

**Legislative Finance Committee
Meeting Minutes
State Capitol Room 307
Santa Fe, NM 87501
December 8 - 12, 2014**

Monday, December 8th

The following members and designees were present on Monday, December 8, 2014: Chairman Luciano “Lucky” Varela; Vice Chairman John Arthur Smith; Representatives Henry “Kiki” Saavedra, Larry A. Larrañaga, Don L. Tripp, Edward C. Sandoval, Nick L. Salazar, Jimmie C. Hall, and James E. Smith; and Senators Carlos R. Cisneros, Sue Wilson Beffort, Carroll H. Leavell, Howie C. Morales, Clemente Sanchez, Steven P. Neville, and Pete Campos. Guest legislators: Representatives Sharon Clahchischillige, Patricia A. Lundstrom, Rodolpho “Rudy” S. Martinez, Debbie A. Rodella, James R. J. Strickler, Thomas C. Taylor, and Jim R. Trujillo; and Senators Craig Brandt, William F. Burt, Lee S. Cotter, Timothy M. Keller, Cisco McSorley, Mary Kay Papen, and John Patrick Woods.

FY14 and FY15 General Fund Revenue Projections Tom Clifford, secretary, Department of Finance and Administration (DFA), briefed the committee on the consensus general fund revenue estimate, stating the consensus revenue estimating group reviewed and updated the general fund revenue outlook prepared in December 2014. Fiscal year 2014 revenue was \$33 million greater than the August forecast. The FY15 recurring revenue is revised down \$120 million from the August estimate to \$6.12 billion and the FY16 revenue estimate was revised downward by \$144 million to \$6.29 billion, largely due to a reduction in oil prices since the summer. Secretary Clifford said the state and national economies are growing, supporting job growth, business activity, and consumer confidence. “New money” in FY16 is now estimated at \$141 million, equivalent to 2.3 percent of FY15 recurring appropriations. He said declining oil prices will reduce revenue growth but revenues are adequate to continue important reforms as healthy reserves enable the state to support vital services and continue education reform and economic development initiatives.

Demesia Padilla, secretary, Taxation and Revenue Department, discussed the December 2014 forecast revisions, stating taxable gross receipts (GRT) have increased approximately 7 percent in the first quarter of FY15 over a year ago, eclipsing the all-time high GRT for a quarter and increasing the forecast in the short term. However, TRD forecasts GRT revenues using historical data and indicators provided by the University of New Mexico Bureau of Business and Economic Research, including variables for private wage and salary and employment for the mining and construction sectors. Compared with the August forecast, all of these indicators have decreased in every period. Secretary Padilla reported personal income taxes came in slightly stronger than anticipated in FY14. Growth is expected in the personal income tax in all forecast years. Corporate income tax collections were revised downward to reflect lower FY14 revenue and more pessimistic national forecasts of total industrial production. A downward risk to the forecast is the New Mexico Supreme Court granted cert in the *Eunice v. State of New Mexico* case. Should the Court of Appeal’s decision in the case stand, the decision creates a potential impact to the state general fund of \$20 million per year.

Secretary Clifford discussed energy markets, noting oil production has increased 100 percent since 2009. Natural gas prices in the state averaged \$5.13 per thousand cubic feet in FY14, about 28 cents above FY13. The consensus forecast has natural gas prices averaging \$4.90 in FY15 and FY16. These prices are lower than the August forecast, reflecting a sharp decline in FY15 from previous estimates. Natural gas volumes were 0.4 percent lower in FY14 compared with FY13 and are projected to decrease in FY15 and FY16 due to unfavorable financial outlook for natural gas.

Secretary Clifford reviewed additional forecast risks, including the high-wage jobs tax credit protests. Positive risks to the forecast include potential revenue between \$15 million and \$20 million if the tribal gaming compact is passed, strengthening of income taxes and of compensating tax, and higher GRT spending due to lower gasoline prices.

Secretary Clifford reviewed the general fund summary, stating the audit of the FY13 comprehensive annual financial report (CAFR) did not yield any material findings or substantial evidence to revise the \$101.7 million, already reserved as a contingent liability for reconciling previously un-reconciled cash transactions. He said a complete reconciliation of outstanding issues is still ongoing. Mr. Clifford stated senior severance tax bonding (STB) capacity is estimated to reach \$320 million in FY15, comprising senior long-term issuance of \$191.8 million and senior sponge capacity of \$128.2 million. Supplemental STB capacity for public school capital projects is estimated to be \$182.9 million, for a total capital capacity of \$502.9 million. Secretary Clifford reviewed a number of pressures on the general fund budget, including tobacco revenue, lottery shortfalls, the settlement of union lawsuits, and issues regarding maintenance of effort and the receipt of a significant number of information technology (IT) requests.

Representative Larrañaga asked Secretary Clifford about why two different amounts of new money as described in DFA's handout of \$141 million and \$171 million. Secretary Clifford said the difference lies in comparing estimated revenue in FY15 and estimated revenue in FY16 with appropriations in FY15 to revenue in FY16

Representative Larrañaga asked Secretary Padilla about the potential revenue impact from results of the ongoing litigation between Eunice and New Mexico TRD. Secretary Padilla responded because results of the case are not conclude, the potential liability remains at \$20 million annually.

Senator Morales asked what the agencies have been doing in terms of lessening the state's dependence on oil and gas revenues. Secretary Clifford said there are initiatives led by tourism and manufacturing organizations to increase participation of telecommunication companies, business incubators, think tanks like InnovateABQ, and angel investors. Senator Morales asked Secretary Clifford about a brief explanation of how global economic conditions affect the economy of New Mexico. Secretary Clifford said with the local economies of Japan and China slowing down and the European Union heading into a recession, the U.S. trade balance is strengthening as the amount of and imports from those countries decreases. As these governments address their own growth challenges, their currency fluctuations mean they pose a smaller downside risk to the U.S. economy. Senator Morales inquired further about the state of the auto and housing markets. Secretary Clifford said the auto market has recovered but

mortgage-lending has not softened since the Great Recession. Moody's forecasting service suggests continued growth at current levels in the housing sector in short- and mid-terms. Senator Morales asked about the nature of volatility of the compensating tax and the inherent need to enhance its forecast. Secretary Padilla and TRD chief economist, Elisa Walker-Moran, responded the underlying reasons of the compensation tax volatility are simply unpredictable sources of revenue as forecasts yield little insight about future behavior.

Senator Cisneros asked for clarification concerning the \$25 million in unauthorized and unissued capital projects. Secretary Clifford said there are always capital projects that cannot move forward because of federal tax-exemption requirements which does not reflect in any way that bonds haven't been sold at capacity.

Senator Smith asked Secretary Clifford if he or his staff have had conversations with agencies about adjusting their budget requests downward. Secretary Clifford said he and his staff have communicated to the agencies' leadership to look at no growth in their budgets with the exception of spending priorities.

Senator Smith asked Secretary Clifford what level of reserves he expects to see if the revenues continue declining. Secretary Clifford responded this year is a perfect example of the 10 percent reserves target, as this balance can help absorb the impact of revenue reduction. He added the state could see a 3 percent reduction in reserves to approximately 7 percent.

State Engineer/Interstate Stream Commission (550) Tom Blaine, state engineer-designate, and Amy Haas, interim director of the Interstate Stream Commission (ISC), briefed the committee on the agency's FY16 budget request. Mr. Blaine explained the general fund increases in the request were intended to reduce depletion of the irrigation works construction fund (IWCF), update the state and regional water plans, improve services in ISC's acequia program, and cover the cost of a GIS licensing agreement.

Mr. Blaine explained the IWCF has been increasingly used to augment general fund for agency operations rather than the intended focus on infrastructure. He presented two scenarios of IWCF balance projections, one showing use of the IWCF at the FY15 level and the other representing the requested revenue swap for general fund. With current levels going forward, the fund reaches a negative balance by the end of FY17 but, under the agency's request, would remain solvent through the same period. Mr. Blaine pointed out the proportion of the Office of the State Engineer's (OSE) budget supported by IWCF revenue began to increase in FY10 and continued to do so through the current fiscal year.

Mr. Blaine moved on to discuss the requested expansion to support 7 FTE within the Water Resource Allocation Program (WRAP) to reduce the water rights application backlog. He noted the agency is making progress in addressing the backlog, attributed that to increased personnel funding for the program in the FY15 budget, and said the requested expansion would allow the agency to accelerate the backlog reduction and meet its performance measure. Chairman Varela asked if all of the additional positions included in WRAP's FY15 budget were filled, and Mr. Blaine replied that his presentation would address that at a later point.

Next, Mr. Blaine presented the requested expansion to increase information technology (IT) staff to improve the water rights adjudication process, support ongoing adjudications, and facilitate the Active Water Resource Management Program's real time water Measurement system. Chairman Varela asked if this was related to acequias, and Ms. Haas responded that the request to increase general fund in the ISC's acequia program was separate from the IT expansion.

Returning to Chairman Varela's question on the agency's status on filling the new positions supported by increases in the FY15 budget, Mr. Blaine said five of eleven positions within WRAP were filled and none of the three new positions in the Litigation and Adjudication Program were filled. He stated the agency is actively recruiting and scheduling interviews for these positions.

Turning to the ISC's request for a special appropriation to support litigation in FY16 and FY17, Ms. Haas said this was a joint request with the Attorney General's Office. She noted the request would specifically support technical and legal services necessary for litigation on the middle and lower Rio Grande and the Pecos River.

Texas sued New Mexico, claiming New Mexico was not meeting delivery obligations under the Rio Grande compact, and New Mexico has filed a motion to dismiss. The Supreme Court has assigned a special master who will hear the case and dictate the litigation schedule going forward. Ms. Haas emphasized that New Mexico must comply with deadlines set by the special master, and that these are likely to be labor intensive efforts. This is the basis of ISC's special appropriation request spanning into FY17, because the special master may impose deadlines that would be difficult to meet if the agency was in a "fiscal year hiatus," where technical work has to stop and would result in noncompliance with the special master's deadline. Ms. Haas explained the roles of ISC and the Attorney General in litigation efforts, stating ISC manages the bulk of the technical contract work while the Attorney General manages specialized litigation expertise. While the current appropriation totaled over \$6 million, the agencies anticipate expending these funds in 2015, so the request included an emergency clause. In addition to the lawsuit against Texas on the lower Rio Grande, New Mexico sued the federal Department of the Interior over the Bureau of Reclamation's operation of the Rio Grande Project, claiming annual losses of approximately \$183 million. This case is stayed pending outcome of the Texas lawsuit, but parts of it may be rolled into that litigation.

Ms. Haas moved on to discuss other litigation. On the Pecos River, a challenge to the settlement provision regarding water right transfers are currently before OSE but is likely to be appealed to district court and result in further litigation. Chairman Varela asked which parts of the Pecos Basin this impacted, and Ms. Haas replied that, while the compact covers the entire basin, the litigation concerns stakeholders in the lower reaches of the Pecos in New Mexico. On the middle Rio Grande, WildEarth Guardians served ISC with a notice of intent to sue under the Endangered Species Act, which could mean ISC could become a defendant in ongoing litigation or in a new lawsuit.

Ms. Haas went on to discuss the Arizona Water Settlement Act (AWSA) and the Gila River. The AWSA allocated an additional 14 thousand acre-feet of water and up to \$128 million, indexed to 2004 dollars, to New Mexico. This includes \$66 million in guaranteed funding; ISC is in the

third year of receiving payments of \$9 million. The remaining up to \$62 million is only available if New Mexico decides to construct physical works to divert the additional water. In October, a district court judge issued a temporary restraining order preventing ISC action on this decision under allegations ISC had held subcommittee meetings in violation of the Open Meetings Act. A subsequent judge removed the order, and ISC elected to develop the additional water and notify the federal government of the intent to do so before the year-end deadline. Chairman Varela invited former ISC Director Norman Gaume to comment on the issue. Mr. Gaume stated the ISC's technical analysis supporting the decision to develop the additional water was flawed based on his professional review. Mr. Gaume stated that he is the plaintiff in the Open Meetings Act lawsuit against ISC and it does not have any bearing on ISC's decision under the AWSA. Ms. Haas responded to these comments, stating that any technical flaws in ISC's analysis will come out under the scientific scrutiny required by the National Environmental Protection Act for this project. Chairman Varela asked how long this additional review might take, and Ms. Haas replied that it could be as much as 10 years as it is a very lengthy process. Chairman Varela noted the importance of the issue and that he would like to hear from all sides in the upcoming legislative session.

Senator Cisneros asked about the \$2 million capital outlay appropriation to ISC for acequias, to which Ms. Haas responded ISC has dedicated \$300 thousand of the appropriation to assisting acequias with design work and \$1.7 million for shovel-ready projects. For these funds, ISC will require a 10 percent cost share, capped at \$10 thousand. Senator Cisneros asked how ISC decided to implement a cost-share requirement. Ms. Haas responded that traditionally the state would provide 80 percent of the cost of acequia projects but that the Legislature changed this to 90 percent in 2013. Senator Cisneros said the Legislature did not intend all entities to be required to provide a match, and there are numerous acequias unable to afford this match. Ms Haas noted ISC recognizes this difficulty but that other funding sources are available to acequias unable to meet the match requirement.

Senator Cisneros moved on to ask Mr. Blaine about the status of dam projects overseen by OSE and about any critical needs at dams. Charles Thompson, director of the Dam Safety Bureau, noted that a number of projects are underway, including Bradner Dam near Las Vegas, Springer dams #1 and #2, and Morphy Lake Dam. The list of needs is long and OSE hopes the dam owners will come forward with plans in the near future. Senator Cisneros asked about the Cabresto Dam project, noting he had heard from some of the dam owners that it was not holding water sufficient for irrigation. Mr. Thompson explained the geology causes the new dam to seep more than expected, but OSE has ideas on how to address the issue.

Senator Morales asked about ISC's decision on the Gila River diversion under the AWSA, specifically projects in Grant County. Ms. Haas explained that, while this proposal was among 15 finalists, ISC staff recommended Silver City transfer water rights to the town of Hurley and there were legal concerns about that requirement that held the project off of ISC's next agenda. She noted that staff is continuing to look into the issue and will bring the proposal to ISC when these issues are fully analyzed. Senator Morales asked Mr. Gaume about ISC's transparency and the accuracy of the annually required New Mexico Unit fund report. Mr. Gaume said the most recent report is less than truthful and that ISC's work-plan, attached to the report, misconstrued a contracting consultant's review of a preliminary engineering report (PER) regarding a diversion

of the Gila River. While ISC's work-plan stated the consultant determined the PER was adequate, Mr. Gaume said the consultant's review did not support ISC's statement. Moreover, Mr. Gaume noted his analysis showed the amount of water likely to be available was much less than the 14 thousand acre-feet available under the AWSA, and that ISC's analysis showed potential reservoir sites would not hold water. Chairman Varela suggested that further discussion of the Gila River diversion be held for the legislative session rather than the agency's budget hearing, and Senator Morales responded that this was a budget issue because of the uncertainty on the cost of a diversion project. Senator Morales requested that the discussion be continued in front of the Senate Finance Committee during the legislative session.

On the lawsuit against Texas, Representative Larrañaga asked what direction the Supreme Court gave the special master or if it limited his authority in any way. Ms. Haas stated that the appointment was by a very brief order and that special masters are generally given broad latitude over scheduling hearings and setting deadlines for briefing issues. She anticipated hearings on New Mexico's motion to dismiss would be the first action. Representative Larrañaga asked why OSE's number of filled FTE decreased from the beginning of FY15. Curtis Eckhart, director of Program Support, attributed this to normal attrition and the fact ISC had a higher than normal vacancy rate. Representative Larrañaga asked for a timeline on when the expansion positions for FY15 would be filled, Mr. Eckhart replied that Mr. Blaine was making this a priority and they should be filled during the spring of calendar year 2015. Representative Larrañaga emphasized that New Mexico is entitled to up to 14 thousand acre-feet under the AWSA and should not forgo using this water without thorough analysis. Senator Beffort followed by focusing on the amount of water New Mexico would lose and would flow to Arizona for use outside of New Mexico.

Program Evaluation: Review of Select Water Projects Michelle Aubel, program evaluator, LFC, presented a report titled *Capital Outlay: Review of Select Water Projects*, about projects administered by the Office of the State Engineer and Environment Department. Key findings include the following items:

New Mexico communities face an estimated \$1 billion to replace and upgrade aging water infrastructure over the next 20 years, in addition to \$240 million estimated for dam rehabilitation. The state has appropriated \$525 million over the past decade for water projects, including dam repairs. Previous Legislative Finance Committee (LFC) analysis and evaluations have found this state-local collaboration has yielded unique challenges, from a fragmented funding process to problematic project oversight and execution.

In 2014, the Legislature appropriated over \$83 million in capital outlay funding for water projects. The Environment Department (NMED) and the Office of State Engineer (OSE) will oversee about \$75 million of these appropriations. This evaluation sought to assess how prior local water projects overseen by these agencies fared, including project planning, management, spending and whether a project met its intended purpose.

Only 10 percent of the nearly \$27 million in state appropriations for the seven selected local water projects has resulted in successful outcomes. From project cost overruns to significant under-utilization, the overall return on this investment remains uncertain. Additional funding in

the form of Water Trust Board (WTB) money, federal grants, and other state loans or grants raise the total known resources linked to these projects by \$6 million, yet more funding will be required in some cases for project completion. Despite sufficient funding, some of the selected projects have lingered on for over a decade while others experienced failure or have not been used. The two successful projects differed in complexity but met most evaluation criteria positively, including the key objective of fully meeting their intended use.

The issues underpinning these results appear in line with prior LFC evaluations covering various aspects of capital outlay management reaching back to 1998. Common themes recur, pointing to the need for better planning, coordination, prioritization, and oversight of resources shared with local entities to minimize waste, abuse or mismanagement and effectively attain project goals. New Mexico must address these inefficiencies in the capital outlay process so each dollar is well spent. Progress has been made toward capital outlay reform, such as 2001 legislation forming the WTB. Other key initiatives are underway.

Richard Rose, director, Water Resources Allocation Program (WRAP), provided the Office of the State Engineer (OSE) response, concurring with the findings in the report. Specifically, Mr. Rose noted prior evaluations had also found the process of fragmentation for funding a detriment to projects. Mr. Rose relayed that OSE has already implemented some changes per the recommendation for improved record keeping by separating the appropriation files from the OSE dam inspection files.

Secretary Flynn, NMED, also concurred with the majority of the findings. The secretary did note that the Water Infrastructure Team has found the idea of a uniform application unworkable due to the myriad of requirements from different funding agencies would make it too long and cumbersome. He stated a pre-application portal would be more likely to aid staff in directing applicants to the appropriate funding strategies.

Chairman Varela stated he is disturbed by the fact a demonstration project might fail. Ms. Aubel stated that site selection diminished the ability to measure project success; there is not enough water available to measure project success. She further explained that eventually the area may develop to the point it will be able to provide some benefit but the city will not use this method of infiltration gallery for any additional aquifer recharge projects but will use the direct well injection method instead.

Chairman Varela asked why the evaluation notes 2014 appropriations for water of \$83 million rather than \$86 million reflected in the NMED response comments. Michelle Aubel clarified the total was \$86 million as noted by NMED but \$3 million was not related to the scope of the project and, therefore, deducted.

Chairman Varela noted that in the response letter from NMED it is stated oversight ends with the appropriation. Ms. Aubel confirmed this. She also concurred with the NMED response that indicates some projects may receive continued NMED oversight if they are monitored public water or groundwater discharge projects that require continued permitting.

Secretary Flynn added previous attempts to increase oversight on communities have been met with resistance from communities so the department has taken a strategy of building community capacity instead.

Chairman Varela asked Richard Rose what the status of safety at the dam in Las Vegas. Dr. Rose replied that there is no hazard to life or property, the high priority is related to the need for increased storage capacity for Las Vegas. Chairman Varela asked if the project has been funded to completion. Rose replied that the project has been fully funded, \$10 million from the legislature and a \$20 million loan.

Senator Cisneros voiced concern that projects without benefit are being funded.

Representative Salazar asked what the status of the project at Santa Cruz Lake is now. Dr. Rose responded that plans and specifications for raising the dam level have been approved by the Dam Safety Bureau and now the project is waiting on \$8 million to \$10 million to raise the dam.

Taxation and Revenue Department (333) Demesia Padilla, secretary of the Taxation and Revenue Department (TRD), briefed the committee on current activities and FY15 and FY16 goals for the department. Secretary Padilla highlighted the FY16 budget requests for increased personal services and employee benefits funding within the Audit and Compliance Division, 2 expansion FTE within the Property Tax Division to assist with delinquent property tax collection, and increased funding within Program Support associated with the creation of the Office of Internal Oversight.

Deputy Secretary John Monforte discussed staffing activity within the department. He noted the reduction in authorized positions from 1,315 in FY10 to 1,109 in FY15 and the department's success in reducing vacancy rates recently to 15 percent from over 20 percent in June 2013. He stressed the tight budgeting in the personal services and employee benefits category for the Audit and Compliance Division for FY15, which has a \$350 thousand deficit in that budget category and must hold hiring of additional auditors as a result.

Representative Larranaga asked about how difficult delinquent property tax collection is with the use of a lien and wondered about the need for additional FTE in the Property Tax Division to assist with delinquent property tax collections. Secretary Padilla responded that most delinquent taxpayers are delinquent because they cannot pay the taxes, so a substantial amount of work is put into developing payment plans for those taxes rather than simply collecting them. Representative Larranaga followed-up to ask whether this was the state or the county's responsibility. Secretary Padilla explained that after a property is delinquent for two years, it becomes the state's responsibility.

Representative Larranaga asked about how the value of delinquent property is assessed and whether they are subject to the automatic 3 percent increase. Cesario Quintana, director of the Property Tax Division, responded that the properties are not subject to the 3 percent rule, but that properties are valued each year and taxed on one-third of their value less any devaluation necessary.

Chairman Varela asked for an update on the status of ONGARD. Secretary Padilla explained that ONGARD stabilization is complete, but that modernization efforts have not yet been decided on; she noted that the LFC is currently doing a performance evaluation of the system and that that may help with identifying a path forward. TRD's chief information officer explained the need to move the system off COBALT, which is an outdated coding language.

Chairman Varela asked for an update on GenTax, the state's tax system of record. Secretary Padilla replied that the system was successfully upgraded on time and under budget for \$6.2 million. The upgrade helped bring in \$36 million in new revenue. The maintenance contract for the system is \$2.7 million a year.

Chairman Varela asked for an update on SHARE reconciliation and the impact of third-party payment systems at TRD on that process. Secretary Padilla responded TRD works closely with the Department of Finance and Administration and meets regularly to work on the interaction of the third-party payment systems with SHARE.

Chairman Varela asked for an update on the MVD system upgrade, Tapestry. Secretary Padilla explained that the project is on time and on budget. The driver component of the system should launch in May 2015 and the vehicle component the following year.

Corrections Department (770) Gregg Marcantel, secretary, New Mexico Corrections Department, stated that if the department does not receive appropriations at requested levels the department will have to make some tough decisions. Mark Myers, deputy secretary, stated that the department is requesting almost \$10 million for inmate population growth, \$1.2 million for the inmate medical care contract, and additional amounts for several other miscellaneous items. Mr. Myers then spoke about the department's expansion request for \$1.3 million for the Security Threat Intelligence Unit to allow the unit to enhance intelligence, assess gang members, collaborate with law enforcement agencies, and monitor phone calls.

Mr. Myers discussed the department's request for the Corrections Industries Program, including \$7.8 million in new program revenue that would include revenue from the new inmate food services program expected to eventually provide food in all state-operated facilities. Mr. Myers briefly discussed the department's deficiency requests for \$4.7 million to cover the union lawsuit settlement and \$937.1 thousand to cover overspending in the department's base budget. Mr. Myers also discussed the department's new step-down approach for inmates housed in maximum security units. The department will now require maximum security inmates to spend a certain amount of time within the general population before being released and will not allow inmates to be released directly to the streets from maximum security.

Chairman Varela reminded the department that the LFC recommendation for FY15 was higher than the executive's and the Legislature funded salary increases. Senator Smith talked about dwindling revenues and asked if the DFA secretary had requested the department to find savings. Mr. Marcantel responded the department is looking into it. Senator Smith also asked if the department made the same presentation about tough decisions that will have to be made if the budget is not passed to the executive. Mr. Myers responded that he talked with members of the executive last week. Representative Larrañaga asked if it would be possible to work with the

Parole Board to safely release inmates. Mr. Marcantel replied the department is always willing to talk to the Parole Board. Senator McSorley asked if the department could estimate the cost of providing evidence-based programs and said the Mortgage Finance Authority could finance costs for supportive housing programs. Senator McSorley also asked if the department would speak with the Pew Charitable Trusts and suggested it has experts willing to assist states to implement evidence-based programs.

Senator Morales asked if technology could be used to safely reduce the women's population. Mr. Marcantel replied this has been discussed at legislative Courts, Corrections and Justice Committee meetings and that the department is creating documentaries for at-risk youth. Senator Clemente Sanchez asked about the increasing women's population. Mr. Marcantel stated that women are coming in with longer sentences and for more severe crimes, driving the population growth, and stated that it would help to provide more gender-specific programming. Mr. Marcantel added the women's prison will be expanding and is asking the proposed contractor to provide gender-specific programming.

General Services Department (350) Ed Burckle, secretary, General Services Department (GSD), presented a request of \$42.5 million for programs, \$97.2 million for risk funds and \$323.6 million for health benefits, for a total of \$463.3 million. Mr. Burckle said GSD is asking for reductions related to risk and employee benefits programs. The increases for personnel are for reducing vacancies and dependence on contractors. The request includes an increase of 5.2 percent from the general fund.

For the Employee Benefits Program, after two large increases in FY14 and FY15, the program will be asking for a 3 percent increase in contributions. For State Printing, the request includes a decrease due to stringent cost-cutting and a decrease in projected revenues for FY16 due to a 30-day legislative session. For Facilities Management, the division is asking for \$393 thousand to cover maintenance of facilities in Santa Fe and utilities in state-owned buildings. Over the last five years, GSD has averaged \$500 thousand for those expenses. The request also includes funding for 9 more FTE to fully develop an asset management program to look at the totality of all space, leased, and owned. Mr. Burckle said custodians are currently maintaining 39 thousand square feet as opposed to the 31 thousand, square feet that is the acceptable industry standard. He also wants three more projects managers. The request reflects a 14 percent vacancy rate for the division.

For State Purchasing, the request covers training costs for procurement staff that must be certified by July 1, 2015. For transportation services, the sale of three aircraft funded the program the past three years. The cost per flight hour decreased from \$1,400 in FY12 to a projected FY16 rate of \$585 per hour. The only expense to user is fuel. For the State Motor Pool, the program is currently budgeted for \$3 million for new vehicles and is asking for the same in FY16. About 780 vehicles are on three-year leases. Over 54 percent of the fleet is more than 5 years old. The goal is replenish all vehicles every five year and sell the old vehicles through surplus property. In FY16, the program wants to equip vehicles with GPS. Other communities are seeing a reduction in fuel costs when they have GPS. GSD also wants to open up more "quick ride" locations. Surplus property is asking for a slight increase to hire movers.

Chairman Varela asked who can purchase from surplus property. Mr. Burckle replied that anyone but GSD employees can purchase from the store front, which includes unclaimed property from Transportation Safety Administration.

For Risk Management, the request includes funding to hire more in-house attorneys and reduce contract attorney costs. A new employee health clinic will open in six months. If the clinic works in Santa Fe, it could be replicated in Albuquerque and Las Cruces. Mr. Burckle said 40 percent of health plan members participated in a new worksite wellness program which focuses on prevention.

Representative Tripp asked about partnering with Department of Health (DOH) clinics. Mr. Burckle said they have not explored using DOH clinics, which may be an option for rural areas.

Tuesday, December 9th

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Higher Education Institutions (952-977) Higher Education Department (HED) Secretary José Garcia and institutional leaders reviewed FY16 general fund requests. **Instruction and General (I&G) Funding Formula Request.** Secretary Garcia described the multi-year efforts to revise the instruction and general (I&G) funding formula used to allocate state appropriations in support of institutional costs to provide instruction. Over the years, there has been broad agreement that the state and institutions should focus on helping more students complete academic and career-workforce programs. In addition, the state and institutions should focus on graduating more students in science, technology, engineering, math and health (STEMH) fields and graduating financially at-risk students. The secretary reported that, because of this focus, the state has seen an increase in the number of certificates and degrees awarded to students generally, in STEMH fields, and by at-risk students. The secretary recognized the efforts of institutional presidents and staffs to change the conversation on campuses and improve student performance.

The secretary described the efforts to refine and provide one formula proposal to allocate funds for the FY16 budget process. The secretary called together a steering committee to develop goals for the revision and funding issues the revision should address; the committee was not tasked to develop a FY16 appropriation proposal. The secretary reported that the steering committee proposed and department supports meeting during 2015 interim, particularly to address additional performance measures and effects of the formula distribution on smaller institutions. A multi-year work-plan was briefly reviewed.

Dan Lopez, president of New Mexico Institute of Mining and Technology and Council of University Presidents, noted that, while conversations were heated and challenging, the FY16

funding request provided a good foundation to address remaining issues. While the formula provides a moderately simple approach to a complex problem, the distribution of funds, particularly when cutting the prior-year base funding, results in inequities and unintended consequences. More specifically, the council supports applying the department's hold harmless and stop-loss provisions, particularly for smaller schools. Adjustments should be considered next year during the interim.

James Fries, president of New Mexico Highlands University (NMHU), noted the process used during the 2014 interim was the best in years. He expressed concern that the steering committee did not provide clearer guidance on a recommended FY16 funding level. Because two factors – the percent of carve-out of funding from the prior-year base amount and new money available -- determine the funding distribution, institutions would have preferred a clearer review and recommendation for considering the effects of these factors on funding distributions. In addition, the issues yet to be resolved are important, particularly the institution-specific outcome measures. For example, a funding formula should recognize the differences between a research institution and rural, two-year community college, and having one formula to fit all institutions creates funding disparities. He reported that comprehensive institutions – NMHU, Eastern New Mexico University (ENMU), Western New Mexico University (WNMU), and Northern New Mexico College (NNMC) -- support the FY16 formula, recognizing that it provides a good foundation for future refinement. Lastly, President Fries noted that declining enrollments now will impact graduation growth over time, and the formula should be adaptable for this circumstance.

James Madden, president of ENMU-Roswell and the New Mexico Association of Community Colleges (branch campuses), noted two-year colleges generally have higher student retention rates, job placement rates, and graduation rates. With respect to the department's current I&G formula proposal, two-year colleges remain concerned that there is no clear differentiation between large and small schools. The formula should recognize that each institution has different base-level costs to provide an education. Different economies of scale reflect varying institutional capacity and ability to increase student performance. For these reasons, any reduction in prior-year base funding and redistribution affects smaller institutions more dramatically (even high-performing ones) than larger institutions. President Madden called for increased funding for dual credit courses, because community colleges cannot collect tuition for these high school students and state funding through the I&G formula is not sufficient to cover even half of the costs to provide dual credit courses. The community colleges also request a review of the awards valued in the I&G formula, because institutions offer many economically valuable workforce certificates that are not recognized in the formula.

Becky Rowley, president of Clovis Community College and of New Mexico Independent Community Colleges (independent community colleges), raised a concern with the correlation between institutional performance and the valuation of outcome measures. Without question, the I&G funding formula revisions have changed campus cultures and many institutions' performance has improved over time; however, institutions that do not perform to the mean do not get more funding, especially when a large prior-year base reduction is applied. As FY16 revenue projects have changed, institutions are more concerned with loss of funding, particularly as institutions have implemented new programs to improve student success efforts that should

demonstrate favorable results in upcoming academic years. She emphasized that institutions need some stable funding to continue initiatives that can move the dial on performance.

A number of legislators expressed concern that many valuable certificate programs were not included in the formula, though regional economies need individuals with these skills. Senator Neville and other legislators requested the list of eligible awards programs be reconsidered during the 2015 interim. Chairman Varela requested the department submit a written report describing the funding formula and how it works to distribute funds. Representative Larranaga supported the chairman's request for a written report of the formula and also asked for a summary of distribution rates from HED.

Members asked the secretary and others about the need and reasoning for "hold harmless" and "stop/loss" provisions in the formula. When the prior-year base is cut to achieve a target outcomes percentage of I&G formula funding, some institutions do not earn back the amount carved from their prior-year base. For the institutions which increased award production over the last three years, Secretary Garcia requested a formula adjustment equal to the institutions' prior-year funding level. These institutions are "held harmless." For institutions that did not increase award production, the institution would lose no more than 1 percent of prior-year funding level. Senator Neville noted that the formula has disproportionate effect on smaller schools, particularly two-year institutions, but the hold-harmless provisions are temporary. He stated the need for hold-harmless provisions until the formula is revised to address this disparity, to which the secretary agreed. The department's FY16 request included \$804.7 thousand to hold five institutions harmless and \$98.5 thousand to limit the loss of three institutions to no more than 1 percent of FY15 formula funding levels. Representative Lundstrom asked the department to review the formula so that hold harmless and stop loss provisions are unnecessary and make a recommendation for the 2015 session.

Senator Leavell asked about funding for dual credit courses and the development of institution-specific outcome measures. Mr. Chisholm described the method for calculating the dual credit valuation in the I&G formula. He also noted that, for FY16, the formula bases funding on a percent of actual tuition revenue lost for not charging tuition for these classes. While more funding is allocated for the dual credit mission-specific outcome measure, institutions are not reimbursed fully for providing these courses to high school students. The secretary reported that institutional-specific measures are to be developed and tested during the 2015 interim, for inclusion in the FY17 funding formula.

Representative Larranaga observed that the steering committee did not recommend a percentage of I&G formula funding that should be based on outcomes measures and what amount, if any, should be carved from the prior-year base amount to achieve this target. Secretary Garcia noted that, for sake of discussion only, the steering committee used as a guide 10 percent of formula funding would be based on outcomes; with 2 percent new money available, this requires an 8 percent carve out of the prior-year base funding. The secretary requested that LFC adhere to the 10 percent goal, no matter the amount of new money available to support I&G costs. President Lopez commented the 8 percent reduction in prior-year base funding is too high and harmful and disruptive to many institutions. Institutions agree with the assumptions but not on the targeted percent of I&G funding based on outcome measures.

Institutional FY16 Recurring and Nonrecurring General Fund Request. Separate from the I&G funding formula, President Lopez presented the additional requests for recurring and nonrecurring general fund appropriations. For recurring funding, all institutions support a 3 percent compensation increase for all faculty and staff, full funding of I&G formula outcomes without any prior-year base reductions, and funding to address NNMC's faculty and staffing needs that have not been addressed since the college became a four-year institution. For nonrecurring funds, institutions request (1) \$20 million in capital outlay, (2) \$20 million for the higher education endowment fund as distributed in current law, and (3) funding to improve collaborative efforts among academic libraries.

In addition, institutions request \$2 million in general fund appropriations to upgrade Banner administrative software and hardware and provide training for institutional staff.

With respect to the higher education endowment fund, Secretary Garcia noted his support for the request but only if the fund distribution is amended. Representatives Larranaga and Tripp sponsored the endowment act amendment in the 2014 session, which did not pass the Legislature. The governor vetoed \$10 million in the 2014 General Appropriation Act because of the legislation failed to pass. Members asked institutions and HED to draft legislation that satisfies the governor's preference to have funds distributed on a competitive, first-come/first-serve basis. President Lopez suggested that a competitive process may place some institutions at a disadvantage and the current distribution guarantees all institutions that meet the respective matching requirement receive a level of endowment funding. President Fries observed that, under the fund's current distribution, state funding provides an incentive to institutions and donors, whereas the alternative approach has institutions and donors challenging the state to commit resources.

President Lopez reviewed legislative initiatives for the 2015 session. Institutions are preparing legislation to amend the surplus property management system to raise the threshold and require regents and New Mexico Board of Finance approval.

Institutions also seek to amend the recently revised Legislative Lottery Tuition Scholarship Act to use the scholarship for the summer semester as well. Members asked a number of follow-up questions regarding cost to the legislative lottery scholarship program and student eligibility criteria if summer semesters were funded.

In additions, institutions will seek to amend the state's whistleblower law to help institutions respond to lawsuits and Inspection of Public Records Act (IPRA) requests and will propose a bill to join the national State Authorization Reciprocity Agreement (SARA), which would allow the state's public institutions to offer online academic programs at a more competitive rate than by entering individual agreements with individual states.

President Fries added a request to support efforts to promote economic development, ranging from small business development centers on community college campuses to companies on colleges. He also requested additional support for athletic programs at comprehensive institutions, which are expensive given their conference participation. Garrey Carruthers, president of New Mexico State University, discussed the university's efforts to commercialize

intellectual property and create entrepreneurs. He supports the Technology Research Corporation, a legislatively created organization promoting technology and research development. Bob Frank, president of the University of New Mexico, discussed the ABQ Innovate initiative and related efforts to spinning-off businesses, sharing faculty and student efforts, and the like. He suggested the state create a fund for shared research, faculty, and resources to support university and lab partnerships.

Special Schools -- New Mexico School for the Deaf (980), New Mexico School for the Blind and Visually Impaired (978) and New Mexico Military Institute (978) New Mexico School for the Blind (NMSBVI): Linda Lyle, superintendent of NMSBVI, discussed the school's efforts to put seasoned teachers for the blind and visually impaired (VI) located strategically throughout the state, noting districts need to grow their own VI teachers as there is currently a shortage. NMSBVI's program pays the salaries of two professors at UNM and provides mentors for would-be VI teachers, though the need under the program is greater than funds to support it. Finally, Ms. Lyle asked that the Legislature reconsider the sunset clause to the severance tax permanent fund that reverts NMSBVI payments to 5 percent from 5.5 percent.

Senator Smith pointed out that as the permanent fund increases in value distributions are greater, even at a lower rate and added public education is reliant on the general fund while special schools benefit from having the permanent fund as a funding source.

Representative Hall asked about the physical plant. Ms. Lyle responded that NMSBVI is grateful to be a part of the Public School Capital Outlay Council's process and is in the middle of a large renovation that will result in a tighter campus and a smaller footprint, although it is delayed due to an asbestos problem. Mr. Abbey noted that the schools were built substantially with capital outlay funding.

Chairman Varela asked how NMSBVI works with the public schools to identify students at an early age and about the ages of students served. Ms. Lyle responded NMSBVI has a vibrant birth to 3 program, and then tracks children from when they enter the school system, adding that students often get passed through grades without acquiring basic skills. NMSBVI is in the process of building a database specific to VI students to track students and perform appropriate interventions. Students are preK-12 at main campus, and there is a preschool in Santa Fe. When a student plans to attend an in-state college, NMSBVI orients them to the college campus in their last year of high school in partnership with the Commission for the Blind.

Senator Papen asked about a program in Alamogordo available beyond high school. Ms. Lyle responded it is the orientation center, funded through the Commission for the Blind.

New Mexico School for the Deaf (NMSD): After Mark Apodaca, director of Business and Finance, testified, Chairman Varela asked about parent and school cooperation regarding early intervention and involvement, how interventions work, and if NMSD offers dual enrollment. Mr. Apodaca responded that NMSD staff travel around the state to provide services

Senator Leavell asked about student transportation to and from their home communities. Mr. Apodaca responded that students have the option to travel home on weekends or to live on

campus. Transportation is provided by the school. NMSD also serves students in their home district.

Senator Morales asked about interpreters and recent troubles with accreditation. NMSD responded that they are still working on the issue. Senator Cisneros asked about the value in legislating credit for signing. NMSD responded that it is already recognized as a foreign language nationally and offered at many high schools across the state, but the challenge lies in finding qualified teachers.

New Mexico Military Institute (NMMI): Colonel David West and Colonel Judy Shalmer presented. Chairman Varela asked how individuals are recruited for Knowles scholarships, and if NMMI is a combination of public school and higher education institution. Colonel West responded students are identified as part of their admissions process, and that NMMI is exclusively an institution of higher education, and that the school is unique in that.

Senator John Arthur Smith asked how much the scholarship pays per student. Colonel Shalmer noted it currently funds 55 percent, which has been increased since being fully funded by the Legislature, and that students also have other scholarship opportunities.

University of New Mexico Health Science Center (952) Paul Roth, chancellor of UNM HSC, reviewed the center's 11 legislative requests for FY16. He reviewed the need for raising medical school salaries, requesting nearly \$4.9 million to bring a majority of faculty within the upper quartile of faculty at peer institutions. The request included \$905 thousand for a second cohort of state-funded medical residencies in general surgery, primary care or family medicine, and psychiatry. As in prior years, the Office of the Medical Investigator requested a base increase to support higher utility costs of the facility. Dr. Roth requested state general fund support to increase treatment services provided and continuing medical education with respect to pain management and to initiate a Center for Childhood Maltreatment; both would require multi-year funding commitments. In support of the healthcare workforce committee's efforts and thorough analysis of statewide provider needs, Dr. Roth requested \$275 thousand to continue work funded with a private foundation grant that will expire during FY16. Increased funding was requested for Project ECHO and to initiate a BA/DDS program to help grow a population of dentalcare providers. He also requested funding to expand the current dental hygienist curriculum so that program training is sufficient to help licensed therapists practice to the full scope of state law.

He concluded by requesting funding for phase III of the Dominici Center, \$8 million in general fund support to build capacity for expanding nurse practitioner, general nursing, and other health programs. This last phase of the project would provide additional classroom/lab space. The build-out would cost approximately \$30 million. To date, HSC has \$12 million in general obligation bond proceeds and \$10 million in HSC reserves.

Chairman Varela asked whether any of the requests generated matching or funds. Dr. Roth noted that pain center and maltreatment center could generate additional resources if expanded, since both programs currently attract some outside funding. Project ECHO generates other funding but most funding is restricted and used to provide services outside the state. Chairman Varela

requested more complete budget information on UNM HSC's projects, particularly with respect to federal and other state funds.

Dr. Richard Larson reviewed the October 2014 report by the New Mexico Healthcare Workforce Committee. The committee and report were generated in response to House Bill 219 (2012), which required licensure boards to provide data to the workforce center, created the committee, and directed the committee to evaluate workforce needs and make recommendations. In sum, the committee identified a number of shortages in less-populated counties. Generally (without regard to geography or need) the state needs 153 primary care physicians, 271 certified nurse practitioners and clinical nurse specialists, 40 general surgeons, 104 psychiatrists, and others.

The workforce committee recommended increasing funding for residencies, student loan-for-service and loan repayment programs, strengthen the personal income tax credit, and consider matching funds for local communities to attract and retain care providers.

The committee would like to (1) take the modeling work and link to population projections and identify care needs over time and (2) focus on mental health providers. As noted by Dr. Roth, the foundation grant that had been used to support this committee's work will end in FY16, which is why UNM HSC is requesting general fund support to continue this important work.

A number of members asked about the status of the state's allied loan-for-service program. Senator Carlos Cisneros asked about the department's application for allied health loan program, noting that it was denied so federal matching funds for that program were unavailable for this year. The department will submit another application. In the meantime, the department transferred \$200 thousand in general fund appropriations to maintain the program. Senator Morales asked about the number of students affected with the loss of federal funds, which seemed to be approximately 30 students. Senator Wilson Beffort was concerned about the reason for denying the application, which the department shared was because the application failed to include sufficient data about the state's high need areas and acute care needs. Representative Lundstrom asked how many other applications for funding were denied during the particular grant review cycle, because it is thought that New Mexico was the only state not to receive a new grant.

Representative Tripp asked about the genomics program and lab. Dr. Larson noted that the genomics program receives about \$900 thousand from the state through the tobacco settlement program fund.

Senator Munoz asked about challenges to attract providers to rural areas. Dr. Larson referred to the report, citing examples of best practices, including those in West Virginia or the Health Extension in Rural Offices (HEROs) program in southern parts of New Mexico, to recruit and attract practitioners. Areas that package loan programs, tax incentives, and provide opportunities to connect with specialists (through Project ECHO technology or other options) are key to making rural practitioners successful, connected, and competent in providing care to their communities.

Senator Munoz also asked about the increases in programming and producing providers that could be expected if the capital request is granted. Dr. Roth noted that, with increased capacity of phase three completed, perhaps another 30 practitioners students (nursing, medical, pharmacy, nutrition) could be added to already expanded cohorts of nurse practitioners, BA/MD students, and others.

Senator Morales asked about the BA/DDS program. The FY16 request of \$400 thousand would support the program's initial costs are for operations (faculty, student and academic supports, etc.) and student scholarships. Starting this program would result in a nine-year commitment of nearly \$1 million annually, from when students enter dental school through residency. The BA/DDS program would supplement WICHE loan-for-service and other programs to increase the number of dental health providers in the state.

Representative Lundstrom asked about UNM HSC's reach outside of Bernalillo County. Dr. Roth noted that he would like to see improved collaborations with other healthcare providers, counties and departments, and tribal communities and others to improve the health of New Mexicans. .

Tribally Controlled and Administered Colleges and Universities (TCCUs) Elmer Guy, president of Navajo Technical University; Maggie George, president of Dine College; Larry Mirabel, chief financial officer of Indian American Institute of the Arts (IAIA); and Eric Christensen, vice president of college operations at Southwestern Indian Polytechnic Institute (SIPI) presented. The consortium requested \$500 thousand for its dual credit program, an additional \$400 thousand above FY14 appropriations. The consortium requested \$500 thousand for a research and public service project (RPSP) to bring awareness to tribal communities of college programs and dual credit courses, expand summer bridge programs, and convene a college readiness conference to help tribal educators, leaders and parents. Finally, the consortium requested \$404.5 thousand to study and apply water technologies on rural and tribal lands, windmills and solar energy, and to provide a report on green technologies. Each college presented capital outlay funding requests.

Chairman Varela asked what authority HED has over tribal colleges, and about whether TCCUs have severance bonds as a funding source. HED Deputy Director Glenn Walters responded the department had no direct authority but establishes agreements with each of the tribal colleges when they receive state money. SIPI and NTU responded they had received some bonds. Chairman Varela then noted that the consortium has brought the Indian education system under some kind of organization and asked if there are Indian high schools in addition to the Santa Fe Indian School, especially in the northwest part of the state. Dr. George responded that corner of the state has corner has the highest concentration of Native American students. 90 percent of Native American students go to public schools and usually come to TCCUs academically underprepared, although dual credit has provided an opportunity to better prepare students for postsecondary education.

Deputy Director Walters added that Representative Claschischilliage's memorial has led the department to examine where Indian secondary education has been excluded from funding, and HED will provide a report by the next legislative session.

Higher Education Department (950) Secretary José Garcia quickly reviewed the department's priorities and initiatives from FY14 and for FY15. The department's FY16 budget request of nearly \$120 million includes additional permanent staff and funding for student financial aid programs that meet workforce needs. The request includes a \$5.1 million, or 12.6 percent, increase in general fund appropriations. The department reprioritized based funding, requesting FY14 levels for the High Skills program (\$340 thousand, or 34 percent decrease from FY15 levels) and a \$100 thousand, or 50 percent, increase for the tribal dual credit program. The department requested nearly \$4.7 million in additional general fund support for student financial aid programs: dental residencies, health professionals and allied health loan programs, nursing loan-for-service programs, and a teacher loan repayment program. The department reviewed the \$1.1 million loss of federal grant funds largely due to the conclusion of the College Access Challenge Grant program and \$380 thousand increase in other federal grant programs.

Gerald Hoehne, acting administrative services director, described the department's staffing request for FY16. The department seeks an additional 2.5 FTE to help federal fund program directors address financial audit findings. The department briefly reviewed its request for special appropriations. The department seeks nearly \$500 thousand in general fund appropriations for four projects: a student teacher/mentoring teacher preparation program, a study abroad program with a Central or South American focus, an effort to coordinate efforts to increase Native American student success at state and tribal-controlled and administered colleges, and an effort to complete common course numbering at all institutions and improve articulation and transfer agreements.

Lastly, the department presented a FY14 deficiency request for \$11 million to cover the transfer of funds from the student financial aid special program fund balance to the lottery tuition fund. The department transferred funds from the financial aid special program fund balance in June 2014 pursuant to the General Appropriation Act of 2014. However, the department did not realize that this fund balance was not available as a cash balance but represented accounts receivable owed by students who had received state funds in exchange for completing terms of public service in health, education, and law.

Representative Hall asked how the auditors could have reclassified the student financial aid special program fund balance in 2011 and no one in the department was apprised of the change. He remained concerned that auditors in subsequent years did not flag this matter in subsequent financial audits. He noted that the transfer should not have occurred, whether or not legislators appropriated the funds, since cash was not available.

Senator Morales asked how and when the department discovered the deficiency. Ron Spilman, acting chief financial officer and director of institutional finance, explained the cash management issue, noting that the department became aware of the deficiency on September 27, 2014. The department contacted the Department of Finance and Administration (DFA) to address the matter and the financial auditor. LFC was notified of the deficiency on November 25, with a formal deficiency request filed November 26. Senator Morales observed that the department did not file the deficiency request, along with the special appropriations requests, by the November 7th deadline. There was additional discussion about the department's turnover in key financial

positions, with six administrative service directors and four chief financial officers in the last four years, and the impact on the department's operations.

Senator Morales and others asked about the department's financial audits. The department stated that it has had four consecutive qualified and adverse audits. Deputy Director Glenn Walters responded to questions about their audit findings, particularly old findings dealing with missing student financial aid loan-for-service and loan repayment records. He also responded that financial controls are now in place to address other findings and the findings with respect to federal funds is being addressed. The members asked for copies of the department's internal controls plan, those responsible for implementing the plan, and schedule for completion.

Senator Clemente Sanchez asked whether the department has begun to reconcile student loans. The secretary is working with the auditors to attempt to write-off accounts that cannot be collected. General Counsel Dave Matthews described the department's efforts to reconcile rates and payments for loan-for-service and loan repayments. While old files will not be reconciled, new files will be and are reconciled. Senator Sanchez requested a copy of the department's management discussion and analysis letter for the most recent audit. Mr. Hoehne noted that the department received the letter for the FY14 fiscal audit earlier that day and would provide a copy to the committee.

Chairman Varela commented on the quality of the audits and is concerned that there needs to be more focus on how the department is reviewing funds. He expressed concern that DFA is not as focused on finding and addressing cash management and reporting.

Representative Jim Trujillo asked about the department's efforts on adult basic education and whether the department should be doing more to serve these populations. Mr. Hoehne reported a loss of federal funding, largely due to declines in the federal budget for adult education. Rep. Trujillo expressed concern about whether this grant was filed correctly and sufficient to generate more funding given the state's needs. While total revenues for adult education are \$9.6 million, with \$4.3 million in federal funds and \$5.3 million from general fund, Representative Trujillo noted the significant need for services. He asked about waiting lists for services, which the department noted that programs do not keep waiting lists though the department estimates that 400 thousand need such services. Rep. Trujillo requested the department provide an annual report on the number of programs, individuals being served by program, and individuals who requested services but are not receiving them.

Racing Commission Enforcement Vince Mares, director, New Mexico Racing Commission, discussed the backlog of appeals of horse doping rulings to the hearing officer and to district court. Mr. Mares stated that the commission needs additional hearing officers to move cases through faster.

Representative Ezzell asked if there was a request for proposal for hearing officers. Mr. Mares responded that the contract is under \$60 thousand. Representative Ezzell followed up by asking if there was a request for proposal for the testing lab. Mr. Mares responded that the commission's current contract with UC Davis begins on December 1, 2014.

Senator Papen asked why the most recent request for proposal for a testing lab was cancelled and if the commission had an exception to the procurement code. Mr. Mares responded that the commission voted to withdraw the request for proposal and that the commission worked with the General Services Department to ensure the current contract with UC Davis is legal. Senator Papen commented that New Mexico would be better served by issuing a RFP instead of just having a contract with UC Davis.

Rick Baugh, general manager, Sunland Park Racetrack and Casino, said Sunland Park has excluded 23 trainers in 2014 so far. Mr. Baugh stated that horse doping is killing the industry and that Sunland Park considered not having quarter horse racing this year.

Responding to Senator Papen, Mr. Mares said five felony cases have been turned over the district attorney.

Senator Smith commented that this has been an issue for a long time and that it discredits the horse racing industry in New Mexico. Senator Smith noted that illegal bush tracks could be a violation of the tribal gaming compacts.

Senator Muñoz requested information from the racing commission on the number of cases before the hearing officer that went over four hours, financial records showing the amount of fines issued and collected over the last three years, the dollar amount for testing in the contract with UC Davis, and the number of trainers and owners with positive drug tests still running horses for December 16, 2014, subcommittee on racing.

Wednesday, December 10th

The following members and designees were present on Wednesday, December 10, 2014: Chairman Luciano “Lucky” Varela; Vice Chairman John Arthur Smith; Representatives Henry “Kiki” Saavedra, Larry A. Larrañaga, Don L. Tripp, Edward C. Sandoval, Nick L. Salazar, Jimmie C. Hall, and James E. Smith; and Senators Carlos R. Cisneros, Sue Wilson Beffort, Carroll H. Leavell, Howie C. Morales, George K. Munoz, Steven P. Neville, and Pete Campos. Guest legislators: Representatives Sharon Clahchischilliaage, Patricia A. Lundstrom, Elizabeth “Liz” Thomson, and Jim R. Trujillo; and Senators Craig Brandt, William F. Burt, Lee S. Cotter, Ron Griggs, Mary Kay Papen, and Clemente Sanchez.

Children, Youth and Families Department (690) Yolanda Deines, secretary, Children, Youth and Families Department (CYFD), introduced agency staff and stated Deputy Secretary Jennifer Padgett would present to the committee on behalf of the agency. Deputy Secretary Padgett said CYFD’s general fund base request is \$239.5 million, a 3 percent increase over the FY15 operating budget. The total budget request is \$447.4 million, a 1.84 percent increase over the FY15 operating budget. Deputy Secretary Padgett discussed the expansion request for FY16, including \$800 thousand and 12 FTE for an additional juvenile justice reintegration center, \$5 million and 93 FTE for additional Protective Services, \$1.2 million to pilot child advocacy center, \$1 million to pilot family support service centers, \$500 thousand for respite care for foster families, \$700 thousand to pilot a supportive housing program, \$120.3 thousand and 2 FTE for human resource and recruitment support for Protective Services, \$536.7 thousand and 7 FTE for an information technology system to allow the agency to interface with law

enforcement, \$136.1 thousand and 2 FTE for legal assistance for families, and \$118.9 thousand and 2 FTE for the training academy in Program Support. The agency expansion request for Protective Services is intended to assist with the growing number of cases, reduce the amount of overtime paid to current case workers, reduce burnout and create a more manageable workload for staff. It is expected the additional staff will have a positive impact on the retention rates, as caseworkers will be carrying more manageable caseloads.

Chairman Varela asked about average number of adoption statewide. Deputy Secretary Padgett answered many children are not eligible for adoption because they are reunified with their families. Director Rounsville added that the agency will provide additional data but 60 percent to 70 percent of foster children are adopted by foster families. Representative Hall asked, of the kids that age out of foster care what services does the agency provide prepared foster children to live independently? Director Rounsville answered the division concentrates on youth transition programs funded by the federal grants that concentrate on education vocational training, budgeting, and other support services.

Chairman Varela asked if the agency would be proposing a mandatory reporting bill during the 2015 legislative session. Deputy Secretary Padgett responded the agency was planning to introduce legislation. Chairman Varela asked if the Children's Cabinet was active. Deputy Secretary Padgett responded the cabinet is active and the next meeting will occur in January but is not subject to the Open Meetings Act. Chairman Varela stated the cabinet could provide more leadership and support for early childhood systems statewide.

Chairman Varela asked how the agency works with Head Start providers. Director Hendricks responded those providers are funded directly by the federal government; however, many are also licensed childcare and prekindergarten providers, which allows for CYFD presence. Senator Cisneros asked why agency did not receive any funding from the federal Pre-K expansion application and stated New Mexico should qualify because of the state's many risk factors. Deputy Padgett responded the agency applied at the urging of the Legislature, and application was detailed but New Mexico did not know what other states did and does not know the reasons for the denial yet. Senator Cisneros asked if the agency would provide the reasons for denial when the agency receives them and stated the agency should more proactively apply for early childhood funding opportunities. Representative Laranaga stated many other poor states did not receive funding.

Responding to Representative Laranaga, Secretary Deines stated the adoption and foster care process is very rigorous to ensure the safety and security of children. Representative Laranaga stated the agency needs to try harder to recruit families to adopt New Mexico children.

Representative Sandoval asked how many families are rejected or leave the process versus those accepted and if the agency could provide any data. Secretary Dienes stated the agency would make an effort to provide this information. Representative Sandoval asked what the reimbursement rates for foster parents are and Director Rounsville reported on average the monthly reimbursement is about \$615. Representative Sandoval asked about the reimbursement for respite care, and Director Rounsville said foster families receive \$25 a day to provide respite care.

Representative Laranaga asked for the agency's highest priority FY16 funding request. Secretary Dienes stated the agency would work with DFA to shave the funding request and provide priorities.

Representative Trujillo asked if the agency could provide additional information regarding the juvenile justice continuum and what current funding supports. Deputy Secretary Padgett responded JJAC disperses \$2.2 million in an RFA process and stated there is no additional funding for new continuum boards but all existing services are fully funded. Representative Trujillo asked what services the agency was providing for secure juvenile sites to reduce recidivism. Director Stewart stated front-end services at continuum sites require county collaboration for programs and are the focus to prevent recidivism. Representative Trujillo asks if the agency could address any additional needs for court system support for youth. Deputy Secretary Padgett stated she was unaware of any unmet needs for support from the courts.

Senator Munoz asked what the gaps were to prevent maltreatment. Deputy Secretary Padgett referred to the agency presentation highlighting front-end services and stated the agency is working on system reform to prevent future tragedy. Senator Munoz asked if the agency could provide prekindergarten and home-visiting services data for McKinley County. Deputy Secretary Padgett said the agency would provide the information.

Senator Morales asked if the agency plans to change eligibility requirements for childcare assistance. Deputy Secretary Padgett stated the agency is currently reviewing eligibility requirements, which may realign to 160 percent of the federal poverty line with existing revenues. Senator Morales asked why turnover is high for early childhood service providers. Dan Haggard responded FY15 incentives funding helped to stabilize many early childhood service providers and the additional funding served about 100 additional individuals. Senator Morales asked if there was any the plans to accept other accrediting bodies for childcare assistance providers. Mr. Haggard responded the agency recently approved an additional accrediting body and all but one are now recognized.

Senator Morales about agency support services for grandparents with foster or adoptive children. Deputy Secretary Padgett stated the agency is considering legislation for increased supports and rights for grandparents and the agency currently prioritizes grandparents for foster care placement.

Senator Morales asked when the agency will know FY14 reversions for Protective Services Program. Deputy Secretary Padgett responded the agency will know reversions by division early in 2015. Senator Beffort asked if the federal government mandates first refusal for adoption for foster parents. Director Rounsville stated the federal government and the agency does not mandate first refusal. Senator Beffort asked if foster families are the best selection for adoption. Director Rounsville stated foster families are carefully vetted for the best placement of children, which may or may not be the foster parents. Families who adopt from foster care usually leave the system after adoption.

Department of Health (665) Retta Ward, secretary, Department of Health (DOH), highlighted health statistics. Leonard Tapia, administrative services division director, summarized the

department's FY16 budget request totaling \$556.8 million, a general fund increase of \$6.65 million. He indicated other revenue are down by \$3.8 million, primarily associated with unrealized Medicaid and land grant permanent fund revenues. He said the \$6.65 general fund increase was requested to restore DOH facilities to FY14 levels and pilot a medication dispensing system. He further discussed the Facilities Management Program, saying compared with FY14, the program's FY15 general fund was down \$4 million. The request includes \$2.8 million for personal services and employee benefits, including a 3 percent increase for General Services Department risk rates. He said contracts were increasing in facilities based on provider pay rates and that contracts in the Public Health Program had changed due to the federal Affordable Care Act. Mr. Tapia also indicated DOH would like authority to move funds across programs in FY16.

Senator Beffort questioned funding levels for Rural Primary Health Care Act (RPHCA) contracts, and Mr. Tapia and others did not have an answer. David Roddy, director of the Primary Care Association, indicated the DOH FY16 request includes approximately \$11 million from the general fund, \$2.1 million in county-supported Medicaid funds, and \$2.5 million for New Mexico Health Resources. Senator Beffort asked if the Turquoise Lodge adolescent treatment unit was fully occupied and Jeremy Averella, director of the Office of Facilities Management, responded the unit currently had 11 children. Sequoyah Adolescent Treatment Center currently has 12 children but plans to get to 27 children soon because both facilities are adding new staff.

The chairman asked about the Administration Program's request to add 4 FTE and the department's request for an FY15 supplemental appropriation of \$6.4 million and if the FY16 request accounted for the supplemental. Mr. Tapia indicated it did not, and said the department was requesting a 2 percent increase in personal services and benefits and the agency's vacant rate was 12.5 percent.

Representative Larranaga asked about the state's readiness to address infectious disease. Michael Landen, Epidemiology and Response Program director, indicated the state has a good capacity and discussed the flu vaccine's coverage for virus mutations. Representative Larranaga asked if federal funds were cut everywhere, just not in the Public Health Program's contract category, and the department responded only discrete reductions in particular federal grant funds occurred. Representative Larranaga asked if many uninsured remain in New Mexico and Secretary Ward responded not all folks will be insured and DOH has to provide safety net services.

Senator Smith asked about nurse capacity at DOH facilities and what percent of nurses providing services are actually on contract. Secretary Ward responded by saying the state needs to work on solutions for attracting nurses.

Senator Morales asked about DOH facilities' funding through FY08. DOH staff indicated it did not have the data but would get it. Senator Morales asked about the status of Joint Commission accreditation at Fort Bayard Medical Center and was told by Mr. Averella that Fort Bayard Medical Center and Turquoise Lodge are trying to achieve accreditation in FY16. Senator

Morales indicate more funds could be used for rehabilitation and substance abuse treatment services to enhance the quality of services.

Representative Sandoval asked if the developmental disabilities (DD) Medicaid waiver was reverting funds in FY14 and Cathy Stevenson, DD Support Division director, indicated the program was reverting \$6 million and expected to revert \$5 million in FY15 and none in FY16. Representative Sandoval asked if the division has changed its internal processes and procedures to speed up allocations to the DD waiver, and Ms. Stevenson said the division is conducting outreach to people on the waiting list and allocating slots. Ms. Stevenson was questioned why Jackson lawsuit class members were served under a different program category than other DD waiver clients, and she responded the Jackson members were under a court-ordered settlement negotiated two years ago and the program is currently reviewing the settlement.

Representative Lundstrom asked about articulation of nursing credits across institutions of higher education and Secretary Ward responded all states schools are complying beginning this semester. Representative Lundstrom questioned which college gets credit under the higher education funding formula when students transfer. There was no response.

Chairman Varela requested the department to distinguish unfunded and funded positions and provide a projected budget to the House Appropriations and Finance Committee in January.

Human Services Department (630) Human Services Department (HSD) Secretary-Designate Brent Earnest opened by noting that of the department's \$6.57 billion FY16 budget request, about 80 percent is from federal funds, 4 percent is other state revenue, and 16 percent is general fund. This represents a 13 percent increase overall and a \$41 million, or 4.1 percent increase, in general fund revenues. Although, he explained that with updated estimates, the general fund need was now projected to be \$53 million over FY15. The federal fund increase over FY15 was 15.5 percent, or \$708 million.

The secretary explained that Medicaid spending is increasing primarily due to significant enrollment growth; however, HSD managed to maintain relatively flat general fund spending with additional federal funds, sound management, and program innovations. Mr. Earnest referred to the agency presentation, which included a table demonstrating FY12 actual spending (all sources) for the Medicaid program of \$3.6 billion increasing to an FY16 projection of \$5.5 billion; the increase in general fund spending for Medicaid was \$849.5 million to \$944.5 million for the same time periods, respectively. Another table in the presentation was a graph demonstrating enrollment growth for January 2013 to May 2016 (projection) and demonstrated the increase in Medicaid enrollments due to Medicaid expansion under the Affordable Care Act (ACA). Enrollment is expected to increase from under 600,000 in January 2013 to over 800,000 by May 2016. Finally, he noted some 30,000 unexpected new enrollees, called "woodwork" enrollees, are eligible under traditional Medicaid and do not qualify for 100 percent federal funding and so represent an unexpected general fund need.

Mr. Earnest provided a breakdown of major changes in the FY16 request that included \$37.5 million for increased enrollment growth, a \$4.5 million reduction that reflects a higher federal funds rate but less in drug rebate revenue, and a \$15 million increase for utilization and medical

price inflation, including increases for a new hepatitis C treatment, which is more costly but produces better outcomes for patients. Mr. Earnest said the department will provide updated projections before the start of the 2015 legislative session. Mr. Earnest pointed out the Medical Assistance Division administrative spending is only 1.4 percent of the total program budget. Finally, Mr. Earnest noted the FY16 request still contains a \$9 million to \$10 million shortfall and the HSD request assumes the counties will make up the difference.

Mr. Earnest then gave members an update on the implementation of Centennial Care, noting the program is completing its first year and more than 265 thousand recipients have had a health risk assessment and 54.6 thousand are receiving care coordination. HSD continues to meet the 110 special terms and conditions of the Section 1115 Research and Demonstration Waiver, including implementing the independent consumer support system, meeting regularly with the Native American Technical Advisory Committee and implementing the Safety Net Care Pool and Hospital Quality Improvement Incentive program. HSD is working on payment reform and performance initiatives to move New Mexico toward purchasing value and quality rather than quantity.

Regarding the Behavioral Health Services Division (BHSD) specifically, Mr. Earnest noted a 30.8 percent increase in the number of New Mexicans accessing behavioral health services in FY14. The request for BHSD is \$57.8 million, with \$39.5 million from the general fund. The request restores \$1 million of the FY15 reduction to better maintain statewide services, and includes enhanced non-Medicaid services for veterans' services, provides more transitional living services, and expands the crisis access line.

Mr. Earnest then listed some of the department's priorities for behavioral health, including integration of behavioral and physical health services, care coordination, health homes, and successful programs like screening, brief intervention, and referral to treatment (SBIRT). HSD is also working to increase the capacity of the current behavioral health workforce and improve access by adoption of an open access model, group psychotherapeutic services, and expanded scopes of practice with appropriate supervision. The department will also attempt to reduce behavioral health workforce shortages through expedited New Mexico clinical licensure for those coming out of school and relocating from out-of-state, improving the regulatory structure to ensure providers can operate with less administrative burden and costs, and collaboratively build community crisis response systems that provide for mobile crisis and stabilization capabilities.

The request for the Income Support Division (ISD), the largest division, is \$896.3 million, mostly in federal funds for the Supplemental Nutrition Assistance and Temporary Assistance for Needy Families programs (SNAP and TANF). The request from the general fund is \$44.5 million, down \$1.3 million from FY15. Mr. Earnest noted ISD was able to reduce the general fund request by taking advantage of higher federal matching rates for eligibility functions. The ISD request included \$128 thousand increase to raise the minimum monthly state SNAP supplement from \$25 to \$30, the federal rate. He stated more than 9,000 elderly New Mexicans will benefit from the increase.

Mr. Earnest said ISD is processing complete applications in two to 10 days, the application backlog has been cleared, and the program is complying with federally interfaced applications. The customer service center intake has also been expanded and improved to ensure incoming calls are resolved through a more positive telephone experience. Individuals are interviewed upon contact and do not have to wait for a call back.

Mr. Earnest noted that ASPEN, the department's client information data system, has been operating successfully for over a year and that Medicaid has begun planning for a revamp of the MMIS (Medicaid Management Information System). Additionally, the Child Support Enforcement Division is replacing its CSES (Child Support Enforcement System) computer system. He noted planning has begun for the project and they have begun implementing a joint project management model to manage across these programs.

Finally, Mr. Earnest provided a brief update regarding the New Mexico Health Insurance Exchange system. He noted the SHOP system, which is for small businesses, is supposed to be self-sustaining by next year and that a sustainability plan developed for the system might have general fund impacts to the state. The development of the full New Mexico health insurance exchange (businesses and individuals) was put on hold for a year after new federal requirements resulted in delays and worries the system would not be ready for the open enrollment period beginning November 2014.

Senator Beffort asked about the expensive drug Sovaldi for hepatitis C and expressed concerns about increasing costs to the state for a population at risk of reinfection. Mr. Earnest responded that reimbursement for the drug was developed under very strict guidelines to ensure the treatment was available to people who were not just positive for hepatitis C but also very sick, such as suffering from liver disease. Ms. Beffort continued, wondering if perhaps the post-jail population could be put into a high-risk pool and maybe the state should have delayed acceptance of the drug until we fully understand the potential financial impact of it.

Senator Leavell asked about Arizona-based Turquoise Health and Wellness in Carlsbad, noting they are reportedly losing \$1 million per month and might even leave the area. Mr. Earnest responded the facility is in a difficult site to sustain but they are still there. The HSD Behavioral Health Services Division director has been in conversations with them. Senator Leavell requested more thorough update from the department.

Senator Neville referred back to the \$9 million to \$10 million shortfall, and Mr. Earnest said he did not know of any legislative proposal so far to require counties to pay more. The senator also raised concerns about whether rate increases to hospitals had taken place. Mr. Earnest responded the fee-for-service rates had been finalized by the federal government and should be forthcoming; the MCOs should have begun paying the new rates already.

Representative Larrañaga asked what the department was doing to cushion the costs of Medicaid expansion. Mr. Earnest responded that they were focusing on ways to drive down healthcare costs and finding ways to avoid waste. The representative also asked about the new work requirements for food stamp recipients. Mr. Earnest replied HSD was reinstating employment and training requirements for able bodied adults without dependents; the department believes the

requirements are important to help engage people with the workforce. He noted the requirements had been pulled back in response with the lawsuit but that now they were carefully following proper protocol and the new requirements would have a March or April 2015 effective date.

Review of Special, Supplemental and Deficiency Requests David Lucero, deputy director, LFC, and Richard Blair, State Budget Division deputy director, DFA, briefed the committee on special, supplemental and deficiency requests. Mr. Lucero began by providing an overview of the funding criteria, which states that an agency must demonstrate austerity practices and provide documentary evidence that no other funding is available, the request must be consistent with LFC priorities for FY15 and FY16, and that agencies are not circumventing law or common practice. State agencies requested \$150.1 million for special, supplemental, and deficiency appropriations, including \$99.2 million from the general fund and \$50.9 million of other revenue. LFC recommends that the special appropriations for the courts be lumped together and the Administrative Office of the Courts allocate the funds based on priority. Other highlights of special requests include \$9 million to the Attorney General and the Office of the State Engineer for ongoing water litigation, \$3.9 million from the general fund to the Department of Finance and Administration for the second phase of the review and reconciliation of bank versus book transactions relating to SHARE, \$5.5 million from the general fund to the Economic Development Department for JTIP, \$3.6 million from the general fund to the Spaceport Authority for a projected FY16 budget shortfall, \$2 million from the general fund to the Corrections Department for a transitional living pilot program, and \$2.4 million from the general fund to the Department of Public Safety for vehicle replacement. Mr. Blair commented that committee should support the DFA requests. Mr. Lucero discussed how the Economic Development Department requested funding for LEADA through capital outlay and that LFC recommends funding for LEADA as a special appropriation. Next, Mr. Lucero gave the committee highlights of the supplemental and special requests, which included a deficiency for juror pay, a supplemental for the Public Defender Department, and a deficiency for the FY14 shortfall in Medicaid.

Representative Varela asked how many request are recurring and why is there a recommendation to Legislative Council Service. Mr. Lucero responded that there are no recurring requests and the recommendation for LCS is to examine the state's options for fixing the cash reconciliation issue. Representative Varela commented that the State Auditor should be handling the cash reconciliation issue. Senator Muñoz asked how many FTE does the Spaceport Authority have and what is the shortfall in the FY16 budget. Mr. Lucero responded that the Spaceport Authority has 10 FTE but approximately half of the positions are vacant and that LFC is waiting for projections from the Spaceport Authority. Representative Larrañaga stated that there is a report saying that 300 inmates are currently in prison but are eligible for parole.

Recommendations of Interim Committees Representative Liz Thomson, co-chair of the Tobacco Settlement Revenue Oversight Committee, indicated the committee supported two changes to the FY15 funding allocations: transfer \$1 million from the Human Services Department's breast and cervical cancer treatment services to the Department of Health's (DOH) breast and cervical cancer screening program for three-dimension mammography, and to use an additional \$5 million for DOH's Family, Infant, Toddler (FIT) Program provider rate increases. The committee endorsed one bill and that was to tax nicotine in *e-cigarettes*.

Senator Griggs presented the report of the *transportation infrastructure revenue subcommittee*. Senator Griggs stated that the committee spent the last two interims looking into three primary concerns: the condition of the roads, the cost of the improvements, and options to add or prioritize funding.

The committee found that the road system in New Mexico is rapidly deteriorating, most notably in southeast New Mexico in Lea and Eddy counties. NMDOT officials stated to the committee that \$127 million is currently needed for critical projects statewide. Other areas of great need in the state are in Dona Ana County, where the Santa Theresa border crossing needs additional infrastructure to maintain and increase the amount of shipping through the crossing.

The committee looked at various ways of funding the needed road projects. Senator Griggs stated that the committee looked at redirecting severance tax bond capacity from use for public school capital outlay to the NMDOT for road maintenance and construction. Senator Griggs also reported that the committee looked into increases in the gas tax as well as re-directing the motor vehicle excise tax from the general fund to the state road fund.

The committee endorsed four pieces of legislation. The first would extend the overweight zone at the Santa Theresa port of entry from six miles to 12 to allow trucks to access all parts of the Union Pacific rail station which extends 11 miles past the port. The second would appropriate \$200 thousand for a replace and repair assessment on army surplus bridges in McKinley County. The Third would allow all counties and municipalities to increase the local gas and special fuels (diesel) tax by 2 cents per gallon. The final bill would allocate \$100 million from the severance tax bond fund each year for the next six years to a NMDOT transportation district to use for construction or maintenance activities in those districts.

Senator Smith asked whether increases in weight-distance penalties and fees were discussed. LFC Director Abbey responded that it is cheaper for truckers to risk getting caught without a permit than it is to wait in line to purchase the trip tax. Director Abbey noted that surrounding states, including Texas, have much steeper fines for noncompliance with the trip tax.

Senator Cisneros asked if a county or municipality were to increase its special fuels tax, would that push drive truckers to purchase fuel in other places or out-of-state. Clinton Turner, NMDOT's chief economist, responded that the increase would not matter because diesel fuel is taxed where it is burned rather than where it is purchased so that a tax increase in New Mexico should not result in loss of tax revenue.

Senator Leavell stated that rather than raising new taxes, the state should look at where currently collected tax dollars are going.

Thursday, December 11th

The following members and designees were present on Thursday, December 11, 2014: Chairman Luciano "Lucky" Varela; Vice Chairman John Arthur Smith; Representatives Henry "Kiki" Saavedra, Larry A. Larrañaga, Don L. Tripp, Edward C. Sandoval, Nick L. Salazar, Jimmie C. Hall, and James E. Smith; and Senators Carlos R. Cisneros, Sue Wilson Beffort, Carroll H. Leavell, Howie C. Morales, George K. Munoz, Steven P. Neville, and Pete Campos. Guest

legislators: Representatives Patricia A. Lundstrom, and Jim R. Trujillo; and Senators William F. Burt, Lee S. Cotter, and Clemente Sanchez.

Public Education Department (924) and Public School Support (993) Hanna Skandera, secretary-designate, and Paul Aguilar, deputy secretary of Finance and Operations, Public Education Department, presented the budget requests for the department's operating budget and public school support. Ms. Skandera noted the department's operating budget request was flat. She then the PED request totals 48 percent of the projected \$140 million in new money, or \$68 million. Of that amount, the department requested 31.9 percent for department-administered initiatives. Ms. Skandera noted the department's request included \$11.1 million for enrollment growth, \$5.5 million in insurance, and \$5 million for fixed costs. The department request included two pay initiatives -- \$6.7 million to increase the level one teacher minimum salary to \$34 thousand (affecting 2,000 teachers statewide) and \$5 million to provide stipends to highly effective and exemplary level three teachers contingent on enactment of legislation. Ms. Skandera also noted the department will be supporting legislation to allow teachers to advance licensure level more quickly. Ms. Skandera proposed testing costs be moved from the formula to the PED operating budget. Currently, school districts and charter schools are billed directly by the vendor. Ms. Skandera noted assessment costs are decreasing from \$7.5 million to \$6 million pursuant to the new contract. PED is working to enter into agreements with each school district and charter school to be able to collect test fees and pay the vendor in FY15. Ms. Skandera noted this will be more efficient.

Mr. Aguilar outlined the transportation request. The department applied an inflation to the request for operations and fuel. He noted school districts are concerned money available for fuel is insufficient. Mr. Aguilar noted contractor rental fees are estimated to decrease.

Mr. Aguilar stated PED requested \$2 million in recurring general fund for emergency supplemental funding to meet the needs of smaller school districts. The need has been reduced due to House Bill 35 of the 2014 session (the microdistrict bill).

Representative Varela asked about school audits. Mr. Aguilare noted there are no school districts currently on the State Auditor's at-risk list.

Ms. Skandera noted PED is proposing \$25 million for instructional materials, flat funding from FY15 appropriatons; however, the entire amount is recommended from recurring general fund revenues. Additionally, she noted annual appropriations for dual credit instructional materials are insufficient to cover the cost. The department requested additional funds for dual credit instructional materials and proposes to distribute a portion based on a formula and retain a portion for school districts to be able to apply for supplemental funding.

The department recommended a flat budget for Indian Education. PED is working with tribal leaders to create a pipeline for Native American teachers.

Ms. Skandera stated the department's request for categorical public school support is an increase of 4.7 percent.

The department requested a flat budget for regional education cooperatives (REC), but also requested an additional appropriation to support reform initiatives through RECs.

The department asked for a \$1 million increase for the K-3 Plus extended school year program. Ms. Skandera noted last year 16,696 students were served last year. The department's FY16 request would serve approximately 23 thousand students. Ms. Skandera requested a \$1.8 million increase for prekindergarten. Skandera noted only 287 students were on waiting lists this school year in districts with prekindergarten programs.

Ms. Skandera noted \$15.5 million is requested for New Mexico Reads to Lead, the department's early literacy initiative. The additional funding would provide increased professional development and training opportunities. Funding is providing reading coaches in English and Spanish, as well as training teachers. She also noted the department's request for funding to continue providing a book to each first grader.

The department requested funding to expand the breakfast after the bell program to middle schools. A bill was enacted in 2014 to expand breakfast after the bell to middle and high schools contingent on funding. Ms. Skandera noted the department's request for the evaluation system is flat.

Ms. Skandera highlighted the department's requests for teacher and principal training programs. She noted educator preparation programs are not adequately preparing educators. Pursuant to the FY15 appropriation, universities, in partnership with each other and department approved partners, have proposed new training programs. The department's request for funding will continue support of those programs.

Ms. Skandera noted the department's request for teaching support for low-income students is flat.

The department's request for the science, technology, engineering, and mathematics (STEM) initiative is an increase. The appropriation funds support and training for teachers in STEM fields and provides stipends to recruit and retain math and science teachers.

The department requested an almost \$2 million increase for the pay for performance pilot. Awards have been made nine school districts and 10 charter schools to provide merit pay for teachers and school leaders. Ms. Skandera noted \$11.1 million in funding requests were received by the department. All but one school district received 75 percent of their request. Proposals ranged from individual stipends to group stipends.

Ms. Skandera noted PED is requesting \$12.5 million for interventions for struggling schools, students, and parents, including programs like the University of Virginia School Turnaround Specialist Program, the state's principals pursuing excellence program – a principal mentoring program – and support for struggling middle and secondary students. The department requested flat funding for the parent portal – an IT platform that gives school districts the ability to give parents access to student information.

Ms. Skandera noted the department's revised request included three new programs. First, the department would like to expand the principals pursuing excellence program to teachers – providing stipends to teachers to participate. Second, the department requested money to provide teachers with a \$100 debit card to purchase classroom supplies. Last, the department proposed a new \$1.5 million appropriation to provide stipends to recruit teachers for hard to staff areas or areas of shortage, including bilingual and special education teachers. Representative Varela asked if housing is a problem for teachers. Ms. Skandera noted it is a problem in the southern part of the state. Hobbs applied for and received stipend funding for STEM teachers.

Mr. Aguilar noted the department had four nonrecurring requests. First, the department requested \$1.2 million for contract legal fees for several outstanding lawsuits. Mr. Aguilar noted the plaintiff's have requested discovery from both the department and the Legislative Council Service. Second, PED requested \$960 thousand to cover FY14 audit costs. PED originally contracted with Moss Adams to conduct the FY14 audit but Moss Adams has withdrawn due to conflicts arising from completing previous audits for the Southwest Learning Center charter schools. PED has issued another request for proposal for a new auditor. Third, the department requested \$4 million in emergency support for school districts. Last, PED requested \$2 million to support school district transition to new content standards and computer-administered assessments.

Ms. Skandera closed by noting that 63 percent of the department's request for public education funding was for formula funding, while only \$16 million in new money was requested for department controlled initiatives.

Senator Beffort noted many middle school programs have been cut over time and asked about how schools access after-school and summer enrichment program funds. Ms. Skandera noted schools have to apply for the state grant funding, as well as applying for federal 21st Century Community Learning grant funds. Ms. Skandera indicated she would provide Senator Beffort a list of applicants and schools that received awards. Senator Beffort stated it would be ideal if middle school programs were restored. Senator Beffort noted she would like to see RECs participate more in early childhood programs. She would like to see RECs assist childcare centers with early childhood materials, toys, and books. Ms. Skandera pointed out PED requested an increase for prekindergarten programs and money for RECs to produce innovative reform programs.

Representative Lundstrom questioned the department's request to move \$6 million from the formula to the department's operating budget. Ms. Skandera noted there would be \$6 million less flowing through the formula; however, those dollars would still be funding the same thing whether flowed through the formula or to the department.

Representative Larranaga asked why it cost \$10 million to increase the minimum salary of level one teachers from \$30 thousand to \$32 thousand but PED's request to increase from \$32 thousand to \$34 thousand only totaled \$6.6 million. Ms. Skandera noted PED requested \$10 million to increase level one from \$30 thousand to \$33 thousand and the funding was never reduced to align with \$32 thousand. Rachel Gudgel, LFC analysts, noted the \$10 million included in the General Appropriation Act of 2014 was to increase level one, two, and three

minimum salaries by \$2 thousand each; however, the governor vetoed the increases for level two and three but not the appropriation. Representative Larranaga noted the funds were distributed through the formula but could be used on anything. Ms. Skandera noted Representative Larranaga appeared to be supporting PED's argument for targeted investments because she feels she does not have the ability to hold school districts accountable for specific distribution.

Responding to Representative Larranaga, Ms. Skandera noted the pilot merit pay program provides stipends rather than long-term salary increase while the department's formula proposal is about increasing base salaries. Ms. Skandera stated her budget request provides increased pay for teachers who are performing while also being responsive to areas experiencing difficulty recruiting teachers.

Representative Larranaga questioned the proposal for legal fees and commented that the state is spending money to defend something that could be resolved without litigation. Mr. Aguilar noted the plaintiffs do not appear likely to negotiate as they are moving forward aggressively with the lawsuit. Larranaga noted that formula funding is only one part of funding for public education. Considering all sources of funding, there is approximately \$14 billion to \$15 billion for public education. He questioned if PED is focusing on all funding sources. Mr. Aguilar noted these were issues for the attorney's to consider.

Representative Larranaga noted three new charter schools will be opening in FY16. Ms. Skandera noted that additionally, two charter schools will be closing and that not every charter school is getting a five-year renewal recommendation. Larranaga questioned the difference between a magnet and a charter school. Ms. Skandera magnet schools do not have additional flexibilities offered to charter schools.

Senator Burt asked about who decides what instructional materials are used. Ms. Skandera noted decisions about textbooks are made locally. Educators come together to adopt aligned materials but teachers make decision about what texts they are going to use. They use books that have been approved by other educators.

Senator Burt questioned the percent of graduates that need remedial courses in New Mexico institutions of higher education. Skandera noted 40 percent is a conservative number and she would get new numbers from the Higher Education Department. She noted test scores would likely drop this year.

Senator Munoz asked Ms. Skandera how she was going to prevent school districts from decreasing allocations for instructional materials if teachers are given a \$100 debit card for supplies. Ms. Skandera noted PED will put in as many safeguards as possible. Senator Munoz noted the department is spending a lot of money on teacher preparation programs; however, graduates should be prepared and ready to teach when they graduate. Munoz noted school district and charter school cash balances are high. Skandera noted the department recommends a 3 percent to 5 percent cash carry-over amount. Mr. Aguilar noted 8 percent is ideal. He also noted Albuquerque Public Schools is unique because Moody's is pushing the district to have a 10 percent cash balance to keep their AAA bond rating.

Senator Smith noted the amount of money in cash balances is high and it is concerning to him that members are often approached by school districts stating they do not have needed resources. He noted \$196 million in cash balances exist. Ms. Skandera noted about 7.6 percent of annual appropriations are tied up in cash balances. Senator Smith requested the department work with school districts and charter schools to reduce the amount of cash carry forward. Senator Smith requested information on industrial revenue bonds.

Senator Clemente Sanchez noted some states are moving away from Common Core (CCSS) but there does not appear to be much difference in the content standards replacing the CCSS. Ms. Skandera agreed. Senator C. Sanchez asked how the department is spending Indian education money. Ms. Skandera noted tribes must turn in a plan to be eligible for funding to preserve language and culture. Senator C. Sanchez noted language and culture should be taught at home. Senator C. Sanchez then asked about the problems with the teacher evaluation system and whether they have been resolved. Ms. Skandera noted the biggest problem was related to data. She noted the department worked with districts to ensure correct data is included in teacher evaluations. Additionally, she noted department staff worked with the superintendents association to establish a process to submit data multiple times annually.

Representative Jim Trujillo asked how high school graduation requirements are aligned with university entry requirements. Ms. Skandera noted representatives from higher education were involved in the development of CCSS. Additionally, the new Partnership for Assessment of Readiness for College and Careers assessment has five potential performance levels – 1 through 5. A score of 4 or 5 means a student is ready for college.

Department of Transportation (805) Tom Church, secretary of the Department of Transportation, stated NMDOT received \$841 million in total revenue. Mr. Church then addressed a question asked the previous day by Chairman Varela regarding NMDOT's request for \$400 million in roll-over authority for the Programs and Infrastructure Program. The roll-over authority makes it possible for NMDOT to fund multi-year construction projects through the close of the fiscal year. Mr. Church pointed out that NMDOT previously had a multi-year appropriation for construction and maintenance expenditures but that the transition to modified accrual accounting resulted in NMDOT's need to have authority to roll-over previously appropriated funding for construction projects into the next fiscal year. Under the modified accrual accounting process, books must be closed out at the end of a fiscal year resulting in the suspension of any ongoing contracts. The \$400 million authority allows NMDOT flexibility to continue contract payments across fiscal years without the need to suspend the contracts.

Chairman Varela asked if the modified accrual accounting would result in problems with the comprehensive annual finance report. Mr. Church said it would not. Chairman Varela then stated that he was concerned about the CAFR because New Mexico's bond rating was recently downgraded. Mr. Church reported that there was no change to NMDOT's bond rating and that the NMDOT had recently been able to save \$10.5 million by refinancing \$87 million of existing bonds. Mr. Church further noted that NMDOT has maintained approximately \$50 million in cash reserves which has contributed to the positive bond rating.

NMDOT's budget is made up of two basic components: state road fund and Federal Highway Administration (FHWA) funds. In FY14, the state road fund realized revenues of \$381.7 million, or 45 percent of total transportation funding while FHWA revenues totaled \$372.9 million, or 44 percent of total funding. The remaining 9 percent of funding includes state road fund reserves, local government road fund, and Federal Transit and National Highway Traffic Safety Administration funds.

Mr. Church stated that the DWI fatality rate hit an all-time low in FY13, but the rate increased slightly in FY14. In addition to DWI fatalities, unbelted fatalities also increased in FY14. The park and ride system is continuing to grow while the Rail Runner has leveled off at around 1 million passengers per year.

Chairman Varela asked what the status of the Rail Runner stop at Zia road was. Mr. Church stated that NMDOT has turned planning of the stop over to the city of Santa Fe and further states that, if the city does not approve the opening of the stop, that NMDOT will remove it.

NMDOT reported that the number of lane miles in deficient condition has increased as the result of the department having an accurate survey of the road conditions. Bridge conditions improved slightly. Generally, New Mexico roads are in better condition than the national average. NMDOT spent 1 percent more for construction services than anticipated; typical cost overruns nationwide are 10 percent to 11 percent.

NMDOT reports that the standard attrition rate of the department is likely around 12 percent. NMDOT has made progress in reducing the vacancy rate from 19 percent in FY12 to 14 percent in FY14.

Senator Cisneros asked what the status of federal funds was and if there was a threat from possible sequestration. Mr. Church responded that there is not a great danger of reduced funding from the federal government. NMDOT has not had any indication of what, if any, action the federal government will take on providing funding for the highway trust fund. Senator Cisneros then asked why fatalities were increasing. Mr. Church responded that most of them seemed to have to do with heavy trucks, particularly in the oil patch area.

Senator Beffort asked what funds NMDOT received from the federal government for weight-distance tax compliance. Mr. Church responded that NMDOT received authorization to spend \$1 million in federal funds for enforcement of weight-distance tax compliance. Mr. Church further stated that the cost to man all of the ports of entry in New Mexico would be \$3 million per year. Senator Beffort asked how much a truck permit costs. Mr. Church stated that a trip permit costs between \$6 and \$14, with a fee of \$200 to register a heavy truck. Senator Beffort stated NMDOT needs to increase compliance on weight-distance tax collection.

Representative Larranaga asked how NMDOT realized savings from bond refinancing. Mr. Church said that NMDOT refinanced bonds and reduced interest costs from 4.69 percent to 3.29 percent, which resulted in a savings of \$10.5 million over the life of the bonds. Representative Larranaga asked if the savings were used to off-set the impending balloon payments for the Rail

Runner. Mr. Church stated that NMDOT would not use the savings to off-set the balloon payments.

Senator Munoz asked if there was any way to increase gas tax based on vehicle fuel efficiency. Mr. Church stated that any change to the gas tax would require a statutory change. Senator Munoz then asked if there was a tax on natural gas and Mr. Church stated that there is a tax on compressed and liquid natural gas and that the proceeds go to the road fund. Senator Munoz then asked if there was an additional tax on electric vehicles. Clinton Turner, chief economist, stated that there was no tax on electric vehicles, but that electricity was subject to the gross receipts tax.

Chairman Varela asked if NMDOT would be requesting an increase in the motor vehicle tax. Mr. Church stated that NMDOT had not proposed an increase, but that the motor vehicle excise tax is currently set to 3 percent and generates approximately \$135 million per year.

Energy, Minerals and Natural Resources Department (521) Secretary David Martin presented for the agency and laid out the budget request for FY16, including a flat base general fund request, an expansion within the State Parks Division using general fund revenue to support increased operations and maintenance costs, and an expansion to increase the Oil Conservation Division's staffing levels using oil reclamation fund revenue. Decreased federal funding in the agency's forestry program resulted in an overall decrease in the budget request.

Chairman Varela asked about the revenue source for the oil reclamation fund, and Secretary Martin replied that a tax on oil and gas production supports the fund. Chairman Varela then asked about the agency's vacancy rate, difficulties in recruitment and retention, if vacancies impacted operations, and what the plans were to fill positions during FY15. Ron Cruz, administrative services director, stated the agency is working with the State Personnel Office to implement geographic-based compensation in Southeastern New Mexico to better compete with the private sector. Secretary Martin noted the agency has lost many experienced employees to retirement, resulting in a loss of institutional knowledge.

Senator Leavell asked about the impact of declining oil prices on drilling applications and permitting. Secretary Martin stated that there was a slight decrease in the number of applications, especially in Eddy County, in November. However, the agency expected a greater impact in the San Juan Basin because producers and infrastructure in the southeast are better established and the play is better known. How long production is able to continue depends on whether the price of oil plateaus or continues to decline. Senator Leavell then asked about federal Bureau of Land Management (BLM) permitting being held up in Lea and Eddy counties. Secretary Martin noted BLM's Carlsbad office had a backlog of 800 drilling applications, BLM was experiencing budget issues, and BLM was also having problems with recruitment and retention due to private sector competition. He stated the New Mexico Oil and Gas Association donated \$800 thousand to BLM to address permitting issues in the Carlsbad office, allowing BLM to hire additional employees and reduce the application backlog to 600 or 650.

Representative Larrañaga asked why the LFC staff recommendation included more federal funds than the agency requested. LFC analyst Jonas Armstrong responded that the recommendation included federal funds the agency expects to carry-over at the end of FY15 but were not included

in the agency's request. Mr. Cruz added that multi-year agreements with the federal government are budgeted in the fiscal year received and any funds remaining at the end of the fiscal year are carried over to the next fiscal year. Director Abbey stated that the LFC recommendation effectively includes federal funds the agency would have requested through a budget adjustment in FY16. Representative Larrañaga then asked for an update on a proposed pipeline in the northwestern part of the state that would relieve the impact of heavy truck traffic on Highway 371. Secretary Martin replied that several pipelines, including the one Representative Larrañaga asked about, are in the permitting process. Representative Larrañaga next asked if there was an issue in getting natural gas from Northwest New Mexico to market, and whether the pipelines would address this issue. Secretary Martin answered that the pipelines discussed are for oil not gas, and they will greatly help in getting oil to market from this region.

Executive Compensation Report Justin Najaka presented the annual report of the State Personnel Office. Mr. Najaka stated that, overall, New Mexico's compensation system is in good shape, but there is room for targeted increases to the most underpaid of the job classifications: protective services, IT, and health care occupations. Mr. Najaka stated that SPO does not think that an across-the-board compensation increase is necessary to improve competitiveness.

To make the state personnel plan more competitive, SPO continues to develop an occupation-based system, which would replace the current single pay structure with 12 different pay plans to allow for increases targeted to certain occupations. The implementation of the occupational-based system will allow the state compensation plan to adjust to the market more easily because single occupations could be selected for targeted increase based on market pay rates.

SPO estimates that 15 percent to 20 percent of all positions are misclassified, meaning that the position title does not match the duties of the employee in the position. Misclassification often occurs when agencies place an employee into a position with a title indicating more responsibility or skills than the employee has in order to justify an increased salary.

Total cost of employee turnover is estimated to be \$120 million annually.

Mr. Najaka stated the current salary structure contains pay ranges that are too wide with a range between the minimum and maximum that is too great. In the current pay plan, the maximum pay rate is 74 percent higher than the minimum. SPO is working to narrow this to the 50 percent to 60 percent range to better reflect the market.

In FY14, new employees were hired at a 96 percent compa-ratio. Mr. Najaka states that it is best to hire new employees at a lower compa-ratio, and that agencies hiring new employees so close to mid-point is a result of the lack of salary structure adjustments. Currently, approximately one-third of all employees in the state are assigned to an alternative pay band. This is another indication that the current structure needs to be updated, it does not necessarily mean that the current salaries are too low.

Senator Beffort asked if SPO was advertising the fact that for each \$1 in salary, state employees receive 72 cents in benefits. Mr. Najaka stated there is a benefits calculator on the SPO website

and there is a need to do a better job marketing the benefits component of the state compensation package.

In FY14, SPO authorized more than 1,928 in pay band salary adjustments for workers at the Children, Youth, and Families Department, Department of Public Safety, Taxation and Revenue Department, and the Corrections Department. The Department of Corrections provided \$3.7 million in pay increases and CYFD provided \$1.3 million in pay increases primarily for child protective service employees. In total, \$5.9 million in in-pay band increases were approved in FY14.

Mr. Najaka stated that, in FY14, the average total compensation package received by state employees was comprised of 57 percent salary and 43 percent benefits. The average state employee salary was \$43,576 and benefits were valued at \$29,653, for an average total compensation value of \$73,229. When New Mexico is compared with the eight surrounding states, state employee salary ranks sixth while New Mexico state employee total compensation ranks fourth. Mr. Najaka stated that New Mexico's benefit package is very rich and SPO would like to transition the salary to benefit ratio to be composed of 65 percent salary and 35 percent benefits.

Mr. Najaka noted that since the implementation of NeoGov, there has been a dramatic increase in the number of job applications received and an increase in the number of individuals viewing job listings.

Miscellaneous Committee Business

Information Items

Review of Monthly Financial Reports

David Abbey, director, LFC, briefed the committee on information items. The Legislative Finance Committee FY14 financial audit is complete with no findings. Director Abbey updated members on 2015 committee-sponsored legislation and said two additional bills will be added relating to the Child Care Accountability Act and tobacco funds.

Friday, December 12th

The following members and designees were present on Friday, December 12, 2014: Chairman Luciano "Lucky" Varela; Vice Chairman John Arthur Smith; Representatives Larry A. Larrañaga, Don L. Tripp, Edward C. Sandoval, Nick L. Salazar, Jimmie C. Hall, James E. Smith, and Patricia A. Lundstrom; and Senators Carlos R. Cisneros, Sue Wilson Beffort, Carroll H. Leavell, Clemente Sanchez, George K. Munoz, Steven P. Neville, and Pete Campos. Guest legislators: Representative Jim R. Trujillo; and Senators Craig Brandt, William F. Burt, and Lee S. Cotter.

Capital Outlay Linda Kehoe, principal analyst, responded to members' questions relating to authorized projects but severance tax bonds not sold due to the governor's executive order requiring certain audit requirements. Ms. Kehoe stated that of the nearly \$25.2 million in bonds authorized but not sold, only \$2.7 million did not sell due to audit compliance issues representing 38 projects in 17 counties. Senator Cisneros asked about funding allocated to the State Auditor

to help entities that are ineligible and need assistance for audits. Ms. Kehoe responded that the Legislature authorized \$160 thousand in 2014 and indicated the Department of Finance and Administration and the Officer of State Auditor are working together to assist entities meet compliance. The staff of LFC was directed to work on possible amendments to the Audit Act to resolve audit issues for smaller and rural entities.

Sonya Snyder, LFC fiscal analyst, presented the committee with the September quarterly update on outstanding capital outlay projects and the \$1 million or greater report. Ms. Snyder summarized select projects with little or no progress such as Mora County complex, NM Veterans' Home, the executive office building, Los Lunas Substance Abuse Center, and NM Department of Agriculture tissue digester, and the proposed Health and Human Services complex at Las Soleras. Snyder reported staff will post the quarterly and \$1 million or greater reports on the LFC website prior to the start of the 2015 session and that individual sponsor reports will be mailed to legislators prior to the start of the session. Ms. Snyder reported that the next quarterly update is due December 15, 2014.

Ms. Kehoe presented the committee with an overview of available capacity for capital expenditures in 2015 and an overview of the 2015 capital requests from state agencies, senior citizen centers, higher education institutions, special schools, tribal institutions, and local entities. 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 mentioned that as requests are reviewed it is important to note water initiatives in 19 counties were funded in 2014 in lieu of funding state-owned facilities, and the lack of funding for essential infrastructure at hospitals, the veteran's home, nursing homes, public safety facilities, detention centers, the courts, and cultural facilities has further impacted the already substandard conditions.

Ms. Kehoe stated severance tax bond (STB) capacity for capital expenditures is \$230.8 million plus another \$64 million earmarked for water, colonias, and tribal infrastructure. In addition, \$32 million, 10 percent of senior STB capacity, is set aside to fund LFC staff recommendation for road repairs and maintenance, contingent on policymaker decisions and passage of legislation. The supplemental STB capacity for public school construction is \$182.9 million.

Ms. Kehoe said the preliminary funding proposals will be made public in early January when the "draft" bill is pre-filed if so directed by the committee. Ms. Kehoe indicated state agencies requested nearly \$248 million from both STB and other state funds. The staff framework proposes STB for \$101.8 million for the most critical projects impacting public health and safety, the preservation of state facilities, economic development, and projects requiring additional funds for completion. Ms. Kehoe detailed capital requests and noted many of the requests are the same projects not funded in 2014. In addition to state agency proposed funding, the LFC staff framework proposes more than \$41.2 million for expenditure from other state funds such as the state land office maintenance fund, public project revolving fund, state

road fund, miners' trust fund, Department of Game and Fish funds, and public school capital outlay fund.

Ms. Kehoe reviewed the proposed framework for higher education, tribal institutions, and special schools. Ms. Kehoe stated the framework was based on information and data provide at public hearings sponsored by the Higher Education Department (HED). The hearings were held in Albuquerque, Las Cruces, Roswell, Las Vegas, and Santa Fe. The institutions presented requests totaling \$125.4 million. The staff of the LFC, HED, and DFA came to significant consensus in developing the framework for only the most critical infrastructure needs impacting the health and safety of the students, faculty, and the general public. Ms. Kehoe stated many of the large requests should be considered in a year with general obligation bond capacity.

Ms. Kehoe stated LFC staff could provide members, as requested, a copy of the top three priorities based on infrastructure capital improvement plans submitted to the Local Government Division of DFA. She indicated participation by eligible political subdivisions is not statutorily required, but more than 95 percent of local entities participate in the planning process for capital needs.

Senator Cisneros asked if deficiencies from projects requested in 2014 were addressed in the staff framework. Ms. Kehoe replied yes and that the majority of projects in the 2015 LFC framework are the same as the 2014 requests.

Senator Munoz asked if the request from the State Engineer Office for the San Juan River Recovery could be funded by the Game Protection Fund. Ms. Kehoe replied LFC staff would need to research.

Representative Lundstrom asked if LEDA projects will be funded from general fund or if they qualified for sponge bonds. Representative Larranaga added that LEDA also needs funds for more than infrastructure but also need operating capital. Representative Lundstrom also asked about the amount the state has contributed for Indian Water Rights settlement. Ms. Kehoe responded \$35 million in state funds have been appropriated to date, and Representative Lundstrom stated the local portion also needs to be included in the total. Lastly, Representative Lundstrom asked about the prioritization process for senior citizen center funding, specifically for the Navajo Nation. Barbara Romero representing the Aging and Long-Term Services Department explained the process and ranking for recommending funds for certain projects.

Senator Beffort stated that the colonias funding allocations do not seem to be addressing the true colonias area in need, the poorest of the poor.

Senator Leavell stated he was concerned about a comment the president of NMSU-Carlsbad heard indicating that HED would not support funding for NMSU-Carlsbad. Ron James, representing HED, stated he was not aware that such a comment was made.

Senator Clemente Sanchez asked about the possible legislation for roads and what projects the funding would address. He was referred to the list presented by DOT at a previous hearing. Representative Larranaga asked about the UNM Farris building accreditation issue and if the

project will proceed if the additional \$4.7 million was not approved. Matthew Munoz representing UNM stated the project would proceed. Representative Hall stated UNM has spent money on athletics; they should focus spending on improving buildings that have a major impact on academics.

Senator Cisneros made a motion to adopt the staff framework to move forward for consideration by the full Legislature and directed a bill be drafted and pre-filed. He stated he would sponsor the Senate bill. The motion was seconded by Senator Smith. The motion carried.

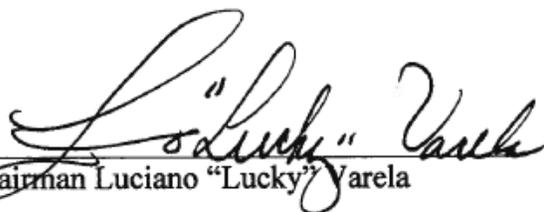
Staff Report – Legislature (111-131) David Abbey, LFC director, presented the budget request for the legislative branch. The overall request is a 1.8 percent increase over FY15. Budgets for the legislative branch are included in the feed bill (House Bill 1), with the exception of legislative building services and Energy Council dues included in the General Appropriations Act.

Final Review. Director Abbey presented to the committee a packet of spreadsheets summarizing the staff recommendations for FY16 appropriations for each agency, a general fund financial summary, and a spreadsheet indicating adjustments to the initial staff recommendations that were presented to the committee during the fall.

Senator Cisneros moved to adopt the staff recommendations contained in the packets, seconded by Senator Neville. The motion carried with Representative Varela.

Members of the committee thanked committee staff for its hard work on the budget recommendation and recognized Director Abbey for his leadership.

With no further business, the meeting adjourned at 10:19 a.m.


Chairman Luciano "Lucky" Varela


Vice Chairman John Arthur Smith