

**Legislative Finance Committee
Meeting Minutes
University of New Mexico – Klauer Campus
1157 County Road 110
Padre Martinez Hall
Taos, New Mexico
August 11, 12, 13, 2010**

Wednesday, August 11

The following members were present on Wednesday, August 11: 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 Henry “Kiki” Saavedra; and Senators Sue Wilson Beffort, Carroll Leavell, John M. Sapien, Mary Kay Papen, Linda Lopez (for Pete Campos), Carlos Cisneros, and Rod Adair (for Stuart Ingle). Representatives Roberto “Bobby” Gonzales and Rick Miera attended as guests.

David J. Schmidly, president, University of New Mexico (UNM), welcomed the committee to the University of New Mexico Taos campus. UNM Taos educates 1,500 students and is a leader in energy conservation and academic programming in the state.

Program Evaluation of Higher Education: New Mexico State University and the University of New Mexico. Charles Sallee, deputy director, LFC, reported that New Mexicans contribute more personal income to higher education than any other state in the nation. New Mexico has an accessible system; 70 percent of high school graduates attend college. New Mexico has the worst achievement gap in the nation. Students completing college take too long, pay more, and graduate with higher debt. Higher education provides significant benefits to society and is a key component to the state’s economic future. New Mexico State University (NMSU) and the University of New Mexico (UNM) account for 9 percent of appropriations from the state general fund.

New Mexico needs better outcomes, goals, funding tied to goals, and accountability mechanisms to ensure institutions respond accordingly. The state needs a master plan and a funding formula to support it. The state funds inputs without sufficient attention to outcomes or efficiency. For the state’s largest institutions, NMSU and UNM, only 13 percent of students graduated on time because many entered under-prepared and face institutional barriers that inhibit on-time degree completion. More effort is needed to streamline academic programs, cut administrative costs, and reduce the use of educational funding for other purposes such as athletics. Better attention is needed to assess and monitor the instructional capacity of the universities, particularly faculty teaching loads. Because these universities are the biggest users of the lottery scholarship, the program provides an important source of financial aid for thousands of New Mexico students. However, given the flat revenues from lottery and continued tuition and enrollment increases threaten lottery fund solvency. The state should consider options to strengthen this program rather than wait for across the board cuts, as currently contemplated by statute. A master plan has not been implemented by the Higher Education Department (HED). The Legislature laid out concepts and policy goals for higher education funding formula flowing directly out of the master plan. Currently, the financing mechanisms encourage growth to meet undefined goals, do not take into account performance and institutional capacity, and do not reward excellence. Enrollment growth is awarded through additional funding for increases above 3 percent; however, it is unclear how much the state needs to grow. The state faces potential workload funding increase across higher education of over \$61 million for the upcoming fiscal year; \$51 million is due to changes in the number of student credit hours produced by the institutions.

Teaching and research productivity is not taken into account before awarding additional funding. The institutions have absorbed the cost of this instruction due to a lag in the funding formula. The system funds course enrollment, not course completion, resulting in the state paying million for incomplete courses. Over a three year period, NMSU and UNM generated \$58 million in formula funding for student credit hours never completed. LFC staff recommends the committee and HED consider requesting all institutions to report completion rates and associated data for decision-making.

The state waives an estimated \$60 million in out-of-state tuition. Waivers have not been targeted to ensure institutions attract higher-quality students. NMSU accounts for an estimated \$23 million and UNM accounts for \$20.7 million in state authorized out-of-state tuition waivers. The system does not incentivize degree production nor does it measure the quality outcomes of existing program. Efficiency measures are not considered, including on-time degree completion and reducing excessive student credit hours. The state has hundreds of line item appropriations for research and public service projects; however, there is not a comprehensive plan for their need, use, or expected outcomes.

The state has not established clear expectations and desired outcomes for institutions' research and economic development activities or aligned other efforts through the Workforce Solutions Department (WSD) or the Economic Development Department. National economic growth has historically relied on younger workers becoming more educated than their parents' generation; however, it is not true in New Mexico. The state's working population has proportionately fewer associates and higher degrees than the national average. The national agenda focused on doubling attainment rates of degree holders. New Mexico cannot position itself to thrive economically in a knowledge-based economy with low attainment rates. Continuing to allocate 15 percent of the state's budget to higher education will become increasingly difficult given the current economic climate.

Tuition remains low statewide compared with national averages; however, the state should pay attention to total cost of attendance. This total cost contributes to student loan rates among the highest in the nation, averaging \$5,200 a year.

Better preparation in New Mexico public schools will ultimately increase graduation rates and on-time degree completion at UNM and NMSU. National studies indicate higher levels of academic preparation increase the likelihood of degree completion. Approximately one-fourth of the incoming freshmen class graduated in the bottom half of their high school class and had less than a 3.0 grade point average in high school. Both universities have taken steps to address some of these issues. UNM is appropriately phasing in higher admission standards and creating new pathways for students who are not ready to immediately attend a research university. UNM has engaged in an extensive study of institutional practices that could inhibit graduation. It is recommended that UNM, as well as NMSU, continue monitoring implementation. Both universities have an opportunity to work with their major feeder high schools to study how students are prepared for college or work. The state needs to focus on four-year graduation rates versus six-year graduation rates to reduce costs to students and tax payers.

Graduates are burdened with increasing debt. The average debt ranges from \$18 thousand to \$27 thousand. UNM graduates borrowed \$21 thousand on average, while NMSU's bachelor degree recipients borrowed \$20 thousand. Students obtaining a graduate degree incurred debt ranging between \$16 thousand and \$34 thousand. Students graduating in six years rather than four increased

their loan debt by over 59 percent. Students who do not graduate from these campuses are leaving with almost as much debt. Both institutions are likely to continue large increases in tuition over the next couple of years. Justifying tuition increases will require greater efforts to contain spending and cut overhead costs. Tuition and fees at both universities increased 100 percent between FY01 and FY11. Both institutions, through recent budget cuts, have prioritized instructional over administrative spending. Both should curb subsidies for enterprise functions including athletics. Both institutions are reducing the amount of subsidies from instructional and general funding (I&G).

The core function requiring funding drives growth and funding through academic programs. As academic programs are expanded, less efficiency is placed on them. Administrative functions grow in response to the growth in academic programs. As budget reductions continue, both institutions will need to improve efficiency of academic programs. Both universities have established efficiency committees.

Both institutions can do a better job in monitoring faculty productivity. NMSU and UNM have various elements of executive monitoring of faculty work load and teaching load. However, they do not have a high level assessment of their ability to deliver services, making staffing decisions difficult. Both institutions are working on efforts to implement systems.

Craig Johnson, program evaluator, LFC, reported the lottery scholarship program is valuable and the state needs to protect and preserve this valuable financial aid tool. The primary return on investment of the lottery scholarship fund is to assist students to complete degrees. Sixty-one thousand New Mexico students have attended college on the lottery scholarship and 25,000 graduates have had the lottery scholarship at some point. In 1992, before the lottery scholarship, New Mexico ranked 37th in the nation in terms of high school graduates going directly to college; in 2006, New Mexico ranked 6th. The lottery has made higher education more affordable and increased access. Currently the lottery pays for 100 percent tuition for eight consecutive semesters of eligibility, beginning the second semester of college. Tuition is approximately 25 percent of the total cost to attend. State law sets timely degree completion as the goal of the lottery scholarship; however, achieving the minimum standards established by rule will not result in timely degree completion. New Mexico Administrative Code (NMAC) sets degree completion as the goal and the objective is “to encourage New Mexico high school students to pursue a post-secondary education in New Mexico to complete a first four-year degree within a maximum of nine semesters.” Despite this goal, HED defined full-time enrollment as 12 or more student credit hours. A requirement of 15 or more student credit hours per semester, or 30 per year, is more in line with the goal of a timely degree completion. The lottery scholarship alone does not appear to cause students to graduate, however, it reduces the cost of attendance. Students who maintain the lottery scholarship have a good chance of graduating; those who cannot maintain the merit requirements are less likely to graduate. In general, students who earn scholarships with higher merit components tend to graduate with higher rates. Earning the lottery varies by family income level and students tend to rely on loans as they lose the lottery. Since the inception of the lottery, both the percent of the freshman class eligible for the lottery and the percent of eligible students who earn the lottery have increased. Many students lose the lottery as they progress through college for failing to meet the GPA and the student credit hour requirement.

As the price of tuition rises, the value of the lottery scholarship also rises. The lottery scholarship fund solvency is vulnerable. Revenues remain stable and expenses are increasing rapidly. FY09 was the first year that lottery expenditures (\$43 million) exceeded the lottery income of \$41 million. The fund balance declined from FY08 to FY09 leaving a smaller pool from which to earn interest. The increasing number of students receiving the scholarship and the increase in tuition form a serious threat to the long-term sustainability. The state must quickly identify ways to extend the solvency of

the lottery fund and take action to reduce expenses. In 2007, the Legislature addressed solvency issues and altered the fund distribution by mandating monthly minimum contributions to the program scholarship fund of 30 percent. Given New Mexico's current fiscal situation it will be increasingly challenging to maintain the current level of state support to higher education institutions; substantial tuition increases are also likely.

UNM recently raised tuition 8.5 percent and NMSU raised tuition 8 percent. Projections assuming a 9 percent tuition increase indicate the lottery fund will become negative in FY13. Assuming a 5 percent tuition increase, the lottery fund will have a negative balance in FY15. State law already envisions paying less than 100 percent of tuition when funds are not available; however, it is not clear this is the optimal course of action because it does not allow prioritizing the use of funds.

LFC staff recommends that HED immediately convene a task force to evaluate changes needed to protect the lottery scholarship fund and identify ways to extend the solvency. Other states have done this by asking students to obtain more by increasing eligibility requirements for similar programs. Ideas to enhance the scholarship warranting consideration and further analysis include

- Increasing the minimum student credit hours requirement from 12 per semester to 15
- Separating lottery eligibility requirements for research institutions, four-year colleges, and two-year colleges
- Demonstrating skills and preparation to succeed for students wishing to use the lottery for more demanding and more expensive institutions
- Setting high school performance standards

LFC staff recommends the Legislature should consider formula funding changes to provide incentives for cost-effective services, greater completion rates, and on-time degree production without diluting the quality that already exists in the system. It is also recommended to exclude duplicative or unnecessary degree programs from funding and boost funding for identified centers of excellence. HED should develop and implement a strategic master plan for higher education as already implied by state law. The plan should include specific and measurable outcomes and performance targets; include education cost sharing goals between the state, students, and local taxpayers; identify physical and instructional capacity as system and centers of excellence; and provide a framework for the Legislature to consider changes to the funding formula. NMSU and UNM should create action plans to double their four-year graduation rates. NMSU should consider and UNM should continue a gradual increase in admission standards and requirements. Collaboration between NMSU, UNM, and local feeder high schools should be greatly enhanced and institutionalized. The institutions should also realign budgeting practices to reward academic excellence; develop and implement sunset reviews for academic and support programs; develop target subsidy levels for athletics, alumni association, and foundation programs; and plan to achieve a target level within five years. NMSU and UNM should also develop and regularly report aggregate faculty teaching loads and productivity to the Board of Regents and public.

Barbara Couture, president, New Mexico State University (NMSU), reported NMSU takes its land grant research university mission seriously and wishes to be the state's partner in providing the very best education programs for all students who qualify. NMSU touches each corner of the state through its mission of teaching, research, and outreach, serving 30,000 students on five campuses across the state, providing state-of-the-art research recognized internationally, and contributing economic value to the state and the nation. NMSU offers 21 doctoral programs, four specialists in education programs, three doctor of education programs, 51 master degree programs, 87 bachelor degree programs, 63 certificate programs, and 66 associate degree programs. The Las Cruces

campus enrolls 19,000 students in eight colleges in disciplines ranging from arts and humanities to the social, physical, and agricultural sciences, as well as professional programs in engineering, education and health sciences. Four community colleges provide educational opportunities to a diverse community of learners in support of workforce development. At sites across the state, NMSU serves all citizens of New Mexico through cooperative extension offices, a network of 17 agricultural research and science centers, and three federally recognized tribal extension offices. NMSU is also a NASA space grant college, the only honors college in the state, and the only Hispanic serving land grant in the nation. The student constituency is diverse and dynamic, with students from 49 states and 76 countries. It is clear NMSU primarily serves New Mexico with 80 percent in-state students, 13.3 percent out-of-state, and 7 percent from international sources.

NMSU supports the efforts of LFC and HED to improve higher education while savings costs. NMSU will continue to implement measures to improve cost-effectiveness and has implemented cost-effective practices to meet the demands of teaching classes and support research and discovery. The scope of NMSU's mission relies on state support; however, 70 percent of budgeted revenue on the Las Cruces campus is from non-appropriation sources. NMSU is an economic driver, budgeting over \$220 million in restricted gift grant and contract funds and creating over 1,500 budgeted positions. Over 70 percent of total state appropriations at NMSU Las Cruces are budgeted to support the instruction and general mission. Research and public service projects receive 10 percent each. Only 11 percent of the research budget is funded by state appropriations and 26 percent of the public service budget is funded by state appropriations. Basic instruction and the general budget are funded 52 percent by state appropriations and 32 percent by tuition and fees. NMSU suffered a 10 percent cut to the state I&G funded budget and a full \$12.3 million cut in state appropriations. Fifteen percent was funded by enrollment growth and the remainder from tuition and fee increase required to make up the difference. With the recent budget reduction 60 budgeted positions were eliminated.

NMSU is committed to improving graduation rates; a systemwide presidential initiative will be implemented making graduation goal number one. Retention and graduation rates are benchmarked regularly. NMSU's goal is to develop a comprehensive plan that touches every student with an intervention to increase graduation rates. Additional student support programs related to student persistence have been implemented and an academic advisory council was formed to improve student advising. A financial literacy program was also created. NMSU is also working to improve course availability and access to required courses. Additionally, NMSU pledges to investigate the feasibility of creating funding agreements with highly motivated, low-income students to encourage and reward them in the pursuit of their bachelor's degree. NMSU also agrees to work with high schools and community colleges to improve student preparation and share information. Annually, NMSU's office of admissions holds a session providing training to counselors from Doña Ana and Bernalillo counties to assist students with college planning. An ACT workshop is also provided for all New Mexico counselors. NMSU partners with schools to provide professional development through science, math, and technology counseling and workshops for kindergarten through 12th grade teachers. The office of financial aid and scholarships conducts student and parent workshops on financial aid both in Spanish and English. The Upward Bound and Educational Talent Search programs help students and their families apply for financial aid, connect with academic advisors, and explore career opportunities. NMSU is the prime partner in a regional initiative that promotes high school graduation and workforce development and has inaugurated New Mexico's first early college high school. The university agrees that faculty productivity should be routinely tracked and monitored and NMSU commits to enhanced efforts to do so. NMSU has put a significant effort into expanding and enriching decision management support for all levels of university management and have invested in software and supporting infrastructure that supports dashboard reporting as

described in the evaluation. NMSU is actively pursuing the implementation of digital measure software to measure faculty performance and accomplishments and compare faculty productivity to other campuses nationwide. NMSU is committed to aligning budget practices to meet strategic priorities. NMSU spends less per student on the deliverable instruction and general operations than peer institutions. Proportionately, a greater percent of I&G budget is spent on instruction versus administration. Prior to the recent series of budget reductions, NMSU maintained an internal performance fund designed to fund incentives for excellence in lieu of the unfunded performance component in the funding formula. Ms. Couture noted NMSU tuition costs are lower than peer institutions and NMSU commits to working closely with students and families to demonstrate the basis and justification for tuition rates and increases. NMSU commits to optimizing the bridge scholarship to support students close to graduation who have exhausted the lottery scholarship

The state has an extensive system of universities, regional colleges, and system and independent community colleges. New Mexico needs to take a serious look at whether all institutions are sustainable over time. NMSU is beginning to reap the benefits of working cooperatively with a system of community colleges. Perhaps this concept could be extended to save governments and administrative costs. NMSU agrees student success is defined by degree completion as a primary goal. To achieve it, student preparedness must be improved for college and student retention programs with grants to higher education supporting efforts to support public schools in offering quality programs that graduate students who are qualified for college. Incentive funds need to be provided that enable the reallocation of scholarship funds for students to reward student persistence and provide true and academic budget management authority to regions for multi-campus systems assuring more effective distribution of developmental courses, control of program duplication across systems, and more efficient administrative management. NMSU also agrees that state funding should reward productivity. UNM and NMSU are powerful economic engines for the state. NMSU brings in more than \$185 million in external funds and supports over 550 full-time employees on research grants. Targeted state support for research can greatly enhance potential greater external funds. Students who are qualified for college should not attend a research university if they do not meet certain admission standards. By sending qualified students only to community colleges, life time changes of graduating with a four-year degree are reduced by 75 percent.

David J. Schmidly, president, University of New Mexico (UNM), reported that adopting the recommendations in the report would result in improvements, efficiency, and productivity. UNM is a university for research, integration, and scholar creativity. In addition to providing high quality education for undergraduates, flagship universities are heavily focused on graduate education. In addition to the main campus, UNM has four branches reaching out to 33,000 students, with over 4,200 Native American students; 40 percent of enrollment is Hispanic students. UNM offers school of medicine, law, pharmacy, and architecture. Medical students operate at 125 different sites in New Mexico. UNM confers approximately 80 percent of doctoral professional degrees in the state and is the second largest employer in Albuquerque region and the fifth largest in the state. UNM's budget exceeds \$2 billion, with less than 20 percent from state appropriations. UNM has new complex business operations that are part of the New Mexico Research Act. Dr. Schmidly noted the LFC report is fundamentally focused on two of the four priority strands at UNM; however, it is primarily focused on performance and efficiency, productivity of undergraduate education, and degree production. The report does not focus on the aspects of UNM's mission related to health care, the medical school, and the pharmacy school. It also does not touch in depth with regard to the community and economic development activities provided by UNM. UNM's budget included \$6 million in cost-containment strategies and reductions. Energy use was reduced by more than 17 percent since May 2008 and is reduced nearly 19 percent for the current year. Reducing the budget

will require a change in the funding formula. Clearly communicating with students and parents about what tuition dollars buy seriously challenges tuition credit practice. UNM also raised tuition by 5 percent. Tuition increases over the last five or six years are much lower than other flagship universities. UNM is concerned with funding its mission, given the past and present economic challenges. UNM will lose approximately \$40 million of state support if budget projections are reduced. UNM has not had to implement furloughs or layoffs that would have a serious impact on the workforce. UNM is engaging in reviewing academic programs and is prepared to prioritize them to ensure quality education is delivered. UNM is also concerned with the tuition credit practice. UNM believes the lottery scholarship has been a success to opening doors of access. UNM is willing to work with LFC and members of the Legislature to review possible options of the lottery allowing improvement of graduation rates.

Viola Florez, secretary, Higher Education Department (HED), added the LFC evaluation addressed many concerns of higher education that have also been raised at town meetings across the state. HED is continuing with the development of the state master plan for higher education to be completed by December. As recommended by the LFC staff, a taskforce to develop and recommend changes to preserve the lottery scholarship fund is also being established. HED continues to increase data gathering in partnership with the Public Education Department (PED) and the Workforce Solutions Department (WSD). HED is looking at curriculum assessments, transition into college, and many other efforts to move forward. It is going to take a state effort and political will to make recommended changes needed to ensure the quality of higher education for all students.

In response to Representative Bratton, Mr. Sallee said any finance or regulatory system has explicit and implicit incentives built into the system. Currently, the growth and expansion of student credits hours are encouraged regardless of completion. Only 95 percent of student credit hours were actually completed; students withdrew from 5 percent of student credit hours that the state has funded. UNM provided \$1 million worth of student credit hours where students are adding hours after the drop date. Ms. Couture added that more failing students chose to drop courses rather than completing the course and harming their grade point average. Grades are a very complex setup of indicators of student quality and student achievement and there are many factors that drive grade inflation. Mr. Schmidly also added that grade inflation is a consequence of strategy to incentivize better performance. Representative Bratton suggested considering work study or cooperative education when accounting for a four-year graduation. Mr. Sallee said policy makers should be concerned about accrediting standards and licensing boards that are requiring more and more student credit hours. Both universities are in the process of reviewing data to determine what is driving higher student credit hours. Ms. Couture added that NMSU is also reviewing each degree program to ensure requirements allow students to graduate in four years. Representative Bratton said higher education needs to be affordable and students need to be prepared for the university environment having prerequisite skills to succeed.

In response to Senator Beffort's question regarding how UNM and NMSU are preparing elementary and secondary teachers, Ms. Flores said she met with the secretary of public education on many occasions to discuss collaborative efforts. The deans of the college of education, as well as the directors of teacher education programs at the community colleges are very involved in reviewing the curriculum for mathematics and reading. Ms. Flores noted the state requires a tremendous amount of hours in the field for students preparing to be teachers; they are immediately placed into the schools as they are taking their course work. Many of the courses taught in the undergraduate program are taught by master teachers recruited onto the university as adjunct or clinical faculty.

Senator Smith expressed concern with the lack of connection between the Public Education Department and the Higher Education Department regarding feeder school data and encouraged greater oversight from HED.

Senator Sapien stated the need to look at higher education as a system and differentiate the product between institutions.

LFC Review of Allotment Reduction Pursuant to Section 15, Chapter 6, Laws of 2010 (HB2).

Katherine Miller, secretary, Department of Finance and Administration (DFA), provided an explanation of allotment reductions pursuant to Section 15, Chapter 6, Laws 2010. During FY11, DFA shall regularly consult with LFC staff to compare revenue projections with revenue estimates. If the general fund consensus forecast projects that revenues and transfers to the general fund, including all transfers authorized pursuant Section 15, will be insufficient to meet general fund appropriations for FY11, the governor, with the approval of the State Board of Finance and after review and opportunity to comment by the LFC, shall reduce general fund allotments to all agencies, funds, programs, and other recipients that receive a general fund appropriation in Section 4 of the General Appropriation Act (GAA) of 2010, except that no reductions shall be made in the allotments for the Medicaid program or the developmental disabilities support program. If a reduction in allotment for personal services and employee benefits necessitate the reduction in salaries, the agency is authorized to temporarily reduce salaries in the amount of the reduction. If a subsequent general fund consensus revenue forecast released in FY11 projects revenues to increase above the previous forecast the allotment shall be increased to reflect the new forecast up to the amount of the original appropriation. If a subsequent general fund consensus revenue forecast released during FY11 project revenues to decrease further from previous forecasts, allotments shall be further reduced.

As reported at the July LFC meeting, the revenue estimate after transfer authority would necessitate a \$150.9 million or 3.2 percent reduction except for the Medicaid and DD waiver programs. Letters were sent out to agencies notifying them about the process. In August, federal legislation was enacted to provide additional stimulus funds for public education. The 3.2 percent reduction to public education equates to \$73.6 million in the funding formula and a total of \$77.4 million to school support. It appears New Mexico would receive \$64.9 million from the federal government once the qualification process is complete and offset the \$73.6 million in the funding formula. The net reduction to public education would then be less than half a percent. The impact to higher education is approximately a reduction of \$25.6 million. The Department of Public Safety (DPS) will take a hit totaling approximately \$2.9 million and the hospitals and health and human services departments will take a hit of approximately \$17.9 million. Most agencies will be able to handle reductions without any anticipated layoffs or furloughs.

David Abbey, director, LFC, reported LFC staff met with DFA to review the methodology to implement the allotment reduction consistent with legislative intent and statute. LFC staff provided a plan to manage the reduction at LFC by leaving vacant positions open. DFA has agreed to provide all agency reports to the LFC. The governor used \$20 million of discretionary government services funds to help with the reduction; however, \$18 million remains unallocated. The Attorney General's office views that the Medicaid Fraud Unit is exempt from the 3.2 percent reduction. Revenues do not reflect \$70 million from passed legislation but vetoed for food taxation. Chairman Varela said adjustments could be made during the legislative session if needed. Vice Chairman Smith noted that stimulus funds will not take care of problems in 2012.

Senator Beffort asked what type of plan is being put in place to ensure the new governor and new administration will be left with 50 percent of the budget. Secretary Miller said agencies were instructed to apply the 50 percent rule. Senator Beffort expressed concern about unemployment insurance. Director Abbey said a report from the Workforce Board will be presented in September to address the status and update of the unemployment trust fund.

Chairman Varela acknowledged Secretary Miller for her years of service and contributions to the state as the secretary of DFA.

Welcoming Remarks. Larry Torrez, professor, UNM, welcomed the committee in various languages and noted UNM Taos is a multilingual and multicultural campus. Faculty and children from the kids' campus entertained the committee with a song.

Kate O'Neil, executive director, UNM Taos, said the campus is one of four branches and one of the newest in the state, serving 1,553 students. Three buildings were added in the last several years and one more will be added in the coming year. UNM Taos offers over 300 courses per semester with 10 full-time and 200 adjunct faculty per semester.

Darren Cordova, mayor, city of Taos, welcomed the committee and provided an overview for the town of Taos. Taos is running healthy budgets and continues to be fiscally responsible. Revenues are monitored continually and budgets were reduced over 20 percent during the last two years. Groundbreaking for the new Ecopark recently occurred with the intent to track high altitude training in collaboration with the schools. Groundbreaking also occurred for a new pediatric clinic. The city of Taos is eager to form partnerships with UNM Taos to continue with education initiatives. Taos had the capacity to raise GRTs receiving support from the community.

Daniel Miera, town manager, Taos, said budget figures are continually reviewed. The town of Taos has seen the need for additional services and additional infrastructure in order to support a diversified economy. Currently, there is a strong hold on tourism as it relates to the arts, and the town is well-situated for ecotourism. In addition to high-altitude sports training, changing demographics and their use of disposal income is also being considered. In 2008-2009, the fiscal year ended with various adjustments and 33 percent in the positive. The last fiscal year ended with a shortfall of \$43 thousand; however, the shortfall was managed through last minute adjustments.

Rod Weston, superintendent, Taos Municipal Schools, reported that research shows children living in poverty lose ground over summer vacations. Taos Municipal Schools did not have funding this year to run its usual summer program; however, funding was provided by the community foundation. Graduation rates are also a major challenge. The range of subject areas and dual credit options could not be offered without the connection of UNM Taos.

Daniel R. Barrone, chairman, Taos County Commission, reported the county is in the process of building at \$47 million judicial administrative complex consisting of a 92-bed adult and 18-bed juvenile facility. Both the municipal and magistrate courts will move to the facility. The facility is employing at least 35 percent local employment plus out-of-town employees. A 10-acre plot was donated by the Department of Transportation (DOT) to make an overlook of the community. The overlook will be a zero carbon footprint and a biotectual phenomena.

Adam Baker, interim county manager, said along with the administrative judicial and detention complex comes at least 30 to 40 additional employees. The county budgeted 25 additional

employees in the current year. Seven additional positions will help meet the needs of the new operational requirements to move into the facility. A gross receipts tax (GRT) increase of 10 percent occurred in May, June, and July 2010. Property taxes remain flat. The Legislature implemented the property assessed clean energy programs at the state level, giving counties the option to fund residential improvements for clean energy, however, have been placed on hold due to the federal housing and finance administration has questioned the affect of the priority leans essential to the program.

Update on Local Government Finances and Special Programs. Tom Clifford, chief economist, LFC, reported county tax revenues increased by 23 percent between FY07 and FY09. Property tax is the largest single source of revenues for the counties. As of FY09, counties still had strong growth in property tax revenues. GRT for counties were up 22 percent. Municipal tax revenue trends were up 4 percent as of FY09.

Regina Romero, intergovernmental relations director, New Mexico Municipal League, reported, similar to the state's economic decline, municipalities have experienced significant budget decreases within the last three years. Cities are dependent on GRT, constituting up to 75 percent of the general fund. Cities have been able to respond quicker than the state in addressing budget adjustments. Based on projections, local governments can adjust their budgets on a monthly basis. Municipalities began making significant adjustments to their budgets in 2008. The decrease in general fund revenues due to the decline in GRT has negatively impacted many cities. Several municipalities increased revenues by imposing GRT, fines, and fees. The cities of Taos, Rio Rancho, Carlsbad, Sunland Park, and Las Vegas enacted additional GRT. In response to reductions in operating expenses, municipalities have spent the last two budget cycles and the current fiscal year making major adjustments to balance budgets. Some cities initiated a hiring freeze and others have eliminated vacant positions. Furloughs and layoffs have also occurred. Several municipalities reduced wages and others froze cost-of-living increases, promotions, and wage increases. Public safety has been affected in some instances. Municipalities continue to monitor the fiscal situation and, based on projections, appropriate actions will be taken to adjust budgets as needed to continue to provide services at the current level if possible. Municipalities are evaluating alternative ways to reduce expenditures. Cities will face major challenges if the GRT base is not maintained having a significant impact on the provision of public services and public safety. Due to the sharp drop in FY10 GRT collections and the lower forecast of employment wages and salaries along with the indication that inflation will remain at 1.4 percent a reduced growth rate of the broad based GRT revenue will occur. GRT will not recover until unemployment shows a dramatic improvement. With an 8.2 percent unemployment rate in New Mexico and the housing and commercial real estate markets moving at a slow pace, state and local governments will closely monitor available GRT. Reductions in general fund revenues for FY11 will trigger significant adjustments by all levels of government.

Paul Gutierrez, executive director, New Mexico Association of Counties, reported most county managers are reporting property tax collections are stable, although some counties are experiencing a slowness of payment. GRT have been impacted for most counties. Most rural counties are dependent on federal payments (payment in lieu of taxes) due to large tracks of land being held by the federal government, totaling \$32 million. Lands are not available for private development and are not taxed as private lands. Because other federal payments are taken into account, timber sales, mining and grazing on public lands have sharply decreased. Congress enacted the secure schools program expected to expire in 2012; New Mexico received \$18 million in 2008 and \$16 million in 2009. Because of those payments, the payment in lieu of taxes was reduced. The Small Counties

Assistance Act is also expected to take a hit this year. The New Mexico Association of Counties is looking to partner with DFA, the New Mexico Finance Authority (NMFA), and the Municipal League to host regional workshops on restructuring debt to build capacity for those that need operation funds, as well as capital outlay in the future.

Allen Maury, chief economist, Taxation and Revenue Department (TRD), provided an overview of property tax numbers. Collection rates reached 97 percent throughout the state in 2009. Obligation growth rates are averaging 8 percent statewide and 15 percent for oil and gas. The residential base has grown 3 percent over the last 10 years due to under assessed properties.

Rick Martinez, deputy secretary, Department of Finance and Administration (DFA), reported DFA staff is responsible by statute to review, analyze, and approve interim and final budgets for 33 counties, 104 municipalities, multiple land grants, 210 mutual domestics, 800 acequia associations, regional transit districts, water and sanitation districts, solid waste authorities under the Solid Waste Act, and the tax certification process with TRD. Nine project managers staff the community development block grant (CDBG) program responsible for oversight, reporting and training, and providing assistance to local governments. Currently there are 122 CDBG projects totaling \$40 million.

DFA, Local Government Division, received \$3.8 million from ARRA funding for an additional 8 projects. Approximately 1,700 special appropriations remain for capital outlay projects. The neighborhood stabilization program through HUD is funded at \$19.6 million. The capital outlay bureau consists of seven staff members responsible for developing and managing all capital outlay for the capital monitoring system, annually uploading the entire capital outlay appropriations bill into SHARE, and developing the capital outlay bill with the executive and determining strategies for capital appropriations. The division also reviews and approves the work plan for the seven planning districts. The division is currently working on revising the grant agreement for capital outlay projects. Mr. Martinez provided an overview of all duties for the capital outlay bureau.

Mr. Martinez said DFA oversees the distribution for the law enforcement protection fund for use in maintenance and improvements and to enhance efficiencies and effectiveness of law enforcement services. Mr. Martinez provided an overview of all the special distributions made by DFA.

Hector Balderas, state auditor, reported on the failure for local governments to submit annual audits required by state law and mandated by the Legislature. The Office of the State Auditor's (OSA) initiatives implemented over the last few years include the following:

- An administratively created at-risk designation program
- An at-risk initiative program
- A tiered system passed unanimously as a legislative proposal

The Audit Act does not provide the state auditor any type of enforcement authority; however, the Legislature passed sanctions for school districts that do not submit an audit report. Final budget certification can also be withheld by DFA. The OSA consists of 19 staff committed to programs and the audit function for over 500 governments. Local governments constitute the vast majority of agencies that have failed to submit audits. In September 2009, more than 90 agencies were designated at risk because of failure to submit an audit report estimated at \$1 billion. Sixty-percent of the at-risk agencies have complied with submission; currently 35 agencies remain at-risk. OSA is expected to release the 2009 numbers in September 2010.

Lou Hoffman, finance director, city of Albuquerque, noted that over the last three budget cycles 8 percent was cut out of the city's budget. Also during that period, 4 mills of property taxes were imposed totaling \$50 million, or 10 percent of the general budget. The city has chosen not to continue to increase taxes; however, it wants to maintain services. State statutes do not provide standards of loyalty, prudence or knowledge for municipal treasurers. Mr. Hoffman suggested making municipal treasurers into fiduciaries.

Chairman Varela said is it incumbent on the Legislature to listen to the public. Government has grown to the extent that it cannot be supported. Chairman Varela asked for the support of SAO to determine duplication of programs and unnecessary programs to internalize costs and redirect them.

Secretary of State: Cost-Effective Elections. Mary Herrera, secretary of state, reported the Office of the Secretary of State (SOS) implemented the auto-vote ballot on demand in a majority of counties, saving \$303 thousand over the cost of using only paper ballots for the primary 2010 election. An estimated \$600 thousand to \$800 thousand will be expended for the general election using the same format. It also developed an over-the-counter voter registration form for county clerks to use in their offices rather than the three-part mailers. The cost for the cards totals \$31.04 per 100 versus \$47.75 per 100. The agency reports other reductions it made to its budget request for the primary election included eliminating contracting out for rule writing, saving \$4.8 thousand, and conducting presiding judge training by telephone, saving \$30 thousand. It is also attempting to send voter information cards under U.S. Postal Service non-profit status, which could save an estimated \$189 thousand. It projects the 2010 general election will cost nearly \$4 million. The SOS is recommending that legislation be passed to publish general obligation bonds and constitutional amendments for one week in all major newspapers instead of four weeks. The current four-week publishing cost is \$530 thousand. It also recommends eliminating voter registration cards, sent out before every general election; this would save \$765 thousand. However, even with its reported cost-saving efforts, the SOS estimates a shortfall of \$549 thousand for the 2010 general election.

Daniel Ivey-Soto, executive director, New Mexico Clerks, LLC, addressed some cost-saving ideas such as instituting vote centers, which would consolidate polling places within a county, eliminating early voting in primary elections, eliminating voter information cards, amending the constitution so that running the full-text of constitutional amendments for four weeks in English and Spanish is no longer required, and eliminating the post-election voting system check, as it blurs the line between candidates questioning vote counts and the state randomly conducting its audit.

Representative Bratton asked for the definition of an active registered voter. Kelly Baca from the SOS recited the definition from statute and said SOS works with vital statistics to remove deceased persons from the voter rolls. Ms. Herrera also read aloud the statute that explains purging voting requires the SOS to mail confirmation cards to all registered voters in odd-numbered years. Voter cards returned as undeliverable are placed on the inactive list for two election cycles, after which time they are permanently removed, unless of course they vote during that four-year timeframe.

Thursday, August 12

The following members were present on Thursday, August 12: 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 Henry "Kiki" Saavedra; and Senators Sue Wilson Beffort, Carroll Leavell, John M. Sapien, Mary Kay Papen, Linda Lopez (for Pete Campos), Carlos Cisneros, and Rod Adair (for Stuart Ingle). Representatives Roberto "Bobby"

Gonzales, Richard Vigil, and Andrew Barreras; and Senator Cisco McSorley attended as guests.

Health Care Taxation

Introduction and Overview. Tom Clifford, chief economist, provided an overview of tax exemptions, deductions, and credits for various categories of medical providers and medical payments. Health care is a large and a fast growing sector of the economy. Exempting the medical care sector from taxation reduces the ability of the revenue base to grow over time.

Brent Earnest, senior fiscal analyst, LFC, provided an overview of local options at the county level. County healthcare revenue totaled \$98.2 million in FY09; county health care spending was \$87.1 million.

Tax Expenditures on Health Care. Clinton Turner, senior economist, Taxation and Revenue Department (TRD), reported the healthcare sector is treated differently than other sectors of the New Mexico economy. Gross receipts tax (GRT) deductions are allowed for Medicare, tri-care, and Indian health services, and also to a specific group of healthcare practitioners. Although most deductions are not separately stated by the taxpayer, medical receipts are separately reported and create hold-harmless distributions. Receipts from copayments or deductibles from patients to providers are subject to tax, adding to the complexity of reporting. The insurance code licenses insurers, HMOs, and other healthcare plans including third-party administrators of health care plans. A separate tax (insurance premium tax) is applied but is not administered by TRD. Entities that become licensed are excluded from all taxation except property tax. Separate from the GRT, the rural healthcare practitioner tax credit allows for credit against the state personal income tax. The credit is equal to \$5 thousand for physicians, dentists, podiatrists, psychologists, and optometrists and up to \$3 thousand for nurses and others. The credit totaled \$4.8 million in FY08 and \$5.2 million in FY09.

Disclosure Requirements for the Value of Hospital Charity Care. Nick Estes, policy analyst, New Mexico Voices for Children, said there has been a lot of controversy regarding charity care over the last five years. Charity care is provided by nonprofit and governmental hospitals for people who are indigent and low-income and who have qualified under the policy adopted by a hospital for free or discounted care. National studies found that non-profit hospitals around the country vary in how much charity is given. Charity care operates at both the state and federal level. Federal regulations require that in order for a hospital to obtain 501(c)3 status, community benefits must be provided. Charity care must be reported under the regulations of the Health Policy Commission; however reports are not public. Mr. Estes noted state law does not require hospitals to make the value of charity care public; however, there are reporting requirements for non-profit hospitals at the federal level. Health care reform includes a section for non-profit hospitals requiring them to have a written financial assistance policy.

Local Gross Receipts Tax Options Related to Health Care. Lisa Gomez, San Juan County indigent fund and New Mexico Association of Counties Healthcare Affiliate, reported revenues for the FY09 county indigent fund totaled \$98.2 million. Expenditures for FY09 totaled \$87.1 million. In addition to supporting the state Medicaid fund through the county supported Medicaid program and hospitals with a sole community provider fund, revenues also support local practitioners, clinics, ambulance services, alcohol and substance abuse centers, mental health centers, dental clinics, etc., for the local community on behalf of its residents.

Dan Weaks, New Mexico Hospital Association and Bernalillo County, reported the healthcare system is approximately one-fifth of the total economy and is a primary economic driver in local communities. Counties have imposed tax increments authorized by the Legislature, providing over \$250 million in tax support for healthcare related programs statewide. In response to Senator Beffort, Mr. Weaks said there is approximately \$30 million in remaining authority that could be imposed without public referendum.

In 1994, the Association of Counties and the New Mexico Hospital Association developed the sole community provider program to ease the burden on counties paying for indigent care services while maximizing the match for Medicaid. The program brought in \$200 million in revenues statewide for the current year.

Provider Tax Issues. Richard Cauchi, health program director, NCSL, reported that state-created health provider taxes, also called assessments or fees, have been a stable part of state fiscal credit strategies. Unlike most state taxes, Medicaid related provider taxes or fees are not primarily a simple revenue source or a crushing burden on the health professionals and providers who are taxed. They are a well-established mechanism bringing significant new federal dollars to state coffers often without reducing, and sometimes increasing, the bottom line of the taxed entities. Mr. Cauchi noted all provider taxes are state initiated.

Senator Lopez said there is a huge difference amongst institutions on the definition of charity care. Senator Lopez asked how credit ratings are affected for individuals who are not able to make payments or qualify for services based on the definition of charity care per institution. Jeff Dye, president, NM Hospital Association responded that most hospitals have policies designed around a 200 percent of poverty rate to make sure individuals receive financial assistance.

Miscellaneous Business

Action Items

Approval of LFC Minutes – July 2010. **Representative Sandoval moved to approve the July 2010 LFC minutes, seconded by Senator Papen. Motion carried.**

LFC FY12 Budget Request. Director Abbey reported instructions for the FY12 budget request have not been received from DFA; however the LFC's target spending level remains flat after the 3 percent reduction from FY11. Director Abbey recommended a \$3.88 million FY12 budget request; a 7 percent decrease from FY10. **Chairman Varela moved to approve the recommended FY12 budget request, seconded by Representative Saavedra. Motion carried.**

FY12 Budget Guidelines. Director Abbey highlighted the FY12 budget guidelines. LFC staff is working closely with the Government Restructuring Task Force to consolidate state government. Provisions of law are due to expire on June, 30, 2011; staff will look carefully at continuing those items. The guidelines also include new items. Staff will also consider adjusting tax fees and revisiting tax expenditures. **Senator Sapien moved to approve the FY12 Budget Guidelines, seconded by Representative Tripp. Motion carried.**

Information Items

Review of Monthly Financial Reports

ARRA Status Report. Director Abbey reported the state received \$1.92 billion in ARRA funds; \$1 billion has been spent to date. Director Abbey highlighted allocations made to the Government Services Fund. In response to Representative King, Director Abbey said \$19 million remains unallocated; however individual commitments may not be reported.

July 2010 Cash Balance Report. Chairman Varela expressed concern with cash balances and requested that staff review unused balances. Director Abbey said balances will be analyzed through the budget process.

Full-Time Employees by Agency. Director Abbey reported the number of employees decreased from 25,800 to 24,000; a reduction of 7.5 percent since the hiring freeze began. Chairman Varela requested that staff review the total number of employees at the beginning of the administration to the present. Director Abbey noted exempt positions are down 75 positions.

Director Abbey referred committee members to the July 2010 BAR Report, the FY11 LFC Budget Status, and the LFC Program Evaluation Status Report to review on their own time.

Construction Industries Building Codes: New Proposals and Effect on State Construction Cost. Kelly O'Donnell, superintendent, Regulation Licensing Department (RLD), reported the Construction Industries Division (CID) is responsible for adopting building codes for the state and in turn local governments are responsible for adopting CID building codes or develop their own codes that meet or exceed the state codes. The proposed building codes include an update to the 2009 International Energy Conservation Code (IECC) code. According to Ms. O'Donnell, the adopted code changes result in a statewide weighted average increase in efficiency of 20.62 percent.

Randy Traynor, lobbyist, Traynor and Associates, testified proposed codes place an additional burden on the private sector. Contractors and their customers will have to drastically change designs and building construction projects. Construction plans will need to be much more detailed and precise. Mr. Traynor suggested developing a strategic plan to implement energy conservation codes with public and private partnership. Mr. Traynor also suggested the option of utilizing third-party inspections.

Anthony J. Trujillo, chair, Association of Commerce and Industry (ACI), testified contractors of ACI were concerned with the impact of the code changes on rural communities. The proposed codes may place contractors in rural areas at a competitive disadvantage. ACI members also expressed concern with the impact to small contractors or small businesses. Mr. Trujillo noted the Construction Industries Commission (CIC) is inoperable and has not met for two years. In 2005, the Legislature made a commitment to ensure the regulatory process dealing with business codes were thoroughly analyzed from an economic perspective for small businesses; however, it did not occur. ACI believes legislation review of rules promulgated by executive agencies should be a key component for the review process. Mr. Trujillo suggested authorizing the LFC to establish discretion or authority to review and act on promulgated rules.

Robert Gorrell, director, Public Schools Facilities Authority (PSFA), testified the PSFA was involved in the initial process of enhanced building methods; however decided to back out of the process. PSFA expressed concern with the timing of the codes changes, given the current economic climate; Mr. Gorrell is concerned that no substantive fiscal analysis was done before the codes were adopted. It is possible that the new codes will increase the cost of construction to a level that the

State and private entities are unable to deal with. The changes may be detrimental to the construction industry especially in such fragile economic times.

Calvin Steckler, maintenance specialist, Public Schools Facilities Authority (PSFA), testified PSFA has built high performance schools over the last five years. He noted that the adopted increases in equipment and appliance efficiency represent an increase in efficiency above those prescribed by the national energy codes. The efficiencies prescribed may not be attainable across all product lines of the manufactures that are active within the state. The effect of this could result in limited competition, increase costs for custom equipment and modifications, and delay of project schedules.

Ms. O'Donnell said building codes are regulations and are adopted by the commission and bureau chiefs within CID. The process by which the codes were amended is a typical regulatory process. Stake holders were brought together before the rules were drafted to discuss the proposed regulations. The proposed regulations are amended versions of the 2006 IECC. The 2009 base code is 10 to 15 percent better than its predecessor. The increase in efficiency of the proposed New Mexico codes is roughly 5 percent.

Chairman Varela asked what the urgency is for implementing changes. Ms. O'Donnell responded that codes are updated on a 3 year cycle. Ms. O'Donnell also mentioned that American Recovery and Reinvestment Act (ARRA) funding requires the adoption of building codes that meet or exceed the 2009 International Energy Conservation Code (IECC). New Mexico's current code is based on the 2006 IECC; therefore a code update was required to be eligible for ARRA funding. Chairman Varela asked about accessing funds from the Energy, Minerals, and Natural Resources Department (EMNRD). Ms. O'Donnell said grant funds from ENMRD through ARRA have been accessed to conduct statewide training on the new codes; funds are targeted.

Senator Leavell expressed concern with affordable housing and finds the timing of the initiative to be unusual and unique. Home building and construction is in one of the worst depressions it's ever been.

Review of Carnegie High Level Intense Research Programs at the University of New Mexico and the Economic Impact to New Mexico. Julia Fulghum, vice president, Research-UNM, reported that research funding opportunities require significant institutional support, as well as faculty focused on research that creates new knowledge and innovation. There is a strong correlation between the curriculum development, faculty, student interests, and needs of the state.

Ms. Fulghum also noted that research activities at UNM are an economic driver for the state and that a number of studies suggest that research dollars coming into the state have a multiplier of at least two times. In addition to funding salaries and benefits for a number of staff, these dollars provide funding to attract high quality undergraduate and graduate students to the university. Research activities also provide wide-scale training and many times results in the creation of intellectual property which adds value to the university. In terms of value to the state, UNM's research activities prepare and position students for high-skilled, high-paying jobs, improve health care through the development of new medical devices, disease prevention and state-of-the-art facilities. Additionally, expertise and assistance is provided with economic forecasting and policy development for state and local governments. Of note is a new national science foundation grant received to fund a professional science master's degree program to train and place high quality science teachers in the classroom. New Mexico has an identified annual need for about 99 science teachers statewide and the schools of education are projecting only 27 science teacher graduates this year.

UNM main campus has approximately \$400 million in research awards under management and in FY10 realized almost \$176 million in new research rewards including \$34 million in stimulus funding. This was the highest single year increase in the school's history. Research expenditures for FY10 totaled \$120 million; \$60 million of which was spent on compensation for staff, faculty, undergraduates, and graduate students. The total economic impact of main campus research in FY10 is over \$250 million. Ms. Fulghum provided an overview of a broad research portfolio, including nanotechnology initiatives, climate change and long-term ecology, addictions and substance abuse, health policy and emerging and sustainable technologies. As a result of these activities, In 2004, New Mexico ranked third in the nation as a "hot spot" for Nanotechnology research. Albuquerque was ranked fifth in the nation as a "top metro" for research in Nanotechnology in 2009.

Climate change research at UNM generates more than \$65 million in funding for local, national, and global efforts. UNM has received \$20 million for an NSF project to track damage to the ecosystem caused by the Gulf oil spills. Dr. Fulghum provided an overview of statewide water research including water processing, reuse and clean-up and is described work being conducted on water budget and ecology of the middle Rio Grande.

Current energy research is primarily focused in the Center for Emerging Energy Technologies (CEET) with \$10 million in energy related funding. This includes a Department of Energy-Experimental Program to Stimulate Competitive Research (EPSCoR) grant with New Mexico Tech, NMSU, and Eastern New Mexico University. This is a program designed to fulfill the National Science Foundation's (NSF) mandate to promote scientific progress nationwide. Dr. Fulghum provided information on the Center for Emerging Energy Technologies (CEET). The center currently has \$10 million in energy related funding. Dr. Fulghum also provided information on the Science and Technology Corporation (STC) and funding for research.

Representative Salazar asked about patents and the university's involvement with the incubation of the discovery of new technology, as well as the marketing. Ms. Fulghum said the university owns patent and intellectual property rights for technologies developed at the university. The way patent rights are split is guided by university policy and if at some point the university decides not to pursue the patent, the intellectual property can be returned to the faculty member. The science and technology corporation at the university is in place to help with the licensing, marketing, and the development of various technologies.

In response to Chairman Varela, Ms. Fulghum said proposed funding for research includes a research renewal and replacement fund to specifically address equipment and research facilities or a small allocation for research investment.

Community Colleges Community Pathways; Green Jobs, Healthcare and Business Development. James Gilroy, dean of instruction, UNM Taos Branch, introduced a number of staff members and students. The committee received testimony regarding the impact of the branch campus on the Taos area, including a presentation of day care and early childhood programs. Dean Gilroy reported the typical student at UNM Taos averages 34 years of age, is female, a single mother, working full-time and obtaining her degree. Staff and students provided testimony on several programs at UNM Taos. These included bilingual and cultural programs, the culinary arts program, the nursing program, distance education and the two-plus-two program the branch has with the main campus to provide a seamless transition to upper division classes.

Representative Saavedra was interested in the level of student debt graduates of the nursing program had incurred. A general number of about \$8 thousand was given, but some students noted it could be much higher if they did not have family support.

Friday, August 13

General Services Department and Department of Information Technology Rates. David Archuleta, senior fiscal analyst, LFC, reported that the General Services Department (GSD), Risk Management Division (RMD), proposes a \$27.9 million increase for public liability, public property, workers' compensation, surety bond, and unemployment compensation. The Employee Benefits Program proposes a 5 percent increase in premiums charged for each of the four medical plans. The Transportation Service Program proposes to maintain a short and long-term lease rate for vehicles and aviation services flat with FY11 operating levels.

The Department of Information and Technology (DoIT) is proposing an overall \$2.2 million or close to 5 percent reduction in fees charged for enterprise activities. In FY10, DoIT was able to reduce internal costs in order to transfer savings of approximately \$5.4 million to the equipment replacement fund.

Marlin Mackey, secretary, DoIT, provided an overview of the department's rates approved by the IT rate committee for FY12. The department is proposing a rate reduction of 4.76 percent between FY11 and FY12.

Arturo Jaramillo, secretary, GSD, reported that the department is responsible for paying 100 percent for the first 26 weeks of unemployment compensation claims and 100 percent of the last 20 weeks. The proposed FY12 rates are based on projected claim experience of \$2.5 million and \$3 million per quarter. Secretary Jaramillo indicated that FY11 started with a cash balance of \$6.3 million in the unemployment compensation funds and expected revenues of \$13 million for FY11; however, projected expenditures may create a deficit. In response to the situation, GSD proposes to prorate a \$5 million appropriation among agencies, schools, and LPBs in FY12 reducing the impact to the general fund. Overall, expenditures are expected to total \$15 million leaving a fund balance of \$2 million at the end of FY12.

Secretary Jaramillo reported that nationally healthcare rates are rising between 10 percent and 12 percent annually however; GSD has been able to manage lower increases. In FY11 GSD slightly increased the out-of-pocket expenses associated with Blue Cross Blue Shield and United Health Care due to a trend in claims. Currently, 81,000 participants are covered by the employee group health benefits program with an overall 8.75 percent increase in costs expected in FY12. In response to these projections GSD proposes to increase premiums to employees by 5 percent while using fund balance to offset the remaining 3.75 percent projected increase.

The proposed risk rates for FY11 included \$5 million to increase the fund balance for workers' compensation and totaled \$64.4 million for the entire risk program. During the last legislative session, GSD was requested to reduce premiums as part of a deficit reduction plan. In response, GSD reduced the risk rates by \$8 million. For FY12, GSD is requesting a \$3 million increase in workers' compensation and \$5 million to supplement the fund balance in property fund.

FY11 rates for the transportation services are anticipated to decrease by \$7.40 across the board; however maintenance fees will increase \$7.84 for each category. Standard rates for the replacement

fee will decrease by more than \$654 thousand for agencies. Secondly, the Aviation Bureau has consistently spent less than approved budget from FY09 to FY10 with the rates lower than the fully amortized cost of the program. GSD proposes the rates for FY12 total \$1.5 million for the Aviation Services Program.

Chairman Varela asked if changes or modifications were considered to the health plans regarding the IBAC's position. Secretary Jaramillo said with the current fund balance, GSD has greater flexibility than other IBAC members. Nancy Bearce, Health Benefits Administrator, RMD, added with the new health care reform, triggers were not known until the federal Health and Human Services issued guidelines which she expects will impact the IBAC.

Senator Beffort asked if there was a centralized fueling station for state vehicles. James Chavez, deputy director, Transportation Services Division, GSD, said each vehicle has a right express fuel card so they obtain fuel in a number of locations and a number of vendors are giving discounted rates. Information is being collected to determine cost savings and determine where those vendors are located.

Representative Bratton asked if there has been any consideration for contracting aircraft use. Secretary Jaramillo said leasing has been considered; however quality investment has already been made in aircraft, pilots, and operations.

In response to Senator Leavell's question regarding alternative fuels, Secretary Jaramillo said there was an initiative to look at alternative fuels; however experience showed it was better to purchase fuel efficient vehicles. Representative Gonzales asked if there was consideration to look at natural gas for purchases of new vehicles. Secretary Jaramillo said the current infrastructure does not exist to fuel natural gas vehicles.

Chairman Varela acknowledged and presented a letter of appreciation to Manu Patel, deputy director, LFC for the services provided to government.

Department of Information Technology Performance Review. Aurora Sanchez, IT program evaluation manager, LFC, presented a review of the information technology and telecommunication services for the Department of Information Technology (DoIT). DoIT is the IT and telecommunication service provider for state agencies. It provides services for a fee and must be self-supporting since it is an enterprise agency.

Initiatives to consolidate technical and telecommunication services across state government started in 2002 and included the following:

- E-mail systems in 60 executive agencies, three elected officials and one judicial agency for over 19,000 employees were consolidated. Savings were never captured so it is unknown how much was actually saved from this initiative. Smartphones are posing a security risk to the state's email system because they can access it without authenticating the user. Moreover, DoIT is losing about \$73 thousand per year from agencies not paying for services accessed through smartphones. With the e-mail upgrade, DoIT needs to include smartphone connectivity.
- Security is the initiative that has had the slowest start. Currently DoIT has adopted a rule and policy and provides training to state agency IT staff. DoIT monitors security incidents and assists state agencies with issues. Agencies however, are not required to report security incidents to DoIT. The creation of DoIT and split from GSD has created a multi-tenant

facility at the Simms Building which is in contravention of best practices. Moreover, 25 percent of badge access to the building is to GSD employees who have access to parts of the building other than the GSD secretary and human resources.

- Telecommunication aggregation and use of the state-owned digital microwave system was initiated. In 2003, the state was spending \$31.2 million for data and voice services; in 2010 that amount is down to \$13.3 million. Since the last consolidation review in 2007, the Rio Grande fiber has been completed and DoIT is engaged in new broadband initiatives that include narrow banding and mapping using federal grants and leveraging existing appropriations. Although DoIT has supervisory control over telecommunication services in state government, it does not include e-911 because the law does not seek to leverage state-owned resources such as the digital microwave.
- The accounting and human resource system (SHARE) was implemented in 2006 and after a \$20 million appropriation and over \$20 million in additional appropriations and agency contributions, the system is proving to be a good one. The technical staff is not fully consolidated in the budget with a portion of it remaining at DFA and is not housed at the Simms Building.
- Data centers in the five large agencies have not been consolidated although production servers for many have been moved to the DoIT data center. In 2006, LFC staff recommended that no additional servers be moved to the state data center since it required major infrastructure improvements and posed a single-point of failure. Since then, the state has spent \$6 million to update the data center. Savings could be realized by consolidating the various data centers with multiple environments using virtualization and cloud computing from decrease costs for cooling, electrical and possibly hardware and software.
- IT Staff has not been consolidated at DoIT, instead hiring has been frozen since 2004. In FY10, DoIT addressed the hiring freeze by spending \$2.7 million for contractual services, overtime or on-call/standby pay. Statutorily created IT division, however, have grown along with the number of CIOs. CIOs currently cost the state \$1.5 million annually in salaries and benefits. Filling seven vacant positions would reduce the need for contractual services and overtime pay and bring stability to the organization. Reducing the number of CIOs by five or six could save between \$940 thousand and \$1 million.

DoIT's enterprise programs expended \$49.3 million in FY10 of which \$13 million was to pay telecommunication companies. LFC staff found problems with the accuracy and recording of accounts receivable. If accounts receivables were reconciled timely, a \$370 thousand unposted payment from HSD would have been caught. LFC staff recommends reconciling accounts receivable timely. For FY10, accounts receivables were \$9.6 million of which \$3.6 were over 120 days old. In some cases, DoIT inherited bad account information and in others agencies simply refuse to pay. At least one agency said it was not a budgeted expense. LFC staff recommends the Department of Finance and Administration (DFA), Budget Division require agencies to encumber funds to pay for services. In the telecommunications receivables, DoIT has an unknown/unidentified account with a balance of \$433 thousand that increases each month. LFC staff recommends DoIT send notices to agencies that the telephone numbers in the unknown account will be disconnected to determine which agency is not paying for its telephone service. It also recommends exercising its statutory authority to request DFA transfer funds for unpaid agency' invoices.

Other recommendations include working with the federal government to address over-recovery of costs to avoid the need for a \$3.9 million general fund appropriation, address the federal government's double standard on cost recovery and potentially address DoIT losses from not recovering costs for all services.

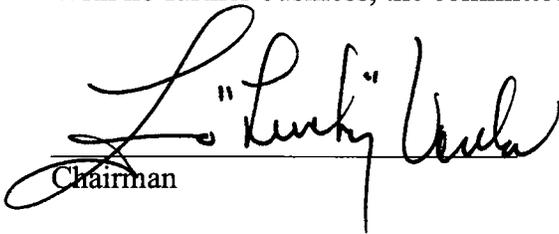
Ms. Sanchez said the next review for DoIT will include a review of telecommunication invoices, follow-up on the E911 to make sure a more cohesive consolidated service leverages state resources, and review of oversight and compliance.

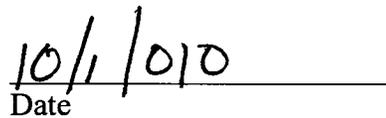
Marlin Mackey, secretary, Department of Information Technology (DoIT), reported the LFC staff performance review was comprehensive and had it contracted for these services it would have cost it about \$150 thousand. The department agrees with 55 out of 57 recommendations. The department prioritized recommendations into three priority groups; 25 recommendations are classified as priority one. The department will submit an updated action plan to implement recommendations to LFC staff within 30 days.

Tour of Taos Branch Campus Solar Array Project. Kate O'Neill, executive director, University of New Mexico, Taos Branch, gave a brief presentation of the solar array at UNM-Taos. She noted that with support from Los Alamos National Laboratory the Kit Carson Electric Cooperative applied for and received a zero percent federal grant to install several solar generation plants throughout northern New Mexico.

The UNM-Taos array is the first of these projects, and at the time was the largest solar array in the state of New Mexico. The array is situated on three and a half acres, contains over 2,700 photovoltaic panels and will generate 500 kilowatts of power---more than enough to serve all the power needs of the UNM-Taos campus. The solar panels are mounted on a tracking system that tracks the sun from east to west daily to generate maximum solar power. The Taos branch campus is the first community college of its kind in the nation to be 100 percent powered by renewable solar energy. The facility will support both the UNM-Taos green jobs initiative and academic courses in sustainability.

With no further business, the committee adjourned at approximately 12:00 p.m.


Chairman


Date