STATE OF NEW MEXICO

Report of the Legislative Finance Committee to the Fifty-Third Legislature

January **2018** | **SECOND SESSION**
For Fiscal Year **2019** | Volume 1

LEGISLATING FOR RESULTS: POLICY AND PERFORMANCE ANALYSIS

State of New Mexico
LEGISLATIVE FINANCE COMMITTEE

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Honorable Members
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 2019 budget recommendation of the Legislative Finance Committee is provided to you. The committee recommendation for recurring appropriations from the general fund is $6.26 billion, a 2.9 percent increase from FY18 spending levels. Working with a mild but steady improvement in the economy and an unexpected, albeit small, boost in FY17 reserves, committee members were able to balance recurring spending and revenue for FY19, replace the nonrecurring revenues used to balance FY18, and rebuild reserves to a responsible 8.4 percent. The committee's recommendation for FY19 prioritizes education, Medicaid, early childhood programs, and public safety, providing no increases to many state agencies.

The committee recommends an additional $27 million from the general fund for early childhood programs, mostly for child care and prekindergarten. The increase also includes $1.5 million to expand the successful paraprofessional home-visiting program for new families.

The general fund recommendation for public schools, a 1.9 percent increase from FY18, includes a $22.5 million boost to funding for serving at-risk students and $16.6 million to raise the minimum pay levels for full-time teachers. For higher education, the recommendation proposes no increase in the general fund appropriation for colleges and universities. It also redistributes some instructional and general purpose spending to increase the amount available for colleges and universities that perform well.

The committee recommends a $35.3 million increase in general fund support for the Medicaid program, a multi-billion-dollar program mostly supported with federal dollars. However, the recommendation assumes the federal government will continue to provide about $30 million for the Children's Health Insurance Program, which has yet to be reauthorized by Congress.

The recommendation for judiciary agencies provides a 2.7 percent increase in general fund revenue. The general fund recommendation for public safety agencies is a 1.1 percent increase over FY18, with additional revenue for the Corrections Department to cover radio fees and alleviate pay compaction among officers and increases for the Department of Public Safety for the officer recruit school and other programs.

The committee heard repeated testimony from agencies, schools and universities regarding high vacancy rates and challenges recruiting qualified employees. The committee recommends $47.9 million from the general fund for an average increase of 1.5 percent for all employees.

Of the total increase of almost 3 percent, approximately one third is to backfill or unwind some of the many fund swaps that were used to avoid spending reductions over the last few years. This includes leaving $18 million in the tobacco settlement permanent fund, returning $6 million from TRD's motor vehicles program to the road fund and reducing the use of supplemental severance tax bonds for school books and transportation.

I would like to thank the membership and staff of the Legislative Finance Committee for their hard work on behalf of the people of New Mexico. Together, we have prepared a responsible budget that prioritizes cost-effective spending on high priority programs.

Sincerely,

Representative Patricia Lundstrom, Chairwoman

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JANUARY 2018
FOR
FISCAL YEAR 2019

REPRESENTATIVE
PATRICIA LUNDSTROM
CHAIRWOMAN

SENATOR
JOHN ARTHUR SMITH
VICE CHAIRMAN

DAVID ABBEY
DIRECTOR

Recommendations and Highlights

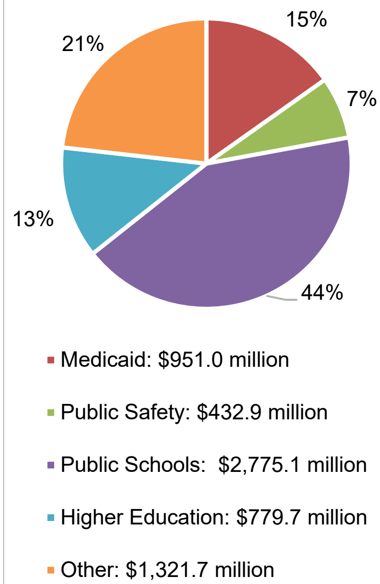
Signs of economic recovery offered tepid optimism the state is on a path toward recovery. Stronger than expected FY17 revenues boosted reserves, providing breathing room for the revenue and reserve outlook heading in FY19.

Revenues fell after FY15 nearly 5 percent and the Legislature responded with several rounds of appropriation reductions and solvency measures to balance the FY17 budget, resulting in double-digit reductions in some agency operating budgets. Not wanting to cut critical expenditures further, and with early signs of revenue momentum, the FY18 operating budget assumed a reduction in reserves of $122 million. Updated consensus revenue reports show strength in oil, gas, and associated gross receipts sufficient to build reserves at the end of FY18 to 9 percent and allow for a "new money" estimate of $199 million for FY19.

Any optimism over the possibility that the state's revenues are on an upward swing is tempered by uncertainty at the federal level over the proposed budget for 2019, a possible current-year budget shut down, changes the federal Affordable Care Act, and a re-write of the tax code. Any loss of federal revenue could wipe out any projected increase in the state's reserves.

A mini stress-test by Moody's Analytics of the state's finances during the 2017 interim indicated reserve levels may be too low, signaling a need for additional revenues, reprioritization of spending, and legislating and managing for results.

FY19 Recurring General Fund Appropriation Recommendation: $6.26 billion



Source: LFC files

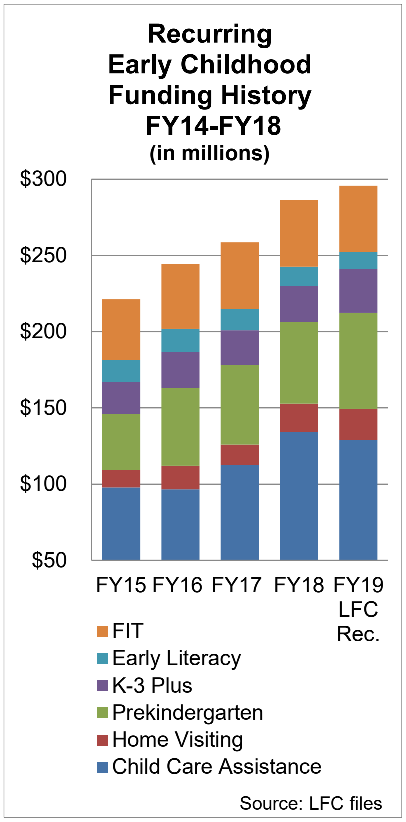
Budget Development and Priorities

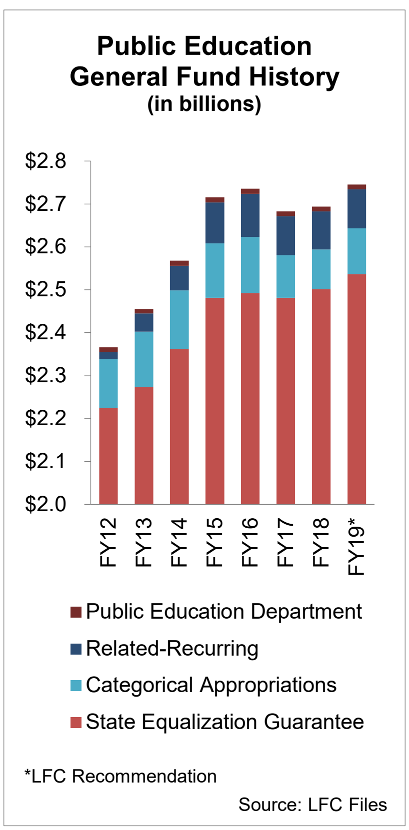
Budget Development

In August 2017, the consensus revenue estimates from the Department of Finance and Administration, Taxation and Revenue Department, Department of Transportation, and the Legislative Finance Committee (LFC) raised the FY18 recurring revenue estimate by $12 million to $5.9 billion and lowered the FY19 revenue estimate by $35.1 million to $6.1 billion. "New money" in FY19, defined as FY19 projected recurring revenue less FY18 recurring appropriations was projected to be $25 million. In December, the Consensus Revenue Estimating Group updated the revenue estimates, boosting estimated FY17 year-end revenues by $144.7 million and general fund reserves to 8.3 percent. Estimates for FY18 and FY19 were also revised upward $149.6 million and $174 million, respectively. "New money" available for FY19 was $199 million. The improved revenue outlook allowed LFC to focus on a narrow set of priorities for FY19.

Priorities

LFC's budget recommendation for FY19 restores balance between recurring revenues and appropriations. The committee was able to address the structural deficit in the FY18 budget by replacing $122.4 million of nonrecurring revenues in the budget, adding $171.5 million of new spending and building reserves to an estimated 8.4 percent.





Committee priorities held many agency operating budgets flat for FY19, allowing much of the new money to be spent on education, Medicaid, early childhood programs, public safety, addressing below market compensation for teachers and state employees, and making headway at the needs of the judicial branch.

Recommendation

Agencies requested $6.25 billion from the general fund; the LFC recommendation is $6.26 billion, up $178 million, or 2.9 percent, from FY18 spending levels.

Early Childhood

The committee recommendation for additional general fund revenues for early childhood care and education services includes $20 million for childcare assistance, $1.5 million for home-visiting services to new families, $2.5 million for early prekindergarten in the Children, Youth and Families Department, $6.5 million for prekindergarten in the Public Education Department, and $6.5 million for K-3 Plus. In total, the FY19 recommendation for early childhood programs is $295.9 million, an increase of $26.6 million above the FY18 operating budget.

Education

Educating New Mexico's children and workforce remains a priority for the committee. The LFC recommendation increases funding for public schools and continues performance-based funding for New Mexico's colleges and universities. LFC recommends additional funds to target improved compensation throughout the state's public schools and postsecondary institutions.

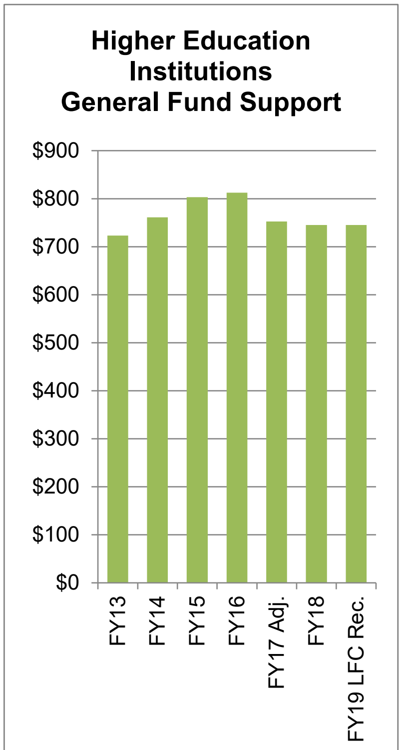
Public Education. The committee recommendation for public education funding totals $2.745 billion, an overall increase in general fund appropriations of $51.5 million, or 1.9 percent. In light of recent budget reductions and a sufficiency lawsuit, the recommendation gives attention to school operational needs and prioritizes funding to programs that have demonstrated improvements in early learning and student outcomes. The committee recommends increasing general fund appropriations to the state equalization guarantee by $35.1 million, or 1.4 percent; categorical appropriations by $14 million, or 15.1 percent; and department-administered programs and initiatives by $2.4 million, or 2.7 percent. This includes an adjustment of $7.2 million to close funding formula loopholes, increase of $16.6 million to raise full-time teacher minimum salary levels by $2,000, increase of $22.5 million to boost the funding for at-risk students, and increase of $13 million for prekindergarten and K-3 Plus programs.

Higher Education. LFC recommends $779.6 million for higher education institutions and the Higher Education Department (HED), an increase of $336 thousand over the FY18 level. The overall general fund amount for institutions is flat compared with FY18, but 4 percent of instruction and general funding is redistributed based on the performance-based higher education funding formula. LFC recommends an additional $336 thousand for HED to provide two additional FTE for the department's accountability efforts and to pay Western Interstate Commission for Higher Education dues. Finally, LFC recommends language allowing HED to withhold a portion of general fund allotments to institutions under an enhanced fiscal oversight program.

Human Services

The LFC recommends an additional $35.3 million in general fund support for the state's Medicaid program in FY19, an increase of 3.9 percent over the FY18 operating budget. The recommendation includes most components of the Human Services Department's (HSD) request for the Medicaid program but assumes continued federal funding for the Children's Health Insurance Program (CHIP) and does not supplant $31.2 million in federal funds for CHIP with general fund revenue as requested by HSD. The recommendation adds $7.4 million for Medicaid enrollment, $4.3 million less than requested, to align with current projections indicating slowing Medicaid enrollment growth.

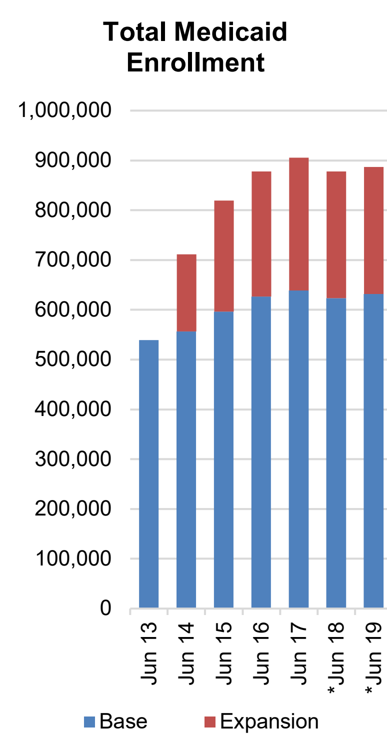
Additionally, the LFC recommendation includes $18 million in general fund revenue pursuant to current law providing that 50 percent of tobacco settlement revenue accrues to the tobacco settlement permanent fund and includes $7.8 million in intergovernmental transfer funds from the University of New Mexico hospital to be generated from recoupments for medical education expenditures eligible for a higher federal matching rate. The recommendation incorporates the current FY19 federal Medicaid match rate of 72.26 percent, resulting in a general fund savings of approximately $3 million. LFC recommends the requested maintenance funding for Medicaid's ASPEN information technology (IT) system, as well as IT and data support to implement changes in the Medicaid program ensuing from the upcoming implementation of Centennial Care 2.0. The recommendation supports the requested funding to add additional positions and hire more personnel within the Income Support and Child Support Enforcement programs, and includes an additional $398 thousand for state-funded senior supplemental nutrition assistance to offset declining federal funds.



Source: DFA General Fund Summaries, LFC Files

Health

The $287.3 million general fund LFC recommendation for the Department of Health is a 1.4 percent increase above the FY18 operating budget. The recommendation seeks to shore-up areas within the department, left short because of recent years' solvency actions, by increasing funding to fill vacancies in the Facilities Management Program, maximizing the use of all funding sources, and maintaining slots for people waiting to receive services on the Medicaid waiver for people with developmental disabilities. The LFC recommendation also funds improved access to long-acting reversible contraceptives, Vital Records and Health Statistics staff, dental services for people with developmental disabilities, health facility oversight, and a new internal quality review unit related to the Jackson class action lawsuit where the state was sued for violating the civil rights of people with intellectual and developmental disabilities.



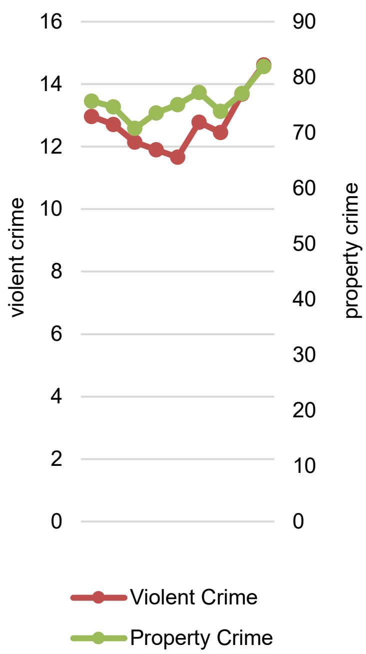
*2018 and 2019 projected
Source: HSD 11/17 projection

Judiciary

LFC recommends $281.8 million for all judicial entities in New Mexico. The recommendation represents $3.7 million, or 2.3 percent, more general fund revenue than the FY18 operating budget. The recommended increase funds operational costs, increases in risk rates, and a 2 percent judge pay increase. The committee recommendation includes an additional $1.8 million to the Administrative Office of the Courts (AOC) to fully fund magistrate court leases and court appointed attorney costs, reduce magistrate court vacancies, and reduce use of automation fund balances.

The general fund recommendation for district attorneys is up 3.5 percent, including a 5 percent increase for the 2nd Judicial District Attorney in Bernalillo County.

New Mexico Crime History
(in thousands)



Source: FBI

Public Safety

The committee recommends $420.8 million in general fund support for the Corrections Department and the Department of Public Safety, $4.4 million, or 1.1 percent, more than the FY18 operating budget. The $300.5 million general fund recommendation for the Corrections Department is a $3.3 million, or 1.1 percent, increase over the FY18 operating budget to support Department of Information Technology radio fees, $1.9 million for private prison cost-of-living increases and to relieve correctional officer pay compaction, and $794 thousand for vacancy rate reductions. The committee recommendation also includes an additional $3.9 million in land grant permanent fund revenue due to growth in assets. The Department of Public Safety general fund recommendation is $120.2 million, a $1.2 million, or 1 percent, increase from the general fund over the FY18 budget to support the additional recruit school, insurance and IT rates, and grant management personnel.

Transportation

The New Mexico Department of Transportation (NMDOT), mainly funded with state road fund (SRF) revenues for highway maintenance and federal funds for road construction and debt service, projected state road fund revenue growth of 2.2 percent and slightly declining federal funds.

The LFC recommendation fully funds the NMDOT request of $861.4 million and discontinues a transfer of $6 million from NMDOT to the Taxation and Revenue Department for the operations of the Motor Vehicle Division. The discontinuation of the transfer will allow the funds to be used for road maintenance, where NMDOT estimates an unfunded need of $93.4 million. The LFC recommendation fully funds NMDOT's request for personnel costs, which applies a 9 percent to 11 percent vacancy rate even though the agency experienced a 14 percent vacancy rate in FY17.

FY19 Average 1.5 Percent Compensation Cost
(in thousands)

Branch	General Fund Share	General Fund Cost
Legislative	100%	$ 61.4
Judicial	97%	$ 3,680.6
Executive	46%	$ 7,483.5
Higher Ed.	49%	$ 6,451.4
Public Schools	100%	$ 30,245.6
Total		**$ 47,922.5**

Source: LFC files

Economic Development

Both the Tourism and Economic Development departments submitted flat requests for FY19. LFC adopted the requests but recommends special appropriations of $6 million for job training and recruitment incentives.

Compensation

Since 2009, state employee salaries have only increased by 4 percent while WorldatWork, an international human resources association, reports U.S. salaries as a whole increased by 21 percent, or about 3 percent annually. New Mexico ranks sixth within the eight-state public sector regional comparator market with an average base salary of $45.3 thousand.

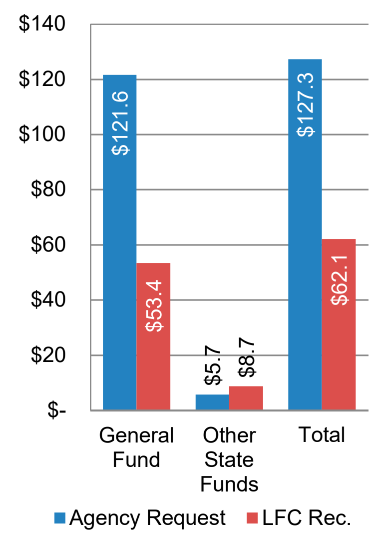
The LFC recommendation provides an average 1.5 percent cost-of-living adjustment (COLA) for all legislative, judicial, executive, and public and higher education employees, and provides flexibility in its implementation in FY19. An average 1.5 percent COLA, both salary and benefits, would cost approximately $48 million in general fund revenue.

Deficiency, Special, and Supplemental Appropriations

For the 2018 legislative session, agencies requested a total of $127.3 million in special, supplemental, and deficiency appropriations. The requests included $121.6 million in general fund revenues. Several agencies requested special appropriation funding for recurring operating budget expenditures. The LFC recommendation for special, supplemental, and deficiency appropriations is $53.4 million in general fund revenues and an overall funding recommendation of $62.1million.

The recommendation includes $3 million for water litigation by the Attorney General and the State Engineer, $6 million for the Local Economic Development Act and the Job Training Incentives Program, $4 million for the lottery scholarship to maintain 60 percent tuition distributions to students, $2 million for public school district shortfalls and litigation costs, $8.6 million for radio communications charges and equipment for the Corrections Department, and $1.5 million to match potential federal grants to hire police officers.

FY19 Requests and Recommendations for Special, Supplemental, and Deficiency Appropriations
(in millions)



Source: LFC Files

Information Technology

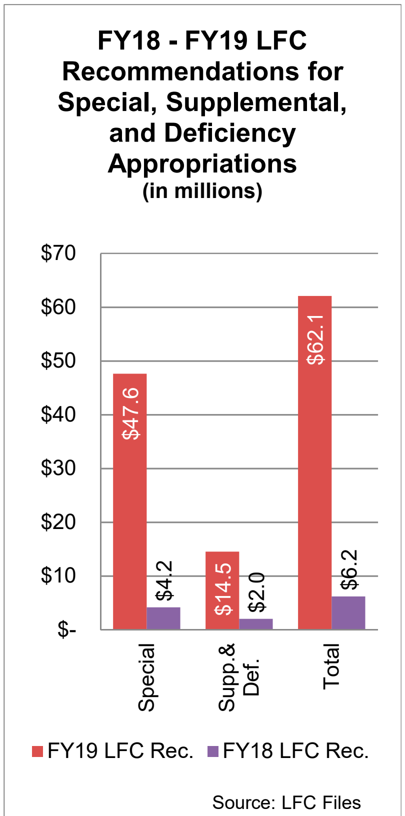
The LFC recommendation for IT funding totals $86.4 million for 20 projects. Funding sources include $18.2 million from the general fund, $2.5 million from other state funds, and $65.7 million in federal funds. The recommendation prioritizes ongoing projects and well-prepared and well-managed system requests that demonstrated strong positive returns on investment for each agency and New Mexico. Projects determined to be non-critical or badly prepared or that reasonably could be delayed were not recommended.

Capital Outlay and Infrastructure

Capital outlay requests from state and local entities in 2018 totaled nearly $2 billion, far more than the $307.8 million available. As lawmakers seek an equitable distribution of the limited capital funds among state-owned and local capital needs, they must be attentive to the $677.5 million for over 2,000 state and local projects that remains outstanding.

State agencies, higher education institutions, and special and tribal schools requested nearly $870 million for capital projects; $597 million from severance tax bond (STB) capacity, $232 million from general obligation bond (GOB) capacity, and $39.9 million from other state funds. The LFC staff framework recommendation for state entities addresses the most critical projects impacting public health and safety, preservation of state facilities, and completion of projects in progress. The proposed funding for consideration by the full Legislature includes $79.5 million from STB capacity, $165.4 million from GOB capacity, and $39.9 million from "other state funds."

Key projects recommended for GOB funding, which must be approved by voters, include $49 million for state highways, $10.8 million for senior centers, $9.5 million for libraries, $7.5 million for the Roosevelt Hall science building at Eastern New Mexico University, $16 million to complete chemistry building renovations at the University of New Mexico, and $16 million to modernize agricultural facilities at New Mexico State University. The framework for STB funding includes $15 million for infrastructure and security improvements at

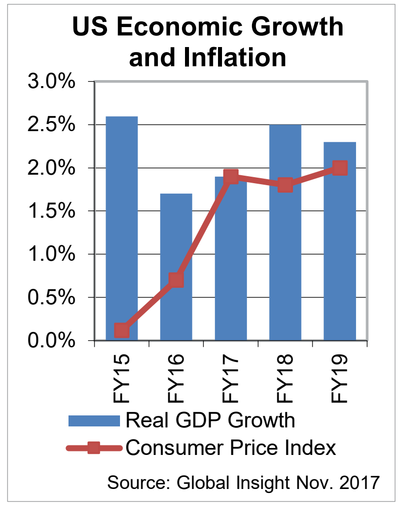


correctional facilities statewide, $10 million to replace the state police helicopter, and $9 million to acquire a building to serve as a child wellness facility in Bernalillo County.

The approximately $1.3 billion requested by eligible local entities reflects only the top five priorities listed in the Infrastructure Capital Improvement Plans. The most critical needs requested by local entities are for water, transportation, quality of life (libraries, parks, senior centers, community and cultural centers, etc.), environment (utilities, landfills, clean energy, solid waste, etc.), and public safety. The priorities range in the hundreds of millions of dollars, placing legislators in the position of funding only a small portion of the amount needed to complete even a phase of a project and resulting in increased strain on the administrative resources of local governments.

Economic and Revenue Forecast

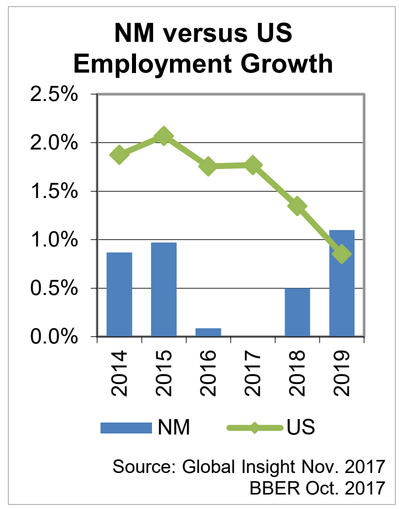
In December, the revenue forecast was revised upward. Spending. Increased revenue expectations, partly the result of a rebound in the energy sector, are welcome news after two years of mostly declining revenue estimates and the need for significant solvency measures to maintain positive reserve balances. Combined with solvency legislation at the 2016 and 2017 regular and special legislative sessions, FY17 ended with $505 million in general fund reserves, or 8.3 percent. Recurring revenue projections for FY18 are $6.1 billion, up from the $5.8 billion estimated in the December 2016 forecast. Projected FY18 ending reserve balances are $550 million, or 9 percent. However, optimism based on rising revenues should be tempered with caution due to many significant risks.



Economic Forecast

U.S. Economy

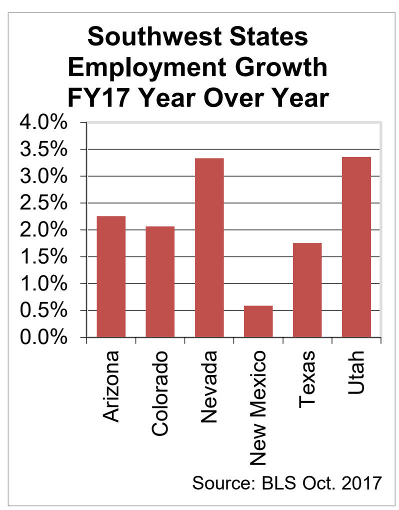
The U.S. economy is expected to continue its moderate growth rate, with real gross domestic product projected to grow about 2.6 percent in FY18, and then to hover around 2 percent in future years. Despite the long period of expansion, economists see no signs of an overheating economy or immediate impediments that appear to be developing. For this reason, the forecasts predict national economic growth will continue. Although inflation has remained stubbornly low in the last few years, it is expected to finally reach the Federal Reserve's 2 percent target by FY19. However, rising inflation will likely trigger a rise in interest rates, increasing the cost of borrowing money and reducing consumer spending power.

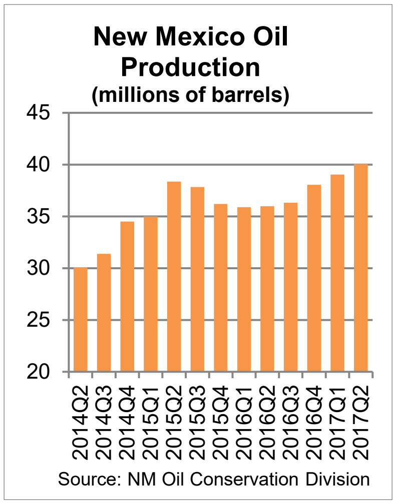


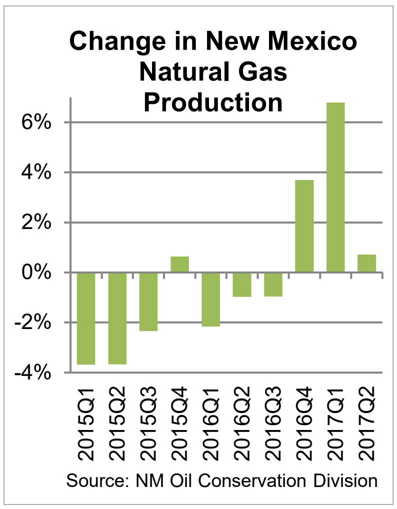
New Mexico Economy

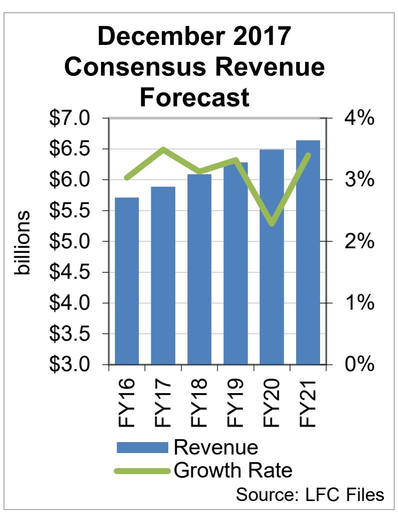
The state's economy experienced a sizable downturn after oil and gas prices plummeted in late 2014. Low prices continued in the ensuing years, leading to 0 percent average growth in New Mexico's gross state product between FY16 and FY17, and the loss of about 8,500 jobs in the mining sector.

The University of New Mexico's Bureau of Business and Economic Research (BBER) estimates the state's total employment in FY17 was stagnant and projects a modest 0.5 percent growth in FY18. The state's unemployment rate in FY17 was 6.5 percent. BBER projects increased growth in the healthcare, leisure and hospitality, and professional services industries from 2018 forward and moderate growth in mining, construction, and transportation and warehousing. Losses in manufacturing are expected to continue throughout the forecast period. Despite employment growth, New Mexico's total labor force has remained below pre-recession levels. Total wage and salary growth was a modest 1 percent in FY17 but is projected to rise to 2.2 percent in FY18 and 3.5 percent in FY19.









Energy Markets

The oil and gas sector appears to be rebounding from the severe collapse in commodity prices. New Mexico averaged 62 active rigs in the first quarter of FY18, up from the low of 35 active rigs averaged in FY16. Following the Organization of Petroleum Exporting Countries' (OPEC) move to extend production cuts through the end of 2018, U.S. oil prices reached over $57 per barrel in late November 2017, the highest it had been since June 2015. However, rising U.S. production threatens to oversupply the market if prices rise too quickly, which could spark significant price drops.

Oil production in the state reached a record high in FY17, with New Mexico producing over 153 million barrels. With increased technological efficiencies and drilling activity in the Permian Basin, the consensus revenue estimating group expects New Mexico to see continued growth in oil production throughout the forecast horizon. However, these same technological efficiencies are likely to stunt mining employment growth because producers have an incentive to lower breakeven costs in order to generate profit in the low price environment. The consensus forecast estimates New Mexico oil prices ranging from $47.50 to $52.50 per barrel.

Despite a long pattern of gradual decline in natural gas production, production in the state increased in FY17, and data for recent months indicate potential for slightly more growth in FY18. The increase in total volumes could be due to the increasing amounts of associated gas produced from oil wells. However, the consensus estimate expects natural gas production will continue its downward trend in FY19 forward, and prices are expected to remain around $3.25 per thousand cubic feet (mcf), well below the highs of over $10 per mcf in 2008.

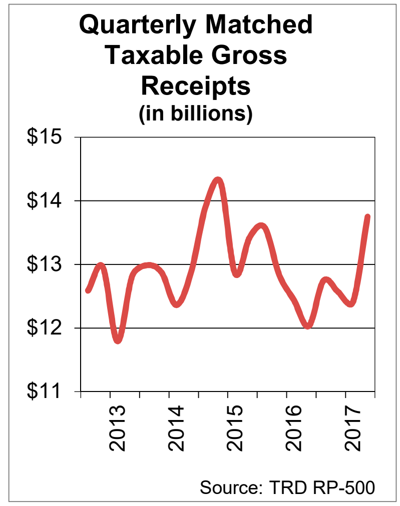
Revenue Forecast

As New Mexico's economy recovers and grows, state revenues are rebounding. Revenues exceeded expenditures in FY17 by $331.4 million and are projected to exceed expenditures in FY18 by $45.7 million. Projected FY18 recurring revenue projections rose to $6.1 billion in the December 2017 forecast, about $162 million more than the forecast a year ago and about 3.5 percent above FY17 levels. Total ending balances are projected at $505 million, or 8.3 percent, for FY17 and $550 million, or 9 percent, for FY18.

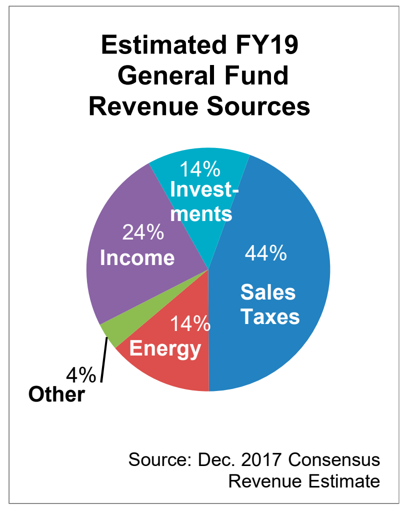
Gross receipts tax (GRT) revenue, the largest source of general fund revenue, was hard hit by the downturn in the energy sector, falling 6.7 percent in FY16. However, GRT revenue grew 2 percent in FY17 and is projected to exceed FY15 levels by FY19. The mining, oil, and gas industry more than doubled the amount of gross receipts generated during the first quarter of FY18 compared with the first quarter of FY17, rising to become the fifth largest industry in the state. Severance tax revenue, combined with revenue increases from bonuses, rents, and royalties, is expected to add nearly $70 million in FY18 above prior-year levels. Continued, albeit modest, growth in employment and total wages and salaries contributed to growth in personal income tax (PIT) revenue in FY17, and the consensus forecast estimates 1 percent to 2 percent growth in PIT revenue going forward. The stock market performed exceptionally well in the first three quarters of 2017, leading to high expected returns for the calendar year. Interest earnings and distributions from the state's investment funds are projected at $57 million, or 7.7 percent, above FY17 levels, with another 8 percent growth in expected revenue in FY19.

Risks to the Forecast

Federal Tax Reform. Federal income tax reform poses one of the largest risks to the revenue forecast, with potential for both upsides and downsides. To date, both the House and Senate have passed different versions of the Tax Cuts and Jobs Act. Generally, both the House and Senate proposals alter the personal income tax brackets and tax rates, eliminate personal exemptions, increase the standard deduction, eliminate some itemized expenditures, and significantly lower the corporate tax rate. New Mexico's personal and corporate income taxes use federal tax systems as a starting point for administration. Because the state conforms fairly closely to the federal system, New Mexico is particularly sensitive to changes at the federal level. In a presentation to the Revenue Stabilization and Tax Policy Committee, the New Mexico Tax Research Institute stated New Mexicans are likely to see a state tax increase for those whose increased standard deduction does not offset the loss of personal exemptions. This has potential to increase general fund revenues from personal income taxes.

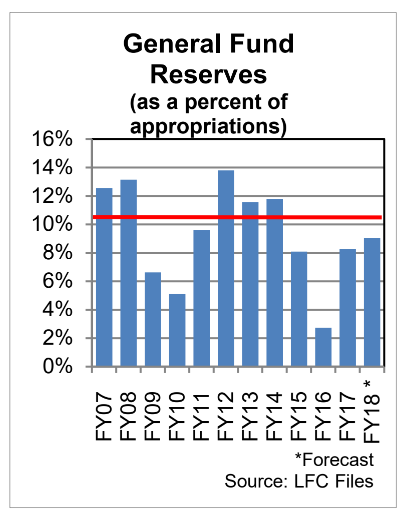


Additionally, current estimates by the Congressional Budget Office suggest the federal tax reform proposals would add $1.5 trillion to the national debt over the next 10 years and could trigger spending cuts due to the federal Pay-As-You-Go Act of 2010 (PAYGO), which requires tax cuts to be paired with offsetting spending cuts. Tax reform could result in cuts to Medicare and other programs, including federal mineral leasing payments (FML) to states. New Mexico received $435.7 million in FML payments in FY17, representing about 7 percent of recurring general fund revenues. If the state were to lose all or part of these payments as a result of federal tax reform and the PAYGO law, it would have a significant and potentially devastating impact on the state's budget.



Energy Volatility. Although oil and natural gas prices have relatively stabilized, energy volatility remains the greatest risk to the revenue forecast due to the potential for large revenue shocks. New Mexico's dependence on the energy sector makes the state especially sensitive to oil market volatility. Sharp price declines in 2015 and 2016 led to a broad pullback in the petroleum industry, revealing a significant portion of the state's revenues are generated from the industry's activities. This includes not only direct revenue from severance taxes, bonuses, rents, and royalties but also income taxes from oil companies and industry workers, gross receipts taxes on drilling activities, and other worker spending. As such, an unexpected downturn in oil and gas prices poses a significant downside risk to the forecast.

Tax Protests and Refund Claims. The Taxation and Revenue Department (TRD) reported in October 2017 that $445 million in taxpayer claims were in protest, a mix of disputes over assessments, denied refunds, and denied business credits. LFC staff requested significantly more details about these protests, including amounts under protest for the last several fiscal years, but this will take time for TRD to research due to the need to manually compile much of this data history. The large dollar amount under protest could easily wipe out most of the state's newly rebuilt reserves if the state were to lose all the cases. Notably, well over $100 million was paid by the state in FY15 through FY17 to taxpayers exploiting loopholes in statutes, and many tax professionals continue to encourage clients to aggressively pursue claims for deductions and credits in ways never previously allowed and seemingly at odds with statutory intent. In addition to taxpayer protests, local governments are concerned TRD may be incorrectly distributing gross receipts tax revenues. If these claims are true, the state could lose tens of millions of dollars in back payments.



As tax reform discussions intensified in FY17, anomalies in tax data and reporting issues also increased, leading to significant concerns about revenue tracking and forecasting. Higher quality data and additional reporting would ease these concerns and allow more precise estimating for major tax reform proposals. An expert, independent contractor is developing a model to analyze tax reform proposals, which, combined with better data, could reduce the substantial uncertainty associated with major tax reform. The model is expected in December 2017. Some tax code clean-up, reporting, and tax reform options could be implemented even without this model to reduce uncertainty and address many tax policy issues. While state tax reform discussions continue, the Taxation and Revenue Department (TRD) should quickly analyze the implications of proposed federal tax reform on New Mexico families and state revenues and recommend legislation for the 2018 regular session to prevent state tax increases on families and hard-working New Mexicans.

For more info:
Taxation and Revenue Department Report Card Page 131

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.

Data and Reporting Issues

LFC staff requested additional research and reporting by TRD over the last year-and-a-half to help provide transparency for tax credits, explain anomalies in gross receipts tax (GRT) data, explain the sharp downturn in corporate income tax (CIT) revenues, and determine if there are significant issues related to centralized property tax assessments. To date, the agency has been unable to provide regular credit reporting that provides reliable figures. TRD supplied some updated information on CIT overpayments that impact general fund revenue colletions but has not provided updated estimates on the impact of rate reduction and single sales factor phase-in. The department also has not presented an action plan or legislation to address property tax assessment issues, including the issue of an outdated statute for assessing drilling equipment. A lack of reliable, complete data also impacts the ability to assess tax expenditures or tax reforms.

Tax Administration, Risks from Protest and Litigation

TRD faces substantial tax policy challenges due largely to lack of leadership and low employee morale, according to a report presented to the business-backed Council on State Taxation (COST) in October 2017. The report states, "Practitioners and taxpayers uniformly agree that the department is more dysfunctional [now] than at any time in at least the last 25 years." Included in the report are a variety of issues concerning TRD, including aggressive audits relying on changing interpretations of the law, an unpredictable approach to various tax incentives, and backlogs of administrative protests. Additionally, the report points out vacancies or lack of tax policy experience in key leadership positions, including the department secretary, chief counsel, director of tax policy, and department legal staff. This leads to what the report calls a "key problem" in the last few years where "there does not seem to have been top down tax policy review and policy control over-department decisions at all levels." As a result, the report indicates TRD over relied on de facto tax policy guidance from its auditors, rather than establishing clear policy direction. The report concludes the "apparent lack of priorities for tax enforcement and administration" results in significant inefficiencies, the effect of which is to "substantially increase costs for taxpayers and substantially delay resolution of tax disputes in New Mexico, including collection of tax revenue."

This report was not alone in its criticism of the department. Increasing concerns from many industry representatives are surfacing about how TRD is administering tax programs, including claims the agency is routinely denying refund, deduction, and credit claims, resulting in a high rate of protests. According to TRD data in October 2017, $169 million of assessments and $276 million of denied refunds were in open protest for a total of $445 million. Some of the most frequent complaints from industry involve the department's taxation of foreign source dividends, which some tax professionals say cannot be taxed under the foreign commerce clause of the U.S. Constitution; its interpretation of gross receipts cost segregation to allow or prohibit construction companies from deducting building materials from the tax when claimed as equipment and sold to a government; its treatment of guaranteed payments to partners that applies the GRT to certain non-wage payments to partners in a company where the payments may look like a form of salary and are taxed as personal income; and its narrower interpretation of the chemicals and reagents deduction from the GRT.

Contributing to the more than $400 million in protests is a growth in data-mining by the industry, with many tax professionals attempting to exploit possible loopholes in the tax code and encouraging clients to pursue aggressive claims. This appears to be the case with claims for the chemicals and reagents deduction, which totaled about $160 million. To date, the department won the two disputes that received decisions from the Administrative Hearing Office (AHO). Additionally, AHO determined cost segregation may be viewed more narrowly than many previous interpretations by industry, and perhaps by TRD, supporting closer review by the department and perhaps more denials of claims. The department should act to protect state revenues in accordance with law and regulation, but these actions should be consistent and guided by policies and procedures promoted by leadership at the agency and effectively communicated to industry.

Tax Reform

LFC relies on its tax policy principles when analyzing existing and proposed policies, including tax reform options, but the principles are not targeted enough for use in evaluation of tax *expenditures* – exemptions, deductions, and credits. The LFC tax expenditure policy principles developed in 2016 guide the analysis for tax expenditures, including in fiscal impact reports for new or expanded deductions and credits. However, due to incomplete reporting, many existing tax expenditures do not meet many or all the principles.

Tax Study

Existing data and modeling resources make it difficult for legislative and executive staff to estimate the fiscal impacts of major tax reform legislation, particularly under the time pressures of a legislative session. However, it is critical

Follow-Up for the Taxation and Revenue Department

- Analysis of federal tax reform and the resulting impact of state-level income taxes on revenues and families; recommended legislation to protect revenues and prevent state-level tax increases
- Detailed history of protests by number, value, type, and resolution in favor of TRD or taxpayers
- Monthly credit reporting
- Additional research into "other credits," including relationship with business credits
- Detailed explanation and documentation of what happens to aged credits
- More specific breakdown by fiscal year of impact of 60-day money and other credits now booked as PIT withholding
- Documentation of a GenTax scenario simulating a taxpayer reducing a credit and taking additional deductions, indicating how and when general fund and local government distributions are impacted – key to tracking and forecasting tax expenditure impacts
- Documentation of oversight for accepting a return, what impacts occur before final approval, and at what point in the process a return affects local government distributions
- Analysis on whether Amazon should now be remitting GRT on third-party purchases and if not, what circumstances would need to exist for this to be required
- Updated projections on the impact of HB641 from the 2013 legislative session to gradually reduce the CIT rate and phase in single sales factor apportionment, improving CIT forecasting
- Additional research into why the relationship between the amount of tax due to the general fund and the underlying matched taxable gross receipts began fluctuating wildly starting in October 2015

the Legislature has the ability to act with confidence that reform proposals will perform as intended. As a result, the Legislature appropriated $400 thousand for a tax study to gather data and produce a model that legislative staff can use to provide fiscal impact estimates more quickly and perhaps with less uncertainty. The contract was awarded to Ernst and Young, working in coordination with Georgia State University, slated for completion in December 2017.

LFC TAX EXPENDITURE POLICY PRINCIPLES

Vetted:
Was the proposed new or expanded tax expenditure vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters?

Targeted:
Does the tax expenditure have a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals?

Transparent:
Does the tax expenditure require at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies?

Accountable:
Does the required reporting allow for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency? Is the tax expenditure set to sunset unless legislative action is taken to review the tax expenditure and extend the sunset date?

Effective:
Does the tax expenditure fulfill the stated purpose? If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – are there indicators the recipients would not have performed the desired actions “but for” the existence of the tax expenditure?

Efficient:
Is the tax expenditure the most cost-effective way to achieve the desired results?

Tax Code Cleanup and Improved Reporting

The state enacted legislation in 2017, supported by TRD, that cleans up various portions of the tax code – the first clean-up bill in years – but several opportunities for additional cleanup remain. Additionally, reporting by taxpayers and TRD could be improved significantly.

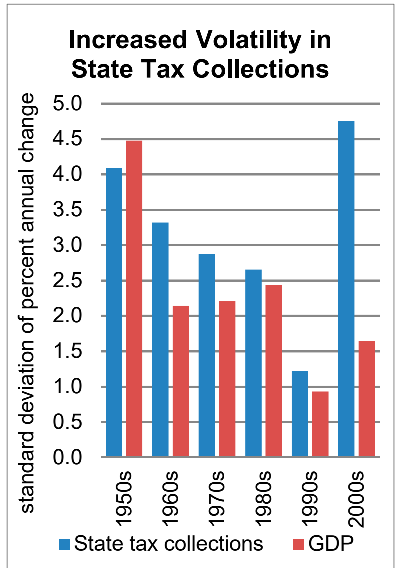
Repeal Tax Expenditures and Close Loopholes. The state should repeal or amend various statutes to clarify and update intent, eliminate expired and never or rarely used tax expenditures or those with unforeseen claims and revenue losses, and prevent possible significant loopholes from forming. One option is to amend the insurance “in lieu of” provision to clarify that only companies whose primary business activity is insurance taxable under the insurance premium surtax shall not be liable for other taxes. Another is to require national laboratory prime contractors to pay GRT and corporate income tax regardless of corporate structure, preventing a significant loss of revenue if future management contracts for Los Alamos or Sandia are awarded to a nonprofit.

Update Drilling Equipment Valuation. Current statute is outdated and only values oil and gas drilling equipment based on the vertical distance drilled. Drilling technologies and techniques improved significantly over the years, and horizontal drilling is a common method. Current statute leads to undervaluation of drilling equipment for property tax purposes. The state should add horizontal drilling distance to the current vertical distance for assessment by TRD’s central property value assessment function.

Require Separate or Additional Reporting for Certain Deductions and Incentives. Many deductions do not require separate reporting by taxpayers and are lumped together in a single dollar amount on the forms submitted to TRD. Combined reporting of deductions leads to either nonexistent or imprecise cost estimates and complicates any possible cost-benefit analyses. Separate reporting of these costs would solve half the problem of performing such analyses. Additionally, separate reporting of deductions intended to reduce or eliminate certain forms of tax pyramiding and other potentially large deductions could significantly improve analysis of tax reform proposals.

Similarly, cost-benefit or return-on-investment analyses is difficult or impossible for many of the state’s tax incentives. While separate reporting of deductions to TRD would help, additional, detailed reporting would substantially improve public accountability, transparency, and the ability of any interested parties to analyze tax incentives. Companies are not required to take advantage of these incentives – it is a choice, and companies can consider any additional reporting when choosing to take advantage of a tax incentive. The state should require businesses taking advantage of certain incentives to permit TRD to publicly report the taxable base and foregone revenues for each taxpayer and incentive. The business should also report general job and investment data to provide a picture of the benefits the state receives. TRD should be required to publish the cost and benefit data on its website annually. Additionally, local governments should be required to provide information on foregone revenues and performance requirements for industrial revenue bonds to the Local Government Division of the Department of Finance and Administration (DFA), which should publish the data on its website annually.

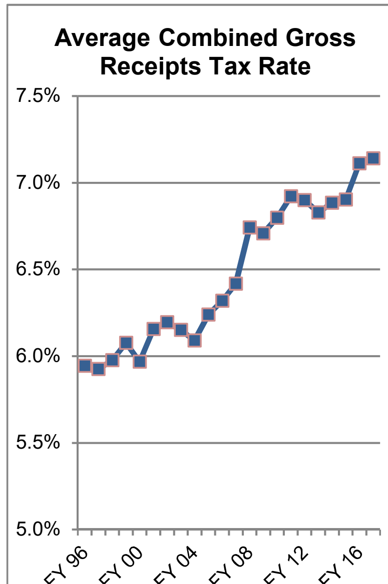
Allow Staff Limited Access to Taxpayer Data for Analysis. TRD allows certain local government officials to access limited confidential taxpayer data after taking confidentiality training from the department. The state should require TRD to allow LFC and DFA staff to take the confidentiality training and receive access to the same level of tax record details as local government officials. This would improve the ability of staff at these two oversight agencies to perform high quality performance evaluations, revenue forecasts, and fiscal impact reports.



Sources: Census Bureau, Bureau of Economic Analysis, Moody's Analytics

Potential Tax Reform

The tax reform proposal that passed the House during the 2017 regular legislative session and the proposal introduced and debated in the 2017 special session offered broad, sweeping changes that attempted to dramatically restructure the GRT in one fell swoop. They contained significant interactive effects difficult to estimate, had issues related to timing of implementation and rate calculations, and repealed many exemptions and deductions without a cost-benefit analysis to determine the value to state revenues and citizens. However, they also resulted in substantial conversations about tax reform options that highlighted the need for reform to address policy and revenue concerns. A few tax reform options would address some of the most pressing concerns on both sides of the discussion and could raise general fund revenues to reduce GRT rates and reduce tax pyramiding.



Source: LFC Files

Hospital Tax Reform. The healthcare landscape changed significantly in the last decade. The industry is one of just two bright spots in New Mexico for job growth, yet it remains largely untaxed. Hospitals are virtually untaxed at the state level despite more than $5 billion in annual gross receipts. In addition, private hospitals pay partial local taxes while government and nonprofit hospitals are largely exempt, leading to significant revenue inequities. The uneven tax playing field for hospitals interferes with the market, creating economic inefficiencies with strong incentives for hospitals to adopt certain financial structures.

A tax reform measure could correct this decades-old inequity. It could subject 50 percent of gross receipts of for-profit, nonprofit, and government hospitals to the state portion of the GRT, leaving a 50 percent deduction. This is similar to a prior proposal passed by the Legislature. Taxing nonprofit and government facilities along with for-profits would be a major step in applying the tax in an equitable manner. Such a reform measure could bring nonprofit hospitals into the state GRT and governmental hospitals into the governmental gross receipts tax (GGRT) base and prevent local governments from adding on local taxes. It could repeal the for-profit hospital tax credit of Section 7-9-96.1 NMSA 1978, leveling the playing field for hospitals at the state tax level.

Leveling the Playing Field of Hospital Taxation

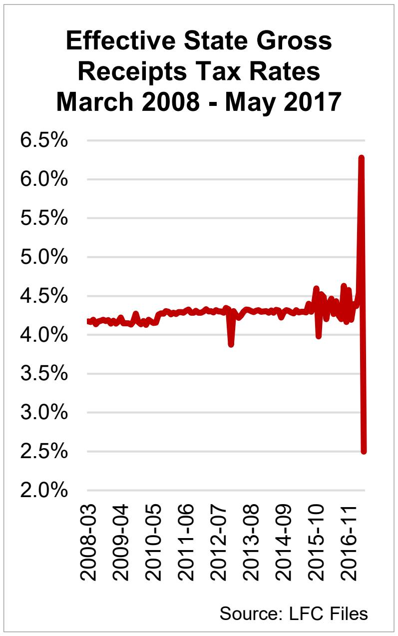
	Current Law				Possible Changes		
	For-Profit	Nonprofit	Government		For-Profit	Nonprofit	Government
Tax Rate	5.125% GRT	n/a	n/a		5.125% GRT	5.125% GRT	5.0% GGRT
Credits	3.75% to 5%*	n/a	n/a		n/a	n/a	n/a
Deductions	50% GRT	n/a	n/a		50% GRT	50% GRT	50% GGRT

* Credit 3.75% to 5% of taxable gross receipts

Effective GRT Rates

A recent deviation from historical GRT trends is the amount owed the general fund as a percent of MTGR, or the "effective state GRT rate."

The state GRT rate is 5.125 percent by statute, but 1.225 percent is distributed back to municipalities for transactions occurring within their boundaries, resulting in a blended effective rate.



Despite the potential impacts that can change the effective rate, it was remarkably stable over time. There was a step change in July 2010 when the state rate was increased from 5 percent to 5.125 percent during the depth of the impacts from the Great Recession and the drop in oil prices, and there was a momentary drop in December 2012 of less than half a percent that disappeared the following month.

However, in October 2015, the pattern changed completely from a stable, predictable rate to significant swings in nearly every month that followed. This deserves study by TRD to determine what changed beginning two years ago to cause this relationship to break down.

Motor Vehicles. Motor vehicle excise taxes in New Mexico are less than half the rates in many locations in Arizona, Colorado, and Texas. New Mexico's rate is 3 percent, while rates in surrounding areas can be as high as about 8 percent after adding in local rate increments. The Arizona and Texas statewide rates alone are nearly double New Mexico's. The motor vehicle excise tax rate is less than half the effective GRT rate across most of New Mexico, creating a disparity in rates for consumer goods.

The taxable base for motor vehicles is much more stable than the base for the GRT, which has become more volatile over time; the higher tax rate applied to the more volatile revenue source and the lower rate applied to the more stable source amplify the volatility. Each additional percent added to New Mexico's excise rate would generate nearly $50 million for the general fund.

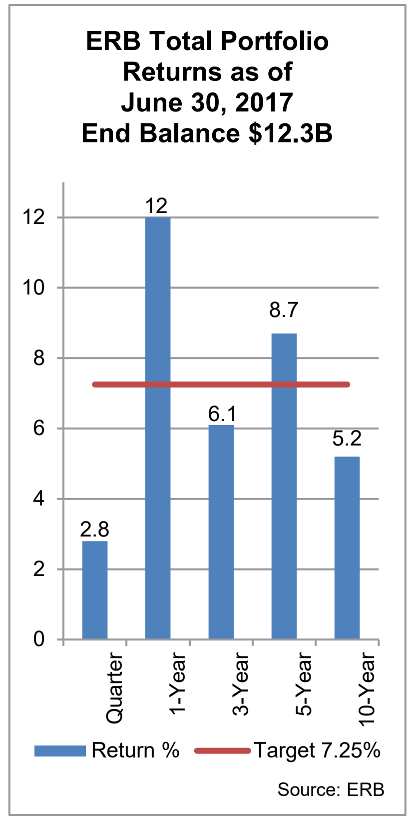
Internet Tax Reform. Nontaxed Internet sales are eroding New Mexico's retail sales tax base and reducing general fund revenues by tens of millions of dollars annually. Taxing local retailers but not large, online retail operations creates significant disparities and makes it very difficult for local shops to compete with remote sellers. Amazon is now paying tax on direct sales but not on sales by other parties that use Amazon as a sales platform. Recent reporting in *The Wall Street Journal* noted third-party sales represent 70 percent of all sales through Amazon, indicating New Mexico continues to lose tax revenue on the majority of Amazon sales. Further, Amazon is only paying the state portion of the GRT, not the local government portion, which creates a disparity in the total rate that favors out-of-state sellers over local businesses and means local governments are not receiving any tax revenue.

A tax reform measure that levels the playing field for local businesses would require all remote sellers that sell more than a specified base level within New Mexico to collect and pay GRT on all sales, including third-party platform sales. Sales would be determined to take place at the location to which the product or service is delivered, and local GRT rates would apply.

Reduce GRT Rate and Pyramiding. To maintain revenues in the wake of the Great Recession, the statewide GRT rate increased 1/8 percent to 5.125 percent. Combined with local options, the GRT rate is nearly 9 percent in some municipalities. The increase in GRT rates has also exacerbated the effect of tax pyramiding, still an issue in many industries. Pyramiding occurs when the GRT is applied to business-to-business purchases of services, supplies, raw materials, and equipment, creating an extra layer of taxation at each stage of production. This leads to higher effective tax rates for the final product or service sold to the end customer. Pyramiding applied to certain professional services can create a disadvantage for small businesses unable to bring those functions in-house, as opposed to large businesses, which typically employ people in these professional services functions.

A tax reform measure could use some of the revenue generated by the other tax reform components mentioned to reduce the state GRT rate. It could also create a partial or full deduction for certain business-to-business sales of professional services, although this would be at the expense of additional rate reduction.

Recovery and stabilization of energy prices in FY17, along with strong stock market gains, led to positive performance of the state's investment funds. The aggregate value of New Mexico's investment holdings – managed by the Educational Retirement Board (ERB), Public Employees Retirement Association (PERA), and State Investment Council (SIC) – experienced substantial growth last fiscal year; however, long-term returns continue to perform below targets and below similar public funds.



Performance Overview

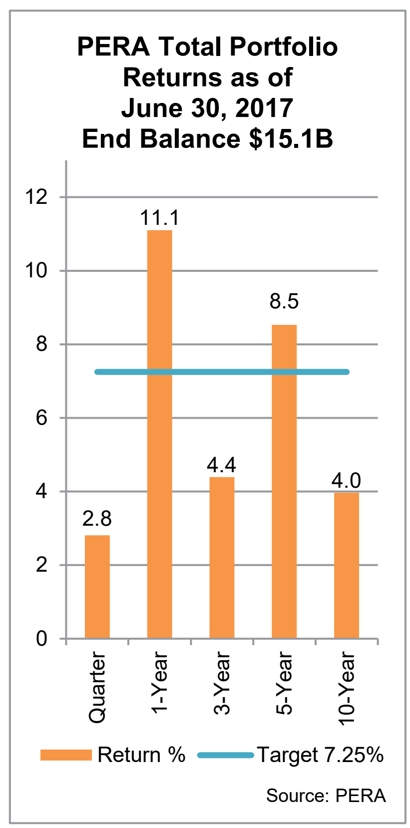
The state's four investment funds, comprising the two pension funds managed by ERB and PERA and the land grant and severance tax permanent funds managed by SIC, posted solid returns in FY17. Each of the funds had double-digit gains driven largely by marked strength in the public equities markets and the rebound of energy and infrastructure portfolios. The aggregate value of the state's combined investment holdings for the pension and permanent funds grew by about $4 billion in FY17, or 8.9 percent, to end the year at $48.6 billion.

Asset Values for Year Ending June 30, 2017
(in billions of dollars)

Annual	ERB	PERA	LGPF	STPF	Total
Asset Value	$12.3	$15.1	$16.3	$4.9	$48.6
Value Change	$1.0	$1.0	$1.7	$0.4	$4.0
Percent Change (year-over-year)	8.5%	6.9%	11.4%	8.3%	8.9%

Source: Investment Agency Reports

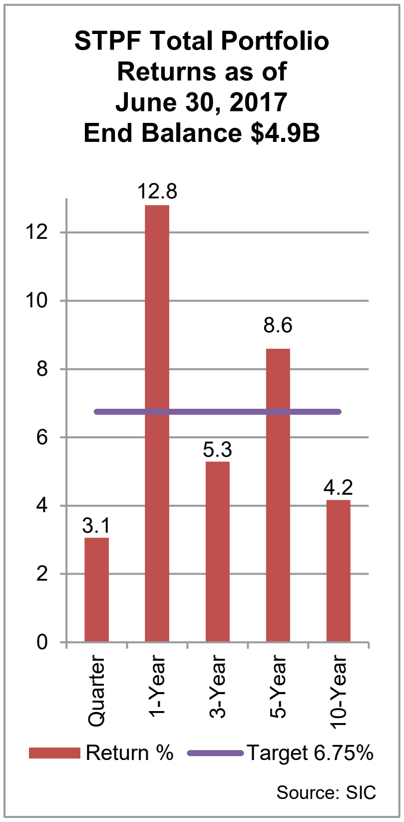
Market strength in fiscal year 2017 produced significant returns on the state's investment funds, and each of the funds exceeded their long-term performance targets for the one- and three-year periods. PERA's and ERB's pension funds returned 11 percent and 12 percent respectively in FY17, exceeding their respective investment targets of 7.75 percent and 7.25 percent. The permanent funds returned about 13 percent each, above the long-term targets of 7 percent for the land grant permanent fund (LGPF) and 6.75 percent for the severance tax permanent fund (STPF). Long-term performance returns remain below target, which investment agencies indicate is a relic of the Great Recession that remains within the 10-year frame of measurement.



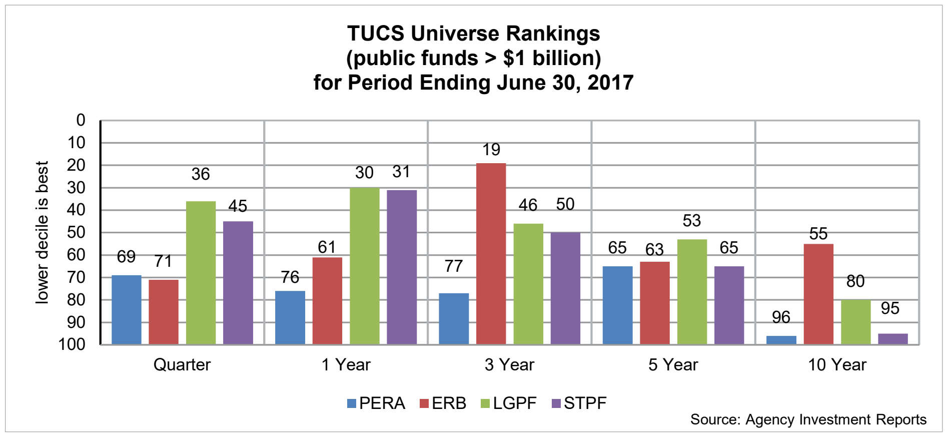
Performance Relative to Peers

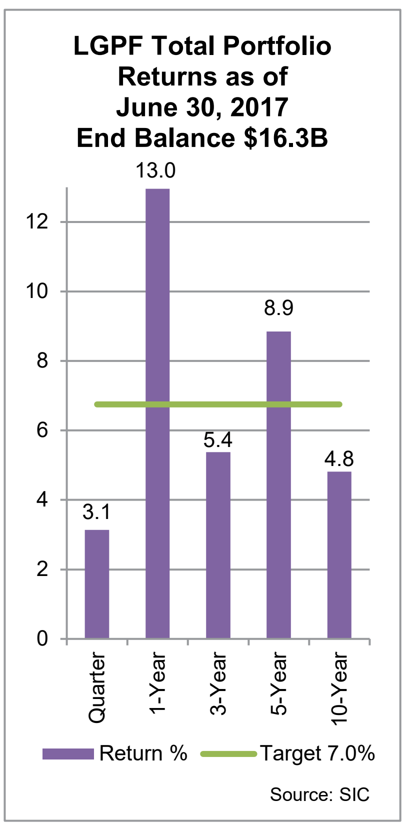
To compare the three investment plans on a similar basis, analysts use the Wilshire Trust Universe Comparison Service (TUCS), a national benchmark service for the performance and allocation of institutional assets that includes comparison with approximately 77 public funds with more than $1 billion in assets.

The permanent funds performed at or above the median for the one- and three-year periods. The relatively strong performance in FY17, compared with the state's pension funds, could be due to a larger exposure to public equities (about



45 percent of the permanent funds), which performed exceptionally well last fiscal year. ERB retained its strong ranking in the three-year period, performing above the 25th percentile for this period for the fourth quarter in a row. However, ERB's portfolio fell below the median for all other periods reported. According to the agency, underperformance in FY17 relative to other peer funds is largely due to the funds' asset allocation plan, which has less emphasis on public equities than most plans. While the PERA fund also benefited from public equity gains this year, the PERA portfolio ranked below the 50th percentile for the quarter and below the 75th percentile for the one-, three-, and 10-year periods. Although, notably, each of the state's investments funds' performance fell below the median for the five- and 10-year periods.





Asset Class Performance

Domestic and international equities performed very well over the fiscal year with net-of-fee returns ranging between 18 percent and 22 percent for both the pension and permanent funds. Private equities also yielded double-digit returns this year for each of the four funds, ranging from 11 percent to nearly 18 percent; however, returns for this asset class fell below their benchmarks for both the permanent and pension funds.

The ERB investments in real estate and real assets exceeded the benchmark returns by 3 percent or more. While ERB's non-U.S. emerging markets equity composite returned about 18.7 percent over the year, it was the fund's largest underperformer over the year, missing the benchmark by over 5 percent. SIC's real return composite significantly outperformed its target in FY17, exceeding the benchmark by 10.5 percent, largely due to strong performance by the energy and infrastructure portfolios. While SIC's private equity investments posted some of the largest returns compared with other asset classes, SIC's private equity managers continue to perform below par, with the private equity composite for the LGPF missing its benchmark by over 3 percent and for the STPF by over 6 percent. PERA's global equity composite and risk reduction and mitigation composite each outperformed the policy index by 1.8 percent and 0.5 percent, respectively.[1] However, PERA's credit oriented fixed income composite and real assets composite both markedly underperformed in FY17, falling below their benchmarks by 3.2 percent and 5.2 percent, respectively.

[1] PERA's global equity asset class includes public and private equities and hedged investments. The risk reduction and mitigation allocation includes fixed income (e.g. bonds and nongovernmental debt obligations), currency, securities lending, and cash management.

Early Childhood

Increasingly, difficult social and economic outcomes for many New Mexicans have focused policymakers on building-up preventive services in the earliest years. The early care and education system serves at-risk families prenatally through the third grade. By focusing an increasingly significant amount of public resources on the earliest years, policymakers hope to improve both short-term and long-term outcomes for families. Since FY12, funding for the New Mexico early care and education system has increased from $136 million to $250 million annually. For these investments, the state is beginning to show improved educational outcomes, including higher math and reading competency scores and reduced special education designations. These improvements are promising; however, the early care and education system also needs to influence other social indicators, such as child health and safety.

Reports of child maltreatment and the number of children in the care of Protective Services increased nearly 6 percent between FY16 and FY17. Research consistently shows a child's experiences in the first few years has lifelong impacts on developmental, physical, and social outcomes. With this in mind, the state cannot afford for the early care and education system to only address educational outcomes, it must also support families in providing safe and stable home environments. To do this, New Mexico must continue to grow the early care and education system and focus on evidence-based programs.

Benefits of Early Care and Education

Early health and learning begins prenatally and grows exponentially through the first few years of life. Learning social-emotional skills early in life leads to some of the greatest long term outcomes for children. To do this, children need diverse language and interactive experiences. These experiences need to be emotionally positive, the quality and quantity of language used around developing children needs to be expansive, and interactions with core caregivers needs to be interactive.

In addition, the early care and education system is also a core preventive tool in reducing adverse childhood experiences - potentially traumatic events such as emotional or physical abuse or neglect, substance abuse in the home, or the incarceration of a parent. The original study on adverse childhood experiences, conducted by the U.S. Center for Disease Control and Prevention in the mid-1990s, found a strong relationship between adverse experiences in a child's development and long-term risk for substance abuse, behavioral health issues, low economic and educational attainment, and other poor outcomes. Reducing the number of adverse experiences – at-risk families often have more than one – can greatly reduce the risk of negative cyclical-generational health and well-being outcomes.

For more info:

Children, Youth and Families Department Report Card Page 93

Childcare Assistance is a subsidy program for families with children between the ages of 3 weeks and 14 years whose families make less than 150 percent of the federal poverty level (FPL).

Home visiting is an intensive parent education program shown to effectively reduce child abuse and improve health. This voluntary program provides family support and basic parenting skills critical to improving childhood outcomes during pregnancy and through the first few years of a child's life.

Prekindergarten is an educational program for 3- and 4-year-olds shown to significantly impact math and reading proficiency for low-income participants.

K-3 Plus is an extended school year program focused on increasing time-on-task in schools with large numbers of low-income students.

Family, Infant, Toddler (FIT) is a statewide comprehensive system of early intervention services for children from birth to age 3 diagnosed with developmental delays, disabilities, and serious medical conditions.

Head Start is a federal program supporting the comprehensive development of children from birth to age 5 through early childhood education, child health screening and intervention, and parental supports.

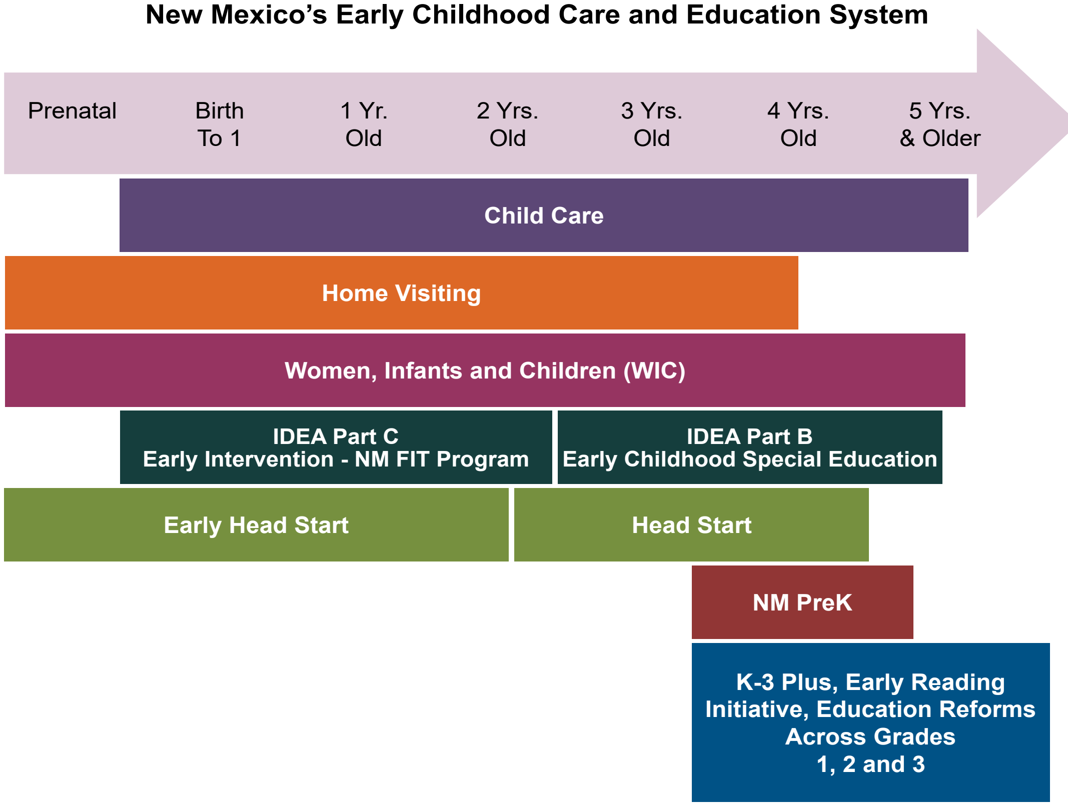
Similarly, because the basic architecture of a child's brain forms in the first few years of life, research shows these earliest years may present the most significant opportunity to remediate developmental delays and address cognitive and social delays that can result from less stimulating emotional and physical environments, as well as the severely diminished neurological development that can result from unstable and stressful environments.

Not surprisingly, early care and education programs have been shown to increase school completion rates. Each high school graduate, LFC and other studies show, produces benefits of $278 thousand for the graduate and $100 thousand for taxpayers and other beneficiaries, compared with a non-graduate. In turn, increased economic success reduces the likelihood an individual will use welfare or commit a crime. Research is also beginning to show children who received high-quality early interventions have better physical health in their mid-30s than peers who did not receive services, with lower rates of pre-hypertension, heart disease, and obesity, reducing the need for costly health care later in life. Recognizing this, the U.S. Center for Disease Control and Prevention reports early childhood care is now a priority initiative for the prevention of obesity and improving heart health.

The New Mexico Early Care and Education System

The early childhood care and education system is primarily administered by the Children, Youth and Families Department (CYFD) but also includes the Human Services Department, Department of Health, and Public Education Department. Programs include childcare assistance, home visiting, prekindergarten, the extended school year program K-3 Plus, Family, Infant, Toddler (FIT) program, and Head Start.

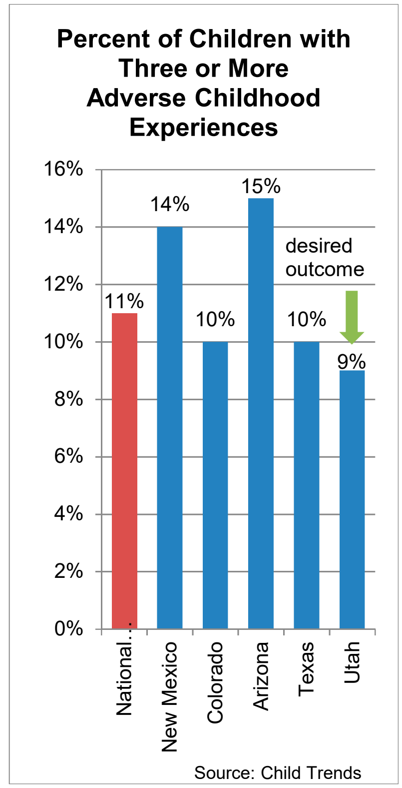
New Mexico's Early Childhood Care and Education System



Source: UNM Center for Education Policy Research

The 2017 Legislative Finance Committee (LFC) Early Childhood Accountability Report found participation in state early childhood services improved health and education outcomes. For example, CYFD reports a higher percentage of children in home visiting receive well-child visits with a doctor then to children on Medicaid who are not in the program. Also, LFC reports found lasting effects for students participating in prekindergarten, including higher student achievement, lower special education identification, and reduced retention rates through the third grade. Students who attended prekindergarten in 2010 had significantly higher rates of reading proficiency in 5th grade compared with nonparticipants. LFC is currently undertaking a longitudinal study of student data, including prekindergarten that will examine effects in later grades.

Most significantly, the same report also analyzed the potential outcome of children who receive multiple early care and education services. Testing data from 2016 used to evaluate New Mexico kindergarteners found positive effects for both K-3 Plus and prekindergarten participants. Additionally, a cohort of about 1,000 children entering kindergarten in school year 2016 participated in both prekindergarten and K-3 Plus. For children participating in both programs, the achievement gap is closed by kindergarten entry. Further examination of this data is needed because the closure of the achievement gap may be caused by the combined effects of prekindergarten and K-3 Plus but may also be partially attributable to other factors, including selection bias or increased parental engagement. Connecting at-risk families to early, high-quality preventive services may be one of the state's strongest policy tools for improving long-term outcomes and reducing other social system involvement.

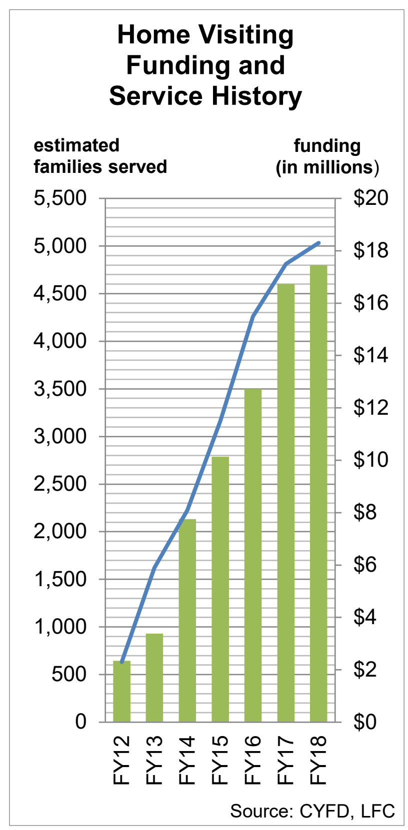


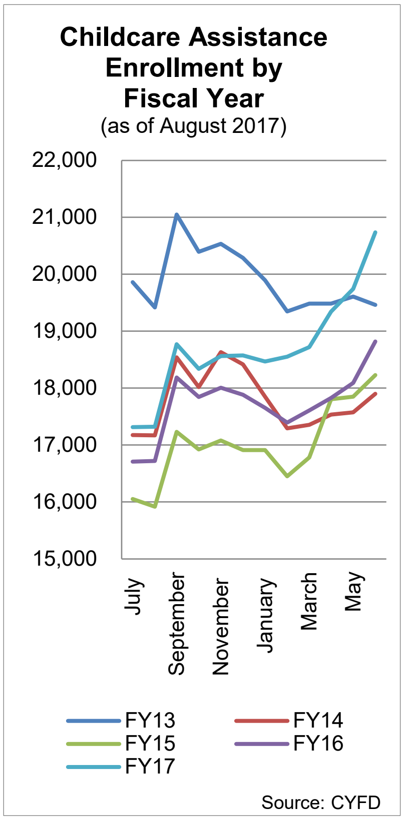
Capacity Gaps and Expansion Barriers

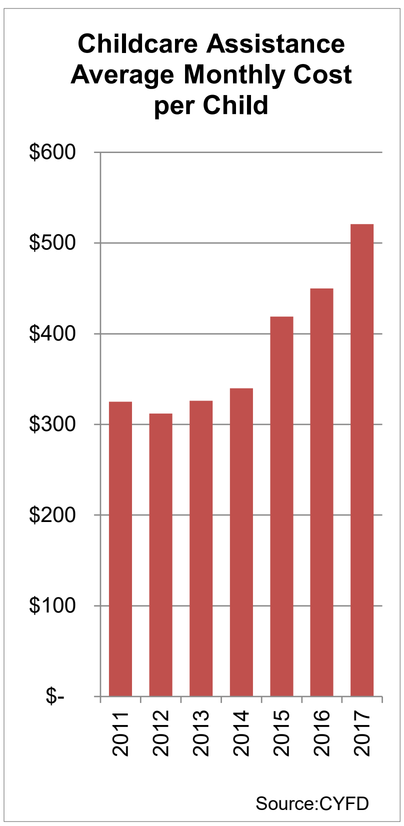
Despite significant, targeted investments by the Legislature in the state's early care and education system, New Mexico remains behind most other states in many indicators of child well-being, and the child welfare system remains challenged. The system is not large enough to provide universal services and an estimated 10 thousand at-risk families remain unserved each year. LFC estimates an additional $22.7 million is needed to expand services for these families; however, state financial conditions cannot provide an expansion of this magnitude in FY19. With this in mind, the Legislature provided language in the 2017 General Appropriations Act directing the Human Services Department to plan a Medicaid funded home-visiting pilot.

In addition to funding constraints, large expansion of home-visiting services has proven a significant challenge for the state due to system infrastructure issues, such as a limited workforce or a lack of providers in rural communities. By investing in Medicaid-funded home-visiting services the state may be able to use community healthcare systems and providers to support quicker growth of home-visiting services.

In contrast, New Mexico is close to providing sufficient funding to ensure all low-income 4-year-olds receive at least some type of early education through childcare assistance, prekindergarten, or Head Start. Possibly as a result of increased access for 4-year-olds to childcare and prekindergarten, enrollment in federally funded Head Start has experienced a significant enrollment decline and New Mexico is losing federal revenues. The state needs to better coordinate programs to prevent







over-saturation for one age group while other age groups are underserved. New Mexico could consider shifting more prekindergarten funding to 3-year-olds or encouraging Head Start programs to shift more services to Early Head Start.

LFC estimates total statewide funding needed for all early childhood services is close to $190 million. To close service gaps and continue improving early childhood outcomes, targeted interventions are needed, such as focusing home-visiting services on at-risk, low-income families in high-need communities. However, additional funding should only be added at a rate both that serves more clients and improves quality.

Childcare Assistance Funding. The 2014 reauthorization of the federal Child Care and Development Block Grant (CCDBG) Act redefined health and safety requirements for childcare providers and extended the time a child is eligible before the family must recertify from 6-months to 12-months. Extending the recertification process increased enrollment in childcare assistance significantly in FY17, over 4 percent, and enrollment is projected to grow an additional 15 percent through FY20. However, the impact of 12-month eligibility on participation is unclear; 20 percent of children enrolled in the program stop using services after two months.

Also affecting funding, provider rates have grown from an average monthly rate of $326 in 2013 to $521 in FY17. Because more providers are providing the highest level of quality care and being paid at the higher rates, the projected average monthly payment is also expected to increase to nearly $530 in FY19 and FY20. Increasing enrollment coupled with higher provider rates will considerably raise the need for additional childcare assistance funding in FY19 and FY20. Conservative estimates project upward of $20 million in both FY19 and FY20 will be necessary to maintain caseloads and reduce the chances of growing waiting lists. Previous LFC evaluations of childcare assistance programs have not shown significant benefits for children participating in low-quality child care. As the state continues to scale-up higher quality services, further evaluation will be necessary.

New Mexico Investment and Funding Strategy

The Legislature increased spending on early childhood programs by more than $100 million over the last five years in a strategic, targeted way to communities in need of services and system building. Scaling up programs, while ensuring programs maintain fidelity to evidence-based models, requires significant continued technical assistance. Scaling up too fast without attention to quality has been shown to be less successful. This is one of the most difficult barriers to growing early childhood systems nationwide. Researchers believe key elements to obtain lasting outcomes in public programs are strategic development of evidence-based programming, careful and attentive implementation, and continued performance monitoring.

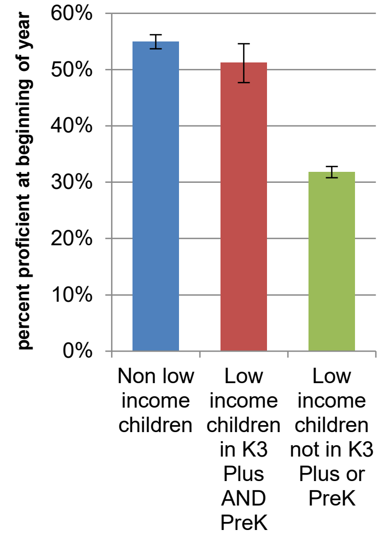
Going forward, growth of other nonstate general fund options should be encouraged, such as federal Medicaid revenue for home visiting. LFC reported that in 2010 Medicaid covered nearly 20 thousand births, or 71 percent, of the 28 thousand births in the state; by FY13 Medicaid-covered births increased to 82 percent. This concentration of Medicaid-eligible clients would allow for federal matching funds for families with the highest risk factors.

Return on Investment

The long-term returns from early interventions vary. The Perry Preschool Project, which studied the impact of high-quality early education on low-income minority preschoolers in Michigan, estimated $7 saved for every $1 invested due to lower education and welfare expenditures and gains in economic engagement; however, early results in New Mexico, are closer to $2 for every $1 invested. The returns in New Mexico may be lower because a majority of early childhood programs are independently operated and a rapidly growing system, changing program standards, and program quality can vary widely. As the early care and education system in New Mexico grows in funding and access, attention to consistent, high-quality services is paramount to growing returns on investment.

A 2017 LFC report found the return on investment for New Mexico prekindergarten and K-3 Plus was higher than other programs. LFC staff found third grade test scores improved and the likelihood of retention and special education decreased, but this was not monetized. The potential returns for other early childhood programs in New Mexico also look promising, including home visiting. However program fidelity to evidence-based models remains a concern and the highest returns on investment are not being realized yet. Funding what works, successful implementation, and program fidelity are key in achieving improved outcomes and cost-beneficial results.

Closing of the Achievement Gap for Dual K3Plus & PreK Participants



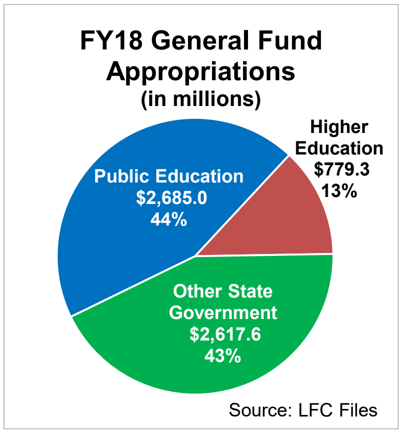
Source: LFC Analysis of PED and CYFD data. Error bars are 95% Confidence Intervals

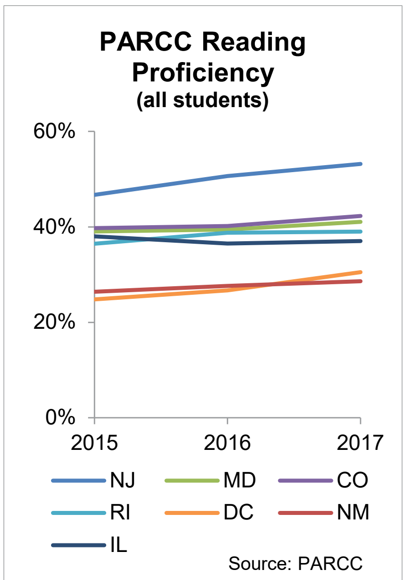
Local Research: The Rand Corporation

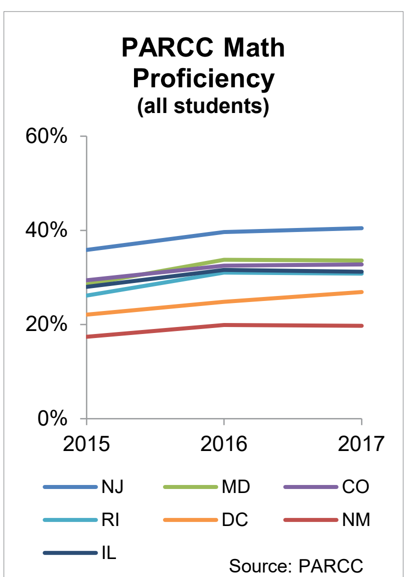
The Rand Corporation released several significant reports in recent years on the New Mexico First Born home-visiting model. The first report was an implementation evaluation to determine if First Born was scalable. The evaluation identified barriers and opportunities to successfully implement new home-visiting services statewide. The second evaluation was a randomized trial impact study to identify whether programs were positively impacting families. This study results were published in four papers and show improved safety for the children, including reducing emergency healthcare services, hospitalization, and injuries, as well as better parenting practices such as breastfeeding, engagement in recommended parenting practices, and reducing Adverse Childhood Experiences (ACEs).

One goal of the Rand Corporation evaluation is to substantiate whether the First Born program is evidence-based. If substantiated, the First Born program will have the opportunity to apply as an evidence-based model with the U.S. Department of Health and Human Services and may be eligible for federal funds. Federally, the Maternal, Infant, and Early Childhood Home Visiting (MIECHV) program is authorized and funded for five years at $1.5 billion; New Mexico receives about $3.9 million annually. These funds are directed to improvements in health and development outcomes for at-risk children through evidence-based home-visiting programs.

Education







Education remains a topic of intense focus in New Mexico, partially due to the 57 percent of state general fund revenues dedicated to educating New Mexico's students, but also because the state relies on public and postsecondary education to lift disadvantaged New Mexicans from poverty and prepare the next generation of national laboratory scientists, health community professionals, and classroom teachers.

Nevertheless, New Mexico's education system has plenty of room for improvement. New Mexico's standards-based test scores are the lowest in its testing consortium, its high school graduation rate is below average, higher education attainment is low, and a higher percent of New Mexicans have defaulted on their student loans than anywhere in the nation. However, thoughtful reforms are showing promise. Prekindergarten programs have had positive long-term impacts on reading and math scores, and New Mexico's colleges and universities are graduating a record number of students. Moving forward, the state should keep a watchful eye on these programs to ensure New Mexico is getting a good return on its investment.

Public Education

New Mexico allocates a significant portion of state revenues to public education. Approximately 44 percent of general fund appropriations are allocated to public schools annually. According to the U.S. Census Bureau's 2015 Annual Survey of School System Finances, New Mexico was ranked 35th in the nation for total revenue per pupil and 39th for instruction expenditures per pupil. While New Mexico's outspends about a fifth of the states on instruction, it consistently ranks at or near the bottom on many educational measures. This suggests that simply increasing funding for public education without addressing underlying policy and programmatic issues could be an inefficient or ineffective strategy for improving student achievement. As such, policymakers should focus spending on practices and programs proven to improve educational outcomes and target resources to serve the state's most economically disadvantaged students.

No Time to Lose

The 2016 National Conference of State Legislatures report *No Time to Lose* found that nations faring well on international academic comparisons shared four common elements: strong programs for early childhood readiness, especially for disadvantaged children; highly selective teacher preparation programs; rigorous systems of career and technical education; and carefully aligned education reforms.

The report also found high-performing countries rarely administer standardized tests annually like the United States. Instead, these countries assess key transition points in a student's career, with tests that usually emphasized essays over multiple-choice questions to engage students' complex thinking skills. High-performing countries focus resources to serve economically disadvantaged students and make narrowing the achievement gap between low- and high-performing students a high priority. Investments are made in early childhood programs to improve the quality of education during critical developmental stages before the achievement gap begins to widen. More teachers were typically allocated to struggling schools, with the best teachers serving in the most challenged schools. In these countries, teacher recruitment was highly selective, preparation and licensure programs were extremely rigorous, and teacher career and compensation ladders rivaled professions like engineers, doctors, and lawyers. Career and vocational training programs were designed to be as academically challenging and valuable as college-track pathways so higher education institutions and employers could strategically align student pathways to high-demand workforce opportunities.

In addition, top performing countries aligned reforms to build their world-class education system. Rather than adopting only one or two "silver bullet" policies, these countries reimagined and re-engineered their entire systems, taking multiple "silver buckshot" approaches. Although these countries developed their vision at the national level, certain U.S. states have systems that resemble national governance structures. With greater state flexibility and autonomy provided in the federal Every Student Succeeds Act (ESSA), New Mexico is well-positioned to develop a clear vision for aligned education reforms.

Student Readiness

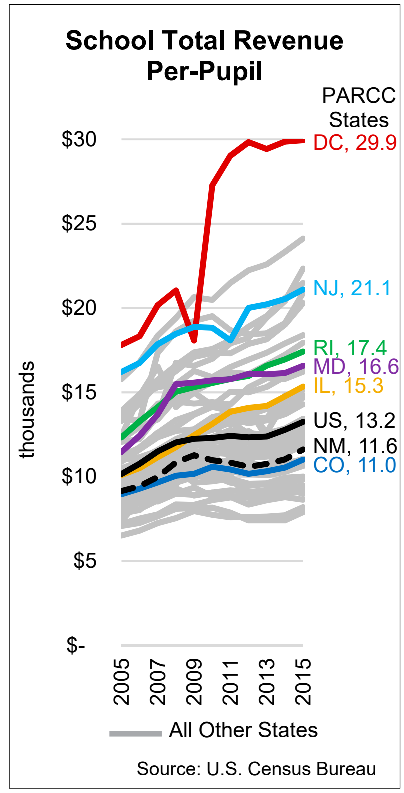
Under ESSA, states are required to test students in reading or language arts and math annually in grades three through eight and once between grades 10 and 12. In 2015, New Mexico students began taking the Partnership for Assessment of Readiness for College and Careers (PARCC) test, which replaced the New Mexico standards-based assessment. New Mexico tests all students from third to 11th grade on the PARCC test; however, other states in the PARCC consortium do not necessarily test this range, marring some comparability.

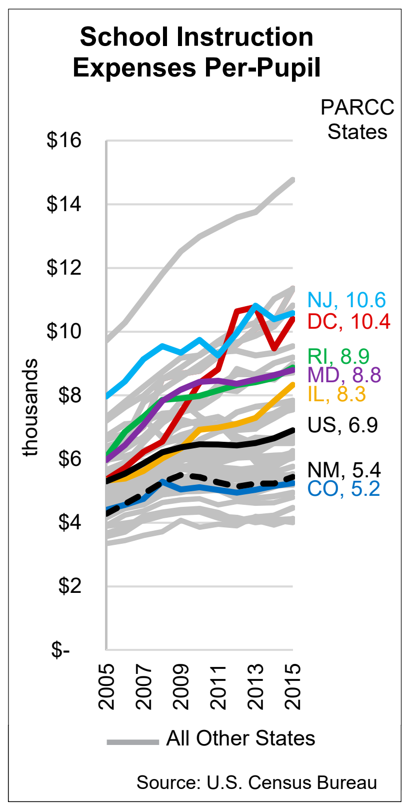
Between 2016 and 2017, New Mexico's overall English language arts (ELA) proficiency rates improved slightly from 27.6 percent to 28.6 percent, while math proficiency rates dropped from 19.9 percent to 19.7 percent. For 2017, math proficiency rates between third and eighth grades show a significant downward trend, falling from approximately 30 percent of third-grade students meeting expectations to about 12 percent of eighth graders meeting expectations. ELA assessments maintained stable proficiency rates around 27 percent from third through eighth grades. However, ELA proficiency rates increased drastically for high school students, from 25 percent proficiency in ninth grade to 43 percent proficiency in 11th grade.

In 2017, New Mexico's PARCC scores were the lowest of all states participating in the assessment. Despite spending significantly more on instruction per-pupil, the District of Columbia only scored marginally better than New Mexico. Likewise, Colorado spent less on instruction per-pupil but had substantially better proficiency rates, suggesting that other factors might be affecting student achievement. New Jersey, the state with the highest PARCC scores, attained an ELA proficiency rate of 53.2 percent and math proficiency rate of 40.5 percent.

In comparing state-by-state performance of students identified as economically disadvantaged based on eligibility for free and reduced fee lunch, the differences

For more info:
Public Education Report Card Page 85



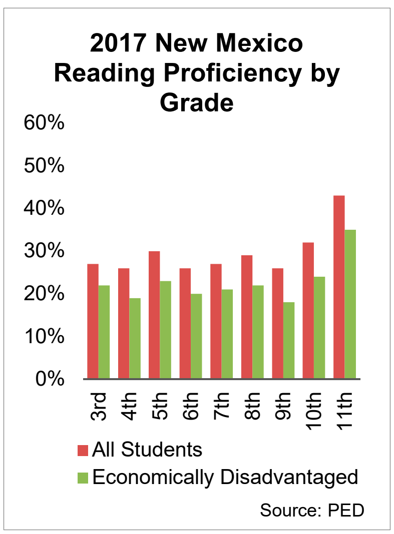


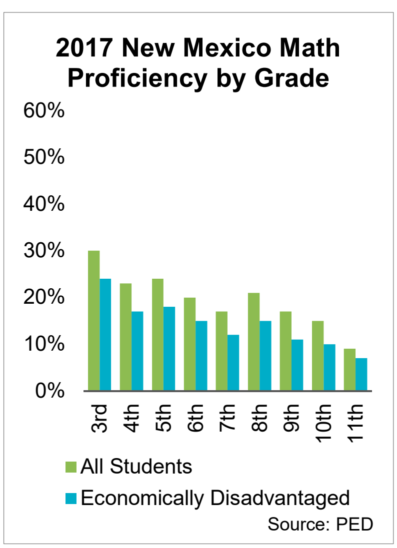
A Closer Look

Longitudinal Student Performance

New Mexico schools, on average, produce a year's worth of growth for each grade; however, most students start school behind and stay behind throughout their education. Students with economic disadvantages often have lower rates of proficiency in reading and math, compared with their more affluent peers; however their rate of growth year-over-year is slightly higher. The LFC's evaluation *Longitudinal Student Performance Analysis* evaluated the impacts of income level, English learner status, mobility, teacher effectiveness ratings, and early childhood interventions on student performance over a number of years. The evaluation found schools with high rates of student mobility also had higher proportions of low-income and English learner students, potentially reducing the effects of academic interventions. Prekindergarten programs had positive long-term impacts on reading and math scores through eighth grade and may have mitigated some of the negative impacts of mobility.

Student test score growth varies widely across all school districts, despite a slight average gain in annual statewide student learning. Early childhood programs show promise for closing achievement gaps but alignment, implementation, and coordination of services continue to be a concern. Schools with a high proportion of low-income or English learner students continue to have lower teacher effectiveness ratings and school grades. Student mobility may undermine student performance over time and undercut accountability systems. To help close achievement gaps, the evaluation recommends expanding coordinated, state-funded interventions and monitoring the impacts of mobility and other risk factors on intervention outcomes.





in PARCC achievement were markedly narrower. In every state, reading and math scores for students with economic disadvantages were 5.1 percentage points to 18.8 percentage points lower than the statewide average. New Mexico and the District of Columbia had higher percentages of students identified as economically disadvantaged than other states in the PARCC consortium, resulting in lower average proficiency rates.

In FY17, the performance of New Mexico's students with economic disadvantages on the PARCC exam lagged behind the statewide average by about 7 percentage points in ELA and 5 percentage points in math. ELA results for economically disadvantaged elementary school students improved from FY16; however, proficiency rates were lower than desired, and the achievement gap narrowed by only about 1 percentage point. Math results remained relatively the same from FY16.

Increased per-pupil spending among states in the PARCC consortium does not appear to correlate strongly with improved student performance on the test, and students with economic disadvantages tend to perform similarly across the consortium. Simply increasing investments in the public education system without addressing programmatic issues (the silver bullet approach) may not directly result in improved student achievement. As such, New Mexico needs to evaluate how early childhood services prepare students for school, human and capital resources are allocated to students at risk of falling behind, student pathways are aligned between the classroom and workforce, and multiple reforms are tied to achieving a world-class education system.

Early Childhood Programs

LFC continues to identify positive benefits from prekindergarten, particularly programs at school district sites. When combined with K-3 Plus extended school year programs, the achievement gap is closed for students who are economically disadvantaged. While New Mexico has made early childhood funding a priority – with many programs held harmless even when other services were being cut – the programs do not serve all those who would qualify, and many do not implement best practices that maximize achievement gains or target at-risk students.

The Public Education Department (PED) estimates about 29 thousand children are eligible for prekindergarten services and about 71 thousand students are eligible for K-3 Plus programming; however, only about one-third of eligible students participate in prekindergarten and one-fourth of eligible students participate in K-3 Plus. According to the National Institute of Early Education Research (NIEER), 32 percent of 4-year-olds in the United States were enrolled in prekindergarten programs in 2016 and the average state spending was $4,976 per child enrolled. NIEER reports New Mexico, at 33 percent, ranked 16th in the nation for 4-year-olds enrolled in prekindergarten programs in 2016 and ranked 20th for state spending at $5,233 per child enrolled. The NIEER report also noted 9,757 children participated in New Mexico prekindergarten in 2016, an increase of 16 percent from the previous year.

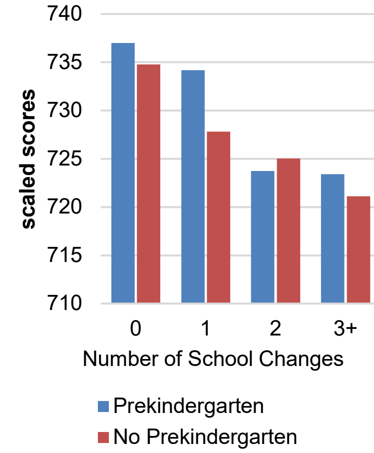
K-3 Plus is an extended school year program for kindergarten through third-grade students that has been scientifically shown to improve student performance relative to peers when programs are executed correctly. The program extends the school year by 25 instructional days at participating high-poverty or low-performing elementary schools, and students who stay with the same teacher from the summer program show better outcomes. Since FY08, the Legislature has appropriated $151 million to K-3 Plus and participation in the program has increased from 6,996 to 20.2 thousand in summer 2016. For summer 2017, PED did not request additional funding for the program, resulting in fewer funded slots and a 32 percent drop in participation (6,388 fewer students) from the previous year. In addition, the K-3 Plus program might not be implemented correctly at all schools. Many schools do not keep students with the same teacher during the school year, others run the program in the middle of the summer rather than as an extension of the school year, and some programs are only operating for 20 days. While demand for the program is growing, policymakers should be wary of how the program is being delivered to ensure a better return on investment.

Since FY13, the Legislature has appropriated $77 million to Reads to Lead, a grant program that provides funding for reading assessments, reading specialists, intervention materials, professional development, and other supports intended to improve early literacy skills of students in kindergarten through third grade. Ongoing changes to grant criteria have created issues in determining the program's efficacy, destabilized operation of the program in schools, and raised concerns resources are not allocated equitably to at-risk students.

In FY17, Istation was selected by PED as the new formative reading assessment for kindergarten through third-grade students. In 2017, Istation reading proficiency was 60 percent for kindergarteners, 57 percent for first graders, and 66 percent for second graders. However, third-grade PARCC reading proficiency was 27 percent, suggesting alignment issues may exist between the Istation and PARCC assessments.

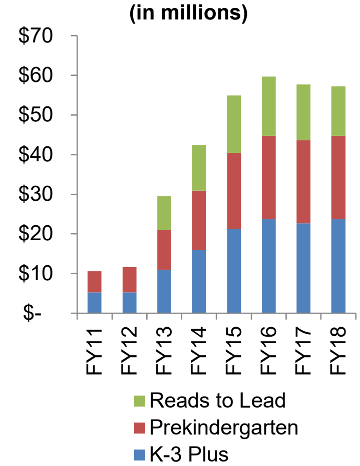
New Mexico has prioritized investments for early childhood programs in recent years, and while many show promise for improving student outcomes, issues surrounding coordination of services and fidelity of programming continue to be

2016 Average Third Grade Math Scores



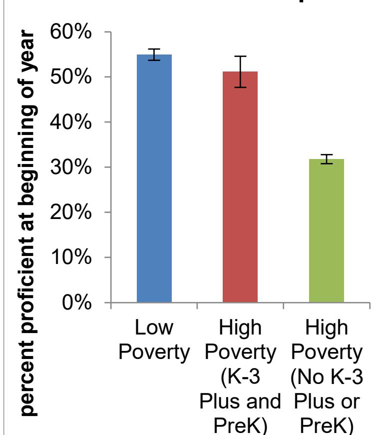
Source: PARCC and LFC Files

Early Childhood Initiatives Funding
(in millions)

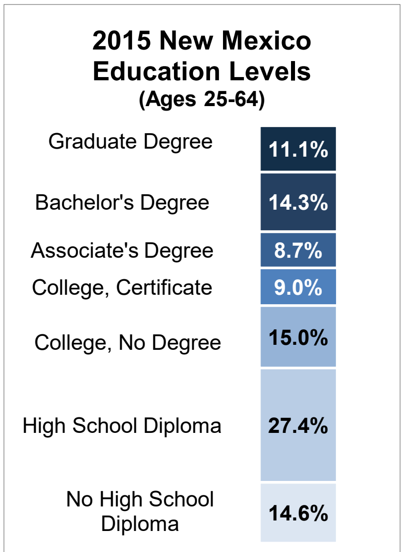


Source: LFC Files

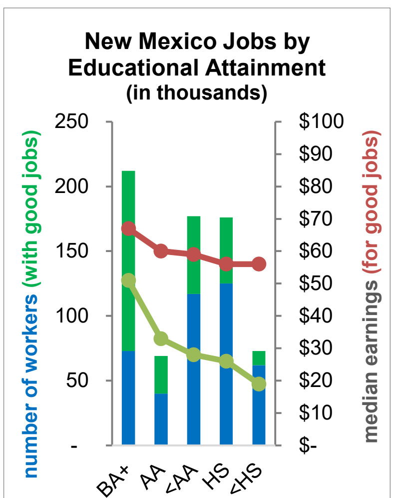
Closing the Achievement Gap



Source: LFC Files



Source: Lumina Foundation



Source: Georgetown University Center on Education and Workforce, 2013-2015

of concern. Without a systematic means of ensuring students are school ready by kindergarten or supported adequately to close achievement gaps, students who are behind will continue to stay behind and impact the pipeline for postsecondary institutions and workforce entities.

College and Career Pathways

The National Center on Education and the Economy's report *9 Building Blocks for a World-Class State Education System* noted high-performing countries "create clear gateways for students through the [education] system, set to global standards, with no dead ends." These countries issue qualifications of each students' skillset and concept mastery level rather than high school diplomas. The qualification systems are aligned with pathways to higher education and workforce needs, and students can always go back later to pick up a qualification that they missed earlier.

In 2013, the Legislature created a provision requiring high school students to take an honors, Advanced Placement, distance learning, or dual-credit course to graduate. As a result, the number of students taking dual-credit courses increased from 12 thousand to 20 thousand, or 65 percent, between FY11 and FY16. Part of the dual-credit enrollment growth came from early college high schools (ECHS), programs that allow students to concurrently earn a high school diploma and the equivalent of an associate's degree. ECHS students are more likely to graduate from high school, score higher on ELA assessments, enroll in college, and earn a degree. A 2013 study by the American Institutes of Research and Stanford Research Institute International also found participation in ECHS particularly helped low-income and minority students earn degrees.

A 2015 Southern Regional Education Board (SREB) analysis of New Mexico students found most ninth graders will likely not earn an advanced postsecondary credential or degree. According to SREB, "Of 100 students entering ninth grade, 30 will not graduate on time. Of the 70 that do graduate on time, 52 will immediately enroll in some form of postsecondary education. Of these, less than half will obtain a bachelor's degree in six years, and just seven will acquire an associate degree in three years. As these analyses show, by their mid-twenties, between 50 and 60 percent of New Mexico's young adults will not hold a postsecondary certificate, credential or degree, or an industry credential of value in the workplace."

A Closer Look

Dual Credit Funding and Outcomes

Dual-credit courses are a part of a strategy to address weaknesses in New Mexico's educational pipeline. These include high rates of college remediation and long timeframes for certificate or degree completion. Dual-credit courses offer a gateway to career and technical education pathways; however, New Mexico has not purposefully coordinated seamless transitions between public education, higher education, and workforce groups.

The LFC's 2017 progress report *Dual Credit: Funding and Student Outcomes* found total state funding and participation in dual credit has increased in recent years; however, funding allocations do not appear to be shared equitably between public schools and higher education institutions. Additionally, students participating in dual-credit courses tend to already have higher academic aptitudes, suggesting that dual-credit courses have less to do with their performance outcomes in college.

The SREB analysis also found few New Mexico high schools were offering career pathways or programs of study at a level that led to industry-recognized certificates and degrees. Statewide, less than 20 percent of career and technical education programs offered three or more courses tied to a specific career pathway, with the most popular pathways being automotive, culinary arts, agriculture, carpentry, and welding programs. Without a strategic plan for producing or attracting a highly skilled workforce, New Mexico will likely maintain a substantial low-skill labor force – a group that is increasingly losing jobs to automation and globalization.

Educator Quality

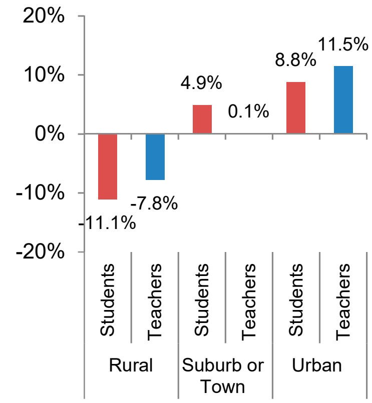
According to the Learning Policy Institute (LPI), teachers in the United States are less likely than teachers in top-performing countries to have mentors, adequate preparation, involvement with curriculum and assessment planning, and competitive compensation with other professions. On average, teachers in the United States tend to spend more time teaching larger class loads with more low-income students. Teacher attrition rates are higher, and enrollment in teacher preparation programs has declined in recent years. LPI rated New Mexico favorably for having teachers of color and low pupil-to-teacher ratios but poorly for the number of inexperienced and uncertified teachers in the classroom and testing-related job insecurity. While LPI rated New Mexico highly for state wage competitiveness, poor ratings for starting teacher salary levels and turnover suggest the compensation structure is less competitive for recruiting or retaining teachers compared with other states.

Teacher evaluation results from the 2016-2017 school year showed 74.3 percent of teachers in New Mexico received an effective, highly effective, or exemplary rating. This was an increase from 2015-2016 school year results, where 71.3 percent of teachers received a rating of effective or higher. Teacher evaluation ratings include student achievement, classroom observations, teacher attendance, and other domains relating to classroom practices. The teacher evaluation process is being challenged in two ongoing lawsuits.

According to PED, of the nearly 17 thousand newly licensed teachers since FY10, nearly 7,000, or 39.5 percent, were no longer teaching in New Mexico classrooms by FY17. Nearly 29 percent of new teachers in FY16 did not continue in FY17. In October 2017, New Mexico school districts had 476 teacher vacancies, with most vacancies in the central part of the state. Special education teachers accounted for 46 percent of all vacancies. According to New Mexico State University's College of Education, more than 1,300 classrooms are staffed by teachers with alternative licensure or by long-term substitute teachers, likely caused by a 27 percent decrease in the number of teacher education program completions between FY10 and FY15. Between FY10 and FY15, the number of graduates from New Mexico teacher education programs declined at four-year institutions by 14 percent and two-year institutions by 28 percent. Graduates from alternative licensure programs, however, increased by 94 percent.

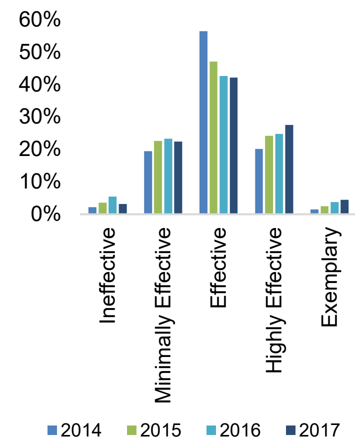
According to NCSL, beginning teachers in top-performing countries are often guided by qualified mentor teachers in the classroom on curriculum, lesson planning, and other key topics. They are given reduced teaching loads and receive training and support for two years to four years. Attrition rates for these countries

Change in Number of Students and Teachers
(FY06-FY16)



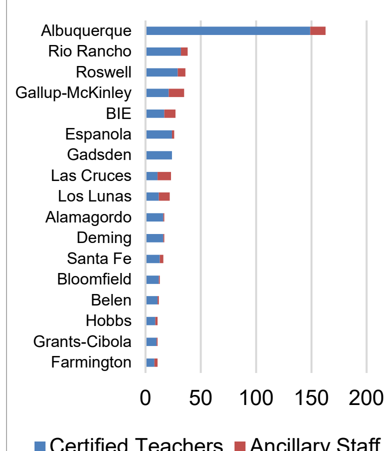
Source: PED

Teacher Evaluation Ratings

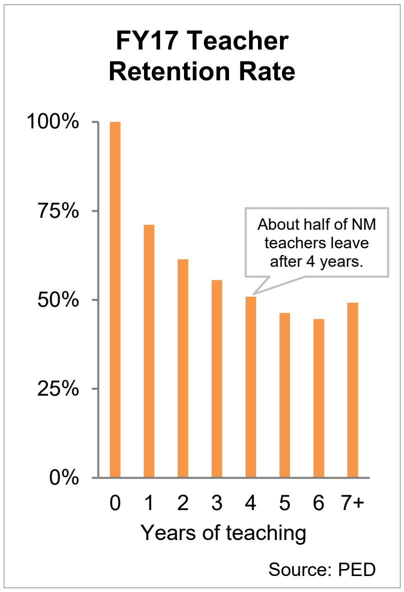


Source: PED

District Openings
(October 2016)



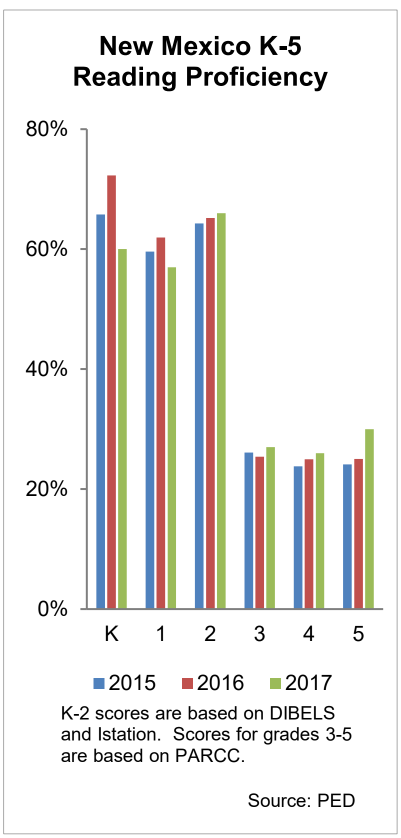
Source: NMSU



are typically less than 4 percent annually for all teachers. Most teachers are given 15 hours to 25 hours each week for collaboration and paid time for professional learning. Teachers also have strong career ladders in other countries. For example, in Shanghai, teachers have 13 levels of licensure and can choose a "master teacher" track rather than an administrative track. Ironically, most of these aforementioned best practices exist in some fashion within U.S. state systems; however, no state has yet assembled a coherent, aligned system of these strategies to the same extent as the top performing countries.

Systematic Reform

Many systemwide reforms, when done in isolation, often result in unintended consequences. Standardized tests, while appropriate for benchmarking student performance, are unlikely to improve student achievement if teachers do not gain timely feedback and support on how to improve. Extending the school year or instructional hours provides more opportunities for student learning but does not guarantee time on task. Setting high entrance requirements for teacher preparation programs may improve teacher quality but may also reduce interest if compensation or career advancement opportunities are lacking. New Mexico has started various initiatives and programs to address specific student needs or target certain school issues; however, many services appear to be duplicative or demonstrate inconsistent results, and the state lacks a clear and holistic plan for the education and workforce system.



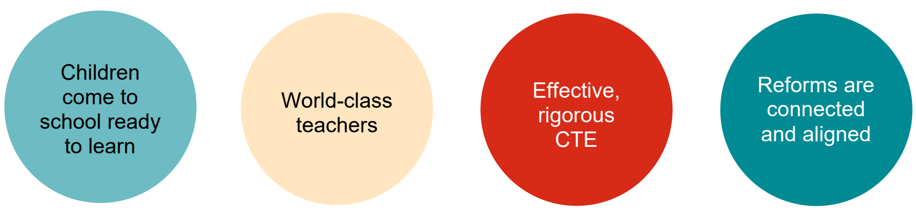
To build a world-class education system, New Mexico needs to ensure all students are ready to learn by kindergarten, which can be achieved by expanding prekindergarten and K-3 Plus and high-quality, early childhood programs and targeting these programs to at-risk students. Students at risk of falling behind in early grades should receive more programmatic support and high-quality teachers to increase achievement gains in later grades. If all students are achieving at expected levels by kindergarten entry, schools can deliver instruction more efficiently and achieve greater gains with each subsequent grade level.

Assessments should be aligned to what is taught in classrooms and used to demonstrate student mastery of agreed-on skills and competencies. To create a world-class system where students are competitive on a global scale, performance standards should be internationally benchmarked. Each stage of assessment should be aligned and built on requirements from prior stages.

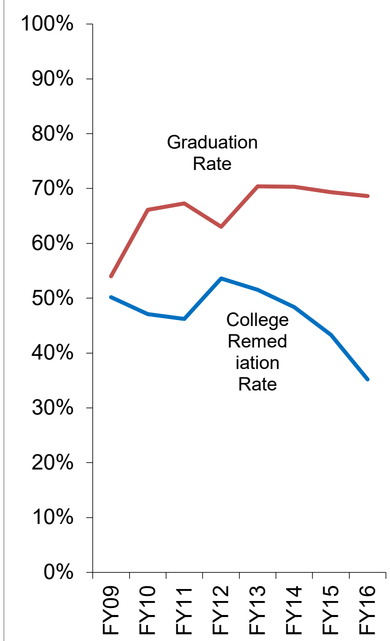
Students must have clear pathways throughout the system that prepare them for career and college opportunities. This requires partnerships with postsecondary entities, a well-designed curriculum, and a strong teaching workforce. Industries, higher education institutions, and schools should collaboratively determine the skills and competencies demanded of graduates from the public education system and base the entire curricula on these needs.

All educators must be adequately supported and trained during and after preparation programs to deliver this curriculum, and the profession needs to be elevated to attract the best candidates. This can be achieved with competitive compensation and career ladders, aligned professional development, mentorships or residencies for beginning teachers, highly-selective preparation programs, collaborative learning systems, and teacher participation in research-based curriculum design and assessment. Policymakers must also be careful to ensure that more rigorous requirements for teacher candidacy do not create equity issues in the candidate pipeline.

New Mexico should carefully align its current programs and initiatives into a comprehensive statewide plan for education. Despite increased state appropriations to public school support in the last few decades, student achievement remains low, with even lower performance levels for at-risk students. This was the impetus of a recent sufficiency lawsuit, which claims a lack of adequate funding is the reason for achievement gaps in the state. Given limited state revenues, resources and policy efforts should be focused on strong programs for early childhood readiness, especially for disadvantaged children; high-quality teacher preparation and support; rigorous systems of career and technical education; and carefully aligned education reforms. With a clear vision for the education and workforce pipeline as a whole, New Mexico can have a world-class system.



New Mexico High School Graduates

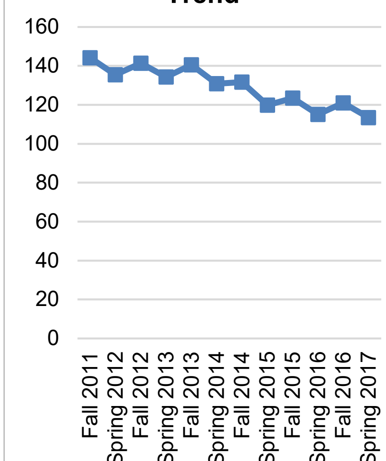


Source: OEA, PED, HED

Higher Education

Postsecondary educational institutions continue to make difficult decisions leading to one of two situations in the years to come – either institutions will use the current fiscal environment to streamline business operations and retool to efficiently get students to graduation, as several institutions have begun to do, or maintain the current operations that led certain institutions to come under scrutiny from the state and national accrediting bodies. The latter puts New Mexico's colleges and universities in jeopardy of losing access to federal financial aid and may force them to consider closing their doors. Fiscal year 19 will be a critical time for New Mexico to monitor institutions at risk financially and continue efforts leading to record certificate and degree awards. Meanwhile, strategically allocating financial resources will help abate drops in enrollment and dampen the impact of declining appropriations on students.

Student Headcount Trend



Source: National Student Clearinghouse

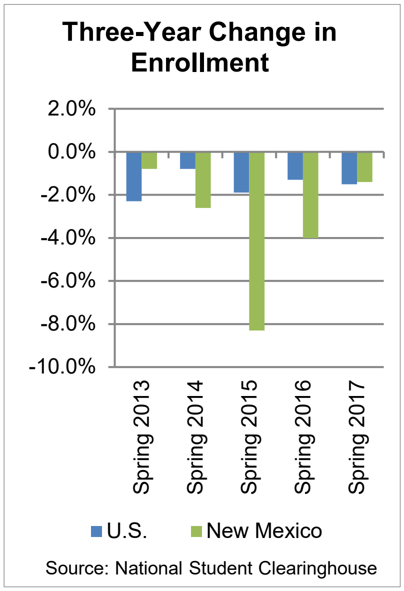
Declining State Appropriations and Enrollment

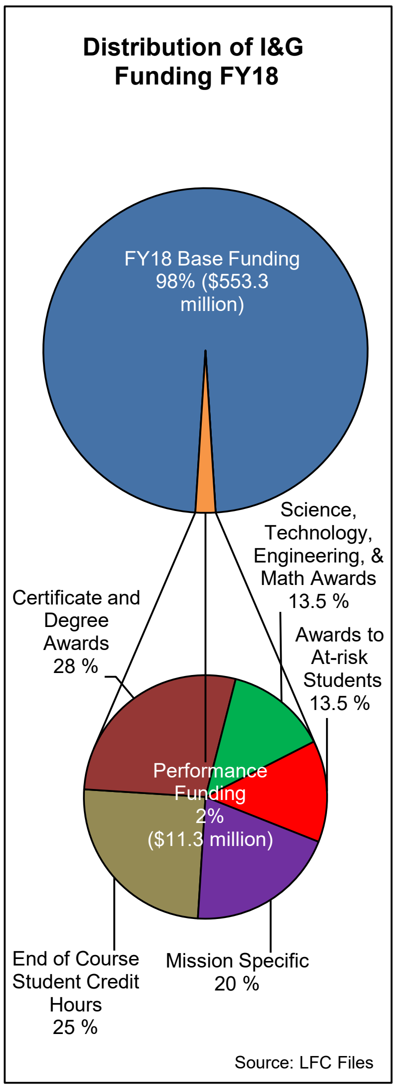
Appropriations for instruction and general purposes to New Mexico's colleges and universities have declined 6.4 percent in the last three years, while full-time enrollment has dropped 9.2 percent in the last three years for which data are available. The effects of these declines manifest themselves differently at each institution. For some, this means reductions in budgeted, but unfilled, FTE staff positions, while other institutions have had to pursue layoffs. For others, these reductions forced the closure of programs. This has proven challenging at some institutions, as regents' decisions face community backlash when popular programs are shut down, such as the ski team at the University of New Mexico

Student Credit Hours Completed

Sector	AY-15-16	AY 16-17	Change
Research	1,035,107	1,007,117	-2.7%
Comp.	278,251	273,419	-1.7%
Comm. Colleges	1,144,210	1,119,530	-2.2%

Source: FY19 HED Formula Data





or the equestrian team at New Mexico State University (NMSU). Academic program closure has also been accompanied with problems. Although surveying engineering at NMSU had only a handful of students when the decision came to shut down the academic program, the response from the professional community and alumni forced NMSU to reevaluate.

Spending reductions over the last three years have also shown cost-savings may take several years to realize. As an example, when a college decides to eliminate a degree offering, accreditation rules require the institution to "teach out" all students currently in the program. This means retaining faculty, equipment, and materials until every student in the program has graduated, which could take several years in some cases. NMSU found it could save up to $7 million per year through multiple restructuring strategies as part of a study conducted by Deloitte. Yet implementation of these measures is ongoing, and overhauling large universities requires stakeholder buy-in and consistent leadership, which may be difficult in light of the current chancellor's anticipated departure.

With these challenges in mind, LFC recommends the Legislature place fiscal emphasis on instruction and general appropriations, rather than special research and public service projects, to help stabilize state appropriations focused on institutions' core missions. Meanwhile, discussions over higher education governance structure should focus on providing accountability to the limited number of institutions struggling to balance their books or graduate more than 10 percent to 20 percent of their first-time, full-time students. The state would also be more effective in achieving an efficient, better performing higher education system if it focused reform efforts on the four governing boards overseeing almost 80 percent of higher education spending – the University of New Mexico, NMSU, Eastern New Mexico University, and Central New Mexico Community College – rather than reorganizing smaller institutions.

Higher Education Funding Formula

Increases in Certificate and Degree Awards. Since FY12, higher education institutions increased total credentials awarded by 32 percent, which helps progress the state toward its goal of 66 percent postsecondary attainment among working-age adults by 2030. It is unclear whether this increase is entirely attributable to the current funding model, which rewards colleges and universities based on the total number of awards, but the higher education funding formula has certainly motivated several institutions to implement changes that help more students graduate. For example, some institutions implemented simple administrative changes that help students take the most direct path to their degree without taking unnecessary credit hours.

Maintaining Momentum. The increase in certificate and degree awards suggests two actions are necessary to maintain current momentum. First, the Legislature should consider increasing the amount of funding used to reward institutions for performance. In FY17 and FY18, only 2 percent of instruction and general funding was set aside to reward performance. The amount was lower than previous years because institutions were subjected to appropriations reductions as the state balanced its budget, and limiting the amount set aside to reward performance minimized the effects of the higher education funding formula. As funding levels stabilize, and as institutions have more time to adjust to the funding formula, a

A Closer Look

Higher Education Cost Drivers and Cost Savings

New Mexico hosts some of the most affordable colleges and universities in the country, but these higher education institutions must improve efficiency and cut administrative costs to keep it that way, according to an LFC program evaluation titled *Higher Education Cost Drivers and Cost Savings.* The report, which reviewed financial and student data at the state's 24 public postsecondary educational institutions, found institutions built capacity in the late 2000s and early 2010s in anticipation of higher enrollment, yet enrollment since then has declined overall and certain institutions have seen administrative and institutional support costs increase at a rate outpacing inflation. This is not true for all institutions, the evaluation notes, as some institutions have taken commendable steps to identify inefficiencies, reduce staff, and make their business operations leaner. Those institutions tend to be the larger universities and, as such, the average institutional spending per student statewide does not deviate widely from national averages.

Noting the current decentralized nature of higher education governance results in governing boards making decisions in a vacuum and acknowledging the efforts of the Higher Education Department with relatively little authority over those governing boards, the evaluation recommends using the Accountability in Government Act to require institutions to report on efficiency measures and updated outcome data aligned with the higher education funding formula. The report further suggests formula funding changes to incentivize efficiency throughout the higher education system and a higher degree of scrutiny for certificates counted in the higher education funding formula. Finally, the LFC program evaluation highlights the importance of collaboration across institutions and across campuses. For example, though there are exceptions, branch institutions generally do not work as cohesive units with their respective main campuses. The evaluation suggests institutions form collaborations and consortiums, or leverage existing branch campus arrangements, to cut costs on items such as purchasing, share space, and reduce duplication of programs. Doing so will allow institutions to maximize existing space and even consider closing or leasing underused space.

higher percentage of funding should be set aside to reward performance. When the Legislature appropriates funding to successful institutions, those colleges and universities are able to use that funding to further their successes and maintain the current upward swing in credential awards.

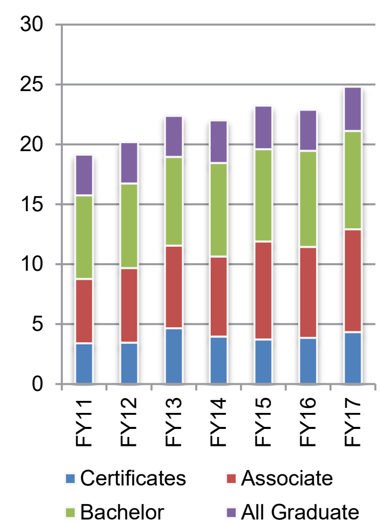
Second, much of the growth in certificate and degree awards is attributable to lower-level, "tier one" certificates and associate degrees. Whereas, tier three awards are reserved for specialized fields, such as electromechanical and instrumentation maintenance, tier one certificates include areas of study more closely associated with the postsecondary core curriculum, such as word processing or general studies.

When the higher education funding formula was implemented, certain "soft landings" were put in place to limit the impact of the formula and help maintain relatively stable funding streams to institutions. As an example, some institutions were held harmless if they improved in the number of awards but would lose money from the formula. To lessen the impact on community colleges and comprehensive institutions, the formula was augmented with a soft-landing to provide equal weighting for all certificates and degrees, so a tier one certificate was rewarded the same as a tier three associate degree.

Now that institutions have had over half of a decade to adjust to the current funding model, the Legislature should consider restoring the weighting of these certificates and degrees to place more emphasis on highly specialized, more expensive certificates and degrees that lead to better-paying jobs. The state may also consider revising which certificate and degree fields belong in each tier to ensure instruction and general funding is going toward credentials needed in the workforce.

HED has already taken steps to ensure the formula rewards credentials leading to higher-paying jobs. The department has implemented a process in which new

Awards Granted by New Mexico Colleges and Universities
(in thousands)



Source: HED FY19 Formula Data, LFC Files

For more info:
Higher Education Report Card Page 89

Public Higher Education Net Tuition Revenue per FTE

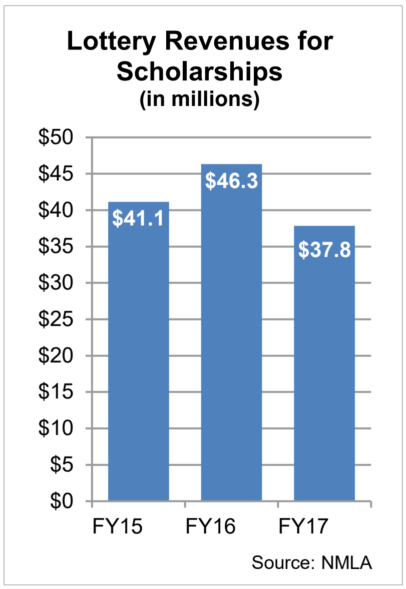
	FY08 (Pre-Recession)	FY16	5 Year Change
U.S.	$4,682	$6,321	35.0%
N.M.	$1,114	$3,791	240.3%

Source: SHEEO, SHEF FY16
Constant adjusted 2016 dollars

certificate and degree programs will be reviewed before inclusion in the funding formula. This decision will remove nearly 1,900 certificates in FY19, but it signals the department is dedicated to ensuring fidelity in the formula. The move is also in line with recommendations from a 2017 LFC program evaluation on higher education costs.

Student Financial Aid

Recent appropriations reductions to higher education institutions included the Higher Education Department (HED) as well. HED comprises less than 10 percent of total higher education appropriations, but it serves an important role in overseeing higher education institutions, notably collecting data and making recommendations used by the Legislature to make funding decisions.



The vast majority of HED's general fund appropriation, about two-thirds, supports the department's 21 financial aid programs. As a result, when HED's appropriation is reduced, the department is forced to apply the cuts to the largest portion of its budget – student financial aid, which has seen a 9 percent decline in funding since FY16.

State general fund appropriations for financial aid declined at a time of significant increases in tuition – 35.8 percent in the last five years – and a 40 percent drop in Legislative Lottery Tuition Scholarship support. College is still affordable compared with other western states – New Mexico has the second lowest rates in the West – but average costs have increased 80.4 percent in the last 10 years and New Mexico institutions are becoming more reliant on tuition revenues for operations. Half of general fund financial aid dollars support students for whom colleges is less affordable via the student incentive grant, awarded to those demonstrating substantial financial need. The remainder of financial aid appropriations help New Mexico attract or retain professionals in high-need areas of primary health care, social work, education, and law.

The Legislature should avoid cuts to student financial aid in FY19 and consider consolidating aid programs to strategically use scarce resources on programs that

Legislative Lottery Tuition Scholarship

In FY18, tuition covered by the Legislative Lottery Tuition Scholarship dropped to the lowest in its over 20-year history – students can expect the scholarship to cover 60 percent of their tuition. The loss of liquor excise tax revenues for scholarships has been compounded by dwindling lottery ticket sales. Year-over-year revenues from lottery sales dropped 18 percent, from $46.3 million to $37.8 million, the second lowest in 10 years. Declining lottery revenues is not just a New Mexico issue; 22 of 44 states with lotteries saw revenues decline between 2014 and 2015, the most recent year for which comprehensive data were collected, according to Pew Charitable Trusts. Roughly half of Americans bought a lottery ticket between June 2015 and June 2016, according to the analytics publication *Gallup News*, down from 57 percent in 1999.

Legislators, universities, students, and stakeholder groups have been attempting overhauls of the scholarship for several years, with only minor changes achieving enactment, such as an increase in credit hour requirements for university students. To ensure the scholarship continues to help New Mexicans obtain postsecondary degrees, the Legislature will need to continue to consider changes to the scholarship. Without such changes, the amount covered will continue to decline in future years. To better use the limited dollars available for the scholarship, the Legislature should consider leveraging other sources of aid, including the $22.2 million appropriated to the Higher Education Department, Pell Grants, and other federal sources. The state should also consider covering a higher percentage of tuition at less expensive community colleges to minimize the impact of declining lottery revenues. Although the Legislative Lottery Tuition Scholarship may no longer be able to cover 100 percent of tuition costs for all students, the state and institutions can work together to provide financial aid packages and solutions that lessen the burden on students.

have the biggest impact for students and the state's workforce. Doing so ensures in-need populations and industries are not left out as institutions streamline operations and push more students to graduate.

Strategic Planning and Governance

During the 2017 interim, the Higher Education Department (HED) assembled a strategic planning committee comprising college presidents, regents, and other stakeholders to discuss, among other items, state higher education governance and capacity. The group considered various scenarios of governance from other states, but the conversation centered on the need for HED to have more robust oversight authority of at-risk institutions and the potential for a coordinating board to help institutions collaborate.

The latter topic, a coordinating board, would create a forum of ideas where institutions could work together on issues LFC has been endorsing for several years, including better efficiencies, clear outcomes data, review of finances, and continued strategic planning. The coordinating board would not replace HED, as a state agency overseeing all of higher education remains necessary, but the board could support the department's work and advise on the best course of action from a state perspective leveraging the expertise of state higher education leaders.

FY18 Higher Education Department General Fund Support for Student Financial Aid
(in thousands)

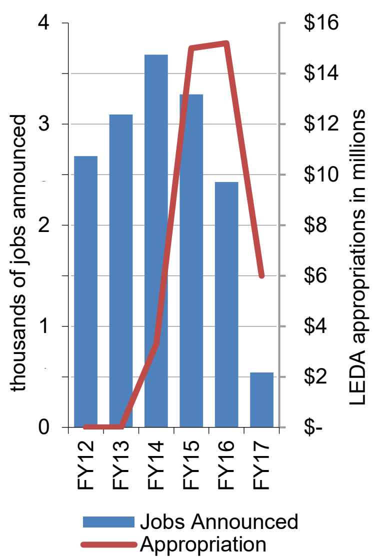
Program	FY18 Allocation
Firefighter Scholarship	$25.0
Nursing Loan-for-Service	$450.0
Teacher Loan-for-Service	$20.0
Nurse Educators Fund	$65.0
Health Professional Loan Repayment	$1,061.9
Minority Doctoral Loan Repayment Assistance	$75.0
Social Worker Loan Repayment	$450.0
Graduate Scholars	$619.0
Work Study	$4,142.2
NM Scholars Program	$250.0
Student Incentive Grant	$11,000.0
WICHE Loan-for-Service	$2,167.5
Dentistry Loan-for-Service	$21.6
Public Service Law Loan Repayment	$170.0
Primary Care Physician Tuition Waiver	$150.0
Medical Student Loan Repayment	$350.0
Dental Residency	$750.0
Teacher Loan Repayment	$60.0
Allied health Student Loan-for-Service	$100.0
Wartime Veterans Scholarship	$65.0
Vietnam Veterans Scholarship	$180.0
Financial Aid Admin.	$21.0
Total	**$22,193.2**

Source: HED FY18 OpBud

Economic Development

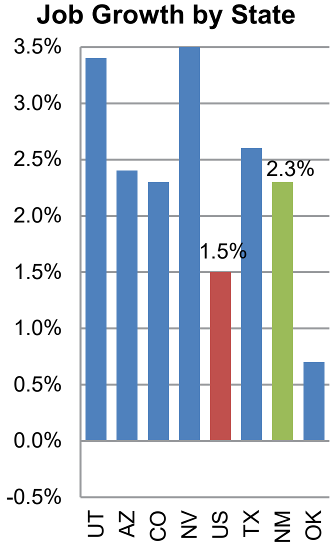
For more info:
[Economic Development Department Report Card Page 96]

LEDA Funding and EDD Jobs Announced



Sources: EDD, LFC files

June 2017 Year-over-Year Job Growth by State



Source: Workforce Solutions Department

The Legislature has increased spending on economic development programs and passed a suite of tax reductions and tax credits in recent fiscal years. However, despite these tax cuts, job growth has been weak. The multiple incentives offered may have made the current state revenue crisis even more challenging. To effectively increase growth, many factors need to be considered, including quality of education and crime rates.

New Mexico's Economy and Quality of Life

The U.S. Department of Labor released a report in March 2017 showing New Mexico with a 6.7 percent unemployment rate for January, surpassing Alaska and Alabama, and making New Mexico the state with the highest unemployment rate in the country. Moreover, the U.S. economy grew at an annual rate of 3.1 percent in the spring, the fastest pace in more than two years, while New Mexico's gross domestic product only grew by 2.8 percent in the first quarter of 2017.

Vital factors needed to attract businesses to New Mexico do not necessarily include the typical tax incentives. Marketing New Mexico can be challenging when when the FBI reports New Mexico is ranked number one in the nation in property crime rates and two for violent crime. The Urban Institute reports violent crime can significantly affect economic development by depressing housing prices and neighborhood business activity. While violent crimes negatively affected housing values across all neighborhoods, the Urban Institute found the effect was most pronounced in low-income neighborhoods.

Similarly, potential businesses have to consider the school where employees will enroll their children. In FY17, three-fourths of fourth graders were still not proficient in reading or math. New Mexico's graduation rate remained significantly lower than the national average, and nearly half of New Mexico high school graduates took remedial courses in college. Brookings Institution data shows high school graduates do better economically than dropouts and college graduates do much better than high school graduates. These differences indicate the worth of the workers to the economy and that longer periods in school could have a beneficial effect on productivity and economic growth.

Economic Development Department Incentives

Job Training Incentive Program. Over the past five years, funding for the Job Training Incentive Program (JTIP), including FY18, totaled $30 million. As of August 2017, EDD reported, $6 million in JTIP funds were unspent. The JTIP board approved 57 businesses for funding in FY17, including 13 in rural communities, with a total of $12.7 million in awards. Historically funded with nonreverting special appropriations, the Legislature appropriated $500 thousand of recurring general fund appropriations for JTIP in FY15 and increased this to $2 million by FY17 to provide stability for the program because it has shown success in appropriating funds quickly to qualifying businesses. In FY18 JTIP received a $10 million special appropriation.

The JTIP statute requires at least one-third of the appropriations in a fiscal year to be spent on training in rural areas. EDD has not improved its efforts in providing JTIP awards to rural communities over the past fiscal year. It has violated the statute each year for at least the last four fiscal years. The agency spent 18.6 percent of FY14 awards on rural training, and this dropped to 14.6 percent in FY15 and just 13.3 percent in FY16, but increased to 15 percent in FY17. The agency should propose legislation if it wants to change or eliminate the rural provision instead of seemingly violating the statute. The statute also provides a $2 million cap on JTIP funds for film and multimedia training and makes no mention of this being an annual cap. The legislative intent appears to provide funding for this ongoing program, but additional legislation may be needed to clarify the cap is on an annual basis as assumed by EDD.

Local Economic Development Act. Over the past five years, funding for the Local Economic Development Act (LEDA), including FY18, received a total of $46.5 million from the general fund. When including severance tax bonds, and other state funds, LEDA received $77.9 million over the same period. As of October 2017, EDD reported $37 million remains in other state funds and severance tax bonds is unspent.

The number of jobs created through department efforts for FY17 decreased by 58 percent when compared with FY16, the lowest it has been in the last four years. A lack of detailed reporting from businesses that receive LEDA awards is a concern. For legislators to trust that these incentive programs are using taxpayer dollars efficiently, more data should be provided by EDD showing return-on-investment to both local communities and the state.

Unemployment Insurance

Prior to the Great Recession, New Mexico maintained the second healthiest Unemployment Insurance (UI) trust fund in the nation. Although it has since regained strength, New Mexico's UI trust, like many state UI funds, was in danger of becoming insolvent during the recession. Nationally, states went into debt by $47 billion to pay unemployment benefits. In March 2008, prior to height of the recession, New Mexico's fund balance was $557 million. During the third quarter of FY15, New Mexico's fund balance was down to $64.3 million. At the end of FY17, the fund was $417.5 million. During FY17, employers contributed $265.9 million to the fund and benefit payouts were $175.4 million.

State Unemployment Insurance Tax. In 2015 and 2016, with significant stakeholder input, New Mexico implemented a new employer contribution structure with tax rates that vary by employer, primarily dependent on the employer's experience rating and the overall fiscal condition of the UI trust fund. The quarterly tax on employers varies based the employer's benefit ratio, or claims filed during the previous three years divided by the employer's average taxable payroll. After an employer's experience rating is determined, a reserve factor, is based on the solvency of the unemployment trust fund, between .5 percent and 4 percent, is added to establish the final contribution rate. Employers that have high benefit charges relative to payroll may also pay an additional excess premium, capped at 1 percent.

Unemployment Insurance Benefits. When an employee becomes unemployed, the individual is eligible to file a UI claim with the Workforce Solutions Department (WSD). To be eligible for benefits the claimant must meet monetary and nonmonetary requirements, such as earning sufficient wages during a base period of time and being able, available, and actively searching for work. The base wage period is 12 months, during which an average wage determination is used to calculate benefits. Benefits are available for up to 26 weeks and are equal to around 50 percent of the average weekly wage of the claimant's base period.

For more info:
Tourism Department Report Card Page 98

Unemployment Insurance Trust Fund Reserve Factor

- More than Adequate Reserves = Between 0.5 and 0.9999 percent
- Adequate Reserves = 1.0 percent
- Less than Adequate Reserves = Between 1.0001 and 4.0 percent

The reserve factor for 2017 was reduced to 2.5264, down from 4.0 in 2015 and 2016.

Analysis of regional minimum, maximum, and average benefits indicates New Mexico is in general alignment with surrounding states. However, the duration of benefits are above average

Average Unemployment Insurance Benefits
(in weeks)

Arizona	15.4
California	17.5
Colorado	15
Nevada	15.4
New Mexico	18.1
Texas	17
Utah	12.7

Source: WSD

For more info:
Workforce Solutions Department Report Card Page 99

Healthy Communities

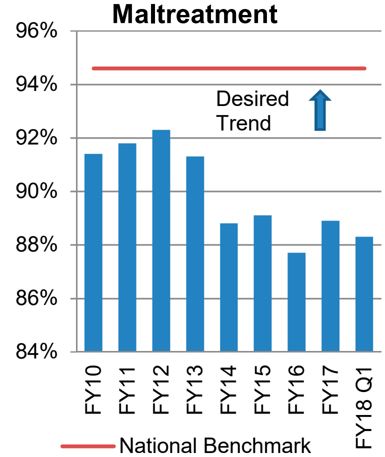
For more info:

Children, Youth and Families Department Report Card Page 93

New Mexico Child Health Indicator Rankings 2016	
Teen Pregnancies ages 15-19	4th Highest
Low Birthweight	12th Highest
Pertussis Cases	10th Highest
Child Immunizations	37th Highest
Children in Poverty	1st Highest

Source: Centers for Disease Control and America's Health Rankings

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



Source: CYFD/ NCANDS

Health and social service programs, the foundation to building healthy communities, represent the largest slice of the state's total budget pie and touch one out of every two New Mexicans. New Mexico spends billions in state and federal funds to prevent domestic violence and child and elder abuse, support hungry families and mitigate the long-term effects of being born poor, and improve access to health care, including mental health services. But results are mixed. In New Mexico, 29 percent of children are at, or below, the federal poverty level, 41 percent are in single-parent families, 18 percent are in families where the head of household lacks a high school diploma, and 34 percent have parents who lack secure employment. Every New Mexican is affected by the health of the family and community, many directly and all indirectly, through the impact on quality of life and the cascading influence on the ability to build and attract business activity, which in turn creates the financial infrastructure that makes it possible to maintain healthy communities.

Even as the state continues to tighten its belt, New Mexico must strengthen access to the social safety net by offering an array of services for the most needy and improving the delivery systems and workforce to ensure access. Further, the state must focus its resources on those programs with demonstrated success and better leverage federal matching dollars to make the best use of taxpayers' dollars. Regardless of federal policy changes and state revenue shortages, these elements are needed to ensure vulnerable populations are protected.

Investing in Children's Health and Well-Being

Children's health outcomes in New Mexico – including poor results on teen pregnancy, low birth weight, immunizations, and poverty – are not evenly distributed and are largely determined by socio-economic status and geography. Women in Union County are more than three times more likely to give birth to a low-birthweight infant as women in Los Alamos County and half as likely to receive prenatal care in the first trimester. Unsurprisingly, according to New Mexico Health Care Workforce Committee analysis, Union County has no obstetric and gynecological physician – the closest is in Colfax County – and no certified nurse midwifes or licensed midwifes – absent in the three neighboring counties and Mora County to the southwest. Only four primary care doctors practice in Union County.

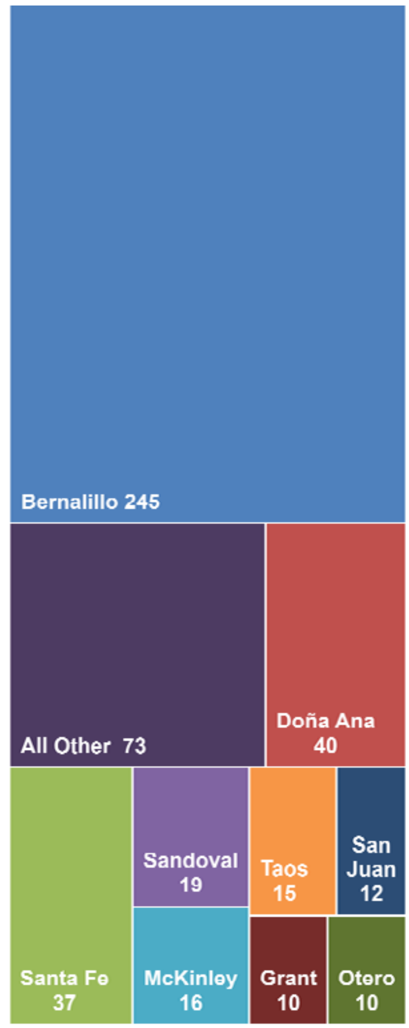
In March 2016, a problem at Alta Vista Hospital exemplified the need to develop the state's family medicine and obstetrics workforce. The hospital abruptly cut birthing services when it was unable to recruit and retain enough obstetricians, leaving the local community scrambling to find prenatal care and child-birthing services. After the closure, women in the area had to drive an hour or more for services and at least one pregnant woman died in a roll-over crash on her way home from a prenatal care checkup. The accident illustrates the importance of workforce development in providing access to healthcare to all parts of New Mexico, including those that are sparsely populated.

Children's Health Insurance Program

Congressional failure to reauthorize funding for the Children's Health Insurance Program (CHIP) could mean New Mexico will need $32.1 million in FY19 to maintain the healthcare program for middle-income children. Funding for the program that provides health care for certain children expired September 30, 2017. However, the U.S. Senate Finance Committee has proposed bipartisan legislation that would maintain in 2018 and 2019 the 23 percent increase in the federal matching rate for the program that was part of the Affordable Care Act but would reduce the federal match in 2020 by 11.5 percent and totally eliminate it in 2021.

In FY15, New Mexico's CHIP program was funded with $89 million in federal funds and $24 million in state funds and provided health coverage to over 17 thousand children from birth to age 6 whose family incomes were too high to qualify for Medicaid but no greater than 300 percent of FPL and kids ages 6 to 19 up to 240 percent of FPL.

Share of Women's Health Providers and Birth Attendants by County 2016



Catron, De Baca, Gualdalupe, Harding, Hidalgo, Mora, Quay, Torrance, and Union Counties have no providers.

Source: New Mexico Health Care Workforce Committee

Child Maltreatment

While a majority of state agencies have seen reduced general fund support due to declining revenues, appropriations have increased for the Protective Services Program of the Children, Youth and Families Department, which conducts child abuse and neglect investigations and provides in-home services, foster treatment, and foster and adoptive placements. Federal fund appropriations for Protective Services have been targeted at decreasing caseloads and increasing financial support for children in the care of the agency. However, the number of children in state care has continued to outpace funding increases.

In FY17, the number of children in care of Protective Services increased by about 150 children, or 5 percent. Total reports of maltreatment were slightly higher, around 6 percent, an average of nearly 3,300 reports every month; of those, an average of 1,700 cases were accepted for investigation. In addition, more reports of child maltreatment were accepted for further investigation during FY17. The increase of children in care, volume of reports, and accepted reports all increase caseloads for the Protective Services program. The average monthly caseload was 20 for permanency planners and 13 for investigators, exceeding the Child Welfare League of America recommendation of 12 to 15 for permanency planning workers and 12 for investigators. With increased funding the agency has increased field workers 112 positions, a 33 percent increase between FY15 and FY17.

The costs of child maltreatment are substantial and result in general expenses to taxpayers and specific expenses to victims. An LFC report found that, in New Mexico, 36 percent of children who are the victim of a substantiated case of maltreatment will be abused or neglected again before they are 18. Furthermore,

A Closer Look

Domestic Violence Services for Victims and Batterers

Children are present in one-third of domestic violence incidents in New Mexico, and child survivors are more likely to be either a victim or perpetrator of intimate partner violence in the future. In addition, LFC program evaluation *Domestic Violence Programs for Victims and Batterers* reviewed the state's services for both perpetrators and survivors, administered by the Children, Youth and Families Department (CYFD). Nearly one-quarter of New Mexicans have been victims of domestic violence in their lifetime, and over 48 thousand individuals were arrested for a domestic violence offense between 2008 and 2015.

Over 60 percent of those arrested for domestic violence are later rearrested, and a fragmented system of entities and services is unable to effectively respond to domestic violence cases and prevent future incidents. Most domestic violence cases in New Mexico do not result in a conviction, and as few as 10 percent of those arrested complete a batterer intervention program (BIP). While BIPs are generally low-cost alternatives to incarceration, involving group and individual counseling alongside community monitoring, research has not shown clear evidence that they are effective at reducing future incidence of domestic violence among perpetrators. Additionally, fewer than half of BIP clients in New Mexico successfully complete the program. CYFD is working to improve tracking of BIP performance and conduct further evaluations of BIP programs in the state.

However, communication barriers between domestic violence service providers and CYFD's Child Protective Services Division can hinder a coordinated response for child survivors. Effective prevention programs, especially for children and youth, can reduce future incidents of domestic violence.

The Department of Health funds 12 sexual assault and domestic violence prevention programs throughout the state, and initial evaluations have shown these programs may change attitudes on relationship violence. Overall, the evaluation recommends CYFD fund a coordinated community response pilot to address the fragmented system and continue efforts already under way to collect and monitor performance information to monitor BIP effectiveness.

the nonprofit research organization Child Trends recently reported the rate of referral per 1,000 children in New Mexico was 82.2, significantly above the 53.2 national average. In addition to high reporting, the analysis also showed the victimization rate was 17.5 percent, also significantly higher than the national rate of 9.

For more info:
Human Services Department Report Card Page 102

Reducing Maltreatment. Given that the Legislature already has made Protective Services a priority, these statistics indicate the state might never catch up with increasing caseloads without strong investment in early intervention and prevention and the substantial family supports needed to overcome poor economic conditions, high drug use, and other social conditions driving families into contact with Protective Services. Reducing child maltreatment and foster-care placements by 10 percent could save tens of millions of dollars and improve life-long outcomes for at-risk families. Connecting families early to high-quality preventive services may be one of the state's strongest policy tools for improving the child welfare system.

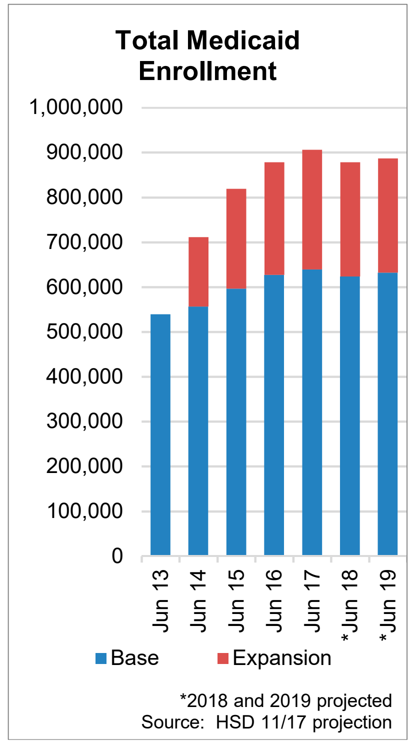
For more info:
Department of Health Report Card Page 107

With this in mind, CYFD began a pilot in FY17 that provided childcare assistance to families at-risk of becoming involved with the Protective Services Program. This pilot allowed families to receive childcare subsidies to stabilize families for six months while also providing children with safe and developmentally supportive care. Over 1,000 children were served through this program in its first year. The state also expanded child advocacy programs to 18 counties and family support worker programs to nine counties. The family support service program helps families who have come to the attention of the agency get the services they need. The centers target families with three or more referrals and is a short-term intervention program that engages families for 90 days or less.

The child advocacy programs co-locate nonprofit and public partners, including law enforcement, child forensic interviewers, social service organizations, and agency caseworkers to better coordinate services for child maltreatment victims. Going forward, the state must continue to better target at-risk families and expand services as a strategy to reducing child maltreatment.

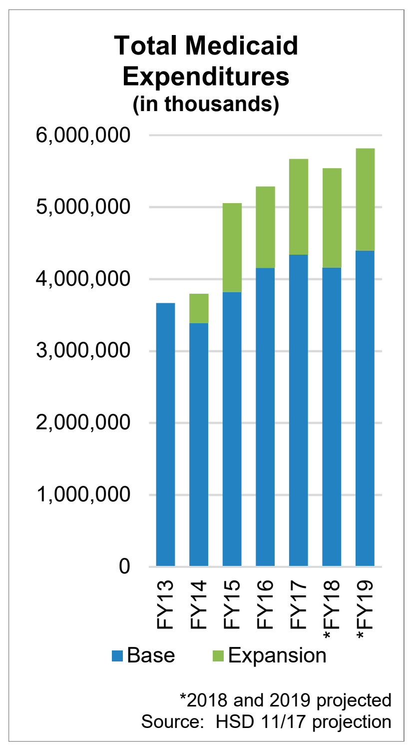
Investing in Health Care for Families

Similar to the rest of the nation, federal policy instability surrounding the Affordable Care Act (ACA) is causing New Mexico decision-makers to hesitate to make major changes to the New Mexico healthcare system. While much of this is due to multiple ACA repeal efforts, uncertainty is also the result of the federal government seeking to reduce health spending through federal rule changes and other budgetary means. Additionally, in recent years, due to sharp statewide revenue downturns and increased demand for expanded childcare and Medicaid services, the state has also considered many and adopted some cost-containment measures. In FY18, state general fund revenue for Medicaid increased only slightly while the Department of Health requested and received a general fund cut. The state will likely be forced to maintain some level of cost-containment measures through the next year.



In June 2017, New Mexico's Medicaid program covered 915,161 individuals, 13,869 less than the amount projected in March, but 37,168 higher than the previous year. About 234,698 of the 915,161 members make up the adult Medicaid expansion population, a population made eligible at higher income levels as part of the ACA. The Human Services Department (HSD) projects a total of 917,952 Medicaid recipients by June 2018.

Expenses for the program are increasing, driven by both enrollment growth and a drop in federal matching dollars for the adult expansion population. For FY16, the total costs for Medicaid were over $5.4 billion, with approximately $1.1 billion of state funds. For FY17, the total costs for Medicaid are projected to be over $5.5 billion, with approximately $1.1 billion of state funds. For FY18, the projected total costs for Medicaid are over $5.8 billion, with approximately $1.2 billion of state funds.



State Medicaid Reform Efforts

The concept paper for Centennial Care 2.0, the revamp of the state's 2014 state Medicaid plan, includes proposed reforms intended to ensure the program's financial viability and preserve its ability to provide access to comprehensive benefits. Reforms include patient copays, care coordination, behavioral health integration, long-term services and supports, and administrative simplification.

Improvements to care coordination include better integration of care for patients with complex needs and higher-cost care, including improving transitions for nursing home and hospital patients and children returning home from foster care placement. This would also include increasing primary care residency training in clinical settings to promote workforce development.

Centennial Care 2.0 would also change long-term services and supports by increasing the number of caregiver respite hours available, establishing limitations on costs for

Centennial Care 2.0 proposes leveraging partnerships such as

- Carelink NM, the health home model for members with complex behavioral health needs;
- Home-visiting pilot program to improve early childhood outcomes;
- Wraparound service pilot project that provides intensive care coordination for CYFD clients.

Reduce Prescription Drug Costs

Currently, Medicaid can lower drug costs by negotiating additional discounts with drug makers or requiring doctors to get prescription authorizations. Further costs savings could be realized using a prescription formulary that would exclude some drugs from coverage. Also, enabling local specialty pharmacies to fill hepatitis C prescriptions at lower 340(b) pricing would save money and retain Medicaid funds in New Mexico's economy.

New Mexico's Health Care Tax Code

- Hospitals are exempt from state taxation at the same level as other entities.
- Many, although not all, health care practitioners are exempt from state taxes.
- Pharmaceuticals are not taxed.
- Healthcare facilities and practitioners are taxed at disproportionately lower rates.

certain services in the self-directed program to ensure program sustainability, and requiring inclusion of nursing facilities in value-based purchasing arrangements.

Member Engagement and Personal Responsibility. HSD is proposing new policies to increase cost-sharing through premiums and co-pays for individuals in higher income categories and to expand opportunities for Native American members. Changes include implementing premiums for populations with higher incomes, advancing the Centennial Rewards program to encourage healthy behaviors using credits earned to offset co-payments, and expanding contractual or employment arrangements with tribal providers to develop capacity.

Refinements to Benefits and Eligibility. Streamlining eligibility processes and program design would reduce administrative costs to HSD and simplify the program for beneficiaries. The department's proposal includes offering a uniform benefits package for most Medicaid adults, developing buy-in premiums for dental and vision services for adults, initiating care coordination for prisoners prior to release, and eliminating the three-month retroactive eligibility period for most Centennial Care members. Other eligibility changes include requesting waiver authority for enhanced administrative funding to expand availability of long-acting reversible contraceptives (LARC) to certain providers having difficulty securing funding to maintain an inventory.

Medicaid Cost-Containment

While Medicaid projections for FY18 indicate the year could close with a slight surplus in state general fund revenues, HSD estimates for FY19 that $68.3 million in additional general fund revenues will be needed for Medicaid alone. The state must continue investing in revenue enhancements in addition to rate cuts, co-pays, and other measures implemented by the department.

In May 2016, LFC staff compiled a list of cost-containment options. The following items remain available for possible consideration by the Legislature and HSD.

- *Roll Back Provider Rate Increases*. Since 2012, the Legislature has appropriated $29.6 million in provider rate increases. The state's use of managed care provides an opportunity to pay variable rates to ensure MCOs have adequate networks of doctors. The state also chose to pick up part of the cost previously borne by local counties for rural hospital spending as part of the uncompensated care pool program (rate increases and supplemental payments) and this could be recouped.
- *Create Managed-Care Efficiencies.* HSD implemented administrative savings for its MCOs, but more could be done, including
  - » Ensuring Medicaid MCO rates are at the bottom of federally allowable rate ranges,
  - » Accounting for efficiencies in MCO administration,
  - » Reducing amounts built into rates for MCO profit or capital, and
  - » Revisiting price assumptions for hepatitis C drugs.
- *Suspend or Reduce New Programs.* Certain new initiatives intended to improve care or efficiency or both might not be producing desired results. A variety of programs should be weighed for costs and benefits, including paying hospitals for performance on quality of care indicators, evaluating the effectiveness

of universal care coordination, and rewarding good patient behavior under the Centennial Care Member Rewards program which provides benefits for Medicaid members.

- *Control Utilization.* Use of the emergency room for non-emergent health care raises costs, and co-pays could deter inappropriate use. Utilization could also be reviewed for self-directed care in the long-term services and supports program, as well. Also, the utilization review contract could be revisited; the contract has increased by 119 percent even though MCOs also perform utilization review.
- *Revisit Tax Code for Healthcare Industry.* Tax benefits for the healthcare business sector, the fastest growing in New Mexico's economy, cost the general fund almost $300 million annually. Despite having industry and bipartisan support, healthcare tax reform legislation was vetoed by the governor. The additional revenue generated from these reforms could have been used to support the increased cost of Medicaid.

Medicaid Accountability

Given the high cost of Medicaid and the impact on healthy communities, HSD must provide transparent reports on the performance of the program to provide policymakers and the public with the information needed to assess the program and allow the executive and the Legislature to collaborate on improving the program.

Following a comprehensive review of all state agencies' performance measures by executive and legislative budget analysts in 2016, many HSD performance measures were discontinued or shifted from quarterly to annual reporting. For example, HSD has decided to report prenatal visits on an annual basis, rather than every quarter, because payments for all pregnancy-related services are bundled and accurate quarterly accounting is administratively difficult. However, prenatal care is a key health indicator that Medicaid managed-care organizations are required to track, and MCOs provide incentives for patients to access prenatal care through the Centennial Care Member Rewards program, which HSD reports has a 72 percent participation rate. LFC staff has requested the department continue reporting data on prenatal visits quarterly.

HSD also has not reported on performance measures for well-child visits, indicating the data is only available annually due to provider reporting lag times. HSD noted it incorporated well-child measures into MCO contract amendments as "tracking measures" effective July 1, 2016, to ensure MCOs focus on improving members who receive annual visits by awarding points to these members. Some MCOs also use preventive interventions, such as targeting members with low utilization through mailings of a member newsletter and posting website articles.

LFC remains committed to robust quarterly reporting for all key agencies and is collaborating with the Department of Finance and Administration and HSD to maintain performance measures and consider adding important new measures.

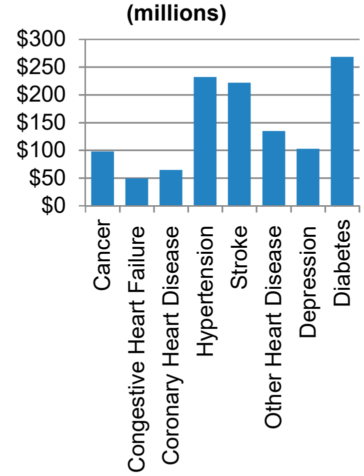
Investing in Disease Prevention and Care Management

The costs of treating chronic diseases, many of them preventable, are large and growing. The cost to Medicaid alone to treat cancer, congestive heart failure, coronary heart disease, hypertension, stroke, other heart diseases, depression, and

Additional Medicaid Reforms To Consider

- Reduce number of MCOs;
- Integrate physical and behavioral health, including data and assessment;
- Eliminate behavioral health carve out;
- Implement creative workforce investments;
- Limit licensing, credentialing and billing barriers to care;
- Enroll non-disabled adults with incomes over 100 percent of FPL in subsidized commercial plans through exchange;
- Do not allow non-disabled adults with access to affordable employer-sponsored insurance to enroll in Medicaid;
- Adopt widely-used commercial tools to obtain lower drug prices and enhanced rebates;
- Implement evidence-based practices focused on effective outcomes;
- Ensure healthcare assessments are not barriers to timely treatment.

New Mexico's Estimated 2015 Cost of Treating Preventable Chronic Disease in Medicaid
(millions)

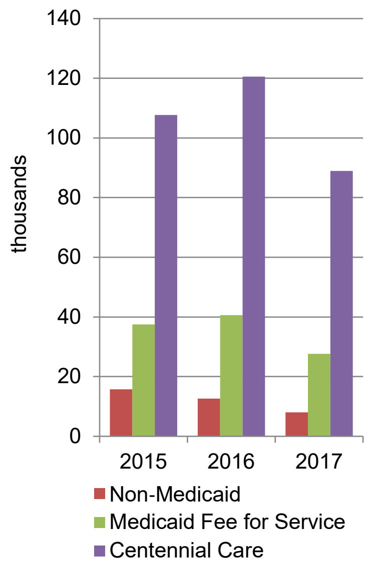


Source: Centers for Disease Control, Chronic Disease Cost Calculator

Opportunities for Innovation: Medicaid Outcomes

Medicaid should focus more on outcomes. Metrics such as the early diagnosis of illness, incidence of low-birth-weight infants, maternal mortality, and the efficiency of care could form the basis of such measures. Although there has been some recent progress identifying a core set of measures for children and adults, a scorecard on a core set of metrics needs to be developed.

Number of Individuals in State-Funded Substance Abuse or Mental Health Programs



Source: HSD

Opportunity for Innovation: Sharing Best Practices

States' Medicaid programs use different approaches to provide health care and substance abuse treatment, create innovative payment methodologies, and capitalize on technology. Promoting shared innovation is important combined with accountability for tax dollars focused on the use of best practices for improving the health of target populations based on measurable results. [*Journal of the American Medical Association* Forum: Reforming Medicaid, July 11, 2017]

diabetes is estimated at about $1.2 billion in New Mexico, according to the federal Centers for Disease Control. Every year, New Mexico invests in initiatives to reduce the prevalence of chronic disease by correcting for socio-economic risk factors, targeting funding at community health workers, and working to improve care coordination. Additional chronic disease prevention work is done through public health offices, where the state invests in nutrition services, obesity, and tobacco use reduction programs.

However, New Mexico's place in U.S. health rankings, for certain indicators, reveal areas for improvement. New Mexico ranks high on per capita public health spending but ranks poorly on drug deaths, violent crime, premature death, and diabetes.

Investing in Behavioral Health Care

While New Mexico has rates of mental health issues just slightly higher than those for the nation, its rate of deaths from alcoholism and drug overdoses are substantially higher. In 2014 and 2015, New Mexico's rate for the prevalence of any type of mental illness was 19.9 percent compared with the U.S. rate of 18 percent and its rate for serious mental illness was 4.5 percent compared with the U.S. rate of 4.1 percent. Its rate for major depressive episodes was 6.6 percent, comparable with the national rate. The Department of Health's behavioral health demographic data indicates New Mexico had a drug overdose rate in 2015 of 24.8 percent compared with the U.S. rate of 16.3 percent, and New Mexico's overdose death rate was the eighth highest in the country.

Access to Behavioral Health Care

Like women and children's health, access to behavioral health services is uneven across the state. Only five counties meet or exceed national benchmarks for the number of practicing psychiatrists, and the five counties with the highest rates of suicide deaths were below national benchmarks for practicing psychiatrists. Behavioral health provider agencies in some of these areas are also unstable. For example, several months ago, the southern New Mexico-based federally qualified health center, La Clinica de La Familia, announced it would soon eliminate behavioral health services because of financial difficulties. If cut, this would be the third time patients in this area of the state switched behavioral health providers since the 2013 statewide behavioral health shakeup, when since-disproven HSD allegations of financial mismanagement shut down most New Mexico behavior health providers. The state hired Arizona-based providers to fill the gap but many of those subsequently left the state.

State Substance Abuse Facilities

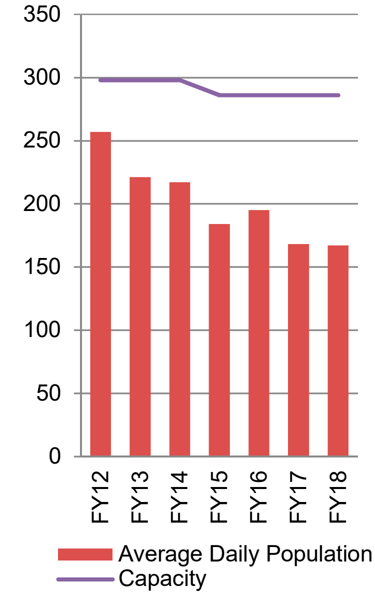
Department of Health facilities offer some of the only inpatient drug and alcohol dependency treatment available in the state, but these services have shrunk in the last few years and may not return to former service levels. This year the state closed Yucca Lodge Drug and Alcohol Rehabilitation Center at Fort Bayard and claimed they moved these services five hours away to the Rehabilitation Center in Roswell. However, the Rehabilitation Center's chemical dependency unit was closed for several months because the hospital did not have the personnel to operate it. The number of patients is growing, but it is not clear when or if the center will reach operational capacity. In total, including Turquoise Lodge, the statewide average daily census for July 2017 in state-operated chemical dependency and medical detoxification units was 32. Two years ago the average daily census was about 67.

The cost to the economy from drug-overdose deaths in New Mexico, calculated by multiplying the number of deaths by the insurance industries $5 million figure on the value of a human life, was nearly $2.5 billion in 2015. However, according to a study in the *Journal of Pain Medicine*, if searching for a more accurate figure, the figure must also include healthcare costs related to prescription opioid abuse, criminal-justice system costs, and workplace costs in the form of lost earnings and employment. The results of the study concluded, simply, "The costs of prescription opioid abuse represent a substantial and growing economic burden for society."

For more info:
Behavioral Health Collaborative Report Card Page 105

Juvenile Justice

In 2016, 12,609 youth were referred to the juvenile justice system for services, with the majority handled through local community rehabilitative programs. Evidence shows incarceration in juvenile facilities may have serious and lifelong negative impacts on committed youth. New Mexico is following the national trend of declining juvenile justice populations. Only about 188 youth, or about 1.5 percent of those referred to Juvenile Justice Services of the Children, Youth and Families Department, were committed to a juvenile facility.



Consequently, committed juvenile youth facilities have been mostly empty so far this fiscal year, possibly the result of increased use of front-end services intended to keep juvenile offenders in their communities. A 2016 LFC evaluation of Juvenile Justice Services, which provides prevention, intervention, and aftercare services for delinquent youth, found CYFD has made positive gains in client outcomes since implementing a rehabilitative model, rather than a punitive one, and resources now need to be realigned to meet changing system demands. Among

A Closer Look

Results First: Children's Behavioral Health

In a joint report with the Humans Services Department (HSD) and the Children, Youth, and Families Department (CYFD), LFC evaluators found the state spent $200 million in FY16 to address behavioral health needs for children from birth to age 21. Forty-six percent of this was for acute out-of-home treatment without evidence of effectiveness, while the state spent the least on prevention, 15 percent for FY16. Because New Mexico has high rates of risk factors, poverty, adult substance use, and other adverse childhood experiences — children are at increased risk of developing behavioral health problems. New Mexico needs greater investment in prevention and early and community-based interventions, emphasizing evidence-based practices, to reduce out-of-home treatment and improve outcomes.

The report, *Children's Behavioral Health*, inventories children's behavioral health programs and analyzes those identified as evidence-based by national research to determine the return-on-investment if operated correctly. This analysis showed 48 percent of New Mexico practices and programs are evidence-based. Those programs are primarily offered as prevention and community-based intervention and represent just half the state's spending on children's behavioral health services.

In addition to emphasizing evidence-based programming, ensuring the behavioral health system is effectively meeting needs of the state's children requires increased data collection, matching service and provider access to need, and effective monitoring and evaluation of programs. HSD and CYFD are committed to working to further develop the children's behavioral health system through the New Mexico Behavioral Health Collaborative strategic planning process, putting specific emphasis on the needs of children.

Behavioral Health Strategic Plan

In its strategic plan completed in January 2016, the Behavioral Health Services Division (BHSD) of the Human Services Department lists the following achievements:

- Streamlining of Medicaid rules for behavioral health;
- Collaboration with the Medicaid program and others to reimburse nursing services in behavioral health settings;
- Development of a clinical practice provider guide, tele-supervision for social workers getting certified, creation of behavioral health interns, interstate licensure reciprocity, and joint credentialing for peer and family support specialists;
- Partnerships with counties and municipalities to fund better behavioral health services;
- Implementation of telehealth to focus services on 500 high-need Medicaid clients;
- Funding of evidence-based practices, including wrap-around services, multi-systemic therapy, and Treat First;
- Funding for behavioral health investment zones in Rio Arriba and McKinley Counties.

Opportunity for Innovation Medicaid and Medicare

The relationship between the Medicare and Medicaid program for clients served by both programs should be improved, just as the relationship between Medicaid and private programs should be made more fluid for people with fluctuating incomes. Efforts to increase coordination between Medicare and Medicaid would benefit from the federal government sharing resulting savings with states.

other key recommendations, the report suggests CYFD focus more resources on multi-systemic therapy, an evidence-based treatment targeted at reducing recidivism and improving long-term outcomes.

As of September 2017, only 167 of the 286 available beds in secure facilities were in use. The average daily population of clients in custody decreased 13 percent between fiscal years 2016 and 2017, the continuation of a trend that started in FY12. However, the cost of secure juvenile commitment increased about 30 percent during this time period. Regardless if a facility is near capacity or well below, the cost to staff and administer secure facilities is nearly the same.

Behavioral Health Needs Assessment

A behavioral health needs assessment, completed by the University of New Mexico Health Sciences Center in January 2017, concluded almost a third of Medicaid behavioral healthcare costs in 2014 through 2015 were "reducible," including inpatient hospitalizations and emergency room visits. Eighty percent of these "reducible" costs were for inpatient hospital visits. On average, for clients with an active behavioral health diagnoses, reducible costs were $267.43 per member per month, for a total of $1.1 billion. "Non-reducible" costs included primary care, skilled nursing, outpatient, pharmacy, and other services.

Behavioral Health Next Steps

The state's behavioral health system of care would benefit by focusing on prevention, integration with physical health, and effective use of all funding. Integration and coordination of behavioral health and physical health is imperative to managing costs in emergency rooms, jails and prisons, and within the Medicaid program.

Regarding substance abuse services, New Mexico could take advantage of new federal flexibility on the size of drug and alcohol treatment centers eligible for Medicaid coverage, currently limited to 16 beds. Providers with fewer than 16 beds find it hard to survive financially, but federal regulators have issued waivers on the limit for four states.

The state could also consider expansion of medical detoxification in more hospitals, monitored medicine-assisted treatment, more community-support services, and expansion of the Treat First model — treating clients when they show up instead of doing multiple assessments first — to limit over-assessment of behavioral health clients and provide more immediate treatment. The state could also decide to regulate behavioral health crisis care as "short-term residential stabilization" to allow more local flexibility.

Bernalillo County and the city of Albuquerque are using $3.6 million raised through a gross receipts tax for behavioral health initiatives to create supportive housing, including for jail re-entry diversion and youth transitional living. An additional $4 million will be devoted to reduction of adverse childhood experiences and community engagement teams and $2.7 million for mobile crisis teams and a transitional planning re-entry resource center. Additional amounts were set aside for steering committee activities and the University of New Mexico Institute for Social Research to evaluate the county's efforts.

To better integrate physical and behavioral health, consideration should be given to Medicaid managed-care organizations (MCOs) and the practice of allocating behavioral health to subcontractors. Additionally, the state, MCOs, and healthcare providers could better collaborate on health assessments and other services to enhance provider alignment and data sharing to improve behavioral health clients' navigation through the healthcare system.

In addition, New Mexico must continue to focus on expanding its behavioral health workforce by streamlining licensing and credentialing and advancing parity and integration with primary care and health homes.

Finally, New Mexico needs to diversify behavioral health funding as important services may be ineligible for Medicaid funding. Use of varied funding streams could be used to achieve quicker and more effective behavioral health outcomes.

Investing in Services for the Aging and Disabled

Slow reimbursement payments from the Aging and Long-Term Services Department through the four area agencies on aging (AAA) are a perennially difficult problem for nonprofits providing home-delivered meals, congregate meals, transportation services, housekeeping, and adult daycare services for seniors. Providers complain that reimbursements can sometimes be more than a month late. Many nonprofit providers operate on slim margins and very few have enough cash balances to keep the lights on for a month or more. In FY17, the department's budget was cut 5.5 percent, resulting in rate cuts to the AAAs and service providers. Exacerbating the problems, the department implemented policy changes ending advanced payments for services and stopped allowing AAAs to budget federal funds until they are realized.

Long-Term Services and Supports

Since 2008, HSD has administered the Centennial Care Long-Term Services and Supports program (LTSS) through a managed care model designed to serve members in the most appropriate setting. New Mexico leads the nation in spending more of its LTSS dollars on keeping members in their homes and in the community rather than in institutional settings. The American Association of Retired Persons ranked New Mexico in the top five states for spending of LTSS dollars on community-based services from 2014 to 2017. Currently, more than 29,750 members are receiving LTSS in their homes or in the community in New Mexico.

Prior to Centennial Care, the state's LTSS program, known as the Coordination of Long-Term Services (CoLTS) program, restricted members who met the nursing facility level of care criteria to receiving only personal care services. CoLTS required members who needed additional community-based services to wait on a central registry for a waiver allocation.

The October 2016 LFC program evaluation *Cost, Quality and Financial Performance of Nursing Homes in New Mexico* reported the numbers of individuals living in New Mexico nursing homes declined by 12 percent between 2011 and 2015 as options for home- and community-based care expanded under Centennial Care. The reduced occupancy rates resulted in higher average costs

Jackson Lawsuit Disengagement

The nearly 200 disengagement criteria the state is required to meet to end the Jackson lawsuit regarding providing services to DD clients in an integrated setting include activities related to health, safety, and employment. One example of the department's disengagement work includes a $546.2 thousand contract with the University of New Mexico Center for Development and Disability (CDD) to provide specialized job and employment support to people with significant disabilities receiving community based services. In FY17, the program provided training to over 2,000 people in 20 counties plus the pueblo of Laguna. The contract requires CDD to draw from national expertise in the development of core competency standards and indicators to measure best practices in customized employment. CDD is also required to facilitate five statewide learning teams to support ongoing skills development.

Waldrop Lawsuit

The supports intensity scale (SIS), one aspect of the state's 2011 effort to restructure the Medicaid waiver for people with developmental disabilities (DD Waiver) and reduce costs was originally intended to determine the appropriate level of services for people with developmental disabilities. In 2014, several parents sued the state over its use of SIS in what is now known as the Waldrop lawsuit. In May 2015, the state settled the lawsuit and stopped using SIS altogether, switching to a new outside review (OR) process as the sole tool to determine appropriate levels of services. The department claims that OR did not result in significant cost changes but has yet to provide data backing up this assertion. It remains to be seen whether the OR process will remain cost neutral.

For more info:

Aging and Long-Term Services Department Report Card Page 111

of care for people in nursing facilities because nursing homes now tend to have sicker, higher-need patients. This has considerable implications for the Medicaid program because 64 percent of the state's nursing home residents rely on Medicaid to pay for their care.

Meeting the Needs of People with Developmental Disabilities

State spending on people with intellectual and developmental disabilities per $1,000 of personal income increased from $1.58 in 1977 to $5.17 in 2015. In 2015 dollars, this amounted to an increase from $52.9 million to $404.1 million. Nevertheless, the wait to receive home- and community-based services under the Medicaid waiver (DD waiver) that allows care outside a nursing home continues to be longer than 10 years. Given this, it is vitally important people awaiting allocation for DD waiver services receive appropriate care through traditional Medicaid and other avenues. Education, transitional employment, supported employment, Medicaid, and the Mi Via Medicaid home- and community-based waiver are all examples of services that could be better leveraged to improve the quality of life for people not receiving DD waiver services.

The employment rate for people with cognitive disabilities in New Mexico is about 20 percent, seventh lowest in the country and 6 percent lower than the national average. Median annual incomes are also low for this population. Although this may be related to New Mexico's overall lower educational attainment, children and adolescents with physical and cognitive disabilities typically have more limited access to formal education than their nondisabled peers. Working to educate people with developmental disabilities, when appropriate, improves quality of life and independence and the Department of Health, Public Education Department, local school districts, Vocational Rehabilitation Division, colleges, and others should work together to take advantage of existing resources.

Reforms in case management and pretrial release and detention have reshaped the justice system and aim to improve justice, safety, and fairness. However, little to no measures exist to evaluate the performance of these changes within the justice system. Budget shortfalls and exhausted fund balances constrain reform efforts and highlight underlying issues facing the courts and all justice partners. To understand and support positive reforms, greater performance reporting is necessary.

For more info:
Administrative Office of the Courts Report Card Page 117

Pretrial Release and Detention

On July 1, 2017, pretrial release and detention procedures for all courts in New Mexico changed in accordance with the constitutional amendment adopted by voters in 2016. The amendment was two-fold: It made clear defendants who are not dangerous or a flight risk cannot be held in jail awaiting trial solely because they cannot afford a bail bond and, for the first time in state history, district court judges could lawfully hold felony defendants in jail before trial if they were deemed too dangerous for release.

Increased Work Loads

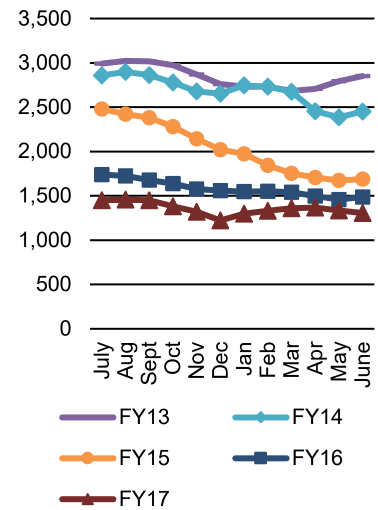
Although counties are expected to experience savings from lower jail populations because of the new amendment, the courts, district attorneys, and defenders are expected to experience increased workloads. Pretrial hearings to determine if a defendant should be detained require a judge to make a determination on request from the district attorney's office. This requires substantially greater workloads earlier in a case. Further, the defender must work with the defendant prior to the hearing to mount a proper defense against such detentions.

Caseloads are the primary driver of costs in the justice system. The number of cases assigned to the public defender grew almost 9 percent between FY14 and FY17, while cases referred for screening to district attorneys throughout the state stayed mostly flat and total caseload for the district courts dropped. Total cases in the district courts declined from about 400 thousand in FY14 to 350 thousand in FY17, driven by a drop in the 2nd Judicial District. In the 2017 legislative session, a bill was passed to remove penalties of incarceration for low-level offenses, which would significantly reduce caseloads for the Public Defender Department; however, the bill was vetoed.

Performance Measures and Reporting

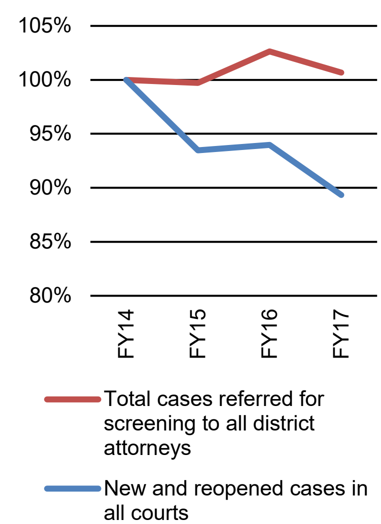
To accurately measure the effectiveness of pretrial reforms and the case management order as they effect safety, efficiency, and justice, new data needs to be collected. Although some relevant information exists in jails, police departments, sheriffs' offices, the corrections department and other locations, the justice system should

Bernalillo County Metropolitan Detention Center Population



Source: Bernalillo County

Cases Entering the Justice System (as a percent of 2014 cases)

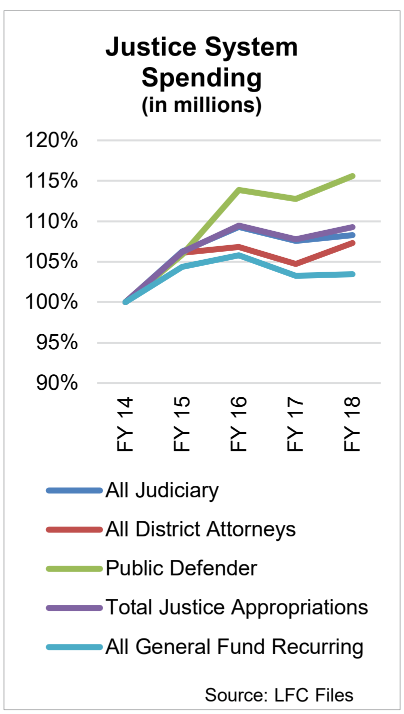


Source: AODA and AOC

Suggested Performance Measures

- Appearance rate: percent of supervised defendants who make all scheduled court appearances.
- Reoffenders: number of supervised defendants not charged with a new offense during the pretrial stage.
- Concurrence rate: ratio of defendants whose supervision level or detention corresponds with their assessed risk.
- Pretrial detainee length of stay: the average length of stay in jail for pretrial detainees eligible by statute for pretrial release.
- Pretrial detention rate: proportion of pretrial defendants detained throughout pretrial case processing, or proportion of pretrial detention motions granted.

On July 1, 2017 court clerks were reclassified into a higher pay band and received on average 10 percent pay raises. Clerks constitute nearly 50 percent of all court personnel. The raise is consistent with the Hay Guide-Chart Profile Method of Job Evaluation, used in 2015 by the Judicial Classification Committee to reflect the skills and duties currently used in the clerk position. For FY18, the reclassification will



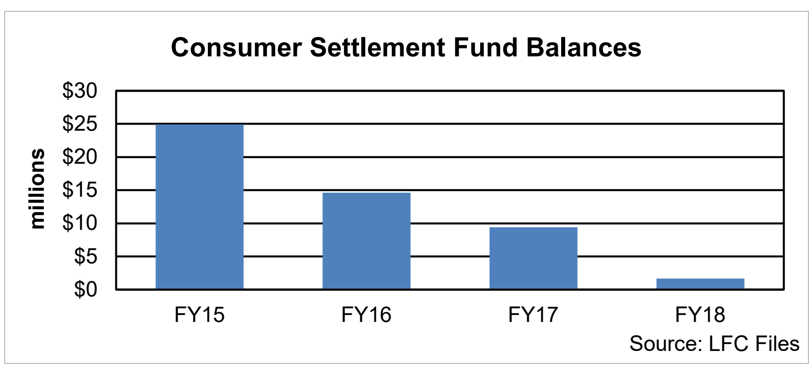
measure activities within departmental purview. Such measurements should include rates of appearance, reoffences, and pretrial detention.

In addition to needing better measures, the frequency of reporting must also improve. For FY17, quarterly reports were published on court performance, and the district attorneys and public defenders published performance results annually. The lack of comprehensive quarterly reporting limits a complete understanding of the justice system. In FY18, all three justice partners will publish quarterly reports. Important measures include clearance rate, conviction rate of cases that make it to trial, number of pretrial detention hearings, and the number of new cases opened by the public defender.

Budget Constraints

In October 2016, the public defender notified the district court in Lea County it wouldn't take any additional cases for 90 days. According to the department, caseloads per attorney in the 5th Judicial District at the time were 141 percent of the maximum National Advisory Commission (NAC) standards and the agency was not able to pay for more staff or contractors to take cases. In a case before the Supreme Court, the department argued overburdensome caseloads violated a defendant's constitutional right to effective counsel, necessitating more state funding or a special master to provide further remedies. In October 2017, the Supreme Court dismissed the case made by the PDD, and ruled that the PDD must continue to try all cases it is assigned.

Since 2011, New Mexico has used the consumer settlement fund to supplement the operations of the Office of the Attorney General. Fund balances are depleted. Revenues into the fund have been volatile because funding is secured through lawsuits, which may or may not pay into the fund or alternatively result in restitution for New Mexico consumers.

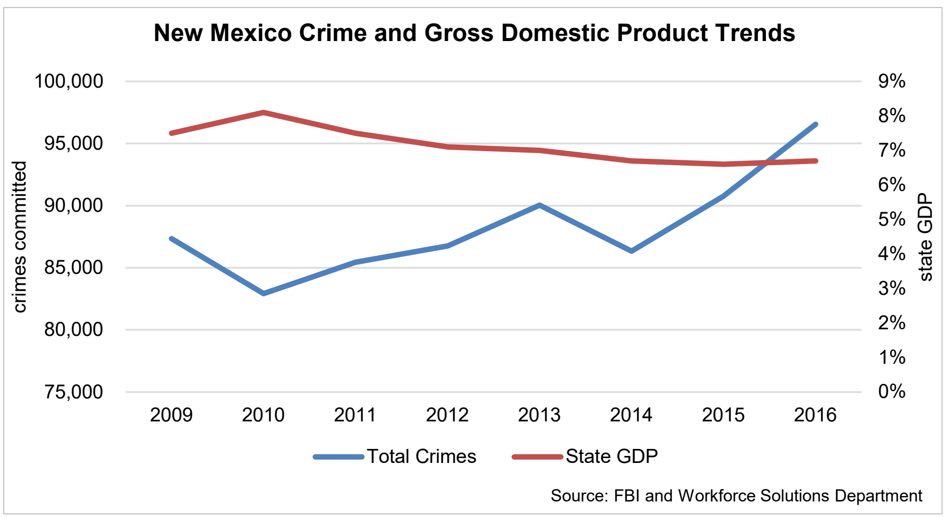


Despite difficiculties in budgets statewide, the FY18 operating budgets of the courts, district attorneys, and the public defenders were increased by 2 percent on average. The Office of the Attorney General will be unable to make up for shortfalls in fund balance for operations without sizeable general fund increases.

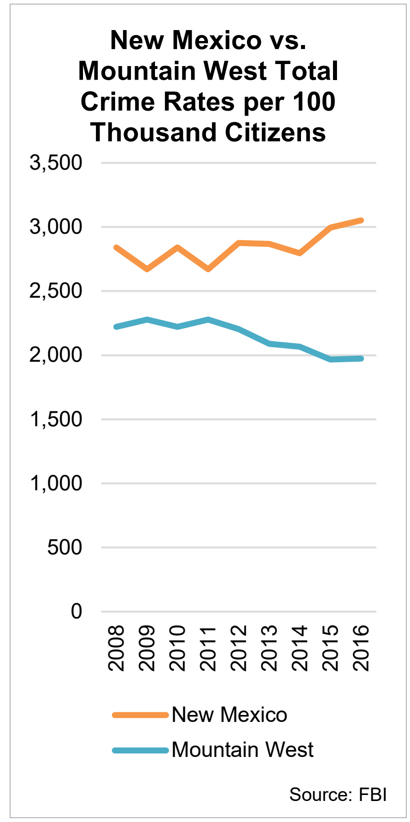
Despite investments in public safety, crime rates in New Mexico are still among the highest in the nation and staff vacancy rates in prisons and police forces remain stubbornly high, potentially damaging the state's chances of improving its economy. Innovative, evidence-based practices will prove critical to impacting the state's future safety and success.

Public Safety

New Mexico's crime rate remains stubbornly above the national and the Mountain West average (Arizona, Colorado, Idaho, Montana, Nevada, Texas, Utah and Wyoming). Although the violent crime rate in Arizona spiked 15 percent and Wyoming's grew 10 percent, those state's violent crimes per 100 thousand residents are significantly lower. In Arizona, 470 violent offenses occur for every 100 thousand people, while in Wyoming only 244 occur. On average among Mountain West states, 391 crimes are committed for every 100 thousand in population; in New Mexico, 703 violent crimes occur for every 100 thousand citizens; 80 percent higher than neighboring states.



The state's climbing violence and prolific property crime incidents could deter economic progress within the state and strains already stressed public safety networks statewide. Instead of being able to devote funding to increasing broadband availability, strategically investing in education, or improving public health, continued high crime rates drive funding to incarceration costs and mounting caseloads in the courts. Evidence-based approaches to hiring effective law enforcement personnel, prison programming, and transitional living services must be developed to stymie the state's criminal activity.



Federal statistics show New Mexico's violent crime rate per 100 thousand people grew 4 percent between 2015 and 2016, making the state the second most violent in the nation, only behind Alaska. New Mexico ranked third in 2015 and fourth in 2014.

New Mexico had the highest property crime rate behind only Washington DC, a 6 percent increase over 2015 when the state ranked third behind Hawaii and Washington D.C.

Nationally, average violent crime rates grew 3 percent and property crimes fell 2 percent

Manpower and Pay

In tandem with escalating crime rates, the number of crime scenes investigated in FY17 by Department of Public Safety (DPS) officers rose 88 percent over FY16, while the number of criminal cases investigated rose 39 percent in the same time

State Police Manpower Projections

Fiscal Year	Vacancy Rate	Eligible Officers Projected to Retire
FY18	11%	41%
FY19	14%	74%
FY20	16%	55%

Source: Department of Public Safety

DPS has tested 604 of their 1,400 rape kit backlog, with 194 of the kits eligible for entry into federal criminal databases. Of the kits entered into databases, 72, or 12 percent, were linked to other sexual assault cases.

The Legislature in 2016 authorized $7.5 million for the new Santa Fe Crime Lab and Evidence Center: a $500 thousand severance tax bond for plan and design and a $7 million general obligation bond for the first phase of construction. DPS has issued a request for proposals for the evidence center and expects to be short on funding the project's completion.

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period. However, DPS projects 92 officer positions will be vacant in FY19, or 13 percent, with three-quarters of eligible officers retiring. Rising workloads and recruiting challenges necessitate innovative recruiting and crime prevention methods, including recruiting specifically for community policing, expanding community watch programs, or developing programs targeting repeat offenders. Fund balances could be redirected and used as grants to incentivize innovative practices around the state.

Budget constraints have limited further progress on the department's $10.3 million police officer pay plan, first requested in 2013, in which $7.5 million has been invested over three phases. DPS estimates another $6.8 million would be needed to make the department among the top three payers in the state. However, the department has initiated retention efforts, including step increases between 3 percent to 7 percent for each year served for officers within their first two to five years of service and a 2 percent lump sum for officers on the last step of their rank. In lieu of additional funding for pay, more efficient use of manpower may be needed, such as employing databases to map crime hotspots or to expand cooperating agreements with local police jurisdictions. Additionally, the department has almost completed consolidated its eight dispatch centers to hubs in Las Vegas, Albuquerque, and Las Cruces and invested $425 thousand in FY16 to curtail high vacancy rates, historically near 20 percent, among dispatch personnel.

Criminal Justice Clearinghouse

In August 2015, the New Mexico Supreme Court's Ad Hoc Pre-Trial Release Committee recommended the state develop a centralized data clearinghouse for criminal histories, created by Laws 2016, Chapter 10, with the goal of allowing judges to more quickly assess risk during arraigning and sentencing. Criminal history records will be generated from databases at the Children, Youth and Families Department, the Administrative Office of the District Attorneys, the Administrative Office of the Courts, the National Crime Information Center, and the Corrections Department (NMCD). In the 2016 legislative session, DPS was appropriated $600 thousand to create the database and estimated the project will cost the state almost $1 million to create and implement over the next three years. Currently, the data is available only to the 1st Judicial District and data is consolidated into a report manually requested by email. The complete automation of the process and access for all courts is estimated to cost an additional $430 thousand, with annual maintenance of $36 thousand.

Corrections

Despite stubbornly high crime rates, in FY17 the state's average prison population of 7,347, composed of 6,598 men and 748 women, was 2.4 percent below Sentencing Commission projections and down 0.7 percent below the prior year's average. Despite the state's finacial contraints, the NMCD budget has grown an average 2 percent per year over the last five years. The department's budget increase mirrors inmate population growth of more than 10 percent over the same time period and higher healthcare costs.

State prison savings as a result of the population decrease are likely to be minimal due to rising fixed overhead costs. However, savings at private prisons could be realized as inmate per diem rates would fall; a percent population decrease realized solely in private prisons could save almost $1 million. The pharmaceutical contract, which charges $6.89 per inmate per month on top of an administrative fee, could also generate savings from a shrinking population. For meaningful savings, the inmate population would have to decrease at a rate that safely allows fewer officers on duty or closure of facilities, necessitating sentencing reform.

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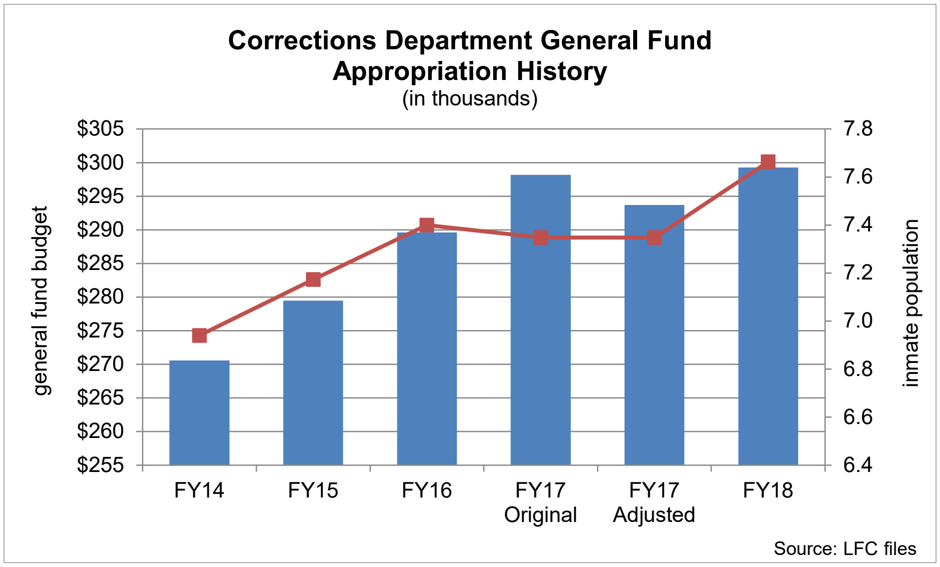
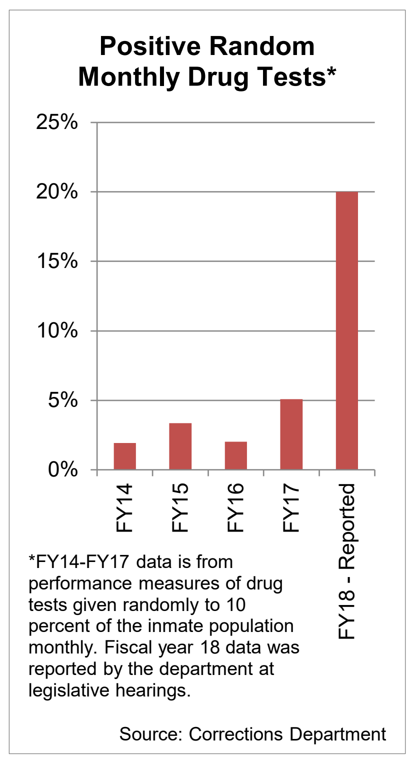
Health Care

Prompted by reports of prolonged medical neglect and mismanagement, NMCD contracted with a new healthcare provider, Centurion, in May 2016. Additionally, the department entered into contracts with a pharmaceutical provider and a behavioral health provider for the female population. As a result of three new health-related contracts, the agency's FY18 healthcare budget increased $6.5 million, or 12 percent, over the FY17 level.

In 2007, LFC published an evaluation that found NMCD did not effectively monitor healthcare provider Corizon. A follow-up study in 2008 showed many of the report's recommendations had been addressed or were improving. However, in 2013, legislative staff reviewed three years of medical reports and expressed concern about whether corrective action plans were implemented when Corizon was out of compliance. NMCD implemented many of the recommendations and in FY18 hired a nurse auditor to verify the quality of care being delivered.



The contract with Centurion, valued at $42.8 million in FY18, required Centurion to obtain specific federal drug discount program pricing within six months from the start of the contract for certain diseases, including hepatitis C. While Centurion did not meet this mandate, the department is working with Christus St. Vincent hospital to qualify for the reduced pricing. The department contracted separately for pharmacy services with Boswell, a shift from previous years when both inmate healthcare and pharmacy needs were covered by Corizon. NMCD covers the costs of specialty HIV and hepatitis C drugs. NMCD reported, after some initial growing pains, the services provided by the new contractors are better than past contractors. In some facilities, Centurion has brought in more staff and provided more services, like dentistry, ophthalmology, and mammograms, than previous providers.



In FY16, when NMCD first began treating hepatitis C patients with new drug therapies, the number of inmates treated and their acuity levels were high. Since FY16, newer drugs have entered the market and have driven drug costs down. The lower acuity patients now being treated require a shorter treatment regimen. NMCD continues to work with Project ECHO at the Univeristy of New Mexico to identify infected inmates and develop treatment plans. NMCD data shows hepatitis C costs fell from an FY16 average of $88.5 thousand per patient to $68.8 thousand in FY17 as a result of competitive market pricing and having treated all the highest acuity patients. As market competition increases, hepatitis C drug prices continue

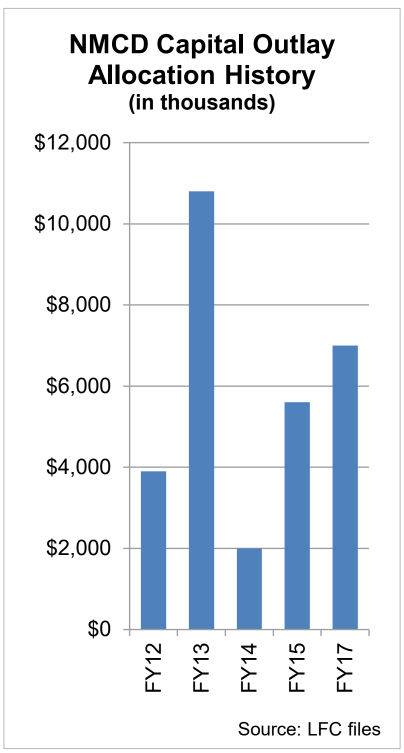
In FY17, the department treated 40 patients infected with hepatitis C at an average cost of $68.8 thousand, well below the $88.5 thousand in FY16.

FY17 NMCD Staffing Rates

	Vacancy	Turnover
Correctional Officers	22%	2.4%
Probation and Parole Officers	20%	1.1%

Source: New Mexico Corrections Department

In FY16, the General Services Department (GSD) facility condition index for NMCD facilities shows it is now more expensive to repair the department's buildings than replace them. The worst are Southern New Mexico Correctional Facility and Central New Mexico Correctional Facility.



to decrease. This summer, a new drug was approved that treats all major subtypes of hepatitis C in eight weeks as opposed to 12, for $26.4 thousand per treatment, potentially saving NMCD up to $1.5 million per year compared with FY17.

Staffing and Facilities

Over the last three years, vacancy rates averaged 22 percent for correctional officers and 20 percent for probation and parole officers. The department's chronically high vacancy rates among custody staff result in high overtime costs and a dangerous prison environment. NMCD reported FY17 correctional officer turnover was 2.4 percent and 1.1 percent for probation and parole officers, down from 13 percent and 10 percent, respectively, in FY16. LFC has asked for data to validate the rates but none has been provided, creating challenges for appropriators.

As with state police officers, in FY17, $4.5 million was appropriated to NMCD to increase salaries in an attempt to reduce turnover and strengthen retention. With the help of the State Personnel Office (SPO), the funding was used to increase salary minimums and raise salary midpoints, but no funding was dedicated to address salary compaction and none was appropriated in the 2017 session. NMCD is brainstorming ways to internally deal with compaction and retaining officers, including providing housing in rural areas and providing pay differentials for those who work in remote locations. The Legislature authorized NMCD to use unspent funds in the Inmate Management and Control program to address compaction.

The state's prisons suffer from many infrastructure problems, the most common needs include new roofs, boilers, heating and cooling systems, and security equipment. Many facilities are riddled by problems with aging generators that have been patched multiple times and need replacement. Back-up generators cost the department up to $16 thousand a month to rent and cost up to $750 thousand to replace. Limited capital outlay capacity and shifting priorities due to the state's financial crisis left little for NMCD facilities.

High maintenance costs, distance between facilities, and the need for ancillary services, such as healthcare and behavioral health, are cost drivers and pose risks that could be minimized by building a new facility closer to a bigger city. Legislative and executive staff have discussed the potential for building a new, larger prison to supplant beds at old and inefficient facilities. The parties agreed to develop a request for proposals to study prison design, construction costs, and identify programming needs, although no progress has been made.

Illicit Drug Spike in State Prisons

NMCD reported a recent spike in positive inmate drug tests results. The spike is largely due to Suboxone, a drug used to treat narcotic addiction outside of prison, but banned in prison. Suboxone is trafficked, sometimes hundreds of paper-thin strips at a time, inside prison walls, leading the department to install x-ray scanners, much like those used at airports, to combat the issue. NMCD reports the need for at least four additional machines, at a cost of $150 thousand each, to install at each state prison. Scanners are already in use at prisons in Springer, Santa Fe, and Los Lunas. The department's FY18 performance measures include an annual measure on inmates testing positive for drug use or refusing to be tested in random monthly drug tests, with a target of less than 1.5 percent. Last year, NMCD reported a rate of 5 percent. So far in FY18, the department has reported a 20 percent rate.

After hitting a low in 2010, severance tax bonding capacity rebounded to pre-recession levels before cratering again in 2017. The limited 2017 capital outlay capacity was used to shore up operating reserves due to a lack of recurring revenue for the third time in eight years, instead of being used for critical state assets and local infrastructure. With limited and volatile capital outlay funding, legislators and the executive continue to scrutinize the vast amounts of appropriations and large number of projects that remain unexpended and inactive. Poor project selection, including a lack of planning, a piecemeal approach to funding, and unknown construction costs, continues to delay project completion – problems that should compel policymakers to carefully distinguish future project funding by priority, need, public purpose, and merit.

Over the years, proposals have taken aim at developing an efficient process for planning, prioritizing, and funding "local" capital outlay projects; however, without legislative changes, the process continues to divert funding from the most critical and basic needs for state-owned facilities. Without procedures to ensure projects are adequately planned and funded, communities' deficient roads and water systems will linger and conditions at state facilities will continue to pose risk to clients and create a liability for the state.

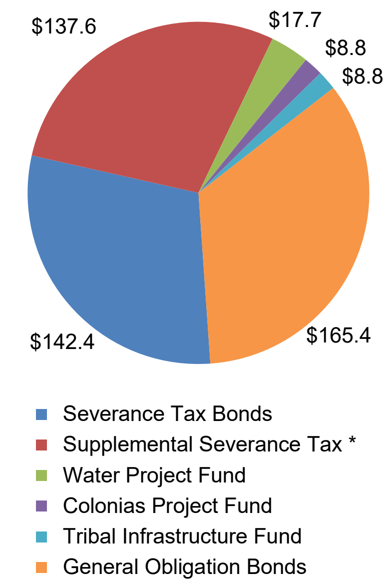
In addition to the critical needs at many state-owned facilities, New Mexicans recognize the need for improvements to state and local highways and roads. According to the American Society of Civil Engineering (ASCE), 258 New Mexico bridges are structurally deficient and 26 percent of the 69 thousand miles of roads in the state are in poor condition. ASCE estimated poor road conditions cost the average New Mexico motorist $594 per year in vehicle maintenance and depreciation.

Capital Outlay

2018 Capital Funding Outlook

As detailed in *Volume III*, early revenue projections indicate net senior severance tax bonding (STB) capacity, debt repaid with taxes on oil, gas, and mineral production, is approximately $142.4 million. Earmarked funds for water infrastructure, colonias, and tribal infrastructure total $35.3 million, 18 percent of senior STB capacity, with $17.7 million for the water project fund and $8.8 million each for the colonias and tribal infrastructure funds. The STB distribution to the water project fund was suspended in 2017, and allocations for the colonias and tribal infrastructure funds totaled $10.8 million and are listed on the LFC website. The supplemental STB, or "sponge bond", issuance dedicated for public school construction is expected to be about $137.6 million in 2018; pursuant to legislation passed during the October 2016 special session, the Legislature may appropriate up to $25 million of this capacity for transportation or instructional materials. General obligation bonding

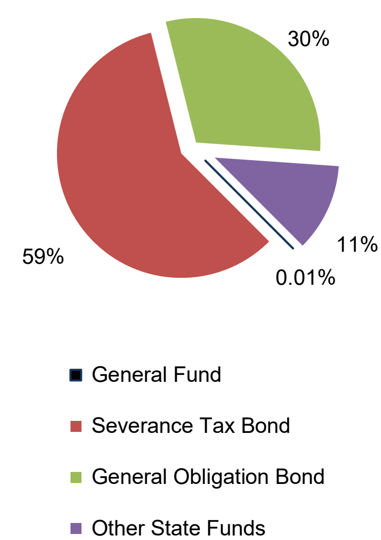
Capital Outlay Bonding Capacity for 2018
(in millions)



* For public school construction

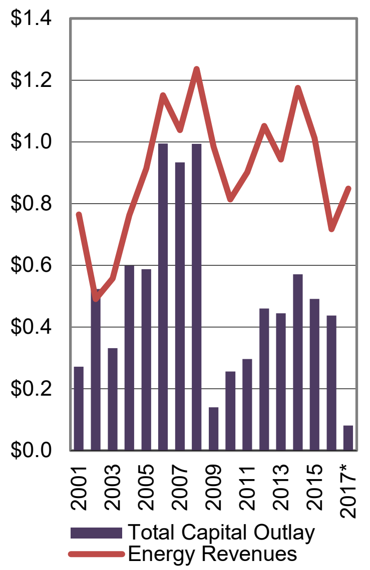
Source: LFC

Percent of Unexpended Capital Balances by Fund 2009-2017



Source: LFC

Capital Outlay and Energy Revenues
(in billions)



* All 2017 SSTB capacity appropriated to general fund reserves and all STB capacity to the public school capital outlay fund

Source: LFC

Senior Severance Tax Bonds Earmarked Funds 2012 - 2017
(in millions)

Fund	Projects Awarded	Amount	Balance
Water	131	$90.9	$33.4
Colonias	169	$55.5	$26.4
Tribal	137	$47.6	$26.7
Total	**437**	**$194.0**	**$86.5**

Source: Capital Projects Monitoring System

Status of Projects Greater than $1 Million
(As of September 2017)

G	Project on schedule	81
Y	Behind schedule or little activity	98
R	No activity or bonds not sold	33
Total Active Projects		**212**
Other report information:		
B	Appropriation expended or project complete	34
X	Additional funds needed	1

Source: LFC

(GOB) capacity, which are paid with property taxes and must be approved by voters, is estimated at $165.4 million. Authorizing no more than the stated capacity maintains a flat mill levy. The final capacity estimates will be released by the State Board of Finance (BOF) on January 15, 2018.

Unexpended Funds

As of September 2017, approximately $677.5 million for 2,058 capital outlay projects was outstanding, including $86.4 million of earmarked fund balances for water ($33.4 million), colonias ($26.4 million), and tribal ($26.7 million) infrastructure projects. Balances for projects funded for $1 million or more were $555.6 million for 212 projects, or 82 percent of all unexpended balances.

2009-2017 Capital Outlay All Fund Sources
(in millions)

Year	Number of Projects	Amount Appropriated	Amount Expended	Amount Unexpended	Percent Expended for Year
2009	2	$10.0	$9.5	$0.5	95%
2010	0	$0.0	$0.0	$0.0	0%
2011	0	$0.0	$0.0	$0.0	0%
2012	1	$4.0	$3.8	$0.2	96%
2013	87	$64.3	$63.6	$0.7	99%
2014	387	$191.3	$99.2	$92.0	52%
2015	626	$237.6	$76.6	$161.0	32%
2016	802	$426.0	$40.7	$385.3	10%
2017	153	$39.2	$1.5	$37.6	4%
Total	**2,058**	**$972.3**	**$294.8**	**$677.5**	**30%**

Note: Data includes projects for water, colonias and tribal earmarked funds; 2009 balances are for Indian water rights matching funds; 2012 balance for Luna Community College, final draw delayed.

Source: Capital Projects Monitoring System

2017 Special Session Legislation

After vetoes, Chapter 1 (Senate Bill 1) of the special session, to address FY18 budget solvency, raised nonrecurring revenues of $82.1 million in FY17 and $8 million in FY18 by swapping capital outlay funds for prior general fund expenditures and sweeping balances from certain other state funds to the general fund.

Authorized but Unissued Bonds

Severance tax bonds authorized between 2014 and 2016 totaling $18.4 million for 78 projects remain unissued. As of September 2017, two projects totaling $145 thousand, one in Bernalillo County and one in Lincoln County, remain unissued due to noncompliance with audit requirements. The Legislature appropriated $100 thousand to the Office of the State Auditor (OSA) in FY17 and $20 thousand in FY18 to assist small political subdivisions with meeting financial reporting requirements under the Audit Act. OSA requested $160 thousand for FY19 and has a process for distributing the funds.

Funding Requests

General Obligation Bonds

The LFC staff framework in *Volume III* includes proposed funding for entities that generally receive GOB appropriations, like senior centers, libraries, and higher education institutions. In addition, the framework sets aside $49 million of GOB for road projects statewide from a list of nearly $130 million of projects prioritized by the New Mexico Department of Transportation (NMDOT), and $10 million from other sources to the local government road fund to fund local road projects through a formula distribution.

Aging and Long-Term Services Department. ALTSD received capital outlay requests totaling nearly $29.2 million from senior center programs in 20 counties throughout the state. Based on a formal application process, review of the applications, site visits, and input from the area agencies on aging, ALTSD and Department of Finance and Administration (DFA) staff recommended approximately $10.8 million, including $3.3 million for code compliance improvements, nearly $2.1 million for specialized vehicles, and $118 thousand for meals and other equipment statewide.

The agency's request includes $5.2 million for six new construction or major addition projects, with $1.3 million to replace the Abedon Lopez Senior Center in Santa Cruz, $2.3 million for two existing centers and one new center on the Navajo Nation, $910 thousand for a new Picuris Pueblo senior center, and $688 thousand for a new Questa Senior Center. The LFC staff framework incorporates ALTSD's request.

Higher Education Department and Institutions. HED held hearings in Las Vegas, Tucumcari, Alamogordo, Los Lunas, and Santa Fe. All post-secondary education institutions, the two special schools, and tribal schools (Dine College, the Institute of American Indian Arts, and Navajo Technical University) presented their capital requests. Institutions requested $199.8 million for infrastructure projects statewide. HED recommended $108.8 million for 26 projects. Considering the declining enrollment at nearly all institutions, the LFC framework is slightly lower than the HED recommendation.

The Legislature funded more than $200 million for colleges between 2013 and 2017 from a variety of sources, including $87.8 million from prior GOB appropriations. In the same period, institutions generated more than $600 million for capital improvements from other sources, such as local general obligation bonds, revenue bonds issued by the universities, federal funds, grants, institutional fund balances, tuition, fees, or foundations. If financially feasible, institutions are encouraged to proceed with the required documents to allow construction and renovations to move forward as soon as the voters approve the bonds in November 2018.

Special Schools. The New Mexico School for the Deaf (NMSD) requested $1.8 million for renovations to Larson Gym and the residential activity center. The New Mexico Military Institute (NMMI) requested $5.7 million to renovate the J. Ross Thomas Memorial Building, which houses many support services for cadets, faculty, and staff, as well as administrative offices. NMMI also requested $7.5 million for dormitory bathroom renovations. The New Mexico School for the Blind and Visually Impaired did not request funding this year. The LFC staff framework incorporates NMSD's request. In light of an unexpected increase in nonrecurring revenue from oil and gas lease sales in FY18, the LFC staff framework encourages NMMI to increase its match for the J. Ross Thomas Memorial Building renovation.

Criteria and Assigned Points for Prioritizing Senior Citizen Projects (115 Points Possible)

- Narrative summary and background (10 points)
- Critical need (30 points)
- Matching funds (15 points)
- Readiness to proceed (15 points)
- Project oversight (15 points)
- Cost benefit (10 points)
- Project management (20 points)

Full-Time Equivalent Enrollment Changes

Institution	10-Year	5-Year	1-Year
NMIMT	23.0%	13.2%	-0.5%
NMSU	-4.1%	-14.5%	-3.3%
UNM	12.3%	-3.6%	-1.9%
UNM Med	38.4%	24.0%	-1.4%
ENMU	30.8%	1.8%	-1.5%
NMHU	4.1%	-4.8%	-0.3%
NNMC	-30.8%	-37.6%	10.7%
WNMU	21.6%	-1.5%	-1.0%
ENMU-ROS	-22.4%	-31.6%	7.9%
ENMU-RUI	-15.0%	-42.1%	-5.5%
NMSU-A	-27.4%	-53.9%	-10.5%
NMSU-C	22.4%	10.9%	2.8%
NMSU-DA	25.4%	-13.8%	0.8%
NMSU-GR	-12.3%	-40.4%	0.5%
UNM-GA	0.9%	-13.6%	-1.2%
UNM-LA	15.7%	25.1%	0.0%
UNM-T	39.8%	-6.1%	-9.0%
UNM-V	19.6%	-25.8%	-5.3%
CNM	7.6%	-19.6%	-5.6%
CCC	-3.1%	-11.6%	3.7%
LCC	-16.5%	-32.0%	-2.8%
MCC	11.3%	-30.7%	-11.7%
NMJC	-1.1%	-13.3%	3.2%
NMMI	-10.8%	-13.3%	-1.8%
SJC	6.9%	-12.6%	-0.4%
SFCC	27.8%	-11.9%	-3.9%
Total FTE	7.4%	-12.3%	-2.1%

Source: Higher Education Department

Library Requests. The New Mexico Library Association (NMLA) requested $17.5 million on behalf of public, public school, academic, and tribal public libraries. Public and tribal libraries will continue to allocate the funding based on county populations and library service areas, as required by regulation. All public school libraries would receive an equal base allocation and additional funds based on enrollment. About two-thirds of funding for New Mexico colleges and universities will be distributed based on full-time-equivalent student enrollment and the remaining one-third will be used to collaboratively purchase electronic resources (academic journals, electronic reference books, electronic books, educational films, etc.) for all students regardless of institution or course work, particularly in rural areas. The LFC staff framework includes funding for the libraries.

Severance Tax Bonds

State agency priority capital requests total nearly $600 million. The LFC staff framework for consideration by the full Legislature is based on criteria, site visits, review of infrastructure capital improvement plans, monthly meetings with major departments, and testimony at hearings. The following summaries reflect the most critical projects impacting public health and safety and projects requiring additional funds to complete. Other requests, including authorization to expend money for capital from "other state funds," and the LFC staff-proposed framework for capital are summarized in *Volume III*.

Children, Youth and Families Department. CYFD requested nearly $7 million for infrastructure and security upgrades statewide. The request included $1.9 million for security server equipment and $1.4 million to renovate existing space at the Youth Diagnostic Development Center in Albuquerque to provide greater opportunities for vocational education. The LFC staff framework supports infrastructure and security upgrades at juvenile detention facilities statewide, including funding for renovation of existing space for vocational education.

Corrections Department. NMCD requested $47.5 million to complete heating, ventilation, and air conditioning (HVAC) systems, renovate roofs, repair generators, and upgrade security equipment at correctional facilities statewide. The Legislature should consider funding a master plan to examine the merits of building a new facility versus investing more state money in the current poorly designed and aged prisons. The LFC staff framework supports addressing infrastructure upgrades and renovations statewide and includes $300 thousand from the general fund for master planning.

Cultural Affairs Department. The department requested $17.2 million to preserve and renovate museums and monuments statewide and purchase and install equipment, including climate control, at existing facilities and construction of a new collections facility on the State Road 599 campus in Santa Fe. The LFC staff framework supports the agency priorities for critical life, health, and safety projects at museums, monuments, and historic sites statewide.

Department of Health. DOH requested nearly $18.3 million to address patient health and safety issues impacted by aged infrastructure and a backlog of repairs at facilities statewide. The request prioritized public health and safety, equipment, facility renovations, and architectural design for the vital records

Funding Criteria for Critical Investments in State Assets

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

LFC Staff Site Visits in 2017

- Luna Community College (Las Vegas)
- San Juan College (Farmington)
- John Paul Taylor Juvenile Facility (Las Cruces)
- Southern New Mexico Correctional Facility (Las Cruces)
- New Mexico State Veterans' Hospital (Truth or Consequences)
- Youth Diagnostic and Development Center (Albuquerque)
- Mesalands Community College and North American Wind Research and Training Center (Tucumcari)
- UNM Valencia (Los Lunas)
- Farm and Ranch Heritage Museum (Las Cruces)
- Miners' Colfax Medical Center (Raton)
- Sugarite Canyon, Clayton Lake, Conchas Lake, and Ute Lake State Parks
- State of New Mexico Los Lunas Campus

program. The LFC staff framework supports a new facility on a state-owned site to house the Vital Records and Health Statistics Bureau, improvements at DOH facilities statewide, scientific and analytical medical equipment, and waterline and infrastructure improvements at the old Fort Bayard campus.

Department of Public Safety. DPS requested $13.6 million for infrastructure improvements at district offices statewide, to purchase and equip a new emergency rescue helicopter, and to plan and design a new state police district office in Santa Fe. The LFC staff framework supports the purchase and equipping of a new helicopter for search and rescue operations. The existing helicopter is a 2009 model requiring more than $450 thousand for replacement parts and annual maintenance costs of nearly $1 million. The current helicopter is not safe and is severely limited by temperature, density altitude, and other harsh environments involved in State Police operations. The framework also supports infrastructure improvements at State Police district offices statewide and the plan and design of a new district office in Santa Fe.

General Services Department. The Facilities Management Division (FMD) of GSD requested over $250 million to address deficiencies, renewals, emergencies, and unforeseen repairs and renovations at facilities statewide; $9 million to acquire property for a new child wellness center for CYFD; and $2.8 million to decommission and demolish unusable state-owned buildings. The LFC staff framework supports the preservation and restoration of facilities statewide, the decommissioning and demolition of structures deemed unsafe in Hobbs, Los Lunas, and Albuquerque, and the acquisition of a building for a new child wellness center. Additional funds requested by FMD for facilities under its jurisdiction are proposed but listed under individual agencies.

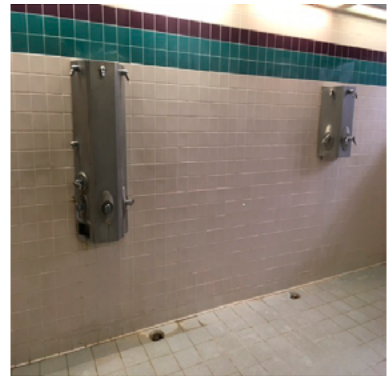
Office of the State Engineer. OSE requested $28.3 million to satisfy the state's share for the Aamodt water rights settlement in the Nambe-Pojoaque-Tesuque basin, surface and groundwater measurement statewide, and rehabilitation of Morphy and Lake Maloya dams. The LFC staff framework supports improvements to dams and partially funds Aamodt settlement needs.

Local Government and Tribal Entities. According to the infrastructure capital improvement plans (ICIP) compiled by the Local Government Division of DFA, the five highest priorities for local and tribal governments and other political subdivisions total $1.3 billion of infrastructure needs, with nearly all of the funding requested in five major categories: water, transportation, quality of life (libraries, parks, senior centers, community and cultural centers, etc.), environment (utilities, landfills, clean energy, solid waste, etc.), and public safety. A listing of the top five priorities for all governmental entities participating in ICIP is available through LFC or the Local Government Division. The LFC staff framework reserves nearly $63 million for policymakers to address these requests.

Capitol Buildings Planning Commission

The Capitol Buildings Planning Commission, in partnership with the General Services Department, met once during the 2017 legislative interim. The commission's scope of work included assisting state agencies with master planning, primarily for metropolitan areas, by using occupancy data and facility condition assessments and incorporating the plans into a statewide master plan.

Children, Youth and Families Department



YDDC Client Hygiene Stations

YDDC Wood Shop to be Renovated for Vocational Education

Corrections Department

Existing HVAC Equipment

Failing Generator with Pooling Coolant

Housing Unit Roof

Department of Health

Sequoya Roof Damage

NMBHI Exterior Wall Damage

Department of Cultural Affairs

National Hispanic Cultural Center Sinking and Cracking Floors

Natural History Museum Failing HVAC Equipment

The commission continued to update and maintain a statewide inventory of buildings and leased space, including occupancy and leasing cost data, displayed through a web-based interactive geographic information system (GIS). However, in the 2017 legislative session, the executive vetoed funding for a contractor to keep the website updated. The commission discussed the need to clarify its role in real property dispositions, but no action was taken to sponsor legislation.

Administratively Improving the Capital Outlay Process for Local Projects

In 2016, recognizing the inadequacies of the state's capital outlay process, representatives of the New Mexico Association of Counties (NMAC) and the New Mexico Municipal League (NMML) and staff of the executive and legislative branches joined efforts to review and develop administrative changes aimed at improving the process. Last summer, BOF used its administrative authority to redirect inactive funding, taking $6.4 million from projects not expended or obligated 18 months after the date the bonds were issued. The board may continue this practice and exercise other options, like increased scrutiny of project readiness to limit the amount of inactive projects in the future.

Proposed Legislative Changes

The group proposed changes to the "boilerplate" introductory language of the STB bill to improve the timeliness of bond proceed expenditure, encourage compliance with the State Audit Act, and reduce the number of capital assets that sit unfinished as a result of insufficient funding. These proposed changes would

- Require BOF to determine compliance with the anti-donation clause, State Audit Act, and spending requirements of past capital outlay appropriations prior to issuing bonds;
- Reduce the certification deadline for projects that do not require planning and design (purchase of vehicles and equipment) from two years to one year;
- Impose the standard four-year reversion date for projects that are appropriated to match federal grants;
- Remove current language specifying certain projects BOF is directed to issue via short-term severance tax notes (sponge notes) to allow discretion to fund projects in accordance with federal tax code; and
- Prohibit expenditures that will not complete a well-defined and functional phase of a project to prevent building unusable shells that deteriorate while sitting idle.

Enhancements to Date

As described above, BOF exercised its administrative authority and redirected previously issued STB proceeds from 69 projects authorized in 2014 and 2015 that had no expenditures or obligations at least 18 months after the bonds were sold. Other changes resulting from the group's discussions include

- NMML and NMAC increased outreach and education regarding BOF's paperless, web-based questionnaire system to streamline local government submissions and the state's review prior to issuing bonds.

- BOF will distribute questionnaires required for bond issuance to grantees within the governor's bill signing period to allow the bonds to be sold more quickly.
- BOF no longer issues bonds for projects with anti-donation issues or for those grantees not in compliance with audit requirements and publishes the list of authorized but unissued projects on its website.
- The group developed a summary of guidelines for use by legislators and local entities to assist in ensuring projects are ready to go and are high priorities for communities (see *Volume III)*.

Asset Management

The General Services Department (GSD) received nearly $2 million from enterprise funds for the "process re-engineering and optimization of operations and maintenance functions" (PROOF) project, which went into production in August 2017. The scope of the project included work management, preventive maintenance, and materials management, with payments integration to SHARE, the statewide financial system. The project also deployed mobile technology (tablets) to operators, maintenance technicians, and custodial supervisors in support of electronic work dispatch and work reporting. PROOF was completed three months ahead of schedule and $458 thousand under budget.

PROOF is part of the overall capital asset management and planning system (CAMPS) program that uses AssetWorks Enterprise Asset Management software to provide greater transparency into statewide capital infrastructure requirements and provides the capability and framework for managing facilities statewide. Future opportunities include ICIP request management, space utilization and management, and operations and maintenance support for all state agencies in one system, providing total cost of ownership and maintenance for all New Mexico buildings, by county, by campus, by building, by system, or down to the asset level.

Transportation Infrastructure

New Mexico's statewide transportation infrastructure network, 30 thousand lane miles of interstate corridors and U.S. and state highways, are maintained by the Department of Transportation (NMDOT). Construction needs of the transportation network have increased as routine maintenance has been deferred and expenses have increased. At the same time, road fund revenue growth is not keeping pace with inflation, and debt service payments require a sizeable share of revenue.

Road Conditions in New Mexico

NMDOT conducts an annual review of road conditions for all New Mexico roads. From FY14 to FY16, the review shows the percent of non-interstate lane miles in good condition fell from 84 percent to 82 percent and the number of lane miles in deficient condition increased 16 percent to 4,515. The continued deterioration of New Mexico roads will result in highway maintenance cost increases because road treatments become more expensive with greater deterioration. For example, roads in fair condition typically require treatments costing between $12 thousand and $36 thousand per lane mile, while roads in poor condition require reconstruction costing up to $1.5 million per lane mile. The annual condition assessment helps NMDOT determine priority projects; the results of the assessment are shared with the Legislature and are publicly available in NMDOT's report card. However,

Asset Management Goals

- Provide total cost of ownership and total cost of maintenance at the asset, building, and campus levels for all Santa Fe-based buildings under GSD jurisdiction;
- Replace a paper-based work control, work dispatch, and maintenance reporting system with an integrated, electronic system using mobile technology;
- Provide real-time, electronic assignment of work to technicians in the field;
- Provide the ability to re-prioritize work at any time based on emerging conditions, and communicate to staff in the field using targeted, electronic alerts;
- Provide the ability for technicians to submit material requests electronically and have warehouse staff pick and stage the materials and have them ready for pickup;
- Improve warehouse management, control, and reporting.

Asset Management Immediate Benefits

- Immediate response to life safety issues, with photographs from the scene and communication with the work control center on a real time basis;
- Replacement of a paper-based work control, dispatch, and maintenance reporting system with an integrated, electronic system using mobile technology;
- Improved warehouse control, including the ability to track all material costs at a work order, asset or building level;
- Institutionalized best practice methods for maintenance planning and scheduling, work execution and reporting;
- Memorialized new methods and developed, approved, trained and implemented operations and maintenance work flows, with integration to staff job descriptions and roles and responsibilities, accountabilities and authorities;
- Eight new key performance indicators, including cost per square foot, inventory accuracy, wrench time, and others;
- Significantly improved material tracking - reservations, use, automatic reorder points, and transfers to satellite warehouses.

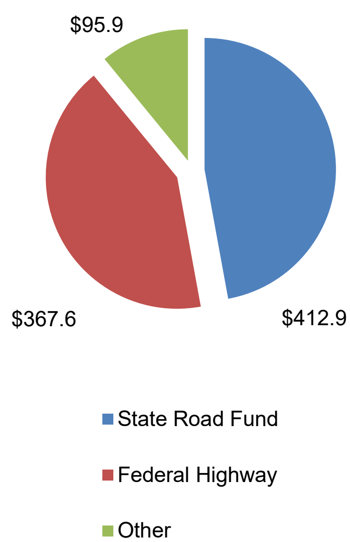
For more info:
General Services Department Report Card Page 127

Local FY19 Requests
Top 5 Priorities by Category
(estimated project costs)

Category	Requested Amount
Transportation	$412,772,396
Water	$406,629,925
Quality of Life	$250,797,407
Public Safety	$74,463,487
Environment	$54,462,574
Econ. Development	$30,641,215
Housing	$16,361,000
Health	$7,583,769
Other Education	$7,167,665
Public Education	$3,158,305
Total	**$1,264,037,743**

Source: DFA-Local Government Division

FY18 NMDOT Revenue by Source
(in millions)



Source: NMDOT

the department is not required to use information collected in the road condition assessment to set priorities in the Statewide Transportation Improvement Program (STIP). NMDOT is in the process of implementing an asset management system that contains performance measures and targets for pavement and bridge conditions. Use of the system in conjunction with clear project selection criteria will allow NMDOT to compare the long-term impacts of various projects and pavement treatments to determine how to provide the greatest improvement given current funding.

The NMDOT 10-year condition analysis shows 5.1 percent of bridges are structurally deficient. Given the continuation of bridge funding at $93 million per year, 1.7 percent of bridges will be structurally deficient in 10 years. However, NMDOT analysis suggests bridge funding could be reduced by $22 million and bridge condition would be maintained at the current level. To maintain the current pavement condition would require doubling the budget for pavement maintenance from $120 million to $240 million. Achieving balance in bridge and road funding is critical to keeping the system in the best condition possible given the resources available.

Rail Runner and Positive Train Control

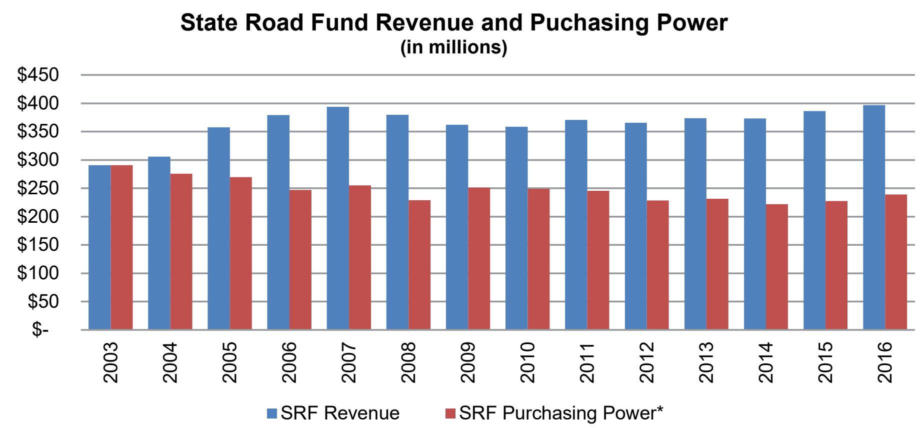
The Rio Metro Regional Transit District, which funds and manages the operations of the Rail Runner, estimates the cost of implementing the federally required positive train control (PTC) system to be $50 million. PTC is designed to automatically slow trains when they reach unsafe speeds and prevent train-on-train collisions. PTC would likely have little safety impact given the Rail Runner's dedicated track. PTC implementation requirements were delayed previously, and the U.S. Department of Transportation might not grant additional delays or waivers.

The Middle Rio Grande Council of Governments (MRCOG) is planning to submit a risk management plan in early spring 2018 that includes additional safety measures and commits to implementation of PTC in the next decade, although funding has not been identified at this time. This will allow MRCOG and possibly the state to prioritize funding for investments that may accelerate transit between Albuquerque and Santa Fe. Such investments are critical to the regional market share for the Rail Runner.

State Road Fund

The state road fund, which primarily pays for maintenance while federal funds are primarily used for construction and debt service, is composed of revenues from gasoline tax, the special fuel (diesel) tax, the weight distance tax on commercial trucking, vehicle registration fees, and other fee and permit assessments. Since 2003, the state road fund (SRF) had average annual growth of 2.5 percent. While the growth rate tracks with the consumer price index, or inflation rate, the national highway construction cost index increased by an average 4.3 percent over this period, resulting in an 18 percent decrease in purchasing power of road user revenues. The majority, or 91.3 percent, of road user revenues are directed to the SRF for use by NMDOT while 8.7 percent are directed to local governments for local infrastructure projects.

The slow growth in SRF revenue, forecast at 2.1 percent from FY18 to FY19, is primarily attributable to gains in passenger and commercial vehicle fuel efficiency reducing demand for fuel and slow population growth resulting in fewer drivers on New Mexico roadways. New Mexico has the lowest gasoline tax in the southwest region at 17 cents per gallon. The tax was last changed in 1995 when it was decreased by 3 cents per gallon. In addition to slow revenue growth, neither the gasoline nor special fuels taxes are indexed to inflation, resulting in a constantly eroding revenue stream to the SRF.



*Adjusted using national highway construction cost index.
Source: LFC

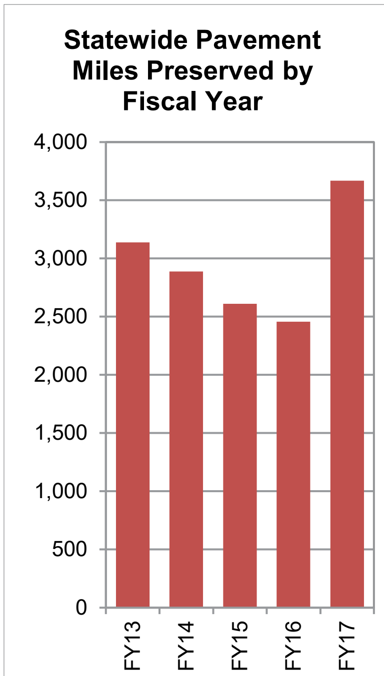
Special fuels tax and weight distance tax revenues are driven by national consumer demand and tend to be closely related to the state of the U.S. economy; strengthening consumer demand leads to increased consumer spending and increased freight movement. While strength in the weight distance revenue is encouraging, it is highly sensitive to changes in national economic conditions.

Debt Service. Annual debt service payments will average $153 million through 2027. NMDOT has $1.4 billion in total outstanding debt to be paid between FY19 and FY27. The FY19 debt service totals $158 million: $110 million to be paid from federal disbursements, $40 million from the SRF, and $8 million from the highway infrastructure fund. Further diminishing NMDOT's funding for construction and maintenance activity is annual debt service principal and interest related to issuance of bonds to pay for road and transit infrastructure projects, including the space port and the Rail Runner train service.

NMDOT will have two balloon payments related to the Rail Runner coming due in FY25 and FY26 that must be paid from the SRF at an annual cost of $113 million. NMDOT has refinanced some bonds and is considering refinancing the Rail Runner debt to take advantage of low interest rates.

Port of Entry Initiative. A 2013 LFC evaluation and a 2014 study by the New Mexico Sentencing Commission revealed noncompliance and foregone revenue from weight distance tax, trip tax, and oversize and overweight permit collection on commercial truckers. In response, the Legislature worked with the Taxation and Revenue Department (TRD), the Department of Public Safety (DPS), and NMDOT to transfer the operation of port of entry facilities from DPS to NMDOT in FY17 and provided funding necessary to maintain a higher staffing level at port facilities throughout the state.

Though commercial trucking revenue has increased slightly, NMDOT is not ready to attribute the increase to improved enforcement efforts. However, enforcement



Source: NMDOT

Selected Motor Vehicle Sales Tax Rates

State	Tax Rate	Notes
Arizona	5.60%	Plus up to 3% in local rates
Colorado	7.62% (Denver)	State tax of 2.9% plus local rates
New Mexico	**3.00%**	
Oklahoma	3.25%	
Texas	6.25%	
Utah	6.85% (SLC)	State tax of 4.7% plus local rates

Source: NMDOT

FY18 State Road Fund Revenue Sources
(in thousands)

Gasoline Tax	$	112,275
Special Fuels Tax	$	101,520
Weight/Distance	$	86,900
Vehicle Registration	$	80,000
Trip Tax	$	6,000
Other	$	19,355
Total	$	406,050

Source: NMDOT

activity has increased significantly, with motor transit officers spending more time on patrol since the transfer of port operations to NMDOT.

For more info:
Department of Transportation Report Card Page 119

Revenue Options

The Legislature has a number of options to increase state road fund revenues, including stricter enforcement of existing rules, tax code changes and increases, and authorizing existing bonding capacity for road construction and maintenance. To prevent further deterioration of New Mexico's transportation network, some or all of these options could be pursued.

Fuel Tax Increase. Many states have addressed the loss of purchasing power from gas tax revenue by increasing the fuel tax and indexing the tax to inflation. Utah recently converted a unit tax on fuel to a percentage-based, or ad valorem, tax of 12 percent on gasoline and diesel fuel. The tax set a minimum "floor" price per gallon of $2.45 and a maximum "ceiling" price of $3.33 per gallon. The Utah tax model will allow the effective gas tax rate to fluctuate between 29.4 cents and 40 cents per gallon.

Major Unfunded Projects by District
(in thousands)

Dist.	Project	Cost
1	I-25 Nogal Canyon Bridge	$ 28,000
2	US 82 expansion	$ 63,500
3	I-25 and Jefferson Interchange	$ 50,000
4	U.S. 54 Pavement Rehabilitation	$ 116,500
5	U.S. 64 Bridge Replacement	$ 26,500
6	NM 118 Reconstruction	$ 16,000

Source: LFC Files

Motor Vehicle Excise Tax. As of the August revenue estimate, New Mexico anticipated receiving $151.3 million in FY18 from a 3 percent excise tax on motor vehicle sales in the state. New Mexico's motor vehicle excise tax is significantly lower than surrounding states. New Mexico could raise an additional $131 million per year if the excise tax were raised to match Arizona's rate of 5.6 percent.

Water Infrastructure

Despite allocating $1 billion since 2002 to improve water infrastructure, local area needs are estimated at $1 billion to $3 billion and local government ICIPs include over $400 million for water projects in FY19 alone. By itself, investment in water infrastructure could add 36 thousand jobs each year for 20 years in New Mexico, according to the National Association of Water Companies.

A 2016 LFC progress report on water infrastructure spending found the state's water trust fund is still projected to run out in 20 years. The water project fund receives annual distributions from the water trust fund but relies heavily on highly variable severance tax bond (STB) inflows. Operating the water project fund more as a revolving loan fund would reduce the uncertainty of annual revenues, allowing for improved planning.

State Gasoline Tax Rates
(cents per gallon)

California	42.4
Nevada	33.9
Utah	29.4
Colorado	22.0
Texas	20.0
Arizona	19.0
New Mexico	**17.0**
Oklahoma	17.0

Source: The Tax Foundation

The Environment Department's (NMED) clean water state revolving loan fund (CWSRF) continues to hold high unobligated balances and struggles with a lack of interest in loans by potential applicants. The CWSRF provides low-interest loans and grant or loan funding to communities, both large and small, across the state for wastewater and storm water projects. Total historical assistance from the CWSRF to New Mexico communities to date is over $400 million. However, the current balance is $144.7 million, including an unobligated balance of $83.5 million.

NMED has reported difficulty in attracting communities to its loan programs due to the preference for grant funding, despite offers of interest-free loans mixed with grants in some instances. The agency lowered the program's interest rate in 2017 to loan more funds to communities, and legislation passed in 2017 made state agencies eligible to receive CWSRF loans if the agency has a repayment stream.

Communities lacking revenue sources to invest in water systems, and even those with greater ability to finance projects, will continue to seek grant funding, such as capital outlay, if it is available. Fragmentation of funding programs persists, and lack of planning or requirements for capital outlay requests can leave projects sidelined due to incomplete funding or project readiness.

2014 Water Projects

Water was the primary focus of the 2014 capital outlay bill with 191 water projects funded at a cost $83.5 million. As of October 2017, about $24 million, or 28 percent of all funding, was unspent and two-thirds of the projects were complete. Since the funds were appropriated, 14 projects totaling $11.5 million were reauthorized to change the purpose or extend the time to spend the funds beyond the original four-year period. These reauthorized appropriations have a total balance of about $4.5 million. Additionally, funding for 23 projects totaling $1.7 million was de-authorized during the 2016 special session due to inactivity.

NMED continues to lead a water infrastructure team to identify needs and connect local governments to funding programs, to further the discussion of the value of water and the importance of water infrastructure in New Mexicans' daily lives, and to assist local governments with long-term asset management and planning. Despite these efforts, difficulties remain in marketing state and federal loan programs.

2014 Water Project Summary
(in thousands)

County	Projects	Amount	Balance
Bernalillo	7	$3,105.0	$355.1
Chaves	1	$100.0	$5.3
Cibola	3	$1,118.0	$591.5
Colfax	7	$1,945.0	$967.0
Curry	2	$420.0	$0.0
Dona Ana	13	$10,547.2	$6,610.6
Eddy	4	$1,053.5	$261.7
Grant	3	$508.0	$136.7
Guadalupe	7	$1,055.0	$756.9
Harding	2	$70.0	$25.0
Lea	6	$1,316.0	$215.1
Lincoln	9	$910.0	$112.5
McKinley	3	$545.0	$0.0
Mora	3	$782.0	$0.0
Otero	6	$4,907.0	$293.6
Quay	1	$50.0	$0.0
Rio Arriba	22	$9,359.6	$388.2
Roosevelt	2	$195.0	$91.4
San Juan	7	$1,891.2	$0.0
San Miguel	14	$13,232.0	$8,522.2
Sandoval	11	$2,760.0	$757.4
Santa Fe	19	$2,170.0	$323.1
Sierra	3	$520.0	$0.0
Socorro	2	$500.0	$83.2
Taos	14	$1,001.0	$130.5
Torrance	5	$1,310.0	$604.2
Valencia	4	$3,386.0	$143.1
Multiple	4	$2,135.0	$401.2
Statewide	7	$16,600.0	$2,143.7
Total	**191**	**$83,491.5**	**$23,919.1**

Source: LFC

Public Schools

Since FY05, the Public School Capital Outlay Council (PSCOC) has awarded approximately $2.4 billion to fund lease assistance, deficiency-correction, and standards-based projects for school districts, charter schools, the New Mexico School for the Blind and Visually Impaired, and the New Mexico School for the Deaf. As a result, school building conditions have improved significantly, as evidenced by the statewide school facility condition index (FCI) improving from 66.7 percent in FY05 to 34.4 percent in FY17. A lower FCI indicates a building in better condition, and the Public School Facilities Authority (PSFA) estimates maintaining the current FCI would cost the state about $173 million annually over the next six years.

The average statewide weighted New Mexico condition index (wNMCI), a measure of how well school facilities meet educational needs, also improved from 40.5 percent in FY05 to 15.7 percent in FY17. The state uses the wNMCI to rank and prioritize projects based on relative need. At the end of FY17, only seven schools had a wNMCI greater than 50 percent. Both the FCI and wNMCI scores indicate the need for new school facility construction or large-scale renovation has declined significantly, prompting PSCOC to shift its focus to funding system initiatives that would extend the lives of existing buildings. Systems initiatives include roofing, electrical distribution, electronic communication, plumbing, lighting, mechanical, fire prevention, facility shell, interior finishes, and HVAC systems. PSCOC will begin its systems-based awards pilot in FY18.

PSCOC Award Allocations FY16 to FY18 (est.)
(in thousands)

	FY16	FY17	FY18 est.
PSCOC Projects	$150.1	$64.7	$45.8
Lease Assistance	$14.9	$15.7	$15.4
Capital Improvements	$20.2	$15.5	$18.4
Broadband	$5.0	$7.5	$3.5
Facilities Planning	$0.9	$0.6	$0.4
PSFA Budget	$6.1	$5.8	$5.6
Total	**$197.2**	**$109.8**	**$89.1**

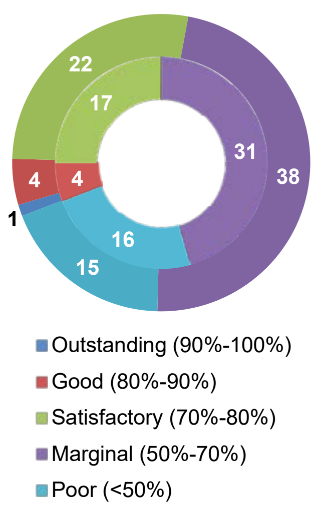
Source: PSFA

In FY17, PSCOC made 10 standards-based awards totaling $64.7 million for planning and constructing school facility projects, an $85.4 million or 57 percent decrease in awards from FY16. PSCOC also provided $15.7 million in charter school lease assistance, $15.5 million in capital improvements, $7 million for school buses, and $7.5 million for broadband deficiency correction awards.

PSCOC is considering changes to the facilities assessment database (FAD) ranking methodology that would model building degradation schedules based on industry standards, consolidate building system costs, and adjust system compositions and category weight factors to better reflect actual activity. Current proposed changes to the FAD methodology, however, would increase the statewide wNMCI to 30.3 percent.

The facility maintenance assessment report (FMAR), a tool introduced in FY13 to measure maintenance effectiveness, indicates the current statewide average maintenance score is 64 percent – an improvement from 60 percent in FY13 but still less than the satisfactory score of 70 percent. In FY16, the Public School Facilities Authority estimated approximately 76 percent of schools in New Mexico were getting less than the standard life expectancy out of existing building systems. Additionally, districts in the highest 20th percentile of property values had 58 percent more space than recommended by adequacy standards and an FMAR score of 52 percent, signifying poor maintenance effectiveness and costly operation of underused space.

Change in Average Facility Maintenance Assessment Report Scores*



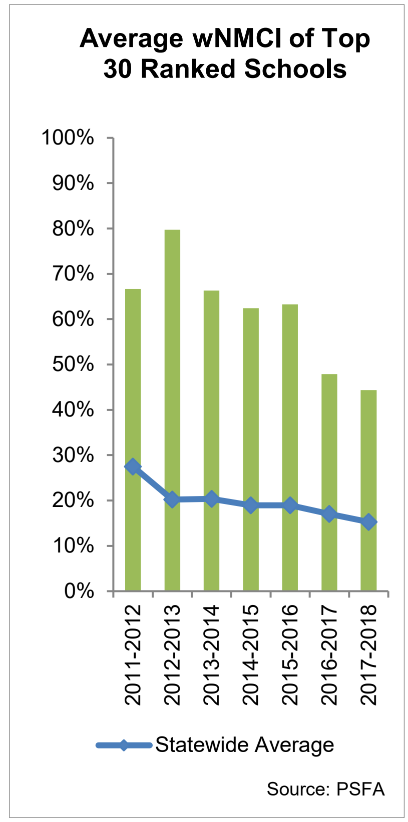
* Inner ring shows FY16 data and outer ring shows FY17 data

Source: PSFA

The Zuni lawsuit concerning the allocation of public school capital outlay is still active and was reopened in 2014. Gallup-McKinley County Schools (GMCS) filed an amended complaint in 2015 and included PSCOC as a defendant. GMCS is primarily concerned that, because of the district's low bonding capacity and high capital needs, the district cannot afford school construction outside the technical definition of adequacy for facilities such as teacherages, auxiliary gyms, and additional playing fields. In 2017, 11th Judicial District Judge Louis E. DePauli dismissed the Zuni and Gallup school districts and individual Zuni plaintiffs from the Zuni lawsuit. The only plaintiffs left are the individual Gallup plaintiffs. To date, no trial dates have been set, and the individual Gallup plaintiffs might not want to proceed with the case.

To invest and support digital learning, the Legislature established the broadband deficiency correction program during the 2014 legislative session to address education technology needs over the next five years. The goal of the program is to leverage state dollars to maximize the funding available through the federal E-rate program, which provides up to a 90 percent match for eligible broadband projects. PSFA provides schools with a streamlined funding process, ready-to-use procurement tools, technical assistance, project management support and contractor assistance with the E-rate process. In FY17, the PSCOC approved funding for 55 fiber and equipment broadband upgrade projects encompassing approximately 260 schools.

A 2017 Education SuperHighway study of New Mexico's broadband infrastructure found nearly two-thirds of school districts lowered their Internet costs and increased speeds, and virtually all public schools gained access to scalable fiber connections in the last two years. These improvements were attributed to $5 million in PSCOC awards and $56 million in federal funds used to support fiber and Wi-Fi projects over this period. The study noted, however, that current Internet access price levels were a barrier to scaling up bandwidth for some districts.



Information Technology

State revenue shortfalls continue to constrain funding for information technology projects. Last year, funded projects were limited to ongoing projects and those that leverage federal funds or can potentially save the state money. The role of information technology in state government cannot be discounted and needs will continue to grow. Setting priorities and prudent allocation of state IT resources is critical given the state's fiscal outlook.

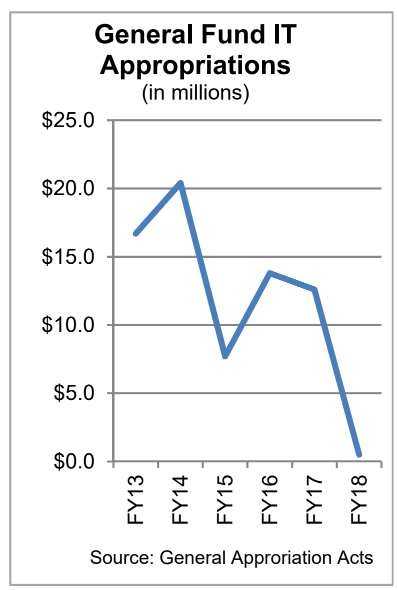
IT Governance and Accountability

Best practices indicate successful IT governance is best accomplished through the establishment of a formal governance committee made up of key individuals from all major areas working closely with IT leadership to establish and monitor alignment with goals and strategies.

Information Technology Commission. Laws 2017, Chapter 45, (House Bill 231) terminated the Information Technology Commission (ITC) on July 1, 2017. The ITC's statutory authority was to provide strategic guidance, independent oversight, and accountability and transparency for significant IT projects having a statewide impact.

IT governance strives to improve the value of business operations, rationally prioritize project requests, and measure the IT department's performance.

Department of Information Technology. DoIT was created to improve IT systems and provide core technical infrastructure for the state. By submitting FY18 and FY19 equipment replacement plans for the enterprise services equipment replacement fund (ERF), DoIT met its statutory responsibility. The plans provide accountability and transparency for how taxpayer dollars are spent on replacing information technology. ERF expenditures will be prioritized around three types of purchases: (1) strategic investments supporting near-term service requirements; (2) investments in infrastructure for existing services that modernization or refresh is required for continued viability of the service; and, (3) purchases for unanticipated maintenance and repair of existing services. In addition, DoIT developed an IT project dashboard to improve accountability and transparency for quarterly reporting on the status of the state's largest and most critical IT projects.



Selected IT Project Status

Medicaid Management Information System Replacement. The Human Services Department's Medicaid management information system replacement (MMISR) project secured a 90 percent federal match and can use this match to meet other health and human services technological needs. Since 2014, the Legislature has appropriated $37 million for the replacement project. The federal Centers for Medicare and Medicaid Services (CMS) authorized a $176 million budget to replace the current MMIS. A CMS-compliant MMIS will ensure federal funding for Medicaid operations are not reduced for noncompliance. The MMISR project schedule is fully developed to go live at the end of 2019. The project is moving forward with an aggressive timeline and maintaining the project schedule

DoIT needs to consider other sources of revenue for equipment replacement to decrease funding impact on agency budgets.

DoIT did not submit an implementation plan in response to the LFC's program evaluation of DoIT's enterprise service rates and project management and oversight.

FY19 State Agency IT Requests
(in thousands)

Agency	Agency Request
AOC	$992.0
TRD	$2,300.0
DFA	$2,300.0
DoIT	$7,400.3
PERA	$3,000.0
SOS	$2,077.4
SPO	$535.0
RLD	$267.4
DCA	$350.0
SLO	$5,000.0
HSD	$71,247.2
DOH	$11,700.0
CYFD	$5,025.0
CD	$3,800.0
DPS	$4,275.0
Total	**$120,269.3**

Source: LFC

Note: Some agency requests are for mulitple projects and amounts shown include all funding sources.

Insufficient strategic planning, including outdated statues and rules, and limited and inconsistent policies and procedures within DoIT hinder effective oversight of the state's IT infrastructure and investments.

is critical due to the current MMIS contract expiring in 2019. Although there is an integrated master schedule, additional details are needed to determine if end dates are realistic, monitor project progress, effectively manage resources and activities, and ensure project objectives are completed. Other key project plans still under development or review, such as a communication plan and resource management, may impact priorities if not finalized in a timely manner. HSD has made progress in issuing a request for proposals for the system integration and data services modules, with an RFP for the remaining modules forthcoming in early 2018.

ONGARD Replacement. The Legislature appropriated $10 million in 2016 to the Taxation and Revenue Department (TRD) to replace the Oil and Natural Gas Administration and Revenue Database (ONGARD). In 2017, funding was split between TRD and the State Land Office (SLO), with $5 million each. TRD and SLO have requested to separate the severance tax module and the royalty administration and revenue processing system (RAPS) into two separately managed projects. DoIT is evaluating the request. TRD's severance tax implementation is progressing with estimated completion in June 2018. Because SLO canceled its RFP in April 2017, planning is delayed and total cost for RAPS is uncertain. Key areas of concern include the status of the ONGARD Service Center, data- sharing agreements not in place, and overall impact of the replacement project to the oil and gas industry. Currently there is no plan to facilitate the transition and determine the logistics of aligning the two systems. However, with a stabilized system, ONGARD will continue to be operational for the duration of the replacement project.

SHARE Upgrade. The SHARE upgrade project updates the system to the current version of PeopleSoft. The SHARE-human capital management (HCM) upgrade was completed successfully in April. The largest impact associated with the HCM upgrade is the shift to positive time reporting, which improves employee accountability. The SHARE financial (FIN) system upgrade was completed successfully in October 2017. A key principle of the FIN upgrade is to align and standardize the state's business processes. Adoption of standard and consistent business processes across all agencies will enhance financial reporting accuracy, facilitate more user-friendly navigation, and make the state more nimble in its daily operations. Capability for digital attachments will limit the need for paper copies and inter-office mail and increase efficiencies in financial business processes and potential for reduced clerical costs. Additionally, employee productivity gains are likely with improved access to reporting information and availability of a catalog of standard reports. The total estimated cost of the SHARE upgrade is $19.8 million. While DoIT anticipates the transition to maintenance and operations in January 2018, the status of the SHARE disaster recovery plan is unknown.

Natural Resources

New Mexico's economy is highly dependent on natural resources, from the extractive industry to tourism. The close link between the environment and the economy requires balance among diverse interests, from providing access to public lands for hunting and fishing to ensuring a hospitable climate for oil and gas production. New Mexico has benefited from a recovery from severe drought and increased oil and gas drilling activity but continues to face challenges in delivering safe drinking water to all residents as well as in determining water rights and meeting water compact delivery requirements.

For more info:
Office of the State Engineer Report Card Page 125

Capacity of Large New Mexico Reservoirs

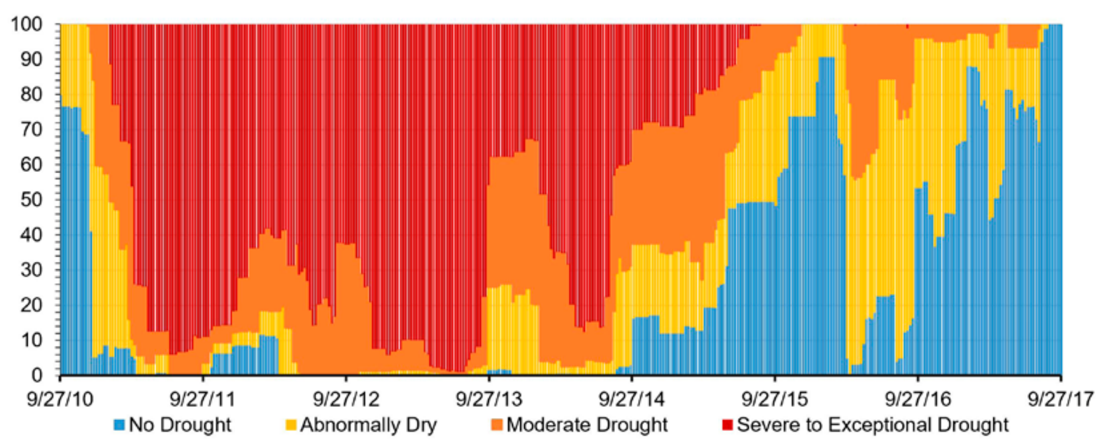
Reservoir	Sept. 2016	Sept. 2017
Elephant Butte	6%	13%
Navajo	79%	78%
Heron	30%	44%
Caballo	7%	18%
Conchas	33%	41%
Ute	89%	90%
El Vado	26%	71%
Abiquiu	65%	76%
Santa Rosa	53%	47%
Sumner	62%	59%
Average	**38%**	**41%**

Source: Climas

Water Management

For the first time since the U.S. Drought Monitor began keeping records in 1999, New Mexico does not have any area under the designation of drought or abnormal dryness. Increased precipitation over the past several years dramatically increased reservoir levels statewide; in September 2013, the 10 largest reservoirs were storing 21 percent of their total capacity, but by September 2017, this increased to 44 percent with a 16 percent increase over the past year. Although drought conditions are easing across the state, water managers must remain focused on defining rights of water users and ensuring adequate supplies are available in wet years and dry.

Percent of New Mexico Land by U.S. Drought Monitor Categories



Source: U.S. Drought Monitor

Administration

State and local water administrators continue to plan for times of shortage. Efforts to finalize regional water plan updates are in progress and an update to the statewide water plan is expected in 2018.

Nevertheless, to administer water, the Office of the State Engineer (OSE) must determine who owns how much and with what priority. Under priority administration, state law gives the greater right to the earliest, or senior, users and

Adjudication Progress by Basin
September 2017

NORTHERN NEW MEXICO ADJUDICATIONS	
Stream System	**Acres Adjudicated**
San Juan	15%
Jemez	100%
Red River	100%
Zuni	0%
Rio San Jose	0%
Rio Chama	99%
Taos/Hondo	100%
Santa Cruz/Truchas	100%
Nambe/Pojoaque/Tesuque	100%
Santa Fe	75%
Subtotals	62%
SOUTHERN NEW MEXICO ADJUDICATIONS	
Stream System	**Acres Adjudicated**
Nutt Hockett	100%
Rincon Valley	79%
Northern Mesilla	23%
Southern Mesilla	20%
Outlying Areas	46%
Lower Rio Grande Subtotals	41%
Animas Underground	31%
Subtotals	40%
PECOS ADJUDICATION	
Stream System	**Acres Adjudicated**
Cow Creek	0%
Gallinas	100%
Upper Pecos (ground water)	97%
Upper Pecos (surface water)	0%
Pecos Supplemental/Misc.	23%
Hondo Basin	100%
Fort Sumner Irrigation District	0%
Fort Sumner (ground water)	100%
Pecos Valley Aretesian Conservancy District	96%
River Pumpers	100%
Carlsbad Underground	3%
Carlsbad Irrigation District	100%
Penasco	0%
Subtotals	87%
Active Grand Totals	67%

Source: Office of the State Engineer

those with later "priority dates," or junior users, can be cut off in times of drought. However, much of the state is unadjudicated, meaning a court has not finalized the water right. Water rights adjudications continue to progress slowly and New Mexico is the only state in the country without full adjudication. In spite of the slow progress, both the Taos and Aamodt (or Nambe-Pojoaque-Tesuque) adjudications reached significant milestones, with the federal judge entering the final judgement and decree in the Aamodt adjudication and a partial final judgement and decree adjudicating Taos Pueblo's water rights.

Only 67 percent of water rights were adjudicated at the end of FY17, and this figure reflects only active completed adjudications and does not include adjudications yet to be initiated, such as the middle Rio Grande. Recognizing the slow progress in adjudications and learning from experience with recent litigation, OSE is shifting the focus of their adjudication efforts and is changing legal strategy to discontinue adjudication of domestic wells as well as restricting adjudications to claims that predate the 1907 codification of New Mexico water law.

The Legislature expanded the powers of the OSE to determine water right seniority based on the best available information including permits and licenses rather than requiring adjudication through a court process. This process is known as Active Water Resource Management.By limiting the scope of water rights adjudicated and relying on promulgation of Active Water Resource Management (AWRM) rules, OSE hopes to resolve water rights much faster. While promising, the change in strategy must be approved by a court; OSE expects decisions on these issues in 2018.

Water Quality

Beyond water supply, responsible management and water infrastructure improvements are necessary for economic development. While most systems are well managed and some water projects progress timely when receiving state funding, many are unplanned or underfunded. This creates delays and opportunity costs and can also pose a risk to public health.

Approximately 54 thousand New Mexicans are receiving water that does not meet health-based standards. The Environment Department (NMED) administers the clean water revolving loan fund (CWSRF) and the rural infrastructure revolving loan fund (RIRLF) with the purpose of providing low interest loans to communities for drinking water, wastewater, and solid waste systems. NMED awarded approximately $30 million in CWSRF and RIRLF funds annually in FY15 and FY16. In FY17, the amount declined to $11.3 million, driven in part by a lack of qualified borrowers, less fund balance available due to transfers from RIRLF to the general fund during solvency, and many entities preferring to forego loans in favor of capital outlay appropriations, which do not have to be repaid. In response to the lack of interest in water loan funds, NMED lowered interest rates on loans and the Legislature authorized state agencies to request loans from these funds.

New Mexico, along with 26 other states and many business organizations, challenged a 2015 Environmental Protection Agency (EPA) that would have required a federal permit to discharge into certain ephemeral or intermittent waterways previously beyond EPA jurisdiction. Following the change of federal administrations, EPA and the Army Corps of Engineers, in accordance with an executive order issued in February 2017, moved to rescind the Clean Water Rule and re-codify the regulatory text that existed prior to the 2015 defining of waters of the United States.

For more info:
Environment Department Report Card Page 121

Interstate Stream Compacts

New Mexico is party to eight interstate water compacts, including those for the Rio Grande and the Pecos River, and failing to meet delivery requirements, the responsibility of the Interstate Stream Commission (ISC), can strain New Mexico's budget and the economy. In FY17, New Mexico failed to meet delivery requirements for the second time since the early 1990s. Although the delivery shortfall was slight and the state remains in compliance with compact requirements, it underscores the importance of continued conservation and monitoring even in good years because the cost of under-delivery can be significant.

Other western states including Arizona, Colorado, and California are exploring the idea of rotational fallowing which halts irrigation on certain land on a rotating basis to conserve water. Rotational fallowing is often coupled with a mechanism to reimburse farmers for the time their lands are fallowed.

New Mexico was ordered to pay Texas $14 million after the U.S. Supreme Court ruled New Mexico under-delivered Pecos River water to Texas from 1950 to 1983. To maintain deliveries since then, New Mexico has retired water rights and installed wells to pump groundwater to supplement deliveries during dry periods.

In a more recent dispute, a court-appointed special master rejected New Mexico's attempt to dismiss a 2013 suit brought by Texas, which claims groundwater pumping south of Elephant Butte Reservoir reduced deliveries of Rio Grande water at the New Mexico-Texas border in violation of the Rio Grande Compact. New Mexico still has an opportunity to argue the merits of the case; however, the potential liability of losing the lawsuit is enormous and the Attorney General's Office and ISC continue to prepare to see the case through but also to explore alternative resolutions.

Texas vs. New Mexico Appropriations

Year	New Mexico	Texas
FY14		
FY15	$ 6,500,000	$ 5,000,000
FY16	$ 4,000,000	
FY17	$ 3,000,000	$ 5,000,000
FY18*	$ 2,000,000	
FY19	N/A	$ 500,000
Total	$ 15,500,000	$ 10,500,000

Source: LFC Files

*In FY18, Texas reauthorized all prior appropriations and appropriated an additional $500 thousand.

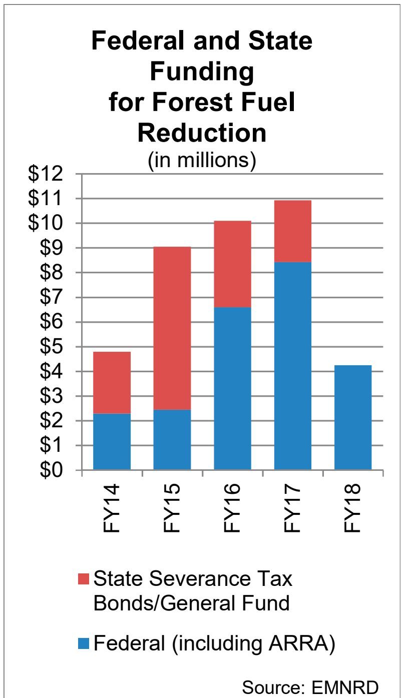
Gila River Diversion

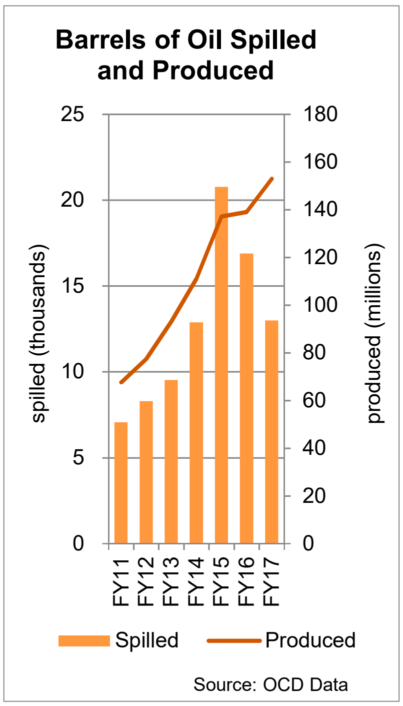
The New Mexico Central Arizona Project Entity (CAP) is designated to oversee spending of $90 million in federal funds from the Arizona Water Settlement Act of 2004 concerning use of Gila River water. The funds are to be used to meet water supply demands in Catron, Luna, Hidalgo, and Grant counties. The funds could be used for municipal and other water systems in these counties. CAP limited its engineering contractor to studying diversion projects for irrigation costing between $80 million and $100 million following earlier designs estimated at up to $1 billion. After expending over $11.6 million, CAP settled on a system of wells and storage ponds that would cost an estimated $49.5 million and benefit up to 100 irrigators. The cost of the environmental review is not included in the $49.5 million.

Fires, Forests, and Watershed Health

In recent years, severe forest fires led to evacuations, structural damage, increased public health costs, and reduced tourism. Recent easing of drought conditions suppressed fire activity over the past year, but given the volatility of precipitation patterns and temperatures, this wet weather can increase fire risk in the future; dry years following wet years create a situation where a large amount of recently grown vegetation dries and becomes a fire risk. The State Forestry Division treated over 15 thousand acres of forest and watersheds to thin overgrown forests so they are more resilient to fire, drought, insects, and disease.

For more info:
Energy, Minerals and Natural Resources Report Card Page 123





House Bill 29 and Senate Bill 4 created the Carlsbad Brine Well Remediation Advisory Authority to make recommendations on the remediation of the brine well cavern. A $250 thousand general fund appropriation for remediation proposals was contingent on a $125 thousand match each from the city of Carlsbad and Eddy County. The matching funds have been raised.

Energy

Renewable Energy

The Energy Information Agency (EIA) projects U.S. energy demand growth of approximately 5 percent through 2040. While demand is relatively unchanged during this period, EIA projects natural gas and renewable energy production will increase as coal consumption continues to lose market share. The 2017 EIA energy outlook notes that wind power will remain cost-competitive even without subsidy and that solar power generation will account for more than 50 percent of new capacity additions after 2030. The economic transition away from coal will likely accelerate loss of coal jobs in New Mexico; coal production in New Mexico increased by 35 percent from 2005 to 2015 while employment declined from 1,408 to 1,130, or 20 percent. The combination of more efficient mining operations and weakening demand for coal will force policymakers to examine employment alternatives in coal-dependent areas of the state.

New Mexico is on track to meet requirements of the Renewable Energy Act mandating 20 percent of investor-owned utilities' energy portfolio be derived from renewable sources. New Mexico could reap economic benefits from its renewable energy potential as demand increases from other states needing to import more electricity to meet renewable portfolio standards. However, transmission capacity, bottlenecks, and long interconnection paths limit the viability of exporting renewable energy because it is generated far from major load centers and export markets. While upgrading New Mexico's existing grid offers substantial economic development opportunities, it also presents environmental challenges and right-of-way issues on federal and tribal lands.

In 2016, the Federal Energy Regulatory Commission issued an order authorizing Clean Line to charge negotiated rates for the Western Spirit line. This high voltage transmission project is planned to be 140 miles, originating in east-central New Mexico and connecting to the grid at Public Service Company of New Mexico's Rio Puerco substation outside Albuquerque. Clean Line anticipates development costs to be near $200 million and could allow over $1 billion of investment in renewable electricity generation that otherwise could not be built due to existing grid limitations. The project is in the development and permitting phase and construction could begin as early as the first quarter of 2018.

State Employment and Compensation

Public employees' relatively generous health insurance and retirement benefits offset their relatively low salaries and help state employment compete with the private marketplace. Favoring benefits, however, has adverse consequences for recruitment and retention of employees who prefer strong salaries that grow over time. If the benefit package for public employees is not sustaine – and ongoing struggles to keep pension funds solvent remain concerns – pay levels will need to be addressed to ensure sufficient recruitment and retention of the public employees needed to deliver critical public services.

Over 31 percent of the state's job classifications are assigned to alternative pay bands (APB). This is an indicator the state's salary structure needs updating.

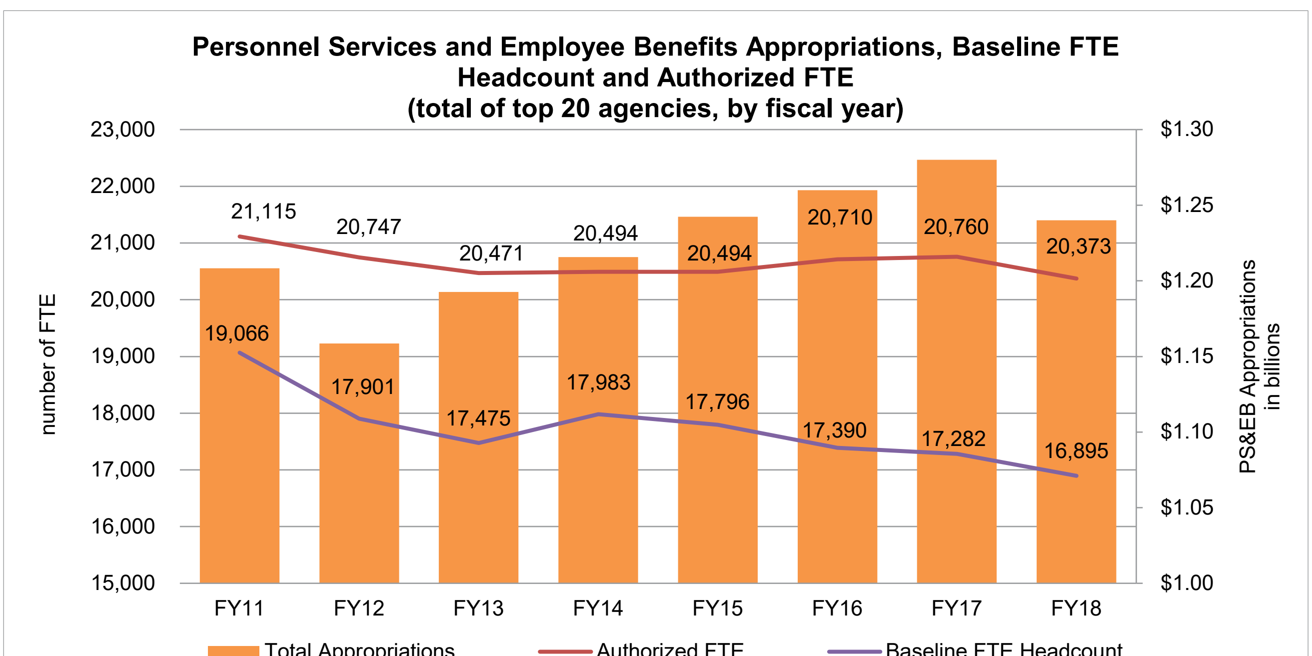
Total Compensation
Private Sector vs. State Government

	Salary	Benefit
Pvt. Sector	70%	30%
Texas	66%	34%
Nevada	60%	40%
Colorado	64%	36%
Arizona	61%	39%
Oklahoma	60%	40%
Kansas	58%	42%
New Mexico	57%	43%
Utah	56%	44%
Wyoming	56%	44%

Source: SPO

State Personnel System

Public employees' total compensation is important to recruit and retain personnel given that state government pay lags behind the private sector and regional public sector markets. However, total compensation has failed for several years to keep pace with inflation and the market, making it hard for agencies to recruit qualified staff and leading to excessive employee turnover. In coordination with the Legislature, the State Personnel Office, state agencies and education institutions are responsible for maintaining the state's personnel systems and advancing a comprehensive strategic plan designed to advance employment. However, the executive branch's steering of the state personnel system has been haphazard and uneven and based more on budget availability than comprehensive best practices.



Source: LFC Files

For more info:

State Personnel Board Report Card Page 130

Components of Total Compensation

Avg. Salary	**$**	**45,324**
Benefits		
FICA/Medicare	$	3,467
PERA	$	7,701
Retiree Health	$	906
Paid Leave	$	6,624
Insurance	$	14,870
Total Benefits	**$**	**33,568**
Total	**$**	**78,892**

Source: SPO

SPO Occupation-Based Classification Structure

1. Corrections 7%
2. Information Technology 4%
3. Engineering/Architects 7%
4. General Administration 29%
5. Healthcare 9%
6. Legal 4%
7. Protective Services 2%
8. Science/Technology 4%
9. Social Services 18%
10. Trades/Labor 7%
11. Management 9%

FY17 Turnover Rate by Position

Position	Turnover
Correctional Officers	17%
DOH Nurses	17%
Miner's Hospital Nurses	45%
Public Safety Dispatchers	17%
Child Protective Services	25%
State Police	8%

Source: SPO

Employment and Compensation Trends

Agencies have maintained high vacancy rates since the 2008 recession. State employment levels fell about 4,000, or 15.7 percent, below FY09 peak levels even as personnel budgets increased. As of September 1, 2017, 21,627 employees were in state service, compared with 22,011 a year earlier. Surplus personnel funding has been used by agencies to cover the cost of contract labor, operational expenses, and ad hoc salary increases.

Due to budget solvency concerns, no salary increases have been appropriated by the Legislature since FY15. The stagnation of wages resulted in compaction in the pay system as new employees were hired at salary levels at or close to those of incumbent employees. Pay freezes had the greatest effect on employees in health care and other high-demand fields. The combination of high market demand and stagnant state wages resulted in salaries falling increasingly behind market rates. Even in years when the Legislature provided cost-of-living adjustments (COLAs), the State Personnel Office (SPO) did not routinely adjust the pay structure, so the pay structure remains significantly behind the market.

Comparison of Compensation Components

Compensation Component	Private Industry	State and Local Gov't	State of New Mexico
Salary	**70%**	**64%**	**57%**
Benefits	**31%**	**37%**	**43%**
Paid Leave	7%	7%	8%
Supplemental Pay	4%	1%	0%
Insurance	8%	12%	20%
Retirement	4%	11%	10%
Other	8%	6%	4%
Total	**100%**	**100%**	**100%**

Source: SPO

Occupation-Based Classification Structure

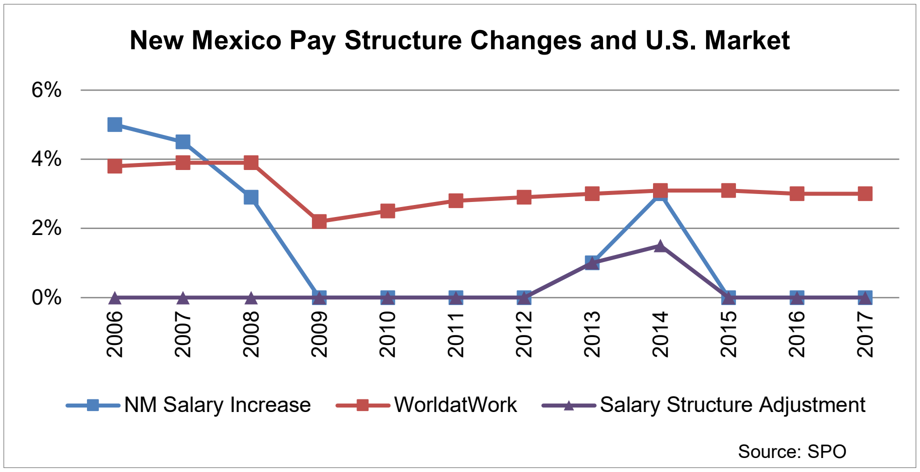
To address market-to-pay plan disparities, SPO began advocating for implementation of an occupation-based compensation system in 2012 with 11 new occupation-based groups. While SPO has made progress over the past four years placing job classifications into the new occupational groups for information technology, corrections, and engineers, the executive has yet to implement the remainder of the occupation-based structures affecting the majority of public employees.

Compensation Adequacy

SPO compiles an annual classified service compensation report, including salary and benefit comparisons between New Mexico public employees and national and regional competitors. SPO's 2017 annual report notes the state's pay plan is behind the market and the region.

Another indication the salary structure is behind the market is the high compa-ratios of new hires. A compa-ratio is the level in the pay range relative to the mid-point, so a compa-ratio of 100 percent is the midpoint of the pay range. Historically, new hires have entered state service at compa-ratios below midpoint, typically around 80 percent, and moved up through the pay range. From FY11 to

FY17, the average new hire compa-ratio increased from 91 percent to 97 percent indicating the mid-point of the range has become the entry level for new hires.



In addition to pay comparison data, salary inadequacy may be seen in the high vacancy and turnover rates among state government nurses and other employee groups. Typically, when compensation lags behind market rates, it takes longer to recruit employees and incumbent employees are more likely to leave the organization for a higher salary elsewhere. In the case of nurses, high turnover and vacancy rates reflect high demand for those skills, and the high nurse vacancy rates at Department of Health regional facilities and the even higher nurse vacancy rates at the Miner's Hospital of New Mexico in Raton indicate additional difficulty recruiting nurses to work in rural areas.

Pay Plan Adjustment

To prevent the state's compensation structure from falling further behind the market, targeted or cost-of-living salary adjustments (or some combination of the two) are needed. SPO has not pursued cost-of-living adjustments (COLAs), citing not all occupations face the same market pressures. However, one-third of public employees are currently in non-standard or alternative pay bands and SPO estimates 15 percent of the workforce may be misclassified.

SPO states targeted pay increases are the most effective method of adjusting the salary structure but the executive has not provided the Legislature with a comprehensive compensation plan in several years. However, the Legislature in the General Appropriations Act of 2015 included $1.1 million in targeted pay increases for nurses, and in the General Appropriations Act of 2016 included $1.25 million for correctional officers, and $1.25 million for police officers. In FY18, the Department of Transportation has $2 million set aside for targeted pay increases for engineers and surveyors. Failure to adopt a statewide compensation plan that includes targeted or across-the-board cost-of-living salary adjustments has resulted in a proliferation of agencies implementing ad hoc, individual, out-of-cycle pay adjustments.

Human Resources Consolidation

In early 2017, SPO announced plans to consolidate executive agencies' human resource (HR) functions in Santa Fe and Albuquerque to increase efficiency and enhance cost effectiveness. The HR consolidation identified 484 HR positions

Average Government Salaries for Region

Nevada	$	69,084
Colorado	$	54,858
Wyoming	$	55,500
Utah	$	49,764
Arizona	$	46,308
New Mexico	**$**	**45,324**
Texas	$	44,064
Oklahoma	$	44,178
Kansas	$	37,233

Source: SPO

Average Total Compensation for Region

Nevada	$	81,522
Wyoming	$	98,975
Utah	$	88,747
Colorado	$	85,634
Oklahoma	$	85,276
New Mexico	**$**	**79,027**
Arizona	$	76,115
Texas	$	67,625
Kansas	$	63,584

Source: SPO

Legislative Salary Increase History

	CPI	State of NM
FY12	2.0%	0%
FY13	1.2%	0%
FY14	1.7%	1%
FY15	0.0%	3%
FY16	1.5%	0%
FY17	2.1%	0%

Source: LFC files

statewide and proposed to eliminate nearly half through attrition. The executive initially indicated the consolidation would save millions; however, any potential savings are now projected to be generated primarily through efficiencies within agencies' operating budgets. The consolidation is being implemented using "service level agreements" between SPO and executive agencies and the FTE and associated personnel and funding will remain within their respective agencies' budgets.

New Mexico Minimum Teacher Salaries

	Minimum Salary Level
Level 1	$34,000
Level 2	$42,000
Level 3	$52,000

Source: LFC Files

Educator Compensation

Public Schools

The Public Education Department estimates the average New Mexico teacher salary was about $47.6 thousand in FY17, a 0.24 percent or $116 increase from the prior year. The National Education Association's *2017 Rankings of States and Estimates of School Statistics* report shows average U.S. teacher salaries were $59 thousand, a 1 percent or $597 increase from 2016. Data from the National Center for Education Statistics show New Mexico teacher salaries ranked in the middle of surrounding states, behind Colorado, Texas, and Nevada but ahead of Arizona, Oklahoma, and Utah in FY16. New Mexico was able to pull ahead of Arizona and Oklahoma in recent years due to the adoption of statutory minimum salary levels and language in the general appropriation acts of 2014, 2015, and 2016, that increased these minimums.

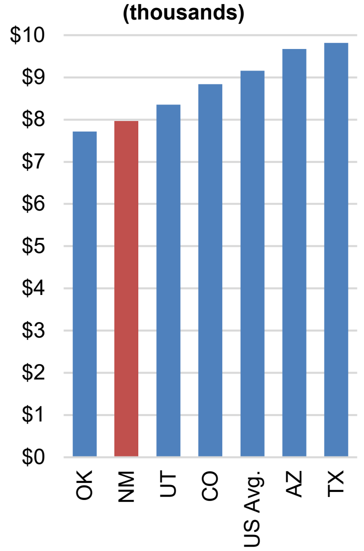
Average Real Teacher Salaries
(in thousands)

	1999-2000	2009-2010	2014-2015	2015-2016
US	41.8	55.2	57.4	58.1
NV	39.4	51.5	56.7	56.9
TX	37.6	48.3	50.7	51.8
CO	38.2	49.2	49.8	50.0
NM	**32.6**	**46.3**	**46.6**	**47.2**
UT	34.9	45.9	45.8	46.0
AZ	36.9	47.0	45.4	45.5
OK	31.3	47.7	45.3	44.9

Source: National Center for Education Statistics

At the national level, teacher salaries still lag behind similary educated people in other professions. The U.S. Census Bureau reports median earnings for education professionals with bachelor's degrees are lower than many other fields, including construction, financial services, and sales. Additionally, education majors with only a bachelor's degree have the lowest lifetime earnings of any field. Even with academic majors, teachers tend to have lower lifetime earnings than many other professions and education majors who switch to other fields earn more. In terms of benefit packages, other states with higher base salaries and cheaper benefits may be more attractive, especially for younger teachers entering the profession. The "Education" section of this volume addresses the problems of teacher recruitment, retention, and turnover in New Mexico.

FY16 Four-Year University Average Instructional Staff Monthly Salary
(thousands)



Source: IPEDS

Higher Education

Average salaries for faculty at New Mexico's higher education institutions increased 0.6 percent between FY13 and FY16; however, this figure represents a decline of 3.8 percent when adjusted for inflation. Non-instructional staff salaries among the state's colleges and universities increased slightly, rising 3.6 percent after adjusting for inflation. New Mexico's compensation for full-time instructional staff remains uncompetitive compared with neighboring states at both two- and four-year public postsecondary institutions. Average New Mexico faculty pay rates at four-year universities rank near the bottom quartile in the U.S., while community college salaries are closer to the bottom third.

Benefits

Pensions

Last year, the Public Employees Retirement Association (PERA) and Educational Retirement Board (ERB) distributed over $2 billion in pension benefits to retirees living in New Mexico. However, for today's workers, a key criticism of these older pension systems is they may no longer fit today's more mobile workforce. To accumulate a sizeable benefit at retirement, public employees must work a number of years and are not allowed to roll over their contributions when they leave state employment.

Reforms of 2013 Less than five years after the Legislature adopted reforms the pension boards' said would put PERA and ERB on a path to sustainability, the funds have deteriorated to the point where more reforms are needed. The new actuarial valuations report the combined unfunded liability – liabilities in excess of assets to be paid off in future years – has crept up to $12.5 billion, from $11.4 billion, and the amortization period is twice the recommended maximum of 30 years. The 2013 reforms did not fix the funding problem because investment return assumptions were too optimistic, contributions for some plans were not adequate to cover the promises made, and compounded cost-of-living adjustments (COLA) were awarded despite low inflation. If nothing is done, another financial crisis could put PERA and ERB on track to run out of money to pay retirees.

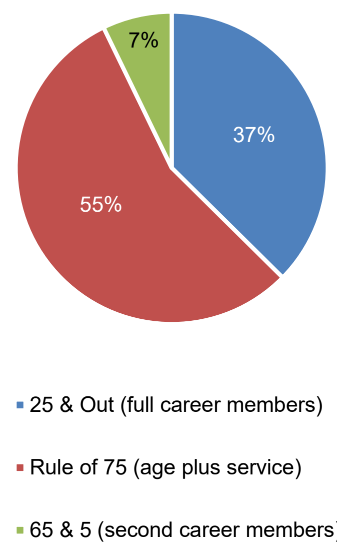
Current Funding Model PERA and ERB set rules to ensure the funds are well managed and the state constitution protects benefits for vested employees. Taxpayers are responsible for meeting any failed obligations. Under the funding model, employees and employers contribute to the PERA and ERB funds, the money is invested, and investment returns provide over half the funding used to pay retirement benefits. However, experts now caution the pension funding gaps may have grown too big for investment returns to cover.

Sustainable Pension Plans For ERB, the low interest environment coupled with retirees living longer and fewer members who work for 25 years before retiring, has pushed the time to reach 100 percent funding to over 60 years. In response, the board directed staff to start discussions with stakeholders on options to improve the health of the fund. These options include increasing the employer contribution by 3 percent, which would require $80 million more from schools. This could require cuts to classroom funding or higher taxes to cover the increases for compensation.

For PERA, two thirds of the liability associated with benefits is attributed to retirees and only one third to active employees. This is largely due to a compounded cost-of-living increase (COLA) that has outpaced inflation. Although the PERA COLA costs approximately $20 million annually, over two times ERB's COLA, it adds $200 million to liabilities for each year the retiree receives it; and retirees receive the increased annuity the rest of their lives. For ERB, the COLA is now given at age 67 and tied to actual inflation and funding levels. That said, ERB's COLA expectation, now 1.5 percent on average, still accounts for about 13 percent of liabilities.

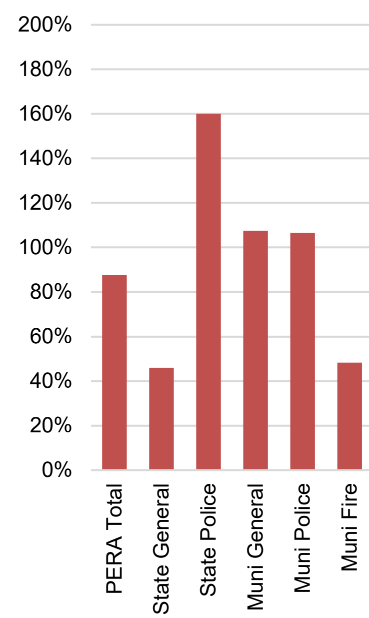
The solvency of individual plans within the total PERA fund are also significantly volatile. The municipal fire and state general plans are the least solvent with their projected funded ratios -- the ratio of assets to liabilities in 2043 -- below 50 percent and infinite amortization periods, meaning, current contribution rates will never be enough to pay off the liabilities. Conversely, the state police and correctional officer plan receives more in employer contributions than needed to fund the benefits.

ERB Retirements by Type



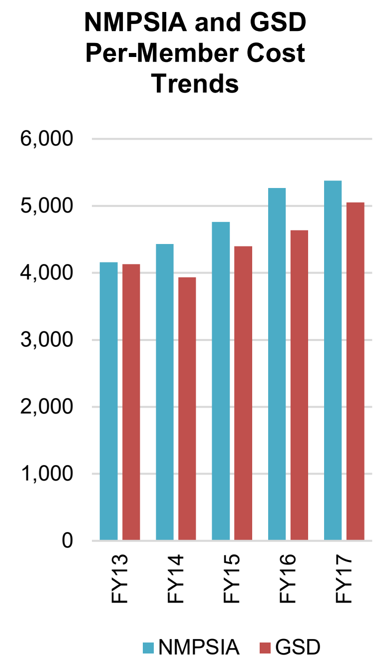
Source: ERB and LFC files

PERA's Long-Term Funded Ratios

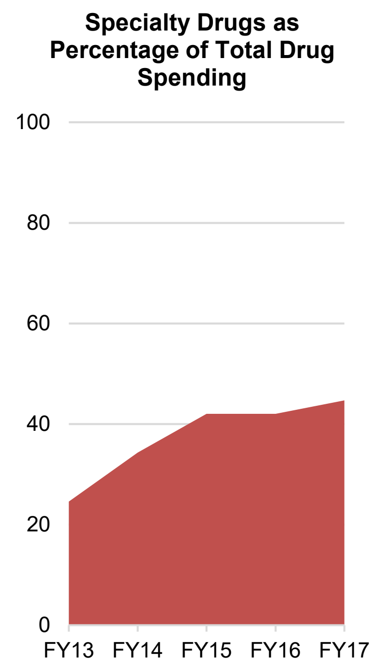


Source: PERA and LFC files

According to a 2017 LFC staff performance report, comparisons with Medicare indicate IBAC agencies pay more for hospital-based services even though members are younger and healthier. The report also said IBAC could save money by requiring its contracted insurers to be more transparent about provider payment rate agreements and by consolidating agencies into one plan, a conclusion in evaluations going back to 2015.



Source: NMPSIA, GSD and LFC files



Source: GSD and LFC files

Controlling Costs To improve the health of the fund, ERB could close loopholes related to the non-payment of contributions by PERA retirees now working for schools (schools already contribute) and some part-time ERB retirees and their employers. The loss to the fund from the loss of contributions from these retirees, which would be required from active employees, has grown to over $6 million annually. ERB could also work with PERA on closing loopholes related to "wage spiking," which is when employers inflate pay in the final years to provide an employee a larger pension than they would otherwise receive, part-time worker benefits, and "double-dipping," which is when retirees collect both a government pension and a government salary, often through a contractual agreement or employment agency. Both programs could also explore a smaller benefit multiplier and pensionable wage cap for members who have not yet met vesting requirements.

Group Health Benefits

The General Services Department (GSD), New Mexico Public School Insurance Authority (NMPSIA), Albuquerque Public Schools (APS), and New Mexico Retiree Health Care Authority (NMRHCA) participate in the Interagency Benefits Advisory Committee (IBAC), the largest commercial healthcare purchaser in the state. In FY17, total expenditures reached nearly $1 billion, effectively flat with the prior year, despite a smaller number of active members and higher number of retiree members. On a per person basis, costs increased 8 percent, on average, due to high cost claimant expenses and a larger percentage of spending on specialty drugs.

The state provides premium subsidies of 20 percent to 80 percent to make health coverage more affordable for lower-wage workers. The employer's cost is spread over a multi-tier structure, with lower-wage workers paying relatively less than higher-wage workers. The subsidy is based on annual income and does not take into account the plan type, such as single coverage, single plus child, single plus spouse, or family coverage. For IBAC, on average, teachers pay a higher percentage of the total premium and have higher out-of-pocket costs than their state employee counterparts.

Last year, IBAC secured contracts for healthcare services. The contracts included more robust performance metrics for medical management capabilities. Carriers further along with value-based purchasing agreements with providers were given extra consideration in the request-for-proposal (RFP) process. This fiscal year, IBAC will receive responses to an RFP for a new pharmacy benefits management (PBM) contract. Last year, IBAC reduced its drug spending through rebates and contractual discounts negotiated by the current PBM with drug companies. Ideally, the new contract could have stronger provisions related to transparency of rebates and discounts, to ensure all savings are being captured, audit rights at the transaction level, and more involvement in approving the formulary list.

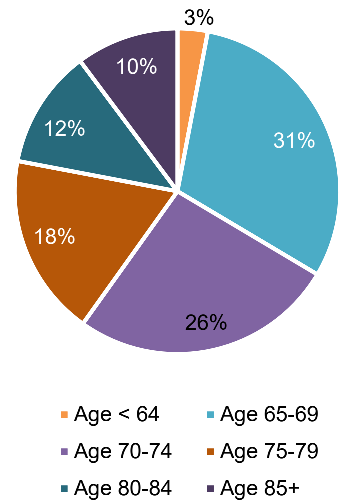
Controlling Costs APS requires a 30-hour work week to qualify for group health benefits. GSD and NMPSIA have a 20-hour work week minimum but NMPSIA will provide coverage for a 15-hour work week if requested by a school board. Some schools have changed eligibility to require a longer work week while others in rural areas report that group benefits help schools recruit and retain lower-paid part-time workers. However, for employees who qualify for Medicaid, healthcare benefits are better and out-of-pocket costs lower than most traditional commercial health plans offered in New Mexico.

Retiree Health Care Benefits. NMRHCA provides health coverage for employees who meet retirement eligibility requirements under ERB or PERA. Unlike pensions for vested members, the benefit is not constitutionally protected although employees contribute a portion of their pay to an expected future benefit. In FY17, the state, schools, local governments and employees contributed 3 percent of pay, totaling $131 million. Retiree members paid $154 million in premiums and the general fund contributed $28 million. These revenue sources, in addition to investment returns, helped grow the trust fund to over $550 million – still, only one tenth of what is need to be actuarially sound for the future.

Sustainability. Nationally, with a total funded ratio of 6.9 percent and liabilities to be paid off in future years of $700 billion, most retiree health care benefit plans are not sustainable. Key findings from NMRHCA's new biennial actuarial valuation reports the net liability -- the portion of the liability not covered by trust assets -- increased by $750 million to $4.5 billion, between 2016 and 2017. The funded ratio stayed unchanged at 11 percent despite larger deposits to the trust frund. Total membership is now 160 thousand. Of that total, one-third are retirees and spouses receiving a benefit and two-thirds are active employees not yet receiving a benefit.

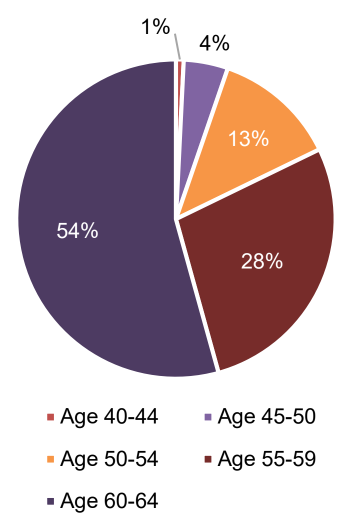
Due to state revenue shortfalls, Chapter 1 (Senate Bill 7) during the 2016 special session temporarily reduced annual increases in revenue from the general fund for 2 years. This moved the projected year of insolvency from FY35 to FY30. However, because of strong investment gains and plan and provider network changes, the projected year of insolvency is now FY34. The board will need to continue to make adjustments to subsidies and benefits, as it has been doing, to extend the longevity of the program.

NMRHCA Medicare Members by Age Group (total 36,319)



Source: RHCA and LFC files

NMRHCA Non-Medicare Members by Age Group (total 13,818)



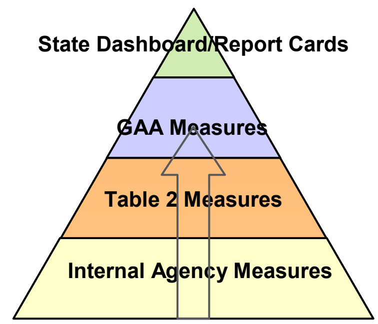
Source: RHCA and LFC files

Performance

Accountability in Government

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.).

Performance Measure Hierarchy



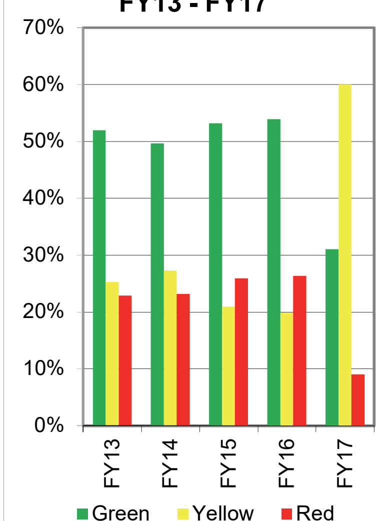
Revitalizing Performance Measures

In accordance with the provisions of the AGA, the ability of the LFC and its staff to improve measures is limited, as fundamental authority over performance reporting resides with the executive. The Department of Finance and Administration (DFA) approves new measures and deletes others, and LFC's role is that of consultation. In 2016, LFC staff worked with DFA to renew and improve the performance measure process. DFA initially directed agencies to report fewer performance measures, report measures only on an annual basis, and report more output than outcome measures. Ultimately, LFC and DFA agreed on sweeping changes that eliminated more than 600 less-useful measures and converted others to informational-only measures. However, staff did not fully agree with the elimination of some measures and the shift of some measures from quarterly to annual reporting, and staff remains concerned about how these changes may be reducing transparency, providing less data on how state agencies effectively carry out their mission, and diminishing many of the previous gains to improve accountability. LFC staff is monitoring agency FY19 budget requests, and might recommend more restrictive budget adjustment authority or new or reinstated measures where performance reporting is diminished.

Report Cards

LFC's agency report cards add emphasis and clarity to the reporting process and help focus budget discussions 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 or a slightly lower level of performance. Performance criteria and elements of good performance measures are reviewed on the following pages.

Report Card Program Rating Performance Summary FY13 - FY17



Source: LFC Files

FY17 Performance and Future Outlook

FY17 report cards showed a sharp decline in green and red ratings, from state agencies reporting fewer performance measures and reporting more informational-only measures, and an increase in yellow ratings, as agencies settle in to new reporting requirements. However, some agencies with yellow ratings were still struggling to implement evidence-based strategies. In addition, some newer measures were not reported timely or at all. Outcome measures indicating a need for more efforts include year-over-year job growth, student reading and math proficiency, drug overdose reversals, efficiency of healthcare delivery, repeat child maltreatment, inmate recidivism, and completion of water adjudications. Performance results continue to miss targets due to high vacancy rates and ongoing problems with turnover, recruitment and retention.

PERFORMANCE REPORT CARD CRITERIA
LEGISLATIVE FINANCE COMMITTEE

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

ACCOUNTABILITY IN GOVERNMENT
Performance Measure Guidelines

Elements of Good Performance Measures	**Agency Quarterly Reports**	**Elements of Key Agency Reports**	**Elements of LFC Performance Report Card**
Ideal performance measures should be • ***Useful:*** Provide valuable and meaningful information to the agency and policymakers • ***Results-Oriented:*** Focus on outcomes • ***Clear:*** Communicate in a plain and simple manner to all stakeholders (employees, policymakers, and the general public) • ***Responsive:*** Reflect changes in performance levels • ***Valid:*** Capture the intended data and information • ***Reliable:*** Provide reasonably accurate and consistent information over time • ***Economical:*** Collect and maintain data in a cost-effective manner • ***Accessible:*** Provide regular results information to all stakeholders • ***Comparable:*** Allow direct comparison of performance at different points in time • ***Benchmarked:*** Use best practice standards • ***Relevant:*** Assess the core function of the program or significant budget expenditures	Each quarterly report should include the following standard items • 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	Key Measure reporting should include • 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	Each quarterly Report Card should include the following standard items • Key events or activities that affected the agency in the previous quarter • Status of key agency initiatives • National benchmarks for key measures, when possible • Explanation for any area(s) of underperformance • Agency action plans to improve results Analyst may include: • Measures or data reported by another reputable entity when agency data is inadequate

Public School Support

In FY17, reading and math proficiency for fourth grade students improved slightly from FY16; however, results indicate about three-fourths of fourth graders are still not proficient in reading or math. For eighth graders, reading proficiency improved, but math proficiency declined significantly, from almost 20 percent in FY16 to 12 percent in FY17. The public schools missed every proficiency target, even though targets were lowered in FY15 to reflect changes in testing.

Four-year cohort graduation rates increased to a record 71 percent in 2016; however, New Mexico's graduation rate remains significantly lower than the 2015 national average of 83 percent and below the target level of 75 percent. Additionally, four-year cohort graduation rates for students with African-American, Native American, economically disadvantaged, disability, and English learner status continue to be lower than the statewide average.

Budget: $2,580,232.5

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Fourth-grade students proficient on standards-based assessments in reading	23.8%	25%	45%	26%	R
Fourth-grade students proficient on standards-based assessments in mathematics	18.8%	23.4%	45%	24%	R
Eighth-grade students proficient on standards-based assessments in reading	22.9%	25.8%	51%	28%	R
Eighth-grade students proficient on standards-based assessments in mathematics	17.2%	19.5%	43%	12%	R
Recent high school graduates who take remedial courses at higher education institutions	43.3%	39.2%	<35%	NR	R
Four-year cohort graduation rate	68.6%	71%	75%	NR	R
				Program Rating	R

Nearly half of New Mexico high school graduates take remedial courses at higher education institutions. For FY16, the Higher Education Department reported 39.2 percent of New Mexico high school graduates required at least one remedial course. A 2011 Office of Education Accountability study found students required to take remedial courses in college are less likely to graduate on time, and a student taking four remedial courses has a 1 percent chance of graduating in six years. In New Mexico, a higher percentage of Native American and Hispanic students take remedial courses. The high number of students requiring remediation signals a need for better preparation and improved alignment between high schools and colleges in New Mexico.

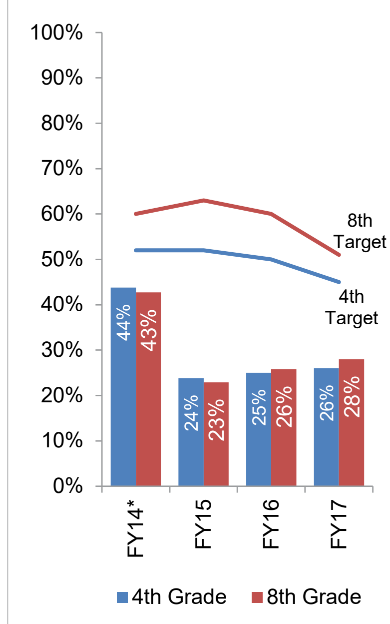
Public Education Department

According to the State Personnel Office, PED maintained 232 FTE, a 4 percent vacancy rate, in the fourth quarter. PED ended the year with $23.2 thousand, or

AGENCY IMPROVEMENT PLANS

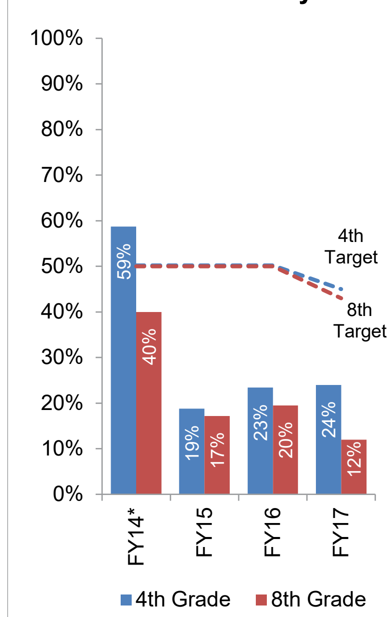
Submitted by agency?	No
Timeline assigned by agency?	No
Responsibility assigned by agency?	Yes

Reading Proficiency

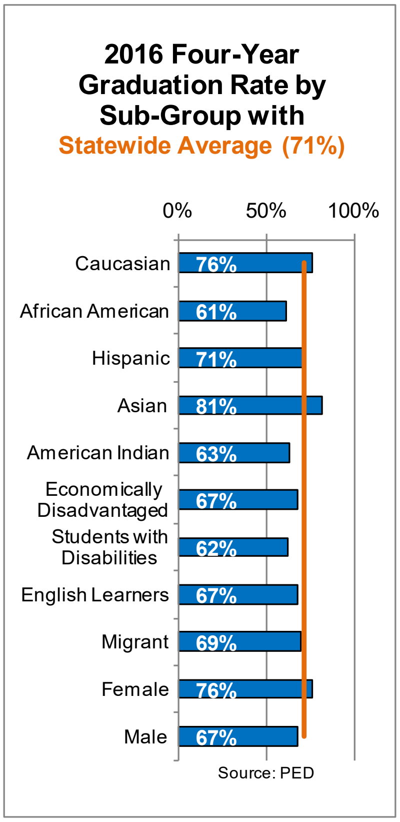


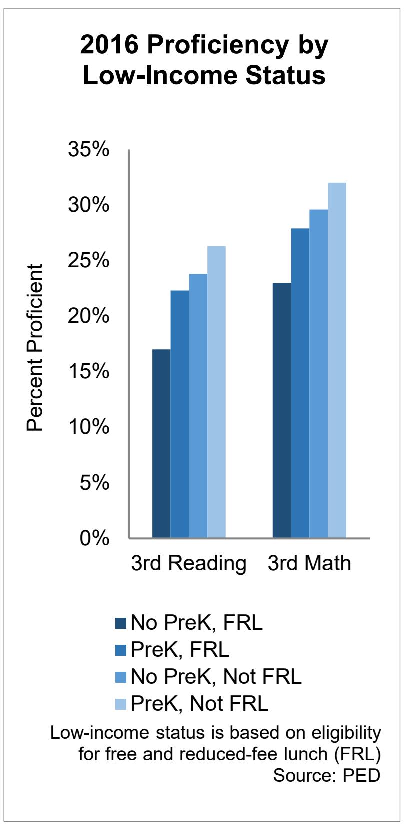
*FY14 reflects NMSBA scores
Source: PED

Math Proficiency



*FY14 reflects NMSBA scores
Source: PED





0.2 percent, of their FY17 personal services and employee benefits appropriation. In FY17, PED reduced general fund appropriations for personnel by $366.1 thousand but budgeted $1 million in department-administered "below-the-line" program appropriations – intended to directly support school districts and charter schools – for department personnel costs. For FY18, this amount was nearly $1.3 million. In the past, it has been customary for PED to budget funds for department personnel from appropriations for Indian education, prekindergarten, and K-3 Plus; however, the use of other below-the-line appropriations for personnel has become a recent practice. PED also entered into several intergovernmental agreements using more than $1.9 million of FY17 pay-for-performance initiative funding that did not appear related to the appropriation, including $1.2 million for an open-source learning management system.

Some PED administrative functions appear to have improved, with the department meeting or approaching several target levels. PED met the target for completed data validation audits, which ensures the formula funding is distributed according to statute. PED also approached target levels on average processing times for school district and charter school budget adjustment requests, which affects cash flows for schools. This is particularly important for public schools with small cash balances. However, other reported outcome measures might not be calculated accurately, because some annual figures do not seem to be weighted appropriately for each quarter. For example, PED reported a total of three requests for information (RFI) in FY17, with one RFI taking 16 days to process in the third quarter and two RFIs taking an average of 27 days to process in the fourth quarter. PED reported an annual average processing time of 11 days; however, the weighted average processing time per RFI was actually 23 days.

Budget: $11,065.3 **FTE:** 240.8

Measure	**FY15 Actual**	**FY16 Actual**	**FY17 Target**	**FY17 Actual**	**Rating**
Eligible children served in state-funded prekindergarten	8,604	8,761	N/A	8,572	Y
Eligible children served in kindergarten-three-plus*	19,383	20,093	N/A	13,778	R
Elementary students participating in school breakfast after the bell	72,560	76,789	N/A	78,031	G
Data validation audits of funding formula components	13	2	20	21	G
				Program Rating	Y

*New performance measure; figures represent participation by summer program, not fiscal year

Prekindergarten

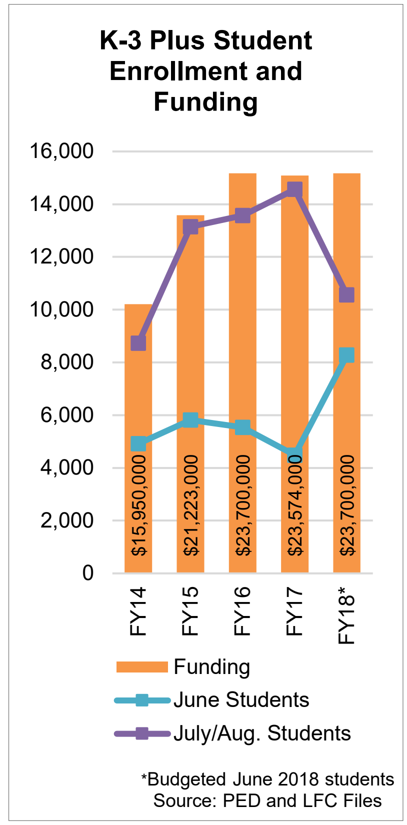
In FY17, the total number of eligible children served in state-funded prekindergarten decreased slightly; however, PED notes the number of children served in extended-day programs has increased from 1,104 children in FY16 to 1,685 children in the fourth quarter of FY17. The LFC has consistently found prekindergarten programs improve math and reading proficiencies for low-income 4-year-olds and lower retention and identification rates for special education. The 2017 LFC *Early Childhood Accountability Report* found higher student achievement and lower special education identification rates in fifth grade for students that participated in prekindergarten.

Additionally, low-income students who participated in both the prekindergarten and K-3 Plus programs closed achievement gaps by kindergarten entry.

K-3 Plus

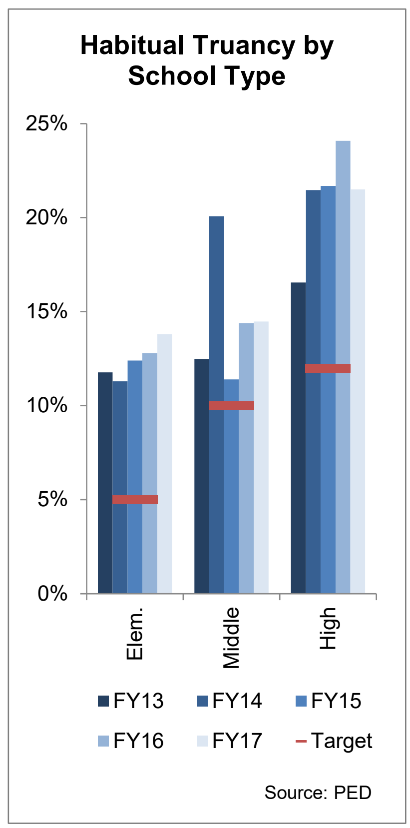
In FY17, PED released summer 2017 awards, showing only 15 thousand students funded to participate in K-3 Plus, a decrease of 5,116 students funded from the previous summer, which had a record enrollment of 20 thousand students. Because a majority of the FY17 K-3 Plus appropriation was spent on program sites in July and August 2016, PED was unable to fully fund total projected enrollment at program sites in June 2017. PED staff indicated the department worked with school districts and charter schools that had June start dates to push their programs into FY18; however, only 13 program sites moved their start dates back.

PED budgeted $10.2 million for June 2018 programs, an estimated 80 percent increase in year-over-year funding, at the expense of July and August 2017 programs, which experienced a 30 percent decrease in funding. While sustainable funding streams for K-3 Plus are necessary to ensure consistency and accessibility to the program, more attention needs to be placed on implementation and delivery. A 2015 Utah State University study found increased gains from K-3 Plus when students stayed with the same teacher they had during the summer, and multiple LFC evaluations suggest the program contributes to better outcomes when combined with other programs, like prekindergarten. Many schools do not structure their K-3 Plus programs with these best practices, and concerns exist around the growing practice of shorter program days and earlier K-3 Plus start dates.

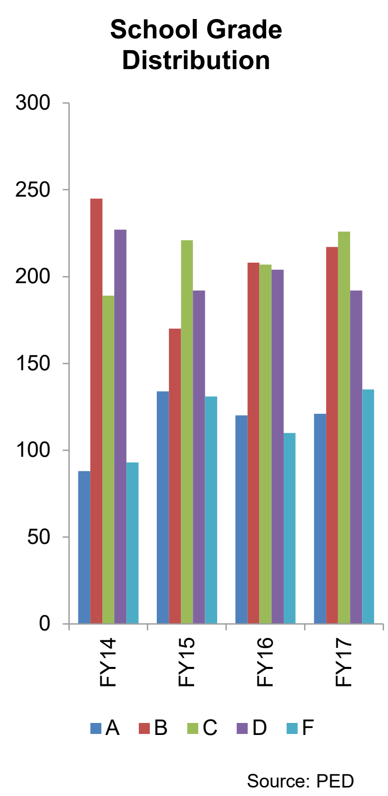


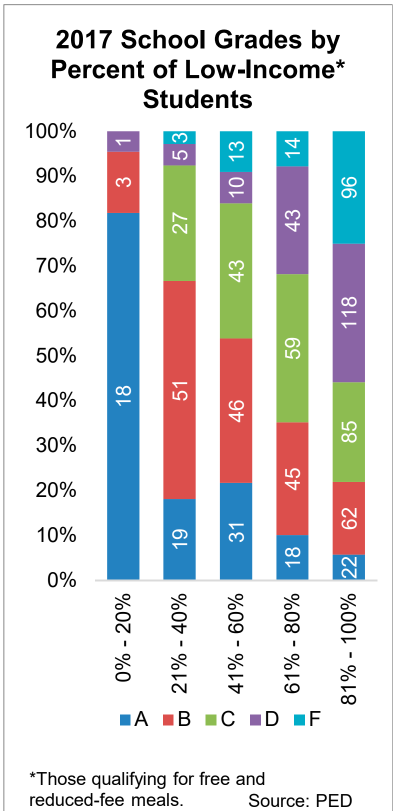
Habitual Truancy

In FY17, statewide habitual truancy rates for high school students decreased; however, elementary and middle school habitual truancy rates increased, and overall habitual truancy rates remain higher than desired. Overall, 21.5 percent of students in high school are truant at least 10 days or more compared with 14.5 percent of students in middle school. The habitual truancy rate was the lowest for elementary school students, at 13.8 percent. The U.S. Department of Education (USDE) notes that reasons for chronic absences from school are particularly acute in disadvantaged communities and areas of poverty and may prevent children in elementary school from reaching early learning milestones. According to USDE, children who miss 15 or more days in preschool, kindergarten, and first grade are much less likely to read at grade level by third grade. Students who cannot read at grade level by the end of third grade are four times more likely than proficient readers to drop out of high school.



According to PED, average statewide habitual truancy rates have fluctuated around 15 percent in the past few years. In FY16, PED allocated $3 million to support its truancy and dropout prevention coaches (TDPC) program and pay for coach salaries at 42 school sites. Between FY15 and FY16, habitual truancy rates for all TDPC school sites showed mixed results. With the exception of Albuquerque schools, all other TDPC sites improved, decreasing habitual truancy rates from 27 percent to 21 percent. In contrast, habitual truancy rates at the 12 Albuquerque TDPC program sites worsened between FY15 and FY16, increasing from 14 percent to 27 percent. Statewide, schools experienced an average increase in habitual truancy rates from 22 percent to 24 percent between FY15 and FY16.





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 system gives schools a letter grade between A and F based largely on student performance in standards-based assessments, with smaller values awarded for student surveys, attendance, student and parent engagement, and other factors. For the 2016-2017 school year, PED released school grades showing an overall slight increase in the number of schools with B and F letter grades. Schools reported about the same number of A letter grades and slightly fewer C and D letter grades. Historical trends suggest significant year-over-year changes to letter grades are diminishing, as more schools are beginning to receive the same letter grade each year.

The distribution of school grades in New Mexico appears to be related to the percentage of students eligible for free and reduced-fee lunch (FRL) in the school. The distribution of grades for the half of all schools with 81 percent and 100 percent of students eligible for FRL is different than more affluent schools. Academic achievement and proficiency is the goal for all students despite economic conditions or other barriers. Clearly, some schools with the right resources, teaching staff, strategies, and culture are able to overcome these hurdles. However, the current standing points on the report card are more difficult to obtain for schools with larger percentages of low-income students and these conditions have a strong impact on whether a school is evaluated as high-performing or not.

PED notes while some districts are showing strong improvements in school grades, over half of the schools in Albuquerque Public Schools (APS), the largest district in the state, are rated D or F. Some of the highest-performing schools in the state are also within APS, making the district a prime candidate for evaluating how to scale up best practices locally.

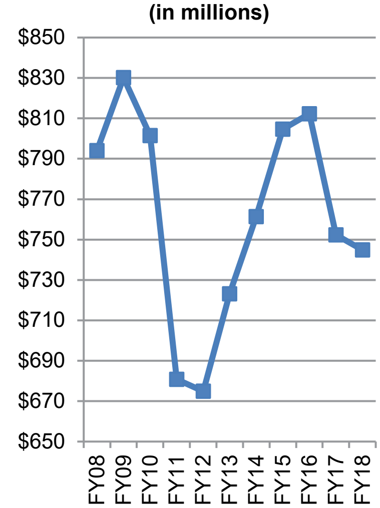
Department Initiatives

In FY18, about $38.9 million was allocated to PED for programs and initiatives relating to early literacy, educator preparation, professional development, teacher evaluation, school turnaround, and merit pay. Limited data exists on the outcomes of these initiatives, and few performance measures hold the department accountable for the use of these dollars. To make informed budgetary decisions and ensure a greater return on these education dollars, the executive and legislative branch should establish commonlyaccepted measures of success and use performance data to evaluate the outcomes for these programs.

Higher education institutions report on two staple Accountability in Government Act (AGA) performance measures – retention and completion – each fall. Both measures inform how well a college or university is supporting students as they pursue an associate or baccalaureate degree; however, the data only include first-time, full-time, degree-seeking freshmen. Generally referred to as traditional students, these individuals make up a larger proportion of the FTE enrollment at four-year research institutions, but first-time, full-time freshmen are much more sparse at New Mexico's community colleges; at branch campuses, for example, they comprise as little as 11.8 percent of FTE enrollment.

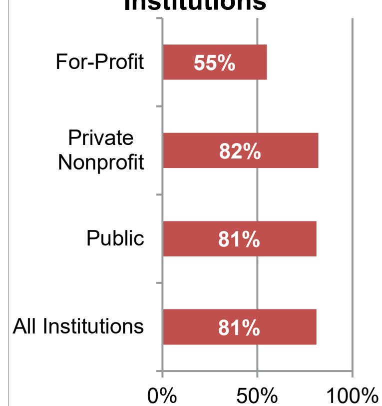
AGA measures underwent a review and revamp in preparation for the FY18 budget cycle in an attempt to broaden the scope of the measures. For example, new measures include the number of degrees awarded per 100 FTE students, which addresses all students rather than just traditional students. However, a recent LFC program evaluation, *Higher Education Cost Drivers and Cost Savings*, points to the need for efficiency metrics more closely aligned to the higher education funding formula, with better comparability among peer institutions. Mississippi, for example, calculates degrees awarded per $100 thousand in revenue, while Utah calculates the cost per degree. Such efficiency measures do not have clear targets on their own, and many measures are not comparable within the state; a rural institution is likely to have higher costs in educating students than an urban institution, but a rural New Mexico institution could be compared with another of similar size and mission in another state. Benchmarking the measures in this way would provide meaningful performance data to better inform appropriations decisions and improve accountability in higher education. LFC will propose efficiency metrics as explanatory measures in FY19. Until new measures can be fully implemented, retention and completion will continue to inform institution performance for a select sample of students throughout the state.

Higher Education General Fund Support
(in millions)



Source: LFC Files

Nationwide Retention Rates at Four-year Institutions



Note: First-time, full-time undergraduates who returned to the institutions to continue their studies the following fall (2014 cohort).

College and University Retention Rates

Retention rates into the second academic year showed mixed results at New Mexico's six universities, while Northern New Mexico College continues to experience significant volatility in the rate of students who return for the sophomore year. Although two institutions met their targets, and two others improved over prior-year retention rates, including Western New Mexico University's 10 percent gain over two years, all four-year institutions came in below the most recently available national fall-to-fall retention rate of 81 percent.

First-Time, Full-Time Student Retention to the Third Semester	Fall 2014 to Fall 2015 Actual	Fall 2015 to Fall 2016 Actual	Fall 2016 to Fall 2017 Target	Fall 2016 to Fall 2017 Actual	Rating
New Mexico Institute of Mining and Technology	75.1%	76.9%	77.0%	74.1%	R
New Mexico State University	73.5%	71.6%	74.0%	73.9%	G
University of New Mexico	79.5%	80.1%	80.0%	78.3%	R
				Program Rating	Y

Retention and Student Loan Default Rates

Retaining and graduating students results in lower student loan default rates. Default rates among students who dropped out or failed to earn a credential or degree are significantly higher than institutional average rates.

New Mexico's statewide student loan default rate of 18.5 percent is significantly higher than the national average of 11.5 percent across all states and territories. The statewide rate includes state-funded higher education institutions in the FY14 cohort year. Although the rate is higher than the national rate, New Mexico did improve, dropping from 19.3 percent in the FY13 cohort year. Only one New Mexico university – New Mexico Institute of Mining and Technology – came in below the national default rate.

Institutional Student Loan Three-Year Default Rate by Institutional Type (FY14)

	0 - 10%	11 - 20%	21 - 30+%
Research	1	2	0
Comprehensive	0	3	1
Two-Year	0	2	5

Source: U.S. Department of Education
Branch figures included in main campus
Data not available for Mesalands CC

Default rates at the University of New Mexico and New Mexico State University tend to be higher than other four-year research institutions due to their associated branch campuses, which often have higher default rates.

First-Time, Full-Time Student Retention to the Third Semester	Fall 2014 to Fall 2015 Actual	Fall 2015 to Fall 2016 Actual	Fall 2016 to Fall 2017 Target	Fall 2016 to Fall 2017 Actual	Rating
Eastern New Mexico University	58.1%	58.7%	64.5%	63.1%	Y
New Mexico Highlands University	52.4%	52.7%	53.0%	45.2%	R
Northern New Mexico College	54.0%	63.8%	66.5%	55.0%	R
Western New Mexico University	51.5%	53.9%	56.2%	61.0%	G
				Program Rating	Y

Community College Retention Rates

Retention rates reported by community colleges are based on fall-to-*spring* retention, rather than fall-to-*fall* retention rates reported by four-year institutions. This will change in FY18 reports, when AGA measures for community colleges change to fall-to-fall rates. Community colleges have noted concerns with reporting current-year fall-to-fall retention data because enrollment windows at community colleges tend to be fairly flexible and the data may not capture all students. To remedy this, LFC staff is working with community colleges to collect all available data as of November in a given year, noting the data are preliminary. If there are changes to the data, future reports will be corrected to reflect the changes.

More than 80 percent of students at four community colleges returned for their second semester, but two colleges were unable to retain at least 60 percent of their students within the academic year.

First-Time, Full-Time Student Fall-to-Spring Retention	Fall 2014 to Spring 2015 Actual	Fall 2015 to Spring 2016 Actual	Fall 2016 to Spring 2017 Target	Fall 2016 to Spring 2017 Actual	Rating
ENMU-Roswell	74.2%	81.8%	76.2%	76.2%	G
ENMU-Ruidoso	55.8%	51.4%	65.0%	58.6%	Y
NMSU-Alamogordo	72.0%	71.4%	79.8%	76.4%	Y
NMSU-Carlsbad	71.2%	75.2%	70.0%	70.4%	G
NMSU-Dona Ana	79.2%	74.5%	81.0%	80.0%	Y
NMSU-Grants	67.2%	77.8%	73.0%	63.0%	R
UNM-Gallup	81.8%	81.2%	84.0%	76.4%	R
UNM-Los Alamos	80.0%	77.4%	80.0%	81.8%	G
UNM-Taos	74.4%	78.9%	75.0%	75.0%	G
UNM-Valencia	77.6%	83.7%	80.0%	76.8%	R
Central New Mexico	81.4%	83.7%	83.0%	82.3%	Y
Clovis CC	83.1%	83.6%	75.5%	79.0%	G
Luna CC	58.3%	55.7%	70.0%	58.0%	R
Mesalands CC	74.0%	81.5%	70.0%	73.8%	G
NM Junior College	82.8%	84.4%	82.0%	83.0%	G
San Juan College	82.7%	79.2%	80.0%	79.4%	Y
Santa Fe CC	77.9%	73.3%	79.0%	77.0%	Y
				Program Rating	Y

College and University Completion Rates

Only two four-year institutions met baccalaureate degree completion targets, although all institutions graduated 20 percent of degree-seeking students within six years, an improvement over the two previous cohorts. Eastern New Mexico University (ENMU), which experienced a decline in this year's completion rate, has the highest rate and target among any comprehensive institution. ENMU reported it is initiating faculty and staff efforts to reach out to sixth-year non-completers and help them graduate. Northern New Mexico College continues to improve year-over-year completion rates at a steady pace. Finally, the target for New Mexico Highlands University, the lowest among four-year institutions, should be adjusted upward in future years based on recent completion rates.

Six-Year Completion Rates for First-Time, Six-Year Completion Rates for First-Time, Full-Time Degree-Seeking Students	Fall 2009 to Summer 2015 Actual	Fall 2010 to Summer 2016 Actual	Fall 2011 to Summer 2017 Target	Fall 2011 to Summer 2017 Actual	Rating
NM Tech	49.0%	49.2%	48.0%	47.2%	R
NMSU	42.0%	45.0%	47.0%	46.0%	Y
UNM	49.0%	43.9%	48.0%	48.7%	G
				Program Rating	Y

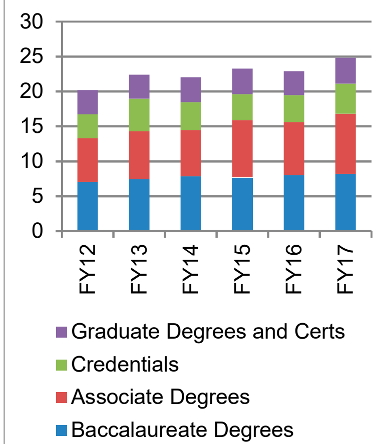
Six-Year Completion Rates for First-Time, Full-Time Degree-Seeking Students	Fall 2009 to Summer 2015 Actual	Fall 2010 to Summer 2016 Actual	Fall 2011 to Summer 2017 Target	Fall 2011 to Summer 2017 Actual	Rating
ENMU	30.6%	34.2%	35.0%	31.5%	Y
NMHU	17.9%	22.2%	20.0%	22.0%	G
NNMC	15.0%	19.0%	25.0%	22.0%	Y
WNMU	25.0%	24.2%	25.0%	24.0%	R
				Program Rating	Y

Community College Completion Rates

Two community colleges failed to graduate more than 10 percent of their degree-seeking students in the most recent cohort, but others demonstrated marked improvement. Most community colleges improved over prior-year performance. One college – New Mexico State University-Carlsbad – more than tripled the percent of students completing a degree program in recent years, improving from 3.9 percent with the fall 2011 cohort to 13 percent in the fall 2013 cohort.

Three-Year Completion Rates for First-Time, Full-Time Degree-Seeking Students	Fall 2011 to Spring 2014 Actual	Fall 2012 to Spring 2015 Actual	Fall 2013 to Spring 2016 Target	Fall 2013 to Spring 2016 Actual	Rating
ENMU-Roswell	23.6%	30.6%	20.0%	30.6%	G
ENMU-Ruidoso	16.3%	16.4%	20.0%	19.3%	Y
NMSU-Alamogordo	11.0%	8.3%	14.0%	7.7%	R
NMSU-Carlsbad	3.9%	6.2%	10.0%	13.0%	G
NMSU-Dona Ana	11.2%	10.4%	15.0%	13.0%	Y
NMSU-Grants	9.3%	14.2%	20.0%	18.8%	Y
UNM-Gallup	8.6%	7.5%	10.0%	9.2%	Y

Awards Granted by New Mexico Colleges and Universities
(in thousands)



Source: Higher Education Funding Formula

How Ratings Are Determined

In general, an institution is assigned the rating of G when it has met its target. A rating of Y indicates a college or university did not meet its target but did show improvement over prior years and submitted sufficient documentation to demonstrate efforts to improve. A rating of R is reserved for institutions that neither met their target nor improved over prior-year performance.

A few exceptions exist. For example, if an institution is 0.01 percent from their goal, as was NMSU's retention rate, a rating of G is awarded. Another example includes institutions that made marginal gains over prior-year performance but fell significantly short of targets and peers. In such cases, the institution receives a rating of R .

Targets

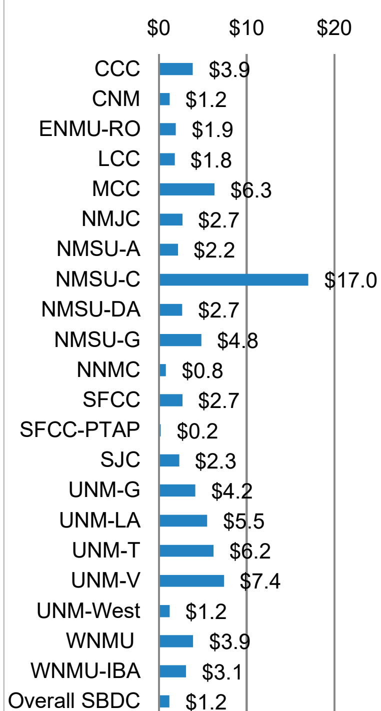
Targets are requested by institutions and then set through consensus between the Department of Finance and Administration (DFA) and LFC. Generally, if an institution requests a high target, DFA and LFC will agree to the requested rate, even if it is well above actuals, as is the case for New Mexico Junior College's completion rate.

Small Business Development Center

Santa Fe Community College hosts the Small Business Development Center (SBDC), which receives $4.1 million in general fund support each year to provide confidential consultation for current and future business owners in the areas of business expansion, financing, marketing, and procurement, among other services. In addition to a procurement assistance program and an international business accelerator, SBDC oversees 19 service locations housed in higher education institutions throughout the state.

SBDC leverages about $1.3 million in grants from the U.S. Small Business Administration and the U.S. Defense Logistics Agency each year. As a condition of these federal grants, SBDC must track certified data indicating the number of jobs created or saved in addition to associated costs. For FY17, SBDC reports 3,612 jobs were created or saved, with an aggregate cost of $1,200 per job.

FY17 SBDC Cost Per Job Created/Saved
(in thousands)



Source: New Mexico Small Business Development Center

UNM-Los Alamos	47.4%	17.9%	57.0%	28.0%	Y
UNM-Taos	10.9%	5.6%	14.5%	10.0%	Y
UNM-Valencia	7.6%	10.2%	9.5%	12.7%	G
Central New Mexico	13.1%	16.1%	13.0%	15.3%	G
Clovis CC	12.0%	41.9%	14.0%	35.0%	G
Luna CC	16.9%	11.2%	20.0%	17.0%	Y
Mesalands CC	39.6%	41.0%	40.0%	42.4%	G
NM Junior College	16.6%	21.9%	33.0%	22.3%	Y
San Juan College	13.8%	14.8%	15.0%	17.3%	G
Santa Fe CC	10.1%	13.7%	11.0%	15.0%	G
				Program Rating	Y

Higher Education Department – Adult Education

New Mexico's adult education program distributes about $5.2 million in state general fund appropriations and over $4 million in federal funds to 27 sites throughout the state, most of which are housed at higher education institutions. In FY16, adult education served 14.5 thousand students, 2,000 of which were in New Mexico correctional facilities. Of those students, 71 percent of adult learners were Hispanic, 13 percent were white, and 10 percent are Native American. Nearly half of adult education learners were between 25 and 44 years old. The Higher Education Department tracks the progress of adult education learners through employment and high school equivalency credential attainment. Although a higher percent of unemployed adult education students obtained employment in FY17, the department was just short of its target. The department exceeded its target in the number of test-takers achieving a high school equivalency credential. The target should be adjusted upward in future years.

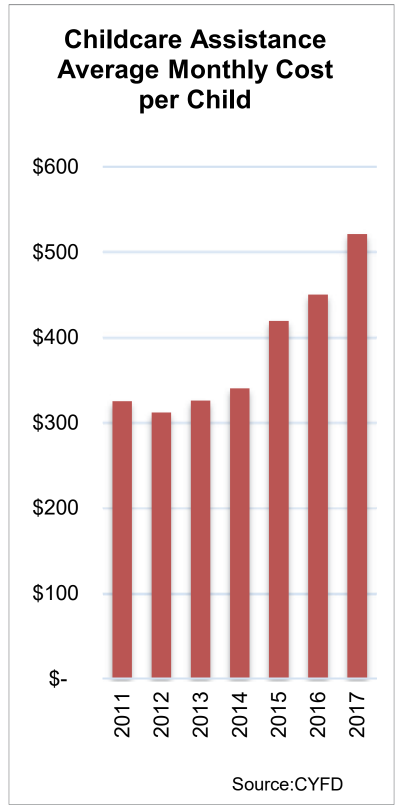
Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Percent of unemployed adult education students obtaining employment	NEW	39.4%	42.0%	40.1%	Y
Percent of adult education high school equivalency test-takers who earn a high school equivalency credential	NEW	82.4%	76.0%	82.1%	G
				Program Rating	Y

Children, Youth & Families Department

New Mexico continues to struggle with increased stresses on the child welfare system. Despite tough economic conditions, funding to improve child well-being remained a priority of the Legislature; however, performance outcomes remain mixed. The Protective Services Program did not meet a significant number of targets, including high turnover and repeat maltreatment rates. In addition, the Early Childhood Services Program reported a significant decline in the percentage of children ready for kindergarten. A recent report from the Legislative Finance Committee (LFC) found participation in prekindergarten increased academic performance and attendance through the fifth grade. To improve long-term outcomes for New Mexican families, child and family well-being must remain a priority. Continued focus on building infrastructure and support for high quality services targeted to the most at-risk families and children will be key to improving performance outcomes for the Children, Youth and Families Department.

AGENCY IMPROVEMENT PLANS

Submitted by agency?	Yes
Timeline assigned by agency?	No
Responsibility assigned by agency?	Yes



Early Childhood Services

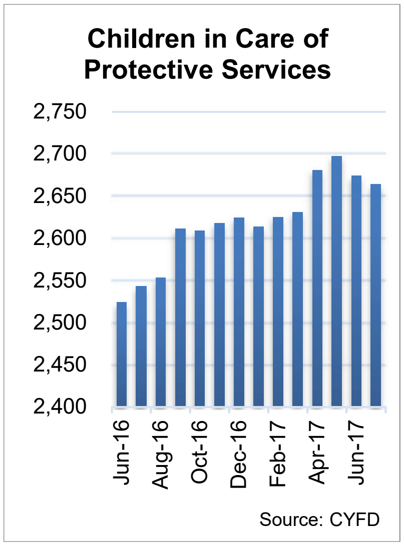
The Early Childhood Program exceeded targets to provide children with the highest level of quality child care services, level five. However, level four and three enrollment and providers fell below targeted performance. The agency reported several childcare providers have yet to transition to the state's newest tiered quality rating improvement system (TQRIS), which rates licensed provider quality on a scale from two through five. As more providers are verified statewide in the newest system, the agency believes these performance measures will improve. Additionally, the state has made several investments to increase providers rates during the previous two years in anticipation of costs associated with the TQRIS. These investments have increased the average cost per child from $419 in FY15 to $521 in FY17, an increase of 24 percent. The significant increase in provider rates is intended to pay for the higher quality services required by the TQRIS.

Budget: $227.9 **FTE:** 181.5

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Children receiving state subsidy in focus, level four	New	New	6.0%	5.2%	Y
Children receiving state subsidy in focus, level five	New	New	14.5%	30.8%	G
Licensed childcare providers participating in focus, level four	New	New	5.0%	3.2%	Y
Licensed childcare providers participating in focus, level five	New	New	15.0%	22.1%	G
Parents who demonstrate progress in practicing positive parent-child interactions	New	43.8%	30.0%	44.0%	G
Mothers who initiate breastfeeding	New	88.0%	75.0%	89.7%	G
Children receiving state subsidy, excluding child protective services child care, who have one or more protective services-substantiated abuse or neglect referrals	New	New	1.3%	1.2%	G
Children in state-funded prekindergarten showing measurable progress on the preschool readiness for kindergarten tool	94.0%	94.3%	93.0%	91.0%	R
				Program Rating	Y

The National Institute of Early Education Research (NIEER) reported New Mexico ranked 16th in the nation for 4-year-olds enrolled in prekindergarten programs in 2016, an increase of 16 percent from the previous year. The state ranked 20th in the nation for spending at $5,233 per child.

LFC has consistently found prekindergarten programs improve math and reading proficiencies for low-income 4-year-olds and lower special education and retention rates. LFC has also found prekindergarten programs deliver a positive return on investment for New Mexico taxpayers based on improvement in test scores.

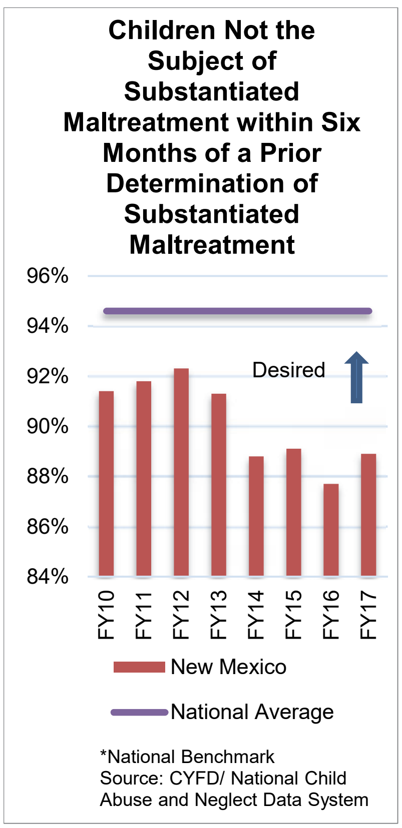


Protective Services

The Protective Services Program did not meet a majority of performance targets for FY17. Rising caseloads have increased pressure on an already stressed child welfare system. The number of children in care of the Protective Services Program in June 2017 was 2,674, 150 children more than the previous year. The statewide average caseload for permanency workers during this same time was 19, close to the national average. However, placement caseloads were close to 26 per worker. Despite high caseloads, the turnover rate declined 4.2 percent from the previous fiscal year. The continued reduction of turnover rates is important to provide families with experienced staff and a less fragmented system.

Budget: $147.4 **FTE:** 927.8

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Children who are not the subject of substantiated maltreatment within six months of a prior determination of substantiated maltreatment	89.1%	87.7%	93.0%	88.9%	R
Children who are not the subject of substantiated maltreatment while in foster care	99.8%	99.8%	99.8%	99.9%	G
Children reunified with their natural families in less than twelve months of entry into care	64.1%	60.4%	65.0%	58.2%	R
Children in foster care for twelve months with no more than two placements	73.8%	70.5%	76.0%	72.9%	R
Children adopted within twenty-four months from entry into foster care	32.1%	23.3%	33.0%	24.6%	R
Children reentering foster care in less than twelve months	9.8%	12.6%	9.0%	11.3%	R
Children in foster care who have at least one monthly visit with their caseworker	New	95.6%	97.0%	94.8%	R
Turnover rate for protective services workers	29.0%	29.7%	20.0%	25.0%	R
				Program Rating	R



Juvenile Justice Services

While recidivism to adult facilities slightly missed targets, performance improved from the previous two fiscal years and recidivism to CYFD facilities declined significantly. Detouring youth from participating in future criminal behaviors and re-entering adult or youth facilities saves significant public resources. However, the Juvenile Justice Services (JJS) Program continued to struggle to reduce violence in committed youth facilities. According to JJS, 12 repeat offenders accounted for 39 percent of the physical assault in facilities. Reducing physical altercations will be a priority for the agency through increased physical programming, de-escalation training, and advanced group facilitation training. As the state invests more resources in upstream preventive services, there is hope the number and severity of youth involved in juvenile justice programs will decline. Reductions in exposures to adverse early childhood experiences (ACEs) in early years may reduce the risk of later criminal involvement.

Budget: $73.1 **FTE:** 943.3

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Clients who successfully complete formal probation	83.2%	85.4%	80.0%	82.7%	G
Clients re-adjudicated within two years of previous adjudication	6.4%	5.5%	5.8%	6.0%	R
Clients recommitted to a CYFD facility within two years of discharge from facilities	7.6%	9.5%	8.0%	6.9%	G
JJS facility clients age 18 and older who enter adult corrections within two years after discharge from a JJS facility	11.9%	13.1%	10.0%	11.0%	Y
Incidents in JJS facilities requiring use of force resulting in injury	2.2%	1.6%	1.5%	1.7%	R
Physical assaults in juvenile justice facilities	374	448	<255	398	R
Client-to-staff battery incidents	108	147	<108	143	R
Turnover rate for youth care specialists	22.4%	18.3%	14.0%	20.6%	R
				Program Rating	R

Research indicates exposure to adverse childhood experiences (ACEs) may place youth at greater risk for involvement with the juvenile justice system. ACEs include incidents of physical, sexual, or emotional abuse, such as domestic violence, a household member with substance abuse or mental illness, parental separation or divorce, incarcerated household member, and other household conditions.

Percent of Children with Three or More Adverse Childhood Experiences

National Average	New Mexico
11 Percent	14 Percent

Source: LFC Files

Behavioral Health Services

The Behavioral Health Services (BHS) program failed to provide FY17 fourth quarter data for two of the three performance measures. To fulfill reporting requirements, BHS reported the program is waiting for the Human Services Department, Behavioral Health Services Division, to provide necessary data to the Children, Youth and Families Department.

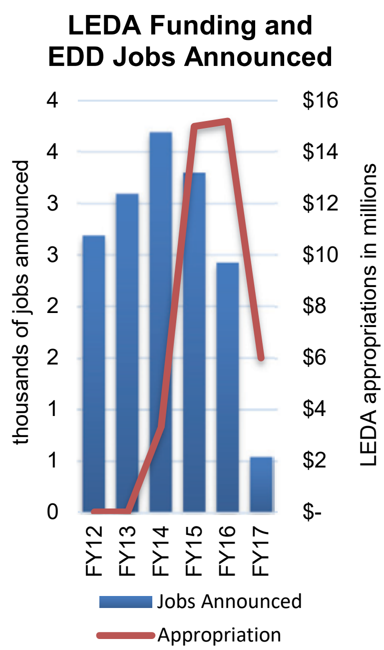
Budget: $18.2 **FTE:** 33

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Youth hospitalized for treatment of selected mental health disorders who receive follow-up with a mental health practitioner within seven calendar days after discharge	31.3%%	28.0%	50.0%	53.5%	G
Youth receiving community-based and juvenile detention center behavioral health services who perceive they are doing better in school or work because of received services	83.9%	82.2%	75.5%	Not reported	R
Infants served by infant mental health programs who have not had re-referrals to the Protective Services program	New	New	Baseline	88.0%	N/A
				Program Rating	Y

Economic Development Department

AGENCY IMPROVEMENT PLANS

Submitted by agency?	No
Timeline assigned by agency?	No
Responsibility assigned by agency?	No



Sources: EDD, LFC files

New Mexico's total nonfarm employment, grew by 8,400 jobs between July 2016 and July 2017, but the percent increase was not enough to keep from having the highest unemployment rate in the nation in FY17. The Economic Development Department's (EDD) performance results for FY17 are below targets for a significant number of agency measures, including overall jobs created, rural jobs created and jobs created, due to use of Local Economic Development Act (LEDA) funds. Performance was strong in private sector dollars invested in MainStreet districts and workers trained by the Job Training Incentive Program (JTIP). The department continued to see success in the film division.

Economic Development leadership in New Mexico underwent a shake-up in FY17, with new heads at the Four Corners Economic Development organization, the state Economic Development Department, and the New Mexico Partnership, the private, nonprofit organization under contract with the state to be a one-stop shop for businesses looking to move or grow in New Mexico.

Economic Development

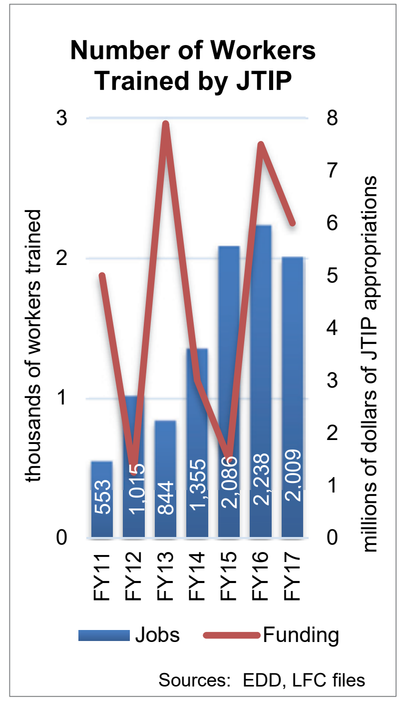
The Economic Development Division awarded 14 companies $15.8 million in LEDA funds in FY17 and created 530 jobs. Of the 14 companies awarded LEDA funds, seven were in rural areas. These companies include Facebook, Keter Plastics, Drylands Brewing, Las Cruces Community Farms, Dean Baldwin Painting, Niagra Bottling, and Truth or Consequences Brewing Company. The funds matched for these LEDA projects totaled $346 million, contributing to a 21 to 1 ratio of private sector dollars invested per dollar of LEDA funds awarded for FY17. EDD struggles to meet rural job growth creation targets, reaching just 48 percent of the annual rural jobs goal by the end of the fiscal year. The department attributes low job creation to leadership change at EDD and the New Mexico Partnership, artificial intelligence and mechanized manufacturing processes, an increase in expansion of companies rather than new companies locating in New Mexico, and the fact that EDD no longer counts MainStreet jobs in its total job creation number, which would add between 400 to 600 jobs.

The LEDA program has received $46.4 million from the general fund over the past five years, including FY18. With severance tax bonds and other state funds, LEDA received $77.9 million over the period. As of June 2017, EDD reported $34 million in other state funds and severance tax bonds is unspent, along with an additional $7 million from the FY18 general fund appropriation. This brings remaining LEDA funds to $41 million.

Budget: $6,506.8 **FTE:** 26

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Jobs created due to economic development department efforts	3,294	4,140	4,500	1,729	R
Rural jobs created	726	641	1,600	775	R
Jobs created through business relocations and competitive expansions facilitated by the economic development partnership	1,624	222	2,250	115	R

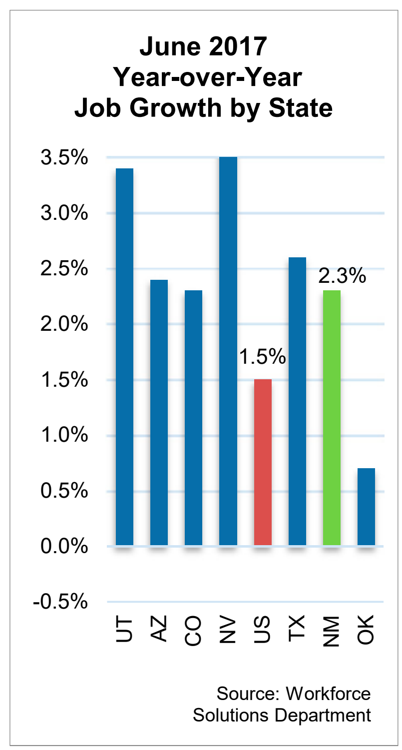
Potential recruitment opportunities generated by the New Mexico Partnership marketing and sales activities	NEW	NEW	84	63	R
Private sector investment in mainstreet districts, in millions	$7.9	$22	$9	$28	G
Private sector dollars leveraged by each dollar through Local Economic Development Act	10:1	17:1	10:1	21:1	G
Jobs created through the use of Local Economic Development Act funds	NEW	2,426	2,000	543	R
Workers trained by Job Training Incentive Program	1,894	2,238	1,500	2,009	G
Successfully completed agency grant funded projects resulting in job growth, new investment, increased revenue or workforce development	NEW	7	15	14	Y
			Program Rating		Y



The Job Training Incentive Program (JTIP) board approved 57 businesses for funding in FY17, including 13 in rural communities, with a total of $12.7 million in awards, and surpassing the goal of workers trained with 2,009 in FY17. JTIP funds over the past five years, including FY18, total $30 million. As of June 2017, EDD reported, $9.8 million in JTIP funds were available. At the JTIP annual board meeting held in May, the board reported 51 percent of industries funded are manufacturing, 38 percent are nonretail service providers, and 11 percent are green industry. The average JTIP wage is $17.85 in urban communities and $19.04 in rural communities.

New Mexico Film Office

The Film Office continues to focus on three main initiatives: recruitment, workforce development, and statewide industry outreach. Direct spending by the film industry surpassed the target for the third straight year, reaching $505 million. In addition, the state was the location for 52 productions with a budget of over $1 million, up from 30 in FY16. Because the number of productions grew, the number of worker days also increased to 448 thousand from 260 thousand in FY16.



The New Mexico Film Office also focuses on the Film Crew Advancement Program (FCAP), providing training and high-wage job opportunities with production companies. The Job Training Incentive Program for film and multimedia provides multiple ways for residents to advance in the industry and to keep talent in state. As an additional incentive to the film tax credit, productions that hire qualifying, local crews are reimbursed 50 percent of wages for up to 1,040 hours.

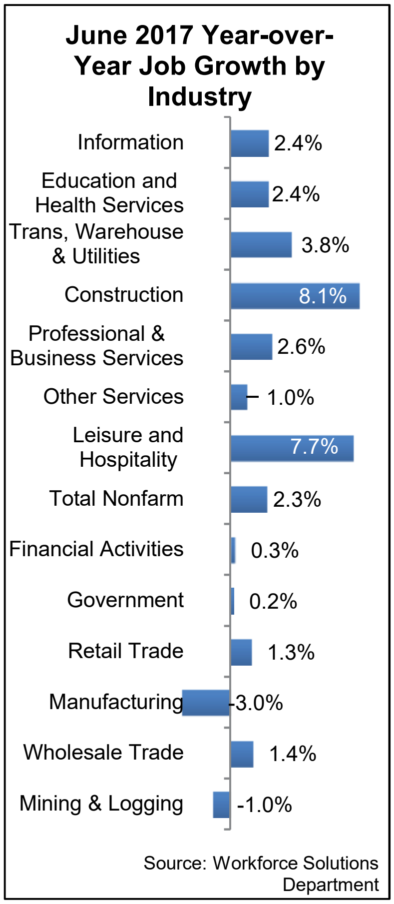
Budget: $747.1 **FTE:** 8

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Direct spending by film industry productions, in millions	$286	$387	$200	$505	G
Film and media worker days, in thousands	298	260	200	448	G
			Program Rating		G

Tourism Department

AGENCY IMPROVEMENT PLANS

Submitted by agency?	Yes
Timeline assigned by agency?	Yes
Responsibility assigned by agency?	Yes



The Tourism Department met or exceeded annual targets for two performance measures in the Marketing and Promotion Program, while slightly missing the target for the *New Mexico Magazine*'s advertising revenue. While the tourism industry in New Mexico is still strong when compared with other industries, the agency is reinforcing this by continuing to focus efforts on local advertising initiatives. The Workforce Solutions Department numbers show the leisure and hospitality industry had the largest numeric increase in jobs in the state in FY16.

Marketing and Promotion

New jobs created in the leisure and hospitality industry surpassed the annual target, reaching 2,278. The department uses the U.S. Bureau of Labor Statistics data for jobs, which tends to be conservative. The Marketing and Promotion Program continues to focus advertising funds on new out-of-state markets, referred to as fly markets, and collaborate with local communities for New Mexico True advertising. YouTube views of the department's advertising videos reached an average of 402 thousand, continuing the trend of surpassing the annual target of 25 thousand. However, the agency will need to set a higher target for both of these measures because the targets are far lower than the actual numbers for the past three years. The department is waiting to receive information from the Taxation and Revenue Department on gross receipts collected for accommodations for the fourth quarter. The department plans to continue using data-based decision-making to drive visitation and social-media engagement.

Budget: $11,225 **FTE:** 36

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
New jobs created in the leisure and hospitality industry year-over-year	2,900	5,300	800	2,278	Y
Youtube views of department videos, in thousands	820	593	25	402	Y
Year-over-year percent increase in gross receipts tax revenue for accommodations receipts	5.6%	TBD	4.0%	TBD	R
			Program Rating		Y

New Mexico Magazine

New Mexico Magazine barely missed the annual target for advertising revenue per issue, reaching an average of $69 thousand. However, the magazine did pass its FY15 and FY16 levels. A new chief executive officer started with the magazine at the end of FY17, and the department is confident this will improve magazine initiatives and enhance its ability to generate new revenue.

Budget: $3,329 **FTE:** 14

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Advertising revenue per issue, in thousands	$65	$53	$72	$69	Y
			Program Rating		Y

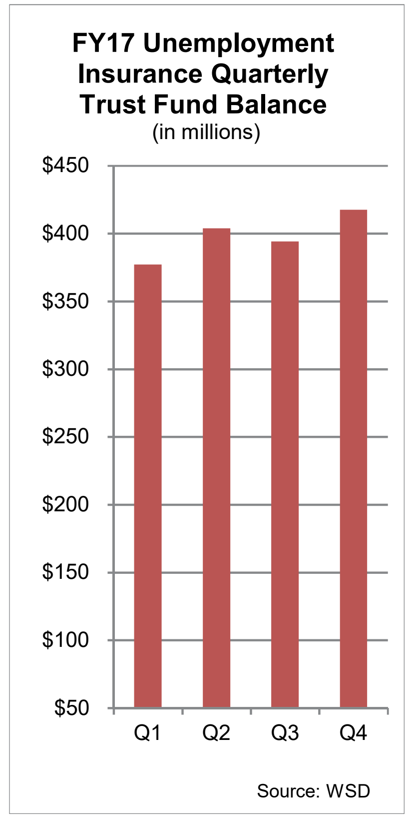
Workforce Solutions Department

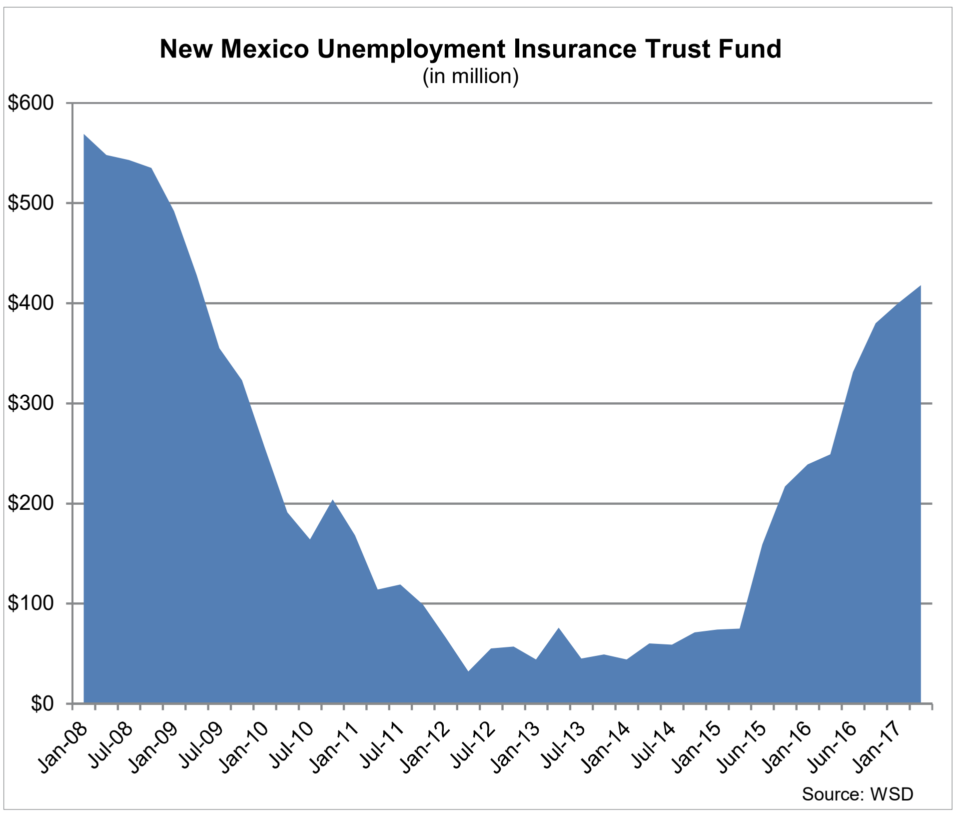
The Workforce Solutions Department (WSD) provides economic safety-net services for unemployed or underemployed individuals. Economic stability is foundational to healthy families and communities. Nationally, unemployment rates are declining; however, New Mexico struggles with one of the highest unemployment rates in the nation. While economic health is the domain of several state agencies, including the Economic Development Department, Public Education, Higher Education, and others, WSD has significant systems and resources to re-engage unconnected workers and links to business to prepare workers for the needs of those businesses. Overall performance measures show a functioning state system; however, the high unemployment rate shows many citizens are still looking to enter the workforce.

AGENCY IMPROVEMENT PLANS	
Submitted by agency?	Yes
Timeline assigned by agency?	No
Responsibility assigned by agency?	Yes

Unemployment Insurance

The Unemployment Insurance Program (UI) met a majority of performance targets, excluding longer wait times for UI recipients to file a claim. However, the fourth quarter data only included a partial measurement of the claims system wait time due to a system upgrade. The agency reported a new platform and call center software were implemented mid-quarter, resulting in incompatible data. Therefore, call center wait times reported for the end of FY17 are questionable.





When an employee becomes unemployed, the individual is eligible to file a UI claim with WSD. To be eligible for benefits the claimant must meet monetary and non-monetary requirements such as earning sufficient wages during a base period of time, and being able, available, and actively searching for work.

In 2017, approximately 10 thousand to 11 thousand individuals certified for unemployment insurance benefits every week in New Mexico.

In New Mexico, the maximum unemployment insurance contribution rate is 5.4 percent and the minimum rate is 0.33 percent of the taxable wage base.

Budget: $10,312.4 **FTE:** 208.6

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Eligible unemployment insurance claims issued a determination within twenty-one days from the date of claim	95%	91%	80%	89%	G
Accuracy rate of claimant separation determinations	89%	93%	85%	93%	G
Average wait time to speak to a customer service agent in unemployment insurance operation center to file a new unemployment insurance claim	New	20 min	15 min	18 min	R
Average wait time to speak to a customer service agent in unemployment insurance operation center to file a weekly certification	New	15 min	15 min	15 min	Y
First payments made within fourteen days after the waiting week	92%	92%	90%	91%	G
				Program Rating	G

Employment Services

The number of disabled veterans returning to the workforce continued to fall below the targeted level. Meeting performance targets for providing services to veterans has been a struggle for the Agency over several fiscal years. To improve performance, the agency reported a concerted effort to provide intensive case management for disabled veterans and increased outreach to federal contractors for additional employment opportunities.

New Mexico Taxable Wage Base
(in thousands)

2005	$17.20
2006	$17.90
2007	$18.60
2008	$19.90
2009	$20.90
2010	$20.80
2011	$21.90
2012	$22.40
2013	$22.90
2014	$23.40
2015	$23.40
2016	$24.10
2017	$24.30

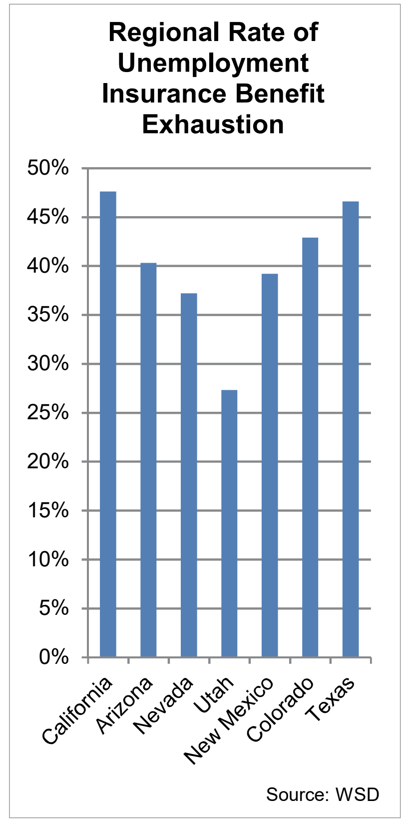
Source: WSD

Budget: $16,231.4 **FTE:** 157.1

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Average six-month earnings of individuals entering employment after receiving Wagner-Peyser employment services	$13,553	$13,748	$13,500	$13,624	G
Individuals receiving Wagner- Peyser employment services	98,489	91,704	150,000	82,499	R
Unemployed individuals employed after receiving Wagner-Peyser employment services	58%	57%	55%	55%	G
Individuals who have received Wagner-Peyser employment services retaining employment after six months	80%	80%	75%	78%	G
Recently separated veterans retaining employment after six months	74%	73%	70%	72%	G
Disabled veterans entering employment after receiving workforce development services	44%	46%	45%	37%	R
Average six-month earnings of persons entering employment after receiving veterans' services	$15,841	$17,429	$16,000	$17,148	G
				Program Rating	Y

Program Support

Program Support reports performance measures related to federal flow-through dollars to local workforce boards. Local workforce boards provide community services to state regional areas. This is intended to provide more local input and coordination. However, performance for both youth and adults receiving Workforce Innovation and Opportunity Act (WIOA) services declined significantly. The agency reported concern about declining performance and is working with local boards to target more out-of-school youth and connecting with local business to determine regional hiring needs.

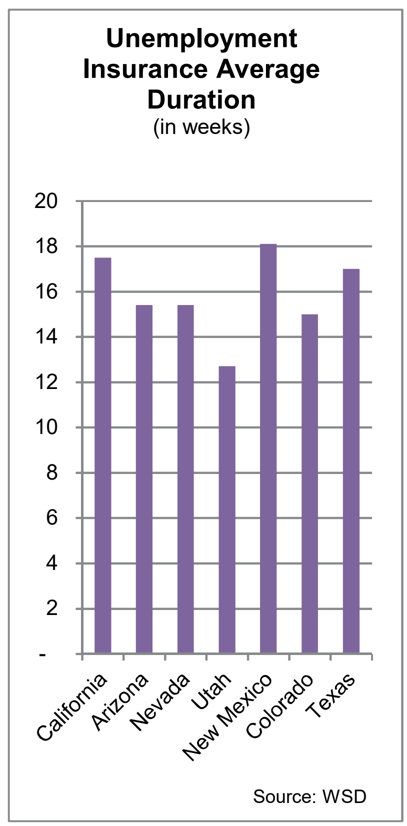


Budget: $23,178.4 **FTE:** 111

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Youth receiving Workforce Innovation and Opportunity Act services as administered and directed by the local area workforce boards	New	856	1,400	770	R
Youth who enter employment or are enrolled in postsecondary education or advanced training or both after receiving Workforce Innovation and Opportunity Act services	New	59%	57%	57%	G
Adults and dislocated workers receiving Workforce Innovation and Opportunity Act services	3,023	2,805	2,700	3,013	G
Individuals who receive Workforce Innovation and Opportunity Act services that retain employment	93%	90%	89%	86%	R
				Program Rating	Y

Labor Relations

The Labor Relations Program met a majority of performance targets but continued to struggle in the timeliness of determinations for discrimination cases. The agency reported this was mostly a result of extensions granted to both complainants and respondents for documentation, increasing the average time to reach a determination. The program reported an improvement in performance for the number of apprentices registered and in training.



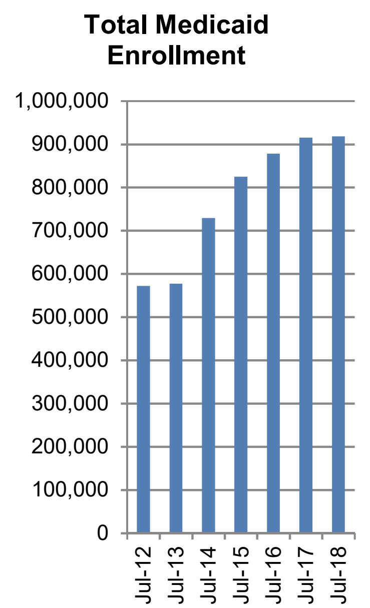
Budget: $3,638.8 **FTE:** 35.4

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Wage claims investigated and resolved within ninety days	100%	93%	91%	93%	G
Average number of days to investigate and issue a determination of a charge of discrimination	New	203	180	192	R
Apprentices registered and in training	New	1,281	1,320	1,392	G
Compliance reviews and quality assessments on registered apprenticeship programs	New	6	6	6	G
				Program Rating	G

Human Services Department

AGENCY IMPROVEMENT PLANS

Submitted by agency?	Yes
Timeline assigned by agency?	No
Responsibility assigned by agency?	Yes



Source: HSD June 2017 Medicaid Projection

In FY18, the Medical Assistance Program is directed to pursue federal authority to establish a Medicaid-funded home-visiting program for families with newborns in collaboration with CYFD and DOH that will align home-visiting programs, avoid service duplication, and leverage general fund appropriations.

The Human Services Department (HSD) experienced several challenges in FY17, including skepticism about the department's efforts to comply with a long-standing lawsuit regarding delays in processing applications and renewals for the Supplemental Nutrition Assistance Program (SNAP) and Medicaid. In June, the special master, assigned by the court to monitor compliance, reported the number of backlogged SNAP renewal applications was reduced to a few hundred down from 38 thousand, but simultaneously, pending Medicaid renewal applications grew to 45 thousand. The special master suggested replacing managers, adding staff, although the field office vacancy rate is approximately 6 percent, providing more training, improving the call center, updating notices and rules, and cooperating with the plaintiffs where possible. The special master's final report is due January 1, 2018, and the court will then rule on the case.

Other challenges included a decline in state revenues that forced solvency measures for the nearly $6 billion Medicaid program. Adopted Medicaid cost-containment measures included provider rate reductions and client co-pays. In FY17, HSD missed a growing number of internal performance targets, although in some cases it met or exceeded national averages.

The caseloads for SNAP and the Temporary Assistance for Needy Families program (TANF) declined from the previous year by 15 percent and 7 percent, respectively, but were not associated with commensurate income gains for the state's population. The caseload declines result in lost federal aid that in turn, negatively impacts New Mexico's overall economy.

Medical Assistance Division.

In its most recent Medicaid projection, HSD reported a $15.2 million surplus for FY17 and a projected shortfall of $22.6 million for FY18. Enrollment shifts, cost-containment, and increases in revenues, including intergovernmental transfers, offset slight decreases elsewhere in the budget. Looking forward, ongoing risks include uncertainty in the federal environment regarding funding for the adult Medicaid population that became eligible under an Affordable Care Act expansion and the Children's Health Insurance Program (CHIP).

Medicaid's performance for infants who had six or more well-child visits and newborns whose mothers received a prenatal care visit in the first trimester is quite low. HSD reports its contracts with managed-care organizations (MCOs) require more focus on outcomes and corrective actions to improve performance. As an incentive, HSD raised reimbursement rates for early and periodic screening, diagnostic and treatment screens by 5 percent.

Regarding prenatal care, MCOs provide incentives for patients to access prenatal care through the Centennial Care Member Rewards program, which HSD reports has a 72 percent participation rate, in addition to incorporating quality improvement plans with a focus on the timeliness of prenatal care. HSD notes prenatal visit data is more difficult to capture because the visits are often bundled with other pregnancy-related care when claims are submitted.

For childhood dental visits, while missing the FY17 target of 70 percent, New Mexico exceeded the national average of 48 percent by a significant 19 percent. In addition to health risk assessments associated with care coordination, MCOs have implemented performance improvement projects to improve diabetes and asthma management and develop a prescribed plan focused on interventions.

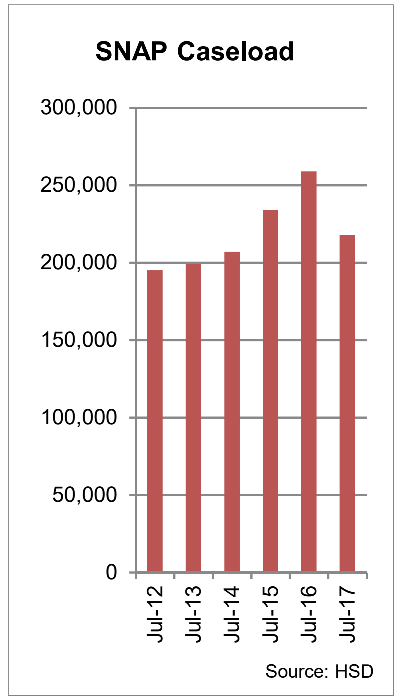
Budget: $5,314,236.5 **FTE**:184.5

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17* Actual	Rating
Infants in Medicaid managed care who had six or more well-child visits with a primary care physician during the first fifteen months	52%	57%	68%	57%	R
Children and youth in Medicaid managed care who had one or more well-child visits with a primary care physician during the measurement year	86%	85%	92%	85%	Y
Children ages two to twenty-one enrolled in Medicaid managed care who had at least one dental visit during the measurement year	66%	68%	70%	67%	R
Individuals in managed care with persistent asthma appropriately prescribed medication	52%	54%	48%	54%	G
Hospital readmissions for children ages two to seventeen within thirty days of discharge	7%	7%	6%	7%	Y
Hospital readmissions for adults eighteen and over within thirty days of discharge	13%	12%	9%	10%	Y
Emergency room visits per one thousand Medicaid member months	49	48	39	45	R
Individuals in Medicaid managed care ages eighteen through seventy-five with diabetes (type 1 or type 2) who had a HbA1c test during the measurement year	84%	83%	86%	60%	R
Newborns 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	71%	77%	85%	77%	R
Medicaid managed-care long-term care recipients who receive services within ninety days of eligibility determination	98%	86%	95%	86%	R
				Program Rating	Y

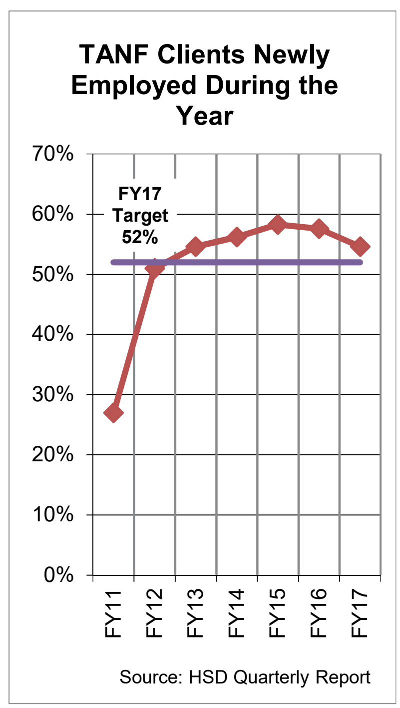
*HSD uses a rolling average; the most recent unaudited data available includes the last two quarters of FY16 and the first two quarters of FY17.

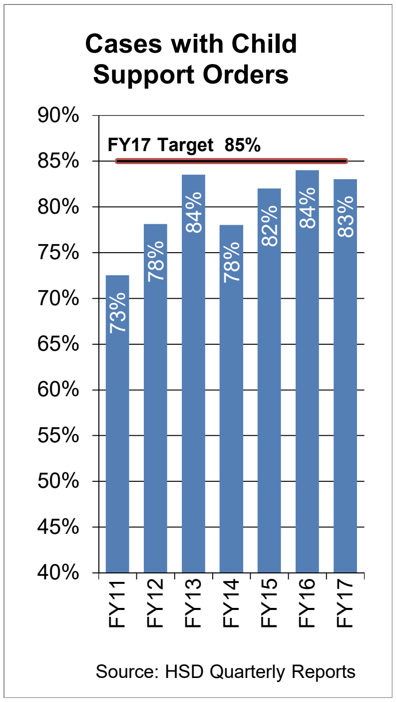
Income Support Division.

The program experienced a drop in the timeliness of expedited SNAP and Medicaid cases meeting federal requirements as it processed pending applications and re-certifications per federal court orders. Participation rates for families meeting TANF work requirements were varied. The program increased monitoring of



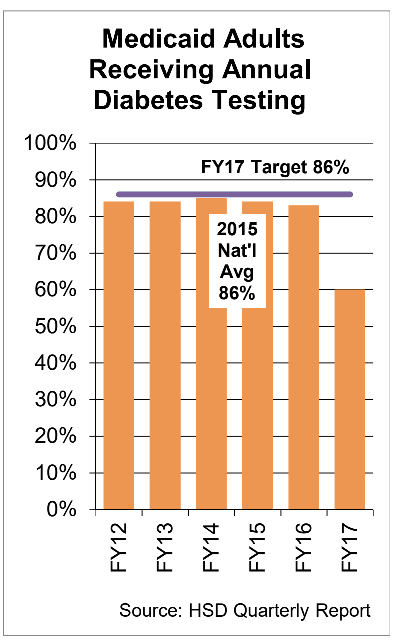
MCOs are implementing performance improvement projects to encourage members to receive at least one dental visit annually. Centennial Care Member Rewards encourages annual dental visits by awarding points. Some MCOs also use preventive interventions, such as targeting members with low utilization through mailings of a member newsletter and posting website articles.





The SNAP caseload (number of households receiving benefits) in June 2017 was 217,110, a 15.3 percent decrease from one year ago.

The TANF caseload (number of households receiving benefits) was 11,308 in June 2017, a decrease of 7.1 percent from June 2016.



its New Mexico Works service vendor, provided training to its employees on working with individuals with multiple barriers to employment, and implemented dedicated teams to follow up with clients with daily phone calls, letters, and home and site visits. Results were mixed.

Budget: $961,274.5 **FTE**: 1,075

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Regular supplemental nutrition assistance program cases meeting the federally required measure of timeliness of thirty days	95.4%	96.1%	99.0%	92.5%	R
Expedited supplemental nutrition assistance program cases meeting federally required measure of timeliness of seven days	95.5%	97.7%	99.0%	92.4%	R
Temporary assistance for needy families clients who obtain a job during the fiscal year	58.3%	57.6%	52.0%	54.6%	G
Children eligible for supplemental nutritional assistance program participating in the program with family incomes at one hundred thirty percent of poverty level	90.3%	93.0%	90.0%	92.2%	G
Two-parent recipients of temporary assistance for needy families meeting federally required work requirements	38.6%	62.8%	60.0%	54.5%	R
All families recipients receiving temporary assistance for needy families meeting federally required work requirements	36.3%	54.5%	50.0%	52.2%	G
				Program Rating	Y

Child Support Enforcement Division.

CSED had previously achieved success in meeting total child support enforcement collection targets largely due to automated wage garnishments. However, performance in both collection of arrears and child support collections have stagnated over the last several years due to the need to develop a new business model based on national best practices. In FY17, the program underwent a third-party business assessment review, developed and began implementation of a new business process model, and started the process of hiring additional staff. However, outcomes remained behind targets and previous years' performance.

Budget: $30,970.2 **FTE**: 383

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Children with paternity acknowledged or adjudicated	98%	100%	100%	98%	R
Total child support enforcement collections, in millions	$140	$141	$145	$139.6	R
Child support owed that is collected	56.2%	56.3%	62.0%	56.3%	R
Cases with support orders	82%	84%	85%	83%	Y
				Program Rating	R

Note: Children with paternity acknowledged or adjudicated is reported in the federal fiscal year.

Behavioral Health Collaborative

New Mexico's behavioral health system continues to face access to care and other challenges. Based on January 2017 Health Resources and Services Administration's health professional shortage area data, only 23 percent of the state's need for mental health care is being met, leaving 1.2 million New Mexicans without adequate mental healthcare access. From 2014 to 2015, New Mexico's rate for the prevalence of any type of mental illness was 19.9 percent, compared to the U.S. rate of 18 percent. For the same period, New Mexico's rate for serious mental illness was 4.5 percent compared with the U.S. rate of 4.1 percent, and New Mexico's rate for major depressive episodes was 6.6 percent, comparable with the national rate.

New Mexico's death rate from alcohol-related chronic disease has been first or second in the nation for the past several years and is almost double the national rate. The leading causes of alcohol-related chronic disease mortality include chronic liver disease, alcohol dependence and abuse, hypertension, and stroke.

The state's number of drug overdose deaths increased to 497 in 2016 from 493 the previous year. New Mexico is one of the leading 10 states in drug fatalities, and nearly three in four overdose deaths statewide involved opioids of some kind, including prescription pain medication and heroin. Overdose deaths in New Mexico have hovered well above the national average for years, even though the state has implemented policies to lower fatalities, such as increasing access to the overdose-reversal drug naloxone. New Mexico also strengthened its prescription monitoring program in response to a surge in the drug overdose death rate in 2014 and is targeting the over-prescribing of opioid prescriptions to help reduce addiction and overdose deaths.

Promising new initiatives include the PAX Good Behavior Game prevention methodology that teaches students self-regulation. The Washington State Institute for Public Policy has shown the program has a return on investment of almost $60 for every dollar spent. Also, in 2015, a one-eighth gross receipts tax was approved in Bernalillo County, generating approximately $17 million to support the county's Behavioral Health Initiative focusing on crisis services, community supports, supportive housing, and prevention, intervention and harm reduction. The federal Substance Abuse and Mental Health Services Administration estimates that for each dollar spent on behavioral health treatment, states save $7 in reduced demand for emergency room services, inpatient facilities, incarceration and the criminal justice system, homeless services, and unemployment costs.

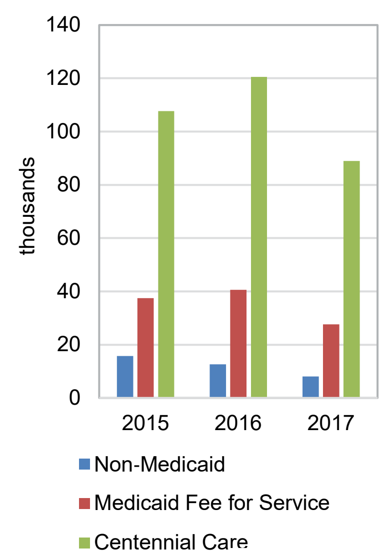
The Behavioral Health Collaborative Strategic Plan for 2015 to 2017 was centered on three domains for system improvement: finance, regulation, and workforce. The Behavioral Health Collaborative and its partners are tasked with leading the provision of integrated and comprehensive behavioral health services to promote the health and resilience of all New Mexicans and to foster recovery and healthy living in communities.

AGENCY IMPROVEMENT PLANS

Submitted by agency?	Yes
Timeline assigned by agency?	No
Responsibility assigned by agency?	No

HSD reports the number of individuals receiving behavioral health services decreased in FY17.

Number of Individuals Served Annually in State-Funded Substance Abuse or Mental Health Programs



Source: HSD

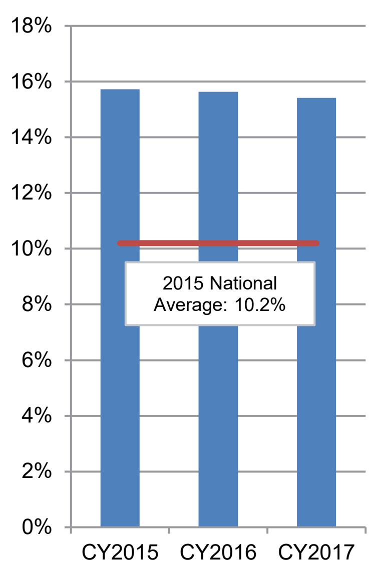
According to the Annual Consumer and Family/Caregiver Satisfaction Survey, 9.8 percent of survey respondents indicated their housing situation was getting in the way of recovery. Of those respondents, 52 percent indicated they were happy with staff's help to solve their housing problem. In 2016, 12.9 percent (144 people) indicated housing was an issue.

Behavioral Health Collaborative

In any one quarter of FY17, over 2,200 persons were served through telemedicine in rural and frontier counties. In FY17, 4,890 unduplicated persons were served, a 25 percent increase over FY16.

The Behavioral Health Network of Care is operating as the official website for the Behavioral Health Collaborative. The portal: http://www.newmexico.networkofcare.org/mh.

People with Alcohol or Drug Dependency Who Received Two or More Services within 30 Days of Initial Visit



Source: HSD

Budget: $686,983.8 **FTE:** 44

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Adults diagnosed with major depression who received continuous treatment with an antidepressant medication	38%	35%	26%	35%	G
Individuals discharged from inpatient facilities who receive follow-up services at seven days	34%	35%	47%	43%	R
Individuals discharged from inpatient facilities who receive follow-up services at thirty days	52%	54%	67%	64%	R
Readmissions to same level of care or higher for children or youth discharged from residential treatment centers and inpatient care	9%	11%	5%	7%	R
Suicides among fifteen to nineteen year olds served by the behavioral health collaborative and Medicaid programs	2	0	2	0	G
				Program Rating	Y

HSD reported 15 percent of people with a diagnosis of alcohol or drug dependency received two or more additional services within 30 days of initiating treatment. While well below the FY17 target of 40 percent, the result exceeded the federal benchmark of 10.3 percent; however, the outcome has remained stagnant at 15 percent for the last three years. The percent of individuals discharged from inpatient services who received follow-up services after seven and 30 days improved to 42 percent and 64 percent, respectively, but missed the FY17 targets of 47 percent and 67 percent. Managed-care organizations (MCOs) report they are working to improve discharge planning and follow-up coordination to improve outcomes and avoid costly re-admissions. Telemedicine has increased nationally as a recognized way to improve access, particularly in rural states such as New Mexico. HSD reports 4,890 unduplicated individuals received telehealth services in FY17, up from 3,682 in FY16 and 2,699 in FY15.

Percent of youth on probation receiving behavioral health services is an annual measure; FY17 results can be expected November 2017. Fiscal year 2016 results show a decrease of 3 percent from FY15. HSD notes this is similar to national trends, which show a slight decrease in overall juvenile crime and the subsequent number of youth on probation.

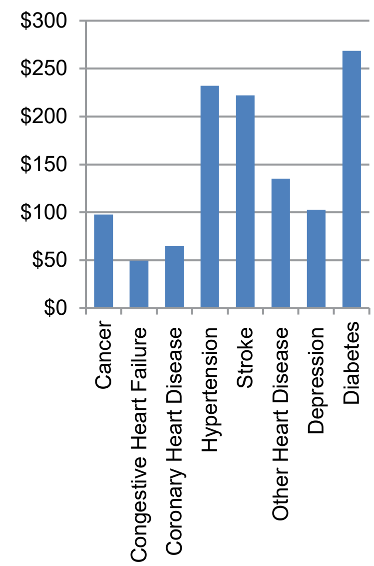
Department of Health

The Department of Health is charged with preventing costly chronic disease, reducing the burden of behavioral health and substance misuse disorders, and lessening the impact of an imperfect healthcare system on vulnerable populations. Tracking the department's results through performance monitoring is crucial. By investing in a new performance management system recently, the department boosted its performance management and monitoring capabilities. The new online system is arranged in a hierarchy and allows the department and the public to track strategic plan results and subsequently the initiatives with an impact on these results. The system includes functions allowing the department to provide action plans, data history, best practices, and strategy. The system, in use in other states, is expandable to other departments and agencies within the state.

AGENCY IMPROVEMENT PLANS

Submitted by agency?	Yes
Timeline assigned by agency?	No
Responsibility assigned by agency?	No

Estimated Medicaid Cost of Treating Preventable Chronic Disease, 2015
(in millions)



Source: Centers for Disease Control, Chronic Disease Cost Calculator

Public Health

One of several ways to determine the impact Public Health has on the state is to look at the costs of treating chronic diseases, many of them preventable. The cost to Medicaid alone to treat cancer, congestive heart failure, coronary heart disease, hypertension, stroke, other heart diseases, depression, and diabetes is estimated at about $1.2 billion in New Mexico, according to the federal Centers for Disease Control. Every year the department invests in initiatives to reduce the prevalence of chronic disease risk factors, such as targeting funding toward nutrition services, obesity, and tobacco-use-reduction programs. The department's new performance management system tracks the performance of initiatives designed to improve outcomes on diabetes, obesity, and tobacco use.

Another way to understand Public Health's impact is to consider child health outcomes. For example, a 2015 LFC evaluation on teen births found children born to teen moms cost taxpayers $84 million annually in Medicaid costs associated with their births, increased reliance on public assistance, and poor educational outcomes. Furthermore, teens are more likely to have pre-term babies, which cost Medicaid an average of $20 thousand in medical care during the first year of life. While progress was made in recent years, New Mexico still has one of the highest teen birth rates in the nation. Another concern is low birth-weight. Significant maternal risk factors for low birth-weight include diabetes, high blood pressure, infections, inadequate prenatal care, insufficient weight gain, tobacco use, unemployment, and low education or income levels. Although, the state invests in reducing many of these risk factors the state ranked 12th nationally for low birth-weight babies in 2016.

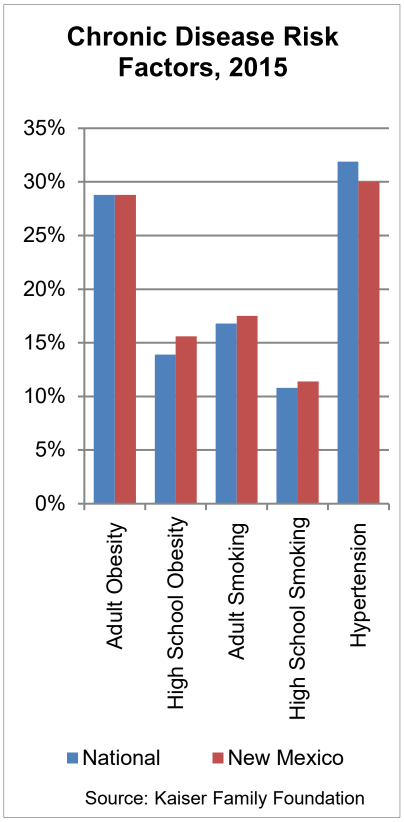
2016 Child Health Indicator Rankings

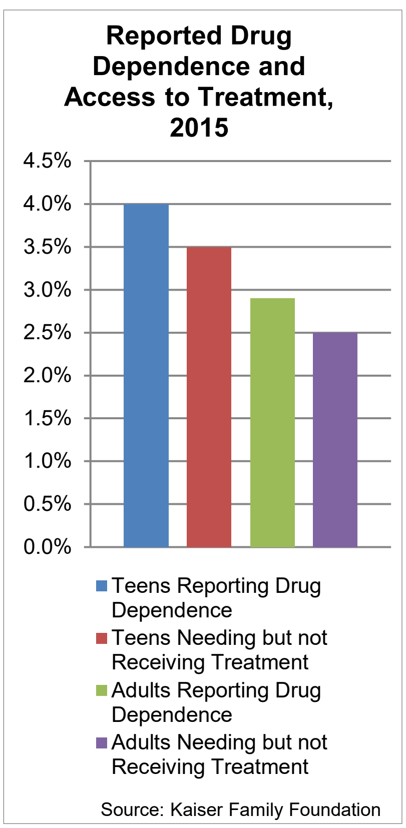
Teen Pregnancies ages 15-19	4th Highest
Low Birthweight	12th Highest
Pertussis Cases	10th Highest
Child Immunizations	37th Highest
Children in Poverty	1st Highest

Source: Centers for Disease Control and America's Health Rankings

Budget: $163,391.3 **FTE:** 863

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Females ages fifteen to seventeen seen in public health offices given effective contraceptives	55%	56%	≥66%	65%	Y
Quit now enrollees who successfully quit using tobacco at seven month follow-up	31%	33%	33%	34%	G
Teens ages fifteen to seventeen receiving services at clinics funded by the family planning program	1,334	1,405	3,616	3,715	G
High school youth trained to implement tobacco projects in their schools or communities	New	New	Baseline	356	
				Program Rating	G





Epidemiology and Response

The measure on infant pertussis cases (whooping cough) a serious and sometimes life threatening illnesss is key to understanding the department's impact on protecting infants through the immunization process. Ranked 10th in overall cases of pertussis and 37th for children with current immunizations, the state can improve. The department provided a quarter by quarter action plan to improve infant pertussis infection rates and each activity was completed by the end of the year.

In 2016, *America's Health Rankings* ranked New Mexico second for drug deaths in the United States; drug deaths among men were nearly double the national rate. One way to reduce drug deaths is to ensure widespread availability of naloxone, an opioid overdose reversal medication. Recent legislation allowed any individual to possess naloxone and authorizes licensed prescribers to write standing orders to prescribe, dispense, or distribute. The measure on retail pharmacies dispensing naloxone improved this quarter to 34 percent.

However, preventing overdoses through the distribution of Naloxone alone is not a comprehensive strategy and the department plays a key role in coordinating a wider response to the opioid epidemic. According to the department, "in 2015, 1.7 million opioid prescriptions were written in New Mexico, dispensing enough opioids for each adult in the state to have 800 morphine milligram equivalents, or roughly 30 opioid doses." Centers for Disease Control and Prevention recommended strategies include increasing the use of prescription drug monitoring programs, changing policies to reduce prescribing, working to detect inappropriate prescribing, increasing access to treatment services, and assisting local jurisdictions. In 2016, New Mexico was one of 14 states to receive federal supplemental funding to implement these strategies. While the department does a good job tracking opioid epidemic indicators, more work is needed in coordinating a comprehensive statewide strategy.

Budget: $29,981.6 **FTE:** 185

Measure	**FY15 Actual**	**FY16 Actual**	**FY17 Target**	**FY17 Actual**	**Rating**
Hospitals certified for stroke care	9%	9%	≥14%	14%	G
Vital records customers satisfied with the service they received	98%	95%	≥95%	No Data	
Ratio of infant pertussis rate to total pertussis rate	New	New	4.4	9	R
Percent of retail pharmacies dispensing naloxone	New	New	Baseline	34%	
New Mexicans who completed a sexual assault primary prevention program	New	New	Baseline	6,562	
New Mexico population served during mass distribution of antibiotics or vaccinations in the event of a public health emergency	New	New	Baseline	12%	

Program Rating Y

Facilities Management

Until recently, three of the department's hospitals provided substance abuse rehabilitation. However, the number of beds available for these services has dropped. Fort Bayard Medical Center closed Yucca Lodge and the department is moving these services five hours away to the Rehab Center in Roswell. As of July 20th, the Rehabilitation Center's chemical dependency unit had a census of zero and the medical detoxification unit had an average census of five. In total, the statewide average daily census for July 2017 for state-operated chemical dependency and medical detoxification units was 32. Two years ago the average daily census was about 67.

Imagining a future for state-operated inpatient substance abuse rehabilitation services is difficult. However, the federal government is encouraging states to seek a Medicaid waiver for drug and alcohol treatment centers with more than 16 beds. These waivers have already been granted to four states and seven additional states are seeking them. The Medicaid rule prohibits the use of federal dollars for addiction treatment provided in facilities with 16 or more beds and a waiver would sidestep this requirement. If New Mexico were to seek this waiver, continued support of these hospitals would be more likely.

One improvement in the department's performance this year was a revamp of the measure for patient falls that makes it easy to benchmark. The Centers for Disease Control says, nationally, patient falls are a leading cause of hospital-acquired injury, frequently prolonging or complicating hospital stays, and are the most common adverse event reported in hospitals. The goal is to eliminate or reduce falls with injury through a falls-prevention protocol in the acute care setting. There were a total of three falls with major injury in the quarter and the department has an action plan in place to reduce this further.

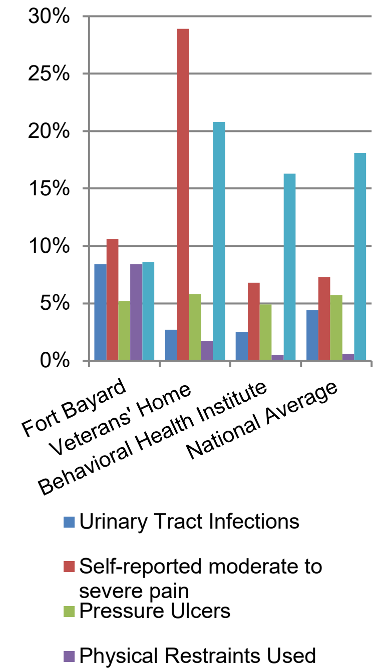
Budget: $137,421.1 **FTE:** 2,070.5

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Falls resulting in major injury per one thousand long-term care patient days	New	New	≤3	0.3	G
Eligible third-party revenue collected at agency facilities	88%	94%	≥92%	100%	G
Vacancy rate for direct care positions	New	New	≤10%	26%	R
			Program Rating		Y

Developmental Disabilities Support

Helping people with developmental disabilities requires more than counting those on the waiting list for the community-and home-based services available through the developmental disabilities (DD) Medicaid waiver. Working to improve the lives of people who do not receive services through the DD waiver is also vitally important. Education, transitional employment, supported employment, Medicaid, and Mi Via are all examples of services that could be better leveraged to improve the quality of life for people not on the DD waiver. For example, the employment rate for people with cognitive disabilities in New Mexico is about 20 percent, seventh lowest in the country and 6 percent lower than the national average. Median annual incomes are also low for this population and this may be related to New Mexico's lower educational attainment. With the use of existing resources, programs already available through the Department of Health, Public Education Department, local school districts, vocational rehabilitation agencies, higher education institutions, and other entities could be expanded and improved.

Long-Stay Nursing Home Outcomes, 2017



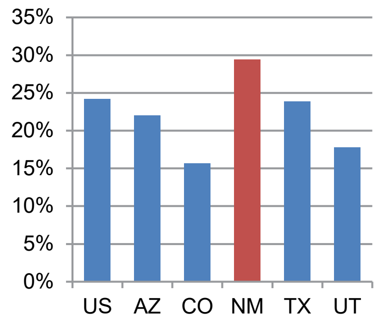
Source: CMS Nursing Home Compare

2017 Nursing Home Compare Star Ratings
(out of five stars)

	Behavioral Health Institute	New Mexico Veterans' Home	Fort Bayard Medical Center
Overall	4	2	4
Health Inspections	3	2	3
Staffing	5	4	5
Quality Measures	3	1	2

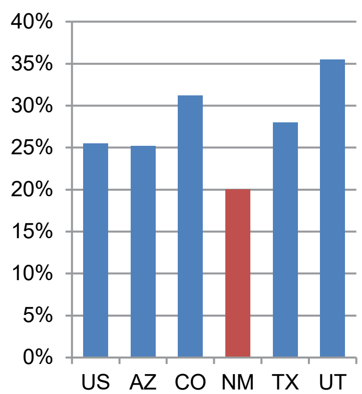
Source: Nursing Home Compare

People with Less than High School Educational Attainment with Cognitive Disabilities, 2015



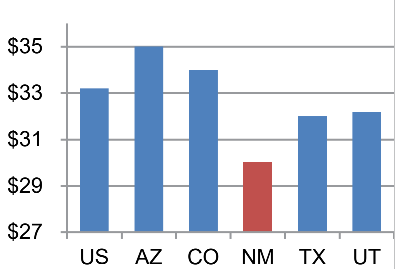
Source: Cornell University Disability

Employment Rate for People with Cognitive Disabilities, 2015



Source: Cornell University

Median Annual Earnings of Non-Institutionalized Persons Aged 21-64 Years With a Cognitive Disability, 2015
(in thousands)



Source: Cornell University

FY17 DD Waiver Employment Type, Wages, and Hours

	Q1	Q2	Q3	Q4
[1] Self-Employment	26	21	21	20
[2] Individual Employment	505	516	509	524
[3] Group Employment	262	254	265	249
[4] Facility-Based Work	145	139	124	123
Total	**938**	**930**	**919**	**916**
Average Hours Worked Weekly	14.3	14.7	13.9	14.02
Average Hourly Wage	$6.18	$6.72	$6.62	$6.78

[1] Self-employment or microenterprises owned by the individual.
[2] An individual has a full or part-time job in a community business.
[3] A small group of individuals, no more than one staff member to six.
[4] In settings such as sheltered workshops and little contact with other workers without disabilities.

Source: Department of Health

Children and adolescents with physical and cognitive disabilities typically have more limited access to formal education than their nondisabled peers. Working to educate people with developmental disabilities, when appropriate, improves quality of life and independence. The Legislature included language in the 2017 General Appropriations Act that would have allowed appropriations for evidence-based job training services at the Special Services Program at Eastern New Mexico University–Roswell, but the language was vetoed. The National Institutes of Health considers multiple developmental experiences that may contribute to learning and work achievements through the transition from adolescence to young adulthood to be important and this strategy would have added to educational options for people with developmental disabilities in New Mexico.

The department recently discontinued use of supports intensity scale (SIS) assessments for adults on the developmental disabilities Medicaid waiver. Recipients are now approved for funding solely through the outside review process, an outcome of the Waldrop lawsuit settlement. In FY11, in response to a 2010 LFC evaluation of the DD waiver program, the department implemented the new SIS among other reforms. Since then, the average cost per client dropped and the savings were used to create new slots. Whether the new outside review process will be cost neutral is unclear. Additionally, seemingly unending litigation drives much of the department's costs, further limiting its ability to reduce wait lists.

Budget: $162,331.4 **FTE:** 188

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Developmental disabilities waiver applicants with service plans in place within ninety days	91%	53%	≥95%	74%	R
Adults receiving community inclusion services also receiving employment services	29%	36%	≥33%	35%	G
People receiving developmental disabilities waiver services	4,610	4,660	≥4,700	4,691	Y
People on the developmental disabilities waiver waiting list	6,365	6,526	≤6,300	6,602	R
Abuse, neglect and exploitation rate for DD waiver and mi via waiver clients	11.9%	10.2%	≤8%	NA	R
				Program Rating	Y

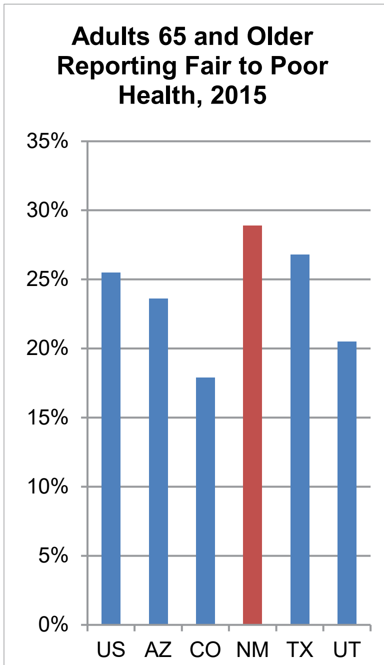
Aging & Long-Term Services Department

New Mexico has nearly the highest prevalence of disability in adults ages 65 and older and has the highest rate of non-institutionalized adults living below the poverty level, at 33.7 percent. Improving the department's impact on these populations requires strategic vision, leadership, and robust performance monitoring. In recent fiscal quarters, the department began working again on its four-year state plan renewal. Proposed drafts of the plan differ little from the 2013 state plan. The current draft does not include protocols for cost sharing and voluntary contributions and provide no guidance on whether the coming wave of older adults will need or want services provided through current service delivery models or whether services provided meet the expectations of a new generation of older adults.

The department's strategic plan covers goals such as protecting older adults who cannot protect themselves, protecting the rights of residents in long-term care facilities, effectively coordinating services for older New Mexicans, supporting evidence-based health promotion, enhancing public and private partnerships, and developing adequate network structures. However, assessing success at accomplishing these goals is difficult due to little meaningful performance monitoring. Many of the measures the department reports are poor indicators of progress, explaining why the department received yellow or red ratings on these measures even when the target was met.

AGENCY IMPROVEMENT PLANS

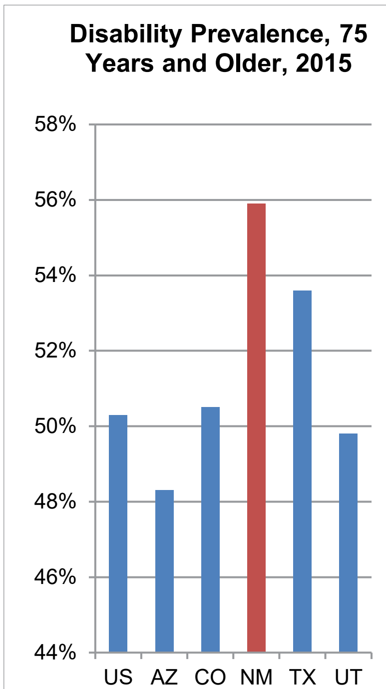
Submitted by agency?	Yes
Timeline assigned by agency?	Yes
Responsibility assigned by agency?	Yes



Source: Centers for Disease Control and Prevention

Aging Network

Our population is aging and by 2030 New Mexico will be the fourth oldest state in the nation. Given this, working to keep older adults safe, fed, healthy, and in their communities – seen as key to managing the aging population – is the priority. Four area agencies on aging (AAA) serve the entire state under the Aging and Long-Term Services Department. One AAA, in particular, serves all non-metro non-Native American regions of the state, encompassing almost all of rural New Mexico. The base of operations for the non-metro AAA is in Northern New Mexico and it is impossible to determine whether the needs of the 274 thousand older New Mexicans who live within the 120,189 square miles this AAA covers are being met. Improved performance monitoring would help the department and LFC determine whether the aging network is having a positive impact on New Mexicans.



Source: Kaiser Family Foundation

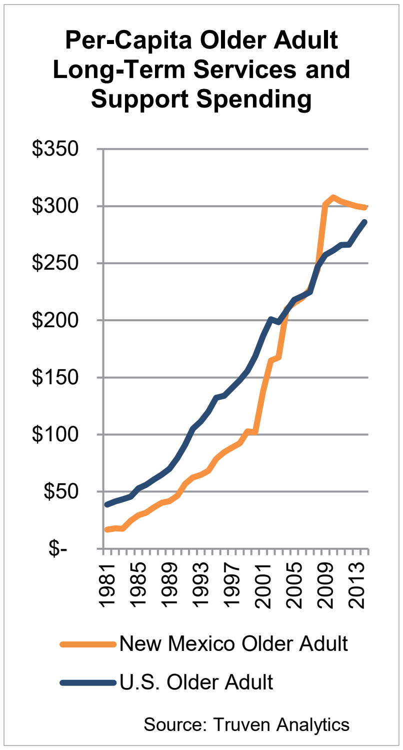
Based on 2014 data, the department estimated the number of food insecure seniors in New Mexico is 42.3 thousand and the unduplicated number of seniors who received meals this year was about 52.1 thousand. This caused the result on the measure for food insecurity to reach 123 percent. This is likely an indication that since 2014 the number of food insecure adults increased dramatically. However, without more up-to-date data it is impossible to know for sure.

Budget: $38,266.7 **FTE:** 1

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Older New Mexicans whose food insecurity is alleviated by meals received through the aging network	87%	94%	85%	123%	Y
Hours of caregiver support provided (cumulative)	392,872	429,612	400,000	397,598	Y
				Program Rating	Y

Consumer and Elder Rights

The Care Transitions Bureau offers transition assistance to connect individuals to programs and services to help residents in long-term care facilities transition back



into community-based settings. For FY17, 86 percent of residents receiving short-term transition assistance from a nursing facility remained in the community six months later. Safely returning residents to the community improves quality of life and likely reduces long-term services and support spending.

Through the long-term care ombudsman, part of the Consumer and Elder Rights Program's purpose is to help older individuals, people with disabilities, and residents of long-term care facilities protect their rights and make informed decisions. In October 2016, LFC published a program evaluation on the performance of nursing homes in New Mexico. The report determined the second most common issue found in nursing homes – violations of resident rights – are more common in New Mexico than in the rest of the country. LFC staff asked the department to provide data tracking the types of complaints and outcomes of ombudsman referrals but it has not been provided. With 90 percent of ombudsman complaints resolved within 60 days, the department received a red rating for this measure. The department blamed staff vacancies for the poor performance.

Budget: $4,157.1 **FTE:** 50.5

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Ombudsman complaints resolved within sixty days	98%	100%	95%	90%	R
Residents requesting short-term transition assistance from a nursing facility who remained in the community during the six month follow-up	New	86%	85%	86%	G
Calls to the aging and disability resource center that are answered by a live operator	70%	72%	85%	85%	G
Program Rating					Y

Average Annual Investigations Per Case Worker

Region	FY15	FY16	FY17
Metro	122	108	105
Northeast	76	83	98
Northwest	85	125	102
Southeast	71	76	76
Southwest	95	109	107
Statewide	**94**	**99**	**99**

Source: Adult Protective Services

Adult Protective Services

Substantiated cases of adult abuse, neglect, and exploitation are on the decline; however, current data and performance measures make it difficult to assess the effectiveness of the program in preventing maltreatment. Additionally, the program does not report on repeat maltreatment, hampering the state's ability to determine the effectiveness of interventions. The measure on timely investigations does not measure progress because the result is routinely in the 99 percent range, while the measure on in-home services is unclear about whether it measures expanded services or increased investigations, justifying a yellow rating for both measures.

Substantiated Allegations by Type

Type	FY15	FY16	FY17
Abuse	132	165	82
Neglect	182	108	109
Self-Neglect	1,061	949	730
Exploitation	212	141	161
Sexual Abuse	-	-	1
Total	**1,587**	**1,363**	**1,083**

Source: Adult Protective Services

Budget: $12,843.8 **FTE:** 132

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Adult protective services investigations of abuse, neglect or exploitation	5,931	6,315	6,100	6,233	G
Emergency or priority one investigations in which a caseworker makes initial face-to-face contact with the alleged victim within prescribed time frames	98%	99%	98%	99%	Y
Adults receiving in-home services or adult day services as a result of an investigation of abuse, neglect or exploitation	1,416	1,500	1,250	1,181	Y
Program Rating					G

Corrections Department

The Corrections Department (NMCD) continued to not report three of 12 measures in the General Appropriation Act of 2016: eligible inmates who earn a general educational development certificate, residential drug abuse program graduates reincarcerated within thirty-six months of release, and male offenders who graduate from the men's recovery center and are reincarcerated within thirty-six months. The department stated throughout the year it would report annually on these measures. NMCD also has not reported on the annual thirty-six month recidivism rate. The department met or came close to the target on many of its measures but continues to struggle with high probation and parole officer caseloads. The department has worked to bolster recruitment and security by installing pay benefits and increasing advanced technology.

Violence, as measured by inmate-on-inmate and inmate-on-staff assault, remains above target. NMCD attributes the rise in violence to low staffing levels and a reduction in segregation of predatory inmates. However, the prevalence of drugs and other contraband in prisons, particularly suboxone, may contribute to the high rates. In the fourth quarter of FY17, NMCD reported a 5 percent positive drug test rate among the inmate population tested randomly each month. The highest rate this year was in the second quarter when 6.7 percent of inmates tested positive. The department installed full-body scanners at three of the state prisons so far in 2017 to curtail drug smuggling and will install the scanners at the remaining state facilities as well as strengthening intelligence gathering practices. All public safety agencies statewide must work together to improve outcomes for citizens statewide to improve the state's chances of positive economic development.

Inmate Management and Control

Although the department continues to not report progress on general educational development (GED) certificates and residential drug abuse program recidivism rates this fiscal year, the department made gains in the number of inmates receiving basic adult education and improved on the number of female inmates still incarcerated past their release dates.

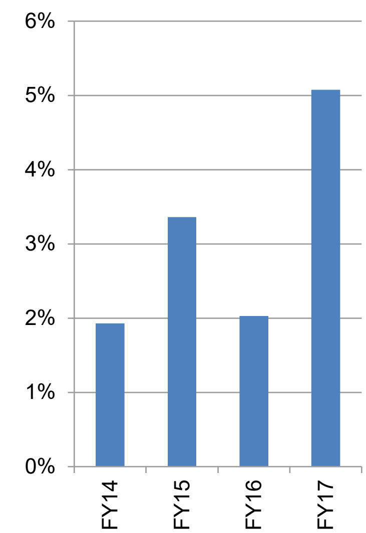
Budget: $296,932.6 **FTE:** 1,837

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Participating inmates who have completed adult basic education	34%	52%	40%	62%	G
Inmate-on-inmate assaults with serious injury	13	21	10	15	R
Inmate-on-staff assaults with serious injury	2	9	4	6	R
Escapes from a private facility	0	0	0	0	G
Release-eligible female inmates incarcerated past their scheduled release date	13%	9%	10%	8%	G
Release-eligible male inmates incarcerated past their scheduled release date	NEW	9%	10%	9%	G
Standard healthcare requirements met by medical contract vendor	90.5%	97.1%	100%	95%	Y

AGENCY IMPROVEMENT PLANS

Submitted by agency?	Yes
Timeline assigned by agency?	No
Responsibility assigned by agency?	Yes

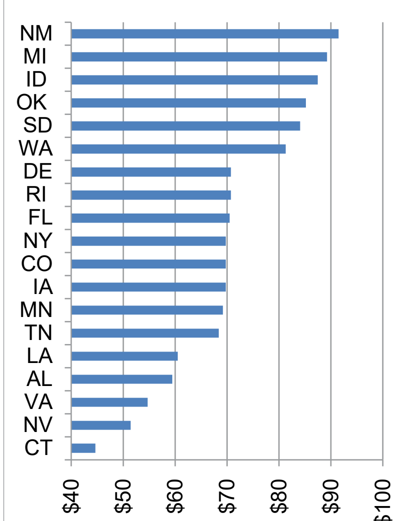
Positive Random Monthly Drug Tests*



*Drug tests are given randomly to 10 percent of the inmate population monthly

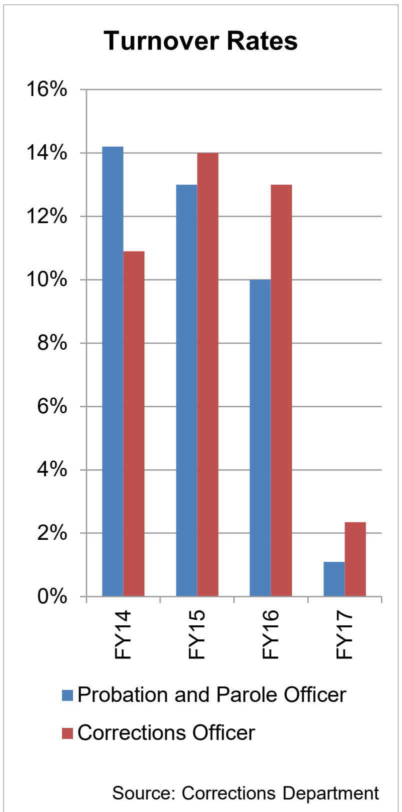
Source: Corrections Department

Average Cost to State, Prisons for Specialty Hepatitis C Drugs, 2015



Source: Health Affairs and LFC files

The department revised their policy regarding participation in the Residential Drug Abuse Program to include more inmates by shortening the required time-to-release date from nine months to six months and intensifying hours per day spent in class, allowing the department to serve those who arrive in the department's prisons on short sentences.



Eligible inmates who earn a general educational development certificate	64%	76%	75%	No report	R
Prisoners reincarcerated into the corrections department system within thirty-six months due to new charges or pending charges	23%	22%	20%	21%	Y
Residential drug abuse program graduates reincarcerated within thirty-six months of release	2%	47%	10%	No report	R
Thirty-six-month recidivism rate	47%	46%	40%	No report	R
				Program Rating	Y

Community Offender Management

The average standard caseload per probation and parole officers (PPO) rose for the second straight year; NMCD states the rise is mainly due to low pay. However, the department has reported record low turnover rates for PPOs and correctional officers while headcount reports show high vacancy rates. The number of absconders apprehended fell compared with previous years; the department has reported two years in a row that 12 employees are covering 1,700 absconders. NMCD is working with law enforcement and has conducted mass fugitive operations to help round up absconders.

Budget: $33,380.9 **FTE:** 376

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Out-of-office contacts per month with high- and extreme-supervision clients on standard caseloads	93%	95%	95%	96%	G
Absconders apprehended	27%	31%	30%	28%	Y
Average standard caseload per probation and parole officer	99	109	95	113	R
Male offenders who graduate from the men's recovery center and are reincarcerated within thirty-six months	NEW	18%	25%	No report	R
				Program Rating	Y

Program Support

Previous FY17 report cards have raised concern with reported turnover data. Data received from the State Personnel Office (SPO) validates the low corrections officer turnover rate reported by NMCD; however, the low turnover does not seem to correlate with vacancies averaging 23 percent statewide and as high as 50 percent in some prisons. Statute requires a performance monitoring plan for every agency "to ensure that performance data are maintained and supported by agency records." The department should revisit its plan to ensure data accuracy. NMCD has explained it is working to provide recruitment differentials and geographic pay to help recruit and retain officers more efficiently.

Vacancies among probation and parole officers are historically near 20 percent; NMCD states vacant PPO positions are continuously open for recruitment through the State Personnel Office but did not detail any other efforts.

Budget: $13,536.4 **FTE:** 158

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Turnover of probation and parole officers	13%	10%	10%	1.1%	G
Turnover of correctional officers in public facilities	14%	13%	10%	2.4%	G
				Program Rating	G

Department of Public Safety

The continuous rise in crime in New Mexico is reflected in the activities performed by the Department of Public Safety (DPS). As violent crime jumped 10 percent and property crime rose 4.5 percent between 2014 and 2015, the number of crime scenes investigated by DPS officers rose 88 percent over FY16 while the number of criminal cases investigated rose 39 percent in the same time period. In hours, DPS personnel spent 262.4 thousand hours investigating criminal cases, a 48 percent increase over FY16. DPS is not solely responsible for crime rates; of the nearly 5,600 certified officers in the state, DPS fields about 660 officers.

The department achieved the majority of their performance measures in FY17, despite the rash of crime. Staff recruitment and retention remains the agency's foremost priority; however, the costs and time needed to hire and train forensic scientists and police officers are steep and many leave for better pay elsewhere.

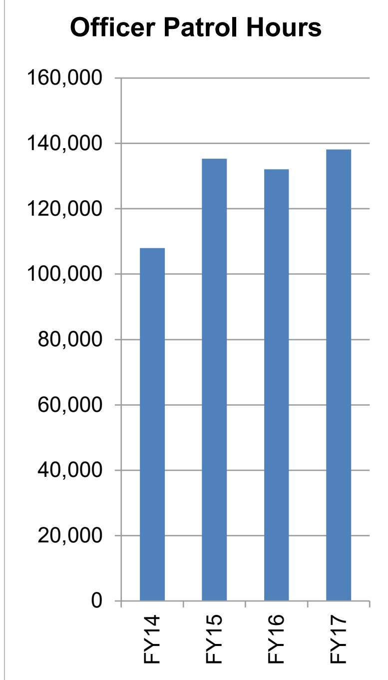
Law Enforcement

The department met all of its performance measure targets except for commercial motor vehicle citations issued per assigned personnel. The department explains the measure, meant to help reduce crashes caused by unsafe commercial vehicles, was not achieved because DPS is continuing to work through the challenges of a combined police force; the Motor Transportation police were merged with the State Police in FY15. However, measures on DWI arrests per officer, drug related investigations, and other important safety issues are at or above target, important to curtailing the crime spike in the state.

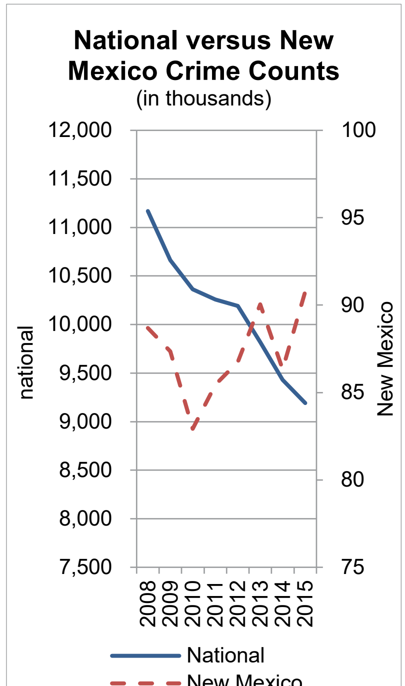
Budget: $121,038.3 **FTE:** 1,067.7	**FY15**	**FY16**	**FY17**	**FY17**	
Measure	**Actual**	**Actual**	**Target**	**Actual**	**Rating**
Criminal investigations conducted by agents assigned to criminal investigative and impact positions in the investigations bureau	NEW	24	20	23	G
Drug-related investigations conducted per agent assigned to narcotics investigative positions in the investigations bureau	26	63	20	56	G
Commercial motor vehicle citations issued per filled full-time-equivalent position assigned to enforcement duties	NEW	342	522	371	R
Commercial motor vehicle safety inspections conducted per filled full-time-equivalent position assigned to inspection duties	NEW	662	430	665	G
DWI arrests per patrol officer	9	9	10	10	G
DWI checkpoints and saturation patrols conducted	1,051	2,421	1,175	1,426	G
Crime scenes investigated or processed statewide	113	112	150	150	G
Minor compliance and underage enforcement operations conducted per agent assigned to alcohol enforcement duties	30	34	30	32	G
Enforcement operations for sales to intoxicated persons	2,453	581	600	797	G
Motor carrier safety trainings completed	51	117	50	114	G
				Program Rating	G

AGENCY IMPROVEMENT PLANS

Submitted by agency?	Yes
Timeline assigned by agency?	Yes
Responsibility assigned by agency?	Yes



Source: Department of Public Safety

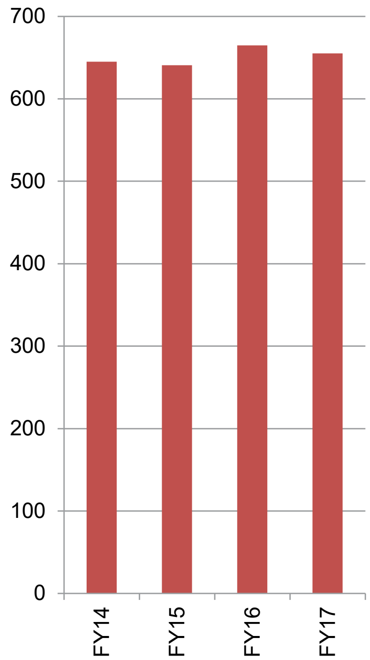


Source: Uniform Crime Reporting

Statewide Law Enforcement Support

Although DPS did not meet targets for forensic science cases completed per scientist within sixty working days, gross quarterly clearance rates tell another story. On average, the department cleared 27 percent of cases received this quarter as measured by statutory performance measures but cleared an average 136 percent of cases received this quarter overall. The statutory measures will be discontinued after this fiscal year and replaced with more meaningful measures.

State Police Manpower History



Source: Department of Public Safety

FY17 Forensic Cases Received and Completed

Case Type	Cases Received	Case Completed	Completion Rate
Biology, DNA	4,281	10,207	238%
Latent Fingerprint	1,630	2,325	143%
Firearm, Toolmark	1,483	1,323	89%
Chemistry	10,971	13,961	127%

Source: Department of Public Safety

Training of forensic scientists can take one to two years before full productivity is reached. High turnover rates increase the number of non-productive hours. In the firearm and toolmark division, DPS changed its strategy from hiring a firearm and toolmark analyst to hiring a technician to assist with cases and begin a two-year training program.

The Legislature in 2016 authorized $7.5 million for the new Santa Fe Crime Lab and Evidence Center: a $500 thousand severance tax bond for plan and design and a $7 million general obligation bond for the first phase of construction. DPS has issued a request for proposals for the evidence center and expects to be short on funding for total evidence center project completion.

Budget: $19,805.4 **FTE:** 147

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Forensic biology and DNA cases completed per scientist within sixty working days	NEW	NEW	40%	18%	R
Forensic latent fingerprint cases completed per scientist within sixty working days	NEW	NEW	30%	34%	G
Forensic firearm or toolmark cases completed per scientist within sixty working days	NEW	NEW	50%	23%	R
Forensic chemistry cases completed per scientist within sixty working days	NEW	NEW	40%	31%	R
Average turnaround time for concealed carry permit issuance from date application received to date completed, in working days	11	13	15	9	G
Average turnaround time of civil applicant results posted from the date the fingerprints are taken to the date of posting, in working days	1.3	1.3	2.0	1.2	G

Program Rating Y

Administrative Office of the Courts

The judicial branch was challenged in many ways in FY17, including by a new constitutionally mandated pretrial release and detention policy, budget shortfalls that threatened to partially shut courthouses one or two days a week, allegations of inadequate or unavailable defense counsel, and questions about whether every case should be prosecuted. However, any effort to address these judicial challenges is complicated by high-profile media coverage and a lack of performance data.

To accurately measure the effectiveness of pretrial reforms and the case management order, new data needs to be collected. Although some information relevant to these topics exists in various locations, the justice system should measure those relevant within departmental purview. Such measurements should include rates of appearance, reoffenders, and pretrial detention. Data-driven allocation of resources could help alleviate some of the challenges the judicial branch faces. The Administrative Office of the Courts (AOC) has implemented new systems to track cases, dispositions, jury costs, workload, and case outcomes. LFC has requested expanded measures and quarterly reports from the Public Defender Department and all district attorneys for several years. Although the courts have already been reporting quarterly, the other two justice partners are set to begin quarterly reports this fiscal year.

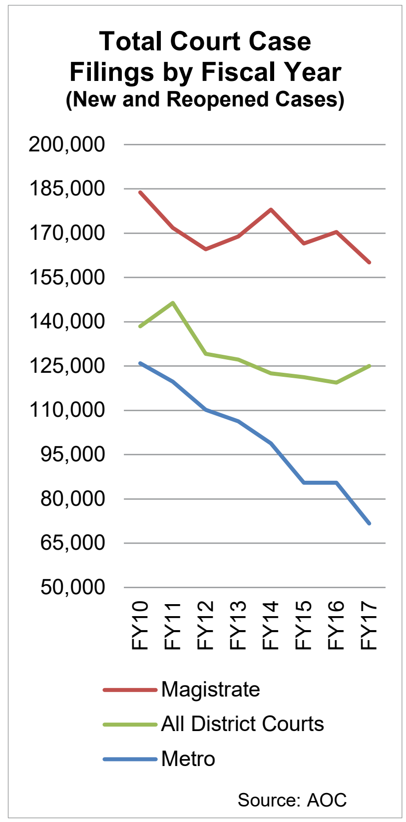
Suggested new measures include the appearance, concurrence, reoffending, and detention rates. These measures would capture how many supervised defendants make scheduled court appearances, the number of supervised defendants who are not charged with a new offense during pretrial supervision, the ratio of defendants whose supervision level or detention status corresponds with their assessed risk, and the proportion of pretrial detention motions granted.

Initial judicial reforms, such as the new pretrial release and detention policy, use of the Arnold Foundation defendant pretrial release assessment tool, and the case management order in the 2nd Judicial District have added additional burdens to the courts. Despite such challenges, changes to the courts present an opportunity to improve the justice system and public safety.

AGENCY IMPROVEMENT PLANS

Submitted by agency?	Partial
Timeline assigned by agency?	No
Responsibility assigned by agency?	No

The judiciary implemented new jury management software that will allow for more detailed performance reporting in the coming years. Due to the software implementation, new and more detailed measures will be reported annually for FY18 before moving to quarterly for FY19



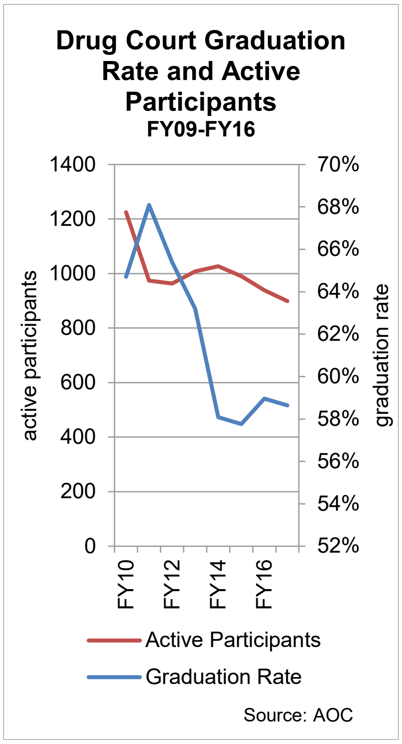
Administrative Support

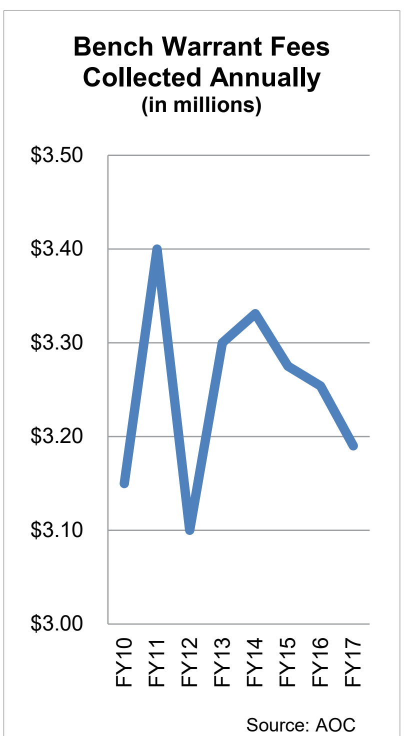
The number of jurors paid increased because payments delayed in FY16 were carried over into FY17. Taking the delay into account, the number of jurors paid in FY17 is consistent with other years. The average cost per juror decreased in FY17, but exceeded the target by almost 20 percent. Legislation passed in the 2017 regular legislative session restricted mileage reimbursements to over 40 miles round-trip, which is expected to lower the average cost per juror further in FY18.

Budget: $12,400.3 **FTE:** 49.2

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Number of jurors paid	59,876	53,562	n/a	63,940	Y
Average cost per juror	$59.85	$67.44	$50.00	$59.72	Y
				Program Rating	Y

The slight increase in the number of cases assigned a Court-Appointed Special Advocate volunteer in FY17 reflects the increase in the number of open child abuse and neglect cases in the state. However, Cibola County, which experienced above average staff turnover in the past year, reported lower numbers of volunteers, participation, and training.





Statewide Judiciary Automation

At the end of FY16, the AOC updated its helpdesk application into new help topics, began logging every issue, and implemented a new triage and request distribution process. This process provides more detailed information for each individual ticket, but resulted in increased time to resolve calls over the FY16 average by 391 percent.

Attorneys and members of the press must be registered in the Secure Odyssey Public Access system that eases online access to court records but places additional burdens on the helpdesk staff. Additional staff is needed to address the issue.

Budget: $9,175.9 **FTE:** 53.5

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Average time to resolve calls for assistance, in hours	3.9	16.2	4.0	79.6	R
Help desk calls resolved	n/a	27,376	n/a	30,122	G
Judicial computer user qualitative rating of help desk support	97.5%	97.2%	n/a	96.8%	G
Program Rating					Y

Special Court Services

AOC supplements the administration of the Court-Appointed Special Advocates (CASA) program to strengthen local programs by providing resources to aide in recruitment, supervision, training, and retention of advocates. Performance results for FY17 for the average number of children, cases, and child visitations remained about the same as previous years.

Budget: $12,181.4 **FTE:** 6.5

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Children assigned to court- appointed special advocate volunteers	1,855	1,741	1,200	1,809	G
Cases assigned to court-appointed special advocate volunteers	1,010	993	1,000	1,019	G
Monthly supervised child visitations and exchanges conducted.	1,047	1,049	1,000	1,102	G
Program Rating					G

Magistrate Court

Despite high vacancies and nearly 30 percent turnover rates for court clerks this fiscal year, magistrate courts accomplished a disposition rate greater than 100 percent. This indicates the courts closed every case filed in the year as well as a portion of the backlogged cases on the docket. Furthermore, bench warrant revenue exceeded the target of $3.1 million.

Budget: $31,046.0 **FTE:** 343.5

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Cases disposed as a percent of cases filed	102%	102%	95%	101%	G
Bench warrant revenue collected annually, in millions	$3.27	$3.25	$3.10	$3.19	G
Program Rating					G

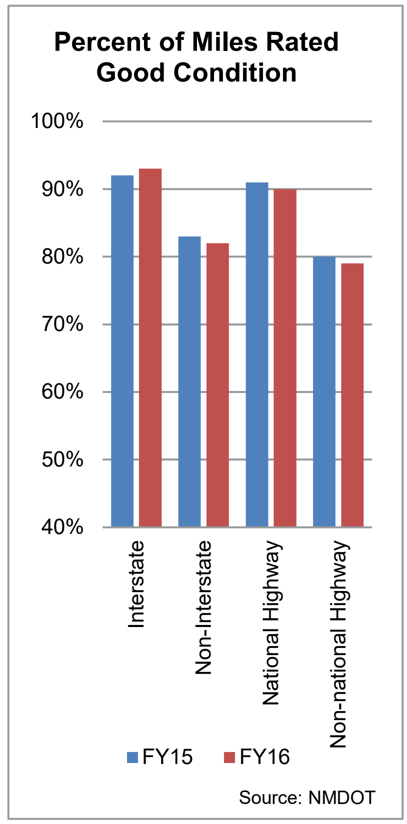
Department of Transportation

The Department of Transportation (NMDOT) reports 374 total traffic fatalities in FY17, a 2.2 percent increase from the 366 reported in FY16. NMDOT continues to struggle to maintain the transportation system with strained resources, reporting a slight increase in lane miles in deficient condition. Despite an estimated $134 million shortfall in maintenance funding, the U.S. Department of Transportation (USDOT) ranks New Mexico seventh best out of 50 states in the percent of structurally deficient bridges in the system and ranks New Mexico road conditions 17th in the nation.

AGENCY IMPROVEMENT PLANS	
Submitted by agency?	Yes
Timeline assigned by agency?	No
Responsibility assigned by agency?	No

Project Design and Construction

While NMDOT faced difficulty in putting projects out to bid on schedule, the agency completed projects on time and slightly under budget in FY17; the percent of project-cost-over-bid amount declined to negative1 percent, resulting in savings of $4 million in FY17. While 95.5 percent of bridges are in fair condition or better based on deck area, 270 are structurally deficient that NMDOT estimates will cost an additional $94.4 million per year for 10 years to replace.



Budget: $536,056.7 **FTE:** 366

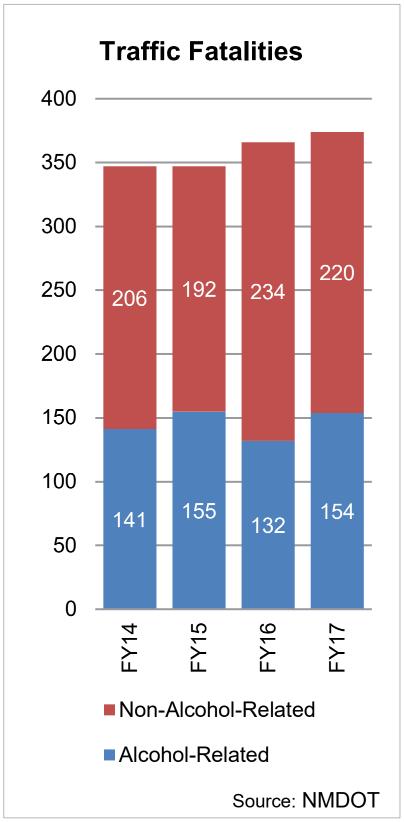
Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Projects completed according to schedule	84%	89%	>85%	94%	G
Projects put out for bid as scheduled	50%	51%	>70%	65%	Y
Bridges in fair condition or better, based on deck area	95%	95%	>90%	96%	G
Final cost-over-bid amount on highway construction projects	2.0%	1.0%	2.5%	-1.0%	G
				Program Rating	G

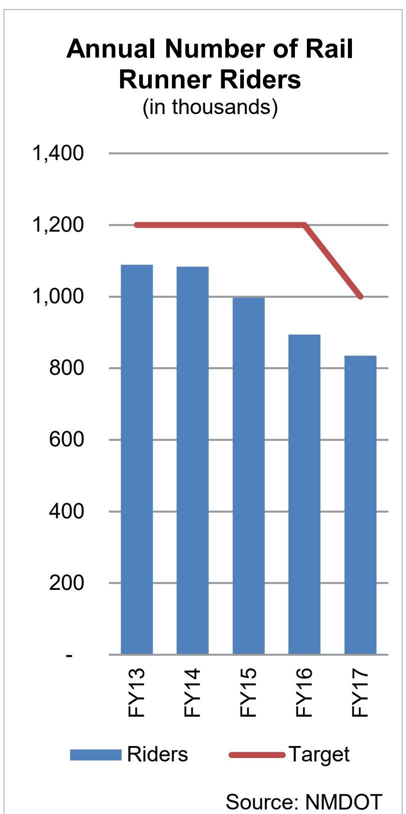
Highway Operations

NMDOT conducts an annual survey of statewide road conditions. The most recent data, for FY16, shows conditions generally deteriorated and the number of lane miles in deficient condition increased due to lack of regular, consistent maintenance; for FY17, NMDOT anticipates a $134 million shortfall in maintenance funding. As road conditions continue to deteriorate, the cost to repair them increases significantly. Annual maintenance costs for one lane mile of good condition road are between $12 thousand and $36 thousand. For a very poor condition road requiring reconstruction, the cost is as high as $1.5 million per lane mile.

Budget: $233,794.9 **FTE:** 1,827.7

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Statewide pavement miles preserved	2,611	2,457	>2,600	3,668	G
				Program Rating	G





FY16 Road Condition Survey	**FY14 Actual**	**FY15 Actual**	**FY16 Target**	**FY16 Actual**	**Rating**
Interstate miles rated good	95%	92%	92%	93%	G
National highway system miles rated good	93%	91%	85%	90%	G
Non-national highway system miles rated good	84%	83%	65%	82%	G
Lane miles in deficient condition	3,896	4,250	<6,000	4,515	G
				Program Rating	G

Modal

The 2.2 percent increase in total traffic fatalities was attributable to a 16.7 percent increase in alcohol-related fatalities, while deaths in all other categories experienced slight decreases. Public transit ridership continues to decline as low fuel prices induce more people to use personal vehicles. NMDOT reports on Rail Runner ridership, but NMDOT does not operate the passenger rail service.

Budget: $64,378.3 **FTE:** 73

Measure	**FY15 Actual**	**FY16 Actual**	**FY17 Target**	**FY17 Actual**	**Rating**
Traffic fatalities	347	366	<345	374	Y
Alcohol-related traffic fatalities	155	132	<130	154	R
Non-alcohol-related traffic fatalities	192	234	<215	220	Y
Occupants not wearing seatbelts in traffic fatalities	132	142	<150	138	G
Pedestrian fatalities	61	70	<55	69	R
Riders on park and ride, in thousands	292	264	>290	247	R
Riders on rail runner, in thousands	997	894	>1,000	835	R
				Program Rating	Y

Program Support

NMDOT increased salaries for maintenance workers, engineer technicians, and transportation inspectors to the midpoint of the salary range. Despite efforts to improve hiring and retention, NMDOT's vacancy rate remained unchanged from FY16.

Budget: $42,165.7 **FTE:** 236.8

Measure	**FY15 Actual**	**FY16 Actual**	**FY17 Target**	**FY17 Actual**	**Rating**
Vacancy rate in all programs	12.0%	14.0%	<12.0%	14.0%	G
Employee injuries	95	89	<90	78	G
Working days between expenditure of federal funds and request for reimbursement from federal treasury	7	7	<10	7	G
Employee injuries occurring in work zones	27	32	<30	34	Y
				Program Rating	G

Department of Environment

Performance measures for the Environment Department (NMED) remained heavily oriented toward output, such as number of facilities inspected in FY17. However, this report card highlights many existing measures that focus on public health and safety issues, such as air and water quality and occupational safety.

Of the $52.3 million of 2014 "year of water" capital outlay appropriations for local projects overseen by NMED, $15.7 million remains unspent. Seventy-one of the 120 projects overseen by NMED are complete, seven projects totaling $4.8 million are yet to begin spending, and 18 projects that received just over $1 million were de-authorized during the special legislative session in 2016.

Water Protection

More than 54 thousand New Mexicans were receiving water that did not meet health-based standards at the end of FY17. This figure is driven by infrastructure failures and poor operations and maintenance but also by fires and subsequent flooding, and other outside events. NMED fell short of meeting the target for funding water infrastructure projects, awarding only $11.3 million in funding, a decrease of $19.4 million from the previous fiscal year. NMED reports local entities requested approximately $40 million in project funding from the clean water state revolving loan fund (CWSRF), but $16 million in project funding was declined because of inability to service the debt and an additional $14 million was approved by NMED but then declined by the local entity. The rural infrastructure revolving loan fund (RIRLF) made $1.7 million in loans out of a target of $3 million due to lack of funding, a result of legislative transfers from RIRLF to the general fund to ensure state solvency.

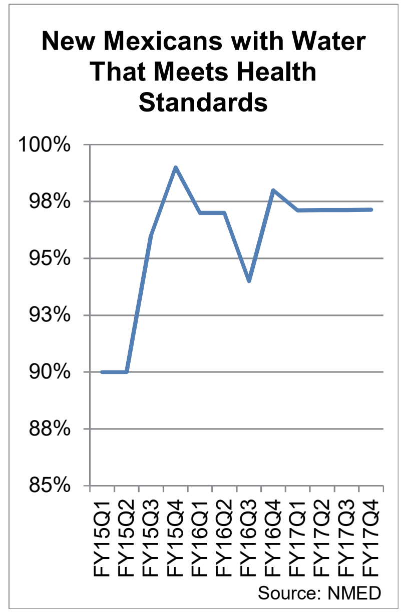
NMED met the target for inspections of groundwater discharge facilities, and the percent of facilities where monitoring shows compliance with standards is above both the annual target and actual performance in prior years. However, some permits allow for exceedance of, or variance from, typical groundwater quality standards depending on proximity to groundwater, and other factors; a facility may be in compliance with its permit but not other standards. The agency fell slightly short of the target for two new measures of surface water quality monitoring but was able to surpass the target of restoring over 100 miles of rivers and streams in FY17.

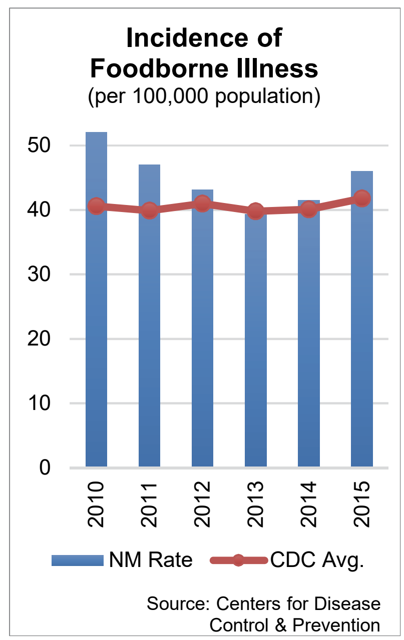
Budget: $30,689.1 **FTE:** 190.5

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Population served by community water systems that receive drinking water meeting health-based standards	99%	98%	100%	97%	Y
Groundwater discharge permitted facilities inspected	53%	65%	60%	66%	G
Amount of new loans made from the clean water state revolving fund program and the rural infrastructure revolving loan program, in millions	$27.4	$30.7	$20.0	$11.3	R
Permitted facilities where monitoring results demonstrate compliance with groundwater standards	66%	63%	70%	71%	G

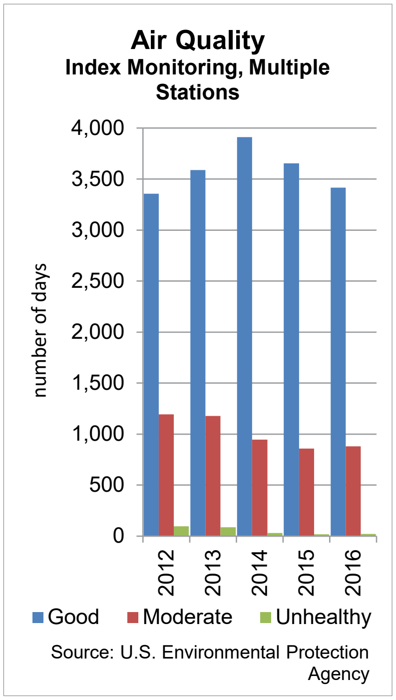
AGENCY IMPROVEMENT PLANS

Submitted by agency?	No
Timeline assigned by agency?	No
Responsibility assigned by agency?	Yes

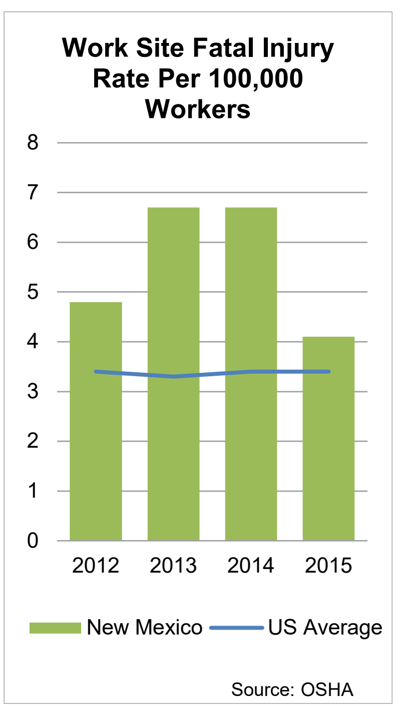




Preliminary data shows New Mexico exceeded the national average for foodborne illness rates in 2015. A recent evaluation by the Council to Improve Foodborne Outbreak and Response recommended increased documentation and integration of data to improve New Mexico's response to foodborne illness outbreaks.



The air quality index (AQI) reflects what health effects might be a concern based on levels of certain pollutants. The AQI scale includes ratings for good, moderate, and a varying degree of unhealthy or hazardous air quality



Miles of river restoration	New	103	100	167	G
Stream miles monitored for water quality in target area	New	83%	95%	90%	Y
Lake acres monitored for water quality in target area	New	88%	95%	91%	Y
				Program Rating	Y

Resource Protection

The Hazardous Waste Bureau missed targets for large quantity hazardous waste generators inspected due to several vacant inspector positions. NMED recently hired a program manager and additional inspectors, which should improve performance in FY18.

Budget: $14,760.9 **FTE:** 136.0

Measure	**FY15 Actual**	**FY16 Actual**	**FY17 Target**	**FY17 Actual**	**Rating**
Underground storage tank facilities in significant compliance with release prevention and detection requirements	77%	77%	80%	87%	G
Solid waste facilities and infectious waste generator inspections finding substantial compliance with solid waste rules	98%	93%	90%	98%	G
Landfills compliant with groundwater sampling and reporting requirements	95%	100%	97%	97%	G
Large quantity hazardous waste generators inspected	29%	31%	29%	18%	R
				Program Rating	Y

Environmental Protection

All of the air quality and serious occupational safety violations discovered through agency inspections in FY16 were either corrected timely or are currently being addressed. After agreeing to report on air quality ratings for FY17 – rather than the response to violations – NMED requested to discontinue the measure for FY18 because the agency does not regulate air quality in Bernalillo County, the state's largest population center. However, executive and legislative staff agreed to report the measure as explanatory data without a performance target in future years.

Budget: $23,769.6 **FTE:** 241

Measure	**FY15 Actual**	**FY16 Actual**	**FY17 Target**	**FY17 Actual**	**Rating**
Facilities taking corrective action to mitigate air quality violations discovered as a result of inspections	98%	100%	100%	100%	G
Serious worker health and safety violations corrected within the timeframes designated on issued citations from the consultation and compliance sections	98%	96%	97%	95%	G
				Program Rating	G

Energy, Minerals and Natural Resources Department

The Energy, Minerals and Natural Resources Department began several initiatives in FY17, including establishing a statewide parks friends group and drafting the state energy roadmap and implementation plan. However, the agency fell short of some key performance targets, including forest treatment and state park revenue.

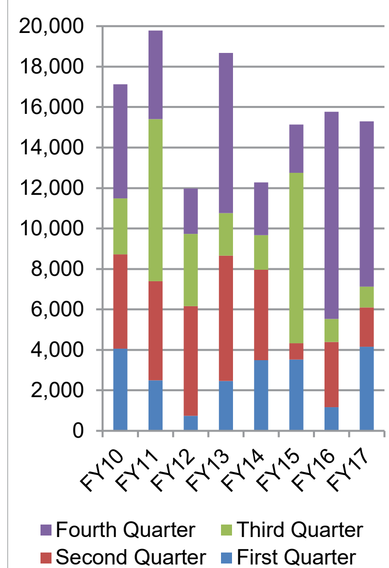
AGENCY IMPROVEMENT PLANS

Submitted by agency?	No
Timeline assigned by agency?	No
Responsibility assigned by agency?	No

Healthy Forests

The agency thinned 8,000 acres in the fourth quarter but did not meet the annual target because heavy snowfall impaired access to project areas earlier in the fiscal year. While fire activity typically peaks from late May to early July, monsoonal moisture detered large fires in FY17.

Forest and Watershed Acres Treated



Source: EMNRD

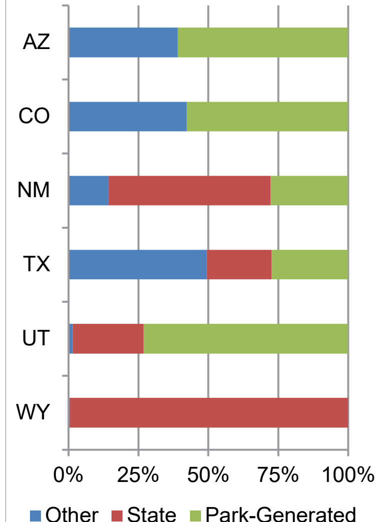
Budget: $14,740.7 **FTE:** 80

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Nonfederal wildland firefighters trained	1,625	1,627	1,650	1,362	Y
Acres treated in New Mexico's forest and watersheds	15,142	15,762	15,500	15,291	Y
At-risk communities or local fire departments provided funding for wildland firefighting equipment or training	112	126	110	99	G
People employed under the veterans firefighter program	New	45	30	55	G
				Program Rating	Y

State Parks

Although visitation fell by 9.7 percent from FY16-FY17, visitation to New Mexico state parks easily surpassed the target. The revenue impact of reduced visitation was largely offset by increases in per visitor revenue, resulting in an overall revenue reduction of only 1.9 percent, or $84.2 thousand. According to the National Association of State Park Directors, New Mexico state parks generate just over one-quarter of their total operating revenue, lower than both Colorado and Arizona, which rely on park revenue for over half of expenses, but in line with Texas state parks.

Percent of State Park Revenues, by Source



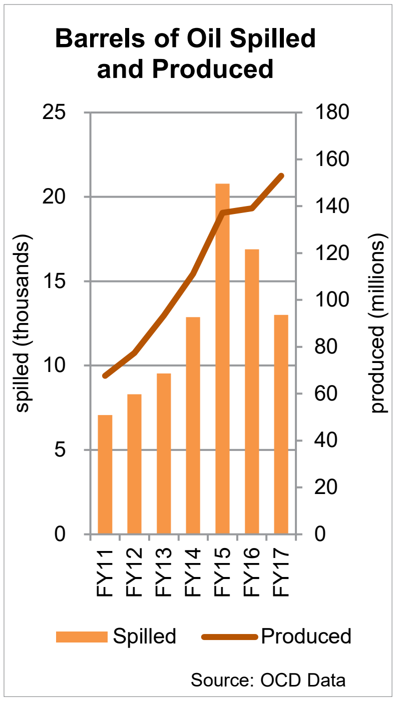
Source: National Association of State Park Directors

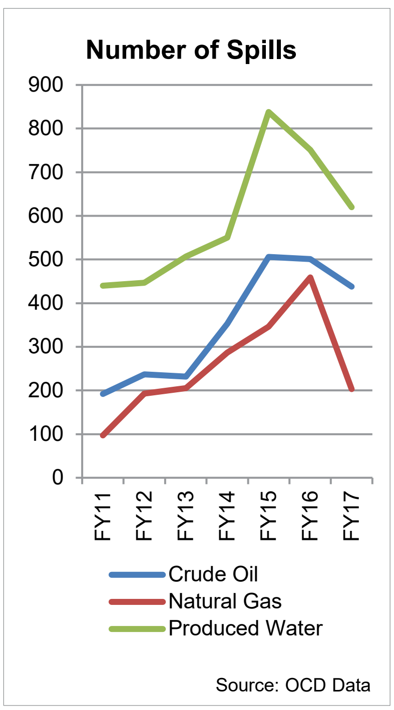
Budget: $27,075.7 **FTE:** 245

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Visitors to state parks, in millions	4.68	5.46	4.25	4.93	G
Self-generated revenue per visitor	$0.87	$0.81	$0.96	$0.88	R
Interpretive programs available to park visitors	1,780	1,312	2,000	1,053	R
Boating safety courses completed	753	937	725	887	G
				Program Rating	Y

Mine Reclamation

The agency conducted all of the required inspections for coal mines and conducted 58 of the required 61 inspections of regular mines. The number of mines without adequate financial assurance was reduced to one, the Asarco Deming Mill. The





mill is currently under application with a new owner and EMNRD is working to obtain adequate financial assurance.

Budget: $8,210 **FTE:** 34

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Permitted mines with approved reclamation plans and adequate financial assurance posted to cover the cost of reclamation	99%	96%	100%	98%	Y
Required inspections conducted to ensure compliance with permits and regulations	100%	97%	100%	97%	Y
				Program Rating	Y

Oil and Gas Conservation

The Oil Conservation Division (OCD) continued a high pace of field inspections resulting in 2,729 violations issued, a three-fold increase from FY16. Oil production increased by 10 percent to record levels, while the number of oil spills fell by 23 percent. Spills of natural gas, oil, and produced water fell by 14 percent; however, a portion of that reduction is related to the correction of a reporting error in the Hobbs district office which artificially raised spill figures for prior years. The error occurred when staff required operators to file spill reports for agency-approved natural gas flaring.

Budget: $11,363.6 **FTE:** 70

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Inspections of oil and gas wells and associated facilities	47,539	49,624	40,000	37,648	Y
Application to drill permits approved within ten business days of receipt	90%	85%	85%	96%	G
Abandoned oil and gas wells properly plugged using reclamation fund monies	31	36	30	33	G
Number of oil and gas well spills	852	1,465	N/A	1,261	NA
Size of oil spills, in barrels	20,775	16,889	N/A	13,455	NA
				Program Rating	G

Energy Conservation and Management

The resumption of shipments to the Waste Isolation Pilot Plant allowed the agency resume its full training schedule and meet the target for FY17.

Budget: $3,705.1 **FTE:** 12

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Applications for clean energy tax credits reviewed within thirty days	75%	90%	90%	90%	G
Waste-isolation-pilot-plant-related trainings and practice exercises conducted	45	45	51	55	G
				Program Rating	G

Office of the State Engineer

The federal-court-appointed special master overseeing the lawsuit between New Mexico and Texas regarding delivery obligations under the Rio Grande compact in February 2017 issued his report recommending denial of New Mexico's motion to dismiss Texas' claims. The report, filed with the U.S. Supreme Court, allowed parties to file exceptions, or objections, to the report. This was a preliminary motion and denial would not have ended the case. New Mexico still has an opportunity to argue the merits of whether groundwater pumping in New Mexico, south of Elephant Butte, resulted in underdeliveries to Texas.

AGENCY IMPROVEMENT PLANS	
Submitted by agency?	Yes
Timeline assigned by agency?	No
Responsibility assigned by agency?	No

Water Resource Allocation

The agency fell short of the target for populating the water administration technical engineering system (WATERS) database because OSE shifted from data entry to data clean-up and training of staff in district offices to increase efficiency. OSE expects to increase water rights transactions entered into the database in future years. The number of new and pending applications processed monthly fell well short of the target and is approximately one-third the level reported in FY15. Still, the backlog of unprotested water rights applications is significantly below the target.

For the first time since the U.S. drought monitor began keeping records in 1999, New Mexico does not have any designation of drought or abnormal dryness.

Based on the rate of progress from FY12 to FY15, completing ongoing adjudications will take 113 years and an additional $549 million if the agency's approach to the process and funding levels do not change

Budget: $14,052.4 **FTE:** 182.0

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Unprotested water right applications backlogged	1,219	422	625	416	G
Average unprotested applications processed per month	108	37	85	39	R
Dams inspected	101	107	100	49	R
Water rights transactions entered in the agency's database	22,792	18,287	23,000	14,287	R
				Program Rating	R

Interstate Stream Commission

The state did not meet Rio Grande compact water-delivery requirements in FY17, which will require New Mexico to hold water in upstream reservoirs. ISC believes above-average snowmelt in the Chama watershed will allow New Mexico to meet its storage obligations in the 2017 calendar year. While the compact allows for an accrued delivery debit up to 200 thousand acre-feet, this is only the second time since the early 1990s the agency reported a debit.

Capacity of Large New Mexico Reserviors

Reservoir	Percent
Elephant Butte	17
Navajo	80
Heron	48
Caballo	21
Conchas	24
Ute	83
El Vado	68
Abiquiu	77
Santa Rosa	33
Sumner	62

Source: Climas

Budget: $14,103.4 **FTE:** 46.0

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Delivery credit on the Pecos river compact, in thousand acre-feet	97.6	109.5	≥ 0.0	137.9	G
Delivery credit on the Rio Grande compact, in thousand acre-feet	0.0	0.4	≥ 0.0	-20.3	Y
				Program Rating	G

Litigation and Adjudication

The current measure for the percent of water rights with judicial determinations does not provide a clear view of progress because it only reflects active adjudications; adjudication of the middle Rio Grande basin, the largest basin by population in the state encompassing Sandoval, Valencia, Socorro, and Bernalillo counties, has not begun.

Budget: $7,051.9 **FTE:** 66.0

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Offers to defendants in adjudications	594	839	600	566	G
Water rights with judicial determinations	62%	63%	62%	66%	G
				Program Rating	G

General Services Department

For state agencies receiving services from the General Services Department (GSD), expenses related to risk coverage, group health benefits, and workspace utilization continues to pressure flat budgets. For GSD in FY17, the effect of "sweeps" of revenue from enterprise funds into the general fund and reduced general fund appropriations contributed to missed targets for oversight of capital outlay projects, facilities management, and agency procurement actions.

Risk Management

Until FY16, appropriations to the risk funds were increased to cover case reserve requirements. For FY18, due to high fund balances and to hold down costs for agencies, rates reflected a 12 percent decrease in the total risk premium from FY17. GSD credited better loss control, decreased reinsurance premiums, and lower legal defense expenditures, although less exposure from a smaller workforce likely contributed. In recent years, the program has seen smaller numbers of new claims but higher costs per claim due to inflation and other factors, including the effects of certain workplace-related laws.

Budget: $96,017.1 **FTE:** 57

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Projected financial position of the public property fund	274%	340%	50%	468%	G
Projected financial position of the workers' compensation fund	28%	37%	50%	43%	Y
Projected financial position of the public liability fund	22%	32%	50%	46%	Y
Alternative dispute resolution trainings held	New	5	5	12	G
Time to resolve a property and casualty claim in days	New	New	30	457	R
				Program Rating	Y

Group Health Benefits

Total costs for health care increased about 3 percent, despite fewer covered lives. On a per-member basis, costs increased 8 percent, however, due to higher costs to treat chronic conditions. To contain medical costs, GSD opened a free clinic for members and invested in wellness incentives and disease management programs, but only a small percentage of the membership participated. To control drug costs, GSD used cost-sharing arrangements to increase home delivery, generic fill rates, and percentage of specialty drug costs paid by the consumer, now slightly higher than the state government plan average.

Budget: $363,542.5 **FTE:** 0

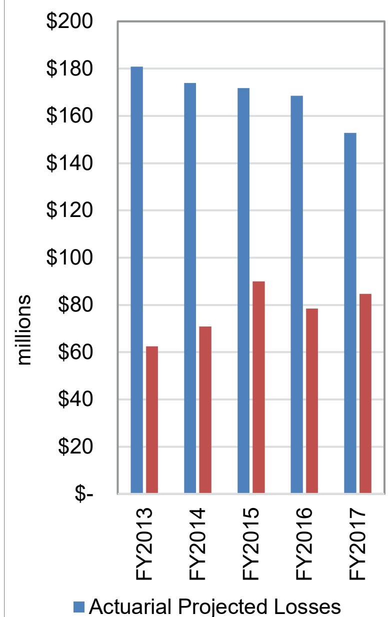
Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Employees buying insurance	95%	92%	95%	84%	Y
Per member monthly costs	$367	$389	≤4%	$421	R
Generic drug fill rate	84%	85%	84%	87%	G
Members who received a preventive health check-up	New	25%	15%	29%	Y
				Program Rating	Y

AGENCY IMPROVEMENT PLANS

Submitted by agency?	Yes
Timeline assigned by agency?	No
Responsibility assigned by agency?	Yes

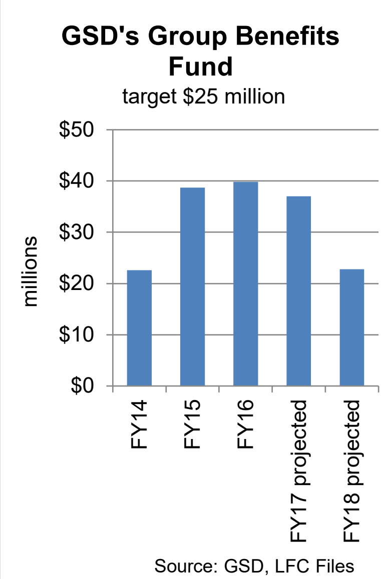
Because wages and attorney fees continue to accrue under a whistle-blower claim, there is no incentive to resolve these claims sooner. GSD says shortening the time it takes to get claims resolved would reduce costs for the state.

Assets vs. Actuarial Projected Losses for GSD Risk Funds



Source: GSD and LFC files

A cost-benefit analysis may now be helpful in determining if continued investments in wellness incentives and disease management programs are improving patient outcomes or if there are other cost control or quality improvement reforms that should be explored by the Interagency Benefits Advisory Council (IBAC).



Total Capital Outlay Appropriations for Statewide Repairs

(2013-2017)

2017	$4,000,000
2016	$2,000,000
2015	$ -
2014	$4,500,000
2013	$500,000

Source: LFC Files

Table does not include over $7 million also available annually for repairs from the Capital Building Repair Fund.

Facilities Management

During FY17, 40 percent of office space renewals included a reduction in rent and 10 percent met space standards which will contribute to higher overhead costs for GSD since agencies in state facilities do not pay rent. However, GSD notes reducing space for renewals is difficult when agencies already occupy the space. Starting FY18, proposed leases that exceed space standards require the secretary's approval. In terms of facilities management, too few custodians per square foot impacts morale and levels of cleanliness although the program reports it is currently meeting industry standards. In terms of capital project management, one quarter required a change order which modified the original scope of work or budget from work that was either added to or deleted from contracts. This may suggest poor planning or lack of expertise at some agencies. In FY17, GSD had funding swept that would have helped state agencies develop master plans.

Budget: $11,669.0 **FTE:** 140

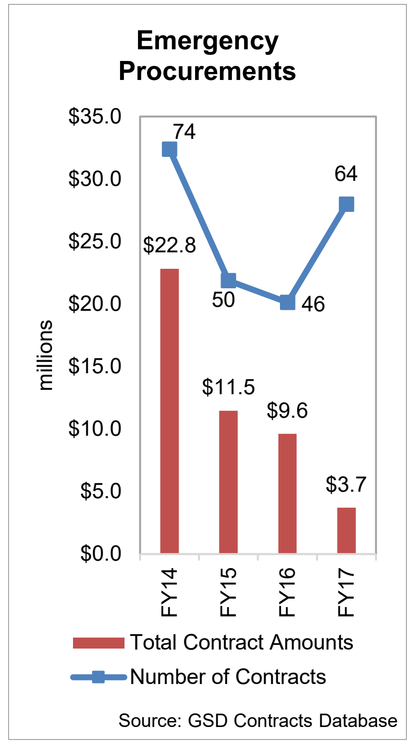
Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Capital projects within budget	90%	94%	90%	76%	R
Capital projects on schedule	90%	94%	90%	95%	G
Office space renewals achieving a reduction in base rent costs	New	New	50%	40%	Y
New office space leases meeting space standards	New	New	90%	19%	R
Office space lease renewals meeting space standards	New	New	50%	10%	R
Building square feet per custodian	New	New	31,000	37,410	Y
Work orders completed on time	New	New	75%	63%	Y
				Program Rating	Y

Gross Square Footage per FTE

Department	Leased Space under GSD purview	State-owned Space under GSD purview	Total Space Occupied	Total FTE	Total Space Per FTE (target 215)
Aging and Long-Term Services Department	36,545	32,403	68,948	181	382
Department of Environment	116,432	67,822	184,254	668	276
Department of Health	295,262	1,230,263	1,525,525	2,251	636
Department of Public Safety	39,617	408,408	448,025	1,200	373
Energy, Minerals and Natural Resources Department	6,884	77,723	84,607	317	267
Human Services Department	734,969	115,720	850,689	1,923	442
Public Education Department	13,407	61,613	75,020	323	232
Regulation and Licensing Department	20,017	58,473	78,490	190	412
Office of the State Engineer	63,251	89,967	153,218	299	512
Taxation and Revenue Department	207,968	171,526	379,494	1,128	336
Workforce Solutions Department	27,492	153,858	181,350	579	313
Other Agencies	904,094	4,819,965	5,724,059	8,168	700
Total				**17,227**	**438**

Procurement Services

Prior to a sweep of the program's enterprise funds into the general fund to help the state with solvency, the program was moving the state toward a more centralized model to aggregate spending and standardize contracts and procurement forms and processes. To assist with the transition, the program added new requirements for buyer certification and additional training requirements for repeat procurement violators. However, due to budget constraints and hiring freezes, positions that support vendor reporting and agency compliance with procurement best practices were left vacant most of the year.



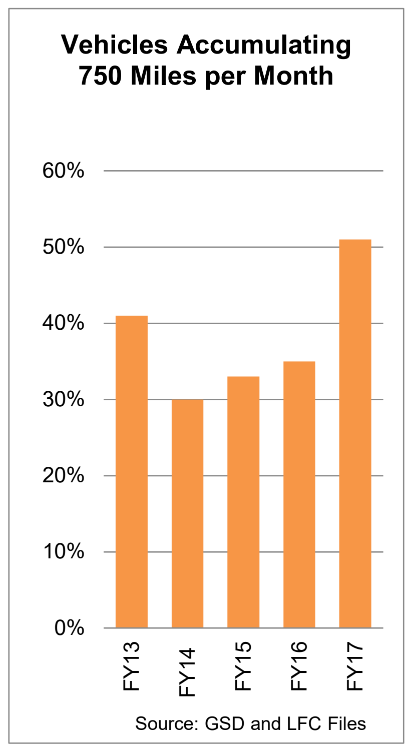
Budget: $2,304.5 **FTE:** 27

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Procurement violators receiving training on the Procurement Code	New	New	90%	68%	R
Agency procurement compliance audits	New	7	5	0	R
Procurement awards that included a preference	New	New	5%	17%	G
Vendors who reported fee-based sales as required	New	New	250	307	G
Procurement actions that were best value procurements	New	New	15%	23%	G
				Program Rating	Y

Both an LFC performance review and Office of the State Auditor report found that some state agencies overuse noncompetitive bid processes and apply exemptions inappropriately, increasing costs for the state.

Transportation Services

The program is responsible for the operation of the state's fleet of 2,000 vehicles, the operation of the state aircraft primarily used to fly physicians to clinics in rural areas, and the acquisition and redistribution of surplus property from state and federal agencies. Due to budget constraints and solvency measures, including a sweep of its enterprise fund, the program temporarily turned off new GPS vehicle tracking tools used to track and reduce operational costs and discontinued its vehicle replacement program indefinitely. These decisions resulted in a return to manual mileage logs to establish accountability for vehicle use and may exacerbate an underutilized, aging fleet problem that could cost more to operate and maintain.



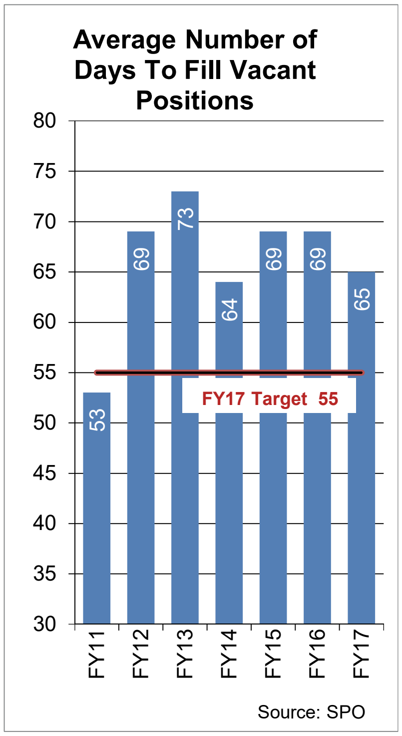
Budget: $11,743.7 **FTE:** 35

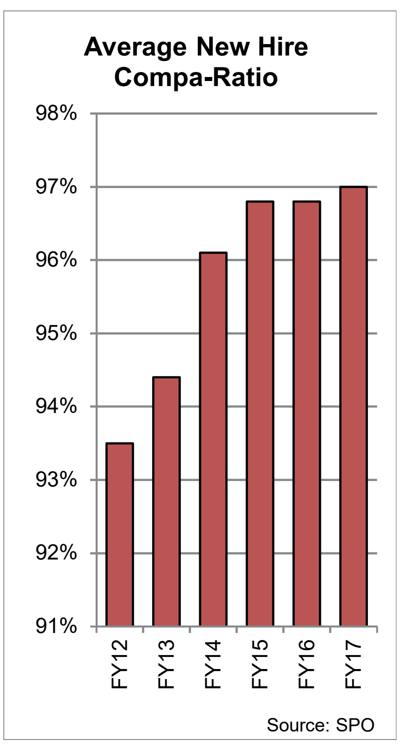
Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
State vehicles older than five years	47%	46%	≤20%	42%	Y
Vehicle operational costs per mile	New	$0.47	$0.59	$0.47	G
Vehicles used 750 miles per month	New	35%	80%	51%	Y
Leasing revenues to expenses	New	86%	90%	113%	G
Revenue generated by surplus property	New	$652	$685	$746	G
				Program Rating	G

State Personnel Board

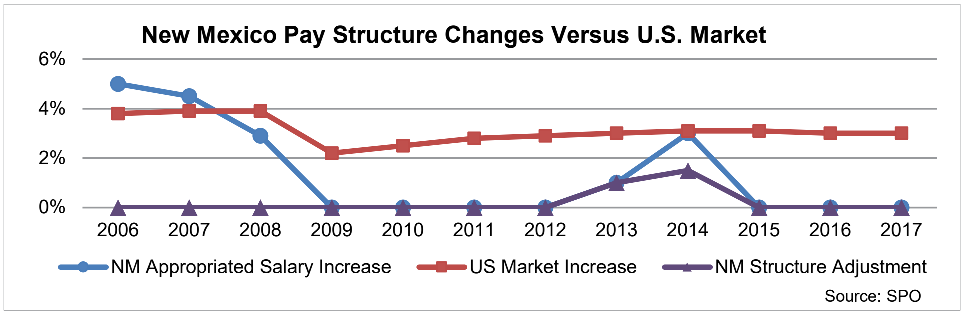
AGENCY IMPROVEMENT PLANS

Submitted by agency?	No
Timeline assigned by agency?	No
Responsibility assigned by agency?	No





The state's current pay structure, developed and maintained by the State Personnel Office (SPO), has fallen significantly behind market pay rates for many job classifications due to lack of regular adjustments. Even in years when the Legislature provided across-the-board salary increases, SPO often did not adjust the pay structure.



In addition to general pay structure inadequacy, the compa-ratios for employees and new hires, or the position in the pay range relative to the midpoint, were, respectively, 101 percent and 97 percent over the mid-point, leading to salary compaction. Turnover grew by 12 percent in two years, while overall vacancy rates grew by 5 percent. While fiscal constraints will require agencies to maintain higher vacancy rates, SPO must work with agencies to reduce the time to fill positions. Although SPO has not proposed an action plan for reducing turnover and overtime use, the agency expects the governor's initiative to consolidate all human resources under SPO will improve hiring efficiency.

Budget: $4,182.1 **FTE:** 53

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Classified service vacancy rate	13%	15%	13%	18%	R
Average number of days to fill a position from the date of posting	69	69	55	65	R
Average state classified employee compa-ratio	101%	102%	95%	101%	R
Average state classified employee new-hire compa-ratio	97%	97%	91%	97%	R
New employees who successfully complete their probationary period	67%	70%	75%	65%	R
Classified employees voluntarily leaving state service	3%	15%	15%	15%	Y
Classified employees involuntarily leaving state service	1%	2%	5%	2%	G
State employee average overtime use per month, in hours	16	16	12	15	R
State employees receiving overtime	16%	17%	17%	18%	R
				Program Rating	R

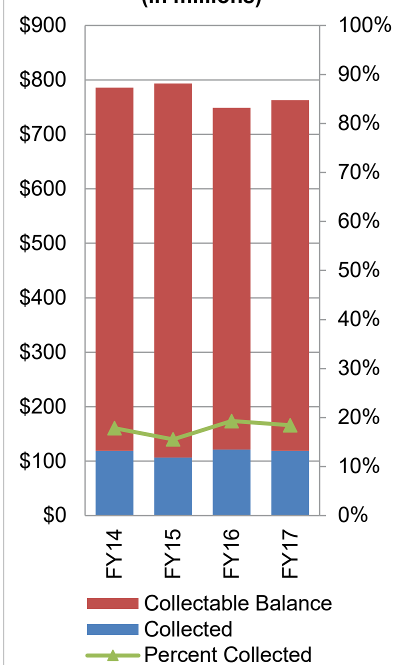
Taxation and Revenue Department

AGENCY IMPROVEMENT PLANS	
Submitted by agency?	Yes
Timeline assigned by agency?	No
Responsibility assigned by agency?	Yes

The Taxation and Revenue Department achieved many of its performance targets in FY17; however, for the second consecutive year, the department has struggled with a lack of data and data quality concerns. The data concerns were highlighted during the revenue estimating process and discussed at a Legislative Finance Committee hearing in Taos.

Data challenges include an inability to consistently report credits and exemptions and explain dramatic changes in unreconciled receipts. Local government entities are also questioning the department's ability to distribute property and gross receipts taxes. Some have threatened to pursue litigation.

Collection of Outstanding Balances (in millions)



Source: TRD and LFC Files

Tax Administration

The program exceeded the target for collecting outstanding taxes owed, bringing in $118.6 million, or 18.4 percent, of the $644.1 million owed. The target collection rate of 18 percent has remained the same since FY14, when the measure was increased from 15 percent to its current 18 percent. The program fell short of its targeted level for the amount of tax returns filed electronically, achieving a rate of 86 percent. This measure will be reported as explanatory in FY18.

Budget: $30.5 million **FTE:** 504

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Collections as a percent of collectable outstanding balances from the end of the prior fiscal year	15.5%	19.3%	18%	18.4%	G
Collections as a percent of collectible audit assessments generated in the current fiscal year plus assessments generated in the last quarter of the prior fiscal year	59%	43%	60%	58%	Y
Electronically filed personal income tax and combined reporting system returns	92%	85%	92%	86%	R
				Program Rating	Y

Compliance Enforcement

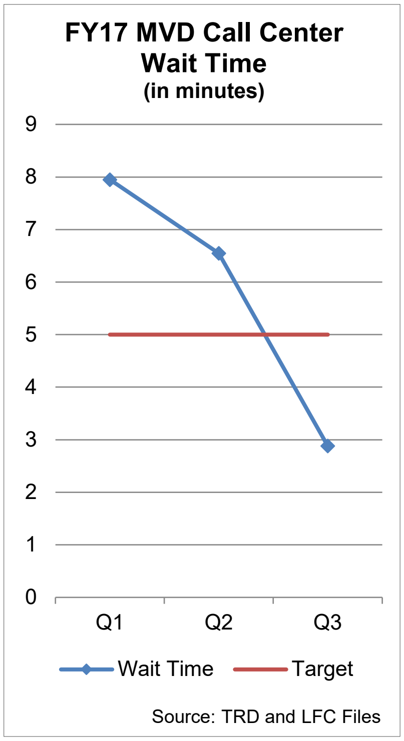
In the fourth quarter, four tax cases were assigned to program agents and one case was referred for prosecution. Overall, 12 cases were assigned to program agents and eight were referred to prosecutors during the year for an annual rate of 67 percent, exceeding the FY17 target.

Budget: $1.7 million **FTE:** 22

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Tax investigations referred to prosecutors as a percent of total investigations assigned during the year	78%	88%	50%	67%	G
				Program Rating	G

Property Tax

The Property Tax Program exceeded its annual target, for the second year in a row, of delinquent property tax collected and distributed to counties. The program



collected and returned $3.3 million during the fourth quarter, exceeding the annual target by $500 thousand. However, some municipal and county entities question the department's efforts and ability to tax centrally assessed property tax, mostly oil and gas assets. Consultants for the local governments have noted oil and gas property not on the tax rolls, under-reporting, and an out-of-date taxing system oriented to vertical instead of horizontal drilling.

Budget: $3.4 million **FTE:** 41

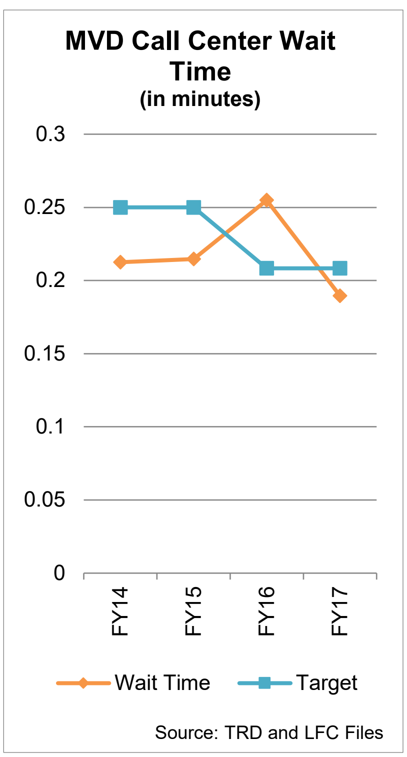
Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Delinquent property tax collected and distributed to counties, in millions	$10.4	$11.6	$11	$11.5	G
				Program Rating	G

Motor Vehicle

The program made great strides in reducing its call center wait times: an improvement of 1:37, or 25.6 percent, from the FY16 average and 27 seconds below the FY17 target. However, the rollout of REAL ID, a federally compliant driver's license or ID that requires additional, specific document, significantly hampered performance for waiting times in state-run field offices, where average waiting times were nearly doubled from previous years to 23 minutes.

Budget: $27.3 million **FTE:** 346

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Registered vehicles with liability insurance	91%	92%	92%	90%	Y
Average call center wait time to reach an agent, in minutes	5:09	6:07	5:00	4:33	G
Average wait time in "q-matic" equipped offices, in minutes	15:36	13:14	18:00	22:56	R
				Program Rating	Y



Program Support

During the fourth quarter, Program Support resolved 366 protest cases, exceeding the quarterly target by 42 cases and the annual target by 224 cases. The program conducted four audits during the fourth quarter. In total, the audits generated 44 recommendations, with 33 due this quarter and 30 implemented. In total, 24 audits were conducted, generating 140 recommendations, with 127 of them implemented.

Budget: $20.8 million **FTE:** 182

Measure	FY15 Actual	FY16 Actual	FY17 Target	FY17 Actual	Rating
Tax protest cases resolved	1,380	1,897	1,300	1,524	G
Internal audit recommendations implemented	83%	93%	90%	91%	G
				Program Rating	G

GENERAL FUND AGENCY RECOMMENDATION SUMMARY TABLE 1

Business Unit	Description	FY18 Adj Operating Budget	FY19 Agency Request	FY19 LFC Recomm.	$ Over Adj. FY18 Oper.	Percent Change
Legislative						
111	LEGISLATIVE COUNCIL SERVICE	5,660.0	5,750.0	5,750.0	90.0	1.6%
112	LEGISLATIVE FINANCE COMMITTEE	4,100.3	4,223.3	4,181.2	80.9	2.0%
114	SENATE CHIEF CLERK	1,130.3	1,141.0	1,141.0	10.7	0.9%
115	HOUSE CHIEF CLERK	1,097.7	1,097.7	1,097.7	0.0	0.0%
117	LEGISLATIVE EDUCATION STUDY COMMITTEE	1,233.4	1,251.9	1,251.9	18.5	1.5%
119	LEGISLATIVE BUILDING SERVICES	4,054.9	4,117.7	4,117.7	62.8	1.5%
131*	LEGISLATURE	1,620.2	1,709.3	1,709.3	89.1	5.5%
Total	**Legislative**	18,896.8	19,290.9	19,248.8	352.0	1.9%
Judicial						
205	SUPREME COURT LAW LIBRARY	1,507.6	1,538.5	1,507.6	0.0	0.0%
208	NEW MEXICO COMPILATION COMMISSION	0.0	0.0	0.0	0.0	0.0%
210	JUDICIAL STANDARDS COMMISSION	818.3	832.6	822.3	4.0	0.5%
215	COURT OF APPEALS	5,718.5	6,130.4	5,749.6	31.1	0.5%
216	SUPREME COURT	3,302.0	3,645.0	3,484.5	182.5	5.5%
218	ADMINISTRATIVE OFFICE OF THE COURTS	51,026.5	56,398.2	53,156.9	2,130.4	4.2%
219	SUPREME COURT BUILDING COMMISSION	930.7	1,038.2	930.7	0.0	0.0%
231	FIRST JUDICIAL DISTRICT COURT	6,904.2	7,462.5	6,985.2	81.0	1.2%
232	SECOND JUDICIAL DISTRICT COURT	22,721.8	25,504.5	23,028.1	306.3	1.3%
233	THIRD JUDICIAL DISTRICT COURT	6,471.4	7,090.4	6,627.8	156.4	2.4%
234	FOURTH JUDICIAL DISTRICT COURT	2,302.9	2,436.5	2,329.0	26.1	1.1%
235	FIFTH JUDICIAL DISTRICT COURT	6,555.5	7,015.5	6,658.5	103.0	1.6%
236	SIXTH JUDICIAL DISTRICT COURT	3,229.6	3,375.5	3,272.1	42.5	1.3%
237	SEVENTH JUDICIAL DISTRICT COURT	2,347.6	2,529.5	2,377.6	30.0	1.3%
238	EIGHTH JUDICIAL DISTRICT COURT	2,954.4	3,153.1	3,038.4	84.0	2.8%
239	NINTH JUDICIAL DISTRICT COURT	3,365.7	3,773.8	3,428.7	63.0	1.9%
240	TENTH JUDICIAL DISTRICT COURT	911.0	989.0	931.2	20.2	2.2%
241	ELEVENTH JUDICIAL DISTRICT COURT	6,355.3	7,093.4	6,464.1	108.8	1.7%
242	TWELFTH JUDICIAL DISTRICT COURT	3,369.7	3,675.8	3,425.7	56.0	1.7%
243	THIRTEENTH JUDICIAL DISTRICT COURT	7,096.9	7,756.7	7,208.5	111.6	1.6%
244	BERNALILLO COUNTY METROPOLITAN COURT	23,011.8	24,815.9	23,195.8	184.0	0.8%
251	FIRST JUDICIAL DISTRICT ATTORNEY	5,307.1	5,546.2	5,458.4	151.3	2.9%
252	SECOND JUDICIAL DISTRICT ATTORNEY	18,192.4	23,555.8	19,100.8	908.4	5.0%
253	THIRD JUDICIAL DISTRICT ATTORNEY	4,678.8	5,147.0	4,825.3	146.5	3.1%
254	FOURTH JUDICIAL DISTRICT ATTORNEY	3,098.3	3,360.7	3,222.2	123.9	4.0%
255	FIFTH JUDICIAL DISTRICT ATTORNEY	4,931.7	5,503.2	5,095.2	163.5	3.3%
256	SIXTH JUDICIAL DISTRICT ATTORNEY	2,847.4	2,951.3	2,928.1	80.7	2.8%
257	SEVENTH JUDICIAL DISTRICT ATTORNEY	2,475.0	2,525.1	2,527.3	52.3	2.1%
258	EIGHTH JUDICIAL DISTRICT ATTORNEY	2,682.5	2,797.6	2,762.1	79.6	3.0%
259	NINTH JUDICIAL DISTRICT ATTORNEY	2,957.3	3,277.6	3,048.0	90.7	3.1%
260	TENTH JUDICIAL DISTRICT ATTORNEY	1,248.9	1,347.7	1,286.3	37.4	3.0%
261	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIVISIO	3,913.7	4,474.6	4,038.1	124.4	3.2%
262	TWELFTH JUDICIAL DISTRICT ATTORNEY	3,041.7	3,744.6	3,128.2	86.5	2.8%
263	THIRTEENTH JUDICIAL DISTRICT ATTORNEY	4,994.7	6,137.7	5,151.9	157.2	3.1%
264	ADMINISTRATIVE OFFICE OF THE DISTRICT ATTOR	2,238.8	2,937.1	2,261.2	22.4	1.0%
265	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIVISIO	2,268.0	2,375.5	2,338.2	70.2	3.1%
280	PUBLIC DEFENDER DEPARTMENT	48,574.7	54,681.0	50,032.0	1,457.3	3.0%
Total	**Judicial**	274,352.4	306,617.7	281,825.6	7,473.2	2.7%

Table 1: General Fund Recommendation Summary

GENERAL FUND AGENCY RECOMMENDATION SUMMARY — TABLE 1

Business Unit	Description	FY18 Adj Operating Budget	FY19 Agency Request	FY19 LFC Recomm.	$ Over Adj. FY18 Oper.	Percent Change
	General Control					
305	ATTORNEY GENERAL	10,600.4	15,423.8	12,550.4	1,950.0	18.4%
308	STATE AUDITOR	2,690.4	3,170.3	2,677.0	-13.4	-0.5%
333	TAXATION AND REVENUE DEPARTMENT	44,701.7	51,595.8	51,096.8	6,395.1	14.3%
337	STATE INVESTMENT COUNCIL	0.0	0.0	0.0	0.0	0.0%
340	ADMINISTRATIVE HEARINGS OFFICE	1,503.7	1,503.7	1,503.7	0.0	0.0%
341	DEPARTMENT OF FINANCE AND ADMINISTRATION	19,211.4	19,365.6	19,222.5	11.1	0.1%
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	13,827.8	13,827.8	13,553.3	-274.5	-2.0%
352	EDUCATIONAL RETIREMENT BOARD	0.0	0.0	0.0	0.0	0.0%
354	NEW MEXICO SENTENCING COMMISSION	499.6	499.6	499.6	0.0	0.0%
356	GOVERNOR	3,260.0	3,260.0	3,226.6	-33.4	-1.0%
360	LIEUTENANT GOVERNOR	532.4	532.4	508.4	-24.0	-4.5%
361	DEPARTMENT OF INFORMATION TECHNOLOGY	845.1	1,345.1	845.1	0.0	0.0%
366	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION	0.0	89.1	0.0	0.0	0.0%
369	STATE COMMISSION OF PUBLIC RECORDS	2,476.4	2,789.0	2,426.5	-49.9	-2.0%
370	SECRETARY OF STATE	7,233.1	11,388.6	7,780.9	547.8	7.6%
378	PERSONNEL BOARD	3,812.9	3,812.9	3,680.0	-132.9	-3.5%
379	PUBLIC EMPLOYEE LABOR RELATIONS BOARD	213.7	228.8	228.8	15.1	7.1%
394	STATE TREASURER	3,428.6	3,956.7	3,428.6	0.0	0.0%
Total	**General Control**	114,837.2	132,789.2	123,228.2	8,391.0	7.3%
	Commerce and Industry					
404	BOARD OF EXAMINERS FOR ARCHITECTS	0.0	0.0	0.0	0.0	0.0%
417	BORDER AUTHORITY	299.5	299.5	299.5	0.0	0.0%
418	TOURISM DEPARTMENT	12,615.6	12,615.6	12,615.6	0.0	0.0%
419	ECONOMIC DEVELOPMENT DEPARTMENT	8,544.6	8,544.6	8,454.6	-90.0	-1.1%
420	REGULATION AND LICENSING DEPARTMENT	11,967.9	12,199.2	11,922.2	-45.7	-0.4%
430	PUBLIC REGULATION COMMISSION	6,666.8	6,666.8	7,261.8	595.0	8.9%
430	PRC SPECIAL REVENUES	0.0	0.0	0.0	0.0	0.0%
440	OFFICE OF THE SUPERINTENDENT OF INSURANCE	0.0	0.0	0.0	0.0	0.0%
440	SUPERINTENDENT OF INSURANCE SPECIAL REVEN	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	0.0	0.0	0.0%
464	STATE BOARD OF LICENSURE FOR PROFESSIONAL E	0.0	0.0	0.0	0.0	0.0%
465	GAMING CONTROL BOARD	5,157.7	5,708.2	5,152.0	-5.7	-0.1%
469	STATE RACING COMMISSION	1,981.9	2,081.9	2,036.9	55.0	2.8%
479	BOARD OF VETERINARY MEDICINE	0.0	0.0	0.0	0.0	0.0%
490	CUMBRES AND TOLTEC SCENIC RAILROAD COMMI	111.8	290.0	111.8	0.0	0.0%
491	OFFICE OF MILITARY BASE PLANNING AND SUPPOR	226.9	226.9	198.2	-28.7	-12.6%
495	SPACEPORT AUTHORITY	375.9	1,000.0	375.9	0.0	0.0%
Total	**Commerce and Industry**	47,948.6	49,632.7	48,428.5	479.9	1.0%
	Agriculture, Energy and Natural Resources					
505	CULTURAL AFFAIRS DEPARTMENT	27,840.2	28,040.4	28,040.4	200.2	0.7%
508	NEW MEXICO LIVESTOCK BOARD	553.7	900.0	275.9	-277.8	-50.2%
516	DEPARTMENT OF GAME AND FISH	0.0	0.0	0.0	0.0	0.0%
521	ENERGY, MINERALS AND NATURAL RESOURCES DE	17,043.6	17,118.3	17,043.3	-0.3	0.0%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY — TABLE 1

Business Unit	Description	FY18 Adj Operating Budget	FY19 Agency Request	FY19 LFC Recomm.	$ Over Adj. FY18 Oper.	Percent Change
522	YOUTH CONSERVATION CORPS	0.0	0.0	0.0	0.0	0.0%
538	INTERTRIBAL CEREMONIAL OFFICE	50.0	50.0	50.0	0.0	0.0%
539	COMMISSIONER OF PUBLIC LANDS	0.0	0.0	0.0	0.0	0.0%
550	STATE ENGINEER	17,307.7	17,307.7	18,307.7	1,000.0	5.8%
550	ST ENGINEER/ISC SPECIAL REVENUES	0.0	0.0	0.0	0.0	0.0%
Total	**Agriculture, Energy and Natural Resources**	62,795.2	63,416.4	63,717.3	922.1	1.5%
Health, Hospitals and Human Services						
603	OFFICE OF AFRICAN AMERICAN AFFAIRS	729.1	729.1	729.1	0.0	0.0%
604	COMMISSION FOR DEAF AND HARD-OF-HEARING P	319.4	1,186.7	0.0	-319.4	-100.0%
605	MARTIN LUTHER KING, JR. COMMISSION	293.1	293.1	293.1	0.0	0.0%
606	COMMISSION FOR THE BLIND	1,938.8	1,990.0	1,900.0	-38.8	-2.0%
609	INDIAN AFFAIRS DEPARTMENT	2,240.5	2,240.5	2,190.5	-50.0	-2.2%
624	AGING AND LONG-TERM SERVICES DEPARTMENT	44,398.7	44,398.7	44,398.7	0.0	0.0%
630	HUMAN SERVICES DEPARTMENT	1,032,854.6	1,116,680.0	1,070,443.9	37,589.3	3.6%
631	WORKFORCE SOLUTIONS DEPARTMENT	8,832.6	8,832.6	8,832.6	0.0	0.0%
632	WORKERS' COMPENSATION ADMINISTRATION	0.0	0.0	0.0	0.0	0.0%
644	DIVISION OF VOCATIONAL REHABILITATION	5,647.6	5,647.6	5,647.6	0.0	0.0%
645	GOVERNOR'S COMMISSION ON DISABILITY	1,167.3	1,273.1	1,168.0	0.7	0.1%
647	DEVELOPMENTAL DISABILITIES PLANNING COUNCI	5,072.4	5,142.9	5,117.7	45.3	0.9%
662	MINERS' HOSPITAL OF NEW MEXICO	0.0	0.0	0.0	0.0	0.0%
665	DEPARTMENT OF HEALTH	283,269.5	288,161.9	287,296.2	4,026.7	1.4%
667	DEPARTMENT OF ENVIRONMENT	11,372.5	11,372.5	11,372.5	0.0	0.0%
668	OFFICE OF THE NATURAL RESOURCES TRUSTEE	247.5	247.5	247.5	0.0	0.0%
670	VETERANS' SERVICES DEPARTMENT	3,795.4	3,795.4	3,776.4	-19.0	-0.5%
690	CHILDREN, YOUTH AND FAMILIES DEPARTMENT	249,217.1	275,217.1	275,117.1	25,900.0	10.4%
Total	**Health, Hospitals and Human Services**	1,651,396.1	1,767,208.7	1,718,530.9	67,134.8	4.1%
Public Safety						
705	DEPARTMENT OF MILITARY AFFAIRS	6,557.2	7,292.0	6,655.1	97.9	1.5%
760	PAROLE BOARD	476.2	513.7	476.5	0.3	0.1%
765	JUVENILE PUBLIC SAFETY ADVISORY BOARD	13.2	13.2	13.2	0.0	0.0%
770	CORRECTIONS DEPARTMENT	297,280.8	303,899.6	300,548.8	3,268.0	1.1%
780	CRIME VICTIMS REPARATION COMMISSION	2,324.0	2,324.0	2,324.0	0.0	0.0%
790	DEPARTMENT OF PUBLIC SAFETY	119,068.8	121,118.5	120,207.4	1,138.6	1.0%
795	HOMELAND SECURITY AND EMERGENCY MANAGE	2,481.4	2,980.3	2,750.0	268.6	10.8%
Total	**Public Safety**	428,201.6	438,141.3	432,975.0	4,773.4	1.1%
Transportation						
805	DEPARTMENT OF TRANSPORTATION	0.0	0.0	0.0	0.0	0.0%
Total	**Transportation**	0.0	0.0	0.0	0.0	0.0%
Other Education						
924	PUBLIC EDUCATION DEPARTMENT	11,065.3	11,065.3	11,065.3	0.0	0.0%
925	PUBLIC EDUCATION DEPARTMENT-SPECIAL APPRO	88,185.0	85,862.0	89,812.0	1,627.0	1.8%
930	REGIONAL EDUCATION COOPERATIVES	0.0	0.0	726.8	726.8	0.0%
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%

Table 1: General Fund Recommendation Summary

GENERAL FUND AGENCY RECOMMENDATION SUMMARY — TABLE 1

Business Unit	Description	FY18 Adj Operating Budget	FY19 Agency Request	FY19 LFC Recomm.	$ Over Adj. FY18 Oper.	Percent Change
Total	**Other Education**	99,250.3	96,927.3	101,604.1	2,353.8	2.4%
Higher Education						
950	HIGHER EDUCATION DEPARTMENT	34,496.2	34,649.2	34,832.1	335.9	1.0%
952	UNIVERSITY OF NEW MEXICO	291,882.3	292,195.4	292,075.1	192.8	0.1%
954	NEW MEXICO STATE UNIVERSITY	190,633.5	189,878.6	190,168.9	-464.6	-0.2%
956	NEW MEXICO HIGHLANDS UNIVERSITY	29,090.9	29,130.7	29,115.4	24.5	0.1%
958	WESTERN NEW MEXICO UNIVERSITY	19,000.6	19,223.1	19,137.5	136.9	0.7%
960	EASTERN NEW MEXICO UNIVERSITY	42,893.4	42,899.8	42,897.4	4.0	0.0%
962	NEW MEXICO INSTITUTE OF MINING AND TECHNOL	35,537.1	35,584.2	35,566.1	29.0	0.1%
964	NORTHERN NEW MEXICO COLLEGE	10,438.3	10,189.3	10,285.1	-153.2	-1.5%
966	SANTA FE COMMUNITY COLLEGE	13,629.9	13,750.6	13,704.2	74.3	0.5%
968	CENTRAL NEW MEXICO COMMUNITY COLLEGE	52,995.4	53,978.9	53,600.6	605.2	1.1%
970	LUNA COMMUNITY COLLEGE	7,910.9	7,649.0	7,749.7	-161.2	-2.0%
972	MESALANDS COMMUNITY COLLEGE	4,114.8	3,984.7	4,034.8	-80.0	-1.9%
974	NEW MEXICO JUNIOR COLLEGE	6,078.0	6,089.3	6,084.9	6.9	0.1%
976	SAN JUAN COLLEGE	22,907.4	22,700.4	22,780.0	-127.4	-0.6%
977	CLOVIS COMMUNITY COLLEGE	9,367.0	9,225.5	9,279.9	-87.1	-0.9%
978	NEW MEXICO MILITARY INSTITUTE	2,856.4	2,856.4	2,856.4	0.0	0.0%
979	NEW MEXICO SCHOOL FOR THE BLIND AND VISUAL	1,457.1	1,457.1	1,457.1	0.0	0.0%
980	NEW MEXICO SCHOOL FOR THE DEAF	4,055.9	4,055.9	4,055.9	0.0	0.0%
Total	**Higher Education**	779,345.1	779,498.1	779,681.1	336.0	0.0%
Public School Support						
993	PUBLIC SCHOOL SUPPORT	2,585,724.2	2,598,597.2	2,643,423.7	57,699.5	2.2%
Total	**Public School Support**	2,585,724.2	2,598,597.2	2,643,423.7	57,699.5	2.2%
Other						
996	STATE EMPLOYEE COMPENSATION	0.0	0.0	47,922.5	47,922.5	0.0%
Total	**Other**	0.0	0.0	47,922.5	47,922.5	0.0%
Grand Total		6,062,747.5	6,252,119.5	6,260,585.7	197,838.2	3.3%
Other Adjustments						
997	SPECIAL APPR - PUBLIC SCHOOL SUPPORT	8,550.0	0.0	0.0	-8,550.0	-100.0%
997	SPECIAL APPR - OTHER	11,000.0	0.0	0.0	-11,000.0	-100.0%
Total	**Other Adjustments**	19,550.0	0.0	0.0	-19,550.0	-100.0%
Grand Total w/ Adjustments		6,082,297.5	6,252,119.5	6,260,585.7	178,288.2	2.9%

LIS special appropriation of $850.8 is recorded as an FY17 expense. And recommendation for LIS of $873.4 assumes an FY18 expense.

U.S. and New Mexico Economic Indicators

		FY17		FY18		FY19		FY20		FY21		FY22	
		Aug 17 Forecast	Dec 17 Forecast	Aug 17 Forecast	Dec 17 Forecast	Aug 17 Forecast	Dec 17 Forecast	Aug 17 Forecast	Dec 17 Forecast	Aug 17 Forecast	Dec 17 Forecast	Aug 17 Forecast	Dec 17 Forecast
	National Economic Indicators												
GI	US Real GDP Growth (annual avg. ,% YOY)*	2.0	1.9	2.6	2.5	2.6	2.3	2.0	2.2	2.3	2.0	2.2	2.1
Moody's	US Real GDP Growth (annual avg. ,% YOY)*	2.1	1.9	2.7	2.7	2.5	2.6	1.7	1.4	1.6	1.6	1.7	2.6
GI	US Inflation Rate (CPI-U, annual avg., % YOY)**	1.9	1.9	1.6	1.8	1.8	2.0	2.6	2.4	2.8	2.6	2.6	2.4
Moody's	US Inflation Rate (CPI-U, annual avg., % YOY)**	1.9	1.9	1.9	2.0	2.6	2.6	2.9	2.8	2.6	2.6	1.8	2.3
GI	Federal Funds Rate (%)	0.6	0.6	1.4	1.3	2.2	2.0	2.9	2.6	3.0	3.1	3.0	3.2
Moody's	Federal Funds Rate (%)	0.6	0.6	1.4	1.4	2.7	2.7	3.7	3.7	3.5	3.5	3.2	3.0
	New Mexico Labor Market and Income Data												
BBER	NM Non-Agricultural Employment Growth (%)	0.2	0.0	0.9	0.5	1.1	1.1	1.3	1.2	1.3	1.1	1.2	1.0
Moody's	NM Non-Agricultural Employment Growth (%)	0.6	0.6	0.9	0.7	1.0	1.0	0.8	0.4	0.3	0.2	0.4	0.9
BBER	NM Nominal Personal Income Growth (%)***	1.8	1.4	2.5	2.0	3.5	2.7	4.2	3.7	4.5	4.4	4.7	4.5
Moody's	NM Nominal Personal Income Growth (%)***	1.7	1.4	2.5	2.4	3.7	2.6	3.7	3.2	3.5	3.3	4.0	3.6
BBER	NM Total Wages & Salaries Growth (%)	1.3	1.0	2.7	2.2	3.4	3.5	3.8	3.7	4.2	3.7	4.5	3.6
Moody's	NM Total Wages & Salaries Growth (%)	1.1	1.0	1.8	3.0	3.5	3.2	4.2	3.3	2.7	2.2	1.8	2.8
BBER	NM Private Wages & Salaries Growth (%)	1.3	0.6	3.3	2.5	4.3	4.0	4.4	4.2	4.7	4.2	5.0	4.0
BBER	NM Real Gross State Product (% YOY)	-0.2	0.5	0.8	0.9	1.7	1.6	2.3	2.4	2.4	2.4	2.2	2.2
Moody's	NM Real Gross State Product (% YOY)	0.1	0.4	1.3	1.7	1.7	1.6	1.3	0.7	1.4	1.5	1.6	2.6
CREG	NM Oil Price ($/barrel)	*$45.10*	$45.00	*$44.50*	$47.50	*$45.50*	$49.50	*$47.00*	$50.50	*$48.00*	$51.50	*$50.00*	$52.50
BBER	Oil Volumes (million barrels)	149.4	152.5	152.7	153.5	155.9	157.6	160.0	161.9	165.7	167.6	170.3	172.2
CREG	NM Taxable Oil Volumes (million barrels)	*150.0*	153.0	*153.0*	158.0	*156.0*	162.0	*159.0*	165.0	*162.0*	168.0	*165.0*	170.0
	NM Taxable Oil Volumes (%YOY growth)			*2.0%*	3.3%	*2.0%*	2.5%	*1.9%*	1.9%	*1.9%*	1.8%	*1.9%*	1.2%
CREG	NM Gas Price ($ per thousand cubic feet)****	*$3.27*	$3.26	*$3.30*	$3.25	*$3.20*	$3.25	*$3.10*	$3.25	*$3.10*	$3.20	*$3.10*	$3.20
BBER	Gas Volumes (billion cubic feet)	1,203	1,219	1,201	1,207	1,191	1,192	1,190	1,175	1,179	1,161	1,161	1,144
CREG	NM Taxable Gas Volumes (billion cubic feet)	*1,210*	1,220	*1,210*	1,230	*1,210*	1,220	*1,210*	1,200	*1,210*	1,190	*1,210*	1,180
	NM Taxable Gas Volumes (%YOY growth)			*0.0%*	0.8%	*0.0%*	-0.8%	*0.0%*	-1.6%	*0.0%*	-0.8%	*0.0%*	-0.8%

LFC, TRD Notes
* Real GDP is BEA chained 2009 dollars, billions, annual rate
** CPI is all urban, BLS 1982-84=1.00 base
***Nominal Personal Income growth rates are for the calendar year in which each fiscal year begins
Sources: BBER - October 2017 FOR-UNM baseline. Global Insight - November 2017 baseline.

DFA Notes
* Real GDP is BEA chained 2005 dollars, billions, annual rate
** CPI is all urban, BLS 1982-84=1.00 base.
***Nominal Personal Income growth rates are for the calendar year in which each fiscal year begins
*****The gas prices are estimated using a formula of NYMEX, EIA, and Moodys (June) future prices as well as a liquid premium based on oil price forecast
Sources: November 2017 Moody's economy.com baseline

GENERAL FUND CONSENSUS REVENUE ESTIMATE
December 2017
(millions of dollars)

Revenue Source	FY17 Unaudited Actual	FY17 % Change from FY16	FY18 Forecast	FY18 % Change from FY17	FY19 Forecast	FY19 % Change from FY18	FY20 Forecast	FY20 % Change from FY19
Base Gross Receipts Tax	2,169.2	-0.6%	2,247.8	3.6%	2,306.4	2.6%	2,403.2	4.2%
60-Day Money & Other Credits	(33.0)	n/a	(53.9)	63.3%	(53.9)	0.0%	(53.9)	0.0%
F&M Hold Harmless Payments	(122.7)	-9.2%	(129.4)	5.5%	(125.3)	-3.2%	(121.2)	-3.3%
NET Gross Receipts Tax	2,013.5	1.9%	2,064.5	2.5%	2,127.2	3.0%	2,228.1	4.7%
Compensating Tax	48.5	3.5%	53.5	10.2%	57.8	8.0%	61.3	6.1%
TOTAL GENERAL SALES	2,062.1	2.0%	2,118.0	2.7%	2,185.0	3.2%	2,289.4	4.8%
Tobacco Taxes	77.9	-2.4%	79.4	1.9%	77.8	-2.0%	76.4	-1.8%
Liquor Excise	7.4	9.6%	23.5	218.4%	25.3	7.7%	25.2	-0.4%
Insurance Taxes	227.5	9.4%	232.4	2.2%	242.3	4.3%	253.2	4.5%
Fire Protection Fund Reversion	18.7	23.9%	17.8	-4.7%	18.3	2.8%	18.9	3.0%
Motor Vehicle Excise	145.2	-3.4%	150.3	3.5%	155.1	3.2%	159.0	2.5%
Gaming Excise	59.5	-5.6%	62.5	5.0%	63.2	1.1%	63.4	0.3%
Leased Vehicle & Other	7.3	-14.7%	7.6	4.8%	7.7	1.3%	7.7	0.0%
TOTAL SELECTIVE SALES	543.4	1.2%	573.5	5.5%	589.7	2.8%	603.8	2.4%
Personal Income Tax	1,380.7	4.0%	1,381.1	0.0%	1,408.8	2.0%	1,434.7	1.8%
Corporate Income Tax	70.2	-40.8%	105.0	49.7%	110.0	4.8%	115.0	4.5%
TOTAL INCOME TAXES	1,450.8	0.4%	1,486.1	2.4%	1,518.8	2.2%	1,549.7	2.0%
Oil and Gas School Tax	304.3	28.5%	322.6	6.0%	336.0	4.2%	315.0	-6.3%
Oil Conservation Tax	17.4	52.7%	16.7	-3.9%	17.4	4.2%	17.8	2.3%
Resources Excise Tax	9.6	-13.9%	9.3	-3.6%	9.0	-3.2%	9.0	0.0%
Natural Gas Processors Tax	10.3	-49.3%	10.2	-1.1%	12.6	23.5%	12.2	-3.2%
TOTAL SEVERANCE TAXES	341.6	22.1%	358.8	5.0%	375.0	4.5%	354.0	-5.6%
LICENSE FEES	53.3	-2.7%	54.2	1.6%	55.4	2.2%	56.7	2.3%
LGPF Interest	541.6	-2.4%	584.9	8.0%	630.8	7.8%	668.0	5.9%
STO Interest	(3.2)	n/a	-	n/a	8.4	n/a	29.2	247.6%
STPF Interest	200.4	3.6%	210.4	5.0%	219.5	4.3%	225.8	2.9%
TOTAL INTEREST	738.3	-4.1%	795.3	7.7%	858.7	8.0%	923.0	7.5%
Federal Mineral Leasing	435.7	11.7%	473.2	8.6%	472.9	-0.1%	480.3	1.6%
State Land Office	71.5	49.5%	76.2	6.6%	60.6	-20.5%	61.8	2.0%
TOTAL RENTS & ROYALTIES	507.2	15.8%	549.4	8.3%	533.5	-2.9%	542.1	1.6%
TRIBAL REVENUE SHARING	62.7	-2.6%	64.8	3.3%	73.1	12.8%	74.7	2.2%
MISCELLANEOUS RECEIPTS	49.5	2.9%	50.7	2.5%	52.1	2.8%	56.3	8.1%
REVERSIONS	76.5	35.7%	40.0	-47.7%	40.0	0.0%	40.0	0.0%
TOTAL RECURRING	5,885.4	3.0%	6,090.7	3.5%	6,281.3	3.1%	6,489.6	3.3%
TOTAL NONRECURRING	575.7	n/a	37.2	-93.5%	-	-100.0%	-	n/a
GRAND TOTAL	6,461.1	13.0%	6,127.9	-5.2%	6,281.3	2.5%	6,489.6	3.3%

General Fund Financial Summary:
LFC FY19 Budget Recommendation
(millions of dollars)

December 20, 2017	Prelim. FY2017	Estimate FY2018	Estimate FY2019
APPROPRIATION ACCOUNT			
REVENUE			
Recurring Revenue			
December 2017 Consensus Revenue Forecast	$ 5,885.4	$ 6,090.7	$ 6,281.3
Total Recurring Revenue	$ 5,885.4	$ 6,090.7	$ 6,281.3
Nonrecurring Revenue			
2016 & 2017 Regular & Special Sessions Nonrecurring Revenue Legislation [1,2,4]	$ 566.2	$ 18.7	
Other Nonrecurring Revenue	$ 9.5	$ 18.5	
Total Nonrecurring Revenue	$ 575.7	$ 37.2	$ -
TOTAL REVENUE	**$ 6,461.1**	**$ 6,127.9**	**$ 6,281.3**
APPROPRIATIONS			
Recurring Appropriations			
2016 Legislation and Feed Bill	$ 6,228.1		
2016 Special Session Recurring Appropriation Reductions [4, 5]	$ (133.9)		
2017 Regular & Special Session Legislation & Feed Bill	$ 9.5	$ 6,082.3	
2018 Session Legislation & Feed Bill [7]	$ -	$ 6.5	$ 6,260.6
Total Recurring Appropriations	$ 6,103.6	$ 6,088.8	$ 6,260.6
Nonrecurring Appropriations			
2016 Legislation & Prior Year Appropriations [6]	$ 0.4		
2016 Special Session Nonrecurring Appropriations [3, 5]	$ 2.5		
2017 Regular & Special Session Nonrecurring Appropriations	$ 23.2	$ -	
2018 Session Nonrecurring Appropriations	$ -	$ 54.5	$ -
Total Nonrecurring Appropriations	$ 26.1	$ 54.5	$ -
TOTAL APPROPRIATIONS	**$ 6,129.7**	**$ 6,143.2**	**$ 6,260.6**
Transfer to (from) Reserves	$ 331.4	$ (15.3)	$ 20.7
GENERAL FUND RESERVES			
Beginning Balances	$ 147.7	$ 504.9	$ 489.1
Transfers from (to) Appropriations Account	$ 331.4	$ (15.3)	$ 20.7
Revenue and Reversions	$ 78.0	$ 56.5	$ 54.2
Appropriations, Expenditures and Transfers Out	$ (52.2)	$ (57.0)	$ (36.0)
Ending Balances	**$ 504.9**	**$ 489.1**	**$ 528.0**
Reserves as a Percent of Recurring Appropriations	*8.3%*	*8.0%*	*8.4%*

Notes:

1) Laws 2016, Chapter 12 (HB311)

2) Laws 2016, Second Special Session, Chapter 4 (SB2) - $96.5 million original estimate for general fund sweeps and transfers minus $1.7 million in failed DCA AIPP sweep and minus $1.5 million in failed HED sweep for adjusted total of $93.3 million

3) Laws 2016, Second Special Session, Chapter 3 (SB6) - revenue package

4) Laws 2016, Second Special Session, Chapter 5 (SB8) - $89.8 million in capital outlay sweeps (DFA may book $56.2 million as appropriation reductions)

5) Laws 2016, Second Special Session, Chapter 6 (SB9) - appropriation reductions, not including the $22 million vetoed from the reduction to PED's special appropriations, not including $20 million of the $30 million reduced appropriation for PED for transportation and instructional materials that DFA booked as nonrecurring revenue/reversion

6) Adjusted for FY16 audit

7) FY18 feed bill cost preliminary estimate of $6.5 million, equal to prior 30-day session plus 5 percent plus $873.4 thousand for LIS

Table 4: General Fund Financial Summary and Reserve Detail

General Fund Financial Summary:
LFC FY19 Budget Recommendation
RESERVE DETAIL
(millions of dollars)

December 20, 2017	Prelim. FY2017	Estimate FY2018	Estimate FY2019
OPERATING RESERVE			
Beginning Balance	$ 2.0	$ 331.4	$ 314.1
BOF Emergency Appropriations/Reversions	$ (2.0)	$ (2.0)	$ (2.0)
Transfers from/to Appropriation Account	$ 331.4	$ (15.3)	$ 20.7
Transfer from (to) ACF/Other Appropriations	$ -	$ -	$ -
Transfer from Tax Stabilization Reserve	$ -		
Ending Balance	$ 331.4	$ 314.1	$ 332.8
APPROPRIATION CONTINGENCY FUND			
Beginning Balance	$ 34.4	$ 25.7	$ 17.7
Disaster Allotments	$ (13.0)	$ (16.0)	$ (16.0)
Other Appropriations	$ (0.3)	$ -	$ -
Transfers In	$ -	$ -	$ -
Revenue and Reversions	$ 4.6	$ 8.0	$ 8.0
Ending Balance	$ 25.7	$ 17.7	$ 9.7
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	$ 110.4	$ 146.8	$ 156.3
Transfers In	$ 54.3	$ 39.0	$ 36.0
Appropriation to Tobacco Settlement Program Fund	$ (18.5)	$ (19.5)	$ (18.0)
Gains/Losses	$ 19.2	$ 9.5	$ 10.2
Additional Transfers from TSPF	$ (18.5)	$ (19.5)	$ -
Transfer to General Fund Appropriation Account	$ -	$ -	$ -
Ending Balance	$ 146.8	$ 156.3	$ 184.5
TAX STABILIZATION RESERVE			
Beginning Balance	$ -	$ -	$ -
Transfers In	$ -	$ -	$ -
Transfer Out to Operating Reserve	$ -	$ -	$ -
Ending Balance	$ -	$ -	$ -
GENERAL FUND ENDING BALANCES	**$ 504.9**	**$ 489.1**	**$ 528.0**
Percent of Recurring Appropriations	*8.3%*	*8.0%*	*8.4%*

2018 Special, Supplemental, and Deficiency Appropriations
(in thousands)

	GAA Section	Agency Code	Agency Name	FY	Recurring	Language	Language Only	GF Request	Other Funds/ Federal Funds Total	Total Request	GF LFC	Other Funds/ Federal Funds LFC Total	LFC Total	
1	5	218	Administrative Office of the Courts	18/19	No	To update the odyssey system to allow for electronic filing of criminal cases.	No	$250.0		$250.0	$250.0		$250.0	1
2	5	218	Administrative Office of the Courts	18/19	Yes	For information technology equipment for all judicial entities statewide.	No	$136.0		$136.0				2
3	5	218	Administrative Office of the Courts	18/19	Yes	For vehicles for the administrative office of the courts.	No	$40.0		$40.0				3
4	5	218	Administrative Office of the Courts	18/19	Yes	To replace aging access switches.	No		$275.0	$275.0				4
5	5	218	Administrative Office of the Courts	18/19	Yes	To replace network infrastructure in the Second District Court.	No		$230.0	$230.0				5
6	5	218	Administrative Office of the Courts	18/19	Yes	For furniture and equipment at magistrate courts statewide.	No	$600.0		$600.0				6
7	5	218	Administrative Office of the Courts	18/19	Yes	For equipment at district courts statewide.	No	$988.7		$988.7				7
8	5	218	Administrative Office of the Courts	18/19	Yes	To purchase assistive listening equipment.	No	$10.0		$10.0				8
9	5	218	Administrative Office of the Courts	18/19	No	To perform two workload studies, one for court staff statewide, and the other for the need for judges statewide.	No	$400.0		$400.0				9
10	5	218	Administrative Office of the Courts	18/19	No	To plan, analyze, and propose solutions to courthouse security needs statewide.	No	$250.0		$250.0				10
11	5	218	Administrative Office of the Courts	18/19	No	To purchase redaction software for electronic case documents. The other state funds appropriation is from the electronic services fund.	No		$1,125.0	$1,125.0		$1,125.0	$1,125.0	11
12	5	218	Administrative Office of the Courts	18/19	Yes	To purchase a scheduling system for interpreting services.	No		$115.0	$115.0				12
13	5	218	Administrative Office of the Courts	18/19	Yes	To purchase video equipment for the judiciary's video arraignment network.	No		$372.0	$372.0				13
14	5	252	2nd Judicial District Attorney	18/19	Yes	For a data-driven prosecution pilot program. Three hundred thousand dollars ($300,000) of the general fund appropriations is contingent on a local government match of three hundred thousand dollars ($300,000).	No	$4,075.0		$4,075.0	$300.0	$300.0	$600.0	14
15	5	252	2nd Judicial District Attorney	18/19	No	For case prosecution.	No	$600.0		$600.0	$600.0		$600.0	15
16	5	252	2nd Judicial District Attorney	18/19	No	For review and resolution of officer involved shootings.	No	$400.0		$400.0				16
17	5	252	2nd Judicial District Attorney	18/19	No	For a justice reform program.	No	$850.0		$850.0				17
18	5	252	2nd Judicial District Attorney	18/19	Yes	For evaluation of verifiable claims of innocents.	No	$843.0		$843.0				18
19	5	252	2nd Judicial District Attorney	18/19	Yes	For security issues at the office of the 2nd Judicial District Attorney.	No	$600.0		$600.0				19
20	5	259	9th Judicial District Attorney	18/19	No	For case prosecution.	No	$100.0		$100.0	$100.0		$100.0	20

Table 5: Special, Supplemental & Deficiency Appropriations, 2018 Requests

2018 Special, Supplemental, and Deficiency Appropriations
(in thousands)

	GAA Section	Agency Code	Agency Name	FY	Recurring	Language	Language Only	GF Request	Other Funds/ Federal Funds Total	Total Request	GF LFC	Other Funds/ Federal Funds LFC Total	LFC Total	
21	5	262	12th Judicial District Attorney	18/19	No	For case prosecution.	No	$65.0		$65.0	$65.0		$65.0	21
22	5	280	Public Defender Department	18/19	No	To conduct a workload study. Fifty thousand dollars ($50,000) of the general fund appropriation is contingent on matching funds from the national association for public defense.	No	$50.0		$50.0	$50.0	$50.0	$100.0	22
23	5	305	Attorney General	18/19	No	To defend the Rio Grande compact.	No	$1,500.0		$1,500.0	$1,500.0		$1,500.0	23
24	5	305	Attorney General	18/19	No	For the treaty of guadalupe hidalgo land grant division.	No	$150.0		$150.0				24
25	5	333	Taxation and Revenue Department	18/19	Yes	For litigation services related to tax protests.	No	$500.0		$500.0	$250.0		$250.0	25
26	5	341	Department of Finance and Administration	18/19	Yes	For comprehensive annual financial report software support.	No	$200.0		$200.0	$200.0		$200.0	26
27	5	341	Department of Finance and Administration	18/19	Yes	For payment card industry and data security standards compliance program.	No	$750.0		$750.0	$600.0		$600.0	27
28	5	341	Department of Finance and Administration	18/19	Yes	For disbursement to the New Mexico mortgage finance authority for regional housing oversight.	No				$191.4		$191.4	28
29	5	341	Department of Finance and Administration	18/19	Yes	For disbursement to the renewable energy transmission authority for operating costs in fiscal year 2019. The renewable energy transmission authority shall report to the interim New Mexico finance authority oversight committee on the status of the agency's operating budget. The other state funds appropriation is from non state sources.	No	$250.0	$120.0	$370.0	$100.0	$120.0	$220.0	29
30	5	341	Department of Finance and Administration	19	Yes	For ten percent half-year salary and benefits increase for non-judicial statewide elected officials contingent on enactment of legislation of the second session of the fity-third legislature authorizing non-judicial elected officer compensation increases.	No				$67.4	$6.1	$73.5	30
31	5	350	General Services Department	18/19	Yes	To continue the annual 20 percent facility condition assessment of state-owned buildings.	No	$200.0		$200.0				31
32	5	350	General Services Department	19	Yes	To replace general fund revenue for the state motor pool GPS monitoring program.	No	$465.2		$465.2				32
33	5	352	Educational Retirement Board	18/19	Yes	To conduct a multi-year project to update 48,000 inactive member records with correct contact information to remind them of their options.	No		$1,011.8	$1,011.8				33

2018 Special, Supplemental, and Deficiency Appropriations
(in thousands)

	GAA Section	Agency Code	Agency Name	FY	Recurring	Language	Language Only	GF Request	Other Funds/ Federal Funds Total	Total Request	GF LFC	Other Funds/ Federal Funds LFC Total	LFC Total	
34	5	354	New Mexico Sentencing Commission	19	Yes	Any unexpended balances remaining at the end of fiscal year 2017 from revenues received in fiscal year 2017 and prior years from New Mexico department of finance and administration pursuant to the County Detention Facility Reimbursement Act to produce the annual calculation of the felony offender incarceration percentage and the distribution amount for each eligible county shall not revert and shall remain for use by the New Mexico sentencing commission to provide further research capabilities for this project for expenditure in fiscal year 2019.	Yes		Language Only			Language Only		34
35	5	354	New Mexico Sentencing Commission	19	Yes	Any unexpended balances remaining at the end of fiscal year 2017 from revenues received in fiscal year 2017 and prior years from the New Mexico department of corrections pursuant to a memorandum of understanding to produce the ten (10) year prison population forecast and the associated report shall not revert and shall remain for use by the New Mexico sentencing commission to provide further research capabilities for this project for expenditure in fiscal year 2019.	Yes		Language Only			Language Only		35
36	5	378	State Personnel Office	19	No	For scanning personnel records.	No	$200.0		$200.0				36
37	5	378	State Personnel Office	19	No	For software licenses.	No	$335.0		$335.0				37
38	5	379	Public Employees Labor Relations Board	18/19	Yes	For employee insurance costs.	No	$7.3		$7.3	$7.3		$7.3	38
39	5	394	State Treasurer	18/19	No	For implementation of special programs and task forces created through legislation.	No	$93.2		$93.2				39
40	5	417	Border Authority	18/19	Yes	For New Mexico Chihuahua and Sonora commissions.	No	$50.0		$50.0				40
41	5	419	Economic Development Department	18/19	Yes	For economic development projects pursuant to the Local Economic Develoment Act.	No	$12,000.0		$12,000.0	$2,000.0		$2,000.0	41
42	5	419	Economic Development Department	18/19	Yes	To the development training fund for the job training incentive program.	No	$10,000.0		$10,000.0	$4,000.0		$4,000.0	42
43	5	419	Economic Development Department	18/19	Yes	For main street projects that are construction ready.	No	$350.0		$350.0				43
44	5	419	Economic Development Department	18/19	Yes	For promotional events in support of New Mexico international trade.	No	$200.0		$200.0				44

Table 5: Special, Supplemental & Deficiency Appropriations, 2018 Requests

2018 Special, Supplemental, and Deficiency Appropriations
(in thousands)

	GAA Section	Agency Code	Agency Name	FY	Recurring	Language	Language Only	GF Request	Other Funds/ Federal Funds Total	Total Request	GF LFC	Other Funds/ Federal Funds LFC Total	LFC Total	
45	5	419	Economic Development Department	19	Yes	The period of time for expending the six million nine-hundred thousand dollars ($6,900,000) appropriated from the general fund in laws 2017 Chapter 135 pursuant to the Local Economic Development Act is extended through fiscal year 2020.	Yes		Language Only					45
46	5	419	Economic Development Department	19	Yes	The period of time for expending the one million two hundred fifty-thousand ($1,250,000) appropriated from the general fund in Laws 2016 Chapter 11 for projects pursuant to the Rapid Response Workforce Act is extended through fiscal year 2019.	Yes		Language Only					46
47	5	420	Regulation and Licensing Department	19	Yes	For litigation of fraud in non-profit trust companies.	No	$200.0		$200.0				47
48	5	420	Regulation and Licensing Department	18/19	No	For training of multidiscipline inspectors.	No	$60.0		$60.0	$60.0		$60.0	48
49	5	465	Gaming Control Board	18/19	Yes	For arbitration and litigation expenses related to tribal gaming.	No	$200.0		$200.0				49
50	5	490	Cumbres and Toltec	19	No	For rebuild and remodel of two existing railroad cars for premium class passenger service.	No	$270.0		$270.0				50
51	5	495	Spaceport	18/19	Yes	For twenty-four hour fire crew and security costs. The other state funds is from the fire protection grant fund.	No					$600.0	$600.0	51
52	5	505	Cultural Affairs	18/19	Yes	For agency operational expenses including personnel costs and benefits.	No	$2,100.0		$2,100.0	$1,000.0		$1,000.0	52
53	5	505	Cultural Affairs	18/19	Yes	For maintenance and repairs of museums, historic sites and other facilities.	No	$1,000.0		$1,000.0	$500.0		$500.0	53
54	5	505	Cultural Affairs	18/19	Yes	For contractual costs for E-rate consulting firm to provide an increase in installation and delivery of broadband internet to communities throughout New Mexico.	No	$75.0		$75.0				54
55	5	508	Livestock Board	18/19	No	For purchase of vehicles, law enforcement accreditation, and dispatching services.	No	$265.0		$265.0				55
56	5	516	Department of Game and Fish	18/19	No	To replace boats and other off-highway vehicles for the law enforcement program. The other state funds appropriation is from the game protection fund.	No		$500.0	$500.0		$500.0	$500.0	56
57	5	516	Department of Game and Fish	18/19	No	To rehabilitate a deteriorating concrete flood irrigation system at the Bernardo waterfowl management area. The other state funds appropriation is from the habitat management fund.	No		$500.0	$500.0		$500.0	$500.0	57
58	5	516	Department of Game and Fish	19	No	To provide funding to determine the impacts of Mexican wolf population on the elk population within the wolf recovery area. The appropriation is from the big game enhancement fund.	No		$500.0	$500.0				58

2018 Special, Supplemental, and Deficiency Appropriations
(in thousands)

	GAA Section	Agency Code	Agency Name	FY	Recurring	Language	Language Only	GF Request	Other Funds/ Federal Funds Total	Total Request	GF LFC	Other Funds/ Federal Funds LFC Total	LFC Total	
59	5	521	Energy, Minerals, and Natural Resources	18/19	Yes	For the oil reclamation fund.	No	$2,000.0		$2,000.0	$2,000.0		$2,000.0	59
60	5	521	Energy, Minerals, and Natural Resources	18/19	No	For remediation of the Carlsbad brine well. One million dollars ($1,000,000) of the general fund appropriation is contingent on receiving matching funds of one hundred fifty thousand dollars ($150,000) from the city of Carlsbad and one hundred fifty thousand dollars ($150,000) from Eddy county.	No				$1,000.0	$300.0	$1,300.0	60
61	5	538	Intertribal Ceremonial Office	18/19	Yes	For operational costs.	No	$27.0		$27.0	$27.0		$27.0	61
62	5	550	Office of the State Engineer	18/19	No	To continue water litigation under the Rio Grande compact.	No	$3,200.0		$3,200.0	$1,500.0		$1,500.0	62
63	5	631	Workforce Solutions Department	18	No	Any unexpended balances in the workforce solutions department remaining at the end of fiscal year 2018 from appropriations made from the general fund shall not revert and may be expended in fiscal year 2019.	Yes		Language Only			Language Only		63
64	5	632	Workers' Compensation Administration	18/19	No	To provide a third-party, independent analysis of the state workers' compensation system. The appropriation is from the workers' compensation administration fund of the workers' compensation administration.	No		$250.0	$250.0		$250.0	$250.0	64
65	5	644	Division of Vocational Rehabilitation	19	No	Any unexpended balances in the division of vocational rehabilitation remaining at the end of fiscal year 2018 from appropriations made from the general fund shall not revert and may be expended in fiscal year 2019.	Yes		Language Only			Language Only		65
66	5	647	Developmental Disabilities Planning Council	18/19	No	For purchase of van ramp.	No	$65.0		$65.0				66
67	5	665	Department of Health	17	No	Any Unexpended balances in the public health program of the department of health in the contractual services category from appropriations made from the county-supported Medicaid fund for the support of primary healthcare services related to the rural primary healthcare act remaining at the end of fiscal year 2017 shall not revert and shall be expended in fiscal year 2018 to support the primary healthcare services in the public health program.	Yes		Language Only					67
68	5	665	Department of Health	18	No	Any Unexpended balances in the public health program of the department of health in the contractual services category from appropriations made from the county-supported Medicaid fund for the support of primary healthcare services related to the rural primary healthcare act remaining at the end of fiscal year 2018 shall not revert and shall be expended in fiscal year 2019 to support the primary healthcare services in the public health program.	Yes		Language Only					68

Table 5: Special, Supplemental & Deficiency Appropriations, 2018 Requests

2018 Special, Supplemental, and Deficiency Appropriations
(in thousands)

	GAA Section	Agency Code	Agency Name	FY	Recurring	Language	Language Only	GF Request	Other Funds/ Federal Funds Total	Total Request	GF LFC	Other Funds/ Federal Funds LFC Total	LFC Total	
69	5	665	Department of Health	18	No	Any unexpended balances in the epidemiology and response program for the vital records and health statistics bureau of the department of health in all categories remaining at the end of the fiscal year 2018 from appropriation made from the general fund shall not revert to the general fund and shall be expended in fiscal year 2019 to support the vital records and health statistics bureau in the epidemiology and response program of the department of health.	Yes		Language Only					69
70	5	665	Department of Health	18	No	Any unexpended balances in the developmental disabilities support program of the department of health in the other financing uses category remaining at the end of fiscal year 2018 from appropriations made from the general fund shall not revert to the general fund and shall be expended in fiscal year 2019 to support the developmental disabilities Medicaid waiver program in the developmental disabilities support program of the department of health.	Yes		Language Only					70
71	5	665	Department of Health	18/19	No	For felix system replacement.	No	$250.0		$250.0				71
72	5	665	Department of Health	18/19	No	To replace the incident management bureau's software application.	No	$112.5	$12.5	$125.0				72
73	5	665	Department of Health	19	Yes	To transfer DDS clinic to the developmental disabilities support program.	No	$764.1		$764.1				73
74	5	665	Department of Health	18/19	No	To temporarily relocate the Santa Fe office of the vital records and health statistics bureau of the department of health.	No				$250.0		$250.0	74
75	5	690	Children, Youth and Families Department	18/19	Yes	For start up costs for a Medicaid home visiting pilot.	No				$250.0		$250.0	75
76	5	690	Children, Youth and Families Department	19	No	Any unexpended balances in the protective services and early childhood services programs of the children, youth and families department remaining at the end of fiscal year 2019 from appropriations made from the general fund shall not revert and may be expended in fiscal year 2020.	Yes		Language Only					76
77	5	770	New Mexico Corrections Department	19	Yes	Two million dollars ($2,000,000) appropriated from the general fund in subsection 25 of section 5 of chapter 135 of laws 2017 for inmate population growth in public and private prisons, the treatment of hepatitis c and custodial staff overtime is extended through fiscal year 2019 and may be used for facility maintenance.	Yes		Language Only			Language Only		77
78	5	770	New Mexico Corrections Department	19	Yes	The period of time for expending fiscal year 2017 and fiscal year 2018 private prison penalty assessments appropriated in Subsection 26 of Section 5 of Chapter 135 of Laws 2017 is extended through fiscal year 2019.	Yes		Language Only					78

2018 Special, Supplemental, and Deficiency Appropriations

(in thousands)

	GAA Section	Agency Code	Agency Name	FY	Recurring	Language	Language Only	GF Request	Other Funds/ Federal Funds Total	Total Request	GF LFC	Other Funds/ Federal Funds LFC Total	LFC Total	
79	5	770	New Mexico Corrections Department	18/19	No	For the purchase of body scanners in public prison facilities.	No	$880.0		$880.0	$440.0		$440.0	79
80	5	770	New Mexico Corrections Department	19	Yes	Two million dollars ($2,000,000) appropriated from the general fund and three million dollars ($3,000,000) from the land grant permanent fund in subsection 24 of section 5 of chapter 135 of laws 2017 for inmate population growth in public and private prisons, the treatment of hepatitis c and custodial staff overtime is extended through fiscal year 2019 and may also be used for facility maintenance.	Yes		Language Only			Language Only		80
81	5	790	Department of Public Safety	18/19	Yes	For community oriented policing services. One million five hundred thousand dollars ($1,500,000) from the general fund is contingent on receiving matching funds of one million five hundred thousand dollars ($1,500,000) from Bernalillo county and one million five hundred thousand dollars ($1,500,000) from the city of Albuquerque.	No				$1,500.0	$1,500.0	$3,000.0	81
82	5	790	Department of Public Safety	18/19	No	The period of time for expending one million two hundred thousand dollars ($1,200,000) appropriated from the general fund in subsection 47 of section 5 of chapter 11 of laws 2016 as extended in subsection 27 of section 5 of chapter 135 of laws 2017 for processing of backlogged rape kits is extended through fiscal year 2019.	Yes		Language Only			Language Only		82
83	5	790	Department of Public Safety	18/19	Yes	For the replenishment of the department's cash balance in the amount of two hundred thirty three thousand six hundred six dollars ($233,606) due to over reversion in a past fiscal year.	No	$233.6		$233.6				83
84	5	790	Department of Public Safety	18/19	No	For the establishment of a flash roll to be used in criminal investigations by the New Mexico state police.	No	$100.0		$100.0	$100.0		$100.0	84
85	5	790	Department of Public Safety	18/19	Yes	To conduct investigations and aid in the prosecution of criminal cases in the New Mexico state police division.	No	$782.4		$782.4				85
86	5	805	Department of Transportation	19	Yes	The period of time for expending up to six hundred thirty million dollars ($630,000,000) of other state funds and federal funds appropriations to the project design and construction program of the department of transportation pertaining to prior fiscal years is extended through fiscal year 2019.	Yes		Language Only			Language Only		86
87	5	805	Department of Transportation	19	Yes	The period of time for expending up to thirty million dollars ($30,000,000) of other state funds and federal funds appropriations to the highway operations program of the department of transportation pertaining to prior fiscal years is extended through fiscal year 2019.	Yes		Language Only			Language Only		87
88	5	805	Department of Transportation	19	Yes	The period of time for expending up to thirty million dollars ($30,000,000) of other state funds and federal funds appropriations to the modal program of the department of transportation pertaining to prior fiscal years is extended through fiscal year 2019.	Yes		Language Only			Language Only		88

Table 5: Special, Supplemental & Deficiency Appropriations, 2018 Requests

2018 Special, Supplemental, and Deficiency Appropriations
(in thousands)

	GAA Section	Agency Code	Agency Name	FY	Recurring	Language	Language Only	GF Request	Other Funds/ Federal Funds Total	Total Request	GF LFC	Other Funds/ Federal Funds LFC Total	LFC Total	
89	5	924	Public Education Department	18/19	No	For legal fees related to defending the state in Martinez v. state of New Mexico No. D-101-CV-2014-00793 and Yazzie v. state of New Mexico No. D-101-CV-2014-02224.	No	$1,500.0		$1,500.0	$1,000.0		$1,000.0	89
90	5	924	Public Education Department	18/19	Yes	For emergency support to school districts experiencing shortfalls. All requirements for distribution shall be made in accordance with Section 22-8-30 NMSA 1978.	No	$1,500.0		$1,500.0	$1,000.0		$1,000.0	90
91	5	924	Public Education Department	19	Yes	For military base expansion at Holloman air force base.	No	$1,500.0		$1,500.0				91
92	5	924	Public Education Department	18/19	Yes	For implementation of science, technology, engineering and mathematics ready science standards.	No				$500.0		$500.0	92
93	5	950	Higher Education Department	18/19	No	To support legislative lottery tuition scholarships in fiscal year 2019.	No				$4,000.0		$4,000.0	93
94	5	954	New Mexico State University	18/19	Yes	For the water resource research institute. Three hundred thousand dollars ($300,000) of the general fund appropriation is contingent on matching funds from other sources.	No				$300.0		$300.0	94
95	5	993	Public School Support	19	No	Contingent on enactment of legislation of the second session of the fifty third legislature, up to one million one hundred thousand dollars ($1,100,000) of the general fund appropriation to the state equalization guarantee shall be used by the public education department to implement the fiscal year 2019 program to maintain school districts' and charter schools' respective program cost calculations that result solely from the implementation of the hold harmless provisions of the legislation.	No							95
96	5	99220	Computer System Enhancement Fund	19	No	For transfer to the computer system enhancement fund for system replacements or enhancements.	No	$45,689.1		$45,689.1	$18,180.2		$18,180.2	96
97	6	218	Administrative Office of the Courts	18	Yes	For a shorfall in fiscal year 2015.	No	$71.0		$71.0	$71.0		$71.0	97
98	6	218	Administrative Office of the Courts	18	Yes	For a shortfall in the court-appointed attorney fund.	No	$250.0		$250.0	$250.0		$250.0	98
99	6	218	Administrative Office of the Courts	18	Yes	For the magistrate courts.	No	$550.0		$550.0	$530.0		$530.0	99
100	6	255	Fifth Judicial District Attorney	18	No	For prior year budget deficit due to over reversion.	No	$1.3		$1.3				100
101	6	260	10th Judicial District Attorney	18	No	For the purchase and maintenance of automobiles.	No	$140.0		$140.0	$70.0		$70.0	101
102	6	265	11th Judicial District Attorney Div II	18	No	For prior year budget deficiency from over-reversions.	No	$1.7		$1.7				102
103	6	280	Public Defender Department	19	No	For a projected shortfall in contractual services and ongoing efforts to reduce attorney caseloads.	No	$500.0		$500.0				103
104	6	305	Attorney General	18	Yes	For water litigation associated with the defense of Texas v. New Mexico.	No	$250.0		$250.0				104

2018 Special, Supplemental, and Deficiency Appropriations
(in thousands)

	GAA Section	Agency Code	Agency Name	FY	Recurring	Language	Language Only	GF Request	Other Funds/ Federal Funds Total	Total Request	GF LFC	Other Funds/ Federal Funds LFC Total	LFC Total	
105	6	350	General Services Department	18	Yes	To replace general fund revenue for the state motor pool GPS monitoring program.	No	$186.3		$186.3				105
106	6	350	General Services Department	18	Yes	For increased operating costs in the facilities management division.	No	$1,157.0		$1,157.0				106
107	6	366	Public Employees Retirement Association	18	Yes	To administer the state's social security agreement with the federal government.	No	$89.1		$89.1				107
108	6	370	Secretary of State	18	No	For a shortfall in the elections program.	No	$1,581.5		$1,581.5	$500.0		$500.0	108
109	6	370	Secretary of State	18	No	For a shortfall in the public election fund.	No	$1,390.0		$1,390.0	$400.0		$400.0	109
110	6	370	Secretary of State	18	No	For a shortfall in the administration and operations program relating to payment card industry data security standards.	No	$43.5		$43.5				110
111	6	417	Border Authority	18	Yes	For New Mexico Chihuahua and Sonora commissions.	No	$20.0		$20.0				111
112	6	420	Regulation and Licensing Department	18	No	For a shortfall in the substitute care advisory council.	No	$60.0		$60.0				112
113	6	495	Spaceport	18	No	To replace gross receipts tax revenues.	No	$565.0		$565.0				113
114	6	609	Indian Affairs Department	18	No	To offset a prior year budget deficit due to over-reversion in general fund.	No	$790.0		$790.0				114
115	6	665	Department of Health	18	Yes	For information technology personnel costs in program support.	No	$750.0		$750.0				115
116	6	665	Department of Health	18	Yes	For costs related to compliance of the federal REAL ID Act of 2005.	No	$700.0		$700.0	$700.0		$700.0	116
117	6	665	Department of Health	18	Yes	To supplement the trauma system fund.	No	$300.0		$300.0				117
118	6	665	Department of Health	18	Yes	For personnel costs in the facilities management program.	No	$375.0		$375.0	$375.0		$375.0	118
119	6	665	Department of Health	18	Yes	For a projected shortfall in Medicaid matching revenue for the developmental disabilities Medicaid waiver.	No	$1,500.0		$1,500.0	$1,500.0		$1,500.0	119
120	6	665	Department of Health	18	Yes	For a new internal quality review unit in the health certification, licensing and oversight program of the department of health to replace the independent Jackson lawsuit community practice review.	No	$538.7		$538.7	$269.3		$269.3	120
121	6	665	Department of Health	18	Yes	For driving under the influence toxicology testing in the laboratory services program.	No	$100.0		$100.0				121
122	6	690	Children, Youth and Families Department	19	Yes	For care and support costs.	No	$517.7	$686.2	$1,203.9	$517.7	$686.2	$1,203.9	122

Table 5: Special, Supplemental & Deficiency Appropriations, 2018 Requests

2018 Special, Supplemental, and Deficiency Appropriations
(in thousands)

	GAA Section	Agency Code	Agency Name	FY	Recurring	Language	Language Only	GF Request	Other Funds/ Federal Funds Total	Total Request	GF LFC	Other Funds/ Federal Funds LFC Total	LFC Total	
123	6	770	New Mexico Corrections Department	18	Yes	For radio communication costs due to the department of information technology for fiscal year 2018. The internal service funds/interagency transfers appropriation is from the equipment replacement fund.	No	$3,426.5		$3,426.5	$1,713.25	$1,713.3	$3,426.5	123
124	6	770	New Mexico Corrections Department	18	Yes	For radio communication costs due to the department of information technology for fiscal year 2016 and fiscal year 2017. The internal service funds/interagency transfers appropriation is from the equipment replacement fund.	No	$5,442.4		$5,442.4	$2,602.40	$2,602.4	$5,204.8	124
125							**Total Special, Supplemental, and Deficiency Appropriations:**	**$121,578.8**	**$5,685.0**	**$127,276.3**	**$53,387.0**	**$10,253.0**	**$63,639.9**	125
126							**Total Special Appropriations:**	**$100,282.1**	**$5,011.3**	**$105,293.4**	**$43,888.3**	**$5,251.1**	**$49,139.4**	126
127							**Total Supplemental and Deficiency Appropriations:**	**$21,296.7**	**$686.2**	**$21,982.9**	**$9,498.7**	**$5,001.9**	**$14,500.5**	127

FY19 Agency Requests for Computer Systems Enhancement Fund (C2)
(in thousands)

FY19 - Information Technology System Replacement/Enhancements				Agency Request	DoIT/Executive Recommendation				LFC Recommendation			
	Code	Agency	Project Name	Total	GF	OSF	FF	Total	GF	OSF	FF	Total
1	218	Administrative Office of the Courts	Video Network Operations Center HDX/VRI Equip Refresh	$372.0	$372.0			$372.0	$372.0			$372.0
2	218	Administrative Office of the Courts	Replace Aging/End-of-Life Network Devices	$275.0	$0.0			$0.0	$275.0			$275.0
3	218	Administrative Office of the Courts	2nd District Court Network Infrastructure	$230.0				$0.0	$0.0			$0.0
4	218	Administrative Office of the Courts	Language Access System Scheduling Software	$115.0	$115.0			$115.0	$115.0			$115.0
5	333	Taxation and Revenue Department	Advanced Analytics	$2,300.0	$0.0			$0.0	$250.0			$250.0
6	341	Department of Finance and Administration	Modernization of Budgeting Systems	$1,950.0	$1,250.0			$1,250.0	$1,250.0			$1,250.0
7	341	Department of Finance and Administration	Database Consolidation & Management System	$350.0	$350.0			$350.0	$0.0			$0.0
8	361	Department of Information Technology	Digital Government Initiative	$2,000.3	$1,000.0			$1,000.0	$320.0			$320.0
9	361	Department of Information Technology	Enterprise Cybersecurity Upgrade	$3,000.0	$1,000.0			$1,000.0	$1,000.0			$1,000.0
10	361	Department of Information Technology	Email Modernization Project	$1,500.0	$0.0			$0.0	$0.0			$0.0
11	361	Department of Information Technology	IT Financial Management System	$300.0	$0.0			$0.0	$0.0			$0.0
12	361	Department of Information Technology	Victim Notification System (VINE3) Upgrade	$600.0	$0.0			$0.0	$0.0			$0.0
13	366	Public Employees Retirement Association	Retirement Information Online Infrastructure Upgrade	$3,000.0	$0.0			$0.0		$1,500.0		$1,500.0
14	370	Secretary of State	Critical System Hardware Replacement	$825.0	$0.0			$0.0	$0.0			$0.0
15	370	Secretary of State	Campaign Finance Modernization	$985.0	$985.0			$985.0	$985.0			$985.0
16	370	Secretary of State	Payment Card Industry (PCI) Compliance	$267.4	$0.0			$0.0	$0.0			$0.0
17	378	State Personnel Office	Workflow Approver Software Licenses	$335.0	$0.0			$0.0	$0.0			$0.0
18	378	State Personnel Office	Digitize Personnel Records	$200.0	$0.0			$0.0	$0.0			$0.0
19	420	Regulation and Licensing Department	PCI Compliance	$267.4	$0.0			$0.0	$0.0			$0.0
20	505	Department of Cultural Affairs	Standardized Admissions Ticketing System	$350.0	$350.0			$350.0	$350.0			$350.0
21	539	State Land Office	ONGARD Royalty and Oil and Gas System Replacement	$5,000.0		$5,000.0		$5,000.0		$1,000.0		$1,000.0
22	630	Human Services Department	Medicaid Management Information System Replacement	$71,247.2	$6,801.9	$358.7	$64,445.3	$71,605.9	$6,801.9		$64,445.3	$71,247.2
23	665	Department of Health	IT Services Division: Network Infrastructure Upgrade - Phase 2	$1,000.0	$0.0			$0.0	$0.0			$0.0
24	665	Department of Health	Bureau of Vital Records and Health Statistics: Vital Records Imaging Plan and System Upgrade	$4,850.0	$2,750.0			$2,750.0	$2,425.0			$2,425.0
25	665	Department of Health	Division of Health Improvement: Facilities Licensing System	$350.0	$35.0		$315.0	$350.0	$35.0		$315.0	$350.0
26	665	Department of Health	Epidemiology and Response Division: All Payer Claims Database	$600.0	$0.0			$0.0	$0.0			$0.0
27	665	Department of Health	Office of Facilities Management: Electronic Healthcare Records System Replacement	$4,000.0	$0.0			$0.0	$0.0			$0.0
28	665	Department of Health	Public Health Division: Families FIRST Medicaid Eligibility	$250.0	$25.0		$225.0	$250.0	$25.0		$225.0	$250.0
29	665	Department of Health	Public Health Division: Children's Medical Services Medicaid Provider Enrollment	$200.0	$20.0		$180.0	$200.0	$20.0		$180.0	$200.0
30	665	Department of Health	Division of Health Improvement: Incident Management System	$200.0	$20.0		$180.0	$200.0	$20.0		$180.0	$200.0

Table 6: FY19 Information Technology Requests

FY19 Agency Requests for Computer Systems Enhancement Fund (C2)

(in thousands)

FY19 - Information Technology System Replacement/Enhancements				Agency Request	DoIT/Executive Recommendation				LFC Recommendation			
	Code	Agency	Project Name	Total	GF	OSF	FF	Total	GF	OSF	FF	Total
31	665	Department of Health	IT Services Division: IT Investment Portfolio Management System	$250.0				$0.0	$0.0		$0.0	$0.0
32	690	Children, Youth and Families Department	Comprehensive Child Welfare Information Systems Modernization Planning	$1,485.0	$500.0		$500.0	$1,000.0	$371.3		$371.3	$742.6
33	690	Children, Youth and Families Department	Technology Refresh	$3,540.0	$0.0		$0.0	$0.0	$0.0			$0.0
34	770	Corrections Department	Offender Management System Replacement Project	$3,800.0	$3,800.0			$3,800.0	$2,290.0			$2,290.0
35	790	Department of Public Safety	Records Management System	$4,275.0	$2,500.0			$2,500.0	$1,275.0			$1,275.0
TOTAL				$120,269.3	$21,873.9	$5,358.7	$65,845.3	$93,077.9	$18,180.2	$2,500.0	$65,716.6	$86,396.8

Agency Requests for Extensions of Previous Appropriations				
	Code	Agency	Agency Request	LFC Recommendation
1	333	Taxation and Revenue Department	The period of time for expending two million dollars ($2,000,000) from the computer systems enhancement fund in Subsection 6 of Section 7 of Chapter 11 of Laws 2016 to modernize the property tax business system is extended through fiscal year 2019. The appropriation is from the deliquent property tax fund.	Recommend
2	350	General Services Department	The period of time for expending two hundred fifty thousand dollars ($250,000) of the one million five hundred thousand dollars ($1,500,000) appropriated from the workers' compensation retention fund, the public property reserve fund and the public liability fund in Subsection 9 of Section 7of Chapter 11 of Laws 2014 as extended in Subsection 3 of Section 7 of Chapter 135 of Laws 2017 to develop a plan to implement the risk management information system is granted a final extension through fiscal year 2019.	Recommend
3	430	Public Employee Retirement Association	The period of time for expending four million two hundred thousand dollars ($4,200,000) from the computer systems enhancement fund in Subsection 11 of Section 7 of Chapter 11 of Laws 2016 to upgrade the retirement information online system is extended through fiscal year 2019. The appropriation is from interest on investments.	Recommend
4	539	State Land Office	The period of time for expending five million dollars ($5,000,000) of the other state funds appropriation to replace the oil and natural gas administration and revenue database from the land maintenace fund made to the taxation and revenue department in Subsection 5 of Section 7 of Chapter 11 of Laws 2016 and re-appropriated to the commissioner of public lands in Subsection 7 of Section 7 of Chapter 135 of Laws 2017 is extended through fiscal year 2019 to replace royalty, oil and gas management and accounting functionality of the oil and natural gas administration and revenue data base.	Recommend
5	770	Corrections Department	The period of time for expending seven million three hundred thousand dollars ($7,300,000) appropriated from the computer systems enhancement fund in Subsection 19 of Section 7 of Chapter 11 of Laws 2016 to implement a commercial off-the-shelf offender management information system is extended through fiscal year 2019. The other state funds appropriation includes one million six hundred thousand dollars ($1,600,000) from the community corrections grant fund and three million three hundred thousand dollars ($3,300,000) from the intensive supervision fund.	Recommend
6	790	Deparment of Public Safety	The period of time for expending two hundred fifty thousand dollars ($250,000) from the computer system enhancement fund in Subsection 24 of Section 7 of Chapter 101 of Laws 2015 as extended in Subsection 13 of Section 7 of Chapter 135 of Laws 2017 for the planning phase to implement a records management system is extended through fiscal year 2019.	Recommend
7	790	Deparment of Public Safety	The period of time for expending one hundred fifty thousand dollars ($150,000) from the computer system enhancement fund in Subsection 20 of Section 7 of Chapter 11 of Laws 2016 to enhance the consolidated offender query database for the criminal history clearinghouse is extended through fiscal year 2019.	Recommend