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State of New Mexico
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Fifty-First Legislature, Second Session
State Capitol
Santa Fe, New Mexico 87501

Dear Fellow Legislators:

Pursuant to Section 2-5-4 NMSA 1978, the fiscal year 2015 budget recommendation of the Legislative Finance Committee is provided to you. The committee recommendation for recurring appropriations from the general fund is \$6.15 billion, \$253.5 million more than the FY14 operating budget. A stronger economy, less need for state dollars for the Medicaid program, and conservative growth in the state's largest agencies provided the committee with the opportunity to strategically address many of the state's biggest challenges. Using evidence of success as a guide, the committee invested in the legislative priorities of early childhood, public schools, higher education, and health care. In addition, this budget contains not only an effort to improve pay for neglected state employees but also attract and retain the best employees, especially in certain agencies, and reward strong performance.

The spending level in this recommendation leaves reserves at a prudent 9.5 percent, a cautious approach that reflects continuing concerns about unresolved issues on the federal level, the still-undetermined cost of reconciling the state's cash, and the potential loss of federal special education money.

The committee recommends an average increase for state agencies of 4.3 percent, with greater than 5 percent for both public schools and higher education. The committee supports an additional \$184 million for education for FY15, on top of the \$150 million increase for education in FY14. More than \$3.5 billion of the committee's recommendation is targeted at education.

In response to overwhelming evidence that healthy early childhood development is critical to long-term success and a cost-effective investment for the state, the committee recommends \$35 million in new spending for early literacy, an extended school-year program, prekindergarten, childcare assistance and caregiver training, home visits to families with infants, and other early childhood programs.

The recommendation also addresses specific needs in public safety and economic development, with an emphasis on programs with strong track records.

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 prioritizes cost-effective spending that provides the most benefit to New Mexicans.

Sincerely,

A handwritten signature in dark ink, reading "Lucky Varela".
Representative Luciano "Lucky" Varela, Chairman

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REPORT OF THE LEGISLATIVE FINANCE COMMITTEE TO THE FIFTY-FIRST LEGISLATURE SECOND SESSION

VOLUME I LEGISLATING FOR RESULTS: POLICY AND PERFORMANCE ANALYSIS

JANUARY 2014
FOR
FISCAL YEAR 2015

REPRESENTATIVE
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CHAIRMAN

SENATOR
JOHN ARTHUR SMITH
VICE CHAIRMAN

DAVID ABBEY
DIRECTOR

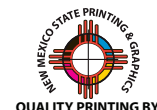


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Recommendations & Highlights

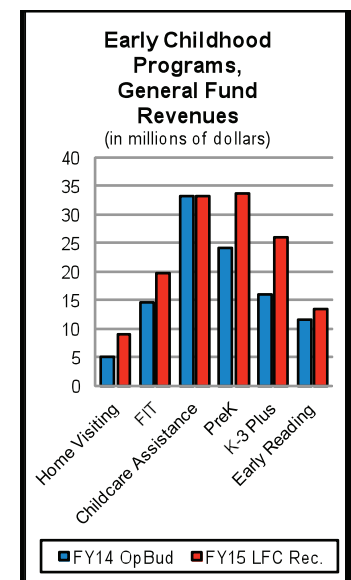
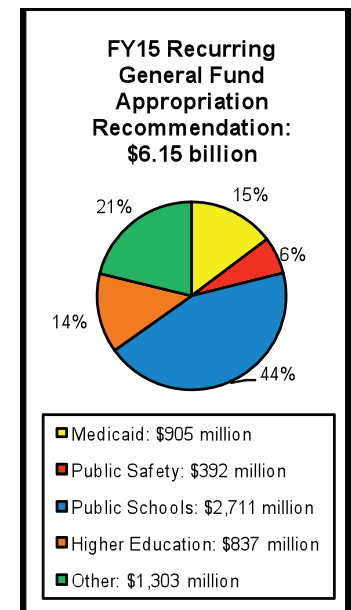
New Mexico's strengthening economic recovery provided lawmakers with an opportunity to address many strategic challenges facing the state. Revenue growth, projected at 5.5 percent, combined with conservative spending requests in the largest state agencies and a reduced need for state support in the Medicaid program, allowed for increased spending on legislative priorities, including improved educational outcomes; increased early childhood investment; improved public health, workforce development, and public safety outcomes; the protection of vulnerable citizens; and programs that encourage economic growth.

Budget Development. With FY15 general fund revenues projected to reach pre-recessionary levels and FY13 and FY14 reserves projected at a healthy 10.9 percent, revenue estimators in August announced the amount of “new money” – defined as FY15 projected recurring revenue less FY14 recurring appropriations – was \$295 million. However, that was revised downward in December \$3.1 million to \$292 million.

Against the backdrop of slow economic growth and continued uncertainty regarding the potential decrease in federal revenues due to sequestration, unreconciled potential payables against the state's cash position, the possibility of reduced federal special education allocations, and the disposition of a \$65 million prior-year Medicaid receivable, the committee recommended \$6.15 billion, \$253.5 million more than FY14 operating levels, leaving \$26.2 million of the “new money” unspent and reserves at 9.5 percent.

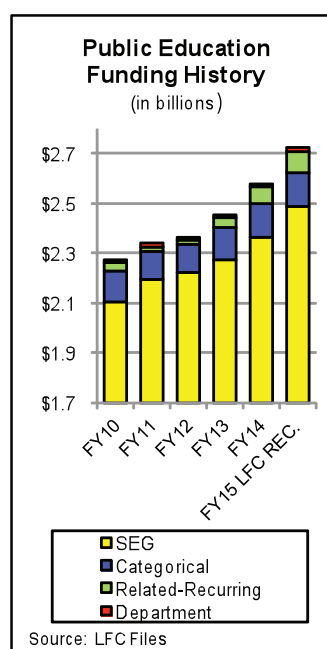
Collectively, agencies requested spending growth of \$180 million, or 3.1 percent, over FY14 appropriation levels. However, after adjusting for the six largest agency budgets and education, the remaining agencies requested spending growth of 13.4 percent. The committee recommended an average spending increase of 4.3 percent, including a compensation increase, with public schools and higher education at the higher end of the spending growth at 5.6 percent and 5.1 percent respectively.

Early Childhood. The LFC recommendation increases funding for early childhood initiatives by \$35 million, a 17 percent increase over FY14 appropriations. The increased funding includes \$12 million for early literacy programs and the K-3 Plus extended school year program, \$9.7 million for prekindergarten, \$5.3 million for the Family, Infant, Toddler (FIT) program, \$2.3 million for childcare assistance, \$4 million for home visits to families with infants, \$700 thousand to support provider training and education advancement, \$500 thousand to help childcare registered home providers implement quality initiatives. The recommendation also uses \$5.8 million of unspent Temporary Assistance for Needy Families (TANF) carry-forward funds in the childcare program.



Recommendations & Highlights

Continuing with its commitment to improve child well-being, LFC added \$35 million for early childhood initiatives in FY15, which raised the total spending level to \$103 million, a 75 percent increase since FY12.



The recommendation also includes funding increases aimed at improving the quality of early childhood programs, including \$6 million for initiatives in prekindergarten, home-visiting program, provider education and training, and planning for a research-based high-quality early childhood development program. The recommendation also reflects \$9.4 million the state will receive annually for four years from the Race to the Top-Early Learning Challenge (RTT-ELC) federal grant for a childcare quality rating system and professional development.

Education. Following an increase of \$150.4 million, or 5.4 percent, in recurring general fund appropriations for education in FY14, the committee recommends an additional \$183.5 million for FY15. Almost \$3.55 billion, or 58 percent, of the overall committee recommendation is targeted to education.

Public Schools. The committee recommends a little more than \$2.7 billion in overall funding for public education, an increase of \$142.9 million, or 5.6 percent over FY14 appropriations. This includes increases for Education Retirement Board contributions, insurance premiums, fixed costs, and enrollment growth; increased funding for at-risk students and small school districts; and significant funding for employee raises, an additional cost-of-living adjustment for educational assistants, and an increase in the minimum salary for entry level teachers. The recommendation relies on the public education formula to equitably distribute a majority of the increased funding to school districts and charter schools and continues existing initiatives that have the greatest impact on student outcomes and target at-risk students, including a 29.3 percent increase for recurring initiatives almost entirely targeted for early childhood education. The committee continues to emphasize the importance of early childhood care and education and recommends significantly increased funding for K-3 Plus and prekindergarten, by \$10 million and \$7.5 million, respectively. These programs target at-risk students and demonstrate a high return on investment.

Higher Education. The committee recommends \$836.6 million in general fund appropriations for FY15, an increase of \$40.6 million, or 5.1 percent, over FY14 appropriations. The recommendation increases support for the instruction and general (I&G) formula funding (\$18.6 million), the University of New Mexico Health Sciences Center instruction and general expenditures (\$500 thousand), research and public service projects (\$8.1 million), the employer contribution to the education trust fund pursuant to Section 21-11-21 NMSA 1978 (\$3.8 million), and a 1.5 percent cost-of-living adjustment for eligible faculty and staff (\$9.7 million).

A recent LFC evaluation of the state's healthcare workforce called for expanding the capacity of graduate nursing education, undergraduate nursing education, and resident physician programs, in addition to increasing loan repayment programs for licensed healthcare practioners in New Mexico. In direct response, LFC recommends \$11.6 million in total funding to achieve these goals, including \$5.3 million in new general fund support for FY15. If enacted, this recommendation would add 24 advanced nurse practioners within two years, 160 associate and bachelor's degree nursing students in two to four years, and nine residents who could practice in two to five years.

Recommendations & Highlights

It would also grow the number of practioners immediately through the loan repayment programs.

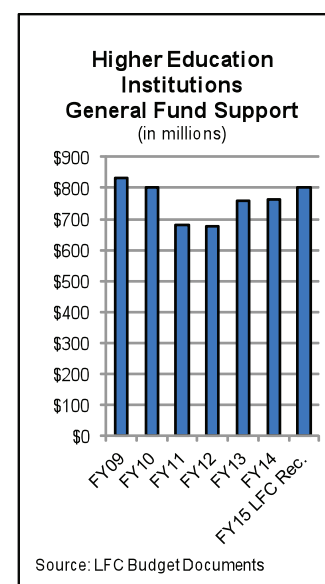
LFC recommends both a short-term and long-term solution to address revenue shortfalls in the Legislative Lottery Scholarship Program. For FY14, the committee recommends an \$11 million supplemental appropriation of financial aid fund balance to mitigate dramatic reductions to spring 2014 semester scholarship amounts. For FY15, the committee proposes supplemental general fund appropriations totaling \$10.9 million contingent on legislation being enacted during the session that improves program stability. While the LFC's recommendation includes funding to maintain scholarship awards and program criteria for students who have received the scholarship for four or more semesters, the recommendation suggests program changes to improve solvency, such as setting flat scholarship amounts for students attending research, comprehensive, and two-year colleges; increasing the grade point average required to maintain scholarship availability; and requiring students attending four-year colleges to complete 15 credits per semester.

Healthcare. The committee's general fund recommendation for Medicaid and Medicaid Behavioral Health is \$905 million, a \$24.1 million, or 2.7 percent, decrease compared with FY14. Key factors in the cut are the availability of more federal funds – \$18.2 million in new drug rebate revenue and \$8 million in savings from an improved federal match rate – and \$13.4 million in savings from updated Medicaid projections. Although the department is projecting a decrease in general fund spending, total funding for the combined program is increasing by \$361 million in FY15 to \$4.7 billion due to a Medicaid expansion for low-income adults, covered by federal funds under the Affordable Care Act.

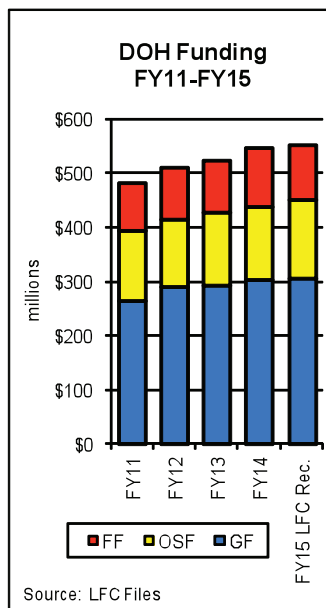
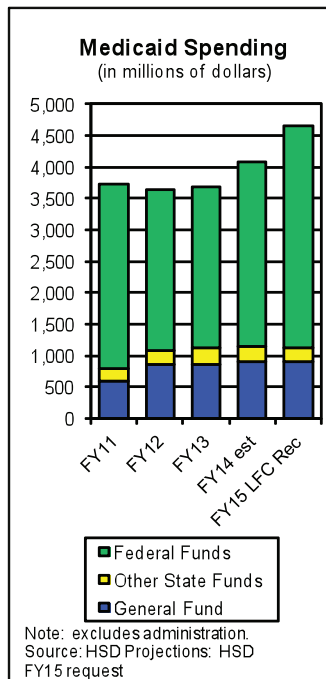
Key policy issues heading into FY15 include whether Medicaid enrollment for newly eligible adults will reach the forecasted level of 163 thousand, the future of tobacco distributions given tobacco manufacturer legal actions against New Mexico, and the impact of new Medicaid coverage for adults on the behavioral health system. A current issue of concern is the future level of state payments to hospitals. The LFC recommendation for spending from the general fund includes \$10 million for a hospital rate increase contingent on county financial participation. The rate increase is to help offset a reduction of almost \$200 million in funding available for hospitals for uncompensated care (the former Sole Community Provider program). In behavioral health, the \$60.3 million recommendation includes \$38 million in general fund support, a reduction of \$4.3 million. The majority of the savings are due to a reduced need for state-funded services due to Medicaid expansion and \$1 million in savings from not renewing the OptumHealth managed-care contract. The LFC recommendation includes another \$12.1 million in general fund support reallocated to non-Medicaid eligible services and for oversight and compliance activities.

LFC recommends \$1.6 million of the \$4.6 million requested (including 5 FTE) to enhance program management, including quality and compliance activities. The recommendation includes language specifying that contractual services funding is not to be used for a managed-care contractor; the BHSD

The committee recommends \$74 million for compensation for employees of public schools and institutions of higher education, including a 1.5 percent cost-of-living increase, 1.5 percent for higher education institutions to support performance-based incentives, and 1.5 percent for public schools to allocate based on local needs and priorities.



Recommendations & Highlights



should be able to manage the funds with the assistance of a third-party administrator to pay claims. The \$3 million savings is reallocated in the LFC recommendation to provide a total of \$7 million for non-Medicaid services. Funding for value-added services, such as transitional living and the crisis phone line, is at the agency request of \$3.5 million.

The Department of Health's FY15 recommendation is \$551.8 million, with general fund revenue totaling \$305.2 million, an increase of 1 percent over FY14. The recommended funding level reflects reprioritization of personal services and employee benefits funding within other funding categories and divisions in the department. The recommendation includes an increase of \$5.2 million to support an additional 672 infants and children within the FIT Program. The recommendation adds \$4.1 million to serve 225 more individuals with home and community-based care covered under the Developmental Disabilities (DD) Medicaid waiver and reduce the waiver waiting list. At the end of FY13, 3,829 developmentally disabled clients were receiving services under the DD Medicaid waiver, but 6,248 individuals remained on the waiting list for services. At a recommended level of \$6.8 million, tobacco settlement program funds are maintained at the same program funding levels as FY14.

Public Safety. The committee recommendation from the general fund for the Corrections Department (NMCD) is \$275.5 million, or 1.8 percent, over the FY14 operating budget. Recommended funding levels recognize that department efforts to reduce recidivism should begin producing results and allows for a 2.3 percent increase to the inmate population, not 3.4 percent as requested. NMCD should realize \$4.5 million in healthcare savings for inmates who stay in a hospital for longer than 24 hours and new eligibility for behavioral health services for parolees outside of prison because of the Medicaid coverage under the Affordable Care Act. The committee recommendation provides \$1.5 million for community-based employment, training, and education services; for evidence-based, wraparound, comprehensive mental health and supportive services to parolees who suffer from mental illness; and to expand existing department-funded support for drug courts, estimated to reduce recidivism by 12 percent. Additionally, inmate education is the most cost-effective evidence-based recidivism reduction program operated by the department. The committee recommendation would expand inmate education by \$1.5 million.

The committee recommendation for the Department of Public Safety includes \$104.4 million from the general fund, including \$5.8 million to replace general fund revenue with road fund revenue in the Motor Transportation Program (MTP). The recommendation retains MTP and the Law Enforcement Program as separate programs and includes \$240 thousand to fund operations at the New Mexico DNA administrative center and \$4.4 million to replace about 135 vehicles.

Transportation. The committee recommends \$833 million for the Department of Transportation (NMDOT), a decrease of \$31.6 million, or 3.7 percent, compared with the FY14 operating budget. The agency receives no general fund monies and relies on federal and state road fund revenues. The July 2013 state road fund forecast indicated FY14 year-to-date actual

Recommendations & Highlights

revenues are flat with the January 2013 estimate of \$384.7 million, but the FY15 projection is \$386.2 million, an increase of \$1.5 million, or 0.4 percent, compared with the FY14. The next revenue forecast will be available in January 2014. The department continues to face significant budgetary shortfalls in both construction and maintenance, the former totaling nearly \$880 million and the latter \$330 million. Shrinking revenues coupled with the increasing needs and costs of planning, constructing, operating and maintaining the state's roads indicate New Mexico's transportation infrastructure is in near crisis. As of June 2013, the state had nearly \$1.9 billion in debt obligations, including \$1.1 billion owed for the projects under GRIP and \$477 million the state road fund pays for the Rail Runner.

The recommendation applies additional vacancy savings of \$879.1 thousand to the Programs and Infrastructure (PINF) Program, \$2 million to the Transportation and Highway Operations (THOP) Program, and \$551 million to Program Support and eliminates the transfer of \$5.8 million in state road funds to the Department of Public Safety (DPS) for the operation of the Motor Transportation Program. It redirects the entire amount to the contractual services category in the THOP Program to fund the maintenance of state roads, highways, and bridges.

The FY15 NMDOT budget request included no capital outlay funding, but the recommendation includes funding for major investments in road improvement projects statewide.

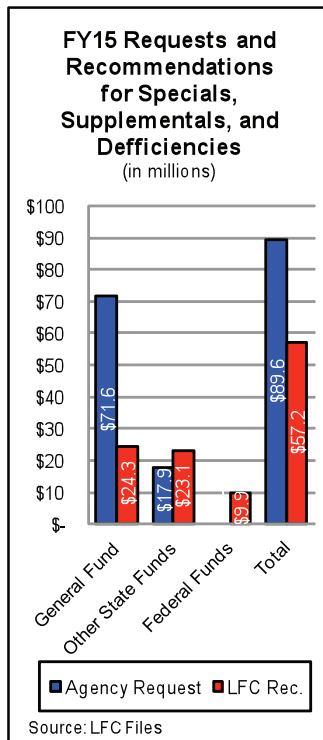
Capital Outlay. State agencies, higher education institutions, special schools, and local government entities requested \$1.7 billion for capital projects, compared with \$352 million available capacity from severance tax bonds and general obligation bonds. An additional \$232.1 million is earmarked specifically for public schools, water, colonias and tribal infrastructure. The LFC staff framework for consideration by the Legislature proposes \$178.7 million from severance tax bonds, nearly \$64 million from "other state funds," and \$167 million from general obligation bonds. The proposal reflects the most critical projects impacting public health and safety, preservation of roads and state facilities, and project completion.

Recognizing infrastructure funding is critical to the public health, safety, and economic vitality within New Mexico's communities, the Legislature's major challenge in 2014 is addressing the state's responsibility for state-owned and -operated facilities while at the same time meeting expectations to fund local needs with limited resources. The more than \$1 billion requested by eligible local entities reflects only the top five priorities listed in the Infrastructure Capital Improvement Plan. The order of project priorities ranged from quality of life (fire and public safety, vehicles, parks, cultural facilities, etc.), to transportation, environment, and water projects.

Compensation. The executive did not provide the committee with a plan to address ongoing recruitment and retention issues in the state or compensation rates which, except for a 1 percent cost-of-living adjustment last year, have remained mostly unchanged for more than a half decade. The committee recommendation provides \$49.6 million for a 1.5 percent cost-of-living (COLA) increase for all state, public school (including public school

For FY15, LFC recommends an additional \$2 million in the Tourism Department base budget for general advertising and a special appropriation of \$500 thousand for cooperative advertising grants, increasing resources for communities to promote local assets. Combined with the \$2 million increase for FY14, this more than doubles the advertising budget for the agency compared with FY13. The leisure and hospitality industry is leading New Mexico's job growth, representing more than half of the state's total job gains during FY13. Additionally, an agency contractor reports the department's 2012 spring and summer advertising campaign generated a 3-to-1 return on investment.

Recommendations & Highlights



educational assistants and transportation employees), and higher education employees who are not on probation and have satisfactory job performance. Further, \$39.9 million is provided for state employees and public school employees, distributed through the public school funding formula for school districts and charter schools, in the same proportion as the COLA, with flexibility at the agency and district level to spend on improving recruitment, retention, and turnover; addressing hard-to-fill positions and reducing the number of vacancies; improving salary compaction, or equity among employees; and acknowledging employees deserving of salary increases.

To address certain job classifications with exceptional recruitment, retention, and high turnover issues, the committee recommends \$3 million for State Police officers for an additional 5 percent salary increase to begin implementing the Law Enforcement Pay Plan presented to the committee in November 2013 and \$2 million for state classified employees in specific job classifications identified by the Department of Finance and Administration and State Personnel Office in which a combination of compensation problems exist. Within the recommendation for public school support, \$2.7 million is provided for an additional 3 percent increase for licensed educational assistants and \$4.5 million to increase the minimum salary for level one licensed teachers from \$30 thousand to \$32.5 thousand.

Deficiencies, Specials, Supplemental Appropriations. State agencies requested \$71.6 million from the general fund for special, supplemental, and deficiency appropriations. Requests from all funding sources totaled \$89.6 million. The general fund requests ranged from \$2.7 thousand to cover a supplemental appropriation in the Public Employee Labor Relations Board to \$14.4 million for the Public Education Department to meet federal special education maintenance-of-effort requirements in FY15. Finally, there were nine requests to extend the period of time to spend prior appropriations, federal reimbursements, and grants.

LFC recommends \$11.1 million from the general fund for nonrecurring special, supplemental, and deficiency appropriation requests including \$2 million for economic development projects pursuant to the Local Economic Development Act, \$1.5 million for common core state standards, and \$500 thousand for the MainStreet program. Recurring general fund special appropriations include \$10.3 million including \$8 million for the Legislative Lottery Scholarship Program contingent on program changes, \$1 million for the Job Training Incentive Program (JTIP), and \$500 thousand for the Tourism Department's cooperative advertising program. LFC also recommends \$2.9 million from the general fund to ensure students, who received four or more semesters of the legislative lottery scholarship, receive scholarship awards for full tuition costs for fiscal year 2015.

FY15 Information Technology Recommendations. The LFC recommendation for IT funding totaled \$17.5 million for seven agency projects. The recommendation reflects limited nonrecurring revenue available for IT in FY15; consequently, ongoing, well-prepared and well-managed system requests received funding priority. Projects determined to be non-critical, ill-prepared, or that could reasonably be delayed were not recommended. LFC IT funding recommendations are on Table 7.

Economic Forecast

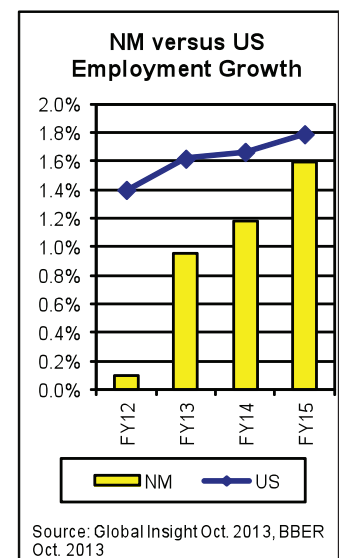
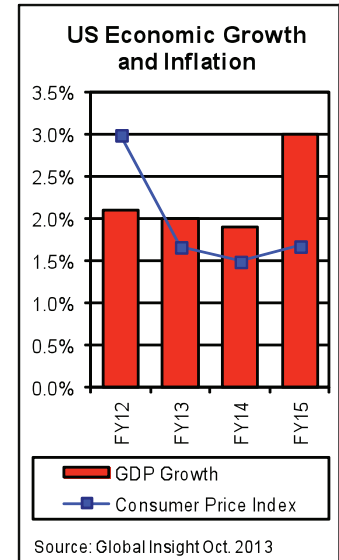
The recession was wrenching in New Mexico, particularly with respect to state revenues, which dropped 20 percent over two years. However, FY15 revenues are projected to reach the pre-recession level. Recent revenue trends include a surge in claims for certain tax credits and major 2013 corporate income tax reform, both of which reduce the recurring revenue forecast. The still-tenuous economic recovery, paired with continuing uncertainty about these revenue impacts, emphasizes the need for some revenue stability as appropriators build the FY15 budget.

ECONOMIC FORECAST

U.S. Economy. The world economy escaped severe shocks last year when the United States avoided the fiscal cliff, China avoided a hard landing, and the Eurozone did not break up. IHS Global insight's forecast paints a mixed picture of the U.S. economy, projecting economic growth of 1.9 percent through FY14 and increasing to 3 percent for FY15. Employment growth, housing activity, and auto sales are among the bright spots in the economy and underscore the solid foundations of the recovery and the likely pickup in growth over the coming quarters. However, the headwinds facing the economy remain strong. Fiscal drag is expected to continue through year-end, and there is no help coming from the rest of the world. Financial markets remain nervous over a statement by the Federal Reserve that "tapering" of the \$85-billion-per-month bond purchases may come to an end. Analysts expect this to occur in early 2014, but the probability of earlier action has risen.

New Mexico Economy. The New Mexico economy turned the corner from stagnation to growth in spring 2013. The housing market is improving, with the number of building permits up 15 percent in the first six months of 2013. Taxable gross receipts in the construction sector show strength, job growth in the private sector has been encouraging, and New Mexico's 6.6 percent unemployment rate continues to be below the national average of 7 percent. Although this low rate partially reflects a trend of discouraged workers leaving the labor force, the trend is reversing. Government payrolls, where deep cuts had offset gains in the private sector, experienced only minimal cuts, with local and state government even adding jobs.

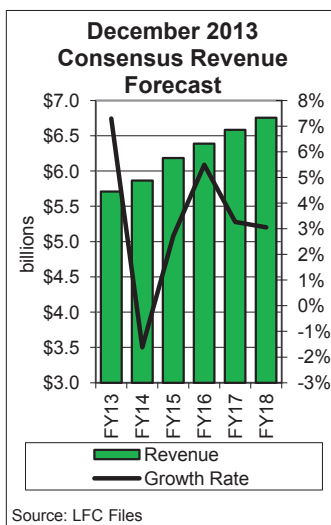
Still, New Mexico is not projected to regain the previous peak number of payroll jobs, about 820 thousand, until 2016, eight years after that level was first achieved. Private wages and salaries, a critical driver of gross receipts, are expected to grow by 3.6 percent in FY14 and 4.5 percent in FY15. Wages and salaries rose 21.2 percent between FY03 and FY08 while wages and salaries only rose 9.1 percent between FY08 and FY13. Assuming no further surprises, employment growth will continue to pick up pace into 2014.



Economic Forecast

New Mexico Employment Change: 2013 Q2 versus 2011 Q2 & 2012 Q2 (thousands of jobs)		
2013 compared with:	2011	2012
Total Non-Agricultural	8.7	8.5
Mining	4.6	1.7
Utilities	(0.0)	(0.0)
Construction	(1.1)	0.9
Manufacturing	(0.2)	(0.5)
Wholesale Trade	0.7	0.3
Retail Trade	0.8	0.5
Transportation	1.3	0.5
Information	(0.8)	0.1
Finance & Insurance	(0.1)	0.2
Real Estate, Rent	0.2	0.2
Prof. & Tech, Services	(1.8)	(0.4)
Mgt. of Companies	(0.1)	0.0
Admin. & Waste	0.5	1.0
Educational Services	0.5	-
Health Care & Social	3.3	1.6
Arts, Entertain. & Rec.	0.8	0.2
Accommodation & Food	2.4	1.6
Other Services	0.1	(0.1)
Local Government	(0.0)	0.8
State Government	(0.5)	0.5
Federal Government	(1.8)	(0.7)

Source: BBER - October 2013



In fall 2012, the Bureau of Business and Economic Research (BBER) prepared an estimate of the impact to New Mexico of a full automatic federal budget cut, or sequester. BBER estimated New Mexico could lose about 20 thousand full- and part-time jobs because of the direct, indirect, and induced impacts of cuts in federal spending. These cuts would be greatest in the national laboratories, health care, and government, including military spending. Other sectors could experience wage and salary reductions.

As part of the budget deal reached in October, federal lawmakers continued the sequester in federal fiscal year 2014. Passage of the proposed budget deal, the Bipartisan Budget Act, would increase the post-sequestration Budget Control Act caps by \$44.8 billion in FFY 2014 and \$18.7 billion in FFY 2015, with the increase in funding split equally between defense and nondefense. The agreement maintains sequestration of nonexempt mandatory programs and includes a variety of other spending offsets ranging from fee increases to program changes.

Energy Markets. Turmoil in the Middle East pushed crude prices toward \$110 per barrel in 2013, but prices fell back late in the year. U.S. oil production is booming, especially in Texas and North Dakota. Oil prices are expected to remain around \$93 per barrel (bbl) in FY14, with moderate declines in out years consistent with slower economic recovery and ongoing uncertainty in the oil markets. Oil volumes increased by 16 percent in FY12 and 17 percent in FY13. The forecast assumes a modest but positive growth of about 5 percent in FY14 and 4 percent in FY15. The New Mexico price differential to West Texas Intermediate is around \$5/bbl. Each additional \$1/bbl change in price sustained over one year is equivalent to an additional \$4.5 million in general fund revenue.

New Mexico natural gas prices continue to be above Henry Hub prices due to higher prices paid for natural gas liquids (NGLs), which trend with oil prices. Natural gas prices are forecasted to be lower due to expectations of national production growth and slow economic recovery.

New Mexico gas volumes fell by 1.6 percent in FY12 and 4.2 percent in FY13 and are expected to decline further as production moves to richer areas, such as in Texas and Pennsylvania. The NGL premium, which averaged 92 cents per thousand cubic feet in FY14, helps offset part of the decline in total production. Each 10 cent change in natural gas price is equivalent to an \$8.5 million change in general fund revenue.

Revenue Forecast. The December 2013 consensus revenue estimate projects FY15 revenue at \$6.2 billion, representing 5.5 percent growth over the \$5.9 billion projected in FY14. "New money" in FY15, defined as FY15 projected recurring revenue less FY14 recurring appropriations, is projected to be \$292 million, or 5 percent of FY14 appropriations.

The gross receipts forecast is strong, in particular from the oil and gas industry, with growth rates at 3.1 percent for FY14 and 5.9 percent for FY15. Gross receipt tax revenue is estimated to increase \$59 million in FY14 and is

Economic Forecast

forecasted to increase \$116.8 million in FY15. Estimated high wage jobs tax credit (HWJTC) claims are \$65 million in FY14 and \$15 million in out years.

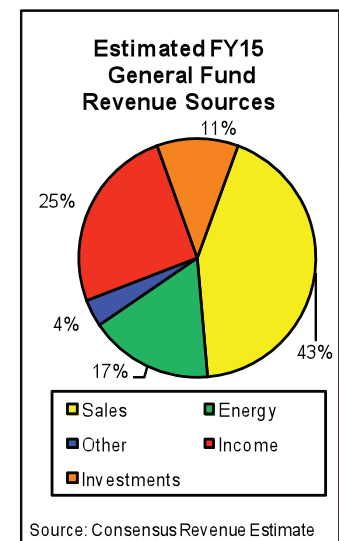
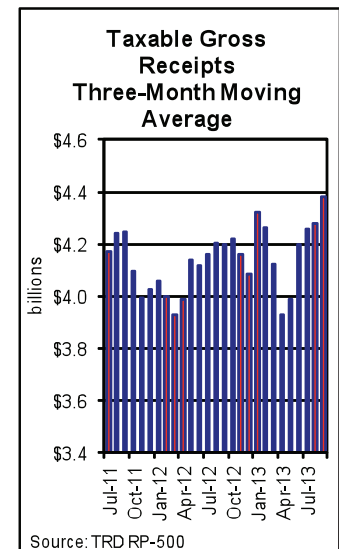
Personal income tax liability is expected to decrease 2.4 percent and increase 5.7 percent in FY14 and FY15, respectively. Strength in oil and gas withholding and capital gains adds to the growth in base liability. Fiscal year 2013 saw about \$45 million in nonrecurring revenues due to federal income tax increases for 2013, which encouraged wealthy people to shift income, such as capital gains, into 2012. This boosted state and federal tax revenues for the last two quarters, but this will not persist.

Preliminary FY13 corporate income tax (CIT) receipts fell just below the revenue estimate. Beginning with FY14, the estimate for this revenue begins to include a downward adjustment to reflect 2013 legislation that lowered the tax rate and allowed single-sales-factor income apportioning for some corporations. Fiscal year 2014 CIT revenues are projected to grow 4.4 percent, while FY15 revenue growth is projected to be 3.6 percent. The CIT forecast accounts for the effect of the film production tax credit, estimated to total \$50 million in FY14 and each year thereafter.

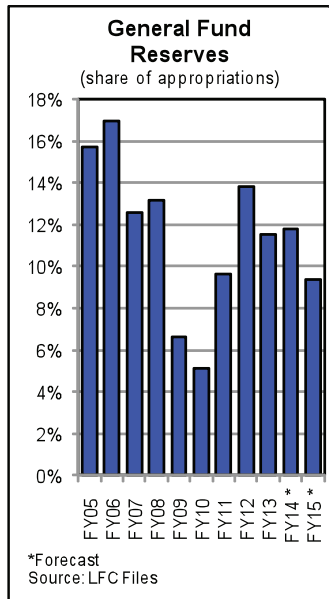
The assumed strength in oil prices and production volumes contributes to strength in royalty and bonus revenues from extractive activity on federal land. Federal mineral leasing (FML) revenue sequestered in FFY13 was returned to New Mexico, but 8 percent of FFY14 FML transfers are also being sequestered, representing a nonrecurring revenue loss in FY14.

Revenues associated with the permanent funds will see some growth in FY15. Distributions are based on a rolling average of the last five calendar years' market value for the respective funds. As low market values dating from recession years drop out of the calculation of the five-year average, the distribution is projected to increase. In FY12, the rate of distribution from the land grant permanent fund to beneficiaries decreased from 5.8 percent of the fund's market value to 5.5 percent in FY13 through FY16. The distribution is scheduled to decline to 5 percent beginning FY17.

The FY14 insurance premium tax estimate contains the first fiscal impacts from the Affordable Care Act (ACA). Premiums are paid quarterly and the impact will begin in the last quarterly payment for FY14; larger impacts are anticipated for subsequent years. The ACA is expected to increase revenues in three ways. The first is the "woodwork effect." HSD expects 11 thousand Medicaid-eligible persons to come out of the "woodwork" and enroll to avoid federal penalties on their 2014 taxes. Secondly, analysts expect some 12 thousand enrollees on the new healthcare exchange. Lastly, significant amounts of premium tax are diverted to the New Mexico Medical Insurance Pool (NMMIP), which provides access to health insurance to New Mexico residents denied health insurance and considered uninsurable. For FY14, NMMIP expects to assess health insurance companies \$76.2 million to fund the pool. Insurance carriers in turn claim a roughly 55 percent credit on assessments against premium tax liability. As insured people move from NMMIP to the exchange or to Medicaid, the assessments, and subsequently the credits, will diminish, increasing premium tax revenue.



Economic Forecast



Risks to the Forecast. A variety of factors could mean less revenue than projected. Federal legislative changes, such as continued sequestration in FFY14, could bring down gross receipts tax revenues and personal income growth in FY14 and beyond. Continued failure to reach a budget deal could lead to another federal shutdown, resulting in furloughs of many federal employees in the state. Delays in the implementation of some features of the ACA could also reduce insurance premium tax revenue. The revenue estimate relies heavily on inherently volatile oil and gas revenues. Slowing economic recovery could weaken energy prices and state revenues. In September, the arbitration panel hearing the tobacco manufacturers' challenge to New Mexico determined the state did not properly enforce the tobacco settlement master agreement in 2003. As a result, New Mexico will lose a portion of its FY14 MSA payment, estimated between \$12 and \$24 million.

Risks to the forecast that could mean more revenue than expected include potential for stronger growth in personal and corporate income tax revenues, particularly if the economic recovery gains momentum. Anticipated interest rate increases could contribute to increased earnings on balances in the State Treasury.

General Fund Reserves. Preliminary FY13 revenues fell short of appropriations by \$39.7 million, resulting in a reduction of FY13 reserves to \$618 million, or 10.9 percent of recurring appropriations. FY13 reserves reflect a \$31.7 million reduction to account for the most recent \$101.7 million estimate of the shortfall pursuant to the SHARE-cash reconciliation; however, that issue remains unresolved. A further risk to the general fund is the possible need for a Medicaid deficiency appropriation to cover a prior-year overstated receivable for the Human Services Department (HSD) of approximately \$65 million, dependent on conclusion of its FY13 audit. It may turn out that some is covered by the \$101.7 million allowance for potential loss account of the general fund operating reserve, but DFA is uncertain pending completion of its proposed cash reconciliation project. The revision to the FY14 revenue estimate is projected to reduce reserves \$56.2 million, resulting in an estimated FY14 reserve balance of \$560 million, or 9.5 percent. Considering the FY15 LFC spending recommendation, ending reserves are projected to be \$584 million or 9.5 percent of recurring appropriations.

Revenues & Tax Policy

The Legislature in 2013 addressed several pressing tax policy issues with one omnibus tax bill. Among its provisions, the legislation tightened qualifications for certain tax credits and deductions to minimize their cost to the general fund, reduced corporate income tax rates, and amended income-apportioning methods to make New Mexico more competitive in attracting business investment, and implemented a phase-out of certain state payments to local governments. Despite the impacts of these provisions, issues remain in each of these areas of tax policy.

Tax Expenditures. Each year, states spend billions of dollars on tax and financial incentives with the hope of spurring job growth. Incentives have increased in both frequency of use and size over the past 40 years. Some states are using incentives to engage in a bidding war with other states, offering increasingly lucrative deals for existing companies to relocate from one state to another.

Tax expenditures, tax credits, deductions, and exemptions that “cost” the state in foregone revenue have been an important component of the state’s budget for years, but the state only recently started to formally identify them and analyze their effects. Further legislative work may improve the effectiveness and limit the fiscal impact of several tax expenditures whose cost may have been initially understated.

New Mexico’s tax code has hundreds of tax expenditures and each major tax program affects virtually all taxpayers. These programs give people, groups and businesses tax credits, deductions, exclusions, exemptions, deferrals, and preferential rates in support of various government policies. Tax expenditures are not limited to economic development incentives. Some programs help people save for retirement, buy a home, or pay for college; others encourage companies to invest in green energy technologies. They even subsidize corporations that drill for oil or purchase real estate and much more.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure might be ambiguous, further complicating the initial cost estimate of the expenditure’s fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of the incentive. The timing of tax credit claims can also complicate estimates of a credit’s impact. In some cases, a credit can be carried forward for years, and it remains difficult to predict when it will be claimed.

During the 2013 session, the consensus revenue estimating group assessed the unexpected and drastic increase in end-of-tax-year claims for certain tax credits. In recent years, several tax expenditures for economic development have had a larger fiscal impact than when initially implemented. One tax

LFC TAX POLICY PRINCIPLES:

Adequacy:

Revenue should be adequate to fund needed government services.

Efficiency:

Tax base should be as broad as possible and avoid excess reliance on one tax.

Equity:

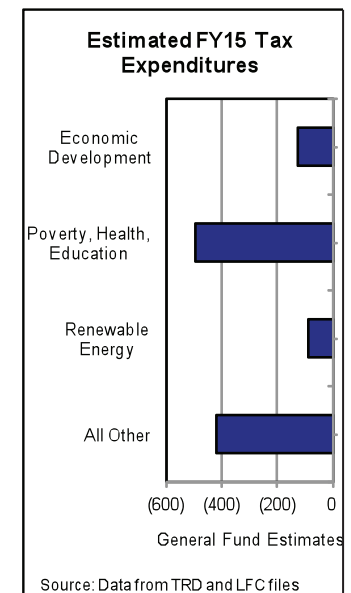
Different taxpayers should be treated fairly.

Simplicity:

Collection should be simple and easily understood.

Accountability:

Preferences should be easy to monitor and evaluate.



Revenues & Tax Policy

Most-Used Tax Expenditures		
Tax Expenditure	Claims (\$ thousands)	
	FY2011	FY2012
Food Sales Deductions Against GRT	\$217,892	\$227,344
Health Care Practitioners Deductions Against GRT	\$70,248	\$76,159
Prescription Drugs Deduction Against GRT or GGRT	\$61,000	\$61,000
NMMIP Assessment Credit Against Insurance Premium Tax	\$55,004	\$55,576
Medical Services Deduction Against GRT	\$47,100	\$49,000
Film Production Tax Credit	\$77,013	\$9,495

(See Volume III for a list of additional tax expenditures)

Corporate Income Tax (CIT) Rate Comparison	
NM	5.90%
AZ	6.97%
TX	N/A
CO	4.63%
OK	6.00%
UT	5.00%
U.S. Avg.	7.36%

expenditure in particular, the high-wage jobs tax credit, is estimated to cost \$65 million in FY14 due to an apparent “mining” of potential claims by several consulting accounting firms and due to increasing awareness of the potential tightening of qualification requirements.

The statute governing the credit was amended in 2013 to tighten the eligibility requirements for both employers and employees. This same legislation also changed the manufacturing tax credit to tighten the qualifying standards for businesses claiming this deduction.

Tax-Policy-Related Revenue Adjustments Assumed in (in millions of dollars)						
	FY 2014			FY 2015		
	Aug 13	Dec 13	Change	Aug 13	Dec 13	Change
Manufacturing	-\$7.9	-\$7.9	\$0.0	-\$13.6	-\$13.6	\$0.0
Film	-\$50.0	-\$50.0	\$0.0	-\$50.0	-\$50.0	\$0.0
HWJTC	-\$100.0	-\$65.0	\$35.0	-\$15.0	-\$15.0	\$0.0
Advanced Energy	-\$10.0	-\$10.0	\$0.0	-\$10.0	-\$10.0	\$0.0
TOTAL	-\$167.9	-\$132.9	\$35.0	-\$88.6	-\$88.6	\$0.0

Corporate Income Tax Rates and Reporting Methods. Legislation enacted in 2013 amended the Corporate Income and Franchise Tax Act to phase in a corporate income tax (CIT) rate reduction from 7.6 percent to 5.9 percent over five years. The legislation also amended the Uniform Division of Income for Tax Purposes Act (UDITPA) to phase in over five years an optional single-sales apportionment factor for businesses engaged in manufacturing. The “single-sales” factor, by which income is apportioned only on the percentage of sales made in the state, is the alternative in favor nationally. This formula does not punish firms for investing or employing workers within a state. In New Mexico, a single-sales formula will likely be selected by extractive and manufacturing industries. Mining and manufacturing pay well over half of New Mexico’s CIT and the statutory change is therefore estimated to have a negative fiscal impact.

The rate reduction will place New Mexico’s CIT rate in line with those of peer states. However, the effectiveness of such statutory changes in making New Mexico more business-friendly is subject to debate and warrants further analysis. TRD, DFA, and LFC have initiated such analyses and results are pending.

In September 2013, the National Conference of State Legislatures Executive Committee Task Force on State and Local Taxation sent a memorandum discussing legal questions regarding the impact of New Mexico’s membership in the Multistate Tax Compact. Litigation is pending in four states seeking to determine whether membership in the compact removes the state legislature’s control over corporate income tax apportionment and certain tax base definitions. The challenges are based on whether states have modified the traditional three-factor apportionment formula for determining corporate income subject to tax and whether out-of-state taxpayers are able to override state law by electing to use apportioning rules provided by the compact. It is unclear whether similar challenges can be expected in New Mexico, as the single-sales income apportioning is optional.

Revenues & Tax Policy

Gross Receipts Tax Rate and Base. The Gross Receipts and Compensating Tax Act provides for a large number of exemptions, credits, and deductions. These provisions have contributed to a narrowed tax base, and to maintain revenue adequacy, the state GRT rate of 5.125 percent, combined with local option GRT impositions, has increased to as high as 8.69 percent in some municipalities. This violates the LFC tax principle of efficiency, which states the tax base should be as broad as possible and avoid excess reliance on one tax. Legislation enacted in 2013 granting local governments additional rate authority (see below) could lead to even higher tax rates.

Further, pyramiding remains an issue in some industries as GRT applies to business-to-business purchases of supplies, raw materials, and equipment, creating an extra layer of taxation at each stage of production. Legislation enacted in 2012 to address tax pyramiding in the manufacturing and construction sectors was onerous to administer and more open-ended than intended, doubling its estimated impact. The manufacturing deduction allows firms to deduct tangible property consumed in manufacturing. The construction-service and equipment-leasing deductions apply to sales to a construction business for a taxable construction project. Future anti-pyramiding legislation should be carefully constructed to avoid ambiguity and uncertainty.

Adequacy and Equity of Local Government Revenues. The 2013 tax legislation phases out over 15 years the hold-harmless distribution to certain large municipalities and counties that offset the food and healthcare practitioner (medical) deductions. To minimize the revenue impact of the phase-out, local governments may impose up to a 3/8 of a percent GRT increase. If a county and a municipality in that county both impose the additional GRT, the rate may increase by 3/4 of a percent, further raising an already high tax rate. Limiting imposition of the county GRT to unincorporated areas could avoid this; however, TRD analysis shows this option would mean seven counties (including four “large” counties) would generate insufficient revenue to replace their hold harmless distributions.

Imposing the hold-harmless GRT early in the phase-out could be a windfall for some local governments. “Offsetting” the financial benefits of the windfall could remove an incentive for local governments to impose the local option GRT, helping to keep GRT rates lower for longer. One option is accelerating the phase-out of hold-harmless distributions to local governments if local option GRT revenue exceeds hold-harmless payments. Another option is to limit imposition of the local option GRT to the increment necessary to restore lost hold-harmless revenue. Further, current law does not permit referenda on imposition of a local option hold-harmless GRT. Making such impositions subject to referendum would give voters a voice, and rejected tax increases would contribute to keeping rates low.

Per TRD analysis, several municipalities would lose revenue and leave some local governments in trouble after the hold-harmless phase-out, even if they impose the 3/8 of a percent GRT. Policymakers should consider whether legislative changes, which may complicate the phase-out and increase the administrative burden, are desirable. Revenue reductions relative to the current hold-harmless distribution would not occur until late in the phase-out,

Current Law: Apportionment Formula Schedule	
Tax Yr	Apportionment Formula
2013	$\frac{(\text{sales})+(\text{property})+(\text{payroll})}{3}$
2014	$\frac{(2X\text{sales})+(\text{property})+(\text{payroll})}{4}$
2015	$\frac{(3X\text{sales})+(\text{property})+(\text{payroll})}{5}$
2016	$\frac{(7X\text{sales})+(1.5X\text{property})+(1.5X\text{payroll})}{10}$
2017	$\frac{(7X\text{sales})+(1.5X\text{property})+(1.5X\text{payroll})}{10}$
2018	$\frac{(\text{total sales in New Mexico})}{(\text{total sales})}$

Local Governments Automatically Affected by Hold-Harmless Phase-out	
Cities with Pop. > 10,000	
City	2010 Pop.
Alamogordo	30,403
Albuquerque	545,852
Artesia	11,301
Carlsbad	26,138
Clovis	37,775
Deming	14,855
Espanola	10,224
Farmington	45,877
Gallup	21,678
Hobbs	34,122
Las Cruces	97,618
Las Vegas	13,753
Los Alamos	18,074
Los Lunas	14,835
Lovington	11,009
Portales	12,280
Rio Rancho	87,521
Roswell	48,366
Santa Fe	67,947
Silver City	10,315
Sunland Park	14,106

Source: 2010 Census

Revenues & Tax Policy

Counties with Pop. > 48,000	
County	2010 Pop.
Bernalillo County	662,564
Chaves County	65,645
Curry County	48,376
Dona Ana County	209,233
Eddy County	53,829
Lea County	64,727
Mckinley County	71,492
Otero County	63,797
San Juan County	130,044
Sandoval County	131,561
Santa Fe County	144,170
Valencia County	76,569

Source: 2010 Census

giving local governments time to adjust budgets to prepare for the eventual reduction. Finally, counties might be better able to manage the phase-out if given additional budget flexibility through de-earmarking of some existing local option taxes. Counties may impose GRT increases for specific purposes, such as the 1/8 of a percent increment that must be dedicated to support indigent patients who reside in that county. Medicaid expansion and Affordable Care Act implementation may reduce the need to finance indigent care, and de-earmarking this revenue might increase county budget flexibility.

Taxing Internet Sales. After passing the U.S. Senate on a 69-to-27 vote in May 2013, the Marketplace Fairness Act stalled in the House due to concerns that collecting the sales taxes might be burdensome for small Internet businesses. In September 2013, the House Judiciary Committee chairman announced he would work on the legislation to allow states to collect sales taxes on Internet purchases, helping them capture an estimated \$23 billion lost annually from online sales. The chairman outlined a list of principles for any legislation on the issue, including making tax collection simple and inexpensive, particularly for small Internet sellers; calling for no new taxes to be established by the act; and ensuring protection of consumer information. The enactment of the Marketplace Fairness Act would likely increase revenue to New Mexico, but many larger retailers are already collecting and remitting sales taxes to states, so the revenue increase is not likely to be dramatic.

Audit and Compliance. The most recent federal estimate of the tax gap, the total amount of taxes owed but not paid by four categories of taxpayers (non-filers, under-reporters, under-payers, and fraudulent taxpayers), was \$450 billion. During the 2013 interim, the Taxation and Revenue Department developed an estimate of the tax gap in New Mexico. The TRD estimated the gross tax gap on PIT, CIT, and GRT to be \$573 million. TRD estimates its collection and enforcement efforts net about 30 percent of the gross tax gap, leading to a net tax gap of approximately \$400 million.

On a federal level, underreporting is the largest contributor to the tax gap accounting for an estimated four-fifths of the gross tax gap in 2006 and non-filing and underpaying of taxes accounted for most of the rest. The U.S. Government Accountability Office reported much of the misreporting could be attributed to sole proprietors underreporting receipts or over-reporting expenses. Unlike wage and some investment income, sole proprietors' income is not subject to withholding and only a portion is reported to IRS by third parties. A major finding in federal tax gap studies is that compliance is far higher when reported amounts are subject to information reporting and higher still when subject to withholding.

While New Mexico has been somewhat proactive at improving taxpayer compliance and limiting tax fraud, it could follow the lead of other states that have taken more action to reduce the "tax gap." A number of states have completed performance audits of their tax department collection efforts, modeled tax gap studies after the federal IRS model (or adopted their own tax gap analyses), developed strategic action plans, passed new legislation, and implemented new collection policies, procedures, and performance measures. A review of recent federal and state efforts indicate several potential areas for increased efforts to reduce the tax gap and limit tax fraud in New Mexico:

Revenues & Tax Policy

- Adopt penalties for the use of tax-zapping technology or phantomware (devices or software used to keep sales transactions off the books);
- Require monthly electronic reporting of wholesale alcohol and tobacco sales; and
- Develop and implement a multi-year action plan to address root causes of New Mexico's tax gap, including various types of tax fraud. This effort would help ensure limited audit and compliance resources are focused on initiatives with the greatest return on investment.

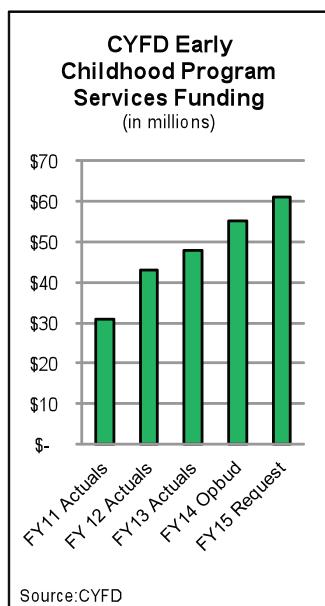
TRD reported it is taking several actions to reduce the tax gap:

- Tape matches: TRD compares federal Schedule C gross receipt records with state tax records and investigates inconsistencies.
- Federal Treasury Offset Program: Section 6402(e) of the US Tax Code allows federal tax refunds to be offset to collect delinquent state income tax obligations.
- Managed audits: This is a variation of traditional field audit. It allows taxpayers to conduct their own audit as specified in a managed audit agreement between TRD and the taxpayer.
 - TRD offers non-filers and under-reporters managed audits.
 - The taxpayer must be compliant once the audit is complete.
- GenTax upgrade: In July 2013 the department reported \$5.8 million in increased revenue since it began upgrading GenTax. The department has requested additional funding for "enhanced maintenance" of the system.

U.S. Government Accountability Office recommendations for reducing the tax gap:

- Enhance information reporting by third parties
- Ensure high-quality services to taxpayers
- Devote additional resources to enforcement
- Expand compliance checks before issuing refunds
- Leverage external resources, such as paid tax return preparers and whistleblowers
- Modernize information technology systems
- Simplify the tax code

Early Childhood



NCSL's Ranking of Highest Increases in Child Care FY13 General Fund Appropriations
(in millions)

State	Amount (Percent)
Texas	\$10.2 (12.4%)
Iowa	\$5.3 (9.4%)
Nebraska	\$4.7 (8.7%)
New Mexico	\$3 (11.2%)

Early childhood is arguably the most important period for brain development over an individual's lifespan. Brain development during the first years of life is highly influenced by an infant's environment and relationships. The earliest experiences can positively influence a child's neurological foundation and capacity for future learning, behavior, health, education, and economic participation. Highly stimulating early environments enhance child development and learning, especially during the first six months to three years of life. For children in less stimulating and less emotionally and physically supportive environments, brain development is harmed leading to cognitive, social, and behavioral delays. Studies show high levels of adversity and stress during early childhood can increase the risk of stress-related disease and learning problems well into the adult years.

Poverty and Early Childhood Development. Children living in poverty are exposed to more risk factors, which can impair brain development. Vocabulary growth among children from low-income homes lags middle-income peers, and without intervention this gap only widens as children age. This achievement gap becomes evident in children as young as 18 months of age and persists through adolescence. In New Mexico, non-English speaking, rural, and impoverished children are at a higher risk for developmental delays than their more affluent peers. Impoverished children lag in math skills, literacy, and social skills. Children who are consistently subjected to stressful environments develop weaker brain architecture, which later directly influences learning and performance. Many challenges faced by adults, such as mental health issues, obesity, heart disease, criminality, and poor literacy and math skills can be traced back to early childhood.

High-Quality Early Childhood Programs. Quality early education and health care, before age five, greatly impact future success and highlights the need for investments in targeted, evidence-based programs. Quality early childhood education can greatly enhance a child's performance in reading, math, and science proficiency while also reducing the need for remediation in later years. Quality programming will also improve the social and cognitive skills of children, with benefits extending throughout a child's life. Investments in high-quality early childhood programs produce future savings by reducing remediation needs in both public and higher education, special education, juvenile rehabilitation, and welfare assistance.

Results-driven programs promote healthy early development and lay the foundation for greater achievement, economic productivity, and responsible citizenship. The best early care environments maintain high-quality standards such as highly skilled teachers and caregivers, low caregiver and teacher-to-child ratios, language-rich environments, consistent and stable caregivers and

Early Childhood

teachers, healthy food, calm environments, and consistent participation. National research suggests future savings from investments in high-quality early childhood care and education can be \$7 for every \$1 invested into programs targeting children in poverty.

Investment in Early Childhood Programs and Standards. New Mexico continues to show leadership in early childhood care and education. The National Conference of State Legislatures (NCSL) ranked New Mexico among the highest in the nation for increased early childhood funding in FY13. In FY14, the Legislature substantially increased targeted funding to programs such as home visiting, Prekindergarten, and childcare assistance.

For early childhood programs to mitigate risk factors, improve educational performance, and better serve children, high-quality standards and alignment with geographical regions most in need of services are necessary. Building infrastructure and capacity is especially needed in rural and impoverished areas of the state. Children in these high-risk areas are less likely to have access to high-quality early childhood education centers and more likely to be serviced by a registered home daycare service. Continued investment in a continuum of services that support healthy childhood development is critical to improve outcomes for our young children.

Home Visiting. Home-visiting programs are available to expectant parents and families with new babies and young children. The program assists in addressing maternal and child health issues, supports positive parenting practices, and provide access to supportive services. Home visiting is an intensive parenting education program shown to effectively reduce child abuse and improve health. Additionally, home visits helps health professionals identify mothers with postpartum depression and connect them with behavioral health resources. In many instances, home visiting provides the first opportunity to address risk factors that may limit a child's development.

The Home Visiting Accountability Act (Act) recognized the impact of high-quality programs and defined statewide quality standards for home-visiting programs to improve prenatal, maternal, infant, and child health. The act supports a common framework for service delivery and accountability and allows for the collection and analysis of data to assist in the development of research-based programs. The act limits funding to programs that include periodic home visits by nurses, social workers, trained and supervised lay workers, or other health professionals. Currently, home visiting is primarily funded with revenues from the general fund, despite the potential to use Medicaid funds. The state should consider a Medicaid waiver, which would result in \$1.1 million in federal Medicaid dollars for every \$500 thousand in general fund revenues allocated to home visiting.

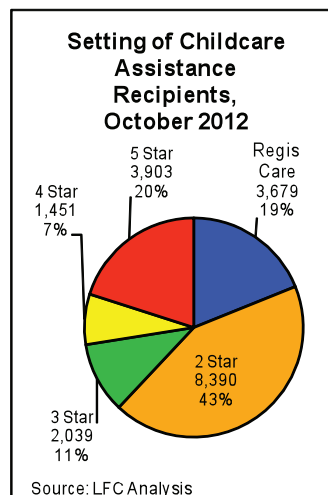
Childcare Funding. The Children, Youth, and Families Department (CYFD) administers the childcare assistance program in New Mexico, which serves about 20 thousand children up to age 13 at a cost of \$95 million annually. The program, subsidizes the cost of child care for families with incomes at or below 200 percent of the federal poverty level (FPL), or about \$45 thousand annually for a family of four. Currently, all families at 125 percent of the FPL

CYFD Child Care and Quality Initiatives (in thousands)		
Sources	FY14 Budget	FY15 Budget
CCDF (Federal)	\$ 39,107.2	\$ 38,277.9
Title IV-E (Federal)	\$ 900.0	\$ 900.0
TANF (Other Trfr-Fed)	\$ 27,277.5	\$ 27,277.5
Employment & Training (Other Trfr-Fed)	\$ 588.9	
Other State Funds (Birth & Death Certificates)	\$ 750.0	\$ 750.0
Other State Funds (Tobacco Quality Rates)	\$ 2,000.0	
General Fund	\$ 37,840.1	\$ 44,090.1
Total Revenue	\$ 108,463.7	\$ 111,295.5
Uses		
Registered and One Star	\$ 9,402.3	\$ 9,733.2
Two Star	\$ 37,122.5	\$ 38,429.2
Three Star	\$ 11,946.5	\$ 12,367.0
Four Star	\$ 8,291.9	\$ 8,583.8
Five Star	\$ 28,199.5	\$ 29,195.1
Quality (TAP, Child Care Resource & Referral, Special Needs, TQRIS System Alignment, T.E.A.C.H.)	\$ 4,622.9	\$ 4,698.0
Admin/Program Delivery	\$ 8,289.2	\$ 8,289.2
Total Spending	\$ 107,874.8	\$ 111,295.5
Balance	\$ 588.9	\$ -

Increased funding for childcare should be focused on education-based early care and evidence-based programs.

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During the 2013 legislative session, the Home Visiting Accountability Act was passed and signed into law. Laws 2013, Chapter 118 (Senate Bill 365)



Rural and impoverished areas in need of early childhood services have been identified by the CYFD as "investment zones."

receive automatic assistance and the agency is opening enrollment up to 150 percent of the FPL. About 60 percent of the children receiving funding for childcare are under the age of five. Historically, child care has been viewed as a welfare support program, allowing low-income parents to work. However, since 2004, LFC evaluations have emphasized quality initiatives intended to improve outcomes and shifting funding toward more costly and quality care programs which may limit services to other low-income students.

In exchange for higher cost child care, policymakers expect better results, including improved school readiness and performance.

Of the 19.5 thousand children who received subsidized child care in 2012, 81 percent received care from licensed providers. Licensed providers must meet minimal CYFD licensing standards and are ranked on a quality scale ranging from two through five stars. However in 2012, 65 percent of licensed providers were ranked at two stars, the minimum star level that qualifies for a subsidy, resulting in a vast majority of children receiving the base level of quality services. Children receiving services from registered childcare homes in New Mexico are also less likely to receive quality early childhood education. Registered homes are more likely to be administered by family members or caregivers with little formal training or education in early childhood development.

CYFD requested increased funding for childcare provider rates in FY15 without increasing quality standards. However, childcare provider rates in some areas have been reported as being higher than the 75th percentile market rate in a 2013 survey of the national average. Increases in reimbursement rates not connected to increased quality likely will not reduce the achievement gap or increase child well-being. Like home visiting, childcare funding should be tied to quality standards, such as child-to-caregiver ratios, and the provider's level of technical skills and education in early development.

Spotlight on Educare: Research-Based Early Childhood Development

Educare is a research-based program that prepares at-risk children for school. The program is a public-private partnership that draws from a wide range of research-based practices that foster learning environments to support infants, toddlers, and young children growing up in stressful, impoverished communities. Educare schools also provide family-support activities, such as one-on-one counseling, support groups, and computer labs to facilitate parents' efforts in job hunting. The program maintains high-quality standards, such as low teacher-to-child ratios, highly educated and skilled caregivers, and consistent participation of children. The Educare model emphasizes continuity of care, maintaining a team of teachers for the children from birth to age 3, and in a preschool setting from ages 3 to 5. This continuity creates close bonds among children, teachers and parents, reinforcing the stable relationships essential to learning. The Dunbar Early Learning Center in Atlanta, Georgia, an Educare center, provides wrap-around services to a child who may enter the center as an infant and matriculate through the early learning center into the elementary school the premises. The center finances this comprehensive program by maximizing all public funds available to each child, including funding from federal Head Start, nonprofit organizations, the Georgia Human Services Department, and the Georgia Public Education Department. Currently, New Mexico has no Educare programs.

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Alternatively, the state could explore pay-for-performance based on quality outcomes verified by evidence-based tools and de-emphasize regulation of inputs. To reduce the achievement gap, early childhood funding and program focus must be shifted to education and social development.

New Mexico will receive \$37 million over five years from a Race to the Top-Early Learning Challenge (RTT-ELC) federal grant. The RTT-ELC focuses on improving early childhood care quality and professional development programs. Revised grant activities in the phase two application include canceling the proposed automated attendance system, changing the evaluation process-based, and leaving 70 percent of providers in the old quality ratings system.

Evaluating Childcare in New Mexico. A recent LFC evaluation found children who participate in state-funded childcare programs are not experiencing lasting educational improvements. The LFC evaluation found students who participated in state-funded childcare programs have similar third-grade reading proficiencies despite differences in the level of quality of the program. Additionally, the study found no difference in performance between participating children and their low-income peers who did not receive childcare assistance. The evaluation suggests using higher quality standards similar to prekindergarten and shifting the focus of childcare assistance from welfare assistance to high-quality early care and education would be a more cost-effective approach to improving results.

Research links the importance of early childhood development with educational preparedness, highlighting an opportunity to transition the mission of childcare programs from income support to education. To facilitate this transition, the state should implement higher standards for registered homes and licensed care centers that include educational requirements. Aligning programs with child health and education goals will better serve New Mexico's children and address developmental inequities for the most disadvantaged children.

Family, Infant, Toddler Program. The Family, Infant, Toddler (FIT) program provides a statewide comprehensive diagnosed system of early intervention services for children birth to age 3 with developmental delays, disabilities, and serious medical conditions. The program provides intervention services when a child's developing brain is most capable of change. Intervention is more effective and less costly when provided earlier in life. The FIT program supports positive early childhood developmental services essential for later success in school and effectively prepares families and children for transition to preschool. Early intervention also reduces the need for special education in the school system. More than 13 thousand children, more than one in ten young children, benefit from FIT services in New Mexico. The FIT program's services are provided through a network of 33 community providers, and the program receives referrals from parents, medical providers, and social service and child care personnel.

Risk factors used to identify investment zones.

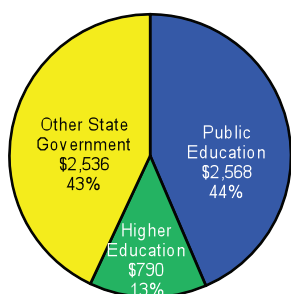
- Number of births to females between the ages of 15 through 19
- Percent of births that are pre-term
- Percent low birth weight
- Residents earning less than 100 percent of the FPL
- Juvenile arrest rates
- Infant mortality rates

COUNTY	Investment Zone Rank	Population Age 0-4 2010
Quay	1	518
Luna	2	1,822
Sierra	3	566
Rio Arriba	4	2,711
McKinley	5	6,149
Torrance	6	924
Guadalupe	7	266
Harding	8	28
Colfax	9	722
Cibola	10	1,888
Lea	11	5,948

Source: CVFD

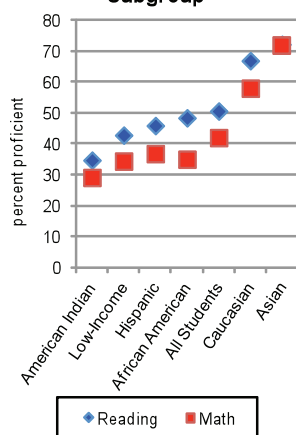
Education

FY14 General Fund Appropriations
(in millions)



Source: LFC Files

Reading and Math Proficiency by Student Subgroup



Source: PED

National reports show that New Mexico's children and students do not achieve at the levels others do. This can be linked to many factors found both in and outside the home – poverty, parents with little or no higher education, poor physical and behavioral health and development, and overburdened schools. To improve the health and economic well-being of families and communities, the state emphasizes the education of all students, at all levels, by dedicating nearly 60 percent of the state's revenues to public and higher education. But this investment has not paid off, either because funds are insufficient or because the money has been spent on programs that are poorly designed or poorly implemented. To ensure New Mexico's public and higher education students get the best education, available funding must target strategies proven to move the dial on student success.

To ensure students move successfully from pre-kindergarten through elementary and middle schools, to high school, and on to college or the workforce, students and families at times require support to achieve their educational goals and improve their skills. The state, school districts and schools, and colleges must work to eliminate administrative and other policy hurdles, reduce time spent away from educational pathways, and increase opportunities to access education at all levels, by students of all ages. Additionally, policy makers must capitalize on improvements in data collection and reporting to assess program effectiveness; start, refine, or terminate programs; and create accountability for school districts, colleges, and universities.

ADDRESSING THE ACHIEVEMENT GAP

One of the state's most significant challenges to improving the lives of students and families is addressing the achievement gap – the disparity in performance between groups of students defined by gender, race, language, or socioeconomic status. More than 65 percent of public education students come from low-income families, are primarily minority students, or are identified as English-language learners. Other factors contributing to the achievement gap at the public education level are parents' education levels, access to high-quality preschool instruction, distribution of public education funding through the funding formula, allocation of funding within school districts, peer influences, educators' expectations, and curriculum and teacher quality. The achievement gap, when not adequately addressed, persists well into high school and postsecondary education. In many instances students who start behind their peers or fall behind their peers, in both public education and higher education, will never finish high school, graduate, or complete a postsecondary degree or certificate program.

To close the achievement gap, the state funds many programs that target at-risk students at all levels. Early intervention programs are offered at prekindergarten and the early elementary levels. State grants supplement federal funds for college preparation and readiness programs at middle and high schools. Matching state and federal funding, colleges and universities provide a range of academic, financial, health, and counseling assistance to help students – particularly first-generation college students – enter and stay in college. To successfully close the achievement gap, education programs must be evidence-based and effectively serve at-risk populations.

Improving Outcomes for At-Risk Students in Public Education. In New Mexico, a relatively small amount of public education formula funding is allocated to the state's most needy students. Despite the significant impact poverty and English-language fluency have on academic achievement, only 3 percent of total public education formula funding is directed to students at risk of failing. New Mexico and Mississippi direct the least amount of incremental funding to serving at-risk students despite the large percentages of these students in each state. Both New Mexico and Mississippi consistently rank in the bottom in comparative studies of student outcomes. The Legislature should consider increasing the amount of funding directed to school districts and charter schools to better serve at-risk students.

Research has shown that educating at-risk public education students requires additional resources, but the studies vary in the estimates of these costs. States vary on the incremental dollars allocated for at-risk students, but in some instances provide up to 50 percent more funding for at-risk students.

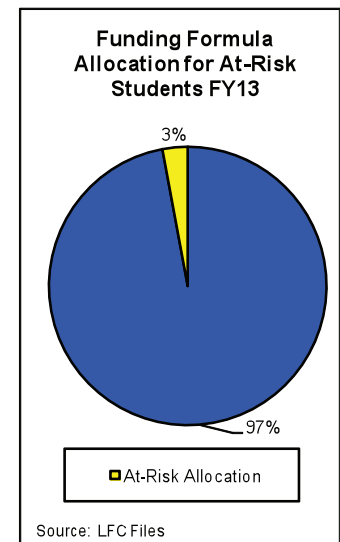
To move the needle on student achievement, at-risk students must be identified early with a valid tool and appropriate education strategies must be implemented that will assist in closing the achievement gap and improving outcomes for at-risk students. Educators must ensure students master basic skills, like reading and math. Extended-day or extended-school year programs, increased time-on-task, quality early childhood care and education programs, and targeted interventions for students falling behind will help close the achievement gap.

EARLY CHILDHOOD EDUCATION

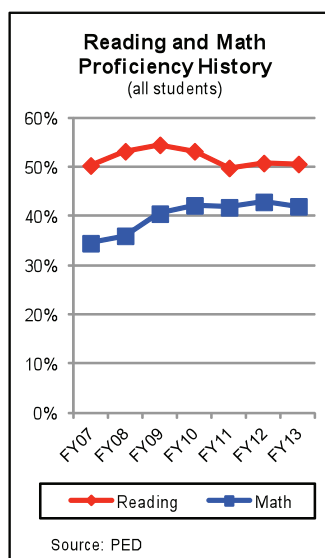
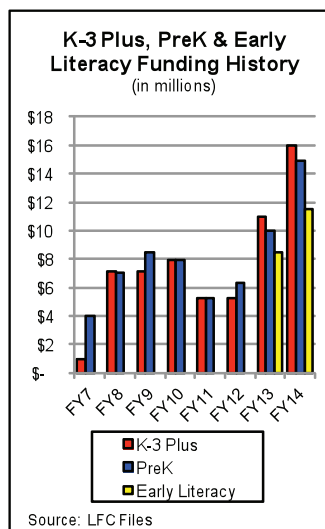
A robust body of research demonstrates high-quality early learning and development programs and services can improve young children's health, social, behavioral and intellectual development, enhance school readiness, and help close the school readiness gap that exists between children with high needs and their peers. Early experiences can influence learning and the quality of early public education can mean immediate as well as long-term benefits. Kindergarten readiness and the quality of early public education programs are important to ensure student success and close the achievement gap.

School Readiness and Early Literacy. Children from low-income homes and children who are not proficient in English often start school behind and must learn more than a year's worth of academic content each school year to catch up to their more affluent English-speaking peers. New Mexico has the

Funding for at-risk students is calculated using student mobility, Title I status, and English language status.



Education



Funding for targeted early childhood education programs only cover a small percentage of eligible students statewide.

Approximately 63 thousand students are eligible for Kindergarten Three Plus, a state-funded extended school year program for low-income kindergarten through third-grade students. However, current funding only supports slightly more than 13 thousand students.

second highest percentage nationally of students who, because of low household income, qualify for free or reduced lunch (FRL) and the third highest percentage of English-language learners. Because of this, investments in early childhood must be targeted.

The state invests heavily in early learning programs intended to ensure school readiness and early literacy, including home visiting, special education prekindergarten, prekindergarten, and Kindergarten Three Plus (K-3 Plus), an extended school year program. These programs help narrow, but do not eliminate, the achievement gap. The first statewide snapshot of student performance, administration of the New Mexico standards-based assessment (NMSBA) to third-grade students, shows the achievement gap persisting. New Mexico currently lacks a common kindergarten readiness assessment, making it difficult to assess where students are academically and socially when they enter kindergarten, to compare the immediate effectiveness of early childhood programs, and to communicate expectations to parents prior to kindergarten. With funding from the federal Race to the Top Early Learning Challenge grant, the state will implement a statewide kindergarten readiness assessment in FY15, giving policymakers improved access to data.

While school readiness is extremely important and indicative of future success, mastery of reading by third-grade is a critical milestone in a student's academic career. Students shift from learning to read to reading to learn in the third grade. Early reading proficiency is well-established as a strong predictor of high school graduation rates and future earning potential. Research shows students who fail to achieve this critical milestone often struggle in later grades and are at greater risk of dropping out before graduating. Identifying struggling readers before the third grade is critical to academic success.

Early Childhood Education Programs. Significant state investments in early childhood began with implementation of full-day kindergarten 10 years ago. Over the past two years, funding for prekindergarten programs administered by the Public Education Department (PED) and the Children, Youth and Families Department has doubled while K-3 Plus funding has tripled. Both programs target low-income students and are resulting in significant positive effects on student performance. The state has also included funding targeted for early literacy for the past two years. This funding has been distributed by PED for reading coaches, new instructional materials, and other interventions intended to improve early literacy skills. Early literacy funding appears to be improving student outcomes; however, distributions have not been targeted to the lowest performing schools or low-income students.

Economic Benefits of Quality Early Childhood Programs. Economic benefits of high-quality early childhood interventions tend to be greater for programs that effectively target at-risk children than programs that serve all children. Research shows investments in early childhood programs have the potential to generate savings that more than repay the costs and have returns to society through increased taxes paid by more productive adults and significant reductions in public expenditures, including those for special education, grade retention, welfare assistance, and incarceration. Discussions

that once concentrated on the value of early childhood education are now focused on how to appropriately scale up programs and fund expansion. As new revenues become available, funding should target areas with poor educational results or a concentration of poverty or other risk factors, and are not currently receiving services. Investments must be made to ensure infrastructure exists to support quality programs. High-quality early education improves student performance, but oftentimes the lack of a coordinated strategy and resources, inconsistent program implementation, and program quality limits success. Expansion in communities with existing programs must also focus on expanding access in areas with the most need. Programs should be routinely assessed to ensure effective investments.

Third-Grade Retention. Despite targeted early childhood investments, statewide third-grade reading proficiency rates continue to remain low at 55 percent, though they improved 2.8 percentage points from FY12 to FY13. Many third-grade students unable to read on grade level are promoted to fourth grade every year. The executive recommends implementing a mandatory retention policy for certain third-grade students unable to read on grade level. However, national research indicates mandatory retention policies produce mixed results. While research clearly notes the long-lasting negative effects of promoting unprepared third graders to fourth grade, research also shows that holding students back to repeat a grade has negative effects, including an increased likelihood of behavioral problems, lower academic achievement, dropping out, and substance abuse issues. Improvement in early literacy is dependent on effective identification of struggling students and access to targeted, coordinated intervention strategies. Current early childhood investments appear to provide cost-effective alternatives to retaining students.

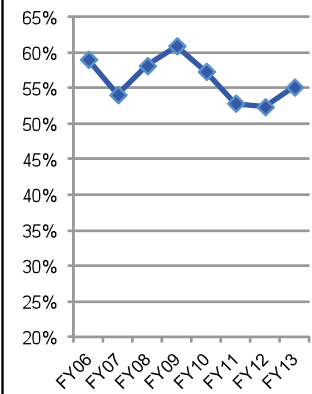
PUBLIC EDUCATION

While there are individual groups of students showing gains in proficiency, statewide data from administration of the NMSBA during the 2012-2013 school year shows modest decreases in proficiency overall. For FY13, 54 percent of fourth graders and 40 percent of eighth graders continued to score below proficiency in reading, and 55 percent of fourth graders and 59 percent of eighth graders continued to score below proficiency in math. The achievement gap continues to persist for most subgroups and is largest for Native American, Hispanic, and economically disadvantaged students.

Accountability and School Grades. The state's school grading formula is used for both state and federal accountability purposes to gauge how schools are performing annually. The new system gives schools a letter grade between A and F based largely on student performance on the NMSBA and other assessments, with small values awarded for student surveys, attendance, student and parent engagement, and other factors. For the 2012-2013 school year, approximately 29 percent of school grades decreased. The remaining 70 percent increased or stayed the same. For the 2012-2013 school year, growth in As outpaced growth in Fs.

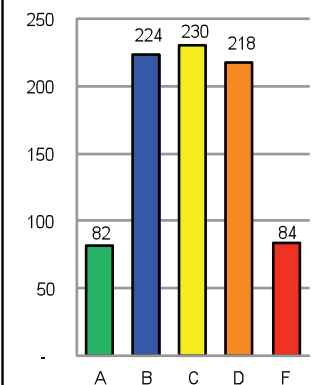
The school grading system serves as the basis for prioritizing certain state and federal appropriations and is integrated into regulations overhauling teacher

Third-Grade Reading Proficiency History



Source: PED

School Grades 2012-2013



Source: PED

Education

Common Core Content Standards

Common Core Content Standards are a single set of evidence-based educational standards in English and mathematics that define the knowledge and skills students should have from kindergarten through 12th grade to graduate high school able to succeed in entry-level, credit-bearing academic college courses and in workforce training programs. They

- Are aligned with college and work expectations;
- Are clear, understandable and consistent;
- Include rigorous content and application of knowledge through high-order skills;
- Build on strengths and lessons of current state standards; and
- Are informed by other top performing countries, so that all students are prepared to succeed in our global economy and society.

Next Generation Science Standards

New, national science standards for kindergarten through 12th grade students have been developed based on the Framework for K-12 Science Education developed by the National Research Council. Development of the standards was state-led with the intent to prepare students for college and careers. PED's budget request indicates the department is considering adopting these standards.

and school leader evaluations. PED intended the system to be easier to understand than federal adequate yearly progress (AYP) designations to allow stakeholders and policymakers to better understand school performance and make decisions accordingly; much confusion remains. The formula uses a value-added model (VAM) to measure the impact of the teacher, but it is highly technical and not readily understandable to the layperson. PED has not made comprehensive technical data related to calculation of school grades available for analysis, making it difficult for schools to recreate grade calculations or to make instructional policy decisions. Additionally, stakeholders are concerned the grading system does not accurately reflect the quality of public schools, in part because of significant fluctuations in school grades from year to year. PED should ensure the calculation of school grades is transparent and adjust calculations if needed to better align to actual school performance.

Common Core State Standards. Educational standards help teachers ensure their students have the skills and knowledge they need to be successful by providing clear goals for student learning. Despite acknowledgement that New Mexico had some of the strongest educational standards in the nation, new Common Core State Standards (CCSS) were adopted in 2010. The new math and English standards are designed to ensure high school graduates are prepared to enter credit-bearing college courses or the workforce. Additional benefits of the CCSS include collaboration among states on development of textbooks, teaching materials, and assessments.

The CCSS will be fully implemented by the 2014-2015 school year, and students in all grades will be taught the new standards starting in 2013. Annual standards-based assessments will be fully aligned to the new standards beginning with the 2014-2015 school year. Because the CCSS are more rigorous than most existing standards, policymakers should be prepared to see a decrease in reported student proficiency rates during the 2014-2015 school year. The Legislature provided funding for professional development opportunities for teachers in FY13 and FY14 to assist in transitioning to the new CCSS. The requirement to administer computer-based assessments remains a concern to many stakeholders. It is unclear what the appropriate Internet connection requirements are or the appropriate ratio of devices to students. Concerns persist that schools will not be ready to administer computer-based assessments in the 2014-2015 school year.

Teacher and School Leader Quality and Effectiveness. Research clearly demonstrates the importance of teachers and school leaders in student learning. Statewide, schools continue to employ a high percentage of teachers meeting the federal "highly qualified" definition who are meeting competencies on annual evaluations. However, these teachers are not necessarily effective teachers, as evidenced by the slow positive progress in student achievement. The current system of evaluating teachers and school leaders does not recognize the achievement of outstanding and effective teachers and school leaders nor does it effectively identify those who are struggling in order to provide the appropriate support to improve their performance.

PED is implementing a new teacher and school leader evaluation system during the 2013-2014 school year. The new system attempts to differentiate between levels of effectiveness through the use of multiple, valid measures. The system is based on the following: 50 percent on student growth, 25 percent on multiple observations, and 25 percent on multiple measures. Teachers employed by charter schools are exempt from the new evaluation system.

While most stakeholders agree the old evaluation system was ineffective, significant controversy surrounds the new evaluation system. A major point of contention is how to measure student academic achievement. While some believe student academic growth should be measured using the NMSBA and a value-added model, others feel student learning objectives are a better measure. PED staff is concerned that if the new evaluation system is changed, the state will no longer qualify for a waiver from certain provisions of the federal No Child Left Behind Act. Other concerns exist regarding the timing of implementation – some stakeholders feel the state is moving too quickly to effectively implement the new evaluation system.

Teacher and school leader preparation programs are important contributors to the quality of classroom instruction and school leadership. Recent studies, both national and local, raise concerns about college of education teacher and school leader preparation programs, including low entrance and exit standards, inadequate focus on early literacy and other program weaknesses, and limited quality student teaching opportunities. In addition to ensuring existing teachers and school leaders are effective, focus must also be shifted to ensure college of education and other educator preparation programs are producing high-quality, equipped graduates. By more closely overseeing teacher quality on the front end, PED can reduce the burden of dealing with ineffective teachers through annual evaluations and professional development.

Policymakers should also continue to address other quality levers, including teacher- and principal-preparation programs, effective recruitment and retention strategies, and compensation to achieve the highest quality teacher and principal workforce.

College and Career Readiness. Many high school students fail to graduate, and a high percentage of those who do graduate are not prepared to enter college or the workforce.

PED staff indicates the percentage of the teacher evaluation based on student learning is not evidence-based but is based on common practice and initiatives around the country.

In New Mexico, prior to admission to a teacher preparation program, teacher candidates must demonstrate academic skills generally acquired during middle school. The test's passing score is set far below average.

Middle School and College Readiness

Eighth grade is a critical defining point in a student's academic career. Research shows that the level of academic achievement that a student attains by eighth grade has a larger impact on their college and career readiness by the time they graduate than anything that happens academically in high school. Great focus has been placed on the importance of early childhood education and high school redesign as intervention points in a student's life. Very little focus has been on the importance of the upper elementary grades and middle school and the role of these years in preparing students for college or the workplace. To maximize the college and career readiness of students, research indicates intervention must also occur in the upper elementary grades and middle school. Otherwise, high school interventions intended to improve college and career readiness may not be as successful.

Education

Students who are unable to demonstrate competency on the NMSBA for graduation purposes are given several additional opportunities to demonstrate competency, including retaking all or portions of the NMSBA, demonstrating competency on the PSAT, SAT, PLAN, ACT, AP or Accuplacer tests, or exhibiting competency on their end-of-course examinations.

Drop out risk factors include the age of the student in ninth grade, low academic performance, high-risk peers and social behavior, a high number of work hours, having a child, previous retention, poor attendance, and factors associated with low socioeconomic status.

"There is a persistent and growing mismatch between the skills that U.S. workers possess and the skills that U.S. businesses need. The long-term negative impacts of the "skills gap" on workers, families, business and governments and the economy are potentially profound and far reaching."

- Business Roundtable,
"Taking Action on Education
and Workforce
Preparedness"

"As a nation, we cannot compete with less developed nations on labor costs, which means we must compete on the quality of goods and services we produce. This requires a highly skilled workforce with a range of mid-level trade, technical and professional skills in addition to high-level skills associated with university education."

Southern Regional Education Board

Graduation Rate. The four-year cohort high school graduation rate for 2012 increased from 63 percent in 2011 to 70.4 percent in 2012, with minority students showing the greatest gains. To graduate, a student must demonstrate subject matter competency in five required subject areas on the standards-based assessment or through an alternative portfolio. Laws 2011, Chapter 161, (Senate Bill 360) suspended these requirements for 2012 graduates. It is unclear if this suspension affected the 2012 graduation rate. Fiscal year 2013 marked the first year graduating high school students were required to demonstrate competency on the NMSBA or through an alternative portfolio. Graduation rates for FY13 could be negatively impacted if students were not able to achieve the required composite score or were unable to demonstrate competency through alternative means.

Additionally, superintendents statewide are concerned individual students graduating in 2014 may not be eligible to receive a high school diploma because they cannot pass the NMSBA or show competency through alternative means. They are reporting confusing and continually changing requirements and guidance from PED. Students not meeting state graduation requirements but meeting course completion requirements will still receive a "certificate of completion." However, students earning this credential are ineligible for postsecondary federal financial aid and ineligible for the state's largest financial aid program, the legislative lottery scholarship.

Dropping out of high school is related to a variety of factors, including individual, family, school and community influences. No single risk factor can be used to accurately predict who is at risk of dropping out; however, accuracy of dropout prediction increases when a combination of risk factors are considered. Schools must ensure early identification of students at risk of dropping out and implement effective, evidence-based practices and programs to keep students engaged and on track to graduate. Practices that address multiple risk factors improve the likelihood of success.

College Remediation. PED and the Higher Education Department (HED) report an increase in the percentage of New Mexico high school students graduating in 2010 and enrolling in New Mexico colleges the following fall who required remedial courses: 46 percent in FY11 compared with 49 percent in FY12. Previous analysis by the Office of Education Accountability indicates students who require remedial courses in college are less likely to complete a degree or certificate program.

The high remediation rate indicates students are not graduating from high school ready for college. Basic high school programming for math and English must be improved, and high school and college curricula better aligned. Additionally, communication between institutions of higher education and public schools needs to be improved.

High-Quality High School Programs. To produce productive graduates able to meet the demands of either college or the workforce, the state must address the pathways from high school to postsecondary training and study. The traditional high school experience is not a successful model for all students. School districts must organize high schools around preparing students both academically and technically. In addition to offering pathways intended to

prepare students for postsecondary education opportunities, high school programs should also adequately prepare students for the growing middle-skill fields. Curricula must be aligned, programs must be revamped, and schools must embrace the dual mission of getting students both ready for careers and college.

In an attempt to decrease the skills gap and increase graduation rates and college and career readiness, New Mexico invested in new early college high school (ECHS) and workforce readiness initiatives in FY14. Both initiatives allow enrolled students to graduate with a high school diploma and an associate's degree, credits that can be applied to a bachelor's degree, or stackable credentials, without incurring postsecondary debt, that allow a graduate to either enter the workforce after graduation or go on to complete a postsecondary degree. In addition, the state received federal funds for career technical education (CTE) programs. According to the Southern Regional Education Board, a nonprofit, nonpartisan education organization, high-quality CTE should align secondary education to specific postsecondary education and training opportunities, which in turn are informed by a related industry advisory committee and linked to regional or national labor market opportunities. Additionally, CTE programs should be supported by a robust career development process that begins in middle school and continues throughout secondary education.

School districts must make strategic decisions that focus on effective programs with demonstrated results. Educators must target resources to those practices that have the greatest impact on student achievement, graduate rates, and college and career readiness. Time allocated for instruction must be appropriate, effective, meaningful, and motivating for students. Instructional decisions should be made using multiple data points gathered throughout the year. Additionally, to ensure student success, focus should be on implementation of high-quality evidence-based programs. Educators should ensure high school courses align with first-year college courses, and secondary programs aimed to produce students ready for the workforce are developed in collaboration with New Mexico businesses.

HIGHER EDUCATION

Georgetown University's Center for Education and the Workforce reports that, by 2020, 63 percent of New Mexico's jobs in a variety of fields will require postsecondary training. Currently, 29 percent of New Mexico adults possess a postsecondary credential. Developing a skilled and diverse workforce means the state must ensure the largest number of New Mexicans earn postsecondary certificates and degrees and receive continuing education. To accomplish this goal, the state should direct funding to support institutional efforts that improve student performance and help students access and complete programs.

In addition to helping traditional high school graduates, the state must target resources and lift barriers challenging first-generation college students, young adults who are not working or attending college, and adults who need retraining or certifications. Based on U.S. Census data, New Mexico's changing demographics require more tailored policies and targeted funding to

Early college high schools (ECHS) are a collaboration among public education institutions and private-sector partners, including local business communities and non-profit organizations. Effective ECHSs increase the graduation and college-attendance rate, and ensure students can graduate from high school prepared to earn a postsecondary credential or degree and compete in a global workforce. The ECHS model targets minority and at-risk populations and students who will be the first in their family to go to college. Attendance rates for ECHS students average 90 percent nationally, and grade-to-grade promotion rates exceed 90 percent nationally. ECHSs also decrease student behavior issues in high-needs schools. Additionally, a high proportion of graduates apply to and are accepted to four year colleges.

**New Mexico Projected
Employment Growth,
Top 10 Categories
(2010-2020)**

	Growth	Rate
Health Care & Social Assistance	32,400	28.1%
Educational Services	20,900	25.8%
Accommodation/Food Services	18,800	23.8%
Retail Trade	15,000	16.7%
Administrative Support/Waste Mgt.	8,800	21.3%
Professional, Scientific, Technical	8,200	15.3%
Construction	6,000	13.0%
Government	5,800	6.2%
Mining	4,800	26.0%
Other Services (Non-Government)	3,000	14.5%

Source: Workforce Solutions Dept., State of New Mexico (2013)

Education

Institutional Efforts To Increase Postsecondary Retention and Education Attainment

For individuals without high school credentials:

- Adult basic education programs
- Adult basic education combined with skills-training
- Stackable, short-cycle certificates

For recent high school graduates:

- Residential learning communities
- Summer academic and skills prep programs
- First-year academic class cohorts
- Required or intrusive academic counseling

For adult students:

- Alternative academic scheduling
- Credit for career, technical, professional learning
- Structured program or learning cohort

New Mexico's Higher Education Department regulates nearly 470 degree and certificates programs offered by more than 270 private nonprofit and for-profit institutions doing business in the state.

Rate of Tuition and Fees to Median Household Income, Public Institutions (FY11)			
	AZ	CO	NM
Associate's Colleges	4.2%	5.1%	2.9%
Bachelor's/Master's	N/A	8.9%	7.5%
Doctoral Granting	16.9%	13.9%	12.1%

Source: WICHE 2013

particular student populations – traditional high school graduates, adults without high school credentials or with some college but not a certificate or degree – or else the state will be unable to maintain or grow its economic base and build healthy communities.

Maintaining Access to Public Colleges and Universities. State appropriations to higher education institutions, which declined during the recession, have rebounded since FY12. New Mexico continues to support efforts to improve college readiness, reduce logistical barriers to college participation, and provide affordable programming for career readiness and advanced academic and professional studies. Maintaining access to public institutions, particularly for high-achieving, first-generation college students, is paramount to preserving New Mexico's economy.

Focus on Academic Readiness. Higher education institutions are revising academic programs and policies to help students succeed once they reach the college level, in addition to growing dual-credit programs and early college high schools to attract and retain high school students. With nearly half of high school graduates attending state universities needing at least one remedial course and a higher percentage of community college students needing such assistance, over the past few years state colleges have instituted evidence-based programs and curriculum changes to help students gain remedial math, English, and reading skills faster than through traditional remedial offerings. Institutions encourage students to enroll in summer math and English boot camps, take mandatory tutoring to supplement a college-level course, and complete content-specific computer modules to gain skills needed to complete their chosen academic program. Where such practices have been implemented, institutions have experienced increased course completion rates for gateway math, English, and reading courses.

Vary Delivery and Availability of Educational Programs. Institutions are exploring affordable ways to provide educational programming in response to the state's diverse student population in terms of geography, age, family educational levels, and poverty. While other states frequently contract with a nonprofit, on-line institution, like Western Governors University, to provide working adults with degree programs, New Mexico's institutions each offer their own certificate and degree programs online, as do state-licensed private, proprietary institutions. Some of the state's community colleges also collaborate to make specialized faculty and programs at one campus broadly available to participating community college students. Using existing campus facilities, institutions are bringing more programming to their locations and allowing students to pursue higher education, from entry level to graduate programs, while staying in their communities.

Combined with online efforts, greater use of block scheduling, and other programmatic changes, state institutions have efficiently expanded opportunities for all ages of students to develop skills and earn advanced degrees. Many community colleges and universities have entered "2+2" programs to articulate clearer certificate and degree pathways. These programs feature a transparent and well-defined plan of required coursework allowing students to earn an associate's and then a bachelor's degree, often on

a community college campus. These pathways lead to students taking fewer classes outside their defined program and faster program completion.

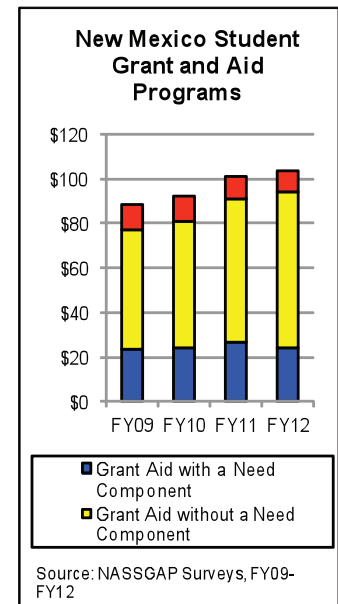
Offer an Affordable Education. Though the state lacks a coordinated tuition, state appropriations, and financial aid policy, substantial state and local government support allows institutions to maintain regionally low tuition levels and modest financial aid programs, making college affordable despite tuition increases. Students also receive significant financial aid from federal grant programs, with more than half of FY12 enrolled undergraduate students receiving federal need-based Pell grants and receiving an average grant approaching the maximum.

The state's signature financial aid program, the Legislative Lottery Scholarship Program, supports a large number of in-state college students. The scholarship program comprises more than 70 percent of the state's financial aid dollars and supports undergraduate students from New Mexico high schools able to maintain a 2.5 grade point average through college. The program's success at keeping college affordable and removing a financial barrier for students – with more than 45 percent of program scholars graduating in four years – has made preserving this program a state priority. To preserve the program for future generations, legislators, executive branch leadership, institutional leaders, and students continue to identify methods for maintaining high scholarship award amounts, encouraging college completion, and securing program solvency.

Improving College Retention and Academic Progress. New Mexico, like other states, has joined national efforts to increase the number of residents with postsecondary credentials – an effort that requires improved fall-to-spring and yearly student retention rates. With an increasing amount of state general fund appropriations based on institutions awarding more certificates and degrees, institutions are implementing various evidence-based academic, student service, and financial aid programs, making it easier for students to continue in school and complete programs.

Provide Direct, Intrusive Academic Support. Today's college students, unlike prior generations, tend to be older, first-generation college students or from traditionally underserved populations. They require more academic guidance and hands-on support and often prefer communicating electronically. To address challenges brought by these rapidly changing student demographics and increasing familiarity with technology, institutions have examined and revised the academic support needed to help students succeed.

During the 2013 interim, New Mexico college and university leaders discussed policy and program changes to improve student performance. Common changes included the use of technology and database systems to track a student's degree progress, issuing an alert should a student attempt to register for courses outside the stated academic program, and issuing alerts to both students and faculty on attendance, missed assignments, or test scores. Other changes institutions have put in place include hiring additional counselors and expanding faculty responsibilities to compensate for inconsistent levels of counseling at most public high schools and the



As reported by the Western Interstate Commission on Higher Education (WICHE), 55 percent of New Mexico's undergraduate enrollment in 2010-11 received federal Pell grant awards. The average grant was the maximum amount, approaching \$5,000 annually. The regional average Pell enrollment for this year was 42 percent, with an average award of \$4,000.

According to the state's loan-serving group, New Mexico Student Loans, more than half of the program's defaulters never completed the program for which they borrowed and, lacking a credential, are unable to raise their income sufficiently to pay off student debt.

Education

In response to student performance data, colleges and universities	
Make tutoring available on student request	69%
Provide a "Student Success Course" and	
Require enrollment for new and transfer students	37%
Make it available to all students	63%
Refer students to academic centers for	
Writing	48%
Math	50%
Provide academic counseling and	
Require it for first-year and transfer students	55%
Make it available on student request	67%
Use systems to "trigger" faculty or staff intervention (failure to re-enroll, poor attendance, low mid-term grades)	65%

Source: LFC Survey (May 2013)

Central New Mexico Community College received the American Association of Community College's 2013 Student Success Award. The award recognized the CNM Connect program, a one-stop shop where students can get assistance with academics, taxes, finances, scholarships, benefits, legal issues, and external resources.

difficulty of navigating college and university programs. Additionally, institutions are reducing program requirements and expanding the lists of program-eligible courses. Combined with streamlining certificate and degree pathways and clearer two-year/four-year college articulation agreements, students are being offered more academic support to increase course completion and retention.

Make Comprehensive Student Services Available. College student services build on the college preparedness programs offered to middle and high school students and provide a basis for adults or returning students to navigate college programs. For traditional-age high school graduates, particularly first-generation college students, colleges and universities structure learning and residential cohorts to provide a support network for students to succeed. Because these students are enrolled in similar courses and academic programs, additional tutoring, peer-to-peer student mentoring, and academic counseling may be provided. For adult or part-time students, institutions are locating their student services offices (financial aid, billing, career counseling/student health, tutoring) in one location or building and cross-training frontline staff on many topics to address common student questions and needs. Placing services online and issuing meeting or deadline email alerts helps students coordinate and meet academic and other requirements. It also increases opportunities for advisors, staff, and faculty to intervene if appropriate and reduces the likelihood a student will be lost or stop-out.

Expand Purpose and Use of Financial Aid. With changes in federal financial aid policy, states and institutions are working to expand aid programs originally designed to serve traditional-age, full-time students. Program changes to benefit non-traditional students include issuing awards on a year-round basis so that students can use and apply aid for courses taken during the summer term and allowing funds to be used for purposes other than educational costs (such as child care or transportation). Students who receive financial aid grants linked with mandatory academic counseling and delayed payments to the end-of-course have taken more credit hours and earned higher grade point averages, leading to faster program completion and reduced student debt. Frequently, adult or part-time students will stop-out of school due to sudden, unanticipated expenses, so a number of institutions have instituted micro grant or loan programs to help students meet these costs and stay enrolled.

Increasing the State's Educational Levels. To meet the state's workforce needs, educational attainment levels must increase beyond today's benchmarks. Retiring, educated workers need to be replaced and the number of underrepresented populations (Hispanic/Latino (H/L) and Native American students) with all levels of degrees increased. The state cannot achieve HED's stated goal of 60 percent of New Mexicans with postsecondary credentials by 2025, an increase of 20 percent within 11 years, without targeting programs to the rapidly growing H/L young population and all adults without postsecondary credentials or degrees.

Directing state institutions to maintain student access while bolstering completion, the state linked state appropriations to institutional performance as documented by student progress and program completion. With

approximately 5 percent to 7 percent, or \$27 million to \$40 million, of instruction and general (I&G) state appropriations based on performance, institutional leaders have redirected resources to efforts that promote student retention and graduation. HED, the Legislature, and institutions have also proposed linking state appropriations with institutional success at achieving their public missions of research, general education, and workforce development.

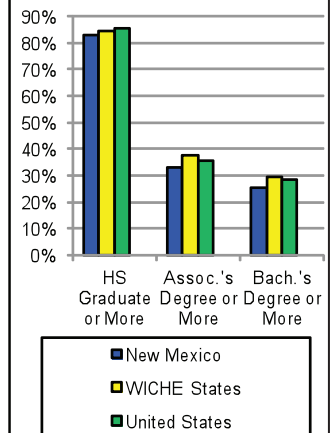
However, research shows that, to increase educational attainment, financial incentives for institutions should be combined with other policy efforts that track the quality of student learning and skills acquisitions. While more than 22 states have implemented or will soon implement performance-based funding formulas, a Columbia University's Teachers College report alerts state policymakers and legislators to use all policy tools available to ensure that most students, including the most at-risk, are able to enter postsecondary education and complete programs. A key recommendation in the report urges states to fund the data and reporting infrastructure at institutions, so policymakers and institutional leaders, faculty, and staff engage in reviewing and revising program delivery, academic and student support services, and professional development for instructional faculty. Because New Mexico's formula does not include funding for increased costs associated with improving student retention and graduating more students, the state may consider how such support would improve institutional accountability and meet statewide educational goals.

Mission: Graduate

Modeled on successful collaborative efforts in other areas of the country, *Mission: Graduate*, a partnership of municipal governments, higher education institutions, public school districts, private employers, and others, has announced a four-county effort to add 60 thousand new associate's, bachelor's, and graduate degrees to central New Mexico by 2020. The partnership is committed to eliminating the achievement gap from early childhood through college; increasing high school graduation rates; and increasing college and university enrollment, retention, and graduation rates. Educational goals and objectives will be linked to local and regional economic development efforts.

Mission: Graduate is following a model established by the Strive Together network. The Strive network, initiated by a collaborative group in Cincinnati, now consists of nearly 20 other communities. Strive Together communities have demonstrated improved student success, particularly at elementary and high school levels, and increasing admissions and retention at postsecondary level.

Educational Attainment of the Population 25 Years and Older, 2011

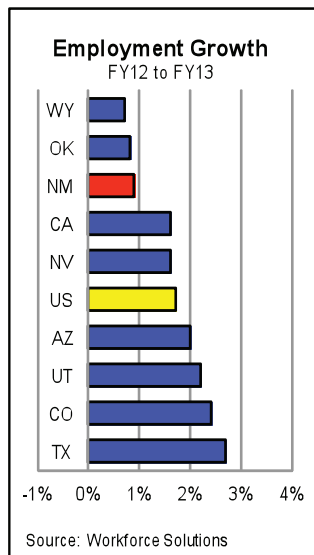


Source: WICHE Benchmarks, 2012

New Mexico allocates 5 percent to 7 percent of instruction and general (I&G) formula funding based on student performance:

- Completed student credit hours,
- Total certificates and degrees awarded,
- Total certificates and degrees earned in science, technology, engineering, math, and health fields,
- Total certificates and degrees earned by financially at-risk students

Economic Development & Workforce Training



No conclusive evidence is currently available demonstrating the effectiveness of state investments to supplement private fundraising.

Investments in venture funds by the State Investment Council (SIC) typically leverage six private dollars of investment into New Mexico companies for each dollar from SIC.

New Mexico's share of venture capital investments reached just over one-tenth of 1 percent of the national total for 2012.

SBIC Investments Overview (in thousands)	
	Loan Program
Outstanding	\$ 9,429.5
Committed	\$ 2,945.5
Total	\$ 12,375.0
	Equity Program
Outstanding	\$ 12,455.4
Committed	\$ 5,198.8
Total	\$ 17,654.2

Source: SBIC

New Mexico suffers from economic development program fragmentation and duplication, LFC analysis dating back to 2009 shows, and four years later, New Mexico still does not have a comprehensive strategic plan. Additionally, the state has no overall economic development branding strategy as it does for tourism. Texas and other states are using branding strategies to market their areas as business-friendly locations and often target specific industry sectors. Without a clear focus or brand, New Mexico's scattershot approach fails to leverage state and local efforts to recruit business to New Mexico. The state should use the Tourism Department's strategic branding and coordination of local efforts as a model for economic development as a whole.

Effective Use of State Dollars. Many of the state's economic development programs do not report outcomes demonstrating cost effectiveness, making analysis of the return on state funding difficult. Additionally, New Mexico has no statewide or agency strategy to guide investments in economic development. However, LFC is analyzing available data to determine cost-effectiveness for many programs. See "Cost Per Job" in the LFC Volume III for cost-per-job rankings.

Capital Formation through the State Investment Council. The State Investment Council (SIC) manages the state's permanent funds. While economic development is not the agency's primary goal, SIC reports it has several severance tax permanent fund (STPF) "carve outs" for New Mexico-focused, economically targeted investments (ETIs). The agency now takes a cautious approach regarding these types of investments, citing poor historical performance. However, in January 2013, SIC voted to restart contributions to venture funds through its Private Equity Investment Program (PEIP), authorizing up to \$40 million in new commitments annually. SIC previously froze PEIP during the recession; the last commitments to local venture funds were in 2008. These state investments could offset the decline of private venture capital investment in New Mexico companies from approximately \$59.5 million in 2011 to just \$39.9 million in 2012, or 33 percent -- the lowest level since the recession began in 2009.

SIC also funds the Small Business Investment Corporation (SBIC), created in 2001 to promote job creation through investments statewide. It currently receives 1 percent of the fund market value of STPF, an increase from 0.75 percent prior to FY08. The statute allows for SBIC to make ETIs at below-market rates if SBIC deems accompanying economic development factors to be attractive enough to warrant the investment. However, no conclusive evidence is currently available demonstrating the effectiveness of these state investments. SBIC, since inception, has funded 2,419 loans to New Mexico companies, resulting in 5,811 new jobs, but investments over the last 10 years resulted in a financial loss of 20 percent to STPF.

Economic Development & Workforce Training

Tax Environment. Tax rates, structure, and complexity contribute to the desirability of a location for a business. New Mexico ranked last in a 2009 Ernst & Young study with an effective tax rate of 16.6 percent, but the study did not consider New Mexico's numerous incentive programs, which lower the effective tax rate but add complexity to the tax structure. The New Mexico Tax Research Institute worked with Ernst & Young to study the effect of incentives, and the revised 2012 report ranked New Mexico the fourth best out of nine regional states for favorable business tax climate.

An LFC evaluation, presented in August 2012, examined select economic development tax expenditures and found them weak in terms of accountability, reporting, and assessing program value. Based on a sample analysis of companies receiving incentives, it costs the state on average an estimated \$31 thousand to attract a job with an average salary of \$43 thousand. These incentives primarily apply to economic base companies, targeting those that generate wealth for the state but create disparity in effective tax rates. Incentives are a tradeoff between a short-term loss of tax revenue and projected gains in jobs, investment, and potential long-term tax revenue. If properly designed and administered, incentives can offer the state the ability to encourage job and economic growth at a lower cost than simply lowering overall tax rates. However, in recent years, states across the country greatly expanded incentive programs to an unprecedented degree, competing against each other in what some experts and political officials term a "race to the bottom" where every "win" of an expansion or relocation project results in a net loss to the state.

Business Administrative Assistance. No statewide function or funding exists to assist technology transfer -- the commercialization of technologies developed in federal research laboratories and state universities -- and university researchers are not judged by any metric related to commercialization of technology-related research. Additionally, the state no longer funds business incubators despite evidence demonstrating effectiveness and positive returns on investment.

Incubators. Business incubators assist small, entrepreneurial companies during the initial start-up phase -- the most critical time for a company as financial and personnel resources are typically scarce. The incubators provide both a physical location as well as support services, with the goal of graduating incubated businesses into self-supporting companies. New Mexico's five active and certified incubators generate a return on investment (ROI) of more than 57:1, according to a 2011 report. The Economic Development Department (EDD) hired Impact DataSource to perform an ROI study to determine the tax revenues the state received for its incubator investment. The study found the state received \$31.5 million in tax revenue for the \$548.6 thousand invested in incubators during 2007 to 2010 and also returned \$20.5 million in local tax revenues. EDD ceased all incubator funding during the depths of the recession, and funding has not yet resumed.

Technology Transfer. New Mexico has no statewide agency, staff, or strategic plan to support technology transfer, leaving the function to the individual research entities. Los Alamos National Laboratory (LANL) and Sandia National Laboratories have substantial technology transfer offices, and

Forbes magazine: *New Mexico is a "fiscal hellhole." The state tops the Forbes 2012 list of "death spiral states" with 1.53 people dependent on government for every independent private sector worker. Forbes excludes federal employees from the dependent person count, but New Mexico still garners the worst ratio in the country.*
- Forbes.com, November 2012

Top states for doing business in 2013, according to Area Development magazine:

1. Texas
2. Georgia
3. South Carolina
4. Alabama
5. North Carolina

Eighty-four percent of companies graduating from incubators remain in their communities.

Business Incubator Return on Investment (in millions)	
State Investment in Incubators 2007-2010	\$0.5
State Tax Revenues Generated by Incubators 2007-2010	\$31.5
State Return on Investment	57:1
Additional Local Taxes Generated by Incubators 2007-2010	\$20.5
National Average Return on Investment	30:1

Sources: Impact DataSource and NBIA

Economic Development & Workforce Training

Louisiana has an award-winning, “best practice” technology commercialization credit and jobs program, providing a 40 percent refundable credit on costs related to commercialization of technologies researched by a Louisiana university or college. The program also provides a 6 percent payroll rebate for the creation of new direct jobs resulting from commercialization.

2012 Tourism Advertising Campaign	
Advertising Dollars per Trip Generated	\$4.46
Trips Generated per Advertising Dollar	0.2
Spending ROI	29:1
Tax ROI	3:1

Source: Longwoods International

The Tourism Department stands out for using strategic planning, performing detailed market research, preparing evidence-based annual action plans, reprioritizing budgets, and implementing data-driven management. The department's actions should be a model for economic development and workforce training as a whole.

because private contractors operate both labs, they have a financial interest in commercializing technologies. However, the federal government prohibits national labs from giving preferential treatment to New Mexico businesses when licensing technologies or signing collaborative research agreements. Many economic development opportunities bypass New Mexico due to a lack of state emphasis on, and support for technology transfer.

Tourism. The leisure and hospitality industry is leading New Mexico’s job growth, adding 3,700 jobs from June 2012 to June 2013, now exceeding pre-recession employment levels. This represents 51 percent of the state’s total job gains during FY13. Additionally, a department contractor, Tourism Economics, conducted an economic impact study and estimated a total of 32.3 million visitors spent a combined \$5.5 billion during trips to New Mexico in 2011. This generated \$7.8 billion in total business sales when indirect and induced impacts are included. The spending supported nearly 86 thousand jobs with total income of \$2.1 billion and \$565 million in state and local taxes. Tourism’s impact on the New Mexico economy increased substantially during 2011 -- visitor volume increased 5 percent from 2010 and expenditures increased 5.9 percent, bringing visitor spending to a record high, surpassing pre-recession levels. Another department contractor, Longwoods International, reports the 2012 spring and summer advertising campaign generated 264 thousand additional trips people would not otherwise have taken, resulting in \$35.1 million of additional visitor spending and \$3.6 million in state and local taxes produced from the \$1.2 million ad campaign, or returns on investment of more than 29-to-1 for sales and 3-to-1 for taxes.

Creating an Effective Workforce. The state’s workforce training and development programs are coming under increasing pressure to produce and retrain its citizens for current and prospective job opportunities, especially in light of underemployment and regional unemployment levels. New Mexico’s programs are mostly funded with federal and private sector revenues, with limited support from the state. However, the workforce training and development programs, no matter the funding source, are not grounded in a statewide plan, not well-coordinated, and not comprehensive in addressing population or local economic needs.

Growing our Healthcare Workforce

The LFC report, *Adequacy of New Mexico’s Healthcare Systems Workforce* (May 2013), identified a statewide shortage and maldistribution of healthcare professionals. The lack of trained providers – nurses, physician assistants, advanced practice nurse practitioners, and physicians – will become more acute as an increased number of New Mexicans access the healthcare system due to implementation of the federal Affordable Care Act.

The report included a number of short- and long-term approaches to address this shortage and help practitioners serve residents throughout the state:

- Increase state funding to support professional school slots through the Western Interstate Commission on Higher Education (WICHE), expand rural residencies, and create training programs for dental auxiliaries;
- Revise “scope of practice” laws for physician assistants and licensing requirements for behavioral health practitioners;
- Increase state funding for loan repayment programs for health practitioners;
- Expand or create additional master’s-level clinical nurse training programs; and
- Support state agencies and nonprofit boards to coordinate healthcare workforce planning, recruitment, and retention and analyze data on these and licensing efforts.

Economic Development & Workforce Training

Many New Mexicans are not ready to enter the high-skill workforce often sought by employers. The state's students fall short on ACT scores with the sixth lowest average composite scores in the country, and only 25 percent of New Mexicans 25 years and older hold a bachelor's degree or higher, trailing the 28 percent national average. College graduation rates for New Mexicans between the ages of 25 and 34 trail the national average, 29 percent to 39 percent. This lack of college graduates significantly impacts the state's income per capita and economic growth and create increased need for workforce training programs (see Public Education).

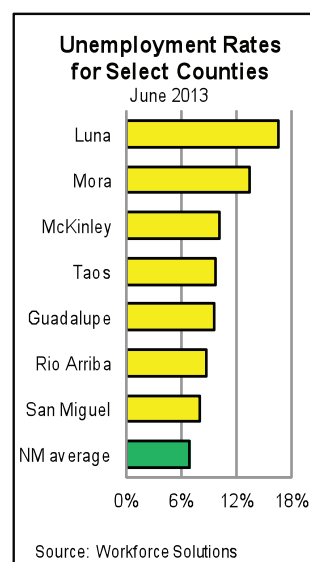
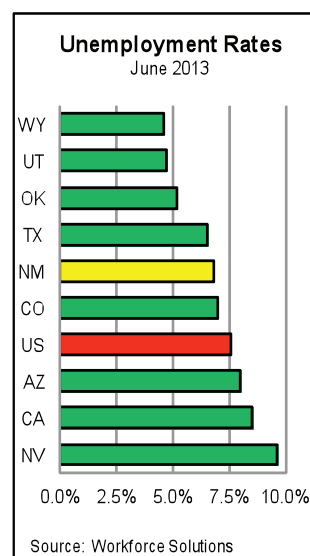
Training. Without a recognized set of postsecondary skills and knowledge, low-income jobseekers or those currently employed cannot compete in a highly competitive, global economy. To address this problem, education and training programs should include traditional approaches to workforce development (including vocational programs and technical, for-credit curriculum programs) and nontraditional approaches (including non-credit, customized training or employment and training programs). Both approaches should appeal to new workforce entrants, temporarily dislocated workers, and workers currently employed. New Mexico offers a mix of workforce development programs; however, programs are fragmented and overlap.

Job Training Incentive Program. The Job Training Incentive Program (JTIP), administered by EDD, offers eligible companies partial reimbursement of wages during classroom and on-the-job training. JTIP is lauded by site selectors as one of the best incentive programs of its type. However, training new hires is not always sufficient to overcome educational shortfalls.

Other Programs. Higher education institutions, particularly community colleges, lead job training efforts. Colleges design new, and revamp existing, certificate and training programs to meet local needs identified by statewide employment supply and demand data, specific employers, licensing or certification boards, and a college's own workforce and curricular advisory boards. Many students participating in these programs have some college education. For students without a high school credential, six of New Mexico's community colleges are offering specialized workforce training programs, with stackable certificates, taught by both substantive and adult basic education faculty. This training model, Integrated Basic Education and Skills Training (I-BEST), has long-demonstrated success for students and communities; New Mexico is implementing it with similar success.

Unemployment. New Mexico's unemployment rate, 6.8 percent at the end of FY13, outperforms the national average of 7.6 percent, and ranks 29th in the country. This seems to indicate New Mexico is recovering reasonably well from the recession, but unemployment rates can be deceiving. When people stop seeking employment, they technically exit the workforce, driving down the unemployment rate. If these people stay in the state, they continue to draw on social services, costing the state money. If large numbers of people leave the state, the departures tend to depress housing prices and slow any economic growth. New Mexico's labor force participation rate is just 60 percent, or 48th in the nation, and the state's total labor force remains slightly below pre-recession levels. Additionally, New Mexico's population grew by 1.3 percent from 2010 to 2012, below the national average of 1.7 percent.

Arrowhead Park Early College High School (ECHS) in Las Cruces, the only ECHS in New Mexico, has a 0 percent dropout rate to date. ECHSs allow enrolled students to graduate with both a high school diploma and an associate's degree and credits that can be applied to a bachelor's degree without incurring any higher education debt. Las Cruces Public Schools will open a second ECHS for the 2014-2015 school year, and Albuquerque Public Schools recently announced plans to open an ECHS.



Health Care

One of the most important influences on health status is socioeconomic status. Those with low socioeconomic status may experience barriers in obtaining health services, including lack of or limited access to preventive health care, child care, and transportation.

The leading causes of death among New Mexicans age 65 years or older are heart disease, cancer, chronic obstructive pulmonary diseases (COPD), stroke, diabetes and unintentional injuries—primarily falls. These risk factors can be mitigated through improved clinical management of high blood pressure, high cholesterol, diabetes, arthritis and other chronic diseases, and better care coordination between multiple health providers.

New Mexico's violence rate is the second highest in the country with 28.5 deaths per 100 thousand people. Violence may have lasting harmful effects on individuals, families and communities, and health effects can be long lasting, such as spinal and brain injuries. Victims of violence have an increased risk for psychological and behavioral problems such as depression, anxiety, post-traumatic stress disorder, substance abuse, suicide, unwanted pregnancies and sexually transmitted infections. An array of suicide prevention strategies is necessary, as well as improved firearm safety.

In the most obvious way, poverty affects health by making it more difficult for the poor to access health care. But the health of the economically disadvantaged is also affected through lack of access to good food, educational opportunities and employment. At the same time the health of an individual is related to socioeconomic status, the health of a community is related to the health of the community members. The community as a whole pays through higher crime rates, a lower standard of living, and greater demand on public services.

In FY12, the number of New Mexicans participating in the Supplemental Nutrition Assistance Program (SNAP), increased by 20 thousand, and 17 percent of New Mexicans reduced or disrupted their eating patterns because the household lacked money and other resources for food. Fifty-four percent of high-school seniors do not graduate from high school and low-wage jobs comprise 33 percent of positions in the state, ranking New Mexico 48th for earning potential among other states. (Source: *The State of Health in New Mexico 2013*, New Mexico Department of Health)

Twenty-one percent of the population, or 400 thousand people, do not have health insurance and fare poorly on measures of health, even with the state covering 575 thousand individuals in the Medicaid program. However, increased health insurance coverage being implemented in 2014 by the federal Affordable Care Act will reduce the number of uninsured by providing health insurance either in the Medicaid program or through the New Mexico Health Insurance Exchange (HIX). At the same time, generous federal funding and insurance subsidies provide the state with the opportunity to reprioritize state funding away from uncompensated care and toward addressing health disparities and gaps in services.

Health Disparities and Socioeconomic Status. The U.S. Census Bureau reports that in 2010, 30 percent of children in New Mexico lived in poverty, an increase of 4.7 percent from the previous year, and approximately 13 percent of New Mexico's children do not have health care coverage. Twenty-five percent of mothers in New Mexico living below the federal poverty level did not receive prenatal care, despite the availability of Medicaid. Significant numbers of New Mexico's youth engage in behaviors leading to chronic diseases, such as tobacco and alcohol use, lack of exercise, and poor dietary habits. Unsafe sexual behavior also puts youth at risk of unplanned pregnancies and sexually transmitted diseases. And as people age, their risk increases for health problems, such as chronic disease and disability. More than one in four adults in New Mexico have been diagnosed with two or more chronic diseases, and depression is more likely in the unemployed and those with multiple chronic diseases. The U.S. Centers for Disease Control and Prevention is encouraging coordinated chronic disease care through support for healthy communities, early detection and clinical preventive services, and enhanced clinical and community linkages so people at high risk can better

take charge of their health through self-management programs. Better preventive care and care coordination are key components of New Mexico's Centennial Care Medicaid program.

Acknowledging the relationship between socioeconomic status and health is important and implementing policies that address environmental, institutional and personal influences on socioeconomic status is vital in improving the health of New Mexicans.

Medicaid Expansion for Low-Income Adults. New Mexico is one of 29 states moving forward with expanded Medicaid coverage for low-income adults as authorized by the Patient Protection and Affordable Care Act, commonly known as the Affordable Care Act (ACA). This expansion will have major impacts on the healthcare sector and the state economy.

New Health Insurance Options. The first of the two principal mechanisms to provide health insurance coverage under the ACA is expansion of Medicaid eligibility to those adults with incomes under 138 percent of the federal poverty level (FPL), or about \$15,864 for an individual. The other mechanism subsidizes those with incomes between 133 percent and 400 percent of the FPL to purchase insurance through the New Mexico Health Insurance Exchange (NMHIX).

The Human Services Department (HSD) estimates about 170 thousand of the estimated 400 thousand uninsured New Mexicans will qualify for Medicaid under the new expansion. Another 20 thousand children, already eligible for coverage under Medicaid or the Children's Health Insurance Program (CHIP), might enroll due to the mandate to carry insurance. The vast majority of uninsured individuals not eligible for the Medicaid program are expected to purchase federally subsidized health insurance at the state exchange or through private insurance. First-year exchange enrollment is projected at 80 thousand.

Cost and Financing of Medicaid Expansion. The federal government will pay 100 percent of the cost of enrolling the newly eligible adult population in Medicaid from 2014 through 2016, stepping down to 90 percent by 2020 and all following years. HSD is projecting the first full year of Medicaid expansion to cost approximately \$513 million in federal funds for 163 thousand new adult enrollees.

ACA-Related Revenue Impact on Overall Cost. LFC analysis in October 2012 showed the state cost for expanded Medicaid enrollment in FY14 to FY17 is offset entirely by cost savings (even without new ACA-related revenue). These savings are due to the high federal match rate for the newly eligible adults and from an enhanced match for the state coverage initiative (SCI) enrollees. This ends in FY18 when the federal match for adults drops to 94 percent. By 2020, LFC staff estimate the state's cost would be \$113 million for newly covered adults.

In FY18 and FY19, the cost of expansion is offset by growth in ACA-related state revenues, including personal income taxes, gross receipt taxes, and insurance premium taxes. Also, the state will benefit from reduced enrollment in the New Mexico Medical Insurance Pool (NMMIP). For

A National Bureau of Economic Research study of 10 thousand Oregon Medicaid recipients found that having Medicaid significantly increased the chances people will perceive their health as being good to excellent, while decreasing the likelihood they will have to borrow money or skip paying other bills because of medical expenses. The study found that people with Medicaid were 70 percent more likely to have a regular medical office or clinic for their basic care and 55 percent more likely to have a personal doctor. They were also more likely to get preventive care, such as mammograms and cholesterol screening.

Federal Match for Newly Eligible in Medicaid	
Fiscal Year	ACA Match
FY14	100%
FY15	100%
FY16	100%
FY17	95%
FY18	94%
FY19	93%
FY20	90%

Source: Affordable Care Act

To maximize the benefits of Medicaid expansion, the state will need to develop or recruit more primary care providers and implement payment reforms that reward quality of care. The current pay structure is based on procedure reimbursement with minimal incentives to manage care provision.

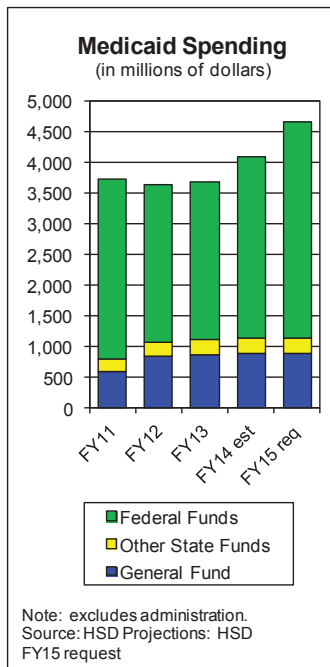
Health Care

Medicaid Eligibility for Low-Income Adults Under Affordable Care Act	
Family Size	138% FPL
One	\$15,864
Two	\$21,408
Three	\$26,952
Four	\$32,508

Source: 2013 Federal Poverty Level Table

New Enrollment from Expansion of Medicaid for Low Income Adults (includes transfers from State Coverage Initiative)	
FY14	133,386
FY15	163,337
FY16	180,359
FY17	186,024
FY18	189,776
FY19	190,969
FY20	191,535

Source: HSD Projections



example, ACA-related revenues of \$91.6 million in FY19 will offset expenditures of \$42 million. In FY20, expenditures will exceed revenues, resulting in a need for additional funding.

General Fund Revenues and Expenditures from Medicaid Expansion (in millions of dollars)							
	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Total Revenues	19	74	83	87	89	92	93
Total Expenditures	-14	-25	-35	-12	23	42	113
State Gain/(Loss) *	33	99	118	99	66	49	-20
* Revenues minus expenditures							

Sources: BBER, HSD, LFC Files

The ACA will also have an impact on county indigent funds, sole community hospitals, disproportionate share hospitals, and other healthcare programs. Almost 20 tax expenditures, representing \$290 million in foregone tax revenue, are related to health care and may require further review. Under the ACA, access to healthcare services should increase, potentially eliminating the need for some of these credits.

New Mexico's Medicaid Budget. Fiscal year 2015 will be the first full year of expanded adult eligibility for Medicaid, which will have a large financial impact on the program. Medicaid expenditures (including Medicaid behavioral health) are projected to reach \$4.6 billion in FY15 – \$578 million more than the latest FY14 projection. HSD projects total enrollment of 693 thousand in FY15, including 163 thousand adult enrollees from Medicaid expansion.

Future Medicaid Cost Growth. HSD continues to aggressively manage the \$3.6 billion base Medicaid program (\$1.1 billion state funds), which covered 578 thousand individuals in FY13. For the past three fiscal years ending in FY13, HSD essentially put the brakes on Medicaid growth, with total managed care expenditures remaining flat at \$2.57 billion from FY10 to FY13. Key factors leading to this outcome included provider rate reductions, funding managed care companies near the lowest range on the rate schedule determined by actuaries, freezing SCI enrollment, and minimal enrollment outreach. HSD also benefited from an overall lessening of medical inflation and demand in recent years.

However, while physical health (as well as Medicaid behavioral health) had minimal growth since 2009, growth in the Coordination of Long-Term Services (CoLTS) waiver program has been significant. Total program cost in FY13 was \$922 million, which represents a \$124 million increase, or 15 percent, over the first year program cost of \$797 million. Representing only 7.1 percent of enrollment, CoLTS was 25 percent of all Medicaid expenditures in FY13. The average cost for a CoLTS client was \$22,188, compared with \$3,240 for physical health clients (predominately children). HSD must tightly manage the enrollment and benefits for this population to maintain control over Medicaid cost growth.

Moving forward, key concerns remain, in particular questions about the pace of expansion enrollment and the ability of medical providers to absorb the surge of new Medicaid clients. Cost pressure on rates is likely to occur because of increased demands for services, but HSD is maintaining fairly optimistic projections on medical cost inflation and utilization of services.

Medicaid-Funded Home Visiting. HSD did not request funding for a Medicaid home-visiting program for at-risk pregnant women and families with infants and young children, even though certain home-visiting programs have demonstrable long-term benefits. The governor vetoed \$500 thousand included in the 2013 General Appropriation Act for evidence-based Medicaid home-visiting services in FY14. Future support for this initiative might be enhanced by an agreement for a limited Medicaid waiver program for a targeted sub-group of the 20 thousand annual births funded by Medicaid.

New Mexico Exchange Health Insurance Plans. The New Mexico Health Insurance Exchange estimates 229 thousand uninsured New Mexicans would be eligible to purchase health insurance through the exchange and 80 thousand individuals may purchase coverage in 2014. Health plans offered through exchanges to individuals will provide coverage for “essential health benefits” and at a minimum be subject to certain limits on out-of-pocket costs and other cost-sharing. The plans must meet one of four levels of generosity based on actuarial value (bronze, silver, gold and platinum). To make exchange coverage more affordable, certain individuals will receive premium assistance in the form of federal tax credits and may also receive subsidies toward cost-sharing expenses. Eligibility for these credits is only available up to the 400 percent of federal poverty level as shown below:

Health Exchange Eligibility

Family Size	Annual Income by 2013 Federal Poverty Level			
	100%	200%	300%	400%
1	\$11,490	\$15,282	\$17,235	\$22,980
2	\$15,510	\$20,628	\$23,265	\$31,020
3	\$19,530	\$25,975	\$29,295	\$39,060
4	\$23,550	\$31,322	\$35,325	\$47,100
5	\$27,570	\$36,668	\$41,355	\$55,140
6	\$31,590	\$42,015	\$47,385	\$63,180

Source: Federal Register, January 2013

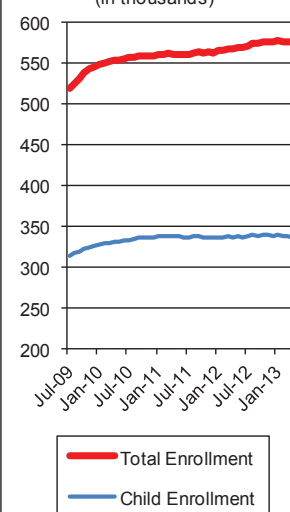
Federal Premium Assistance. The premium assistance subsidy reduces the amount an individual or family pays for health insurance coverage bought at the exchange by providing a federal tax credit. Of note, these subsidies are not available to those offered affordable and comprehensive coverage through their employers – or those on government health programs like Medicaid. Subsidies are determined on a sliding scale, based on income, with lower income individuals getting the most assistance. These subsidies serve to limit the amount of income spent on insurance. For example, a family of four with annual income of \$58,875 (250 percent of FPL) would only have to pay about 8 percent of income toward a silver-level health plan on the exchange, or about \$395 per month.

Centennial Care. Key elements of the HSD's program being implemented in 2014 include consolidation of the current 12 federal Medicaid waivers (except developmental disabilities) into a single waiver. Consolidation should reduce administrative complexity, promote integrated care and improve case management, integrate physical and behavioral health care (provided by fewer managed care organizations), and target payments toward improved patient outcomes.

Centennial Care contractors providing physical, behavioral, and long-term services:

- Blue Cross Blue Shield
- Presbyterian
- Molina
- United Health Care

Medicaid Program Enrollment
(in thousands)



Source: LFC Files

Health Care

Approximately 229 thousand individuals with incomes between 138 percent and 400 percent of the FPL (up to \$44.7 thousand) will be eligible for federal tax credits for health insurance purchased on the exchange.

Individuals must have health insurance in 2014 or face a fee of 1 percent of yearly income or \$95 per person for the year, whichever is higher. The fee increases every year. In 2016, it will be 2.5 percent of income or \$695 per person, whichever is higher.

There are four levels of health plans authorized to be offered on the exchange: bronze, silver, gold, and platinum. The bronze plan, with the least expensive premium, exposes the policyholder to higher levels of out-of-pocket costs.

In the individual market on the New Mexico exchange, 57 plans were received and approved from five carriers. For small businesses (SHOP market) on the exchange, 57 plans were received and approved. Two carriers offered catastrophic plans, which offer low premiums but high deductibles.

All people who buy coverage through the exchange will have a cap on their total out-of-pocket spending, including deductibles, co-pays and co-insurance as shown on the chart below:

Annual Out-of-Pocket Cost Sharing-Limits by Household Income Tier		
Household Income Tier by FPL	Single Coverage	Family Coverage
Up to 200%	\$2,117	\$4,223
201% to 300%	\$3,175	\$6,350
301% to 400%	\$4,191	\$8,510

Source: Congressional Research Service

Estimated Monthly Health Insurance Contribution by Family Size (Reflect Federal Credits)					
FPL	Maximum Premium Contribution as a % of Income	Required Monthly Contribution Towards Health Insurance by Family Size			
		1	2	3	4
110%	2.0%	\$19	\$26	\$33	\$39
133%	2.0%	\$25	\$34	\$43	\$52
150%	4.0%	\$57	\$78	98%	\$118
200%	6.3%	\$121	\$163	\$205	\$247
250%	8.1%	\$193	\$260	\$328	\$395
300%	9.5%	\$273	\$368	\$464	\$559
350%	9.5%	\$318	\$430	\$541	\$653
400%	9.5%	\$364	\$491	\$618	\$746

Source: Congressional Research Service

Affordability of New Mexico Exchange Plans. Insurers on the exchange must offer silver and gold plans. In New Mexico, the Office of the Superintendent of Insurance (OSI) staff estimates the proposed health plans on the exchange cost 5 percent higher than previous plans (taking into account ACA requirements such as no exclusion of coverage for pre-existing conditions and no coverage limits for essential health benefits). However, New Mexico's average plan costs compare favorably with other states.

Using New Mexico data, the average monthly premium for a silver level plan for a 40-year-old individual earning \$22,980 annually (200 percent of the FPL) is \$268 per month compared with \$200 a month for single coverage on the state employee insurance plan (HMO). Net monthly premium cost, after employer match, for the state employee is \$80; net cost for the individual in the exchange, after a 55 percent federal tax credit, would be \$121.

Behavioral Health Care. The Behavioral Health Purchasing Collaborative (BHPC) was designed to develop, manage, and support a single behavioral healthcare delivery system in New Mexico. The collaborative functions as a virtual agency, pooling funding from five agencies to buy a managed-care product from a statewide entity - currently, OptumHealth, to manage mental health care and substance abuse treatment services. In FY13, behavioral health spending totaled \$433 million.

However, coordination of a comprehensive, statewide behavioral health system is hampered, in part, because funding is distributed among executive branch agencies, the judiciary, and individual counties. Significant gaps in service exist and New Mexico ranks near the bottom for per-capita drug overdose rates, alcohol addiction, and suicides. BHPC has minimal data on the long-term outcome of its programs, such as the rate of patient relapse.

In FY15, for the Behavioral Health Services Program, HSD is projecting general fund savings of \$15.3 million because some 15 thousand clients will be covered by Medicaid starting in 2014 at a 100 percent federal reimbursement rate. However, HSD is proposing to reallocate the majority of

this savings, \$12.1 million, to enhance non-Medicaid services and build capacity for an in-house compliance and audit function.

HSD Actions Following Behavioral Health Audits Under Scrutiny.

The behavioral health system in New Mexico has been in turmoil since June 2013, following an HSD audit of behavioral health services by contractor Public Consulting Group (PCG) in response to concerns about billing and treatment practices. HSD reports \$36 million in overpayments from 2009-2012 were identified from 15 providers that have about 85 percent of the behavioral health business in New Mexico. These overpayments represent 15 percent of all claims paid. The audit also identified a number of questionable related-party transactions.

HSD implemented a pay-hold effective July 1, 2013, for all 15 providers, asserting that a pay-hold was required because of credible allegations of Medicaid fraud. As a result, 12 of the 15 providers have closed and were replaced by Arizona-based providers. HSD's actions have been very controversial, particularly because federal guidance appears to provide HSD with ample flexibility regarding pay-holds (or release of pay-holds) if the result would be too damaging to the behavioral health system. In fact, the provider transitions have been disruptive to the provision of behavioral health services statewide as reported at LFC hearings in June and August and at other interim legislative committees. As of November 2013, the Attorney General had not released any findings about the allegations of fraud. As the state approaches the Centennial Care transition on January 1, 2014, the behavioral health system is as fragile as ever.

Public Facilities. The state is inefficient in the operation of public health facilities and, as a result, does not optimally serve either the client or the taxpayer. DOH operates six facilities and an inpatient program. The New Mexico Rehabilitation Center (NMRC) and Sequoyah Adolescent Treatment Center (SATC) did not finish FY13 within budget; however, the shortfalls were offset with revenue from other DOH facilities. The deficit at the NMRC and SATC were largely due to delayed collection of Medicare and Medicaid reimbursements and shortfalls in third-party payments. The expansion of Medicaid in 2014 will make it even more important that the facilities bill and promptly collect third-party payments.

The LFC's program evaluation in 2010, *Review of Facilities Management Division*, noted personnel assignments are not tied to the number of patients in each facility. The average daily occupancy at the end of FY12 was 70 percent, but dropped in FY13 to 66 percent. The occupancy rate ranged from a high of 94 percent at Turquoise Lodge to a low of 33 percent at the New Mexico Rehabilitation Center's Medical Rehabilitation Unit. The LFC program evaluation report, recommended reviewing workload requirements and establishing policies to reduce staff levels when the number of patients is below capacity.

The 2010 LFC program evaluation also found the department was not taking "advantage of central solicitation for goods and services common to all facilities," including cost reporting, oxygen service and supply, laboratory services, billing consultants, equipment maintenance and monitoring, and biohazard waste removal. To date, the program has made little effort to implement this recommendation.

FY12 Behavioral Health Collaborative Spending by Category for Adults Only

(in thousands)

Outpatient	\$41,279	50%
Recovery	\$18,037	22%
Inpatient	\$10,327	12%
Residential	\$7,427	9%
Other	\$3,234	4%
Intensive Outpatient	\$2,873	3%
TOTAL	\$83,180	

Source: OptumHealth

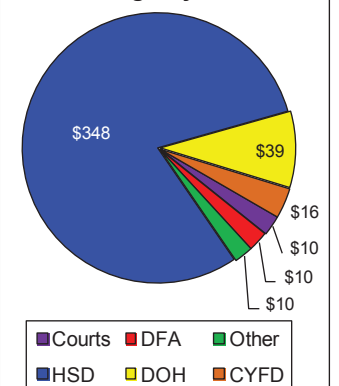
FY12 Behavioral Health Collaborative Spending by Category for Children and Young Adults

(in thousands)

Residential	\$71,969	43%
Outpatient	\$46,328	28%
Recovery	\$20,898	13%
Intensive Outpatient	\$11,844	7%
Inpatient	\$10,667	6%
Other	\$3,601	4%
TOTAL	\$165,307	

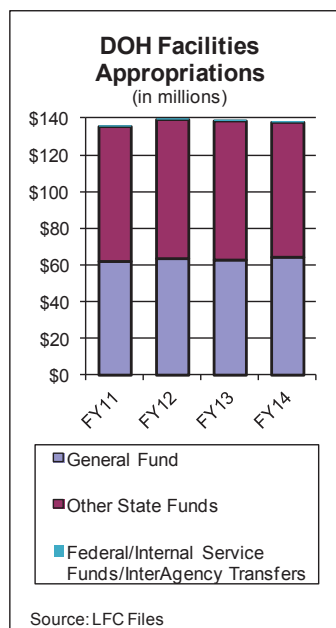
Source: OptumHealth

FY13 Behavioral Health Spending by Agency



Source: Human Services Department

Health Care



DOH Facilities' Medicaid Collections as a Percent of Total Revenue

- Fort Bayard Medical Center (FBMC): 81%
- New Mexico Behavioral Health Institute (NMBHI): estimated 40%
- New Mexico Rehabilitation Center (NMRC): 18%
- New Mexico State Veterans' Home (NMSVH): 35%
- Sequoia Adolescent Treatment Center (SATC): 100%
- Turquoise Lodge (TL): 8%
- Los Lunas Community Program (LLCP): 98%

Effective strategies in promoting healthy children include increasing the number of families with children that receive effective home visiting services, integrating existing care coordination programs with medical providers, and encouraging healthy eating and physical activity.

Public Health. DOH reports, in FY13, New Mexico spent approximately \$90.55 per person for public health, of which 42 percent came from federal funds. That amount might decrease further as the federal Patient Protection and Affordable Care Act is fully implemented. The Public Health Program (PHP) must continue to increase its Medicaid collections to offset any potential loss of federal revenues and grants and to maximize revenue within rural primary care clinics. PHP spends \$14.8 million on contracts with primary care providers, of which a substantial amount is spent on undocumented individuals living in the state. Care for undocumented individuals is not addressed under federal health reform and will continue to put pressure on the public health budget. Other challenges for the program include rising medication and supply costs, regulation changes for clinical laboratories and other facilities, and changes in the federal vaccination schedule for children.

Tobacco Funding. The future levels of tobacco settlement funding for health and education needs is uncertain following a recent legal setback for New Mexico and other states. The tobacco settlement arbitration panel found New Mexico did not diligently enforce its qualifying tobacco settlement statute in calendar year 2003. Pending a potential appeal of the judgment, as well as final calculations, the potential liability to the 2014 distributions will be between \$12 million and \$24 million. The tobacco companies are expected to pursue nationwide arbitration for the states' enforcement efforts in calendar year 2004 and beyond, although the timeframe for those hearings is uncertain.

The Attorney General believes New Mexico's performance enforcing the statute improved over time, which increases the state's chances of a favorable outcome in the future arbitrations. The Attorney General also reports the panel supported New Mexico's position that tribal sales (exempt from excise tax) are exempt from enforcement of the provisions of the Master Settlement Agreement. The panel's determination on the tribal sales issue will significantly aid New Mexico's efforts in protecting future years' settlement payments.

With future funding remaining uncertain, the state likely will have to settle on a lower funding level in FY15 and beyond to cover the expected reduction in the FY14 distribution from the tobacco companies, or the FY14 distribution will be proportionally reduced.

The tobacco settlement permanent fund had a balance of \$178 million on September 30, 2013. By law, half of the tobacco settlement distribution is to be spent on programs and half is to be deposited into the permanent fund. However, in practice, the state has regularly intercepted the distribution intended for the permanent fund for other purposes, including solvency needs during the recent recession. Given the uncertainty of future distributions, it may be necessary to revisit the requirement to transfer half of the annual revenue to the permanent fund.

Sole Community Provider Hospital Program in Transition. The 2013 federal approval for New Mexico's Centennial Care Medicaid program required changes to the Sole Community Provider (SCH) program, including a funding level of \$69 million for uncompensated care, down from almost

\$300 million as recently as FY11. To offset this reduction in hospital revenue, the Human Services Department has proposed an increase in hospital provider rates of almost \$130 million starting in 2014. Statutory changes might be needed to reduce the responsibility of counties to provide indigent health care and to transfer the 1/8th gross receipt increment to HSD to cover the hospital rate increase. Some counties have concerns, noting the 1/8 increment is a local tax and should be retained by the counties and that funds are still needed to handle health care that will not be eligible for Medicaid-reimbursement. New Mexico hospitals, already under financial pressure from Affordable Care Act-related changes (including reductions in Medicare reimbursements), strongly support the rate increase.

PROTECTING VULNERABLE POPULATIONS.

The health of a community is not only related to the physical health of the individuals but also to the treatment of populations at risk of abuse or neglect. New Mexico's efforts to protect those populations has produced mixed results.

Child Abuse and Neglect. The Children, Youth, and Families Department's (CYFD) Protective Services Division (PSD) receives and investigates reports of children in need of protection from abuse, neglect, and domestic violence. PSD is responsible for taking action to protect children who are at risk. The division provides for child well-being through swift and safe care and placement of children in custody and oversees child adoptions, foster care, and the children's trust fund. The children's trust fund is dedicated to increasing access to innovative services that strengthen families with revenue from the general fund, specialty license plate fees, marriage license fees, and fund interest. Currently, the division is managing about 2,000 children in custody across the state. However, high caseworker vacancy rates and turnover result in high caseloads and burnout. Degree requirements and low pay make recruiting difficult. Evaluating position requirements, adjusting pay levels, and developing a career track should be the highest priority to ensure child wellbeing. PSD has developed and implemented a practice model to support consistent services are delivered to all children. So far the model has been implemented in 19 counties and will be implemented in the remaining counties by 2014.

Juvenile Justice. Juvenile Justice Services provides prevention, intervention, and aftercare services for delinquent youth in New Mexico. Currently, the state has six juvenile justice facilities, which can house up to 271 committed youths, and operated at near capacity in FY12. The Lincoln Pines Youth Center near Ruidoso is included in these numbers. Opened in October 2013, it will house up to 24 youths. In 2008, juvenile centers in the state implemented the Cambiar New Mexico model, which emphasizes small pods of youths working together on rehabilitative change, and in FY13 commitments dropped to 9 percent from 12.4 percent in FY12. Juvenile youth center services include individual and family counseling and educational opportunities. Committed youths can attain either a general educational developmental (GED) or high school diploma and continue with trade education at youth facilities across the state.

In 2011, the three leading causes of death among New Mexicans ages 15 through 19 were unintentional injury, motor vehicle crashes, and suicide and homicide. These causes of death are associated with alcohol and drug use, suicidal ideation and attempts, and physical violence. Positive interventions for youth include youth developmental and leadership programs and increasing and improving services available at school-based health centers, including primary care and reproductive, behavioral health, and other confidential health services.

Programs supported by tobacco funding at the Department of Health:

- Tobacco cessation and prevention
- Diabetes prevention and control
- HIV/AIDS services
- Breast and cervical cancer screening.

Programs supported by tobacco funding at the Human Services Department:

- Base Medicaid program
- Breast and cervical cancer treatment

Programs supported by tobacco funding at the University of New Mexico Health Sciences Center:

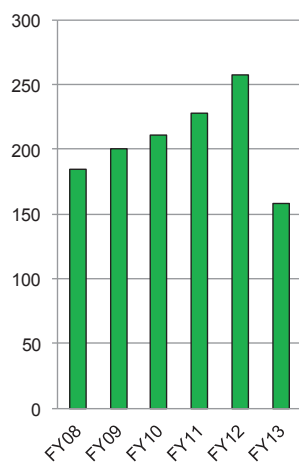
- Instruction and general purposes at the medical school
- Research in genomics and environmental health
- Poison Control Center
- Pediatric oncology program
- Specialty education in trauma
- Specialty education in pediatrics

The Indian Affairs Department receives \$249.3 thousand from the tobacco settlement revenue for its tobacco cessation program.

Laws 2013, Chapter 228, (Senate Bill 113) provides \$19.8 million in additional tobacco allocations in FY14, including \$9.8 million to the Children, Youth and Families Department for early childhood programs and \$9.9 million to extend the solvency of the lottery scholarship fund.

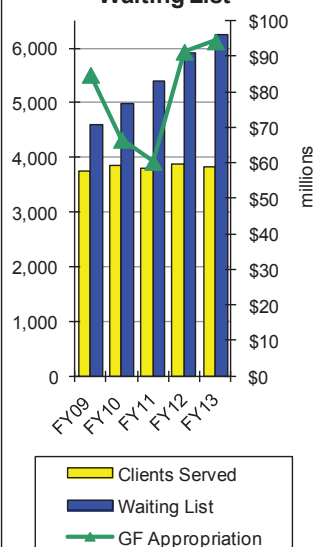
Health Care

Juvenile Secure Facilities Average Daily Population



Source: CYFD

Developmentally Disabled Medicaid Waiver General Fund Appropriation versus Waiting List



Source: LFC Files

Developmentally Disabled. A developmental disability is a severe or chronic mental or physical impairment, including brain trauma, or a combination of mental and physical impairments. As of June 30, 2013, 4,036 individuals were served through the Developmental Disabilities Medicaid Waiver Program (DD waiver). The DD waiver provides a comprehensive array of services to children and adults with developmental disabilities, including autism. To be eligible for program services, the disability must manifest itself before the age of 22, continue indefinitely, result in substantial functional limitations in three or more areas of major life activity as defined in the waiver, and reflect the need for a combination and sequence of special care treatment or other services that are long-term and individually planned and coordinated.

Developmental Disabilities Medicaid Waiver Status. At the end of FY13, 3,829 developmentally disabled (DD) clients were receiving services under the DD waiver. Despite a \$6 million increase in general fund appropriations from FY11 to FY13, the number of clients served only increased by 17 clients over the same period. However, 6,248 individuals were on the DD waiver waiting list in FY13, an increase of 847 over the last three years. During the 2013 legislative session, \$4.6 million in general fund revenue for the DD waiver was added to the program with a policy directive from the Legislature to enroll an additional 227 individuals from the waiting list. During the 2012 session, the Legislature added \$2.8 million to enroll up to 150 additional clients, but to date, the Department of Health has enrolled relatively few of these additional clients even though it sent out allocation letters early in spring 2013. Funds not expended to serve clients on the waiting list as intended by the Legislature will continue to annually revert to the general fund, contradicting the intent of the Legislature to serve more people with developmental disabilities.

In an effort to serve more people, DOH implemented DD waiver cost-containment measures in the last half of FY11, lowering the average cost per client from \$85.3 thousand in FY10 to \$73.3 thousand in FY13. The cost-containment strategy included establishing a new resource allocation method, conducting rate studies, and implementing the supports intensity scale (SIS) -- a tool for assessing and planning support needs for adults with intellectual and developmental disabilities.

As a result of a decrease in the rate for federal matching dollars, in FY11 the DD waiver program reduced provider rates by 5 percent to address a projected deficit and capped clients' individual service plan (ISP) budgets in the second half of FY11. The increase in costs, combined with this decrease in the FMAP, resulted in significant restructuring of the DD waiver program that will continue through FY14.

DD Waiver Restructuring. DOH submitted a new DD waiver renewal application that received approval by the Centers for Medicare and Medicaid Services (CMS) effective July 2011 for a five-year period. The goals for the new structure are to develop a sustainable, cost-effective system; increase and promote the independence of persons served and decrease their dependence on paid supports; use an assessment tool that identifies individual needs; develop and implement a resource allocation model based on individual

needs; maximize resources in an equitable manner; improve the management of administrative and direct services costs; and move more individuals off the waiting list and into DD waiver services.

However, the DD waiver renewal provoked opposition by providers concerned with rate reductions and changes in client mix, and by clients concerned about the application of the supports intensity scale (SIS) assessment tool and their resulting ranking and the impact on individual supports and budget. Other concerns include questions regarding due process to appeal, access to fair hearings, and service and support levels eligible for reimbursement. These issues merit further dialogue among clients, providers, the Legislature, advocates, and the department to assure a consensus is reached with good outcomes, ensuring the program is fiscally sustainable while maximizing the number of clients served and prioritizing services for the most vulnerable.

Average Cost per Individual on Developmentally Disabled Medicaid Waiver FY09-FY13
(in thousands)



Source: HSD/DOH

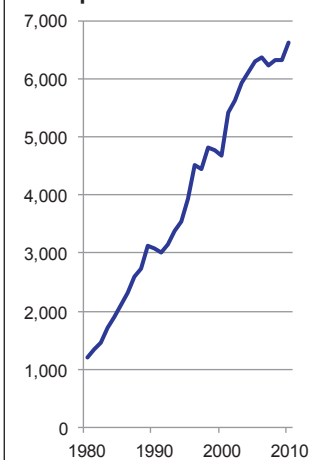
Law and Enforcement

**Total Tangible Costs of Crime
by Crime Type**
(thousands)

Murder	\$ 1,278.4
Rape	\$ 41.2
Aggravated Assault	\$ 19.5
Robbery	\$ 21.4
Arson	\$ 16.4
Vehicle Theft	\$ 10.5
Stolen Property	\$ 8.0
Houshold Burglary	\$ 6.1
Embezzlement	\$ 5.5
Forgery	\$ 5.3
Fraud	\$ 5.0
Vandalism	\$ 4.8
Larceny/Theft	\$ 3.5

Source: National Institutes of Health

**Total Inmate
Population 1980-2010**



Source: Bureau of Justice Statistics

New Mexico spends roughly 10 percent of the state's budget on ensuring the public's safety and maintaining order, from the highway officer who stops a speeder to the prison officer who watches over a murderer to the judge who resolves a dispute among neighbors. On a typical day, 624 State Police and Motor Transportation officers are serving and 175 magistrate and district judges are reviewing civil and criminal cases. Roughly, one out of every 44 adults in New Mexico is either locked up or under the supervision of a probation or parole officer, a statistic that translates into roughly 5 percent of state general fund spending. But the costs of ineffective efforts to protect the public are higher, with the victims, inmate families, the economy, and society paying the price. It is critical, with so many demands for the state's limited dollars that the state spends law and enforcement dollars on programs that work.

Other States' Proven Approaches. Other states have implemented significant prison reforms that increase public safety while reducing costs. For example, in 2007 Texas added 17 thousand new prison beds costing more than \$1 billion; however, after recent reforms Texas reduced the prison population enough that one prison closed last year and more are on track to close this year, saving the state substantial amounts to reinvest in recidivism reduction. Through its justice reinvestment initiative, Texas invested scarce resources into prison programs and reforms proven to work, including increased funding for drug courts and increased resources for residential and nonresidential treatment programs.

Likewise, Kansas, Michigan, Mississippi, Ohio, and Oregon six years ago made reforms and had significant decreases in recidivism rates. One successful strategy has been to exclusively invest in recidivism reduction programs that are evidence-based. Ohio relied on program evaluations conducted by the University of Cincinnati and invested resources into evidence-based programs and reduced recidivism by 11 percent. Another success in these states has centered on adopting risk and needs assessments, allowing prison systems to focus resources and services on individuals at high risk of reoffending. In Michigan, risk and needs assessments helped to tailor services to individuals, allowing officials to ensure that resources were allocated to those at high risk of reoffending. Three-year recidivism in Michigan has been reduced by 18 percent.

New Mexico's Criminal Justice Opportunities. State and local governments in the past have invested in programs and policies not proven to reduce recidivism. NMCD for several years invested large amounts of resources into the Therapeutic Communities (TC) program; however, a recent LFC evaluation suggested this program had a relatively small return on investment

Law and Enforcement

and may not have been reducing recidivism as expected. Subsequently, NMCD replaced it with the Residential Drug Abuse Program. Additionally, considerable evidence indicates perpetrator treatment programs may actually increase recidivism rates. Local governments get a negative return on investment with this program. Unproven programs and policies are a contributing factor to the increase in the prison population since 1980.

A Promising Approach. New Mexico has the resources and the ability to make better decisions to reduce recidivism, increase public safety, and reduce costs. LFC, in cooperation with the New Mexico Sentencing Commission, the Pew-MacArthur Results First Initiative, and NMCD, has begun systematically evaluating recidivism reduction programs and ranking them based on a return-on-investment matrix. Using the New Mexico Results First Model, the state has the ability to evaluate which programs are most effective and reconfigure resources appropriately. Additionally, before starting new recidivism reduction programs, the state is able to use New Mexico specific data and produce an estimate for how much the state can expect as a return on investment. After a few years, new programs can be re-evaluated and resources can either be cut or reinvested to bolster effective programs. It is worth noting this approach will supplement, but not replace, thoughtful evaluation of recidivism reduction programming, and actual results can only be expected to fall within an estimated interval.

Based on New Mexico Results First Model return-on-investment estimates, the state operates several effective recidivism reduction programs, including prison education, vocational education, drug courts, mental health courts, electronic monitoring, and community drug treatment. Additionally, LFC estimates that for every 1 percent reduction in recidivism, the state saves \$830 thousand in taxpayer costs and reduces victimization costs by as much as \$4 million. Based on New Mexico data, education in prison is relatively inexpensive at \$634 per participant and is estimated to reduce six-year recidivism by as much as 11.8 percent, saving an estimated \$9.8 million. Conversely, several programs operated in the state have relatively low rates of return and should either be changed to produce better results or abandoned and replaced with more effective programs. For example, NMCD currently operates the Intensive Supervision Program (ISP), a highly structured and concentrated form of probation and parole. LFC estimates this program provides no return on investment and does not reduce recidivism for participants not enrolled in a treatment program. But, if NMCD were to require treatment, LFC estimates the program would reduce recidivism by 9 percent.

Inadequate Department of Public Safety Manpower. The Department of Public Safety's (DPS) inability to recruit and retain officers is due to salary disparities between DPS officers and other law enforcement agencies around the state. Despite a recent 4 percent DPS salary increase, pay for Motor Transportation officers State Police officers continues to lag. Based on a salary study conducted by the department, compensation for state police cadets and Motor Transportation Division (MTD) cadets rank 11th in the state. Additionally, state police patrol officers and sergeants rank 10th; and MTD officers and sergeants rank 12th. Salary disparities make it easy for second-ranked Albuquerque Police Department (APD) to recruit DPS's

Recidivism Reduction Programs Estimated Percent Increase/Decrease in Recidivism	
Intensive Supervision Only	0%
Intensive Supervision With Treatment	-9%
Vocational Education	-11%
Education in Prison	-12%
Drug Courts	-12%
Mental Health Courts	-11%
Community Drug Treatment	-12%
Electronic monitoring	-13%
Drug Treatment in Prison	-9%
Cognitive Behavioral Therapy	-7%
Employment Training	-4%

Source: LFC Source Files

Law and Enforcement

highly trained sergeants. The recent salary increase along with the department running two recruit classes is beginning to allow DPS to make progress toward reducing turnover but more remains to be done.

Data-Driven Policing Strategies. The Department of Public Safety, unlike many law enforcement agencies across the country, does not regularly use real-time data to deploy officers. Other jurisdictions across the country, including APD, have found integrating time- and place-based data into everyday policing strategies has become a valuable tool. By analyzing where and what time of day crimes occur, police commanders can deploy officers in a way that maximizes police visibility in the community and deters crime. The application of high-visibility law enforcement is an evidence-based and effective countermeasure that addresses both crime and crashes. The use of data-driven policing strategies has been proven to maximize personnel and has the potential to partially address manpower issues. Deploying manpower based on “geo-mapping” is cost-effective, has been proven to disrupt crime, and brings police into contact with the public more regularly increasing trust.

Inmate Health-care: an Area for Improvement. In FY13 the NMCD spent \$40.6 million on inmate healthcare and in FY15 requested \$43.7 million for the Corizon Inc. inmate healthcare contract. The LFC estimates that Corizon may spend as much as \$1.5 million per year to provide treatment to inmates requiring acute medical care in a hospital outside of prison walls. Due to recent changes in Medicaid eligibility, most of these inmates after 24 hours in a hospital will be eligible for Medicaid and NMCD will no longer have to pay the bill. In FY13, inmates spent 811 inpatient days receiving medical care in a hospital outside of a prison facility. Ensuring a system is in place to leverage Medicaid coverage in these circumstances will produce significant savings.

While Corizon inc. receives a 0.75 percent annual upward adjustment to their \$37 million base compensation rate for each performance benchmark that is met, there is no downward adjustment when performance benchmarks are not met. In a 2007 LFC evaluation of the department, LFC recommended that future medical contracts include a clause that withholds no less than 5 percent of contract compensation for not meeting performance requirements such as maintaining minimum staffing levels. Inmate healthcare contracts should include provisions that reduce contract compensation amounts for not meeting performance goals.

The department does not report inmate healthcare-related performance measures to the Legislature. To help the Legislature monitor performance, the department should begin reporting quarterly on measures such as percent of staffing levels as required by the contract, number of inmate days spent in a hospital, and outpatient referrals to specialty services.

Staffing for Judiciary: At the same time budgets for courts and district attorneys have increased, with the courts up 4.2 percent in FY14 and district attorneys up 4.7 percent, the courts have experienced increased efficiencies through automation and the district attorneys have experienced flat case loads. The increased efficiencies and stable criminal number of cases will allow the Legislature to tie funding more closely to caseload levels for the courts and district attorneys as well as outcomes for special court programs such as drug courts in FY15.

District Attorney Disparities. From FY09 to FY13, criminal cases filed in district court have decreased by 3 percent and funding decreased by 8.4 percent. Although the funding decrease coincided with a decline in case filings, the district-level changes in cases filed and funding received are dramatic. For example, the 1st Judicial District in Santa Fe county experienced an 18 percent increase in case filings from FY08 to FY13 while total funding received during this period decreased by 3.4 percent, more than the statewide average decrease of 2.7 percent for this time frame.

Law and Enforcement

District attorneys received funding increases in FY13 and FY14, but those increases were distributed in nearly equivalent percentage terms and did not prioritize the needs of districts based on caseload. The 7th District Attorney received the largest FY14 budget increase (7.6 percent) despite experiencing a 17 percent decrease in cases from FY09 to 13.

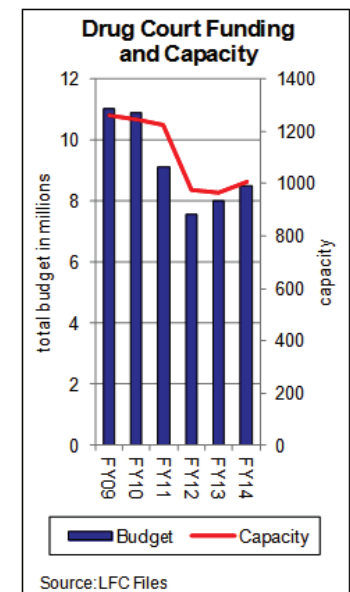
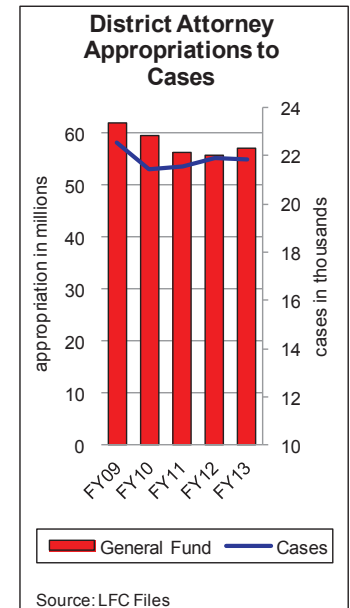
The funding disparities of the district attorneys may be influencing salary structures of the districts. An LFC analysis shows large disparities in pay for identical positions in different districts. For example, the average pay for a senior trial attorney is \$62 thousand per year; however, in the 1st Judicial District the average for this position is \$55.1 thousand while in the 3rd Judicial District, Dona Ana County, the average is \$74.1 thousand. Such disparities may hurt recruiting and retention efforts and signal a need for an evaluation of the human resource practices of District Attorney offices statewide.

Court Case Management. The Administrative Office of the Courts (AOC) implemented a new case management system (CMS) in district and magistrate courts statewide. The new CMS allows for electronic filing in civil cases and a transition to a paper-on-demand system in which case documents may be accessed by litigants and court staff electronically. A limited-scope workload study conducted to attempt to quantify the efficiency gains from the implementation of the CMS found clerk time savings of 44 percent for civil cases filed in district court and 19 percent overall in magistrate court.

The workload study indicates potentially large clerk efficiency gains and may allow the courts to begin reinvesting the savings in other areas. The new CMS has fundamentally altered the business practices of the court and the effects of this have yet to be quantified. A new workload study should be provided to quantify the savings realized as a result of the implementation of the CMS and allow for a better distribution of resources into new and existing programs.

Drug Courts. In FY14, drug court programs statewide will receive \$8.5 million, a 23 percent decrease from FY09 funding levels. There were 1,008 active participants at the beginning of FY14, down 20 percent from FY09. Drug court programs are showing good client outcomes with a recidivism rate of only 15.5 percent compared with the FY13 corrections department recidivism rate of 45.4 percent. Although the drug court programs have experienced significant funding reductions, they have adequate staff to handle more clients should funding become available. Additional funding for drug courts should be directed by AOC in a competitive process to programs with the highest need and lowest recidivism rates.

Consolidated Offender Query. The consolidated offender query (COQ) provides criminal history information by consolidating and querying records of AOC, the Administrative Office of the District Attorneys (AODA), and the Department of Corrections (including probation and parole records) and supports approximately 4,000 users. The COQ users include CYFD, which run screenings of potential child placement homes; district attorneys and judges who access to criminal histories for bail hearings; and probation and parole officers who check for outstanding warrants, prior convictions, and history of violence.



The COQ is currently operated by AODA with the support of AOC; however, no appropriation has been made for the maintenance of the system since 2010. It is the opinion of AOC and AODA personnel that the system is in danger of collapse without a software upgrade that would cost approximately \$150 thousand.

Public Infrastructure

TRANSPORTATION INFRASTRUCTURE

Transportation infrastructure is critical to the economic health and competitiveness of the country as well as to the state of New Mexico. Functional roads, bridges and transportation systems should be built to meet the highest standards of quality to facilitate ease, safety, and efficiency of travel for everyone from daily commuters traveling to and from work to the truck drivers transporting freight to businesses to the tourist traveling New Mexico to experience the beauty of the landscape. For many in rural areas of the state, they are a lifeline.

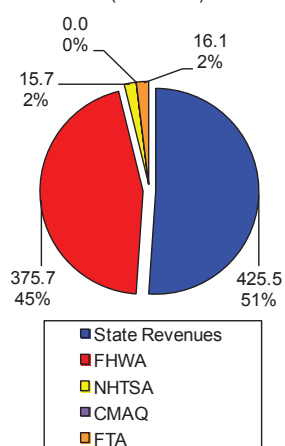
Policymakers throughout the country face difficult challenges revising and reforming public policy for the complex and overwhelming transportation needs of the country while simultaneously finding creative ways to fund the increasing needs of transportation infrastructure. In New Mexico, lawmakers are faced with the requirement of a balanced budget, a sluggish economy, declining road revenues, debt constraints, and an aging and underfunded infrastructure.

Transportation Infrastructure Crisis. Shrinking revenues coupled with the increasing needs and costs of planning, constructing, operating and maintaining the state's roads indicate New Mexico transportation infrastructure is in near crisis.

Based on current projections, total state road fund revenues for FY14 are essentially flat and the FY15 forecast for future growth is expected at less than half a percent, or \$12 million below their FY07 peak. The major source of state road fund revenues are gasoline and special taxes, both projected to decline. According to a report from the National Conference of State Legislatures (NCSL), the value of the state gas tax revenue has fallen after taking into consideration rising construction costs not keeping pace with flat gas taxes. NCSL reports that, as of January 2013, 17 states had not raised gas taxes in more than 20 years, leaving a revenue source not able to keep up with increasing demands of road construction and maintenance. NCSL also reports New Mexico has the eighth lowest combined gas tax (federal and state) and the eighth lowest combined diesel tax in the nation. Another major source of road fund revenue is the weight-distance fee; a tax on commercial trucking based on the weight of the load and self-reported number of miles traveled in the state. This fee is an effort to tie revenues directly to the cost of maintaining the highways. There have been legislative proposals in the past to change this to vehicle miles traveled (VMT), but none have gained traction at the state or federal level and would only represent a partial solution to the problem.

In addition to the decline of state road funds, the uncertainty and potential loss of federal funds remains a concern. Federal transportation legislation signed into law in 2012 lasts for 27 months and will expire in 2014. According to a report from the National Conference of State Legislatures, the federal highway trust fund is predicted to reach insolvency in 2015 and many state legislatures are not expecting much help from the federal government. NCSL also reports the purchasing power of the federal gas tax rate has declined when adjusted by the consumer price index (CPI).

**FY14 NMDOT
Revenue by Source**
(in millions)



Source: NMDOT

Public Infrastructure

Debt Constraints and Outlook. In New Mexico, declining revenues are further complicated by significant, long-term debt obligations incurred during the completion of the Rail Runner and construction of new highway projects resulting in the delay of major future projects critical to New Mexico's economic welfare.

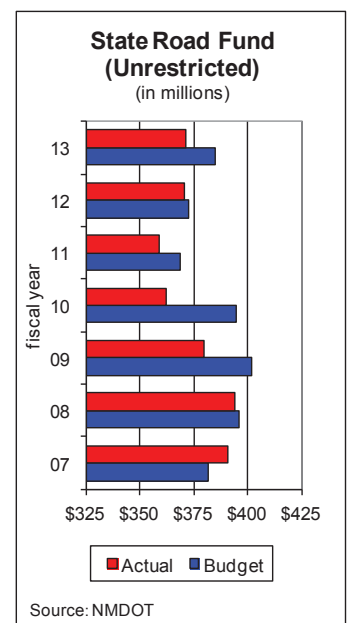
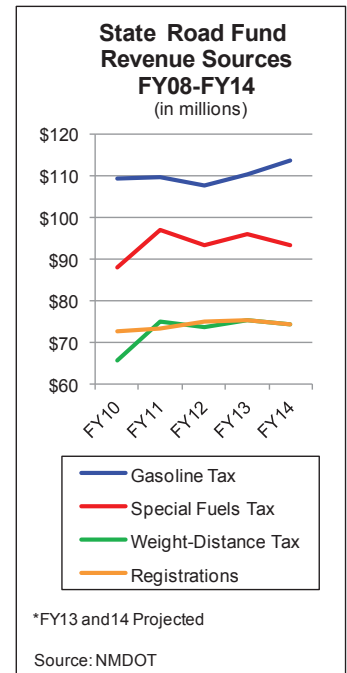
As of July 2013, the total outstanding debt for transportation infrastructure projects across the state for FY14 through FY27 totaled \$2.2 billion – including principal, interest, and fees. Of the \$2.2 billion, the state is required to pay \$627.7 million from state road fund sources between FY14 and FY27. Of significant concern are the “cliff” years of FY25 and FY26 when the state must pay approximately \$113 million in each of those fiscal years, compared with roughly \$30 million annually from FY14 through FY22, and \$51 million and \$42 million in FY23 and FY24 respectively. The New Mexico Department of Transportation (NMDOT) researched the cost required to exit variable rate “swap” bonds (debt instruments used to finance Governor Richardson's Investment Partnership, or GRIP) which total about \$99 million but, with limited funds the department has not pursued this option. Over the last three years, NMDOT reduced road fund debt by \$58 million by refinancing a couple of transactions and renegotiating its agreement with New Mexico Finance Authority to reduce fees charged for the administration of the bond program.

New Mexico's Transportation Needs. According to NMDOT, New Mexico currently has approximately \$537 million in unfunded highway construction needs across the state with \$147 million in the Albuquerque metro region, \$350 million in GRIP projects that were deferred, and \$40.3 million to replace structurally deficient bridges.

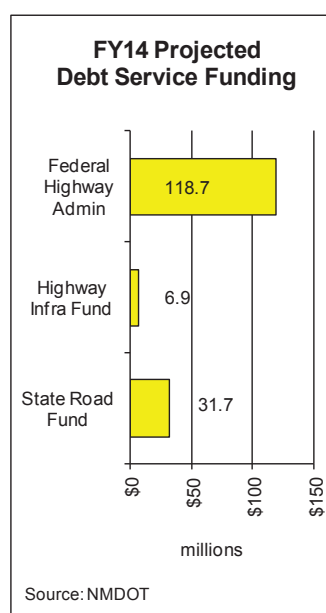
A recent report by the National Transportation Research Group (TRIP) identified the top 50 transportation projects throughout the state most needed to support economic growth. The projects include improving key roads, bridges, highways and transit systems for a total need of \$1.9 billion. According to the report, the condition and quality of the state's highways, rails and public transit systems remain the backbone of the New Mexico's economy and make the state a desirable place to live and visit.

The top five projects identified by TRIP are U.S. 491 expansion to four lanes from Twin Lakes to Naschitti; reconstruction of U.S. 64 from Farmington to McGee Park; reconstruction of the Interstate 25 Gibson, Cesar Chavez and Lead/Coal interchanges; addition of two lanes to U.S. 82 from Artesia to Lovington; and reconstruction of the Comanche, Montgomery, Jefferson, San Mateo and San Antonio I25 interchanges.

State Highway Maintenance Program. In addition to the major highway construction needs across the state, NMDOT has a routine maintenance program designed to preserve the state's highways, roads and bridges. This includes the resurfacing technique called chip-seal, sign and equipment replacement and repair, drainage and guardrail improvement, mowing and litter removal, preventive maintenance on bridges, and other critical activities that ensure the safety of the public.



Public Infrastructure



According to the report by TRIP, “twenty-four percent of New Mexico’s major roads are deficient, with 9 percent rated in poor condition and an additional 15 percent rated mediocre in 2011. An additional 11 percent of the state’s major roads were rated in fair condition and 65 percent were rated in good condition.”

The department estimates \$339 million is needed in FY14 for the maintenance program plus an additional \$20 million to repair roads damaged by flooding in September, for a total \$359 million supported by revenues of only \$91 million, creating a budget gap of \$268 million. Absent additional revenues, the department continues to face serious choices of whether to spend limited finds on good roads so they do not become bad roads or bad roads so they do not become failed roads. Further complicating the decisions were the unprecedented rains in September 2013 and the damage caused to New Mexico roads in the aftermath.

The TRIP report also states that “in 2012, 9 percent of New Mexico’s bridges were rated as functionally obsolete,” meaning they no longer meet current highway design standards and “8 percent of New Mexico’s bridges were rated structurally deficient.” A bridge is considered structurally deficient if there is significant deterioration of the bridge deck, supports, or other major components. According to NMDOT, the cost to replace all functionally obsolete bridges is \$ \$342.5 million.

At a minimum, with about 3,000 bridges throughout the state maintained by NMDOT, the department estimates a need of \$67.7 million for preventive bridge maintenance on 125 bridges per year or about 10 percent of bridge inventory. However, with current resources of \$4.1 million, a gap of \$63.6 million in FY14 exists.

State Transportation Improvement Plan (STIP). The STIP is a four-year, federally mandated, multi-modal transportation plan and is created through a lengthy consultation process among NMDOT officials, engineers, local and regional governments, metropolitan and regional planning organizations (MPOs and RPOs), other state agencies, and the public. NMDOT identifies projects assigned the highest priority through the STIP consultation process and then, after detailed discussions with the Federal Highway Administration (FHWA), establishes which projects should be funded. The state must provide a funding match that varies by the type of project. Amendments at the STIP are presented at the State Transportation Commission (STC) for approval but can also be changed by administrative action at the department.

The current STIP, amended twice by STC and approved by FHWA, contains a total of 953 projects with costs of approximately \$1.8 billion and a state match requirement of \$300 million. Generally, the projects are maintenance, repair, and reconstruction of existing roads and bridges.

Legislative Options for Increasing Revenues. According to NCSL, transportation infrastructure has been a top state issue in 2013, with at least 285 bills introduced in at least 39 states and the District of Columbia. Resolutions to the transportation infrastructure crises varied dramatically by state and ranged from short-term measures to long-term comprehensive

Public Infrastructure

funding plans. In all cases, key elements for change were leadership, educating the public on transportation needs and investments, and political consensus. Items enacted or considered by states include public-private partnerships, raising taxes and fees, and short-term fixes.

Public-Private Partnerships. These partnerships (PPPs) are contractual agreements between a public agency and a private entity to construct or make improvements to a public facility or system. The private company shares the financial risk with an emphasis on private financing, and makes a profit by bringing efficiency to the design, planning, and construction process and then by charging taxes, tolls or fees to the consumer. According to NCSL, 33 states have created enabling legislation for PPPs, and 22 states considered PPPs with related bills in 2013.

Mileage-Based User Fees. A vehicle miles traveled (VMT) fee is a set fee per mile charge to consumers for driving on roads based on miles driven during a given time period, such as a quarterly basis. Global positioning devices (GPS) can be used to track mileage and consumers can be billed monthly or a pay-at-the pump model can be used by the state. Oregon recently passed a bill authorizing a program with 5,000 volunteers who are charged a rate of 1.5 cents per mile and receive a refund of the state gas tax.

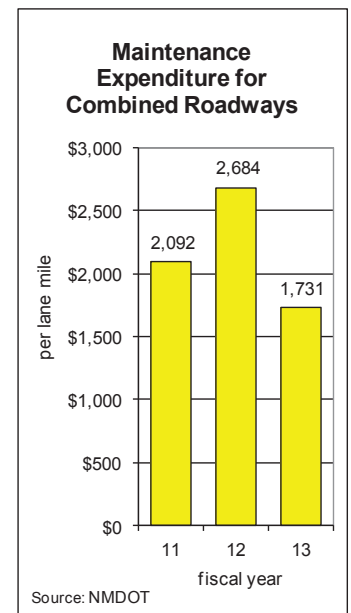
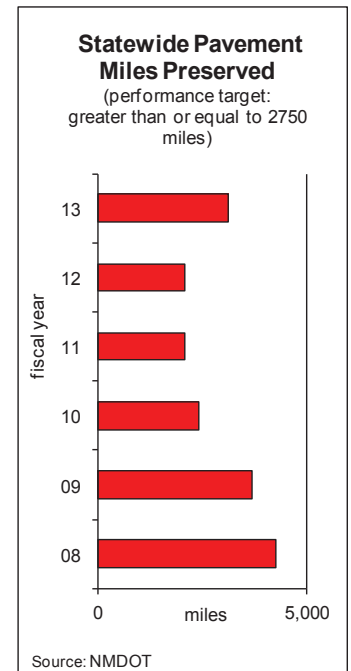
Gas Tax Increases. Wyoming, Vermont, Massachusetts, Maryland and Virginia all enacted gas tax increases in 2013 in one form or another. In Wyoming, the state gas tax was 10 cents lower than surrounding states, but the price of gas was the same as other states. It was evident the differential was going to oil companies rather than supporting the state transportation infrastructure.

Indexing the Gas Tax to Inflation. Maryland recently passed legislation that indexes the state gas tax to inflation and phases in a 3 percent sales tax on fuel that increases revenue when gas prices increase.

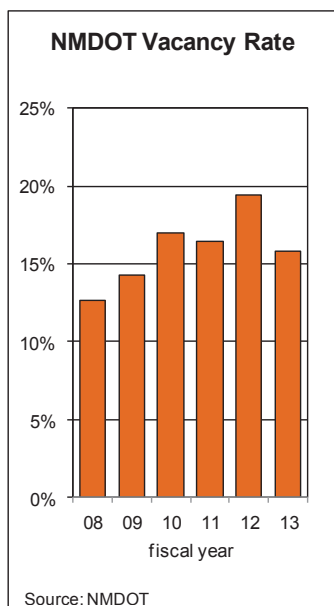
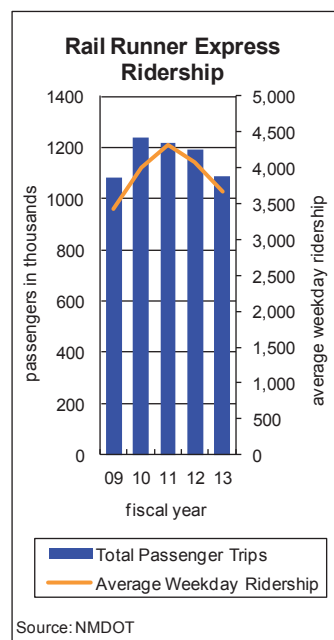
Short-Term Fixes. After a regular session and three special sessions, the Texas legislature approved a measure that proposes a constitutional amendment to go before voters in 2014 that would divert oil and natural gas tax revenues from a rainy day fund to increase transportation spending. It would be a one-time, temporary fix and still falls short of the state's total need.

Transportation Infrastructure Committee. The Transportation Infrastructure Revenue Subcommittee was created by the Legislative Council Service (LCS) in April 2013 to identify current and new sources of transportation revenue and make recommendations to the full Legislature to meet the needs of the state's transportation infrastructure needs.

During the interim, the committee held five public meetings during which they reviewed existing revenue sources, including federal funds, gas and fuels taxes, motor vehicle excise tax and the weight-distance tax; studied alternative methods and sources of transportation funding; reviewed best practices from other states; and reviewed commuter travel on rail and bus transit systems.



Public Infrastructure



Over the next 20 years, New Mexico has \$933 million in drinking water infrastructure needs and \$103 million in wastewater infrastructure needs.

Recommendations of the Transportation Infrastructure Revenue Subcommittee. The committee endorsed one piece of legislation for the 2014 session, a natural gas equivalency measure. The legislation would define a gallon of liquid natural gas as the energy equivalent of a gallon of diesel fuel and a gallon of compressed natural gas as the energy equivalent of a gallon of gasoline. The legislation might have a negative impact on tax revenue collected as the new definitions of a gallon of liquid and compressed natural gas result in more natural gas to the gallon, but the tax rate per gallon would not change from the current rate.

Commuter Rail. In July 2013, the Rio Metro Regional Transit District (RMRTD) reported it would receive an additional \$2 million in federal 5337 “state of good repair” funds for allocation to maintenance right of way and maintenance of equipment. Federal 5337 funds increase to \$5.5 million in 2015 and continue at that level through 2020. Federal 5307 funds also increase in FY14 by about \$6.7 million for the “fixed guide way” funding. Gross receipts tax revenue is projected to decline from both RMRTD and the North Central Regional Transit District from anticipated amounts in FY13 and FY14 but are projected to increase starting in FY15. Finally, in FY14 fare box revenue is projected at \$3.1 million and represents about 7.7 percent of total revenues for RMRTD.

Total ridership for the Rail Runner in FY13 was 1.07 million, a slight decline when compared with 1.19 million in FY12. RMRTD attributes the decline in both fare box revenue and ridership to fewer state employees and an increase in fare back in 2012.

WATER INFRASTRUCTURE

Water and Wastewater Systems. New Mexico provides more grant funding for water projects than all other states except Kentucky, according to a November 2013 evaluation conducted by LFC. In FY12, New Mexico provided \$20.3 million in water project grants compared with a combined \$3.3 million provided by all five neighboring states (Colorado, Texas, Arizona, Utah, and Oklahoma). Despite multiple funding sources available to finance infrastructure improvements, such as the drinking water state revolving fund or the clean water state revolving fund, communities will often decline loan offers, opting instead for state or federal grants. Meanwhile, many systems throughout New Mexico are more than 80 years old and lack routine maintenance and structural improvements. Addressing the aging and deteriorating drinking water, wastewater, and solid waste systems through maintenance and rehabilitation will reduce the risk of disasters, such as droughts and floods. The New Mexico Environment Department (NMED) identified 257 water systems that could be vulnerable if the only source of water is impaired or cannot produce adequate quantities. In 2013, vulnerable communities, such as Magdalena and Cloudcroft, struggled to ensure infrastructure was able to provide a reliable source of drinking water. Currently, user fees do not reflect the value of the service and do not cover capital, operations, and maintenance costs.

Assurance of drinking water safety is a foundation for public health and safety, more specifically the prevention and control of waterborne diseases.

Public Infrastructure

According to NMED, septic systems constitute the single largest source of groundwater contamination in the state and have contaminated more public and private water supply wells than all other sources combined. Approximately 90 percent of New Mexicans use groundwater as a source of drinking water, while 27 percent of state residents use on-site sewage systems, including an estimated 215 thousand septic tanks and cesspools. Groundwater contamination occurs in rural areas because effluent discharged from septic systems percolates into the same aquifer tapped by wells for domestic water supply. In addition, these substandard systems pose public health and safety hazards of entrapment, asphyxiation, and drowning, especially to young children.

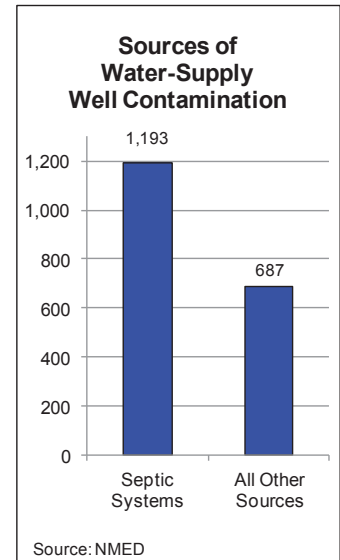
Additionally, proper closure of landfills, installation of groundwater and methane-monitoring wells is integral to protecting groundwater from contamination. In 1995, the Legislature authorized issuance of \$10 million in bonds and an additional \$7.5 million in bonds in 1996 for the Solid Waste Facility Grant Fund Program to properly close landfills and install groundwater and methane-monitoring wells. In FY13, NMED authorized \$300 thousand for this purpose, but the \$2.2 million of grant requests far exceeds the amount of funding available. The balance in this fund is decreasing because the only revenue is the penalties the agency obtains through settlement.

Flood Control. Despite facing multi-year drought, communities throughout New Mexico were devastated by flooding from extreme rainfall during the monsoon season in 2013. Only 25 percent of the state regulated dams in New Mexico have an emergency action plan, required to reduce the risk to public safety and economic assets. Furthermore, many of New Mexico's aging and deteriorating dams do not comply with current dam safety regulations. The Office of the State Engineer (OSE) reports 212 dams in New Mexico are deficient and half are classified as high-hazard. The 2013 estimated remediation costs for the 18 publicly owned dams on the OSE's priority list is \$81.7 million.

CAPITAL OUTLAY

New Mexico has been fortunate to capitalize from its natural resources to fund both state and local infrastructure projects for many years. However, as the economy deteriorated and oil and natural gas revenues fell, policymakers targeted unexpended capital funds to address a revenue deficit in fiscal year 2009. The solvency issue and inadequate general fund surpluses forced legislators to defer capital appropriations for local projects for three years. The loss of funds and an unreliable funding stream, especially for local projects, highlighted the need to ensure capital projects are adequately planned, prioritized, supported by local governments, leveraged with other funds, and completed in a reasonable timeframe. An improved economic outlook provided legislators an opportunity to resume funding for local projects in 2012 and 2013.

Policymakers recognize infrastructure funding is critical to the public health, safety, and economic vitality within New Mexico's communities. The major challenge is how to address the state's responsibility for state-owned and



Public health and safety of New Mexico's drinking water:

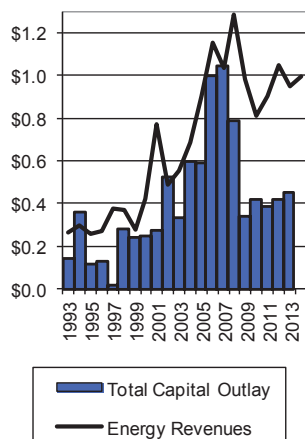
- Outbreaks of waterborne disease in New Mexico have been traced to drinking water supplies contaminated by sewage and to people swimming in surface water contaminated by sewage.
- Groundwater nitrate pollution causes the "blue baby syndrome."
- Groundwater manganese levels in some anoxic groundwaters in New Mexico are up to 10 times greater than the level considered to be protective against neurological disease.

Dam Rehabilitation Capital Outlay (in thousands)		
Year	Name	Amount
2002	Statewide	\$6,040
2002	Eagle Nest Lake Dam	\$6,000
2005	San Mateo Reservoir	\$50
2006	San Mateo Acequia	\$250
2013	Statewide	\$4,700
2013	Bear Canyon Dam	\$1,100
2013	Lake Roberts Dam and Spillway	\$2,700

Source: LFC

Public Infrastructure

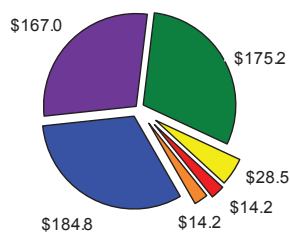
Capital Outlay and Energy Revenues
(in billions)



Notes: Years on horizontal axis reflect fiscal year in which energy revenues are collected and calendar years in which capital outlay is appropriated.

Source: LFC

Capital Outlay Bonding Capacity Uses for 2014
(in millions)



■ Severance Tax Bonds
■ General Obligation Bonds
■ Supplemental Severance Tax *
■ Water Project Fund
■ Colonias Project Fund
■ Tribal Infrastructure Fund

* For public school construction

Source: LFC

-operated facilities while at the same time meeting expectations to fund local needs with limited resources. Adding to the challenge is the need to create an application process that is transparent, fair, and equitable and provides for the efficient and cost-effective construction of local projects.

2014 Capital Funding Outlook. As detailed in Volume III, senior severance tax bond net capacity is \$184.8 million. Earmarked funds totaling \$232.1 million are designated for specific purposes. Supplemental severance tax bonds totaling \$175.2 million are dedicated for public school construction. Earmarked funds for water infrastructure, colonias, and tribal infrastructure total \$57 million, 31 percent of the total of net senior severance tax bond capacity. The 2013 allocations for the earmarked funds totaled \$66.5 million and are listed on the LFC website.

General obligation bond (GOB) capacity is \$167 million, or approximately 1 percent of net taxable value of property. Authorizing no more than the stated capacity maintains a flat mill levy. Consensus revenue estimates indicate no nonrecurring general fund monies will be available for capital outlay in 2014.

Unexpended Funds. The Legislature appropriated or authorized more than \$811 million between 2009 and 2013 for 1,517 capital projects. As of September 2013, approximately \$597.9 million for 1,454 projects is outstanding. Less than 1 percent of the outstanding funds were allocated from the general fund. As of September 2013, balances for projects \$1 million or greater total more than \$476 million for 203 projects, or nearly 80 percent of all unexpended balances.

2009-2013 Capital Outlay Funding
"Outstanding" Projects Only
(in millions)

Year	Number of Projects	Amount Appropriated	Amount Expended	Amount Unexpended	Percent Expended for Year
2009	2	\$11.0	\$9.5	\$1.5	86%
2010	109	\$59.0	\$38.9	\$20.0	66%
2011	69	\$73.4	\$33.7	\$39.8	46%
2012	447	\$288.9	\$37.2	\$251.6	13%
2013	827	\$286.0	\$1.1	\$285.0	0%
Total	1,454	\$718.3	\$120.4	\$597.9	

Note: Excludes earmarked funds

Source: Capital Projects Monitoring System

Authorized but Unissued Bonds. Severance tax bonds authorized in 2012 and 2013 totaling \$38 million for 166 projects remain unissued (\$5.5 million from 2012 and \$32.5 million from 2013). Two major projects not certified for issuance include \$10 million for Indian water rights settlements to the State Engineer Office and \$6 million for the Los Lunas drug and substance abuse center (Henry Perea building). According to the Human Services Department (HSD), contracted behavioral health service providers Agave and Valle del Sol of Arizona have occupied the center. HSD is the lead agency for the facility; however, to date an on-site building manager has not been assigned

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to the facility to coordinate building maintenance needs with the Facilities Management Division. The division has not approved a lease agreement for the center.

State Debt. According to the latest data from the U.S. Census Survey of Government Finance, the combined long-term state and local debt per-capita for New Mexico was \$7,966 in 2011. The per-capita average for all states was higher at \$9,220, indicating New Mexico has not over-leveraged its residents relative to other states.

In New Mexico, state government accounted for 48.8 percent of the total amount of outstanding long-term state and local government debt, while local governments accounted for 51.2 percent. Nationally, state governments account for 39.2 percent of the debt, with local governments accounting for 60.8 percent.

Funding Requests. State agencies, higher education institutions, and special schools requested \$674.2 million for capital projects. The LFC staff “framework” for funding consideration by the full Legislature is based on set criteria, site visits, review of infrastructure capital improvement plans, monthly meetings with major departments, and testimony at hearings held in the interim.

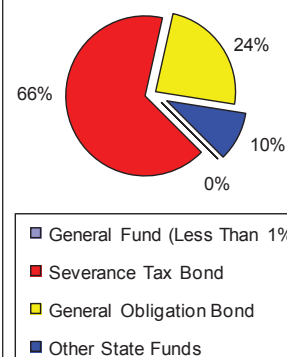
The following summaries reflect the most critical projects impacting public health and safety and ongoing projects requiring additional funds to complete. Other requests, including authorization to expend money for capital from “other state funds,” and LFC staff-proposed dollars for capital from all state funding sources are summarized in Volume III.

Aging and Long-Term Services Department. ALTSD received capital outlay requests totaling nearly \$47.7 million from programs for seniors throughout the state. Based on formal presentations, review of the applications, and site visits, ALTSD assigned a rating of critical, high, or moderate to the projects. ALTSD and area agencies on aging recommended more than \$12 million for code compliance, renovations, specialized vehicles, and other equipment statewide.

ALTSD rated 11 new construction or renovation projects as “critical” requiring \$7 million, but excluded an incomplete senior center in Wagon Mound. ALTSD did not recommend funds for major construction and renovation. ALTSD indicated its reason for not making a recommendation was the continuation of a practice of not recommending large renovation or construction projects, but encourage centers to request funds from individual legislators. The LFC staff framework proposes more than \$16.4 million, including nearly \$5.4 million for “critical” renovation or construction.

Higher Education Department and Special Schools. HED held hearings in Albuquerque, Espanola, Las Cruces, Roswell, and Shiprock. All secondary institutions, the three special schools, Dine College, the Institute of American Indian Arts, and Navajo Technical College presented their capital requests. Institutions requested \$293.9 million for infrastructure projects statewide. HED staff recommends \$154.1 million for 28 projects.

Percent of Unexpended Capital Balances By Fund 2009-2013



Source: LFC

Senior Severance Tax Bonds Earmarked Funds

(in millions)

Fund	Projects Awarded	Amount
Water	60	\$59.7
Colonias	77	\$29.8
Tribal	47	\$29.8
Total	184	\$119.3

Source: Capital Projects Monitoring System

Status of Projects Greater than \$1 Million

LEGEND		
G	Project on schedule	134
Y	Behind schedule or little activity	44
R	No activity or bonds not sold	25
Total Active Projects		203
Other report information:		
B	Appropriation expended or project complete	21
X	Additional funds needed	1

Source: LFC

Public Infrastructure

CRITERIA FOR PRIORITIZING AGENCY CAPITAL OUTLAY NEEDS

- Project will eliminate potential or actual health and safety hazards and liability issues.
- Project will address backlog of "deferred" maintenance and prevent deterioration of state-owned assets, including projects of cultural or historical significance.
- Project is necessary to comply with state or federal licensing, certification, or regulatory requirements.
- Request is included in state five-year capital improvement plan for projects ready to commence or require additional funding for completion.
- Investment provides future operating cost-savings with a reasonable expected rate of return.
- Project provides direct services to students, staff, or the general public.

CRITERIA FOR PRIORITIZING HIGHER EDUCATION NEEDS

- Student, faculty, and public safety
- Project completion
- Funding from other sources
- Project readiness
- Facility condition index
- Space utilization or Instructional & General (I&G)
- Full-time student enrollment trends
- Programmatic use of building
- Energy-efficiency standards

NM Institute of Mining & Technology



Chemistry Laboratory

University of New Mexico



Farris Engineering Building

The Legislature funded more than \$590 million for postsecondary school facilities between 2006 and 2013. In the same period, institutions have generated more than \$1.5 billion for capital improvements from other sources, such as local general obligation bonds, revenue bonds issued by the universities, federal funds, grants, institution fund balances, tuition, fees, or foundations. LFC staff framework proposes nearly \$139.8 million for 30 projects, but does not include funds for plan and design of major projects at New Mexico Institute of Mining and Technology, New Mexico State University main campus, and the University of New Mexico main campus. Institutions are encouraged to fund and proceed with the plan and design phase to allow construction and renovations to move forward without delay as soon as the voters approve the bonds in November 2014.

Special Schools. Laws 2012, Chapter 53, includes the New Mexico School for the Deaf (NMSD) and the New Mexico School for the Blind and Visually Impaired (NMSBVI) in the standards-based program. According to the facility condition index, each building within the special schools' campuses, or two-thirds of the facilities, are worse than the average condition of the schools in the state.

NMSD requested \$7 million for renovations to Cartwright Hall. NMSBVI requested \$4.1 million to address code deficiencies and renovations to Ditzler auditorium, \$1.8 million for infrastructure upgrades at Neil Quimby gymnasium and natatorium, and \$2.3 million for demolition of Sacramento dormitory and construction of two residential cottages. LFC staff framework proposes \$7 million for NMSD Cartwright Hall project and \$8.3 million to address code deficiencies and renovations to Ditzler Hall, Quimby gymnasium and natatorium, and for new residential cottages and demolition of the Sacramento dormitory. The proposed funding is from the public school capital outlay fund contingent upon approval of the Public School Capital Outlay Council.

Library General Obligation Bond Request. The New Mexico Library Association (NMLA) requested \$12 million on behalf of public libraries, public school libraries, academic libraries, and tribal public libraries. Public libraries, public school libraries, and tribal libraries propose to continue making allocations with requested 2014 GOB funds based on population and full-time-equivalent student enrollment. New Mexico colleges and universities will continue to use funds toward electronic resources (academic journals, electronic reference books, electronic books, educational films, etc.) to provide resources to students regardless of institution or course work, particularly in rural areas. The LFC recommends \$3.5 million for public school libraries, \$3 million for public libraries, \$3.5 million for academic libraries, and \$800 thousand for tribal libraries.

Public Education Department. PED requested \$7.4 million for the replacement of aged and high mileage school buses and \$2.5 million for construction or renovation of prekindergarten classrooms. PED owns and operates approximately 900 school buses statewide. In accordance with Section 22-8-27, NMSA 1978, buses are required to be replaced every 12 years. LFC staff framework proposes \$9.9 million for both requests from the

Public Infrastructure

public school capital outlay fund contingent upon approval of the Public School Capital Outlay Council.

Children, Youth and Families Department. CYFD requested more than \$1.6 million to plan and design a 30- to 54-bed juvenile detention facility in either Roswell or Farmington, both identified areas of the most need. CYFD also requested \$1.4 million to plan and design and construct a visitor's center and storage warehouse, and more than \$1 million for other improvements to the Youth Diagnostic and Development Center (YDDC) in Albuquerque and Lincoln Pines Juvenile Center near Fort Stanton. LFC staff framework proposes more than \$2.4 million for the visitor's center, warehouse, Lincoln Pines, and other YDDC improvements.

New Mexico Corrections Department. NMCD requested \$25.8 million for renovations, repairs, security upgrades statewide, and for water and wastewater upgrades at the Springer facility. LFC staff framework proposes \$9 million for renovations, repairs, and security upgrades statewide and \$3 million for water and wastewater infrastructure upgrades at Springer facility.

Cultural Affairs Department. The department requested nearly \$20 million to preserve and renovate museums and monuments statewide, to complete ongoing projects and to purchase and install equipment. LFC staff framework proposes \$9.3 million – \$7 million to address major health and safety deficiencies, repairs, equipment, and other renovations at museums and state monuments statewide and \$2.3 million to complete critical unfinished projects, including furniture, equipment, and exhibits prioritized by the department.

New Mexico Environment Department. NMED requested \$65.8 million, including \$62 million for public water systems not meeting drinking water quality standards statewide. The request is an executive initiative, but details of the allocation and eligibility process were not available at the time of this writing. Included in the request is \$1.3 million for a state match expected to generate a federal grant totaling \$6 million to capitalize the clean water state revolving loan, \$1.5 million for a river restoration program, and \$1 million for a liquid waste disposal assistance fund to serve indigent households. LFC staff framework proposes \$1.3 million funded from the public project revolving fund for the clean water match and \$800 thousand from severance tax bond capacity for river restoration and preservation, a governor's initiative.

Department of Health. DOH requested nearly \$39 million to address patient health and safety issues impacted by aged infrastructure and a backlog of repairs and to complete the final phase of constructing the Meadows long-term care facility in Las Vegas. The DOH facilities have been cited for code violations by the Joint Commission (an independent, not-for-profit organization), the state Fire Marshal, and the state Health Facility Licensing and Certification Bureau.

LFC staff framework proposes \$22.4 million to complete the long-term care nursing facility; \$6 million to address patient health and safety and deficiency issues at the Behavioral Health Institute in Las Vegas, Fort Bayard Medical Center in Grant County, the New Mexico State Veterans' Home in Truth or Consequences, and the Sequoyah facility in Albuquerque and \$500 thousand for specialized equipment for the state Scientific Laboratory Division.

New Mexico School for the Deaf



Cartwright Hall Antiquated Heating and Plumbing Systems

New Mexico School for the Blind and Visually Impaired



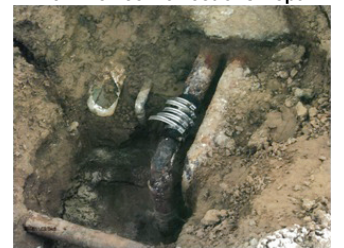
Ditzler Auditorium Sewer Line

Children, Youth and Family Dept



YDDC Storage

New Mexico Corrections Dept



WNMU Housing Unit Condensate Line

Cultural Affairs Dept



Lincoln Tunstall Store Stucco

Public Infrastructure

Department of Health



NMBHI Aged Infrastructure



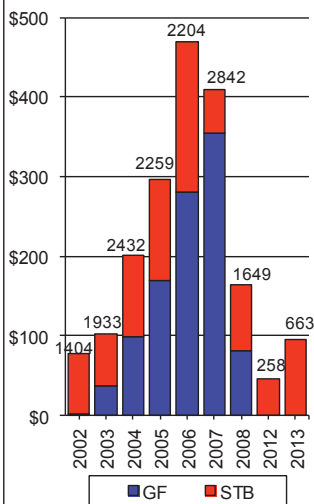
NM Veterans Home Pool Tunnel Piping

Department of Public Safety



Shooting Range

Local Capital Outlay
Appropriations by
Source and Count
(in millions)



Source: LFC Files

Department of Public Safety. DPS requested \$14 million to purchase property for use as a law enforcement training firing range; to plan, design, and construct a new state police district office and records and evidence center in Santa Fe; to plan and design renovations of the Santa Fe Crime Laboratory; and to plan, design, and renovate the Roswell State Police District Office to support the Motor Transportation Division. LFC staff framework proposes \$3.4 million for land acquisition for use as a firing range for training purposes, to develop a plan and design for a new state police district office and records and evidence center in Santa Fe, and to plan, design, and renovate the Roswell State Police District Office in Chaves County. Of the recommendation, staff proposes the language for \$2 million for the land acquisition for the firing range include a contingency requiring an updated appraisal of the property be completed and presented to the Legislature by February 1, 2014.

General Services Department. The Facilities Management Division (FMD) of GSD requested \$13 million to address repairs and major renovations at facilities statewide, for demolition and decommission of unused structures, and to assess and determine the most cost-effective use of state buildings. LFC staff framework proposes \$5.7 million for the purpose of preserving and restoring state facilities statewide and for demolition of structures deemed unsafe and unusable. Additional funds requested by FMD for facilities under its jurisdiction are proposed but listed under individual agencies.

Capitol Buildings Planning Commission. The Capitol Buildings Planning Commission (CBPC), in partnership with the FMD of GSD, continues 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 long-term plan recommends building more state buildings to reduce the number of leases to realize economic efficiencies and accomplish savings to the general fund by owning facilities rather than leasing office space. Two key projects identified in the master plan were expected to provide significant savings to the state – the health and human services (HHS) complex and an executive office building.

FMD approved final review of the purchase agreement and cash option with Paseo Nuevo, Ltd. Co., contingent on final purchase occurring 90 days after approval by the Attorney General and Board of Finance. On December 4, 2012, the governor approved the fifth extension for the purchase and land trade agreement between the state and the company. To date, a final agreement has not been signed by the governor. The site selection and programming for the 50 thousand square foot executive building to be built adjacent to the parking structure were completed by the architect in July 2010. According to FMD, the request for proposals for design and construction of the project would be issued by the end of 2010. However, discussions between FMD and the city of Santa Fe Historic Preservation Committee have delayed progress.

Discussions continued regarding the proposed plan of action for the \$6 million authorized by the Legislature in 2012 and 2013 to expand the drug and substance abuse center in Los Lunas to include in-house treatment. In August 2013, the secretary of GSD indicated staff from HSD, CYFD, DOH, and GSD would work with CBPC consultants to develop a master plan to

Public Infrastructure

understand the substance abuse facility needs statewide prior to expanding the facility in Los Lunas. On November 12, 2013, CBPD directed its consultants to work with impacted agencies and bring back a proposal or report of progress to the next CPBC meeting.

Local Capital Project Interim Issues. Referring to local projects sponsored and funded by legislators in 2013, the governor stated “while there was improvement in funding projects there were still projects funded at far less than 10 percent of their total cost, projects community officials did not need or desire, and other projects which would have been much more appropriate.” An analysis of 2012 and 2013 appropriations by staff of the Legislative Finance Committee (LFC) confirmed the concerns and reported samplings of such appropriations to members of LFC and the Revenue Stabilization and Tax Policy Committee (RSTP). Also brought to the committee’s attention were the systemic problems that affect all capital projects for which local governments are responsible. The fractured nature of funding local government capital projects leaves millions of dollars that should be put to productive use sitting idle – often times for many years – and puts an unreasonable strain on local government administrative resources. In addition, due to the disparity of the geography of the legislative districts, there is a disparity of the allocation of resources between rural and urban districts a dollar of capital outlay in a large rural district does not go as far as a dollar of capital outlay in a geographically smaller district.

Targeting a weakness in the funding of local projects, on May 5, 2013, the governor issued Executive Order 2013-006 directing the Department of Finance and Administration to establish uniform funding criteria for a grantee to be eligible for a state capital appropriation. The criteria required grantees to be in compliance with updated audit and financial reporting as required in grant agreements. While the governor vetoed only \$4.4 million of a \$220 million capital bill in 2013, the governor’s action following the legislative session prevented issuance of bonds for 122 projects totaling \$13.4 million.

Following the interim committee hearings and discussions relating to the executive order and the current processes, staffs of the Legislative Council Service and LFC were directed to draft legislation for the purpose of improving the capital outlay process for consideration in the 2014 legislative session.

State Facility Capital Project Issues. In accordance with Section 6-4-1 NMSA 1978 and Executive Order 2012-023, DFA and the General Services Department, Facilities Management Division, were directed to jointly prepare a process to identify and prioritize all state-owned capital improvement projects. The process requires all state agencies to maintain a five-year facilities master plan consistent with the Capital Buildings Planning Commission master plans and comprehensive principles. Each agency’s master plan is required to include a preventive and deferred maintenance plan, space and energy efficiency standards, justification for new construction, and a criteria-based weighted ranking system to determine priorities. According to the order, an updated prioritized five-year program for all capital improvement projects must be submitted to the governor and Legislature by November 1 of each year.

LFC Staff Site Visits in 2013

- New Meadows Phase 2 (Las Vegas)
- State Police District Office (Las Vegas)
- Luna Community College (Las Vegas)
- New Mexico Highlands University Student Union Building (Las Vegas)
- Center for New Mexico Archaeology (Santa Fe)
- John Paul Taylor Juvenile Facility (Las Cruces)
- Ribera Schoolhouse Community Center (Ribera)
- Western New Mexico University (Silver City)
- New & Old Fort Bayard Medical Center (Fort Bayard)
- University of New Mexico (UNM) Farris Engineering Building
- Small Business Administration Incubator (Santa Fe)

Public Infrastructure

State facility needs for structures, averaging 46.3 years old, are tremendous and growing while available funding in previous years for maintenance has been insufficient and funding has been piece-meal. The Facilities Management Division and state agencies are challenged with balancing asset protection with program requirements.

Report Card of New Mexico's Current Infrastructure. The American Society of Civil Engineers (ASCE) develops a comprehensive assessment of the nation's infrastructure categories using a simple A to F grade. The assessment for New Mexico provides a grade based on the state's conditions and needs. ASCE also makes recommendations for how to raise the grade. According to ASCE, "The report illustrates that the citizens and legislators of New Mexico must improve our efforts to prioritize infrastructure improvements, set goals on sustainable infrastructure practices, support infrastructure legislation at all levels of government, move forward with community involvement and leadership required to raise these grades." Details of the report are available on the ASCE website www.infrastructurereportcard.org

New Mexico Infrastructure Report Card

Category	NM 2005 Grade	NM 2012 Grade
Aviation	C-	D+
Bridges	Not Graded	C-
Drinking Water	Not Graded	C-
Flood Control	D+	D+
Rail	B	C
Roads	B-	C
Schools	C-	B-
Solid Waste	C-	C
Transit	C	C+
Waste Water	Not Graded	C
Composite Grade	C	C

A=Exceptional, B=Good, C=Average, D=Poor, F=Failure

INFORMATION TECHNOLOGY INFRASTRUCTURE

Central oversight has evolved as a leading practice for large-scale information technology (IT) projects in other states; this is intended to reduce the associated risks with complex and expensive projects and helps ensure IT investments achieve state and agency long-term goals for improving government services. Such IT governance typically includes a review board, a state chief information officer (or some combination), and a comprehensive portfolio management system for tracking and managing project progress and costs.

New Mexico has essential structures of good IT governance; however, responsibilities of state IT organizations must be better-defined and policies and processes strengthened to improve state strategic planning and project oversight. Further, the current project portfolio management system is largely informal and manual with no single source of information regarding project status and budget information.

Public Infrastructure

IT Governance and Planning. In 2007, the Legislature created the Department of Information Technology (DoIT) by combining the Office of the Chief Information Officer and the Information Technology and Communications divisions of the General Services Department into one agency.

The DoIT secretary serves as the state's chief information officer and the DoIT Project Oversight and Compliance Program (7 FTE) acts as "consultant" to agencies, providing technical, project management, and contract support. The program also staffs the Project Certification Committee which, after reviewing IT project status, releases appropriated funding in phases. The role of the IT Commission (ITC), previously part of the Office of the Chief Information Officer, was narrowed with the creation of DoIT under the 2007 DoIT Act and now plays a more advisory than operational role; however, the ITC has met just once in three years, leaving the department with little oversight and direction.

Strategic Planning. Strategic planning for New Mexico is the responsibility of both the state CIO and the IT Commission. The CIO prepares a state IT strategic plan and the ITC is responsible for reviewing and approving the state IT plan, as well as broad strategic and oversight planning for the state.

While DoIT has prepared a statewide IT strategic plan (and most state agencies are required to prepare individual IT plans), the plan lacks the specific tasks, performance indicators, and financial assessments necessary to monitor implementation of the plan's stated initiatives and has not been approved by the ITC as required by statute.

Project Management and Oversight. The purpose of the DoIT Project Oversight and Compliance Program is to provide IT strategic planning, oversight, and consulting services to New Mexico agencies; however, because state agencies are DoIT customers for a variety of enterprise services, the program appears to view its role as more consultant than gatekeeper.

Nevertheless, the program serves as the state's project management office, and, consistent with key components of good IT governance, reviews large-scale IT project proposals for compliance with standards, policies, and agency IT plans and provides recommendations for whether proposals should move forward.

To strengthen its role and ensure critical IT projects succeed and poorly planned projects are halted when necessary, the program needs to formalize standards and processes, verify agency-reported data when appropriate, and develop a more formal and automated IT project portfolio or "dashboard" to allow it to better track and manage project status and funding information.

Existing informal methods to track agency project status, develop reports, and assess agency compliance with standards and PCC requests is not sufficient and has allowed some projects to "fly under the program's radar" and elude proper oversight.

Although the Information Technology Commission met in August 2013 for the first time since 2010, the committee failed to achieve a quorum and elect officers.

Workforce Solutions Department

WSD's implementation of its \$48 million unemployment insurance (UI) system faced challenges in scope, budget and project schedule.

LFC determined the lack of external oversight, limited system testing, data conversion issues, and lack of a disaster recovery and business continuity plan represent risks to the new UI system.

Because of cost overruns, WSD reduced the warranty while still contending with outstanding defects. Although WSD reported the contractor completed its warranty work and all outstanding defects were remediated, not all defects identified during the warranty were remediated. WSD's method for validating whether defects were fixed does not appear to be accurate.

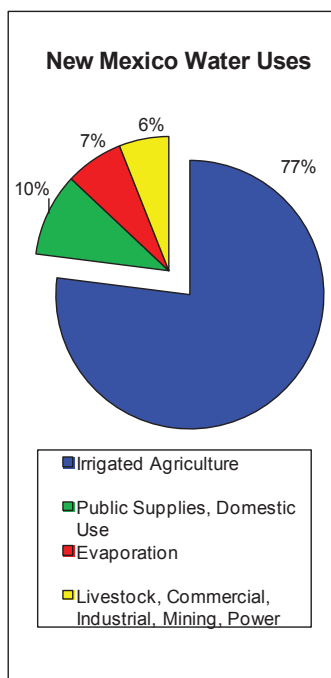
Human Services Department

At a cost of \$115 million, HSD designed the automated system program and eligibility network (ASPEN) to replace its integrated service delivery system and five supporting legacy systems.

LFC determined ASPEN is on time and on budget. Although one of the most expensive IT projects in the state, ASPEN was very well managed and is a model for best practices in project management and oversight.

Natural Resources

The state's above-average monsoon rains in 2013 will not make a dent in the drought. Erasing deficits will require several years of normal rainfall.



Drought and wildfires place a strain on natural resources in New Mexico. Competition among water users intensifies as water supply falls short of demand. Additionally, the increasing intensity of forest fires and post-fire flooding burdens communities with the degradation of watersheds and water supplies. These circumstances will pressure the state to increase funding to natural resource management.

Water Management. The variability and duration of high and low water supplies are not predictable, posing great challenges to water managers. New Mexico is in a multi-year drought and ranks among the worst drought-stricken states in the United States. Strict priority administration of water rights has the potential to cause hundreds of millions of dollars in damage to the economy. However, recent successful examples of water management take into account legal, social, economic, and environmental perspectives and include alternative administration, such as water leasing and shortage-sharing agreements, in efforts to share limited supplies.

Priority Calls. In New Mexico, the oldest, most senior water user has first right and newer, junior users can be cut off if water supplies fall short. In April 2013, the Carlsbad Irrigation District (CID) voted to issue a “priority call,” a request for the allocation of available water to the oldest water users, those with highest priority. In this case, CID farmers hold senior water rights, dating back to the 1800s, while upstream users in the Pecos Valley Artesian Conservancy District (PVACD) hold junior water rights. After CID invoked the priority call, the Office of the State Engineer (OSE) created a list of senior to junior water users and developed scenarios with ground- and surface-water models. Using these models, OSE determined that restricting junior users would not result in significant amounts of water for senior users for five to seven years. In essence making the CID “priority call” an example of a potential “futile call,” in which curtailing junior users would not save enough water for senior users.

Water administration and management during times of water scarcity requires consideration of legal, socio-economic, and environmental factors. The enforcement of the CID “priority call” had the potential to adversely impact the economy of PVACD by hundreds of millions of dollars and not immediately benefit CID. The circumstances prompted OSE to seek an alternative agreement and the office conducted several negotiations with the five parties in the court-approved 2003 Pecos River Settlement. OSE also fast-tracked the rulemaking for active water resource management (AWRM) of the Pecos River basin.

Active Water Resource Management. Accelerating AWRM rulemaking was integral to an expedited water leasing arrangement in the Pecos River basin. The Supreme Court upheld that the Legislature delegated lawful authority to the State Engineer to create an administrative process to manage water. This resulted in the AWRM initiative, a process through which the State Engineer can create rules to administer water that can include expediting water leasing,

permitting, as well as monitoring and metering diversions. The OSE also prioritized the promulgation of district-specific rules for the AWRM in two other basins: the San Juan River and the lower Rio Grande River.

In a successful example of alternative administration, OSE and leaders of the Rio Chama Acequia Association (RCAA) continue to collaborate in water leasing and shortage-sharing agreements to share limited supplies with all local irrigators. Over the past decade, the members of RCAA, New Mexico's longest-running association of non-tribal water users, successfully worked with staff at OSE, the Interstate Stream Commission, and the Middle Rio Grande Conservancy District to offset the use of surface water in times of drought by purchasing San Juan Chama Project water from various San Juan Chama contractors. However, in 2013 the prolonged, severe drought conditions forced RCAA to exhaust their limited supply of San Juan Chama Project water and implement a new shortage-sharing plan. Members of RCAA, who hold water rights dating back to 1600s, elected to rotate their irrigation schedule so that all of the 17-plus member ditches get some water instead of just the one or two with oldest priority dates.

Nevertheless, as water supplies fall short of demand or as water quality degrades, competition among water users intensifies. In January 2013, Texas filed suit in the U.S. Supreme Court, arguing widespread groundwater pumping in the lower Rio Grande Valley between Elephant Butte Reservoir and the New Mexico-Texas border reduced flows in the river, taking away water from Texas farmers and residents in El Paso. Although in FY13 the New Mexico Interstate Stream Commission met delivery requirements as required by the 1938 Rio Grande Compact, the agency reported the credit fell from 80 thousand acre-feet in FY12 to 3,000 acre-feet in FY13. To address litigation on interstate streams, the Legislature appropriated \$6.5 million in FY14, while Texas allocated \$5 million. Together with the New Mexico Environment Department (NMED) and the Attorney General's Office, OSE/ISC should prioritize protecting New Mexico's interest in interstate litigation by coordinating Rio Grande salinity management programs and providing technical support for potential litigation.

Water markets:

- Lead to the transfer of water rights from lower-value economic uses to higher-value economic uses
- Encourage development of new sources of water
- Provide economic incentive to conserve water

Sources of water to help meet future water demand:

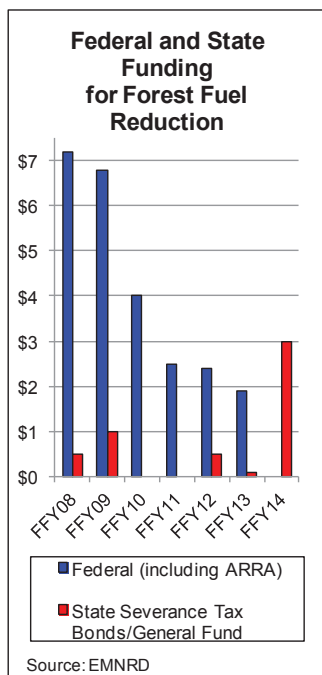
- Brackish water
- Gray water

Aftermath of Floods

Communities throughout New Mexico are rebuilding in the aftermath of heavy rainfall in late summer that flooded homes, businesses, and schools, destroyed transportation infrastructure, and overwhelmed sewage systems. In one of the largest flood pulses since August 1967, Cochiti dam, located on the main stem of the Rio Grande, stored approximately 20 thousand acre-feet of rain water and protected the middle Rio Grande valley from flooding. During the heavy rains, mud, ash, and debris from burn scars plugged the Rio Grande river below Cochiti dam. Although 20 thousand acre-feet of water from the storms was stored in Cochiti, water managers could not get water past the sediment to water users on the middle Rio Grande. The Interstate Stream Commission and the U.S. Bureau of Reclamation will need to allocate resources to excavate a channel through the sediment plug near Cochiti Dam to begin water releases. Further south late summer rains deposited sediment from the Silver Fire burn scar into the Rio Grande between Caballo and Elephant Butte lakes, which will impair water manager's ability to get water through system to lower Rio Grande farmers. This is not only an immediate problem for water delivery needs, but one that will continue during the spring snowpack flows as sediment continues to plug the river and pilot channel.

Natural Resources

In 2013, both the Tres Lagunas and Thompson Ridge fires started when downed trees fell across electric lines. It is imperative for policymakers to review guidelines regarding overgrowth in utility easements.



In 2012, the New Mexico copper industry

- was the largest employer in the state's mining sector.
- had a payroll that exceeded \$100 million (excluding benefits).

Fire, Forest and Watershed Management. Another factor impacting water supply is watershed health, not only as a direct result of drought but also as a result of the drought-triggered forest fires. The number and severity of forest fires highlight the importance of hazardous fuel reduction across private land and federal, state, and local jurisdictions. Currently, in real inflation-adjusted dollars, the U.S. Department of the Interior allocated less federal funding nationwide for the Hazardous Fuels Reduction Program, than it did in 2002. The U.S. Forest Service reports it expects to treat 1 million fewer acres nationwide next year. From federal fiscal year 2008 to federal FFY13 the Energy, Minerals and Natural Resources Department's (EMNRD) State Forestry Division received \$24.8 million from federal fuel reduction programs, while the state spent \$2.1 million in severance tax bonds and general fund revenue on fuel reduction programs. While there is a proposed 31 percent cut to these programs in FFY14, the Legislature prioritized \$3 million for FY14 for hazardous fuel reduction at urban forest interfaces for communities at risk statewide, more than it has in the last 10 years combined. Although the number of acres treated in the state increased significantly, it is not enough to keep up – experts suggest 50 thousand to 100 thousand acres should be treated per year to proactively thin overgrown forests so they are more resilient to fire, drought, insects, and disease.

Evacuations, structural damage, public health costs, and declining tourism are just some of the casualties of recent severe forest fires. Post-fire flooding impacting the quality of watersheds also highlights the need to prioritize securing clean water supplies for the state's citizens. Wildfires damage soil, making affected areas more prone to erosion from post-fire floods and bring sediment and ash into rivers and streams, damaging water quality, clogging treatment plants, and negatively impact fishing and recreational activities. Mud and debris flows from burn scars destroyed Bonito Reservoir, which serves Alamogordo with drinking water. Burned Area Emergency Response (BAER) teams are deployed after a fire to help protect reservoirs, watersheds and infrastructure from post-fire floods. After the 138 thousand acre Silver Fire, north of Silver City, during summer 2013, BAER crews identified severely burned areas upstream of a community, campgrounds, and roads. Crews scattered barley seeds over 11 thousand acres, dropped mulch on 800 acres, closed off roads, and pumped toilets at risk of flooding. The state should leverage U.S. Department of Agriculture Emergency Watershed Protection Program funds to protect drinking water and prevent catastrophic flooding and erosion in the aftermath of forest fires.

Resource Management/Environmental Regulation. Striking an appropriate balance between environmental protection and economic development is crucial for current and future generations of New Mexicans. As the regulatory pendulum swung with the changing of administrations, there was no consistency or stability for industries. Economic development increases tax revenue and new job opportunities; therefore, it is imperative industries have predictable, consistent and transparent environmental regulations ensuring our air, soil, and water remain clean while enabling companies to remain competitive, create jobs and provide governmental revenue that pays for crucial services for citizens.

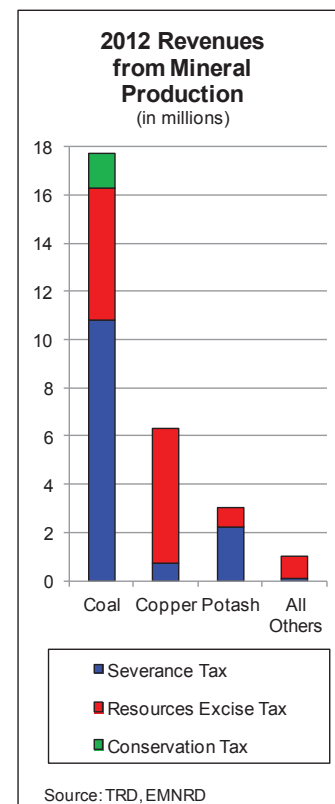
Natural Resources

Copper Rule. In 2009, the Legislature amended sections of the water quality act to require the New Mexico Environment Department (NMED) to negotiate copper mining regulations with stakeholders to provide clearly defined requirements for preventing ground- and surface-water pollution. In summer 2013, the New Mexico Water Quality Control Commission (WQCC) approved modifications to NMED’s “copper rule” for the copper mining industry. The rule addresses mine design, construction and operations; prescribes monitoring around open pits and groundwater flows near leach and waste rock stockpiles and tailings; calls for corrective action plans to address groundwater contamination; and addresses what needs to be done to close a mine. Proponents contend the rule is an improvement to the state’s current inconsistent permitting. Opponents state the rule would violate the state Water Quality Act by allowing mines to pollute the groundwater under copper mining sites and might set a precedent for allowing contamination underneath any site regulated under the state’s Water Quality Act.

Energy Development. Continued strength in oil production is attributable to robust oil prices as a result of the economic recovery and continuing political instability in certain oil-producing regions. Technological advances, such as horizontal drilling and hydraulic fracturing, also allowed companies to tap supplies previously unprofitable to develop. The Energy, Mineral and Natural Resources Department reports the number of applications for permit to drill decreased from 2,355 in calendar year 2008 to 1,795 in 2012. Despite the decrease, more of the new wells drilled are horizontal and oil production is increasing. Oil production in New Mexico rose from 60.1 million barrels of oil in 2008 to 85.2 million barrels of oil in 2012. New Mexico continues to be a leading oil producer, ranking sixth in crude oil production in 2012. In the same year, 580 operators produced oil and gas from more than 50 thousand wells.

New Mexico’s abundant natural resources – solar, wind, geothermal, and natural gas – provide opportunities for large-scale electricity generation. New Mexico ranks second in the United States for solar-generated electric power production capacity and 12th in measured potential wind-generated electric power production capacity. The export of electric energy is a viable option for New Mexico to reap the economic benefits of these natural resources. California’s renewable portfolio standard mandates 33 percent of the state’s energy consumption come from renewable sources by 2020, requiring California to import more renewable electricity from other states.

Currently, the export of large amounts of renewable power is not viable in New Mexico because of limited transmission capacity, bottlenecks, and long interconnection paths. Since renewable energy is generated far from major load centers and export markets, New Mexico needs to develop the infrastructure to transmit energy from generation sites to large load centers across the nation. Several independent transmission projects are currently in various stages of development and routing. While upgrading New Mexico’s existing grid offers substantial opportunities, including diversification of revenues and job creation, it also presents challenges in the form of environmental concerns and military base easements.



New Mexico produces 2.1 gigawatt-hours of renewable energy every year, ranking 40th in the United States but has the potential to increase capacity.

Government Administration

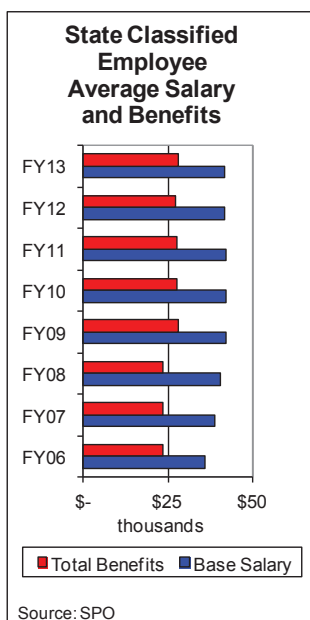
Three critical issues related to government administration confront the state at this time. First, according to data provided by the State Personnel Office (SPO), the number of individuals employed by the state has declined by nearly 14 percent in the last five years. As it is unlikely the agencies will return to pre-recession employment levels, the Legislature and the Executive should make significant adjustments to the number of authorized FTEs across state government. Further, the Legislature and the executive must decide if they should continue to fund vacant positions or use some portion of personal services and employee benefits funding for other purposes.

Second, prior to the 1 percent average salary increase in the 2013 General Appropriation Act (GAA), state public employees had not received a salary increase from the Legislature since July 2008, with the majority of increases being appropriated between 2001 and 2007. Given the increases in Social Security, health insurance and pension contributions, public employees are actually losing ground when it comes to take-home pay. To address ongoing problems related to equitable and competitive compensation that are hindering efforts at recruitment, reward, and retention in New Mexico, the Legislature and the executive should revise the classified service salary structure.

Third, the problems New Mexico faces in recruitment, reward, and retention extend beyond salary and include benefits. Specifically, according to the State Personnel Office (SPO), the percentage of total compensation provided in direct salary versus indirect benefits is skewed towards higher benefits by as much as 10 percent, which runs directly opposite to current trends in the public and private sector. To remain competitive with these compensation trends – while protecting previous financial commitments to current public employees and retirees – the Legislature and the executive should consider alternative approaches to compensation that will allow the state to attract and retain talented, qualified individuals.

Public Employee Compensation. According to the most recent data available from SPO, the New Mexico salary structure, while remaining relatively competitive with the regional market, has not kept pace with either the national market or inflation. This discrepancy hurts the state's ability to recruit, reward, and retain quality employees. The *2013 Classified Service Compensation Report* states the average public employee salary in New Mexico is \$41,912, placing it fifth in the regional market. However, the report also states that the New Mexico average public employee salary is somewhat below the national average salary of \$42,577 for private employers and far below the national average salary of \$56,493 for state and local governments.

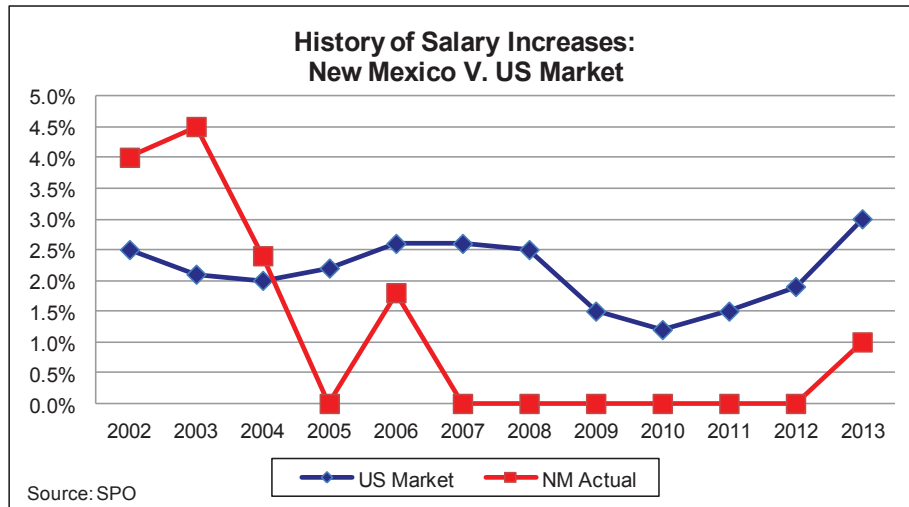
Of significant importance – though not readily apparent in the comparison of state, regional, and national salaries – is the fact that New Mexico is as much



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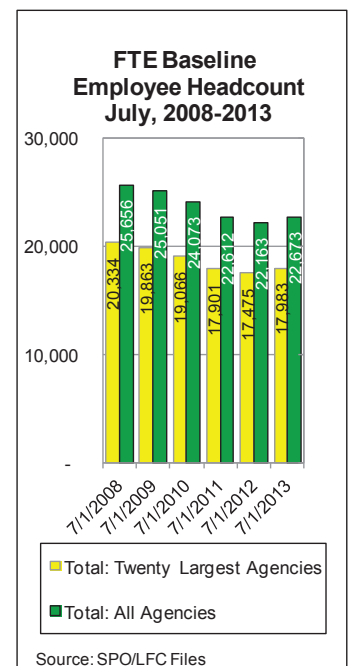
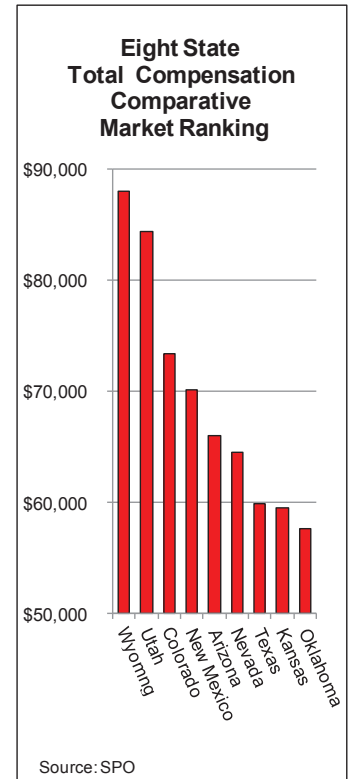
as 50 percent behind the market average in “benchmark” classifications of critical importance to the state – examples being community, social and protective services, healthcare and health-related technical occupations, and engineering and science occupations. Further, the state salary structure has not been updated for over a decade, resulting in salaries for certain position classifications being far behind equivalent positions in other states.

A key indicator of the problem is the average new hire compa-ratio and average state compa-ratio. Compa-ratio is an expression used to identify an employee’s position within a payband relative to the midpoint of the payband. According to SPO, the average new hire compa-ratio for FY13 is 94 percent. New hires with minimal experience should be hired closer to entry level than the midpoint (100 percent) in the salary range, but this data suggests the midpoint is becoming the entry level for state classified positions. The same can be said for data for average state compa-ratio. The average state agency compa-ratio is 99 percent, but a number of agencies have average compa-ratios in the 110-115 percent range. This is relevant because it indicates current New Mexico agency salary structures are below external market salaries and individuals must be paid higher to accept positions in state government.

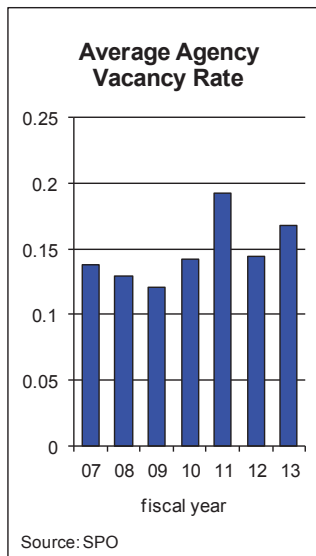


Anecdotal evidence obtained by LFC indicates agency job reclassification and salary adjustment requests are being approved by SPO, the Department of Finance Administration (DFA) and the Governor’s Office. According to LFC analysis, approximately 1,700 classification changes have been approved by SPO or planned by agencies in FY14. However, requests and approvals are seemingly being made on an ad hoc basis – reactively, not strategically – and are not taking into consideration the current or projected employment needs of the state.

To address this problem, LFC, DFA and SPO funded a study by the Hay Group in 2012 to adjust the state classification structure. The study was completed in February 2013. The recommendations significantly revised job descriptions, minimum qualifications, classifications, and pay-bands and, finally, provided a rough market comparison of the revised structure to regional and national salary structures. SPO has been making final



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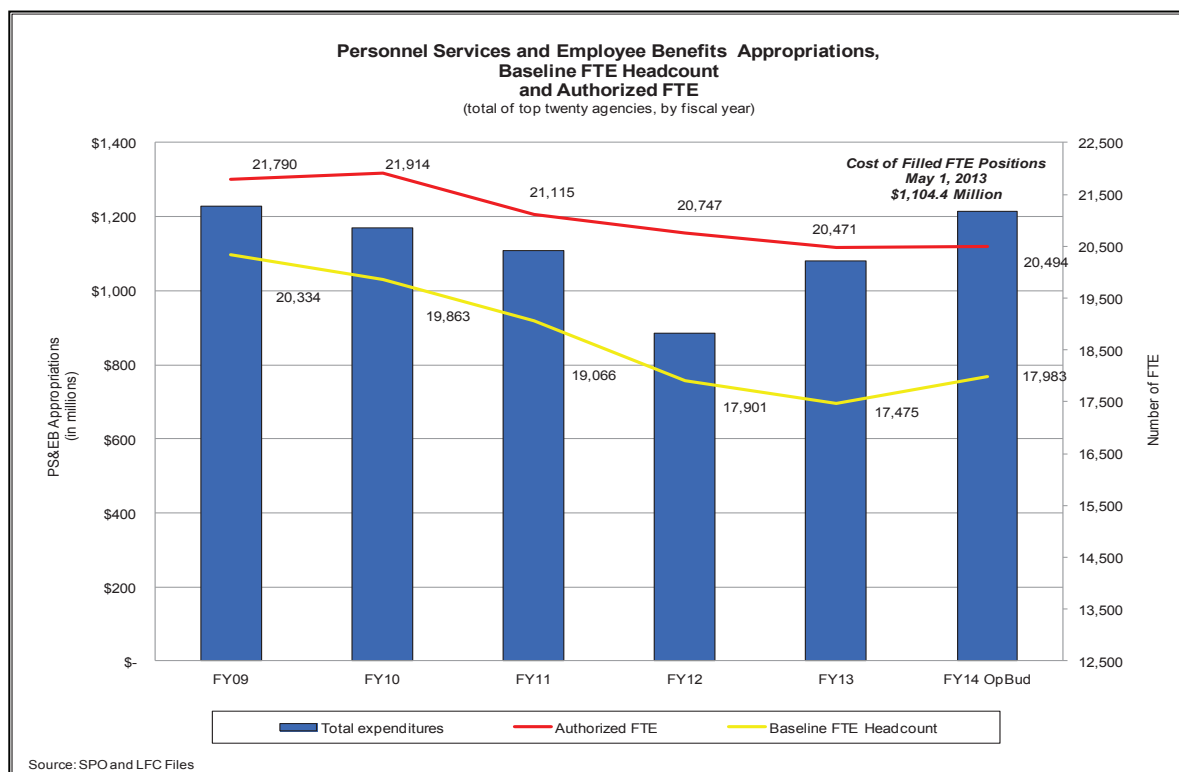


adjustments to the revised structure, and, according to agency officials, will present a discussion draft to the governor. It is unclear if recommendations will be available in time for the 2014 legislative session.

According to the *2013 Classified Service Compensation Report*, the estimate for changing the entire state salary and classification structure totals approximately \$80 million.

Suffice it to say, extensive adjustments in pay structures cannot be implemented in a single legislative session, and mechanisms for effective prioritization need to be ascertained. According to the *2013 Classified Service Compensation Report*, the full cost of a 1 percent actual salary adjustment for classified and exempt employees would be roughly \$5.5 million. The 1 percent increase for classified employees covered by the State Personnel Act and exempt employees included in the 2013 GAA totaled a little over \$5 million. Additional salary increases for higher education, public education, district attorneys, and so on made the cost to the state significantly higher.

Paying for Salary Structure Reform. Analysis by LFC staff indicates agencies have not spent appropriated funding levels for personal services and employee benefits. In FY13, \$46 million in personal services and employee benefits appropriations were either reduced or transferred to other areas of the budget and another \$53 million was reverted to the general fund. These totals do not include agencies like the Department of Transportation (NMDOT), which transferred approximately \$12 million of other state funds in unspent personal services and employee benefits funding to their cash balance account for other expenditures.



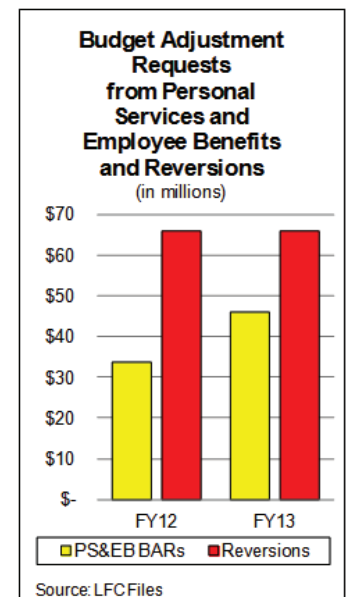
Government Administration

LFC staff projected at least \$100 million of funded vacant positions exist in agencies FY14 PS&EB appropriations, based on the amount of appropriated funding and the cost of all filled positions as of May 2013. Admittedly, this is a snapshot in time as agencies could have hired more employees since then, but the SPO *Baseline Report* indicates little movement in the number of employees since 2011. A trend line is developing that suggests the Legislature could significantly adjust the appropriated level of PS&EB funding without negatively impacting agency missions. As a result, personal services and employee benefits recommendations for FY15 are being held relatively flat, allowing agencies the flexibility to make appropriate adjustments in their salary structures to improve recruitment and retention and ensure fairness and equity in salaries.

Union Lawsuit. The state and officials from two public employee unions are currently negotiating the specifics of a multi-million dollar settlement of a lawsuit stemming from a dispute over a 2009 compensation agreement negotiated by the unions but never implemented by the executive. On May 30, 2013, the Supreme Court ruled the New Mexico Court of Appeals decision sufficiently analyzed and resolved the principal issues in the case between the state and American Federation of State, County and Municipal Employees (AFSCME) and the state and Communication Workers of America (CWA), and, in order to avoid further delay involved in a formal opinion, remanded the case to the district court for action. At issue in the case were two collective bargaining agreements, and whether provisions pertaining to salary increases preempted general legislative appropriation language and the language as implemented by the executive branch. The agreements directed salary increases for fiscal year 2009: a 2 percent general salary increase subject to the governor's recommendation and a sliding-scale, compa-ratio-based salary increase. The agreements also had arbitration clauses, including one specifying the unions had a right to reopen bargaining over both salary increase provisions if the Legislature failed to appropriate sufficient funds.

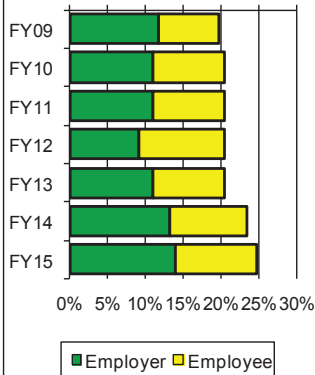
However, in 2002 the executive chose to implement a flat, across-the board, 2.9 percent increase to all public employees, many of whom were not members of unions or covered by the collective bargaining agreement. AFCSME and CWA disputed this approach, stating it was inconsistent with legislative intent. The executive's decision was driven by a pay-freeze ordered by then-Governor Richardson and the desire to provide a more equitable approach for salary increases to all public employees. The Supreme Court and Court of Appeals decisions effectively triggered pay increases averaging 1.5 percent to 2 percent retroactively to FY09 for approximately 10 thousand present and former state employees covered by the collective bargaining agreement. In addition to pay, the settlement is expected to define the total number of union-represented classified employees covered by the collective bargaining agreements, salaries to be applied, and pension obligations.

SPO estimates the potential fiscal liability to be about \$22 million, but no detailed analysis has been provided. Using data provided by AFCSME and CWA, LFC staff completed an analysis using assumptions for attrition, average salary, pension contributions and retiree healthcare contributions.



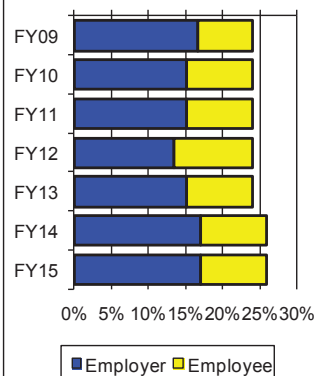
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**ERB Pension
Contribution Rates**
(salaries > \$20,000)



Source: LFC files

**PERA Pension
Contribution Rates
State General Plan**
(salaries > \$20,000)



Source: LFC files

Projections from this analysis suggest a total cost to the state of approximately \$50.3 million and general fund costs of approximately \$22.3 million for FY09 through FY13. Recurring costs would decline as individuals covered under the FY09 collective bargaining agreement retire or otherwise leave government service.

Actual costs to the state will depend entirely on the details of the arbitration agreement. Potential options include a lump-sum settlement for individuals covered under the collective bargaining agreement and increases in existing individual salaries and benefits to compensate for inappropriate distribution of salaries and benefits.

Public Employee Post-Employment Benefits. Laws 2013, Chapter 225 (Senate Bill 27) and Chapter 61 (Senate Bill 115) improved solvency for the Public Employees Retirement Association (PERA) and Educational Retirement Board (ERB) pension funds. The reforms reduced retirement benefits for current and future employees. The changes are expected to improve the long-term finances for the programs if assumptions for payroll growth and investment earnings hold true and modifications to cost-of-living (COLA) adjustments are upheld by the courts. If not, the other changes in the bills will not avert the need for more benefit reforms.

Possible Changes to the ERB Pension Plan. ERB is considering proposing legislation to close loopholes to further enhance the fund. Changes include (1) requiring return-to-work (RTW) PERA crossovers to pay contributions (2) eliminating or capping how long one can work under the RTW program (3) strengthening anti-“spiking” laws to reduce the negative impact to the fund from employees receiving large pay increases and then subsequently retiring (4) changing the pension calculation for employees who work part-time most of their career and then work full-time the last five years to receive a full pension and (5) changing the service credit for new members.

Judicial Pension Plan Solvency. As of June 30, 2013, the funded ratio of the plan under the Judicial Retirement Act was 55.7 percent, and the funded ratio of the plan under the Magistrate Retirement Act was 58.4 percent. The funded ratio is the ratio of the actuarial value of assets to the actuarial accrued liability as of the valuation date. Public pension plans generally have a funding policy targeting full funding, i.e., a 100 percent funding level.

To shore up declining retirement funds, the judiciary will present two separate pension reform bills in 2014. The bills will be similar to legislation vetoed in 2013, with additional changes including (1) requiring employers to pay member’s share for nonparticipating judges and magistrates (2) modifying the survivor benefit to mirror other PERA plans and (3) a onetime cash infusion of \$5 million from the general fund for the magistrate’s plan. The proposal also suspends the COLA for two years out of every three years if the funded ratio is 80 percent or below. The proposed changes move the funding status in an upward trend but do not fully amortize pension liabilities within 30 years.

The changes proposed by the judiciary leave little room for error if investment earnings do not meet expectations, or the gap between retirees drawing a pension and contributing members continues to grow. Reducing the service credit from 3.75 percent to 3 percent, instead of 3.5 percent, and

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eliminating the COLA for two years out of every three years if the funded ratio is below 90 percent, instead of 80 percent, could reduce the funds' sensitivity to changes in assumptions, including the significant impact that investment experience can have over short-term periods.

ERB COLA Modification Challenge. In June, four retirees challenged the constitutionality of the modification to the cost-of-living (COLA) adjustment in Laws 2013, Chapter 61. The legislation included a COLA reduction if the fund is less than 100 percent funded. In its response, ERB argued the New Mexico Constitution permits modifications that preserve the actuarial soundness of the fund. In August, the American Federation of State, County, and Municipal Employees (AFSCME) filed an amicus brief opposing the retirees' petition. In September, the parties presented oral argument to the Supreme Court and subsequently, supplemental briefs were requested that included questions about the PERA cost of living adjustment (COLA). The court was to issue a ruling before the end of the year.

Other Pending Litigation. To preserve funding for the pension funds during the recession, the Legislature in 2009 shifted 1.5 percent of the employers' retirement contributions to the employee. The total amount of contributions paid into retirement funds remained the same, but employee pay was reduced 1.5 percent. In June 2009, AFSCME challenged the constitutionality of the pension contribution swap. The district court dismissed all but the takings claim. If the court decides the swap constitutes a taking, the state could be liable to repay employees to account for the contribution swap and the determination could further obligate the state to pay back other contribution swaps should they be litigated.

Because the swaps were from nonrefundable employer contributions to refundable employee contributions, the PERA and ERB plans were successful at getting Laws 2011, Chapter 178, (House Bill 628) passed to study if there was any negative impact to the funds and to request an appropriation to the remedy the effects in 2014. The studies were to be completed in November.

Changes to Governmental Accounting Standards for Public Pension Plans. PERA, ERB, and State Auditor are participating in a taskforce to implement changes to Governmental Accounting Standards Board (GASB) standards. A major change is the requirement to record the proportionate share of unfunded accrued pension liabilities on financial statements for members of multiemployer cost sharing plans. Failure to do so could impact the ability for some local governments to issue bonds. The implementation date is FY15. The taskforce is creating a note disclosure – designed to provide details of the financial report – that can be used uniformly across state entities and will be providing training for members and the auditors they hire.

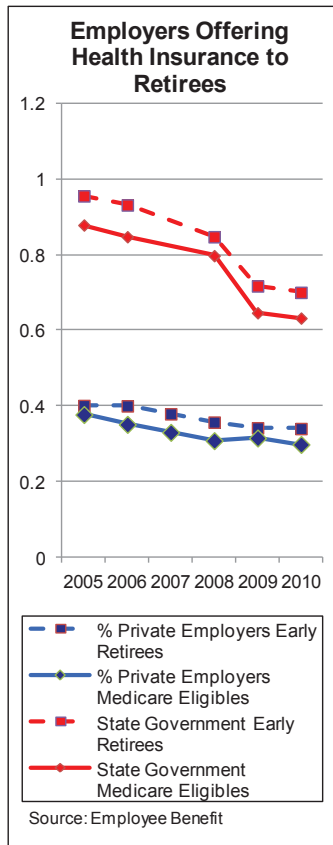
Retiree Healthcare Benefit Solvency. The New Mexico Retiree Health Care Act provides post employment insurance coverage for employees and eligible dependents. The New Mexico Retiree Health Care Authority (NMRHCA) offers pre-Medicare and Medicare medical plans as well as dental, vision, and life insurance. The act provides that the benefits may be diminished or extinguished by the Legislature and does not create any right to retiree healthcare benefits. Financing is provided through retiree premiums and the

Senate Bill 25, vetoed by the governor in 2013, would have increased the employee and employer contribution rates to the judicial pension plans, suspended the cost of living adjustments (COLA) for two years, reduced service credit from 3.75 percent to 3.5 percent, and swapped revenue generated by docket fees for general fund revenues. The governor's veto message stated the "...plan only delays the magistrate [retirement] fund's eventual bankruptcy."

RHCA Membership	
Total Retirees	39,183
under age 55	8%
under age 65	40%
65 and over	60%
Spouses	9,857

Source: RHCA

Government Administration



allocation of revenue by the Legislature on a “pay-as-you-go” basis – requiring sufficient available revenue to provide health care benefits. Health care premiums are subsidized by RHCA and are based on years of service with the maximum of 50 percent given at 20 years.

With unfunded liabilities of \$3.6 billion and a funding status of 6 percent, the RHCA will run out of money to pay claims in 2029, at which time projected expenses will exceed projected revenues by \$200 million. Upward pressures include possible tax revenue shortfalls, declining public payroll, growth in retiree membership, increasing healthcare costs, and the uncertainty of the impact of healthcare reform. To keep pace, the RHCA board has broad authority to make changes to eligibility and subsidy levels but requires a statutory change to adjust contribution rates, currently 3 percent of payroll.

Historically, RHCA has relied on a 4 percent growth assumption in payroll for its long-term financial projections. Despite the 2010 statutory change that increased contributions to 3 percent of payroll and the shifting of more costs to retirees since then, it will be impossible to reach a 30-year solvency goal without significantly changing eligibility and subsidy levels for persons too young for Medicare as their primary coverage or spouses and eligible dependents that never paid into the plan.

Investments Report

Events in the last few years highlight the need for improving management of the state's permanent and pension funds. While legislative efforts targeting key issues have been successful – such as increasing transparency of third-party marketers and improving governance of the State Investment Council (SIC) – more remains to be done to optimize returns at an acceptable level of risk and restore public trust that funds are effectively managed. The investment agencies should carefully assess the magnitude of management fees and determine their effect on returns.

Performance Overview. Investment performance saw double-digit percentage gains in FY13. Aggregate fund value increased by more than \$3.7 billion, or 10.4 percent, which represents the net effect of contributions, distributions, and investment returns.

Asset Values for Year Ending June 30, 2013 (in millions of dollars)					
Annual	ERB	PERA	LGPF	STPF	TOTAL
Asset Values	\$10,127	\$12,940	\$12,129	\$4,160	\$39,356
Value Change	\$710	\$1,196	\$1,402	\$393	\$3,701
Percent Change	7.5%	10.2%	13.1%	10.4%	10.4%

Source: Investment Agency Reports

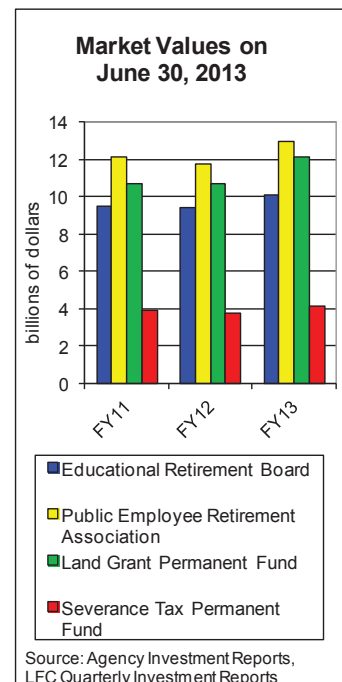
During FY13 the funds surpassed the \$38.6 billion high watermark achieved prior to the massive losses sustained during the 2008-2009 financial market meltdown. The 10.4 percent aggregate growth was well in excess of the 8.25 percent growth required to regain that level.

Impact on Long-Term Returns. Many experts question the rate-of-return assumptions for public plans in light of new market dynamics, lower inflation, and lackluster economic forecasts. The pension funds and permanent funds have decreased their projected annualized returns from 8 percent and 8.5 percent to 7.75 percent and 7.5 percent, respectively; however, 10-year returns missed the revised target levels. The market meltdown of 2008-2009 continues to suppress long-term returns.

One-Year, Three-Year, Five-Year, and Ten-Year Returns As of June 30, 2013				
Fund	One-Year	Three-Year	Five-Year	Ten-Year
ERB	11.1%	10.7%	5.8%	7.6%
PERA	13.3%	11.4%	3.8%	6.4%
LGPF	13.3%	11.8%	4.5%	6.9%
STPF	12.2%	11.3%	3.4%	6.3%

Source: Investment Agency Reports

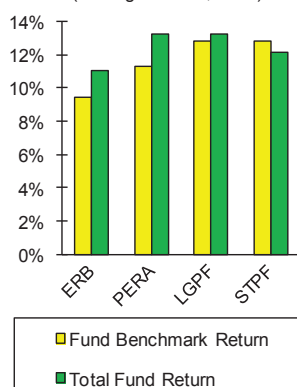
While the New Mexico Constitution protects vested pensions as a property right, Section 22 (E) also specifies the following caveat: *Nothing in this section shall be construed to prohibit modifications to retirement plans that enhance or preserve the actuarial soundness of an affected trust fund or individual retirement plan.*



Investments Report

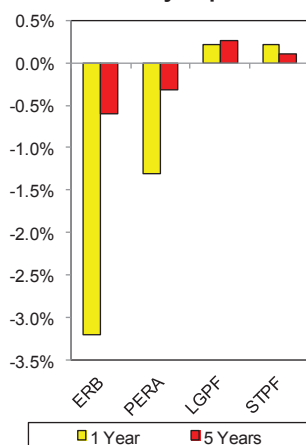
New Mexico One-Year Investment Agency Returns

(Ending June 30, 2013)



Source: Investment Agency Reports

FY13 Policy Impacts



Source: Investment Agency Reports

A portion of the severance tax permanent fund (STPF) is invested in economically targeted investments that yield below-market returns; the land grant permanent fund (LGPF) does not have economically targeted investments in its portfolio and is a better gauge of SIC's performance. The difference in return between the two funds is a rough approximation of the opportunity cost of these initiatives. For the year ending June 30, 2013, economically targeted investments cost the state approximately \$40 million in foregone income.

Peer Comparisons. Comparative measures showing how funds perform within peer groups are another way to gauge outcomes. The table below shows peer total return rankings for the state's largest funds for the one-year, three-year, five-year, and 10-year periods. A lower rank denotes better performance when compared with other funds. To compare the three funds on the same basis, analysts use the Wilshire Trust Universe Comparison Service (TUCS), a benchmark for the performance and allocation of institutional assets that includes approximately 77 public funds with more than \$1 billion in assets.

TUCS Universe Rankings

As of June 30, 2013

Fund	One-Year	Three-Year	Five-Year	Ten-Year
ERB	84	73	26	36
PERA	35	51	89	95
LGPF	32	41	75	76
STPF	56	58	94	95

Source: Investment Agency Reports

ERB's one-year and three-year ranks are in the bottom third, in contrast to its favorable long-term rankings. The other funds ranked better in the one-year period, which helped to bring down the longer-term rankings, although they remain in the bottom quartile.

Performance versus Internal Composite Benchmarks. Comparing funds with internal benchmarks also yields insight into how funds are managed. During FY13, the ERB fund beat its benchmark by 1.65 percent. PERA beat its benchmark by 1.95 percent, and the LGPF outperformed its benchmark by 45 basis points. The STPF was the only fund that failed to outperform its policy index in FY13, returning 67 basis points (0.67 percent) less.

Policy Effect. A fund can have a long-term policy allocation (known as the "policy index") target that has a more or less aggressive proportion of risky assets, such as stocks. For example, risky domestic assets, such as U.S. stocks (equities), performed well in FY13. Accordingly, an index that has more domestic equities should outperform the average. Measured in isolation, such a change in performance is known as the "policy effect," and it is an essential responsibility of the fund's trustees. The most appropriate measurement of a policy allocation benchmark is comparison with a defined peer group. The funds' policy effect is measured by comparing the returns of the funds' policy indices with the TUCS median fund actual return. The TUCS median return is

Investments Report

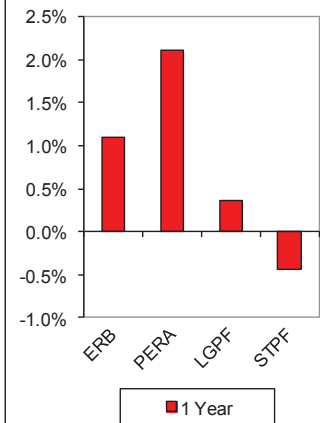
gross of the allocation and manager effects, and the measure is therefore a rough estimate of the policy effect. In FY13, the policy effect for ERB indicates its policy index returned more than 3 percent less than the TUCS median fund. This large effect for the one-year period is mainly due to ERB's lower policy weight in equities in general and particularly in domestic equities, which showed strong performance during the year. Further, ERB has a higher weight to emerging markets equity, which performed poorly, so a higher allocation hurts returns. The indices of SIC's investment funds outperformed the median by 0.21 percent. PERA also had a negative policy effect for the year, with its policy index earning 1.3 percents less than the TUCS median. The five-year policy effect for all the funds is smaller, varying in range from -0.6 percent (ERB) to 0.26 percent (LGPF).

Manager Performance. Value can be added or subtracted from a fund through the use of active management. A fund can buy a security, such as the institutional version of the Standard & Poor's Depository Receipts commonly used by retail investors. These securities are composed of a relatively fixed basket of securities that track the S&P 500 index. Alternatively, the fund can employ a manager who will trade individual securities given the manager's attitude about the prospects of individual stocks. This is known as "active" investing. The difference between the return of the index and the portfolio of the active manager is known as the "manager effect." In FY13 PERA's managers delivered 2.1 percent of added value. ERB's managers added 1.1 percent to returns, while SIC's gained 0.36 percent investing the LGPF and lost 0.43 percent investing the STPF. Active investment management leads the investment agencies to incur management fees, an essential component of managing the permanent funds. However, the large amounts of public funds being spent on fees requires agencies to provide diligent oversight to ensure the fees are used cost-effectively.

SIC notes it is in the process of replacing its external managers as a result of its portfolio restructuring. In addition, the agency is transitioning to more external management of its portfolio, which the SIC explains is due to understaffed in-house management. SIC is reducing the in-house portfolio from \$4 billion to \$400 million.

Allocation Effect. A fund's return can be affected by tactically shifting assets away from the proportions called for by policy, and the allocation impact reflects how such deviations from target asset allocations add or detract from performance. Tactical investment authority granted to the chief investment officer is dictated by investment policy, resulting in differing degrees of authority delegated for each fund. SIC's gains due to underweight fixed income were offset by losses due to overweights in real return and real estate, contributing to an FY14 allocation effect of negative 5 basis points. ERB reports an FY13 allocation effect of 60 basis points. The PERA's annual allocation effect was -86 basis points, primarily due to its overweight in international equities.

Manager Impacts as of June 30, 2013



Source: LFC files

Allocation Impacts as of June 30, 2013



Source: LFC files

Program Evaluation Activity

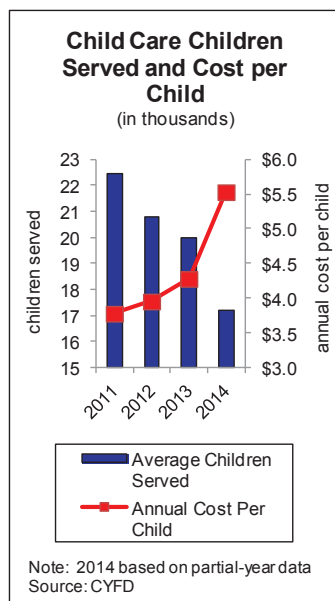
In 2013, LFC received an impact award from the National Legislative Program Evaluator Society for its program evaluation, "Developing Early Literacy in New Mexico."

The state could reduce its special education maintenance of effort liability by applying for free and appropriate public education waivers.

Special Education Funding, including Gifted (in millions)			
FY	Federal IDEA-B	State	Total
2009	\$90.60	\$448.60	\$539.20
2010	\$90.50	\$436.60	\$527.10
2011	\$90.20	\$428.70	\$518.90
2012	\$91	\$420.70	\$511.70
2013	\$86.40	\$412.20	\$498.60
2014*	\$86.40	\$417.20	\$503.60

*Preliminary

Source: PED, New America Foundation



LFC program evaluations are a trusted source for consistent, high-quality analysis and meaningful, research-based recommendations. While program evaluations cover all aspects of state government, LFC has consistently focused on the areas of greatest importance in New Mexico, including public education, health care, and higher education. Recent education-related evaluations, for example, focused on the state's public school funding formula, teacher evaluation and licensure, teacher and administrator preparation, efforts to improve early literacy, and dual credit initiative. These evaluations have applied innovative research approaches to identify promising practices and recommend concrete public policy changes.

Additionally, New Mexico was only the second state to work with the Pew Foundation to apply the Results First model to estimate the return on investment of particular programs. With this cutting-edge approach, the Corrections Department eliminated a \$2 million drug treatment program, shifting to an evidence-based practice. LFC program evaluators are committed to continuing to influence the challenging decisions regarding allocating scarce resources to better serve the needs of New Mexicans.

EDUCATION

Special Education. Given the high percentage of the state's share of special education funding in New Mexico, improving performance outcomes and how money is distributed are particularly relevant state policy issues. Even as initiatives to more accurately identify students for special education have proven effective, the state's funding formula continues to create incentives for school districts to qualify students for special education, to place students at higher service levels, and to claim excessive related services personnel. Contrary to best practices in special education policy, New Mexico's formula penalizes school districts and charter schools that invest in early intervention and place students in the least-restrictive service levels. This report follows up on previous studies that recommend shifting to a census-based funding approach to encourage appropriate identification and equitable funding for students with disabilities. The report also analyzes options for maintaining fiscal effort to qualify for federal funds, recommends revisions to how the state serves gifted students, and identifies opportunities for proliferating best practices across the state.

Early Childhood Programs. Childcare Assistance and Head Start are the two biggest early childhood development programs in New Mexico, consisting of more than \$100 million in state and federal funding and serving an estimated 9,500 4-year-olds in FY12. The

Program Evaluation Activity

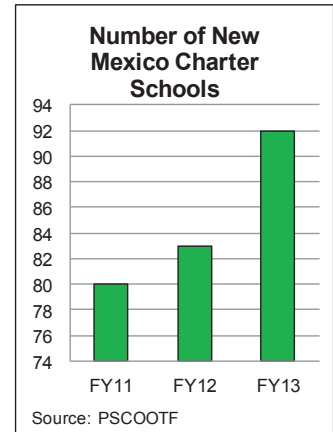
evaluation found quality and outcomes in these programs need attention and improvement. The Children, Youth, and Families Department (CYFD) childcare program increases per-child expenditures each year without better educational outcomes for participants. Minimal Head Start cooperation and coordination results in inefficient resource allocation and hinders school readiness. Finally, a lack of program integrity at CYFD, such as fraud and providers sharing addresses with registered sex offenders, threatens effective resource allocation and endangers children. Early childhood education programs are worth public investment, but New Mexico needs to improve accountability and collaboration and direct funds to proven programs, such as state-funded Pre-Kindergarten.

Charter School Facilities Lease Assistance. Many of the state's public charter schools are challenged to secure long-term facilities and pay excessive lease costs at taxpayer expense. While many of the leases are within acceptable market rates, costs have quadrupled in nine years, with foundations and third parties earning profits from subleases. Causes of high lease rates include profit-taking by third parties, additional costs being included in base rents, schools contracting for space in excess of need, and inadequate oversight of tenant improvements. Recommendations include requiring Public School Capital Outlay Council approval of lease amounts and a standardized lease to improve transparency and accountability.

HEALTH AND HUMAN SERVICES

Healthcare Workforce. The federal Affordable Care Act is dramatically changing the health system across the country. The number of healthcare professionals and their distribution throughout New Mexico cannot adequately meet current demand, let alone the additional pressures brought by 415 thousand newly insured joining the system in 2014 and will likely result in longer wait times and more difficulty accessing specialists. Nurse practitioners and physician assistants can help meet the needs of the 50 percent of the population that is basically healthy, while the chronically ill can be treated by special teams of professionals. The state should expand funding for healthcare residencies and loan repayment programs, particularly in primary care. The state should also increase training of advance practice professionals, such as nurse practitioners, and develop a coordinated approach to healthcare workforce planning.

Cost and Outcomes of Selected Behavioral Health Grants and Spending. New Mexico consistently has among the highest alcohol-related and drug-related death rates and teen suicide rates in the nation. These behavioral health issues not only affect personal health, but have larger implications for families and the community, including unemployment, crime, poverty, and homelessness. This evaluation focused on behavioral health programs funded through the Behavioral Health Services Division (BHSD), the safety net for those individuals or services not covered by Medicaid. While non-Medicaid behavioral health funding has increased since FY10, fewer people have received services and outcomes fall short of performance targets. The investigation of potential Medicaid fraud at multiple behavioral health

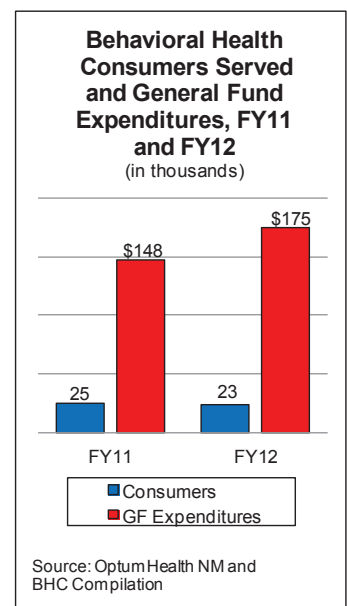


Advanced Care Providers Educated by Public New Mexico Institutions, 2007-2011	
Physicians	263
Nurse Practitioners*	234
Physicians Assistants	79

*Includes Certified Nurse Specialists

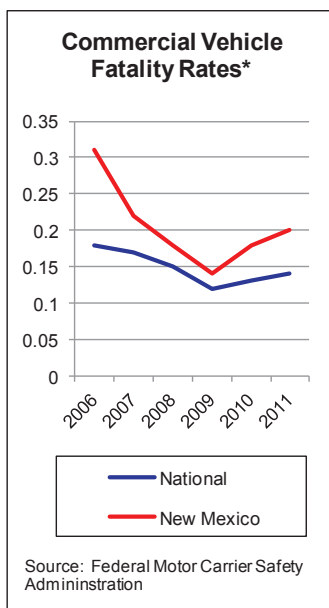
Source: HED

Expansion of Medicaid will create opportunities for the state to re-purpose behavioral health funds.



Program Evaluation Activity

Foregone revenue from evaded weight-distance tax ranges from \$27 million to \$56 million annually.



Tribes and racetracks account for \$987 million in gaming and generated \$129 million in revenue to the state in FY12.

Overall tribal net win has grown only 4 percent from FY08 to FY12, with revenues shifted among an increasing number of casinos.

Horse racing purse sizes grew a total of 274 percent per race between 1999 and 2011, far outpacing national averages.

provider facilities and other recent events demonstrate the need for a stronger, better-coordinated system. The Human Services Department has not maintained an ongoing assessment of system capacity to prepare for the major changes in behavioral health delivery that will occur under Centennial Care, the state's new Medicaid program. The evaluation recommended the department project behavioral health needs under Centennial Care and adjust state funding appropriately. Additionally, OptumHealth and Centennial Care managed-care organizations should provide more detailed monitoring of the behavioral health system, including reporting of the Medicaid behavioral health provider audit results to LFC.

Interagency Benefits Advisory Committee (IBAC). Healthcare benefits continue to be a significant portion of employee compensation, affecting the state's competitiveness, but balancing cost containment with service level is an ongoing struggle. This evaluation assessed healthcare cost drivers, analyzed how provider rates compare within the state and nationally, and considered the impact of Medicaid expansion and a healthcare exchange on IBAC plans. Similar to previous LFC recommendations, the state can improve efficiency by consolidating participation in IBAC and jointly negotiating rates.

GENERAL GOVERNMENT

Motor Transportation Police. Oversight and enforcement of laws relating to commercial motor vehicles are critical to the maintenance of safe transportation and commerce on New Mexico's highways. The New Mexico Motor Transportation Police (MTD), a division of the Department of Public Safety (DPS), plays a key role in keeping New Mexico's highways safe, in protecting the state's infrastructure investment, and in the interdiction of illegal contraband. This evaluation concluded MTD is properly located within DPS and MTD officers can be combined with state police if disparities between the two programs are resolved. Also, noncompetitive wages leading to staffing shortages and vacancies hamper MTD's missions, including enforcing the weight-distance tax and ensuring safety. New Mexico can enhance its motor carrier enforcement program by making salaries for officers and inspectors more competitive, deploying more remote sensing equipment, and increasing audits of commercial carriers.

Operational Effectiveness of Gambling Oversight. Horse racing and gaming play an important role in the economy and culture of New Mexico. The consensus revenue group estimated the state received \$143 million from gaming and racing activities in FY13. This evaluation, however, found provisions in the Gaming Control Act and tribal gaming compacts limit the Legislature's ability to monitor the Gaming Control Board's effectiveness as an oversight agency. The Gaming Control Board also does not focus the majority of its audit efforts on racetrack casinos, the state's largest revenue-producers. Finally, the Racing Commission does not adequately test for equine doping compared with other states; does not fully audit simulcast revenues, gaming revenues allocated for purses, and racetrack tax payments; and lacks sufficient resources to properly vet potential licensees.

Program Evaluation Activity

Department of Cultural Affairs Capital Outlay. The state's 16 museums and historic sites provide opportunities for lifelong learning and cultural tourism and preserve New Mexico's cultural heritage. The department, however, lacks a formal capital outlay plan to prioritize critical needs, project accurate revenues and costs, and address surpluses or shortfalls, instead pooling capital funds to spend as an emergency fund. Recommendations included identifying all funding sources available, determining the most critical needs, and planning to address funding shortfalls.

Water Trust Board. Water is a foundation of New Mexico's economy and a scarce resource to be managed wisely. Since 2004, the Water Trust Board (WTB) awarded 86 percent of its funds, or \$216 million, in grants, even though many receiving entities could likely afford to repay loans. In contrast, Texas, Arizona, and Colorado offer only loans for water projects. WTB needs to better ensure the cost-efficiency of water systems by requiring utilities to demonstrate compliance with laws and regulations. Recommendations address development of asset management plans, adequate user-rate pricing, and budgeting for future repair and replacement.

INFORMATION TECHNOLOGY

Unemployment Insurance System Modernization. New Mexico Workforce Solutions Department plays a critical role in providing temporary financial assistance to individuals who meet state eligibility requirements for unemployment insurance (UI) benefits financed by employer-paid UI taxes. The new UI system emphasizes self-service for unemployed claimants and employers but is complex and cumbersome for users. The initial intake for a claimant to apply for UI benefits can take up to an hour and maximum call wait-times remain long. In overhauling the UI tax and UI claims systems simultaneously, the department faced challenges with the scope, budget, and project schedule. Lack of external oversight, independent verification and validation, and a disaster recovery contingency plan represent risks. With IT Commission inactive for three years, the project did not have adequate external oversight and approval. Because of cost overruns, the department reduced the warranty while still contending with numerous outstanding defects. Finally, the limited ability of the department's IT staff to maintain and operate the system will require ongoing reliance on staff augmentation at considerable cost.

Automated System Program and Eligibility Network. At a cost of \$115 million, the Human Services Department designed ASPEN to replace its integrated service delivery system and five supporting legacy systems. By FY14, ASPEN will provide streamlined, integrated eligibility determination, improving HSD's ability to provide services and benefits to 800 thousand clients. ASPEN also includes a self-service website (Yes-NM), allowing online applications, and an interactive voice response system to check benefit status by phone. This evaluation analyzed how the new eligibility system impacts the department's efficiency and productivity and early evidence indicates it will allow HSD to better address caseloads within current staffing levels.

The Department of Cultural Affairs' capital outlay plan is unreliable and lacks prioritized needs, hard estimates to support expenditures, and follow-through.

New Mexico's approach to funding water projects is fragmented and inefficient.

UI System Modernization Major Contracts (in thousands)	
Vendor	Contract Value
Deloitte	\$38,613
Kemtah	\$2,694
ACRO	\$5,685
Total	\$46,992

Source: WSD and SHARE

Although HSD's number of caseworkers has remained consistent since FY08, cases have grown by 394 per worker from 626 to 394 cases.

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PERFORMANCE REPORTS

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Accountability in Government

In recent years tight budgets posed significant challenges and some agencies responded by using performance data to prioritize efforts and allocate limited resources. The 2015 budget year provides an opportunity to strategically address some long-standing challenges for the state; however, to make the most of the opportunity, agencies need to more effectively use performance indicators and tools, such as cost-benefit analysis, to ensure resources reach effective programs that produce the outcomes the public expects.

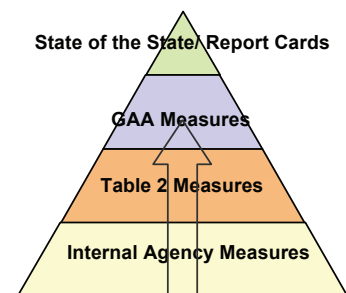
The Accountability in Government Act (AGA) traded budget flexibility for information about how state agencies economically, efficiently, and effectively carry out their responsibilities and provide services. Prior to the AGA, agency appropriations were tightly controlled by the Legislature with attention paid to individual budget line items and incremental spending of salaries, office supplies, travel, etc. After the AGA, the focus switched to results as measured by performance (inputs, outputs, outcomes, etc).

Report Cards. To facilitate reviews of agency performance, LFC developed a dashboard report, a report card, to add emphasis and clarity to the reporting process and focus budget discussion on evidence-based initiatives and programming. Criteria for rating performance were established with consideration for improvement or decline in performance, and deference to economic conditions, austerity measures, etc. In general, green ratings indicate performance achievement; red ratings are not necessarily a sign of failure but do indicate a problem in the agency's performance or the validity of the measure. Yellow ratings highlight a narrowly missed target, significantly improved or a slightly lower level of performance. Performance criteria and elements of good performance measures are reviewed on the following pages. While the report cards are generally good tools, there is room for improvement – in reporting results, measuring the right things, benchmarking to national and state data, developing corrective action plans, and making a stronger connection to agency budgets.

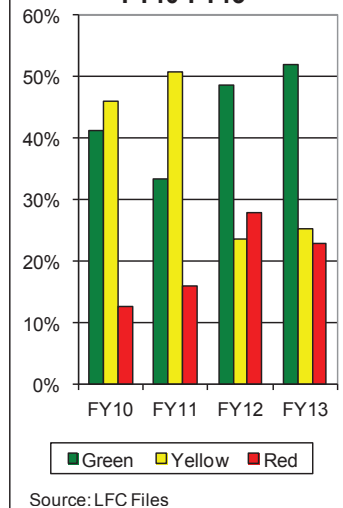
FY13 Performance and Future Outlook. Fiscal year 2013 report cards showed a modest decline in red ratings and corresponding increases in yellow and green ratings, possibly the result of improved processes, an improving economy or more generous budgets. Nevertheless, some outcome measures continue to indicate a need to address items such as deteriorating roads, reading and math proficiency in schools, and low graduation rates. The results on a number of efficiency measures continue to demonstrate the negative impact of high agency staff vacancy rates: slower processing, longer wait times and increased caseloads and backlogs. For FY15, agencies requested substantial increases; however, relatively few were based on results or tied to higher performance levels.

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's role is that of consultation.

Performance Measure Hierarchy



Report Card Program Rating Performance Summary FY10-FY13



PERFORMANCE REPORT CARD CRITERIA
LEGISLATIVE FINANCE COMMITTEE

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

Elements of Good Performance Measures	Agency Quarterly Reports	Elements of Key Agency Reports
<p>Ideal performance measures should be:</p> <ul style="list-style-type: none"> • <u>Useful:</u> Provide valuable and meaningful information to the agency and policymakers • <u>Results-Oriented:</u> Focus on outcomes • <u>Clear:</u> Communicate in a plain and simple manner to all stakeholders (employees, policymakers, and the general public) • <u>Responsive:</u> Reflect changes in performance levels • <u>Valid:</u> Capture the intended data and information • <u>Reliable:</u> Provide reasonably accurate and consistent information over time • <u>Economical:</u> Collect and maintain data in a cost-effective manner • <u>Accessible:</u> Provide regular results information to all stakeholders • <u>Comparable:</u> Allow direct comparison of performance at different points in time • <u>Benchmarked:</u> Use best practice standards • <u>Relevant:</u> Assess the core function of the program or significant budget expenditures 	<p>Each quarterly report should include the following standard items:</p> <ul style="list-style-type: none"> • Agency mission statement • Summary of key strategic plan initiatives • Program description, purpose and budget by source of funds • How the program links to key agency initiatives, objectives, and key performance measures • Action plan describing responsibilities and associated due dates 	<p>Key Measure reporting should include:</p> <ul style="list-style-type: none"> • Key performance measure statement • Data source to measure key measure results • Four years of historical data (if available) • Current quarter data (both qualitative and quantitative) • Graphic display of data as appropriate • Explanation for measures 10 percent or more below target • Proposed corrective action plan for performance failing to meet target • Action plan status • Corrective action plan for action plan items not completed

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Children, Youth & Families

Safe, stable, and predictable environments for children are key to healthy early brain development. What happens in a child's early years has serious implications for public policy in later years. Although the National Conference of State Legislatures (NCSL) ranked New Mexico 4th highest for increased early childhood funding.

Juvenile Justice. The percent of clients recommitted to a juvenile facility within two years of discharge dropped from 12 percent in FY12 to 9 percent in FY13. The improvement may be attributable to the Cambiar model being implemented system wide, including in juvenile probation and parole. While the increase in incidents requiring use of force and resulting in injury increased from the previous year, it is still well below targeted levels.

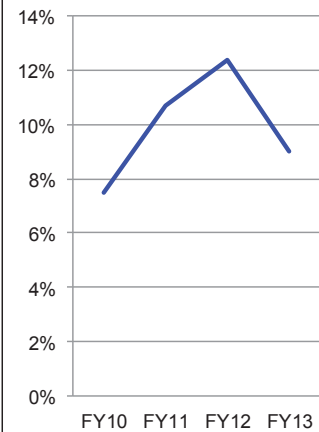
Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of clients recommitted to a children, youth and families department facility within two years of discharge from facilities	10.7%	12.4%	9.0%	9.0%	G
Percent of incidents in juvenile justice services facilities requiring use of force resulting in injury	2.5%	1.4%	2.5%	1.8%	G
Overall Program Rating					G

Protective Services. Timely assessment of safety threats and risk factors is critical to protecting New Mexico's children. Of concern is the increase in the percent of children subjected to substantiated maltreatment in FY13 and the decreased percent of children who were returned to their natural families. Continued workforce stabilization will help reduce heavy case loads for youth care specialists and timely assessment of child safety. The CYFD plans to improve stability in child placement and permanency planning through hiring additional front-line workers and client service agents to assist caseworkers. Improving this measure is difficult because premature reunification may result in additional harm to children and compromise child welfare.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of children who are not the subject of substantiated maltreatment within six months of a prior determination of substantiated maltreatment	91.8%	92.3%	93.0%	91.3%	R
Percent of children who are not the subject of substantiated maltreatment while in foster care	99.7%	99.5%	99.7%	99.7%	G
Percent of children reunified with their natural families in less than twelve months of entry into care	63.6%	67.3%	65.0%	62.4%	R
Overall Program Rating					Y

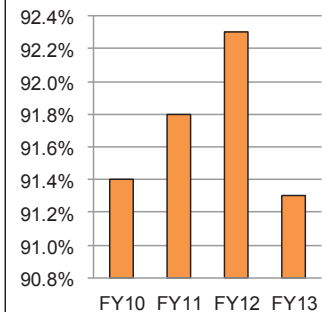
The CYFD turnover rate for youth care specialists decreased in FY13, which assisted in performance improvement.

Clients Recommitted to a CYFD Facility within Two Years of Discharge



Source: CYFD

Children not the Subject of Substantiated Maltreatment within Six Months of a Prior Determination of Substantiated Maltreatment



Source: CYFD

Children, Youth & Families

Highest Increases in Child Care FY13 General Fund Appropriations (in millions)

State	Amount/Percent
Texas	\$10.2 (12.4%)
Iowa	\$5.3 (9.4%)
Nebraska	\$4.7 (8.7)
New Mexico	\$3 (11.2%)




Source: NCS L

FY13 Increases of General Funds for Prekindergarten (in millions)

State	Amount/Percent
Florida	\$25.3 (6.4%)
Texas	\$18 (2.4%)
Louisiana	\$7.8 (13.8%)
New Mexico	\$4.4 (33.5%)
Tennessee	\$3.7 (4.4%)
Pennsylvania	\$2.6 (3.2%)
Washington	\$2 (12.5%)

Source: NCS L

Early Childhood Services. While the percent of children receiving services at level two through five Star accreditation is promising, the availability of childcare programs is concentrated in metropolitan areas. Children in rural or high poverty areas are more likely to receive childcare in a registered home. Concerns have been raised regarding the accuracy of the childcare provider accreditation ratings. The CYFD received \$37.5 million in Race to the Top federal funds over a five-year period to support building childcare infrastructure and capacity, which should broaden the availability of quality early childhood development programs for rural communities. Better quality standards should be developed for both accredited care centers and registered homes to ensure equitable cognitive and social development and kindergarten-readiness throughout New Mexico. While the CYFD exceeded the target for mothers participating in home visiting and identified as having symptoms of postpartum depression, the decreased level of performance from FY13 is concerning; however, the CYFD conveyed not all providers have reported.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of children receiving state subsidy in stars/aim high programs level two through five or with national accreditation	n/a	n/a	20%	40%	
Percent of mothers participating in home visiting identified as having symptoms of postpartum depression and referred to services and receiving services	n/a	45%	25%	40%	
Overall Program Rating					

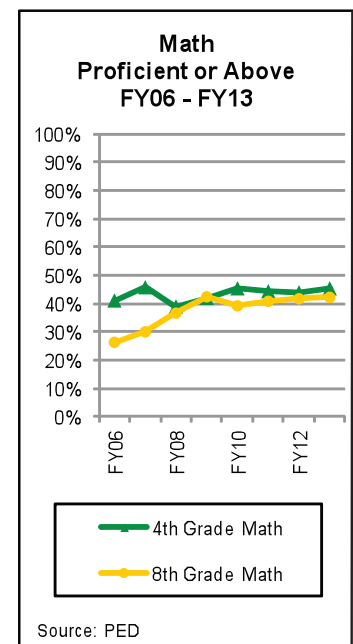
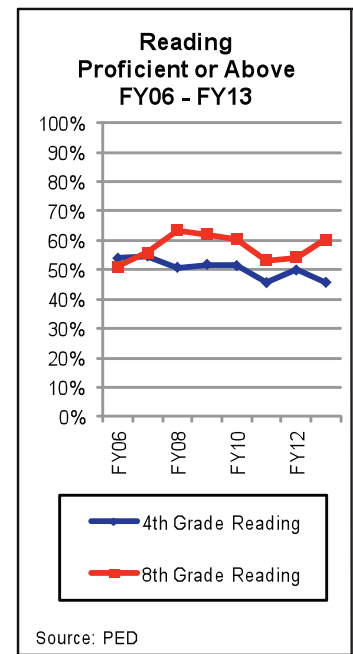
Student performance continues to improve, though not at the rate expected given the significant increases in funding over the last decade. The strategic elements to evaluate the effectiveness of public schools are student achievement, student persistence, and teacher quality. Generally, student proficiency rates show mixed results, and college remediation rates increased despite significant increases in the four-year graduation rate.

Student Performance. Between FY06 and FY13, statewide student performance as measured by the percent of students scoring proficient or above on the New Mexico Standards-Based Assessment (NMSBA) increased 9.9 percentage points in math and 0.2 percentage points in reading. While individual groups of students show gains in proficiency, statewide data from the FY13 assessment shows modest decreases in proficiency overall. Based on FY13 assessment data, 49.4 percent of students scored below proficient in reading and 58 percent of students scored below proficient in math. Statewide data for third-grade reading proficiency, a major focus of the department, improved over FY12 data, showing a 2.8 percentage point gain. However, third-grade reading proficiency rates remain lower than FY10 rates.

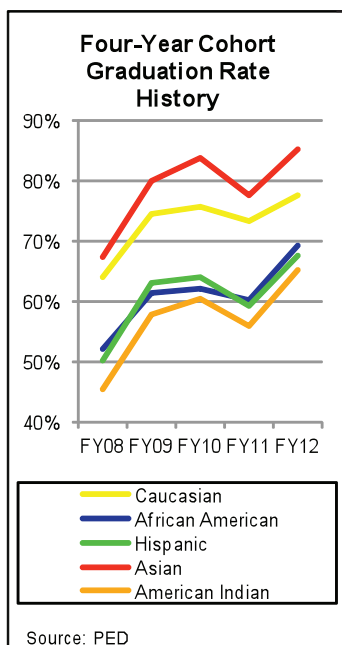
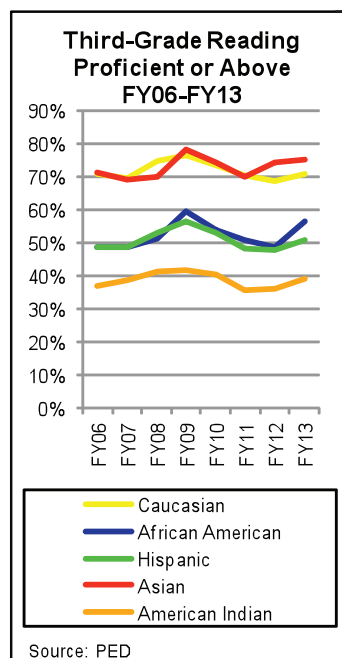
Proficiency rates may decline over the next few years as the state implements new common core state standards (CCSS) and realigns tests. Nationally, states that administered assessments realigned to the CCSS saw significant decreases in student proficiency. For example, some New York school districts saw decreases in math and reading proficiency of more than 50 percent. Given that New Mexico state standards have been recognized as some of the strongest standards in the nation, decreases in proficiency may be more modest than those in states with weaker state standards.

The four-year cohort graduation rate increased from 63 percent in FY12 to 70.4 percent in FY13. The largest gains were posted by English language learners at 9.9 percentage points, followed by Native American students at 9.3 percentage points, African American students at 9.2 percentage points, and students with disabilities at 9 percentage points. The graduation rate increased 16.4 percentage points since FY08. Increases in the graduation rate show the achievement gap closing for some students; however, graduation rates still indicate the need to create high school programs that keep students engaged.

Schools are annually given a letter grade between A and F based largely on student performance on the NMSBA, with small values awarded for other things, such as student surveys, attendance, and school encouragement for involving students and parents in education. Grades for FY13 included 82 schools receiving an A, 224 receiving a B, 230 receiving a C, 218 receiving a D, and 85 receiving an F. Compared with grades issued for FY12, approximately 29 percent of school grades decreased in FY13; this improved from 44 percent of school grades decreasing in FY12.



Public Schools



Student achievement continues to progress much more slowly than desired and the achievement gap continues to persist. Research shows that a number of state-funded programs targeted to the state's most at-risk students are having positive impacts on student achievement, including prekindergarten and Kindergarten Three Plus. Funding should continue to be targeted to evidence-based programs proven to improve student outcomes and close the achievement gap.

Performance measures for public school support provide a snapshot of student performance when data is available after the end of the school year. Little or no consistent student performance data is available for policymakers through the year. For FY13, the Legislature appropriated \$2.5 million for short-cycle assessments for fourth-through 10th-grade students. Statewide data from these assessments is not being collected or reported, despite recommendations to do so. The department should collect and report short-cycle assessment data at least three times a year, allowing policymakers access to data more than once annually. Additional benefits to intermediate reporting of student academic performance include assisting the Public Education Department (PED) in determining how to better support schools.

Teacher Quality. Research clearly demonstrates the importance of teachers in student learning. Despite a “highly qualified” teacher work force, improvement in student achievement continues to progress slowly. PED adopted regulations to implement a new teacher and principal evaluation system based on the following: 50 percent on student growth, 25 percent on multiple observations, and 25 percent on multiple measures. Teacher effectiveness data will be available at the end of FY14, allowing districts and policymakers to address and improve school personnel policies concerning professional development, promotion, compensation, and tenure.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of fourth-grade students who achieve proficiency or above on standards-based assessments in reading	46.5%	49.9%	50.0%	45.7%	R
Percent of eighth-grade students who achieve proficiency or above on standards-based assessments in reading	53.3%	54.3%	60.0%	60.2%	G
Percent of fourth-grade students who achieve proficiency or above on standards-based assessments in mathematics	44.4%	44.0%	50.0%	45.4%	Y
Percent of eighth-grade students who achieve proficiency or above on standards-based assessments in mathematics	40.8%	41.7%	50.0%	42.2%	Y

Public Schools

Percent of recent New Mexico high school graduates who take remedial courses in higher education at two-year and four-year schools	46.2%	53.6%	40.0%	51.5%	Y
Current year's cohort graduation rate using four-year cumulative method	63.0%	70.4%	75.0%	n/a	Y

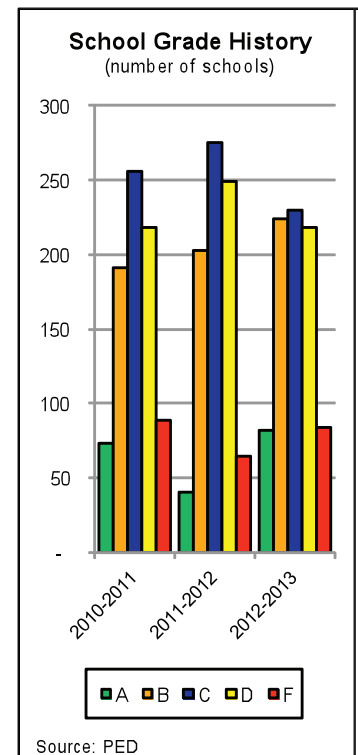
Overall Program Rating **R**

Department Operations. PED provides program and fiscal oversight to public schools to ensure accountability for almost half of the state budget. Many performance measures are reported annually and provide limited quarterly measurement of progress made by the department. PED continues to increase focus on financial operations within the department and over school districts and charter schools. The department continues to streamline business processes to alleviate administrative pressure placed on schools. PED is working to ensure public education funding is allocated to evidence-based programs and classroom spending is prioritized.

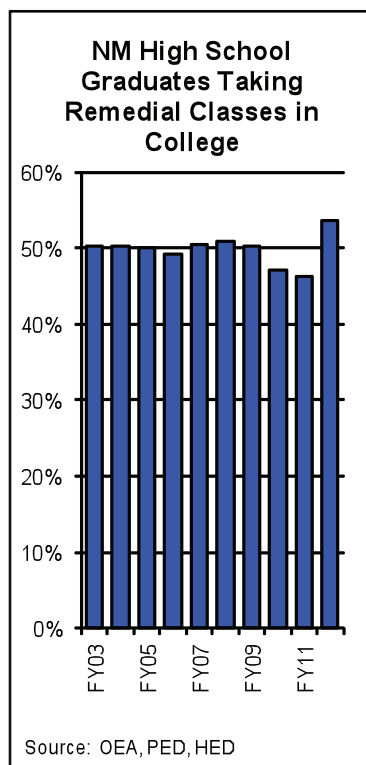
PED continues to advance initiatives aimed at improving student outcomes, including a school grading system, common core state standards and a new computer-administered standards-based assessment, a teacher and school leader evaluation system, targeted interventions for low performing schools, a new graduation initiative, and an early literacy intervention program. Rapid implementation of high-profile initiatives continues to prove challenging. Additionally, the department continues to experience high vacancy and turnover rates, leading to a lack of stability and consistency; however, senior and midlevel management positions appear to be more stable. Insufficient department administration and oversight of school districts and charter schools, expenditure of legislative appropriations inconsistent with legislative intent and language in the General Appropriation Act, accuracy of reported data, and restricted collaboration with policymakers and other stakeholders continue to raise concerns.

PED is responsible for administering the public education funding formula and ensuring accurate formula data is used to allocate funds. During the first two quarters of FY13, the department resumed auditing individual school districts and charter schools for data reporting to ensure accurate and equitable distribution of public education funding. PED has not engaged in rigorous auditing since FY08. During the first two quarters of FY13, the department completed 20 data validation audits; however, the department has not completed an audit since the second quarter of FY13.

While PED's FY12 audit was submitted on time, issues related to federal Individuals with Disabilities Education Act (IDEA) maintenance of effort (MOE) requirements prevented its timely release. The auditor noted "grave concerns," particularly with regard to PED's noncompliance with federal grant requirements for special education funding, and noted the lack of transparency regarding the potential funding loss. The state auditor selected PED for a special



Public Schools



The annual reports provided by PED for the department and public school support include incorrect targets and data that appears to be incorrect. Data is also excluded for a number of measures.

audit related to noncompliance with federal IDEA MOE requirements. The state is at risk of losing up to \$65 million that may have been avoided with more timely reporting and analysis.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of teachers passing all strands of professional dossiers on the first submittal	76.0%	91.7%	80.0%	84%	Y
Average processing time for school district budget adjustment requests, in days (direct grants)	4.0	3.0	7.0	2.75	G
Average processing time for school district budget adjustment requests, in days (flow-through funds)	19.4	12.5	21.0	12.5	G
Number of data validation audits of funding formula components annually	n/a	n/a	150	20	R
Number of elementary schools participating in the state-funded elementary school breakfast program	n/a	156	Explanatory	159	Y
Number of eligible children served in state-funded prekindergarten	4,435	4,535	Explanatory	5,068	Y
Overall Program Rating					Y

Higher Education

The Higher Education Department (HED) and institutions report annually on student progress and institutional efforts related to student access, program completion, and other mission-related measures. The data provide context for the college-going student population and their academic persistence, completion, workforce readiness, and effectiveness of institutional efforts to help students achieve specific academic and employment milestones and gain competencies.

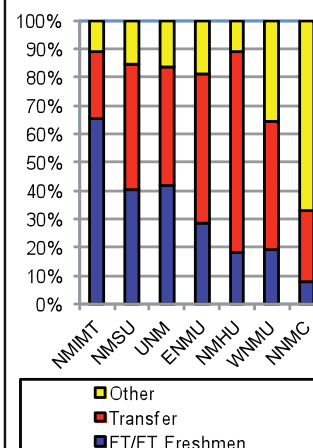
For the past two years, the Legislature based a portion of the higher education appropriation on performance data. In FY13 and FY14, the state appropriated \$27.8 million and \$27.0 million, respectively, to institutions for completed student credit hours, total number of certificates and degrees awarded, and certificates and degrees earned by students in the science, technology, engineering, mathematics, and health (STEMH) fields and by those who were financially at-risk. During the 2013 LFC interim hearings, institutions described recent efforts to improve student retention and program completion, highlighting high school graduates who are first-generation college students and students requiring remedial education before college-level work.

LFC, DFA, and institutions should work to align Accountability in Government (AGA) measures with funding and statewide priorities. Continuing to follow student retention will help predict program completion, but additional measures are needed to show student success and serve as predictors of improved program completion and workplace competencies. Such measures should include student progress points for entering upper division courses, the average number of credits students take in certain programs, and the passage rates of students enrolled in gateway college courses after completing remedial efforts.

Research and Comprehensive Universities. The Council of University President's *2013 Performance Effectiveness Report* notes research institutions graduated 38 percent to 58 percent of first-time, full-time college students; comprehensive institutions graduated 8 percent to 28 percent of traditional students. Information was not available for transfer student graduation rates.

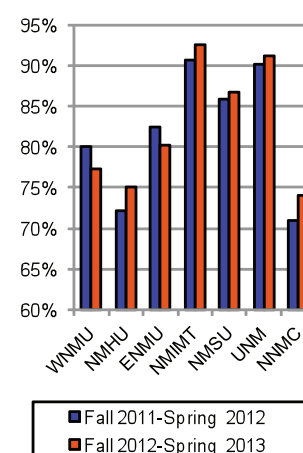
First-Time, Full-Time (FT/FT), Degree-Seeking Students Retained from Fall-to-Fall	Fall 2010 to Fall 2011 Actual	Fall 2011 to Fall 2012 Actual	Fall 2012 to Fall 2013 Target	Fall 2012 to Fall 2013 Actual	Rating
UNM	74.1%	76.6%	77.8%	77.7%	G
NMSU	71.0%	72.0%	72.0%	74.2%	G
NMIMT	70.6%	74.4%	72.0%	76.6%	G
ENMU	63.9%	62.5%	64.0%	58.1%	Y
NMHU	50.6%	55.3%	53.0%	47.2%	Y
WNMU	50.4%	55.1%	53.0%	52.3%	Y
NNMC	54.0%	61.0%	66.5%	55.0%	R
Overall Program Rating					Y

Profile of Baccalaureate Degree Recipients, 2012-2013 Academic Year



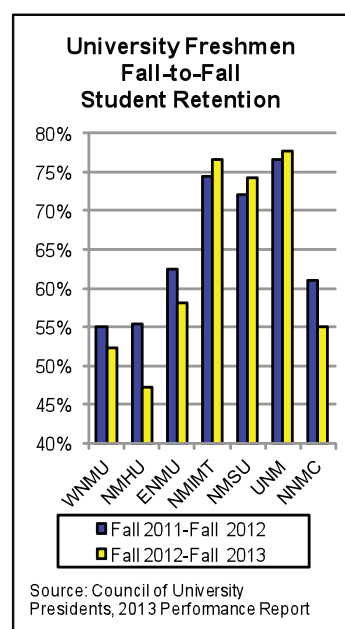
Source: 2013 Performance Report, Council of University Presidents

University Freshmen, Fall-to-Spring Retention



Source: 2013 Performance Report, Council of University Presidents

Higher Education



In response to outcome-based funding, institutions have increased graduation rates in the short-term by giving enrolled students degrees when they have accumulated sufficient credits, regardless of their academic plan.

The UNM Health Sciences Center (UNMHSC) reported performance highlights include

- Pass rates of 95 percent or above by candidates taking national exams for family nurse practice certification, pharmacy, and step exams in medical education.
- Continued success in cancer trial accruals. UNMHSC is focusing on trials applicable to the New Mexico population and which have a higher number of patients enrolled.

While student enrollment grew slightly during the 2012-2013 academic year, the state's four-year institutions maintained a fairly consistent performance level in both fall-to-spring and fall-to-fall retention. In some cases, fall-to-fall retention dropped slightly; however, the student body at many institutions is changing to reflect more at-risk, first-time, and older students, and fewer well-prepared students. Maintaining current retention rates requires significant effort on the part of the institutions.

Six-year graduation rates remain consistent for both the research and comprehensive sectors, with research institutions having higher graduation rates. Similar to retention, the less restrictive admission policies of the comprehensive universities contribute to the lower graduation rates relative to the research universities.

Six-Year Completion Rates for First-Time, Full-Time (FT/FT), Degree-Seeking Students	Fall 2005 to Summer 2011 Actual	Fall 2006 to Summer 2012 Actual	Fall 2007 to Summer 2013 Target	Fall 2007 to Summer 2013 Actual	Rating
UNM	45.1%	45.8%	47.0%	48.2%	G
NMSU	46.7%	44.0%	47.0%	43.3%	R
NMIMT	47.4%	48.9%	48.0%	44.2%	Y
ENMU	23.7%	28.6%	30.0%	28.8%	Y
NMHU	20.9%	16.2%	20.0%	18.4%	Y
WNMU	17.1%	19.1%	20.0%	22.7%	G
NNMC	100%	100%	25.0%	50.0%	G
Overall Program Rating					Y

Community Colleges. Nearly all community colleges implemented new or revised existing programs to improve fall-to-spring and fall-to-fall retention rates, perhaps in response to the state's focus on outcomes. The average fall-to-spring retention rate for branch colleges and independent colleges was 71.2 percent and 65.9 percent respectively, a 7 percent decline from last year. However, changes to programs may not be reflected in this year's numbers; LFC expects retention rates to increase as new policies begin to take effect.

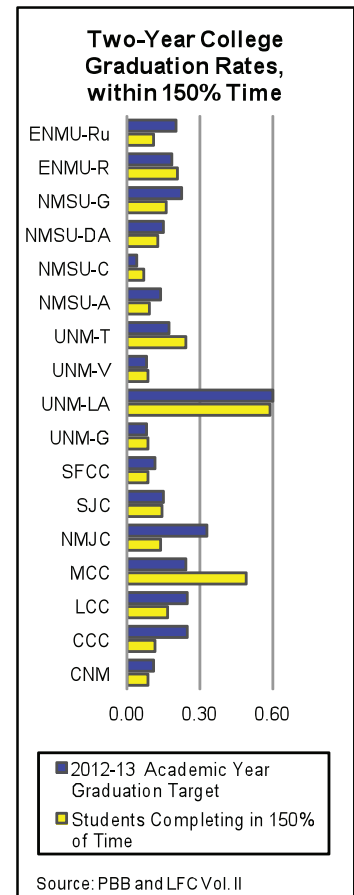
Nationally, and in New Mexico, community colleges face challenges to help working adults who are part-time students complete a certificate or degree program, or within 150 percent of a program's duration. In areas where the oil and gas sector continues to create strong job opportunities, two-year colleges are losing students to the workforce and consequently are seeing more students "stop-out." Many programs are providing professional development training for faculty to help them engage students, identify student deficiencies and concerns early, and provide supplemental academic support. Most institutions have increased tutoring services, academic advising, "early alert" efforts, financial aid counseling and expanded college study-skills and time management programs for students. Other changes, used at ENMU-Ruidoso, NMSU-Dona Ana Community College and others, include technology and software programs to better monitor student progress and direct academic choices.

Higher Education

Fall to Spring Retention	Fall 2010 to Spring 2011 Actual	Fall 2011 to Spring 2012 Actual	Fall 2012 to Spring 2013 Target	Fall 2012 to Spring 2013 Actual	Rating
ENMU-Roswell	76.0%	74.4%	76.1%	74.2%	Y
ENMU-Ruidoso	70.3%	70.6%	66.0%	74.0%	G
NMSU-Alamogordo	78.3%	74.5%	79.8%	75.2%	Y
NMSU-Carlsbad	67.8%	69.2%	70.0%	67.7%	Y
NMSU-Dona Ana	81.0%	79.9%	81.0%	77.8%	Y
NMSU-Grants	78.4%	77.4%	78.0%	76.9%	Y
UNM-Gallup	81.3%	81.8%	82.0%	64.3%	R
UNM-Los Alamos	80.0%	79.9%	79.5%	79.6%	G
UNM-Taos	79.1%	79.9%	70.0%	79.6%	G
UNM-Valencia	73.6%	76.9%	80.0%	81.4%	G
CNM CC	81.1%	82.2%	82.0%	81.7%	G
Clovis CC	68.8%	67.4%	74.0%	65.7%	Y
Luna CC	70.5%	71.0%	75.0%	61.8%	R
Mesalands CC	69.8%	71.0%	68.5%	51.4%	R
NM Jr. College	70.8%	76.8%	75.0%	86.9%	G
San Juan College	80.3%	80.9%	83.0%	82.5%	G
Santa Fe CC	79.0%	76.3%	79.5%	78.8%	Y
Overall Program Rating					Y

Higher Education Department. HED administers the state's financial aid and other postsecondary programs and provides fiscal oversight of higher education institutions and three special high schools. Given the department's persistent staffing vacancies, LFC will continue to follow agency measures that monitor response times affecting institutional finance, capital expenditures, and institutional and legislative data requests.

Policy Development and Institutional Financial Oversight and Student Financial Aid	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of students who receive state loan-for-service funding who provided service after graduation	92.9%	92.0%	92.0%	93.1%	G
Overall Programs Rating					Y

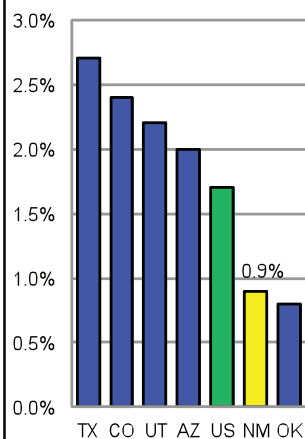


Legislative Lottery Scholarship: HED reported the lottery scholarship program is expected to run out of funds in spring 2014. HED has stated they will submit a solvency plan December 1, 2013.

HED reports it properly completed 100 percent of all capital infrastructure draws released to the State Board of Finance within 30 days of receipt from institutions. Due to staffing shortages, this measure was lower in prior years.

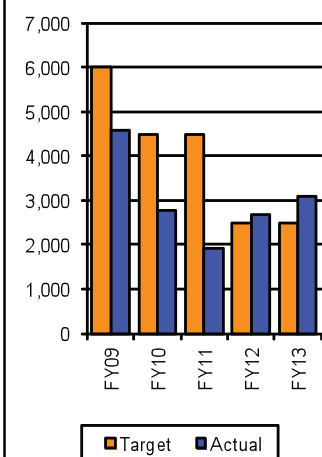
Economic Development

Over-the-Year Job Growth by State



Source: Workforce Solutions Department

Jobs Created Due to Department Efforts



Source: EDD

New Mexico experienced lackluster job growth during FY13 compared with the country and all neighboring states except Oklahoma. Despite this meager overall growth, the Economic Development Department (EDD) exceeded its job creation target for the second consecutive year and produced the highest job numbers of the last four years. LFC held a series of hearings during 2013 regarding the effectiveness of statewide economic development programs and found many programs remain fragmented and lack coordination and consistent reporting. EDD should enhance research on effectiveness of job creation programs and prioritize funding to those proving cost-effective. See “Cost Per Job” in the LFC Volume III for cost per job rankings.

Economic Development Program. The Economic Development Commission resumed hearings during FY13 after two years without meeting and plans to issue a five-year statewide economic development plan during early FY14. The Economic Development Partnership continued to struggle with reduced funding, staff levels, and performance measure results in FY13, but the Legislature appropriated an additional \$300 thousand for the Partnership for FY14. Additionally, the Partnership is attempting to raise \$200 thousand in cash and \$50 thousand of in-kind contributions. The MainStreet Program narrowly missed the annual jobs target and concerns regarding accuracy of job data for this program may be addressed by Place Economics, which is preparing an economic impact study. The Job Training Incentive Program trained the second fewest workers in more than a decade in FY13; however, the average wage for trainees exceeded the annual target.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Total number of jobs created due to economic development department efforts	1,922	2,684	2,500	3,093	G
Total number of rural jobs created	958	1,542	1,100	1,440	G
Number of jobs created through business relocations facilitated by the economic development partnership	499	657	2,200	244	R
Number of jobs created by the mainstreet program	598	592	600	529	Y
Percentage of employees whose wages were subsidized by the job training incentive program still employed by the company after one year	47%	72%	60%	72%	G
Number of workers trained by the job training incentive program	553	1,015	1,000	844	R

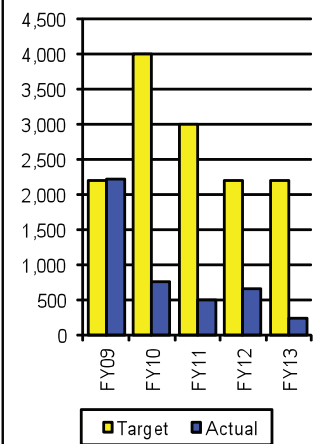
Economic Development

Average wage of jobs funded through the job training incentive program	\$20.03	\$16.39	\$16.00	\$18.46	G
Number of international trade transactions	38	14	30	31	G
Number of business advocacy cases solved		new	30	58	G
Number of businesses provided technical assistance in creating a funding package request and referred to the appropriate funding agency		new	5	61	G
Program Rating					G

Film Program. Outcomes for the Film Program indicate reduced performance compared with FY11 and FY12, with numbers down across two of three measures. However, the Film Office now counts only projects that use the film credit rather than all projects, contributing to the lower numbers. The local industry maintains the lower numbers are primarily due to the \$50 million cap instituted for the film production tax credit, although the legislation providing an additional incentive for television productions is drawing increased interest. Additionally, the timeframe from production to pay-out is now longer; therefore, it is difficult at this time to fully assess the changes. The Legislature addressed the cap issue during the 2013 session by allowing a rollover from one fiscal year to the next of any unused funds of up to \$10 million. These amounts will not count toward a subsequent year's annual limitation.

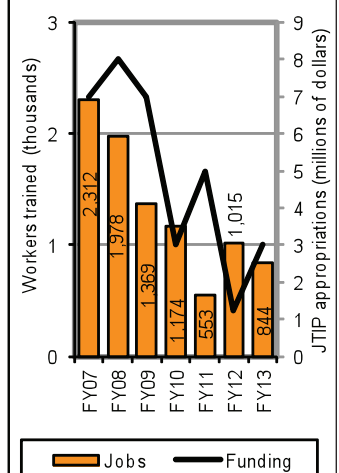
Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Number of media industry worker days	181,366	143,046	150,000	216,461	G
Economic impact of media industry productions in New Mexico, in millions	\$696.6	\$673.8	\$300	\$641.1	G
Number of films and media projects principally made in New Mexico	96	57	85	53	Y
Program Rating					G

Jobs Created with Economic Development Partnership Activities



Source: EDD

Number of Workers Trained by JTIP



Source: EDD

Tourism Department

Tourism Department FY14 Funding by Division		
	FY14 Budget (in thousands)	FTE
Marketing and Promotion	\$7,811.5	36.5
Tourism Development	\$2,123.1	5
NM Magazine	\$3,405.1	14
Program Support	\$1,457.3	13
Total	\$14,797.0	68.5

Source: Tourism Operating Budget

The department encourages collaborative cooperative advertising by awarding significantly greater funds to collaborative versus individual initiatives. The results for FY13 significantly exceeded expectations, with 232 collaborating entities.

The number of communities advertising with New Mexico True branding increased substantially from seven communities at the beginning of FY13 to 27 by year's end, and these communities plan to spend at least \$1.6 million on related advertising during FY14.

The leisure and hospitality industry is leading New Mexico's job growth, adding 3,700 jobs from June 2012 to June 2013 and now exceeding pre-recession levels of employment. This represents 51.4 percent of the state's total job gains during FY13.

Marketing and Promotion Program. The Tourism Department reports it will use the additional appropriation of nearly \$2 million for FY14 to begin advertising in Chicago and expand marketing efforts farther into Texas to include Dallas and Houston. Last year's return on investment study indicated ads in Colorado and Arizona produced the greatest returns, so the department will continue the campaign in those states, using television commercials, digital ads, billboards, and print ads. In addition to out-of-state marketing, the department has an in-state campaign to encourage New Mexicans to stay locally rather than travel elsewhere.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent increase in gross receipts tax revenue for accommodations receipts	n/a	n/a	3.0%	0.9%	Y
Number of new jobs created in the leisure and hospitality industry year-over-year	n/a	n/a	500	3,700	G
Dollars spent per overnight primary visitor per day	n/a	\$63.50	\$53.00	\$74.91	G
New Mexico's domestic overnight visitor market share	n/a	1.0%	1.0%	1.0%	G
Percent of visitors who choose New Mexico as their primary destination	n/a	72%	69%	71%	G
Program Rating					G

New Mexico Magazine Program. *New Mexico Magazine* is the oldest state magazine in the United States, founded in 1923, and is the third-largest state-owned publication in circulation. The Western Publications Association named it the best regional and state consumer magazine for 2013. Program revenues exceeded expenditures in FY12 for the first time in several years, and the department reports it expects audited numbers to show a repeat success for FY13.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Circulation rate	96,500	94,221	100,000	91,197	Y
Advertising revenue per issue, in thousands	\$64	\$65	\$110	\$68	Y
Number of visits to nm magazine.com and newmexico.org, in thousands	n/a	n/a	480	715	G
Program Rating					G

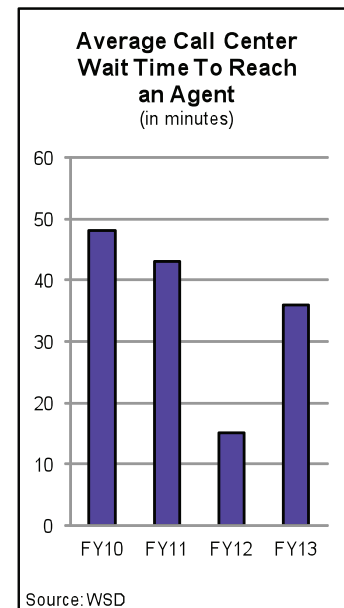
Workforce Solutions

The Workforce Solutions Department (WSD) is experiencing some performance improvements; however, the wait time to reach an agent in the call center and the amount of time to issue a determination is of concern.

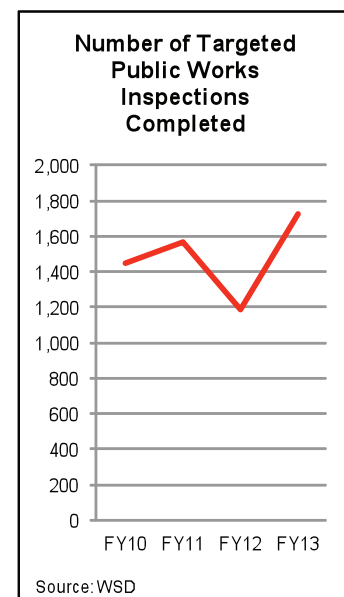
Workforce Transition Services. Although the agency missed the target for dislocated workers employed in both the second and third quarter following the exit quarter, performance was better than FY12. Wait times continue to be an issue for the department, increasing to an average of 36 minutes, due to additional information being requested when applying for unemployment insurance (UI) at the front end and the complexity of individual claims. More work on the front end helps increase performance on the back end for placement in services and issuing the right benefits to individuals. Issuing determinations within 21 days decreased due to abnormally high call volumes between January and March. The high call volumes required staff to dedicate resources to the call center instead of adjudication; however, toward the end of the fiscal year, lower call volumes allowed the agency to reassign staff to adjudication.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of Workforce Investment Act dislocated workers receiving workforce development services who are employed in the first quarter after the exit quarter	71%	72%	71%	74%	G
Percent of youth participants that entered employment or are enrolled in postsecondary education or advanced training after receiving Workforce Investment Act services.	52%	57%	55%	57%	G
Percent of eligible unemployment insurance claims issued a determination within twenty-one days from the date of claim	75%	72%	80%	64%	R
Percent of adult Workforce Investment Act participants employed in both the second and the third quarter following the exit quarter	80%	91%	85%	90%	G
Percent of Workforce Investment Act dislocated worker participants employed in both the second and third quarter following the exit quarter	81%	87%	90%	88%	Y

Shortages of Spanish-speaking agents increased queue times for Spanish-speaking clients, adding to wait times.



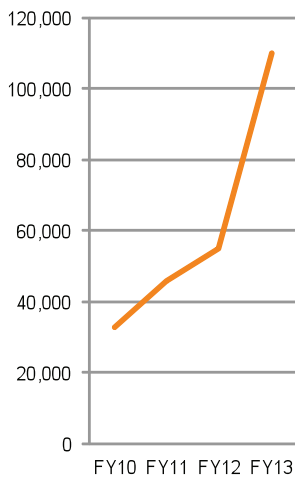
The Workforce Solutions Department met all target performance targets in the Labor Relations program.



Workforce Solutions

Public works inspections improved over FY12 results.

Contacts Made by Field Office Personnel with New Mexico Businesses



Source: WSD

Average time to complete transaction with the unemployment insurance call center, in minutes.

43 15 <5 36 **R**

Program Rating **Y**

Business Services. The department continued to meet the target for customer satisfaction and exceed the target for contacts made by field office personnel with New Mexico businesses. A key focus of the WSD is to develop the state workforce to meet the needs of businesses and provide business services; therefore, the marked increase from 54,858 in FY12 to 110,069 in FY13 shows the department is performing the necessary outreach.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of employers sampled reporting customer satisfaction	98%	98%	98%	98%	G
Number of personal contacts made by field office personnel with New Mexico businesses to inform them of available services or provide actual services	45,805	54,858	43,000	110,069	G

Program Rating **G**

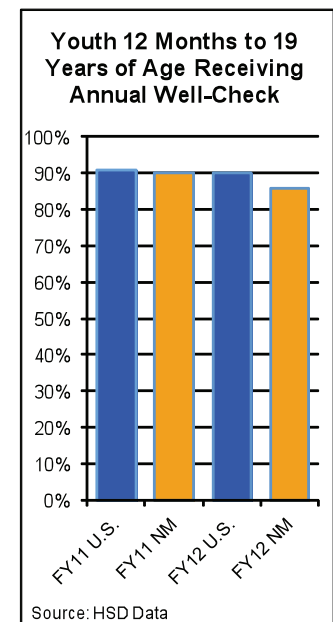
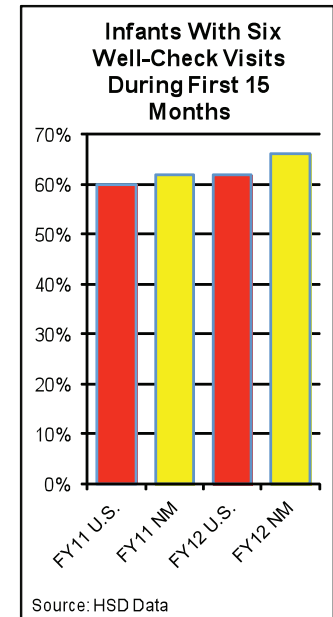
Human Services Department

The department had strong performance in a number of areas in FY13, including child support enforcement and Medicaid visits for children. Room for improvement remains, however, in areas such as participation in work-related activities by Temporary Assistance for Needy Families (TANF) recipients. Starting in FY13 the department began adding Medicaid performance measures targeting quality outcomes and focusing less on enrollment. New measures on the number of emergency room visits per member month and hospital readmissions within 30 days were added to measure quality of care for FY13 with more measures added in FY14 and proposed for FY15. However, efficiency and outcome measures are still needed for key high-cost areas such as pre-natal care and long-term care for the elderly and disabled.

As the leading healthcare financing agency in the state, the department should seek to better coordinate its performance objectives with the Department of Health and the University of New Mexico Health Sciences Center (HSC). The university has recently unveiled its "Vision 2020 Strategic Plan," which establishes a mandate for the HSC to improve public health statewide by emphasizing screening, prevention, and treatment of chronic health conditions, including cancer, diabetes, heart disease, depression, and obesity.

Medical Assistance Program. The program reports strong performance in providing Medicaid physical health and dental services to older youth when compared with national benchmarks. The target was met for the number of infants receiving the recommended six well-child visits in FY13, but results should be higher than 66 percent. The program did well on some quality of care measures, including hospital readmissions for children and diabetes. Improvement is needed in hospital readmissions for adults and asthma care.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
The percent of infants in medicaid managed care who had six or more well-child visits with a primary care physician during the first fifteen months	62%	66%	65%	66%	G
The percent of children and youth in medicaid managed care who had one or more well-child visits with a primary care physician during the year	n/a	86%	92%	91%	Y
The percent of children ages two to twenty-one enrolled in medicaid managed care who had at least one dental visit during the year	71%	73%	70%	70%	Y
The percent of children in medicaid managed care with persistent asthmas appropriately prescribed medication	n/a	n/a	92%	89%	Y



Human Services Department

New Outcome-Oriented Performance Measures for Medicaid:

The percent of newborns born with Medicaid coverage whose mothers received a prenatal care visit in the first trimester or within forty-two days of enrollment in the managed care organization (new for FY14).

The number of people ages 75 and older and ages 65 to 74 identified as at risk for falls who have been asked at least annually about the occurrence of falls and the number of members who were treated for related risks (new for FY15).

TANF Clients who Become Employed during the Year



Source: HSD Quarterly Report

Percent hospital readmissions for children ages two to seventeen within thirty days of discharge

n/a n/a 10% 10% **G**

Percent hospital readmissions for adults ages eighteen and older, within thirty days of discharge

n/a n/a 10% 17% **R**

Rate of emergency room visits per one thousand medicaid member months

n/a n/a 62 59 **G**

The percentage of individuals in medicaid managed care ages eighteen through seventy-five years of age with diabetes (type 1 or type 2) who had a HbA1c test during the measurement year.

n/a n/a 86% 84% **Y**

Number of individuals who transition from nursing facilities placement to community-based services

154 198 150 n/a

Overall Program Rating **Y**

Income Support Program. Performance improved for clients obtaining and retaining employment after receiving services from workforce contractor SL Start, and the number of clients meeting the federally required work participation rates in the Temporary Assistance for Needy Families (TANF) program improved compared with FY12. Department performance in enrolling children in the Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps) declined slightly in FY13.

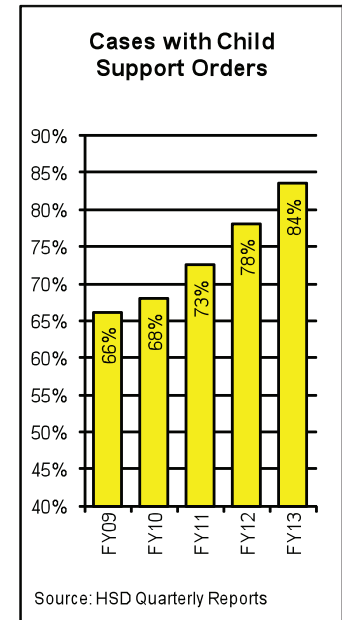
Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of Temporary Assistance for Needy Families (TANF) clients who obtain a job during the federal fiscal year	27%	51%	50%	49%	Y
Percent of TANF recipients meeting federally required work requirements	51%	49%	60%	57%	Y
Percent of TANF recipients (all families) meeting federally required work requirements	43%	42%	50%	53%	G
Percent of children eligible for supplemental nutritional assistance program participating in the program at one hundred thirty percent of poverty level	92%	82%	88%	80%	Y

Overall Program Rating **Y**

Human Services Department

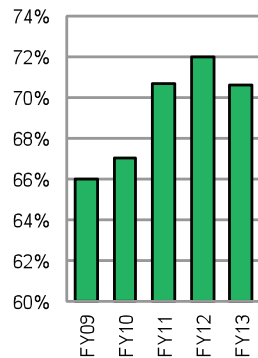
Child Support Enforcement Program. Child support enforcement collections, acknowledged paternity, and cases with support orders all exceeded the targeted levels. The percent of child support collected dipped slightly to 55.8 percent, driven in part by the increased number of child support orders for multiple years of child support.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of children with paternity acknowledged or adjudicated	88%	99.4%	75.0%	100%	G
Total child support enforcement collections, in millions	\$124	\$130	\$120	\$132	G
Percent of child support owed that is collected	57%	57%	60%	56%	Y
Percent of cases with support orders	72.5%	78.1%	75.0%	84.0%	G
Overall Program Rating					G



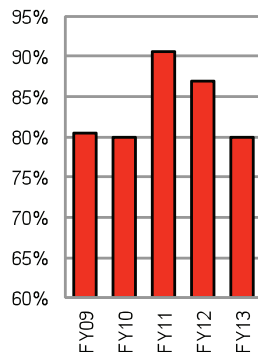
Behavioral Health Collaborative

Clients Improving in Drug Substance Abuse Treatment



Source: Behavioral Health Collaborative

Clients Improving in Alcohol Substance Abuse Treatment



Source: Behavioral Health Collaborative

Drug Overdose Deaths Per 100,000 Persons in 2010

WV	28.9
NM	23.8
KY	23.6
Nevada	20.7
OK	19.4
USA	12.3

Source: Centers for Disease Control and Prevention

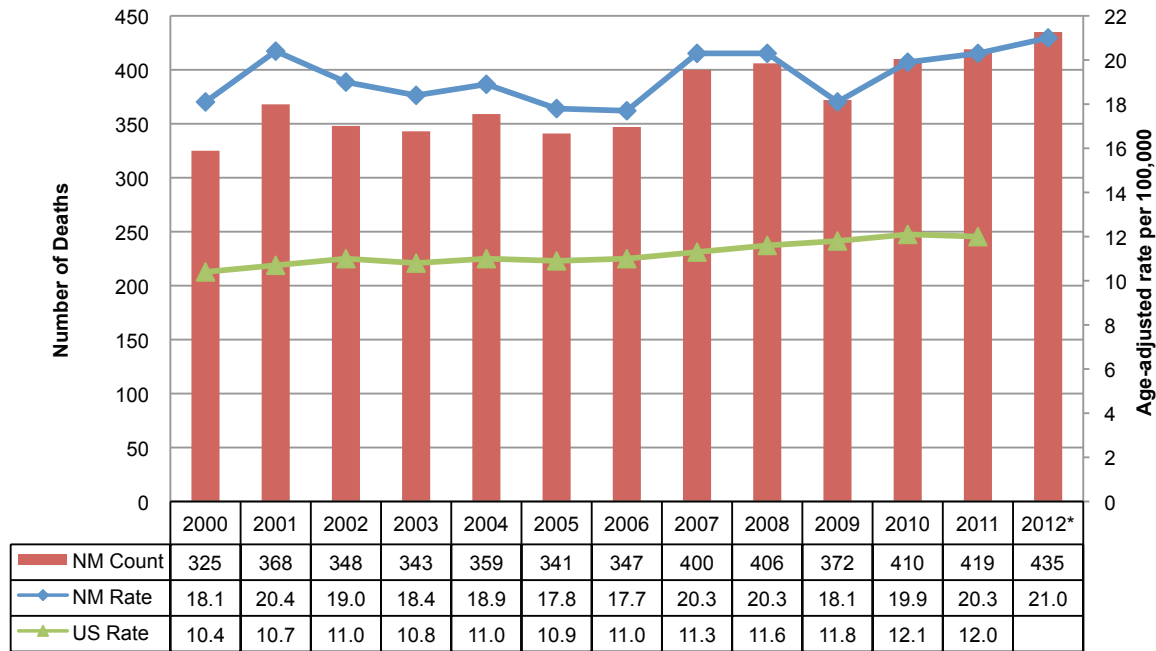
The 17-member Behavioral Health Purchasing Collaborative oversight body is charged with coordinating a statewide behavioral health system. However, coordination of a comprehensive system is hampered due to funding residing in several different agencies. Despite seven years of collaboration, significant gaps in service remain. Despite good performance results on collaborative measures, New Mexico ranks near the bottom for per-capita overdose rates, alcohol addiction, and suicides. The collaborative has minimal data on outcome-oriented measures, such as the rate of patient relapse. Following release of the behavioral health provider audit and implementation of pay holds by the Human Services Department, numerous disruptions have been caused and 12 New Mexico providers were replaced, leading to an overall program rating of red.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of clients receiving substance abuse treatment who demonstrate improvement in the drug domains on the addiction severity index (ASI)	71%	72%	76%	71%	Y
Percent of clients receiving substance abuse treatment who demonstrate improvement in the alcohol domain on the addiction severity index (ASI)	91%	87%	85%	79%	R
Percent of youth on probation served by the statewide entity	48%	40%	45%	57%	G
Percent of clients discharged from inpatient facilities who receive follow-up services at seven days	35%	36%	38%	40%	G
Percent of clients discharged from inpatient facilities who receive follow-up services at thirty days	54%	55%	57%	59%	G
Percent of readmissions to same level of care or higher for children or youth discharged from residential treatment centers and inpatient care	13%	7%	8%	7%	Y
Number of clients served annually in substance abuse or mental health programs or both administered through the collaborative statewide entity contract	83,605	86,229	83,000	86,229	G

Overall Program Rating **R**

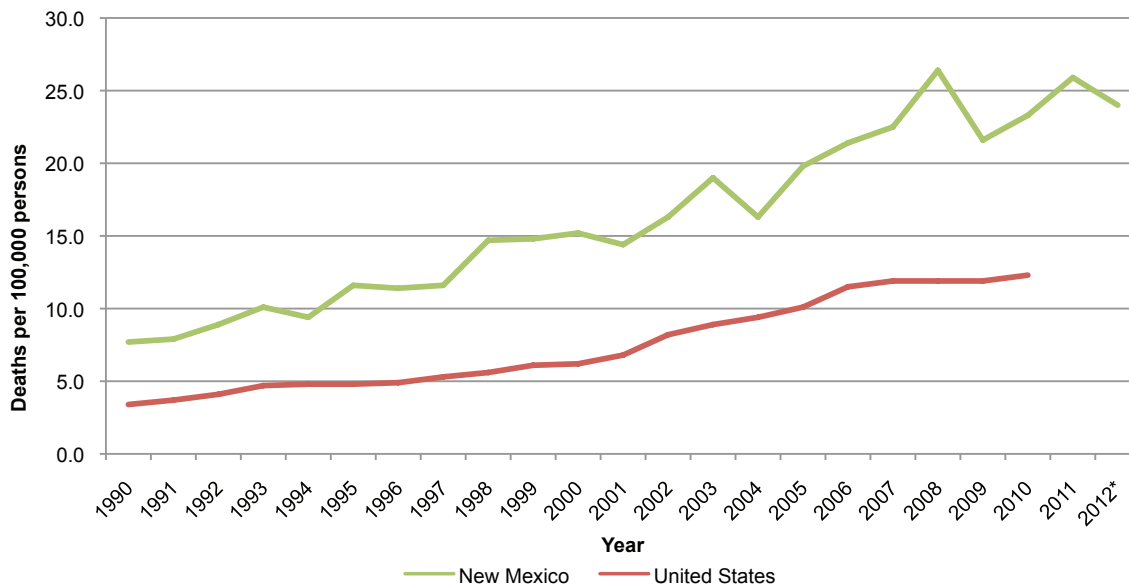
Behavioral Health Collaborative

Suicide Deaths and Rates
NM and U.S., 2000 - 2012



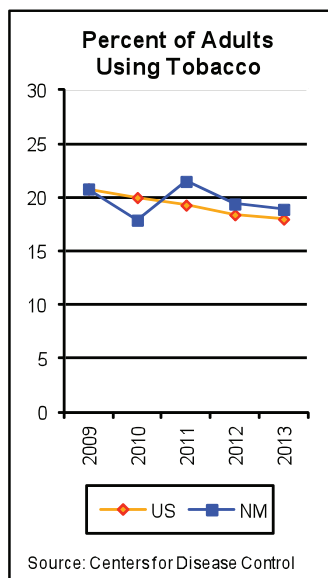
Age-adjusted to the 2000 U.S. standard population.
*The 2012 NM rate uses 2011 population estimates. 2012 U.S. data not yet available.
Source: DOH

Drug Overdose Death Rates
New Mexico and United States, 1990-2012

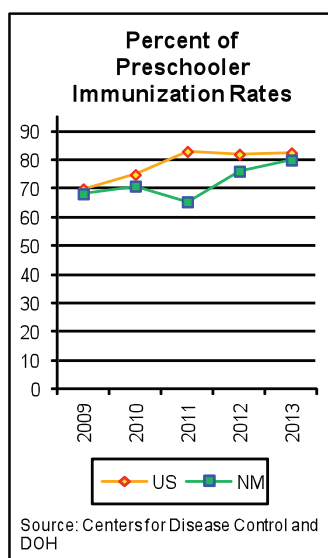


* 2012 data are preliminary.
Source: United States (CDC Wonder); New Mexico (NMDOH BVRHS: SAES, 1990-1998, 2012; NM-IBIS, 1999-2011)

Department of Health



New Mexico has the second highest teen pregnancy rate in the country. Hispanic teens have the highest birth rates both in New Mexico and nationally. Risk factors impacting the high teen pregnancy rate are poverty, education, rural versus urban population, and access to services.



The Department of Health (DOH) continues to report on too few performance measures to properly determine how effectively and efficiently it is meeting strategic and mission objectives. The department employs many epidemiologists whose job is to collect and report on data, and a majority of the department's programs are required by the federal government to regularly report on performance. The department is challenged with a high number of vacancies, which is contributing to service backlogs. The agency should include more meaningful measures, including measures focused on outcomes and efficiency measures denoting average cost per client for the Public Health, Developmental Disabilities Support, and Facilities Management programs, which can be benchmarked to other states. Also, the budgets for the Epidemiology and Response, Laboratory Services, Health Certification and Licensing and Administration programs total \$67 million, but these four programs only report on two performance measures. The governor vetoed five of the department's performance measures related to preventing HIV/AIDS; conducting health emergency exercises; analyzing public health threat samples; substantiating cases of abuse, neglect and exploitation in state facilities; and conducting compliance surveys of the state's private adult residential care and daycare facilities. The LFC program evaluation, *New Mexico's Children: Risk Factors Impacting on Health and Social Development*, serves as a model for important health performance measurement.

Public Health Program. Given that Public Health is a \$188.7 million program, having only two performance measures is inadequate; therefore, the overall program is given a red program rating. The program should consider adding outcome measures for low birth weight babies, teen pregnancies, suicide, substance abuse, smoking cessation, hepatitis, tuberculosis, pertussis, childhood obesity, and adult immunizations to align with its strategic plan objectives. In FY12, the Public Health Program saw improvement in its infectious disease program dealing with HIV/AIDS and sexually transmitted diseases, but saw declines in the federal Women, Infants and Children (WIC) program.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of preschoolers fully immunized	65.4%	76.1%	90.0%	80.0%	Y
Number of teens ages fifteen to seventeen receiving family planning services in agency funded family planning clinics	4,851	5,631	7,000	5,480	R
Overall Program Rating					R

Epidemiology and Response Program. The department did not report performance measures in FY13 for the Epidemiology and Response Program. Previously, the program reported on two performance measures, but the governor vetoed these measures for FY13. Inclusion of a program measure to gauge the readiness and

Department of Health

capacity of the public healthcare system in New Mexico would be desirable as a key quarterly measure.

Laboratory Services Program. The Laboratory Services Program reports its staff requires time for training or testifying at court proceedings around the state impacting laboratory testing time and, at times, impacting performance. Therefore, the Legislature provided full funding for the program's personal services and employee benefits, resulting in fewer vacancies and improved performance.

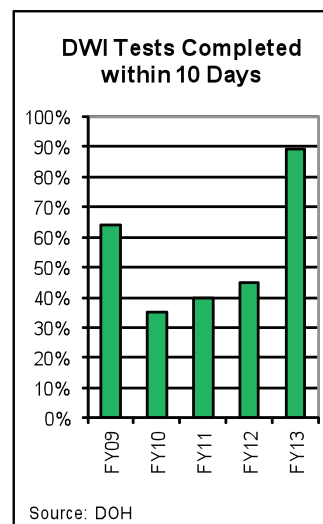
Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of blood alcohol tests from driving-while-intoxicated cases analyzed and reported within ten business days	39.9%	44.6%	95.0%	89.0%	G
Overall Program Rating					G

Facilities Management Program. The state health facilities continue to provide no data on patient health outcomes and too little data on hospitals' quality, efficiency and financial performance, particularly in relation to staffing rates as a function of occupancy levels. The departments reports its occupancy rate for staffed beds was 87 percent at the end of FY13. However, the occupancy rate for all licensed beds was 66 percent at the end of the fiscal year. Measuring the facilities' occupancy rate per licensed bed is a better indication of the state's overall return on investment. Also, facilities' collection of third-party revenue reflects a downward trend from FY11 to FY13.

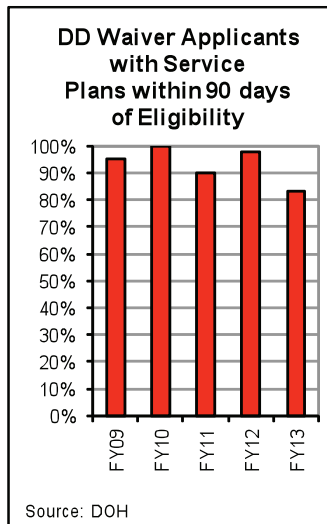
Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of billed third-party revenues collected at all facilities	63.0%	59.8%	90.0%	56.6%	R
Total dollar amount, in millions, of uncompensated care at all agency facilities	\$41	\$35	\$38	\$42	R
Percent of operational capacity (staffed) beds filled at all facilities	93.5%	87.0%	100%	87.0%	R
Overall Program Rating					R

Developmental Disabilities Support Program. The number of developmental disabilities waiver clients consistently remains below targeted levels despite increased funding over the last three years, and the program appears to be experiencing an overall downward trend in performance results. However, the program is instituting a standardized assessment to bring in more clients, as well as identifying better performance measures for FY15.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of adults receiving developmental disabilities day services engaged in community-integrated employment	32.0%	36.0%	38.0%	30.0%	R



Department of Health



Percent of developmental disabilities waiver applicants with a service plan in place within ninety days of income and clinical eligibility determination

90.0% 98.0% 100% 83.0% **R**

Number of individuals on the developmental disabilities waiting list

5,401 5,911 4,535 6,248 **R**

Number of individuals on the developmental disabilities waiver receiving services

3,812 3,888 3,997 3,829 **Y**

Overall Program Rating **R**

Health Certification, Licensing, and Oversight Program. The program reports the results for the percent of Quality Management Bureau surveys and compliance surveys are negatively impacted by staff vacancies. The agency's action plan indicates priority is given to statutorily required investigations and serious complaints.

Measure

FY11 Actual FY12 Actual FY13 Target FY13 Actual Rating

Percent of developmental disabilities, medically fragile, behavioral health, and family, infant, toddler providers receiving a survey by the quality management bureau

68.0% 71.0% 100% 95.0% **Y**

Overall Program Rating **Y**

Aging & Long-Term Services

The Aging and Long-Term Services Department (ALTSD) continues to improve the quality of its outcome measures to better quantify program results. The agency is partnering with the Department of Health to design and deliver innovative, evidenced-based disease prevention and health promotion programs, such as Manage Your Chronic Disease and Know Your Numbers.

Consumer and Elder Rights Program. The program measures reflect prevention efforts to reduce the number of complaints in nursing homes and assisted living facilities. The program is using a care coordination model developed at the Aging and Disability Resource Center in response to the complexity of care needs.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Number of ombudsman complaints resolved	3,398	3,728	3,900	4,116	G
Percent of people accessing consumer and elder rights programs in need of two or more daily living services who are satisfied with the information, referral, and assistance received	34.0%	40.0%	40.0%	44.0%	G

Overall Program Rating **G**

Aging Network Program. The program served 49 thousand persons 3.5 million meals. This represents 60 percent of the 83 thousand New Mexicans estimated to have food insecurity but is down 7 percent from FY12. Despite increased annual funding from the Legislature, all service areas reported a drop in unduplicated consumers in FY13, presumably due to the rising cost of food and fuel and to under-reporting of clients in some service areas.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Number of people whose food insecurity is alleviated by meals received through the aging network	51,708	52,703	41,594	49,112	G

Overall Program Rating **Y**

Adult Protective Services Program. The program conducted 6,092 investigations, of which 11 percent required face-to-face contact within 24 hours or less.

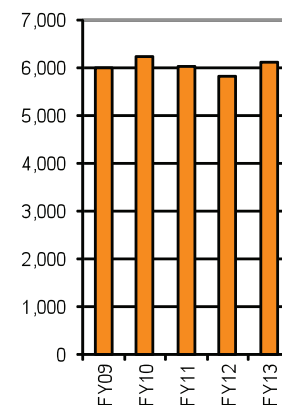
Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of emergency or priority one investigations in which a caseworker makes contact with the victim within prescribed times frames	85.3%	85.3%	95.0%	98.4%	G
Number of adults receiving adult protective services' investigations of abuse, neglect or exploitation	6,004	5,824	6,050	6,092	G

Overall Program Rating **G**

Food insecurity is defined by the U.S. Department of Agriculture as limited access to adequate food due to lack of money and other resources. Since the onset of the recession in 2007 through 2010, the number of seniors experiencing the threat of hunger increased by 34 percent in New Mexico.

In FY13, 90,055 persons received Aging Network community services, down from 94,289 in FY12.

Adults Receiving an Adult Protective Services Intervention



Source: ALTSD

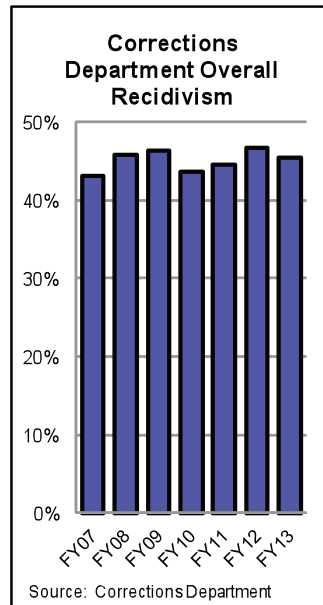
In FY13, 34.9 percent of individuals exiting from the federal older worker program obtained unsubsidized employment. The FY13 performance target is 20 percent.

Corrections Department

Year-over-year, overall recidivism rates decreased but specific results were mixed:

Rates for offenders with new or pending charges increased slightly from 22.7 percent in FY12 to 24.3 percent in FY13.

Rates for offenders with technical parole violations, including absconders, decreased from 22.1 percent in FY12 to 21.1 percent in FY13.



The department met targeted levels for staff turnover rates and recidivism rates for certain offenders. Mostly inherited from previous administrations, the department's current administration is juggling a state prison system where 8.3 percent of the beds are empty, prisons are widely dispersed across the state, and prisons have relatively small capacities, leading to a highly inefficient corrections system. However, the department and LFC are collaborating to look for cost-effective ways to reduce recidivism and to eventually reduce the prison population. As it has in other states, reduced prison populations could eventually lead to savings being reinvested in public safety.

Inmate Management and Control. Although an audit of all inmate files is being conducted, the timely release of inmates continues to be under targeted levels. Positive drug test results increased in FY13, undermining the effectiveness of rehabilitation goals and negatively impacting recidivism reduction initiatives. Additionally, even though assaults were below targeted levels, prison violence remains a concern. Moreover, with the expansion of Medicaid eligibility, the department can save money while increasing care for parolees by enrolling inmates being released in Medicaid.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent turnover of correctional officers	10.3%	10.6%	13.0%	8.1%	G
Number of inmate-on-inmate assaults with serious injury	14	21	23	16	G
Number of inmate-on-staff assaults with serious injury	4	1	10	5	G
Percent of inmates testing positive for drug use or refusing to be tested in a random monthly drug test	1.4%	1.4%	≤2%	2.2%	R
Percent of female offenders successfully released in accordance with their scheduled release dates	95.0%	79.7%	90.0%	77.5%	R
Percent of male offenders successfully released in accordance with their scheduled release dates	85.0%	82.2%	90.0%	80.7%	R
Percent of sex offenders re-incarcerated within thirty-six months	29.2%	36.0%	40.0%	27.8%	G
Recidivism rate of the success for offenders after release program by thirty-six months	33.7%	37.0%	35.0%	28.2%	G
Overall Program Rating					Y

Community Offender Management. Probation and parole officers continue to have elevated caseloads well above the nationally recognized best practice of 65 inmates per officer.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Average standard caseload per probation and parole officer	99	114	95	108	R
Overall Program Rating					Y

Department of Public Safety

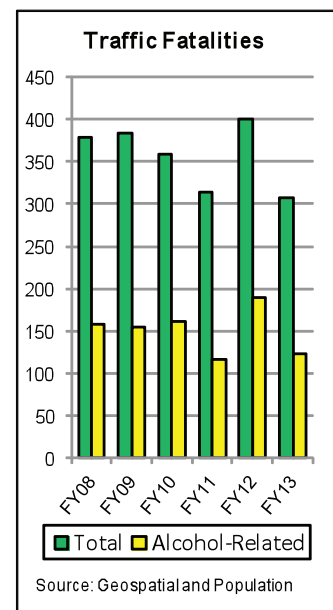
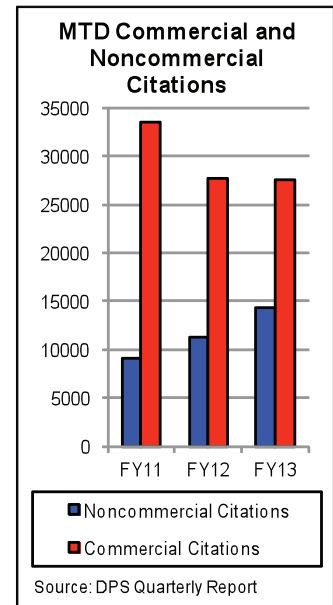
Inadequate officer strength in the Investigations Bureau of the State Police and the Special Investigations Division (SID) of the Department of Public Safety accounted for a drop in performance. Salary increases and additional recruit classes allowed the department to make progress toward resolving manpower issues, but more remains to be done.

Law Enforcement Program. An increased police presence across law enforcement agencies may account for a 23 percent decrease in alcohol-related traffic fatalities and a 29 percent decrease in total fatalities. The agency increased DWI checkpoints, saturation patrols, traffic-related enforcement projects, Liquor Control Act training, alcohol awareness programs, and moving violation citations significantly in FY13. The number of investigations conducted decreased sharply and should be an area of concern in the future.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Number of driving-while-intoxicated arrests per patrol officer	Baseline	8.1	12.0	7.7	G
Number of driving-while-intoxicated checkpoints and saturation patrols conducted	Baseline	724	420	1,117	G
Number of traffic-related enforcement projects held	Baseline	849	150	1,209	G
Number of criminal cases investigated per full time equivalent assigned to patrol and investigations	Baseline	56.1	60.0	55.0	G
Number of drug-related investigations per full time equivalent assigned to investigations	Baseline	16.5	20.0	4.6	R
Number of licensed alcohol premise inspections per agent assigned to alcohol enforcement duties	Baseline	102.6	288.0	95.5	R
Number of minor compliance operations per agent assigned to alcohol enforcement duties	Baseline	15.3	12.0	9.0	R
Overall Program Rating					Y

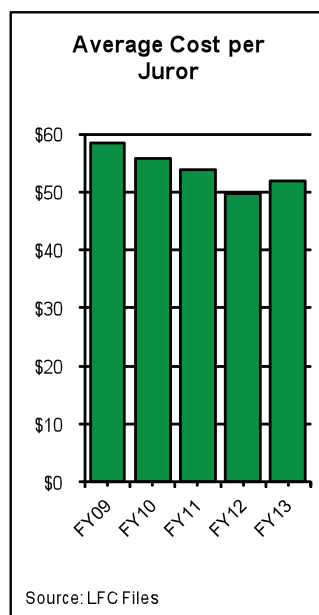
Motor Transportation Program. Commercial motor vehicle safety inspections and the number of citations issued decreased while noncommercial citations increased. Inadequate manpower may be a factor leading to unmet targets.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Number of commercial motor vehicle safety inspections	101,984	87,682	85,000	86,013	G
Number of commercial motor vehicle citations issued	33,492	27,684	40,256	27,617	R
Number of noncommercial motor vehicle citations issued	9,168	11,226	11,152	14,294	G
Overall Program Rating					Y



Administrative Office of the Courts

The AOC should add a performance measure that reports on the time it takes from filing to disposition of a case to compare with other states.



The average cost per juror was \$51.93 in FY13, up from \$49.76 in FY12 due to interpreter fees. Interpreter costs increased from 18 percent to 36 percent of jury and witness expenditures in FY13.

In FY13, the Special Court Services Program provided an average 1,022 supervised child visitations and exchanges per month, exceeding its target of 1,000.

The AOC completed implementation of the electronic case management system (CMS) in district and magistrate courts. Results of a limited-scope workload study show time savings of 44 percent for civil cases introduced in district courts, where civil cases make up 50 percent of the caseload. Potential time savings generated by the new CMS are encouraging, but courts have yet to fully quantify the gains and implement a plan for the re-deployment of resource saved as a result of CMS implementation.

Administrative Support. Data collected by AOC suggests the recidivism rates of New Mexico drug court programs are significantly better than other programs nationwide despite diminished funding.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Recidivism rate for drug court participants statewide	n/a	n/a	n/a	15.5%	n/a
Overall Program Rating					Y

Magistrate Court Program. Magistrate courts disposed of 98.7 percent of cases filed in FY13 and collected \$3.3 million in bench warrant revenue, an increase of \$230 thousand, or 7 percent, from FY12.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Bench warrant revenue collected annually, in millions	\$3.1	\$3.1	\$2.8	\$3.3	G
Percent of cases disposed as a percent of cases filed	100.1%	101.7%	95.0%	98.7%	G
Overall Program Rating					G

Special Court Services. The lack of a provider in the 12th Judicial District as well as a change in the administration of the program in the 2nd Judicial District affected the number of cases assigned to court appointed special advocate volunteers.

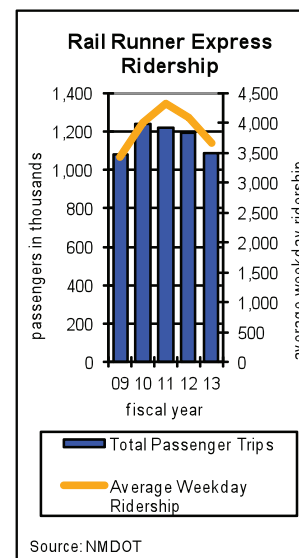
Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Number of cases to which court-appointed special advocates volunteers are assigned	1,085	858	1,000	862	Y
Overall Program Rating					Y

Department of Transportation

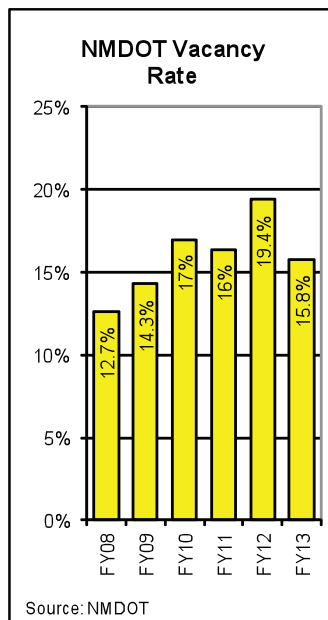
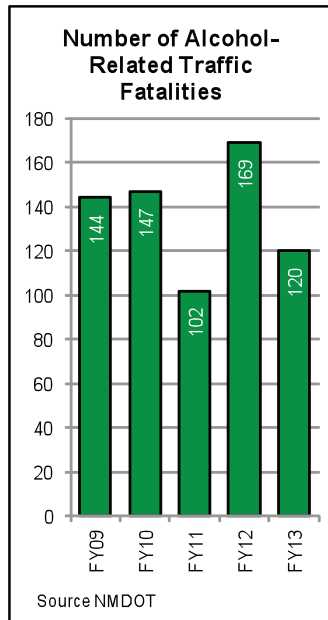
Key performance results for the Department of Transportation (NMDOT) have, with some exceptions, shown significant improvement over the previous fiscal year. Measures for road and highway condition cannot be ascertained as data will not be available until early 2014. The measure for statewide pavement miles preserved shows a dramatic increase as a result of fund balance transfers and additional funding provided to the NMDOT by the Legislature for this purpose. Traffic fatalities in the state have decreased. Vacancy rates remain high, although the department has made some progress in this area.

Programs and Infrastructure. Fatalities have decreased and are now below both FY11 and FY12 actuals and the FY13 target. The percent of projects let as scheduled is above the FY13 target level and the percent of final cost-over-bid amount on highway construction projects is below the FY13 target level. The percent of airport runways in satisfactory or better condition increased. The annual number of riders on Park and Ride is far above the FY13 target. However, ridership on the Rail Runner continues to decline and remains below target levels and below FY11 and FY12 actuals.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Annual number of riders on the rail runner corridor (in millions)	1.2	1.2	≥1.5	1.1	R
Number of occupants not wearing seatbelts in motor vehicle fatalities	114	169	<150	114	G
Number of crashes in established safety corridors	794	511	≤ 700	n/a	
Percent of airport runways in satisfactory or better condition	60%	64%	>60	66%	G
Number of pedestrian fatalities	38	57	<43	54	R
Number of head-on crashes per one hundred million vehicle miles traveled	1.18	1.18	<2.00	4.36	R
Number of alcohol-related fatalities	89	169	<130	120	G
Number of traffic fatalities	306	395	<345	304	G
Number of non-alcohol-related fatalities	217	226	<215	184	G
Ride quality index for new construction	4.0	4.1	>4.0	4.2	G



Department of Transportation



Percent of final cost-over-bid amount on highway construction projects

2.9% 3.0% <5.5% 3.5% **G**

Annual number of riders on park and ride

292,476 310,128 ≥250,000 312,320 **G**

Percent of projects in production let as scheduled

56% 65% >60% 63% **G**

Overall Program Rating **Y**

Transportation and Highway Operations. Performance results for the program are difficult to ascertain given that data on critical measures related to road and highway conditions will not be available until early 2014. New assessment tools will be used more consistently with Federal Highway Administration (FHWA) regulations, allowing better benchmarking across states.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of non-interstate lane miles rated good	n/a	98.4%	>75.0%	n/a	
Percent of interstate lane miles rated good	n/a	83.5%	>90.0%	n/a	
Number of combined system wide miles in deficient condition	3,407	3,837	<5,000	n/a	
Number of statewide pavement preservation lane miles	2,094	2,169	>2,500	3,139	G
Amount of litter collected from department roads, in tons	15,282	9,001	>14,000	6,825	R
Customer satisfaction at rest areas	98.9%	99.0%	>95.0%	99.0%	G
Maintenance expenditures per lane mile	\$1,656	\$2,684	>\$1,500	\$1,731	G

Overall Program Rating

Business Support. The department made significant progress during the fiscal year on its vacancy rate but is still far below the FY13 target. Agency officials face continued problems with recruitment and retention of employees as a result of a non-competitive salary structure, especially in the northwest and southeast areas of the state.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Vacancy rate in all programs	16.4%	19.4%	<10%	15.8%	R
Number of employee injuries occurring in work zones	n/a	n/a	≤50	19	G
Number of employee injuries	92	90	<100	81	G

Overall Program Rating **Y**

Department of Information Technology

In FY13, the department faced challenges with respect to customer service, accounts receivable and ongoing efforts to upgrade the state's SHARE accounting system. However, new data regarding service desk calls will help improve the process of monitoring customer service, and additional staff will address lagging collections of account receivables.

Compliance and Project Management. At the end of FY13, there were 64 department-certified information technology (IT) projects at an estimated cost of \$340.2 million. The measure was changed in FY13 from percent of projects (which was always 100 percent) to number and budget of projects reviewed, which provides explanatory information about IT projects in the state. The program continues to release a quarterly "green-yellow-red" performance report for state IT projects with the largest budgets.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Number and appropriated budget of executive agency certified projects reviewed monthly for compliance and oversight requirements	51 \$232M	54 \$325M	n/a	64 \$340M	G

Overall Program Rating **G**

Enterprise Services. The program met its performance targets for mainframe availability but just missed its target for uptime for the SHARE financials system.

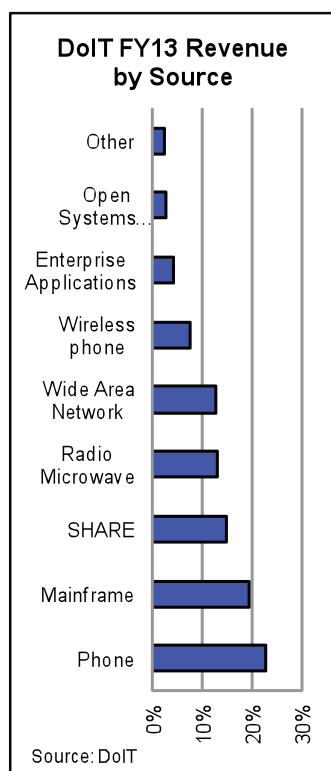
The program released new data regarding percent of service desk incidents resolved within designated times based on priority level. While the department is still refining priority level parameters, the new measure allows DoIT to actively monitor and track improvement of customer service related to the help desk.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Service desk calls resolved by priority:					
Priority 1 (8 hours)	n/a	n/a	90%	64%	R
Priority 2 (24 hours)	n/a	n/a	90%	37%	R
Priority 3 (40 hours)	n/a	n/a	90%	51%	R
Priority 4 (80 hours)	n/a	n/a	90%	83%	Y
Priority 5 (160 hours)	n/a	n/a	90%	100%	G
Queue-time to reach a customer service representative at the department help desk, in seconds	19.9	14.0	<19.0	12.0	G
Percent of mainframe uptime affecting user access or batch scheduling	0.1%	0.0%	<0.01%	0.0%	G

DoIT FY13 Funding by Division (in thousands)		
Program	Budget	FTE
Enterprise Services	\$48,427.60	152
Compliance and Project Management	\$844.50	7
Program Support	\$3,613.30	41
Equipment Replacement Fund	\$3,862.10	n/a
Total	\$56,747.50	200

Source: FY 13 DoIT Operating Budget

Department of Information Technology



Percent of scheduled uptime the statewide human resources management reporting (SHARE-financials) is available during business hours

98.6% 98.9% 99.9% 99.6%

Y

Overall Program Rating

Y

Program Support. Collection of accounts receivable is cyclical, with increased collections typically occurring toward the end of the fiscal year. However, in FY13, collections within sixty days of the invoice due date never recovered toward the end of the year and remained well below FY12. The program reports efforts to work with agencies did not improve collections. The department implemented a new billing system in FY13 that consolidated the disparate and aged billing systems into a web-enabled system that provides improved customer access and accounts receivable capabilities. The department hired additional staff and a new manager to address collection issues.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of accounts receivable dollars collected within sixty days of the invoice due date	79%	81%	75%	45%	R
Dollar amount of accounts receivable over sixty days	\$7.6M	\$7.5M	\$7.5M	\$7.1M	G

Program Rating

Y

State IT Projects: Summary and Progress. Every quarter, DoIT provides a status summary for the 10 state IT projects with the largest budgets. From that report and other documentation, such as independent verification and validation reports (IV&V), LFC develops a report card for these projects. At the end of FY13, only four projects received a rating of “yellow” in a particular area; for example, the Department of Workforce Solutions received a functionality status of “yellow” due to outstanding findings in the July 2013 LFC performance evaluation. The full project report card is in Volume III.

Department of Information Technology

Top 10 Projects

New Mexico IT Projects by Agency - FY13 Year-End Status Report*

Agency	Project description	Total State Appropriations	Total Federal	Est. Total Cost	Spent to Date	Project Stage	Est. End Date	Milestone(s) achieved last quarter	Milestone goal(s) for next quarter	Project status	Budget	Schedule	Functionality
333 TRD	MVD Driver Reengineering: Replace the MVD Driver and Vehicle Systems with an integrated system.	\$16,000,000	\$0	TBA - contract in negotiation	\$20,000	Planning	6/30/2016	RFP was released January 2013.	Final contract award.	TRD is working with a vendor to review contract requirements for the tentatively selected contractor. Selection schedule is several months behind; however, additional work to ensure the best possible contract terms is a wise investment. The new schedule identifies project start 11/07/13. Estimated completion date for the driver side is 04/30/15; for the vehicle side 06/30/16. MVD processes continue to run on antiquated legacy applications and IT staff vacancies/ lack of expertise remain a risk. However, TRD management is highly motivated and involved. "Spent to date" for the new system is reset from the cancelled HP contract (May 2011); some of the \$4 million invested in the failed Milagro project can be leveraged for the new project. Approximately \$16.3 million in previous general fund appropriations is available for the new project. To date, the TRD spent approximately \$20 thousand for contractual services to aid with vendor selection.			
333 TRD	GenTax Upgrade: 1) Upgrade GenTax V6 to V9 2) Replace Refunds/TOP V5 module with core Refunds/TOP V9 module 3) Provide TRD with a Business Credit Module 4) Pilot a stand-alone version of the data warehouse programs into the GenTax Data Warehouse 5) Improved reporting	\$6,230,000	\$0	\$6,230,000	\$4,604,094	Implement	6/30/2014	Phase I and II which includes refunds module, taxpayer access, and data warehouse (allows increased productivity, revenue streams on the audit and compliance side, and fraud prevention).	Phase III Business Credit Manager module to handle the ever increasing types of business credits	Project is within scope, schedule and budget. TRD reported \$5.8 million in increased revenue since it began the upgrade. General fund appropriation was \$6 million in 2012. In 2013 the department requested an additional \$1 million to purchase "enhanced maintenance" for the system, which includes 4 dedicated contract developers to support system upgrades and increased functionality such as improved fraud detection. The department states the total annual cost of maintenance for GenTax is \$2.75 million.			
333 TRD	ONGARD Mainframe Modernization: Full business process analysis and upgrade of oil and natural gas administration and revenue database system to the American Petroleum Institute standard (expand current well number by four digits and add additional processing logic for horizontal drilling)	\$6,100,000	\$0	\$4,000,000	\$0	Initiation	1/1/2015	Project charter and DoIT Project Certification Committee certification of funding for initiation.	Develop specifications and design documentation for American Petroleum Institute (API) number expansion and horizontal drilling requirements.	The appropriation for the ONGARD modernization project expires June 30, 2014; the TRD is expected to request an extension during the 2014 legislative session. In the long term, modernization will include business process analysis, but this is currently on hold; the ONGARD steering committee directed the TRD to address industry changes, including horizontal drilling and American Petroleum Institute (API) number expansion and the other tri-agency (State Land Office, Energy Minerals and Natural Resources Dept., TRD) system interfaces. The project's start date was July 8, 2013, and the DoIT Project Certification Committee certified \$90 thousand for the current phase.			
361 DoIT	SIRCSITS: (Statewide Integrated Radio Communication Internet Transport System: Two Part Project: 1) Complete Analog to Digital Microwave (DMW) conversion statewide to provide Middle Mile Broadband service, and 2) Design and Build a Public Safety 700Mhz LTE Last Mile Service in Abq and Santa Fe.	\$17,000,003	\$38,699,997	\$55,700,000	\$44,433,156	Implement	7/31/2013	Completed design and construction at 24 sites.	Follow schedule to complete ongoing site construction at five additional sites.	The independent verification and validation (IV&V) contractor downgraded the overall status from "green" to "yellow" in August 2013 because the project lacked both an updated project schedule and an executive steering committee. DoIT states it is using an alternative method to track and maintain the project schedule and an abbreviated steering committee (of two) is closely monitoring the project--staff shortages necessitated the alternative management approaches. Fire dangers and the seasonal monsoon caused delays but project crews were able to visit sites. Project is tracking within budget and scope but is slightly behind schedule.			

Department of Information Technology

Top 10 Projects

Agency	Project description	Total State Appropriations	Total Federal	Est. Total Cost	Spent to Date	Project Stage	Est. End Date	Milestone(s) achieved last quarter	Milestone goal(s) for next quarter	Project status	Budget	Schedule	Functionality
361 DoIT	NM State Broadband Initiative: The New Mexico Broadband Program (NMBBP) is mapping and planning broadband availability within NM. Includes planning, capacity building, and technical assistance elements. Project will implement strategic planning initiatives to determine the underserved populations and facilitate broadband adoption.	\$1,332,544	\$4,762,287	\$6,094,831	\$3,457,520	Implement	1/13/2015	Two New Mexico regional broadband implementation plan pilots selected: Northeast Economic Development Organization and Southwest NM Council of Governments. "Train the Trainer" training program completed	1) Mini-strategic broadband plans for telemedicine, education, and economic development; 2) development of a statewide broadband strategic plan; 3) collaborative regional broadband implementation pilots; assessment of a new broadband portal	The project is within scope, schedule and budget. Increased project activities led to higher demand on project manager for contract monitoring, deliverable review and other administrative functions. Issues are mitigated with bimonthly meetings with all contractors.			
361 DoIT	Narrowbanding: Migration from Wide Band to Narrow Band of statewide 2-way radio communications per FCC mandate. Narrowbanding ensures more efficient use of the spectrum and greater spectrum access for public safety and non-public safety users.	\$4,150,000	\$0	\$4,150,000	\$4,000,000	Implement	12/31/2013	Migration of fixed mountain top base station radio completed.	Re-programming of mobile and portable radios initiated.	Project is within scope, schedule and budget. DoIT monitors key indicators through periodic quality assurance reporting.			
341 DFA	SHARE Cash Reconciliation Project: Correct business processes and improper configuration of the original SHARE system that prevented timely and accurate cash reconciliation. An end goal for the DFA on this project is an audited Comprehensive Annual Financial Reports (CAFR)	\$654,086	\$0	Unknown	\$654,086	Implement	TBA	Close-out of Deloitte contract to correct business processes, reconfigure SHARE and train end users.	As identified to the LFC in its August 2013 update, the department continues standardization of business practices across agencies. End user training is ongoing.	A significant amount of progress has been made toward identifying and correcting the problem that the general ledger cash account balances do not match balances in the state's cash accounts at the bank. However, the department continues to work on outstanding issues identified in the contractor's close-out report and the goal of clean monthly cash reconciliations and an audited CAFR (for which the DFA states it will request funding). Note: contract cost information is included in the project funding columns but much ongoing work now is conducted by in-house staff and funded through the DFA operating budget and vacancy savings.			
361 DoIT	SHARE Replatform (hardware upgrade):	\$2,850,000	\$0	Unknown	\$2,850,000	Planning	TBA	The DoIT first anticipated testing the "cut-over" to the new hardware in July 2012. Testing was delayed several times and is now delayed for an unknown period.	DoIT will reassess with the help of a contractor and begin the planning phase anew.	In 2009 DoIT received \$1.7 million in severance tax bond revenue to design and equip a disaster recovery site for SHARE, including hardware, software and network equipment. However, hardware purchased sat idle until this past year when efforts to move SHARE to the new hardware resulted in serious complications, much of which resulting from SHARE issues identified in the Cash Reconciliation projects (above). The project is delayed while the DoIT stabilizes the system and develops a new approach. It is unknown whether the state will be able to use the previously-purchased hardware.			
361 DoIT	SHARE Software Upgrade:	\$5,000,000	\$0	Unknown	Unknown	Planning	TBA	Contractor (Oracle) completed SHARE Financials Upgrade Project Upgrade Delta Analysis (needs assessment) July 2013	DoIT will reassess with the help of a contractor and begin the planning phase anew.	In February 2013 DoIT made a special request for funding to stabilize and upgrade SHARE, noting in its business case there was a "clear and present danger" that required immediate action. \$5 million of the DoIT's \$8.8 million request was subsequently appropriated. The request came late and was not reviewed via the normal appropriation vetting process for large IT projects; however, the appropriation was contingent on monthly written status reports and IV&V reports to the DFA. Delay of this upgrade impacts other state IT systems, such as the HSD ASPEN project, which require the completed upgrade for some necessary program interfaces.			

Department of Information Technology

Top 10 Projects

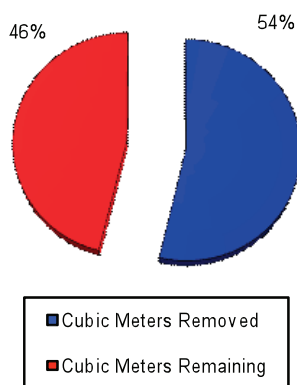
Agency	Project description	Total State Appropriations	Total Federal	Est. Total Cost	Spent to Date	Project Stage	Est. End Date	Milestone(s) achieved last quarter	Milestone goal(s) for next quarter	Project status	Budget	Schedule	Functionality
630 HSD	ISD2 Replacement (ASPEN): Replace Income Support Division (ISD), Integrated Service Delivery (ISD2) Systems into one integrated system: 1) Calculation Engine (ISD2) 2) Client Tracking System (CTS) 3) Claims System -Refunds and Intercepts 4) Incorporate Health Care Reform	\$18,497,513	\$96,389,438	\$114,886,951	\$56,274,500	Implement	2/1/2014	Development activities, Quality Acceptance Testing (QAT) and data conversion activities as scheduled.	Hardware and software set up/monitor progress of ASPEN pilot at Espanola office in Rio Arriba County.	The project moved from an overall status of "yellow" to "green" following the July 22, 2013, pilot of ASPEN in Rio Arriba County. Review and resolution of issues related to application errors continue. The independent verification and validation (IV&V) contractor monitors the status of the Wave 1 roll-out "go/no-go" checklist report as the primary indicator of the project's progress through implementation of Wave 1. The impact of the Health Insurance Exchange (HIX) continues to pose a risk to the ASPEN project; the largest amendment to the Deloitte contract involves development of critical interfaces between ASPEN and the HIX which must be completed by 12/27/13.			
630 HSD	MMIS Enhancements Project: Design, develop and implement 11 subsystem enhancements to the NM Medicaid Management Information System (MMIS). The MMIS ("OmniCaid") is owned by HSD and hosted by the state fiscal agent Xerox State Healthcare.	\$1,446,038	\$12,031,188	\$13,477,226	\$3,600,000	Implement	3/2/2015	Pharmacy benefits management system and fraud and abuse detection system.	Web portal upgrade.	While the IV&V has rated the overall status of the project "green," the trend for August reporting period is "static." The project team is developing a project management plan for the project which will address a major finding from previous IV&V reports. According to the IV&V contractor, business team resources continue to be stretched among several critical projects affecting the state's ability to review and approve documentation in a timely and thorough manner.			
631 DWS	UI Tax: Implementation of a new UI System that will replace the Tax, Claims, and Program Integrity applications.	\$0	\$48,902,806	\$48,884,811	\$48,902,806	Implement	12/31/2013	Go live January 2013	Manage funded enhancements and correct defects identified since the January 2013 launch.	While overall functionality of the application appears adequate, the project maintains a functionality status of "yellow" due to findings in the July 2013 LFC performance evaluation. Specifically, limited application testing, the lack of a contingency and disaster recovery plan, and the lack of independent IV&V throughout the implementation create conditions for on going risks to the new UI system. The DWS system went live January 7, 2013, and was largely successful although not without issues, including long call center wait times and delays in UI claims determinations. A new CIO was hired in August 2013. Federal funding amounts are estimates; the WSD continues to receive funding for ongoing system enhancements beyond original project estimates.			
690 CYFD	EPICS is a multi-phase/multi year project to consolidate CYFD's legacy system (FACTS) and 25+ stand-alone systems into one enterprise-wide web application. The system will support program efforts to build a rapid response to federal, state and local requirements. A comprehensive view of clients and providers will increase productivity, direct client care and client safety.	\$4,826,700	\$5,680,067	\$10,506,767	\$1,607,075	Implement	6/30/2017	Pre-deployment internal training	Pre-deployment external training	In June 2013, the team was compelled to remove the planned automated SHARE interface from phase I of the project due to ongoing delays with efforts to update the state's SHARE system; the CYFD has since implemented a contingency plan for manual reporting to the Department of Finance and Administration. DoIT's Project Certification Committee certified closure of Phase I, Provider Management; Phase II, Client Management, is currently underway (scope will be modified to include the SHARE interface); the Phase III service management planning phase will extend through September 2013 and implementation is expected to begin October 2013. Project is tracking within scope, budget and schedule.			

Source: DoIT IT project status reports, agency status reports, project certification committee documents, IV&V reports, and LFC analysis.

*IT projects with the largest budgets are included in this quarterly report.

Department of Environment

Progress of LANL's Above-Ground Transuranic Radioactive Waste Removal



Source: Los Alamos National Laboratory

With a few exceptions, FY13 performance results improved from FY12 levels, indicating the department is fulfilling many permitting and inspection duties. However, most of the department's measures are process-oriented, rather than providing indicators of environmental protection. The measures should be revised to include outcome-oriented measures, such as the number of days ambient air quality standards are violated, to help legislators formulate policies and practices to ensure air and water are cleaner for New Mexicans.

Field Operations and Infrastructure. While failure to quickly correct high-risk food safety violations can have serious consequences, the program should also adopt measures reporting the number of food violations found by inspectors. Although it is important the program inspect and survey public water systems, the results of those inspections and the number of water systems with irregular test results are of greater interest.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of new septic tank inspections completed	78%	71%	60%	80%	G
Percent of high-risk food-related violations corrected within the timeframes noted on the inspection report issued to permitted commercial food establishments	84%	83%	100%	92%	Y
Percent of public water systems surveyed to ensure compliance with drinking water regulations	91%	87%	90%	95%	G
Overall Program Rating					Y

Resource Protection. The program appears to be successful in working with the national laboratories and ensuring permitted facilities are complying with groundwater standards. The program's performance results do little to indicate whether pollution is prevented or the quality of New Mexico's limited water supply is improving. Measures, such as the number of New Mexico's impaired surface waters, should be adopted.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of permitted groundwater discharge facilities receiving annual field inspections and compliance evaluations	54%	46%	50%	52%	G
Percent of permitted facilities where monitoring results demonstrate compliance with groundwater standards	72%	71%	70%	71%	Y
Percent of large quantity hazardous waste generators inspected	45.7%	26.2%	20.0%	24.0%	Y

Department of Environment

Percent of cases in which Sandia and Los Alamos national laboratories are notified of agency action on document submittals within the timeframes specified

92% 100% 90% 100%

G

Overall Program Rating

Y

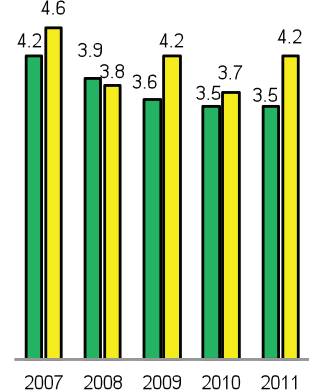
Environmental Protection. The program met inspection targets related to radiation producing machines and compliance targets related to landfills and solid waste facilities. The results for the measures concerning worker health and safety violations and on-site inspections for serious hazards are of concern. The department's action plan includes working closely with small employers to facilitate hazard correction. The program's measures are among the more meaningful in the department because they provide information concerning improved worker safety and solid waste facility compliance with environmental regulations. Nevertheless, additional outcome measures of interest should be adopted including the number of air quality violations, the number of workplace injuries occurring statewide compared with other states, and if employees are suffering fewer health and safety incidents.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of permitted active solid waste facilities and infectious waste generators inspected that were found to be in compliance with the New Mexico solid waste rules	86%	85%	75%	82%	Y
Percent of radiation-producing machine inspections completed within the timeframes identified in the radiation control bureau policies	86%	88%	85%	99%	G
Percent of landfills compliant with groundwater sampling and reporting requirements	97%	95%	75%	100%	G
Percent of serious worker health & safety violations corrected within the timeframes designated on issued citations from the consultation and compliance sections	98.5%	93.6%	95.0%	93.1%	Y
Percent of referrals alleging serious hazards responded to via an on-site inspection or investigation	93.8%	93.1%	95.0%	93.6%	Y
Percent of facilities taking corrective action to mitigate air quality violations discovered as a result of inspections	100%	100%	100%	97%	Y

Overall Program Rating

Y

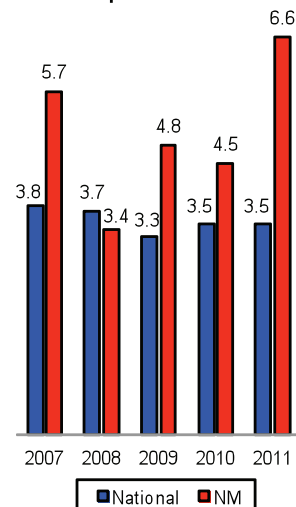
Incidence Rates of Private Sector Occupational Injuries and Illnesses



Source: U.S. Department of Labor

As of 2011, New Mexico is ranked 44th nationally in workplace fatalities. New Mexico experienced a 35 percent increase in fatality rates from 2010.

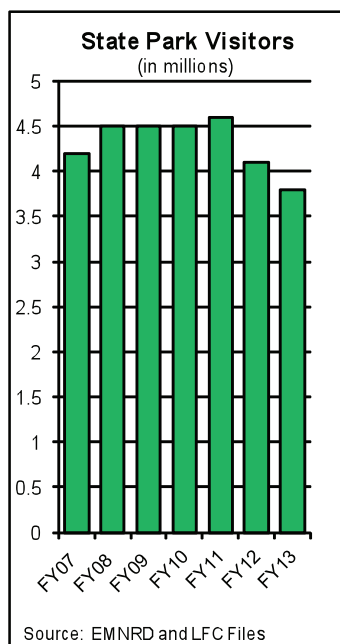
Incidence Rates of Workplace Fatalities



Source: U.S. Department of Labor

Energy, Minerals & Natural Resources

New Mexico State Park visitation decreased 7.3 percent, while self-generated revenue per visitor decreased by 7.6 percent in FY13.



Energy use in facilities operated by state/local governments, school districts, higher education institutions, and tribal organizations where energy efficiency measures were implemented fell by 16 percent, as measured through utility billings annually.

The Energy, Minerals and Natural Resources Department (EMNRD) met most FY13 targets despite challenges such as drought conditions, severe fire seasons, and increased production of oil and gas – a critical source of employment and income for New Mexico.

Healthy Forests. The program exceeded FY13 targets for all measures due to federally funded initiatives for wildland firefighter training, and wildfire protection planning for at-risk communities, as well as restoration projects. Although the number of acres treated in the state increased significantly, estimates are 50 thousand to 100 thousand acres should be treated per year to thin overgrown forests so they are more resilient to fire, drought, insects, and disease. The Legislature prioritized funding for wildfire mitigation at urban forest interfaces for communities at risk statewide.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Number of nonfederal wild land firefighters provided technical fire training appropriate to their incident command system	839	1,474	500	1,687	G
Number of at-risk communities or local fire departments provided funding for wildland firefighting equipment or training.	n/a	n/a	60	89	G
Number of acres restored in New Mexico's forests and watersheds	19,788	11,971	8,000	18,669	G
Overall Program Rating					G

State Parks. Inclement weather causing partial or full park closures resulted in the third straight year of decreased state park attendance. For the first time in 10 years, the self-generated revenue per visitor decreased by 7.6 percent from the prior year. The program should look for new revenue opportunities and operating cost efficiencies.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Number of visitors to state parks (in millions)	4.6	4.1	4.0	3.8	R
Self-generated revenue per visitor	\$0.99	\$1.05	\$0.87	\$0.97	Y
Number of interpretive programs available to park visitors	3,959	3,962	2,800	2,562	R
Number of people who complete a certified New Mexico boating safety education course	900	625	1,000	772	R
Overall Program Rating					Y

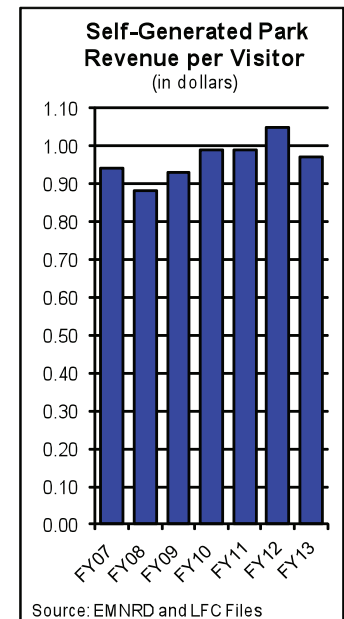
Energy, Minerals & Natural Resources

Mine Reclamation. Despite renewed interest in exploration increasing program workload, the program performed 107 inspections in FY13, meeting 100 percent of inspections. All permitted mines have financial assurance plans to cover the cost of reclamation as of June 2013.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of permitted mines with approved reclamation plans and adequate financial assurance posted to cover the cost of reclamation	99%	100%	100%	100%	G
Percent of required inspections conducted per year to ensure mining is being conducted in compliance with approved permits and regulations.	100%	100%	100%	100%	G
Overall Program Rating					G

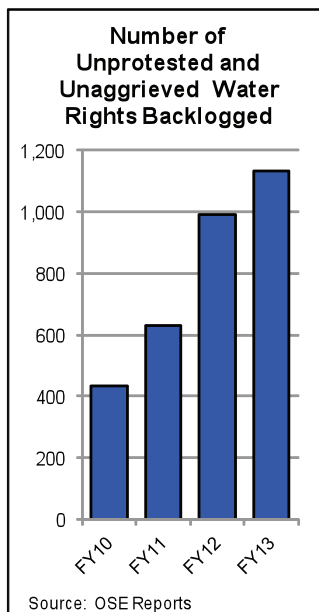
Oil and Gas Conservation. High exploration, drilling, and production activity in New Mexico demonstrate the need to enhance the level of service. The program increased inspections of oil and gas wells and associated facilities again in FY13 as oil production increased 17 percent from FY12 to FY13. Well plugging activity increased in FY13, with a cumulative, annual total of 57 wells plugged, decreasing the number of outstanding wells to be plugged by almost 50 percent. Additionally, the program generated \$100 thousand in revenue for the oil and gas reclamation fund from the sale of salvage equipment at the plugging sites.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Number of inspections of oil and gas wells and associated facilities	29,352	35,147	23,500	37,707	G
Number of abandoned oil and gas wells properly plugged using Reclamation Fund monies	n/a	n/a	25	57	G
Overall Program Rating					G



Office of the State Engineer

At the end of FY13, ten of 15 reservoirs were at 11 percent capacity or below with Conchas Lake and Brantley Reservoir at 0 percent of capacity.



In November 2012, the state Supreme Court upheld that the Legislature delegated lawful authority to the State Engineer to promulgate active water resource management (AWRM) rules for administration during water supply shortages such as expediting water leasing, permitting, monitoring and metering diversions.

New Mexico, in FY13, ranked among the most drought-stricken states in the United States, with the majority of the state in "extreme" drought or worse, according to the federal *Drought Monitor*. The ongoing drought continues to strain the limited water supply. The department attributes the backlogs in dam inspections, water rights applications, and adjudication processes to staff vacancies and problems with recruitment and retention. In FY13, the department's average vacancy rate was 15 percent.

Water Resource Allocation. Growing water rights application backlogs demonstrate the high demand for services related to the ongoing drought and high oil and gas activity in the Permian Basin. For the last few years, high vacancy rates inhibited the program's effective and efficient management of water users' demands. However, in the second half of FY13 vacancy rates decreased as the division actively recruited and hired staff. More inspections of dams were completed in FY13 using contract engineers funded by a federal national dam safety grant to reduce the backlog caused by understaffing.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Number of unprotected and unaggrieved water right applications backlogged	629	991	650	1,332	R
Average number of unprotected new and pending applications processed per month	56.4	46.2	65.0	32.3	R
Number of transactions abstracted annually into the water administration technical engineering resources system database	20,974	24,678	23,000	22,331	R
Number of dams inspected per year	111	64	100	93	Y
Overall Program Rating					R

Interstate Stream Compact Compliance and Water Development. The program is meeting its delivery requirements as required by the Pecos River and Rio Grande compacts. However, the agency reported the Rio Grande credit fell from 80 thousand acre-feet in FY12 to 3,000 acre-feet in FY13.

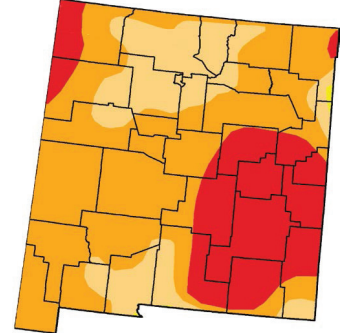
Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Cumulative state-line delivery credit (Pecos river compact)	99K AF	100K AF	0	102 K AF	G
Rio Grande compact accumulated delivery credit	164K AF	80K AF	0	3K AF	G
Overall Program Rating					G

Office of the State Engineer

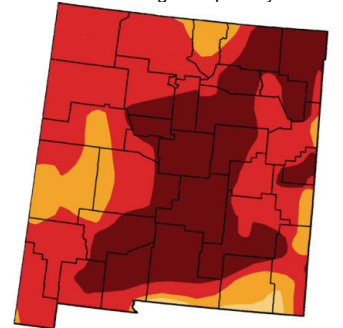
Litigation and Adjudication. Adjudication continues at a glacial pace. Litigation to establish the relative priority rights of water users has lasted decades. Judicial determinations of water rights increased from 34 percent to 54 percent over the past 10 years, while the program's budget for those 10 years totaled \$63.8 million. However, reporting the percent of water rights that have judicial determinations only reflects the water rights in active and completed adjudications, and does not include the Middle Rio Grande and the Canadian River adjudications yet to be initiated. Without full adjudication, the state lacks a legal basis for enforcing water rights during times of drought, highlighting the importance of the active water resource management initiative. The program did not meet the target for making offers to defendants because resources were directed to resolving disputes with defendants over offers still outstanding.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Number of offers to defendants in adjudications	880	640	1,000	501	R
Percent of all water rights that have judicial determinations	51%	53%	52%	54%	Y
Overall Program Rating					R

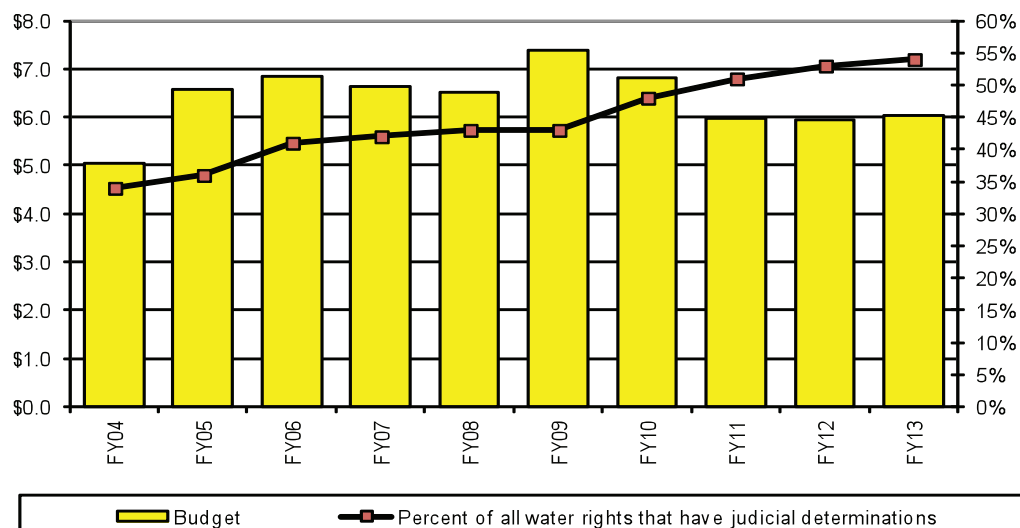
New Mexico Drought Map - July 2012:



New Mexico Drought Map - July 2013:



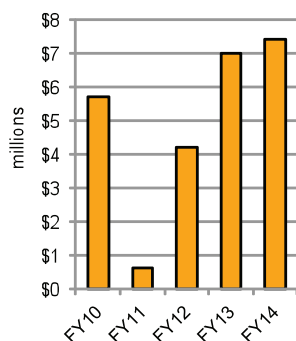
Litigation and Adjudication Budget and Percent of All Water Rights with Judicial Determinations



Source: OSE

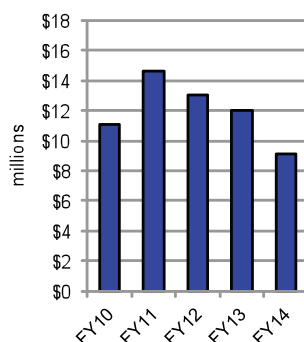
General Service Department

**Public Property Fund
Cash Balances**
(FY13 target \$3.9 million)



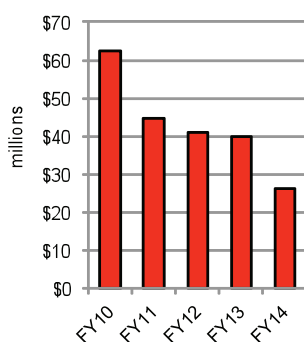
Source: LFC files & GSD

**Workers' Comp
Cash Balances**
(FY13 target \$10.3 million)



Source: LFC files & GSD

**Public Liability Fund
Cash Balances**
(FY13 target \$52 million)



Source: LFC files & GSD

Sharply rising risk and employee benefits costs continue to pressure the General Services Department. The Risk Management Advisory Board and Group Benefits Committee are not meeting, so critical oversight functions are not being performed. For the Facilities Management Program, planning for capital projects could be improved. Not all approved projects come to fruition and many projects experience cost and schedule blowouts, partly due to incremental funding and procurement processes that delay the progress of projects.

Risk Management. Financial reporting improved the past year, however, actuarial conditions of some of the risk funds declined. This is due to premiums held flat during the recession and an increase in severity of claims and class actions, particularly for workers' compensation, civil rights, and medical malpractice coverage, despite fewer numbers of claims. The program struggles with sharing claims data due to concerns it may trigger higher settlements or litigation. This approach makes it difficult for agencies to support premium increases and monitor shifts in risk conditions or emergency risks.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Projected financial position of the public property fund	2%	154%	50%	91%	Y
Projected financial position of the workers' compensation fund	24%	28%	20%	25%	G
Projected financial position of the public liability fund	48%	23%	50%	38%	Y
Percent decrease in overall legal dollars spent	n/a	\$10.9M	5.0%	6.0%	G
Overall Program Rating					Y

Employee Group Health Benefits. Despite evidence that healthcare inflation is slowing, the agency is managing costs by shifting healthcare costs into higher deductibles and co-pays and increasing premiums faster than workers' wages and general inflation. Despite receiving an emergency general fund appropriation of nearly \$10 million for FY14, the agency increased premiums 15 percent and proposes another 10 percent increase for FY15. A greater emphasis on payment reform models that reward outcomes and premium incentives promoting wellness are warranted.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of prescriptions filled with generic drugs	82%	83%	75%	84%	G
Percent change in medical premium compared with industry average	- 8.5%	- 5%	5%	- 4%	R

General Services Department

Percent reduction in claims for the top ten diagnostic causes, based on cost (presbyterian)

n/a \$103.8M 3% 1.7% **Y**

Percent increase in participation in wellness programs (flu shots)

n/a 1,117 shots 3% 47% **G**

Overall Program Rating **Y**

Facilities Management. The state's justification for capital outlay projects should be based on optimum utilization of existing space and property. To that end, the agency is working to identify the right balance between leased and owned space, and align the state's use of space with new employment levels of state workers. Although progress is being made, there is still little incentive for agencies to efficiently use buildings, resulting in continued spending to occupy vacant and underused space and excess square footage per employee.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of agencies in compliance with space standards in leased and state-owned buildings	n/a	n/a	75%	no data collected	R
Percent decrease in lease costs from previous year	n/a	\$47M	5%	3%	Y
Percent of property control capital projects on schedule within budget	94%	95%	90%	86%	Y
Percent of severance tax bond projects in design within six months	84%	100%	75%	90%	G

Overall Program Rating **Y**

Transportation Services. The agency's goal is to have revenues equal expenses at the end of each fiscal year. However, revenues from short-term vehicle use are down, and agencies are reluctant to turn in their underused vehicles. Curtailment of vehicle replacement led to an older vehicle fleet more costly to maintain, and the rate structure limited funding for vehicle replacement. The agency plans to install automated kiosks to increase short-term pooling. If successful, agencies should see a reduction in reimbursements to employees for personal vehicle use.

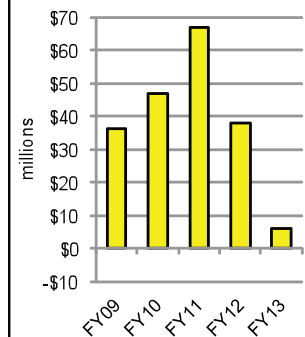
Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of short-term vehicle use	46%	50%	55%	47%	R
Percent of vehicle lease revenues to expenses	100%	97%	42%	76%	Y
Percent of fleet beyond five-year one hundred thousand miles	10%	15%	30%	29%	G

Enrollment Census
(covered lives)

Vendor	FY10	FY13	% Chg
BCBS	23,516	21,696	-7.7%
Lovelace	8,234	8,323	1.1%
Presbyterian	44,319	43,105	-2.7%
Delta Dental	81,339	76,746	-5.6%
VSP	69,147	65,544	-5.2%

Source: LFC files

GSD Group Self-Insurance Fund Cash Balances
(FY13 target \$28 million)



Source: LFC files & GSD

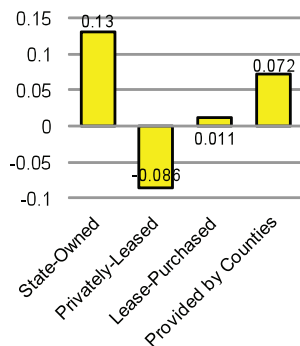
Claims Cost Trend per Member



Source: LFC Files

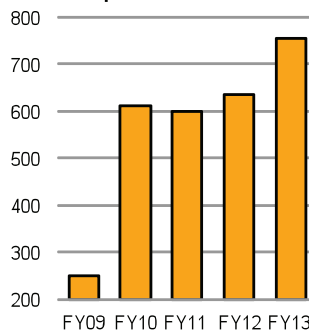
General Services Department

Percent Change in Space Occupied by the State since 2011
(by gross square feet)



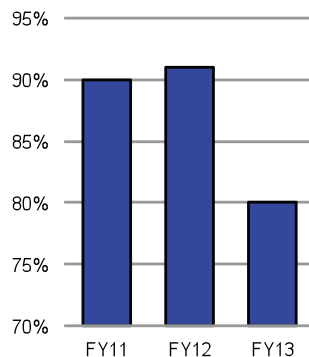
Source: CBPC, GSD, LFC files

Number of Employees Trained on Procurement Code Compliance/Methods



Source: GSD, LFC files

Customers Satisfied with State Printing Services



Source: GSD, LFC files

Percent reduction of state fleet, compared with FY11

n/a 2,089 vehicles 10% 5%

Y

Overall Program Rating

Y

Procurement Services. The agency reports it is shifting away from a budget-driven to a value-driven approach for procuring goods and services. Challenges include pressure to: 1) save money and speed up procurement processes and still obtain “best value”; 2) provide standardized procurement training leading to professional certifications; and 3) drive economic recovery for small businesses and local communities at the risk of higher procurement costs.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent increase in “best value” awards above one hundred thousand dollars	n/a	n/a	10%	No data collected	R
Percent reduction in procurement code violations	n/a	50 violations	25%	58%	G
Percent decrease in sole source procurements	n/a	45 sole sources	5%	9%	G
Percent increase in contracts to NM-based businesses	n/a	764 NM contracts	5%	19%	G

Overall Program Rating

G

State Printing and Graphic Services. Since FY10, the state printing fund has been in a negative cash position largely due to the separation of functions within GSD that became the Department of Information Technology and agencies using out-of-state vendors for much of their print business. In addition, the program lost production staff due to attrition, making it more difficult to provide price quotes quickly and fill orders in a timely fashion.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Revenue generated per employee compared with previous year	\$96,691	\$82,500	\$90,000	\$120,397	G
Sales growth compared with previous year	-5.6%	12.5%	10%	5%	Y

Overall Program Rating

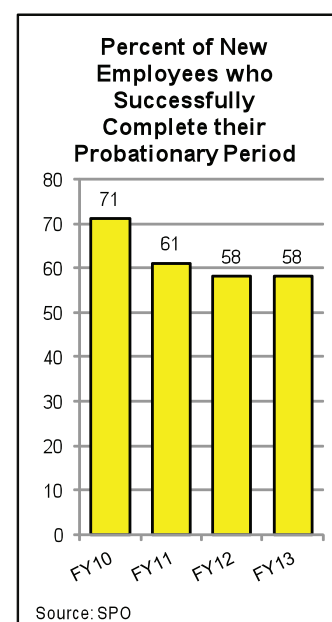
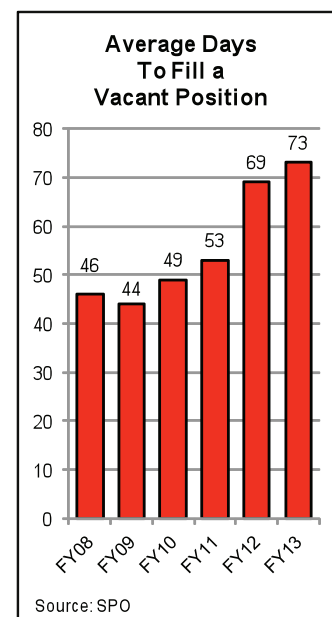
Y

State Personnel Board

The performance of the State Personnel Board (SPB) reflects the significant challenges agency officials face across the state personnel system and their concerted attempt to address them. A revised salary and classification structure is being developed to remedy long-standing problems related to recruitment, reward, and retention. The deadline for the completion of the structure, the total cost of the changes, and the timetable for implementation is not currently available. Requests by state agencies to reclassify positions to improve recruitment and retention of employees are being completed by the State Personnel Office (SPO) but in an ad hoc fashion that does not necessarily reflect the critical needs of state government. Once fully implemented, the NEOGOV personnel application and certification system is intended to establish a more effective and legitimate mechanism for evaluation and selection. SPO officials acknowledge implementation has not been as smooth as hoped and best practices are being discussed with other states. To improve applicant processing times, SPO is training agency human resource personnel at some state agencies to assess, score, and rank applicants. SPO continues to pursue “shared services” agreements with state agencies having fewer than 100 employees, designed to establish more effective human resource capabilities and functions.

Human Resource Management. Results for measures including the statewide classified vacancy rate, average number of days to fill a vacant position, number of employees with completed performance appraisals, and the percent of new employees who successfully complete their probationary period are below FY13 targets and of concern to SPO officials. The average number of days to fill a vacant position exceeds two months and continues to rise. SPO officials are now collecting data on a range of measures that will allow more effective evaluation of state personnel practices and benchmarking across other states.

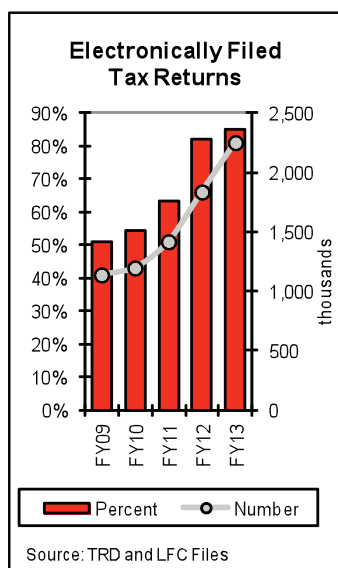
Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Statewide classified service vacancy rate	n/a	19.7%	15.0%	14.8%	G
Average number of days to fill a vacant position	53	69	40	73	R
Percent of new employees who successfully complete their probationary period	61%	58%	85%	58%	R
Percent of eligible employees with a completed performance appraisal on record at the close of the fiscal year	66%	58%	99%	93%	Y
Average new hire compa-ratio	91.0%	93.5%	91.0%	94.4%	R
Average state employee compa-ratio	102%	101%	91%	99%	Y
Overall Program Rating					R



Taxation & Revenue Department

TRD FY12 Funding by Division (in millions)		
Program	Budget	FTE
Tax Ad.	\$30.60	528
MVD	\$24.20	348
Prop Tax	\$3.10	41
Comp Enf	\$2.00	28
Prog Sup	\$20.20	191
Total	\$80.10	1136

Source: TRD FY12 Operating Budget



The Tax Administration Program exceeded targets for tax collections and electronic tax filing for the year. Motor vehicle field office and call center wait times held steady as the program continues to implement changes to improve customer service. The Compliance Enforcement Program referred just six tax fraud cases for prosecution in FY13, in part because it prioritized resources to criminal cases regarding the issuance of foreign national drivers' licenses. In August 2013, the department reported preliminary steps for estimating and addressing the state's "tax gap," or the amount owed but not collected.

Tax Administration Program. Of the \$69.5 million in FY13 assessments, \$45.3 million is less than 60 days old and \$12.9 million is in protest, leaving a smaller collectable balance of \$10 million. The percent of electronically filed returns continued its upward trend; tax programs with e-filing options now include personal income, gross receipts, compensating, withholding, weight-distance, and oil and gas.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Collections as a percent of collectable outstanding balances from June 30, 2012	15.4%	18.4%	15.0%	17.6%	G
Collections as a percent of collectable audit assessments generated in the current fiscal year	51%	64%	45%	66%	G
Percent of electronically-filed personal income tax and combined reporting system returns	63.3%	82.1%	65.0%	84.9%	G
Overall Program Rating					G

Compliance Enforcement Program. A total of nine cases were assigned to program agents in FY13; of these, six investigations were referred for criminal prosecution during the year. This was an improvement over FY12, when 26 cases were assigned and four were referred for prosecution.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Successful tax fraud prosecutions as a percent of total cases prosecuted	93%	100%	90%	100%	G
Number of tax investigations referred to prosecutors as a percent of total investigations assigned during the year	44%	15%	40%	66.7%	G
Overall Program Rating					G

Taxation & Revenue Department

Motor Vehicle Program. While the percent of insured vehicles dipped slightly from FY12, it remains higher than the 85.4 percent national average. Field office wait times improved slightly over FY12 but are still below the 20 minute target. The program upgraded its Qmatic system and standardized its use among offices, which should result in better and more consistent wait-time information in FY14. Despite a number of process management improvements, employee vacancies and leave impacted call center wait times for FY13.

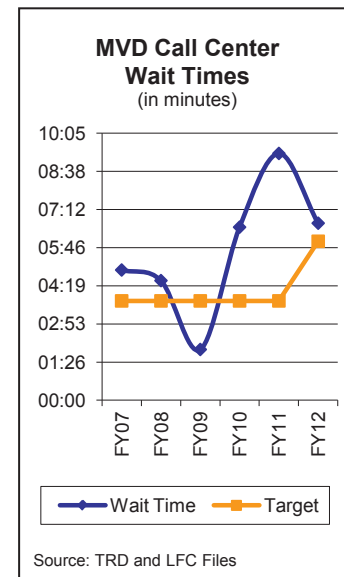
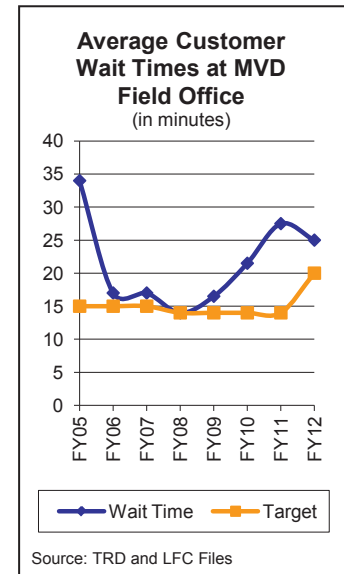
Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Average wait time in q-matic equipped offices, in minutes	27:36	25:06	20:00	24:42	Y
Percent of registered vehicles with liability insurance	90.9%	91.8%	92.0%	90.9%	Y
Average call center wait time to reach an agent, in minutes	9:19	6:41	6:00	6:52	Y
Overall Program Rating					Y

Property Tax Program. For FY13, the department began reporting on percent of appraisals and valuations (the department had previously reported on the number of appraisals and valuations). Because the program cannot easily determine which businesses subject to assessment may not be filing returns, the measure is likely to remain 100 percent - based on processing returns actually filed by businesses. Only Socorro County failed to meet the 85 percent reappraisal threshold; the measure regarding percent of counties in compliance with sales ratio standards was discontinued as a key measure in FY14.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of counties in compliance with sales ratio standard of eighty-five percent assessed value to market value	94%	97%	90%	97%	G
Number of appraisals and valuations for companies conducting business within the state subject to state assessment	515	534	100%	100%	G
Overall Program Rating					G

Program Support. Twenty-five cases out of 5,005 were rescinded due to weather conditions or errors by the Motor Vehicle Division, the hearing officer or the scheduling unit.

Measure	FY11 Actual	FY12 Actual	FY13 Target	FY13 Actual	Rating
Percent of DWI driver's license revocations rescinded due to failure to hold hearings within ninety days	0.29%	0.20%	<1.0%	0.5%	G
Overall Program Rating					G



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GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

Business Unit	Description	FY14 Operating Budget	FY15 Agency Request	FY15 LFC Recomm.	\$ Over Adj. FY14 Oper.	Percent Change
Legislative						
111	LEGISLATIVE COUNCIL SERVICE	5,597.3	5,792.9	5,792.9	195.6	3.5%
112	LEGISLATIVE FINANCE COMMITTEE	4,049.4	4,216.7	4,216.7	167.3	4.1%
114	SENATE CHIEF CLERK	1,143.0	1,183.0	1,183.0	40.0	3.5%
115	HOUSE CHIEF CLERK	1,110.5	1,149.4	1,149.4	38.9	3.5%
117	LEGISLATIVE EDUCATION STUDY COMMITTEE	1,221.7	1,507.7	1,368.9	147.2	12.0%
119	LEGISLATIVE BUILDING SERVICES	4,009.4	4,377.3	4,377.3	367.9	9.2%
131	LEGISLATURE	2,015.0	2,128.6	2,128.6	113.6	5.6%
Total Legislative		19,146.3	20,355.6	20,216.8	1,070.5	5.6%
Judicial						
205	SUPREME COURT LAW LIBRARY	1,552.3	1,578.5	1,536.1	-16.2	-1.0%
208	NEW MEXICO COMPILATION COMMISSION	0.0	0.0	0.0	0.0	0.0%
210	JUDICIAL STANDARDS COMMISSION	836.9	841.4	841.4	4.5	0.5%
215	COURT OF APPEALS	5,738.1	5,950.0	5,870.0	131.9	2.3%
216	SUPREME COURT	3,096.8	3,272.6	3,217.5	120.7	3.9%
218	ADMINISTRATIVE OFFICE OF THE COURTS	43,369.5	48,119.2	45,854.9	2,485.4	5.7%
218	ADMINISTRATIVE OFFICE OF THE COURTS	0.0	0.0	0.0	0.0	0.0%
219	SUPREME COURT BUILDING COMMISSION	867.1	921.7	907.7	40.6	4.7%
231	FIRST JUDICIAL DISTRICT COURT	6,337.6	7,023.2	6,672.4	334.8	5.3%
232	SECOND JUDICIAL DISTRICT COURT	21,765.7	23,113.3	22,703.4	937.7	4.3%
233	THIRD JUDICIAL DISTRICT COURT	6,235.9	6,498.7	6,418.9	183.0	2.9%
234	FOURTH JUDICIAL DISTRICT COURT	2,144.1	2,236.5	2,204.1	60.0	2.8%
235	FIFTH JUDICIAL DISTRICT COURT	6,104.4	6,632.5	6,521.8	417.4	6.8%
236	SIXTH JUDICIAL DISTRICT COURT	3,122.1	3,262.2	3,216.2	94.1	3.0%
237	SEVENTH JUDICIAL DISTRICT COURT	2,278.0	2,372.4	2,357.3	79.3	3.5%
238	EIGHTH JUDICIAL DISTRICT COURT	2,809.6	2,924.4	2,877.7	68.1	2.4%
239	NINTH JUDICIAL DISTRICT COURT	3,243.1	3,414.0	3,354.6	111.5	3.4%
240	TENTH JUDICIAL DISTRICT COURT	798.2	942.8	877.0	78.8	9.9%
241	ELEVENTH JUDICIAL DISTRICT COURT	5,973.8	6,308.5	6,225.8	252.0	4.2%
242	TWELFTH JUDICIAL DISTRICT COURT	3,090.7	3,296.3	3,229.6	138.9	4.5%
243	THIRTEENTH JUDICIAL DISTRICT COURT	6,507.9	7,189.7	7,008.2	500.3	7.7%
244	BERNALILLO COUNTY METROPOLITAN COURT	22,843.3	23,667.0	23,477.8	634.5	2.8%
251	FIRST JUDICIAL DISTRICT ATTORNEY	4,874.9	5,222.7	5,115.8	240.9	4.9%
252	SECOND JUDICIAL DISTRICT ATTORNEY	17,250.4	18,665.7	18,050.5	800.1	4.6%
253	THIRD JUDICIAL DISTRICT ATTORNEY	4,447.9	5,427.0	4,637.0	189.1	4.3%
254	FOURTH JUDICIAL DISTRICT ATTORNEY	3,071.2	3,358.8	3,119.4	48.2	1.6%
255	FIFTH JUDICIAL DISTRICT ATTORNEY	4,487.8	5,076.5	4,778.4	290.6	6.5%
256	SIXTH JUDICIAL DISTRICT ATTORNEY	2,639.0	2,977.8	2,740.7	101.7	3.9%
257	SEVENTH JUDICIAL DISTRICT ATTORNEY	2,402.3	2,580.1	2,466.2	63.9	2.7%
258	EIGHTH JUDICIAL DISTRICT ATTORNEY	2,502.4	2,756.1	2,601.6	99.2	4.0%
259	NINTH JUDICIAL DISTRICT ATTORNEY	2,699.4	2,939.4	2,806.8	107.4	4.0%
260	TENTH JUDICIAL DISTRICT ATTORNEY	1,005.8	1,153.4	1,040.6	34.8	3.5%
261	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIVISION I	3,365.2	3,979.4	3,475.6	110.4	3.3%
262	TWELFTH JUDICIAL DISTRICT ATTORNEY	2,624.6	3,162.3	2,708.8	84.2	3.2%
263	THIRTEENTH JUDICIAL DISTRICT ATTORNEY	4,843.3	5,575.3	4,965.6	122.3	2.5%
264	ADMINISTRATIVE OFFICE OF THE DISTRICT ATTORNEYS	2,058.4	2,536.1	2,104.6	46.2	2.2%
265	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIVISION II	2,101.8	2,212.9	2,173.0	71.2	3.4%
Total Judicial		209,089.5	227,188.4	218,157.0	9,067.5	4.3%

TABLE 1 **GENERAL FUND AGENCY RECOMMENDATION SUMMARY**

Business Unit	Description	FY14 Operating Budget	FY15 Agency Request	FY15 LFC Recomm.	\$ Over Adj. FY14 Oper.	Percent Change
General Control						
305	ATTORNEY GENERAL	9,511.1	15,901.5	10,796.7	1,285.6	13.5%
308	STATE AUDITOR	2,899.9	3,006.0	2,983.3	83.4	2.9%
333	TAXATION AND REVENUE DEPARTMENT	54,952.4	59,598.3	57,175.9	2,223.5	4.0%
337	STATE INVESTMENT COUNCIL	0.0	0.0	0.0	0.0	0.0%
341	DEPARTMENT OF FINANCE AND ADMINISTRATION	23,595.4	25,608.5	24,544.0	948.6	4.0%
342	PUBLIC SCHOOL INSURANCE AUTHORITY	0.0	0.0	0.0	0.0	0.0%
343	RETIREE HEALTH CARE AUTHORITY	0.0	0.0	0.0	0.0	0.0%
350	GENERAL SERVICES DEPARTMENT	13,842.5	14,634.2	14,276.6	434.1	3.1%
352	EDUCATIONAL RETIREMENT BOARD	0.0	0.0	0.0	0.0	0.0%
354	NEW MEXICO SENTENCING COMMISSION	529.8	579.8	579.8	50.0	9.4%
355	PUBLIC DEFENDER DEPARTMENT	42,024.6	44,840.2	43,520.1	1,495.5	3.6%
356	GOVERNOR	3,609.0	3,609.0	3,609.0	0.0	0.0%
360	LIEUTENANT GOVERNOR	589.8	589.8	589.8	0.0	0.0%
361	DEPARTMENT OF INFORMATION TECHNOLOGY	860.0	865.5	865.5	5.5	0.6%
366	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION	0.0	0.0	0.0	0.0	0.0%
369	STATE COMMISSION OF PUBLIC RECORDS	2,637.9	2,911.1	2,685.9	48.0	1.8%
370	SECRETARY OF STATE	6,447.2	10,254.6	6,834.0	386.8	6.0%
378	PERSONNEL BOARD	4,190.7	4,536.2	4,233.2	42.5	1.0%
379	PUBLIC EMPLOYEE LABOR RELATIONS BOARD	215.5	257.7	231.8	16.3	7.6%
394	STATE TREASURER	3,708.8	3,784.6	3,739.6	30.8	0.8%
Total General Control		169,614.6	190,977.0	176,665.2	7,050.6	4.2%
Commerce and Industry						
404	BOARD OF EXAMINERS FOR ARCHITECTS	0.0	0.0	0.0	0.0	0.0%
417	BORDER AUTHORITY	337.4	330.1	330.1	-7.3	-2.2%
418	TOURISM DEPARTMENT	10,332.3	12,832.3	12,352.1	2,019.8	19.5%
419	ECONOMIC DEVELOPMENT DEPARTMENT	6,622.7	9,231.3	7,177.9	555.2	8.4%
420	REGULATION AND LICENSING DEPARTMENT	13,226.4	14,380.2	13,326.4	100.0	0.8%
430	PUBLIC REGULATION COMMISSION	7,090.4	8,946.9	7,748.5	658.1	9.3%
440	OFFICE OF SUPERINTENDENT OF INSURANCE	0.0	0.0	0.0	0.0	0.0%
446	MEDICAL BOARD	0.0	0.0	0.0	0.0	0.0%
449	BOARD OF NURSING	0.0	0.0	0.0	0.0	0.0%
460	NEW MEXICO STATE FAIR	0.0	0.0	75.0	75.0	0.0%
464	STATE BOARD OF LICENSURE FOR ENGINEERS & LAND SUR	0.0	0.0	0.0	0.0	0.0%
465	GAMING CONTROL BOARD	5,577.9	6,033.6	5,665.6	87.7	1.6%
469	STATE RACING COMMISSION	2,352.2	2,816.1	2,422.3	70.1	3.0%
479	BOARD OF VETERINARY MEDICINE	0.0	0.0	0.0	0.0	0.0%
490	CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION	98.7	210.0	117.0	18.3	18.5%
491	OFFICE OF MILITARY BASE PLANNING AND SUPPORT	145.5	156.0	146.4	0.9	0.6%
495	SPACEPORT AUTHORITY	459.9	459.9	459.9	0.0	0.0%
Total Commerce and Industry		46,243.4	55,396.4	49,821.2	3,577.8	7.7%
Agriculture, Energy and Natural Resources						
505	CULTURAL AFFAIRS DEPARTMENT	29,044.7	30,319.7	29,535.0	490.3	1.7%
508	NEW MEXICO LIVESTOCK BOARD	981.2	2,502.6	1,380.0	398.8	40.6%
516	DEPARTMENT OF GAME AND FISH	0.0	0.0	0.0	0.0	0.0%
521	ENERGY, MINERALS AND NATURAL RESOURCES DEPARTM	21,117.7	22,892.6	21,622.7	505.0	2.4%
522	YOUTH CONSERVATION CORPS	0.0	0.0	0.0	0.0	0.0%
538	INTERTRIBAL CEREMONIAL OFFICE	105.0	105.0	105.0	0.0	0.0%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

Business Unit	Description	FY14 Operating Budget	FY15 Agency Request	FY15 LFC Recomm.	\$ Over Adj. FY14 Oper.	Percent Change
539	COMMISSIONER OF PUBLIC LANDS	0.0	0.0	0.0	0.0	0.0%
550	STATE ENGINEER	15,651.2	18,710.3	17,650.5	1,999.3	12.8%
Total Agriculture, Energy and Natural Resources		66,899.8	74,530.2	70,293.2	3,393.4	5.1%
Health, Hospitals and Human Services						
601	COMMISSION ON STATUS OF WOMEN	0.0	0.0	0.0	0.0	0.0%
603	OFFICE OF AFRICAN AMERICAN AFFAIRS	704.1	756.9	720.0	15.9	2.3%
604	COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS	300.0	300.0	300.0	0.0	0.0%
605	MARTIN LUTHER KING, JR. COMMISSION	214.8	317.8	225.5	10.7	5.0%
606	COMMISSION FOR THE BLIND	2,061.1	2,078.5	2,078.5	17.4	0.8%
609	INDIAN AFFAIRS DEPARTMENT	2,422.5	2,543.2	2,493.2	70.7	2.9%
624	AGING AND LONG-TERM SERVICES DEPARTMENT	45,008.0	47,911.5	46,485.7	1,477.7	3.3%
630	HUMAN SERVICES DEPARTMENT	1,036,615.3	1,018,027.0	1,010,887.9	-25,727.4	-2.5%
631	WORKFORCE SOLUTIONS DEPARTMENT	3,507.4	15,978.9	9,498.8	5,991.4	170.8%
632	WORKERS' COMPENSATION ADMINISTRATION	0.0	0.0	0.0	0.0	0.0%
644	DIVISION OF VOCATIONAL REHABILITATION	5,636.0	6,285.4	5,686.0	50.0	0.9%
645	GOVERNOR'S COMMISSION ON DISABILITY	1,042.7	1,464.4	1,087.7	45.0	4.3%
647	DEVELOPMENTAL DISABILITIES PLANNING COUNCIL	4,837.6	6,148.7	5,073.8	236.2	4.9%
662	MINERS' HOSPITAL OF NEW MEXICO	0.0	0.0	0.0	0.0	0.0%
665	DEPARTMENT OF HEALTH	302,270.6	304,426.2	305,196.3	2,925.7	1.0%
667	DEPARTMENT OF ENVIRONMENT	11,542.8	15,420.1	11,885.2	342.4	3.0%
668	OFFICE OF THE NATURAL RESOURCES TRUSTEE	87.3	272.0	247.0	159.7	182.9%
669	NEW MEXICO HEALTH POLICY COMMISSION	0.0	0.0	0.0	0.0	0.0%
670	VETERANS' SERVICES DEPARTMENT	3,177.0	3,177.0	3,086.7	-90.3	-2.8%
690	CHILDREN, YOUTH AND FAMILIES DEPARTMENT	219,966.3	232,668.7	230,394.5	10,428.2	4.7%
Total Health, Hospitals and Human Services		1,639,393.5	1,657,776.3	1,635,346.8	-4,046.7	-0.2%
Public Safety						
705	DEPARTMENT OF MILITARY AFFAIRS	6,843.7	7,092.1	6,886.8	43.1	0.6%
760	PAROLE BOARD	495.3	489.8	489.8	-5.5	-1.1%
765	JUVENILE PUBLIC SAFETY ADVISORY BOARD	15.0	15.0	15.0	0.0	0.0%
770	CORRECTIONS DEPARTMENT	270,583.4	279,434.0	275,529.2	4,945.8	1.8%
780	CRIME VICTIMS REPARATION COMMISSION	1,844.3	1,868.7	1,868.7	24.4	1.3%
790	DEPARTMENT OF PUBLIC SAFETY	97,395.4	100,326.7	104,421.3	7,025.9	7.2%
795	HOMELAND SECURITY AND EMERGENCY MANAGEMENT	2,436.1	3,663.7	2,501.6	65.5	2.7%
Total Public Safety		379,613.2	392,890.0	391,712.4	12,099.2	3.2%
Transportation						
805	DEPARTMENT OF TRANSPORTATION	0.0	0.0	0.0	0.0	0.0%
Total Transportation		0.0	0.0	0.0	0.0	0.0%
Other Education						
924	PUBLIC EDUCATION DEPARTMENT	11,786.1	12,899.2	11,819.8	33.7	0.3%
925	PUBLIC EDUCATION DEPARTMENT-SPECIAL APPROPRIATIO	57,022.3	89,266.7	73,754.9	16,732.6	29.3%
940	PUBLIC SCHOOL FACILITIES AUTHORITY	0.0	0.0	0.0	0.0	0.0%
949	EDUCATION TRUST BOARD	0.0	0.0	0.0	0.0	0.0%
Total Other Education		68,808.4	102,165.9	85,574.7	16,766.3	24.4%

TABLE 1 GENERAL FUND AGENCY RECOMMENDATION SUMMARY

Business Unit	Description	FY14 Operating Budget	FY15 Agency Request	FY15 LFC Recomm.	\$ Over Adj. FY14 Oper.	Percent Change
Higher Education						
950	HIGHER EDUCATION DEPARTMENT	34,743.3	35,219.5	35,155.3	412.0	1.2%
952	UNIVERSITY OF NEW MEXICO	298,939.7	305,935.9	311,480.9	12,541.2	4.2%
954	NEW MEXICO STATE UNIVERSITY	195,633.0	200,182.8	202,102.5	6,469.5	3.3%
956	NEW MEXICO HIGHLANDS UNIVERSITY	30,057.5	30,496.1	31,170.2	1,112.7	3.7%
958	WESTERN NEW MEXICO UNIVERSITY	18,982.7	19,551.8	19,694.5	711.8	3.7%
960	EASTERN NEW MEXICO UNIVERSITY	44,111.7	45,244.7	45,952.4	1,840.7	4.2%
962	NEW MEXICO INSTITUTE OF MINING AND TECHNOLOGY	36,641.7	36,955.1	37,543.2	901.5	2.5%
964	NORTHERN NEW MEXICO COLLEGE	11,074.8	11,053.1	11,431.5	356.7	3.2%
966	SANTA FE COMMUNITY COLLEGE	13,418.9	13,819.0	14,716.8	1,297.9	9.7%
968	CENTRAL NEW MEXICO COMMUNITY COLLEGE	51,971.7	54,706.0	55,144.3	3,172.6	6.1%
970	LUNA COMMUNITY COLLEGE	8,224.6	8,348.8	8,544.5	319.9	3.9%
972	MESALANDS COMMUNITY COLLEGE	4,320.2	4,410.1	4,436.4	116.2	2.7%
974	NEW MEXICO JUNIOR COLLEGE	6,264.2	6,406.5	6,352.4	88.2	1.4%
976	SAN JUAN COLLEGE	24,328.0	24,914.2	25,155.3	827.3	3.4%
977	CLOVIS COMMUNITY COLLEGE	9,701.8	10,072.6	10,191.1	489.3	5.0%
978	NEW MEXICO MILITARY INSTITUTE	2,295.9	2,373.0	2,428.1	132.2	5.8%
979	NEW MEXICO SCHOOL FOR THE BLIND AND VISUALLY IMP	1,206.6	1,260.7	1,259.4	52.8	4.4%
980	NEW MEXICO SCHOOL FOR THE DEAF	4,112.0	4,172.5	4,177.1	65.1	1.6%
Total Higher Education		796,028.3	815,122.4	826,935.9	30,907.6	3.9%
Public School Support						
993	PUBLIC SCHOOL SUPPORT	2,498,741.1	2,543,257.5	2,624,889.6	126,148.5	5.0%
Total Public School Support		2,498,741.1	2,543,257.5	2,624,889.6	126,148.5	5.0%
Public Employee Compensation Increase						
994	STATE EMPLOYEE	0.0	0.0	22,100.0	22,100.0	0.0%
994	HIGHER EDUCATION	0.0	0.0	9,689.3	9,689.3	0.0%
994	PUBLIC SCHOOL (\$57.7 MILLION INCL. IN SEG)	0.0	0.0	0.0	0.0	0.0%
994	SPECIAL COMP - STATE POLICE & MOTOR TRANS OFFICERS	0.0	0.0	3,000.0	3,000.0	0.0%
994	SPECIAL COMP - CLASSIFICATION ADJUSTMENTS	0.0	0.0	2,000.0	2,000.0	0.0%
Total Public Employee Compensation Increase		0.0	0.0	36,789.3	36,789.3	0.0%
Recurring Special Appropriations						
994	RECURRING SPECIAL APPROPRIATIONS	0.0	0.0	2,311.0	2,311.0	0.0%
994	REPLACE TOBACCO REV IN LOTTERY SCHOLARSHIP	0.0	0.0	8,000.0	8,000.0	0.0%
Total Recurring Special Appropriations		0.0	0.0	10,311.0	10,311.0	0.0%
Grand Total		5,893,578.1	6,079,659.7	6,146,713.1	253,135.0	4.3%

U.S. AND NEW MEXICO ECONOMIC INDICATORS

TABLE 2

December 2013 Consensus Forecast

	FY2013	FY2014	FY2015	FY2016
<i>NATIONAL ECONOMIC INDICATORS</i>				
US Real GDP Growth (level annual avg, % yoy) ¹				
IHS Global Insight	2.0	1.9	3.0	3.2
Moody's Analytics ²	2.0	2.1	4.0	3.5
US Inflation Rate (CPI, annual avg, % yoy) ³				
IHS Global Insight	1.7	1.5	1.7	1.8
Moody's Analytics ²	1.7	1.5	2.0	2.3
Federal Funds Rate (%)				
IHS Global Insight	0.14	0.13	0.16	1.10
Moody's Analytics ²	0.14	0.08	0.11	1.17
<i>NEW MEXICO LABOR MARKET AND INCOME DATA</i>				
NM Non-Agricultural Employment Growth	1.0	1.2	1.6	1.6
NM Nominal Personal Income Growth (%) ⁴	2.9	1.8	4.3	4.7
NM Private Wages & Salaries Growth (%)	1.9	3.6	4.5	4.8
<i>CRUDE OIL AND NATURAL GAS OUTLOOK</i>				
NM Oil Price (\$/barrel)	\$85.82	\$93.00	\$86.50	\$84.50
NM Taxable Oil Volumes (million barrels)	94.2	99.0	103.0	106.0
NM Gas Price (\$ per thousand cubic feet) ⁵	\$4.40	\$4.85	\$5.10	\$5.20
NM Taxable Gas Volumes (billion cubic feet)	1,175	1,130	1,090	1,050

¹ Real GDP is BEA chained 2009 dollars, billions, annual rate

² For National Indicators, DFA used Moody's Analytics forecasting service in the revenue estimating process.

³ CPI is all urban BLS, 1982-84=1.00 base.

⁴ Personal Income growth rates are for the calendar year in which each fiscal year begins

⁵ The gas prices are estimated using a formula of NYMEX and Global Insight Future prices as well as a liquid premium based on oil prices.

Sources: October IHS Global Insight, BBER: FOR-UNM, October

TABLE 3

GENERAL FUND CONSENSUS REVENUE ESTIMATE

December 2013
(Millions of Dollars)

	FY13		FY14		FY15		FY16	
	Unaudited Actual Dec 2013	% Change from FY12	Forecast	% Change from FY13	Forecast	% Change from FY14	Forecast	% Change from FY15
Gross Receipts Tax	1,917.7	-0.6%	1,976.2	3.1%	2,093.0	5.9%	2,196.0	4.9%
Compensating Tax	50.9	-18.0%	50.4	-1.0%	52.1	3.4%	51.2	-1.7%
TOTAL GENERAL SALES	1,968.6	-1.1%	2,026.6	2.9%	2,145.1	5.8%	2,247.2	4.8%
Tobacco Taxes	86.1	0.8%	83.6	-2.8%	82.5	-1.3%	81.6	-1.1%
Liquor Excise	26.2	0.4%	27.3	4.0%	27.5	0.7%	27.7	0.7%
Insurance Taxes	107.5	-5.7%	126.7	17.8%	182.0	43.6%	210.7	15.8%
Fire Protection Fund Reversion	18.3	-2.6%	17.4	-5.1%	16.5	-5.2%	15.5	-6.1%
Motor Vehicle Excise	125.5	9.4%	133.2	6.1%	137.5	3.2%	142.8	3.9%
Gaming Excise	63.1	-3.7%	64.4	2.1%	65.5	1.7%	66.7	1.8%
Leased Vehicle Surcharge	5.0	-7.4%	5.5	10.1%	5.5	1.0%	5.6	1.0%
Other	(2.5)	-133.3%	2.4	-195.9%	2.4	0.0%	2.4	0.0%
TOTAL SELECTIVE SALES	429.2	-1.9%	460.5	7.3%	519.4	12.8%	553.0	6.5%
Personal Income Tax	1,240.9	7.9%	1,211.5	-2.4%	1,280.0	5.7%	1,335.0	4.3%
Corporate Income Tax	267.2	-4.9%	279.0	4.4%	289.0	3.6%	276.0	-4.5%
TOTAL INCOME TAXES	1,508.1	5.4%	1,490.5	-1.2%	1,569.0	5.3%	1,611.0	2.7%
Oil and Gas School Tax	379.9	-4.9%	427.1	12.4%	421.2	-1.4%	419.5	-0.4%
Oil Conservation Tax	20.8	-3.2%	23.3	12.2%	22.9	-1.7%	22.9	0.0%
Resources Excise Tax	13.5	12.2%	11.5	-14.7%	11.5	0.0%	11.5	0.0%
Natural Gas Processors Tax	24.2	3.7%	15.8	-34.7%	17.8	12.7%	18.1	1.7%
TOTAL SEVERANCE TAXES	438.4	-4.0%	477.7	9.0%	473.4	-0.9%	472.0	-0.3%
LICENSE FEES	50.0	0.8%	49.9	-0.2%	50.6	1.4%	51.2	1.2%
LGPF Interest	440.9	-4.5%	445.3	1.0%	489.4	9.9%	529.9	8.3%
STO Interest	14.7	-15.4%	12.1	-17.9%	13.5	11.6%	28.0	107.4%
STPF Interest	176.2	-4.0%	170.4	-3.3%	179.4	5.3%	186.1	3.7%
TOTAL INTEREST	631.8	-4.6%	627.8	-0.6%	682.3	8.7%	744.0	9.0%
Federal Mineral Leasing	459.6	-8.5%	490.0	6.6%	520.0	6.1%	490.0	-5.8%
State Land Office	44.6	-51.8%	47.6	6.7%	47.6	0.0%	46.7	-1.9%
TOTAL RENTS & ROYALTIES	504.3	-15.3%	537.6	6.6%	567.6	5.6%	536.7	-5.4%
TRIBAL REVENUE SHARING	70.7	3.7%	72.5	2.5%	74.4	2.6%	77.7	4.4%
MISCELLANEOUS RECEIPTS	41.3	-8.5%	49.2	19.3%	51.2	4.0%	54.9	7.2%
REVERSIONS	65.8	-0.2%	71.4	8.6%	53.0	-25.8%	40.0	-24.5%
TOTAL RECURRING	5,708.0	-1.6%	5,863.7	2.7%	6,186.0	5.5%	6,387.6	3.3%
TOTAL NON-RECURRING *	0.6	-96%	-	-100.0%	-		-	
GRAND TOTAL	5,708.6	-1.9%	5,863.7	2.7%	6,186.0	5.5%	6,387.6	3.3%

TABLE 4

General Fund Financial Summary: December 2013 Consensus Revenue Estimate
(Millions of Dollars)

	Preliminary FY2013	Estimated FY2014	Estimated FY2015
<u>APPROPRIATION ACCOUNT</u>			
REVENUE			
Recurring Revenue			
August 2013 Consensus Forecast	\$ 5,611.1	\$ 5,779.7	\$ 6,189.1
December 2013 Consensus Forecast.	\$ 96.7	\$ 84.0	\$ (3.1)
Total Recurring Revenue	\$ 5,707.9	\$ 5,863.7	\$ 6,186.0
Nonrecurring Revenue			
August 2013 Consensus Forecast	\$ 39.9	\$ (85.9)	
December 2013 Consensus Forecast.	\$ (39.3)	\$ 85.9	
2014 Regular Session - Legislation (1)		\$ (1.0)	
Transfer to Water Trust Fund			\$ (10.0)
Total Non-Recurring Revenue	\$ 0.6	\$ (1.0)	\$ (10.0)
TOTAL REVENUE	\$ 5,708.6	\$ 5,862.7	\$ 6,176.0
APPROPRIATIONS			
Recurring Appropriations			
General Appropriation	\$ 5,649.6	\$ 5,893.7	\$ 6,136.6
Legislative Session Costs - Feed Bill	\$ 9.2	\$ 5.5	\$ -
2014 Special Appropriations	\$ -	\$ -	\$ 10.3
Total Recurring Appropriations	\$ 5,658.8	\$ 5,899.2	\$ 6,146.9
Nonrecurring Appropriations			
Prior-Year Appropriations	\$ 89.5	\$ -	\$ -
2014 IT Project Funding		\$ 5.7	\$ -
2014 Deficiencies, Supplementals, Specials		\$ 11.1	\$ 2.9
Total Nonrecurring Appropriations	\$ 89.5	\$ 16.8	\$ 2.9
TOTAL APPROPRIATIONS	\$ 5,748.3	\$ 5,916.0	\$ 6,149.8
Transfer to(from) Reserves (2)	\$ (39.7)	\$ (53.3)	\$ 26.2
GENERAL FUND RESERVES			
Beginning Balances	\$ 712.9	\$ 618.0	\$ 559.5
Transfers from (to) Appropriations Account	\$ (39.7)	\$ (53.3)	\$ 26.2
Revenue and Reversions	\$ 75.9	\$ 49.3	\$ 33.7
Appropriations, Expenditures and Transfers Out	\$ (131.1)	\$ (54.5)	\$ (36.0)
Ending Balances	\$ 618.0	\$ 559.5	\$ 583.5
<i>Reserves as a Percent of Recurring Appropriations</i>	<i>10.9%</i>	<i>9.5%</i>	<i>9.5%</i>

Notes:

(1) The nonrecurring revenue reduction in FY14 reflects reduced State Land Office distribution to the general fund pursuant to expenditure of an IT appropriation from the land maintenance fund.

TABLE 5 General Fund Financial Summary: December 2013 Consensus Revenue Estimate
RESERVE DETAIL
(Millions of Dollars)

	Preliminary FY2013	Estimated FY2014	Estimated FY2015
OPERATING RESERVE			
Beginning Balance	\$ 346.8	\$ 273.7	\$ 201.5
BOF Emergency Appropriations/Reversions	\$ (1.7)	\$ (2.0)	
Contingent Liability - Cash Management (1)	\$ (31.7)	\$ -	\$ -
Transfers from/to Appropriation Account	\$ (39.7)	\$ (53.3)	\$ 26.2
Transfer to ACF/Other Appropriations (2)	\$ -	\$ (17.0)	\$ -
Ending Balance	\$ 273.7	\$ 201.5	\$ 227.7
APPROPRIATION CONTINGENCY FUND			
Beginning Balance	\$ 29.5	\$ 16.4	\$ 17.4
Disaster Allotments	\$ (28.4)	\$ (16.0)	\$ (16.0)
Other Appropriations	\$ -	\$ -	\$ -
Transfers In (3)	\$ -	\$ 17.0	\$ -
Revenue and Reversions	\$ 15.3	\$ -	\$ -
Ending Balance	\$ 16.4	\$ 17.4	\$ 1.4
Education Lock Box			
Beginning Balance	\$ 39.1	\$ 9.1	\$ 9.1
Appropriations (GAA Section 5&6) (4)	\$ (30.0)	\$ -	\$ -
Transfers In (Out)	\$ -	\$ -	\$ -
Ending Balance	\$ 9.1	\$ 9.1	\$ 9.1
Total of Appropriation Contingency Fund	\$ 25.5	\$ 26.5	\$ 10.5
STATE SUPPORT FUND			
Beginning Balance	\$ 1.0	\$ 1.0	\$ 1.0
Revenues	\$ -	\$ -	\$ -
Appropriations	\$ -	\$ -	\$ -
Ending Balance	\$ 1.0	\$ 1.0	\$ 1.0
TOBACCO PERMANENT FUND			
Beginning Balance	\$ 149.0	\$ 170.3	\$ 183.1
Transfers In	\$ 39.3	\$ 19.5	\$ 20.0
Appropriation to Tobacco Settlement Program Fund (5)	\$ (19.7)	\$ (9.8)	\$ (10.0)
Gains/Losses	\$ 21.3	\$ 12.8	\$ 13.7
Additional Transfers From TSPF	\$ (19.7)	\$ (9.8)	\$ (10.0)
Ending Balance	\$ 170.3	\$ 183.1	\$ 196.8
TAX STABILIZATION RESERVE			
Beginning Balance	\$ 147.5	\$ 147.5	\$ 147.5
Transfers In	\$ -	\$ -	\$ -
Ending Balance	\$ 147.5	\$ 147.5	\$ 147.5
GENERAL FUND ENDING BALANCES	\$ 618.0	\$ 559.5	\$ 583.4
<i>Percent of Recurring Appropriations</i>	<i>10.9%</i>	<i>9.5%</i>	<i>9.5%</i>

Notes:

- (1) SHARE reconciliation to the cash account includes a \$31.7 million contingent liability in FY13 (in addition to the previously identified \$70 million contingent liability in FY12) which is a reduction from the ACF.
- (2) This summary excludes a transfer of up to \$36 million from the operating reserve to PED is contingent on appropriation in the GAAs of 2012 and 2013 being insufficient to meet federal Individuals with Disabilities Education Act (IDEA) maintenance of effort (MOE) requirements.
- (3) Laws 2013 Section 11, transferred \$17 million from the operating reserve to replenish the appropriation contingency fund.
- (4) FY13 includes \$15.4 million of funding contingent on the state not meeting IDEA MOE requirements for FY14 and \$14.6 million in other education-related appropriations.
- (5) Assumes reduction in FY14 Tobacco MSA payment is \$20 million. This reduction is an estimate pending final determination of the MSA payment reduction, projected to be \$12-\$24 million.

2014 Legislative Session
Special, Supplemental, and Deficiency Appropriations
(in thousands)

Agency Code	Agency	Description	Agency Request					LFC Recommendation							
			General Fund	Other State Funds	ISF / IAT	Federal Funds	Total	General Fund	Other State Funds	ISF / IAT	Federal Funds	Total			
1	218	Administrative Office of the Courts													
2	218	Administrative Office of the Courts	374.0							374.0					-
3	218	Administrative Office of the Courts	75.0							75.0					-
4	218	Administrative Office of the Courts	982.0							982.0					-
5	218	Administrative Office of the Courts	300.0							300.0					-
6	218	Administrative Office of the Courts		140.0						140.0					140.0
7	218	Administrative Office of the Courts	709.1							709.1					116.0
8	218	Administrative Office of the Courts		1,200.0						1,200.0					1,200.0
9	218	Administrative Office of the Courts													1,500.0
10	251	1st District Attorney													
11	252	2nd Judicial District Attorney	50.0							50.0					461.0
12	264	Administrative Office of the District Attorneys	80.0							80.0					461.0
13	264	Administrative Office of the District Attorneys	Language Only							Language Only					-
14	264	Attorneys	794.1							794.1					-
15	264	Attorneys													-
16	305	Attorney General		3,783.0						3,783.0					3,783.0
17	305	Attorney General	Language Only							Language Only					-
18	305	Attorney General	470.0							470.0					-
19	305	Attorney General	100.0							100.0					-
20	341	Department of Finance and Administration	517.4							517.4					350.0
21	341	Department of Finance and Administration	2,000.0							2,000.0					1,000.0
22	341	Department of Finance and Administration													
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146	341	Department of Finance and Administration													
147	341	Department of Finance and Administration													
148	341	Department of Finance and Administration													

TABLE 6

**2014 Legislative Session
Special, Supplemental, and Deficiency Appropriations
(in thousands)**

Agency Code		Agency	Description	Agency Request				LFC Recommendation						
				General Fund	Other State Funds	ISF/IAT	Federal Funds	Total	General Fund	Other State Funds	ISF/IAT	Federal Funds	Total	
23	341	Department of Finance and Administration	Notwithstanding the provisions of Section 6-4-9, 6-4-10, and 6-4-11 NMSA 1978 or other substantive law, an amount is appropriated from the tobacco settlement permanent fund to the tobacco settlement program fund equal to the difference between appropriations contained in Section 4 of the 2014 GAA and the amount transferred to the tobacco settlement program fund pursuant to paragraph B of Section 6-9-4 NMSA 1978 in fiscal year 2015 to fully fund appropriations contained in Section 4 of the 2015 GAA.											
24			The period of time for expending the nine hundred thousand dollars (\$900,000) appropriated from the public building repair fund in Subsection 20 of Section 5 of Chapter 227 of the Laws of 2013 to the property control division for buildings outside Santa Fe under the jurisdiction of the division is appropriated to the facilities management division and is extended through fiscal year 2015.								TBD			
24	350	General Services Department		Language Only					Language Only					-
25	350	General Services Department	The period of time for expending the four hundred and fifty-eight thousand five hundred dollars (\$458,500) appropriated from the purchasing enterprise fund in Subsection 10 of Section 5 of Chapter 19 of the Laws of 2012 to implement an electronic bid and contracts management web-based system is extended through fiscal year 2015.											-
26	350	General Services Department	To transfer the balance from the employee assistance program fund to the group self-insurance fund per chapter 10-7B-7D(8).		113.0			113.0		113.0				113.0
27	350	General Services Department	The period of time for expending the one million four hundred thousand dollars (\$1,400,000) appropriated from the public building repair fund in Subsection 23 of Section 5 of Chapter 227 of the Laws of 2013 to the property control division to conduct a facility condition assessment of all state facilities under the jurisdiction of the property control division is appropriated to the facilities management division and is extended through fiscal year 2015.	Language Only					Language Only					-
28	370	Secretary of State	For election expenses.	609.2				609.2						-
29	370	Secretary of State	For election expenses.	878.1				878.1						-
30	418	Tourism Department	For the cooperative advertising program.							500.0				500.0
31	419	Economic Development Department	For the job training incentive program.	-				-		1,000.0				1,000.0
32	419	Economic Development Department	For economic development projects pursuant to the Local Economic Development Act.											2,000.0
33	419	Economic Development Department	For the mainstreet program, including sufficient funding for frontier areas of the state.	500.0				500.0		500.0				500.0
34	419	Economic Development Department	For international trade development in Mexico and Brazil.	100.0				100.0						-
35	419	Economic Development Department	To fund the first of three phases of a film production tax credit study.	94.8				94.8						-
36	420	Regulation and Licensing Department	To permanently fund 3 FTE's in the Financial Institution Division.		382.5			382.5		-				-
37	420	Regulation and Licensing Department	For the Securities Division to deploy a mass media public service campaign alerting investors fraud risk.		150.0			150.0		-				75.0
38	440	Office of Superintendent of Insurance	For an audit of premium tax collections.					-						100.0
39	505	Cultural Affairs Department	For improvements to programs and properties at state historic sites.	375.0				375.0		300.0				300.0
40	505	Cultural Affairs Department	For operating costs and work conducted by Youth Conservation Corps groups at Los Luceros.	425.0				425.0		100.0				200.0
41	505	Cultural Affairs Department	Landscaping for the National Hispanic Cultural Center, contingent on repayment of \$100 thousand of capital outlay proceeds by the foundation.					-		100.0				100.0
42	508	New Mexico Livestock Board	To purchase vehicles.	260.0				260.0		100.0				100.0
43	508	New Mexico Livestock Board	To properly train and equip the livestock inspectors.	40.0				40.0		40.0				40.0
44	516	Department of Game and Fish	To contract for peoplesoft expertise to develop and implement internal processes for the grant module in the statewide human resource, accounting and management reporting system.											150.0
45	516	Department of Game and Fish	For legal expenses.		150.0			150.0						250.0
46	516	Department of Game and Fish	For vehicle and equipment replacement.		460.0			460.0						460.0
47	521	Energy, Minerals and Natural Resources Department	For operating costs associated with establishing the veterans fire crew program.	200.0				200.0		100.0				100.0
48	521	Energy, Minerals and Natural Resources Department	For network hardware and software in the oil and gas conservation division.	194.0	-			194.0						194.0
49	539	State Land Office	To convert historical right-of-way parcel location information into a geographic information system framework that has already been developed and installed.		250.0			250.0						250.0
50	539	State Land Office	For a study to assess the feasibility of acquiring federal disposal lands for the purpose of generating revenue.					-		200.0				200.0
51	550	Office of the State Engineer	To update regional and state water plans. The interstate stream commission shall report to the interim water and natural resources committee on the progress and content of the water plans.	483.0				483.0		483.0				483.0
52	550	Office of the State Engineer	The period of time for expending the six million five hundred thousand dollars (\$6,500,000) appropriated from the general fund contained in Subsection 44 of Section 5 of Chapter 227 of Laws 2013 for water litigation on interstate streams and their tributaries is extended through fiscal year 2015.											-
53	603	Office of African-American Affairs	For interventions that decrease infant mortality and improve maternal health rates among African Americans in New Mexico.	123.0				123.0		Language Only				-
54	606	Commission for the Blind	Purchase approximately 180 magnification devices for older blind persons.	75.0				75.0		75.0				75.0

TABLE 6

**2014 Legislative Session
Special, Supplemental, and Deficiency Appropriations
(in thousands)**

Agency Code		Agency	Description	Agency Request				LFC Recommendation					
				General Fund	Other State Funds	ISF/ IAT	Federal Funds	Total	General Fund	Other State Funds	ISF/ IAT	Federal Funds	Total
55	624	Aging and Long-Term Services Department	To purchase items for use in senior centers to ensure food delivery, transportation, social interactions, and fitness, and to establish best practices models including training components for senior centers and their staff.	300.0				300.0	-				-
56	624	Aging and Long-Term Services Department	For an Alzheimer's initiative for a train-the-trainer program to assist family caregivers of people with dementia and Alzheimer's.	200.0				200.0	-				-
57	624	Aging and Long-Term Services Department	To fund fitness initiatives for seniors.	350.0				350.0					-
58	630	Human Services Department	Any unexpended balances remaining at the end of fiscal year 2014 from reimbursements received from the social security administration to support the general assistance program shall not revert and may be expended by the human services department in fiscal year 2015 for payments to recipients in the general assistance program.	Language Only					Language Only				-
59	645	Governor's Commission on Disability	Statewide concussion needs assessment.	100.0				100.0					-
60	770	Corrections Department	Any unexpended balance remaining at the end of fiscal year 2014 from revenues received by the New Mexico corrections department from the United States department of justice pursuant to the state criminal alien assistance program shall not revert but shall remain with the corrections department for expenditure in fiscal year 2015. The New Mexico corrections department shall provide to the department of finance and administration by November 01, 2014, a detailed report documenting the amount of all state criminal alien assistance program funds that do not revert at the end of fiscal year 2014 and also ensure proper reporting in the department's fiscal year 2014 audit.	Language Only					Language Only				-
61	790	Department of Public Safety	For vehicle replacement in the law enforcement program.	2,810.0				2,810.0	-				-
62	790	Department of Public Safety	To hire and equip three new instructors in the law enforcement academy.	176.0				176.0					-
63	795	Department of Homeland Security and Emergency Management	To create an emergency activation fund covering overtime expenses when the emergency operations center is activated.	250.0				250.0	-				-
64	805	Department of Transportation	The other state funds and federal funds appropriations to the programs and infrastructure program of the department of transportation pertaining to prior fiscal years may be extended through fiscal year 2015 but not to exceed four hundred million dollars (\$400,000,000).	Language Only					Language Only				-
65	805	Department of Transportation	The other state funds and federal funds appropriations to the transportation and highway operations program of the department of transportation pertaining to prior fiscal years may be extended through fiscal year 2015 but not to exceed eighty million dollars (\$80,000,000).	Language Only					Language Only				-
66	924	Public Education Department	For transition to common core state standards.	2,500.0				2,500.0	1,500.0				1,500.0
67	924	Public Education Department	For emergency support to school districts experiencing shortfalls.	7,000.0				7,000.0	1,500.0				1,500.0
68	924	Public Education Department	For technology infrastructure to ensure public schools have a minimum network speed of five kilobytes per second per student by the 2015-2016 school year for computer-based assessments.	5,000.0				5,000.0					-
69	924	Public Education Department	To ensure the state meets federal special education maintenance of effort requirements in FY15.	14,410.2				14,410.2					-
70	950	Higher Education Department	To the lottery tuition fund for the legislative lottery scholarship program and contingent on enactment of legislation during the 2014 session that improves solvency of the lottery tuition fund.	-				-	8,000.0				8,000.0
71	950	Higher Education Department	For colleges and universities that failed to achieve positive student performance outcomes in the instructional and general expenditure funding formula for fiscal year 2015, funding shall be available to improve performance upon submission of an action plan that proposes strategies and measures for improving student performance and is approved by the higher education department.	-				-	500.0				500.0
72	950	Higher Education Department	To ensure eligible students, who have received four or more semesters of the legislative lottery scholarship, receive scholarship awards for full tuition costs for fiscal year 2015.	-				0	2,900.0				2,900.0
SPECIAL/NEW INITIATIVES TOTAL				43,904.9	6,878.5	-	-	50,783.4	21,825.0	8,215.0	100.0	-	30,140.0
SUPPLEMENTAL APPROPRIATIONS:													
73	218	Administrative Office of the Courts	To fund judges pro-tem.	20.0				20.0					20.0
74	218	Administrative Office of the Courts	To reimburse Wayne Connell, landlord for the Moriarty Magistrate Court.	400.0				400.0					-
75	218	Administrative Office of the Courts	To fund the court appointed attorney program.	150.0				150.0					150.0
76	218	Administrative Office of the Courts	To pay for jury and interpreter costs.	600.0				600.0					300.0
77	350	General Services Department	For a shortfall in operating costs in the facilities management division for FY14.	783.0				783.0					350.0
78	352	Education Retirement Board	To rectify any adverse actuarial effect as a result of changes to contribution rates pursuant to the laws of 2009, Chapter 127.	2,610.0	390.0			3,000.0					-
79	352	Education Retirement Board	For investment related asset management fees and to meet emergencies or physical plant failures.		5,500.0			5,500.0					-
80	366	Public Employees Retirement Association	To rectify any adverse actuarial effect as a result of changes to contribution rates pursuant to the laws of 2009, Chapter 127.	1,402.3				3,187.0					-
81	379	Public Employee Labor Relations Board	To pay for past information technology expenses.	2.7				2.7					2.7

TABLE 6

**2014 Legislative Session
Special, Supplemental, and Deficiency Appropriations
(in thousands)**

Agency Code		Agency	Description	Agency Request				LFC Recommendation					
				General Fund	Other State Funds	ISF/IAT	Federal Funds	Total	General Fund	Other State Funds	ISF/IAT	Federal Funds	Total
82	430	Public Regulation Commission	For a shortfall in personal services and employee benefits in the policy and regulation program at the end of fiscal year 2014.	678.0				678.0	678.0				678.0
83	460	New Mexico State Fair	For repayment of long-term debt owed to the Risk Management Division of the General Services Department	1,830.3				1,830.3		500.0			500.0
84	605	Martin Luther King Jr. Commission	For scholarships and an annual youth conference.	59.0				59.0					-
85	631	Department of Workforce Solutions	Pay DoIT deficit for UI toll-free number.	1,800.0				1,800.0					-
86	647	Developmental Disabilities Planning Council	Any unexpended balances remaining at the end of fiscal year 2014 from the office of guardianship of the developmental disabilities planning council shall not revert but may be expended in fiscal year 2015 to support the office of guardianship of the developmental disabilities planning council.	Language Only					Language Only				-
87	647	Developmental Disabilities Planning Council	To fund guardianship services.	164.0				164.0	164.0				164.0
88	690	Children, Youth, and Families Department	To provide care and support payments associated with protective services program of the children, youth and families department.	1,000.0				1,000.0					-
89	690	Children, Youth, and Families Department	An amount up to nine million seven hundred fifty thousand dollars (\$9,750,000) from the federal temporary assistance for needy families block grant for allocations to the children, youth and families department consistent with the provision of Section 2 of Chapter 228 of Laws 2013 for fiscal year 2014. The amount of temporary assistance for needy families block grant funds appropriated to the children, youth and families department shall not be more than the difference between the amount appropriated in Section 2 of Chapter 228 of Laws 2013 and amounts of funds already transferred from the tobacco settlement program fund pursuant to Section 2 of Chapter 228 of Laws 2013.	9,750.0				9,750.0			9,750.0		9,750.0
90	924	Public Education Department	For development of end of course (EOC) assessments to meet graduation requirements for those students that cannot pass the high school competency exam.	1,600.0				1,600.0					-
91	924	Public Education Department	For emergency support to school districts experiencing shortfalls in FY13.	1,719.8				1,719.8					-
92	924	Public Education Department	The contingent provisions for the supplemental special education maintenance of effort distribution in Subsection K of Chapter 277 of Laws 2013 and the contingent provisions of this section notwithstanding, the public education department shall distribute the ten million dollar (\$10,000,000) appropriation for the supplemental special education maintenance of effort distribution provided in that subsection to school districts and charter schools for special education purposes in fiscal year 2014. The distribution shall be in the same manner and on the same basis as the state equalization guarantee distribution.						Language Only				
93	950	Higher Education Department	Notwithstanding the provisions of Paragraph D of Section 6-4-3 and Section 6-24-3 NMSA 1978 or other substantive law, any amounts transferred to the lottery tuition fund in fiscal year 2014 pursuant to Paragraph D of Section 6-9-4 NMSA 1978 shall revert to the tobacco settlement permanent fund in fiscal year 2014.								TBD		
94	950	Higher Education Department	From the student financial aid-special programs fund to the lottery tuition fund to supplement the legislative lottery scholarship program, and contingent on enactment of legislation addressing solvency of the program.							11,000.0			11,000.0
SUPPLEMENTAL TOTAL				24,569.1	7,674.7	-	-	32,243.8	1,664.7	11,500.0	9,750.0	-	22,914.7
DEFICIENCY APPROPRIATIONS:													
95	350	General Services Department	For 2013 state unemployment claims reimbursements to be paid from the state unemployment compensation reserve fund per chapter 51-1-145 NMSA 1978.		2,540.6			2,540.6		2,540.6			2,540.6
96	350	General Services Department	For 2013 state unemployment claims reimbursement to be paid from the local public body unemployment compensation reserve fund per chapter 51-1-146 NMSA 1978.		822.7			822.7		822.7			822.7
97	379	Public Employee Labor Relations Board	For a shortfall in personal services and employee benefits at the end of fiscal year 2013.	2.8				2.8	2.8				2.8
98	631	Department of Workforce Solutions	Pay DoIT deficit for UI toll-free number.	2,113.4				2,113.4					-
99	790	Department of Public Safety	To clear an FY10 over-reversion to the general fund.	233.6				233.6					-
100	795	Department of Homeland Security and Emergency Management	For federal funds that were not recouped in the allowed time-frame.	812.7				812.7	812.7				812.7
DEFICIENCY TOTAL				3,162.5	3,363.3	-	-	6,525.8	815.5	3,363.3	-	-	4,178.8
SPECIAL/NEW INITIATIVE, SUPPLEMENTAL & DEFICIENCY TOTAL				71,636.5	17,916.5	-	-	89,553.0	24,306.2	23,078.3	9,850.0	-	57,233.5

TABLE 7

FY15 IT PROJECT FUNDING REQUESTS
(in Thousands)

		System Replacement / Enhancements		Agency Request				LFC Recommendation			
	Code	Agency	System Description	GF	OSF	Federal	Total	GF	OSF	Federal	Total
1	218	Administrative Office of the Courts	Judicial Enterprise Cyber-Security Enhancements	\$248.0			\$248.0				\$0.0
2	218	Administrative Office of the Courts	Citizen Web Portal to Consolidate Judicial Online Services				\$195.0				\$0.0
3	218	Administrative Office of the Courts	Statewide Court Active Network Implementation	\$270.0			\$270.0				\$0.0
4	218	Administrative Office of the Courts	SHARE Data Interface for AOC	\$150.0			\$150.0	\$150.0			\$150.0
5	333	Taxation and Revenue Department	Motor Vehicle Division Driver and Vehicle System Modernization	\$4,890.3	\$8,006.8		\$12,897.1	\$4,890.3	\$8,006.8		\$12,897.1
6	350	General Services Department	Risk Management Information System (RMIS)		\$1,500.0		\$1,500.0		\$1,500.0		\$1,500.0
7	370	Secretary of State	Integrated Reporting and Integrity System (IRIS)	\$1,470.0			\$1,470.0				\$0.0
8	378	State Personnel Board	Personnel Record Consolidation and Digitization Project	\$1,200.0			\$1,200.0				\$0.0
9	505	Department of Cultural Affairs	Cultural Atlas of New Mexico	\$128.1			\$128.1				\$0.0
10	505	Department of Cultural Affairs	Standardized Ticketing System	\$176.7			\$176.7				\$0.0
11	505	Department of Cultural Affairs	Communications and Security Improvements	\$884.0			\$884.0				\$0.0
12	539	State Land Office	Land Information Management System (LIMS)		\$6,300.0		\$6,300.0		\$1,300.0		\$1,300.0
13	550	Office of State Engineer	Litigation and Adjudication Business System Modernization	\$100.0			\$100.0	\$100.0			\$100.0
14	630	Human Services Department	Child Support Enforcement System Replacement (CSER)	\$1,036.1		\$2,066.0	\$3,102.1	\$527.3		\$1,023.7	\$1,551.0
15	630	Human Services Department	Medicaid Management Information System (MMIS)	\$238.7		\$2,148.7	\$2,387.4				\$0.0
16	690	Children, Youth and Families	EPICS Phase 4 FACTS -- Juvenile Justice	\$3,005.4			\$3,005.4				\$0.0
17	690	Children, Youth and Families	SHARE Assets Module Project	\$350.0			\$350.0				\$0.0
18	770	NM Corrections	Offender Management System	\$8,500.0			\$8,500.0				\$0.0
19	790	Department of Public Safety	Records Management System (RMS) and Computer Aided Dispatch (CAD)	\$1,500.0			\$1,500.0				\$0.0
20	790	Department of Public Safety	FastID	\$1,200.0			\$1,200.0				\$0.0
21	790	Department of Public Safety	Western Identification Network (WIN)	\$550.0			\$550.0	\$550.0			\$550.0
22	924	Public Education Department	Operating Budget Management System (OBMS) Enhancements		\$650.0		\$650.0				\$0.0
TOTAL				\$26,092.3	\$16,456.8	\$4,214.7	\$46,763.8	\$5,667.6	\$10,806.8	\$1,023.7	\$17,498.1
Agency Request											
			The period of time for expending six million (\$6,000,000) appropriated from the computer systems enhancement fund contained in Subsection 5 of Section 7 of Chapter 19 of Laws 2012 to stabilize and begin modernizing the oil and natural gas administration and revenue database is extended through fiscal year 2016.							Recommend	
333		Taxation and Revenue Department									
			The period of time for expending the one million nine hundred forty-six thousand three hundred (\$1,946,300) from the retiree health care fund contained in Subsection 6 of Section 7 of Chapter 19 of Laws 2012 to replace the retiree benefits system is extended through fiscal year 2016.							Recommend	
343		Retiree Health Care Authority									
			The period of time for expending the four hundred fifty thousand (\$450,000) appropriated from the computer systems enhancement fund contained in Subsection 9 of Section 7 of Chapter 19 of Laws 2012 to provide a centralized electronic records repository is extended through fiscal year 2016.							Recommend	
369		State Commission of Public Records									
			The period of time for expending the two million three hundred thirty-two thousand (\$2,332,000) appropriated from the land maintenance fund contained in Subsection 12 of Section 7 of Chapter 19 of Laws 2012 to complete the implementation of the land information management system is extended through fiscal year 2016.							Recommend	
539		Commissioner of Public Lands									
			The period of time for expending the one million three hundred thirty-five thousand (\$1,335,000) appropriated from the land maintenance fund contained in Subsection 10 of Section 7 of Chapter 19 of Laws 2012 (2nd S.S.) as extended in Subsection 13 of Section 7 of Chapter 19 of Laws 2012 to implement a land information management system is granted a final extension through fiscal year 2015.							Recommend	
539		Commissioner of Public Lands									