
# STATE OF NEW MEXICO

## Report of the Legislative Finance Committee to the Forty-Ninth Legislature
## SECOND SESSION

January 2010 | for Fiscal Year 2011 | volume I

## LEGISLATING FOR RESULTS:
### POLICY AND PERFORMANCE ANALYSIS

*State of New Mexico*
**LEGISLATIVE FINANCE COMMITTEE**

325 Don Gaspar, Suite 101 • Santa Fe, NM 87501
Phone: (505) 986-4550 • Fax: (505) 986-4545

**David Abbey**
**Director**



January 19, 2010

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

Dear Fellow Legislators:

Pursuant to Section 2-5-4 NMSA 1978, the fiscal year 2011 budget recommendation of the Legislative Finance Committee is provided to you. The committee recommendation for recurring appropriations from the general fund is $5.34 billion, a $151 million cut from the FY10 appropriated levels prior to the solvency measures adopted during the special session. Even with the reduction, general fund spending would exceed the expected general fund revenue by $200 million. This gap could be reduced by about $80 million if the federal government extends Medicaid stimulus funds scheduled to end December 31, 2009. However, additional cuts or revenue enhancements would still be necessary to close the gap.

The committee's recommendation continues to emphasize public education and access to health care and, this year more than ever, focuses on programs that demonstrate efficiency and effectiveness. The number of state employee positions would be reduced by more than 970, mostly through the elimination of nonessential personnel and positions that have been vacant for long periods.

The committee's general fund recommendation of $2.4 billion for public schools would be an increase of $128 million over the post-solvency FY10 appropriation and reflects the need to replace $180 million in federal stimulus funds that will no longer be available. Because of the loss of federal funds, the overall money available to schools will be down slightly and the committee continues to recommend the Legislature review possible changes to the funding formula to improve equity and save money. Along with funding for the states' colleges, education would continue to represent 60 percent of the state's general fund spending. The recommendation for higher education is a 3.4 percent reduction from the post-solvency appropriation.

Similar to the recommendation for public schools, the recommendation for the Human Services Department includes an increase in general fund spending mostly to cover the expected loss in federal stimulus funds for the Medicaid program. Overall, spending would also increase but would not keep pace with increasing costs, forcing the department to consider program changes to maintain critical services in Medicaid healthcare coverage, assistance to poor families, and substance abuse and mental health services.

After two rounds of emergency action to balance the FY09 and FY10 budgets, the Legislature is short on options to address the recession-driven crisis without cutting important services or raising revenues. The Legislature is hitting this wall at the same time more New Mexicans are in need of safety net services and less able to afford higher taxes or fees.

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,

"Lucky"

Representative Luciano "Lucky" Varela
Chairman

# Table of Contents



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

**VOLUME I LEGISLATING FOR RESULTS: POLICY AND PERFORMANCE ANALYSIS**

**JANUARY 2010 FOR FISCAL YEAR 2011**


REPRESENTATIVE
LUCIANO "LUCKY" VARELA
CHAIRMAN

SENATOR
JOHN ARTHUR SMITH
VICE CHAIRMAN

DAVID ABBEY
DIRECTOR



NEW MEXICO STATE PRINTING & GRAPHICS
QUALITY PRINTING BY

# Table of Contents

The severe recession and weak energy prices triggered historic declines in state revenue across the board. Recurring general fund revenue was $6.02 billion in FY08 but fell almost $700 million, or 11.5 percent, in FY09 and is expected to fall another 9.3 percent to $4.82 billion in FY10. The FY09 appropriation was reworked significantly during the 2009 session and an October 2009 special session sharply pared the original FY10 appropriation.

In addition to spending cuts during the 2009 sessions, the executive and Legislature collaborated to enact legislation to sweep surplus funds in the treasury to the general fund, to void idle capital appropriations, and to use other state funds and federal funds to supplement general fund appropriations.

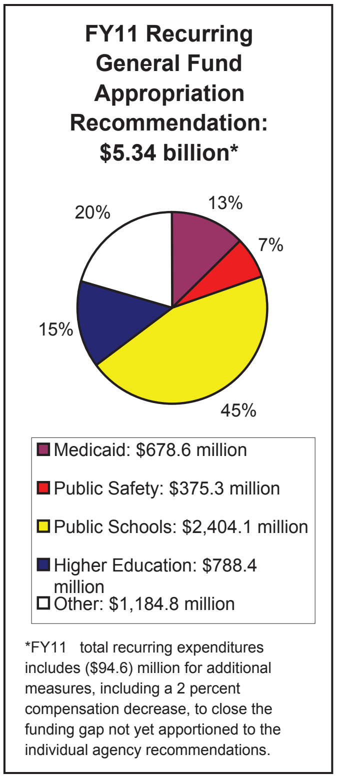
To build a budget for FY11, the Legislature faces a revenue forecast of $133 million in "new" money, or 2.5 percent less than FY10 spending, plus the need to replace approximately $300 million of one-time federal stimulus funds. The band-aids and the one-time fixes have been exhausted, the demand for many safety net services like health care and job training is rising, and tax increases will be difficult with unemployment rising and personal incomes falling.

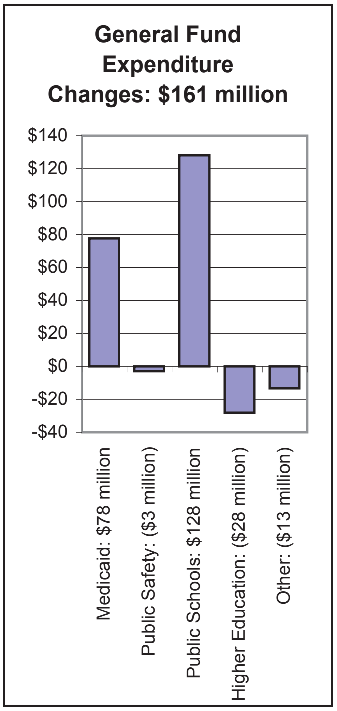
Still, as many are repeating, with crisis comes opportunity. The New Mexico Legislature has a recent track record of budget expertise and will find common ground to solve the fiscal crisis.

<u>**Fiscal Year 2011 Appropriation Recommendation.**</u> The LFC FY11 budget recommendation of $5.34 billion cuts spending by $151.3 million from the pre-solvency FY10 operating budget level of $5.49 billion. The recommendation also reflects a decline in use of federal stimulus funds for Medicaid and public education of almost $300 million. The LFC FY11 recommendation is $200 million greater than projected revenue. While this gap may be reduced by at least $83 million if the federal government enacts a six-month extension of Medicaid stimulus funding scheduled to end December 31, 2010, the full Legislature must identify additional appropriation cuts or revenue enhancements to balance the budget in FY11.

To achieve the spending reductions and avoid across-the-board cuts to agency budgets, the recommendation realizes savings by prioritizing existing programs that demonstrate efficiency and effectiveness and avoid duplication. State employee positions are reduced by 955 and are mostly nonessential personnel such as public information officers, exempt administrators, and positions that have been vacant for long periods of time due to the executive hiring freeze.

The recommendation reduces contractual services spending, defers purchases of computers, vehicles and capital outlay items, and maximizes use of agency cash balances.



| FY11 General Fund Recommendation Compared with FY10 Adjusted Operating Budget (Dollars in Thousands) | | | | | |
|---|---|---|---|---|---|
| Category | FY10 Adjusted Operating Budget | FY11 Requests | FY11 Recomm | Dollar Change | Percent Change |
| Legislative | 18,970.9 | 20,212.9 | 18,921.6 | (49.3) | -0.3% |
| Judicial | 206,259.1 | 215,724.7 | 201,466.2 | (4,792.9) | -2.3% |
| General Control | 190,496.9 | 207,153.5 | 183,865.6 | (6,631.3) | -3.5% |
| Commerce & Industry | 55,538.8 | 59,895.4 | 52,269.2 | (3,269.6) | -5.9% |
| Energy, Agriculture & Natural Res | 78,134.1 | 84,574.4 | 72,605.9 | (5,528.2) | -7.1% |
| Health, Hospitals & Human Svcs | 1,249,719.9 | 1,645,684.2 | 1,334,275.8 | 84,555.9 | 6.8% |
| Public Safety | 378,245.6 | 397,377.3 | 375,250.9 | (2,994.7) | -0.8% |
| Transportation | - | - | - | - | 0.0% |
| Higher Education | 816,389.9 | 853,294.9 | 788,424.2 | (27,965.7) | -3.4% |
| Public Education | 2,276,079.3 | 2,633,722.6 | 2,404,110.9 | 128,031.6 | 5.6% |
| Additional Measures to Close Gap | - | - | (94,600.0) | (94,600.0) | -100.0% |
| TOTAL | 5,269,834.5 | 6,117,639.9 | 5,336,590.3 | 66,755.8 | 1.3% |

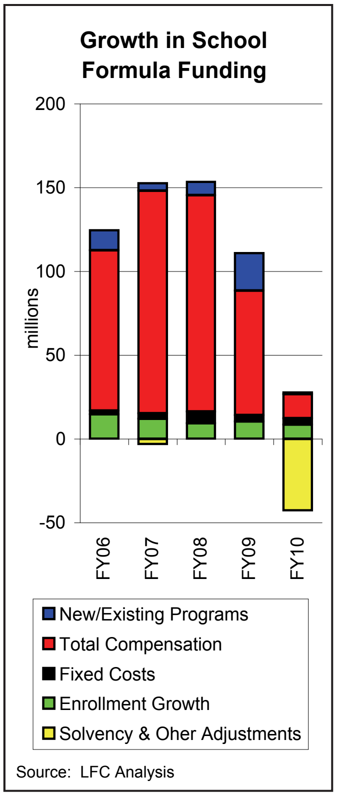
The FY11 budget recommendations are summarized below.

**Public Schools.** The committee recommends $2.4 billion for public school support and related appropriations, an increase of $128 million over the FY10 adjusted appropriation. This includes $198.7 million to replace federal fiscal stabilization funds used in the FY10 appropriation and about half of the federal fiscal stabilization funds used in the FY10 solvency bill. The committee recommends the Legislature adopt changes to the funding formula to advance equity and efficiency. Changes with savings follow: changing eligibility requirements for small-school adjustments ($29.3 million), changing eligibility requirements for small district claiming size adjustments ($5.3 million), removing related services staff from the training and experience factor in the formula ($18 million), and reducing the unit multiplier in the funding formula for 12$^{th}$ grade students ($15.9 million).

For FY11, public school support and related appropriations would account for 45.1 percent of total appropriations from the general fund. To minimize the effect of reductions to classroom instruction, the committee recommends $136.2 million from the general fund for categorical appropriations, including transportation, instructional materials, and emergency supplemental.

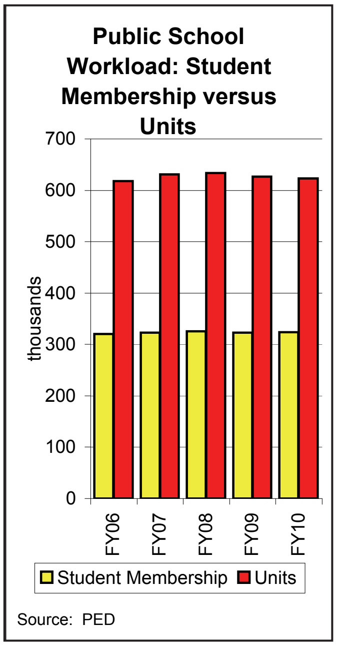
For FY10 and FY11, school districts will receive approximately $90 million in extra federal Title I funding and $95 million in extra special education funding from the American Recovery and Reinvestment Act that can be used to makeup a large part of the reductions to general fund appropriations.

**Higher Education.** The committee recommends a total of $788.4 million recurring general fund appropriations for higher education, including the Higher Education Department and special schools, which represents a decrease of $64.8 million, or a decline of 7.6 percent, from the FY10 original appropriation. The recommendation prioritizes formula funding for workload at a cost of $21.2 million. The cost of workload growth is the largest since FY05. The recommendation takes credit for a tuition increase of 6 percent for resident students and 15 percent for nonresident students, which reduces general fund appropriations to higher education institutions by $13.3 million and $3 million, respectively. In addition, the recommendation includes an additional tuition increase for in-state students at two-year colleges, which reduces general fund appropriations by $4.2 million. In contrast, student financial aid funding through the Higher Education Department is one of the few areas in the whole budget held flat.

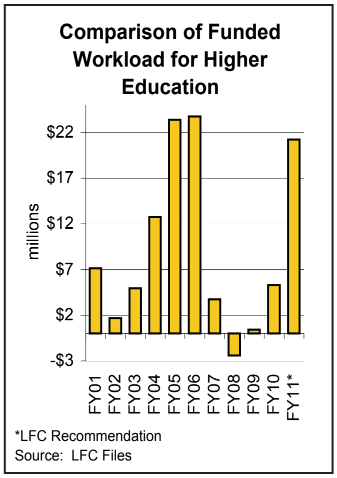



The higher education recommendation reduces building renewal and replacement funding by 50 percent; assumes productivity savings of $10.4 million, targeted to administrative and overhead operations; assumes a 5 percent reduction in tuition waivers at all of the state's post-secondary institutions for general fund savings of $3 million; and includes a $10.4 million reduction in budgets for instruction and general costs, pro-rated based on each institution's share of the instruction and general budget. This approach treats all students the same, regardless of the enrollment growth or the timing of enrollment growth at the state's colleges and universities. Also, general fund appropriations for instruction and general purposes are supplanted with federal stimulus funds of $10.9 million. Finally, the recommendation reduces research and public service projects outside the funding formula by $12.6 million from the FY10 original appropriations.

**Human Services Department.** The committee recommends total Human Service Department appropriations of $4.48 billion for FY11, a 4.9 percent increase over FY10. The recommendation from the general fund of $787.2 million is a 9.9 percent increase from FY10. The increase is necessary to replace declining federal funds in Medicaid from the ending federal stimulus funds. The department will have to implement administrative and nonessential program savings in FY11 to continue the most critical functions – Medicaid healthcare coverage, cash assistance and support services for families in the Temporary Assistance for Needy Families (TANF) program, substance abuse and mental health services, and helping parents get child support payments.




**Department of Health.** The committee recommends total expenditures of $522 million, with revenues of $270.7 million from the general fund. This is a decrease of $15.3 million in appropriations from the general fund, or 5.2 percent. The recommendation eliminates 126 FTE vacant for more than one year and reduces contracts by 7 percent. A comprehensive study of substance abuse treatment should be conducted by the executive because the Human Services Department has broken ground on a facility in Los Lunas, which will duplicate services provided by the Department of Health (DOH) at Turquoise Lodge. The recommendation also suggests the department increase revenues through fees collected for analysis by the scientific laboratory and licensing by the Health Certification, Licensing and Oversight Program. DOH responded effectively to the H1N1 pandemic flu during the past year.




**Children, Youth and Families Department.** The committee recommends $382.4 million for the Children, Youth and Families Department. The total includes $189.5 million from the general fund, an $11.1 million, or 5.5 percent, decrease from the FY10 operating budget and a $5.1 million, or 2.6 percent, decrease from FY10 executive order budget adjustments. The committee recommends general fund decreases of $1.5 million in personal services and employee benefits, $8.3 million in contractual services, and $1.9 million in childcare assistance. The recommendation includes $1 million from the domestic violence offender treatment and intervention fund for domestic violence programs. Also, the committee recommends TANF funding of $1.5 million for pre-kindergarten programs, $2 million for domestic violence programs, and $7.2 million for childcare assistance.

**Public Safety.** The recommendation for the New Mexico Corrections Department (NMCD) is $271.7 million from the general fund, a $12.9 million, or 4.5 percent, decrease from the FY10 operating budget. The reduction is primarily due to a proposed decrease in the cost of the private prison and medical contracts. The NMCD FY11 request estimates an average daily male inmate population of 5,983, an increase of 1 percent over FY10.

The FY11 LFC recommendation from the general fund for the Department of Public Safety (DPS) totals $91 million, a $3.7 million, or 4.1 percent, decrease from the FY10 operating budget. The total agency recommendation is 6.9 percent lower than FY10, principally due to lower recommendations from the general fund. DPS has extremely high vacancy rates, particularly for certified law enforcement officers and forensic scientist positions. These types of positions are central to the agency's mission. Continuing to even partially fund vacant positions becomes increasingly difficult with low revenues.

**Judicial.** The committee recommends $142.9 million from the general fund for the courts. LFC recommends an increase in other state funds of $800 thousand to supplement the jury and witness fund. The Magistrate Court Program will benefit from at least an $800 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 general fund budget recommendation for the district attorney offices is $56.6 million, a 1.8 percent decrease from the FY10 adjusted appropriation. The recommendation drew on FY09 performance data, which included cases referred, screened out, and disposed. When each agency's data was compared with its general fund operating budget and attorney FTE, it suggested that all districts may not be funded proportionally. The recommendation attempts to balance the funding levels among the districts.

**Department of Transportation.** The committee recommends a total expenditure level for the Department of Transportation that is 4.3 percent less than the FY10 operating budget. The state road fund (SRF) continues to experience declining revenues, which accounts for the overall decrease. The recommendation includes the elimination of 250 positions within the department, many of which have been vacant over two years. The recommendation includes $20.8 million for maintaining highways in rural counties that do not qualify for funding under either Governor Richardson's Investment Partnership or the Statewide Transportation Improvement Program.

**Measures To Close Funding Gap.** The LFC appropriation recommendation requires additional measures to close the gap between appropriations and revenue. Specific measures that provide $95 million of reductions follow.

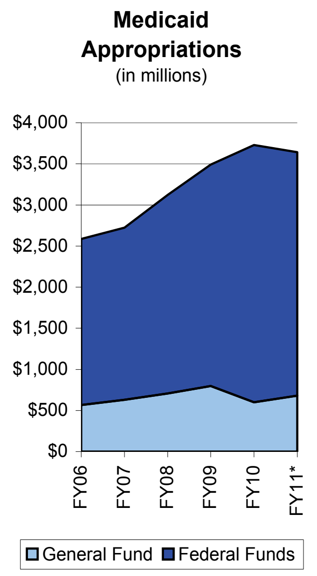
*Compensation Reduction.* A 2 percent salary reduction for all public employees is recommended to save $76.2 million. The $41.5 million reduction for public schools would be implemented through a reduction to the state equalization guarantee and distributed through an adjustment to the unit value. Districts should implement this savings by eliminating three professional development days outside the 180-day instructional calendar.

For higher education, the 2 percent compensation reduction of $18 million is applied to instruction and general appropriations as well as all line-item appropriations. The implementation of this salary reduction is at the discretion of the governing board of each institution.

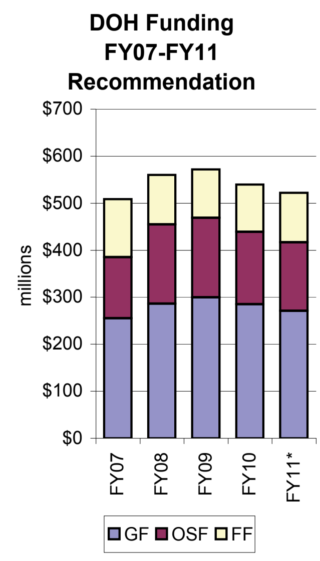
To reduce the appropriation for state employee salaries by 2 percent, a total of $16.8 million, the Legislature has a number of options in 2010. Those options include reducing the number of exempt employees, assuming higher agency vacancy rates, implementing furloughs, eliminating paid holidays, reducing the accrual rate for annual leave, reducing salaries perhaps linked to income levels, or swapping between the employee and employer share of retirement contributions.

*Eliminate Return to Work.* Return-to-work (RTW) programs allow a retiree to return as an employee without suspension of a state pension. House Bill 616 would have phased out the RTW program for state employees but it was vetoed. Laws 2009, Chapter 288, extended the RTW program for educators to 2022. Statute for both the Public Employee Retirement Association and the Educational Retirement Board require the employer pay the employee's portion of pension contributions for RTW employees. Ending the RTW programs without grandfathering current RTW employees would generate approximately $7 million general fund savings in FY11. While reductions can be made to state agencies and higher education institutions directly, cost savings to eliminate RTW employees for public education would be accomplished through a reduction to the state equalization guarantee and distributed through an adjustment to the unit value.

*Adjust Vision and Dental Benefits.* The recommendation assumes a 50 percent reduction in the employer contribution toward the dental and vision components benefit for all public employees. For FY11 this would generate $10 million for the general fund. Adjusting co-payments

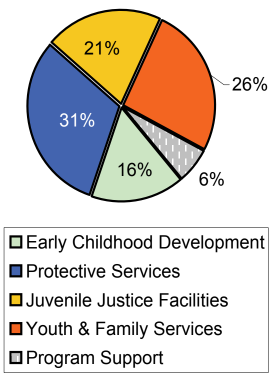



*LFC Recommendation
Source: LFC Files



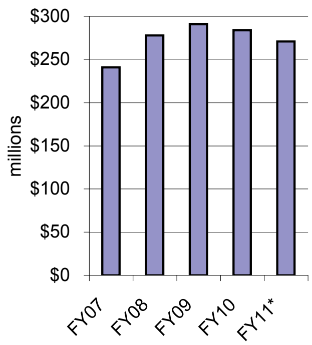

*LFC Recommendation
Source: LFC Files

CYFD Recommended FY11 General Fund by Division Total: $189.5 million




Source: LFC Files

Corrections Department General Fund Appropriations




*LFC Recommendation
Source: LFC Files

and deductibles for vision and dental insurance for public school employees is a two-fold process where the New Mexico Public School Insurance Authority would be directed to implement plan changes as specified by the Legislature and distributions to school districts through the state equalization guarantee would be reduced accordingly by adjusting the unit value.

*Eliminate Employee Assistance Program.* This benefit is 100 percent paid by employers and duplicates services included in the state health insurance plan. Eliminating this program would save $200 thousand from the general fund.

*Reduce Risk Rates.* Laws 2009, Chapter 124, reduced risk rates for all lines of coverage under the public property and public liability program by an average of 6.7 percent, or $4.6 million. A further reduction of 10 percent, or $4.6 million, to these rates is recommended to generate approximately $1.2 million in general fund savings. The proposed reductions would have a limited impact on the solvency of the program; GSD is projecting both funds to exceed the 50 percent reserve ratio at the end of FY10.

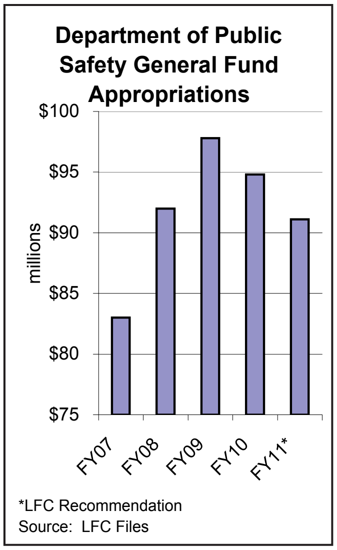
*TRD Administrative Fee.* Currently the Taxation and Revenue Department (TRD) collects a 3.25 percent fee on distributions of revenue from most local option taxes. A TRD option presented to the Governor's Budget Balancing Task Force would apply a 2 percent fee to the first 0.5 percent of municipal local option taxes, to food and medical hold-harmless distributions, to the municipal distribution of 1.225 percent of the state's 5 percent gross receipts tax rate, and to distributions of state gross receipts taxes dedicated to tax increment development districts. The option would raise $13.4 million and cover the costs incurred by the department in administering these programs. Although the option would divert some revenue from local governments, their revenues have benefited from rising property tax collections, and they have been less exposed than the general fund to volatile oil and gas and income tax collections.

*Fire Protection Fund.* Under present law, insurance premium taxes would be diverted from the general fund to the Fire Protection Fund (FPF) at a gradually increasing rate over a 10-year period. LFC recommended postponing the next scheduled increase in the distribution by one year to raise $2.1 million. After one year, the gradually increasing rate of distribution to the FPF would resume.

*Measures to Be Determined.* Reflecting significant uncertainty regarding the general fund revenue outlook, the status of executive initiatives to reduce spending, the course of additional federal stimulus initiatives, and executive and legislative tax policy studies, the LFC recommendation leaves $200 million of budget balancing measures to be determined.

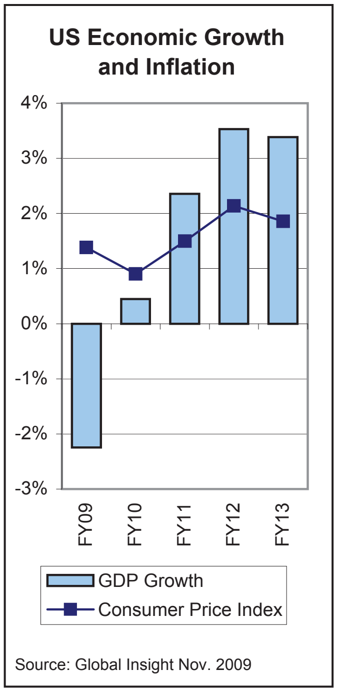
Most promising is the prospect that the enhanced federal Medicaid assistance percentage enacted in the 2009 American Recovery and

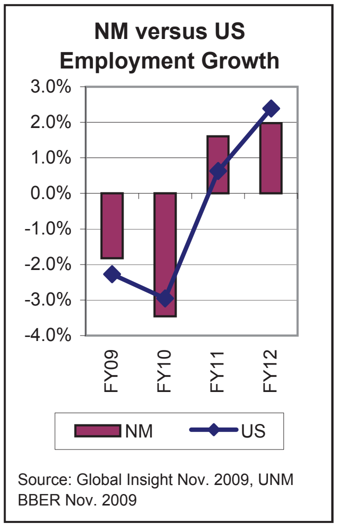
Reinvestment Act will be extended at least six months. As of this writing, an official of the National Conference of State Legislatures indicates "confidence" of this extension. This would allow reversing the $83 million increase in general fund appropriations to the Human Services and Health Departments.




The depth of the state's financial crisis has raised the question of whether revenue increases should be used to close a portion of the deficit. In considering revenue increases, such as tax increase, it is important to consider the tax policy implications of proposed measures. Better tax policy will improve the state's long-term economic performance and ensure adequate long-term funding of needed public services. In 2009, LFC adopted a set of tax policy principles to guide considerations of revenue legislation. A discussion of those principles is included in the Fiscal Outlook & Policy section of this document. Using the principles as a guide, the Legislature may wish to consider measures that would broaden the tax base, because a broader base with lower tax rates meets several goals of good tax policy. In addition, the Legislature may wish to revisit some of the "tax expenditures" adopted in recent years. These are policies that direct state revenues to targeted activities via tax exemptions, deductions, or credits. Like all other categories of state spending, these policies should be subject to careful review. A table of possible revenue-raising options is included in Volume III.

Finally, the FY11 appropriation may require additional spending reductions. These may include further reductions in compensation valued at $38 million per 1 percent, savings achieved from reorganization or consolidation of agencies and programs, reductions from elimination of low-priority agency activities, further reductions in spending for contracts, or reductions in agency vacancy rates discussed above.




The worst recession since World War II hit New Mexico at the end of 2008, approximately one year after the impact was first felt on the nation as a whole. A national rebound in sales of goods and services began during the third quarter of 2009, but employers are still reducing payrolls, and job growth is not expected before the second quarter of 2010. Unlike some previous recessions, this one is hitting New Mexico at least as hard as the rest of the nation. The state has lost approximately 40,000 jobs, about 6 percent of the private workforce. Although job growth is forecast to resume next spring, the pace of growth is expected to be muted, and the previous peak number of jobs will not be reached again until 2012.

The consensus revenue estimating group relies on Global Insight (GI) for a forecast of the national economy and on the Bureau of Business and Economic Research (BBER) at the University of New Mexico for a forecast of the New Mexico economy. The group subscribes to the oil and gas price forecasting service of the PIRA Energy Group, in addition to drawing on GI's energy price outlook. A summary of the key economic assumptions underlying the consensus revenue forecast is presented in Table 2 at the end of this document.

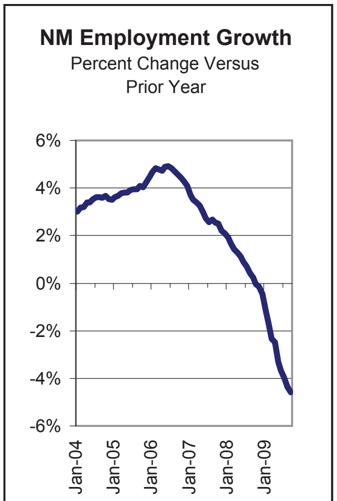
**U.S. Economy.** After contracting for four straight quarters, U.S. gross domestic product (GDP) -- the dollar value of all goods and services produced in the economy -- resumed growth in the third quarter of 2009. GI estimates that federal fiscal and monetary stimulus accounted for a majority of growth, raising questions about the sustainability of the recovery when the government eventually implements its "exit strategy." Growth was also increased by the re-stocking of inventories, especially in the automobile sector, a trend that will continue into the spring according to GI. Single-family housing construction added growth, in part due to federal tax credits. Extension of the credits through next spring will provide support for construction, but some sales will merely be accelerated from future periods, creating a payback period of slower growth. Both multi-family and commercial construction remain weak due to tight credit markets and a lack of demand. Business equipment spending has stabilized after seven quarters of decline. Excess capacity means that large expansions are unneeded, but replacement of aging equipment should be enough for a modest recovery beginning this quarter. Foreign trade is increasing sharply, as both imports and exports increased at double-digit rates in the third quarter. Unfortunately, the net effect will be a drag on the U.S. economy, as imports grow faster than exports.

The recovery of output has not yet triggered a recovery of employment. The national unemployment rate is now 10.2 percent, not far from its postwar peak of 10.8 percent. Rising output without rising employment means that worker productivity has increased sharply, which will hold down inflation and allow the Federal Reserve to maintain expansive monetary policy. Productivity growth will also boost the bottom line for businesses, creating retained earnings from which new investment and employment can be financed. Unfortunately, the lack of jobs and the loss of home equity due to falling house prices have put the American consumer under tremendous pressure, holding down sales, which in turn discourages companies from adding to payrolls. This "chicken and egg" problem has lead to congressional debate about the need for another round of stimulus spending, although debate continues over the efficacy of the first round. GI estimates that $561 billion of the initial $787 billion stimulus package will be spent in 2009 and 2010, adding about 1 percent per year to GDP growth and saving or creating about 2.5 million jobs. The stimulus package, in addition to financial bailout costs and weaker revenues, has pushed the federal budget deficit to $1.4 trillion in 2009, and a similar level is expected in 2010. Such large deficits pose risks to the long-term economic outlook. Taxes will have to be raised or government borrowing will force up interest rates, and either reaction will slow the growth of private investment and employment.

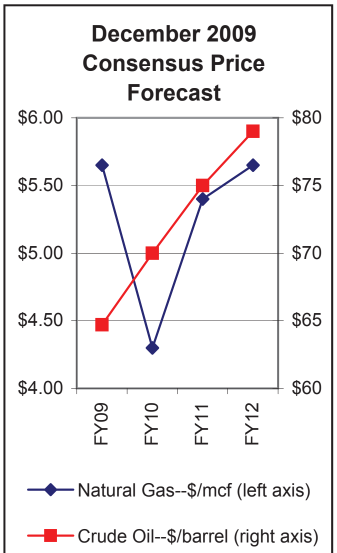
**New Mexico Economy.** Recession hit New Mexico with a vengeance in spring 2009. Employers cut payrolls at an accelerating pace throughout the spring and summer, with the cumulative reduction exceeding 40,000 jobs from the 2008 base of 650,000 private sector jobs. Mining, construction, and manufacturing all fell at double digit rates. In raw numbers the biggest losers were construction (down 10,000 jobs), business services (down 9,000 jobs), and manufacturing (down 7,000 jobs). The healthcare sector added 3,500 jobs, probably due in part to the infusion of stimulus funds for the Medicaid program. Private sector wages and salaries are expected to post a rare cumulative decline of 4.7 percent for all of 2009. Business and investment income components are also down sharply, including dividends (down 7 percent) and proprietor's income (down 4 percent). Transfer payments are up, due in part to increased Medicaid spending.

Employment growth in New Mexico is expected to follow national patterns, with growth turning positive in the second quarter of 2010 and increasing gradually thereafter. Total employment for 2010 is expected to be no higher than in 2009, and after this two year "trough" job growth is projected to resume at a 2 percent rate in 2011. Services, manufacturing, and transportation are expected to lead the recovery, with retail, accommodation and mining lagging behind. The sluggishness of the recovery means that some sectors are likely to still be well below their peak employment even after several years. These include construction, mining, manufacturing and retail trade. Meanwhile, the healthcare sector is expected to continue to grow, accounting for one-third of all job growth over the next three years.

**Energy Markets.** Both crude oil and natural gas prices declined sharply last winter in response to weaker economic growth and reduced speculative demand. From a high of over $12 per thousand cubic feet (mcf), natural gas fell below $3 per mcf in March 2009 and hovered around that level until September. In addition to lower demand, gas prices have been depressed by significant production increases in the continental United States. Horizontal drilling and hydrologic "frac'ing"

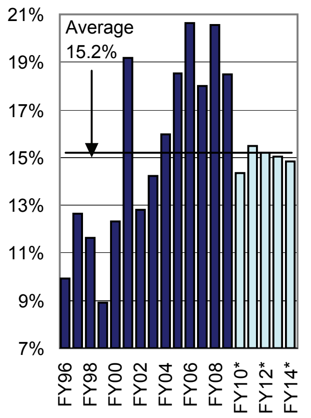



Source: Federal Reserve Bank of Philadelphia



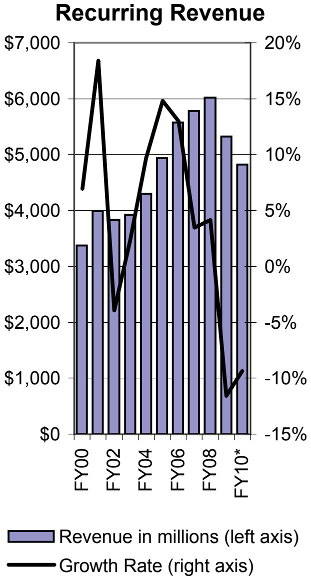

Source: LFC Files

**Energy-Related Revenue Share of Recurring General Fund Revenues**




*Forecast
Source: Consensus Revenue Estimate

**General Fund Recurring Revenue**




*Dec 09 Consensus Revenue Estimate
Source: LFC Files

techniques have dramatically improved productivity, albeit at somewhat higher costs. The new techniques have been especially productive in shale formations previously thought to be too expensive to develop. The good news is that U.S. production potential has increased dramatically; the bad news is the resulting supplies will keep a lid on gas prices for years to come.

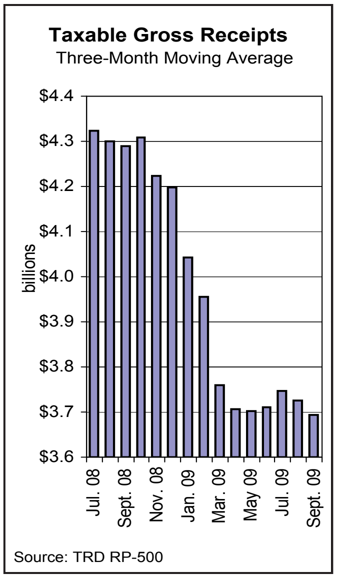
Gas prices began rebounding in October, climbing to around $4.50 per mcf by mid-November. Analysts pointed to the brightening outlook for U.S. manufacturing, which should lead to increased demand. In addition, drilling activity had declined by over 50 percent in response to low prices and tight credit, with the result that new supply growth has begun to slow. A mild start to the winter heating season, combined with historically high inventory levels, has dampened prices somewhat in recent weeks. Nonetheless, the PIRA Group foresees a recovery of prices in 2010 as lower drilling activity leads to a dearth of new supplies and the economy enters a period of more robust growth. Unfortunately, smaller independent producers will be among the hardest hit by the pressure to reduce production. This may impact New Mexico disproportionately, because independent producers are a major component of the industry. Production reported on oil and gas tax returns has indeed been declining in New Mexico, a trend the consensus group sees continuing into FY10 and beyond.

Oil prices have rallied more quickly than gas prices over the last six months, roughly doubling to over $70 per barrel after bottoming out at around $35 in March. The main driver has been the return of global economic growth and increased demand for oil products. A secondary factor has been the decline of the U.S. dollar. According to PIRA, oil has become a safe haven for investors worried about the dollar's weakness. A third factor has been continuing supply uncertainty due to political risk in regions like Iran, Iraq, and Nigeria. PIRA expects supply and demand fundamentals to support higher oil prices next year and well into the future. Worldwide demand will be almost fully recovered from recessionary lows by the end of 2010. In the long term, demand will grow as populations move from rural to urban areas in emerging market economies like China and India, which already consume half of the world's oil. Urban households consume significantly more energy than their rural counterparts. Meanwhile production outside the Organization of Petroleum Exporting Countries (OPEC) is declining, leaving OPEC to make up the difference. OPEC is unlikely to increase production significantly unless the price of oil moves well above the $80 level.

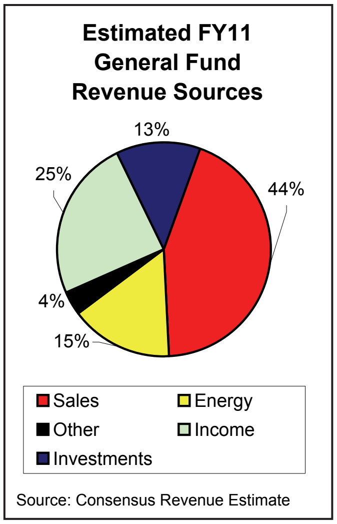
**Revenue Forecast.** After falling by 11.6 percent in FY09, general fund revenue is expected to fall by another 9.3 percent in FY10, creating a cumulative decrease of over 20 percent from the FY08 peak of just over $6 billion. Strong growth of over 6 percent is expected in FY11, but the FY08 level is not expected to be reached until FY16. The long-term growth rate of revenue is now 5.1 percent, slightly below the 5.5 percent growth of personal income.

Table 3 presents the latest consensus forecast of general fund revenue. Falling energy prices were a major factor in the FY09 decline, but personal and corporate income taxes also fell sharply, a reflection of the deteriorating economy. The FY10 decline is mainly due to energy prices, but gross receipts tax (GRT) and investment income are also down significantly. Broad-based revenue growth – as well as higher energy-related revenue – is expected to return in FY11.

***Gross Receipts Tax.*** GRT collections remained strong through the first half of 2008, but went into free-fall in the spring as construction, mining, and manufacturing led the way into a broader economic decline. Although revenue was down only 1.4 percent for FY09 as a whole, monthly collections ended the year down by more than 10 percent compared with the same month last year. That trend has continued through the first quarter of FY10 and is expected to continue through the current quarter. Although year-over-year comparisons should improve in the latter part of the year, FY10 collections will be down by more than 7 percent, or $130 million compared with FY09. Growth will resume in FY11 as employment and income begin rising.

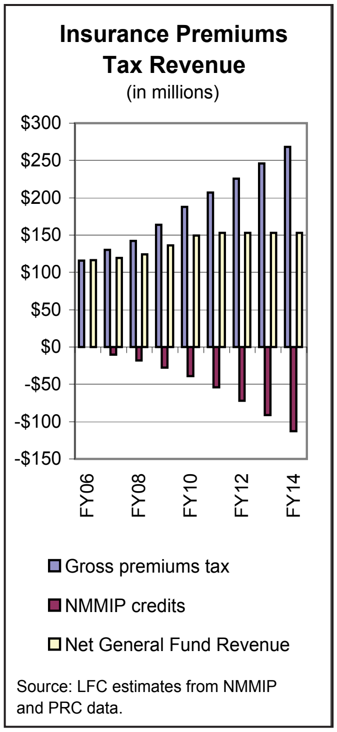


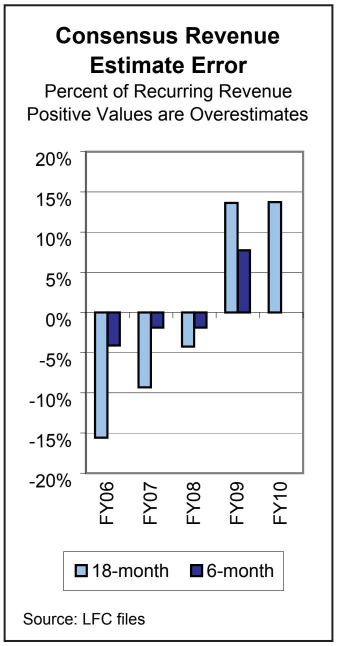

***Corporate Income Tax.*** Corporate income tax (CIT) collections plummeted in the spring, as payments with 2008 tax returns fell by over 60 percent compared with the prior year. Quarterly payments of tax year 2009 liabilities are also down sharply, reducing gross CIT payments by over 40 percent in the first quarter of FY10. In addition to the underlying weakness of liabilities, another factor reducing net CIT collections has been a sharp increase in payment of film production credits. Credits jumped from $46 million in FY08 to almost $77 million in FY09.




***Personal Income Tax.*** Net collections of personal income tax (PIT) fell sharply with the payment of almost $250 million in refunds from December 2008 to February 2009, an increase of $60 million from the same period in FY08. Refund claims continued at a high rate through the return filing season, while payments fell by more than 30 percent. Weakness has continued into the first part of FY10, with first quarter payments down almost 12 percent. Much of the weakness is attributed to capital gains realizations, thought to be down more than 60 percent from their peak in FY08. Lower capital gains are a reflection of the sharp fall of the stock market at the end of 2008. Recovery in this income tax source will be delayed, as taxpayers can deduct only as much in losses as they have gains to offset. Any excess of losses over current gains will be carried forward and applied against gains in future years. In addition, withholding payments have posted some of their weakest growth in history, a reflection of the dramatic worsening in the state's labor market.

***Energy Revenues.*** Revenue in FY09 fell sharply from FY08, as both gas and oil prices fell and production continued to decline. This trend was particularly pronounced in the spring because prices that had spiked dramatically in early 2008 came down just as quickly in the later part of the year. As a result, revenue was down $230 million in the fourth




quarter of FY09 alone. A similar problem occurred in the first quarter of FY10, when revenue was down by 60 percent. Looking forward, prices should improve but will still leave FY10 revenue down by more than $300 million compared with FY09. Revenue in FY11 is expected to grow by more than $110 million, due to higher prices, and in spite of lower production levels.

***Interest Income.*** Earnings on State Treasurer's balances will decline sharply in FY10, a reflection of lower balances and lower yields. The treasurer has had to shorten the term of many investments in response to the state's increased need for liquidity as balances have fallen. In the longer term, general fund revenue from the state's permanent funds will be reduced by the sharp drop in market value during last year's financial crisis. In addition, beginning in FY13 the general fund distribution rate from the land grant permanent fund falls from 5.8 percent to 5.5 percent, as mandated by voters in the 2004 constitutional amendment.

***Other Revenues.*** Health insurance premiums tax collections have been growing at double-digit rates, in part due to the Coordination of Long-Term Services (CoLTS) program instituted in FY09. Offsetting much of this gain has been increased credits for assessments paid by insurers to the New Mexico medical insurance pool (NMMIP). NMMIP credits are estimated to have grown by more than 50 percent in FY09 and are expected to continue growing by more than 30 percent per year for the next three years. Motor vehicle excise tax collections have been hit by the recession, falling by over 20 percent in FY09. After a flat performance in FY10, collections are expected to begin growing by 10 percent per year in FY11, a forecast based largely on national trends predicted by GI. After growing by over 20 percent in FY09 due to startup of new facilities, gaming excise tax collections will remain flat in FY10 as new operations at the Raton racetrack offset the decline at existing facilities due to economic weakness.

**Risks to the Forecast.** The vulnerability of the economic recovery is the main risk to the forecast, because broad-based revenues like GRT and PIT will not recover until employment growth returns. Despite a recent slowdown in the rate of decline, the national job market is still worsening at this time. In addition, foreclosure rates are still rising and commercial real estate markets are still deteriorating. As the effects of the federal stimulus programs begin to diminish, long-term growth will depend on a recovery of lending and the consumer and business spending that depends on it. Corporate income tax collections are highly uncertain, with many companies experiencing net operating losses that will be carried forward and applied against future earnings, reducing liability growth. Natural gas prices pose less-than-usual risk to the FY10 forecast but could lower FY11 revenue if expected improvements in demand do not materialize. Recent supply improvements in the United States have dramatically altered the outlook, and the full consequences are not yet fully understood.

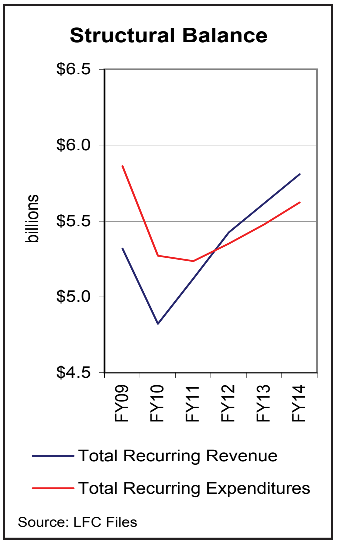
**General Fund Reserves.** Reserves were 6.5 percent of appropriations at the beginning of FY10 but they will fall to just under 1 percent due to the projected imbalance between revenue and appropriations. If executive agencies realize savings as mandated in Executive Order 2009-044, FY10 ending reserves could be as high as 2.5 percent. This is still an inadequate reserve level given the unpredictability of state revenues. Forecast errors have increased sharply in recent years, in part due to energy price volatility but also due to macroeconomic fluctuations.

**Baseline Expenditure Forecast.** The baseline expenditure forecast assumes FY11 recurring appropriations are $5.2 billion. For FY12 thru FY14, expenditures increase about 2.4 percent per year. Over the last decade the growth rate of expenditures has been 6.7 percent and has been as high as 11 percent in both FY02 and FY08 and the cumulative growth rate during that period of 47 percent. The expenditure forecast is linked to the Global Insight forecast of the consumer price index (CPI) and New Mexico population as well as the Congressional Budget Office's expectations of Medicaid expenditures. As of the latest forecast, the CPI is expected to be low in FY10 and FY11 while population is expected to grow approximately 1.2 percent per year. Under the baseline expenditure forecast, revenues begin to outpace expenditures in FY12.

| General Fund Expenditure Baselines: | Baseline Forecast | | |
|---|---|---|---|
| | FY12 | FY13 | FY14 |
| Legislative | 18.63 | 18.98 | 19.32 |
| Judicial | 198.38 | 202.06 | 205.73 |
| General Control | 181.05 | 184.41 | 187.76 |
| Commerce and Industry | 51.47 | 52.42 | 53.38 |
| Agriculture, Energy and Natural Resources | 71.49 | 72.82 | 74.14 |
| Health and Human Services | 1,306.85 | 1,350.08 | 1,407.57 |
| Medicaid | *661.22* | *692.47* | *738.01* |
| Other Health and Human Services | *645.63* | *657.61* | *669.56* |
| Public Safety | 372.64 | 382.81 | 393.11 |
| Corrections | *270.68* | *278.95* | *287.37* |
| Other Public Safety | *101.96* | *103.86* | *105.74* |
| Higher Education | 776.34 | 790.76 | 805.12 |
| Public Education | 2,373.67 | 2,423.65 | 2,476.80 |
| Total Recurring Expenditures | 5,350.5 | 5,478.0 | 5,622.9 |
| Spending Increase (year over year) | 114.3 | 127.5 | 144.9 |
| Spending Growth Rate | 2.18% | 2.38% | 2.65% |
| Recurring Revenue less recurring expenditures | 75.3 | 140.1 | 185.6 |

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.
4) All other agencies grow at the expected rate of inflation.
5) Sources for economic growth, inflation, and demographics include Global Insight UNM-BBER, & the U.S. Census.
6) FY11 recurring appropriations assumed to be $5.236 billion.

**Revenue and Tax Policy**. The depth of this financial crisis has raised the question of whether revenue increases should be used to close a portion of the deficit. In considering revenue increases, it is important to consider the tax policy implications of proposed measures. In 2009, the LFC adopted a set of tax policy principles to guide considerations of revenue legislation. Better tax policy will improve the state's long-term




**LFC Tax Policy Principles:**

**Adequacy:** Revenue should be adequate to fund needed government services.

**Efficiency:** Tax base should be as broad as possible and should avoid excessive reliance on any single tax.

**Equity**: Tax should be fairly applied across similar taxpayers and across taxpayers with different incomes.

**Simplicity**: Tax collection should be simple and easily understood to encourage compliance and minimize administrative costs.

**Accountability:** Deductions, credits and exemptions should be easy to monitor and evaluate.

**State and Local Sales Taxes**

| | Average General Sales Tax Statutory Rate* | Collections as Percent of Personal Income** |
|---|---|---|
| Arizona | 7.92% | 5.32% |
| California | 9.06% | 3.81% |
| Colorado | 7.24% | 3.43% |
| Idaho | 6.00% | 4.08% |
| Montana | NA | 1.86% |
| Nevada | 7.59% | 6.47% |
| **New Mexico** | **6.40%** | **5.50%** |
| Oklahoma | 8.44% | 3.90% |
| Texas | 7.39% | 4.61% |
| Utah | 6.61% | 4.67% |

Sources: *Tax Foundation; **U.S. Census.

Census Bureau data include other sales taxes.

economic performance and ensure adequate funding of needed public services. Any tax increase can be criticized for some reason, whether because of negative impacts on economic growth, an unfavorable redistribution of income, or other reasons. The task before the Legislature is, therefore, to weigh the relative detriments of various provisions. The task is complicated because economic evidence on the effects of policies is often lacking. In addition, when weighing the impacts of any one tax increase, it is important to keep in mind the other state and local taxes being imposed, and how this whole "package" of taxes compares with that of other states.

The following table presents results of one nationwide survey that attempts to calculate the impacts of all major state and local taxes on households. To capture local tax effects, the study examines the impacts of taxes in the largest city of each state on a hypothetical family of three with different income levels. New Mexico's overall tax burden on households with $150,000 of income is above average, with sales tax being above average and other taxes being at or below average.

**State & Local Taxes as a Percent of Gross Income for a Household with $150,000 Income**

| City, State | Income Tax | Property Tax | Sales Tax | Auto | Total |
|---|---|---|---|---|---|
| Albuquerque, NM | 3.5% | 1.8% | 1.9% | 0.2% | 7.5% |
| Billings, MT | 5.3% | 0.6% | 0.0% | 0.6% | 6.5% |
| Boise, ID | 5.6% | 1.2% | 1.3% | 0.3% | 8.4% |
| Denver, CO | 3.5% | 1.1% | 1.5% | 0.8% | 6.9% |
| Houston, TX | 0.0% | 2.4% | 1.7% | 0.2% | 4.4% |
| Las Vegas, NV | 0.0% | 2.5% | 1.1% | 0.4% | 4.0% |
| Los Angeles, CA | 3.3% | 3.5% | 1.4% | 0.7% | 8.9% |
| Oklahoma City, OK | 4.4% | 1.4% | 1.9% | 0.2% | 7.9% |
| Phoenix, AZ | 2.3% | 1.0% | 2.0% | 0.6% | 5.9% |
| Salt Lake City, UT | 4.9% | 1.0% | 1.5% | 0.4% | 7.7% |
| **Average** | **3.3%** | **1.7%** | **1.4%** | **0.4%** | **6.8%** |

Source: Government of the District of Columbia.

One set of proposals that has received recent legislative attention would raise income taxes on higher income households. Some proposals would increase the tax rate, while others would limit deductions for capital gains or for certain itemized deductions. These proposals create a trade-off between economic efficiency, because higher tax rates are a discouragement to businesses seeking to locate or expand in New Mexico, and vertical equity, the goal of imposing fair tax burdens on households with different income levels.

As the largest single source of general fund revenue, the gross receipts tax is one potential source for raising revenue. Some proposals would increase the tax rate, while others would reduce or eliminate deductions for food or medical services. Although the GRT meets the adequacy criterion, because it is a large and fairly reliable revenue base, it raises concerns with economic efficiency because so much of the tax base is composed of business-to-business transactions. Most states do not tax as many of these transactions as does New Mexico, which means that our tax imposes higher operating costs on our businesses, possibly putting them at a disadvantage when competing with businesses in other states. In addition, because low-income households spend more of their income on taxable purchases, the GRT probably imposes a "regressive" tax burden. This concern is mitigated to some extent if the food tax deduction is repealed because food purchased with food stamps would continue to be tax deductible. A comparison with other western states shows that, although New Mexico's combined state and local GRT statutory tax rate is below average at 6.4 percent, total revenue from the tax as a percent of personal income is one of the highest in the region at 5.5 percent. The relatively high total burden of the tax is due to the broader base to which it applies.

Other possible revenue enhancements include raising the corporate income tax on certain multi-state businesses, increasing cigarette taxes, increasing liquor taxes, increasing the motor vehicle excise tax, increasing taxes on oil and gas production, and increasing the insurance premiums tax. As the accompanying table illustrates, New Mexico's motor vehicle excise tax rate is one of the lowest in the region. The table does not show the additional local sales taxes that are imposed in some other states but not in New Mexico. A list of possible revenue-raising options along with their estimated fiscal impacts is provided in Volume III. Each of these proposals has its downside, and legislators will no doubt be hearing from affected constituencies on each.

**Vehicle Excise Tax Rates**

| | |
|---|---|
| Arizona | 5.60% |
| California | 6.00% |
| Colorado | 2.90% |
| Idaho | 5.00% |
| Montana | NA |
| Nevada | 6.50% |
| New Mexico | 3.00% |
| Oklahoma | 3.30% |
| Texas | 6.25% |
| Utah | 4.80% |

Excludes local taxes that apply in some states.

Source: Congressional Quarterly.

**<u>Tax Expenditures and Accountability.</u>** In 2009, LFC continued its focus on accountability for tax expenditures, conducting a review of recommendations of the Blue Ribbon Tax Reform Commission. In addition, LFC reviewed and evaluated major tax policy changes since 2003. The following table lists the major revenue-reducing provisions adopted during the period, which have reduced annual revenue by about $900 million as of FY11. In addition to these provisions, about $300 million in revenue-raising provisions have been adopted, leaving general fund revenue down by about $600 million per year. The largest revenue-reducing provisions were the decrease of income tax rates, the GRT deductions for food and medical services, various tax breaks for medical services, and the film production tax credit.

**ANNUAL IMPACTS OF SIGNIFICANT TAX DECREASES: 2003 to 2009 Statutory Changes**

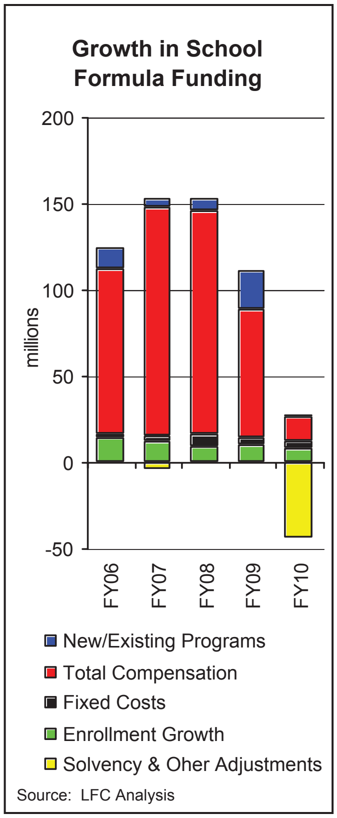
| Session | DESCRIPTION: | Estimated FY11 General Fund Impacts ($ millions) | Principles to guide responsible and effective tax policy decisions: | | | | |
|---|---|---|---|---|---|---|---|
| | | | Adequacy | Efficiency | Equity | Simplicity | Accountability / Transparency |
| 2003 | Income tax deduction for capital gains | (30.0) | × | ± | × | × | × |
| 2003 | Reduce income tax rates | (360.0) | × | ± | ± | × | × |
| 2004 | Food GRT deduction | (228.0) | × | × | ✓ | × | × |
| 2004 | High-wage jobs tax credit | (15.0) | × | ± | × | × | × |
| 2004 | Medical services GRT deduction | (65.0) | × | ± | ✓ | × | × |
| 2005 | Low & moderate income tax exemption | (30.0) | × | | ✓ | ✓ | ✓ |
| 2005 | Back-to-school GRT holiday | (2.7) | × | × | ✓ | × | × |
| 2005 | Renewable energy production tax credits | (5.0) | × | ± | | × | × |
| 2005 | Film production tax credit increase | (71.5) | × | ± | × | × | × |
| 2006 | Tax increment for development act | (5.0) | × | ± | × | × | × |
| 2007 | Hospital GRT credit | (15.0) | × | ± | ✓ | × | × |
| 2007 | Rural health care practitioner tax credit | (5.0) | × | ± | ✓ | × | × |
| 2007 | Working families tax credit | (40.0) | × | | ✓ | ± | × |
| 2007 | Armed forces income tax exemption | (10.0) | × | | ✓ | × | × |
| 2009 | Investment tax credit extension | (5.0) | × | ± | × | × | × |
| 2009 | Double-weighted sales extension | (5.0) | × | ± | × | × | × |
| | **Total** | **(892.2)** | | | | | |

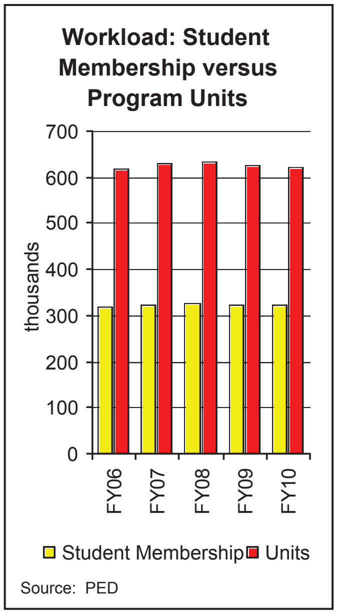
Notes:

✓ Denotes a positive effect

× Denotes a negative effect

± Denotes it has both a positive and negative effect




Since FY02, formula funding for public schools has increased $728 million, or approximately 43 percent even though workload has remained flat. During the same period, appropriations for total employee compensation have increased by $634 million. These appropriations include $442 million for salaries and benefits, $64 million for increased employer contributions to the educational retirement fund and $128 million for the employer share of insurance benefits for employees. Overall, this accounts for approximately 87 percent of appropriation increases from FY02 to FY10.

Early childhood education continues to be a primary interest of the Legislature and executive, with initiatives that include prekindergarten, extended school year, breakfast for elementary students, and after-school programs. Support for high school redesign efforts also continues, albeit at a reduced level as a result of prioritizing formula funding over categorical programs. These programs, focused on improving graduation rates, student achievement, and reducing the need for remediation in college, are under increased scrutiny because FY09 targets for some performance measures fell short of projections.

On the upside, the percent of students' proficient or above in math in all grades is up. A bright spot is student performance in the eighth grade, where over the last five years math scores have almost doubled, posting gains of 19 percentage points. On the down side, the number of New Mexico fourth graders scoring proficient or above on the New Mexico Standards Based Assessment (NMSBA) has remained relatively stagnant for the last five years, and the number of low-performing schools subject to the most intensive state-level interventions doubled from the prior year.

**Financial Issues**. In the face of astonishing reductions in revenue over the last two years, the Legislature has managed to limit reductions in funding to school districts. For FY10, after accounting for solvency legislation in FY09 and FY10, recurring general fund appropriations to the state equalization guarantee (SEG) distribution totaled $2.106 billion, down $277.8 million, or 11.7 percent, compared with the original FY09 appropriation. This amount includes adjustments of $19.3 million for FY09 solvency initiatives, $43.9 million for FY10 solvency initiatives, $210.2 million of federal fiscal stabilization funds and $23.2 million of contributions for the 1.5 percent employee-employer switch to the educational retirement board where employees are picking up an extra 1.5 percent of retirement contributions for two years. As a result, public schools experienced a net reduction of only $24.7 million, or 1 percent, for FY09 and $43.9 million, or 2 percent, in FY10 at a time when many agencies had to absorb operational reductions of more than 5 percent. Legislation enacted in the 2009 special session that appropriated funding to the New Mexico Public School Insurance Authority to pay property insurance costs for districts effectively reduced the FY10 reduction to schools to only 0.7 percent.

In addition to stimulus funds appropriated to the SEG to replace general fund appropriations, districts were awarded approximately $82 million in extra Title I allocations and approximately $91 million in special education allocations that can be used to cover shortfalls in operational budgets, to purchase textbooks and materials, and to provide professional development. The U.S. Department of Education advises that these funds are covered under the provisions of the federal Tydings Amendment that allow states additional time to expend allocated funds. Districts should have an additional 27 months to fully expend these funds, easing some of the pressure caused from reduced state funding and the nonrecurring nature of the federal stimulus funds.

*Funding Formula.* A new funding formula has been considered by the Legislature for two consecutive sessions without resolution. In general, the discussion surrounding the formula has centered on the more than $340 million that proponents say is needed "for sufficiency" before implementation can take place. Forgotten are discussions of program cost-effectiveness, comparisons with existing programs, and the way the formula distributes funding to school districts and charter schools.

The methodology to estimate sufficiency cost has been questioned by 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). The methodology focuses on the cost differences between current expenditures and a "model school" as determined by a professional judgment panel (PJP). Hanushek says 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.

In spite of these concerns, the function of the proposed formula appears to address the added cost of providing an adequate education for at-risk students over the general student population. This need is addressed in the new formula by using 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.

*School and District Size Adjustment.* School size and district size units are included in the current funding formula in recognition of the increased costs of operating small schools and districts, particularly in rural areas. It appears that while the original intent of the Legislature was to compensate for economies of scale with larger schools, it was not anticipated that schools and districts would use this provision to create and maintain small schools, particularly in urban areas.

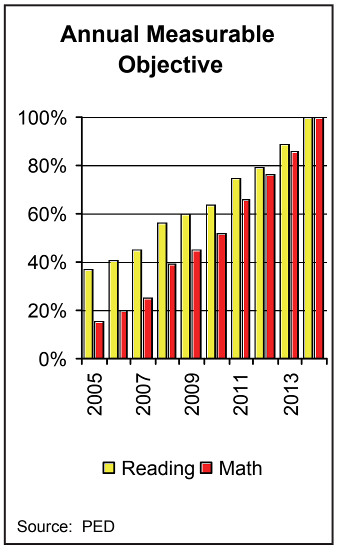
| American Recovery and Reinvestment Act (statewide distribution) (in thousands) | |
|---|---|
| Title I | |
| FY10 | FY11 |
| $38,785.6 | $38,785.6 |
| | |
| IDEA-B (SpEd) | |
| FY10 | FY11 |
| $45,406.3 | $45,406.3 |

### General Formula

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

| Schools Districts Out of Compliance with Timely Audit Requirement | |
|---|---|
| District | Year of Last Audit Report |
| Cobre | 2007 |
| Cuba | 2006 |
| Des Moines | 2007 |
| Espanola | 2006 |
| Floyd | 2007 |
| Gadsden | 2007 |
| Jemez Valley | 2005 |
| Lovington | 2006 |
| Mountainair | 2007 |
| Roy | 2007 |
| Santa Rosa | 2007 |
| Vaughn | 2007 |

Source: NM State Auditor 10/5/2009




For FY09, 77 of 89 school districts and 68 of 75 charter schools statewide claimed school-size units at a cost of approximately $72 million; 72 of 89 school districts claimed district-size units at a cost of approximately $19 million. Some of the charter schools claiming size units share a building with other charter schools but claim the size adjustment as a separate school. In some cases, district schools and charter schools are purposely held below 200 students specifically to take advantage of the size adjustment. Some districts are doing the same thing by claiming two separate schools that occupy the same building. The impact to the SEG from this could be as high as $30 million annually. Lawmakers should consider changes to the funding formula to address this issue and define narrower eligibility parameters.

*School District Audits.* As of March 22, 2009, 23 school districts were out of compliance with statutory requirements to have timely audits submitted to the state auditor. By September 30, 2009, with considerable pressure being applied by the state auditor and PED this number was reduced to 12 districts. The State Auditor notified the committee in September that he considers these school districts to be "at risk" for employee fraud and embezzlement. While some districts were late by a few months, the most egregious violators were late by as many as four years. One of these districts, Jemez Mountain Public Schools terminated its chief financial officer for allegedly embezzling more than $3.8 million in district funds and is currently under investigation by the State Auditor's Office and local law enforcement. As a result, PED has suspended the district's board of finance and taken over the district's finances. The district may require a short-term loan to meet its second-quarter debt service obligations.

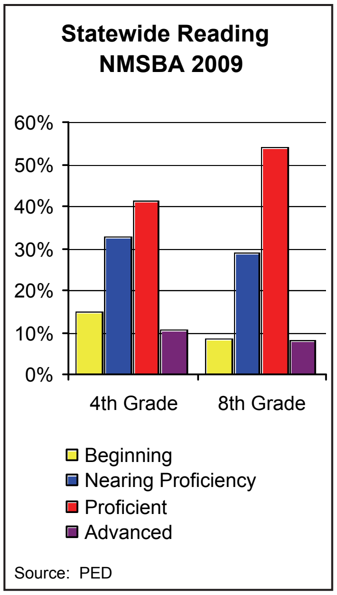
One response to the timely audit issue has been for the Public School Capital Outlay Council to establish, as a condition of award, that school districts are not eligible to receive standards-based school construction awards until the districts' audits are up to date. These conditions do not apply to emergency situations, which will continue to be considered on a case-by-case basis.

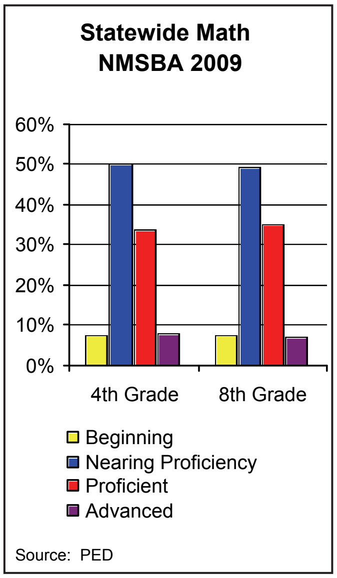
A recent performance evaluation conducted by LFC staff on five medium-size school districts identified a number of operational and financial practices that are of concern. Of specific concern is the deference to locally controlled decisions particularly as it relates to financial control, funding formula calculations, and PED oversight. Common findings across all five districts are poor financial management practices and oversight by school boards and management, particularly with the use of credit cards; difficulty in submitting timely audits; districts not linking financial planning with educational planning in budget development; excessive additional compensation to certain employees; and weak accounting information systems. Districts are expected to respond prior to the 2010 session with an action plan on how these issues raised are being addressed.

**Student Achievement**. Adequate yearly progress (AYP) continues to be the primary measure used under the federal No Child Left Behind (NCLB) Act to determine whether individual schools and school districts are making progress toward gradually increasing goals of student participation and achievement on statewide assessments and other academic indicators. PED reports that results from NMSBA for the FY09 school year place 508 schools, or 62 percent of all schools, in the school improvement cycle for FY10. This increase continues to be the 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 | | | | |
|---|---|---|---|---|---|
| Improvement Category | 2005 | 2006 | 2007 | 2008 | 2009 |
| Progressing | 552 | 451 | 427 | 379 | 312 |
| School Improvement I | 125 | 140 | 88 | 79 | 116 |
| School Improvement II | 33 | 110 | 104 | 85 | 73 |
| Corrective Action | 18 | 33 | 105 | 97 | 64 |
| Restructuring I | 33 | 15 | 23 | 94 | 94 |
| Restructuring II | 27 | 51 | 61 | 77 | 161 |
| **Total** | **788** | **800** | **808** | **811** | **820** |

Source: New Mexico Public Education Department




Concern remains with the significantly increasing number of schools moving into restructuring II, the most intensive intervention level. For FY10, 161 schools are classified as in restructuring II, more than double the number for the previous school year. Of these, the vast majority are Title I schools with high poverty populations of mostly minority students. The performance of these schools is problematic; they have fallen short of meeting AYP goals for at least six years and realistically, do not have the ability to meet the goals in the near or far future.

While AYP is the reported measure of achievement for meeting NCLB requirements, a more accurate gauge of student achievement is proficiency on NMSBA. Data from the 2009 assessment suggests student achievement continues to improve in math, reading, and science. Over the last five years, overall student performance as measured by the percent of students' proficient or above has increased by 11 points in math, 5 points in reading, and 6 points in science. The 2009 assessment included students from the initial cohort that participated in prekindergarten and the results in math were significant, with a year-over-year improvement from 44 percent to 54 percent and a more modest increase in reading. While it is important to celebrate these successes, much work remains to sustain the effort because approximately 52 percent of fourth graders and 38 percent of eighth graders continue to score below proficiency in reading and 58 percent of both grades continue to score below proficiency in math.

*Graduation Rates.* PED for the first time certified graduation rates based on four-year cohort data from the 2008 graduating class. The data suggests that 60.3 percent of incoming freshman enrolling in 2005

| 4-Year Cohort Graduation Rates, Class of 2008 | |
|---|---|
| **District** | **Rate** |
| ALAMOGORDO | 65.5% |
| ALBUQUERQUE | 63.2% |
| ANIMAS | 94.4% |
| ARTESIA | 82.3% |
| AZTEC | 59.3% |
| BELEN | 68.8% |
| BERNALILLO | 53.9% |
| BLOOMFIELD | 43.3% |
| CAPITAN | 87.3% |
| CARLSBAD | 63.1% |
| CARRIZOZO | 66.2% |
| CENTRAL CONS. | 53.1% |
| CHAMA VALLEY | 81.9% |
| CIMARRON | 63.2% |
| CLAYTON | 94.3% |
| CLOUDCROFT | 91.7% |
| CLOVIS | 75.9% |
| COBRE CONS. | 84.0% |
| CORONA | 89.0% |
| CUBA | 44.5% |
| DEMING | 69.9% |
| DES MOINES | 78.0% |
| DEXTER | 72.5% |
| DORA | 86.6% |
| DULCE | 23.4% |
| ELIDA | 86.0% |
| ESPAÑOLA | 50.9% |
| ESTANCIA | 74.9% |
| EUNICE | 63.6% |
| FARMINGTON | 66.5% |
| FLOYD | 80.6% |
| FT. SUMNER | 69.9% |
| GADSDEN | 45.9% |
| GALLUP | 52.6% |
| GRADY | 93.6% |
| GRANTS | 48.5% |
| HAGERMAN | 73.5% |
| HATCH | 65.0% |
| HOBBS | 67.4% |
| HONDO | 90.8% |
| HOUSE | 40.2% |
| JAL | 79.9% |
| JEMEZ MOUNTAIN | 95.8% |
| JEMEZ VALLEY | 61.1% |
| LAKE ARTHUR | 81.7% |
| LAS CRUCES | 54.0% |
| LAS VEGAS CITY | 74.1% |
| LOGAN | 97.1% |
| LORDSBURG | 55.6% |
| LOS ALAMOS | 81.5% |
| LOS LUNAS | 54.8% |
| LOVING | 79.1% |
| LOVINGTON | 82.7% |
| MAGDALENA | 70.8% |
| MAXWELL | 89.2% |
| MELROSE | 81.4% |
| MESA VISTA | 29.4% |
| MORA | 89.8% |
| MORIARTY | 73.0% |
| MOSQUERO | 83.4% |
| MOUNTAINAIR | 55.9% |
| PECOS | 70.3% |
| PEÑASCO | 68.7% |
| POJOAQUE | 64.0% |
| PORTALES | 78.4% |
| QUEMADO | >98.0% |
| QUESTA | 80.5% |
| RATON | 41.0% |
| RESERVE | 68.0% |
| RIO RANCHO | 79.2% |
| ROSWELL | 60.7% |
| ROY | 93.0% |
| RUIDOSO | 75.2% |
| SAN JON | 79.8% |
| SANTA FE | 53.0% |
| SANTA ROSA | 93.7% |
| SILVER CITY CONS. | 76.8% |
| SOCORRO | 73.7% |
| SPRINGER | 85.9% |
| TAOS | 39.3% |
| TATUM | 96.7% |
| TEXICO | 81.6% |
| TRUTH OR CONSEQ. | 54.1% |
| TUCUMCARI | 51.5% |
| TULAROSA | 76.5% |
| VAUGHN | >98.0% |
| WAGON MOUND | 82.3% |
| WEST LAS VEGAS | 73.6% |
| ZUNI | 48.7% |
| Statewide | 60.3% |

graduated in four years. This number does not include students who left school and received a general equivalency diploma or are still enrolled in high school and working toward a degree but does point to the need for programs to keep kids in school. These programs include developing a statewide accountability system; 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. Most of these suggestions require little or no additional funding but focus on changes in the way local districts think about educating students and a willingness to require more rather than less from students, teachers, instructional leaders, and parents.

In response to the state's dismal graduation rate, the executive has committed $8.9 million in federal American Recovery and Reinvestment Act (ARRA) funding to implement the "Graduate New Mexico" initiative with the stated goal of bringing 10,000 dropouts back to school, addressing the achievement gap, and improving graduation rates in the state. The initiative is focused on six components:

- Expand the Innovative Digital Education and Learning (IDEAL) program to provide credit recovery programs,
- Create a task force to address schools most in need of improvement and to make recommendation on interventions that should be implemented,
- Establish an Office of Hispanic Education within PED,
- Organize three summits on the achievement gap focused on Hispanic, Native American, and African American achievement,
- Make available culture-competence training for teachers, and
- Create an annual report card focused on reporting achievement, graduation rates, dropout rates, college attendance rates and postsecondary attainment levels by ethnic group.

This initiative spends a considerable amount of money on summits and a taskforce with the stated goal of discussing and developing intervention recommendations when the underlying causes of the achievement gap are well-documented. Rather than reinventing the wheel, funding should be directed to increased time-on-task by lengthening the school year, getting highly effective teachers and instructional leaders into high-needs schools, improving curricular quality, and raising the quality of teachers already in these schools through high quality content-based professional development.

**Achievement Gap**. 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 significant issue. Primary factors affecting the achievement gap in New Mexico are students' economic background, parents' education level, access to high-quality preschool instruction, inadequate distribution of funding to districts through the funding formula, inadequate funding within districts to schools with the highest need, peer influences, teachers' expectations, curricular quality, and teacher quality. These influences are exacerbated in New Mexico, where the vast numbers of struggling schools are in extremely rural areas, and unable to attract effective teachers and instructional leaders.

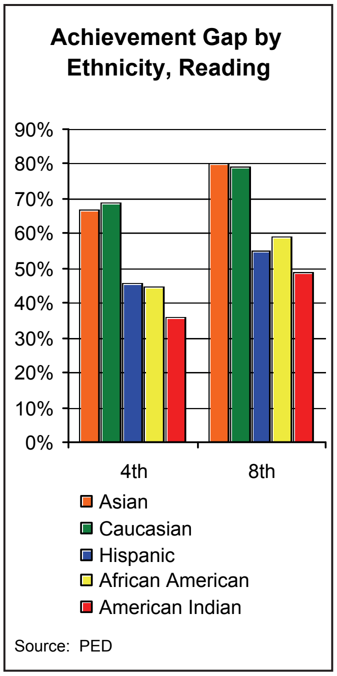
It appears, however, that long-term investments made by the Legislature and the executive on programs that serve high-poverty and high-needs populations are beginning to pay off. In the eighth grade, for example, while overall student proficiency in math has risen modestly in the last four years, the percentage of Hispanic students scoring proficient or above more than doubled from 17 percent to 35 percent, Native American proficiency improved from 11 percent to 28 percent and African American proficiency improved from 17 percent to 35 percent. Student performance in reading, while not as robust for all ethnic subgroups, grew considerably as well.

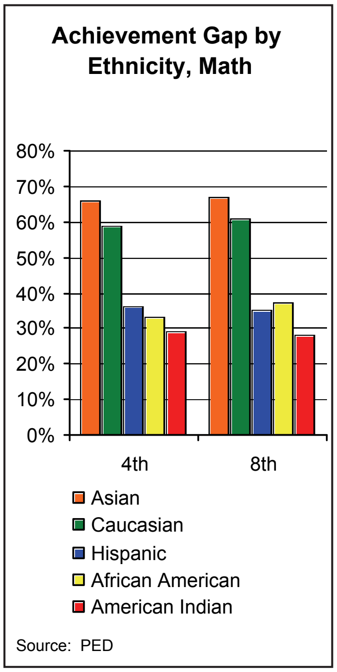
Although the performance of almost all disadvantaged subgroups continues to improve, the gap between these students and their Caucasian and Asian counterparts' remains, reminding policy makers that much work still needs to be done.

**School Improvement**. The department retains primary responsibility, based on NCLB requirements, to identify schools and districts for improvement and then to offer the support needed that will lead to improvement. The timelines for identifying schools and districts cannot be changed nor can the sequence of required interventions, but the state can determine the type of support it offers at the various levels.

For FY10, the department has developed a new school improvement framework intended to serve as a technical assistance document that outlines the roles and responsibilities of schools, districts, and PED for improving the achievement of children. This framework is one of many that have been implemented in recent years. The lack of a focused and persistent approach may be confusing to districts working on improving their schools, making all approaches ineffective. The department needs to settle on one framework and focus on making this version effective and sustainable. With the number of schools in restructuring II continuing to increase, time is running out for the department to begin making large-scale improvements in school performance.

*Race to the Top.* As part of the American Recovery and Reinvestment Act (ARRA), the federal government has established the Race to the Top Fund, a $4.35 billion competitive grant to encourage and reward states implementing comprehensive reforms across four focus areas and achieving significant improvement in student outcomes. A steering committee made up of legislative staff, executive agency staff, and school districts personnel has been formed to determine the focus of the grant and to guide the preparation and submission of New Mexico's grant application in early 2010. New Mexico is eligible for between $20 million and $75 million based on its share of the national population of children ages 5 through 17. The U.S. Department of Education will decide on the size of each state's award based on a detailed review of the



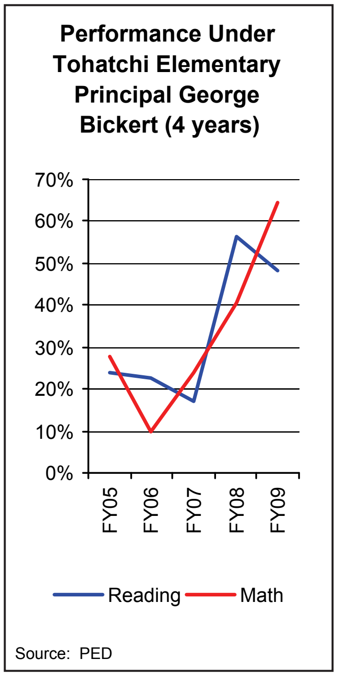



"It's time to stop just talking about education reform and start doing it"

President Barack Obama, November 2009

"Performance pay is fairly new to education so there may not be a lot of studies showing that it boosts student achievement. But there's plenty of proof that it boosts worker productivity in other industries, so why not try it in schools?"

U.S. Secretary of Education Arne Duncan




application and budget requested by the state, considering such factors as the size of the state, level of school district participation, and the proposed activities included in the application.

To submit a favorable application, some changes to existing statute will be needed. The first should be to make student proficiency and achievement part of the evaluation process. A second will require teachers, principals, and other instructional leaders to actively use data to make instructional and program decisions and to include this as part of the evaluation process as well. To make the use of student data part of teachers' evaluation, the Legislature should also consider changing the annual assessment requirements to a growth model where student growth is compared year-to-year. These changes may be somewhat controversial but are necessary to move not only the application process forward but also statewide school improvement efforts.

The Race to the Top application should focus on targeting proven approaches to improving student success rather than new programs. These include getting the best teachers into the worst performing schools, increasing time on task, developing data systems that measure student performance and inform teachers and principals, and improving instructional leadership.

**Targeted Investments To Improve Student Success**. While districts are free to spend distributions from SEG as they choose, it is becoming critical that decisions become more strategic, focusing on highly effective programs with proven results. Districts need to become more flexible and willing to implement a coherent improvement strategy, targeting resources to achieve the maximum benefit to improve student achievement and graduation rates. Given the current economic climate, now is the time to look closely at how we spend money on education, what needs to be prioritized for the good of kids and what we should let go away.

*Time on Task.* Paul Vallas, a superintendent with a long history of leading school reform efforts nationally, refers to the need to "shake the trees" in education. Educators should adopt those practices that have the greatest impact on student learning. Foremost among these is time on task, the time students spend in the classroom engaged in learning. A first step is the kindergarten-three-plus program that extends the school year for students in high needs school by as much as 25 days. Using this as a model, districts should consider implementing similar programs through middle school. This would be a good use of additional Title I and Individuals with Disabilities Education Act, Part-B (IDEA-B) funding. Looking into the future, any salary increases above the cost of living should be tied to extra instructional days.

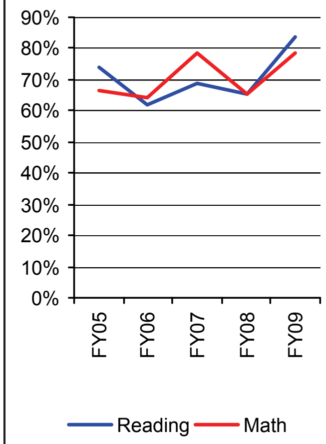
*Data-Driven Decisions.* Superintendents, school principals and teachers continue to struggle with improving student achievement in an environment that works to impede these efforts (e.g. high stakes testing, rapidly changing reforms, community expectations, and other non-instructional responsibilities). Data-driven decision-making is a structure of teaching and management that gets high quality assessment information into the hands of classroom teachers and supervisors. Educators can use this data to make quick and effective decisions about what children need, how instruction is planned and delivered, how it will be evaluated, and what changes will be made in response to the evaluation. To be clear, data-driven decision-making requires an important paradigm shift for teachers – a shift from day-to-day instruction that emphasizes process and delivery in the classroom to a laser focus that is dedicated to achieving results.

*Instructional Leadership.* High quality instructional leadership and stability appear to be the most significant factors in how fast and to what extent teachers embrace changes to instructional practices and strategies. Two examples of this are Tohatchi Elementary in the Gallup McKinley County Schools and Barry Elementary in the Clovis Municipal School District, where student turnaround has been both quick and sustained. Both of these schools are led by principals focused on the daily use of data to manage for success and have measurably improved student achievement annually. The Legislature, in the 2009 session, appropriated funding to the Higher Education Department to develop and implement the Educational Leadership Institute in cooperation with the Office of Education Accountability (OEA). Potential administrators participating in the institute will be the first cohort trained in the use of data to make instructional decisions. The institute has hired a director and is gearing up to select its first cohort.

*Cost Effectiveness of 12th Grade.* Consideration should be given to alternatives to the standard school structure that has existed for decades. Primary among these is a student's senior year. For a large number of students, the 12th grade is spent either taking a large number of dual credit courses and preparing for college or just getting by with as little effort as possible, resulting in students being present in school for only part of the school day, if at all. Both of these scenarios appear to be costly to the state and raise questions as to the cost-effectiveness of the 12th grade.

Questions of double-funding are increasing as students are provided opportunities to complete high school graduation requirements from sources outside of the traditional classroom and perhaps policy makers should consider eliminating the 12th grade or at least modifying the eligibility of schools to receive funding for students not physically present in school. Another alternative might be to allow a small number of sophomores and all juniors or seniors to receive their diplomas once they successfully pass a test of core knowledge adopted by PED. Students, who demonstrate readiness for college or the work place and are otherwise eligible, should be considered candidates for graduation.

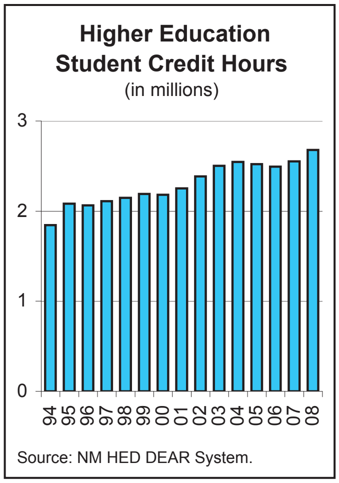
**Performance Under Barry Elementary Principal Carrie Bunce (10 Years)**




Source: PED

"It is the school principal who sets the climate for professionalism and support within the school; influences which teachers are hired and whether they stay; holds teachers accountable for student learning; determines resource allocation to support learning; and builds relationships with parents and the greater community."

Source: OEA, *Strong Leaders for New Mexico Schools*




Over 15 years, student credit-hour generation for two-year institutions has almost doubled, while the growth in student credit-hour generation at four-year universities has only increased by roughly 10 percent.

**Introduction.** State colleges and universities are currently facing significant enrollment gains due to unemployment and concerns about job skills, security, and upward mobility. Further, the national agenda for higher education is beginning to focus on the need to nearly double levels of degree attainment to remain internationally competitive. There is a growing national conversation about the role of higher education in providing access to greater economic opportunities.

As the state faces growing fiscal constraints, all stakeholders must engage in meaningful action to ensure access to higher education and enhance student persistence, graduation, and job placement.

**Higher Education and the Economy**. To gain greater understanding of higher education trends in New Mexico, the Higher Education Department (HED) provided preliminary data for 15 years of student credit-hour enrollment. An underlying increase in enrollment is evident (see chart). This enrollment data is consistent for the current higher education model, which focuses on growth and is funded accordingly based principally on student inputs. Student credit hour enrollment declined four times during the last 15 years. Significant year-over-year increases greater than 3 percent occurred in three of the fifteen years.

The enrollment data also indicate enrollment is stronger among more traditional students (age 18-25), rather than non-traditional students. This change is the opposite of conditions in 1994. Further, more students are entering college in New Mexico after high school graduation. This data needs further analysis, but is particularly interesting in light of ongoing national projections of declining numbers of high school graduates expected to attend public, postsecondary institutions in New Mexico.

The periodic increases in student credit hour enrollment correlate with overall weakness in the national and state economies; enrollment surged after September 11, 2001, and increased again after the fall 2008 economic weakness. Higher education typically exhibits countercyclical patterns compared with overall economic conditions. In periods of economic strength, higher education enrollment tends to weaken due to abundant job opportunities and relatively higher opportunity costs to enroll in and persist in college. In periods of economic weakness, higher education enrollment tends to increase due to lack of employment opportunities and individual concerns about the knowledge and skills needed to retain employment and advance in career opportunities.

Higher education provides significant benefits to the state and society overall and is key to the state's economic future. A new study by the Bureau of Business and Economic Research at the University of New Mexico found only 22 percent of college graduates staying in New Mexico are considered to be poor, and only 13 percent of those with post-graduate degrees and staying in the state are considered poor. In contrast, 62 percent of those with a high school degree are considered poor according to income statistics. Clearly, higher education is key to individual and state prosperity.

The report generates concern about economic opportunity for New Mexicans. The study found a high proportion of New Mexicans with post-graduation educations are leaving the state. The ratio of leavers to stayers is about 1:1 for high school graduates, some college, and college graduates. In contrast, New Mexicans with a post-graduate education under age 30, about 3.75 people leave the state for every 1 that stays. The study concludes that leavers have a higher educational attainment and income, and 8 out of 10 relocate in the western United States.

**Dual Credit**. Dual credit programs enable high school students to take courses offered through a postsecondary institution and earn credit at the high school and college level simultaneously. The idea of dual credit is to provide high school students an early opportunity into the college experience and act as a recruiting tool for institutions. The program continues to grow throughout the state. Actual enrollment numbers for 2008-2009 school year increased to approximately 10,000 students, with nearly 2,000 taking two or more classes.

One of several issues affecting the program is the need for reliable data. The Public Education Department (PED) and the Higher Education Department (HED) do not have cohesive data showing various outcomes and the traits of students in the program. For example, each department has a different calculation for the number of students enrolled in the program. The apparent cause for the discrepancy is the methods of collection between the agencies. HED collects from 24 institutions while PED collects from 89 different school districts. Institutions have an incentive to report on time for classes in which they have waived tuition so that dollars may not be lost via the funding formula. For the 2008-2009 school year PED received approximately 50 percent of dual credit data from school districts. With an incomplete data set and modification needed to the Student Teacher Accountability Reporting System (STARS), PED conceded that HED provide dual-credit statistics to the Legislative Education Study Committee (LESC) for 2008-2009.

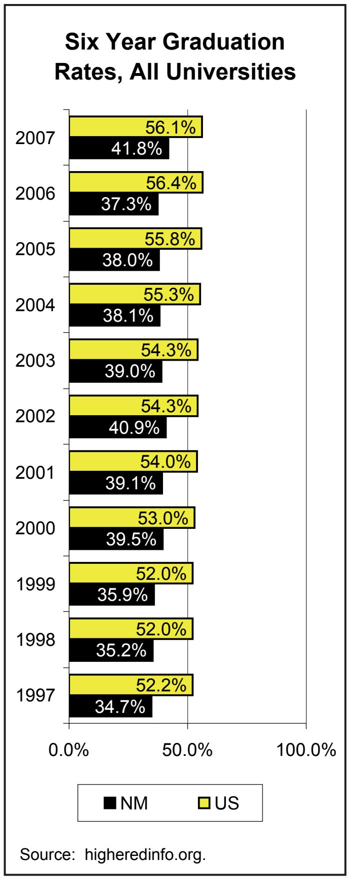
Uniformity remains another issue related to dual credit throughout the state. HED and PED promulgated identical rules to manage the program, and they collaborate on any proposed amendments via the Dual Credit Council. The responsibility of the Dual Credit Council is to address appeals related to secondary and postsecondary schools not covered by the established requirements. Although provisions exist to promote uniformity across the state, varied practices exist among institutions and districts regarding student eligibility, course offerings, uniform master agreements, course locations, and compensation for instructors. Requirements for the program include enrollment in at least half of the required credits and permission of the secondary school, as well as collaboration between the two entities regarding the academic standing of the student. The standing of the student can vary by grade

In academic year 2008-2009, colleges and universities serving the largest proportion of out-of-state students:

1) Clovis Community College (26 percent),
2) New Mexico State University, Main (24 percent)
3) University of New Mexico, Gallup (24 percent)
4) San Juan College (23 percent)
5) New Mexico Institute of Mining and Technology (22 percent).

Out-of-state students in higher education primary came from Texas, followed by nonresident aliens, Colorado, Arizona and California residents.

According to HED calculations, dual credit resulted in WNMU, ENMU Roswell, Clovis Community College, Luna Community College and New Mexico Junior College staying in the enrollment band, rather than falling below the band.




In 2006-2007, New Mexico ranked 34th in the nation and below the national average for higher education productivity, defined as total funding per degree or certificate awarded.

New Mexico funding per degree was $52,888, compared with the national average of $46,522.

point average, placement scores, and grade level. The agreements between the secondary and postsecondary institutions are not consistent throughout the state.

The variation of course offerings among the institutions creates further problems. State law requires that courses offered under dual credit be academic or career-technical. However, data shows that approximately 600 students enrolled in remedial or development courses in the 2008-2009 school year. Pursuant to law, HED did not fund the remedial classes; however, it demonstrates the ongoing problems with the dual credit program. In addition to remedial classes, some institutions offer large amounts of their course catalogs. It suggests that the needed scrutiny of the courses being offered for dual credit does not exist among primary and secondary institutions. Although the dual credit programs produce a number of benefits, they continue to evolve and require scrutiny by involved entities to ensure the program's success.

**Nursing.** During the interim, a task force was established to study the impact of a shortage of nursing instructors in the state. The task force was charged with identifying the factors necessary to hire and retain an adequate number of nursing faculty and secure funding. The group established recommendations to be presented to the Health and Human Services Committee in October. The House Joint Memorial 40 task force recommended that HED convene a separate task force to analyze state funding for nursing education that focused on transparency related to funding and benchmarks for nurse educators related to competitive salaries. In addition, the task force recommended new educational models be studied that included the collaboration of statewide institutions and curriculums. Health care, as a whole, faces an aging nursing workforce, with a large number expected to retire within the next five to 10 years. Nursing faculty, specifically, face a shortage due to low interest in nursing education, exacerbated by the lower wages for educators compared with clinical practice and administrative salaries. In addition, the faculty workload for nurse educators is unique and often requires additional time when compared with other fields.

The nursing education programs at New Mexico public colleges and universities have expanded their capacities with partial assistance from grant funds provided by the Legislature through HED. For the 2007-2008 academic year, institutions increased the percentage of students accepted into nursing programs to 82 percent, up from 62 percent in 2005-2006. Overall, waiting lists at institutions decreased. However, state institutions are not able to increase the capacity of nursing education programs to the expected level of demand, which could potentially create an estimated shortage of 5,000 nurses by 2020.

**Productivity and Costs**. The state and higher education institutions must find ways to increase productivity and reduce unnecessary costs. The National Center for Education Management Systems (NCHEMS) and the Delta Project on Postsecondary Education Costs, Productivity, and Accountability found spending on faculty is a minority of total spending in most institutions nationwide and is a proportion that has been declining for all types of institutions for the last 20 years. Further, these authors indicate research shows the absolute level of resources is less important than the way resources are used within the institution, and leadership and intentionality are particularly important to educational performance.

A recent report from the Center for College Affordability and Productivity focused on unproductive spending and found higher education institutions nationwide nearly doubled the number of budget analysts, computer specialists and loan counselors from 1987 to 2007. Most of the increase occurred in positions that support academic, student and institutional operations, such as lawyers, librarians, clergy, coaches, and student counselors. Instructor positions increased by only 50 percent over the same time period. Compared with the rise in student enrollment growth, there was a 10 percent increase in the ratio of instructors-to-students compared to a 34 percent increase in the ratio of managers-and-support-staff-to-students. Universities with major hospitals showed the largest relative numbers of back-office staff and the most growth over the last decade.

Nationally there has been an emphasis on offering a wide selection of undergraduate courses as a necessary approach for student recruitment. National data shows that more than half of the lower-division credit hours are generated in 25 or fewer courses, resulting in a few high-enrollment courses and a lot of low-enrollment courses. Further, evidence suggests a more prescribed path through "a narrower and more coherent range of curricular options leads to better retention, since advising is more straightforward, scheduling is easier to predict, and students are less likely to get lost in the process". Further, student financial aid could be extended to more students if restricted to a total student credit hour limit associated with obtaining a degree.

A brief review of New Mexico higher education data is helpful in identifying questions to explore greater efficiencies for higher education. For example, in the last academic year, a total of 22 percent of student credit hours were generated by one- and two-credit-hour courses. The nature of these courses and their contribution to degree attainment, student learning, and job placement needs to be understood. Further, average class size for undergraduate students overall has remained constant for the last 14 years at about 18 to 19 students per class.

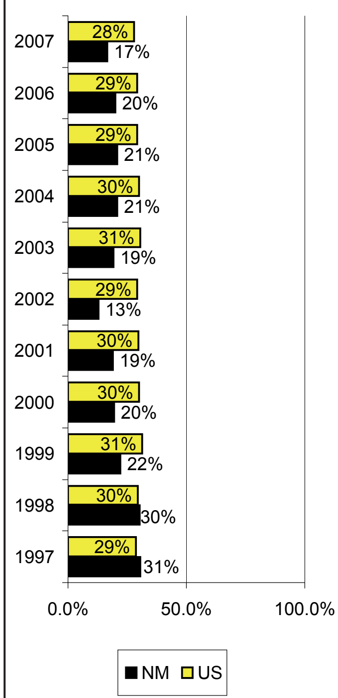
According to NCHEMS and the Delta Project, "The marginal costs of adding more upper-division students to courses that are under-enrolled are very low". Data from New Mexico HED shows the overall average graduate course class size in New Mexico was seven students during 12 of the last 14 years.

**Funding Outcomes, not Inputs**. In his first address to Congress in February 2009, President Obama announced his goal for the United States to have the world's highest percentage of college graduates by 2020. An analysis prepared by the State Higher Education Executive

Top overall productivity performers
(total funding per degree per certificate)
Florida: $29,075
Colorado: $30,619
Washington: $33,273
Utah: $33,756
North Dakota: $34,330

Source: The Dreaded "P" Word, Delta Cost Project white paper series

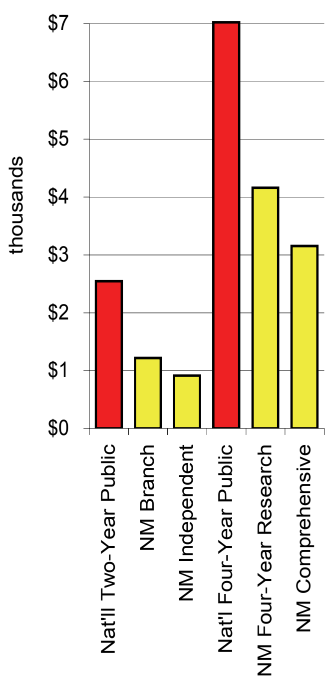
**Three Year Graduation Rates, All Colleges**




Source: higheredinfo.org

New Mexico is receiving $1.4 million in stimulus funding for the Work Study Program and $54.7 million in additional funding for Pell Grants.

**2009-2010 Average Tuition and Fees**




Source: Trends in College Pricing, The College Board; NMHED unpublished data

Officers Association (SHEEO) indicated that to reach this goal by 2025, New Mexico needs to increase the number of traditional-age students high school grades going to college and postsecondary students completing degrees by 2.5 percent every four years.

To meet this challenge, recasting state finance systems to reward institutions for graduating students, not just funding enrollment, is of particular interest among states. Although the University System of Ohio has offered performance-based funding on a limited basis since the 1980s in the form of special grants to supplement the funding colleges already receive, since last summer, the system has been preparing for 100 percent of state appropriations to universities to be based on performance-funding. In Ohio, the legislature is considering allocating state funding based on the number of individual courses that students successfully complete and the average cost of a program, instead of the current practice of using 14-day enrollment data for the academic year. The formula would also consider degree completion along with an institution's success in attracting, retaining, and graduating at-risk students and ability to increase "the number of students taking science and technology-based courses."

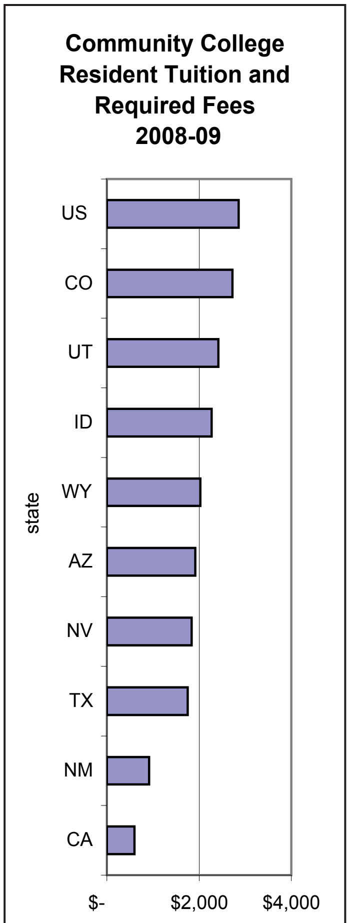
New Mexico has struggled to implement performance funding for higher education outcomes. Funding for a pilot project was only partially allocated by the Higher Education Department. The Formula Task Force has continued to discuss the concept, but proposals have not advanced.

**Formula Task Force Recommendations**. The state's formula task force continued to meet this interim, but its work tended to be overshadowed by the state's fiscal crisis.

The cost analysis subcommittee reviewed total appropriations to New Mexico colleges and universities in the instruction and general (I&G) category (the two main components that form the basis for funding higher education). The group reported the total cost of providing funding to higher education I&G is reasonable on a per student or per-square-footage basis, when compared with peer and national benchmarks. The group concluded that funding for the states postsecondary institutions is relatively on-par with similar institutions in other states. Specifically, New Mexico institutions are at a systemwide weighted average of 95 percent of the peer average for total I&G expense per student full time equivalent.

The cost analysis subcommittee was charged with evaluating marginal costs for New Mexico universities and colleges but concluded it is difficult to assess marginal cost of instruction and general. Generally speaking, the group reported that "there is a marginal cost associated with enrollment and that it likely falls somewhere between zero and 60 percent of the total cost of attendance; however, determining the appropriate rate is complex and will require resources." The subcommittee further argued that a single model should not be developed for all institutions, due to their complexity.

Other areas considered were a proposed new building space policy and performance funding. The space committee continued its work, including considering options to update square footage for building renewal and replacement purposes. As discussed above, the performance funding committee recommended waiting to refine and implement performance funding until the state's financial health improves.

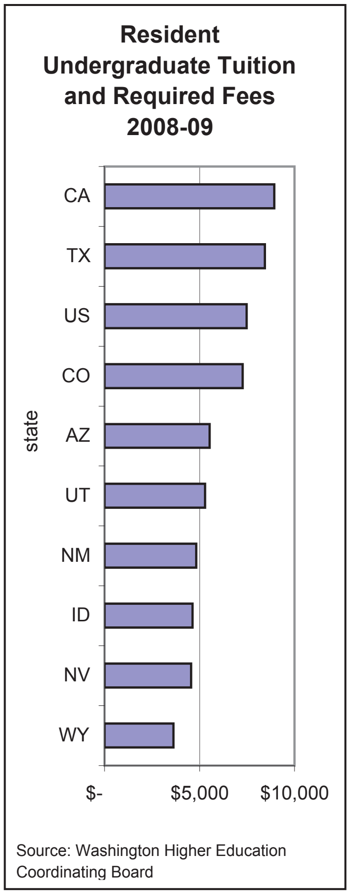


Source: Washington Higher Education Coordinating Board

**Financial Aid.** Student financial aid is available through several major sources that include the federal and state governments, institutions, and private sources. Nearly 60 percent of financial aid in New Mexico is in the form of federal Pell Grants or federal Stafford Loans. New Mexico's efforts to use financial aid to increase access have been successful. For example, New Mexico is eighth in the nation for the percentage of the state's population enrolled in college, according to the National Center for Education Statistics. However, the state has a low high school graduation rate and many of those who do graduate from high school are not adequately prepared for college. New Mexico succeeds in getting freshman to return for their second year of college, but few students graduate within six years. Students are taking longer to graduate, which can strain the financial aid system and increase the students' debt level. At the same time, New Mexico tuition and fees for in-state students are among the lowest in the nation and rank near the bottom for the region.

The United States House of Representatives recently approved the Student Aid and Fiscal Responsibility Act of 2009. The student aid bill aims to stop lending from the bank-based Family Federal Education Loan Program (FFELP) and use the savings the government derives from lending more cheaply for a wide array of purposes. The legislation would accomplish several things. First, it would provide $40 billion over ten years to increase the maximum Pell grant to $5,550 thousand and ensure that it would increase annually by the rise in the consumer price index plus 1 percent. New Mexico would receive approximately $283.5 million over the next 10 years. It would expand and alter the criteria for the Perkins Loan Program. The Federal Perkins Loan Program provides low-interest loans to help needy students finance the costs of postsecondary education. Students can receive Perkins loans at any one of approximately 1,800 participating postsecondary institutions. Institutional financial aid administrators at participating institutions have substantial flexibility in determining the amount of Perkins loans to award to students who are enrolled or accepted for enrollment.

The act would also provide $10 billion to community colleges in support of President Obama's American Graduation Initiative, designed to produce 5 million more two-year college graduates by 2020. It would create a College Access and Completion Fund that would give grants to states and institutions with innovative approaches to increasing the number of students going to college and graduating. According to




the plan, New Mexico would receive $1.2 million per year for the next five years. The act would make interest rates on federal student loans variable beginning in 2012, when they are set to rise back up to 6.8 percent.

According to an LFC program evaluation done in October 2008, Review of HED Financial Aid Programs, New Mexico's approach of substantial state appropriations, a low tuition policy, and a variety of financial aid programs has been successful in promoting access but has not kept higher education affordable nor fully supported student success. Tuition, appropriations, and financial aid should form an interrelated, cohesive plan to fund higher education. Financial aid policy decisions must consider the federal aid available, most notably the Pell grant, to effectively leverage state funds. According to the report, no other state relies on tuition less as a percentage of revenue received by public higher education institutions. Key recommendations of the report included more focus on need-based aid and the impact on low-income students who rely more on loans.

Lottery Scholarships. Lottery scholarship fund revenue remained flat at $40.8 million in FY09. In January 2009, the New Mexico Lottery Authority (NMLA) increased their contribution to the lottery tuition fund to 30 percent of gross revenues as required by law. The NMLA FY10 budget anticipates a 2.3 percent increase in scholarship revenue, to $41.8 million, as decreasing sales offset a portion of the increased distribution percentage. Operating expenses for NMLA are expected to continue to decrease in FY10 and FY11. NMLA expects a 3 percent savings, approximately $4 million, from online vendor fees. However, it should be noted that expenses are directly related to sales. Projections based on increases enrollment and tuition remain a concern for the long-term viability of the fund.

With federal stimulus funds ending in FY11, the federal government debating major healthcare reform, and state revenues declining, state healthcare programs face significant challenges. Congress is debating an expansion of Medicaid, the enhanced federal matching rate for Medicaid programs ends December 31, 2010, and declining state revenue will require the Legislature and the executive to make difficult decisions about benefits, enrollment, and provider reimbursement in state programs. New Mexico's uninsured rate remains high, healthcare costs continue to grow and health outcomes are stagnant. Working within federal requirements and possible new mandates, the state should seek long-term cost savings that use better care management and payment systems across healthcare programs to improve the quality of care and reduce costs.

**More Care Doesn't Ensure Better Health.** The Dartmouth Atlas of Health Care at Dartmouth University shows more spending on healthcare does not necessarily lead to better health. In some cases, it's the reverse. The research questions the often cited notion that advanced technology, medical liability laws, and differing demographics are to blame for excessive growth in healthcare costs.

The data show significant variation across the country in growth of healthcare spending. Healthcare spending in Miami, Florida, grows at 5 percent per year, while spending in San Francisco grows at 2.4 percent. Spending per Medicare enrollee varies widely, too – e.g. $15,000 in McAllen, Texas, to $3,800 in Rochester, Minnesota (home of the Mayo Clinic). Given the same access to healthcare technology, the different growth rates and costs appear to be driven by healthcare utilization patterns. The Dartmouth research attributes much of this variance to physician and hospital decisions – "such as whether to admit a patient to the hospital, refer to a specialist, or order diagnostic tests more frequently." After accounting for prices and illnesses, these variances are predominately caused by differences in the volume of care provided to similar patients. In Miami, for example, Medicare patients with chronic conditions are readmitted to the hospital at twice the rate, visit physicians three times as often, and spend three times as much for imaging as similar patients in Salem, Oregon.

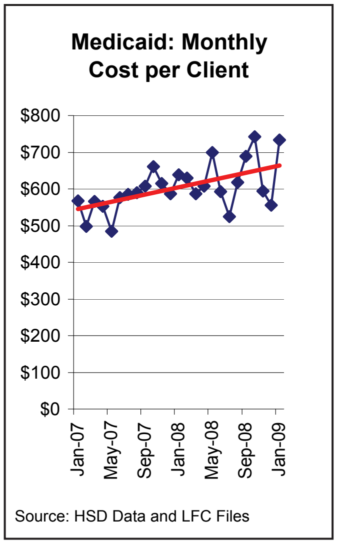
A driver of higher utilization patterns appears to be greater capacity for care; regions with more access do not have better health outcomes but do have higher costs. The Dartmouth research recommends that "controlling the costs of healthcare spending while improving the quality of care will not be possible without policies that slow the growth of capacity." The research suggests that a hospital budget approval process or requiring a certificate of need for new hospitals could help reduce unnecessary capacity.

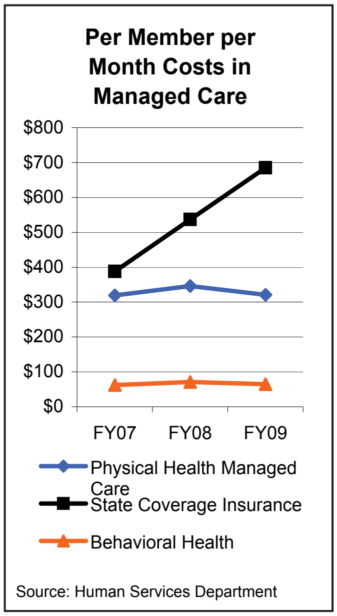
High spending regions with greater capacity do not provide better access to care or have better quality of care. In fact, "patient outcomes can actually suffer" because care is fragmented among more doctors and unnecessary hospital stays can cause further health problems. The

**Average Medicare Reimbursement in New Mexico**

| City Name | Total Medicare Reimbursements per Enrollee (2006) |
|---|---|
| NM Avg | $6,802.69 |
| Alamogordo | $6,600.98 |
| Albuquerque | $6,657.14 |
| Carlsbad | $7,897.27 |
| Clovis | $6,091.75 |
| Farmington | $8,194.35 |
| Las Cruces | $6,631.27 |
| Roswell | $7,699.06 |
| Santa Fe | $5,396.25 |
| Silver City | $5,679.04 |

Source: http://cecsweb.dartmouth.edu/imgout/1245862240mMTz/DsataTable.xls research suggests healthcare systems can lower cost and improve care by following models that emphasize care coordination, global payments and primary care.




*Payment Reform and Capacity.* To achieve such success, key elements are changing how doctors and hospitals are paid for providing medical care and managing capacity. In the current, widely used fee-for-service payment system, healthcare providers are paid for each visit and test ordered. The system rewards and promotes more care, excessive capacity, high-margin – sometimes unnecessary – treatments, and entrepreneurial behavior. In short, payments are not connected to patient outcomes. Moreover, even within managed care systems, as in New Mexico, fee-for-service payments (from managed-care organizations to providers) reward higher utilization.

In its second phase of reform, Massachusetts will consider changes to its healthcare payment system. Instead of paying for each office visit, test, or hospital stay, primary care physicians, specialists, and hospitals may group themselves into networks that would be responsible for a patient's well-being and would be compensated with a flat monthly or annual fee known as a global payment. Such changes are designed to eliminate incentives for unnecessary care and encourage better care coordination for patients. This second phase of the reform may be more instructive for states and the federal government as they pursue reform.

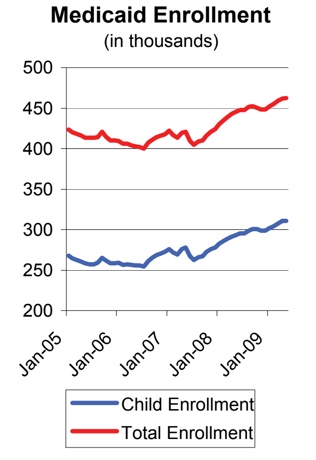
In addition to the global payment system being considered in Massachusetts, North Carolina's Medicaid program uses a patient-centered medical home model that emphasizes care coordination, disease and care management, and quality improvement.

Medicaid enrollees receive care from local community care networks, composed of physicians, hospitals, social service agencies, and county health offices. Enrollees are assigned to "medical homes" with primary care physicians working in concert with case managers. The system was developed as an alternative to the managed care model being adopted in other states, and, according to the Kaiser Commission on Medicaid and the Uninsured, has saved the state some $150 million to $170 million over its previous case management model.

**Medicaid Budget and Cost Containment.** The American Recovery and Reinvestment Act (ARRA) increased the federal medical assistance percentage (FMAP) for all states by 6.2 percent and provided bonus increases pegged to unemployment. The additional federal funds have allowed the Human Services Department (HSD) to meet much of the growing demand for Medicaid enrollment and expand optional programs, like the State Coverage Insurance (SCI) program. The federal matching rate has risen from 70.92 percent at the beginning of FY09 to 80.49 percent in October 2009.

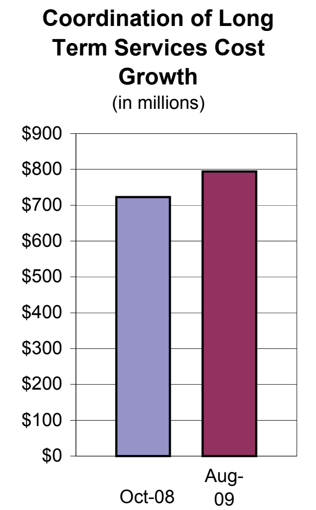
Despite these increases, HSD projects a general fund shortfall for FY10. Enrollment is estimated to exceed 560,000 individuals by the end of FY10 – 57,000 more than HSD projected in January and about 37,000 more than were used for the LFC estimate. Of this increase, enrollment in the SCI program is projected to expand dramatically – rising some 39 percent to about 53,000 adults by the end of FY10.

Despite the enrollment growth, the SCI program may have significant changes. The federal Children's Health Insurance Program Reauthorization Act (CHIPRA), enacted earlier this year, disallows states to fund adult coverage programs, like SCI, with CHIP block grant funds. HSD submitted a waiver application to the Centers for Medicare and Medicaid Services (CMS) to continue the SCI with regular (Title XIX) Medicaid funds, as required under the act. Enrollee cost sharing, including premiums and co-pay requirements, may increase under the plan, and additional state funds may be required because the matching rates under Title XIX are lower. The SCI waiver plan is further complicated by provisions being considered in broader healthcare reform bills that will only pay for client populations not already covered by a state program.



Source: LFC Files

*Federal Reform: State Implications.* The federal health reform proposals are broad in scope and, as of this writing, still changing. The House of Representatives passed its version on November 7, and the Senate is considering its version of reform. The proposals pose a number of implications for states, but the most significant budgetary impacts would be changes to the Medicaid program (Title XIX of the Social Security Act). Medicaid has traditionally been available for low-income children, some parents, the disabled and the elderly, but the bills would open eligibility to adults without children – a major expansion of the health care safety net.

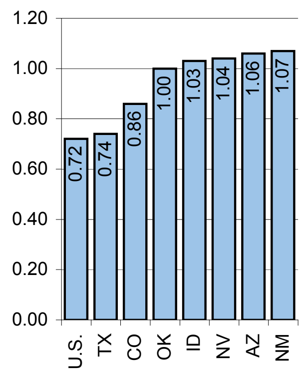


Source: HSD Projections

The healthcare reform proposal passed by the House of Representatives would expand Medicaid eligibility to all individuals under 150 percent of FPL. The Senate is considering a version that includes an expansion to 133 percent of FPL. Both bills include additional federal money for states in the initial years, but would phase out the additional funding in future years. The bills vary in how they treat states that have already expanded eligibility to cover childless adults. New Mexico and a few other states could be "penalized" by not receiving additional federal funds because they already have childless adults in their Medicaid or other waiver programs, such as SCI. With the changes to SCI mandated by CHIPRA and depending on the final version of any reform bill, the state might have to consider terminating its SCI program to ensure that the federal government will pay for these childless adults under the expanded categories.

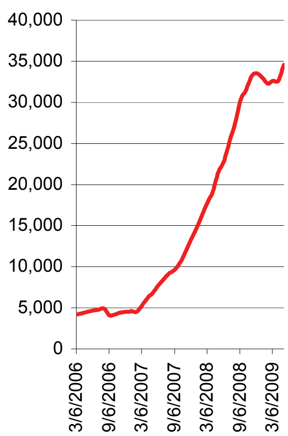
*Coordination of Long-Term Services.* The Aging and Long Term Services Department (ALTSD) and HSD implemented the Coordination of Long Term Services (CoLTS) program on August 1, 2008. A Medicaid managed-care program, CoLTS is designed to provide services to the disabled and elderly covered under the program known as the D&E waiver, personal care option consumers, nursing facility residents, eligible individuals with brain injuries, Medicare recipients eligible for Medicaid, and clients approved for waiver services under

**Medicaid to Medicare Fee Index**




Source: NCSL

**State Coverage Initiative Enrollment**




Source: HSD Eligibility Reports

the Mi Via program. As of October 2009, there were approximately 37,200 clients enrolled in CoLTS, which has two contractors: Evercare and Amerigroup.

The managed-care program was supposed to provide better care, and save money per client. However, problems have arisen during the implementation and the contractors have not been able to pay providers in a timely manner. Many providers have had to take out loans to cover payrolls and other operating expenses awaiting payment from the CoLTS contractors. While the situation has improved, providers still are not receiving payments as quickly as they did before implementation. Secondly, costs have grown rather than declined: The FY10 HSD projection in October 2008 was $723 million but has grown to $793.9 million in August 2009 for approximately the same number of clients – an increase of 9.8 percent in 10 months.

HSD and ALTSD have suggested that more use of services and higher enrollment have driven up costs, despite a program design to accommodate greater access to services. CoLTS was proposed as a means to better manage care and costs of this expensive population. However, the fragmented design of the program, especially with limited slots in the disabled and elderly waiver program, restricts the ability of the managed-care companies and HSD to ensure clients receive care in the most cost-effective environment.

*Benefit Design, Provider Payments and Eligibility.* Despite the significant infusion of the federal stimulus funds, states have been forced to cut Medicaid programs. Arizona recently completed a benefit redesign for adult acute care in Medicaid. Utah has restricted access to some programs. And states from California to Florida have reduced payments to providers. According to the Kaiser Commission on Medicaid and Uninsured, nearly all states have taken such actions to control Medicaid spending in FY09 and FY10.

In any given year, the Medicaid program may have to address a general fund "shortfall" by slowing or reducing enrollment, cutting provider rates, or changing the benefit package. As the enhanced federal matching rates end in FY11 and if state revenues remain weak, the department will have to take immediate measures to reduce Medicaid spending by cutting eligibility and slowing enrollment, cutting provider rates, and reducing or eliminating benefits. Over the short term, the department likely will have to do all of these. Over the long term, the department should seek broader, structural reform that includes better care management and payment system reforms that emphasize quality over quantity.

**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:

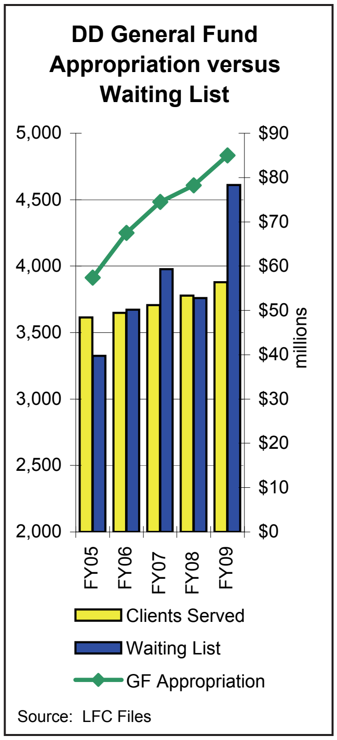
- Insufficient access to evidence-based care;
- A confusing array of uncoordinated public and private agencies and providers; and
- An emphasis on "managing" people's problems rather than helping them adapt and lead productive lives.

The principal task of the collaborative is to oversee and manage a nearly $400 million contract with a statewide entity providing a single statewide provider network and coordinating behavioral health services – currently, OptumHealth NM. The first four-year contract with ValueOptions NM expired June 30, 2009. OptumHealth NM (OHNM), a subsidiary of United Healthcare, was selected by a request for proposal process as the statewide entity and began full operation on July 1, 2009.

While this consolidation of services and funding is unique among state behavioral health systems, its promise has not yet been realized. Medicaid remains the dominant payer in the system, while state funding and programs have remained flat or declined. Integrating these funding streams has proven difficult. For the more than 50 substance abuse and mental health services providers across the state, the transition from monthly allocations to fee-for-service payments has pushed some providers to the brink of closure. For some organizations, this fee-for-service transition has been a major shift that jeopardizes their business, particularly if the organization does not have enough billings or claims to support its operations. While the benefits of this transition could be better allocation of state resources, access to care in some areas will be reduced if some providers are unable to remain in business due to insufficient demand.

In FY09 the behavioral health statewide entity served almost 81,000 individuals, of which about 49,000 received behavioral health services through Medicaid. Another 23,000 adults received services funded through the Behavioral Health Services Division at HSD and some 10,000 children received services through the Children, Youth and Families Department.

**Transparency and Accountability.** The public and the Legislature have never been given access to the specific amounts paid to managed-care companies for different types of clients (cohorts). This refusal to provide such data hinders LFC oversight and the budget recommendation process. With more than two-thirds of all Medicaid expenditures being spent through contracts with managed-care organizations, it is critical the Legislature's budget committee have access to that payment information. Increasingly, there are two keys factors for the Medicaid budget – enrollment and per-member per-month (PMPM) rates paid to MCOs. The department has maintained it would share the information with LFC if the committee could protect it. In an attempt to resolve this matter statutorily, Senate Bill 531 of the 2009 session would have amended LFC's governing statute to expand LFC's authority to receive and protect confidential information. The bill would have satisfied HSD's concern about LFC's ability to protect




the "confidential" data. The governor vetoed the bill, and the Legislature should consider an override of the governor's veto.

To better track the Medicaid budget and spending, the General Appropriation Act (GAA) of 2009 divided appropriations to Medicaid among three programs and included language requiring periodic reporting of cost and enrollment data. The language was vetoed, and the separate appropriations were rolled back into two programs by the executive in the operating budget.

*Other Transparency Legislation and Vetoes.* The Legislature passed two bills – House Bill 130 and House Bill 544 – that would have increased Medicaid reporting by HSD. House Bill 130 would have required HSD to report publicly on enrollment and budget data for the Medicaid program and State Children's Health Insurance Program. The bill sought data on enrollee retention and denial rates. House Bill 544 would have required HSD to report fiscal and programmatic information related to Medicaid and other medical assistance programs, including average cohort cost data. The governor vetoed both bills.

**Medicaid Waiver Programs.** New Mexico 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 DOH and receive Medicaid match through HSD. The D&E and Mi Via waivers are administered by ALTSD; however, the Medicaid funding for these programs comes through HSD and DOH. Demand exceeds available slots, especially in the DD and D&E programs, despite almost annual increases in state funding. The DD waiver is up for renewal with application to be sent to CMS by June 30, 2010.

*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, 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 FY09, 3,750 developmentally disabled clients were receiving services, down 12 from FY08. However, there were 4,720 on the waiting list, an increase of 390. The number of developmentally disabled clients has increased by more than 1,700 since 2000. During the 2009 session the Legislature included a $4 million special appropriation in Laws 2009, Chapter 3, to provide coverage for individuals enrolled in or eligible for services in the waiver program and $5.4 million in the GAA to provide services. The Legislature estimated the latter should increase enrollment by approximately 216 clients, but the language was vetoed. To date, DOH has not enrolled additional clients nor presented a spending plan to do so because of concerns revenue will be insufficient to support the program growth. The stated reason is the agency does not want to add clients and then have to deny services at a later date. However, this approach is inconsistent with that taken by HSD for enrollment in SCI. Enrollments to that program continue even though estimates are the enrollments will exceed available revenues. The Legislature recognizes the expansion of the DD Medicaid waiver will result in additional funding but desires additional clients be enrolled with the appropriation. Continuing the funding is included in all LFC revenue requirement projections.

DOH estimates the cost per client to be $73.5 thousand per year. DOH reports in comparison with seven states with comprehensive waivers, New Mexico had the highest average cost per individual. The cost in other states ranged from $21 thousand to $64.8 thousand. The seven states are Iowa ($21 thousand), Georgia ($32 thousand), Kansas ($43.9 thousand), Oregon ($57.9 thousand), Colorado ($59 thousand), Wyoming ($62.4 thousand), and Minnesota ($64.8 thousand). The major cost driver is higher use of services as more clients are moved to level 1 care, the category with the highest need. In FY08, DOH added $1 thousand per month per client for substitute care for individuals in family living settings. This expense added $16.2 million to the program cost.

*Jackson Lawsuit.* The Jackson lawsuit, filed in 1987, involves the states' obligation to provide services to DD 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 41 of the 58 outcomes in the plan of action and has met 46 of the 70 continuous improvement requirements. DOH has submitted a request to disengage from two more plan-of-action items. The lawsuit now costs approximately $4.9 million annually in legal fees and related legal costs, expert consultants, and the 706 monitor and staff. During the 2009 legislative session, the House of Representative passed House Memorial 97 requesting DOH take necessary actions to bring the Jackson lawsuit to an end.

**History of Disengagement from Jackson Plan of Action**

| | |
|---|---|
| 2009 | 0** |
| 2008 | 1 |
| 2007 | 0 |
| 2006 | 5* |
| 2005 | 1 |
| 2004 | 0 |
| 2003 | 1 |
| 2002 | 0 |
| 2001 | 3 |
| 2000 | 18 |
| 1999 | 8 |
| 1998 | 2 |
| Total | 41 of 58 outcomes |

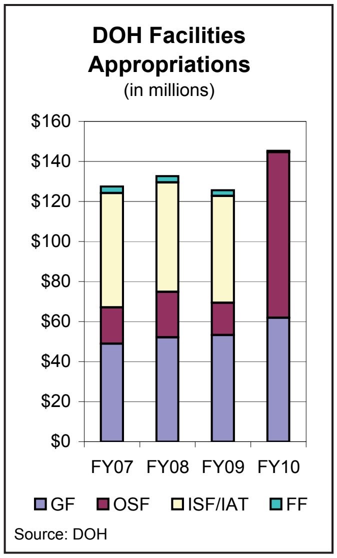
*Deleted with consent of plaintiffs. All others by action of court.
**2 items pending.

Source: DOH

**DOH Facilities Management.** DOH operates six facilities and an in-patient program: Fort Bayard Medical Center; New Mexico Behavioral Health Institute (NMBHI) in Las Vegas; New Mexico State Veterans Home in Truth or Consequences; New Mexico Rehabilitation Center in Roswell; Sequoia Adolescent Treatment Center in Albuquerque; Turquoise Lodge in Albuquerque; and the Los Lunas Community Program.

DOH Facilities Management received $11.8 million in supplemental appropriations for FY09.

Costs at DOH facilities have continued to grow and resulted in $11.8 million in general fund supplemental appropriations to ensure financial viability in FY09. The Legislature provided the following additional




**DOH Facility Occupancy Rates**
(April 2008-09)

| Facility | Capacity | Average Occupancy | Occupancy Rate |
|---|---|---|---|
| FBMC | 218 | 131.8 | 60.4% |
| NMBHI | 371 | 309.6 | 83.5% |
| NMRC | 41 | 21.0 | 51.2% |
| NMSVH | 145 | 123.7 | 85.3% |
| SATC | 36 | 34.5 | 95.8% |
| TL | 34 | 21.7 | 63.8% |
| | | | |
| TOTAL | 845 | 642.3 | 76.0% |

FMBC Fort Bayard Medical Center
NMBHI NM Behavioral Health Institute
NMRC NM Rehabilitation Center
NMSVH NM State Veterans' Home
SATC Sequoia Adolescent Treatment Center
TL Turquoise Lodge

funding for FY10:

- $4 million to provide care to clients at Fort Bayard to replace funding lost when the department voluntary ended Medicaid certification,
- $4 million to replace uncollectable revenues at NMBHI,
- $1.9 million for pharmaceuticals and facility operations,
- Up to $1.5 million for unspecified facilities management costs,
- $260 thousand for full-time-equivalent positions related to developmental disabilities in Los Lunas, and
- $180 thousand for full-time equivalent management positions at Fort Bayard.

These supplemental appropriations increased the FY09 appropriation for DOH facilities to $65.1 million from the original $53.2 million, or 22.1 percent. This increased the general fund share of total costs for facilities management from 38.4 percent in FY07 to 43.2 percent in FY10.

Because of the general fund revenue outlook, other sources of revenues must be found. Cost containment and reductions must also occur, which may include changing services. Review of financial information reveals wide variation between budgeted and actual revenue and expenses. Facilities must live within the budget and adjust expenses based on earned revenues.

LFC staff conducted a follow-up evaluation of the *Department of Health, Review of Facilities Management Division.* Under the Accountability in Government Act, DOH was given considerable flexibility in managing facilities. The six facilities and the Los Lunas Community Program were reorganized into the Facilities Management Program under a deputy secretary. The goal was to provide a core program that would reduce inefficiencies and contain costs. The reevaluation was done to determine if the effort was effective.

While the current management team has begun to provide overall management to the program, the report identified personal costs are driven by assigned personnel and not the census of each facility. Currently, the program does not decrease staffing when census decreases. The average daily occupancy for the period April 2008 to April 2009 was 76.6 percent. The occupancy rate ranged from a high of 95.8 percent at Sequoia center to a low of 51.2 percent at the rehabilitation center in Roswell. The report states "low facility occupancy rates can increase expenses through overstaffing and infrastructure costs which remain constant...." The report recommends reviewing workload requirements and establishing policies to reduce staffing when the number of patients is below capacity.

Despite less than optimum occupancy, the program also has considerable overtime costs particularly at Los Lunas. Total overtime for the program was $6.3 million; $2 million was attributed to Los

Lunas. The overtime accounts for 26.3 percent of Los Lunas' personal services and employee benefits costs. The Legislature included 25 additional FTE in the 2009 General Appropriation Act to reduce the overtime expenditures but it was vetoed.

Other findings are the Office of Financial Management (OFM) is not taking "advantage of central solicitation for goods and services common to all facilities such as oxygen service and supply, laboratory services, billing consultants, equipment maintenance and monitoring, and biohazard waste removal." DOH should consider central procurement for all such services. In addition, financial expertise should be present in OFM to maintain sufficient oversight over facility expenditures and budget management.

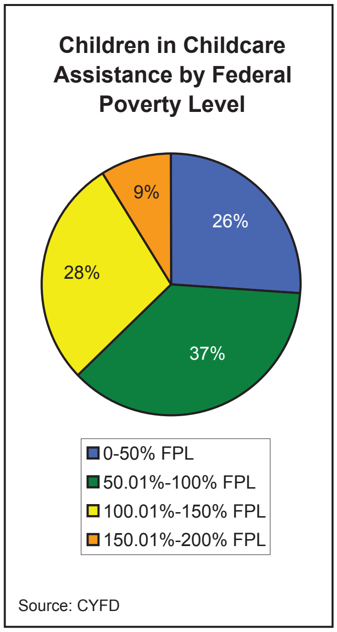
DOH has replaced the contract management staff at Fort Bayard with state employees and the new administrator is committed to correcting deficiencies at the facility. In March 2008, DOH voluntarily gave up Medicaid and Medicare certification because of possible sanctions. The Medicaid certification was restored by the Centers for Medicare and Medicaid Services (CMS) in September 2008, backdated to June 24, 2008. The application to reinstate Medicare certification was submitted September 25, 2009, and is under review by CMS.

Fort Bayard is still under watch by the U.S. Department of Justice for deficiencies identified in the May 2006 Civil Rights of Institutionalized Persons Act (CRIPA) investigation. The new director plans to have all issues resolved by the middle of FY10. A new facility is being constructed with an estimated completion of August 2010.

The veterans' home was rated as the best nursing home in New Mexico by *US News and World Report*.

**Public Health.** DOH continues to put significant emphasis on immunizations and a higher percent of preschoolers have been fully immunized since 2005. The department has an ambitious program to reach a 95 percent immunization level, including providing shots for those on the Women Infant Children program. An additional $1.1 million in ARRA funding will help this effort. DOH effectively organized resources to identify and track the H1N1 influenza virus and has expanded laboratory capacities to conduct tests to identify cases. A large scale immunization effort will inoculate at risk groups when the serum is made available.

Social service programs are faced with tough challenges due to a poor economy. At-risk families are most vulnerable to the stresses resulting from decreases in income, job loss, and housing issues. During times of economic downturn more and more people turn to social service programs. Even as demand for services grow, state revenues are declining. It becomes imperative that state agencies prioritize core services to assure assistance for the most vulnerable populations.




**<u>Early Childhood Programs.</u>** The early years of a child's development are critical to establishing a foundation for future learning, behavior, and health. Research into brain development shows the importance of early relationships and experiences in building social, emotional, and intellectual skills. Investments in early childhood programs have returns to society through significant reductions in public expenditures for special education, grade retention, welfare assistance, and incarceration.

Over the last five years, the Legislature has made significant investments in early childhood services by funding prekindergarten, home visiting and other initiatives. Early childhood program funding exists in several state agencies, creating problems with coordination and duplication of services. Declining state revenues make it critical for state agencies to streamline early childhood services. Early childhood programs need to be assessed for cost-effectiveness. State agencies have the potential to leverage their early childhood funding for programs that generate government savings and returns to society.

*Child Care.* CYFD received a substantial amount of one-time funding from the American Reinvestment and Recovery Act (ARRA) 2009. ARRA provided New Mexico with $17.8 million in child care development block grant funding for child-care subsidies and quality improvement activities that emphasis improvement to infant and toddler care. CYFD has dedicated $13.8 million of the ARRA funding to provide child-care assistance to an additional 2,200 children who qualify for the program based on family income up to 200 percent of the federal poverty level. CYFD is allowed to use 5 percent, or $890 thousand, for administrative costs that includes 6 term FTE child-care eligibility workers. The funding must be expended by September 30, 2010.

CYFD plans to use $3.1 million of the ARRA funding for the following quality initiatives:

- <u>*Look for the STARS* quality initiative</u> includes a public awareness campaign, staff training, funding to eliminate a waiting list for the STARS/Aim High childcare center certification, and working with child-care centers remaining at STAR Level 1 to attain STAR Level 2.
- <u>Child-care professional development quality initiative</u> includes revising the 45-hour entry-level course, offering the new Family Infant Toddler studies degree program online, funding additional TEACH scholarships, revising New Mexico's five-year early childhood development plan, and funding Mind-in-the-Making

workshops statewide.

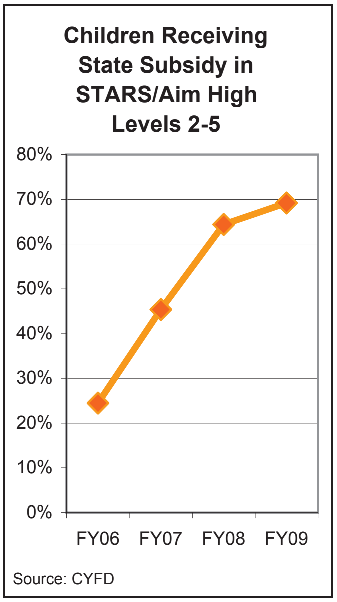
- Quality child-care for All inclusion initiative includes providing training, conducting a summit to establish New Mexico's principles of inclusion, and conducting two facility institutes to provide training for higher education faculty.
- Infrastructure and administrative support quality initiative includes conducting a study on the actual cost of providing child-care services, enhancing the Training and Technical Assistance Program (TTAP) database, purchasing equipment and materials for the TTAP toy lending and professional resources libraries, funding mini grants of $2.5 for quality maintenance or improvement in existing program, and funding awards to projects demonstrating sustainable quality innovation.

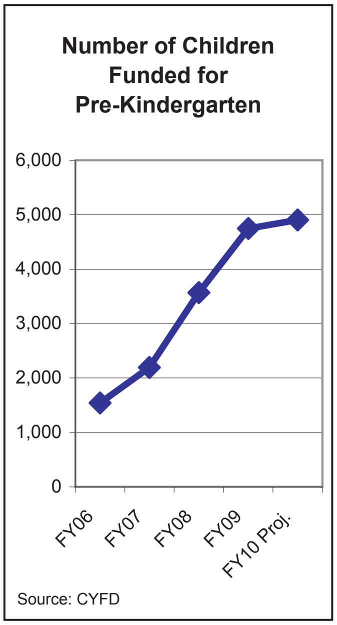
*Head Start.* ARRA included $5.8 million in Head Start funding for expanding programs, training, and technical assistance and monitoring of operations. The funding provides for the establishment of governor-appointed early childhood education and care advisory councils. In July 2009, Governor Richardson designated an expanded New Mexico Child Development Board to act as the New Mexico Early Education Advisory Council. The focus of the council's activities will be the alignment and coordination of seven major early education systems: home visiting, early intervention, Early Head Start, child care, pre-kindergarten, Head Start and early childhood special education.

New Mexico supplements the federal Head Start program with $800 thousand from the general fund to extend the hours of care beyond the school day and to provide year-round programming.

*Home Visiting.* Home visiting targets first-time parents of infants and toddlers, from birth to age 3, and pregnant women. The goal of home-visiting programs is to provide services to improve and enhance the physical, emotional, mental, and behavioral health of infants, toddlers, and their families. In the 2009 legislative session, the Legislature appropriated $500 thousand in Temporary Assistance for Needy Families increasing home visiting funding to $2.7 million. An estimated 1,100 children will be served by home visiting programs in FY10.

On May 11, 2009, the LFC released the *Program Evaluation: Investment in Early Childhood*. The evaluation noted that none of CYFD's home-visiting programs appeared to implement an evidence-based model. Only the First Born program was working to establish evidence; however, initial results are not anticipated for a few more years. Currently, CYFD collects data from providers but struggles to develop meaningful outcome measures for home visiting. Work is needed to develop standards and outcome performance measures for home-visiting programs. Also, planning grants would assist communities in obtaining start-up funding to develop home-visiting programs. Consideration should be given by CYFD to use some of the home-visiting funding for planning grants.



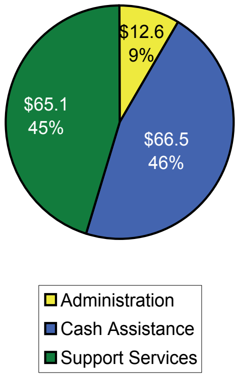
*Prekindergarten.* New Mexico prekindergarten program (preK) provides center-based early childhood services in public schools and in nonpublic settings, such as community child-care centers. Two-thirds of enrolled children at each site must live in a Title I elementary school zone.

A study by the National Institute for Early Education Research (NIEER) at Rutgers University randomly selected 4 year olds attending preK and nonparticipants to follow and test each fall to evaluate the effectiveness of the preK initiative. On September 22, 2009, NIEER released the *Continued Impacts of New Mexico PreK on Children's Readiness for Kindergarten: Results from the Third Year of Implementation* report. The report showed New Mexico's preK program accomplished the following:

- Increased vocabulary scores by about 5.44 raw score points, an improvement of about 25 percent of the standard deviation of the control group;
- Increased math scores by about 1.63 raw score points, an improvement of about 37 percent of the standard deviation of the control group; and
- Increased early literacy scores by about 24 percentage points, an improvement of approximately 102 percent of the standard deviation of the control group.

*Early Childhood Partnership.* The W. K. Kellogg Foundation awarded a $400 thousand grant to establish the New Mexico Early Childhood Partnership. The partnership will carry on the work started last year by the Lieutenant Governor's Early Childhood Investment Committee. The Lieutenant Governor's Office and the United Way of Santa Fe County will oversee the Early Childhood Partnership's goals to promote public awareness, promote civic engagement, develop sustainable public financing strategy, and convene a business leaders summit on early childhood development.

**New Mexico TANF Spending in FY10**
(in millions)




Source: LFC Files

**<u>Protecting Vulnerable Populations.</u>** 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.* Under the Temporary Assistance for Needy Families (TANF) program, states receive a federal block grant to administer programs to the target population with fairly broad discretion to meet the program's four stated goals: "(1) provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives; (2) end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage; (3) prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and (4) encourage the formation and maintenance of two-parent families."

New Mexico receives a total block grant of $117.1 million – a base grant of $110.6 million and a supplemental grant of $6.5 million, which may expire in 2010. In broad terms, TANF funds are expended for administration (about 9 percent in FY10), cash assistance (45 percent), and support services (46 percent).

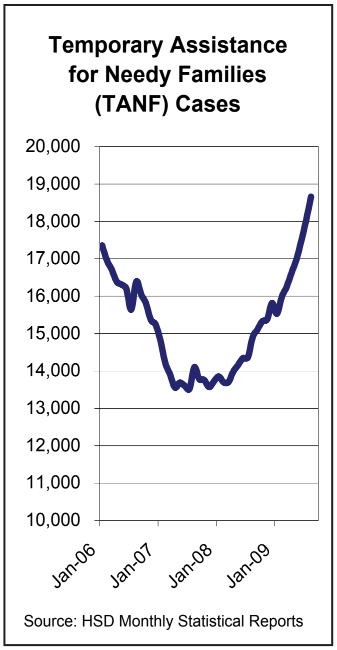
After several years of decline, the TANF caseloads began increasing in January 2008, just as the national economy went into recession. Since January 2009 the caseload growth has been even sharper. As of August, there were 18,863 TANF cases, a 20.2 percent increase from January. With about 2.5 persons per case, 41,449 New Mexicans received TANF assistance in August. With job growth not expected until the second quarter for 2010, more families are likely to seek assistance from the TANF program.

To assist states with such caseload growth, ARRA established a TANF emergency contingency fund. New Mexico is eligible to receive $38.7 million from this new fund over the next two years. Combining these funds with the significant cash balances from prior-year TANF grants, the Human Services Department must carefully balance the needs of a growing caseload while other state programs, which have been supported by TANF funds, face budget reductions. The Human Service Department's Income Support Division has projected the need to use the new grant and most of the cash balances on basic (cash) assistance, even though the additional funds give the department an opportunity to create other benefit programs to help TANF-eligible clients during the recession. The state must wrestle with the demands of a growing caseload, the needs of other government programs, and the hardships of other possible TANF clients. This equation is further complicated by the ending of the ARRA grants. If the caseloads do not decline, states may have difficulty meeting demands as the additional federal ARRA funds are depleted.

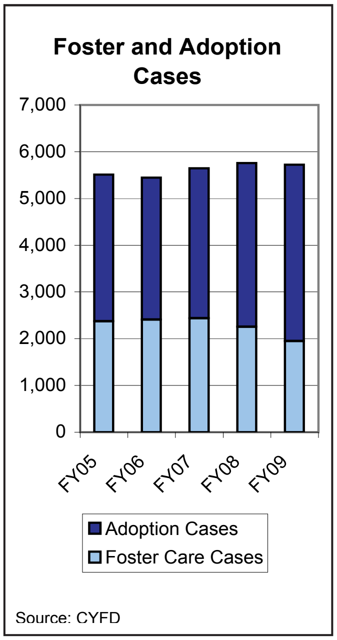
*Child Protective Services.* CYFD is under a Program Improvement Plan (PIP) that was mandated as a result of findings from the federal child and family services review in 2007. The plan was developed to avoid the potential for serious federal sanctions and has been approved by the federal Department of Health and Human Services. CYFD has successfully achieved five of the seven federal PIP implementation goals. The remaining goals include attainment of substantial conformity with the negotiated PIP goals for maltreatment in foster care and placement stability.

CYFD received $3.6 million in ARRA funding due to an increase in the federal medical assistance percentage (FMAP) rate for adoption and foster care maintenance payments. The funding must be expended by December 31, 2010.

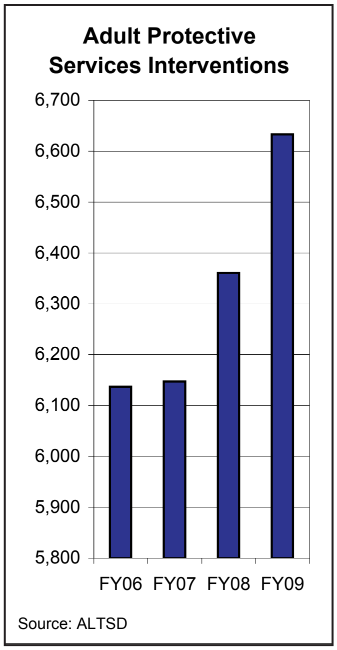
*Child Support Enforcement.* New Mexico, like all states, has an interest in developing child support programs to facilitate and enforce child support payments. Increasing support for children in single-parent homes can improve child health, raise family incomes, and reduce

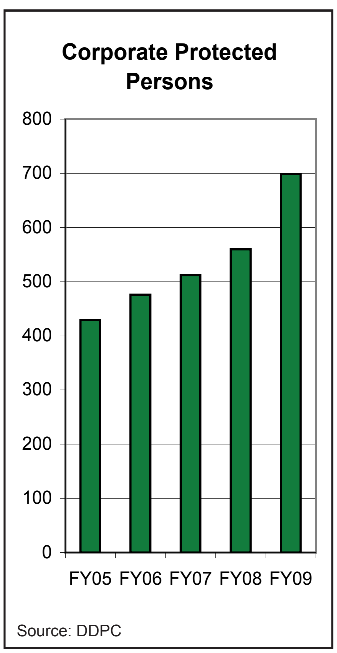


Source: HSD Monthly Statistical Reports



Source: CYFD




dropout rates. New Mexico has invested an increasing share of state revenue in HSD's Child Support Enforcement Division to improve enforcement of child support orders and provide more funding to low-income families. The percent of child support cases with support orders has risen from 52 percent in FY04 to 66.2 percent in FY09. The national average, however, is 79 percent.

*Adult Protective Services.* The Aging and Long-Term Services Department (ALTSD) Adult Protective Services (APS) program 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.

APS reports the number of interventions for FY09 at 6,633, up 272 cases or 4.3 percent form FY08. This caseload has increased over the past five years at an approximate 2 percent annual rate. ALTSD attributes part of the increase to the economy, which has resulted in greater risk of abuse, neglect, and exploitation for the older population. The number of requests for legal assistance was 313, significantly above the 293 the previous year and reflects increased efforts in guardianship, wills, and contractual arrangements with providers.

*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, 699 individuals are receiving guardianship services from the state and the demand is growing from requests from APS, court-ordered placements, clients receiving services for developmental disabilities, and mental health referrals. There are 94 cases pending.

Because of an additional $200 thousand appropriation in the 2009 General Appropriations Act, there is no waiting list for guardianship services. In 2009, $3.1 million was appropriated, up 7.1 percent from the previous year. However, because of fiscal conditions, an increased appropriation of this size may not occur. DDPC may need to manage with the resources available and begin a waiting list if funding is insufficient.

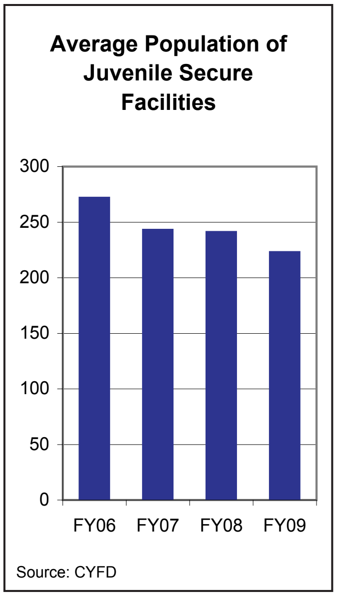
Laws 2009, Chapter 159, implementing changes recommended by the Guardianship Task Force, includes protections against court-ordered changes to advanced health and mental health directives without the individual's consent, changes name from "ward" to "protected person," amends the mental health and developmental disabilities code, and defines legal requirements for guardians.

*Domestic Violence.* Domestic violence programs in New Mexico 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 funding assists in maintaining programs and projects to prevent family violence and to provide immediate shelter and related assistance to victims of family violence and their dependents.

The National Network to End Domestic Violence conducted a survey of 18 out of 32, or 56 percent, of identified domestic violence programs in New Mexico. The following is a summary of the survey's findings for September 17, 2008:

- 398 domestic violence victims found refuge in emergency shelters or transitional housing;
- 295 adults and children received nonresidential assistance and services, including individual counseling, legal advocacy, and children's support groups;
- 103 domestic violence hotline calls were answered; and
- 139 individuals statewide participated in one of 19 training sessions on domestic violence prevention and early intervention.

The survey noted that only 6 percent of domestic violence programs in New Mexico reported being able to regularly connect a victim requesting legal assistance with an attorney. Victims of domestic violence often need legal assistance with restraining orders and civil and family court matters.




**Juvenile Justice.** The Children, Youth and Families Department (CYFD) has fully implemented Cambiar New Mexico, which resembles the Missouri model, at the J. Paul Taylor Center in Las Cruces. Cambiar NM shifts the focus from confinement and punishment to rehabilitation and regionalization. Staff and youth at the J. Paul Taylor Center reported that the biggest change from Cambiar NM was increased safety at the facility. The J. Paul Taylor Center reported 142 disciplinary incidents in FY09 compared with 597 disciplinary incidents in FY08. Currently, CYFD is in the process of implementing Cambiar NM at the Youth Diagnostic and Development Center in Albuquerque. Cambiar NM includes the following initiatives:

- Developing smaller, secure regional facilities statewide;
- Creating smaller, safer, and more nurturing living units, known as therapeutic communities;
- Implementing youth-centered unit management;
- Developing individualized service plans addressing assessed needs, strengths and risks; and
- Training Youth Care Specialists to provide them with clinical and therapeutic skills.

*ACLU Lawsuit.* In September 2009, the American Civil Liberties Union (ACLU) dropped its lawsuit against CYFD. ACLU had filed the lawsuit in November 2007 alleging CYFD did not compile with the 2006 agreement to improve facilities and services to incarcerated youth. CYFD will also pay $500 thousand to ACLU for legal fees. ACLU and CYFD have now entered into a new agreement focused on the implementation of Cambiar NM. The new agreement will be in effect until December 31, 2010.

**Renewable Energy Transmission Authority Funding Levels**

RETA received the following funding initially appropriated through the Energy, Minerals and Natural Resources Department:

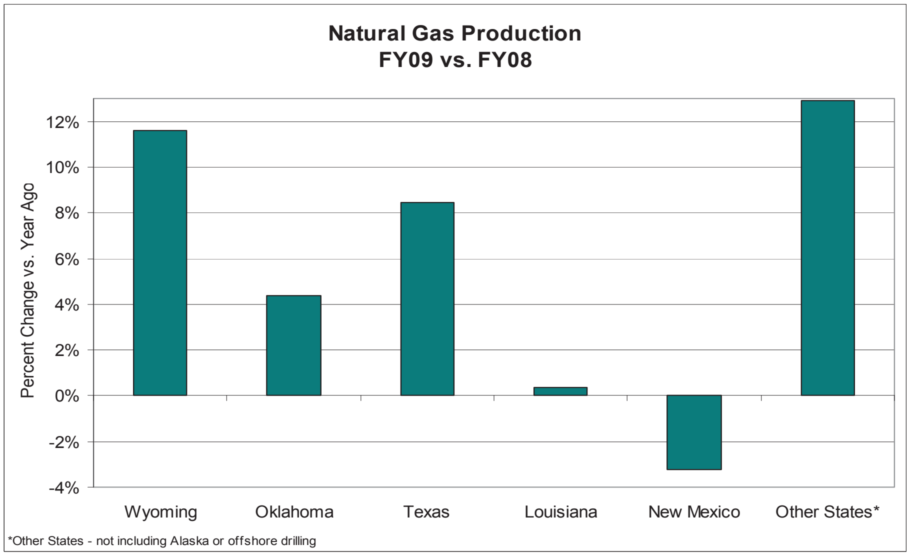
*Laws 2007:*
HB2, Section 18, $500 thousand
HB2, Section 5, $500 thousand

*Laws 2008:*
HB2, Section 5, $250 thousand
SB165, Section 17, $250 thousand

*Laws 2009:*
HB2, Section 4, $250 thousand
HB2, Section 5, $250 thousand

Policy regarding natural resources in New Mexico continues to be fragmented across state agencies and predominately implemented by executive order or rulemaking, sometimes with little or no legislative input.

**PIT Rules.** As proposed by the Oil Conservation Commission (OCC), pit rules that regulate oil and gas operations became effective June 16, 2008. They were appealed by industry representatives and the case is currently pending in the 1st Judicial District court in Santa Fe. Additionally, in light of the economic downturn, more recently OCC initiated efforts to make certain changes in the pit rules. Those changes also became effective earlier this year and were appealed by an environmental group to the 1st Judicial District court. The OCC response brief was due in November. Since the implementation of the pit rules the price of natural gas nationwide and in New Mexico dropped from $13 per 1,000 cubic feet to a low of near $2. Over the past 18 months, with the drop in price there has been a drop in new drilling starts with New Mexico following a national trend. While New Mexico production is falling, production from tight shale formation has contributed to growth in other states.




**Renewable Energy.** To address distribution opportunities associated with the harvesting of alternative energy, the Renewable Energy Transmission Authority (RETA) was approved by the Legislature in 2007 (Chapter 3, HB188) to increase access to New Mexico's renewable energy resources, such as wind, solar, and geothermal. RETA will also work on energy storage projects that will hold solar or wind energy for use when it's needed, therein potentially increasing the market power of New Mexico's renewable energy. As a quasi-government authority, RETA can plan, finance, build, and operate electric transmission lines and power storage facilities. It could also issue tax-free bonds to provide low-cost financing for projects and charge companies to use transmission facilities it owns or operates.

RETA is presently engaged in a project that will finance transmission upgrades to carry renewable wind energy to market from a 100 megawatt wind farm in Torrance County known as the High Lonesome Wind Ranch, LLC. Additionally, it is pursuing associations with the proposed Tres Amigas superstation in Clovis; which will connect the nation's three major electricity grids – Eastern, Western and Texas.

*American Recovery and Reinvestment Act.* Under the provisions of the American Recovery and Reinvestment Act (ARRA), New Mexico's State Energy Program received a U.S. Department of Energy grant of $31.8 million to support energy efficiency and renewable energy projects. Coordinated by the Energy, Minerals and Natural Resources Department (EMNRD), the awards target projects that increase energy efficiency to reduce energy costs and consumption for consumers, businesses, and government; reduce reliance on imported energy; improve the reliability of electricity and fuel supply and the delivery of energy services; and reduce the impact of energy production and use on the environment. Following a competitive application process, to date, EMNRD has awarded $24 million to various schools, colleges, tribes, and other agencies including $12 million to the state General Services Department for lighting, insulation, heating and air conditioning upgrades and $5 million to the state Department of Transportation to support a statewide LED traffic light bulb replacement project. Additional ARRA energy-related funding opportunities include $9 million in energy efficiency and conservation block grants to help local governments reduce energy use and carbon emissions and a $3 million energy efficient appliance rebate program for consumers who buy energy-efficient Energy Star products to replace old appliances.

**Water Rights Adjudication**. Water adjudication specialists from the Administrative Office of the Courts (AOC) and the Office of the State Engineer (OSE) continue to study stream adjudication procedures in both New Mexico and other states. Of particular interest are AOC questions with respect to the role of OSE in the adjudication process:

- Should the State Engineer be precluded from appearing as a party in water rights adjudications? And if the State Engineer's role as a party is eliminated, should the Attorney General appear on behalf of the state in all contested water rights proceedings?
- If the OSE retains its role as a party, should the responsibility for evaluating water rights claims be transferred to an independent agency? If so, how will the agency obtain the necessary technical expertise and access to technical data now accumulated by the State Engineer?

AOC's study of water right adjudication practices indicated that centralizing judicial oversight of state adjudications can yield more efficient and uniform adjudication procedures. The New Mexico Supreme Court has initiated a process to identify a single judge to preside over the state water right adjudications. This process will likely occur gradually, as the designated judge will initially preside over only those water right adjudications currently heard by judges pro tem. Adjudications presided over by sitting district judges will not initially

**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,
- Perception that the State Engineer has an adversarial relationship with public, and
- Confusion on the part of the public as to how to respond to the State Engineer's processes.

be incorporated into the centralization effort. This transition will most likely begin this fall.

**Summary of American Clean Energy and Security Act (Waxman-Markey Bill HR 2454)**

- Includes a goal of 83 percent reduction in U.S. greenhouse gas (GHG) emissions by 2050;
- Includes a cap-and-trade program that establishes limits on GHG emissions while allowing emitters to trade emission credits;
- Phases in sources over five years;
- Requires 20 percent of electricity come from renewable energy by 2020;
- Creates state energy and development (SEED) funds to administer federal funds given to states to support clean energy, energy efficiency, and climate change programs; and
- Includes mechanisms to help ensure credibility of carbon markets and offset programs.

**Policy Options To Reduce Greenhouse Gas**

- Cap and Trade—Emission standards (cap) that can be met by internal emission reductions or by purchasing market credits (trade)
- Carbon Tax—straight tax on carbon emissions
- Regulatory Control (Cap only)—standards imposed directly on firms

The agency will require legislation to authorize any auction of GHG credits and establish a fund to receive proceeds. The other option is to add auctions revenues directly to the general fund.

**Greenhouse Gas Emission Reduction.** A key impetus driving renewable energy development is reducing greenhouse (GHG) emissions generated by fossil fuel extraction and electrical production, which account for 63 percent of the state's GHG inventory according to the Environment Department. Large producers began quantifying these emissions as part of their annual reporting requirements in 2008 to establish baselines for a proposed "cap and trade" program under the Western Climate Initiative (WCI), a multi-state collaboration. Despite the failure of enabling legislation in the 2009 session, the Environmental Improvement Board (EIB) announced its intent to move forward with implementing a cap and trade program in New Mexico as envisioned by the WCI. A cap and trade program consists of mandated emission standards (cap) that allows a firm to meet allowances by either reducing emissions directly or by purchasing excess credits generated by firms that reduce beyond their allowances (trade). The WCI program is slated to begin in 2012.

The primary concern remains that implementing a cap and trade program in New Mexico prior to federal standards that would apply to both surrounding states and tribal energy producers would significantly increase energy costs to local producers, businesses, and consumers without having any measurable effect on GHG emission reduction. The Waxman-Markey bill (American Clean Energy and Security Act), which passed the U.S. House of Representatives in June 2009, brings the debate to the national forefront and highlights the complexities of addressing GHG reduction given the wide range of issues and conflicting viewpoints. The Environmental Protection Agency's action to regulate GHG emissions under the Clear Air Act without legislation complicates the matter further.

For example, some experts claim a cap and trade program that auctions initial credits to generate proceeds for the public benefit would suffice. Others see a cap and trade program as part of an integrated approach that would require other essential components, such as promoting energy efficiency, to be successful. Still other experts claim a cap and trade program would contribute to energy price volatility, reduce economic growth, provide windfall profits to those allocated credits, and burden low-income households. These opponents to cap and trade point to a carbon tax as a better solution. Finally, skeptics claim global warming is a natural event that cannot be slowed by human intervention and the tremendous cost of any program will only serve to weaken the economy and solidify the economic dominance of China and India—developing countries uncommitted to carbon reduction.

*Cost*. Federal rules regarding nationwide limits on GHG emissions from vehicles are expected to raise new car and truck prices by an average of $1.1 thousand, but save drivers $3 thousand in fuel bills over the life of the vehicle. New Mexico "clean car" standards are still being challenged in both federal and state court.

Under the Waxman-Markey bill, a Congressional Budget Office report estimated the average American household would lose purchasing power of $90 when the rules would go into effect in 2012 and $925 by 2050. The same study projects the bill would cause the economy, or gross domestic income, to be up to three-quarters of 1 percent less in 2020, increasing in later years as emission reductions are tightened and any free allowances are phased out.

However, costs could differ substantially if state rules are imposed independently by EIB. The Environment Department is considering bringing proposals before the EIB in 2010 to implement portions of the Western Climate Exchange. In addition, a petition already submitted to EIB proposes imposing a cap, without the trade component that theoretically reduces the overall cost of the program. A cap-only approach would likely artificially inflate electricity prices, a burden on New Mexicans, and increase production costs, making it economically inefficient and placing the state at a distinct economic disadvantage. Until the debate is resolved at the federal level, it appears that any action taken at the state level by EIB may be premature, particularly in the absence of legislative input.

**Air Quality.** Concerns regarding ozone levels exceeding the federal standard of 75 parts per billion (ppb) in New Mexico led to the enactment of Laws 2009, Chapter 98 (House Bill 195), which allows EIB to approve regulations to reduce ozone in areas where concentrations are 95 percent or more of the standard. Based on an extensive ozone and visibility modeling study funded by a federal grant, proposed rules will require oil and gas facilities in the San Juan and western Rio Arriba areas to ensure that any new engines installed have low-nitrogen oxide emissions.

The study also predicts significant improvement in visibility and ozone concentrations in the region if the Four Corners Power Plant and the San Juan Generating Station install a control called selective catalytic reduction, which would reduce air pollution from both facilities by about 75 percent to 80 percent. Another area of concern is Sunland Park, where the department has measured ozone as high as 76 ppb. The department analyzed emissions and, given the limited number of industrial sources in the area, concluded no reductions could be mandated that would result in significant reductions in ozone. Therefore, no regulations have been proposed for that area.

While ozone is formed from nitrogen oxide and volatile organic compound emissions, it is also heavily influenced by meteorological conditions, which did not contribute to high levels of ozone statewide this past summer. Because the federal standard is based on a three-year average, it will appear that New Mexico has reduced ozone concentrations significantly. However, the agency cautions emissions that cause ozone to form have not been reduced significantly. If subsequent summers are more “normal”, higher levels of ozone in Sunland Park, Farmington, and Albuquerque are likely. More stringent rules were postponed.

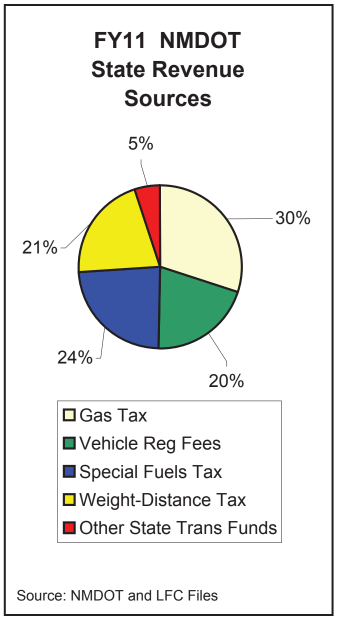
The Environmental Protection Agency established the nation's first mandatory greenhouse-gas registry. Under the rule, any entity emitting the equivalent of 25,000 tons of carbon dioxide a year would have to declare how much pollution it releases into the atmosphere.

**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. Pursuant to House Memorial 52 passed during the 2009 Legislative Session, a study has been commissioned to review the environmental and economic impacts of GHG reduction programs in New Mexico. Because the study is undertaken by the same group that assessed these issues for the Western Climate Initiative group, industry has concerns that the final report, due October 2010, will be limited in its analysis.




The tempest that has been forecast for the past two years with respect to transportation funding in New Mexico and across the nation is upon us. In the past two years both federal and state road fund (SRF) revenues have seen significant reductions with forecasts predicting a continued decline well into the future. As traditional revenue sources of transportation funding, such as fuel taxes, stagnate and decline, alternative funding strategies must be explored if New Mexico is expected to maintain and improve the existing transportation system. If funding alternatives are not developed, the state must determine what activities and services it no longer can afford.

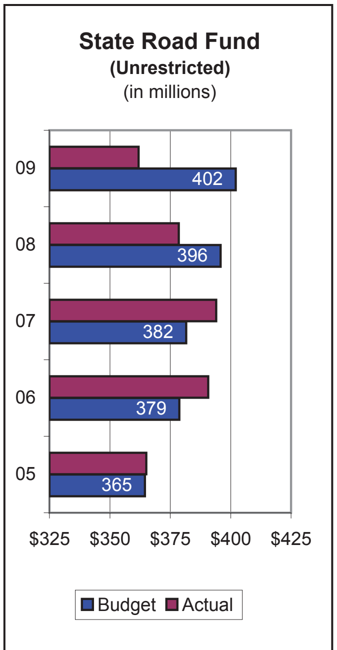
**Federal Funding.** Congress has begun debate on replacement legislation to authorize and govern the next five years of federal spending for the nation's surface transportation programs. Currently this is governed by the Safe, Accountable, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) which expired in October 2009. Congress has since passed a continuing resolution for this program and is expected to address this legislation in early 2010. SAFETEA-LU, effective from 2004-2009, differed 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), in the last three years, to initiate rescissions of appropriations to the states as funding within the highway trust fund (HTF) was depleted. Congress has indicated it may increase the amount of funding authorized to states. However, this would require an increase in funding available to the HTF.

*Highway Trust Fund.* The HTF, established in 1956 as a dedicated and primary source of federal funding for highways, is primarily funded by fuel taxes, which generate nearly 90 percent of the federal transportation revenue passed on to the states. The federal gasoline tax has not been increased in nearly 20 years, and without provisions to accommodate inflation, the rate effectively has declined, as has the purchasing power of the trust fund. In 2008, Congress shifted $8 billion from the general fund to cover a deficit in the HTF, and will inject another $7 billion from the general fund in the fall of 2009 to keep this fund solvent. Stabilization of HTF funding will be one of the key elements of the new multi-year legislation being developed.

In addition to the impact of more fuel-efficient vehicles, Americans are driving less. After decades of steady increases, total vehicle miles traveled (VMT) in the U.S. has slowed dramatically and fell from December 2007 to December 2008 by 108 billion miles—the largest sustained drop in driving this nation has ever seen. Initially this was caused by soaring gasoline costs in the spring and summer of 2008. While the decline in VMT appears to have stabilized, consumption is not expected to return to the levels of the past despite a drop in gasoline prices. Yet, at both the federal and state levels fuel taxes remain a critically important revenue source and will continue to be so for the foreseeable future. Discussion continues as to how to replace these revenues.

Forecasts of reduced federal gasoline tax revenue present a dilemma to the states because this is the primary source of funding for their highway construction and rehabilitation programs. And, for states like New Mexico, that have secured bonding for highway construction programs (GRIP anticipates $1.585 billion) by pledging this revenue to meet debt service, it is particularly worrisome.

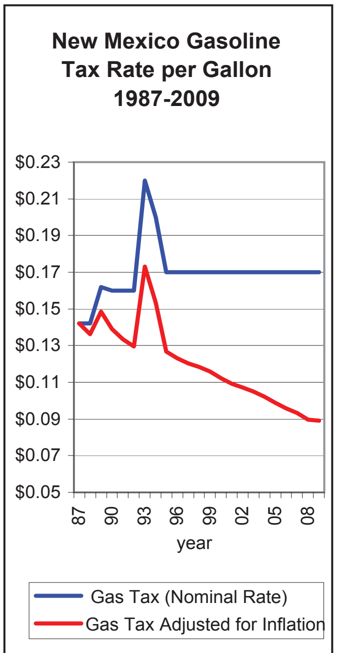
Unless the HTF revenue improves at the federal level, New Mexico will not have sufficient revenues after meeting its debt service obligations to meet the state's annual construction program needs for its roadways. If the HTF revenue flow is increased, New Mexico, with its own declining state revenue base, may not benefit because it will not be able to meet federal match requirements.



Source: NMDOT files

**<u>State Road Fund.</u>** Revenue associated with the state road fund (SRF) is categorized as either restricted or unrestricted. Unrestricted revenue, such as motor vehicle registration fees and fuel taxes, support the bulk of the activities associated with maintenance and operations of the state's highway system. In FY09, SRF unrestricted revenues fell short of an expected and budgeted level of $402.1 million to $365 million. In October 2009 the department projected that FY10 revenue budgeted at $395 million would decline to a level between $340 million and $360 million. The department has taken actions to reduce the FY10 operating budget by $31.9 million and has additional initiated internal actions that may result in another $20 million in reductions.

*Fuel Taxes*. Fuel taxes account for 54 percent of the SRF, with a 17 cent per gallon gasoline tax and a 21 cent per gallon special fuels (diesel) tax being collected. Fuel taxes are consumption taxes based on the number of gallons sold or used.

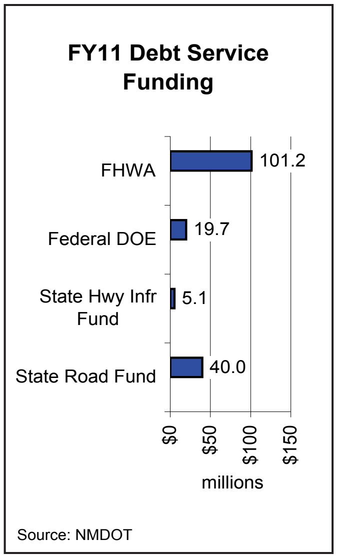


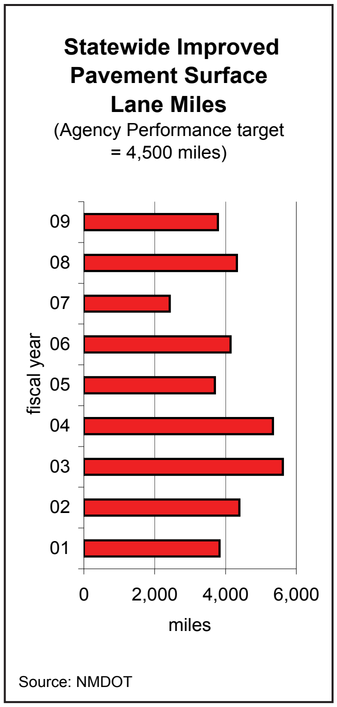
Source: American Association State Highway and Transportation Organizations (AASHTO)

The special fuels tax was last increased in 2003 to provide additional funding to meet increased debt service requirements brought on by GRIP. This revenue currently accounts for over 24 percent of the SRF. While FY08 collections showed growth of $4.4 million, or 4.6 percent over FY07, FY09 collections plunged by $15.9 million due to decreased consumption; truck traffic throughout the state decreased by as much as 20 percent.

In FY08, gasoline tax collections declined by $6.9 million, or 6.1 percent from FY07 levels. FY09 gasoline tax collections were basically flat, indicating stabilization in consumer demand and vehicle miles traveled. Gasoline taxes represent 30 percent of the SRF. New Mexico's fuel taxes are not indexed to inflation and the gasoline tax has not been adjusted for over 20 years, resulting in a 47 percent loss in its real value from a 1987 value of 17 cents per gallon to the equivalent of less than 9 cents per gallon in 2009.

**<u>Construction Program Plans.</u>** The statewide transportation improvement plan (STIP), a five-year federally mandated plan for the




state's highway construction and rehabilitation programs, is largely funded from HTF disbursements in accordance with the provisions within SAFETEA-LU. In the past three years STIP the cost of construction materials has increased sharply. This is best evidenced by review of highway rehabilitation costs, which increased from $200.3 thousand per lane mile in FY04 to $281.8 thousand per lane mile in FY07. To meet these increases the department changed the size or scope of many projects in STIP and moved start dates well into the future. However, construction material costs have stabilized and declined in the past year.

The 2003 Legislature under Governor Richardson's Investment Partnership (GRIP) authorized the issuance of $1.585 billion in bonds over a six-year period for highway construction and reconstruction projects within 37 corridors throughout the state.

Initial problems with the accuracy of cost estimates and miscommunication with the Legislature on the scope of GRIP projects, such as commuter rail, combined with construction cost increases caused GRIP to exceed $2.2 billion. In 2007, the Legislature sought to defray this inflationary pressure through a series of supplemental appropriations from the general fund and with severance tax bonds totaling $252.8 million. Additionally, another $135.3 million allocated to the state by the American Recovery and Reinvestment Act (ARRA) was placed on GRIP projects that were under funded. Despite these efforts, GRIP continues to be under funded by as much as $420 million threatening the completion of all GRIP projects.

*Bond Program and Debt Management.* NMDOT has a total outstanding debt of $1.59 billion with FY11 debt service obligations of $166 million for all NMDOT bonds. GRIP bonds account for $1.2 billion in outstanding principal with a final maturity date in 2026; $434 million in authorized 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), struggled in FY09 with the financing of GRIP. The department was caught in the fallout of the sub-prime market crisis because GRIP's portfolio contained both variable-rate and auction-rate security products. To extricate itself from these investments, the department was forced to expend additional resources to reduce its exposure for future and continued losses.

In 2009, the commission as part of this effort made a strategic decision to reverse itself on issuing 20-year bonds for GRIP and returned to the issuance of 10-year bonds for the remainder of any GRIP issuances. This decision was driven in part by the department's inability to absorb the market-driven increase in debt service levels above the $162 million debt service level committed to the Legislature in 2003. This has forced the commission to temporarily suspend plans to issue the final $234 million in GRIP bonds that was originally planned for 2010. As pressure is brought to bear to complete GRIP, the department may be forced to defer programmed projects within STIP as it strives to find funding for GRIP projects that are uncompleted. Additionally, because GRIP requires almost 50 percent of expected federal revenue for debt service payment, revenues are insufficient to meet the projected needs of the state transportation system. This is why the department cannot program the Paseo del Norte interchange in Albuquerque or the North West Loop between Interstate 40 and Interstate 25 for completion in the near future.

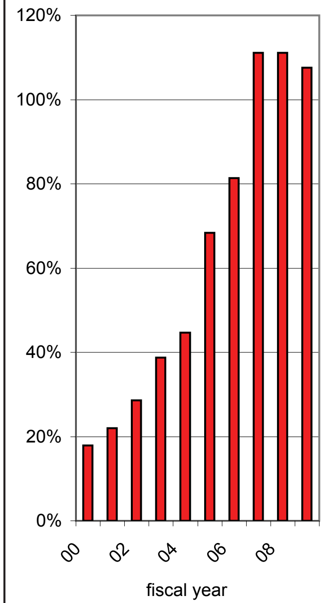
**GRIP II.** The Legislature in 2007 identified 116 specific local government highway and road construction projects valued at $180.4 million that would compete for a limited amount of state funding. Match requirements, either in-kind or cash, for local governments is estimated to be $100.6 million. To date $110.4 million in both general fund and severance tax bond (STB) funding for FY07-FY10 has been appropriated. Awards for this funding were prioritized by NMDOT based on the availability of a required match and the readiness of the locality to proceed to bid. As of September 2009, 36 projects have been completed with 12 projects under design, 23 under construction and another 13 currently showing the design activity being completed.

**Highway Maintenance.** This activity is the backbone of highway operations. It is charged with protecting and sustaining the investments made by the state in its highway infrastructure. In 2007, the department estimated it needed an additional $80 million more per year to sustain the state's roads and highways and an additional $16 billion to replace and preserve existing bridges and roadways over the next 20 years. Over the past decade the total number of lane miles has increased significantly as roads have been added to the state system and the number of lane miles has increased as two-lane highways have been converted into four-lane highways. The Legislature in 2007 increased staffing by an additional 55 FTE to address these backlogged maintenance needs. However, most if not all of these positions remain vacant due a statewide hiring freeze and declining SRF revenues.

The continued loss of SRF revenue significantly impacts the department's ability to maintain highways, forcing cost reduction measures throughout the program, including modifying chip sealing activities, closure of rest areas throughout the state, curtailing roadside mowing activities, curtailing equipment replacement programs, and not filling vacant positions as evidenced by agency vacancy rates expected to approach 20 percent.

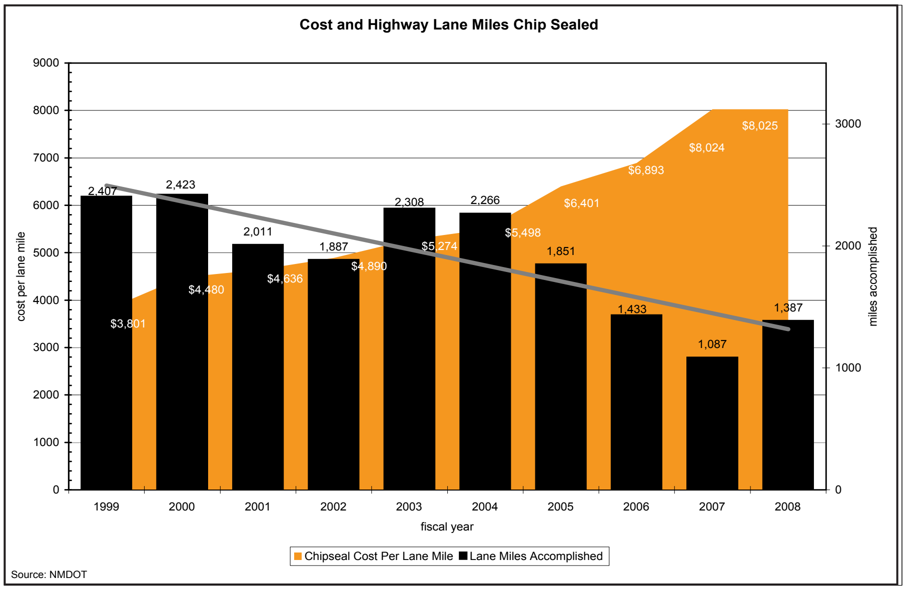
*Chip Seal Program.* This program is a major component of the department's maintenance program because chip sealing prolongs the life of a road. Costs have increased over 100 percent between FY00 and FY09 with current costs for chip sealing averaging $8 thousand per mile. To further minimize cost increases the department has begun to shift from a five- to six-year cycle for chip sealing roads to a nine- to ten-year cycle. Such a move will mean, while the roads throughout the state will erode at the same rate, repairs will take twice as long. In the long term, this practice may result in the failure of a road before its

**Percent Increase in Chip Seal Cost per Lane Mile from 2000**




Source: NMDOT

normal life expectancy with an increased cost to the state. FY09 saw a decrease in construction costs; however, the loss of SRF revenues impacted the department's ability to capitalize on the lower material costs to the maximum extent possible.




*Bridge Maintenance.* The department continues to make progress in reducing the number of state-owned structurally deficient bridges. In FY06, 256 bridges were reported as structurally deficient. At the end of FY09, 197 state-owned bridges were considered structurally deficient, a 23 percent decrease from the FY06 level and a 7.5 percent reduction from the FY08 level of 213.

Bridge maintenance funding is at an all-time high, with many bridges scheduled for replacement within various STIP and GRIP projects. Over 8.5 percent of the total deck area of NMDOT maintained bridges are considered deficient. Bridge reconstruction costs have risen from an FY04 cost of $83 per square foot to FY09 estimates of $130 per square foot. The replacement cost for these deficient structures is currently estimated at $164 million. Total project costs for this activity would rise to $329.2 million when traffic control, mobilization, detours, associated roadway work, channel improvements, and gross receipts tax are included.

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

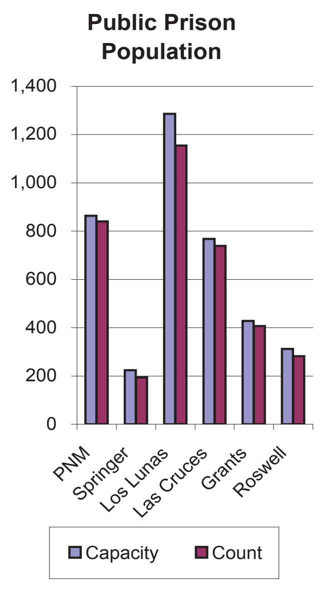
*Commuter Rail.* The commuter rail project funded under GRIP is 97 percent complete at a projected cost of approximately $400 million with an additional $50 million being held in escrow and $25 million set aside for contingencies.

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. A referendum on the imposition of a 1/8 cent gross receipts tax (GRT) 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 was expected to raise $19 million per year, while revenue from the tax from the North Central District was projected at $8 million per year. However, GRT for all of these counties is reported to be well below expectations with the Middle Rio Grande Council of Government (MRCOG) reporting first month collections to be down $500 thousand. This funding will be used to offset the loss of federal funding and the increased operational costs of the commuter rail system and to enhance bus service throughout the two districts.

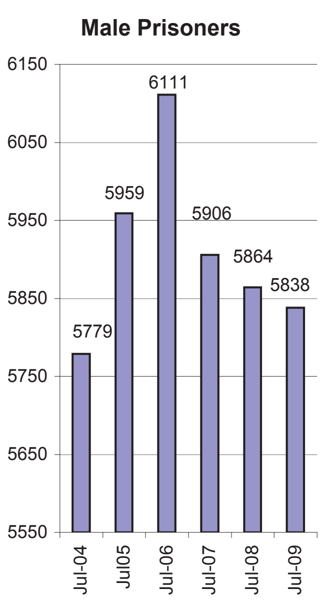
NMDOT in September 2009 applied for ARRA stimulus grants for high-speed rail applications. Assistance is being sought for two key applications: a) replacement of rail ties between Bernalillo and Waldo ($8 million) because “no real tie work had been done for the past 20 years” and b) installation of a federally mandated Positive Train Control System (PTC) between Isleta and Lamy ($8 million). The PTC is required by law to be installed by December 31, 2015, over this route used by Amtrak, commuter rail (Rail Runner) and Burlington Northern and Santa Fe (BNSF) freight trains. This signal, communication and train control technology controls train movement to assure safe operation.

If these grants are not awarded, the state and MRCOG will assume responsibility for this activity. Track usage revenues and revenues from the rail transit district are not expected to be sufficient to cover these expenses. The grant request rekindles the debate over the hidden maintenance costs to which the state is exposed.

**Santa Teresa Rail Relocation.** Union Pacific Corporation announced in October 2006 it would begin construction of a new $150 million to $350 million terminal facility at Strauss, N.M., about 4 miles west of Santa Teresa. To date no significant activity has occurred. 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 Legislature in 2007. The governor also pledged $5 million from $14 million of federal funds originally earmarked for the rail relocation project to improve a county road connecting the Pete Domenici Highway in Santa Teresa with the new Union Pacific Facilities in Strauss.




Source: NMCD Reports




Source: NMCD Files

Periods of limited state revenue highlight the timeless problem of balancing fiscal resources with perceived policy imperatives. Public safety exemplifies this. The New Mexico Corrections Department (NMCD) does not have the luxury of picking which or how many inmates will arrive for incarceration; this is decided by the courts. Once the court imposes a prison sentence it falls on NMCD to manage the inmate within current resources. In similar fashion, the Department of Public Safety (DPS) cannot predict if or when a specific criminal endeavor will occur requiring a DPS response. Vehicular accidents, lost hikers or selling alcoholic beverages to a minor occur at any time of the day or night and necessitate action to not only protect the participants but also bystanders that could become victims by innocent association. The citizenry justifiably expects public safety agencies to have adequate resources to accomplish the goals of crime prevention and citizen protection. These continued needs challenge all stakeholders from both the public safety agencies and the general public to maximize efficiencies to provide quality, responsive services in the present state revenue environment.

**Prison Population.** NMCD has a total of 6,409 inmates, 5,834 males and 575 females. The men are housed in nine facilities, six publicly and three privately operated. The location, residential capacity, and current population for each facility is shown in the graphs.

The sidebar graph shows New Mexico's male inmate population dropping over the past six years. The female population also has declined but is only about 10 percent of the male total. Consequently, relative changes in the male population result in a greater impact of the overall inmate cost.

NMCD contracts with JFA Associates to produce an independent projection of inmate population. The population reduction over the past two years was not anticipated by JFA and necessitated a re-evaluation of the projection in a June 2008 report. The latest report submitted in June 2009 reinforces some of the previous assumptions and reiterates two significant findings that may affect the prison population:

- New Mexico's resident population has slowed in recent years. Also, 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.
- New Mexico crime index in 2006 was 4,580 crimes per 100,000 persons, down from 5,600 in 2005.

These changes suggest the possibility of continued slower growth in the prison population. For example, the 2009 JFA estimate is for 143 fewer inmates in July 2011 compared with the 2008 estimate. This is a significant difference and, if it proves correct, should result in cost moderation. The latest projection does not anticipate a reduced population, as in FY07, FY08 and FY09, but rather just modest growth.

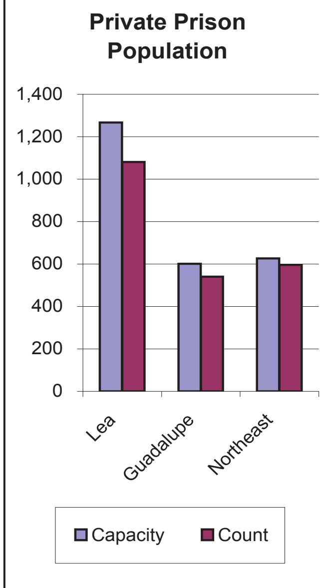
*Private Prison Facilities Cost.* The private facilities principally provide the space for Level III classification male inmates. Public facilities have 464 Level III beds with 448 occupied, a utilization rate of 96.6 percent. There are approximately 2,200 Level III men in private prisons. With the public Level III beds essentially full, additional inmates at this classification will generally be housed in a private facility. All female inmates are housed at the private New Mexico Women's Correctional facility in Grants. The occupancy for this facility hovered at 95 percent at the end of FY09 and capacity may be exceeded. The cost for these prisoners is determined by a contracted per diem rate.

The graph shows the per diem in FY09 and FY10 and the estimate for FY11. The Northeast New Mexico Detention Facility, in Clayton, per diem of $88.18 includes a debt service portion of $31.98. The per diem has remained essentially constant for the past two years, and it is anticipated the same will be true for FY11.

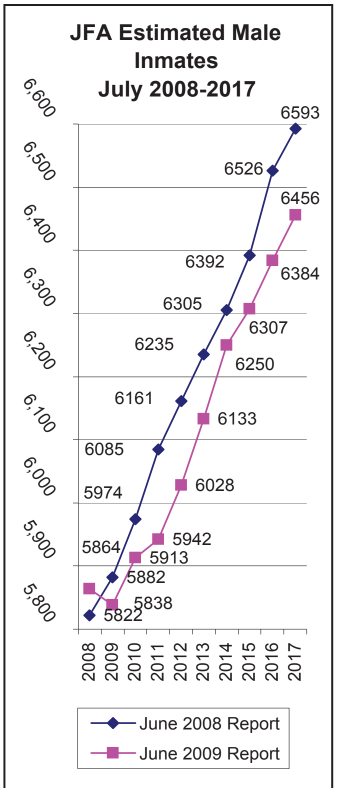
According to a recent NMCD report, private prisons housed 44 percent of the total inmate population and public facilities 56 percent. On a comparable date a year ago, the percents were 46 and 54 respectively. This indicates NMCD is managing the inmate population to minimize the private prison cost that adds to the predominately fixed public facility infrastructure cost. However, the New Mexico prison system has become dependent on private contractors due to the limited public space to house Level III prisoners. The value of the private prison contracts has grown to approximately $70 million annually.

***Medical Contract.*** Fiscal Year 11 will be the fourth year Corrections Medical Services has provided medical, dental, and psychiatric care for NMCD inmates. Under the FY11 contract, the state pays not a fee for each inmate but a flat fee of $47.7 million for basic services for up to 6,779 inmates. With add-ons for certain pharmaceuticals and tax, the total jumps to $50.8 million. If the inmate population reaches the maximum number, the annual cost per client is $7.5 thousand. This is for comprehensive care with only a few exceptions such as hepatitis, a common but serious ailment among the prison population. As a comparator, the single health coverage for a New Mexico state employee is approximately $5.2 thousand annually with an additional $2 thousand maximum out of pocket expense.

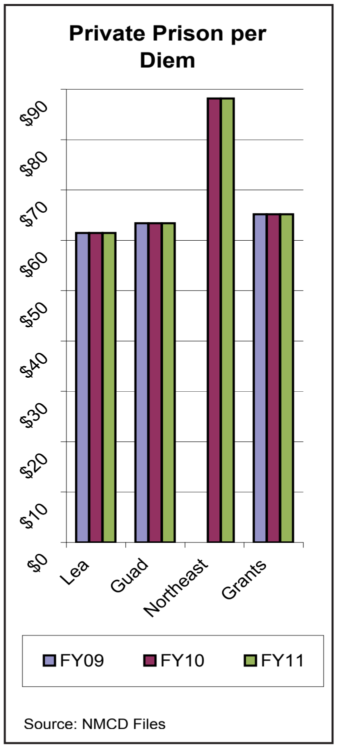
*Early Release To Reduce Population.* In July 2009 the New Mexico Sentencing Commission (NMSC) issued a study estimating the number of prisoners possibly eligible for early but controlled release from prison. Early release is authorized in the statutes under 33-2A-1 to 33-2A-8 NMSA 1978, the Corrections Population Control Act. Currently, NMCD may place offenders within 12-months of eligibility of parole in community-based settings, provided they have never been convicted of a felony offense involving a firearm. In addition, offenders convicted of any violent or sex crime and drug trafficking were omitted along with inmates in higher custody levels or parole violations. When these and other conservative criteria were applied, 354 offenders remained

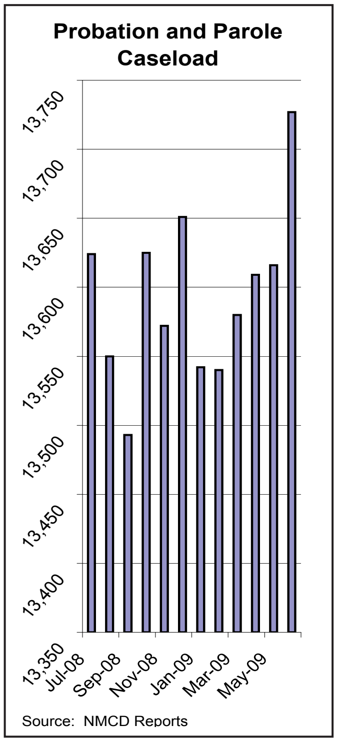


Source: NMCD Reports



Source: JFA June 2008 & 2009 Reports



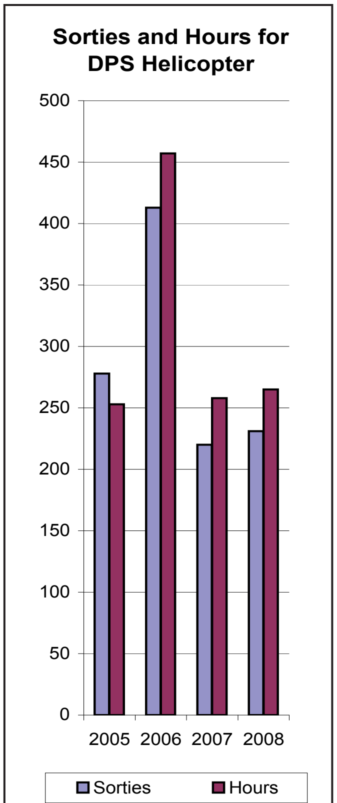

potentially eligible for early release. However, it is not clear early release of these inmates leads to more than marginal cost reduction unless entire prisons or prison modules can be closed.

Also, some of the expense would be transferred to parole services. With an agency goal to maintain a caseload of approximately 100 per parole officer, additional personnel could be required. The probation and parole caseload for FY09 varied from a low of 13,493 to a year-end high of 13,727. Early release would increase the total population, and those released would likely require more supervision than regular parolees. This is a case for even lower caseload per officer because higher crime by the early release group could jeopardize continuation of the entire program. In addition, extra services, such as substance abuse and mental health treatment and housing subsidies, would need consideration. This more comprehensive supervision would lead to higher unit parole cost but should result in lower total cost than incarceration. The risk versus reward requires thoughtful and careful balance.

**State Police Staffing.** With a vacancy rate of 15 percent, staffing continues to be a problem for State Police. Recruitment and retention has been a challenge for the past few years, with competition for qualified applicants keen throughout the state. Also, DPS reports that some local law enforcement agencies, as well as adjacent states, offer more attractive pay and benefit opportunities. The competitive environment is further complicated by the current budget constraints. The recent 80th recruit class graduated 16 patrolmen but the agency still has 90 vacancies out of 605 positions. A successful initiative to curb the loss of officers was incentive pay for those serving in "remote" areas. Fifty positions were eligible for incentive pay and DPS notes the result as positive. Fortunately, $5.4 million in federal funds is available through the Recovery Act Justice Assistance Grant (JAG) program. DPS earmarked these funds to create 38 officer positions, including equipment. The 16 just graduated patrolmen are supported with this funding. As permanent general funded positions become available through normal attrition, these officers will transition to those. This is an example of using the JAG funds to maximum benefit without creating a future unfunded requirement from the general fund.

***Motor Transportation Program.*** For FY10, the Legislature created a new Motor Transportation Program (MTP), transferring the division from the DPS Law Enforcement Program. The new program consists of 218.5 permanent and 53 term positions. One of the program's efforts is to enforce compliance of the weight-distance tax imposed on both in-state and out-of-state truck operators. The motivation for a $1 million FY09 MTP expansion was to increase compliance and simultaneously increase revenues an estimated $7 million. Other MTD responsibilities include issuance of overweight and oversize permits as well as enforcing truck safety requirements.

***Helicopter Usage.*** On June 9, the DPS helicopter crashed resulting in the death of two people, the State Police pilot and a young women who had just been rescued from a snowy mountain near Santa Fe. Law enforcement agencies have been using aircraft since at least 1919 when New York City created an aviation department. Since the late 1940s, the aircraft of choice has been shifting from fixed-wing to the helicopter. A 2009 Bureau of Justice Statistics Report notes that during 2007 about one in five large law enforcement agencies had an aviation unit with half operating only helicopters. However, the median cost per flight hour for fixed-wing units was $99 per hour compared with $144 for helicopters. DPS purchased an Agusta AW 109 to replace the lost helicopter at a cost of $6.7 million. In the time period 2005 through 2008, search and rescue missions were the most common sortie, constituting 25 percent of the total.

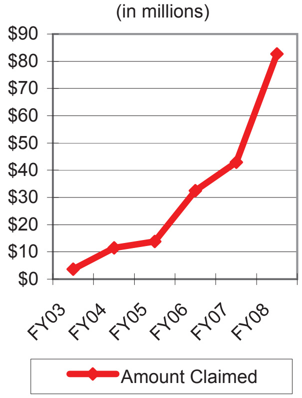



Source: DPS Files

Federal unemployment numbers have probably misled New Mexico into believing conditions have been better than they were. (The figures) tend to be very wrong in energy states, and New Mexico was probably never growing as fast as the data showed it was.

*Mark Snead, the Federal Reserve Bank of Kansas City*

**Total Business Incentive Tax Credits Claimed**
(in millions)




Source: Taxation and Revenue Department

During better times, when revenues were increasing year-over-year, a number of economic development and tax incentives were authorized, including some that narrowed the tax base, diverted general fund revenues, and provided cash in the form of capital outlay and rebates for doing business in New Mexico. It is unclear whether the economic development and tax incentives softened the job losses and high unemployment of the global recession.

**Job Growth/Loss.** Not since 1944, when the job loss rate reached 3.6 percent, has the state experienced such a decline in the number of jobs. The Workforce Solutions Department (WSD) reported over-the-year job loss reached 30,900, or 3.6 percent, in September of this year. The goods-producing sector of the state's economy was the hardest hit, accounting for over half of the lost jobs with construction, manufacturing, and mining sectors fairing the worst. The only employment gains were in government – education and federal employment due to the 2010 census – and health care.

*Unemployment* Coincidently, although job loss is at a 65-year high, WSD reports the unemployment rate reached 7.7 percent, a 13-year high. Comparing the current unemployment rate with those during the Great Depression would have to be adjusted to a "real" basis because "discouraged workers" are no longer counted. Many economists, including the Federal Reserve Bank of San Francisco, predict a new higher level of "natural" unemployment will exist following the recession due to businesses scaling back and consumers becoming accustomed to spending less and saving more, similar to the generation that followed the Great Depression.

**Development Incentives.** Competition among states to recruit new, and retain existing, business has steadily increased over the last few decades.

The LFC report *Survey of Economic Development Initiatives* describes how New Mexico spent hundred of millions of dollars over several years on a variety of tax incentives and economic development giveaways without a statewide plan and little coordination among programs. Agencies overlap or duplicate incentives and often provide multiple incentives to the same recipient; later, each agency counts the same performance outcomes as though it was unique to a specific incentive. The report identifies a lack of transparency and weak performance data as contributors to the inefficiencies. Additionally, bankers, not government employees, may be best suited to pick winners and losers in the marketplace. Projects that wouldn't otherwise have got off the ground received significant government support, only to fail, or move out of the state once the incentive had been exhausted. Many projects received incentives for activities that probably would have occurred anyway.

Often, targeted tax relief and development incentives have unintended consequences, or place a greater burden on those not directly benefiting, such as construction and mining employment, which have suffered dramatic job losses in New Mexico.

*Tax Increment Development Districts.* Since the passage of the Tax Increment for Development Act in 2006, four tax increment for development districts (TIDD) have been formed and approved by the State Board of Finance (BOF). Of the four, two have thus far received legislative authorization to issue bonds. Mesa del Sol and the Winrock/Quorum developments of Albuquerque received legislative authorization to issue $500 million (Laws 2007, Chapter 313) and $164 million (Laws 2009, Chapter 58) respectively. Thus far, Mesa del Sol is the only development currently receiving distributions from the state; however, the Winrock/Quorum development should begin receiving distributions in the near future. The Winrock/Quorum development is of particular significance in that it represents the first “infill” or “re-development” TIDD to gain legislative approval.

The other developments that have thus far received BOF approval, Downtown Las Cruces and Westland DevCo (SunCal), were unable to obtain legislative approval during the 2009 regular session. Downtown Las Cruces is unique in that it is not being developed by a private developer but instead was brought forward entirely by the city of Las Cruces in order to re-develop its downtown area. SunCal previously sought legislative approval of $629 million during the 2008 regular session but failed. During the 2009 regular session, the developers requested a pared-down $408 million in bonding authority, but the legislation was defeated in two tie votes on the House floor.

*Film.* New Mexico was among the first of many states to offer film production incentives. Today, almost every state offers some sort of film incentive, with a few more lucrative than New Mexico’s. However, in light of the economy, runaway costs, mediocre benefits, and abuses, many states are eliminating, cutting back, or at least debating their film subsidies. In Iowa, which allows recoupment up to 50 percent of the cost of production and where the annual cost of the incentive reached $300 million, the program was suspended amid reports of irregularities and poor record-keeping by the state’s film office. A few states, including New York and California, have expanded or adopted incentives to keep the film industry from moving out of their states.

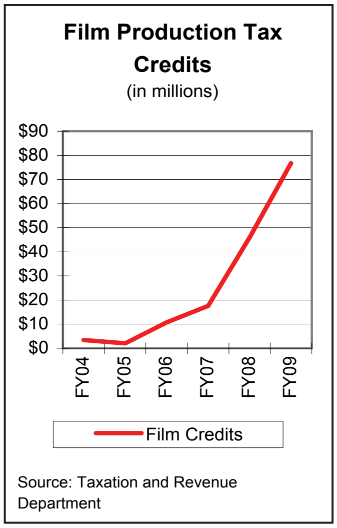
The New England Public Policy Center at the Federal Reserve Bank of Boston compared cost-benefit analyses of the film tax incentives, including two in New Mexico. The Federal Reserve questioned some aspects of Ernst & Young’s (E&Y) favorable report on the impact of film production in New Mexico, including model calibration, the amount of economic activity actually attributable to the film-credit, questionable wage and salary assumptions, and lack of detail surrounding the compilation of tourism impacts. The Federal Reserve report notes, “Although some of the methodological choices made by the E&Y authors are legitimate, there are several problems with the studies that lead us to question the accuracy of their findings” and

**Tax Credits Claimed in 2008**
(in millions)

| | |
|---|---|
| Film | $46.0 |
| Renewable Energy | $15.1 |
| Technology Jobs | $5.7 |
| Rural Health Prac. | $4.8 |
| High-Wage Jobs | $4.7 |
| Investment | $1.8 |
| Lab Partnerships | $2.4 |
| Other | $2.2 |
| Total | $82.7 |

Source: TRD

**TIDD Reform** – During the 2009 regular session various pieces of legislation were introduced aimed at improving the Tax Increment Development Act. Laws 2009, Chapter 179 (HB 451), the only bill to pass, increased transparency requirements and provided the state with more direct oversight by requiring the secretary of DFA, or a designee, to serve on all TIDD boards.




**The Cost Per Job Created at Santa Fe Studios may reach $487 thousand**

**Cost:**
$10 million from the State
$6 million county loan
$3.5 million infrastructure
$19.5 million total cost

**Benefit:**
500,000 hours of above minimum wage jobs, (over 5 years equates to 48 FTE)

"Some of the decisions of the E&Y authors — such as the failure to include a balanced budget requirement — cannot be easily justified."

*Media Fund.* In addition to rebates, the Legislature 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 $9.7 million. The remaining balance of $6.5 million was recently committed to Santa Fe Studios to leverage with $13 million from other sources.

*Film Job Training.* In conjunction with the Job Training Incentive Program (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 in primarily advanced below-the-line crew craft positions (up to 1040 hours per position). In addition to on-the-job training, the Film Office offers film and media workshops and classes to provide additional training to help build the workforce.

*Job Training Incentive Program.* JTIP funds classroom and on-the-job-training for newly created jobs in expanding or relocating businesses. The program reimburses 50 percent to 75 percent of employee wages, and up to one-third of JTIP funding is prioritized for rural, frontier, and distressed areas. Program funding dropped from $7 million in FY09 to $3 million in FY10 -- $2 million from the general fund and $1 million from the employment security department fund. In FY2009, JTIP obligated $11.6 million to more than 44 separate projects. Of the 1,369 new jobs created, 1,171 were urban and 198 were rural.

*Smart Money.* The Smart Money Loan Participation Program of the New Mexico Finance Authority (NMFA) was capitalized with a $10 million general fund appropriation in 2005 and $2 million in 2007. The purpose of the program is to create a public and private partnership to finance projects through low-cost capital loans to stimulate the economy and create jobs in rural and underserved communities. NMFA shares the risk with banks for the projects and provides businesses the opportunity to buy-down interest rates. Smart Money loans totaling $5 million were leveraged with private loans to finance four projects worth $15.8 million creating 127 out of 200 jobs promised.

*New Market Tax Credit Program.* The Statewide Economic Development Act (SWEDA) authorizes NMFA to form, operate, own, or co-own one or more nonprofit or for-profit qualified community development entity for the purpose of participation in the federal New Markets Tax Credit (NMTC) Program operated through the U.S. Treasury Department. The NMFA board formed Finance New Mexico, LLC, and was awarded $110 million of federal tax credits. The program provides private businesses in rural and underserved areas of the state the ability to access capital. The tax credit allows investors to offset their federal income tax liability, equal to 39 percent of the investment, over seven years. Through October, the New Market Tax Program allocated slightly more than half of the federal tax credits, $59.4 million, to three projects.

**Spaceport America.** A ground breaking ceremony held June 19, 2009, marked the start of the 18 to 24 month construction phase of the spaceport. Funding for the spaceport hinged on a Federal Aviation Administration (FAA) license, issued on December 15, 2008; a lease with an anchor tenant, signed with Virgin Galactic on December 31, 2008; and quarterly reporting to LFC on progress at the spaceport.

On December 31, Governor Richardson announced a 20-year lease agreement was signed with Virgin Galactic. The lease agreement was the final requirement set by the Legislature to release the next level of funding clearing the way for construction to begin.

**Smart Money Projects:**
PreCheck, Inc. (Alamogordo)
Western Woods (Raton)
Murray Hotel (Silver City)
Plaza Hotel (Las Vegas)

**New Market Tax Credit Program Projects**
(in millions)

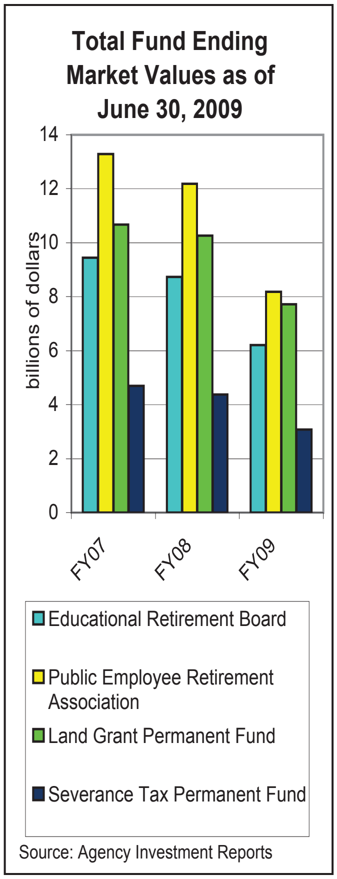
| | |
|---|---|
| Schott Solar | $15.5 |
| Savoy Travel | $16.5 |
| Hotel Parq Central | $13.8 |
| Pros Ranch | $13.5 |

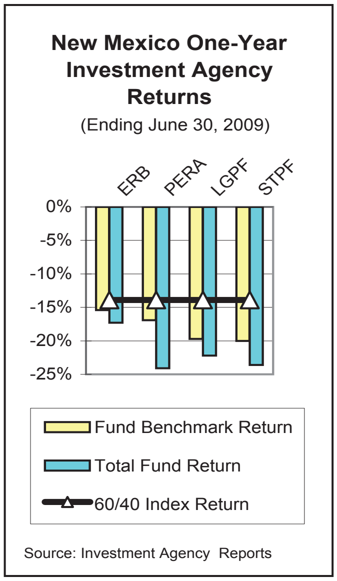
Source: EDD

**Unfunded Economic Development**
(in millions)

| | |
|---|---|
| Spaceport | $7.5 |
| Schott Solar | $2.0 |
| Fidelity | $2.5 |
| Hewlett Packard | $6.0 |
| Signet | $5.0 |

Source: EDD




FY09 proved to be a historic year for financial markets. Almost all major financial indices had negative returns for the fiscal year. Returns from the high profile S&P 500 index, for example, are now negative from a one-year, five-year, and 10-year standpoint.

**Financial Market Indices as of June 30, 2009**

| | One-Year | Five-Year | Ten-Year |
|---|---|---|---|
| S&P 500 (Domestic Equity) | -26.2% | -2.2% | -2.2% |
| MCSI EAFE (International Equity) | -31.4% | 2.3% | 1.2% |
| Barclay's Aggregate (Domestic Fixed Income) | 6.1% | 5.0% | 6.0% |
| NCREIF (Real Estate) | -19.6% | 7.6% | 8.5% |
| HFRI Fund of Funds (Hedge Funds) | -15.2% | 2.6% | 4.8% |
| Cambridge PE Lagged (Private Equity) | -24.5% | 12.1% | 9.5% |
| 90 Day Treasury | 1.0% | 3.2% | 3.2% |

**Pay to Play.** The industry practice of paying third-party marketers or placement agents to place investments with institutional investors has come under intense scrutiny. Originating in New York, allegations of undue political pressure swaying investment decisions for financial gain echoed through many states, including New Mexico where it remains a key policy issue.

Payments to placement agents connected to New Mexico investment funds have totaled over $40 million. Managers hired by the State Investment Council (SIC) accounted for $31.8 million of this total while managers hired by the Educational Retirement Board (ERB) accounted for approximately $7.4 million. Whether these payments represent legitimate business practices or “thinly veiled kickbacks” as described by the New York Attorney General’s Office remains to be seen. Both a federal grand jury and the Securities Exchange Commission are currently investigating. The involvement of the New Mexico Attorney General remains undisclosed thus far. The focus of these investigations is presumably Aldus Equity Partners, a private equity consultant hired by both SIC and ERB. The founder of Aldus Equity Partners, Saul Meyer, has already pled guilty in the state of New York to securities fraud. In his New York allocution, Meyer stated that “contrary to (his) fiduciary duty” he “ensured that Aldus recommended certain proposed investments” “not necessarily in the best economic interest of New Mexico.” These recommendations were admittedly at the behest of “politically connected individuals in New Mexico.” ERB is currently pursuing legal action against Aldus. A second lawsuit, brought by a former ERB investment officer, also raises concerns regarding an earlier investment by both SIC and ERB totaling $90 million in Vanderbilt Financial collateralized debt obligations. The securities became virtually worthless as a result of the subprime mortgage meltdown.

State Investment Officer Gary Bland resigned in November 2009, reportedly in the face of a vote of no confidence from the council. The outcome of these investigations and lawsuits – and any success ERB and SIC achieve in winning any recovery from Aldus – will help determine how quickly public confidence is restored in the investing agencies. Also crucial will be the results and recommendations obtained through an independent operating and fiduciary review of the three agencies funded by the Legislative Council and State Board of

Finance. The report was expected to be finalized in January 2010.

**Performance Overview.** Record poor market conditions contributed to overwhelmingly negative investment performance from the state's four largest investment and pension funds: the Land Grant Permanent Fund (LGPF), the Severance Tax Permanent Fund (STPF), the Public Employees Retirement Association (PERA), and the Educational Retirement Board (ERB). The LGPF and STPF, managed by the State Investment Council (SIC), make annual distributions to the general fund while both pension funds make annual distributions to current retirees in their respective programs. The combined value of all four funds at the end of FY09 was approximately $27.2 billion. This value represents a nearly $8.7 billion year-over-year decline. These figures reflect fund contributions and distributions as well as investment gains or losses. Therefore, investment performance numbers will differ slightly from overall changes in values.

**Asset Values**
**For Year Ending June 30, 2009**
(in millions)

| Annual | ERB | PERA* | LGPF | STPF | TOTAL |
|---|---|---|---|---|---|
| Ending Asset Values | $7,061 | $9,057 | $7,929 | $3,179 | $27,226 |
| Value Change | ($1,680.4) | ($3,133.5) | ($2,342) | ($1,525.1) | ($8,680.9) |
| Percent Change | -19.2% | -25.7% | -22.8% | -32.4% | -24.2% |

*Excludes assets held at State Treasures Office
Source: Investment Agency Reports

*FY10 Recovery.* Market performance during the first quarter of FY10 has buoyed asset values from the lows reported at fiscal year-end, providing hope for a meaningful recovery. However, fund values remain substantially below September highs reported two years ago.

**FY10 First Quarter Returns and Asset Values**
(in millions)

| FUND | Return | September 30, 2009 | September 30, 2007 |
|---|---|---|---|
| ERB | 13% | $ 7,922.4 | $ 9,586.0 |
| PERA | 12.93% | $10,182.4 | $13,488.3 |
| LGPF | 10.3% | $8,676.4 | $10,845.4 |
| STPF | 9.5% | $3,430.0 | $4,729.4 |

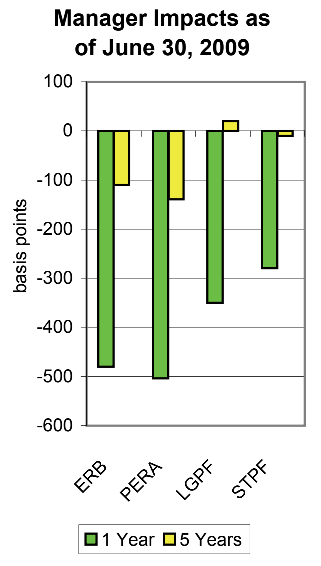
Source: Investment Agency Reports

**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" (bps), where one basis point equals 0.01 percent, 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."

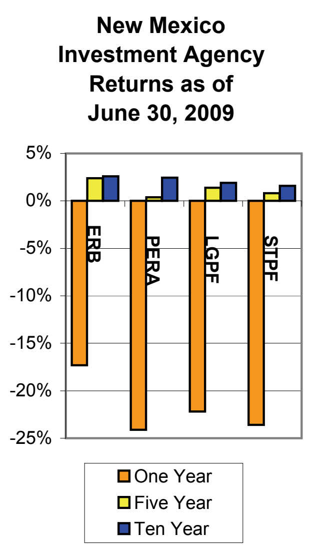
*One-Year Performance Versus Benchmarks.* For the one-year period ending June 30, 2009, all four funds significantly underperformed relative benchmarks. For the second consecutive year, PERA underperformed by the greatest margin, falling short by a staggering 718 bps, or more than twice last year's underperformance. Despite being the best performing of the four state funds, ERB still underperformed its annual benchmark by 190 bps.

**General Fund Distributions**
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. 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.

**Comparing Performance**
When comparing investment performance among the funds, it is important to remember that the funds have different asset allocations, mandates, and constitutional restrictions. For example, Article VII, Section 7 of the New Mexico Constitution prohibits SIC from having more than a 65 percent public 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 within these policy and statutory constraints.



Source: LFC files



Source: Agency Investment Reports

The LGPF and STPF, which had been the best performing funds throughout FY08 and the majority of FY09, finished the fiscal year with a devastating quarter that underperformed quarterly benchmarks by 750 bps and 620 bps, respectively. This poor quarterly performance was enough to take the funds' annual performances from slight outperformance to substantial underperformance, falling short of annual benchmarks by 250 bps and 360 bps, respectively.

*Securities Lending*. A primary driver in the permanent funds' substantial underperformance in the fourth quarter and, thus, the fiscal year was its securities lending program. Securities lending, a strategy which has been used by all three investment agencies for some time, is a relatively conservative program that allows a fund to lend out securities to other investors in exchange for cash collateral in an amount in excess of the market value of the loaned security. The collateral can then be reinvested by the fund that lent the security, in this case the SIC, ERB, or PERA, in order to gain an additional return. Due to conservative guidelines on how the collateral can be invested, this type of strategy was considered by many in the investment world as a "riskless" transaction. However, after the bankruptcy of Lehman Brothers and severe turmoil throughout credit markets, these transactions were shown to contain a substantial amount of risk. Collateral from the SIC held in various types of corporate paper severely depreciated in value, resulting in an unrealized $322 million mark-to-market write-down at year end. As a result of such a significant write-down, all three agencies are currently reviewing or have completed reviews of their securities lending practices.

*Manager Impact*. Manager impact measures the added returns due to a manager's skill and is derived by comparing the manager's return with the manager's individual benchmark or index, which is considered a "passive" investment strategy because it merely follows the market. A domestic large cap equity manager's returns, for example, would be compared with the Standard & Poor's 500 Index (S&P 500).

Providing positive incremental value in such an unusual market environment was difficult. None of the funds were able to add value to one-year returns through active management. From a five-year perspective, only the LGPF held on to value through active management while the STPF lost a very small amount of value. Both pension funds have been severely hurt from both a one-year and five-year perspective by active management. While these trends for the pension funds have begun to reverse slightly, the ability to hire good managers remains a concern, particularly for PERA.

*Allocation Impact*. Allocation impact measures how deviation from target asset allocations impacts returns. Both the one-year and five-year allocation impacts for ERB and the LGPF remain positive. Allocation impacts have had a slight negative effect on the STPF for both a one-year and five-year period due largely to its economically targeted investments. These investments, many of which are defined in statute as differential rate investments for economic development, include zero-interest film loans and direct equity investments such as Eclipse Aviation. PERA has suffered greatly due to asset allocation from a one-year timeframe, primarily in the fourth quarter due to reducing the portfolio's exposure to equities early in March just before the markets rallied.

*Peer Rankings*. Another important indicator of performance is to compare funds against their national peers. On a percentile basis, where one is best, rankings are calibrated above or below the median performance for the specified time period.

**New Mexico Fund Performance Comparison Rankings – June 30, 2009**

| Fund | QTR | 1 Year | 5 Year | 10 Year |
|---|---|---|---|---|
| ERB | 15 | 57 | 46 | 92 |
| PERA | 34 | 93 | 98 | 76 |
| LGPF | 87 | 89 | 73 | 80 |
| STPF | 86 | 93 | 87 | 83 |

Source: Investment Agencies Reports

Over the past 18 months, PERA's five-year and ten-year rankings have declined significantly, to some of the worst in the country. This shows the tremendous impact poor returns over the last two years have had on these rankings. ERB's comparative performance was markedly better, aided by a strategic allocation to distressed debt investments in the fourth quarter. Due largely in part to substantial write-downs in their securities lending program, the permanent funds ranked poorly in all periods. The two permanent funds also ranked near the bottom relative to their peers for all periods reported.

**Pension Fund Solvency.** Concern over plan sustainability has grown considerably as both funds target continue to an 8 percent long-term investment return to meet pension liabilities. The 10-year returns now stand at 2.1 percent for ERB and 2.7 percent for PERA. These returns represent a severe decline from last-year levels of 5.1 percent and 7.1 percent, respectively.

*Funded Ratio.* Actuaries "smooth" investment returns over five years for ERB and four years for PERA to compute solvency measures, such as the funded ratio that compares how much money the fund has (the actuarial value of assets) to pay off its obligations (the actuarial value of liabilities). For FY09, this calculation now includes two years of negative returns substantially differing from the 8 percent assumption.

**FY08 and FY09 Investment Shortfall Compared to 8%**

| Fund | FY08 | FY09 |
|---|---|---|
| ERB | -14.2% | -25.3% |
| PERA | -15.4% | -32.1% |

Source: Agency Investment Reports

Most of this investment shortfall has yet to be fully incorporated into the smoothed asset computation. This pushes the actuarial asset value and actual market value, which should track fairly closely over time, farther apart. Given the magnitude of FY09 losses, the actuarial value overstates the market value quite significantly. This divergence makes the reported funded ratio less reliable as a snapshot of fund health, and the ratio based on market valuation becomes a more conservative view. The minimum standard is 80 percent as an indicator of fund health, which ERB remains below in either case.

More meaningful than a snapshot taken at year-end is the trend over time that shows improvement or deterioration in funding status. As can be seen, both funds declined from the June 30, 2008, valuations. Actuarial funded ratios will most likely continue downward over the next four or five years, depending tremendously on the next two years of returns, and to some extent, in any change

**Pension Plan Solvency**
Even with investment losses for two years, both pension plans retain sufficient funding to support current retirees. However, PERA dropped below the value of obligations for current retirees for a short time in March, which is the reason the board chose to reduce equities at that time.

**Legal Issues**
Legal issues, including the protection of plan benefits as property rights for vested employees, have led most plan sponsors to adopt new benefit structures prospectively for new hires. Whether nonvested employees are protected under contractual rights is more uncertain. Return-to-work (RTW) employees also claim contractual protection for their jobs. RTW employees cost the state about $6 million more a year in salaries because both ERB and PERA employers pay the RTW employee contributions under current statute. House Bill 616, which was vetoed, would have required the employee pick up this cost. However, PERA has noted concerns that this might violate the federal Age Discrimination in Employment Act.

**Possible Pension Changes for PERA**

- Make the cost of living adjustment effective at age 65 and based on inflation;
- Reduce the pension factor from 3 percent, the highest of any state;
- Increase the number of years to calculate the final average salary from three to five;
- Reduce pensions for early retirement;
- Establish a minimum age for retirement;
- Increase the number of required years of service from 20 to 25 for public safety plans (Laws 2009, Chapter 288, already increased the minimum years from 25 to 30 for most plans); and
- Consider age-based contribution rates that impose a higher percentage rate on older workers than younger workers.

**Pension Reform to Reduce Plan Costs**

- Creating a second tier with lower benefits is the approach most plan sponsors have taken.
- Increasing the employee contribution as part of a compensation package is another possible strategy to reduce costs, while bringing contributions closer to a fairer 50-50 split. However, this option works most effectively during periods of increasing salaries and becomes less attractive under current conditions of flat or reduced salaries.

in the growth of liabilities. Market ratios plunged for this period, although ratios based on the September 30, 2009, market values improved to 61 percent for PERA and 57 percent for ERB.

**Actuarial Funded Ratio vs. Market Funded Ratio**

| Fund | 6/30/08 Actuarial Funded Ratio | 6/30/09 Actuarial Funded Ratio | 6/30/08 Market Funded Ratio | 6/30/09 Market Funded Ratio |
|---|---|---|---|---|
| ERB | 71.5% | **67.5%** | 67.6% | **51.2%** |
| PERA | 93% | **84%** | 87% | **59%** |

Source: June 30, 2009 Valuations

*Unfunded Actuarial Liability*. The unfunded actuarial liability (UAAL) is the dollar difference between a plan's actuarial liability (plan obligations) and the actuarial value of its assets (resources to pay off obligations) based on assumptions regarding investment income return and demographic projections. A higher dollar value means more of the pension costs are unfunded. Due to investment losses and an increase in liabilities, PERA's aggregate UAAL more than doubled to $2.4 billion. ERB's UAAL increased during FY09 from $3.6 billion to $4.5 billion.

*Funding Period*. The funding period is the estimated time it will take to amortize the UAAL under current assumptions. The Governmental Accounting Standards Board (GASB) states that the amortization period for any UAAL should be less than 30 years, although some argue a 25-year funding period would improve inner-generational equity. PERA's funding period was 13 years for the 2008 valuation. It is now 113 years. ERB's funding period, 61.4 years in F08, is reported at 45 years. This apparent improvement reflects the new 30-year eligibility requirement for new members effective July 1, 1010, implemented through Laws 2009, Chapter 288, which reduced future plan costs.

*Potential for Contribution Increases.* Investment losses for FY08 and FY09 have already triggered increases for many public plans that require an annual adjustment to meet current service costs ("normal costs") plus pay off the unfunded liability over 30 years. This combination is called the "Actuarial Required Contribution" or ARC. New Mexico pension contributions rates are set in statute so are not changed annually to meet the ARC rate. In prior years, rates for most PERA plans were sufficient to meet normal costs with excess to pay down the unfunded costs within the 30-year standard. However, the 2009 valuations now show the employer contribution rates fall short of the ARC by 4.13 percent for the state general plan and over 7 percent for the municipal fire plan. The magistrate plan is not even meeting its normal cost, which means that funding is not even keeping up with the current costs and the unfunded portion is growing. Absent strong investment returns in FY10 and FY11 to offset losses, pension policy will most likely dictate contribution increases to ensure plan sustainability. As an alternative, PERA has also commissioned a study to review plan structures to pinpoint possible changes to reduce costs. With a 1.55 percent shortfall to its ARC rate, ERB has announced similar plans.

**Potential Pension Reform.** A quick rebound in the economy to generate additional revenues to pay higher contributions might not occur. As an option, sponsors of defined benefits plans are looking to reduce the cost of plans through pension reform that reduces benefits or increases retirement qualifications. For example, Laws 2009, Chapter 288 (House Bill 573), increased the required number of service years from 25 to 30 for most PERA employees and all of ERB employees, effective for new hires after June 30, 2010. In addition, Laws 2009, Chapter 288, created a 24-member task force to analyze the pensions and Retiree Health Care Authority (RHCA) and make recommendations for ensuring plan solvency. It appears the recommendations will not be finalized until October 2010. Given the 2008-2009 market declines and slow economic recovery, it may be prudent to reduce plan costs sooner than the 2010 session to sustain the pension plans as defined benefit plans.

PERA plans, in particular, offer opportunities for reduced costs. For example, the pension factor of 3 percent is the highest of any state—most range between 1.5 percent and 2.5 percent. The current cost of living adjustment (COLA) is 3 percent beginning two calendar years after retirement regardless of age or inflation. The savings attributable to changing the COLA to one based on inflation and a minimum age of 65 – as is currently exercised by ERB – could be substantial and are being estimated. Aligning retirement eligibility with Social Security and Medicare would benefit not only the pension plans, but also the RHCA.

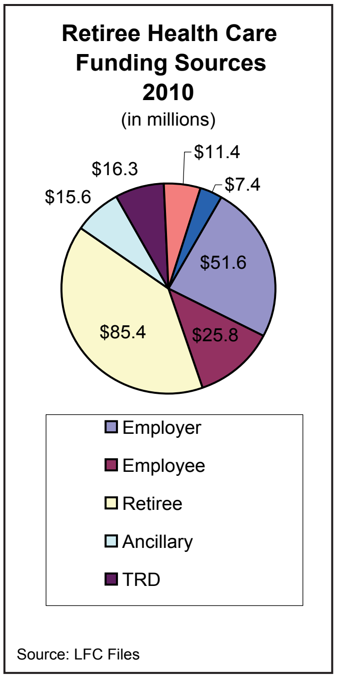
**Retiree Health Care Authority**. The Retiree Health Care Authority (RHCA) provides optional medical, dental, vision, and life insurance benefits to eligible retirees and their dependents. RHCA has 466 participating employers, including all state agencies, public school districts, 59 charter schools, 22 counties, 23 cities, and 10 institutions of higher education. Total enrollment as of June 30, 2009, is 41,445.

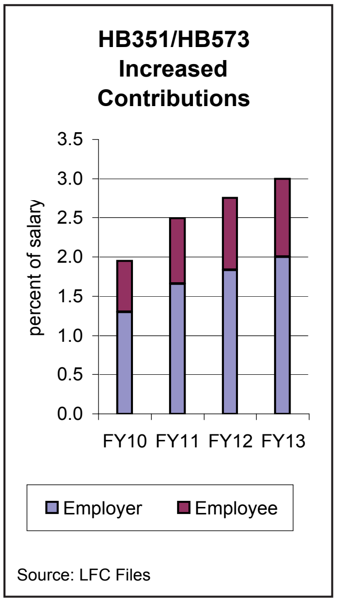
*Legislative Action.* The Legislature in 2009 adopted several changes to the program through Chapter 287 (House Bill 351) and Chapter 288 (House Bill 573) by increasing the employer and employee contributions and removing the sunset clause for a $3 million tax suspense fund distribution. The increased contributions will begin on July 1, 2010, and will increase annually through July 1, 2012, generating an additional $103 million to the program.

| Fiscal Year | Employer Percent | Employee Percent | Total | Additional Revenue | Total Revenue | Total Expenditures |
|---|---|---|---|---|---|---|
| 2010 | 1.300 | 0.650 | 1.950 | NA | $213.7M | $208.2M |
| 2011 | 1.660 | 0.833 | 2.493 | $23.5M | $254.7M | $229.1M |
| 2012 | 1.834 | 0.917 | 2.751 | $34.5M | $287.2M | $255.3M |
| 2013 | 2.000 | 1.000 | 3.000 | $45.5M | $322.8M | $284.8M |

In addition, House Bill 351 provides for higher contributions for employees in “enhanced retirement plans” those plans that allow members with fewer than 25 years of service credit to retire at any age. Laws 2009, Chapter 288 (House Bill 573), requires retirees to purchase service credit from RHCA equal to the actuarial present value when purchasing service credit from PERA or ERB. Additionally, it requires return-to-work employees and their employers to contribute to the fund.

Prior to the passage of these bills, RHCA was expected to be insolvent as soon as 2017. However, the most recent solvency report shows the contribution increases, combined with increases to retiree premiums and plan design changes, extended RHCA’s solvency to 2028, at which time projected expenditures will exceed all available revenue sources by $181 million.



**RHCA Current Plan Design**

**Gold**

- Deductible, $100
- Office Visit, $20
- Coinsurance, 15%
- Out-of-pocket limit per calendar year, $1,000

**Silver**

- Deductible, $400
- Office Visit, $25
- Coinsurance, 20%
- Out-of-pocket limit per calendar year, $2,000

**Bronze**

- Deductible, $800
- Office Visit, $30
- Coinsurance, $25
- Out-of-pocket limit per calendar year, $4,000.

**RHCA Plan Design Effective January 1, 2010**

The **Premier Plus Plan** is a combination of the Gold and Silver plans with the following major features:

- Deductible, $300
- Office Visit, $20
- Coinsurance, 20%
- Out-of-pocket limit per calendar year, $3,000

The **Premier Plan** mirrors the current Bronze plan with the following features:

- Deductible, $800
- Office Visit, $30
- Coinsurance, 25%
- Out-of-pocket limit per calendar year, $3,000

| Annual Out-of-Pocket Cost Analysis | | |
|---|---|---|
| Dollar Amount | Members | Percent of Members |
| $0 | 984 | 6% |
| $0 - $250 | 7,178 | 44% |
| $251 - $750 | 41,098 | 25% |
| $751- $1,500 | 2,207 | 13% |
| $1,501- $2,500 | 1,009 | 6% |
| $2,500+ | 958 | 6% |

*Board Action.* In July 2009, RHCA approved replacing the three-plan option (Gold, Silver, and Bronze) with a two-plan option (Premier and Premier Plus). Historically, large numbers of members switch between plans that had a large premium difference but little actuarial difference (members paid much less in premium with a minimal impact on claim costs). This resulted in the degradation of individual risk pools as sicker members moved from higher-priced plans. Collapsing the plans will provide a more stable rating environment and more predictable rate increases in the future.

Plan design changes will result in a relatively large premium increase to members of the Silver plan (45 percent) that will be offset by decreases to members of the Gold plan (minus 27 percent). RHCA estimates that 80 percent of the non-Medicare population could actually see a reduction in their monthly premiums if they elect coverage under the Premier Plan. An overall increase to cost-sharing provisions will have an annual positive impact of approximately $5 million through a combination of increased member cost sharing at the point of service.

*Actuarial Impact.* The actuarial accrued liability (AAL) on June 30, 2008, of $3.1 billion is a measure of the present value of all future benefits payable to retirees, plus a portion (allocated by year of employment) of the present value of all future benefits payable to current active employees. As House Bills 351 and 573 dealt with revenue and not plan design, neither bill had a direct impact on RHCA's long-term liabilities. In the future, a dollar-for-dollar reduction in unfunded actuarial accrued liability (UAAL) of $2.9 billion as of June 30, 2008, will occur as revenues related to House Bills 351 and 573 are deposited in the RHCA fund.

*Ongoing Concerns.* The number of retirees participating in the RHCA plan is expected to grow by an average of 4 percent per year. A large number of those participants will enroll in the plan at a relatively young age (a pre-Medicare population average of 53 years). Currently, the minimum service requirement to qualify for the maximum subsidy is 20 years. Overall, the average participant will receive a benefit that far exceeds the value of all combined contributions during active employment. Currently, the average retiree pays $15 thousand into the program and receives an average subsidy in excess of $60 thousand.

As RHCA projects medical inflation in excess of general inflation, additional measures need to be taken to address long-term solvency projections showing a 10.5 percent growth in expenditures and only a 9.5 percent growth in revenue. Options that should be considered include

- Ways to mitigate medical trend, which includes medical inflation and growth in membership;
- Plan design changes that focus on participant behavior, such charging an additional premium for tobacco users, with a broader strategy to ensure that RHCA provides appropriate incentives to promote positive behavior;
- A reduction to current subsidy levels for spouses (spouses do not pay into the program);
- An increase in the minimum service requirements from 20 years to 25 years;
- An evaluation of the possibility of moving toward a defined contribution plan as a way of controlling long-term obligations; and
- The establishment of a minimum age at 55 years or more to qualify for maximum subsidy.

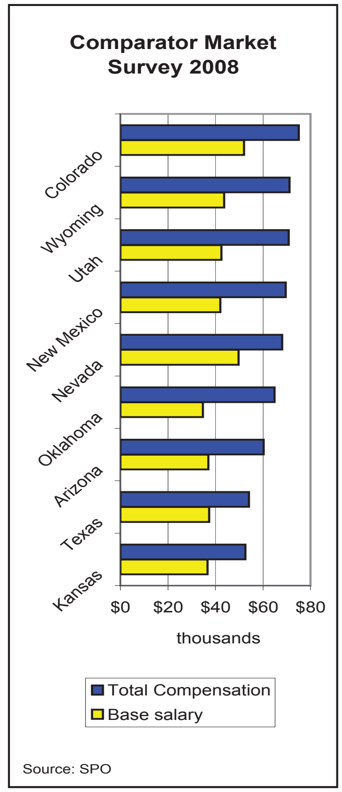
In the past five years, the Legislature has striven to ensure that employees are fairly and competitively compensated for their services, as evidenced by a 23.8 percent increase in salaries. However, in December 2009 New Mexico joined over 20 other states taking action involving furloughs or reductions in force to address budget shortfalls.

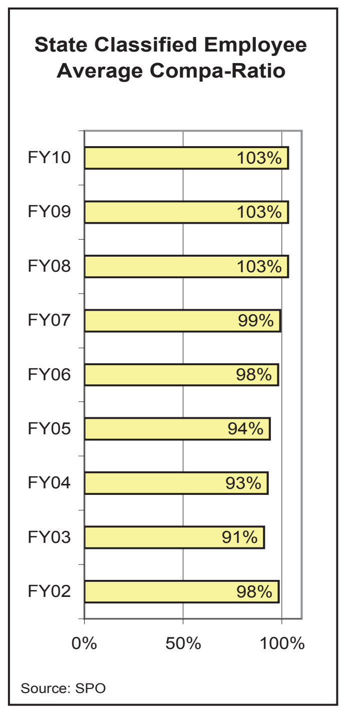
In a period of austerity, the need for human capital planning by the state will become more critical to the achievement of strategic initiatives and maintenance of a workforce that, while perhaps somewhat leaner, is well trained and motivated. To continue practices that maintain employee pay levels and limit actions such as furloughs and layoffs will require active management at all levels to ascertain proper staffing levels and to maintain service delivery.

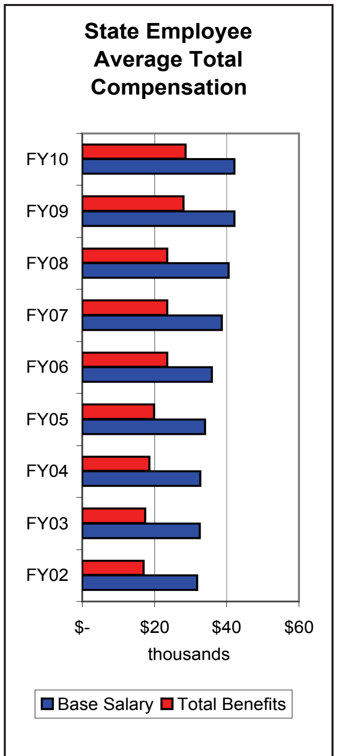
**Executive Classified Employees.** Between FY05 and FY09, the average state classified employee's salary increased from $34 thousand to $42.1 thousand, with the average compa-ratio rising from 92.8 percent to 103 percent. Compa-ratio is an expression used to identify an employee's position within pay band relative to the midpoint of the pay band. This 23.8 percent increase in salary was driven not only by affirmative action taken by the Legislature but also by increases in average starting salary levels for newly hired employees and generous application of in-pay band adjustments by the executive, resulting in increased pay compaction and decreased morale as tenured employees found themselves making less than newly hired employees, often times with much less experience.

*Total Compensation.* The term "total compensation" encompasses all rewards and a recognition program provided to employees by the state and consists of direct compensation – pay for time worked – and indirect compensation-benefits such as insurance premiums, Federal Insurance Contributions Act (FICA) contributions, paid leave, and retirement.

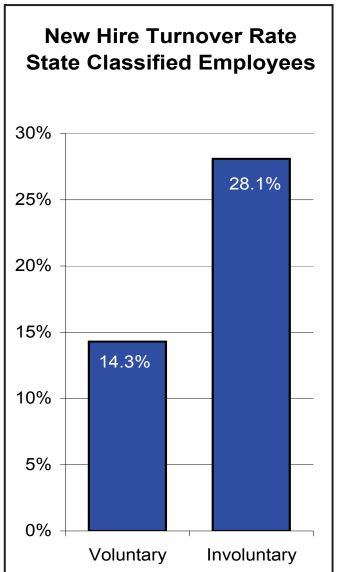
Growth of direct compensation for public employees in New Mexico has slowed in the past two years due to budgetary constraints. However, indirect compensation continues to grow as the cost for health premiums and other indirect benefits escalate. The Legislature, not unlike other public entities, in past years offset uncompetitive salaries for employees by shifting the cost burden for employee benefits, such as health insurance and retirement contributions, from the employee to the state, resulting in significant recurring costs with implications for the future. However, as salaries became more competitive, benefit programs were not reduced. Compounding this issue is the state's lack of coordination of the management of its benefits programs. The Hay Group, in a 2006 report to LFC, expressed concern that "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 thrust of the Hay Group's argument was that, without centralized administration of these programs, the ability to make coordinated and strategic decisions regarding employees' total compensation is severely hampered.





Source: LFC Files



Source: The PEW Center on the States 2009

*Performance Increases.* In FY10, budget restrictions prevented consideration of performance-related pay increases for employees and this may continue in FY11.

Prior to 2004, annual salary increases were provided through step or merit increases to employees who had received a minimum satisfactory job performance rating. The linkage of salary increases to job performance, albeit minimal, was discontinued in 2004 as the executive shifted its focus toward collective bargaining. This shift prompted the Hay Group in 2006 to state: "This is a significant change …" and "… is counter to the trend in pay delivery in the USA, both in the private and public sector." This shift has prohibited employees from advancing within their pay range without resorting to extraordinary procedures, such as in-pay band adjustments. This creates systemic issues regarding pay compaction because new employees are hired at the same or higher levels of current employees, hampers recruitment and retention efforts, and frustrates managers and supervisors because employees cannot be rewarded or advanced.

For three years, SPO discontinued performance reviews of employees as it developed a revised form for employee appraisal. On the surface, it appears that movement is being made toward the implementation of a performance review system that eventually could be used to determine salary increases; however, it has become apparent such an approach is not a priority.

*Annual Compensation Report.* The Personnel Act requires SPB to submit to the governor and LFC an annual report on the classified pay system at the end of each calendar year. A comparison of annual reports made to Legislatures in other states shows New Mexico's report lags in quality and transparency. Prior to 2004, SPB included recommendations to maintain parity with market conditions and pay-plan structure adjustments. In 2004, SPB changed the annual report's format, which now, at best, is an executive summary lacking specificity, recommendations, and demographic detail behind state employee compensation. In the past, this report was valued by the Legislature for its nonpartisan presentation of data, professional evaluation and guidance to the Legislature regarding job families or individual classifications needing adjustment, and the projected costs of any such movements. By not having either recommendations or data, the report leaves the Legislature, as the appropriating authority, without the requisite information to prioritize the needs of the compensation and benefits system within available funding.

*Cost Containment Strategies.* As budgetary shortfalls continue to be experienced, New Mexico must begin to evaluate the costs associated with personal services and benefits. Reconsideration and adjustment of both benefit plans and holiday schedules, once used to offset low salaries, are long overdue because state employee salary levels are now well above competitive market salaries. These adjustments offer opportunity for cost savings without reducing direct compensation.

While furloughs and layoffs are means by which both the cost and size of state government can be controlled, first consideration should be given to reducing the excessive number of vacant and funded positions. There are currently over 3,000 vacant positions within state government, many of which have been vacant for two years or more. As these positions have remained unfilled, state government has effectively managed to continue to meet its mission, begging the question as to the need to continue funding these positions.

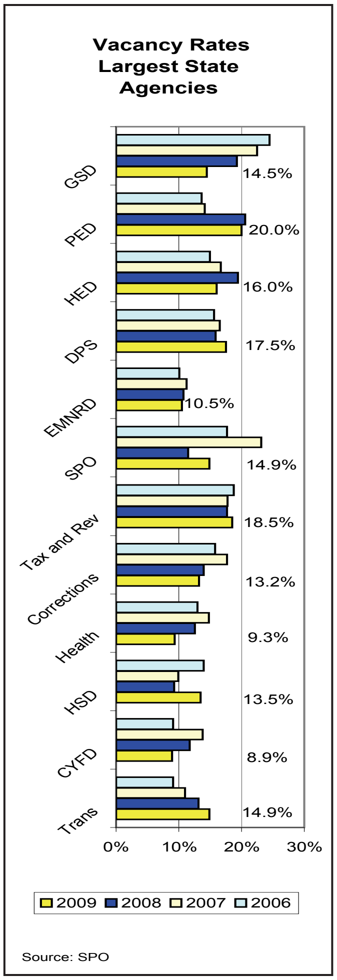
*Employee Turnover and Retention.* A 2009 PEW Center on the States review, *"Human Capital Trends and Innovation,"* expressed concern regarding New Mexico's ability to retain newly hired employees. The PEW analysis shows New Mexico state government has a 42.4 percent new hire turnover rate during the first year (probationary period) of employment. The report indicates that 28.1 percent of new hires are involuntarily terminated. In other words, one out of every four hires is fired for failure to perform the requirements of the job. This statistic is alarming and indicative of concerns with the state's recruitment and selection processes raised in 2007 by the LFC and again in a 2008 SPO review of the state's selection and hiring process.

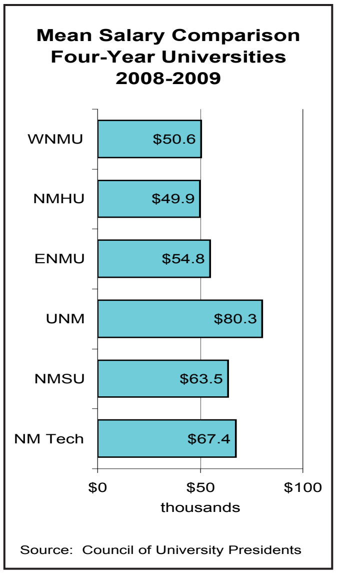
SPO's internal review highlighted LFC concerns regarding the value of lists of eligible job candidates and the failure of many agencies to comply with or enforce the Personnel Act or SPB rules, thus creating an uneven and inconsistent playing field directly impacting employee retention and recruitment efforts throughout state government.

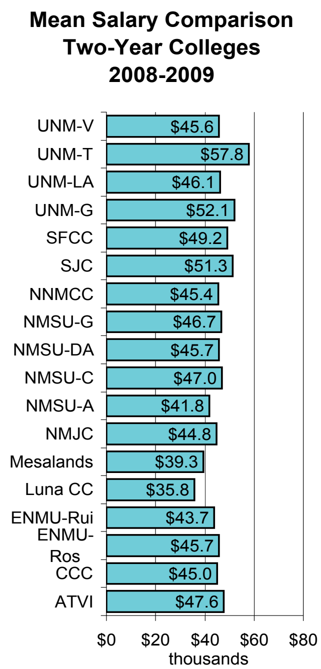
High turnover and vacancy rates are costly to state government. Using industry-standard tools to calculate, the cost of turnover to the state is conservatively estimated to be in excess of $120 million per year. In times of tight budgets, these additional costs should not be tolerated. Again, agencies should target reducing vacancy rates and delete all positions, regardless of funding source, that have been vacant for over a year.

**Higher Education Employees**. Analysis of the American Association of University Professors (AAUP) faculty salary survey by the Council of University Presidents in November 2009 notes the highest salaries at public, four-year postsecondary institutions in New Mexico continue to be lower than peer institutions in other states. Faculty salary increases over the last five years ranged from 9.4 percent at New Mexico Tech to 16.4 percent at the University of New Mexico. Note that average salaries are impacted by the distribution of the academic rank of faculty. For 2008-2009, faculty salaries at New Mexico State University are at 81 percent of peer institutions, compared with faculty salaries at 92 percent at the University of New Mexico.

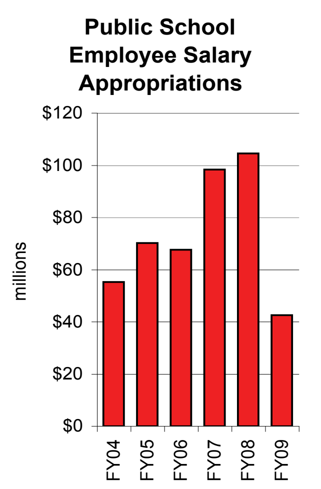
In its *Annual Report on the Economic Status of the Profession, 2007-2008,* the AAUP notes, "A number of academic institutions, particularly those in the public sector, are increasing full-time faculty salaries to make up for several years of depressed pay-rates." An LFC summary of salary and total compensation 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. Beginning fall 2004, nominal salary increases for full professors at institutions participating in the AAUP survey ranged from 4.1 percent to 5.4





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



Source: LFC Files

percent. Unlike public schools, where state investments have boosted the competitiveness of teacher salaries, significant increases in state appropriations for higher education in recent years have not translated into significant improvement in the state's rankings of faculty compensation.

Data for New Mexico's two-year colleges also indicates the state continues to lag beyond similar institutions within the region. 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 2008. The average for independent community colleges was approximately $45 thousand, with an average of about $48 thousand for branch colleges. New Mexico salaries for two-year faculty are nearly 9 percent of the average of community colleges in the mountain states region.

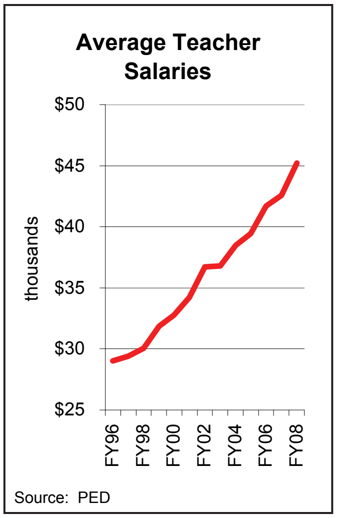
**Public Education**. Since FY04, the Legislature has increased formula funding for public schools by approximately $743 million. Of this amount, approximately $634.1 million, or 85 percent of all appropriations to the state equalization guarantee (SEG), have been for employee compensation. This includes $442 million, or 60 percent, for direct salaries and benefits. $63.7 million, or 8 percent, for increased employer contributions to the Educational Retirement Board, and $128.4 million, or 17 percent, for annual increases in the employer share of insurance benefits. Also, since FY05, educational assistants have received additional compensation increases over and above general compensation appropriations each year except for FY08. For FY10, sufficient funding was included in SEG to increase the minimum annual salary for educational assistants to $13 thousand.

A significant portion of the increase in formula funding, $82.3 million, was used to pay for the incremental cost of the three-tiered licensure system, and another $218.2 million was appropriated for annual salary increases for teachers. The result of this is an average annual returning teacher salary of $46,783, or an hourly rate of $35.33. When considered in the context of a 2088 hour work year for most professionals, this amounts to an annualized salary of $73,769. In spite of these increases, improvement in student achievement continues to progress slowly and the achievement gap continues to be a significant issue.

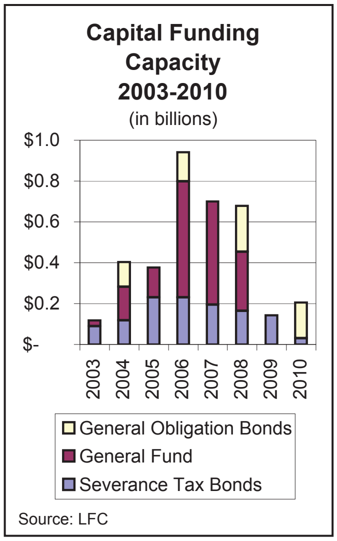
The three-tiered licensure system was designed to increase student achievement by recruiting and retaining high-quality teachers. In exchange for large increases in minimum salaries, teachers were expected to meet competencies and positively impact student achievement as demonstrated through annual evaluations and a professional development dossier (PDD). In 2007, LFC conducted a joint evaluation of the three-tiered system with the Legislative Education Study Committee (LESC) and the Office of Education Accountability (OEA). That evaluation found the system had met its goal of recruiting and retaining teachers but left whether the system was helping to increase student achievement to future evaluations.

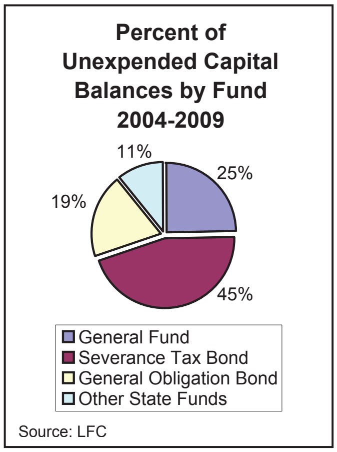
A follow-up evaluation in 2009 found that, overall, students of teachers holding level-3 licenses that had also gone through the professional dossier process generally outperformed their peers. However, these gains in student achievement were not statistically significant when compared with teachers at all licensure levels. With the extraordinary financial commitment made by the Legislature to teacher pay, expectations were high that schools would demonstrate significant student improvement. Because much of the expected improvement has not appeared, significant concerns are raised regarding why and what needs be done.

The Legislature's commitment to improving teacher salaries to regional averages has resulted in improved comparisons. According to the National Education Association (NEA), for FY08, average returning teacher salaries in New Mexico were, on average, $411 lower than Colorado, Arizona, and Oklahoma with similar length contracts and $1,067 lower than Texas with a longer contract year. Salaries are expected to improve above these levels when additional pay for extended school year and school day programs are included.



# Capital Outlay




**Capital Appropriations with No Expenditures**
(in millions)

| Year | # of Projects | Dollar Amount |
|---|---|---|
| 2008 | 1,180 | 250.9 |
| 2007 | 739 | 129.5 |
| 2006 | 332 | 59.6 |
| 2005 | 177 | 15.3 |
| Total | 2,428 | $ 455.3 |

Source: LFC Files

Note: Excludes 2009 authorized and reauthorized projects.

Dramatic declines in revenues have significantly impacted capacity for funding state and local infrastructure projects. The economic conditions will particularly affect higher education and public school facilities and state entities whose responsibilities include housing for the elderly, mentally ill, disabled veterans, and adjudicated juveniles and adults. Local entities dependent on state grants for roads, water and wastewater systems, public health, and safety facilities will also feel the economic slow down.

While capital capacity is at its lowest in eight years, a substantial amount of appropriations of approximately $1.4 billion remains unexpended. The phrase "budget shortfall" has become synonymous with the words "unexpended capital funding." The missed opportunity to apply the funds toward physical improvements critical to the economy at both the state and local level allowed legislators to target and reallocate the funds for certain projects to support solvency in both FY 2009 and FY 2010.

As uncertain market conditions continue and aging infrastructure and deficiencies mount, it is crucial to carefully scrutinize capital outlay requests in 2010. Projects based on merit, public need, and phases for completion are addressed within this document. A preliminary capital outlay scenario developed by staff of the Legislative Finance Committee for both severance tax bond and general obligation bond capacity for consideration by the full Legislature are in Volume III.

**Unexpended Funds**. The Legislature appropriated or authorized over $3.5 billion between 2004 and 2009 for 14,390 capital projects. As of December 1, 2009, approximately $1.4 billion for 4,883 projects remains outstanding (including nearly $140 million authorized in 2009). According to reports derived from the capital project monitoring system (CPMS), operated and maintained by the Department of Finance and Administration, approximately $455.3 million for 2,428 projects appropriated between 2005 and 2008 reveal no progress.

*Capital Projects Greater Than $1 Million.* As of November 23, 2009, balances for projects $1 million or greater tracked by staff of LFC total over $698 million for 322 projects. The funds account for nearly 50 percent of all unexpended balances. Many of the 52 projects are ranked red based on a lack of updates from agencies. Agencies were under significant pressure to meet multiple deadlines in response to the freeze of capital projects. The current status of the projects and fund balances are reported on the LFC website.

*Authorized but Unissued Bonds.* Approximately $262 million in authorized severance tax bonds remain unissued. The Board of Finance (BOF) distributed over 200 questionnaires to state and local grantees for certification of readiness for projects totaling approximately $200 million. BOF indicates severance tax bond capacity will only allow between $40 million and $60 million for issuance in December 2009. A list of the projects "by sponsor" will be distributed in January 2010.

**2004-2009 Capital Outlay Funding**
**"Outstanding" Projects Only**
(in millions)

| Year | Number of Projects | Amount Appropriated | Amount Expended | Amount Unexpended | Percent Expended by Year |
|---|---|---|---|---|---|
| 2004 | 45 | $ 30.2 | $ 23.9 | $ 5.9 | 79% |
| 2005 | 489 | $ 183.7 | $ 123.6 | $ 60.0 | 67% |
| 2006 | 777 | $ 376.0 | $ 172.1 | $ 191.8 | 46% |
| 2007 | 1,443 | $ 484.8 | $ 173.6 | $ 299.7 | 36% |
| 2008 | 1,628 | $ 626.3 | $ 72.6 | $ 546.9 | 12% |
| 2009 | 501 | $ 255.0 | $ 7.9 | $ 247.0 | 3% |
| **Total** | **4,883** | **$ 1,956.0** | **$ 573.7** | **$ 1,351.3** | |

Source: capital outlay monitoring system

*Capital Legislation To Support Solvency.* Laws 2009, Chapter 7, 1st Special Session, (Senate Bill 29) voids 243 general fund projects totaling $136.1 million. Of the projects, 196 projects totaling approximately $124.5 million are reauthorized to continue with proceeds from senior severance tax bonds. The governor vetoed 47 projects totaling $11.6 million, stating, "It would be imprudent to provide continued severance tax bond funding to capital projects that have made little to no progress using their original general fund appropriations, which in some cases are several years old." Of the vetoed projects, $5.4 million was for projects initiated or supported by the governor. The spreadsheet of the reauthorized and vetoed projects is posted on the LFC website.

Laws 2009, Chapter 5, 1st SS (House Bills 17 and 33) directs Legislative Council, Legislative Finance Committee, and the Department of Finance and Administration to review all unexpended capital outlay projects funded by the general fund and identify "a minimum" of $150 million of voidable capital outlay projects by November 12, 2009.

On October 26, 2009, the governor stated, "The Legislature chose not to cut even one dime of its pork projects," and, "These pork projects should be the first to be cut before we take any action that affects people," and directed all state agencies to cancel all grant agreements. On October 30, 2009, DFA distributed a memorandum and instructions to all state and local recipients of capital appropriations explaining the purpose of the freeze of capital funds. The instructions included a method to allow projects to move forward if entities could submit documented evidence of a third-party obligation entered into on or before October 30, 2009, and were given until November 15, 2009, to submit the documentation. While the governor's action created temporary havoc among municipalities, counties, schools, state agencies, and other political subdivisions, the exercise assisted staff of DFA, LFC, and LCS in identifying voidable projects for submittal to the Legislature in 2010 for consideration and in the form of a bill as required by Chapter 5.

The secretary of DFA and directors of LFC and LCS and their staff met on November 20, 2009, to develop the process, criteria, and timelines for identifying unexpended capital funds to present to the Legislature in 2010. The proposed projects and dollar values for potential voids will be

**Progress of Projects**
**$1 Million or Greater**

| LEGEND | | |
|---|---|---|
| (green) | Project on schedule | 187 |
| (yellow) | Behind schedule or little activity | 83 |
| (red) | No activity or bonds not sold | 52 |
| **Total Active Projects** | | 322 |
| ***Other report information:*** | | |
| (blue) | Appropriation expended or project complete | 22 |
| X | Additional funds needed | 6 |

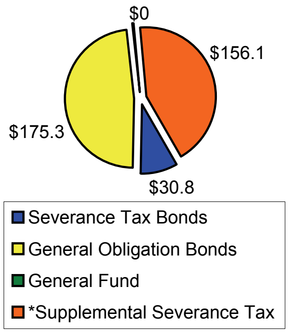
**Vetoed Projects Initiated by Governor with Co-Sponsors (Chapter 7)**

- Economic Development Initiative - Executive ($5 million for Smart Money)
- Otero County Emergency Response Center - Executive ($247,000)
- Silver City Civic Center, NMFA Loan Repayment - Executive ($187,000)
- State Buildings Emergency Repair – Legislature/Executive ($500,000)
- Bernalillo El Zocalo – Executive ($100,000), Youngberg ($45,000), Beffort ($50,000), Carraro ($25,000), Cravens ($43,000)

**Prior-Year Severance Tax Bond Authorizations:**

- Water project fund – 10% of STB capacity - $29.3 million
- Spaceport - $34 million
- GRIP I - $50 million
- Other authorized unissued - $24.3 million
- Senate Bill 29 (2009 Special Session) swap - $124.5 million

**Capital Outlay Capacity for 2009 Total $362.2**
(in millions)




* For public school construction

Source: LFC

included in a bill developed for introduction during the 2010 Session. The "preliminary" criteria and timelines approved by the three agencies are in Volume III.

**2010 Capital Funding Outlook**. The state will have no general fund monies available for capital outlay in 2010. Severance tax bond (STB) net capacity is $30.8 million ($292.9 million gross less prior-year authorization. General obligation bond capacity, generally authorized for higher education, public and special schools, senior citizen centers, libraries, and health issues is $175.3 million. Supplemental severance tax bond capacity dedicated for public school construction is approximately $156.1 million.

**Funding Requests for Consideration**. State agencies, public and higher education institutions, and special schools requested $739 million for their top three priority capital projects. Testimony at legislative and executive hearings in the interim provided legislators, the executive, and their staffs an opportunity to learn of the most important capital funding requests for 2010. Given the limited funding, the following summaries reflect the most critical projects impacting public health and safety and ongoing projects requiring additional funds to complete.

*Higher Education and Special Schools.* Institutions of higher education and special schools requested over $302 million for capital outlay needs from general obligation bond (GOB) capacity. Higher Education Department (HED) recommended $171 million for 34 prioritized projects. HED recommendations were developed based on public hearings, and data pertaining to enrollment growth, facility condition levels, project readiness, and square-footage per full-time student, energy efficiency standards, and other funds available for the projects. Issuance of GOB requires approval by the electorate in the November 2010 general election.

*Aging and Long-Term Care Services Department.* ALTSD received capital outlay requests totaling $46.9 million from senior programs statewide. Based on formal presentations and review of the applications, ALTSD assigned a rating of critical, high, or moderate need to the projects. The department and area agencies on aging recommended $3.7 million for senior renovations, vehicles, and equipment needs statewide. ALTSD also provided a list of 18 partially funded projects requiring $4 million to complete nine renovation projects totaling $573 thousand and nine new construction projects totaling $3.5 million.

*Department of Health.* DOH requested $43.8 million to address patient health and safety issues and complete ongoing projects. Of the request, $3.3 million would address deficiencies at the Behavioral Health Institute in Las Vegas and state Veterans' Home in Truth or Consequences, and furniture and equipment needs at the New Mexico Rehabilitation Center in Roswell. Approximately $26.4 million of the request is to complete phase II of the Meadows and Ponderosa facility and $14.1 million to complete phase II of the Alzheimer's skilled nursing unit at the Veteran's Center.

The federal Department of Veteran Affairs cited the New Mexico Veterans' Home for fire and safety code issues. The federal agency is requiring the interior wall partitions be extended from the floor to the ceiling. DOH and Property Control Division (PCD) staff are working with the certification inspector to address work that can be immediately addressed. A citation could threaten the certification of the Veterans' Home. The total cost to restructure the wall partitions is unknown at this time.

Phase I of the Alzheimer's skilled nursing unit is behind schedule due to a disagreement in the scope of work between the PCD and the architectural and engineering firm. The programming phase was to be completed in June 2009. PCD is currently negotiating the scope of work required or possible termination of existing contract.

Phase I to plan, design, and construct the Meadows facility in Las Vegas was originally funded with cigarette tax revenue bonds authorized in 2005 and $10 million in GOB authorized in 2008. To date, $2 million in cigarette tax revenue bonds to plan and design the project and the $10 million in GOB for construction have been issued. According to the New Mexico Finance Authority (NMFA), there is insufficient capacity to issue $8.9 million of authorized cigarette tax bonds and capacity may not be available until after 2016. Delay of the project will cause considerable hardship to the patients and staff of DOH and construction costs could conceivably increase by 2016. Policy makers might want to consider funding the project with new STB capacity or reauthorizing nonviable STB projects to replace the cigarette tax revenue bonds.

*New Mexico Corrections Department*. NMCD requested $3.1 million to continue upgrades to the heating, ventilation, and cooling system at Southern New Mexico Correctional Facility (SNMCF) and Central New Mexico Correctional Facility (CNMCF). To date, $5.8 million has been appropriated for upgrades for two units at SNMCF and the design of five units at CNMCF. The request will complete the first two units at CNMCF. Approximately $12 million will be needed in future years to complete all 10 units at both facilities. The New Mexico Environment Department cited the Roswell Correctional Facility for poor conditions of the wastewater treatment facility. The preliminary cost estimate by PCD is nearly $3 million.

*Department of Public Safety*. DPS requested an additional $550 thousand for the Las Vegas State Police District Office. The funds would provide for water and sewer utilities to the building site and the installation of a new 40-foot radio tower. The Las Cruces State Police District Office requires $285 thousand to install a new site-specific radio tower, radio equipment package, and backup generator. The additional funding is needed to allow construction to proceed.

Requests for authorization to expend money for capital from "other state funds" are included in Volume III.

**State Projects in Progress**
(Require Additional Funds)

- Las Vegas State Police District Office ($550 thousand)
- Las Cruces State Police District Office ($285 thousand)
- Santa Teresa Port of Entry ($4.7 million)
- Central New Mexico Correctional Facility ($3.1 million)
- New Meadows and Ponderosa ($8.9 million)

**Local Projects in Progress**
(Require Additional funds)

- Eunice Water and Wastewater System
- Santa Fe Indian School Wellness Center
- Valencia County Water and Wastewater System
- San Mateo Dam Construction

**Capital Outlay Performance Evaluations**

- The Legislature should institute a two-phase funding approach for all major capital outlay projects – first, fund project design then full construction, furnishing, and equipment costs based on completed design and updated cost estimates.
- The legislative and executive branches of government have improved accountability for capital outlay appropriations but much more needs to be done from initial planning, prioritization of projects and funding, to actual execution of many projects.
- The General Services Department (GSD) should analyze the cost benefit of a design-build project delivery method in comparison with traditional design-bid-build.

**Exceptions to Capitol Building Planning Commission Lease-Purchase Review**

- State Armory Board
- Commission of Public Lands
- Institutions of Higher Education
- Economic Development Department (when acquiring property pursuant to the Statewide Economic Development Finance Act)
- Public School Facilities Authority (when acquiring property pursuant to the Public School Capital Outlay Act)
- State-chartered schools

**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 key property issues as follows:

*Department of Transportation Headquarters Development*. DOT is awaiting Transportation Commission approval for awarding a contract for program and design for this property. The selectee will not be eligible to bid the construction phase of the project.

*Health and Human Services Complex*. The project concept was first presented to CBPC in 2004. The concept is to consolidate agencies relating to human services to realize economic efficiencies and to accomplish substantial savings by owning rather than leasing. PCD contracted with a firm to perform site analysis on several potential sites for the complex. The analysis concluded that the Las Soleras site in southwest Santa Fe had the greatest potential for the complex. GSD is currently negotiating land values, state-owned property exchanges, and other details for acquisition of the Las Soleras property. The CBPC has not reviewed the contract as required by Laws 2009, Chapter 145.

*College of Santa Fe.* During the 2009 interim, the executive committed $5 million in state funds to assist the city of Santa Fe with its acquisition of the College of Santa Fe (CSF) property. The funding would come by way of two reauthorizations of appropriations for purchase of federal property. The funds would be used to purchase approximately 15 acres of CSF land from the city of Santa Fe with the intention of building a Higher Education Department complex and partnering with the Santa Fe Community College to construct a higher education learning center. Other uses will also be considered if the land is acquired. GSD is currently working with the city of Santa Fe regarding appraised values for the identified sites. If the state funds are reauthorized, CBPC and the Legislature should closely examine the parcels of land the state is acquiring with the funds, and CBPC should require that the purchase agreements be reviewed prior to closing.

*Lease Purchase Reviews*. New statutes (Laws 2009, Chapter 19) require CBPC to review proposed lease-purchase agreements. For the initial year of the process, state agencies seeking legislative approval of a lease-purchase agreement (for the purchase of facilities, including undeveloped or developed real estate) were required to submit their proposals to CBPC by November 15, 2009. The commission and staff will review the proposals and make recommendations to the Legislature in January 2010. Agencies must demonstrate the need for the leasehold property, the suitability of the additional property, a sound life-cycle costing justification, and estimates of the operational budget impact. To date, no agency has submitted a request for consideration of a lease-purchase agreement for approval by the commission.

**FY11 Information Technology Recommendations.** LFC received 45 information technology (IT) requests from state agencies totaling $77.5 million. The Higher Education Department subsequently withdrew its $1.6 million request for the innovative digital education and learning system (IDEAL). Educational institutions did not request IT appropriations. Of the remaining 44 requests, 35 totaling $68.9 million met the criteria of new system development or major enhancements to an existing system. The remaining nine requests that did not meet the strict criteria included hardware and desktop software upgrades, server consolidation, or recurring operational costs.

Even though all requests were evaluated, none from the general fund are recommended for FY11 because of the severe budget shortfall facing state government in FY10 and FY11. Thirteen projects totaling $45.3 million were identified as number one priorities by the agencies. If any nonrecurring general fund revenue should become available, the only recommendation is for replacement of the income support division system. A self-funded model for the judiciary was recommended and approved last year and will continue through the full implementation of the case management system. The system will continue to be funded through the revenue generated by a $10 civil filing fee increase. During the first quarter of FY10, the courts have generated $212.4 thousand from the increase.

LFC recommends time extensions for appropriations to two agencies that stand to lose federal funds if the appropriations are not extended. The Department of Information Technology (DoIT) is seeking a grant from the broadband technologies opportunities program that requires a 20 percent match. The available balance of $4.2 million from the appropriation in Laws 2006, Chapter 109, Section 7, Subsection 6, will be sufficient for the 20 percent match necessary to generate $16.8 million. The appropriations to the Human Services Department for the Income Support Division integrated services delivery system (ISD2) replacement and its eligibility determination component in Laws 2007, Chapter 28, Section 7, Subsections 19 and 21, will also require an extension of time to leverage a 55 percent federal funds match.

**Technology Issues**. LFC continues to have concerns about DoIT's quarterly reporting, agency IT security, and the guidelines for how agencies justify or request funding for IT projects. DoIT has no routine practice to produce written reports of oversight activities that include validating and verifying agency-reported data.

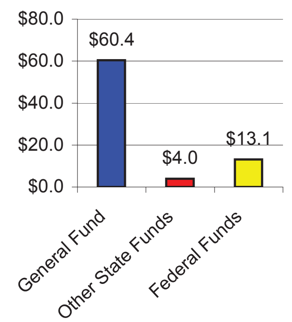
*Security*. In 2005, LFC recommended the state chief information officer make security a top priority. Through DoIT-sponsored security training, agency IT staff are better trained and more aware of how to set up good security and what to do if systems are compromised. Although agencies continued to suffer security breaches, those were caught earlier. Agencies are responding to security more proactively through IT security review contracts and training. Being proactive means

**Agency Number One IT Priorities**
(in millions)

| System Purpose | Request |
|---|---|
| Case Management | $0.9 |
| Tax Online | $0.5 |
| Oil and Gas | $3.0 |
| Content Management | $1.1 |
| Records Repository | $1.0 |
| Commercial Filings | $0.7 |
| Permitting | $0.8 |
| Land Management | $3.1 |
| Water Rights | $0.3 |
| Income Support | $22.4 |
| Juvenile Management | $3.1 |
| Server Consolidation | $4.0 |
| P-20 System | $4.4 |
| **Total** | **$45.3** |

Source: LFC Analysis

**FY11 Nonrecurring IT Requests**
(in millions)




Source: LFC Analysis

Computer security must be comprehensive to be most effective.

Security issues disrupted Secretary of State services in

| Project Investments (in millions) | |
|---|---|
| **Project** | **Cost** |
| SHARE | $38.0 |
| Super Computer | $18.8 |
| Wire NM | $42.0 |
| Driver & Vehicle Replacement | $12.9 |
| TraCS | $6.8 |
| IDEAL | $8.2 |
| ISD2 Replacement | $31.4 |
| STARS | $13.7 |

Source: LFC Files

**Projects of Concern**

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

Source: LFC Analysis

identifying potential risks and putting processes and procedures in place to mitigate the risks. In 2009, the DoIT act was revised to include a requirement for background checks for IT staff in critical positions. By the end of 2009, DoIT will release the state security policy for all executive branch agencies. 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.

*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 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, lack of commitment from critical parties, or reluctance to provide information. In FY10, LFC added the driver and vehicle replacement system to the list. The project is a large investment, impacted by federal REAL ID, requests for information to the department chief information officer are not always timely or complete, and revenue generated from fees for the project will need to be tracked.

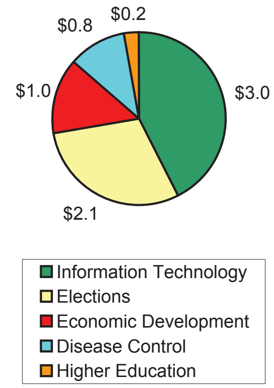
**Budget Transparency**. During the 2009 legislative session, bills were introduced calling for greater transparency in state government finances through an accessible and searchable database. House Memorial 78 (HM78) required a study to develop an easily accessible and searchable database for state budgets. The HM78 study, led by DoIT, identifies a long-term and a less costly interim solution. The preferred and long-term solution extracts and formats the SHARE data for public presentation, and requires a well-designed and useable public website. Oklahoma has written extract programs that it has offered to New Mexico at no cost; however, consulting costs could be as high as $500 thousand. The Department of Finance and Administration and DoIT could potentially create the database using internal resources and Oklahoma's extract programs. The interim solution is posting static revenue and expenditure reports on the state's website.

State agencies requested $21.3 million from the general fund for special, supplemental, and deficiency appropriations. Requests from all funding sources total $34 million. Specific requests and funding recommendations are presented in Table (5). The committee's recommendation prioritizes critical or mandated services in ordinary years 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.** For deficiency and supplemental needs, agencies requested $6.4 million from the general fund and $13.5 million from all funding sources. The committee does not recommend funding for supplemental and deficiency requests.

**Special Appropriation Recommendations.** Agencies requested $14.8 million from the general fund and $20.5 million from all funding sources for special requests; $200 thousand from the appropriation contingency fund is recommended to support the statewide instructional leadership institute. The committee also recommends $2.1 million in other state funds for 2010 primary and general elections and $1 million in other state funds for the job training incentive program, an important component of economic development.

**FY11 Recommendation: Special Appropriations**
(in millions)




Source: LFC Files

# PERFORMANCE REPORTS

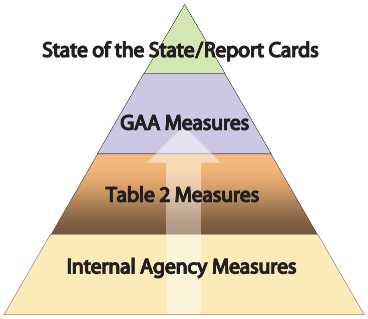
In response to a growing demand for accountability and transparency from the public and the Legislature, the Accountability in Government Act (AGA) was signed into law on March 10, 1999. Implementing the provisions of the act ushered in performance-based program budgeting – a process that focuses on results as measured by performance (inputs, outputs, outcomes, etc), rather than on objects of expenditure (salaries, supplies, travel, etc.). It is a continually evolving process that reflects the active participation of both the LFC staff and executive agencies.

**Report Cards.** LFC staff individually reviewed 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. The results of the staff analysis are reflected in the agency report cards which are a key element in monitoring agency performance. In general, green ratings indicate success in achieving a targeted level of program performance for FY09 and were not given for any missed target. Yellow ratings highlight a narrowly missed target or significantly improved but not fully performing program. Red ratings are not a sign of failure but indicate a need for attention and provide an opportunity for dialogue between the agency and the Legislature.

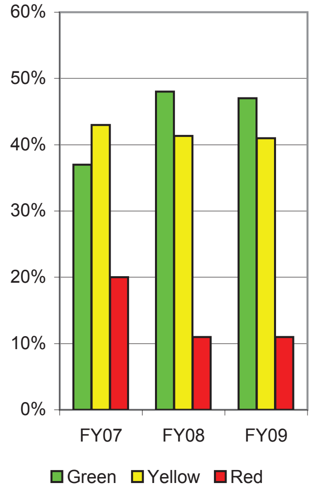
**FY09 Performance.** The report cards for FY09 were reviewed by agencies and, where appropriate, individual report cards were revised to incorporate agency input. A slightly lower percentage of programs achieved a green rating than they did in FY08. Taken together the performance reports in this volume 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.

In accordance with the provisions of the AGA, the ability of LFC and its staff to improve measures is limited, as fundamental authority over performance reporting resides in the executive. The Department of Finance and Administration (DFA) approves new measures and deletes others, and the LFC role of consultation has varying degrees of success. Some agencies, such as the Department of Finance and Administration (DFA), have too many internal measures, as opposed to tracking the effectiveness of core functions. Other agencies, like the Human Services Department do not have enough measures given the size of their programs. Still other agencies, like the Department of Health, have demonstrated considerable progress in their approach to the application of performance measurements in program evaluation. But, successes aside, LFC would like to see more agency action plans that address performance issues. Nevertheless, LFC will continue to recommend important measures and programs for the General Appropriation Act and, if the situation merits, recommend measures that are not endorsed by DFA.

Performance Measure Hierarchy




Report Card Program Rating Performance Summary FY07-FY09

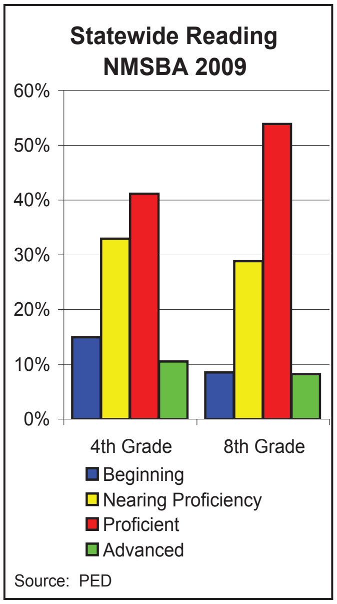


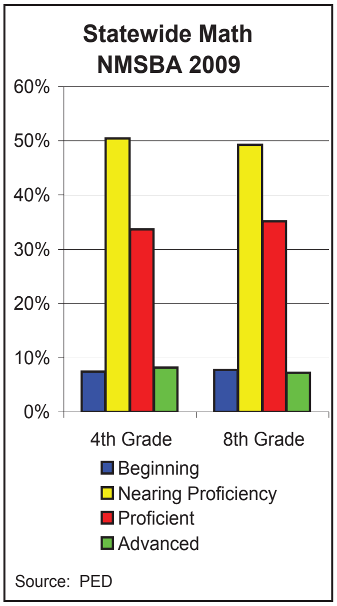

Source: LFC Files

PERFORMANCE REPORT CARD CRITERIA
LEGISLATIVE FINANCE COMMITTEE

| | | |
|---|---|---|
| **Process**<br>• Data are reliable<br>• Data collection method is transparent<br>• Measure gauges the core function of the program or relates to significant budget expenditures<br>• Performance measure is tied to agency strategic and mission objectives<br>• Performance measure is an indicator of progress in meeting annual performance target, if applicable<br><br>**Progress**<br>• Agency met, or is on track to meet, annual target<br>• Action plan is in place to improve performance<br><br>**Management**<br>• Agency management staff use performance data for internal evaluations | **Process**<br>• Data are questionable<br>• Data collection method is unclear<br>• Measure does not gauge the core function of the program or does not relate to significant budget expenditures<br>• Performance measure is not closely tied to strategic and mission objectives<br>• Performance measure is a questionable indicator of progress in meeting annual performance target, if applicable<br><br>**Progress**<br>• Agency is behind target or is behind in meeting annual target<br>• A clear and achievable action plan is in place to reach goal<br><br>**Management**<br>• Agency management staff does not use performance data for internal evaluations | **Process**<br>• Data are unreliable<br>• Data collection method is not provided<br>• Measure does not gauge the core function of the program or does not relate to significant budget expenditures<br>• Performance measure is not related to strategic and mission objectives<br>• Performance measure is a poor indicator of progress in meeting annual performance target, if applicable<br>• Agency failed to report on performance measure and data should be available<br><br>**Progress**<br>• Agency failed, or is likely to fail, to meet annual target<br>• No action plan is in place for improvement<br><br>**Management**<br>• Agency management staff does not use performance data for internal evaluations |

The Public Education Department (PED) certified its annual report of student achievement highlighting a disappointing graduation rate of 60.3 percent for freshman entering high school in 2005 and graduating in 2008. This number does not include certain categories of students (including those who left school and received a GED, moved out of state, if identified, or remain enrolled in high school as underclassmen) but it does point to the need for programs that keep kids in school. The department also reported that, based on assessment results from FY09, 508 schools, or 62 percent of all schools, are in the school improvement cycle for the FY10 school year, an increase of 76 schools over FY09. This increase continues to be the 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.

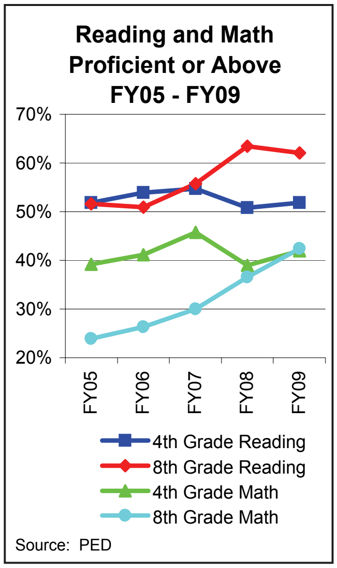


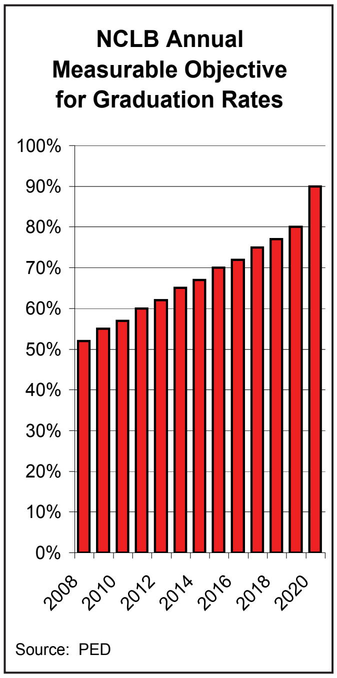




For FY09, three strategic elements were considered in evaluating the effectiveness of New Mexico's public schools: student achievement, teacher quality, and student persistence. FY09 marks the first year that more accurate graduation rate data is available since the measure was changed in 2004 to a four-year cohort methodology. The department, in the past, chose to report an annual graduation rate describing the ratio of students beginning their senior year to those who completed the year and noted that the result would be inaccurate if summer graduates were not included. The cohort method provides more transparency and includes the impact of high out-migration between the ninth and 10th grades and should be in full effect for the first quarter of FY10. Recent statute changes will allow students graduating in the summer following their cohort graduation as well as students finishing their fifth year of high school to be counted in the graduation rate for the cohort. This will delay graduation rate reporting by more than a year.

Even though public school support accounts for almost half of the state's budget, periodic accountability is limited because most data are collected and reported annually and as a statewide aggregate, making it difficult to assess progress by districts in achieving results during the year. To address this, the Legislature should consider implementing a statewide short–cycle assessment reported to PED at least three times a year. Over 70 districts already use one of at least nine short-cycle assessments. These assessments are not designed to assess proficiency but can be used to assist in making instructional decisions and also to indicate growth over time. An additional benefit to intermediate reporting of student growth would be to help PED determine how to better support schools.

**Student Achievement and Teacher Quality**. In spite of the increase in the number of schools in need of improvement, FY09 proficiency data released by the department is encouraging, with the percent of students' proficient or above in math in all grades showing improvement over the previous year. A bright spot is student performance in the eighth grade where over the last five years math scores have almost doubled, posting gains of 19 percent. Some concern remains with fourth grade performance because proficiency levels appear to be relatively flat over the same five-year period. In spite of these gains, the achievement gap continues to widen for most subgroups.

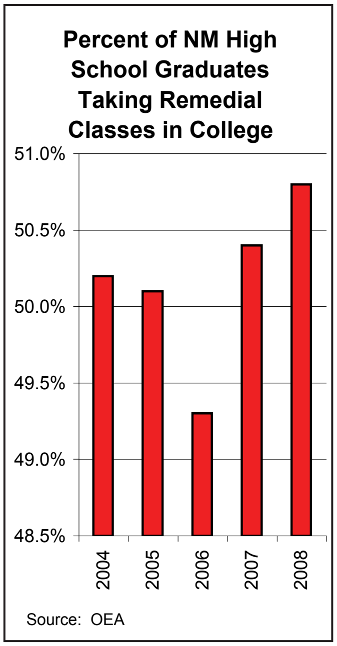



With the implementation of three-tier licensure, the percent of classes taught by highly qualified teachers is expected to continue to move toward the NCLB requirement of 100 percent. Statewide, schools are improving the numbers of highly qualified teachers teaching classes, and movement to 100 percent has been robust in the last quarter of FY09. Because a large number of teachers from external sources such as Teach for America and Save the Children are used by some districts in the state, achieving the 100 percent goal will be difficult. Generally, these are high-quality teachers but they lack the certification and training required to be considered highly qualified under the No Child Left Behind Act.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 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 | 55% | 63% | 57% | 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 | 52.8% | 57% | 53% | 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 | 41.3% | 50% | 46.6% | 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 | 31.6% | 41% | 36% | R |
| Percent of recent New Mexico high school graduates who take remedial courses in higher education at two-year and four-year schools | 50.1% | 40% | 45.4% | R |
| Current year's cohort graduation rate using the four-year cumulative method | N/A | 80% | 60.3% | R |
| Annual percent of core academic subjects taught by highly qualified teachers, kindergarten through twelfth grade | 94.2% | 100% | 98.2 | Y |
| | | | **Overall Program Rating** | R |

**Department Operations**. As expenditures to school districts increase, a concern is the lack of interface between the Operating Budget Management System (OBMS) and the STARS data warehouse and the accuracy of data input from the districts. Part of this was exemplified by the confusion over graduation rates and the quality of data and corrections received from districts. A number of long-term concerns continue, particularly with the time necessary to finalize 40th and 80th day data and the importance of the data to the Legislature in making appropriation decisions. Phase 3 of the data warehouse project is underway with all appropriations encumbered and expended. Current estimates to bring STARS up to speed with data reporting are approximately $4.5 million.




| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of No Child Left Behind adequate yearly progress designations publicly reported by August 1st | 100% | 100% | 100% | G |
| Percent completion of the data warehouse project | 100% | 75% | 100% | G |
| Percent of teachers adequately informed and trained on the preparation of the licensure advancement professional dossiers | N/A | 95% | 81% | R |
| Percent of bureaus in five core areas (data collection and reporting, assessment and accountability, special education, capital outlay school budget and finance analysis) meeting the public education department's customer service standards | 100% | 60% | 67% | G |
| Percent of customers interacting with the public education department who report satisfaction with their telephone communications with the department | 97% | 90% | 92.5% | G |
| Average processing time for school district budget adjustment requests, in days (direct grants) | 4 | 7 | 4 | G |
| Average processing time for school district budget adjustment requests, in days (flow-through funds) | N/A | 7 | 18.8 | R |
| | | | **Overall Program Rating** | Y |

The Council of University Presidents Accountability Working Group advanced new performance measures for consideration for AGA reporting. These new measures represent a significant advance to enhancing report, accountability and transparency at the state's universities.

New Mexico universities are also participating 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.

The Council of University Presidents notes at most universities, the percentage of Hispanic enrollment exceeds the percentage of Hispanic students taking the ACT test. For American Indian students, the percentages also vary by institution, but enrollment still falls short of the ACT percentage.
----- Performance Effectiveness Report, Council of University Presidents

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.

**Universities.** The comprehensive *Performance Effectiveness Report* (PEP) 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 (COUP) executive summary discusses the enrollment boom, with most universities posting the highest full-time equivalent (FTE) enrollment growth in fall 2009 when compared with the last five years. Enrollment at the New Mexico Institute of Mining and Technology is down 9.5 percent compared with the FTE enrollment posted in 2005. Degrees awarded has continued to increase. In other areas, the data reported reflects relatively little change for the state's universities overall during the last five years.

As shown in these report cards, in reviewing year-over-year changes and meeting targets, the state's universities posted mixed performances in retention, completion, and transfers. The strongest performance was in freshman retention, up at University of New Mexico, Eastern New Mexico University, and Western New Mexico University. New Mexico Tech did not meet its retention target and implemented a retention committee, freshman learning communities, and an early intervention program. Of significant concern, completion rates for first-time, full-time freshman declined at UNM, New Mexico Highlands University (NMHU), and WNMU. UNM indicated the graduation rate mirrored the retention rate. NMHU noted missing the target reflected only four fewer degrees awarded. Transfer students declined slightly at UNM and New Mexico State University (NMSU). NMSU significantly missed its target in this area and is reviewing recruitment efforts. Transfer students showed improvement and exceeded targets at ENMU and NMHU.

During the interim, the UNM Health Sciences Center met with both LFC and DFA to discuss potential changes regarding performance measures. All parties reached consensus regarding the proposed changes. The changes included discontinuing three measures and adding four new measures. The institution discontinues the measures for the percent of medical students who secured one of their top three choices in the residency program and medical student satisfaction rates on national standardized tests. The data is not captured nationally and the measures rely on students' agreement to self-report. The data collection is not mandatory. UNM HSC discontinued the measure for the total number of HSC technology commercialization activities.

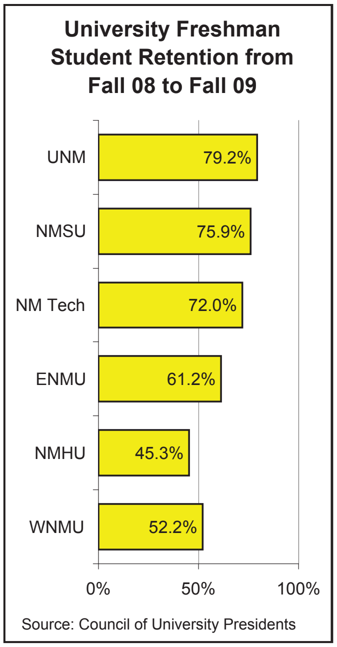
Additional measures include the first-time pass rate on the North American Pharmacist Licensure Examination, which reflects access to an individual's competency and knowledge. Other measures include student pass rates on the American Nurses Credentialing Center examination, number of autopsies performed by the Office of the Medical Investigator, and the number of patient days at the Carrie Tingley Hospital.

| Retention Fall-to-Fall | Fall 2007 to Fall 2008 Actual | Fall 2008 to Fall 2009 Target | Fall 2008 to Fall 2009 Actual | Rating |
|---|---|---|---|---|
| UNM freshman retention | 77.3% | 77.0% | 79.2% | G |
| NMSU freshman retention | 74.8% | 82% | 75.9% | Y |
| NMIMT freshman retention | 70.7% | 75% | 72.0% | Y |
| ENMU freshman retention | 59.5% | 61% | 61.2% | G |
| NMHU freshman retention | 44.6% | 53% | 45.3% | Y |
| WNMU freshman retention | 48.3% | 50% | 52.2% | G |
| | | | Overall Program Rating | Y |

| Six-Year Completion Rates for First-Time, Full-Time Freshman | Fall 2002-Summer 2008 Actual | Fall 2003-Summer 2009 Target | Fall 2003-Summer 2009 Actual | Rating |
|---|---|---|---|---|
| UNM | 44.1% | 45% | 42.7% | R |
| NMSU | 43.5% | 50% | 44.1% | Y |
| NMIMT | 45.3% | 50% | 45.4% | Y |
| ENMU | 28.5% | 33.5% | 29.2% | Y |
| NMHU | 21.4% | 20% | 18.6% | R |
| WNMU | 23.3% | 21.5% | 19.4% | R |
| | | | Overall Program Rating | Y |

| Transfers from Two-year Colleges | 2007-2008 Actual | Spring/Fall /Spring 2008-2009 Target | Spring/Fall/ Spring 2008-2009 Actual | Rating |
|---|---|---|---|---|
| UNM | 1,584 | 1,670 | 1,532 | R |
| NMSU | 628 | 1,028 | 531 | R |

The PEP reports the total number of degrees awarded over the past five years has increased more than 7 percent; the number of degrees awarded did not decline at any of the state's universities.



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

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

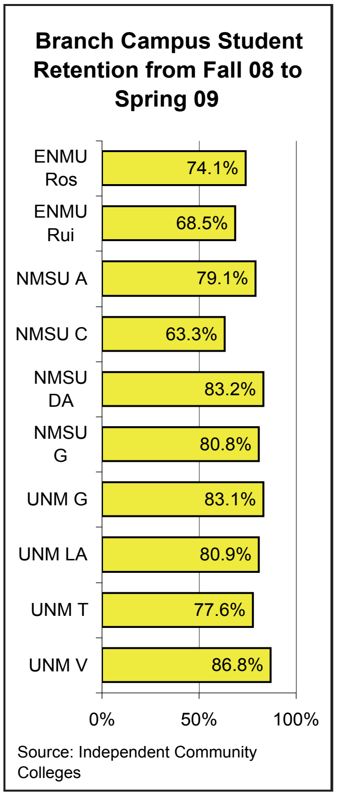
| | | | | |
|---|---|---|---|---|
| NMIMT | 41 | 40 | 40 | Y |
| ENMU | 437 | 420 | 551 | G |
| NMHU | 438 | 375 | 492 | G |
| WNMU | 179 | 165 | 167 | Y |
| | | | **Overall Program Rating** | **Y** |

**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. This report card reflects data through spring 2009, 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, but the majority of institutions are improving and meeting targets. Strongest improvement was evident at Eastern New Mexico University-Ruidoso, New Mexico State University-Grants, and New Mexico State University-Alamogordo. ENMU-Ruidoso has relatively small enrollment numbers, which can influence year-over-year results, but has early alerts and a campus-wide attendance improvement initiative. NMSU-Carlsbad has implemented several initiatives to address erosion in its freshman persistence rate. The long-term trend for retention at ENMU-Roswell shows a decline.

| Retention, Fall-to-Spring | Fall 2007 to Spring 2008 Actual | Fall 2008 to Spring 2009 Target | Fall 2008 to Spring 2009 Actual | Rating |
|---|---|---|---|---|
| ENMU-Roswell | 76.2% | 75.9% | 74.1% | R |
| ENMU-Ruidoso | 58.3% | 60.0% | 68.5% | G |
| NMSU-Alamogordo | 70.5% | 78% | 79.1% | G |
| NMSU-Carlsbad | 69.6% | 71% | 63.3% | R |
| NMSU-Dona Ana | 80.1% | 81% | 83.2% | G |
| NMSU-Grants | 71.1% | 75.0% | 80.8% | G |
| UNM-Gallup | 79.3% | 82% | 83.1% | G |
| UNM-Los Alamos | 77.2% | 77% | 80.9% | G |

| | | | | |
|---|---|---|---|---|
| UNM-Taos | 71.0% | 75% | 77.6% | G |
| UNM-Valencia | 87.3% | 75% | 86.8% | Y |
| | | | **Overall Program Rating** | **Y** |

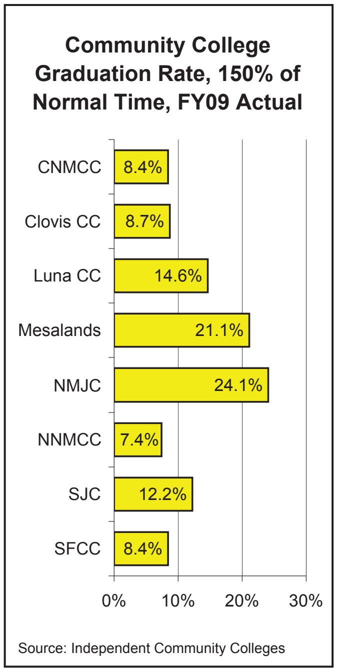



**Two-year Independent Community Colleges**. The Independent Community College Accountability Report and a subset of performance measures are reported annually by the New Mexico Independent Community Colleges. As well, semi-annual data on a retention rate performance measure is reported under the Accountability 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. This report card reflects data through spring 2009, a delayed reporting period compared with four-year universities.

Independent community colleges posted an average improvement in freshman persistence from fall 2008 to spring 2009 of nearly 4 percent. The institutions indicate the result reflects efforts to identify and address student obstacles to persistence in college. The current economic situation is also considered a factor in enhancing student interest in staying in college. Clovis Community College notes the situation with Cannon Air Force Base is stabilizing. In 2008, Mesalands Community College implemented a comprehensive enrollment management plan. Northern New Mexico College assembled a task force to address weak student persistence. Most institutions struggled with year-over-year improvement and meeting targets for completion. The independent colleges showed strong results for students obtaining jobs or staying in college.

| Retention, Fall-to-Spring | Fall 2007 to Spring 2008 Actual | Fall 2008 to Spring 2009 Target | Fall 2008 to Spring 2009 Actual | Rating |
|---|---|---|---|---|
| Central NM Community College | 77.7% | 80% | 79.6% | G |
| Clovis Community College | 74.7% | 81% | 72.2% | R |
| Luna Community College | 64.6% | 80% | 66.2% | R |
| Mesalands Community College | 66.1% | 64% | 70.5% | G |
| New Mexico Junior College | 50.9% | 72.5% | 68% | Y |
| Northern NM College | 74.6% | 80% | 77.6% | Y |
| San Juan College | 71.2% | 80% | 76.3% | Y |
| Santa Fe Community College | 81.6% | 76% | 81.5% | G |
| | | | **Overall Program Rating** | **Y** |

To identify strong performance measures and increase accountability, New Mexico community colleges are considering the adoption of the voluntary system of accountability model or another model specifically designed for community colleges.




On average, the independent community colleges showed improvement or exceeded targets in the areas of student retention and job placement in New Mexico. These colleges continue to struggle to meet targets for minority student enrollment and graduation rates.

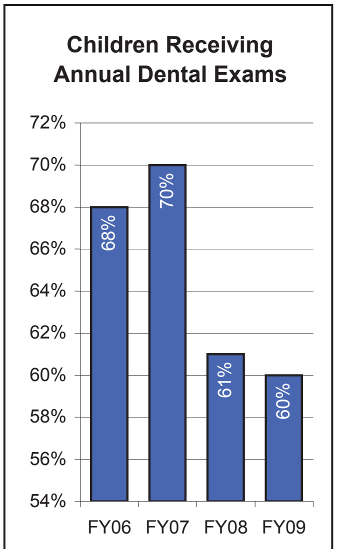
| Percent of First-time, Full-time Degree-Seeking Students Completing within 150% of time | Actual | Target | Actual | Rating |
|---|---|---|---|---|
| Central NM Community College | 8% | 11% | 8.4% | Y |
| Clovis Community College | 8.7% | 20% | 8.7% | Y |
| Luna Community College | 23.6% | 25% | 14.6% | R |
| Mesalands Community College | 22.4% | 27.5% | 21.1% | R |
| New Mexico Junior College | 27.4% | 33% | 24.1% | R |
| Northern NM College | 8.8% | 15% | 7.4% | R |
| San Juan College | 13.2% | 15.7% | 12.2% | Y |
| Santa Fe Community College | 6.1% | 8% | 8.4% | G |
| | | **Overall Program Rating** | | Y |

| Percent of Program Completers Placed in Jobs or Continuing Education in NM | Actual | Target | Actual | Rating |
|---|---|---|---|---|
| Central NM Community College | 88.6% | 85% | 91.2% | G |
| Clovis Community College | 78.3% | 80% | 84% | G |
| Luna Community College | 93.9% | 93% | 94.7% | G |
| Mesalands Community College | 76.7% | 72.2% | 78.7% | G |
| New Mexico Junior College | 77.7% | 76% | 83.3% | G |
| Northern NM College | 79.3% | 80% | 81.9% | G |
| San Juan College | 66.9% | 67% | 75% | G |
| Santa Fe Community College | 85.6% | 80.8% | 87.5% | G |
| | | **Overall Program Rating** | | G |

**Higher Education Department.** The Higher Education Department (HED) consists of two programs: Policy Development and Institutional Financial Oversight and Student Financial Aid. HED is making attempts to improve its performance reporting. The department finalized a strategic plan through 2012; however, HED did not submit a monitoring plan. Although the department reported on performance measures for both programs, the data lacked explanation and documentation regarding achieved results.

Some important measures proposed by the agency remain missing, such as building renewal and replacement monitoring; the facility condition index status; timely special project and flow-through appropriations distributions; and review of special appropriation performance reports. Other improvements in performance measures for quarterly and annual reporting are needed. For example, the department is not reporting the quarterly financial data submitted by public, post-secondary institutions. Linkages between annual and quarterly reports need to be enhanced. Improvement in data quality and target specification is needed to justify results reported by HED.

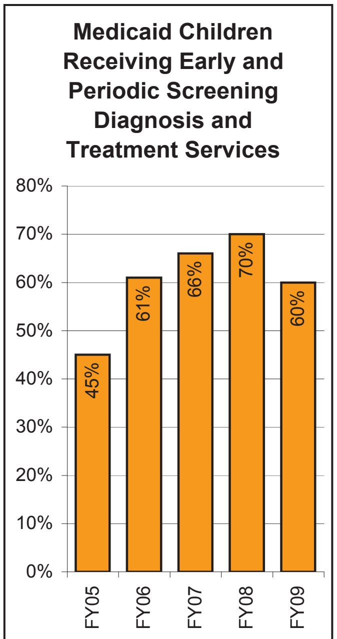
The department maintains a relatively well-defined set of performance measures related to the strategic plan. However, given the size and importance of these social services programs, especially Medicaid and Temporary Assistance for Needy Families (TANF), additional outcome measures are necessary to monitor and gauge program effectiveness. The department's quarterly report is clearly presented and includes action plans to address lower performing areas.




Source: HSD Quarterly Report

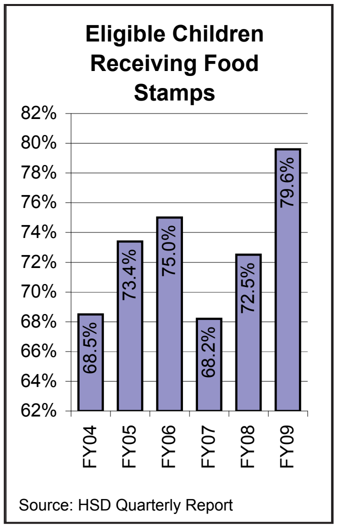
**Medical Assistance Division.** HSD tracks most of this performance data through its contracts with managed-care organizations (MCOs). The department sets performance targets for the MCOs and has a financial incentive program for performance. FY09 targets are in line with national benchmarks for these key measures. Of particular concern is the lower percent of children receiving annual check-ups. The department should also report on a broader set of outcome measures to determine whether client health is improving. Additional efficiency measures to gauge cost effectiveness [e.g., per-member per-month (PMPM) costs in managed care] would further support public transparency.

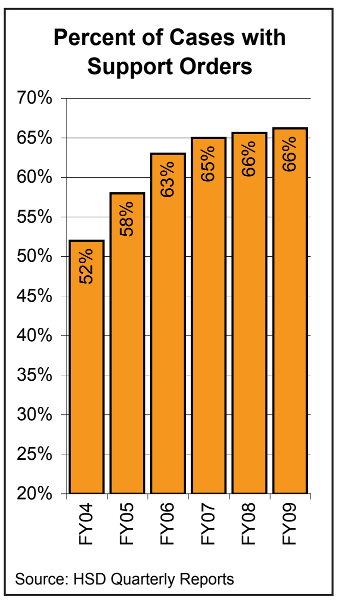
| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of children enrolled in Medicaid managed care who have a dental exam | 61% | 50% | 60% | G |
| Number of children in the Medicaid school-based services | 16,860 | 17,500 | 16,795 | R |
| Percent of children in Medicaid managed care receiving early and periodic screening, diagnosis and treatment services | 70% | 70% | 60% | R |
| Percent of age-appropriate women enrolled in Medicaid managed care receiving breast cancer screens (cumulative) | 54% | 53% | 51% | R |
| Number of adults enrolled in state coverage insurance (SCI) | 23,060 | 25,000 | 37,918 | G |
| Percent of age-appropriate women enrolled in Medicaid managed care receiving cervical cancer screens | 74% | 69% | 73% | G |
| | | | Overall Program Rating | Y |




Source: HSD Quarterly Report

**Medicaid Behavioral Health.** The program reports an inability to collect data for school success rate for Medicaid clients, although Medicaid is the predominant payer of behavioral health services. The Behavioral Health Purchasing Collaborative will report on a similar measure of success of students receiving any behavioral health services, not those just paid by Medicaid. The program missed its target for readmissions and performance has slipped from FY08. Ideally, any readmission is at a lower level of care in a residential treatment center – an indication of improvement in behavioral health.




| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of readmissions to the same level of care or higher for individuals in managed care discharged from a residential treatment center | 6% | 8% | 9% | R |
| Percent of children and adolescents receiving Medicaid behavioral health services who are successful in school | N/A | 72% | N/A | R |
| | | | Overall Program Rating | R |

**Behavioral Health Services Division.** The three measures in the General Appropriation Act of 2009 for this program are reported annually. The program should track and report on measures that gauge progress in meeting these annual targets, and the department did propose some new measures for FY11 that can be reported quarterly. In addition, the Behavioral Health Purchasing Collaborative has not provided a quarterly report consistent with the Accountability in Government Act, as required in its enabling statute, and data was not available for two of these performance measures.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of people receiving substance abuse treatment who demonstrate improvement on two or more domains of the addiction severity index for alcohol | 75% | 79% | 80% | G |
| Suicide rate among adults age 20 and older per 100,000 | 20.6 | 20 | N/A | |
| Suicide rate among children age 15-19 per 100,000 | 18.5 | 14 | N/A | |
| | | | Overall Program Rating | Y |

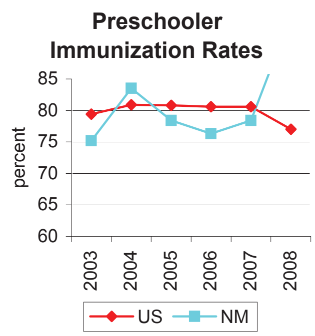
**Income Support Program.** The program continues to struggle to meet the work participation rates in the Temporary Assistance for Needy Families (TANF) program, even after targets were adjusted down for FY09. The NM Works contractors now only report a six-month job retention rate, but the target was set for a three-month retention rate. This change makes a cross-year comparison difficult. The program is meeting all of its performance measures in the Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps), and there is notable improvement in the measure on food stamp participation.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of TANF participants who retain a job for six or more months[1] | 77.4% | 78% | 42.8% | R |
| Percent of TANF two-parent recipients meeting federally required work requirements[2] | 65.6% | 60% | 50.9% | R |
| Percent of TANF recipients (all families) meeting federally required work requirements[2] | 43.5% | 50% | 37.5% | R |
| Percent of food-stamp-eligible children participating in the program | 70.2% | 68% | 79.6% | G |
| Percent of expedited food stamp cases meeting the federally required timeliness of seven days | 98.3% | 98% | 97.8% | G |
| Number of New Mexico families receiving food stamps | 97,989 | 95,150 | 127,141 | G |
| | | | **Overall Program Rating** | Y |

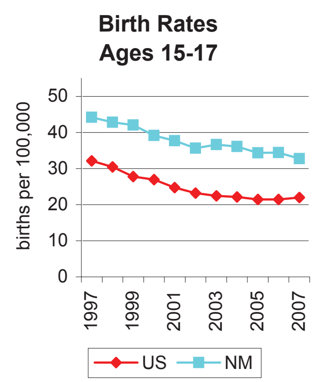
[1]HSD reports on a six-month retention rate instead of a three-month retention rate as in the General Appropriation Act. Target is set for three-month retention rate.
[2]Data reported through federal fiscal year 2009 (Oct. 2008 – May 2009)

**Child Support Enforcement Program.** The program did not meet the target for its percent of cases with support orders – an important measure of enforcement – despite being well below the national average of 78 percent. Nevertheless, there has been steady improvement in this key measure, moving from 51 percent in FY04 to 66.2 percent in FY09. Child support collections continue to increase, and the program met the relatively new measure for court-ordered medical support.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of temporary assistance for needy families cases with support orders receiving collections | 57.2% | 60% | 60.3% | G |
| Total child support enforcement collections, in millions | $95.3 | $100 | $111.1 | G |
| Percent of child support owed that is collected | 58% | 58% | 59.3% | G |
| Percent of cases with support orders | 66.2% | 69% | 66.2% | Y |
| Percent of children with court-ordered medical support covered by private health insurance | 36% | 40% | 40% | G |
| | | | **Overall Program Rating** | G |



Source: Centers for Disease Control



Source: Centers for Disease Control

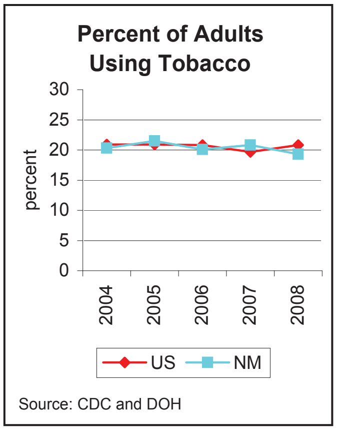
The Department of Health (DOH) performance report for the year ending June 30, 2009, revealed that DOH met less than 50 percent of its targets; many of these are stretch targets and reflect agency goals to improve health in New Mexico. Agency strengths include a user-friendly, graphically detailed quarterly 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. Agency, DFA, and LFC staffs have collaborated to reduce the number of annually reported measures for FY11. Driving-while-intoxicated (DWI) testing failed to meet the target due to a poor second quarter resulting from unexpected vacancies. Improvement is noted in many areas, including the number of visits to school-based health centers, substantiated cases of abuse and neglect in DOH facilities, payment of vouchers, and immunizations. However, measures in developmental disabilities support have declined over the past year. In addition, definition and data problems are impacting the telehealth measure, and the agency has proposed new measures for FY11.

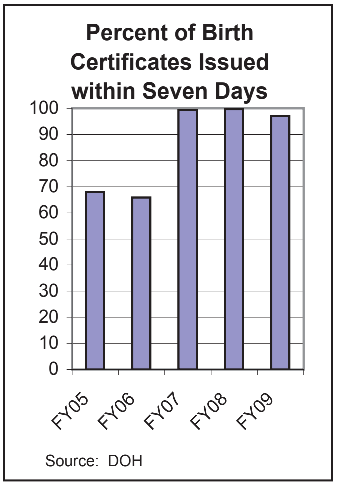
**Public Health Program.** Childhood immunizations continue to get significant attention and the state is now ranked 17th of the 50 states. Teen pregnancy continues to be a major problem but the state moved to 49th from 50th. This is an example of a very important measure that DOH has only limited ability to influence. However, DOH increased the number of teens receiving family planning services. The overall grade of green reflects the program heading in the right direction to meet the often-ambitious targets for the 23 measures in this program.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of preschoolers fully immunized | 78.4% | 90% | 95% | G |
| Number of providers using the statewide immunization registry | 308 | 375 | 330 | Y |
| Annual teen birth rate for females ages 15 to 17 | 34.4 | 33.8 | 32.7 | G |
| Number new enrollees in syringe exchange programs | 724 | 3,500 | 1,111 | R |
| Percent of adults who use tobacco | 20.8% | 19.4% | 19.3% | G |
| | | | Overall Program Rating | G |

**Epidemiology and Response Program.** Performance has declined in the program, although, when tested with the H1N1 influenza virus, the program performed admirably. 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 to nine was not met.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Number of health emergency exercises conducted to assess and improve local capability | 77 | 80 | 53 | Y |
| Number of designated trauma centers in the state | 6 | 97 | 6 | R |
| Percent of birth certificates issued within seven days of receipt of fees and materials | 98.6% | 98% | 97% | Y |
| | | | Overall Program Rating | Y |



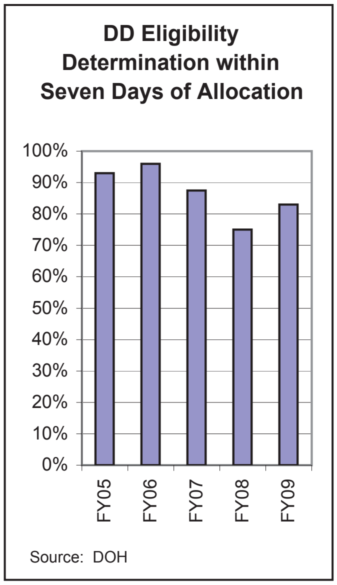

**Scientific Laboratory Program.** The laboratory meets proficiency standards and target completion times for communicable diseases. Although the target for completion of blood alcohol tests related to DWI was not met, the state lab made significant progress in speeding up analysis for DWI cases; however, two vacancies in the second quarter resulted in poor results.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of blood tests from driving while intoxicated while cases analyzed and reported within seven business days | 85% | 90% | 63.5% | R |
| Percent of public health threat samples for communicable diseases and other threatening illnesses analyzed within specific turnaround times | 98% | 98% | 98.5% | 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 and none in FY09. Additional measures have been proposed for FY11.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 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 | .12 | 0 | 0 | G |
| | | | Overall Program Rating | G |

**Developmental Disabilities Support Services Program.** The overall program rating is red with only one performance target being met. The




program still does not make an eligibility determination within 90 days of allocation resulted in a red rating for the measure. Slow progress in employment for developmentally disabled (DD) clients is a concern. Surveys will be complete by the end of the year to determine client satisfaction with the program.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of adults receiving developmental disabilities day services who are engaged in community-integrated employment | 33% | 45% | 32% | R |
| Percent of developmental disability waiver applicants determined to be both income eligible and clinically eligible within ninety days of allocation | 75% | 98% | 83% | R |
| Percent of developmental disability waiver applicants who have a service plan in place within ninety days of clinical and eligibility determination | 96% | 98% | 95.8% | Y |
| | | | **Overall Program Rating** | R |

**Health Certification, Licensing, and Oversight.** The number of developmental disability providers receiving an unannounced survey has improved significantly. This is a critical function of this program to ensure clients are treated appropriately. The program is testing 100 percent of caregiver applicants but did not meet the target because the number of applicants was less than anticipated.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Number of disabled disability provider agencies receiving an unannounced survey | 106 | 125 | 131 | G |
| Percent of required compliance surveys completed for adult residential care and adult daycare facilities | 65% | 80% | 100% | G |
| Number of applicants screened for the caregiver criminal history check | 35,555 | 34,000 | 33,932 | G |
| | | | **Overall Program Rating** | G |

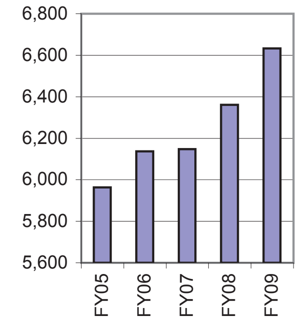
# Aging & Long-Term Services

For FY09, the Aging and Long-Term Services Department (ALTSD) emphasized performance measures for adult protective services, for waiver and brain injury services and for number of clients transitioned from nursing homes back into the community. Most key measures are output measures; the department needs to place more emphasis on outcome measures so program value can be assessed. The agency is addressing this and the Coordinated Long-Term Care Services will be added in FY11.

**FY09 ALTSD Performance**. Shown below is performance on eight key measures. The brain injury program is new and the client count is growing. The overall grade of yellow reflects that the department did not meet all of its performance targets. Key targets were too high for the ombudsman, who has no control over number of complaints, and call center services, which had a target significantly below the actual. Adult Protective Services Program met targets but the Aging Network Program needs a more meaningful measure.

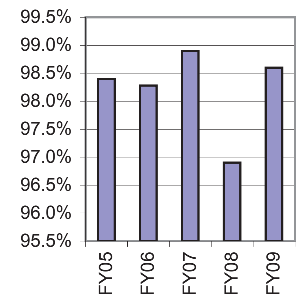
| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Number of ombudsman cases resolved | 5,307 | 6,000 | 4,313 | Y |
| Number of individuals calling the aging and disability resource center in need of two or more daily living services that receive information, referral and follow-up services | 12,984 | 7,500 | 15,342 | G |
| Percent of individuals age 60 and over receiving aging network community services | 37% | 40% | 29% | R |
| Percent of total personal care option cases that are consumer directed | 15.5% | 16% | 18.8% | G |
| Percent of disabled and elderly Medicaid waiver clients who receive services within ninety days of eligibility determination | 96.9% | 100% | 98.6% | G |
| Average number of months that individuals are on the disabled and elderly waiver registry prior to receiving an allocation for services | 31 | 24 | 42 | R |
| Number of brain injury clients served through the mi via self-directed waiver | 137 | 250 | 317 | G |
| Number of adults receiving an adult protective services intervention | 6,361 | 6,600 | 6,633 | G |
| | | | **Overall Program Rating** | **Y** |

**Adults Receiving an APS Intervention**

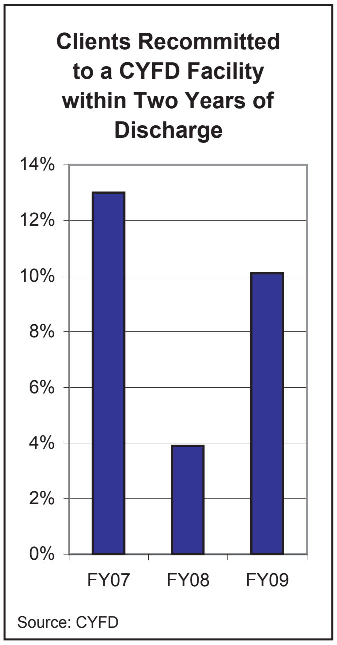


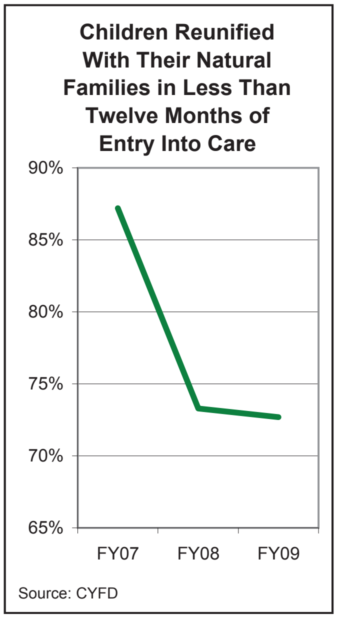

Source: ALTSD

**Disabled and Elderly Clients Receiving Services within 90 Days of Eligibility**




Source: ALTSD




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.

**Juvenile Justice Facilities.** CYFD has implemented Cambiar New Mexico, based on the Missouri Model, at the J. Paul Taylor Center in Las Cruces. Cambiar NM focuses on group therapy, case management, and mixing of special needs youth. Additional measures need to be developed to determine the effectiveness of Cambiar NM.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of clients recommitted to a children, youth and families department facility within two years of discharge from facilities (cumulative) | 3.9% | 11.5% | 10.1% | G |
| Percent of incidents in juvenile justice services facilities requiring use of force resulting in injury (cumulative) | 3% | 3.85% | 4.0% | Y |
| | | | Overall Program Rating | Y |

**Protective Services.** The department has been challenged by the poor economy. Research often shows a correlation between increased rates of child maltreatment during economic downturns. The quarterly data in FY09 shows a trend of deterioration in performance measures that reflects the economic conditions.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of children who are subjects of substantiated maltreatment while in foster care | 0.34% | 0.57% | .50% | G |
| Percent of children who are the subjects of substantiated maltreatment within six months of a prior determination of substantiated maltreatment | 7% | 7% | 6.6% | G |
| Percent of children reunified with their natural families in less than twelve months of entry into care | 73.3% | 78% | 72.7% | R |
| | | | Overall Program Rating | G |

**Early Childhood Services.** The performance measures do not gauge all the core functions of the program. CYFD needs outcome measures for the Early Childhood Services Program, which has a total FY10 operating budget of $159.5 million. A performance measure is needed for prekindergarten on reading test scores or a prekindergarten test such as the Dynamic Indicators of Basic Early Literacy Skills (DIBELS). Also, CYFD is collecting data from providers of home visiting but struggles in developing meaningful outcome measures.

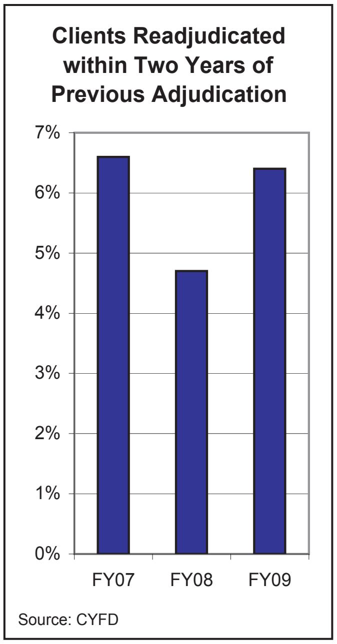
| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of children receiving state subsidy in stars/aim high programs level two through five or with national accreditation (cumulative) | 64.4% | 50% | 69.2% | G |
| Percent of family providers participating in the child and adult care food program (cumulative) | 94.8% | 92% | 94.9% | G |
| | | | Overall Program Rating | Y |

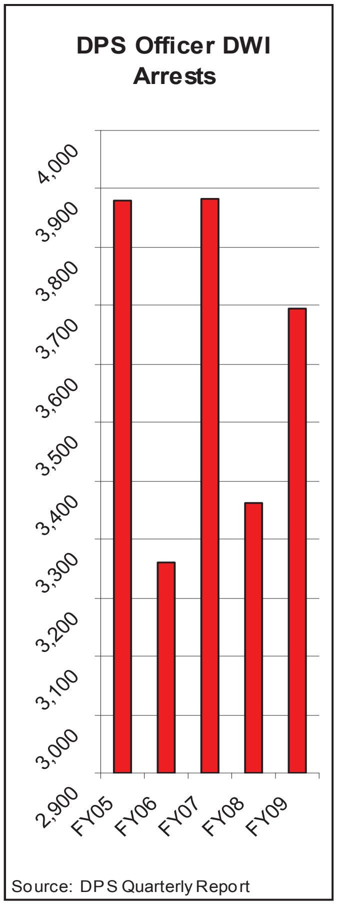
**Youth and Family Services.** CYFD's action plan regarding client readjudication includes implementation of a comprehensive system, increased emphasis on transitional services for clients, greater collaboration with communities, and increased capacity of clinical home sites statewide.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of clients readjudicated within two years of previous adjudication (cumulative) | 4.7% | 5.8% | 6.4% | R |
| Percent of clients who complete formal probation (cumulative) | 89.9% | 85% | 91% | G |
| Percent of adult victims or survivors receiving domestic violence services who have an individualized safety plan (cumulative) | 65.7% | 65% | 72.5% | G |
| | | | Overall Program Rating | G |

**Program Support.** While CYFD did not make its target in FY09 for vacancy rate for youth care specialists, the department did reduce the vacancy rate over the prior fiscal year. The department has worked on improving quality worker supervision, analyzing results from exit interviews regarding reasons for turnover, and implementing a new screening process to improve the quality of employees hired.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent vacancy rate for youth care specialists (cumulative) | 11.5% | 8% | 10.6% | Y |
| | | | Overall Program Rating | Y |






The Department of Public Safety performance measures appropriately focus on the department's key goals and initiatives to reduce alcohol abuse, reduce illegal drug abuse, reduce violent crime, and ensure traffic safety. Meeting the target for commissioned officer strength is a key element for the Law Enforcement Program to realize the other measures.

**Law Enforcement Program.** Maintaining the number of commissioned officers is a key element for all DPS measures. With supplemental appropriations and federal grants sufficient funding exists to maintain staffing levels consistent with previous years. For some measures, it is difficult to know if increases or decreases represent improvement.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Number of narcotic seizures by Motor Transportation Division | 84 | 50 | 74 | G |
| Number of total DWI arrests by DPS-commissioned officers | 3,363 | 3,600 | 3,694 | G |
| Number of criminal cases investigated by DPS-commissioned officers | 18,803 | 15,000 | 17,525 | G |
| Percent of strength of DPS-commissioned officers | 87.6% | 87% | 83.4% | Y |
| Number of criminal citations or arrests for the illegal sales or service of alcohol to minors and intoxicated persons by the Special Investigations Division | 156 | 200 | 230 | G |
| | | | **Overall Program Rating** | Y |

**Program Support.** Prior-year measures indicated the time required to produce final reports for DNA cases, criminal background checks, and completion of fingerprint cards. These measures are more indicative of the value of the lab and should be considered again for future years. For a $24 million budget, the number of vacancies in each of the lab disciplines does not reflect the value of the program.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Number of unfilled forensic scientist vacancies within the DNA discipline | 4 | 0 | 6 | R |
| Number of unfilled forensic scientist vacancies within the latent prints unit | 5 | 0 | 0 | G |
| | | | **Overall Program Rating** | Y |

The New Mexico Corrections Department (NMCD) has developed well-diversified key quarterly measures and the measures basically have been met. Measures pertaining to the timely release of parole-eligible inmates help minimize prison population and contribute to constraint of costs. The measures related to recidivism, which show improvement over the 24-month time period even though the target was not met, are central to the agency's performance success related to re-entry and rehabilitation efforts.

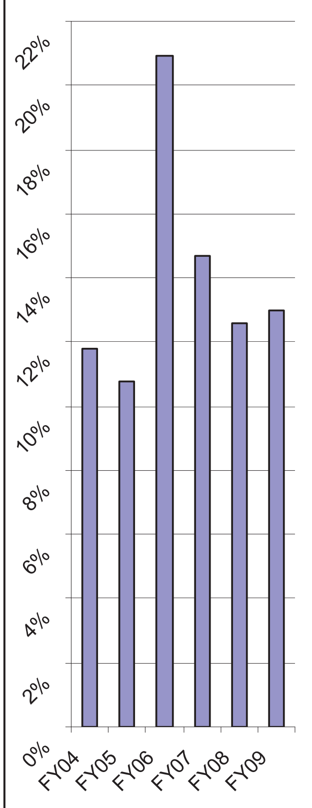
**Inmate Management and Control Program.** Overall five of the eight targets were clearly met. The others were close. Results for staff assaults are partially a function of prison population and should have automatically declined along with the population. The recidivism rate measured is probably the most meaningful outcome of all and improved from FY08. The measures cover a diverse range of concerns that includes security, recidivism, and internal employment issues.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Number of serious inmate-to-inmate assaults in private and public facilities | 20 | 24 | 19 | G |
| Percent turnover of correctional officers | 12.6% | 13% | 13% | G |
| Percent of prisoners re-incarcerated within twenty-four months after being released from New Mexico corrections department prison system into community supervision or discharged | 42.2% | 38% | 39.4% | G |
| Number of serious inmate-to-staff assaults in private and public facilities | 4 | 7 | 7 | G |
| | | | Overall Program Rating | G |

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

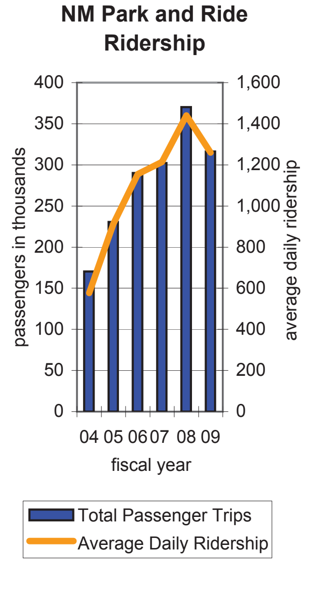
| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Average standard caseload of probation and parole officers | 93 | 92 | 91 | G |
| | | | Overall Program Rating | G |

Correctional Officer Turnover Rate

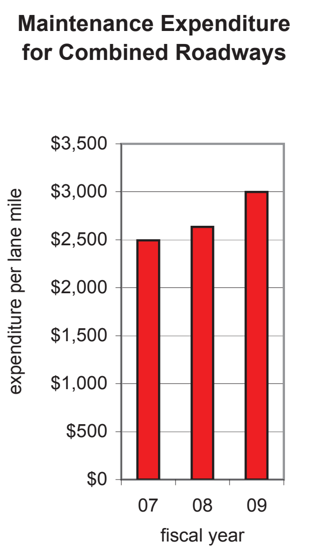


Source: NMCD Quarterly Report

# Department of Transportation



Source: NMDOT



Source: NMDOT

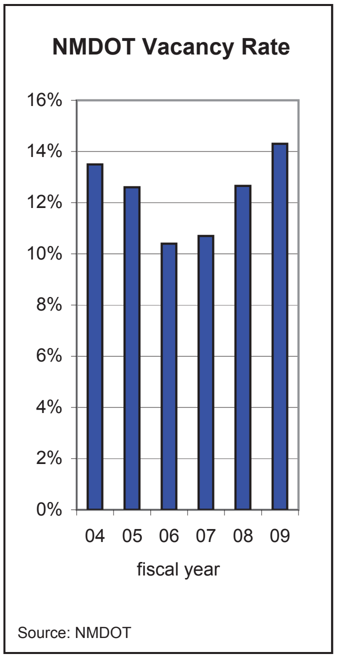
The New Mexico Department of Transportation's (NMDOT) construction and maintenance programs reflect reductions in state road fund revenues due to continued recessionary trends experienced nationally. The decline in revenues resulted in the department initiating over $43 million in budget reductions in FY09 and another $31 million since the beginning of FY10. This action impacted the Statewide Transportation Improvement Plan (STIP), including Governor Richardson's Investment Partnership (GRIP), and curtailment of maintenance activities, especially in the area of chip sealing with many field maintenance positions unfilled.

**Programs and Infrastructure Program.** STIP and GRIP construction schedules have been pushed back. This has resulted in projects not being let to bid as the department tries to stay within revenue constraints. Commuter rail shows a dramatic increase in total ridership attributable to opening the Bernalillo to Santa Fe leg and the discontinuance of Park and Ride service between Albuquerque and Santa Fe. This has impacted Park and Ride's ability to meet targets for FY09 because service between Albuquerque and Santa Fe was discontinued with the advent of RailRunner. Commuter rail measures need to be improved to provide for tracking ridership between stations, specifically between Belen and Santa Fe, which should assist in determining cost-effectiveness of routes and overall operations. The department proposes to diminish this reporting activity.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Ride quality index for new construction | ≥4.2 | ≥4.3 | 4.1 | R |
| Revenue dollars per passenger on park and ride | $2.88 | $2.95 | $2.83 | R |
| Annual number of riders on park and ride | 370,315 | 350,000 | 316,233 | R |
| Annual number of riders on commuter rail service between Belen and Bernalillo* (cumulative) | 547,077 | 400,000 | 1,081,719 | G |
| Percent of final cost-over-bid amount | 5.5% | ≤4% | 5.4% | R |
| Percent of programmed projects let according to schedule | 71% | 85% | 72% | R |
| Percent of front-occupant seat-belt use by the public | 91% | 90% | 91% | G |
| Number of non-alcohol-related fatalities traffic fatalities per one hundred million miles traveled* | 223 | ≤264 | 231 | G |
| Number of alcohol-related traffic fatalities per one hundred million vehicle miles traveled | 156 | ≤172 | 144 | G |
| | | | Overall Program Rating | G |

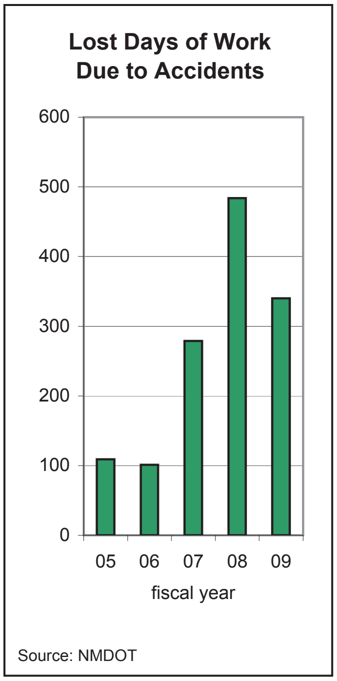
**Transportation and Operations Program.** This program is rated red due to key targets not being met. This is largely due to reduction in state road fund revenue, which necessitated reductions in maintenance activities throughout the state.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Number of statewide improved pavement surface miles (cumulative) | 4,321 | 4,500 | 3,787 | R |
| Maintenance expenditures per lane mile (cumulative) | 2,635 | $3,500 | $2,997 | R |
| Amount of litter picked off department roads (cumulative in tons) | 15,397 | 17,000 | 15,459 | R |
| | | | Overall Program Rating | R |



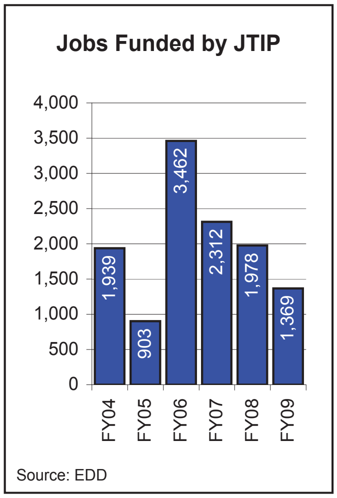

**Programs and Infrastructure Program.** Financial reporting continues to be an issue as the department endeavors to maintain control on cash balances and federal reimbursements. The FY07 audit was reopened due to a financial restatement and will be completed along with the FY08 audit no later than the end of September 2009. Both audits show material findings in excess of targeted levels. The department forecasts the number of worker days lost will not meet the targeted levels. As cash monitoring becomes more critical to the daily operations of the department, measures on cash balances should be developed.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Number of worker days lost due to accidents (cumulative). | 483.5 | 110 | 340 | R |
| Percent of vacancy rate in all programs | 10.8% | 10% | 12.66% | R |
| | | | Overall Program Rating | R |



| EDD FY09 Funding by Division | | |
|---|---|---|
| | FY09 Budget (in millions) | FTE |
| ED | $4.08 | 28 |
| Film | $1.58 | 12 |
| Trade | $0.56 | 4 |
| Tech | $0.28 | 3 |
| Program Support | $3.73 | 23 |
| Total | $10.22 | 70 |

Source: EDD Operating Budget




Given the weak economy, creating jobs in the midst of layoffs, business closures, and frozen money markets created a challenging environment for the Economic Development Department (EDD). Policy decisions could be improved if the department would report on the cost per job created and the return on investment of incentives. This would allow resources to be prioritized, particularly important when funds are limited.

**Economic Development Program.** Performance targets in the Economic Development Program were set well before the economic downtown started; therefore, success should be weighed against the economic climate. The program improved the ratio of jobs created in rural areas over urban areas.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Annual net increase in jobs created due to economic development department efforts | 5,582 | 6,000 | 4,570 | R |
| Total number of rural jobs created | 1,890 | 1,500 | 1,641 | G |
| Number of jobs created through business relocations facilitated by the economic development partnership | 3,984 | 2,200 | 2,225 | G |
| Number of jobs created by the mainstreet program | 569 | 250 | 549 | G |
| Percent of employees whose wages were subsidized by the job training incentive program still employed by the company after one year | | 60% | 35% | R |
| | | | **Overall Program Rating** | G |

**Film.** The target for number of media industry worker days increased from 110,000 in FY08 to 175,000; however, performance slipped from FY08 levels and fell below the FY09 target. Although the department reports the economic impact of the media industry increased $13.8 million, or 2 percent, the amount paid out as film credit reimbursement increased $31 million, or 67.4 percent.

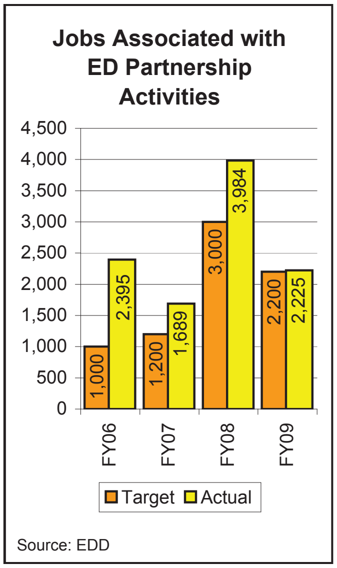
| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Number of media industry worker days | 151,082 | 175,000 | 143,165 | R |
| Economic impact of media industry productions in New Mexico, in millions | $660.3 | $200.0 | $674.1 | G |
| Number of films and media projects principally made in New Mexico | 93 | 80 | 89 | G |
| | | | **Overall Program Rating** | G |

**Office of Mexican Affairs.** The department is working to develop better measures for this program; however, the program may be better suited as a bureau within the Economic Development Program.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Dollar value of New Mexico exports to Mexico as a result of the Mexican affairs program, in millions | $375.3 | $350 | $317.8 | R |
| Number of jobs created by maquiladora suppliers | 226 | 275 | 80 | R |
| Number of new facilities opened by maquiladora suppliers | 4 | 6 | 2 | R |
| | | | **Overall Program Rating** | R |

**Technology Commercialization Program.** The Technology Commercialization Program assists companies in expanding; creating new sustainable, high-wage employment; and recruiting new direct investment from out-of-state companies. The New Mexico Research Application Act authorized the creation of a state nonprofit corporation to foster intellectual property economic development and attract technological investment, duplicating the mission of Technology Commercialization Program. The organizations should perhaps be consolidated.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Amount of investment as a result of office of science and technology efforts, in millions | | $10 | $31.7 | G |
| Number of new angel investors found as a result of office of science and technology efforts | | 12 | 52 | G |
| | | | **Overall Program Rating** | G |



# Department of Environment

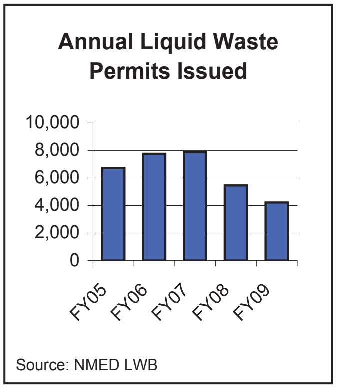
**Water Quality Bureau Performance Trend**

| | |
|---|---|
| FY07 | Y |
| FY08 | G |
| FY09 | Y |

The overall yellow rating in FY07 improved to an overall green rating for FY08 as a result of implementing an action plan to fill vacancies to address low inspection rates. High vacancies and new priorities during FY09 reversed that trend.

**Hazardous Waste Bureau:** With funding added from the Sandia National Laboratory starting in FY08, the Hazardous Waste Bureau continues to maintain high performance in managing documents relating to consent orders for the national labs.

**Liquid Waste Program:**




Liquid waste permits continued to drop due to slower construction and real estate markets.

With a few exceptions, performance declined from FY08. In most cases, the agency attributed some underperformance to agency vacancies stemming from the hiring freeze. Performance patterns over the last three years confirm the notion that permitting programs are particularly sensitive to vacancy rates, trending up or down accordingly.

**Water and Waste Management.** After reporting gains in FY08 due to filling vacancies, the Water Quality Program slipped back to yellow status for FY09. Most notably, the Ground Water Quality Bureau prioritized its reduced workforce on issuing permits and developing new mining and dairy regulations, resulting in fewer inspections.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of permitted facilities receiving annual compliance evaluations and field inspections | 76% | 65% | 61% | R |
| Percent of permitted facilities where monitoring results do not exceed standards | 75% | 75% | 73% | Y |
| 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 | 92% | 90% | 93% | G |
| **Overall Program Rating** | G | | | Y |

**Environmental Health.** Inspections for new septic tanks were aided by a 23 percent drop in permits, reflecting the slow construction and real estate markets for FY09. Due to the apparently successful implementation of its action plan for the food and radiation programs, the overall rating is green.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of new septic tank inspections completed | 90% | 85% | 87% | G |
| Percent of high-risk food-related violations corrected within timeframes noted on the inspection report issued to permitted commercial food establishments | 71% | 100% | 85% | Y |

| | | | | |
|---|---|---|---|---|
| Percent of radioactive material licensee and radiation-producing machine inspections completed within nuclear regulatory commission and food and drug administration guidelines | 70% | 100% | 95% | Y |
| **Overall Program Rating** | Y | | | G |

**Environmental Protection**. Despite LFC objections, FY09 is the last year the Air Quality Bureau will be reporting results for the outcome measure regarding air quality. 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. External factors, including stricter regulations and inspections, affected other measures that show underperformance.

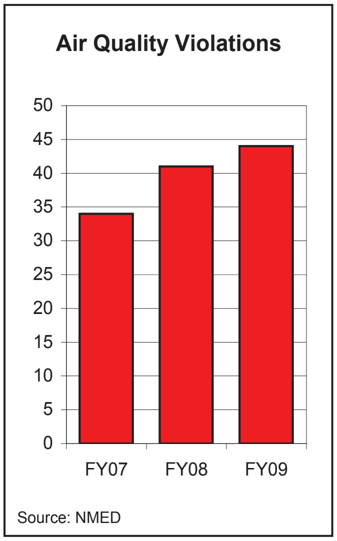
| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Number of days per year in which the air quality index exceeds one hundred, exclusive of natural events such as high winds and wildfires | 10 | ≤8 | 6 | G |
| Percent of landfills meeting ground-water monitoring requirements | 61% | 93% | 72% | Y |
| Percent of inspected solid waste facilities in substantial compliance with the solid waste management regulations | 76% | 75% | 81% | G |
| Percent of serious worker health and safety violations corrected within the timeframes designated on citations issued by the consultation and compliance sections | 96.4% | 95% | 95.9% | G |
| Percent of underground storage tank facilities in significant operational compliance with release prevention and release detection regulations of petroleum storage tank regulations | 77% | 90% | 58% | R |
| **Overall Program Rating** | Y | | | Y |

**Water and Wastewater Infrastructure Development Program**. FY09 is the second year for this new program, which combined the Construction Program Bureau with the Drinking Water Bureau and added a community outreach function. The uniform funding application (UFA), a web-based process, is fully implemented. However, no outcome measures reveal how well the UFA and the reorganization are translating into more efficient infrastructure development. Thus, the overall FY09 program rating is yellow.

**Overall Program Rating** Y

**Solid Waste Bureau:**
The bureau reports that 26 requests totaling $1.4 million were received for landfill monitoring grants compared with the $250 thousand that is available.

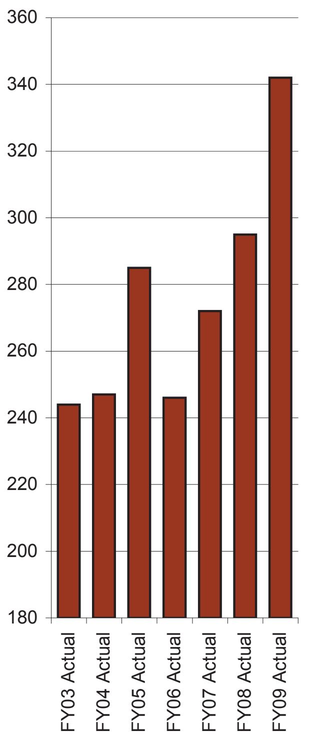
**Air Quality Bureau:**
The bureau reports that all 44 facilities with enforcement actions during FY09 have taken corrective action.




**Occupational Safety Bureau:**
Regarding worker safety, the bureau reports 1,712 violations for FY09 compared with 1,164 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.

Number of Aggrieved and Protested Water Rights Backlogged




Source: LFC Files

In general, the agency met or surpassed its FY09 program target measures. The Water Resource Allocation Program continues to have issues with the backlog in protested and aggrieved water rights and it is recommended the agency take steps to realign the measure under the appropriate program.

**Water Resource Allocation.** With respect to the number of protested and aggrieved water rights backlogged, the agency indicates this measure remained in the Water Resource Allocation Program (WRAP) after the Litigation and Adjudication Program (LAP) was established as a separate program. While the agency has considered realigning the measure under LAP, it has not pursued the matter. Further, an additional measure should be considered to determine the actual percentage of abstract transactions as compared with the total number of transactions that remain to be processed.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Average number of unprotested new and pending applications processed per month | 75 | 80 | 74 | Y |
| Average number of protested and aggrieved applications processed per month | 10 | 9 | 12 | G |
| Number of unprotested and unaggrieved water right applications backlogged | 521 | 630 | 481 | G |
| Number of protested and aggrieved water rights backlogged | 295 | 300 | 342 | R |
| Number of transactions abstracted annually into the water administration technical engineering resource system database (cumulative)[1] | N/A | 22,000 | 25,047 | G |
| | | | **Overall Program Rating** | Y |

[1] New measure for FY09

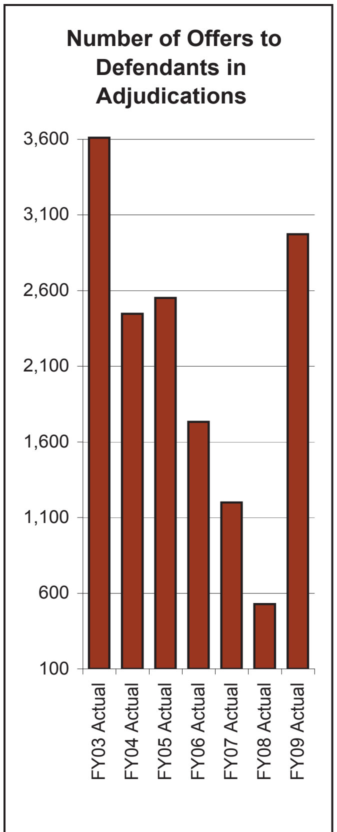
**Interstate Stream Compact Compliance and Water Development Program.** This program achieved FY09 program target measures. With respect to the Pecos River item, successful implementation of the Pecos River Compact will essentially eliminate the possibility of a large-scale priority call on the Lower Pecos River that could have resulted in an adverse economic impact of some $300 million.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Pecos river compact accumulated delivery credit or deficit, in acre-feet (AF) | 92.5K AF Credit | 0 (Credit) | 98.5K AF Credit | G |

| | | | | |
|---|---|---|---|---|
| Rio Grande river compact accumulated delivery credit or deficit, in acre-feet (AF) | 59.5K AF Credit | 0 (Credit) | 116K AF Credit | G |

**Overall Program Rating** G

**Litigation and Adjudication.** With respect to the significant increase in the number of offers to defendants in adjudications, this was largely due to the judiciary in both the Pecos (Gallinas) and Lower Rio Grande (LRG) adjudications allowing, through their procedural orders, the lifting of a stay and, therefore, permitting the program to send offers of judgment out to claimants in these adjudications. These same judges are about to again restrict the process through a different procedural order pending in the LRG, so it is likely the numbers may well revert to pre-FY09 levels during the FY10 budget cycle. With respect to the measure tracking the judicial determinations, although this program achieved FY09 program target measures, the target itself might not be high enough because it suggests that some 57 percent of water rights do not have judicial determinations. This item should be reevaluated during the interim.



Source: LFC Files

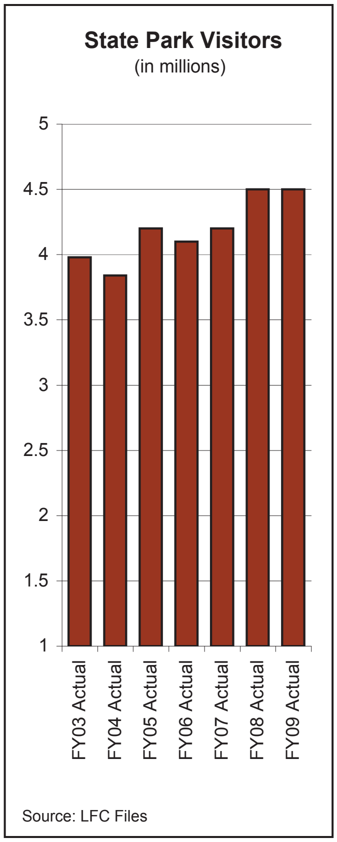
| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Number of offers to defendants in adjudications | 529 | 1,000 | 2,972 | G |
| Percent of all water rights that have judicial determinations | 43% | 42% | 43% | Y |

**Overall Program Rating** G

**Program Support.** This program achieved FY09 program targets.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of department contracts that include performance measures | 100% | 100% | 100% | G |

**Overall Program Rating** G




The agency met or exceeded FY09 targets. It is noted that, in the Renewable Energy and Energy Efficiency Program, the executive shifted responsibility for data about state-owned buildings and vehicles to the General Services Department. Further, while not specifically addressed in the FY09 performance measures, this program will be responsible for the oversight of some $40 million in federal stimulus funding, which will be independently monitored by LFC staff.

**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) the 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.

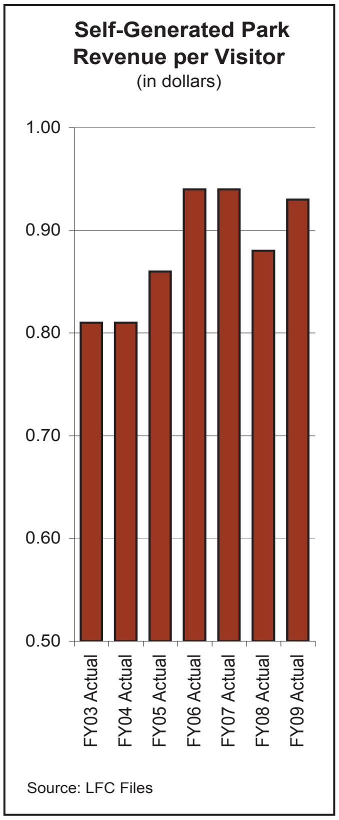
| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent reduction in energy use in public facilities receiving energy efficiency retrofit projects through the Energy Efficiency and Renewable Energy Bonding Act, the Public Facilities Energy Efficiency Act, the Water Conservation Act or the clean energy projects program[1] | N/A | 15% | 15% | G |
| Percent of retail electricity sales from investor-owned utilities in New Mexico from renewable energy sources[1] | N/A | 10% | 11% | G |
| | | | Overall Program Rating | G |

**Healthy Forests Program.** This program achieved FY09 program target measures.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Number of nonfederal wildland firefighters provided technical fire training appropriate to their incident command system | 760 | 500 | 2,898 | G |
| Percent of at-risk communities participating in collaborative wildfire protection planning[1] | N/A | 25% | 44% | G |
| Number of acres restored in New Mexico's forests and watersheds[1] | N/A | 8,000 | 17,993 | G |
| | | | Overall Program Rating | G |

**State Parks Program**. This program achieved FY09 program target measures.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Self-generated revenue per visitor, in dollars | $0.88 | $0.87 | $0.93 | G |
| Number of visitors to state parks, in millions | 4.5 | 4 | 4.5 | G |
| | | | Overall Program Rating | G |




**Mine Reclamation Program.** With respect to the financial assurance item, three closed mines had an approved plan or financial assurance. While the program is requiring mine operators to complete the remaining permitting steps, the mines must also comply with requirements from other agencies before financial assurance can be approved. The program anticipates that two of the three mines will come into compliance during this fiscal year.

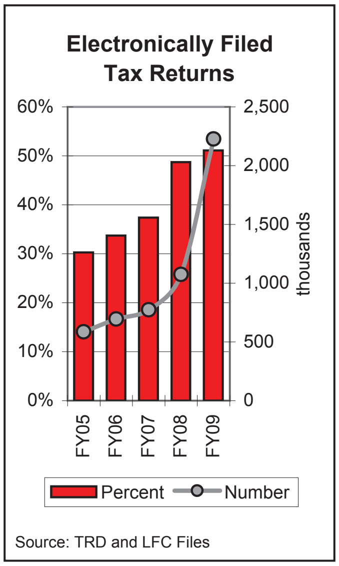
| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of permitted mines with approved reclamation plans and adequate financial assurance posted to cover the cost of reclamation | 96% | 100% | 96.5% | Y |
| Percent of abandoned uranium mines with current site assessments (cumulative)[1] | N/A | 20% | 42% | G |
| | | | Overall Program Rating | G |

**Oil and Gas Conservation Program.** This program exceeded FY09 program targets.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Number of inspections of oil and gas wells and associated facilities | 35,169 | 23,500 | 38,318 | G |
| Percent of inactive wells at the beginning of the fiscal year plugged under a plugging order, properly temporarily abandoned or returned to production by the end of the fiscal year (new measure for FY09) | N/A | 10% | 47% | G |
| | | | Overall Program Rating | G |

[1] New measure for FY09

| TRD FY09 Funding by Division | | |
|---|---|---|
| | FY09 Budget (in millions) | FTE |
| Tax Ad. | $31.9 | 558.7 |
| MVD | $26.0 | 383 |
| Prop Tax | $3.2 | 49 |
| Comp Enf | $2.8 | 38 |
| Prog Sup | $22.8 | 213 |
| Total | $86.7 | 1,241.7 |
| Source: FY09 Operating Budget | | |




The Taxation and Revenue Department (TRD) performance measures center on the department's mission to administer and enforce taxation and revenue laws and the Motor Vehicle Code. Prosecutions, revenue collection efforts, and improved customer service are showing good results; however, centralized issuance of driver's licenses increased motor vehicle field office wait times. Although there is no related measure, the department needs to work with the Department of Finance and Administration (DFA) on issuance of timely monthly reports on general fund revenue.

**Tax Administration Program.** Audit assessment collections reversed direction from the previous year's performance level and fell short of the target, following the trend of all tax collections. The percentage of electronically filed tax returns continued its slow but steady increase. Electronically filed tax returns have lower error rates, faster processing times, and save money by reducing printing, mailing, processing, and audit costs.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Collections as a percent of collectable outstanding balances from June 30, 2008 | 20.8% | 20% | 21.9% | G |
| Collections as a percent of collectable audit assessments generated in the current fiscal year | 50% | 40% | 39% | Y |
| Percent of electronically filed personal income tax and combined reporting system returns | 48.7% | 50% | 51% | G |
| | | | **Overall Program Rating** | G |

**Motor Vehicle Program.** Despite outdated information technology systems, staff turnover, and a hiring freeze, the Motor Vehicle Program was able to reduce call center wait times and increase the percentage of registered vehicles with liability insurance. Field office wait times decreased from 34 minutes in FY05 to less than 17 minutes in FY09, slightly longer than the 14 minutes achieved in FY08. The slight uptick in customer wait time is attributable to implementation of the centralized license issuance initiative and the associated learning curve caused by procedural and policy changes.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of registered vehicles with liability insurance | 90% | 90% | 90.5% | G |
| Average call center wait time to reach an agent, in minutes | 4:31 | 3:45 | 1:55 | G |

| | | | | |
|---|---|---|---|---|
| Average wait time in Q-Matic equipped offices, in minutes | 14 | 14 | 16.5 | R |
| | | | Overall Program Rating | G |

**Property Tax Program.** The Property Tax Program resolved 12,200 delinquent property tax accounts in FY09, returning nearly $6 million to county governments. The program focuses on resolving the higher-dollar accounts, resulting in a lower percentage of accounts resolved. The performance measure regarding the number of appraisals and valuations missed the target, a reversal of the prior three year's progress in achieving the target.

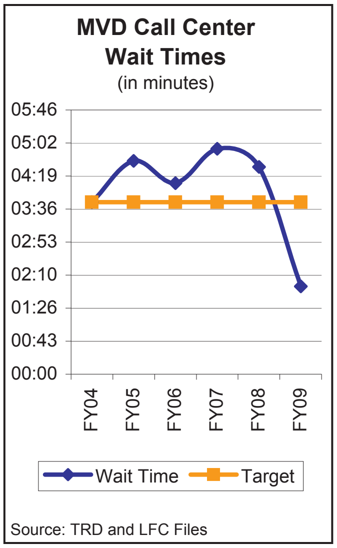
| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of counties in compliance with sales ratio standard of eighty-five percent assessed value to market value | 97% | 90% | 91% | G |
| Number of appraisals and valuations for companies conducting business within the state subject to state assessment | 484 | 510 | 489 | R |
| | | | Overall Program Rating | Y |

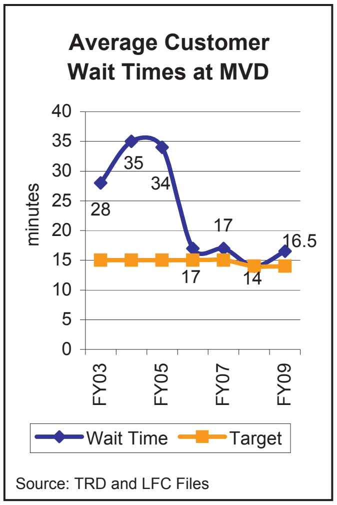
**Compliance Enforcement Program.** Although this program achieved FY09 program targets, a significant portion of resources are spent reviewing foreign national driver's licenses applications. Every foreign national application must be investigated and 12 percent are rejected. Other tax fraud investigations have resulted in indictments and guilty pleas.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Successful tax fraud prosecutions as a percent of total cases prosecuted | 100% | 90% | 100% | G |
| | | | Overall Program Rating | G |

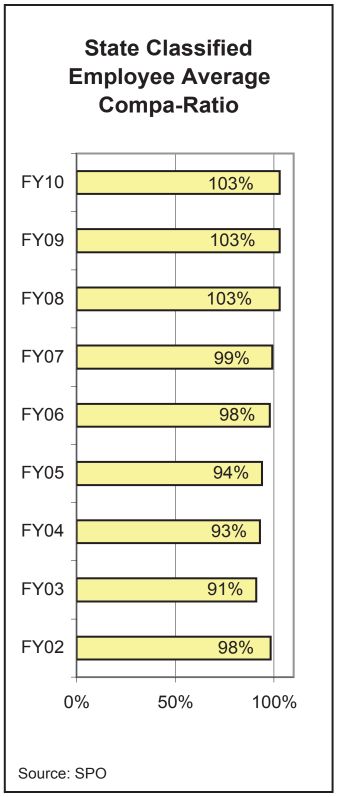
**Program Support.** The program works to improve tax reporting systems, including GenTax and the tax data warehouse. The hearings bureau has worked to improve driving-while-intoxicated license revocation policies and procedures.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of driving-while-intoxicated drivers license revocations rescinded due to failure to hold hearings in ninety days | 1% | 1% | 0.4% | G |
| | | | Overall Program Rating | G |



# State Personnel Board



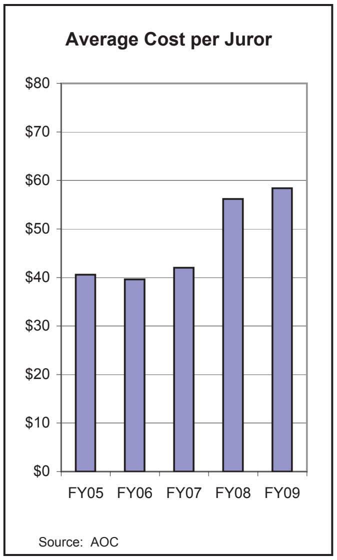

The State Personnel Board (SPB) is responsible for the maintenance of New Mexico's merit pay system. The established performance measures do not adequately reflect the full spectrum of responsibility of the SPB and were modified in both FY07 and FY08. Through FY09, the department continues its focus on fully implementing the human resource segments of the SHARE system. Since the imposition of a statewide hiring freeze, the number of applications being received for state positions continues to drop because fewer positions are available.

Average pay as a percent of the comparator market significantly improved from 92.9 percent in FY04 to 103 percent in FY09 as a result of the pay increases provided by the Legislature.

**Human Resource Management.**

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Average employee pay as a percent of board-approved comparator market, based on legislative authorization. | 103% | 99% | 103% | G |
| Percent of new employees who successfully complete their probationary period. | 79% | 85% | 77.5% | R |
| Percent of quality reviews performed on agencies in accordance with the quality assurance program | N/A | 95% | <50% | R |
| Percent of managers and supervisors in medium to small agencies who successfully complete SPO-sponsored management or supervision training | N/A | 90% | 16% | R |
| Percent of union grievances resolved prior to formal arbitration | 99.8% | 95% | 75% | R |
| Average days to fill a vacant position | 46 | 90 | 43 | G |
| | | | **Overall Program Rating** | Y |

The goal of the Administrative Office of the Courts (AOC) is to assist the judiciary in its mission to provide access to justice, resolve disputes justly and timely, and maintain accurate records of legal proceedings that affect the rights and legal status of New Mexico citizens. DFA designated AOC a key agency in FY10.

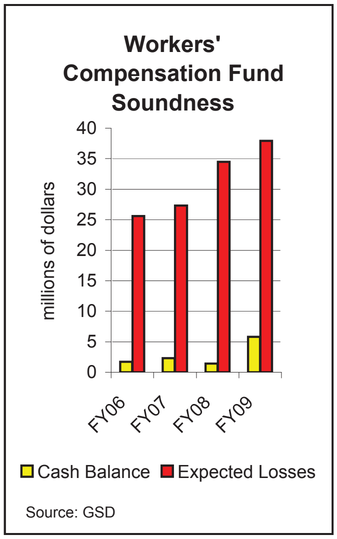


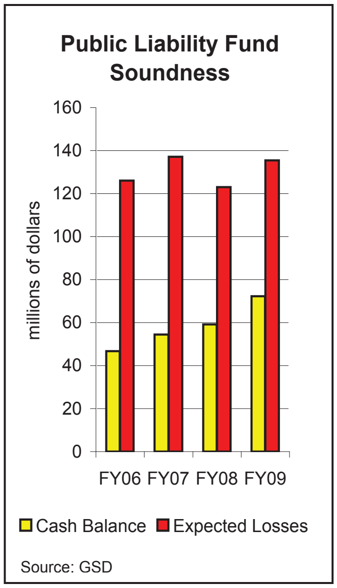

**Administrative Services.** The courts have experienced a 16 percent increase in jury trials. Cost per juror has grown significantly since the minimum wage was increased to the hourly rate of $7.50 on January 1, 2009. At the state's current minimum wage, jurors are paid $7.50 per hour or $60 per day. A 2007 National Center for State Courts report indicates that 23 states pay a daily rate at or below $15. The jury and witness fund had a deficiency of $489 thousand in FY07; in FY08, AOC obtained a supplemental appropriation of $300 thousand as well as borrowing $465 thousand to close the funding gap. In FY09, AOC received $775 thousand from the Board of Finance to meet their jury and witness deficit.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of jury summons successfully executed | 73.4 | 92.0 | 72.5 | R |
| Average cost per juror | $56.2 | $42.0 | $58.4 | Y |
| | | | **Overall Program Rating** | **Y** |

**Magistrate Court Program.** The program oversees the 51 magistrate courts in the state. In June 2009, the magistrate circuit courts in Cimarron, Vaughn, and San Jon were eliminated under Laws 2009, Chapter 54. The state will also eliminate the Tatum magistrate judgeship effective December 31, 2010.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Bench warrant revenue collected annually, in millions | $2.4 | $2.4 | $2.6 | G |
| Percent of cases disposed as a percent of cases filed | 100.7 | 95.0 | 101.0 | G |
| Percent of magistrate courts financial reports submitted to fiscal services division and reconciled on monthly basis | 99.5 | 100.0 | 99.2 | G |
| | | | **Overall Program Rating** | **G** |




Overall, the General Services Department (GSD) continues to demonstrate improvement in the quality of its measures and reporting. Moderate improvements related to customer service and satisfaction is reported from the State Purchasing Program. However, definition and data problems are impacting the purchase of health insurance measure, and the agency must resolve these issues to ensure meaningful data is collected.

**Risk Management Program.** The financial condition of the risk program has stabilized and significant improvements have been made in the public liability, public property, and unemployment compensation funds. However, losses related to workers' compensation claims continue to exceed projected revenue.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Projected financial position of the workers compensation fund | 4% | 50% | 13% | R |
| Projected financial position of the public liability fund | 46% | 50% | 53% | G |
| Projected financial position of the unemployment compensation fund | 25% | 50% | 138% | G |
| | | | **Overall Program Rating** | **G** |

**Employee Group Health Benefits Program.** The percent of eligible state employees purchasing health insurance improved from FY08; however, in FY09 significant fluctuations were reported, giving rise to concern regarding data reliability. The increased use of generic drugs will help to offset rising healthcare costs in the future, but GSD only has limited ability to influence this outcome.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of eligible state employees purchasing health insurance | 90% | 90% | 97.5% | G |
| Percent of state group prescriptions filled with generic drugs | 74% | 80% | 76.4% | Y |
| | | | **Overall Program Rating** | **Y** |

**Transportation Services Program**. TSD reports improvement in the percent of short-term vehicle use because agencies are increasingly turning from long-term leases to short-term leases to meet travel demands and budget constraints. Aircraft use has declined as budget constraints have limited the demand for this service despite the state's subsidy of the program.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of short-term vehicle use | 67% | 80% | 90% | G |
| Percent of total available aircraft fleet hours utilized | 88% | 90% | 64% | R |
| | | | Overall Program Rating | Y |

**Building Office Space Management and Building Services Program.** Operating costs for Santa Fe state-owned buildings below industry standard are measured and compared with the Building Owners and Managers Association experience and exchange report.

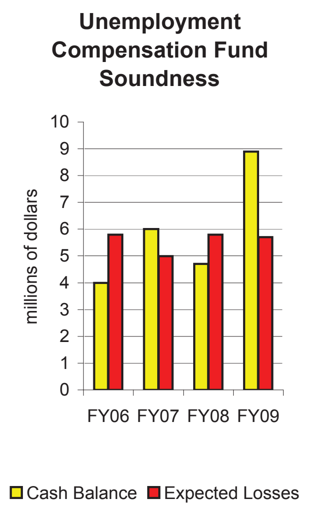
| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of property control capital projects on schedule within approved budget | 91.2% | 90% | 91.5% | G |
| Percent of operating costs for Santa Fe state-owned buildings below industry standard | New Measure | ≤5% | -12% | G |
| | | | Overall Program Rating | G |

**Procurement Services Program.** GSD exceeded the number of small business clients assisted as measured by the number of walk-in clients. However, the number of government employees trained in Procurement Code compliance and methods remains below target with GSD citing a lack of staff as its primary challenge to improving this performance.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Number of small business clients assisted | 313 | 75 | 235 | G |
| Number of government employees trained on Procurement Code compliance methods | 510 | 500 | 250 | R |
| | | | Overall Program Rating | Y |

**State Printing Services Program.** GSD reports that sales growth in state printing revenue can be attributed to the 60-day legislative session in January 2009 compared with the 30-day legislative session in 2008. However absent financial data, reported performance remains questionable.

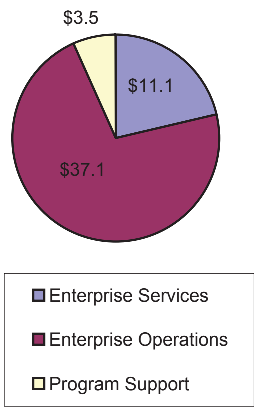
| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of individual printing services that break even, including 60 days of operating reserve | 95% | 95% | 93% | Y |
| | | | Overall Program Rating | Y |



Source: GSD

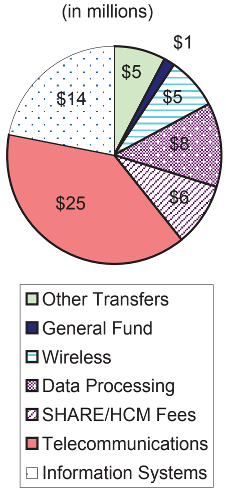
# Department of Information Technology

Department of Information Technology Operating Budget
(in millions)




Source: General Appropriation Act

Department of Information Technology Funding Sources
(in millions)




Source: LFC Files

The Department of Information Technology (DoIT) ended its second year of operation since the consolidation of the Information Systems Division and Telecommunication Division with the Office of the Chief Information Officer. DoIT reports moderate success related to customer service standards and project oversight and compliance. However, DoIT continues to struggle with the collection of fees charged for services provided to agencies. For FY11, DoIT should begin tracking and reporting additional measures related to providing enterprise services and operations because these functions comprise the bulk of budget expenditures.

**Enterprise Services Program.** The number of projects monitored for compliance by the Project Oversight and Compliance Division totaled 68 in FY09. However, the measure does not provide a meaningful indication of project performance. DoIT is encouraged to report the number of IT projects successfully implemented on-time and on-budget.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of executive agency certified projects reviewed monthly for compliance and oversight requirements | 100% | 100% | 100% | G |
| Amount of information technology savings and cost avoidance realized through enterprise services | $5.0 million | $5.0 million | $5.2 million | Y |
| | | | Overall Program Rating | G |

**Enterprise Operations Program.** Despite enhancements to DoIT's enterprise storage and back-up capabilities, the targeted performance has not been met. The percent of unscheduled downtime of the mainframe has increased from FY08 resulting in an overall grade of yellow for the program.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of servers successfully backed up as scheduled | 91% | 100% | 88.7% | Y |
| Percent of unscheduled downtime of the mainframe | 0.00% | 0.01% | 0.13% | Y |
| | | | Overall Program Rating | Y |

**Program Support.** The percent of accounts-receivable dollars collected within 60 days of the invoice due date along with the dollar amount of receivables over 60 days old remains a source of significant concern for DoIT as collections fall below targeted performance. As a result, DoIT is not able to dedicate sufficient resources for the replacement of aging information technology, telecommunication, and radio equipment.

| Measure | FY08 Actual | FY09 Target | FY09 Actual | FY09 Rating |
|---|---|---|---|---|
| Percent of accounts receivable dollars collected within sixty days of the invoice due date | 53% | 95% | 68% | R |
| Dollar amount of receivables over sixty days (in thousands) | $11,300.0 | $500.0 | $7,100.0 | R |
| Percent of voice, data and radio services meeting federal standards for cost recovery | 100% | 95% | 100% | G |
| | | | Overall Program Rating | Y |

During the past several years the depreciation expenses recovered through rates were spent on operating costs rather than equipment replacement.

Program evaluations provide objective assessments about the extent to which government agencies efficiently and effectively carry out their responsibilities and produce desired results. They include evaluating compliance with laws and regulations, reviewing information system implementation, and recommending changes to the Legislature.

During 2009, the Program Evaluation unit completed 29 projects. All of the evaluations can be accessed through the committee website. Significant issues and recommendations are summarized below.

**Education.** Public education is a core state responsibility and accounts for over 43 percent of all state spending.

School District Budgeted Expenditures
SY09-SY10 All Districts/Charters
(in millions)

| | SY09 | SY10 | Chg | % |
|---|---|---|---|---|
| GF | $2,728 | $2,576 | ($152) | -5.6 |
| Special Rev. Funds | $459 | $714 | $254 | 55.4 |
| Total | $3,187 | $3,290 | $102 | 3.2 |

General Fund includes SEG, teacherage, transportation, instructional materials. Special revenue funds include federal, state and local grants and federal SEG.
Source: PED

Since 2004, the Legislature has invested over $278 million in teacher quality and compensation.

*Three-Tiered Licensure System and Achievement Gap.* The evaluation sought to determine the effectiveness of the licensure system on improving student performance and provide an update on the status of the achievement gap. In general, it is assumed that teachers with advanced licensure, and thus higher pay, produce greater student growth on state tests. The report recommended the Public Education Department (PED) consider developing a bonus pay for performance pilot program; work to design a pilot system that would provide incentives to high performing teachers that relocate to high need schools; improve the professional development dossier (PDD) by increasing the use of student test data; ensure that principals review and authenticate teachers' PDD's; and establish penalties for false submittals.

The differences in student achievement between classes taught by teachers at different licensure levels were not significant, especially in light of vastly different compensation amounts.

The achievement gap between low-income students and their peers is larger than regularly reported and is persistently large regardless of race/ethnicity.

*Investments in Early Childhood.* In FY08, 18 major state and federal programs invested an estimated $300 million on services for pregnant women and very young children, not including Medicaid. Efforts to improve outcomes for very young children are worth public investment. However, the Children, Youth and Families Department (CYFD), PED, and Department of Health (DOH) should report annually on spending and performance outcomes for early childhood programs, including prenatal care. CYFD and PED should identify methods to integrate NM PreK with other programs into a single publicly funded preschool system and submit a plan for reducing PreK administrative and support costs. CYFD should phase out the state Head Start and state Early Childhood Development programs in FY11.

A more coordinated public effort is needed to ensure investments in early childhood programs result in desired outcomes.

The early childhood report identifies savings of over $4.2 million by reallocating funding from duplicative services and reducing excessive administrative spending that can be used to serve more children and invest in proven programs.

*School District Evaluations – Aztec, Bernalillo, Bloomfield, Las Vegas City and West Las Vegas.* Given that local school districts are responsible for spending almost $4.7 billion in public funds (federal, state, local and capital sources), the Legislative Finance Committee continued the practice of evaluating the operations of selected school districts to identify best practices and ensure efficient and effective use of public resources. Six reports were issued, one summary report and five reports on individual school districts. Though varied, districts have shown progress in implementing New Mexico's public school reforms, including the use of a continuous improvement process for their educational programs. However, districts need to improve financial planning and accountability for performance for all district operations, not just teachers and principals, and ensure district expenditures are aligned with district goals, are truly necessary and affordable. Local decisions in some cases negatively impact state aid to other school districts.

The Legislature should consider revising the purpose and classification of small-school and district size funding adjustments under the state funding formula and removing testing costs from the state funding formula and PED's appropriations for test should move into a new, stand alone categorical program to improve accountability over how much the state will spend for testing contracts.

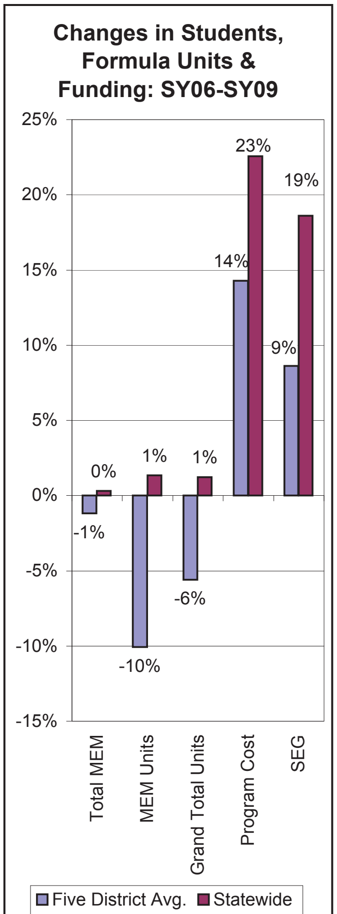
PED should maintain control over the West Las Vegas Board of Finance and require the district to develop and implement a financial plan to make the necessary structural changes to eliminate the need for emergency supplemental funding; reclassify schools in Bernalillo and West Las Vegas as single schools per state statute; examine other districts' schools that generate small-school units to ensure those schools meet statutory requirements and make adjustments as necessary; and implement rules for use of district credit cards. The five school districts should develop and implement long range financial plans and a system of performance-based budgeting and implement additional compensation policies and revisit the amounts paid and the reasons for payment to ensure alignment with district goals. Bernalillo schools should request a special audit of additional compensation spending from the State Auditor's Office.

*Timeliness of Public Education Department's Reimbursement System for State and Federal Programs.* The purpose of this evaluation was to assess the timeliness and efficiency of this process to ensure public school entities do not have undue cash-flow problems. PED should work with DFA and LFC to establish a reimbursement timeliness performance measure for inclusion in the General Appropriation Act (GAA); use available managerial reports to identify problems; and speed up the approval of final grant award and carry-over funding notices and intergovernmental agreements.

*State Assessment Program and Testing Contract.* Over the past few years, the state has implemented several education reforms to improve student achievement, including spending over $31 million on testing contracts between FY06-FY09. The purpose of the evaluation was to assess PED's oversight of the assessment program and included a cost-benefit analysis. New Mexico has implemented a rigorous, but expensive, standards-based assessment. PED could save money on future testing contracts by reducing the use of constructed response (short answer) in certain areas and must improve its contract management and ensure test results are delivered timely, so school districts can use the results for planning purposes.

**Health and Human Services.** These functions of state government account for about $1.3 billion in appropriations from the general fund, or 24 percent, and about $5.7 billion, or 38 percent, in all funds.

*Medicaid Managed Care (Physical Health).* The purpose of the evaluation was to review the costs and outcomes of the physical health portion of Medicaid



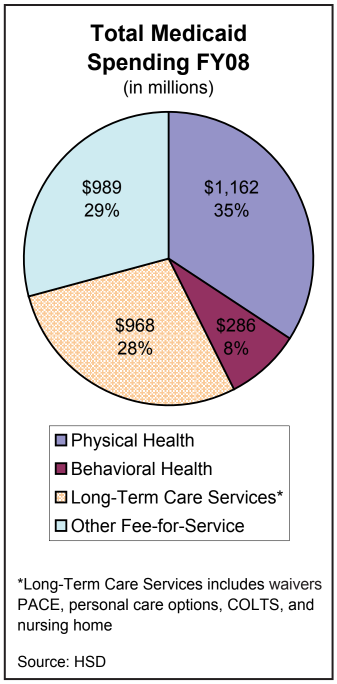

Source: LFC Analysis

Bernalillo schools spent $110 at the Rio Chama restaurant in Santa Fe using federal Title I funds intended for low-income children.

Bernalillo and West Las Vegas schools generate an estimated $746 thousand from small-school funding units for schools that should not be considered small under the formula. Las Vegas City has two small elementary schools separated by a parking lot.

PED expects to process about $640 million to school districts, charter schools, and regional education cooperatives in state and federal grants through its reimbursement process.

While PED has improved its processing, reimbursements took an average of 36 days, more than four times the original goal.




New Mexico appropriates most of Medicaid in a lump sum block grant. This limits authority to set specific appropriations for major parts of Medicaid.

Transparency provides a foundation for government accountability. Other states post rates and up-to-date enrollment estimates on Medicaid websites.

State resources are tied up in four MCOs performing identical functions.

managed care program and the Human Services Department's (HSD) oversight of managed care organizations (MCO). Generally, clients have sufficient access to quality services, but significant opportunities exist to lower the cost of care in the near term and slow future spending growth, without reducing enrollment or changing the benefit package. The Legislature should consider breaking up Medicaid appropriations into smaller appropriation components. HSD should amend MCO contracts to recover the estimated $107.4 million in excess payments; reduce caps on non-medical expenses, administration, and profit at no more than 13 percent of income earned under the contract; and transition to Medicare's payment methodology for outpatient services with specific cost-savings goals to be reflected in capitation rates. Finally, HSD should make available to LFC information on Medicaid managed care contract rates, payments, and actuarial reports.

*Department of Health Oversight of State-Operated Facilities.* The purpose of the evaluation was to examine financial and budget oversight practices of state operated facilities and follow-up on implementation of recommendations from 2007. Since the last LFC report, DOH has made significant progress but struggles to contain costs and ensure staffing levels are aligned with service levels and available revenue. DOH should develop and implement a plan to rely on state general fund monies for not more than 45 percent of its expenses, decrease facility capacities and staffing to match more realistic censuses, consolidate facilities or move services to community providers, validate the appropriateness of staffing patterns and formulas using industry standards and comparisons among facilities and reduce facility expenditures because revenue may not be available for supplemental or deficiency appropriations in FY10.

**Capital Outlay Projects.** Program evaluation staff developed a standard evaluation tool for assessing capital outlay projects and issued two reports on 11 separate projects evaluated. The purpose was to examine the planning, implementation, and management of each project. Some projects were clearly successful, while others showed need for improvement. The projects included the Tri-Services Laboratory, Belen multipurpose community center, Eagle Nest dam repairs, four Water Innovation Fund projects, Capitol parking structure, Bosque trail development, Zuni schools roofing and drain damage, and the Lumberton water project.

*Future Capital Outlay Project Evaluations.* The Legislature and executive should consider creating the capital outlay planning and monitoring act, creating a permanent legislative interim capital outlay committee, creating a capital outlay planning and monitoring division within the Department of Finance and Administration (DFA), and establishing a capital project audit fund within the state treasury.

**Transportation.** The Department of Transportation (NMDOT) is responsible for planning and providing for the safe and efficient transport of the public and transportation sources throughout the State.

*Statewide Transportation Improvement Plan.* The purpose of the review of the Department's Statewide Transportation Improvement Program (STIP) was to examine the process for selecting and prioritizing projects, funding, and project management. The evaluation found NMDOT should develop detailed procedures and standards to support the selection, prioritization, and reprogramming of STIP projects to ensure the critical needs of the transportation system are addressed; provide bi-weekly updates on the amounts billed and payments received from the federal government; ensure the economic analysis of the U.S. 550 warranty "buy back" offer is thorough and conclusive; develop a management report comparing the final construction cost with the engineer's estimate on highway construction projects; develop a standard process for negotiating professional service contracts, including for overhead rates and profit and fees; and update all performance measure monitoring plans to include accurate measure definitions and detailed methodology.

**Information Technology.**

*Statewide Human Resource, Accounting and Management Reporting System Payroll Contributions and Follow-up.* The purpose of the review was to assess the timeliness and accuracy of payroll deductions and data transfer to retirement benefit systems and follow-up on two previous SHARE reports. Payroll deductions are accurately and timely deducted from employee paychecks and transferred to the two state retirement systems. Transfers to third-party beneficiaries are accurate and timely. However, no enterprise governance structure exits for SHARE, and except for the human capital management (HCM) module, SHARE has no overall fee structure. Technical support for SHARE is divided between the Department of Information Technology (DoIT) and DFA. Legislative staff does not have access to HCM reports.

*Supercomputer and New Mexico Computing Application Center.* The purpose of the status review was to report on DoIT's purchase of the supercomputer, the establishment of New Mexico Computing Application Center (NMCAC) as a nonprofit entity, the appropriation and expenditure of state funds, and NMCAC is able to achieve self-sufficiency. NMCAC should re-examine the sustainability model, establish a written rate structure to generate revenue, and establish one accounting system to track revenues and expenditures.

*Secretary of State.* The purpose of the review was to determine the status of information technology (IT) at the Secretary of State (SOS) following numerous newspaper articles regarding the inaccessibility of the SOS website. SOS should avoid starting any new IT projects until qualified staff or contractors are in place; develop, approve and test a disaster recovery plan for all system; and complete a gap analysis and user requirements analysis for the campaign finance information system.

*Statewide Judicial Case Management System.* The purpose of the review was to provide a status of the procurement and implementation of the statewide judicial case management system that replaces a 10-year-old system and automates existing manual processes. Suggestions for improvement include reengineering business processes at the Administrative Office of the Courts

The Legislature should institute a two-phase funding approach for all major capital outlay projects – first, fund project design and second, full construction, furnishing and equipment costs based on completed design and updated cost estimates.

The legislative and executive branches of government have improved accountability for capital outlay appropriations but much more needs to be done from initial planning, prioritization of projects, funding and management to actual execution of many projects.

A risk assessment should be conducted by the Department of Game and Fish based on the results from the engineering reports and analysis to determine what risk the state is willing to assume and how much it will cost to repair the Eagle Nest dam.

The General Services Department should analyze the cost benefit of a design- build project delivery method in comparison with traditional design-bid-build.

DFA and the Department of Information Technology should complete the application of PeopleSoft bundles and bring the system current; create a library of New Mexico-specific changes and provide it to the SHARE technical support staff.

The Secretary of State does not have the technical capability or capacity to manage IT projects; IT staff supports infrastructure or legacy applications; has outdated hardware, software and systems; and does not have a disaster recovery plan for all its mission-critical

Full Program Evaluation Reports are available at: http://www.nmlegis.gov/lcs/lfc/lfcprogevalall.aspx

and district and magistrate courts to take advantage of the system's inherently strong internal controls and realize productivity gains.

*Income Support Division Integrated Services Delivery System Replacement*. The purpose of the report was to update the committee on the status of the project and overall use of the appropriated funds. The Human Services Department (HSD) has made significant progress in establishing a solid project foundation and processes necessary to successfully implement new components and replace the existing system. The eligibility portal is available for client self-screening and online application functionality will be available in early 2010. Estimates to complete the replacement are about $51 million down from $84 million one year ago.

# GENERAL FUND RECOMMENDATION SUMMARY

**TABLE 1**

| Agency Name | FY10 Operating Budget | Laws 2009, Chpt.5, 1st Special Session | * Executive Order Adjustments | Adjusted FY10 OPBUD | FY11 Agency Request | FY11 LFC Rec | $ Change from Adjusted | % Change from Adjusted |
|---|---|---|---|---|---|---|---|---|
| 111 LEGIS COUNCIL SVC | 5,930.7 | (118.6) | | 5,812.1 | 5,930.7 | 5,616.4 | (195.7) | -3.4% |
| 131 LEGISCOUNCIL SVC - LIS | 562.9 | - | | 562.9 | 562.9 | 533.1 | (29.8) | -5.3% |
| 131 LEGIS COUNCIL SVC - ENERGY DUES | 32.0 | - | | 32.0 | 32.0 | 32.0 | - | 0.0% |
| 112 LEGIS FINANCE COMMITTEE | 4,263.4 | (85.3) | | 4,178.1 | 4,263.4 | 4,037.7 | (140.4) | -3.4% |
| 114 SENATE CHIEF CLERK | 1,199.9 | (24.0) | | 1,175.9 | 1,199.9 | 1,136.3 | (39.6) | -3.4% |
| 115 HOUSE CHIEF CLERK | 1,145.1 | (22.9) | | 1,122.2 | 1,155.0 | 1,084.4 | (37.8) | -3.4% |
| 117 LEGIS EDUCATION STUDY COMM | 1,308.5 | (26.2) | | 1,282.3 | 1,308.5 | 1,239.1 | (43.2) | -3.4% |
| 119 LEGIS BUILDING SERVICES | 4,105.6 | (164.3) | | 3,941.3 | 4,105.6 | 3,888.0 | (53.3) | -1.4% |
| 131 LEGISLATURE | 1,426.5 | (562.3) | | 864.2 | 1,654.9 | 1,354.6 | 490.4 | 56.7% |
| TOTAL LEGISLATIVE | 19,974.6 | (1,003.6) | - | 18,971.0 | 20,212.9 | 18,921.6 | (49.4) | -0.3% |
| | | | | | | | | |
| 205 SUPREME COURT LAW LIBRARY | 1,701.2 | (34.0) | | 1,667.2 | 1,701.2 | 1,622.0 | (45.2) | -2.7% |
| 208 NEW MEXICO COMPILATION COMM | 166.1 | (3.3) | | 162.8 | 166.1 | 159.5 | (3.3) | -2.0% |
| 210 JUDICIAL STANDARDS COMM | 787.6 | (15.8) | | 771.8 | 787.6 | 735.5 | (36.3) | -4.7% |
| 215 COURT OF APPEALS | 5,692.4 | - | | 5,692.4 | 5,749.1 | 5,695.2 | 2.8 | 0.0% |
| 216 SUPREME COURT | 3,029.1 | - | | 3,029.1 | 3,029.1 | 2,969.4 | (59.7) | -2.0% |
| 218 ADMIN OFFICE OF THE COURTS | 42,504.9 | (850.4) | | 41,654.5 | 43,504.9 | 40,591.0 | (1,063.5) | -2.6% |
| 219 SUPREME COURT BUILDING COMM | 812.9 | (16.3) | | 796.6 | 859.2 | 810.6 | 14.0 | 1.8% |
| 231 1ST JUDICIAL DISTRICT COURT | 6,603.9 | (132.2) | | 6,471.7 | 6,603.9 | 6,287.3 | (184.4) | -2.8% |
| 232 2ND JUDICIAL DISTRICT COURT | 21,542.6 | (431.0) | | 21,111.6 | 22,637.8 | 20,765.8 | (345.8) | -1.6% |
| 233 3RD JUDICIAL DISTRICT COURT | 6,565.9 | (131.5) | | 6,434.4 | 6,861.5 | 6,244.9 | (189.5) | -2.9% |
| 234 4TH JUDICIAL DISTRICT COURT | 2,151.3 | (43.1) | | 2,108.2 | 2,151.3 | 2,051.5 | (56.7) | -2.7% |
| 235 5TH JUDICIAL DISTRICT COURT | 6,259.2 | (125.4) | | 6,133.8 | 6,259.2 | 5,952.4 | (181.4) | -3.0% |
| 236 6TH JUDICIAL DISTRICT COURT | 3,236.9 | (64.7) | | 3,172.2 | 3,329.1 | 3,081.6 | (90.6) | -2.9% |
| 237 7TH JUDICIAL DISTRICT COURT | 2,311.7 | (46.3) | | 2,265.4 | 2,311.7 | 2,203.9 | (61.5) | -2.7% |
| 238 8TH JUDICIAL DISTRICT COURT | 2,767.5 | (55.4) | | 2,712.1 | 2,817.1 | 2,631.4 | (80.7) | -3.0% |
| 239 9TH JUDICIAL DISTRICT COURT | 3,317.4 | (66.4) | | 3,251.0 | 3,317.4 | 3,187.2 | (63.8) | -2.0% |
| 240 10TH JUDICIAL DISTRICT COURT | 792.7 | (15.9) | | 776.8 | 792.7 | 761.5 | (15.3) | -2.0% |
| 241 11TH JUDICIAL DISTRICT COURT | 6,179.2 | (123.6) | | 6,055.6 | 6,412.1 | 5,879.7 | (175.9) | -2.9% |
| 242 12TH JUDICIAL DISTRICT COURT | 3,142.8 | (63.0) | | 3,079.8 | 3,142.8 | 2,996.3 | (83.5) | -2.7% |
| 243 13TH JUDICIAL DISTRICT COURT | 6,663.5 | (133.3) | | 6,530.2 | 7,075.8 | 6,343.9 | (186.3) | -2.9% |
| 244 BERNALILLO COUNTY METRO CT | 23,160.7 | (463.3) | | 22,697.4 | 24,424.3 | 22,143.2 | (554.2) | -2.4% |
| 251 1ST JUDICIAL DISTRICT ATTORNEY | 4,950.4 | (99.0) | | 4,851.4 | 4,950.4 | 4,697.9 | (153.5) | -3.2% |
| 252 2ND JUDICIAL DISTRICT ATTORNEY | 17,169.1 | (343.6) | | 16,825.5 | 17,169.1 | 16,652.6 | (172.9) | -1.0% |
| 253 3RD JUDICIAL DISTRICT ATTORNEY | 4,610.3 | (92.2) | | 4,518.1 | 4,855.4 | 4,470.9 | (47.2) | -1.0% |
| 254 4TH JUDICIAL DISTRICT ATTORNEY | 3,221.1 | (64.5) | | 3,156.6 | 3,221.1 | 3,056.2 | (100.4) | -3.2% |
| 255 5TH JUDICIAL DISTRICT ATTORNEY | 4,393.6 | (87.9) | | 4,305.7 | 4,393.6 | 4,284.5 | (21.2) | -0.5% |
| 256 6TH JUDICIAL DISTRICT ATTORNEY | 2,596.3 | (52.0) | | 2,544.3 | 2,735.8 | 2,510.0 | (34.3) | -1.3% |
| 257 7TH JUDICIAL DISTRICT ATTORNEY | 2,448.2 | (49.1) | | 2,399.1 | 2,448.2 | 2,363.2 | (35.9) | -1.5% |
| 258 8TH JUDICIAL DISTRICT ATTORNEY | 2,665.0 | (53.4) | | 2,611.6 | 2,665.0 | 2,544.9 | (66.7) | -2.6% |
| 259 9TH JUDICIAL DISTRICT ATTORNEY | 2,790.8 | (55.9) | | 2,734.9 | 2,790.8 | 2,706.9 | (28.0) | -1.0% |
| 260 10TH JUDICIAL DISTRICT ATTORNEY | 1,014.0 | (20.4) | | 993.6 | 1,044.7 | 974.1 | (19.5) | -2.0% |
| 261 11TH JUDICIAL DIST ATTORNEY, DIV I | 3,443.7 | (69.0) | | 3,374.7 | 3,547.6 | 3,247.0 | (127.7) | -3.8% |
| 262 12TH JUDICIAL DISTRICT ATTORNEY | 2,635.7 | (52.7) | | 2,583.0 | 2,717.5 | 2,541.1 | (41.9) | -1.6% |
| 263 13TH JUDICIAL DISTRICT ATTORNEY | 4,776.5 | (95.6) | | 4,680.9 | 4,897.6 | 4,538.8 | (142.1) | -3.0% |
| 264 ADMIN OFFICE OF THE DIST ATTYS | 2,084.7 | (41.7) | | 2,043.0 | 2,147.2 | 1,735.0 | (308.0) | -15.1% |
| 265 11TH JUDICIAL DIST ATTORNEY, DIV II | 2,104.2 | (42.1) | | 2,062.1 | 2,206.8 | 2,029.3 | (32.8) | -1.6% |
| TOTAL JUDICIAL | 210,293.1 | (4,034.0) | - | 206,259.1 | 215,724.7 | 201,466.2 | (4,792.9) | -2.3% |
| | | | | | | | | |
| 305 ATTORNEY GENERAL | 15,726.8 | (314.8) | | 15,412.0 | 15,777.4 | 15,019.1 | (392.9) | -2.5% |
| 308 STATE AUDITOR | 2,452.1 | (98.2) | | 2,353.9 | 2,967.6 | 2,291.0 | (62.9) | -2.7% |
| 333 TAXATION & REVENUE DEPARTMENT | 70,929.6 | | (3,902.3) | 67,027.3 | 70,929.6 | 64,233.8 | (2,793.5) | -4.2% |
| 337 STATE INVESTMENT COUNCIL | - | - | - | - | - | - | - | 0.0% |
| 341 DEPARTMENT OF FINANCE & ADMIN | 15,585.7 | | (470.2) | 15,115.5 | 15,518.2 | 14,390.0 | (725.5) | -4.8% |
| 342 PUBLIC SCHOOL INS AUTHORITY | - | - | - | - | - | - | - | 0.0% |
| 343 RETIREE HEALTH CARE AUTHORITY | 10.0 | - | - | 10.0 | 10.0 | - | (10.0) | -100.0% |
| 344 DFA - SPECIAL APPROPRIATIONS | 11,812.5 | | (968.6) | 10,843.9 | 11,865.8 | 9,680.1 | (1,163.8) | -10.7% |
| 350 GENERAL SERVICES DEPARTMENT | 16,192.7 | | (892.5) | 15,300.2 | 17,086.8 | 15,055.9 | (244.3) | -1.6% |
| 352 EDUCATIONAL RETIREMENT BOARD | - | - | - | - | - | - | - | 0.0% |

**TABLE 1**

## GENERAL FUND RECOMMENDATION SUMMARY

| Agency Name | FY10 Operating Budget | Laws 2009, Chpt.5, 1st Special Session | * Executive Order Adjustments | Adjusted FY10 OPBUD | FY11 Agency Request | FY11 LFC Rec | $ Change from Adjusted | % Change from Adjusted |
|---|---|---|---|---|---|---|---|---|
| 354 NEW MEXICO SENTENCING COMM | 724.8 | | (36.2) | 688.6 | 724.8 | 688.6 | - | 0.0% |
| 355 PUBLIC DEFENDER DEPARTMENT | 42,681.0 | | (854.0) | 41,827.0 | 42,681.0 | 40,973.8 | (853.2) | -2.0% |
| 356 GOVERNOR | 4,443.7 | | (244.9) | 4,198.8 | 4,443.7 | 4,198.8 | - | 0.0% |
| 360 LIEUTENANT GOVERNOR | 839.5 | (33.6) | | 805.9 | 839.5 | 784.6 | (21.3) | -2.6% |
| 361 DEPT OF INFO TECHNOLOGY | 926.0 | | (70.4) | 855.6 | 1,388.4 | 831.3 | (24.3) | -2.8% |
| 366 PUBLIC EMP RETIREMENT ASSOC | - | - | - | - | - | - | - | 0.0% |
| 369 STATE COMM OF PUBLIC RECORDS | 2,884.3 | - | - | 2,884.3 | 3,091.0 | 2,680.1 | (204.2) | -7.1% |
| 370 SECRETARY OF STATE | 4,644.4 | (185.8) | | 4,458.6 | 10,017.4 | 4,644.4 | 185.8 | 4.2% |
| 378 PERSONNEL BOARD | 4,462.7 | - | (89.5) | 4,373.2 | 5,154.5 | 4,146.4 | (226.8) | -5.2% |
| 379 PUBLIC EMP LABOR RELATIONS BD | 323.4 | - | (24.6) | 298.8 | 323.4 | 298.8 | - | 0.0% |
| 394 STATE TREASURER | 4,212.1 | (168.8) | | 4,043.3 | 4,334.4 | 3,948.9 | (94.4) | -2.3% |
| TOTAL GENERAL CONTROL | 198,851.3 | (801.2) | (7,553.2) | 190,496.9 | 207,153.5 | 183,865.6 | (6,631.3) | -3.5% |
| | | | | | | | | |
| 404 BD OF EXAMINERS FOR ARCHITECTS | - | - | - | - | - | - | - | |
| 417 BORDER AUTHORITY | 513.6 | | (25.7) | 487.9 | 513.6 | 355.4 | (132.5) | -27.2% |
| 418 TOURISM DEPARTMENT | 11,074.3 | | (332.3) | 10,742.0 | 11,098.8 | 9,527.4 | (1,214.6) | -11.3% |
| 419 ECONOMIC DEVELOPMENT DEPT | 9,209.5 | | (466.6) | 8,742.9 | 9,209.5 | 8,183.5 | (559.4) | -6.4% |
| 420 REGULATION AND LICENSING DEPT | 15,861.3 | | (873.1) | 14,988.2 | 15,861.3 | 14,542.1 | (446.1) | -3.0% |
| 430 PUBLIC REGULATION COMMISSION | 11,035.2 | (442.6) | | 10,592.6 | 11,435.9 | 9,959.9 | (632.7) | -6.0% |
| 446 MEDICAL BOARD | - | - | - | - | - | - | - | 0.0% |
| 449 BOARD OF NURSING | - | - | - | - | - | - | - | 0.0% |
| 460 NEW MEXICO STATE FAIR | 435.1 | | (21.8) | 413.3 | 435.1 | 370.0 | (43.3) | -10.5% |
| 464 ST BD OF LIC FOR ENG & LAND SUR | - | - | - | - | - | - | - | 0.0% |
| 465 GAMING CONTROL BOARD | 6,275.7 | | (314.2) | 5,961.5 | 6,409.4 | 5,849.0 | (112.5) | -1.9% |
| 469 STATE RACING COMMISSION | 2,311.3 | | (115.7) | 2,195.6 | 2,311.3 | 2,067.3 | (128.3) | -5.8% |
| 479 BOARD OF VETERINARY MEDICINE | - | - | - | - | - | - | - | 0.0% |
| 490 CUMBRES & TOLTEC | 99.2 | | (5.0) | 94.2 | 100.0 | 94.2 | - | 0.0% |
| 491 OFFICE OF MIL BASE PLNG & SUP | 148.7 | | (11.3) | 137.4 | 148.7 | 137.4 | - | 0.0% |
| 495 SPACEPORT AUTHORITY | 1,245.5 | | (62.3) | 1,183.2 | 2,371.8 | 1,183.0 | (0.2) | 0.0% |
| TOTAL COMMERCE AND INDUSTRY | 58,209.4 | (442.6) | (2,228.0) | 55,538.8 | 59,895.4 | 52,269.2 | (3,269.6) | -5.9% |
| | | | | | | | | |
| 505 CULTURAL AFFAIRS DEPARTMENT | 33,622.5 | | (1,684.4) | 31,938.1 | 34,478.9 | 30,980.2 | (957.9) | -3.0% |
| 508 NEW MEXICO LIVESTOCK BOARD | 1,171.4 | | (58.7) | 1,112.7 | 1,171.4 | 669.8 | (442.9) | -39.8% |
| 516 DEPARTMENT OF GAME AND FISH | - | - | - | - | - | - | - | 0.0% |
| 521 ENGY, MINERALS AND NAT RES DEPT | 24,850.8 | | (995.4) | 23,855.4 | 26,275.6 | 22,296.7 | (1,558.7) | -6.5% |
| 522 YOUTH CONSERVATION CORPS | - | - | - | - | - | - | - | 0.0% |
| 538 INTERTRIBAL CEREMONIAL OFFICE | 3.7 | | (0.2) | 3.5 | 182.0 | 88.1 | 84.6 | 2417.1% |
| 539 COMMISSIONER OF PUBLIC LANDS | - | - | - | - | - | - | - | 0.0% |
| 550 STATE ENGINEER | 22,141.5 | | (1,218.0) | 20,923.5 | 22,141.5 | 18,373.3 | (2,550.2) | -12.2% |
| 569 ORGANIC COMMODITY COMMISSION | 310.2 | | (9.3) | 300.9 | 325.0 | 197.8 | (103.1) | -34.3% |
| TOTAL AG, ENERGY & NATURAL RES | 82,100.1 | | (3,966.0) | 78,134.1 | 84,574.4 | 72,605.9 | (5,528.2) | -7.1% |
| | | | | | | | | |
| 601 COMMISSION ON STATUS OF WOMEN | 792.2 | | (39.6) | 752.6 | 792.2 | 744.7 | (7.9) | -1.0% |
| 603 OFFICE OF AFRICAN AMER AFFAIRS | 820.7 | | (41.0) | 779.7 | 820.7 | 745.6 | (34.1) | -4.4% |
| 604 COM FOR DEAF & HARD-OF-HEARING | - | - | - | - | - | - | - | 0.0% |
| 605 MARTIN LUTHER KING, JR. COMM | 380.0 | - | - | 380.0 | 380.0 | 364.8 | (15.2) | -4.0% |
| 606 COMMISSION FOR THE BLIND | 2,067.7 | | (41.4) | 2,026.3 | 2,141.2 | 2,033.9 | 7.6 | 0.4% |
| 609 INDIAN AFFAIRS DEPARTMENT | 3,421.0 | | (188.2) | 3,232.8 | 3,421.0 | 2,826.5 | (406.3) | -12.6% |
| 624 AGING & LONG-TERM SVCS DEPT | 49,002.3 | | (1,274.5) | 47,727.8 | 50,153.5 | 45,918.2 | (1,809.6) | -3.8% |
| 630 HUMAN SERVICES DEPARTMENT | 716,210.5 | | (28,702.5) | 687,508.0 | 1,047,119.2 | 787,229.7 | 99,721.7 | 14.5% |
| 631 WORKFORCE SOLUTIONS DEPT | 7,317.9 | | (402.9) | 6,915.0 | 8,609.4 | 4,587.5 | (2,327.5) | -33.7% |
| 632 WORKERS' COMP ADMIN | - | - | - | - | - | - | - | 0.0% |
| 644 DIVISION OF VOCATIONAL REHAB | 5,888.1 | | (117.8) | 5,770.3 | 5,959.2 | 5,770.3 | - | 0.0% |
| 645 GOVERNOR'S COMM ON DISABILITY | 1,168.9 | | (58.5) | 1,110.4 | 1,268.9 | 822.3 | (288.1) | -25.9% |
| 647 DEVPMTAL DISABILITIES PLNG COUN | 4,396.9 | | (131.9) | 4,265.0 | 6,642.4 | 4,186.9 | (78.1) | -1.8% |
| 662 MINERS' HOSPITAL OF NEW MEXICO | - | - | - | - | - | - | - | 0.0% |
| 665 DEPARTMENT OF HEALTH | 285,434.3 | | (10,364.9) | 275,069.4 | 296,021.5 | 270,716.7 | (4,352.7) | -1.6% |
| 667 DEPARTMENT OF ENVIRONMENT | 15,998.7 | | (800.4) | 15,198.3 | 15,998.7 | 14,734.2 | (464.1) | -3.1% |
| 668 OFFICE OF THE NAT RES TRUSTEE | 422.7 | | (14.4) | 408.3 | 422.7 | 408.3 | - | 0.0% |

## GENERAL FUND RECOMMENDATION SUMMARY

**TABLE 1**

| Agency Name | FY10 Operating Budget | Laws 2009, Chpt.5, 1st Special Session | * Executive Order Adjustments | Adjusted FY10 OPBUD | FY11 Agency Request | FY11 LFC Rec | $ Change from Adjusted | % Change from Adjusted |
|---|---|---|---|---|---|---|---|---|
| 669 NM HEALTH POLICY COMM | 805.7 | | (40.3) | 765.4 | 961.9 | 628.1 | (137.3) | -17.9% |
| 670 VETERANS' SERVICES DEPT | 3,241.3 | - | - | 3,241.3 | 3,221.3 | 3,037.9 | (203.4) | -6.3% |
| 690 CHILDREN, YOUTH & FAMILIES DEPT | 200,592.3 | | (6,023.0) | 194,569.3 | 201,750.4 | 189,520.2 | (5,049.1) | -2.6% |
| TOTAL HEALTH, HOS. & HUMAN SVCS | 1,297,961.2 | | (48,241.3) | 1,249,719.9 | 1,645,684.2 | 1,334,275.8 | 84,555.9 | 6.8% |
| | | | | | | | | |
| 705 DEPARTMENT OF MILITARY AFFAIRS | 7,442.1 | | (566.3) | 6,875.8 | 7,487.6 | 6,875.8 | - | 0.0% |
| 760 PAROLE BOARD | 485.4 | | (14.6) | 470.8 | 538.0 | 468.1 | (2.7) | -0.6% |
| 765 JUV PUBLIC SAFETY ADVISORY BD | 224.2 | | (6.7) | 217.5 | 229.5 | 217.5 | - | 0.0% |
| 770 CORRECTIONS DEPARTMENT | 284,588.8 | | (11,389.6) | 273,199.2 | 288,394.9 | 271,700.6 | (1,498.6) | -0.5% |
| 780 CRIME VICTIMS REP COMM | 2,387.0 | | (71.6) | 2,315.4 | 2,472.4 | 1,953.0 | (362.4) | -15.7% |
| 790 DEPARTMENT OF PUBLIC SAFETY | 94,827.6 | | (2,826.1) | 92,001.5 | 94,922.9 | 90,959.4 | (1,042.1) | -1.1% |
| 795 HOMELAND SECURITY & EMERG MGMT | 3,332.0 | | (166.6) | 3,165.4 | 3,332.0 | 3,076.5 | (88.9) | -2.8% |
| TOTAL PUBLIC SAFETY | 393,287.1 | | (15,041.5) | 378,245.6 | 397,377.3 | 375,250.9 | (2,994.7) | -0.8% |
| | | | | | | | | |
| 805 DEPARTMENT OF TRANSPORTATION | - | - | - | - | - | - | - | 0.0% |
| TOTAL TRANSPORTATION | - | - | - | - | - | - | - | 0.0% |
| | | | | | | | | |
| 924 PUBLIC EDUCATION DEPARTMENT | 15,979.3 | | (479.9) | 15,499.4 | 17,108.7 | 15,200.0 | (299.4) | -1.9% |
| 925 PUBLIC EDUC DEPT-SPEC APPS | 31,046.9 | (2,018.2) | | 29,028.7 | 30,251.0 | 16,125.8 | (12,902.9) | -44.4% |
| 930 REGIONAL EDUC COOPERATIVES | 1,200.0 | (78.0) | | 1,122.0 | 1,200.0 | - | (1,122.0) | -100.0% |
| 940 PUBLIC SCHOOL FAC AUTHORITY | - | - | - | - | - | - | - | 0.0% |
| TOTAL OTHER EDUCATION | 48,226.2 | (2,096.2) | (479.9) | 45,650.1 | 48,559.7 | 31,325.8 | (14,324.3) | -31.4% |
| | | | | | | | | |
| 950 HIGHER EDUCATION DEPARTMENT | 44,903.9 | | (1,347.3) | 43,556.6 | 45,003.9 | 41,716.3 | (1,840.3) | -4.2% |
| 952 UNIVERSITY OF NEW MEXICO | 320,917.5 | (14,014.1) | (76.0) | 306,827.4 | 321,116.9 | 297,161.2 | (9,666.2) | -3.2% |
| 954 NEW MEXICO STATE UNIVERSITY | 211,549.0 | (9,662.2) | (45.3) | 201,841.5 | 210,730.7 | 193,290.3 | (8,551.2) | -4.2% |
| 956 NEW MEXICO HIGHLANDS UNIV | 32,561.1 | (1,388.9) | (4.9) | 31,167.3 | 31,733.6 | 29,338.2 | (1,829.1) | -5.9% |
| 958 WESTERN NEW MEXICO UNIV | 19,880.4 | (876.1) | (3.6) | 19,000.7 | 19,470.6 | 17,750.9 | (1,249.8) | -6.6% |
| 960 EASTERN NEW MEXICO UNIV | 48,005.7 | (2,031.5) | (8.4) | 45,965.8 | 46,456.4 | 42,584.0 | (3,381.8) | -7.4% |
| 962 NM INST OF MINING & TECH | 41,373.2 | (1,952.8) | (6.7) | 39,413.7 | 40,707.0 | 37,412.1 | (2,001.6) | -5.1% |
| 964 NORTHERN NM COLLEGE | 11,513.0 | (478.8) | (1.8) | 11,032.4 | 11,460.4 | 10,868.0 | (164.4) | -1.5% |
| 966 SANTA FE COMMUNITY COLLEGE | 13,915.1 | (683.3) | (4.0) | 13,227.8 | 14,443.5 | 13,440.0 | 212.2 | 1.6% |
| 968 CENTRAL NM COMM COLLEGE | 49,049.1 | (1,950.0) | (15.0) | 47,084.1 | 52,674.1 | 48,880.7 | 1,796.6 | 3.8% |
| 970 LUNA COMMUNITY COLLEGE | 8,968.6 | (370.8) | (1.4) | 8,596.4 | 8,654.1 | 7,969.9 | (626.5) | -7.3% |
| 972 MESALANDS COMM COLLEGE | 3,727.5 | (151.7) | (0.5) | 3,575.3 | 4,409.8 | 4,439.8 | 864.5 | 24.2% |
| 974 NM JUNIOR COLLEGE | 7,897.4 | (328.3) | (2.5) | 7,566.6 | 6,215.0 | 5,444.9 | (2,121.7) | -28.0% |
| 976 SAN JUAN COLLEGE | 22,345.3 | (901.3) | (6.0) | 21,438.0 | 23,672.3 | 22,625.0 | 1,187.0 | 5.5% |
| 977 CLOVIS COMMUNITY COLLEGE | 9,801.0 | (392.0) | (1.8) | 9,407.2 | 9,759.2 | 9,054.9 | (352.3) | -3.7% |
| 978 NEW MEXICO MILITARY INST | 2,069.7 | (96.6) | | 1,973.1 | 2,069.7 | 1,966.2 | (6.9) | -0.3% |
| 979 NM SCH FOR THE BLIND & VIS IMP | 745.1 | - | | 745.1 | 745.1 | 707.8 | (37.3) | -5.0% |
| 980 NM SCHOOL FOR THE DEAF | 3,972.6 | - | (1.7) | 3,970.9 | 3,972.6 | 3,774.0 | (196.9) | -5.0% |
| TOTAL HIGHER EDUCATION | 853,195.2 | (35,278.4) | (1,526.9) | 816,389.9 | 853,294.9 | 788,424.2 | (27,965.7) | -3.4% |
| | | | | | | | | |
| 993 PUBLIC SCHOOL SUPPORT | 2,325,584.3 | (95,155.1) | - | 2,230,429.2 | 2,585,162.9 | 2,372,785.1 | 142,355.9 | 6.4% |
| TOTAL PUBLIC SCHOOL SUPPORT | 2,325,584.3 | (95,155.1) | - | 2,230,429.2 | 2,585,162.9 | 2,372,785.1 | 142,355.9 | 6.4% |
| | | | | | | | | |
| ADD MEASURES TO CLOSE GAP | | | | | | (18,400.00) | (18,400.0) | |
| 2% COMPENSATION MEASURES | | | | | | (76,200.00) | (76,200.0) | |
| | | | | | | | | |
| | $ 5,487,682.5 | $(138,811.1) | $ (79,036.8) | $ 5,269,834.6 | $6,117,639.8 | $ 5,336,590.3 | $ 66,755.7 | 1.3% |

**Notes:**

* Executive Order Reductions do not include furloughs or exempt FTE deleted positions

Questions surfaced regarding interpretation of reductions in Chapter 5 for the Court of Appeals and Supreme Court. The agencies did not reduce the appropriations but committed to reverting funds equivalent to a 2% appropriation reduct

Non-general fund agencies required to develop expenditure restriction requirements that result in meaningful savings.

Agencies not under gubernatorial control & requested to impose expenditure restrictions resulting in savings of 3%.

## TABLE 2

### U.S. AND NEW MEXICO ECONOMIC INDICATORS

**December 2009 Consensus Forecast**

| | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---|---|---|---|---|---|---|
| ***NATIONAL ECONOMIC INDICATORS*** | | | | | | |
| US Real GDP Growth (level annual avg, % yoy)* | -2.2 | 2.4 | 2.4 | 3.5 | 3.4 | 2.6 |
| US Inflation Rate (CPI, annual avg, % yoy)** | 1.4 | 1.5 | 1.5 | 2.1 | 1.9 | 1.8 |
| Federal Funds Rate (%) | 0.7 | 0.1 | 0.8 | 2.7 | 3.5 | 4.0 |
| ***NEW MEXICO LABOR MARKET AND INCOME DATA*** | | | | | | |
| NM Non-Agricultural Employment Growth (%) | -1.8 | -3.5 | 1.6 | 2.0 | 1.8 | 1.5 |
| NM Personal Income Growth (%)*** | 5.0 | -0.5 | 3.2 | 4.5 | 4.4 | 4.3 |
| NM Private Wages & Salaries Growth (%) | -0.4 | -3.1 | 3.8 | 4.1 | 4.2 | 4.2 |
| ***CRUDE OIL AND NATURAL GAS OUTLOOK*** | | | | | | |
| NM Oil Price ($/barrel) | $64.71 | $70.00 | $75.00 | $79.00 | $83.00 | $87.00 |
| NM Taxable Oil Sales (million barrels) | 62 | 61 | 60 | 59 | 58 | 57 |
| NM Gas Price ($ per thousand cubic feet) | $5.65 | $4.30 | $5.40 | $5.65 | $5.90 | $6.10 |
| NM Taxable Gas Sales (billion cubic feet) | 1,390 | 1,325 | 1,270 | 1,220 | 1,190 | 1,160 |

*Real GDP is BEA chained 2005 dollars, billions, annual rate.
**CPI is all urban, BLS 1982-84=1.00 base.
***Personal Income growth rates are for the calendar year in which each fiscal year begins.
*Sources: Global Insight, FOR-UNM and PIRA*

# General Fund Consensus Revenue Estimate
December 2009

**TABLE 3**

| | FY09 | | FY10 | | | FY11 | | | FY12 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Preliminary | % Change from FY08 | Dec. 08 | Dec. 09 | % Change from FY09 | Dec. 08 | Dec. 09 | % Change from FY10 | Dec. 08 | Dec. 09 | % Change from FY11 |
| Gross Receipts Tax | 1,831.9 | -1.4% | 1,914.0 | 1,702.0 | -7.1% | 1,973.0 | 1,756.0 | 3.2% | 2,050.0 | 1,853.0 | 5.5% |
| Compensating Tax | 69.9 | 8.4% | 66.8 | 58.0 | -17.1% | 64.4 | 59.3 | 2.2% | 67.2 | 62.6 | 5.6% |
| TOTAL GENERAL SALES | 1,901.9 | -1.1% | 1,980.8 | 1,760.0 | -7.5% | 2,037.4 | 1,815.3 | 3.1% | 2,117.2 | 1,915.6 | 5.5% |
| Tobacco Taxes | 49.6 | 2.8% | 47.9 | 47.2 | -4.7% | 48.1 | 47.5 | 0.5% | 48.4 | 47.7 | 0.4% |
| Liquor Excise | 25.8 | 2.9% | 26.3 | 26.5 | 2.4% | 26.8 | 26.9 | 1.6% | 27.3 | 27.4 | 1.9% |
| Insurance Taxes | 121.9 | 11.0% | 135.0 | 133.9 | 9.9% | 142.2 | 137.3 | 2.5% | 149.7 | 142.2 | 3.5% |
| Fire Protection Fund Reversion | 30.8 | 46.0% | 18.0 | 21.7 | -29.6% | 16.4 | 21.9 | 1.1% | 14.7 | 20.6 | -6.1% |
| Motor Vehicle Excise | 100.5 | -21.3% | 120.0 | 92.5 | -8.0% | 123.6 | 103.0 | 11.4% | 127.3 | 113.0 | 9.7% |
| Gaming Excise | 69.2 | 23.3% | 75.0 | 65.3 | -5.6% | 80.7 | 74.4 | 13.9% | 81.3 | 75.9 | 2.0% |
| Leased Vehicle Surcharge | 4.9 | -42.7% | 5.9 | 5.5 | 11.8% | 5.8 | 5.4 | -1.3% | 5.8 | 5.4 | -0.7% |
| Other | 2.3 | -39.3% | 2.5 | 1.9 | -18.1% | 2.5 | 2.4 | 29.8% | 2.5 | 2.6 | 4.9% |
| TOTAL SELECTIVE SALES | 405.0 | 1.6% | 430.6 | 394.5 | -2.6% | 445.9 | 418.9 | 6.2% | 457.0 | 434.7 | 3.8% |
| Personal Income Tax | 958.5 | -21.0% | 1,250.0 | 989.5 | 3.2% | 1,290.0 | 1,057.0 | 6.8% | 1,350.0 | 1,114.0 | 5.4% |
| Corporate Income Tax | 162.5 | -54.2% | 320.0 | 160.0 | -1.5% | 330.0 | 200.0 | 25.0% | 340.0 | 250.0 | 25.0% |
| TOTAL INCOME TAXES | 1,121.0 | -28.5% | 1,570.0 | 1,149.5 | 2.5% | 1,620.0 | 1,257.0 | 9.4% | 1,690.0 | 1,396.5 | 11.1% |
| Oil and Gas School Tax | 370.4 | -33.6% | 382.5 | 290.8 | -21.5% | 421.8 | 341.0 | 17.3% | 432.0 | 349.4 | 2.5% |
| Oil Conservation Tax | 18.3 | -32.5% | 17.5 | 15.3 | -16.4% | 19.3 | 17.2 | 12.9% | 19.9 | 17.6 | 2.4% |
| Resources Excise Tax | 11.2 | 6.0% | 14.8 | 10.0 | -11.0% | 16.1 | 10.0 | 0.0% | 17.3 | 10.0 | 0.0% |
| Natural Gas Processors Tax | 40.3 | 31.8% | 32.4 | 41.0 | 1.6% | 27.4 | 17.2 | -58.0% | 28.9 | 20.9 | 21.5% |
| TOTAL SEVERANCE TAXES | 440.2 | -29.7% | 447.2 | 357.1 | -18.9% | 484.6 | 385.4 | 7.9% | 498.1 | 397.9 | 3.2% |
| LICENSE FEES | 50.1 | -1.1% | 51.4 | 47.5 | -5.2% | 52.8 | 48.8 | 2.7% | 54.8 | 50.8 | 4.2% |
| LGPF Interest | 433.5 | 11.0% | 441.7 | 436.5 | 0.7% | 445.2 | 437.8 | 0.3% | 448.5 | 438.2 | 0.1% |
| STO Interest | 67.8 | -27.7% | 20.0 | 21.5 | -68.3% | 30.0 | 30.0 | 39.5% | 60.0 | 36.0 | 20.0% |
| STPF Interest | 191.3 | 8.0% | 189.5 | 187.1 | -2.2% | 184.7 | 181.6 | -2.9% | 179.7 | 176.1 | -3.0% |
| TOTAL INTEREST | 692.5 | 4.7% | 651.2 | 645.1 | -6.9% | 659.9 | 649.4 | 0.7% | 688.2 | 650.3 | 0.1% |
| Federal Mineral Leasing | 507.2 | -10.1% | 409.4 | 301.0 | -40.7% | 451.0 | 370.0 | 22.9% | 462.6 | 388.0 | 4.9% |
| State Land Office | 36.4 | -20.9% | 36.7 | 33.8 | -7.3% | 39.0 | 36.8 | 8.9% | 39.8 | 37.0 | 0.5% |
| TOTAL RENTS & ROYALTIES | 543.7 | -10.9% | 446.1 | 334.8 | -38.4% | 489.9 | 406.8 | 21.5% | 502.5 | 425.0 | 4.5% |
| TRIBAL REVENUE SHARING | 65.4 | -1.8% | 73.1 | 63.1 | -3.5% | 79.0 | 64.1 | 1.6% | 83.0 | 66.1 | 3.1% |
| MISCELLANEOUS RECEIPTS | 42.7 | -15.2% | 42.9 | 41.8 | -2.1% | 43.2 | 44.2 | 5.7% | 43.5 | 46.5 | 5.3% |
| REVERSIONS | 57.1 | -3.2% | 40.0 | 30.0 | -47.5% | 41.2 | 31.0 | 3.3% | 42.4 | 42.4 | 36.8% |
| TOTAL RECURRING | 5,319.6 | -11.5% | 5,733.3 | 4,823.3 | -9.3% | 5,954.0 | 5,120.8 | 6.2% | 6,176.7 | 5,425.8 | 6.0% |
| TOTAL NON-RECURRING | 425.5 | 803.4% | - | - | | - | - | | - | - | |
| GRAND TOTAL | 5,745.1 | -5.2% | 5,733.3 | 4,823.3 | -16.0% | 5,954.0 | 5,120.8 | 6.2% | 6,176.7 | 5,425.8 | 6.0% |

**TABLE 4**

## GENERAL FUND FINANCIAL SUMMARY
### LFC Staff Recommendation
### (Dollars in Millions)

| | Preliminary FY2009 | Estimated FY2010 | Estimated FY2011 |
|---|---|---|---|
| **APPROPRIATION ACCOUNT** | | | |
| **REVENUE** | | | |
| Recurring Revenue | | | |
| December 2009 Consensus Update | $ 5,319.6 | $ 4,823.3 | $ 5,120.8 |
| Freeze Fire Protection reversion & TRD Admin. Fee | | | 15.3 |
| Total Recurring Revenue | 5,319.6 | 4,823.3 | 5,136.1 |
| Nonrecurring Revenue | | | |
| October 2009 Revenue Estimate* | 425.5 | - | - |
| SB 29 capital outlay swaps** | - | 130.0 | - |
| *Fund transfers* | - | *108.3* | - |
| *2009 Special Session Reserve Transfers* | *225.0* | *115.0* | - |
| Total Non-Recurring Revenue | 650.5 | 353.3 | - |
| **TOTAL REVENUE** | **$ 5,970.1** | **$ 5,176.6** | **$ 5,136.1** |
| **APPROPRIATIONS** | | | |
| Recurring Appropriations | | | |
| Recurring Appropriations - General | $ 6,035.1 | $ 5,487.6 | $ 5,336.4 |
| Recurring Appropriations - 2010 Session Feed Bill | - | 5.1 | - |
| *Recurring Solvency Savings* | - | *(93.6)* | - |
| Total Recurring Appropriations | 6,035.1 | 5,399.2 | 5,336.4 |
| Nonrecurring Appropriations | (81.5) | 5.7 | - |
| 2009 Fund Transfers | - | 100.0 | - |
| *Nonrecurring Solvency Savings* | - | *(43.7)* | - |
| Total Nonrecurring Appropriations | (81.5) | 62.0 | - |
| **TOTAL APPROPRIATIONS** | **$ 5,953.6** | **$ 5,461.1** | **$ 5,336.4** |
| Transfer to Reserves | 16.5 | (284.5) | (200.3) |
| Additional measures -- to be determined | - | - | 200.0 |
| **GENERAL FUND RESERVES** | | | |
| Beginning Balances | $ 735.0 | $ 392.5 | $ 49.3 |
| Transfers in from Appropriations Account | 16.5 | (284.5) | (0.3) |
| Revenue and Reversions | 42.3 | 120.4 | 55.3 |
| Appropriations, expenditures and transfers out | (401.3) | (179.1) | (55.6) |
| **Ending Balances*** | **$ 392.5** | **$ 49.3** | **$ 48.8** |
| *Reserves as a Percent of Recurring Appropriations* | *6.5%* | *0.9%* | *0.9%* |

* Excludes potential non-recurring reversions due to Executive Order 2009-044 which directs agencies to reduce expenditures by $79 million. Also excludes potential $8.1 million savings from furloughs. If these savings are realized, FY10-ending reserves

**Total voided general fund of $136.09 million reduced by $6.09 million per DFA calculation of amounts that can't be voided.

## GENERAL FUND FINANCIAL SUMMARY - RESERVE DETAIL (Dollars in Millions)

**TABLE 4**

| | Preliminary FY2009 | Estimated FY2010 | Estimated FY2011 |
|---|---|---|---|
| **OPERATING RESERVE** | | | |
| Beginning balance | $ 247.2 | $ 37.4 | $ (249.5) |
| BOF Emergency Appropriations | (1.4) | (2.3) | - |
| Transfers to appropriation account | 16.5 | (284.5) | (0.3) |
| *HB6* | (225.0) | - | - |
| Ending balance | 37.4 | (249.5) | (249.7) |
| *Percent of previous fiscal year's recurring appropriations* | *4.89%* | *-4.13%* | *-4.63%* |
| **APPROPRIATION CONTINGENCY FUND** | | | |
| Beginning balance (2) | 27.5 | 11.5 | 24.1 |
| Disaster allotments | (11.2) | (11.0) | (11.0) |
| Other Appropriations | (13.1) | (1.4) | - |
| Transfers in (Laws 2009, Ch. 124 (HB2)) | - | 25.0 | - |
| Revenue and reversions | 8.3 | - | - |
| Ending Balance | 11.5 | 24.1 | 13.1 |
| **Education Lock Box** | | | |
| Beginning balance | 69.1 | 23.0 | 59.1 |
| Appropriations | (10.3) | (3.9) | - |
| Transfers in | - | 40.0 | - |
| *Laws 2009, Ch. 3 (SB79)* | (35.8) | - | - |
| Ending balance | 23.0 | 59.1 | 59.1 |
| **STATE SUPPORT FUND** | | | |
| Ending balance | 1.0 | 1.0 | 1.0 |
| **TOBACCO PERMANENT FUND** | | | |
| Beginning balance | 135.9 | 121.0 | 130.9 |
| Transfers in | 48.9 | 45.5 | 44.6 |
| Appropriation to tobacco settlement program fund | (24.5) | (22.8) | (22.3) |
| Gains/Losses | (14.9) | 9.9 | 10.7 |
| *Laws 2009, Ch. 3 (SB79)* | (24.5) | *(22.8)* | - |
| *LFC staff recommendation* | | | *(22.3)* |
| Ending balance | 121.0 | 130.9 | 141.6 |
| **TAX STABILIZATION RESERVE** | | | |
| Beginning balance | 254.4 | 198.7 | 83.7 |
| Transfers in | - | - | - |
| *Laws 2009, Ch. 3 (SB79)* | (55.7) | - | - |
| *HB6* | - | (115.0) | - |
| Transfers to Taxpayers Dividend Fund | - | - | - |
| Ending balance | 198.7 | 83.7 | 83.7 |
| *Percent of previous fiscal year's recurring appropriations* | *5.0%* | *1.4%* | *1.5%* |
| **GENERAL FUND ENDING BALANCES** | **$ 392.5** | **$ 49.3** | **$ 48.8** |
| *Percent of Recurring Appropriations* | *6.5%* | *0.9%* | *0.9%* |

# TABLE 4

**GENERAL FUND FINANCIAL SUMMARY - Final after all actions**
**DETAIL**
**(Dollars in Millions)**

| | | FY09 | | FY10 | | FY11 | | Reserve Accounts | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Oper. Reserve | | Tax Stabilization | | Approp. Cont. | |
| ***General Appropriation Bills*** | | Recurring | Non-rec | Recurring | Non-rec | Recurring | Non-rec | FY09 | FY10 | FY09 | FY10 | FY09 | FY10 |
| ***2009 Special Session*** | | | | | | | | | | | | | |
| CS HB 17 | Section 2 - Recurring appropriations | | | | | | | | | | | | |
| | State agenices -- Governor's | | | ~~(93.70)~~ | | | | | | | | | |
| | Legislative, courts, elected officials | | | (5.58) | | | | | | | | | |
| | HSD--Medicaid | | | ~~(16.00)~~ | | | | | | | | | |
| | DOH -- DD | | | ~~(2.00)~~ | | | | | | | | | |
| | DPS -- Law enforcement program | | | ~~(1.39)~~ | | | | | | | | | |
| | Public Defender | | | ~~(0.85)~~ | | | | | | | | | |
| | Public Schools | | | (51.75) | | | | | | | | | |
| | Special schools | | | (0.02) | | | | | | | | | |
| | Higher education | | | (35.40) | | | | | | | | | |
| | Section 3 - ARRA funding for public schools | | | | (45.50) | | | | | | | | |
| | Section 2 - DoIT reduction | | | | ~~(1.50)~~ | | | | | | | | |
| | Section 6 - Public Schools | | | | 3.00 | | | | | | | | |
| GAA Recommendation: | | | | | | | | | | | | | |
| | Section 4 | | | | | 5,336.40 | | | | | | | |
| | Section 5--Recommended special appropriations | | | | | | | | | | | | 0.20 |
| | **Subtotal** | | | **(92.7)** | **(42.5)** | **5,336.4** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.2** |
| ***FY09 Solvency Bills*** | | | | | | | | | | | | | |
| CS HB 6 | Reserve Transfers | | | | | | | | | | | | |
| | Section 1 - Operating Reserve | | | | | | | 225.00 | | | | | |
| | Section 2 - Tax Stabilization Reserve | | | | | | | | | | 115.00 | | |
| | **Subtotal** | | | | | | | **225.0** | | | **115.00** | | **0.00** |
| | **Total GAA** | | | **(92.7)** | **(42.5)** | | | **225.0** | | | **115.00** | | **0.20** |
| ***All Other Appropriation Bills:*** | | | | | | | | | | | | | |
| HB16 | Reduced 2009 Feed bill | | | (0.84) | | | | | | | | | |
| HB3 | Appropriation Cuts | | | | (1.22) | | | | | | | | |
| | **Total Other Bills** | | | **(0.8)** | **(1.2)** | | | | | | | | |
| | **Grand Total Appropriations** | | | **(93.6)** | **(43.7)** | | | **225.0** | | | **115.00** | | **0.20** |

| | | FY09 | | FY10 | | FY11 | | Reserve Accounts | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Oper. Reserve | | Tax Stabilization | | Approp. Cont. | |
| ***Additional Revenue Sources:*** | | Recurring | Non-rec | Recurring | Non-rec | Recurring | Non-rec | FY09 | FY10 | FY09 | FY10 | FY09 | FY10 |
| HB3 | College Affordabilty Fund Transfer | | | | 68.00 | | | | | | | | |
| | Other Sweeps | | | | 46.84 | | | | | | | | |
| | *Vetoes* | | | | (6.50) | | | | | | | | |
| | Subtotal | | | | 108.34 | | | | | | | | |
| SB 29 | Capital outlay cuts and reauthorizations | | | | 136.09 | | | | | | | | |
| | *DFA - amount not available to void* | | | | (6.09) | | | | | | | | |
| | Subtotal | | | | 130.00 | | | | | | | | |
| CS HB 17 | ARRA government services fund transfer | | | | ~~20.00~~ | | | | | | | | |
| | **Subtotal** | | | | 238.34 | | | | | | | | |
| | **Grand Total Revenue** | | | | 238.34 | | | | | | | | |

## TABLE 5

# 2011 Legislative Session
## Special, Supplemental, and Deficiency Appropriations
### (in thousands)

| | | | | Agency Request | | | | | | LFC Recommendation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Code | Agency | Description | General Fund | Other State Funds | ISF/IAT | Federal Funds | Total | R/N | General Fund | Other State Funds | ISF/IAT | Federal Funds | Total | R/N |
| | SPECIAL/NEW INITIATIVES APPROPRIATIONS | | | | | | | | | | | | | | |
| 1 | 218 | Administrative Office of the Court (J&W Fund) | To enable AOC to pay back the Board of Finance for the loan received to cover the shortfall in the jury and witness fund. | 1,228.0 | - | - | - | 1,228.0 | N | - | - | - | - | - | N |
| 2 | 232 | Second Judicial District Court | To enable the 2nd District Court to pay back the Board of Finance for the loan received to cover the court's budget shortfall. | 142.7 | - | - | - | 142.7 | N | - | - | - | - | - | N |
| 3 | 356 | Office of the Governor | For the transition of the new administration. | 50.0 | - | - | - | 50.0 | N | - | - | - | - | - | N |
| 4 | 361 | Department of Information Technology | For the Two-way Radio Narrow banding Project that will replace 250 two-way radio systems in order to meet Federal Communication Commission requirements. **LANGUAGE:** To replace radio equipment with narrowband technology. Notwithstanding the provisions of Section 63-9D-8 NMSA 1978, the appropriation is from the enhanced 911 fund. | - | - | 1,337.0 | - | 1,337.0 | N | - | - | 1,337.0 | - | 1,337.0 | N |
| 5 | 361 | Department of Information Technology | For the Wire New Mexico DMW Conversion Project that will convert 31 microwave network sites from analog to digital service. **LANGUAGE:** To upgrade digital microwave network infrastructure. Notwithstanding the provisions of Section 63-9D-8 NMSA 1978, the appropriation is from the enhanced 911 fund. | - | - | 1,750.0 | - | 1,750.0 | N | - | - | 1,750.0 | - | 1,750.0 | N |
| 6 | 370 | Secretary of State | For the 2010 General Election. | 3,898.6 | - | - | - | 3,898.6 | N | - | 1,912.0 | - | - | 1,912.0 | N |
| 7 | 370 | Secretary of State | For the 2010 Primary Election. | 1,185.5 | - | - | - | 1,185.5 | N | - | 217.7 | - | - | 217.7 | N |
| 8 | 370 | Secretary of State | In the case, New Mexico Youth organized, a project of the Center for Civic Policy, and Southwest Organizing Project, the United States District Court ordered the Secretary of State to pay the plaintiffs a total of $72 thousand in attorney fees and gross receipts taxes. | 72.1 | - | - | - | 72.1 | N | - | - | - | - | - | N |
| 9 | 418 | Tourism Department | To expand the state's reach in national markets. Funding will allow the department to effectively penetrate new mid-sized markets by advertising the benefits of visiting New Mexico. | 2,500.0 | - | - | - | 2,500.0 | N | - | - | - | - | - | N |
| 10 | 418 | Tourism Department | To continue a three-year contract that was awarded on September 1, 2009 to EconNewMexico,LLC, a Santa Fe-based company. EcoNewMexico will develop an Ecotourism Program based on the International Ecotourism Society's definition. | 250.0 | - | - | - | 250.0 | N | - | - | - | - | - | N |
| 11 | 419 | Economic Development Department | For the Job Training Incentive Program (JTIP). | 5,000.0 | - | - | - | 5,000.0 | N | - | 1,000.0 | - | - | 1,000.0 | N |
| 12 | 505 | Department of Cultural Affairs | For the creation and marketing of statewide Centennial activities and events. | 300.0 | - | - | - | 300.0 | N | | - | - | - | - | N |
| 13 | 508 | NM Livestock Board | **Language Only:** The period of time for expending the one million eight hundred and eighty thousand dollars ($1,880,000) appropriated from other state funds contained in Subsection 33 of Section 5 of Chapter 124 of Laws 2009 to restore bovine tuberculosis-free accredited status is extended through fiscal year 2011 and reappropriated for one million six hundred thousand dollars ($1,600,000) for livestock disease assessment, diagnosis, control and prevention. | - | 1,600.0 | - | - | 1,600.0 | N | **Language only** | - | - | - | - | N |

TABLE 5

## 2011 Legislative Session
## Special, Supplemental, and Deficiency Appropriations
## (in thousands)

| # | Code | Agency | Description | Agency Request: General Fund | Agency Request: Other State Funds | Agency Request: ISF/IAT | Agency Request: Federal Funds | Agency Request: Total | Agency Request: R/N | LFC Recommendation: General Fund | LFC Recommendation: Other State Funds | LFC Recommendation: ISF/IAT | LFC Recommendation: Federal Funds | LFC Recommendation: Total | LFC Recommendation: R/N |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 14 | 521 | Energy Minerals and Natural Resources Department | **LANGUAGE:** Seven hundred fifty thousand dollars ($750,000) is appropriated from the game protection fund for Pecos canyon state park and other state park facilities to support maintenance and infrastructure improvements that benefit anglers and hunters. | - | 750.0 | - | - | 750.0 | N | - | 750.0 | - | - | 750.0 | N |
| 15 | 539 | Commissioner of Public Lands | For remediation and preservation projects for state trust lands. | - | 250.0 | - | - | 250.0 | N | - | - | - | - | - | N |
| 16 | 539 | Commissioner of Public Lands | **Language Only:** The Commissioner of Public Lands is authorized to hold in suspense amounts received pursuant to entered in for the sale of state royalty interests that, as a result of the sale, became eligible for tax credits under Section 29 of the internal revenue code, above those amounts required by law to be transferred to the land grant permanent fund. The Commissioner may expend as much of the money so held in suspense, as well as additional money held in escrow accounts resulting from the sales and money held in fund balance, as is necessary to re-purchase the royalty interests pursuant to the agreements. | - | - | - | - | - | N | - | - | - | - | - | N |
| 17 | 953 | Higher Education Department | For the statewide instructional leadership institute. **Language:** The appropriation is from the separate account of the appropriation contingency fund dedicated for the purpose of implementing and maintaining educational reforms created in Section 12 of Chapter 114 of Laws 2004. | 200.0 | - | - | - | 200.0 | N | 200.0 | - | - | - | 200.0 | N |
| | **SPECIAL/NEW INITIATIVE TOTAL** | | | **14,826.9** | **2,600.0** | **3,087.0** | **-** | **20,513.9** | | **200.0** | **3,879.7** | **3,087.0** | **-** | **7,166.7** | |

| # | Code | Agency | Description | Agency Request: General Fund | Agency Request: Other State Funds | Agency Request: ISF/IAT | Agency Request: Federal Funds | Agency Request: Total | Agency Request: R/N | LFC Recommendation: General Fund | LFC Recommendation: Other State Funds | LFC Recommendation: ISF/IAT | LFC Recommendation: Federal Funds | LFC Recommendation: Total | LFC Recommendation: R/N |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **SUPPLEMENTAL APPROPRIATIONS:** | | | | | | | | | | | | | | |
| 1 | 218 | Administrative Office of the Courts (J&W) | For the jury and witness fund. The fund is used to pay jurors and interpreters. | 500.0 | - | - | - | 500.0 | N | - | - | - | - | - | N |
| 2 | 218 | Administrative Office of the Courts (Court Appointed Attorney) | To help cover the shortfall in the court appointed attorney fund. | 150.0 | - | - | - | 150.0 | N | - | - | - | - | - | N |
| 3 | 232 | Second Judicial District Court | To help cover the court's FY10 budget shortfall. | 359.4 | - | - | - | 359.4 | N | - | - | - | - | - | N |
| 4 | 252 | Second Judicial District Attorney | For expert witness fees in several cases that will be going to trial between now and June 30, 2010. Some of them are death penalty cases. According to the agency if funding is not provided the DA will have to determine which cases can and cannot proceed. | 112.3 | | | | 112.3 | N | | | | | | N |
| 5 | 253 | Third Judicial District Attorney | To help prosecute the State of NM vs. Robert Flores case. The case had a change of venue and will therefore require additional travel funds. The agency must also cover the travel costs of a clinical psychologist traveling from Florida to New Mexico. | 34.2 | - | - | - | 34.2 | N | - | - | - | - | - | N |
| 6 | 337 | State Investment Council | To obtain additional funds to be used in Category 300 for legal fees expected to exceed their current appropriation level. | - | 4,000.0 | - | - | 4,000.0 | N | - | - | - | - | - | N |
| 7 | 370 | Secretary of State | For the reconfiguring, securing and stabilizing the Secretary of State's network. | 123.0 | - | - | - | 123.0 | N | - | - | - | - | - | N |
| 8 | 419 | Economic Development Department | For the Job Training Incentive Program (JTIP). JTIP has been assisting companies create jobs in New Mexico. | 2,500.0 | - | - | - | 2,500.0 | N | - | - | - | - | - | N |

TABLE 5

## 2011 Legislative Session
## Special, Supplemental, and Deficiency Appropriations
## (in thousands)

| # | Code | Agency | Description | Agency Request: General Fund | Agency Request: Other State Funds | Agency Request: ISF/IAT | Agency Request: Federal Funds | Agency Request: Total | R/N | LFC Recommendation: General Fund | LFC Recommendation: Other State Funds | LFC Recommendation: ISF/IAT | LFC Recommendation: Federal Funds | LFC Recommendation: Total | R/N |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 9 | 460 | State Fair Commission | To help cover the projected revenue shortfall for FY2010. The State Fair expects to reduce operating costs throughout the remainder of 2010 to eliminate the need for requesting the full $800 thousand shortfall. | 600.0 | | | | 600.0 | N | - | - | - | - | - | N |
| 10 | 630 | Human Services Department | To help cover the projected shortfall. The caseload for the TANF program has grown significantly due to the economic condition of the State. The Department as part of the solvency plan for FY10 and FY11 shifted costs from the general fund to the TANF block grant. | - | - | - | 3,100.0 | 3,100.0 | N | - | - | - | - | - | N |
| 11 | 630 | Human Services Department | Language to re-appropriate $4 million from Senate Bill 79 for FY10 shortfall in Medicaid. | - | - | - | - | - | N | **Language only** | - | - | - | | N |
| 12 | 630 | Human Services Department | To re-appropriate $1.5 million from Senate Bill 79 for FY10 shortfall in Medicaid. | - | - | - | - | - | N | **Language only** | - | - | - | | N |
| 13 | 647 | Developmental Disabilities Planning Council | To help cover a projected shortfall in PS&B. The shortfall will result in the closing of the entire Office of Guardianship for six weeks and 2.5 days, leaving no oversight of the Corporate Guardians and their protected persons. | 143.2 | - | - | - | 143.2 | N | - | - | - | - | - | N |
| 14 | 795 | Department of Homeland Security | To allow the department to match additional federal grant funds. The dollars will allow the department to address emergencies/disasters within the state. | 100.0 | - | - | - | 100.0 | N | - | - | - | - | - | N |
| | **SUPPLEMENTAL TOTAL** | | | **4,622.1** | **4,000.0** | **-** | **3,100.0** | **11,722.1** | | **-** | **-** | **-** | **-** | **-** | |
| | **DEFICIENCY APPROPRIATIONS:** | | | | | | | - | | | | | | | |
| 1 | 370 | Secretary of State | To repay the Board of Finance for the loan received to pay the costs associated with the 2008 primary election. | 550.3 | - | - | - | 550.3 | N | - | - | - | - | - | N |
| 2 | 370 | Secretary of State | To repay the Board of Finance for the loan received to pay for the additional ballots needed in the 2008 general election | 150.0 | - | | | 150.0 | N | - | - | - | - | - | N |
| 3 | 370 | Secretary of State | To repay the Board of Finance for the loan received to pay for the 2008 primary election recount. | 41.1 | - | | | 41.1 | N | - | - | - | - | - | N |
| 4 | 370 | Secretary of State | To repay the Board of Finance for the loan received to pay for the expenses incurred by the prior administration for oracle software licensing. | 59.3 | - | - | - | 59.3 | N | - | - | - | - | - | N |
| 5 | 460 | State Fair Commission | To eliminate the Unrestricted Fund Balance Deficit that has been building up since FY2004 | 1,047.9 | - | - | - | 1,047.9 | N | - | - | - | - | - | N |
| 6 | 669 | NM Health Policy Commission | To cover the shortfall in PS&B and other costs. | 5.3 | - | - | - | 5.3 | N | - | - | - | - | - | N |
| | **DEFICIENCY TOTAL** | | | **1,853.9** | **-** | **-** | **-** | **1,853.9** | | **-** | **-** | **-** | **-** | **-** | |
| | **SPECIAL/NEW INITIATIVE, SUPPLEMENTAL & DEFICIENCY TOTAL** | | | **21,302.9** | **6,600.0** | **3,087.0** | **3,100.0** | **34,089.9** | | **200.0** | **3,879.7** | **3,087.0** | **-** | **7,166.7** | |
| | **INFORMATION TECHNOLOGY** | | | | **-** | **-** | **-** | **-** | | **-** | **-** | **-** | **-** | **-** | |
| | **GRAND TOTAL** | | | **21,302.9** | **6,600.0** | **3,087.0** | **3,100.0** | **34,089.9** | | **200.0** | **3,879.7** | **3,087.0** | **-** | **7,166.7** | |

TABLE 6

## INFORMATION TECHNOLOGY REQUESTS - FY11
**Agency Requests and LFC Staff Recommendations**
(in thousands)

| System Replacement / Enhancements | | | Agency Request | | | |
|---|---|---|---|---|---|---|
| Code | Agency | System Description | General Fund | Other State Funds | Federal Funds | Total |
| 218 | Administrative Office of the Courts | Case Management | | $895.0 | | $895.0 |
| 264 | Administrative Office of the District Attorneys | Desktop Computers | $508.0 | | | $508.0 |
| 264 | Administrative Office of the District Attorneys | Microsoft Office | $108.0 | | | $108.0 |
| 333 | Taxation and Revenue Department | Taxation and Revenue Department Online | $500.0 | | | $500.0 |
| 333 | Taxation and Revenue Department | Business Continuity | $1,041.0 | | | $1,041.0 |
| 333 | Taxation and Revenue Department | GenTax Refund and Treasury Offset Upgrade | $768.0 | | | $768.0 |
| 333 | Taxation and Revenue Department | Interactive Voice Response (IVR) Replacement | $750.0 | | | $750.0 |
| 333 | Taxation and Revenue Department | Driver and Vehicle System Replacement | $3,120.0 | | $833.0 | $3,953.0 |
| 333 | Taxation and Revenue Department | Enhanced Drivers License | $1,000.0 | | | $1,000.0 |
| 333 | Taxation and Revenue Department | Oil and Natural Gas Accounting and Reporting Database Replacement | $3,000.0 | | | $3,000.0 |
| 350 | General Service Department | Electronic Content Management Document Conversion | $1,100.0 | | | $1,100.0 |
| 350 | General Service Department | Electronic Content Management Administrative Services | $650.0 | | | $650.0 |
| 350 | General Service Department | Procurement Optimization | $500.0 | | | $500.0 |
| 369 | State Commission on Public Records | Central Electronic Records Repository | $1,031.0 | | | $1,031.0 |
| 370 | Secretary of State | Commercial Filings System Replacement | $651.7 | | | $651.7 |
| 370 | Secretary of State | Voter Registration and Election Management System Enhancements | $125.0 | | | $125.0 |
| 370 | Secretary of State | Disaster Recovery & Business Continuity | $95.1 | | | $95.1 |
| 370 | Secretary of State | Campaign Finance Reporting | $55.0 | | | $55.0 |
| 420 | Regulation and Licensing Department | Permitting System Replacement | $830.0 | | | $830.0 |
| 539 | Commissioner of Public Lands | Land Management System | | $3,100.0 | | $3,100.0 |
| 550 | State Engineer Office | Water Rights Modernization | $300.0 | | | $300.0 |
| 550 | State Engineer Office | Interstate Stream Commission Electronic Content and Document Management System | $200.0 | | | $200.0 |
| 550 | State Engineer Office | Dam Safety System | $450.0 | | | $450.0 |
| 550 | State Engineer Office | Pecos Well Field and Surface Water Measurement | $300.0 | | | $300.0 |
| 630 | Human Services Department | Income Support Division Integrated Service Delivery System Replacement | $10,077.4 | | $12,316.9 | $22,394.3 |
| 690 | Children, Youth and Families Department | Juvenile Management System (Cambiar) | $3,087.8 | | | $3,087.8 |
| 690 | Children, Youth and Families Department | Family Automatic Client Tracking System Protective Services | $925.0 | | | $925.0 |
| 690 | Children, Youth and Families Department | Child and Adult Care Food System | $940.0 | | | $940.0 |
| 690 | Children, Youth and Families Department | Server Consolidation | $611.0 | | | $611.0 |
| 770 | Corrections Department | Criminal Management Information System | $1,500.0 | | | $1,500.0 |
| 770 | Corrections Department | Electronic Content Management | $200.0 | | | $200.0 |
| 790 | Department of Public Safety | Server Consolidation | $4,000.0 | | | $4,000.0 |
| 790 | Department of Public Safety | Automated Fingerprinting Information System Enhancement (FastID) | $800.0 | | | $800.0 |
| 790 | Department of Public Safety | Computer-aided Dispatch Replacement | $7,000.0 | | | $7,000.0 |
| 924 | Public Education Department | P-20 System (1) | $4,379.6 | | | $4,379.6 |
| 924 | Public Education Department | Student and Teacher Accountability Reporting System User Interface | $4,250.0 | | | $4,250.0 |
| 924 | Public Education Department | Electronic Student Management System | $285.0 | | | $285.0 |
| 924 | Public Education Department | Charter School Student Information System | $1,250.0 | | | $1,250.0 |
| 924 | Public Education Department | Student and Teacher Accountability Reporting System Annual Yearly Progress Upgrade | $210.0 | | | $210.0 |
| 924 | Public Education Department | Electronic Student Management System Carve Your Path Interface | $575.0 | | | $575.0 |
| 924 | Public Education Department | Teacher Licensure System Automation Enhancement | $500.0 | | | $500.0 |

TABLE 6

## INFORMATION TECHNOLOGY REQUESTS - FY11
**Agency Requests and LFC Staff Recommendations**
(in thousands)

| System Replacement / Enhancements | | | Agency Request | | | |
|---|---|---|---|---|---|---|
| **Code** | **Agency** | **System Description** | **General Fund** | **Other State Funds** | **Federal Funds** | **Total** |
| 924 | Public Education Department | Student and Teacher Accountability Reporting System School and District Training | $200.0 | | | $200.0 |
| 924 | Public Education Department | Educational Plan for Student Success | $350.0 | | | $350.0 |
| 924 | Public Education Department | Server Consolidation | $500.0 | | | $500.0 |
| 950 | Higher Education Department | Innovative Digital Education and Learning - Higher Ed Learning Management System | $1,642.0 | Withdrawn | | $1,642.0 |
| **Information Technology Total** | | | **$60,365.6** | **$3,995.0** | **$13,149.9** | **$77,510.5** |

(1) PED is seeking an Institution for Education Sciences (IES) grant and will probably drop its request for general fund

**Highlighted Entries are Agency #1 priorities**

NEW MEXICO STATE
PRINTING & GRAPHICS
A DIVISION OF GENERAL SERVICES DEPARTMENT