Legislative Finance Committee
Room 307 - State Capitol - Santa Fe, New Mexico
April 22-23, 2010

Thursday, April 22

The following members were present on Thursday, April 22: Chairman Luciano "Lucky" Varela, Vice-Chairman John Arthur Smith, Representatives Donald E. Bratton, Rhonda S. King, Don Tripp, Edward C. Sandoval, Jeannette O. Wallace, Nick L. Salazar, and Patricia A. Lundstrom (for Henry "Kiki" Saavedra); and Senators Carlos R. Cisneros, Sue Wilson Beffort, Carroll Leavell, John M. Sapien, Mary Kay Papen, and Pete Campos. Representative Danice Picraux and Senators Phil Griego, Peter Wirth and Dede Feldman attended as guests.

Comments from the Chairman and Members. Chairman Varela welcomed members and the audience to the first 2010 interim meeting. Members made comments regarding state government and education and making it more efficient and transparent. The newly created restructuring taskforce provides an opportunity to make a significant change to capture the opportunity that aligns the future. All taxpayers expect efficiency and economical responsibility. The committee needs to work through the legislative process making sure the regulatory requirements in the state are conducive to good business development and protecting the environment. Executive orders have had an adverse effect on the state and legislators have a responsibility to change that.

Chairman Varela said legislation requires the restructuring taskforce present a report by to the governor and the Legislature by December. At its first meeting the taskforce discussed limitations of cabinet secretaries and concentration on strong oversight to be assured of good reporting mechanism to keep informed on a timely basis. The interim effort will be very important to prepare for change in a new administration and restoring credibility to be as efficient as possible and use resources and maximize the return on dollars. The restructuring of government will provide essential services to the public attaching performance to the agencies and education in the state.

General Fund Revenue Report Tracking for FY10 and Outlook for FY11 and FY12. Rick Homans, secretary, Taxation and Revenue Department (TRD), noted the career economists working for the Tax Research Office of TRD are members of the consensus forecasting group. They join economists from Department of Finance and Administration (DFA), Department of Transportation (DOT), and the LFC to arrive at consensus on the forecast. While the group may agree on the overall forecast number for the year, there is no process in place for the group to agree on the actual timing of the revenues. Lack of consensus on the timing of the revenues can result in different interpretations of quarterly, or even monthly, tracking data. The next official revenue forecast will be completed in late July.

Actual revenues from the major general fund taxes through the second quarter of FY10 accruals were tracking at $40.7 million above the December consensus forecast levels according to estimates by the TRD economists. The LFC and TRD differ in respective views of tracking revenues with a difference of $111 million due to the timing of the revenues; however, with the most current numbers, the LFC estimate has improved by $22 million and the TRD has moved from $40 million down to $16 million, narrowing the gap to $65 million.

Secretary Homans continued with gross receipts (GRT) and compensating taxes and said these taxes represent the largest source of revenue for the general fund. The FY10 December consensus GRT forecast is $1.76 billion. Distributions through April show revenue at $24.7 million below the amount expected based on the December forecast and are made up of $6.9 million in compensating tax and $17.8 million in gross receipts tax revenue. Small differences exist between the LFC and TRD; however, as the year progresses the overall differences are converging.

Oil and natural gas tax revenues include the emergency school tax, conservation tax, resources excise tax, and the natural gas processors tax, as well as revenues from mineral extraction rents and royalties. Revenues in aggregate represent approximately 15 percent of total general fund. The FY10 December consensus forecast totals $692 million split between the taxes and the royalties. Distributions made through March reflect accruals for the first half of FY10 track oil and gas tax revenues at $16.9 million above the December consensus forecast. The largest increases are generated through the rents and royalties. LFC's latest tracking report shows oil and gas revenues from federal mineral leasing and State Land Office bonuses and rents through February 2010 total $52.4 million, above the $335 million forecast. Chairman Varela added that a general fund portion from energy taxes has decreased and cannot be relied upon.

Secretary Homans said the personal income tax (PIT) is the largest area in difference of tracking. These revenues represent the second largest general fund recurring revenue source. The FY10 forecast total amount is close to $1 billion. Through the first half of FY10, TRD tracked personal income tax revenues at $19.3 million above the amount expected based on the forecast; however there has been a swing indicating distributions through April are $5.1 million below the amount expected. LFC's tracking through April distributions shows PIT revenues to be $70 million below the amount expected. TRD differs from LFC due to judgments regarding the likely mix of PIT revenues and the timing of those components due to recent changes in accounting practices.

TRD provides a review of any tax credit applications and has had a great volume of film tax credits in the middle of the process. Chairman Varela requested a report on the disallowances.

The FY10 December consensus forecast for corporate income tax (CIT) totals $160 million, representing 3.3 percent of the general fund. Historically, corporate income has ranged from $100 million a year to $460 million a year. Tracking takes into account differences in quarterly accruals that show up in cash balances, as well as the timing of film credits. Through the first half of FY10, TRD tracks corporate income tax revenues at $27.7 million below the amount expected. Corporate tax tracking through February totaled $28 million below the December forecast total; LFC is showing $36.6 million below the amount expected. Differences between TRD and LFC reflect differences in assumptions regarding the current timing of CIT payments in light of recent changes in accounting practices. TRD is also more optimistic than LFC regarding film credit refunds likely to affect corporate income tax revenues in FY10.

Tom Clifford, chief economist, LFC, explained the LFC's report tracking actual revenue accruals and the forecast revenue accruals. Changes in the processing systems and accounting systems have thrown off the history; LFC will continue to work closely with TRD and DFA to come to a consensus on monthly and quarterly forecasting. The February consensus report indicates total recurring revenue tracking $48 million below the amount expected; a significant improvement from the previous month's report. The main sources of improvement were in the oil and gas revenues and personal income tax payments. PIT quarterly payments and payments with returns are tracking $38 million below expectation. Most weakness appeared in the January payment, down significantly from the prior year. Refund claims continued at a very high level of over $400 million in the prior year and it is anticipated to be a similar amount for the current year. Withholding trends are adjusted for a major year-end adjustment in the prior fiscal year when the current year's withholding are down 6.5 percent; consistent with employment data from Department of Workforce Solutions, the federal government and other states.

Corporate income tax payments are tracking expectations of $250 million. Refund claims including the film credit payments are running higher than expected. Two additional quarterly payments will be accrued into the current fiscal year and will be the first set of payments for the new tax year. The trend in refund claims will be a key factor in the corporate tax. Compensating tax payments are down 37 percent. Oil and gas revenues bonus payments are above history due to leasing of shale formations. Federal leasing is also up significantly and will continue strength for a couple more months relative to the forecast due to the time lag in reported payments. Total recurring revenue is down 18 percent over the first eight months of the fiscal year compared to a 9 percent forecast for the full year.

Natural gas pricing trends rose during the winter months but have fallen from $6 to less than $4 due to the economic recovery not yet gaining momentum, relatively high inventories of gas and sharply increasing supplies of gas from shale formations. For the last several months the taxable value of natural gas is a positive differential reported on tax returns relative to the spot price indicators. Natural gas liquids are reported as part of the taxable value for the New Mexico tax return. The oil price is an approximate indicator of the value of natural gas liquids. Modified accrual accounting principals are used for year-end; books will be held open for 90 days after the end of the fiscal year for returns that were due to periods before June 30. Because of the solvency actions there will be an unusually large amount of reversions that will be treated as nonrecurring. Economic indicators incorporate the latest macro-economic forecast from the Global Insight and information from the FOR-UNM economic forecasting service for New Mexico indicators. The U.S. outlook has changed little since the last outlook in December. New Mexico indicators show significant changes for the FY11 period including employment growth, personal income growth, and wage and salary growth. The major reason for reductions is employment and income reports from periods during 2009. Natural gas production volumes are lower than expected with a 6.5 percent decline year-over-year. Every 1 percent decline in the growth rate can result in the general fund losing $5 million in revenue per year.

The December revenue estimate includes 6 percent growth between FY11 and FY12 and adds new revenue increases approved by the Legislature and signed by the governor. The revised outlook for FY12 totals $5.6 billion of recurring revenue from the general fund. The recurring appropriation level in FY11 totals $5.35 billion adding a need to replace one-time federal funds in the amount of $324 million and additional one-time savings (mostly postponements of contributions to employee benefit programs) bringing the current services base line budget to $5.83 billion and a negative new money situation for FY12 totaling $235 million.

Dannette Burch, state budget director, Department of Finance and Administration (DFA), said budget instructions were given to agencies asking them to hold back spending until the end of the fiscal year to maximize reversions to the general fund. Guidance of the 50 percent rule was also sent to agencies and asked to identify plans demonstrating compliance with the rule and to identify specific budget reductions. In preparation of reducing allotments, agencies are requested to spend between 3 percent and 5 percent less than normal in the first half of the fiscal year.

Senator Neville said the state could encounter serious problems with state revenues if production numbers continue to fall. Mr. Clifford said New Mexico was placed on a second tier of energy states in a recent report by the Kansas City Federal Reserve Bank because of lack of back office presence and support industry presence.

Vice-Chairman Smith said there is an inconsistency with timing of revenues and real estate. Mortgage lenders are apprehensive about the first-time buyers program. The administration has always planned for the best rather than being pro-active and it has been devastating to state employees. The month-to-month information and the collective gathering of information from sources are critically important. Recurring stimulus funds have to be replaced, as well as building reserves of a 10 percent to 12 percent range. Secretary Homans responded that DFA is taking a conservative spending approach on the budgetary side to prepare the ground work for FY11, as well as reversions for FY10. Secretary Homans advised against making conclusions from a detailed report in order to make policy decisions, but rather look at quarterly figures while staying attuned to the general trend. A consensus is provided through a thoughtful, methodical process free of politics involving career economists and consensus building between LFC, TRD, DOT and DFA. Vice-Chairman Smith added that he would like to see greater efficiency in government reorganization.

Senator Beffort said she is concerned with the corporate information and requested an unemployment rate update in the next forecast. If the unemployment rate is not significantly reduced in the next fiscal year it will critically increase the unemployment tax for private industry. Mr. Clifford said there are problems with the unemployment rate measure due in part to a small sample survey that does not count all births or deaths of companies, i.e., companies going into business or out-of-business. Senator Beffort added the national economy report indicates an 8.8 percent unemployment rate for New Mexico (85,000 individuals).

Representative Bratton suggested the committee move the revenue forecast to May or June to receive new consensus numbers and modify revenue projections. The special session authorized the governor to have access up to $132 million for revenue shortfalls for the current year or the first part of next year.

Senator Leavell requested information on the rate of decline of oil and gas in Texas, Colorado, Oklahoma, and Wyoming be distributed to members for comparison with New Mexico to look at the current regulatory climate.

Health Care Reform and Medicaid in New Mexico: Effect on Enrollment and Costs. Katie Falls, secretary, Human Services Department (HSD), reported many areas are impacted by national healthcare reform, including insurance reform, creation of health insurance exchanges, delivery systems, and Medicaid expansion. The national healthcare reform expands Medicaid to 133 percent of federal poverty level (FPL) with an additional 5 percent disregard by January 1, 2014. Current levels of eligibility have to be maintained for Medicaid and CHIP for children through September 30, 2019, and for adults until January 1, 2014. Healthcare reform makes premium and cost-sharing credits available to individuals if they are over 133 percent of the federal poverty level (FPL) and up to 400 percent FPL. It also limits how many premiums an individual has to pay and can be no more than 3 percent of the income for those at 133 percent FPL and 9.5 percent of income for individuals between 300 percent and 400 percent FPL. After 2014, premium caps will be adjusted based on annual changes in income. There is no cost sharing for preventive services for those with incomes up to 250 FPL.

The law changes eligibility determination for Medicaid to a tax filing basis. The new system will use modified adjusted gross income (MAGI) with no assets or resources counted against them, creating uniformity across the nation. Once procedures are implemented it will be simpler to determine eligibility. It is estimated there will be an additional 200,000 New Mexicans eligible for Medicaid at the 138 percent level, with the disregard, once the expansion goes into effect. Increased federal funding will help cover the newly eligible population. Native Americans are exempt from the mandate due to the trust responsibilities with the federal government and the tribes. The newly eligible population includes about 62,000 children under the age of 19 currently eligible but are not enrolled and 142,000 newly eligible adults. Newly covered individuals will be covered by a benchmark benefit plan more like the SCI program; the federal government will determine what the plan will look like. The cap of $100 thousand will be removed from the SCI program, resulting in an increase to the cost.

Healthcare reform requires a continuation of some current practices but calls for a dramatic and significant change in business in HSD, particularly the Income Support Division. Eligibility will continue at the current levels until 2014; however, the state is prohibited from changing procedures that would make it more difficult for people to enroll in the program or to continue on the program. If income eligibility is changed, all federal funding will be lost for the program. However, the maintenance of eligibility (MOE) provisions do not prohibit reducing or eliminating optional benefits under the Medicaid or CHIP program, placing an enrollment cap on CHIP if all federal funding is spent, scaling back eligibility if a budget deficit situation is certified, and further simplifying enrollment activities.

Secretary Falls provided an overview of the Medicaid budget status. Based on data from February, the program is projected to spend $3.74 billion in FY10, rising to $3.98 billion in FY11. Cost containment for FY10 includes a 3 percent provider rate cut in the fee-for-service programs and renegotiations for managed care organizations to achieve the same level of provider rate cuts. A $23 million deficit is expected in FY10 that will be pushed forward into FY11; more cost-containment activities are being considered to help address the problem.

Preliminary program costs for expansion include 100 percent federal funding for 2014 through 2016.

Beginning in 2017, the amount the federal government pays through the federal medical assistance percentage (FMAP) begins to decline to 95 percent and settles at 90 percent in 2020 and beyond for the newly eligible population. Funding for individuals currently eligible for the Medicaid program will remain at the current FMAP level. Total cost for adults and children over the next six years is estimated at $9 billion. Estimates do not include impacts of potential reductions in the rate per-member per-month as the risk pool grows, prescription drug rebates, funding for demonstration projects, etc.

Because of cost-containment issues, a waiting list for SCI was implemented in November 2009, followed by a waiting list of employer groups in mid-December. Current enrollment is over 52,000; of those, 1,615 are employer groups and 4,785 are individuals within employer groups. There are currently 15,000 individuals and 29 employer groups on the waiting list. The Children's Health Insurance Program Reauthorization Act (CHIPRA) legislation requires childless adults who were on the SCI program to be moved to a new waiver. Senator Bingaman and the congressional delegation were successful in adding an amendment to the national healthcare reform to allow New Mexico to receive the enhanced FMAP for this population, but the outcome remains unclear. The problem could result in a $15 million to $17 million shortfall for the SCI program; HSD is working with CMS to resolve these issues. If issues are not resolved, they will have major implications for the SCI program and individuals on the program.

Other Medicaid provisions in healthcare reform increase Medicaid payments for primary care services to 100 percent of Medicare rates. The federal government will pay 100 percent of the increase in 2013 and 2014. Provisions also increase drug rebates to states and managed care organizations that provide drug coverage and close the Medicare gap in coverage effective in the current year with a $250 rebate to individuals, completely closing it by 2020. It also extends Medicaid coverage for individuals who have aged out of foster care until they reach age 26 and reduces the states' disproportionate share hospital (DSH) allotments. Carolyn Ingram, director, Medical Assistance Division (MAD), added that justification will need to be provided indicating DSH will be used for hospitals serving indigent populations.

The state will be required to create a health insurance exchange providing options to purchase health care coverage. HSD will have to have the ability to communicate between the Medicaid system and the health insurance exchange. In addition, requirements for streamlining and efficiency will change applications and procedures forcing the HSD ISD2 system to be replaced. At the same time there are federal requirements regarding the MMIS system (claims processing for Medicaid and providers) to add features. The department will provide outreach to educate the public and staffing will be an issue.

In response to Senator Neville, Secretary Falls said HSD is mandated to come up with the state share of the program. Senator Neville said the state's portion is 10 percent of the current state budget. Ms. Ingram added that she participated, applied and received a grant through the Robert Wood Johnson Foundation that selects Medicaid leaders and explained a Medicaid multiplier effect. Once individuals receive insurance and the state does not have to pay the state share, money will flow into the state because individuals will receive coverage out of the federal pocket and pay taxes based on the tax structure.

Senator Leavell said he is concerned about the impact on employers and employment in the state. Most middle- and large-size employers are becoming self-insured with reinsurance backing it up. The proposed exchange does not prohibit an employer with more than 50 employees from becoming self-insured. Ms. Ingram said the benefit of the exchange is the employer group might be able to find something less expensive, figure out tax credits they are eligible for, link low-income employees with Medicaid, offer a subsidy for middle-income employees, and give tax credits for upper-income employees.

Representative Salazar said it is his understanding Medicare reductions are only in part D. Ms. Ingram said there are changes in Medicare that apply to Medicare advantage plans in terms of rates. Secretary Falls also added there are provisions that will affect long-term services and aging populations.

LFC Budget Analyst Work Plans. Cathy Fernandez, deputy director, LFC, presented staff interim work plans for 2010. LFC established an internal staff work group to address compliance after passage of HB237 created the Government Restructuring Taskforce. Analysts' work plans identify efficiencies and effectiveness in government to prioritize programs that have positive outcomes. Analysts will also work with interim committees and interim committee staff.

Chairman Varela requested staff look at consolidating departments, constructing one organization with one secretary while creating a list of staff that should be exempt or classified, as well as staffing patterns to eliminate vacancies that have not been funded. It is important that departments participate in the process to provide recommendations of savings and eliminate programs that are not effective. Representative Lundstrom added that it is important to understand specific criteria and benchmarks that will be used. Ms. Fernandez said criteria could be identified through staff guidelines. Chairman Varela requested as specific criteria is identified, to inform not only the LFC, but the taskforce as well as departments providing a government function rather than isolation of the legislative process.

Vice-Chairman Smith said he is concerned with the workload and moving aside from the committee's original mission. Compliance is received through the appropriation process. The committee is taking on responsibility of other committees and putting itself in direct conflict with their results. Vice-Chairman Smith suggested that all committees be aware of each others' minutes and the nominee for governor in each party after the primary make certain they have access to staff briefings to move ahead. Chairman Varela added that government has gotten out of control. The legislative oversight has to be enhanced and DFA should have the responsibility of overseeing government. Senator Griego said the LFC needs to use the power of subpoena to obtain necessary information to make responsible budget decisions.

LFC Program Evaluation Work Plan. Charles Sallee, program evaluator manager, LFC, presented the 2010 proposed program evaluation work plan. Current priorities projects include phase one review of institutions of higher education; developmental disability waiver program, review of selected professional service contracts, and a comprehensive review of charter schools.

Next priority projects include sampling schools in the southern part of the state, coordinating long-term care services and Medicaid managed care program, student transportation program, and risk management public employee benefits, as well as those administered for the school districts through PSIA.

Aurora Sanchez, information technology program evaluator manager, LFC, reported staff is currently working on a review of the Department of Information Technology (DoIT) starting with the structure moving on to the enterprise services provided through the data center, telecommunication services, and project compliance. Also on the IT work plan is the judicial case management system e-citation review, but excludes e-filing, the re-engineering project for the Motor Vehicle Division (MVD), and SHARE e-procurement. Chairman Varela said he is not satisfied with the SHARE modules to take care of bank reconciliations in the State Treasurer's Office (STO) and would rather have the STO conduct an independent reconciliation with the bank. Ms. Sanchez said the STO is currently reconciling daily to the bank. Senator Sapien asked that the e-citation review include TRACS and the citation distribution center.

Senator Leavell said with the present financial conditions, it is time that the state place a moratorium on charter schools until the state can figure out how to pay for them to be in public buildigs. Mr. Sallee said the Legislative Education Study Committee (LESC) expressed a concern about the ability of the state to have charters in public buildings and specifically asked that a component be built in to the project.

<u>Miscellaneous Business</u>

<u>Action Items</u>

Approval of LFC Minutes - January 2010. **Senator Neville moved to approve the January 2010 minutes, seconded by Senator Sapien. Motion carried.**

Contract Approval. Director Abbey recommending approval of two contracts; adding $10 thousand to an existing contract for Robert Kabik, who is providing expertise on higher education administration and $16.2 thousand for New Mexico Tech to evaluate security of IT systems for higher education and charter schools, supplementing the higher education audit. **Representative Tripp moved to approve the recommended contracts, seconded by Representative King. Motion carried.**

January 2010 LFC Budget Status. Director Abbey said the budget shows a significant projected reversion at the end of the fiscal year due to unfilled vacancies. A budget adjustment request (BAR) in the amount of $12 thousand will be submitted to help fund approved contracts. The FY11 budget projects two-full year vacancies, less travel, and spending less than appropriated for contracts.

<u>Discussion of 2010 Calendar and Committee Travel.</u> Director Abbey reported because of fiscal conditions, it is recommended to travel less in the interim. Chairman Varela and Director Abbey recommended holding one meeting in the southern part of the state and one meeting in the northern part of the state. The committee will travel to New Mexico State University (NMSU), Las Cruces, in

May and University of New Mexico (UNM) Taos in August. All other meetings will be held in Santa Fe.

Senator Leavell extended an invitation to members to tour the Uranium Enrichment Company in Hobbs. Chairman Varela said he would authorize per diem for members wanting to travel to other areas in the state.

Friday, April 23

The following members were present on Friday, April 23: Chairman Luciano "Lucky" Varela, Vice-Chairman John Arthur Smith, Representatives Donald E. Bratton, Rhonda S. King, Don Tripp, Edward C. Sandoval, Jeannette O. Wallace, Nick L. Salazar, and Patricia A. Lundstrom (for Henry "Kiki" Saavedra); and Senators Carlos R. Cisneros, Sue Wilson Beffort, Carroll Leavell, John M. Sapien, Mary Kay Papen, and Phil A. Griego (for Pete Campos).

Report on 2009 National Assessment of Educational Progress Results for Math and Reading: How Can New Mexico Improve Results? Richard Howell, dean, UNM College of Education, presented information regarding the National Assessment of Educational Progress (NAEP) scoring patterns and issues. Since 2003, math scoring in the U.S. and New Mexico groups demonstrate steady but slow progress for both fourth and eighth graders, with a 7 percent gain for fourth graders and a 9 percent gain for eighth graders. The New Mexico averages were consistently lower than the national averages as demonstrated by a gap of approximately 14 percent for fourth graders and 13 percent for eighth graders. New Mexico reading scores show little change since 2002. In 2009, 20 percent of fourth graders were proficient while 22 percent of eighth graders were proficient. Between 2007 and 2009, a 4 percent drop in proficiency has been seen at the fourth grade level, while a 5 percent increase has been seen at the eighth grade level. A persistent achievement gap of approximately 12 percent exists between the national sample and the New Mexico sample. The persistent New Mexico achievement gap in both reading and math among Blacks, Hispanics, and Native Americans as compared to the Anglo and Asian population is also being maintained favoring the latter group.

Emphasis on a preschool through college (P-20) education system cannot be abandoned. The schools themselves are a system, not an aggregation of grade levels or of disconnected content subjects. Progress also depends on a functional definition of student performance based on measurable, verifiable and broadly acceptable processes and procedures. If performance is linked to teacher pay, advancement, or termination, there must be an agreed upon and adequate system for measuring student performance, including linking the effectiveness of initial teacher preparation programs and subsequent teacher impacts in the schools. The LFC developed an initial attempt at a student performance index that does not rely solely on standards-based achievement. Staff integrated a measure of poverty or social economic status, as well as a growth indexing formula that took into account the scoring of all students in a given district. This approach needs to be expanded on by adding additional academic, environmental, demographic and social economic indicators. Simultaneous development of appropriate measures of teacher behaviors that accurately reflect and are correlated with student success must also be addressed. A moratorium is needed to study the entire array of tests and measures and streamline it to provide teachers with usable data to drive classroom change. Public accountability is needed to hold community, administrators, and policymakers responsible for ensuring the conditions necessary for effective teaching are present. Pat Rael, superintendent, Belen Public Schools, reported the purpose of testing students should be used to make instruction decisions in the classroom and set benchmarks to prepare students to become contributing members of society. NAEP results are not reported at the district, school or student level. NAEP only reports at the state level and is therefore not valuable to guide district or school decisions. In addition, teachers are not taught how to use data to make instructional decisions, and educational leaders are not taught to make curriculum decisions.

Veronica Garcia, secretary, Public Education Department (PED), reported that in 2009, New Mexico's Hispanic students scored higher on the math portion of the NAEP than any other Hispanic students in the nation. Hispanic students received their highest scores to date on the math portion of the NAEP that same year. However, NAEP addresses students being able to locate and recall, integrate and interpret, and critique and evaluate. NAEP does not examine achievement gaps for cohorts of students over time, does not follow students' progress through grades or as they change schools, does not break down scores by district or school, and does not give reasons why scores and proficiencies change from year to year. NAEP results are intended as a snapshot of how a state is performing relative to other states and the nation as a whole. NAEP tests a representative sample of students nationwide - only 1.6 percent of New Mexican's are tested. However, there may be a move to testing all kids statewide, as New Mexico is one of 48 states adopting common core curriculum and is part of the Smarter Balance Consortium.

New Mexico and five other states, with several national education groups, are participating in a pilot program to work on the roll-out of common core standards and curriculum frameworks. The Smarter Balance Consortium's intent is to have meaningful tests not only for reading and math, but for social studies and science. The consortium is looking at tying student performance to teacher, principal and superintendent evaluations in a fair and meaningful way. The consortium is also calling for more aggressive measures for low performing schools.

Chairman Varela stated education needs to be restructured with collaboration from the highest levels down to the school districts, including integrating higher education needs with public education. Representative Bratton questioned the need to prepare teachers to teach reading if 99 percent of teachers are "highly qualified." Secretary Garcia said there is no standard curriculum. However there are new contents standards in terms of language, communication and research logic information. Dean Howell added that in the last session, HJM16 was drafted to develop a comprehensive study of reading preparation. A report will be prepared for the next session in which all programs that teach reading in the state will undertake a two-phase review. The first phase will review all materials, books, and syllabi that are used in the state with the second phase being an on-site visit. The goal is to ensure operation under the mandate of reading requirements for the state.

Senator Sapien asked who controls the NAEP results and why results are not reported by district. Secretary Garcia said the NAEP governing board controls the results and that is the practice nationwide; it is not a state option. However, APS has volunteered to be a trial open district to receive their scores, as well as the state's scores.

Vice Chairman Smith asked what is being done at the higher education level with regards to classification of administrators once they have received a master's degree. Dean Howell said the College of Education partners with the New Mexico Leadership Institute (NMLI); every institution of higher education and school district in the state is a member. Part of the plan of the NMLI was to begin the process of fundamental curricular change, as well as rural and urban leadership in order to meet the needs of the variety of consumers. UNM recognizes the lack of true understanding of financial systems and how they work both in schools and in programs. UNM is working in collaboration with the Anderson School of Management and CNM to fundamentally change the way financial management is taught. The move will be away from a reactionary budget/accounting approach to strategic budgeting management, allowing for predictive modeling of how budgets are changing, what factors are involved, and the creation of a system that is more flexible and agile.

Representative King expressed concerns with continued and additional testing of students. She stated performance represents continual tests and proficiency rates, and tests are only as good as the data used in the classroom. If test scores are not tied to help teachers teach better and address the needs of students, they are useless. Secretary Garcia clarified that NAEP is not intended as an assessment to change instruction in the classroom. The SBA data is also an accountability measure used by the federal government and the state. Many schools use the data to inform instruction. However, the real tests for instruction are formative. Representative King said it is critical to continue to look at all resources, ensuring they are compatible and moving in the same direction. Senator Griego added that rural schools are suffering not only because of the budget, but the lack of equipment and material. Rules and regulations set for districts are complicated with little transparency. The system has become unexplainable and expensive to schools.

Chairman Varela said education will be reviewed closely during the interim making sure the new administration is engaged in the discussion with cooperation from state government, as well as the taskforce and other committees to develop a comprehensive plan to restructure government.

Miscellaneous Business

Information Items

Review of Monthly Financial Reports

Director Abbey referred committee members to the January 2010 Cash Balance Report and the January 2010 BAR report to review at their own leisure.

With no further business, the committee adjourned at approximately 11:51 a.m.

Chairman

5/12/010
Date