MINUTES
Legislative Finance Committee
Taos, New Mexico
August 19 – 20, 2015

Wednesday, August 20th
The following members and designees were present on Wednesday, August 19, 2015: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, Sue Wilson Beffort, Carroll H. Leavell, Howie C. Morales, George K. Munoz, Steven P. Neville, and Pete Campos; and Representatives Larry A. Larrañaga, Luciano “Lucky” Varela, Nick L. Salazar, Paul C. Bandy, Monica C. Youngblood, George Dodge Jr., and Patricia A. Lundstrom. Guest legislators: Senator William F. Burt and Representative Roberto “Bobby” J. Gonzales.

Welcoming Remarks. Dan Barrone, mayor of Taos, began the meeting with road conditions in the area. Deteriorating roads have led to several road improvement projects in Taos County. Improvements to Camino del Medio are underway. In response to Vice Chairman Hall, Mayor Barrone said the Taos County Economic Development Corporation continues to serve the community. Mr. Barrone mentioned the Community Kitchen, which is being used as model in other communities in the country. Senator Cisneros asked Mayor Barrone to talk about Governor Martinez’s visit to Taos two weeks earlier. Mr. Barrone said Governor Martinez announced an allocation of $11.5 million for a two phase road project, which will address several needs, including a much-needed traffic light at the intersection of Albright Street and Paseo del Pueblo Sur.

Kate O’Neill, executive director of the University of New Mexico-Taos (UNM-Taos), reported on the growth of enrollment. UNM-Taos experienced increased enrollment in 2013 and 2014. Enrollment numbers are expected to level out and the branch expects enrollment of around 1,850 students for its 2015 fall semester. Ms. O’Neill said programs aimed at retaining and graduating students are being expanded. Ms. O’Neill introduced three students who then briefly shared with the committee their experiences as students and as members of the Taos workforce. The Accelerate Program was mentioned as a contributing factor in their success.

In response to Representative Larrañaga, Avelina Martinez, director of the Accelerate Program, talked about the ways UNM-Taos is preparing students pursuing degrees in STEM (science, technology, engineering, or mathematics). UNM-Taos offers an associate of science in pre-science, which aligns closely with UNM’s main campus, New Mexico Tech, New Mexico Highlands University, and New Mexico State University.

In response to Senator Beffort regarding job placement, a student of UNM-Taos said the Accelerate Program provided him the help he needed, such as a resume building workshop, to obtain a job.

Chairman Smith commented on the importance of paying back student loans. Ms. O’Neill said student loans cannot be dissolved through bankruptcy. Students are required to take University 101, which provides financial literacy.

General Fund Revenue Update. Demesia Padilla, secretary of the Taxation and Revenue Department (TRD), reported on the general fund consensus revenue estimate. Referring to TRD's presentation, Secretary Padilla said New Mexico continues to experience strong economic growth. "New money" for FY17 is estimated to be $293 million. Gross receipts tax (GRT) revenues show positive growth. It is anticipated that energy-related revenues will experience no growth. Referring to the change from prior estimate, Secretary Padilla explained the increased growth is result of compliance efforts. Secretary Padilla said employment numbers are rising and there is an increase in personal spending in auto and home sales. Taxable gross receipts (TGR) have grown in a consistent pattern, very similar to the long-term trend with the exception of the recession period (2008 through 2011). Secretary Padilla said FY14 was a record year for compensating tax revenue. However, the increasing volatility of this revenue source over the past several years has made it difficult to forecast. Preliminary FY15 figures show revenue collections of approximately $82 million, or 4.6 percent above the previous year. Personal income taxes (PIT) came in slightly stronger than anticipated in FY15 and are expected to grow by 2.9 percent in FY16. Secretary Padilla talked about the newly created unit at TRD that will assist the agency in its compliance efforts. PIT may see additional dollars as result of the new unit. Regarding corporate income taxes (CIT), figure 5 showed how volatile CIT has been over the past few years. The increase in the FY15 forecast is partly due to both higher taxes from late payers and to a lesser extent the implementation of the electronic filing system. Secretary Padilla pointed out that part of the risk in forecasting CIT is that the tax preferential deductions scheduled to expire at the end of the year have been treated as if they won't be extended even though they consistently are extended. Secretary Padilla reported on other taxes. Liquor excise taxes remain steady with no anticipated major decline or increase in the near future. Cigarette and tobacco products taxes remain reasonably steady despite the tendency for a decline in FY16 and future forecasts. Secretary Padilla then briefly talked about unclaimed property. Unclaimed property is the highest contributor to miscellaneous receipts at about 40 percent. Secretary Padilla concluded her presentation pointing out a pie chart in the handout, which showed the source of revenues in FY15.

Tom Clifford, secretary of the Department of Finance and Administration (DFA), provided an overview of DFA's analysis, saying FY15 ended in very strong condition. Evidence indicates great strength in the New Mexico and U.S. economy. However, weakness is evident in oil markets. Secretary Clifford noted New Mexico has so far successfully navigated through the weakness. Secretary Clifford said the estimates provide adequate new money to meet spending needs and address critical need to diversify the economy.

Leila Burrows Kleats, director of the Board of Finance, then briefed the committee on the U.S. economic outlook. Ms. Kleats reported job growth at the national level is strong and broad-based. Full employment is expected to be reached by the end of the current fiscal year. Household debt burdens are the lowest ever. Lower gasoline prices have helped households to deleverage some debt. Low inflation gives the federal government flexibility in raising rates. Ms. Kleats then reported on the New Mexico economy. Employment has been strong in recent months. Job growth in the private sector grew by 1.3 percent in June 2015. In mining, 1,700 jobs were lost since the peak in November 2014. Regarding the energy market, analysis indicates continuing energy supply growth in the United States, OPEC, and Canada, but slower demand growth from China. Ms. Kleats reported low oil prices have slowed drilling and production, with the U.S. rig count declining by half in the last year. Drilling permits also fell 18 percent in FY15. Increased consumer and business spending is expected due to lower energy prices. Lower prices in gasoline have increased the demand for SUVs and trucks. Ms. Kleats then reported on the general fund and provided a summary of the general fund forecast. Recurring revenue reached record high in FY15.

Secretary Clifford highlighted a recent report from Moody's Investors Service that recognized New Mexico as one of the most successful oil-producing states in managing budget. Moody's rates New Mexico's bonds at AAA, their highest rating. Secretary Clifford talked about the administration's tax policy priorities, which include improving access to capital, expanding the skilled workforce, and helping small businesses grow. Secretary Clifford updated the committee on the capital budget. Senior severance tax bond capacity is $215 million. About $150 million will be available for new capital projects. There will be $155 million in supplemental severance tax bonds for public schools. In capital outlay issues, DFA continues to see improved compliance with the audit act. At-risk entities are down from 51 to 16. Possible continued reforms include pooling funds for larger, more comprehensive local projects.

Chairman Smith expressed caution in planning for how much "new money" was forecasted.

In response to Representative Larrañaga regarding small businesses, Secretary Clifford mentioned new budget initiatives, such as the technology research collaborative designed to help foster technology related small business investment. DFA wants to work with the Small Business Investment Corporation to ensure its fulfilling its purpose in New Mexico.

In response to Representative Varela regarding the type of jobs being created, Ms. Kleats said a large portion of job growth was seen in the healthcare sector. There has also been significant job growth in professional services and leisure and hospitality. Jobs in the professional services sector tend to be higher wage jobs.

In response to Senator Cisneros, Secretary Clifford said one of the weaknesses of the road fund traditionally has been the lack of elasticity. There has been suggestion to redirect general fund from the motor vehicle excise tax to the road fund. The motor vehicle excise tax grows strongly and would provide the component of growth that the road fund lacks.

Secretary Clifford agreed with Senator Cisneros that sunsets, automatic repeal of some laws, can play a useful role. In the area of renewable energy, for example, the rate of credit provided on some of the renewable energy incentives needs to be revisited because the costs of renewable energy is declining.

In response to Representative Bandy, Secretary Clifford said the household debt burden is tracked by Moody's. Revolving credit and mortgage debt has stabilized since the recession.

In response to Representative Lundstrom, Secretary Clifford said about $4 million of the "new money" is motor vehicle excise tax. Representative Lundstrom suggested part of the "new money" go towards the road fund instead of redirecting general fund from the motor vehicle excise tax.

Update on SHARE and Cash Remediation Phase II Projects. Darryl Ackley, secretary of the Department of Information Technology (DoIT), talked about how the system is working for the state. Since the replatform, SHARE has successfully run payroll on time. The system continues to improve. Upgrades began July 2014 to modernize the system. Secretary Ackley said the philosophy of the SHARE upgrade is to upgrade routinely so as to avoid the need for big, infrequent, expensive upgrades.

Ron Spillman, state controller of the Department of Finance and Administration, then spoke on the security of the system. SHARE's business process must ensure the right people have the right access at the right time. Mr. Spillman talked about what an enterprise system requires to be successful. Mr. Spillman said there is a lack of standardized processes in New Mexico state government. A slide in the presentation provided a summary of the issues identified in the historical cash remediation project. The majority of issues were business-process-related, not system limitations. In moving forward, Mr. Spillman suggested strategies be considered to capture existing value, incorporate new functionality, manage risk, coordinate all state agencies, organize capabilities, and facilitate future progress.

Tom Church, secretary of the New Mexico Department of Transportation (NMDOT) and member of the SHARE executive committee, briefly commented that the SHARE system is working. Secretary Church reported that 20 thousand warrants are being issued monthly and employees are being paid.

Mr. Spillman then reported on phase two of the cash remediation project and the 2014 Comprehensive Annual Financial Report (CAFR). The committee was first briefed on the background and phase one of the project. State general fund investment pool balances have not been fully reconciled since the implementation of SHARE in July 2006. Reporting on the current status, Mr. Spillman said 100 percent of book (SHARE) to fiscal agent bank account (Wells Fargo) have been reconciled for FY14 and FY15. Efforts to reconcile historical balances have been unsuccessful. A model has been developed and tested to assess size and fluctuation of differences between agency claims on the resources held by the State Treasurer's Office (STO). Mr. Spillman talked about how the model works. Phase two of the cash remediation project began August 2015 and will be delivered in three releases. The project will address business process shortcomings in the state and integrate third-party payment systems into SHARE.

Tom Clifford, secretary of the Department of Finance and Administration (DFA), then briefed the committee on the recently released 2014 CAFR. The CAFR provides the only integrated view of the state's financial results. The 2014 CAFR was compiled directly from SHARE financial records for the first time. Secretary Clifford said that while many of the same issues had been expected and were encountered in FY14, and the overall CAFR received a disclaimed opinion, significant progress was made. The 2014 CAFR reported two of the findings were resolved, three were repeated, and one was new. Mr. Spillman then concluded DFA's presentation with completed activity on the FY15 CAFR and its target timeline.

Ricky Bejarano, deputy state treasurer, then briefed the committee. First talking about the State Treasurer's history with SHARE, Mr. Bejarano said the State Treasurer's Office's (STO) cash functions were maintained on a system called TRACS prior to July 1, 2006. STO was not initially consulted on the SHARE implementation. There is no system by which STO can independently track bank activity by agency and fund in accordance with governmental accounting standards. Mr. Bejarano said STO needs to return to an independent and TRACS like system.

Representing the State Auditor's Office (OSA), Deputy State Auditor Sanjay Bhakta talked about responsibilities and said it is management's responsibility to reconcile cash and auditor's responsibility to review and test internal controls and opine on balances. The current mechanism for OSA to receive information is through findings from the CAFR. Mr. Bhakta said current interrelated issues do not involve OSA. Mr. Bhakta then briefly went over a history of changes to audit rule. Through audit rule 2016, OSA is considering to once again require auditors and agencies to ask for cash confirmation from STO and allow auditors to report it as a finding when confirmations are not provided. OSA welcomes feedback on the possible change. Mr. Bhakta provided to the committee a copy of the letter delivered to Secretary Clifford along with the 2014 CAFR asking DFA to provide the best current estimate of the total loss and plan to investigate and mitigate such loss losses.

In response to Senator Cisneros, Secretary Ackley said the enterprise learning module would provide regular training, which would become part of an employee's record.

In response to Senator Beffort regarding the possibility of an independent system for STO, Mr. Spillman said two systems mean duplication of effort and moves away from the standard process to integrate. He said he understands STO has a requirement, but business requirements and processes need to be understood before a second system is put in place.

In response to Senator Cisneros, Secretary Ackley said current costs for the SHARE system is for operation and maintenance. The supporting licensing cost for SHARE on an annual basis is between $1 million and $1.2 million. There are additional costs for personnel to maintain the system. Regarding a second system, Mr. Bejarano said STO does not need an ERP type of system, but rather a database driven type of program to provide for separate accounting.

New Mexico Early Childhood Well-being Report Card. Charles Sallee, deputy director of the Legislative Finance Committee (LFC), began with a brief history of the Accountability in Government Act (AGA). The AGA, enacted in 1999, created a performance-based budgeting system. Prior to the AGA, the Legislature budgeted between 14 and 17 line items per agency division. The AGA reduced the number of line items for every division, therefore allowing for greater budget flexibility and asked that state agencies to report on outcomes. To facilitate in reporting outcomes, LFC developed a performance reporting format called report cards. The report cards, produced quarterly, provide information on how much money is appropriated to various programs in state government and the results of those programs.

Mr. Sallee said while the report cards serve as a good tool, there is always room for improvement. LFC staff was tasked with reinvigorating performance reporting to help aid legislators in their decision-making process. Performance reporting must have a strong connection to agency budgets and the budget process. It is important to ensure the right things are being measured and benchmarked to state national data and that state agencies are developing and held accountable for corrective action plans. Cooperation from agencies and the executive is needed.

LFC has evolved its work into a comprehensive evidence-based budget and policy framework called *Legislating for Results*. LFC incorporates policy, budget and cost-benefit analysis, research, performance reporting, and program evaluation into this framework. This framework can assist the Legislature in

- identifying priority areas and performance,
- reviewing program inventory and effectiveness,
- developing budgets,
- implementing oversight, and
- monitoring outcomes.

Mr. Sallee discussed the many ways performance data can be used. While performance data can be helpful in many ways, there is some information the data cannot provide. For example, it does not tell you what factors and to what extent each of those factors caused the outcomes. The data does not replace legislator's decision-making authority nor does it serve as a formula. Mr. Sallee said because the data cannot answer all the questions, agency action plans are very important. Good action plans should detail who, what, when, and how, and be readily available for committee review. To assist in the decision-making process, legislators could ask agencies questions on performance during committee meetings. Possible questions include is the agency/program meeting its performance targets and how does the agency's performance and strategic plan inform its budget request.

Mr. Sallee then talked about performance measure guidelines. Ideal performance measures should be useful, results-oriented, clear, responsive, valid, reliable, economical, accessible, comparable, benchmarked, and relevant. Included in the handout was information on the criteria used to determine red, yellow, or green ratings used in the report cards and LFC's Volume I budget document. Mr. Sallee highlighted Children, Youth and Families Department key quarterly performance measures report and then mentioned Washington state's evidence-based policy framework, developed by both its legislative branch and executive branch.

As part of reinvigorating its performance reporting, LFC is piloting a couple of different approaches in presenting information on key issue areas beginning with early childhood. Mr. Sallee then presented the 2015 accountability report on early childhood. Early childhood initiatives have the potential for widespread economic and social benefits; however, children in New Mexico rank low in many basic well-being indicators. To address the issues, the Legislature has increased funding to Children, Youth and Families Department (CYFD), Department of Health (DOH), Human Services Department (HSD), and the Public Education Department (PED). The accountability report is intended to provide a systemwide look at key early childhood indicators across state agencies and consolidate information regarding expenditures and outcomes. However, this first report only provides baseline data for some new measures. The report provided information on the science behind brain development and the importance of investing early. The report identified key programs and other intervention strategies for which to make investments, such as the home-visiting program. Mr. Sallee talked about four key areas on which to focus: health; safety, ready to learn by kindergarten, and education.

Mr. Sallee then turned it over to Kelly Klundt, analyst for LFC, to talk about key interventions. Ms. Kelly said the purpose of the report was to also provide legislators a snapshot of what a child's life is like in New Mexico. New Mexico is in the forefront of observing the data and funding it at the same time. Ms. Klundt pointed out two charts, which provided information program appropriations and services. The charts are published twice a year. Ms. Klundt then briefly reported on four programs: home visiting, childcare assistance, prekindergarten, and K-3 Plus.

The home-visiting program is voluntary and provides family support and basic parenting skills critical to improving childhood outcomes during pregnancy and through the first few years of a child's life. Home visiting was appropriated $14.3 million for FY16, which will serve approximately 3,000 families. Performance measures indicate that 96 percent of children on Medicaid and in the program are receiving all six well-child exams.

The childcare assistance program, the largest early childhood program in New Mexico, is appropriated $97 million annually and serves approximately 18 thousand children monthly. The childcare assistance program has cultivated into a higher quality program intended to improve outcomes. In 2017, CYFD will implement Focus, the state's new tiered quality rating and improvement system. Implementation of Focus is essential to ensuring the largest early childhood program in the state improves school readiness.

The prekindergarten program, administered by CYFD and PED, serves approximately 13 thousand children annually at a budget of $51 million. Prekindergarten has shown the greatest return on investment. Performance measures indicate improved proficiency in math by third grade. Prekindergarten reduces the need for special education and nearly eliminates the need to retain students prior to third grade.

The K-3 Plus program is an extended school program for kindergarten through third grade students. The program has proven to be very beneficial and serves as model for other states. Performance measures indicate the program is working.

Mr. Sallee then talked about what legislators might consider in moving forward with the programs.

Steve Hendrix, director of early childhood services for CYFD, said CYFD agrees on the importance of performance measures. Mr. Hendrix added that there is improved capability and sophistication in being able to measure. Decision-making must be data-driven to improve the lives of children and families in New Mexico. Referring to recommendations made by LFC staff in the January 2015 report on early childhood programs, Mr. Hendrix reported CYFD has submitted a request for proposals that will target home visiting to higher risk and higher needs families. In addition, CYFD and PED has increased coordination in allocating prekindergarten slots.

In response to Representative Larrañaga, Mr. Sallee said that the state collectively has done a good job in identifying high risk and high need areas of the state geographically based on a number of different early childhood indicators in order to prioritize resources. However, Mr.

Sallee added that building capacity in some communities has been challenging and suggested revisiting exploiting existing capacity in those communities. Mr. Hendrix said the incremental approach that the Legislature has taken in funding and building the program over the years has proven to work.

Representative Larrañaga asked LFC Director David Abbey to coordinate a meeting to discuss performance measures before the budget process begins. Mr. Abbey said the committee would be reviewing the fourth quarter report cards the following day.

In response to Senator Beffort, Ms. Kelly said the purpose of the incentives program is to retain teachers in the early childhood field because many were leaving to seek higher pay in the public education system. Baja Rankin briefly spoke about the T.E.A.C.H program, which received increased appropriation in FY16. The overwhelming interest for T.E.A.C.H. scholarships has caused a waiting list. There are currently 41 people on the waiting list.

In response to Senator Morales, Mr. Hendrix said the Focus implements the early learning guidelines and focuses on the individual child's needs.

In response to Senator Morales, Mr. Hendrix said the decrease in childcare assistance enrollment numbers is due to a variety of reasons. The drop in eligibility is a large reason for the lower enrollment numbers. Mr. Hendrix mentioned the lower birth rate since the recession is also likely a contributing factor.

Update on Workforce Solutions Department. Celina Bussey, secretary of the Workforce Solutions Department, began the presentation talking about the department's implementation of the Workforce Innovation and Opportunity Act (WIOA). The WIOA does the following:

- Reauthorizes the Workforce Investment Act of 1998 that was due for reauthorization since 2003,
- Repeals and replaces the Workforce Investment Act,
- Reauthorizes and enhances the Adult Education and Family Literacy Act,
- Amends the Wagner-Peyser Act of 1993, and
- Amends and reauthorizes provisions in the Rehabilitation Act of 1973.

Secretary Bussey talked about the numerous changes in the workforce development system due to the WIOA implementation. Those changes include a reduced number of required board members at both the state and local level, requirement of one unified state plan to meet the requirements for each of the core programs, and one set of accountability metrics to every federal workforce program. Changes in training and employment services include elimination of the "sequence of services" and merges "core and intensive activities" into a combined "career services." Secretary Bussey said there is increased flexibility in funding streams that will serve New Mexico well. Changes have also been made to youth program services. In the past, youth program services focused on serving in-school youth. Secretary Bussey reported that in 2014, New Mexico's unemployment rate for youth was 23.7 percent, eighth highest in the nation. Secretary Bussey said Congress now recognizes out-of-school youth to be the most vulnerable and has since placed an emphasis on programs for that population. Seventy-five percent of youth funds must now be expended on out-of-school youth. Twenty-percent of youth funds must be expended on work-based activities. In other changes, new performance accountability measures have been established. The new measures apply across all core programs to assess effectiveness of state and local areas in achieving positive outcomes for individuals served by the programs.

Secretary Bussey then discussed target dates that New Mexico must meet in implementing the WIOA. Although provisions took effect on July 1, 2015, Congress has allowed for a transitional period. WSD is working with its core and ancillary partners to ensure on-time implementation of the new parameters. The state unified plan, which will be submitted in March 2016, will take effect July 1, 2016. Secretary Bussey then talked about the four local workforce regions: northern, southwestern, central, and eastern. Referring to a chart in the handout, Secretary Bussey showed the amount of adult, youth, and dislocated worker funding for each region in the 2015 program year.

Secretary Bussey then talked about unemployment insurance. Statewide unemployment rate for June 2015 was 6.4 percent. There are 12.5 thousand individuals currently certifying for benefits every week in New Mexico. Approximately 1,000 initial claims are filed every week for unemployment insurance. As of today, the number of all the 2016 experience-rated employers that are currently active is almost 38 thousand. The trust fund balance as of August 11, 2015, was $236 million. The U.S. Department of Labor has reported that New Mexico has the healthiest trust fund since 2008. Secretary Bussey provided a snapshot showing New Mexico's neighboring states with the same 26 weeks maximum of benefits an individual may receive. Unemployment insurance benefits are based on a replacement percentage of what people have earned. In New Mexico, that percent is currently 53.5 percent. New Mexico's average weekly benefit amount is $306. Secretary Bussey reported that 18.3 is the average number of weeks individuals receive benefits, ranking the state ninth highest in the nation.

Secretary Bussey then talked about taxable wage base. A taxable wage base is the annual amount of wages paid by an employer to an employee that are subject to state unemployment insurance taxes. New Mexico's taxable wage base fluctuates each year and is set by formula. For 2015, employers will pay their unemployment rate based on the first $23.4 thousand of each employee's salary. Secretary Bussey talked about unemployment insurance tax under the old rating system and the new rating system. Starting in 2015, new contributing employers have a rate that is the greater of their industry average unemployment insurance contribution rate or 1 percent. Total revenue received to date since January 1, 2015, (first and second quarter taxes) is approximately $205 million. Secretary Bussey provided data on a 2016 preliminary analysis for unemployment insurance tax.

Secretary Bussey then talked about recent policy discussions. Secretary Bussey said that legislation introduced during the 2015 legislative session started discussion about New Mexico's benefit package and potential areas for reform. Proposed legislation may lower the 60 percent eligibility rule. WSD convened an unemployment insurance stakeholders meeting on June 16, 2015. Participants of the meeting, which included business organizations, elected officials, and advocacy groups, discussed the unemployment insurance program, benefits and taxes, and potential areas for reform.

Referring to the unemployment insurance tax schedule, Representative Larrañaga expressed concern for the significant increase to businesses that occurred between 2014 and 2015. Secretary Bussey said as New Mexico achieves an optimal level in the trust fund and the reserve factor lowers, there will be an element of relief across the board for businesses. Secretary Bussey added the primary driving force for employers is their benefit charges.

In response to Senator Beffort, Secretary Bussey said when an individual files a claim for unemployment insurance, every employer that the individual has worked for in the prior five quarters receives a notice. It gives the employers an opportunity to respond to what the individual has stated as their reason for separation and dispute it. Beyond that, appeals can continuously happen up until the New Mexico Supreme Court.

In response to Senator Muñoz, Secretary Bussey said the system is in a much better place to understand where the rates are going and inform employers sooner.

In response to Senator Burt, Secretary Bussey said the stakeholder meeting that happened in June 2015 was the first of a series of meetings to happen in the future. The next meeting is scheduled for October 1, 2015.

Senator Morales asked how the duration rate is calculated. Secretary Bussey said the U.S. Department of Labor runs duration and exhaustion rates for all states. By looking at all claims over a calendar year, the department is able to average how long those claims received benefits. Senator Morales said he is concerned about possible layoffs from the mining industry in his area. Senator Morales said he wants to work with Secretary Bussey, Western New Mexico University, and the industry to be better prepared should the layoffs happen. Secretary Bussey said she would be happy to start preliminary conversations.

Thursday, August 20th

The following members and designees were present on Thursday, August 20, 2015: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, Sue Wilson Beffort, Carroll H. Leavell, George K. Munoz, Steven P. Neville, and Pete Campos; and Representatives Larry A. Larrañaga, Luciano “Lucky” Varela, Nick L. Salazar, Paul C. Bandy, Monica C. Youngblood, Roberto “Bobby” J. Gonzales, and Patricia A. Lundstrom. Guest legislator: Senator William F. Burt.

Progress Report on Occupational-Based Compensation Structure. Justin Najaka, director of the State Personnel Office (SPO), reported to the committee that headway has been made on the compensation structure and classification framework reform project, which began in 2013. The purpose of the project is to establish a classification framework that will reflect current work performed by state employees including the duties, responsibilities, and working conditions that employees operate in. SPO wants to support agency efforts to attract and retain a qualified workforce. SPO’s vision is that New Mexico state government should not be viewed as a training ground, but rather an employer of choice. To that end, the system will provide more accurate job classifications, the ability to deliver targeted market-driven pay increases, and a lean and more easily maintained classification system. The new system SPO is proposing will replace the one pay plan with 12 occupation based pay lines and approximately 900 classifications. Mr. Najaka said the current system contains several positions that are not properly classified and fails to address the pay plan. Currently, over 34 percent of classifications have an alternative pay band (APB) assignment. The proposed system would greatly reduce or eliminate APB assignments. Mr. Najaka talked in depth about addressing the critical salary needs of the five occupational groups: information technology, corrections, health care, public safety and security, and social services.

Mr. Najaka reported that health care and educational services will provide the largest number of new jobs by 2020. Mr. Najaka pointed out that New Mexico has a shortage of healthcare workers and said a system needs to be put in place to anticipate future needs. Also in addressing future needs, Mr. Najaka noted the salary structure needs to be adjusted regularly to maintain competitiveness and assist in recruiting and retaining employees.

Mr. Najaka concluded with a summary of benefits to implementing the compensation and classification reform project. The project would not only increase recruitment, retention, quality of hires, productivity, engagement, and motivation, but also reduce turnover, vacancy rates, training costs, overtime expenses, contract expenses, loss of critical knowledge, and unemployment expenses. Overall, the system would assist SPO in achieving its objectives and improve services to New Mexico citizens.

In response to Senator Cisneros, Mr. Najaka said the New Mexico Corrections Department (NMCD) has long struggled to attract and retain officers. NMCD often uses funds from vacant positions to pay overtime to staff their current needs. Representative Hall asked what SPO is doing to help agencies fill positions. Mr. Najaka said the plan is to implement new salary structures that would assist in attracting individuals. Mr. Najaka mentioned implementation of the new rapid hire process. Mr. Najaka said while there are areas the agency can improve on, SPO is making a concerted effort to reach out to potential applicants to increase applications for employment with the state. Senator Cisneros asked what improvements have been made in reducing the length of time between posting a position and filling it. Mr. Najaka reported the average days to fill a position in the fourth quarter dropped from 71 to 66 days. SPO is working with agencies to reduce the length of time between when a manager receives the list of applicants to when an offer is made.

In response to Representative Youngblood, Mr. Najaka said even when considering the cost of benefits to employees, contract labor is still more costly. Regarding reclassification, Representative Youngblood asked about moving people into positions that they are being compensated for. Mr. Najaka said the proposed framework allows for reclassification reform and ensuring right classification assignments for its workforce. SPO wants to implement the reform project in FY17. Representative Bandy asked if SPO’s FY17 budget request will include funds for the project. Mr. Najaka said compensation changes would be included in section 8 of the General Appropriation Act.

In response to Senator Leavell regarding the Office of Superintendent of Insurance (OSI), Mr. Najaka said SPO is working with OSI on reclassifying positions where appropriate and assisting OSI to establish an HR program.

Chairman Smith asked what can be done for those state employees working in areas where caseloads have diminished. Mr. Najaka said the issues, such as moving an employee beyond 35 miles, need to be addressed under personnel board rules and collective bargaining agreements. Mr. Najaka added that when a position becomes vacant, it gives the agency an opportunity to reevaluate the position. Chairman Smith talked about the disparity in the number of personnel at the different Motor Vehicle field offices. Chairman Smith said state government needs to be working on creating more efficiency right now.

Delivering Better Health Care for Less. Vera Dallas, senior director of Employee Benefits for the Albuquerque Public Schools (APS), said the Interagency Benefits Advisory Committee (IBAC) currently has a total of 193 thousand members and is the largest commercial purchaser in New Mexico. Ms. Dallas said a previous Legislative Finance Committee evaluation of IBAC identified challenges of controlling healthcare costs using traditional fee-for-service arrangements. Mark Tyndall, director of the New Mexico Retiree Health Care Authority (RHCA) said there is general agreement within the industry that the system needs to evolve beyond the fee-for-service methodology. IBAC is moving toward value-based purchasing. The FY17 procurement cycle is underway with value-based initiatives part of the process. IBAC will continue to consider the impact of its commercial reimbursements on individual communities and New Mexico's overall provider shortages. IBAC will also continue to work with the executive and legislative entities to ensure its members receive the highest value care.

Mark Saiz, chairman of the NM Coalition for Healthcare Value, said although the coalition formally began in May 2015, its history began about six years ago with the Robert Wood Johnson Foundation. Member of the coalition include APS, Bernalillo County, New Mexico Health Connections, Presbyterian Health Plan, and Sandia National Laboratories. Mr. Saiz pointed out that the diversity of its members offers a neutral convener. The vision of the coalition is to have New Mexico as a national leader in healthy lifestyles and quality care. The mission is to be an innovative force for increasing the value of health care in New Mexico. Mr. Saiz talked about the coalition's work toward increased value. For example, the simultaneous communication campaign has helped reduce emergency use for non-emergency care. Mr. Saiz asked the committee for its support and encouragement of the coalition.

Ms. Dallas then talked about IBAC's objective to manage and oversee the costs of specialty and prescription drugs. All IBAC entities are currently contracted with ExpressScripts Inc. (ESI) to provide pharmaceutical benefits management (PBM) services. ESI is the largest PBM in the country after its purchase of Medco. IBAC entities saved over $20 million last year as a result of some programs. Over the past few years, there has been a 30 percent increase in the spend for specialty drug costs. Specialty drugs include treatments for cancer, rheumatoid arthritis, and Hepatitis C. ESI has been a national leader in advocating for lower drug costs. ESI secured a contract with the makers of a Hepatitis C medication called Viekira Pack, which reduced cost of treatment by almost 50 percent.

Appropriation requests for FY17 to fund employee healthcare benefits were then briefly discussed. RHCA, which continues to experience significant growth, will be seeking a 9.8 percent increase in funding. NMPSIA will be requesting an 8.2 percent increase for its benefits program and APS will be requesting a 3.5 percent increase.

Mr. Tyndall updated the committee on the progress of RHCA's five-year strategic plan and reported on its improved program's long-term viability.

AJ Forte, director of Risk Management Division of the General Services Department, then reported on its benefits program. Mr. Forte said though it has not been an easy road, GSD has built a program that is actuarially sound. Mr. Forte talked about the programs implemented to help control costs. Mr. Forte mentioned the Employee Assistance Program. In another cost-control measure, GSD is opening a health center, which GSD will pay on a fixed rate. The health center will provide state employees access to quality health care.

Senator Neville expressed concern over dramatic increased costs of routine drugs. Mr. Tyndall said increased generic drug costs are also the result of the decrease in the number of generic drug manufacturers. Mr. Tyndall explained that the supply and demand equation is not balanced.

In response to Senator Beffort, Mr. Forte said the new health center will serve as a completely separate model for care. The Risk Management Division has contracted with Cerner to implement the health center. Cerner is a large medical company based in Kansas City.

In response to Representative Gonzales, Ms. Dallas said APS's decrease in enrollment may be attributed to lower paid employees who are now eligible for Medicaid.

Efforts To Maximize Protection of State Assets at Minimal Cost. AJ Forte, director of Risk Management Division (RMD) of the General Services Department (GSD), began the presentation with a projection of RMD's FY17 financials. RMD is in its second year of its five-year solvency plan. Included on the list of excess coverages were the New Mexico Rail Runner and the Spaceport. Mr. Forte then provided a brief overview of RMD funds. The FY15 end-of-year cash balance was $132 million.

Mr. Forte then talked about property and liability claims in excess of $250 thousand. The largest property loss came from the University of New Mexico. Medical malpractice had the most liability claims. When comparing liability claims by agency, Mr. Forte pointed out that the highest number of claims came from entities that have the most interaction with the public. Mr. Forte talked about what is being done to prevent losses. Prevention measures include an annual exposure survey and workplace violence and active shooter awareness training. In moving forward, Mr. Forte said RMD is focused on loss control audits to ensure continued support and assistance for all insured entities in the State Loss Prevention and Control Program (NMAC 1.6.4).

Mr. Forte concluded with a brief comment on the Whistleblower Protection Act (WPA). Legislation that would have made changes to WPA was proposed during the 2015 session. Mr. Forte included in depth briefing pages in the handout for committee members to review.

Sammy Quintana, director of the New Mexico Public School Insurance Authority (NMPSIA), then briefed the committee beginning with a quick background on NMPSIA. NMPSIA's risk program covers 88 public school districts except for Albuquerque Public Schools. NMPSIA has over 200 members. Mr. Quintana then talked about NMPSIA's risk program. Worker's compensation is the least volatile. NMPSIA has instituted an aggressive loss prevention program to reduce the per claim cost of injured workers. The property program is self-insured. NMPSIA is working in conjunction with the Public School Facilities Authority to assist school districts in developing effective maintenance plans to reduce property damage claims. Mr. Quintana talked about the difficulty in administering the liability program. Sports concussions and whistleblower claims are two concerning liability issues.

Mr. Quintana said NMSPIA's loss prevention efforts have been very successful. Included in the handout was a recent article in the *Albuquerque Journal* that ranked New Mexico third in the country in school safety. Mr. Quintana said NMPSIA's FY17 budget request will include a 1.5 percent increase for its risk program.

Kenneth McQuire, director of Risk Management for Albuquerque Public Schools (APS), then provided an overview of APS's risk program. APS is self-insured and self-administered. Mr. McQuire said all 145 schools in its district are inspected twice a year. APS's total budget for risk management in FY16 is $26 million. Mr. McQuire said the biggest challenge for risk management is workers' compensation payments. APS paid $5.2 million in workers' compensation claims in FY15. To reduce claims, APS has implemented an in-house health clinic. APS has also created a more aggressive return-to-work program. Mr. McQuire then mentioned the preventative maintenance program, which has reduced property claims. Mr. McQuire then provided brief detail on pending liability claims.

In response to Representative Larrañaga regarding the Department of Transportation's liability claims, Mr. Forte said most of the claims fall under the Tort Claims Act. Mr. Forte said an increase for those claims will likely occur in the future.

In response to Representative Larrañaga, Mr. McQuire said APS is self-insured and will pay up to $350 thousand on a claim. Outside insurance would cover remaining dollars if a claim is more than $350 thousand.

In response to Representative Youngblood, Mr. Forte said all staff under the legislative branch falls under GSD's unemployment insurance.

Representative Youngblood commented that because a study has not been done, it is unclear whether APS is saving costs by being self-insured. LFC Director David Abbey said staff analysis determined no scientific way that formulates the right balance.

In response to Representative Varela, Mr. Forte said all the insured entities are paying their appropriate share of premiums for the risk and exposure they have to the public liability fund. Representative Varela pointed out that at one time, entities would subsidize other entities. However, current GSD leadership has since changed that.

Fourth Quarter Report Cards. Jon Clark, analyst of the Legislative Finance Committee (LFC), said to develop more meaningful report cards, LFC has increased benchmark data in its report cards to assist in comparing New Mexico with national averages. Mr. Clark said that receiving meaningful action plans from agencies that addresses measures with poor results continues to be a challenge. Mr. Clark and Kelly Klundt, also an LFC analyst, then highlighted key agencies including the following.

Regarding the Human Services Department (HSD), TANF caseloads fell to a record low of 12,754 for FY15. Mr. Clark reported an increase of approximately 250 thousand newly enrolled Medicaid adults, bringing the total of Medicaid recipients to over 800 thousand, or 40 percent of New Mexicans participating in the program. Expanding coverage continues to increase financial and performance pressures. Year-end measures for well-child visits, prenatal care, and dental visits were well below targets. Total child support enforcement collections reached a record $140 million in FY15.

Regarding the Aging and Long-Term Services Department (ALTSD), New Mexico improved its national ranking for seniors over age 60 and experiencing food insecurity. New Mexico improved the ranking from second worst in the nation in 2010 to 34^{th} best in 2015. Mr. Clark reported ALTSD's Adult Protective Services Program is on track to meet the agency's year-end target for investigations. However, the program does not report on repeat maltreatment preventing the state's ability to determining the effectiveness of interventions.

Performance measures for the Children, Youth and Families Department (CYFD) indicate a trend of decreased performance particularly for the Juvenile Justice and Protective Services Program. Referring to a graph in the presentation, Ms. Klundt pointed out the increase in turnover rate for juvenile justice services youth care specialists and protective service workers. Ms. Klundt said high turnover rates have significant financial costs and is linked with negative outcomes for children in care.

The Corrections Department reported overall recidivism rates are high and stable at 47 percent. However, the recidivism rates indicate current programs may not be achieving desired results. LFC staff suggests the agency shift its focus to recovery and reform with solid plans in place for prisoner post-release.

Regarding Public Education, Ms. Klundt said the use of the new standard-based assessment developed by the Partnership for Assessment of Readiness for College and Careers (PARCC) during the 2014/2015 school year resulted in the delay in reported proficiency data and school grades until fall 2015. It is expected that student proficiency scores will decrease.

Although New Mexico made significant improvement in job creation for FY15, the state continues to lag behind most states. In FY15, the Economic Development Department created fewer jobs despite receiving more money.

Regarding the Tourism Department, the leisure and hospitality industry continues to add jobs at nearly double the rate of the state average, reaching 3.1 percent job growth compared with the overall state average of 1.6 percent. New Mexico improved its national ranking for overnight visitation from 36^{th} in 2012 to 32^{nd} in 2014. Tourism advertising and promotions spending increased during the same time period from 3.5 million in FY12 to 6.2 million in FY14.

The Taxation and Revenue Department's audit assessment collections in FY15 were well below target and lower than previous years in percentage terms, although the dollar amounts collected increased over the prior fiscal year. In FY15, the agency collected $234 million of a balance of $687 million.

The State Personnel Office, Administrative of the Courts, and Behavioral Health Collaborative did not submit their report cards in time to be included in the presentation.

Richard Blair, deputy director of the State Budget Division, then provided a brief overview of the report card process and talked about new measures in the various agencies. Mr. Blair said LFC and DFA analysts are working together for continuous quality improvement in performance reporting.

Mr. Clark talked about opportunities to increase accountability. For example, HSD should adopt more measures capturing progress with implementation of Centennial Care and promised cost savings measures, such as completion of health-risk assessments, improved care coordination, and efficiencies gained.

Senator Beffort commented that more attention needs to be placed on the recidivism rate. Mr. Blair talked about having collaborative action of involved agencies to make a major impact on an issue such as recidivism. For example, the recidivism rate is not only a Corrections Department issue. Recidivism also has a connection to the courts, district attorneys, and other state agencies.

In response to a question from Representative Larrañaga regarding public education, Charles Sallee, deputy director of LFC, said not only are performance measures collected on schools, which include information on standardized test scores and graduation rates, but also efficiency measures on such things as operating costs per square foot and transportation. LFC staff has recommended for several years that school districts enter into a performance based budgeting process.

Representative Lundstrom asked if there are new measures tied to education. Mr. Blair said there are two new measures for the Public Education Department and 10 new measures for the Higher Education Department.

Miscellaneous Business

Action Items.
Approval of LFC Minutes – July 2015. Senator Cisneros moved to adopt July's meeting minutes, seconded by Representative Hall. The motion carried.

Approval of LFC's FY17 Budget Guidelines. Senator Cisneros moved to adopt LFC's FY17 budget guidelines, seconded by Representative Lundstrom. The motion carried.

Approval of LFC's FY17 Budget Request. Senator Cisneros moved to adopt LFC's FY17 budget request, seconded by Representative Hall. The motion carried.

Information Items
Review of Monthly Financial Reports
David Abbey, director of LFC, briefed the committee on information items.

Friday, August 21st
The following members and designees were present on Friday, August 21, 2015: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, Sue Wilson Beffort, Carroll H. Leavell, Cisco McSorley, Steven P. Neville, and Pete Campos; and Representatives Larry A. Larrañaga, Luciano “Lucky” Varela, Nick L. Salazar, Paul C. Bandy, Monica C. Youngblood, Roberto “Bobby” J. Gonzales, and Patricia A. Lundstrom. Guest legislators: Senator William F. Burt and Representative Dennis J. Roch.

Update on Space Utilization. Ed Burkle, secretary of General Services Department (GSD), began his presentation talking about the Facilities Management Division (FMD). In 2013, the Building Services Division and Property Control Division were merged into the FMD. Referring to a pie chart in the presentation, Secretary Burkle provided information on total cost of ownership. Secretary Burkle then turned the presentation over to George Morgan, FMD director, to talk about what the agency has accomplished and where it is heading. Referring to the data integration model shown, Mr. Morgan talked about the importance of data to pull reports, analyze, and make decisions. As part of the project management re-engineering program, a new website has been launched under SharePoint. The site gives staff direct access to the tools that have been developed and implemented to organize, upgrade and improve FMD project management. Mr. Morgan showed the committee members how the site works. The site allows FMD to plan the phased start and execution of the next fiscal year’s capital program. In addition, project distribution can be planned and organized to more effectively control project management workloads. Mr. Morgan talked about how a project is started. All capital projects are initiated with the project master document (PMD), which is also the project request form (PRF). The information in the PMD is automatically transferred to the PRF and purchase order forms upon project approval. The capital project management homepage is a summary of all FMD active projects, from initiation through warranty. Every project has its own webpage, which gives project updates, progress photos, and stakeholder contact information. The site also gives the public access to project progress information through its stakeholder access site.

Mr. Morgan then talked about implementation of the capital asset management and planning system (CAMPS). The system will provide a standardized, statewide approach to prioritizing capital project spending and capital project execution. It will provide leadership and management with greater visibility and financial accountability for capital projects. Mr. Morgan added that it will provide transparency for all capital projects spending. CAMPS will be implemented in three phases.

After briefly talking about facility condition assessment, Mr. Morgan listed major capital projects accomplishments. There is a reduction in active projects from $155 million to less than $10 million. There is also a reduction in reauthorizations from an average of 13 to three in 2015.

Mr. Morgan talked about FY16 initiatives. Leasing management and real property management will be merged into the Asset Management Bureau. In another initiative, new space standards have been proposed. Mr. Morgan talked about space optimization and listed FY15 accomplishments. Potential space optimization in FY16 includes the renovation and occupancy of the Acoma building at New Mexico Behavioral Health Institute in Las Vegas and evaluating the purchase of SunPort Corporate Center in Albuquerque.

The presentation concluded with FY16 goals and objectives, which include the implementation of master planning guidance to develop agency five-year plans, implementation of the asset management standards for buildings, and implementation of the tenant agreements program.

Senator Cisneros asked how GSD is applying the project management principles with local governments and other state agencies. Secretary Burckle said GSD is working with the Department of Finance and Administration on the CAMPS project to tie in the capital outlay of all local government bodies and other agencies except the judiciary and the legislative branch. Secretary Burckle said CAMPS is a database record that will serve the entire state. Mr. Morgan added that a steering committee for the project has been formed. Members of the committee, who include DFA and LFC staff, will be looking at a holistic approach on how to use the system.

Program Evaluation Progress Report: College Readiness. Program Evaluator Travis McIntyre, Ph.D, presented the progress report College Readiness. The report is an update to a 2014 program evaluation. Mr. McIntyre said the main conclusion of the report is that remediation rates are down, but more can be done to improve college readiness. Students required to take a remedial course in college are over three times less likely to graduate, expending considerable state and personal resources without gaining the benefit of a degree. The Legislature increased high school graduation requirements with the class of 2013 and redesigned the higher education funding formula to incentivize outcomes in FY12. The percent of New Mexico high school graduates required to enroll in remedial courses during their first year at institutions of higher education has decreased from 52 percent in FY12 to 42 percent in FY14, though it is not yet clear how much of this decrease is due to improved preparation of high school graduates versus redesigned college placement assessments. Higher education institutions statewide have expanded the use of best practices to improve outcomes for remedial education, and the percent of all students taking remedial coursework has gone down significantly. However, New Mexico can still do more, including aligning high school graduation requirements with college expectations, encouraging cooperation between secondary and post-secondary institutions, continuing to improve college remediation outcomes, directly incentivizing high schools to improve the first-year college performance of their graduates, and expanding programs designed to address the socioeconomic achievement gap.

In response to Representative Roch, Mr. McIntyre said there are some programs, such as the ones at Kirtland Central, that have proven to be effective in closing the college readiness achievement gap regardless of a parent’s level of income or education. Referring to Representative Roch’s comments regarding parent’s level of education, Senator Beffort said more attention needs to be placed on the adult basic education line item.

In response to Representative Gonzales, Charles Sallee, deputy director of LFC, said the LFC routinely sends its reports to school superintendents, the Association of School Boards, and other entities involved.

Program Evaluation Progress Report: Adequacy of New Mexico's Healthcare Workforce. Charles Sallee, deputy director of Program Evaluation for the LFC, presented an update to a previous program evaluation on New Mexico's healthcare workforce. With the full implementation of the Affordable Care Act in 2014, the healthcare system in the United States rapidly changed. The LFC's 2012 evaluation of New Mexico's health systems workforce evaluated the state's capacity to meet increased demand for health care associated with Medicaid and private insurance expansion. At the time of the evaluation, the LFC estimated 172 thousand of the state's uninsured population would receive coverage and concluded the state's existing healthcare professionals would not be able to adequately meet increased demands for healthcare. Since then the state has enrolled about 220 thousand individuals through Medicaid expansion and 44 thousand though the health exchange. The evaluation recommended a variety of strategies healthcare workforce shortages, including changes to service delivery systems, recruitment and retention efforts, educational strategies, and regulatory or statutory changes.

In direct response to the report, the Legislature has made significant investments to develop the state's workforce through coordinated efforts, including expanding nursing education slots, funding primary care medical residencies, and increasing appropriations for loan-repayment programs for medical providers. Together in FY15 and FY16, the Legislature appropriated over $36 million for healthcare workforce initiatives.

Representative Youngblood asked how telemedicine might affect the healthcare system. Mr. Sallee said telemedicine may help in area of consultations for more complex cases and improve the quality of care in rural areas. Mr. Sallee said direct telemedicine between a nurse and a patient is new and emerging and should be monitored to see its effect on healthcare costs.

With no further business, the meeting adjourned at 10:50 a.m.

John Arthur Smith, Chairman

Jimmie C. Hall, Vice Chairman