was only $2.2 million based on billed charges of $915 million, just 0.24 percent. Officials report that to date no persons have been turned away from UNMH for lack of ability to pay but escalating medical costs coupled with New Mexico's high uninsured rates the prospect exists for the hospital to lose the ability to cover the uncompensated costs without new revenue sources. In addition, low profits hinder the hospital's ability to adequately fund capital improvements and remain competitive for quality employees. Possibilities for new revenue include enhanced Medicaid payments and better response from indigent funds for patients from outside Bernalillo County.



Tobacco Settlement Program Fund. Over the initial 25 years, the master settlement agreement between the participating states and the tobacco industry will result in an estimated $1.2 billion distribution to New Mexico. Prior to FY04, half of each year's distribution was invested in a permanent fund and the remaining half made available for recurring appropriations. Section 6-4-9 NMSA 1978 diverted all the tobacco settlement payments from the tobacco settlement permanent funds to the general fund through FY06. Beginning in FY07, the diversion ceases and 50 percent will again be diverted to the permanent fund and the other half to the program fund for appropriation. For FY07 the estimated revenue is $29.8 million. At the end of FY05, the permanent



fund contained approximately $77 million. A table in Volume III shows the FY07 LFC recommendation for tobacco settlement program funds.

Tobacco Use Prevention and Control. As shown in the sidebar, DOH and the Taxation and Revenue Department report tribal cigarette sales account for less than one-fifth of total cigarettes sales in New Mexico annually. Also shown in the sidebar, New Mexico's cigarette tax ranks above the national median. Rhode Island ranks first with a tax of $2.46 per pack and South Carolina ranks last with a tax of 7 cents per pack. While there is no consistent approach taken by the states to address tribal tobacco sales, research shows states that have built partnerships or mutually beneficial relationships with tribes have been much more successful in negotiating agreements or compacts regarding cigarette prices on and off tribal lands. States and tribes with an adversarial relationship have been far less successful. As of 2003, positive examples include Arizona, Nevada, and Wisconsin. In Arizona, tribes collect the tax with options to enter into agreement at the Arizona state tax rate or a lesser rate or to not tax at all and keep the tax revenue. The state uses separate tax stamps for taxable and non-taxable sales, enabling it to track all cigarettes distributed in the state. Nevada entered into a compact that guarantees tribes collect taxes equivalent to the state tax and keep the revenue to use as tribal government sees fit. The tribe purchased land for a new health clinic based on "good faith" that the state would raise the cigarette tax. The Nevada Legislature passed a 40-cent tax increase effective July 22, 2003. In Wisconsin, compacts with tribes distribute 30 percent of tax collected on the reservation directly to reservation residents and 70 percent to the tribal nation.

Department of Health Contract Management. During the 2004 interim, LFC audit staff conducted an audit of the department's contracts to determine whether or not the contracts contained performance measures and were adequately monitored. The audit found DOH did not have a complete contract listing, outcome measures were not used in performance-based contracting, department-wide prioritization did not occur and performance was not considered in program reductions, and performance contracting has not been implemented. DOH committed to resolving the issues by distributing an updated *Contracts and Grants Procedures* manual, reviewing formal contract performance compliance reports in conjunction with DOH internal audit, and creating a contracts and grants database. To date, the department has implemented all but the internal audit collaboration portion. Beginning in FY06, the department has provided an updated contract listing with quarterly performance reports. The committee encourages the department to use this listing as a management tool to avoid overlap and duplication in the department's many contracts.

AGING AND LONG TERM SERVICES DEPARTMENT

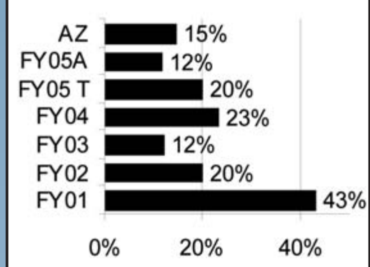
With the legislation elevating ALTSD to a cabinet-level agency, ALTSD took on five new programs from the Human Services Department (HSD), the Department of Health (DOH) and the Children, Youth and Families Department (CYFD). Because the department promised a no-cost transfer, they took only a few new FTE from those agencies to manage the new programs. Additionally, ALTSD had to develop new measures from scratch. The programs were buried in larger programs in the outgoing agencies and only the Adult Protective Services program had performance measures prior to the transfer to ALTSD. While the measures are the first shot at gauging new programs, it is expected the agency will develop more meaningful measures after one year. However, ALTSD has not made an effort to improve performance measures for the new programs.

FY05 Final Targets. At the end of FY05, the department met 23 of 34 performance measure targets. While there are welcomed increases, such as the percent of Temporary Assistance for Needy Families clients placed in meaningful employment increasing from 26 percent to 30.2 percent and the number of client contacts to assist on health, insurance, prescriptions, and other programs increasing from 30,120 to 34,360, there are some significant disappointments, such as a failure to increase the percent of individuals participating in the federal older worker program obtaining unsubsidized, permanent employment, and the inability to place 100 percent of disabled and elderly (D&E) Medicaid waiver clients into services within 90 days of eligibility determination.

For personal-care option (PCO), the department seeks to increase the number of clients directing their own services because the consumer has more control over their care. When the program transferred from HSD, only 2 percent of the cases were consumer-directed. As shown in the sidebar, the department succeeded in meeting that target with almost 5 percent consumer-directed. To show how the percent translates into actual clients, ALTSD includes in the report the total number of PCO clients (8,317) and the number of clients who use the consumer-directed model of care (415). In the future, ALTSD should consider including the general fund cost per client.

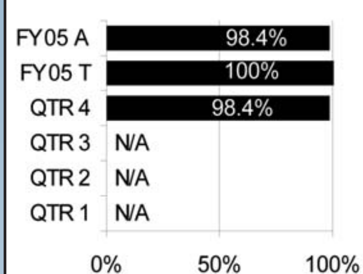
Finally, with regard to the D&E waiver, the department measured the percent of clients placed into services within 90 days of eligibility determination, to measure compliance with the Lewis lawsuit. While the department came very near its target of 100 percent, there is no context to determine the number of people served. For example, if the department reaches its target of 100 percent but only serves five people, the target is hardly relevant. The department should include the number on the waiting list, the number on the waiver and the general fund cost per client to provide a frame of reference. According to recent

Percent of Federal Older Worker Program Obtaining Unsubsidized Employment



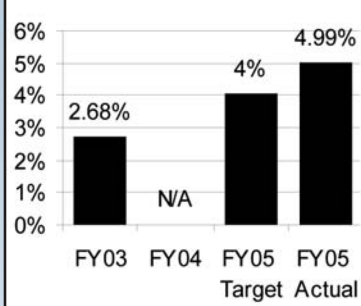
Source: ALTSD FY05 Final Quarterly Report

Percent of D&E Waiver Clients Receiving Services Within 90 Days of Eligibility Determination

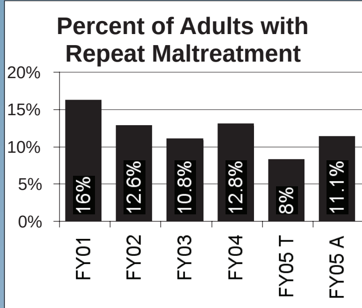


Source: ALTSD FY05 Final Quarterly Report

Percent of Total PCO Cases That Are Consumer-Directed



Source: ALTSD FY05 Final Quarterly Report



Source: CYFD FY05 Final Quarterly Report and ALTSD FY07 budget submission

information from the department, 7,112 people are on the waiting list and 2,024 are in services.

FY07 Measures. Because the Adult Protective Services program does not legally transfer to ALTSD until January 1, 2006, measures for this program were not included in FY05 quarterly reports. While the graph in the sidebar is not an indication of ALTSD's work in this program, it shows a downward trend that ATLSD should maintain. In FY07, ALTSD should report on the percent of adults with repeat maltreatment and the number of clients receiving services. It should be noted the *Wall Street Journal* indicates this is "what many call the best measure of a system's ability to protect (adults) from abuse."

In the future, ALTSD should focus on a few measures for each program that allow the public to read the report and determine the purpose and functions of that program, as well as the department's performance in those functions. For the Long-Term Services program, the department should develop more meaningful measures. Additionally, they should include at least one measure for the program of all inclusive care for the elderly (PACE) program.

MEDICAL ASSISTANCE DIVISION

All of the measures are meaningful and point toward activities that may provide better health outcomes. All the measures are for services provided by managed-care organizations (MCO) which allows for accurate data through use of the management information system and encounter data available in the Medicaid program and through contractors. While they are important, the measures report on only the MCO portion of the $2.5 billion Medicaid program. Additional measures need to be included. Such data collection is required by the MCO contracts and mirrors health plan employer data and information set (HEDIS) criteria. Such measures include the following:

- Percentage of diabetics who received appropriate blood testing,
- Percentage of asthmatics who receive the appropriate medication,
- Percentage of women receiving cervical cancer screening, and
- Average cost of prescriptions per member per month.

Other possible areas of reporting could involve the Consumer Assessment of Health Plans Study (CAHPS). These studies are an annual recipient survey conducted by MCOs and reflect member satisfaction with each of the heath plans. These reporting mechanisms must now be broadened to include the new behavioral-health services managed by ValueOptions.

DEPARTMENT OF HEALTH

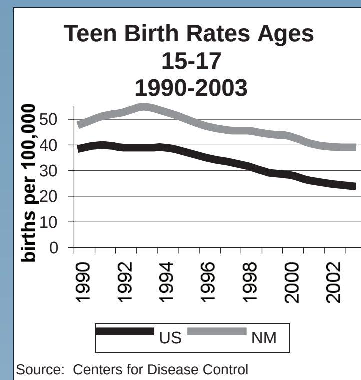
The Department of Health (DOH) has worked over the last year to improve on existing measurements and measure departmental progress against other states. While the department measures have improved dramatically, the end of year results for existing measures are a mixed bag.

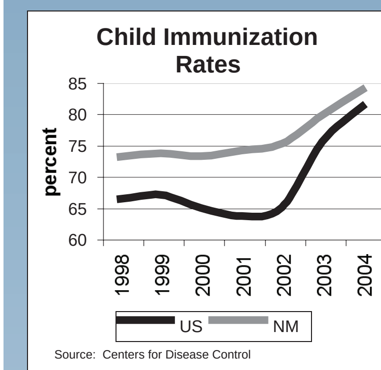
For FY06, DOH's strategic plan focused on 20 strategic directions, ranked in order of importance. Subsequently, the DOH secretary pared the focus to eight goals: improve health outcomes and family support for New Mexicans, combat hunger and improve nutrition, improve behavioral health, protect and support vulnerable populations, improve healthcare and human services by investing in workforce development and infrastructure, improve access to health care, reduce health disparities, and achieve excellence and accountability in administration and service.

FY05 Final Targets. At the end of FY05, the department met 30 of 46 performance measure targets. While there are welcomed increases, such as the percent of children fully immunized increasing from 78 percent to 83.5 percent, there are some significant disappointments, such as a failure to reduce the rate of drug overdose deaths in Rio Arriba county and the inability to reduce the teen birth rate below the national average. New Mexico has 35.6 teen births per 1,000 population for females ages 15 to 17, and the national average is 24.7.

Quarterly Reporting in FY06. The DOH quarterly report improved significantly in FY06 with more meaningful measures and somewhat improved action plans. The first FY06 report included the number of hepatitis C clients treated by the University of New Mexico's Extension for Community Healthcare Outcomes (ECHO) project and number of adults receiving developmental disabilities day services engaged in community-integrated employment, as well as measures for the Behavioral Health Purchasing Collaborative (BHPC), as shown in the sidebar. Other additions will include a complete contracts and capital outlay update. The department still needs to report on critical workload information, such as cost per client, number of New Mexicans served, and number of New Mexicans on a waiting list, if applicable.

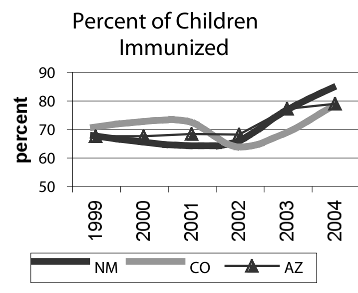
Benchmarking. According to *Healthy People 2010,* coordinated in part by the federal Health and Human Services Department as a set of health objectives for the nation to achieve over the first decade of the new century, there are 10 leading health indicators: physical activity, excessive weight and obesity, tobacco use, substance abuse, responsible sexual behavior, mental health, injury and violence, environmental quality, immunization, and access to health care.



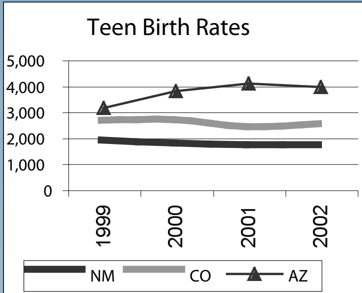


BHPC Performance Measures

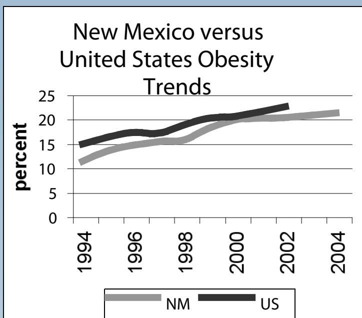
- Percent of people receiving substance abuse treatment who demonstrate improvement on three or more domains on the addiction severity index,
- Number of adults with serious mental illness in competitive employment of their choice,
- Number of individuals with mental illness, substance abuse disorders, or both, with decent, safe, affordable housing,
- Number of behavioral-health practitioners in rural or frontier areas,
- Number of behavioral-health practitioners trained in and using evidence-based and promising practices that support recovery and resiliency.



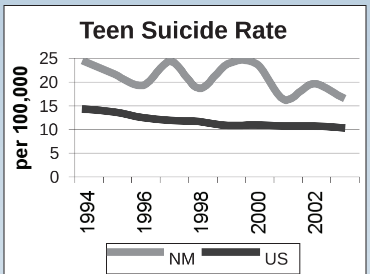
Source: DOH Final FY05 Quarterly Report



Source: DOH FY05 Final Quarterly Report



Source: DOH FY05 Final Quarterly Report

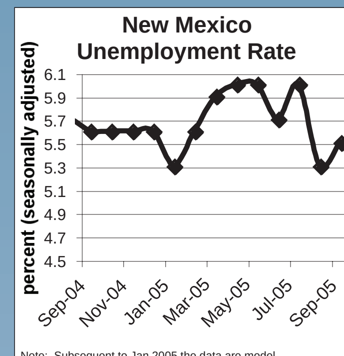


Source: DOH Final FY05 Quarterly Report

DOH includes all of these items in the FY07 requested measures, with the exception of a direct link to physical activity, and measures for environmental quality, which is handled by the New Mexico Environment Department. In FY05, DOH benchmarked some of the measures, as shown in the sidebar. The committee encourages DOH to continue to benchmark these measures, as well as others, to the extent possible. Additionally, the department should add measures that cover the spectrum of *Healthy People 2010* and are listed in the *Comprehensive Strategic Health Plan,* such as physical activity at least three times per week for 20 minutes.

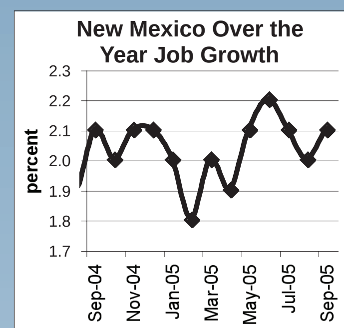
Policy Analysis: **Workforce Development**

A skilled labor force is a key to economic growth in New Mexico. The goal of the state's workforce system is to build a skilled labor force, help clients transition from welfare to work, and provide employers a skilled labor force. A 2003 LFC audit noted inefficiency and poor performance by New Mexico's workforce development programs. Programs administered by the New Mexico Department of Labor (NMDOL), Economic Development Department (EDD), Human Services, and Community Colleges were disjointed and in need of improved coordination. Clients receiving services would often have to visit many different state agencies in their search for job training. The audit also found that many businesses were not using the workforce programs when hiring employees.



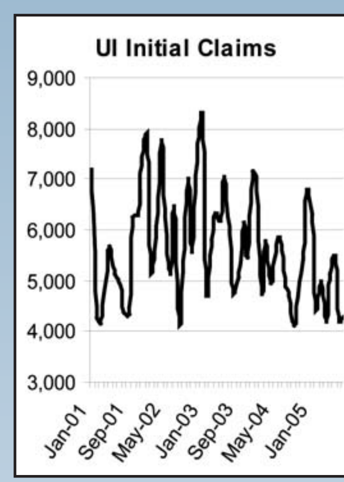
Note: Subsequent to Jan 2005 the data are model based and thus show greater month-to-month variation.
Source: NM Labor Market Report

Office of Workforce Training and Development. The Office of Workforce Training and Development (OWTD) was created in FY05 to streamline all workforce development initiatives in the state. The workforce development vision is business-led, demand-driven, and delivers universally accessible services in a well-designed network that provides services at the local level. Improving the coordination of over 17 federal and several state programs has proven to be an arduous task for OWTD and some might say elusive task.



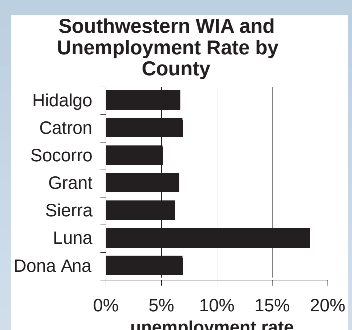
Source: NM Labor Market Reports

On the positive side, the agency has been effective getting one-stop centers open. Until recently, the workforce system had not been able to implement the federal mandated one-stop concept. The Workforce Investment Act (WIA) mandates regional decision-making and successful implementation of the one-stop concept requires the participation of four local workforce development boards. OWTD has carefully cultivated partnerships with each local board and is on track to have eight one-stop centers open by the end of FY06. OWTD requested a supplemental appropriation to open offices and purchase equipment for the one-stops. Other short-term goals include the development of a five-to-ten year strategic plan, development of a performance-based system of accountability, and a multi-year reconciliation of WIA expenditures.

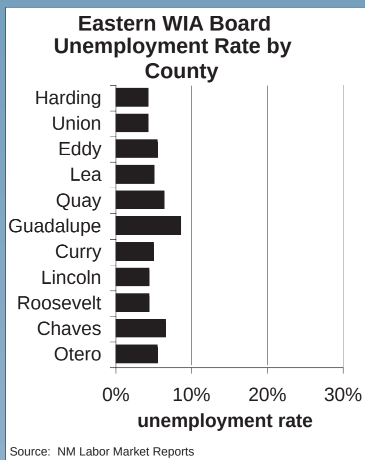


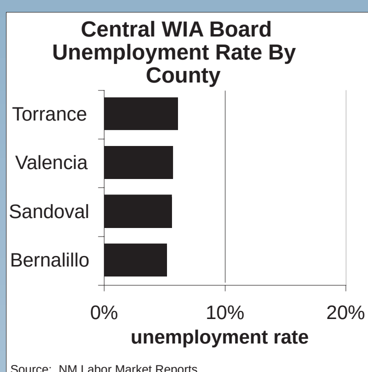
Nevertheless, with less than two years experience as an independent agency, it is difficult to determine if OWTD has had a positive effect. Increased collaboration with EDD, PED, HSD, and NMDOL will have to occur for OWTD to be viewed as truly successful.

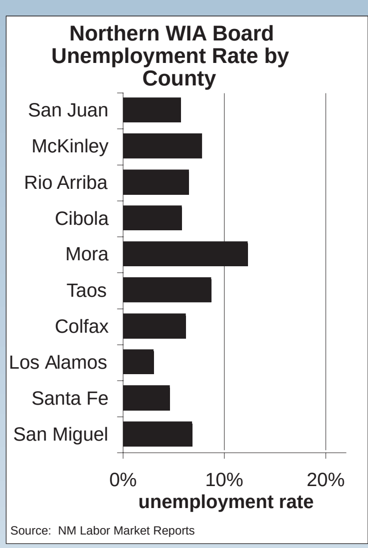
New Mexico's One-Stop System. New Mexico is developing one-stop centers that are virtual, physically co-located, and both comprehensive and non-comprehensive. The virtual system provides an electronic link through which workforce services can be accessed. Physical, non-comprehensive sites will have all mandated partners but might not have all partners co-located full time (dependant on the needs of the local area). Comprehensive, one-stop career centers will have all mandatory partners full time and will be certified consistent with the vision expressed by the Legislature. New Mexico has been slow to implement the one-stop concept and only recently opened the first comprehensive one-stop site



Source: NM Labor Market Reports







in the eastern region of the state providing case-management services with case managers well-versed in each federal program and aspects of eligibility. Each client case has unique barriers such as substance abuse, learning disabilities, English as a second language, behavioral health, transportation, childcare, etc.

OWTD worked with the Eastern Workforce Board to open the first one-stop center. The Portales comprehensive one-stop center has effectively partnered and co-located Economic Development, the Chamber of Commerce, Clovis Community College and the Shelter for Victims of Domestic Violence to provide Temporary Assistance Needy Families (TANF), Adult Basic Education (ABE), WIA, Wagner Peyser. Case managers have been cross training and integrating the various programs. Santa Rosa's non-comprehensive, one-stop co-located the TANF and WIA programs in the HSD field office. In the eastern region for the first quarter of FY06, 134 clients were placed in jobs with another 460 receiving work-related TANF placements.

The central workforce board has contracted with NMDOL to provide one-stop services in Bernalillo, Valencia, Torrance, and Sandoval counties. Valencia county's comprehensive one-stop opened October 3, 2005 and includes TANF, WIA, Department of Vocational Rehabilitation (DVR), Wagner Peyser, Veteran's Employment and Training Services (VETS), and Educational Opportunity Center (EOC). Sandoval County's one-stop is scheduled to be operation in late December. Bernalillo and Torrance counties plan to have their one-stops open before the end of FY06.

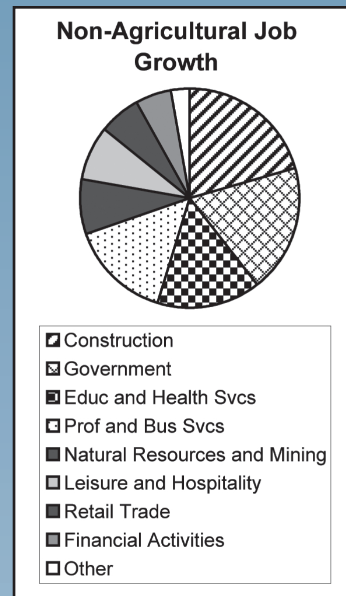
In FY07, OWTD will focus on getting one-stops open in the north and southwestern regions of the state.

Virtual One-Stop System. Utilization and performance have plagued the Virtual One-Stop System (VOSS) system almost since its inception. The system lacked sufficient documentation and procedures and limited training was provided to users. Users have complained of slow response times, errors, data integrity, and system down time. The system has recently been upgraded from version 5.0 to 7.0 to address the complaints. LFC recommends the integration of all workforce development programs into VOSS so that client data can be tracked and reported with greater ease.

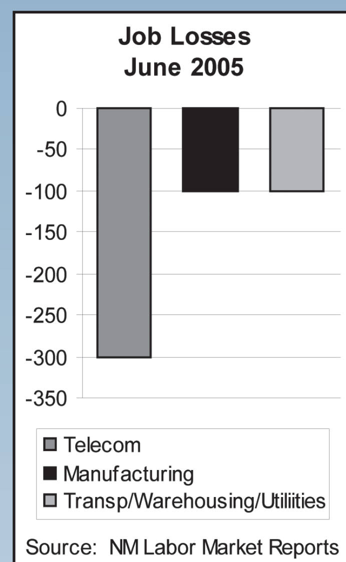
Business Needs. New Mexico added over 17,000 new jobs in FY05, a 2.1 percent increase from FY04. The job growth was concentrated in four areas: construction, government, professional business, and health services. Construction, which includes mining, grew 7 percent and contributed 3,600, or 21 percent, of the new jobs created in FY05. The professional and business services sector grew 3 percent while recent cutbacks in social service programs and Medicaid's personal care option (PCO) program slowed the growth jobs in the healthcare industry. Nationally, the U.S. Bureau of Labor Statistics reports a need to add

100,000 construction jobs each year through 2012 to meet demand, in addition to having to replace 90,000 retiring baby boomers in each of those same years.

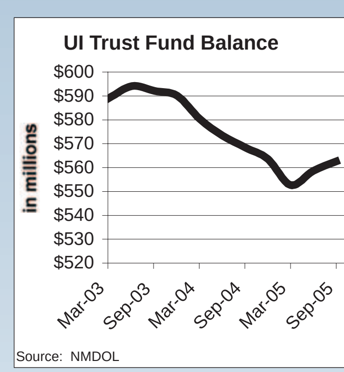
University of New Mexico's (UNM) economic forecasting service, FOR-UNM, cites Global Insight's (GI) three, five year forecasts of the New Mexico economy, aptly termed "baseline", "everything goes right", and "inflation bites". GI predicts slower growth in output and in real disposable income due to increased inflation related to the high price of oil, a weak dollar, increased commodity prices, and projected reduced federal funding in many social programs. The forecast projects very moderate employment growth and an unemployment rate of 5 percent to 5.3 percent. The majority of the job growth is projected to occur in the professional, technical and scientific services, government, and construction industries. Governor Richardson's Investment Partnership (GRIP), a highway construction program, will boast the construction sector as housing starts will slow.



Currently, New Mexico's workforce training is short-sighted. Each local board is working to provide labor to meet short-term needs, such as filling positions at a new food processing plant in the eastern region or positions in the central region for a new cabinet manufacturer. This light manufacturing sector lost jobs in FY05 and is expected to recover only slightly in the future. A long-term coordinated vision for workforce programs, that takes into account national and projected New Mexico trends is needed. New Mexico would be remiss if state workforce programs missed the growth trends and had to seek transient workers to fill New Mexico's job growth.



Unemployment Insurance and the Trust Fund. New Mexico has the best funded unemployment insurance (UI) trust fund in the country. With such a well-funded trust fund, the Legislature in 2003 expanded the categories of eligibility by extending unemployment benefits to full-time students, including a dependents' allowance of $15, adding eligibility for victims of domestic violence, and adding benefits to workers seeking part-time work. In addition to expanding benefits, New Mexico reduced employer taxes.



A sunset clause in the legislation specified that, if the trust fund balance fell below 3.5 percent of all payrolls, the expanded benefits would end. The sunset trigger was reached in January 2005; however, the Legislature, later that year, extended the benefits with a new sunset set at four years or 3.75 percent of all payrolls. The trust fund has grown slightly over the last three quarters due to a low unemployment rate, which has remained constant for the last year and a half, and a slight gain in the number of new jobs. The balance at the end of September 2005 was $561 million.

LABOR DEPARTMENT

New Mexico Department of Labor (NMDOL) is not one of the key reporting agencies but reported that the measure of the number of individuals served by labor market services who found employment was not met because the department can not measure the number of customers who use the self-serve Internet option for NMDOL services; if counted, the measure might have been met. Additionally, the measure of the average number of days for completion of a discrimination investigation and determination was not met due to a high investigation caseload brought on by austerity measures. The committee recommends implementing a system for vetting the reported discrimination claims and only investigating those with merit. Additionally, the department could shift or reclassify FTE from Administrative Services to the Human Rights Division to increase the number of investigators.

OFFICE OF WORKFORCE TRAINING AND DEVELOPMENT

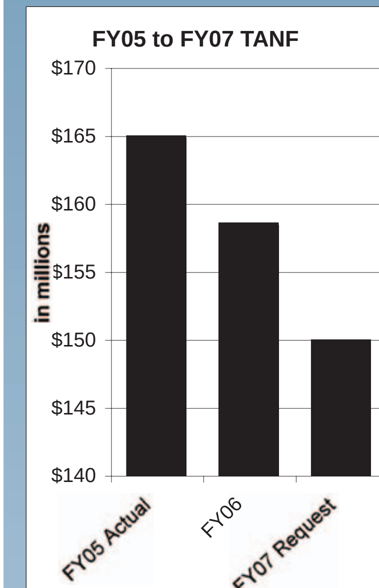
Office of Workforce Training and Development (OWTD) volunteered to be a quarterly reporting agency at the end of the 2005 legislative session. The agency has been working with LFC and Human Services Department (HSD) to develop new measures reflective of its new core responsibilities and mission.

INCOME SUPPORT DIVISION

The Income Support Division has six measures in the General Appropriation Act. The measures and targets generally support important workforce development goals related to Temporary Assistance for Needy Families (TANF) work contractors. Related measures are in the key agency quarterly report for the Human Services Department. Recent meetings with National Conference of State Legislatures consultants emphasize the need to expand beyond the limited results reported in the measures currently used. States are stretching data collecting to determine if TANF programs are leading clients to self-sufficiency or if measure reporting is no more than a formality without true improvements to quality of life. Examples could be not reporting just the average wage for TANF clients but rather the number able to secure jobs with wages above 200 percent of the federal poverty level. Also, tracking must occur to translate what may be a satisfactory hourly wage into the final annual earnings, a truer measure of self-sufficiency. Data reported in this fashion should lead to NM Works contract refinements that help get the right training to the clients, enhancing long-term progress and not just success for a day.

Social services in the state cover workforce development, care for the disabled, frail and elderly, and support for families. While most of the funding for these programs is either directly from federal dollars or from general fund dollars matched with federal dollars, these programs impact many New Mexicans, assisting citizens in caring for their loved ones and creating opportunities for betterment.

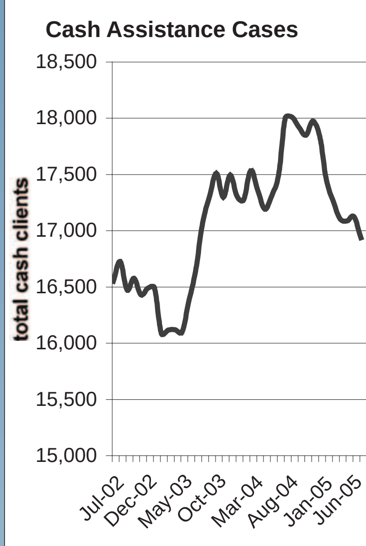
Workforce Development. The Income Support Division (ISD) of the Human Services Department (HSD) has made an effort to switch to using the Workforce Investment Act (WIA) boards as the NM Works contractors, with the Office of Workforce Training and Development (OWTD) acting as the intermediary. Currently only two of the four boards, Central and Eastern, are acting as contractors. The primary reason for using the boards is to expand the 3 percent share of Temporary Assistance for Needy Families (TANF) recipients accessing WIA services. Many of these services would be valuable to TANF clients and this is viewed as an almost untapped resource for this population. ISD requires NM Works contractors to provide an integrated service delivery model to ensure TANF clients have access to the special services perceived valuable to this group, such as case management. Presently, ISD has only certified the plans of the two boards; the other two are still striving for certification. It remains to be seen if this direction will achieve its value-added potential for the TANF population with program evaluation and subsequent improvement a necessity over the next few years.



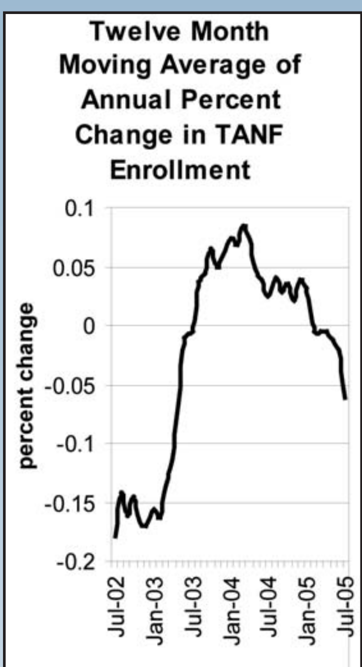
Source: LFC Files

Temporary Assistance for Needy Families Funding. The TANF budget has diminished from the FY05 actual spending of $164 million due to the depletion of nonrecurring federal carryover from prior years. To supplement the depletion of nonrecurring federal funds, the Legislature in FY06 appropriated approximately $3.6 million general fund in excess of the required maintenance of effort (MOE). In addition, some expenditure items were shifted to general fund expenses at other agencies. Examples include early childhood development, the GRADS program and full-day kindergarten, all previously supported with TANF federal funds, and now supported within the Public Education Department. Two million dollars of TANF federal funding for adult protective services is now covered with general fund dollars at the Aging and Long-Term Services Department.

For FY07 the basic funds available include $32.8 million from the general fund for the required maintenance of effort (MOE). The federal contribution is the $110.6 million in basic grant and a $6.5 million supplemental grant for a federal total of $117.1 million.
The graph in the sidebar follows caseload from July 2002 until July 2005. There was an increase during this period until January 2005 and then a relatively sharp downturn. The graph in the sidebar plots the 12 month moving average of percent change in enrollment. This change indicates a decline since approximately February 2005. Consequently,



Source: ISD Monthly Statistic Report



Source: ISD Monthly Statistic Report

the cash assistance requirement will be reduced. This reduction will allow support services to be funded at or near prior-year levels even with the total revenue reduction to near the federal recurring level of $117 million. Services supported by TANF funds include over $30 million in child care administered at the Children, Youth and Families Department (CYFD). In addition, funds from this TANF budget support the work training programs that prepare the clients for the workforce. With the 60-month lifetime limit on receiving cash assistance, the quality and success of the work programs are of critical importance.

Child Support Enforcement. Child support enforcement is authorized under Title IV-D of the Social Security Act and carried out by HSD in the Child Support Enforcement Division (CSED). An important purpose is to reduce the need for families to go on welfare through the collection of child support payments. To support this function, the federal government provides 66 percent of the revenue for the basic program, approximately $20 million for FY07 compared with the state share of near $6 million. New Mexico currently has 65,000 active cases with about 56 percent supported by court orders.

A policy shift centers on arrears management, with both a prevention and resolution component. Prevention relies on not allowing the non-custodial parent to fall behind in the first place. Final resolution to divorce and child custody issues can take over two years and often the non-custodial parent is complacent about the support issue, resulting in an arrearage before the decree is entered. CSED is working both internally and through the courts to encourage support payments during the separation process. This would avoid the unexpected and unpleasant result of a substantial unpaid balance, including interest, at the final divorce settlement. Recent legislation also reduces interest to 4 percent from 8.75 percent just two years ago. Section 40-4A-20 NMSA 1978 provides for amnesty of past interest charges, promotes the non-custodial parent becoming current on payments, and gets support funds to children more quickly through a mediation process. A pilot in the Las Vegas area resulted in 200 successful mediations with over 300 to date statewide. The process has produced lump-sum payments that satisfy the entire agreed-upon amount as well as property transfers to the children. As a value-added outcome, the elimination of the monetary disagreement between the parties has, on occasion, prompted the reunification of families.

Personal-Care Option. The rapid growth of the Medicaid personal-care option (PCO) has slowed. The graph in the sidebar shows the FY03 increase in spending as 33 percent and an estimate for FY06 and FY07 as only 3.7 percent. This growth rate was diminished primarily by the following regulation changes in FY05:

- Lowering of the reimbursement rate for the consumer delegated model from $15 per hour to $13.50 per hour for the first 100 monthly hours and lower after that;

- Establishing a "third-party assessor process" to determine eligibility and unmet needs and determine the number of hours to be provided to the consumer;
- Creating credentialing standards for all PCO providers to ensure proper service delivery, and
- Requiring HSD approval for advertising by PCO providers.

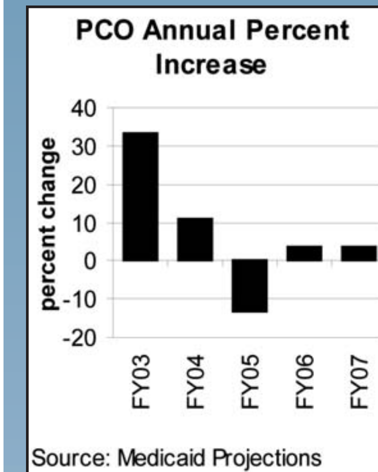
The program is anticipated to have expenditures of $173 million but the annual growth is finally in the lower single-digit range.

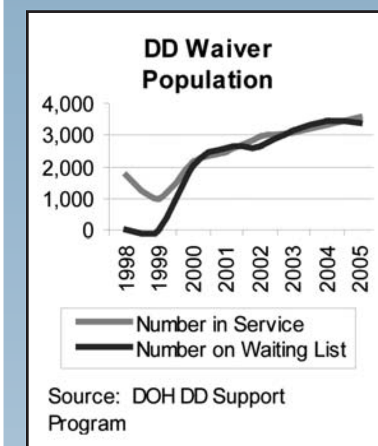
Medicaid Waiver Programs. The Legislature has consistently invested in the state's five Medicaid waivers: medically fragile, brain injury, AIDS, and particularly in the two largest waivers, developmental disabilities (DD) and disabled and elderly (D&E). Additional funding for the medically fragile waiver should eliminate the waiting list in FY07, and successes in the HIV/AIDS program have allowed patients to live longer, reducing the amount of funding needed for the AIDS waiver. However, the brain injury waiver has not yet been implemented, and the DD and D&E waiver waiting lists continue to grow, as shown in the sidebar, regardless of funding levels. The medically fragile, AIDS, and DD waivers are funded through DOH. The brain injury D&E waivers are administered through the Aging and Long-Term Services Department (ALTSD), however direct funding for the D&E wavier is maintained by HSD.

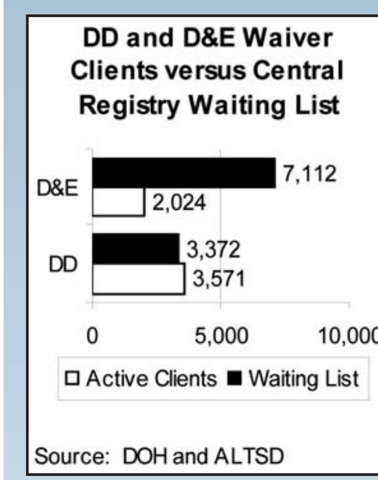
Developmental Disabilities Medicaid Waiver. DOH defines a developmental disability as a severe chronic disability of a person, attributable to a mental or physical impairment, including brain trauma, or a combination of mental and physical impairments. To be eligible, the disability must be manifested before the age of 22; continue indefinitely; result in substantial functional limitations in three or more areas of major life activity, as defined in the waiver; and reflect the need for a combination and sequence of special care treatment or other services that are long-term and individually planned and coordinated. DOH coordinates DD services to adults and children in home- and community-based settings rather than institutions.

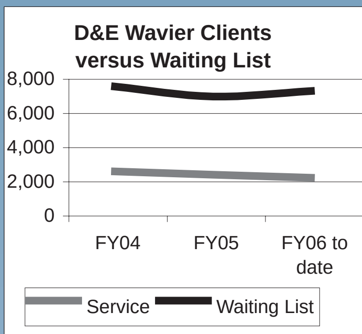
Cost per Client, Clients Served, and Waiting List. To calculate the number of people served in any given fiscal year, DOH uses the average cost of $16,450 from the general fund per client per year. Based on the average cost, the DD waiver currently serves 3,571 clients with 3,372 on the central registry waiting list.

Disabled and Elderly Medicaid Waiver. The D&E Medicaid waiver allows elderly persons with disabilities to receive Medicaid services and live in home and community settings instead of institutions. Beginning in FY05, ALTSD has been responsible for administering the D&E waiver; however the direct services portion of the funding has remained

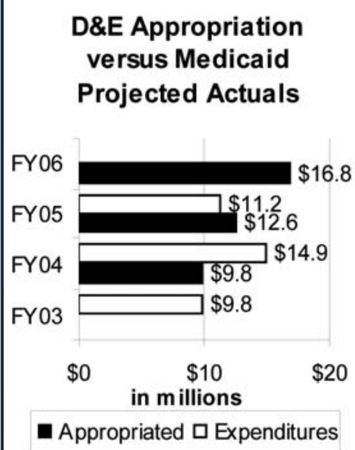








Source:ALTSD Presentation to LFC,June 2005



Source: ALTSD & monthly Medicaid projections

Mi Via Definition

Process applied to the service delivery system whereby older persons, individuals with disabilities, and, where appropriate, families have levels of direct involvement, control and choice in identifying, accessing and managing the services they obtain to meet their personal assistance and other health-related needs. Self-direction and consumer direction are sometimes used interchangeably.

at HSD. This is different than the DD waiver, which is housed entirely at DOH.

Cost per Client, Clients Served, and Waiting List. The number of clients in service as of August 1, 2005, is 2,024 and the number of clients on the central registry waiting list is 7,112. ALTSD indicates the department has taken the central registry in house. The system is relatively new and does not interface with HSD or the Omnicaid billing system at HSD. The comparison between DD and D&E clients and waiting lists is shown in the graph in the sidebar. ALTSD reports the average cost per client in FY05 was approximately $5 thousand. This figure has not changed since FY03 and might not be realistic, as updated figures from the HSD indicate the general fund cost per client may be as high as $7,120 per client. Despite a 2004 special appropriation specifically targeted at increasing the number of persons served on the D&E waiver, the number of clients actually declined in FY05, as shown in the sidebar. Also shown in the sidebar, fewer general fund dollars were spent on D&E clients.

Mi Via Self-Directed Waiver. On April 15, 2005, HSD, DOH and ALTSD issued a concept paper on their ideas for the future of New Mexico's Medicaid waivers. Much like the recommendations from the Disability Coalition on Medicaid Reform composed of state agencies and advocates in 2002, the concept paper pushes a self-directed notion, combining all funding sources to allow for a larger pot of money to provide services to more individuals, as well as to allow for a more cost-effective approach to funding waiver services.

Mi Via Timeline. HSD is currently developing the Mi Via waiver application and DOH and ALTSD indicate HSD will submit the application to the federal Centers for Medicaid and Medicare Services (CMS) by the end of November 2005 with implementation sometime in FY06.

Eligibility. Eligible participants can either participate in Mi Via and choose self-directed services or receive services through one of the current waivers. Mi Via will cover the Medicaid recipients listed in the sidebar.

Implementation and Individual Department Responsibilities. While HSD focuses on the waiver application, DOH continues to administer the DD portion of the self-directed waiver and ALTSD is preparing to administer all of the other waiver services. DOH and ALTSD indicate up to 25 percent of existing clients may choose to migrate to the self-directed waiver in the first year. As additional appropriations are made, individuals may choose between the traditional waivers or the self-directed waiver.

Implementation Issues. The biggest implementation issue to date is how far behind the agencies are in the process of creating the self-directed waiver. Initially, the application was to go to CMS by June 2005 and that deadline has been pushed back to November 2005. Aside from the delay, the biggest agency issue will be creating a support structure for ALTSD to house and administer all of the waiver services. Statewide, the biggest implementation issue will be educating providers and staff on the new waiver policies and guidelines.

Services, Supports, and Individualized Budgets. Mi Via allows clients to develop individualized service and support plans, within a pre-defined budget for each client. The budget will be based on a formula established from an actuarial study that will be part of the application to CMS. The concept paper indicates the cost per participant under the current waivers will be reduced under Mi Via for budgetary purposes. Services provided will include current waiver services plus other supports that may not be available under the current structure including home appliances, assistive technology, or medical equipment.

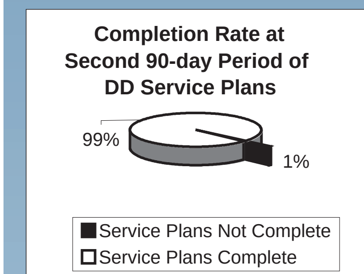
Because of the large waiting lists for the DD and D&E waivers, reducing the cost per client under current waivers is worthy of consideration, given the need to find more cost-effective ways to provide services.

Lewis Lawsuit. Graphs in the sidebar indicate the percentage of DD clients placed in services within 90 days of eligibility determination in FY05, DD and D&E general fund appropriations, and the DD expenditures by year. As shown, DOH has made significant progress in enrolling clients within the allotted 180 days and is working to spend all of the appropriated money annually, as demonstrated by improved performance measures. It should be noted, because ALTSD recently took over administration of the D&E waiver, the department is not currently mentioned in the Lewis lawsuit; however a motion has been filed to include ALTSD.

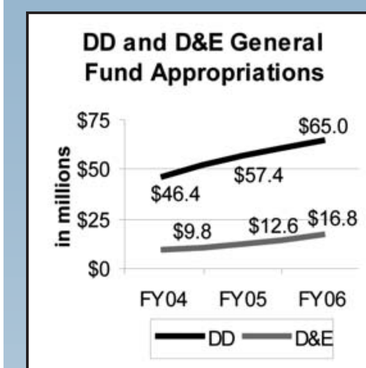
Jackson Lawsuit. In the joint stipulation on disengagement (JSD), the persons involved with the lawsuit agreed on how to build an infrastructure adapted to community placement. The JSD has three components. The first is a plan of action. According to DOH, of the 58 outcomes in the plan of action, 32 are disengaged. The second is a continuous improvement benchmark. DOH indicates 45 of the 70 continuous improvement items have been met and are disengaged. The third item relates to audit recommendations. All of the 1996 audit recommendations are disengaged, and 11 of the 25 audit recommendations from 1998 are disengaged. It should be noted this has not changed from the previous fiscal year. DOH indicates the disengagements are approximately two-thirds complete and attorney fees and disengagement for this case exceed $2 million annually. This money is requested in the Developmentally Disabled Support program in the other costs and contractual services categories.

Mi Via Medicaid Recipients

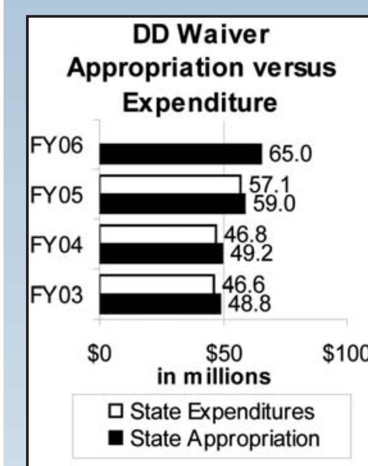
- Individuals eligible for the D&E, DD, MF, and AIDS waivers;
- Nursing home residents receiving Medicaid;
- Mentally Retarded residents receiving Medicaid;
- Individuals with traumatic brain injuries; and
- Individuals with mental illness



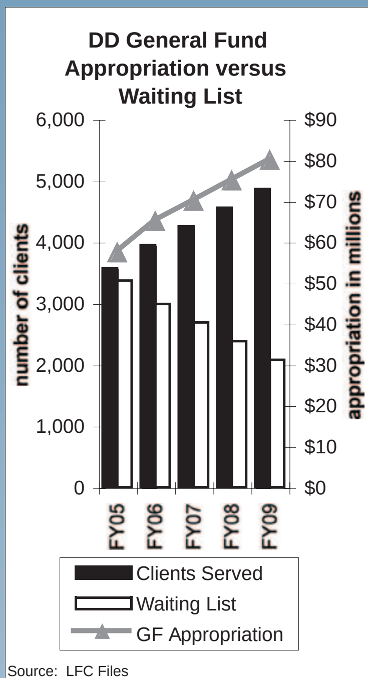
Source: DOH FY05 Final Quarterly Report

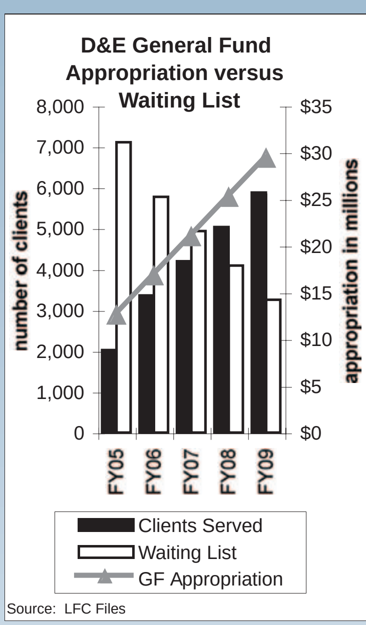


Source: GAA and Medicaid Projections



Source: GAA & Medicaid Projections





The committee recommends an additional $5 million to further reduce the DD waiting list, in accordance with the Jackson case. The graphs in the sidebar show a forecast for the next five fiscal years, with the same funding increases for DD and D&E ($5 million and $4.2 million, respectively) as in FY06. Without changes, in FY09, the DD general fund appropriation would be up to $80 million and there would still be 2,080 individuals on the waiting list. For D&E, the general fund appropriation would be up to $29.4 million with 3,256 still on the waiting list. To move all of the DD waiver clients into services under the current structure, it would cost $55.5 million from the general fund. To move all of the D&E waiver clients into services, it would cost $35.6 million from the general fund. At the rate the state is funding the current waiver structure; there is no visible dent in the number of people on the waiting lists.

Transfer of Adult Protective Services. Laws 2004, Chapter 23, elevated ALTSD to a cabinet-level department, transferring programs from DOH, HSD, and CYFD. The final program to transfer to ALTSD is the Adult Protective Services (APS) program from CYFD. ALTSD and CYFD reached an agreement on transferring resources in November 2004. Under the agreement, ALTSD took approximately 17 percent of what was the Protective Services Program at CYFD, including 164 FTE and $14.1 million. Now ALTSD is struggling with a forced vacancy rate of 9 percent in APS and not enough resources for either field staff or administrative staff. Upon the elevation to a cabinet-level agency, ALTSD promised a no-cost transfer. In doing so, the department has been stretched to capacity both in resources and infrastructure.

Child Protective Services. The Protective Services Division of CYFD will require a significant increase in funding from the general fund for FY07. A growing caseload, decreased federal funding, recurring Joseph A consent decree costs, increased employee liability insurance, and overtime account for the request of approximately $12 million additional general fund dollars.

Foster Care Caseload. CYFD experienced a 25.7 percent growth in the number of children in custody from January 2003 through June 2005 and projects the trend to continue through 2007. In addition to an increase in the number of children, the case severity and complexity have also increased. Following the national trend in caseload growth, CYFD attributes a majority of the growth to changes in the Federal Adoption and Safe Families Act and increased methamphetamine, drug, and alcohol use in the state. Additionally, enhanced screening of reported child abuse and neglect has yielded more investigations, which has increased the number of children being placed in foster care to ensure their safety and well being. To address the caseload growth, CYFD estimates an additional $1.7 million from the general fund will be needed in FY07.

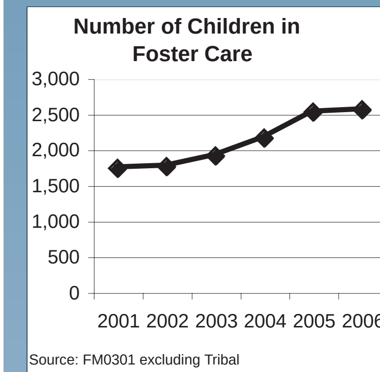
Federal Fund Decrease. Treatment foster care (TFC) is care for children with serious behavioral health needs who have not been successful in regular foster care. Medicaid Title XIX regulation changes eliminated targeted case management (TCM) funds for TFC, although TCM can still be claimed for regular foster care. Additionally, in 2005 the Medicaid managed-care organization (MCO) contracts were renegotiated, which limited flexibility in care by TFC providers. CYFD estimated 200 children would shift from TFC to regular foster care due to the renegotiated MCO contracts. Compounding the TFC problem, CYFD scrutinized its remaining TCM program in response to recent audits in other states by the CMS. Based on the CMS audit of TCM in Arkansas (which was asked to refund $20.3 million), CYFD identified cases in New Mexico that would likely be disallowed if a similar audit was conducted here. This shift of funding from federal to state is estimated to be $3.7 million for FY07. While Medicaid Title XIX TCM funding has decreased, CYFD has been able to increase other Medicaid Title XIX (non-TCM) funding by $1.2 million by transferring the La Placitas, Life Options, and Carlsbad reintegration centers from the Juvenile Justice program to Protective Services for a "step-down" program for foster children transitioning out of the foster program. The net Title XIX federal fund shift to the state is $2.5 million.

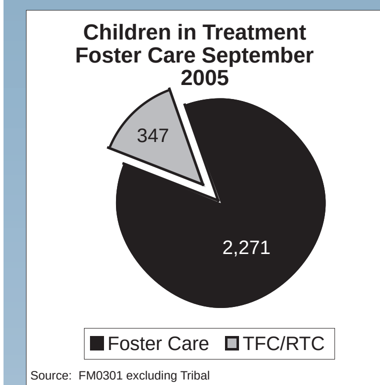
Federal funding was further reduced in response to a federal audit of the foster care and adoption assistance program under Title IV-E, which forced a revision of the cost-allocation process for staff time and training costs. This, along with other Title IV-E changes, shifted an additional $2.5 million to state funding. The total estimated federal to state cost shift is estimated to be $5 million for FY07.

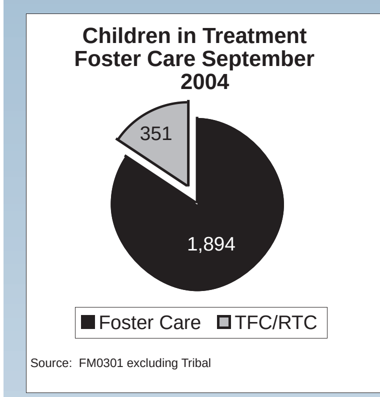
Joseph A Consent Decree. The lawsuit Joseph A v: State of New Mexico regarding the length of time a client is in the foster care system without a permanent placement was settled in FY05. CYFD completed the requirements of the exit plan with plaintiffs, however, additional recurring expenditure requirements to provide a neutral third party ($344 thousand), provide home studies ($240 thousand), and provide increased subsidies for children with special needs ($1.6 million).

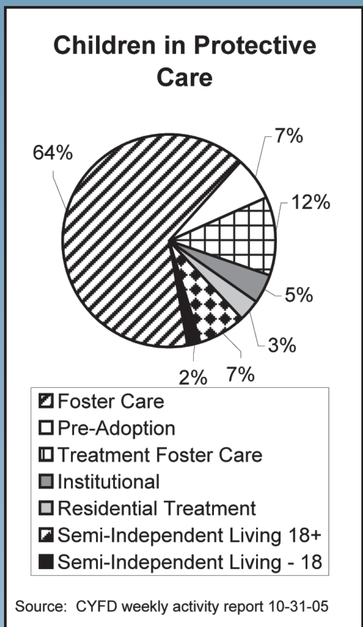
Foster Care Rate Increase. The demand for foster parents is growing with the caseload increase. National studies indicate that foster family recruitment and retention is affected by reimbursement rates. New Mexico's foster parents have not had a rate increase since 1994. Currently, there are approximately 1,000 active foster homes but there is a demand for an additional 400 homes. A $100-per-month-per-placement increase would require $507 thousand additional funds from the general fund to match $1.4 million in federal funds, for a total cost of $1.9 million.

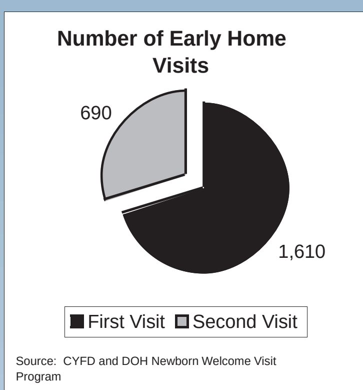
Early Home-Visiting Services. The Legislature in 2005 appropriated $500 thousand from the general fund to pilot a home-visiting











program. At least $250 thousand was to be matched with Medicaid SCHIP funding. CYFD has not implemented the SCHIP piece of the program because it would require a change to the Medicaid state plan as well as specialized staff conducting the home visits for the SCHIP target population. CYFD may seek legislative action to amend the appropriation language, which restricted half the appropriation to the SCHIP population. If unrestricted, CYFD would like to use the remainder of the appropriation to expand the pilot project to a more universal population and serve two more counties: Chaves and San Juan.

CYFD entered into an agreement with DOH to use existing home-visiting infrastructure to pilot the Newborn Welcome Visit program in Las Cruces and Santa Fe counties. The Newborn Welcome Visit pilot is a voluntary, universal program, serving parents and children before birth to three months. The purpose of the home visit will be to provide educational and local community resource information, identify social supports, and make family referrals to strengthen the whole "system of care" for children 0-3 years. Based on needs determined by the family, parents of infants might be referred to programs that offer more intensive-home visitation services, such as the Family Infant Toddler (FIT) program for developmentally disabled children. The Newborn Welcome Visit program estimates caseworkers will conduct 1,610 first visits at a cost of $89 per visit with $13.50 of educational materials and an estimated 690 second visits when requested by the family also at a cost of $89.

The Sphere Institute in its report *In-Home Visitation Programs: A Review of the Literature* reviewed five successful home-visit programs and reported on the best practices common in each of the programs. CYFD's "light touch" approach to home visiting is at odds with many of the best practices because it only offers one or two home visits to a universal population by a visitor with limited credentials. The National Conference of State Legislatures (NCSL) and the Sphere Institute suggest a well-focused program serving a targeted population with professionally trained and degreed staff. CYFD is requesting an additional $500 thousand to expand the pilot to four more counties.

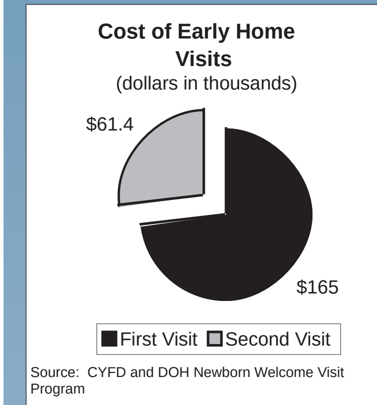
Pre-Kindergarten Pilot. The 2005 legislature approved a nonrecurring $4 million appropriation for a pilot pre-kindergarten program. An additional $950 thousand was appropriated for support and staff development. The appropriation and responsibility for implementing pre-kindergarten was evenly split between PED and CYFD.

The purpose of the pre-kindergarten program is to help young children get "ready to learn" before entering an instructional environment. Programs for 4-year-old children have been shown to have a positive effect on intellectual, emotional, social, and physical development. CYFD and PED are working with the UNM Center for Family and Community Partnerships to develop a New Mexico definition of "school/kindergarten readiness" that will be used to build curriculum and to evaluate the program's success. CYFD and PED have also contracted with the National Institute for Early Education Research (NIEER) at Rutgers University, the University of Utah, and an in-state entity (yet to be identified) to assist with the program assessment and evaluation. Additionally, a request for proposals was released in September for program support training and technical assistance and the department received three proposals.

Currently, pre-kindergarten providers are reimbursed $2,278.81 per child for 540 hours of direct services in communities with a large share of high-poverty, low-performing public elementary schools. CYFD selected 19 public providers who serve 768 children in 30 locations and entered into one-year contracts (with a possible one-year renewal if funding is provided) to provide the pilot pre-kindergarten services. Classes began August 1, 2005.

Planning is under way to transition the pilot program into a four-year phase-in of statewide pre-kindergarten. CYFD and PED have identified a funding estimate that begins with a $15.2 million recurring appropriation and continues with an additional $15.2 million each year for three more years. The $15.2 million allocates 66 percent of the budget for enrollment, 20 percent for professional staff development, 3 percent for continued program evaluation, and 11 percent for administration, instructional material, and transportation. The non-recurring infrastructure development will require capital outlay of $5 million for each of the four years to be split evenly between CYFD and PED for a total of $20 million. As proposed, the CYFD piece of the capital outlay will be held in a revolving trust to be administered by the New Mexico Mortgage Finance Authority for low or no-interest loans to public pre-kindergarten providers. Additional non-capital expenditures for "one-time" items, such as furniture and equipment, are estimated at $1.5 million for each of four years, for a total $6 million. The total roll-out cost is estimated at $86.8 million over four years; fifth-year recurring costs are estimated at $60.8 million. The roll-out would continue to prioritize high-poverty, low-performing school districts and then transition additional providers until an estimated 70 percent of all 4 year olds have been enrolled.

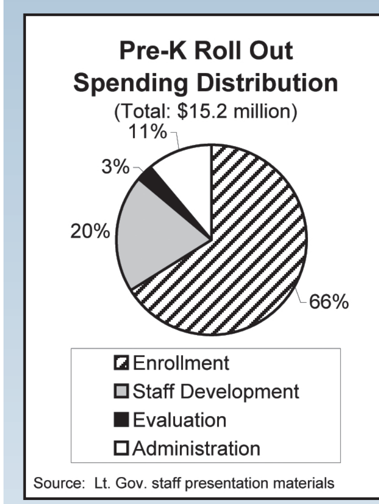
At issue for FY07 is whether the pre-kindergarten program continues as a pilot or is expanded to begin the four-year roll-out. Pre-kindergarten data is not likely to be available to evaluate the pilot's success by the 2006 legislative session. Many of the easier policy issues such as quality, teacher credentials, evaluation methodology, have been addressed by the pilot committee. Of concern to LFC is the long-term goal for pre-kindergarten. Several high-quality childcare programs already provide instructional types of services, yet the current goal for pre-kindergarten enrollment is 70 percent of all 4 year olds. As more 4 year olds enter the public or private pre-kindergarten program, there



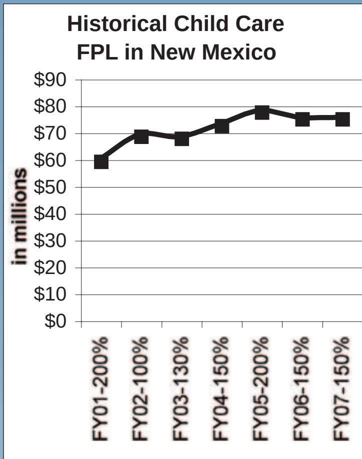
Source: CYFD and DOH Newborn Welcome Visit Program

CYFD Pre-K Sites

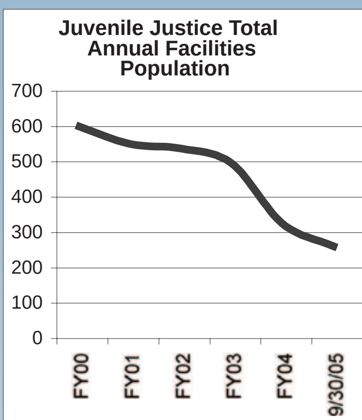
- Apple Tree
- Family Learning
- HELP
- Highlands University
- Jardin de los Ninos
- Little Learners
- Mescalero Apache Schools
- Mid-West CAP
- La Petite Academy
- Presbyterian Medical
- Rocking Horse Daycare
- Ruidoso River Raccoons
- Watch me Grow
- Albuquerque Preschool Cooperation
- City of Albuquerque
- San Felipe de Neri
- St. Marks
- UNM Children's Campus
- Youth Development Incorporated



Source: Lt. Gov. staff presentation materials



Source: CYFD Files



Source: CYFD weekly activity report 10-31-05

should be a cost savings or a larger population served in the childcare program. The pre-kindergarten program also assumes a universal enrollment of 4 year olds; however, a targeted high-quality program has been shown to be more cost-effective. Perhaps other high-quality pre-kindergarten programs such as the Kindergarten Plus could also benefit from the pilot funding.

Childcare Services. The Legislature in 2005 addressed the growing foster-care budget by reducing the eligibility from 200 percent of the federal poverty level (FPL) to 150 percent of FPL in the childcare program. The savings of approximately $2 million should have been redirected to the foster-care program; however, CYFD has continued to grandfather eligibility to those with incomes above 150 percent. CYFD estimates that by January 2006, those who have been grandfathered will have left the program through attrition. The FY07 request for childcare did not increase; eligibility remains at 150 percent of the FPL, and the program will serve approximately 23,831 thousand children.

The committee recommends improved coordination with the Office of Workforce Training and Development (OWTD) to address childcare's impact on workforce development. As OWTD clients enter the workforce, those with children face the issue of losing their childcare benefit as their income rises above the FPL. For parents who must decide between their childcare benefit and the opportunity to increase their income, a sliding FPL makes the transition easier. Many states have addressed this problem with a sliding-fee scale or co-pay for childcare services above the established FPL. Tennessee and Minnesota prioritize their childcare benefit by exempting TANF and TANF-eligible clients from paying a co-pay then giving priority to parents transitioning to work or school or building job skills in a sliding scale.

"Look for the Stars." Family Services is implementing a new quality rating system for childcare providers. The higher the star level, the higher the quality. A five-star rating indicates a childcare program is accredited and has achieved the highest level of staff training, family involvement, daily learning activities, etc. Providers with higher ratings qualify for higher reimbursement rates from CYFD.

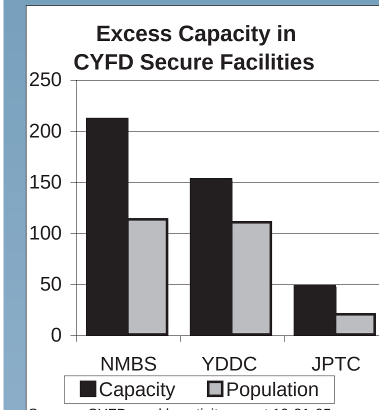
Juvenile Justice. CYFD's move toward a community-based preventive approach to juvenile detention has been caught up in controversy. The community-based strategy emphasizes local community services, including prevention, intervention, and surveillance, rather than detention. Keeping delinquent youth in their communities has diverted much of the state detention population, leaving excess capacity in the detention facilities.

The average per-juvenile cost of detention is increasing with each dip in population. Rural communities are fighting to keep detention facilities open for economic reasons. CYFD's attempt to close Lincoln County's

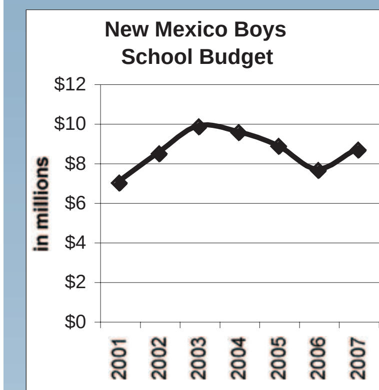
Camp Sierra Blanca in 2005 was overturned by the governor, leaving the 48-bed facility with only 21 juveniles, a $900 thousand capital outlay appropriation in 2006, and an additional FY07 request for $1.3 million more capital. Similarly, the J. Paul Taylor facility in Las Cruces has a capacity for 48 juveniles, a staff of 23, and a current population of 21 with an FY07 capital outlay request of $8.2 million.

As much as excess capacity in detention facilities is a concern, the jury is still out on the effectiveness of the community-based approach to rehabilitation. CYFD lacks empirical evidence that the new approach is working. LFC conducted an audit of the community-based plan at the end of FY04. The audit noted that full implementation of the community-based program would not be achieved until the end of FY05. At the time of the audit, the infrastructure did not exist to "ramp up" behavioral health services such as multi-systemic therapy (MST) and family functional therapy (FFT) in the communities where private providers didn't exist, as well as hire and train additional juvenile probation and parole officers (JPPO). While transitioning to community-based services, CYFD closed Camino Nuevo Youth Center at the beginning of FY05, saving an estimated $3.7 million, and cut the New Mexico Boys' School (NMBS) budget $1.2 million, saving an estimated $4.9 million in detention expenditures that should have been redeployed in community-based programs. CYFD spent the $4.9 million by hiring additional JPPOs at a cost of $1.9 million, shifting Camp Sierra Blanca from detention to community-based probation at a cost of $1.9 million for 21 juveniles, and sending back the remaining $1.1 million to the detention programs in part to fund a new facility medical contract and address budget shortfalls. A cornerstone of the community-based program, FFT and MST has not been fully implemented.

Heading into the 2006 legislative session, CYFD is faced with an American Civil Liberties Union (ACLU) petition to improve detention and community-based conditions regarding safety, behavioral, and physical health, to provide equal services for girls, and to implement management controls. Additionally, ACLU seeks the transition of the NMBS in Springer to another use. CYFD has been meeting with staff, community leaders, and legislative staff to address the ACLU petition. CYFD staff, in a recent *Albuquerque Journal* article, outlined several possible new missions for NMBS, including maintaining its current basic mission with an increased management approach, redeploying NMBS as a detention vocation center, transferring the property to the Department of Corrections for the incarceration of level 1 and 2 offenders, or a DWI center, or both. As the debate over NMBS continues and negotiations with ACLU evolve, CYFD has been working with LFC on the impact that the petition will have on the 2007 budget.



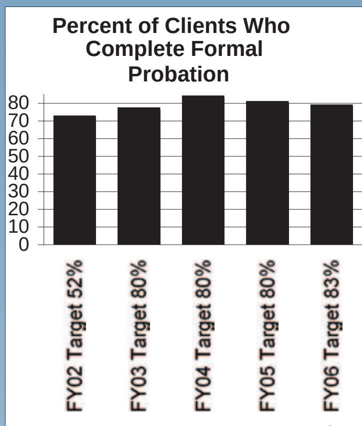
Source: CYFD weekly activity report 10-31-05



Source: CYFD Files

Possible New Missions for New Mexico Boys' School

- Maintain current basic mission
- Vocation educational detention center
- Transfer to Corrections Department for use as a DUI or Level 1 & 2 facility



CHILDREN, YOUTH AND FAMILIES DEPARTMENT

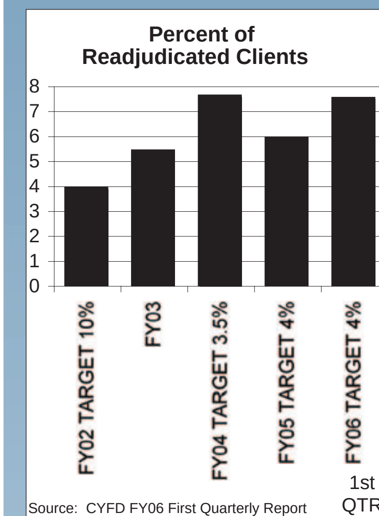
New Mexico's Children Youth and Families Department (CYFD) is one of the few state agencies in the country to have combined child welfare, juvenile justice, and family services programs under one roof. CYFD provides prevention, intervention, rehabilitative, and after-care services to New Mexico's families and children. CYFD, which has been recognized as a pioneer in the implementation of the Accountability in Government Act (AGA) for developing an initial set of diverse performance measures, has underperformed recently. The quarterly reporting by the agency is well thought out and easy to follow with outstanding report graphics but CYFD achieved less then 25 percent of the FY05 performance measures in the General Appropriation Act (GAA). The first-quarter performance report of FY06 showed little improvement, with only 27 percent of the measures successfully met, 46 percent unreported, and 27 percent failed.

Juvenile Justice Performance. The Juvenile Justice Division (JJD) provides rehabilitative services to youth committed to the department, including health, education, mental health, and other services, early intervention and prevention, detention screening, and probation and parole supervision. JJD continues its efforts to move to a "front end" community-based prevention program as opposed to detention services. The department cites research asserting prevention as more cost-effective than incarceration. In 2000, 662 juveniles were incarcerated in New Mexico detention facilities as opposed to the 250 in 2005.

In FY05, JJD did not meet four of the five GAA performance measures. The move to community-based programs has had a significant impact on JJD's performance. In FY05, the failed measures were primarily related to detention facilities. As more juveniles are treated in the community, those left in detention have more acute issues. A detention population that is smaller but with more acute needs is more difficult to treat successfully. Many of the benchmarks set while first implementing AGA are not realistic given the current population. JJD succeeded in the percent of clients who complete formal probation, which relates to the community-based approach of treating juveniles.

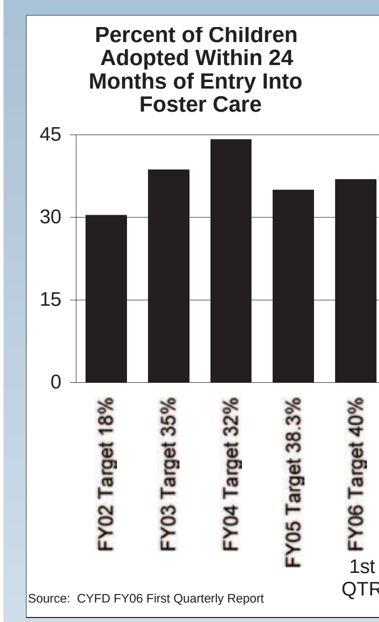
For FY06, JJD added two new community-based measures to GAA. The new measures are the percentage of clients receiving family functional therapy (FFT) and multi-systemic therapy (MST) who have not committed a subsequent juvenile offense and the number of children in community corrections programs. The measure of the number of clients who complete formal probation was successfully met and JJD proposes to increase the target from 80 to 83 percent. JJD also proposes to increase the target on the percentage of clients who will be recommitted to a facility. The new recommitment target reflects the changing detention population dynamic and reflects the increased rehabilitative challenge facing the division.

JJD needs better performance measures. The current measures place too much emphasis on education and do not address substance abuse, gang intervention, behavior health services, or safety. While educational improvement is important, JJD will find rehabilitation success to be elusive until the juvenile's foundation is solidified with substance abuse and behavioral health treatment as well as gang intervention education. The percentage of juveniles receiving substance abuse treatment should replace one of the educational measures and the percentage of juveniles receiving behavioral health treatment while in a facility should be added. The growing concern about the safety of juveniles in detention should also be addressed and reported. Juvenile-on-juvenile or staff-on-juvenile violence should be tracked and reported regularly.



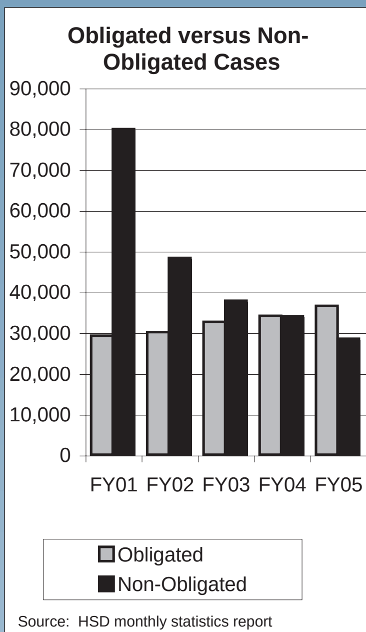
Protective Services Performance. The focus in Protective Services (PS) is on programs for children and includes services for victims of abuse or neglect or those at risk of abuse and neglect, family preservation, permanency planning, independent living arrangements, and placement services for those removed from families or caretakers. PS transferred the Adult Protective Services program to the Aging and Long-Term Services Department (ALTSD) in FY06 and no longer reports on maltreated adults. In FY05, PS successfully met two of the three possible performance measures.

The target for the number of children in foster care for 12 months with no more than two placements is not growing as fast as the caseload. When viewed as a percentage of the overall caseload, the number of foster children with only two placements has actually slipped; however, the agency is viewed as being successful in this measure. The target needs to be increased.



Family Services Performance. The mission of Family Services (FS) is to provide quality child care and nutrition services to children so they can enhance physical, social, and emotional growth and can access quality care. The mission of FS falls short of addressing the wide array of services this division provides. In addition to child care and nutrition, FS provides domestic violence, early childhood development, AmeriCorps, state-funded Head Start as well as the pilot pre-kindergarten and home-visiting programs.

In FY05, FS did not achieve its performance measures. In the first quarter of FY06, only one out of seven measures was reached. FS added three measures in FY06 related to domestic violence but did not report on them in the first quarter. For FY07, FS should consider consolidating and reducing the number of childcare and domestic violence measures and adding a measure for each of the other major



services that it provides such as improved educational outcomes as a result of pre-kindergarten and improved birth statistics due to home visits or improved child development or behavior due to home visiting and pre-kindergarten.

CHILD SUPPORT ENFORCEMENT DIVISION

The Child Support Enforcement Division (CSED) has four measures in the General Appropriation Act and all are meaningful and point directly to a service important to the client. In addition, the services support the CSED program purpose of improving the well-being and self-sufficiency of New Mexicans. However, for two of the measures, to obtain child support enforcement orders for all cases (target: 55 percent; actual: 58.2 percent) and distribute and disburse all child support collections received in an accurate and timely manner (target: 57 percent; actual: 52 percent) the actual is under the target or far behind the national benchmark. For example, obligated cases, those with court orders, are preferred because the legal system serves as an aid in enforcing the obligation. For this measure, a graph noting performance is in the side bar, the national benchmark is over 70 percent, far above New Mexico's level. HSD needs to develop meaningful action plans to improve results.

The committee continues to direct its attention to natural resources through funding initiatives addressing environmental depredation, state park development, watershed and endangered species protection, interstate water agreements, and oil and natural gas development. However, attention must be paid to program evaluation and to the development of meaningful agency performance measures.

In summer 2004, drought conditions and low surface water supply still plagued much of the state, but the first six months of 2005 were extremely wet, with numerous storms providing above average precipitation and causing flooding along the Mimbres and Gila rivers in the southwestern part of the state.

For 2006, the New Mexico Drought Monitoring Work Group predicts warmer-than-average conditions in the Southwest. Increased rainfall in 2005 provided limited short-term improvement to drought conditions in the state, however, no significant long-term solution to the state's water shortage is suggested.

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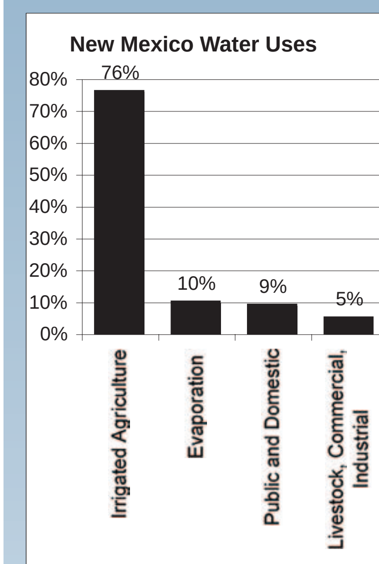


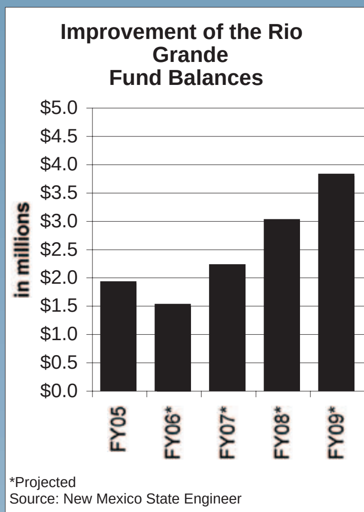
Source: New Mexico State Engineer

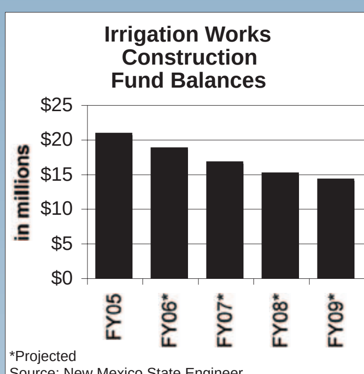
State Engineer Trust Fund Expenditures. The Ferguson Act of 1898 designated about one-ninth of all land in the state as trust land to benefit certain public institutions, including the Office of the State Engineer which oversees two trust accounts: the irrigation works construction fund and the improvement of the Rio Grande income fund.

The Legislature created the Irrigation Works Construction Fund in 1955 to receive the funds from the trust land acres designated for reservoirs and irrigation works, as well as certain special appropriations. Under the administration of the Interstate Stream Commission, the monies are used to make loans to acequias, and, through contracts with irrigation and water conservancy districts, to individual water users for construction and rehabilitation of on-farm irrigation works. For FY06 this fund is anticipated to have a balance of $18.5 million, with FY07 expenditure projections of $7.4 million.

Each year the Interstate Stream Commission prepares a plan and budget for projects to be funded by the improvement of the Rio Grande income fund. Through cooperative programs with the U.S. Geological Survey, the fund pays for data collection, hydrologic studies, and the evaluation of reclamation projects. The fund has been used to buy San Juan-Chama Project water to establish and maintain a sediment pool in Jemez Canyon Reservoir. Significant grants to the Middle Rio Grande Conservancy District from the fund covered the nonfederal share of the Corrales levee and San Acacia to Bosque del Apache flood control projects. For FY06 this fund is anticipated to have a balance of $1.5 million with FY07 expenditure projections of $935 thousand.

Interstate Compact and Tribal Adjudication Updates. The Legislature has provided an extraordinary level of funding to the Office





of the State Engineer (OSE) to support OSE and the Interstate Stream Commission (ISC) compact compliance efforts, particularly in the Pecos basin. From an original estimate of $60 million, appropriations have grown to $85.5 million and OSE estimates the need for an additional $60 million for settlement activities. Under 2002 legislation, ISC has received bids from landowners offering to sell more than 27,000 acres of land and associated water rights in the Lower Pecos River Basin under the state's land and water rights acquisition program. Commission staff began negotiations with landowners in the 2003-2004 fiscal years and has executed nine leases with options to purchase about 2,000 acres. An additional 14 contracts are presently under negotiation for about 5,000 acres, and negotiations continue with other offerors. The Legislature in 2005 appropriated $12.5 million toward completion of the Pecos settlement and the agency has requested an additional $18 million during the 2006 legislative session to complete settlement purchase requirements.

As the state nears completion of its Pecos responsibilities, ISC is devoting increasing attention to other basins and developing a $280 million state spending plan accompanied by $1.5 billion in federal funds. Several of the key initiatives are discussed below.

Arizona Water Settlements Act. In December 2004, the Arizona Water Settlements Act, involving waters of the Gila River in southwestern New Mexico, became law. The legislation gave New Mexico the right to develop up to an average of 14,000 additional acre-feet of Gila Basin water annually, and to secure non-reimbursable federal funding of between $66 and $128 million for water utilization efforts initiatives in the southwestern corner of the state.

Navajo Nation Water Rights Settlement. On April 19, 2005, the Navajo Nation and the state executed a settlement agreement resolving the claims of the Navajo Nation for use of the waters in the San Juan River Basin. The settlement adjudicates water rights and provides associated water development projects for the benefit of the Navajo Nation in exchange for a release of Navajo claims that could have potentially displaced existing non-Navajo water users in the basin. This settlement sets the stage for future economic development of the Four Corners region while also resolving long-standing claims without litigation. OSE envisions the state's share of costs to implement the Navajo settlement at $35 million.

Aamodt Adjudication. Efforts to resolve the Aamodt adjudication – the longest-running lawsuit in the federal court system – continue, and the proposed settlement will determine the quantity and priority date of all water rights in the Nambe-Tesuque-Pojoaque basin. The Office of the State Engineer is now conducting public meetings on a conceptual proposal, negotiated among the Nambe-Tesuque, Pojoaque, and San Ildefonso pueblos, the city and county of Santa Fe, and various non-

Indian water right owners from the region. Once parties agree on resolution, negotiations will begin as to how to pay for the water supply pipeline intended to serve non-Indian domestic uses in the stream system, the four pueblos, and the city and county of Santa Fe. OSE envisions the state share of costs to implement the Aamodt settlement at $20 million.

Taos Adjudication. Negotiations continue with the Taos Pueblo with respect to the pueblo's water rights on the Rio Pueblo and the Rio Hondo. The negotiators hope to publicly release a proposed settlement in fall 2005 and execute an agreement by the end of the year. OSE envisions the state's share of the costs to implement the Taos settlement at $20 million.

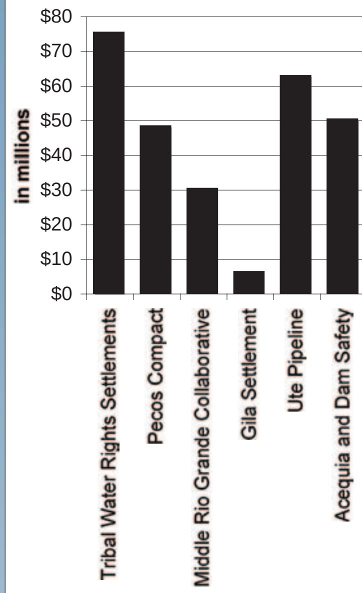
Active Water Resource Management. Active Water Resource Management (AWRM) was developed in response to a legislative initiative that called for the State Engineer to respond to the need for water rights administration without waiting for the completion of adjudication. It encompasses a broad range of activities, including water rights transfer, monitoring and metering diversions, and limiting diversion of water to the amount authorized by existing water rights. It additionally provides the OSE with the ability to create water districts, appoint water masters, and develop rules and regulations, as well as water master manuals.

OSE has targeted seven critical areas around New Mexico to begin implementation of AWRM: the San Juan River, Rio Gallinas, Rio Pojoaque, Rio Chama, Mimbres, Lower Rio Grande, and Rio Hondo/ Rio Peñasco tributaries to the Pecos River. OSE has further organized teams within the agency to implement AWRM in critical areas and has hired several new water masters to acquire the real world experience required to develop basin-specific regulations.

Although prompted by the drought, the new AWRM rules are intended to make water rights administration more effective both in dry years and wet years, while encouraging voluntary agreements, such as water sharing and banking among water users. Statewide rules and regulations were finalized by OSE in December 2004, and a metering order was issued for the Lower Rio Grande in that same month. An extensive outreach plan for public meetings was launched in the Lower Pecos and Upper Mimbres basins in 2005 and additional outreach activities are planned for 2006.

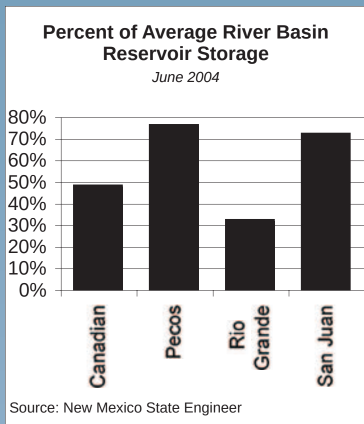
Dam Safety. The Legislature in 2002 approved $5 million in severance tax bonds for dam rehabilitation, with the intent that the funds serves as local match to federal funds from the Natural Resource Conservation Service (NRCS). The funding was directed to specific flood control dams designed and constructed by the NRCS from 1950-1980 for local soil and water districts or irrigation districts. Because of the age of the

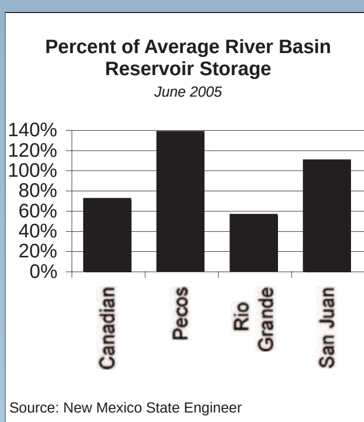
Estimated 5-Year State Share Costs for Water Infrastructure Needs



Source: New Mexico State Engineer

The State Engineer has created teams to address Active Water Resources Management in each priority stream system. Each basin team includes a project manager, personnel manager, and technical support staff.





dams or development downstream, many are in need of rehabilitation. The NRCS Dam Rehabilitation Program pays all planning and design fees and 65 percent of construction costs, leaving 35 percent to be matched locally. However, while OSE has committed a 25 percent match for a number of statewide projects, local soil and water districts may not be able to generate their 10 percent of the match, and OSE might assume additional responsibility for some, or all, of the local match requirement in order to move the projects toward completion. Together, these rehabilitation activities total approximately $2.5 million.

Another financial issue relates to the U.S. Army Corps of Engineers acequia rehabilitation program. Directed to the rehabilitation of dams owned by acequias, this initiative pays all planning-related fees and 75 percent of design and construction costs. The remaining construction costs are divided between the state, 17.5 percent, and acequia owners. Unfortunately the corps has moved slowly on planning for these projects and recently advised that it is short on funds.

OSE is also considering a grant agreement to address an inadequate spillway and recently developed seepage problems at Cabresto Dam near Questa, jointly owned by the Cabresto Lake Irrigation Company and Llano Community Ditch Association. OSE has reserved $500 thousand to begin an investigation into the problems at the dam if both acequias acquire a storage right for the reservoir and approve an agreement outlining responsibilities at the dam and acequia system. Estimated cost is approximately $500 thousand for design and $4.5 million for construction. OSE anticipates that disaster assistance funds will contribute $500 thousand for design and construction, with design completion scheduled for May 2007.

Because OSE has leveraged the majority of the $5 million in severance tax bonds funding with federal funds, the projects are now dependent on federal funding timelines, and it appears likely that $2.5 million will need to be reauthorized during the 2007 legislative session to continue to rehabilitate dams through both the NRCS and Corps programs.

Finally, OSE received $2 million in capital improvement funding in 2005 which may be committed to the rehabilitation of Lake Roberts Dam. Final design should be completed by August 2006 and if not required elsewhere, the funds will likely be leveraged with the federal NRCS program to rehabilitate flood control dams.

Watershed and Phreatophyte Management. Riparian lands in New Mexico have been seriously impacted by the proliferation of non-native phreatophytes that have infested an estimated 500,000 acres of the state's watershed. The Legislature in 2004, in the General Appropriation Act, tasked a select group of state agencies – the Departments of Agriculture; Energy, Minerals and Natural Resources; Environment: Indian Affairs; and the Office of the State Engineer in consultation with the Soil and Water Conservation Districts – to develop a statewide policy and plan to guide future treatment and to provide templates and protocols for monitoring, revegetation, rehabilitation and long-term watershed management.

The Legislature additionally appropriated $1.95 million in support of phreatophyte control efforts; however, in a clear display of legislative intent, the appropriation was contingent on the Department of Agriculture including performance and outcome measures in its contracts to increase performance oversight and fiscal accountability. Further, the appropriation was limited to projects aligned with the New Mexico statewide policy and strategic plan for non-native phreatophyte and watershed management.

The Legislature in 2004 appropriated $1.95 million in support of phreatophyte control efforts; however, in a clear display of legislative intent, the appropriation was contingent on the Department of Agriculture including performance and outcome measures in its contracts to increase performance oversight and fiscal accountability.

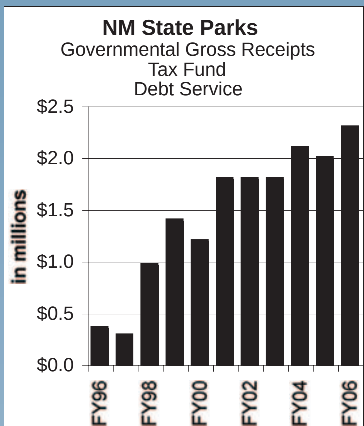
Renewable Energy Expansion. The Legislature in 2005 pursued an aggressive renewable energy agenda, passing a number of significant initiatives:

The Energy Efficiency and Renewable Energy Bonding Act. This legislation established an innovative financing mechanism for state agencies, public schools, and colleges and universities to fund and implement energy efficiency and renewable energy projects at existing facilities; and the New Mexico Finance Authority (NMFA) is authorized to issue up to $20 million in clean energy revenue bonds to fund clean energy projects at state and public school facilities.

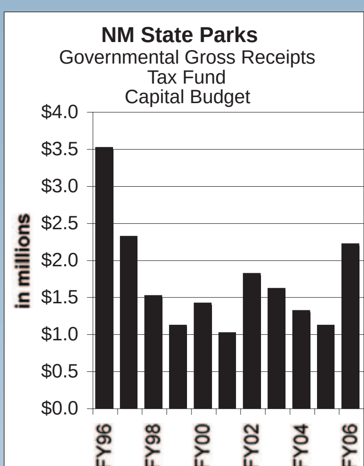
Natural Resource Conservation Bids. The legislation made it easier for state agencies and other public entities, such as counties, municipalities, and institutions of higher education, to enter into guaranteed utility savings contracts (also known as energy performance contracts) to renovate existing public buildings with energy efficiency measures, thereby reducing energy consumption and saving taxpayer dollars.

Efficient Use of Energy Act. This legislation directed public electric and gas utilities to develop, fund and implement comprehensive, cost-effective energy efficiency programs to reduce utility-related expenditures for citizens and businesses and declares that utility expenditures on cost-effective energy efficiency measures are an acceptable use of ratepayer monies. It also requires a utility to obtain prior approval for its energy efficiency programs and expenditures.

General Appropriation Act of 2005. Included in the legislation was an appropriation of $625 thousand from the general fund to enable the New Mexico Energy, Minerals and Natural Resources Department (EMNRD) to fund the expansion of nine permanent positions within the Energy Conservation and Management Division. Also included was a $150 thousand appropriation to EMNRD for renewable energy programs.



Source: New Mexico State Parks Division



Source: New Mexico State Parks Division

Capital Outlay Severance Tax Bond Projects. This legislation appropriated $3 million to the clean energy grants fund for expenditure by EMNRD for capital improvements related to clean energy projects, including hydrogen fuel, energy efficiency renovations, renewable energy and clean fuel facilities.

New Mexico's State Parks. The New Mexico State Parks capital improvement program – funded through the governmental gross receipts tax (GGRT) fund – has been an unqualified success for the state park system and has benefited all regions of the state. From FY95 to FY06, the State Parks Division received $46.1 million both from GGRT annual fund disbursements and from bonds backed by GGRT. Additionally, by using GGRT funds and bonds as a match, the division has been able to leverage approximately $8.4 million in federal funds to augment the program. Of the $18.9 million in capital GGRT funds, the division has expended 80 percent for park improvements, including maintaining existing facilities, protecting resources, meeting Americans with Disabilities Act (ADA) requirements, and providing quality services to park visitors. As a result of the GGRT, funding approximately 300 projects and programs throughout the park system have been successfully undertaken and visitor satisfaction is high, facility "down time" is minimal, and ADA needs are being met.

Although significant and tangible gains have been made, additional capital outlay needs are required. Currently, the tabulation of requested capital outlay projects is $24.3 million. Additionally, as new parks are added to the system, the need for new capital projects and heavy maintenance on existing facilities will increase. The committee supports the continued funding of the state parks GGRT funding program, and suggests that consideration be given to the reduction of the division's debt service so that those funds might instead be applied to reduce the division's infrastructure operating costs.

Environmental Protection. The New Mexico Department of Environment (NMED) made significant breakthroughs in environmental regulation during FY05, including initiation of air quality programs to address greenhouse gases, enactment of recycling and dumping legislation, and conclusion of an agreement with the U.S. Department of Energy to provide for investigation and clean-up of 60 years of hazardous waste at Los Alamos National Laboratory. To some degree, expanded activity by NMED has corresponded to increased federal support for agency programs.

Air Quality. NMED has undertaken several initiatives to enhance air quality in New Mexico. The agency created a New Mexico Climate Change Advisory Group to develop a plan to reduce greenhouse gas emissions statewide to 2000 levels by 2012. NMED is contesting federal proposals to weaken national mercury emission standards.

The Four Corners area experiences some of the highest rates of ozone and sulfur dioxide pollution in the state. NMED created a Four Corners Air Quality Task Force to examine air quality issues in the area and developed a Four Corners Early Action Compact to address ozone pollution. NMED signed an agreement with Public Service Company of New Mexico to install new pollution-control technology at the San Juan Generating Station that will reduce emissions by about 16,000 tons or the equivalent of the emissions of 500,000 cars, according to NMED.

Solid Waste and Recycling. The Legislature in 2005 passed the Recycling and Illegal Dumping Act, which expanded NMED's ability to ensure tires are disposed of properly and allowed use of the tire recycling fund for non-tire materials. The act also created a Recycling and Illegal Dumping Alliance.

U.S. Department of Energy Facilities. In a historic agreement signed March 1, 2005, NMED and the state entered into an enforceable agreement with the U.S. Department of Energy (DOE) that requires comprehensive investigation and fence-to-fence clean-up of 60 years of waste at Los Alamos National Laboratory (LANL) by 2015. A similar agreement was established for Sandia National Laboratories (SNL) on April 29, 2004. NMED received $1.7 million from DOE in FY06 for laboratory analyses related to LANL and SNL.

The federal government also agreed to provide $600 thousand per year in FY06, FY07, and FY08 for a NMED office in Carlsbad to monitor operations at the Waste Isolation Pilot Project (WIPP). As a result, the DOE Oversight Bureau on NMED reopened its WIPP office – closed since 1996 – to conduct technical oversight and environmental monitoring to independently validate and verify compliance with state regulations.

Real-Time Environmental Data. NMED reports that real-time data on air quality and on drinking water quality is now available on the agency website. This has been a relatively low-cost project that allows members of the public to have quick access to information relevant to personal health.

Alternative Fuel Use in State Vehicles. In 1992, Congress passed the Energy Policy Act that required, among other things, that 75 percent of light duty state vehicles must be alternative fuel vehicles, capable of operating on fuels such as biodiesel, compressed natural gas, and ethanol (E85). Implementation of this law has been mixed in New Mexico. As recently as 2002, only 32 percent of state vehicles purchased that year could operate on alternative fuels in compliance with the act. Some state agencies that purchased the most vehicles had the lowest compliance rates (Corrections, General Services, Regulation and Licensing, and New Mexico State University).

Federal and state laws require that 75 percent of state vehicles be capable of operating on alternative fules (biodiesel, compressed natural gas, ethanol/E85 and others

New Mexico lacks a strategy to promote alternative fuels in state vehicles, including a plan to purchase vehicles capable of operating on alternative fuels and to identify alternative fueling stations statewide.

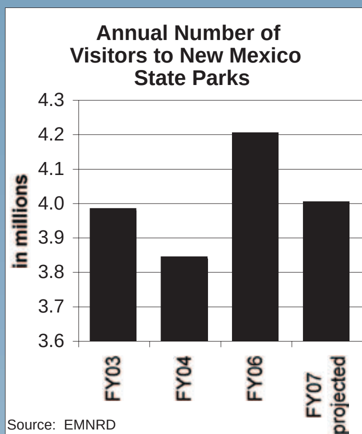
In 2002, the Legislature passed House Bill 18 (Laws 2002, Chapter 32) mandating that 75 percent of vehicles acquired by state agencies in FY03 and each fiscal year thereafter be capable of operating on alternative fuel or be gas-electric hybrid vehicles. Compliance with the state and federal law improved in 2003, with 58 percent of vehicles purchased that year capable of operating on alternative fuels. The improved compliance was achieved primarily through purchasing six-cylinder cars that can use alternative fuels. However, no statewide program was implemented to actually drive these cars using alternative fuels, so the effort to promote use of alternative fuels had the outcome of increasing the use of fossil fuels and increasing vehicle emissions from state vehicles.

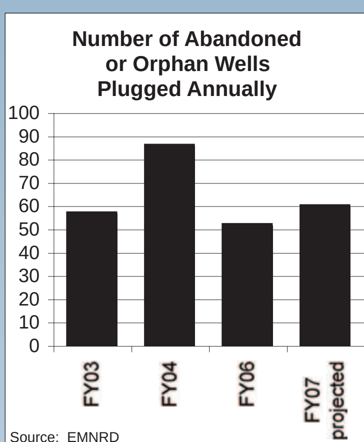
After 2003, compliance with the federal and state law declined. In 2004, the state price agreement included fewer alternative fuel options. In 2005, the General Services Department (GSD) ceased its efforts to comply with the federal and state laws, instead purchasing four cylinder cars that did not meet the alternative fuel requirements. While this decision was justified by reduced fuel use and reduced pollutant emissions, it represented a retreat from efforts to promote use of alternative fuels.

In August 2005, the governor announced an initiative to require state agencies to use 15 percent of fuel from renewable resources by the year 2010. The Energy, Minerals and Natural Resources Department (EMNRD), NMED, and GSD have been assigned to develop a plan to achieve this objective.

Strategic Vehicle Replacement Plan. In setting motor pool rates, the General Services Department includes a cost component for depreciation that provides funds for vehicle replacement. The depreciation revenues are placed in the motor pool's operating fund, the fund balance of which has grown in recent years. In FY06 and FY07, GSD did not request appropriations for vehicle replacement in their annual budget submissions. The agency indicated as recently as summer 2005 that it lacked a vehicle replacement plan and, thereby, lacked a plan to comply with the statutory requirements for alternative fuels. In the past year, GSD has submitted two budget adjustment requests to replace more than $7 million in vehicles but has not been able to explain the basis of its decisions to replace particular vehicles. In some instances, the agency could not identify the mileage of vehicles to be replaced or recommended replacing low-mileage (under 20,000 miles) cars. This ad hoc approach toward vehicle replacement likely results in inefficient use of public funds for state vehicles. GSD should develop a strategic plan for vehicle replacement based on vehicle age, mileage, and maintenance costs. This plan should include a component to implement federal and state laws regarding alternative fuel use. The plan should be integrated into annual GSD budget requests.

Strategic Fueling Plan. The history of the alternative fuel program in New Mexico demonstrates that compliance with the law can not be equated with implementation of a plan to increase use of alternative fuels. There is no benefit to buying six-cylinder cars if a strategy is not developed to operate them using alternative fuels. The primary barrier to operating state vehicles on alternative fuels is not technological but is limited availability of the fuels. According to the Alternative Fuels Data Center, only three stations in New Mexico sell ethanol (E85), two stations sell biodiesel, and eight fueling stations offer compressed natural gas. EMNRD, GSD, and NMED should develop a strategy to increase availability of alternative fuels for state vehicles and should integrate the plan into federal grant applications as well as annual state budget requests. They should also promote the alternative fuel program to other agencies that have substantial fleets outside the state motor pool and are not complying with federal and state laws.





ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

The Energy, Minerals and Natural Resources Department has incorporated its performance measures in the agency's 2005-2006 strategic plan. The agency met or exceeded FY05 performance measures and for FY07 has adopted a number of measure that will even more accurately measure agency performance.

The Renewable Energy and Energy Efficiency program is charged with developing, expanding, and implementing clean energy programs statewide. These activities range from assisting with renewable energy projects, measuring energy savings as a result of energy retrofits and overseeing the state's alternative transportation fuel initiative. For FY07, to establish baseline data for future planning efforts, the program will measure the reduction in energy use in public facilities receiving agency funding for efficiency retrofit projects.

The Healthy Forests program has adopted two new FY07 measurements: the percent of at-risk communities assisted in mitigating and protecting from the effects of catastrophic wildfire, and the number of agreements established, workshops and training conducted, and plans developed to support and maintain small diameter and woody biomass industries. Both of these measurements tie directly to the division's role of managing wildfires and mitigating urban interface fire threats.

While the State Parks Program continues to measure traditional performance targets, such as the number of visitors to state parks (4 million per year), self-generated revenue per visitor (approximately 83 cents), and the number of interpretive programs available to park visitors (2,500), beginning in FY06 a new evaluation was included that measured the completion rates of new parks and expansion projects. This measure was added in response to the emphasis being placed on these activities by both the Legislature and the executive.

It is estimated that more than 15,000 mine features are abandoned in the state, ranging from shallow prospect pits to deep mine shafts. While the Mine Reclamation program continues to address this issue, for FY07 three new measurements have been added: the percent of known health, safety, and environmental hazards abated annually at abandoned mines; the percent of permitted mines with approved reclamation plans and adequate financial assurance posted to cover the cost of reclamation; and the percent of required inspections conducted each year to ensure mining is being conducted in compliance with approved permits and regulations. The Oil and Gas Conservation program continues to address environmental activities and, for FY07, has adopted a new measure that will track the number of inventoried orphaned wells statewide. When added to the program's traditional measurements such as the percent of inventoried orphaned wells plugged annually and the number of inspections of oil and gas wells and associated facilities, a more comprehensive view of the program's accomplishments is anticipated.

The tools for Active Water Resource Management include measuring and metering, rules and regulations, creation of water districts and appointment of water masters, and development of water master manuals.

OFFICE OF THE STATE ENGINEER

The Office of the State Engineer is responsible for the administration of the waters of the state to include the appropriation of water based on the doctrine of priority rights. This is based on the notion of the first to use water beneficially possesses the senior water right. Water rights are considered to be property rights in the state for all intents and purposes. While New Mexico is a prior-appropriation state, the present state engineer continues the historical precedent of avoiding priority calls, instead focusing on implementing active water resource management (AWRM), a scheme for water allocation using free market forces to allow junior users to purchase water in times of shortage, expediting the approval process to allow transfers and to pre-negotiate water sharing with senior users.

Stream systems identified as high priority for AWRM include the Lower Pecos River, Lower Rio Grande, San Juan River, Upper Mimbres, Rio Gallinas, Nambe-Pojoaque-Tesuque Basin, and Rio Chama. The Lower Pecos, which reaches from Fort Sumner to the southern state line, was selected for active water resource management to maintain compliance with the Pecos River Compact and the U.S. Supreme Court amended decree. The Lower Rio Grande Basin extends from Elephant Butte Dam to the Texas Border near El Paso and is one of New Mexico's principal agricultural regions.

AWRM will be implemented to optimize the use of both the Pecos and Rio Grande basins' available surface and groundwater, especially in times of reduced surface-water flow. For FY07, new performance measurements reflect the agency's shift to an AWRM-based strategy, particularly with respect to the Pecos River and Rio Grande compacts where tracking accumulated acre-feet delivery credit or deficit by basin will now be formally quantified.

DEPARTMENT OF ENVIRONMENT

During FY05, the New Mexico Department of Environment (NMED) made substantial improvements in development of meaningful performance measures and in the usefulness of quarterly performance reports.

NMED has identified several new measures that more fully describe outputs and outcomes for the agency. This is particularly tricky for NMED, because direct impacts of public services can be somewhat amorphous due to the wide range of factors that affect the air and water quality beyond the control of regulatory authorities. The new measures include annual percent reduction in greenhouse gas emissions, number of days the air quality index exceeds 100, number of workplace injuries, percent of public water systems that comply with maximum contaminant levels, and others.

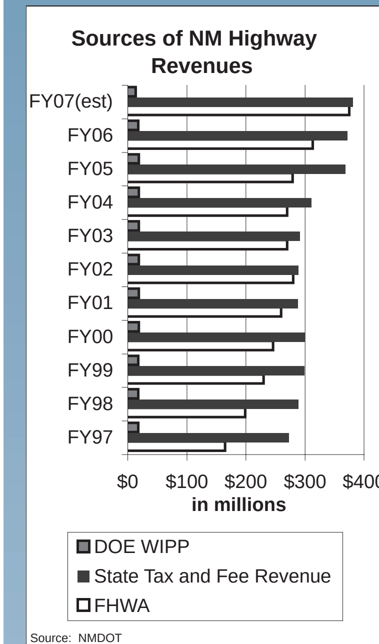
NMED indicates it will remedy one past concern by providing baseline numbers for performance measures that are tracked as percent improvements. Additionally, the agency moved away from use of "percent improved" measures toward goals with hard performance numbers. The committee encouraged NMED to increase the number of performance measures based on hard numbers in FY07, as these are more descriptive in terms of quantity of change and initial size of a problem or performance outcome. Also, in the quarterly reports, a few of the measures are not clear to readers unfamiliar with agency operations. NMED should consider extending or redrafting text to be certain that this information is readily accessible by the general public.

NMED incorporated more meaningful discussions of factors that affect quarterly performance for most measures. While the text may be too concise sometimes, lacking detail, it is generally relevant and provides useful explanations.

One important area for improvement in future strategic plans and, particularly, in quarterly reports is inclusion of action plans when performance measures are not meeting target levels. NMED includes brief action plans in some instances, but this needs to be consistent throughout the report.

Finally, NMED should be recognized for placing environmental data on its website, allowing the public to see real-time measures of air quality in different regions of the state and of contaminants detected in various drinking water systems.

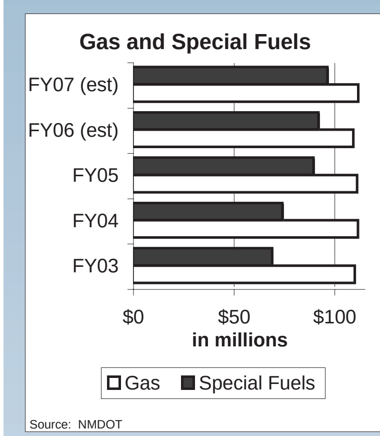
The New Mexico Legislature has enhanced funding for transportation systems in New Mexico in recent years through innovative project financing via Governor Richardson's Investment Partnership program (GRIP) and transportation-related tax and fee increases. Recent sharp increases in the price of gasoline combined with national shortages of steel and concrete are creating significant management challenges and opportunities for the New Mexico Department of Transportation (NMDOT) in FY07.



State Road Fund Outlook. Unrestricted revenues support the bulk of the activities associated with the state highway system. Restricted revenues within the state road fund are earmarked for special purposes, such as the aviation fund, or bond proceeds and the interest accruing from the proceeds. NMDOT, in August 2005, projected that the FY06 unrestricted revenue growth from the state road fund would be $6.3 million less than original budget projections for FY06. This is due to the unexpected increase in fuel prices and decline in gas tax revenue. NMDOT projects gasoline prices to remain high throughout FY06 with a slight moderation in FY07. Unrestricted fund growth in FY07 is forecast at $2.8 million, or 0.7 percent.

Gasoline Taxes. The state road fund is exposed to risk due to continued high fuel prices. The gasoline tax accounts for almost 30 percent of the revenue used to finance all NMDOT transportation programs. The tax, $0.17 per gallon, is based upon the quantity of gallons sold and not the price of a gallon of gasoline.

Revenue for FY05 met budget expectations despite increasing prices for gasoline. A 2 percent decline in gasoline consumption, driven by retail price increases, was more than offset by a decline in Native American tax-exempt activity resulting in a net increase in taxable gallons of about 1.5 percent.

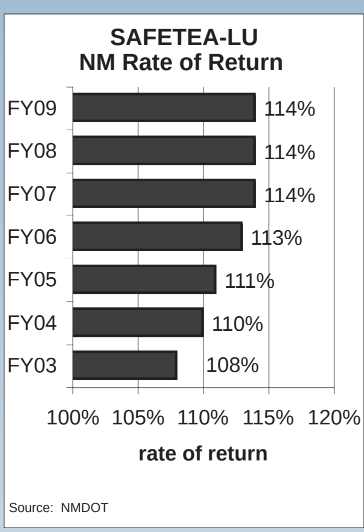


The gasoline price increases have negated prior predictions of strong growth in gasoline revenue. The $5 million of growth originally budgeted for FY06 is projected to decline by approximately $2 million.

In FY07 the department foresees gasoline prices stabilizing and possibly declining in addition to a stabilized pattern of Native American gasoline sales. If correct, this should result in higher consumption and a return to a normal rate of growth in gasoline tax revenue.

As prices for gasoline rise, demand decreases, thus resulting in fewer gallons being sold and less tax revenue. In the decade since the gasoline tax was last adjusted (1995), inflationary increases to the price of gas coupled with decreasing fuel consumption, both as a result of lower demand and more fuel-efficient vehicles, have impacted the purchasing power of gas tax revenues. After adjusting for inflation, the purchasing power of the gasoline tax has declined from 17 cents per gallon in

General Distribution SAFETEA-LU dollars in millions	
$394.00	National Highway System projects
$331.00	Interstate maintenance
$277.00	Surface Transportation
$71.00	Bridge replacement and rehab
$42.50	Urban projects to reduce congestion and improve air quality
$40.00	Transportation and safety projects
$6.30	Border Infrastructure projects
$6.30	Recreational trails
$5.20	Projects that help school children get to and from school



1995 to about 13 cents per gallon. This alone represents a 22 percent decrease in revenue potential for the state.

In 1995 the cost of a gallon of gasoline was approximately $1.15 per gallon and the gasoline tax, $0.17 per gallon, represented 14.8 percent of the total cost per gallon. With gasoline now at a price of $2.85 per gallon the gas tax represents just 5.9 percent of the price. This rate is less than the state's gross receipts tax rate of 6.8 percent.

This inflationary spiral and its impact to the state road fund will be further evidenced in the costs of highway construction due to increases in fuel and materials, such as oil, steel, and concrete. This directly translates into fewer dollars being available to meet the ever- increasing transportation infrastructure demands.

Federal Funding Outlook. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was signed by President Bush on August 10, 2005, ending a two-year effort by Congress to reach agreement on funding for highway construction, highway safety, motor carrier safety, and mass transit. This bill authorizes funding for federal fiscal years (FFYs) 2004-2009. The funding for FFY04 was not affected and a limited impact is seen in FY05.

Over this five-year period (2004-2009), New Mexico will receive $1.77 billion in highway funding, representing a total increase of 30.3 percent over the SAFETEA-21 levels. The approximately 82.2 million additional dollars will largely fund projects chosen by the state and listed in the State Transportation Improvement Program (STIP). Additionally, $100 million has been designated for transit programs in New Mexico, a 100 percent increase over TEA-21 levels.

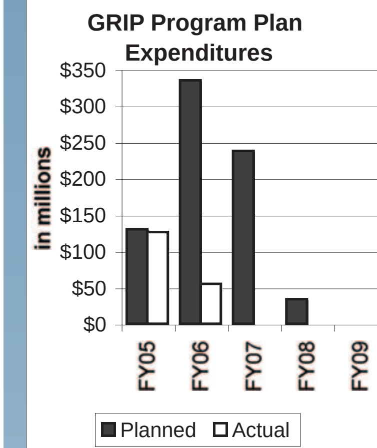
New Mexico's rate of return should reflect approximately 12 percent more in highway funding than New Mexico drivers will pay in federal excise taxes as compared with states such as Texas, California, and Arizona, which will receive 8 percent less than what they pay in.

The bill contains funds earmarked for several special projects within the state. These represent 9 percent of the total appropriated ($188.75 million).

Santa Teresa Rail Relocation. SAFETEA-LU designates $14 million for the initial planning of the relocation of the rail yards in downtown El Paso to the Santa Teresa port. The costs associated with this project will exceed $300 million.

GRIP Implementation and Project Planning. During the 2003 special session, the Legislature increased transportation-related taxes and fees to support the state road fund and authorized $1.585 billion of bonds

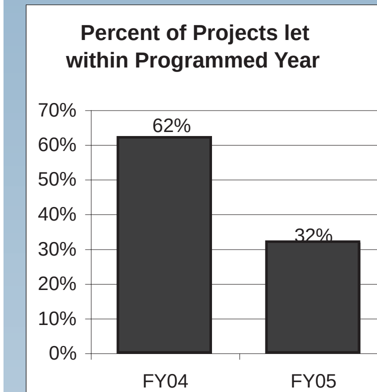
issuance, over an eight-year period, to fund 37 transportation projects, including a commuter rail in the Interstate 25 corridor. Debt service for these bonds comes from the state's existing dedicated federal and state transportation revenue streams.
The implementation and coordination of the $1.586 billion GRIP program and the statewide transportation improvement program (STIP) continues to be the most significant and challenging management issue confronting NMDOT. To meet its commitment, the department must leverage all available funds from GRIP bond proceeds, federal funds, and external partnerships to deliver all projects. All GRIP projects are required to be programmed within STIP.



Based on 1st bond issuance of $737million.
Source: NMDOT

There is concern that inflationary pressures associated with oil supply combined with national shortages of both steel and concrete will increase project costs, delay construction, and require the use of other STIP funds to supplement GRIP projects. Initial estimates by the department show that due to these factors GRIP will be under funded by more than $161 million. If correct, the NMDOT will be forced to reschedule other projects in STIP to absorb these increased costs and complete GRIP.

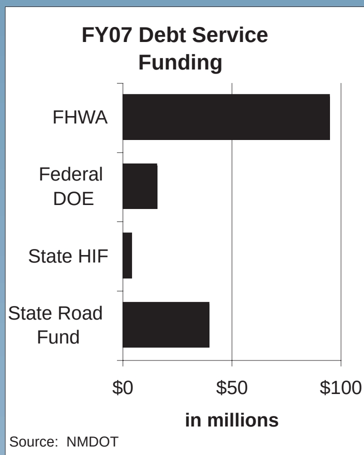
Through November 2005 NMDOT had designed and awarded construction contracts 26 GRIP Projects valued at $323 million. This represents approximately 24 percent of the total GRIP program. Eighty-four projects are under contract for design with an additional 70 projects being designed in-house. The department is scheduled to have spent $677 million by the end of FY07. This latest projection is $30 million less than originally projected. This slippage in project scheduling is a concern, especially with more than 50 percent of the remaining projects scheduled to be awarded in the next few months. In FY05 only 32 percent of the projects awarded were on schedule. Not all problems in scheduling are the result of poor planning. Construction on New Mexico highway 491, valued at over $100 million, is behind schedule and might be moved back as much as two years. The delays are due to difficulties in securing agreement from the Navajo Nation regarding right of way issues. Concern exists that additional slippage might occur especially if shortages in steel and concrete continue.

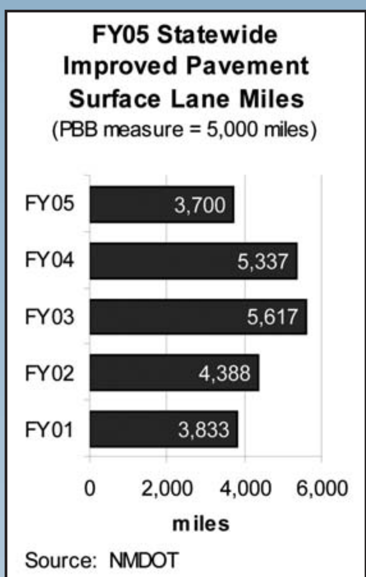


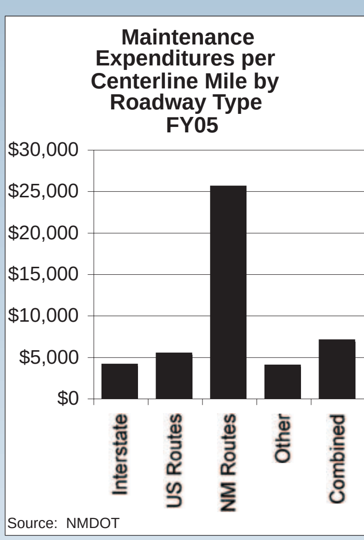
Source: NMDOT

A second bond sale is scheduled to be held by the department in fall 2006 for the remainder of GRIP funding.

GRIP II. Throughout the state, a myriad of mainly local road projects do not qualify for federal monies or inclusion on the STIP. These roads are largely not part of the state road system the NMDOT is responsible for maintaining. As a result, these projects do not get attention due to the lack of any identifiable funding source. The department in early summer 2005 requested county, tribal, and municipal governments to report and prioritize projects within their jurisdictions. These totaled in excess of $3 billion. The department has taken each entity's top priority,







a total of $637 million in projects and is developing an approach that will prioritize the scheduling and financing of these projects in phases and will further require local entity cost sharing. The department expects a major portion of the financing will be from state capital outlay monies. Concern exists that GRIP II, while a noble effort to address statewide transportation needs, might enlarge the scope of responsibility of the department and dilute resources required to fulfill the department's mission.

The department is hard pressed to maintain existing roads as is evidenced by the decline in the number of improved pavement surface lane miles for FY05. In FY05 only 32 percent of projects awarded were on time on schedule, compared with 62 percent in FY04. As maintenance costs continue to escalate and gas tax revenues decline due to decreased consumption, the department can ill afford to expand its scope of responsibility.

Bond Program and Debt Management. The department has a total outstanding debt of $1.6 billion with an FY07 debt service obligation of $154.5 million for all NMDOT bonds. The Transportation Commission established an internal policy limiting annual debt service for all bonds to no more than $160 million. The GRIP bonds account for $1.14 billion in outstanding principal with a final maturity date in 2024. Total GRIP interest and bond expenses will total $720 million through maturity of the bonds.

Road Maintenance. Maintenance costs for FY05 accelerated due to heavy snows and rain resulting in approximately $1.9 million in emergency repairs, cleanup patching, and snow and ice removal. New Mexico roads are costly to maintain at an average cost of $25.5 thousand per centerline mile. Some major factors contributing to these high costs are the remote areas and the cost of mobilization of materials and equipment.

Bridge Maintenance. The state has 277 bridges considered structurally deficient. This is a decrease from a high of 281 deficient bridges reported in FY04. Funding levels for bridge maintenance are at an all-time high with many bridges scheduled for replacement within various STIP and GRIP projects. Bridge replacement costs have risen from an FY04 and FY05 cost of $75 per square foot to FY06 estimates of $85 per square foot. These increases are a direct result of rising steel, concrete, and energy pricing.

Public Transportation Initiatives. The department's strategic plan includes as a key element the development of transportation alternatives such as commuter rail or bus service.

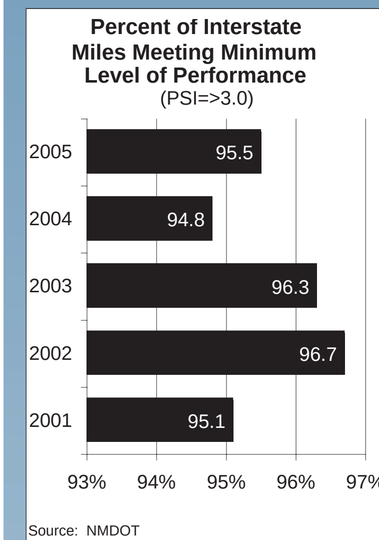
Commuter Rail. GRIP legislation provided for reconstruction and improvement of the Interstate 25 (I25) corridor from Belen to Santa Fe to accommodate public transportation elements including commuter rail. In a joint partnership between the department and the Mid-Region Council of Governments (MRCOG), NMDOT is approaching commuter rail in two phases: Belen to Bernalillo, estimated to be complete in January 2006, and Bernalillo to Santa Fe, estimated to be complete in late 2008. Initial GRIP projections identified $75 million for phase one activities and the initial planning of phase two. Another $75 million has been secured through SAFETEA-LU for phase two operations.

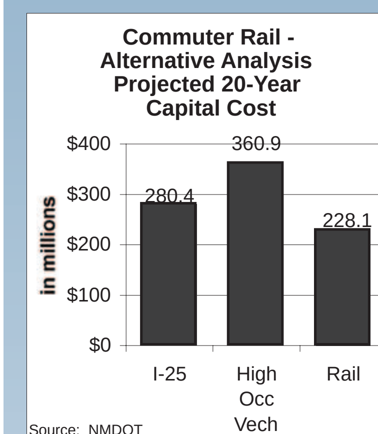
In phase one, the department purchased 10 bi-level passenger rail cars ($22.9 million) and four locomotives ($9.6 million). Another locomotive was purchased for $2.25 million using monies from Sandoval County. The state of New Mexico and Burlington Northern Santa Fe Railroad (BNSF) have signed a memorandum of understanding (MOU) outlining proposed terms to enable commuter service between Belen and Bernalillo.

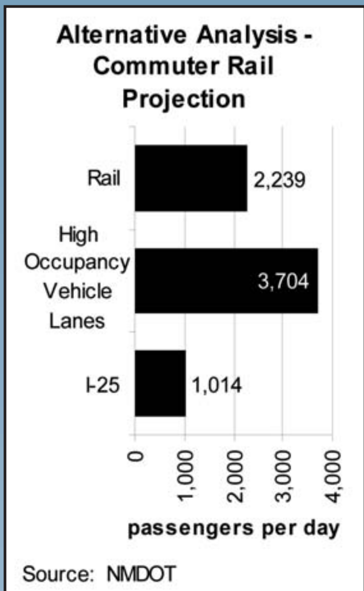
An operating agreement was initially planned with BNSF with cost estimates for track access and improvements between Belen and Bernalillo to be $20 million. Station costs are estimated at $16 million for seven stations with some of the costs of the Bernalillo station to be paid by Sandoval County. GRIP funds are being used for the phase one capital funding and the initial planning of phase two.

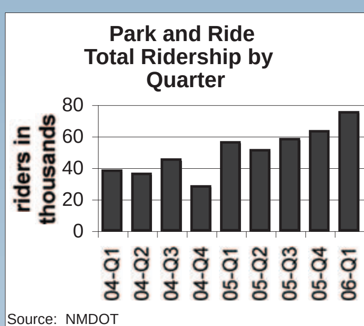
Track access was recently negotiated with BNSF. The state has agreed to purchase the track between Belen and Trinidad, Colorado for $75 million. This purchase is one of, if not the largest property acquisitions in state history, and was done without public and legislative overview and input. Significant concerns exist regarding the liabilities that the state will assume and the increased costs associated with this purchase. Expenditures for commuter rail have escalated well beyond the original I25 corridor improvement projection of million of $122.5 million in GRIP. The NMDOT now projects that commuter rail will cost almost $400 million. To accommodate this increase in project scope the NMDOT has shifted STIP monies meet GRIP project expenditures so that GRIP funds may be used for commuter rail expenditures. The committee has concerns that this acceleration of commuter rail will result in STIP projects being delayed.

Ridership levels are of some concern. It is expected that with the limited number of available trains during rush hour these trains should be at or near capacity. However the ridership levels outside of rush hour are unknown at this time and caution should be exercised in planning the schedules so that trains are not running empty throughout the day. A major concern exists that needed improvements to the Albuquerque metropolitan area bus system and the establishment of a shuttle service between stations and work sites might not be in place by January 2006. The inability of commuters to get to work sites within a reasonable period of time will result in many losing confidence in the system and reverting to more reliable forms of transportation.









Additional capital funding is being sought through the Federal Transit Administration (FTA) New Starts program for major capital transit investments. The estimated cost of phase two is $250 million to $300 million. This is a three-part process subject to FTA evaluation and approval at each step. The three steps are the completion and approval of a detailed "alternatives analysis," completed and submitted in September 2005; a "preliminary engineering" analysis, expected to take one to two years; and "final design," expected to take an additional one to two years.

The alternatives analysis submitted in September 2005 was written favoring commuter rail. The analysis reviewed all alternative travel modes between Albuquerque and Santa Fe. These options included expansion of the interstate (additional lanes), increased use of buses and high-occupancy vehicle lanes (HOV), and commuter rail. Not surprisingly, the study unquestionably showed commuter rail as being the preferred option. The report indicated, due to demographic changes expected in the next 20 years, the commute between Albuquerque and Santa Fe would take more than two hours (32 miles per hour). However, if commuter rail was chosen, expenditures on interstate improvements between Albuquerque and Santa Fe would be minimized over the next 20 years. It is incomprehensible that the public would not tolerate and demand improvement with or without the existence of a commuter rail system.

The analysis also projected that by 2025 high-occupancy vehicles or regional buses (HOV/BRT) could attract over 21.5 percent of the commuter activity between Santa Fe and Albuquerque as compared with a forecasted 10.1 percent for commuter rail. Yet, the HOV/BRT was not the selected alternative. The alternative analysis would seem to indicate that commuter rail is a complementary service to HOV/BRT services. Interstate maintenance and required improvements will not be abated with commuter rail.

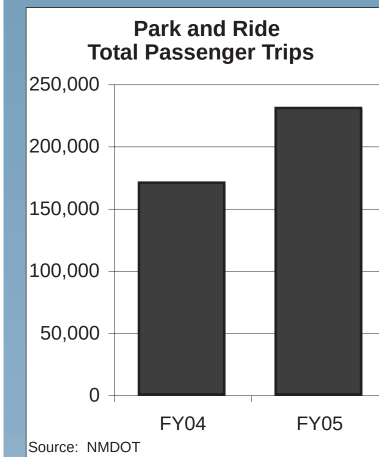
Phase-one operational costs are planned to be subsidized in the first three years of operation with congestion mitigation and air quality (CMAQ) federal funding. It is estimated these costs will be about $14 million per year. Offsets from revenue have not been factored into these costs because fares have not been established by MRCOG. MRCOG hopes to have subsequent year subsidization from potential regional transportation district (RTD) revenue. RTDs are permitted under state law to impose a one-half percent gross receipts tax on participating municipalities. An RTD for the Albuquerque metropolitan area has been approved by all governmental entities within the region and was approved by the NMDOT commission. The RTD tax may only be imposed after voter approval. Passage of this tax increase is uncertain.

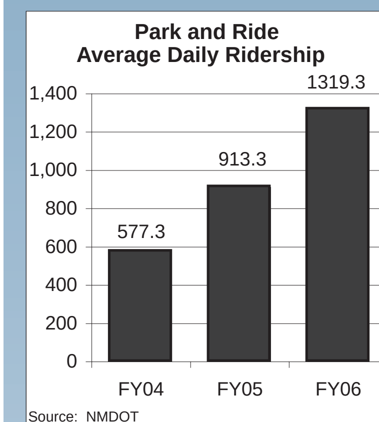
The city of Albuquerque is also projecting that it will request state assistance for funding a light rail system within the near future.

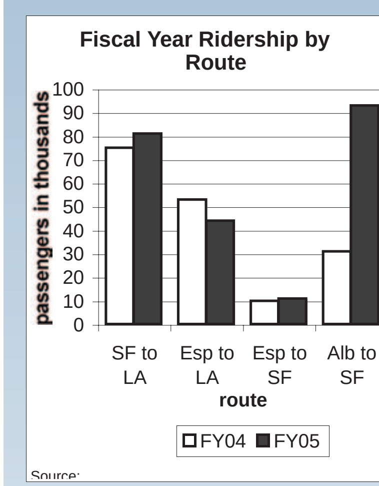
Self-Sustainability of Park and Ride Programs. The development of consumer demand for public transportation is not simply an issue of generating sufficient volume, but rather an issue of changing behavior. The recent surge in retail gasoline prices has served as an impetus for dramatically changing that behavior. Park and Ride ridership levels are at an all time high. A public transportation system also has to prove itself reliable and convenient to pull commuters from their private vehicles to public vehicles. NMDOT is engaged in a strategy that would get the general public to use park and ride first, then "move up" to commuter rail. These two programs should not be viewed as competitors but rather as complementary services with each serving a distinct need.

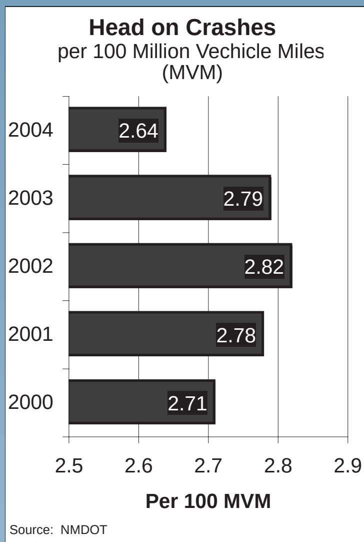
NMDOT began park and ride as a mechanism to meet a federal mandate to reduce the number of vehicles traveling through the US84/285 construction zone corridor between Santa Fe, Espanola, and Los Alamos. Service began in May 2003 and was expanded in December 2003 to include an I25 route between Santa Fe and Albuquerque. Both ventures were fully funded by federal funds less passenger revenue. This funding has been reduced to 40 percent of net costs for both routes as of December 2004.

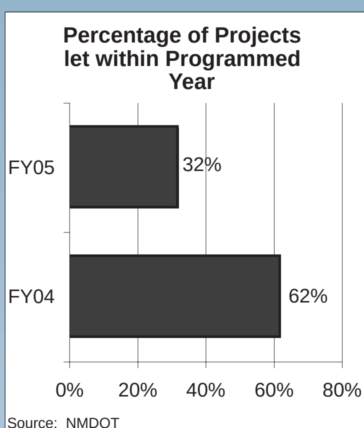
Park and Ride's ridership has more than doubled on the Albuquerque to Santa Fe route. This is due to the sharp rise of gasoline prices. The Espanola routes continue to experience ridership issues. This has resulted in reviews of schedules and passenger levels. Buses have been canceled on certain routes and added to other routes as consumers increase. The cost per passenger to NMDOT has declined 7 percent over the past two years largely due to this increase in riders. In FY04 the cost to the state per rider was $14.98. In FY05 this was reduced to $13.93. The department should continue to consider maximizing its expenditures at routes where participation merits the investment and seek alternative measures for other routes. Analysis should include a discussion of costs versus benefits, including the impact of reduced traffic congestion. Additionally, all alternatives must be considered. Van pools for certain markets might be more practical and affordable to address commuters' needs than park-and-ride buses.

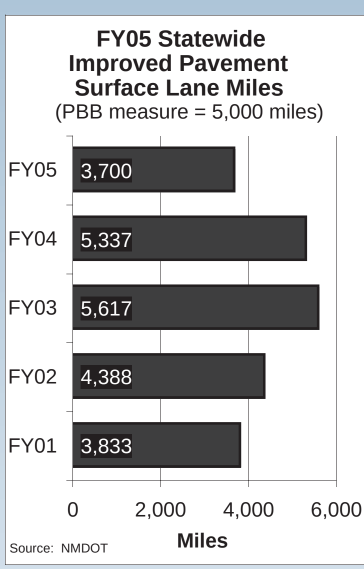












DEPARTMENT OF TRANSPORTATION

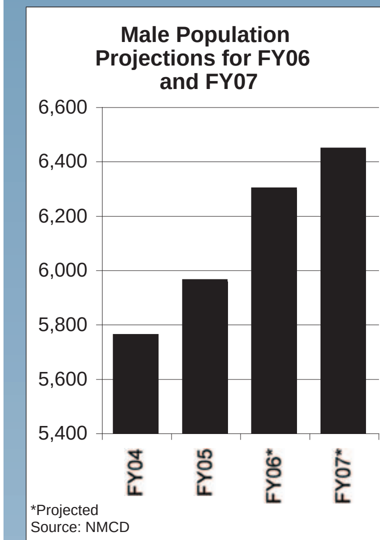
The Accountability in Government Act (AGA) required the Department of Finance and Administration to select "key agencies" for quarterly reporting. NMDOT was selected for participation. The department has been successful in either meeting or in making progress towards achieving the majority of standards set.

Traffic Safety Program. Data for FY05 suggests that head-on crashes and alcohol-involved fatalities are down as compared with the previous year. The department is focusing on increased law enforcement and public education and awareness campaigns aimed at high-risk populations. Seatbelt usage is at 90 percent, an all-time high for New Mexico and well above the national average of 80 percent.

Construction Program. Concern is noted over the decline in the number of projects awarded within the programmed year. By reviewing projects awarded and comparing that number with the number planned, the planning construction processes can be evaluated. In FY05 32 percent of the projects scheduled awarded as compared with 62 percent in FY04. When coupled with the fragile nature of the department's funding due to bond-debt servicing, this area of concern warrants continued observation and analysis. The ridership index of 4.3 continues to be below the expected index of 4.7. An index of 4.7 is not a reasonable or achievable measure. It is higher than industry standards throughout the country. In FY07 a more realistic measure of 4.3 is being proposed.

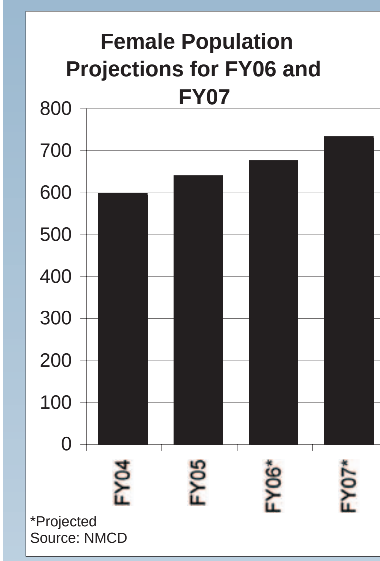
Maintenance Program. Maintenance expenditures per lane of combined systemwide miles increased in FY05 to an average of $6.8 thousand per mile. This increase is substantially above the department's standard of $5.2 thousand per mile and is directly related to increases in the cost of materials and the severe weather conditions experienced in FY05. Additionally, the number of surface lane miles of improved pavement for FY05, 3,700 miles, dropped well below the measure of 5,000 miles. The department again attributes this to the severe weather conditions experienced in FY05. This again raises concern with expansion of departmental responsibility via GRIP II and the department's capacity to handle this increase in workload.

New Mexico has seen tougher laws in the last few years, new driving while intoxicated (DWI) and sex offender laws, mandatory minimum sentences for certain crimes, and "truth-in-sentencing" laws that require serious offenders to serve 85 percent of their prison sentences. This has resulted in increases for male and female incarceration rates. Public safety faces challenges with overcrowded correctional facilities, unmanageably high caseloads for probation and parole offices, and salary and retention issues for state police officers and probation and parole officers.



Prison Population. The tougher laws have added to the increasing prison population. The New Mexico Corrections Department (NMCD) reports as of October 31, 2005, 23 general population beds were available. All 23 beds are male inmate beds, and 12 of these beds are restricted for new commitments at the Reception and Diagnostic Center in the Central New Mexico Correctional Facility. The New Mexico Women's Correctional Facility at this time was 39 inmates over capacity.

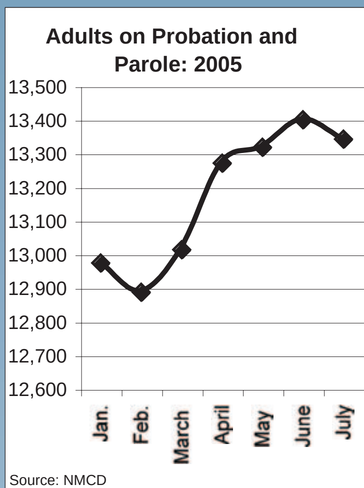
JFA Associates, formerly of George Washington University, projects the average annual inmate growth for the state of New Mexico. The FY07 forecast of inmate growth is 2.6 percent. This translates into an increase of approximately 181 male and female inmates.

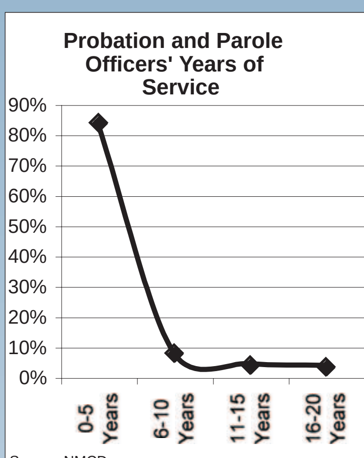


Out-of-State Housing. NMCD planned to lease an additional 144 beds in FY07 from the Santa Fe County jail. Unfortunately, in September 2005 the beds were leased to the city of Espanola. In June 2005, LFC staff conducted a survey of available beds in New Mexico county jail facilities. The only counties with inmate beds available were McKinley County and Santa Fe County, and both have since leased all their available beds. It is clear the department will need to house male inmates out-of-state until a new correctional facility is built.

Plans for Additional Prison Beds. In June 2005, the Corrections Department presented a plan to LFC to contract with the town of Clayton to provide a 600-bed privately operated level 3 correctional facility. The town of Clayton and Union County plan to sell bonds to fund the construction of the prison facility. Clayton entered into an agreement with Global Expertise in Outsourcing (GEO) Group Inc. to design and build the correctional facility. NMCD expects the Clayton prison to be open by FY08. Even with the additional 600 beds in Clayton, male population growth estimates indicate additional beds likely will be needed by the end of FY08.

In July 2005, the LFC and the Courts, Corrections and Justice Committee asked the attorney general for an opinion on whether a local government has authority to build or operate a state prison and whether a local government is exempt from the state procurement code if it contracts with a private company to operate a state prison. On November 14, 2005, an assistant attorney general issued a letter of legal





advice stating "while legitimate policy questions may be raised about the wisdom of allowing private construction and operation of a second jail in Clayton/Union County, the local public bodies may rely on existing statutory authority for this project."

The department is planning to open Camino Nuevo, the former juvenile correctional facility in Albuquerque, by January 2006 to house level 1 and 2 female inmates. NMCD plans to use Camino Nuevo to develop programs for female inmates to participate in community work release and acquire marketable job skills. The operational cost for Camino Nuevo is estimated at $5 million. The capacity of the Camino Nuevo facility is 192 beds. These beds will take care of the female inmate population growth until FY10.

High Caseloads for Probation and Parole Officers. As of August 2, 2005, 13,405 individuals were on parole or probation in New Mexico. This number includes those on regular supervision, in special programs under intensive supervision, and offenders supervised from out-of-state. Between July 2004 and August 2005 the number of adults on probation or parole in New Mexico increased by 1,751 or 15 percent. The average standard caseload per probation and parole officer (PPO) continues to grow and is currently at 106.

Salary and Retention Issues. The high caseload has contributed to high turnover and retention problems. As of September 23, 2005, 28 out of 231 PPO positions were vacant. Currently, 51 percent of PPOs have one year or less service time. NMCD reports PPOs are leaving for higher paying jobs with Albuquerque's Metropolitan Court and federal probation.

Converting Existing Positions. Since 2001, Probation and Parole has converted 40 positions to PPOs to combat the increasing caseloads. Recently, 14 intensive supervision officer positions were converted to PPOs. Intensive supervision is now only available in Albuquerque and Santa Fe with a waiting list of four to six months. The shortage of intensive supervision officers statewide makes it impossible to expand the Community Corrections program or add other early release programs. Adding early release programs without increasing the number of PPOs would displace high-risk and high-need offenders from available supervision.

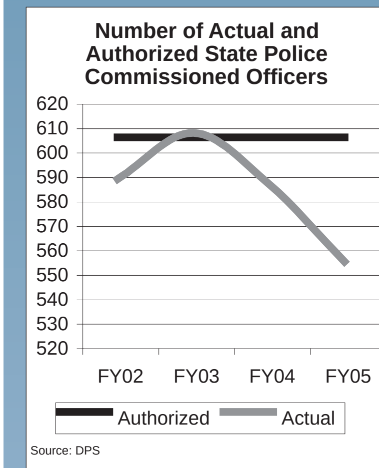
Department of Public Safety Personnel Issues. The Department of Public Safety (DPS) has been confronted with human resource issues over the past year, including policies allowing state police offices to earn pay while on administrative leave and problems with recruitment and retention of commissioned officers. The department is addressing these issues by reviewing and updating policies through an accreditation process and developing a compensation package for commissioned officers.

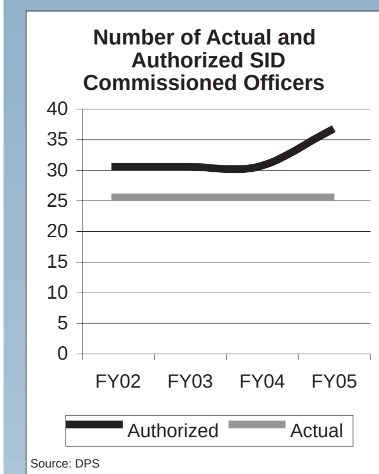
On November 16, 2004, KRQE-TV reported that DPS spent $311.7 thousand over a two-year period to pay five state police officers on administrative leave pending disciplinary action. In May 2005, an LFC hearing revealed the department had failed to correct this problem. DPS has a standard conduct policy, but they did not include the steps for disciplinary hearings in the policy. The department has promulgated a rule according to the State Records Act on standards of conduct that includes the procedures for disciplinary hearings. Also, DPS is proposing changes to Section 29-2-11 NMSA 1978 to ensure state police officers will not earn pay on administrative leave.

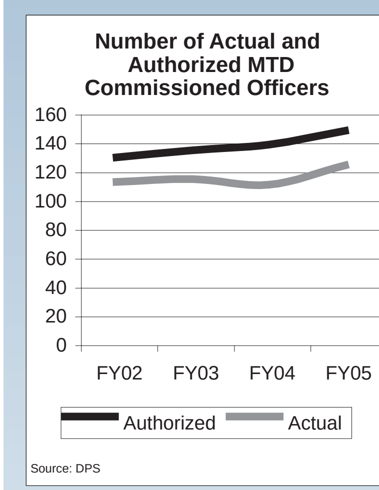
Reviewing Policies and Procedures. To ensure polices are reviewed and updated as needed, DPS signed a contract with the Commission on Accreditation for Law Enforcement Agencies (CALEA) Inc. in May 2004. CALEA is an independent accrediting authority formed by the four major law enforcement membership associations: International Association of Chiefs of Police, National Organization of Black Law Enforcement Executives, National Sheriffs' Association, and Police Executive Research Forum. CALEA conducts onsite visits and reviews the accreditation process to make certain standards are met. Meeting the standards of the accreditation requires the Law Enforcement Program to modify most of the 125 established or proposed policies. The original fee of the accreditation was $13.5 thousand. CALEA has a three-year time limit on the accreditation contract. If DPS has not achieved accreditation within the time limit, it will cost the department $4.7 thousand to extend the contract annually.

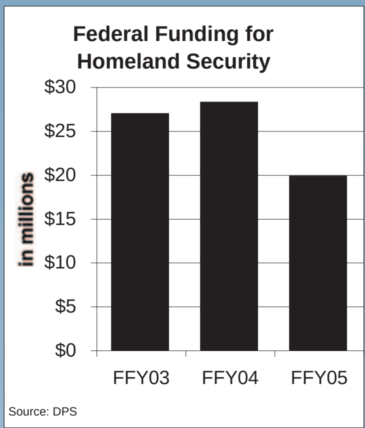
DPS has an administrative policy (ADM:01) regarding the approval process of department policy. Policies must be reviewed and approved first by department directors, second by the Office of Legal Affairs (OLA), third by the deputy secretaries of Operation, Administration, and Emergency Services, and finally by the cabinet secretary. Each step in the approval process includes a 10-day period for conducting the reviews. The process of reviewing policies has been cumbersome, leading to delays. As of November 30, 2005, nine policies had been approved and 43 others were in the process of review. The department goal is to be accredited by November 2006.

Salary and Retention. The Law Enforcement Program has taken the stance that recruitment and retention problems are due to inadequate compensation. As of November 30, 2005, the vacancy rate for commissioned officers for the State Police was 11.4 percent, Motor Transportation Division was 13.6 percent and Special Investigation Division was 29.2 percent. Findings from an LFC audit show that the New Mexico State Police base salaries are lower than over half of all other states and New Mexico municipalities surveyed. However, total compensation offered includes shift differential, special and agent incentives, specialty team pay for types dive team, bomb squad and K-









9 unit, educational incentive pay, pilot certification pay, and a clothing allowance. The audit reports that 43 percent of all state police officers receive some form of specialty or incentive pay. The audit cites pay policies as the likely cause of turnover of patrolmen in the first five years of employment. The department has strict salary guidelines on entry-level salaries that disregard prior experience. The department allows no salary increases during the two-year probationary period and a maximum potential of 6 percent salary increases in the first five years. The audit suggests poor working conditions, lack of appreciation, lack of support, and lack of opportunity for advancement should also be considered as possible reasons for turnover.

Office of Homeland Security Reviews. New Mexico received $19.7 million in homeland security funding in federal fiscal year 2005. Eighty percent of the total grant must flow through to local jurisdictions composed of the 33 counties and the city of Albuquerque. No more than 20 percent of the grant can be retained by the state and, of that 20 percent, 3 percent may be used for administrative and management costs.

The U.S. Department of Homeland Security and the U.S. Department of Justice's Office of the Comptroller conducted a programmatic and fiscal review of New Mexico's spending of the homeland security grant funding. The review found two employees at the Governor's Office of Homeland Security were paid using Office of Domestic Preparedness (ODP) funds for non-ODP work. The U.S Department of Homeland Security and the DPS Office of Emergency Management agreed to pay back $136 thousand in accordance with the Office of the Comptroller policies.

A year ago, the LFC expressed concern that the state's homeland security operations were not clearly organized. At that time, responsibility for administration of federal homeland security grants was divided between the Office of the Governor and the Officer of Emergency Management in the Department of Public Safety. Some other operational responsibilities were also shared. The homeland security advisor served both the in the Office of the Governor and as deputy secretary of DPS. The homeland security advisor lacked clear statutory authority to assume command of all sate agencies in the event of a terrorist incident. To address these concerns, the Legislature passed House Bill 891, authorizing the Department of Homeland Security in statute. The legislation was vetoed.

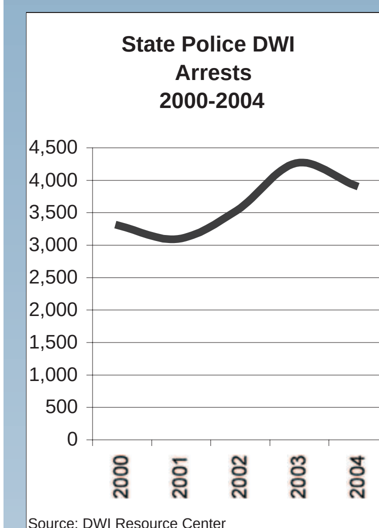
In February 2005, the homeland security advisor resigned amid the controversy over the use of federal funds. The current homeland security advisor reviewed the state's homeland security operations and, in addition to moving grant administration to DPS, implemented changes to simplify and clarify the organization of these activities. Although these changes represented a significant improvement over the existing situation, the homeland security advisor continues to wear two hats:

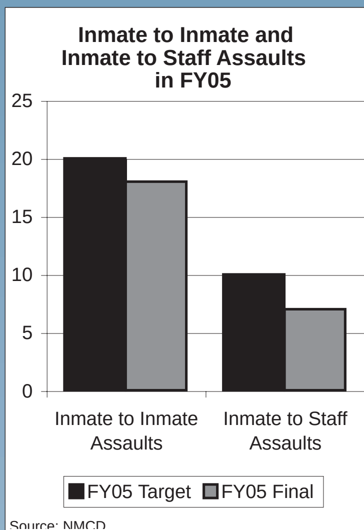
that of a policy advisor and interagency coordinator in the Office of the Governor and that of the deputy secretary of DPS. This "double-hatting" has the potential of creating confusion over the lines of authority during an emergency. The homeland security advisor has agreed to work with the LFC and Legislative Council staff to prepare legislation updating obsolete statutory references to emergency response and clarifying the authority of the Office of Homeland Security. Currently, the Office of Homeland Security is not authorized under statute.

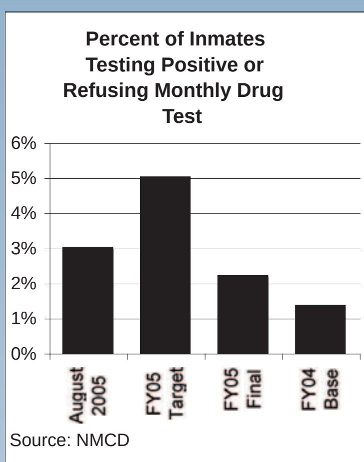
Emergency Preparedness Plans. The Emergency Management Assistance Compact (EMAC) formed from a regional concept of a few states helping each other as a result of Hurricane Andrew in 1992. Currently, New Mexico has EMAC agreements with Louisiana stemming from Hurricane Katrina. New Mexico has assisted in the hurricane relief efforts with State Police, National Guard troops and National Guard medical helicopters. In light of the devastation caused by Hurricane Katrina, it would benefit New Mexico to reevaluate the current State Civil Emergency Preparedness Act and assess if specific disaster plans should be formulated for fires, floods, tornados, and other disasters.

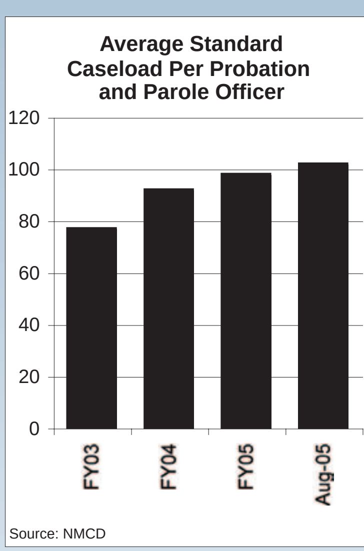
Status of DWI in New Mexico. In calendar year 2004, New Mexico ranked sixth in the nation for alcohol-related fatalities per capita. Alcohol was the number one contributing factor to traffic-related fatalities in New Mexico that year. In 2004 alcohol-related traffic accidents and alcohol-related injury crashes reflected a 9 percent decrease from the prior year. There were 176 alcohol-related fatal crashes in 2004.

State Police DWI Initiatives. Highway fatalities and alcohol-related deaths are State Police priorities. State Police DWI arrests accounted for 3,873, or 20 percent, of the state's total in 2004. Over the past 11 years, the State Police have been active participants in Operation DWI. The State Police participated in eight "super blitzes" in 2005 cooperatively with the National Highway Transportation Safety Agency's national "You Drink, You Drive, You Lose" campaign. In addition, monthly checkpoints are conducted in every State Police district, encompassing 37 cities and 26 counties.









CORRECTIONS DEPARTMENT

The *Governor's Performance Contract for a Safer New Mexico* has nine goals. The ninth goal is to provide safe prisons and effective supervision. The tasks listed to accomplish this goal are

- Improve the ability of corrections staff to effectively respond to emergency situations,
- Improve security in all correctional institutions, and
- Effectively supervise offenders under probation and parole.

The contract says that criminals must be punished and victims must be compensated.

NMCD's key measures on the conditions in the prison facilities are good indicators of performance. In FY05, the department had 18 serious inmate-to-inmate assaults, barely below the target of 20. Also, the measure on "percent of inmates testing positive or refusing the random drug test" is below target, but on an upward trend. These measures could indicate worsening conditions possibly due to overcrowding.

NMCD's key quarterly measure for "average standard caseload per probation and parole officer" has an FY06 target of 81, while the General Appropriation Act measure for standard caseload of probation and parole officers has an FY06 target of 92. Currently, the average standard caseload per probation and parole officer is 106.

No New Measure for the Corrections Department. NMCD proposed two changes to its general performance measures for FY07. The department requested the deletion of the measure "daily cost per inmate, in dollars" and to add the word eligible to the measure "percent of inmates employed." The Department of Finance and Administration (DFA) did not approve the changes.

DEPARTMENT OF PUBLIC SAFETY

The *"Governor's Performance Contract for a Safer New Mexico"* has the following goals that list DPS as one of the responsible agencies:

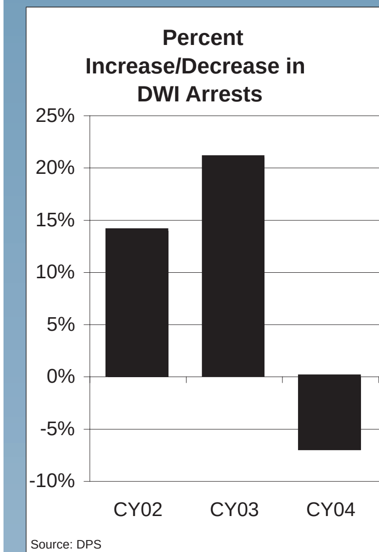
- Goal 1 – reduce death and injury due to DWI in New Mexico;
- Goal 2 – protect citizens, especially children, from sex offenders;
- Goal 4 – increase emergency preparedness;
- Goal 5 – reduce highway injuries and fatalities in New Mexico;
- Goal 7 – reduce illegal drug use, drug-related death, and drug crime; and
- Goal 8 – eliminate violent gangs.

The contract states that New Mexico neighborhoods, streets, and communities must be protected from crime, terrorism, and natural disasters.

DPS's key quarterly measures for the Law Enforcement Program all focus on DWI. The measures look at the ratio of alcohol-related deaths, increasing DWI arrests, increasing sobriety checkpoints, number of first-time DWI arrests in program, and number of repeat DWI arrests in the program. The key quarterly measures are plagued with problems. Data for the ratio measure on alcohol-related deaths is unavailable until six months after the end of a calendar year. The 10 percent increase in DWI arrests has compounded, limiting its usefulness, each year. This has created a situation of an unattainable performance measure. Also, the key quarterly measures are not in complete alignment with the General Appropriation Act measures.

Law Enforcement Program data submitted with the department's key quarterly measure report reflects reduced levels of activity. Between the first quarters of FY05 and FY06 the number of underage drinking operations was down 280; sobriety checkpoints, 32; saturation patrols, 7; and patrol hours, 11,603.

N*ew Programs and Measures*. DFA did not approve any changes to DPS's key quarterly measures for FY07. However, DFA did approve wording changes for four ratio measures under the Law Enforcement Program and the addition of all performance measures from DPS's strategic plan. The measures in DPS's strategic plan align with the *"Governor's Contract for a Safer New Mexico."* New crime measures are on drug arrests, narcotics seized, sex offender absconder rate, gang membership, minors in possession of alcohol, and selling or giving alcohol to minors.

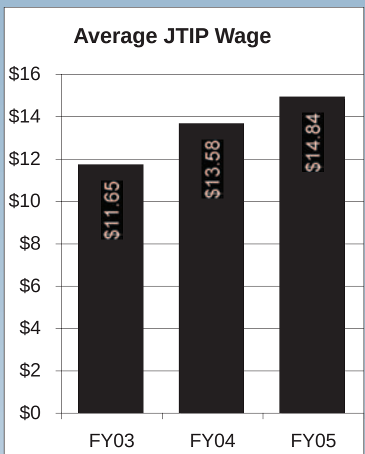


New Measures to Replace Ratio Measures
Number of traffic deaths in New Mexico per year
Number of serious commercial motor vehicle crashes in New Mexico per yer
Number of illegal drug-related deaths in New Mexico per year
Number of DWI fatalities in New Mexico per year

The New Mexico economy, bolstered largely by the construction industry, continues to perform better than the country as a whole. Pressure on the construction industry from the devastating hurricane season on the Gulf Coast may be countered by increased capital projects here in the state, leaving a moderate to strong economic forecast for the next few years.

In this environment, the Economic Development Department promotes New Mexico to industry, assists existing business expand operations, and helps new businesses get started. The department is organized around these three functions—business recruitment, business expansion, and start-ups—supported by various tax incentives and programs.

Economic Development Partnership. The New Mexico Economic Development Partnership (EDP), a 501(c) nonprofit organization created in 2003, is the outsourced business recruitment arm of the Economic Development Department. Composed of a 15-member board of directors and six staff members, EPD is focused on business recruitment and marketing. The work of the recruitment staff housed in the economic development division has been shifted to job retention and job growth. At the outset, a fine line between the duties of EDP and the department resulted in some duplication of work. Over the past year, however, the duplication has subsided as department staff focuses on in-state and overseas activities.



Source: EDD FY06 Q1 Performance Report

EDP received a special appropriation of $1 million in the 2005 session, contingent on securing $100 thousand in private funding. The department indicates the partnership received the funds primarily from in-kind contributions. Business recruitment and marketing might be better handled by a nonprofit organization like the partnership; flexibility in recruitment activities can be an advantage over recruitment programs run by other states. The partnership, however, continues to rely on public funding. Until it becomes more self-sufficient, considerable scrutiny should be paid to its activities and the potential overlap of duties with the department. The committee again recommends the need for expanded sources of funding.

Job Training Incentive Program. The Job Training Incentive Program (JTIP), formerly known as in-plant training, continues to play an important role in the state's business recruitment efforts. The program reimburses companies for training expenses, typically a reimbursement of wages for on-the-job training. During the 2005 session, the residency requirement for trainee eligibility was loosened and a new program, Step Up, was created. Employees who have been residents of the state for a continuous year *at any time* are now eligible for training reimbursement. The Step Up program makes funding available to companies who need to re-train employees in new processes, new technology, or career advancement. While funding through JTIP is only available for new employees, Step Up funds training for the existing workforce. The Industrial Training Board has set aside $1 million for the Step Up pilot program, which has not yet been tapped by a New Mexico company.

JTIP does not require companies to repay funds should the company close or leave the state. The committee recommends that any appropriation be contingent on the program adopting such a claw-back provision.

Moreover, the program does not track job retention rates for new jobs it funds, a key element of the department's mission. The committee recognizes the difficulty in collecting this data but encourages the program to develop the necessary expertise to do so.

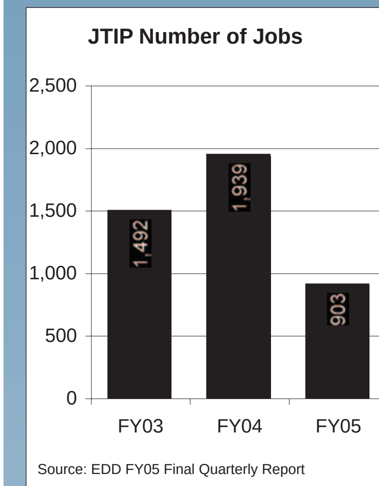
As of October 14, 2005, $8.8 million of the $21 million cash balance in the JTIP fund is uncommitted.

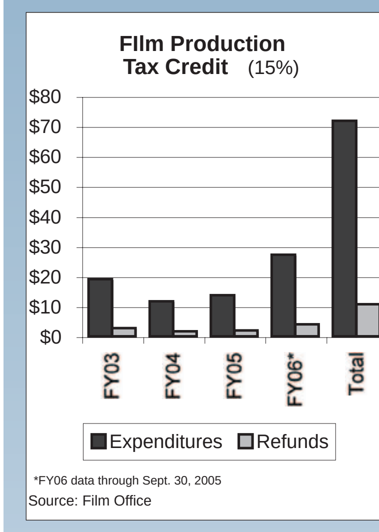
Film Office. The Film Office continues to demonstrate success in recruiting film and media productions to New Mexico. More than 15 productions—including feature films, documentaries, commercials, and television series—were located in New Mexico in FY05. Productions in 2006 will likely exceed that record. Capital outlay appropriations have been used for film training programs, which the committee views as recurring expenses.

Film Tax Incentives. Production companies may take advantage of two tax incentives in New Mexico: a tax refund of up to 20 percent of production expenditures or a nontaxable transaction certificate. In FY05, the state returned $2.1 million to production companies based on expenditures of $13.8 million.

Interest-Free Loans. The State Investment Council may invest up to $15 million per film project for an equity rate of return in lieu of interest. To qualify, films must be substantially shot in the state, the production company must have a guarantor for the loan principal, and 60 percent of the "below-the-line" crew must be New Mexico residents. Laws 2005, Chapter 101, also allows the State Investment Officer to loan up to 80 percent of the expected film production tax credit.

Spaceport Authority and the X-Prize. In an effort to attract aviation companies and build on the technical expertise in New Mexico, the EDD has invested substantial effort and resources in the commercialization of space and development of the "personal spaceflight" industry. The state won the rights to host the first X-Prize Cup, principally on the commitment of $9 million in capital outlay. Most of the funds remain unspent, but some funds were used for the first X-Prize Cup event, Countdown to the Cup. The event attracted 15,000 people to the Las Cruces airport in October 2005.





Policy Analysis: **Economic Development**

Capital Outlay for Space Commercialization

- $9 million for the X-Prize and associated events
- $11.1 million for development of the Southwest Regional Spaceport

Existing U.S. Spaceports

- Cape Canaveral, Florida
- Vandenberg Air Force Base, California
- Wallops Island, Virginia
- Kodiak Island, Alaska
- Mojave Civilian Test Center, Mojave, California

Proposed U.S. Spaceports

- Montana Spaceport
- Nevada Test Site
- Southwest Regional Spaceport, New Mexico
- Texas Spaceport
- Utah Spaceport

Source: Frank Sietzen, "U.S. Spaceport Snapshot," Space.com

With the passage of the Spaceport Development Act in the 2005 session, the department will request authorization to transfer the staff and resources of the Office of Space to the Spaceport Authority, which will be administratively attached to the department.

The authority is charged with the development of the Southwest Regional Spaceport near Upham. The Legislature has appropriated $11.1 million for the spaceport, most of which has yet to be used. A completed spaceport is expected to cost nearly $300 million over several phases of construction, and the funds have not yet been identified. Significant private investment should be sought for the project to move forward.

Tax Incentives. Including the film production incentives, the Legislature in the 2005 session passed a rural jobs tax credit, a small business technology tax credit, and aircraft services gross receipts deductions (Laws 2005, Chapter 104), bringing the total number of economic development tax incentives to more than 20. EDD has set up a task force to study the impact of such tax incentives on state revenue and the effect they have on attracting business. A preliminary review of tax incentive accountability in other states is underway, and EDD will request a proposal from ACCRA—the Council for Community and Economic Research, a nonprofit group—to study the issue.

Smart Money Initiative. During the 2005 session, the Legislature made significant changes to the Statewide Economic Development Finance Act that authorized the New Mexico Finance Authority (NMFA) to finance economic development projects. NMFA will partner with banks in New Mexico to finance economic development projects identified and evaluated by NMFA and EDD. The projects must then be approved by the Legislature. NMFA expects the $10 million appropriated to the new fund to triple on investment activity over the next 15 years. In addition, NMFA, which originally sought an appropriation of $35 million, might request additional funds in 2007.

The Smart Money rules were promulgated in November 2005, and NMFA is seeking private lending partners. Small local and regional banks have expressed interest in the program. As a partner, their risk would be significantly reduced in lending to higher risk projects that might bring jobs to the state. Borrowers will receive loans at below-market rates and will be held accountable for any claimed benefits or returns to the state. Under current rules, if a borrower fails to produce the claimed benefits—for example, creating a certain number of jobs—the interest rate will rise to the bank rate.

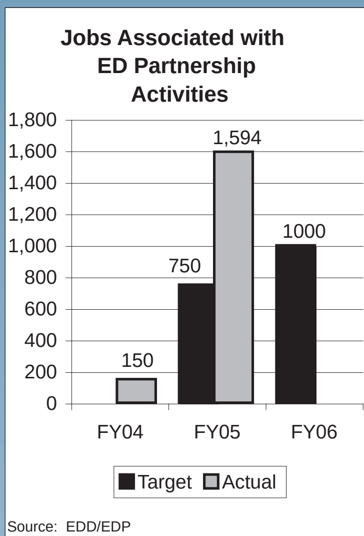
While the committee recognizes the potential benefits for economic development, program implementation should be monitored carefully.

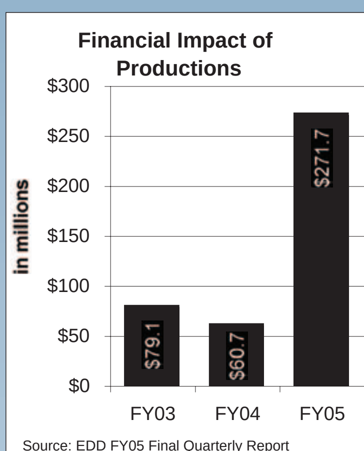
Special attention should be paid to determine whether the program is funding projects that would otherwise receive financing on the private market.

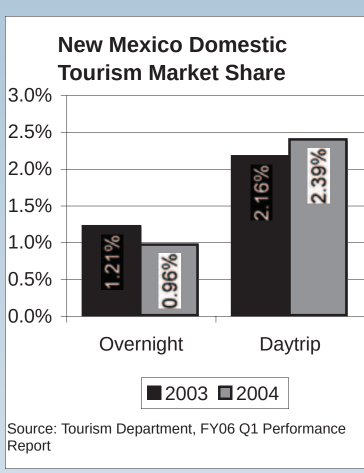
Santa Teresa Rail Relocation. The Border Authority, administratively attached to EDD, is the lead agency on the Santa Teresa rail relocation project to bring El Paso rail yards to the Santa Teresa area. The 2005 federal highway bill (P.L. 109-59) included $14 million for the development of the project, and a memorandum of understanding between Texas and New Mexico on allocating the funding should be completed in December 2005. Relocating the interchange between the Union Pacific Railroad, Burlington Northern Santa Fe, and Ferromex from downtown El Paso would alleviate urban congestion in El Paso, allow Union Pacific to significantly increase rail traffic, and reduce environmental and safety impacts in Juarez.

Total cost to relocate the rail yard is estimated to be $300 million—$200 million for U.S. improvements and $95 million for Mexican improvements. Substantial private sector investments will be needed, and Union Pacific has agreed to begin negotiating on their level of contribution.

Performance: **Economic Development**







Attributing economic growth to a specific source or particular activity is difficult. Developing measures that accurately reflect performance in this area presents an equal challenge. The measures created by the Economic Development and Tourism departments and mandated by the Legislature vary in relevance. Both agencies submit a quarterly performance report, and the committee will continue to work with the agencies to refine existing measures and create more meaningful ones, including those already listed in the governor's Performance and Accountability Contract.

ECONOMIC DEVELOPMENT DEPARTMENT

The department's quarterly report provides information on data sources, and most measures are tied to program functions. In general, many measures could be improved by comparing economic impact data with state investment.

Economic Development Division. The division reported meeting most of its measures in FY05. As of September 30, 2005, the economic development commission has certified 20 communities through the community certification initiative (CCI), surpassing its target of 15. More rural jobs were created than in the target, while urban business expansions were down. The measure of the Economic Development Partnership (EDP) shows marked improvement in FY05, but it is difficult to ascertain the correlation between EDP activities and newly created jobs.

Film Office. The Film Office continues to surpass its targets by large margins. The two measures—the number of media worker days and the economic impact—should be supplemented by additional measures, such as actual production company expenditures in the state. The office recently reported on the impact of new tax incentives for production companies.

TOURISM DEPARTMENT

The Tourism Department reports quarterly on 10 measures mandated by the Legislature and four supplemental measures designated by the agency. New Mexico saw a drop in its domestic market share of overnight travelers but an increase in daytrips taken in the state. The supplemental tourism barometer indicates a slight decrease in tourism for summer 2005 from the previous year.

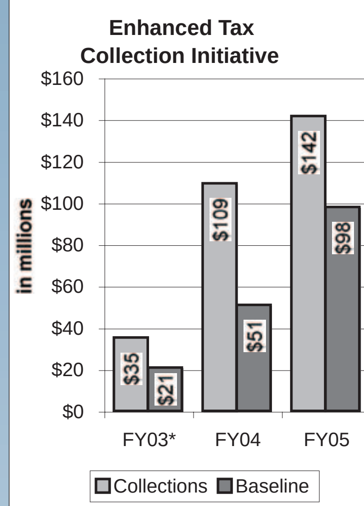
The circulation rate of *New Mexico Magazine* hit a three-year low in FY05, losing 11 percent of its qualified readership since FY03. In response, the magazine is undergoing a redesign based on a recent readership survey.

Policy Analysis: **Taxation and Revenue**

With strong revenue growth, New Mexico has reduced personal income tax (PIT) rates, increased spending on key programs, and built substantial reserves over the past few years. While the increased revenues are due significantly to taxes and royalties received from energy production, the Legislature has seen high returns from its investment in the tax collection initiative at the Taxation and Revenue Department. The special collection initiative is designed to improve tax collection rates from business and personal income tax payers. The department continues to expand this effort through its Audit and Compliance Division and new Tax Fraud Investigation Division.

In addition, customer service improvements continue to be a focus of the department, and the Legislature provided additional funds and personnel in the 2005 session for the Motor Vehicle Division.

Revenue Enhancement. The return on investment in the special enhanced collection initiative continues to show strong results. For FY05, TRD collected an additional $29.4 million for the general fund, a more than 6-to-1 return on the $4.8 million investment. The enhanced collections initiative also exceeded its general fund baseline collection goals, and the department is on track to reach its FY06 goal of $103 million in general fund, $7.5 million above the baseline. The audit and compliance division (ACD) reported assessing $34.5 million on audits, 42 percent of which was collected, surpassing its FY05 target of 40 percent.



*Initiative began in February 2003
Source: TRD

ACD hopes to identify additional fraudulent and delinquent taxpayers in FY07 through upgrades to the data warehouse and better coordination with other agencies.

Law Enforcement at the Tax Fraud Investigation Division. The Tax Fraud Investigation Division (TFID), expanded in the 2005 session, is authorized to investigate possible violations of the state tax laws by employing certified law enforcement personnel. The division, now fully staffed, is being organized with an internal audit and internal investigations division.

In the 2006 session, TRD is seeking authority to combine TFID with some of the resources and audit personnel from ACD and MVD to create a fifth program, titled Compliance Enforcement. The department would use the investigative expertise in the program to be both an internal and external watchdog.

Motor Vehicle Program Improvements. In the 2005 session, the Legislature authorized the Motor Vehicle Program to raise fees on transactions from 50 cents to $2, bringing an additional $2.8 million to the Motor Vehicle Division (MVD) for operational improvements. The division is implementing a plan to improve customer service, bolster employee morale, and standardize operations in the 33 field offices. Along these lines, in-band pay increases for clerk specialists went into effect on July 1, 2005, the IVR (integrated voice response) telephone system has been reworked to improve service, and license renewal notifications are being sent by mail. New signs and brochures have been sent to all field offices to inform customers of services. Improvements in the online registration system, mail-in, phone, and kiosk registration offerings should reduce customer wait times at MVD offices. The additional funding will also support 43 new employees, primarily clerk specialists, and training for existing personnel. Once fully staffed, MVD will reconsider Saturday office hours at the busiest field offices.

The division has also been successful in reducing the number of uninsured drivers in the state. Pursuant to House Joint Memorial 17, passed in the 2005 session, the department appointed a taskforce to identify ways to assist low-income drivers in obtaining car insurance. The taskforce report was due in November 2005, but as of this writing has yet to be submitted.

Property Tax Valuation. The Property Tax Division at TRD is charged with ensuring fair and equitable property valuations in New Mexico's 33 counties. Locally elected county assessors determine the current and correct value of property and then report to TRD on the assessed value of property as compared with the sale price. The quality and accuracy of the property tax valuations can vary widely from one county to the next. This variance is significant because state capital outlay funds are distributed to school districts based on the property tax valuation data. With inconsistent or inaccurate data, funding for school districts might be inequitable.

Tax Expenditure Budget. Thirty states prepare a list of tax expenditures for consideration by their legislatures during budget deliberations. This list, or tax expenditure budget, itemizes all special provisions in the tax code that favor a particular industry or class of people. New Mexico uses more than 20 such incentives for economic development, but the state has not thoroughly considered the impacts of these incentives on state revenue. According to the New Mexico Tax Research Institute (NMTRI), which testified before the LFC, a tax expenditure budget provides more transparency to the public and is a useful tool for the Legislature in measuring and realizing the impact of tax legislation. However, because these lists provide easy targets for raising revenue, care should be given to the original intent of the expenditure. NMTRI is considering putting this issue on their research agenda, and a partial list of tax expenditures is provided in Volume III.

E-Government. The state's MAG portal project – a central online access point for all state government services – has failed. Of the few online services available, New Mexicans can file an income tax return and renew their vehicle registrations. These services bring efficiencies in staffing and processes, and the department has proposed additional web-based service projects. For taxpayers, implementation of the GenTax application system continued in FY05, and TRD will add fuel tax reporting during FY06. This centralized software may provide support for a future consolidated GenTax taxpayer access platform, which would bring a single, web-based entry for New Mexico's taxpayers. TRD is assessing the needs for such a project and has requested funding for FY07.

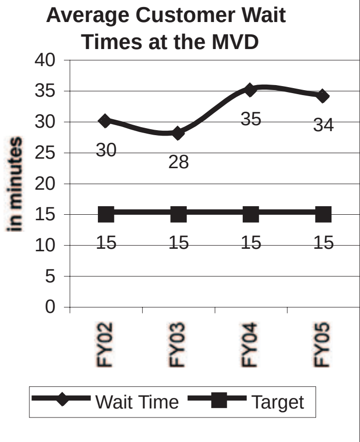
New Mexico Ranks Near the Bottom in E-Government Services, 2005

Rank	State
45	New Mexico
46	Louisiana
47	California
48	Alabama
49	Alaska
50	Wyoming

Source: Darrell M. West, "State and Federal E-Government in the United States, 2005," http://www.insidepolitics.org

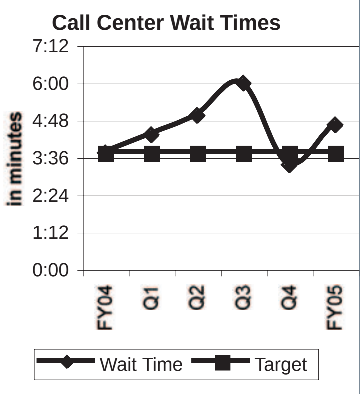
TAXATION AND REVENUE DEPARTMENT

Identified as a key agency for the Accountability in Government Act, the Taxation and Revenue Department (TRD) reports quarterly on its measures and works closely with LFC and the Department of Finance and Administration to improve performance. The agency maintains a set of meaningful performance measures that assess the operations of the department's four programs. Where TRD falls short in meeting its measures, for example in the Motor Vehicle Division, action plans are provided for making improvements. The department reports on several additional measures identified in the executive's performance and accountability contracts. Measures that track the development of Internet and web services for New Mexicans should be monitored and considered for future inclusion in law.



Source: TRD FY05 Final Quarterly Report

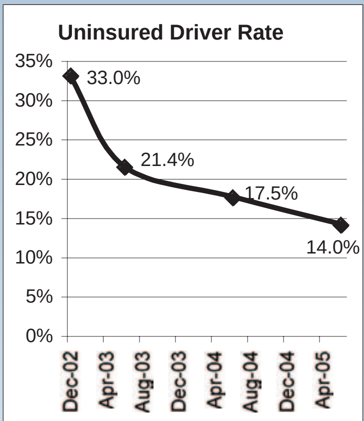
Waiting at the Motor Vehicle Division. There are few government entities that touch as many New Mexicans as the Motor Vehicle Division (MVD). The length of time spent on a typical trip to the MVD is often held up as a symbol of government efficiency—or inefficiency. The committee continues to emphasize the importance of improving customer service at the 33 MVD field offices and in the 2005 session significant additional resources were given to the MVD for this effort.



Source: TRD FY05 Final Quarterly Report

In FY05, wait times were measured by Q-matic machines installed in the six busiest offices around the state. Additional machines, which track customers from the time they take a number until time served, have been added to 12 other offices to better assess wait times, and early results show some improvement. Through the first quarter of FY06, wait times averaged 27 minutes. To reduce the number of people at MVD offices, the division is also emphasizing alternate methods for completing MVD transactions, including the automated phone and kiosk systems, the Internet, and mail-in registrations.

Waiting on the phone for service at MVD call centers worsened in 2005, with the average time to reach an agent at more than four minutes 30 seconds. To address this lag, the division indicates that a dedicated phone line for commercial transactions has been added and the IVR automated answering system has been reworked.

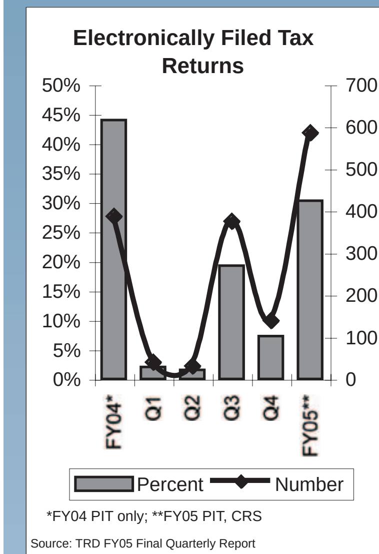


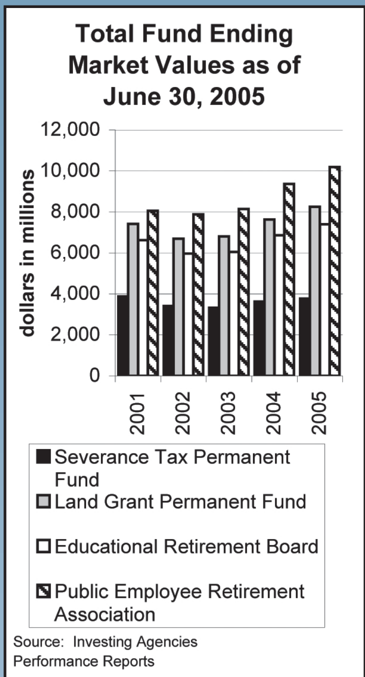
Source: TRD, Motor Vehicle Division

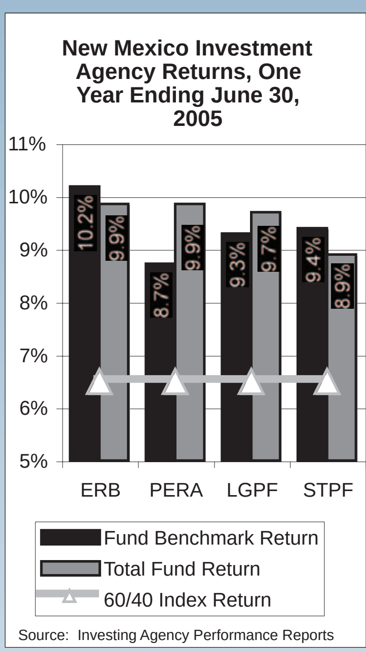
Reducing Uninsured Drivers. The MVD initiative to reduce the number of uninsured drivers on New Mexico's roads continues to be successful. New Mexico had one of the highest rates of uninsured drivers in 2003 but is now at or below the national average of 14 percent. The division should continue to push this number lower and will be reporting on ways to assist low-income drivers in obtaining insurance.

Online Tax Filing. The Revenue Processing Division of TRD, which processes $6.8 billion per year, benefits significantly from increased online filing of tax returns. Electronic returns reduce the need for mail clerks and have fewer errors than paper submissions. The division advertises electronic filing, and the number of online filers has increased over the past several years. Additional resources should be devoted to online services to create additional efficiencies in the department.

DWI Initiatives. TRD reports on two measures for the DWI initiative. Drivers whose license has been revoked due to a DWI citation have a right to an administrative hearing within 90 days. If the hearing is not held in that timeframe, the driver retains the license. The Program Support Division tracks this hearing process, and in FY05 2.3 percent of license revocations were rescinded due to a failure to hold a hearing in the allotted time. The yearly target is 2 percent or fewer. The Motor Vehicle Division is required to post a "court action" DWI citation to a driver's record. The division reports an average posting time of 2.5 days, far exceeding the 15 day target.







2005 will be remembered as a significant year in the history of state pension and investments. Major legislation passed to start to fix the funding shortfall in the educational retirement system and allow investing agencies greater flexibility to invest in hedge funds and other alternative investments. During the summer, the major investing agencies all reported impressive investment returns for FY05. However, the fall 2005 indictments of the current and most recent state treasurers on federal charges of extorting kickbacks from investment advisors led to calls for increased oversight over all state investments.

Investment Performance Overview. While the purposes of the major New Mexico investment funds, the land grant permanent fund (LGPF), severance tax permanent fund (STPF), Public Employees Retirement Association (PERA), and the Educational Retirement Board (ERB), are different, they have one goal in common: to achieve the highest possible rate of return, given some level of risk tolerance.

For FY05, the value of every fund grew, with the funds' combined net asset value growing $2 billion to $29.6 billion, which reflects investment earnings as well as all transfers out to beneficiaries.

Review of One-Year and Multi-Year Investment Returns. Pursuant to the Accountability in Government Act requirement of quarterly reports from key agencies, the Department of Finance and Administration and LFC have collaborated to prepare quarterly reports on investment performance. The report includes an analysis on asset values and allocation, investment returns relative to internal and external benchmarks, factors impacting investment returns, and current issues. These reports are available on the LFC website.

Given the publicity surrounding the declining actuarial position of a number of large public and private sector pension plans, the Legislature has focused more attention on benchmarking the investment performance of our New Mexico funds. Each fund compares its performance with a benchmark return, composed of a blend of market indices that best match up with each fund's unique investment portfolio.

As each investment agency has an actively managed portfolio, it is expected that their investment returns over the long term should be higher than the return of a balanced portfolio of stocks and bonds invested in low-cost index funds that represent the entire market. For comparison purposes, the quarterly report compares overall agency investment return to the return of a "60/40" portfolio composed of 60 percent domestic stocks (as measured by the S&P 500) and 40 percent domestic bonds (return measured by Lehman Aggregate). Excerpts from the recent quarterly report follow:

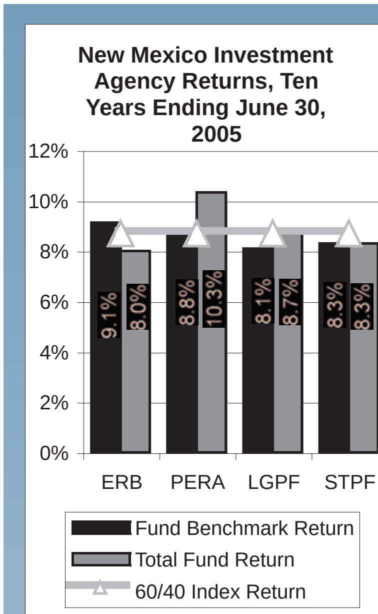
Investment Performance for One Year Ending June 30, 2005. For the one-year period ending June 30, 2005, investment program returns range from a high of 9.8 percent for PERA and ERB to a low of 8.9 percent for the STPF. PERA and LGPF exceeded their fund benchmarks, with PERA having the best performance versus benchmark by beating the benchmark by 1.12 percentage points. ERB had the largest gap of performance versus benchmark, returning 9.8 percent versus a benchmark of 10.2 percent. For the year, all four funds had returns higher than a 60/40 stock and bond portfolio, which would have returned 6.5 percent for the year ending June 30.

Superior manager performance is responsible for the majority of PERA's 1.12 percentage points of superior performance, with international and domestic equity managers in particular doing well. The additional return from beating the benchmark return amounted to $115 million. ERB's underperformance of 0.33 percentage points represented $24 million in forgone investment returns. Although ERB's externally managed domestic and international equity returns were strong, underperformance relative to benchmarks has hurt ERB's total returns. For the two funds managed by the State Investment Council (SIC), LGPF had .40 percentage points of superior performance, which represented approximately $33 million in additional investment earnings. However, STPF missed its performance target by 0.50 percentage points, which amounted to $18 million in forgone returns. While both LGPF and STPF have benefited from strong equity returns, lower returns in the STPF private equity program dragged down their performance.

Five-and 10-Year Investment Returns. For the five years ending June 30, which included the bear market of 2000-2002, PERA had the highest return, 4.8 percent, which beat its policy target of 2.8 percent by 1.97 percentage points and topped the 60/40 stock and bond portfolio return of 1.5 percent by 3.3 percentage points. LGPF and STPF returned 2.2 percent and 1.5 percent respectively, and ERB returned 1.3 percent. PERA and LGPF beat the 60/40 index five year return of 1.5 percent, STPF equaled the index return, and ERB was 16 basis points below the index.

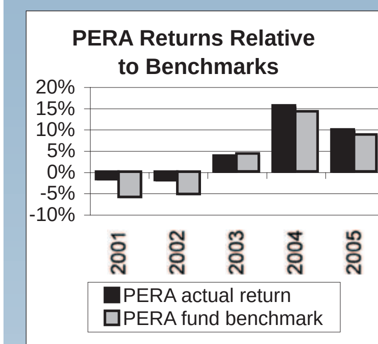
For the 10 years ending June 30, 2005. PERA had the highest return, 10.3 percent, which beat its policy target of 8.8 percent by 1.5 percentage points and topped the 60/40 stock and bond portfolio return of 8.7 percent by 1.63 percentage points. LGPF and STPF returned 8.7 percent and 8.3 percent, respectively, and ERB returned 8 percent.

Alternative Investments. Laws 2005, Chapter 240, (House Bill 389) replaced the current legal list of allowable investments for the PERA, ERB, and SIC with the uniform prudent investor act. This change effectively allows the funds to invest in a broader array of alternative asset classes, such as hedge funds, real estate, and private equity. Adding these additional asset classes has the potential to increase investment returns and lessen investment risk by providing additional portfolio diversification.



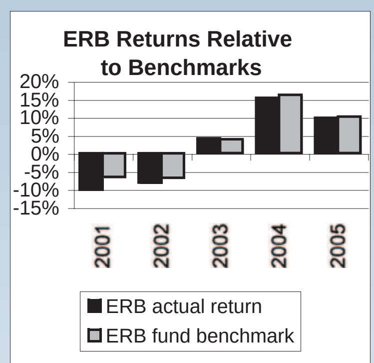
Source: Investing Agency Performance Reports

PERA has the highest investment returns of all investing agencies for the one, five, and 10 years ending June 30, 2005



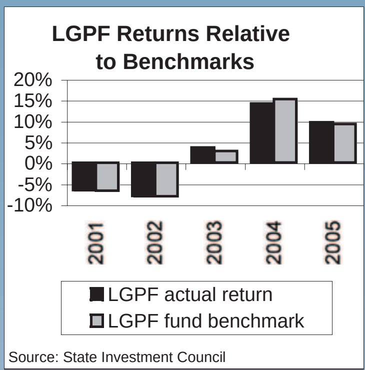
Source: Public Employees Retirement Association

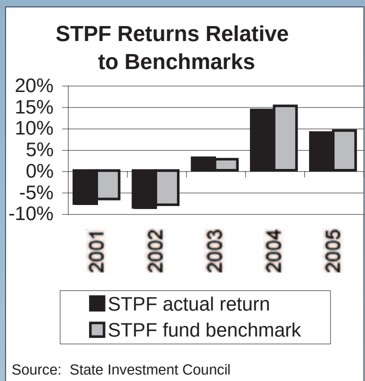
Although ERB has averaged 8% return over the past 10 years, it has consistently underperformed its internal fund benchmarks.



Source: Educational Retirement Board

The LGPF beat its fund benchmark returns for the one, five, and 10-year periods while STPF has tended to lag its benchmarks.





The past year, all four investing agencies, which actively manage their portfolios, beat the return of a 60/40 percent stock and bond index portfolio, which represents what a passive portfolio invested in index funds would return.

For the ten year period, a 60/40 portfolio averaged 8.7 percent return. PERA beat this return, LGPF tied, and ERB and STPF lagged the 60/40 return.

ERB and PERA have begun the process of educating their boards on alternative asset classes and researching alternative mixes of assets that would fit their actuarial needs. SIC, which had some authority to invest in alternative assets prior to 2005, has expanded its investments in alternative asset classes, which are targeted to make up 18 percent of the LGPF and 25 percent of the STPF funding allocations. During fall 2005, SIC invested $900 million in 11 hedge funds, about 8 percent of their total portfolio of about $12.5 billion. Private equity investment in funds as well as New Mexico companies represented about 4.4 percent of the total portfolio, or $549 million at June 30, 2005. Investment in real estate of approximately $100 million represents less than 1 percent of the total portfolio.

SIC Private Equity Program. SIC appeared before the Legislative Finance Committee in August to provide an update on its national and regional private equity investments, mostly funds that invest in privately held companies or, to a lesser extent, direct investments in New Mexico companies. SIC's investment policy authorizes investment of up to 6 percent of the market value of LGPF and the STPF in private equity funds in a national program. The national program market value was $442 million on May 31, 2005, 3.7 percent of SIC assets. SIC is authorized by statute to invest up to 6 percent of STPF in a private equity program that targets New Mexico investments. The program market value was $74.2 million on May 31, 2005, 2 percent of STPF assets.

SIC reported that as of March 31, 2005 SIC's New Mexico private equity investments of $71 million have helped bring in another $500 million in private equity investments in 24 New Mexico companies. Approximately 1,016 jobs have been created with an average salary of $80 thousand. The New Mexico Film office has reported that film incentives, including SIC's film loan program, have generated over $200 million in film-related economic development.

Judging investment performance of private equity in the short term is difficult. Private equity returns often resemble a "J curve," with negative returns during the early years of the investment and positive returns in the out-years. The STPF national private equity program, which has been making investments since the 1980s, has an internal rate of return (IRR) of 30.3 percent, while the STPF New Mexico program, with more recent investments in New Mexico funds, has a negative IRR of -12.5 percent. Please see SIC budget discussion in "Volume II, Legislating for Results: Appropriation Recommendations" for additional discussion on reporting private equity returns.

Pension Plan Updates. The state has two major pension systems: the Public Employees Retirement Association (PERA) and the Educational Retirement Board (ERB). PERA offers 27 pension plans covering state, county, and municipal employees, firefighters, judges, magistrates, and legislators. PERA has approximately 49,500 active members and 20,100 retirees. ERB offers a pension plan to public school and higher education employees. It has 65,000 active members and 25,000 retirees. Both plans offer a defined benefit pension, which provides a monthly annuity payment for the retiree based on years of service, final average salary, and a pension calculation factor established by the Legislature. Each plan also provides a cost-of- living increase yearly for retirees.

The committee closely monitors the financial health of these pension funds. A major focus of the investment subcommittee has been on the actuarial solvency of the two funds. Two common measures of actuarial health:

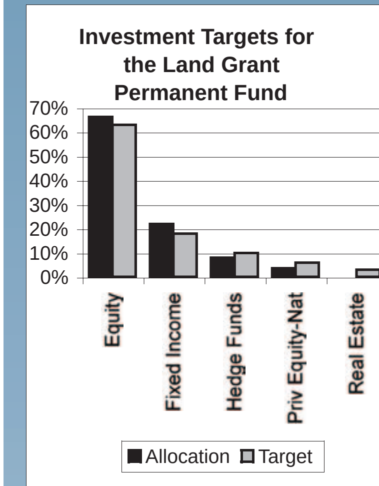
Funded Ratio. The funded ratio is the actuarial value of assets (AVA) expressed as a percentage of actuarially accrued liabilities. On June 30, 2004, PERA had an overall funding ratio of 94 percent, which means that plan assets are 94 percent of projected liabilities. ERB's funding ratio was 70 percent at June 20, 2005. Generally, a funded ratio of at least 80 percent is considered satisfactory.

Unfunded Actuarial Liability. The unfunded actuarial liability (UAAL) is the dollar difference between a plan's actuarial liability and the actuarial value of its assets based on assumptions regarding investment income return and demographic projections. The Governmental Accounting Standards Board states that the amortization period for any UAAL should be less than 30 years. On June 30, 2004, PERA had UAAL of $680 million and an amortization period of 21 years. ERB's UAAL at June 30, 2005, was $3.1 billion with an amortization period of infinity.

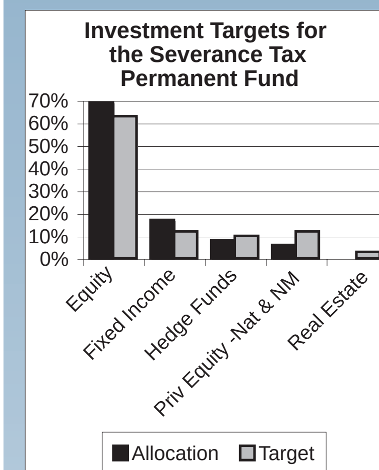
Laws 2005, Chapter 273, (Senate Bill 181) was enacted to improve the actuarial solvency of the educational retirement fund by increasing employer contributions by 5.25 percent over seven years (a 0.75 increase per year) and employee contributions by 0.075 percent a year over four years. The chart on this page shows the rapid growth in the unfunded liability without legislative actions and how that growth should level off with the employee and employer contribution increases.

Allegations of Misconduct at Treasurer's Office. LFC has expressed concerns about STO portfolio management in each budget recommendation since 1999. Issues noted by LFC include lack of broker rotation, over-use of callable securities, churning, inadequate cash management, and lack of benchmark reporting.

On September 16, 2005, current and former State Treasurers Robert Vigil and Michael Montoya were arrested for extortion. Vigil and Montoya pleaded not guilty, but on November 8 Montoya changed his plea to guilty.



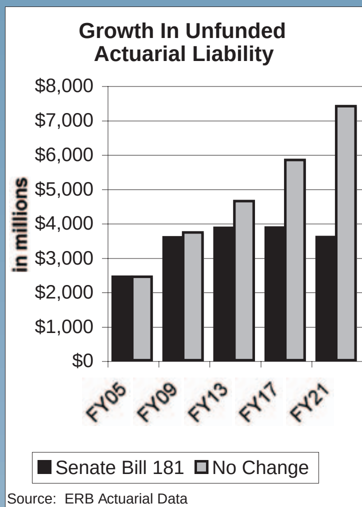
Source: State Investment Council



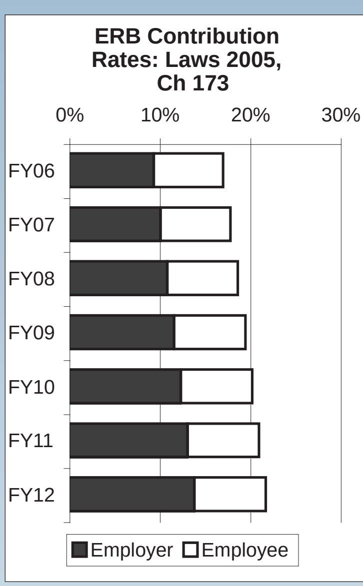
Source: SIC Investment Performance Report

Many pension funds are investing in alternative asset classes because of lower predicted returns for stocks and fixed income investments.

Wilshire Consulting analyzed the asset allocation of 104 pension systems and predicts 7.2 percent investment return for the median pension fund, 0.8 percentage points less than median actuarial rate of return of 8 percent.



ERB's actuaries project that the contribution increases shown below will fix ERB's solvency problem—as long as actuarial assumptions on teacher pay, retirement growth, and investment return hold firm.



A two-year FBI investigation charges that Vigil and Montoya used the power of their public office to extort kickbacks from third-party investment advisors in exchange for business with the state of New Mexico. The 21 counts against Vigil allege that he received over $260 thousand from these kickbacks.

Vigil resigned on October 26, just two days before he faced impeachment in an extraordinary session of the legislature. On November 3, Governor Richardson appointed Doug Brown to serve as state treasurer until a new treasurer is elected in November 2006.

In response to these charges against Vigil, the state Board of Finance awarded the Department of Finance and Administration $150 thousand to conduct a performance review and fiduciary audit of the State Treasurer's office. A preliminary report of DFA's audit findings is due January 2006.

In addition, LFC contracted with Barbara Fava of Public Financial Management for a report recommending best practices for the State Treasurer. Fava presented a written report to LFC on December 7. The following is a glance at her recommendations:

- Amend statute to allow tri-party repurchase agreements to increase the return on the overnight pool by reducing transaction costs for bidders. Not doing so reduces earnings on the treasurer's overnight pool by $220 thousand for every $1 billion held in the overnight pool.
- Amend statute to allow U.S. agency securities to be used as collateral on repurchase agreements. Not doing so reduces earnings by $1 o $2 million for every $1 billion held in the treasurer's flexible repurchase portfolio.
- Improve cash flow analysis and reduce excess general fund portfolio liquidity;
- Use flexible repurchase agreements only for certain bond proceeds and when yield is greater than yields on "bullet" securities;
- Purchase new issue agency obligations only when it is not possible to purchase a similar security in the secondary market;
- Amend policy to allow use of an electronic bidding platform rather than conduct all business through the approved broker and dealer list;

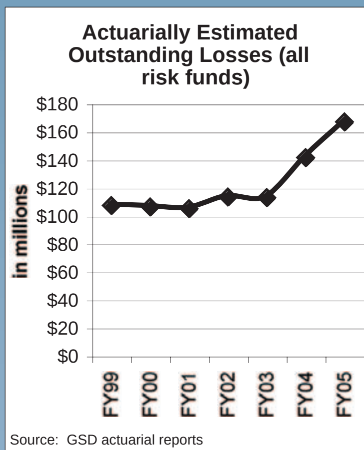
- Amend policy so that the local government investment pool is managed like a money market fund and rated by Standard and Poor's;
- Adopt IRS's "safe harbor" standard to cap broker fees on repurchase agreements;
- Contract for independent advising, at least in the near term; and
- Adopt separate performance benchmarks for short and long-term investments.

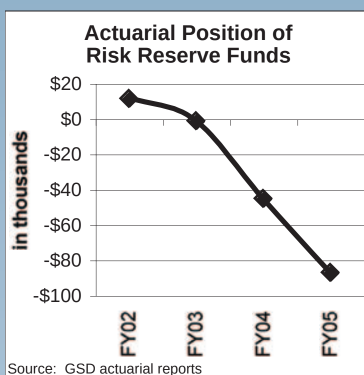
STO Portfolio Facts

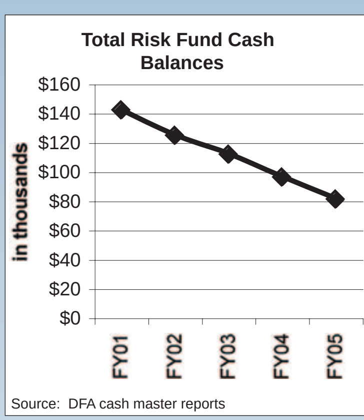
TOTAL GENERAL FUND	
FY05 Balance (millions)	$2,522.8
FY05 Yield	2.33%
FY05 Earnings (millions)	$56.2
6-Year Average Return above Federal Funds	0.64%
US Agency Securities	
FY05 Balance (millions)	$1,237.6
FY05 Yield	2.52%
FY05 Earnings (millions)	$30.9
6-Year Average Return above Federal Funds	1.17%
Flex Repos	
FY05 Balance (millions)	$734.2
FY05 Yield	2.10%
FY05 Earnings (millions)	$15.7
6-Year Average Return above Federal Funds	0.68%
Overnight Repos	
FY05 Balance (millions)	$225.0
FY05 Yield	1.66%
FY05 Earnings (millions)	$2.6
6-Year Average Return above Federal Funds	-0.11%
CDs	
FY05 Balance (millions)	$192.2
FY05 Yield	2.01%
FY05 Earnings (millions)	$3.8
6-Year Average Return above Federal Funds	0.62%
Corporate Bonds	
FY05 Balance (millions)	$80.2
FY05 Yield	2.27%
FY05 Earnings (millions)	$1.8
6-Year Average Return above Federal Funds	1.87%
Commercial Paper	
FY05 Balance (millions)	$53.6
FY05 Yield	2.45%
FY05 Earnings (millions)	$1.3
6-Year Average Return above Federal Funds	0.25%

Source: State Treasurer's Monthly Report to the Board of Finance.

Note: The federal funds rate averaged 2.20 percent in FY05.







In recent years, significant questions have arisen with regard to the management of the state's risk programs. Of particular concern to the committee are the rising estimated outstanding losses of the state's liability insurance program and need to identify a funding level for all of the state's risk programs that satisfies national accounting standards and federal grant requirements without tying up state money unnecessarily.

Growth in Estimated Outstanding Losses. The FY05 actuarial report indicates that estimated outstanding losses in the state risk reserve funds (liability, workers' compensation, unemployment compensation, property, and surety bond) grew by about $54 million or about 50 percent in the last two years. Estimated outstanding losses is an actuarial projection of what the state would have to pay to settle all claims to date if the state were to shut down today. The administering agency, General Services Department (GSD), indicates that the agency is currently working with actuaries to identify the causes of the increased losses and that, once the causes are identified, GSD will develop a targeted program to prevent continued growth in losses. This trend began two years ago and GSD still lacks critical information and a strategy to address it. Continuation of this trend may require increased subsidies from the general fund and reduce resources available for other state priorities.

Actuarial Position of Risk Reserve Funds. Another issue facing the state's risk reserve funds is the growing imbalance between cash assets and estimated outstanding losses. The FY05 actuarial study of the risk funds found that estimated outstanding losses exceeded available assets by about $87 million. This continues a trend of declining cash balances and growing estimated outstanding losses that began in FY00 when available assets exceeded estimated outstanding losses by $41.6 million. It should be reiterated that the estimated outstanding losses are based on actuarial projections. The risk funds had an $80 million cash balance at the end of FY05.

GSD attributes the declining position of risk reserves to the practice of budgeting cash balance from the risk reserve funds to pay claims each year; rather than increasing premiums paid by state agencies. This is one factor but not the primary one affecting the actuarial position of the risk reserve funds. The actuarial projected financial position of the risk reserve funds declined a total $85.8 million between FY03 and FY05, of which $54 million, or about 63 percent of the change, was attributable to growth in estimated outstanding losses. The remainder was attributable to expenditure of fund balances to pay claims. Thus, the primary factor driving the imbalance is increasing estimated outstanding losses.

At this time, GSD has no established target fund balance for each of the risk reserve funds. GSD has not offered clear statutory or accounting guidelines to make this determination and has not submitted budget requests that reflect a consistent objective. To evaluate the appropriate level of risk reserve fund balance, LFC staff contacted risk managers in surrounding states (Arizona, Colorado, Nevada, Oklahoma, and Utah) and reviewed statutory provisions in Washington.

Western states have varying practices with regard to risk fund balances.

Two of the states in the study (Oklahoma and Utah) maintain cash balances sufficient to cover all estimated outstanding losses. Oklahoma reported that $25 million was required for this purpose for the liability fund due to low tort caps. The actual fund balance was about $33 million. Utah maintains a cash balance for liability of about $40 million to cover all estimated outstanding losses.

Arizona, Colorado, Nevada and Washington budget to cover estimated annual payments and maintain a small reserve.

Three of the states in the study (Arizona, Colorado, and Nevada) maintain cash balances in liability funds substantially smaller than the amount that would be required to pay all estimated outstanding losses. One risk manager explained that it is irresponsible to tie up large quantities of public funds for prospective future liability settlements. This has not resulted in audit findings on annual financial reports. Arizona maintains a liability fund balance of $15 million - $20 million, about one-fifth of what would be required to cover all estimated outstanding losses. Nevada maintains a fund balance of about $7 million, or one-tenth of estimated outstanding losses. Colorado maintains a balance of about $1 million or a small percentage of estimated outstanding losses.

Additionally, in the state of Washington, statute requires that the liability account not exceed 50 percent of the actuarial value of the outstanding liability as determined annually by the risk management division.

Save Smart Purchasing Program Update. In 2004, the Legislature appropriated $8.011 million to GSD to contract to improve state procurement practices in order to generate general fund savings at least twice the amount of the expenditure. The executive called the purchasing project Save Smart and hired Silver Oaks Solutions as the contractor. Savings were anticipated from volume purchases of goods and services across all agencies, revamping specifications, and training state purchasing staff on best procurement practices.

FY05 Savings. According to a recent report by the Department of Finance and Administration (DFA), the Save Smart program generated a total $12.5 million in savings to all state funds in FY05, including $5.9 million to the general fund. DFA captured a portion of these savings by requiring 20 agencies to revert $2.1 million to the general fund. Other agencies retained Save Smart savings following provisions in Laws 2005, Chapter 347, that allowed retention if savings were less than $10 thousand, if they were needed to support other parts of the operating budget, or if they were accrued from a one-time purchase.

FY06 Savings. In the General Appropriation Act of 2005, the Legislature reduced FY06 general fund appropriations to specified agencies by $3.2 million to reflect estimated savings from Save Smart contracts. The governor vetoed the specific agency reductions, as well as an additional $2 million in reductions from contracts that were under negotiation. Instead, DFA allocated the $3.2 million general fund reductions by adjusting agencies' operating budgets for FY06.

Save Smart Status. In April 2005, LFC audit staff completed a review of the Save Smart program. Some key findings:

1. Save Smart has provided savings and the opportunity for continued savings.
2. Silver Oaks was paid dollar for dollar on savings generated rather than 50 cents on the dollar as specified in the authorizing legislation.
3. A plan to capture savings for credit to the general fund had not been implemented.
4. Continued state savings depends on successful transfer of knowledge from Save Smart to purchasing personnel.

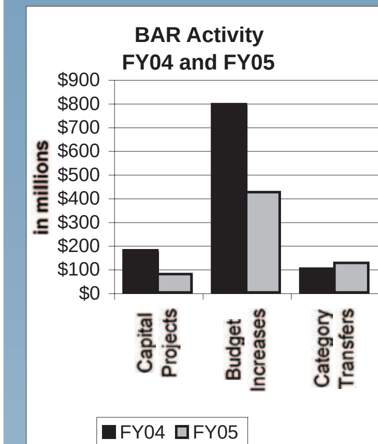
Silver Oaks Solutions has generally withdrawn its staff from New Mexico, although it continues to assist GSD with some procurements and is tracking savings from existing Save Smart contracts. One of the principal concerns that remain is that GSD will not be able to sustain the cost-saving program with the departure of the contractor. Silver Oaks provided six classroom training sessions to state purchasing staff prior to August 2004 and one additional training session since that time; however, staff turnover and workload may mitigate the benefit of the training.

Policy Analysis: **Budget Adjustment Authority**

Review of FY05 BAR Authority. In FY05 agencies had category budget transfer authority to move funds among personal services and employee benefits, contractual services, other, and other financing uses categories and were also authorized to increase budgets up to 5 percent of internal service funds/interagency transfers or other state funds appropriation contained in Section 4 of the General Appropriation Act. As shown in the sidebar, compared with FY04, agencies used this authority less in capital projects and budget increases and more in category transfers.

Review of FY06 BAR Authority. In FY06 agencies have category budget transfer authority to move funds among personal services and employee benefits, contractual services, and other categories. The Legislature restricted transfer authority in and out of other financing uses, allowing the agencies listed in the sidebar specific authority to move funds in and out of other financing uses. The Legislature also clarified the ambiguity surrounding the 5 percent budget increase language, specifying agencies are authorized to increase budgets up to 5 percent of internal service funds/interagency transfers or other state funds appropriation *by program* contained in Section 4 of the General Appropriation Act, as opposed to the full internal service funds/interagency transfers or other state funds appropriation. Transfer authority between programs has been very limited and agencies with this authority are listed in the sidebar.

Transfers into Personal Services and Employee Benefits. As of the October 24, 2005, Table of Organizational Listing, the State Personnel Office has identified 734 unauthorized FTE in 47 state agencies. Sixty-three of these unauthorized FTE are "GovEx" employees spread across 24 agencies. The agencies with the highest number of "GovEx" unauthorized employees are the Office of the Attorney General, Health and Transportation departments, each with five, and the Department of Cultural Affairs, with seven. Over the past year, LFC has become increasingly concerned that state agencies are using budget adjustment requests to circumvent the appropriation process and transfer appropriations from direct services funding to personal services and employee benefits to accommodate these FTE. LFC recommends the full Legislature consider no transfer authority in or out of the personal services and employee benefits category for FY07.



Source: DFA BAR Monthly Report

Agencies with Other Financing Uses Transfer Authority in FY06

District Attorneys, AODA, ERB, PERA, RLD boards and commissions, EMNRD, DOH, DPS, and HED.

Agencies with Program Transfer Authority in FY06

EDD, DOL, NMCD, and NMDOT.

Policy Analysis: **Public Employee Compensation**

Compensation of public employees goes well beyond base salary increases. It is also inclusive of benefits the employee receives. This approach to an employee's total compensation is a delicate balance. In the recent past the state has made significant adjustments to the benefits employees receive resulting in increased costs to the state and increased take-home pay for employees. However, employee base pay continues to be an issue with salaries lagging behind the market.

The committee recommends $201.1 million from the general fund for compensation and benefit increases. This increase recognizes the impact of changes to health insurance contribution levels by the state in FY06, increases in premium rates for FY07, and their relationship to total compensation. For employees covered by the Educational Retirement Act Laws 2005, Chapter 273, authorizes seven years of 0.75 percent increases in the employer contribution, effectively increasing the employer contribution from 8.65 percent in FY05 (prior to the increase) to 13.90 percent in FY12 (an increase of 5.25 percent over seven years).

The following table outlines the compensation and benefits recommended increases per employment sector for FY07:

Employee Group	Direct Salary Increase	Average Compa-Ratio Adjustment	Benefit adjustment	Average Total Compensation Increase
Judicial Employees	2%	3%		5%
District Attorney Classified	2%	3%		5%
Executive Classified	2%	3%		5%
State Police	5%	5%		10 %
Public Education	4.5%		1.5%	6 %
Higher Education	4.5%		1.5%	6%

These compensation increases are recurring and include salaries, social security and Medicare taxes, retirement, and retiree health care. The committee recommends these salary increases become effective July 1, 2006.

Executive Classified Employees. The State Personnel Board rules require the board to submit an annual report on the classified pay system to the governor and LFC by the end of each calendar year. Prior to the 2005 legislative session the report also contained the board's recommendations regarding adjustments to state employee compensation. In 2005, the board chose to not make any recommendations with respect to pay or regarding classifications that needed market adjustment. Market adjustment recommendations from the board have in the past been considered critical in ensuring equitable treatment of employee groups. This year the SPB is considering alternative band adjustments in its December meeting thus allowing legislative analysis. In other states, such as Colorado, an annual report is submitted to the legislature detailing the status of compensation and benefits for state employees with respect to market conditions. Specific recommendations, in accord with statutory requirements, are included that outline corrective action that should be taken for both systemwide adjustments and individual classification adjustments. This type of approach provides data that can be clearly and objectively evaluated by both the executive and legislative branches in the budget development process.

External Market Competitiveness. To maintain external competitiveness, the state of New Mexico in NM.HR. 2001 established a policy that mid-points for salary ranges should be set at 95 percent of the comparator market. A compa-ratio is a measure that expresses current pay rates as a percentage of range mid-points. For an employee at the mid-point of the salary range the compa-ratio is 100 percent, while the minimum of the range for example might represent a compa-ratio of 80 percent and the maximum a compa-ratio of 120 percent.

In FY05 compa-ratios for state classified employees averaged 94 percent as compared with an FY04 level of 92.9 percent. Market data, collected annually by SPO, show the following:

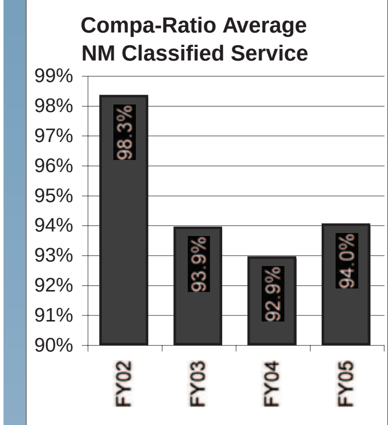
- New Mexico lags the marketplace average pay by 11 percent.
- The state salary structure is between 8 percent to 11 percent behind market mid-points.
- Slightly over 33 percent of employees in the state classified service are at a compa-ratio below 85 percent.
- Almost a quarter of state employees have a compa-ratio between 85 and 94 percent.

The committee recommends the following compensation increases in FY07:

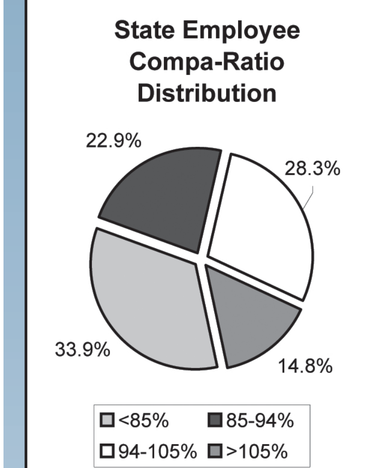
- An across the board adjustment of 2 percent in employee base pay,
- An additional 3 percent for compa-ratio adjustments with increases varying between 4.5 and 1.5 percent to employees dependent on an employee's compa-ratio.

The recommended across-the-board increase is consistent with an average market salary adjustment being provided by employers for jobs in the comparator market that are similar in duties, responsibilities, and qualification to New Mexico's classified service. The compa-ratio adjustments provide for larger increases to employees who are the farthest below market. This adjustment will allow for compensation to close the gap with market and is consistent with the executive and legislative policy decision that the midpoints reflect 95 percent of the market.

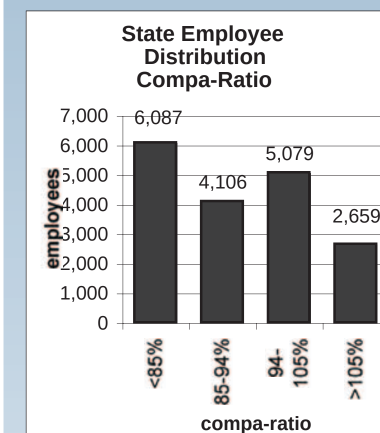
It is increasingly common for the classified employee to receive in-pay band adjustments and pay increases upon lateral transfer, thereby bypassing the budget process. Additionally, it creates the possibility



Source: State Personnel Office

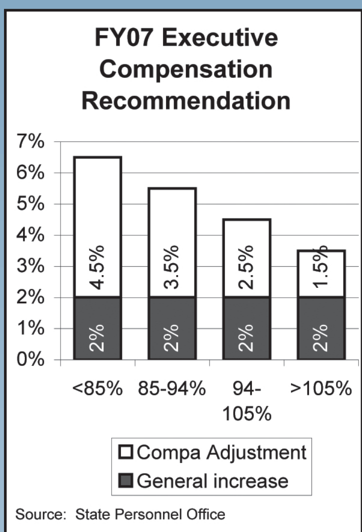


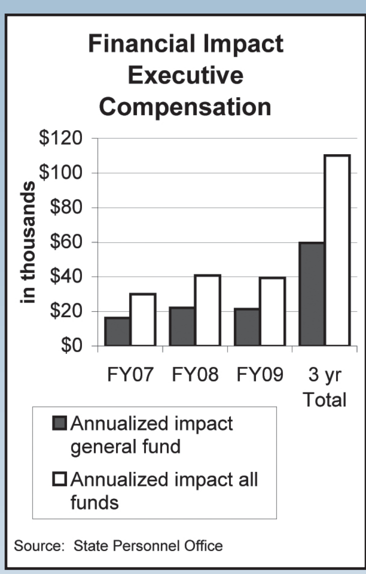
Source: State Personnel Office



Source: State Personnel Office

Employee Compa-Ratio	Proposed Salary Adjustment
<85 %	4.50%
85-94 %	3.50%
94-105 %	2.50%
> 105 %	1.50%





for disparate treatment of employees. With the recommendation for adjustments of compa-ratios, it is the expectation that in-pay band adjustments and lateral transfer increases will be minimized.

Performance Increases. The classified system does not provide for progression through the pay range such as periodic step or merit increases. The concept of performance pay was a cornerstone of NM.HR.2001 and has been discontinued. The State Personnel Office (SPO) indicates that this is because of an inadequate performance evaluation tool. According to SPO, a modified tool is currently being test-piloted and should be available in FY07 for statewide implementation. However, the current systemic inability to move employees through pay ranges creates significant salary compaction. This compaction is adversely impacting employee recruitment and retention especially in classifications that are hard to fill.

As employees progress in their skill levels, there is no budgeted mechanism by which to reward this competency development. Agencies are left with non-budgeted in-pay band adjustments and in-grade adjustments for employees laterally transferring from one agency to another. Agencies with resources, such as vacancy savings, are able to attract and reward employees while agencies with tight budgets are unable to retain employees. This is especially noticeable in smaller agencies and those without federal funding.

Collective Bargaining Agreement. On September 12, 2005, the executive finalized a successor collective bargaining agreement (CBA) with the state's largest union, the American Federation of State, County and Municipal Employees (AFSCME). The CBA is a multi-year agreement scheduled to expire on December 31, 2008. Negotiations between the parties were protracted and required the use of an arbitrator as prescribed by the Public Employee Bargaining Act (PEBA). A determination in favor of AFSCME was issued by the arbitrator on February 24, 2005. The parties resumed negotiations, eventually agreeing to set aside the arbitrator's determination and concluding a successor agreement.

The AFSCME CBA outlines substantial compensation increases for bargaining unit employees requiring the executive to recommend these amounts in the budget request submitted to the Legislature in fiscal years 07, 08 and 09. This approach, while unprecedented in New Mexico state government, is not unlike how other states with collective bargaining develop budget recommendations. This approach gives both the executive and the Legislature sufficient time to strategically consider, plan, and prioritize compensation increases and budgetary prioritization over the period of the contract.

In an unusual move, the executive, at the press conference in which the CBA was signed, announced the provisions of the AFSCME contract will not only apply to the 6,500 employees represented by AFSCME but also to the remaining 11,400 state classified employees. The executive's decision to use the AFSCME contract as leverage for compensation increases for all state employees draws attention to serious market competitiveness problems throughout state government.

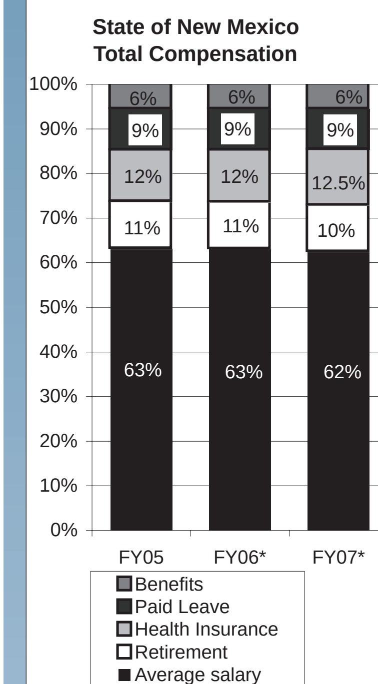
The increases negotiated in the AFSCME contract provide for a 2 percent general increase in July of FY07 and compa-ratio adjustments that vary between 4.5 percent and 1.5 percent, depending on an employee's compa-ratio, to be awarded in January 2007. The plan proposes to increase employee compensation in the classified service by over $110 million using this same methodology through the next three years. The chart reflects the full impact of these increases on an annual basis on both the general fund and to all funding sources. By providing the compa-ratio adjustments in January the executive defers the full impact of these increases, an additional $6 million from the general fund, until FY08.

It must be stressed that the executive's recommendations for FY08 and FY09 are not based upon revenue projections that would support such movement at this time and must be assessed in each of these out years.

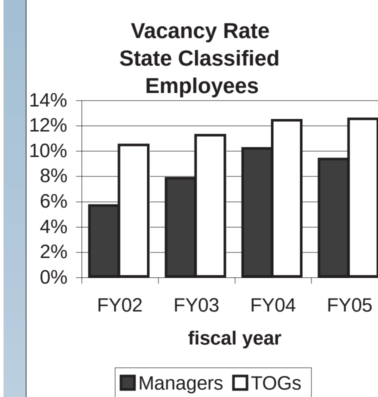
Total Compensation. Competitiveness in total compensation is critical in the state's ability to attract and retain employees. Total compensation consists of direct compensation, or pay for time worked, as well as indirect compensation, which includes benefits, paid leave and retirement (all paid by the state). New Mexico ranks fifth out of nine comparator states in terms of total compensation for employees. Base pay is the largest component and the foundation of the total compensation package. The average base salary for state employees in FY06 is $35.8 thousand and the corresponding total compensation average is $57.4 thousand.

In 2004, the Legislature increased the state's contribution level for employee health insurances for both FY05 and FY06. In FY06, an additional $4.1 million was appropriated to offset an increase in premiums and enrollment. Premium increases for FY07 are budgeted at 8 percent.

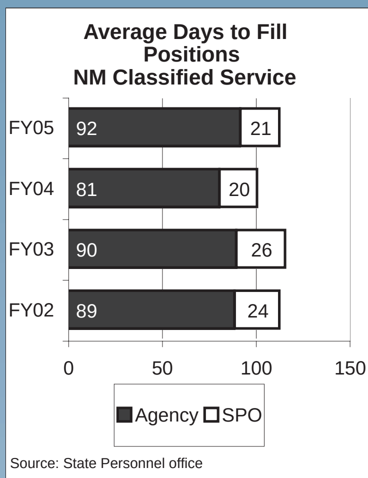
The impact to total compensation of both the premium increase and employer-share increase continues to raise concerns regarding the need to monitor these costs. As health insurance costs escalate, the increased shift in cost burden to the state makes it more difficult to address base salary increases because benefits require substantial resources. In attempting to address this concern, the state in FY06 negotiated significant changes to the health plans, resulting in employees, through increased co-pays and co-insurance levels, assuming a larger role in the sharing of these costs.

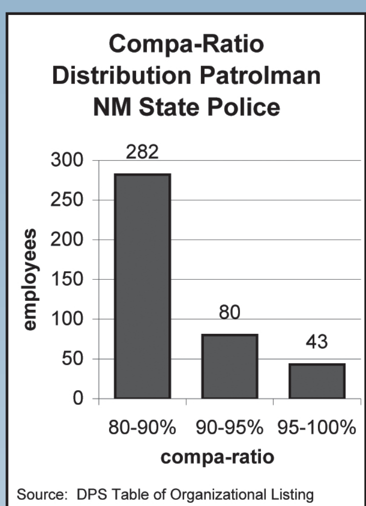


*Projected - Source: LFC Files and SPO



Source: State Personnel Office





Employee Turnover and Retention. Filling vacancies in a timely manner is important to the continuity of service to the public as well as to encourage the best applicants to remain interested in state employment. SPO data shows the time to fill a vacant position in state government as averaging 113 work days (more than five calendar months). Research shows extended periods of time to fill vacancies is detrimental to employee morale and factors into employees' decisions to leave state employment. The turnover rate of state employees, the percentage of employees who terminate employment exclusive of temporary employees, for FY05 was 10.7 percent as compared with a FY04 rate of 14.3 percent.

The committee recommends all key agencies set a target for vacancy rates and develop performance measures that focus on the number of calendar days to fill a vacant position. SPO should continue to work on streamlining the hiring process and accelerating web-based hiring technology efforts.

Classification and Compensation Process Improvement. As reported in FY05, SPO continues to study and redesign managerial classifications within the state classified service. In FY06, SPO will implement the results of this study. It will result in a change to the allocation of managerial classifications, thus reducing internal and cross-agency inequities. Reclassifying manager positions will not have any short-term budget implications. However, in the long run, it should save the state money as vacancies are filled in non-managerial classifications at lower pay bands.

Classification Upgrades. The committee recommends that all commissioned officers in the Motor Transportation and Special Investigation divisions of the Department of Public Safety (DPS) receive salary adjustments in accord with the recommended levels for state police officers of DPS, rather than those being proposed for state classified employees.

The committee recommends that probation and parole officers receive, in addition to increases recommended for state executive classified employees, an additional adjustment of 3 percent to correct recruitment and retention problems. Turnover is very high; over 51 percent of these officers have one year or less of service and positions remain vacant due to the inability to recruit and retain employees.

Other Pay Plans.

State Police. To address compaction problems within the ranks of the New Mexico State Police creating problems in retention and recruitment, the committee recommends a 5 percent general salary increase for all state police officers and an additional 5 percent to be dispersed by DPS in accordance with a plan that corrects the compaction of employees below the rank of lieutenant. This plan should be based on employee tenure and job performance.

Courts. The committee recommends for judges that the base salary of an associate Supreme Court justice be raised to $115,040 per annum. This will result in all other judge and magistrate salaries being adjusted in accord with state law. For remaining judicial employees the committee recommends a 2 percent general salary increase and an additional 3 percent for compa-ratio adjustments in accordance with a plan reviewed and approved by the committee.

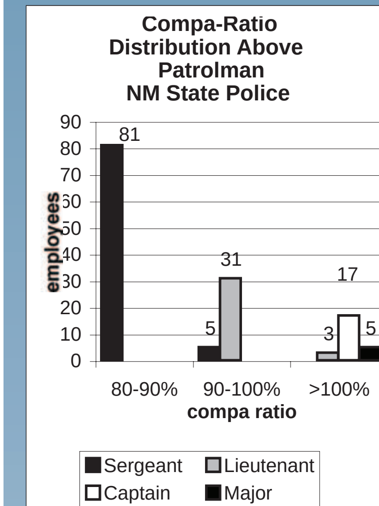
District Attorneys. The committee recommends a 2 percent general salary increase for all employees of the courts. An additional 3 percent is recommended for compa-ratio adjustments in accordance with a plan reviewed and approved by the committee.

Higher Education Employees. The committee recommends 4.5 percent salary increase for all higher education employees. The committee recommendation also includes a 1.5 percent contribution to ERB, 0.75 percent as mandated in statute and an accelerated 0.75 percent contribution for FY08. The total compensation recommended increase for higher education employees is 6 percent.

An analysis of the American Association of University Professors (AAUP) faculty salary survey by the Council of University Presidents notes the highest salaries at public, four-year postsecondary institutions in New Mexico are about 7 percent below the averages for peer institutions in other states.

Corresponding information for community college salaries was compiled by the New Mexico Association of Community Colleges (NMACC) from an annual survey of faculty salaries in the Mountain States region. The latest NMACC survey indicates average salaries at New Mexico community colleges have trended upward over the last five years, from an average of $37,259 in 2000-01 to $42,458 in 2004-05. Further, salaries in 2004-05 showed an uptrend trend when compared with the Mountain States average; New Mexico salaries were at 90.7 percent of the Mountain States average in 2000-01, but up to 92.1 percent in 2004-05. (The regional comparison excludes the Maricopa system serving the Phoenix metropolitan area.) New Mexico community college average faculty salaries ranged from $35,289 to $52,527 in 2004-05.

Higher Education Retirement Program Contributions. The Education Retirement Board (ERB) plan is a cost-sharing, multiple-employer plan established and administered to provide retirement, disability, and death benefits for all certified teachers and other employees of the state of New Mexico educational institutions, junior colleges, and technical-vocational institutions. Employees of public schools, universities,



Source: DPS Table of Organizational Listing

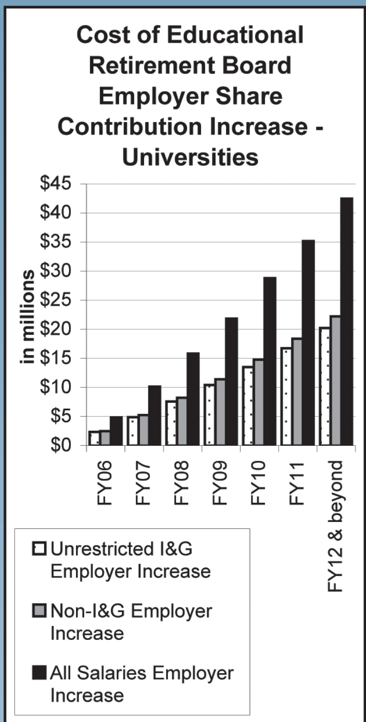
Total ERB contributions in FY04:

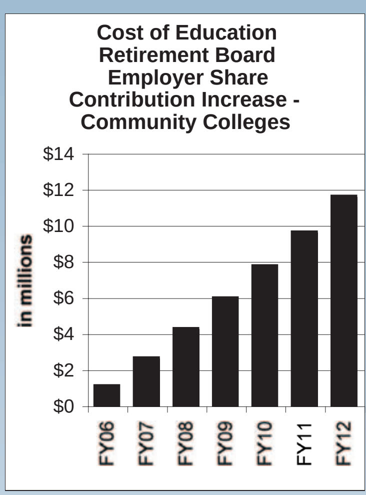
- $185,881,431 on behalf of ERB members
- $3,443,357 on behalf of ARP members

Source: New Mexico Educational Retirement Board, Annual Report, June 30, 2004

Higher education institutions participating in the ERB plan:

- Albuquerque TVI
  Clovis Community College
- Eastern New Mexico University, Portales
- Eastern New Mexico University, Roswell
- Luna Community College
- New Mexico Highlands University
- New Mexico Junior College
- New Mexico State University
- New Mexico Institute of Mining and Technology
- Northern New Mexico College





colleges, junior colleges, technical-vocational institutions, state special schools and state agencies providing an educational program, employed more than 25 percent of the time, are generally required to be members.

Faculty and professionals initially employed after July 1, 1991, with one of 15 institutions of higher education may elect to participate in the plan or an alternate retirement plan administered by ERB. When the alternative retirement program was authorized, an employee contribution to the educational retirement board of 3 percent was established based on actuarial studies. The 3 percent employee contribution has remained constant since that time.

Employee contributions are scheduled to increase .75 percent for four years from the current level of 7.6 percent in FY05 to 7.9 percent in FY09.

For employees participating in the alternative retirement plan, the 3 percent employee contribution to ERB was interpreted as being the same. However, the University of New Mexico increased retirement contributions by 0.75 in FY06 which is flowing to 403B carriers TIAA-CREF or VALIC. The legislature may wish to consider this issue in the 2006 session.

Public Education. Recognizing the need to continue to improve salaries for educational employees, the committee recommends a 4.5 percent average salary increase for all public education employees. Additionally, the committee recommends funding for continued implementation of the three-tier career ladder for teachers establishing a level-three minimum of $45 thousand.

Similar to higher education, the committee recommendation includes a 1.5 percent contribution to ERB, 0.75 percent as mandated in statute and an accelerated 0.75 percent contribution for FY08 for a total compensation increase of 6 percent.

Recognizing the enhanced requirements of the No Child Left Behind Act on educational assistants and student achievement, the committee recommends $3.7 million for increasing salaries an additional 5 percent on average.

2006 Capacity. A windfall of energy-related revenues and corporate income tax collections available for capital funding in 2006 will provide policy-makers with an opportunity to make meaningful investments toward physical improvements critical to the state's economy and quality of life for its residents. Revenue forecasters predict over $1.1 billion will be available to address special and supplemental appropriations and major infrastructure needs at both the state and local level and on tribal lands.

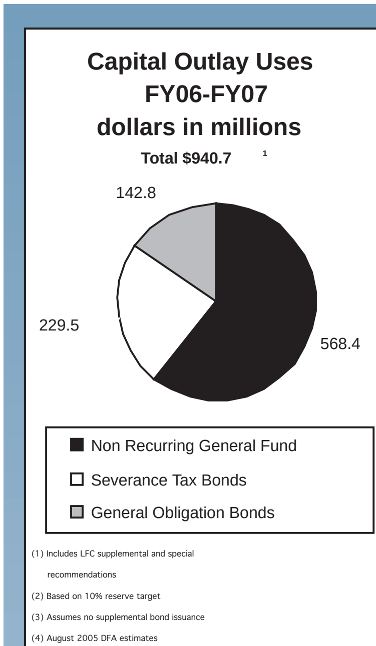
The $1.1 billion nonrecurring funding outlook reported in the sidebar consists of $732.3 million nonrecurring general funds based on reserve levels of 10 percent, a net of $229.5 million from senior severance tax bond capacity (total capacity of $284.8 million less $28.5 million set-aside for the water project fund, $2 million for Bernalillo County North and South valleys sewers, and $24.8 million for authorized but un-issued bonds), and $142.8 million from general obligation bond capacity. The total does not include approximately $162.8 million derived from supplemental severance tax bond capacity dedicated for public school capital outlay projects.

The competition for the funds has already begun. The infrastructure capital improvement plans submitted on September 1 to the Capital Outlay Unit of the Department of Finance and Administration (DFA) indicates requests for state assets (public buildings, higher education and special school facilities, public education, senior centers, natural resources infrastructure, etc.) total $680 million, while local governmental and tribal entity requests total $2 billion. The projects identified as their top five priorities for all the local government entities totals $875 million.

The governor's priorities are not totally known at this time. However, according to DFA, the governor will place considerable emphasis on funding projects relative to education, health and safety, public service, economic development, environmental protection, and management of state resources. Initiatives might include funding for pre-kindergarten facilities, water infrastructure, housing, GRIP II (local roads), building and renewal of higher education facilities, laptops for seventh grade students, and additional funds for film initiatives, telehealth, and school-based health sites.

Even with what might be one of the greatest boons of capital funding in recent history, the money will still only make a minor difference on the $16 billion needed, based on Local Government Division statistics, to bring New Mexico infrastructure up to "good" conditions. If available sources and projects are not carefully planned, prioritized, and "sufficiently" funded at a time when construction costs are escalating, any new funding could compound the existing chronicle of previous years funding that remains unexpended.

Funding Uses and Requests for Consideration. Legislators and the



Governor's Policy Priorities

- Education of New Mexicans;
- A healthy New Mexico;
- Services for New Mexicans;
- A safer New Mexico;
- Promoting and growing New Mexico;
- Protection of New Mexico's environment; and
- Managing the state's resources

POTENTIAL USES

- Supplemental and specials
- Legislature and governor priorities
- Senior projects
- Libraries statewide
- Public schools
- Higher education: Facility maintenance backlog, HED "significant" need, University Endowment Act, College Affordability Act, HED Performance Fund,
- State building infrastructure
- Water infrastructure
- Pecos water settlement
- Tribal infrastructure
- GRIP I (possible shortfall)
- GRIP II (local roads)
- Purchase state prison
- Volunteer fire equipment
- Defease bonds

Public Education Department Priorities

- Pre-kindergarten facilities, $5 million
- Governor's laptop initiative, $8 million
- School bus replacement, $3.5 million
- Library materials fund, $3.5 million

governor in 2005 were especially mindful of funding state and local projects addressing public health and safety, preservation of property value, economic development, projects in progress, and projects with matching funds to maximize state dollars. Policymakers might want to consider making similar infrastructure investments in amounts substantial enough to realize a savings to state and local government, reduce future-year operating expenditure needs, provide for completion of projects in a timely manner, and maximize state and local dollars. Descriptions of such investments for infrastructure are listed in Volume III.

Of the more than $2 billion requested by state, judicial, local, and tribal entities for capital outlay projects, the following summaries describe infrastructure needs essential for public education, public health and safety, preservation of the state's natural and cultural resources, economic development, and preservation of state buildings used for public services.

Public Education.

Public Education Department. PED will request $20 million for four capital priorities. Priority one is $5 million for classroom facilities to accommodate the pilot pre-kindergarten program funded in 2005. The second priority is $8 million to continue the governor's multi-year initiative to provide laptops to seventh graders statewide. According to PED reports, the $5.1 million allocated in the last two years provided laptops for 2,874 students at 26 schools in FY05 and for 756 students at 11 schools in FY06. Based on anecdotal reports, the department indicates outcomes of the program are positive, citing increased student attendance, motivation, and improved writing and research skills. The third priority is $3.5 million to replace school buses owned and operated by public schools in accordance with statutory requirements. PED owns and operates 779 school buses replaced on a 12-year replacement cycle based on age and mileage. At least 65 buses must be replaced annually to maintain the cycle. Lastly, PED supports $3.5 million for the library materials fund, secondary institution libraries, and public libraries.

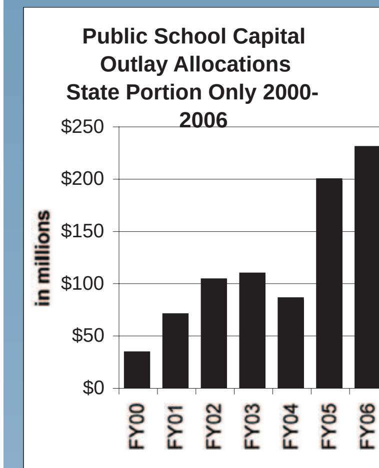
Public School Capital Outlay Council. PSCOC, composed of both legislative and executive staff, has allocated over $1 billion for critical capital outlay projects, continuation projects, standards-based projects, deficiency correction projects, kindergarten facilities, lease payments, and oversight expenses. As demonstrated by the graph in the sidebar, the state has made a substantial commitment to adequately fund public school infrastructure statewide. In FY06, the council allocated nearly $230 million for 98 of the top 100 needs listed on the New Mexico condition index. Based on current estimates, supplemental severance tax bond capacity dedicated to public school construction will be $163.8 million for FY07. PSCOC members continue to be concerned with crowded schools in the Albuquerque public school (APS) district, and the inability or unwillingness of APS to generate its share of costs. It is uncertain how much more new construction APS officials can absorb because of local district funding constraints, administrative capacity, and the rising costs for construction.

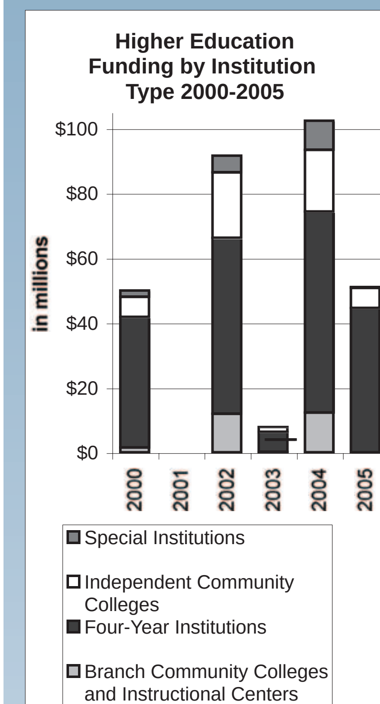
Public School Capital Oversight Task Force. PSCOTF interim work plan focused on four activities: (1) monitoring the progress and effectiveness of programs administered pursuant to the Public School Capital Outlay Act and the Public School Capital Improvements Act, (2) monitoring existing revenue streams to ensure they remain adequate long-term funding sources for public school capital outlay, (3) monitoring the progress of bringing all public schools to adequacy, and (4) overseeing the work of PSCOC and the Public School Facilities Authority. As required by law, the council appointed an advisory committee "to study the feasibility of implementing a long-range planning process to facilitate the interaction between charter schools and their school districts on issues relating to facility needs." Results of the discussions and possible legislative recommendations were not available at the time of this writing.

Higher Education Department. HED "significant need" recommendations total $236.2 million for deferred maintenance, new construction or expansion, information technology, and compliance with the American with Disabilities Act (ADA). Higher education and special schools infrastructure requests to HED totaled $480 million. The majority of the funds requested are to address extensive replacement or repair of mechanical and electrical systems, water and sewer systems, metering and energy management systems, fiber optic cabling and communication systems, and other improvements to eliminate fire and safety code deficiencies.

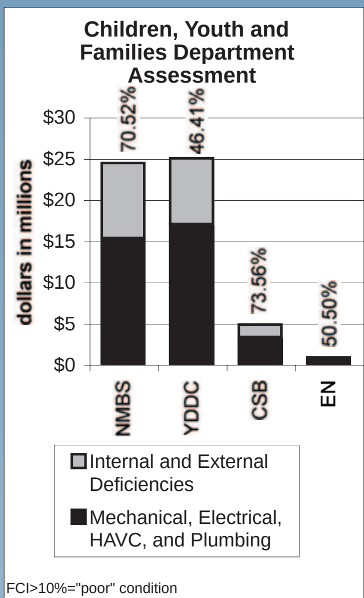
Facility assessments indicate over $850 million is needed to restore buildings to a "safe and healthy" level for students and staff. Available funding sources in the last several years have been limited and are inadequate to address the advanced aging and deterioration of campus buildings, in particular, for those four-year universities where buildings are nearing 100 years old and aged physical plants are becoming more and more difficult to operate and maintain. A sizeable one-time investment of available capital revenues could reduce operational costs, frequent utility outages, unusable classrooms and the loss of students and discouraged faculty members.

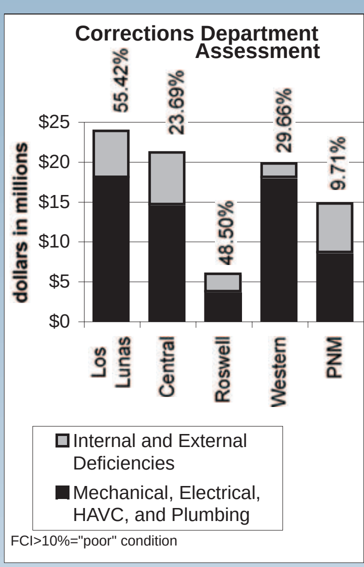
Public Health and Safety. The Property Control Division (PCD) in May 2004 commissioned an independent facility assessment for 508 of the 800 buildings under its jurisdiction. The assessment indicates $503 million is needed to repair or renovate the selected facilities. The buildings, averaging 45 to 50 years old, are deteriorating as a result of deferred maintenance due to budget shortfalls for preventive maintenance and a lack of staff at both PCD and agency level. The graphs in the sidebars demonstrate the facility condition index (FCI) for various departments (cost of repairs divided by the facility





Two-Year Institutional Projects included under Independent Community Colleges and no amount entered for Branch Community Colleges and Instructional Centers in 2005





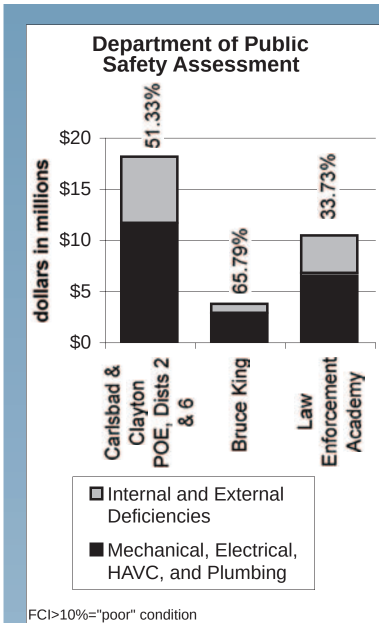
replacement cost) and cost estimates needed to bring facilities up to a FCI of five percent to 10 percent or to "fair condition." An FCI greater than 10 percent is considered in "poor" condition. PCD will use the assessments to determine the urgency and priority of projects and oversee project management as funding is available.

Children, Youth and Family Department. CYFD requires $55 million to address deficiencies at its five facilities housing adjudicated youth. The buildings are old and in constant need of mechanical and electrical upgrades, and other repairs needed to sustain a safe and healthy environment for clients under CYFD jurisdiction. The most critical needs total approximately $11 million for a fire suppression system, kitchen remodeling, and upgrade at the Youth Diagnostics and Development Center; phase two of a new 24-bed living unit and education building at Camp Sierra Blanca; water and sewer line replacements, roof repairs, security and lighting systems, electrical and mechanical upgrades and a security station at the New Mexico Boys' School (NMBS); security enhancements at the J. Paul Taylor Center; and general building and ground repairs at the Eagle Nest Reintegration Center and Maloof building. An additional $6.7 million is needed for a cafeteria and multipurpose facility at the J. Paul Taylor Center, especially if clients from NMBS are moved to the center. Meals are now prepared in a separate building located 50 yards away and wheeled to the living units where clients eat their meals.

Discussions are underway to possibly move juveniles from NMBS to other facilities and possibly utilize NMBS as an adult program operated by NMCD. If NMCD occupies NMBS with an adult program, additional capital outlay may be needed for security upgrades, special lighting, perimeter fencing, and other security measures necessary for adult surveillance.

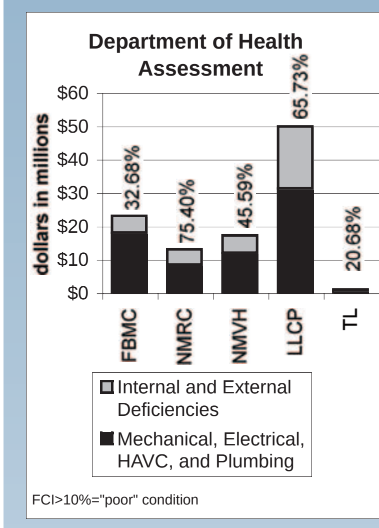
New Mexico Corrections Department. The facility assessment indicates NMCD requires $85 million to address deficiencies at its facilities. The age and condition of existing security systems have become a life-safety issue and threaten to jeopardize the operation of the facilities. NMCD needs $38 million to address the most critical deficiencies. At least $16 million is needed for electrical and mechanical upgrades and roof replacements at all facilities. The funds would also address perimeter security detection, lock upgrades, mandatory security upgrades, and security equipment at the facilities. An additional $8 million would complete installation of a high- security slider door system to replace antiquated swing door systems at the Los Lunas and Las Cruces facilities. NMCD will request $4.5 million for phase two of a 72-bed driving under the influence (DWI) dormitory unit at the Roswell Correctional Center. NMCD established the program in March 2004 in response to the administration's emphasis on DWI as a persistent public safety and social problem and as an objective of NMCD mission to provide cognitive treatment of DWI offenders in an appropriate facility.

Department of Public Safety. DPS priority is $6.1 million for fleet replacement and maintenance for 267 vehicles either damaged or operating with 95,000 or more miles. Replacing vehicles with high mileage not only provides for the safety of officers and improves response time critical to citizen's needs, but decreases maintenance and repair costs for vehicles with over 70,000 miles. DPS requires $1 million for a fire suppression system for its more than 33-year-old building to protect the facility against hazards that may interrupt the delivery of data services to law enforcement agencies statewide.



DPS requests $9.3 million to replace the Lordsburg port of entry destroyed by a truck driver in 1993. A temporary modular building was installed 12 years ago, but the building is inadequate for the significant role the port plays for drug interdiction and for the Interstate 10 commercial traffic processed at the port. Additional funds would provide for new Las Vegas and Las Cruces district offices, replacement of the San Jon port of entry, and renovations and equipment for the Law Enforcement Academy.

Department of Health. In contrast to multi-million dollar requests in previous years, DOH is requesting $6.2 million. The Legislature in 2005 authorized over $80 million for repairs and expansion at six DOH facilities. This year's request includes storm window replacement at the New Mexico State Veteran's Home, procurement of breathalyzer testing instruments for the State Laboratory Division for use by law enforcement agencies, and the purchase of kitchen equipment and redesign of the kitchen at the New Mexico Behavioral Institute (NMBHI) in Las Vegas. The majority of the request is for construction of a new 100-bed facility to replace the current facility built in 1948 at NMBHI for long-term care residents.



Aging and Long-Term Services Department. The department received capital outlay requests totaling $43 million for 281 projects from 83 senior programs statewide. Based on formal presentations and review of the applications and rating of critical, high, or moderate needs, the department and area agencies on aging will recommend $25.6 million for senior center infrastructure needs statewide. The request includes $2.3 million for code compliance renovations, $860.7 thousand for meals equipment, $2.8 million for vehicles, $2.5 million for other renovations, and $498 thousand for equipment. The department generally does not recommend funding for new construction. However, a total of $16.6 million is needed to address serious deficiencies relating to health and safety at several centers across the state. (Projects by county available upon request)

Senior Citizen Center Priorities

- $2.8 million: vehicles
- $$2.5 million: renovation
- $498 thousand: equip.
- $16.6 million: new const.
- $2.3 million: code compliance

Preservation of Natural Resources.

Department of Game and Fish. The department will request $7.1 million for seven capital projects funded from other than the game protection fund (GPF) to ensure sufficient cash balances for previously funded capital projects and to finance ongoing agency operations authorized from GPF. The most critical needs relate to dam safety evaluation, renovation, or expansion at Bear Canyon Dam, Snow Lake Dam, Clayton Lake Dam and Burns Canyon Lake to meet 100-year flood criteria, and completion of cold water raceway integration with the new warm water hatchery at Rock Lake. Funding will also address public health and safety issues impacting the facilities operated and maintained by the department, and, in particular, those facilities heavily used by the public.

Energy, Minerals and Natural Resources Department. EMNRD will request $37 million for various projects identified by the State Forestry (SFD) and State Parks (SPD) divisions. SFD requests $2 million to replace fire trucks, renovate Smokey Bear Park and forest district offices, replace inmate-crew carriers, and to replace the Capitan district office. The fire trucks are 10-12 years old and in poor condition. The five inmate-crew carriers are used to transport inmates to conservation projects and fire suppression assignments and only have a life cycle of 70,000 miles because of their use on extremely rough terrain. The proposed Smokey Bear Park facility will be used to educate the public about fire prevention. Funding for the district offices will address maintenance that has been deferred for several years due to budget restraints.

SPD will request $19.5 million for completion of the Vietnam Veterans Memorial renovations, construction of a facility for outdoor education at the Rio Grande Nature Center, dam renovations and reconstruction of facilities at Elephant Butte Lake State Park, funding to acquire land and construct a visitor facility at the proposed Cerrillos Hills State Park, and funding to support the division’s continued efforts to acquire and develop the Shakespeare ghost town in Lordsburg as a state park. While the merits of the two proposed parks in Cerrillos and Lordsburg will provide valuable interpretation of New Mexico’s mining history, the division has not completed negotiations for the acquisition of the private land necessary for the development of the parks. It should be noted SPD currently has outstanding bond service debt totaling $28.4 million and will not have additional bonding capacity until 2012. Infrastructure needs totaling $11 million for existing parks should be given priority consideration.

New Mexico Environment Department. NMED will request $1.5 million to match $7.5 million in federal grants to capitalize the clean water state revolving loan fund to carry out the provisions of the Wastewater Facility Construction Loan Act. The funds are used for low-interest revolving loans to construct wastewater collection and treatment facilities. Construction Planning Bureau has a priority list demonstrating over $373.6 million in unmet wastewater infrastructure needs for communities throughout the state. The current fund balance is $70 million with $44.8 million in new loans under negotiation with Los Alamos, Clovis, Tucumcari and Hobbs.

Office of the State Engineer. OSE will request $37.3 million for 15 projects. The priority is $5 million for acquisition of water, water rights and storage rights for compliance with interstate compacts, court decrees, or water management and endangered species efforts. The major request is $18 million for the Pecos settlement decree. The funds will be used to purchase 18,000 acre-feet of water rights and to develop a 20,000 acre-feet-per-year augmentation field and pipelines to deliver the water into the Pecos River. The funds will only meet the minimum purchase amounts to effectuate the settlement by August 2006. Additional funds are needed for surface and groundwater measurement, dam rehabilitation, and federal Endangered Species Act mandates. The Interstate Stream Commission will request $2 million for equipment to excavate and re-open a pilot channel through the Elephant Butte Reservoir sediment delta, the only means to convey the state's Rio Grande compact delivery water through 20 miles of dry portions of the delta to the active reservoir pool.

Other Water Issues. The Water and Natural Resources Committee will propose an appropriation of $100 million to the water trust fund created within the Water Finance Act. The funds would be invested by the state investment officer in the same manner as the land grant permanent funds are invested. Earnings from the investment are credited to the water trust fund and used only as an annual distribution to the water project fund. The residual deposited in the water project fund is used for grants and loans, authorized by the Legislature, to political subdivisions for long-term water needs. Qualifying projects defined in current statues are for storage, conveyance, or delivery of water to end users; implementation of the Endangered Species Act collaborative programs; restoration and management of watersheds; and for flood prevention. The committee also directed OSE to develop legislation that would provide $280 million for water and wastewater infrastructure.

Cultural Preservation and Economic Development.

Department of Cultural Affairs. DCA will request $13.8 million for repairs and ADA upgrades to alleviate life, safety, and code violations that continue to exist at DCA facilities statewide. The request includes $2.4 million to complete the construction, furnishing, and equipping of the new Center for New Mexico Archaeology supported in 2005 by the Legislature.

DCA did not request funding for the New Mexico History Museum. However, Friends of the Palace, a volunteer organization that has played a significant role in securing public and private funding for the Palace of the Governor and museums, indicates current funding for the New Mexico History Museum might be inadequate. The funding gap is attributed to a 5-year-old estimate, time delays, an escalation of construction costs, an expensive archaeological survey and salvage, and relocation of utility and communication infrastructure. An estimated $5 million is needed for increased construction costs and to install and develop exhibits needed at completion of construction. If funded, perhaps legislators should require a quarter of funds needed to be matched by privately raised dollars.

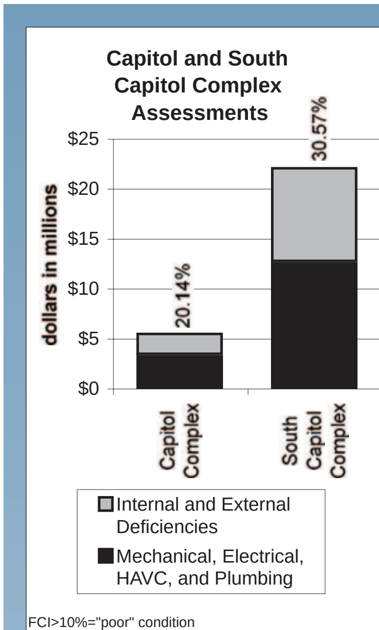
Expo New Mexico. Expo New Mexico will request $30 million that includes $25 million to renovate the more than 50-year-old grandstand and to expand the current casino capacity of 300 slot machines to the approved capacity of 600. Renovation of the grandstand should reduce heating and cooling costs, and, due to the reduction in live horse racing attendance, a new grandstand will provide fair officials with an opportunity to create a new outdoor entertainment venue. An additional $5.2 million is needed for renovations to various facilities and to correct code deficiencies throughout the campus of the fairgrounds, including upgrades to electrical systems, sewage and water lines, bathroom renovations, and a new Indian Village building.

Cumbres and Toltec Scenic Railroad Commission. A five-year plan indicates $30 million is needed to totally restore the aged, 64-mile-long track and to rehabilitate the locomotives. The commission will request $4 million each year for five years for track rehabilitation and an additional $1.3 million each of the same years for locomotive upgrades. The restoration is needed to provide a safe operation for passengers and employees, decrease locomotive and passenger car maintenance costs, and meet federal railroad administration standards. Operation of the railroad is vital to the local economy of northern Rio Arriba County. Despite an interstate compact requiring "joint ownership and operation" of the railroad with Colorado, including "shared" funding of the operation of the railroad, the financial burden of the railroad has fallen heavily on New Mexico. If revenue expectations and financial assistance from Colorado cannot be met and New Mexico is going to continue the financial burden for infrastructure, consideration should be given to restructuring routes of the railroad trips (i.e. Chama to Cumbres Pass, back to Chama or Chama to Ossier back to Chama).

Economic Development Department. EDD will request $33 million of $250 million needed for the Southwest Regional Spaceport scheduled to be licensed in early 2006. The funds will pay to support reusable launch vehicle testing, launching, and manufacturing. EDD indicates there is an international interest in the spaceport but is not releasing details. It should be noted the success of this project will depend on funding yet to be secured, negotiations with the State Land Office for the needed land, and competition with other spaceports. Other requests include $4 million for the Main Street Program to revitalize downtown areas, $330 thousand for repairs to the closed state penitentiary near Santa Fe for use by the film industry, digital film and editing equipment, and a mobile unit for educational outreach to rural and economically challenged regions to encourage students to create films and consider careers in the film and media industry.

Border Authority. The authority will request $4 million to replace and expand a deteriorated international drop-off yard for commercial truck traffic in Santa Teresa, to complete construction of the authority's facility and for a parking site adjacent to the Santa Teresa Port and a Columbus Port drainage study.

Tourism Department. The department will request $550 thousand to purchase a mobile visitor information center and a mobile stage to promote the tourism attractions at festivals, fairs and other events in New Mexico and other states. The second and third requests are to replace two visitor centers, one at Glen Rio located on interstate 40 inside the eastern border and one in Gallup. The visitor centers are an integral component of the department's visitor outreach effort and the centers have the highest volume of guests of the state's nine centers.



Rehabilitation of Other Agency Buildings.

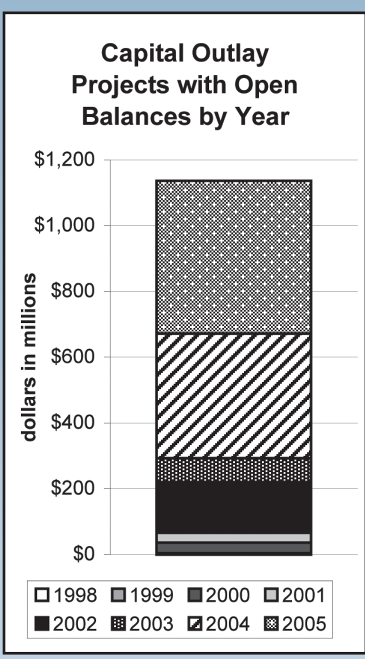
General Services Department. In addition to supporting requests by other agencies, the department's most critical priority is $11 million for emergency repairs, electrical and mechanical upgrades, plumbing, drainage, and roofs at buildings statewide. An additional $4 million would address "potential" failure of systems in the Simms building, which hosts the state's data and communication center. GSD requests new construction in Albuquerque or Las Cruces for a disaster recovery center and renovation of its own building totaling $40 million. However, GSD did not request funding for the buildings indicated in the sidebar for the capitol campus (Lamy, Bataan, and Education) or the south campus (Montoya, Runnels, Lujan). Priority consideration should be given to existing buildings requiring extensive repairs and maintenance before considering new buildings, as notably demonstrated by the independent assessments.

Other state agencies require approximately $15 million for renovations and repairs to bring their buildings into code compliance, retain the integrity of the structures, improve security, and provide a safe environment for both the employees and the public served at these facilities. Details of the infrastructure needs for the Human Services Department, Department of Labor, Taxation and Revenue Department, Commission for the Blind, Governor's Commission on Disabilities, and Public Regulation Commission are available for review in the LFC capital outlay brief dated December 8, 2005.

Department of Military Affairs. DMA will request $3 million to renovate facilities at the Army Aviation Support facility to provide adequate space and support for flight operations, aircraft maintenance, training, storage, and administrative requirements of assigned units. The funds will also correct or replace roof deficiencies, heating and ventilation, and cooling systems at the 28 armories located statewide. The repairs will allow DMA to operate a less labor intensive and costly maintenance program and reduce the recurring costs to its general fund operating budget.

Local and Tribal Entity Priorities by Category

- Water
- Quality of Life
- Transportation
- Public Safety
- Economic Development
- Higher Education
- Health
- Environment
- Education
- Housing



Statewide Judicial Requests.

Administrative Office of the Courts. On behalf of the Supreme Court, Court of Appeals, jury and witness program, magistrate courts, and all 13 judicial district courts, AOC will request $8 million for a variety of capital outlay needs of the courts. State law requires counties to provide a building space for the courts located throughout the state; however, the courts are responsible for furnishing, equipping, and maintaining the interior needs of the courts. A majority of the requests pertain to surveillance and security upgrades, assistive listening equipment, video arraignment and communication equipment, storage equipment, replacement of furniture more than 30 years old, and a fire suppression system for the Supreme Court building.

Court of Appeals. The court will request $12.3 million to construct a new facility adjacent to the law school of the University of New Mexico in Albuquerque. Since its inception nearly 40 years ago, the Court of Appeals has grown from four to 10 members of the court who have been housed partly in the Supreme Court building and partly in a satellite office adjacent to the law school. Both spaces occupied by the court are inadequate and sharing of offices is causing crowding and unsafe conditions for all users of current facilities. The University of New Mexico will donate land for a new facility to house the full court in one building, promoting public efficiency and making the court more accessible to the communities from which the bulk of its cases originate. In addition to providing an efficient setting for appellate court proceedings, the Supreme Court would gain much needed space, and commute time for court personnel and litigants would be reduced. The courts close proximity to the law school will provide opportunities for enhanced legal research, student internships, shared library material and other tangible aspects.

Requests from "Other Funds."

Miners' Hospital will request $4.3 million from miners' trust fund to complete construction of a new acute center and to purchase specialized medical equipment needed to open the new facility.

Department of Transportation will request $2 million from the state road fund to plan, design, and construct new patrol buildings in Lordsburg, Clovis and Clines Corners needed to address major health and safety issues.

Workers' Compensation Administration will request $350 thousand from the workers' compensation fund for a study to determine the feasibility of best-use and expansion of the GSD-owned building currently housing WCA staff.

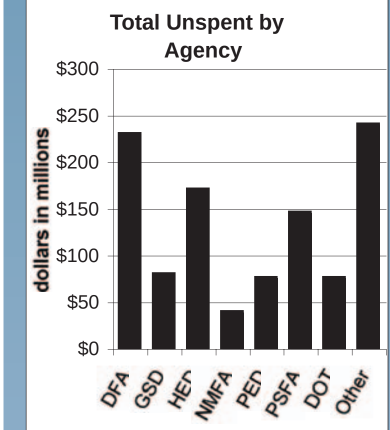
New Mexico Educational Retirement Board will request $800 thousand from the educational retirement fund to provide for ADA compliance, safety and security, and a functional work environment for staff and the public at the Phillip Gonzales building.

Local Government and Tribal Entity Requests. Local and tribal entities require over $2 billion for their infrastructure needs according to year one of the infrastructure capital improvement fund (ICIP). The top five priorities total $875 million for projects in five major categories: water, quality of life (parks, senior centers, community centers, etc.), transportation, public safety, and economic development. The only government entities that did not participate in the ICIP planning process were the counties of Mora and Socorro, and the villages of Milan and Mountainair. The listing of top five priorities is available through the LFC or Capital Outlay Unit of DFA.

Other Capital Outlay Issues.

Unexpended Funds. As of October 31, 2005, $1.1 billion for over 9,000 projects appropriated between 1992 and 2005 remain unexpended. Excluding 2005 projects totaling $473 million, the unexpended fund balances totaling $627 million are as follows: general fund, $204.9 million; GOB fund, $160 million; STB fund, $248.6 million; and other funds, $58 million (including $22 million from the public school capital outlay fund). Of the projects funded between 1994 and 1997, 94 have not been reconciled. Unexpended funds for 97 projects over $1 million appropriated between 2000 and 2004 total $282.3 million. The majority of the unexpended funds for projects greater than $1 million are higher education projects authorized in 2004 totaling $127.5 million. Inasmuch as general obligation bonds are not sold until the spring following the year the bonds are passed by the electorate, the timeline for higher education expenditures is not unusual.

LFC Interim Hearing Results. The committee held hearings with the Local Government Division, Higher Education Department, Department of Health, Environment Department, Department of Cultural Affairs, and Department of Indian Affairs during the interim to determine reasons for unexpended funds and other issues relative to administering capital outlay appropriations. The most common reasons listed in the sidebar for inactive projects or unexpended funds were attributed to inadequate funding, projects authorized which might not be a priority at the local level, and failure of the grantees to request reimbursements for completed projects on a timely basis. Given the limited staff capacity, certain functions such as site visits to verify completion of construction projects, to verify equipment purchases, and to verify other uses is near impossible. Given the labor-intensive process for the large number of projects authorized by the Legislature and the governor, agency staff has little or no time to communicate with all 103 municipalities, 33 counties, tribal, and other entities to discuss project issues. Elsewhere in this volume, are results of LFC audit of the DFA, Capital Outlay Unit.



Other includes DCA, EDD, EMNRD, DPS, NMGF, MCMC and OSE

Most Common Reasons for Project Inactivity

- Inadequate funding levels
- Projects not a priority for grantee
- Reimbursements not requested by grantee in a timely manner
- Lack of planning and communication between sponsor, administering agency and grantee
- Grantees unaware of appropriation and purpose
- Inadequate staffing and operational costs at local level
- Lack of technical expertise at local level
- Projects not ready to commence

Authorized Un-Issued Bonds (Reauthorization). As of October 2005, authorized severance tax bonds totaling $13.9 million remain un-issued for 80 projects authorized between 2002 and 2005. The listing of projects available in Volume III should be reviewed by the original sponsor to determine what action, if any, should be taken.

Other Decision-Making Considerations. Given the tremendous need and to ensure new funds are used effectively, policymakers might want to consider the following factors when funding projects:

- Greater emphasis on projects in progress and planned projects with known outcomes (i.e. water infrastructure, university endowment program, transportation) will maximize state dollars.
- Substantial one-time investment in deferred maintenance at higher education facilities and other state-owned facilities could reduce operational costs and frequent utility outages.
- Appropriating general fund surplus for higher education capital outlay and foregoing GOB capacity until 2008 will allow funds to be available by March 2006 rather than Spring 2007 (following the 2006 general election) to address critical infrastructure needs.
- In light of inadequate funding for operations, building materials, and extensive repairs and maintenance required at existing buildings, nonessential new construction could be deferred (i.e. two-year lag in completing Villagra building resulted in over $7 million of $11.4 of sale proceeds for Villa Rivera being paid back in rent).
- The major backlog at schools, universities, and Property Control Division suggest a bottleneck due to administrative capacity and budget shortfalls.
- The 9,000 active projects with little or no oversight suggest inadequate staffing levels for administration and accountability of funds, particularly at LGD and PED.
- Significant cost overruns for projects in progress might require additional funding to complete projects (i.e. GRIP I, History Museum, state building renovations).
- Funding consideration should be given to ‘planned” local and tribal requests which might be leveraged with local and federal funds.

2007 Funding Requests. The quality of information technology (IT) project funding requests has deteriorated over the past 10 years. Agencies have identified goals or missions that a proposed project might support, but the required detail to delineate project scope, project management, cost and executive management support are lacking. Close to 100 percent of the projects failed to address most or all of the funding principles established as guidelines on which funding decisions are made. The reasons the quality of the submissions have deteriorated are

- Turnover of knowledgeable agency staff who prepare IT plans and funding requests;
- Turnover at the Office of the Chief Information Officer (OCIO); and
- Major changes to the instructions that removed essential requirements, for example:
    - Changes to the revenue and expenditure forms that exclude detail expenditure information;
    - Request for technology items outside of the established criteria such as maintenance, routine equipment and software replacement or upgrades, and staff increases;
    - Project descriptions that do not describe the project for which funding is being requested;
    - Cost-benefit analysis not presented, or if an attempt is made to present it, the data is insufficient to support the project;
    - No information on the progress to date and how additional funding will allow a project to be completed successfully;
    - Changing the July submission to the OCIO from a way to improve the quality of the request before the September deadline to a way to eliminate projects before the September deadline.

Staff received 27 requests for new or continuing system replacements and 19 requests for hardware or network upgrades and additional staff or training from state agencies and educational institutions, totaling $63.8 million. The total increases to $79.7 million when the Department of Transportation projects are added to the total.

Recommendation. This recommendation is primarily based on critical need and not on quality of the submissions. Except for the Commission on Public Records and the Taxation and Revenue Department's GenTax project, all recommendations are critical-need-based. The FY07 recommendation is $10.2 million from the general fund out of a total of $48.8 million in system replacement or enhancement requests received.

- The Public Education Department (PED) requested a total of $14 million for two projects. The recommendation includes only $2 million for the Student Teacher Accountability Reporting System because concerns remain about appropriate

Quality of funding requests has deteriorated over the past 10 years.

Five Funding Principles:

- Enterprise-supports a statewide enterprise model for information technology
- Business Case-articulates a compelling business value proposition
- Project Management-supports sound project management and oversight practices
- Technical Approach-uses a sound technical approach and reliable technology
- Outcome-demonstrates methods to minimize risk and ensure quality

Forty-six requests totaling $63.8 million were received.

Public Education Department project requires close monitoring.

project planning, potential duplication, long-term hosting and project management. PED should provide monthly detailed written status reports to committee staff.

- Department of Labor NMDOL) requested reauthorization of $12.5 million in federal funds appropriated in 2005, of which $11.5 million was to replace the Unemployment Insurance Tax system. The federal government is concerned the OCIO is designated the lead agency and that NMDOL does not have primary responsibility for the project. Regardless of which agency is the lead agency, the federal government will hold NMDOL responsible for project success or failure.

The recommendation does not include

- Department of Transportation's IT projects for FY07 that may total as much as $16 million from the road fund and federal funds because these projects were not requested.
- The Justice Sharing Project request for $382 thousand because the Sentencing Commission has requested that the funding be included in its base budget since this is a recurring request.

OCIO Recommendation. OCIO recommended 15 projects totaling $23.4 million, $8.9 million from the general fund, $12.8 million in other state funds and $1.7 million in federal funds. The primary difference between the LFC recommendation and the OCIO recommendation is that the OCIO is recommending $12.1 million in other state funds to DOT, which LFC does not recommend, and individual projects recommended differ.

Statewide Human Resources, Accounting and Management and Reporting system (SHARE). Despite schedule delays and staffing shortages, project team leaders pledge the SHARE project is currently on-schedule and within budget. Although many key deliverable deadlines have been missed, project team leaders indicate the "go-live" date of July 1, 2006, can be achieved. In addition, project team leaders are working to fill vacancies caused by the large turnover in personnel (state employees and contract staff) assigned to the project.

Special, Deficiency, and Supplemental Appropriations

State agencies requested $185.2 million from the general fund for special, deficiency, and supplemental appropriations. Requests from all funding sources total $188.3 million. Specific requests and funding recommendations are presented in Table 6. The committee's recommendation prioritizes critical or mandated services related to education, health care, and public safety and reflects the committee's preference that agencies operate within appropriated resources rather than using the special, deficiency, and supplemental appropriation request process to increase operating budgets. Many of the requests did not include data demonstrating improved performance levels, cost-benefit analysis, or other justification at a sufficient level on which to base a recommendation. With the limited information provided, the committee could not recommend many new programs or increases to current year budgets as requested by the agencies. Further, the committee is cautious about funding recurring expenses with nonrecurring revenue. Finally, the committee recommends the full Legislature require meaningful data on performance outcomes, the development of clear objectives, comprehensive cost-benefit analyses, demonstration of a lack of available funds, and documentation of agency austerity practices prior to appropriating funds for special, deficiency, or supplemental requests.

Deficiency and Supplemental Appropriation Recommendations. Agencies requested $28.3 million from the general fund for deficiency and supplemental needs and $30.3 million from all funding sources. The committee recommends one deficiency and 17 supplemental appropriations, totaling $18.3 million from the general fund, and $4.1 million from other state funds. The most significant recommendations are supplemental appropriations from the general fund of $4.5 million to the Corrections Department for costs associated with inmate population growth, $3.6 million to the Children, Youth and Families Department to replace federal funds cut from the foster care program, $3.2 million for school bus replacement, and $1 million to the Department of Health for a shortfall in the Developmentally Disabled Community Services program, and a $4.1 million deficiency to the Public Schools Insurance Authority to cover a deficit resulting from risk insurance claims.

Special Appropriations. Agencies requested $156.8 million from the general fund and $158 million from all funding sources for special requests. The committee recommends a total of $158.7 million, almost entirely from the general fund, including $121.3 million for higher education projects. LFC-initiated projects include $60 million to address substandard infrastructure conditions at higher education institutions statewide, $10 million to the higher education performance fund to provide financial incentives to higher education institutions that meet or exceed performance targets for freshman enrollment and persistence, and $1.3 million to the University of New Mexico Health Sciences Center to address indigent healthcare needs. Other large recommendations include $50 million to the college affordability

Special Appropriations LFC General Fund Recommendation (dollars in millions)

Higher Education - $121.3

Public Schools - $5.0

Public Safety - $5.0

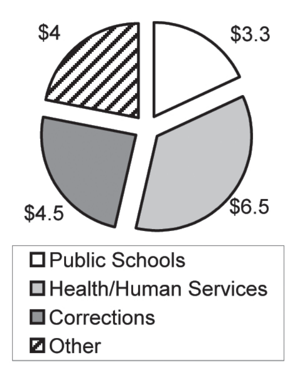
Information Technology - $10.2

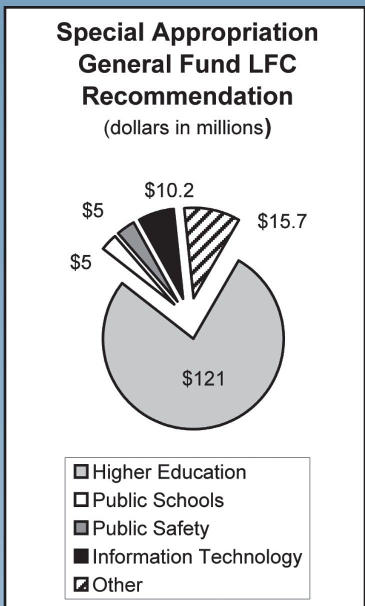
Other - $15.7

Supplemental and Deficiency Appropriation LFC General Fund Recommendation

$18.3 million

Supplemental Appropriation General Fund LFC Recommendation
(dollars in millions)





endowment fund to provide need-based student financial aid; $5 million to the Public Education Department to augment emergency supplemental funds; $4 million to the Economic Development Department for the Job Training Incentive Program; $3 million to the Department of Public Safety for police vehicle replacement; $1.6 million to the Department of Military Affairs for increases in service member group life insurance premiums; $1.5 million to the Tourism Department for marketing, advertising, promotion, and cooperative outreach; and $1 million to the Office of Workforce Training and Development for start-up and infrastructure for “one-stop” service centers.

Accountability in Government

With the state's adoption of the Accountability in Government Act (AGA) in 1999, New Mexico began to focus on results. The primary feature of AGA is the implementation of performance-based budgeting (PBB). New Mexico's implementation of PBB requires that agencies identify programs and performance measures and submit performance-based budget requests that establish targeted levels of performance. The state reached significant milestones when almost all state agencies completed the transition to the new performance accountability system in FY03, and key agencies began meeting quarterly reporting requirements in FY05.

Key State Agencies for Accountability in Government Act Reporting

Public Schools
Public Education Dept.
Higher Education
Higher Education Dept.
Human Services Dept.
Department of Health
Office of State Engineer
Aging and Long-term Services
Transportation
Children, Youth & Families
General Services
Corrections
Department of Public Safety
Taxation & Revenue
Office of State Engineer
Environment
Economic Development
State Personnel Office
Investments
Capital Outlay
Office of Workforce Development
Information Technology

LFC Performance Review Subcommittee. The first year of meetings of the performance review subcommittee were successful. Hearings and quarterly reports provided an opportunity to review key agency performance on an ongoing basis during the interim. Either the subcommittee or the full committee addressed performance issues for all key agencies.

Other 2005 Interim Activities. LFC staff continued to pursue joint work plan initiatives in the area of accountability and performance-based budgeting with the State Budget Division (SBD) of the Department of Finance and Administration. The 2005 work plan focused on improving quarterly reporting, reevaluating key agencies, working with the DFA Capital Outlay Unit on a quarterly report for capital outlay, and working to review documents, forms, and checklists and agency measures for usefulness and effectiveness. Further, LFC and DFA staff collaborated to seek stakeholder input on higher education performance funding.

Agency Efforts. Very few changes to program structures and measures were proposed by state agencies by the statutory deadline; DFA approved most changes requested by state agencies. For the Department of Public Safety, the Public Safety Support Program, Accountability and Compliance Support Program, and the Information Technology Program were combined into a new program called Program Support. In the view of LFC staff, the program does not align well with administrative programs. In 2006, LFC recommends the Public Education Department consider moving away from a single operating program to four programs: Finance and Operations, Learning and Accountability, Teacher Licensure Support and Quality Assurance and Systems Integration.

Several agencies are effectively utilizing accountability information and linking plans and data to improve performance and deploy resources. For example, the Department of Health has revised its measures to address the heart of the agency mission, specifically to prevent disease and disability and improve health systems in the state. For the Department of Health and the Department of Transportation, the FY07 data submitted to LFC and DFA under the Accountability in Government Act is almost identical to the executive performance contract, with quarterly reporting where appropriate.

Executive Performance and Accountability Contracts. In late September, the executive branch released seven draft performance and accountability contracts in the following areas:

- Protecting and promoting New Mexico's environment
- A healthy New Mexico,
- Services for New Mexicans,
- Managing state resources,
- Promoting and growing New Mexico,
- A safer New Mexico,
- Making schools work

The contracts represent significant time and effort from the executive branch and were developed exclusively by the executive branch. In some cases, new, useful outcome measures are proposed. In some cases, activities and roles of agencies in carrying out specified activities and contributing to the achievement of performance measure targets are not transparent. Reporting mechanisms for activities and performance targets are not clear.

For the Taxation and Revenue Department, the contracts tie in with the current quarterly reporting. Additional outcome measures and explanatory data, particularly for the Motor Vehicle Department, are beneficial.

The AGA timeline reflects these proposals were received too late to be incorporated into agency measures required by the Legislature under the Accountability in Government Act. LFC staff worked with DFA counterparts to address the viability of aligning agency measures required by the Legislature with measures proposed in the executive contracts within the current budget cycle. In some cases, agencies may need clarification that a new set of measures is now required in addition to those currently reported under the Accountability in Government Act.

Future staff efforts will continue to explore alignment of agency measures required by the Legislature with measures proposed in the executive contracts. In some cases, there are significant differences that will be addressed during the 2006 interim. For example, higher education measures are predominantly different than those currently collected and are extensive; new measures significantly reflect target-setting by the new department for statewide policy issues as well as aggregated performance measure targets for the system as a whole two-year and four-year institutions. The executive includes new measures for statewide workforce-related issues include doctors, nurses, healthcare practitioners, dentists, allied health, career-technical programs, education, and media arts.

Quarterly Report Components

Checklist

1. Executive summary of strategic plan including mission statement.
2. Definition of program with purpose statement and one paragraph on how program supports strategic plan and mission. Include total program budget and FTE.
3. Meaningful measures developed in collaboration with LFC.
4. Measures support stated objective and/or activity that supports program purpose
5. History of measurement data for four prior years presented quarterly. If measure is new then benchmarks must be provided with origin of benchmark.
6. Short narrative explaining variance of more than +/-10 percent.
7. Short statement of data source and reliability.
8. Action plan including who, what, where, when.
9. Extensive use of graphics to make report visually appealing with an emphasis on ease of comprehension.
10. Final format suitable for public use.
11. Update as required by changes at appropriate point in PBB cycle.
12. While these components must be part of each report, final presentation is left to each agency.

Next Steps. The committee will continue to enhance its use of information in LFC analysis and hearings. Further, the LFC staff will work with the DFA in the 2006 interim to seek a joint work plan to continue to enhance overall compliance and quality of agency reports and data, to enhance use of the benchmarking template by agencies, and address the need for posting of information on the web. Further, staff will continue to review the implementation of the executive performance and accountability contracts by agencies. In most states, the last phase of implementation of a performance accountability budgeting system involves the implementation of both non monetary and monetary performance awards. The committee recommendation includes such a proposal for higher education, and the committee will consider opportunities in the 2006 interim for consideration at the 2007 legislative session.

Performance Audit Activity

Performance audit activities provide objective assessments about the extent to which government agencies economically, efficiently, and effectively carry out their responsibilities and perform services. They include evaluating compliance with laws and regulations, reviewing information system implementation, and recommending changes to the Legislature.

During 2005, performance audit activity included full program reviews and quick response reviews that can be accessed through the committee website. Significant review findings are summarized in the sidebar, and significant recommendations are summarized below.

Findings:
Incompatible data systems limited analysis.

Equitable statewide funding cannot be determined.

Program oversight is inadequate and an open invitations for fraud and abuse.

Payments for substance abuse treatment services are not outcome based.

Department of Health Publicly Funded Substance Abuse Treatment in New Mexico.

- Ensure and document equitable funding distribution to providers throughout the state;
- Research and rectify double-payment issues between Department of Health and Human Services Department Medicaid program;
- Eliminate multiple client registrations;
- Improve administrative oversight, pay only for provider services delivered, sanction poor performance, and reward successful outcomes;
- Report annually on the effectiveness of existing services as required by state statute;
- Accept outcome-monitoring report recommen-dations and urge the collaborative to consider them;
- Develop a comprehensive statewide database to track outcome data, treatment costs per client, and program effectiveness and consider post-treatment follow up;
- Amend the ValueOptions' contract to address issues identified, such as lack of data ownership, best practices, and provider utilization.

Findings:
Structural, procedural, and database weaknesses limit the PRC's effectiveness in adequately protecting consumers.

Approach to rate regulation limits effectiveness and efficiency.

Public Regulation Commission Insurance Division Management Practices.

- Adopt internal contract examiner policies that include competitive selection, contract examiner rotation, prohibition of conflicts of interest, and legal compensation;
- Determine best organizational structure for effective and consistent complaint handling;
- Improve automation for complaint analysis and premium-tax collection and provide consumers with Internet access to complaint information;
- Consider a more risk-focused approach, such as "flex-rating," that allows the marketplace to self- regulate where competition is sufficient and focuses regulatory resources on rates that have the highest consumer impact.

Public Education Department Schools In Need of Improvement.

- Take immediate action on schools currently subject to corrective action that need additional resources and intensive interventions;
- Standardize the Public Education Department intervention strategy;
- Increase resources for districts with large Native American and English-language-learner populations;
- Increase the percent of per-capita income spent on education to a level similar to other high-poverty states;
- Administratively consolidate small districts to reduce costs and share limited resources to increase achievement rates;
- Generate more funds from state equalization guarantee at-risk unit values for high-poverty districts.

Findings:

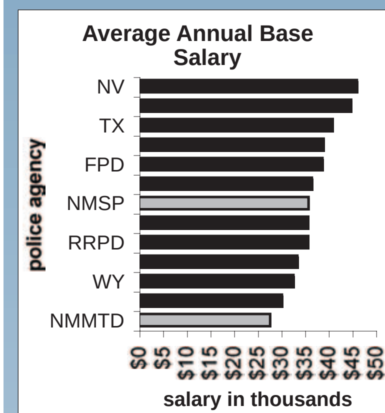
Many poverty factors causing low achievement are out of school control.

The number of schools subject to corrective action is growing.

About half of corrective-action schools have serious problems and need external assistance and additional resources.

Department of Public Safety Management Review.

- Streamline internal policy development;
- Build reasonable timeframes into the disciplinary process;
- Consider statutory amendments to allow flexibility regarding education and experience and an abbreviated academy and consider higher pay during training for experienced officers;
- Update the pay plan for entry-level officers, probationary requirements and promotion policies and adjust salaries with greatest pay disparities first;
- Conduct exit interviews with all employees;
- Adopt additional, stable General Appropriation Act outcome indicators and key measures and establish realistic targets;
- Upgrade the officer activity tracking database and use it for all law enforcement program activities.



Findings:

Turnover may be linked to poor working conditions.

Resignations outpace graduations.

Department of Finance and Administration Review of Capital Outlay Planning and Monitoring Process and Follow-Up of June 23, 2004 Report.

- Develop a short-term and long-term integrated statewide capital projects plan that includes all funding streams;
- Prioritize state requests before local government requests;
- Consider a statutory amendment to raise the capital project request threshold to $100 thousand and fund all other requests through the operating budget;
- Require completion of capital improvement plans;
- Award sufficient appropriations to plan, construct and maintain a capital project;
- Require unexpended appropriations to lapse upon expiration and reappropriate funding;
- Organizationally place the capital outlay unit within the department for effective planning and oversight.
- Continue work on implementing recommendations from the 2003 review.

Findings:

New Mexico does not have a statewide integrated capital projects plan.

Funding is sometimes insufficient for entire project.

Many issues identified in 2003 review have not been addressed.

The unit may not be fulfilling its primary mission.

Performance Audit Activity

Findings:
Save Smart provided savings and continued opportunities to save.

Capture plan for credit to general fund has not been developed.

General Services Department Save Smart Initiative.

- Pay the Save Smart contractor fifty cents on each dollar saved rather than dollar for dollar;
- Implement the plan to revert FY05 savings to the general fund rather than using them internally;
- Address Save Smart savings calculation and reporting procedure weaknesses;
- Include administrative time used to deal with vendor problems in total cost.

Findings:
Additional funding for two- and four-year nursing schools totaled $18.7 million from FY02 to FY06.

There are multiple obstacles to expansion.

New Mexico efforts are fragmented.

Higher Education Department Nursing Education and Outcomes.

- Form a taskforce to address the many obstacles that nursing program expansion faces;
- Provide funding and staffing to develop a uniform reporting system and database and implement taskforce strategic plan;
- Base future legislative nonformula funding on nursing program performance;
- Require two- and four-year nursing programs to demonstrate local support and make the nursing shortage a Workforce Investment Act priority;
- Provide education and training opportunities for low-wage healthcare workers;
- Phase out line-item nursing expansion appropriations as formula funding revenues grow.

Finding:
Poor revenue tracking and lack of savings capture plan reduces benefit of MAXIMUS services to the state.

Human Services Department Revenue Maximization (MAXIMUS).

- Provide Legislative Finance Committee staff with an estimate of contract costs and recoveries expected during FY06 and FY07 by December 15, 2005.
- Request a direct appropriation to fund the MAXIMUS contract in FY07 based on FY07 expected recoveries.
- Revise approved management letters to include a limitation on the compensation amount for that initiative, and detailed accounting of expected recoveries and/or savings as required by the contract.
- Submit a plan to the Legislative Finance Committee and Department of Finance and Administration for the proposed use of revenue collected as a result of MAXIMUS initiatives by January 15, 2005.

INFORMATION TECHNOLOGY

Finding:
The new monitoring system may not work with older gaming machines.

Gaming Control Board Advanced Entertainment Gaming Information System. The pilot project was not just a pilot but a full implementation with limited funding that did not determine total ownership costs or protect smaller venues from financial hardship. Complete reliance was placed on the contractor.

Secretary of State Voter Registration and Elections Management System.

- Ensure that guidelines are in place for decentralized system use if counties are willing to pay for this feature because not all counties are using the central system;
- Take immediate action so the system can handle the load of a major election without backup;
- Address outstanding security risks;
- Reduce maintenance costs by about $85 thousand;
- Include all expenditures in project cost accounting.

Finding: *Underpowered voter registration system needs improvement prior to next major election.*

Department Of Labor Unemployment Insurance Systems.

- Sign the contract to fully test functionality and provide knowledge transfer;
- Adequately staff the project with technical staff;
- Fully train technical staff to support the system;
- Provide project status reports that detail impacts or reduce overall implementation risks so that appropriate management decisions can be made;
- Establish an executive steering committee;
- Establish a central mechanism to capture project costs;
- Limit the numerous contract amendments.

Finding: *Unemployment insurance system implementation deadline of September 2005 seems too aggressive.*

Office of the State Engineer Imaging And Abstracting Follow-Up. Although significant progress has been made over the past two years, much still needs to be done.

- Revise performance measures to reflect accurate progress;
- Reconcile all abstracting contractor payments with agency records;
- Review imaging procedures to ensure quality;
- Continue converting abstracts;
- Address information technology compensation and staffing issues;
- Correct security issues noted and implement a periodic security review;
- Require user acceptance on all changes;
- Implement separation of information technology staff duties for program changes.

Finding: *It will take 14 years to complete water rights abstracting and imaging.*

Department of Labor Virtual One-Stop System Follow-Up. Previous findings have been addressed through system familiarity and training. New problems were identified that highlight problems Department of Labor and the newly created Office of Workforce Training and Development will encounter if agreements and good working relationships are not established and implemented.

- Draft a memorandum of understanding so that local boards understand the separation of responsibilities and who to call for help;
- Determine where the virtual one-stop system will be hosted

Finding: *Unclear roles and responsibilities hamper Virtual One-Stop system's effectiveness.*

Finding:
Agencies' IT project costs are not accurate.

to provide the greatest benefit to all its users and establish hosting and basic support services costs based on Department of Labor's current support costs. Develop migration plan.

Quarterly Information Technology Project Summary Review. A cursory review of the information provided to the Office of the Chief Information Officer by agencies, which is then summarized and given to state committees, indicated the Office of the Chief Information Officer is not accurately communicating to agencies what should be included in project cost figures.

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY06 OPERATING BUDGET	FY07 AGENCY REQUEST	FY07 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
Legislative						
111	LEGISLATIVE COUNCIL SERVICE	4,622.8	4,802.9	4,802.9	180.1	3.9%
112	LEGISLATIVE FINANCE COMMITTEE	3,507.1	3,674.1	3,674.1	167.0	4.8%
114	SENATE CHIEF CLERK	996.0	996.0	996.0	0.0	0.0%
115	HOUSE CHIEF CLERK	973.5	973.5	973.5	0.0	0.0%
117	LEGISLATIVE EDUCATION STUDY COMMITTEE	986.5	1,154.3	1,154.3	167.8	17.0%
119	LEGISLATIVE BUILDING SERVICES	3,360.6	3,544.0	3,544.0	183.4	5.5%
131	LEGISLATURE	1,666.9	1,666.9	1,666.9	0.0	0.0%
Total Legislative		16,113.4	16,811.7	16,811.7	698.3	4.3%
Judicial						
205	SUPREME COURT LAW LIBRARY	1,647.2	1,697.3	1,685.5	38.3	2.3%
208	NEW MEXICO COMPILATION COMMISSION	0.0	259.4	167.6	167.6	0.0%
210	JUDICIAL STANDARDS COMMISSION	580.2	706.4	600.1	19.9	3.4%
215	COURT OF APPEALS	4,768.5	5,037.0	4,917.3	148.8	3.1%
216	SUPREME COURT	2,429.0	2,611.8	2,484.4	55.4	2.3%
218	ADMINISTRATIVE OFFICE OF THE COURTS	32,446.3	38,455.3	33,965.7	1,519.4	4.7%
219	SUPREME COURT BUILDING COMMISSION	703.6	826.2	710.2	6.6	0.9%
231	FIRST JUDICIAL DISTRICT COURT	5,446.2	5,684.0	5,641.2	195.0	3.6%
232	SECOND JUDICIAL DISTRICT COURT	18,422.4	20,318.9	18,448.4	26.0	0.1%
233	THIRD JUDICIAL DISTRICT COURT	4,877.0	5,440.2	5,327.7	450.7	9.2%
234	FOURTH JUDICIAL DISTRICT COURT	1,449.0	1,558.9	1,471.1	22.1	1.5%
235	FIFTH JUDICIAL DISTRICT COURT	4,505.4	4,997.1	4,591.6	86.2	1.9%
236	SIXTH JUDICIAL DISTRICT COURT	2,210.3	2,339.3	2,287.7	77.4	3.5%
237	SEVENTH JUDICIAL DISTRICT COURT	1,511.3	1,729.6	1,650.8	139.5	9.2%
238	EIGHTH JUDICIAL DISTRICT COURT	2,137.5	2,265.2	2,168.8	31.3	1.5%
239	NINTH JUDICIAL DISTRICT COURT	2,390.9	2,778.9	2,367.2	-23.7	-1.0%
240	TENTH JUDICIAL DISTRICT COURT	616.9	687.1	681.3	64.4	10.4%
241	ELEVENTH JUDICIAL DISTRICT COURT	4,273.6	4,475.0	4,383.4	109.8	2.6%
242	TWELFTH JUDICIAL DISTRICT COURT	2,336.8	2,409.8	2,418.8	82.0	3.5%
243	THIRTEENTH JUDICIAL DISTRICT COURT	3,991.5	4,609.5	4,278.3	286.8	7.2%
244	BERNALILLO COUNTY METROPOLITAN COURT	18,568.0	20,138.5	18,902.0	334.0	1.8%
251	FIRST JUDICIAL DISTRICT ATTORNEY	3,737.2	3,993.4	3,746.3	9.1	0.2%
252	SECOND JUDICIAL DISTRICT ATTORNEY	14,149.5	16,443.0	14,168.6	19.1	0.1%
253	THIRD JUDICIAL DISTRICT ATTORNEY	3,058.8	3,494.2	3,129.8	71.0	2.3%
254	FOURTH JUDICIAL DISTRICT ATTORNEY	2,517.8	2,871.2	2,584.4	66.6	2.6%
255	FIFTH JUDICIAL DISTRICT ATTORNEY	3,190.8	3,304.0	3,195.3	4.5	0.1%
256	SIXTH JUDICIAL DISTRICT ATTORNEY	1,728.5	2,025.0	1,878.9	150.4	8.7%
257	SEVENTH JUDICIAL DISTRICT ATTORNEY	1,877.5	2,037.6	1,927.2	49.7	2.6%
258	EIGHTH JUDICIAL DISTRICT ATTORNEY	2,080.4	2,320.7	2,153.0	72.6	3.5%
259	NINTH JUDICIAL DISTRICT ATTORNEY	2,106.0	2,275.9	2,156.3	50.3	2.4%
260	TENTH JUDICIAL DISTRICT ATTORNEY	748.4	886.3	843.0	94.6	12.6%
261	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIV I	2,659.2	2,742.0	2,662.2	3.0	0.1%
262	TWELFTH JUDICIAL DISTRICT ATTORNEY	2,100.1	2,286.7	2,110.8	10.7	0.5%
263	THIRTEENTH JUDICIAL DISTRICT ATTORNEY	3,317.8	3,622.9	3,370.0	52.2	1.6%
264	ADMINISTRATIVE OFFICE OF THE DISTRICT ATTORNEYS	1,028.4	1,763.9	1,335.5	307.1	29.9%
265	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIV II	1,876.3	1,852.9	1,876.3	0.0	0.0%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY06 OPERATING BUDGET	FY07 AGENCY REQUEST	FY07 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
Total	**Judicial**	161,488.3	180,945.0	166,286.7	4,798.4	3.0%
General Control						
305	ATTORNEY GENERAL	11,692.2	15,345.1	11,724.4	32.2	0.3%
308	STATE AUDITOR	2,308.1	2,344.1	2,319.2	11.1	0.5%
333	TAXATION AND REVENUE DEPARTMENT	56,744.2	58,692.3	57,257.3	513.1	0.9%
337	STATE INVESTMENT COUNCIL	0.0	0.0	0.0	0.0	0.0%
341	DEPARTMENT OF FINANCE AND ADMINISTRATION	11,999.6	11,480.6	11,363.9	-635.7	-5.3%
342	PUBLIC SCHOOL INSURANCE AUTHORITY	0.0	0.0	0.0	0.0	0.0%
343	RETIREE HEALTH CARE AUTHORITY	10.0	10.0	10.0	0.0	0.0%
344	DFA NON-OPERATING FUNDS	4,135.8	5,495.7	4,965.5	829.7	20.1%
350	GENERAL SERVICES DEPARTMENT	11,312.5	17,314.4	11,312.3	-0.2	0.0%
352	EDUCATIONAL RETIREMENT BOARD	0.0	0.0	0.0	0.0	0.0%
354	NEW MEXICO SENTENCING COMMISSION	606.8	686.8	869.7	262.9	43.3%
355	PUBLIC DEFENDER DEPARTMENT	32,385.5	37,729.1	35,434.4	3,048.9	9.4%
356	GOVERNOR	4,412.6	4,574.5	4,574.5	161.9	3.7%
360	LIEUTENANT GOVERNOR	625.2	625.2	622.3	-2.9	-0.5%
361	OFFICE OF THE CHIEF INFORMATION OFFICER	958.6	993.4	993.4	34.8	3.6%
366	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION	0.0	0.0	0.0	0.0	0.0%
369	STATE COMMISSION OF PUBLIC RECORDS	2,272.7	2,796.4	2,400.4	127.7	5.6%
370	SECRETARY OF STATE	3,020.9	4,818.6	3,246.6	225.7	7.5%
378	PERSONNEL BOARD	3,969.4	4,040.4	3,964.4	-5.0	-0.1%
379	PUBLIC EMPLOYEES LABOR RELATIONS BOARD	314.9	314.9	314.9	0.0	0.0%
394	STATE TREASURER	3,447.3	3,786.5	3,723.8	276.5	8.0%
Total	**General Control**	150,216.3	171,048.0	155,097.0	4,880.7	3.2%
Commerce and Industry						
404	BOARD OF EXAMINERS FOR ARCHITECTS	0.0	0.0	0.0	0.0	0.0%
416	SPORTS AUTHORITY	285.0	290.0	286.5	1.5	0.5%
417	BORDER AUTHORITY	427.3	427.3	427.3	0.0	0.0%
418	TOURISM DEPARTMENT	8,174.6	8,224.5	8,231.3	56.7	0.7%
419	ECONOMIC DEVELOPMENT DEPARTMENT	6,379.4	6,485.4	6,443.8	64.4	1.0%
420	REGULATION AND LICENSING DEPARTMENT	13,148.6	15,403.2	13,653.7	505.1	3.8%
430	PUBLIC REGULATION COMMISSION	10,279.1	11,933.3	10,508.3	229.2	2.2%
446	NEW MEXICO BOARD OF MEDICAL EXAMINERS	0.0	0.0	0.0	0.0	0.0%
449	BOARD OF NURSING	0.0	0.0	0.0	0.0	0.0%
460	NEW MEXICO STATE FAIR	0.0	0.0	0.0	0.0	0.0%
464	STATE BOARD OF LICENSURE FOR PROF ENGINEERS AND	0.0	0.0	0.0	0.0	0.0%
465	GAMING CONTROL BOARD	5,859.9	6,388.1	6,033.5	173.6	3.0%
469	STATE RACING COMMISSION	2,003.4	2,246.8	2,116.1	112.7	5.6%
479	BOARD OF VETERINARY MEDICINE	0.0	0.0	0.0	0.0	0.0%
490	CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION	100.0	700.0	100.0	0.0	0.0%
Total	**Commerce and Industry**	46,657.3	52,098.6	47,800.5	1,143.2	2.5%
Ag, Energy & Ntrl Resources						
505	DEPARTMENT OF CULTURAL AFFAIRS	27,096.9	26,650.4	26,987.9	-109.0	-0.4%
508	NEW MEXICO LIVESTOCK BOARD	897.3	1,875.2	934.5	37.2	4.1%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY06 OPERATING BUDGET	FY07 AGENCY REQUEST	FY07 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
516	DEPARTMENT OF GAME AND FISH	181.9	181.9	181.9	0.0	0.0%
521	ENERGY, MINERALS & NATURAL RESOURCES DEPARTME	20,869.5	23,659.7	21,188.7	319.2	1.5%
522	YOUTH CONSERVATION CORPS	0.0	0.0	0.0	0.0	0.0%
538	INTERTRIBAL CEREMONIAL OFFICE	47.5	0.0	0.0	-47.5	-100.0%
539	COMMISSIONER OF PUBLIC LANDS	0.0	0.0	0.0	0.0	0.0%
550	STATE ENGINEER	19,395.8	21,483.9	21,094.2	1,698.4	8.8%
569	ORGANIC COMMODITY COMMISSION	280.1	280.1	280.1	0.0	0.0%
Total	**Ag, Energy & Ntrl Resources**	68,769.0	74,131.2	70,667.3	1,898.3	2.8%
Health & Human Services						
601	COMMISSION ON THE STATUS WOMEN	472.1	472.1	472.1	0.0	0.0%
603	OFFICE OF AFRICAN AMERICAN AFFAIRS	422.6	434.1	409.1	-13.5	-3.2%
604	COMMISSION FOR DEAF AND HARD-OF-HEARING PERSON	0.0	0.0	0.0	0.0	0.0%
605	MARTIN LUTHER KING, JR. COMMISSION	257.3	279.0	279.0	21.7	8.4%
606	COMMISSION FOR THE BLIND	1,570.9	1,770.9	1,574.3	3.4	0.2%
609	INDIAN AFFAIRS DEPARTMENT	2,570.9	2,380.9	2,405.9	-165.0	-6.4%
624	AGING AND LONG-TERM SERVICES DEPARTMENT	36,310.8	40,429.8	39,015.3	2,704.5	7.4%
630	HUMAN SERVICES DEPARTMENT	626,232.8	658,292.7	673,102.0	46,869.2	7.5%
631	LABOR DEPARTMENT	841.0	5,111.5	3,213.3	2,372.3	282.1%
632	WORKERS' COMPENSATION ADMINISTRATION	0.0	0.0	0.0	0.0	0.0%
635	OFFICE OF WORKFORCE TRAINING AND DEVELOPMENT	800.0	1,075.0	930.0	130.0	16.3%
644	DIVISION OF VOCATIONAL REHABILITATION	5,799.4	6,199.5	5,854.0	54.6	0.9%
645	GOVERNOR'S COMMISSION ON DISABILITY	586.0	704.2	564.9	-21.1	-3.6%
647	DEVELOPMENTAL DISABILITIES PLANNING COUNCIL	3,059.4	3,346.1	3,153.5	94.1	3.1%
662	MINERS' HOSPITAL OF NEW MEXICO	0.0	0.0	0.0	0.0	0.0%
665	DEPARTMENT OF HEALTH	273,432.8	282,514.6	276,759.5	3,326.7	1.2%
667	DEPARTMENT OF ENVIRONMENT	13,527.4	15,672.3	13,476.2	-51.2	-0.4%
668	OFFICE OF THE NATURAL RESOURCES TRUSTEE	234.2	234.2	230.7	-3.5	-1.5%
669	NEW MEXICO HEALTH POLICY COMMISSION	1,367.2	1,367.2	1,341.5	-25.7	-1.9%
670	VETERANS' SERVICES DEPARTMENT	2,305.4	2,257.9	2,352.9	47.5	2.1%
690	CHILDREN, YOUTH AND FAMILIES DEPARTMENT	145,375.1	159,324.3	158,965.3	13,590.2	9.3%
Total	**Health & Human Services**	1,115,165.3	1,181,866.3	1,184,099.5	68,934.2	6.2%
Public Safety						
705	DEPARTMENT OF MILITARY AFFAIRS	5,300.2	5,300.2	5,300.2	0.0	0.0%
760	PAROLE BOARD	370.5	456.8	431.9	61.4	16.6%
765	JUVENILE PAROLE BOARD	380.0	388.9	388.9	8.9	2.3%
770	CORRECTIONS DEPARTMENT	212,904.4	233,278.2	232,017.3	19,112.9	9.0%
780	CRIME VICTIMS REPARATION COMMISSION	1,759.1	2,077.8	2,076.5	317.4	18.0%
790	DEPARTMENT OF PUBLIC SAFETY	74,387.0	76,449.4	78,781.1	4,394.1	5.9%
Total	**Public Safety**	295,101.2	317,951.3	318,995.9	23,894.7	8.1%
Transportation						
805	DEPARTMENT OF TRANSPORTATION	0.0	0.0	0.0	0.0	0.0%
Total	**Transportation**	0.0	0.0	0.0	0.0	0.0%
Other Education						

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY06 OPERATING BUDGET	FY07 AGENCY REQUEST	FY07 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
925	OTHER EDUCATION	10,700.3	31,990.0	28,505.0	17,804.7	166.4%
930	REGIONAL EDUCATION COOPERATIVES	0.0	0.0	0.0	0.0	0.0%
940	PUBLIC SCHOOL FACILITIES AUTHORITY	0.0	0.0	0.0	0.0	0.0%
Total	**Other Education**	10,700.3	31,990.0	28,505.0	17,804.7	166.4%
Higher Education						
950	HIGHER EDUCATION DEPARTMENT	34,658.6	36,853.4	45,752.4	11,093.8	32.0%
952	UNIVERSITY OF NEW MEXICO	266,727.4	0.0	265,984.8	-742.6	-0.3%
954	NEW MEXICO STATE UNIVERSITY	169,681.1	0.0	171,891.2	2,210.1	1.3%
956	NEW MEXICO HIGHLANDS UNIVERSITY	26,144.6	0.0	28,921.1	2,776.5	10.6%
958	WESTERN NEW MEXICO UNIVERSITY	17,297.4	0.0	17,547.0	249.6	1.4%
960	EASTERN NEW MEXICO UNIVERSITY	39,169.0	0.0	41,760.9	2,591.9	6.6%
962	NEW MEXICO INSTITUTE OF MINING & TECHNOLOGY	33,303.5	0.0	35,026.2	1,722.7	5.2%
964	NORTHERN NEW MEXICO COLLEGE	8,314.0	0.0	8,744.3	430.3	5.2%
966	SANTA FE COMMUNITY COLLEGE	12,727.4	0.0	12,026.7	-700.7	-5.5%
968	TECHNICAL VOCATIONAL INSTITUTE	48,914.0	0.0	49,540.8	626.8	1.3%
970	LUNA TECHNICAL VOCATIONAL INSTITUTE	7,203.2	0.0	7,346.8	143.6	2.0%
972	MESALANDS COMMUNITY COLLEGE	2,406.9	0.0	2,391.4	-15.5	-0.6%
974	NEW MEXICO JUNIOR COLLEGE	7,306.7	0.0	6,768.6	-538.1	-7.4%
976	SAN JUAN COLLEGE	20,065.6	0.0	19,119.9	-945.7	-4.7%
977	CLOVIS COMMUNITY COLLEGE	10,227.9	0.0	9,969.2	-258.7	-2.5%
978	NEW MEXICO MILITARY INSTITUTE	0.0	0.0	213.8	213.8	0.0%
979	NEW MEXICO SCHOOL FOR THE BLIND AND VISUALLY IM	164.6	0.0	153.1	-11.5	-7.0%
980	NEW MEXICO SCHOOL FOR THE DEAF	2,128.3	0.0	2,140.8	12.5	0.6%
982	HIGHER EDUCATION COMPENSATION	0.0	0.0	39,956.7	39,956.7	0.0%
Total	**Higher Education**	706,440.2	36,853.4	765,255.7	58,815.5	8.3%
Public School Support						
924	Public Education Department	11,761.7	12,001.7	11,282.2	-479.5	-4.1%
993	PUBLIC SCHOOL SUPPORT	2,107,196.3	2,300,789.2	2,273,033.9	165,837.6	7.9%
Total	**Public School Support**	2,118,958.0	2,312,790.9	2,284,316.1	165,358.1	7.8%
Public Employee Compensation						
994	PUBLIC EMPLOYEES COMPENSATION	0.0	0.0	33,111.3	33,111.3	0.0%
996	SPECIAL COMPENSATION	0.0	0.0	2,575.3	2,575.3	0.0%
Total	**Public Employee Compensation**	0.0	0.0	35,686.6	35,686.6	0.0%
Grand Total		4,689,609.3	4,376,486.5	5,073,522.0	383,912.7	8.2%

TABLE 2

U.S. AND NEW MEXICO ECONOMIC INDICATORS
By fiscal year ending June 30

	FY05 Actual	FY06 Dec. 2005 Estimate	FY07 Dec. 2005 Estimate	FY08 Dec. 2005 Estimate	FY09 Dec. 2005 Estimate	FY10 Dec. 2005 Estimate
NATIONAL ECONOMIC INDICATORS						
US Real GDP Growth (%, SAAR)	3.60	3.54	2.97	3.46	3.13	2.89
US Inflation Rate (CPI, %, SAAR)*	2.94	2.99	1.40	1.93	2.26	2.18
Overnight Yield (%)**	2.20	4.15	4.75	4.75	4.94	5.10
LABOR MARKET AND INCOME DATA						
New Mexico						
NM Non-Agricultural Employment Growth (%)	2.02	2.34	2.37	1.65	1.83	1.54
NM Personal Income Growth (%)***	6.40	7.10	5.85	5.44	5.16	5.05
NM Private Wages & Salaries Growth (%)	7.77	5.75	5.64	5.09	5.21	4.91
CRUDE OIL AND NATURAL GAS OUTLOOK						
Oil Price ($/barrel) Gross Sales Value	$44.00	$55.00	$50.00	$47.00	$45.00	$45.00
Taxable Oil Sales (million barrels)	63.5	62.5	61.6	60.7	59.8	58.9
Gas Price ($ per thousand cubic feet) Gross Value	$5.80	$8.20	$6.40	$6.00	$5.50	$5.50
Taxable Gas Sales (billion cubic feet)	1,550	1,535	1,519	1,504	1,489	1,474

*CPI is all Urban, Overnight Yield is the Federal Funds Rate.
**Overnight Yield = Federal Funds Rate
***Personal Income growth rates are for calendar years.
Sources: Global Insight, FOR-UNM and Consensus Revenue Estimating Group

TABLE 3

GENERAL FUND CONSENSUS REVENUE ESTIMATES

(Dollars in Millions)

	FY2005	FY2006				FY2007			FY2008		
	Dec. 05 Preliminary	**Feb. 05 Est**	**Dec 05 Est.**	**Change/ FY05**	**Change/ FY05**	**Dec 05 Est.**	**Change/ FY06**	**Change/ FY06**	**Dec 05 Est.**	**Change/ FY07**	**Change/ FY07**
Gross Receipts	1,512.5	1,562.0	1,580.2	67.7	4.5%	1,648.5	68.3	4.3%	1,715.9	67.4	4.1%
Compensating	44.1	37.9	47.0	2.9	6.5%	48.6	1.6	3.5%	50.3	1.7	3.5%
TOTAL GENERAL SALES	1,556.6	1,599.9	1,627.2	70.6	4.5%	1,697.1	69.9	4.3%	1,766.2	69.1	4.1%
Bed Tax	20.2	19.5	20.0	(0.2)	-0.8%	20.9	0.9	4.7%	22.0	1.0	5.0%
Tobacco	48.5	50.7	47.5	(1.0)	-2.0%	46.6	(1.0)	-2.0%	45.6	(0.9)	-2.0%
Alcohol	25.2	26.9	25.5	0.3	1.3%	25.7	0.2	0.8%	26.0	0.3	1.0%
Insurance	95.5	109.2	100.8	5.3	5.6%	104.3	3.5	3.5%	108.0	3.7	3.5%
Fire Protection	27.2	26.8	26.8	(0.4)	-1.3%	27.9	1.1	4.1%	29.0	1.1	4.0%
Motor Vehicle Excise	118.9	127.5	123.0	4.1	3.4%	129.5	6.5	5.3%	136.5	7.0	5.4%
Gaming	46.4	51.0	61.0	14.6	31.6%	63.8	2.8	4.6%	66.0	2.2	3.4%
Leased Vehicle Surcharge	5.9	5.9	6.5	0.6	11.1%	6.5	0.0	0.0%	6.5	0.0	0.0%
Other	2.2	2.7	2.0	(0.2)	-8.7%	2.1	0.0	1.5%	2.1	0.0	0.9%
TOTAL SELECTIVE SALES	389.8	420.2	413.1	23.3	6.0%	427.3	14.2	3.4%	441.7	14.4	3.4%
Personal Income Tax	1,086.0	990.0	1,033.0	(53.0)	-4.9%	1,050.0	17.0	1.6%	1,070.0	20.0	1.9%
Corporate Income Tax	242.5	210.0	340.0	97.5	40.2%	325.0	(15.0)	-4.4%	308.8	(16.3)	-5.0%
Estate	4.9	0.0	2.5	(2.4)	-49.2%	0.0	(2.5)	-100.0%	0.0	0.0	#DIV/0!
TOTAL INCOME TAXES	1,333.4	1,200.0	1,375.5	42.1	3.2%	1,375.0	(0.5)	0.0%	1,378.8	3.8	0.3%
Oil and Gas School Tax	380.9	307.7	514.6	133.7	35.1%	409.7	(104.9)	-20.4%	380.1	(29.6)	-7.2%
Oil Conservation Tax	17.8	15.7	25.5	7.6	42.8%	20.6	(4.8)	-19.0%	19.2	(1.4)	-6.9%
Resources Excise	6.5	5.5	6.0	(0.5)	-8.4%	6.0	0.0	0.0%	6.0	0.0	0.0%
Natural Gas Processors	21.7	25.7	27.7	5.9	27.3%	36.6	8.9	32.3%	37.8	1.2	3.2%
TOTAL SEVERANCE TAXES	427.0	354.6	573.8	146.8	34.4%	472.9	(100.8)	-17.6%	443.1	(29.9)	-6.3%
LICENSE FEES	44.3	44.9	44.8	0.5	1.2%	45.8	1.0	2.2%	47.0	1.2	2.6%
LGPF Interest	350.3	353.1	353.1	2.8	0.8%	364.0	10.9	3.1%	384.1	20.1	5.5%
STO Interest	23.8	52.0	70.0	46.2	194.1%	70.0	0.0	0.0%	62.0	(8.0)	-11.4%
STPF Interest	173.2	171.8	171.8	(1.4)	-0.8%	171.5	(0.3)	-0.2%	175.5	4.0	2.3%
TOTAL INTEREST	547.3	576.9	594.9	47.6	8.7%	605.5	10.6	1.8%	621.6	16.1	2.7%
Federal Mineral Leasing	434.2	348.1	581.2	147.0	33.9%	473.0	(108.2)	-18.6%	441.0	(32.0)	-6.8%
State Land Office	42.0	25.9	56.4	14.4	34.1%	48.0	(8.4)	-14.9%	43.4	(4.6)	-9.6%
TOTAL RENTS & ROYALTIES	476.2	374.0	637.6	161.4	33.9%	521.0	(116.6)	-18.3%	484.4	(36.6)	-7.0%
TRIBAL REVENUE SHARING	41.3	43.0	43.0	1.7	4.2%	43.9	0.9	2.0%	44.7	0.9	2.0%
MISCELLANEOUS RECEIPTS	40.9	25.8	25.2	(15.7)	-38.3%	25.8	0.6	2.4%	26.5	0.7	2.7%
TOBACCO SETTLEMENT	38.0	34.1	29.7	(8.3)	-21.9%	0.0	(29.7)	-100.0%	0.0	0.0	NA
REVERSIONS	11.5	22.1	22.1	10.6	92.2%	23.4	1.3	6.1%	24.9	1.4	6.1%
TOTAL RECURRING	4,906.2	4,695.6	5,386.9	480.7	9.8%	5,237.8	(149.1)	-2.8%	5,278.8	41.0	0.8%
Rev. from Accrual Accounting Change	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Enhanced Audit (non-recurring)	0.0	0.0	0.0	0.0	NA	0.0	0.0	NA	0.0	0.0	NA
Non-Recurring Other	62.8	0.0	(105.5)	(168.3)	-268.0%	1.0	106.5	-100.9%	1.0	0.0	0.0%
TOTAL NON-RECURRING (2) (3)	62.8	0.0	(105.5)	(168.3)	-268.0%	1.0	106.5	-100.9%	1.0	0.0	0.0%
GRAND TOTAL	4,969.0	4,695.6	5,281.4	312.4	6.3%	5,238.8	(42.6)	-0.8%	5,279.8	41.0	0.8%

(1) Totals may not add due to independent rounding.

(2) FY05 non-recurring other includes $8.3 million for expected DOH reversion.

(3) FY06 Non-recurring includes $106.2 million for PIT rebates and $1.2 million to exempt rebates from state taxes. This was previously reported as recurring.

(12.3)

18.3

TABLE 4

GENERAL FUND FINANCIAL SUMMARY
(Dollars in Millions)

	Preliminary FY2005	Estimated FY2006	Estimated FY2007	
APPROPRIATION ACCOUNT				
REVENUE				
Recurring Revenue				
December 2005 Consensus Revenue Estimate [1]	4,906.2	5,386.9	5,237.8	
Total Recurring Revenue	4,906.2	5,386.9	5,237.8	
Non-Recurring Revenue				
Revenue Accounting Policy Change (GASB)				
Other Non-Recurring Revenue	62.8	(105.5)	1.0	
Total Non-Recurring Revenue	62.8	(105.5)	1.0	
TOTAL REVENUE	**4,969.0**	**5,281.4**	**5,238.8**	FY2007
APPROPRIATIONS				New Money: $528.1
Recurring Appropriations - General		4,707.4 (2)	5,073.5	
Additional Recurring Appropriations (2006)			40	
Special and Supplemental (2006)		2.4		
Total Recurring Appropriations	4,406.4	4,709.7	5,113.5	
Non-Recurring Appropriations (2005)		39.9		
Specials and Information Technology (2006)		154.9		
Deficiencies and Supplementals (2006)		18.3		
Total Non-Recurring Appropriations	303.4	213.10	-	
TOTAL APPROPRIATIONS	**4,709.8**	**4,922.8**	**5,113.5**	
Transfer to Reserves	259.2	358.6	125.3	
GENERAL FUND RESERVES				
Beginning Balances	447.3	686.5	1,039.1	
Transfers in from Appropriations Account	259.2	358.5	125.3	
Revenue and Reversions	51.3	36.1	6.9	
Appropriations, expenditures and transfers out	(71.3)	(42.0)	(11.8)	
Ending Balances	686.5	1,039.1 (3)	1,159.5	
Reserves as a Percent of Recurring Appropriations	*15.6%*	*22.1%*	*22.7%*	FY2006
				Reserves > 10%: $568

Notes:

(1) Includes 2005 Special Session legislation adjustments
(2) DFA and LFC differ with regard to allocation of specials, supplementals and deficiencies into recurring and non-recurring categories.
(3) Includes $220.3 million transfer to taxpayer dividend fund.

TABLE 4

GENERAL FUND RESERVE DETAIL
(Dollars in Millions)

	Estimated FY2005	Estimated FY2006	Estimated FY2007
OPERATING RESERVE			
Beginning balance	128.8	329.6	352.5
Board of Finance Emergencies	(1.0)	(1.5)	(1.5)
Other Appropriations [1]	(1.5)	(0.3)	(0.3)
Transfers from/to appropriation account	259.2	358.6	125.3
Transfers to Tax Stabilization Reserve [2]	(56.0)	(333.9)	(99.2)
Ending balance	329.6	352.5	376.8
Percent of previous fiscal year's recurring appropriations	8.0%	8.0%	8.0%
APPROPRIATION CONTINGENCY FUND			
Beginning balance	169.9	145.7	135.2
Disaster allotments	(10.0)	(10.0)	(10.0)
Other expenditures [3]	(1.2)	(0.5)	-
Revenue and reversions	6.7	-	-
Transfers in for Education "Lock box"	-	-	-
Education Lock Box Appropriations	(19.7)	-	-
Ending balance	145.7	135.2	125.2
TOBACCO PERMANENT FUND			
Beginning balance	70.9	77.5	83.9
Transfers in [4]	38.0	29.7	-
Transfers out	(38.0)	(29.7)	-
Gains/Losses [5]	6.6	6.4	6.9
Ending balance	77.5	83.9	90.7
TAX STABILIZATION RESERVE			
Beginning balance	77.7	133.7	467.5
Transfers in	56.0	333.9	99.2
Transfers out	-	-	-
Ending balance	133.7	467.5	566.8
Percent of previous fiscal year's recurring appropriations	3.2%	10.6%	12.0%
GENERAL FUND ENDING BALANCES	**686.5**	**1,039.1**	**1,159.2**
Percent of Recurring Appropriations	***15.6%***	***22.1%***	***22.7%***

Notes:

(1) Operating Reserve: FY05 includes $1.5 million contingent to Corrections.

(2) NMSA 6-4-4 1978 requires that if the operating reserve balance exceeds 8 percent of the prior fiscal year's recurring appropriations, the excess of 8 percent must be transferred to the tax stabilization reserve. If the tax stabilization reserve balance exceeds 6 percent of the prior fiscal year's recurring appropriations, the excess of 6 percent must be transferred to the taxpayers dividend fund. The threshold for FY06 is $264.4 million so the estimated transfer, barring any 2006 legislation, would be 220.3 million on June 30, 2006

(3) Appropriation Contingency Fund: FY05 includes $548 thousand for the Secretary of State and $630 thousand for Department of Public Safety.

(4) Tobacco Settlement Permanent Fund: Transfer amounts reflects consensus revenue estimate.

(5) Tobacco Settlement Permanent Fund: Gains assume an 8.2 percent net return on investment.

TABLE 5

Public Employee Compensation FY07

	1% Total Cost	General Fund Share	1% General Fund Cost	LFC Proposed Increase	LFC General Fund Impact
STATE AGENCIES					
Legislative:					
Legislative employees	100,426	100.0%	100,426	5.0	502,130
Judicial:					
Justices and judges	140,144	100.0%	140,144	5.0	700,720
Judicial employees	631,172	100.0%	631,172	5.0	3,155,860
Magistrate judges	50,423	100.0%	50,423	5.0	252,115
Magistrate employees			-		
District attorneys	16,391	100.0%	16,391	5.0	81,955
District attorney employees	427,284	100.0%	427,284	5.0	2,136,420
Total Judicial	1,265,414		1,265,414		6,327,070
Executive:					
Executive classified:					
Union technical occupation groups	5,114,358	54.0%	2,761,753	5.0	13,808,767
Nonunion technical occupation groups	1,981,925	54.0%	1,070,240	5.0	5,351,198
Managers	1,342,585	54.0%	724,996	5.0	3,624,980
Motor transportation officers	64,820	20.0%	12,964	5.0	64,820
Special investigation officers	18,262	100.0%	18,262	5.0	91,310
Subtotal executive classified	8,521,950		4,588,215		22,941,074
Executive nonclassified:					
Executive exempt	477,489	68.8%	328,512	5.0	1,642,562
Executive Exempt Teachers:					-
Children, Youth and Families	34,473	68.8%	23,717	4.5	106,728
Commission for the Blind	-	68.8%	-	4.5	-
Department of Health	5,038	68.8%	3,466	4.5	15,598
Corrections Department	51,386	68.8%	35,354	4.5	159,091
3rd tier raise to 45k					9,206
Executive exempt teachers	90,897	68.8%	62,537		290,623
State police	319,953	88.0%	281,559	5.0	1,407,793
Subtotal executive nonclassified	888,339		672,608		3,340,978
Total Executive	9,410,289		5,260,823		26,282,052
Total State Agencies	10,776,129		6,626,663		33,111,252
PUBLIC SCHOOLS					
Teachers	11,169,544	100.0%	11,169,544	4.5	50,262,948
Other instructional staff	1,929,696	100.0%	1,929,696	4.5	8,683,632
EA's in classroom	749,826	100.0%	749,826	4.5	3,374,217
Principals	832,861	100.0%	832,861	4.5	3,747,875
All other school employees	2,976,107	100.0%	2,976,107	4.5	13,392,482
Transportation employees	415,283	100.0%	415,283	4.5	1,868,774
Total Direct Compensation Pubic Schools	18,073,317		18,073,317		81,329,927
HIGHER EDUCATION					
Faculty	3,166,800	100.0%	3,166,800	4.5	14,250,600
Staff (includes ABE)	4,444,000	100.0%	4,444,000	4.5	19,998,000
Total Higher Education	7,610,800		7,610,800		34,248,600
TOTAL DIRECT COMPENSATION ALL PUBLIC EMPLOYEES	**36,460,246**		**32,310,780**		**148,689,779**

TABLE 5

Public Employee Compensation FY07

SPECIAL DIRECT COMPENSATION RECOMMENDATIONS (SECTION 8)					
Judges And Justices				2.4	336,346
Magistrates				2.4	121,015
Motor Transportation Officers (DPS)				5.0	64,820
Special Investigation Officers (DPS)				5.0	91,310
State Police Officers (DPS)				5.0	1,407,793
Probation and Parole Officers (Corrections)				3.0	423,065
Librarians, Librarian Assts, Librarian Techs (Cultural Affiars)				3.0	56,672
Dispatchers (DPS)				3.0	74,231
Total Special Compensation Recommendation					2,575,252
SPECIAL EDUCATION COMPENSATION RECOMMENDATIONS (SECTION 4)					
Teacher 3rd tier raise to 45k (Public Ed)					7,496,901
EA (Public Ed)				5.0	3,749,130
Total Special Education Compensation Recommendation					11,246,031
SPECIAL BENEFITS RECOMMENDATIONS (SECTION 4)					
Executive Exempt Teachers					
ERB (% of direct pay) 2007				0.75	46,903
ERB (% of direct pay) 2008 advance				0.75	46,903
					93,806
Public Education Benefit Adjustment					
ERB (% of direct pay) 2007				0.75	13,554,988
ERB (% of direct pay) 2008 advance				0.75	13,554,988
Subtotal Public Schools benefits					27,109,976
Higher Education Benefit Adjustment					
ERB (% of direct pay) 2007				0.75	5,708,100
ERB (% of direct pay) 2008 accelerated				0.75	5,708,100
Subtotal higher Education Benefits					11,416,200
Total Special Benefits Recommedation					**38,619,981**
TOTAL COMPENSATION RECOMMENDATION (direct and indirect)					**201,131,043**

TABLE 6

2006 SESSION SPECIAL, SUPPLEMENTAL, AND DEFICIENCY APPROPRIATION REQUESTS
(Dollars in thousands)

Code	Agency	Description	Agency Request		LFC Recommendation	
			General Fund	Other Funds/ Federal Funds	General Fund	Other Funds/ Federal Funds
SPECIAL APPROPRIATIONS:						
210	Judicial Standards Commission	For a student intern	9.1	-	-	-
210	Judicial Standards Commission	For judicial misconduct investigations	52.0	-	-	-
215	Court of Appeals	For database maintenance	20.0	-	-	-
216	Supreme Court	For transitional drafting contract	81.1	-	81.0	-
218	Administrative Office of the Courts	For the jury and witness fund	500.0	-	-	-
254	Fourth Judicial District Attorney	Reauthorization to expend general fund appropriation for prosecution of the Santa Rosa prison riot cases (Subsection F of Section 2 of Chapter 83 of Laws 2003)	-	-	-	-
264	Administrative Office of the District Attorneys	For a case management system maintenance agreement	250.0	-	250.0	-
264	Administrative Office of the District Attorneys	For salary adjustments for prosecutors	2,082.5	-	-	-
305	Attorney General	For an American Indian arts and crafts fraud unit	500.0	-	-	-
305	Attorney General	Reauthorization to expend general fund appropriation for Texas water litigation (Subsection 8 of Section 5 of Chapter 4 of Laws 2002)	-	-	-	-
305	Attorney General	Reauthorization to expend general fund operating reserve appropriation for Texas water litigation (Subsection 9 of Section 5 of Chapter 4 of Laws 2002)	-	-	-	-
305	Attorney General	For terminal leave costs related to a change in administration	-	504.0	-	-
305	Attorney General	To replace aging information technology equipment	225.0	-	225.0	-
333	Taxation and Revenue Department	For a central issuance system in the motor vehicle division	1,250.5	-	-	-
333	Taxation and Revenue Department	For law enforcement equipment in the tax fraud investigations division	92.2	-	78.0	-
333	Taxation and Revenue Department	For the fraudulent tax refund detect and deny project	585.2	-	-	-
355	Public Defender Department	For defense of drug cartel cases	1,200.0	-	550.0	-
370	Secretary of State	For costs associated with state election reform and the 2006 primary election	1,473.2	-	431.4	-
370	Secretary of State	For costs associated with state election reform and the 2006 general election	1,400.0	-	-	-
370	Secretary of State	To repay state board of finance loan for litigation expenses	60.0	-	-	-
370	Secretary of State	For the voter registration and election management system	250.0	-	-	-
418	Tourism Department	For a hospitality training pilot program	150.0	-	-	-
418	Tourism Department	For a marketing study at New Mexico Magazine	225.0	-	175.0	-
418	Tourism Department	For joint marketing activities for the X-prize cup	400.0	-		-
418	Tourism Department	For marketing, advertising, promotion and cooperative outreach	1,750.0	-	1,500.0	-
418	Tourism Department	To study the state centennial	100.0	-	-	-
419	Economic Development Department	For the job training incentive program, contingent upon the program adopting a claw back provision	10,000.0	-	4,000.0	-
419	Economic Development Department	For the economic development partnership	2,000.0	-	850.0	-
419	Economic Development Department	For the ongoing effort to support Curry County and Cannon Air Force Base in finding a new mission	450.0	-	200.0	-
419	Economic Development Department	For the business incubator development program	500.0	-	-	-
419	Economic Development Department	For the cooperative advertising program	500.0	-	-	-
419	Economic Development Department	For the small business regulatory relief advisory commission	250.0	-	-	-
419	Economic Development Department	For the certified communities initiative	150.0	-	-	-
419	Economic Development Department	For international trade missions	100.0	-	-	-
419	Economic Development Department	For a filmmakers' seminar	150.0	-	-	-
419	Economic Development Department	For the international business accelerator program	150.0	-	-	-
419	Economic Development Department	For the rural economic action partnership	100.0	-	-	-
419	Economic Development Department	To create an incubator board	50.0	-	-	-
419	Economic Development Department	For expansion of the MainStreet program	500.0	-	-	-
419	Economic Development Department	For marketing support of economic development programs	250.0	-	-	-
430	Public Regulation Commission	For firefighting wastewater lagoon (reauthorization language only)	-	-	-	-
430	Public Regulation Commission	For distribution to fire departments through the Fire Protection Fund	-	-	-	1,000.0

TABLE 6

2006 SESSION SPECIAL, SUPPLEMENTAL, AND DEFICIENCY APPROPRIATION REQUESTS
(Dollars in thousands)

Code	Agency	Description	Agency Request		LFC Recommendation	
			General Fund	Other Funds/ Federal Funds	General Fund	Other Funds/ Federal Funds
505	Department of Cultural Affairs	For state monument upgrades	-	-	300.0	-
516	Department of Game and Fish	For increased fuel costs	750.0	-	-	-
521	Energy, Minerals and Natural Resources Dept.	For retiring previously incurred loans	-	-	1,143.0	-
521	Energy, Minerals and Natural Resources Dept.	For increased fuel and utility costs in the state parks division	356.7	-	-	-
521	Energy, Minerals and Natural Resources Dept.	For increased fuel costs in program support	4.8	-	-	-
521	Energy, Minerals and Natural Resources Dept.	For increased utility and fuel costs in the forestry division	27.3	-	-	-
521	Energy, Minerals and Natural Resources Dept.	For increased utility and fuel costs in the oil conservation division	37.7	-	-	-
521	Energy, Minerals and Natural Resources Dept.	For IT equipment installation and replacement in the state parks division	382.0	-	375.0	-
521	Energy, Minerals and Natural Resources Dept.	For IT replacement and upgrades in the oil conservation division	158.0	-	158.0	-
521	Energy, Minerals and Natural Resources Dept.	For vehicle replacement in the forestry division	46.4	-	46.4	-
521	Energy, Minerals and Natural Resources Dept.	For vehicle replacement in the oil conservation division	359.0	-	248.0	-
521	Energy, Minerals and Natural Resources Department	Reauthorization to expend general fund appropriation for acquistion and planning at Shakespeare ghost town state park (Subsection 53 of Section 5 of Chapter 33 of Laws 2005)	-	-	-	-
521	Energy, Minerals and Natural Resources Department	Reauthorization to expend general fund appropriation for Mesilla valley bosque state park (Subsection 56 of Section 5 of Chapter 114 of Laws 2004)	-	-	-	-
521	Energy, Minerals and Natural Resources Department	Reauthorization to expend general fund appropriation for nonrecurring capital costs associated with state parks expansion (Subsection 55 of Section 5 of Chapter 114 of Laws 2004)	-	-	-	-
539	Commissioner of Public Lands	Reauthorization to expend funds held in suspense and escrow accounts (Subsection 59 of Section 5 of Chapter 33 of Laws 2005)	-	-	-	-
539	Commissioner of Public Lands	For trust land remediation	-	500.0	-	500.0
550	State Engineer	For continued funding for contractor support	10,440.0	-	-	-
550	State Engineer	For contractual services and other costs	1,000.3	-	-	-
550	State Engineer	For contractual services for water use and conservation	500.0	-	-	-
550	State Engineer	For federal match agreements	1,465.9	-	-	-
550	State Engineer	For implementation of regional water plans	655.0	-	-	-
550	State Engineer	For quality assurance of custom software applications	145.0	-	-	-
550	State Engineer	To convert term FTE to perm FTE conversion for water management	1,285.0	-	-	-
550	State Engineer	To manage the water resource allocation program	771.4	-	-	-
606	Commission for the Blind	For a HVAC system	393.0	-	393.0	-
635	Office of Workforce Training and Development	For a social worker experience program	250.0	-	-	-
635	Office of Workforce Training and Development	For start-up and infrastructure for "one stop" service centers	1,000.0	-	1,000.0	-
635	Office of Workforce Training and Development	For the individual development account (IDA) program	2,000.0	-	500.0	-
677	Department of Environment	For technology investment and capital planning	497.3	-	-	-
677	Department of Environment	For technology investment and capital planning	371.5	-	-	-
677	Department of Environment	For the lower Río Grande water quality project	427.0	-	-	-
670	Veterans' Services Department	For homeless veteran's program in ABQ. Will supplement federal funding.	200.0	-	-	-
705	Department of Military Affairs	For service member group life insurance	1,550.6	-	1,550.6	-
705	Department of Military Affairs	For maintenance and repairs at National Guard facilities	400.0	-	-	-
770	Corrections Department	For a workforce housing development project feasibility study	88.3	-	-	-
770	Corrections Department	For the electronic medical records system	750.0	-	750.0	-
790	Department of Public Safety	For data center refresh	388.1	-	-	-

TABLE 6

2006 SESSION SPECIAL, SUPPLEMENTAL, AND DEFICIENCY APPROPRIATION REQUESTS
(Dollars in thousands)

Code	Agency	Description	Agency Request		LFC Recommendation	
			General Fund	Other Funds/ Federal Funds	General Fund	Other Funds/ Federal Funds
790	Department of Public Safety	For data circuit installation and upgrades	178.4	-	-	-
790	Department of Public Safety	For desktop computer replacement	1,020.6	-	-	-
790	Department of Public Safety	For digital in-car cameras	480.0	-	480.0	-
790	Department of Public Safety	For implementation of the computer-aided dispatch system	635.0	-	-	-
790	Department of Public Safety	For increases in fuel costs	1,264.2	-	-	-
790	Department of Public Safety	For police vehicle replacement	6,100.0	-	3,000.0	-
790	Department of Public Safety	For salary increases for dispatchers	326.0	-	-	-
790	Department of Public Safety	For salary increases for officers in the motor transportation division	122.5	227.5	-	-
790	Department of Public Safety	For software licensing and computer maintenance agreements	385.8	-	-	-
790	Department of Public Safety	For the automated fingerprint imaging system	2,900.0	-	-	-
790	Department of Public Safety	For the Santa Teresa port of entry	200.0	-	-	-
790	Department of Public Safety	For counties that border with Mexico for homeland security purposes	-	-	1,000.0	-
790	Department of Public Safety	For computer rewiring of district offices	500.0	-	500.0	-
950	Higher Education Department	To replace lost GEAR UP program federal funding	500.0	-	-	-
950	Higher Education Department	For the college affordability endowment fund	50,000.0	-	50,000.0	-
950	Higher Education Department	To the higher education performance fund	-	-	10,000.0	-
950	Higher Education Department	For infrastructure improvements of public, post secondary institutions and special schools	-	-	60,000.0	-
952	UNM Health Sciences Center	To the out-of-county indigent fund	-	-	1,250.0	-
952	UNM Health Sciences Center	Reauthorization to expend general fund appropriation to expand enrollment in the school of medicine (Subsection B of Section 10 of Chapter 34 of Laws 2005)	-	-	-	-
959	New Mexico Institute of Mining and Technology	To implement high speed connectivity to eastern New Mexico	980.2	-	980.0	-
993	Public School Support	For ADS upgrade to meet NCLB requirements	500.0	-	-	-
993	Public School Support	For advanced placement expansion to non-traditional students	2,000.0	-	-	-
993	Public School Support	For assessment & test development - NCLB compliance	6,600.0	-	-	-
993	Public School Support	For after school obesity programs	400.0	-	-	-
993	Public School Support	For curriculum and film integration	250.0	-	-	-
993	Public School Support	For the cyber academy	750.0	-	-	-
993	Public School Support	For the dropout prevention program	1,000.0	-	-	-
993	Public School Support	For the early literacy initiative	1,200.0	-	-	-
993	Public School Support	To augment emergency supplemental funds	5,000.0	-	5,000.0	-
993	Public School Support	For instructional materials standards review	225.0	-	-	-
993	Public School Support	For math standards-based education technology	4,000.0	-	-	-
993	Public School Support	For Mexican/US border education collaborative	50.0	-	-	-
993	Public School Support	For P-20 alignment of exit exams and college entrance exams	1,000.0	-	-	-
994	Public School Support	For parental training and involvement initiatives	500.0	-	-	-
993	Public School Support	For pre-kindergarten start up	1,500.0	-	-	-
993	Public School Support	For the professional development management system	1,000.0	-	-	-
993	Public School Support	For professional development - summer reading and math institutes 2006 - 2009	3,000.0	-	-	-
993	Public School Support	For REC general fund operating base	1,800.0	-	-	-
993	Public School Support	For rural education/community revitalization	1,500.0	-	-	-
993	Public School Support	To the school library material fund	1,000.0	-	-	-
993	Public School Support	For student identification system (maintenance)	40.0	-	-	-
993	Public School Support	For study on the status of Indian education in New Mexico	500.0	-	-	-

TABLE 6

2006 SESSION SPECIAL, SUPPLEMENTAL, AND DEFICIENCY APPROPRIATION REQUESTS
(Dollars in thousands)

			Agency Request		LFC Recommendation	
Code	Agency	Description	General Fund	Other Funds/ Federal Funds	General Fund	Other Funds/ Federal Funds
993	Public School Support	To the teacher professional development fund	2,400.0	-	-	-
993	Public School Support	For uniform public school chart of accounts	500.0	-	-	-
	Computer Systems Enhancement Fund	For system replacements or enhancements	-	-	10,198.0	-
SPECIAL TOTAL:			**156,813.8**	**1,231.5**	**157,212.4**	**1,500.0**
DEFICIENCY APPROPRIATIONS:						
234	Fourth Judicial District Court	To fund a shortfall in other costs resulting from overbooked general fund revenue in fiscal year 2004	2.9	-	-	-
264	Administrative Office of the District Attorneys	To fund a shortfall in information technology costs	206.7	-	-	-
342	Public Schools Insurance Authority	To fund increased risk insurance claims using fund balance		4,132.1	-	4,132.1
924	Public Education Department	To fund a shortfall in the driver safety fee funds	1,504.1	-	-	-
DEFICIENCY TOTAL:			**1,713.7**	**4,132.1**	**-**	**4,132.1**
SUPPLEMENTAL APPROPRIATIONS:						
210	Judicial Standards Commission	To retire state board of finance loan	95.0	-	-	-
216	Supreme Court	For the increased in-state travel costs of the supreme court's rules committee	5.6	-	5.6	-
216	Supreme Court	For training a drafter for the court	3.2	-	-	-
217	Supreme Court	For supreme court rules committee's staff	50.0	-	-	-
218	Administrative Office of the Courts	For judiciary-wide projected shortfalls in group insurance costs	243.0	-	-	-
218	Administrative Office of the Courts	For jury and witness fees	408.1	-	-	-
218	Administrative Office of the Courts	For shortfalls in the judge pro tempore fund	25.0	-	-	-
218	Administrative Office of the Courts	For the court-appointed attorneys fund	878.7	-	304.0	-
218	Administrative Office of the Courts	For the statewide automation program	224.5	-	-	-
219	Supreme Court Building Commission	For personal services and employee benefits and employee reclassification	24.0	-	-	-
232	Second Judicial District Court	For shortfalls in group insurance costs	106.0	-	-	-
233	Third Judicial District Court	For shortfalls in group insurance costs	43.5	-	-	-
235	Fifth Judicial District Court	For shortfalls in group insurance costs	70.0	-	-	-
235	Fifth Judicial District Court	To retire state board of finance loan	94.4	-	-	-
238	Eighth Judicial District Court	For shortfalls in group insurance costs	3.6	-	-	-
242	Twelfth Judicial District Court	For shortfalls in group insurance costs	19.9	-	-	-
252	Second Judicial District Attorney	To fund a contract for building security services	31.1	-	-	-
264	Administrative Office of the District Attorneys	For the purchase of office furniture for AODA's expansion into a new facility	75.0	-	25.0	-
350	General Services Department	For personal services and employee benefits and increased utility costs	945.0	-	-	-
394	State Treasurer	To convert from TRACS to SHARE and to hire an investment consultant	375.2	-	375.2	-
420	Regulation and Licensing Department	For enforcement of the Liquor Control Act	117.2	-	-	-
490	Cumbres and Toltec Scenic Railroad Commission	For operations in FY06 and FY07, contingent on a matching appropriation from Colorado	870.0	-	500.0	-
521	Energy, Minerals and Natural Resources Dept.	For increased fuel and utility costs in the state parks division	179.5	-	221.0	-
521	Energy, Minerals and Natural Resources Dept.	For increased utility and fuel costs in the forestry division	37.5	-	-	-
521	Energy, Minerals and Natural Resources Dept.	For increased utility and fuel costs in the oil conservation division	35.2	-	-	-
521	Energy, Minerals and Natural Resources Dept.	For IT maintenance and equipment in the oil conservation division	158.0	-	-	-
603	Office of African-American Affairs	For African-American education initiatives	100.0	-	-	-
606	Commission for the Blind	For HVAC repairs, upgrades and increased utilities and fuel costs	75.0	-	-	-
624	Aging and Long-Term Services Department	For personal services and employee benefits in adult protective services	250.0	-	89.5	-
630	Human Services Department	For general assistance program shortfall	-	2,400.0	1,700.0	-
665	Department of Health	For replacement of direct developmental disabilities Medicaid waiver services funding	-	-	1,033.4	-

TABLE 6

2006 SESSION SPECIAL, SUPPLEMENTAL, AND DEFICIENCY APPROPRIATION REQUESTS
(Dollars in thousands)

Code	Agency	Description	Agency Request		LFC Recommendation	
			General Fund	Other Funds/ Federal Funds	General Fund	Other Funds/ Federal Funds
670	Veterans' Services Department	For conversion of the AS-400 system (IT project)	100.0	-	100.0	-
690	Children, Youth and Families Department	For Title XIX Medicaid and title IV-E review shortfalls	4,612.7	(411.6)	3,612.7	-
705	Department of Military Affairs	To fund anticipated increases in utility costs for the National Guard armories statewide	345.5	-	345.5	-
760	State Parole Board	For personal services/employee benefits and per diem shortfall	30.1	-	-	-
770	Corrections Department	To fund a private contract to operate the Camino Nuevo correctional facility	1,782.7	-	1,782.7	-
770	Corrections Department	For costs associated with inmate population growth and medical services	6,047.8	-	4,547.8	-
770	Corrections Department	For employee liability insurance premiums and other compensation	550.6	-	-	-
770	Corrections Department	For lack of ability to implement the 207K plan due to labor agreement	1,500.0	-	-	-
770	Corrections Department	To adjust agency vacancy savings projection from 10 percent to 5 percent	2,000.0	-	-	-
790	Department of Public Safety	To replace and upgrade 25 percent of agency personal computers	281.5	-	-	-
790	Department of Public Safety	For data center computer replacement	10.0	-	-	-
790	Department of Public Safety	For data circuit installation and upgrades	125.7	-	-	-
790	Department of Public Safety	For increased utility costs	60.0	-	-	-
790	Department of Public Safety	For management of wide area network services	157.3	-	-	-
790	Department of Public Safety	For software licensing and computer maintenance	214.6	-	-	-
790	Department of Public Safety	For salary increases for officers in the motor transportation division	-	-	400.0	-
924	Public Education Department	For impact aid and charter school litigation costs	70.0	-	70.0	-
924	Public Education Department	To replace approximately 53 school buses not purchased last year in accordance with the statutory 12-year replacement schedule	3,200.0	-	3,200.0	-
SUPPLEMENTAL TOTAL:			**26,631.7**	**1,988.4**	**18,312.4**	**-**
GRAND TOTAL:			**185,159.2**	**7,352.0**	**175,524.8**	**5,632.1**

TABLE 7

INFORMATION TECHNOLOGY REQUESTS AND RECOMMENDATIONS - FY07
(In Thousands)

			Agency Request				LFC Staff Recommendation			
System Replacements / Enhancements										
Code	**Agency**	**System Description**	**GF**	**OSF**	**FF**	**Total**	**GF**	**OSF**	**FF**	**Total**
218	Administrative Office of the Courts	Electronic Document Management System	6,427.0			6,427.0				0.0
218	Administrative Office of the Courts	Judicial Case Management System	4,980.0			4,980.0	750.0			750.0
333	Taxation and Revenue Department	MVD Reengineering Project	2,000.0			2,000.0	2,000.0			2,000.0
333	Taxation and Revenue Department	GenTax Taxpayer Online Access	1,000.0			1,000.0	1,000.0			1,000.0
352	Educational Retirement Board	Integrated Retirement Information System		750.0		750.0		750.0		750.0
361	Office of the Chief Information Officer	Enterprise Asset Management System	575.0			575.0				0.0
369	State Commission of Public Records	Archival Management Replacement Software	130.0			130.0	130.0			130.0
430	Public Regulation Commission	Secretary of State Knowledgebase System	112.0			112.0				0.0
505	Department of Cultural Affairs	New Mexico Cultural Resources Information System Expansion	350.0			350.0				0.0
505	Department of Cultural Affairs	Museums Collections Management System	905.0			905.0	370.0			370.0
630	Human Services Department	Enterprise Content Management	3,200.0		800.0	4,000.0				0.0
669	Health Policy Commission	Hospital Inpatient Discharge Database Modernization Project	230.0			230.0				0.0
690	Children, Youth, and Families Department	Enterprise Web Solution – Phase 1	1,600.0			1,600.0				0.0
770	Corrections Department	Criminal Management Information System Enhancement	1,200.0			1,200.0				
790	Department of Public Safety	Integrated Automated Fingerprint Identification System Expansion	2,000.0			2,000.0	2,000.0			2,000.0
790	Department of Public Safety	New Mexico Law Enforcement Telecommunications System	3,000.0			3,000.0				
805	Department of Transportation [1]	Statewide Traffic Records System Evaluation Pilot Project	0.0		500.0	500.0	0.0	0.0	0.0	0.0
805	Department of Transportation [1]	Statewide Traffic Records System	0.0		800.0	800.0	0.0	0.0	0.0	0.0
805	Department of Transportation [1]	Integrated Transportation Information System	0.0	110.0	440.0	550.0	0.0	0.0	0.0	0.0
805	Department of Transportation [1]	Intelligent Transportation Systems	0.0		14,000.0	14,000.0	0.0	0.0	0.0	0.0
924	Public Education Department	Educators Certification Management System	3,000.0			3,000.0				0.0
924	Public Education Department	Student Teacher Accountability Reporting System	11,000.0			11,000.0	2,000.0			2,000.0
953	New Mexico State University	Statewide Learning Management System	3,234.4			3,234.4				0.0
953	New Mexico State University	Statewide SCT Banner Extension	1,948.0			1,948.0	1,948.0			1,948.0
953	New Mexico State University	Statewide Enrollment Relationship Management System	975.0			975.0				0.0
972	Mesa Community College	College Portal	95.2			95.2				0.0
980	Clovis Community College	SCT Banner Enterprise	808.0			808.0				0.0
Total System Enhancement or Replacement			**48,769.6**	**860.0**	**16,540.0**	**66,169.6**	**10,198.0**	**750.0**	**-**	**10,948.0**
Equipment, Network, Hardware, Staff and Training										
218	Administrative Office of the Courts	Video Arraignment, Phase V		669.0		669.0				0.0
264	Administrative Office of the District Attorneys	Video Conferencing Project	264.0			264.0				0.0
264	Administrative Office of the District Attorneys	Voice Over Internet Protocol	500.0			500.0				0.0
305	Attorney General [2]	Switches, Firewall and Server Replacement	225.0			225.0	225.0			225.0
354	Sentencing Commission	Maintenance and Support of the Justice Information Sharing Project	382.0			382.0				0.0
550	Office of the State Engineer	Remote Measuring and Control Tools	235.0			235.0				0.0
550	Office of the State Engineer	Create and Maintain a Geospatial Resource Center	584.9			584.9				0.0
669	Health Policy Commission	Online Health Services Project	125.0			125.0				0.0
690	Children, Youth, and Families Department	Hardware, Software and Staff Training	2,061.9			2,061.9				0.0
770	Corrections Department	Court and Parole Hearings, Family Visit and Community Re-Entry Video Conferencing	200.0			200.0				0.0
790	Department of Public Safety [2]	District Office Rewiring	500.0			500.0	500.0			500.0
953	New Mexico State University	Hardware, Network, and Wireless Connectivity	959.0			959.0				0.0
959	New Mexico Institute of Mining and Technology [2]	CHECS-Net High Speed Connectivity to Eastern New Mexico	980.2			980.2	980.0			980.0
959	New Mexico Institute of Mining and Technology	Communications Infrastructure Upgrade to use Lambda Rail	476.1			476.1				0.0
969	University of New Mexico	National Lambda Rail	2,000.0			2,000.0				0.0
969	University of New Mexico	CHECS-Net Core Infrastructure Upgrade for Albuquerque Metro Area	945.0			945.0				0.0
969	University of New Mexico	Design a New Technology Building	250.0			250.0				0.0
969	University of New Mexico	Next Generation Wireless and Mesh Networking	515.0			515.0				0.0
969	University of New Mexico	Rich Media Initiatives for TV-quality video programming	1,609.0			1,609.0				0.0
Total Equipment, Network, Hardware and Staff			**12,812.1**	**669.0**	**-**	**13,481.1**	**1,705.0**	**-**	**-**	**1,705.0**
Grand Total			**61,581.7**	**1,529.0**	**16,540.0**	**79,650.7**	**11,903.0**	**750.0**	**0.0**	**12,653.0**

End Notes:

1 DOT Projects were requested in the base budget and were never submitted for evaluation.

2 Recommendations are included in special appropriations and are not part of the IT recommendations.