

STATE OF NEW MEXICO



REPORT OF THE LEGISLATIVE FINANCE COMMITTEE TO THE FORTY-EIGHTH LEGISLATURE FIRST SESSION

JANUARY 2007
FOR FISCAL YEAR 2007 - 2008

VOLUME I

LEGISLATING FOR RESULTS:
POLICY AND PERFORMANCE ANALYSIS



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January 16, 2007

Honorable Members
Forty-Eighth Legislature, First Session
State Capitol
Santa Fe, New Mexico 87501

Dear Fellow Legislators:

Pursuant to Section 2-5-4 NMSA 1978, the FY08 budget recommendation of the Legislative Finance Committee is provided to you. The committee recommendation for recurring appropriations from the general fund is \$5.7 billion, an 11 percent increase over the FY07 appropriated level. Much of this substantial increase reflects ongoing commitments, particularly to public school reforms, and cuts in federal support that have shifted costs to the states. With that in mind, the committee has emphasized existing programs over initiatives and, in the upcoming interim, will be looking for evidence that the people of New Mexico are getting a significant return on their hefty investment in these many initiatives.

About \$271 million of the some \$537 million in new spending in the committee's recommendation is directed to the public schools and colleges. The increase for public school support includes funding for physical education in elementary schools, expansion of an extended school-year program for young children, and the final year of the phase in of the three-tiered teacher pay ladder. The recommendation for higher education would fully fund the growth in workload and assumes colleges will not raise tuition. The committee recommends a compensation package for all education employees comprising a 4.25 percent pay raise and a 0.75 percent increase in contributions to the retirement fund.

Also reflecting the committee's priority areas of health, education and public safety, another some \$169 million of the new spending is for Medicaid and the departments of Health, Corrections, Public Safety, and Children, Youth and Families. Medicaid would take half that amount, partly for planned expansions of subsidized health care insurance.

The proposed pay package for state employees would raise salaries an average of 5 percent for all state employees and an additional 5 percent for adult and juvenile correctional officers and staff attorneys in public defender and district attorney offices and additional 7 percent for probation and parole officers. The recommendation would leave \$1 billion in the general fund reserve, 18.9 percent of planned recurring spending and well above the traditional target of 10 percent. The spending plan also sets aside \$105 million for tax proposals.

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

Sincerely,

Representative Luciano "Lucky" Varela
Chairman

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REPRESENTATIVE
LUCIANO "LUCKY" VARELA
CHAIRMAN

SENATOR JOSEPH A. FIDEL
VICE CHAIRMAN

DAVID ABBEY
DIRECTOR



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Summary of Recommendations and Highlights

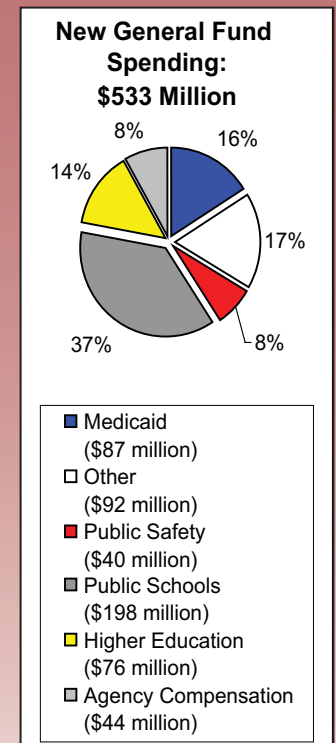
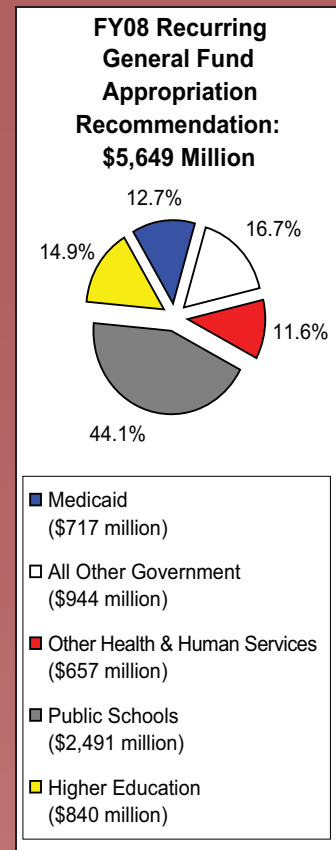
The Legislative Finance Committee (LFC) fiscal year 2008 budget recommendation prioritizes spending in the areas of education, health, public safety and public employee compensation. For the second year in a row, the recommendation emphasizes the adequate funding of existing programs instead of expansion or initiation of new programs. The recommended \$5.7 billion general fund budget is an 11 percent increase and includes \$44 million for additional recurring spending proposals during the 2007 legislative session. The recommendation also sets aside \$105 million for tax proposals. About \$271 million of the \$537 million in new spending is for public schools and higher education institutions, including \$135 million for salary and benefit increases. The recommendation also addresses budget items previously considered nonrecurring by moving many of these into agencies' base budgets. While this adds to the annual increase, it is a fiscally responsible accounting of recurring expenditures.

Also reflecting the committee's priority areas of health, education and public safety, another \$169 million of the new spending is for Medicaid and the departments of Health, Corrections, Public Safety, and Children, Youth and Families. About half, or \$87 million, would go to Medicaid for planned expansions to adults and workers who do not receive insurance through their employers. General fund spending on Medicaid would increase by about 14 percent, from \$629 million to \$716 million. Total spending on the Medicaid program, with the nearly 3-to-1 federal match, would be \$2.9 billion. New spending would also include funding to raise reimbursement rates for Medicaid providers.

The recommendation also includes \$37 million to increase salaries and benefits for state employees by an average of 5 percent, an additional 5 percent for adult and juvenile correctional officers and staff attorneys in public defender and district attorney offices, and an additional 7 percent for probation and parole officers.

The state is expecting another windfall in FY08 with recurring revenues \$592 million above FY07 recurring appropriations, assuming the \$105 million in tax-cut set-asides lowering FY08 revenues. Revenues are expected to slow down to between 3 percent and 4 percent in the coming years mostly due to declining oil and gas revenues, which have contributed to the recent surpluses. For this reason, the committee has explicitly included projects and programs previously considered nonrecurring in the base budget recommendation.

The LFC recommendation includes several items that have been considered nonrecurring in the past. Moving these into the base budget is a more accurate accounting of the true operating budget. Some of these items include the following:



Summary of Recommendations and Highlights

- \$22.5 million to replace lost or reduced federal funds such as impact aid for public schools, Reed Act and unemployment insurance grant funding for Department of Labor and Federal Medical Assistance Percentage (FMAP) for the Medicaid program;
- \$7 million to supplement mostly small school districts that need recurring aid;
- \$5 million for higher education institutions for the performance fund, technology enhancement, and start up programs;
- \$5.4 million for the Department of Public Safety that previously came from the road fund;
- \$2.9 million for core operations of the Public School Facility Authority previously funded with supplemental severance tax bonds;
- \$2.8 million replacing recurring special appropriations to the State Engineer;
- \$1.5 million for the Tourism Department for previous special appropriations;
- \$1.5 million for vehicle replacement for the Department of Public Safety;
- \$1.5 million to replace DWI funds with general fund for drug courts statewide;
- \$1.4 million for the Economic Development Department Partnership previously funded with special appropriations; and
- \$1.3 million for staff and maintenance for the Department of Cultural Affairs.

The committee recommendation also includes funding for various agencies to substantially reduce vacancy rates for example:

- \$2 million to reduce the vacancy factor from 13.8 percent in FY07 to 6.6 percent in FY08 for the Protective Services program at Children, Youth and Families Department and;
- \$1.4 million to reduce the vacancy factor from 8 percent in FY07 to 5 percent in FY08 for the Law Enforcement Program at Department of Public Safety.

This additional funding is especially important for recruiting employees into lower paying positions.

Summary of Recommendations and Highlights

Fiscal Year 2008 Appropriation Recommendation. The committee recommendation for recurring appropriations of \$5.6 billion from the general fund excludes the \$44 million set aside for additional spending proposals.

FY08 General Fund Recommendation Compared with FY07 Operating Budget (in thousands of dollars)					
Category	FY07 Operating Budget	FY08 Requests	FY08 Recomm	Dollar Change	Percent Change
Legislative	17,333.5	18,038.9	18,038.9	705.4	4.1%
Judicial	180,824.2	204,174.2	191,208.7	10,384.5	5.7%
General Control	166,326.3	194,207.9	178,266.1	11,939.8	7.2%
Commerce & Industry	51,598.7	61,239.6	54,391.7	2,793.0	5.4%
Energy, Agriculture & Natural Res	75,409.3	97,694.9	84,879.0	9,469.7	12.6%
Health, Hospitals & Human Svcs	1,234,053.2	1,413,996.9	1,373,666.5	139,613.3	11.3%
Public Safety	333,262.0	373,571.1	373,656.4	40,394.4	12.1%
Transportation	-	-	-	-	0.0%
Other Education	27,805.2	92,680.0	57,495.7	29,690.5	106.8%
Higher Education *	763,869.3	41,881.1	839,871.1	76,001.8	9.9%
Public Education	2,265,662.2	2,334,992.4	2,433,640.8	167,978.6	7.4%
Rent Savings	(400.0)			400.0	-100.0%
State Employee Compensation	-	-	37,012.0	37,012.0	0.0%
Special Compensation	-	-	6,960.9	6,960.9	0.0%
TOTAL	5,115,743.9	4,832,477.0	5,649,087.8	533,343.9	10.4%

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

After the 2006 legislative session, LFC classified \$26.3 million of Laws 2006, Chapter 110 (Senate Bill 415), as recurring appropriations as indicated in the *2006 Post-Session Fiscal Review* general fund financial summary report. Prior to submission of operating budgets, Department of Finance and Administration (DFA) classified \$24.2 million of Laws 2006, Chapter 110 (Senate Bill 415), appropriations as recurring and directed agencies to adjust operating budgets accordingly. For the second year in a row, 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 2006, Chapter 110 (Senate Bill 415), results in a decrease of \$2.1 million from the FY07 recurring base and increases the amount of “new money” available in FY08 for recurring appropriations. The section below is a high-level reconciliation, beginning with FY07 appropriations and FY07 adjustments and ending with the final FY07 operating budget as adjusted.

Summary of Recommendations and Highlights

FY07 Recurring Operating Budget:

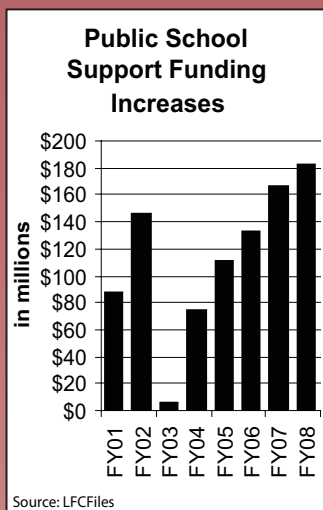
Appropriations	5,070,805.5
Feed Bill	13,255.7
Additional Judgeships - HB337, Chapter 99	3,506.1
Special Appropriation - Dept of Military Affairs	1,181.1
Senate Bill 415	26,326.0
Total Appropriations	5,115,074.4

DFA Adjustments to FY07 OPBUD:

Special Appropriation - Dept of Finance & Admin	850.0
HED & DFA certified mill levy revs inadequate - ACF	1,912.5
SB415 LFC booked recurring - DFA booked nonrecurring	(2,093.0)
Total Adjustments	669.5

Total Operating Budget	5,115,743.9
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Highlights of the FY08 budget recommendations are summarized below:



Public Schools. The committee recommends \$2.5 billion for public school support, an increase of \$195.1 million, or 8.5 percent. The recommendation includes \$78.9 million for an average 4.25 percent salary increase for public school employees and \$14.5 million for a 0.75 percent employer contribution to the educational retirement fund. In addition, the recommendation includes \$10.7 million for implementing the fifth and final year of the three-tier career ladder, \$4.3 million for principal salary minimums, and \$9.5 million for enrollment growth. For FY08, public school support accounts for 44 percent of the general fund recommendation.

The recommendation emphasizes paying for existing commitments over initiating new projects by providing \$14.5 million to accelerate increased employer contributions to the educational retirement fund, providing \$6.6 million for elementary physical education programs, and \$16.5 million to expand Kindergarten-Plus to Title I schools statewide and to the first grade. Also included is \$4 million in the schools in need of improvement fund for extended school day and extended school year programs, \$3 million for other school improvement initiatives, and \$7 million for emergency supplemental support.

The recommendation implements the committee's education priorities by providing increased support for new teacher mentorship and content-based, sustained summer institutes focused on reading, math, and science. The recommendation includes an additional \$2 million – \$1 million for the Public Education Department (PED) and \$1 million for the Children, Youth and Families Department (CYFD) – to continue the pre-kindergarten pilot program. The committee remains concerned that other than establishing a baseline, data from the first year evaluation is of little use in determining the benefit of the pre-kindergarten program on long-term student achievement.

Summary of Recommendations and Highlights

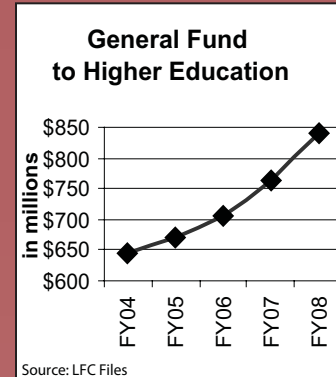
Higher Education. The committee recommends \$840 million from the general fund for higher education in FY08, an increase of \$76 million, or almost 10 percent, from FY07. The committee recommendation fully funds the higher education workload, including phase-in of branch campuses, and responds to calls to keep tuition low for students by assuming colleges will not raise tuition. The recommendation includes \$8.5 million to fund every component of inflationary increases, or to fully address the cost of “opening the doors,” and provides an increase of \$10.3 million to address building renewal and replacement needs. An enrollment decline offset funding of \$2.7 million is also recommended in nonrecurring funding to provide an opportunity to consider the issue and the next available enrollment data during the interim.

The recommendation provides \$4 million in recurring new money to address the fiscal needs of the University of New Mexico Health Sciences Center and an additional \$1.5 million in FY08 for special projects to serve the state. The committee recommendation supports all of the incentive fund, with \$2 million of recurring funding for the performance fund, \$1.5 million for program development enhancement to assist in start-up of new academic programs, and \$1.5 million for the Technology Research Collaborative.

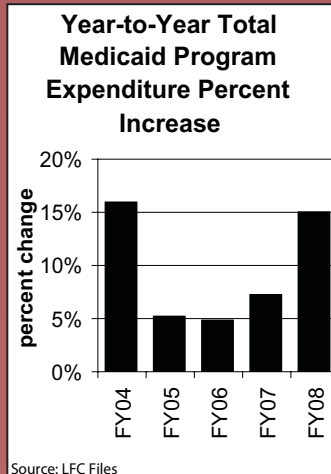
With a compensation plan identical to that for public school employees, the committee recommendation invests in faculty and staff salary needs through a 4.25 percent direct compensation increase and 0.75 percent increase in contributions to the education retirement fund. It also accelerates the continuing effort to restore the solvency of the education retirement fund through employer contributions.

The committee recommendation invests in the state’s workforce by recommending \$3.5 million for nursing education programs, \$500 thousand for dental hygiene initiatives, and \$600 thousand to maintain high-skills training at two-year institutions. The committee recommendation also includes significant one-time appropriations for higher education totaling nearly \$126 million. Among the components of the nonrecurring recommendation are \$50 million for the college affordability endowment fund for student financial aid purposes, \$43 million to address the backlog of deferred maintenance of facilities, and \$25 million for the faculty endowment program.

Human Services Department. The committee recommendation totals \$3.7 billion, an 11 percent increase over FY07. The recommendation from the general fund of \$780.9 million, \$91.1 million more than FY07, includes \$45.3 million for expansion items. As expected, the largest increase is in the Medical Assistance Division (MAD), which includes Medicaid spending, with total expenditures for FY08 rising to \$2.9 billion from \$2.7 billion and general fund requirements to \$641 million

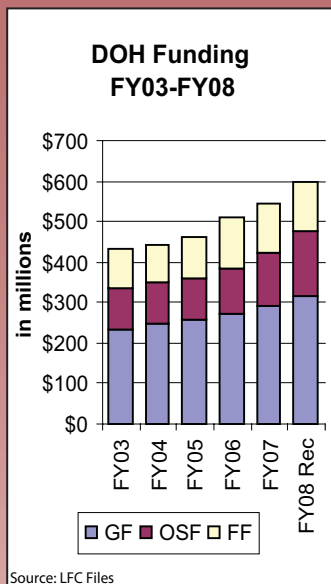


Summary of Recommendations and Highlights



from \$629 million. This includes a general fund increase of \$12 million, or 2 percent, but does not include the Medicaid Behavioral Health Program expenditures of \$264.9 million, of which \$75.2 million was a general fund appropriation previously part of the MAD program. Including these, the Medicaid requirement from the general fund rises to \$716.2 million, an increase of \$87.2 million or 13.9 percent. Expansion recommendations from the general fund include \$31 million for a program similar to the State Coverage Insurance program for uninsured adults up to the 100 percent federal poverty level and \$13 million for additional provider reimbursement.

The committee recommends \$515.5 million, including \$46.8 million from the general fund, for the Income Support Division (ISD). The committee recommendation for Temporary Assistance for Needy Families (TANF) totals \$157.3 million—\$34.9 million from the general fund and \$122.4 from federal funds. This revenue level supports \$11.1 million for administration, \$69 million in total cash assistance, \$12 million for work contracts, \$32.2 million for child care, and \$23.4 million for programs in other agencies.



Department of Health. The committee recommends total Department of Health expenditures of \$599.9 million, with \$315.3 million from the general fund, an increase of \$22.3 million from the general fund, or 7.6 percent. Highlights of the general fund recommendation include \$5 million more to provide services to 215 developmentally disabled people on the waiting list for in-home services under the “DD” Medicaid waiver, an increase of \$1 million for the Family Infant Toddler (FIT) program to serve an additional 700 children, \$750 thousand to screen more children for autism, and \$1.4 million to vaccinate more children. In addition, the committee is recommending a \$5 million increase for behavioral health, including \$3 million for substance abuse treatment, \$1 million for psychotropic medications, and \$1 million for housing assistance. A \$33 million increase is recommended for other revenues and transfers, in part to offset lower projected federal revenues, which includes \$21.5 million in behavioral health revenues from ValueOptions, \$2.1 million in tobacco revenue for public health tobacco cessation programs, \$3.4 million in additional Medicaid revenue for public health, and \$2.3 million in hospital fees for expanded newborn genetic screening.

In addition to the DOH increases, the Medicaid Behavioral Health Program totals \$265 million and the base grew by \$7 million over FY07. Also, the DWI Grants Program totals \$15.9 million, up \$1.3 million over FY07. Combined increases are substantial and point to the committee’s commitment to expanding both quantity and quality of behavioral health related services.

Summary of Recommendations and Highlights

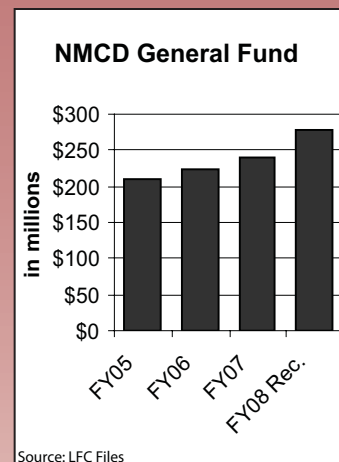
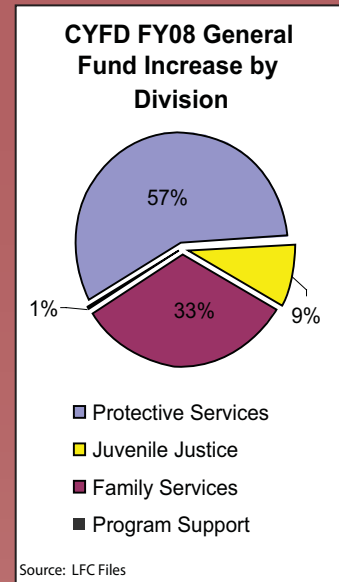
Children, Youth and Families Department. The committee recommends \$186.8 million from the general fund for FY08, a \$15.4 million, or 9 percent increase over the FY07 operating budget. The committee recommends \$8.9 million increased funding from the general fund for the Protective Services Division. The increase replaces a \$4.1 million reduction in federal funds from Medicaid (Title XIX) and foster care and adoption assistance (Title IV-E); provides nearly \$1.4 million to increase the foster and adoption family rate subsidy; another \$974 thousand for 18 additional protective service staff; and \$500 thousand for foster care family and medical support.

The committee recommends an additional \$5 million from the general fund for the Family Services Division, \$3 million to expand child care eligibility for infants from birth through age three, an additional \$1 million for the juvenile justice continuum, and \$1 million for a 20-bed residential treatment facility for girls. The committee recommendation recognizes savings associated with the closure of the Springer juvenile detention facility and reallocates a portion of those funds. The recommendation adds almost \$1.4 million from the general fund to reduce the vacancy rate for juvenile justice personnel and open a new regional detention facility.

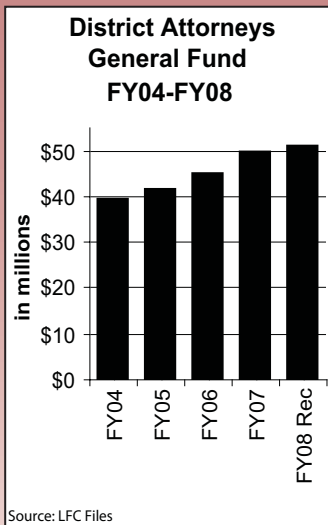
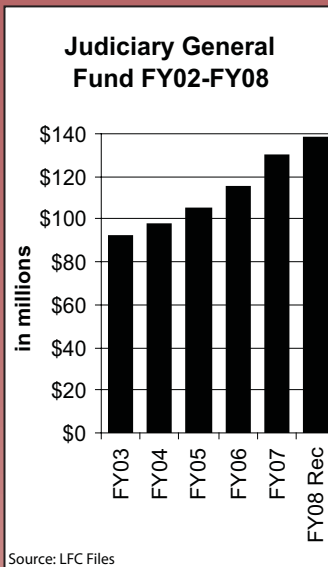
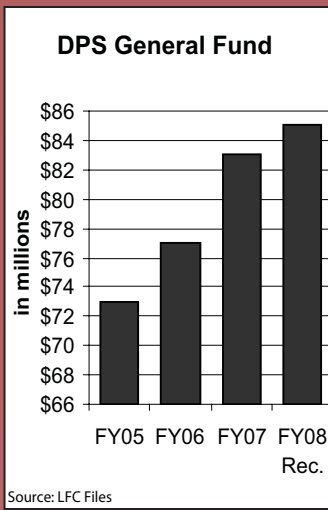
Corrections Department. The committee recommends a \$29.4 million increase in general fund revenue over the FY07 operating budget. This increase supports the Corrections Department's request to increase male inmate beds by 522, or 8.4 percent, and female inmate beds by 54, or 7.7 percent, in FY08. The recommendation provides adequate funding for inmate population growth, 25 additional probation and parole officers, a \$6.6 million increase in food and medical services, and full funding for the Springer Correctional Center.

The committee recommends an increase in care and support of \$10.2 million, or 15.6 percent, which assumes a decrease of \$3.4 million due to budgeting 153 inmates to intensive supervision programs under the Community Offender Management Program for the last three quarters of FY08. Section 31-21-13.1 NMSA 1978 states inmates within 12 months of eligibility of parole, inmates in prison because they lack an acceptable parole plans, and inmates in prison solely for parole violations are all eligible for intensive supervision programs in the community. The department has closed almost all intensive supervision programs because of parole and probation staff shortages.

Department of Public Safety. The committee recommends a \$10.7 million increase in general fund revenue over the FY07 operating budget for the Department of Public Safety (DPS). This includes \$1.5 million for the recurring expense of vehicle replacement in the base budget, \$1.5 million to lower the Law Enforcement Program budgeted



Summary of Recommendations and Highlights



vacancy rate from 8 percent to 5 percent, \$300 thousand to continue processing deoxyribonucleic acid (DNA) samples for felony arrests, and \$400 thousand to address the backlog of DNA testing.

DPS requested \$10.4 million from the road fund for FY08. This reflects an increase of \$785.5 thousand, or 8.2 percent, over the FY07 operating budget. The committee recommends lowering DPS' road fund appropriation by \$5 million and increasing its general fund appropriation by \$5.4 million to alleviate the financial strain caused by inflation on the road fund.

Courts and Judicial Branch Agencies. The committee recommends \$160.6 million in total appropriations for the courts and related judicial agencies, including an additional \$8.6 million, or 7 percent, in general fund monies over FY07. The increase includes approximately \$1.5 million to replace driving-while-intoxicated (DWI) grant funds for district and magistrate courts, \$950 thousand for the Administrative Office of the Court's court facility fund, and \$479 thousand in new funding for children's programs. The \$950 thousand for the court facility fund will secure the bonds issued to build Bernalillo County Metropolitan Courthouse and free up money in the fund for magistrate courts leases. The recommendation funds 14.5 FTE expansions.

District Attorneys. The committee recommends \$54.8 million in total appropriations, including \$51.2 million in appropriations from the general fund, a 2.3 percent increase over FY07. Many district attorneys experienced average reductions of 25 percent in federal funds and internal services funds/interagency transfers. The recommended expansion of \$726.7 thousand addresses public integrity, victim assistance, and methamphetamine and DWI prosecution.

Energy, Minerals and Natural Resources. The committee recommends a total expenditure of \$61.7 million for FY08, including a base expansion of 11 FTE. The recommended FY08 \$3.7 million general fund increase over FY07 represents a significant commitment to the State Parks Program, where nearly \$2.5 million, or 68 percent, of the general fund increase is directed in support of statewide program infrastructure. The recommendation includes the expansion of the State Parks Program with the addition of facilities at Red Rock Park in Gallup, and the Galisteo Basin/Cerrillos Hills State Park in Santa Fe County, both of which are planned to open in FY08. The committee also supports a \$277 thousand, or 32 percent, general fund increase in the Renewable Energy Program to fund operational costs associated with the development of wind, solar, geothermal, and biomass alternative energy projects.

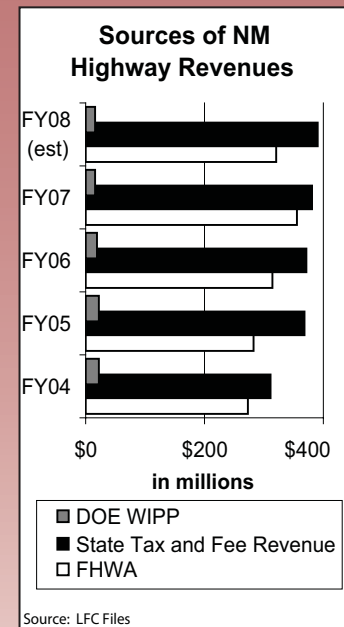
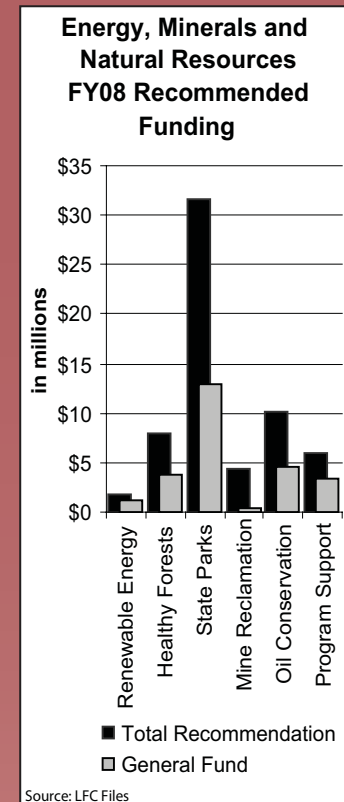
Summary of Recommendations and Highlights

Department of Transportation. The committee recommends a total expenditure that is 2.9 percent less than the FY07 operating budget. This \$23.1 million reduction is largely due to the loss of federal funding for this fiscal year. The recommendation additionally limits the transfer of funding from the state road fund to the Motor Transportation Division of the Department of Public Safety (DPS) to \$5 million. Included in this recommendation is an expansion of 80 FTE to augment services in both construction and maintenance statewide. Included in this recommendation is \$13.6 million from 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).

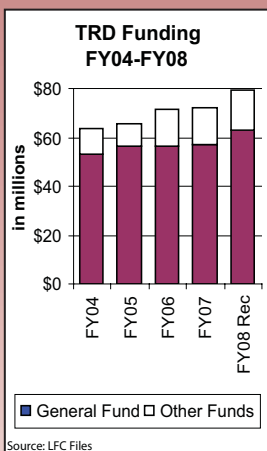
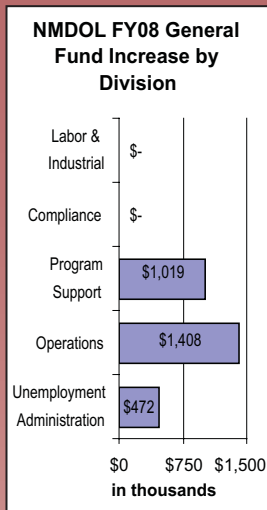
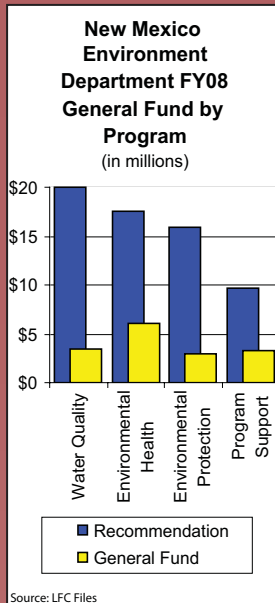
State Engineer. The committee recommends a total expenditure of \$51.8 million for FY08 and includes a base expansion of 14 FTE. The recommended FY08 \$4.4 million general fund increase over FY07 levels represents the conversion of such programs as the Endangered Species Act, National Environmental Policy mandates, and joint agreements with federal water agencies mandates to recurring status and includes them in the base budget. Prior to FY08, although recurring, these initiatives were addressed as special general fund appropriations at a combined annual cost of approximately \$2.8 million. Also included in the expansion are 3 FTE associated with processing water rights applications in the Clayton and Canadian basins, and a 10 FTE statewide expansion of the water masters program. The three ongoing water-rights adjudications involving tribes show settlement costs from as high as \$67,300 per delivered acre-foot of water for the Pojoaque-Tesuque-Nambe basin to as low as \$16,600 per delivered acre-foot for the Taos basin. Accordingly, the committee encourages the agency to pay particular attention to settlement cost-sharing formulas to reduce unreasonable state share assignments.

Environment Department. The committee recommends a total expenditure of \$100.5 million, with \$15.7 million from the general fund. This 8 percent increase in general fund over FY07 includes a \$491 thousand increase in the base budget, partially offsetting a \$1.9 million reduction in federal funds, and \$706.4 thousand for expansion. Special funds add \$1.4 million for expansions, while federal funds account for \$378.4 thousand, yielding a total expansion of \$2.5 million and a 5 percent increase in FTE.

Adequately staffing of existing programs was given priority over implementing new initiatives. Sufficiently funding the department's ability to keep up with population increases, executive orders, and upsurge in capital outlay projects is essential, particularly where water



Summary of Recommendations and Highlights



resources may be threatened. Development has impacted the department's ability to stay current with septic tank permitting, which has risen 47 percent since FY03. Since septic tanks remain the major contributor to groundwater pollution, this expansion is particularly important to meet the increased workload. In addition, 2 FTE are added to the Solid Waste Bureau to reduce the risk of groundwater contamination due to leaking solid waste facilities and illegal dumping. Finally, the recommendation includes an additional 4 FTE for the Construction Program Bureau to reduce the current workload of 226 projects per staff member and allow the bureau to more effectively manage its portfolio of construction projects.

Department of Labor. The committee recommends a \$2.9 million, or 89.2 percent, increase from the general fund to replace federal funds. Previously, the department was able to use distributions from the federal 2002 allocation of the Reed Act to supplant federal grant reductions, but Reed Act funding has also diminished. Although the funding from the general fund increased, the overall budget decreased by 8.6 percent, reflecting the loss of the Temporary Assistance for Needy Families (TANF) NM Works contract and associated staff of 58. The committee recommends an additional reduction of 15 staff positions that were previously funded by the Reed Act and or had been vacant for some time. The committee also recommends the continued transfer of \$691.5 thousand from the workers' compensation administration fund

Taxation and Revenue Department. The committee recommends \$63 million from the general fund, a 5.6 percent increase over the FY07 operating budget. With all other funds, the committee recommendation totals \$79.2 million, a 5.9 percent increase over FY07. The general fund recommendation provides for growth in the base budget in salaries and benefits and contracts and funds several expansion items, including \$1.1 million for 36 field office clerks in the Motor Vehicle Division (MVD), \$1.2 million for information technology system support upgrades, \$517 thousand for 6 FTE and a new field office for the Audit and Compliance Division in Rio Rancho, and \$81 thousand for a DWI hearing officer in Las Cruces. In other state funds, the committee recommends an additional \$600 thousand for another 15 MVD field office clerks and \$228 thousand for 4 term weight distance auditors.

Economic Development Department. The committee recommends \$8.5 million from the general fund for FY08, a 15.8 percent increase over FY07. The recommendation provides \$1.4 million for the New Mexico Economic Development Partnership, previously funded through special appropriations; \$300 thousand for the cooperative advertising program; \$150 thousand for the certified communities program; and an additional FTE and \$48 thousand for the Job Training Incentive Program (JTIP).

Fiscal Outlook and Policy

Growth in the national economy is beginning to slow, primarily due to the end of the housing boom. Consumer spending, the primary driver of the economy in the last few years, is becoming more cautious and inventories are beginning to pile up. Relief from the high summer gasoline prices has helped but there are still many risks ahead.

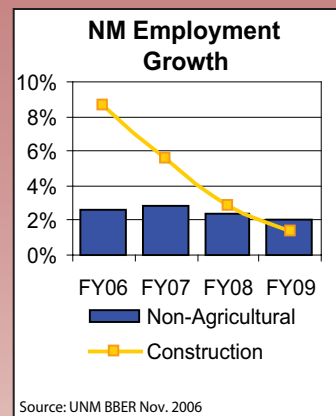
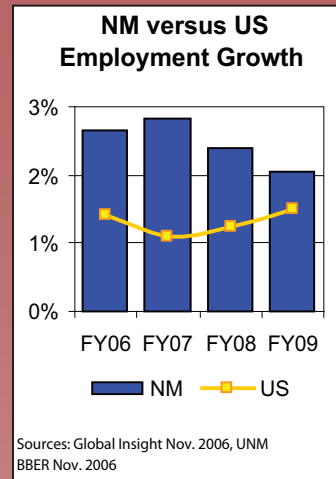
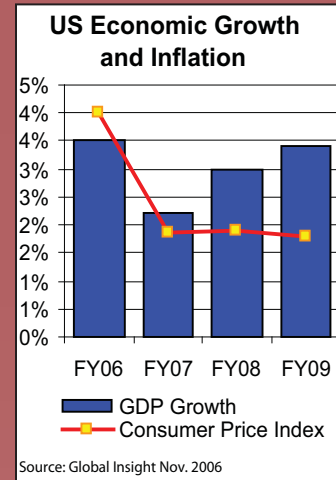
New Mexico continues to outperform the U.S. and rank among the top states in terms of employment growth. Growth in New Mexico will be slower than last year but still healthy with employment growing over 2 percent. This is largely attributable to a slowdown in the construction industry, responsible for a large share of last year's growth. Energy prices continue to be high but have decreased from last year, helping consumers but slowing the growth of state revenues.

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 (BBER), to develop their economic forecast assumptions, the key variables that drive the revenue forecast. All national and New Mexico economic assumptions used in developing the December 2006 revenue forecast are presented in Table 2 at the end of this document.

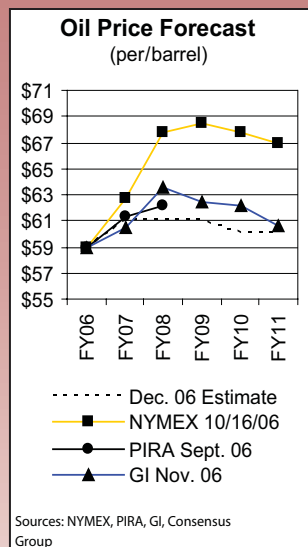
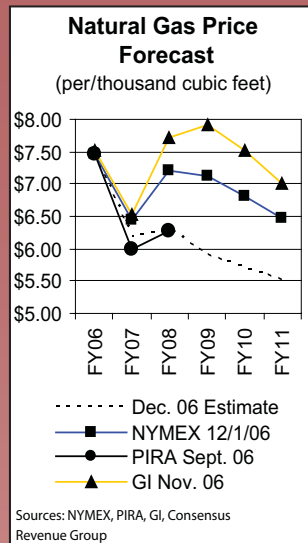
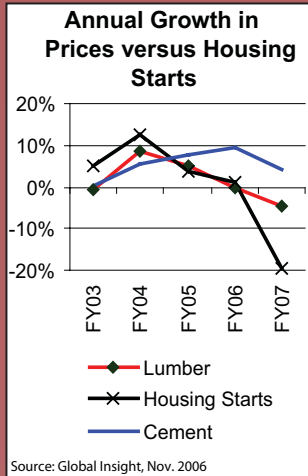
U.S. Economy. The U.S. economy proved resilient against the tests of hurricanes Katrina and Rita, which devastated the Gulf Coast region in September 2005. In the months following the storms, 5 percent to 20 percent of refining capacity was offline at various times. However, growth in gross domestic product (GDP) in the third quarter of 2005 was 4.2 percent, surprisingly strong considering the damage caused by the hurricanes.

Despite this resilience to hurricanes and two years of high energy prices, the U.S. economy has begun to slow. The long-awaited housing market slowdown has materialized, with housing starts down and new home inventories rising. Additionally, consumers, who have been using credit and housing equity to support spending and pull the economy along, appear more cautious about the future. These negative economic trends are partially offset by recent easing of energy prices, which will add to disposable income and reduce inflation pressures.

With these factors in mind, GDP is expected to grow just 2.2 percent in FY07 and remain near the trend of 3 percent. Inflation is expected to moderate in FY07 to FY09, after growing by 4 percent in FY06. Employment data indicates that U.S. employment growth will



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continue to languish, going from 1.4 percent growth in FY06, to 1 percent in FY07, and back up to 1.4 percent in FY08.

New Mexico Economy. The New Mexico economy has performed better than the nation over the last few years. New Mexico employment growth will continue to exceed national employment growth for several years. However, 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. Growth in construction employment drove job growth in FY06 and FY07 but will slow in coming years. Construction represents 5 percent of total nonagricultural employment but represented 20 percent of the growth from FY04 to FY05. Construction also represented 25 percent of the FY06 growth in taxable gross receipts.

Although residential construction is expected to decline in 2006, the huge revenue surpluses the state is enjoying might lead to significant capital projects that will bolster the nonresidential and heavy construction sectors. Those sectors, however, are small relative to the residential and specialty trade sectors. Most states have reported an increase in prices and decline in bids for capital transportation projects. New Mexico Department of Transportation reported a 12 percent increase in costs for Governor Richardson's Investment Partnership (GRIP) projects in FY06 and, while expecting the growth to come down, still expects FY07 to be another year of high growth.

Energy Markets. The energy picture in New Mexico seems to change daily. In October 2005, in the aftermath of hurricanes Katrina and Rita, the FY07 consensus forecast for natural gas jumped to \$7.50 per thousand cubic feet (mcf). But by December 2006, the FY07 natural gas forecast declined to \$6.20/mcf, a \$1.30 difference. As a rule of thumb, every 10 cent decrease in the price of natural gas reduces general fund revenue by \$11.5 million; this difference alone is worth \$149.5 million.

The price of New Mexico's crude oil exceeded \$69 per barrel in July 2006, compared with the July 2005 price of \$56 per barrel. The price is expected to remain at about \$61 per barrel throughout the five year forecast period. Fluctuations in the price of crude oil do not affect New Mexico revenues as much as natural gas fluctuations. The rule of thumb for oil is that every \$1 change in the price of crude oil changes general fund revenue by about \$5 million.

Although recent fluctuations in energy prices may appear erratic, much of the volatility can be explained by fundamental supply and demand relationships. Hurricanes and political crises in many of the

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world's oil-producing regions have reduced supply, causing upward pressure on energy prices. Strong worldwide economic growth and post-hurricane construction have also pushed prices higher by increasing demand. Conversely, demand has been reduced by conservation and moderate heating and cooling seasons. Demand reductions contributed to natural gas storage levels 12.4 percent above the five-year average in September 2006, which caused sharp declines in natural gas futures prices.

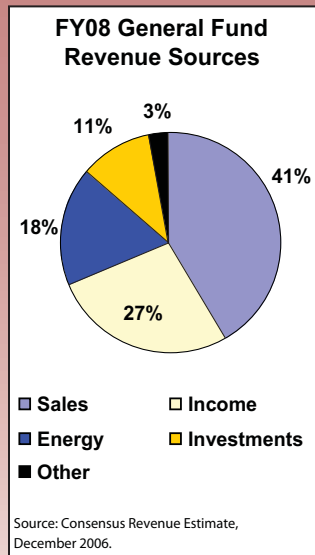
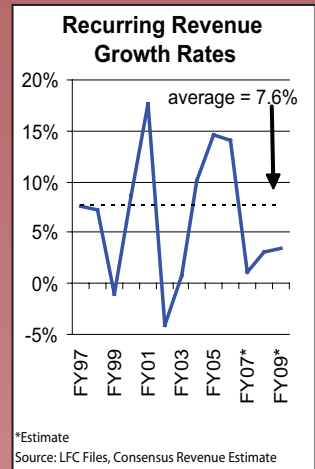
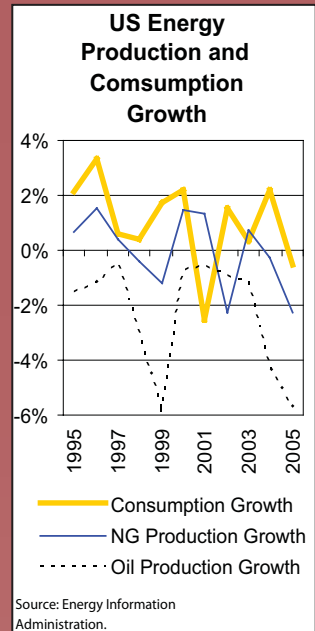
U.S. energy consumption grew by an average of 1 percent per year over the last decade, while domestic natural gas production remained flat and domestic oil production declined by an average of 2.3 percent per year. Excess U.S. demand for oil has been met by increased imports, but because natural gas is not yet easily transported overseas, excess demand has increased pressure on natural gas prices. This trend could change in the future as liquid natural gas becomes widely available in U.S. markets.

Revenue Forecast. The state's general fund revenue outlook is positive and is expected to remain so throughout the forecast period. General fund revenue estimates for FY07 through FY09 are presented in Table 3 at the back of this document. Although the state's reserves are at all time highs due to energy revenues, revenue growth is expected to be below trend in FY07 through FY09.

As shown in Table 3, FY07 revenue is now expected to total \$5.7 billion, \$411.5 million higher than expected when the FY07 budget was crafted. This increase in estimated revenue is due to higher forecasts for gross receipts tax, personal and corporate income taxes, and treasurer's interest earnings. These increases are offset slightly by lower expectations for energy revenues.

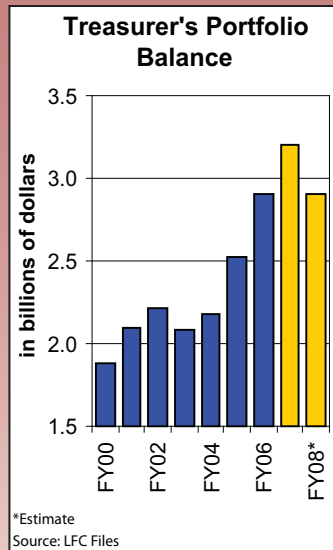
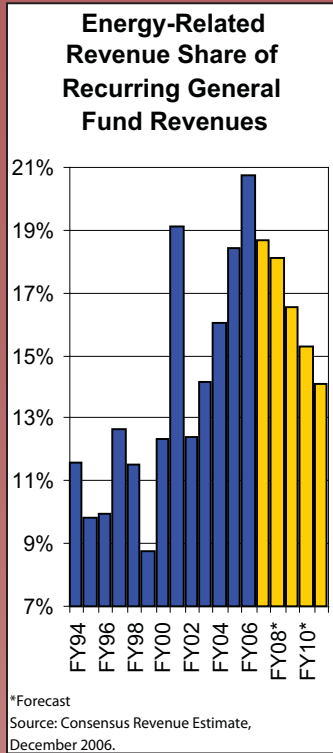
In FY08, revenue is expected to reach \$5.8 billion, 3.1 percent growth over FY07. Sources of FY08 revenue are detailed in the pie chart to the left. "New money" for the FY08 budget, recurring revenue in excess of prior-year recurring appropriations, totals \$720.9 million.

Gross Receipts Tax. Gross receipts tax (GRT) collections are estimated to be \$1.9 billion in FY08. GRT collections have shown significant strength despite the food and medical deductions that went into effect in January 2005. These deductions were expected to be revenue neutral but, instead, cost the state about \$30 million per year according to the Taxation and Revenue Department. GRT strength is broad-based, but the construction and mining sectors have been particularly strong. In addition, a new contract arrangement at Los Alamos National Laboratory increased GRT by about \$21 million per



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Top PIT Rate by Tax Year	Original 2003 Legislation	2005 Regular Session	2005 Special Session
2005	6.0%	6.0%	5.7%
2006	5.3%	5.8%	5.3%
2007	4.9%	5.3%	5.3%
2008	4.9%	4.9%	4.9%



year beginning in FY07.

Corporate Income Tax. Corporate income tax (CIT) collections in FY06 grew about 60 percent over FY05 and are expected to grow another 4.5 percent in FY07, when collections are estimated at \$400 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, so there will not be significant growth in FY08 as the energy markets cool and energy's share of CIT returns to normal levels.

Personal Income Tax. Personal income tax (PIT) collections are not expected to increase in FY07 due to the phasing-in of the 2003 tax cuts and the decline in energy prices from last year. The table to the left shows how the PIT rate cut schedule has changed over time. In the 2005 regular session, the rate cut phase-in 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 \$1.1 billion in FY07. In FY08, which includes the final year of the phase-in, expected growth is a modest 3.8 percent. Growth is expected to return to the normal 6.5 percent by FY2011.

Energy Revenues. Energy revenues significantly bolstered general fund revenues and reserves in FY05 and FY06. Beginning in FY07, energy revenue is expected to decline each year and return to historic levels. Energy revenues peaked at 21 percent of general fund revenues in FY06 but will head back towards 13 percent over the forecast period (see chart in sidebar).

Interest Income. Income from state investments are estimated to be \$645.6 million in FY08, representing flat growth over FY07. Although the distribution from the land grant permanent fund is expected to grow by 6.6 percent, State Treasurer earnings are expected to fall by 25.2 percent due to a shrinking portfolio balance. The treasurer's balance falls when reserves decline and capital outlay project funds are drawn down. The balance is expected to peak at about \$3.2 billion in FY07 before declining gradually.

Other Revenues. The FY08 estimate for remaining revenues is \$159.7 million, representing 3.7 percent growth over FY07. This category includes license fees, miscellaneous receipts, reversions, and tribal gaming revenue-sharing payments.

Fiscal Outlook and Policy

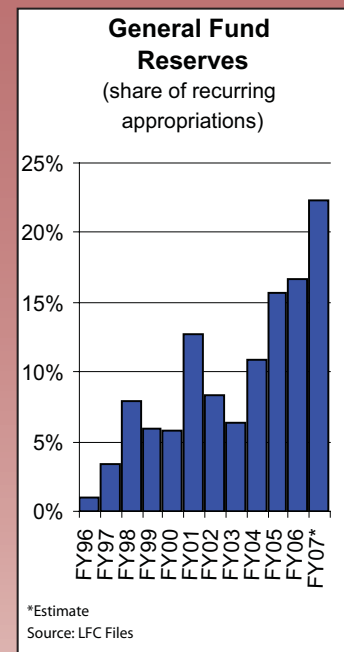
Forecast Risks. Currently, New Mexico is in very strong financial shape, primarily due to extraordinary oil and natural gas prices. The forecast includes gradual declines in energy prices over the forecast period, but a sharp and unexpected decline could stifle revenue growth. The state's income taxes have also been bolstered by energy prices, and a sharp decline in energy prices would also affect these revenues. The forecast also includes strong GRT growth based on the expectation that the state economy remains strong. Mining and oil and gas extraction accounted for 10 percent of the growth in taxable gross receipts from FY05 to FY06. The risk is acute in counties where the primary source of revenue is from these volatile commodities.

Construction continues to be a major risk. While a housing slowdown is built into the revenue estimates, a more serious contraction of the construction industry could lower revenues significantly. In FY06, the construction industry accounted for 20 percent of the employment growth and 26 percent of growth in taxable gross receipts. Unlike oil and gas, this industry is concentrated in areas with diverse economies.

Summary of Risks to the December 2006 Forecast

Risk	Downside	Upside
Oil and Natural Gas Price Volatility	Oil and natural gas prices fall more quickly than forecast, leading to lower severance taxes, rents and royalties, and corporate income taxes.	Oil and natural gas prices remain higher than forecast due to geopolitical concerns, weather-related pressures, and strong global economic growth.
Consumer Spending	Housing slowdown and a decrease in nominal house prices causes consumers to be more cautious and adjust their spending.	Wages and salaries finally catch up to other economic measures and provide consumers additional income to offset housing effects.
Construction	Housing activity follows the national trend and declines significantly, crimping consumption and lowering employment growth.	Nonresidential and heavy construction, primarily from state capital outlay, picks up residential slack. Inflation moderates and Federal Reserve begins round of rate cuts, stimulating all construction sectors.
Corporate Profits	Recent growth may be related to nonrecurring federal actions and driven by oil and gas and construction.	Profits are driven by external factors, which continue to provide strength.

Financial Summary. At the end of FY06 general fund reserves totaled \$786.7 million, representing 16.5 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, \$111.7 million was transferred to the tax stabilization reserve at the end of FY06.



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High revenue growth due to unanticipated growth in GRT, income taxes, and treasurer's earnings is expected to build general fund reserves to \$1.02 billion by the end of FY07, a record 20.1 percent of recurring appropriations.

Baseline Expenditure Forecast. The baseline expenditure forecast is based on the LFC recommendations for FY08 and thereafter shows expenditures increasing at about 3.6 percent per year. This out-year growth rate is due largely to the expected costs of Medicaid. The Congressional Budget Office expects Medicaid expenditures to grow by 8.1 percent over the next five years. Medicaid made up 11.8 percent of expenditures in FY06 and is expected to rise to 14 percent by FY11.

Baseline Revenue and Expenditure Forecast			
(\$ millions)			
	Recur. Revenue	Recur. Spending	Baseline Balance
FY06	5,594.1	4,707.4	886.7
FY07*	5,661.4	5,115.7	545.7
FY08*	5,835.9	5,649.1	186.8
FY09*	6,032.6	5,817.5	215.1
FY10*	6,259.0	6,025.5	233.5
FY11*	6,508.8	6,240.4	268.4

* Indicates forecast
Source: Consensus Revenue Estimate; LFC.

Expenditures:	Prelim	Op. Bud.	LFC Rec.	Baseline Forecast		
	FY06	FY07	FY08	FY09	FY10	FY11
Legislative	16.2	17.3	18.0	18.4	18.7	19.0
Judicial	160.8	180.8	191.2	197.1	203.0	209.0
General Control*	150.8	165.9	222.2	226.2	230.2	234.1
Commerce and Industry	47.9	51.6	54.4	55.4	56.3	57.3
Ag, Energy & Nat. Resources	70.2	75.4	84.9	86.4	87.9	89.4
Health and Human Services	1,118.7	1,234.1	1,373.7	1,417.5	1,499.6	1,587.0
Medicaid	558.7	629.0	716.2	774.2	836.9	904.7
Other Health and Human Services	560.0	605.0	624.2	643.3	662.6	682.3
Public Safety	296.9	333.3	373.7	385.1	396.7	408.4
Corrections	211.7	240.7	270.1	278.4	286.8	295.3
Other Public Safety	85.2	92.5	103.5	106.7	109.9	113.2
Higher Education	714.1	763.9	839.9	865.6	891.6	918.1
Public Education	2,132.0	2,293.5	2,491.1	2,565.9	2,641.5	2,718.1
Total	4,707.4	5,115.7	5,649.1	5,817.5	6,025.5	6,240.4
Spending Increase	320.3	408.3	533.3	168.4	208.1	214.9
Spending Growth Rate	7.3%	8.7%	10.4%	3.0%	3.6%	3.6%

* In FY08, General Control includes \$44.0 million for compensation.

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.
- 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 expenditure forecast 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, CPI is expected to grow by approximately 1.9 percent annually while population is expected to grow approximately 1.3 percent per year.

This baseline revenue and expenditure summary shows that revenues are expected to exceed baseline expenditures throughout the forecast period. With reserves at historically high levels, New Mexico's current fiscal situation is prudent and secure. However, risks to the

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revenue forecast from energy markets and other economic volatility are significant as are the budgetary pressures to increase the base more than shown here.

Tax Expenditure Budgeting. Tax expenditures are provisions of tax statute meant to encourage specific economic behaviors through preferential tax treatment. Tax expenditures are created each time the tax structure is amended to include deductions, exemptions, credits, preferential tax rates, or any other means by which tax collections are reduced from the base amount. During the interim, LFC and the Revenue Stabilization and Tax Policy Committee heard testimony on the pros and cons of tax expenditure budgets and the feasibility of creating a tax expenditure budget in New Mexico.

Significant portions of state revenues are typically eroded due to tax expenditures. Michigan's tax expenditure budget indicates that over half of its revenue base has been eroded due to tax expenditures, while tax expenditures account for 22 percent and 20 percent of the tax base in Illinois and Louisiana, respectively.

A tax expenditure budget has several benefits. It quantifies the costs of tax expenditures so that policymakers can judge the merit of their existence. Uncovering the costs of tax expenditures also adds transparency, fiscal discipline, and accountability to the budget process. Finally, tax expenditure budgets shed light on the tradeoff between tax incentives and higher overall tax rates.

These tax expenditure budget benefits should be weighed against their cost. Publishing a tax expenditure budget requires significant resources, and a tax expenditure budget is only as good as the effort spent on its development. In New Mexico, the responsibility for publishing a tax expenditure budget would likely fall to the Taxation and Revenue Department's Tax Research Unit. The new task of creating a tax expenditure budget would compete with this unit's other projects, which include revenue forecasting, legislative analysis, policy development, and tax data reporting.

In addition to reporting on tax expenditures, the effectiveness of tax incentives must be reported. This is discussed in greater detail in the section on economic development. A partial listing of New Mexico's tax expenditures is included in Table 8 at the end of this document.

Thirty states regularly prepare a tax expenditure budget.

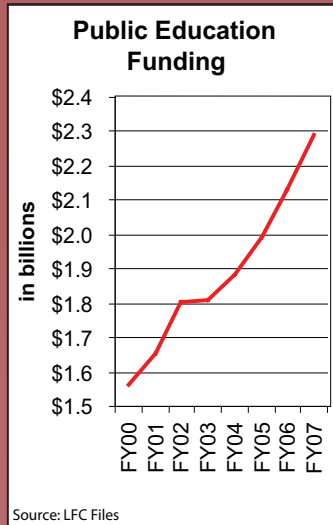
Percentage of tax base foregone due to tax expenditures:

- Michigan: 53%
- Illinois: 22%
- Louisiana: 20%

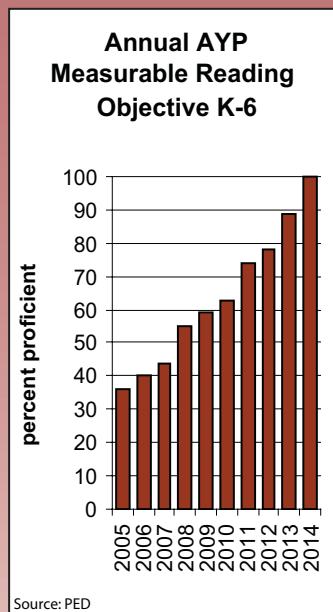
Major New Mexico tax expenditures

- Motor Vehicle Excise Tax
- Double-Weighted Sales Apportionment for Manufacturers
- Head of Household Property Tax Exemption

Policy Analysis: Public Education



The Legislature continues to invest aggressively in public education: continuing funding for implementation of the three-tier licensure structure, bringing compensation levels to regional averages, implementing full-day kindergarten statewide, establishing a charter school division and a math and science bureau within the Public Education Department (PED), dedicating a funding stream to finance public school construction statewide, supporting the school improvement framework for low-performing schools, and shoring up the education retirement fund with increased employer contributions. Despite these efforts, the number of New Mexico schools failing to meet achievement standards required by the federal No Child Left Behind Act continues to grow and the achievement gap among demographic groups of students continues to vary widely. Further, findings included in an Office of Educational Accountability (OEA) study note a disturbing number of New Mexico high school graduates attending college in the state must take remedial classes. Progress in improving student achievement has been painfully slow, suggesting the need to address areas of possible change in public education policy and PED practices.



Annual Yearly Progress. Annual yearly progress (AYP) is one of the cornerstones of the federal No Child Left Behind Act (NCLB). It is an annual measure of student participation and achievement on statewide assessments and other academic indicators. Under the provisions of NCLB, accountability is based on whether or not schools, districts, and the state are making AYP toward gradually increasing goals of academic proficiency. The target for school proficiency hits a goal of 100 percent by the year 2014. Similarly, high school graduation rate targets reach 100 percent by 2014. These targets, while admirable, are probably not achievable beyond 85 percent or 90 percent.

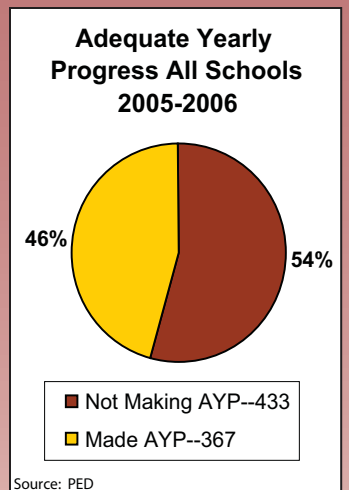
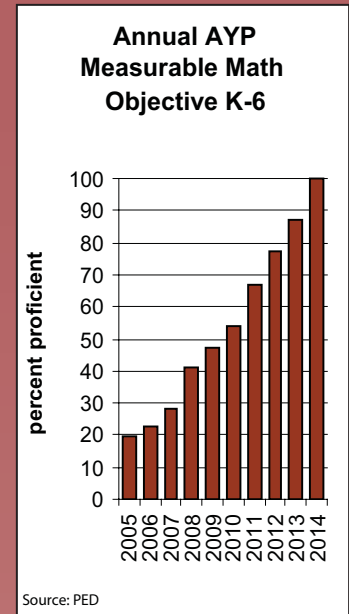
Concerns continue with regard to methodologies used to calculate AYP and the effect of these methodologies on students, schools, and school districts. AYP, used to identify schools at risk of failing, only measures how one cohort of students performs one year compared with a different cohort the next year. It does not credit toward AYP any type of growth over time for individual students or for the same cohort of students. A recent paper by Robert Brennan of the University of Iowa explained the pitfalls with such a system: “Cohort-to-cohort analyses are essentially evaluations of changes in teacher or school performance, without any direct evidence about the progress of individual students. Furthermore, in cohort-to-cohort analyses teachers and schools are essentially evaluated against a moving target of different cohorts of students, which makes year-to-year comparisons both ambiguous and highly suspect. This is particularly problematic for small schools and schools with large

Policy Analysis: Public Education

immigrant populations, because their student populations can differ dramatically from year-to-year.” The AYP requirements constitute a “static” evaluation model because they hold all schools, regardless of demographic factors and prior achievement levels, to the same benchmark. AYP by its nature may 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 not making 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. Restructuring can include replacing all staff and submitting to state takeover. PED reports for the 2006-2007 school year, 349 schools, or 43.6 percent of all schools, are in the school improvement cycle, an increase of 113 schools over 2005-2006. Of these schools, 51 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.

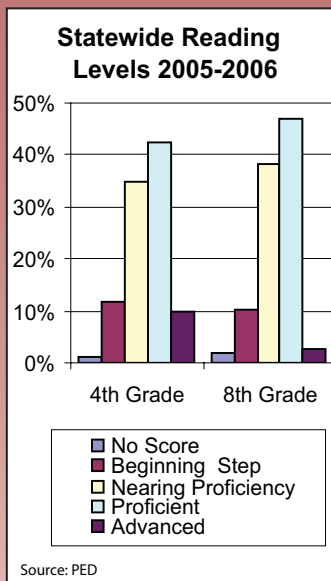
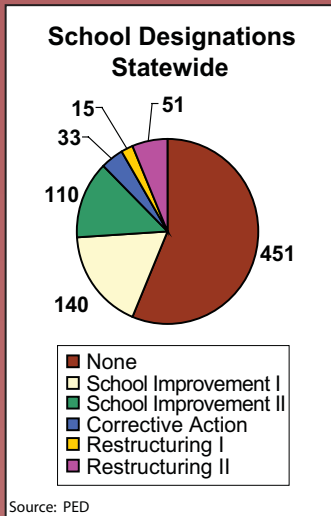
The New Mexico School Improvement Framework is PED’s approach to supporting continual school improvement and increasing educational support capacity to all districts and schools. The framework is based on building educational capacity, monitoring schools for accountability and implementing sanctions, and recognizing and rewarding sustained student achievement. An expenditure plan developed by PED provides \$8.4 million for assistance to all 89 school districts, but focuses on districts with schools in the improvement cycle. Of the \$8.4 million, \$3.2 million is allocated to provide comprehensive systems and program realignment services to 22 priority schools for FY07, leaving 29 restructuring II schools without sufficient support to implement restructuring as required. In school year 2005-2006, PED implemented a one-year moratorium, delaying restructuring required under federal law until school year 2006-2007. This delay and the prioritization of 22 schools appear to further postpone restructuring for many schools in the most need of assistance and extend the delay to two years for some restructuring II schools to implement reforms under NCLB. The department has chosen to implement a number of different versions of the School Improvement Framework over the last few years and the



Policy Analysis: Public Education

lack of a focused and persistent approach makes all approaches ineffective. The committee urges the department to focus its efforts in making this version effective and sustainable.

The framework also includes \$2.4 million for extended school day and school year initiatives. For FY07 this funding was offered to five districts with the highest need--Gallup/McKinley, Central Consolidated, Española Valley, Dulce, and Cuba, which have 31 of the statewide total of 51 schools in restructuring II and all of which serve large populations of Native American and Hispanic students in high-poverty areas. Of the 349 schools with NCLB designations, 77 serve high populations of Native American students, 66 others are located in rural areas, 32 Albuquerque schools are from the west and south sides of the city, and 70 percent serve an extremely impoverished population. The number of schools in corrective action, quickly approaching one half of all schools statewide, is close to a critical point where PED no longer has the ability to effectively manage school improvement interventions in-house and will have to rely increasingly on private contractors to implement school improvement interventions. The committee strongly urges PED to implement actions to provide increased support to all restructuring I and II schools and expand direct intervention beyond those 22 priority schools already selected by the department to all schools in restructuring II.



Achievement Gap. In contrast to AYP, which measures cohort proficiency as required by the federal NCLB, the achievement gap continues to be a persistent and more significant issue among different groups of students. The achievement gap is reflected by two components: (1) the *performance gap*, which refers to significant discrepancies between the 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 2005-2006 statewide test results showing that in fourth grade reading, 71 percent of white, non-Hispanic students were proficient or better as compared with 50.5 percent of African-American students, 46.7 percent of Hispanic students and 30.9 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 for those students from economically disadvantaged families.

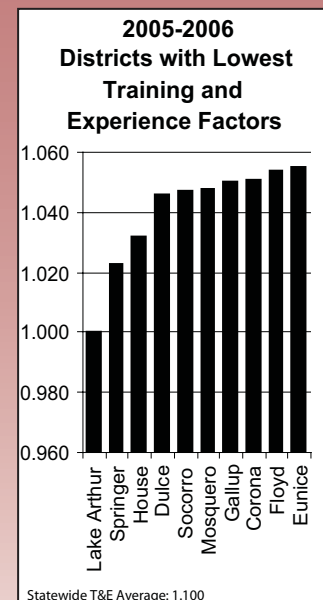
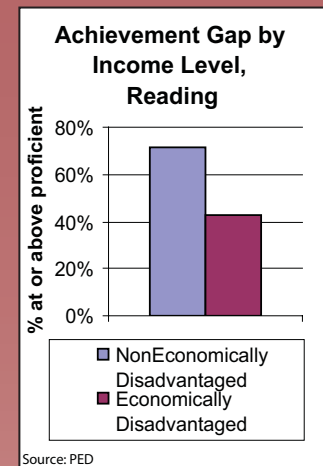
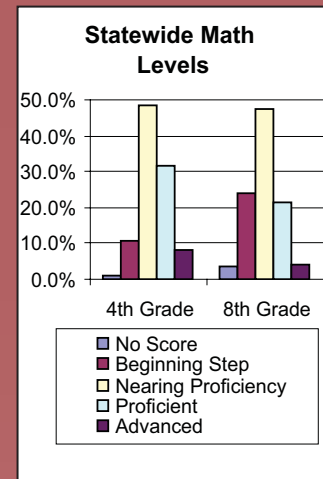
Primary factors affecting the achievement gap in New Mexico are the state's high poverty rate and the disparity in the quality of teachers.

Policy Analysis: Public Education

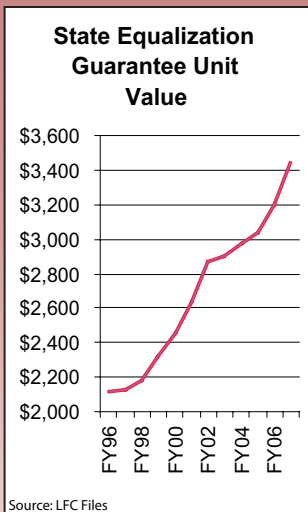
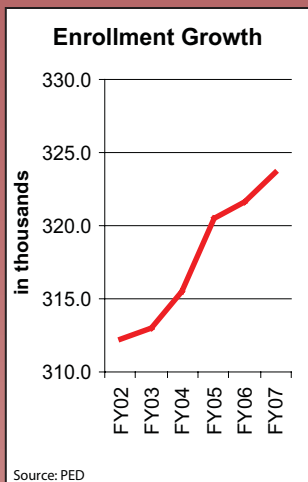
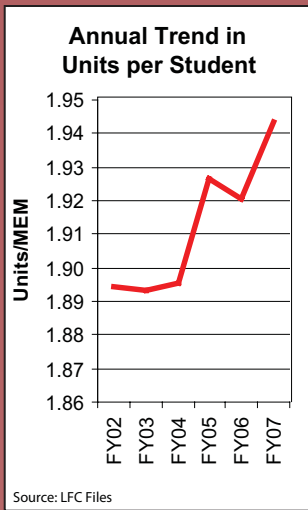
An Educational Testing Service (ETS) study identified a number of deficits as having a particular effect on student performance; however, none is more significant than the disparity in the quality of teachers. In New Mexico the vast number of failing schools are in extremely rural areas subject to abject poverty, unable to attract effective teachers. To combat this cycle, substantial and sustained increases in funding are required to provide incentives to recruit and retain highly effective principals and teachers. In its current form, the state equalization guarantee (SEG) calculation does not provide for directing increased funding to these schools. A comprehensive cost-study analysis of providing an adequate education to students in Kansas concludes the cost to fund at-risk students is 48 percent greater than the base cost per student statewide and 73 percent higher for urban students. Arkansas, in its recently adopted funding formula, weigh at-risk funding at 25 percent above base funding, and large school districts nationwide are implementing weighted student funding to address this issue. By comparison, New Mexico’s funding formula provides between 13 percent and 20 percent in additional funding for at-risk students.

Funding Formula. 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 SEG, 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. Subsequent changes to the formula (i.e. training and experience, elementary fine arts) have been reactive without significant consideration to the overall impact on distributions. In recent years school districts have complained that distributions through SEG have not been sufficient to meet annual operational costs, particularly with what the districts refer to as “mandated expenditures.” Even if sufficient funding is appropriated statewide to meet these requirements, when distributed through the formula, some districts receive far less than required, especially those with less experienced teachers.

The Funding Formula Study Task Force created by Laws 2005, Chapter 49, is charged with studying these issues and making recommendations on proposed changes. The taskforce has hired American Institutes for Research to conduct a funding formula study and is overseeing the work of the contractor.



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In determining a district’s allocation from SEG, the single most significant impact comes from the training and experience (T&E) multiplier. This factor may increase the number of units generated by a district by as much as 30 percent based solely on teaching staff credentials and experience. In general terms, this has the single most disequalizing effect on distributions and in its present form has no relationship to the three-tier minimum salary and career structure now in place for teachers. The effect of T&E on distributions was most evident in FY06 when appropriations for implementing the third year of the career ladder was distributed outside of the formula because of concerns that distribution through the formula would favor those districts that generate relatively high units per member. Pressure will be great on the Legislature to hold districts harmless when a new formula is adopted, increasing overall implementation costs. It is also important to note that high-poverty, rural districts, with the greatest needs, generally have the greatest difficulty hiring experienced teachers with advanced degrees that would maximize T&E distributions.

A number of new initiatives have been implemented in recent years using both recurring and nonrecurring revenues with funding distributed categorically to districts. This proliferation of new programs outside of the funding formula (e.g. elementary physical education, school improvement framework, computer-based math programs, and professional development) is problematic in that it tends to disequalize school funding and diverts resources away from core educational need. The absence of categorical funding and fund “tracking” in the original funding formula was viewed as a way to encourage local school district initiatives in seeking more efficient and effective means of achieving desirable educational goals. With so many new initiatives coming on line annually, little or no accountability with regard to student achievement is being realized.

Other issues to be addressed by the funding formula study include sufficient funding for high-poverty, low-performing schools, declining enrollment in rural school districts, high-growth district expansion, small-school size adjustments, and the funding needs resulting from statutory changes to the way charter schools are chartered.

Other Cost Pressures. Additional factors that place pressure on SEG appropriations and should be addressed include a modest but steady annual increase in student enrollment growth. Since FY00, \$44.4 million has been appropriated for enrollment growth and is expected to continue to require substantial and sustained funding in the future. Employee health insurance also plays a large factor; annual contributions averaged greater than \$17 million over the last five fiscal years.

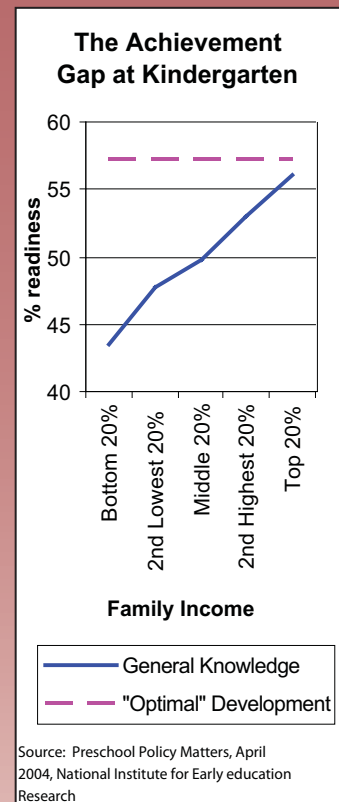
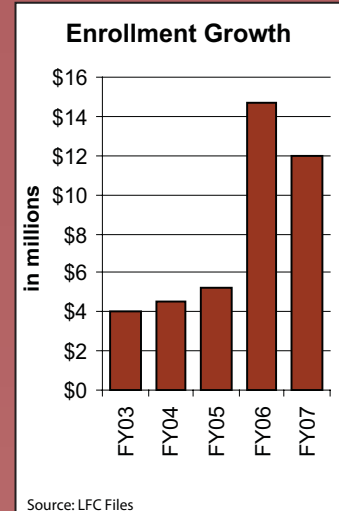
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Minimum Salary Structures. Since FY04, the Legislature has appropriated \$208.2 million for salary increases and funding of the three-tier career ladder. Implementation of the career ladder for teachers continued with an FY07 appropriation of \$6.8 million to move level-three teachers to a minimum salary of \$45 thousand. For FY08, the final year of implementation, the level-three minimum is scheduled to increase to \$50 thousand at an estimated cost of \$20 million. While increasing teacher compensation improves recruitment and retention, the three-tier ladder does not tie pay to outcomes, specifically student performance. With the extraordinary financial commitment made by the Legislature to teacher pay, expectations are high that schools will demonstrate significant student improvement, much of which has not materialized.

Section 22-10A-11 NMSA 1978 provides for a minimum salary structure for principals based on school size to take effect in FY08. This salary structure provides for a minimum salary of \$58 thousand for principals with schools of less than 200 students up to a \$68 thousand minimum for principals of schools with greater than 1,000 students and does not include assistant principals. Implementation of these minimums is projected to cost approximately \$750 thousand. An alternative scenario has been proposed to establish minimum salaries for principals and assistant principal based on a responsibility factor. This factor would establish minimums of \$60 thousand, \$70 thousand, and \$80 thousand for elementary, middle school, and high school principals, respectively, and includes assistant principal salaries as a percentage of these amounts at an estimated cost of \$4.5 million. Further, PED would be expected to develop an evaluation system similar to the teacher evaluation system to determine principal effectiveness.

Pre-Kindergarten. In FY07 the Legislature continued its support for the expansion of a voluntary, half-day pre-kindergarten pilot program with an appropriation of \$4 million to PED and \$4 million to the Children, Youth and Families Department (CYFD). The program is targeted to areas whose public elementary schools are designated as "Title I" schools because of the number of low-income students, and are not meeting the proficiency component required for calculating AYP.

A unique feature of the program is implementation within both the public and private sectors with differing licensure requirements for teachers and providers. A study published in the journal *Developmental Psychology* regarding the pre-kindergarten program in Oklahoma notes the effectiveness of the program is particularly high with regard to student achievement solely because of the requirement that all pre-kindergarten teachers be state certified with endorsements



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2006-2007 PED Pre-Kindergarten Programs

Albuquerque (118)
Edward Gonzales E.S.
Eugene Field E.S.
Valle Vista E.S.

Bernalillo (54)
Cochiti E.S.
Roosevelt E.S.
Santo Domingo Head Start

Central (106)
Kirtland Early Childhood
Nataani Nez E.S.
Newcomb E.S.
Nizhoni E.S.

Chama Valley (20)
Chama E.S.

Cuba (16)
Cuba E.S. Preschool

Gadsden (242)
OnTrack PreK North
OnTrack PreK South

Gallup-McKinley (194)
Church Rock E.S.
Gallup Head Start
Rocky View E.S.
Tohatchi E.S.
Washington E.S.

Jemez Valley (20)
Jemez Valley E.S.

Los Lunas (20)
Tome E.S.

Magdalena (20)
Magdalena E.S. Preschool

Pecos (25)
Pecos E.S.

Rio Rancho (41)
Shining Stars Preschool

Roswell (45)
Parkview Early Learning

Santa Fe (20)
Agua Fria E.S.

Socorro (38)
E.E. Torres Learning Center
San Antonio E.S.

Truth or Consequences (18)
Arrey E.S.

Zuni (100)
A:Shiwi E.S.
St. Anthony Indian School
Zuni Head Start

in early childhood education (ECE). This raises the question whether the current New Mexico implementation scheme will be effective for all students if private providers are not held to the same standards as public school teachers.

The 2005-2006 annual report *Implementing the Pre-Kindergarten (PreK) Act* indicates significant increases in learning outcomes with 70 percent of all students demonstrating established skills, and 26 percent with emerging skills; 2 percent were identified as having no readiness skills. While this information is encouraging, the data collected is qualitative in nature, collected through teacher observations of their own students and not disaggregated by department program, preventing the comparison of program quality among PED and CYFD. Both departments have contracted with the National Institute for Early Education Research (NIEER) to evaluate the programs using an outcomes-based approach. The evaluation is underway, classroom evaluation of students has been completed, and data analysis is in progress. Data from the first year evaluation has been presented to the committee. Other than establishing a baseline, the report has little useful data to be used in making policy decisions.

Cost Estimates. In early testimony before the Legislature regarding program costs, the executive estimated the program would only serve children not served by child care, Head Start, or school programs. The original estimate from the executive assumed a 70 percent participation rate when fully implemented at a cost of \$22.9 million. Now, LFC estimates a fully funded, half-day program for approximately 20,000 students would cost \$49 million. An additional \$21.5 million could be required for technical assistance, program evaluation, instructional materials, transportation, and administration.

High School Redesign. PED in November 2004 convened a New Mexico Town Hall to begin work on high school redesign and to set educational priorities for New Mexico's high schools. The highest priority of the department was to develop a rigorous and innovative curriculum to address college and workplace readiness. Little movement toward this goal has taken place other than the "High Schools that Work" program implemented in a limited number of districts with marginal success.

In FY06, the governor introduced a redesign initiative to ensure New Mexico's high school students are better prepared for college and careers. The Higher Education Department (HED), PED, and the Legislative Education Study Committee are working together to develop and implement the plan. Major items proposed include aligning high school exit standards to both work place expectations and college entrance requirements, increasing the drop-out age,

Policy Analysis: Public Education

increasing graduation requirements, and increasing funding for career technical high schools and advanced placement classes. A number of delivery systems have also been identified to support the effort. These include comprehensive high schools, charter schools, virtual high schools, and dual enrollment in college and high school classes, among others. Although the executive has made this a priority, PED reports it has no staff assigned specifically to this initiative and has not identified long-term costs.

High School Graduation Rates. With the use of the unique student identifier, PED is now able to track students as they move from school to school within the state. In the first year of tracking ninth graders as they progress to the tenth grade, 17.5 percent have already dropped out of school. It is expected that when this cohort graduates the drop-out rate will be much higher. Implementation of redesign initiatives are expected in the third quarter of FY07.

Charter Schools. Charter schools in New Mexico were first authorized in 1993 and, by definition, operate as independent public schools, free from many of the laws and regulations that govern traditional public schools. The purpose of enabling legislation was to allow individual schools to restructure their educational curriculum to encourage the use of different and innovative teaching methods and to allow individual schools to be responsible for site-based budgeting and expenditures. Fifty-one charter schools are currently active, serving approximately 8,500 students statewide with an additional 12 approved and in the planning stages.

Charter schools in New Mexico receive funding from a variety of sources, which include distributions from the state equalization guarantee (approximately \$77.3 million in FY07), funds appropriated to the charter school stimulus fund (\$4.5 million since FY00), federal charter schools program funds (\$18 million for FY04–FY06 and \$12.3 million for FY07–FY09), lease assistance from the capital outlay fund (\$5.2 million in FY07), and that portion of money from state and federal programs generated by eligible students (i.e. special education).

Statutory Revisions. Laws 2006, Chapter 94 makes substantial changes to current statute: It creates a Charter Schools Division within PED, expands chartering authority to the Public Education Commission (PEC) and designates the duties of both the district and PEC as chartering authorities. The act also requires state-chartered schools, those chartered by PEC, to qualify as their own boards of finance and removes provisions allowing existing public schools to convert to charter status (conversion schools).

Charter Schools in New Mexico 2005-2006

Alamogordo
Lacy Simms M.S.

Albuquerque
Academia De Lengua Y Cultura
Amy Biehl
Cesar Chavez Comm. School
Charter Vo-Tech Center
Charter Voc High School
Creative Ed. Prep Institute #1
Creative Ed. Prep Institute #2
East Mountain
High Tech High
Horizon Academy Northwest
Horizon Academy South
Horizon Tech and Arts
Horizon Academy West
La Academia De Esperanza
La Luz Del Monte
La Promesa Early Leadership
Los Puentes⁹
Montessori Elementary
Montessori of the Rio Grande
Mountain Mahogany
Nuestros Valores
Public Acad., Performing Arts
Robert F. Kennedy
SIA Tech
South Valley
Southwest Primary
Southwest Secondary
The Learning Community
Twenty First Century
Youth Build Community

Carlsbad
Jefferson Montessori Acad.

Cimarron
Moreno Valley High

Clayton
Amistad

Española
Espanola Military Academy

Gallup
Middle College High

Jemez Valley
San Diego Riverside Charter
Walatowa Charter High

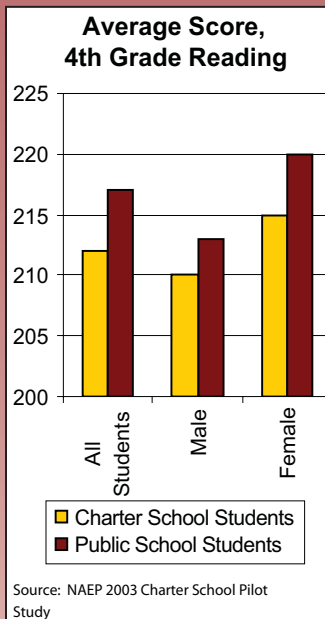
Las Cruces
Alma D'arte Charter
La Academia De Idiomas Y Cultura

Las Vegas City
Bridge Academy Charter

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Charter Schools in New Mexico 2005-2006 (continued)

- Questa
 - Red River Valley
 - Roots & Wings
- Roswell
 - Sidney Gutierrez
- Santa Fe
 - Academy For Tech & Classics
 - Monte Del Sol
 - Turquoise Trail
- Silver City Consolidated
 - Aldo Leopold
- Socorro
 - Cottonwood Charter
- Taos
 - Anansi Charter
 - Taos Charter



The expansion of chartering authority to PEC might cause significant revenue disparities because, while district-chartered schools will continue to operate with little or no change, state-chartered schools will generally be considered equivalent to a school district and would become eligible to apply for emergency supplemental distributions and small-school size adjustments, possibly duplicating costs with regular public schools.

Program Accountability. Charter schools are, by definition, independent public schools bound by the terms of a charter that lays out the school’s mission, academic goals, and accountability procedures. Effective July 1, 2007, the Charter Schools Act requires state-chartered schools to become certified as boards of finance but does not detail academic accountability. The lack of transparent accountability by charter schools to school districts or PED is a source of concern as it is not clear how academics and student achievement in charter schools are monitored. The National Assessment of Educational Progress (NAEP) conducted a pilot study in 2003 as part of the NAEP assessments in reading and mathematics to specifically examine and compare performance of charter school students with those in traditional schools. Results in reading assessments indicate no measurable difference between the reading scores of fourth grade charter school students and other public school students. Considerable resources have been directed to charter schools, requiring a more substantial effort by governing bodies to hold teachers and administrators accountable for improved academic success for students and effective financial operations.

Capital Funding. Section 22-8B-4.2 NMSA 1978 requires all charter schools to be housed in public buildings no later than 2010 and any facilities provided by a local district shall meet occupancy standards as specified by the Public School Capital Outlay Council. Some districts have identified existing facilities for use, but these facilities are being turned down by the charter school, which in turn are requesting new facilities, again raising questions about the cost of duplication.

The Public School Facilities Authority notes if a state-chartered school is newly created, or is renewed, it will be eligible to apply for state capital outlay funds independent of a school district. This might be an unintended and costly proposal for the state at a time when districts are already complaining about the lack of funding to meet building needs. With as many as 15 new schools permitted to be chartered annually, these schools are expected to place a significant burden on capital expenditures. The 2010 deadline will tax existing local resources and pressure will be brought on the Legislature to fund these schools with a significant general fund impact.

Policy Analysis: Higher Education

A recent study by a task force of the National Conference of State Legislatures identified several key steps for legislators to address higher education policy issues:

1. Set clear goals and expectations for higher education,
2. Make higher education a legislative priority,
3. Show strong leadership on the issue, and
4. Fund higher education strategically for investment, rather than being reactive.

These steps are not new for New Mexico lawmakers, who have made higher education a priority. Nevertheless, many higher education issues remain: a funding process that focuses on inputs rather than performance, inadequate compensation for faculty and staff, unaddressed infrastructure needs, and poor student outcomes.

Funding Formulas. Most states use funding formulas as a mechanism to establish a base for appropriations or allocating budget resources to public higher education institutions. *Funding Formula Use in Higher Education*, a 2001 discussion paper prepared by the nationally recognized education consulting firm MGT of America, notes higher education funding formulas have “evolved into often-complex methodologies for determining institutional funding needs and allocating public funds.”

In a presentation to the Legislative Finance Committee in September 2006, the president of the State Higher Education Executive Officers Association (SHEEO) noted the following are requirements of “good higher education budgeting”:

- Provides continuity and predictability,
- Allocates resources fairly,
- Reflects changing conditions,
- Encourages productivity gains,
- Works smoothly and efficiently,
- Is transparent and understandable, and
- Achieves public goals for higher education: student success, the advancement and application of knowledge, and better quality of life.

The September 2006 SHEEO presentation to LFC discussed strengths and weaknesses of the New Mexico funding formula. Among its strengths, the current formula is sensitive to differences among institutions in levels of instruction and disciplines taught. The current formula provides a “buffer” for short-term fluctuations in enrollment and workload, given the focus on the enrollment band. Further, the formula design covers all of the basic issues required for continuity, predictability, fairness and change. Finally, the funding formula is supported by an extensive database.

NEW MEXICO HIGHER EDUCATION FUNDING FORMULA:

PRIOR YEAR BASE

+ ADJUSTMENTS, SUCH AS WORKLOAD

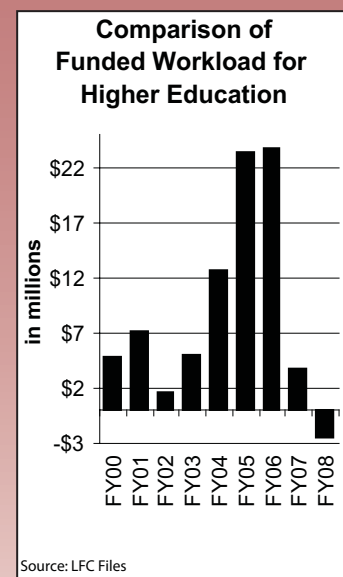
+ NET TRANSFERS
- REVENUE CREDITS

+ INFLATIONARY FACTORS AND COMPENSATION INCREASES

+ INCENTIVE FUNDS

+ RESEARCH AND PUBLIC SERVICE PROJECTS

Three of five incentive funds fall 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.



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In continuing its concerns about costs, the Spelling Commission report noted: "Next to institutional financial aid, the greatest growth has been in administrative costs for improvements in student services (including state-of-the-art fitness centers and dormitories) ... higher education institutions should improve institutional cost management through the development of new performance benchmarks designed to measure and improve productivity and efficiency. Also, better measures of costs ... should be provided to enable consumers and policymakers to see institutional results in the areas of academic quality, productivity and efficiency. An important benchmark, for example, would be that the growth in college tuition not exceed the growth in median family income over a five-year period."

"The lack of transparency in financing is not just a problem of public communication or metrics. It reflects a deeper problem: inadequate attention to cost measurement and cost management within institutions."

The presentation also addressed weaknesses of the current funding formula. In particular, the present formula has relatively little "explicit" focus on productivity gains or performance. The formula encourages institutions to focus on enrollment growth, irrespective of student achievement or readiness. Enrollment growth has been the only significant mechanism to receive incremental general fund appropriations for instruction and general purposes. The present formula is complex and is becoming more complex. Non-formula appropriations, rolled into the base, may be accumulating to the point where reasonable standards of equity of funding among institutions is at risk.

Formula Enhancement Task Force. In November 2005, the Higher Education Department (HED) convened a formula enhancement task force to review the funding formula. The September 2006 recommendations emphasize incremental, technical changes to the funding formula in the areas of land and permanent fund revenue credits and mill levy credits. Most of the 2006 recommendations significantly increase the state cost of funding higher education. Among the proposals and associated preliminary cost estimates: (1) a hold-harmless provision for the five institutions with enrollment losses at a cost of nearly \$3 million, (2) inflationary funding of over \$22 million for utilities and health insurance, (3) building renewal and replacement funding up 10 percent to 50 percent at a cost of over \$4 million, (4) a zero tuition credit; and (5) funding for 50 percent of the performance funding allocation of the 2006 legislature based on enrollment. For FY09, the formula enhancement task force recommends further hold-harmless provisions for enrollment declines if needed; funding by mission for research, comprehensive and community colleges; library inflationary funding; further escalation of building renewal and replacement (BR&R) funding; a zero tuition credit; and a second distribution of performance funding to include completion rates as well as formula funding for the University of New Mexico (UNM) Health Sciences Center. The proposal called for a new higher education funding formula to be implemented in FY10 and for performance funding to be incorporated into this formula.

The HED formula enhancement task force will continue to meet in 2007, and LFC will continue its review of the funding formula.

Cost and Affordability. In September 2006, the Department of Education released what is commonly known as "the Spellings Commission report." The report expressed concerns about costs in higher education which have exceeded the level of inflation for over 20 years and cost per student, increasing faster than inflation or family income. Further, the report notes declining state subsidies and the

Policy Analysis: Higher Education

impact of rising tuition in discouraging students from attending college. “Affordability is directly affected by a financing system that provides limited incentives for colleges and universities to take aggressive steps to improve institutional efficiency and productivity. Public concern about rising costs may ultimately contribute to an erosion of public confidence in higher education.”

LFC is concerned about the impacts of tuition increases on students and families and the associated implications on keeping college affordable. While New Mexico is typically considered a low-tuition state, the percent increase in tuition and fees by the state’s public, four-year institutions for academic year 2006-2007 exceeded the national average.

The customary practice in developing the New Mexico higher education budget is to assume that postsecondary institutions will increase tuition as a source of revenue. The tuition credit effectively reduces the general fund appropriation to each institution. The assumption of a tuition credit lies in at least two public budgeting principals: (1) the recognition of non-general fund state revenues in calculating the taxpayer burden of subsidizing the institution, and (2) the philosophy that students and families should bear a portion of the cost of higher education.

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.

Inflationary Factors. 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.

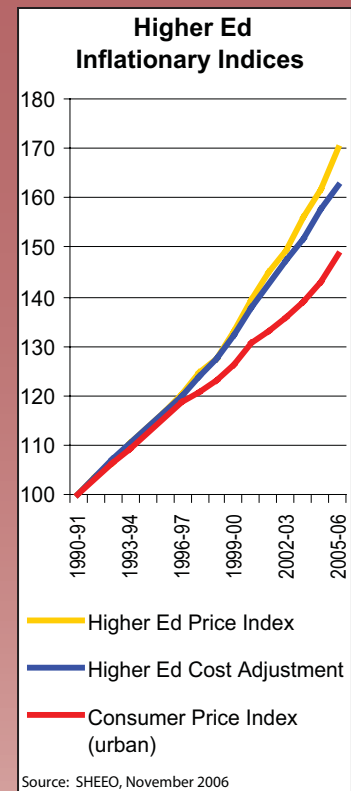
In FY04, the first year of the new funding formula, utilities inflation was funded at 2 percent, or \$635 thousand, and library inflation was funded at 1.5 percent, or \$150 thousand. Due to the escalating cost of formula workload and the need to provide for compensation increases for faculty and staff, the inflationary adjustments did not receive funding in FY05 and FY06. At the 2005 special legislative session on energy, the Legislature provided a nonrecurring appropriation of \$3

According to the College Board, states ranked by average published tuition and fees at public, four-year institutions in 2006-07:

#44 – New Mexico - \$3,985
National Average - \$5,836

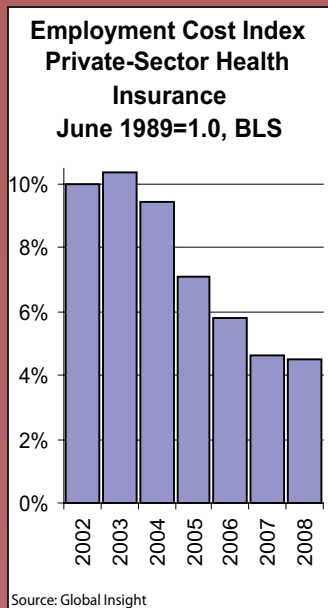
States ranked by increases in tuition and fees:

#17 – New Mexico – 7%
National Average – 6%



HEPI --- Higher Education Price Index
HECA --- Higher Education Cost Adjustment
CPI-U --- Consumer Price Index All Urban Consumers

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Some argue that inflationary funding should be provided to higher education institutions similar to the mechanism used for public schools. Contrary to conventional wisdom, incremental fixed cost funding for New Mexico public schools is neither automatic nor significantly large. In the 2006 session, the Legislature provided only \$21.1 million for insurance costs in the public schools and \$3.2 million for fixed costs on a budget base of over \$2 billion.

million for FY06 for energy costs of public, postsecondary institutions and special schools. For FY07, inflationary factors were not recommended for funding by LFC because HED did not submit a timely and complete request for higher education institution funding as required in state statute. Institutions have been covering the cost of inflation with higher tuition.

The SHEEO testimony to LFC on best practices for higher education funding formulas suggested the state move away from its heavy emphasis on funding inputs or student credit hours. The HED formula enhancement task force also made a strong case for addressing the drivers of inflationary costs at the state's universities and colleges. As well, the benchmarking approach is a useful tool to encourage productivity. The Legislature should continue working with stakeholders to address productivity and efficiency issues, including development of performance measures in this area.

Performance Funding. The committee remains concerned about low rates of student persistence and graduation for students in New Mexico's public, postsecondary system. According to *Measuring Up 2006* published by the National Center on Public Policy and Higher Education, New Mexico had little change in completion and persistence rates over a two-year period. The New Mexico grade for completion remained a D. The SHEEO presentation to LFC once again flagged poor performance outcomes as measured by degree attainment for a relatively well-funded higher education industry.

New Mexico ranks low in the number of bachelor's degrees awarded at public research institutions when compared with the total funding provided for each student. For the amount of funding provided, New Mexico falls at the bottom of degree-producers.

Similarly, New Mexico provides a high level of funding for students to attend regional and comprehensive public, post-secondary institutions, but is below the national average in the number of degrees awarded to students attending these colleges.

Finally, New Mexico's public two-year colleges are dramatically below the national average in degrees awarded to students relative to the funding provided. For the amount of funding provided, Oregon, Connecticut, Idaho, Kansas, and North Dakota produced more two-year college graduates.

Based on LFC and the Formula Enhancement Task Force recommendations, the Legislature in 2006 provided \$5 million from the general fund to the higher education performance fund for expenditure in fiscal years 2006, 2007, and 2008 for performance

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awards to public, postsecondary educational institutions that meet or exceed performance targets for freshmen enrollment and persistence, including those for minority students. In addition, performance awards may be developed to increase graduation rates, including for minority students. Additional funding might be needed for performance to continue to move toward funding higher education outcomes.

Building Renewal and Replacement. The current higher education funding formula provides for 40 percent of full funding for building renewal and replacement (BR&R) to allow institutions to address the maintenance of aging buildings. If BR&R were to be fully funded, the funding would provide 3 percent of the replacement cost of eligible facilities on an annual basis. The BR&R formula offsets the general fund by available land grant permanent fund distributions to institutions. Legislation enacted in 2004 expanded the BR&R formula to the facilities of the agricultural research centers of New Mexico State University. The Legislature in 2005 extended the 40 percent BR&R factor to the New Mexico School for the Deaf. As well, the 40 percent factor was applied to the New Mexico School for the Blind and Visually Impaired (from 3 percent), as revised in 2006.

New Mexico has two funding options to address the backlog of facility needs at postsecondary institutions. The first is an enhancement to the current 40 percent BR&R factor in the funding formula; full funding of 100 percent is the target over time. Each 10 percent increase would cost about \$3 million in recurring general fund appropriations. The second option is to use one-time funding to address the backlog.

Given the state's current strong fiscal situation and the magnitude of the problem, it may be advisable to use both approaches for FY08. Funding BR&R at 100 percent would only provide \$22 million to institutions and this funding is needed to address the ongoing need. In part, the magnitude of the backlog has been driven by chronic underfunding of the BR&R factor in the funding formula.

A 2006 assessment report of eligible building needs at the 27 state-funded institutions found a total cost of \$1.4 billion for the current backlog of repair and renovations to academic buildings, sites, and campus infrastructure. The report projected, over the next 10 years, continuing aging of facilities and system would add about \$1.3 billion in additional costs. The report identified:

- \$43.3 million in critical need, and
- \$265.5 million as "trending critical" funding need.

The Legislature in 2006 provided a step in this direction with \$20

**Performance Funding
Allocation for 2006
Legislative Appropriation of
\$5 Million
Year One: Award \$2.5 million**

**Performance Measure: Fall-
to-fall freshmen retention
systemwide**

**Awards to be made to
institutions to support
student retention and
graduation success**

**Threshold awards of \$1.25
million:**

- **Community College
and Comprehensive
College -- 55 percent**
- **Research University --
- 74 percent**

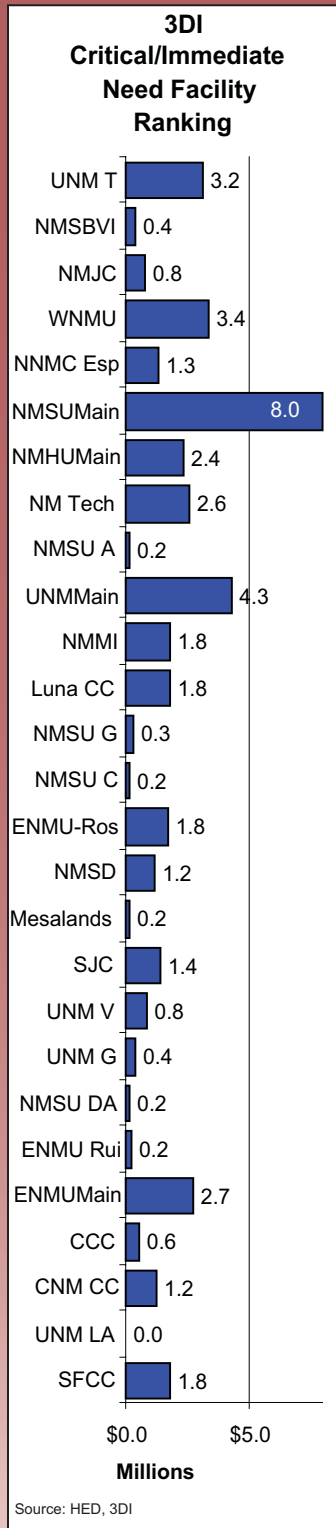
**Improvement awards of \$1.25
million based on 2 percent
performance increase**

Goal attainment triggers:

- **All freshman students
starting in fall 2005
and retained in fall
2006 at a New Mexico
public, postsecondary
institution**
- **Also needing
remedial coursework**
- **Also a member of a
minority group**
- **Also eligible for a Pell
grant**

**Year Two: Awards of \$2.5
million, distribution
methodology pending**

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million for a one-time supplement for BR&R for public, post-secondary educational institutions and special schools in FY07. The 2006 General Appropriation Act language required institutions to submit to HED, department of finance and administration, and LFC a plan for expenditure of these funds by July 1, 2006. HED provided training to institutional representatives on appropriate use of these funds and will follow-up with institutions on a case-by-case basis to collect additional details on institutional proposals that might not meet the BR&R criteria. Projects identified by LFC and HED as potential concerns include use of funds for auxiliary activity space and research and public service project space, as well as information technology systems and equipment for classrooms.

Over time, enhancements to the BR&R methodology are needed. For example, the “frozen” square footage file needs to be updated.

Financial Aid. Student financial aid is provided by several major groups including the federal and state governments, the institutions themselves, and private sources. State grant and scholarship aid is divided into two categories: need-based and merit-awarded. Need-based grants are designed to ensure all students have equal access to higher education and are not denied due to financial circumstances. Merit scholarships are awarded to students excelling academically, regardless of financial circumstances. Challenges include the adequacy and availability of student aid funding compared with increased costs for families, decreased purchasing power of federal grant aid, rising student loan interest rates and loan burden, and an adequate mix of need-based versus merit-awarded grants.

New Mexico Need-Based Financial Aid. Reliance on loans creates an increasing debt burden to college borrowers through both tuition inflation and higher borrowing rates. The Student Loan Project forecasts federally subsidized monthly loan payments will increase 20 percent on average over 2005 rates, nearly doubling educational borrowers’ lifetime interest costs.

Ongoing national conversation considers the mix of need-based versus merit-awarded financial aid. New Mexico received failing scores from the 2006 report in affordability, in part due to a low ratio of state need-based aid relative to federal aid. According to the Bureau of Economic Analysis and the National Center for Education Statistics, New Mexico ranks well below national average on costs -- 43rd for tuition and fee expenses at four-year public schools. However, the state ranks slightly higher, 36th, for its ratio of these expenses to per-capita income. Although the Lottery Success scholarships, with minimum 2.5 G.P.A. eligibility, are considered merit awards in the *Measuring-Up* report, HED reports that nearly 48 percent of lottery

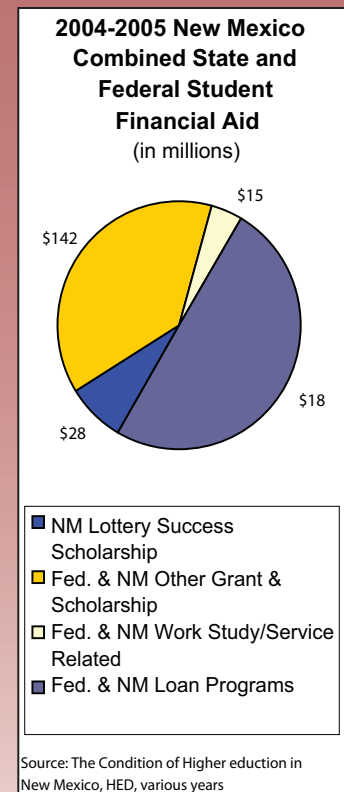
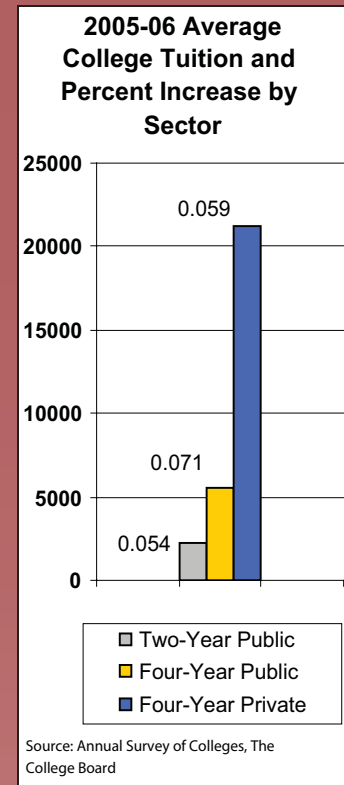
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recipients meet federal poverty guidelines.

Lottery Scholarships and College Affordability Scholarships. In the 2005-2006 academic year, approximately \$36.9 million in Lottery Success scholarship funds were distributed to New Mexico students. Payouts to beneficiaries continue to exceed New Mexico Lottery Authority disbursements to the scholarship fund. Recent projections show fund insolvency around 2012-2013. With overall flat high school graduation rates expected over this period, projected increases in expenditures are primarily based on tuition inflation. State student aid dollars from the lottery program comprise an ever larger component of state spending on higher education, increasing from 38 percent to 42 percent over the 2002-2003 academic year with subsequent reductions in work-study and service aid.

Across the country, merit scholarship programs are undergoing similar solvency issues. Underestimated and rapidly increasing demand for merit scholarships and scarce resources have forced other states to pursue alternatives. Alternatives can include mechanical adjustments to eligibility, family income caps on recipients, reductions in awards, or increased eligibility criteria. In New Mexico and other states where merit programs are supported through a lottery, statutory floors on beneficiary contributions or operating cost caps are proposed solutions. In the case of the New Mexico Lottery Success program, proposed operating efficiencies are both warranted and recommended. Beneficiaries and payout rates have twice been restructured to alleviate increased demand and higher tuition costs. However, cost controls alone will not markedly extend solvency. The issue must be re-visited to ensure the longevity of the program. The initial appropriation of \$50 million to the College Affordability Fund provides the opportunity to expand need-based aid and end the debate about expanding lottery eligibility. It is important to grow and continue to protect the corpus given the state's strong fiscal condition.

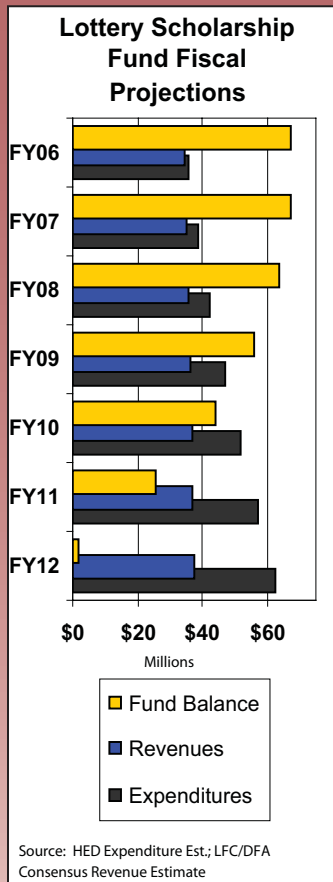
Educational Pipeline. The educational pipeline is the cumulative success of students progressing through high school, college entry, and persistence to a baccalaureate degree. New Mexico ranked 50th in cumulative success in a 2004 National Center for Public Policy and Higher Education policy alert, with only 10 percent of high school freshmen attaining a college degree. Students are lost at the transition points, the majority failing to graduate from high school. Minority and low income students are disproportionately represented among these dropouts. Efforts to increase college graduates in the state must be collaborative yet focus at improving high school graduation rates, creating a rigorous middle school curriculum, and improving second-year retention in higher education institutions. Aligning high school exit requirements with entrance to higher education can include



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Enacted during the 2005 regular legislative session and endowed in 2006 with a \$49 million appropriation, the College Affordability fund was recently invested with the State Treasurer's Office

HED estimates as many as 625 scholarships for low-income students will be available in the first year of the program



introducing high school and middle school students to a more rigorous curriculum and can be accomplished through several accelerated learning options.

Alignment of Courses and Concurrent Enrollment. The HED and PED alignment task force is developing shared student data systems in addition to preliminary work on matching high school graduation requirements to college entry assessments. The task force has established June 2007 as the date to announce a formal alignment process. Planned initiatives include a communication plan for local districts and higher education institutions, incorporating New Mexico First Town Hall recommendations for HED, and increasing the effectiveness of high school testing in the development of skills attainment. New Mexico has joined the multi-state American Diploma Project to streamline the adoption of high school standards and, in turn, lower the rate at which entering college freshmen attend remedial courses.

Remedial Education. A March study conducted by the state Office of Educational Accountability reported that 49 percent of New Mexico public school graduates continuing to higher education institutions within the state were enrolled in remedial math or literacy courses. A failure to align high school classes to match the rigor associated with college coursework has increased students' enrollment in remedial classes, lengthened the college experience, potentially increased student debt burden, and ultimately lowered probability of college success. Concern exists that remedial courses are prematurely exhausting students' financial aid resources, including lottery program awards.

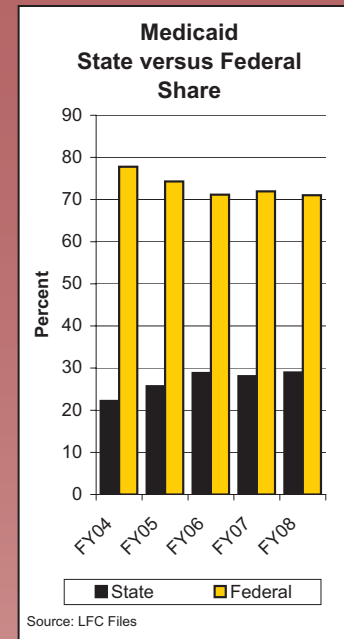
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Healthcare is a major and growing concern for New Mexicans. For many communities, particularly in rural areas, an adequate number of providers is a continuing challenge to reasonable access. Adding to the access issue, over 20 percent of New Mexicans lack health insurance. This uninsured rate is the second highest in the nation. Stemming from the lack of insurance coverage is the rising uncompensated care bill putting increasing financial pressure on the entire medical system, especially hospitals and trauma centers. Issues such as these result in New Mexico health care being ranked 38th by the United Health Foundation and 48th in the oft-quoted Morgan Quinto report. By either health standard, New Mexico is looking up to most of the rest of the nation on this issue. This is in the face of continuing cost growth of Medicaid and related healthcare programs requiring greater public resources.

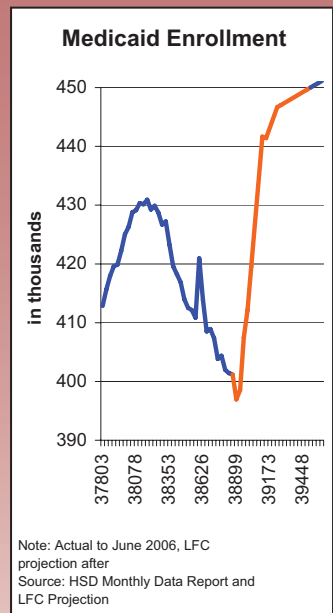
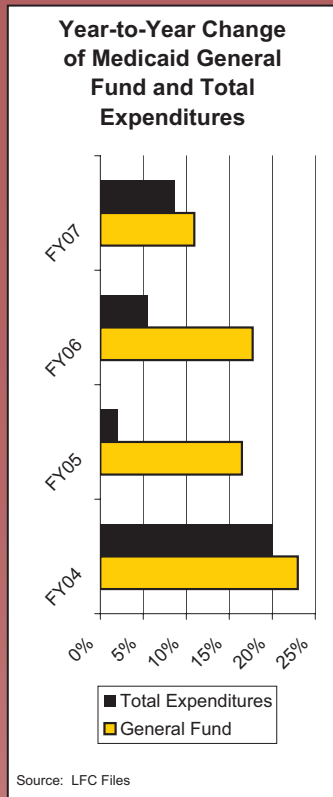
Healthcare Access. According to the Health Policy Commission's (HPC) *Quick Facts 2006*, "The majority of New Mexico counties are considered health professional shortage areas (HPSA) and/or medically underserved areas." In fact, as of December 2004, 18 of New Mexico's 33 counties were considered HPSA 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 has shown the least amount of growth of all healthcare professionals. The University of New Mexico, the Higher Education Department, and Department of Health (DOH) offer incentives, such as loans, and placement services to students in the healthcare profession to increase recruitment and retention. Telehealth services are under development to increase access in rural and underserved areas. Additionally, *Quick Facts* reports the New Mexico Health Service Corps (NMHSC) recruits and places healthcare professionals willing to fulfill certain obligations. For the period 2003 to 2005, sixty-eight health professionals have participated.

Federal Medical Assistance Percentage. For FY08, the federal medical assistance percentage (FMAP) for Medicaid will fall to 71.04 percent from 71.93 percent in FY07. However, in FY05 the FMAP was 74.3 percent and in FY04 a hefty 77.8 percent. This declining FMAP has contributed to the increasing Medicaid revenue requirement from the general fund.

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 the changes was a move to a six-month recertification requirement from the previous 12-month requirement. Medicaid enrollment fell from a



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high of almost 431,000 in July 2004 to under 401,000 by July 2006. The 12-month recertification was reinstated in January 2006. Further, policy changes affecting outreach, income disregard, and prenatal eligibility were funded by the Legislature in 2006. With these changes, Medicaid enrollment is expected to approach the 450,000 level by July 2008. These efforts simultaneously satisfy the goals of Insure New Mexico to expand health insurance in the state. As the uninsured numbers are further reduced due to outreach and eligibility, Medicaid enrollment growth may slow again.

Managed-Care Changes. Beginning in FY06 the managed-care portion of Medicaid was divided into two pieces, physical health and behavioral health. Before, each of the three managed-care organizations (MCO) 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 (VO) to oversee the services. For Medicaid, VO will function as a managed-care insurance organization in the same fashion as the prior structure of the original MCOs. The total managed-care expenditures are near the \$1.3 billion level with about 82 percent labeled for physical health and 18 percent for behavioral health. This total is about half of the direct services provided by the Medicaid program. These services need closer scrutiny and oversight to ensure both quality and fiscal efficiency.

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, SBHCs provide a trained healthcare professional who can:

- Assess healthcare and illness conditions,
- Treat illness and prescribe medication,
- Counsel students and their families about wellness, illness management, and other resources, and
- Refer and coordinate outside services, such as x-rays and dental work.

HPC also 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. The state increased the number of operating SBHC from 34 to 66 by the end of FY06 and the number of individual youth served from approximately 7,000 to 20,000. The total number of visits has also increased.

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Insurance Access. To combat both the human and financial toll of lack of health insurance, the Human Services Department (HSD) is the lead executive agency for an initiative started in FY06 known as Insure New Mexico. HSD is charged with marketing both new and established insurance-related products to alleviate the high uninsured rate. The Legislature has been instrumental in creating, streamlining, and financing the products to enhance their applicability. Lack of insurance can lead to poorer individual health outcomes due to failure to seek preventive and regular care and subsequent lack of follow-through. In addition, care is often put off until emergency services must be used. This, plus the frequent absence of individual financial resources, contributes to an uncompensated care burden for providers. Frequently, the proposed solution to both better health outcomes and easing of the uncompensated care problem is greater insurance coverage.

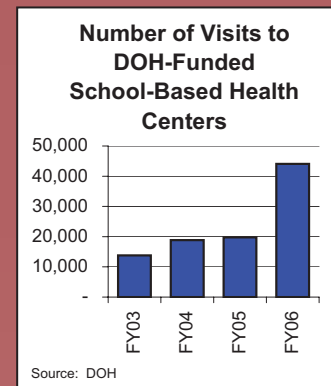
The following programs are included in the Insure New Mexico portfolio:

- State Coverage Insurance, for working adults below 200 percent of the federal poverty income level;
- Small Employer Insurance Program, for nonprofits and small businesses with 50 or fewer employees, that have not had health insurance for the past 12 months;
- New Mexico Health Insurance Alliance, for employees and dependents of small businesses, self-employed persons with at least one dependent, and individuals;
- New Mexico Medical Insurance Pool, for “high risk” employees and individuals with specific pre-existing conditions; and,
- Expanded New MexiKids, for children and pregnant women including those who do not qualify for certain state or federal programs.

To facilitate the insurance expansion, HSD has assumed the responsibility of navigating through the Insure New Mexico health insurance matrix for smaller businesses with 50 or fewer employees.

The Legislature in 2006 included funds for several initiatives, most related to Medicaid programs, that will expand health insurance. Among those efforts are the following:

- A change back to a 12-month Medicaid certification from the 6-month requirement at an estimated cost of \$4.5 million that would add about 5,000 persons,
- An additional eligibility income disregard at an estimated cost of \$3.7 million that could add as many as 7,800 enrollees,
- Expanded outreach activities at an expected cost of \$5.6 million that would add an estimated 7,200 enrollees, and,



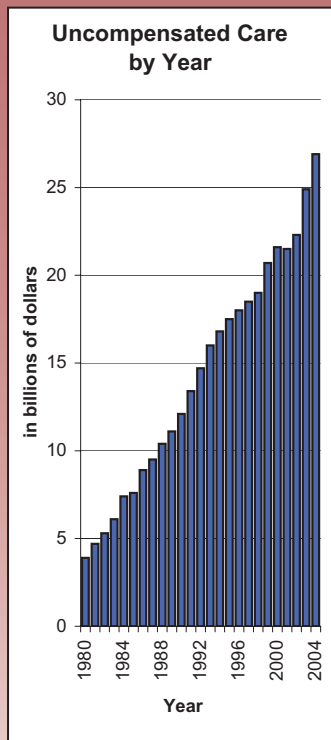
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- Expanded prenatal coverage at an estimated cost of \$3.9 million that would add an estimated 1,200 women.

These already-financed expansions could increase Medicaid enrollment by 20,000 with most of those children. Other changes in the planning stages focus primarily on adults.

A major proposal is to allow Medicaid coverage for uninsured adults with incomes under 100 percent of the federal poverty level (fpl), or \$16,600 a year for a family of three. Based on a variety of demographic analyses, HSD estimates 84,000 uninsured New Mexico adults would qualify under this standard. The estimate does not include those already on Medicaid. Many of these persons are employed with companies that do not offer insurance. These low-income adults fall into two categories, parents and non-parents, and similar but not identical programs need to be developed for each category if Medicaid funds are to be used. To implement such programs so that about half of the 84,000 are covered by the end of FY08, HSD projects a cost of \$31 million from the general fund to match \$95 million of federal contribution.

A second proposal is to expand the eligibility under the State Coverage Insurance by raising the income limit to 300 percent (fpl), or \$39,600 for a family of three. Currently the program insures up to the 200 percent fpl, or \$26,400 for a family of three. HSD estimates \$7.6 million from the general fund, to match \$28.4 million in federal funds, will provide health insurance for over 9,000 adults. The SCI program is starting its second full year of operation, and the HSD goal was 10,000 participants by June 30, 2006. The final number was closer to 4,800 including the program similar to SCI offered by University of New Mexico Hospital (UNMH). Excluding the UNMH program, 1,565 new participants were enrolled.



Uncompensated Care. In November 2005, the American Hospital Association (AHA) issued a report on uncompensated hospital care cost. The data comes from the AHA's Annual Survey of Hospitals, which describes itself as the nation's single most comprehensive source of hospital financial data. Nationally hospital uncompensated care has increased steadily from \$3.9 billion in 1980 to \$26.9 billion in 2004. Uncompensated care is a contributor to a fragile financial environment for many hospitals and hinders the ability to improve quality and remain competitive. New Mexico institutions are negatively affected in at least two areas, workforce issues and emergency room capacity, due to a high uncompensated care burden. UNMH reports \$44 million of uncompensated care. The Legislature in 2006 appropriated funds and passed policy initiatives to help alleviate the burden that impacts the hospital's ability to retain and

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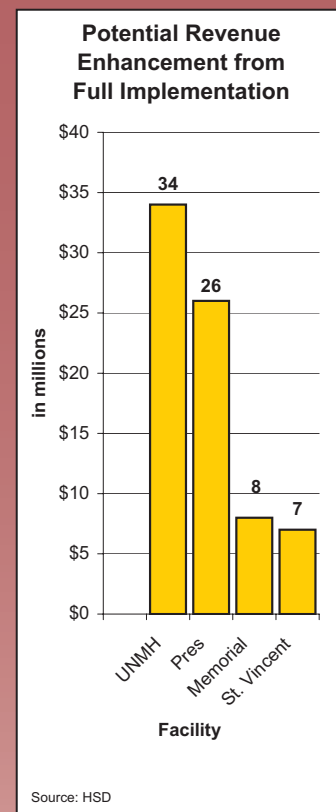
recruit quality staff and hinders capital expenditure to maintain state-of-the-art facilities.

If New Mexico expands health insurance through Medicaid-eligible programs, a redistribution of funding may be appropriate to maximize the opportunity to match federal funds. For example, as more people become eligible for a Medicaid or the state children's health insurance program, then some or all of the general-fund-only programs, like the trauma appropriations, could be moved to matching programs. Redistribution of funds in this manner will allow for expanded health insurance coverage to ease the uncompensated burden and simultaneously take advantage of federal revenue maximization. HSD has projected the state's major hospitals could receive from \$7 to \$34 million with full implementation of Medicaid-eligible insurance expansions. Other New Mexico institutions would receive similar revenues. The county indigent funds that pay directly to local providers might also be an unmatched source of redistribution.

Trauma Centers. Adding to the already difficult financial picture for hospitals are the expensive and often un-reimbursed trauma center services. Trauma centers sprang up in the 1970s and 1980s but were already declining in numbers by the late 1990s. The reverse trend resulted largely from the poor financial return for these centers. New Mexico has only three designated trauma centers, University of New Mexico Hospital, St. Vincent Regional Medical Center, and San Juan Regional.

Only 60 percent of New Mexico citizens live within 90 miles of a trauma center and for most eastern New Mexico residents the centers are in Texas. These centers must maintain additional high-expense specialized providers and equipment. It can be argued more New Mexico trauma centers are needed. A report published by the Department of Health estimates the annual financial loss of these centers at 24 percent of costs, or \$19.3 million. The high cost to deliver such service is an obvious factor in driving the losses. However, on the revenue side a high percent of trauma care recipients are uninsured. Nationally 51 percent of the trauma care patients are insured, compared with only 33 percent in New Mexico. Cost recovery for uninsured patients is only 19 percent, compared with 100 percent for the commercially insured.

Trauma services contribute to the already-high uncompensated costs, particularly at the three designated New Mexico trauma centers. The Legislature in 2006 appropriated \$8 million directly for trauma services to help offset uncompensated services. Expansion of health insurance will relieve some or part of this burden and allow these funds to be applied to the insurance costs.



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The LFC Behavioral Health and ValueOptions contract performance review reports the following:

- New Mexico still lacks a unified behavioral health budget.
- Behavioral-health outcome measures cannot be tied to individual agency's appropriations, limiting the collaborative's accountability to the Legislature and New Mexico taxpayers.
- The Legislature appropriates 80 percent of the collaborative's funding to programs where behavioral health services make up only a portion of the overall program appropriation forcing the program to compete for resources from a host of other service-types. For example, behavioral health services only account for about 10 percent of the overall Medicaid budget but about 76 percent of the collaborative's contract with ValueOptions in FY07.
- The executive's proposal to transfer the Behavioral Health Services Division (BHSD) from the Department of Health to the Human Services Department provides the Legislature with a good opportunity to further streamline behavioral health administration.

Tobacco Settlement Program Fund. The master settlement agreement between participating states and the tobacco industry will result in an estimated \$1.2 billion distribution to New Mexico over the initial 25 years. 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 fund to the general fund through FY06. Beginning in FY07, the diversion ceased and 50 percent is again to be diverted to the permanent fund and the other half to the program fund for appropriation. For FY08 the estimated program revenue is \$21.7 million, up 50 percent over FY07. At the end of FY05, the permanent fund contained approximately \$77 million. Current balance, including interest, is up to \$84.6 million. Volume III includes a table showing the FY08 LFC recommendation for tobacco settlement program funds.

Behavioral Health. Behavioral health is a large and growing component of overall health care in New Mexico. The ValueOptions contract alone is projected to total over \$300 million for FY08. Alcohol and substance abuse generally continues to create demand for direct services and contributes to the necessity of expanding social services.

Transfer of Behavioral Health Division to HSD. Included in the FY08 HSD proposal is a request to transfer the Department of Health (DOH) Behavioral Health Program to HSD. The transfer includes \$36.7 million from the general fund and \$58.5 million total with 44 FTE. HSD notes its leadership role in improving public behavioral health services through the New Mexico Behavioral Health Purchasing Collaborative (collaborative) as the greatest motivation for the transfer. The Medicaid program brings by far the greatest financial resources to the collaborative and consolidation might create efficiencies, both financial and programmatic.

An arrangement of this nature could prove advantageous in determining accountability for the collaborative by providing an accountability focal point for both quality and fiscal responsibility. If the Legislature ultimately approves the Behavioral Health Division transfer from DOH, then at a minimum all HSD behavioral health funds, currently in the Medicaid program, should be appropriated to this division to consolidate monies and responsibility.

DOH Facilities. In addition to a civil rights investigation into patient treatment at Fort Bayard Medical Center, a long-term healthcare facility, DOH facilities faced scrutiny last year over operational, financial, and staffing issues.

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Fort Bayard. The Civil Rights Division of the U.S. Department of Justice (DOJ) released a report dated May 1, 2006, on their Civil Rights of Institutionalized Persons Act (CRIPA) investigation of Fort Bayard. The investigation, which took place during 2005 (before GEO Care was hired to manage the facility), found that numerous conditions and practices at Fort Bayard violated the constitutional and federal statutory rights of its residents. In response to initial consultations with DOJ during summer 2005, DOH notes it undertook the following actions:

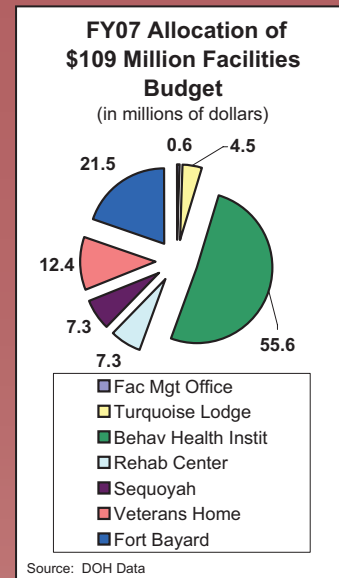
- Replaced key management at Fort Bayard, including the medical director;
- Implemented a moratorium on new patients until care could be improved;
- Reviewed every resident's medical record to assure staff provided proper medical attention and appropriately managed medical care;
- Re-trained staff on resident rights and requirements to report potential abuse, neglect, or exploitation of residents.

The May 2006, report listed 11 minimal remedial measures that DOJ expects the state to implement to avoid a CRIPA lawsuit. The state continues to work with DOJ to reach resolution of the DOJ concerns.

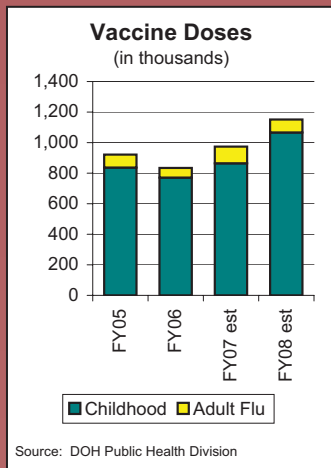
Facilities Privatization. The DOH secretary has indicated that no additional privatizations in addition to Fort Bayard are planned in the near term, but DOH is interested in transferring select facilities to other agencies in the future to avoid the perceived conflict of interest with DOH running healthcare facilities and providing regulatory oversight of health and nursing home facilities. However the DOH FY08 budget sought approximately \$22 million in budget authority for DOH to expand the role of behavioral health contractor Value Options at DOH facilities, including the New Mexico Behavioral Health Institute in Las Vegas, Sequoyah Adolescent Treatment Center, and Turquoise Lodge. These facilities will "bill" ValueOptions for services provided in certain behavioral health areas, an arrangement facility staff argue is, in effect, the same as privatization.

Facility Operational Issues. Management at all six DOH facilities share similar concerns: aging infrastructure that hampers the quality of care in some cases; salary levels that make it difficult to recruit and retain staff, particularly medical professionals; funding, in particular in the behavioral health area; and the worsening severity of patient illness, particularly those with mental health or substance abuse problems or both.

- The collaborative has adopted outcome measures that cross agency funding streams, making some existing program performance measures obsolete or inappropriate.



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Immunizations and Pandemic Flu Planning. The department has made childhood vaccinations and adult influenza a major priority by working to increasing the number of vaccinations. At the same time the state is working with the federal government to prepare for pandemic flu.

Immunizations. DOH reported FY06 expenditures of \$18.5 million from all funding sources for vaccines and projects \$22.2 million in FY07. In FY08 the department is requesting \$6.3 million from the general fund, to be combined with \$28.3 million of federal funds to purchase \$34.6 million in vaccines. The governor’s immunization initiative for \$1.4 million will purchase additional adult flu and tetanus, diphtheria, and pertusis (TDAP) vaccines, as well as 12,600 doses of the new HPV vaccine for teenage girls to prevent cervical cancer. Planned purchases are always subject to vaccine manufacturer capability, an issue in FY06.

Pandemic Flu Preparations. DOH is the lead for all flu pandemic preparation activities. The state has completed a pandemic flu plan and is conducting pandemic flu exercises with officials statewide. Most funding for these efforts came from a federal award of \$598 thousand with another \$359 thousand expected in FY07.

DOH received approval from Governor Richardson to proceed with a \$2.8 million order of 192,000 doses of anti-viral medication for a program organized by the federal Centers for Disease Control. The purchase of this medicine, at below market cost, combined with the federal anti-viral stockpile, should provide coverage for 25 percent of the state population. In case of an outbreak, the anti-viral medication will be distributed in impacted areas pending development of a vaccine. DOH will ask for \$2.8 million of FY07 supplemental funding to cover this expense.

Policy Analysis: Workforce Development

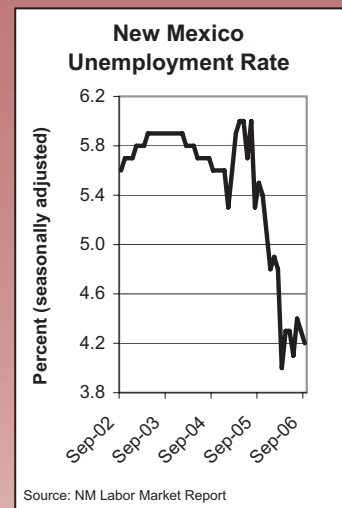
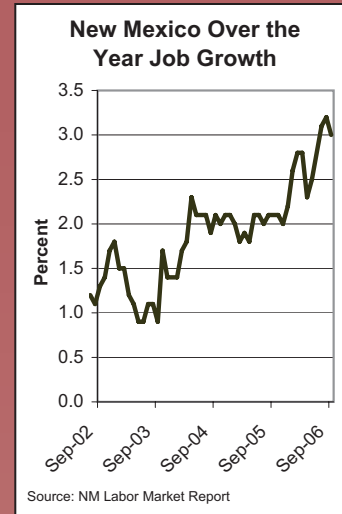
Recently, the United States government released figures on household income and poverty rates for 2005. While the median household income of \$46,326 was up from 2004, it's below the 1999 record high of \$47,671. The rate of those in poverty in 2005 remained unchanged from 2004 at 12.6 percent but is up slightly from the 2000 low of 11.3 percent. Interestingly, the increase in the number of Hispanics in poverty accounted for the overwhelming majority of the increase in the U.S. poverty population, while the number of blacks in poverty improved slightly, and the non-Hispanic whites remained mostly unchanged.

In August 2006, New Mexico's unemployment rate of 4.3 percent was lower than the national average of 4.7 percent for the same period. New Mexico's over-the-year job growth of 3.2 percent is sixth best in the nation. As the job market heats up in New Mexico and the unemployment rate remains low, only those who have skills, experience or a degree will benefit. In a tight job market, employers bid up wages and offer better incentives to retain good employees and begin to look outside the state to fill vacant positions.

Workforce Training – Responsibilities and Conflicts. With the national gap between median income and poverty growing and with New Mexico's low unemployment rate and recent high job growth, it is imperative that New Mexico's workforce system improve its service delivery system to its citizens. Adding to the urgency is a growing skill gap. Productivity gains are being achieved through globalization, higher skilled job growth, and a frozen minimum wage.

The Office of Workforce Training and Development (OWTD) was created in 2005 with six goals as follows:

- Serve as grant recipient and administrative entity for Workforce Investment Act (WIA) and Temporary Assistance for Needy Families (TANF) New Mexico Works programs and provide oversight and coordination for 24 other workforce programs;
- Develop a comprehensive plan with goals that include economic development, public education, supportive services and workforce systems led by the state workforce board and renewed annually;
- Create a business driven system to close the gap between what employers want and the system's ability to meet those needs;
- Create a locally driven system with funding flowing through the workforce boards;
- Insure one-stop center integration and co-location under the direction and authority of the local boards and designated one-stop operator;
- Coordinate public school, community college, and four-year institution programs with those of the workforce system.



Policy Analysis: Workforce Development

A 2006 LFC review of New Mexico's workforce system development and integration identified improved Workforce Investment Act (WIA) accountability and financial conditions. Unexpended WIA grant balances have not lapsed. Regional boards are up-to-date on their annual audits, data integrity has improved, and a new one-stop shop opened in Valencia County.

The review also found

- *OWTD has limited authority without significant intervention from the governor.*
- *OWTD has struggled to broaden its coordination responsibilities beyond WIA.*
- *OWTD needs to develop a performance-based accountability system to capture data from all partner workforce programs, not just WIA.*

The LFC review recommended:

A 2007 interim study of additional consolidation options because the current system remains fragmented and dilutes scarce resources.

Workforce Development. OWTD's attempt to hinge together the Workforce Investment Act (WIA) with the TANF NM Works programs suffered a crippling blow with the federal reauthorization of TANF program, which occurred with the passage of the Deficit Reduction Act (DRA). The reauthorization mandated increased participation rates for two-parent families, narrowed work requirement definitions, and re-established the benchmark for caseload reduction credit. The primary reason for trying to hinge together WIA and TANF was to expand the 3 percent share of TANF recipients accessing WIA services.

Before the reauthorization, the Human Services Department (HSD) was working with OWTD's four regional WIA workforce boards on integration of the TANF and WIA service delivery plan. After the reauthorization, HSD, facing time constraints, canceled the contract with the Central workforce board and allowed more experienced New Mexico State University (NMSU) to assume services in the Central Region.

OWTD has found the process of opening one-stop shops more difficult than it had anticipated. Originally, the plan included having eight one-stop shops open by the end of 2006 but OWTD was only able to help the Central workforce board open a one-stop shop in Valencia County. Although the Valencia one-stop shop isn't yet considered a comprehensive office, it is working toward that goal.

A Coordination Oversight Committee (COC), composed of six state agency secretaries and private employers, met regularly throughout the year to improve stakeholder communication, providing a rare opportunity for key decision-makers to meet and come to consensus on workforce-related issues. The COC endorsed career clusters, focused career ladders for groups of industries used to help guide students, parents, guidance counselors, and employers onto paths for career development. The COC will begin working with committee members to institutionalize its use throughout the workforce system.

Business Needs. At the 2006 New Mexico Governor's Economic Summit, employers expressed frustration and concerns over how few job applicants were passing preliminary job screens. KRQE News 13 reported that an estimated 12 percent to 25 percent of job applicants are failing drug tests screens. Employers find remediation necessary for basic arithmetic, verbal, and writing skills. Finally, once on the job, employers have found child care, transportation, and attendance contribute to poor performance and turnover.

The problem is not New Mexico's alone. To meet its recruitment goal of 80,000 this last year, the U.S. Army doubled the share of recruits

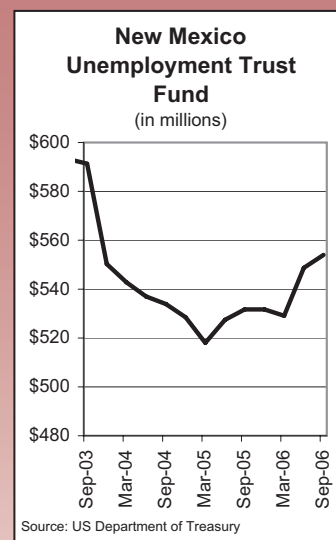
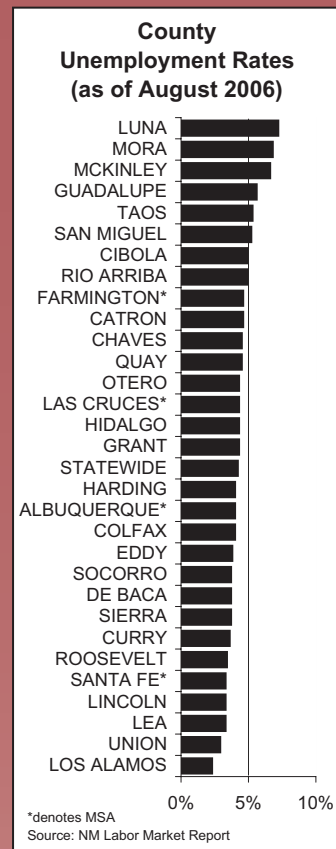
Policy Analysis: Workforce Development

with lower aptitude scores it would accept from 2 percent to 4 percent. The Army also issued waivers to 17 percent of the recruits for medical, moral, or criminal problems, up slightly from previous years. More than half of the waivers were given for misdemeanor arrests, including drunken driving and drug and alcohol problems. For those on the other end of the spectrum, the Army paid almost two-thirds of the recruits a signing bonus of \$11 thousand on average and up to \$40 thousand for those with specialized skills. Private research groups point to the Army's new policies as a good example of the dilemma between meeting recruitment goals versus hiring qualified workers that many private employers face.

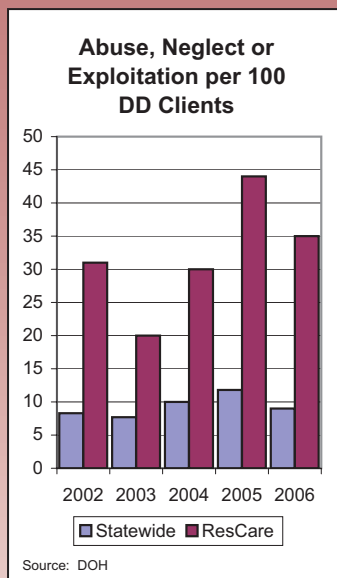
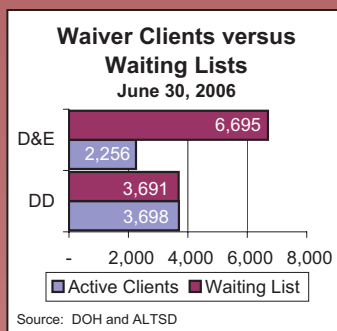
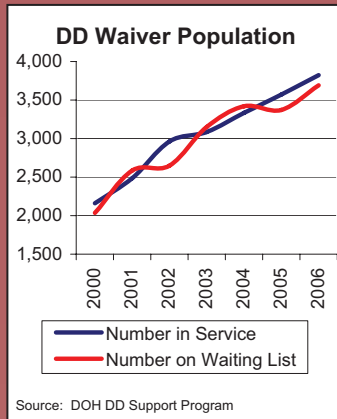
Unemployment Insurance Trust Fund. Unemployment taxes are deposited and benefits are paid out of a trust fund located in the federal treasury. New Mexico's unemployment insurance (UI) trust fund is among the most solvent in the U.S. with a balance of \$569 million. A U.S. Department of Labor (USDOL) rule of thumb concerning UI balances is one times the average annual payout; New Mexico's balance is just under three times the annual payout. Some advocates have expressed concern about the over-funded UI trust and believe the employers are being taxed too much or, conversely, the benefits are too low. A comparison of surrounding states reveals that New Mexico's tax rates are low and the benefits paid are even lower.

An employment insurance task force met throughout the summer to discuss benefit and employer tax issues. Members of the task force couldn't reach consensus; however, NMDOL will seek support to make permanent the enhanced benefits and reduced tax schedules passed in the 2004 legislative session. Since 2003, the tax cut has saved employers \$42 million, while the enhanced benefits have paid out \$20.2 million. In an attempt to spend down the large federal UI balance, NMDOL will propose to increase the weekly benefit payment, the dependent allowance, and eliminate the waiting week.

Additionally, the task force discussed a proposal by NMDOL to bifurcate the unemployment insurance trust fund by diverting \$150 million over a 3.5 year period into a state trust fund. The principle on the state trust fund would be invested with the State Investment Council, with interest earned used to replace dwindling federal administrative money. During the diversionary period, employer tax rates would be adjusted to keep most employers from having to pay higher taxes; it will be impossible to hold all employers harmless and a small percentage of employers may experience a slight increase. Should the federal UI trust fund run into trouble, funds from the newly created state trust fund would be available for transfer to replenish the federal fund.



Policy Analysis: Social Services



New Mexico's social service programs improve the quality of life for many New Mexico families by providing an array of comprehensive, coordinated services aimed at achieving or maintaining self-sufficiency. Services are provided for persons with developmental disabilities, mental illness, or substance abuse problems, financial and child-care needs, and other family services for low-income families. Included in the New Mexico system are various services for children, ages from birth to age 18, working adults, and the elderly.

Medicaid Waiver Programs. The Legislature has consistently invested in the state's five Medicaid waivers that allow New Mexico to provide benefits outside the regular federal rules for certain populations: the medically fragile, those with brain injuries, those with AIDS, the developmentally disabled (DD), and the disabled and elderly (D&E). Legislative support has been particularly strong for the DD and D&E waivers, the two largest. Additional funding provided by the Legislature 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 is just beginning to be implemented, and reductions in the waiting lists for the non-institutional care provided under the DD and D&E waivers have been slow, regardless of funding levels. The medically fragile, AIDS, and DD waivers are funded through Department Of Health (DOH). The brain injury and D&E waivers are administered through the Aging and Long-Term Services Department (ALTSD); however, direct funding for the D&E waiver is appropriated to Human Services Department (HSD).

Developmental Disabilities Medicaid Waiver. DOH defines a developmental disability as a severe chronic disability 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 waiver-defined areas of major life activity, 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.

DD Management Issues. In July 2006 DOH terminated the contract of ResCare, which provided services to almost 10 percent of the approximately 3,800 developmentally disabled clients being served by DOH. DOH did not provide a reason publicly for this change, noting that the contract allowed termination without cause. However, DOH's Division of Health Improvement (DHI) undertook compliance action

Policy Analysis: Social Services

against ResCare a number of times in recent years, including recently placing ResCare Metro Day Habilitation on moratorium, which means it could not accept new clients. DOH has also provided data showing ResCare was cited at a much higher rate than other New Mexico providers. ResCare complained that DOH hampered its ability to operate with an oversight system heavy on paperwork, training, and staffing requirements. DOH notes its attempt to balance the concerns of providers with safeguards for DD clients as it finalizes revisions to the health and safety standards used to evaluate DD providers.

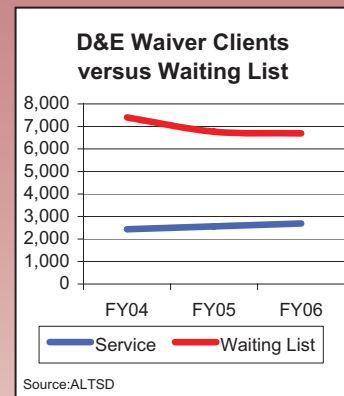
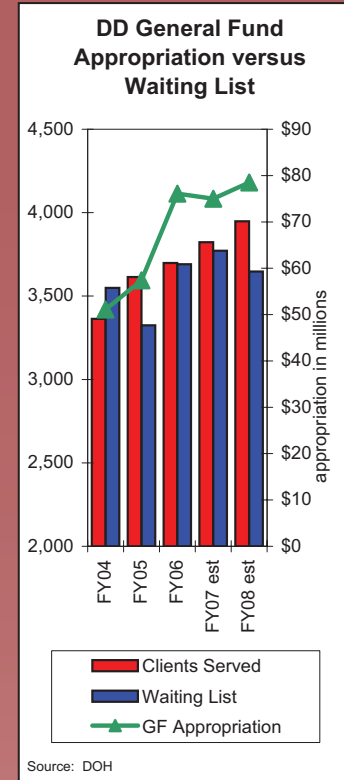
Disabled and Elderly Medicaid Waiver. The D&E Medicaid waiver allows elderly persons with disabilities to receive Medicaid services and live in home and community settings instead of institutions. The Aging and Long-Term Services Department (ALTSD) is responsible for administering the D&E waiver; however, the direct services portion of the funding remains at HSD.

Cost per Client, Clients Served, and Waiting List. General fund expenditures for the D&E waiver were \$13.9 million in FY06. The number of clients served in FY06 was 2,688, up from 2,559 in FY05. The number of clients on the central registry waiting list was 6,695 on June 30, 2006, down slightly from 6,765 in FY05. ALTSD reports the average cost per client in FY06 was approximately \$5.9 thousand. This figure decreased slightly from FY05, a change driven by tighter federal service standards. The department reduced the average amount of time a person waits for an allocation from 60 months in December 2004 to 26 months.

HSD, which funds D&E, projects general fund cost to be \$15.6 million in FY07 and \$16.6 million in FY08. The current cap on program participants is 3,000. Going above this level would require increased funding and agreement from the federal government.

Mi Via Self-Directed Waiver. DOH recently received approval for the Mi Via self-directed waiver and plans to begin implementation during the final months of 2006. Mi Via combines 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.

Eligible participants can either participate in Mi Via and choose self-directed services or receive services through one of the current waivers. DOH and ALTSD indicate up to 15 percent of existing clients may choose to migrate to the self-directed waiver in the first year. Services provided will include current waiver services plus other supports that might not be available under the current structure, including home appliances, assistive technology, or medical equipment.



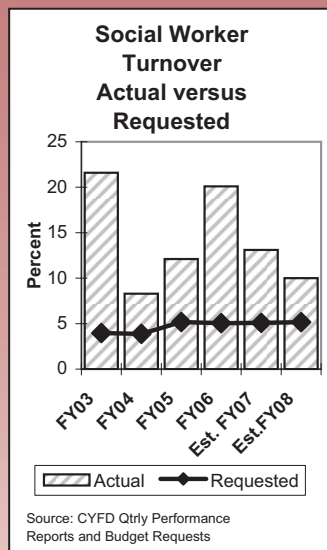
Policy Analysis: Social Services

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.

Mi Via Medicaid Recipients

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



Jackson Lawsuit. In the joint stipulation on disengagement (JSD) in the lawsuit aimed at ending the institutionalization of the developmentally disabled, the state and the plaintiffs 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, 20 remain to be 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 24 audit recommendations from 1998 are disengaged.

According to DOH, the disengagements are approximately two-thirds complete and attorney fees and disengagement for this case exceed \$2 million annually.

Child Protective Services. The federal Deficit Reduction Act (DRA) and Budget Reconciliation Act (BRA) will have a profound impact on federal revenues in the Protective Services Division (PSD) of CYFD for FY07 and FY08. New Title IV-E regulations, in response to the DRA, prohibit administrative claims for children obtaining services from unlicensed providers; the estimated federal fund shift to New Mexico is \$450 thousand. More significantly, stricter reimbursement standards for targeted case management in the foster care program by Medicaid Title XIX will shift \$4.1 million to New Mexico.

To address the systemic problem of caseworker turnover and vacancies, CYFD has worked with the State Personnel Office (SPO) to allow the agency to consider candidates with related degrees instead of only allowing licensed social workers to be caseworkers. This action broadened the labor pool and increased the number of applicants; however, at the end of September 2006 the vacancy rate remained relatively high at over 13 percent. At the end of FY06, the agency shifted \$700 thousand out of personal services and employee benefits and reallocated it to other costs and left another \$500 thousand unspent. Historically, the agency has used a low vacancy rate in its budget request and later shifted the vacancy savings to other expenditures or reverted the surplus at the end of the year.

PSD received national recognition from the federal Administration for Children and Families (ACF) in FY06 for completing and achieving a program improvement plan and also achieved a tier 1 status for its statewide automated child welfare information system, commonly known as FACTS (Family and Client Tracking System). Only two other states have achieved tier 1 status. Also the division successfully completed a federal audit of the Title IV-E program.

Policy Analysis: Social Services

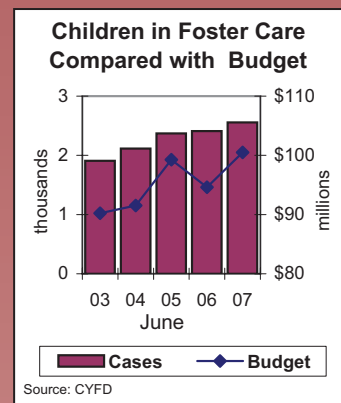
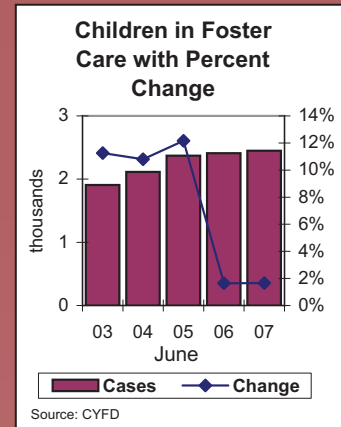
Caseloads. The tide may be turning with respect to double digit caseload growth rates. From 2003 through 2005 foster care caseload growth ranged from 10.8 percent to 12.2 percent, but growth fell to 1.6 percent in 2006. The slower growth may be attributable to the recent decline in the number of methamphetamine lab busts in New Mexico. Although there have been fewer meth lab busts, meth continues to be a factor in 30 percent of all cases, which has added complexity to the caseload. Families with a meth-related issue require more intensive case reviews and have less chance of being reunited, leaving children in state custody longer.

Foster Placement. On June 30, 2006, the state had 973 licensed foster homes and a need for 1,400 more. National studies indicate that successful foster parent recruitment and retention is tied to reimbursement rates. In the 2006 legislative session, CYFD received a \$500 thousand general fund appropriation to match with federal revenue to increase the reimbursement rate. The agency, at the time of the request, estimated the increase would generate a monthly increase of \$100 per month per placement, but when implemented, the funds provided only a \$25 increase. The need remains to increase the reimbursement rate by the full \$100 per month and the agency will seek funding to implement the remaining \$75 increase.

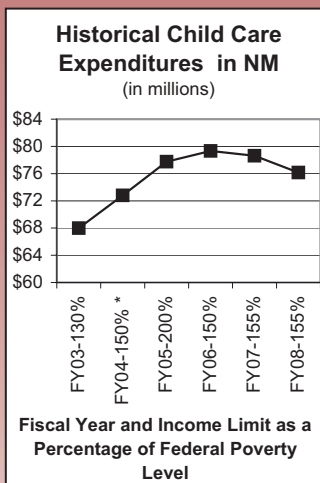
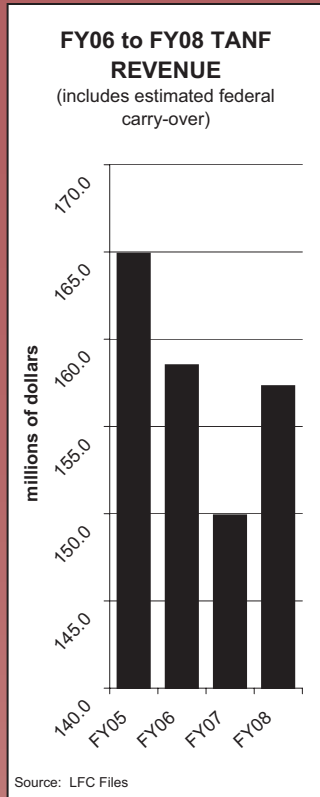
Temporary Assistance for Needy Families Reauthorized.

Congress had not reauthorized the TANF program since 2002. A series of short-term extensions kept TANF funded and operating. During the lifetime of the program (since 1996), the original funding did not increase, effectively diminishing the buying power over time. Finally, reauthorization occurred as part of the Deficit Reduction Act (DRA). The federal block grant was reauthorized at the same level through September 2010, with annual funding for New Mexico unchanged at \$110.6 million. However, the supplemental grants were reauthorized for only three years and New Mexico receives an additional \$6.3 million from this allocation. As expected, more stringent work requirements are required under the DRA rules.

One change that will affect the New Mexico program is a requirement that all TANF recipients meet the federal work participation rates, regardless of whether they receive federal funding or are in a separate state-funded program that uses the maintenance of effort (MOE), funds the state must spend on TANF eligible programs to receive the federal block grant. This is the case with the Education Works program; the participants in that program must now meet the work requirements rather than attend college as a substitute for direct employment. HSD is concerned these changed requirements will require expanded case management services with revenue from the general fund.



Policy Analysis: Social Services



For the past two years the total New Mexico TANF budget has ranged from \$150 million to \$158 million. The range has narrowed over these last two years as a result of reduced availability of prior-year federal carry-over, which previously reached \$20 million or more. The depletion of the federal carry-over forced New Mexico’s TANF program to pare down its ancillary services and focus more on cash assistance and workforce training to stay within its annual federal grant level of \$150 million.

Domestic Violence. As stated in the CYFD service definition manual, the goal for domestic violence (DV) programming is to provide community-based services aimed at improving and enhancing the emotional, mental, physical, and behavioral health of women, men, children, and families who have experienced domestic violence.

In FY07, funding for statewide DV programming was consolidated and appropriated to CYFD. Previously, TANF funding for DV services was budgeted at the Human Services Department. CYFD issued a request for proposals (RFP) to disburse the funds and target service delivery at families who experience domestic violence, including adult victims and survivors, child victims and witnesses, and domestic violence offenders. CYFD has tried to ensure service providers are responsive to the ethnic, cultural, racial, and socioeconomic diversity of the state through its contracts.

Childcare Quality. New Mexico’s childcare program is larger than many state agencies with \$80 million and an average monthly caseload of 24,000 children. Throughout the interim, in testimony to the health and human service and the welfare reform oversight committees, the public has expressed significant interest in both increasing the quality of care and expanding services to more youngsters at higher incomes.

National studies link quality child care with improved school readiness and achievement of developmental milestones. Recent efforts to improve and identify quality child care in New Mexico include the implementation of the AIM High and STARS rating systems for childcare centers. At each successive level in the rating system, the provider is required to implement various quality initiatives.

More than 75 percent of subsidized child care is at the minimum rating in the AIM High program. At the end of FY05, CYFD attempted to increase the minimum quality level requirement and gave providers one year to make the necessary adjustments. Throughout FY06, providers reported that the agency needed to do more and complained that standards were unreasonable. The greatest obstacle

Policy Analysis: Social Services

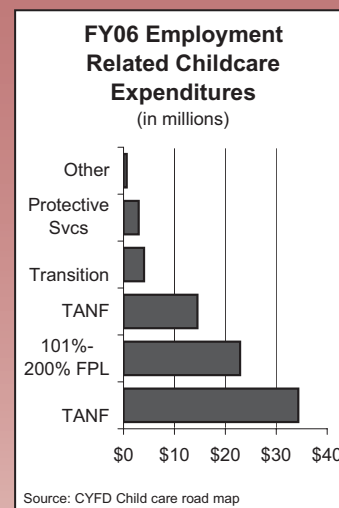
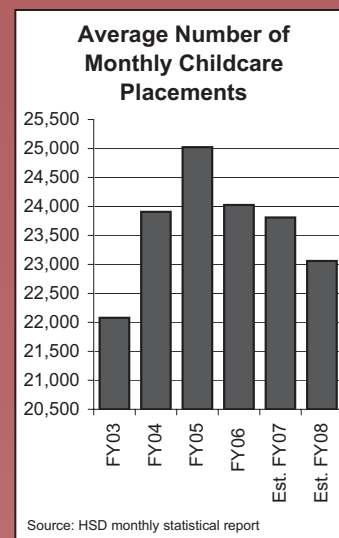
the providers faced was a requirement that direct care staff have 45 hours of early childhood education. Some providers stated that too few early childhood education slots were available, and some areas of the state didn't offer the course. During this period, the senior management team at CYFD experienced a near complete turnover, including the Family Services Division director, which added another level of uncertainty to the issue. On the eve of the new regulations taking effect, and with less than 25 percent of the providers meeting the new minimum, CYFD repealed the requirement.

Late in 2006 CYFD unveiled a new initiative to increase the provider reimbursement rate for each successive level in the AIM High ratings. The rate increase will have a long-lasting effect on provider rates and, over time, could result in as much as \$6 million more for providers.

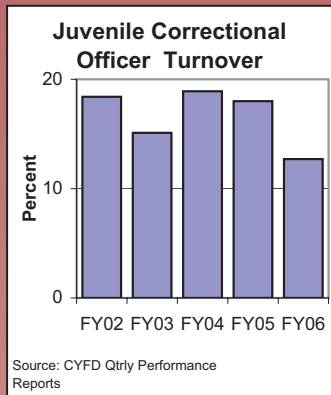
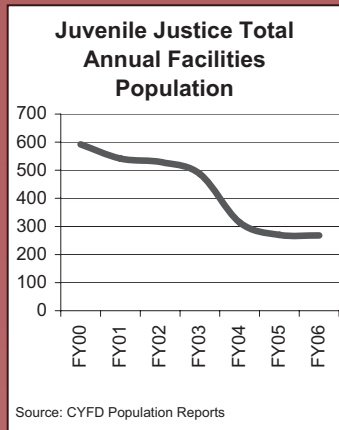
Childcare Eligibility. Some welfare-to-work experts have talked about the “cliff effect” of New Mexico’s childcare program. Some working parents will inevitably face the dilemma of accepting a salary increase that will push them over the income-eligibility limits for the childcare subsidy but is not sufficient to cover all of their childcare costs. A parent who is close to the income limit federal poverty level (FPL) might turn down a 25-cent-an-hour salary increase, which equates to \$520 more per year, in order to keep their \$4,500 childcare benefit. For many families working their way out of poverty, the likelihood of receiving a salary increase sufficient to completely offset the loss of their childcare benefit is slim.

A recent LFC review of the workforce system suggested a tiered exit strategy could improve outcomes for those families faced with the cliff effect. The tiered exit strategy would keep the income eligibility fixed at 155 percent of the federal poverty level (FPL) when entering the program but, once enrolled in the program, allow participants incomes to grow to 175 percent or 200 percent of FPL. This new exit strategy allows participants to accept salary increases and grow their incomes until they are able to more fully assume the cost of child care without a subsidy.

Juvenile Justice. Since 2004, CYFD has been committed to a community-based preventative approach to juvenile detention. This new strategy keeps at-risk youth, who have committed minor infractions, out of detention and in community rehabilitative services. The initiative stems from a belief that children who experience minor mishaps with the law can be further harmed if locked up and exposed to other more violent youth. These alternatives to incarceration require money and time for prevention, intervention, therapy, and surveillance.



Policy Analysis: Social Services



“(Home visiting) is rooted in a pessimistic view of the future that awaits an American child born poor – a sense that the schools, day-care centers, and other institutions available to him may do little to nurture his talents”

The New Yorker, February 6, 2006

declined sharply. Faced with excess capacity and millions of dollars tied up in half-empty facilities, CYFD closed the Camino Nuevo Youth Center (CNYC) and transferred the New Mexico Boys’ School (NMBS) out of Springer. Closing Camino Nuevo saved the agency an estimated \$3.7 million in operational costs and the Springer transition will free up another \$10.9 million. Across the nation, states have switched from archaically large detention facilities to juvenile systems with smaller, regional, or specialized facilities so that services can be delivered closer to home.

For many years, children's rights groups, juvenile justice system personnel, and child advocates have tried to get the New Mexico Boys’ School (NMBS) to close its doors or convert to another use. Faced with a possible lawsuit by the American Civil Liberties Union (ACLU) and the possibility of losing a major employer in the area, the community and agency worked together and agreed on a plan to convert the facility to a low-risk adult prison.

Transforming the Springer facility has been difficult, contentious, and not without incident. CYFD held numerous meetings with city and county officials, labor unions, facility staff, and several state agencies throughout summer and fall 2006 to address a myriad of issues and concerns. To relocate the juveniles, the agency increased capacity at the J. Paul Taylor facility in Las Cruces, converted the Camp Sierra Blanca facility (CSB) from a non-secure to a secure facility, refurbished the Springer Area 1 facility, and signed a new contract with the Santa Fe County Juvenile Detention to house adjudicated juveniles.

Significant and outstanding concern remains over the lack of high-risk, high-need beds in the new facility matrix and the increased possibility of mismatching juveniles, facilities, and programming. Shortly after the transfer, juvenile-on-juvenile violence increased, including two separate incidents of rape, and CSB had an escape. In addition, many elements of the ACLU’s agreement remain unsatisfied; the agency remains exposed to further action from ACLU or the courts.

Home Visiting. Research on early childhood experiences has shown a strong correlation with teen and adult cognitive, social, emotional, and physical health and development. Early intervention can influence a child’s long-term health and development, including improving school readiness, ability to learn, and help reduce developmental and behavioral disorders and the associated high costs and long-term consequences for health, education, child welfare, and juvenile justice systems. A variety of early intervention programs have been piloted, but the best results have come from initiatives involving home visits by staff trained in early childhood health and intervention.

Policy Analysis: Social Services

One of most successful home visiting programs, the Nurse-Family Partnership in Elmira, New York focused on intensive, prolonged, home visits targeted to at-risk mothers. Over the last 25 years, after having been in the program, participant mothers were more likely to be employed, off public assistance, and in stable relationships with their partners. In other similarly structured home-visit programs, children by age six had larger vocabularies, fewer mental-health problems, and slightly higher IQs. Common to all home-visiting programs were mothers who had fewer subsequent children and longer spaces between children.

The Legislature in 2005 appropriated \$500 thousand to CYFD for a pilot home-visiting program. The initial pilot, dubbed the Newborn Welcome Visit program, was not intensive, targeted, or medically based, key elements found in successful programs. In 2006, the Legislature increased the home-visiting funding to \$1 million and CYFD re-tooled the pilot to incorporate more key elements and national best practices. The Behavioral Health Collaborative's contract with ValueOptions was amended to process home-visiting provider claims and to maximize Medicaid funding where possible. The agency selected nine new home-visiting providers in November 2006 and projects the new services to begin before the end of December 2006.

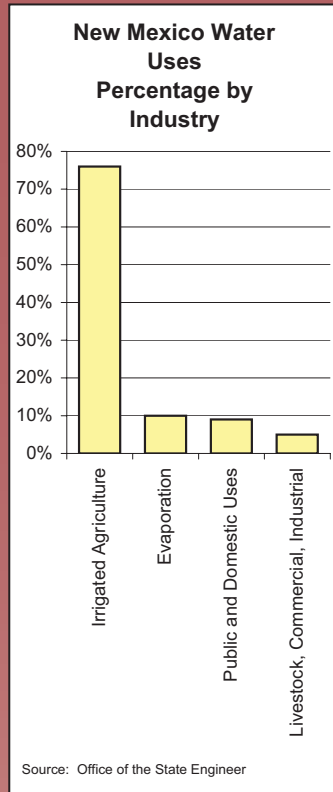
In the long run, cost-effective implementation and expansion of this program will require federal participation through the Medicaid program, which covers approximately half of the babies born in New Mexico.

"An economic analysis of the Olds experiment commissioned by the state of Washington concluded that the (Nurse-Family Partnership) – which currently costs around four thousand dollars per year per family – was cost effective as well, because the children aided by the nurses had required few expensive social services such as foster care and hospitalization"

The New Yorker, February 6, 2006

CYFD is working with Las Alamos National Laboratory and the Santa Fe Institute to develop standardized performance evaluation methodology to outcomes.

Policy Analysis: Natural Resources



The summer rainfall helped stream inflow and replenishment for most of the reservoirs in the state. Total storage in New Mexico has improved significantly, with the most dramatic improvements being realized in the southern part of the state.

The preservation of New Mexico's natural resources requires responsible stewardship that protects the state's current and future environmental health. Natural resources initiatives supported by the legislature have focused on drought and water management, water litigation and adjudication issues, wild land fire protection, alternative energy development, and water quality.

Drought Status. The short-term drought status in New Mexico improved as a result of the record-breaking monsoon rains of late summer and early fall 2006. By October, all of the emergency drought conditions disappeared in the state, and a warning drought status lingers only in part of northcentral New Mexico and in some small areas in the western and southwestern parts of the state. August 2006 precipitation was 184 percent of average in New Mexico, the wettest August on record. Long-term drought projections also suggest considerable improvement, with most of the western, eastern, and southern parts of the state now operating under a reduced drought advisory status. Soil moisture conditions have also substantially improved, and as of mid-September 2006, 60 percent of the pasture and rangeland was in "good" or "excellent" condition, compared with only 3 percent in early June.

In general, the National Weather Service suggests that, despite the easing of drought conditions, the lingering impacts of the long-term drought will require significant winter precipitation and spring snowmelt runoff before they are significantly marginalized.

Active Water Resource Management. Active Water Resource Management (AWRM) came in response to a legislative initiative that called for the State Engineer (OSE) 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 OSE with the ability to create water districts, appoint water masters, and develop rules and regulations, as well as water master manuals.

AWRM is 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. The general AWRM rules adopted in November 2004 provide that, when necessary, junior water-rights holders will be able to temporarily and quickly acquire senior water rights from willing sellers; however, provisions for expedited transfers do not apply within acequias or community ditches. Also, the expedited transfer provisions do not take water from senior water rights holders, but enhance their ability to

Policy Analysis: Natural Resources

benefit from the higher monetary value of those rights, should they choose, either on a temporary lease basis or a sale. The rules also protect the safety and welfare of the public by ensuring drinking water cannot be cut off without recourse.

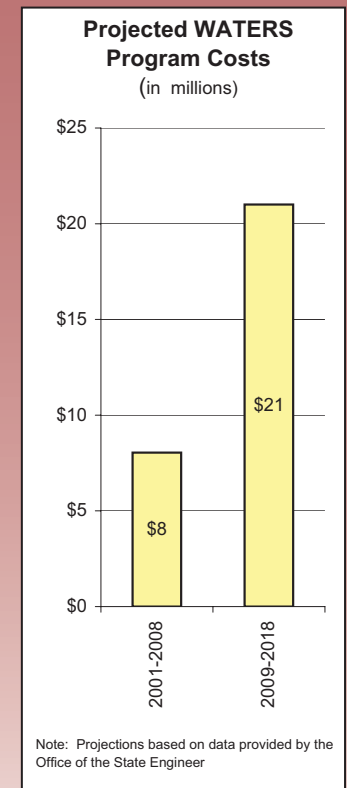
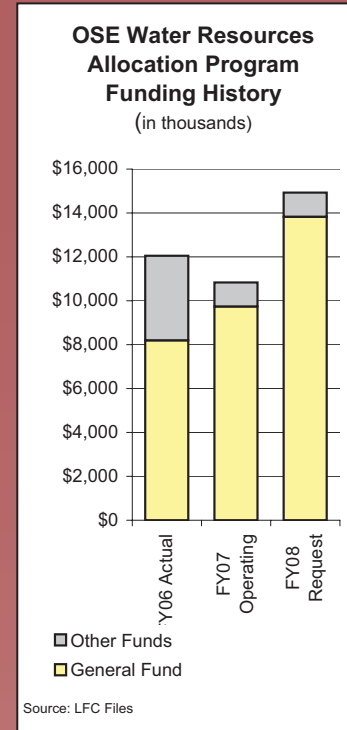
OSE selected the San Juan River, Rio Gallinas, Rio Pojoaque, Rio Chama, Mimbres, Lower Rio Grande, and Rio Hondo/Rio Peñasco tributaries to the Pecos River as the critical areas to begin implementation of AWRM.

WATERS Program. OSE’s Water Administration Technical Engineering Resource System (WATERS) program makes the agency’s extensive water rights records more readily accessible to staff and the public. By design, the WATERS program is a web-based system that will track the progress of new applications through the stages of the administration process from the date of filing until action is taken. It provides information on the history of individual water-right claims in New Mexico, court orders and decrees, hydrographic survey results, water-right applications pending before the State Engineer, and electronic images of water-right documents. By accessing WATERS, anyone can obtain immediate information concerning water use, and water-rights location, and owners, as well as details of well construction. Users can determine how much water use is permitted in a water basin, track changes in water use patterns, bring together regional data on water use, and compile and analyze data to build water-use models.

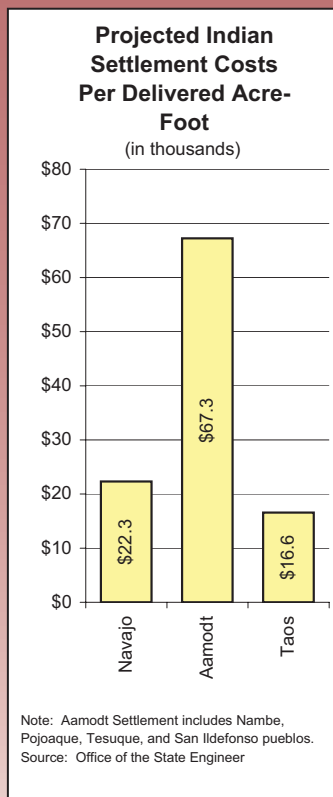
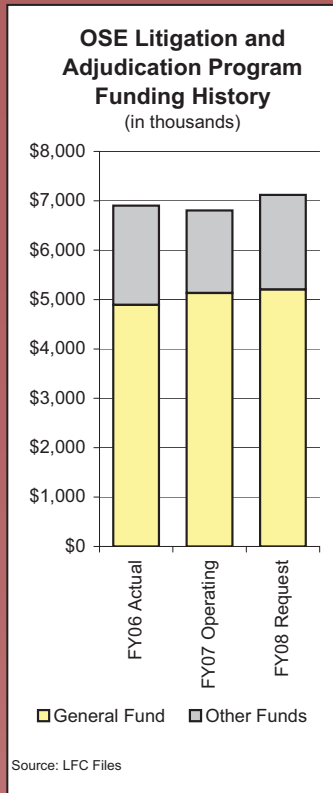
Agency projections suggest that the historical analysis and abstract phase of the WATERS project will not be completed until 2018, at an estimated additional cost of some \$21 million, thus raising issues with respect to costs, the projected length of implementation schedules, and technical validity of the data’s format.

Water Adjudication and Litigation Issues. The questions associated with water adjudication and litigation are some of the state’s most complex public policy issues. Accordingly, the efforts of OSE’s Litigation and Adjudication Program (LAP) are critical. In their capacity as legal advisors to the State Engineer, the program’s attorneys prosecute all water rights adjudications brought on behalf of the state of New Mexico, provide legal representation to the Water Resources Allocation Program in all water-use-permit administrative hearings and seek injunctions on the State Engineer’s behalf against illegal uses of water or over-diversions of water.

Eleven active adjudications currently are pending in New Mexico courts, involving stream systems in the Rio Grande, Pecos, Upper Colorado River, and Lower Colorado River drainage basins. The



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entire Pecos River stream system is the subject of an adjudication that began in 1956. Adjudications of several tributaries to the Upper Rio Grande were started between 1966 and 1983 involving water rights of many of New Mexico's Indian pueblos and tribes, the federal government, municipalities, community ditches, and thousands of individual defendants.

The adjudication of the lower portion of the Rio Grande was originally filed in 1985 by the Elephant Butte Irrigation District but remained inactive until 1996. It involves New Mexico's largest irrigation district, a major federal reclamation project, municipal and county water rights, New Mexico State University, the city of Las Cruces, and thousands of individual groundwater claims within Doña Ana County. The San Juan River stream system has only been partially adjudicated.

The water right claims of the Navajo Nation, the United States, and thousands of private claims have not been surveyed or adjudicated in a comprehensive stream system adjudication required by state law. OSE hydrographic survey staff is currently surveying the non-Indian private claims.

The settlement claims, particularly those involving tribal, pueblo, and federal government representatives, are both complex and protracted in nature. However, the settlements do not seemingly reflect the budgetary constraints of all parties involved in a particular settlement agreement. For example, when local governments announced the signing and settlement of the 40-year-old Aamodt water-rights lawsuit in May 2006, federal government representatives responded that it was being asked to fund an unequal amount of the costs and noted that it was opposed to any settlement that has the federal government providing the majority of the funding. "The U.S. opposes any settlement that has the federal government providing the majority of the funding," said Cynthia Magnuson, a Department of Justice spokeswoman. John Right, a spokesman for the Department of the Interior, further stated, "The benefits by nonfederal parties are disproportionate to their costs." (*Santa Fe New Mexican*, May 4, 2006)

There is concern with OSE's interpretation of Laws 2005, Chapter 293 (HB1110), which allows 10 percent of all funds in the water project fund to be used for water rights adjudication. The specific question focuses on the use of tax-exempt bond proceeds to fund agency operating costs, as opposed to funding adjudication activities that create capital assets. Staff requested an opinion from the Attorney General and a response is pending.

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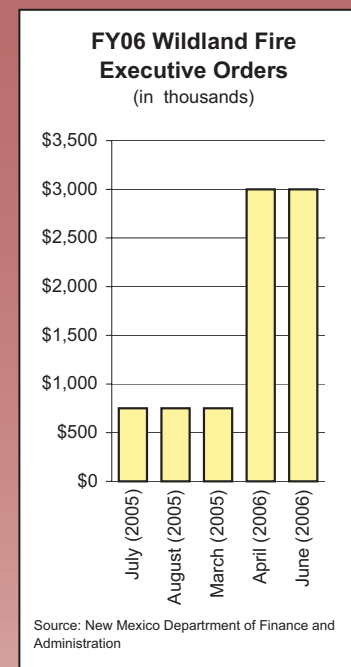
Fire Protection. Although the recent rains have done much to temporarily mitigate the state's drought conditions, the moisture has also created an abundance of light, fast-burning grass fuels, the same conditions the Energy, Minerals, and Natural Resources Department's Forestry Division addressed during the 2006 wild land fire season. Given the state's spring winds and dry periods, these fuels quickly become susceptible to large fires. During FY06, executive orders authorized the expenditure of \$8.25 million in emergency funds by the Forestry Division to respond to wild land fires, pre-position equipment, and ensure that preparations are adequate to deal with the disasters. While pre-positioning has the benefit of providing rapid, initial response to contain an incident, it is fundamentally more aligned with contingency planning.

Alternative Energy. To support alternative energy initiatives, the Legislature in 2006 appropriated \$250 thousand to fund a biomass renewable energy project, as well as \$1 million to support a renewable energy transmission authority, a contingency appropriation not signed into law. Currently, the development of an alternative energy agenda remains a central policy consideration. This is particularly evident in the establishment of realistic performance and accountability objectives with which to evaluate energy-related programs, such as alternative transportation fuel technology, reduction of energy use in public facilities, reduction of utility costs in state-owned buildings, and the assessment of alternative energy projects.

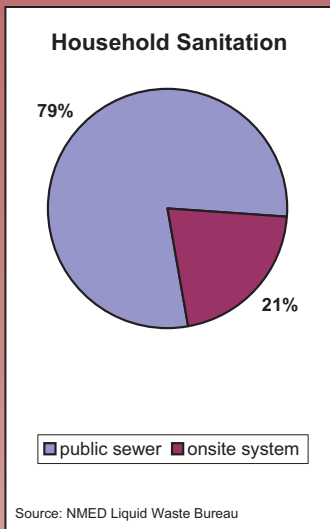
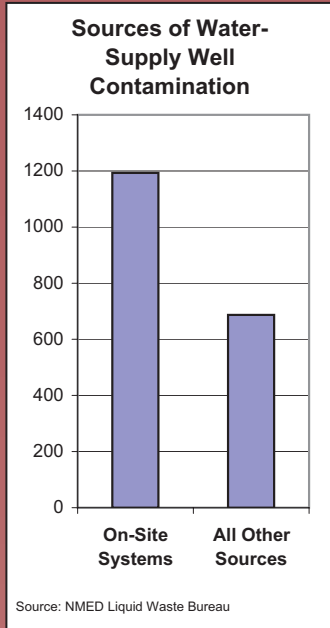
Water Quality. Water quality remains a core issue for resource management. A polluted water source not only can cause a drastic decline in native species and impact human health, it also removes that source from the water inventory for current and future use. Thus, water quality is directly related to the issue of water quantity, making preserving quality a paramount priority. Current challenges the state faces include specific problems of pollution; replacing declining federal grants; implementing a cohesive solid waste, water, and wastewater capital project system; and directing sufficient resources toward pollution prevention through the permitting, monitoring, and compliance of water dischargers.

Septic Tanks. Ninety percent of New Mexicans use groundwater for drinking and nearly half of total water used for all purposes is from groundwater. According to NMED reports, septic systems and cesspools constitute the single largest source of groundwater contamination in the state, more than all other sources combined. While properly installed septic systems are an appropriate means of wastewater treatment and disposal, unsuitable site conditions, improperly installed systems, or system failures have polluted 1,294 public and private water supply wells with disease-causing organisms,

In support of water-related projects, the 2006 Legislature appropriated \$40 million to the Water Trust Fund and passed legislation to amend to state constitution in order to make the fund permanent. Voters approved this amendment in November.



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Onsite system types:

- 215,000 septic
- 2,400 advanced
- 24,000 privies or other

Source: *Onsite Sewage Management in New Mexico*, NMED July 20, 2006

nitrate, and chemical contamination. In addition, 20 stream segments, totaling 355 river miles, have been adversely impacted. A map of documented contamination from septic systems reveals this issue runs statewide.

NMED has issued permits to only about half of the estimated 241,000 onsite liquid waste systems in New Mexico. While legislation passed in 2005 now requires inspection prior to property transfers, many unpermitted septic systems and illegal cesspools remain undetected. In addition, the high residential construction rates in certain areas have helped push the number of permits issued in FY06 up 47 percent from FY03 to almost 8,000. Current staffing levels do not support this increase, let alone address the inventory of unpermitted systems. Interestingly, many of these new systems are within highly populated areas that have unused capacity in public wastewater treatment plants, such as Rio Rancho in Sandoval County. Accordingly, possible environmental and future economic impacts of septic overutilization supports the creation of a state strategic plan regarding a “best practices” approach for septic use that encourages developers to use alternative and regional solutions, particularly in the areas where cluster systems or public wastewater facilities are viable. The scope should include assistance for low-income households with failed systems.

Colonias. The border area is particularly susceptible to groundwater contamination, sharing vast underground aquifers with Texas and Chihuahua that supply water for trans-boundary residents, agriculture, and commercial uses. On the New Mexico side, the greatest concern remains the rural communities known as colonias, neighborhoods within 100 miles of the U.S.-Mexican border that lack adequate sewer, water, and housing. The federal Clean Water Act, as amended, authorized \$20 million in federal grants to address wastewater treatment needs for colonias, and was matched by \$8.7 million in state funding. Administered by the NMED Construction Programs Bureau (CPB), all projects are complete. In 2005 the Legislature appropriated \$5 million to improve infrastructure in 15 communities within Dona Ana County, while the 2006 combined appropriation of \$5.9 million was allocated to five counties statewide. Over \$26.8 million in other funds was leveraged with the 2006 legislative appropriation, although \$11.8 million of those funds were directed to a border crossing in Sunland Park rather than for “critical need” infrastructure related to water.

While NMED acknowledges improvements in water and wastewater infrastructure in the last 10 years, the department points to needed repairs, upgrades, or expansion to accommodate population growth. Groundwater contamination through illegal dumping due to

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insufficient transfer stations remains a concern. In addition, attention in the border area is increasingly focused on matters of hazardous waste transport and disposal, as well as flood control and air quality. For these reasons a continued monitoring of the colonias is warranted.

Arsenic Remediation. On January 23, 2001, the U.S. Environmental Protection Agency (EPA) reduced the arsenic maximum contaminant level (MCL) from 50 parts per billion (ppb) down to 10 ppb. Arsenic, along with other potentially harmful metals, occurs naturally in groundwater due to the volcanic nature of the substrata. At the time of the order, NMED identified 136 drinking water systems at or above the new MCL. NMED reports that it is working with about 25 remaining systems to bring them into compliance by the December 31, 2007, deadline. Estimates in capital costs to upgrade the systems for compliance range from \$250 million to over \$500 million, with annual operating costs ranging from 2 percent to 5 percent of operating costs, or about \$18 million per year. According to NMED, uranium appears to be as big a problem as arsenic, yet will pose even a bigger technical challenge for removal.

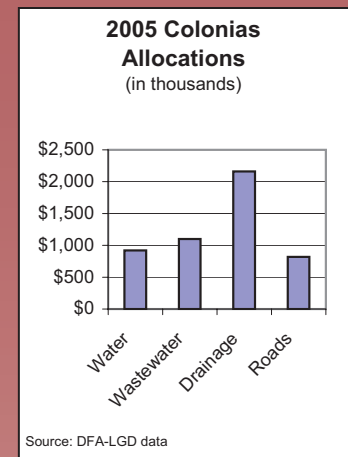
The significant issue remains on how the state will continue to meet federal regulations to provide safe drinking water without added federal funding. Current revenue sources include taxes, fees, permitting, and penalties. New revenue streams are needed that do not load additional burden on citizens or industry. Lowering the cost of implementation could also be explored. One option is to use tax incentives in the private sector to encourage research and development in more cost-effective technologies to address these environmental mandates.

Surface Water. NMED lists heavy metal contamination, sedimentation, and turbidity as three of the major causes of stream water impairment, and siltation, nutrients, and nuisance algae as the major agents of use impairment. Site specific, or point source, contamination accounts for less than 3 percent, indicating that the state, working with the EPA and permittees, has been largely successful in reducing point source impacts on the state's surface waters through the water discharge permitting and assessment process. NMED currently inventories 120 permits through this EPA-administered national pollution discharge elimination system (NPDES). However, the future of this successful program is threatened by recent Supreme Court decisions that effectively scale back the scope of the Clean Water Act, possibly leaving some of New Mexico's streams, such as the Santa Fe, unprotected. Thus, NMED cautions that the state may need to take over "primacy" from the EPA, which would significantly increase operating costs for the department.

NMED cites 100 documented cases of contamination in the three border counties. Since 1980, nitrate contamination of groundwater, generally due to improper domestic waste disposal and agriculture, has become the leading contaminant issue. Additional sources are as follows:

Petroleum facilities: 55
Pesticides: 9
Solvents: 8

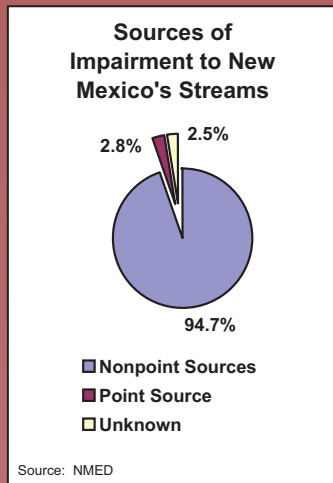
Source: NMED



The final report for 2005 projects is due by the end of second quarter FY07 from the Department of Finance, Local Government Division, which is administering the appropriations.

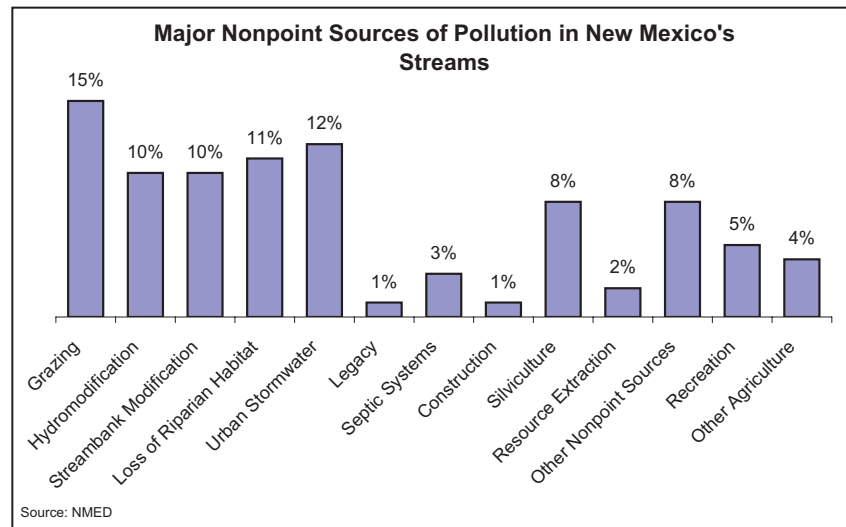
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Because New Mexico remains relatively rural and unindustrialized, nonpoint, or diffused, sources contribute the majority (95 percent) of surface water impairment. Any dirt road or pasture can become a potential nonpoint contributor, particularly for sediment. The largest probable sources are urban storm-water runoff, livestock grazing, loss of riparian habitat, hydro-modification, and stream bank modification. Although a small percentage overall in stream impairment, septic systems remain the biggest contributor for nutrient problems.



“From a total of over 6,561 primarily perennial stream miles, almost 2,612 assessed miles, or 40 percent, have identified impaired designated or attainable uses while 53,666 out of a total of 82,913 acres, or 65% of significant identified lake, reservoir, or playas do not fully support designated uses.”

Source: NMED



The Clean Water Act was amended in 1987 to establish a national program to control nonpoint sources of pollution. Federal grants under this provision have been used by NMED to manage a balanced program to address both existing impairments and prevent future pollution. However, projected reduction in this “319” funding threatens NMED’s five-year program to significantly address watershed restoration. How the state will respond to such reductions in federal funds is part of the overall debate on producing a fiscally responsible state budget that includes meeting basic operating expenditures and needed expansions, as well as balancing important additional programs.

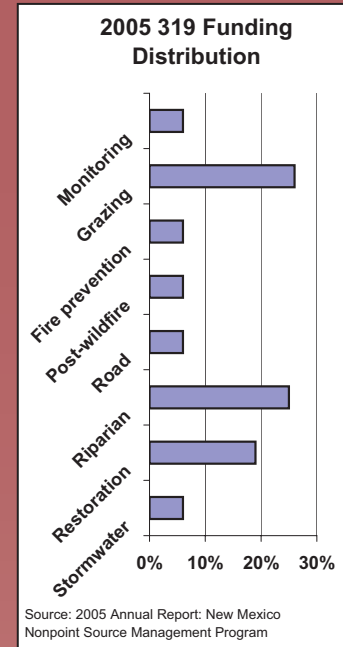
Mercury Contamination. NMED studies indicate that, with some notable exceptions, mercury levels remain low in the state’s surface waters. However, 23 fish advisories have been issued due to elevated mercury concentrations in fish. Virtually all of the mercury that accumulates in the edible portion of fish has combined with methane to form methylmercury, one of the most toxic substances known, posing a significant health threat for humans and wildlife that eat the affected fish. The state does not currently have mercury standards for

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fish, nor does it fund a specific program to monitor mercury in fish and issue advisories, leaving a potential serious health issue unaddressed.

Water and Wastewater Infrastructure. While permitting has been the primary resource protection tool in New Mexico for a number of years, more recently the state has demonstrated a strong commitment to address water quality and quantity issues through capital outlay for water, wastewater, and solid waste facility construction. From an average of \$5.2 million, appropriations for water and wastewater projects have climbed every year from 2001 to over \$63 million in FY06. Most of these projects require technical and financial expertise provided by the NMED Construction Programs Bureau (CPB). According to the latest CPB project status report, as of June 30, 2006, CPB was performing administration and construction oversight for 678 active projects with an outstanding balance of \$113 million, as well as providing technical expertise to other agencies. As a consequence of this dramatic increase in workload, properly monitoring the projects with current staffing has become problematic, causing delays. These delays may be compounded during periods of inflation, where rising material prices can push the project cost beyond the original appropriation. Effectively moving projects through the pipeline to completion has, therefore, become particularly crucial.

An uncommitted cash balance of about \$55 million in the clean water revolving loan fund reveals another weakness in the state's capital outlay system: recipients naturally eschew loans in favor of grants. A complete system overhaul that reduces bureaucracy, implements standard practices (such as a minimum loan-grant ratios and state-wide prioritization), and maximizes leveraging is required if New Mexico is to meet the growing challenges of managing and protecting its natural resources, as well as protecting public health.



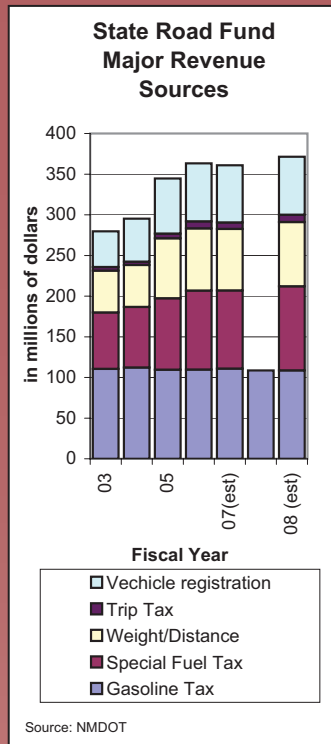
A total of \$1.6 million was awarded to “on-the-ground” projects in 2005, and a projected \$1.2 million 319 grants awarded for projects in 2006.

Agencies that perform funding functions for water- related capital outlay:

- NMED Construction Program Bureau
- New Mexico Finance Authority
- DFA Local Government Division
- United States Department of Agriculture Rural Development

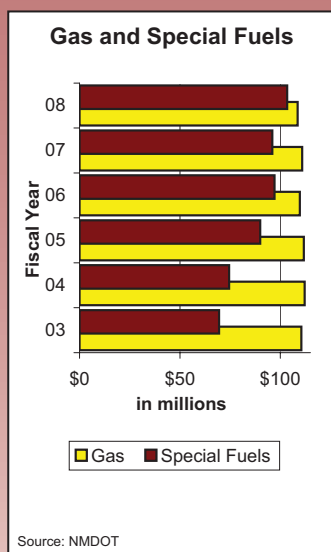
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The New Mexico Legislature in 2003 enhanced funding for transportation systems through the innovative project financing of the Governor Richardson's Investment Partnership program (GRIP) and transportation-related tax and fee increases. However, increases in the price of oil-based products, combined with national shortages of raw materials used in highway construction, i.e., steel and concrete, have eroded the purchasing power of this financing effort and created significant challenges for the New Mexico Department of Transportation (NMDOT) in FY08. Decreases in federal funding, minimal growth in the state road fund (SRF), depletion of bonding capacity, and intense inflationary pressure dictate that the state evaluate and develop alternative means to fund transportation in the future. The state must begin to develop strategies for the future funding of highway maintenance, construction, and public transportation alternatives for the years after GRIP projects have been built (2011). Without significant improvement in revenue streams, the department will be hard pressed to maintain the improvements that GRIP has brought.



State Road Fund (SRF) Outlook. The department projects SRF will reach \$431.5 million in FY08, reflecting a growth rate of only 3.1 percent. During the 2003 special session, the Legislature increased transportation-related taxes and fees to support the SRF.

Revenues within SRF are categorized as being either unrestricted or restricted. Unrestricted revenues, such as the fuel tax and motor carrier fees, are not designated for any specific program activity and generally support the bulk of the activities associated with New Mexico's highway system. Restricted revenues are usually designated by legislation for special purposes. Examples of this are the local government road fund, the state infrastructure bank, and the aviation fund.



In August 2006 unrestricted revenue growth was projected by the NMDOT to be \$11.6 million, 3.1 percent higher than the FY07 budget. The restricted funds are expected to show growth of \$1.5 million, 4.2 percent over FY07.

Gasoline Taxes. The gasoline tax accounts for almost 30 percent of the revenue used to finance NMDOT programs. The volatility of the price of fuel in the last two years presents a significant risk to the department's primary revenue streams. Gasoline tax revenues for FY06 finished surprisingly strong at \$112 million but below the August 2005 budget estimate of \$116.8 million. For FY08, the department budgeted \$108.6 million in gasoline tax revenues. This represents a decrease of \$2.3 million, or 2.1 percent, from FY07.

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The FY07 budget forecast of \$110.9 million was built on the assumption that gasoline prices would stabilize and possibly decline. Since March 2006, gasoline prices have been on a rollercoaster ride, climbing well over \$3 per gallon and only recently declining to a low of \$2.03 in October 2006.

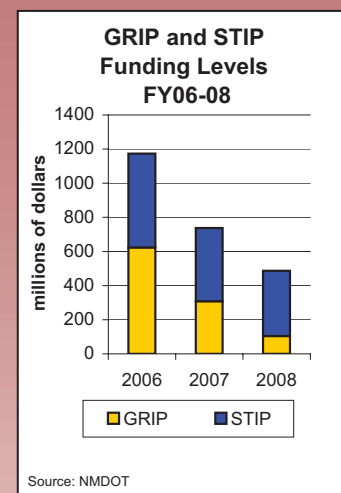
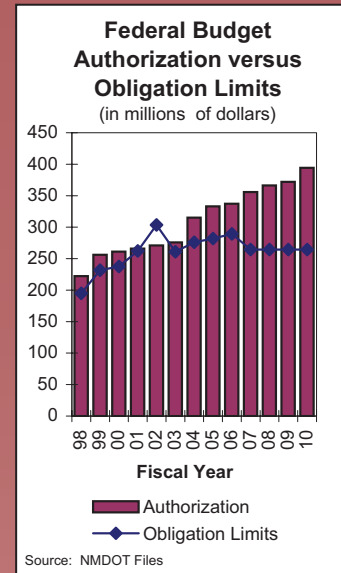
Continued high fuel prices subject SRF to significant risk. The tax of 17 cents per gallon is a unit tax based on the quantity of gallons sold and not the price of a gallon of gasoline, and it is not indexed to inflation. Thus, as prices for gasoline rise, demand and consumption decrease, resulting in fewer gallons being sold and less tax revenue for SRF. 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 use 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 1995 to approximately 13 cents per gallon, representing a 22 percent decrease in potential revenue for the state.

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, highway safety, motor carrier safety, and mass transit. This bill authorizes funding for federal fiscal years (FFY) 2004-2009.

Over this five year period, New Mexico was scheduled to receive \$1.8 billion in highway funding, representing a 30.3 percent increase over SAFETEA-21 levels. Due to rescissions imposed by Congress, New Mexico in FY08 may only receive about \$321 million, \$35 million less than was received in FY07. Similar obligation shortfalls are expected for the remaining years of SAFETEA-LU. Actual amounts are unknown because of the seemingly endless continuing resolutions in the federal budget process. Additionally, the number of earmarked and high-priority projects designated within SAFETEA-LU has grown substantially from prior years, further impacting the availability of federal funding for state defined projects.

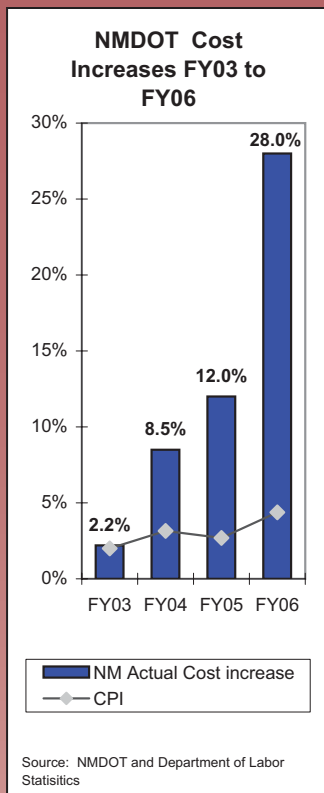
Reductions in federal funding significantly impact the state's ability to maintain and preserve its existing roadways. Without the expected growth in these funds, the department does not have sufficient resources to address future needs and to keep pace with escalating construction costs. In FY07, federal highway funding accounts for 61 percent of the debt servicing requirements of the department.

Santa Teresa Rail Relocation. Within SAFETEA-LU, \$14 million was



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earmarked for planning activities associated with the relocation of the rail yards in downtown El Paso to the Santa Teresa port. This project is moving forward very quickly with an apparent agreement between Union Pacific Corporation and the state. Union Pacific announced in October 2006 that it would begin construction of a new \$150 million terminal facility at Strauss, N.M., about 4 miles west of Santa Teresa. Additionally, Union Pacific agreed to construct an intermodal ramp at this location no later than 2015. This ramp will be expected to process a minimum of 100,000 container units annually. The agreement between the state and Union Pacific is contingent on the state removing the gross receipt and compensating tax for locomotive fuel. The governor has agreed to submit this legislation during the 2007 legislative session. Additionally, the governor also pledged \$5 million to improve a county road connecting the Pete Domenici Highway in Santa Teresa with the new Union Pacific Facilities in Strauss. These funds are expected to be taken from the \$14 million provided under SAFETEA-LU.



STIP and GRIP Implementation and Project Planning. To fund GRIP, the Legislature in 2003 authorized the issuance of \$1.6 billion of bonds over an eight-year period to fund 37 transportation projects, including 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.

Prior to passage of GRIP legislation, many of the corridors and projects identified in GRIP had been programmed in the Statewide Transportation Improvement Plan (STIP) using federal funds for one level or another of pavement preservation for the period between federal fiscal year 2004 and federal fiscal year 2009. It is estimated that over \$338 million in this STIP funding will “overlap” GRIP funding. This overlap gave the department the ability to accommodate the additional cost of \$318 million associated with the commuter rail. When added to the original \$1.585 billion for GRIP, the true cost of the GRIP program is closer to \$2 billion.

As predicted, GRIP has had a positive economic impact on the state. Major projects were able to be moved forward years ahead of schedule. Presently over 97 percent of GRIP projects have been awarded to New Mexico contractors with over 1,700 private sector jobs created throughout the state.

GRIP was initiated in response to a study conducted by NMDOT that showed \$11 billion in needs on state-maintained roads. At the conclusion of the GRIP program in 2011, the total STIP program will shrink to less than \$150 million per year with approximately \$9 billion in needs, in 2003 dollars, left unmet. The department’s bonding

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capacity will be extremely limited based on the size of debt remaining on the GRIP bonds. Alternative funding mechanisms are needed not only for the vast statewide needs but also the very different and costly needs found in the growing metropolitan area of Bernalillo, Sandoval, and Valencia counties. The department must consider how, post GRIP, the state will handle the expensive major projects in metropolitan areas without significantly depleting STIP statewide. The department should initiate serious study of this issue sooner rather than later.

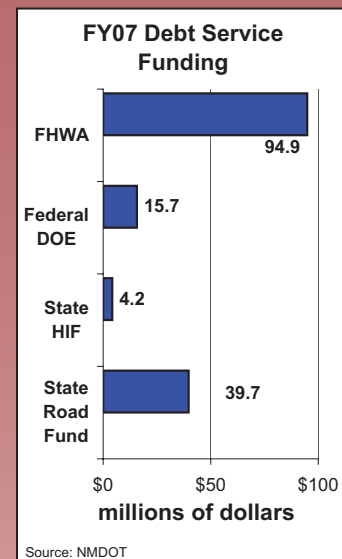
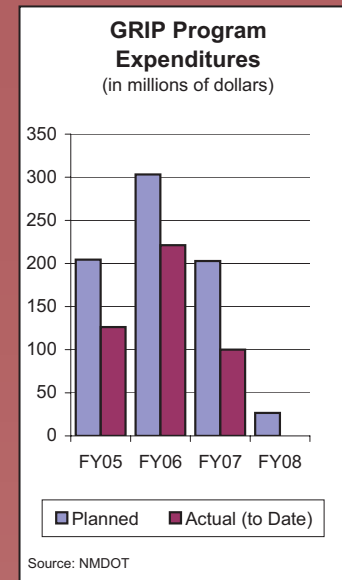
The implementation and coordination of the STIP program with the GRIP represents a continuing challenge for NMDOT. GRIP is driving STIP. In FY08, GRIP projects alone will account for 79 percent of all construction activity within NMDOT.

Inflation. In December 2005, the department reported to LFC it had experienced 12 percent inflationary growth on all GRIP projects. The department projected at that time that inflation in FY06 would be about 3.5 percent. Unfortunately, the FY06 inflation level was closer to 28 percent. This inflationary spiral is associated with the price of oil combined with national shortages of both steel and concrete. It has dramatically increased project costs, delayed construction, and required the use of STIP funds from the deferred projects to supplement the GRIP program. The department in October 2006 estimated that GRIP is under-funded by \$250 million and the remainder of STIP by as much as \$120 million for plan years 2005 to 2009. These cost increases are not unique to New Mexico with other states struggling regarding the continued funding of their programs.

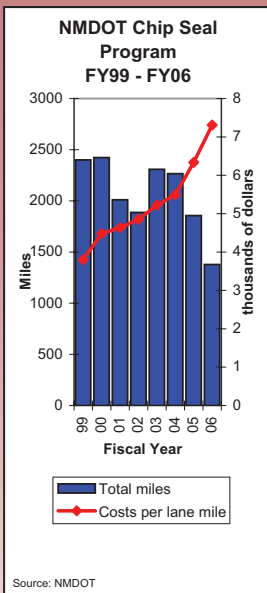
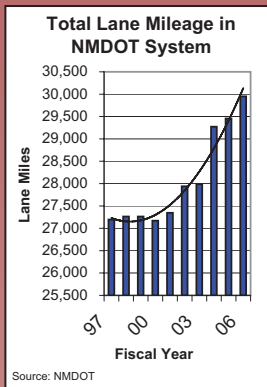
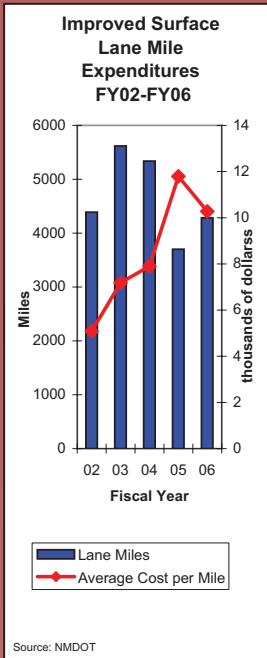
The department anticipates continued adjustments will be required for both GRIP and STIP projects with the expected continuation of this inflationary trend. The department continues to stress that projects within STIP will be completed but may be delayed to meet the new funding requirements.

Through October 2006, NMDOT had designed and let for construction 35 GRIP projects valued at over \$421 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, \$30 million less than originally projected.

The construction community might not have the capacity to accommodate such an aggressive program, especially in light of steep inflationary pressures and lack of materials. This concern partly stems from the observation that actual payments to contractors from GRIP



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proceeds have not kept pace with the planned drawdown for GRIP proceeds. Paying debt service on bond issuances does not make financial sense.

GRIP II. Throughout the state, a myriad of mainly local road projects do not qualify for federal monies or inclusion in STIP. These roads, for the most part, are not within the state road system over which the NMDOT is responsible. These projects do not get attention due to the lack of any identifiable funding source. In the 2006 legislative session, an executive initiative to use severance tax bonds for projects submitted by counties, municipalities, and tribal governments was submitted and failed. A similar bill is expected to be introduced this year to address these needs.

GRIP II expands the scope of responsibility of the department and dilutes the resources needed to address the department’s mission of constructing and maintaining state-designated roads. The department is currently hard-pressed within its limited and diminishing resources to maintain the roads for which it is already responsible, as evidenced by the decline in the number of improved pavement surface lane miles for FY05, and construction projects being let in accord with the GRIP and STIP schedules. As maintenance and construction costs continue to escalate and state and federal revenues decline, the department can ill afford to expand its scope of responsibility and use resources that would be better used on the state road system.

Bond Program and Debt Management. The department has a total outstanding debt of \$1.6 billion with an FY08 debt service obligation of \$139.2 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 FY06 also accelerated dramatically. In addition to oil and material costs, other major factors contributing to these high costs are the mobilization of materials and equipment to remote areas. The total number of lane miles within the NMDOT system has increased by 10 percent as has the average number of miles maintained per FTE since FY97.

Chip-Seal Program. This program is a major component of the maintenance program of the department. Chip-sealing resurfaces existing roads, thus prolonging their lives. Between FY99 and FY06, chip-sealing costs increased 92.3 percent, and the miles sealed per year declined 42.6 percent. In 1999, the 2,400 miles chip-sealed

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equated to a five to six year maintenance cycle. In comparison, the 1,378 miles sealed in FY06, at over \$7 thousand per mile, equates to a nine to ten year cycle. By moving to a nine to ten year cycle, the quality of the roads throughout the state will erode at the same rate but will take twice as long to be repaired as in the past.

Bridge Maintenance. The state has 256 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 FY05 cost of \$75 per square foot to FY06 estimates of \$110 per square foot. These increases are a direct result of rising steel, concrete, and energy pricing.

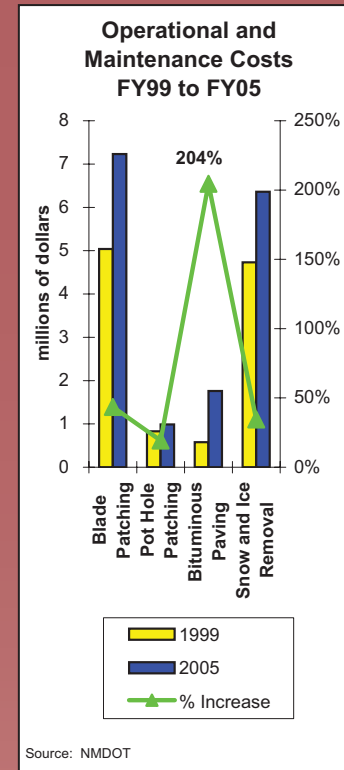
Public Transportation Initiatives. The department's strategic plan includes as a key element the development of transportation alternatives, such as commuter rail or bus service.

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 partnership between the department and the Mid-Region Council of Governments (MRCOG), NMDOT is approaching commuter rail in two phases: Belen to Bernalillo, and Bernalillo to Santa Fe.

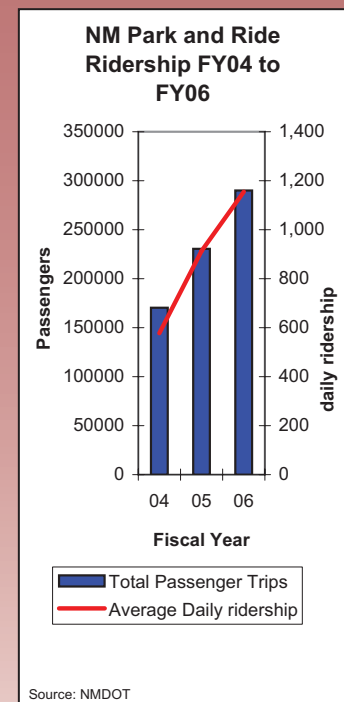
Phase one service between Albuquerque and Bernalillo began on July 14, 2006. Service between Albuquerque and Belen is behind schedule and tentatively scheduled to begin December 2006. MRCOG is targeting December 2008 as the completion date for phase two. This phase will require building approximately 25 miles of new track around La Bajada and into Santa Fe. Public hearings have been held and are continuing regarding the selection of this route.

NMDOT has earmarked \$318 million of GRIP funds and another \$75 million of federal monies for the completion of the commuter rail project. The federal funds are contingent on successful acceptance of the department's alternative analysis by the federal government. The New Mexico Legislature in 2006 made the department's appropriation for contractual services contingent on total costs for commuter rail not exceeding these levels.

In FY06, the department purchased 10 bi-level passenger rail cars (\$22.9 million) and four locomotives (\$9.6 million). A fifth locomotive was purchased for \$2.25 million using monies from Sandoval County. Station costs are estimated at \$16 million for seven



Source: NMDOT



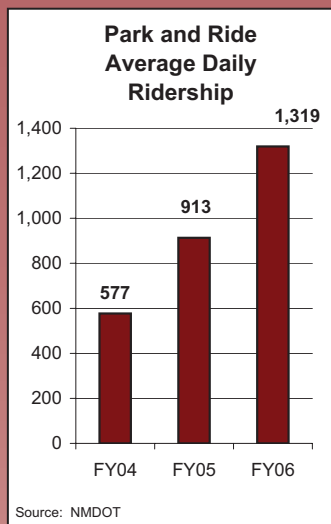
Source: NMDOT

Policy Analysis: Transportation

stations with some of the costs of the Bernalillo station to be paid by Sandoval County.

NMDOT and MRCOG are finalizing an operational budget that will outline both operational revenues and expenses for the next three to five years. This projection will also include forecasts of capital needs. These budget projections are critical because expected operational losses will need to be offset by other revenue sources. Preliminary analysis indicates that, to some extent, these revenues may come from the state road fund. This would overload a funding stream currently hard-pressed to meet the needs of the state highway system.

Phase one operational costs are being subsidized for the first three years of operation with federal congestion mitigation and air quality (CMAQ) funding of \$10 million per year. MRCOG estimates actual costs will be about \$14 million per year.



Investment in public transportation systems, such as commuter rail, is good public policy provided that the benefits outweigh the costs. The development of light rail systems within congested metropolitan areas, in addition to enhanced high occupancy vehicle and bus transportation efforts, such as Park and Ride, may represent a greater benefit to the public than the establishment of a commuter rail system.

Sustainability of Park-and-Ride Programs. The development of consumer demand for public transportation is not simply an issue of generating sufficient volume, but also an issue of changing behavior. The surge in retail gasoline prices has served as that change agent. Park-and-Ride ridership levels are at an all-time high. The communities being served by Park-and-Ride are concerned that NMDOT will seek to reduce funding levels for Park-and-Ride programs as commuter rail to Santa Fe becomes reality. This would be a mistake. These two programs should not be viewed as competitors but rather as complementary services with each serving a distinct need.

Park-and-Ride ridership has more than doubled on the Albuquerque-to-Santa Fe route due to the sharp rise in gasoline prices. In FY06, the department opened new routes between Santa Fe and Las Vegas and between White Sands missile range and Las Cruces. However, the Espanola routes continue to experience ridership issues that have resulted in reviews of service. The department has effectively adjusted routes and service levels to meet demand. NMDOT should continue to evaluate costs and benefits, including the impact of reduced traffic congestion. Additionally, all alternatives should be considered in meeting public transportation needs. Van pools for certain markets might be more practical and affordable in addressing commuters' needs than Park-and-Ride buses.

Policy Analysis: Public Safety

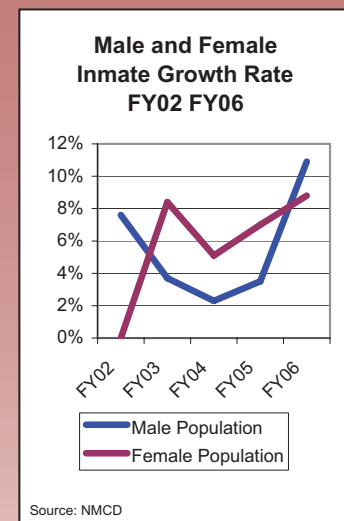
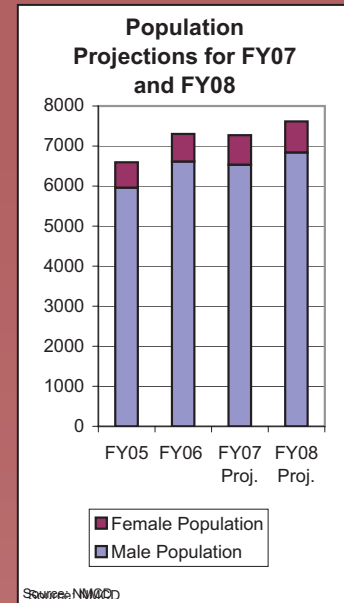
All state agencies dealing with public safety are closely linked. Tougher crime laws, additional full-time equivalent positions, and new programs can lead to implications that go beyond the initial intent or resources. For example, tougher penalties for driving while intoxicated lead to increases in district attorney and public defender caseloads, court cases, state inmate population, and caseloads for probation and parole officers. This continuum among public safety agencies creates fiscal pressures, including expansion of state inmate beds, ensuring secure and safe correctional facilities, providing adequate supervision of offenders in the community, and competitive recruitment of State Police officers.

Growing Prison Population. New Mexico's incarceration rate for state inmates has increased steadily for males and significantly increased for females over the past few years. The increase in the state inmate population is likely to continue as tougher crime laws are enacted. The governor's anti-crime package for the 2007 legislative session calls for the strengthening of laws dealing with gun violence and sex offenders and removal of lump-sum good-time awards for state inmates who are convicted of violent crimes.

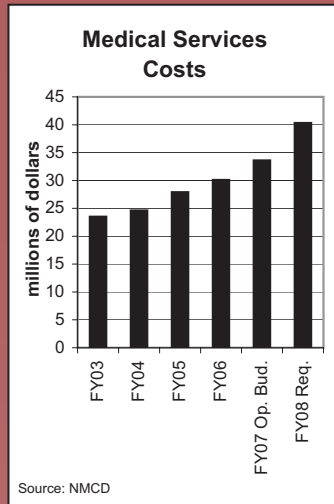
The New Mexico Corrections Department (NMCD) reports 6,040 male inmates and 675 female inmates were in public and private correctional facilities on November 1, 2006. JFA Associates projects the average annual inmate growth from 2007 to 2016 of 2.8 percent for male inmates and 2.9 percent for female inmates. The FY08 forecast of inmate growth overall is at 343, with male inmate growth at 307 and female inmate growth at 36.

Continuing Need for More State Inmate Beds. NMCD will add an additional 652 inmate beds in FY07: 192 level 1 and 2 female inmate beds at Camino Nuevo in Albuquerque, 220 level 1 and 2 male inmate beds at the Springer Correctional Facility (formerly the New Mexico Boys' School), and 240 level 3 male inmate beds at the Guadalupe County Correctional Facility in Santa Rosa. In addition, NMCD plans in summer 2008 to add 600 level 3 male inmate beds at the Clayton correctional facility. These additional beds will alleviate the overcrowding of facilities and the department's need for short-term private contracts for inmate beds.

Increasing Costs of Incarceration. As the population and facilities grow, the cost of incarceration is escalating. NMCD requested a \$34.7 million, or 14.4 percent, increase in its base budget for FY08. The majority of the increase is due to the cost of the medical contract, inmate food, and inmate population growth. The cost of medical services has increased by \$16.7 million, or 71 percent, since FY03. The cost of the inmate food contract has risen by \$1.1 million, or 21



Policy Analysis: Public Safety



The average drug-court graduate recidivism rate is 13.4 percent during three-years post graduation, and the average cost per client in FY06 was \$24.11 per day.

percent, since FY03. Also, the per diem, or cost per day, for the new facilities is significantly higher than per-diem costs at existing public and private facilities. NMCD reports that, based on actual expenditures in FY05, it cost \$81.25 per day to incarcerate an individual in New Mexico. The average cost per day for public facilities was \$94.18 and for private facilities was \$64.10. The average cost per day for the Springer facility will be \$113.80, while the expansion at Guadalupe will have a per diem of \$57.35 and the Clayton facility will have a per diem of \$75. Currently, the Camino Nuevo facility with its 96 female inmates has an average per diem rate of \$104.99.

Population Control Initiatives. On August 8, 2006, the Corrections Population Control Commission met for the second time since their creation under the Corrections Population Control Act in 2002. The meeting stemmed from a settlement between NMCD and the American Civil Liberties Union that required the convening of the commission, along with reporting on the state female inmate population. The settlement came after a First Judicial District Court ruling that the secretary of NMCD did not meet his legal obligation to convene the commission to consider the early release of nonviolent inmates from the New Mexico Women’s Correctional Facility in Grants.

Section 33-2A-6 NMSA 1978 states that when the inmate population of female or male correctional facilities exceeds 100 percent of rated capacity for a period of 60 days, the secretary of the Corrections Department shall notify the commission and provide a list of nonviolent offenders within 180 days of their projected release date. The commission is to convene within 10 days to consider early release and is to work with NMCD to develop long-range strategies to manage the male and female inmate population growth. The Corrections Population Control Commission will terminate on June 30, 2007. On July 1, 2007, the secretary of NMCD will assume the duties and responsibilities of the commission.

Drug Courts. Certain programs outside the purview of NMCD also assist with population control. For example, the drug court programs provide rehabilitation to offenders in the criminal justice system because of an underlying problem with substance abuse. Drug courts have three goals: reduce recidivism, reduce substance abuse among participants, and rehabilitate participants. Participants in drug courts must be non-violent and referred to the program by a judge. Currently, there are nine adult drug courts, four family dependency drug courts, and 13 juvenile drug courts statewide.

Policy Analysis: Public Safety

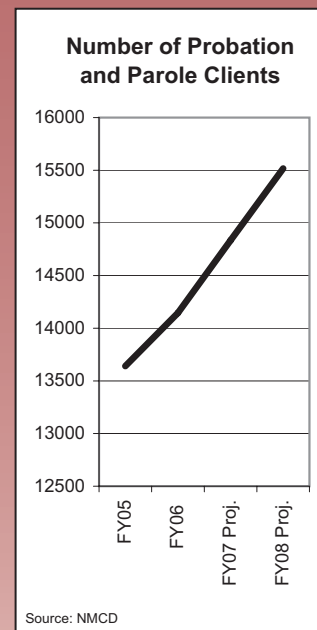
Secure and Safe Correctional Facilities. The safety of correctional facilities for both inmates and staff depends largely on the order established and maintained by correctional officers. At the end of FY06 the turnover of correctional officers was 20.9 percent, a significant increase over the 10.8 percent reported in FY05. NMCD reported the increase in turnover stemmed from the retirement of 85 officers who took advantage of the 20-year retirement for correctional officers that went into effect in January 2006. NMCD reported that between the first six months of FY06 (July-December 2005) and the second six month of FY06 (January-June 2006) the cost of overtime increased by 62 percent in the Inmate Management and Control Program. The implications to the security and safety of the public correctional facilities are evident. The department has increased recruitment efforts through advertising and job fairs.

High Probation and Parole Caseloads. On November 1, 2006, 13,567 individuals were on parole or probation in New Mexico. The number includes those on regular supervision, in special programs under intensive supervision, and New Mexico offenders under supervision in other states. The U.S. Bureau of Justice Statistics reports that in 2004 New Mexico was third in the nation for increases in probation population (11 percent) and parole population (14.9 percent). As of October 31, 2006, the average standard caseload per probation and parole officer (PPO) was around 130. The high caseloads have contributed to high turnover and retention problems. On November 1, 2006, 50 PPO positions were vacant out of 282. Also, 68 or 29.3 percent of PPOs have one year or less service time.

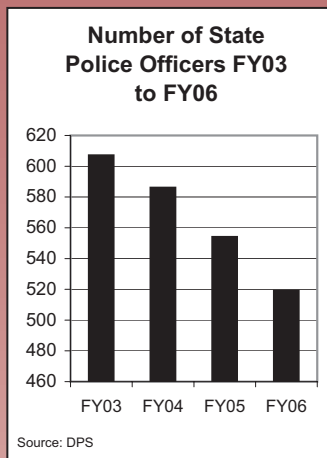
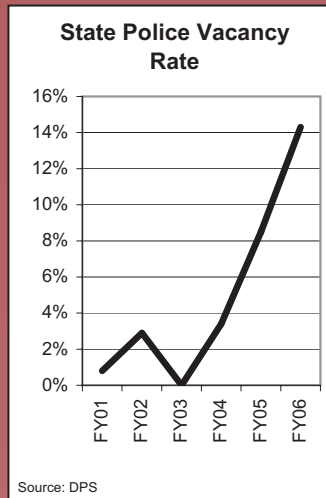
Caseloads Impact on Early Release. The elimination of intensive supervision officers statewide, with the exception of Albuquerque and Santa Fe, makes it impossible to implement or expand early release allowable by statute. Section 31-21-13.1 NMSA 1978 states, “Inmates eligible for parole, or within twelve months of eligibility for parole, or inmates who would otherwise remain in a correctional institution for lack of a parole plan or those parolees whose parole the board would otherwise revoke are eligible for intensive supervision programs.” As of November 1, 2006, 174 parolees were serving parole in correctional facilities. State law, specifically Section 31-21-27 NMSA 1978, also allows the eligibility of an inmate for early release into a re-entry drug court program. Early release programs target low-risk inmates with no violence, gang affiliation, sexual offenses, and repeat DWI offenses. Without more FTE for PPO positions, implementing early release would displace high-risk and high-need offenders from available supervision.

	Number of Inmate-to-Inmate Assaults in Private and Public Facilities
FY05 Actual	18
FY06 Target	20
FY06 Actual	24

Source: NMCD



Policy Analysis: Public Safety



Salary Increases for Commissioned Officers. In January 2006, the Department of Public Safety (DPS) completed a compensation plan that endorsed \$6.4 million in pay raises for commissioned officers. Under DPS's compensation plan, State Police officers are to receive an average pay increase of 17.3 percent, Special Investigation Division (SID) officers are to receive an average increase of 20.2 percent, and Motor Transportation Division (MTD) officers are to receive an average increase of 18 percent. The Legislature appropriated a pay increase of \$5.7 million for FY07. Although the appropriation for FY07 is short by \$650.1 thousand from DPS's compensation plan, the department reports it will provide pay increases as stated in the plan, with funds generated by vacancy savings.

Recruitment and Retention. State Police currently have 60 applicants being processed for the 2007 spring academy class. DPS states, with the pay increase in FY07, the Law Enforcement Program anticipates reaching an attrition rate of 4 percent by December 2007. The department reports that the pay increases for commissioned officers has significantly improved recruitment and retention. Also, the starting pay for the State Police recruits has increased from \$7.25 an hour to \$14.80 an hour.

DPS has implemented the following to improve recruitment and retention of commissioned officers:

- Recruiting incentive for all DPS employees in which they receive administrative leave time for each cadet referred who successfully completes the academy,
- Rural recruitment in which recruits from rural areas with vacancies are able to return to those rural areas, and
- Draft of a lateral transfer policy to establish if officers from other agencies would transfer to DPS if offered a shorter training timeframe.

DPS is requesting an expansion in FY08 for rural incentive pay of 10 percent to 15 percent that the department estimates would affect 60 State Police officers. As of November 1, 2006, the vacancy rate for commissioned officers was 15 percent for the State Police, 18.8 percent for MTD, and 33.3 percent for SID.

Driving-while-Intoxicated Initiatives. In calendar year 2005, New Mexico ranked sixth in the nation for alcohol-related fatalities per population. In 2005, alcohol-related fatalities in the state decreased by 11 percent. This is the lowest rate per 100,000 ever recorded. Also, alcohol-related injury crashes decreased 21 percent and alcohol-related crashes decreased by 20 percent.

Policy Analysis: Public Safety

DWI Courts. New Mexico’s five DWI drug courts are in the following counties: Dona Ana (Las Cruces), Eddy (Carlsbad), Valencia (Belen), McKinley (Gallup) and Bernalillo (Albuquerque). DWI/drug courts are voluntary programs, of a minimum of nine months, designed for non-violent defendants convicted of multiple, misdemeanor DWI offenses. Installation of an interlock device is required on any vehicle driven for the length of the program.

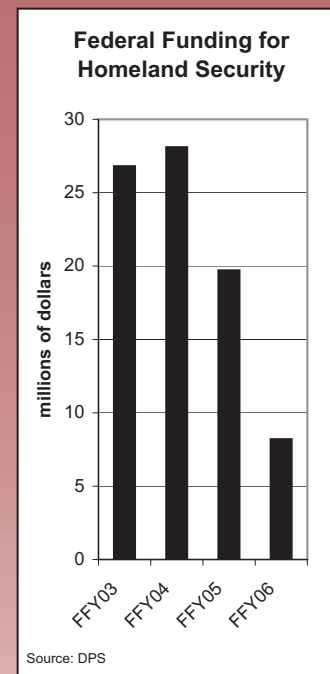
Administrative Hearings. A driver whose license has been revoked due to a DWI citation has a right to an administrative hearing within 90 days. If the hearing is not held in that timeframe, the driver retains the license. The hearing officers at TRD moved under the Office of the Secretary, and the department has added several hearing officers in the last few years to reduce scheduling conflicts. The department aims to have fewer than 2 percent of licenses returned due to a failure to hold a hearing. In FY06, licenses were returned to 17 drivers (0.9 percent) who had been cited for DWI because a hearing was not held.

New Rules and Regulations on Serving Alcohol. On August 10, 2006, the governor announced changes to the Liquor Control Act. The new regulations give the state the authority to revoke a bar or restaurant’s liquor license after three convictions for serving alcohol to minors or over-serving people. Over-serving is defined as serving alcohol to an individual with a blood-alcohol content of 0.14 percent within 90 minutes of the time the person was served. Any combination of the three convictions from either category will lead to a revoked liquor license. Under the old regulations, five violations were required before a license was revoked.

Office of Homeland Security. Over the past two years, LFC has expressed concern that the state’s homeland security operations were not clearly organized. Currently, responsibility for administration of federal homeland security grants is divided between the Office of the Governor and Emergency Management and Homeland Security Support program in DPS. The homeland security advisor wears two hats: that of policy advisor in the Office of the Governor and that of deputy secretary of DPS. This “double hatting” has the potential of creating confusion over the lines of authority during an emergency. Currently, the Office of Homeland Security is not authorized under statute.

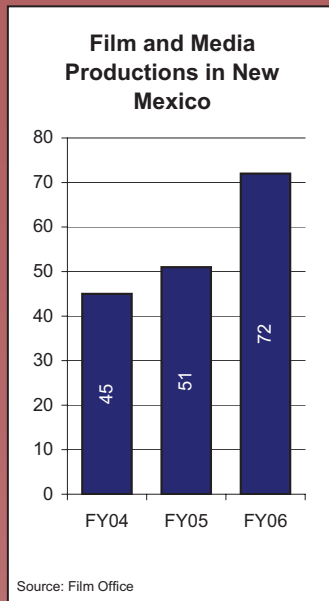
	Average Compensation Increase for State Police Officers
FY07	17.8%
FY06	6%
FY05	5%
FY04	2%

Source: DPS



Policy Analysis: Economic Development

New Mexico's economy continues to perform better than most states, and better than average employment growth is expected for the next several years. Employment growth has been stronger in urban areas of the state, and spreading economic growth to rural New Mexico is a continual focus for policy makers.



In pursuit of new companies and industries, the state has adopted a range of tax incentives and marketing programs, some specifically for rural New Mexico. Yet, access to a skilled workforce is paramount for companies, and any comprehensive economic development strategy must encompass higher education and workforce training.

Economic Development Department. As the lead agency for creating jobs in the state, the Economic Development Department (EDD) promotes New Mexico to industry, assists existing businesses 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.

Over the past several years, economic development programs have expanded beyond the department, leaving significant funding outside of the agency's operating budget and the normal budget appropriation process. Committee oversight of these diverse economic development programs is more difficult and less transparent for the public.

Filming in New Mexico. The state continues to pursue the development of the film and media industry in the state by heavily subsidizing film and media productions. Production companies may now take advantage of a 25 percent tax credit on expenditures, wage reimbursement for employees through the Job Training Incentive Program (JTIP), and zero-interest loans from the State Investment Council. In addition, the state has invested large capital outlay appropriations in media production education programs at New Mexico's colleges and universities.

This extremely attractive package of incentives has resulted in a precipitous increase in productions in New Mexico. Yet, the return to the state is difficult to quantify. SIC has loaned production companies \$146 million without interest for a share of the film's profits, but to date the state has yet to receive any of the anticipated profits. Of the principal amount loaned, \$113.8 million remains unpaid. For FY06, the state has approved \$10.2 million in refundable tax credits to production companies, which spent \$96.8 million in expenditures taxable by the state. Since 2003, the state has approved \$23.1 million in refunds to production companies. The Legislature in 2006 increased the film production tax credit from 15 percent to 25 percent

Capital Outlay Allocations for Film Programs

Program	Millions
Film Tech Training	\$1.30
UNM / ARTSLab	\$3.00
NMSU / CMI	\$2.50
College of Santa Fe	\$1.00
NM Tech	\$1.00
DCA / NMHU	\$0.26
NM Filmmakers	\$0.50
Approximate Balance	\$6.44

Source: Office of the Governor

Policy Analysis: Economic Development

of qualified expenditures (Section 7-2F-1 NMSA 1978). The legislation eliminated the 5 percent New Mexico filmmakers credit and will reduce the 25 percent credit to 20 percent at the end of the 2008. In addition, the Film Office grants up to \$2 million per year to production companies through JTIP to pay 50 percent or more of employee wages.

Another \$16 million has been appropriated in capital outlay to the Department of Finance and Administration and allocated, at the direction of the Governor's office, to the state's higher education institutions for film and media programs. Creating new programs is a recurring expense, and as such, an inappropriate use of capital outlay appropriations.

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 (EDD). As a nonprofit, the partnership operates outside of the state's procurement and personnel codes – providing flexibility and a potential advantage over other states in business recruitment and marketing. Yet the partnership relies solely on state funding, despite its statutory mandate to solicit funds from federal and private sources.

For FY07, the partnership, under a joint powers agreement (JPA) with EDD, has a \$1.4 million budget, primarily from special appropriations. The 40 percent increase has allowed the partnership to expand its staff from five to seven and provide additional recruitment activities for New Mexico's communities. The FY07 appropriation was not contingent on securing private funding as it was in FY06.

The partnership is credited with recruiting nine new companies and 2,395 jobs to New Mexico, including DTS America (210 jobs) in Carlsbad, Sento Corporation (800 jobs) in Albuquerque, and McGuire Research (310 jobs) in Roswell. Under the FY07 JPA, the partnership is responsible for bringing 3,000 new jobs to the state, with jobs in rural areas counting as more than one.

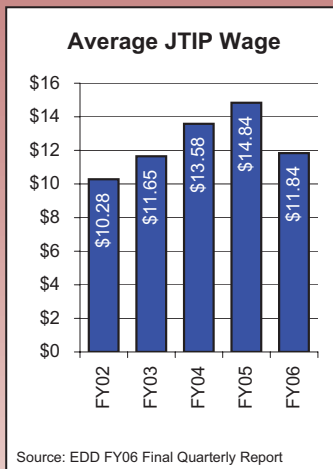
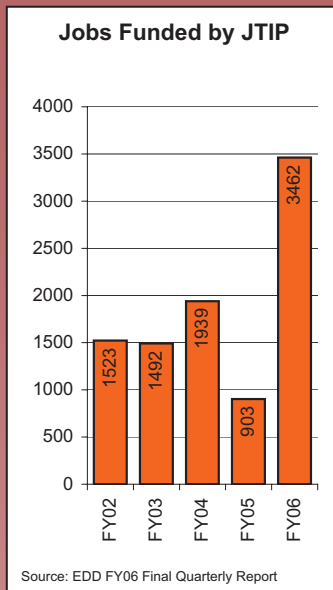
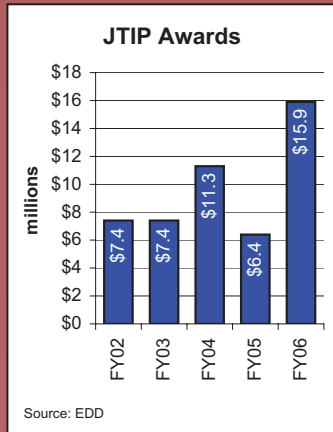
Race to Space. Following the announcement that Virgin Galactic would locate its headquarters in New Mexico, the Legislature in 2006 passed two significant bills to finance the construction of a \$225 million spaceport in southern New Mexico.

The Legislature in 2006 appropriated \$100 million over three years to the Spaceport Authority, now an independent agency, to plan, design, construct, furnish, and equip the spaceport. The severance tax bond appropriation is contingent on the completion of an environmental

New Mexico and Spaceport America are banking on the success of Virgin Galactic's horizontal launch technology.

Oklahoma and Texas have FAA-licensed spaceports.

Policy Analysis: Economic Development



impact statement (EIS), Federal Aviation Administration (FAA) licensure, an executed lease with an anchor tenant, and certification that final construction cost estimates do not exceed \$225 million. The EIS is currently underway, and the department expects an FAA license by fall 2007, slightly behind schedule. Since the close of the 2006 session, spaceports in Oklahoma and West Texas, with ties to other spaceflight companies, have been licensed by FAA. Plans for other spaceports in Singapore and the United Arab Emirates have been announced, bringing a new race to space for tourists. The location of the New Mexico spaceport – now called Spaceport America – retains advantages over many of the other spaceport projects, but additional slippage in the license schedule may endanger the partnership with Virgin Galactic.

The second major financing mechanism was authorized by the Regional Spaceport District Act. The bill allows municipalities to impose a regional spaceport gross receipts tax, with 75 percent of revenues dedicated for the Spaceport Authority and 25 percent for municipal spaceport-related activities. The tax is subject to voter approval, and EDD anticipates about \$30 million per year for the spaceport. Voters in Doña Ana County will likely see a ballot proposal in spring 2007.

Duplication of Technology Commercialization. EDD identified a duplication of work between its Technology Commercialization Program and the Technology Research Collaborative (TRC), a non-governmental entity funded by the Legislature and housed at New Mexico State University. The department entered into a joint powers agreement with TRC to transfer 2 FTE and a budget of about \$200 thousand to the collaborative, led by former Governor Garrey Caruthers. EDD and TRC have since severed the agreement, and the Legislature should review the need for both programs.

Job Training Incentive Program. The Job Training Incentive Program serves foremost as a recruitment tool, and the department has aggressively marketed the incentive and loosened restrictions on its usage. In FY06, JTIP awarded \$15.9 million to 67 companies, a 248 percent increase over FY05. The program received a \$7 million special appropriation in the 2006 session, of which \$2 million is available for film productions. The 2006 appropriation was contingent on the adoption of a “claw-back” provision, and the program now requires any company to return awarded funds to the state if it closes the operation within six months of the award. The new rule does not require companies to return funds should it lay off employees whose wages are subsidized by the program. The program should close this loophole.

Policy Analysis: Economic Development

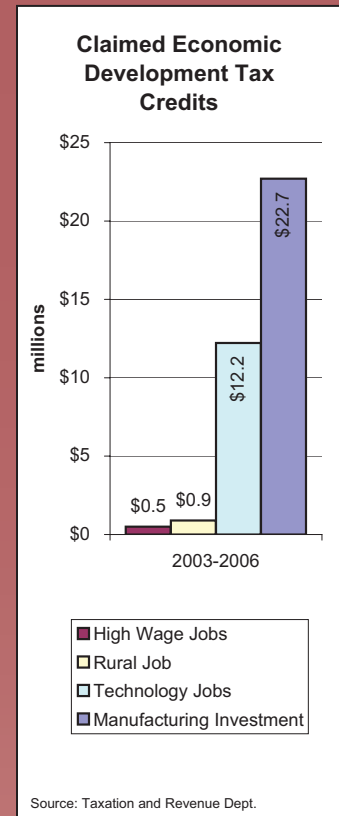
At least one-third of all JTIP funds must be spent in rural areas—a requirement mandated by Section 21-19-13 NMSA 1978. The program reports difficulty in meeting this requirement as the bulk of funded jobs, if not projects, are in urban areas.

Tax Incentives. As with proposals that the state start tracking tax expenditures (discussed in detail in the “Fiscal and Economic Outlook section of this book) accountability is the motivation behind a move toward expanded reporting on tax incentives. New Mexico offers more than 27 tax and business development incentives. The final report of the Tax Incentive and Accountability Task Force, released in April 2006, recommended the Taxation and Revenue Department (TRD) report annually on the impact of the most frequently used and costly incentives. These incentives are JTIP, industrial revenue bonds (IRB), manufacturing investment tax credit, high wage job tax credit, rural jobs tax credit, technology jobs tax credit, and research and development small business tax credit. For the tax incentives, companies would report on the use of the credits, job creation, wages and benefits, investments, and other relevant information. Additional information over the life of the bond would be required of companies using IRBs. TRD would compile the reported information, and the agency might require additional FTE and resources to carry it out.

Accountability in the Job Training Incentive Program. To date the department has not provided data on the retention rates of employees whose wages have been subsidized by program grants. The task force recommended a collaboration with the Department of Labor to gather the necessary data, but this information could also be tracked by the department and reported annually.

Economic Development Programs at the New Mexico Finance Authority. During the 2005 and 2006 sessions, 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.

Smart Money. The Smart Money Loan Participation Program was capitalized with a \$10 million general fund appropriation in 2005. NMFA has partnered with banks in New Mexico to finance economic development projects identified and evaluated by NMFA and EDD. By investing state money, the program reduces the risk for private lenders who then provide below-market-rate loans to borrowers. To date, the Legislature has authorized 45 projects for consideration, and the NMFA board, with consultation from EDD, has approved three participation requests – Advent Solar, Inc. (Albuquerque) through Los Alamos National Bank, Western Wood Products (Raton) through International Bank, and PreCheck, Inc. (Alamogordo) through Alamogordo Federal Savings.



Smart Money Program – 45 projects authorized by Legislature; three loans totaling \$4.3 million approved by board in FY06

Policy Analysis: Economic Development

NMFA established FinanceNM, a for-profit entity to take advantage of the federal new markets tax credit.

Mesa del Sol is likely to be the first Tax Increment for Development District.

The Smart Money program may be particularly beneficial to small rural communities, where access to capital is limited. Nevertheless, legislative oversight is particularly important in these programs. NMFA should set a target rate of return for the program and report quarterly on investment results. Each loan should have a set of performance measures to account for state money. Any company's economic impact analysis should be scrutinized and perhaps augmented by independent analysis. And a tracking program should be in place to ensure companies are meeting the terms of loans and producing stated outcomes—for example, creating the specified number of jobs—and have not been given an advantage over another local company.

New Markets Tax Credit Program. Laws 2006, Chapter 54, amended the Statewide Economic Development Finance Act authorizing NMFA to form, operate, and own a for-profit community development entity to participate in the federal New Markets Tax Credit Program. The for-profit entity—known as FinanceNM LLC—will be financed by private investors who then receive the federal tax credit totaling 39 percent of their investment over seven years. To qualify for the credit, the investment by FinanceNM must be in a business in a low-income census tract. For example, inasmuch as Mesa del Sol is part of a low-income census tract, investments in Mesa del Sol would qualify for the credit.

NMFA has identified two risks to the state and the program—redeployment and reputation. If one of the companies fails during the seven years of the credit, FinanceNM must find a new investment to meet the federal rules. The state may take on more risk to its reputation by associating with a company that may fail. Damage to the state's reputation could affect the bond ratings, not just for NMFA but conceivably to the state as a whole.

NMFA is working on performance measures that will track the number of businesses, the number of jobs, and the amount of tax revenue created using the credit. Some of the measures will be part of the application for credits in February 2007.

Tax Increment Financing at Mesa del Sol. The Legislature in 2006 passed the Tax Increment Development Act, allowing property owners to form special tax increment districts for development. Forest City Covington, the current developer of Mesa del Sol, has proposed a plan to invest \$635 million in infrastructure on 3,000 acres of the 12,000-acre development, with \$400 million of that coming from tax increment bonds. The bonds would be issued to a yet-to-be-approved Mesa del Sol tax increment district and paid off with some of the additional tax revenue generated as a result of the area being developed. NMFA has to approve the plan, which will then be

Policy Analysis: Economic Development

submitted for the Legislature’s consideration. The company projects that the development will generate \$767 million in gross receipts taxes over 25 years and it wants to use 75 percent, or \$575 million, to finance infrastructure. The remaining 25 percent of the gross receipts tax, the property tax, and the personal income tax revenues that the state would receive are projected to be \$564 million. Economists from LFC, Department of Finance and Administration, and Taxation and Revenue Department are reviewing the company’s economic analysis. It is unclear whether the cost of new public services, such as schools and public safety, will be covered by the new revenues.

While tax increment financing is normally used to rehabilitate blighted areas, typically infill development, Mesa del Sol is new development. Its model, however, is that it will pay for the district (i.e. generate tax revenues) through economic development. The development has already attracted Advent Solar and Albuquerque Studios and has a commitment from the National Nuclear Service Agency to relocate to Mesa del Sol. The premise is that this is all development that would not have happened without Mesa del Sol. However, the state economic development agencies had a role too.

Risks. The proposal by Mesa del Sol comes with two major risks. The first is that Albuquerque will not be able to absorb a project of this size, and the costs of services for the development will exceed Albuquerque’s share of tax revenue. This will cause friction between the development and the rest of Albuquerque. Albuquerque has the power to terminate the arrangement but would have to assume all of the debt if it did.

The second risk is that the development will attract expansion or relocation that would have gone to other parts of Albuquerque or New Mexico. This is particularly a risk for the large retail area planned for the Interstate 25 corridor. Mesa del Sol’s projections do not take into account displacement from other parts of the city or state. Any existing business activity that moves to Mesa del Sol means less revenue for the rest of the city and state.

Border Development. The Border Authority is charged with economic development along New Mexico’s border with Mexico. The agency spends significant effort to increase commercial traffic through the New Mexico’s ports of entry and into the state. A new drop yard to exchange truck trailers across the border was funded in the 2005 session and a FAST (Free And Secure Trade) lane was recently opened to speed border crossings at the Santa Teresa port.

The Border Authority is the lead agency for the rail relocation project—an effort to move the rail yard from downtown El Paso, Texas, to Santa Teresa, N.M., and divert rail traffic around Ciudad Juarez, Chihuahua. New Mexico received a \$14 million federal

The total tax increment that would go to Mesa del Sol is over \$1 billion.

Tax increment districts are usually used to rehabilitate blighted areas.

The two major risks are the scale of the project overwhelming city and state services and business activity displacement from outside the development.

Policy Analysis: Economic Development

Exports to Mexico

Border State	2005 Exports (millions)	State Rank
Texas	\$50,137	1
California	\$17,703	2
Arizona	\$4,757	3
New Mexico	\$185	42

Source: US Census Bureau, Foreign Trade Statistics



appropriation for planning activities associate with the project, and a 20 percent match is required to access the funds. The state signed an agreement to share the appropriation with Texas, but given the Union Pacific (UP) announcement, independent of the tri-state working group, to move and expand significant portions of its operations to the state, it is unclear how this funding will be used. The \$150 million UP investment, detailed in the “Policy Analysis: Transportation” section of this volume, will be a significant boon to the border region.

The announcement came with a pledge by the executive to seek an exemption from gross receipts tax for locomotive fuel. Few details of the proposal have been divulged, and the fiscal impact hinges on whether the exemption would be applied statewide or more locally.

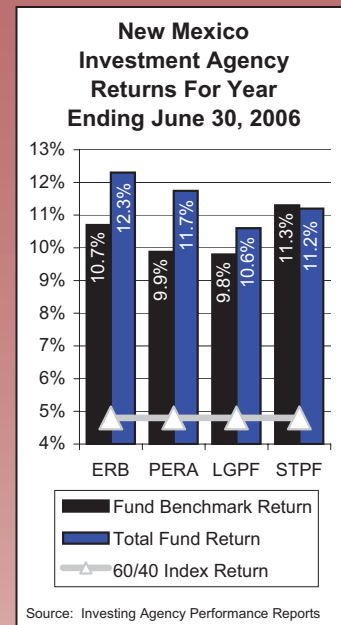
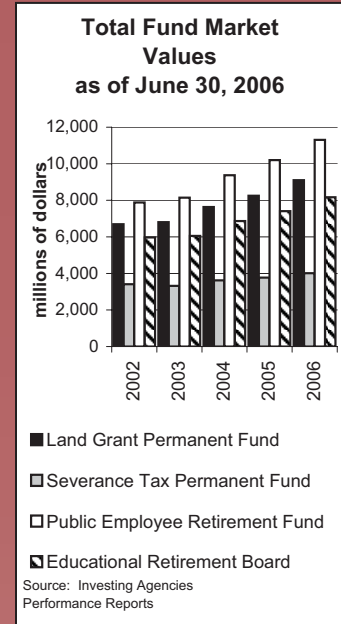
Policy Analysis: Investments and Pensions

The theme of greater oversight for state pension and investment plans continues, with particular interest focused on how each of the permanent funds is developing its portfolio of alternative investments opened via the Prudent Investor Act passed in 2005. In addition, the rules that govern the procurement of investment managers continue to be reviewed to ensure compliance with legal and ethical standards. A renewed attention to the liability side of the pension funds reveals the importance of how liability components dramatically affect overall fund solvency. Finally, while the function of each of the New Mexico permanent funds differs, their shared primary goal remains the same: to achieve the highest possible rate of return, given some level of acceptable risk. Monitoring investment returns continues to be a top priority.

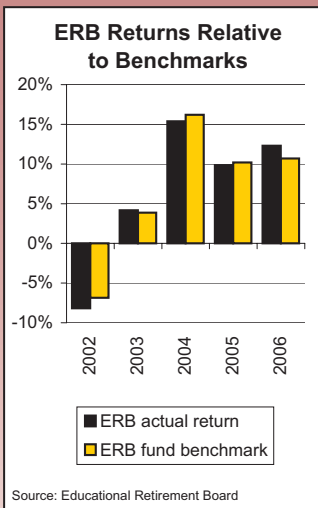
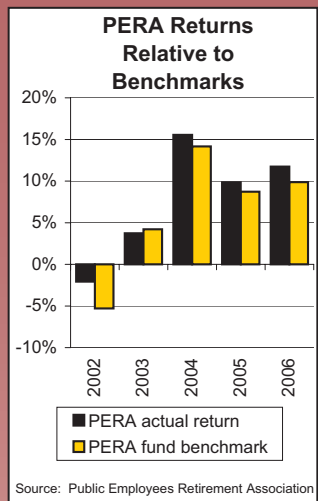
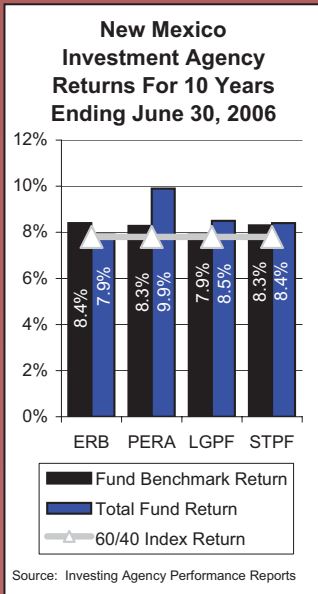
Investment Performance Overview. The state has four major funds. Two are held by the State Investment Council (SIC): the land grant permanent fund (LGPF) and the severance tax permanent fund (STPF). Two are pension funds: the Public Employees Retirement Association (PERA) and the Educational Retirement Board (ERB). All four funds reported impressive earnings for FY06, with combined net asset value growing almost \$3 billion to \$32.6 billion. SIC also manages the tobacco settlement permanent fund and the water trust fund, as well as investments for several state and local agencies.

Manager Impact. Each fund actively manages its investments with the expectation of superior returns over a passive approach, such as simply placing the money in an index mutual fund. To measure management impact, benchmarks are used to assess overall fund performance, asset class performance, and each manager's performance compared to its peers. These benchmarks are composite returns based on the unique asset type for each manager. For example, a high-yield bond manager would be compared to its related industry standard, such as the *Lehman Brothers High Yield*. Managers performing under their benchmarks are carefully monitored by both the fund investment staff and fund investment consultant.

Allocation Impact. To track how asset allocation affects return, specific asset classes are compared against their related indices. For example, the return for the domestic stock class is compared with the S&P 500 index. Asset classes are continuously monitored to comply with policy targets established by each fund and adjusted according to established policy. A composite of each fund's asset allocation returns yields the unique internal benchmark or target for the entire fund, another performance measure. Finally, in addition to these benchmarks, each of the four funds is also compared with the customary "60/40" market index composed of 60 percent domestic stocks (as measured by the S&P 500) and 40 percent domestic bonds



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(as measured by the Lehman Aggregate), the standard measure of a passive investment strategy.

Investment Performance for Year ending June 30, 2006. In the one-year period ending June 30, 2006, investment returns were up, despite a disappointing fourth quarter. ERB ended its year with an annual return of 12.3 percent, 1.6 percent or 160 basis points over the internal target of 10.7 percent, and ranking in the 10th percentile of public funds. The manager impact added about 1 percent of the excess gain and the overweighting in equities contributed about 0.5 percent. PERA beat its benchmark by 186 basis points, earning 11.74 percent for the year, with the manager effect contributing 151 basis points and the asset allocation 18 basis points. LGPF and STPF returned 10.6 percent and 11.2 percent, respectively. LGPF surpassed its benchmark by 80 basis points: 100 due to manager impact and -20 due to allocation impact. STPF missed its benchmark by 10 basis points: the manager impact, a positive 25 basis points, was countered by an allocation impact of -34 basis points. Each fund significantly outperformed the 60/40 stock and bond index return of 4.8 percent, indicating that portfolio diversification in FY06 was very successful for all four funds.

Five- and 10-Year Investment Returns. For the five years ending June 30, 2006, which included the bear market of 2000-2002, PERA produced the highest return, 7.6 percent, which beat its policy target of 6.1 by 1.5 percentage points and topped the 60/40 index return of 3.8 percent by 3.8 percentage points. ERB returned 5.9 percent, falling behind its policy target slightly by 0.3 percent, but still coming ahead of the 3.8 index return. LGPF returned 5.7 percent, just beating its policy index while STPF, at 5.4 percent, lagged its index by 40 basis points. STPF has missed its annual performance target three years in a row. The fund has a much lower exposure to international equities, which buoyed the retirement funds' returns last year, and invests in economically targeted investments and film loans, which have lower returns.

For the 10 years ending June 30, 2006, PERA had the highest return, 9.9 percent, which beat its policy target of 8.28 by a healthy 160 basis points and topped the 60/40 index of 7.8 percent by a robust 208 basis points. LGPF and STPF returned 8.5 percent and 8.4 percent, respectively. For this period, at 7.9 percent, ERB fell behind its policy target of 8.4 percent by 50 basis points. Although ERB came in slightly higher than the 60/40 index, the actuarial assumption used for calculating solvency for the two pension plans is 8 percent.

Severance Tax Permanent Fund Contributions. Due to responsible fiscal management by the Legislature, there was a transfer in FY06 of

Policy Analysis: Investments and Pensions

\$123 million to STPF, setting aside funds for future generations. This compares with \$12 million in FY05 and \$16 million in FY04 when short term bonds were used to “sponge” up the remaining capacity at the end of a fiscal year rather than allowing significant contributions to the permanent fund.

Alternative Investments. Since the passage of the Prudent Investor Act in 2005, agencies responsible for investing pension and permanent funds have initiated or expanded investments in non-traditional or alternative investments to optimize returns and reduce risk. Principally, these investments are in hedge funds (or “absolute return” funds), real estate, and private equity. SIC has also made “economically targeted investments” that invest in economic development.

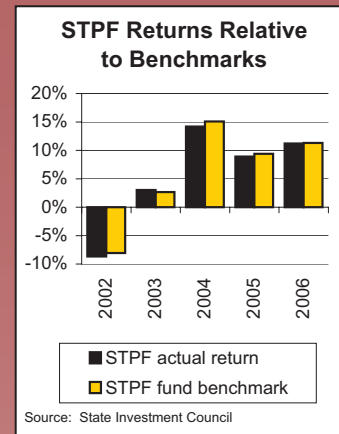
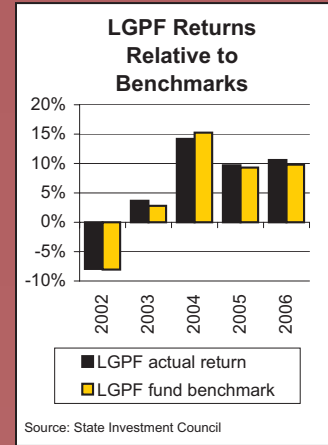
Portfolios as of 6/30/2006

	SIC	PERA	ERB
Large Cap Equity	x	x	x
Small/Mid Cap Equity	x	x	x
International Equity - Developed	x	x	x
International Equity - Emerging	x	x	x
Core Fixed Income	x	x	x
High Yield Fixed Income	x	x	x
Alternative: { Private Equity	x		x
{ Hedge Funds	x		
{ Real Estate	x		x
{ Economically Targeted Investments	x		

Most of the traditional investments move together over time and so funds invested in the traditional 60/40 split of equity and fixed income have high volatility. Alternative investments, on the other hand, are designed to have low correlations with the equity/fixed income portfolio and so can move in the opposite direction, lowering the portfolio volatility and increasing the long-term return.

Demonstrating the importance of alternative investments in portfolio performance, *The Chronicle of Higher Education* recently published a performance report of over 100 endowment funds. This report revealed that the top 10 endowments had more than 25 percent invested in alternative investments. The top two, Yale University and Amherst College, have over 50 percent in alternative investments. Of the bottom 10, three of whom had negative returns, only four had any alternative investments.

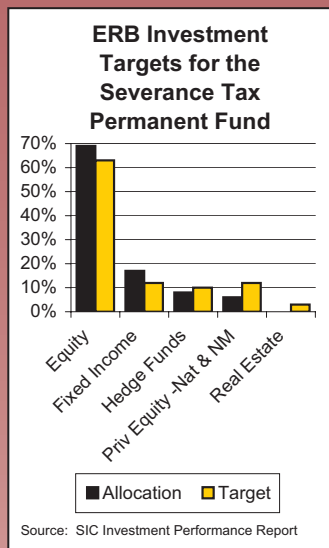
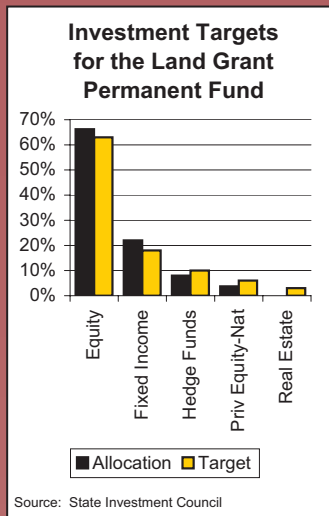
Status Report. SIC has been making alternative investments for over a decade, while PERA and ERB are just beginning. SIC’s directives by statute allowed for certain types of alternatives before 2005, whereas



The commitment to alternative investments is what sets the top funds apart from the bottom funds.

Policy Analysis: Investments and Pensions

The Prudent Investor Act requires more monitoring of investment decisions.



Many alternative investments are not subject to the same scrutiny and regulations that govern traditional equity and fixed income investments.

PERA and ERB had a narrow range of options. This “legal list” was removed by the Prudent Investor Act, allowing all of the funds to invest as a “prudent investor” would (45-7-601 NMSA 1978).

SIC invests portions of STPF and LGPF in alternative investments. For STPF, SIC has a target of 25 percent allocated to alternatives: 12 percent in private equity, 10 percent in hedge funds, and 3 percent in real estate. For LGPF, alternatives will eventually make up 19 percent: 6 percent in private equity, 10 percent in hedge funds, and 3 percent in real estate. Both funds are at the target allocation for hedge funds and approaching the allocations for the other two asset classes.

Since 2005, PERA and ERB have been investigating options and hiring investment advisors for alternative investments, as well as updating policies for investment procurement, benchmarks, and asset allocation to accommodate these new investments. Both agencies have committed to a 5 percent asset allocation in each of the three alternative classes for a total of 15 percent of assets, although their strategies somewhat differ in implementation. ERB has committed to hiring a separate consultant for each of the three alternative types, while PERA has chosen a single alternative investment advisor. During 2006 both agencies made significant progress in implementing their alternative investment programs.

Oversight and Governance. Although the Prudent Investor Act removed the tight scope of investments, it placed greater responsibility on the investment directors and the boards for investment choices and oversight. Choosing the appropriate investment advisors becomes essential due to the lower liquidity, unique risks, and higher management fees. In addition, manager performance reviews have become more complicated. In order to meet the resulting need to educate the boards and staff on alternative strategies, both PERA and ERB have held special retreats and added presentations by consultants to board agendas. Legislative oversight has also increased.

Regarding governance, the varying strategies being implemented at SIC, PERA, and ERB illustrate important consequences for the state funds. First, having different constellations of board members directing investment policy provides added diversification, which benefits the state funds overall by avoiding replication among the funds. In addition, the complexity of issues regarding investments points to a required knowledge level for board members to adequately perform their fiduciary duties. Thus, the issue of implementing new restrictions and requirements for board members is emerging as an important consideration. ERB is considering a statutory modification to require investment or related expertise for some board members, as well as including mandatory training in investments for new members.

Policy Analysis: Investments and Pensions

Pension Plan Updates. PERA offers 31 pension plans covering state, county, and municipal employees, municipal and volunteer firefighters, judges, magistrates, and legislators. As of June 30, 2006, PERA had approximately 51,600 active members and 22,562 retirees, reflecting a 10 percent growth in the number of retirees from FY05 to FY06. ERB offers a pension plan to public school and higher education employees. It has just over 62,000 active members and 27,684 retirees, a 9 percent growth over FY05. Both plans are defined benefit plans, which provide 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 an annual cost-of-living increase for retirees.

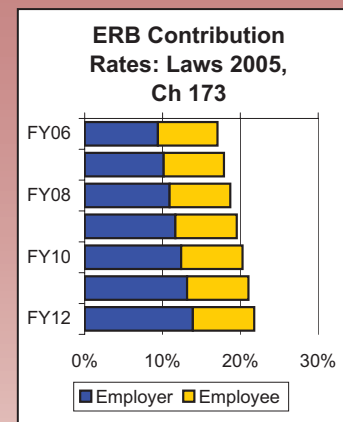
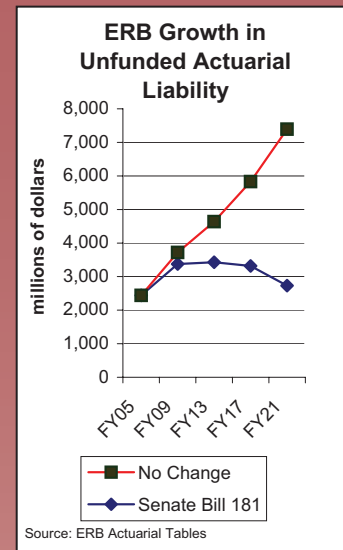
To monitor the financial health of the two pension funds, the committee focuses on the actuarial solvency, primarily by the funded ratio and unfunded actuarial liability, both defined below.

Funded Ratio. The funded ratio is the actuarial value of assets (AVA) expressed as a percentage of actuarially accrued liabilities. On June 30, 2006, PERA had an overall funding ratio of 92 percent, which means that plan assets are 92 percent of projected liabilities. ERB's funding ratio was 70 percent as of the same date. 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 (GASB) states that the amortization period for any UAAL should be less than 30 years. On June 30, 2006, PERA had an aggregate UAAL of \$931.5 million and an amortization or funding period of 16 years. ERB's preliminary UAAL at June 30, 2006, was \$3.1 billion, with a funding period of infinity.

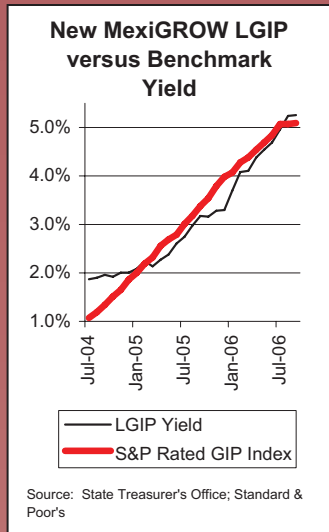
Laws 2005, Chapter 273 (Senate Bill 181), was enacted to improve the solvency of the educational retirement fund by increasing employer contributions by 5.25 percent over seven years (a 0.75 percent increase per year) and employee contributions by 0.075 percent over four years. The unfunded liability would have grown rapidly without legislative action and now that growth should level off and decline with the contribution increases. The most recent actuarial report indicates an infinite funding period will exist through FY08, turn positive in FY09, and meet the GASB 30-year funding period during 2010, assuming demographic and investment assumptions hold. Accelerating payment of the ERB liability would

Both ERB and PERA use pre-funding as the means of financing their plans, opposed to a pay-as-you-go system. Investment earnings account for most of the asset generation to meet the plan's obligations. A minimum 8 percent annual return is built into the actuarial assumptions for solvency calculations.



Policy Analysis: Investments and Pensions

Many of the improvements at the State Treasurer's Office have been voluntary and there is still a need for independent oversight.



correspondingly accelerate this schedule, as well as reduce the risk involved of future payments or investment returns failing the actuarial requirements.

State Treasurer's Office Update. In September 2005, former State Treasurers Michael Montoya and Robert Vigil were indicted for extortion. An FBI investigation charged 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 Treasurer. Vigil pleaded not guilty but resigned on October 26, 2005, two days before facing impeachment proceedings in an extraordinary session of the Legislature. Governor Richardson appointed Doug Brown to serve as state treasurer until a newly-elected treasurer takes office in January 2007. In October 2006, Vigil was found guilty on one of the 24 counts against him.

LFC expressed concerns about STO portfolio management in each budget recommendation from 1999 to 2006. Issues noted by LFC included lack of broker rotation, over-use of callable securities, churning, inadequate cash management, and lack of benchmark reporting. Since Vigil's resignation, each of these concerns has been addressed to some extent by Treasurer Brown.

A primary LFC concern was that investment business was being awarded unfairly to those close to the treasurer, which diminishes earnings if these favored brokers are not competitive. Treasurer Brown recognized this concern and replaced local brokers with institutional brokers who had direct access to the markets. Just 2 percent of trades were conducted through institutional trading desks from November 2004 to June 2005. However, from November 2005 to June 2006, all trades were conducted either through institutional trading desks (89 percent) or through direct bids, in which no broker is required (11 percent). The figures suggest that investment business has been awarded more evenly across several brokers in the more recent period.

Other STO improvements:

- Refilling key staff positions to enable reform;
- Using electronic bidding platforms, which enable STO to receive bids from several brokers instantaneously;
- Ceasing the purchase of more costly primary issuance U.S. agency securities rather than identical instruments on the secondary market;
- Transforming the New MexiGROW local government investment pool (LGIP) to secure an AAAM rating from Standard and Poor's;
- Adopting an LGIP benchmark (S&P Rated GIP Index) and

Policy Analysis: Investments and Pensions

- surpassing it as of August 2006;
- Improving cash management; and
 - Decreasing the average maturity of the general fund portfolio to take advantage of last year's rising interest rates.

Looking forward, STO still faces several challenges. Oversight of the constitutional office is not well-defined by statutes. Cash management has improved but further steps are still needed to prevent costly excess liquidity. Finally, a general fund investment benchmark, essential for accountability, has not yet been chosen.

New Mexico Retiree Health Care Authority. The Retiree Health Care Authority (RHCA) provides core group and optional healthcare benefits and life insurance to New Mexico's current and future eligible retirees and their dependents. RHCA currently has 463 participating employers, including all state agencies and school districts, 21 counties, 22 cities, and 10 institutions of higher education. It is expected that other entities will petition to join RHCA. Total enrollment as of June 30, 2006, is 41,269.

As with any "provider" of health insurance, RHCA faces the twin problems of increasing costs and increasing demand. In September 2006, the authority approved a 6 percent increase in healthcare premiums to take effect on January 1, 2007. This follows a 3.5 percent increase in premiums the previous year. In addition to the challenges of increasing costs and demand, RHCA faces unique challenges that potentially impact the soundness of the system.

As early as last year, RHCA reported a solvency period for the fund of 25 years. In recent months the authority has begun to question the accuracy and assumption of that projection. In particular, RHCA has expressed concern about the sustainability of the federal Medicare Part D prescription drug subsidy over a 25-year period and the wisdom of relying on any federal subsidy for such a prolonged period of time. The authority is also looking at the adequacy of planning for premium and membership increases.

Additionally, it appears that some entities that have joined RHCA may have done so under a formula that significantly underestimated the full and correct buy-in costs. RHCA has begun a rule-making proceeding to determine and implement an appropriate rate for future entrants, and to determine if recoupment from past entrants is possible. The lack of certainty in such a fundamental function of the authority only adds to concern about the accuracy of recent long-term projections and the long-term health of the program.

Finally, recent changes in accounting rules, and GASB 43 and 45 in

Broker Participation Before and After STO Reforms

Nov. 2004 - June 2005

Total Traded: \$2.9 billion

*Morgan Stanley	2%
RBC Dain Rauscher	3%
Advests	5%
Southwest	7%
Raymond James	7%
LPL Financial Serv.	18%
Merrill Lynch	27%
Wachovia	31%
Total	100%

Nov. 2005 - June 2006

Total Traded: \$8.8 billion

*Bear Stearns	1%
*UBS	2%
*Lehman Brothers	5%
*Credit Suisse First Boston	7%
*Bank of America	11%
No Broker	11%
*Goldman Sachs	11%
*Morgan Stanley	13%
*Citigroup	19%
*Merrill Lynch	20%
Total	100%

* Denotes broker at institutional trading desk
Source: STO, QED System

Policy Analysis: Investments and Pensions

particular, which require nonpension, unfunded liabilities to be booked unless they are either protected in a states constitution or placed in an irrevocable trust, could have profound impact on the appearance of New Mexico's financial health and affect its bond rating. RHCA is developing legislation for the next legislative session that would place the fund in an irrevocable trust.

RHCA is developing new performance measures that will report on the unfunded actuarial liability, actuarial value of assets, fund ratio and the funding period. The measures will include targets that will allow the Legislature and RHCA to better determine future revenue requirements and appropriate benefit levels. This should also help the agency to pre-fund some benefits for active employees.

LFC intends to work closely with RHCA and increase its oversight of this important benefit for current and future retirees to ensure its long term stability.

Policy Analysis: Internal Services

Save Smart Purchasing Update. In 2004, the Legislature appropriated \$8 million to the General Services Department (GSD) to improve state procurement practices. GSD contracted with Silver Oaks Solutions to reform the procurement process, produce savings, and ensure knowledge transfer to state personnel to ensure continuity after the contract ended.

In FY05, GSD reported savings of \$12.5 million, mostly from improved procurement processes at the Corrections Department. Despite these savings, an LFC audit questioned whether the Department of Finance and Administration (DFA) had an adequate plan to capture savings and revert them to the general fund and whether Silver Oaks had adequately trained state personnel to take over the system.

At the expiration of the contract with Silver Oaks on June 30, 2006, GSD reported audited savings of \$16 million. With certain savings yet to be audited, it is possible that figure will increase. GSD also reported that all savings and analysis tools developed by Silver Oaks have been turned over to GSD. GSD and DFA promised to provide a report on how savings are captured and returned to the general fund.

GSD's Strategic Sourcing program will carry on the effort begun by Save Smart. Of continued concern is the ability to recoup additional savings, validate claimed savings, and the impact on small businesses in New Mexico. For example, the Corrections Department operating budget for medical services in FY05 was \$29 million but rose to \$40 million in FY08, calling into question just how much savings have occurred and whether savings have proved sustainable as a result of the state's investment in Save Smart.

SHARE System Update. On July 1, 2006, New Mexico launched the statewide human resources and financial computer system, called SHARE. The Legislature appropriated \$20 million in FY05 for the system.

As might be expected with a large-scale change of systems, the conversion to SHARE did not go off without a hitch. Problems encountered by agencies include the following:

- Inability to make payroll,
- Inadequate training and underutilization of available training,
- Delay in processing warrants, and
- Inability of the system to produce financial and other reports for agencies.

Unfortunately, four months since the launch of SHARE, many problems persist. Of particular concern is the inability of SHARE to

Policy Analysis: Internal Services

produce financial reports. Agency programs are reliant on the ability to interface with SHARE and are unable to do so because SHARE is not producing needed reports. LFC does not have access to agency budget status reports, revenue status reports, and beginning cash balance reports critical to analyzing the overall health of state finances. This is especially significant given that Section 6-3-6 NMSA 1978 requires expenditures of any state agency for the first six month period of each odd-numbered fiscal year to be limited to one-half of the appropriation or approved budget, whichever is less for that year. It is unclear how agencies will satisfy this statutory responsibility without accurate financial reports.

LFC recognizes the potential of SHARE to improve the way the state does business, as well as recent efforts to address the systems deficiencies. However, continuing problems and lack of information leave the committee with the feeling that the state is flying blind financially pending full implementation of SHARE.

GSD Risk Management Update. One of the most critical issues facing the General Services Department is development and maintenance of reliable risk fund balances. The projected losses for public liability, public property, and unemployment compensation grew an estimated 51 percent and 46 percent, respectively, in FY04 and FY05. An actuarial study of risk funds conducted at the end of FY05 indicated that projected losses for public liability exceeded available assets by \$69 million. Projected losses exceeded available assets by \$79.5 million by the end of FY06.

Risk fund practices from surrounding states indicate a wide range of options and policies, from maintaining case balances to cover all estimated outstanding losses to not allowing liability to exceed 50 percent of the actuarial value of outstanding liability. LFC encourages continued attention to ensure adequate reserves for all risk funds that are not entirely dependent on the annual availability of state revenues.

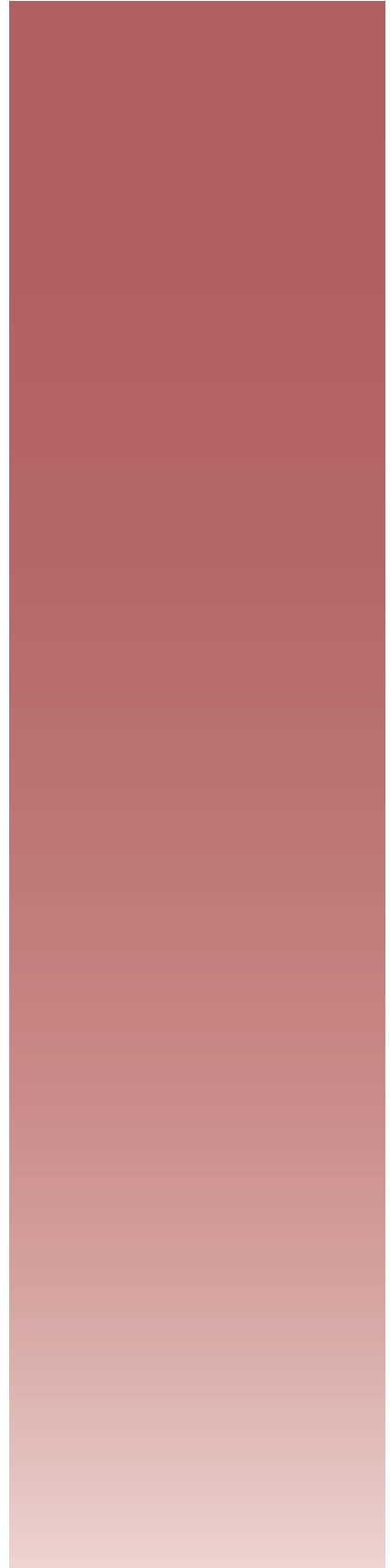
LFC Audit of Risk Management. A 2006 interim audit by LFC staff revealed significant shortcomings in Risk Management Division (RMD) practices, including the inability to document how premiums were set in the past, higher-than-recommended caseloads for claims adjusters, and lack of documentation on how professional services contracts were monitored and evaluated, among others.

GSD has begun to systematically address the following:

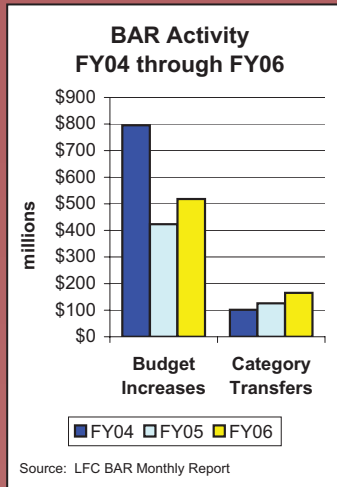
- Excessive claims adjuster caseloads,
- Lack of adherence to legal service procurement guidelines,
- Contract attorney selection process, and
- Past-due amounts from covered entities.

Policy Analysis: Internal Services

These efforts, and others to address the audit findings, are encouraged and should result in more accurate rate setting and more accurate projections on fund balances, premium setting, benefit determinations, and overall better service to the agencies customers.



Policy Analysis: Budget Adjustment Authority



Agencies with Other Financing Uses Transfer Authority in FY07

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

Agencies with Program Transfer Authority in FY07

EDD, DOL, NMCD, and NMDOT.

Review of FY07 Budget Adjustment Request (BAR) Authority. In FY07 agencies had 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 because of concerns that agency transfers into other financing uses were being used to move funds to other agencies in possible violation of appropriation law. Only the agencies listed in the sidebar had 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.

Interim Activities. LFC held a number of BAR objection hearings during the interim. Areas of concern:

- Transfer of capital funds to fund agency operating expenses;
- Increasing program budget without verification that revenue is available;
- Moving general fund from one agency to another, claiming the funds are a “grant”; and
- Submission of BARs on the last day of the fiscal year to preclude LFC review.

Agencies are not allowed to transfer funds to another agency unless they have specific legislative authority. To prevent agency-to-agency transfers via “grants,” the Legislature may consider eliminating the word “grant” from section 3 (I) of the General Appropriation Act, which allows agencies to increase their budgets for revenues not appropriated by the Legislature. The Legislature could provide specific authority to agencies to budget grant revenue as needed.

Section 6-3-25 NMSA 1978 provides for committee hearings on BARs to which LFC objects. However, if the state fiscal year ends prior to the date scheduled for a hearing, the request shall go into effect on the last day of the fiscal year. Although fairly rare, some agencies have submitted objectionable BARs near or on the last day of the fiscal year. The Legislature might consider amending this statute to allow for a reasonable period of time for LFC review of year-end budget adjustment requests.

Policy Analysis: Public Employee Compensation

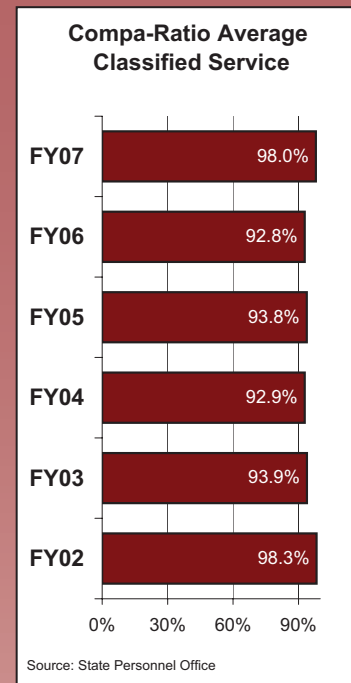
The ability to maintain adequate compensation levels while continuing to offer a competitive and meaningful benefit package for state employees is a delicate balance. In the 2006 legislative session enhanced state revenues allowed for the Legislature to make significant adjustments to employee base compensation. Despite this effort, employee base compensation continues to lag behind the market between 9 and 18 percent. This disparity is compounded by employee salary compaction within pay ranges because of the difficulty in advancing within the pay plan. These issues directly impact the state's ability to attract and retain employees as evidenced by the increasing vacancy and turnover rates throughout state government.

Historically, the Legislature has sought to offset the state's lack of resources for funding compensation increases by shifting a greater amount of the cost burden for employee benefits to the state, as the employer. This can be seen in the disproportionate share between the state and employee contributions to both the retirement and the health insurance plans.

The 2006 Legislature provided state employees with direct compensation increases averaging 5 percent as to allow a 2 percent across the board increase for all employees and an average 3 percent increase based on each employee's compa-ratio or position in the range. The use of in-range adjustments allowed employees with lower compa-ratios, those farthest behind the market average, to receive a higher percentage increase than employees closer to or above the average market pay for their position. This approach resulted in the average compa-ratio for state employees increasing from 92.8 percent in FY06 to 98 percent in FY07, its highest level in five years.

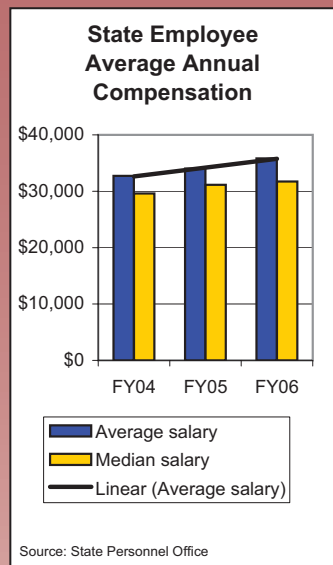
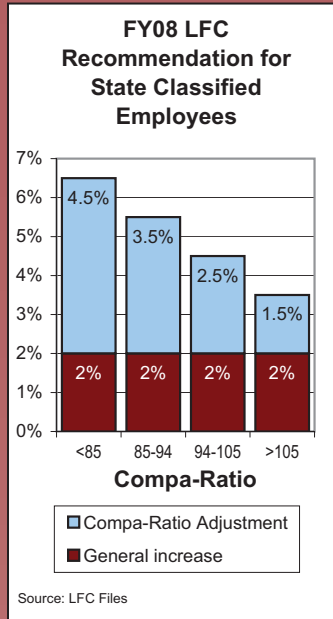
Improving employee compensation remains a high priority for the Legislative Finance Committee (LFC) for FY08. Accordingly, \$151.14 million from the general fund is recommended for compensation and benefit increases. This increase addresses legislative concern with market parity and salary compaction. Additionally, it recognizes the continued impact to total employee compensation of the health insurance contribution levels and for educational employees changes to the Educational Retirement Act. The Educational Retirement Act 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).

This recommendation is similar to that implemented last year by providing both direct increases and a variable increase based upon



A compa-ratio is a measure that expresses current pay rates as a percentage of range mid-points.

Policy Analysis: Public Employee Compensation



their position in the range or compa-ratio. This approach allows for employee movement through the salary range, thus addressing employee compaction. These increases are recurring and would become effective the first pay period paid in July 2007. They are inclusive of salaries, social security, and Medicare taxes, retirement, and retiree health care.

FY08 Recommended Increases

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	2%	3%		5%
Public Education		4.25%	.75%	5%
Higher Education		4.25%	.75%	5%

Executive Classified Employees. State Personnel Board (SPB) rules require submission of a report to the governor and LFC on the classified pay system at the end of each calendar year. In 2004, with the advent of collective bargaining and negotiations on wages between the executive and the unions, SPB ceased making any recommendations to the Legislature regarding market-driven structure adjustments to the pay plans and specific compensation adjustments to classifications significantly impacted by market conditions. This left the Legislature, as the appropriating authority, without the information necessary to prioritize and balance the needs of the compensation system. Nor did the executive provide any recommendations to the Legislature regarding structure adjustments or classification upgrades due to adverse market impacts, despite data showing that state employees were significantly below market benchmarks. Employees, unions, and individual agencies directly impacted by this inaction sought to bridge this gap by lobbying the Legislature independently for corrective action without regard to the impact on the compensation structure as a whole.

Total Compensation. Maintaining a competitive position with respect to total compensation is critical in attracting and retaining employees. The term “total compensation” describes the complete rewards and recognition the state provides employees in exchange for their time, talent, and efforts. In addition to direct compensation, pay for time worked, indirect compensation includes benefit costs, paid leave, and retirement in addition to other rewards that cannot be easily quantified but provide indirect, real, and valuable benefits. Examples of these other rewards include employee recognition programs, professional training and career development, a challenging and rewarding work environment, and flexible work schedules.

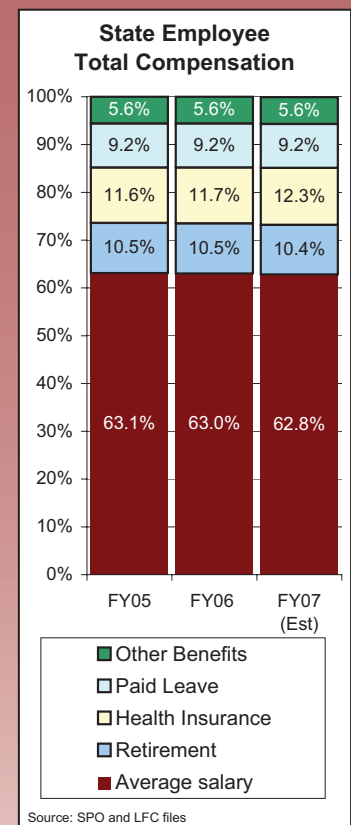
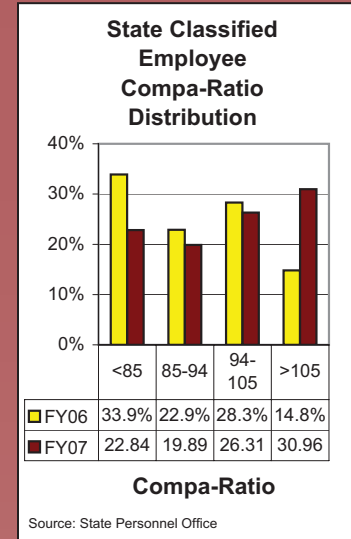
Policy Analysis: Public Employee Compensation

The Central States Regional Total Compensation Analysis for 2006 shows New Mexico ranking third out of eight comparator states in terms of total compensation for employees. While base pay is the largest component and the foundation of total compensation, the growth in indirect compensation is significant, largely due to the state's increased share in employee benefit costs and escalating premiums costs. The survey further shows that the average base salary for New Mexico state employees is \$37.9 thousand, with total compensation averaging \$61.4 thousand.

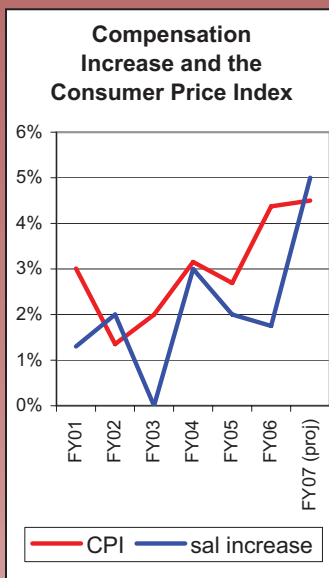
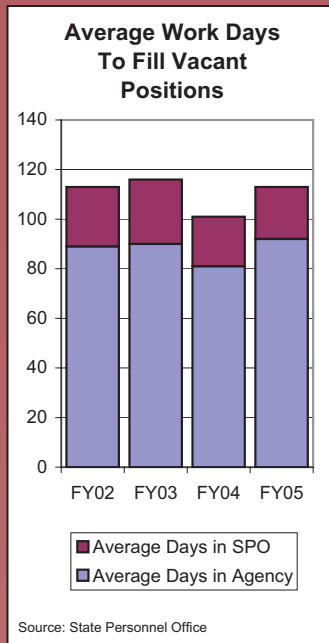
The Legislature has offset the state's inability to fund direct compensation increases by absorbing an increasing share of the cost for employee benefits. This can be seen in the disproportionate share between the state and employee contributions to both the retirement and the health insurance plans. Growth in indirect compensation represents a significant recurring cost with implications for the future and impacts the state's ability to address base compensation needs by diverting resources into indirect compensation. A recent example can be seen in the 20 year retirement program for correctional officers, created as an inducement to retain and attract officers. This initiative, however, did not provide the expected relief in reducing turnover or filling vacant positions, because it did not address the root cause of these problems -- inadequate base compensation. To not analyze all facets of total compensation places the system in jeopardy. Coordination among all entities involved in the total compensation is required.

The Hay Group in its 2006 report to LFC indicated, "Different elements of the total remuneration of state employees continue to be administered by separate agencies; salary by SPO; health benefits by GSD; retirement by PERA etc. In addition, it is our understanding that each makes separate presentations to the LFC. Hay reinforces the recommendation made in the 2002 report that the LFC adopt an integrated approach to total compensation planning by requesting that all agencies accountable for different components meet with the LFC in joint sessions on an as needed basis each year in order that the LFC can assess the extent to which recommendations being made will affect the overall competitiveness of the state's total remuneration offering and the cost implications for agencies and employees."

The Hay Group added "Collective bargaining has brought an additional 'level' of complexity" to the concept of total compensation making "even more important that the state have a clear and current picture of the level of competitiveness of total remuneration as negotiations often involve a potential 'trade off' between salary and benefits." Hay expressed concern that it has been six years since the state has conducted an analysis of total compensation in comparison



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with other public entities. In today’s environment, when compensation and benefits are as dynamic as they are, this is not acceptable and places the state in an untenable position as an employer.

These recommendations by the Hay Group are a first step in working towards a coordinated effort.

External Market Competitiveness. The state of New Mexico, as part of NM.HR.2001, established a policy that provides that mid-points for salary ranges be set at 95 percent of the comparator market. In 2006, the average compa-ratio for state employees was 92.8 percent as compared to a 2007 level of approximately 98 percent. The salary structure is approximately 11 percent behind comparable market mid-points.

Performance Increases. Prior to 2004, annual salary increases were provided through step or merit increases. The concept of performance pay was a cornerstone of NM.HR.2001 but was discontinued in 2004 by the executive because of the shift to collective bargaining. The Hay Group in its 2006 analysis stated, “This is a significant change since 2002 and interestingly, is counter to the trend in pay delivery in the USA, both in the private and public sector.”

Without a system or funding for performance pay, such as step or merit increases, employees have no availability to advance within a pay range. The inability to reward or advance employees is hampering efforts to recruit and retain employees, further frustrating managers and supervisors. Absent adjustments to correct market disparities in salary levels, agencies have been forced to hire new employees at levels above the minimum of the salary range. This has created compaction, with less experienced employees hired at the same or higher pay than tenured employees. Employee morale has been impacted, resulting in unnecessary turnover. The high vacancy and turnover rates in agencies performing public healthcare and safety services, such as social workers, counselors and correction officers, is especially noticeable.

The impact of compaction was most evident in FY06 within the Department of Public Safety (DPS). This agency struggled to address recruitment and retention problems with commissioned officers that were directly related to the lack of opportunity for pay advancement within DPS. The reinstatement within the department of step increases after the 2006 legislative session has resulted in a significant decrease in turnover and enhanced recruiting efforts. Yet, this corrective action cost the state substantially, as state police salary increases to correct the compaction averaged 18 percent.

Policy Analysis: Public Employee Compensation

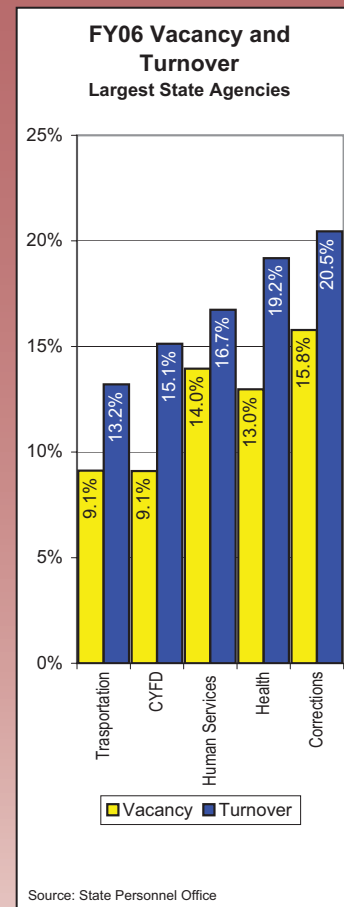
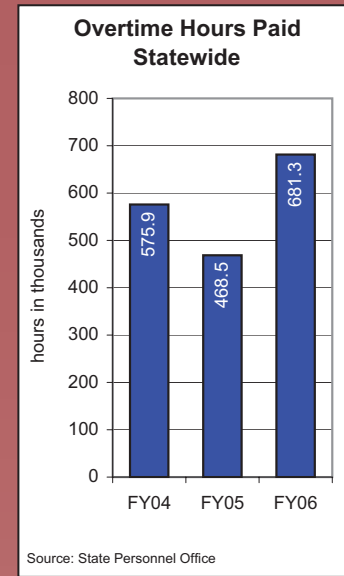
Absent a clearly defined strategy regarding salary administration with specific and defined objectives, compaction and employee morale issues will continue to grow, and the state will be unable to move from a reactionary position regarding compensation issues to a more proactive position as envisioned in NM.HR.2001. A return to a pay-for-performance model for all employees is recommended.

The State Personnel Office (SPO) needs to make recommendations annually to the Legislature on structure adjustments and classifications needing market adjustment.

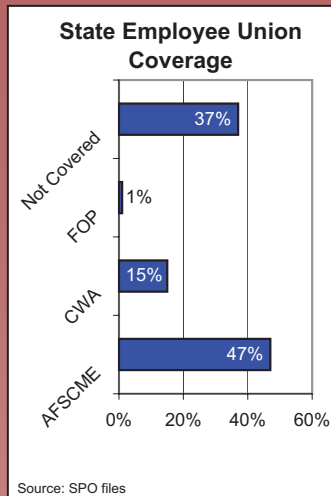
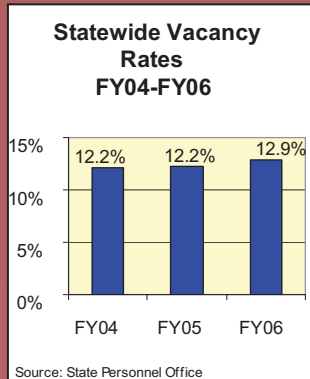
Employee Turnover and Retention. Filling vacancies in a timely manner is important to the continuity of service to the public, as well as to the maintaining the interest of the best applicants, who if forced to wait too long will lose interest in state employment. SPO data shows the time to fill a vacant position in state government averages 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 other employees' decisions to leave state employment.

The FY06 state employee turnover rate, the percentage of employees who terminate employment exclusive of temporary employees, was 15.8 percent, up dramatically from an FY05 level of 10.7 percent. The vacancy rate for state positions continued to escalate from an FY05 level of 12.2 percent to 12.9 percent in FY06. High turnover and vacancy rates are costly to state government. Using industry-standard tools, the cost of turnover to the state is in excess of \$24 million, not including the cost of overtime or lost productivity. In FY06, overtime hours increased statewide by over 45 percent from FY05 levels. All key agencies should consider a performance measure for vacancy rates with targets that focus on the number of calendar days to fill a vacant position.

Classification Upgrades. In addition to the salary increases granted to all employees, the committee recommends special market adjustments to the following classifications: increase salaries of staff attorneys within the Office of the District Attorney (AODA) by an average of 5 percent based at a cost of \$1.13 million on the approval of a plan submitted by AODA to LFC, raise commissioned motor transportation officer salaries within the Department of Public Safety (DPS) to the same level as state police officers, increase the salaries of attorneys within the Public Defenders Office 5 percent at a cost of \$595 thousand, increase salaries for probation and parole officers 7 percent at a cost of \$1.26 million, increase salaries of correctional officers 5 percent at a cost of \$2.76 million, increase salaries for juvenile correctional officers at a cost of \$1.14 million, and increase salaries



Policy Analysis: Public Employee Compensation



for librarians and librarian technicians and assistants 5 percent at a cost of \$77.2 thousand. These recommendations are made absent any recommendations and data from SPO, which declined to make this information available to LFC. These recommendations are based on LFC review of turnover and vacancy rates, anecdotal salary surveys, and complaints about compensation registered with LFC throughout the year from agencies, union officials, and employees.

Collective Bargaining Agreement. Successor collective bargaining agreements are in place for bargaining units represented by the American Federation of State, County and Municipal Employees (AFSCME), and the Communication Workers of America. These agreements are scheduled to expire on December 31, 2008. An initial agreement is being negotiated with the Fraternal Order of Police for motor transportation officers. These contracts require the executive to recommend as part of its budget request compensation increases for bargaining unit employees in fiscal years 07, 08, and 09.

Higher Education Employees. The committee recommends 4.25 percent salary increase for all higher education employees. This recommendation includes a 0.75 percent contribution to ERB, for a total compensation increase of 5 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. When compared with peer institutions throughout the United States, both salaries and total compensation declined in fall 2005 relative to fall 2004 for several of the four-year institutions.

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 and two-year branch campuses have trended upward over the last six years, from an average of \$37,259 in 2000-2001 to \$43,775 in 2005-2006. New Mexico salaries were at 90.7 percent of the mountain states average in 2000-2001, but up to 94 percent in 2005-2006. (The regional comparison excludes the Maricopa system serving the Phoenix metropolitan area.)

In fall 2006, the Higher Education Department (HED) prepared a proposal to increase faculty salaries. The study estimated New Mexico public, postsecondary institutions need \$25.2 million in additional funding to close the gap between certain New Mexico institutions and

Policy Analysis: Public Employee Compensation

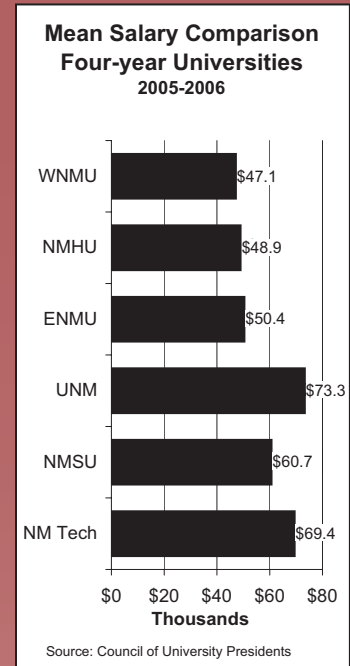
a comparison group. If funding were to be provided over four years, the HED analysis calls for an additional \$7.2 million per year. The study uses data from the US Department of Education Integrated Postsecondary Education Data System (IPEDS) and assumes 3.5 percent annual salary increases. The study compares New Mexico four-year institutions with similarly designated institutions in Texas, Oklahoma, and Arizona, while two-year institutional salaries are compared with the New Mexico average, heavily influenced by Central New Mexico Community College compensation levels. For Northern New Mexico College, the study assumed a significant increase in new faculty, which generated an estimated \$2 million salary gap by 2009. The study does not include the faculty at the University of New Mexico Health Sciences Center and does not include adjunct faculty or staff at any higher education institution. The study does not consider salary policies to improve productivity.

Methodology is important for a policy study to influence decision-making, and the rationale for the methodologies used by HED is not currently clear. While there are 17 national datasets from which to draw data on faculty, HED chose to use IPEDS data. Many higher education institutional faculty salary studies, including that prepared annually by the New Mexico Council of University Presidents, choose to use data from the Full-time Instructional Faculty Salary Survey published in *Academe* by the American Association for University Professors.

Further, the New Mexico Council of University Presidents and most other organizations use data of designated peer institutions across the United States to compare faculty salaries. For example, the University of New Mexico's peer institutions include notable research institutions such as the University of Iowa, the University of Missouri-Columbia, the University of Virginia, and the University of Washington, among others -- all members of the prestigious Association of American Universities (AAU). This peer comparison is missing from the HED study.

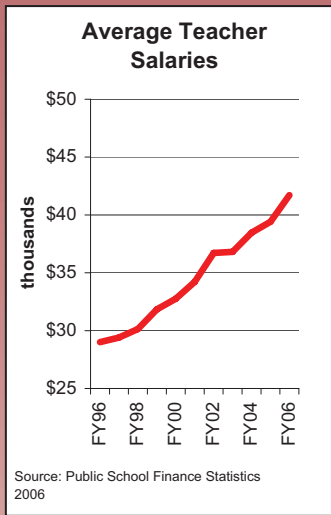
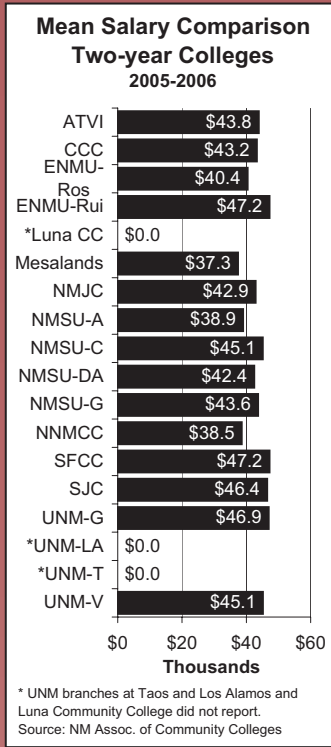
With respect to two-year colleges, the HED study compares each New Mexico institution with an in-state salary average. There is no comparison to either peer institutions or regional institutions. In contrast, NMACC employs a methodology of New Mexico salaries with a regional average. It is not clear that this methodology is consistent with those used nationally for a rapidly growing state college. The HED methodology impacts which institutions would be eligible for increased compensation funding.

While the HED report might advance the discussion about the need for increases in faculty compensation, additional analysis might be



New Mexico community college average faculty salaries ranged from \$37,346 at Mesalands Community College to \$47,177 at Santa Fe Community College and \$51,453 at New Mexico Military Institute in 2005-06.

Policy Analysis: Public Employee Compensation



needed. Further, the report conclusions appear to represent a departure from the traditional approach to funding New Mexico faculty compensation. In the past, higher education compensation for both faculty and staff has been provided within the funding formula context, and previous salary comparison studies were used to justify across-the-board increases applied to all institutions. In light of the HED proposal, state policymakers should address whether they intend to make a significant departure from this approach by providing targeted compensation adjustments to specific institutions.

The University of New Mexico Health Sciences Center requested \$11 million for the School of Medicine instruction and general line item. To maintain competitiveness, the first element of the package would make progress toward bringing School of Medicine faculty to the 50th percentile of faculty compensation within the American Association of Medical Colleges rankings, at a general fund cost of \$5.7 million. The second component would involve hiring additional faculty in 22 areas, with a general fund cost of \$5.4 million. Other revenue sources would be used to fund an additional 25 percent of the total costs of these new faculty members.

Public Education. Recognizing the need to continue to improve salaries for educational employees, the committee recommends an average 4.25 percent salary increase for all public education employees. The committee further recommends funding for continued implementation of the three-tier career ladder for teachers establishing a level-three minimum of \$50 thousand.

For FY08, the committee recommends funding to implement salary minimums for principals and assistant principals based on a responsibility factor and supports legislation amending statute to delete reference to “size” and replace with “responsibility.”

Similar to higher education, the committee recommendation includes a 0.75 percent contribution to ERB as mandated in statute, for a total compensation increase of 5 percent.

Policy Analysis: Capital Outlay

2007 Capacity. Approximately \$700 million will be available for infrastructure statewide needs after setting aside approximately \$198 million for one-time spending in the General Appropriation Act. This includes over \$500 million from the general fund based on reserve levels of 10 percent and a net of \$194.2 million from senior severance tax bond capacity (capacity of \$326.7 million less \$32.7 million set-aside for the water project fund, \$2 million for sewers in Bernalillo County's North and South valleys, \$64.8 million for authorized but un-issued bonds, and \$33 million for FY07 spaceport authorization). Approximately \$173 million from supplemental severance tax bond capacity will be available for public school capital outlay projects.

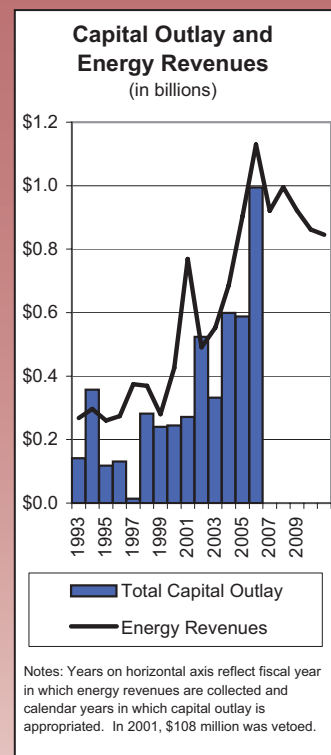
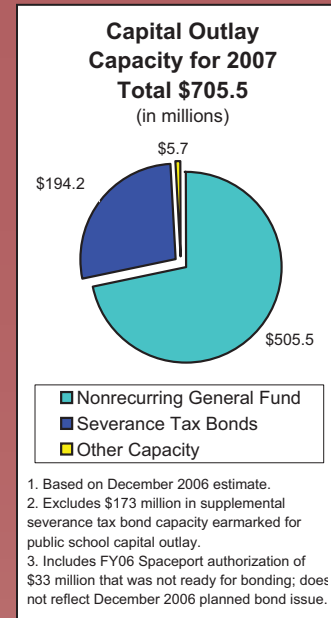
Even with what may be one of the greatest boons of capital funding in New Mexico history, the state and local capital requests summarized within this document far exceed available funding. State, judicial, local, and tribal entities will request nearly \$3.5 billion compared with the \$700 million capacity. The governor has indicated he will request nearly \$200 million for new and ongoing initiatives. Policymakers must consider obstacles such as project management capacity, construction market conditions, escalating construction costs, legal constraints, and the large number of projects funded in previous years sitting idle due to a lack of planning and under-funding. Policymakers must also keep in mind that a potential decline in energy revenues means funding for capital outlay could also decline in future years.

The Legislative Council named a joint Capital Outlay Subcommittee during the interim composed of members of the council and the Legislative Finance Committee. The purpose of the subcommittee was to review capital outlay funding options, the existing capital process, management concerns, and the obstacles to the progress of existing projects. A summary of the subcommittee's discussions and possible solutions follows.

Capital Outlay Obstacles.

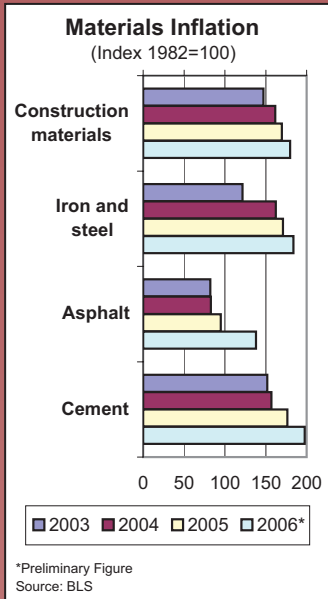
Project Planning and Management. Several issues contribute to the progress of major and minor capital projects at both the state and local level. To name a few: (1) The Property Control Division (PCD) of the General Services Department (GSD) is understaffed and overwhelmed with the large number of projects under its jurisdiction. (2) State agencies lack planning and project management expertise. For example, site or land acquisition is not determined prior to requesting funds for new construction. (3) State agencies lack adequate staff for oversight of local projects. (4) Projects are delayed due to inadequate funding levels. (5) Design and engineering contracts are delayed at GSD.

Construction Market. The economic windfall attributed to oil and gas revenues has had a dual effect on construction, causing delays in getting



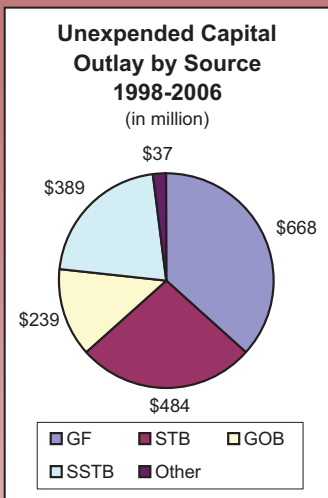
Policy Analysis: Capital Outlay

capital projects certified, funded, and started. Increased capital funding has led to more construction, but the demand for architects, engineers, and contractors has driven the costs up and projects are not being completed on schedule. Construction employment growth has been incredibly strong in the past three years, exceeding 8 percent in FY06. Much of the activity has been in housing construction and is expected to slow down in the next year and return to the growth of total employment of about 2 percent by FY09. The capacity constraint shows up at the local and state level. For example, the Santa Fe Convention Center initially attracted only one bid well above the contract maximum. That contract bid again, but plans had to be scaled back. The Governor Richardson's Investment Program (GRIP) projects are attracting some of the major building contractors that would otherwise be bidding on local projects.



Cost Increases and Legal Constraints. The cost of materials has risen dramatically, affecting all projects. Steel, cement, and asphalt are the basic ingredients in nonresidential industrial building, which would include highways, water systems, and other typical capital projects.

The Subcontractor's Bonding Act (Laws 2005, Chapter 99) requires subcontractors, as well as the general contractors, to provide a bond. The act creates problems for small subcontractors because they can't readily finance a bond. Previous to passage of the act, the general contractor was allowed to obtain a bond from a subcontractor, if the general contractor felt it was necessary, but it was not mandatory. Other states allow out-of-state contractors to bid before requiring them to get a license; however, New Mexico does not. This requirement precludes some of the border communities from attracting out-of-state contractors to participate in the bidding process, which could help generate more interest in the projects and could enhance price competition.



Other Capital Outlay Funding and Bond Issues.

Unexpended Funds. The Legislature authorized or appropriated \$3.4 billion for 15,877 projects between 1998 and 2006. Of the \$3.4 billion, over \$1.8 billion remains unexpended for 6,585 projects, including passage of a general obligation bond issue in November 2006. The source of unexpended balances: general fund, \$667.7 million; severance tax bonds, \$484.2 million; general obligation bonds \$238.6 million; supplemental severance tax bonds \$389.2 million; and other funds, \$36.6 million.

Authorized but Never-Issued Bonds. As of November 2006, severance tax bonds totaling approximately \$64.8 million are authorized, but unissued. The \$64.8 million includes \$33 million authorized in FY06 for the spaceport. An additional \$73 million is authorized for future years,

Policy Analysis: Capital Outlay

including \$64 million authorized for FY07 and FY08 for the spaceport and \$6 million for the water and sewer distribution in Bernalillo County. According to bond counsel, bonds were not issued for various reasons—incomplete certifications, projects not ready to commence, possible anti-donation issues, or the need for additional funds. A list of the projects may be obtained from LFC.

Capital Projects Greater than \$1 Million. To provide the committee with an accurate accounting and the status of projects funded for greater than \$1 million, LFC staff developed a good model for tracking the progress of projects. Of \$867.3 million appropriated between 1998 and 2006 for 264 projects with a value of \$1 million or greater, \$295.8 remains unexpended. Ranging between \$1 million and \$100 million, the greatest value is for public school construction. Of the 264 projects, 173 are on schedule; 61 projects are behind schedule or have had little activity; 30 have had no activity or bonds have not sold; and nine, when known, require additional funds to complete the project. A table of the projects with “no activity” is referenced in Volume III.

LFC Interim Hearing Results. The executive requested, and the Legislature approved, a number of capital programs funded between 2004-2006 totaling approximately \$49 million without the benefit of enabling legislation to guide the implementation of the programs, including criteria, application process, allocation of funds, or reporting requirements. The committee held hearings with the Local Government Division (LGD) of the Department of Finance and Administration to determine the status of the projects and to determine the process used for the accountability and allocation of the funds for the colonias (\$10 million), water innovation (\$18 million), and rodeo initiative (\$21 million) administered by LGD.

Debt Levels. In 2004, as demonstrated in the sidebar, the year-end debt levels rose dramatically due to the ambitious GRIP highway program. Highway debt went from around 35 percent of total state debt to over 50 percent. The state owed \$2.8 billion in its major bond programs at the end of FY06, up over \$1 billion from 2002.

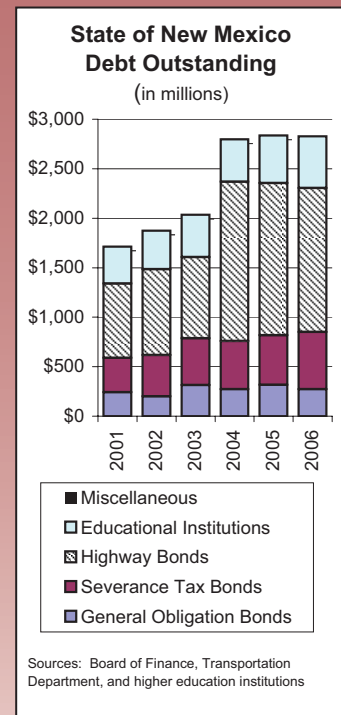
Summary of Interim Capital Outlay Subcommittee Findings. The Legislative Council charged the joint Legislative Council and Legislative Finance Committee Capital Outlay Subcommittee with the following tasks:

- To recommend improvements in prioritizing statewide and local projects,
- To minimize the number of requests to more closely match available funding amounts,
- To improve the communication process between the House and

LEGEND		Total Projects
	Project on schedule	173
	Behind schedule or little activity	61
	No activity or bonds not sold	30
X	Additional funds needed	9
Total Projects		264

Key Projects >\$1 million and Funds Needed for Completion:

- State Laboratory Services Building - \$30 million
- Digital Radio System Conversion - \$6 million
- Archaeology Center - \$1.8 million
- National Hispanic Cultural Center - \$1.3 million
- Court of Appeals - \$12.4 million
- Paseo del Volcan - \$200 thousand



Policy Analysis: Capital Outlay

Funding Criteria for Critical Investments in State Assets

- *Project will eliminate potential health and safety hazards and other liability issues;*
- *Project is in progress and completion requires additional funding due to escalating costs or project was not adequately funded, or plan and design is complete but construction funds are needed;*
- *State appropriation will maximize federal, local, and enterprise revenue;*
- *Project provides direct services to students, staff, or the general public;*
- *Project is included in state or local government Five-Year Capital Improvement Plan and is ready to commence;*
- *Investment provides future operating cost savings with a reasonable expected rate of return;*
- *Project needed to address population or client growth (i.e., adult and juvenile facilities, senior centers, water systems, roads, etc.).*

- Senate and between the Legislature and the executive, and
- To review other issues the subcommittee deemed appropriate.

The subcommittee received testimony on the allocation of funds among the House, Senate, and executive in prior years, the current capital outlay process, processes used in other states, and testimony from state agencies and public entities to discern good planning processes already in place and to establish coordination among the various processes.

The most evident concerns expressed by members of the committee:

- The governor's veto of \$52.4 million, projects mostly proposed by legislators, that left a 16 percent reserve balance in FY06 rather than the projected 10 percent;
- The limited time for review of the capital bill prior to passage;
- The allowance of operation funds in the capital bill;
- The need to more actively engage in the prioritization of statewide projects;
- The levels of funding allocated among the House, Senate, and the executive; and
- The need for better communication between the House, Senate, and the governor during the capital budget process.

The subcommittee recommendations to the full Legislature in 2007 to improve the capital funding and process might include the following:

- Establishing timelines (a discussion draft is in Volume III of this recommendation) for introduction, review, approval, and passage of both legislative and executive projects in the capital bill;
- Limiting capital bill to capital projects only;
- Using criteria to determine funding of statewide projects; and
- Concurring on spending levels and allocation of funds early in the session.

New Mexico Finance Authority Issues.

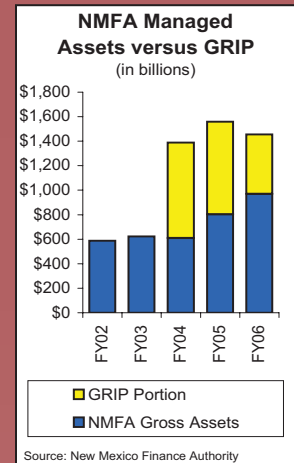
Managed Gross Assets. The New Mexico Finance Authority (NMFA) oversees nearly \$1.6 billion in gross assets, including bond proceeds, pledged revenues, loan payments, administrative fees, federal grant revenue, and interest income. The increase in gross assets is consistent with the growth in NMFA programs. Increases between 2004 and 2006 are mostly due to GRIP. The decline in managed gross assets in FY06 is due to draw-downs from the GRIP acquisition fund for various Department of Transportation highway projects.

Bond Ratings. The authority's bond portfolio grew from just under \$300 million in FY02 to nearly \$700 million in FY06, excluding GRIP

Policy Analysis: Capital Outlay

proceeds of nearly \$1.6 billion. The authority issued five public project revolving fund bond issues totaling \$165.9 million in FY06 and achieved several upgrades in its bond ratings in the last year.

Legislative Authorization for Project Selection. Members of the NMFA Oversight Committee expressed concern about the authority the Legislature has delegated to NMFA staff and other entities for approving projects. Of particular concern was legislation giving the Transportation Department secretary and metropolitan and regional planning organizations the authorization to prioritize local road projects. The following table lists the financial programs and types of financial assistance that require legislative authority and those program projects that require certification by other entities.



Program	Type	Legislative Authorization	Comments
Public Project Revolving Fund	Loan	Yes	Projects under \$1 million exempted
Water Project Fund	Loan	Yes	Project authorized, not funding type
Drinking Water Revolving Loan Fund	Loan/Grant	No	Projects must appear on State's Priority List as determined by NMED
Water and Wastewater Grant Fund	Grant	Yes	Program nearing completion
Local Government Planning Fund	Loan/Grant	No	Loan if project funded from outside sources
Local Transportation Infrastructure Fund	Loan/Grant	No	Projects prioritized by Metropolitan & Regional Planning Orgs & DOT
Smart Money Economic Development Fund	Loan	Yes	Projects Certified by NMEDD
Primary Care Capital Fund	Loan	No	Projects Recommended by DoH
Behavioral Health Capital Fund	Loan	No	Projects Recommended by DoH
Child Care Revolving Loan Fund	Loan	No	Projects Recommended by CYFD
Energy Efficiency & Renewable Bond Act	Bonds	No	Projects Recommended by EMNRD
GRIP	Bonds	Yes	
Stand Alone Bonds	Bonds	Yes	
New Market Tax Credits	Tax Credits	No	
Smart Money Conduit Bonds	Bonds	No	

New Mexico Mortgage Finance Authority Issues. The New Mexico Mortgage Finance Authority (MFA) will support regional housing reform and other legislation pertinent to its financial programs.

Regional Housing Authority Reform. Reform legislation being considered for introduction in the 2007 session would include repeal of the existing Regional Housing Authority Act and a \$2.25 million appropriation to the Department of Finance and Administration for disbursement over a three-year period through a joint powers agreement with MFA. MFA would contract with housing service providers to deliver the affordable housing services. Oversight and accountability would be achieved through contractual means. MFA would provide long-term compliance services in conjunction with these contracts just as it does with all other federal- and state-funded housing contracts it currently administers.

MFA Capital Outlay Requests. MFA will support six capital outlay requests as follows: \$15 million to capitalize the Housing Trust Fund;

Snapshot of MFA Financial Status

Metric	\$ in millions (unless indicated otherwise)
Assets under management	\$2,335.0
Total book assets	\$1,444.6
Earning assets	\$1,101.9
Excess revenues over expenses	\$6.3
Annual return on average earning assets	0.60%
Retained earnings	\$131.5
MFA general fund expenses	\$6.7
MFA general fund revenues	\$10.8

Policy Analysis: Capital Outlay

Housing Trust Fund Allocations to Date:

- MFA received 43 applications requesting over \$41 million in funding.
- MFA awarded \$10,323,730 in funding to 15 applicants.
- Awards have leveraged \$149,250,208 in other public and private funding.
- Upon completion, awarded projects will comprise 882 units in 17 counties.

Corrections Department Top Five Capital Outlay Requests (in millions)	
Camino Nuevo kitchen*	\$ 1.0
Security upgrades	\$ 8.5
Statewide repair/equip	\$ 11.9
Springer upgrades	\$ 4.5
Central office upgrades	\$ 0.6
Total Request	\$ 26.6

*Food services for female inmates.

\$2 million to repair and replace roofs, make accessibility modifications for physically impaired individuals, and make other emergency repairs; \$2.5 million for the EnergySavers Program (included in governor’s energy package); \$2.5 million for the low- or no-interest loan fund for fixture and appliance upgrades, conversion of existing utility systems to solar systems, and other energy efficiency retrofits; \$1 million for weatherization services; and \$2.5 million to weatherize homes for applicants who do not meet current federal qualification guidelines.

Funding Requests for Consideration. Legislative Finance Committee budget guidelines directed analysts to report on significant infrastructure issues during interim hearings, providing the committee an opportunity to hear testimony on many of the requests in this section. Of the nearly \$1 billion appropriated for capital outlay in 2006, state agencies received only \$119 million, of which \$33 million was for the spaceport and \$18 million was for the Pecos River settlement. As more funds are appropriated for local projects, such as museums operated by nonprofits, rodeo arenas, capital programs without enabling legislation (i.e., water innovation fund, colonias fund, rodeo fund), assets essential to public education, public health and safety services, and preservation of the state’s natural and cultural resources continue to be underfunded.

State entities requested more than \$890 million in 2007, while local entities requested over \$2.5 billion. The following requests indicate the total requests, but only the most critical needs are summarized. A listing of the most critical needs for funding consideration is referenced in Volume III. When available, the request versus the facility condition index indicating critical to necessary repair needs, is demonstrated in the sidebar.

Public Health and Safety.

New Mexico Corrections Department. NMCD requested \$26.6 million to address deficiencies at its facilities. The age and condition of existing infrastructure and security systems have become a life-safety issue and threaten to jeopardize the operation of the facilities.

Children, Youth and Family Department. CYFD requested \$22.5 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.

Department of Health. DOH requested \$31.8 million for infrastructure and new construction to address patient health and safety requirements and population growth at their facilities. The request includes \$8.8 million, contingent on a \$5.2 million match, for renovations or new

Policy Analysis: Capital Outlay

construction at public health facilities in Bernalillo, Mora, Roosevelt, Socorro, McKinley, and Rio Arriba counties. The department currently provides client health services in facilities provided by the county. State law (Section 24-4-2) requires the county commissioners of each county to provide “suitable quarters” for health services. However, the facilities in the aforementioned counties are structurally deficient, do not provide adequate space for patient privacy, and have safety issues impacting both clients and employees.

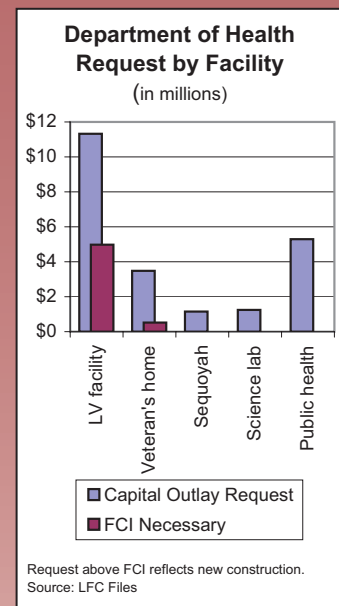
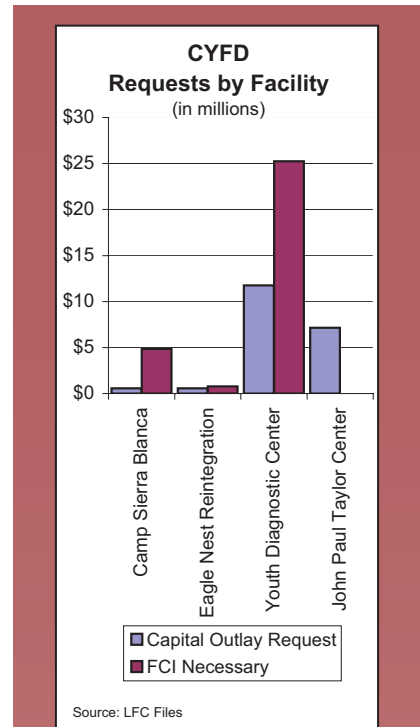
Aging and Long-Term Care Services Department. The department received capital outlay requests totaling \$48.8 million from senior programs statewide. Based on formal presentations and review of the applications and rating of critical, high, or moderate needs, the department and area agencies on aging recommend \$8.8 million for senior center infrastructure needs statewide.

Department of Public Safety. DPS requested more than \$50 million for facilities. The department priority is \$5.3 million for annual fleet replacement for 240 vehicles operating with 90,000 or more miles. This should be requested as part of the agency’s operating budget because vehicles are an ongoing cost. The second priority is \$10.1 million to replace the district offices in Las Cruces and Las Vegas. Both facilities are more than 25 years old and house three times more staff than their original design. The officer’s squad room in Las Cruces currently serves as a suspect holding area, which creates an extremely dangerous situation for staff and the public. The Las Vegas office conditions are substandard, overcrowded, and currently house state police and staff of the Game and Fish Department and the Livestock Board.

DPS requested \$19 million to replace its 35-year-old state crime laboratory in Santa Fe. Recent accounts by prosecuting attorneys, the courts, and other public safety officials indicate the backlog of deoxyribonucleic acid (DNA) and other tests are impacting the judicial process, and the substandard conditions of the current laboratory could jeopardize the integrity of test results. DPS once again requested \$9.3 million to construct a new facility at the Lordsburg port of entry to replace a temporary modular installed after the facility was destroyed by a truck driver in 1993.

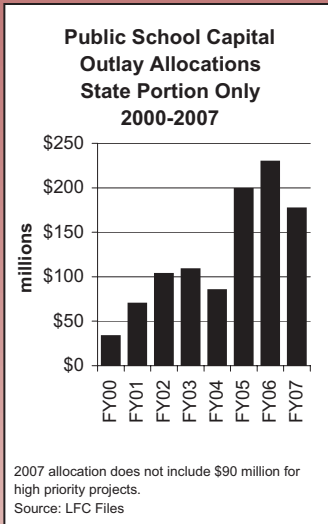
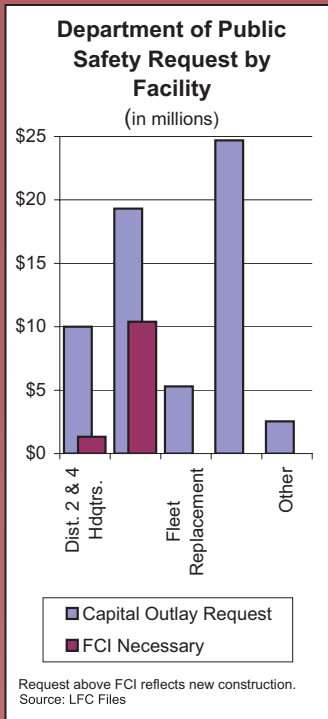
Education.

Public Education Department. PED requested \$17 million for four capital priorities—\$5 million for classroom facilities to accommodate the pilot pre-kindergarten program; \$4 million to continue the governor’s multi-year initiative to provide laptops to seventh graders statewide; \$4.5 million to replace school buses owned and operated by public schools in accordance with statutory requirements; and \$3.5



Requests	(in millions)
ADA	\$ 1.3
Vehicles	\$ 4.2
Renovations	\$ 4.0
Meals equip	\$ 0.8
Other equip	\$ 2.3
Total Request	\$ 12.6

Policy Analysis: Capital Outlay



million for the public school library materials fund. 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.

Public School Capital Outlay Council (PSCOC). PSCOC allocated \$157 million in FY07 for standard-based public school construction, renovation, or rehabilitation: \$90 million from special legislative appropriations for high priority projects and \$19.6 million for standard-based roofs. Approximately \$23 million of the allocations supplemented previous allocations due to escalating costs of construction. The Public School Facilities Authority (PSFA) indicates \$50 million to \$60 million may be needed to meet the increased costs and future inflationary pressures for ongoing projects. PSFA collects and reports data monthly on outstanding balances and project status to assist PSCOC and districts in efficiency in completing projects. The report is an effective way of focusing attention to those projects that may become troublesome and allows PSCOC to intervene quickly.

A number of superintendents have raised concerns of Public School Facility Authority oversight and the impact on school projects. The issues include standards that are overly prescriptive and detailed, minimum guidelines that recently became a maximum state funding guideline for funding, and district match provisions that limit the district’s control over how to expend locally generated tax dollars. Specific concerns related to the adequacy standards including inequities based on school size and the lack of flexibility regarding athletic fields, career pathways, performing arts centers, auxiliary gyms, and maximum allowable square footage for some academic space. PSCOC continues to work with PSFA and districts to provide guidance and assure an effective methodology is in place to meet school construction needs.

Higher Education Department. To aid policymakers and institutions in evaluating and determining the current and future repair and replacement costs of all higher education and special school facilities, HED contracted a general facility-condition assessment of buildings at all 27 state funded institutions, a total of 17.7 million gross square feet.

According to the assessment, New Mexico’s higher education and special schools facility condition index (FCI) average is 35.5 percent. An FCI greater than 10 percent is considered poor by national standards. A ranking of the listed institutions in order of their FCI and deficiencies ranked from worst to best, are included in Volume III. The assessment costs are ranked by priority—critical immediate needs, trending critical in 12 months, necessary in three to five years, and necessary in five to 10 years. Over \$1.1 billion is needed to address the current backlog of deficiencies due to the aging conditions of the facilities. An additional

Policy Analysis: Capital Outlay

\$1 billion is needed for renewal of facilities over the next five to 10 years. The 2007 request totaling \$43 million addresses the most critical and immediate needs for buildings, sites, campus utilities, and road infrastructure for the institutions listed in the sidebar. A listing of institutions ranked by their FCI and a breakdown of deficiencies by priority is in Volume III.

Preservation of Natural Resources.

Department of Game and Fish. The department requested \$13 million for the most critical needs: 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.

Energy, Minerals and Natural Resources Department. EMNRD requested \$23.3 million for various projects identified by the State Forestry (SFD) and State Parks (SPD) divisions. Spending would be focused on fire-fighting efforts and renovations of parks and facilities. Governmental gross receipt tax bonding capacity for park improvements is committed for the next 16 years.

New Mexico Environment Department. NMED requested \$1 million to match \$7 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 \$370 million in unmet wastewater infrastructure needs for communities throughout the state.

Office of the State Engineer. OSE requested \$29.3 million for 20 projects, including \$4.5 million for purchase and installation of surface water measurement systems in the Rio Gallinas, Rio Chama, Mimbres, and Nambe-Pojoaque-Tesuque stream systems, and groundwater measurement statewide; \$3 million for the purchase of water rights and other costs to meet the terms of the Pecos River Settlement; and additional funds for Ute Dam rehabilitation, Middle Rio Grande floodway improvements, construction of an Elephant Butte pilot channel, and other dam remediation and repairs.

The executive will seek approximately \$100 million for water-related projects. Also, executive officials have proposed an Office of Water Infrastructure to provide oversight of water projects.

Facility Condition Index (FCI) Formula:

**Total Cost of Repairs
Divided by Current Replacement Cost**

Facilities Ranked by FCI

UNM Taos
NM School for the Blind
NM Junior College
Western NM University
Northern NM College
NM Highlands University
NMSU Alamogordo
ENMU Ruidoso
NM State University Las Cruces
Mesalands Community College
NM Military Institute
Luna Community College
NMSU Grants
University of NM Albuquerque
NMSU Carlsbad
ENMU Roswell
NM School for the Deaf
San Juan College
NM Institute of Mining & Technology
UNM Valencia
NMSU Dona Ana
UNM Gallup
Clovis Community College
Eastern NM University
UNM Los Alamos
Central NM Community College
Santa Fe Community College

Policy Analysis: Capital Outlay

GOVERNOR'S PROPOSED WATER INITIATIVES

- Creation of Office of Water Infrastructure
- Statewide leak detection and repair
- Eastern Navajo water project
- Indian water settlements
- Ute pipeline
- Salt basin assessment
- Lease-excess irrigation water
- Water Trust fund
- Water innovation projects
- River ecosystem restoration
- Water conservation building codes
- Strategic water reserve
- Conservation easements
- Technical assistance for acequias

Cultural Preservation and Economic Development.

Department of Cultural Affairs. DCA requested \$8.1 million for repairs, and upgrades to alleviate life, safety, and code violations that continue to exist at facilities statewide. A request for \$3.1 million will complete construction in progress for the National Hispanic Cultural Center and the Archaeological Center. An additional \$11.7 million is requested to address renovations, equipment, art restoration, and other improvements at museum facilities statewide.

Expo New Mexico. Expo New Mexico requested \$38.6 million for 10 projects. The major request is \$25 million to construct a new exposition building for art festivals and shows as well as to attract new car and trade shows. A second priority is \$4.4 million to replace the current administration building. The facility is over 35 years old and would cost more to renovate than to rebuild. The additional funds are requested for bathrooms and other renovations to various facilities and to correct code deficiencies throughout the campus of the fairgrounds.

Cumbres and Toltec Scenic Railroad Commission. The commission requested \$3.5 million for track, locomotive, and passenger car rehabilitation, and renovations and upgrades to the Chama workshop. 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 economy of northern Rio Arriba County.

Economic Development Department. EDD requested \$5 million for an economic development capital fund to provide infrastructure grants up to \$500 thousand, contingent on a 33 percent match, for infrastructure related to economic development projects statewide. The department also supports \$4 million for the Main Street Program administered by the Department of Finance and Administration to revitalize downtown areas. Contingent on a 33 percent match from communities, the funds should generate approximately \$6 million.

Border Authority. The authority requested \$1.5 million to complete construction of the authority's office facility, for a Columbus port area drainage study, including street and drainage improvements, and for a parking site adjacent to the Santa Teresa Port.

Maintenance of Other State Facilities.

General Services Department. GSD manages 6 million square feet of office, hospital, prison, and other spaces throughout the state. In addition to supporting requests by other agencies, the department's most critical request is \$17 million for statewide repairs, unforeseen

Policy Analysis: Capital Outlay

emergencies, and renovation of the Albuquerque state government center (old Metropolitan courthouse). Rehabilitation of the building will provide much needed space for agencies currently paying high lease rates. GSD will request \$4 million to address “potential” failure of systems in the Simms building, which hosts the state’s data and communication center. Failure of the systems could impact programs such as the National Criminal Information Center database, Taxation and Revenue Department motor vehicle database, and central accounting and payroll systems.

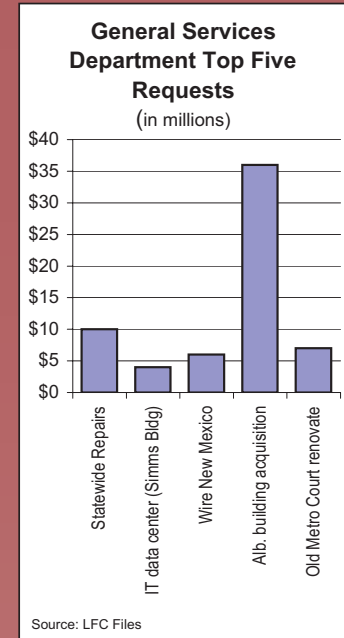
Department of Military Affairs. DMA requested \$6.6 million for renovations and expansion of its Socorro Readiness Center, and \$4.5 million to renovate armory facilities statewide and infrastructure upgrades at the Rio Rancho Training Armory. The repairs will allow DMA to operate a less labor intensive and costly maintenance program and reduce recurring costs to its operating budget.

Statewide Judicial Requests.

Administrative Office of the Courts. On behalf of the Supreme Court, Court of Appeals, jury and witness program, magistrate courts, and the judicial district courts, AOC will request \$5.7 million for a variety of capital outlay needs. The major requests pertain to surveillance and security upgrades, assistive listening equipment, video arraignment and communication equipment, storage equipment, and replacement of furniture more than 30 years old. 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 space of the court buildings.

Court of Appeals. In 2006, \$1.2 million was appropriated to plan and design a new Court of Appeals building adjacent to the law school of the University of New Mexico campus in Albuquerque. The court requests \$12.1 million to proceed with construction. The new facility will provide public efficiency and make the court more accessible to the communities from which the bulk of its cases originate. The courts close proximity to the law school will provide opportunities for enhanced legal research, student internships, shared library material, and other tangible aspects.

Local Government and Tribal Entity Requests. According to the Infrastructure Capital Improvement Plan (ICIP) submitted to DFA, local and tribal entities will request \$2.5 billion for their infrastructure needs. The top five priorities total \$1.3 billion million for projects in five major categories: water, quality of life (libraries, parks, senior centers, community and cultural centers, etc.), transportation, public safety, and economic development. A listing of the top five priorities for all



Local Requests Prioritized by Category (in millions)

Transportation \$650.8

Quality of Life \$619

Water \$471.4

Environment \$405

Public Safety \$191.4

Health \$87.7

**Economic Development
\$86.3**

Higher Education \$6

Housing \$34.4

Public Education \$3.7

Policy Analysis: **Capital Outlay**

governmental entities participating in the ICIP is available through LFC or Local Government Division.

Other Requests. Other state agency requests, including those seeking legislative authority to expend monies from “other funds” for capital projects are listed in Volume III.

Information Technology

2008 Funding Requests. The quality of information technology (IT) project funding requests continues to deteriorate. 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 is 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 quality of the submissions has deteriorated because

- Project descriptions do not describe the project for which funding is being requested,
- Cost/benefit analysis is not presented, or if an attempt is made to present it, the data is insufficient to support the project.
- No information is provided on progress to date and how additional funding will allow a project to be completed successfully,
- The July submissions to the Office of the Chief Information Officer (OCIO) are used to eliminate projects before the September deadline instead of a way to improve the quality of the requests, and
- Requests for technology items outside of the established criteria, such as maintenance, routine equipment and software replacement or upgrades, staff increases, and capital projects, are included.

Staff received requests from state agencies and educational institutions totaling \$111.5 million: 27 requests for new or continuing system replacements and 19 requests for hardware or network upgrades and additional staff or training.

OCIO Recommendation. The OCIO recommended 20 projects totaling \$49.7 million: \$42.2 million from the general fund, \$4.2 million in other state funds, and \$3.3 million in federal funds. The LFC recommendation differs from the OCIO recommendation because different projects were recommended.

LFC Recommendation. The recommendation is primarily based on need and not on quality of the submissions. The committee recommends \$31 million from the general fund out of a total of \$83.1 million in system replacement or enhancement requests at Table 7. The recommendation also includes \$5 million from other state funds.

The IT recommendation does not include requests for equipment replacement or expansions to agency programs totaling \$19.2 million. Those requests were moved to base budget, or specials, or supplemental recommendations.

Although LFC staff recommended some level of funding for the three projects listed below, concerns about these projects remain.

IT Plans lack specificity.

Five Funding Principles:

- Enterprise: supports statewide and agency mission
- Business Case: system design and cost benefit analysis
- Project Management: management commitment, adequate staffing, system development experience, and sound procurement
- Technical Approach: open architecture, interoperable and scalable, security and disaster recovery
- Outcome: risk identification and mitigation, training, testing and validation.

Key IT Recommendations:

For a statewide integrated and consolidated case management system, \$6 million.

To replace the motor vehicle driver system, \$10 million.

To provide law enforcement central access to criminal information, \$3 million.

Information Technology

PED long-term planning is a concern.

General Services Department planning and implementation of Wire New Mexico are concerns.

Little information is available on the digital education initiative.

Committee recommends \$500 thousand for planning.

- The Public Education Department (PED) requested \$6.3 million to continue implementation of the student teacher accountability reporting system. PED has received \$8.65 million for this project over the last two years. Concern continues over long-term project planning, hosting, and the quality of independent validation and verification. PED should provide monthly, detailed, written status reports to committee staff.
- The General Services Department requested \$6 million for Wire New Mexico to complete the digital microwave build out and to expand fiber connections statewide. To date, this project has received over \$35 million. Concerns include the impact to small telecommunication companies, inadequate long-term planning, and the time to complete this project.
- The OCIO requested \$10.7 million for a digital education initiative. The project identifies rural schools as the primary recipient of services in the first year. However, little information exists as to what classes will be delivered, how the funding formula for public or higher education will be impacted, what schools will be part of the first-year implementation, how this initiative impacts existing distance learning initiatives, or how continued operations will be funded.

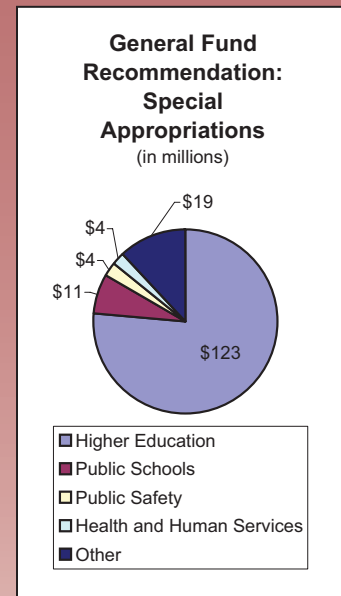
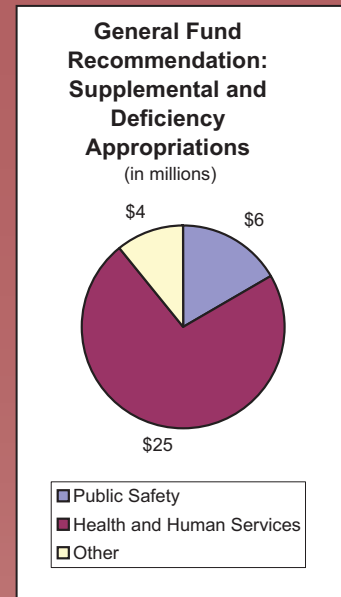
Special, Supplemental and Deficiency Appropriations

State agencies requested \$257.6 million from the general fund for special, supplemental, and deficiency appropriations. Requests from all funding sources total \$260.8 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 special, supplemental, and deficiency appropriations to increase operating budgets. Many of the requests were for programs or initiatives that the committee considers recurring and, as such, an inappropriate use of nonrecurring revenue. In addition, many agencies did not provide the necessary documentation of budget shortfalls to recommend supplemental appropriations.

Supplemental and Deficiency Appropriation Recommendations.

Agencies requested \$49.5 million from the general fund for deficiency and supplemental needs and \$50.1 million from all funding sources. The committee recommendation totals \$33.8 million from the general fund and \$480 thousand from all other funds. In supplemental appropriations LFC recommends \$4.7 million to the Corrections Department for costs associated with inmate population growth and \$4.1 million to the Children, Youth and Families Department to replace federal funds cut from the Protective Services Program. Another \$14.4 million is recommended in supplemental and deficiency appropriations for shortfalls in the Developmental Disabilities Medicaid Waiver Program at the Department of Health.

Special Appropriation Recommendations. Agencies requested \$208 million from the general fund and \$210.8 million from all funding sources for special requests. The committee recommends a total of \$161 million from the general fund, including \$122.8 million for higher education projects. LFC-initiated projects from the general fund in higher education include \$43 million to address substandard infrastructure conditions at higher education institutions statewide, \$2 million to the higher education performance fund, and \$2.8 million to reduce the impact of formula funding reductions. LFC also recommends two appropriations from the tobacco settlement program fund: \$2.2 million for the UNM Health Sciences Center to purchase equipment for cancer related research and \$1 million for the Lovelace Respiratory Research Institute. Other significant recommendations include \$50 million to the college affordability endowment fund to provide need-based student financial aid; \$25 million to the NM faculty endowment fund; \$6.3 million to the Public Education Department (PED) for school districts experiencing shortfalls in operating budgets; \$3 million to PED for schools targeted for closing; and \$9 million to the Economic Development Department for the Job Training Incentive Program.



PERFORMANCE REPORTS

Accountability in Government

With the 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.

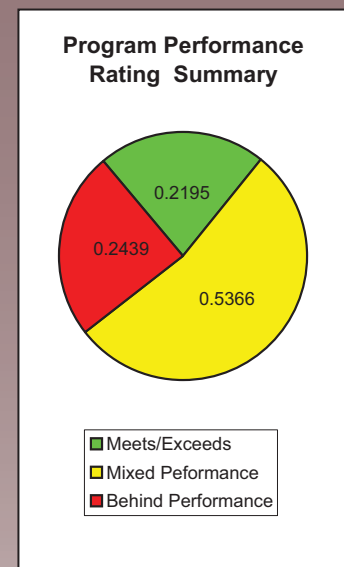
Interim Activities. LFC embarked on an action plan separate from that of the executive branch over the 2006 interim. While both branches worked cooperatively on reviewing and addressing the adequacy of performance measures at the staff level, the executive branch focused on executive initiatives and the Governor's Performance and Accountability (P&A) contracts. The legislative branch continued to emphasize the improvement of measures and the reporting of results under AGA. In 2006, it appeared the 2005 Governor's P&A contracts were being revised; however, final contracts were not provided to LFC. Nevertheless, LFC staff worked with their executive counterparts and state agencies to align performance measures submitted under the AGA with those in the P&A contracts.

Report Cards. The committee scheduled key agencies to present and discuss performance results throughout the interim. To facilitate this review, LFC staff developed a performance "report card" to add greater emphasis and clarity to the reporting of agency performance results, stimulate discussion on agency performance, and link budget decisions to results. This pilot project, based in part on the approach used by the federal Office of Management and Budget, sets out a green, yellow, and red rating system to highlight areas of strength and weakness.

As shown on the attached page, the criteria for rating performance were established at the outset of the project, and while ratings are inherently subjective, staff focused on non-biased analysis. Therefore, ratings do not adhere to a pass/fail criterion. Rather, LFC staff rated measures and programs with recognition of improvement or decline in performance. In general, however, green ratings indicate success and were not given for a missed target. Red ratings are not a sign of failure but do indicate a problem in the agency's performance or the validity of the measure. Yellow ratings highlight a narrowly missed target or significantly improved but not fully performing program.

New Report Cards

- Public Education
- Higher Education
- Human Services Dept.
- Department of Health
- Aging and Long-term Services Dept.
- Children, Youth and Families Department
- Dept. of Public Safety
- Corrections Dept.
- Dept. of Transportation
- Economic Development Department
- Environment Dept.
- Office of the State Engineer
- Energy, Minerals and Natural Resources Department
- Taxation and Revenue Department
- State Personnel Board



Accountability in Government

Highlights from the Rating Criteria (shown on next page)

G

- Most annual targets met
- Data is reliable
- Measures gauge core functions
- Measures relate to agency's budget
- Measures tied to strategic and mission objectives

Y

- Mixed success in meeting targets
- Data is questionable
- Measures not closely related to core functions
- A clear and achievable action plan is in place to reach goals

R

- Most annual targets missed
- Data is unreliable
- Measures unrelated to core functions and budget expenditures
- No action plan to improve performance in place
- Agency failed to report on performance

The report cards in this volume include the more meaningful measures and those that best represent a program's performance. As some measures are more important than others and with other measures not printed, the overall program rating is not a calculation of the individual measure ratings.

The report card is intended to be a decision-making tool for the committee and the Legislature. To date, this approach has been useful in capturing, presenting, and lending transparency to agency performance, resulting in more dialogue with agencies about programs.

Performance Funding. The last phase of implementation of a performance accountability budgeting system involves the implementation of non-monetary and monetary incentives. Based on the committee recommendation, the Legislature in 2006 included \$5 million in nonrecurring funding to be spent over three years for performance awards to the state's universities and colleges that meet or exceed performance targets for freshmen enrollment and persistence and graduation rates, including minority students. Institutional awards will be based on achieving national thresholds as well as posting 2 percent improvement in performance

The committee has recommended recurring funding of \$2 million to continue these performance awards in FY08.

National Recognition. The New Mexico Legislature is gaining national recognition for its use of performance information. LFC staff presented to the 2006 *Governing* magazine "managing performance" conference. The panel session featured the work of the Connecticut and New Mexico legislatures in using performance information of state agencies for decision-making. Both states are working to strengthen the ties between performance information and budgeting. An important discussion at the conference was how to implement a transparent measurement process and use the results in a non-biased manner. Further, LFC staff presented information on staff use of performance information at the National Conference of State Legislatures Senior Fiscal Analysts seminar.

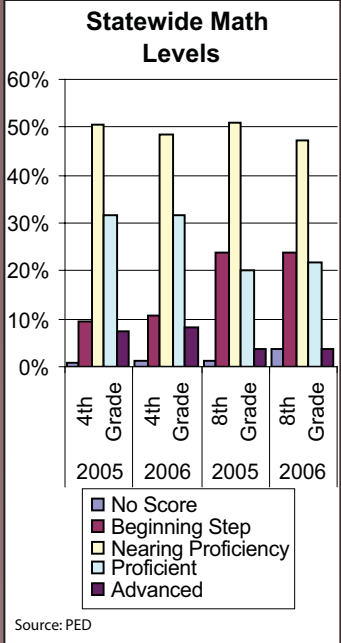
Next Steps. There is a continual need to enhance overall compliance and quality of agency reports and data, to enhance use of the benchmarking template by agencies, and to address the need for posting of information on the web.

PERFORMANCE REPORT CARD CRITERIA
LEGISLATIVE FINANCE COMMITTEE

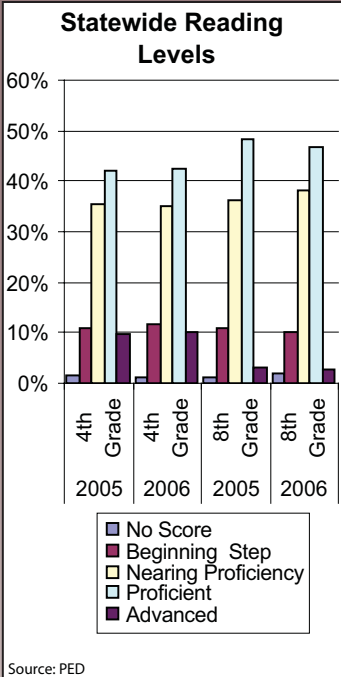
<p>Process</p> <ul style="list-style-type: none"> • Data is reliable • Data collection method is transparent • Measure gauges the core function of the program or relates to significant budget expenditures • Performance measure is tied to agency strategic and mission objectives • Performance measure is an indicator of progress in meeting annual performance target, if applicable <p>Progress</p> <ul style="list-style-type: none"> • Agency met, or is on track to meet, annual target • Action plan is in place to improve performance <p>Management</p> <ul style="list-style-type: none"> • Agency management staff use performance data for internal evaluations 	<p>Process</p> <ul style="list-style-type: none"> • Data is questionable • Data collection method is unclear • Measure does not gauge the core function of the program or does not relate to significant budget expenditures • Performance measure is not closely tied to strategic and mission objectives • Performance measure is a questionable indicator of progress in meeting annual performance target, if applicable <p>Progress</p> <ul style="list-style-type: none"> • Agency is behind target or is behind in meeting annual target • A clear and achievable action plan is in place to reach goal <p>Management</p> <ul style="list-style-type: none"> • Agency management staff does not use performance data for internal evaluations 	<p>Process</p> <ul style="list-style-type: none"> • Data is unreliable • Data collection method is not provided • Measure does not gauge the core function of the program or does not relate to significant budget expenditures • Performance measure is not related to strategic and mission objectives • Performance measure is a poor indicator of progress in meeting annual performance target, if applicable • Agency failed to report on performance measure and data should be available <p>Progress</p> <ul style="list-style-type: none"> • Agency failed, or is likely to fail, to meet annual target • No action plan is in place for improvement <p>Management</p> <ul style="list-style-type: none"> • Agency management staff does not use performance data for internal evaluations

Public Education

Public education in New Mexico continues to demonstrate that a growing number of students are failing to meet achievement standards required by the federal No Child Left Behind (NCLB) Act. In addition, concerns continue about the number of core academic teachers not yet achieving “highly qualified” status required by NCLB. For FY06, four strategic elements were considered in evaluating the effectiveness of New Mexico’s public schools: student achievement, teacher quality, customer satisfaction, and Indian education.



Closing the Achievement Gap. Student performance statewide continues to decline relative to the annual measurable objective requirements of NCLB. Hispanic and African-American students made modest improvements in reading but continue to fall behind in math. Poverty continues to be a major factor in the ongoing achievement gap as economically disadvantaged students continue to lag behind their peers. Without significant increased funding for high poverty schools, it seems unlikely that New Mexico’s achievement gap will narrow.



Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of fourth grade students who achieve proficiency or above on the criterion-referenced assessments in reading and language arts	51.7%	61.0%	52.3%	R
Percent of eighth grade students who achieve proficiency or above on the criterion-referenced assessments in reading and language arts	51.4%	65%	49.5%	R
Percent of fourth grade students who achieve proficiency or above on the criterion-referenced assessments in mathematics	39.1%	67%	39.9%	R
Percent of eighth grade students who achieve proficiency or above on the criterion-referenced assessments in mathematics	23.7%	62%	25.5%	R
Overall Program Rating				R

Teacher Quality. With the implementation of three-tier licensure the percent of classes taught by highly qualified teachers continues to improve yet falls well below the 100 percent requirement of NCLB. Teachers in rural school districts and new teachers, highly qualified in one subject area, are allowed additional time to achieve highly qualified status in all subject areas. Because of its good faith efforts, New Mexico has been granted an additional year to meet the highly

Public Education

qualified core subject requirements of NCLB. Highly qualified teachers are critical in high-poverty schools yet no progress is indicated. These targets may be unrealistic until districts dedicate additional resources to meet this need. Until then, this continues to be troublesome and might never improve to a satisfactory level.

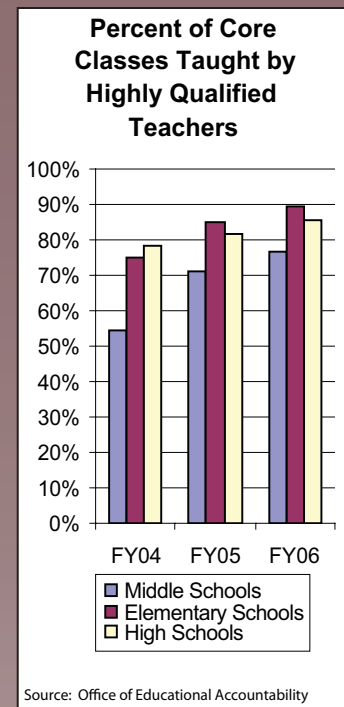
Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of classes being taught by "highly qualified" teachers in high-poverty schools	76.9%	90%	76.9%	R
Percent of classes being taught by "highly qualified" teachers in all schools	77.5%	92%	88%	Y
Overall Program Rating				Y

Customer Satisfaction. Customer satisfaction with schools remains relatively strong, indicating that parents perhaps discount the value of standardized test scores when evaluating the success of their children's education. A study conducted by *Education Week* notes parents are generally satisfied with their child's education if they feel schools are working to involve them.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of stakeholders who rate their involvement with public elementary schools as positive	83.0%	91.0%	87%	Y
Percent of stakeholders who rate their involvement with public middle schools as positive	83.0%	88.0%	87%	Y
Percent of stakeholders who rate their involvement with public high schools as positive	83.0%	85.0%	87%	G
Overall Program Rating				Y

Indian Education. The Indian Education Division continues to struggle with its overall mission but has been effective in assisting school districts in implementing Native American language classes. The new assistant secretary is developing a plan to implement the provisions of the Indian Education Act.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of American Indian language classes being taught in public schools that serve American Indian students	N/A	100%	94%	Y
Overall Program Rating				Y



Higher Education

Mission: To administer a coordinated statewide system of public postsecondary education with governance shared between the department and the governing boards of the colleges and universities.

**Quarterly Report
Components
Checklist for HED**

1. Executive summary of strategic plan, including mission statement – **PARTIAL**
2. Definition of program with purpose statement and one paragraph on how program supports strategic plan and mission, including total program budget and FTE – **NO**
3. Meaningful measures developed in collaboration with LFC – **Incomplete**
4. Measures support stated objective or activity that supports program purpose – **Incomplete**
5. History of previous four years' measurement data presented quarterly – **NO**
6. Short narrative explaining variance of more than +/- 10 percent – **NO**
7. Short statement of data source and reliability - **NO**
8. Action plan, including who, what, where, when – **NO**
9. Extensive use of graphics to make report visually appealing with an emphasis on ease of comprehension – **NO**
10. Final format suitable for public use – **OK**
11. Update as required by changes at appropriate point in PBB cycle – **NO**

LFC staff has communicated to the Higher Education Department (HED) the need for significant improvements in its AGA submission. The new cabinet agency needs to develop the appropriate performance measures. Overall ratings for the HED programs reflect a lack of reported data and missed targets. This report card focuses on the measures of freshmen student retention and reports associated data for each institution in the state, as well as aggregated performance by institutional type over the last several years.

Higher Education Department. HED consists of two programs, Policy Development and Institutional Financial Oversight. In some cases, compilation of data in annual reports does not reconcile to the department's annual report. Although ultimately affected by a departmental relocation, some progress was made in achieving the performance target for evaluation and review of capital projects. Properly completed financial aid allocations, however, showed a dramatic erosion of performance in the third and fourth quarters. The Adult Basic Education program was short of the target for percentage of students who set attainment of general educational development as a goal.

Given its mission, the lack of outreach services and events for students is of significant concern. HED noted a director of outreach was hired in the third quarter. Finally, the HED quarterly submission should include *Fiscal Watch* quarterly institutional financial reports.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of properly completed capital infrastructure draws released to the state board of finance within thirty days of receipt from the institutions	77%	90%	not clear	R
Percent of adult basic education students who set attainment of general educational development as a goal	12.4%	16.0%	13.0%	Y
Number of outreach services and related events provided to secondary schools and students related to college readiness, college preparation curriculum and financial aid	70	100	not clear	R
Percent of properly completed financial aid allocations and draw downs processed within 30 days	100%	95%	71%	R
Overall Program Rating				R

Student Financial Aid. HED ultimately reported FY06 performance results for the student financial aid program two months after the statutory deadline, resulting in a red rating. Additionally, results for the lottery success measure remain outstanding. A significant LFC

Higher Education

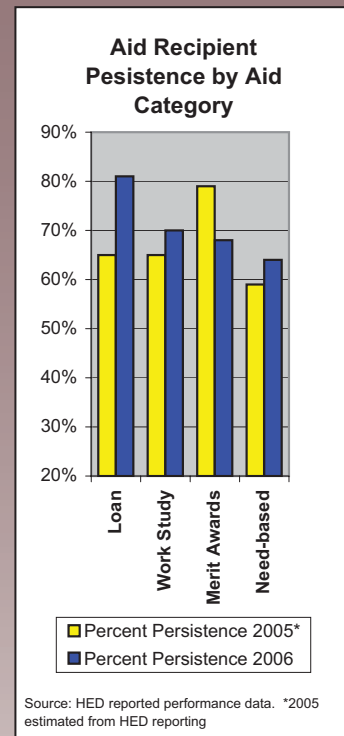
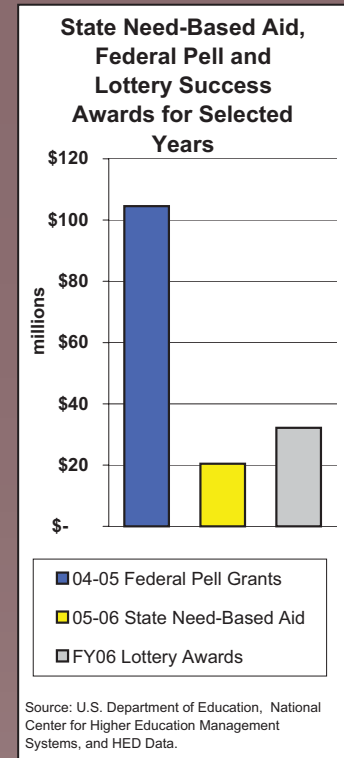
concern is the consistent interpretation and application of aid programs' eligibility determinations and award procedures among higher education institutions statewide. Advertising of eligibility and award criteria to high school students for the numerous aid programs remains a challenge for the agency.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Number of lottery success recipients enrolled in or graduated from college after the ninth semester	1,738	3,000	Not Reported	R
Percent of students meeting eligibility criteria for state loan programs who continue to be enrolled by the sixth semester	60%	80%	81%	G
Percent of students meeting eligibility criteria for work-study programs who continue to be enrolled by the sixth semester	62%	70%	74%	G
Percent of students meeting eligibility criteria for need-based programs who continue to be enrolled by the sixth semester	54%	65%	64%	Y
Overall Program Rating				R

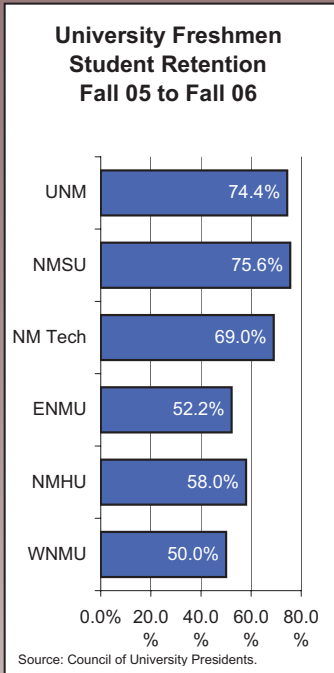
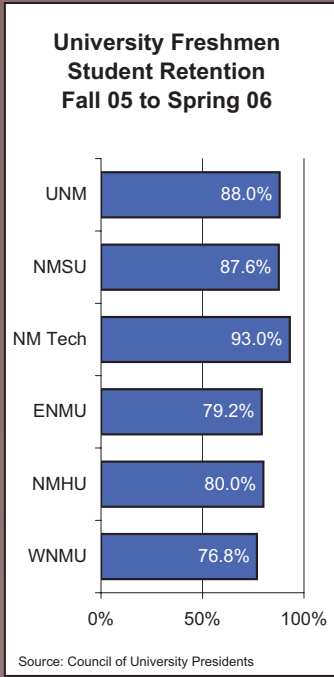
The ratio of state-funded, need-based aid relative to Pell distributions is approximately 19.6 percent. The agency has stated that a substantial number of lottery program recipients, approaching 50 percent, fall below established federal poverty levels. The recognition of these recipients' aid as need-based increases the federal-to-state need aid ratio to perhaps 34 percent. Although the lottery program is merit-based via minimum grade point average criteria, the program is clearly assisting scholars from low-income families.

Many other program measures are informational and establish the state's current financial aid outlook; however, the agency has minimal influence over improvement in several cases. For measures tracking academic persistence of aid recipients by the type of aid received, most improvement stems from individual institutions' efforts to increase persistence, as opposed to the agency's.

Institutions. This report card reflects the quarterly report data (semester reports) and benchmark analysis of the universities for (a) fall to spring retention and (b) fall to fall retention for first-time, full-time, degree-seeking freshman. Overall, freshmen persistence appeared to be down somewhat. Institutions report a strong economy resulting in good job opportunities, along with the rising cost of attending college are key factors influencing this decline.



Higher Education



Four-Year Universities. Universities posted mixed performance on student retention. New Mexico State University (NMSU) exceeded its fall-to-fall retention target of 75 percent and reached a level of performance not seen since 1996. New Mexico Highlands University (NMHU) exceeded its freshmen retention target of 57 percent and is focusing on obtaining its benchmark target of 65.5 percent over the next four years.

At the University of New Mexico (UNM), fall-to-fall retention dropped from 76 percent to 74.4 percent for the fall 2005 class, reflecting the loss of 47 students. In its variance report, New Mexico Tech notes its “fall-to-fall retention rate ranges from 67 percent to 75 percent,” but Tech missed its target by 6 percent. Further, the school’s persistence rate has consistently dropped since reaching a peak of 75 percent in 2002. Eastern New Mexico University (ENMU) posted a significant drop in the number of freshman returning to campus this fall and substantially missed its target by 10 percent.

Various institutional initiatives are underway to enhance student retention. In fall 2006, UNM established a Graduation Rate Task Force to develop specific recommendations designed to improve retention and graduation rates. NMSU is participating with 13 other institutions throughout the United States in the Foundations of Excellence for the First-Year Experience Project. NM Tech formed a task force to develop a comprehensive retention plan before June 2007, and the Freshman Year Experience program is undergoing redesign.

Retention Fall-to-Fall	Fall 2004 to Fall 2005	Fall 2005 to Fall 2006	Fall 2005 to Fall 2006	Rating
	Actual	Target	Actual	
UNM freshman retention, fall to fall	76.0%	76.5%	74.4%	Y
NMSU freshman retention, fall to fall	70.4%	75%	75.6%	G
NMIMT freshman retention, fall to fall	68%	75%	69%	Y
ENMU freshman retention, fall to fall	57.6%	62%	52.2%	R
NMHU freshman retention, fall to fall	54%	57%	58%	G
WNMU freshman retention, fall to fall	53.9%	54%	50%	Y
Overall Program Rating				Y

Higher Education

Retention Fall-to-Spring	Fall 2004 to Spring 2005	Fall 2005 to Spring 2006	Fall 2005 to Spring 2006	Rating
	Actual	Target	Actual	
UNM freshman retention, fall to spring	89.7%		88.0%	
NMSU freshman retention, fall to spring	85.7%		87.6%	
NMIMT freshman retention, fall to spring	91%		93%	
ENMU freshman retention, fall to spring	78.3%		79.2%	
NMHU freshman retention, fall to spring	77%		80%	
WNMU freshman retention, fall to spring	79.4%		76.8%	

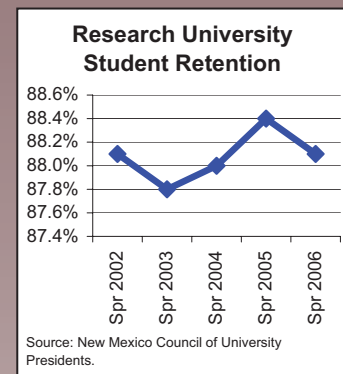
Two-Year Branch Campuses. Data is collected and reported by the New Mexico Association of Community Colleges. The two-year branch campuses are reporting fall 2005 to spring 2006 retention data. For those institutions above the statewide average, it is not clear how the annual and long-term targets are set. Additional work to develop a more rigorous benchmark comparison, such as peers, is needed.

Overall, student retention is declining. Several institutions met their targets and showed improvements from the prior year; specifically, NMSU Dona Ana, NMSU Grants, and UNM Valencia. ENMU Roswell, ENMU Ruidoso, NMSU Alamogordo, NMSU Dona Ana, NMSU Grants, UNM Gallup, UNM Taos, and UNM Valencia submitted performance benchmarks relative to national peer groups established by the former Commission on Higher Education in 2002.

Extensive recent improvements in New Mexico's economic picture inversely affect retention. Many students choose to minimize, postpone, or altogether suspend their educational pursuits, opting instead for higher wages and more easily obtained employment.

Retention rates, however, remain a consistent and nationally accepted measure, capturing factors influenced by institutional effort, in addition to broader economic forces affecting enrollment. Finally, retention is a measure shared by all New Mexico institutions.

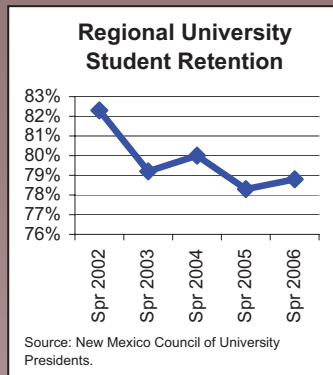
Despite significant retention efforts statewide, many institutions have experienced difficulty meeting performance targets because of shifts in students' working decisions.



Higher Education

Some reporting variance among schools' results is explained in part through inconsistent approaches to setting performance targets.

The rating of "red" reflects 10% variation consistent with other higher education accountability reporting.



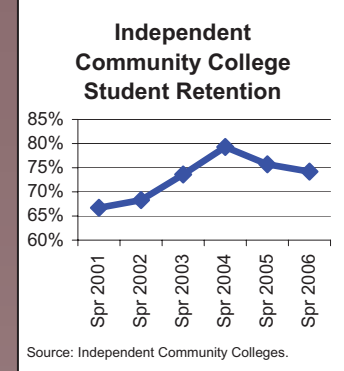
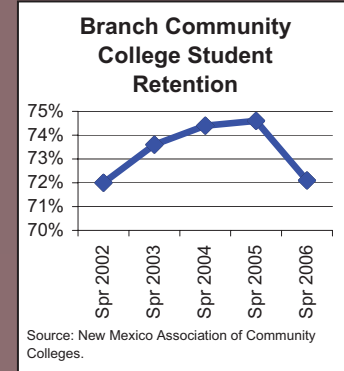
Retention Fall-to-Spring	Fall 2004 to Spring 2005	Fall 2005 to Spring 2006	Fall 2005 to Spring 2006	Rating
	Actual	Target	Actual	
ENMU Roswell	73.0%	75.9%	75.2%	Y
ENMU Ruidoso	53.2%	55.3%	54.8%	Y
NMSU – Alamogordo	77.6%	78%	72.4%	Y
NMSU – Carlsbad	73.7%	74%	70.5%	Y
NMSU – Dona Ana	76.7%	77.6%	81.1%	G
NMSU – Grants	75.0%	74%	74.5%	G
UNM – Gallup	81.5%	82%	79.3%	Y
UNM – Los Alamos	82.3%	83%	66.7%	R
UNM - Taos	77.0%	75%	68.0%	Y
UNM - Valencia	72.0%	73%	77.0%	G
Overall Program Rating				Y

Two-year Independent Community Colleges. Data is collected and reported by the Independent Community Colleges. The two-year independent community colleges are reporting fall 2005 to spring 2006 retention data and comparing to either institutional averages or statewide averages. For those institutions above the average, it is not clear how the annual and long-term targets are set. Additional work to develop a more rigorous benchmark comparison is needed. The two-year independent colleges did not submit benchmarking reports.

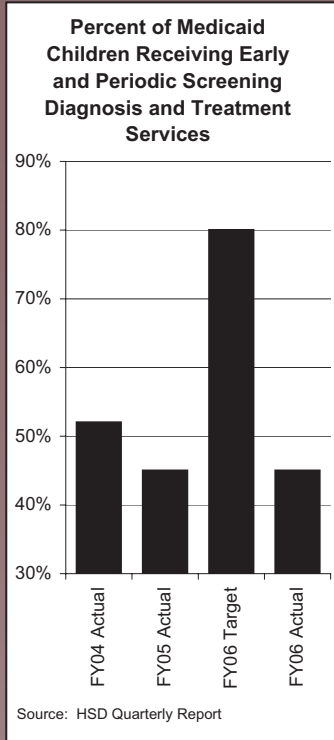
Overall, student retention is declining. Four institutions exceeded their performance targets, with three of those exceeding the target by a very wide margin (Clovis Community College, Luna Community College, Northern New Mexico College, and Santa Fe Community College). As such, targets for FY08 need to be carefully evaluated. None of the other independent community colleges met their targets. Central New Mexico Community College posted a peak for student persistence of 83.1 percent from fall 2003 to spring 2004; the college notes the importance of its enrollment management plan.

Higher Education

Retention Fall-to-Spring	2005	2006	2006	Rating
	Actual	Target	Actual	
Central NM Community College	79.0%	79.3%	78.5%	Y
Clovis Community College	80.8%	70.0%	80.6%	G
Luna Community College	84.0%	66.3%	77.3%	G
Mesalands Community College	68.0%	67.4%	58.5%	Y
New Mexico Junior College	70.2%	73.1%	71.0%	Y
Northern NM College	69.6%	66.2%	80.4%	G
San Juan College	74.0%	81.9%	72.6%	Y
Santa Fe Community College	79.8%	71.8%	75.0%	G
Overall Program Rating				Y



Human Services Department



Medicaid is a program approaching the \$3 billion expenditure level so seven measures might not adequately describe its overall performance. However, on the measures chosen by HSD to be important and meaningful, five out of the seven are far below target levels. Based on these HSD criteria, the Medicaid program falls into the red for failure to meet annual targets.

Medical Assistance Division. All of the MAD measures are meaningful and point toward activities that provide better health outcomes. Unfortunately, five measures out of seven are far below target. Each of the five is an important marker for preventive care efforts in the managed-care programs. Based on these, the managed-care system needs aggressive corrective action.

Additional measures need to be included to broaden reporting range. Such data collection is required by the MCO contracts and mirrors Health Plan Employer Data and Information Set (HEDIS) criteria.

The proposed transfer of the Behavioral Health Division from the Department of Health to HSD could provide a vehicle for reporting more behavioral health-related measures.

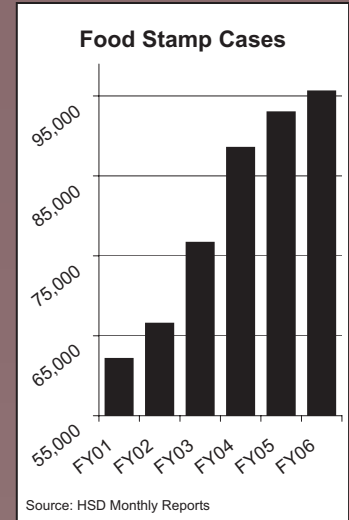
Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of children enrolled in Medicaid managed care who have a dental exam	77%	90%	52.7%	R
Percent of readmissions to the same level of care or higher for individuals in managed care discharged from a resident treatment center	N/A	15%	5.1%	G
Number of children in the Medicaid school-based services	N/A	16,000	17,004	G
Percent of children in Medicaid managed care receiving early and periodic screening, diagnosis and treatment services	45%	80%	45%	R
Percent of adolescents in Medicaid managed care receiving well-care visits	N/A	50%	23.7%	R
Percent of women enrolled in Medicaid managed care and in the age appropriate group receiving breast cancer screens	N/A	70%	42.2%	R
Percent of women enrolled in Medicaid Managed care and in the age-appropriate group receiving cervical cancer screens	N/A	75%	56.6%	R
Overall Program Rating				R

Income Support Program The program failed to achieve its target in only one instance. The item is so far off target that an action plan should be included. ISD indicated the corrective action would be initiated against the N. M. Works contractors if improvement is not immediately apparent. The food stamp measure was also below target but only by about 3 percent. Overall, these are meaningful measures of benefit to the client. The clients have only a 60-month window of

Human Services Department

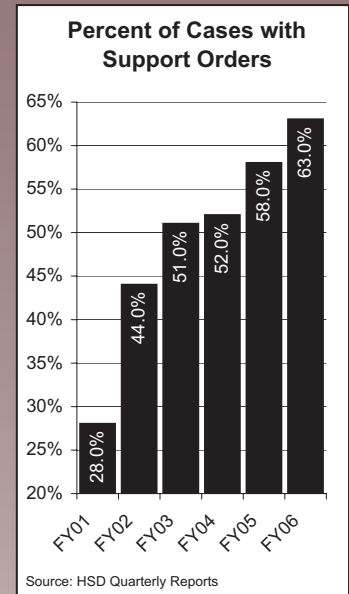
federally funded cash assistance, so failure of the contractor to provide acceptable service is especially detrimental when the client must leave the program without the requisite skills for self-sufficiency.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of TANF participants who retain a job for three or more months	N/A	70%	70.2%	G
Percent of all TANF recipients meeting federally required work requirements	N/A	50%	49.4%	G
Food stamp caseload	N/A	97,785	95,690	Y
Percent of expedited food stamp cases meeting the federally required timeliness of seven days	N/A	96%	98.3%	G
Number of TANF cash assistance recipients who receive a job	N/A	9,250	7,092	R
Overall Program Rating				Y

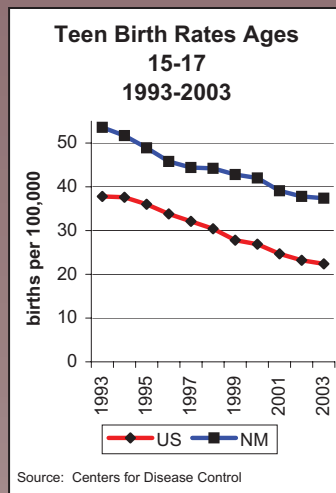
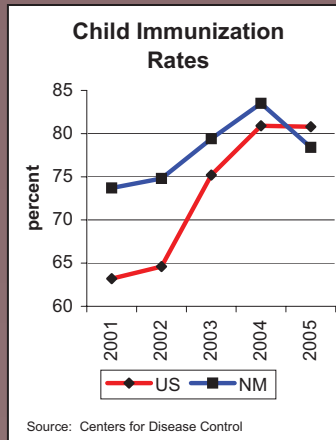


Child Support Enforcement Program. The measures are meaningful and point directly to a service important to the client. In addition, the services support the HSD mission of improving the well-being and self-sufficiency of New Mexicans. Even though the fourth measure met the target, the result is lagging behind the national standard of 76 percent. For situations like these, an action plan should be developed to improve results. Such a plan would help focus the resource requirement for both management and budget purposes.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of TANF cases with support orders receiving collections	N/A	58%	58%	G
Total child support enforcement collections, in millions	\$83.7	\$88	\$89.4	G
Percent of child support owed that is collected	52%	60%	54%	R
Percent of cases with support orders	58.2%	60%	62.7%	G
Percent of children born out of wedlock with voluntary paternity acknowledgement	66%	60%	65%	G
Percent of children with court-ordered medical support covered by private health insurance	N/A	30%	35%	G
Overall Program Rating				G



Department of Health



Measures are not shown for the DOH Facilities Division. DOH reports quarterly on length of stay at six facilities as well as number of substantiated abuse cases at their facilities. Although the division met most of their targets, the committee encourages DOH to develop more meaningful measures that would demonstrate quality of care.

DOH's performance report for the year ending June 30, 2006, showed that DOH met 29 of 57 performance targets, or 50 percent. However, DOH lacked data to report on another 22 targets, often because many health databases used by DOH report annually or even over longer periods. A sample of measures from key DOH programs is discussed below. A full list of measures can be found in Volume II.

Public Health Program. A major disappointment was in the area of childhood immunizations. After three years of improvement, performance declined in calendar year 2005, with only 78.4 percent of preschoolers receiving five key vaccines, down from 83.5 percent in 2004 and well below the target of 90 percent. As a result DOH also missed the target to be in the top 10 states in immunizations. Also, preliminary data is showing the state ranking might decline in teen pregnancies. However, DOH exceeded its target of 60 school-based health centers. The overall grade of yellow reflects that the department had mixed success in meeting the often ambitious targets for the 21 measures in this program.



Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of preschoolers fully immunized	83.5%	90%	78.4%	R
National ranking of New Mexico children fully immunized	15th	10th	36th	R
Number of births per 1,000 females ages 15-17 (preliminary estimate)	35.6	30	35.1	Y
Number enrolled in syringe exchange programs	8,536	12,000	9,501	Y
Number of operating school-based health centers	34	60	66	G
Overall Program Rating				Y

Epidemiology and Response Program. Performance has improved in the vital records area. DOH is adding measures in FY07 on pandemic flu planning and trauma more in line with the division's mission to investigate and help manage infectious disease outbreaks.




Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Number of health professionals on the volunteer health professional emergency registry	1,000	2,000	1,584	Y
Percent of birth certificates issued within seven days of receipt of fees and materials	68%	70%	72%	G
Overall Program Rating				Y

Department of Health




Scientific Laboratory Program. The State Laboratory meets proficiency standards and target completion times for communicable diseases but has had staffing issues, which have impacted performance on DWI tests.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of blood tests from DWI cases analyzed and reported within seven business days.	35%	80%	38.4%	
Overall Program Rating				

Behavioral Health Program. This program is in transition, as DOH is proposing elimination of this division in its budget request. Reporting on performance in this area was minimal in FY06 because the Behavioral Health Collaborative and its contractor, ValueOptions, have been developing new performance measures. The overall program grade of yellow reflects that DOH and HSD provided the committee with updated performance measure information at the November LFC hearing.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Suicide rate among adults 20 years and older (per 100,000)	23.7	21.7	22.4	
Percent of adults presenting with psychiatric issues screened for substance abuses.	66%	75%	96.2%	
Overall Program Rating				

Developmental Disabilities Support Services Program. DOH has reported good results for the Family Infant Toddler (FIT) program but did not meet some targets for quality of programs for developmentally disabled adults.

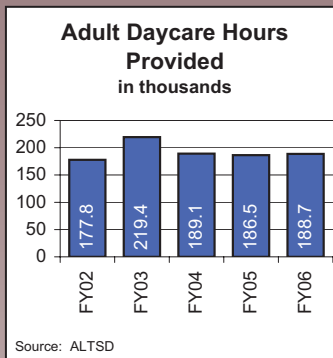
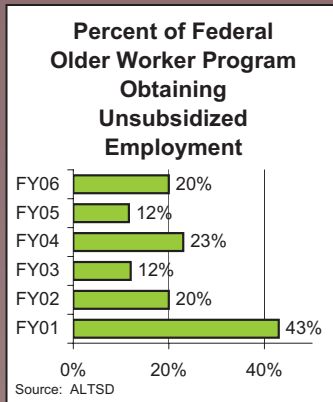
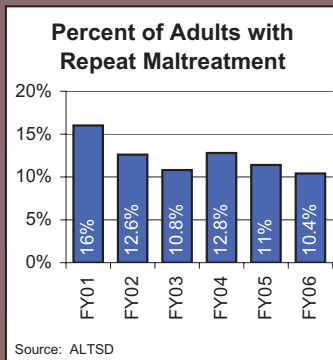
Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of infants and toddlers in the family infant toddler program who make progress in their development	93%	94%	95%	
Percent of individuals participating in community service program who report that services helped them maintain or increase independence	89%	93%	87%	
Overall Program Rating				

The committee held a hearing in June 2006 on DOH's Quarterly Performance report. While DOH deserves some credit for continuing to seek improved measures and setting aggressive targets, there is room for improvement. DOH should endeavor to

- 1. Establish key quarterly measures on key focus areas, like immunizations and youth suicide.*
- 2. To the extent possible, DOH needs more health outcome-related measures instead of output measures.*
- 3. DOH, working with the Behavioral Health Collaborative, must establish performance measures and report outcomes for the behavioral health area.*
- 4. DOH should include self-evaluation of its performance in meeting key performance measures and should include more detailed action plans for each measure.*

DOH continues to refine its quarterly report. DOH is reducing the total number of measures from 79 to 61, with results for 43 measures to be reported quarterly. DOH has added a number of key measures to address important issues such as trauma care, pandemic flu, and treatment of sexually transmitted disease.

Aging and Long-Term Services Department



The Aging and Long-Term Services Department (ALTSD) was elevated to a cabinet level agency in 2004 and received a number of programs from other agencies, including Adult Protective Services and the Disabled and Elderly (D&E) Medicaid waiver. For FY08, ALTSD has revamped its performance measures, deleting numerous measures but adding new key measures in areas such as Adult Protective Services (APS), such as "number of abuse, neglect and exploitation allegations substantiated" and "number of adults receiving APS intervention."

FY06 ALTSD Performance. ALTSD reports meeting 19 of 37 performance targets. Performance on select key measures in the Long-Term Services, Adult Protective Services, Aging Network, and Consumer and Elder Services programs are shown below. The overall grade of yellow reflects that the department did not meet all of its performance targets but did meet targets in key customer service areas, like the ombudsman program, congregate meals, and the D&E program.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Number of resident contacts by ombudsmen	N/A	3,990	6,242	G
Percent of individuals participating in the federal worker program obtaining unsubsidized permanent employment	11.5%	23%	20%	Y
Number of congregate and home-delivered meals served to eligible participants	3,469,011	3,450,000	3,572,975	G
Number of adult daycare service hours provided	186,529	191,000	188,681	Y
Percent of D&E Medicaid waiver clients who receive services within ninety days of eligibility determination	98.4%	98.2%	100%	G
Percent of adults with repeat maltreatment	11.4%	10.8%	10.4%	G
Percent of total personal-care option cases that are consumer directed.	4.9%	4%	7.6%	G
Overall Program Rating				Y

Children, Youth and Families Department

The Children, Youth and Families Department (CYFD) mission is to enhance family safety and well being, accounting for \$154.8 million from the general fund for FY06. This amount provided support services for child care, children in protective custody, pre-kindergarten, domestic violence, and youth in detention, as well as salaries and benefits for about 2,065 full-time employees. CYFD experienced perhaps one of the most difficult years in recent history with a near complete senior management turnover and American Civil Liberties Union (ACLU) settlement over care at the Boy's School.

Juvenile Justice Services. Some performance outcomes have improved while a few have slipped when compared with FY05. Throughout much of FY06, a transformation has been in progress, which has made it challenging to manage for results. The program has operated for some time without a clear long-term strategic plan, has experienced high management turnover, and had a major facility in transition (Springer), all while operating under a settlement agreement with the ACLU. The performance could better be reported if the agency were to include facility violence, and front-end and after-care service performance measures.

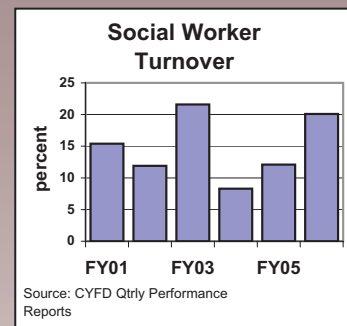
Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of clients who complete formal probation	80%	83%	90%	G
Percent of youth confined over ninety days who show an increase in reading, math or language arts scores between children, youth and families department facility admission and discharge	56%	70%	52.7%	R
Percent of re-adjudicated clients	5.9%	4%	6%	R
Percent of clients recommitted to a children, youth and families department facility	16.5%	11.5%	13.6%	R
Percent of clients earning education credits while in facility schools	42%	75%	72%	Y
Number of children in community corrections programs		800	982	G
Overall Program Rating				R

Protective Services. Caseworker turnover, vacancies, caseload complexity, and the large social worker caseloads make the job of protecting New Mexico's children challenging. CYFD estimates that the methamphetamine epidemic impacts 30 percent of its caseload and has had the dual effect of increasing the complexity and number of cases.

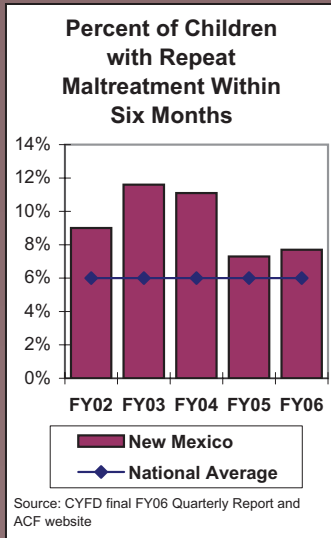
A 2006 LFC review of Juvenile Justice Services suggested the use of national performance-based standards for youth correction and detention centers. Among the recommended measures:

- 1. Injuries to youths by other youths per 100 person days.*
- 2. Suicidal behavior with injury by youth per 100 person-days of youth confinement.*
- 3. Percent of youths confined for more than 60 days whose records indicate that they received the treatment [services such as health, mental health, substance abuse, education] prescribed by their individual treatment plans.*
- 4. Visitation per 100 person-days of youth confinement.*
- 5. Rate of minority youth in secure facilities to minority youth under the agency's jurisdiction.*
- 6. Grievances and complaints filed per youth per 100 person-days of confinement.*
- 7. Percent of youths confined for more than 60 days who have signed aftercare treatment plans*

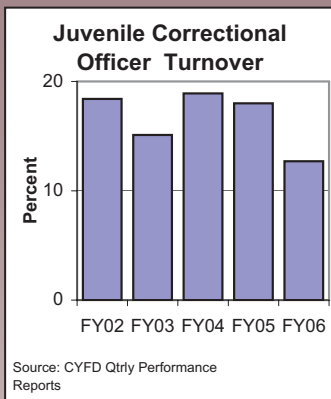
-Source: PBS Goals, Standards, Outcome Measures



Children, Youth and Families Department



According to the National Coalition Against Domestic Violence, "As of 2003, New Mexico was ranked 3rd in the country for incidents of domestic violence."



Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of children adopted within twenty-four months of entry into foster care	34.6%	40.0%	32.8%	R
Percent of children maltreated while in foster care	0.76%	0.57%	.90%	R
Percent of children determined to be maltreated within six month of a prior determination	7.3%	7.5%	7.7%	R
Percent of children committed to a juvenile facility who were the subjects of an accepted report of maltreatment within five years of a commitment		65.0%	26%	G
Number of children in foster care for twelve months with no more than two placements	2234	2100	2145	G
Overall Program Rating				Y

Family Services. The department underperformed on measures related to domestic violence, both missing the FY06 target and in comparison with FY05. Domestic violence performance is of concern because New Mexico ranks in the top five among states for the number of domestic violence incidences.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of family providers participating in the child-and-adult care food program	67.0%	82.0%	89.6%	G
Percent of movement through levels one through five of aim high	15.9%	25.0%	24.5%	Y
Percent of children receiving state subsidy in aim high programs at levels two, three, four and five and with national accreditation	13.9%	13.0%	24.5%	G
Percent of adult victims receiving domestic violence services who show improved client competencies in social, living, coping and thinking skills	59.3%	65.0%	55.2%	R
Percent of adult victims receiving domestic violence services living in a safer, more stable environment	77.5%	85.0%	71.4%	R
Overall Program Rating				Y

Program Support. National studies indicate that stable long-term relationships with adult authority figures are a key component to client rehabilitation. High turnover undermines the agency's core mission.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Turnover rate for social workers	12.1%	20.0%	20.1%	Y
Turnover rate for juvenile correctional officers (JCO)	Not avail.	11.9%	12.7%	R
Overall Program Rating				Y

Department of Public Safety

The Department of Public Safety's (DPS) key quarterly measures for the Law Enforcement Program only address the department's initiative and goal to reduce DWI. DPS reports the FY06 targets could not be met with the 15.3 percent vacancy rate for commissioned officers. DPS states the vacancy of 86 State Police officer positions at the field level has affected the number of DWI arrests. The department has implemented a new compensation plan that has increased recruitment and retention.

New Key Quarterly Measures. In May 2006, DPS, LFC, and the Department of Finance Administration agreed on 13 new key quarterly measures for FY07 that address all the department's initiatives and goals. The new key quarterly measures encompass traffic safety, DWI, illegal drugs, violent crime, vacant commissioned officer positions, forensic services and monitoring of federal grants.

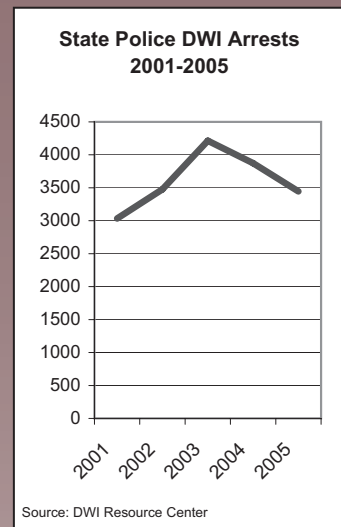
Law Enforcement Program. The key quarterly measures in the Law Enforcement Program are plagued with problems. Data for the measure on alcohol-related deaths is unavailable until six months after the end of a calendar year, and the 10 percent increase in DWI arrests has compounded each year, creating an unattainable performance measure.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Ten percent increase in DWI arrests.	-10.1	-0.8%	-15.3	R
Percentage increase in sobriety checkpoints.	-12.2%	26.4%	6.6%	R
Number of first-time DWI arrests in the program.	2,405	2,426	2,099	R
Number of repeat DWI arrests in the program.	1,474	1,423	1,162	R
Overall Program Rating				R

Program Support. DPS reports the backlog of deoxyribonucleic acid (DNA) cases are recently submitted cases pending 30 days or less. However, district attorneys statewide report difficulty in getting DNA analysis, and some prosecutors have resorted to sending evidence in major cases to private labs.

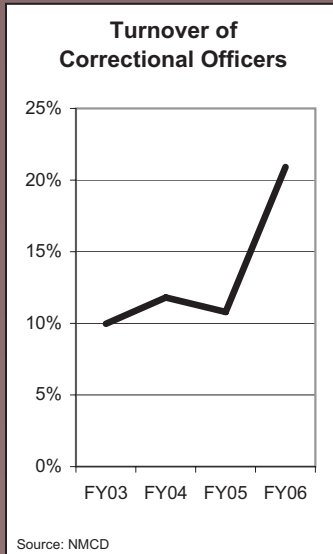
Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Number of unprocessed deoxyribonucleic acid (DNA) cases.	-10.1	-0.8%	-15.3	R
Overall Program Rating				R

In May 2006, DPS, LFC, and the Department of Finance Administration agreed to 13 new key quarterly measures for FY07 that address all the department's initiatives and goals.

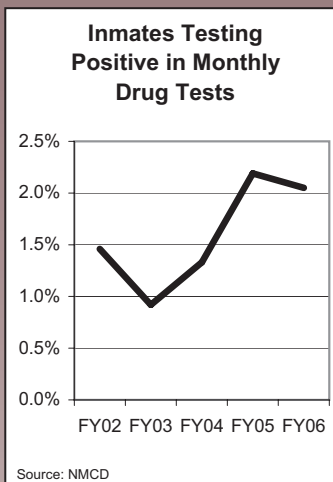


Corrections Department

The New Mexico Corrections Department (NMCD) has had a 4.1 percent growth rate in inmate population over the past decade. Construction of new correctional facilities has lagged behind population growth and facilities are close to and over operational capacity. NMCD has developed key quarterly performance measures that are indicators for the conditions in the correctional facilities.



When the 20 year retirement went into effect in January 2006, 85 correctional officers retired.



At the end of FY06 the average standard caseload per probation and parole office was 109.

Inmate Management and Control Program. NMCD's overall rating for the key quarterly performance measures is yellow. While the majority of the key measures are rated green, the department has red ratings on critical measures pertaining to correctional officer turnover and safety of facilities. The key measure "number of serious inmate-to-inmate assaults in private and public facilities" had an FY06 actual 24 and an FY06 target of 20. As of October 31, 2006, the male inmate facilities were at 97.8 percent capacity. At this time, one facility was over capacity and the rest were on the verge of 100 percent capacity.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Number of serious inmate-to-inmate assaults in private and public facilities	18	20	24	R
Number of serious inmate-to-staff assaults in private and public facilities	7	10	7	G
Number of inmates placed into the sanctioned parole violator program instead of going to prison	229	150	210	G
Percent of inmates testing positive in monthly drug tests	2.19%	<=5%	2.05%	G
Percent turnover of correctional officers	10.80%	15%	20.91%	R
Percent of inmates returned to facilities within twelve months of release	30.45%	30.45%	30.24%	G
Percent of inmates returned to facilities within twenty-four months of release	42.12%	42.12%	38.22%	G

Overall Program Rating **Y**

Community Offender Management. At the end of FY06, the average standard caseload per probation and parole officer was 109. The high caseloads have contributed to high turnover and retention problems.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Average standard caseload of probation and parole officers	97.86	81	109	R

Overall Program Rating **R**

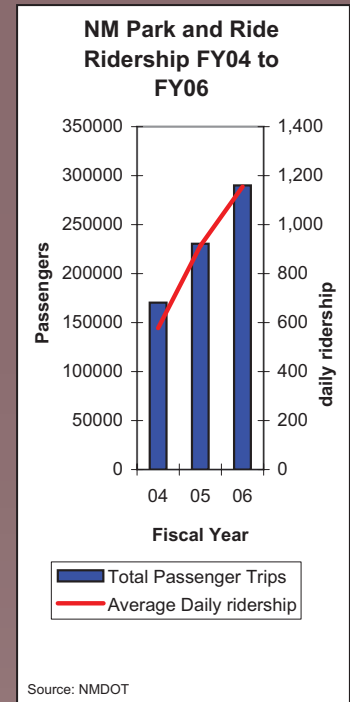
Department of Transportation

NMDOT experienced an inflation rate of 28 percent for construction and maintenance materials in FY06. This impacted the department's ability to meet performance indicators relative to maintenance and construction program activities. This inflationary pressure is forecast to continue, albeit at a lower rate, through FY07. This has forced the department to delay construction projects into future plan years and to scale back maintenance activities, such as chip-sealing.

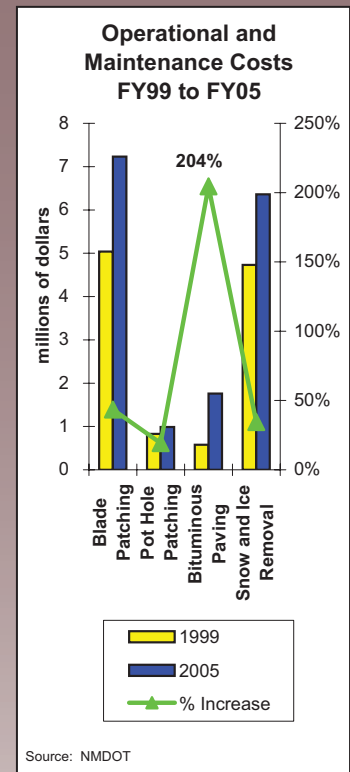
Programs and Infrastructure. The department was able to keep final costs on projects within 3.35 percent of the bid amount in a period of significant inflation. This standard will be much harder to maintain in the future if costs continue to be as unpredictable as they were in FY06. The Park and Ride program continues to grow at a rapid rate, exceeding its FY06 target by 65.7 percent. This was driven by the reaction of the general public to the escalating price of gasoline and the public's increased interest in public transportation options.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Ride quality index for new construction	4.1	>=4.7	4.1	R
Revenue dollars per passenger on park and ride	\$1.60	\$1.60	\$2.51	G
Annual number of riders on park and ride	230,248	175,000	289,984	G
Percent of final cost-over-bid amount	3.51%	4%	3.25%	G
Percent of front-occupant seat belt use by the public	89%	92%	89.5%	Y
Number of traffic fatalities per one hundred million vehicle miles traveled	2.09	1.85	2.09	R
Overall Program Rating				G

Transportation and Highway Operations. This program was significantly impacted by increased costs and material shortages. Program objectives will be modified in FY07 as unbudgeted price increases continue to be absorbed. Additionally, the full impact of the heavy rains and subsequent flooding at the beginning of FY07 on the maintenance and construction workloads has not been fully realized



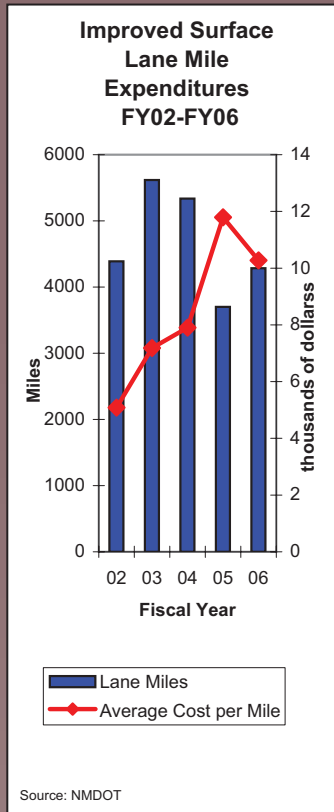
Source: NMDOT



Source: NMDOT

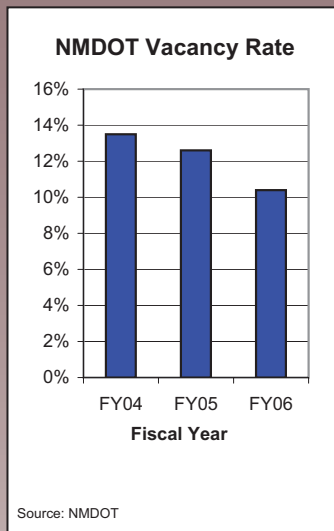
Department of Transportation

and might impact the department's ability to meet these criteria in the future.



Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Number of statewide improved pavement surface miles	3,700	5,000	4,285	Y
Number of combined systemwide miles in deficient condition	2,612	<=2,500	826	G
Overall Program Rating				Y

Program Support. The overall program rating is impacted by the inability of the department to meet a critical target on vacancies. This measure is acknowledged by the department as being a legislative priority. The department has actively worked with the State Personnel Office to reduce its vacancy levels by improving recruitment efforts, adjusting pay levels, and aligning positions with the areas of greatest need. The department has made significant progress on this regard. However, it is imperative that the department rapidly close the gap filling vacancies to meet its increasing workload.



Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of vacancy in all programs	12.6%	5%	10.4%	R
Overall Program Rating				Y

Economic Development Department

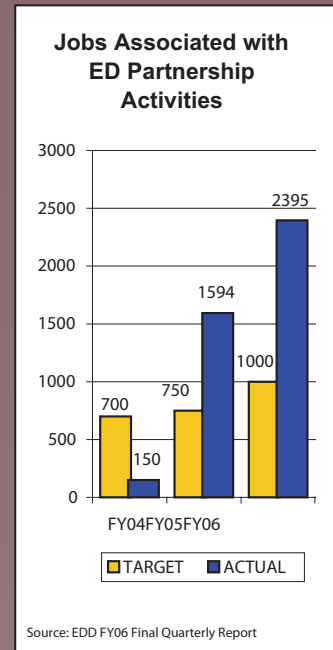
While the Economic Development Department continues to show strong results in many of its key performance areas, the department's smaller programs did not meet many of their targets. In some cases, the measures are poor reflections of the programs' missions.

Economic Development. For the second straight year, the program failed to meet its target for business expansion but surpassed the targets for jobs creation, both in rural areas and through the efforts of the Economic Development Partnership. The agency does not report on the retention rates of jobs funded through the Job Incentive Training Program (JTIP), a significant element of the agency's recruitment and retention strategy.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Number of business expansions assisted by the economic development program in urban areas of New Mexico	34	40	35	R
Total number of rural jobs created	2,043	1,600	2,192	G
Number of jobs created through the economic development partnership	1,594	1,000	2,395	G
Overall Program Rating				G

Film Office. The large margins by which the Film Program exceeds its performance targets call into question the validity of the targets. The program calculates economic impact by multiplying production expenditures by three. This multiplier is unrealistic and should be revised. Nevertheless, the state has seen a precipitous increase in film productions due to the generous incentive package and the efforts of the Film Office.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Number of media industry worker days	99,695	48,500	161,137	G
Economic impact of media industry productions in New Mexico, in millions	\$271.7	\$73.5	\$350	G
Number of films and media projects principally photographed in New Mexico	51	58	72	G
Overall Program Rating				G






Job creation numbers are based on company reports of anticipated total employment, not actual jobs created. EDD does not revise reports.

Division	FY06 Budget (in millions)	FTE
ED	\$2.4	21
Film	\$0.8	10
Trade	\$0.3	3
Tech	\$0.7	10
Program Support	\$2.0	24
Total	\$6.2	68




Economic Development Department

EDD reports that a partnership with the International Business Accelerator should improve performance of its Office of Mexican Affairs program in FY07.

Trade with Mexico/Office of Mexican Affairs. In general, the Trade with Mexico Program has a hard time quantifying its activities, and most of the program’s staff are focused on “macro” New Mexico-Chihuahua issues, such as diplomatic efforts, rather than specifically on job creation.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Dollar value of New Mexico exports to Mexico as a result of the Mexican affairs program, in millions	\$253	\$350	\$166	
Number of jobs created by the programs of the office of Mexican affairs	N/A	250	18	
Overall Program Rating				

Technology Commercialization. There is no historical data to gauge these results, and the number of aerospace and aviation jobs is as much a measure of recruitment efforts as it is an indicator of the state’s development of high-tech industries. Moreover, in FY07 the division has been scaled back, because of the move of the Office of Space to the Spaceport Authority. No measures have been proposed for this division in FY08.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Number of jobs created by aerospace and aviation companies	N/A	150	269	
Ranking of New Mexico in technology intensiveness according to the state science and technology institute index	N/A	22	N/A	
Overall Program Rating				

Environment Department

The following key measures indicate New Mexico Environmental Department (NMED) has maintained overall FY06 performance directly related to natural resource protection, despite lower federal funding, continued staffing shortages, and increased workload in various sectors.

Water and Waste Management. This program is aimed at preventing groundwater and environmental degradation by permitting facilities that discharge water or hazardous waste. Annual inspections, the primary means of ensuring compliance with regulatory and permit requirements, increased by 10 percent in FY06. This increase in inspections could explain why the percent of facilities in compliance slightly decreased from FY05.

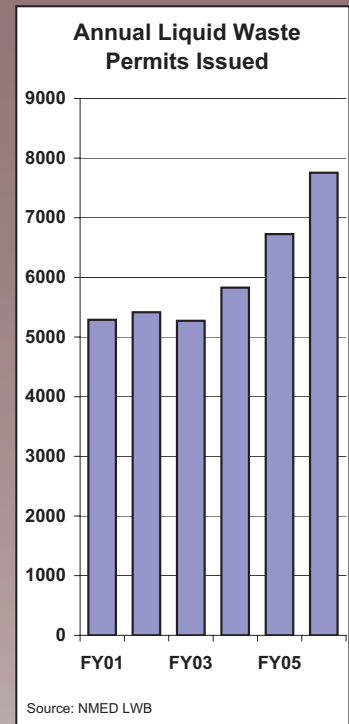
Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of permitted facilities receiving annual compliance evaluations and field inspections	54.3%	60%	64%	G
Percent of permitted facilities that have successfully prevented groundwater pollution	75%	70%	71%	G
Number and percent increase of hazardous waste generator inspections completed	131/ N/A%	144/10%	156/19%	G
Stream miles and lake acres monitored annually to determine if surface water is impaired	1,369/ 10,640	1,500 10,000	1,287 15,606	G
Overall Program Rating				G

Environmental Health. The Field Operations Program officially changed its name to Environmental Health in FY06. The Liquid Waste Bureau (LWB) reports that it did not meet its target three out of the four quarters for FY06, pointing to yearly increases in new septic tank permits that began in FY03. The migration of the liquid waste database to a web-based system, which will allow the public to run their own permit searches, will increase efficiency by reducing staff time spent responding to permit record requests. Because the Food Program inspected some restaurants more than once, its FY06 target was exceeded by 11 percent, again raising the question whether this target should be increased from one to two inspections per restaurant annually. The Radiation Bureau points to staffing issues for missing inspection targets but has taken steps for resolution.

“Prevention of groundwater contamination is clearly more cost effective and technically achievable than remediation.

The cost of one facility inspector for one year, who may assess compliance at up to 100 facilities during that year, is equivalent to the cost of one ground water investigation, at one contaminated site of average size and complexity.”

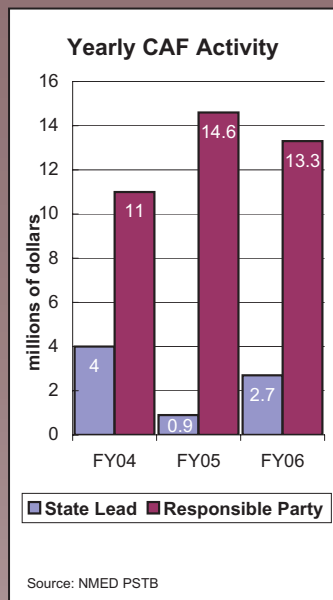
-NMED



Environment Department

The Petroleum Storage Tank Bureau (PSTB) reports that approximately one-half of all new confirmed releases are occurring at above ground petroleum storage tank sites, regulated since 2003, and expects the number of reported sites to increase.

Corrective Action Fund (CAF)



Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of new septic tank inspections completed	72%	80%	64%	R
Percent of annual commercial food establishment inspections completed	100%	100%	111%	G
Percent of radioactive material licensee and radiation producing inspections completed	70%	100%	93%	Y
Overall Program Rating				Y

Environmental Protection. The Petroleum Storage Tank Bureau (PSTB) is meeting its goal of remediating groundwater at locations known to have been contaminated by petroleum products. This bureau's activities are funded by the corrective action fund. The Solid Waste Bureau (SWB) primarily points to lack of dedicated staff for the under-performance related to landfill monitoring requirements. Measures for both SWB and the Air Quality Bureau are subject to data insufficiency, although proposed data collection procedures indicate future improvement.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of confirmed releases from leaking storage tank sites undergoing assessment or corrective action	57%	50%	55.1%	G
Percent of underground storage tank facilities in significant operational compliance with release prevention and release detection regulations	Prevent 95% Detect 90%	Prevent 80% Detect 80%	Prevent 94% Detect 93%	G
Percent of landfills meeting groundwater monitoring requirements.	80%	93%	71%	R
Number of days per year in which the air quality index exceeds one hundred, exclusive of natural events such as high winds and wildfires	N/A	<=8	5	G
Percent of facilities taking corrective action to mitigate air quality violations discovered as a result of inspections	92%	95%	100%	G
Percent of serious worker health and safety violations noted on issued citations corrected within timeframes required	85%	85%	96.5%	G
Overall Program Rating				Y

Office of the State Engineer

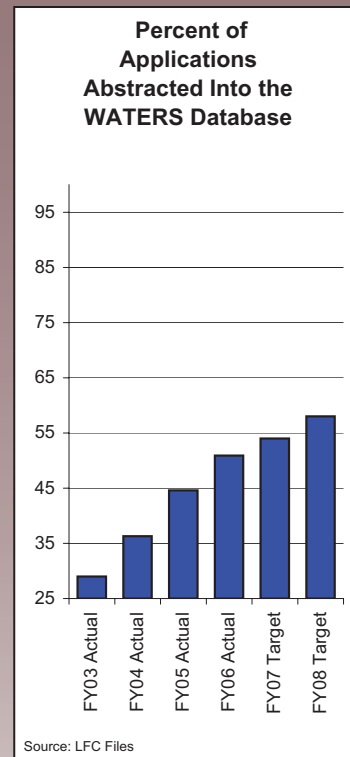
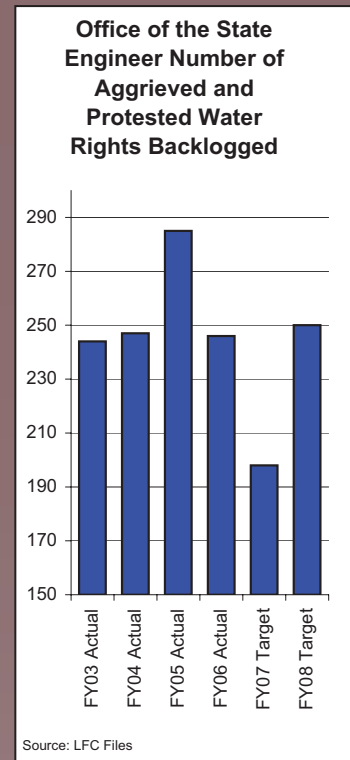
For FY06, Office of the State Engineer (OSE) continued to experience modest growth in expenditures, particularly with respect to litigation and adjudication activities. However, the agency has failed to meet a number of performance measures.

Water Resource Allocation. This program did not meet the majority of its FY06 program performance targets. While the targets could be considered to be ambitious, it also appears that the agency needs to re-evaluate performance criteria.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Number of protested and aggrieved water rights backlogged	285	175	246	R
Percent of applications abstracted into the water administration technical engineering resource system database	44.6%	50%	50.9%	G
Average number of unprotested new and pending applications processed per month	81	75	67	R
Overall Program Rating				Y

Litigation and Adjudication. The program did not meet its objective with respect to the number of offers to defendants in adjudications. Because it appears that adjudication staff spent more time adjudicating existing offers, as opposed to sending new offers, it appears that the target number is too ambitious.

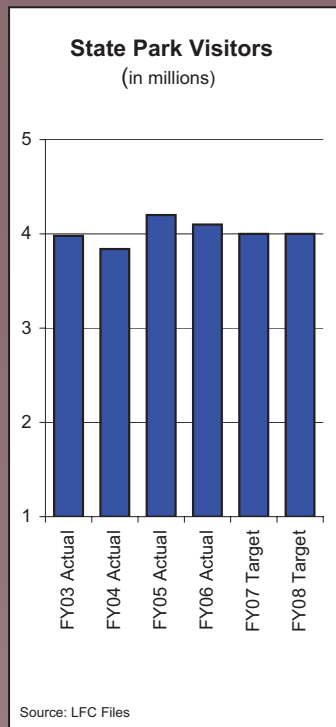
Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Number of offers to defendants in adjudications	2,551	2,200	1,733	R
Percent of all water rights that have judicial determinations	36%	30%	41%	G
Overall Program Rating				Y



Energy, Minerals and Natural Resources

For FY06, the department generally met or surpassed all significant performance measurement criteria.

State Parks. For FY06, State Parks exceeded performance targets by opening two new parks (Mesilla Valley and Vietnam Veterans) and expanding both the Living Desert and City of Rocks parks. Statewide fire restrictions imposed by local or federal entities might have modestly impacted some parks' visitor counts.



The State Parks Program has completed five expansions of existing parks since 2003: Coyote Creek, Manzano Mountains, City of Rocks, Living Desert, Conchas. Pending expansion projects include Sugarite, Oliver Lee, Pancho Villa, and Morphy Lake.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Self-generated revenue per visitor, in dollars	\$0.86	\$0.86	\$0.94	G
Number of visitors to state parks	4,202,900	4,000,000	4,157,169	G
Percent completion of new parks and park expansion projects receiving appropriations	NA	45%	140%	G
Overall Program Rating				G

Healthy Forests. This program continues to be central to the state's efforts in wildfire prevention and response. During the first six months of calendar year 2006, the division, along with cooperating agencies, responded to more than 1,000 fires, primarily caused by lightning, which burned more than 468,500 acres.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Number of nonfederal wild land firefighters provided technical fire training appropriate to their incident command system	NA	500	1384	G
Number of fire and insect vulnerability assessments and number of implemented mitigation programs in high-risk communities	NA	47 of 217	57	G
Overall Program Rating				G

Taxation and Revenue Department

The Taxation and Revenue Department reports quarterly on 14 performance measures tracking audit activities, motor vehicle services, property tax collection, and administration. The department met most of its measures in its Tax Administration Program and Program Support, but fell short in its Motor Vehicle and Property Tax programs. In most but not all deficient areas, the agency has provided an action plan to improve performance.

Tax Administration. The program comprises the Audit and Compliance and Revenue Processing divisions. In FY07, the Tax Fraud Investigation Division became the Compliance Enforcement Program. The program has several measures for its audit activities, classifying assessments as collectable and by year. The agency failed to meet its measure for collections on assessments in FY06.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Collections as a percent of collectable outstanding balances from June 30, 2005	10%	10%	11.9%	G
Collections as a percent of collectable audit assessments generated in the current fiscal year	42%	40%	32%	R
Successful tax fraud prosecutions as a percent of total cases prosecuted	100%	70%	100%	G
Percent of electronically filed personal income tax and combined reporting system returns	30.3%	30%	33.7%	G
Overall Program Rating				G

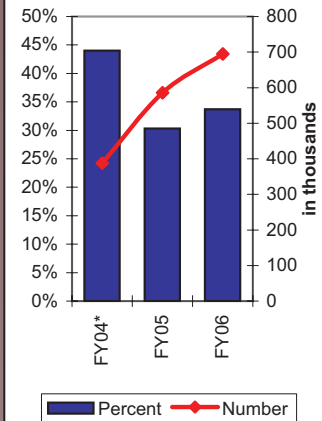
Motor Vehicle. Success is mixed at the Motor Vehicle Division (MVD), where a near miss in its 15-minute target for wait times at state-run offices – an indication of service improvements – is offset by a failure to show significant improvement in its target for service over the phone. However, the measures fail to address the performance of municipal and private offices, which outnumber state run offices 2-to-1. The insurance rate of New Mexico drivers continues to improve.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of registered vehicles with liability insurance	86%	86%	87%	G

TRD FY06 Funding by Division

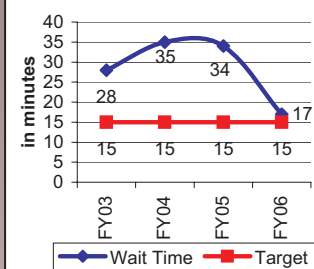
	FY06 Budget (in millions)	FTE
Tax Ad.	\$27.60	523
MVD	\$21.90	324
Prop Tax	\$2.80	50
Prog Sup	\$19.30	212
Total	\$71.60	1109

Electronically Filed Tax Returns



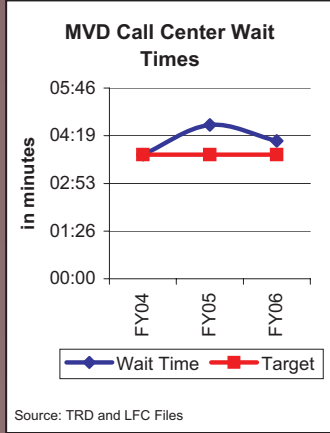
*FY04 PIT returns only; FY05 PIT and CRS returns
Source: TRD and LFC Files

Average Customer Wait Times at MVD



Source: TRD and LFC Files

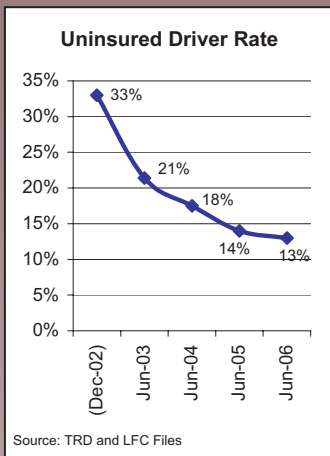
Taxation and Revenue Department



Average call center wait time to reach an agent, in minutes	4:39	3:45	4:10	R
Average wait time in Q-Matic equipped offices, in minutes	34	15	17	Y
Average number of days to post "court action" driving-while-intoxicated citations to drivers' records upon receipt	2.5	5	1	G
Overall Program Rating				Y

Property Tax. The program failed to meet both targets in this program, narrowly missing the number of company appraisals. Of equal concern, the agency does not provide a clear action plan for increasing the percent of resolved delinquent accounts. In addition, the quality and accuracy of the property tax valuations can vary widely from one county to the next. 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.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Percent of delinquent accounts that are resolved	89%	88%	62%	R
Number of appraisals and valuations for companies conducting business within the state subject to state assessment	509	510	504	Y
Overall Program Rating				R



Program Support. The agency surpassed both measures in Program Support, leading to a green program rating. Yet, the program does not report on the operations of its information technology (IT) division. Given the important role of information technology in tax administration and the agency's vision to be "the most technologically advanced agency in state government," the agency should report on the operations of its IT division.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Number of tax protest cases resolved	730	728	730	G
Percent of driving-while-intoxicated drivers license revocations rescinded due to failure to hold hearings in ninety days	2.3%	2%	0.9%	G
Overall Program Rating				G

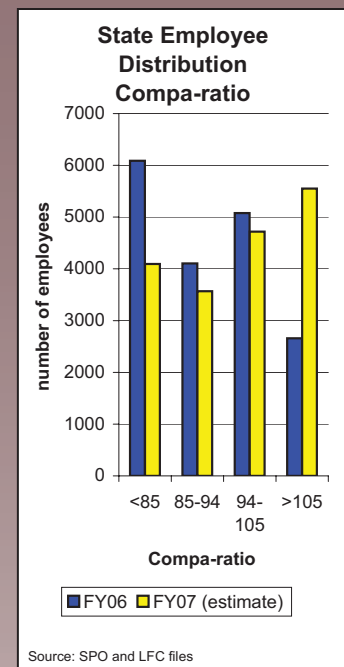
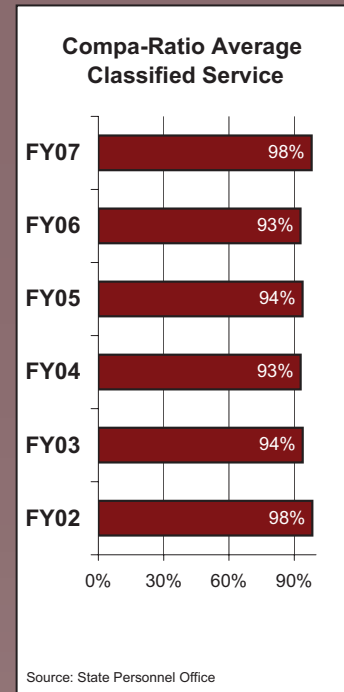
State Personnel Board

The State Personnel Board (SPB) is responsible for the maintenance of New Mexico's merit system. The established performance measures do not adequately reflect the full spectrum of responsibility of SPB and have been modified in both FY07 and FY08. Additionally, as the statewide human resource information system is fully developed, additional measures will be integrated as access to data improves.

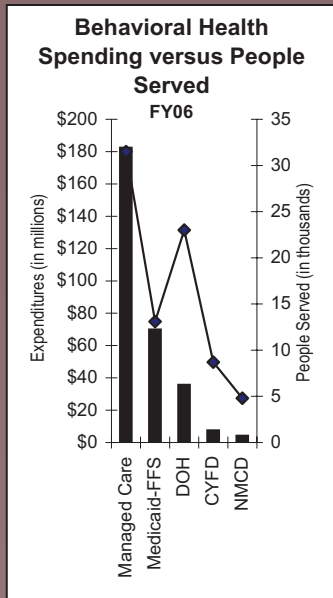
Average pay as a percent of the comparator market significantly improved to 98 percent for FY07 as a result of the pay increases provided by the Legislature in 2006. This is acknowledged with the yellow rating for FY06. Quality assurance audits have not been conducted for the past two years. This is a critical measure because it gauges the level of oversight being given to state agencies by SPB in ensuring merit system compliance. This activity is getting SPO attention in FY07 with the reestablishment of this activity. The achievement of training for 90 percent of managers and supervisors is difficult to validate because the State Personnel Office reports that data is not maintained by SPB regarding attendees at these sessions.

Human Resource Management.

Measure	FY05 Actual	FY06 Target	FY06 Actual	FY06 Rating
Average employee pay as a percent of board-approved comparator market, based on legislative authorization	94%	95%	92.8%	Y
Percent of managers and supervisors completing board required training as a percent of total manager and supervisor category employees	90%	90%	90%	G
Percent of quality reviews (audits) performed on agencies in accordance with the quality assurance program	0%	70%	0%	R
Number of days to produce employment lists	12	15	15	G
Overall Program Rating				Y



Performance Review Activity



Findings:

Key statutory duties could be improved.

The Collaborative's financial oversight of ValueOptions needs improvement.

The Collaborative lacks necessary rulemaking authority.

Findings:

Most program recipients work, but remain on welfare.

No outcome measures assess recipients' employment, earnings, and use of child care after leaving the program.

Only an estimated 32 percent of recipient families use childcare subsidies.

Recipients' use of child care is not regularly examined after moving off welfare and into work.

Performance reviews 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 2006, the performance audit unit completed 100 percent of reviews scheduled. Based on agency self-reporting, 89 percent of review recommendations were implemented. Performance review activity included full program reviews and quick response reviews that can be accessed through the committee website. Significant recommendations are summarized below.

Interagency Behavioral Health Purchasing Collaborative. The collaborative, consisting of 21 agencies, was created to develop and coordinate a single statewide behavioral healthcare system. The first two years' results are mixed. The collaborative entered into a contract with ValueOptions to manage a single, statewide provider network. The collaborative should report performance information to the Legislative Finance Committee and report annually to the Legislature and the public on progress made. Future contract amendments to increase funding should be clearly tied to performance, scope changes, or other documented adjustments. Pre-payment arrangements with ValueOptions should be phased out. External quality audits should be required to review all services, not just Medicaid managed care. Geo-access report standards, which map the geographic distribution of providers by provider type, should be finalized and public reporting should begin no later than January 1, 2007. Quality assessment results compared with evidence-based standards should be published. The Legislature should consider creating a unified behavioral health services budget; select outcome measures for use in the General Appropriation Act; and provide the collaborative with certain rulemaking authority.

NM Works Program and Workforce Development System

Integration. The NM Works program, under the Temporary Assistance for Needy Families program, is intended to increase family income through employment and child support. In partnership with the Office of Workforce Training and Development, the department has started to shift NM Works employment and training service contracts to local workforce boards and one-stop centers. The department should report post-NM Works outcome measures. All Office of Workforce Training and Development partner agencies should be required to submit and report quarterly performance data. The Legislature should consider maintaining the childcare eligibility threshold at 155 percent of federal poverty level and increasing the

Performance Review Activity

amount of child support passed through to families receiving assistance from NM Works. All NM Works employment and training contractors should provide services through one-stop career centers. Childcare eligibility workers should co-locate at a minimum of three one-stops by the end of FY07.

Juvenile Justice Services Oversight. New Mexico is faced with an enviable problem of excess bed space in its secure juvenile facilities. The department's proposal to close the New Mexico Boys' School facility in Springer is consistent with national best practices. The department should reevaluate duties of juvenile probation and parole officers and identify alternatives for data entry. A full transition plan should be developed to carry out the decision to turn the facility over to the Corrections Department. A five-year strategic plan should be developed for future facility use and needs. Regulations and policies should be revised to implement a performance-based monitoring system for all facilities.

Teacher Preparation Program Funding and Performance. Five New Mexico universities' teacher preparation programs were reviewed with a focus on funding and performance. Increasing teacher preparation programs and overall school of education budgets should be considered, as well as increasing the number and percent of full-time faculty with doctorates in all teacher preparation programs. The number of field work hours required and number of lab schools should be increased. New Mexico Teacher Assessment test passing scores should be reviewed, as well as their impact on teacher supply, quality, and minority representation. National Council for Accreditation of Teacher Education (NCATE) annual institutional reports should contain yearly program performance data.

Implementation of Indian Education Act. The purposes of the act are to ensure equitable and culturally relevant learning systems, maintenance of native languages, and tribal involvement and control over schools. The current language of the act should be more prescriptive and require that New Mexico content standards and tests include language and cultural competencies relevant to Native American students. The Funding Formula Task Force should review the adequacy of at-risk unit values to determine if funding is adequate. The department's capacity to provide technical assistance and interventions to tribal education departments and schools should increase. Tribes/pueblo/nations should be eligible for state funding. Finally, the act should require that native languages be part of the bilingual program, that a set of accountability measures patterned after a research-based model be developed, and that curricula for teacher preparation programs be prepared and disseminated.

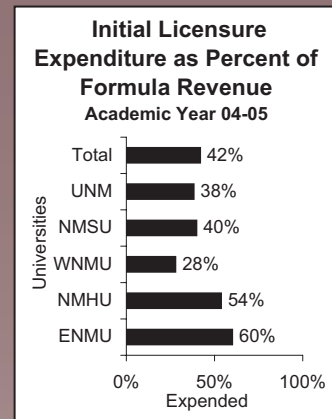
Lack of authority and decentralized administration may impede progress.

Findings:

Facility transition plan lacks a detailed cost estimate and raises other concerns.

Facility use configuration and programming do not meet specific needs.

Problems with front-line staff workload and vacancies could threaten community safety.



Findings:

Funding levels do not support hiring more full-time faculty or providing more field experiences.

Findings:

The act is vague, overly ambitious, and difficult to implement.

Focused programs and resources are needed.

Increased tribal/pueblo/nation input and representation are needed.

Performance Review Activity

Findings:

Premium allocation is poorly documented.

Loss-control activities are not risk- focused.

Claims information is not adequately maintained.

Adjusters have high claims loads.

Contract attorney performance is not assessed.

Findings:

Statewide emergency operations plan is not updated and after-action reports are not prepared.

Training and exercise procedures are outdated.

Current staff is overloaded while positions are held vacant.

Consolidation Projects Appropriations 1998 – 2006 (in thousands)

Project	Total
MAGnet/Wire NM	\$12,671.6
Digital Microwave	\$25,225.0
Enterprise Security	\$800.0
Statewide Portal	\$2,095.0
Consolidation Plan	\$1,000.0
Architecture Plan	\$300.0
e-Mail	\$1,100.0
Accounting, Payroll and HR	\$24,150.0
Imaging and Archiving	\$3,200.0
Total	\$70,541.6

Source: Laws 1998 through 2006

Findings:

Savings projected to secure a \$4.8 million Wire New Mexico appropriation were based on a guess.

Risk Management. The Risk Management Division administers self-insurance for workers' compensation, public liability, surety bonds, public property, and unemployment compensation. The department's financial position deteriorated because of a \$26.6 million decrease in net assets, primarily because of a \$32 million increase in claims payable for public liability funds. Equitable premiums should be allocated that are fully supported and documented. The department should assume a leadership position for state loss control activities. Risk-focused loss-control activities should be based on claims-loss trends and periodic database analysis. Accurate and complete data input into the claims database should be ensured. The appropriateness of claims adjuster workloads and adjuster training and supervision needs should be evaluated. Contract attorney performance and contract compliance should be assessed, and contractor assignments should be based on the assessments.

Office of Emergency Management. The purpose of the Office of Emergency Management is to oversee and coordinate all emergency management and homeland security activities in the state. The department should prepare after-action reports that critique emergency response and recovery activities. Training and exercise procedures should be updated. Amending the disaster statutes to strictly define disasters and emergencies would clarify legislative intent and reduce the need to use executive orders as a funding mechanism. Positions should be filled as soon as they are created. Improving employee retention would improve emergency response readiness. The classified general manager position should be filled to provide institutional stability and oversee day-to-day operations. Internal administrative operations should be improved to allow planning and management, so federal and state funding is used most effectively.

IT Consolidation and ISD/CD Functions. Executive Order 2004-14 mandated consolidation of IT operations and governance and declared the intent to realize first-year (FY05) savings of \$19.3 million. The General Services Department, which has primary execution responsibility for the IT Consolidation Plan and is the state's lead enterprise infrastructure services provider, has reported chronic, critical understaffing. New Mexico undertook all aspects of IT consolidation, rather than using a phased approach. Before proceeding with IT consolidation, statutory requirements should be followed. Projects should be assessed and planned properly, including resource requirements, impact of change, information gathering, equipment replacement, savings opportunities, risks, and lessons learned. Special appropriations should be accounted for separately, completely and accurately. Rate changes should be communicated with agencies to allow for proper budget planning. Service level agreements should be finalized for all information and communication

Performance Review Activity

services, all guidance documents should be finalized, and agency requirements should be made mandatory.

Student Teacher Accountability Reporting System. The student teacher accountability reporting system was intended to gather data that will provide the department with sufficient information to foster public school reforms. Over two years, \$8.6 million was appropriated, all of which is committed. Project staff should report all expenditures, development, project management, independent validation and verification, content advisor, FTE, etc., to the Office of the Chief Information Officer, the Executive Steering Committee, and department management. Project management reports should be expanded to include essential information related to issues that arise, along with all relevant detail, current status, impact to the project, resolution or mitigation options, and recommendations. Independent validation and verification should report on defined items and use vital signs checklist as a quick assessment of overall project health.

Status of E911 Implementation: Cost and Program Effectiveness.

The goal of the E911 program is to provide grants to local government entities (counties and municipalities) to implement E911 services for callers within their county or municipality. The need for additional resources to adequately administer and implement the program should be evaluated. Work toward statewide implementation should be continued. E911 program plans should be coordinated with the Department of Public Safety and other relevant state agencies and local governments. To improve public safety answering point consolidation, the best placement for program administration should be evaluated and plans should be made to integrate State Police dispatch centers into local government public safety answering points. Additional funding for local governments should be considered.

Other review reports available on our website are the Colonias Initiative, Laptop Learning Initiative, and Internal Audit Function and Office of Inspectors General.

No evidence was provided to support actual FY05 IT savings.

Post-consolidation e-mail costs increased for eight agencies.

Findings:

Projects revenues and costs were underreported.

Project management reports do not provide sufficient information.

Maintenance costs are being paid on a system that is not in full production.

Findings:

Staffing and expertise limitations have adversely affected the program.

A wireless 911 caller cannot be located in most counties.

The E911 program needs state and local coordination.

Public safety answering point consolidation could be improved.

Funding does not cover expenses required to respond to a 911 call.

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY07 OPERATING BUDGET	FY08 AGENCY REQUEST	FY08 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
Legislative						
111	LEGISLATIVE COUNCIL SERVICE	4,956.0	5,320.4	5,320.4	364.4	7.4%
112	LEGISLATIVE FINANCE COMMITTEE	3,807.3	3,976.4	3,976.4	169.1	4.4%
114	SENATE CHIEF CLERK	1,030.5	1,031.0	1,031.0	0.5	0.0%
115	HOUSE CHIEF CLERK	1,009.5	1,018.8	1,018.8	9.3	0.9%
117	LEGISLATIVE EDUCATION STUDY COMMITTEE	1,195.6	1,195.6	1,195.6	0.0	0.0%
119	LEGISLATIVE BUILDING SERVICES	3,647.7	3,809.8	3,809.8	162.1	4.4%
131	LEGISLATURE	1,686.9	1,686.9	1,686.9	0.0	0.0%
Total Legislative		17,333.5	18,038.9	18,038.9	705.4	4.1%
Judicial						
205	SUPREME COURT LAW LIBRARY	1,711.3	1,816.3	1,791.0	79.7	4.7%
208	NEW MEXICO COMPILATION COMMISSION	167.6	167.6	127.7	-39.9	-23.8%
210	JUDICIAL STANDARDS COMMISSION	656.8	799.9	779.3	122.5	18.7%
215	COURT OF APPEALS	5,140.7	5,380.6	5,360.1	219.4	4.3%
216	SUPREME COURT	2,630.2	2,902.9	2,824.1	193.9	7.4%
218	ADMINISTRATIVE OFFICE OF THE COURTS	36,044.0	45,548.9	40,706.1	4,662.1	12.9%
219	SUPREME COURT BUILDING COMMISSION	729.8	744.5	743.7	13.9	1.9%
231	FIRST JUDICIAL DISTRICT COURT	5,971.6	6,244.3	5,939.7	-31.9	-0.5%
232	SECOND JUDICIAL DISTRICT COURT	19,961.4	21,251.3	20,005.6	44.2	0.2%
233	THIRD JUDICIAL DISTRICT COURT	5,899.0	6,185.5	6,043.7	144.7	2.5%
234	FOURTH JUDICIAL DISTRICT COURT	1,599.7	1,940.1	1,823.0	223.3	14.0%
235	FIFTH JUDICIAL DISTRICT COURT	5,513.6	5,780.9	5,608.8	95.2	1.7%
236	SIXTH JUDICIAL DISTRICT COURT	2,498.2	3,094.0	2,656.8	158.6	6.3%
237	SEVENTH JUDICIAL DISTRICT COURT	1,918.3	2,058.5	1,970.1	51.8	2.7%
238	EIGHTH JUDICIAL DISTRICT COURT	2,317.3	2,535.1	2,459.1	141.8	6.1%
239	NINTH JUDICIAL DISTRICT COURT	3,030.8	3,328.2	3,177.9	147.1	4.9%
240	TENTH JUDICIAL DISTRICT COURT	707.3	719.0	715.3	8.0	1.1%
241	ELEVENTH JUDICIAL DISTRICT COURT	5,025.6	5,276.1	5,151.9	126.3	2.5%
242	TWELFTH JUDICIAL DISTRICT COURT	2,519.5	2,693.8	2,691.0	171.5	6.8%
243	THIRTEENTH JUDICIAL DISTRICT COURT	4,989.9	6,174.9	5,738.3	748.4	15.0%
244	BERNALILLO COUNTY METROPOLITAN COURT	20,416.3	21,818.1	21,788.7	1,372.4	6.7%
251	FIRST JUDICIAL DISTRICT ATTORNEY	4,103.0	4,472.6	4,249.7	146.7	3.6%
252	SECOND JUDICIAL DISTRICT ATTORNEY	15,144.4	16,639.9	15,243.1	98.7	0.7%
253	THIRD JUDICIAL DISTRICT ATTORNEY	3,427.0	3,941.8	3,593.8	166.8	4.9%
254	FOURTH JUDICIAL DISTRICT ATTORNEY	2,684.6	3,098.6	2,854.4	169.8	6.3%
255	FIFTH JUDICIAL DISTRICT ATTORNEY	3,834.0	4,103.3	3,840.3	6.3	0.2%
256	SIXTH JUDICIAL DISTRICT ATTORNEY	2,066.4	2,658.7	2,176.4	110.0	5.3%
257	SEVENTH JUDICIAL DISTRICT ATTORNEY	2,103.8	2,256.9	2,164.0	60.2	2.9%
258	EIGHTH JUDICIAL DISTRICT ATTORNEY	2,256.3	2,418.8	2,331.8	75.5	3.3%
259	NINTH JUDICIAL DISTRICT ATTORNEY	2,524.0	2,677.4	2,573.4	49.4	2.0%
260	TENTH JUDICIAL DISTRICT ATTORNEY	872.8	1,004.3	913.6	40.8	4.7%
261	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIV I	3,004.9	3,295.0	3,119.9	115.0	3.8%
262	TWELFTH JUDICIAL DISTRICT ATTORNEY	2,292.3	2,335.7	2,319.1	26.8	1.2%
263	THIRTEENTH JUDICIAL DISTRICT ATTORNEY	3,709.5	4,321.6	3,869.0	159.5	4.3%
264	ADMINISTRATIVE OFFICE OF THE DISTRICT ATTORNEYS	1,356.5	2,519.5	1,937.1	580.6	42.8%
265	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIV II	1,995.8	1,969.6	1,921.2	-74.6	-3.7%
Total Judicial		180,824.2	204,174.2	191,208.7	10,384.5	5.7%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY07 OPERATING BUDGET	FY08 AGENCY REQUEST	FY08 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
General Control						
305	ATTORNEY GENERAL	12,134.9	16,793.2	12,409.8	274.9	2.3%
308	STATE AUDITOR	2,411.8	2,425.2	2,425.2	13.4	0.6%
333	TAXATION AND REVENUE DEPARTMENT	59,691.4	67,881.4	63,024.9	3,333.5	5.6%
337	STATE INVESTMENT COUNCIL	0.0	0.0	0.0	0.0	0.0%
341	DEPARTMENT OF FINANCE AND ADMINISTRATION	12,572.9	13,387.1	16,998.5	4,425.6	35.2%
342	PUBLIC SCHOOL INSURANCE AUTHORITY	0.0	0.0	0.0	0.0	0.0%
343	RETIREE HEALTH CARE AUTHORITY	8.9	8.9	8.9	0.0	0.0%
344	DFA NON-OPERATING FUNDS	7,337.7	10,199.3	5,899.3	-1,438.4	-19.6%
350	GENERAL SERVICES DEPARTMENT	13,663.8	17,255.4	16,493.4	2,829.6	20.7%
352	EDUCATIONAL RETIREMENT BOARD	0.0	0.0	0.0	0.0	0.0%
354	NEW MEXICO SENTENCING COMMISSION	659.9	1,059.6	819.9	160.0	24.2%
355	PUBLIC DEFENDER DEPARTMENT	36,789.8	41,511.0	38,974.9	2,185.1	5.9%
356	GOVERNOR	4,688.7	4,688.7	4,688.7	0.0	0.0%
360	LIEUTENANT GOVERNOR	636.0	784.0	655.0	19.0	3.0%
361	OFFICE OF THE CHIEF INFORMATION OFFICER	1,022.6	1,251.8	1,104.8	82.2	8.0%
366	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION	0.0	0.0	0.0	0.0	0.0%
369	STATE COMMISSION OF PUBLIC RECORDS	2,578.4	3,055.3	2,699.7	121.3	4.7%
370	SECRETARY OF STATE	3,312.3	5,073.4	3,449.5	137.2	4.1%
378	PERSONNEL BOARD	4,314.1	4,558.3	4,420.8	106.7	2.5%
379	PUBLIC EMPLOYEE LABOR RELATIONS BOARD	327.1	329.6	329.6	2.5	0.8%
394	STATE TREASURER	4,176.0	3,945.7	3,863.2	-312.8	-7.5%
Total General Control		166,326.3	194,207.9	178,266.1	11,939.8	7.2%
Commerce and Industry						
404	BOARD OF EXAMINERS FOR ARCHITECTS	0.0	0.0	0.0	0.0	0.0%
416	SPORTS AUTHORITY	295.2	490.2	346.6	51.4	17.4%
417	BORDER AUTHORITY	438.1	637.7	549.4	111.3	25.4%
418	TOURISM DEPARTMENT	8,468.8	11,361.8	10,098.3	1,629.5	19.2%
419	ECONOMIC DEVELOPMENT DEPARTMENT	7,318.0	10,127.9	8,475.9	1,157.9	15.8%
420	REGULATION AND LICENSING DEPARTMENT	15,352.9	17,024.8	15,536.3	183.4	1.2%
430	PUBLIC REGULATION COMMISSION	10,815.5	11,525.5	10,408.7	-406.8	-3.8%
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 LICENSURE FOR PROF. ENGINEERS AND L	0.0	0.0	0.0	0.0	0.0%
465	GAMING CONTROL BOARD	6,149.1	6,526.0	6,156.0	6.9	0.1%
469	STATE RACING COMMISSION	2,253.4	2,424.0	2,312.8	59.4	2.6%
479	BOARD OF VETERINARY MEDICINE	0.0	0.0	0.0	0.0	0.0%
490	CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION	100.0	300.0	100.0	0.0	0.0%
491	OFFICE OF MILITARY BASE PLANNING AND SUPPORT	150.0	150.0	150.0	0.0	0.0%
495	SPACEPORT AUTHORITY	257.7	671.7	257.7	0.0	0.0%
Total Commerce and Industry		51,598.7	61,239.6	54,391.7	2,793.0	5.4%
Agriculture, Energy and Natural Resources						
505	DEPARTMENT OF CULTURAL AFFAIRS	29,112.6	35,176.2	30,117.0	1,004.4	3.5%
508	NEW MEXICO LIVESTOCK BOARD	1,044.5	2,270.7	1,313.0	268.5	25.7%
516	DEPARTMENT OF GAME AND FISH	234.2	234.2	234.2	0.0	0.0%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY07 OPERATING BUDGET	FY08 AGENCY REQUEST	FY08 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
521	ENERGY, MINERALS AND NATURAL RESOURCES DEPAR	22,553.3	28,577.0	26,279.5	3,726.2	16.5%
522	YOUTH CONSERVATION CORPS	0.0	0.0	0.0	0.0	0.0%
538	INTERTRIBAL CEREMONIAL OFFICE	175.0	175.0	155.0	-20.0	-11.4%
539	COMMISSIONER OF PUBLIC LANDS	0.0	0.0	0.0	0.0	0.0%
550	STATE ENGINEER	22,000.7	30,923.9	26,486.5	4,485.8	20.4%
569	ORGANIC COMMODITY COMMISSION	289.0	337.9	293.8	4.8	1.7%
Total Agriculture, Energy and Natural Resources		75,409.3	97,694.9	84,879.0	9,469.7	12.6%
Health, Hospitals and Human Services						
601	COMMISSION ON THE STATUS OF WOMEN	560.2	597.4	597.4	37.2	6.6%
603	OFFICE OF AFRICAN AMERICAN AFFAIRS	683.3	884.8	807.6	124.3	18.2%
604	COMMISSION FOR THE DEAF AND HARD-OF-HEARING PE	0.0	0.0	0.0	0.0	0.0%
605	MARTIN LUTHER KING, JR. COMMISSION	283.6	430.4	384.1	100.5	35.4%
606	COMMISSION FOR THE BLIND	1,919.4	2,256.7	2,127.2	207.8	10.8%
609	INDIAN AFFAIRS DEPARTMENT	2,711.6	3,077.4	2,759.0	47.4	1.7%
624	AGING AND LONG-TERM SERVICES DEPARTMENT	41,337.1	52,910.9	46,252.8	4,915.7	11.9%
630	HUMAN SERVICES DEPARTMENT	689,753.1	789,028.9	780,974.9	91,221.8	13.2%
631	LABOR DEPARTMENT	3,260.5	7,968.3	6,168.6	2,908.1	89.2%
632	WORKERS' COMPENSATION ADMINISTRATION	0.0	0.0	0.0	0.0	0.0%
635	OFFICE OF WORKFORCE TRAINING AND DEVELOPMENT	800.0	800.0	800.0	0.0	0.0%
644	DIVISION OF VOCATIONAL REHABILITATION	5,927.6	6,510.9	6,033.5	105.9	1.8%
645	GOVERNOR'S COMMISSION ON DISABILITY	729.7	1,230.3	730.3	0.6	0.1%
647	DEVELOPMENTAL DISABILITIES PLANNING COUNCIL	3,269.7	4,902.7	3,954.5	684.8	20.9%
662	MINERS' HOSPITAL OF NEW MEXICO	0.0	0.0	0.0	0.0	0.0%
665	DEPARTMENT OF HEALTH	292,929.5	327,198.8	315,255.0	22,325.5	7.6%
667	DEPARTMENT OF ENVIRONMENT	14,545.4	17,220.8	15,715.4	1,170.0	8.0%
668	OFFICE OF THE NATURAL RESOURCES TRUSTEE	246.3	400.5	400.5	154.2	62.6%
669	NEW MEXICO HEALTH POLICY COMMISSION	1,289.5	1,289.5	1,289.5	0.0	0.0%
670	VETERANS' SERVICES DEPARTMENT	2,416.2	2,972.3	2,622.3	206.1	8.5%
690	CHILDREN, YOUTH AND FAMILIES DEPARTMENT	171,390.5	194,316.3	186,793.9	15,403.4	9.0%
Total Health, Hospitals and Human Services		1,234,053.2	1,413,996.9	1,373,666.5	139,613.3	11.3%
Public Safety						
705	DEPARTMENT OF MILITARY AFFAIRS	6,642.8	7,157.8	6,999.5	356.7	5.4%
760	PAROLE BOARD	475.3	467.7	468.9	-6.4	-1.3%
765	JUVENILE PAROLE BOARD	401.3	417.1	417.1	15.8	3.9%
770	CORRECTIONS DEPARTMENT	240,738.7	277,901.9	270,121.6	29,382.9	12.2%
780	CRIME VICTIMS REPARATION COMMISSION	2,120.6	2,153.3	2,114.9	-5.7	-0.3%
790	DEPARTMENT OF PUBLIC SAFETY	82,883.3	85,473.3	93,534.4	10,651.1	12.9%
Total Public Safety		333,262.0	373,571.1	373,656.4	40,394.4	12.1%
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						
924	PUBLIC EDUCATION DEPARTMENT	12,625.0	19,995.1	13,765.7	1,140.7	9.0%
925	OTHER EDUCATION	15,180.2	66,831.2	41,156.8	25,976.6	171.1%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY07 OPERATING BUDGET	FY08 AGENCY REQUEST	FY08 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
930	REGIONAL EDUCATION COOPERATIVES	0.0	0.0	0.0	0.0	0.0%
940	PUBLIC SCHOOL FACILITIES AUTHORITY	0.0	5,853.7	2,573.2	2,573.2	0.0%
Total Other Education		27,805.2	92,680.0	57,495.7	29,690.5	106.8%
Higher Education						
950	HIGHER EDUCATION DEPARTMENT	40,824.7	41,881.1	51,951.3	11,126.6	27.3%
952	UNIVERSITY OF NEW MEXICO	282,863.1	0.0	296,752.5	13,889.4	4.9%
954	NEW MEXICO STATE UNIVERSITY	181,632.9	0.0	186,924.2	5,291.3	2.9%
956	NEW MEXICO HIGHLANDS UNIVERSITY	30,842.8	0.0	31,612.0	769.2	2.5%
958	WESTERN NEW MEXICO UNIVERSITY	18,562.8	0.0	18,659.9	97.1	0.5%
960	EASTERN NEW MEXICO UNIVERSITY	43,941.2	0.0	45,984.9	2,043.7	4.7%
962	NEW MEXICO INSTITUTE OF MINING AND TECHNOLOGY	36,630.9	0.0	37,508.7	877.8	2.4%
964	NORTHERN NEW MEXICO COLLEGE	9,241.5	0.0	10,391.2	1,149.7	12.4%
966	SANTA FE COMMUNITY COLLEGE	13,358.3	0.0	14,708.8	1,350.5	10.1%
968	CENTRAL NEW MEXICO COMMUNITY COLLEGE	52,409.5	0.0	51,973.8	-435.7	-0.8%
970	LUNA VOCATIONAL TECHNICAL INSTITUTE	7,808.4	0.0	8,132.9	324.5	4.2%
972	MESALANDS COMMUNITY COLLEGE	2,512.5	0.0	2,701.4	188.9	7.5%
974	NEW MEXICO JUNIOR COLLEGE	7,974.8	0.0	6,311.3	-1,663.5	-20.9%
976	SAN JUAN COLLEGE	21,310.3	0.0	20,298.6	-1,011.7	-4.7%
977	CLOVIS COMMUNITY COLLEGE	10,489.3	0.0	9,958.7	-530.6	-5.1%
978	NEW MEXICO MILITARY INSTITUTE	788.8	0.0	1,779.6	990.8	125.6%
979	NEW MEXICO SCHOOL FOR THE BLIND AND VISUALLY I	153.1	0.0	267.9	114.8	75.0%
980	NEW MEXICO SCHOOL FOR THE DEAF	2,524.4	0.0	2,656.0	131.6	5.2%
982	HIGHER EDUCATION COMPENSATION	0.0	0.0	41,297.4	41,297.4	0.0%
Total Higher Education		763,869.3	41,881.1	839,871.1	76,001.8	9.9%
Public School Support						
993	PUBLIC SCHOOL SUPPORT	2,265,662.2	2,334,992.4	2,433,640.8	167,978.6	7.4%
Total Public School Support		2,265,662.2	2,334,992.4	2,433,640.8	167,978.6	7.4%
Public Employee Compensation						
994	PUBLIC EMPLOYEES COMPENSATION	0.0	0.0	37,012.0	37,012.0	0.0%
996	SPECIAL COMPENSATION	0.0	0.0	6,960.9	6,960.9	0.0%
Total Public Employee Compensation		0.0	0.0	43,972.9	43,972.9	0.0%
Other						
995	RENT REDUCTIONS	-400.0	0.0	0.0	400.0	-100.0%
Total Other		-400.0	0.0	0.0	400.0	-100.0%
Grand Total		5,115,743.9	4,832,477.0	5,649,087.8	533,343.9	10.4%

U.S. AND NEW MEXICO ECONOMIC INDICATORS

By fiscal year ending June 30

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
	Preliminary	Dec. 2006	Dec. 2006	Dec. 2006	Dec. 2006	Dec. 2006
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
NATIONAL ECONOMIC INDICATORS						
US Real GDP Growth (% SAAR)	3.5	2.2	3.0	3.4	3.3	2.9
US Inflation Rate (CPI, %, SAAR)*	4.0	1.9	1.9	1.8	1.7	1.7
Overnight Yield (%)**	4.2	5.2	4.5	4.6	4.8	4.8
NEW MEXICO LABOR MARKET AND INCOME DATA						
New Mexico						
NM Non-Agricultural Employment Growth (%)	2.6	2.8	2.4	2.0	1.7	1.6
NM Personal Income Growth (%)***	6.0	7.1	5.9	5.6	5.6	5.4
NM Private Wages & Salaries Growth (%)	8.5	7.0	6.5	5.4	5.0	5.1
CRUDE OIL AND NATURAL GAS OUTLOOK						
Oil Price (\$/barrel) Gross Sales Value	\$59.00	\$61.00	\$61.00	\$61.00	\$60.00	\$60.00
Taxable Oil Sales (million barrels)	62.0	59.5	57.7	56.0	54.3	52.7
Gas Price (\$ per thousand cubic feet) Gross Value	\$7.46	\$6.20	\$6.30	\$5.90	\$5.70	\$5.50
Taxable Gas Sales (billion cubic feet)	1,510	1,535	1,520	1,504	1,489	1,475

*CPI is all Urban.

**Overnight Yield is Federal Funds Rate

***Personal Income growth rates are for calendar years.

Sources: November 2006 Global Insight, November 2006 FOR-UNM, Consensus Revenue Estimating Group.

GENERAL FUND CONSENSUS REVENUE ESTIMATES
(Dollars in Millions)

TABLE 3

	FY2006	FY2007			FY2008		FY2009	
	Preliminary Actual	Jan. 06 Est	Dec. 06 Est	% Change From FY06	Dec. 06 Est	% Change From FY07	Dec. 06 Est	% Change From FY08
Gross Receipts Tax	1,693.1	1,677.6	1,830.0	8.1%	1,945.3	6.3%	2,062.0	6.0%
Compensating Tax	51.8	52.8	60.0	15.8%	63.1	5.2%	76.3	20.9%
TOTAL GENERAL SALES	1,744.9	1,730.4	1,890.0	8.3%	2,008.4	6.3%	2,138.3	6.5%
Bed Tax	13.2	20.9	0.0	-100.0%	0.0	NA	0.0	NA
Tobacco Taxes	48.8	46.6	48.2	-1.2%	47.7	-1.0%	47.2	-1.0%
Liquor Excise	28.3	28.3	28.9	2.0%	29.5	2.0%	30.1	2.0%
Insurance Taxes	103.1	104.3	103.2	0.1%	103.8	0.6%	104.0	0.2%
Fire Protection Fund Reversion	20.3	27.9	20.7	2.1%	21.1	1.9%	21.5	1.9%
Motor Vehicle Excise	121.6	129.5	126.5	4.0%	131.5	4.0%	136.8	4.0%
Gaming Excise	61.9	63.8	66.3	7.1%	68.7	3.6%	70.6	2.8%
Leased Vehicle Surcharge	6.3	6.5	6.5	2.4%	6.6	1.5%	6.7	1.5%
Other	2.1	2.1	2.0	-4.8%	2.0	1.5%	2.1	1.5%
TOTAL SELECTIVE SALES	405.7	429.9	402.3	-0.8%	410.9	2.2%	418.9	1.9%
Personal Income Tax	1,126.6	1,065.0	1,138.0	1.0%	1,181.0	3.8%	1,228.0	4.0%
Corporate Income Tax	382.6	325.0	400.0	4.5%	400.0	0.0%	420.0	5.0%
Estate Tax	3.1	0.0	0.0	-100.0%	0.0	NA	0.0	NA
TOTAL INCOME TAXES	1,512.3	1,390.0	1,538.0	1.7%	1,581.0	2.8%	1,648.0	4.2%
Oil and Gas School Tax	491.6	399.0	415.3	-15.5%	413.3	-0.5%	386.8	-6.4%
Oil Conservation Tax	23.0	20.2	21.0	-8.7%	20.9	-0.5%	19.7	-5.7%
Resources Excise Tax	8.9	6.0	10.6	19.1%	10.1	-4.7%	9.8	-3.0%
Natural Gas Processors Tax	27.9	27.5	36.9	32.3%	33.0	-10.6%	30.8	-6.7%
TOTAL SEVERANCE TAXES	551.4	452.7	483.8	-12.3%	477.3	-1.3%	447.1	-6.3%
LICENSE FEES	48.2	45.8	49.7	3.1%	50.8	2.4%	51.9	2.0%
LGPF Interest	354.1	364.0	363.4	2.6%	387.5	6.6%	426.5	10.1%
STO Interest	59.7	70.0	108.7	82.1%	81.3	-25.2%	70.9	-12.8%
STPF Interest	171.8	171.5	171.0	-0.5%	176.8	3.4%	190.3	7.6%
TOTAL INTEREST	585.6	605.5	643.1	9.8%	645.6	0.4%	687.7	6.5%
Federal Mineral Leasing	556.4	459.2	500.0	-10.1%	503.0	0.6%	480.0	-4.6%
State Land Office	52.7	43.2	50.0	-5.1%	50.0	0.0%	47.0	-6.0%
TOTAL RENTS & ROYALTIES	609.1	502.4	550.0	-9.7%	553.0	0.5%	527.0	-4.7%
TRIBAL REVENUE SHARING	49.2	43.9	51.5	4.6%	54.0	4.9%	56.7	5.0%
MISCELLANEOUS RECEIPTS	30.7	25.8	29.6	-3.6%	30.1	1.7%	30.6	1.7%
TOBACCO SETTLEMENT	34.9	0.0	0.0	-100.0%	0.0	NA	0.0	NA
REVERSIONS	22.1	23.4	23.4	6.0%	24.8	5.9%	26.4	6.5%
TOTAL RECURRING	5,594.1	5,249.7	5,661.3	1.2%	5,836.0	3.1%	6,032.6	3.4%
Rev. from Accrual Accounting Change	NA	NA	NA	NA	NA	NA	NA	NA
Enhanced Audit (non-recurring)	0.0	0.0	0.0	NA	0.0	NA	0.0	NA
Non-Recurring Other	(95.2)	1.0	1.0	-101.1%	1.0	0.0%	2.0	100.0%
TOTAL NON-RECURRING ⁽²⁾	(95.2)	1.0	1.0	-101.1%	1.0	0.0%	2.0	100.0%
GRAND TOTAL	5,498.8	5,250.7	5,662.3	3.0%	5,837.0	3.1%	6,034.6	3.4%

GENERAL FUND FINANCIAL SUMMARY

(Dollars in Millions)

	Preliminary FY2006	Estimated FY2007	Estimated FY2008	
APPROPRIATION ACCOUNT				
REVENUE				
Recurring Revenue				
December 2006 Consensus Revenue Estimate	5,594.1	5,661.3	5,836.0	
Accelerate PIT cuts		(30.0)	(30.0)	
Other Revenue Changes			(75.0)	
Total Recurring Revenue	5,594.1	5,631.3	5,731.0	
Non-Recurring Revenue				
Other Non-Recurring Revenue	(95.2)	1.0	1.0	
Total Non-Recurring Revenue	(95.2)	1.0	1.0	FY08 New Money 592.8
TOTAL REVENUE	5,498.8	5,632.3	5,732.0	
APPROPRIATIONS				
Recurring Appropriations - General		5,115.1	5,649.1	
Recurring Appropriations - Other (2007) (1)			44.3	
Special and Supplemental (2007)		23.1	5.0	
Total Recurring Appropriations	4,753.8	5,138.1	5,698.4	
Non-Recurring Appropriations (2006)		69.0		
Special and Supplemental (2007)		166.8		
Information Technology (2007)		31.0		
Other Appropriations - Transfers (Water Trust Fund)		-	50.0	
Total Non-Recurring Appropriations	610.9	266.8	50.0	
TOTAL APPROPRIATIONS	5,364.7	5,404.9	5,748.4	
Transfer to Reserves	134.1	227.4	(16.4)	
GENERAL FUND RESERVES				
Beginning Balances	688.1	786.7	1,017.5	
Transfers in from Appropriations Account	134.1	227.4	(16.4)	
Revenue and Reversions	42.2	44.6	54.4	
Appropriations, expenditures and transfers out	(77.7)	(41.2)	(33.3)	
Ending Balances	786.7	1,017.5	1,022.2	
<i>Reserves as a Percent of Recurring Appropriations</i>	<i>16.5%</i>	<i>19.8%</i>	<i>17.9%</i>	Reserves over 10%: 503.7

Notes:

(1) \$44.3 million set aside for additional recurring appropriations.

GENERAL FUND FINANCIAL SUMMARY - RESERVE DETAIL

(Dollars in Millions)

	Preliminary	Estimated	Estimated
	FY2006	FY2007	FY2008
OPERATING RESERVE			
Beginning balance	330.1	350.8	380.3
Appropriations (1)	(1.8)	(1.5)	(1.5)
Transfers from/to appropriation account	134.1	227.4	(16.4)
Transfers to Tax Stabilization Reserve (2)	(111.7)	(196.4)	-
Ending balance	350.8	380.3	362.4
<i>Percent of previous fiscal year's recurring appropriations</i>	8%	8%	7%
APPROPRIATION CONTINGENCY FUND			
Beginning balance	147.6	106.6	85.0
Disaster allotments	(15.0)	(10.0)	(10.0)
Other expenditures (3)	(0.5)	(11.6)	-
Revenue and reversions	-	-	-
Education Lock Box (4)	(25.5)	-	-
Ending balance	106.6	85.0	75.0
TOBACCO PERMANENT FUND			
Beginning balance	77.3	84.6	111.1
Transfers in	34.9	36.2	43.5
Transfers out	(34.9)	(18.1)	(21.8)
Gains/Losses	7.3	8.4	10.9
Ending balance	84.6	111.1	143.7
TAX STABILIZATION RESERVE			
Beginning balance	133.0	244.7	285.2
Transfers in	111.7	196.4	-
Transfers to Taxpayers Dividend Fund (5)	-	(155.9)	-
Ending balance	244.7	285.2	285.2
<i>Percent of previous fiscal year's recurring appropriations</i>	5.6%	6.0%	5.6%
TAXPAYERS DIVIDEND FUND			
Beginning balance	-	-	155.9
Transfers from Tax Stabilization Reserve	-	155.9	-
Ending balance	-	155.9	155.9
GENERAL FUND ENDING BALANCES	786.7	1,017.5	1,022.2
<i>Percent of Recurring Appropriations</i>	<i>16.5%</i>	<i>19.8%</i>	<i>17.9%</i>

Notes:

- (1) FY07 includes \$1.5 million for Board of Finance emergencies.
- (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.
- (3) FY06 includes \$525 thousand for criminal background checks. FY07 includes \$9 million contingency for Pecos River settlement, \$1.9 million for SF Community College and \$700 thousand for expanding Roswell air service.
- (4) \$79.8 million remains in the education lock box.
- (5) 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.

Revised 1/12/07

TABLE 5

Public Employee Compensation FY08

	1% Total Cost FY08	General Fund Share	1% General Fund Cost	LFC Proposed Increase	LFC General Fund Impact
STATE AGENCIES					
Legislative:					
Legislative employees	106,005	100.0%	106,005	5.0	530,025
Judicial:					
Justices and judges	150,620	100.0%	150,620	5.0	753,100
Judicial employees	771,883	100.0%	771,883	5.0	3,859,415
Magistrate judges	54,192	100.0%	54,192	5.0	270,960
District attorneys	17,210	100.0%	17,210	5.0	86,050
District attorney employees	459,290	100.0%	459,290	5.0	2,296,450
Total Judicial	1,453,195		1,453,195		7,265,975
Executive:					
Executive classified:					
Classified employee groups	9,254,782	54.0%	4,997,582	5.0	24,987,911
Motor transportation officers	74,700	20.0%	14,940	5.0	74,700
Special investigation officers	19,200	100.0%	19,200	5.0	96,000
Subtotal executive classified	9,348,682		5,031,722		25,158,611
Executive nonclassified:					
Executive exempt	621,713	68.8%	427,739	5.0	2,138,693
Executive Exempt Teachers:					
Children, Youth and Families	36,197	68.8%	24,904	4.25	105,840
School for the Blind	7,265	68.8%	4,998	4.25	-
Department of Health	5,382	68.8%	3,703	4.25	15,737
Corrections Department	53,955	68.8%	37,121	4.25	157,764
3rd tier raise to 50k					9,206
Executive exempt teachers	102,799	68.8%	70,726		288,547
State police	355,700	88.0%	313,016	5.0	1,565,080
Subtotal executive nonclassified	1,080,212		811,480		3,992,320
Total Executive	10,428,894		5,843,203		29,150,932
Total State Agencies	11,988,094		7,402,403		36,946,932
PUBLIC SCHOOLS					
Teachers	11,607,993	100.0%	11,607,993	4.25	49,333,970
Other instructional staff	1,848,113	100.0%	1,848,113	4.25	7,854,480
All other school employees	4,663,130	100.0%	4,663,130	4.25	19,818,303
Transportation employees	453,190	100.0%	453,190	4.25	1,926,058
Total Direct Compensation Public Schools	18,572,426		18,572,426		78,932,811
HIGHER EDUCATION					
Faculty	3,486,824	100.0%	3,486,824	4.25	14,819,002
Staff (includes ABE)	4,817,271	100.0%	4,817,271	4.25	20,473,402
Total Higher Education	8,304,095		8,304,095		35,292,404
TOTAL DIRECT COMPENSATION ALL PUBLIC EMPLOYEES					
	38,864,615		34,278,924		151,172,146

Public Employee Compensation FY08

	1% Total Cost FY08	General Fund Share	1% General Fund Cost	LFC Proposed Increase	LFC General Fund Impact
ADDITIONAL SPECIAL DIRECT COMPENSATION RECOMMENDATIONS (SECTION 8)					
District Attorney staff attorneys	226,400	100.0%	226,400	5.0	1,132,000
Public Defender staff attorneys	119,000	100.0%	119,000	5.0	595,000
Correctional Officers	551,400	100.0%	551,400	5.0	2,757,000
Probation and Parole Officers (Corrections)	180,050	100.0%	180,050	7.0	1,260,350
Librarians, Librarian Assts, Librarian Techs (Cultural Affiars)	15,400	100.0%	15,400	5.0	77,000
Juvenile Correctional Officers	227,942	100.0%	227,942	5.0	1,139,710
Total Special Compensation Recommendation	1,320,192		1,320,192		6,961,060
ADDITIONAL SPECIAL EDUCATION COMPENSATION RECOMMENDATIONS (SECTION 4)					
Teacher 3rd tier raise to 50k (Public Ed)					10,739,100
Total Special Education Compensation Recommendation					10,739,100
ADDITIONAL SPECIAL BENEFITS RECOMMENDATIONS (SECTION 4)					
Executive Exempt Teachers					
ERB (% of direct pay) 2008 advance				0.75	53,044
					-
Public Education Benefit Adjustment					
Accelerated ERB 2009				0.75	14,506,800
ERB (% of direct pay) 2008				0.75	14,506,800
Subtotal Public Schools benefits					29,013,600
Higher Education Benefit Adjustment					
Accelerated ERB 2009				0.75	6,000,050
ERB (% of direct pay) 2008				0.75	6,000,050
Subtotal higher Education Benefits					12,000,100
Total Special Benefits Recommendation					41,013,700
TOTAL COMPENSATION RECOMMENDATION (direct and indirect)					209,886,006

TABLE 6

2007 Legislative 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/NEW INITIATIVES APPROPRIATIONS						
111	Legislative Council Service	Reauthorization language to extend \$500 thousand appropriation for the public school funding formula study task force. (Laws 2006, Chapter 109, Section 5, Subsection 1)	-	-	-	-
117	Legislative Education Study Committee	For American diploma project costs.	75.0	-	-	-
253	Third Judicial District Attorney	For purchase of two vehicles.	40.0	-	-	-
308	Office of the Attorney General	For technical and legal work relating to interstate water conflicts.	4,000.0	-	2,000.0	-
341	Department of Finance and Administration	For matching funds for community youth mentoring.	2,000.0	-	-	-
341	Department of Finance and Administration	For the national youth Arabian show.	500.0	-	-	-
341	Department of Finance and Administration	For regional housing agreements with the mortgage finance authority.	2,250.0	-	-	-
341	Department of Finance and Administration	For county detention of prisoners in fiscal year 2008, contingent on passage of legislation.	-	-	5,000.0	-
341	Department of Finance and Administration	For Roswell air service, with contingency for another \$700 thousand from the ACF.	-	-	500.0	-
350	General Services Department	To increase the appropriation made from the property control reserve fund to the capital program fund to relocate state agencies currently housed in the La Villa Rivera building and Marian Hall for interim lease costs and relocation for the public regulation commission.	-	-	-	-
369	Commission of Public Records	For the New Mexico digital history project.	500.0	-	-	-
394	State Treasurer	For replacement of office furniture and equipment.	195.0	-	195.0	-
418	Tourism Department	For an advertising market expansion program.	5,000.0	-	-	-
418	Tourism Department	For the New Mexico Bowl.	600.0	-	-	-
418	Tourism Department	For a Rose Bowl marketing campaign.	250.0	-	-	-
418	Tourism Department	For a New Mexico to Chihuahua off-road race.	400.0	-	-	-
418	Tourism Department	For a marketing study for New Mexico magazine.	100.0	-	-	-
419	Economic Development Department	To the development training fund for the job training incentive program.	20,000.0	-	9,000.0	-
419	Economic Development Department	For a business incubator competitive grant program.	250.0	-	-	-
419	Economic Development Department	For a Native American economic development specialist.	50.0	-	-	-
419	Economic Development Department	To promote New Mexico's arts and cultural related industries and entrepreneurs.	1,000.0	-	-	-
419	Economic Development Department	For the Association of Film Commissioners International annual conference.	100.0	-	-	-
419	Economic Development Department	For the New Mexico-Chihuahua Commission.	70.0	-	-	-
420	Regulation and Licensing Department	For staff and hardware for e-licensing.	-	346.0	-	-
430	Public Regulation Commission	For cohesive integration of agency rulemaking.	50.0	-	50.0	-
430	Public Regulation Commission	For title insurance litigation.	125.0	-	-	-
430	Public Regulation Commission	For unforeseen litigation expenses with contingency.	100.0	-	-	-
430	Public Regulation Commission	For replacement of a pump system at the firefighting training academy.	-	140.0	-	140.0
430	Public Regulation Commission	For information technology systems, software and facilities.	206.5	53.5	-	-
491	Office of Military Base Planning and Support	For a strategic plan for New Mexico military installations.	100.0	-	-	-
505	Department of Cultural Affairs	For moving expenses of the New Mexico history museum.	225.0	-	-	-
505	Department of Cultural Affairs	For historic rock art documentation.	20.0	-	-	-
505	Department of Cultural Affairs	For per diem and mileage of historic properties commissions.	100.0	-	-	-
505	Department of Cultural Affairs	For the historic preservation loan fund.	500.0	-	-	-
505	Department of Cultural Affairs	For museum market research and planning.	48.0	-	-	-
505	Department of Cultural Affairs	For marketing of the New Mexico history museum.	300.0	-	-	-
505	Department of Cultural Affairs	For historic document retention systems.	80.0	-	-	-
505	Department of Cultural Affairs	For planning of the 2012 New Mexico centennial celebration.	250.0	-	-	-
521	Energy, Minerals and Natural Resources Department	For vehicle replacement.	1,207.8	-	-	-
521	Energy, Minerals and Natural Resources Department	For a business plan for the state parks division.	185.0	-	-	-
521	Energy, Minerals and Natural Resources Department	For the New Mexico outdoor classroom initiative.	500.0	-	-	-
521	Energy, Minerals and Natural Resources Department	For debt retirement on loans for construction of Bramley Lake State Park.	1,136.1	-	1,136.1	-
539	State Land Office	For asset inventory, forest health and remediation projects for state trusts lands and royalty recovery litigation.	-	500.0	-	-

2007 Legislative 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
539	State Land Office	To reauthorize language to re-purchase the two remaining royalty interest (Laws of 2005, Chapter 33 Section 5).	-	-	-	-
550	Office of the State Engineer	For two term FTE and for contractual services related to the New Mexico state water plan.	770.0	-	-	-
550	Office of the State Engineer	To support technical and legal work relating to interstate water conflicts.	4,000.0	-	-	-
550	Office of the State Engineer	To expand a existing cloud seeding program.	40.0	-	-	-
550	Office of the State Engineer	To meet federal environmental mandates for identifying additional water supply.	500.0	-	-	-
601	Commission on the Status of Women	To host the 2008 National Association of Commission for Women meeting.	14.0	-	-	-
603	Office of African American Affairs	To upgrade three computers.	5.0	-	5.0	-
603	Office of African American Affairs	For an African American leadership conference.	31.0	-	-	-
624	Aging and Long Term Services Department	For demographic projections of the aging population in New Mexico.	250.0	-	-	-
624	Aging and Long Term Services Department	To reduce the waiting list, currently 50, in the GAP program.	250.0	-	-	-
630	Human Services Department	To meet federal payment reduction in the food stamp program.	1,350.0	-	1,350.0	-
630	Human Services Department	For information technology systems related to changes in the federal temporary assistance for needy families program.	402.5	728.9	402.5	728.9
630	Human Services Department	For the low income heating assistance program for fiscal year 2007.	-	-	2,000.0	-
632	Workers Compensation Administration	To fund three studies.	-	975.0	-	-
665	Department of Health	For obesity reduction programs.	1,000.0	-	-	-
665	Department of Health	To renew contract with youth dance program.	500.0	-	-	-
667	Environment Department	For replacement of federal funds in the clean water state revolving loan fund	239.8	-	200.0	-
667	Environment Department	For information technology infrastructure, software and training.	95.0	-	95.0	-
667	Environment Department	For water quality monitoring on the lower Rio Grande.	437.0	-	-	-
667	Environment Department	For cleanup agreement of the Terrero Mine site.	618.0	-	618.0	-
668	Office of Natural Resources Trustee	For creation of a revolving fund for natural resource damage assessments.	500.0	-	500.0	-
770	Corrections Department	For construction of a correctional officers memorial.	50.0	-	-	-
770	Corrections Department	For Community Reparative Panel Training.	50.0	-	-	-
770	Corrections Department	For an active parent training program.	50.0	-	-	-
770	Corrections Department	For Domestic Violence - MRT and TruThought Training.	14.0	-	-	-
770	Corrections Department	For Print Shop Move.	60.0	-	60.0	-
770	Corrections Department	Springer Start-up Costs for Corrections Industries.	210.0	-	210.0	-
770	Corrections Department	For Buildings, Maintenance and Equipment.	915.5	-	915.5	-
770	Corrections Department	For video conferencing telecommunications.	705.4	-	705.4	-
790	Department of Public Safety	For software licensing and computer maintenance agreements.	272.0	-	-	-
790	Department of Public Safety	For desktop computer replacement.	269.0	-	-	-
790	Department of Public Safety	For rewire of state police district offices statewide.	850.0	-	850.0	-
924	Public Education Department	For digital video recording.	1,100.0	-	1,100.0	-
924	Public Education Department	For assessment and test development.	1,000.0	-	-	-
924	Public Education Department	For bullying prevention.	500.0	-	-	-
924	Public Education Department	For computer based math and on-demand student and classroom information access.	1,000.0	-	-	-
924	Public Education Department	For dance programs in Albuquerque.	200.0	-	-	-
924	Public Education Department	For emergency supplemental distributions.	5,000.0	-	-	-
924	Public Education Department	For installing global positioning systems on school buses.	2,600.0	-	-	-
924	Public Education Department	For installing security cameras on school buses.	2,000.0	-	-	-
924	Public Education Department	For New Mexico executive educator turnaround specialists.	1,500.0	-	-	-
924	Public Education Department	For parental training and involvement and a domestic violence curriculum.	1,000.0	-	-	-
924	Public Education Department	For prekindergarten start-up.	7,500.0	-	-	-
924	Public Education Department	For rural education community revitalization.	2,000.0	-	-	-
924	Public Education Department	For school improvement framework.	7,500.0	-	-	-
924	Public Education Department	For school to careers and dropout prevention.	250.0	-	-	-
924	Public Education Department	For science and supercomputing.	470.0	-	-	-

TABLE 6

**2007 Legislative 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
924	Public Education Department	For science teacher resources.	1,666.5	-	-	-
924	Public Education Department	For summer camp program in Santa Fe.	350.0	-	-	-
924	Public Education Department	For supplemental support of school districts experiencing shortfalls in operating budgets.	-	-	6,300.0	-
924	Public Education Department	For supplemental support to schools experiencing operational shortfalls and targeted for closing while a new funding formula is developed.	-	-	3,000.0	-
924	Public Education Department	For Teach for America.	500.0	-	-	-
924	Public Education Department	For the uniform chart of accounts.	4,257.6	-	-	-
924	Public Education Department	For transfer to the state equalization guarantee to offset reductions in federal impact aid credits.	2,000.0	-	2,000.0	-
924	Public Education Department	For transfer to the state support reserve fund.	1,500.0	-	-	-
924	Public Education Department	For transfer to the teacher professional development fund.	2,000.0	-	-	-
924	Public Education Department	For truancy and dropout prevention.	-	-	-	-
950	Higher Education Department	For the college affordability act.	50,000.0	-	50,000.0	-
950	Higher Education Department	For the New Mexico faculty endowment fund.	10,000.0	-	25,000.0	-
950	Higher Education Department	For capital equipment, supplies and expansion for the career technical vocation education program.	10,000.0	-	-	-
950	Higher Education Department	For capital renewal and infrastructure renovation statewide.	20,000.0	-	-	-
950	Higher Education Department	For a higher education marketing and communications campaign.	3,200.0	-	-	-
950	Higher Education Department	For English as a second language program.	1,000.0	-	-	-
950	Higher Education Department	To reduce New Mexico student remediation rates.	1,000.0	-	-	-
950	Higher Education Department	For phased funding of a dual credit program with PED.	10,000.0	-	-	-
950	Higher Education Department	For higher education institutions to be held harmless from formula funding reductions.	-	-	2,668.4	-
950	Higher Education Department	For the HED performance fund.	-	-	2,000.0	-
950	Higher Education Department	For backlog of deferred maintenance.	-	-	43,000.0	-
952	University of New Mexico	For UNM HSC for medical equipment related to cancer research.	-	-	-	2,200.0
952	University of New Mexico	For Lovelace Respiratory Research Institute.	-	-	-	1,000.0
952	University of New Mexico	For UNM Gallup nursing.	-	-	118.0	-
SPECIAL/NEW INITIATIVE TOTAL			208,055.7	2,743.4	160,978.9	4,068.9
SUPPLEMENTAL APPROPRIATIONS:						
252	Second Judicial District Attorney	For expert witness and transcription fees.	40.0	-	-	-
260	Tenth Judicial District Attorney	To pay Risk Management for Civil Rights.	26.8	-	26.8	-
333	Taxation and Revenue Department	For general services department rate increases.	627.3	-	627.3	-
333	Taxation and Revenue Department	For the tri-agency data transfer project.	230.0	-	-	-
333	Taxation and Revenue Department	For upgrade of the Gen Tax maintenance agreement.	430.5	-	430.5	-
369	Commission on Public Records	For fine arts insurance coverage.	87.0	-	87.0	-
370	Secretary of State	For costs associated with the 2006 general election.	2,200.0	-	1,825.0	-
370	Secretary of State	For unexpected upgrades to HAVA compliant voting machines and software for the 2006 election.	800.0	-	-	-
394	State Treasurer	For costs of continuing to operate TRACs system.	160.0	-	-	-
418	Tourism Department	For sponsorship of the New Mexico Bowl.	300.0	-	-	-
505	Department of Cultural Affairs	For utilities costs at the New Mexico museum of space history.	70.0	-	-	-
505	Department of Cultural Affairs	For the replacement of hardware and software utilized for the New Mexico cultural resources information system.	100.0	-	-	-
505	Department of Cultural Affairs	For operating costs of the farm ranch heritage museum.	81.6	-	-	-
505	Department of Cultural Affairs	For the van of enchantment.	300.0	-	-	-
508	New Mexico Livestock Board	For personal services and employee benefits shortfall.	21.9	-	-	-
508	New Mexico Livestock Board	For inspection of animal cruelty.	50.0	-	-	-
605	Martin Luther King Jr. Commission	For costs associated with the Martin Luther King Jr. Youth Conference.	14.4	-	14.4	-
630	Human Services Department	For additional caseload in the general assistance program.	773.7	480.4	773.7	480.4

2007 Legislative Session
Special, Supplemental, and Deficiency Appropriation Requests
(dollars in thousands)

TABLE 6

Code	Agency	Description	Agency Request		LFC Recommendation	
			General Fund	Other Funds/Federal Funds	General Fund	Other Funds/Federal Funds
631	Labor Department	For compensation increases provided for in the Laws of 2006.	1,035.0	-	500.0	-
647	Developmental Disabilities Planning Council	For attorney and guardianship services.	1,965.1	-	-	-
665	Department of Health	For costs associated with replenishing receivership funding.	750.0	-	750.0	-
665	Department of Health	For shortfalls in the developmental disabilities waiver program .	14,400.0	-	5,800.0	-
665	Department of Health	For purchase of anti viral medication for pandemic flu.	2,800.0	-	2,800.0	-
690	Children, Youth and Families	For replacement of federal funds in the protective service program, with contingency.	6,100.0	-	4,100.0	-
690	Children, Youth and Families	For foster care and adoption subsidy.	500.0	-	-	-
690	Children, Youth and Families	For salaries and benefits and costs associated with transition of New Mexico boys school.	1,700.0	-	1,700.0	-
770	Department of Corrections	For inmate population growth and medical care.	6,690.0	-	4,700.0	-
770	Department of Corrections	For inmate population growth, food and other shortages.	1,410.5	-	-	-
770	Department of Corrections	For fuel and utilities statewide.	1,860.7	-	-	-
770	Department of Corrections	To replace unrealized land income revenue.	902.7	-	902.7	-
924	Public Education Department	For salaries and other operating costs.	2,962.0	-	-	-
924	Public Education Department	For specialized legal services.	120.0	-	120.0	-
980	New Mexico School for the Deaf	For a shortfall in providing minimum salaries for 3-A teachers.	17.5	-	-	-
SUPPLEMENTAL TOTAL			49,526.7	480.4	25,157.4	480.4
DEFICIENCY APPROPRIATIONS:						
234	Fourth Judicial District	For a shortfall from overspending revenue from tape and copy duplication.	2.9	-	2.9	-
394	State Treasurer	For unanticipated FY05 audit costs and prior year GSD debt.	38.5	-	38.5	-
469	Racing Commission	For a shortfall in personal services and employee benefits carried over from fiscal year 2005.	22.3	-	22.3	-
605	Martin Luther King Jr. Commission	For costs associated with the Martin Luther King Jr. youth conference.	14.8	-	14.8	-
665	Department of Health	For shortfalls in the developmental disabilities waiver program.	-	-	8,600.0	-
DEFICIENCY TOTAL			78.5	-	8,678.5	-
SPECIAL/NEW INITIATIVE, SUPPLEMENTAL & DEFICIENCY TOTAL			257,660.9	3,223.8	194,814.8	4,549.3

TABLE 7

INFORMATION TECHNOLOGY PRELIMINARY RECOMMENDATIONS - FY08
(in thousands)

System Replacement/Enhancements		System Description	Agency Request			LFC Recommendations				
Code	Agency		GF	OSF	FF	Total	GF	OSF	FF	Total
218	Administrative Office of Courts	Case Management System Replacement	7,100.0			7,100.0	6,000.0		6,000.0	
218	Administrative Office of Courts	Enterprise Content Management	1,817.4			1,817.4	1,600.0		1,600.0	
333	Taxation and Revenue Department	MVD Driver Application Replacement and Point of Sale	15,200.0	2,640.0		17,840.0	10,000.0	2,640.0	12,640.0	
333	Taxation and Revenue Department	Tri-Agency Web-File Tax Data Transfer Upgrade	1,100.0			1,100.0	1,000.0		1,000.0	
333	Taxation and Revenue Department	ONGARD Replacement Planning	500.0			500.0	500.0		500.0	
350	General Services Department	Wire New Mexico	6,000.0			6,000.0	5,500.0		5,500.0	
350	General Services Department	Risk Management Claims Management, Medical Benefits Data Warehouse, and Content Management		1,300.0		1,300.0		2,300.0	2,300.0	
350	General Services Department	Consolidation Infrastructure	9,000.0			9,000.0	1,000.0		1,000.0	
361	Office of the Chief Information Officer	Innovative Digital Education and Learning in NM	10,749.0			10,749.0	500.0		500.0	
420	Regulation and Licensing Department	License 2000 Enhancement for Real Estate Commission		117.4		117.4		117.4	117.4	
505	Department of Cultural Affairs	New Mexico Cultural Resource Information System Replacement	504.0		7.5	511.5			0.0	
550	Office of the State Engineer	WATERS Business Process and System Reengineering	1,200.0			1,200.0	300.0		300.0	
624	Department	Adult Protective Services System	600.0			600.0	600.0		600.0	
630	Human Services Department ⁽¹⁾	Enterprise Content Management	3,270.0	1,000.0	800.0	5,070.0			0.0	
630	Human Services Department	Enterprise Social Services Eligibility System	3,500.0			3,500.0			0.0	
630	Human Services Department	Income Support Division System Replacement	1,700.0		3,300.0	5,000.0			0.0	
630	Human Services Department	Behavioral Health Data Warehouse	671.1			671.1			0.0	
690	Children, Youth and Families Department	Service Oriented Architecture Web Consolidation	1,354.3			1,354.3			0.0	
790	Department of Public Safety	AFIS Photo Lineup Software and Hardware	140.0			140.0			0.0	
790	Department of Public Safety	New Mexico Law Enforcement Telecommunication System Replacement	3,300.0			3,300.0	3,000.0		3,000.0	
924	Public Education Department	Student Teacher Accounting and Reporting System	6,350.0			6,350.0	1,000.0		1,000.0	
950	Higher Education Department	Student Data Sharing System P-20	2,000.0			2,000.0			0.0	
950	Higher Education Department	Banner Statewide System							0.0	
954	New Mexico State University	Wire New Mexico	5,000.0			5,000.0			0.0	
964	Northern New Mexico Community College	Training for Banner 7 Upgrade and Disaster Recovery	200.0			200.0			0.0	
962	New Mexico Institute of Mining and Technology	Banner 7 Upgrade and Mirror Site	260.5			260.5			0.0	
977	Clovis Community College	Banner Management Information System	1,625.4			1,625.4			0.0	
Total System Enhancements or Replacements			83,141.7	5,057.4	4,107.5	92,306.6	31,000.0	5,057.4	0.0	36,057.4

(1) HSD request for Enterprise Content Management includes: TRD \$300.0; SEO \$600.0; SCRA \$1200.0; GSD/RMD \$1100.0; DPS \$200.0; DOC \$270.0.

Examples of Tax Expenditures

Tax	Item	Cost (\$M)*	Calculation	Why is it a tax expenditure?
Gross Receipts/Selective Sales	Insurance Premium Tax	\$ 24.40	Difference between GRT and tax; Local impact	Item that is not in GRT base and subject to lower rate
	Rural Job Tax Credit	\$ 0.19	Amount of Credit	Credit against GRT, Compensating or Withholding
	Laboratory Partnership with Small Business Tax Credit	\$ 1.45	Amount of Credit	Credit against GRT.
	Interstate Telecommunications Gross Receipts Tax	NA	Difference between GRT and tax; Local impact	Item that is not in GRT base and subject to lower rate
	Stadium Charge	NA	Amount that would have been collected.	Exemption from Governmental Gross Receipts Tax.
	Gross Receipts Tax Holiday	\$ 2.00	TGR for period multiplied by tax rate	Exemption from GRT
	Motor Vehicle Excise Tax	\$ 28.90	Difference between GRT and tax; Local impact	Item that is not in GRT base and subject to lower rate
	Railroad Private Car Tax	\$ 0.02	Difference between property tax and this tax; local option	This may or may not result in lower tax;
	Oil/Gas Pipelines	NA	Amount that would have been collected.	Exemption from the Utilities and Carrier Inspection Fee
	Food and Medical Services Deductions	\$ 40.00	Amount of deduction multiplied by the state rate	Deductions from GRT
	Uranium Enrichment Plant Equipment Compensating Tax Deduction	NA	Amount of deduction multiplied by the state rate	Deduction from GRT
	Uranium Enrichment Gross Receipts Deduction	NA	Amount of deduction multiplied by the state rate	Deduction from GRT
	Industrial Revenue Bonds	NA	Value of equipment imported multiplied by compensating tax rate	Exemption from compensating tax
	Hired car/bus/airplane	NA	Amount that would have been collected.	Exemption from the Utilities and Carrier Inspection Fee
	Bingo/Raffle Tax	\$ 0.04	Difference between GRT and tax; Local impact	Item that is not in GRT base and subject to lower rate
	Corporate Income Tax	Double-weighted sales apportionment for Corporate Income Tax	NA	Difference of using the single weighted sales factor and the double.
CIT: Insurance Companies, pensions, S-corporations and non-profit corporations are exempt		NA	Amount that would have been collected.	Exemption from CIT
Film Production Credit		\$ 6.57	Amount of Credit	Credit against the CIT
Welfare-to-work		\$ 0.23	Amount of Credit	Credit against the CIT
Corporate provided child care		NA	Amount of Credit	Credit against the CIT
Cultural Property Preservation		NA	Amount of Credit	Credit against the CIT
Qualified Business Facility Rehabilitation		NA	Amount of Credit	Credit against the CIT
Renewable energy production		NA	Amount of Credit	Credit against the CIT
Personal Income Tax	Affordable Housing Production	NA	Amount of Credit	Credit against the CIT
	Low Income Comprehensive Tax Rebate	\$ 25.61	Amount of Credit	Credit against the PIT
	Personal Exemption	NA	Amount of Exemption * Marginal tax rate	Exempted from the PIT
	Child Daycare Credit	\$ 1.89	Amount of Credit	Credit against the PIT
	Property Tax Rebate	\$ 3.98	Amount of Credit	Credit against the PIT
	Film Production Credit	\$ 0.00	Amount of Credit	Credit against the PIT
	Welfare-to-work	\$ 0.01	Amount of Credit	Credit against the PIT
	Corporate provided child care	NA	Amount of Credit	Credit against the PIT
	Cultural Property Preservation	\$ 0.20	Amount of Credit	Credit against the PIT
	Qualified Business Facility Rehabilitation	\$ 0.01	Amount of Credit	Credit against the PIT
	Renewable energy production	NA	Amount of Credit	Credit against the PIT
	Affordable Housing Production	NA	Amount of Credit	Credit against the PIT
	Technology Jobs Credit	\$ 0.05		
Rural Job Tax Credit	\$ 0.00	Amount of Credit	Credit against the PIT	
Property Tax	Elk Hunting Assessment	NA	Difference from Commercial Assessment	Property assessed at agricultural rate rather than commercial rate
	Industrial Revenue Bonds	NA	Estimated assessed value * property tax rate	Exemption from property tax
	Veteran's Exemption	NA	\$3,500 exemption from assessed value	Decreases assessed value
	Head of household exemption	NA	\$2,000 exemption from assessed value	Decreases assessed value
	Valuation Freeze (Low income elderly and disabled)	NA	Growth in value of property multiplied by property tax rate	Frozen assessed value

* Estimates of cost were derived from existing fiscal impact reports and other LFC files and analysis.