

**MINUTES**  
**Legislative Finance Committee**  
**State Capitol Room 307**  
**Santa Fe, NM 87501**  
**December 7 – 11, 2015**

**Monday, December, 7<sup>th</sup>**

The following members and designees were present on Monday, December 7, 2015: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, Sue Wilson Beffort, Carroll H. Leavell, Howie C. Morales, George K. Munoz, Steven P. Neville, and Pete Campos; and Representatives Larry A. Larrañaga, Luciano “Lucky” Varela, Nick L. Salazar, Paul C. Bandy, Jason C. Harper, George Dodge Jr., and Patricia A. Lundstrom. Guest legislators: Senators William F. Burt, Lee S. Cotter, Richard C. Martinez, Mary Kay Papen, and Benny Shendo Jr.; and Representatives Doreen Y. Gallegos, Conrad James, and Jim Trujillo.

**FY14 and FY15 General Fund Revenue Projections.** Demesia Padilla, secretary of the Taxation and Revenue Department, provided an introduction by outlining the department’s increased audit collection efforts over the last year. They are one fourth of the way through the process. To date, collection assessments have increased by 12 percent. They have revised the number of audits anticipated to occur this year; each auditor will add three audits to their portfolios. In the first fiscal year, they anticipate increasing their fiscal audits by 30 thousand. There will be an increase in tax revenue in the current fiscal year and into the next fiscal year resulting from the collection efforts.

Elisa Walker-Moran, chief economist for the Taxation and Revenue Department, provided the initial presentation of the FY15 general fund revenue projections. The general fund revenue projections were agreed on by the consensus revenue estimating group composed of economists from the Taxation and Revenue Department, the Department of Finance and Administration and the Legislative Finance Committee. New money for FY17 is \$232 million. This is the combined amount of FY17 recurring revenues and FY16 appropriations. The new money amount is approximately 3.7 percent of the FY17 recurring appropriations. The revenue outlook is positive but weak. Weaknesses and subsequent revisions from the August estimate were attributed to weaknesses in gross receipts tax revenue and severance tax revenue as oil prices continue to drop. The year-over-year decline is 0.5 percent. Revenue in FY17 is expected to grow by 4.9 percent and in FY18 grow by 5.1 percent. Changes to gross receipts tax, private wages and salaries disbursements and construction employment have been areas of growth. Overall, the state’s economy is viewed as continuing to strengthen.

Taxable gross receipts grow consistently – long-term growth has been positive. This is the largest revenue source for the forecast. Various industries have increased contribution in oil and gas; retail and construction contributions have been slightly down.

Compensating tax has grown over the last five years due to the oil and gas industry strength. The forecast has been revised down in the out-years due to the decline in oil and gas pricing.

Corporate income taxes have been revised down to reflect the weaker oil and gas expectations and higher reported operating losses and lower corporate profits. Liquor excise tax contribution to the DWI program is 46 percent annually and the distribution to the lottery fund is 39 percent. Severance tax forecast reflects higher and sustainable oil production volumes but weaker oil prices. Oil exploration and production continue to show considerable strength; however, oil prices have been substantially lower than the August forecast. Oil prices are forecast to be \$44/bbl for FY16, approximately \$7.50 below the August forecast; \$49/bbl for FY17; and \$56/bbl for FY18. Crude oil production is expected to increase in FY16 by 6 percent or 150 million barrels. Natural gas is forecast at \$2.90/mcf in FY16, \$2.30/mcf in FY17, and \$3.40/mcf in FY18. The prices include the liquids premium. Natural gas production increased for the first time in 10 years by 0.8 percent. New Mexico wells show production strength in the horizontal wells, despite the decline in the number of active wells. This may be indicative of increased application of technology to existing wells.

New Mexico employment was reported at 6.8 percent for October, remaining unchanged from the prior month. National employment was 5 percent, down from the prior two months. Five industries added jobs: education, health services, professional and business services, leisure and hospitality, and retail trade. Mining, construction, and manufacturing posted employment losses. New Mexico remains in slow but stable growth. State gross domestic product grew 2.7 percent in FY15 and is forecast to grow 2.6 percent in FY16 and 2.9 percent in FY17. Growth is anticipated to continue in the services sectors. The federal budget deal completed by Congress and to be signed by the president is expected to increase revenues for New Mexico. The growth has been included in the revenue estimate as a result.

Risks to the estimate include protests on the high wage tax credit that must be paid. The discretionary budget authority for defense and non-defense spending has been incorporated into the forecast as well and a factor for lower GRT and the decline in gas prices.

Tom Clifford, secretary for the Department of Finance and Administration, presented the macro-economic update focusing on the outlook for the United States. Forecasters see strength in new vehicle sales and new home sales. Household debt burdens are at the lowest level in nearly 50 years. The government sector has been sluggish. The trade sector has been hit hard by a very strong U.S. dollar. Oil has been hit hard by this as well. The stronger the dollar, the more expensive oil becomes. The low inflation gives the Federal Reserve the opportunity to increase rates. A risk to the U.S. economy is regulatory overreach. A tidal wave of new regulations are expected to be enacted over the next six months, which will cost the administration nearly \$100 million. A specific set of regulations will impact oil and gas industry directly and may be negative in the outcome. New Mexico employment has decelerated in recent months but is still growing. The slowdown is from cutbacks in the mining sector. Good growth is seen in the professional services sector, a positive area for employment in the state.

Two strong areas are the lower gasoline prices, currently at \$1.80 a gallon and half the price from one year ago. New Mexicans will have nearly \$600 million more money for consumption due to gas savings, and gross receipts tax revenue should increase as a result. The federal budget deal will increase federal spending by 8 percent over the next two years, which will amount to \$600 million for New Mexico over the next two years. The construction and services sectors are

growing, although the mining sector has slowed. Oil prices are recovering more slowly than expected, although production has been maintained at a higher level than originally expected. The rig counts have decreased and the lower volume wells are less economical and are being taken off line. OPEC and non-OPEC producers are experiencing strong pressure to coordinate and make production cost-effective. Low energy prices will continue to be low.

Two-thirds of the state's energy revenue now comes from oil; historically, it came from natural gas. Natural gas production is holding up well. The Permian Basin is one of the strongest and most popular basins in the country. Production continues to expand within the basin. The trend continues to be strongly positive within New Mexico. Secretary Clifford explained that production will continue to increase and that the model of "peak oil" no longer exists.

General fund revenue is expected to decline to a lower level of 2.7 percent in FY17. The recurring revenue base had 6.5 percent growth in FY15. Investment income is expected to increase well in FY16 and FY17 because of steady investment returns over the last couple of years.

The New Mexico budget has been managed well over the last few years. Two areas to watch closely include controlling the rate of growth of the budget while maintaining adequate reserves. Limiting growth in the prior fiscal year has permitted a strong reserve balance for the new fiscal year.

Oil price assumptions have had the risks removed and there is now strong upside potential for the revenue outlook.

Public education is an area for focus because it is 44 percent of the budget. Resources will be needed to improve education. Medicaid will require resources as the federal government will decrease its share of the payments for the expanded population. This has been a benefit for the state and, as a consequence of the change, the general fund will need to absorb a higher cost load. Some of the requests received from the courts and the public defender will not be affordable at the level requested. DFA questions whether the caseload actually supports the requests. The administration will continue to focus on education reform and economic development. Compensation increases should be focused on areas where agencies need to keep key personnel.

Tax policy priorities are similar to prior years, focusing on small businesses, bringing skilled labor to New Mexico and supporting veterans and support promoting a balanced energy policy, including renewable energy initiatives.

Secretary Clifford provided a brief overview of various items, including capital outlay, the Supreme Court ruling on wage credits, the contingent liability to be posted to the final audit report, and the SHARE system update.

Christina Keyes, economist for the Legislative Finance Committee, provided a brief overview of the consensus revenue estimate, as well as various items of concern and uncertainty associated with the forecast.

Among the risks are continuing low prices for oil and gas. The depressed global demand for crude oil has not been able to absorb the surging supply glut. The broad imbalance has sent energy prices crashing, with an oversupply expected to keep prices low through the end of 2016. The growing levels of crude oil in storage will subsequently hinder any price recovery. The EIA (U.S. Energy Information Administration) reports the United States has reached levels of oil in storage that have not been seen in nearly 80 years. If market prices do not recover as expected, general fund revenue may decrease by \$100 million or more in fiscal years 16 and 17.

Another uncertainty is whether increased production in the Permian basin will be sufficient to eliminate this outstanding price risk. In FY15, oil production grew approximately 25 percent. Production is now more than double the level that prevailed over the last 30 years. The forecast assumes oil production growth continues at 6 percent in FY16 and 3 percent in FY17. As a rule of thumb, a \$1 change in the price of oil for a full fiscal year, leads to a \$10 million change in revenue. For natural gas, a 10 cent change in price over a fiscal year leads to a \$7 million to \$8 million change in general fund revenue. Traditionally, New Mexico crude oil has been priced lower than the standard West Texas Intermediate price by \$5 a barrel. According to well operators around the state, this differential has decreased to a range of \$2 to \$3. On the other hand, industry professionals confirmed the liquids premium for natural gas has evaporated and is expected to remain at or below zero.

In addition, gross receipts tax revenues were down for the first quarter of FY16 compared with a year ago, due in part to the substantial drop in oil and gas prices in tandem with a decrease in well drilling and well service activity and a drop in wages and salaries attributed to layoffs in the mining industry. Oil and gas equipment account for a large share of compensating tax revenue. In the first three months of FY16, revenue from compensating tax decreased \$17.1 million (61.3 percent) over the same period of the prior year. The forecast for compensating tax shows a 9 percent decline in FY16 and is flat in FY17 due to the continuing weakness in purchases and capital expenditures of the mining sector.

Further, the potential for increases in the cost of tax credits is a risk to state revenues. In recent years, several tax expenditures for economic development have had a larger fiscal impact than initially estimated, contributing to revenue estimating error. In some cases, the revenue impacts have significantly exceeded initial estimates, requiring changes in statute to curb the impact.

Job losses also remain possible. Global Insight forecasts national employment will expand by 1.2 percent to 1.5 percent in FY16-18, an estimate down slightly from the previous IHS forecast but that means a continued unemployment rate of 5 percent. National employment picture improved over the last year; however, New Mexico employment has lagged. A persistently weak labor market in combination with slow growth of household incomes drags the advancement of the New Mexico economy. Employment in the state remains below the pre-recession peak, unlike surrounding states, which have substantially recovered. The Department of Workforce Solutions reports year-over-year job growth was about 0.3 percent for October, well below the forecast. Earlier evidence of New Mexico job growth was overly optimistic, and the contraction of the economy, notably in manufacturing and mining sectors, contributes to a delayed move toward positive growth.

Finally, the revenue forecast is at risk if e-commerce sales weaken overall gross receipts tax collections. Analysts have questioned whether the Internet buying patterns were sufficiently accounted for in the models. A substantial amount of Internet consumer (as opposed to business-to-business) sales may have been a conversion from former retail and offline sales. Many “bricks-and-mortar” retail companies have significantly increased their Internet retail presence. The Internet sales of companies that have a physical presence with the state are taxable. Anecdotal information suggests the pace of Internet sales has accelerated with a potential loss to tax revenues of \$50 million to \$200 million.

Various questions regarding capital outlay, LEDA, job growth, audit compliance, Medicaid, employment in various sectors, compensation and oilfield services were directed by the committee for Secretary Clifford’s response.

**State Engineer/Interstate Stream Commission (550).** Tom Blaine, state engineer, and Deborah Dixon, Interstate Stream Commission director, presented the agency’s request. Mr. Blaine began with a focus on his priorities in his first year on the job, including reducing the water rights application backlog, implementing active water resource management, defending New Mexico’s water sources in litigation with other states and the federal government, and making water rights adjudications more efficient. He explained the request includes increases to reduce use of the irrigation works construction fund (IWCF) to support agency operations, support the silvery minnow refugium in Los Lunas, and reduce vacancies in the Water Resources Allocation Program (WRAP). Ms. Dixon further discussed how use of the IWCF to support agency operations in recent years has significantly reduced the fund’s balance.

Mr. Blaine next discussed the agency’s efforts to address persistently high vacancy rates. He stated that internal promotion contributed to this issue but also noted his hope that would lead to improved retention and fewer vacancies in the long term. For example, he noted WRAP’s vacancy rate was 8.6 percent at the time of the hearing after the agency refocused on reducing the water rights application backlog during 2015. The Litigation and Adjudication Program (LAP) is looking to hire less experienced attorneys and create more of a career ladder to address a years-long difficulty in recruitment and retention.

In discussing the agency’s special appropriation requests, Mr. Blaine noted the need for and benefits of groundwater studies to identify alternative sources of water and improve water planning efforts. Ms. Dixon discussed the expectation that litigation with Texas regarding Rio Grande Compact delivery requirements will continue and require additional funding. She also mentioned that continued funding is needed for Pecos River Compact compliance and a potential lawsuit in the middle Rio Grande.

Senator Leavell asked how long the agency takes to fill a vacant position. Annette Wilder, the agency’s human resources bureau chief, stated that this depends on many variables but averages approximately 90 days. Senator Leavell also asked about the water rights application backlog in the Roswell district office, to which John Romero, WRAP director, replied the backlog had been reduced from 350 to 135. Senator Leavell ended his questioning by requesting that Mr. Blaine become familiar with the I & W brine cavern in Carlsbad because of its potential impact on a major Carlsbad Irrigation District canal.

Representative Bandy asked how much of the IWCF appropriations are used for operations versus infrastructure, and Mr. Blaine stated that he did not know but would gather the information and follow up. Representative Bandy also asked about the U.S. Forest Service (USFS) taking action to protect habitat of an endangered species of mice near streams in southeastern New Mexico and whether such action required a water right. Mr. Blaine said his staff is working on this issue with local stakeholders and noted USFS “exclusion areas” are fenced off, allowing grass to grow and resulting in water spreading over a larger area. The agency will issue an order if it determines USFS is impairing other users’ rights and would prefer to settle the issue without going to court. Representative Bandy also asked about progress on, and an estimate on how long it would take to complete, adjudications. Mr. Blaine said the agency was working to identify opportunities to accelerate the process but was reluctant to estimate the time needed to complete adjudications because of the many variables involved. On this point, Senator Neville later asked whether the agency had decided not to re-adjudicate the Echo Ditch decree, and Mr. Blaine stated that was indeed the decision and that he expected it to save significant time and money.

Senator Morales asked about the final value study of a Gila River diversion project. Ms. Dixon stated the U.S. Bureau of Reclamation reported in September on 12 alternatives, with the estimate ranging from \$128 million for one phase of the least expensive project up to \$1 billion to fully construct the most expensive proposal. She also noted that the New Mexico Unit Agreement was finalized in November and the next step is to study the financial and environmental feasibility of a diversion project. Senator Morales asked if there were proposals to pay for costs in excess of available federal funding, and Ms. Dixon noted the New Mexico Central Arizona Project Entity, composed of local representatives, will lead on this and will help in selecting projects.

Chairman Larrañaga asked for further explanation of the request for funding for interstate stream litigation and whether this was coordinated with the Attorney General’s Office or the courts. Ms. Dixon explained that both the Interstate Stream Commission and the Attorney General’s Office were requesting \$3 million, for a total of \$6 million.

**Program Evaluation: Improving On-Time Degree Completion.** Charles Sallee, deputy director of the LFC, and Travis McIntyre, program evaluator, presented the report on higher education titled *On-time Graduation and Degree Production*. Higher education is a key component of economic growth and prosperity for New Mexico. Workforce projections indicate that 35.5 percent of New Mexico job openings by 2020 will require a postsecondary degree. Absent major changes in educational attainment, New Mexico is likely to fall short by 13 thousand educated workers. Institutions of higher education play a key role in the state’s ability to grow economically by producing a more educated citizenry. The Legislature has invested heavily in higher education, and its citizens devote significant tax effort to support this sector of government.

While the need is great, and state investments are high, higher education outcomes have been poor for decades. The state recognized a need to change the financial arrangement with its institutions of higher education and begin allocating resources based on outcomes rather than inputs in an effort to improve performance. This new finance approach puts New Mexico on the

leading edge of change in this arena. This evaluation sought to assess whether institutions of higher education around New Mexico were responding to the change in financial incentives, including implementing or expanding best practices and if outcomes were improving. This report focuses primarily on degree production, and in particular on-time degree production, within four years for a bachelor's degree and two years for an associate's degree.

Overall, degree production has improved since 2012, especially coming off of record enrollment levels as the state emerged from the Great Recession. On-time degree production is mixed, but still remains low overall when compared with other states and institutions with similar student populations. The production of associate's degrees is helping the state close the educational attainment gap with the national average, but bachelor's degree production, and on-time production, needs to increase significantly. A comprehensive, coherent accountability system to monitor results does not exist, which inhibits legislative and executive oversight of the higher education system.

Associate's degree production has closed the gap with the national average, but bachelor's degree production has remained flat. The funding formula tells higher education to perform better but not how much better. New Mexico is one of 19 states yet to develop statewide goals. New Mexico State University (NMSU) has a strategic plan with performance targets but is operating in a vacuum without a statewide plan. There is no dashboard to present to policymakers on higher education performance throughout the year.

States with lower average ACT scores, higher rates of poverty, and lower median incomes have higher graduation rates than New Mexico, indicating there is room for New Mexico to do better. The University of New Mexico (UNM) and NMSU have significantly improved on-time graduation since 2010, and all institutions have implemented many best practices, but there are a few that specifically need to be implemented more systematically. Institutions need to do a better job of supporting and guiding freshmen, aligning math pathways with degree plans, and beginning curricular alignment conversations with faculty at local feeder high schools. Transfer articulation needs to be implemented within broad discipline categories (meta-majors) statewide.

The report recommends HED develop a comprehensive performance system with realistic and achievable targets, and a plan to achieve them. The state needs to set statewide and institution specific performance measures and targets using the Accountability in Government Act (AGA) process to monitor results. The Legislature should consider statutory changes to place a cap on bachelor semester credit hours at 120, with appropriate exceptions.

Barbara Damron, secretary of the Higher Education Department, responded that statewide goals have been established within the last year and is in favor of looking at performance targets. HED has begun increasing on-time completion, improving transfer articulation, and improving remedial outcomes through the following initiatives:

1. Statewide common course numbering and alignment of lower division coursework,
2. Meta-majors and transfer modules,
3. General education core curriculum reform,
4. Co-requisite remediation and math pathways,

5. A decrease in the number of hours required for both associate's and bachelor's degrees,
6. Incentives for four-year graduation,
7. Performance funding.

Representative Harper asks how Central New Mexico Community College increased associate's degree awards by 63 percent. Secretary Damron responded that the college reduced degree requirements to 60 credits, requires faculty and staff to advise and support students more comprehensively towards graduation, and streamlined the process that students have to go through to apply for graduation.

Representatives Harper cautioned care in dictating to universities how many agrees to award, what percent of students should finish on time, and capping degree requirements to 120 credits. Representatives James and Larrañaga and Senator Shendo likewise caution against limiting degree requirements to 120 credits.

In reply, Deputy Director Sallee clarified that performance expectations are used throughout state government and by the Legislature through the Accountability in Government Act and that the LFC recommendation allows for a relief valve for degree plans requiring more than 120 credits. Secretary Damron explains that it helps disadvantaged students to reduce the amount of time required for them to complete a degree.

**Taxation and Revenue Department (333).** Demesia Padilla, secretary of the Taxation and Revenue Department (TRD), stated that the TRD budget request was mostly flat, with the exception of increases for the Audit and Compliance Division (ACD) to increase voluntary compliance, audit assessments, and collections. The secretary proceeded to review the agency's C-2 requests, performance in light of decreased general fund appropriation, efforts to align ACD activities with highest return on investment, plans for the requested increase, efforts to limit fraudulent refunds, and recent successful IT projects.

Secretary Padilla reviewed the agency requests for funding for Tapestry, the new Motor Vehicle Division (MVD) IT system, to complete implementation of the vehicle component. She also discussed the request for \$12 million for ONGARD Modernization, a drastically reduced request from the \$30 million requested last year. TRD also requested \$2.1 million of non-general fund revenue for a project to modernize the Property Tax Division (PTD) information systems, which are extremely outdated. Finally, Secretary Padilla stated the agency requested \$300 thousand for a cash remediation project to integrate TRD data with SHARE.

The secretary discussed how TRD has performed in light of declining and flat general fund appropriations since FY12. In particular, she focused on how MVD performance has improved despite budgetary conditions. Through process improvement, technology focus, and employee focus, the division has significantly improved performance in the past several years and received a Quality New Mexico award. Secretary Padilla also discussed how ACD has performed in light of declining general fund and noted the agency works to encourage compliance by performing audits; she noted that some areas have a compliance rate as low as 20 percent.

Secretary Padilla discussed the requested increases for ACD in light of the work the office is doing to increase returns on investment in audits by better aligning resources with high-return audits. To that end, the agency is tracking audit performance more closely in order to close the tax gap. The additional funding requested would be used to hire 10 additional audit collectors in the Albuquerque office and 10 additional audit collectors in District 13 to bring in the \$46 million in additional money identified by audits already performed in FY17.

Regarding fraudulent refunds, the secretary noted that the agency stopped \$9.6 million in FY15 from being returned as fraudulent refunds. She also mentioned that once that money is sent out in returns, it cannot be recovered because of identity theft problems.

Responding to Senator Munoz, Secretary Padilla said it is unlikely GRT liability is levied on prizes won in sporting contests with a paid audience, such as a youth basketball tournament trophy. Senator Munoz also asked why there are increased outstanding audit balances, which the secretary explained are the result of increased audit success, but a need for more collections.

Responding to Representative Varela, Secretary Padilla said the property tax fund comes from delinquent property tax collections. He also asked about a gap analysis, which the secretary said will be available in the end of December and is from an IT perspective. Representative Varela also asked whether the State Treasurer has approached TRD about taking unclaimed property responsibilities and the secretary said no. Finally, he asked about the \$1.3 million transfer to the Motor Transportation Division for weight-distance tax enforcement. The agency responded they support the transfer continuing while the fund is stable.

Responding to Chairman Smith, Secretary Padilla said that an audit can go back six or seven years depending on if the taxes were misfiled or non-filed. The secretary explained audits initially go back three years because of statute, a common practice. Again responding to Chairman Smith, Secretary Padilla said audits are selected using a data analytics program in order to keep the process objective. Finally, Senator Smith asked if the purchase of art by out of state individuals has tax assessed and the secretary said it is not. Senator Smith would like the agency to consider legislation to change that.

**New Mexico Corrections Department (770).** Gregg Marcantel, secretary of the New Mexico Corrections Department (NMCD), said the department is working to more effectively manage prison operations, including working with the federal government to mitigate gang influence in the prisons and community, better protect custody staff working within the system, and increase accountability. The secretary said that the state's prison system will be at 98 percent capacity by the end of FY16.

Paul Montoya, acting administrative services director, said that the FY17 appropriation request includes an increase of \$12 million from the general fund for inmate growth, hepatitis C treatment, and an expansion for the Office of Security Threat Intelligence (STIU). Mr. Montoya highlighted the growth request, stating that \$7.7 million is required because of inmate population growth, \$2.4 million is needed to treat hepatitis C, and \$1.9 million is for STIU expansion costs, including 9 additional FTE. The department is working with the State Personnel Office to address critical staffing shortages.

Mr. Montoya highlighted NMCD's FY16 supplemental appropriation request for \$15 million. Of the \$15 million, \$5 million will address a shortfall in funding resulting from the underprojected prison population and \$10 million would provide treatment for 150 inmates with hepatitis C. The agency stated that there are 3,000 inmates known to have hepatitis C and that new drug therapies have a 90 percent or greater cure rate.

Mr. Montoya stated that budget deficit mitigation is a high priority for the department. The department has held important personnel positions vacant to contain costs, scrutinized maintenance costs, and delayed equipment replacement.

In response to Representative Varela, Deputy Secretary Mark Meyers explained that the budget shortfall is partially a result of prior fiscal years of underfunding but is largely due to underprojected inmate growth, particularly the female population, and changing standards of care for hepatitis C. Representative Varela expressed concern that NMCD, among other agencies, overspend their budgets and asked the repercussions of not appropriating the supplemental request. Secretary Marcantel responded stating that the agency is only requesting critical funds and that the hepatitis C and inmate population costs were unforeseen.

In response to Representative Varela concerning release-eligible sex offenders serving parole in prison, Secretary Marcantel responded that NMCD recognizes the problems with releasing sex offenders from prison without resources or supervision. The department has provided, without funding, evidence-based cognitive behavioral training pre-release and that the rural nature of New Mexico makes it difficult to find resources for offenders. Offenders often spend their entire parole term in prison because there aren't resources or supervision for them to be paroled to. To help secure resources for offenders, the department has begun parole planning seven to eight years from release, instead of five years.

In response to Representative Varela's concern about the shifting of inmates among prisons, Secretary Marcantel said the department is working to best address the growing female population by creating more space and the ability to provide gender specific programs, on-the-job training, women's health care, and family services. Similarly for sex offenders, increased space will allow for better use of evidence-based cognitive behavioral training.

In response to Representative Varela, the secretary responded that an emphasis on recidivism reduction and potentially new prisons and prison contracts will be necessary to prevent the prison facilities from reaching 98 percent capacity or greater. The department also responded that transitional housing, community corrections, programming, and available resources are critical to the success of population management.

Representative Varela acknowledged the difficulty in recruiting and retaining correctional officers and asked how the department is addressing the problem. Secretary Marcantel responded that retention, challenged by high overtime and bad facilities, is the crux of the problem. The department is looking to regionalize academies and establish better pay, but needs funding to do so. The secretary also added that less than 4 percent of academy graduates are retained for three years.

In response to Senator Munoz, the secretary explained that the reviews from town hall meetings in Grants were mixed. However, the department has still initiated a request for proposals to house the sex offenders in Grants.

In response to Senator Munoz, the agency responded that contractors would have to increase their current staffing levels to accommodate the transfer of the sex offender population to the Grants facility.

Senator Lundstrom stated her opposition to the transfer of sex offenders to Grants.

**General Services Department.** Ed Burckle, secretary of the General Services Department (GSD), presented the agency's appropriation request for FY17. GSD is organized into six divisions that provide support services to state government. Mr. Burckle introduced his senior management staff to the committee. GSD's request consisted of three components; program operating budgets for \$43.7 million, or 9 percent of request; risk funding for \$94.2 million, or 18 percent of request; and employee health benefits funding for \$375.5 million, or 73 percent of request. In total, other revenues accounts for \$481 million, or 93 percent, of the agency's request; only 3 percent is from the general fund.

For the Facilities Management Program, \$1.5 million more from the general fund is being requested. In the past, FMD used vacancy savings to fund operations. The agency needs increases for maintenance, property insurance, utilities, and \$400 thousand to hire eight people, including four janitors. Those persons include two engineers, a project estimator, and facility condition asset manager. In 2013, facilities management merged with property control to provide complete life cycle management. The program is developing a web portal to show status of all projects. As for office leases, there are 330 records with a total spend of \$47.5 million. The program recently adopted a space standard of 215 square feet per FTE for office space. In addition, it just completed a facility condition assessment for over 700 properties so it can factor in health of buildings for capital outlay prioritization.

Next, Mr. Burckle talked about the State Purchasing Program, which is asking for an increase from the fees fund of \$300.6 thousand for enhanced procurement practices. The Procurement Reform Task Force has been meeting quarterly. Since the governor eliminated vendor fees, any vendor can go to the portal and register at no cost. Since then, the number of vendors registered has tripled. New Mexico is the only state with certified procurement officers, and 400 were certified this year. Over the next six months, GSD will standardize commodity codes to implement on July 1, 2016. GSD now has an electronic data warehouse for procurements and can tell how many awards are made to small or large businesses.

Next, Mr. Burckle talked about the Transportation Program. For the state motor pool, too many vehicles have greater than 100 thousand miles. The program wants to get to the point all vehicles are five years and younger. For FY17, the agency plans on spending \$3 million of fund reserves to purchase new vehicles under the vehicle replacement program. The program added GPS in 500 state vehicles and, by June 30, 2017, will implement GPS statewide for 2,000 vehicles. Other municipalities are seeing 20 percent to 30 percent savings in fuel and other efficiencies. For the Surplus Property Bureau, the department is hiring FTE for moving needs. Also, GSD

implemented “gov-deals,” a commercial auction software system, to start selling surplus property on the web if it doesn’t sell at public auction. So far, some vehicle sales are generating \$2,000 more. Mr. Burckle talked about the state airplane. Thanks to the Legislature, which has provided a general fund appropriation for three years now, agencies now only pay for fuel.

Next, Mr. Burckle talked about Risk Management operations funded from the operating fund. The program conducts exposure surveys with insured entities every year. Cooperation is up 22 percent from three years ago.

For the State Printing Program, the program is in the black by \$135 thousand; despite 40 percent fewer print pages. The program wants to start to do more digitalization of state records.

Program Support is adding 1.5 FTE from the risk fund and a public information officer position accounts for increases in compensation.

For the risk funds, Mr. Burckle said that, overall, the agency is asking for less budget authority, due to decreases for the unemployment compensation fund. The liability rates are increased 5 percent overall.

For the Employee Health Benefits Program, the request uses an 8 percent inflation rate. The program opened a health center, run by the Cerner Corporation, with no co-pays for members. GSD is asking for a 4 percent increase in premium rates. Between FY10 and FY13, there were no increases in premiums.

Representative Harper asked why is the agency leasing vehicles. Mr. Burckle said that only one-third of fleet vehicles are leased, and operating costs per mile are 54 cents versus the 62 cent industry standard.

Representative Harper asked about procurement irregularities. Mr. Burckle said procurement violations are reported quarterly to LFC. In 2013, the Legislature made willful procurement violations over \$50 thousand a felony. For any violations, staff must go through refresher procurement training. Most of the violations have to do with junior people not understanding the rules. Sole source procurements are now published on the Sunshine Portal website. If a sole-source contract is contested, officials will review it. Representative Harper said he believes small businesses feel they are at a significant disadvantage as far as procuring state business. Mr. Burckle said, within the last year, GSD has coded every vendor’s preference to help agencies choose an in-state vendor. Preferences are issued by TRD, which provides a 5 percent break on the price of the contract.

Representative Harper read from the staff brief about the 110 office buildings statewide and asked if it would better to fully use the office buildings owned by the state instead of acquiring new space. Mr. Burckle talked about all leases in Albuquerque that could be given up if a new building were acquired, saving close to \$10 million annually. GSD is putting together a request for proposals to see about acquiring a long-term lease for the Children, Youth and Families Department. Buying land and building new would be preferable to leasing long-term. The

representative encouraged GSD to look at underutilized office buildings and see if there are opportunities to make them more efficient.

Responding to Representative Varela, Mr. Burckle said the audit was not submitted on time because of an issue with construction-in-progress and the auditor asked for more information going back to 2009. Within the next day or so, the audit will be delivered to the auditor. To answer Representative Varela's question about a vacancy, Mr. Burckle said that the deputy cabinet secretary position has been vacant two years.

Representative Larrañaga asked about why the significant increase of \$50 million for employee health benefits. Mr. Burckle said pharmaceutical costs are driving the cost increases. Once GSD gets six months of solid data for the new employee health clinic, GSD wants to open two in Las Cruces and Albuquerque.

### **Tuesday, December, 8<sup>th</sup>**

The following members and designees were present on Tuesday, December 8, 2015: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, William F. Burt, Carroll H. Leavell, Howie C. Morales, George K. Munoz, Steven P. Neville, and Pete Campos; and Representatives Larry A. Larrañaga, Luciano "Lucky" Varela, Nick L. Salazar, Paul C. Bandy, Sarah Maestas Barnes, Doreen Y. Gallegos, and Patricia A. Lundstrom. Guest legislators: Senators Jacob Candelaria, Lee S. Cotter, Mary Kay Papen, Clemente Sanchez, and Benny Shendo Jr.; and Representatives Stephanie Garcia Richard, Tomas E. Salazar, and Jim Trujillo.

**Higher Education Institutions.** Barbara Damron, secretary of the Higher Education Department (HED), said there are 32 public higher education entities in New Mexico in seven sectors: research institutions, regional comprehensive institutions, branch community colleges, independent community colleges, tribal colleges, special schools, and the University of New Mexico Health Sciences Center. New Mexico applies performance-based funding for its two-year and four-year institutions. A chart in the presentation showed that since 2012, the number of students receiving degrees and certificates in New Mexico has increased by 15 percent, which Secretary Damron said indicates the funding formula is working.

The instruction and general (I&G) funding formula is developed by the Funding Formula Steering Committee. In developing FY17's formula recommendation, the committee focused on formula stability. Recommendations were solicited from the committee's research subcommittees. It is recommended that a new feature called hold harmless plus (HH+) be added. The recommendation removes last year's stop-loss feature. Secretary Damron said HED's formula recommendation incentivizes degree production, recognizes improvement, and eases the transition to performance funding.

HED's formula recommendation for FY17 recognizes three types of institutions. Secretary Damron explained that "producers" are institutions that gain without soft landings due to high outcomes production relative to their historical base. "Improvers" are institutions that do not gain, in the absence of soft landings because their production is low relative to their historical base. And "neither" are institutions that cannot demonstrate either adequate production or

improvement in outcomes production. The HH+ feature would ensure that all “producers” and “improvers” experience a funding increase.

Secretary Damron then talked about HED’s FY17 funding recommendation for the research and public service projects (RPSPs). Of 144 projects submitted for FY17, HED recommended funding for two new and five expansion projects. Secretary Damron said the seven projects have the potential for significant statewide impact. HED is working with institutions and the Legislature to improve and streamline the RPSP process.

A 2015 Legislative Finance Committee program evaluation reported that although New Mexico ranks highest in the nation in per student allocation to higher education, it ranks lowest in terms of educational attainment and personal income. Secretary Damron said HED and its institutions are dedicated to improving higher education in New Mexico.

Daniel Lopez, president of the Council of University Presidents, said the council supports the performance-based funding formula. President Lopez said universities have invested time, energy, and resources to improve the outcomes in priority areas.

President Lopez talked about educating locally to compete globally. Test scores from the Program for International Student Assessment (PISA) are viewed by policymakers and analysts as an indicator of future economic competitiveness in the world. According to PISA data on 15-year-old student test scores throughout the world, the United States ranks 24<sup>th</sup> in literacy, 28<sup>th</sup> in science, and 36<sup>th</sup> in math.

President Lopez then pointed out a chart in the presentation showing the average earnings and unemployment rates by educational attainment. Earnings increase and unemployment decreases with additional years of education. Another chart showed that the average earning levels between young adults with and without a bachelor’s degree has stretched to its widest gap in 50 years. Of the 6.6 million jobs created from 2010 to 2014, 2.9 million were “good jobs.” Ninety-seven percent of the good jobs, jobs that earn more than \$53 thousand a year, went to people with bachelor’s degrees.

President Lopez briefly went over other charts provided, including one that showed improvement made in on-time graduation and degree production. Another chart showed the reduction in instructional funding for New Mexico’s universities as a result of the recession. President Lopez said the state’s research institutions are \$11 million below their initial FY09 funded level.

The Council of University Presidents has identified three funding priorities for FY17. The first priority is improving compensation to attract and retain young faculty. The second priority is addressing IT issues. The last priority addresses the language for capital outlay appropriation use, which currently does not allow the use of capital outlay funds for upfront costs of construction planning.

Next addressing the committee was Becky Rowley, president of New Mexico Independent Community Colleges (NMICC). President Rowley talked about NMICC’s support of the HH+ provision recommended by HED. In further discussing the funding formula, President Rowley

said that by creating stability in the formula, institutions are better able to project what their funding will be. President Rowley said she agrees with President Lopez's remarks on putting emphasis on quality of degree production. NMICC requested high-skilled workforce funding for FY17.

Lastly addressing the committee was Clayton Alred, president of the New Mexico Association of Community Colleges, expressed support of the funding formula interim process and HED's final recommendation for FY17. President Alred said the HH+ provision is important for the institutions.

In response to Representative Larrañaga, President Lopez said, to improve on-time graduation rates, institutions need to be reaching back to the high schools and partner with them to better prepare students for higher education. Secretary Damron said preparing students for higher education needs to start in their early childhood years. Secretary Damron said there also needs to be new innovated ways in dealing with remediation.

In response to Representative Varela, Secretary Damron said the community colleges actively work to keep up with New Mexico's industries to meet vocational training needs.

Senator Morales asked what should be done to make New Mexico's institutions more competitive in their compensation for faculty. President Lopez suggested using comparative data to implement a program that would improve compensation for all employees gradually over a three- to five-year period

In response to Senator Morales, Secretary Damron said funding for specific initiatives that address safety and sexual assault issues on campuses is at the institutional level.

Representative Lundstrom requested HED provide the committee the percentage of funding that is I&G funding by institution. Representative Lundstrom expressed concern of the HH+ provision, especially for the smaller institutions.

According to PISA data, China ranks number one in math, literacy, and science. Senator Cisneros asked what the Chinese are doing that the United States is not. President Lopez said that it appears that the less developed economies have made decisions that the United States is unwilling to make. President Lopez said that for every student slot that's available in China, one-hundred thousand students apply, and so they select the very best.

**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).** Rosemary Gallegos, superintendent, New Mexico School for the Deaf (NMSD), explained the school's role in helping children from birth through 18 years who are deaf or hard of hearing, including the school's campus in Santa Fe, home visiting, and consultations through the state's public school system.

Linda Lyle, superintendent, New Mexico School for the Blind and Visually Impaired (NMSBVI), discussed two research and public service projects for which the school receives

state general fund support: (1) the early childhood program and (2) the low vision clinic, for which the school is requesting an increase. She stated additional outreach staff are required for the low vision clinic to support some of the younger, less experienced teachers serving blind or visually impaired students.

Superintendent Lyle also discussed a new project for which the school is seeking support – aviation services for students. Superintendent Lyle explained the school has been evaluating the distance some of NMSBVI's students have to travel to receive services as well as potentially offering services to students in public schools on the opposite end of the state, such as Farmington and Gallup. Superintendent Lyle said Gallup-McKinley County Schools indicated seven students are in need of the residential services offered at NMSBVI; however, the distance from the students' homes makes it difficult to bring those students to NMSBVI. As a result, Superintendent Lyle said, the school is requesting additional funds for aviation services to take students whose homes are located in the northwest quadrant of the state home on Fridays and return them to the campus in Alamogordo on Sunday.

Major General Jerry Grizzle discussed the successes and priorities of New Mexico Military Institute (NMMI), explaining that in 2013 CNN Money ranked NMMI second out of 700 community colleges for the institute's success in graduation persistence rates and the rate of students who continue onto a four-year college or university. Major General Grizzle also explained the school does not have gifted or Advanced Placement courses; NMMI instead places advanced students in dual credit courses, allowing many high school seniors to graduate with at least some college credit. In 2014, he added, NMMI graduated two students with both a high school diploma and an associate degree. One of the students subsequently received an engineering scholarship to the University of California, Berkeley. Major General Grizzle noted the institute draws a diverse student population, with representation from 33 foreign countries and 40 U.S. states and territories in the current academic year.

In response to a question from Representative Maestas Barnes, Superintendent Gallegos explained NMSD, as the state's leader in educating children who are deaf or hard of hearing, provides services to the Albuquerque Sign Language Academy (ASLA), as well as all other public schools. Superintendent Gallegos stated NMSD has collaborated with the ASLA on extracurricular activities, and the academy's leadership has participated in a task force with NMSD for the last year and a half. Representative Maestas Barnes expressed disappointment over ASLA's facilities and lack of resources and asked that the two schools collaborate more in the future.

Representative Larrañaga asked Superintendent Lyle to elaborate on NMSBVI's request for additional staff, to which she replied NMSBVI has a network of services and a partnership with New Mexico State University to provide two professors at the university to teach skills necessary to educate the blind and visually impaired. NMSBVI also provides scholarships to any teacher who wants to become a licensed teacher of the blind and visually impaired. However, she said, it takes significant effort to get a teacher qualified to teach blind and visually impaired students, including mentoring and training over the course of two years. The request for additional staff will provide more mentors in additional public schools, Superintendent Lyle said.

In response to a question from Representative Larrañaga regarding full enrollment at NMMI, Major General Grizzle said the school has 965 available beds, and prior-year enrollment filled 936 of those beds. Major General Grizzle added the institute's enrollment comprises 50 percent high school students and 50 percent junior college students, with one-third of all students being New Mexico residents. NMMI prefers to recruit high school students because it allows the school a longer period of time to retain and prepare those students. Major General Grizzle also explained the tuition structure at NMMI, with in-state tuition being \$12.5 thousand per year, out-of-state set at \$17.5 thousand, and out-of-country at \$18.5 thousand. These rates include attendance costs, such as housing, meals, and instructional materials. Major General Grizzle added NMMI has an agreement with the Universidad de Sonora to offer in-state tuition to their students with a reciprocal agreement for course credit articulation.

**University of New Mexico Health Science Center (952).** Dr. Paul Roth, chancellor, University of New Mexico (UNM) Health Sciences Center (HSC) and dean of the UNM School of Medicine, provided an overview of HSC's recent activities. Explaining HSC is a statewide resource that reaches every county in New Mexico, Dr. Roth stated the center has 579 activities and programs spread throughout 246 communities. These activities include education, patient care, community research, and telehealth sites. Dr. Roth also explained the structure of HSC, divided by a research and education sector and a health system sector. The research and education sector this year added the College of Population Health to help address the broader health needs of New Mexicans, such as providing access to good food and health education.

Dr. Roth provided an explanation of HSC's request for state support in FY17. The requested increases include \$1 million for instruction and general purposes; \$905 thousand for medical residencies; \$883 thousand for the Center for Childhood Maltreatment; \$400 thousand for New Mexico Connects, a new interdisciplinary behavioral health project; \$451 thousand for utilities and service contracts for the Office of the Medical Investigator; and \$3 million for Project ECHO, a virtual training and consultation program.

Turning to HSC's general obligation (GO) bond project requests, Dr. Roth said the center has requested \$10 million for a healthcare education building at the UNM Sandoval Regional Medical Center (SRMC). He said the state general obligation bond funds would be matched by gross receipts tax contributions from the city of Rio Rancho. Dr. Roth concluded his remarks by highlighting the progress of the BA/MD degree program at UNM HSC, which helps to provide students interested in medical school with a smooth transition.

Dr. Richard Larson, executive vice chancellor and vice chancellor for research, UNM-HSC, discussed the New Mexico Health Care Workforce Committee 2015 recommendations. Dr. Larson reminded the committee that the Health Care Work Force Data Collection, Analysis, and Policy Act was enacted in 2012 and required UNM-HSC to prepare an annual report on healthcare workforce needs and recommendations. Dr. Larson noted New Mexico has about 9,300 licensed physicians, of which nearly 5,000 practice in the state. Additionally, he said, the state has 1,849 certified nurse practitioners, of which 1,228 practice in New Mexico. Dr. Larson reported New Mexico's severe shortages of primary care physicians and certified nurse practitioners exist mainly in the northwestern and southeastern regions of the state. Dr. Larson concluded his remarks with the New Mexico Health Care Workforce Committee's

recommendations, including increased funding for loan-for-service and loan repayment programs, extension of the Rural Healthcare Practitioner Tax Credit, and expansion of statewide access to telehealth consultations.

Representative Maestas Barnes inquired about the status of the proposed replacement hospital at UNM-HSC. In reply, Dr. Roth explained the planning stages of the replacement hospital are ongoing, including meetings with students and faculty, the local community, and residents. Dr. Roth also noted HSC is studying traffic patterns to examine the potential impact from the construction and operation of a replacement hospital. Once this work is done, Dr. Roth said, the next steps include approval of the UNM Hospital's board of trustees and the UNM Board of Regents. Dr. Roth said HSC is examining financing options. Under the current plan, Dr. Roth reported, the hospital would begin operations in 2020. He added the hospital's current length of stay is seven days; however, with the replacement hospital HSC is seeking to improve that length of stay to five and a half days.

Representative Bandy asked how much surplus revenue UNM Hospital had in FY15. Dr. Roth replied \$18 million, but the hospital had to do an inter-governmental transfer for Medicaid to pay the state's share in order to draw down federal dollars. In response to a question from Representative Lundstrom regarding whether the inter-governmental transfer could act as a replacement for the state's general fund share, Ella Watt, Chief Financial Officer, UNM HSC said some funds were matched in FY15 and the center hopes to accommodate the match in FY16, although the required match in FY16 is expected to be substantially higher.

Chairman Smith commented on the Health Care Workforce Committee's report that suggests a shortage of 2,000 nurses in the state and the fact that hospitals have to hire traveling nurses to fill gaps. Dr. Larson suggested loan-for-service and loan-repayment programs to combat these shortages. Dr. Roth noted hospitals prefer to hire local nurses because traveling nurses to fill temporary gaps can cost as much as 50 percent more than permanent hires.

**Tribally Controlled Colleges and Universities.** Robert Martin, president of the Institute of American Indian Arts and the New Mexico Tribal College Consortium, provided an overview of the consortium and its initiatives for FY17. President Martin explained four institutions comprise the consortium – Diné College, Navajo Technical University (NTU), Southwest Polytechnic Institute (SIPI), and the Institute of American Indian Arts (IAIA). For FY17, the consortium is seeking \$500 thousand in dual credit funding, a \$250 thousand, or 100 percent, increase over FY16. The consortium is also requesting a \$500 thousand appropriation in research and public service project funding for a new program for college awareness and readiness in tribal communities.

With regard to capital outlay, President Martin reported the consortium seeks inclusion of tribal college libraries in the academic library general obligation (GO) bond allocation. Specific GO bond requests for tribal institutions include \$2 million to IAIA for a multipurpose performing arts and fitness center, \$2.8 million for a renovation of the SIPI library, \$3 million for a learning innovation center at NTU, and \$500 thousand for roadway and parking renovations at Diné College.

In response to Senator Shendo's question regarding dual enrollment, President Martin replied the tribal colleges are actively seeking articulation agreements, especially "2+2" agreements in which a community college and a four-year institution provide a seamless transfer between an associate degree and a bachelor's degree.

Senator Cisneros commented on the need for signage at SIPI to ensure the institute is easy to find. Sherry Allison, president, SIPI, replied SIPI has not received any updated information from the Department of Transportation regarding this issue.

**Higher Education Department (950).** Barbara Damron, secretary, Higher Education Department (HED) provided an overview of the department's initiatives and FY17 appropriations request for operations and student financial aid. Secretary Damron highlighted the amount of funding the department oversees, including \$3.2 billion in expenditures at higher education institutions and \$2.2 billion in Education Trust Board assets. Secretary Damron added the department oversees these funds and executes statutory responsibilities with a \$3.2 million operating budget.

Secretary Damron further discussed the department's strategic initiatives. First, the department is working toward cohesion among New Mexico's higher education institutions, which will require improvements in articulation and transfer, common course numbering, and other innovative reforms such as "meta-majors." Second, Secretary Damron explained, HED seeks to improve cohesion between institutions and workforce employers through expansion of loan repayment programs, rapid workforce development, and indentifying employment needs and opportunities. Finally, HED is working toward cohesion between kindergarten-through-high-school education and higher education through dual credit expansion, co-requisite remediation, and longitudinal data collection.

Moving on to the department's FY17 funding request, Secretary Damron stated HED is seeking to restore personnel funding reduced in FY16, add three positions, and increase student financial aid funding for students, teachers, and health professionals. Secretary Damron specified the department is seeking a \$778.5 thousand, or 23 percent, increase in FY17 for HED operations and a \$4.2 million, or 17 percent, increase for student financial aid programs. Secretary Damron stated the increase in funding for operations is necessary because, out of all of the department's expenditures, only 4.1 percent of the department's budget goes to personnel service and employee benefits. Secretary Damron said the increase in funding would provide 3 FTE: (1) an education administrator to research programs and policies, (2) an operations research analyst for data collection and verification, and (3) an operations research analyst to analyze institutional finance and performance data and to respond to legislative requests.

Regarding the department's request for student financial aid, Secretary Damron reported the increase would provide additional funding for 10 dental residents, 50 nurse educators, 100 recipients for teacher loan repayment, 50 to 75 additional health professionals, 150 to 200 social worker loan repayment recipients, and four additional medical student loan-for-service recipients. Finally, Secretary Damron said, the department is seeking \$6 million in special appropriations to replenish the college affordability endowment fund and \$3.4 million for a

facilities condition index. She added the department is also requesting a supplemental appropriation of \$150 thousand in FY16 to restore funding for the High Skills program.

Turning to the Legislative Lottery Tuition Scholarship Program, Secretary Damron highlighted the expanded expenditures of the lottery tuition fund in recent year, which, when combined with flat revenues, led to a depletion of the fund and a reduction in scholarship payouts as a percentage of tuition. Secretary Damron noted the number of FY15 and FY16 recipients are down; however, tuition payments in FY16 are estimated to be \$64 million, with about \$40 million in revenue from lottery ticket sales and \$19 million in Liquor Excise Tax revenue. Finally, Secretary Damron commented on a taskforce that studied the potential effects of a year-round lottery scholarship program. She reported that, because cost to change the program into a year-round scholarship was estimated to be about \$5.5 million, the taskforce recommended no changes until the scholarship becomes solvent.

In response to a question from Representative Larrañaga regarding the department's proposed rapid workforce development program, Secretary Damron said the Economic Development Department is taking the lead on the project and requested funding totals \$1.25 million. Secretary Damron added the program specifically seeks to respond to industry needs to bring more businesses to New Mexico.

Representative Trujillo asked if there is a waiting list for adult basic education. Frances Bannowsky, adult education director, HED, stated about 5,000 people are turned away from adult education services each year.

### **Wednesday, December, 9<sup>th</sup>**

The following members and designees were present on Wednesday, December 9, 2015: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, William F. Burt, Carroll H. Leavell, Howie C. Morales, George K. Munoz, Steven P. Neville, and Pete Campos; and Representatives Larry A. Larrañaga, Luciano "Lucky" Varela, Nick L. Salazar, Paul C. Bandy, Jason C. Harper, George Dodge Jr., and Patricia A. Lundstrom. Guest legislators: Senators Lee S. Cotter, Linda M. Lopez, Richard C. Martinez, Mark Moores, and Mary Kay Papan; and Representatives Doreen Y. Gallegos, Miguel P. Garcia, Conrad James, and Jim Trujillo.

**Children, Youth and Families Department (690): FY17 Appropriation Request.** Monique Jacobson, secretary of the Children, Youth and Families Department (CYFD), reported an update on the Child Wellness Center (CWC) stating a statewide RFP will be released to attain wider information on available facilities. The secretary then focused on the agency's mission to improve the quality of life for New Mexico's children. She stated to carry out this mission, CYFD is implementing five strategies: 1) Shoring up core functions; 2) Expanding areas of prevention; 3) Improving communication and coordination with law enforcement; 4) Improving internal financial controls; and 5) Engaging the community.

The secretary then presented CYFD's FY17 budget request. The agency requested a general fund increase of \$12 million. A majority of the request, \$8 million, is for the Protective Services Program to reduce caseloads, provide increased care and support for children in the agency's

custody and expand family support services. The agency requests \$3 million in the Early Childhood Services Program to expand childcare and prekindergarten services and pilot a community engagement campaign. Finally, the secretary discussed requested special and supplemental appropriations for the virtual desktop initiative, care and support, the CWC, and an IT refresh.

Representative Lundstrom thanked the secretary for her participation on the Results First program and asked what average caseload currently was. The secretary responded the average caseload for a permanency planner was 19 to 20 but the agency is trying to reduce the caseload to 15, and the caseload for investigators was 17 but the agency is trying to reduce it to 15.

Representative Larrañaga then asked the secretary if the agency was thoroughly evaluating the services provided to children and families, and in particular services relating for substance abuse. The representative also asked if the agency had any services directed toward supporting father engagement. The secretary responded the agency always focused on substance abuse support and engagement of both parents, taking into consideration family safety.

Representative Hall then requested agency not only focuses on parental engagement but also support for grandparents, noting a large number of grandparents currently support many children statewide. The secretary responded the agency will continue to focus and work with all family members, including grandparents, participating in the support for children.

Senator Morales asked the agency to further clarify the community engagement campaigns. Secretary Jacobson stated the community engagement campaign was called “Pull Together.” Pull Together is focused on community education of children and family issues statewide, including possible distribution of materials and a media campaign. Senator Morales then asked for an update on the agency’s reversion. The secretary stated that two programs in the agency were given non-reversion language for FY15 and a majority of the funds were used for personal services and employee benefits. The senator then noted that caseloads in rural areas were particularly high. Secretary Jacobson responded the agency was working to reduce vacancies in targeted communities with higher than average caseloads.

Senator Munoz asked why the agency was requesting moving costs. The secretary noted that the lease for a major Protective Services office in Bernalillo County will end in April and the agency will need to move.

Senator Smith commended the secretary on the agency’s positive culture shift in recent months and noted funding for early childhood programs needs to be targeted to community needs and high quality in nature. The senator then asked the secretary how the agency tracks high quality services and avoids duplication. The director of Early Childhood Services responded the agency is constantly evaluating programs for high quality services and communities to prevent duplication. However, the director also noted the agency has no control over providers that are privately funded.

**Department of Health (665) FY17 Appropriation Request.** Lynn Gallagher, deputy secretary of the Department of Health (DOH) stated that Secretary Ward apologizes for not attending the

meeting due to a pre planned out of state meeting she was attending. Ms. Gallagher announced that the department had received national public health accreditation. The goal was to improve and protect the health of New Mexico by advancing the performance of local, tribal, and state public health departments. Accreditation will serve as a platform for continuous public health improvement. New Mexico is one of 12 states to achieve the accreditation.

Obesity, type 2 diabetes, substance abuse, and teen births are the department's top priorities because they are the leading factors in virtually all leading causes of death and disability. Achieving reductions in the 4 priorities is expected to dramatically reduce costs. The department is aiming to reduce teen pregnancy by 50 percent over 4 years.

Ms. Gallagher discussed the department's supplemental and special requests to cover costs related to Jackson lawsuit disengagement and Waldrop lawsuit settlement. Other supplemental requests would add \$3.6 million to the Facilitates Management Division (FMD), \$1 million for the trauma system fund, \$1 million for sexual assault services, \$455 thousand for Program Support, \$3 million for the Vaccine Purchasing Act program, and \$500 thousand for Vital Records and Statistics. The department is requesting a \$3 million base increase for 150 more clients to receive care through the developmental disabilities waiver, \$2 million for the Facilities Management Division, \$1 million for the trauma system fund, and \$500 thousand for vital records and health statistics.

Ms. Gallagher then discussed the department's requests for the various programs in the department starting with the Public Health Division (PHD) which reduced its general fund request this year. PHD runs the Vaccine Purchasing Act Program, various programs to prevent chronic illness, and programs to respond to public health emergencies. Ms. Gallagher also discussed the Epidemiology and Response Division Request (ERD), including the \$1 million for the trauma system fund. ERD's Vital Records Bureau is responsible for maintaining more than 4 million records since the mid-1800s. But there is no backup for the records and if a fire occurred they would be destroyed. Ms. Gallagher discussed the request for the Scientific Labs Division, which tested many samples in response to the Gold King Mine Spill.

The Facilities Management Division request for general fund would restore federal Medicaid dollars that did not materialize. Ms. Gallagher then discussed the various facilities the department operates. Ms Gallagher stated the department conducted a rapid hire event at the Behavioral Health Institute and hired about 75 new FTE. Ms Gallagher then discussed the request for the Developmental Disabilities Supports Division for enough general fund revenue to serve 150 more clients. The division serves 20 thousand children and adults with developmental delays through three Medicaid waiver programs, the Family Infant Toddler Program, and five state funded programs. There are 6,364 people on the waiting list for services offered through the developmental disabilities waiver. Ms. Gallagher then discussed the Health Certification Licensing and Oversight Program's request, including the expansion request to conduct more surveys.

Senator Morales asked about the \$3 million for 150 new clients in the Developmental Disabilities Supports Division (DDSD) and whether there was capacity to add that many new clients. Cathy Stephenson, director, DDSD, stated that they do have enough capacity to add that

many clients. Senator Morales asked about rates for providers. Ms. Stephenson stated the request does not include rate increases; however, the department raised rates the last two years. Senator Morales asked if the department was going to ask for rate increases at all. Ms. Stephenson stated the department is evaluating the need for further rate increases. Senator Morales asked about the department's slide that shows the department's requested increase for general fund revenue for DDS was not really \$3 million. Ms. Stephenson stated the original plan was to move medically fragile programs to the Human Services Department (HSD) in FY17 but since the department made its request the plan has changed and the program will remain with the department until FY19.

Senator Morales asked if the department had a change of heart about salary increases for employees. Ms. Gallagher responded that they would not consider salary increases without support from the State Personal Office, is trying to educate employees about the full range of benefits that employees receive, and is conducting rapid hire events.

Representative Lundstrom asked about uncompensated care in the Facilities Management Division and Mr. Avarella responded the department has been working with the Human Services Department to reduce uncompensated care. Representative Lundstrom asked about the skyrocketing cost of contract labor in the facilities. Mr. Avarella stated contract labor costs have recently been reduced, but the department continues to rely on contractors due to the rural locations of the hospitals. Representative Lundstrom asked how the state can change this. Mr. Avarella stated the rapid hire events will help reduce the number of contract staff. Representative Lundstrom asked about discussion around reducing the money that goes to Rural and Primary Healthcare Act clinics and what would happen if funding is reduced. The department stated a reduction would be bad for rural New Mexico. Representative Lundstrom asked about the department's efforts to strategically use Medicaid. Ms. Gallagher stated that the department does not have anything to present relating to Medicaid but that many of the services the department provides are not reimbursable.

Representative Garcia asked about how the department may have to back-pay \$2.2 million to the federal government due to retroactive rate increases in DDS and that the rate increases should have gone into effect at the beginning of the year. Representative Garcia asked where in the budget the \$2.2 million will come from. Ms. Stephenson stated that the amendment for the rate increase was not processed in a timely manner, and the department decided to implement the increases retroactively. The amount will come from legislatively established nonreverting general fund revenue from FY15.

Representative Hall asked about the department's audit and if it has been submitted on a timely basis and when it will be complete. Ms. Gallagher responded that the audit will be on time. Representative Hall asked about the department's priorities and if the department is actually helping to improve the health of New Mexico.

**Human Services Department (630).** Secretary Brent Earnest opened by introducing his staff in attendance and reviewing the highlights of the Human Services Department FY17 budget request. The request totaled \$7.163 billion from all funds, representing an 8 percent increase overall. This includes \$1.105 billion from the general fund (\$86.1 million, or 8.45 percent, over

FY16); \$5.79 billion in federal funds (\$443 million, or 8.3 percent, over FY16); and \$264.1 million in other state funds and other revenue. The secretary noted that for the past few years the general fund portion of the budget has remained nearly flat, with FY17 being the first significant increase due to declining federal support for the newly eligible population for Medicaid. He noted HSD's four major programs support the agency's goals of promoting self-sufficiency, slowing the growth rate of healthcare costs and improving health outcomes, implementing person-centric service models, and improving administrative effectiveness and simplicity.

Secretary Earnest indicated he would spend more time on the Income Support Program (ISD) in this presentation since it was not discussed as much in the previous hearing. He explained ISD processes all of the applications for the various agency programs and there has been significant caseload growth in all the programs. Most public assistance programs are countercyclical with the economy, with more people applying for assistance when the economy is in a downturn, although he pointed out SNAP food stamp benefits have increased slightly despite some economic improvement. The ISD program request includes an \$865 thousand general fund increase for the General Assistance program, a program that helps those who don't qualify for other HSD programs, and \$224 thousand for the senior SNAP supplement to increase the minimum benefit from \$25 to \$28 per month. Secretary Earnest pointed out the program has improved the timeliness of SNAP case processing, and the percent of children eligible for SNAP who are participating is up to nearly 89 percent. Regarding federal temporary assistance for needy families (TANF), the request is \$143.9 million, which would spend down some of the previous carryover balances; the secretary noted this can work for FY17 but might not be sustainable in future years.

Regarding the Child Support Enforcement Division, currently there are approximately 61,000 child support cases involving 91,000 children. The program has been able to successfully increase child support collections and reached \$140 million in FY15.

The secretary briefly discussed agency vacancy rates and noted HSD's funded vacancy rate is only about 2.4 percent, with the IT department being a little higher because those positions are harder to fill, and a little lower for the Income Support Program, because the department has worked hard to keep the program funded and the positions filled since the majority are for field office positions that directly serve the public.

The secretary then turned to the Medicaid Assistance Program and noted the most significant issues impacting the increased spending request were enrollment and the step down of federal support for the "other adult group" that became eligible through Medicaid expansion. Federal support will decline from 100 percent in calendar years 2014 through 2016 to 95 percent beginning January 2017. While enrollment of the expansion group is expected to flatten somewhat, about 60 thousand more people enrolled than the department first projected. The secretary briefly touched on several other major cost drivers for the program, including \$10.7 million due to "price impacts," such as medical cost inflation, and \$15 million due to higher costs associated with certain Medicare benefits the program pays for. Also included was \$41.5 million in previous year shortfalls and program growth. Secretary Earnest noted the department recently completed rate negotiations with the state's contracted managed-care organizations (MCOs), and this effort reduced spending by 100 million; the savings are primarily in federal

funds, but going forward the benefit will also impact general fund spending. The secretary explained the total cost estimate for Medicaid in FY17 was originally much higher and the department realized it would have to implement cost-containment initiatives; yet, due to some general fund savings resulting from a higher federal contribution for the base Medicaid population, only about \$22.4 million in cost containment measure would be necessary to keep the requested general fund increase at \$85 million.

The secretary turned to the Behavioral Health Service Division and described the requested proposal to reallocate FY16 and FY17 savings to be able to increase funding for sexual assault services and piloting new programs, such as establishing a peer empowerment center. Also mentioned was the department's intent to take over some of the administrative functions, which are currently performed by a contractor. The department is requesting \$408 thousand in a special appropriation to allow them to hire additional FTE who will be trained to take over those functions. Regarding the Behavioral Health Collaborative, he said the collaborative was developing a two-year strategic plan that should be released in early 2016.

In response to Representative Bandy's question about co-payments for Medicaid recipients, Secretary Earnest stated they were still talking with the Centers for Medicare and Medicaid about the possibility but there were complications associated with administering it and they had been struggling with getting federal approval.

In response to Senator Burt's question about whether the state is tracking results from the TANF work programs, Secretary Earnest noted they do track things like work participation rates and whether clients continue employment after state-supported subsidized employment ends. He noted more could be done to track outcomes as they move forward with some of the programs.

In response to Representative Larrañaga's question about how many people are enrolled in all programs, the secretary said about 800 thousand individuals were enrolled across all HSD programs because people are often participating in more than one program.

In response to Representative Larrañaga and Representative Lundstrom's questions about the department's planned cost-containment initiatives, the secretary noted rate adjustments with MCOs, lower emergency room utilization and reduced unnecessary readmissions, and potential increases in hospital supplemental payments. But he stated he had no other suggestions at this time that would allow HSD to reduce the current FY17 request for \$85 million in general fund revenues. He also noted other states have experienced Medicaid costs exceeding education costs similar to what has happened in New Mexico. Both representatives requested a more detailed representation of the agency's proposed cost-containment measures.

Representative Larrañaga asked about nursing facilities and the secretary noted there is no request for additional funds for those facilities; however, staff is working to analyze the rate structure. The secretary noted he is not familiar with the details about a lawsuit regarding staffing ratios in nursing facilities.

Representative Lundstrom also commented on the large number of behavioral health initiatives and indicated she had concerns some may not be cost-effective, not adequately funded or represented expansion at a time when resources are tight. Representative Lundstrom asked about

money for behavioral health investment zones in Gallup and the secretary stated the funding was in last year's General Appropriation Act.

Senator Morales asked whether there was a 25 percent reduction to federally qualified health centers and the secretary stated no. Regarding rural residency program in primary care outside of hospitals, the secretary noted that currently the funding supports three to four residents and they are working with the federal government to gain more funding support, which is a unique funding structure.

Representative James asked what sort of checks and measures are there to ensure people receiving services are still eligible as time passes. The secretary responded that the department institutes annual re-certifications, uses electronic methods, such as using information in the Workforce Solutions Department, and also verifies with paystubs.

In response to Senator Papen's questions about the behavioral health provider investigations, the secretary noted he had no new detail about the status of the investigations.

Representative Garcia addressed the department's intent to institute more employment and training for clients and discussed concerns the new measures would have negative impacts on clients who are struggling. He also requested more resources be put into the Low Income Home Energy Assistance Program weatherization efforts to assist clients with utility costs. The secretary noted the request for LIHEAP is about a \$3 million increase over last year.

Representative Dodge asked about the county supported Medicaid fund and the secretary explained that counties are required to provide the equivalent of a 1/12<sup>th</sup> percent of gross receipts tax and the figure of about \$1 million is HSD's projection of that revenue. He noted the fund balance is about \$1.1 million to \$1.2 million.

Representative Trujillo asked about quality control in the agency and the secretary answered the department has a variety of methods to track quality, both for federal standards and state requirements. Quality measures exist at the department and benefit level. He also noted the department has ways of getting back benefits that should not have been distributed but the amount recovered is not a large number. Finally, he noted error rates in benefit distribution are expected to decline more as the quality of the HSD notices to clients improves.

Finally, Senator Smith closed by noting that nearly half the New Mexico population is receiving Medicaid and the federal government does not have to change the match much to put the state in a tailspin. He expressed concern that the growth of Medicaid spending is not sustainable.

**Review of Special, Supplemental, and Deficiency Requests.** Jon Clark, LFC analyst, said state agencies requested a total of \$279 million for special, supplemental, and deficiency appropriations, of which \$152 million was requested from the general fund. There were eight requests to extend the time to spend previous special appropriations. Mr. Clark and Richard Blair, deputy director of the State Budget Division, first highlighted key requests for special appropriations. The 2nd Judicial District Attorney requested \$1.2 million to fund eight additional attorneys and eight paralegal staff. The Secretary of State requested \$1.1 million to cover costs

of the 2016 presidential election. The State Treasurer's Office requested \$2.5 million to address newly assigned statutory duties. The New Mexico Border Authority requested \$2 million to fund the second phase of the railroad bypass study. The Economic Development Department requested \$7 million for the Job Training Incentive Program (JTIP). The State Engineer's Office requested \$3 million to continue water litigation. The Department of Health requested \$3.9 million for costs relating to the Waldrop Settlement Agreement. The Children, Youth and Families Department requested \$5 million to partially cover relocation costs of the child wellness center in Bernalillo County. The Department of Public Safety requested \$4 million for vehicle replacement. The Public Education Department requested \$6 million to replenish the college affordability endowment fund.

Mr. Clark said the 32 requests for supplemental appropriations totaled \$209 million, of which \$94 million was requested from the general fund. There were six deficiency requests totaling \$1 million from the general fund, a significant decrease from previous years. The Department of Information Technology requested funds to cover a projected shortfall in the Enterprise Services Program. The Human Services Department requested \$159 million to cover Medicaid expenses from FY14 to FY15, and to cover the projected shortfall in FY16. The Corrections Department requested \$15 million for inmate population growth and the treatment of hepatitis C.

Brenda Fresquez, LFC program evaluator, then provided a brief update on IT requests. There were 32 requests submitted, totaling \$100 million. Since the committee was last briefed on the requests, the Department of Information Technology submitted a request of \$2.5 million for the One-Stop Business Portal. LFC staff has not yet evaluated the full business case of the project.

**Recommendations of Interim Committees.** Christine Boerner, LFC analyst, said that according to a letter sent to the LFC from the Tobacco Settlement Revenue Oversight Committee, the oversight committee recommended the same appropriations be appropriated for FY17. Regarding the Transportation Infrastructure Revenue Committee, Chairman Smith said, because there was no consensus on how to increase money, the transportation committee took no action. Committee members discussed the issues on New Mexico's road fund. Chairman Smith said it is going to take a combination of gasoline tax and excise tax to fix New Mexico's road fund.

### **Miscellaneous Committee Business.**

#### **Action Items.**

*Approval of LFC October 2015 Minutes.* Senator Cisneros moved to adopt October's minutes, seconded by Representative Hall. The motion carried.

#### **Information Items.**

David Abbey, director, LFC, briefed the committee on information items. The Legislative Finance Committee FY15 financial audit is complete with no findings.

**Legislature (111-131).** David Abbey, LFC director, presented the budget request for the legislative branch. The overall request was 1.5 percent over FY16. Budgets for the legislative branch are included in the feed bill (House Bill 1), with the exception of the legislative building services and Energy Council dues included in the General Appropriations Act.

### **Thursday, December, 10<sup>th</sup>**

The following members and designees were present on Thursday, December 10, 2015: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, William F. Burt, Carroll H. Leavell, Howie C. Morales, George K. Munoz, Steven P. Neville, and Pete Campos; and Representatives Larry A. Larrañaga, Luciano “Lucky” Varela, Nick L. Salazar, Paul C. Bandy, Jason C. Harper, George Dodge Jr., and Patricia A. Lundstrom. Guest legislators: Senators Lee S. Cotter, Richard C. Martinez, Mark Moores, and Benny Shendo Jr.; and Representatives Doreen Y. Gallegos, Tomas E. Salazar, James E. Smith, and Jim Trujillo.

**Public Education Department.** Hanna Skandera, secretary of the Public Education Department, began with the FY17 budget request for the department. PED requested a \$600 thousand general fund increase over the FY16 operating budget. The department’s general fund revenue has remained flat over the last three fiscal years. Six years ago, PED’s general fund revenue was cut by 25 percent and the request is below FY10 and FY11 levels. Overall, PED’s request is a decrease from the FY16 operating budget due to a decrease in requested fund balance. The additional general fund revenue will be used to fund seven positions including three IT positions and four budget analyst positions. Secretary Skandera stated the department has decreased their vacancy rate from 27.6 percent in 2013 to 13.1 percent in 2015. Also, PED’s funded vacancy rate is currently 8 percent. Legislative requests to PED decreased in 2015. Secretary Skandera noted PED only had three audit findings. There were no questions from members.

**Public School Support (993).** Hanna Skandera, secretary of the Public Education Department (PED), said PED’s FY17 budget request is an increase of \$132.6 million over FY16 appropriations for Public School Support and is based on August revenue projections. Of the total request, 88.7 percent is requested for distribution directly to school districts through the funding formula, 5.9 percent is requested for categorical expenses such as transportation and instructional materials, and 5.4 percent is requested for department-controlled initiatives. The FY17 budget request brings spending on education to an overall increase of 23 percent since FY11. Secretary Skandera said FY17’s budget request focuses on closing achievement gaps and maximizing the state’s return on investment and education.

Of the \$2.5 billion requested for FY17 for distribution through the formula, \$14.1 million is requested to increase the minimum salary for level one teachers from \$34 thousand to \$36 thousand. Secretary Skandera said the compensation increase will make New Mexico competitive with neighboring states in starting teacher’s salaries. The increase in formula funding will also cover enrollment growth, insurance and fixed costs.

Of the \$169.6 million requested for categorical spending, \$103 million is requested for transportation, an increase of \$5 million over FY16. The increase will cover higher costs in operations, fuel, and rental fees. Thirty-five million dollars is requested for instructional materials, an increase of \$10 million over FY16. Secretary Skandera said the substantial increase is needed for transitioning instructional materials to new standards. Secretary Skandera pointed out that 50 percent of funding for instructional materials must be used on aligned text books. In other categorical funding, a slight increase is requested for dual credit instructional materials and a slight increase for the Indian education program.

In department-controlled initiatives for FY17, \$28 million is requested for the prekindergarten program, an increase to close the gap in student participation. Secretary Skandera said there is increased demand to participate in the full-day prekindergarten pilot. PED requested \$29.2 million for the K-3 Plus extended school year program. The program is currently serving 19,383 students. PED requested \$25 million for the New Mexico Reads to Lead program. Then for the Teacher and School Leader Programs and Supports, PED requested \$15 million, which Secretary Skandera said supports PED's commitment to support New Mexico's teachers and school leaders. In other initiatives, \$3 million is requested for the STEM (science, technology, engineering and math) program, \$6 million is requested for the NMPrep and NMLead programs, \$4 million is requested for the New Mexico Graduates Now program, \$2 million is requested for the Advanced Placement program, \$13.5 million is requested for interventions and supports for students, struggling schools and parents, truancy and dropout prevention program, and \$3 million is requested for the Teachers Pursuing Excellence program.

Secretary Skandera then highlighted new programs in initiative funding. The Top 100 Teachers in New Mexico program will award the highest performing teachers with a \$10 thousand stipend. The Exemplary Teacher Residency program will recruit the best and brightest to teach in the classroom by awarding up to 66 students \$15 thousand in scholarships. Residents in the program must have an ACT score of 26 or higher. The Teacher Advisory Committee has been formed for the Teacher Advisory Training and Support program. The advisory committee, composed of 17 teachers across New Mexico, will provide PED and policymakers with feedback and insight from the classroom. Lastly, the Innovative Approaches to Education program encourages innovative education practices in school districts and charter schools. Funding requested for all four new programs totals \$5 million. The total cost for all initiatives is \$154.9 million.

Then briefly addressing the committee was Meredith Machen, president of the League of Women Voters of New Mexico. Ms. Machen talked about the league's recommendation of a moratorium on charter school authorization to identify how to improve achievement and to ensure funding equity for all public school students. Secretary Skandera responded by saying she agreed the state needs to be investing in results and proven programs. Secretary Skandera agreed that if a charter school is not delivering on its mission, it should not remain open. Currently, a charter has five years to demonstrate it is delivering on its mission. Secretary Skandera pointed out that at this time, seven out the 10 highest performing schools in New Mexico are charter schools.

Representative Lundstrom asked how the programs that award teachers, such as the Top 100 Teachers in New Mexico program, improve student achievement. Secretary Skandera said they support teachers who have already proven outcomes for students.

In response to Representative Lundstrom, Hipolito Aguilar, deputy secretary of PED, said PED's request of \$14.5 million for school bus replacement meets the current cycle for school bus replacement and covers last year's shortfall in appropriations. School buses are statutorily required to be replaced every 12 years.

Commenting on the Exemplary Teacher Residency program, Senator Morales said requiring those residents to have an ACT score of 26 or higher will not guarantee that they are going to be great educators.

In response to Senator Morales, Secretary Skandera said school grades will not be released until after results of the PARCC are released. The reason for the delay is because the results of PARCC required the standards be set before they are released.

In response to Senator Neville, Secretary Skandera said PED found that several school districts are duplicating assessments in one or more areas. Leighann Lenti, deputy secretary, said some school districts submitted assessment plans that serve in the best interest of students and teachers. PED will be making recommendations to school districts on improving their assessment plans.

Senator Cisneros commented that revenue projections are likely to decrease again in the new year and asked Secretary Skandera what the priorities will be in PED's budget request based on the new revenue projections. Secretary Skandera said PED needs more time to determine how the budget request will be adjusted.

Marianne Chiffelle, vice president of the Senior Affairs Advisory Committee, briefly addressed the committee. Ms. Chiffelle said, according to the 2000 census, the senior population will triple by 2030. Ms. Chiffelle said the Legislature can expect that the committee will be seeking additional funding in years to come to address the growing senior population.

**Department of Transportation.** Tom Church, secretary of the Department of Transportation (NMDOT), presented the annual report of the NMDOT and the FY17 budget request of the department. Secretary Church noted that NMDOT delivered \$546 million in projects last year, representing an increase of \$200 million in construction projects relative to FY12. Mr. Church credited changes in the way the department budgets projects for the increase in the construction program budget. NMDOT is working to maintain the minimum possible inactive obligation of federal dollars to ensure that all federal dollars are committed to active projects.

Mr. Church stated the road fund, which supports maintenance activities, grew by approximately \$9 million or 1.5 percent to 2 percent. Federal funds are expected to bring in \$18 million, or 5 percent, in the first year, FY17. NMDOT anticipates federal revenue to grow from 2 percent to 2.5 percent in years two through five of the bill. The state road fund receives 93 percent of total revenues from gas and special fuels taxes, weight-distance tax on commercial trucking, and vehicle registration fees.

In FY15, NMDOT realized revenues totaling \$915.5 million with 50 percent coming from state sources and 50 percent coming from federal sources. Department expenditures totaled \$899.6 million. Debt service payments accounted for 16 percent of the total budget and personnel for 17 percent. Without the debt service payments, NMDOT would be able to cover 85 percent to 90 percent of the construction needs of the state.

Following the discussion of revenues and expenditures, Mr. Church highlighted three projects from each transportation district. The projects were all listed in NMDOT's annual report.

In FY15, NMDOT staff spent 50 thousand man hours cleaning up accident scenes and removed snow and ice from 1.3 million miles of roadway. Mr. Church noted that the snow removal budget for FY16 will be \$20 million, the highest since 1985. Mr. Church also noted that due to the number of hours crews spent removing snow from roadways and clearing weeds in FY15, the number of pavement preservation activities were reduced. In FY15, NMDOT patched 10 thousand cubic meters of potholes, four times the amount done the prior year. The increase in pothole repairs indicates a greater need for repair rather than higher efficiency in the maintenance program.

NMDOT maintained New Mexico Interstates and the U.S. highways in relatively good condition while New Mexico routes have seen significant declines in lane miles rated good.

NMDOT is requesting an FY17 budget of \$849 million, a 1.7 percent decrease from FY16. NMDOT budgets the projected revenue, but not fund balance; all fund balance is budgeted during the consensus process in the House Transportation Committee. Mr. Church anticipates that once fund balances are budgeted, the total growth from FY16 will total 2 percent. Secretary Church noted that the exact amount of federal appropriations is not known but added that for every dollar New Mexico contributes to the federal highway trust fund, the state receives \$1.17 back from FHWA.

Secretary Church stated NMDOT used the \$45 million of capital outlay funding and matched it against \$100 million of federal funding for six projects across the state.

Representative Larrañaga asked what restrictions are in the new federal highway funding bill. Mr. Church stated the new act has nine funding categories, while the previous funding act had 20 categories. The new funding legislation will give states more flexibility in determining funding priorities. Secretary Church stated that overall, the bill will allow NMDOT to grow, but the growth does not keep pace with inflation. Secretary Church stated the act should not impact the state's ability to pay previously incurred transportation debts, and the effective date of the bill is October 1, 2016.

In response to Representative Larrañaga, Secretary Church said NMDOT would be seeking to pass legislation relating to texting and driving, drug testing for holders of commercial driver's licenses, and authorizing the department to use a design-build construction delivery method.

Representative Lundstrom asked what the status of Amtrak's Southwest Chief line is. Secretary Church responded that Amtrak was awarded a \$100 million budget increase in the transportation authorization act and that the states of New Mexico, Colorado, and Kansas put up \$6.5 million and received a \$17 million federal match to complete track repairs along the Southwest Chief's route. The new funding will allow the Southwest Chief to continue on its current route.

In response to a member question, Secretary Church said the status of the rest areas is grim and the newest rest area was constructed in 1972. Over the past 20 years, only \$5 million in capital outlay has been appropriated for rest areas.

**Energy, Minerals, and Natural Resources Department (521).** David Martin, secretary of the Energy, Minerals, and Natural Resources Department (EMNRD), said the agency's FY17 budget general fund request included an \$850 thousand, or 4.25 percent, increase over the FY16 operating budget. Five-hundred fifty thousand dollars of the increase was requested for the Healthy Forest program, which will restore funds lost in FY16 and allow the agency to reduce vacancies. The other \$300 thousand will be used for various needs, including funding for one unfunded vacancy, an additional FTE, and to address efforts related to the Brackish and Alternative Water program. The overall agency request is a decrease of \$744.8 thousand from its FY16 operating budget, primarily attributable to a one-time conservation easement grant awarded to the Healthy Forests program in FY16 but not available in FY17.

In response to Representative Bandy, Secretary Martin said the requested funding for the Healthy Forest program will be used to restore positions. Tony Delfin, state forester, said the agency requested \$10 million in capital outlay for forest restoration. The agency might be receiving Pittman-Robertson funding from the Department of Game and Fish for forest restoration.

In response to Senator Cisneros, Mr. Delfin said, of the \$6.2 million received in capital outlay funding from the 2014 legislative session, \$3.3 has been spent. Mr. Delfin reported that all projects are on time. Projects have been identified for the \$3.5 million received in FY16.

In response to Senator Shendo, Secretary Martin said legislation will be proposed in upcoming Session to replace the existing Geothermal Resources Conservation Act with a new law. The current law is modeled after the Oil and Gas Act, whose principles are not applicable to the geothermal operations. The agency is planning to move the regulation from the Oil Conservation Division to the Energy Conservation and Management Division.

**Executive Compensation Report.** Justin Najaka, interim director of the State Personnel Office (SPO), said the state needs a targeted approach to compensation instead of the current one-size-fits-all approach. Mr. Najaka said that while classified service jobs are overall competitive, certain classifications would become more competitive if salary adjustments were made to them. Mr. Najaka recommended establishing and administering occupationally based salary structures.

Since 2012, SPO has been working on reforming its compensation and classification system. The agency wants the system to reflect current work performed by classified state employees, supports agency efforts to attract and retain a qualified workforce, and serve as the foundation for all future classification studies and decisions.

To improve recruitment and retention efforts, SPO recommends making targeted compensation adjustments for several occupations, including correctional officers, game and fish wardens, dispatchers, and registered nurses. Mr. Najaka noted the "in pay band" (IPBs) increases done in FY15, which targeted critical positions, were not enough to significantly address pay issues and advance employment opportunities.

SPO is creating a new classification structure with 11 new salary structures. Mr. Najaka gave an example of what the classification framework would look like for engineering and engineering support salary structure. Mr. Najaka estimated the total cost in general fund to be \$11 million to \$13 million to implement five of the 11 salary structures in FY17, which are corrections, health care, information technology, public safety and security, and social services. If the occupationally based salary structures are implemented, Mr. Najaka said policymakers would have the ability to target occupational pay lines that are in the most need of a market adjustment, or that face increased difficulties recruiting and retaining incumbents. It would provide policymakers with more flexibility in appropriating salary increases when faced with economic instability or resource scarcity. It would enhance recruitment, selection and retention, as well as performance appraisals and succession planning throughout state government. And finally, it would minimize salary inequities between jobs across agencies.

In response to Representative Varela, Mr. Najaka said clerical personnel, which fall under the general administration salary structure, would not be addressed in FY17. The remaining six salary structures, which are management, legal, scientific, trades and labor, engineering and engineering support, and general administration, might be addressed in FY18.

In response to Senator Morales, Mr. Najaka said open recruitment is used when there are hard-to-fill positions or an agency is hiring for several positions. Open recruitment gives the agency the ability to pull the list of applicants to begin the hiring process while still recruiting to fill other positions.

#### **Friday, December, 11<sup>th</sup>**

The following members and designees were present on Friday, December 11, 2015: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, Sue Wilson Beffort, Carroll H. Leavell, Howie C. Morales, Steven P. Neville, and Pete Campos; and Representatives Larry A. Larrañaga, Luciano “Lucky” Varela, Stephanie Garcia Richard, Paul C. Bandy, Jason C. Harper, George Dodge Jr., and Patricia A. Lundstrom. Guest legislators: Senators William F. Burt and Benny Shendo Jr.; and Representatives Sharon Clahchischillage and Jim Trujillo.

**Capital Outlay.** Linda Kehoe, principal analyst, presented the committee with an overview of available capacity for capital expenditures in 2016 and an overview of the 2016 capital requests from state agencies, senior citizen centers, higher education institutions, special schools, and tribal institutions. Ms. Kehoe stated the LFC staff develops the framework for proposed capital funding for consideration and action by the full Legislature. Staff develops the framework based on criteria approved by the committee, site visits, review of infrastructure capital improvement plans, monthly meetings with major departments, and testimony presented at hearings held in the interim.

Ms. Kehoe stated severance tax bond (STB) capacity for capital expenditures is \$140.2 million plus another \$47.4 million earmarked for water, colonias, and tribal infrastructure. Ms. Kehoe added that Laws 2015, (House Bill 236) amended the Severance Tax Bonding Act to increase the amount of revenue transferred to the severance tax permanent fund. To hold beneficiaries of earmarked severance tax bonds harmless, in FY16 the tribal infrastructure and colonias

percentage of STB increased from 5 percent to 6.5 percent of senior severance tax bond capacity. In fiscal year 2017 and subsequent years, 5.5 percent will be earmarked for both funds. The supplemental STB capacity for public school construction is \$111.2 million. Ms. Kehoe stated this amount could be significantly reduced due to the application of House Bill 236, and that final capacity estimates will be released in January.

Ms. Kehoe said the General Obligation Bond (GOB) capacity is \$186.6 million, or approximately 0.33 percent of net taxable value of property. Authorizing no more than the stated capacity will maintain a flat mill levy. Consensus revenue estimates indicate there are no nonrecurring general fund monies available for capital outlay in 2016.

Ms. Kehoe indicated state agencies requested nearly \$316.5 million from both STB and other state funds. The staff framework proposes the most critical projects impacting public health and safety, the preservation of state facilities, and projects requiring additional funds for completion. Ms. Kehoe highlighted the agency capital requests and noted that of the \$140.2 million available in STB capacity LFC framework proposes to use only \$61.2 million for state agency projects, and an additional \$27 million from “other state funds.”

Ms. Kehoe reviewed the proposed framework for GOB, which includes funding for senior centers, libraries, public schools, higher education, tribal institutions, special schools, and a public safety category. Ms. Kehoe detailed the capital requests and noted \$331 million was requested for 2016 GOB funding. Ms. Kehoe added the recommendation for public school bus replacement and pre-kindergarten construction was moved to GOB to provide more STB funding and is generally an issue approved by voters.

Ms. Kehoe pointed out the framework was based on information and data provide at public hearings sponsored by the Higher Education Department (HED). The staff of the LFC, HED, and the Department of Finance and Administration (DFA) came to significant consensus in developing recommendations for only the most critical infrastructure needs impacting the health and safety of the students, faculty, and the general public for higher education projects. Ms. Kehoe stated the higher education capital outlay review committee and the staff’s framework demonstrates very little difference in the funding recommendations. Ms. Kehoe indicated of the \$119.7 million proposed in the framework for higher education, more than \$90 million is to fund projects for the four-year and independent intuitions. Staff continues to encourage institutions to use their own funds for plan and design so the projects will be “shovel ready” soon after voters approve the bonds in November 2016. Ms. Kehoe added if staff framework was supported by the full Legislature there will be five bond issues on the ballot next November.

Senator Cisneros asked if the last GOB proposition for public safety was within capacity. Ms. Kehoe stated the recommendation is within capacity. Senator Cisneros also asked why Taos was included in the language for the Indian Water Rights Settlement recommendation. Ms. Kehoe indicated the language in the framework refers to the Settlement as a whole, the language in the bill will not reflect Taos as a recipient. Senator Cisneros mentioned even though it was not recommended for funding by both LFC and HED it should be brought up that the Health Sciences facility in Rio Rancho already has a \$10 million match secured. Ms. Kehoe mentioned she received a letter from the mayor of Rio Rancho notifying her that the city would match funds

provided by the Legislature to complete the Health Sciences facility. Representative Harper stated the cost of the facility is \$20 million, and the higher education gross receipts tax is already in place at the city of Rio Rancho. The city and UNM Health Sciences have an agreement to split the cost of the facility, the city already has their \$10 million secured: therefore, if the state provides the additional funding out of GOB, the project can move forward.

Senator Wilson-Beffort referred to the framework for the Cultural Affairs Department and pointed out it only addresses one of their requests. Ms. Kehoe explained the language in the framework is broad enough to address all needs and will allow the department to use the funding at museums, historic sites, and monuments statewide. Senator Wilson-Beffort added that tourism is becoming such a big portion of our budget, tourists visit many of our museums, historical sites and monuments, and she would like staff to meet with the department to make sure the recommendation addresses their needs. Representative Hall added some of the properties the Cultural Affairs Department manages may be eligible to obtain assistance from Game and Fish and State Parks to help them with facility and access costs.

Representative Larrañaga pointed out that many of the higher education institutions have not provided matching funds for their projects. He added there should be some type of priority given to the institutions providing a significant amount of matching funds, especially when there is an economic development benefit to the community, such as UNM Health Sciences. There might not be schools that have the resources; however, the process seems somewhat unfair. Ms. Kehoe added this is the first year the schools providing significant match dollars have done so. In most cases, the two-year institutions provide more matching funds than the four-year schools. This is also the first year the Health Sciences project for the medical facility in Rio Rancho was presented as a priority to HED. Ms. Kehoe mentioned the committee could direct her to rework the framework to fund projects with large matching funds or things could be worked out during the session to fund those projects. Ms. Kehoe mentioned the fifth bond proposal was added to allow more STB dollars so legislators could fund other priorities that come up during the session. She also added that HED, DFA and LFC staff, when coming up with their recommendations discussed this project at length, and also pointed out it was recommended UNM receive a substantial amount of funding to complete the Physics and Astronomy building in Albuquerque.

Representative Varela referred to the aging framework. He stated he did not see any projects on the list for San Miguel County and wanted to know if they submitted an application. Ms. Kehoe added she only recently received the list from DFA and was not involved in the review process this year. She also added the rating process changed, and projects that rated less than 65 on their application were not recommended for funding. Ms. Kehoe added she did not receive the list of applications that scored less than 65 and referred the question to Jimmy Rodriguez with DFA, who was in the audience. Mr. Rodriguez stated he did not have that information with him but would provide it to Representative Varela.

Representative Trujillo pointed out there was not any funding for aging projects in STB and asked if this was the normal process. Representative Trujillo added if voters do not approve the bonds, seniors would not receive funding, which is risky. Ms. Kehoe explained when GOB funds are not available, senior projects are funded out of STB. Representative Trujillo mentioned he remembers public libraries funded at \$7 million two years ago and this year the recommendation

is almost half. Ms. Kehoe added the last GOB year public, academic, and public school libraries received \$3 million each, with tribal libraries receiving less because there are considerably fewer libraries.

Representative Garcia-Richard asked for clarification regarding the five bond issues for GOB. Ms. Kehoe explained the five proposed bond issues are for seniors; libraries; higher education intuitions, special schools, and tribal schools; public schools; and public safety. Representative Garcia-Richard asked for clarification about the \$300 million needed for the Corrections Department Ms. Kehoe mentioned in her presentation. Ms. Kehoe explained the Corrections Department has a deficiency backlog of deferred maintenance, security, infrastructure, and other needs that exceed \$300 million. Representative Garcia-Richard also clarified whether the Corrections Department needed to complete a facilities master plan, and that it could not be funded out of STB or GOB. Ms. Kehoe confirmed and added a master plan is not an eligible use of bond proceeds. Representative Garcia-Richard asked the amount of the study and if that was going to help determine whether new facilities should be built, or if we should continue to renovate the existing facilities. Ms. Kehoe clarified and added the plan will provide an index to help legislators determine how they could best use state funds in the future. Director George Morgan of the Facilities Management Division added the department is currently under contract to develop a facilities master plan for agencies. Director Morgan stated the plan should be complete by the end of the current quarter and will be presented to the Legislature. Ms. Kehoe added \$1.25 million was requested by the Corrections Department to complete a master plan, and that it was the department's number five priority.

Representative Harper pointed out there is a large amount included in the framework for the city of Rio Rancho's senior center. He asked Ms. Kehoe to explain the project. Ms. Kehoe informed Representative Harper that this year LFC staff did not have the ability to review the senior project recommendations. She also added it is her understanding the original request was for \$15 million to construct a new senior center. During the rating process the amount was reduced to \$11 million, which is the figure presented to the committee. Ms. Kehoe added there is a large aging population in Rio Rancho that will benefit from the project, and land will be donated to construct the building. The Legislature has appropriated plan and design funds over the last few years, now the city is requesting funds to construct the building. She added the plan for Rio Rancho is to eventually have a one-stop-shop for seniors at the facility. Representative Harper thanked Ms. Kehoe for the clarification and added he was not aware of the project. He also voiced concerned that almost half of the proposed funding for senior projects was going to one project and recommended staff do additional research to see if the project can be phased any further. Ms. Kehoe explained she took the recommendations from DFA and, because she did not have access to the information, she was not in the position to reduce funding for the project.

Senator Smith then emphasized HED did not recommend funding for the Health Sciences building after going through the review process. He also pointed out there is an in-house argument between UNM and Health Sciences that they want the Legislature to resolve. In addition, when considering Cultural Affairs Department, the committee should be reminded last year we cut higher education projects to fund agencies. Senator Smith also spoke about unspent capital outlay funds and the fact that there are extremely limited resources available with many needs to fund.

Senator Cisneros made a motion that staff move forward with the framework and start pre-filing the bill. Senator Cisneros added the STB bill will be introduced in the House and be sponsored by Representative Harper. The GOB bill will be introduced in the Senate and sponsored by himself. The motion was seconded by Representative Hall. The motion carried. Senator Cisneros added he would also sponsor the reauthorization bill.

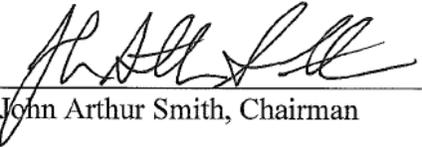
Representative Larrañaga asked for a comprehensive list of projects that are beyond the three-year period and where they are in the pipeline. He added we need to be serious about holding projects to IRS regulations for expenditures and not continue to reauthorize projects.

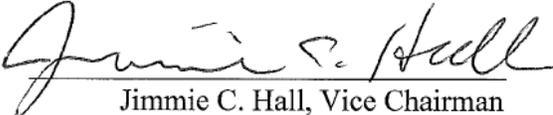
**Final Review.** Director Abbey presented to the committee a packet of spreadsheets summarizing staff recommendations for FY17 appropriations for each agency, the compensation plan, and the adjustments to initial staff recommendations that were presented to the committee during the fall.

**Representative Hall moved to adopt the staff recommendations contained in the packets, seconded by Senator Cisneros. The motion carried with Chairman Smith.**

Chairman Smith thanked LFC staff for their hard work on the budget recommendations and recognized Director Abbey for his leadership.

With no further business, the meeting adjourned at 10:46 a.m.

  
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John Arthur Smith, Chairman

  
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Jimmie C. Hall, Vice Chairman