

**Legislative Finance Committee**  
**Meeting Minutes**  
**Room 322 – State Capitol – Santa Fe, New Mexico**  
**December 3, 4, 5, 6, 7, 2012**

**Monday, December 3**

The following members and designees were present on Monday, December 3, 2012: Chairman John Arthur Smith, Vice Chairman Luciano “Lucky” Varela, Representatives Henry “Kiki” Saavedra, Larry A. Larrañaga, Don Tripp, Edward C. Sandoval, Nick L. Salazar, James P. White, William “Bill” J. Gray; and Senators Carlos R. Cisneros, Sue Wilson Beffort, Mary Kay Papen, John M. Sapien, Carroll H. Leavell, Steven Neville, and Linda M. Lopez. Senator Sander Rue, Representatives Jimmie Hall and Jim Trujillo attended as guests.

The committee met in executive session until 9:14 a.m.

**FY13 General Fund Revenue Report and FY14 General Fund Revenue Projections and Severance Tax Bond and General Obligation Capacity.** John Tysseling, chief economist, Taxation and Revenue Department (TRD), discussed the work of the consensus revenue estimating group in developing the December revenue estimate. He stated generally the December forecast mirrored the August forecast, with somewhat greater uncertainty. The forecast continues to show strength in oil exploration and production, which continues to drive much of the economic growth in the state. Mr. Tysseling explained that the forecast excluded any economic growth that would be associated with expansion of Medicaid eligibility, but it does incorporate the effects of implementation of the Affordable Care Act provisions.

Mr. Tysseling noted FY12 revenue was revised upward \$56 million to \$5.8 billion, FY13 revenue projections were revised upward \$20 million to \$5.7 billion, and FY14 revenues were revised upward \$11 million to \$5.9 billion. After these revisions, total recurring revenue growth was 7.3 percent in FY12, a 1.6 percent revenue reduction in FY13, and rebounding in FY14 with 3.9 percent growth.

Mr. Tysseling addressed the dominant components of the forecast, noting that gross receipts taxes show stronger growth in the December forecast due, in part, to the oil and gas industry. Oil and gas can be tied to approximately one-third of the growth in taxable gross receipts. The strength is seen in manufacturing in particular, where oil and gas can be tied to three-quarters of the \$400 million increase in taxable gross receipts, he said.

Personal income revenues show unanticipated strength in FY12 and slightly stronger growth than anticipated in FY13. This might be attributable to oil and gas withholding provisions enacted by the Legislature in 2011, and the higher tax base will continue into the future. Mr. Tysseling noted the overall lackluster 1.4 percent personal income tax revenue forecast generally reflects anticipated weakness in the economy.

Further declines in corporate income tax revenue resulted from weakness in corporate profit projections. He said that a rebound is projected in FY14 as net operating losses are worked off

and profitability recovers. The forecast is further dampened by the assumption of \$50 million in film tax credits, the statutory maximum, in the forecast years.

Mr. Tysseling also noted that severance taxes, though slightly weaker than in August, remain strong. Improving drilling and extraction technologies will provide optimism. He reiterated the influence of the extractive industries in many state revenue sources, including royalties, rents, and bonuses.

Elisa Walker-Moran, chief economist, LFC, addressed the committee with additional highlights of the forecast, reporting that new money for FY14 (being total revenue, less prior-year recurring appropriations) was \$282 million. Several statutory requirements would, under current law, have a recurring fiscal impact to the general fund, she said. These include the expiring 1.5 percent employer/employee retirement contribution swap, a scheduled 0.75 percent employer's contribution increase for Educational Retirement Board member employees, and the replacement with general fund dollars of 50 percent of tobacco settlement funds.

Together, these changes are estimated to have a general fund impact of \$72 million in FY14, effectively reducing new money to \$210 million. She also noted the revised revenue estimates would mean general fund reserves would reach 13.8 percent at the end of FY12 and 14.2 percent at the end of FY13. Furthermore, due to the high level of reliance on oil and gas revenues, a volatile revenue source, a 10 percent level of reserves is advisable. She added, further, the state's reliance on federal revenues warranted a high general fund reserve, especially given the potential for drastic federal spending cuts associated with the fiscal cliff.

Ms. Walker-Moran discussed additional risks to the forecast, noting the economic recovery is fragile, and a stalled recovery would threaten revenues. She added targeted tax incentives represent increasing levels of foregone revenue. She also noted federal legislation to allow states to tax Internet sales is a potential upside risk to the forecast, as New Mexico would see an expansion of its tax base.

Tom Clifford, secretary, Department of Finance and Administration, added the revenue tracking for FY12 was undergoing final review by the department's Financial Control Division, and the final audited FY12 general fund report was forthcoming.

Mr. Clifford said his department was expecting some compromise on the fiscal cliff that featured spending cuts and revenue increases. Addressing the forecast for Affordable Care Act revenues, he noted it is hoped the expansion of insurance coverage will lead to more premium revenue, but uncertainty remains in how quickly the rollout will take place and what the policies will cost. Regarding Medicaid expansion, Mr. Clifford stated there would be positive impacts to the state economy, but questions remain regarding the federal government's ability to pay for the coverage.

Mr. Clifford briefly addressed a scenario for capacity to fund capital outlay. He noted the state was not issuing general obligation bonds this year, as those are issued biannually. With less statutory set-asides for water (\$33 million), tribal infrastructure (\$17 million) and colonias infrastructure (\$17 million) projects, approximately \$222 million in senior severance tax bond capacity was available for projects throughout the state. An additional \$174.9 million in

supplemental severance tax bond capacity is estimated to be available for public school capital outlay projects.

Finally, Mr. Clifford warned that department auditors are concerned about cash reconciliation and remediation, adding the auditors may find a deficiency in the general fund and the comprehensive annual financial report audit that may result in a negative impact to the general fund.

In response to a committee member's question regarding the out-year revenue projections, Ms. Walker-Moran stated the LFC staff also prepared a general fund outlook that projects expenditures in out years. This outlook makes certain assumptions about expenditure increases and considers statutory changes that affect spending. The outlook is published in the LFC post-session fiscal review.

In response to a committee member's question regarding the general fund audit, Mr. Clifford noted the audit is on track for December 15; the only uncertainty is the cash remediation issue.

In response to a committee member's question regarding the status of the federal fiscal cliff negotiations and their impact on the forecast, Mr. Tysseling stated the consensus revenue estimating group assumes a resolution will be reached. Even temporary federal layoffs would directly impact wages and salaries, and therefore the personal income tax.

**Taxation and Revenue Department (333).** Demesia Padilla, secretary, Taxation and Revenue Department (TRD), opened by stating the FY14 budget request includes an increase of \$1.7 million to restore the employer portion of Public Employee Retirement Association (PERA) increases and increased health insurance costs. This includes \$500 thousand to apply a lower vacancy rate and \$300 for the information technology department to hire more individuals; she stated it has been difficult to hire IT people with good experience because the private market has become more competitive. The request also includes an increase for IT licenses – an internal TRD review found that some software was not properly licensed.

The department is also requesting new money for the tax fraud unit for more investigators. Last tax season they borrowed two auditors from the Audit and Compliance Division to identify work-related tax fraud. With these two auditors, the TRD identified \$5 million in fraudulent returns in looking at one filing status and one benchmark.

Of the \$1.7 million requested for FY14, \$1.3 million is from general fund revenues and the rest is from program revenue, federal funds and other state transfers. The request also includes reducing some contractual services. Currently, the TRD has 56 positions that have been vacant for the past two years, with an additional 250 vacancies. Of those, 130 positions are in the process of being filled, leaving 85 positions; Ms. Padilla stated the department will need 45 of those positions to remain vacant to allow for funds needed to compensate the tax auditors. The department had permission to reclassify the auditor classifications to include specific tax experience.

Ms. Padilla gave an update on the DRIVE MVD information technology project, stating they have \$23 million for the MVD reengineering project brought in by special appropriation, federal

grants, and the remainder, the bulk of the money, is from the sale of data. The fee for the sale of motor vehicle data increased from 75 cents to \$4.50; about half the cost that other states charge. The sale of data is paying for the reengineering project but also is being used for operational needs. An additional \$2 million of data sales money was spent on data cleansing not associated with the Hewlett-Packard contract. The data-cleansing work was necessary and will be of use going forward with the new project. The secretary finished by asking that the expansion request be funded because it would be wisely used and the state would benefit from it.

Senator Sapien said the Legislature has been concerned by MVD fee increases that do not go through the budget process. He asked if some of the fee money went to another part of the department's budget. Ms. Padilla responded that about \$4 million went to operating budget and the rest was used for workload shift to replace the field office workers. She also stated the department's new vehicle registration system involved hiring a contractor to evaluate the Hewlett-Packard contract progress and data verification.

Senator Sapien expressed concern most of the money used from the fee increase was for recurring expenses and had nothing to do with the replacement of the computer system. Further, he stated he wanted the TRD to move forward on the request for proposal so statewide traffic records system could move forward as well. He would like to "turn off" the records fee revenue when the system is completed because the department will no longer need it for a computer system. Ms. Padilla stated the project is important and needs to move forward. She said New Mexico is fortunate because it only spent \$2 million, compared with a state like Vermont, which is trying to recoup \$18 million from the same vendor and still doesn't have a system. None of the new MVD systems across the country have been completely successful and New Mexico is being very careful.

Chairman Smith requested a brief on information regarding work of the local government. Ms. Padilla said Mr. Tysseling is currently working on a study on revenues of local communities to determine which communities are reliant on a few taxpayers for their tax base. For those with five or fewer taxpayers, the TRD drilled down to try to determine how much risk those communities face. Quite a few communities would be at risk if even one of the taxpayers moved out of the community. Ms. Padilla said the TRD made this presentation to the Association of Counties and would provide it to the LFC.

**Status Report on Information Technology Projects and Funding Requests.** Christine Boerner, LFC senior fiscal analyst, introduced LFC evaluator Brenda Fresquez and Darryl Ackley, Department of Information Technology (DoIT) secretary. Ms Boerner began by stating New Mexico is lacking strong IT governance, and although it is statutorily required to meet at least quarterly, the Information Technology Commission (ITC) has not met since November 2010. Further, the DoIT is required by statute to provide its IT funding recommendation to the ITC for review; however, this was not done for FY12, FY13 or FY14. Finally, she stated that LFC staff recommends FY14 appropriations for agency IT projects be contingent on review and approval of the ITC.

Ms. Boerner continued with a high-level summary of agency FY14 requests for IT projects. She stated 14 state agencies submitted 24 requests for IT appropriations totaling \$33 million and she

and Ms. Fresquez employed five funding principles to evaluate and score agency funding requests for IT projects.

Ms. Boerner very briefly described a few specific requests for IT funding, noting some agency requests did not appear to be ready for funding at this time. Finally, she noted the staff recommendation includes extensions of time for previously appropriated projects for the TRD, Educational Retirement Board, Human Services Department, and the Workforce Solutions Department from 2009, 2010, and 2011 appropriations.

Secretary Ackley began by describing the department's process for evaluating agency IT funding requests. Agencies submit one-page business cases to the department, these are refined, and then agencies make formal presentations to the department attended by the DFA as well as the LFC. The department's recommended funding for 15 of the requests at a cost of about \$15 million from the general fund. The department recommended another \$3.8 million in other state funds and no federal funding. The department also considered projects that could be operated in a phased fashion with partial funding for FY14, as well as projects already initiated.

Ms. Fresquez provided a high-level summary for two Taxation and Revenue Department IT projects; GenTax and ONGARD. Regarding GenTax, Ms. Fresquez reported that \$6.2 million had been appropriated in FY13 to upgrade the software to the vendor's current version. An additional \$3.1 million of past-due tax has been collected since August 2012. The project is on schedule and on budget and is scheduled to be complete by June 2014.

The purpose of the \$6 million appropriation is to stabilize and to begin to modernize ONGARD. The project is on budget, and the current risk to the project schedule is DoIT's progress and timing of the state's simultaneous mainframe upgrades. The department drafted a timeline for the mainframe upgrades and anticipates the overall completion through the end of FY14. Finally, a 2008 study identified two viable modernization strategies, with the estimated initial investment ranging from \$9.4 million to \$33.2 million.

**Corrections Department (770).** Gregg Marcantel, secretary, Corrections Department (NMCD), began his presentation by introducing staff from the department, including deputy secretaries of operation and administration Joe Booker and Aurora Sanchez.

Anthony Romero, deputy director of adult prisons, presented an overview of department prisons statewide. Mr. Romero mentioned the department is expected to exceed capacity by 2016 for men and 2017 for women.

Jose Cordova, director, Probation and Parole Division, discussed the cost per offender for each of the different probation and parole programs. Mr. Cordova discussed each facility and each program within the division, including the Intensive Supervision Program (ISP) that requires caseloads not to exceed 20. Mr. Cordova stated the department has drafted legislation that will increase the caseload per officer to 40.

Rose Bobchak, deputy director, Probation and Parole Division, presented information on the elevated caseloads for probation and parole officers and the number of offenders currently under supervision.

Joe Booker, deputy secretary, made a presentation on the amount of absconders currently on the streets and how many the department expects to arrest. Booker stated officers have arrested 160 absconders in the last few months.

Shannon McReynolds, inspector general, discussed the department's contracts with private prisons. She stated so far in FY13 the department has collected \$2.2 million in assessments levied towards private prisons for noncompliance. The department is working on an initiative with the private prisons to suspend penalties and use the penalties to increase officer salaries and the number of officers employed.

Aurora Sanchez, deputy secretary, discussed the overall elevated vacancy rate and department efforts to hire more guards and parole officers. Ms. Sanchez discussed compensation packages and compared probation and parole officer salaries to officers employed by the courts. She stated many officers are leaving for agencies with more competitive compensation packages. Ms. Sanchez also stated the department is working with the state personnel office to recruit multiple positions at a time, similar to how correctional officers are recruited.

Ms. Sanchez stated the department is working with the University of New Mexico Anderson School of Management to develop a new business model for Corrections Industries. Other industries the department will begin working with include a furniture manufacturing company in Albuquerque, Horses for Heroes, electronic equipment recycling, landscaping, and solar panel installation.

Mr. Marcantel discussed how the department will be reorganized. First, the NMCD will move human resources functions to the training academy in the central office. Second, the offices of security and threat management will become one office. Third, the department is centralizing the Records Management Bureau. Fourth, the department is creating a research and analysis unit based on recommendations from the June 2012 LFC prison evaluation. Lastly, the department will be merging the Community Offender Management Program with the Community Corrections Program. Additionally, Ms. Sanchez requested additional budget adjustment request authority so the department can finish the reorganization.

Representative Varela asked about the audit the department is conducting to ensure inmates are released on time. Secretary Marcantel responded the department is looking closely at offenders released within the last two years. The second phase will look at offenders released more than two years ago.

Chairman Smith noted many border communities have gotten involved with prisons and are now looking to keep them full for debt-servicing reasons. He also noted he is concerned the new contract is a way to bail out local communities that are in trouble.

**Energy, Minerals and Natural Resources Department (521).** John H. Bemis, secretary, Energy, Minerals and Natural Resources Department (EMNRD), introduced his staff and stated the agency's FY14 request is \$62.1 million, a \$8.3 million decrease from the FY12 operating budget. Mr. Bemis noted jobs in mining in New Mexico are up 18 percent. He also noted State Parks has seen a budget decrease of 25 percent since FY08 although the division still operates 35 parks. The FY14 general fund request of \$21.5 million is a \$1.4 million increase over the FY13

operating budget mainly to fund the State Parks Program as well as increases in health insurance rates and retirement costs.

Vice Chairman Varela inquired about the status of ONGARD, a tri-agency computer system. Mr. Bemis said the system is undergoing a two-part upgrade, a stabilization and modernization. The agencies are currently undergoing the stabilization of the system and will begin the modernization of the system in FY14.

Vice Chairman Varela also asked about the agency's role in recording oil and gas production in the state and the number of wells operating and capped in New Mexico. Mr. Bemis explained the Oil Conservation Division records the data for the volumes of oil and gas produced in New Mexico, and then the State Land Office and the Taxation and Revenue Department use the ONGARD system to check volumes and confirm that volumes are consistent with other reports of production volumes.

Agency staff responded New Mexico has approximately 50 thousand to 60 thousand active wells and approximated 40 thousand plugged wells.

Vice Chairman Varela requested the agency schedule a hearing with the LFC about the pit rule when the amended rule is final. He also requested the agency bring budget projections for FY13 to the House Appropriations and Finance Committee during the legislative session.

In response to a question concerning the status of the Carlsbad brine well, Mr. Bemis indicated the agency hired a new contractor, AMEC Environment and Infrastructure, to evaluate and upgrade the existing monitoring program in Carlsbad, continue monitoring, and research and report on potential technical remediation efforts.

Senator Cisneros encouraged the agency to collaborate with the New Mexico Department of Environment to leverage additional federal funds from Clean Water Act to protect rivers and forests.

Tommy Mutz, director of the State Parks Program, indicated Cimarron, Eagles Nest, and Vietnam Veteran state parks have minimal staffing. In 2011 the State Parks Division closed four lakes to boating and in 2012 the division closed seven lakes to boating because of low water levels due to the drought.

Representative White stated his concern about a potential prohibition of seaplanes on state park lakes. Mr. Bemis informed the committee the agency is concerned about the safety issues seaplanes on state park lakes present to the boating community as well as the potential introduction of the quagga mussel, but the proposed rule is not going to prohibit seaplanes on state park lakes.

**New Mexico Environment Department (667).** F. David Martin, secretary, New Mexico Environment Department (NMED), presented the agency's FY14 budget request to the committee. Mr. Martin stated the general fund request of \$11.4 million was an increase of \$182 thousand in salaries and benefits due to increases in health insurance rates and retirement costs.

The increase of \$2 million in contractual services was to pay responsible party claims in the corrective action fund.

Mr. Martin also stated the agency currently has an 18.3 percent vacancy rates with 123 positions vacant out of a total of 671.5 authorized positions. Mr. Martin noted in FY12 the agency hired for 109 positions but 56 were internal hires, keeping vacancy rates high despite the agency's efforts to fill positions.

Major agency accomplishments in 2012 included involvement of more than 40 staff in the responses to the Little Bear Fire in Lincoln County and the Whitewater-Baldy Fire in Grant and Catron counties, negotiation of lower office building rent costs or moves to new office buildings at reduced rental costs, implementation of the dairy rule, and revision of the Petroleum Storage Tank Delivery Prohibition rules.

In FY12, the Construction Programs Bureau disbursed \$20.5 million of loans and grants from the clean water state revolving fund for water, wastewater, and solid waste infrastructure, and the rural infrastructure revolving loan program funded five new projects totaling \$3 million and administered a total of 14 projects totaling \$6.4 million.

Senator Cisneros asked the agency to collaborate with the Energy, Minerals and Natural Resources Department to leverage additional federal funds from Clean Water Act to protect rivers and forests.

Vice Chairman Varela asked about the status of the cleanup of the gasoline release at the Santa Fe courthouse site as well as the status of the cleanup of the contamination at the Terrero mine site. Agency staff noted the courthouse site was not eligible as a federal Superfund site because petroleum contamination is not covered by the Superfund process, so the agency is currently funding the cleanup of the petroleum spill using the corrective action fund. The agency staff also noted the Terrero mine site is not a Superfund site, but the remediation efforts for the site are funded from the corrective action fund.

Vice Chairman Varela requested the agency bring budget projections for FY13 to the House Appropriations and Finance Committee during the legislative session.

**Tuesday, December 4**

The following members and designees were present on Tuesday, December 4, 2012: Chairman John Arthur Smith, Vice Chairman Luciano "Lucky" Varela, Representatives Henry "Kiki" Saavedra, Larry A. Larrañaga, Don Tripp, Edward C. Sandoval, Nick L. Salazar, James P. White, William "Bill" J. Gray; and Senators Carlos R. Cisneros, Sue Wilson Beffort, Mary Kay Papen, John M. Sapien, Carroll H. Leavell, Steven Neville, and Linda M. Lopez. Representatives Rhonda King, Jimmie Hall, Jim Trujillo and Ray Begaye attended as guests.

The committee met in executive session until 9:22 a.m.

**Children, Youth and Families Department (690).** Yolanda Deines, secretary, Children, Youth and Families Department (CYFD), provided the committee with an overview of the CYFD's FY14 budget request. The request included a 4.83 percent increase from the general fund; the

total budget request was 1.83 percent more than the FY13 operating budget. Budget highlights include an additional \$5 million for childcare assistance and \$800 thousand for registered childcare home oversight. It also includes \$1 million to replace fund balance budgeted in FY13 in the juvenile justice facilities program, \$450 thousand to replace federal funds for the adoption incentive grant, and \$500 thousand for client shelter care, which saw a 14.3 percent increase in clients served from FY11 to FY12. In addition, it includes \$125 thousand to conduct background checks on employees and for supervisor and management training and \$2.15 million for health insurance premium and pension rate increases.

Deputy Secretary Jennifer Padgett discussed the juvenile justice facilities budget expansion request and capital improvement request and provided an update on staffing within the juvenile justice facilities program. The CYFD is requesting an expansion request of \$2.6 million to establish a 24-bed secure facility in southeast New Mexico with an anticipated opening date of October 1, 2013. The current bed capacity for all juvenile justice services (JJS) secure facilities is 264. Throughout FY12, the JJS has operated at or above capacity. The CYFD projects the population in secure facilities to grow by 38 clients over the next five years. The expansion request reflects 75 percent of the costs projected to operate the facility for a full year. The request includes 50 additional FTE to provide security, education, medical and behavioral health services.

The agency's top capital priority is the design and demolition of state-owned property in Roswell for a Cambiar Model 54-bed youth facility. According to Ms. Padgett, the JJS maintains a 15.3 percent vacancy rate. The projected overtime for FY13 is \$2.8 million, a 58.7 percent increase over the budgeted \$1.8 million.

Ms. Deines gave an update on protective services and said it has a 10.1 percent vacancy rate. She also added the CYFD is working with the State Personnel Office on a reclassification of protective services investigator positions, resulting in an increase in the minimum experience and education qualifications and valuing the position at a higher pay band.

Ms. Deines also provided the committee with an update on early childhood programs. The budget request included a \$7 million increase for childcare assistance, which will serve approximately 1,634 additional children. Currently, 4,557 children are on the wait list for childcare assistance. New Mexico has 3,839 registered home providers that can care for up to four non-resident children.

The CYFD is requesting two special appropriations: \$500 thousand to develop home-visiting programs in designated investment zones and \$710 thousand for configuration of SHARE accounts receivable and capital asset models.

Ms. Deines also presented the CYFD's information technology \$3.5 million request for phase three of the enterprise provider information constituent services (EPICS) web-based system. Phase three will focus on service modules to replace 25 existing standalone systems within the CYFD's service programs.

Ms. Deines highlighted the work of House Joint Memorial 21 taskforce. The legislation was sponsored by Representative King and Representative Tripp.

Representative Varela asked for a status update on the facility at Fort Stanton. Ms. Deines stated the CYFD was just maintaining the grounds until it has the funds to restore the grounds and some capital restoration will also be needed. She added the agency will also need to hire and train staff by October of next year.

Representative Varela highlighted the agency's high vacancy rates and Ms. Deines added she met with the director of the State Personnel Office and discussed the possibility of "double hiring" for critical positions in juvenile justice and protective services to address turnover rate.

Representative Varela highlighted that the CYFD moved funds out of personal services and employee benefits in FY12 and the committee is trying to determine if the agency's personal services and employee benefits (PSEB) category is overfunded. Ms. Deines urged the committee to reconsider reducing PSEB because the funds not used on salaries are being used for overtime. She added the CYFD is a 24-hour public safety agency.

Representative King thanked the secretary for her work on HJM21. She stated the taskforce meetings had exceptional attendance and examined access to services for at-risk youth and how to reduce overrepresentation of minorities in the juvenile justice system. She also said the Family Youth Resource Act supported the goals of the Family Preservation Act. There is a need to focus on prevention and early intervention programs. Representative King ended by stating front-end services and comprehensive services are needed, and local continuum boards can play an integral role in early intervention.

Sandoval County Commissioner Don Leonard, a member of the HJM21 taskforce and co-chair of the Sandoval County continuum board for six years, spoke about the impact of declining state funds on the continuum board. He stated the board is actively working on prevention in lieu of incarceration and reoccurrence rates in Sandoval County have dropped significantly. He urged the committee to support funding for front-end services juvenile programs.

Chairman Smith asked Secretary Deines about the amount of federal dollars that flowed to the CYFD. Ms. Deines said more than \$146 million. Chairman Smith added that cuts in federal funds will impact the CYFD greatly because the agency's budget is made up of a third of federal funds. Further, if federal funds are lost, about half of the new general fund revenues would be used up by the CYFD.

Chairman Smith recognized Representative King for her service to the Legislature and the people of New Mexico. He stated she personifies the excellence of a citizen legislator. Director Abbey read the proclamation.

**Department of Health (665).** Brad McGrath, acting secretary, Department of Health (DOH), discussed the mission and structure of the department and went on to testify the department's FY14 request for general fund revenue. He stated it is currently at \$303.4 million, an increase of \$11 million. He indicated the request included a \$4 million decrease in the Women, Infant and Children (WIC) Program and a \$6 million decrease in other revenue due to a category switch for tobacco revenue.

Mr. McGrath indicated the request included a \$2 million increase for insurance and retirement premiums, a \$1 million increase for sexual assault treatment programs, a \$6.1 million increase to reduce the waiting list for the developmental disabilities (DD) Medicaid waiver program and for additional staffing to manage this program, a \$2 million increase for a new adolescent substance abuse treatment center at Turquoise Lodge, and an increase for personnel at the Scientific Laboratory. He indicated the department applied a vacancy rate of 8.7 percent with a reduction of \$19.4 million less than full funding for personal services and employee benefits. Mr. McGrath indicated the FY14 personal services and employee benefits request is \$28.6 million over FY12 and is intended to bring in more new hires, not just transfer people currently working within the department.

Senator Lopez asked about the performance of the state regarding immunizations. The Public Health Program's Acting Director Michael Landen responded the state is doing well with children's immunizations and with adult pneumococcal and flu vaccinations. Regarding pertussis, the DOH decided to use a more modern vaccine with fewer side effects, but it is less effective, so New Mexico is still having a bad outbreak of pertussis. Regarding school-based health centers, the department indicated the funding has declined but it does not intend to close any programs and has maintained the program's funding.

Chairman Smith said the state could see a loss of federal funds if the country goes over the fiscal cliff, and health programs could see a substantial loss of these federal funds.

Representative White asked how many clients are being served currently on the DD waiver, and was told there are 3,620 on the DD waiver, including 208 on the Mi Via waiver. The average cost per client is \$73 thousand, with approximately 6,000 people on the waiting list. Regarding vaccination exemptions, New Mexico is not as bad as Washington, but in Santa Fe through Taos there is a high vaccination exemption rate. This practice could contribute to high rates of disease breakouts.

Representative Varela questioned why the department is asking for a supplemental appropriation for personal services and employee benefits for the developmental disabilities services program. By the session he said that he would like to see a projection of the DOH's expenditure plan for the entire year, including personnel. For FY12, the DOH transferred \$5 million out of personal services and employee benefits, and Jim Green, deputy secretary for finance, testified the DOH moved \$4.9 million mostly in facilities due to high vacancies and put it into contract health care.

Representative Varela asked why the DOH reverted \$10 million to the general fund and was told \$4 million of the reversion was in the DD waiver program because the program did not fill client slots until it received the outcome of a rate study, which happened late in the fiscal year.

Senator Papen questioned why the DOH is requesting a special appropriation for the Jackson lawsuit that includes \$1.5 million for plaintiffs' attorney fees. The department indicated 10 attorneys are associated with the litigation and, unsure of the outcome, the department is asking for funding for the plaintiffs' attorneys' fees. The department is also asking for funding for a court-ordered compliance administrator and assistants and for contract funding for a DD client data collection system. Senator Sapien indicated he thought these Jackson lawsuit costs are exorbitant.

**Human Services Department (630)**. Sidonie Squier, secretary, Human Services Department (HSD), introduced key staff members, including Deputy Secretary Brent Earnest, Deputy Secretary Charissa Saavedra, Medicaid Director Julie Weinberg, Child Support Enforcement Director Stephen Klump, ASD Director Danny Sandoval, and Behavioral Health Director Diana McWilliams.

Ms. Squier noted the governor has not made a decision on whether to expand Medicaid eligibility for low-income adults as authorized by the federal Affordable Care Act, however she is confident the governor is moving forward and will be making a timely decision. Ms. Squier said the FY14 HSD budget request did not include any funds for expansion of Medicaid enrollment for low-income adults.

More than 800 thousand New Mexicans receive services from the HSD in programs areas such as medical assistance, income support, child support, and behavioral services. The total FY14 HSD budget request of \$5.15 billion includes \$1.06 billion from the general fund, a 5.3 percent increase over the FY13 appropriation. Ms. Squier complimented the performance of the Child Support Enforcement Division and noted good performance in collection of child support and paternity establishment. She also noted the department had increased salaries for child support field staff and stated that reduced turnover would reduce training costs of almost \$40 thousand for every new employee.

The secretary briefed the request for behavioral health services and program support and noted the majority of the general fund increases were to cover the costs of the pension swap and the increased costs for health insurance premiums. For program support, she noted there was a \$313 thousand shortfall in FY13 for rent costs built into the FY14 request. The HSD would also like to convert 14 term IT positions for the automated system program and eligibility network (ASPEN) to permanent positions.

In discussing the medical assistance program, Ms. Squier provided an overview of the objectives of the Centennial Care waiver: assuring Medicaid recipients receive the right amount of care at the right time, in the most cost-effective settings; assuring care is measured for quality, not quantity; slowing the rate of program costs without cutting services, eligibility, or provider rates; and streamlining and modernizing the program in preparation for Affordable Care Act implementation in 2014. Ms. Squier noted that under Centennial Care, the HSD will be moving away from fee-for-service toward managed care. She also noted the Centennial Care waiver was submitted on September 17, and the HSD is negotiating with the federal government. Centennial Care request for proposals are in and under evaluation. The department expects to finalize the agreements in January.

Ms. Squier reviewed the Medicaid program, noting total Medicaid spending in FY14 is projected to be \$4.08 billion, with \$944.2 million from the general fund. About 608 thousand New Mexicans are expected to be enrolled by the end of FY14. Although medical price inflation has been moderate in recent years, it is a major cost driver. Significant savings are not built into the budget request in FY14 for Centennial Care – those savings are projected to occur later. The general fund cost increases for FY14 were reviewed, including about \$22 million in base growth, \$1.7 million in Centennial Care-related costs and \$22.3 million in Affordable Care Act-related costs. Ms. Squier noted a number of states (including New Mexico) were objecting to federal eligibility changes for children that could increase enrollment by 13 thousand in New Mexico.

For Medical Assistance Division administration costs, general fund increases were included for pension swap and health insurance costs, as well as \$375 thousand to increase funding for staff personal services and benefits as part of a planned administrative restructuring.

Ms. Squier reviewed the income support program, noting the HSD has been very pleased with the performance of the NM Works contractor SL Start, in particular in providing outcome data for Temporary Assistance for Needy Families (TANF) clients. The secretary outlined a number of strategies to get TANF clients back to work, including the use of subsidized employment strategies. In the past year more than 8,700 TANF clients have moved to full- or part-time work.

Ms. Squier stated two new department initiatives will be funded using federal carryover dollars: \$1.7 million for the NM Works Career Link Program and \$2 million for a TANF substance abuse program. The Career Link Program will provide approximately 170 TANF clients a six month private-sector subsidized employment program, where they work for at least 20 hours per week with remaining time for TANF related activities. The HSD believes this program is needed because many TANF clients have no work experience and they need an opportunity to build a resume for future work opportunities. The second initiative is a pilot project for substance abuse treatment for TANF clients that self-identify a drug issue or flunk an employer drug test. The University of New Mexico and the Mind Research Network will be working on the project with the HSD.

Also included in the income support budget request for general fund monies is \$350 thousand to maintain the current caseload in the general assistance program and \$480 thousand to maintain the state food stamp supplement at \$25 per month given projected increases in enrollment. For income support administration, the secretary noted \$300 thousand is requested to support the food for schools program and \$430 thousand is requested to fill 19 vacant positions that will support the Integrated Eligibility System Project (ASPEN). Ms. Squier complimented the HSD management team for keeping the \$86 million project on-time and within budget.

Senator Lopez asked about the IT contract oversight for the IT contracts relating to ASPEN and the health insurance exchange IT contract. Ms. Squier stated the HSD is cooperating with DoIT on both projects. On the health insurance IT exchange contract, Mike Nunez said the HSD is working with DoIT to make sure that the system is in compliance.

Senator Papen asked about data collection on substance abuse; Diana McWilliams said the department is attempting to increase intensive out-patient services and standardize care and is constantly collecting data on the state's performance. Senator Papen asked about budget funding for substance abuse; Ms. McWilliams briefly discussed the Behavioral Health Services Division funding.

Representative Varela asked about focusing on Medicaid outcomes versus outputs and how that will be determined. Secretary Squier said care coordinators under Centennial Care will play a role; Julie Weinberg said they will track overall utilization of certain services that will help track improvement and noted performance clauses in the managed care contracts will reward good performance from funds held back from the contractors.

Deputy Secretary Earnest said that about 75 thousand to 100 thousand people might remain without insurance after ACA implementation. In response to a question about primary care

funding, the HSD staff indicated they do not directly fund primary care but a program at the DOH provides support.

In response to a question about why the funding in income support identified for an increase in childcare is non-recurring, ASD Director Danny Sandoval stated the department is committed to support the transfer as long as there are federal surplus funds. In a discussion on ASPEN, the HSD staff reported strong support from the DoIT; regular reports are provided to the DoIT, and the HSD staff reiterated they believe they are on schedule with the project.

In a discussion about vacancies Ms. Squier noted the highest vacancy rates are in the income support and child support enforcement areas but recent pay raises should help. The HSD has enough funds in the budget to meet hiring targets, she said.

Representative Varela requested a hiring plan for the rest of the fiscal year.

**Recommendations of Interim Committees.** Legislative Health and Human Services. Representative Dede Feldman and Michael Hely, Legislative Council Service (LCS), reviewed legislation by the Legislative Health and Human Services (LHHS) Committee. The LHHS endorsed 37 bills, 18 with appropriations and 19 without appropriations, and two memorials. Key bills endorsed by the committee include bills to expand Medicaid coverage for all adults with incomes under 138 percent of poverty in accordance with the Affordable Care Act, a bill on health exchange operations and exchange board membership, and a bill creating a single risk pool for individual and small group health insurance plans. A bill amending the insurance code to match Affordable Care Act provisions has also been drafted along with a bill to create a single-entity to credential medical professionals.

Representative Feldman reviewed the appropriation bills, which would provide funding to a number of entities, including the Department of Health and University of New Mexico. In a discussion with Representative King on home visiting, Representative Feldman noted the LHHS was disturbed by the reluctance of the Human Services Department to pursue Medicaid funds in support of home visiting.

Tobacco Settlement Revenue Oversight. Representative Gail Chasey and Sean Mathis, LCS, presented an overview of the TSROC recommendations. Revenues of \$39.5 million have been projected for FY14. The permanent fund balance is just over \$149 million. The recommendation of \$19.75 million for tobacco funding is 50 percent of the \$39.5 projected tobacco revenue, as authorized by statute.

Representative Chasey provided an overview of the flow of tobacco settlement funds from the manufacturers into the permanent fund and the program fund. For 9 years since 2003 no portion was retained in the permanent fund due to state budget shortfalls. Most of the diversion of tobacco funds has been used to support the Medicaid program. Uncertainty of future distributions given tobacco manufacturers' legal disputes mean it is a good idea to continue building up the permanent funds. Committee has endorsed legislation to remove any ambiguity in the laws to ensure equal treatment for participating and non-participating manufacturers. Passage of that bill will immunize the state against future challenges on our qualifying statute.

Funding is being provided for anti-smoking activities at the DOH and Indian Affairs. Avenues of lung cancer treatment being researched at UNM and Lovelace, including genetic typing of

cancer to improve treatment regimens. Tobacco funding supports children's oncology at UNMH.

Marc Saavedra provided an update on the University of New Mexico lung cancer research project, which has been named after Representative Ben Lujan. Mr. Saavedra noted that UNM would like to come forward with a supplemental for the funds to get to \$1 million in funding as intended by the legislation creating the project.

### Miscellaneous Committee Business

#### Action Items

Chairman Smith told the committee November Meeting Minutes would be approved in January.

#### Information Items

Review of Possible LFC Committee-Sponsored Legislation

Chairman Smith and Senator Cisneros commented on the importance of the spaceport tort liability legislation. Senator Cisneros noted if the state does not pass the tort reform legislation the state stands to lose \$200 million and the potential for additional economical development.

Representative White suggested the need to collaborate with the Trial Lawyers Association and noted the New Mexico Finance Authority has requested the Trial Lawyers Association, Virgin Galactic and the Spaceport Authority to discuss a compromise. He requested a similar letter be issued by the LFC.

Senator Papen noted the 2012 bill was similar to Texas legislation, and New Mexico is not as competitive as neighboring states with similar tort liability laws.

Representative White stated the Trial Lawyers Association believes everyone should have the right to sue and they don't want to remove that right. He also noted everyone should have the right to take whatever informed risk they want.

Chairman Smith requested endorsement of the bill, include this in the letter, and invite the Trial Lawyers Association to comment. **Senator Cisneros moved to endorse the bill on expanding the application of the Space Flight Informed Consent Act, seconded by Representative White. The motion carried.**

### Wednesday, December 5

The following members and designees were present on Wednesday, December 5, 2012: Chairman John Arthur Smith, Vice Chairman Luciano "Lucky" Varela, Representatives Henry "Kiki" Saavedra, Larry A. Larrañaga, Don Tripp, Edward C. Sandoval, Jim Trujillo, James P. White, William "Bill" J. Gray; and Senators Carlos R. Cisneros, Sue Wilson Beffort, Mary Kay Papen, John M. Sapien, Carroll H. Leavell, Steven Neville, and Pete Campos. Senators Linda Lopez, Richard Martinez, Cisco McSorley, and Representative Jimmie Hall attended as guests.

The committee met in executive session until 9:27 a.m.

**Higher Education Institutions (952).** Secretary Jose Z. Garcia presented the Higher Education Department's FY14 general fund budget request and also noted the institutions' progress.

Dan Lopez testified on behalf of the Council of University Presidents. The four-year institutions support the direction of the instruction and general (I & G) funding formula. He said they would like to see mission-specific measures added because it helps with context and purpose.

Regarding the formula, Mr. Lopez stated a few concerns on achieving stability and predictability (while understanding appropriation levels will fluctuate). The formula does not reflect quality and quality should be encouraged. He also said that there needs to be a mission-differentiation by sector; sectors have distinct purposes and these should be recognized.

Robert Frank, president of the University of New Mexico, discussed a number of the university's priorities. He supports the need for a 2 percent compensation state-supported increase for higher education. He said he would like to see the state increase support for efforts that support research-based, public-private and state-federal partnerships.

David Lepre, president of the Council of University Presidents, spoke to the new formula. While the transition to outcomes is important, this is particularly difficult when student enrollment has grown simultaneously after years of reducing faculty and staff. Additional funding is important and requested to address the increased workload experienced over the last few years.

Manuel Pacheco, president of New Mexico State University, supported formula direction and request for compensation but also additional funding to provide education to the growing enrollment experienced in past years. He emphasized the need for the state to provide funding for building renewal and replacement and requested nonrecurring general fund appropriations for infrastructure repair and maintenance and improving campus communications and information systems. He thanked committee members for the past support for the Cooperative Extension Service and Agriculture Experiment Station; requested additional general fund support for these projects, the New Mexico Department of Agriculture, and others; and requested amending the legislative language in House Bill 2.

Joseph Shepherd, president of Western New Mexico University, discussed the university's needs with respect to technology improvements, particularly those supporting classroom instruction and student support services. He discussed some of the policy changes and faculty salary incentives the university has implemented to improve student completion, retention, and graduation rates. He applauded the committee's leadership on pushing institutions to be accountable and improving student performance and providing the direction and resources to accomplish these goals.

Felicia Casados, director of NMSU Grants, provided information on two-year community college branch institutions and their work under the formula. She introduced the college presidents, noted their rural service areas, and commented on how these institutions meet local needs, including by providing adult basic education programs, hosting small business development centers, and offering workforce training programs. She reviewed this organization's formula request:

- (1) Maintain the FY13 base budget for all institutions;
- (2) Allocate any new funds to mission-specific measures submitted to the HED earlier this year;
- (3) Reject a formula “multiplier” to allocate any new money for the base, and
- (4) Consider a three-year rolling average for the institutional share formula component.

She said the branch institutions would like to see financial support for legislative lottery scholarship and college affordability endowment funds. Lastly, branch colleges would like to see their institutions included in capital requests and would like to receive funding for building replacement and renewal.

John Madden, president of Eastern New Mexico University Roswell, served as representative of the sector on the funding formula task force. He said funding needs to be stabilized. For example, the branches lost funding but experienced large enrollment growth over that time. The association seeks consistent base funding because of the cohort planning for students. The association thinks that mission-specific measures will bring about the differentiation needed without creating multiple formulas.

Kathie Winograd, president of Central New Mexico Community College and chair of New Mexico Independent Community Colleges, introduced Lillian Montoya, executive director, and president of the association. She noted the independent college’s positions are similar to the branches and many points stated by Mr. Lopez. The community is interested in working on issues with all institutions to address state needs – on the economy, on workforce, on improving the education attainment of residents.

On addressing this committee’s interests, she said the NMICC institutions have improved retention with better student services, better academic advising, curricular review to ensure required credit levels are needed for program mastery, and improved rates of certification and other completion. She briefly introduced the college’s economic impact study and noted how community colleges respond with their training programs. Ms. Winograd said the association strongly supports outcome measures and wants to have a statewide discussion of what the state needs before tackling the mechanics of one or three formulas.

Chairman Smith started the discussion, noting the Legislature has provided some direction and hopefully greater fiscal discipline by institutions. He stated that there appears to be more to do and he hopes that they can do more.

Representative White continued to express concerns with the rising costs of education and said he hopes the HED and institutions work to restrain costs, perhaps by employing additional means to provide education (perhaps online alternatives). Lastly, he asked for the department’s plans on the legislative lottery scholarship program.

Mr. Garcia noted the default plan for solvency for FY14 is to determine revenues available for scholarships and reduce projected scholarships accordingly. Initial models suggest that awards would need to be cut to about 65 percent of tuition amounts. He said he is open to a means-test of eligible students, whether that is indexed to average New Mexico family income of \$69 thousand or another rate. The options of raising grade point averages and per semester course

loads will not bring sufficient savings to address solvency. Perhaps the committee should consider weighted awards and time limits on the scholarship because more scholarships earlier will still limit student debt.

Representative Larrañaga raised questions about the kindergarten-12<sup>th</sup> grade pipeline and the affect of this on college enrollment and needs. Citing Eastern New Mexico University's experience with 48 percent of incoming freshmen requiring remediation in at least one class, the representative asked institutions to discuss their efforts working with school districts and individual schools.

The secretary noted the department is considering teacher preparation programs and the impacts that can be made to improve K-12 teaching.

As part of a discussion of higher education capital outlay needs, President Frank noted student FTE, institutional purpose, and campus footprint should be connected, resulting in UNM receiving a larger share of capital funding.

Vice Chairman Varela asked about the formula process and instituting the new approach to seeking input from institutions.

Secretary Garcia reported the efforts of the steering and technical committees and said time was insufficient to include mission-specific measures for FY14 consideration. Mr. Lopez noted the council is generally supportive of the formula and product, but the institutions are committed to working on improvements.

Vice Chairman Varela asked about the weights for each awards and the multiplier and whether institutions support such a multiplier. Mark Chisholm, a UNM employee on loan to the HED for purposes of working on the formula, noted the weights were selected by Secretary Garcia to reflect priorities and values for these incentives and the multiplier for the weights should allocate any increases accordingly.

Ty Trujillo, representing the New Mexico Association of Community Colleges, discussed the group would like to review the multiplier component and the potential for multiplier growth to have greater impact on institutions with large bases than those with small bases.

The secretary and Mr. Chisholm noted the multiplier also preserved the sector I&G distribution ratios the HED embedded in the weights for the workload and statewide outcome measures. Vice Chairman Varela noted the committee should look at the multiplier closely.

Additional discussion ensued regarding institutional performance and whether the weights fairly represented institutional effort in response to the formula. Mr. Garcia noted the two-year sector clearly responded to the incentives and were rewarded under the request. Vice Chairman Varela, the HED secretary, and institutional leaders also noted that the weights were the HED's request and not subject to much discussion by institutional leaders. The weights tend to highlight one of the last topics to be discussed.

Chairman Smith said formula has good direction. He said it is a work in progress and hopefully it will address other problems. Chairman Smith said he hopes there is a serious interest in reviewing capital needs and facilities. He appreciated the efforts of the HED in reeling back facilities.

**Special Schools -- New Mexico School for the Deaf (980), New Mexico School for the Blind and Visually Impaired (979) and New Mexico Military Institute (978).** Ronald J. Stern, superintendent, New Mexico School for the Deaf (NMSD), noted 2013 is an accreditation year for the school. Mr. Stern also said he is looking forward to receiving the recommendations from the accreditation processes and having these findings guide the school's next four to six years of services.

Mr. Stern said the longer students spend at the NMSD, the better prepared these young people are to face college or the workforce. He stated the NMSD serves around 70 percent of all deaf and hard-of-hearing students in the state. Mr. Stern said the school has a master plan and is in the five-year cycle, particularly for the public schools capital outlay committee.

Linda Lyle, superintendent of the New Mexico School for the Blind and Visually Impaired, (NMSBVI), said that about 92 percent of its funding is from the land grant permanent fund. She said services have outpaced funds and the school does not support the HED's request to transfer \$1.8 million from endowment or reserve fund, which is 25 percent of the fund.

Superintendent Lyle said the school is reaching a critical stage with its outreach, seeking additional funding for program development that helps staff support of blind and visually impaired students in public schools. She said the school is working with NMSU's College of Education.

Major General Jerry Grizzle, superintendent and president, New Mexico Military Institute, began by referring to the report card handouts. He highlighted the following:

- Accreditation approval that included the student learning component,
- ACT cumulative and subject proficiency scores higher than the nation and state averages,
- Increasing grade point averages, and
- Strong college acceptances.

He said the school averages 945 students and receives 100 applications for every 30 students enrolled. Athletics teams are competitive and the attrition rate is down to 5 percent.

General Grizzle said the NMMI requests an additional \$400 thousand for the Knowles scholarship to ensure no operational funds are used for this purpose. General Grizzle also said that there is a request for a constitutional change to maintain the distribution from the land grant permanent fund to the school.

Vice Chairman Varela asked General Grizzle about cadets and Knowles scholarship recipients, and if that program would continue in the 2013 session. He also asked about what expenses the Knowles scholarship covered. General Grizzle said the Knowles scholarship does not cover total costs. He said that first years costs are about \$10.7 thousand and that second year costs are

around \$8.4 thousand. General Grizzle said the maximum award is \$4,200 annually (half of tuition less uniforms). He said that if there is an increase in tuition and fees, the scholarship goes up to 50 percent of that total cost.

**Program Evaluation: Review Progress to Improve Teacher and Administrator Education Programs, including Teacher Education Accountability System, and Update on 2006 LFC Report on Teacher Education in New Mexico.** Michael Weinberg and Rachel Mercer-Smith presented the report to the committee and noted this report highlights the importance of carefully selecting candidates for teacher and administrator preparation programs, raising licensure standards for educators, actively monitoring the performance of preparation programs, and connecting the higher education funding formula to educator quality. Using outcomes data, including K-12 standardized test scores and teacher retention rates, this evaluation identifies effective practices within the state's colleges of education worth replicating. These include coursework changes as well as improvements to fieldwork experiences for both teachers and administrators.

Key findings include the following:

1. Low teacher admission requirements and licensure standards perpetuate low student performance.
2. The PED could better oversee preparation programs to improve teacher quality.
3. Increasing entrance and exit standards and programmatic quality will raise administrator quality.
4. New Mexico's educator reporting system can be simplified and improved by including outcomes data.

Key recommendations include the following:

1. The Legislature should couple increases in beginning teacher licensure standards with level I starting teacher salaries beginning in FY16.
2. The Legislature should revise statute to substitute the federal Title II report for the educator accountability reporting system, and include student outcome and teacher retention data by college.
3. The PED should phase-in increases to the licensing passing scores.
4. The PED with the colleges of education and the Legislature, should develop a methodology for calculating average value-added scores by institution, calculate this value-added score annually, and identify performance benchmarks for each college of education.
5. The PED should consider student outcome data, educator retention data, and school grades in the program approval and renewal process.
6. The HED should incorporate teacher preparation program outcome data and employment retention rates in the higher education performance-based funding formula.
- 7.

Dean Michael Morehead from New Mexico State University and Dean Richard Howell from the University of New Mexico responded on behalf of the colleges of education. They expressed overall agreement with the need for improvements in teacher and administrator preparation but concerns with use of student data to measure program effectiveness, the research methodology used by the National Council on Teacher Quality, and lack of involvement from the Public Education Department in program oversight.

Matthew Montano from the Public Education Department agreed with the need for increased oversight through the preparation program approval process.

Senator Morales expressed concerns with relying on student assessment data as the focus on reading and math could potentially limit creativity and innovation in New Mexico's students. He further expressed concerns with the relationship between student demographic factors, including poverty and English language learners, and student achievement and the volatility of Value-Added Models.

Representative Stewart noted the state's efforts to improve reading instruction, including the implementation of a new reading assessment for elementary teaching candidates beginning in January 2013.

**University of New Mexico Health Science Center (952).** Dr. Paul Roth, chancellor, UNM Health Science System, and dean, UNM School of Medicine, initiated his presentation with the UNM HSC's organization chart, clinical and instructional halves of the center, and map of care, education, and research sites throughout the state. He went through the eight appropriation requests for the FY14 budget.

1. Medical School I&G – compensation adjustment requiring \$1.3 million. Like other higher education institutions, the UNM HSC is hiring new faculty at higher salaries than those of veteran faculty and practitioners.
2. UNM HSC Nurse Education – seek expansion of nurse practitioner program for a one-time, \$2.8 million payment to support new seats in College of Nursing for two years (until the formula funding kicks in). They would seek \$500 thousand recurring in FY16 to sustain unless legislators are willing to make a long-term commitment with recurring funds.
3. Project ECHO – seek \$1.6 million increase in funding to replace prior year state-funding.
4. Center for Workforce Analysis – a request for \$265 thousand to fund staff and analysis of workforce needs. The function to collect and analyze data did not come with funding when the program was transferred from DOH.
5. UNM HSC BA/DDS Program – similar to BA/MD program, is a more cost-effective approach to growing the state's practicing dentists and replacing retiring dentists. Average annual dental tuition is \$75 thousand compared to SOM around \$15 thousand. The combo degree program would be cheaper to building a state dental school.
6. Health Extension Rural Offices (HEROs) – Builds on CES model. Seeks \$496.6 thousand to fund additional HEROs offices. State funds are matched with local funds to provide health services and outreach.
7. Office of Medical Investigator. Requested additional \$565.1 thousand for OMI would cover (1) back transport of deceased back to one's home community (\$265 thousand) and (2) additional utility costs due to new tri-agency lab (\$302 thousand).
8. College of Public Health Planning Funds – a feasibility study for college of public health, working with NMSU, would help address projected health workforce needs.

Dr. Roth also discussed the UNM HSC's request regarding state funds for school of medicine, noting the formula does not generate funds for the school. If there is a way for UNM HSC to get

funding, similar to other sectors, the UNM HSC has suggested metrics to increase funding for UNM HSC and school of medicine.

Representative Larrañaga asked about the advantages of a combined bachelors/doctorate of dentistry (BA/DDS) program over assistance at the undergraduate level. Dr. Roth noted the immediate benefit to a BA/DDS program is that an accepted student is automatically accepted on completing a bachelor's program to a dental program (because of the UNM/other university agreement guaranteeing such seats). Dr. Jensen noted that about 20 students who go through a regular bachelor's program go on to dental school, many taking Western Interstate Commission for Higher Education (WICHE) slots at dental schools and paying in-state tuition.

Chairman Smith asked what the indebtedness for UNM School of medicine (SOM) students is versus those at other schools. Dr. Roth responded by saying that the average SOM indebtedness is \$140 thousand (undergrad and medical school). He said that the UNM HSC debt is about \$110 thousand. He continued by saying the UNM SOM is seeing trends that degree of indebtedness is on the rise, and that the debt seems to creep up a few thousands annually. Dr. Roth said UNM SOM students have lower indebtedness, comparatively.

#### **Thursday, December 6**

The following members and designees were present on Thursday, December 5, 2012: Chairman John Arthur Smith, Vice Chairman Luciano "Lucky" Varela, Representatives Henry "Kiki" Saavedra, Larry A. Larrañaga, Don Tripp, Edward C. Sandoval, Jim Trujillo, James P. White, William "Bill" J. Gray; and Senators Carlos R. Cisneros, Sue Wilson Beffort, Mary Kay Papen, John M. Sapient, Carroll H. Leavell, William Sharer, and Linda Lopez. Senators Richard Martinez, Cisco McSorley, and Representative Jimmie Hall attended as guests.

The committee met in executive session until 9:12 a.m.

**Public School Support (993).** Hanna Skandera, secretary designee, Public Education Department, announced New Mexico as awarded \$25 million in federal Early Learning Challenge Race to the Top funds for use over the next five years to invest in programs for newborns to 8 year olds.

Ms. Skandera said the PED budget proposes a \$140 million increase in education funding – more than \$99 million in recurring expenses, \$22.4 million in nonrecurring expenses, and more than \$20 million for nearly 250 new school buses statewide (nonrecurring). The PED proposes a 3 percent increase in "above the line funding," and an increase of \$20 million in recurring "below the line" expenses.

Ms. Skandera said the department request was developed with an emphasis on improving New Mexico's 63 percent graduation rate, closing the achievement gap, maximizing the state's return on investment in education, ensuring funding is directed at proven programs that lead to improved student achievement, providing resources to reward our most effective teachers and school leaders, ensuring appropriate assessment tools are available to inform improved instruction, providing resources to support those schools most in need, and providing interventions for struggling readers.

Ms. Skandera said the department is proposing \$6.9 million on enrollment growth. Deputy Secretary Paul Aguilar noted enrollment growth is flattening out statewide, though there is still some movement from smaller districts to larger districts. Mr. Aguilar noted the \$17.6 million request for insurance costs is based on growth projections of 7.9 percent made by the Office of the Actuary at the Centers for Medicare and Medicaid Services (CMS). Requests from Albuquerque Public Schools and the New Mexico Public School Insurance Authority were significantly above this amount. The request also includes 5 percent growth in unemployment assessments. The department request for fixed costs of \$3.8 million is based on the projected consumer price index for 2014 of 1.9 percent as projected by the federal office of budget and management.

Mr. Aguilar noted the categorical appropriation for transportation is higher than last year to account for increased fuel costs. Ms. Skandera noted the dual credit instructional materials request increased from the FY13 appropriation because the school grading system is giving credit for participation in dual credit. The Indian education request of \$1.8 million still includes set asides for literacy programs and teacher support programs – these went out to RFP for FY13. The department's request for \$26.9 million for instructional materials includes funding for math and fine arts materials that are aligned to common core state standards.

Ms. Skandera said the New Mexico Reads to Lead funding request of \$13.5 million is based on the amount of funding requested by districts in FY13. This would continue to fund a common kindergarten through third-grade assessment, targeted professional development for educators, and interventions at the district level distributed through a competitive grant process. For FY13 every district had access to a reading coach.

Ms. Skandera noted the department requests a conservative \$500 thousand increase for Kindergarten-Three Plus, based on the demand the state has seen for funding. The department anticipates all the funding will be spent. During the summer of 2012, K-3 Plus served 6,938 students at a cost of about \$1,658 per child.

The department is recommending a \$1 million increase in prekindergarten funding. Ms. Skandera noted that the PED request corresponds to a \$1 million increase in the CYFD prekindergarten funding. For FY13, the PED allocated funding to 22 districts, 4 charter schools and two regional educational cooperatives to provide pre-kindergarten services to 2,850 children although request were received to serve more than 3,000 students.

The state invested \$500 thousand in FY13 for college and career readiness programs. Ms. Skandera noted New Mexico is at the bottom of states in graduation rates. The department is proposing a new \$4.8 million initiative to ensure students are graduating college and career ready. The funding will be used to incubate and start up regional early college high schools across the state based on the Las Cruces model; to provide funding for all students in the 10th grade to take either the PSAT or PLAN tests; to develop and implement a dropout prevention program and early warning system; for investments in workforce readiness, to include career technical education programs, WorkKeys or Accuplacer; and for additional advanced placement (AP) teacher professional development and test fee waivers for low income students and to incentivize high schools and teachers to increase participation and success in AP.

The department proposed an increase in funding for interventions for low-performing schools. The department is proposing to continue investments in training provided by the PED to support school leaders and instructional teams modeled after the University of Virginia (UVA) School Turnaround Program. In addition, funding will continue to support the UVA School Turnaround Program. Currently, Los Lunas, Grants, and Las Cruces are participating. The department anticipates a total of 30 to 35 schools will participate. Ms. Skandera noted schools receiving school improvement grant funding have seen mixed results despite large investments. She also noted that last year the department sought private funds for a stipend for mentor principals and a website with best practices. The department would like to continue this program in FY14 with state funding.

Ms. Skandera noted more than 65 schools and four charter schools are piloting the new teacher evaluation system. Along with a new evaluation system the department wants to reward highly effective educators. The PED's request includes \$11.3 million to reward our most effective teachers and principals. The request also includes funding to reward high performing schools.

Ms. Skandera noted educators have voiced concerns they are not being recognized when they succeed. The PED seeks to provide A schools and schools that grow two grades or more with monetary rewards.

The department requested \$2 million for statewide formative assessments for kindergarten through third grade students in math – a new initiative. During FY 13, the PED rolled out statewide short-cycle assessments in grades kindergarten through third grade for reading. Ms. Skandera said this would allow early identification of students struggling with math. The department's request also included funding for statewide short cycle assessments in grades four through 10. Short-cycle assessments give teachers information about student performance so they can make instructional changes.

The department requested expanded funding for teaching support in schools to allow for championing successful teachers in hard to staff areas in rural and poverty areas. Ms. Skandera noted that superintendents have requested this expansion. The PED will include prioritizing programs with private matching funds and will recommend an increase for IDEAL – virtual learning – to align the courses with the common core state standards and train districts on course offerings.

The PED requested an increase for common core transition to support ongoing training to ensure teachers understand the standards. Ms. Skandera noted the department requested \$7 million for emergency supplemental funding. Mr. Aguilar stated districts requested more funding than was appropriated for FY13.

Ms. Skandera noted the PED requested \$5 million for transition to the new teacher evaluation system. Funding will be used for regional training for districts and development of a digital evaluation tool that records information simultaneous with the evaluation.

The request for Partnership for Assessment of Readiness for College and Career (PARCC) funding supports technology infrastructure needed for online administration of the annual standards-based assessment. The estimated need is based on survey data collected from districts

and charter schools. The request accounted for assessed students in grades three through 11 and a calculated student to computer ratio of 4:1.

Ms. Skandera also noted the department requested \$20 million to replace school-owned buses. The state is required to replace school owned busses every 12 years. During FY13, 136 busses are over the 12-year limit. During FY14, another 101 will be over the 12-year limit, requiring replacement of 237 busses.

Pecos Elementary School Principal Debra Sena Holten, Superintendent Shirley Crawford from Capitan Municipal Schools, Superintendent Stan Rounds from Las Cruces Public Schools, and Kathy Sandoval-Snyder, head administrator at the Albuquerque Institute for Mathematics and Science (AIMS) presented testimony supporting department led initiatives.

**Department of Transportation (805).** Alvin Dominguez, secretary, Department of Transportation introduced State Transportation Chairman Pete Rahn, who gave a short presentation on the current conditions of the New Mexico transportation infrastructure. Chairman Rahn emphasized the current construction and maintenance gaps the department faces as a result of funding shortfalls.

Mr. Dominguez, along with NMDOT's Deputy Secretary Tom Church, proceeded to present the department's FY14 budget request. Mr. Dominguez emphasized some of the significant accomplishments by the department over the last fiscal year, an overview of projected federal and state revenues for FY14, and a budget request that is a two percent increase over the FY13 operating budget.

Senators Leavell, Papen, and Sharer and Representative Tripp inquired at separate times on the efficacy of the current system in collecting weight-distance fees for trucks and the potential that significant revenues are being lost as a result. All emphasized the importance of increased enforcement given current construction and funding gaps. Mr. Dominguez stated this was the first time he had heard concerns over this issue expressed and offered to meet with appropriate officials at the Motor Vehicle Division at the Department of Public Safety to coordinate on the issue.

Representative Larrañaga asked if the NMDOT had re-negotiated the memorandum of understanding (MOU) with the New Mexico Finance Authority (NMFA) to reduce fees associated with the administration of debt bonds. Mr. Church stated, in cooperation with the LFC, the administrative fees were reduced in the budget, but the MOU itself was still being negotiated.

Chairman Smith commented on problems in his district and along the border with Mexico. He also emphasized the funding problems that the department faced is not being addressed by anyone in a coherent or effective manner.

**General Services Department (350).** Ed Burckle, secretary, General Services Department (GSD), stated the overall request of \$476.1 million was a 2.3 percent reduction from the FY13 operating budget. The Risk and Health Benefits programs account for 92 percent of the total budget. The Health Benefits Program is requesting an increase of 15 percent from employee and

employer premium increases. Despite the increase, the program will require significant plan changes to meet projected increases in claims.

The risk funds are flat for FY14 except for the workers' compensation and public liability funds primarily due to the use of fund balances. AJ Forte, director, Risk Management Division (RMD), said the RMD will not be including the \$101 million in additional projected medical malpractice claims when reporting the financial position of the public liability fund. Mr. Forte also said increases from medical trend for the health benefits program is out of GSD's control.

Mr. Burkle provided more detail on FY13 and FY14 changes by division:

- Program Support is asking for a 2.4 percent increase to fill vacant positions and pay increases in employer pension contributions and health benefits premiums.
- State Purchasing is asking for an 8.9 percent increase due to recurring costs for licenses related to implementing the new web-based e-bid and contracts management system.
- State Printing is asking for a decrease of 10 percent due to the loss of one information technology FTE to Program Support.
- RMD operating is asking for a 2 percent increase to fill vacant positions and pay increases in employer pension contributions and health benefits premiums.
- Building Office Space Management and Maintenance is asking for a 6.1 percent increase to fill vacancies and related personnel expenses in building services, convert 4 FTE to engineers for property control, and increase funding for minor repairs and maintenance.
- Transportation Services is asking for an increase of 30 percent to reinstate the motor pool vehicle replacement program, replace 100 aging cars with new and lease 150 more, and convert the aviation bureau to a 100 percent general fund supported program.

**Executive Compensation Report.** Eugene Moser, director, State Personnel Office (SPO) presented the results from the 2012 Classified Service Compensation Report. The presentation emphasized the state classification and salary structure had not been reviewed since 2005 resulting in

- 1) Overuse of alternative pay bands, a misuse of in-band pay adjustments,
- 2) Noncompetitive salary rates at entry level positions;
- 3) A salary-to-benefit ratio skewed more toward benefits than direct compensation;
- 4) Salaries in New Mexico for critical positions falling behind public and private sector market.

Director Moser also directed the committee's attention to current national, regional, and state salary market trends, classified service demographics, annual, sick leave, and overtime usage rates, and the costs of turnover to state government. Mr. Moser emphasized the importance of a prompt revision of the state classification and salary structure to ensure the state can recruit, reward, and retain qualified individuals.

Vice Chairman Varela requested information on the current status of the *State of New Mexico v. AFSCME* case. Mr. Moser replied the case would be presented to the New Mexico Supreme Court in mid-January 2013 and would likely be argued soon after that. Mr. Moser stated a judgment against the state would result in an obligation of the state of approximately \$22 million to \$25 million, although union representatives believe it is less than that amount. To fulfill this

obligation, the state would either come to the Legislature for additional appropriations or would assess each department for an amount appropriate to its specific obligation.

Vice Chairman Varela stated the SPO needed to be more effective in calculating vacancy rates for agencies because the committee was being provided with different vacancy rate numbers and it was difficult to make policy recommendations as a result. Mr. Moser agreed, and stated the entire process of calculating and filling FTE needed to be examined.

**Secretary of State (370).** Dianna Duran, secretary of state, presented a list of accomplishments and concerns, with an emphasis on the implementation of statutory obligations related to state and federal voting laws by the agency. Of particular concern were the costs of implementation and the current necessity of obtaining special and supplemental through the Legislature.

Secretary Duran stated her preference to have funding appropriated on a recurring basis in the agency operating budget. The secretary also discussed the efficacy of voter convenience centers (VCCs), inadequate voting machines in some counties during the recent general election, and the cost of recounts for elections.

Ms. Duran stated actual expenditures indicate VCCs save the state approximately \$250 thousand in primary elections and \$2 million in the general election. Representative Sandoval asked if the VCCs should be considered a success. Secretary Duran responded they are a work in progress and the agency continues to learn from previous experience.

Representative Larrañaga asked for an update on the transfer of the Corporations Bureau at the Public Regulatory Commission (PRC) to the Secretary of State, a requirement that comes as a result of the passage of amendment 3 in the recent election. Ms. Duran responded Representative Tom Taylor will sponsor enabling legislation in the 2013 legislative session and her agency was working with the PRC on specifics including personnel, office space, and information technology to ensure the transfer is implemented effectively.

### **Friday, December 7**

The following members were present on Friday, December 4, 2012: Chairman John Arthur Smith, Vice Chairman Luciano "Lucky" Varela, Representatives Don Tripp, William "Bill" J. Gray, James P. White, Edward C. Sandoval, Nick L. Salazar, Larry A. Larrañaga, Henry "Kiki" Saavedra; and Senators Carlos R. Cisneros, Steven Neville, Mary Kay Papen, Carroll H. Leavell, Sue Wilson Beffort, Pete Campos, and John M. Sapien.

**Capital Outlay.** Ms. Sonya Snyder, fiscal analyst, LFC, reported on the status of outstanding capital funds totaling \$1.2 billion for 3,851 projects between 2008 and 2012. As of September 2012, approximately \$326.4 million for 808 projects remains outstanding, including more than \$112 million authorized in 2012. The next update is due December 14, 2012. Balances for projects \$1 million or greater total \$255 million for 133 projects and \$43.9 million authorized from severance tax bonds (STB) for 13 projects remain unissued.

The two major unissued projects – \$8.1 million for the Human Services Department information system and \$29.8 million for the Paseo del Norte Boulevard – are expected to be issued in

December 2012. The 2009 authorization to expend \$2.5 million from the education retirement fund will expire June 30, 2013 (\$45 thousand was expended for a study). Excluding 2012 projects, only \$3.8 million for 31 projects sponsored by individual legislators reveal no progress. Ms. Snyder reported listings for all outstanding funds were mailed to legislators in November 2012 and lists to new legislators will be mailed in mid-December.

Linda Kehoe, principal analyst, LFC, continued the presentation and reminded members the LFC staff only develops the framework for the committee's consideration and does not proceed to draft a capital bill for consideration by the full Legislature until the committee gives staff direction following the hearing.

Ms. Kehoe indicated the framework is based on criteria for projects impacting public health and safety, the preservation of state facilities, compliance with state or federal regulations, ongoing projects requiring additional funds to complete, readiness to proceed, and critical service to the public. The LFC staff also conducted 12 site visits, studied infrastructure capital improvement plans, held monthly meetings with major departments, and listened to testimony presented at hearings held during the interim and indicated the sites are listed within the brief.

Ms. Kehoe summarized available capacity in 2013: \$332.8 million in severance tax bond capacity; \$66.5 million earmarked for water, colonias, and tribal infrastructure; and \$174.9 million earmarked from supplemental severance tax bond capacity for public school construction. Ms. Kehoe stated with reserve levels approaching 12 percent, it was possible nonrecurring general fund could "potentially" be available for capital expenditures. Ms. Kehoe reported state and local entities requested more than \$1.4 billion compared with \$222.4 million available capacity.

Ms. Kehoe reviewed two spreadsheets, including pictures, demonstrating the state agency requests and the proposed framework for "drafting" a capital outlay bill for consideration by the full Legislature. Ms. Kehoe stated the framework reflects the most critical projects impacting public health and safety, the preservation and restoration of state facilities, and projects requiring additional funds for completion. Ms. Kehoe stated staff steered away from new buildings, with some exceptions if space was not sufficient to administer programs efficiently and proposed monies for pre-planning, designing, and for master plans. Ms. Kehoe reminded the committee the state is unable to effectively fund maintenance and operation of existing facilities.

Ms. Kehoe noted the staff proposes funding a portion of the request for school bus replacement from the public school capital outlay fund and the full amount for prekindergarten classroom construction and special schools be authorized from the fund, contingent on approval by the Public School Capital Outlay Council.

Ms. Kehoe reviewed the special schools and higher education framework and indicated the proposed projects were selected based on critical health and safety, completion of projects, available matching funds, and readiness to proceed. She reminded the committee the larger amounts for higher education facilities will restore funds decreased within the GOB bill to keep property taxes flat. The funds will allow the projects to move forward in the spring.

Ms. Kehoe reminded members of Secretary Clifford's earlier statement indicating the executive encouraged legislators to review the local infrastructure capital improvement plans (ICIP)

legislators decide to fund local projects. Members were provided with an ICIP list of the top three priorities submitted by 304 political subdivisions and a separate listing for the city of Albuquerque.

Ms. Kehoe finalized her presentation by encouraging members to review the brief for other important information relative to space utilization, the Capital Buildings Planning Commission, and other property issues not reviewed in the interest of time. Ms. Kehoe asked the committee to take action to allow staff to proceed with drafting a capital bill and referred to members for questions.

Chairman Smith requested a listing of the projects by county. He also expressed concern about the building modifications and equipment needed for a three-year-old scientific laboratory that cost taxpayers \$79 million. Ms. Kehoe explained the building has severe ventilation problems impacting the health and safety of occupants of the building and deferred to Pamela Nicosin of the Property Control Division (PCD). Ms. Nicosin stated there were no changes to the original plans and the build is up to code. Ms. Kehoe explained the tissue digester never worked correctly and the manufacturer declared bankruptcy. Chairman Smith suggested an investigation be conducted by the PCD, the Attorney General, or both.

Senator Cisneros asked for the status of the Mora courthouse and other unfinished projects and if a similar request will be made this year. Ms. Kehoe referred the question to Ms. Romero, Capital Outlay Bureau of the DFA. Ms. Romero responded the executive is interested in funding unfinished local projects and DFA staff met with Mora representatives last week. She said Mora County has submitted a good plan and the county has received funding from the New Mexico Finance Authority, The Mora County Commission is requesting \$2.5 million to complete the first floor.

Ms. Kehoe explained last year the state had 14 unfinished projects totaling \$10 million. From the list, there were still nine projects totaling \$5.5 million that were not funded. Director Abbey expressed concern the status of some of the projects on the list may have also changed and suggested additional analysis. Ms. Kehoe stated the process done last year took LFC, DFA, and Legislative Council Service staff six months to complete. She also stated it will take time to determine which projects are incomplete and require additional funding.

Representative Larrañaga asked about the UNM request for the Farris Engineering building and if UNM staff mentioned their accreditation is contingent on the improvements being made to the Farris building.

Ms. Kehoe stated she was not present at their hearing, however, Mr. Abbey stated he was aware of the issue.

Chairman Smith stated part of the purpose for capital outlay is for economic development and job creation. Mora has high unemployment and it is why he is requesting a breakdown by county to see how much economic development activities can be generated by completing the project. Chairman Smith also stated historically courthouses were a local responsibility and the state stepped out of bounds with the Metro Court in Albuquerque.

**Senator Cisneros made a motion to adopt the staff recommendation on the framework and directed a bill be drafted for both introduction in both the Senate and the House and stated he would sponsor the Senate bill, seconded by Representative Varela. The motion carried.**

Other discussion followed about revisiting the funding allocation to the public school capital outlay fund and perhaps funds should be diverted for roads or back to the severance tax permanent fund or used for other critical issues.

### **Staff Report**

#### **Miscellaneous Committee Business**

Director Abbey presented five contracts for approval by the committee totaling \$65 thousand for work preparing fiscal impact reports during the legislative session.

**Representative Saavedra moved to approve the contracts, seconded by Senator Cisneros. The motion carried.**

1) Legislature (111-131) LFC Administrative Services Manager Jeannae Leger presented the legislative budget request to the committee totaling \$19.2 million to fund the Legislative Council Service, Legislative Finance Committee, Legislative Education Study Committee, House and Senate Chief Clerks Offices, Legislative Information Systems, interim expenses, Building Services, pre-legislative session expenses, and other expenses. Ms. Leger noted an increased level of funding was requested primarily due to increased unemployment insurance (UI) premiums assessed by the General Services Department. Ms. Leger reported the budget request reflected an amended amount to the LFC request submitted in September, also due to the increased UI premium.

Vice Chairman Varela asked whether the increase level of funding for the House Chief Clerk was for additional staff and why the Legislative Information System request indicated a decreased level of funding. Ms. Leger clarified the increased request for the House Chief Clerk was mostly due to the increase in UI premiums and the decrease in the Information System funding level was changed by the Council Service but noted the request may be amended before the legislative session begins.

**A motion to approve the budget request was made by Vice Chairman Varela, seconded by Senator Cisneros. The motion passed.**

2) Review of Special, Supplemental and Deficiency Requests. Christine Boerner opened by discussing some of the criteria LFC staff used to evaluate the requests for special, supplemental and deficiency funding. She noted agencies needed to demonstrate austerity practices and provide documentary evidence that no other funding is available. Staff considered whether requests could be addressed with existing or additional budget adjustment request (BAR) authority, including program transfers. As a rule, staff did not recommend requests that attempted to use nonrecurring revenue for recurring expenses.

Mr. Clark continued with a high-level summary of the requests, noting the total funding request from agencies for all specials, supplementals, and deficiencies was \$115.1 million, including

\$72.4 million in general fund revenue. The requests for special appropriations included \$67 million in general fund revenue. He briefly pointed out a few of the specific requests:

- The Administrative Office of the Courts requested \$2.7 million to purchase IT equipment, furnishings, and vehicles for courts statewide.
- The Attorney General requested \$4 million to support interstate water litigation.
- The Economic Development Department requested \$10 million to add to the Local Economic Development Act funds the department has available, and \$4.75 million to Job Training Incentive Program funds.
- The Office of the State Engineer requested funds to support water litigation against the US Bureau of Reclamation regarding the operation of the Rio Grande Project. The State Engineer is working with the Attorney General on water litigation, and both agencies requested \$4 million for these efforts.
- The Department of Health requested \$2.3 million for Jackson lawsuit disengagement activities required by a federal court.
- The Environment Department requested \$2.8 million to meet cost-share obligations mandated by law for the construction, operation, and maintenance of remedial systems at hazardous waste sites.
- The Department of Public Safety requested \$3 million for vehicle replacement. The department has been using capital outlay to perform this task; however, in FY15 the department will request this funding within its base budget.
- The Public Education Department requested \$8.4 million for Partnership for College and Career Readiness Assessments. Additionally, the PED requested \$5 million for a new teacher evaluation system and \$7 million for emergency supplemental funding for school districts.

Finally, Mr. Clark concluded that requests for supplemental appropriations included \$4.4 million in general fund revenue, and the deficiency requests totaled \$966.6 thousand. The State Investment Council requested \$4 million of other state funds to be used for professional services to assist in managing the permanent funds.

Committee members asked about the status of the Jackson lawsuit and the Department of Health's (DOH) special appropriation request for \$2.6 million to fund activities associated with the lawsuit.

Staff replied that in October 2012, Judge Parker issued court orders regarding an evidentiary hearing held last year. The judge indicated the DOH was substantially noncompliant with some disengagement activities including failing to provide Jackson class members with adequate health care, a reasonably safe environment, and supported employment services. However, the court indicated the DOH had made good progress in several areas, and could endeavor for disengagement from the lawsuit perhaps within FY14 or FY15. The special appropriation request is to fund court-ordered services such as a compliance administrator and staff, as well as \$1.5 million in plaintiffs' attorney fees.

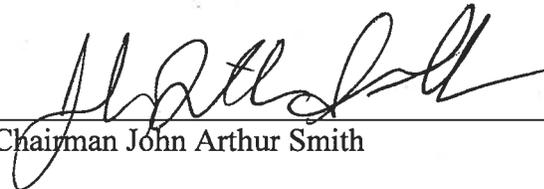
**Final Review.** Director Abbey presented to the committee a packet of spreadsheets summarizing the staff recommendations for FY14 appropriations for each agency, a general fund financial summary, and a spreadsheet indicating adjustments to the initial staff recommendations that were presented to the committee during the fall.

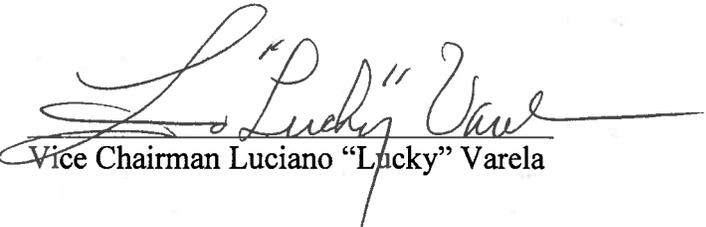
**Senator Cisneros moved to adopt the staff recommendations contained in the packets and the information technology staff recommendation, seconded by Representative Saavedra. The motion carried.**

Chairman Smith appointed Senator Sapien and Representative White to a technical correction subcommittee.

Representative Saavedra thanked the committee staff for its hard work on the budget recommendations and recognized Director Abbey for his leadership on putting together the appropriation recommendation.

With no further business, the meeting adjourned at 10:30 a.m.

  
Chairman John Arthur Smith

  
Vice Chairman Luciano "Lucky" Varela