State of New Mexico

Report of the Legislative Finance Committee to the Forty-Ninth Legislature First Session

January 2009
For Fiscal Year 2010

Volume I

Legislating for Results:
policy and performance analysis

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January 20, 2009

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

Dear Fellow Legislators:

Pursuant to Section 2-5-4 NMSA 1978, the fiscal year 2010 budget recommendation of the Legislative Finance Committee is provided to you. The committee recommendation for recurring appropriations from the general fund is $5.88 billion, a 2.4 percent decrease from the FY09 appropriated level. Even with program cuts, general fund spending will exceed the expected general fund revenue of $5.73 billion, necessitating a recommended $94 million transfer from reserves among other steps to increase the amount of available revenue. It is only through an intensive review of state finances that the committee was able to develop a plan that can preserve the state's most critical services in the face of the severe economic downturn.

For the last few years, soaring tax revenues from the energy industry have masked weakening revenues from broad-based sales and income taxes. But those weaknesses were dramatically unmasked over the last six months: The expected FY09 surplus that fueled the summer's bonus spending became a $250 million deficit in October that grew to more than $450 million in December 2008. The $6.2 billion in the December 2007 general fund revenue forecast for FY10 was down 5.5 percent a year later. Current forecasts, based on ever-worsening economic indicators, suggest state revenues will not return to FY08 levels until FY12. Clearly, the budget decisions made this year are critical – not just for this year and next, but for many years to come.

The committee's recommendation continues to emphasize public education and access to health care. The 1.5 percent proposed cut to public school support reflects an expected drop in units and not substantial reductions in funding for pre-kindergarten, early elementary education, elementary physical education, or other vital programs. With funding for the states' colleges, education would continue to represent 58 percent of the state's general fund spending. As with public schools, the committee recommendation, while a reduction from FY09 spending, would preserve the programs that most directly serve students.

While the general fund appropriation for human services programs would also drop, savings in administration and overhead costs and more diligent leveraging of federal matching funds would ensure sufficient resources to grow Medicaid healthcare coverage and provide cash assistance to the poorest New Mexico families. The recommendation also reduces spending for health programs but supports the agency's priority of facility management and the Legislature's priority of services to the developmentally disabled.

I would like to thank the membership of the Legislative Finance Committee for their hard work on behalf of the people of New Mexico and the LFC staff for its thoughtfulness and diligence on this very difficult task. Together, we have prepared a responsible budget that protects the most vulnerable New Mexicans.

Sincerely,

John Arthur Smith

Senator John Arthur Smith
Chairman

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

VOLUME I LEGISLATING FOR RESULTS: POLICY AND PERFORMANCE ANALYSIS

JANUARY 2009 FOR FISCAL YEAR 2010

SENATOR
JOHN ARTHUR SMITH
CHAIRMAN

REPRESENTATIVE
LUCIANO "LUCKY" VARELA
VICE CHAIRMAN

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DIRECTOR

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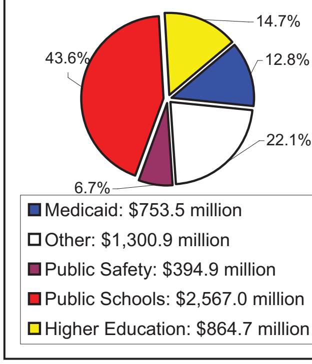
Due to volatility in energy-related revenues, New Mexico has gone from an era of surpluses to a projected deficit in FY09. Absent action by the Legislature, projected revenues will no longer cover appropriations. While the state has reserves and Section 6-4-6 NMSA 1978 allows interfund transfers within the treasury to the general fund, those transfers are only allowed when there is an expectation of repayment. Given the current economic environment and the projected FY09 deficit, there is not a reasonable expectation of repayment by the general fund to any of the reserve funds. Additionally, the General Appropriation Act of 2008 specifies that the Department of Finance and Administration (DFA), in the event of a projected deficit in the general appropriations fund, must develop and present a spending reduction plan to the Legislative Finance Committee (LFC). In response to the governor's order to reduce spending by 5 percent, state agencies and DFA developed preliminary spending cut recommendations, including reducing contracts, forgoing nonessential items, and using cash balances. To expedite the planning process, LFC directed staff to develop legislation to ensure solvency for FY09 following a three-pronged strategy:

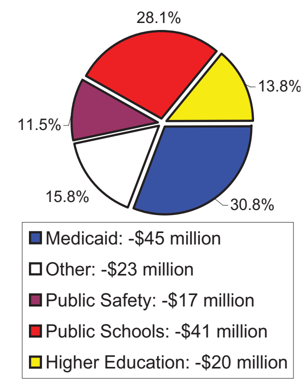
1. One-time transfers and revenue enhancements with a target of improving revenues by $220 million,
2. Expenditure adjustments with a target of reducing spending by $137.5 million,
3. Capital outlay reauthorization with a target of freeing up $150 million.

This solvency plan manages the deficit without severe cuts in services or tax increases and, recognizing the economy and fiscal outlook remain volatile and uncertain, still leaves a 10 percent general fund reserve at the end of FY09.

FY10 Recurring General Fund Appropriation Recommendation: $5.88 billion



General Fund Expenditure Decreases: $146 million



Fiscal Year 2010 Appropriation Recommendation. The LFC FY10 budget recommendation would cut spending from FY09 levels by $145.6 million, or 2.4 percent, requiring a transfer from reserves of $94 million. LFC developed the FY10 budget to avoid the drastic cuts in services seen in other states. Following committee guidelines, education and health care remain priorities.

To achieve the spending reductions while maintaining services, the committee recommendation targets savings in contracts and personnel, especially among exempt administrative FTE. Agencies would have to maintain FY09 vacancy rates and eliminate positions that have been vacant for long periods of time. The recommendation uses both targeted and across-the-board reductions in contractual services spending, eliminating some contracts and reducing spending on others.

Fiscal Year 2009 Operating Budget Reconciliation. After the 2008 legislative session, LFC classified $20.4 million of spending in Laws 2008, Chapter 6 (the "junior" appropriation bill), as recurring appropriations as indicated in the *2008 Post-Session Fiscal Review* general fund financial summary report. Prior to submission of operating budgets and during the 2008 interim, DFA classified $11.9

million appropriated in the bill as recurring and directed agencies to adjust operating budgets accordingly. The difference between the classification of recurring appropriations by DFA and LFC in the junior appropriation bill results in a decrease of $8.5 million from the FY09 recurring base. The section below is a high-level reconciliation, beginning with FY09 appropriations and FY09 adjustments and ending with the final FY09 operating budget.

FY09 Recurring Operating Budget:	
Appropriations (in thousands)	**$ 5,999,322.3**
Chapter 1, Feed Bill (House Bill 1)	15,552.2
Chapter 6, Junior Approps. (Senate Bill 165)	20,376.4
Total Appropriations	6,035,250.9
DFA Adjustments to FY09 OPBUD:	
SB165 LFC booked recurring - DFA booked nonrecurring	(8,434.8)
Total Adjustments	(8,434.8)
Total Operating Budget	**$ 6,026,816.1**

Highlights. The FY10 budget recommendations are summarized below.

FY10 General Fund Recommendation Compared with FY09 Operating Budget
(dollars in thousands)

Category	FY09 Operating Budget	FY10 Requests	FY10 Recomm	Dollar Change	Percent Change
Legislative	20,138.5	20,437.3	19,738.4	(400.1)	-2.0%
Judicial	217,927.9	241,888.2	215,193.7	(2,734.2)	-1.3%
General Control	205,295.0	233,993.2	204,742.5	(552.5)	-0.3%
Commerce & Industry	61,735.0	78,868.8	60,198.2	(1,536.8)	-2.5%
Energy, Agriculture & Natural Res	90,529.2	110,228.2	84,248.3	(6,280.9)	-6.9%
Health, Hospitals & Human Svcs	1,526,696.2	1,694,251.3	1,470,275.9	(56,420.3)	-3.7%
Public Safety	411,584.6	438,454.0	394,857.3	(16,727.3)	-4.1%
Transportation	-	1,500.0	-	-	0.0%
Other Education	57,052.7	70,752.7	53,920.5	(3,132.2)	-5.5%
Higher Education *	884,845.5	57,732.8	864,703.1	(20,142.4)	-2.3%
Public Education	2,551,011.5	2,597,266.7	2,513,107.8	(37,903.7)	-1.5%
TOTAL	6,026,816.1	5,545,373.2	5,880,985.7	(145,830.4)	-2.4%

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

Public Schools. The committee recommends $2.57 billion for public school support and related appropriations, a decrease of $41 million, or 1.6 percent, from FY09. The recommendation reflects a decline of more than 8,200 units in FY09 compared with FY08 and takes credit for $16.1 million, or half of the associated funding. A decrease of $17.5 million is also assumed for a potential funding formula change to remove the eligibility of small schools in communities with populations greater than 14,000. Above the line funding, program costs distributed directly to school districts, includes $12 million for the 0.75 percent employer contribution to the educational retirement fund, $2.6 million to raise the minimum salary for educational assistants to $13 thousand, and $5 million for the third year of implementation of elementary physical education.

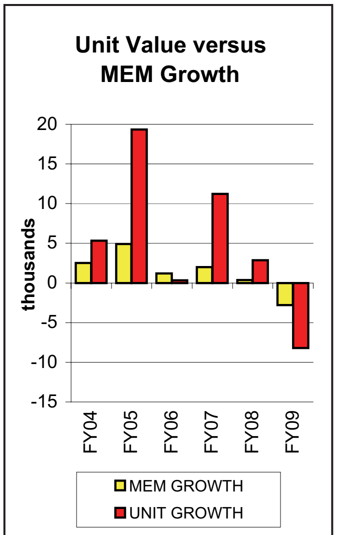
For FY10, public school support and related appropriations would account for 43.6 percent of recommended appropriations from the general fund. Significantly lower fuel cost projections for FY10 resulted in a reduced recommendation for public school transportation of $106.3 million, $4.7 million below FY09. Other recommendations include $9.5 million from the general fund for the kindergarten-three-plus program, $2.5 million for the schools in need of improvement fund, $3 million for the school improvement framework, $3.5 million for elementary school breakfasts, $1.5 million for new teacher mentorship, and $9.5 million from the general fund and $2 million from the temporary assistance for needy families (TANF) grant for pre-kindergarten. Funding is also provided for after-school enrichment and 21st Century Community Learning centers. The highly effective summer math, science, and reading institutes are recommended at $2.5 million.

Higher Education. The committee recommends $864.7 million from the general fund for higher education in FY10, a decrease of $20.1 million, or 2.3 percent, from FY09. The committee recommendation provides $5.3 million to fully fund workload, plus an incremental $1.1 million to phase in the instruction and general square footage update for physical plant and utilities. The committee recommends a 2.5 percent tuition credit for in-state students and an 8 percent tuition credit for out-of-state students, which reduces the appropriation from the general fund by $6.7 million. A $500 thousand increase is included in the student financial aid program.

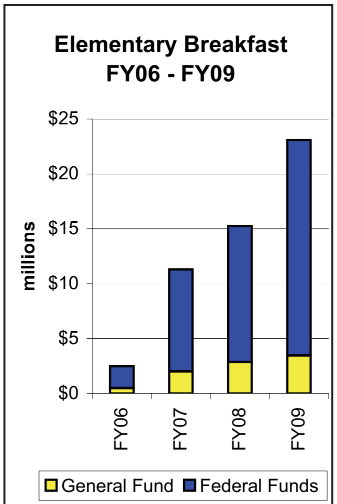
The committee recommendation maintains funding for programs that meet key committee priorities, particularly in the area of health care, and addresses fiscal constraints with reductions in areas that will have minimal impacts on students. These reductions include 3 percent for athletics and educational television, a one-third reduction in equipment renewal and replacement funding, and productivity savings of 5 percent in funding for institutional support functions. Finally, the committee recommendation reduces research and public service projects for a total savings of $12.1 million in institutional line-item appropriations and $1.4 million in flow-through funding in the Higher Education Department budget.

With a plan identical to that for public school employees, the committee recommendation includes $6 million for the next increment of the increase in the employer share contribution to the educational retirement fund.

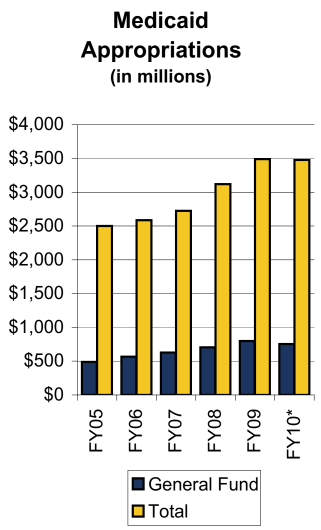
The committee recommendation continues to invest in the state's workforce with $3.5 million for nursing education programs, over $500 thousand for dental hygiene initiatives, and just under $600 thousand to maintain high-skills training at two-year institutions.



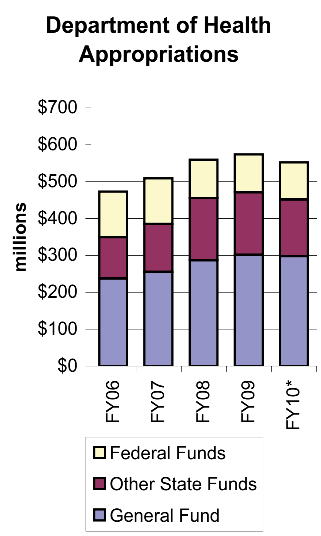
Source: LFC Files, PED Statbook



Source: PED Files



*LFC Recommendation
Source: LFC Files



*LFC Recommendation
Source: LFC Files

The committee recommends only slight declines in operating budgets for special schools, but provides $400 thousand for the new early childhood center at the New Mexico School for the Blind and Visually Impaired.

Human Services Department. The committee recommends total Human Service Department appropriations of $4.17 billion for FY10, a 0.2 percent increase over FY09. The recommendation from the general fund of $869.4 million is a 5.2 percent decrease from FY09. By maximizing federal and other state revenue and seeking savings in administration and overhead costs, the committee recommendation places a priority on maintaining essential services while saving general fund revenue. From targeted savings in contracts with Medicaid managed-care organizations to additional appropriations from fund balances, the recommendation would provide sufficient resources to grow Medicaid healthcare coverage, provide cash assistance and support services for families in the temporary assistance for needy families (TANF) program, provide substance abuse and mental health services, and help parents get necessary child support payments.

The total appropriation for Medicaid, including administration and behavioral health, is $3.48 billion, essentially flat from FY09, while the appropriation from the general fund is $753.5 million, a 5.6 percent decrease from FY09. The committee recommends $556.7 million, including $47.8 million from the general fund, for the Income Support Division (ISD). The committee recommendation for TANF totals $178.1 million – $41.5 million from the general fund and $136.6 million from federal funds. This revenue level would support $12.5 million for administration, $66.5 million in total cash assistance, $12 million for work contracts, and $39.6 million for child care.

Department of Health. The committee recommends a total appropriation of $552.1 million for the Department of Health, a decrease of $21.8 million, or 3.8 percent, from the FY09 operating budget. The recommendation includes $297.9 million from the general fund, a decrease of 1.3 percent. The recommendation supports the agency's priorities for the Facilities Management Program and the Legislature's priority for the Developmental Disabilities Program. For additional flexibility in administering the Los Lunas Community Program, the recommendation includes 25 new FTE. Sufficient funding is recommended to support the Laboratory Services Program in preparation for the move to the Tri-Laboratory facility at the end of FY10.

Children, Youth and Families Department. The committee recommends a total appropriation of $397.2 million for the Children, Youth and Families Department. The total includes $204.9 million from the general fund, a $2 million, or 1 percent, decrease from FY09. The committee recommends $4 million for base budget increases and includes $7.2 million in savings from contractual services, personal services and employee benefits, and other operating expenses. The recommendation also includes a revenue shift from the daycare fund.

The committee recommends an additional $1 million from TANF funding for pre-kindergarten, $7.2 million from TANF funding for access to quality childcare, and $500 thousand from TANF funding and $447 thousand from the general fund to expand infant home-visiting programs.

Corrections Department. The committee recommends a total appropriation of $308.3 million for the Corrections Department, 3.8 percent lower than FY09. The total includes $286 million from the general fund, an $11.1 million, or 3.7 percent, decrease from FY09.

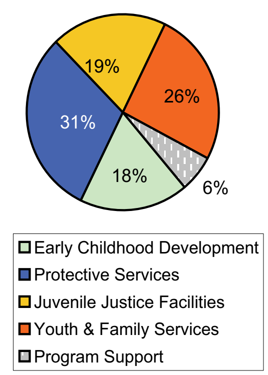
The FY10 recommendation for the Inmate Management and Control Program is $247.2 million, with $232.4 million from the general fund. The recommendation from the general fund is $10.5 million, or 4.3 percent, less than the FY09 operating budget. The reduction is primarily due to lower costs for private prison contracts as a result of a consumer price index decrease and slower inmate growth. The department estimated an average daily male inmate population of 6,144, an increase of 3.9 percent over FY09. However, the department's consultant for prison population growth, JFA Associates, projects an average daily population of only 5,928, a difference of 216.

Department of Public Safety. The committee recommends a total appropriation of $129.6 million for the Department of Public Safety (DPS). The total includes $94.8 million from the general fund, a $5 million, or 5 percent, decrease from the FY09 operating budget. The total agency recommendation is 3.4 percent lower than FY09, principally due to uncertainty regarding the level of direct federal grants and transfers from the Department of Transportation Traffic Safety Bureau and federal funds.

The recommendation for the Law Enforcement Program is $103.2 million, with $79.6 million from the general fund. This represents an overall 6.3 percent decrease and a 4.4 percent decrease from the general fund. While the program continues to carry a 13 percent vacancy rate, the recommendation does not take credit for the savings from all empty positions, and instead it would allow the department to reduce the vacancy rate to 8 percent, striking a balance between the vital public safety function performed by DPS and the historical vacancy rate.

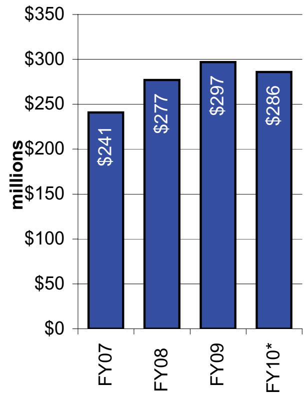
Courts. The committee recommends $152.8 million from the general fund for the judicial branch, a 1.2 percent decrease from FY09. The recommendation for the Magistrate Court Program includes an additional $450 thousand to assist with rising lease costs. In FY10, the Magistrate Court Program would benefit from at least a $900 thousand increase in other transfers from the facilities fund, which could be used to purchase supplies and equipment for magistrate courts around the state. The recommendations for all courts prioritize adequate base funding to allow the courts to maintain current levels of service.

CYFD Recommended FY10 General Fund by Division

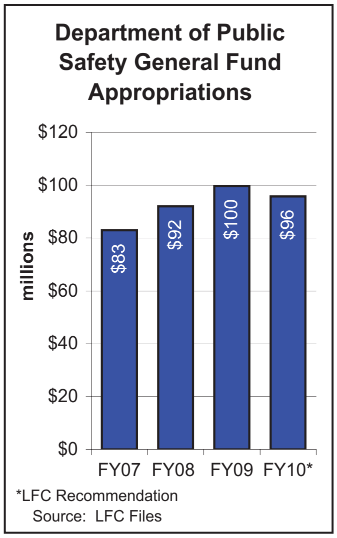


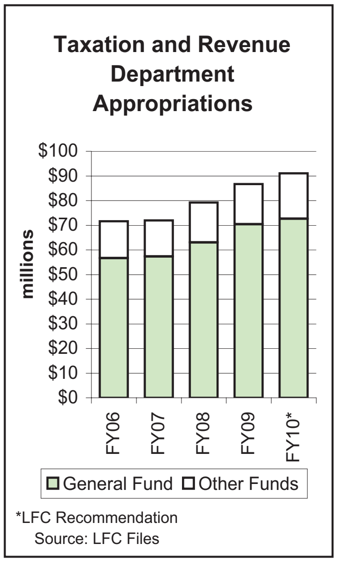
Source: LFC Files

Corrections Department General Fund Appropriations



*LFC Recommendation
Source: LFC Files





District Attorneys. The committee recommends $65 million in total appropriations for the district attorney offices, including $62.3 million in appropriations from the general fund, a 1.6 percent decrease from FY09. The committee recommends a special appropriation to allow district attorney offices to keep awards from the U. S. Department of Justice's Southwest Border Prosecution Initiative (SWBPI). Without this special appropriation the agency's SWBPI fund balances would revert to the general fund at year-end because they are unreserved and undesignated and, according to the federal government, can be used for any lawful purpose.

Department of Transportation. The committee recommends a total expenditure level for the Department of Transportation that is 3 percent less than the FY09 operating budget. This decrease reflects the impact of declining revenues at both the federal and state levels and the increased cost of materials for road construction and maintenance. The recommendation includes $22.5 million for a state construction program specifically for highways in rural counties that do not qualify for prioritization under either Governor Richardson's Investment Partnership or the Statewide Transportation Improvement Program.

State Engineer. The committee recommends a total appropriation of $52.1 million for the State Engineer. The total includes $23 million from the general fund, a $2.8 million reduction from the FY09 operating budget. To address New Mexico's Rio Grande Compact water delivery requirements, the committee supports $1 million in recurring Irrigation Works Construction Fund monies for maintenance of the Elephant Butte pilot channel.

Energy, Minerals and Natural Resources Department. The committee recommends a total appropriation of $69.6 million for the Energy, Minerals and Natural Resources Department. The total includes $25.6 million from the general fund, a $1.7 million reduction from the FY09 operating budget. The recommendation includes 3 additional FTE in the State Parks Program to begin operations at the proposed Pecos Canyon State Park.

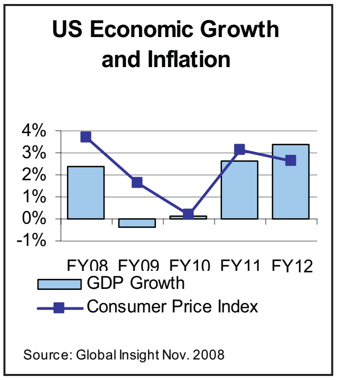
Taxation and Revenue Department. The committee recommends $72.7 million from the general fund for the Taxation and Revenue Department for FY10, a $2.2 million, or 3.2 percent, increase over FY09. The total recommendation of $91.1 million is a 4.9 percent increase. The recommendation supports several expansions, including $5.1 million and 64 FTE for phase two of the "fair share" revenue enhancement initiative, $88 thousand for 6 half-time FTE in the Motor Vehicle Division to reduce field office wait times, and reallocation of funding and FTE to properly align staff in their functional area.

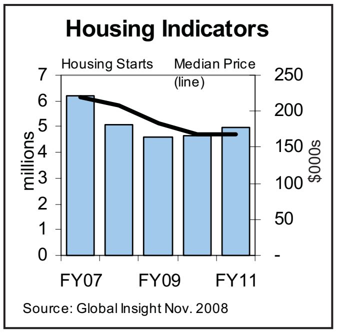
The national economy has been in a recession since December 2007, the longest since the early 1980s. Federal policymakers are attempting to unwind the biggest financial crisis since the Great Depression in the 1930s, and virtually every economic indicator is showing continuing trouble. The state economy has fared better than most states but continued weakness in construction and manufacturing has slowed the economy and severely affected revenues to the general and road funds.

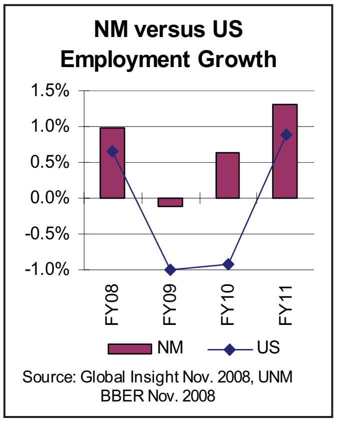
State economists rely on Global Insight (GI), a national economics forecasting firm, PIRA Energy Group, a provider of energy industry data and analysis, and the University of New Mexico Bureau of Business and Economic Research (BBER) to develop the consensus revenue estimates. Major assumptions used in developing the December 2008 five-year forecast of general fund revenues are shown in Table 2 at the end of this document. The revenue estimate was based on November data, which represents significant downside risk as both the economy and energy prices continue to weaken.

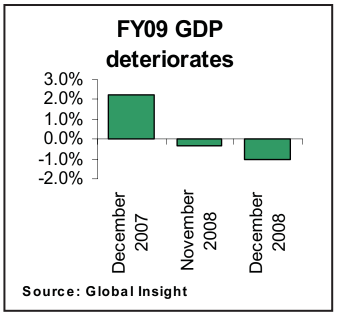
U.S. Economy. The economy has succumbed to two years of crisis after crisis and the National Bureau of Economic Research (NBER) declared that a recession began in December 2007 when payroll employment, one of the primary indicators, peaked. When the housing bubble began to deflate, construction employment and activity nationwide began to either decelerate or contract. The fall in housing prices caused a ripple effect, starting with foreclosures in the subprime mortgage market passing through the municipal bond market and ending the operations of several household name investment banks and insurers (Bear Stearns, Lehman Brothers, Fannie Mae, Freddie Mac and AIG to name a few). It is uncertain whether federal actions, including a $700 billion "insurance" program, will provide the liquidity needed so banks can begin lending to businesses and homeowners. Another major risk to the forecast is the continued support of U.S. debt in the international markets: foreign central banks, particularly from Asia, may curtail future purchases of U.S. treasuries if they are not comfortable with the direction the financial markets head.

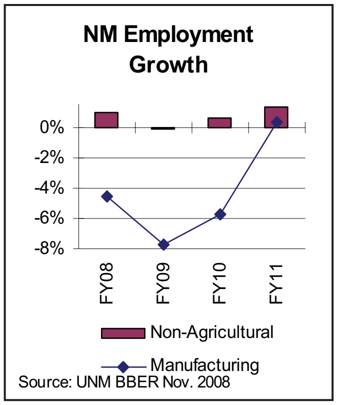
The recession promises to be worse than any since the early 1980s and some analysts predict it will be the worst in the postwar era. Global Insight (GI), a macro-economic forecast service, shows four consecutive quarters in FY09 of drops in the gross domestic product (GDP). In the summary of its December forecast, economist Nigel Gault of GI says, "In terms of length and depth, this [recession] is likely to prove comparable to or worse than any other post-war recession." Last December, GI was forecasting 2.2 percent growth in the U.S. economy in FY09 but revised that to negative 0.4 percent in November and lowered it again to negative 1 percent in the December forecast. GI also compiles a pessimistic forecast that has a 40 percent probability of occurring. This pessimistic forecast has GDP declining 1.5 percent in FY09 and 2 percent in FY10. The November forecast was used for the December 2008 consensus revenue estimate.

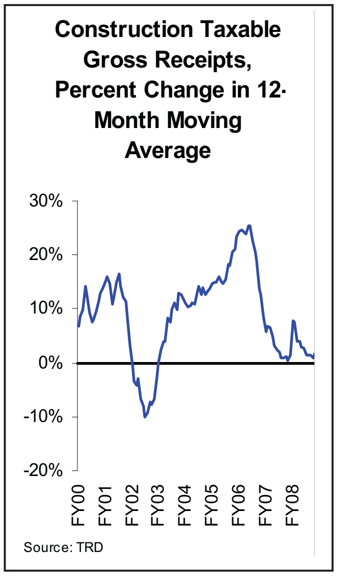


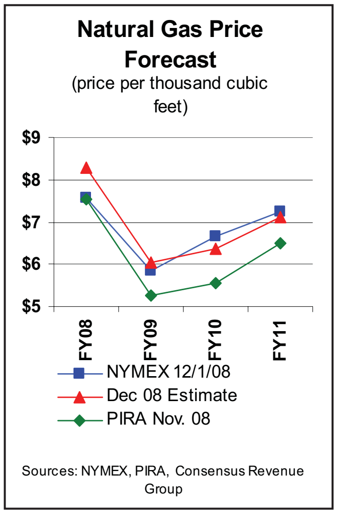












New Mexico Economy. The New Mexico economy has performed slightly better than that of the nation over the last year and employment growth is expected to continue to exceed national employment growth for several years, even though a contraction is forecasted for FY09. In the past, construction and manufacturing have been major drivers of the state's economy. Weakness in manufacturing employment drove job growth down in FY08 and the sector is expected to continue to struggle in FY09. Construction is expected to contract in FY08 and FY09 and begin coming back in FY10.

In the last four recessions, employment has contracted nationally but has only contracted in New Mexico on a fiscal year basis once, in 1982. In October, UNM's BBER was not forecasting a contraction for New Mexico. However, the November forecast shows a contraction of 0.1 percent.

New manufacturing jobs are expected to appear from solar equipment production but the future for solar manufacturers depends on significant federal tax credits available for solar technology, which were extended by Congress. Eclipse Aviation's bankruptcy remains a significant risk to the job picture because new owners may not be as loyal to Albuquerque or even the United States. The state's dependence on the national labs, the military bases, and rental and royalty revenues from mining on federal lands has generally kept the state insulated from the broader economic volatility but new risks emerged with the November election: of the five-member congressional delegation, only Senator Bingaman has seniority.

Energy Markets. Natural gas markets continue to decline. From the June 2008 high of around $13 per thousand cubic feet (mcf), the price at the Henry Hub spot is now settling between $5/mcf and $7/mcf and is projected to stay there for the foreseeable future. The forecast for N.M.-produced natural gas is $6.05/mcf in FY09, $6.35/mcf in FY10, and around $7/mcf for FY11 to FY13. The forecast is at a level higher than the basin prices forecast by PIRA but lower than the forecast from New York Mercantile Exchange (NYMEX) futures. Over the last two years, the price reported through ONGARD, the state's oil and gas production database, has been higher than the reported spot prices. Some of the discrepancy is a certain amount of a lag in reporting and some may be higher prices for natural gas liquids that are a by-product of oil production.

The oil outlook is very similar. The price of oil has continued to decrease and has recently dropped below $40 per barrel (bbl), especially in New Mexico where the price tends to be lower than the global price. This price has come down from $147/bbl at the end of June 2008 to less than $40/bbl in December 2008 and is significantly below the price last year. The FY09 forecast is $69/bbl and is an average over the fiscal year. The first quarter of FY09 averaged almost $115/bbl so, even if the remaining quarters average $50/bbl, the price estimate will be accurate.

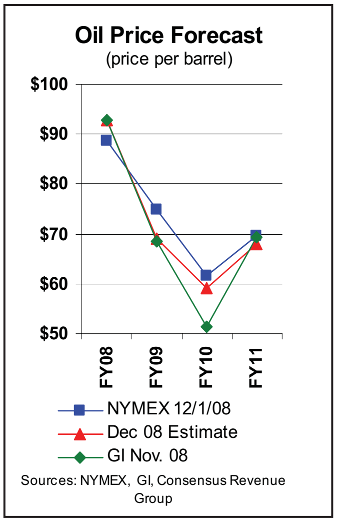
Although recent fluctuations in energy prices may appear erratic, much of the volatility can be explained by fundamental supply and demand relationships. If inventories are high and storage deficits low going into the winter months, upward pressure on gas prices is minimal. Demand is primarily from industrial operations and electric generation peaking plants. Currently, all of the fundamental forces are pushing the price of natural gas down: Supply from shale-field production is up, pipeline capacity is up, and the current slowdown in the economy has driven demand down.

U.S. energy consumption grew by an average of 0.7 percent per year over the last decade. Domestic natural gas production had remained flat for the last decade, but this year production had an exceptionally large growth of 9 percent and is expected to continue to grow, although maybe not at the same rate as in FY08. This production, the completion of a Rocky Mountain pipeline, and a mild summer in Arizona and California have all contributed to lower prices for New Mexico producers, particularly in the San Juan basin.

Domestic oil production has declined by an average of 2.3 percent per year over the last decade. Excess U.S. demand for oil has been met by increased imports; however, increased domestic crude oil production in the Gulf of Mexico and elsewhere combined with increasing biofuel and coal-to-liquids (CTL) production are expected to eliminate the need for increased imports over the longer term.

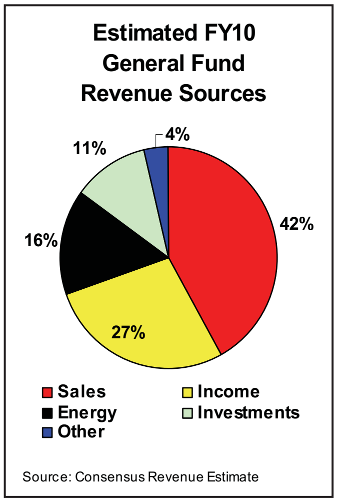
Revenue Forecast. The revenue forecast assumes a recession, with most revenue streams either contracting or growing much slower than the average. The general fund recurring revenue grew 3.3 percent in FY07 and 4.3 percent in FY08, the lowest growth rates for several years and below the long-term average growth rate of 6.5 percent. Revenue in FY09 is expected to contract 4.9 percent and be essentially flat in FY10. General fund revenue estimates for FY09 through FY11 are presented in Table 3 at the back of this document.

The FY09 column of Table 3 compares the December 2008 estimate with the December 2007 estimate, used to build the FY09 budget. Fiscal year 2009 revenue is now expected to total $5.7 billion, almost $400 million less than expected when the FY09 budget was crafted. This decrease in estimated revenue is broad-based, affecting all major categories. In addition to lower revenues from slower economic activity and depressed energy prices, tax legislation has also contributed. The last phase of the personal income tax cut is calendar year 2008 and the top rate is now set at 4.9 percent, down from 8.2 percent in 2002. This has cost the general fund over $450 million annually. Rather than being revenue neutral, the food and medical deduction from gross receipts tax costs the state general fund $75 million annually. The tax rebate and expansion to the working families tax credit passed in the 2008 special session will decrease general fund revenues by $63.3 million and another $45.8 million was appropriated for health care and to address high energy costs.

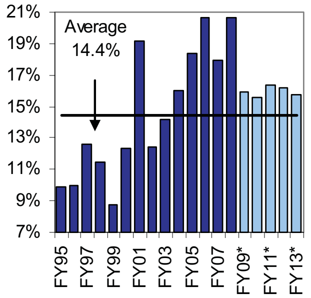


Fundamentals of natural gas prices:

- Supply
  - Increased production from unconventional gas fields depresses prices
  - Increased pipeline capacity increases supply, depressing prices
- Demand
  - Mild temperatures decrease the demand, depressing prices
  - Recession decreases industrial demand for natural gas, depressing prices.

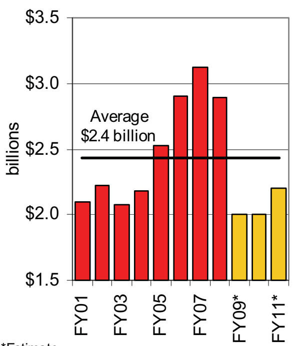


Energy-Related Revenue Share of Recurring General Fund Revenues



*Forecast
Source: Consensus Revenue Estimate.

State Treasurer's General Fund Portfolio Balance



*Estimate
Source: LFC Files

Major Tax Legislation Annual GF Cost in Millions

Personal Income Tax	
Income Tax Rates	-450
Personal Exemption	-20
Working Families Credit	-35
Film Credit	-60
Gross Receipts Tax	
Food and Medical	-75
Hospital credit	-11
TOTAL	**-651**

In FY10, revenue is expected to reach $5.7 billion, virtually the same as FY09. This is $293 million less than FY09 appropriations and spending cuts seem unavoidable.

Gross Receipts Tax. Gross receipts tax (GRT) collections are estimated to be $1.9 billion in FY10. GRT growth slowed to 1.7 percent in FY08 and is expected to be 1.9 percent in FY09, after adjusting for a one-time distribution in FY08. The slowdown in the economy is expected to show up more in FY10, when the growth rate drops to 0.7 percent. While still growth, it could be slower than it has been in over 20 years. Though the current slowdown is broad-based, manufacturing, construction, and mining sectors look especially weak in the coming years.

Corporate Income Tax. Corporate income tax (CIT) collections decreased by 11.7 percent in FY08, coming off of 22 percent growth in FY07, and are expected to decline another 16.2 percent in FY09. CIT is expected to continue to decline with the economy and energy activity and will not recover until FY11, when it will be 30 percent off the FY07 high.

Personal Income Tax. Personal income tax (PIT) growth has been weak for several years due to phased-in rate reductions and expanded exemptions and credits. The final rate reduction takes place in tax year 2008, making FY09 the last fiscal year with growth dampened by the cuts. In 2007, a low- and middle-income exemption was expanded and a working families tax credit based on the federal earned income credit was enacted (and subsequently expanded in the 2008 special session). In FY08, PIT increased by 3.1 percent and is expected to slow down to 1.8 percent in FY09. Although the outlook improves, the growth rate is not expected to reach its normal rate of around 6 percent in the five-year forecast.

Energy Revenues. Energy revenues significantly increased general fund revenues and reserves in FY08 and are expected to do the opposite in FY09, subtracting over $300 million from FY08 revenues. Energy revenues are expected to be relatively flat in FY10 through FY13. Energy revenues made up 21 percent of general fund revenues in FY08 but, with falling energy revenues, will return to normal levels.

Interest Income. Income from state investments is estimated to be $651.2 million in FY10, a 0.7 percent increase over FY09. Interest from the permanent funds will be affected by the downturn in investments - the SIC-managed funds are expected to lose 22 percent for calendar year 2008 - but the main impact will begin in FY11 because distributions are based on the five-year average. State Treasurer earnings have come down significantly due to the turmoil in the credit markets, and the drastic cuts in federal funds rates. This year and next, draws on the reserves will probably be larger than usual, lowering the fund balance.

Other Revenues. The FY10 estimate for remaining revenue is $207.4 million, representing growth of 1.5 percent from FY09. This category includes license fees, miscellaneous receipts, reversions, and tribal gaming revenue-sharing payments. Recent tribal gaming activity has slowed but the new Navajo casino is likely to have a significant impact on revenues.

Risks to the Forecast. Among the significant downside risks to the December 2008 consensus revenue forecast is the declining economy. The December estimate was based primarily on November data and most indicators show the economy has deteriorated since then. This could result in a downward revision in income and sales taxes even though the estimate assumes a significant slowdown. State economists will request another state forecast from BBER prior to the mid-session review of revenues to address any significant changes.

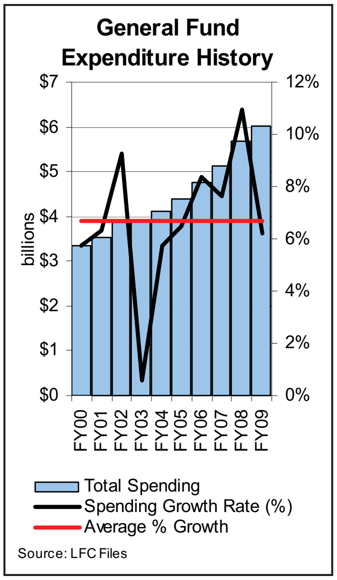
The "cushion" for the New Mexico economy has always been the federal government, but with the expanding deficit and competing priorities, the continued level of federal funding for the labs, the bases, and social programs like Medicaid is at risk. The bailout of financial institutions and the continued heightened defense spending add additional pressure to funding levels.

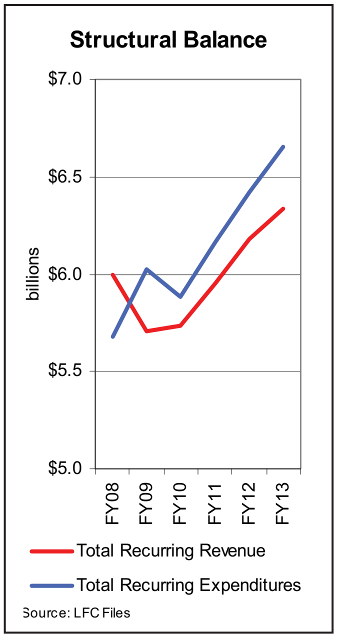
Energy prices and now production also represent significant risks to the revenue forecast. The global economic slowdown has continued to drive down the price of oil. The national slowdown has severely curtailed industrial demand for natural gas, the primary driver of the price. Excess supply and increased pipeline capacity also are contributing to local price weakness as is declining production. However, a cold winter or a substantial change in the organization of petroleum exporting countries (OPEC) production quotas cannot be ruled out and would put upward pressure on oil and natural gas prices.

General Fund Reserves. Table 4 at the back of this document shows the general fund financial summary, a snapshot of general appropriations and revenues for New Mexico government. Reserves at the end of FY08 were $714 million, 13 percent of recurring appropriations. This amount of reserves sets New Mexico apart from other states and will dampen the impact of the current fiscal crisis. As the table shows, with targets for a three-pronged strategy for addressing the FY09 deficit, the reserves will be approximately 10 percent at the beginning of FY10. This assumes that the reserves can be drawn upon, but all of the reserves require legislative action to be transferred to cover shortfalls in the appropriations account. Some of them also require super-majorities, declarations of emergency to draw the funds, or both.

Baseline Expenditure Forecast. The baseline expenditure forecast is based on the LFC recommendation for FY10 for a 2.4 percent reduction in general fund appropriations. For FY11 thru FY13, expenditures increase about 4 percent per year. Over the last decade the growth rate of expenditures has been 6.7 percent but since FY02 the annual growth

GF Reserves (Ending Balance)	FY07	FY08
Operating	$ 156.0	$ 226.4
Appropriations Contingency Fund	47.7	26.6
Education Lockbox	74.9	67.4
State Support	1.0	1.0
Tobacco Permanent Fund	116.7	137.9
Tax Stabilization Fund	254.4	254.4
Taxpayer Dividend Fund	-	-
Total Reserves	**$ 650.6**	**$ 713.6**
% of Recurring Appropriations	13.9%	12.6%





rate has been 7.9 percent and the cumulative growth rate is 54.7 percent. This out-year growth rate is led by expected Medicaid costs. The Congressional Budget Office expects Medicaid expenditures to grow at 8 percent over the next five years. Medicaid made up 12.5 percent of state expenditures in FY07 and is expected to rise to 16 percent by FY13. For other major categories, the expenditure forecast is linked to the Global Insight forecast of the consumer price index (CPI) and New Mexico population. As of the latest forecast, the CPI is expected to be low in FY09 and FY10 while population is expected to grow approximately 1.2 percent per year. Under the baseline expenditure forecast, expenditures outpace revenues.

General Fund Expenditure Baselines:	Actual	Op.Bud.	LFC Rec.	Baseline Forecast		
	FY08	FY09	FY10	FY11	FY12	FY13
Legislative	18.8	20.14	19.7	20.4	20.9	21.4
Judicial	205.8	217.93	215.2	224.4	232.8	240.9
General Control	197.7	205.30	204.7	211.1	216.6	221.6
Commerce and Industry	58.4	61.74	60.2	62.1	63.7	65.1
Agriculture, Energy and Natural Resources	86.6	90.53	84.2	86.9	89.1	91.2
Health and Human Services	1,393.4	1,526.70	1,470.3	1,561.1	1,654.3	1,751.5
Medicaid	*707.0*	*798.40*	*753.5*	*813.8*	*878.9*	*949.2*
Other Health and Human Services	*686.4*	*728.30*	*716.8*	*747.3*	*775.4*	*802.3*
Public Safety	383.3	411.58	394.9	442.9	464.9	477.1
Corrections	*277.4*	*297.10*	*304.9*	*321.8*	*339.3*	*347.2*
Other Public Safety	*105.9*	*114.48*	*116.1*	*121.0*	*125.6*	*129.9*
Higher Education	846.3	884.85	864.7	901.6	935.5	967.8
Public Education	2,484.7	2,608.06	2,567.0	2,657.6	2,740.0	2,816.7
Total Recurring Expenditures	5,675.0	6,026.8	5,881.0	6,167.9	6,417.8	6,653.2
Spending Increase (year over year)	559.2	353.7	221.6	247.7	257.0	242.4
Spending Growth Rate	10.9%	6.2%	-2.4%	4.9%	4.1%	3.7%
Recurring revenue less recurring expenditures	320.2	-323.5	-147.7	-214.0	-241.1	-315.6

Notes
1) Medicaid spending grows according to CBO projections of federal Medicaid spending.
2) Corrections spending grows at inflation plus overall population growth rate
3) Public schools grow at projected rate of enrollment growth plus inflation. Additional amounts included for retirement, three-tier licensure, and pre-Kindergarten
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

Principles of sound tax policy:

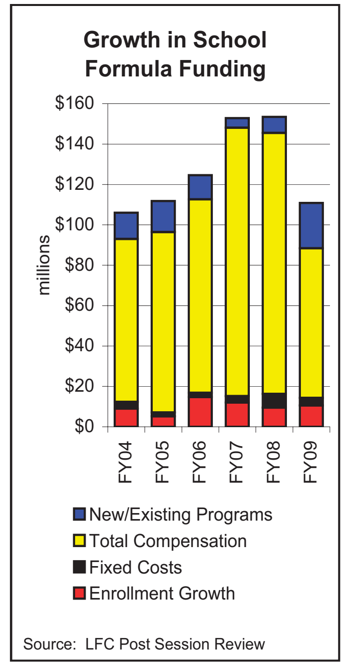
- Adequacy: Revenue should be adequate to fund government services
- Efficiency: Tax base should be as broad as possible to minimize rates on any group
- Equity: Tax should be fairly applied across similarly situated taxpayers and incomes
- Administrability: Tax collection should be simple and easily understood to maximize compliance
- Accountability: Deductions, credits, and exemptions should be easy to monitor and evaluate

Tax Expenditures and Tax Accountability. In 2007, LFC sponsored legislation to address tax expenditures and tax incentive accountability. The legislation did not pass but the Taxation and Revenue Department (TRD) did begin a multi-year study of tax expenditures beginning with a review of existing business tax credits. One major step was the creation of a tax form for corporate income tax credits similar to the one for personal income tax. TRD has presented to the Revenue Stabilization and Tax Policy interim committee its efforts to define a gross receipts tax base from which to measure deviations. This is the first step in preparing a comprehensive tax expenditure budget.

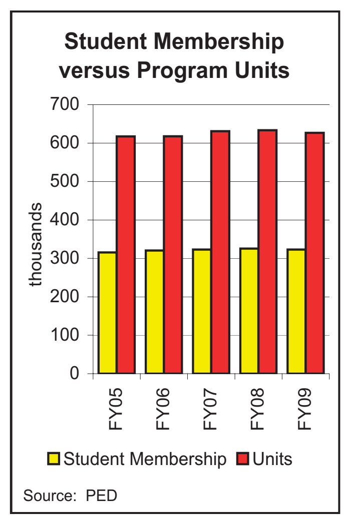
LFC has maintained that, similar to regular budget items, tax incentives must be reviewed on a periodic basis, and must adhere to sound accountability and tax principles. Each new tax proposal should be evaluated on these principles to determine how the proposal fits into the existing tax structure. This is especially important when revenues are softening.

The Legislature persists in its extraordinary commitment to public education, particularly in times of financial uncertainty by continuing to invest in successful programs while looking at reprioritizing funding away from programs demonstrating little or no success in improving student achievement. Since FY03, formula funding has increased $724.9 million, or 42 percent, and categorical, or below the line funding has tripled, although workload has remained flat.

Early childhood education, affecting children in the most vulnerable stages of their life from birth to age eight, continues to be a primary interest of the Legislature and the executive, with increased funding for pre-kindergarten and kindergarten-three-plus, as well as breakfast for elementary students and after-school programs. Support for high school redesign efforts continues, with great interest in graduation rates, student achievement, and the need for remediation in college as these reforms mature. These efforts are all part of the "P-20" initiative, a continuum of education services spanning pre-kindergarten through higher education or workplace readiness, and are expected to ultimately improve opportunities for all New Mexicans. The Legislature also continues investments in educators by shoring up the education retirement funds with increased employer contributions, funding salary increases, funding mentorship for new teachers, and providing support for high-quality professional development to improve educator quality.

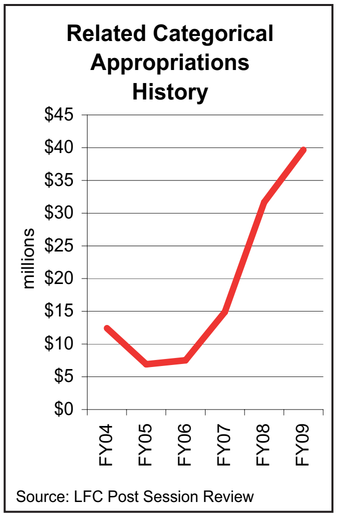


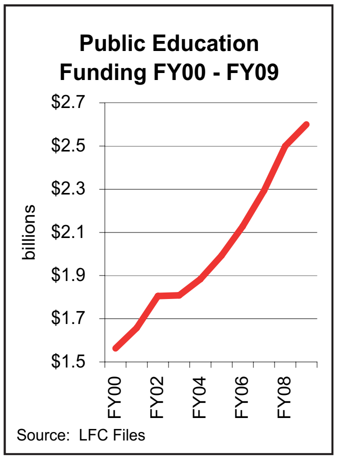
Despite these efforts, results continue to be mixed. On the upside, performance of minority subgroups, particularly those that are economically disadvantaged, rose significantly in FY08, and the number of eighth graders scoring proficient or better in both math and reading on the New Mexico Standards-Based Assessment (NMSBA) continued to improve modestly. On the down side, the number of New Mexico fourth graders scoring proficient or better on NMSBA dipped in both math and reading. In addition, the number of New Mexico schools subject to state intervention as required by the federal No Child Left Behind (NCLB) Act, particularly those in restructuring I and II, continues to grow, and the achievement gap among demographic groups of students remains large.



Adequate Yearly Progress. Adequate yearly progress (AYP) is the primary measure used under NCLB to determine whether individual schools and school districts are making progress toward gradually increasing goals of academic proficiency. It is based on an annual measure of student participation and achievement on statewide assessments and other academic indicators. The target for school proficiency is 100 percent by the year 2014. Similarly, high school graduation rate targets reach 100 percent by 2014. These targets are generally unachievable and are expected to result in all but a few schools nationally being designated as "schools in need of improvement."

The Public Education Department reports that based on assessment results from the 2007-2008 school year (SY08), 422 schools, or 55





percent of all schools, are in the school improvement cycle for the SY09 school year, an increase of 94 schools over SY08. This increase is a result of more schools entering the school improvement cycle for the first time or coming off of delay status for not meeting AYP in consecutive years.

	Schools in Improvement Cycle		
NCLB Designations	SY07	SY08	SY09
School Improvement I	140	27	78
School Improvement II	110	108	78
Corrective Action	33	106	96
Restructuring I	15	24	95
Restructuring II	51	63	75
Total	**349**	**328**	**422**

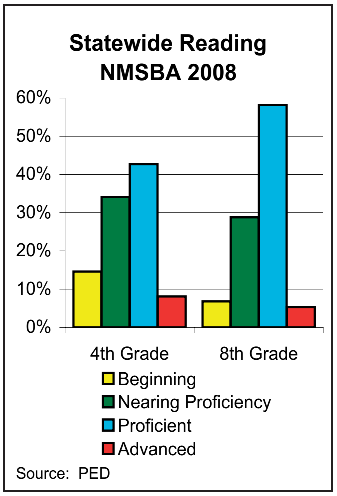
Source: PED

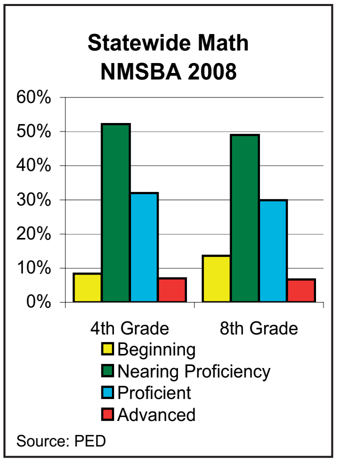
While more schools are entering the school improvement cycle, greater concern remains regarding the large number of schools moving into restructuring. Of the 266 schools in corrective action, restructuring I, and restructuring II, 188 schools, or 71 percent, are classified as Title I schools with a high-poverty population of mostly minority students. The performance of these schools is problematic as it indicates that more schools in long-term school improvement continue to fall short of achieving AYP goals and may not have the ability to do so.

While AYP is the reported measure of achievement for meeting NCLB requirements, a more accurate gauge of student achievement is proficiency on NMSBA, an instrument that measures and compares individual student performance. Data from the SY08 assessment suggests student achievement improved modestly in both math and reading statewide among all grades. This improvement is good news; however, in spite of this growth, approximately 49.2 percent of fourth graders and 36.5 percent of eighth graders continue to score below proficiency in reading, and 61 percent of fourth graders and 63.4 percent of eighth graders continue to score below proficiency in math. The number of students continuing to perform below proficiency is of concern.

Achievement Gap. In contrast to AYP, which measures cohort proficiency, the achievement gap, which refers to significant discrepancies between the academic performance among groups of students and between individual students and their potential, continues to be a persistent and more significant issue. Primary factors affecting the achievement gap in New Mexico are students' racial or economic background, parents' education level, access to high-quality preschool instruction, inadequate school funding, peer influences, teachers' expectations, curricular quality, and teacher quality. These influences are exacerbated in New Mexico, where some failing schools are in extremely rural areas, subject to abject poverty, and unable to attract effective teachers and instructional leaders.

It appears, however, that the focus on programs serving high-poverty and high-needs populations are beginning to have a positive effect. In the eighth grade, for example, while overall student proficiency in math has risen modestly in the last four years, the percentage of Hispanic students scoring proficient and above increased by more than 12 percent, Native American students increased by nearly 15 percent, and economically disadvantaged students increased by 22 percent. Student performance in reading achieved similar results. In spite of these gains, the achievement gap continues to widen for other subgroups, reminding policy makers that much work remains.





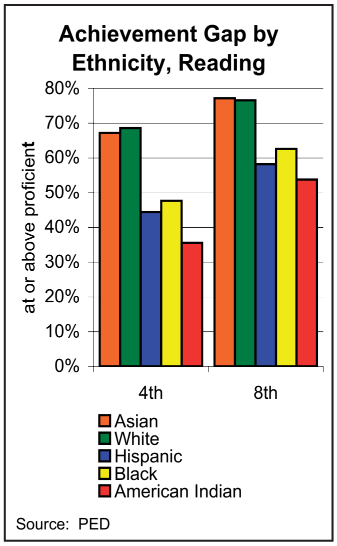
School Improvement Framework. In response to the need for additional resources focused on high-needs schools, PED implemented the New Mexico school improvement framework. PED reports the framework is designed to strengthen instructional practices and provide tools and benchmarks for monitoring school improvement strategies and interventions. A school improvement plan aligns objectives and strategies, provides timelines, and assigns responsibilities based on data that assesses the strength of district or school functions.

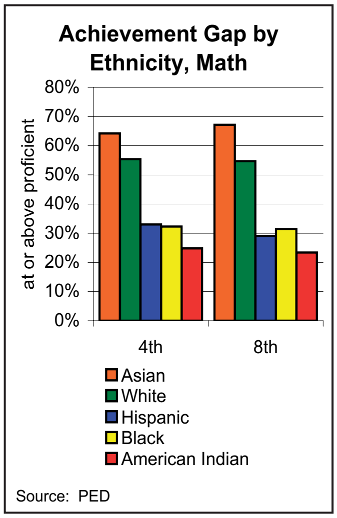
For FY08, $5.5 million was appropriated to provide assistance to schools in the school improvement cycle. A review of funding allocations indicates most funds were distributed roughly equally among the districts, amounting to little more than a small increase in operational funds and apparently not tied to strategic planning focused on achieving educational outcomes. For FY09, the department established a district site-review instrument with standards and indicators for school improvement. The instrument is designed to assess the effectiveness of the school in sustained improvement and is intended to inform the school improvement plan. The indicators are defined within each of the four standards and criteria:

- effective leadership,
- quality teaching and learning,
- collaborative relationships, and
- support for systemwide improvement.

For the first time, these revisions appear to be focused on requiring schools to be more engaged on what interventions are effective and could lead to a higher level of preparedness of both teachers and instructional leaders. With the large number of schools in corrective action and restructuring, time is running out for the department to begin making large-scale improvements in school performance.

Funding Formula. The last comprehensive review of the public school funding formula, in 1996, has been the only independent review of the formula since its adoption in 1974. The principal finding of the 1996 study was that, by every measure, the New Mexico funding formula is highly equitable. This equity in funding has not, however, translated into adequacy of educational programs for all students, particularly





those in high-poverty areas and those in the school improvement cycle. While school districts continue to complain that distributions through the state equalization guarantee (SEG) are not sufficient to meet annual operational costs, it appears that most districts have been slow to identify ineffective programs and reprioritize funding to maximize the benefit to students.

After two years of study by a 14-member taskforce with assistance from 16 advisory members and the American Institute for Research (AIR), legislation was introduced during the 2008 legislative session proposing a new funding formula. The taskforce recommendation and introduced legislation focused on two aspects: (1) a more equitable formula and (2) funding of $322 million to achieve adequacy. The proposed formula is substantially different from the existing formula, concentrating on pupil need based on four separate measures: student poverty, English language learner status, student mobility, and special education need. The proposed formula adjusts for differences in the scale of operational costs of districts and charter schools, particularly those associated with small districts, and accounts for many of the unit adjustments currently in place. The formula simplifies the collection of pupil-need variables and retains the simplicity of a basic pupil-weighted system. The formula includes an index of staff qualification that takes into account staff training and education, much like the existing training and experience index but aligned with the three-tier licensure system.

Funding Formula Change and Equity. Discussions relating to the new funding formula generally focus on the almost $322 million currently identified as needed for full implementation of the formula. Missing in this discussion is the way the formula distributes funding to school districts and charter schools. The cost of providing an adequate education for at-risk students is considerably higher than for the general population. The new formula addresses this by providing independent coefficients to account for poverty, English language learners, special education, and student mobility, the four areas identified as having the greatest influence over student failure. By accounting for these factors, the formula appears to distribute funds more effectively to those school districts with the highest need, providing added resources for the first time. Because of this, a strong argument can be made that the formula should be implemented immediately even if additional funding is not available. The shift in funding among some districts would be dramatic but clearly illustrates that a number of districts are receiving more funding than their student population needs, while others are woefully behind in sufficient resources. Clearly schools most in need have been historically left behind in resource allocation, and this change in distribution would have an immediate impact.

Sufficiency Cost. While arguably less important than more effectively distributing appropriations to meet student need, the estimated cost of funding the new formula has overshadowed all discussions. Most superintendents agree that moving additional resources to schools with higher need is the logical approach but are unwilling to support any plan that does not provide more money for their districts. Currently, full funding of the formula is estimated at $322 million after accounting for $14 million appropriated for districts to increase instructional calendars by one additional day in FY09 and $8 million for the second-year implementation of elementary physical education. How this amount was determined and why it differs so much from the $850 million initially identified continues to be of concern. American Institutes for Research (AIR), the contractor, relied on the work of professional judgment panels (PJP) to determine what resources are needed to meet educational sufficiency. Although each PJP received instructions to keep costs in mind when making recommendations, it appears some of the recommendations amounted to wish lists given unlimited resources. Using this information, AIR estimated a sufficiency cost of $850 million. Recognizing this number was too large, the professional advisory panel (PAP) convened to review the data and make changes as needed to bring resource allocation to a more reasonable level. These changes focused on resources for both the base program and the four focus areas. The result of this work was the final recommendation of approximately $340 million. Depending on the scope of changes or the views of different panels, this amount could be much higher or much lower. As a result, there is skepticism as to whether the current estimate of $322 million is accurate or simply an acceptable amount.

General Formula

Sufficient per Pupil Cost
= Base Per Pupil Cost X
Poverty Adjustment X
ELL Adjustment X
Special Ed. Adjustment X
Mobility Adjustment X
6-8 Enrollment Adjustment X
9-12 Enrollment Adjustment X
Total Enrollment Adjustment

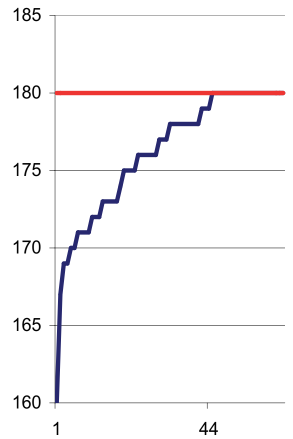
This approach to determining sufficiency is referred to as a costing-out study focusing on the cost differences between current expenditures and a "model school" determined by a PJP. Eric Hanushek, senior fellow at the Hoover Institution of Stanford University in *Science Violated: Spending Projections and the "Costing Out" of an Adequate Education,* (2006), notes that "costing out studies" should be interpreted as political documents, not as scientific studies, and are generally used by parties interested in increasing spending for education. He further notes these studies provide spending projections that incorporate, and in general lock in, current inefficient uses of school funds. A number of school district inefficiencies identified in recent LFC performance evaluations and concerns with operational decisions made by some school districts lead to concerns whether additional funding will lead to improved outcomes.

"Costing out studies" inherently fail to provide usable information about resources that would be required to meet a given student achievement level, at least when resources are used efficiently and effectively. The studies merely provide spending projections that incorporate, and in general lock in, current inefficient uses of school funds.

Education Reform and Improvement. All education initiatives currently being implemented were developed and funded with the expectation that each would contribute as part of a larger plan leading to improvements in student achievement statewide. Particular focus for years has been on elementary and early childhood education to provide a sound foundation from which students would build their educational future. Once early childhood education, student nutrition, and after-school programs were in place, attention was turned to high school reform: increasing rigor; aligning high school exit standards to both work place expectations and college entrance requirements; raising the drop-out age; increasing graduation requirements; implementing dual credit; and increasing funding for advanced placement classes. Although modest, the state is beginning to see some effect from investment in elementary schools but much more work remains. Most of the high school reforms were only implemented with 2008-2009 freshmen and will take a few years before outcomes are known.

Middle School Plus. Many of the issues causing concern in high school begin in middle school, such as truancy, dropping out, and lack of preparedness for a rigorous curriculum. A report on college readiness released by the Office of Education Accountability (OEA) notes, "The decline in the percentage of public school students who score proficient or above on NMSBA between elementary and middle school indicates that our state should also focus on middle school achievement. If we want to ensure that high school graduates are ready for college, then that preparation must begin in elementary and middle school." Building on the success of the kindergarten-three-plus program, lawmakers should consider implementation of a similar program, middle-school-plus, focusing on middle school and high school readiness to make certain students are prepared as they advance. Without this intervention, high school reforms may have little or no chance of success.

Number of Districts with Instructional Days Less than 180



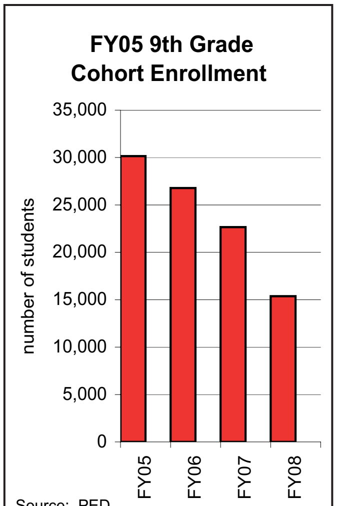
Source: PED Files

Time on Task. Time on task has been identified as a critical component of improved student achievement, and an important element of this is more time in the classroom with highly effective teachers. The proposed funding formula includes five additional instructional days, for a total of 185 per school year, and an additional professional development day at a total estimated cost of $96 million. A review by LFC, PED, and the Legislative Education Study Committee (LESC) identified a number of school districts that take advantage of loopholes in statute to reduce the number of days students are actually in the classroom, causing a vast disparity in the number of instructional days districts provide. As a result, approximately 30 of the 89 districts, all on a five-day teaching schedule, provide less than the 180 days currently prescribed in law with one district providing as few as 160 instructional days. By removing the additional instructional days and professional development day from the proposed formula and changing statute requiring all districts on a five-day schedule to provide 180 instructional days and districts on a four-day schedule to provide 150 instructional days, 66 percent of districts would increase the number of instructional days at no additional cost to the state resulting in a savings of approximately $96 million in the implementation cost of the new formula.

Using Assessment Data. Along with increased time on task, more emphasis needs to be placed on instructional strategies to improve student success. Primary among these is the use of short cycle and annual assessment data to drive instructional practices. Only a small number of superintendents, principals, and teachers statewide appear to be focused on using data to guide their educational decisions. Schools where data-driven decision making is embraced by both administrators and staff are realizing significant success in improving student achievement.

Instructional leadership and stability appear to be significant factors in how fast and to what extent teachers embrace the use of data to drive teaching and teaching strategies. Without a laser focus on what each individual student needs to succeed, no amount of funding will result in success for New Mexico's students.

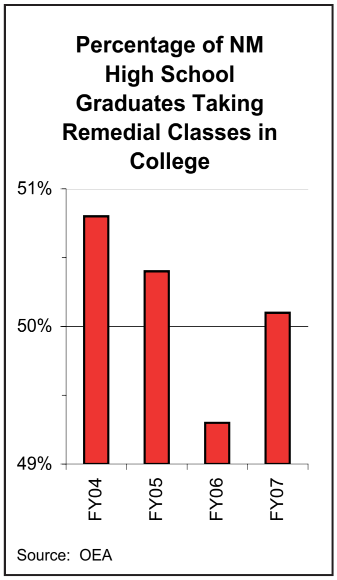
Teacher Professional Development. High-quality professional development remains a priority to improve the quality of education in New Mexico. Appropriations to the state equalization guarantee (SEG) base contain approximately $15 million specifically identified for professional development. According to an analysis conducted by LESC, approximately $44.2 million in both state and federal funds were expended between FY05 and FY08 by districts for professional development. The number of professional development days school districts build into the contract year varies from as little as three to as many as 17, and it is unclear whether much of the professional development being provided is useful in improving teacher or principal effectiveness. A more successful approach appears to be focused, content-based, and sustained professional development accomplished, in part, through summer reading, math, and science institutes provided by PED. With substantial funding being expended for professional development, if expenditures are of little value, then perhaps drastic changes should be considered. Along with directing uniformity in the number of instructional days, lawmakers should consider removing a portion of professional development funding from the SEG and reprioritize those funds to the statewide professional development academies. Teaching appears to be the only profession where continuing education is not required for maintaining licensure, and content-based, sustained professional development provided outside of the school year would assist teachers in remaining current with changes in educational methodology and pedagogy.

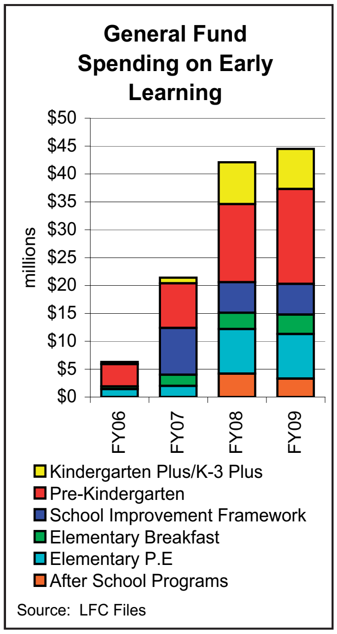


Source: PED

Graduation and Dropout Rates. New Mexico, while benefiting modestly from educational reforms, has not seen a significant return on investment with regard to higher graduation rates. PED reports that, for the 2008 school year, only 15,371, or 51 percent, of the 30,158 freshman entering high school in 2005 enrolled for their senior year. This number does not include those students who dropped out during their senior year, further reducing the graduation rate.

In a report released in 2006, the Southern Regional Education Board suggests a number of strategies for improving high school graduation rates. Primary among these recommendations is the development of a statewide accountability system that encourages schools to take responsibility for increasing achievement and graduation rates; placing a greater emphasis on preparing middle school students for a rigorous high school program; having students take additional math, science, and humanities above the core; completing a planned sequence of career courses; and making full use of the senior year to get students to graduate and prepare them for the future. Most of these suggestions require little or no additional funding but, instead, focus on changes in the way local school districts think about educating students and a willingness to require more rather than less from their students. It is also critical the state exercise its statutory responsibilities to provide vigorous oversight to ensure that maximum emphasis is placed on





preparing students for the challenges they will face after high school. If PED and local school districts do not change how they do business, no amount of additional funding will be sufficient to improve student performance.

*Remedial Education in College***.** Of equal concern is the continuing need to provide remedial classes to those students who move on to college. The most recent report released by OEA on remediation notes that, for students graduating in 2006, 49.3 percent were required to take one or more remedial classes in college in numeracy or literacy. The annual estimate for remediation cost for New Mexico is approximately $31.8 million: $9.8 million for remedial education services and $22 million in lost earnings. In addition, an issue brief by the Alliance for Excellent Education suggests that students enrolling in remedial classes are 41 percent more likely to drop out of college, placing further pressure on an already strained education system to graduate as many students as possible.

Lost in the discussion is the duplication of funding where the state pays once for educating these students in high school and again in the same content area when they enter college and are unable to meet entrance requirements.

A number of factors appear to be at play. The first appears to be a lack of vertical alignment of curriculum from middle school to high school where classes students take do not sufficiently prepare them for subsequent courses. The second, appears to be that high school exit requirements are not sufficiently aligned with the entrance requirements of New Mexico's two-year and four-year institutions. Further, these requirements are not aligned among the institutions. Finally, it appears that the teaching force may not be as effective as it needs to be in teaching a high-quality, rigorous curriculum. The Higher Education Department (HED) and PED are working on alignment issues, math standards at PED are complete, and rule-making will begin soon. English standards are also complete and have been submitted for approval, as are the college-ready standards among the two-year and four-year schools. Work continues on aligning college placement tests, and the institutions have agreed to have the American College Test (ACT) look at course content for English and math and recommend what entrance scores should be across the state.

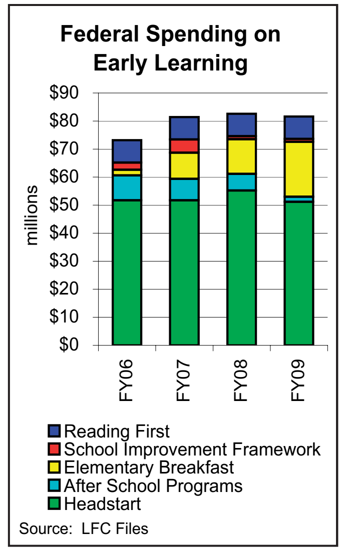
Early Learning. The Legislature continues to value early childhood education as a worthy investment, providing a wide array of significant benefits to children. To support this investment, the Legislature in FY09 provided $44.7 million in funding for programs targeted at early childhood students to establish a sound footing for long-term learning success. In addition, federal funding for early childhood and elementary programs for FY09 totals approximately $74.7 million. Of this amount, $51.2 million is for Head Start, a decrease of $4 million over FY08. Of state-funded programs, kindergarten-three-plus and pre-kindergarten focus on implementing learning interventions for students in kindergarten through third grade in high-poverty schools. Additional funding supports student learning and health by providing breakfast for elementary students and elementary physical education, as well as a number of quality after-school programs.

Early Childhood/Elementary Program Overview (in thousands)								
PROGRAM	FISCAL YEAR							
	2006		2007		2008		2009	
	GF	FF	GF	FF	GF	FF	GF	FF
Kindergarten Plus/Kindergarten-3-Plus	$400.0	-	$999.0	-	$7,500.0	-	$7,163.4	-
Pre-Kindergarten (including CYFD)	$4,000.0	-	$7,991.6	-	$14,000.0	-	$17,000.0	2,000.0
Reading First	-	$8,000.0	-	$8,000.0	-	$8,000.0	-	$8,000.0
Head Start	-	$51,730.0	-	$51,730.0	-	$55,195.0	-	$51,225.2
School Improvement Framework	-	$2,555.5	$8,397.5	$4,721.9	$5,500.0	$1,057.7	$5,500.0	1,000.0
Breakfast for Elem. Students	$475.0	$2,000.0	$2,000.0	$9,290.8	$2,850.0	$12,397.5	$3,450.0	19,636.6
Elementary Physical Education	$1,425.0	-	$2,000.0	-	$8,000.0	-	$8,000.0	-
21st Century Learning Centers	-	$8,913.8	-	$7,717.0	$1,500.0	$5,934.2	$3,300.0	$1,757.7
After School Nutrition/Physical Activity					$650.0	-	-	-
After School Enrichment					$2,000.0	-	-	-
Total	$6,300.0	$73,199.3	$21,388.1	$81,009.7	$42,000.0	$82,584.4	$44,413.4	$83,619.5

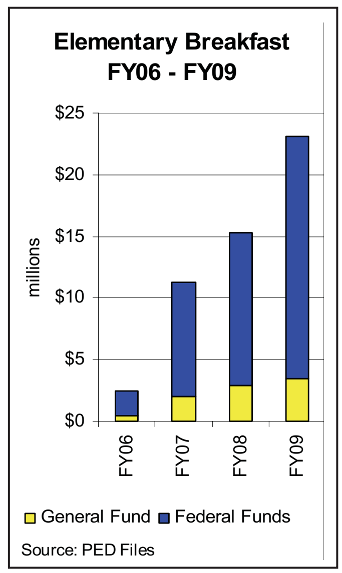
NOTE: The expenditures noted include both recurring and non-recurring appropriations for the listed initiatives.

Appropriations noted are cumulative amounts not incremental growth.

Source: PED, LFC & LESC Files



Kindergarten-Three-Plus. The second-year implementation of kindergarten-three-plus is underway. The program provides an extended school year of up to 25 additional days for students in kindergarten through the third grade in schools with at least 85 percent of students eligible for free and reduced lunch. For FY09, 6,996 students in 25 districts are participating in the program. First-year implementation results of the K-3 Plus program are pending and will be available prior to the 2009 legislative session; however, results of earlier evaluations of the kindergarten-plus program indicate that participants demonstrated improved literacy skills with notable decreases in the number of children classified in the highest-risk categories.



Pre-Kindergarten. For FY09, the Legislature continued its support for the expansion of a voluntary, half-day pre-kindergarten program targeted at areas where public elementary schools are designated as Title I schools and are not meeting the proficiency component required for calculating AYP. At present, approximately 4,530 students are participating in the program divided evenly between PED and the Children, Youth and Families Department (CYFD). Head Start, a federally funded early childhood program also serving disadvantaged families, provides educational services to approximately 6,550 participants statewide. When combined with Pre-K participants, approximately 11,080 4-year-old children are provided with pre-kindergarten preparation services. This represents approximately 41 percent of all 4-year-olds in the state and approximately 58 percent of those 4-year-olds identified as potential participants in pre-kindergarten programs. Results published by the National Institute for Early Education Research (NIEER) of assessments conducted on pre-kindergarten students in the 2006-2007 school year, as well as students who completed the pre-kindergarten program in 2005-2006, suggests

Approximately $26 million is distributed annually through the state equalization guarantee to districts for high school seniors that attend school for one-half of a day or less daily.

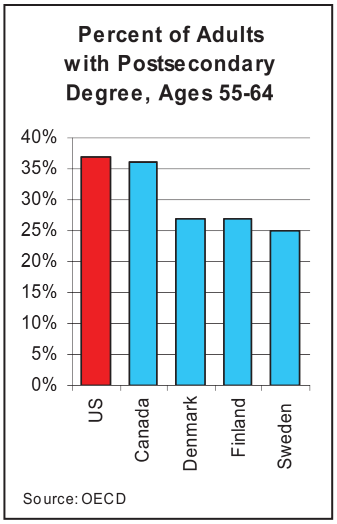
the New Mexico initiative is producing statistically significant increases in children's vocabulary, math, and print concepts scores.

Cost Effectiveness of 12th Grade. Twelfth grade has become a perplexing time for many seniors who believe they have worked hard for three years, taking tests, completing projects, and preparing for life after high school. When senior year rolls around, some students just want to get through the year with as little effort as possible and relax before graduation. Also known as senioritis, this senior-year vacation appears to be costly to the state and raises the question as to the cost-effectiveness of the 12th grade.

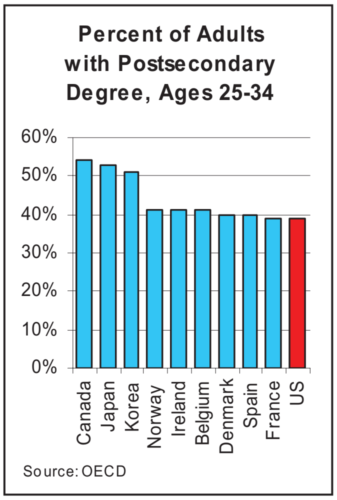
Current statutory provisions require that to be funded as a full-time-equivalent student, students must be regularly enrolled in one-half or more of the minimum course requirements approved by PED for public school students. Nothing in statute requires that students attend class at school, only that they be enrolled. Some of the alternatives for seniors that preclude attendance are dual-credit classes with institutions of higher learning, online or distance-learning classes, and career-to-work internships. Thus, schools receive funding for students who are never physically present at school for an entire day.

Questions of double funding are increasing as students are provided opportunities to complete high school graduation requirements from sources outside the traditional high school environment.

Policy makers continue to be concerned about the competitiveness of the United States economy when viewed through the lens of higher education attainment. These concerns are echoed in New Mexico, both in terms of New Mexico being competitive nationally as well as participating in the nation's global competitiveness. New Mexico faces unique challenges as it lags behind the nation in persistence and graduation rates. Progress on improving higher education outcomes has been slow. Income disparities are increasingly being recognized as the most significant barrier to access and graduation for all students, although they clearly hit minority students hardest. Broad stakeholder support for effective mechanisms to improve outcomes in higher education has remained elusive.



New Mexico higher education leaders and policy makers are beginning to show progress in defining a public agenda and focusing on data to enhance decision-making capacity. Despite these initial steps, the need for considerable discussion, analysis, and consensus building is evident if the state intends to begin to change the way it funds higher education to address these challenges.



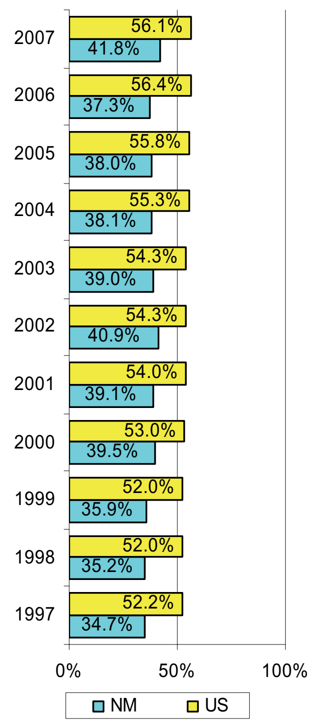
<u>International Competitiveness</u>. The United States is falling behind the rest of the world in higher education attainment. According to data from the Organization for Economic Cooperation and Development (OECD), 37 percent of U.S. citizens in the age group 55 to 64 hold a two- or four-year degree - the highest rate of any country in the world for that age group. However, the attainment rate has increased in younger generations throughout most of the world - other than in the United States and Germany. For example, for the age group 25 to 34, the world leaders are Canada, Japan, and Korea, while the U.S. is tied with France for 9th and 10th place at 39 percent. World labor markets continue to value higher education attainment.

To close the competitiveness gap, some higher education policy experts suggest the United States needs an additional 15.6 million degrees by 2025 to meet international best performing standards. This translates to an additional 781,000 degrees per year. Recently, higher education leaders were reminded of the importance of high quality and excellence in higher education in terms of the nation's stature in the international competitiveness issue.

For the higher education attainment rate for the population overall, New Mexico ranks on the lower end of the attainment scale when compared with other states. Higher education attainment throughout New Mexico differs significantly by region. The percentage of degree-holders in Los Alamos County places it far above other counties in the state. Bernalillo, Santa Fe and San Miguel counties are next for New Mexico at around 36 percent. Most counties cluster in the 20 percent range. The lowest counties are Luna, Union, and Hidalgo at 12 percent, then Guadalupe County at 8 percent.

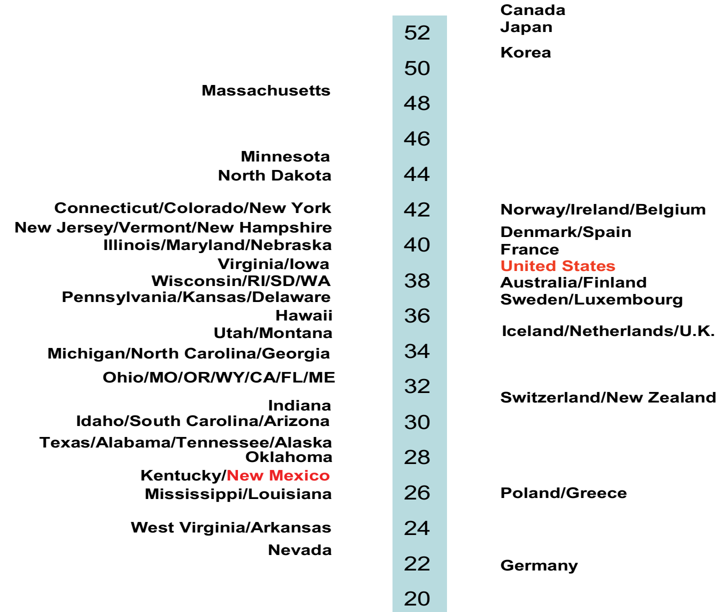
Higher Education

Six-Year Graduation Rates, All Universities United States versus New Mexico



Source: higheredinfo.org

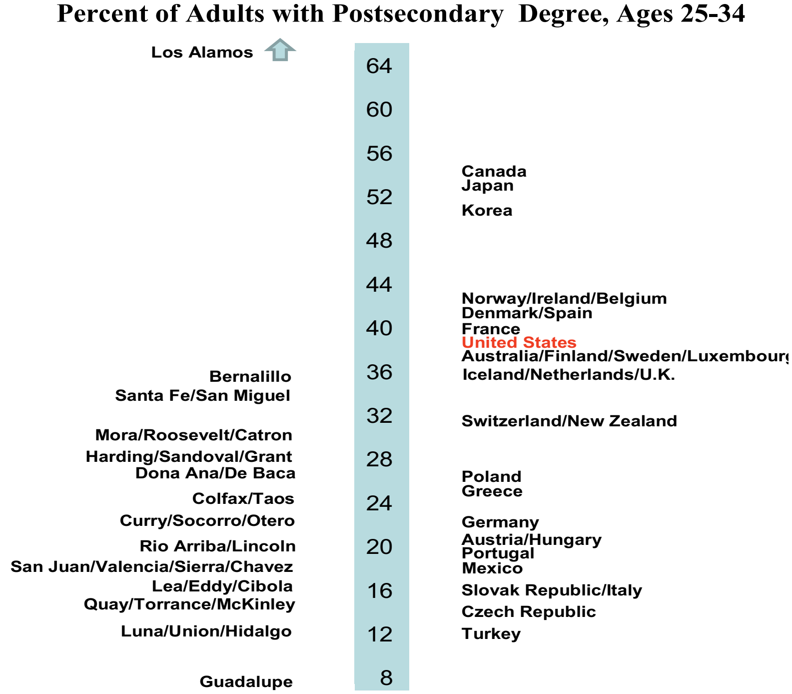
Percent of Adults with Postsecondary Degree, Ages 25-34



Source: Lumina Foundation for Education

Further, the New Mexico Adult Basic Education (ABE) program estimates about 400,000 adults in New Mexico, or about 20 percent of the state's population, do not have a high school diploma, do not speak English well, or both. This program currently serves about 20,000 adults per year who function below the high school completion level or may need English as a second language. Recent ABE program data shows growing program enrollment for individuals ages 16 to 18, in contrast with declining enrollment share for those ages 25 to 44.

Percent of Adults with Postsecondary Degree, Ages 25-34



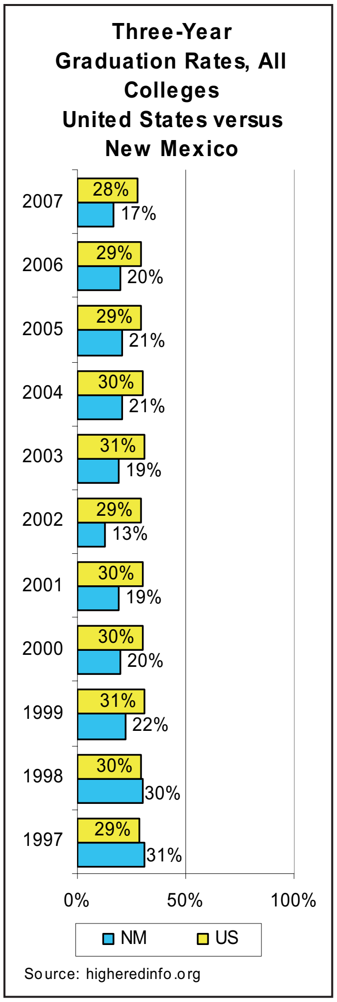
Source: Lumina Foundation for Education

Persistence and graduation are moving to the forefront of the public agenda at the national level. The Bill and Melinda Gates Foundation will spend several hundred million dollars over the next five years to double the number of low-income young people who complete a college degree or certificate program by age 26. The target was set for 2025. The foundation will announce eight to ten states on which to focus its work for the next three to five years. In response to the 2006 report of the Commission on the Future of Higher Education (more commonly known as the Spellings report), national volunteer initiatives were launched focused on performance reporting and transparency of outcome data for participating universities and colleges. While transparency and comparative information are useful, such effort do not by themselves translate into improved outcomes. Graduation rates for New Mexico colleges and universities remain below national averages. Despite year-to-year volatility, graduation rates at the state's universities have generally increased over the last 10 years. On the other hand, the state's two-year colleges have generally significantly slipped behind national averages. Institution-specific details are shown in the performance accountability data and report cards in this report.

New Mexico mirrors national trends in showing a significant shift toward the share of women receiving the degrees awarded. Recent data ranks New Mexico near the bottom in awarding associates, bachelors and masters degrees to men.

P-20. Consistent with national initiatives, the state continues to advance its emphasis on P-20—preschool through college—to attempt to better prepare students to enter college or the workforce. The P-20 approach emphasizes student achievement and retention, college readiness, alignment of coursework between high school and college, workforce skills development, and, in many cases, regional economic development. The state continues its significant investment in Innovative Digital Education and Learning (IDEAL-NM) to provide online education services to New Mexico schools, colleges and universities, and state agencies. Given the extent of the P-20 initiative, ongoing assessment and evaluation will be particularly important in the context of limited resources.

Dual credit and advanced placement have a growing role in the attempt to inject greater academic rigor into high schools. Beginning in FY09, the state authorized a $1.9 million tuition credit offset for those student credit hours categorized as "dual credit". The Higher Education Department (HED) estimates the cost of continuing that credit to be $2.4 million in FY10. Currently, students taking dual-enrollment courses are counted in both the public education and higher education funding formulas. Thus, the state pays twice for students enrolled in dual enrollment courses. The elimination of the tuition credit represents the third form of general fund cost of the program. A potential option to reduce the impact on the general fund would be to amend the public school funding formula to reflect a growing role for higher education in the public schools.



Rankings on Degrees by Gender for 2005-2006:

Associates:
NM Total: 4,911
Men: 34.2%, 40th in US
Women: 65.8%, 12th in US
US:
Men: 37.9%
Women: 62.1%

Bachelors:
NM Total: 7,491
Men: 39.6%, 45th in US
Women: 60.4%, 7th in US
US:
Men: 42.5%
Women: 57.5%

Masters:
NM Total: 3,347
Men: 37.2%, 41st in US
Women: 62.8%, 11th in US
US:
Men: 40.0%
Women: 60.0%

Doctorate Degrees:
NM Total: 279
Men: 56.6%, 7th in US
Women: 43.4%, 45th in US
US:
Men: 51.1%
Women: 48.9%

First Professional Degrees:
NM Total: 250
Men: 44.0%, 47 in US
Women: 56.0%, 4th in US
US:
Men: 50.2%
Women: 49.8%

Source: Postsecondary Education Opportunity datasets.

Nationally, over one-fourth of entering college students enroll in remedial courses, and public colleges spend more than $1 billion annually on remedial education. A 2008 report of the New Mexico Office of Educational Accountability found 50 percent of New Mexico public high school graduates took a remedial class in math or reading at New Mexico colleges. Specifically, 39 percent of these students took remedial classes in mathematics, and 33 percent took remedial coursework in reading. Assessing the effectiveness of remedial coursework in higher education is difficult, but three recent studies in Florida, Texas, and Ohio provide interesting results. The Florida and Texas studies found remedial coursework within higher education did not have a significant long-term impact on student success. In Ohio, students seemed to benefit from enrollment in remedial coursework. Because of difficulty in designing these studies, much more work needs to be done. Further, disaggregation is needed to assess where performance is higher and lower than average, and where best practices are evident.

Fiscal Challenges. In challenging economic times, the search for effective programs and efficient practices is critical. Several national approaches are available; among these, Maryland higher education stakeholders have voluntarily engaged in a significant productivity initiative. In 2004, the University System of Maryland initiated the effectiveness and efficiency initiative, which generated $25 million in savings in the first year and a total of $94 million in savings over time on 11 campuses. A significant element to generate cost savings was a 10 percent increase in faculty teaching loads at most universities and a 20 percent increase for faculty at research universities. Other program elements included efficiencies in auditing, construction management, and procurements; limiting credits toward a degree; streamlining the transfer of students from two-year to four-year colleges; and using spring freshman admissions programs to increase students in the system and more effectively use facilities. The new University System of Ohio has developed a 10-year cost savings plan using the Maryland model, and the University of Colorado recently launched a Task Force on Efficiency.

Funding Formula. The higher education funding formula in New Mexico is focused on inputs such as student credit hours, and recent approaches to modifying the formula have resulted in piece meal changes. The Formula Enhancement Task Force moved away from refining last year's work on an alternative performance funding approach, instead focusing on incremental changes to the current input-based approach. The HED budget hearings focused on new and expanded research and public project funding, rather than addressing the need to reprioritize base budgets to achieve greater effectiveness and efficiency in state budgets.

In fall 2008, the incremental approach was potentially reframed. Higher education stakeholders formed the Instruction and General ("I and G") Steering Committee to provide a "10,000 foot view of higher education and the formula." Its short-term focus is to set an agenda for the renamed Formula Task Force and approval and advancement of proposals developed by that group. The long-term focus of the group will be to "discuss, analyze, and set priorities regarding issues facing the funding of higher education institutions in New Mexico," including performance funding, funding by mission, the education of high-risk students, and workforce development. The group consists of seven members: a research university president, a comprehensive university president, an independent community college president, a branch community college president or director, the secretary of the HED, the director of the LFC, and the chair of the Formula Task Force. These leaders sought to create a policy agenda for the next year.

The approach could shift the state policy focus to critical issues and potential resolutions through the funding formula, rather than incremental changes to the funding formula. The conversation should move from previous years' discussions of "performance funding" to "aligning funding with strategic goals." The members agreed it would be useful to examine tuition levels and credits.

The Formula Task Force primarily emphasized incremental changes to the formula but began to advance concepts of program sharing, improved instruction and general space data and continued to discuss the importance of funding inflationary factors. Due to stronger enrollments in higher education than in the last couple years, the task force did not focus significantly on dropping enrollment.

Instruction and General Square Footage. A significant issue considered by the task force was how to determine the square footage used for instruction and general purposes --- which drives funding for operations and maintenance, building renewal and replacement, and deferred maintenance. The group accepted an HED recommendation to incorporate new square footage data into operating funding formulas in two stages: (1) updating formula workload funding for plant and utilities operations and maintenance for FY10 and (2) updating building renewal and replacement funding in FY11.

During the 2008 legislative session, the Legislature provided a "down payment" of $1.4 million on funding for physical plant and utilities based on the need for a square footage update. Further, the Legislature provided a nonrecurring general fund appropriation of $150 thousand to update and verify the institutional square footage data. The appropriation specifically called for verification of the square footage submitted in the proposal and could be used to maintain the condition management estimation technology (COMET) database and to support a review of the higher education funding formula for facilities. The Task Force recommended continuing this appropriation in FY10.

In 2008, HED engaged in a process to verify campus square footage and determine the amount of space related to instruction and general activities. The total incremental cost of the plant and utilities calculation in FY10 is $5.7 million. Generally speaking, most institutions would see a significant increase in eligible square footage used for the calculations of physical plant and utilities workload in the funding

A Maryland higher education initiative resulted in $25 million in savings in the first year and a total of $94 million in savings over time on eleven campuses. Among the elements of the effectiveness and efficiency campaign, there has been a ten percent increase in faculty teaching loads at most universities and a twenty percent increase for faculty at research universities.

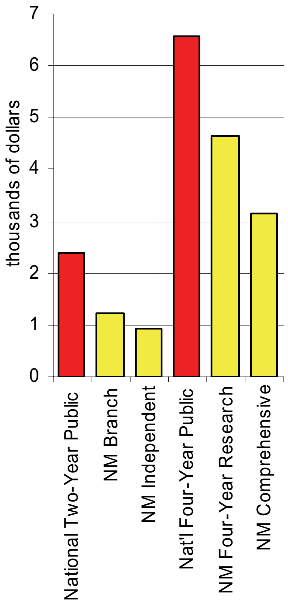
2009 Higher Education Items on the Public Agenda for New Mexico:

- Aligning funding with strategic goals
- Funding by mission
- High risk students
- Workforce development

(as identified by the Instruction and General Steering Committee)

A $150,000 appropriation in 2008 to the Higher Education Department was intended "to provide resources for square-foot verification and administration of the condition management estimation technology database (COMET).

2008-2009 Average Tuition and Fees United States versus New Mexico



Source: Trends in College Pricing, The College Board; NM HED unpublished data.

formula (see Volume III), particularly due to additional new space. Certain institutions would experience reclassifications of eligible space away from the instruction and general category. Some concerns were expressed by institutional stakeholders about the overall process, availability of clear definitions and guidelines, and opportunity for feedback and consensus building. The initiative to verify square footage is mostly complete, but the need to refine information on multiple use buildings is ongoing. For those facilities, such as student unions, museums, and childcare centers, where allocations of space for instructional and general purposes were made, HED has stated its intention of reconsidering comparable facilities across the state to ensure consistency in application of the instruction and general allocation methodology.

A task force subcommittee analysis showed the building renewal and replacement (BR&R) formula has been underfunded by over $250 million over the past 10 years. The formula was never funded 100 percent, and the square footage used in the valuation had been frozen since 1994 to attempt to reach full funding. Further, the subcommittee concluded the current BR&R formula is based on outdated building replacement costs and depreciation methods. Using the existing formula, the current BR&R backlog at public colleges and universities was estimated at over $1.5 billion.

Given the state's significant progress with public school capital outlay, it might be time to address the needs of higher education (see "Capital Outlay").

Program Sharing. The group discussed the need to offer a broader variety of college programs across the state, while avoiding duplication. A subcommittee developed a proposal for a policy and fiscal framework for program and course sharing between colleges and universities. Details continue to be developed, but the Higher Education Department is encouraging a pilot program. The fiscal component of the framework will need to come back to the Task Force for consideration.

The proposed model addresses online course sharing, face-to-face instruction, and face-to-face course sharing. The proposal included a specified standard for splitting formula funding generated by students enrolled in these courses, which would effectively avoid the need for negotiated finances for each arrangement.

HED has indicated the new program would have no fiscal impact in the first year; however, the program could increase state costs in the future if it increases student enrollment. Also of importance is the fiscal impact over time. The program could help to restrain duplication and creation of new programs or it could serve as another vehicle that could significantly expand access, thereby increasing costs. A greater understanding of the details of the proposal, and any potential variations, is needed, including a long-term fiscal impact analysis.

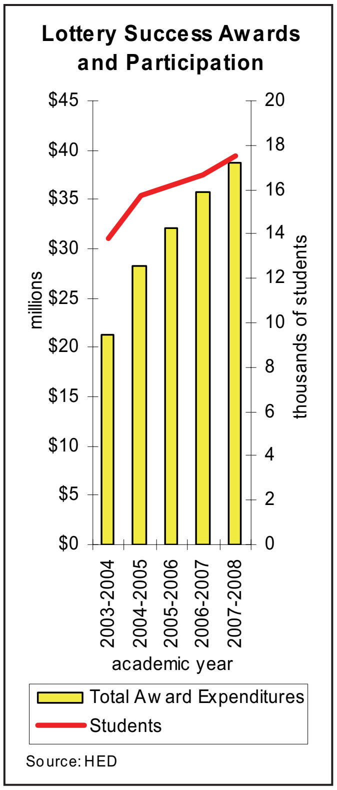
Financial Aid. Student financial aid is provided by several major groups, including the federal and state governments, institutions, and private sources. Challenges include the adequacy and availability of student aid funding compared with increased costs for families, rising student loan burden, and an adequate mix of need-based versus merit-awarded grants.

Nationally, concerns about the cost of college are escalating. In May 2008, a Public Agenda poll found 62 percent of Americans believed many well-qualified students did not have the opportunity to get a higher education because of cost. Inflation in higher education costs continues to significantly exceed trends in medical care, housing, and the general economy. The Delta Cost Project found at public research institutions, as state support of higher education declined and institutional operating costs increased, the student share of the cost of higher education increased from 35 percent in 1996 to 47 percent in 2006.

Concerns about the cost of college and its impact on access to and attainment of higher education had significant implications for the passage of the federal College Opportunity and Affordability Act of 2008, commonly known as the higher education opportunity act. The bill focused on accessibility, affordability, and accountability, but did not provide a definitive framework for the nation to move forward. The legislation does not make major changes to the substance or operation of federal loan programs. Many of the federal student lender subsidies were shifted to federal budget reconciliation legislation. The legislation emphasized simplifying the process of applying for federal student aid, making Pell grants available year-round, and forgiving loans for students who enter high-demand fields. Further, the act provided for enhanced ethics and transparency in the student loan industry. One example of the result of extensive new reporting requirements is a "watch list" of colleges that raise tuition rapidly prepared by the federal government.

Given New Mexico's emphasis on access, it is important to consider that New Mexico tuition is relatively low when compared with the rest of the nation. This has remained true even while institutions have raised tuition in excess of the tuition revenue credits. According to a recent study by the Western Interstate Commission on Higher Education, resident undergraduate tuition and fees rose 107 percent at the state's two largest universities over the 10-year period ending 2007-2008. Over the same time period, other New Mexico universities raised tuition and fees by an average of 88 percent, and resident in-district tuition and fees at public two-year institutions in New Mexico grew by 83 percent.

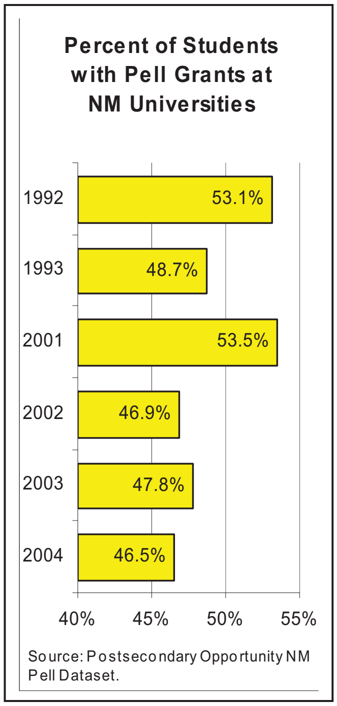
While low tuition clearly has a role in promoting access, the demands on state resources need to be considered. Small increases in tuition and fees can be accommodated, given the constraints expected on state resources over the mid-term.

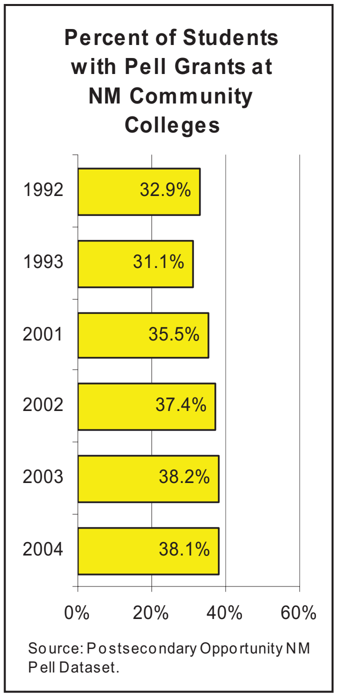


Overall, in 2006-07, NM ranked about in the middle of states for state and federal need-based grant coverage of Pell recipients:

Awards: Rank #24
Dollars: Rank #30

Source: Postsecondary Education Opportunity, New Mexico datasets.





Despite relatively low levels of tuition, the state faces considerable challenges to support students in need of assistance. New Mexico ranks about in the middle of states for the combined federal and state effort to address student financial aid for need-based students. New Mexico universities are ranked third in the nation for the share of students receiving Pell grants, but the percentage of students with Pell grants at New Mexico universities appears to be declining. State community colleges lag with a ranking of 28th in the nation, but have shown improvement over time. More discussion of this data is needed.

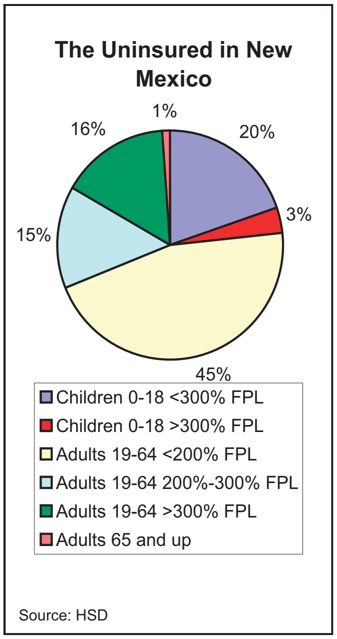
Lottery Scholarships. Lottery scholarship fund revenue in FY08 increased 17.7 percent from FY07, reversing the FY07 decline of 5.5 percent. In testimony to the committee this fall, lottery officials expressed concerns about significantly weaker than expected sales in the current fiscal year.

Legislation enacted in 2007 requires the Lottery Authority to distribute 27 percent of the gross revenues to the lottery scholarship fund in 2008 and 30 percent in 2009 and later, increasing from an average of 24 percent. To comply, the Lottery Authority was forced to keep operating and game expenses down, which may have softened gross revenues. Most of the savings came from lowering prize payouts, about 57 percent in FY07 and 54 percent in FY08. State statute requires a minimum of 50 percent payout. The Lottery Authority entered into a new contract effective September 2008 for instant games, which should save significantly on game expenses.

With respect to expenditures, HED is in the process of developing a new model to project lottery expenditures, as well as reconciling balances for the lottery scholarship and other student financial aid funds.

LFC Program Evaluation. The LFC program evaluation group completed a review of state student financial aid programs this interim. Among the key findings were (1) low-income students are finding it harder to pay for college (2) growth in tuition exceeds growth in need-based aid (3) loan repayment programs are more cost-effective than loan-for-service programs. The complete report can be found on the LFC website.

With employer-based healthcare premiums rising 5 percent in 2008 and the number of New Mexicans without insurance still above 400,000, health care remains a significant concern of citizens and policymakers. Programs are constantly being created, expanded, and funded but new demands spring up just as quickly. Medicaid and the State Children's Health Insurance Program (SCHIP) provide the basics for low-income children, and an expanding State Coverage Insurance (SCI) program for adults is nearly oversubscribed. The establishment of the Behavioral Health Collaborative brought together diverse agency interests to help integrate policy and service delivery with the experimental statewide entity, and spending has increased dramatically. A new managed care program for long-term services was implemented to coordinate care for the disabled and elderly populations, along with other Medicaid waivers. State and federal funds amount to almost $4 billion of expenditures that support a complex of insurance companies, hospitals, providers, and consumers, each with their own set of financial, emotional, business, and human needs. Efforts at healthcare reform focused on reducing the uninsured rate have been largely rejected, and with uncertainty at the federal level, the outlook for state reforms seems even more tenuous.



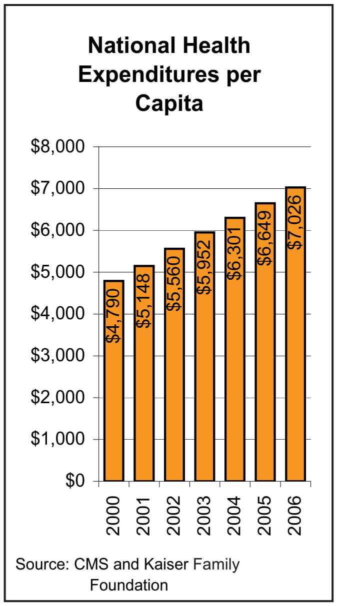
Efforts to Expand Health Insurance Coverage. Following the report from the 2007 Health Care Coverage for New Mexicans Committee – a group comprising both executive and legislative representatives – the Legislature in the 2008 session addressed several bills related to healthcare access and health insurance reform. Several healthcare bills were introduced that encouraged expanded services or required in-depth study leading to universal health care. Other legislation established mandatory health insurance coverage through both commercial and public insurance components. Most initiatives established a healthcare authority to accomplish the legislative goals and moved elements of existing agencies into the authority. Healthcare insurance reform was either a direct or implied component of most bills.

The Health Solutions Act, initiated by the executive, was the most debated bill. It created a new health care authority, consolidated several state agencies, significantly changed sections of the insurance code, and mandated coverage for individuals and the provision of insurance by businesses. The bill, like others introduced during the session, failed to pass both chambers. During the interim, a Senate working group and executive staff worked on a compromise proposal for consideration during a special session. Following several meetings to address Senate concerns, the executive proposed a revised version of the Health Solutions Act for the August special session.

While the insurance reform and agency consolidation bills failed to gain support, an appropriation to expand enrollment in Medicaid of eligible children was enacted during the special session. Always an implicit element of previous bills, expanding Medicaid is the principal means for reducing the uninsured rate in New Mexico. With some 405,000 uninsured individuals in the state, and perhaps as many as half of those eligible for a public program, Medicaid expansion is often the first program considered when trying to reduce the uninsured rate.

Following significant debate, the Legislature passed Senate Bill 22. As enacted, the bill appropriated $32.5 million to the Human Services Department (HSD) for Medicaid programs, as follows:

- $10 million to provide coverage for individuals enrolled in or eligible for the developmental disabilities waiver;
- $20 million to provide health care coverage for individuals through age 18 in Medicaid and SCHIP; and
- $2.5 million for behavioral health services to individuals through age 18 with behavioral health care needs in Medicaid and SCHIP.



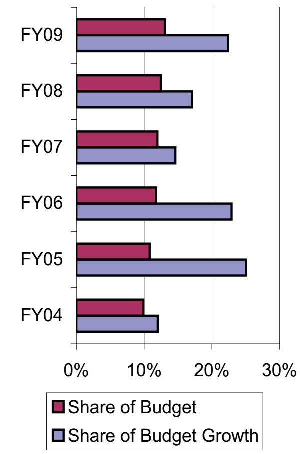
<u>Competing Investments in Health Care.</u> With needs throughout the healthcare system, reducing the uninsured rate is only one of many options to pursue in reforming health care and improving health outcomes. When weighing the costs and benefits of various proposals, insuring more people may not produce as significant a return on investment or as significant an improvement in health as other efforts. Creating a statewide home visiting program to ensure infants are receiving necessary care from the start of life, for example, would carry significant benefits to the population in the long term (see "Social Services" section). Short-term investments, like reducing the waiting list for the developmentally disabled or disabled and elderly home-based care programs, would address an already identified healthcare need. While obtaining insurance does increase preventive care and reduces uncompensated care at hospitals, reducing uninsured rates may just shift costs within the healthcare system without addressing the principal problem – escalating costs.

<u>Costs.</u> Most healthcare reform efforts seriously considered by the executive and the Legislature have attempted to expand health insurance coverage. Few proposals have centered on the cost drivers – behavior and life style choices, technological advances, the aging population, inefficient systems, and the overuse and misuse of medical services. Smoking and obesity have been estimated to account for 7 percent to 14 percent and 9 percent of healthcare spending, respectively. The use of technology to improve acute care also contributes significantly to healthcare costs. Coupling technology with overuse or misuse (e.g., the practice of defensive medicine) can have a compounding effect on costs. A July 2008 report by the *New York Times* found growth in the use of costly CT scans despite little evidence of necessity.

<u>Medicaid.</u> The state is impacted significantly by these cost drivers through the Medicaid program. Medicaid provides comprehensive medical care (hospitalization, doctor visits, pharmaceuticals, etc), vision services, and dental services to more than 445,000 New Mexicans – primarily children, pregnant females, parents in the Temporary Assistance for Needy Families (TANF) program, and certain elderly and disabled individuals receiving Supplemental Security Income (SSI).

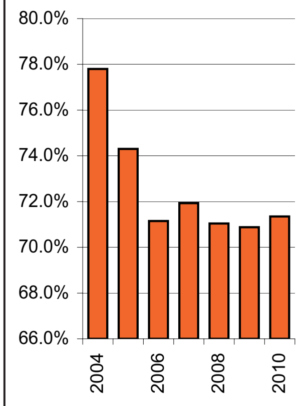
Eligibility for Medicaid depends on income, and all children (18 and younger) are eligible if the family income is below 185 percent of the federal poverty level (FPL) ($39,220 per year for a family of four). Children make up more than half of the individuals covered by the program – 294,597 New Mexico children were enrolled in Medicaid in July 2008.

Increasing State Funding. The total FY09 appropriation from the general fund for Medicaid, including behavioral health and administration, was $798.5 million, a 13 percent increase over FY08. This $91 million increase from the general fund accounted for about 23 percent of the new money available for FY09 appropriations. The appropriations from the general fund have increased 66.2 percent over the past five years, and much of the change is attributable to expansion of the Medicaid population, cost increases, and decreased federal financial participation.



Source: LFC Files

Such increases are projected to continue with little change into the future. Recent research from Dartmouth University and the Congressional Budget Office has shown that higher medical spending does not necessarily lead to better health outcomes. It is essential, therefore, to understand the cost drivers in the system and seek policies that minimize the increase while improving long-term health outcomes.

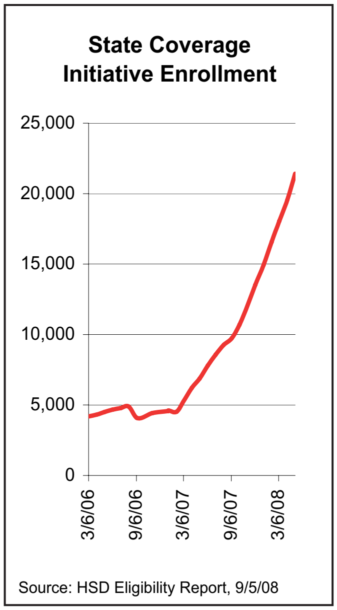


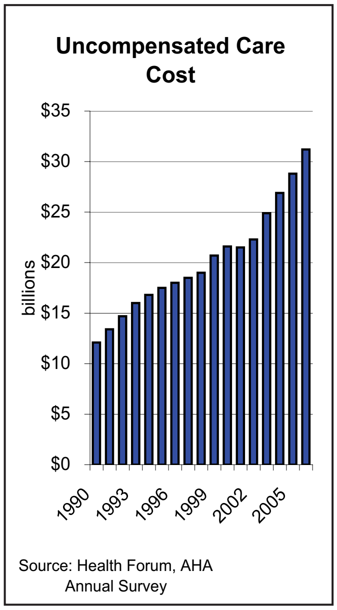
Source: LFC Files

The HSD Medical Assistance Division is attempting to address some of these issues through pay-for-performance clauses in its contracts with managed-care organizations. These programs withhold a small percentage of payments (0.5 percent) until certain performance goals are met. By setting goals for the managed-care programs, the state should have greater ability to focus care on prevention and disease management programs that may reduce costs in the long run.

Expanding Enrollment. The $20 million appropriated in the special session, matched with federal funds, may provide coverage under Medicaid to as many as 19,000 currently eligible children. This compares with approximately 48,000 eligible but uninsured children. The projected per member per month cost is $296 ($3,552 per year). Assuming that children eligible for Medicaid are enrolled when they need care, the targeted kids should be relatively healthy and therefore less expensive to insure. Without more detailed cost data from HSD, it is difficult to assess the actual cost of any given population in the Medicaid program, especially in managed care.

HSD will not provide the per-member-per-month rates of the 12 cohorts under managed-care organizations for fear of compromising its negotiating power. The data is necessary for the Legislature to evaluate the cost-effectiveness of the program and more accurately appropriate funding. The lack of information hampers the Legislature's ability to adequately appropriate and set policy priorities for the Medicaid program.





Federal Medical Assistance Percentage (FMAP). Another potential cost for state Medicaid programs are changes in the federal medical assistance percentage (FMAP). The share of federal funding available to each state varies and is determined by a formula of the state's per capita personal income compared with the national average. For New Mexico, as personal income has grown faster than the national average, the declining FMAP has resulted in proportionally fewer federal dollars for the state's Medicaid program. However, a downward revision to New Mexico's personal income calculation should bring an increase in the FMAP for FY10, resulting in more federal funding for the Medicaid program.

State Coverage Initiative. To fully expend funding through the State Children's Insurance Program (SCHIP), the state developed the State Coverage Initiative (SCI), under a separate federal waiver, to provide coverage to adults. The federal waiver ends in 2010, and funding for the program is highly dependent on federal reauthorization of SCHIP. Enrollment ballooned from 4,799 in July 2006 to 25,626 in July 2008, and at this rate will far exceed previous projections and available budget. In response, HSD has implemented a registration policy to control enrollment, essentially capping it at about 40,000 clients.

Uncompensated Care. The SCI program has been helpful in addressing uncompensated care in New Mexico's hospitals. According to the American Hospital Association (AHA) annual report, the estimated cost of uncompensated care to hospitals has almost tripled since 1990 to $31.5 billion. These uncompensated care figures represent the estimated cost of bad debt and charity care to the hospital. This figure is calculated for each hospital based on its actual cost of providing service. The uncompensated care figure does not include Medicaid or Medicare underpayment costs or other contractual allowances. For example, University of New Mexico Hospital (UNMH) reported uncompensated care of more than $120 million in FY08.

With SCI revenue at UNMH at about $23 million in FY08, the program has become a significant source of revenue for reducing uncompensated care. HSD reduced UNMH's SCI per-member-per-month payment from $404 to $250 and, under the enrollment restriction plan, is not allowing UNMH to enroll new patients in the SCI program. Without new SCI clients and a reduced payment, the hospital is projecting a decline in SCI revenue to $10.5 million by FY10.

Sole Community Provider Hospital Funds. Another significant revenue source to address uncompensated care is the Sole Community Provider Program – a federal/state payment program designated for hospitals that are the only hospital within a 35-mile radius. After HSD determines how much federal revenue is available, counties provide money from local option gross receipts or other tax revenue to be matched with federal Medicaid revenue and then distributed to hospitals. For FY10, the Medicaid projection estimates this program will have a total of $251.5 million, including a state match of $69.3 million, available for participating hospitals. A formula in federal regulations determines the maximum each hospital may receive and the maximum for the state.

In New Mexico, 27 hospitals and 27 counties participate. This funding source has increased rapidly in the past few years, making it difficult for some counties to provide the match for maximum federal participation. Over the last few years, not all counties have provided the full amount needed to draw down all the federal revenue. In response, the NM Hospital Association has supported legislation to appropriate state general fund revenue to counties to enable them to contribute their full share to the sole community provider fund.

UNMH does not participate in this program because the Albuquerque metro area contains several hospitals within its 35-mile radius. However, UNMH does participate in a program known as the upper payment limit. This is a "sister" program to the sole community provider program and partially compensates for the lower reimbursements for hospital patient care paid by state Medicaid.

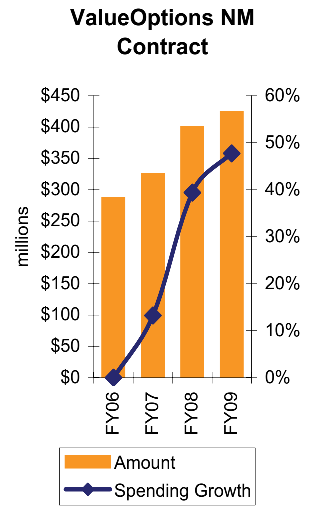
Federal Funding. Federal budget constraints and reauthorization of key federal health programs pose risks to the state Medicaid budget in FY09 and FY10. SCHIP is due for reauthorization, likely in March 2009. New Mexico uses SCHIP funds for the SCI program, and Congress may preclude states from using SCHIP funds to cover adults. If so, HSD will have to apply for a new federal waiver for the adult population, end the program, or request state funding to continue the program.

In addition, in April 2009, several new federal Medicaid rules are scheduled to take effect. Of the six rules currently under moratorium, two carry potentially significant impact to New Mexico – more than $225 million in lost federal revenue in New Mexico for FY10, according to HSD analysis. The largest impacts will be to the sole community provider fund ($175 million) and changes to upper payment limits at public hospitals ($46 million), principally at UNMH.

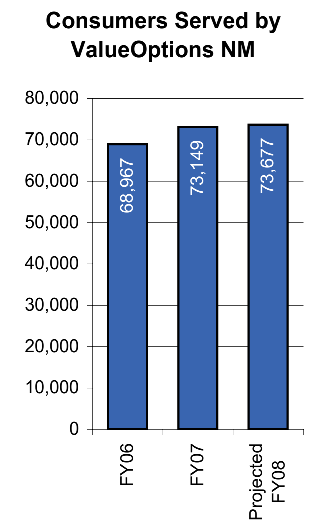
Behavioral Health. The Legislature created the Behavioral Health Collaborative in 2004 to develop and coordinate a single statewide behavioral health system. Consisting of 15 state agencies and commissions and the Governor's office (17 members), the collaborative was designed to address long-standing problems in the delivery of mental health services:

- Insufficient access to evidence-based care;
- Service delivery through a confusing array of uncoordinated public and private agencies and providers; and
- Emphases on "managing" people's problems rather than helping them adapt and lead productive lives.

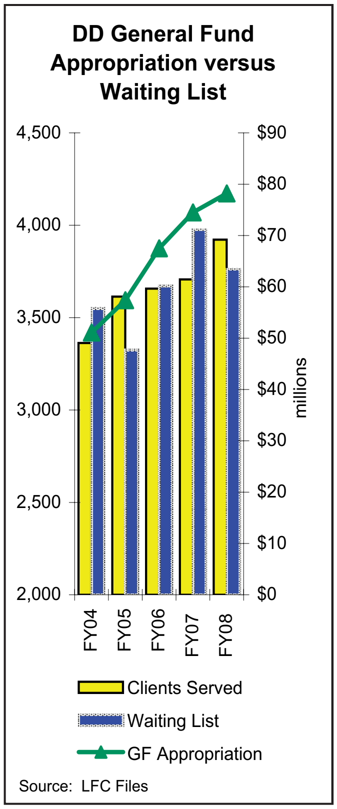
The principal task of the collaborative is to oversee and manage a more than $400 million contract with a statewide entity that provides a single statewide provider network and coordinates behavioral health services.



Source: BHC Annual Report and LFC Files



Source: Behavioral Health Collaborative



ValueOptions NM has served as the statewide entity and the contract expires in FY09.

For FY09, the total budget, including federal funds, for behavioral health collaborative agencies is $424.6 million, of which $323.4 million comes through Medicaid. The total general fund appropriated for FY09 is $177.6 million, with about $95 million for Medicaid matching funds.

FY10 will be the first year the collaborative will submit a separate budget consolidating the parts of behavioral health appropriations. While appropriations will be made to the respective collaborative agencies, the consolidated request should provide the Legislature with a better picture of behavioral health spending on the contract with the statewide entity.

For FY08, the contract with ValueOptions was more than $388 million and included funding from Medicaid, a federal block grant, and general fund appropriations to the Department of Health (DOH), the Children, Youth and Families Department (CYFD), the Aging and Long-Term Services Department (ALTSD), HSD, and the Corrections Department. With about $424 million appropriated for FY09, behavioral health services funding increased 9.3 percent from FY08.

Administration and Oversight. The collaborative's principal duty is oversight of ValueOptions NM, and the collaborative has taken a more direct role in addressing service and payment complaints against ValueOptions NM. At the same time, with growth in the contract, payments to ValueOptions' for administrative expenses have increased significantly. From FY07 to FY08, direct service cost increased 6.5 percent (from $293 million to $312 million) and administrative costs increased some 62 percent (from $27.8 million to $45 million). By the contract, ValueOptions must spend at least 86 percent of funding on direct services, leaving 14 percent for administration. The increase in FY08 administrative expenses brings ValueOptions to the 14 percent cap.

Medicaid Waiver Programs. New Mexico currently has five waivers to the Medicaid program to allow home- and community-based services to certain patients. The waivers and dates of implementation are as follows: developmental disabilities (DD), 1984; disabled and elderly (D&E), 1983; medically fragile (MF), 1984; HIV/AIDS, 1987; and the *Mi Via* self-directed waiver (which includes the long-term brain injury program), 2006. The DD, MF and HIV/AIDS waivers are funded through the DOH and receive Medicaid match through HSD. The D&E and *Mi Via* waivers are administered through ALTSD; however, the Medicaid funding for these programs comes through HSD and DOH. The key issue the state faces for the largest of these waiver programs, DD and D&E, is that demand exceeds available slots, despite almost continuous increases in state funding.

Developmental Disabilities Medicaid Waiver. A developmental disability is 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 manifest itself before the age of 22, continue indefinitely, result in substantial functional limitations in three or more areas of major life activity as defined in the waiver, and reflect the need for a combination and sequence of special care treatment or other services that are long-term and individually planned and coordinated.

At the end of FY08, 3,762 developmentally disabled clients were receiving services, and 4,330 were on the central registry waiting list. The number of developmentally disabled clients has increased by more than 1,600 since 2000. From FY08 to FY09, the Legislature increased funding for the DD waiver by $8 million from the general fund with the expectation that an additional 125 persons would enter into services. Despite this funding, the waiting list grew from 3,392 to 4,330 individuals, or 28 percent, in FY08.

The 2008 General Appropriation Act includes $80 million from the general fund for DD waiver services. Laws 2008, Chapter 10, (Senate Bill 22, 2nd Special Session) provided another $10 million from the general fund from January 2009 through June 30, 2010. The total funding should allow another 230 individuals to enter services. The intent of the Legislature is that this funding becomes recurring to meet the needs of the developmentally disabled population.

DOH estimates the cost per client to be $76 thousand – $22.5 thousand from the state general fund and $53.5 thousand from federal Medicaid. The cost per client has gone up approximately $10 thousand since FY06. DOH attributes cost increases to increased utilization by developmentally disabled clients, inflation in the cost of medical services, increases in provider rates, and the preference of developmentally disabled clients for more expensive community living arrangements. Another factor is the higher number of clients mandated to the program by the judicial system. Many of these clients require 24-hour observation and services.

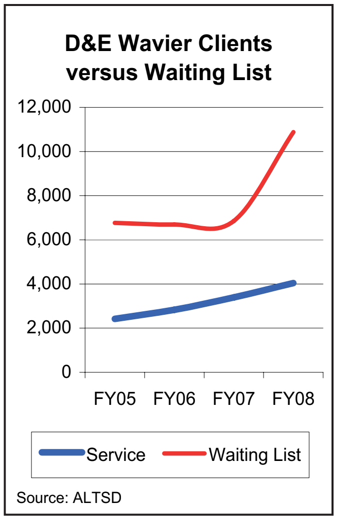
Jackson Lawsuit. The Jackson lawsuit, filed in 1987, involves the state's obligation to provide services to developmentally disabled clients in an integrated setting, as opposed to a state facility. The department was ordered by the court to complete a plan of action to ensure compliance with the finding of the court. The state has successfully disengaged from 34 of the 58 outcomes in the plan of action and has met 46 of the 70 continuous improvement requirements. Due to the lack of recent progress, both parties agreed to hire a court-appointed to help speed the process. DOH pays for the "706 expert" and hopes the individual will be a neutral technical expert who could assist in the lawsuit disengagement. In the August 2008 report, the expert cited a question-and-answer cycle that results in little action to resolve specific issues and reported an immediate concern that "Jackson class members are dying at an overwhelming rate from aspiration pneumonia." DOH is preparing a response to this report.

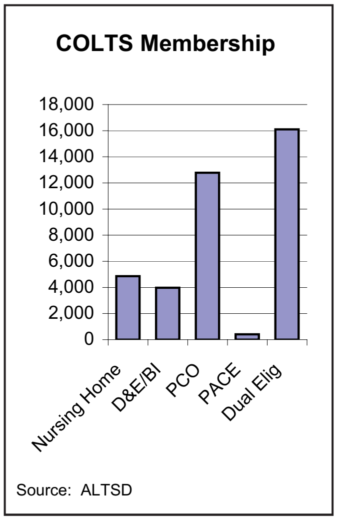
History of Disengagement from Jackson Plan of Action

2008	1
2007	0
2006	5*
2005	1
2004	0
2003	1
2002	0
2001	3
2000	18
1999	8
1998	2
Total	34 of 58 outcomes

*Deleted with consent of plaintiffs. All others by action of court.

Source: DOH





DOH estimates the cost of the lawsuit to be approximately $4.3 million annually for consultant, plaintiff, and agency legal fees. In addition, $520 thousand is estimated for the 706 expert and staff, for a total cost of approximately $4.8 million for FY09.

Disabled and Elderly Medicaid Waiver. The D&E waiver enables elderly persons with disabilities to receive Medicaid services in home or community settings instead of institutions. D&E clients for FY08 numbered 4,040, with approximately 3,338 clients on the waiver during June 2008, an increase of 270 over June 2007. The central waiting list was 10,879 as of June 30, 2008, with an estimated wait of 36 months to become eligible for services. ALTSD attributes the registry growth to more individuals becoming aware of services, increased requests from individuals with brain injuries, and budgetary limits on growth of the program.

Mi Via Self-Directed Waiver. A new waiver was approved during fall 2006 to provide qualified individuals more discretion in managing services provided by the waiver program. Individuals who meet medical and financial eligibility for services under DD, D&E, Medically Fragile, or HIV/AIDS waivers or the brain injury program can qualify for *Mi Via.* Any clients already on one of the Medicaid waivers can transfer to *Mi Via.* Funding for the program comes from existing waiver budgets. The goals are to allow greater participant choice and control over the types of services and supports purchased within an agreed budgetary amount no higher than received under the applicable Medicaid waiver. Services provided include current waiver services and other supports not available such as home appliances, assistive technology, or medical equipment.

As of August 2008, 335 participants had elected to transfer from traditional waiver services to *Mi Via* and 407 individuals used services purchased from their individual budgets.

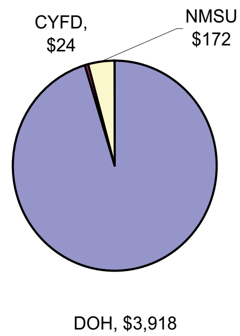
Coordinated Long-Term Services (CoLTS). ALTSD and HSD implemented CoLTS on August 1, 2008. A Medicaid managed-care program, CoLTS is designed to provide services to D&E waiver recipients, personal care option consumers, nursing facility residents, eligible individuals with brain injury, recipients who have both Medicaid and Medicare benefits (referred to as dual eligible), and some services for clients approved for waiver services under the *Mi Via* program. When fully implemented, ALTSD estimates the targeted population will be approximately 38,000; to date, 12,063 individuals have enrolled.

CoLTS is a capitated managed long-term care program contracted with two national managed-care organizations, Amerigroup and Evercare. The membership is expected to be roughly divided between the two plans, although eligibles have a choice. These vendors were selected through an HSD request for proposals to work with the state to plan, design, implement, and administer a coordinated long-term care system.

CoLTS will be implemented in four phases, and enrollment will continue through 2009.

Advocacy groups are concerned that under a capitated payment system, where managed-care organizations receive a set amount per patient, the MCO may intentionally under-serve members because of the cost of higher care levels is not fully covered by the payment. ALTSD and HSD report that they will closely monitor contract requirements and client complaints in particular to ensure this does not occur.

FY09 Appropriations for Autism (in thousands)



Total: $4.1 million

Source: LFC Files

Autism. Autism spectrum disorder (ASD) is defined by the American College of Physicians as "severely impaired development of normal communication and social skills." The federal Centers for Disease Control estimates autism affects one child in every 150 births or 67 children in every 10,000 births. There is no statewide database of autistic children, but DOH estimates approximately 2,000 children under the age of 18 in New Mexico have some degree of ASD.

ASD has no known cause or cure. However, the Autism Society of America states "autism is treatable" and the earlier the treatment services begin, the better the outcomes. However, treatment is expensive, and DOH estimates the average cost is $29 thousand per child per year for services. Currently, about $4 million is appropriated for autism services. The appropriation does not qualify for Medicaid match. In 2007, a task force, convened as a result of Laws 2007, Chapter 107 (Senate Bill 197), reviewed autism and made recommendations for services. One recommendation was to change the Medicaid DD waiver to include autism.

DOH Facilities Management. The Fort Bayard Medical Center (FBMC) has experienced considerable management problems resulting in poor care and treatment. Laws 2005, Chapter 317, authorized the DOH secretary to enter into an agreement with an independent contractor to operate the facility with actions exempt from the Procurement Code. All non-managerial employees would remain as state employees. In addition, in conjunction with the General Services Department Property Control Division, DOH could enter into a lease or other long-term agreement of not more than 25 years for the provision and operation of a facility in Grant County to replace the current facility. Three advantages of the contract management of FBMC were identified: the contractor would have more success in hiring key management staff without going through the state personnel system, corporate management experience could be applied to directly solving facility problems, and construction of a replacement facility would occur much faster than under traditional state capital outlay processes.

GEO Care received the initial contract and had success in hiring key staff, but not all management problems at the facility were resolved. The contract was ended through mutual agreement with DOH, and the continuity of management staff was immediately lost when a new contractor, Pinon Management, took over management responsibilities and began hiring new management staff. There was only a one-day transition between the contracts.

The second advantage was focused program management but because GEO Care was unable to resolve all the care problems, DOH, in March 2008, voluntarily gave up its Medicaid certification, and department staff concentrated on resolving patient care issues. This required the department to pay operating costs of $1.5 million per month due to the loss of federal Medicaid revenues. The department received Medicaid recertification of FBMC from the Centers for Medicare and Medicaid Services in September 2008 with an effective date of June 26, 2008.

Finally, a new facility has not been constructed. Groundbreaking was in October 2008 with an estimated 18-24 months for completion, approximately five years after the privatization effort was authorized by statute. As a result, none of the stated advantages of privatization were realized.

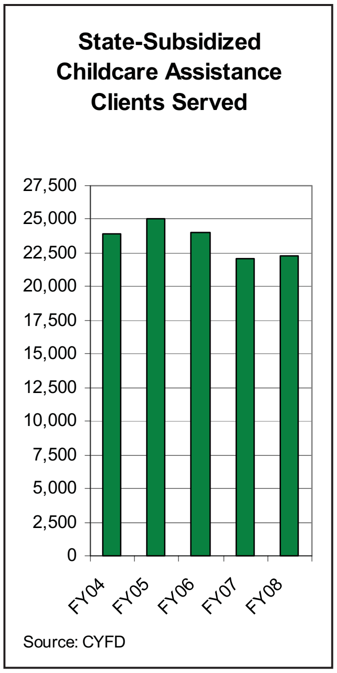
New Mexico provides an array of social service programs that assist in improving human welfare, providing early childhood interventions, and protecting our most vulnerable populations. These services include subsidized child care, pre-kindergarten, home visiting services, child protective services, adult protective services, and domestic violence, among others. The social service programs are a mix of investments in early childhood and remediation for disadvantaged adults and children.

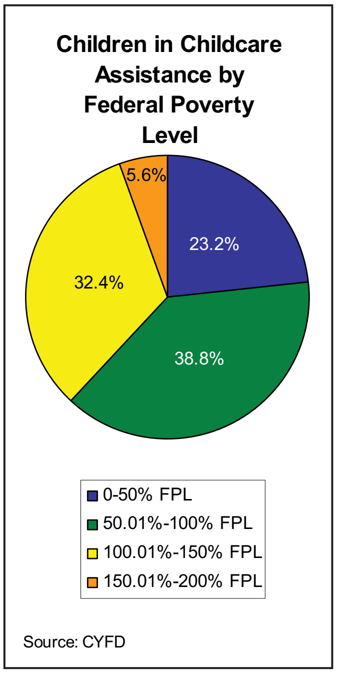
Early Childhood Initiatives. Recent research emphasizes the importance of brain development in early childhood, especially in developing cognitive and social skills. Eighty percent of the human brain is developed between birth and age 5. Early experiences help determine whether a person's brain architecture develops in ways that promote future learning, behavior, and health. Quality child care, home visiting, and pre-kindergarten are early childhood initiatives gaining attention throughout the United States.

*Studies on Early Childhood Programs***.** In 2005, the research company RAND published a book, *Early Childhood Interventions: Proven Results, Future Promises*, that evaluated 20 early childhood programs. The study estimates the returns to society for each dollar invested in early childhood programs range from $1.26 to $17.07. The largest benefit-cost ratios were found in programs with long-term follow-up because they allowed measurement at older ages for outcomes such as educational attainment, delinquency and crime, and earnings.

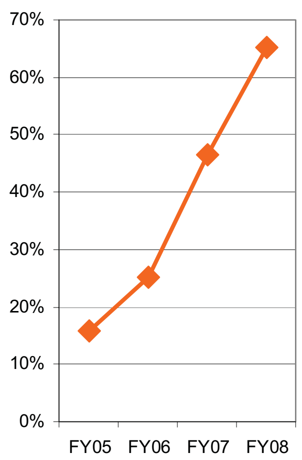
Economic benefits of early childhood interventions tend to be greater for programs that effectively target at-risk children than for programs that serve all children. Research shows investments in early childhood programs have the potential to generate government savings that more than repay the costs and have returns to society as a whole. The returns to society are through increased taxes paid by more productive adults and significant reductions in public expenditures for special education, grade retention, welfare assistance, and incarceration.

Child Care. In the 2008 special session, the Legislature appropriated $7.2 million from the Temporary Assistance for Needy Families (TANF) federal block grant for childcare subsidy in FY09. The Children, Youth and Families Department (CYFD) had reported, based on projections, the childcare assistance program was expected to be out of money by fall 2008, requiring the department to implement a waiting list. Of the $7.2 million appropriation, $5 million will allow the department to continue to subsidize childcare costs for families with incomes at or below 165 percent of the federal poverty level (FLP), currently $34,072 a year for a family of four. The $2.2 million will be used to begin increasing eligibility to 200 percent of FPL. This will increase eligibility to approximately 566 more children and ensure sufficient funding for the current 22,800 children served. Families are now eligible for assistance until their income reaches 200 percent FPL.



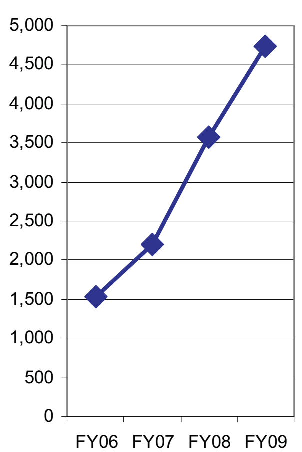


Licensed Childcare Providers at STARS/AIM Levels 2-5



Source: CYFD

Number of Children Funded for Pre-Kindergarten



Source: CYFD

In the last four years, CYFD has improved the quality of child care through a financial incentive program (Stars/Aim High) that provides increased reimbursement rates for state-subsidized children in quality childcare programs with five distinct levels. The percent of licensed childcare providers at Stars/Aim High levels two through five or with national accreditation has increased from 15.9 percent in FY05 to 65.3 percent in FY08. CYFD stated basic licensure should be a Stars/Aim High level two, which focuses on a functional environment, positive interactions between caregivers and children, and three handbook elements. However, CYFD would need an increase in funding for the Training and Technical Assistance Program to help bring all childcare providers up to a level two.

Head Start. New Mexico supplements the federal Head Start program with $1.5 million from the general fund to extend the hours of care beyond the school day and to provide year-round programming. Also, $447 thousand of state funds are provided to childcare centers that provide early education services based on the Head Start model.

Home Visiting. In the 2008 legislative session, the Legislature doubled funding to $2 million for additional home-visiting sites and increases in provider reimbursement rates. The Legislature also added language requiring $250 thousand be matched with Medicaid funds to encourage the development of a Medicaid funding stream. Other states, such as Louisiana and Oklahoma, have accessed Medicaid funding through targeted case management or the use of skilled medical professionals. In FY09, CYFD issued a request for proposal for $250 thousand for Medicaid providers. Approximately, 60 percent of children born in New Mexico are Medicaid eligible.

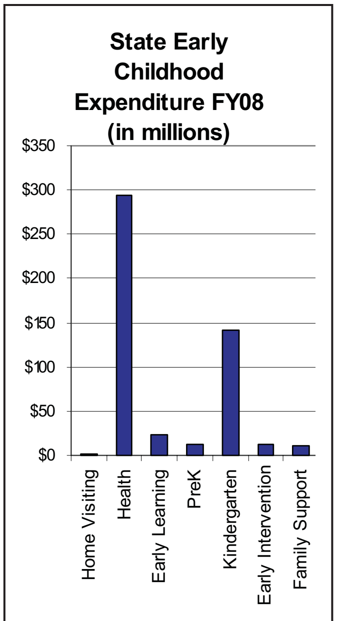
The goal of New Mexico's home-visiting programs is to provide services to improve and enhance the physical, emotional, mental, and behavioral health of infants, toddlers, and their families. The target population of home-visiting services is first-time parents of infants and toddlers, from birth to age 3, and pregnant women. Currently, the executive has no statewide plan for the expansion of home-visiting services. Some options for expansion include partnerships with hospitals and universities with nurse education programs. In addition, some home-visiting funding might be available for planning grants that could be accessed by hospital associations and rural primary healthcare associations. Universal implementation of home-visiting statewide is estimated to cost around $30 million, based on a per-year cost per child of $3,200 and 9,375 newborns to first-time mothers per-year.

Pre-Kindergarten. In FY08, New Mexico was one of 27 states nationally that increased funding for pre-kindergarten programs. In FY09, funding for pre-kindergarten is $16.5 million serving approximately 4,745 4-year-old children. Funding for the pre-kindergarten program is evenly split between the Public Education Department and CYFD. Pre-kindergarten serves to better prepare children, especially at-risk children, to succeed in kindergarten. The program differs from child care by focusing on a child's social, physical, emotional, and cognitive development.

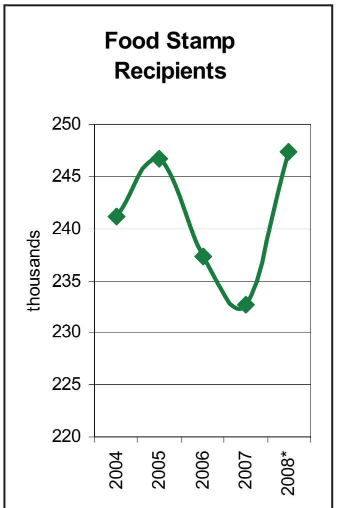
A study by the National Institute for Early Education Research (NIEER) at Rutgers University randomly selected 4-year-olds attending pre-kindergarten and nonparticipants to follow and test each fall to evaluate the effectiveness of the pre-kindergarten initiative. Preliminary results show pre-kindergarten had a positive impact on children's early language, literacy, and mathematical development. The most recent NIEER study released in June 2008 showed that New Mexico's pre-kindergarten program accomplished the following:

- Increased vocabulary scores nearly six raw score points, an improvement of about 25 percent of the standard deviation of the control group;
- Increased math scores almost two raw score points, an improvement of about 50 percent of the standard deviation of the control group; and
- Increased early literacy scores nearly 14 percentage points, an improvement of about 59 percent of the standard deviation of the control group.

Early Childhood Budgeting. The Early Childhood Action Network used data from the Children's Cabinet budget to produce the Early Childhood Children's Budget 2008 that targets services for children birth to age 5 in New Mexico. The report noted the state spent $496 million for early childhood programs which reflects an increase of $252 million since 2003. The majority of state funding for early childhood, $294 million, funds physical and mental health programs. Early childhood funding is in several state agencies, creating problems with duplication of services and coordination. Declining revenues makes it critical for state agencies to streamline key early childhood initiatives. Programs need to be assessed based on cost-benefit analysis. Funding should align with early childhood programs that have the greatest potential to generate government savings that more than repay their costs and have returns to society as a whole.



Source: Early Childhood Action Network

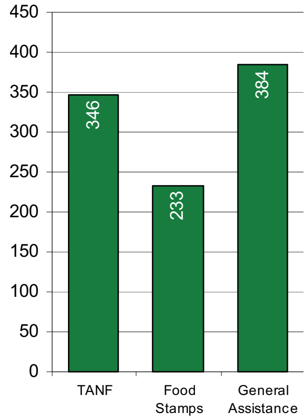


Source: HSD Monthly Statistical Reports
* Through July 2008

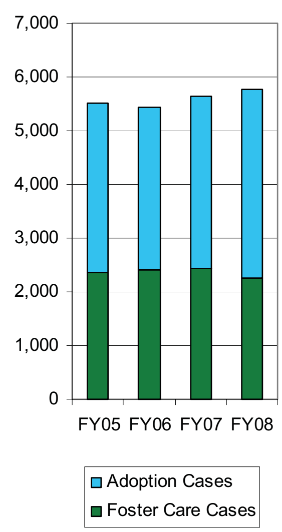
Protecting Vulnerable Populations. Vulnerable populations are social groups that experience disparities due to lack of resources and increased exposure to risk. New Mexico has a variety of comprehensive, coordinated services that focus on vulnerable populations. These services protect children and the elderly, assist in child support enforcement, and help victims of domestic violence.

Temporary Assistance for Needy Families. Since the creation of the federal TANF program, enacted in 1996, funding has not increased, effectively diminishing its buying power over time. The federal block grant was reauthorized as part of the Deficit Reduction Act (DRA) of 2005 at the same level through September 2010, currently at an annual total of $16.6 billion. New Mexico's portion is $110.6 million; a supplemental grant of $6.5 million expired September 2008.

The new rules established by the DRA became effective October 1, 2008. While the rules do not change the work participation rates, they do make



Source: HSD Monthly Statistical Reports



Source: CYFD

meeting those rates more difficult for many states. These work participation rates create incentives for states to focus on work programs, sometimes at the expense of cash assistance for the neediest populations. In practice, the dual goals of TANF, providing assistance to needy families and ending dependence on that assistance, are sometimes at odds.

Exemptions from work requirements have been restricted mostly to paid activities, and the DRA limited exemptions for schooling, job search, and training activities. Despite these limitations, states are allowed to set separate exemptions. New Mexico allows more exemptions than the federal rules. For example, as of March 2008, some 26 percent of adults on TANF are exempted from work by the state but not by the federal government. The greater number of state exemptions make meeting the work participation rates nearly impossible and almost ensures the state will be assessed a penalty.

The DRA rule changes also impacted the state's efforts to integrate the TANF program with the Workforce Solutions Department's one-stop centers. LFC evaluations have found other state's efforts to integrate these programs to be successful and recommended that New Mexico look to consolidate these job placement and service centers. With the DRA requiring increased supervision, reporting, and performance requirements of the TANF program, HSD scaled back the consolidation effort to focus on work participation requirements.

After several years of declines, caseloads in several of the state's assistance programs have been rising. As of August 2008, the food stamp caseload was up 8.9 percent to almost 100,000 cases, or about 250,000 people – the highest in the history of the program. The TANF cash assistance program climbed to 14,356 cases. While this is a 6.2 percent increase from a year ago, the program remains at historically low levels. The general assistance caseload is up 10.8 percent to 2,361 participants.

Child Protective Services. CYFD instituted a New Mexico Program Improvement Plan that was mandated as a result of findings from the federal child and family services review. The plan was developed to avoid the potential for serious federal sanctions and has been approved by the federal Department of Health and Human Services. The plan consists of the following objectives:

- Increase and enhance placement resources,
- Enhance the capacity of families to provide for their children's needs, and
- Enhance permanency planning.

The plan is designed to be implemented over a two-year period and proposes a number of training projects that includes redesign of the agency's ongoing training for new workers and development of specialized training. The plan also includes accountability through data collection and reporting on performance measures.

Child Support Enforcement. Strong and effective child support programs can have a positive effect on the lives of children in New Mexico. Research has shown that children living in single-parent homes without support from a noncustodial parent tend to experience more health and behavioral problems, are more likely to live in poverty, and are more likely to drop out of school. The state has an interest in developing a child support program to facilitate and enforce child support payments. A key aid in enforcement is a court order legally establishing a payment obligation, and the Child Support Enforcement Division of the Human Services Department (HSD) has worked to increase the percent of its cases with support orders, rising from 52 percent in FY04 to 66 percent in FY08.

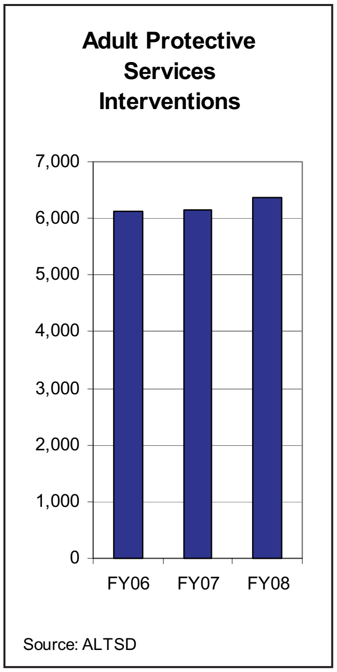
Adult Protective Services. The Aging and Long-Term Services Department (ALTSD) Adult Protective Services (APS) division provides services mandated by state law on behalf of persons age 18 years or older. Services include investigation of reports of abuse, neglect, or exploitation; protective placement; caregiver services; and legal services, such as filing for guardianship or conservatorship.

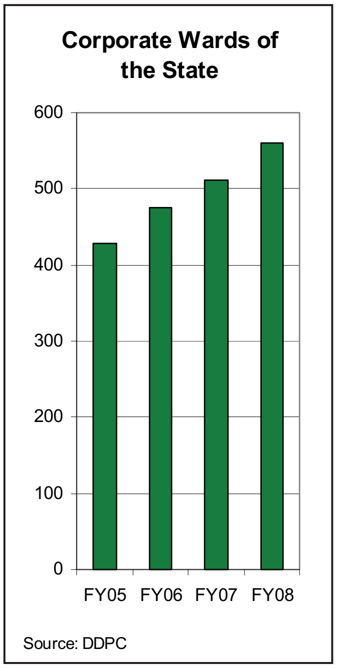
The Adult Protective Services Act, Section 27-7-15 NMSA 1978, grants APS the authority to impose civil fines and penalties for interference with investigations or preventing access to alleged victims. In addition, the act now mandates a focus on prevention and the establishment of multidisciplinary teams to address the needs of complex cases. No civil fines and penalties were assessed in FY08.

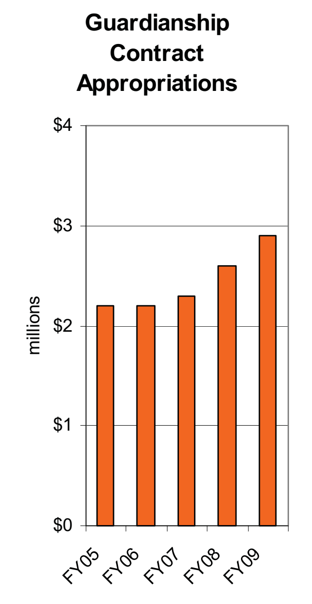
APS reports the total number of interventions for FY08 at 6,361, up 214 cases, or 3.48 percent, from FY07. Interventions are higher due to an increase in investigation requests, legal services, and treatment. This increase is in line with the increased caseload over the past six years, which averaged 3.82 percent. Due to a protocol agreement, the Department of Health (DOH) Division of Health Improvement is now first to investigate reports of abuse and neglect at state-licensed long-term care facilities. However, APS continues to assist DOH by providing one-time safety checks for situations requiring immediate review.

APS investigations in homes, unlicensed facilities, and community Medicaid programs have increased as APS staff continue meeting with professional and community groups to provide education regarding recognition of abuse, neglect, and exploitation of adults. Requests for legal assistance in the fourth quarter of FY08 increased to 91, significantly above the average of 73 for FY07. This increase will be tracked to determine if it reflects a change in needed services.

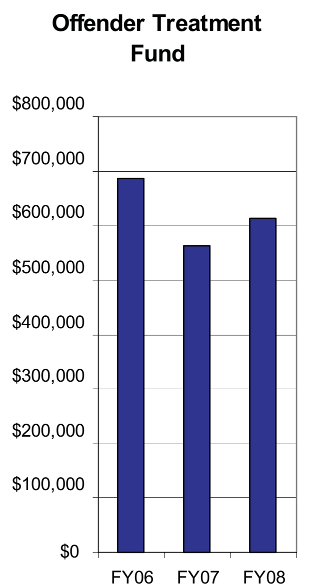
The agency is prohibited from taking custody of an adult or investigating cases not referred to them for investigation. ALTSD has established an adult abuse prevention and education team to provide information to the public on elder abuse and neglect and expects to see an increase in requests for investigation.







Source: DDPC



Source: CYFD

Adult Guardianship. A corporate guardian is appointed by the state to assist individuals in managing their legal and personal affairs. This program is administered by the Developmental Disabilities Planning Council (DDPC). Currently, 594 individuals are receiving guardianship services and demand is growing from requests from Adult Protective Services, court-ordered placements, clients receiving services for developmental disabilities, and mental health sites.

The waiting list for guardianship-related legal services was 235 at the end of FY08. The Legislature provided $2.89 million for contractual services for guardianship and related services for FY09. This represents an increase of $666 thousand, or 30 percent, since the program was transferred to DDPC in FY05.

House Joint Memorial 34 from the 2007 legislative session created a task force to study and make recommendations for the qualification, appointment, and oversight of guardians. The task force report recommended statute changes to improve the program; however, no changes were enacted. House Memorial 6 from the 2008 session continued the efforts of the task force with recommendations for statute changes that clarify the role of guardians, training, and program management. In addition, because DDPC was established as an advocacy agency for developmental disability clients, a determination needs to be made whether the guardianship program should remain in the council or transfer to a department.

Domestic Violence. Domestic violence programs are funded by general fund appropriations, federal funds, and the offender treatment fund. The federal funds derive from a Family Violence Prevention and Service Act grant. The funds assist in establishing, maintaining, and expanding programs and projects to prevent family violence and to provide immediate shelter and related assistance for victims of family violence and their dependents. HSD receives TANF funding, which it then awards to approved domestic service providers through a request for proposal process issued by CYFD.

On May 6, 2008, LFC released a *Review of Domestic Violence Programs*. The following are key recommendations from the review:

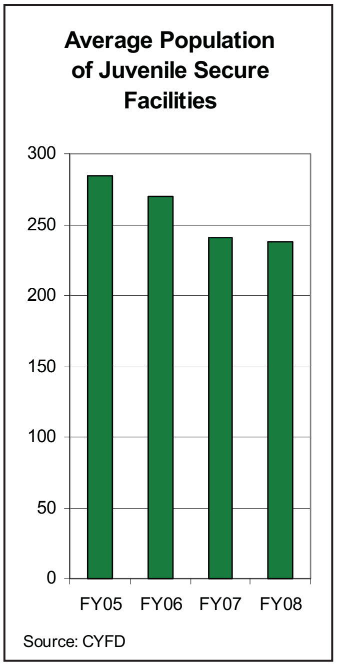
- The use of funds from the offender treatment fund should be authorized in the General Appropriation Act; and
- Organizations or individuals that want to develop offender treatment programs should be identified throughout the state and should be provided the guidance and support needed to ensure the establishment of more programs for offenders.

Establishing more offender treatment programs will help to ensure the offender treatment fund is consistently used each fiscal year. The review noted two outcome measures based on best practices in other states. These measures focus on services offered by domestic violence programs (1) having safety plans for survivors and (2) ensuring survivors are aware of community resources. CYFD instituted safety plans for survivors in FY07, and the department reports it does not have any mechanism in place to collect data regarding survivors' awareness of community resources.

Juvenile Justice. In 2004, New Mexico's juvenile justice system started transitioning to front-end community services. Local, state, and national trends have moved toward locking up only the most serious, violent juvenile offenders and treating juveniles with minor offenses in the community with nonsecure rehabilitative services. Due to the move toward community services, CYFD closed Camino Nuevo and the New Mexico Boys' School. In the past few years the department has embraced the Missouri Model, which endorses smaller regional facilities aimed at keeping youth closer to their homes and families. The Missouri Model's programming centers on group therapy and ensuring a continuum of care beginning before a juvenile enters detention and continuing after release.

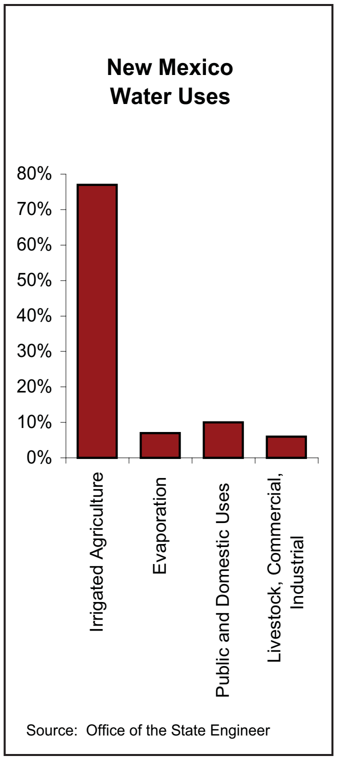
Offenders that exit Missouri's juvenile system are 50 percent to 66 percent less likely to re-enter adult or juvenile corrections than offenders from states who measure recidivism in similar ways.

Cambiar New Mexico. CYFD has chosen the name Cambiar New Mexico for its model, which closely resembles the Missouri Model. CYFD plans to follow Missouri's emphasis on group therapy, regionalization, case management, and mixing of special-needs youth. CYFD stated implementing the Cambiar New Mexico model will require changes to the Children's Code. These changes pertain to one- to two-year sentence limits and mandatory parole, along with restructuring of the Juvenile Parole Board. The Missouri Model does not use a Juvenile Parole Board, and juvenile offenders are not paroled until it is determined they are ready.



In June 2008, the first unit under Cambiar New Mexico occupied pod one at the J. Paul Taylor Center in Las Cruces. The department reports Cambiar New Mexico will be fully implemented at the J. Paul Taylor Center by December 2009 and the Youth Diagnostic and Development Center in Albuquerque by December 2010.

ACLU Lawsuit. On February 15, 2006, CYFD entered into an agreement with the American Civil Liberties Union (ACLU) to close the New Mexico Boys' School in Springer and to make major improvements in the facilities and services provided to incarcerated youth. The agreement designated two outside monitors to review CYFD's progress in complying with the provisions of the agreement concerning medical and behavioral health services. The most recent report from the monitors reflects that CYFD is close to complying with the terms of the agreement related to medical and community behavioral health services and has made significant progress in behavioral health services in juvenile facilities. In November 2007, ACLU sued CYFD, alleging the department was not complying with certain provisions of the agreement. CYFD disputed the allegations and filed a motion to refer the dispute to mediation, which was granted by the court. Currently, CYFD and ACLU are meeting regularly with the mediator and are in direct negotiations.



A growing area of concern in the natural resources area is the implementation of policy by executive order or rulemaking, sometimes with little or no legislative input. This trend causes concern that vital considerations that would be discussed in an open format, such as the legislative session, are missing from the debate. In addition, lack of statutory authorization can create an environment of procedural quagmire, as evidenced by the state of water rights adjudication in New Mexico.

Water Rights Adjudication. With the prospect of drier conditions and over-appropriation, it becomes more important to clarify water rights and ownership priorities. If the state is unable to do so, it faces the prospect of expensive programs to retire water rights and to meet downstream commitments. No procedure for adjudication of water rights is "preferred" or "generally accepted."

In an administrative approach, contested water rights claims are resolved by the state's water resource agency (i.e., the equivalent of New Mexico's Office of the State Engineer), subject to judicial review or appeal. In the states that follow a judicial approach, disputed water rights claims are resolved initially by the district court. New Mexico's current administrative approach to the adjudication of water rights has raised a number of interrelated procedural and policy issues:

- No evident progress or slow progress in adjudication,
- No statutory basis for adjudication so rules may be applied inconsistently,
- Perception that the State Engineer has an adversarial relationship with public, and
- Confusion on part of the public as to how to respond to the State Engineer's processes.

To address these issues, staff from the Administrative Office of the Courts (AOC) has been meeting with staff from the Office of the State Engineer (OSE) over the past year to study stream adjudication procedures in both New Mexico and other states. The joint working group's goal is to identify areas amenable to reforms that would substantially improve the efficiency of future adjudications, while ensuring fairness to all claimants.

It should be noted that the working group's study does not address existing adjudications because of practical difficulties and possible legal constraints associated with procedural changes in ongoing litigation. Instead, the working group recommends a pilot adjudication project for the Middle Rio Grande. The working group notes that judicial branch staff is constrained to consider only issues pertaining to the optimal procedures for a stream adjudication within the context of a court case, and judicial staff is precluded from promoting legislation or issues of policy.

Adjudication of Water Rights Seeks to Establish a Number of Basic Elements:

- Source of water,
- Point of water diversion,
- Place of use of water,
- Proof of beneficial use of water,
- Ownership of land where water is used for beneficial use,
- Date of first use or priority date, and
- Amount of water use.

The working group developed a questionnaire to solicit the concerns, perceptions, and ideas of New Mexicans who have had some experience with stream adjudications. Twenty-seven responses were received. It also engaged in a detailed study of the judicial adjudication procedures and reform efforts of four western states, which involved visits to Idaho, Montana, and Colorado to interview both judicial personnel and staff from the state water agency. The group also interviewed judicial personnel from Arizona.

The working group is now organizing the information gathered from other states and is considering whether procedures and reforms that have contributed to success in other states are applicable to New Mexico. Once this process is complete, the group will consider a public participation process, and might recommend legislation for consideration during the 2009 legislative session.

Water Settlements and Other Multi-Year Project Costs. The OSE and Interstate Stream Commission (ISC) multi-year state share estimates for Indian water rights settlements and other special projects range from $313 million to $498 million, to be determined by the particular project and the level of federal or local costs sharing. Multi-year federal share estimates for these same projects are between $1.6 billion and $1.7 billion, the majority of which remain unfunded. Primarily due to pressing international and domestic priorities, the anticipated federal funds might not materialize. However, OSE remains optimistic that creative federal-state partnerships will prevail, and the projects will ultimately move forward at some point in time.

Office of the State Engineer
Overview of Multi-Year Project Cost Projections
(in millions of dollars)

Project	Anticipated State Share Requirement Low	Anticipated State Share Requirement High	State Share Funded to Date	Anticipated Federal Share Requirement (to be funded) Low	Anticipated Federal Share Requirement (to be funded) High
Indian Water Rights Settlements					
Navajo	50.0	117.0	31.2	867.0	886.0
Taos	14.5	20.0	1.0	119.3	119.3
Aamodt	50.0	116.9	0.0	159.8	174.8
Indian Water Rights Settlement Fund			10.0		
Total Tribal	*114.5*	*253.9*	*42.2*	*1,146.1*	*1,180.1*
Other Projects					
Ute Pipeline	65.4	109.0	12.4	327.0	327.0
Pecos Settlement	98.0	98.0	69.8	1.7	1.7
Endangered Species*	30.0	30.0	8.0	90.0	120.0
Gila Settlement	5.0	7.0	0.8	66.0	128.0
Total Other	*98.4*	*244.0*	*91.0*	*484.7*	*576.7*
Total Tribal and Other Projects	**312.9**	**497.9**	**133.2**	**1,630.8**	**1,756.8**

*Middle Rio Grande Collaborative Program

Source: Office of the State Engineer (June, 2008)

Potential Approaches to Adjudication Reform

- Establish statutory basis for adjudication;
- Establish OSE as a technical expert, as opposed to the plaintiff, that reports to the courts under a claims-based system;
- Identify alternative and less burdensome means of giving notices;
- Establish response requirement for water rights claimants;
- Assign to the courts the responsibility of resolving claims and objections;
- Direct the court to assume a more active role in the adjudicatory process;
- Clarify timelines in rules and statutes; and
- Apply adjudication reforms prospectively, not to existing adjudication cases.

Selected New Mexico Renewable Energy Initiatives

Wind Development - A total of 497 megawatts of wind power capacity has been installed at the wind power plants, an investment of over $500 million.

Solar Incentives - More than 100 New Mexico taxpayers received state solar tax credits totaling $532,000 for solar systems installed on their homes in 2006.

Biomass - A landfill biomass project at the Santa Fe Paseo Real Wastewater Treatment Plant is ongoing to determine the compatibility of methane gas to be used as a boiler fuel. More than 73 million standard cubic feet of methane is produced annually at the landfill.

Biodiesel - The Energy, Minerals and Natural Resources Department is working with state government fleets, including the Department of Transportation and school districts, to promote the use of biodiesel in diesel fleet vehicles.

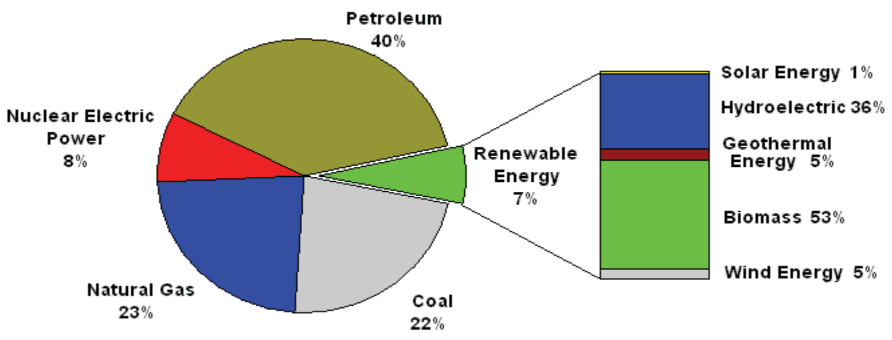
Source: EMNRD 2007

Renewable Energy. Renewable energy is defined as electrical energy generated with low or zero emission equipment or generated by solar, wind, hydropower, geothermal, nonfossilized fuel cells, and biomass resources. On an average cost basis, some renewables are competitive with conventional energy sources; however, in many cases renewables are still not competitive. Supportive policies may be needed to encourage the further development and deployment of renewables in energy markets.

The state is presently pursuing a number of renewable energy initiatives including a renewable portfolio standard that requires 15 percent of utility-provided energy to come from renewable sources by 2015, rising to 20 percent by 2020; a renewable energy production tax credit that supports electricity production from wind, solar, and biomass; an alternative energy product manufacturer's tax credit that grants manufacturers of photovoltaic, solar, thermal, wind, biomass and electric generation systems, electric vehicles, and fuel cell systems a tax credit of up to 5 percent of their capital expenses; and an energy innovation fund to provide financial support to public-private groups working to accelerate the development of innovation and enable faster commercial adaptation of clean energy technologies in New Mexico.

To address distribution opportunities associated with this burgeoning area, the New Mexico Renewable Energy Transmission Authority (RETA) was approved by the Legislature in 2007 to increase access to New Mexico's renewable energy resources. It is the nation's first renewable energy transmission authority created to develop electric transmission with an emphasis on renewable energy development for export to out-of-state markets and will address a number of interrelated issues. Among these issues are the economic aspects of electricity transmission, development of transmission capabilities, the role of state government, regulatory issues, and rights-of-way corridors and landowner rights. While it is clear that transmission capacity is a key bottleneck in market development, it is not clear that a state agency can play a meaningful role in advancing projects, although RETA is negotiating to assist a 100-megawatt wind project near Estancia.

The Role of Renewable Energy Consumption in the U.S. Energy Supply, 2007



Source: U.S. Department of Energy

The Uranium Industry. The U.S. Energy Information Agency ranks New Mexico second, behind Wyoming, in domestic uranium reserves with 341 million tons of uranium oxide (U3O8) at $50 per pound. The Grants Uranium Belt, the most prolific producer of uranium in the United States, started production in the late 1940s. During the boom years (1953-1980), approximately 350 million pounds of "yellow cake" uranium were produced.

All uranium recovery in New Mexico ceased in December 2002 and, presently, only two uranium mine operations are permitted by the Energy, Minerals and Natural Resources Department (EMNRD), Mining and Minerals Division: Rio Grande Resources' Mount Taylor Mine and Rio Algom's Old Stope mining properties. The Mount Taylor Mine, a flooded underground mine in Cibola County, remains on standby status and must amend its permit before mining can commence. The Old Stope Mines are undergoing reclamation.

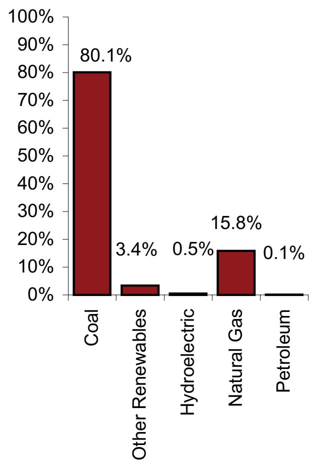
New Mexico has experienced a significant increase in uranium exploration activity in the past few years. In January 2006, the Mining and Minerals Division received the first uranium exploration application since 1998. To date, seven applications have been approved, two are pending, and eight have been denied.

While uranium mining companies are eager to move forward, several significant obstacles lay in the path of large-scale uranium development in the near future. First, New Mexico's uranium mills have been demolished and new infrastructure is needed. Second, the Navajo Nation, which overlays a major portion of the uranium deposits in New Mexico, declared a moratorium on uranium production on Navajo lands in April 2005. Third, the All Indian Pueblo Council passed a resolution in June 2007 calling for the protection of Mount Taylor and the cultural properties of the pueblos of Acoma and Laguna.

Water Quality. An important issue is reclaiming or preserving the integrity of water basins affected by uranium mining, whether groundwater or surface water. According to the New Mexico Environment Department (NMED), the nature and extent of groundwater contaminated by past uranium mining and milling activities is unknown. The federal Environmental Protection Agency (EPA) is funding two studies to gather additional data. The first is in the San Mateo Basin, where a preliminary assessment is being funded by the EPA Region 6 Superfund program. The second is being implemented by EPA Region 9 to address contamination on the Navajo Nation. Although the state has yet to enact legislation to clean up soil and water from these legacy mines, these studies will provide sufficient information to require abatement plans where the source of contamination and responsible party can be identified. As separate issues, whether "legacy" mines and mill cleanups will be required prior to any new production – and how the cleanups will be funded – are still part of the ongoing debate.

The Water Quality Act, enacted in 1977, established regulations for

New Mexico Sources of Energy for Electricity



Source: Energy Information Agency

Pit Rules

The Oil Conservation Commission proposed adoption of modified pit rule regulations that mandate how oil and gas producers in New Mexico contain and dispose of drilling by-products. Producers and industry representatives argue the changes are not needed, are not based on sound science, and would add millions of dollars in extra expenses for New Mexico's San Juan Basin and Permian Basin oil and gas companies. Some industry estimates put the added expenses at upwards of $200 thousand per well. Supporters of the proposed regulations, however, claim they will better protect the environment. The fundamental disagreement remains unresolved.

protecting groundwater from new mining activity through the permitting process. Before beginning operation, any uranium mine or mill must apply for and receive a groundwater discharge permit from NMED. Any "in situ" leach operation, a process that does not extract the ore from its geological formation but removes it through a chemical process, requires an underground injection control permit. Permits associated with tribal land are processed through EPA. More stringent health standards for uranium in groundwater were adopted by the Water Quality Control Commission in 2004 and apply to new permits. The question remains whether these standards apply to closed mines and mills because state law allows the department to grant variances.

Groundwater Quality. Groundwater accounts for 90 percent of drinking water used by New Mexicans. Challenges remain in preserving this limited core resource for current and future generations. Foremost among these continues to be the impact of failed or improperly installed septic systems and illegal cesspools. A parallel issue is illegal dumping of waste from septic tanks. NMED is considering proposing amendments to the Water Quality Act to address this issue rather than promoting rules through the Environmental Improvement Board (EIB) as it did for recent liquid waste regulations. EIB's adoption of new liquid waste regulations that require permitting of unpermitted septic systems on transfer of property remains controversial.

Surface Water Quality. According to NMED, from a total of more than 6,800 primarily perennial stream miles as measured by the Environmental Protection Agency (EPA), almost 2,586 assessed miles, or 38 percent, are impaired in one or more categories. Out of a total 83,410 acre feet of identified lakes, reservoirs, or salt flats (playas), 54,074 acres do not fully support designated uses. For the reporting period, fish consumption advisories were reported at 23 lakes and two rivers due to elevated concentrations of various contaminants, including mercury and polychlorinated biphenyls.

Federal Impacts. Changes at the federal level continue to impact the state's environmental programs. In some instances, unfunded mandates have required substantial state investment to achieve new standards, such as adding infrastructure to meet more stringent arsenic levels in drinking water. Federal Regulation D standards for lining or closing landfills are now in effect, but many small communities lack the resources to meet compliance, and grants from the solid waste fund have not been available. Regarding surface water, court interpretation of the Clean Water Act may leave many New Mexico streams unprotected, perhaps forcing the state to take primary responsibility for surface waters from the federal EPA at significant cost. At the same time, EPA grants continue to decline for wetland restoration, giving rise to state initiatives – such as the River Ecosystem Restoration Initiative (RERI) – which lack statutory authority and accountability. How the state prioritizes the growing costs of aging infrastructure, increased regulations, and environmental remediation or preservation is a looming issue.

Legislation Introduced During the 2008 Session

- The first piece of legislation – House Appropriations and Finance Committee Substitute for House Bill 342 – sought to create a new Uranium Legacy Cleanup Act, including a fund that would be used to clean up sites contaminated by past historical uranium mining and milling activities. This legislation passed the House; however, after passage by the Senate Finance Committee, additional action was indefinitely postponed and the legislation died.
- The second piece of legislation – Senate Public Affairs Committee Substitute for Senate Bill 487, as amended – also sought to enact a Uranium Legacy Cleanup Act and included provisions for the administration of the act, created revenue sources to fund uranium cleanup activities, and made an appropriation of $250 thousand. This legislation passed both houses of the Legislature; however, it was subsequently vetoed by the governor in Senate Executive Message 45, dated March 3, 2008.

Mercury. Of growing concern is the deposit of air-borne mercury into New Mexico's lakes and reservoirs. Mercury is a bio-accumulative (which means it undergoes chemical magnification up the food chain) neurotoxin that can remain active in the environment for more than 10,000 years. Studies have shown that even very low levels can pose a health risk, particularly for pregnant women, infants, and children. However, many of the adverse effects of mercury are reversible; therefore, minimizing or eliminating certain exposures can have a beneficial effect on the exposed individual.

An NMED inventory of mercury emissions in New Mexico, estimated at 5,854 pounds from all sources, indicates power plants and mining are the largest contributors. According to the agency, coal-fired power plants and mining operations account for approximately 55 percent and 17 percent of that total, respectively. While Laws 2007, Chapter 143, reduces allowed mercury emissions for power plants built after July 1, 2007, legislation aimed at reducing mercury from the other sources has not been successful. In addition, full funding has not materialized to implement the *New Mexico Mercury Reduction Action Plan,* a product of the Mercury Exposure Reduction Task Force established by the Legislature in 2006 through House Memorial 5. Partial funding included as a special appropriation for FY08 was assimilated into NMED's FY09 operating budget and is subject to reallocation by the agency to meet its priorities. This serves as an example of how legislative intent can be lost without being set in statute.

Climate Change. Recent studies indicate that a trend of warmer temperatures in New Mexico may be underway, with simulations predicting varying degrees and rates of temperature change. Future public policy issues range from challenges in water management to preserving the quality of life in the state. The primary issue today is how much and how fast projected climate change can be lessened through the proactive measures taken by state and local government – particularly in the absence of comprehensive action taken at the federal level – and at what cost to industry, consumers, and taxpayers. Equally important is how various state policies implemented so far will complement federal and international policies as they unfold, or whether inconsistent application of regulations and incentives will create unfair advantages in the marketplace and perhaps minimize desired policy outcomes.

Greenhouse Gas Emission Reduction. Policies addressing climate change have primarily targeted reducing greenhouse gas (GHG) emissions. This GHG-focused approach is based on research that links GHG emissions to global warming and the concept that reducing such emissions represents a viable avenue to slow or reduce the projected warming. Essentially, GHG strategies focus on measuring and reducing these emissions while developing and promoting cleaner energy sources and energy efficiency, both in terms of fuel and electricity.

Implementing GHG Reduction. While the 2007 legislative session was particularly active for amending current statute or enabling the

Mercury in New Mexico
According to NMED, the Department of Health has determined that most infants in New Mexico have detectable levels of mercury in their blood. Some levels were high enough to indicate adverse impacts, which include learning disabilities.

Mercury Legislation
Several states have enacted state-specific mercury-source reduction legislation based on the Mercury Education and Reduction Model Legislation that specifies objectives.

Mercury in Landfills
New fluorescent bulbs (CFLs) represent a growing source of mercury into the waste stream. New Mexico has no law banning light bulbs of any kind from being disposed in trash. Maine has banned mercury-containing materials in waste.

Electronic waste (e-waste) also contributes to the mercury load in landfills. NMED reports that the recommendations regarding purchasing "green" electronics and proper disposal of e-waste (2008 Senate Joint Memorial 11) will be implemented by the secretaries of the General Services Department and the Department of Information Technology through purchasing policies.

Climate Change Executive Orders

- 2004-019 – Clean Energy State
- 2005-033 – Climate Change and Greenhouse Gas Reduction
- 2005-049 – Increased Renewable Fuels in State Government
- 2006-001 – Adopting Leadership in Energy and Design (LEED) Building standards for State Agencies
- 2006-69 – New Mexico Climate Change Action Plan
- 2007-53 – Energy Efficiency

Primary Issues Relating to Carbon "Cap and Trade" Programs

- Creating full participation that mitigates unfair market advantages,
- Measuring carbon inventories and setting initial baselines,
- Distributing the initial carbon credits,
- Monitoring compliance, and
- Establishing verifiable "offset" programs.

Authority

Two concepts in statute (Section 74-2-5 NMSA 1978) raise questions related to the EIB rulemaking on GHG emissions:

1. Regulations…"shall be no more stringent than but at least as stringent as required by federal act and federal regulations…"
2. "Any regulation adopted pursuant to this section shall be consistent with federal law, if any, relating to control of vehicle emissions."

Legislative input for implementing environmental policy regarding GHG reduction has been minimal.

implementation of policies related to energy production and use, legislative input for implementing environmental policy regarding GHG reduction has been minimal. Driven by six related executive orders, policy – based on the 69 recommendations developed by the New Mexico Climate Change Advisory Group (CCAG) formed by Executive Order 2005-033 – has been solely executed by rulemaking and administrative decisions across agencies.

The Environmental Improvement Board (EIB) added GHG emissions to the list of those reported by regulated industries. EIB also adopted new California clean car rules effective in 2011 that are stricter than federal rules. Some question whether the EIB exceeded its authority, and the rules are being challenged in court.

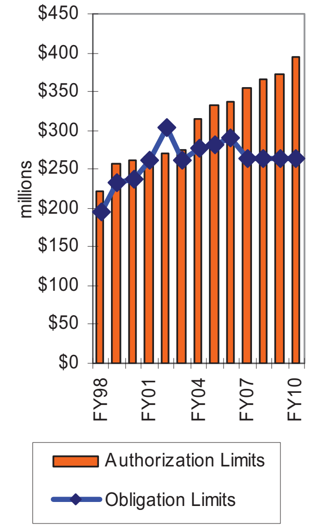
Direct executive action has also committed New Mexico to other significant measures relating to GHG reduction, including participation in the Western Climate Initiative (WCI). Formed through a memorandum of understanding among governors of five western states, WCI plans to cut GHG from regulated industries 15 percent by 2020, beginning the compliance period in 2012 with large generators, such as power plants. The group released its proposals in September 2008, which include a "cap and trade" program to allow the market exchange of GHG credits that conceptually lowers the overall cost of emission reduction. The plan most likely will increase the cost of energy in the states adopting the plan, but these higher costs may be offset by energy efficiencies and conservation. In addition, the plan does not disclose one of the most controversial, and difficult, aspects of cap and trade programs – whether the WCI members will auction the credits or distribute them free of cost and who would get them. Rather, states will decide how the credits will be initially managed.

An advisory group representing a wide range of interests was appointed by the governor to propose enabling legislation and needed administrative action in New Mexico to implement the WCI platform. For example, the new GHG reporting rule implemented by EIB will need to be modified to be consistent with the WCI design. The Environment Department took lead of the group but hired a consultant to mediate the four meetings. A key issue dividing the group remains unresolved. Industry representatives, concerned over creating an economic disadvantage for New Mexico, prefer to wait for a national or global GHG program. NMED was clear that its position stemmed from the deadline to start the first compliance period in 2012, which would require completing certain steps up to that date. One of these steps includes establishing criteria for early reduction allowances (ERAs) that would preserve the credits for those industries already reducing emissions, the one issue agreed on by all participants. Other steps will need to address the primary issues relating to interstate commerce, the state's authority to regulate and track power distribution, and credible offset programs.

Declining federal and state road fund (SRF) revenues combined with continued increases in the cost of highway construction materials have created a perfect storm for New Mexico's transportation system. Alternative funding strategies should be explored if New Mexico is to maintain and improve its transportation system.

Federal Funds. The Safe, Accountable, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), the multi-year legislation authorizing federal spending for the nation's surface transportation programs, expires in October 2009. Since its inception in 2004, SAFETEA-LU was differentiated from prior multi-year authorizations by the inclusion of multiple congressional earmarks, resulting in expenditures far exceeding appropriations. This forced the Federal Highway Administration (FHWA) to rescind appropriations to the states as the highway trust fund (HTF) was depleted.

Federal Budget Authorization versus Obligation Limits

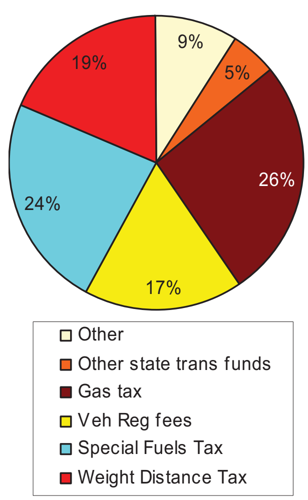


Source: NM DOT

Highway Trust Fund. The HTF, established in 1956 as a dedicated and primary source of federal funding for highways, is funded by the federal gas tax of 18 cents per gallon. Increases in gasoline prices in the spring and summer of 2008 resulted in a significant reduction in total vehicle miles traveled and the expectation that this decline could be permanent as drivers adjusted their driving habits. This change in driving behavior, coupled with the development of more fuel efficient vehicles and those that use alternative fuels, means a reduction in federal and state gasoline tax revenues that fund the highway construction programs of states.

The forecasts of reduced federal gasoline tax revenues available for distribution present a dilemma for the state because New Mexico secured bonds for the $1.585 billion 2003 Governor Richardson's Investment Partnership (GRIP) program by pledging a large portion of expected annual federal revenue for debt service payments. As the flow of HTF revenue is reduced to New Mexico, revenues will be insufficient after GRIP debt service payments, to meet the state's annual highway construction program needs.

NMDOT FY10 Projected State Revenue Sources

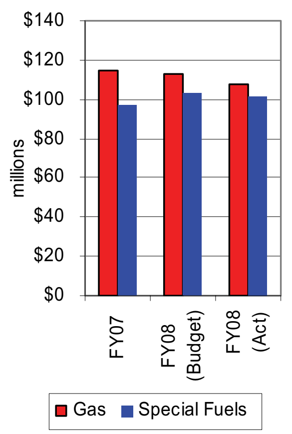


Source: LFC Files

Rescissions. Over SAFETEA-LU's five-year period (federal fiscal years 2004-2009), New Mexico was scheduled to receive $1.8 billion in highway funding representing a 30.3 percent increase over the levels in the previous version of SAFETEA. However, congressional rescissions resulted in New Mexico's allocations being reduced in FY09 and again in FY10 by approximately $31 million.

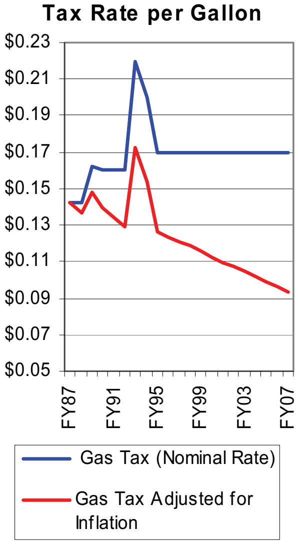
State Road Fund Sources. Revenues associated with the SRF are categorized as either restricted or unrestricted. Restricted revenues, such as the local government road fund (LGRF), are designated by legislation for specific purposes. Unrestricted revenues, such as those from motor vehicle registration fees and fuel taxes, support the bulk of the activities associated with maintenance and operations of the state's highway system.

FY08 Fuel Taxes



Source: NMDOT and LFC Files

New Mexico Gasoline Tax Rate per Gallon



Source: American Association State Highway and Transportation Organizations (AASHTO)

Fuel Taxes. Fifty-four percent of SRF revenue is derived from the gasoline tax (28 percent) and the special fuels tax (26 percent). As the price of fuel significantly increased in the third and fourth quarters of FY08, New Mexico experienced a decline in vehicular miles traveled, resulting in fewer gallons of gasoline being consumed and lost revenue to the SRF. This decline is expected to have a long-term impact as motorists decrease travel and move to vehicles that are more economical or use alternative fuels. Economic studies (Graham and Glaister, 2002) on the elasticity of fuel consumption with respect to price indicate that for each 10 percent rise in gasoline prices demand is reduced by 3 percent in the short term and by 6 percent to 8 percent in the long term. This indicates that New Mexico may lose between $8 million per year of fuel revenues in the short term (less than three years) and as much $24 million per year in the long term. In FY08 New Mexico experienced a 3.3 percent decline in vehicular miles traveled. This resulted in $6.9 million in gasoline taxes being collected, a 6.1 percent decrease, as compared with FY07.

New Mexico's fuel taxes are not indexed to offset the impact of inflation. This has resulted in a 47 percent loss in value as the real value of the gasoline tax has diminished from 17 cents in 1987 to 9 cents per gallon in 2008. This directly impacts the New Mexico Department of Transportation's (NMDOT) ability to address state infrastructure needs within its highway construction and maintenance programs.

Special fuel taxes, increased in 2003 as part of GRIP legislation, continue to show strong growth. This is due to the growth of truck traffic through New Mexico on both Interstates 40 and 25. Revenue projections for FY09 and FY10 show special fuel revenues at the same level as gasoline tax revenues.

State Transportation Improvement Program (STIP) and GRIP Construction Programs. GRIP enabling legislation (2003) authorized $1.585 billion for highway construction and reconstruction within 37 corridors. These corridors were divided into multiple projects. NMDOT has substantially completed 33 of these projects at a cost of $375.2 million. Another 33 projects ($468.7 million) currently are under contract, 14 projects ($280.3 million) are scheduled for contract by January 2009, and 13 projects for $252 million will be contracted in FY09 and FY10 as funding becomes available. Because of turmoil in the bond markets and the department's uncertainty on its ability to meet an increased debt service, NMDOT has yet to determine when, or if, the balance of the GRIP authorization, $237 million, will be issued.

GRIP enabling legislation did not specify the dollar amounts for each corridor. This allowed NMDOT to shift funding among projects and to significantly change the scope of projects. This is best seen in the funding of the Interstate 25 corridor between Belen and Santa Fe, which includes commuter rail. The corridor was originally presented to the Legislature at a projected cost of $120 million. Current estimates place corridor improvements at over $600 million with commuter rail accounting for $475 million. Commuter rail, however, was not the only project experiencing funding difficulties; NMDOT concedes it used very preliminary, and often outdated, cost estimates in its GRIP presentations to the Legislature. This has resulted in insufficient funding available for many projects.

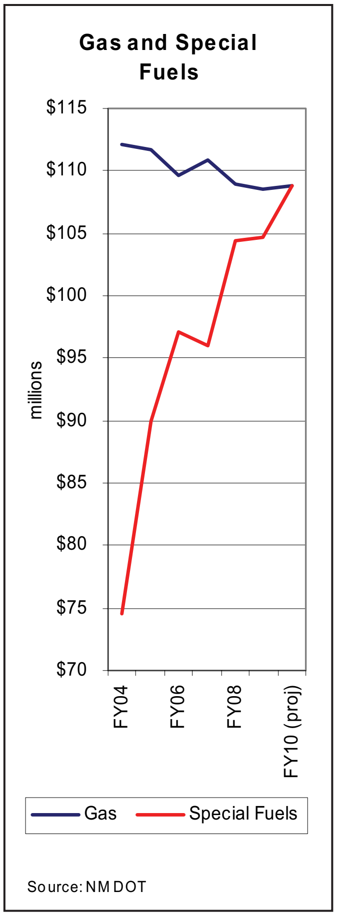
The cost estimating and scope issues were further complicated by unexpected and significant increases in the cost of construction materials over the past three years. Highway rehabilitation costs increased 41 percent, from $200.3 thousand per lane mile in FY04 to $281.8 thousand per lane mile in FY07. Consequently, the total cost of GRIP has risen from $1.585 billion to $2.2 billion.

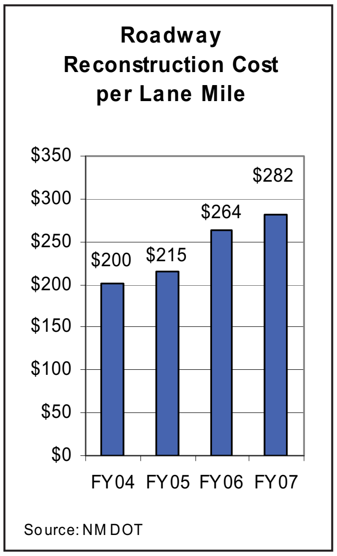
To offset projected GRIP shortfalls in funding, the Legislature, beginning in 2007, made the first of a series of supplemental appropriations for GRIP. To date the Legislature has appropriated an additional $252.8 million to shore up this program. However, despite the appropriation, GRIP is still short by over $420 million.

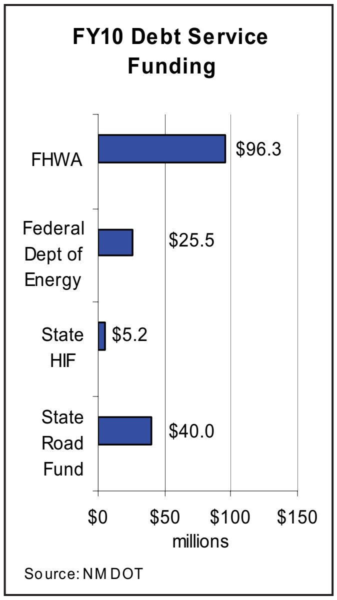
Meanwhile State Transportation Improvement Program (STIP), which comprises the remainder of the construction program for the state, has experienced the same inflationary pressures without any increase in funding. This has resulted in many projects being rescheduled into future years as the department is forced to meet revised and increasing project costs. Unsurprisingly, the number of state miles of roads in deficient conditions continues to increase.

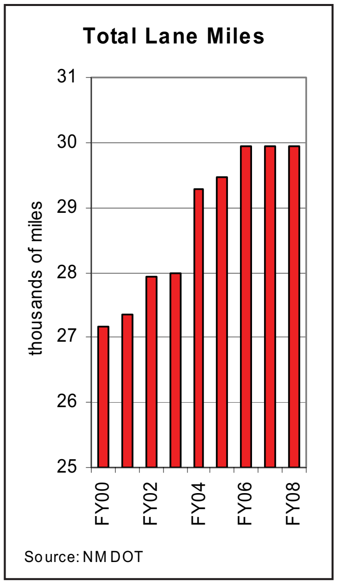
Bond Program and Debt Management. The department has a total outstanding debt of $1.76 billion with an FY10 debt service obligation of $167 million for all NMDOT bonds. GRIP bonds account for $1.51 billion of outstanding principal with a final maturity date in 2030. A total of $437 million in bonds remain to be issued with $200 million being obligated by a line of credit.

The Transportation Commission, working through the New Mexico Finance Authority (NMFA), has struggled with financing GRIP. The commission established internal constraints on the GRIP financing program by requiring all bonds be issued within a six-year period and that debt service payment would not exceed $162 million per year. Confined by these constraints, NMFA employed a number of strategies that included use of fixed, variable (including auction rate securities), and SWAP rate debt instruments. Additionally, the time span of the bonds was extended from 10- to 20-year bonds. The commission provided that up to 30 percent of its debt would be in variable-rate instruments and the remaining 70 percent would be in fixed-rate bonds. The 2008 subprime mortgage crisis, however, resulted in rating downgrades for bond insurers, directly impacting the auction rate security (ARS) market and resulting in bonds no longer being secured with insurance. NMDOT had $470 million of GRIP bonds in the ARS market. The Transportation Commission moved quickly to convert these bonds into either fixed-rate or more conventional variable-rate bonding instruments. However, the department had to pay an additional









$1.5 million in interest and costs associated with the conversion.

The commission's strategic decision to move from 10- to 20-year bonds was driven by a desire to meet as many highway infrastructure needs as possible while staying within the $162 million capacity for debt service payments. This move commits at least one-half of federal funding received for debt service through at least FY30. As federal appropriations continue to shrink, this may result in increased state funding for debt payments, leaving less funding available to meet the state's highway construction and reconstruction needs.

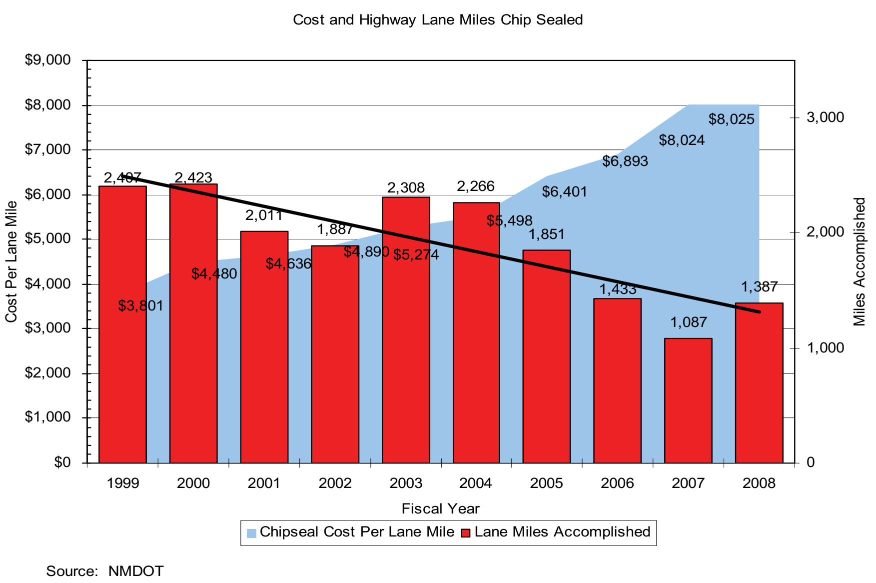
GRIP II. The Legislature in 2007 identified 116 specific local government projects valued at $182.5 million for GRIP II priority. However, to date only $102.8 million in both general fund and severance tax bond (STB) funding for FY07, FY08 and FY09 has been awarded. Determination for funding awards was made by NMDOT based on the availability of the required match and the readiness of the locality to proceed to bid. Six projects have been completed with another seven under construction, and 23 projects are currently in design.

Highway Maintenance. Maintenance costs continue to accelerate throughout the state due to the high cost of oil-based products, such as asphalt and the mobilization of materials and equipment into remote areas of the state. Baseline costs for asphalt have risen 197 percent since 2003. Highway rehabilitation costs have grown from $200 thousand per lane mile in FY04 to $282 thousand per lane mile in FY08, a 41 percent increase. Pavement resurfacing and curbline milling costs have increased from $32 thousand a square yard per lane mile in FY03 to $64 thousand a square yard per lane mile in FY07.

Since FY97, the total number of lane miles within the state highway system has increased by 11.4 percent as has the average number of miles maintained per FTE. The Legislature in 2007 approved 55 FTE for maintenance activities to address backlogged maintenance needs throughout the state. However, the department's ability to recruit trained equipment operators and other trade personnel is impacted by the robust job market in gas and oil development and the industry's ability to pay substantially more than the state.

At the end of the first quarter of FY09, NMDOT had 213 structurally deficient bridges, a 10 percent decrease from 12 months earlier, when NMDOT had 237 structurally deficient bridges. Bridge funding continues to allow for replacement, rehabilitation and preventive maintenance of bridges within various STIP, GRIP, and district maintenance projects. Bridge reconstruction costs have risen from a cost of $83 per square foot in FY04 to $128 per square foot in FY08.

Approximately 14.1 percent of NMDOT bridges are considered structurally deficient. The estimated replacement costs for these 213 deficient structures is $354.8 million. These costs include the cost for structural work, detours, approaches, embankments, paving, construction oversight, or any other associated roadway work.



Chip Seal Program. This program is a major component of NMDOT's maintenance program. Chip sealing resurfaces existing roads, thus prolonging their life. Over the last decade, FY99 to FY08, costs increased 111.3 percent while the miles per year sealed decreased by 42.4 percent. In 1999, the 2,400 miles that were chip-sealed equated to a five- to six-year cycle. At twice the cost per mile, the 1,387 miles in FY08 equate to a nine- to ten-year cycle. Moving to a nine- to ten-year cycle will result in the quality of roads statewide eroding at the same rate but taking twice as long to be repaired.

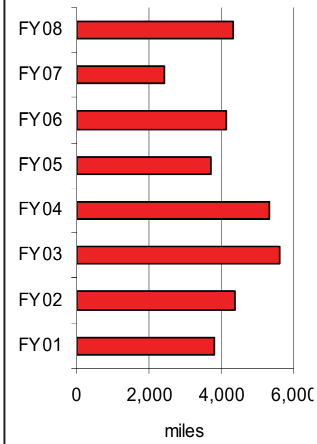
Public Transportation Initiatives. NMDOT's strategic plan identifies transportation alternatives, such as commuter rail or bus service, as key elements.

Commuter Rail. The RailRunner project is expected to cost $400 million, with an additional $50 million being held in escrow and another $25 million being set aside for contingencies.

NMDOT has expended $125 million on phase one, Belen to Albuquerque, and is projected to expend $275 million on phase two, Bernalillo to Santa Fe. Phase two construction began in September 2007 with completion expected in late December 2008. These projected costs include the purchase of additional rolling stock, i.e., locomotives and passenger cars, and signal upgrades.

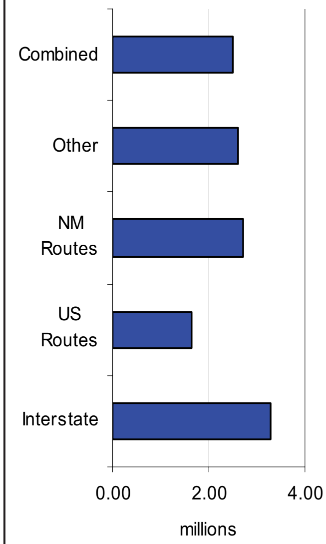
Operating costs are estimated to increase from a current level of $14 million a year to $20 million with the full operation of the commuter rail system. Federal funding of $10 million per year, currently being used for operating expenses, expires in FY09. A referendum on the

Statewide Improved Pavement Surface Lane Miles (agency performance target = 4,500 miles)



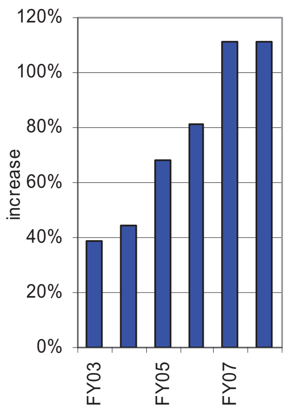
Source: NM DOT

Maintenance Expenditures per Centerline Mile by Roadway Type



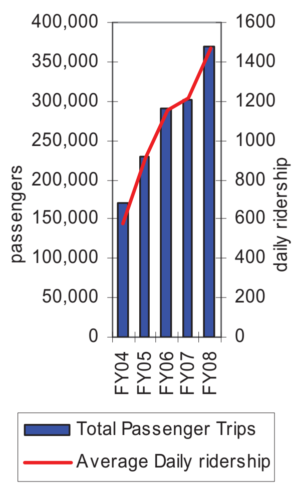
Source: NM DOT

Percent Increase in Chip Seal Cost per Lane Mile from Fiscal Year 2003



Source: NMDOT

New Mexico Park and Ride Ridership



Source: NMDOT

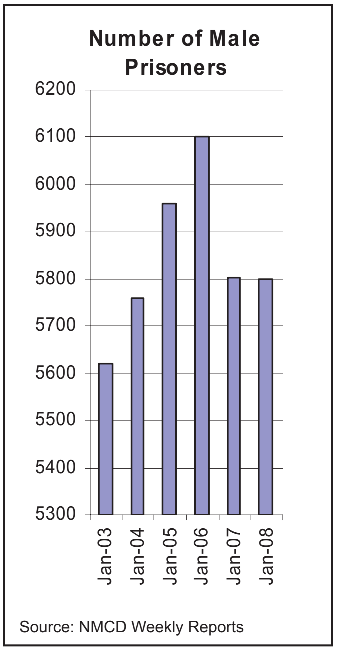
imposition of a 1/8 cent gross receipts tax increase was approved by voters in the Rio Metro Transit District (Bernalillo, Sandoval and Valencia counties) and the North Central Transit District (Santa Fe, Los Alamos, Rio Arriba and Taos counties) in the 2008 general election. The tax in the Rio Metro Transit District is expected to raise $19 million a year, while the tax from the North Central District will bring in approximately $8 million a year. These funds will be used to offset the loss of federal funding, the increased operational costs of the commuter rail system and the enhanced bus service throughout the two districts.

Park and Ride Program. Demand for public transportation has significantly increased in response to fuel cost escalation as consumers seek alternative means of transportation. The program operates seven routes within the state, serving an average of 1,440 passengers per day in FY08. The Park and Ride program uses 22 57-passenger motor coaches and six 33-passenger buses and constitutes the fourth largest public bus system in New Mexico. When commuter rail becomes fully operational in the Belen to Santa Fe corridor in December 2008, Park and Ride services between Albuquerque and Santa Fe will be terminated and existing buses reassigned throughout the state to communities where demand exceeds capacity for public transportation.

Santa Teresa Rail Relocation. Union Pacific Corporation announced in October 2006 it would begin construction of a terminal facility at Strauss, N.M., about four miles west of Santa Teresa, that is projected to cost between $150 million and $350 million 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 was contingent on the state removing the gross receipt and compensating tax for locomotive fuel. This legislation was passed by the 2007 Legislature.

In October 2008, the governors from the states of Chihuahua, Mexico, and New Mexico, mayors from Juárez and El Paso, and railroad representatives agreed to establish a public-private enterprise that would include business stakeholders as well as three major rail lines, Ferromex, Burlington Northern-Santa Fe, and Union Pacific. This group will pursue a presidential permit, required in the United States, from the U.S. president as soon as possible, and jointly fund feasibility, engineering, and environmental impact studies, which will be required before construction begins. The governor of New Mexico committed a minimum of $250 thousand and Mexican officials committed $14 million for this project.

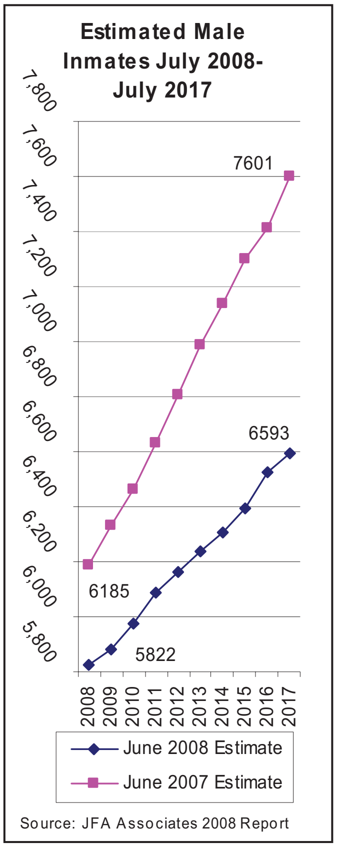
Aspects of public safety are reported daily in various media, from the newspaper crime blotter to lead stories for television news programs, and are a frequent topic of talk radio. Crime and crime prevention are important local issues that citizens follow closely to help ascertain their personal safety and that of their family and friends. The Department of Public Safety (DPS) and New Mexico Corrections Department (NMCD) are integral components of the safety continuum. However, as in most aspects of government, even the most critical, a balance must be forged between cost and quality and quantity of service. Public safety is an area of continued cost increase that challenges all stakeholders to improve efficiencies while simultaneously protecting the public.



Prison Population Decline. NMCD contracts with JFA Associates to produce a third-party projection of inmate populations. Over the past two years, the New Mexico inmate population dropped unexpectedly. This prompted JFA to re-evaluate the projection with a June 2008 update. The update focuses on the following two significant findings that may affect the prison population:

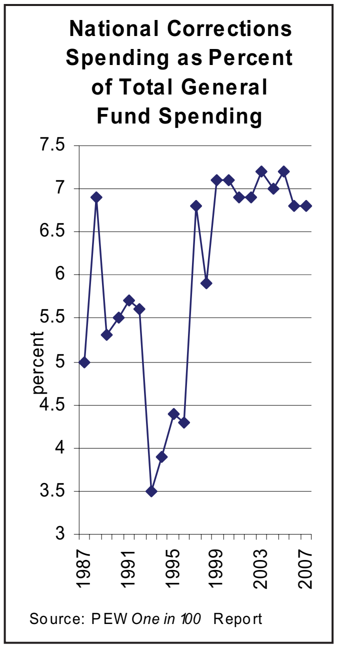
- New Mexico's population has slowed in recent years. Since 2000, the population increased only 8.2 percent, an average increase of 1.1 percent annually. Of equal importance is that the demographic group most likely to be committed to prison, males 18 to 34 years old, is actually predicted to decrease by 7.3 percent between 2007 and 2010. The U.S. Census Bureau further estimates this group's growth to be down by more than 20 percent by 2025.
- New Mexico crime index in 2006 was 4.58 crimes per 100,000 persons, down from 5.6 in 2005.

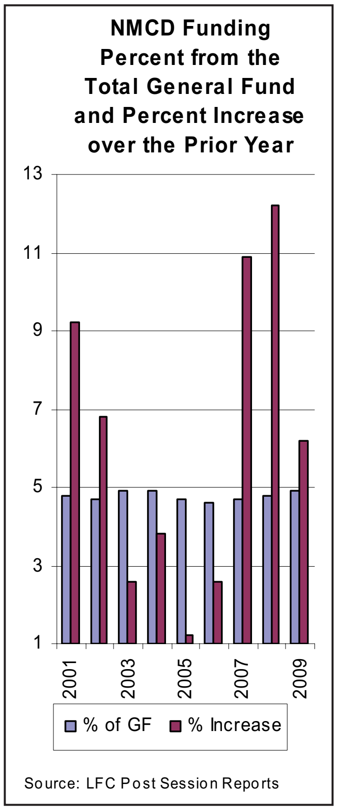
These changes may mean the possibility of slower growth in the future prison population.



The New Mexico Sentencing Commission (NMSC) published a report that offered additional possibilities for the prison population decline. The results include the following:

- NMCD, in conjunction with the Adult Parole Board, frequently offers sanctions other than prison for parole violators guilty of technical violations, such as missing a counseling session. This policy reduces the number of violators who serve the remainder or a portion of their sentence in prison. JFA reported the number of parole violators returning to prison decreased by 2.5 percent between FY07 and FY08, the first decrease in parole revocations since FY05.
- Inmates eligible for parole are urged to formulate parole plans and serve parole in a community setting. This policy may have contributed to JFA's finding that 23 percent of releases from prison in calendar year 2006 were male parole violators. In FY 2008, this increased to 28 percent.





- In 2006, the Legislature voted to allow nonviolent offenders to earn meritorious deductions of time from their sentences during the first 60 days of receipt at a NMCD facility. NMSC estimated this change would reduce inmate time served by 29.2 days. NMSC estimates this saved approximately 81 beds in FY04 alone.
- New Mexico has 30 drug courts, up eight in just the last three years. Offenders are placed in drug court by order of the judge and receive continuous, intense judicial oversight, treatment, mandatory drug testing, immediate sanctions, and incentives. Drug courts are not directly a prison diversion option because most of the charges would not result in incarceration. Indirectly, participation in drug court may keep offenders from being rearrested on more serious charges.

Funding the Prison System. General fund appropriations for NMCD as a share of the total general fund spending have fluctuated only slightly around the 4.8 percent level. As the graph shows, the percentage in other states is generally higher, which reinforces the idea that the New Mexico prison system is operating in a relatively efficient manner. However, the New Mexico percentage may be artificially low because total state spending includes public schools, something that is not true in most other states. This increases total appropriations and decreases the corrections percentage. In any case, particularly in the past three years, the year-to-year percent increase in funding has been high compared to the prior four years. This could signal cost containment issues or population growth. With prison populations unexpectedly trending down to levels not seen since 2004, this points to a potential problem with cost.

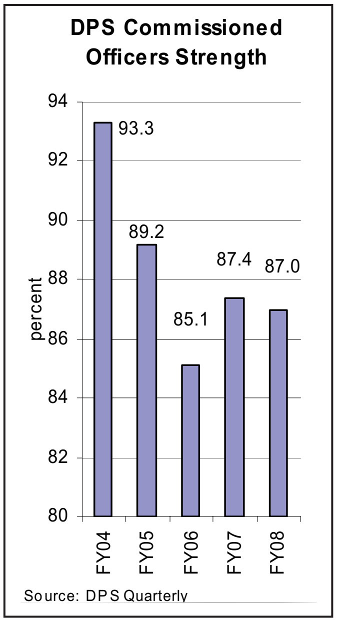
A lower prison population incrementally reduces costs, particularly at the private facilities that charge on a per diem basis. Cost reduction eventually accrues for the public facilities, but not as quickly because state infrastructure has fixed costs. The most efficient configuration of inmates in this situation is to first fill the public prisons. The inmate population reduction has taken place at the time capacity has increased at the private prisons with the addition of the new private facility in Clayton, which began accepting prisoners in early August 2008. Further complicating the issue is built-in contractual minimums for the private facilities that diminish the opportunity to realize cost savings. For example, the state pays for a 540 bed minimum at Clayton whether the beds are filled or not.

Governor's Taskforce on Prison Reform. Governor Richardson issued Executive Order 2008-009 to address prison reform subjects. The order created the Governor's Task Force on Prison Reform composed of 21 members with a variety of knowledge and experience in corrections topics. The task force met three times with a fourth meeting designated solely for public comment. Unrelated to the executive order, the Pew Charitable report *One in 100* offers the following two strategies to help reduce prison costs:

1. Reduce prison admissions through front-end sentencing and diversion initiatives, such as drug courts and community corrections alternatives to prison. Back end inmate population management procedures can include parole violation sanctions and interim residential housing rather than re-incarceration.
2. Reduce prison length of stay through aggressive early release based on successful behavioral health treatment, education accomplishment, or similar criteria.

One in 100 cites Texas as a state that has shown results with both strategies and Kansas as having been particularly successful with offering sanctions other than prison for parole violators.

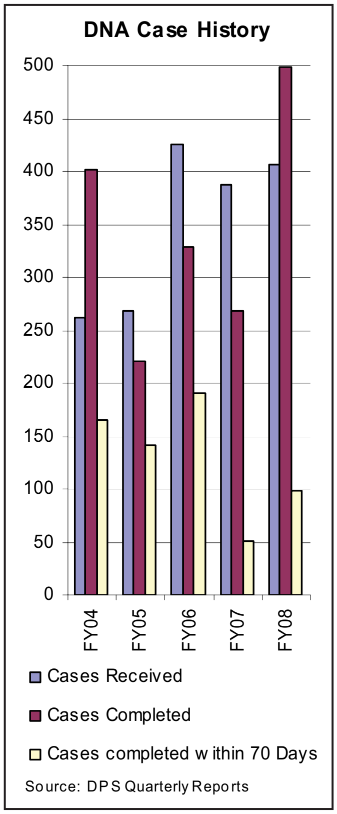
The New Mexico task force report notes the state presently finds itself in the unusual position of not being in a crisis mode, primarily due to the inmate population decline. This allowed the task force to work in a thoughtful fashion rather than in response to an emergency need for prison space. The initiative resulted in two main strategies, quite similar to those offered in the PEW report, for reducing prison populations: alternatives to incarceration for low risk, non-violent offenders and recidivism reduction.

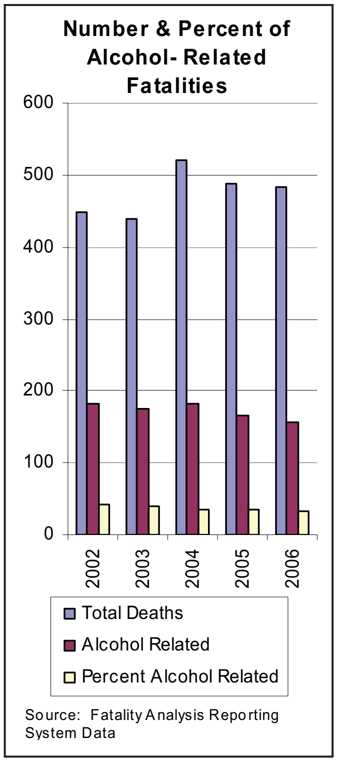


<u>Probation and Parole.</u> The probation and parole function plays an integral part in the overall success of NMCD. More than 13,500 persons are under supervision, more than twice the number incarcerated. The state is broken into five regions with 42 offices. For technical violators, the program must find a balance between a community-based solution with sanctions or a return to prison. The percentage of technical violators is small compared with the total, 9 percent in FY07 and 14 percent in FY08. Others may be charged with new crimes or absconding violations and therefore not eligible for sanctions. This group often returns to prison.

Recent staff and financial resource expansions put the total number of probation and parole officers at 250, which allows for a caseload of approximately 92, well below the FY07 caseload of 132. Staff experience is still in the developmental stage; 60 percent of the officers have less than three years on the job. Until the annual turnover rate, currently in the 20 percent range, is reduced, staff expertise will be a continuing problem.

Expenses mandated by Section 31-21-10.1 NMSA 1978 for real-time global positioning system monitoring of paroled sex offenders continue to grow but without an appropriation for this purpose. Original cost estimates of over $10 thousand annually per offender proved too high, with the current estimate in the $3,200 range. However, each year the number of participants increases, with 180 estimated for FY10, up from 60 currently. Other provisions of the section include long-term or indeterminate parole sentences and conditions on housing and employment that are difficult to meet.





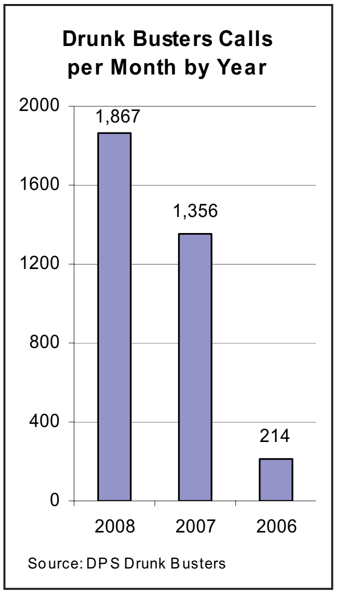
Public Safety Staffing. With a vacancy rate of 11.6 percent, vacant positions continue to be a problem for State Police. DPS was appropriated $346.4 thousand for incentive pay for officers serving in "remote" areas to help reduce turnover resulting from assignments in these less-desirable locations. State Police have designated 50 positions as eligible for incentive pay and currently 38 are filled. The incentive is a 10 percent increase of the base hourly rate plus benefits. Spending levels would result in a total expenditure of $197.6 thousand. DPS is monitoring the turnover to validate the effectiveness of the incentive program. To broaden the employment pool, a lateral transfer program was instituted allowing experienced law enforcement officers from other agencies to participate in an abbreviated State Police academy at a pay grade higher than a regular recruit. In addition, State Police representatives attend numerous job fairs throughout the state with over 50 stops during the first nine months in 2008. A new commercial was recently finished, highlighting the statewide responsibility of the State Police. Also, numerous billboards feature the State Police.

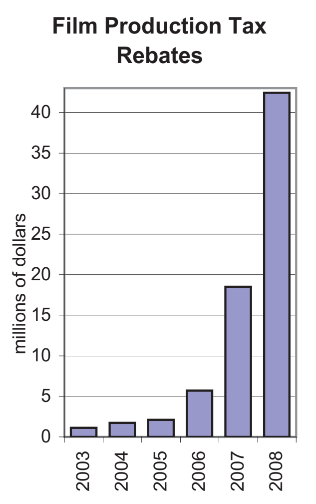
Motor Transportation Division (MTD) received 15.5 FTE as part of a $1 million expansion to extend port of entry hours in an effort to increase road fund revenue. MTD reports nine transportation inspectors are to be assigned to the major ports of entry along with six police officers and one part-time FTE financial specialist assigned to headquarters. As of September 18, 2008, seven transportation inspectors and one police officer have been hired. Police officer positions generally take longer to fill due to the more time-consuming criteria, such as extensive background checks or updated certifications. Revenue increases will be reported as information becomes available.

Crime Lab Backlog. In response to district attorneys' concerns regarding delays in drug evidence and deoxyribonucleic acid (DNA) testing, the Legislature appropriated an additional $1 million for crime laboratories in FY08. Of that total, $536 thousand is for hiring additional forensic scientists at the Northern Crime Lab in Santa Fe, the location for DNA cases. These resources were used to expand the DNA staff to 15 from eight and increase individual compensation. Performance has improved with 24.4 percent of the FY08 DNA cases processed in 70 days or less. This compares with 13.2 percent in FY07 and is below the target of 100 percent. Recruitment and retention of employees remain a problem, with four of the 15 positions vacant at the end of FY08.

Drunken Driving. On alcohol-related crash deaths, New Mexico ranked eighth nationally at 8.45 per 100,000 population for 2006, the last year officially reported using fatality analysis reporting system (FARS) information. The New Mexico DWI Resource Center reports 9.2 in 2005 but notes preliminary analysis for 2007 indicates an increase from 2006 to 8.93, an increase of 5.7 percent. In 1996, New Mexico reportedly led the nation at 12.9 deaths per 100,000. Improvement has been made against alcohol-related traffic fatalities, but additional work remains. State Police indicate that reduction of alcohol-related traffic fatalities is the number one goal.

Drunk Busters is an effort to engage the general public in the reduction of DWI by reporting suspected impaired drivers on a toll-free hotline. Use of this program has burgeoned from only 214 calls per month in 2006 to 1,867 calls per month for the first nine months of 2008. However, arrests per call have not kept pace and are down to 0.04 percent in 2008 compared with 1.3 percent in 2006. Expanded programs such as this provide a platform to fight the problem with the general public as an active participant.





Source: Taxation and Revenue Department

To promote job growth, the state has developed a portfolio of incentives, capital appropriations, and special taxing districts among many different agencies and initiatives. In many cases, the incentives are heaped on each other and often duplicated. Without a comprehensive economic development budget to report on statewide and local development efforts, it is difficult to know how much tax revenue is foregone and how much is created, workforce development needs, and how many jobs are created.

Statewide Economic Development Initiatives. The Economic Development Department (EDD) is responsible for statewide economic development activities including film and the Job Training Incentive Program (JTIP) and partners with the New Mexico Finance Authority on loan incentives and grants.

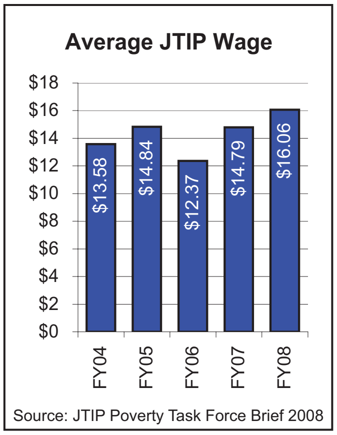
Film In New Mexico. Beginning in 2002, New Mexico and a handful of other states began to offer incentives to film companies for productions shot in the state. Since then, 42 states have added film incentives and some are more lucrative than New Mexico's. In New Mexico, production companies can receive a rebate of up to 25 percent on expenditures made within the state, subsidized wages through the Job Training Incentive Program (JTIP), and no-interest loans from the State Investment Council. According to a study by New Mexico State University (NMSU), rebates have grown from two projects in 2002 receiving $1.1 million to 31 projects receiving $38.2 million in 2008. Based on a 25 percent credit, the study estimates the industry spent $152.8 million on production in New Mexico during the year. While the number of projects and the amount spent has grown, the cost and benefit of the incentives remains a concern. The NMSU study revealed the rebate may return only 14.4 cents in state taxes for every dollar rebated.

Media Fund. In addition to rebates, the Legislature has appropriated and reauthorized $26.7 million of capital outlay funds to the Local Government Division of the Department of Finance and Administration (DFA) to develop film production infrastructure, film schools, and training. DFA expended $10.4 million and has approved projects totaling $9.9 million. Pending requests outstrip the uncommitted balance of $6.3 million by 2-to-1 with requests totaling $12.1 million.

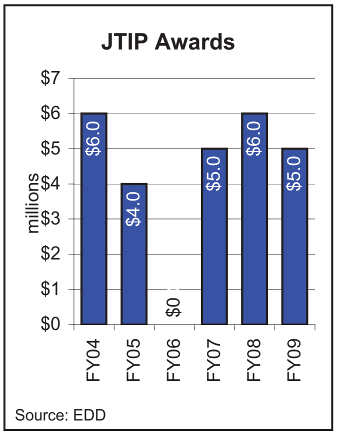
Film Job Training. In conjunction with JTIP, the New Mexico Film Office collaborated with the International Alliance of Theatrical and Stage Employees (IATSE) to create the Film Crew Advancement Program (FCAP). FCAP provides a 50 percent reimbursement of on-the-job training wages to New Mexico residents working in entry level positions (up to 1,040 hours per position). Over the last five years, FCAP training appropriations totaled $7 million, of which $5 million has been expended and $2 million transferred back to the traditional JTIP program. In addition to on-the-job training, the Film Office has also started offering film and media workshops and classes to provide additional training to help build the workforce. IATSE membership is up to 1,202 from 250 since 2003, and an additional 325 are in the application process.

State Investment Council Loans. The State Investment Council (SIC) is authorized to invest up to 6 percent of the severance tax permanent fund in film projects. Since 2004, SIC has loaned $213.7 million to 23 projects. Nine projects have fully paid back their loans, a total of $52.5 million. Of the remaining 14 loans, three projects have partially paid a total of $5.5 million, leaving an outstanding balance of $155.7 million.

Job Training Incentive Program. Formerly known as in-plant training, the Job Training Incentive Program (JTIP) was created in 1972 to support classroom and on-the-job training for newly created jobs in expanding or relocating businesses. Most often, JTIP reimburses 50 percent to 80 percent of employee wages and required travel expenses. Up to one-third of JTIP funds are reserved for rural areas. In addition, the program provides higher reimbursements in rural, frontier, and distressed areas.



JTIP has been an integral part of business recruitment for many years, but program funding has been nonrecurring and has fluctuated over the years. JTIP received $8 million in FY08 and $7 million in FY09. The FY09 appropriation specifies that $2 million of the $7 million must be directed toward job training in the film industry.



New Mexico Finance Authority Programs. The New Mexico Finance Authority (NMFA) and EDD have partnered to provide funding for economic development projects that include loans and more complex financing arrangements.

Smart Money. The Smart Money loan program is jointly administered by NMFA and EDD. The program received $10 million in 2005 and $2 million in 2007. EDD transferred the initial $10 million to NMFA and is working on an agreement to transfer the remaining $2 million. NMFA has approved three projects: the Plaza Hotel (Las Vegas), PreCheck Inc. (Alamogordo), and Western Wood Products (Raton). NMFA projects loans of $6.5 million in FY09, leaving $4 million for projects in FY10.

New Markets Tax Credits Program. Last year, NMFA received $110 million from the federal government for a new markets tax credit program (NMTC). It created Finance NM, a wholly-owned subsidiary, for the purpose of distributing the funds. The program links investors and banks to new businesses in need of financing. To entice banks, loan risk is reduced by providing equity financing to investors who receive federal tax credits for helping businesses in designated poverty census tracts. Over time, Finance NM will build a revolving fund from interest earned on the projects to loan to other businesses.

In the first round of financing, NMFA reported receiving $220 million worth of requests for projects throughout the state. The largest applications were for Schott Solar and Pacifica Mesa Studios

(Albuquerque Studios), both in Mesa del Sol. NMFA plans to only grant $20 million in the first round of financing. The second round of financing will be made in March of 2009.

Economic Development Capital Outlay Commitments

Schott Solar
- Appropriated in 2008 - $7.5 million
- Unfunded Commitment - $4 million

Fidelity Investment
- Appropriated in 2008 - $7.5 million
- Unfunded Commitment –$6 million

Hewlett Packard
- Unfunded Commitment - $12 million; divided over two legislative sessions, $8 million in 2009 and $4 million in 2010.

Regional Economic Development Initiatives. Many of EDD's initiatives work to develop local capacity so communities can direct their own economic development efforts. EDD believes local leaders and policies can have a greater impact rather than broad statewide policies due to the unique business climate in each community. Programs such as the Certified Communities Initiative and MainStreet help communities formulate economic development plans, adopt development ordinances, and help to revitalize downtowns.

Economic Development Capital Outlay Projects. Several high-profile economic development projects have received capital outlay appropriations to help entice them to New Mexico including Schott Solar, Fidelity Investment, and Hewlett Packard. The enticements have been doled out in a piecemeal fashion leaving several unfunded commitments. Most of these high-profile projects are located in Bernalillo County.

Two of the most popular regional economic development programs include

- Certified Community Initiative (CCI) helps communities develop an economic plan and pass development ordinances. CCI funding includes $200 thousand in the operating budget.

- MainStreet Program helps communities revitalize down-towns and adjacent neighbor-hoods. MainStreet funding includes $825 thousand in the operating budget and non-recurring funding of $1 million.

Spaceport America. Progress continues on the $225 million spaceport in southern New Mexico. Road construction is currently underway and construction on the runway and terminal is not expected to start until the first quarter of 2009 following approval of the environmental impact study (EIS) and issuance of a site license by the Federal Aviation Administration (FAA). The Spaceport Authority entered into a development agreement with Virgin Galactic to identify more specific details of each party's responsibilities and expects to sign a lease by December.

Meanwhile, Virgin unveiled White Knight Two, designed to cradle SpaceShipTwo (the successor to X-Prize winner SpaceShipOne) under its wing and release it at 50,000 feet. Once separated, SpaceShipTwo will fire its rocket and climb 62 miles above Earth. Over the next several months, White Knight Two will undergo ground and flight testing. Engineers are still working on SpaceShipTwo, now about 70 percent complete, which will also undergo extensive testing. SpaceShipTwo will carry six astronaut passengers and two pilots. Testing will be conducted from the Mojave Spaceport in the Mojave Desert, California, near where the spaceship is being developed and built.

The unfunded portion of the state's $140 million share of the proposed $225 million spaceport budget is $7.5 million. The funding plan also includes revenue from a special regional spaceport taxing district. Voters in Sierra and Dona Ana counties approved the taxing district while voters in Otero did not approve a proposal to join the district, leaving a funding gap of $6.6 million in the tax district budget. Receipts from the spaceport tax will be divided, with 75 percent going to the Spaceport Authority and 25 percent going to support local spaceport-related activities. The portion of the tax sent to the Authority was going to support $58 million of construction bonds, of which $49 million would be supported by Dona Ana County and $2.4 million by Sierra County; however, it is not clear how the Spaceport Authority will replace $6.6 million that was to come from Otero County. Sources for the $25 million federal and $2 million private share of the budget have yet to be identified.

Other Space-Related Economic Development. The international Rocket Racing League recently broke ground on the first of its facilities at Las Cruces International Airport: two hangars that will house league aircraft and teams. NMSU and the FAA entered into an agreement to establish a flight test center for unmanned aircraft systems and establish standard regulations for homeland security, agriculture, defense, and science operations.

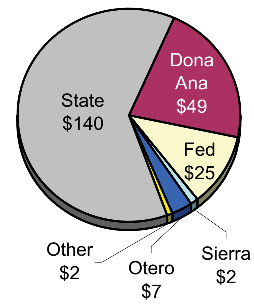
Border Economy. The Union Pacific Railroad is developing a new $150 million fueling and intermodal facility west of Santa Teresa capable of handling 100,000 containers annually. Santa Teresa announced the expansion of the Foreign Trade Zone to 1,200 acres, allowing manufacturers and suppliers the opportunity to locate on the U.S.-Mexico border and take advantage of the new Union Pacific facility and access to Interstate 10.

In what could be Mexico's largest maquiladora, Foxconn, a Taiwanese company, broke ground on a facility in Jeronimo, Chihuahua. The facility, initially employing 9,000 workers, will produce computers, laptops, and servers when it opens in February 2009 and is expected to grow to 30,000 workers over four years. It will cover nearly 500 acres and include more than 1.2 million square feet of structures.

Tax Increment Financing. Since the passage of the Tax Increment for Development Act in 2006, three tax increments for development districts (TIDD) have formed. Mesa del Sol and SunCal, near Albuquerque, have received state Board of Finance (BOF) approval. Mesa del Sol will keep 75 percent and SunCal will keep 50 percent of the state gross receipts tax (GRT) generated within their respective districts. SunCal has yet to set up the governance to begin receiving distributions and has not received legislative authority to issue bonds, which may be a reason the development has not begun. The third TIDD, Downtown Las Cruces, has been approved by both the city of Las Cruces and Dona Ana County and is seeking BOF approval to receive 75 percent of the GRT collected in the district and is expected to request authorization from the Legislature in 2009 to issue bonds.

Also seeking to form a TIDD, the Winrock/Quorum Town Center Redevelopment Project in uptown Albuquerque, intends to revitalize uptown through a sustainable business- and pedestrian- friendly town center. It is being designed as a multi-use "live, work, and play" development to minimize driving. Developers expect to begin construction early in 2009 and have its first tenant a year later. If BOF approves the TIDD, the development is expected to seek legislative approval to issue bonds.

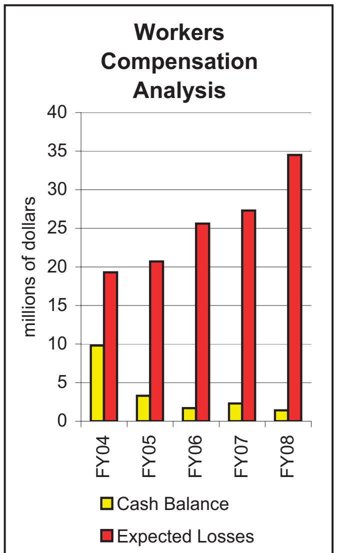
$225 Million Spaceport Construction Budget (in millions)



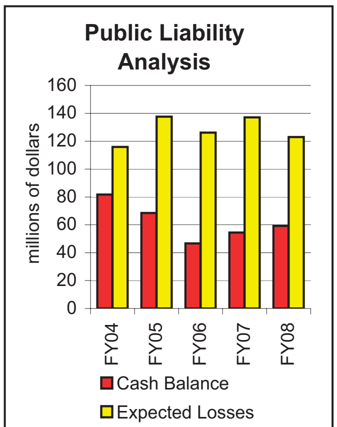
Source: New Mexico Spaceport Authority

Mesa del Sol is home to a number of businesses, including Albuquerque Studios and Advent Solar. Numerous other businesses are constructing offices and or manufacturing facilities within the TIDD, including Fidelity Investments, Schott Solar, and SONY. Mesa del Sol is expected to issue its tax increment revenue bonds this year.

GSD risk reserves have shown significant improvement with the exception of workers compensation as demonstrated below.



Source: GSD



Source: GSD

In FY07, GSD approved the purchase of an aircraft by the Department of Public Safety for $1.2 million as a sole source agreement.

Risk Management. The General Services Department (GSD) operates public liability, workers' compensation, property, and unemployment compensation risk management programs. In general, the state's risk reserve funds have experienced improvement in their fund balances and actuarial position from prior years, with the exception of the workers' compensation fund, which continues to struggle as expenditures outpace revenues.

Since a 2006 LFC performance review of the risk program, several positive changes have occurred, including the hiring of new leadership in the division, the development of a policy regarding the actuarial position of the funds, and the adoption of an aggressive approach to collecting accounts receivables.

In June 2008, GSD received approval from the state Board of Finance to loan $3 million from the pubic liability fund to the workers' compensation fund to prevent the disruption of indemnity payments made to injured workers. This loan requires repayment within one year of the loan date. As a result, GSD proposes to increase the FY10 workers compensation rates to replenish fund balances. The condition of the fund continues to deteriorate with an estimated actuarial position (assets minus estimated losses) of negative $33 million.

GSD collects unemployment compensation premiums from state agencies, local public bodies, and school districts. In late 2006, GSD discovered it had failed to pay unemployment premiums it collected to the Workforce Solutions Department (WSD), (formerly the Department of Labor). GSD settled all outstanding debt owed to WSD for $8 million, less than the estimated $9.5 million originally owed.

The public liability fund has suffered a number of large losses in recent years for claims related to medical malpractice, civil rights, and general liability. As a result, the actuarial position dipped to negative $79 million at the end of FY06 and stands at negative $63 million at the end of FY08. Improving the solvency of this fund continues to remain a priority for GSD as civil rights violations continue to surface, resulting in costly settlements and legal fees.

LFC Review of State Purchasing. GSD is responsible for identifying products and services that are biddable items and contacting vendors who wish to participate in bids for such items on a statewide or specific agency basis.

A 2008 review by LFC staff revealed significant shortcomings in the State Purchasing Division (SPD), including inadequate procedures as well as inadequate oversight and monitoring of state expenditures. The review further revealed that excessive use of sole source and emergency purchases was a common practice by agencies.

According to SPD, only about 10 percent, or $550 million, of state spending is awarded through the procurement function based on information last updated in 2002. Of greater concern is the remaining 90 percent, or $4.7 billion, in state spending that is not monitored or reviewed according to the procurement code.

Surrounding states of similar size were surveyed to compare oversight of the procurement function. Findings suggest that state purchasing functions typically reside within a state's finance and administration agency. Only New Mexico and Oklahoma manage purchasing in their GSD.

Department of Information Technology. Since its inception in mid-2007, the Department of Information Technology (DoIT) has struggled with the implementation of the Statewide Human Resource, Accounting and Management Reporting (SHARE) system, enterprise rate development, and equipment replacement and depreciation.

SHARE. In summer 2008, the SHARE project team and Oracle (the software provider of SHARE) jointly engaged in a technology assessment to evaluate the system structure; identify solutions; and create a short, medium, and long-term management strategy. In addition, upgrades are needed for the financial, human resource and capital components of the program.

The Oracle assessment was followed by a post-implementation risk analysis conducted by an independent consultant in September 2008. The review suggests confidence in SHARE data has improved. However, the assessment identifies several deficiencies, including the daily purchase and revenue reports, department-level budget data, and other fundamental tools.

The SHARE system is owned by the Department of Finance and Administration (DFA), but DoIT is responsible for infrastructure and database support. Clear service-level agreements between DFA and DoIT do not exist in terms of system performance and business continuity or from the SHARE system to the end user. For example, the original project plan requires 99.7 percent system availability but does not specify the system components needed to achieve this target.

The review also noted that SHARE data growth is estimated to be approximately 1 percent to 5 percent each month. However, disk capacity and utilization requirements were not determined, and SHARE's current capacity use is in the range of 70 percent to 90 percent. This will present a significant challenge in meeting the capacity needs as the Department of Transportation fully transitions its financial operations to SHARE.

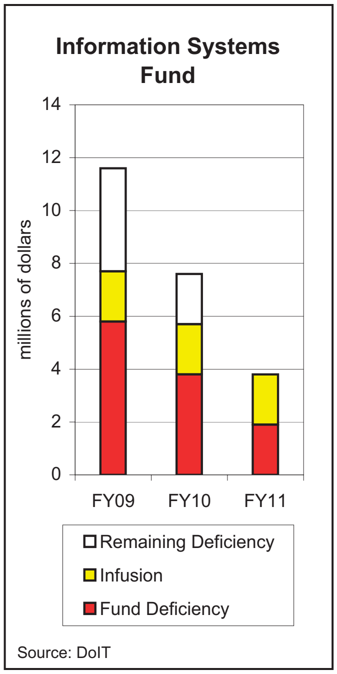
Rate Setting. The Information Technology Act formed the Information Technology Rate Committee (ITRC), consisting of seven members, which is responsible for developing rates charged to state agencies for information technology (IT) and communication services and meets on a quarterly basis to review rates and compare usage and operating

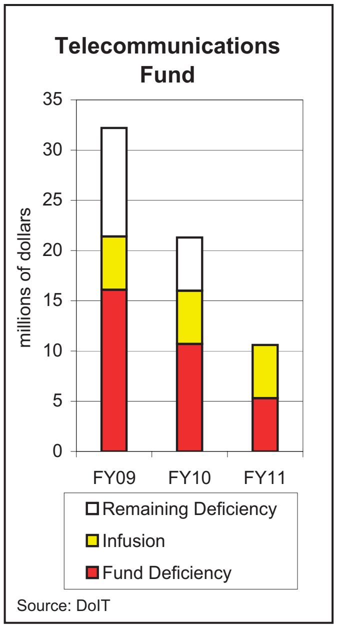
Recommendations: LFC, DFA and GSD should appoint an interim committee during 2009 to

- Determine and establish oversight and monitoring mechanisms of emergency purchases,
- Evaluate all exemptions and determine if noncompetitive purchase status is in the best interest of New Mexico and its public funds.

Oracle review of SHARE identified the following performance-related issues:

- Performance is unacceptable.
- Application deadlocks are common.
- A training environment does not exist and is needed.
- Database testing is problematic due to resource constraints.
- Batch processing too takes long.
- Most help desk calls come from users unable to login, or access the application.
- No automated configuration management exists.
- System central control is not complete.
- A standard development methodology does not exist.
- System back-up is not coordinated.
- The database has not been patched for over a year due to Maximus requirements.





expenses.

In FY08, DoIT received a $2.8 million supplemental appropriation for payment to the federal government in the event that an adverse decision would be rendered in the countersuit initiated by the Department of Information Technology v. U.S. Department of Health and Human Services and Michael O' Leavitt. In September 2008, DoIT learned the federal courts dismissed the state's lawsuit and will require the state to repay an estimated $3 million. Failure to repay may result in the federal interception of state agency requests for federal draws. However, the supplemental appropriation expired at the end of FY08.

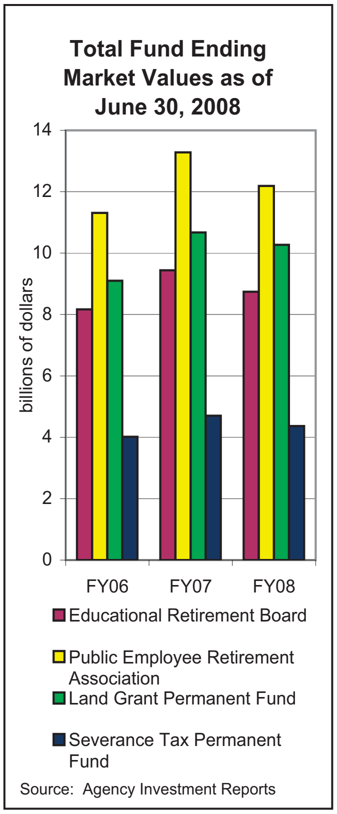
Proposed FY10 DoIT rates include depreciation, which allows for the recovery of the cost to replace an asset. During the past several years the depreciation amounts recovered through rates have been spent on operating costs rather than equipment replacement. As a result, DoIT does not have sufficient funds in the equipment replacement fund to replace aging equipment.

DoIT has proposed to replenish the equipment replacement fund over a three-year period beginning in FY09. This would require additional revenue in the form of supplemental or special appropriations or both. In addition, DoIT enterprise operations would charge for its services an amount sufficient to recover the cost of providing a service, accumulate an equipment reserve, and maintain an adequate operating fund balance to cover projected expenses for sixty days.

Project Certification. DoIT is responsible for providing oversight of all IT projects and is required to review agency IT plans. DoIT is also charged with providing recommendations regarding the allocation of IT resources and reducing redundant data, hardware, and software, in order to improve interoperability and data accessibility among agencies. DoIT is responsible for approving agency requests for proposals and IT contracts including amendments, emergency procurements, sole-source contracts, and price agreements. DoIT then monitors agency compliance and reports noncompliance to the Governor's Office.

As of the first quarter of FY09, DoIT reported 23 projects valued at $1 million or greater are on budget and on schedule while four projects have fallen behind schedule. Of the four projects behind schedule, the integrated automatic fingerprint identification system at the Department of Public Safety has been placed on the DoIT "watch list" as a result of delays in major project deliverables.

Turbulent economic conditions continue to impact financial markets. All major equity indices were down by more than 10 percent for FY08, including international equities, which had been a strong performer for many portfolios. Fixed income markets saw equally difficult investment conditions as wildly fluctuating yields, driven by sharp contrasts between inflationary fears and the "flight to safety," hammered investment returns throughout most of the year. These adverse economic conditions made positive returns for FY08 nearly impossible, particularly for those funds without a substantive way of hedging the enormous volatility associated with such conditions — either through expanded diversification or through direct hedging strategies. In some instances, poor external manager performance relative to benchmarks also contributed to the downward trend in performance. Equity markets continued to slide in the first quarter of FY09.



Performance Overview. The state has four major investment and pension funds. The land grant permanent fund (LGPF) and the severance tax permanent fund (STPF) are managed by the State Investment Council (SIC) and provide recurring distributions to the general fund. The other two funds are pension funds managed by the Public Employees Retirement Association (PERA) and the Educational Retirement Board (ERB). Totaling $35.6 billion as of June 30, 2008, state investment and pension fund assets declined by more than $2.5 billion in FY08. These figures reflect fund contributions and distributions in addition to investment gains or losses. Thus, the percent change from June 30, 2007, for each fund will differ from the investment returns.

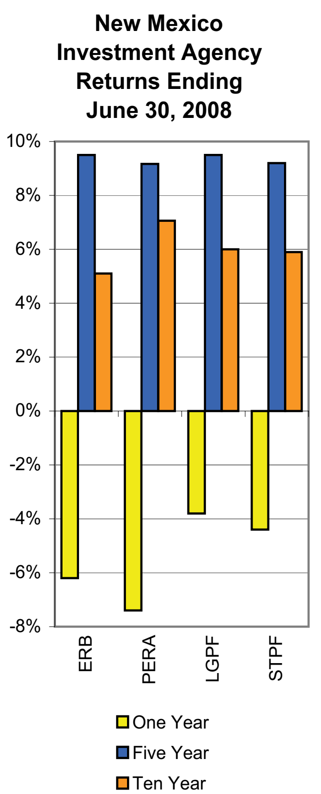
A 2003 constitutional amendment requires the LGPF to distribute 5.8 percent of the five-year average of its calendar year-end balance to the general fund for public education. This rate is scheduled to drop to 5.5 percent in FY13 and to 5 percent in FY17. The STPF distributes 4.7 percent of the five-year average of its year-end balance to the general fund as well. These distribution rates cannot be altered without a constitutional amendment.

Current Asset Values for year Ending June 30, 2008 (millions)

Annual	ERB	PERA	LGPF	STPF	TOTAL
Fund Asset Value	$8,741	$12,191	$10,270	$4,368	$35,571
Annual Change	($697.9)	($1,092.5)	($402.7)	($335.9)	($2,529.0)
Percent Change	-7.4%	-8.2%	-3.8%	-7.1%	-6.6%

While comparing investment performance among the funds, it is important to remember that the funds have different asset allocations, strategies, and constitutional restrictions. For example, Article VII, Section 7 of the New Mexico Constitution prohibits the SIC from having more than a 65 percent equity allocation, only 15 percent of which can be international equity assets. The comparison of overall fund performance, for the fiscal year and over time, captures the end-result of management decisions given these policy and statutory constraints.

FY08 investment returns for all funds were negative, ranging from -7.4 percent for PERA to -3.8 percent for LGPF. PERA and ERB had been posting five-year returns slightly higher than the SIC funds; however,



Source: Agency Investment Reports

Pension Plan Solvency
Even with investment losses as of the end of the first quarter in FY09, both pension plans retain sufficient funding to support current retirees.

In light of the turmoil in the traditional asset markets and reduced forecasts for key alternative asset classes moving forward, the expected 8 percent actuarial investment return for ERB and PERA might not be achievable.

their recent underperformance relative to the SIC-managed permanent funds leveled the five-year returns for all agencies. Five-year returns now average just over 9 percent, about 2 percentage points lower than returns for the FY02-FY07 period. In addition, the negative FY08 returns, which added to poor results experienced during the 2001-2002 bear market, reduce the 10-year returns an average of 2.5 percentage points.

The decrease in longer term results are of concern for the pension funds, particularly as an 8 percent long-term return is targeted to meet pension liabilities. The 10-year returns for ERB and PERA now stand at 5.1 percent and 7.1 percent, respectively. This situation is similar to the one faced by the pension plans after the last bear market, although subsequent double-digit returns supported a substantial recovery in a short period. However, with the continued market turmoil and negative returns reported for the first quarter of FY09, how well and how quickly the recovery occurs going forward is highly uncertain.

Impact on Pension Fund Solvency. Solvency indicators for FY08 do not immediately reflect the impact of negative investment returns because the actuarial returns are "smoothed" over five years for ERB and four years for PERA. Therefore, the negative results for FY08 are only partially included in the actuarial return and are dampened by offsetting positive results from prior years. Thus, the impact on fund solvency for ERB and PERA from FY08 performance will depend largely on future investment returns. Returns below the 8 percent actuarial assumption, in addition to FY08 negative returns, could materially impact solvency depending on what occurs on the liability side (projected pension obligations).

For example, assuming that PERA does not recover from its -11 percent decline for the first quarter of FY09, even if it met its actuarially required 8 percent each of the next three years, projections indicate the fund falling to a 77 percent funded ratio (ratio of assets to plan liabilities) by FY12. The industry minimum standard is 80 percent. Using a similar scenario for ERB with its first quarter decline of -8 percent, a rough estimate places its funded ratio at 61 percent. Any recovery in investment returns from the first quarter of FY09 would improve these projections and, conversely, any returns below those assumed in the scenario projections would cause them to decline.

Performance Evaluation. Each fund devises a fund benchmark unique to its particular portfolio policy and asset allocation targets. The difference between this fund benchmark and the actual return is quantified in terms of "basis points," where one basis point equals 0.01 percent, or 0.0001, and is a quick means of assessing how well a fund performed during the related time period. Further insight is provided by separating fund performance into manager, allocation, and policy components, or "attributions."

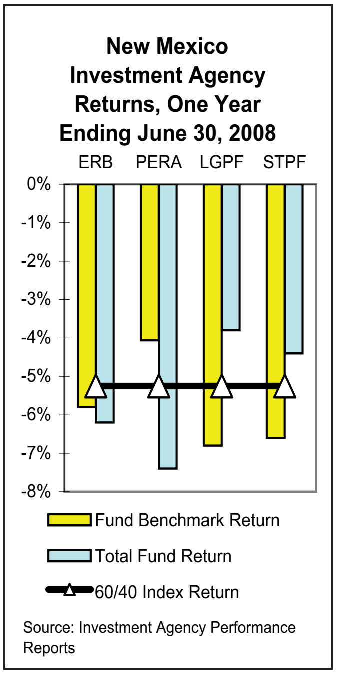
One-Year Performance Versus Benchmarks. The LGPF and STPF suffered the least damage, returning -3.8 percent and -4.4 percent, respectively. In addition to substantially beating both their respective benchmarks, the SIC funds also outperformed the 60/40 index, which assumes a hypothetical portfolio of 60 percent equities and 40 percent fixed income. The LGPF and STPF returns were also competitive in comparison with other public funds, respectively ranking in the 49th and 57th percentiles of the Independent Consultants Cooperative (ICC) Public Funds Universe. The returns from ERB and PERA failed to meet both their respective policy indices and the 60/40 index. ERB barely missed its benchmark return by 40 basis points, whereas PERA missed its annual benchmark return by a staggering 334 basis points. ERB and PERA also performed in the bottom quartile when compared with other public funds, ranking in the 78th and 93rd percentile, respectively.

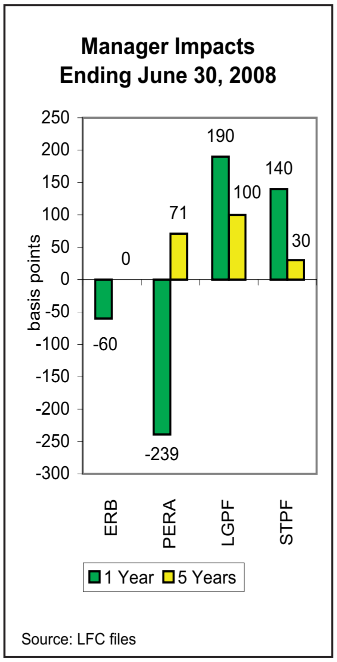
Manager Impact. Manager impact measures the added returns due to a manager actively managing funds versus simply investing the funds in an index, considered a "passive" investment strategy because it merely follows the market. Manager impact or "attribution" is derived by comparing the manager's return with the manager's individual benchmark or index. A domestic large cap equity manager's returns, for example, would be compared with the Standard & Poor 500 Index (S&P 500). Managers able to outperform their benchmarks were particularly valuable in FY08, given the challenging market conditions.

While adding positive value in a down equity market is difficult, both SIC funds performed particularly well against equity benchmarks due in large part to its equity hedging program implemented in the third quarter of FY08. Without it, SIC performance likely would have been in line with the pension funds. In contrast, manager underperformance contributed -239 basis points, or 72 percent, to PERA's FY08 return. The agency has terminated at least two managers thus far in response to style drift and sustained poor performance over time. ERB manager underperformance contributed -60 basis points to FY08 returns and, remarkably, managers added no value for the five-year period.

Allocation Impact. Allocation impact measures how deviation from target asset allocations impacts returns. Allocation impact was slightly positive for ERB and offset the manager effect by 20 basis points. Due to disadvantageous asset allocations given market conditions, PERA experienced -88 basis points of allocation impact. Asset allocation added substantial value to both the LGPF and STPF, most likely due to increased alternative investment allocations.

Policy Impact. ERB and SIC also measure policy impact, an indication of the effectiveness of plan structures as compared with median public fund returns. ERB's policy impact contributed -140 basis points to returns, signifying that the best-performing funds had different portfolio structures than did ERB. SIC's funds produced slightly better policy impacts, which confirms their better peer rankings. A study prepared by PERA's general consultant, RVKuhns and Associates, concluded the top-performing public funds had less equity and higher, more mature allocations of alternative investments.





Passive versus Active Management
The agencies are moving assets from active management to passive management (through indexed accounts) in certain asset classes that have proven difficult for managers to sustain positive added value over the long run.

Asset Allocations
Asset allocation decisions that had added positively to returns in prior years reversed course in FY08. For example, PERA's higher allocation to international investments, which had provided double-digit returns in prior years, turned negative for FY08 — posting a 10 percent decline. ERB's 4.5 percent allocation to real estate investment trusts (REITs) performed similarly, posting a 13 percent decline for the fiscal year.

Why Alternatives?
Most traditional investments move together over time, causing funds with traditional 60 percent equity and 40 percent fixed income to have high volatility as measured by standard deviation of returns. Alternative assets, on the other hand, are expected to have a low correlation with traditional equity and fixed income assets, thus, allowing for less volatility and increasing the expected return of the total portfolio. In terms of modern investment theory, alternative investments shift the most efficient combination of asset allocations (the "efficient frontier curve") upward, providing the same expected return for a portfolio at lower overall volatility.

<u>Alternative Investments.</u> Since passage of the Prudent Investor Act in 2005, agencies responsible for investing pension and permanent funds have initiated or expanded investments in nontraditional or alternative investments to optimize returns and reduce risk. Principally, these investments are in hedge funds (also known as "absolute return" funds), real estate, real assets, and private equity. Through the STPF, SIC has also made various "economically targeted investments" (ETIs), where the primary goal is to fuel economic development within New Mexico as opposed to focusing solely on bottom-line returns of a normal private equity investment. A major component of the SIC's ETI portfolio is its Film Investment Program, which assists in financing various television and motion picture projects filmed in New Mexico. To date, SIC has made nearly $230 million in loans to various projects around the state and estimates that more than $200 million, excluding multiplier effects, has been spent within New Mexico as a result. Asset allocations for the four funds as of June 30, 2008, are shown below.

Fund Asset Allocation Detail, Quarter Ending June 30, 2008

	ERB*		PERA*		LGPF		STPF	
	Actual	Target	Actual	Target**	Actual	Target	Actual	Target
Total US Equity	37.0%	40.0%	39.8%	40.0%	50.7%	53.0%	49.0%	53.0%
International Equity	18.4%	20.0%	28.0%	25.0%	11.6%	10.0%	13.3%	10.0%
Total Fixed Income	29.4%	29.0%	25.8%	30.0%	15.6%	18.0%	4.0%	11.0%
Total Alternatives	14.3%	11.0%	6.1%	5.0%	21.3%	19.0%	32.2%	26.0%
Private Equity	1.1%	1.0%	0.8%		7.5%	6.0%	12.3%	12.0%
Hedge Funds	8.7%	5.0%	5.0%		10.4%	10.0%	10.5%	10.0%
Real Estate/Real Assets	4.5%	5.0%	0.3%		3.4%	3.0%	4.2%	3.0%
Economically Targeted Investments	N/A	0.0%	N/A	0.0%	N/A	0.0%	5.3%	1.0%
Cash Equivalents	0.9%	0.0%	0.0%	0.0%	0.4%	0.0%	1.4%	0.0%
Total Fund %	100%	100%	100%	100%	100%	100%	100.0%	100%

**Due to the long implementation period for some alternatives, both PERA and ERB targets for some alternatives will be increased over time to match the long term targets.*
***PERA's long term targets for alternatives total 15 percent, with 5 percent allocated to each of the three categories: private equity, hedge funds, and real estate/real assets.*

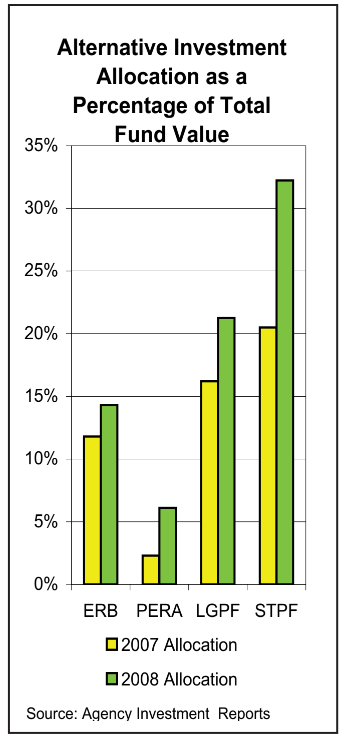
The two pension plans have fully funded hedge fund portfolios but remain below target allocations to private equity, real assets, and real estate — although ERB is using its 5 percent allocation to real estate investment trusts (REITs) as a placeholder to gain exposure to real estate while the agency transitions the funds to direct investments. ERB has also redefined and increased its long-term alternative portfolio from 15 percent to 35 percent to achieve higher returns at a similar risk level as defined by volatility (standard deviations).

New ERB Alternative Allocations

<table>
<tr><th>Asset Class</th><th>Current Target</th><th>New Target</th></tr>
<tr><td>Absolute Return (Hedge Funds)</td><td>5%</td><td>10%</td></tr>
<tr><td>Private Equity</td><td>5%</td><td>10%</td></tr>
<tr><td>Real Estate</td><td rowspan="2">5%</td><td>5%</td></tr>
<tr><td>Real Assets</td><td>5%</td></tr>
<tr><td>Global Asset Allocation</td><td>0%</td><td>5%</td></tr>
<tr><td>TOTAL</td><td>15%</td><td>35%</td></tr>
</table>

It is anticipated that it will take several years for PERA and ERB to fully fund all alternative categories, particularly given market conditions.

Alternative Investment Performance. For FY08 all funds were fully deployed in hedge funds, although the hedge fund portfolios for both pension plans debuted with less-than-expected earnings. The absolute return composite for ERB was virtually flat compared with its benchmark of 5.9 percent, the 90-day treasury bill plus 2 percent. PERA's hedge fund portfolio fell short of its benchmark, the three-month LIBOR Index plus 4 percent, by almost 1,000 basis points. However, compared with external hedge fund benchmarks, performance was not as dismal and the asset class anchored portfolios by preserving capital to some extent. The losses would have been greater if the funds had been left in the equity portfolios.



With the flexibility now provided by the Prudent Investor Act, New Mexico pension funds shifted to a policy of relying on diversification to "inoculate" portfolios to withstand any market condition in lieu of taking tactical moves based on market timing (also known as "defensive positioning"), which PERA did in the 2001-2002 bear market to preserve capital. However, the severe market conditions in FY08 appear to have penalized the pension funds for not having the planned diversification fully deployed.

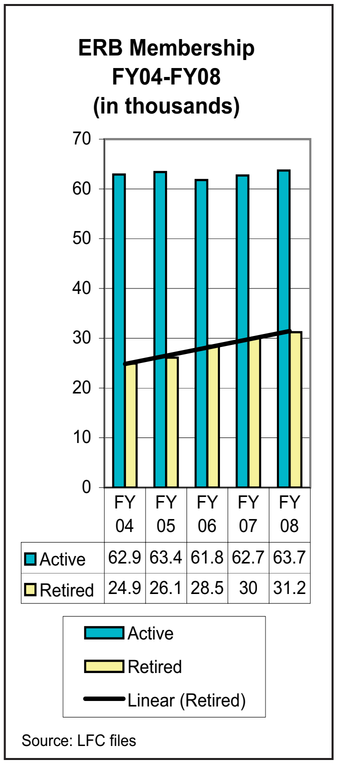
Alternative Benchmarks - FY08	
NCREIF Property Index	9.3%
Cambridge PE Lagged	12.4%
HFRI Fund of Funds	1.8%
HFRI Market Nuetral	3.2%
Source: ERB June 30, 2008 Investment Report	

LFC remains concerned regarding valuation and reporting methods for alternative investments, which can be obscured if managers restrict access to confidential information. In some cases, the value cannot be truly evaluated until the position is sold. The fiduciary responsibility to optimize returns within an accepted risk level by investing in alternative strategies is substantially in conflict with the fiduciary responsibility to independently value each alternative. An LFC review of the New Mexico investment agencies performed in FY08 revealed that ERB, PERA, and SIC are minimizing this conflict through robust due diligence protocols that involve fund manager reporting requirements and consistent review by consultants and agency staff.

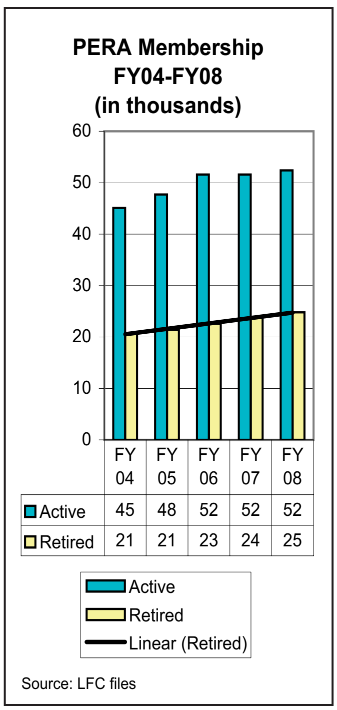
It will take several years for ERB and PERA to fully fund certain alternative asset classes, and it will take several more years for these investments to mature. Thus, it could take more than 10 years before the success of the alternative investment program can be fully assessed.

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, 2008, PERA had 52,401 active members and 24,763 retirees, reflecting a 4.5 percent growth in the number of retirees from FY07 to FY08. ERB offers a pension plan to public school and higher education employees. As of June 30, 2008, this pension plan had 63,698 active members and 31,192 retirees, a 4 percent growth over FY07. 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.

The financial health of the two pension funds is determined by focusing on actuarial solvency calculations, primarily the funded ratio and



	FY 04	FY 05	FY 06	FY 07	FY 08
Active	62.9	63.4	61.8	62.7	63.7
Retired	24.9	26.1	28.5	30	31.2



	FY 04	FY 05	FY 06	FY 07	FY 08
Active	45	48	52	52	52
Retired	21	21	23	24	25

funding period, detailed below.

Funded Ratio. The funded ratio is the actuarial value of assets (AVA) expressed as a percentage of actuarially accrued liabilities. Generally, a funded ratio of at least 80 percent is considered satisfactory.

As of June 30, 2008, PERA maintained its overall funded ratio of 93 percent, which means that plan assets are 93 percent of projected liabilities. ERB's funded ratio increased slightly, from 70.5 percent in FY07 to 71.5 percent as of June 30, 2008. However, this calculation is based on an actuarial value of plan assets that is higher than the market value as of the valuation date. If the ratio was calculated using the market value, it would be 67.6 percent.

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.

As of June 30, 2008, PERA had an aggregate UAAL of $925.5 million and an amortization or funding period of 13 years, well within the GASB standard. ERB's UAAL increased during FY08 from $3.6 billion to $3.7 billion. The plan's funding period is 61.4 years, which compares with an infinite funding period calculated in the prior actuarial valuation. Incorporating future employer contributions contained in Laws 2005, Chapter 173 (Senate Bill 181), ERB's actuary estimates that the UAAL would be fully amortized in about 31 years. However, GASB does not permit the consideration of contribution rates not yet in effect.

As demonstrated by the last three years, the GASB timeline projections appear particularly sensitive to investment returns because any one year can significantly differ from the long-term expected average of 8 percent.

PERA Plan Issues. Despite the contribution increases initiated by Laws 2005, Chapter 246, the funded ratio for the PERA-sponsored judicial plan declined slightly from 79.4 percent to 78.3 percent. The new rates cover the normal cost for the plan (current liabilities) but are insufficient to amortize the unfunded liability over 30 years. The actuary continues to stress that the imbalance between payroll and docket fees — a substantial contributor to the plan's revenue — should be addressed to preserve the plan. Contributions for the magistrate plan are insufficient to cover even the normal cost, resulting in a one-year decline in the funded status from over 100 percent to 93.3 percent. Without a revision in contributions, the plan will continue to quickly deteriorate in the absence of experience gains. These gains occur when actual results compare favorably to key actuarial assumptions, such as salary increases being less than expected.

The fact that the magistrate plan had been 100 percent funded and yet was considered impaired in the FY07 report highlights the importance of looking beyond the funded ratio or funding period to assess the health of a plan. In addition, actuarial assumptions relating to the various risk elements need to be periodically reviewed to ensure they align with actual experience. While ERB's actuaries maintained assumptions from the agency's 2007 study (covering the prior six years), PERA may be revising some key assumptions relating to pay increases and retiree longevity in its next four-year report due in 2009. These changes, plus those attributed to the data-cleansing project initiated in FY07, most likely will increase liabilities (pension obligations) for some PERA plans.

New Mexico Retiree Health Care Authority. The Retiree Health Care Authority (RHCA) provides group and optional healthcare benefits and life insurance to eligible retirees and their dependents. RHCA has 466 participating employers, including all state agencies, public school districts, 59 charter schools, 22 counties, 23 cities, and 10 institutions of higher education. Total enrollment as of June 30, 2008, is 42,000.

On December 15, 2007, the RHCA work group presented a report evaluating the long-term trend and actuarial conditions of the RHCA fund, solvency, and reporting requirements adopted by the GASB. The report identified several major issues facing RHCA including the rising cost of health care and insurance, increasing membership, unsustainable benefit options, insufficient premium contributions, and lack of pre-funding for future beneficiaries. Contributing to the problem is the significant number of public retirees entering RHCA's health insurance program at a relatively young age. Once retirees reach Medicare eligibility (typically age 65), the retiree becomes eligible for lower cost medical plans due to the integration with federally funded Medicare options. The work group recommended a range of statutory and administrative changes to increase premiums paid by retirees, delay eligibility for benefits, increase contributions from active employees and employers, and reduce benefit costs.

The Legislature in 2008 did not adopt changes to the program because of significant concern regarding increasing minimum age requirements as well as the effect of higher premiums for low-income retirees. Also, according to estimates, the potential savings of placing additional restrictions on nonvested retirees was minimal.

Meanwhile, the board increased premiums by 9 percent as well as the percent paid by retirees effective January 1, 2008. The overall weighted average increase across all plans was 15.5 percent. Estimates suggest this action extended the solvency period from June 2010 to January 2020. However, RHCA has deferred the next premium increase until January 1, 2010, despite projected increases to claims costs.

According to the actuarial study released in November 2008, the unfunded accrued actuarial liability has decreased by approximately $1 billion to an estimated $2.9 billion. The gap between actual revenues

The combined PERA Plan presents a 93 percent funded ratio. However, the State General Plan, which has the largest number of members, is only 85 percent funded.

Retiree Health Care

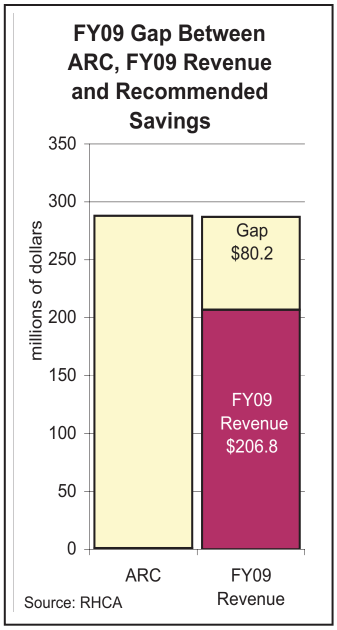
Distribution by Years of Service	
Years of Service	Percent of Retiree Population
5-9	3.2%
10-14	6.6%
15-19	14.3%
20+	75.9%

Distribution by Age	
Age	Percent of Retiree Population
<50	3.2%
50-54	6.6%
55-59	14.3%
60+	75.9%

Years of Service	Percentage of Subsidy
5	6.25%
10	37.5%
15	68.75%
20	100%

20 - Year Retiree	
Plan	Monthly Contribution
Gold	$272
Silver	$138
Bronze	$98

Pension	# of Retirees
<$5,000	188
$5,001-$10,000	1,533
$10,001-$15,000	2,408
$15,101-$20,000	3,146
$20,001-$25,000	3,776
$25,001-$30,000	2,957
>$30,001	4,914
	18,922

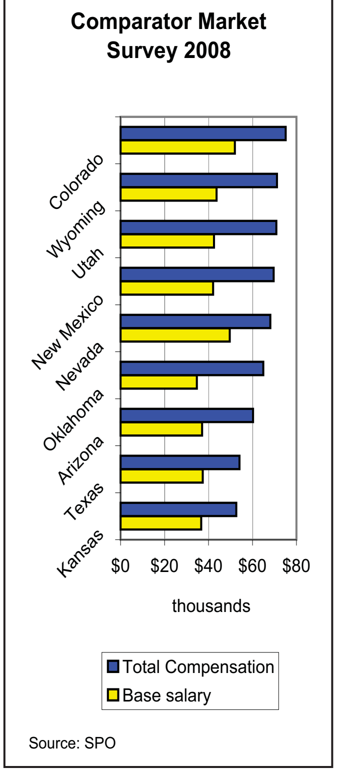


and the annual required contribution (ARC) has narrowed from an estimated $146 million down to $80 million. However, there is concern regarding the assumptions used to develop the study, including the impact of recent market losses as well as the projected return on assets in subsequent years and the number of future beneficiaries.

For the 2009 session, additional solutions are being considered by the board but do not appear to address the range of problems identified by the work group. Instead, the focus is on legislative action to increase the employee and employer contribution from 1.95 percent to 3 percent and to extend the increased pension tax revenue received from the Taxation and Revenue Department indefinitely.

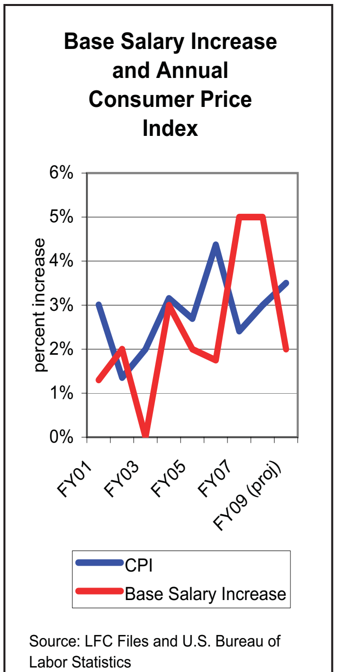
As the national economy continues to struggle, RHCA's long-term investments have suffered significant losses, prompting questions regarding the mix of investments included in the authority's portfolio and the value of developing an asset allocation plan to mitigate the impact of market downturns. Overall, the portfolio is down nearly $21 million since the beginning of 2008.

Pay and benefit levels for public employees not only drive a significant portion of the state's operating costs, but also play a major role in the recruitment and retention of a talented workforce, and in determining whether public entities are successful in meeting their responsibilities.



Executive Classified Employees. In the past three fiscal years, the Legislature appropriated salary increases totaling 12.9 percent for state employees. The average base salary for state employees has risen from $34 thousand in FY05 to a FY09 level of $41.8 thousand. In FY07 and FY08, the Legislature provided state employees with direct compensation increases averaging 5 percent in each year. Employees were awarded 2 percent across-the-board increases each year and an additional average 3 percent increase based on the employees' compa-ratio, or position in the range. In FY09, the Legislature appropriated funding for salary increases of 2.4 percent with an additional 0.5 percent authorized but not funded. Agencies were to use existing vacancy savings, if available, to pay for the 0.5 percent. All of these increases were contingent on satisfactory job performance. Again, adjustments to pay were based on the compa-ratio of the employee.

By using compa-ratio adjustments, employees with lower compa-ratios, the farthest behind the market average, were able to receive larger salary increases than those employees whose compa-ratio was closer to or above the average market pay for their position. This strategy resulted in the average compa-ratio for state employees increasing from 92.8 percent in FY06 to the 103rd percentile in FY09. However, the achievement of this rate may be somewhat overstated because the State Personnel Board (SPB) has not adjusted many classifications to reflect the impact of market conditions in the past few years. Thus, entry levels of the salary range are understated and are not competitive with market conditions. This has resulted in the starting pay for many new employees being closer to the 25th percentile, or higher, of the salary range. This creates problems with pay compaction for existing employees because new employees, with less experience, make the same or as much as tenured employees.

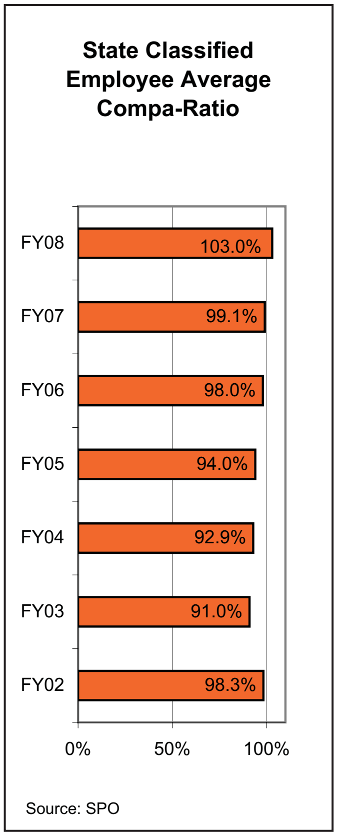


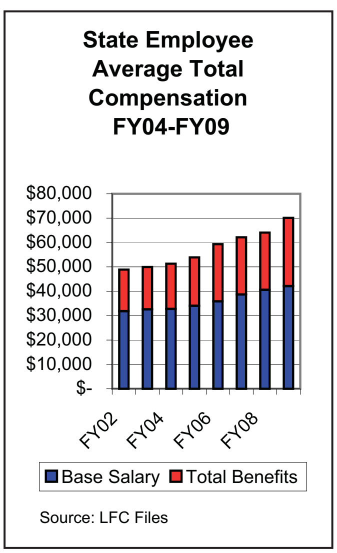
In 2007, a Legislative Finance Committee (LFC) performance review of the State Personnel Office (SPO) found that the processes for awarding pay increases, such as in-pay-band adjustments, hiring pay levels, etc., had a number of weaknesses:

- They are not fair and equitable either within or among agencies.
- They are not consistently used by agencies or even within agencies.
- Employee pay opportunities are dependent on the "have" and "have not" funding of agencies.
- Starting pay is inconsistent among agencies.

In 2008, SPO conducted its own internal review of the selection and hiring process of the state. This study validated many of the same concerns expressed by the LFC 2007 review concerning consistency and equity. It pointed out systemic issues with the processes in place and the failure of SPO to adequately enforce SPB rules and the Personnel Act. This uneven and inconsistent playing field directly impacts employee retention and recruitment throughout state government and remains a major concern.

Public Employee Compensation





The Legislature has a central role in setting employee compensation levels, but at times actions by the executive, without regard for budgetary impact, undermine the Legislature's ability to oversee and evaluate employee compensation policies. Compensation increases no matter what they are called (in-pay-band adjustments, pay differentials, etc.) or how they are implemented and the addition of unbudgeted positions require the expenditure of funds, and under the state Constitution, the decisions about how the state expends funds are made by the Legislature.

Total Compensation. The Hay Group in a 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." The current system inhibits the state's ability to develop a coordinated strategic approach to employee compensation and benefits.

The term "total compensation" describes the complete rewards and recognition the state provides employees. In addition to direct compensation or 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.

While base pay is the largest component and the foundation of total compensation, continued growth in indirect compensation reflects the state's increased share of employee benefit costs and the impact of escalating premiums costs. New Mexico, in total compensation, ranks above many of the states within the comparator market due to the impact of the state's benefit programs. Historically, the Legislature has sought to offset limited salary increases by shifting the cost burden for employee benefits from the employee to the state. This growth in indirect compensation is a significant recurring cost with implications for the future in the ability to attract and retain quality employees.

Performance Increases. Prior to 2004, annual salary increases were provided through step or merit increases. The concept of performance pay was a cornerstone of the compensation pay plan NM.HR.2001 but was discontinued in 2004 by the executive because of a shift to collective bargaining. This prompted The Hay Group in its 2006 analysis to state: "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 ability within the system to advance within a pay range. The inability to reward or advance employees is hampering efforts to recruit and retain highly competent employees, further frustrating managers and supervisors.

SPO over three years ago discontinued performance reviews due to concerns with the existing system and forms. Since then, new forms have been developed and training courses are underway. On the surface, movement is being made towards the implementation of a performance review system that would determine salary increases; however, it is quite apparent this is not a priority for implementation.

Annual Compensation Report. SPB rules require submission of an annual report to both the governor and LFC on the classified pay system at the end of each calendar year. In 2004, SPB ceased making recommendations to the Legislature regarding structure adjustments to the pay plan and specific compensation adjustments to classifications significantly impacted by market conditions. The annual report currently provided by SPB is at best an executive summary lacking demographic detail behind state employee compensation. SPB provides no professional human resource guidance to the Legislature regarding job families or individual classifications that may need adjustment and the projected costs of any such movements. This void in data leaves the Legislature, as the appropriating authority, without the requisite information to prioritize and balance the needs of the compensation and benefits system with adequate funding. This lack of leadership has resulted in employees, unions, and individual agencies independently lobbying the Legislature for special market adjustments, resulting in a piecemeal approach that does not serve the state well.

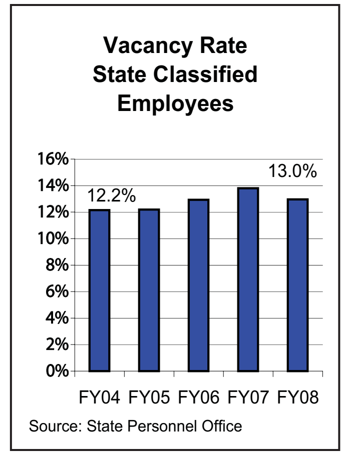
In reviewing information provided to legislatures in other states it is evident that New Mexico lags well behind in making information on compensation and benefits both transparent and readily available.

Employee Turnover and Retention. The state's compensation picture will continue to be influenced by many factors over the next several years. The impact of the "baby boomer" retirements throughout all employment sectors is of great concern as are recent events in the financial markets and the expected financial downturns.

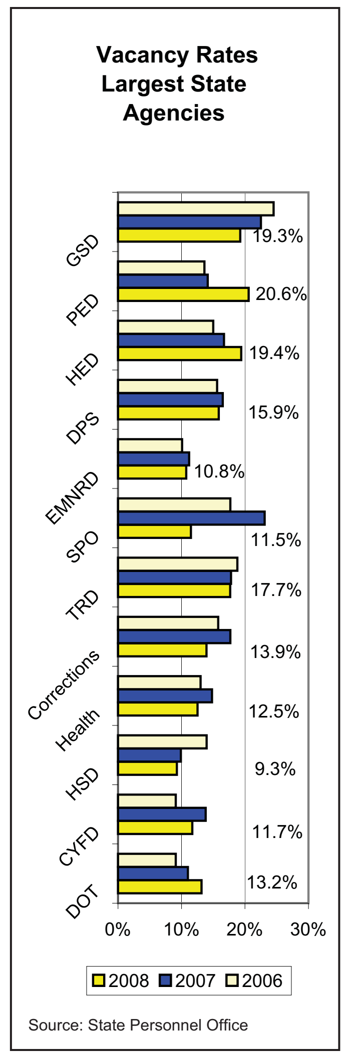
Vacancy rates in state government, while modestly escalating from a statewide FY06 average level of 12.9 percent to 13.2 percent in FY08, still remain high for specific key agencies. Data indicates the average length of years an employee is employed with an agency decreased to 5.4 years in FY08 down from an FY07 average of 6.5 years.

High turnover and vacancy rates are costly to state government. Using industry-standard tools to calculate, the cost of turnover to the state is conservatively estimated to be well in excess of $50 million per year without factoring in the cost of overtime or lost productivity.

<u>Higher Education Employees</u>. A November 2008 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 continue to be about 8 percent below the averages for peer institutions in other states. Most public universities in New Mexico are posting salaries for faculty in 2007-2008 that are approximately 15 percent below public, peer institutions in other states.
The latest *Annual Report on the Economic Status of the Profession, 2007-2008,* published in March-April 2008 by the American Association of University Professors, notes, "A number of academic institutions, particularly those in the public sector, are increasing full-time faculty salaries to make up for several years of depressed pay rates." Beginning fall



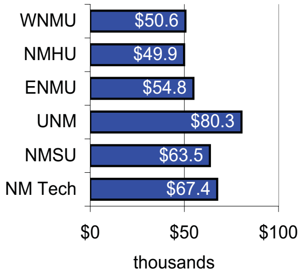
Source: State Personnel Office



Source: State Personnel Office

Public Employee Compensation

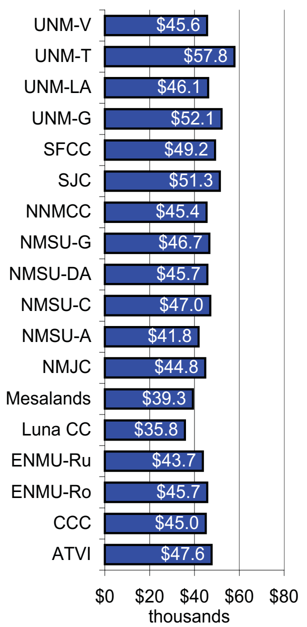
Mean Salary Comparison, Four-year Universities, 2007-2008



Source: Council of University Presidents

University of New Mexico Instructional Faculty Compensation Compared to Peers:
Fall 1997:
Salary: 90.2%
Salary & Compensation: 88.0%
Fall 2007:
Salary:
90.8%

Mean Salary Comparison, Two-year Colleges, 2007-2008



Source: NM Ind. CC & Assoc. of CC.

2004, nominal salary increases for full professors, associate, and assistant professors at institutions participating in the national survey ranged from 4.1 percent to 5.4 percent per year.

An LFC summary of salary and total compensation data for the state's universities over the last 10 years concludes New Mexico universities have generally stayed behind their peer institutions despite significant general fund appropriations for compensation. With respect to salaries, most New Mexico university rankings compared with peers showed some erosion from fall 1997 to fall 2007. Data for the University of New Mexico reflects relatively little change in that institution's faculty compensation rankings during the last 10 years. Because other, non-salary benefits must be allocated, data and methodology might not be consistent when considering institutional rankings for total compensation. Yet, generally peer rankings for most New Mexico universities declined slightly when comparing total average compensation for instructional faculty over the last 10 years.

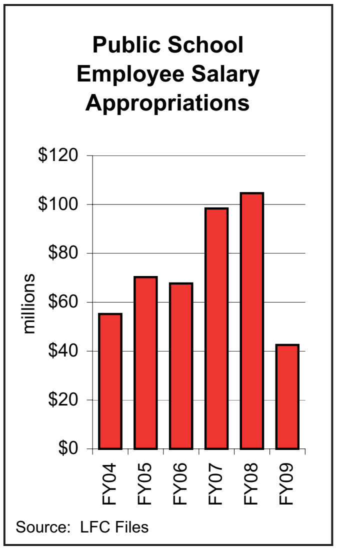
Note these studies rely on averages and actual compensation varies widely depending on type of institution (public or private, two-year or four-year), level of faculty education and other credentials, and overall rank, as well as by discipline. For example, according to the *2007 Faculty Salary Survey* of 100 major public institutions by Oklahoma State University, across the nation, finance professors may earn as much as $407 thousand per year, while English professors earned an average of $68 thousand.

In 2008, New Mexico State University (NMSU) engaged Mercer and Company for a detailed market-based faculty and staff compensation review. The faculty study included 750 instructional faculty on the main campus and 215 at branch campuses. Faculty comparisons included the Oklahoma State University *Faculty Salary Survey* and the College and University Personnel Association for Human Resources community college faculty survey, along with comparisons for peer institutions across the nation and universities with high levels of research activity. The study used a geographic differential for the southwest region of 95 percent of national data. The study concluded compensation should reflect market, performance, and credentials.

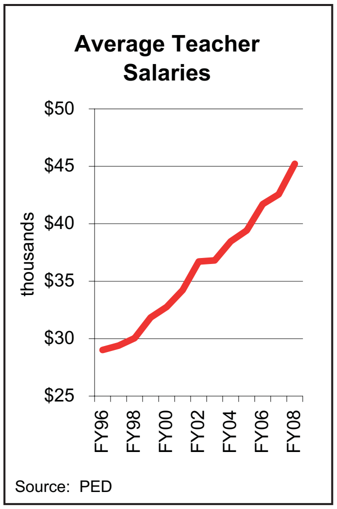
While the staff portion of the study is not yet complete, the NMSU study estimated a total cost impact to bring faculty to market levels of $8.7 million for the main campus and $2 million for branch campuses. The main campus average compensation level was 13 percent below the market median, with full, ranked professors at an average of 20 percent below the market median. All branch campuses were below market median, and faculty at the Alamogordo branch were the farthest behind the market at 17 percent.

Data for New Mexico's community colleges also reflects the challenge of keeping up with national trends in faculty compensation. The New Mexico Independent Community Colleges (NMICC) and the New Mexico Association of Community Colleges (NMACC) jointly submitted a summary of average full-time faculty salaries (adjusted to nine-month equivalency) for fall 2007. The average for independent colleges was approximately $45 thousand, with an average of about $47 thousand for branch colleges. New Mexico salaries for two-year faculty continue to be about 8 percent of the average for community colleges in the mountain states region.

Public Education. Since FY04, the Legislature has appropriated $438.7 million for salary increases, full funding of the three-tier career ladder for teachers, and minimum salaries for school principals and assistant principals. Over this time, additional appropriations of more than $19 million were included for extraordinary salary increases for educational assistants, principals, assistant principals, and other support staff. Since FY05, educational assistants have received additional compensation increases above general compensation appropriations each year except for FY08. These increases total almost an additional 10 percent in salary increases over that time.



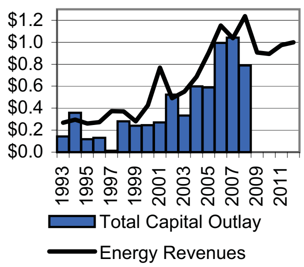
While increasing teacher compensation improves recruitment and retention, the three-tier ladder does not drive the achievement of quality teaching goals by tying pay to outcomes, particularly student performance. The teacher evaluation system should be modified to include student performance as an evaluation factor. 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.



The Legislature's commitment to improving teacher salaries to regional averages has resulted in improved comparisons. According to the National Education Association (NEA), for FY07, starting salaries for teachers in New Mexico were, on average, $1,301 higher than Colorado and Arizona with similar contract length and $3,370 lower than Texas with a longer contract year. Overall, average returning teacher salaries were on average about $1,207 higher than neighboring states and are expected to rise even more when additional pay for extended school year and school day programs, such as kindergarten-three-plus and 20th century after-school programs, are factored in. Within these salary averages, however, vast differences occur as a result of variations in district's training and experience index (T&E). Additional funding provided through the T&E allows some districts to hire a more educated workforce, exacerbating disparities in opportunities for some students.

Like with state and higher education employees, sometimes forgotten in the analysis of salaries is the total compensation received by employees. This compensation includes the employer share of medical benefit premiums, vision and dental insurance, and one of the highest employer contributions in the country to the state education pension plan, which will continue to grow by 0.75 percent annually until 2012. A comparison of annual retirement benefits among all states using the same last five year earnings finds New Mexico in the top seven nationally, ahead of all surrounding states except Colorado. The value of this benefit to retirees could amount to as much as $7 thousand annually.

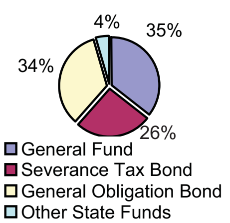
Capital Outlay and Energy Revenues (in billions)



Notes: Years on horizontal axis reflect fiscal year in which energy revenues are collected and calendar years in which capital outlay is appropriated; $108 million vetoed in 2001.

Source: LFC Files

Percent of Unexpended Capital Balances by Fund 2002-2008



Source: LFC Files

Progress of Projects $1 Million or Greater

LEGEND		
(green)	Project on schedule	214
(yellow)	Behind schedule or little activity	111
(red)	No activity or bonds not sold	75
Total Active Projects > $1		400
Other report information:		
(blue)	Appropriation expended or project complete	22
X	Additional funds needed	17

Source: LFC Files

The overall financial crisis combined with plummeting energy-related revenues and expenditures and rebates authorized in the 2008 Special Session leaves capital outlay capacity in 2009 at a five-year low. The bleak forecast poses uncertainty for critical and incomplete infrastructure projects, but it also provides policymakers, local governments, and the executive with an opportunity to address the more than $1.7 billion outstanding for over 7,000 projects, including projects older than three years that are no longer doable.

In September 2008, the Legislative Finance Committee (LFC) considered redirecting previously authorized capital funds. Reauthorizing idle funds could either address statewide infrastructure needs or address the general fund revenue shortfall. If unused funds are targeted for projects nearing completion and for projects ready to start immediately, a rough analysis shows that providing $75 million for construction in the state could support about 1,500 jobs and stimulate economic activity both indirectly and directly.

In October 2008, the governor outlined a plan to curb spending, including the reauthorization of $200 million to $300 million in stalled capital projects. Only legislators have the authority to change the intent of previously funded initiatives, but to assist policymaker decisions with this effort, staff of both LFC and the Department of Finance and Administration (DFA) worked with state agencies, higher education institutions, public schools, and local government entities to identify available fund balances for projects no longer feasible.

Other guidelines to promote accountability of public funds could include discontinuing appropriating money to “funds” created without statutory authority and establishing statutory criteria to assure funding requests meet the anti-donation provisions of the state constitution.

Unexpended Funds. The Legislature appropriated $3.7 billion for 19,140 projects between 2002 and 2008. As of December 5, 2008, $1.7 billion for 7,004 projects is outstanding (including nearly $600 million appropriated in 2008 for nearly 2,000 projects). Excluding 2008 appropriations, 2,957 projects with appropriations of nearly $670 million are showing little or no progress.

Capital Projects Greater than $1 Million. The LFC staff tracks projects funded for $1 million or more to provide accountability for larger projects. As of December 5, 2008, of the nearly $1.5 billion appropriated to larger projects, unexpended balances total over $947 million for 400 projects. The funds for larger projects account for 55 percent of all unexpended balances.

A survey of 14 projects indicates approximately $170 million is needed to complete the projects. The current status of the projects and fund balances are reported on the LFC website.

2002-2008 Capital Outlay Funding
"Outstanding" Projects Only
(in millions)

Year	Number of Projects	Amount Appropriated	Amount Expended	Amount Unexpended	Percent Expended by Year
2002	14	$ 36.3	$ 27.8	$ 8.5	77%
2003	64	$ 23.3	$ 15.2	$ 8.1	65%
2004	480	$ 157.5	$ 96.4	$ 61.1	61%
2005	772	$ 239.5	$ 125.8	$ 113.7	53%
2006	1,255	$ 557.2	$ 131.5	$ 425.7	24%
2007	2,382	$ 698.4	$ 163.4	$ 535.0	23%
2008	2,037	$ 590.9	$ 9.4	$ 581.5	2%
Total	**7,004**	**$ 2,303.1**	**$ 569.5**	**$ 1,733.6**	

"Potential" Reauthorizations. Should legislators determine the need to redirect capital funding authorized in previous years to address the shortfall for nonrecurring operational expenses or for other critical statewide needs, LFC staff identified projects for possible reauthorization by policymakers. Analysts collected information from state agencies and local government grantees and used the criteria shown in the sidebar to identify approximately $150 million for potential reauthorization.

Capital Appropriations with No Activity (in millions)

Year	# of projects	Dollar amount
2008	1,743	320.8
2007	1,594	334.9
2006	701	269.3
2005	390	46.8
2004	230	18.0
2003	36	1.8
2002	6	2.3
Total	4,700	$ 993.9

Source: LFC Files

Note: 2008 excludes $223.4 million for 194 GOB projects approved by the electorate in November 2008.

__Capital Project Management__. The joint Legislative Council and Legislative Finance Committee (LCS/LFC) Capital Outlay Subcommittee continued their charge of reviewing the capital outlay process, management concerns, and the obstacles to complete outstanding projects. The 2008 work plan consisted of the following:

- Hear testimony on critical statewide projects to assess need and prioritize project funding,
- Review criteria to plan and prioritize both state and local projects,
- Improve reauthorization process,
- Hear testimony on current processes to ensure projects are planned prior to request for funds,
- Consider a legislative interim committee and other changes needed to assist legislators in their efforts to fully fund projects, and
- Review of the current audit, informational technology resources, and reimbursement process for capital projects.

The recommendations of the subcommittee for consideration by the full Legislature are in Volume III and include the following:

- Criteria for determining the merit and funding of both state and local capital projects,
- A preliminary list of state agency capital priorities,
- Timelines for passage of the capital bills,
- Changes to the reauthorization process, and
- Criteria for project reauthorization.

Criteria Used for Identifying "Potential" Reauthorizations

- Inadequate planning or funding to move the project forward
- Funds idle for more than two to three years
- Lack of funding at the local level to support operational and maintenance costs
- Lack of expected federal funding
- No third-party agreements in place
- Contingencies could not be met

Components for a Good Facility Plan and Capital Management System

- Capital planning and budgeting (an analysis of immediate and future needs),
- Project Management (monitoring and evaluating projects through implementation), and
- Asset Management (appropriate maintenance of capital assets).

Lease Purchase and Other Building Finance Options. According to presentations made by Legislative Council Service (LCS) staff to both the Capitol Building Planning Commission and Joint LCS/LFC Capital Outlay Subcommittee, construction of state prisons, health facilities, and state offices during the 1950s, 1960s and 1980s has left New Mexico state government with an aging facility inventory that will need replacement or substantial renovation in the near future. Many facilities are well beyond a reasonable useful life. Some of these buildings may be "moth-balled" or turned into museums, but most are in active use and have to be replaced or expanded to deal with future growth.

Recently, the state has moved away from state ownership toward leasing to deal with additional space needs, including prisons, health facilities, warehouses, and offices. A financial analysis of state ownership versus lease options indicates that, in today's market, the state would substantially reduce recurring costs by owning a larger portion of its space and leasing less. The state should approach the need to replace its huge facility inventory and deal with state growth with a comprehensive "buy-versus-lease" analysis on each project and an overall facility plan for the state that yields the greatest long-term savings to the state's taxpayers.

A state facility plan developed jointly by the Legislature and the executive as part of the budget process could go beyond the current Infrastructure Capital Improvement Plan to use the best available methodology for prioritizing state facility projects and analyzing options to build, buy, or lease priority facilities.

Capital Building Planning Commission. The Capital Building Planning Commission (CBPC) continued to review the *Capital Master Plan* to determine the best use of state properties owned and leased in Santa Fe, Albuquerque, Los Lunas, and Las Cruces. The commission heard updates of the Department of Transportation property development in Santa Fe, the progress of the Rail Runner, future planning for the Expo New Mexico campus, and the proposed equestrian facility.

The commission's legislative recommendations were not finalized at time of publication, but options include the following:

- Remediate and demolish the Campbell, Woolston, Mecham, and Old Huning buildings on the Los Lunas campus and the old dormitory at the New Mexico Rehabilitation Center in Roswell because the facilities have become a liability to the state;
- Support state agency capital outlay requests consistent with the master plan: statewide maintenance and repairs for Cultural Affairs Department facilities statewide, land acquisition for Health and Humans Services complex, south capitol complex in-fill, Las Cruces state office building, and master plan for central capitol complex;
- Request funds for the plan to relocate the Youth Diagnostic and Development Center to the Los Lunas campus;

- Pursue congressional support to purchase federal property adjacent to west capitol complex;
- Support funds for planning potential construction of executive offices on main capitol campus;
- Create dedicated revenue stream for maintenance and repair of facilities outside Santa Fe;
- Support enabling legislation to require the CBPC review and recommendation of lease/purchase agreements prior to requesting approval from the Legislature.

2009 Capital Funding Outlook. Because of the weak economy and falling energy revenues, the state will have no general fund monies available for capital outlay in 2009. Severance tax bond (STB) net capacity is $157 million ($385.7 million less prior-year authorizations). Approximately $199 million of supplemental severance tax bond capacity is available for public school construction projects.

The limited available funding sets the stage for fierce competition for funding capital outlay projects statewide. The Infrastructure Capital Improvement Plans submitted to DFA as of July 1, 2008, indicate over $3 billion will be requested by state agencies and local entities in 2009. State agencies will request $733.5 million, while local entities will request over $2.5 billion.

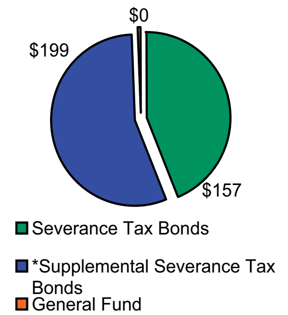
State agency requests address infrastructure issues at facilities housing the elderly and frail, juvenile and adult correctional detainees, public safety personnel, and enterprise entities dependent on nongeneral fund revenues.

State Debt. Despite the considerable capital outlay of recent years, the state has not added significantly to its long-term debt obligation for severance tax bonds (STB). Long-term STB debt service is expected to be $102.7 million by FY2012, up slightly from $99 million in FY2008. Most of the severance tax bonds for capital outlay have been issued as short-term notes that use up the capacity but do not add to long-term debt. However, use of short-term notes prevents significant transfers to the severance tax permanent fund.

According to the latest data from the U.S. Census Survey of Government Finance, the combined long-term state and local debt per capita for New Mexico was $5,435 in FY06, up slightly from FY05. The average for all states was much higher at $7,198 – an indication New Mexico has not over-leveraged its residents relative to other states.

Higher Education Issues. The Legislature in 2008 appropriated $150 thousand to the Higher Education Department (HED) "to provide resources for square-foot verification and administration of the condition management estimation technology database (COMET) and to support software updates to the COMET database that provides the facilities condition index indicator." Between May and September 2008, HED, working with Parsons/3DI, engaged in an initiative to

Capital Outlay Capacity for 2009 Total $157 (in millions)

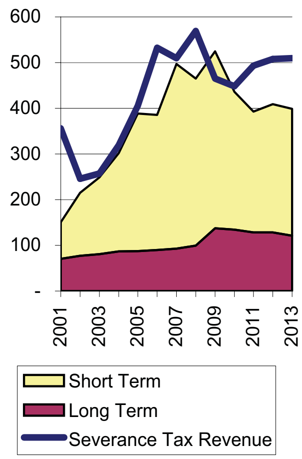


*For public school construction
Source: LFC Files

Prior-Year Severance Tax Bond Authorizations:

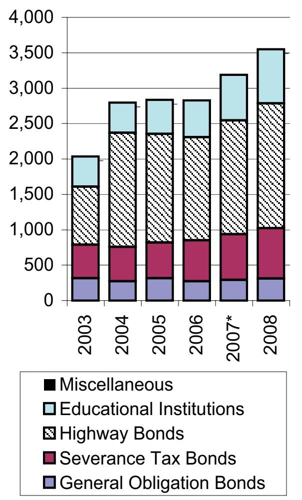
- Water project fund - 10% of STB capacity - $38.6 million
- Spaceport - $33 million
- Department of Transportation maintenance - $9.6 million
- GRIP I - $19.3 million
- GRIP II - $19.3 million
- North/South Valley sewer system - $2 million
- GRIP I (special session) - $75 million
- *Other - $31.9 million

Severance Tax Revenues and Debt Service
(millions of dollars)



Source: LFC Files

State of New Mexico Debt Outstanding (Fiscal Years) (in millions of dollars)



* Debt levels as of the end of FY07 were estimated by the LFC.

Sources: Board of Finance, Transportation Department, and Higher Educational Institutions

Source: LFC Files

verify campus square footage, to determine the amount of space related to instruction and general activities eligible for state funding and to modify software for updated cost figures. A preliminary report is complete. For multiple use buildings such as student unions, museums, and childcare centers, HED will reconsider comparable facilities across the state to ensure consistency in application of the allocation methodology between instruction and general facilities.

HED will continue its efforts to provide a more quantifiable and equitable method for allocating capital funding during the 2009 interim. HED established an Instructional and General (I&G) Space Committee composed of four work groups: policy, building renewal formula team, space utilization, and audit action team – each consisting of four to five institutional representatives. Each work group will report their findings to a steering committee for consideration. Representatives from the LFC and DFA, and members of the Instructional and General Space Committee will comprise the steering committee.

<u>Other Funding Requests and Issues</u>.

Higher Education and Special Schools. Institutions of higher education and special schools requested over $330 million for 70 capital outlay projects. Listed in Volume III, HED recommended $35 million for 30 prioritized projects. The recommendations were developed based on public hearings, data provided by the institutions and special schools, and responses to questions asked of each applicant. Many of the questions related to enrollment growth, facility condition levels, project readiness, square footage per full-time equivalency, energy efficiency standards, and other funds available for the projects. With the limited funds available for capital projects, it is important to fund projects that have been critiqued and prioritized as presented by HED.

Local Government and Tribal Entity Requests. According to the DFA-compiled Infrastructure Capital Improvement Plan, local, tribal, and other political subdivisions list $2.5 billion of infrastructure needs. The top five priorities total $2.3 billion million and reflect five major categories: water, health, quality of life (libraries, parks, senior centers, community and cultural centers, etc.), transportation, and public safety. A listing of the top five priorities for all governmental entities participating in ICIP is available through LFC or the Local Government Division.

The Indian Affairs Department has made significant progress in working on delayed Native American capital outlay projects by creating a transparent process for prioritizing tribal infrastructure funds to improve the effectiveness of its programs. The agency worked with the Navajo Nation to create an intergovernmental agreement that will help streamline Navajo capital projects. The agreement approves 53 projects, appropriated by the Legislature, as a package rather than individually. Previously, projects had to go through as many as 46 steps before receiving approval, but projects can now be approved in as few as six steps with the new approach. The Indian Affairs Department plans to use the agreement as a model for approving capital projects in future years.

General Obligation Bond Issue Results. In November 2008, voters approved four major bond issues totaling $223.4 million, including the cost of bond issuance. The funds will provide capital improvements, infrastructure, and equipment for senior citizen centers, for health-related facilities, for higher education and special schools, and for public and state libraries. The sizing of bonds is generally determined in late December and closing takes place in mid-March; questionnaires for readiness are issued and funds can be accessed in spring 2009.

Other Capital Outlay Obstacles. Several obstacles continue to hinder the progress of small and large capital projects at both the state and local level: The Local Government Division and legal staff of the DFA are inundated with the large number of projects under their management. Funding for the maintenance of state-owned facilities, including higher education facilities, is inadequate. Projects continue to be underfunded, and the absence of audits for large projects hinders accountability for state funds.

New Mexico Finance Authority Issues. New Mexico Finance Authority (NMFA) was created as a governmental instrumentality to assist qualified entities in financing capital equipment and infrastructure programs. The mission of NMFA and its programs has grown in complexity and scope and now includes public and private partnerships for economic development. NMFA develops its own budget approved by its board and does not require legislative approval. The NMFA Legislative Oversight Committee may want to consider proposing that NMFA be required to submit a budget request and operating budget to the Legislature for approval.

Given scarce economic development resources, it is important for NMFA to closely coordinate all economic development programs with the Economic Development Department. Schott Solar and Albuquerque Studios, for example, have received capital outlay or other incentives from state and local governments. These two companies are also located in a tax increment district that has its own economic development mission.

NMFA and the New Mexico Department of Transportation entered into a memorandum of understanding in 2004 that outlined the responsibilities of NMFA in portfolio management services and provided that NMFA receive an annual fee equal to 0.25 percent of the outstanding principal amount of the new money state transportation revenue bonds from the state road and highway infrastructure funds. In FY09, the Department of Transportation budgeted $2.9 million for this purpose.

In 2004, NMFA entered into a contractual arrangement with CDR for financial advice regarding SWAPs. CDR received approximately $1.4 million for this service. Since then, the Federal Bureau of Investigation

2008 General Obligation Bond Issue Results: (in millions)

Bond Issue A: Senior Projects - $14.7

Bond Issue B: Library Allocations - $11

Bond Issue C: Health-Related Facilities - $57.8

Bond Issue D: Higher Education & Special School Facilities - $139.9

New Mexico Finance Authority Activity

- NMFA oversees over $2 billion in managed gross assets.
- Total gross assets grew from $2.22 billion in FY07 to $2.33 billion in FY08.
- The market value of NMFA portfolio as of September 30, 2008, was $532.7 million.
- The market value of GRIP I investment (bond series 2004, 2006, and 2008) as of September 30, 2008, was $593 million, a net decrease of $56.3 million from August due to draws of $6.8 million.
- The portfolio allocations are 72 percent in enterprise funds, 25 percent in special revenue funds, 2 percent in debt service funds, and 1 percent in refunded bonds.

has entered into an investigation regarding this contractual relationship. LFC staff is reviewing NMFA policies and procedures to determine the agency's compliance with its internal requirements.

New Mexico Mortgage Finance Authority Issues.

Oversight of Regional Housing Authorities. The regional housing authority reform legislation enacted in 2007 has improved oversight and accountability of the regional housing authorities. As a result of the 2007 legislation, Mortgage Finance Authority (MFA) must provide a comprehensive review and analysis of the regional housing authorities and make strategic recommendations as to how to expand the delivery of affordable housing services in a regional approach throughout the state. Community Strategies Institute assisted MFA in conducting this review and developing recommendations, some of which may entail follow-up regional housing authority reform legislation, as well as additional appropriations to further support oversight and reorganization activities. Also, the state auditor reviewed the financial statements and activities of the regional housing authorities and will report findings prior to the session.

New Mexico Affordable Housing Tax Credit Amendment. Currently, the New Mexico Affordable Housing Tax Credit does not allow state tax credits to be allocated for affordable rental housing in counties with populations greater than 100,000. MFA proposes removing this prohibition. As land, building, and energy costs continue to outpace the increase in wages and funding sources available for all types of housing development, funding flexibility is paramount. Restricting the tax credit in this way impedes the development of quality rental housing in larger communities that tend to need more rental housing. The erosion of federal low-income housing tax credit markets poses a new challenge for affordable rental housing developers. A squeeze in credit prices will exacerbate the demand for limited gap funding. If the state tax credit were more flexible, it would help fill some of the funding gaps MFA anticipates in the rental housing development market.

New Mexico Mortgage Finance Authority 2009 Legislative Agenda

- *$15 million-NM Housing Trust Fund Appropriation*
- *$2.5 million-Energy$avers*
- *$5 million-Energy$mart*
- *$2 million-Emergency Repair Fund*
- *$ 2 million-HERO Program*
- *$1 million-Homebuyer Education Program*

Recommendations by Community Strategies Institute on Regional Housing Authorities

- *Create three "regional housing centers" to serve all areas of the state except the Albuquerque, Santa Fe, and Las Cruces areas.*
- *Appropriate annually for three years for the operation of the Regional Housing Centers.*
- *Maintain the power of regions to issue their own bonds with MFA providing a list of acceptable, competent, unaffiliated financial advisors, bond counsel, and rating firms.*

FY10 Information Technology Recommendations. LFC received 64 information technology (IT) requests totaling $101.2 million from state agencies and educational institutions. Of the 64 requests, 39 totaling $89.4 million met the criteria of new system development or major enhancements to an existing system. The remaining 25 requests for hardware and network upgrades, staff, or training were included as part of agency base budgets, special, or supplemental appropriation requests.

LFC uses transparent, clearly defined, and published evaluation criteria developed in 1996 that continue to represent best practice. LFC bases its evaluation criteria on five funding principles that allow effective allocation of limited financial resources.

Even though all requests were evaluated using the established scoring criteria, there are no recommendations from the general fund for FY10 because of the severe budget shortfall facing state government in FY09 and FY10. However, about $8 million is recommended for consideration from statewide capital outlay to address critical e-mail, telecommunications, data center, and network infrastructure at the Department of Information Technology (DoIT) that affects all state agencies. A viable alternative funding mechanism is a self-funded model. The Administrative Office of the Courts, Taxation and Revenue Department, and DoIT all assess fees that can be either increased slightly or used under the existing statute to fund the proposed system development or enhancements. In some cases, statutory changes will be needed. The DoIT recommendation for the Statewide Human Resource, Accounting and Management Reporting (SHARE) system is contingent on legislative agencies having full access to SHARE to carry out their statutory oversight responsibilities.

LFC also recommends the reauthorization of $1.1 million in unspent nonrecurring balances from Laws 2008 and prior years for projects shown in the table below.

Unspent Appropriations from Laws 2004 through 2008
(in thousands)

Laws	Purpose	Balance Available
2004, Chapter 114, Section 8, Subsection 6	Multi-agency electronic imaging and archiving	$6.3
2004, Chapter 114, Section 8, Subsection 7	IT consolidation plan	$64.0
2004, Chapter 114, Section 8, Subsection 23	Surveillance system for Medicaid fraud and abuse	$119.1
2005, Chapter 33, Section 7, Subsection 11	Corporations system replacement	$575.0
2008, Chapter 3, Section 7 Subsection 10	State Treasurer: Investment system interface; budget and General Appropriation Act creation process analysis	$395.0
Total		**$1,159.4**

An alternative to appropriations from the general fund is a self-funded model for agencies that generates fee revenue.

Five Funding Principles:
1) Enterprise,
2) Project management,
3) Business case,
4) Technical approach, and
5) Outcome.

DoIT Recommendations Critical Capital Outlay
(in thousands)

Projects	Amount
Enterprise e-mail services replacement/upgrade	$3,000.0
Wire New Mexico DMW conversion	$1,000.0
State voice services - telephone PBX	$900.0
State network services- core network equipment replacement	$800.0
State Data Center operations	$1,900.0
Total	**$7,600.0**

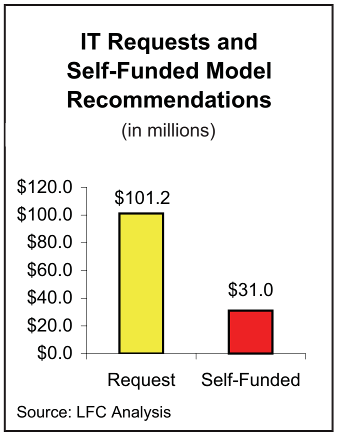
Source: LFC Analysis

Key Self-Funded IT Recommendation:

To complete implementation of the integrated and consolidated case management, electronic filing, and disaster recovery.

To replace the motor vehicle driver and vehicle systems.

For the Statewide Human Resource, Accounting and Management Reporting upgrades, disaster recovery, and enhanced functionality.



The voicemail system overseen by DoIT was compromised when the hard drive disappeared from a telecommunications closet sometime before June 21, 2008.

The breach to the Human Services Department child support enforcement system was discovered July 10, 2008.

Computer security must be comprehensive to be most effective.

Technology Issues. LFC continues to have concern about DoIT quarterly reporting, agency IT security, and the guidelines for how agencies justify or request funding for IT projects.

Quarterly Reporting. DoIT has established a monitoring process for agency self-reported data and review of independent validation and verification reports (IV&V). There are concerns about how DoIT validates, verifies, and generally oversees IT projects across all state agencies. DoIT has no routine practice to produce written reports of oversight activities to document how agency-reported data and IV&V reports generate quarterly project ratings. Accordingly, the project ratings at times appear to be favorable to the agency and do not include verification or validation of financial information.

Security. Following the events of September 11, 2001, and the increased use of personal computers with access to the Internet, computer security has become more important. Computer security is the protection of computer systems and information (information assets) from harm, theft, and unauthorized use. In government, all agencies and employees have an obligation to work toward the adequate protection of information system assets.

In 2005, LFC recommended the state chief information officer make security a top priority. Today, with several system compromises or actual breaches, security can no longer be ignored. The DoIT secretary has embarked on a more comprehensive approach to address security. One hundred percent security will never be accomplished because it would be too costly and would greatly impede the state's ability to provide efficient and effective services. Until now, security has been reactive instead of proactive. Being proactive means identifying risks and putting processes and procedures in place to mitigate potential risks. Being proactive includes considering security as part of any new system implementation or upgrade before the project begins, as well as conducting assessments.

IT Planning Funding Request Guidelines. The quality of IT project funding requests needs to be improved. 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 typically is lacking. Additionally, not all IT projects are requested through this established process. Instead, agencies request them as governor initiatives or by embedding them into their base operating budgets. By doing this, projects do not receive any scrutiny until they appear before the DoIT project certification committee.

IT Projects of Concern. Although LFC does not have a formal "watch list," certain projects are of serious concern because of large investments, statewide impact, over-reliance on contractors, project delays, or lack of commitment from critical parties.

Projects of Concern

Agency	Project	Reason for Concern
DFA	Statewide Human Resource, Accounting and Management Reporting (SHARE)	Large investment, statewide agency impact, reliance on contractors, report inaccuracies
DoIT	Super Computer	Large investment, small business-level commitment to use
DoIT	Wire NM	Large investment, project delays
DOT	Traffic and Criminal (citation) Software (TraCS)	Large investment, project delays, lack of complete commitment to use
HED	Innovative Digital Education and Learning (IDEAL)	Large investment, no documented commitment by universities
HSD	Income Support Division Integrated Services Delivery (ISD2) System Replacement	Large investment, project delays, compliance with federal requirements, changes in direction
PED	Student and Teacher Accountability Reporting System (STARS)	Large investment, reliance on contractors

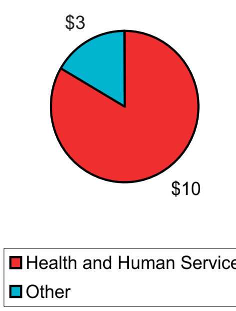
Source: LFC Assessment

Project Investments
(in millions)

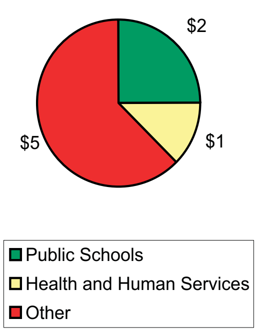
Project	Cost
SHARE	$38.0
Super Computer	$18.8
Wire NM	$42.0
TraCS	$6.8
IDEAL	$8.2
ISD2 Replacement	$31.4
STARS	$13.7

Source: LFC Files

General Fund Recommendation: Supplemental and Deficiency Appropriations
(in millions)



General Fund Recommendation: Special Appropriations
(in millions)



State agencies requested $125 million from the general fund for special, supplemental, and deficiency appropriations. Requests from all funding sources total $138 million. Specific requests and funding recommendations are presented in Table 6. The committee's recommendation prioritizes critical or mandated services related to education and health care and reflects a preference that agencies operate within appropriated resources rather than using special, supplemental, and deficiency appropriations to increase operating budgets.

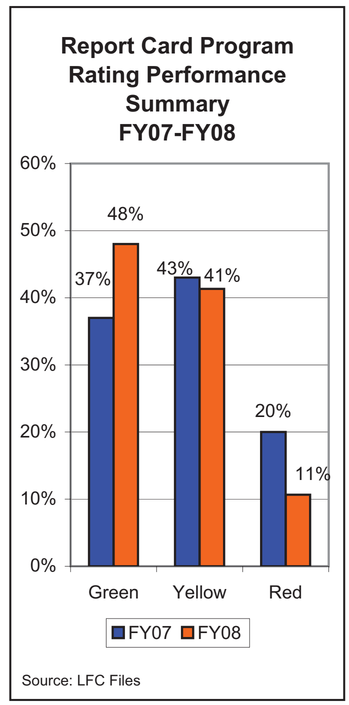
Supplemental and Deficiency Appropriation Recommendations. Agencies requested $33 million from the general fund for deficiency and supplemental needs and $42 million from all funding sources. The committee's general fund recommendation is $13 million. The LFC recommendation supports health and human service concerns including client care and facility operations at the seven state-run long-term care, behavioral treatment and substance abuse facilities; matching funds for clients on developmentally disabled Medicaid waivers; and children in the state's custody receiving an adoption subsidy.

Special Appropriation Recommendations. Agencies requested $91 million from the general fund and $96 million from all funding sources for special requests. The committee's general fund recommendation is $8 million. Public education is a committee priority and as such, $200 thousand is to develop a statewide instructional leadership institute, $200 thousand is for the operating budget management system used to manage school budgets, and $2 million is for emergency support to school districts experiencing shortfalls in operating budgets. In an effort to enhance revenue, $2.3 million is recommended to upgrade the tax system, which will enhance delinquent tax collection. Continued support is recommended for the job training incentive program, an important component of economic development.

PERFORMANCE REPORTS

The Accountability in Government Act (AGA) is the framework for performance-based budgeting that provides agencies with budget flexibility to meet desired outcomes of state programs. The largest agencies are required to report quarterly to LFC and the Department of Finance and Administration (DFA) on progress in meeting targeted levels of performance. In 2006, the LFC initiated a report card format for reporting agency performance to add clarity to the performance reports, stimulate discussion on agency performance, and link budget decisions to results. In large part these objectives have been met. As economic conditions force tighter budgets, the ability to prioritize programs for funding will require that agency performance be evaluated more closely.

Interim Activities. LFC continued to identify areas in need of improvement, especially regarding the quality of performance measures, and worked with agencies to improve existing measures or add new ones in their proposals to DFA for FY10. LFC senior management worked with staff to individually review agency strategic plans, program measures, and objectives to ensure that program measures were aligned with agency direction and mission. The focus of this effort was to ensure that performance measures were actually evaluating the programs in a meaningful fashion. LFC as part of its review noted its highest priority concerns to DFA and several of these concerns were addressed.

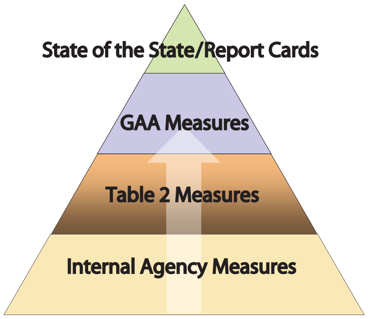


Report Cards. A key element in monitoring agency performance is the use of report cards. Report cards are a tool for the Legislature to assess quarterly activity in programs and focus resources where most needed. They also provide the public information about the performance of its government in an easy to understand format. To this end, agency report cards are posted quarterly on the LFC website. The report cards also allow for constructive focus on the continued relevance of programs, performance measures, and the process used in setting realistic targets. Targeted levels of performance at agencies, if designed correctly, can be easily compared with national benchmarks. This is especially evident in the health and human services agencies and the transportation and corrections sectors of government.

LFC performance ratings of agency measures and programs provide recognition of successes, identification of opportunities for improvement and areas where performance has declined. In general for FY08, green ratings indicate success in achieving targeted levels of performance and were not given if the target was missed. Yellow ratings highlight targets that were narrowly missed or ones in which significant improvements were noted even though target levels were not met. Red ratings, while not necessarily a sign of failure, indicate a need for attention and provide the opportunity for a dialogue between the agency and the Legislature.

FY08 Performance. The report cards for FY08 were provided to agencies for comment, and where appropriate, the report cards were then revised to incorporate agency input. While a higher percentage of programs in FY08 achieved a green rating than they did in FY07, a majority of agency programs, 52 percent, are underperforming. At LFC hearings in which quarterly progress was reviewed, the yellow and red ratings drew considerable attention from the performance subcommittee with concern being expressed regarding the value of this type of evaluation and its importance in assisting the Legislature in prioritizing appropriations.

Performance Measure Hierarchy



Taken together, the performance reports in this volume may be viewed as a state of the state report. The report cards here 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.

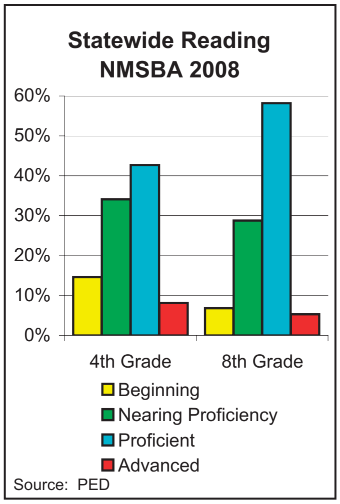
Next Steps. The ability of LFC and its staff to improve measures is limited. Fundamentally, authority over performance reporting resides with the executive. DFA approves new measures or deletes others, and the LFC role of consultation has varying degrees of success. LFC will again recommend important measures and programs for the General Appropriation Act (GAA) that were excluded by DFA

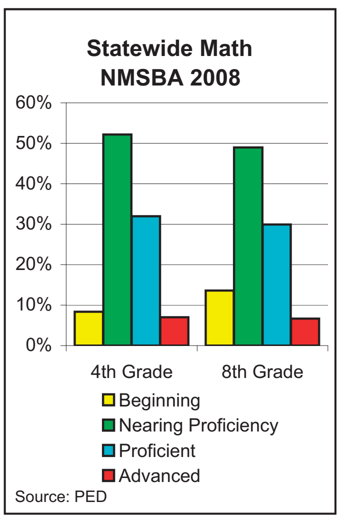
The need to focus on the improvement of measures to ensure they gauge the core functions of agency programs is continual. The measures presented in the Table 2s of Volume II are sometimes a poor representation of agency activities and efforts. In many cases, the data doesn't appear reliable, there are too many measures, and measures change too frequently to be used as a decision-making tool. For example, at the Public Education Department and Higher Education Departments, baseline data is not provided to compare results or set targets. The Department of Health has changed measures for public health so frequently it is hard to track results from one year to the next. The Environment Department uses jargon on too many measures that makes the measure unintelligible to the general public and obscures progress in meeting desired environmental outcomes, like clean air and clean water.

Given these problems with the agency reports, the use of performance report cards remains important. With numerous demands on the limited time of the part-time Legislature, the report cards should be a quick-access tool to review agency performance and facilitate budgetary and appropriation decisions. This shift in budget decision-making takes time and requires more reliable agency performance reports. Nevertheless, the committee remains committed to accountability for state spending and the wise stewardship of public resources.

PERFORMANCE REPORT CARD CRITERIA
LEGISLATIVE FINANCE COMMITTEE

Process • 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 **Progress** • Agency met, or is on track to meet, annual target • Action plan is in place to improve performance **Management** • Agency management staff use performance data for internal evaluations	**Process** • 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 **Progress** • Agency is behind target or is behind in meeting annual target • A clear and achievable action plan is in place to reach goal **Management** • Agency management staff does not use performance data for internal evaluations	**Process** • 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 **Progress** • Agency failed, or is likely to fail, to meet annual target • No action plan is in place for improvement **Management** • Agency management staff does not use performance data for internal evaluations





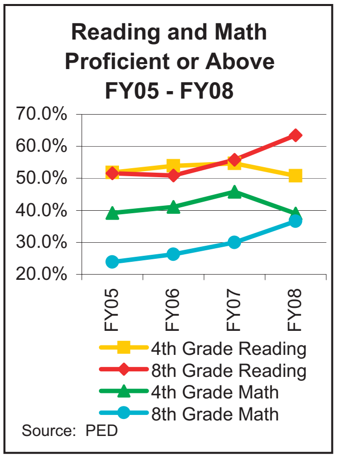
For the 2008-2009 school year, 422 schools, or 55 percent of all schools, are in school improvement, an increase of 94 schools over 2007-2008. This is an indicator that more schools in long-term school improvement continue to fall short of achieving adequate yearly progress (AYP) goals and may not have the ability to do so. For FY08, economically disadvantaged students realized significant gains in proficiency, outpacing all other subgroups. In spite of this, the achievement gap for these students continues to be significant as they continue to lag behind their peers.

For FY08, three strategic elements were considered in evaluating the effectiveness of New Mexico's public schools: student achievement, teacher quality, and student persistence. Of significance, FY08 will mark the first time that accurate graduation rate data will be available from the 2004-2005 cohort, when the measure was changed to provide more transparency and include the impact of high out-migration between the ninth and tenth grades.

Student Achievement. For FY08, fewer schools entered the school improvement cycle; however, an increasing number of schools are moving into restructuring. Considerable differences continue between measurements of student proficiency as measured by the New Mexico Standards-Based Assessment (NMSBA), with the number of students scoring below proficient increasing for fourth graders and remaining troubling for all other groups. The majority of data related to student achievement is the result of the annual standards-based assessment.

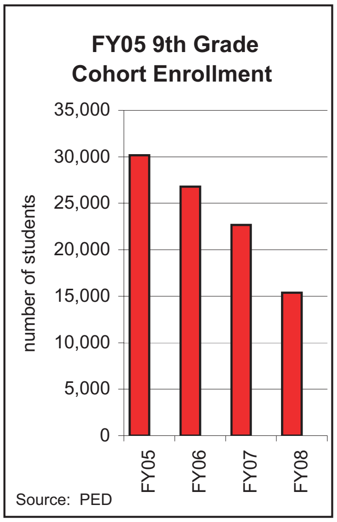
Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of elementary school students who achieve the school-year No Child Left Behind Act annual measurable objective for proficiency or above on standards-based assessments in reading and language arts	56%	59%	46.1%	R
Percent of middle school students who achieve the school-year No Child Left Behind Act annual measurable objective for proficiency or above on standards-based assessments in reading and language arts	47.8%	53%	42.6%	R
Percent of elementary school students who achieve the school-year No Child Left Behind Act annual measurable objective for proficiency or above on standards-based assessments in mathematics	41.9%	44%	34.5%	R
Percent of middle school students who achieve the school-year No Child Left Behind Act annual measurable objective for proficiency or above on standards-based assessments in mathematics	27.3%	35%	22.4%	R

Percent of recent New Mexico high school graduates who take remedial courses in higher education at two-year and four-year schools	49.3%	43%	50.1%	R
Current year's cohort graduation rate using the four-year cumulative method	N/A	80%	62.4%	R
			Overall Program Rating	R



Teacher Quality. With implementation of three-tier licensure, it is expected the percent of classes taught by highly qualified teachers would continue to improve to the NCLB requirement of 100 percent. The department did not provide this information for any quarter in FY08, noting the information is not available from Student Teacher Accountability Reporting System (STARS). This is a primary and vital function of the data warehouse, and given the level of state investment in three-tiered licensure, the lack of data is of great concern. Educator Quality Division staff should be able to manually access the data needed. The ability to verify the credentials for level three-A teachers is necessary to authorize compensation in compliance with the 2008 General Appropriation Act. It is not clear whether some districts, particularly in rural areas, will achieve the 100 percent goal, but movement in that direction is improving slowly.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Annual percent of core academic subjects taught by highly qualified teachers in kindergarten through twelfth grade	94.2%	95%	94.7%	G
		Overall Program Rating		G

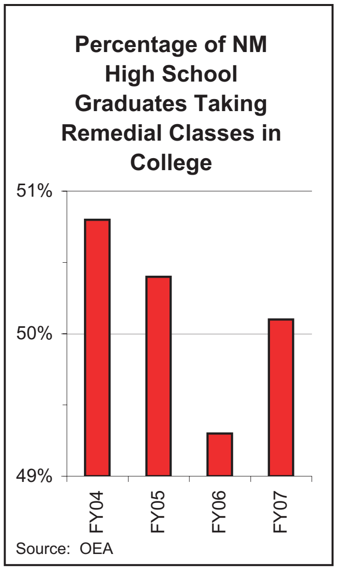


Department Operations. The department continues to experience difficulties in meeting targets for operational responsibilities relating to STARS, despite significant appropriation requests in the 2008 legislative session to implement phases two and three of the data warehouse project

The department's success in resolving audit findings is unknown at this point due to late submission of the FY07 external audit.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of No Child Left Behind adequate yearly progress designations publicly reported by August 1st	99.5%	100%	100%	G
Percent completion of the data warehouse project	40%	75%	50%	R
Percent of teachers adequately informed and trained on the preparation of the licensure advancement professional dossiers	New	95%	85.05%	R

Percent compliance with the agreed-upon audit schedule for the public education department internal audit section	New	100%	75%	R
Percent of prior-year audit findings resolved and not repeated	New	100%	NR	R
			Overall Program Rating	R



Comments: The fourth quarter reported result for completion of the STARS initiative data warehouse is 50 percent. The department is inconsistent in its reporting of results and targets for this measure, possibly due to confusion about weights given the individual phases. The department notes that phase three, representing 30 percent of the overall project, was only partially funded in FY09 and that all funding, including FY09 amounts, will allow them to complete 57 percent of the entire initiative.

The department's FY07 audit is complete and under review by the State Auditor. The Public Education Department will report on the final measure when the audit is released.

The Higher Education Department (HED) is expected to report performance measures for its agency along with performance measures for higher education outcomes for the state. The Council of University Presidents, New Mexico Association of Community Colleges, and the Independent Community Colleges submit accountability reports and data on behalf of the state's universities, branch campuses, and independent colleges, respectively. These four entities are designated by the Department of Finance and Administration and Legislative Finance Committee as key agencies under the Accountability in Government Act.

New Mexico universities plan to participate in the Voluntary System of Accountability, a program to provide greater accountability by public institutions through accessible, transparent, and comparable information. This nationwide initiative will result in data available to the public via the College Portrait website.

Universities. The comprehensive *Performance Effectiveness Report* and a subset of performance measures are reported annually by the Council of University Presidents. As well, semi-annual data on a retention rate performance measure is reported under the Accountability in Government Act. The Council of University Presidents has advanced its data reporting collection through fall 2008, where available, to provide more recent data for decision-makers.

Two-year colleges are exploring a similar voluntary reporting initiative.

The Council of University Presidents (COUP) executive summary reflects relatively little change for the state's universities overall during the last five years. For example, the number of American College Testing (ACT) program test-takers or the overall number of first-time freshmen attending New Mexico universities over the past five years are relatively unchanged overall. Freshmen persistence and graduation rates have changed very little overall, although certain institutions display unique trends. Degrees awarded has increased overall by about 10 percent. The report notes five of the state's universities have the highest full-time-equivalent enrollment in fall 2008 of the last five years.

Improvements to performance reporting for New Mexico higher education institutions under the Accountability in Government Act may be linked to these efforts.

As shown in these report cards, overall key outcomes for persistence and graduation rates at New Mexico universities tended to be flat to declining in the last couple years. Only the University of New Mexico (UNM) and New Mexico Institute of Mining and Technology (NMIMT) showed year-over-year improvements and exceeded targets for retention of freshmen from fall 2007 to fall 2008. Most institutions did not meet their targets and showed flat persistence rates. Only NMIMT showed significant improvement in its six-year graduation rate at 47 percent in spring/summer 2008. New Mexico Highlands University, and particularly Eastern New Mexico University, showed significant declines in six-year graduation rates.

The percentage of ACT test-takers attending a New Mexico university is 48 percent.

With respect to two-year college transfers, several institutions posted sizeable year-over-year increases. The recent agreement between University of New Mexico and Central New Mexico College will continue to impact the level of transfer students. A policy change at New Mexico Highlands University is resulting in fewer transfers from Luna Community College to NMHU. New Mexico State University showed a significant increase in transfer students, but missed its target by a wide margin.

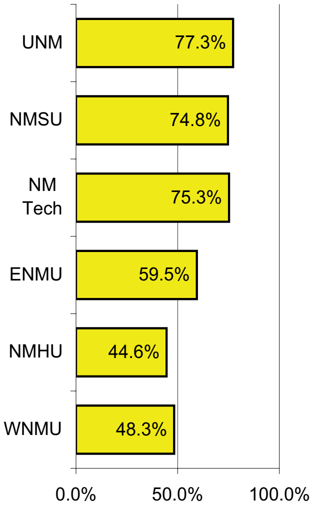
While extensive, some data inconsistencies are evident in COUP reports, and

New Mexico State University (NMSU) has been revised significantly in some instances. The reason for these revisions is not clear. Further, despite having an institution-specific measure on outcomes assessments and student learning, NMSU did not administer and collect these reports in 2006-2007.

Generally speaking, universities need to revisit target setting and fine-tuning of benchmarking reports. Some institutions are using overly aggressive targets, while others are very cautious in seeking performance improvements. While timing issues may impact the update of campus strategic plans and associated approval of new annual targets set in the context of updated actuals, improved target setting will benefit all stakeholders.

The Council of University Presidents *Performance Effective Report* executive summary reflects relatively little change for the state universities' performance outcomes overall during the last five years.

University Freshman Student Retention from Fall 07 to Fall 08

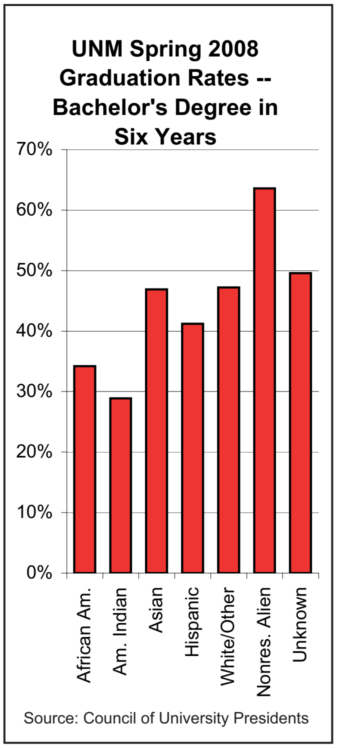


Source: Council of University Presidents.

Retention Fall-to-Fall	Fall 2006 to Fall 2007 Actual	Fall 2007 to Fall 2008 Target	Fall 2007 to Fall 2008 Actual	Rating
UNM freshman retention	76.6%	76.8%	77.3%	G
NMSU freshman retention	74.7%	82%	74.8%	Y
NMIMT freshman retention	73%	75%	75.3%	G
ENMU freshman retention	59.5%	60%	59.5%	Y
NMHU freshman retention	44.7%	53%	44.6%	Y
WNMU freshman retention	47.7%	50%	48.3%	Y
			Overall Program Rating	Y

Six-Year Completion Rates for First-Time, Full-Time Freshman	Fall 2001-Summer 2007 Actual	Fall 2002-Summer 2008 Target	Fall 2002-Summer 2008 Actual	Rating
UNM	44%	44.5%	44.1%	Y
NMSU	41.5%	50%	43.5%	Y
NMIMT	43%	45%	47%	G
ENMU	32.4%	33%	28.5%	R
NMHU	24.3%	20%	22.1%	Y
WNMU	47.7%	50%	48.3%	R
			Overall Program Rating	Y

Transfers from Two-year Colleges	2006-2007 Actual	Spring/Fall /Spring 2007-2008 Target	Spring/Fall/ Spring 2007-2008 Actual	Rating
UNM	1,518	1,650	1,593	Y
NMSU	559	1,028	734	Y
NMIMT	40	40	41	G
ENMU	400	390	437	G
NMHU	459	437	392	R
WNMU	175	160	179	Y
		Overall Program Rating		Y



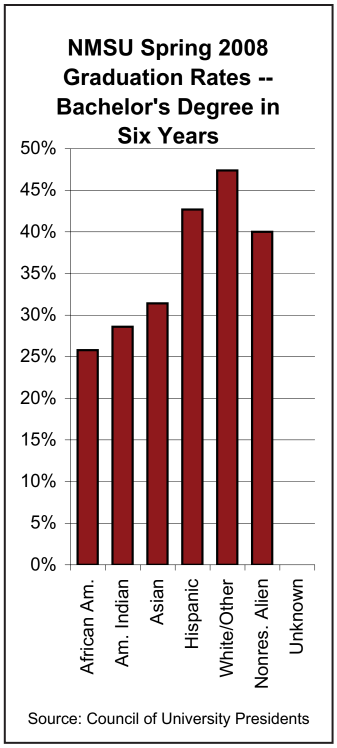
Two-Year Branch Campuses. Performance measures are reported annually along with semi-annual reports submitted by the New Mexico Association of Community Colleges. The group has redesigned some of its submission to make the reports easier to compile, more consistent across institutions, and easier to interpret. Further, several accountability reports have been submitted earlier in the budget cycle. This report card reflects data through spring 2008, reflecting a delayed reporting period compared with four-year institutions.

Two-year branch colleges reported mixed performance in retaining first-time, full-time freshmen to the second year and in graduating these students in three years. The percent of program completers placed in New Mexico jobs or continuing their education was much stronger.

Inconsistent reporting between two- and four-year colleges remains a concern.

With respect to retention of first-time, full-time freshmen from fall 2007 to spring 2008, overall performance was mixed. Not a single institution exceeded its target and posted improvement over the prior year. NMSU-Alamogordo and NMSU-Carlsbad and UNM-Los Alamos missed their targets and showed year-over-year declines. In analyzing historical data, the two year branch colleges showed little improvement in retaining these students from academic year 2003-2004 to 2007-2008 --- trending around a five-year average of 74 percent.

For graduation within 150 percent of time, ENMU-Roswell posted improvements and NMSU-Grants showed significant gains. ENMU-Ruidoso, in particular, along with NMSU-Dona Ana, UNM-Gallup and UNM-Valencia missed targets and posted year-over-year declines. NMSU-Dona Ana notes improvement in the graduation rate is the highest priority in the college's strategic plan. UNM-Gallup recently reorganized academic advising and implemented an early alert system. UNM-Valencia has implemented developmental learning communities. UNM-Taos has focused resources on student success programs.



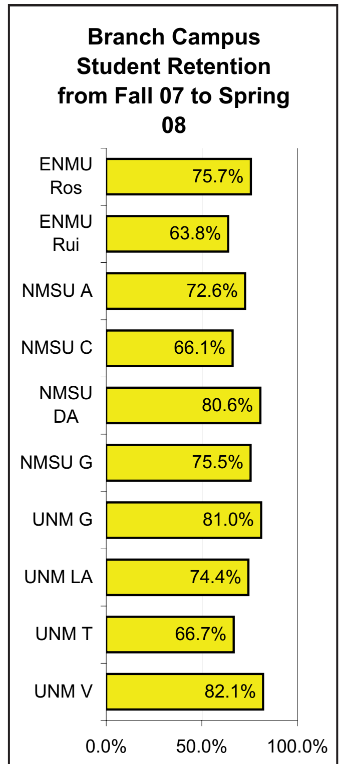
Again, the results for the outcome measure focusing on job placement or continuing education are very strong, with seven colleges exceeding their targets and posting year-over-year gains. Only ENMU-Roswell posted declines on this performance measure.

Given that two-year branch campuses submitted benchmarking reports for only one performance measure, it is not clear how targets are being set. Further, many of the benchmarking reports are incomplete. Some institutions appear to be using overly aggressive targets, while others are showing great caution in projecting improvement.

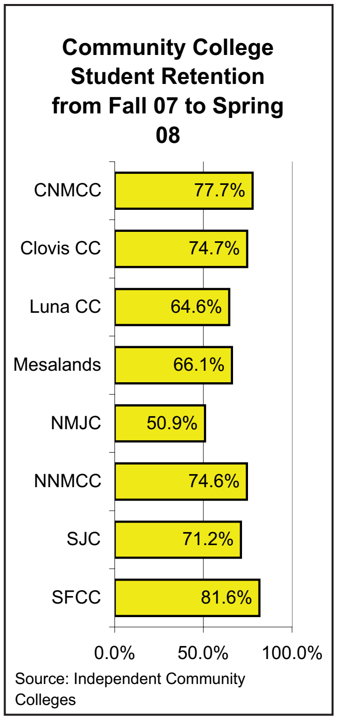
Retention, Fall-to-Spring	Fall 2006 to Spring 2007 Actual	Fall 2007 to Spring 2008 Target	Fall 2007 to Spring 2008 Actual	Rating
ENMU-Roswell	74.6%	75.9%	75.7%	G
ENMU-Ruidoso	64%	54.9%	63.8%	G
NMSU-Alamogordo	74.9%	78%	72.6%	R
NMSU-Carlsbad	68.6%	71%	66.1%	R
NMSU-Dona Ana	79.5%	81%	80.6%	G
NMSU-Grants	77.8%	73.6%	75.5%	G
UNM-Gallup	81.7%	82%	81%	Y
UNM-Los Alamos	76.4%	75%	74.4%	R
UNM-Taos	65.6%	67%	66.7%	G
UNM-Valencia	80.6%	83%	82.1%	Y
			Overall Program Rating	Y

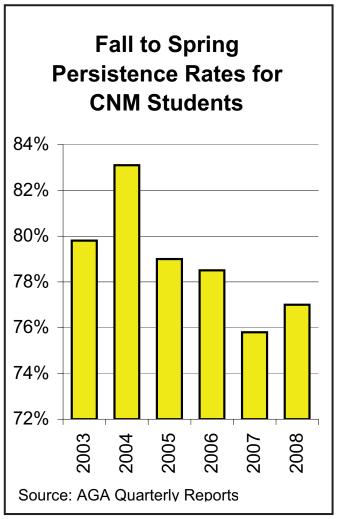
Three-Year Completion Rates for First-Time, Full-Time Freshman	Actual	Target	Actual	Rating
ENMU-Roswell	13.7%	13.5%	15.7%	G
ENMU-Ruidoso	10.9%	26.2%	6.2%	R
NMSU-Alamogordo	10.5%	14%	10.1%	Y
NMSU-Carlsbad	5%	7%	5.6%	Y
NMSU-Dona Ana	9.7%	15%	7.9%	R
NMSU-Grants	14.7%	17.2%	20%	G
UNM-Gallup	8.9%	9.4%	7.9%	R
UNM-Los Alamos	47.2%	55%	51.1%	Y
UNM-Taos	7.9%	10%	6.8%	R
UNM-Valencia	7.1%	23%	6.3%	R
		Overall Program Rating		Y

Transfers from Two-year Colleges	2006-2007 Actual	2007-2008 Target	2007-2008 Actual	Rating
ENMU-Roswell	75.6%	76.5%	73.9%	R
ENMU-Ruidoso	80.2%	84%	89.5%	G
NMSU-Alamogordo	74.3%	75%	78.8%	G
NMSU-Carlsbad	84.6%	83%	87.7%	G
NMSU-Dona Ana	81.4%	82%	82.9%	G
NMSU-Grants	86.9%	85%	87.8%	G
UNM-Gallup	74.5%	75%	75.5%	G
UNM-Los Alamos	61.7%	65.5%	75.8%	G
UNM-Taos	79%	80%	79.7%	Y
UNM-Valencia	80.6%	83%	82.1%	Y
		Overall Program Rating		Y



Source: Independent Community Colleges





<u>Two-year Independent Community Colleges</u>. The Independent Community College Accountability Report and a subset of performance measures are reported annually by the New Mexico Independent Community Colleges. As well, semi-annual data on a retention rate performance measure is reported under the Accountability in Government Act. The group has redesigned some of its submission to make the reports easier to compile, more consistent across institutions and easier to interpret. Further, several accountability reports were submitted earlier in the budget cycle. This report card reflects data through spring 2008, a delayed reporting period compared with four-year universities.

Two-year independent colleges reported much weaker performance overall than their branch campus counterparts. For fall-to-spring freshmen retention, five of eight institutions reported missing their targets and lower performance than the prior year. Only Mesalands and Santa Fe Community College showed exceptional improvements on a year-over-year basis. Similarly, timely graduation was generally weak, with no single institution meeting its target; however, target-setting is clearly a concern for some colleges. Again, two-year independent colleges posted better overall performance in the outcome measure.

In analyzing historical data, the two-year independent colleges showed little improvement in retaining these students from academic year 2002-2003 to 2006-2007 --- trending around a five-year average of 75.2 percent. Of even greater concern, the retention rate plunged in academic year 2007-2008 to 70.2 percent. Strong economic conditions may have been one factor impacting this result; however, other factors might have contributed to the decline. Central New Mexico Community College (CNM) reports a significant increase in students transferring to another institution within their first year.

These institutions only provide benchmarking reports for the persistence performance measure. These reports provide useful context to understand historical and projected performance along with details on institutional action plans. CNM reports its top priority is improvement in retention and graduation rates, but learning communities are no longer part of the strategy for retention. Clovis notes the continued military base transition and associated impacts on its performance data. Despite a nearly 20 point drop in retention rates over two years, Luna Community College provided no explanation. New Mexico Junior College notes it is studying the problem of a nearly 20 point drop over a two-year period. San Juan College has hired an enrollment management consultant. After several year of declines, Mesalands posted a year-over-year increase and noted its early alert system.

Given that two-year independent branch campuses submitted benchmarking reports for only one performance measure, how targets are being set is not clear. Some institutions appear to be using overly aggressive targets, while others are showing great caution in projecting improvement.

Retention, Fall-to-Spring	Fall 2006 to Spring 2007 Actual	Fall 2007 to Spring 2008 Target	Fall 2007 to Spring 2008 Actual	Rating
Central NM Community College	75.8%	83.3%	77.7%	Y
Clovis Community College	76%	81%	74.7%	R
Luna Community College	79.6%	82%	64.6%	R
Mesalands Community College	55%	60.3%	66.1%	G
New Mexico Junior College	69%	72.5%	50.9%	R
Northern NM College	78.9%	80%	74.6%	R
San Juan College	75.9%	74.2%	71.2%	R
Santa Fe Community College	75.1%	76%	81.6%	G
			Overall Program Rating	Y

Percent of First-time, Full-time Degree Seeking Students Completing within 150% of time	Actual	Target	Actual	Rating
Central NM Community College	8%	11%	8%	Y
Clovis Community College	8.7%	20%	8.7%	R
Luna Community College	24.7%	22.5%	23.6%	Y
Mesalands Community College	24.6%	30%	22.4%	R
New Mexico Junior College	33%	27%	27.4%	Y
Northern NM College	9.9%	15%	8.8%	R
San Juan College	14.6%	14.7%	13.2%	R
Santa Fe Community College	5.9%	8%	6.1%	Y
			Overall Program Rating	Y

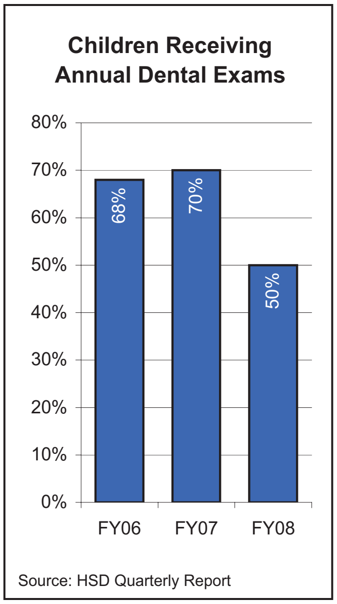
Some two-year independent college leaders have argued the state's accountability reporting is not worthwhile, because these measures are not meaningful to their institutions. While there is always room for improving performance measures, it is not clear why these measures would not be meaningful.

Percent of Program Completers placed in jobs or continuing education in NM	Actual	Target	Actual	Rating
Central NM Community College	85.1%	84%	88.6%	G
Clovis Community College	77.3%	79%	78.3%	Y
Luna Community College	94.3%	90%	93.9%	G
Mesalands Community College	71.9%	67.5%	76.7%	G
New Mexico Junior College	72.8%	76%	77.7%	G
Northern NM College	73%	80%	79.3%	Y
San Juan College	64.9%	70%	66.9%	Y
Santa Fe Community College	80.5%	78.5%	82.8%	G
			Overall Program Rating	Y

Higher Education Department. The Higher Education Department (HED) consists of two programs: Policy Development and Institutional Financial Oversight along with Student Financial Aid. In February 2008, HED failed to submit performance measures and targets to reach consensus for the House Appropriations and Finance Committee budget work. The agency attempted to make some progress in developing meaningful measures during the summer, but the Department of Finance and Administration, with input from the Legislative Finance Committee, indicated the requested changes fell short and revisions were expected for the fall budget process. Subsequently, HED and the Department of Finance and Administration determined no additional work would be forthcoming until FY11. DFA indicated this approach would allow for completion of a new strategic plan and a monitoring plan. By late fall, HED had not finalized either document.

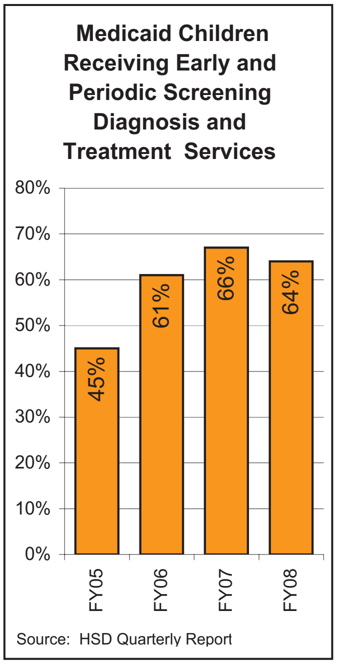
Overall, the agency reported mixed performance in FY08 and continues to struggle with its core operations. Although the Student Financial Aid program has met or exceeded FY08 target levels, the targets may be artificially low, based upon prior-year target levels. The FY08 target levels for certain measures remained unchanged from FY07 and FY06. LFC will continue to work with the department to effectively set target levels in the future for continuous improvement.

The department's measures relate to its strategic plan, but additional measures in some areas, like Medicaid and the Income Support Division, should be incorporated to better gauge outcomes. The department is not meeting many of its performance targets in key areas. In some cases, this is due to unachievable targets, but in others, such as in the Medical Assistance Division (MAD), performance has slipped from the previous year. Better use of benchmark data and clearly defined action plans should help the department set targets and improve performance.

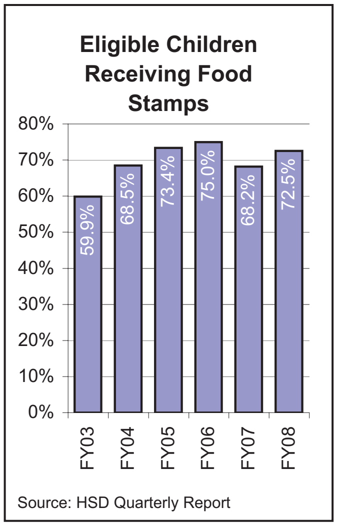


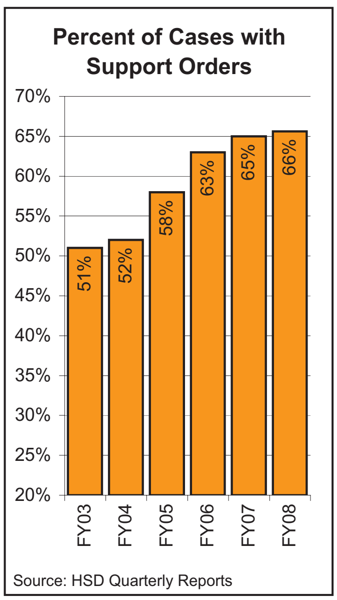
Medical Assistance Division. Many of the targets exceed national benchmarks and are not attainable. Given such benchmark data and revised targets for FY09, the ratings reflect comparisons with FY07 performance and the national benchmark. HSD, in general, has action plans to improve performance. Overall, the measures are meaningful and point toward activities that may provide better health outcomes, but the department should report on measures that gauge cost effectiveness of the Medicaid program.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of children enrolled in Medicaid managed care who have a dental exam	70%	92%	50%	R
Percent of readmissions to the same level of care or higher for individuals in managed care discharged from a residential treatment center	8.75%	2%	9.25%	R
Number of children in Medicaid school-based services	16,770	18,000	16,860	R
Percent of children in Medicaid managed care receiving early and periodic screening, diagnosis and treatment services	66%	85%	64%	R
Percent of adolescents in Medicaid managed care receiving well-care visits	41%	60%	43%	Y
Number of adults enrolled in state coverage insurance (SCI)	7,863	10,000	23,060	G
Percent of women enrolled in Medicaid managed care and in the age-appropriate group receiving breast cancer screens	55%	75%	52%	R
Percent of women enrolled in Medicaid managed care and in the age-appropriate group receiving cervical cancer screens	67%	80%	70%	Y
			Overall Program Rating	Y



Income Support Program. As with the MAD program, the targets for several measures are higher than federal reporting requirements or national





averages, which were considered in determining the ratings, and HSD notes that few states are meeting the federal work requirements. The measures are generally meaningful; however, additional outcome measures to gauge the development of self-sufficiency of TANF clients – e.g., "percent of families who leave TANF for work" – should be considered.

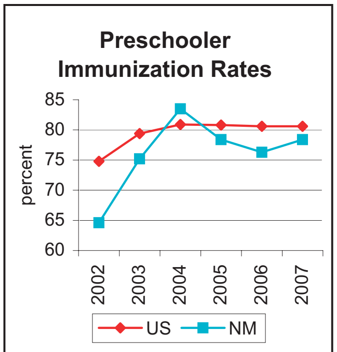
Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of temporary assistance for needy families participants who retain a job for three or more months	77.5%	75%	77.4%	G
Percent of TANF two-parent recipients meeting federally required work requirements	46.9%	90%	37.9%[1]	R
Percent of TANF recipients (all families) meeting federally required work requirements	38.4%	90%	38.2%[1]	R
Percent of food-stamp-eligible children participating in the program	68.2%	95%	72.5%	Y
Percent of expedited food stamp cases meeting the federally required timeliness of seven days	98.3%	98%	98.1%	G
		Overall Program Rating		Y

[1]Data reported through federal fiscal year 2008 (Oct. 2007 – June 2008); HSD recalculated the participation rate from initial reporting to better align with federal calculations.

Child Support Enforcement Program. The measures indicate HSD is achieving its mission of improving family support. Some measures need to be redefined or better aligned with federal reporting requirements, and the program proposed new measures for FY10. Nationally, 61.2 percent of child support owed is collected, and the program is getting closer to the national average. HSD continues to make progress in increasing the percent of cases with support orders – an important measure of enforcement. The national benchmark for the measure is 77.4 percent.

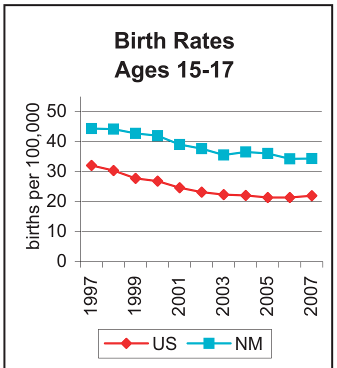
Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of temporary assistance for needy families cases with support orders receiving collections	54.4%	68%	57.2%	R
Total child support enforcement collections, in millions	$95.3	$98	$103.2	G
Percent of child support owed that is collected	56.3%	70%	58%	Y
Percent of cases with support orders	64.5%	70%	65.6%	Y
Percent of children with court-ordered medical support covered by private health insurance	33%	40%	36%	Y
		Overall Program Rating		Y

The Department of Health (DOH) performance report for the year ending June 30, 2008, revealed that DOH met less than 50 percent of its targets. Agency strengths include a user-friendly, graphically detailed quarterly report and experienced core staff in charge of performance reporting. Also, the agency has many measures that tie to key agency priorities, particularly in the public health area. Weaknesses include too many annual-only measures for large-dollar programs (in part due to data-reporting limitations), and DOH's limited ability to influence performance measures driven by the behavior of patients and clients. Driving-while-intoxicated (DWI) testing failed to meet the target due to test equipment problems. Improvement is noted in many areas, including the number of visits to school-based health centers, pandemic flu exercises, and substantiated cases of abuse and neglect in DOH facilities. However, inspection of agencies providing services to the developmental disabled declined due to lack of trained staff. In addition, definition and data problems are impacting the telehealth measure, and the agency must resolve these issues to ensure meaningful data is collected.



Source: Centers for Disease Control

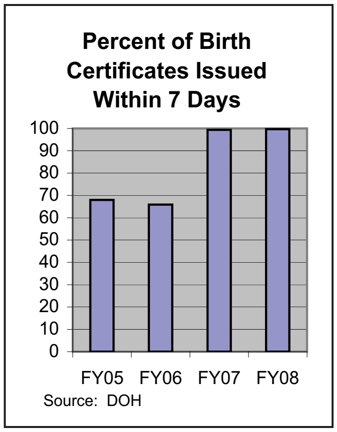
Public Health Program. Childhood immunizations improved significantly, with the national ranking of children fully immunized moving from 40th of 50 states in FY07 to 31st in FY09. This reverses the trend of the past two years, and now 81 percent are immunized. Teen pregnancy continues to be a major problem with the state ranked 50th. This is an example of a measure that is very important, but DOH has only limited ability to influence. However, DOH increased the number of teens receiving family planning services. The overall grade of yellow reflects the department had mixed success in meeting the often-ambitious targets for the 20 measures in this program.



Source: Centers for Disease Control

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of preschoolers fully immunized	76.3%	76%	78.4%	G
Number of providers using the statewide immunization registry	227	300	284	Y
Annual teen birth rate for females ages 15 to 17	34.3	34.0	34.4	R
Number new enrollees in syringe exchange programs	1,242	2,500	724	R
Percent of adults who use tobacco	20.1%	19.7%	20.8%	Y
			Overall Program Rating	Y

Epidemiology and Response Program. Performance has improved in the vital records area. This program's work with the Trauma Authority is expected to lead to statewide trauma system improvements; however, the goal to increase the number of trauma centers by four was not met.



Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Number of pandemic influenza plan exercises statewide	105	70	160	G
Number of designated trauma centers in the state	3	7	6	Y
Percent of birth certificates issued within seven days of receipt of fees and materials	99.4%	98%	99%	G
			Overall Program Rating	G

Scientific Laboratory Program. The laboratory meets proficiency standards and target completion times for communicable diseases. Although the target for completion of blood alcohol tests related to driving while intoxicated was not met, the state lab made significant progress in speeding up analysis for DWI cases; however, two instruments were not functional for a period of three weeks, and tests could not be run.

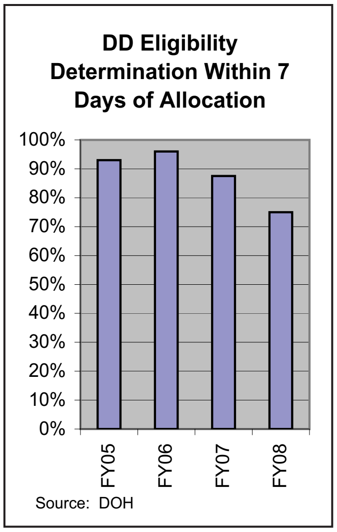
Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of blood tests from DWI cases analyzed and reported within seven business days	76%	85%	78%	Y
Percent of public health threat samples for communicable diseases and other threatening illnesses analyzed within specific turnaround times	98.7%	98%	98%	G
			Overall Program Rating	Y

Facilities Management Program. The program provides oversight of DOH facilities. Significant improvement was made in reducing abuse, neglect and exploitation with only two incidents in FY08. However, the department should consider additional measures for this program.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Number of substantiated cases of abuse, neglect and exploitation per 100 residents in department of health long-term care programs confirmed by division of health improvement	2.6	0	0.12	G
			Overall Program Rating	G

Developmental Disabilities Support Services Program. The overall program rating is yellow; however, the decline in eligibility determination within ninety days of allocation resulted in a red rating for the measure. Slow progress in employment for developmentally disabled (DD) clients is a concern. Decline in client satisfaction with the Family Infant Toddler program and slower implementation of DD client service plans bear monitoring.

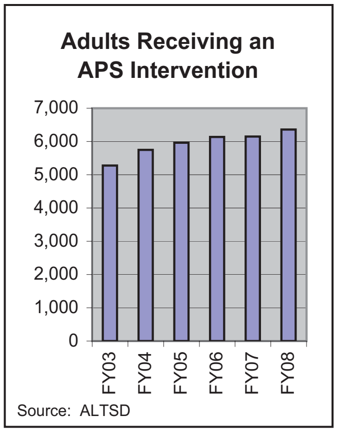
Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of adults receiving developmental disabilities day services who are engaged in community-integrated employment	34%	36%	32%	Y
Percent of developmental disability waiver applicants determined to be both income eligible and clinically eligible within ninety days of allocation	87.5%	95%	75%	R
Percent of developmental disability waiver applicants who have a service plan in place within ninety days of clinical and eligibility determination	97.5%	95%	96%	G
			Overall Program Rating	Y

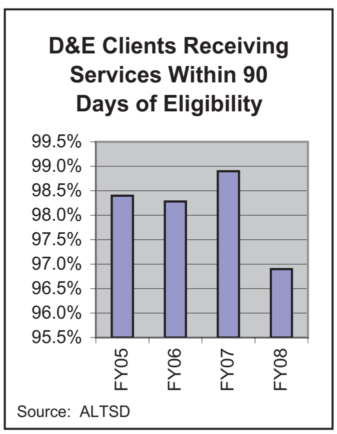


<u>Health Certification, Licensing and Oversight</u>. The number of developmental disability providers receiving an unannounced survey has declined from FY07 due, in part, to personnel shortages. This is a critical function of this program to ensure clients are treated appropriately. On a positive note, the program is testing 100 percent of caregiver applicants.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Number of disabled disability provider agencies receiving an unannounced survey	111	117	103	R
Number of regulatory compliance surveys conducted for licensed facilities	150	450	176	R
Number of applicants screened for the caregiver criminal history check	33,592	33,800	35,555	G
			Overall Program Rating	R

Aging & Long-Term Services



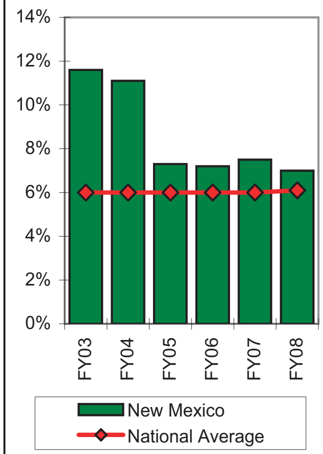


For FY08, the Aging and Long-Term Services Department (ALTSD) revamped its performance measures adding new key measures for adult protective services, waiver and brain injury services and for number of clients transitioned from nursing homes back into the community. One new measure is proposed on satisfaction with the new Coordinated Long-Term Services (CoLTS) managed-care program. Most key measures are output measures; the department needs to place more emphasis on outcome measures so program value can be assessed.

FY08 ALTSD Performance. Shown below is performance on eight select key measures. The brain injury program is recent, so the client count is small but growing. The overall grade of yellow reflects that the department did not meet all of its performance targets. Key targets were met by the ombudsman and Adult Protective Services Program, but performance in the Aging Network Program is a concern, with a decline in measures such as respite care and adult daycare hours provided.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Number of ombudsmen cases resolved	5,509	5,000	5,307	G
Number of individuals calling the aging and disability resource center in need of two or more daily living services that receive information, referral and follow-up services	7,496	6,500	12,984	G
Percent of individuals age 60 and over receiving aging network community services	15.9%	42.5%	37%	Y
Percent of total personal care option cases that are consumer directed	10.6%	12%	15.5%	G
Percent of disabled and elderly (D&E) Medicaid waiver clients who receive services within ninety days of eligibility determination	98.9%	100%	96.9%	Y
Average number of months that individuals are on the disabled and elderly waiver registry prior to receiving an allocation for services	21	24	31	Y
Number of brain injury clients served through the mi via self-directed waiver	11	100	137	G
Number of adults receiving an adult protective services intervention	6,147	6,000	6,361	G
			Overall Program Rating	**Y**

The mission of the Children, Youth and Families Department (CYFD) is to enhance family safety and well-being. The department provides support services for child care, children in protective custody, pre-kindergarten, domestic violence, and youth in detention.



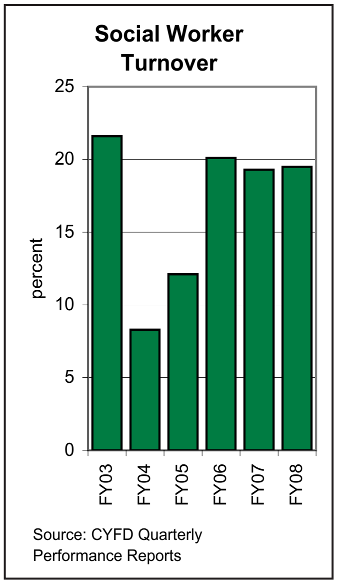
Source: CYFD Final FY07 Quarterly Report and ACF Website

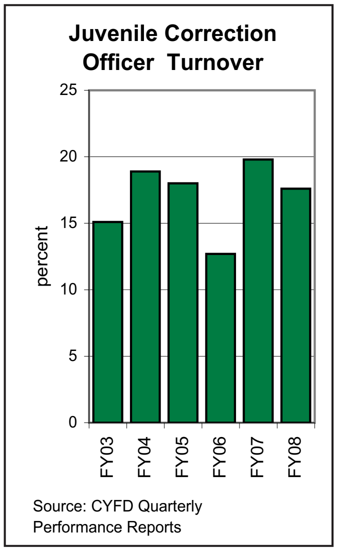
<u>Juvenile Justice Services</u>. The program improved on decreasing the percent of clients who re-adjudicate and clients recommitted to a CYFD facility in FY08 compared with FY07.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of re-adjudicated clients (cumulative)	6.6%	5.8%	4.7%	G
Percent of education credits earned by facility clients enrolled in juvenile justice service schools (cumulative)	47.5%	45%	42.4%	R
Percent of clients recommitted to a CYFD facility (cumulative)	13.2%	11.5%	4.0%	G
Percent of family functional therapy/multi-systemic therapy clients who have not committed a subsequent juvenile offense	65%	86.5%	81%	R
Percent of clients who complete formal probation (cumulative)	89.8%	85%	89.6%	G
			Overall Program Rating	G

<u>Protective Services.</u> CYFD's targets met or exceeded the national standards with the exception of the target for repeated substantiated maltreatment within six months. The national standard for this measure is 6.1 percent.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of children who are subjects of substantiated maltreatment while in foster care (cumulative)	0.83%	0.57%	0.34%	G
Percent of children who are the subjects of substantiated maltreatment within six months of a prior determination of substantiated maltreatment	7.1%	7%	7.0%	G
Percent of children reunified with their natural families in less than twelve months of entry into care	87.2%	85%	73.3%	R
Percent of children in foster care for up to twelve months with no more than two placement settings	86.1%	86.7%	83.6%	R





Percent of children adopted within twenty-four months from entry into foster care	38.1%	34%	35%	G
			Overall Program Rating	**Y**

<u>Family Services.</u> The department underperformed on measures related to domestic violence, missing the FY08 targets but improving over FY07. According to the National Coalition Against Domestic Violence, "As of 2003, New Mexico was ranked 3rd in the country for incidents of domestic violence."

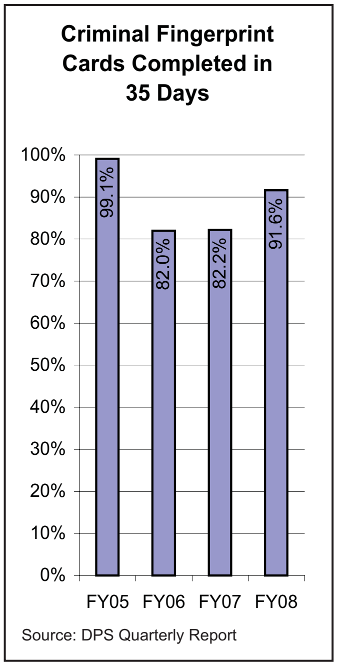
Measure	**FY07 Actual**	**FY08 Target**	**FY08 Actual**	**FY08 Rating**
Percent of children receiving state subsidy in stars/aim high programs level two through five or with national accreditation (cumulative)	45.4%	30%	64.4%	G
Percent of licensed child care providers at stars/aim high programs level two through five or with national accreditation	46.4%	32%	65.3%	G
Percent of family providers participating in the child and adult care food program	93.1%	90.5%	94.8%	G
Percent of adult victims receiving domestic violence services who showed improved client competencies in social living, coping and thinking skills	54.4%	65%	59.6%	Y
Percent of adult victims receiving domestic violence services living in a safer, more stable environment	78%	85%	78%	R
Percent of adult victims receiving domestic violence services who have an individualized safety plan	7.7%	70%	65.4%	Y
Percent of domestic violence offenders who complete a batterer's intervention program	70.8%	80%	65.8%	R
Percent of children in state-funded pre-kindergarten showing measurable progress on the preschool readiness-for-kindergarten tool	57%	79%	68.5%	Y
Number of first home visits with families participating in the home visiting evaluation process	212	400	401	G
			Overall Program Rating	**Y**

Program Support. To encourage retention, CYFD developed a salary matrix for social workers based on education and length of service. The department received additional funding in FY09 for advertising and implementation of a new screening tool for juvenile correctional officers.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Turnover rate for child welfare workers (cumulative)	19.3%	15%	19.5%	R
Turnover rate for juvenile correctional officer journeymen (cumulative)	19.8%	11.9%	17.6%	R
			Overall Program Rating	R

Department of Public Safety

The Department of Public Safety's (DPS) key quarterly performance measures were all revised for FY07, so benchmarks are being developed. The performance measures appropriately focus on the department's key goals and initiatives: reduce alcohol abuse, reduce illegal drug use, reduce violent crime, and ensure traffic safety. DPS is reluctant to commit to whether a lower number represents an improvement or decline of a measure's outcome. This lessens the value of most of DPS's measures, rendering them informational rather than providing insight into agency performance.



Law Enforcement Program. This program barely met the majority of the FY08 targets. The agency notes its primary goal is to reduce the number of traffic-related fatalities, but this measure was omitted from quarterly reporting. This oversight is corrected for FY10. Bolstering the number of commissioned officers is a key element for all DPS measures. To achieve the agency's goals, a strong workforce with minimal turnover is required. This goal has yet to be achieved and consequently threatens the performance of the other measures.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Number of narcotic seizures by Motor Transportation Division	n/a	64	84	G
Number of total DWI arrests by DPS commissioned officers	3,883	3,656	3,363	Y
Number of criminal cases investigated by DPS commissioned officers	16,443	15,000	18,303	G
Percent of strength of DPS commissioned officers	86.9%	90%	87.6%	R
Number of criminal citations or arrests for the illegal sales or service of alcohol to minors and intoxicated persons by the Special Investigations Division	n/a	200	155	R
			Overall Program Rating	Y

Program Support. Additional resources available to the lab in FY08 were expected to reduce the DNA caseload backlog and put vacant positions near zero by FY09. But again for another DPS area, employment issues threaten the program performance.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of DNA cases completed within seventy (70) days from submission	13.2%	100%	24.4%	R
Percent of finger print cards completed within thirty-five (35) days of submission	82.2%	100%	91.6%	Y
			Overall Program Rating	Y

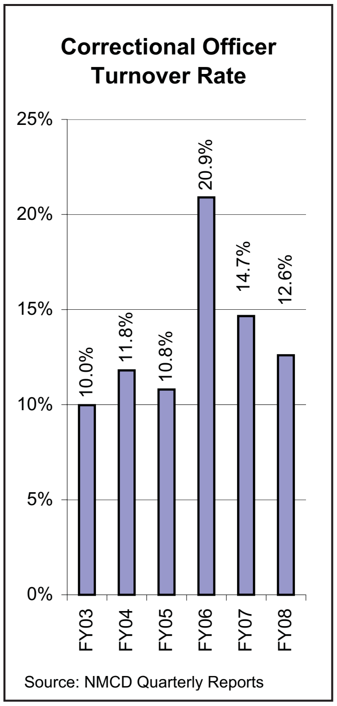
The New Mexico Corrections Department (NMCD) has developed well-diversified key quarterly measures; and basically the measures have been met. Measures pertaining to timely release of parole eligible inmates should be considered for future years. The measures related to recidivism should be expanded and are central to the agency's performance success if re-entry and rehabilitation become more prominent goals.

Inmate Management & Control Program. Four of the six targets were clearly met and two others only missed narrowly. Results for some measures are partially a function of prison population and should automatically decline along with the population. A serious assault is any assault or battery that causes significant injury to staff and may lead to outside medical treatment. The recidivism rate, probably the most meaningful outcome of all, improved.

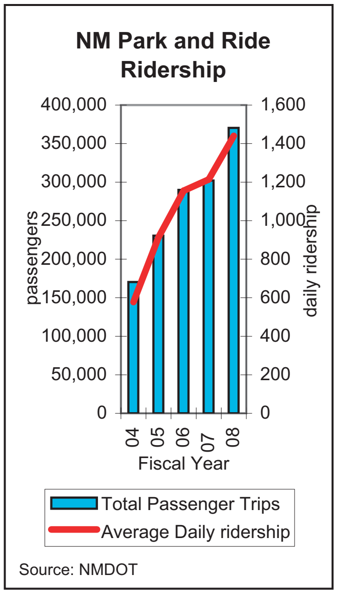
Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Number of serious inmate-to-inmate assaults in private and public facilities	17	24	20	G
Percent turnover of correctional officers	14.65%	13%	12.63%	G
Percent of prisoners who were re-incarcerated within twelve months after being released from New Mexico corrections department prison system into community supervision or were discharged	32.13%	30%	28.6%	G
Number of serious inmate-to-staff assaults in private and public facilities	7	7	4	G
			Overall Program Rating	G

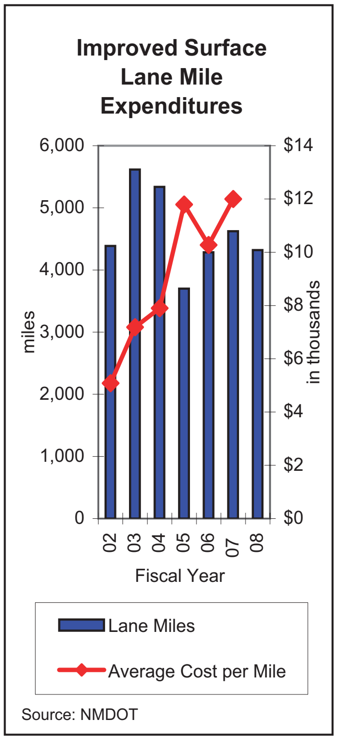
Community Offender Management Program: Additional resources for the program in FY08 automatically reduced caseload. Caseload is not a real measure of program effectiveness and different measures should be considered.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Average standard caseload of probation and parole officers	120	92	93	G
			Overall Program Rating	G



Department of Transportation



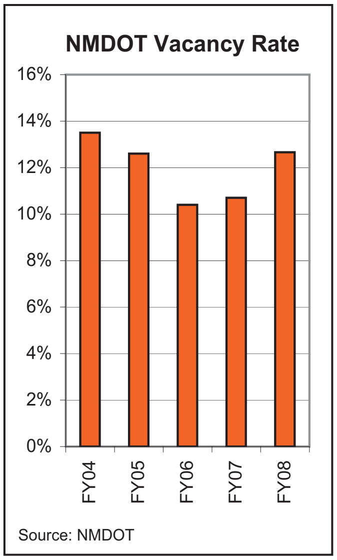


The New Mexico Department of Transportation's (NMDOT) construction and maintenance programs continue to suffer from increases in the cost of construction materials. This has significantly impacted both Governor Richardson's Investment partnership (GRIP) and the Statewide Transportation Improvement program (STIP) with respect to project planning, scheduling, and the scope of the project being adjusted to accommodate cost overruns. Maintenance activities have been curtailed, especially in the area of chip sealing, as the department copes with shortages of oil-based products and high costs. The GRIP and GRIP II programs must be reviewed in context with other reports submitted by NMDOT to obtain a complete view of performance.

Programs and Infrastructure Program. The department has been challenged in meeting its STIP and GRIP schedule due to federal rescissions and inflationary cost increases in construction materials, such as steel, concrete, and asphalt. Given these challenges, NMDOT has had to reassess its production and let to bid schedule to balance available resources and prioritize its scheduling system. Additionally, while there was improvement over FY07, the percent of final cost-over-bid target of ≤4 percent was not met. As part of its action plan, the department is closely monitoring costs and providing closer oversight into maximizing projects within the given cost constraints. Both Park and Ride and commuter rail show increases in total ridership.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Ride quality index for new construction	4.2	≥4.3	4.0	R
Annual rural transportation ridership	N/A	700,000	946,311	G
Revenue dollars per passenger on park and ride	$2.81	$2.25	$2.88	G
Annual number of riders on park and ride	302,054	275,000	370,315	G
Annual number of riders on commuter rail service between Belen and Bernalillo (cumulative)	302,104	300,000	547,077	G
Percent of final cost-over-bid amount	8.8%	≤4%	5.5%	R
Percent of programmed projects let according to schedule	71%	85%	91%	G
Percent of front-occupant seat belt use by the public	90%	91%	91%	G
Number of nonalcohol-related fatalities traffic fatalities per one hundred million miles traveled	N/A	1.12	0.84	G
Number of alcohol-related traffic fatalities per one hundred million vehicle miles traveled	N/A	0.88	0.55	G
			Overall Program Rating	**G**

Transportation and Operations Program. As GRIP projects are completed, continued improvement is being seen in the ratings of both interstate and non-interstate miles. The number of improved pavement surface miles was 96 percent of target. Due to the cost constraints imposed by inflationary pressures, a yellow rating was awarded. The measure for statewide expenditures per lane mile was below the targeted level. Costs for FY08 were $140 per lane mile higher than those for FY07. Total expenditures for the fiscal year were less than anticipated due to a cutback on scheduled projects. Additionally, contractors rationed asphalt during the fourth quarter of FY08, affecting scheduled projects for all districts.

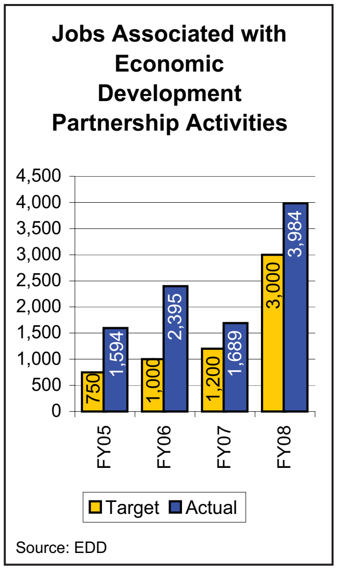


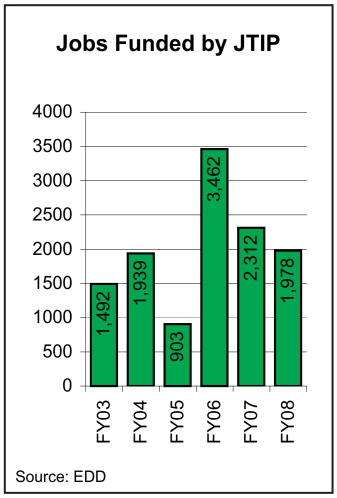
Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Number of statewide improved pavement surface miles (cumulative)	4,624	4,500	4,321	Y
Maintenance expenditures per lane mile (cumulative)	N/A	$5,250	$2,634	R
Customer satisfaction levels at rest areas	91%	88%	96.2%	G
			Overall Program Rating	Y

Programs Support Program. The department has actively been working with the State Personnel Office to reduce their vacancy levels by improving recruitment efforts, adjusting pay levels, and aligning positions where the greatest need exists. The department must close the gap rapidly on filling vacancies to meet its workload.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of vacancy rate in all programs	10.8	10	12.66	R
			Overall Program Rating	R

Economic Development





The Economic Development Department (EDD) experienced a weak economic environment during FY08, especially in the second half of the year. In light of the weak economy, the department's performance is generally strong for the year, although several targets were not met.

Economic Development. The program exceeded the target on two measures in FY08; however, the program is challenged in prioritizing job creation in rural communities. Job creation is based on reports of anticipated total employment, not actual jobs created. The Job Training Incentive Program (JTIP) program did not meet the target for workers trained by JTIP, although EDD notes the JTIP target of 4,000 was set in anticipation of program funding growing to $20 million. However, funding in FY08 was only $6 million, less than expected and less than the FY07 funding. EDD could improve performance reporting by providing information on retention rates of employees at companies who received JTIP awards.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Annual net increase in jobs created due to economic development department efforts	4,417	6,200	5,582	R
Total number of rural jobs created	1,623	2,200	1,890	R
Number of workers trained by job training incentive program	2,312	4,000	1,978	R
Number of jobs created by the mainstreet program	535	180	569	G
Number of jobs created through business relocations facilitated by the economic development partnership	1,689	3,000	3,984	G
			Overall Program Rating	Y

Film. The Film Program achieved its targets by large margins, and consideration should be given to setting higher targets. Although EDD uses a multiplier of $3 to every $1 spent by production companies to calculate the economic impact, a report by New Mexico State University (NMSU) shows a lower impact. A copy of the NMSU report is posted on the LFC website.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Number of media industry worker days	168,046	110,000	141,497	G
Economic impact of media industry productions in New Mexico, in millions	$473.7	$175	$636.9	G
Number of films and media projects principally photographed in New Mexico	59	80	93	G
			Overall Program Rating	G

Office of Mexican Affairs. The activities of the Office of Mexican Affairs (OMA) make performance measurement difficult. OMA facilitates trade missions, conferences, and aid to the governor's office with other border governors and Mexican officials. In general, OMA has a hard time quantifying its activities, and most of the program's staff appear focused on "macro" New Mexico-Chihuahua issues, such as diplomatic efforts, and not specifically on job creation.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Dollar value of New Mexico exports to Mexico as a result of the Mexican affairs program, in millions	$359.8	$350	$354.8	G
Number of jobs created by maquiladora suppliers	20	275	226	R
Number of new facilities opened by maquiladora suppliers	1	6	4	R
		Overall Program Rating		Y

Technology Commercialization. With the advent of the New Mexico Angel Investment Tax Credit, EDD is working to attract more science and technology firms to the state. The department is also pursuing business development in the optics and photonics field.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Number of jobs created by aerospace and aviation companies	343	200	238	G
		Overall Program Rating		G

EDD FY09 Funding by Division

	FY09 Budget (in millions)	FTE
ED	$4.10	28
Film	$1.60	12
Trade	$0.50	4
Tech	$0.30	3
Program Support	$3.70	23
Total	$10.20	70

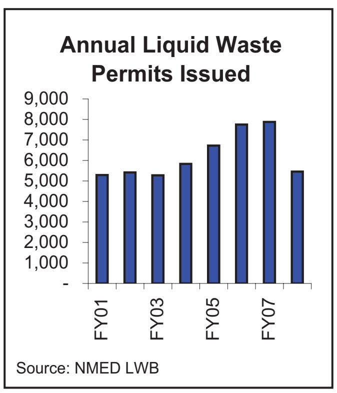
Source: EDD Operating Budget

Department of Environment

Water Quality Bureau: Improved from an overall yellow rating in FY07 to an overall green rating for FY08 as a result of implementing its action plan to fill vacancies to improve inspection rates.

Hazardous Waste Bureau: With funding added from the Sandia National Laboratory starting in FY08, the Hazardous Waste Bureau dramatically improved managing documents relating to consent orders for the national labs.

Liquid Waste Program:



EHP continues to improve results for its septic tank inspection program. However, the 11 percentage point improvement in new septic tank inspections over FY07 is at least partially attributable to the reduction in new septic permits, which dropped in FY08 due to slower construction and real estate markets.

The New Mexico Environment Department (NMED) appeared to be improving results where action plans to fill vacancies had been implemented in the first half of FY08. However, some measures show declines from FY07. In some instances, circumstances out of agency control contributed to underperformance in FY08, such as small communities lacking the resources to comply with landfill monitoring rules and small businesses unable to afford upgrading petroleum storage tanks to meet new federal standards.

Water and Waste Management. The Water Quality Program resumed its green status in FY08 after its overall program rating slipped to yellow for FY07. Notably, the Ground Water Quality Bureau realized gains from filling 13 vacancies and establishing inspection goals, resulting in a significant rebound in the percent of facilities receiving inspections.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of permitted facilities receiving annual compliance evaluations and field inspections	42%	65% of 875	76% of 875	G
Percent of permitted facilities where monitoring results do not exceed standards	76%	75%	75%	G
Percent of cases in which Sandia national laboratories and Los Alamos national laboratory are notified of agency action on document submittals within the timeframes specified in the executed consent orders	72%	90%	92%	G
Percent of inspections that are first-time inspections for hazardous waste notifiers, generators and transporters	75%	20%	71%	G
			Overall Program Rating	G

Environmental Health. The Environmental Health Program (EHP) slipped from a green rating for FY07 to an overall yellow rating for FY08 due to the failure to remediate high-risk food violations within timeframes and the continued underperformance in the Radiation Bureau for most of the year.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of new septic tank inspections completed	79%	85%	90%	G
Percent of public water systems that comply with acute maximum contaminant levels	99.7%	95%	98.5%	G

Percent of high-risk food-related violations corrected within timeframes noted on the inspection report issued to permitted commercial food establishments	New measure	100%	71%	R
Percent of radioactive material licensee and radiation producing machine inspections completed within nuclear regulatory commission (NRC) and food and drug administration (FDA) guidelines	92%	100%	74%	Y
			Overall Program Rating	Y

Environmental Protection. The Solid Waste Bureau suggests the target for meeting monitoring requirements may be unrealistically high given that many of the closed landfills are in communities without the resources to pay for groundwater testing. Additional staff yielded improvement in regulatory compliance of landfills; this measure was red for FY07. External factors, including stricter regulations, affected other measures.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of landfills meeting ground-water monitoring requirements.	59%	93%	61%	R
Percent of inspected solid waste facilities in substantial compliance with the solid waste management regulations	62%	75%	76%	G
Percent of facilities taking corrective action to mitigate air quality violations discovered as a result of inspections	100%	95%	100%	G
Number of days per year in which the air quality index exceeds one hundred, exclusive of natural events such as high winds and wildfires	2	≤8	10	Y
Percent of serious worker health and safety violations corrected within the timeframes designated on citations issued by the consultation and compliance sections	97%	95%	96%	G
Percent of underground storage tank facilities in significant operational compliance with release prevention and release detection regulations of petroleum storage tank regulations	81%	90%	77%	Y
			Overall Program Rating	Y

Radiation Bureau:
New management improved performance dramatically, from 42 percent in the third quarter to 94 percent in the fourth quarter, warranting a yellow rating for the year rather than a red rating due to implementing an action plan.

Solid Waste Bureau:
SWB reports that some landfills are not familiar with new reporting rules.

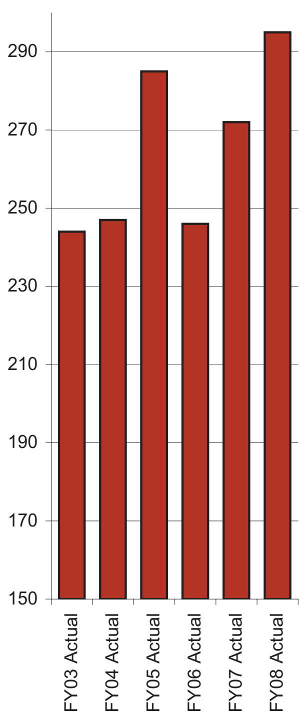
Air Quality Bureau:
The AQB reports that inspections found 41 facilities during FY08 with violations and that all 41 have taken corrective action. Enforcement actions for FY07 were 11.

AQB reports that that more stringent Environmental Protection Agency (EPA) standards for particulate matter are resulting in more monitors exceeding limits, especially for Dona Ana County. The bureau notes that it is working with the EPA to determine the cause of this pollution as well as the source of unexpected high ozone levels in the Navajo Lake area.

Occupational Safety Bureau:
Regarding worker safety, the OSB reports 1,164 violations for FY08.

Petroleum Storage Tank Bureau:
The bureau cites more stringent inspections and the high cost of compliance with stricter federal regulations as the two primary causes of the decline. The action plan emphasizes adding follow-up visits to non-compliant facilities. The bureau notes that all high-priority contaminated sites continued to be addressed through the corrective action fund in FY08.

Office of the State Engineer: Number of Aggrieved and Protested Water Rights Backlogged



Source: LFC Files

For FY08, the Office of the State Engineer (OSE) generally met or exceeded agency performance measurement criteria. In particular, the Interstate Stream Program surpassed the measurements associated with the Pecos River and Rio Grande interstate compacts, and the WATERS project to protect and preserve water right records in an electronic database significantly surpassed its FY08 target.

Water Resource Allocation. This program met the majority of its FY08 program performance targets, and it significantly surpassed the measure to abstract and preserve water right records in an electronic database. With respect to measures regarding the number of protested and aggrieved applications processed per month and number of protested and aggrieved water rights backlogged, these items appear to be legacy measures that remained in the Water Resource Allocation Program (WRAP) after the Litigation and Adjudication Program (LAP) was established as a separate program. For FY10, these measures should be realigned under the LAP program.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Average number of unprotested new and pending applications processed per month	82.3	75	75	G
Average number of protested and aggrieved applications processed per month	7.3	10	10	G
Number of unprotested and unaggrieved water right applications backlogged	683.5	850	521	G
Number of protested and aggrieved water rights backlogged	272.3	250	295	R
Percent of applications abstracted into the water administration technical engineering resource system database	56.6%	58%	65.6%	G
			Overall Program Rating	G

Interstate Stream Compact Compliance and Water Development Program. This program met FY08 program targets with the measurements associated with the Pecos River and Rio Grande interstate compacts significantly exceeding target measurements.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Pecos river compact accumulated delivery credit or deficit, in acre-feet (AF)	67.3K AF Credit	0 (Credit)	92.5K AF Credit	G

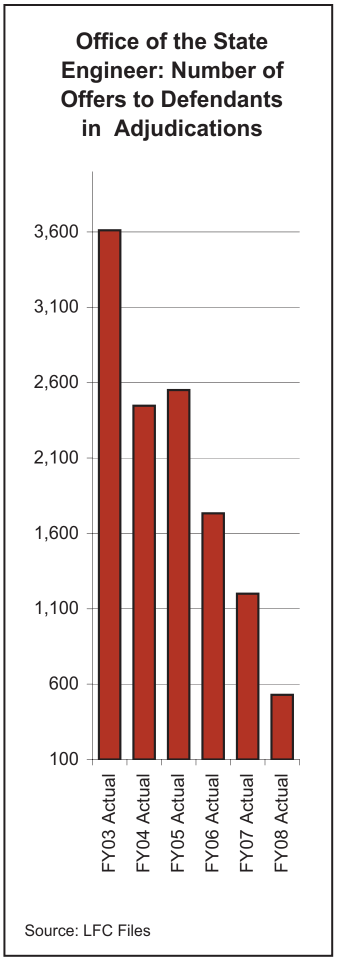
Rio Grande river compact accumulated delivery credit or deficit, in acre-feet (AF)	180K AF Credit	0 (Credit)	59.5K AF Credit	G
			Overall Program Rating	G

Litigation and Adjudication. With respect to the measure tracking the number of offers to defendants in adjudications, the agency suggests that targets were not be achieved because program resources have been focused on implementing procedural court orders that direct the program to join all defendants in the lower Rio Grande adjudication and the Gallinas basin of the Pecos River. Further, the agency suggests that, absent these court orders, program resources would have been focused on sending out offers to defendants and performance would be closer to target.

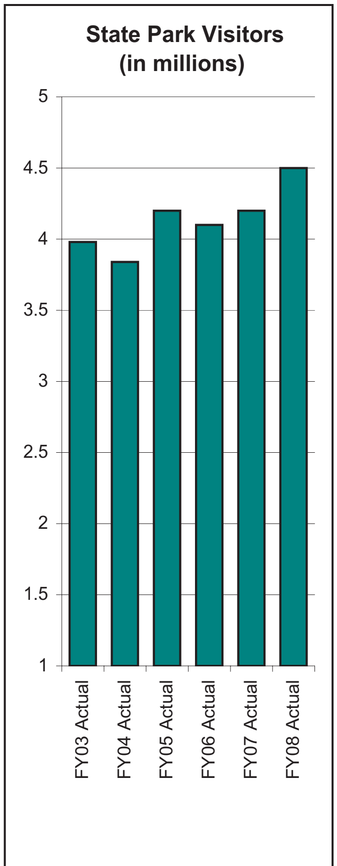
Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Number of offers to defendants in adjudications	1,200	1,000	529	R
Percent of all water rights that have judicial determinations	42%	42%	43%	G
			Overall Program Rating	Y

Program Support. This program exceeded FY08 program targets.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY07 Rating
Percent of department contracts that include performance measures	100%	100%	100%	G
			Overall Program Rating	G



For FY08, the Energy, Minerals and Natural Resources Department (EMNRD) generally met or surpassed all significant performance measurement criteria. In particular, department efforts have been directed to renewable energy and energy efficiency, including the department's active support of the newly created New Mexico Renewable Energy Transmission Authority (RETA), a quasi-independent agency that focuses on developing new transmission projects to promote renewable energy and stimulate clean energy production.



Source: LFC Files

Renewable Energy and Energy Efficiency Program. For FY09, additional measures have been added to evaluate (1) percent of fuels used by state agencies produced from renewable sources, and (2) percent of retail electricity sales from investor-owned utilities in New Mexico from renewable energy sources. Additionally, the annual utility costs for state-owned buildings measure is being moved to the General Services Department.

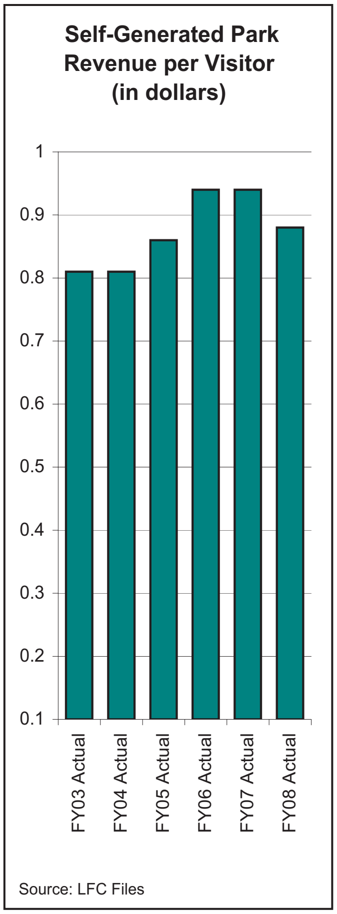
Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Annual utility costs for state-owned buildings (in millions)	$13.1	$13	$15.4	R
Percent decrease in gasoline consumption by state and local government fleets through the application of alternative transportation fuel technologies	15%	15%	15%	G
Percent reduction in energy use in public facilities receiving Energy, Minerals and Natural Resources Department funding for efficiency retrofit projects	10%	10%	10%	G
Percent of inventoried alternative energy projects evaluated annually	N/A	30%	30%	G
			Overall Program Rating	G

Healthy Forests Program. This program exceeded FY08 targets. For FY09, additional measures were added: (1) percent of communities participating in wildfire protection planning, and (2) number of forested acres restored.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Number of nonfederal wildland firefighters provided technical fire training appropriate to their incident command system	1,201	500	760	G
			Overall Program Rating	G

State Parks Program. This program exceeded FY08 targets.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Self-generated revenue per visitor, in dollars	$0.94	$0.83	$0.88	G
Number of visitors to state parks, in millions	4.2	4	4.5	G
Number of interpretive programs available to park visitors	2,415	2,500	2,824	G
			Overall Program Rating	G



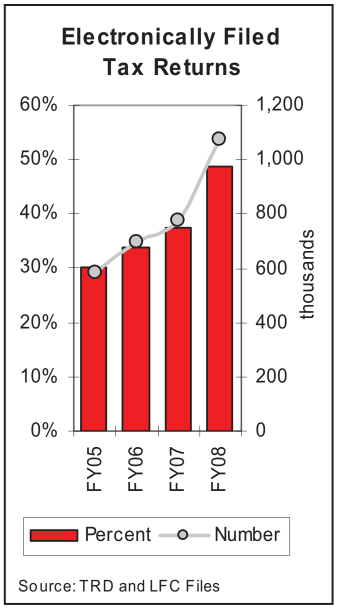
Mine Reclamation Program. The program made progress in requiring mine operators to complete the remaining permitting steps. However, the mines must also comply with requirements from other agencies – Environment Department, Bureau of Land Management, and U.S. Forest Service – before permits can be issued. To resolve this issue, the program is coordinating this process with other agencies and anticipates achieving the target in FY09.

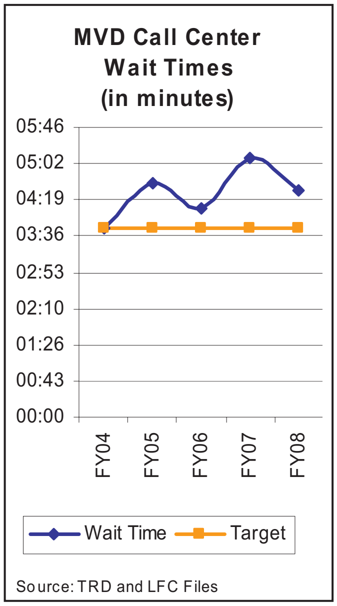
Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of permitted mines with approved reclamation plans and adequate financial assurance posted to cover the cost of reclamation	98%	100%	96%	Y
			Overall Program Rating	Y

Oil and Gas Conservation Program. This program exceeded FY08 program targets.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of inventoried orphaned wells plugged annually	22.5%	25%	37%	G
Number of inspections of oil and gas wells and associated facilities	24,400	21,740	35,169	G
Number of inventoried orphaned wells statewide	121	90	253	G
			Overall Program Rating	G

Taxation & Revenue Department





The Taxation and Revenue Department (TRD) exhibited improved performance in most of its performance targets for FY08 with the exception of motor vehicle wait times, collection of delinquent property taxes, and number of property appraisals. TRD has placed a greater emphasis on results and has incorporated performance accountability throughout the department. A high vacancy factor might have contributed to the Property Tax Division's performance. The department pushed performance higher by increasing several targets in FY08 and achieved them.

Tax Administration. The target for collections as a percent of collectable outstanding balances doubled from 10 percent in FY07 to 20 percent in FY08, which created a much greater challenge for TRD, and the department was able to achieve the target. The department successfully worked to increase the number of electronically-filed taxes, especially electronically-filed personal income taxes.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Collections as a percent of collectable outstanding balances from June 30, 2007	18.2%	20%	20.8%	G
Collections as a percent of collectable audit assessments generated in the current fiscal year	40%	40%	50%	G
Percent of electronically filed personal income tax and combined reporting system returns	37.4%	45%	48.7%	G
			Overall Program Rating	G

Motor Vehicle. TRD has improved the percentage of registered vehicles with liability insurance each year for three years; however, a national benchmark would be useful to compare results. A significant challenge for the department has been the reduction of wait times for the call center and field offices of the Motor Vehicle Program. TRD notes that longer-than-expected call center wait times decreased significantly over the four quarters because a corrective action plan was implemented, including adding additional staff.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of registered vehicles with liability insurance	89%	90%	90%	G
Average call center wait time to reach an agent, in minutes	5:10	3:45	4:31	R
Average wait time in q-matic equipped offices, in minutes	14	14	14	G
			Overall Program Rating	G

Property Tax. The program missed targets for both measures. TRD reports that its focus on resolving the higher-dollar accounts has resulted in a lower percentage of accounts resolved. By focusing on high-dollar accounts, TRD has increased the amount of delinquent property taxes collected from $7.5 million in FY07 to a projected $10 million in FY08.

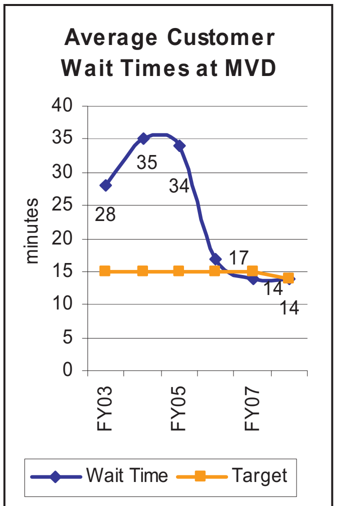
Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Percent of delinquent accounts that are resolved	66%	88%	37.5%	R
Number of appraisals and valuations for companies conducting business within the state subject to state assessment	511	510	484	R
			Overall Program Rating	R

Compliance Enforcement. The Tax Fraud Investigation Division of the Compliance Enforcement Program enforces the Tax Administration Act and seeks to reduce taxpayer fraud though investigation and prosecution. TRD successfully prosecuted all cases.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Successful tax fraud prosecutions as a percent of total cases prosecuted	100%	90%	100%	G
			Overall Program Rating	G

Program Support. TRD increased the number of driving-while-intoxicated (DWI) hearing officers to ensure that hearings are scheduled within 90 days and reduced the target of late hearings from 2 percent in FY07 to 1 percent in FY08. In FY07, 0.7 percent, or 13, DWI-revoked licenses were rescinded because a hearing was not held within 90 days.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Number of tax protest cases resolved	802	735	798	G
Percent of driving-while-intoxicated drivers license revocations rescinded due to failure to hold hearings in ninety days	0.7%	1%	1%	G
			Overall Program Rating	G

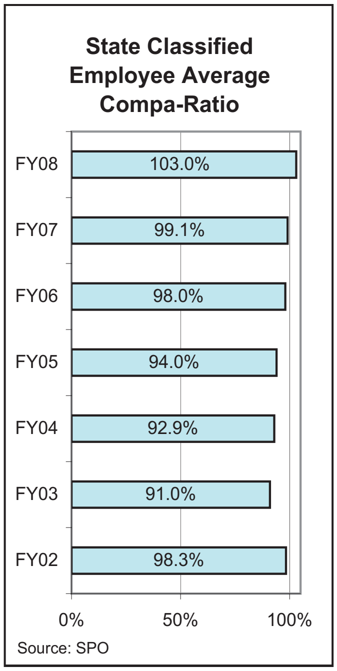


Source: TRD and LFC Files

TRD FY09 Funding by Division

	FY09 Budget (in millions)	FTE
Tax Ad.	$31.90	558.7
MVD	$26.00	383
Prop Tax	$3.20	49
Comp Enf	$2.80	38
Prog Sup	$22.80	213
Total	$86.70	1,241.7

Source: FY09 Operating Budget



Through FY08, the State Personnel Board (SPB) continued to focus considerable, and needed, attention on fully implementing the human resource segments of the SHARE computer system. Attention should be paid to the establishment of baseline measures that would ensure equity within the compensation system.

The recruitment module within SHARE remains problematic because applicants can only apply for vacancies online. The system remains difficult to navigate, especially for applicants using a dial-up connection. This has resulted in a significant reduction in the number of applications being received for state positions. In FY08, 35.2 percent fewer applications were received than in FY07. Selections for positions in state government in FY08, however, were 13.3 percent lower than FY07 while job advertisements increased by 3 percent over FY07 activity.

Average pay as a percent of the comparator market significantly improved to 103 percent in FY08 as a result of pay increases provided by the Legislature in 2007.

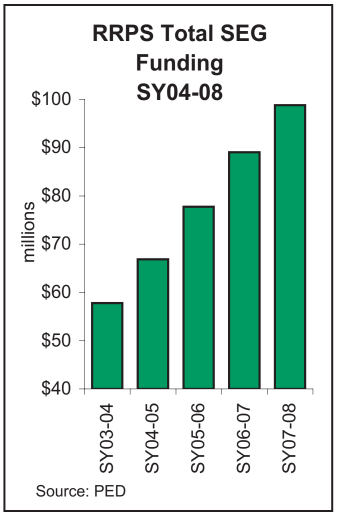
Human Resource Management.

Measure	FY07 Actual	FY08 Target	FY08 Actual	FY08 Rating
Average employee pay as a percent of board approved comparator market based on legislative authorization	99.1%	95%	103%	G
Percent of agency-specific human resource audit exceptions corrected within six months of discovery	93%	75%	100%	G
Average days to fill a vacant position	75	90	46	G
Percent of large agencies that incorporate the SPO core management training objectives into their agency-specific management training	80%	90%	100%	G
Percent of managers and supervisors in medium to small agencies who successfully complete SPO-sponsored management and supervision training	38%	80%	83%	G
Percent of key agencies receiving at least two audit reviews during the fiscal year	100%	95%	37.5%	R
Number of applications received (cumulative)	48,107	Baseline	31,189	N/A
Number of in-pay band adjustments (cumulative)	536	Baseline	560	N/A
State-wide vacancy rate	13.8%	Baseline	13.16%	N/A

Overall Program Rating Y

Program evaluations 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 2008, the Program Evaluation unit completed 12 projects. Program evaluation activity included full program evaluations, quick response evaluations, and follow-up evaluations. All of the evaluations can be accessed through the committee website. Significant recommendations are summarized below.



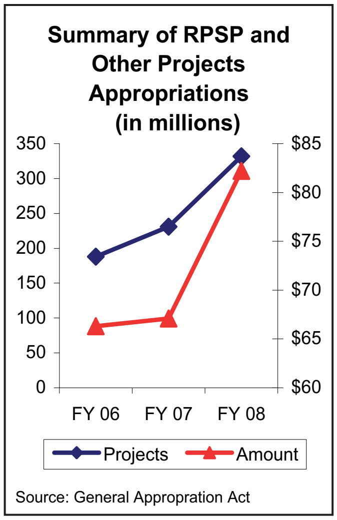
Domestic Violence. The purpose of the review was to assess the efficiency and effectiveness of the state's domestic violence programs. Children, Youth and Families Department (CYFD) should consider including funds from the offender treatment fund that support domestic violence programs as part of budget request process for appropriation by the Legislature. CYFD should identify organizations or individuals throughout the state that want to develop offender treatment programs, provide the guidance and support to establish such programs, and focus services on regions with largest need based on statewide statistics. In addition, CYFD should define performance measures in nontechnical terms understandable to the general public, and establish realistic targets for all measures.

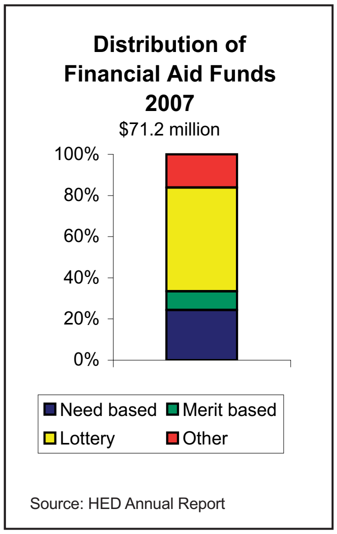
The Public School Funding Formula provides additional funding for growth.

Economically disadvantaged students in RRPS score high compared with state averages but struggle when compared to peers in their own district.

Rio Rancho Public Schools District Case Study. The purpose of the review was to examine a school district's operations, performance, and successful strategies used to close the achievement gap for low-income or minority students, which may serve as a model for other districts. Overall, the Rio Rancho Public School (RRPS) district is well-run but not immune from challenges. RRPS is not disadvantaged by the funding formula because of its student population growth and needs to improve budget oversight and planning for opening new schools. Failure to budget expected costs allowed RRPS to claim and receive emergency supplemental funding totaling $1.9 million from Public Education Department (PED), some of which was used to boost cash balances and for items not requested on the district's application. RRPS student achievement exceeds average state scores and most peer schools in Albuquerque, but more progress is needed to improve achievement levels for low-income students. The report recommended RRPS set targets for anticipated administrative and start-up costs for newly planned schools in alignment with district capital outlay plan and projected revenues, implement a regular budget review process to ensure base and expansion expenditures are aligned with district goals and plans for improving achievement levels of low-income and other special needs students, and work to better align the distribution of teachers with more experience and demonstrated skills to work at schools with higher levels of low-income students. The report also recommended that the Legislature consider whether to place restrictions on the year in which a district may spend emergency supplemental distributions.

Enhanced Delinquent Tax Collection Initiatives. The purpose of the review was to assess the accuracy and timeliness of taxes and fee revenue processing, accounting, reporting, and distribution and evaluate the enhanced





tax collection initiative. The Taxation and Revenue Department (TRD) should provide status reports on the deployment of the point-of-sale system and review the effectiveness of the point-of-sale system six months after implementation. TRD should analyze cost and benefits of interfacing "WAUSAU" and GenTax sytems and develop a policies and procedures manual for delinquent tax collections. TRD should work with LFC and DFA to reduce the vacancy rate based on return on investment analysis.

Research and Public Service Projects. The purpose of the review was to determine the number and purpose of research and public service projects (RPSPs) at institutions of higher learning and the tangible benefits of funding these projects. Presidents and boards of regents should establish and strengthen a review process for RPSPs and strengthen internal controls. The Higher Education Department (HED) should verify the need to continue each program, evaluate how the program relates to statewide priorities, develop performance criteria and outcomes, report on financial accountability, and establish an equitable competitive process for RPSP funds.

Financial Aid Program. The purpose of the review was to determine the outcomes of financial aid program and the processes used by HED to administer the programs based on best practices. HED should assess ways to expand need-based aid, including the impact of allowing moderate tuition increases, reallocating RPSPs funding, and using state funds for additional need-based aid, and consider requiring a greater share of the gratis (three percent) scholarships to be need-based. The Legislature should transition a substantial portion of the appropriations for workforce-based loan programs from loan-for-service programs into loan repayment programs and create a teacher loan repayment program to address state goals for having the most qualified teachers where they are most needed.

State Purchasing Process. The purpose of the review was to determine if the state's purchasing process is cost-effective and ensures consistency among vendors by procuring goods and services at competitive prices consistent with established policies and procedures and timeliness standards. The Legislature should consider improving efficiency by transferring the State Purchasing Division (SPD) to the Department of Finance and Administration (DFA). The state purchasing agent should develop and document formal procurement process policies and procedures to monitor and manage procurement violations. SPD should coordinate with DFA for Statewide Human Resource, Accounting and Management Reporting System (SHARE) training, perform staffing analysis, and focus on filling vacant positions. SPD must commit the necessary resources to provide leadership on the e-procurement team and establish a standardized format for requests for proposals and invitations to bid.

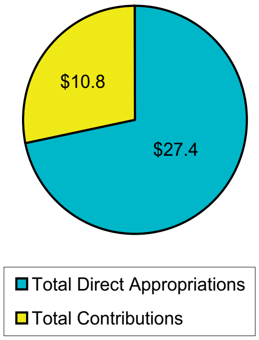
Long-Term Services and Community-Based Waiver Programs. The purpose of the review was to examine the Department of Health's (DOH) oversight and regulation of long-term facilities and community-based waiver programs. DOH should implement routine performance monitoring for timeliness and accuracy of complaints, document quality of complaints, and clarify Center for Medicare and Medicaid Services directive on control of the complaint management process. DOH should evaluate and consider increases in licensing fees for facilities and agencies to offset facility survey costs and work toward enacting legislation to create a nonreverting fund from the sanction dollars and ensure performance measures in the General Appropriation Act include outcomes and quality measures. Finally, DOH should ensure compliance with federal regulations and develop a user-friendly website to aid consumers in selection of providers.

The state spent an estimated $5.2 billion for goods and services in FY07. SPD was responsible for about $550 million.

Innovative Digital Education and Learning/Cyber Academy. The purpose of the review was to determine if the statutory program for a cyber academy has been established and is operating and delivering courses to students in institutions of higher learning and public schools. PED and HED should immediately schedule public hearings on the rules, get written commitments from higher education institutions, and leverage existing distance learning technology allocations. The agencies should also develop a sustainable funding stream that does not duplicate existing funding or negatively impact districts or institutions. Finally, the departments should ensure shared telecommunication lines are sufficient to deliver courses efficiently and effectively and consider placing a moratorium on new digital schools.

Statewide Human Resource, Accounting and Management Reporting System (SHARE). The follow-up to the November 2007 report findings and review of the status of state agency audits and testing of cash reconciliation found that governance had not been established for SHARE. Forty-one state agencies had not completed their FY07 audits; state employees were being trained but not sufficiently. The June 30, 2007, book-to-bank reconciliation was incomplete, progress on the FY08 audit was slow, and distribution of interest to self-earning accounts was prepared manually. Also, the Department of Transportation's (DOT) federal reimbursements were reinstated then halted by the Federal Highway Administration and later DOT's request for a separate system was denied. Finally, LFC has not been granted full access to SHARE management reports.

Total SHARE Appropriations and Contributions (in millions)



Source: DFA

Automated Fingerprint Imaging System. The purpose of the status review was to determine the status of statewide system implementation, including user and technical training and support, and overall use of the appropriated funds. The review found the Department of Public Safety (DPS) entered into the maintenance phase of the project prior to having a system that was fully functional. In the future, DPS should ensure that systems are not accepted before fully functional and that contracts protect the state's interest.

PED needs to reduce its reliance on contractors.

Student and Teacher Accountability Reporting System. The purpose of the review was to assess the current status of the PED Student, Teacher Accountability Reporting System (STARS) project from August 2006 through February 2008; test validity of data; review workflow processes; and evaluate project plans for training, transition from outsourced hosting, and transition to operations. PED should have stronger project and contract management, use internal staff for operational and production activities and the STARS data conference, evaluate the STARS program logic, consider developing a checklist for STARS coordinators, update the hosting transition plan to include alternatives to eScholar hosting, develop a training plan to

The rates appear comparable with those of other states with similar enterprise structures.

address the next phases of STARS, hire a term FTE to coordinate and provide on-site and centralized training to districts, and consider adding users to the STARS change control board to ensure its concerns are addressed.

Information Systems and Telecommunication Rates. The purpose of the review was to determine how the Department of Information Technology (DoIT) develops rates for information technology and telecommunications, including the availability of a service catalog and service level agreements. Based on the review of email and radio rates, DoIT is calculating rates based on costs incurred, depreciation, the statewide cost allocation plan, and indirect costs. DoIT should complete the service catalog detailing services provided, develop a master service level agreement, and seek approval of rates for one-time services.

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY09 OPERATING BUDGET	FY10 AGENCY REQUEST	FY10 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
Legislative						
11100	LEGISLATIVE COUNCIL SERVICE	6,044.2	6,044.2	5,923.3	-120.9	-2.0%
11200	LEGISLATIVE FINANCE COMMITTEE	4,429.7	4,341.1	4,341.1	-88.6	-2.0%
11400	SENATE CHIEF CLERK	1,223.4	1,223.4	1,198.9	-24.5	-2.0%
11500	HOUSE CHIEF CLERK	1,168.4	1,168.4	1,145.0	-23.4	-2.0%
11700	LEGISLATIVE EDUCATION STUDY COMMITTEE	1,287.0	1,381.0	1,261.3	-25.7	-2.0%
11900	LEGISLATIVE BUILDING SERVICES	4,298.9	4,592.3	4,212.9	-86.0	-2.0%
13100	LEGISLATURE	1,686.9	1,686.9	1,655.9	-31.0	-1.8%
Total	**Legislative**	20,138.5	20,437.3	19,738.4	-400.1	-2.0%
Judicial						
20500	SUPREME COURT LAW LIBRARY	1,828.9	1,889.4	1,728.6	-100.3	-5.5%
20800	NEW MEXICO COMPILATION COMMISSION	171.9	171.9	171.9	0.0	0.0%
21000	JUDICIAL STANDARDS COMMISSION	851.6	892.4	807.2	-44.4	-5.2%
21500	COURT OF APPEALS	5,804.5	6,235.7	5,952.7	148.2	2.6%
21600	SUPREME COURT	3,143.8	3,443.7	3,167.4	23.6	0.8%
21800	ADMINISTRATIVE OFFICE OF THE COURTS	43,906.1	50,454.4	43,246.8	-659.3	-1.5%
21900	SUPREME COURT BUILDING COMMISSION	792.3	954.5	796.2	3.9	0.5%
23100	FIRST JUDICIAL DISTRICT COURT	6,826.7	7,314.3	6,762.1	-64.6	-0.9%
23200	SECOND JUDICIAL DISTRICT COURT	22,611.4	24,052.3	22,400.0	-211.4	-0.9%
23300	THIRD JUDICIAL DISTRICT COURT	6,721.5	7,319.6	6,665.9	-55.6	-0.8%
23400	FOURTH JUDICIAL DISTRICT COURT	2,266.9	2,635.2	2,222.4	-44.5	-2.0%
23500	FIFTH JUDICIAL DISTRICT COURT	6,556.2	7,126.1	6,496.4	-59.8	-0.9%
23600	SIXTH JUDICIAL DISTRICT COURT	3,160.2	3,756.8	3,129.3	-30.9	-1.0%
23700	SEVENTH JUDICIAL DISTRICT COURT	2,420.3	2,570.5	2,380.0	-40.3	-1.7%
23800	EIGHTH JUDICIAL DISTRICT COURT	2,669.1	3,043.9	2,659.5	-9.6	-0.4%
23900	NINTH JUDICIAL DISTRICT COURT	3,435.4	3,997.0	3,435.7	0.3	0.0%
24000	TENTH JUDICIAL DISTRICT COURT	779.3	929.0	778.8	-0.5	-0.1%
24100	ELEVENTH JUDICIAL DISTRICT COURT	6,145.6	7,119.6	6,103.8	-41.8	-0.7%
24200	TWELFTH JUDICIAL DISTRICT COURT	3,279.1	3,640.4	3,266.6	-12.5	-0.4%
24300	THIRTEENTH JUDICIAL DISTRICT COURT	6,988.8	7,962.3	6,859.4	-129.4	-1.9%
24400	BERNALILLO COUNTY METROPOLITAN COURT	24,271.8	25,062.1	23,849.3	-422.5	-1.7%
25100	FIRST JUDICIAL DISTRICT ATTORNEY	5,142.6	5,217.9	5,098.6	-44.0	-0.9%
25200	SECOND JUDICIAL DISTRICT ATTORNEY	17,859.8	19,972.8	17,698.7	-161.1	-0.9%
25300	THIRD JUDICIAL DISTRICT ATTORNEY	4,728.8	5,252.2	4,757.2	28.4	0.6%
25400	FOURTH JUDICIAL DISTRICT ATTORNEY	3,426.4	3,560.6	3,298.6	-127.8	-3.7%
25500	FIFTH JUDICIAL DISTRICT ATTORNEY	4,656.0	5,208.1	4,538.7	-117.3	-2.5%
25600	SIXTH JUDICIAL DISTRICT ATTORNEY	2,687.8	2,807.5	2,675.9	-11.9	-0.4%
25700	SEVENTH JUDICIAL DISTRICT ATTORNEY	2,531.5	2,541.3	2,529.8	-1.7	-0.1%
25800	EIGHTH JUDICIAL DISTRICT ATTORNEY	2,776.5	2,959.9	2,753.8	-22.7	-0.8%
25900	NINTH JUDICIAL DISTRICT ATTORNEY	2,836.9	2,984.9	2,848.2	11.3	0.4%
26000	TENTH JUDICIAL DISTRICT ATTORNEY	1,045.2	1,130.7	1,045.5	0.3	0.0%
26100	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIV I	3,647.7	3,817.6	3,476.1	-171.6	-4.7%
26200	TWELFTH JUDICIAL DISTRICT ATTORNEY	2,640.7	3,337.1	2,720.1	79.4	3.0%
26300	THIRTEENTH JUDICIAL DISTRICT ATTORNEY	4,978.6	6,017.9	4,878.7	-99.9	-2.0%
26400	ADMINISTRATIVE OFFICE OF THE DISTRICT ATTORNEYS	2,168.1	4,230.2	1,829.4	-338.7	-15.6%
26500	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIVISION II	2,169.9	2,278.4	2,164.4	-5.5	-0.3%
Total	**Judicial**	217,927.9	241,888.2	215,193.7	-2,734.2	-1.3%

TABLE 1

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

BUDGET CODE	DESCRIPTION	FY09 OPERATING BUDGET	FY10 AGENCY REQUEST	FY10 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
General Control						
30500	ATTORNEY GENERAL	16,586.0	17,612.5	16,126.3	-459.7	-2.8%
30800	STATE AUDITOR	2,918.3	3,994.9	2,528.3	-390.0	-13.4%
33300	TAXATION AND REVENUE DEPARTMENT	70,438.4	80,451.8	72,668.3	2,229.9	3.2%
33700	STATE INVESTMENT COUNCIL	0.0	0.0	0.0	0.0	0.0%
34100	DEPARTMENT OF FINANCE AND ADMINISTRATION	16,955.1	19,701.2	16,582.1	-373.0	-2.2%
34200	PUBLIC SCHOOL INSURANCE AUTHORITY	0.0	0.0	0.0	0.0	0.0%
34300	RETIREE HEALTH CARE AUTHORITY	10.0	20.0	10.0	0.0	0.0%
34400	DFA SPECIAL APPROPRIATIONS	13,580.1	12,823.9	12,277.3	-1,302.8	-9.6%
35000	GENERAL SERVICES DEPARTMENT	16,876.0	21,115.6	16,533.6	-342.4	-2.0%
35200	EDUCATIONAL RETIREMENT BOARD	0.0	0.0	0.0	0.0	0.0%
35400	NEW MEXICO SENTENCING COMMISSION	819.9	999.3	707.9	-112.0	-13.7%
35500	PUBLIC DEFENDER DEPARTMENT	43,219.5	46,512.1	43,411.6	192.1	0.4%
35600	GOVERNOR	4,747.0	5,061.9	4,607.0	-140.0	-2.9%
36000	LIEUTENANT GOVERNOR	857.6	973.0	861.9	4.3	0.5%
36100	DEPARTMENT OF INFORMATION TECHNOLOGY	1,379.1	2,679.5	1,344.6	-34.5	-2.5%
36600	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION	0.0	0.0	0.0	0.0	0.0%
36900	STATE COMMISSION OF PUBLIC RECORDS	3,013.1	3,587.3	3,035.7	22.6	0.8%
37000	SECRETARY OF STATE	4,272.2	8,338.3	4,738.4	466.2	10.9%
37800	PERSONNEL BOARD	4,694.8	5,081.2	4,599.7	-95.1	-2.0%
37900	PUBLIC EMPLOYEE LABOR RELATIONS BOARD	347.8	348.2	336.6	-11.2	-3.2%
39400	STATE TREASURER	4,580.1	4,692.5	4,373.2	-206.9	-4.5%
Total	**General Control**	205,295.0	233,993.2	204,742.5	-552.5	-0.3%
Commerce and Industry						
40400	BOARD OF EXAMINERS FOR ARCHITECTS	0.0	0.0	0.0	0.0	0.0%
41700	BORDER AUTHORITY	575.1	575.1	525.3	-49.8	-8.7%
41800	TOURISM DEPARTMENT	11,790.0	17,425.6	11,195.2	-594.8	-5.0%
41900	ECONOMIC DEVELOPMENT DEPARTMENT	10,128.5	10,688.7	9,874.0	-254.5	-2.5%
42000	REGULATION AND LICENSING DEPARTMENT	17,163.1	20,496.5	16,795.1	-368.0	-2.1%
43000	PUBLIC REGULATION COMMISSION	11,628.0	12,770.6	11,343.3	-284.7	-2.4%
44600	MEDICAL BOARD	0.0	0.0	0.0	0.0	0.0%
44900	BOARD OF NURSING	0.0	0.0	0.0	0.0	0.0%
46000	NEW MEXICO STATE FAIR	488.8	1,000.0	440.0	-48.8	-10.0%
46400	STATE BRD OF LICENSURE FOR ENGINEERS & LAND SUR	0.0	0.0	0.0	0.0	0.0%
46500	GAMING CONTROL BOARD	6,470.5	7,202.8	6,533.1	62.6	1.0%
46900	STATE RACING COMMISSION	2,419.5	2,846.8	2,386.3	-33.2	-1.4%
47900	BOARD OF VETERINARY MEDICINE	0.0	0.0	0.0	0.0	0.0%
49000	CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION	100.0	265.0	100.0	0.0	0.0%
49100	OFFICE OF MILITARY BASE PLANNING AND SUPPORT	156.9	156.9	154.3	-2.6	-1.7%
49500	SPACEPORT AUTHORITY	814.6	5,440.8	851.6	37.0	4.5%
Total	**Commerce and Industry**	61,735.0	78,868.8	60,198.2	-1,536.8	-2.5%
Agriculture, Energy and Natural Resources						
50500	CULTURAL AFFAIRS DEPARTMENT	35,153.7	44,045.2	34,098.3	-1,055.4	-3.0%
50800	NEW MEXICO LIVESTOCK BOARD	1,338.1	2,457.3	1,012.2	-325.9	-24.4%
51600	DEPARTMENT OF GAME AND FISH	336.8	1,527.1	0.0	-336.8	-100.0%
52100	ENERGY, MINERALS AND NATURAL RESOURCES DEPART	27,388.3	29,771.0	25,611.0	-1,777.3	-6.5%
52200	YOUTH CONSERVATION CORPS	0.0	0.0	0.0	0.0	0.0%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY09 OPERATING BUDGET	FY10 AGENCY REQUEST	FY10 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
53800	INTERTRIBAL CEREMONIAL OFFICE	162.0	231.4	162.0	0.0	0.0%
53900	COMMISSIONER OF PUBLIC LANDS	0.0	0.0	0.0	0.0	0.0%
55000	STATE ENGINEER	25,842.4	31,676.4	23,046.3	-2,796.1	-10.8%
56900	ORGANIC COMMODITY COMMISSION	307.9	519.8	318.5	10.6	3.4%
Total	**Agriculture, Energy and Natural Resources**	90,529.2	110,228.2	84,248.3	-6,280.9	-6.9%
Health, Hospitals and Human Services						
60100	COMMISSION ON STATUS OF WOMEN	811.1	891.1	810.3	-0.8	-0.1%
60300	OFFICE OF AFRICAN AMERICAN AFFAIRS	866.0	961.1	878.0	12.0	1.4%
60400	COMMISSION FOR DEAF AND HARD-OF-HEARING PERSO	0.0	0.0	0.0	0.0	0.0%
60500	MARTIN LUTHER KING, JR. COMMISSION	407.5	456.8	406.1	-1.4	-0.3%
60600	COMMISSION FOR THE BLIND	2,141.0	2,533.0	2,017.7	-123.3	-5.8%
60900	INDIAN AFFAIRS DEPARTMENT	3,631.5	4,259.7	3,669.5	38.0	1.0%
62400	AGING AND LONG-TERM SERVICES DEPARTMENT	51,032.9	58,942.8	49,488.6	-1,544.3	-3.0%
63000	HUMAN SERVICES DEPARTMENT	916,731.5	1,019,431.0	869,380.0	-47,351.5	-5.2%
63100	WORKFORCE SOLUTIONS DEPARTMENT	8,742.2	12,069.3	7,663.5	-1,078.7	-12.3%
63200	WORKERS' COMPENSATION ADMINISTRATION	0.0	0.0	0.0	0.0	0.0%
64400	DIVISION OF VOCATIONAL REHABILITATION	6,363.4	6,716.2	6,363.4	0.0	0.0%
64500	GOVERNOR'S COMMISSION ON DISABILITY	965.0	1,041.8	898.3	-66.7	-6.9%
64700	DEVELOPMENTAL DISABILITIES PLANNING COUNCIL	4,255.0	5,940.3	4,451.1	196.1	4.6%
66200	MINERS' HOSPITAL OF NEW MEXICO	0.0	0.0	0.0	0.0	0.0%
66500	DEPARTMENT OF HEALTH	301,712.3	321,703.7	297,898.8	-3,813.5	-1.3%
66700	DEPARTMENT OF ENVIRONMENT	17,006.3	18,191.9	16,496.6	-509.7	-3.0%
66800	OFFICE OF THE NATURAL RESOURCES TRUSTEE	428.6	449.7	431.8	3.2	0.7%
66900	NEW MEXICO HEALTH POLICY COMMISSION	1,291.3	1,684.2	1,221.1	-70.2	-5.4%
67000	VETERANS' SERVICES DEPARTMENT	3,390.5	3,996.9	3,291.0	-99.5	-2.9%
69000	CHILDREN, YOUTH AND FAMILIES DEPARTMENT	206,920.1	234,981.8	204,910.1	-2,010.0	-1.0%
Total	**Health, Hospitals and Human Services**	1,526,696.2	1,694,251.3	1,470,275.9	-56,420.3	-3.7%
Public Safety						
70500	DEPARTMENT OF MILITARY AFFAIRS	7,664.3	7,907.5	7,538.8	-125.5	-1.6%
76000	PAROLE BOARD	556.5	586.9	518.0	-38.5	-6.9%
76500	JUVENILE PAROLE BOARD	446.0	456.8	228.4	-217.6	-48.8%
77000	CORRECTIONS DEPARTMENT	297,101.7	316,045.2	286,012.1	-11,089.6	-3.7%
78000	CRIME VICTIMS REPARATION COMMISSION	2,320.5	2,580.6	2,349.8	29.3	1.3%
79000	DEPARTMENT OF PUBLIC SAFETY	99,745.3	106,021.5	94,801.1	-4,944.2	-5.0%
79500	HOMELAND SECURITY AND EMERGENCY MANAGEMENT	3,750.3	4,855.5	3,409.1	-341.2	-9.1%
Total	**Public Safety**	411,584.6	438,454.0	394,857.3	-16,727.3	-4.1%
Transportation						
80500	DEPARTMENT OF TRANSPORTATION	0.0	1,500.0	0.0	0.0	0.0%
Total	**Transportation**	0.0	1,500.0	0.0	0.0	0.0%
Other Education						
92400	PUBLIC EDUCATION DEPARTMENT	17,444.3	20,558.9	16,570.5	-873.8	-5.0%
92500	PUBLIC EDUCATION DEPT.-SPECIAL APPROPRIATIONS	38,208.4	47,943.8	36,150.0	-2,058.4	-5.4%
93000	REGIONAL EDUCATION COOPERATIVES	1,400.0	2,250.0	1,200.0	-200.0	-14.3%
94000	PUBLIC SCHOOL FACILITIES AUTHORITY	0.0	0.0	0.0	0.0	0.0%

TABLE 1

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

BUDGET CODE	DESCRIPTION	FY09 OPERATING BUDGET	FY10 AGENCY REQUEST	FY10 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
Total	**Other Education**	57,052.7	70,752.7	53,920.5	-3,132.2	-5.5%
Higher Education						
95000	HIGHER EDUCATION DEPARTMENT	47,991.0	57,732.8	46,800.1	-1,190.9	-2.5%
95200	UNIVERSITY OF NEW MEXICO	334,116.4	0.0	322,315.4	-11,801.0	-3.5%
95400	NEW MEXICO STATE UNIVERSITY	214,174.8	0.0	212,354.4	-1,820.4	-0.8%
95600	NEW MEXICO HIGHLANDS UNIVERSITY	34,018.0	0.0	32,740.9	-1,277.1	-3.8%
95800	WESTERN NEW MEXICO UNIVERSITY	20,916.9	0.0	20,011.4	-905.5	-4.3%
96000	EASTERN NEW MEXICO UNIVERSITY	50,428.3	0.0	48,503.9	-1,924.4	-3.8%
96200	NM INSTITUTE OF MINING AND TECHNOLOGY	40,981.9	0.0	41,392.7	410.8	1.0%
96400	NORTHERN NEW MEXICO COLLEGE	11,619.4	0.0	11,650.2	30.8	0.3%
96600	SANTA FE COMMUNITY COLLEGE	15,332.8	0.0	13,860.2	-1,472.6	-9.6%
96800	CENTRAL NEW MEXICO COMMUNITY COLLEGE	55,053.9	0.0	49,488.7	-5,565.2	-10.1%
97000	LUNA COMMUNITY COLLEGE	8,763.6	0.0	8,589.9	-173.7	-2.0%
97200	MESALANDS COMMUNITY COLLEGE	3,183.1	0.0	3,683.1	500.0	15.7%
97400	NEW MEXICO JUNIOR COLLEGE	8,369.1	0.0	7,924.6	-444.5	-5.3%
97600	SAN JUAN COLLEGE	22,797.5	0.0	22,651.4	-146.1	-0.6%
97700	CLOVIS COMMUNITY COLLEGE	10,402.8	0.0	9,844.0	-558.8	-5.4%
97800	NEW MEXICO MILITARY INSTITUTE	2,209.9	0.0	2,100.1	-109.8	-5.0%
97900	NEW MEXICO SCHOOL FOR THE BLIND AND VISUALLY I	354.7	0.0	754.7	400.0	112.8%
98000	NEW MEXICO SCHOOL FOR THE DEAF	4,131.4	0.0	4,013.4	-118.0	-2.9%
98200	HIGHER EDUCATION ERB	0.0	0.0	6,024.0	6,024.0	0.0%
Total	**Higher Education**	884,845.5	57,732.8	864,703.1	-20,142.4	-2.3%
Public School Support						
99300	PUBLIC SCHOOL SUPPORT	2,551,011.5	2,597,266.7	2,513,107.8	-37,903.7	-1.5%
Total	**Public School Support**	2,551,011.5	2,597,266.7	2,513,107.8	-37,903.7	-1.5%
Grand Total		6,026,816.1	5,545,373.2	5,880,985.7	-145,830.4	-2.4%

TABLE 2

U.S. AND NEW MEXICO ECONOMIC INDICATORS

December 2008 Consensus Forecast

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
NATIONAL ECONOMIC INDICATORS						
US Real GDP Growth (%, SAAR)	2.4	-0.4	0.1	2.6	3.4	3.3
US Inflation Rate (CPI, %, SAAR)*	2.3	1.6	0.2	3.1	2.6	2.3
Overnight Yield (%)**	3.7	1.0	0.6	2.3	4.7	4.8
NEW MEXICO LABOR MARKET AND INCOME DATA						
NM Non-Agricultural Employment Growth (%)	1.0	-0.1	0.6	1.3	1.6	1.9
NM Personal Income Growth (%)***	6.0	5.4	1.9	3.2	4.7	5.2
NM Private Wages & Salaries Growth (%)	6.0	2.5	2.0	3.1	3.9	4.7
CRUDE OIL AND NATURAL GAS OUTLOOK						
Oil Price ($/barrel) - NM Producers	$92.61	$69.00	$59.00	$68.00	$77.00	$82.00
Taxable Oil Sales (million barrels)	60	60	59	59	58	58
Gas Price ($ per thousand cubic feet) - NM Producers	$8.28	$6.05	$6.35	$7.10	$7.20	$7.20
Taxable Gas Sales (billion cubic feet)	1433	1415	1380	1345	1312	1280

*CPI is all Urban.
**Overnight Yield = Federal Funds Rate
***Personal Income growth rates are for the calendar year in which each fiscal year begins.
Sources: Global Insight, FOR-UNM and PIRA

TABLE 3

General Fund Consensus Revenue Estimate
December 2008

	FY08		FY09			FY10			FY11		
	Preliminary	% Change from FY07	Dec. 07 Adj.	Dec. 08	% Change from FY08	Dec. 07 Adj.	Dec. 08	% Change from FY09	Dec. 07 Adj.	Dec. 08	% Change from FY10
Gross Receipts Tax	1,845.6	0.7%	1,973.0	1,900.0	2.9%	2,034.2	1,914.0	0.7%	2,101.3	1,973.0	3.1%
Compensating Tax	63.8	6.7%	66.3	70.0	9.8%	74.1	66.8	-4.6%	72.1	64.4	-3.5%
TOTAL GENERAL SALES	1,909.4	0.9%	2,039.3	1,970.0	3.2%	2,108.3	1,980.8	0.5%	2,173.4	2,037.4	2.9%
Tobacco Taxes	48.1	5.3%	46.2	47.8	-0.6%	46.2	47.9	0.2%	46.2	48.1	0.4%
Liquor Excise	25.1	-7.1%	26.1	25.7	2.5%	26.3	26.3	2.4%	26.7	26.8	1.6%
Insurance Taxes	107.7	0.1%	108.5	121.5	12.8%	116.6	135.0	11.1%	123.1	142.2	5.3%
Fire Protection Fund Reversion	21.1	-7.8%	18.4	19.2	-9.3%	17.5	18.0	-6.0%	16.4	16.4	-9.2%
Motor Vehicle Excise	127.6	-3.0%	141.8	115.0	-9.9%	147.9	120.0	4.3%	154.0	123.6	3.0%
Gaming Excise	56.2	-13.9%	71.6	80.4	43.3%	73.4	75.0	-6.7%	75.2	80.7	7.6%
Leased Vehicle Surcharge	7.5	27.8%	4.7	5.5	-27.1%	4.7	5.9	7.3%	4.7	5.8	-2.5%
Other	2.9	26.1%	2.1	2.5	-14.8%	2.1	2.5	0.4%	2.1	2.5	0.4%
TOTAL SELECTIVE SALES	396.3	-3.0%	419.4	417.6	5.4%	434.7	430.6	3.1%	448.4	445.9	3.5%
Personal Income Tax	1,198.4	3.1%	1,174.4	1,220.0	1.8%	1,245.2	1,250.0	2.5%	1,287.5	1,290.0	3.2%
Corporate Income Tax	403.5	-11.7%	451.6	338.0	-16.2%	451.6	320.0	-5.3%	448.6	330.0	3.1%
TOTAL INCOME TAXES	1,602.0	-1.1%	1,626.0	1,558.0	-2.7%	1,696.8	1,570.0	0.8%	1,736.1	1,620.0	3.2%
Oil and Gas School Tax	557.3	29.1%	420.7	394.0	-29.3%	409.4	382.5	-2.9%	400.3	421.8	10.3%
Oil Conservation Tax	27.1	38.7%	19.3	18.2	-32.8%	18.8	17.5	-3.8%	18.4	19.3	10.5%
Resources Excise Tax	11.7	-1.3%	13.2	13.6	16.7%	13.2	14.8	8.8%	13.2	16.1	8.8%
Natural Gas Processors Tax	30.6	-14.0%	32.2	32.3	5.5%	31.7	32.4	0.3%	31.4	27.4	-15.4%
TOTAL SEVERANCE TAXES	626.7	25.7%	485.4	458.0	-26.9%	473.1	447.2	-2.4%	463.3	484.6	8.4%
LICENSE FEES	50.7	2.7%	52.0	50.4	-0.6%	54.5	51.4	2.0%	57.1	52.8	2.7%
LGPF Interest	390.5	7.1%	433.8	433.2	10.9%	472.8	441.7	2.0%	513.1	445.2	0.8%
STO Interest	55.9	-18.2%	70.0	22.0	-60.7%	65.0	20.0	-9.1%	65.0	30.0	50.0%
STPF Interest	177.2	3.6%	191.6	191.3	8.0%	203.5	189.5	-0.9%	215.6	184.7	-2.5%
TOTAL INTEREST	623.6	3.2%	695.4	646.5	3.7%	741.2	651.2	0.7%	793.7	659.9	1.3%
Federal Mineral Leasing	564.2	12.6%	535.6	411.5	-27.1%	525.5	409.4	-0.5%	514.4	451.0	10.2%
State Land Office	46.1	-8.6%	46.3	37.4	-19.0%	45.3	36.7	-1.7%	44.1	39.0	6.1%
TOTAL RENTS & ROYALTIES	610.3	10.7%	581.9	448.9	-26.5%	570.7	446.1	-0.6%	558.5	489.9	9.8%
TRIBAL REVENUE SHARING	66.6	23.0%	69.2	72.0	8.2%	72.7	73.1	1.5%	76.3	79.0	8.1%
MISCELLANEOUS RECEIPTS	50.0	40.6%	36.1	42.6	-14.8%	36.4	42.9	0.7%	36.8	43.2	0.7%
REVERSIONS	59.3	71.3%	40.8	39.3	-33.7%	42.7	40.0	1.8%	41.8	41.2	3.0%
TOTAL RECURRING	5,994.6	4.3%	6,045.4	5,703.3	-4.9%	6,231.1	5,733.3	0.5%	6,385.3	5,954.0	3.8%
TOTAL NON-RECURRING (2)	47.1		-	(55.7)	-218.2%	-	-		-	-	
GRAND TOTAL	6,041.7	5.1%	6,045.4	5,647.6	-6.5%	6,231.1	5,733.3	1.5%	6,385.3	5,954.0	3.8%

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GENERAL FUND FINANCIAL SUMMARY - LFC RECOMMENDATION

TABLE 4

(Dollars in Millions)

	Preliminary FY2008	Estimated FY2009		Estimated FY2010
APPROPRIATION ACCOUNT				
REVENUE				
Recurring Revenue				
December 2008 Revenue Estimate	$ 5,994.6	$ 5,703.3		$ 5,733.3
LFC Revenue Enhancement Target				***26.5***
Total Recurring Revenue	5,994.6	5,703.3		5,759.8
Nonrecurring Revenue				
December 2008 Revenue Estimate	47.1	(55.7)	(1)	-
LFC reserve fund transfer target		*95.0*		*27.4*
LFC revenue enhancement target		*124.7*		
Total Non-Recurring Revenue	47.1	164.0		27.4
TOTAL REVENUE	**$ 6,041.7**	**$ 5,867.3**		**$ 5,787.2**
APPROPRIATIONS				
Recurring Appropriations				
Recurring Appropriations - General	$ 5,675.0	$ 6,026.8		$ 5,881.0
2008 Special Session		34.1		
Total Recurring Appropriations	5,675.0	6,060.9		5,881.0
Nonrecurring Appropriations	313.0			
2008 Nonrecurring Appropriations (incl. 2008 S.S.)		25.6		-
Audit Adjustments (2)	(18.1)	15.3		
2009 Nonrecurring Appropriations (Feed bill)		*7.9*		-
2009 Nonrecurring-Specials, Supplementals and IT		*21.8*		-
LFC FY09 expenditure adjustment target		*(137.5)*		-
LFC capital outlay adjustment target		*(150.0)*		
Total Nonrecurring Appropriations	294.9	(216.9)		-
TOTAL APPROPRIATIONS	**$ 5,969.8**	**$ 5,844.0**		**$ 5,881.0**
Transfer to Reserves	71.9	23.3		(93.8)
GENERAL FUND RESERVES				
Beginning Balances	$ 650.6	$ 713.6		$ 582.0
Transfers in from Appropriations Account	$ 71.9	$ 23.3		$ (93.8)
Revenue and Reversions	$ 49.9	$ 14.6		$ 48.1
Appropriations, expenditures and transfers out	$ (58.8)	$ (169.4)		$ (88.8)
Ending Balances	**$ 713.6**	**$ 582.0**		**$ 447.6**
Reserves as a Percent of Recurring Appropriations	*12.6%*	*9.7%*		*7.6%*

FY2010 New Money
$ (267.0)

FY2010 Reserve Over 10 %
$ (140.5)

(1) Personal income tax credit enacted in special session 2008.

(2) The following were moved from FY08 to FY09: $10.6 million IT lacking certification, $1.5 million capital outlay, $1.2 million for air service, $2 million PED federal funds issue. In FY08, DOIT failed to meet conditions on $2.8 million.

TABLE 4

GENERAL FUND FINANCIAL SUMMARY - LFC RECOMMENDATION - RESERVE DETAIL
(Dollars in Millions)

	Preliminary FY2008	Estimated FY2009	Estimated FY2010
OPERATING RESERVE			
Beginning balance	$ 156.0	$ 226.4	$ 248.1
BOF Emergency Appropriations	(1.5)	(1.5)	(1.5)
Transfers to BOF Other Financing	-	-	-
Transfer to ACF	-	-	-
Transfers from/to appropriation account	71.9	23.3	(93.8)
Transfers to Tax Stabilization Reserve (1)	-	-	-
Ending balance	226.4	248.1	152.9
Percent of previous fiscal year's recurring appropriations	*4.4%*	*4.4%*	*2.5%*
APPROPRIATION CONTINGENCY FUND			
Beginning balance (2)	47.7	26.6	(1.4)
Disaster allotments	(17.9)	(15.0)	(15.0)
Other expenditures-2008 (3)	(9.5)	(13.0)	-
Revenue and reversions	6.3	-	-
Ending Balance	26.6	(1.4)	(16.4)
Education Lock Box			
Beginning balance	74.9	67.4	27.4
Appropriations	(7.5)	-	-
LFC revenue transfer target		*(40.0)*	*(27.4)*
Ending balance	67.4	27.4	0.0
STATE SUPPORT FUND			
Ending balance	1.0	1.0	1.0
TOBACCO PERMANENT FUND			
Beginning balance	116.7	137.9	107.5
Transfers in	44.9	44.9	44.9
Transfers out	(22.4)	(22.5) (4)	(22.5) (5)
Gains/Losses (6)	(1.3)	(30.3)	3.2
LFC revenue transfer target		*(22.5)*	*(22.5)*
Ending balance	137.9	107.5	110.7
TAX STABILIZATION RESERVE			
Beginning balance	254.4	254.4	199.4
Transfers in	-	-	-
LFC revenue transfer target		*(55.0)*	
Transfers to Taxpayers Dividend Fund	-	-	-
Ending balance	254.4	199.4	199.4
Percent of previous fiscal year's recurring appropriations	*5.0%*	*4.5%*	*4.2%*
GENERAL FUND ENDING BALANCES	**$ 713.6**	**$ 582.0**	**$ 447.6**
Percent of Recurring Appropriations	*12.6%*	*9.7%*	*7.6%*

Notes:

(1) 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.

(2) FY07 was adjusted in FY08 audit for a prior year material failed contingency re water rights appropriations.

(3) FY08 includes $9 million for water rights shifted from FY07; FY09 includes $13 million for previous federal draws contingent on review by DFA and approval of BOF.

(4) HB 546 (Laws 2008, Ch. 50) appropriates additional funds from the tobacco master settlement payment if the payment is higher than projected.

(5) Excludes possible payment of withheld money from participating tobacco product manufacturers. The amount and the timing of the payment are uncertain.

(6) Investment performance for FY09 is assumed to be -20% and 4% for FY10.

TABLE 5

2009 Legislative Session
Special, Deficiency and Supplemental Appropriations
(in thousands)

				Agency Request		LFC Recommendation	
	Code	Agency	Description	General Fund	Other Funds/ Federal Funds	General Fund	Other Funds/ Federal Funds
1	SPECIAL/NEW INITIATIVES APPROPRIATIONS						
2	131	Legislative Council Services	For legislative session expenses.	8,700.0	-	-	-
3	218	Administrative Office of the Courts	For an independent staff study for the courts.	160.0	-	-	-
4	218	Administrative Office of the Courts	For the DWI Drug Courts.	500.0	-	-	-
5	218	Administrative Office of the Courts	To repay the Board of Finance for a loan to cover jury and witness costs.	453.0	-	-	-
6	218	Administrative Office of the Courts	For jury and witness.	1,000.0	-	-	-
7	218	Administrative Office of the Courts	For furniture and equipment.	10,242.0	-	-	-
8	218	Administrative Office of the Courts	For nonrecurring costs associated with requests for new judgeships.	24.2	-	-	-
9	231	First Judicial District	For nonrecurring costs associated with requests for new judgeships.	36.1	-	-	-
10	232	Second Judicial District	For nonrecurring costs associated with requests for new judgeships.	36.1	-	-	-
11	233	Third Judicial District	For nonrecurring costs associated with requests for new judgeships.	72.2	-	-	-
12	238	Eighth Judicial District	For nonrecurring costs associated with requests for new judgeships.	36.1	-	-	-
13	243	Thirteenth Judicial District	For nonrecurring costs associated with requests for new judgeships.	72.2	-	-	-
14	244	Bernalillo County Metropolitan Court	For nonrecurring costs associated with requests for new judgeships.	86.0	-	-	-
15	305	Attorney General	Reauthorization language to extend $3 million appropriation to prepare for potential litigation with Texas on water issues contingent on the state Board of Finance certifying the need. (Subsection 6 of Section 5 of Chapter 76 Laws 2003)	-	-	-	-
16	305	Attorney General	For a salary study.	113.0	-	-	-
17	305	Attorney General	For equipment, software and installation of a voice over IP telephone system.	211.3	-	-	-
18	305	Attorney General	For methamphetamine education and outreach.	2,500.0	-	-	-
19	305	Attorney General	For investigation and enforcement of the Indian Arts and Crafts Sales Enforcement Act.	300.0	-	-	-
20	305	Attorney General	Reauthorization language to extend $100 thousand appropriation for the prosecution of death penalty cases related to the 1999 Santa Rosa prison riot. (Subsection 16 of Section 5 of Chapter 3 Laws 2008)	-	-	-	-
21	305	Attorney General	Reauthorization language to extend $2.4 million appropriation to support technical and legal work relating to interstate water conflicts. (Subsection 9 of Section 5 of Chapter 28 of Laws 2007)	-	-	-	-
22	333	Taxation and Revenue Department	For information technology replacement.	300.0	-	-	-
23	333	Taxation and Revenue Department	To update integrated tax system.	-	-	2,300.0	-
24	333	Taxation and Revenue Department	Replacement of ITRAN remittance replacement.	200.0	-	-	-
25	341	Department of Finance & Administration	For the audit of the state-wide Comprehensive Annual Financial Report (CAFR).	400.0	-	-	-
26	341	Department of Finance & Administration	To upgrade FileNet electronic financial archive system.	500.0	-	-	-
27	341	Department of Finance & Administration	To redesign the database storage and install a monitoring system for SHARE.	500.0	-	-	-
28	341	Department of Finance & Administration	Reauthorization language to extend $935 thousand appropriation to develop a training model for financial transaction recording and reporting, including the payroll and human capital management modules of the statewide human resources, accounting and management reporting system and reappropriate $590 thousand to redesign and partition the statewide human resource and management reporting database storage, to install a monitoring system and for incremental license fees. (Subsection 30 of Section 5 Chapter 3 of Laws 2008)	-	-		-

TABLE 5

2009 Legislative Session
Special, Deficiency and Supplemental Appropriations
(in thousands)

	Code	Agency	Description	Agency Request: General Fund	Agency Request: Other Funds/ Federal Funds	LFC Recommendation: General Fund	LFC Recommendation: Other Funds/ Federal Funds
29	341	Department of Finance & Administration	For the office of education accountability to develop statewide instructional leadership institute.	-	-	200.0	-
30	341	Department of Finance & Administration	Reauthorization language to fund two project positions (Section 151 of Chapter 126 of Laws 2004)	-	-	-	-
31	360	Lieutenant Governor	For the New Mexico centennial celebration.	100.0	-	-	-
32	361	Department of Information Technology	For the New Mexico Computing Applications Center.	6,362.0	-	-	-
33	369	Commission of Public Records	For a legislative history project.	127.0	-	-	-
34	369	Commission of Public Records	For purchase of an archive writer.	175.0	-	-	-
35	394	State Treasurer	For security related to information technology.	108.0	-	-	-
36	394	State Treasurer	For an online banking system.	200.0	-	-	-
37	417	Border Authority	To prepare a border development strategic plan.	300.0	-	-	-
38	417	Border Authority	For Santa Teresa border crossing study.	1,000.0	250.0	-	-
39	418	Tourism Department	For the New Mexico Bowl.	370.0	-	-	-
40	419	Economic Development Department	For the Job Training Incentive Program (JTIP).	20,000.0	-	2,800.0	-
41	419	Economic Development Department	For economic development business incubators.	1,000.0	-	-	-
42	419	Economic Development Department	For Hispanic and Native American filmmaker mentoring.	100.0	-	-	-
43	419	Economic Development Department	For information technology replacement and security.	110.0	-	-	-
44	419	Economic Development Department	For World Trade Center initiative feasibility study.	100.0	-	-	-
45	419	Economic Development Department	For comprehensive tribal economic development assessment, including land use policies, designated and future industrial sites, utility access, and water systems.	75.0	-	-	-
46	420	Regulation and Licensing Department	For legal proceedings.	50.0	-	-	-
47	420	Regulation and Licensing Department	To reconfigure office space.	130.0	-	-	-
48	420	Regulation and Licensing Department	For the SAFE Mortgage Licensing Act.	159.0	-	-	-
49	420	Regulation and Licensing Department	To update the KIVA permitting licensing system.	1,129.9	-	-	-
50	430	Public Regulation Commission	For rent, moving costs, furniture and data setup for staff at Marion Hall.	1,000.0	-	130.0	-
51	430	Public Regulation Commission	To modify office space and add work stations.	-	205.0	-	-
52	430	Public Regulation Commission	For a performance review and evaluation of the organizational structure.	150.0	150.0	-	-
53	430	Public Regulation Commission	For utility rate case litigation.	100.0	-	-	-
54	430	Public Regulation Commission	To purchase vehicles for the Fire Marshal's Office.	125.0	-	-	-
55	430	Public Regulation Commission	To create a web based application for registering corporations and limited liability corporations.	300.0	-	-	-
56	465	Gaming Control Board	For electronic fingerprint.	31.8	-	-	-
57	491	Office of Military Base Planning and Support	For military base planning joint land use study.	50.0	-	-	-
58	505	Department of Cultural Affairs	For overall coordination of the 100th anniversary of New Mexico.	3,000.0	-	-	-
59	505	Department of Cultural Affairs	For development of protection plans for cultural resources in the Galisteo Basin.	150.0	-	-	-
60	505	Department of Cultural Affairs	For development of Los Luceros master plan.	200.0	-	100.0	-
61	505	Department of Cultural Affairs	To purchase FT-IR spectrometer.	50.0	-	-	-
62	505	Department of Cultural Affairs	To purchase records storing equipment.	140.0	-	-	-
63	505	Department of Cultural Affairs	To replace collection of newspapers with microfilm.	100.0	-	-	-
64	505	Department of Cultural Affairs	For purchase of literary papers of writers, historians, film script writers, and poets who have produced works related to New Mexico and the Southwest.	500.0	-	-	-
65	508	Livestock Board	To restore bovine tuberculosis accredited free status.	-	1,880.0	-	1,880.0
66	516	Game and Fish	To cover the additional costs associated with merchant fees.		800.0	-	800.0
67	521	Energy, Minerals and Natural Resources Department	To conduct site assessments of abandoned uranium mines.	300.0	-	-	-
68	521	Energy, Minerals and Natural Resources Department	For energy efficiency measures.	300.0	-	-	-
69	521	Energy, Minerals and Natural Resources Department	For fifteen new vehicles.	447.0	-	-	-
70	521	Energy, Minerals and Natural Resources Department	For the Renewable Energy Transmission Authority (RETA).	600.0	-	-	-

TABLE 5

2009 Legislative Session
Special, Deficiency and Supplemental Appropriations
(in thousands)

				Agency Request		LFC Recommendation	
	Code	Agency	Description	General Fund	Other Funds/ Federal Funds	General Fund	Other Funds/ Federal Funds
71	521	Energy, Minerals and Natural Resources Department	For a state park in Pecos Canyon. $250,000 from the state parks fund toward the development of Pecos canyon state park.	860.6	-	-	250.0
72	539		For asset inventory, forest health, and remediation projects for state trust lands.	-	500.0	-	300.0
73	550	Office of the State Engineer	For education and Decision-Support model for allocation of the Gila river.	1,000.0	-	-	-
74	569	Organic Commodity Commission	For website development and other information technology purchases.	-	31.5	-	-
75	609	Indian Affairs Department	To develop a database of economic and demographic information about tribes.	100.0	-	-	-
76	609	Indian Affairs Department	For the purchase of bill tracking software.	5.0	-	-	-
77	609	Indian Affairs Department	For tribal comprehensive planning.	50.0	-	-	-
78	609	Indian Affairs Department	To upgrade Indian Affairs website.	30.0	-	-	-
79	630	Human Services Department	Reauthorization language to extend $402.5 thousand and $728.9 thousand in federal funds for updates to information technology systems related to changes in the federal temporary assistance for needy families program (Subsection 59 of Section 5 of Chapter 28 of Laws 2007)	-	-	-	-
80	631	Department of Workforce Solutions	To upgrade computers.	320.0	-	-	-
81	631	Department of Workforce Solutions	For postage, computer upgrades and a public awareness campaign.	-	896.0	-	-
82	647	Developmental Disabilities Planning Council	For legal services and guardianship.	1,890.6	-	200.0	-
83	665	Department of Health	For the laboratory information management system.	400.0	-	400.0	-
84	667	Environment Department	To fund FTE of the wetlands project.	274.0	-	-	-
85	667	Environment Department	For cleanup of the Terrero Mine site to meet state obligation.	135.9	-	-	-
86	667	Environment Department	For collection of baseline water quality data.	200.0	-	-	-
87	667	Environment Department	To reduce mercury pollution.	200.0	-	-	-
88	667	Environment Department	To complete the development of a Rio Grande salinity management program.	475.2	-	-	-
89	669	Health Policy Commission	For a survey of insurance coverage.	50.0	-	-	-
90	690	Children, Youth and Families Department	For a commercial off-the-shelf software solution for centralized and secure access to client medical and behavioral health data. The appropriation is from computer system enhancement fund balances.	-	-	-	764.0
91	690	Children, Youth and Families Department	Reauthorization of the balances available from the SHARE appropriation to DFA in Laws 2008, Chapter 3, Section 7, Subsection 10 to interface to the investment system and for a business process analysis, needs assessment and gap analysis.	-	-	-	-
92	690	Children, Youth and Families Department	For attorney fees associated with anticipated litigation.	750.0	-	-	-
93	690	Children, Youth and Families Department	For magnetic scan card system at CYFD county offices.	451.7	79.7	-	-
94	690	Children, Youth and Families Department	For minority issues policy seminars and website enhancement.	200.0	-	-	-
95	690	Children, Youth and Families Department	For electronic preservation of microfilm records, a digitech imaging system and conversion of hard copy records onto compact disk.	564.8	119.8	-	-
96	690	Children, Youth and Families Department	For the T.E.A.C.H. scholarship program.	100.0	-	-	-
97	690	Children, Youth and Families Department	For laptop computers for Medicaid certification.	57.3	-	-	-
98	690	Children, Youth and Families Department	For training and technical assistance to Domestic Violence providers.	190.8	-	-	-
99	690	Children, Youth and Families Department	For the implementation of the Cambiar New Mexico (Missouri) model.	626.5	-	-	-
100	690	Children, Youth and Families Department	For payment of medical closeout costs for prior year medical claims submitted by the contracted medical provider.	250.0	-	-	-
101	770	Corrections Department	For equipment and security improvements.	2,939.0	-	-	-
102	770	Corrections Department	To replace kitchen equipment.	167.0	-	75.0	-
103	770	Corrections Department	For equipment and vehicles.	699.2	-	-	-
104	770	Corrections Department	To repave parking lot, perimeter road and sally port.	500.0	-	-	-

TABLE 5

2009 Legislative Session
Special, Deficiency and Supplemental Appropriations
(in thousands)

	Code	Agency	Description	Agency Request: General Fund	Agency Request: Other Funds/ Federal Funds	LFC Recommendation: General Fund	LFC Recommendation: Other Funds/ Federal Funds
105	770	Corrections Department	For inmate transportation vehicles, staff transport vehicles for the Special Operations Response Team (SORT) and Prisoner Transport Inserts.	180.0	-	-	-
106	770	Corrections Department	For modular units and metal building.	674.3	-	-	-
107	790	Department of Public Safety	For fuel for state police fleet.	1,400.6	-	-	-
108	924	Public Education Department	For the operating budget management system.	-	-	200.0	-
109	924	Public Education Department	For emergency support to school districts experiencing shortfall in operating budgets in fiscal year 2010.	-	-	2,000.0	-
110	924	Public Education Department	For assessment and test development.	4,639.0	-	-	-
111	924	Public Education Department	For pre-kindergarten start-up costs.	1,500.0	-	-	-
112	924	Public Education Department	For STARS hosting services and the operating budget management system.	1,427.0	-	-	-
113	924	Public Education Department	For electronic teacher encyclopedia.	750.0	-	-	-
114	924	Public Education Department	For exemplary educators network.	20.0	-	-	-
115	924	Public Education Department	For in-residence international benchmarking initiative.	750.0	-	-	-
116	924	Public Education Department	For parents' college.	750.0	-	-	-
268	**SPECIAL/NEW INITIATIVE TOTAL**			**91,160.4**	**4,912.0**	**8,405.0**	**3,994.0**
269							
270	**SUPPLEMENTAL APPROPRIATIONS:**						
271	117	Legislative Education Study Committee	For personal services for unexpected retirements.	80.0	-	-	-
272	216	Supreme Court	For Supreme Court building commission HVAC maintenance agreement reimbursement.	14.2	-	-	-
273	216	Supreme Court	To reinstate transcription program.	20.0	-	-	-
274	218	Administrative Office of the Courts	To cover shortfalls for jurors and interpreters.	500.0	-	500.0	-
275	218	Administrative Office of the Courts	For contract attorney fees related to child abuse cases.	150.0	-	150.0	-
276	219	Supreme Court Building Commission	For HVAC maintenance agreement.	28.9	-	-	-
277	236	Sixth Judicial District Court	For prior years invoices for unemployment compensation premiums.	21.0	-	-	-
278	252	Second District Attorney	For travel costs associated with witnesses and victims attending pretrial interviews.	66.3	-	-	-
279	264	District Attorneys	Any unexpended balances remaining at the end of fiscal year 2009 or any year there after from revenue received by a district attorney as grants from the United States department of justice pursuant to the southwest border prosecution initiative shall not revert but shall remain with the recipient district attorney office for expenditure in that or future fiscal years.	-	-	-	-
280	305	Attorney General	To reimburse the US HSSD for audit findings in the Medicaid Fraud Program.	300.0	-	300.0	-
281	341	Department of Finance and Administration	To provide additional assistance with fiscal year 2009 budget shortfalls contingent on review by the department of finance and administration approval by the board of finance.	-	-	650.0	-
282	350	General Services Department	To purchase additional vehicles.	-	4,500.0	-	-
283	350	General Services Department	For additional office space.	-	32.4	-	-
284	350	General Services Department	For two accountant/auditor positions.	-	85.0	-	-
285	350	General Services Department	To meet payroll for FY09.	-	231.0	-	-
286	350	General Services Department	For additional staff and furniture.	354.2	-	-	-
287	350	General Services Department	To pay for the FY07 audit.	-	193.0	-	193.0
288	350	General Services Department	To supplement staff to support the SHARE enhancement project.	197.9	-	-	-
289	361	Department of Information Technology	To reimburse the US DOHHS for over-charged information technology services.	2,962.0	-	-	-

2009 Legislative Session
Special, Deficiency and Supplemental Appropriations
(in thousands)

	Code	Agency	Description	Agency Request General Fund	Agency Request Other Funds/ Federal Funds	LFC Recommendation General Fund	LFC Recommendation Other Funds/ Federal Funds
290	361	Department of Information Technology	Reauthorization language to extend $2.8 million appropriation for payment to the federal government for overcharged information technology services, contingent on the department of information technology certifying to the department of finance and administration and the legislative finance committee that an adverse decision against the state has been made in the court case of New Mexico department of information technology v U.S. department of health and human services and Michael O'Leavitt in federal district court. (Subsection 9 of Section 6 of Chapter 3 of Laws 2008)	-	-	-	-
291	369	Commission of Public Records	To offset a projected shortfall in the personal services and employee benefits category.	60.0	-	-	-
292	370	Secretary of State	To repay Board of Finance loan for additional 2008 general election ballots.	150.0	-	-	-
293	394	State Treasurer	To complete the Disaster Recovery (DR) Plan.	50.0	-	-	-
294	420	Regulation & Licensing Department	To correct an appropriation for the Animal Shelter Board.	180.0	-	-	-
295	420	Regulation & Licensing Department	For US Airways litigation.	200.0	-	-	-
296	460	State Fair Commission	To address revenue shortfall and temporary labor costs.	1,280.0	-	880.0	-
297	505	Department of Cultural Affairs	For operation of Los Luceros property.	200.0	-	-	-
298	505	Department of Cultural Affairs	For operational costs at the Pete V. Domenici Education Center.	79.6	10.0	-	-
299	505	Department of Cultural Affairs	For increased fuel costs.	43.8	-	-	-
300	516	Game and Fish	To cover the additional costs associated with merchant fees.		200.0	-	200.0
301	569	Organic Commodity Commission	To cover the differential between the outgoing and incoming director's salary.	-	19.8	-	-
302	630	Human Services Department	To restore FY09 to the FY08 funding level in the general assistance program.	600.0	-	-	-
303	630	Human Services Department	To rebuild security systems.	834.0	1,379.4	500.0	826.9
304	631	NM Department of Workforce Solutions	To cover compensation increases.	287.9	-	-	-
305	647	Developmental Disabilities Planning Council	To fund additional corporate wards for guardian services in FY09.	75.0	-	-	-
306	665	Department of Health	To provide care to clients of the New Mexico Behavioral Health Institute.	5,000.0	-	-	-
307	665	Department of Health	For patient pharmaceuticals and facility operations.	2,000.0	-	1,000.0	-
308	665	Department of Health	For FTE related to developmental disabilities in Los Lunas.	1,022.7	-	-	-
309	665	Department of Health	For FTE at Fort Bayard Medical Center.	719.0	-	-	-
310	669	Health Policy Commission	To cover FY08 shortfalls in personal services and employee benefits and other cost category.	100.0	-	-	-
311	690	Children, Youth & Families Department	To cover shortfalls in care and support.	1,200.0	-	-	1,200.0
312	790	Department of Public Safety	To cover a shortfall in group insurance.	1,268.5	-	-	-
313	790	Department of Public Safety	For a shortfall in radio communication costs.	1,379.9	-	-	-
314	790	Department of Public Safety	For fuel for state police fleet.	1,400.6	-	-	-
315	950	Higher Education Department	To update the data and methodology used to calculate the funding formula for New Mexico higher education institutions to assure adequate funding.	615.0	-	400.0	-
316	950	Higher Education Department	For access to electronic journals and books for all students, faculty and staff enrolled in public higher education institution in New Mexico.	200.0	-	100.0	-
321	**SUPPLEMENTAL TOTAL**			**23,640.5**	**6,650.6**	**4,480.0**	**2,419.9**
322							
323	**DEFICIENCY APPROPRIATIONS:**						
324	350	General Services Department	To cover aircraft flights.	200.0	-	200.0	-
325	370	Secretary of State	To repay Board of Finance for 2008 primary election recounts.	41.1	-	-	-
326	370	Secretary of State	To repay Board of Finance for 2008 primary election costs.	550.3	-	-	-

TABLE 5

2009 Legislative Session
Special, Deficiency and Supplemental Appropriations
(in thousands)

	Code	Agency	Description	Agency Request: General Fund	Agency Request: Other Funds/ Federal Funds	LFC Recommendation: General Fund	LFC Recommendation: Other Funds/ Federal Funds
327	370	Secretary of State	For maintenance and support for voter registration election management system software utilized but not paid for in prior years.	289.1	-	289.1	-
328	370	Secretary of State	For maintenance and support for the public financial reporting system utilized but not paid for in fiscal year 2006.	22.4	-	-	-
329	370	Secretary of State	For Oracle software licensing utilized but not paid for in fiscal year 2006.	36.9	-	-	-
330	665	Department of Health	To provide care to clients at Fort Bayard Medical Center.	4,443.0	-	4,443.0	-
331	665	Department of Health	For developmentally disabled Medicaid waiver program costs.	4,300.0	-	4,000.0	-
332	950	Higher Education Department	To transfer funds from the college affordability endowment fund to the college affordability scholarship fund.	-	2,000.0	-	-
333	**DEFICIENCY TOTAL**			**9,882.8**	**2,000.0**	**8,932.1**	**-**
334							
335	**SPECIAL/NEW INITIATIVE, SUPPLEMENTAL & DEFICIENCY TOTAL**			**124,683.7**	**13,562.6**	**21,817.1**	**6,413.9**

TABLE 6

Information Technology Requests - FY10
(in thousands)

System Replacement / Enhancements			Agency Request	
Code	Agency	System Description	General Fund	Federal Funds
218	Administrative Office of the Courts	Electronic Filing Pilot	$757.0	
218	Administrative Office of the Courts	Case Management Application	$1,843.0	
333	Taxation and Revenue Department	Driver and Vehicle Reengineering	$15,000.0	
333	Taxation and Revenue Department	Enterprise Content Management	$150.0	
333	Taxation and Revenue Department	Data Warehouse Ext. Data Load	$500.0	
333	Taxation and Revenue Department	Business Credit Manager	$1,000.0	
333	Taxation and Revenue Department	GenTax - Bankruptcy Upgrade	$1,182.5	
333	Taxation and Revenue Department	Oil and Natural Gas Accounting and Reporting Database Modernization	$5,484.3	
341	Department of Finance and Administration	Statewide Human Resource, Accounting and Management Reporting (SHARE) Upgrade	$4,917.5	
341	Department of Finance and Administration	SHARE Grants and Project Costing	$3,386.8	
350	General Services Department	SHARE PeopleSoft Procurement Modules	$3,075.8	
354	New Mexico Sentencing Commission	Offender Query Expansion	$300.0	
361	Department of Information Technology	Enterprise Portfolio Management System	$500.0	
361	Department of Information Technology	Telecommunications Work Order and Billing System	$508.0	
361	Department of Information Technology	Telecommunication Centers Access and Video Surveillance	$315.0	
369	State Commission on Public Records	Central Electronic Records Repository	$1,370.0	
370	Secretary of State	Campaign Information System	$800.0	
370	Secretary of State	Secretary of State Information System Replacement	$2,000.0	
370	Secretary of State	Voter Registration and Election Management System Upgrade	$419.8	
394	State Treasurer's Office	Local Government Investment Pool On-line Banking		
420	Regulation and Licensing Department	Permitting and Inspection System	$1,129.9	
430	Public Regulation Commission	Corporations System	$300.0	
550	State Engineer's Office	Electronic Documents and Content Management	$200.0	
550	State Engineer's Office	Dam Safety Information Management System	$550.0	
550	State Engineer's Office	Water Rights System Modernization	$300.0	
630	Human Services Department	Income Support Division Integrated Services Delivery System and Eligibility Systems	$12,378.9	$15,000.0
690	Children, Youth and Families Department	Family Automated Client Tracking System Program Support	$3,105.8	
690	Children, Youth and Families Department	Medical and Behavioral Health System	$1,366.1	
690	Children, Youth and Families Department	Family Automated Client Tracking System Web Solution	$519.6	

TABLE 6

Information Technology Requests - FY10
(in thousands)

System Replacement / Enhancements			Agency Request	
Code	Agency	System Description	General Fund	Federal Funds
770	Corrections Department	Criminal Management Information System	$250.0	
770	Corrections Department	Enterprise Content Management	$270.0	
790	Department of Public Safety	Fast Identification System	$800.0	
924	Public Education Department	Student and Teacher Accountability Reporting System Educational User Interface	$5,500.0	
924	Public Education Department	P-20 System Development	$1,250.0	
924	Public Education Department	Charter Schools Student Information System	$1,450.0	
952	University of New Mexico	Banner 8 Consulting Services	$300.0	
954	New Mexico State University	Banner Upgrade (Administrative Systems)	$980.0	
966	Santa Fe Community College	Print Management System	$15.8	
974	New Mexico Junior College	Banner Luminis	$225.0	
Information Technology Total			**$74,400.8**	**$15,000.0**

TABLE 7

Examples of New Mexico Tax Expenditures

Tax	Item	Estimate	Year	Calculation	Why is it a tax expenditure?
General and Selective Sales Taxes	Rural Job Tax Credit	187,103	FY06	Amount of Credit	Credit against GRT, Compensating or Withholding
	High wage job credit	1,330,863	FY07	Amount of Credit	Credit against GRT, Compensating or Withholding
	Investment tax credit	5,311,333	FY07	Amount of Credit	Credit against GRT, Compensating or Withholding
	Insurance Premium Credit for Medical Insurance Pool	*		Amount of Credit	Credit against Insurance Premium Tax
	Interstate Telecommunications Gross Receipts Tax	*		Difference between GRT and tax; Local impact not included	Item that is not in GRT base and subject to lower rate
	Exemption for Sales by Governments	*		Amount that would have been collected.	
	Sales of Tangible Personal Property to Governmetns	*		Amount that would have been collected.	GRT deduction and Compensating Tax exemption
	Stadium Charge	*		Amount that would have been collected.	Exemption from the Governement Gross Receipts.
	Agricultural Products Exemption	*		Amount that would have been collected.	Exemption from GRT
	Gasoline and Special Fuels	*		Amount that would have been collected.	Exemption from GRT
	Nonprofit Organization Dues and Fees	*		Amount that would have been collected.	Exemption from GRT
	Newspaper and Magazine Deduction	*		Amount that would have been collected.	Deduction from GRT
	Gross Receipts Tax Holiday	2,500,000	FY08	TGR for period x rate	Exemption from GRT
	Motor Vehicle Excise Tax	25,778,275	FY08	Difference between GRT and tax; Local impact not included	Item that is not in GRT base and subject to lower rate
	Railroad Private Car Tax	38,336	FY05	Difference between property tax and this tax; local option	This may or may not result in lower tax;
	Parimutual Tax Capital Improvements Credit	*		Amount of Credit	Credit against Parimutual Tax
	Oil/Gas Pipelines	*		Amount that would have been collected.	Exemption from the Utilities and Carrier Inspection Fee
	Food/Medical Service Deduction	75,000,000	FY08	Amount of deduction multiplied by the state rate	Deduction from GRT
	Locomotive fuel deduction			Amount of deduction multiplied by the state rate	Deduction from GRT
	Uranium Enrichment Plant Equipment Compensating Tax Deduction	*		Amount of deduction multiplied by the state rate	Deduction from GRT
	Uranium Enrichment Gross Receipts Deduction	*		Amount of deduction multiplied by the state rate	Deduction from GRT
	Industrial Revenue Bonds	*		Value of equipment imported * compensating tax rate (5%); Value of	Exemption from compensating tax
	Small winery tax rate	124,000	FY08	Difference between liuqor excise tax for wine from larger wineries.	Differential rate for liquor excise tax.
	Hired car/bus/airplane	*		Amount that would have been collected	Exemption from the Utilities and Carrier Inspection Fee
	Bingo/Raffle Tax	30,380	FY03	Difference between GRT and tax; Local impact not included	Item that is not in GRT base and subject to lower rate
Income Tax	Double-weighted sales apportionment for Corporate Income Tax	*		Difference of using the single weighted sales factor and the double	Double-weighting of sales only applies to manufacturing
	Insurance Companies, pensions, S-corporations and Non-profit Corporations Exemption	*		Amount that would have been collected	Exemption from CIT
	Separate Corporate Entity Filing Option	*		Difference in amount of tax collected using consolidated reporting	Preferential CIT rate
	Film Production Credit	60,000,000	CY04	Amount of Credit	Credit against the CIT
	Welfare-to-work	12,426	FY07	Amount of Credit	Credit against the CIT/PIT
	Corporate provided child care	*		Amount of Credit	Credit against the CIT
	Cultural Property Preservation	*		Amount of Credit	Credit against the CIT
	Qualified Business Facility Rehabilitation	*		Amount of Credit	Credit against the CIT
	Renewable energy production	8,250,294	FY06	Amount of Credit	Credit against the CIT
	Affordable Housing Production	48,703	FY07	Amount of Credit	Credit against the CIT
	Low Income Comprehensive Tax Rebate	25,605,163	CY02	Amount of Credit	Credit against the PIT
	Child Daycare Credit	1,887,029	CY02	Amount of Credit	Credit against the PIT
	Property Tax Rebate	3,977,951	CY02	Amount of Credit	Credit against the PIT
	Film Production Credit	3,315	CY02	Amount of Credit	Credit against the PIT
	Welfare-to-work	88,940	CY02	Amount of Credit	Credit against the PIT
	Corporate provided child care	*		Amount of Credit	Credit against the PIT
	Cultural Property Preservation	263,837	CY02	Amount of Credit	Credit against the PIT
	Qualified Business Facility Rehabilitation	4,790	CY02	Amount of Credit	Credit against the PIT
	Solar market development tax credit	525,059	FY07	Amount of Credit	Credit against the PIT
	Renewable energy production	*		Amount of Credit	Credit against the PIT
	Affordable Housing Production	*		Amount of Credit	Credit against the PIT
	Technology Jobs Credit	97,938	FY07	Amount of Credit	Credit against the PIT
	Rural Job Tax Credit	29,590	FY07	Amount of Credit	Credit against the PIT
Property Tax	Elk Hunting Assessment	*		Difference from Commercial Assessment	Property assessed at agricultural rate rather than commercial rate
	Industrial Revenue Bonds	*		Estimated assessed value * property tax rate	Exemption from property tax
	Veteran's Exemption	9,529,960	CY2006	$4,000 exemption from assessed value	Decreases assessed value
	Head of household exemption	13,755,000	CY2006	$2,000 exemption from assessed value	Decreases assessed value
	Valuation Freeze (Low income elderly and disabled)	*		Growth in value of property * property tax rate	Freezed assessed value

* Cost estimates were not available for these tax expenditures.
Note: Compiled by LFC economists