Legislative Finance Committee
Meeting Minutes
Room 322 – State Capitol – Santa Fe, New Mexico
September 26, 27, 28, 2012

**Wednesday, September 26, 2012**

The following members and designees were present on Wednesday, September 26, 2012: Chairman John Arthur Smith, Vice Chairman Luciano "Lucky" Varela, Representatives Henry "Kiki" Saavedra, Larry A. Larrañaga, Don Tripp, Edward C. Sandoval, Rhonda S. King, Nick L. Salazar, William "Bill" J. Gray, James P. White; Senators Carlos R. Cisneros, Stuart Ingle, Mary Kay Papen, Carroll Leavell, Phil Griego, Steven P. Neville, and Pete Campos.

**Program Evaluation: Space Utilization and Impact on Capital Planning**. Jeff Canney, LFC program evaluator, told the committee the evaluation highlights facility planning, compliance with space standards, and options for saving money while housing state employees in adequate office space. Mr. Canney said the evaluation revealed three things:

1. State government uses more space than it needs.
2. The state needs more accurate data to know what it has and where it can consolidate, and
3. All state owned buildings should be under one database with one landlord. Too many agencies manage their own space.

*Key Finding: The General Services Department oversees almost 5.4 million square feet of state-owned and leased office space.* Both the Legislature and executive have sought to align the state's use of space with its need for space.

The state lacks tools to effectively manage the use of office space, including information on where individuals work and other basic data.

*Key Finding: The state implemented steps to improve long-term facility planning, although it needs to reduce fragmented executive agency oversight.* Previous major projects highlight the need for effective follow-through and better planning on the part of agencies.

*Key Finding: Little incentive exists for agencies to make efficient use of buildings. This results in underused space and excess square footage per employee.* Agencies hold surplus space with the expectation to fill vacancies. Budgetary incentive for space efficiency was provided by prior legislation but never implemented.

Despite challenges, the Property Control Division (PCD) has reduced the costs and amount of state-leased space. Further efforts are needed.

*Key Recommendations.* The General Services Department should

- Work with SHARE representatives and the Capitol Buildings Planning Commission to identify each FTE with a unique building identification code;
- Implement the section of the Property Control Act, which requires the General Services Division (GSD) secretary to establish a schedule of building use fees;
- Include utility expense to the building use fee;
- Require any modifications to office space to agree with facility plans approved by PCD;

- Develop meaningful performance measures.

The Legislature should
- Consider removing the exceptions from the Property Control Act to allow GSD to oversee all state-owned buildings with commensurate budget and staff; and
- Include utility expense and the Building Maintenance Division to the Property Control Act as well as increase or remove the expense ceiling.

LFC Director David Abbey noted all agency responses are included in the full report on the LFC website.

Agency Response. Chuck Gara, director, Property Control Division, General Services Department, said the PCD does not have the manpower to research owned and leased space. It is not unusual, he said, for companies to absorb space when downsizing. The highest concentration of space is in Albuquerque and Santa Fe, with approximately 1.6 million square feet leased space and nearly 2 million square feet of owned space. Mr. Gara said the PCD is working with agencies, but agencies have little incentive for efficiency and tend to absorb space when downsizing. Mr. Gara said it is prudent for the state to own rather than lease space.

The PCD is working with agencies on a statewide five-year master plan and from a capital outlay standpoint, it will be beneficial to look ahead at budgeting forecasts and agency needs for repairs. The Risk Management Division (RMD) should be the first contact an agency makes, not the last, he said. A condition assessment on all buildings needs to be incorporated into the five-year master plan. Mr. Gara said other GSD expenses are not reflected in the report, such as janitorial services, and should be reflected as total costs for operating buildings.

Department of Cultural Affairs (DCA) Secretary Veronica Gonzales testified the department's mission is to not only preserve collections, it is to preserve buildings and historical sites. Changing jurisdiction to the GSD would seriously impact the DCA. Anne Green-Romig, director of Legislative Affairs, DCA, spoke specifically to the legal implications of changing jurisdiction, saying removing the DCA's exemption from the PCD statute would make a number of changes in control and possibly prioritization with regard to occupancy and rental use. In terms of private sector support, foundations that raise revenue need the DCA's confidence. Ms. Green-Romig said the department recommends entering into a partnership with the PCD for property management assistance. Ms. Gonzales added the DCA will work toward a statewide plan for consistency.

Representative White stated centralized management does not solve problems with some unique needs of departments, such as hospitals and libraries, and asked what the General Services Department (GSD) supports. Ed Burkle, secretary, GSD, stated the department is in favor of centralization and consolidation because greater efficiencies will be achieved by doing so, although he agreed it may not be appropriate in every case.

Representative White asked Mr. Gara about his philosophy on owning versus leasing properties. Mr. Gara said it depends on the situation of the building and the marketplace -- in Santa Fe and Albuquerque owning is better. Many leases give the state flexibility and owned buildings allow for cost control. A 60 percent to 40 percent mix of owned versus leased was the target.

Mr. Burkle stated the PCD has pledged to work closely with the DCA to develop a memorandum of agreement on the areas the PCD has expertise to provide overall framework and structure for leases and building management, and realizes the uniqueness of their spaces.

Representative Larrañaga said he was floored by the recommendation to place all state-owned buildings under the PCD jurisdiction. Using the New Mexico Department of Transportation (NMDOT) as an example, he said it would require agencies to double their workforce. Mr. Canney stated the NMDOT has a strong argument not to put all department buildings under the PCD authority, however, there are degrees and variations of authority the PCD could have, such as including the administrative buildings under the PCD. Mr. Gara said agencies are not currently providing consistent, accurate space utilization information. Agencies need to take a more responsible role in how space is used.

Mr. Canney said there is no incentive or consequence to how agencies manage space and utilities. Mr. Burkle agreed that there is no incentive to "turn off the lights," adding that the GSD pays $3 million a year in utilities for Santa Fe offices alone. A building use fee created with budgetary efficiency incentives and consequences would benefit the state.

Senator Leavell asked if the space intended for the Human Services Department (HSD) in Santa Fe was still needed. Mr. Gara responded by saying the master plan is to move the CYFD out of the PERA building, and the HSD out of four office buildings, to the new $60 million building. Leasing agencies would then be backfilled into the renovated PERA building.

Senator Griego stated the GSD should control all of it, including Cultural Affairs, because the GSD has the experience.

**Higher Education Funding Formula Update**. José Z. Garcia, secretary, Higher Education Department, reported that the FY13 instruction and general (I&G) funding formula was highly directional and successfully implemented in its first year. He reported his work to date on the FY14 revisions. Revisions were based on the institutions' significant improvements in the workload and statewide outcome measures during academic year 2011-2012 (AY11–12): Funding for end-of-course credit hours rose 5 percent. Total awards granted increased significantly by 13.4 percent. Awards earned in workforce or STEMH (science, technology, engineering, mathematics and health) areas rose 10.1 percent. Awards earned by financially at-risk students rose 19.9 percent.

The secretary described the work of two primary committees responsible for the FY14 funding formula process: the steering committee and a technical committee. The secretary introduced Mark Chisolm, the University of New Mexico director of Institutional Research on loan to the HED to work on the formula data, who chairs the technical committee. Mr. Chisholm complimented the HED for developing an electronic data system. Mr. Chisolm reported data reliability has improved for the FY14 formula run, with the data available online so institutions can verify its accuracy and review how institutional data is being used.

Secretary Garcia continued reporting on the formula development, stating the three institutional sectors – research universities, comprehensive or regional universities, and community colleges – proposed two mission-specific measures each. Research universities proposed being rewarded for the amount of money brought into the state from federal grants and contracts and the timely progress of undergraduate and graduate students toward advanced enrollment levels. Comprehensive universities proposed being rewarded for the timely progress of undergraduate students reaching junior status in three years and the number of entering students who earn at least 32 credit hours within two years after initial enrollment, which generally tracks the freshman fall to sophomore fall enrollment. Independent and branch community colleges want to be recognized for the number of entering students who complete 12, 24, and 36 credit hours at any New Mexico public institution and assigning credit to all other institutions contributing to the student's success (essentially the "transfer" measure), and the number of students who successfully pass a gateway college math or English course after taking a remedial or developmental course.

Secretary Garcia stated the existing formula is working and, with the proposed refinements and additions, a significant increase in the percentage of formula funding should be based on the existing and proposed outcomes.

Tracy Hartzler-Toon, principal analyst, LFC, noted that the course completion rates for the academic year 2011-2012 improved, and this is the year when institutions could influence outcomes in reaction to the formula revisions. With respect to the proposed sector measures for FY14, Ms. Hartzler-Toon said it is important to consider how the proposed sector-specific measures would be valued and how they would be funded. While last year's formula is sound, it is incomplete without the sector measures. Ms. Hartzler-Toon recommended the committee request another formula update in October during the HED's FY14 budget hearing; an update would help institutions and the LFC better understand the department's proposed formula and basis for the FY14 and FY15 budget requests.

Representative Tripp asked why the number of entering students who earn at least 32 credit hours within two years after initial enrollment would be rewarded and measured. Eastern New Mexico University President Steven Gamble responded by saying the goal was to keep metrics simple and improve retention by getting students through their freshman year, where the highest percentage of dropout occurs.

Representative Larrañaga asked how universities are going to measure the amount of money brought into the state from federal grants and contracts. Dan Lopez, president, New Mexico Institute of Mining and Technology, said measuring money not only tells how much economic benefit the state is receiving, it involves students. New Mexico Tech can be competitive under the proposed measures of the funding formula. Ms. Hartzler-Toon said the research sector proposes to review federal reports and institutional reports of actuals to determine the federal grants and contracts received by each institution and distribute funding for this measure based on a rate of federal funds each institution generates.

Katherine Winograd, president, Central New Mexico Community College, said she supports the "outcomes" piece of the formula but noted that a number of economically valuable certificates are not included in the formula.

University of New Mexico (UNM) President Robert Frank testified the formula process will support the growth of UNM's research enterprise. He recommended the state support three separate funding formulas, one for each sector because of their different strategic goals.

The panel also discussed remediation and developing a stronger workforce throughout the state through the formula to bridge the gap between where New Mexico is and where the state should be headed. Representative Saavedra asked Secretary Garcia to follow-up with the *Albuquerque Journal* as to why the newspaper does not support the state's engineering schools.

Representative King asked the secretary how the initial percentages in the working formula draft were calculated. Mr. Chisolm reported that for working purposes, he compared FY13 baseline data (AY 2010-11) with data from AY 2011-12, and assigned an initial percentage to reward the change in awards. Secretary Garcia stated the department recently received data on sector-specific metrics and cannot confirm whether these measures will be ready for FY14 consideration; he indicated this data would likely be used to establish a base year of information.

Representative King asked Secretary Garcia whether his formula recommendation that designates a significant increase in the total proportion of I&G funding to higher education would be carved out of the existing FY13 I&G base or from new dollars; Secretary Garcia responded that he did not have sufficient information to answer that question at that time.

**New Mexico Lottery Authority Update.** Tom Romero, chief executive officer, New Mexico Lottery Authority (NMLA), said the mission is to maximize revenues for education by conducting a fair and honest lottery for the entertainment of the public. Sales began in April 1996 and 100 percent of net revenues benefit the legislative lottery scholarship (LLS). Mr. Romero listed games, including Roadrunner Cash and Pick 3, that are played only in New Mexico.

In FY12, the New Mexico Lottery raised $133.9 million in gross revenues, with $72 million returning to players as prizes, and $41.3 million going to the lottery tuition fund. Mr. Romero said extensive accountability and safeguards are in place, and the NMLA is in the process of adding a legislative portal to its website to allow legislators to obtain statistical information on sales for their areas. The NMLA is mandated to return 30 percent monthly to the state, which limits flexibility to respond to changing market conditions and will be a significant issue if contract terms increase as a result of changes in the lottery industry. In the last four years, the NMLA's profits for education have been the highest in the lottery's 16-year history.

Instant ticket sales have dropped 24.8 percent since 2007, and preliminary FY12 sales indicate scratcher sales are $68.74 million, down $7 million from last year. Initiatives to increase scratcher sales include revamping games to improve odds and winners, promotions with non-winning tickets, introducing a new logo, and a new subscription Internet club. Mr. Romero stated drawing game sales fluctuate with jackpots.

In response to Representative Tripp, Mr. Romero said the U.S. Department of Justice ruled lotteries could conduct gaming via the Internet and the New Mexico Attorney General agreed. New Mexicans could subscribe and pre-pay for tickets, but someone could not get on the web and buy a ticket unless protocol was followed. Credit cards are prohibited. Conservatively, this program could increase revenues by 4 percent.

Senator Ingle asked if sales decreased when ticket prices increased to $2 and Mr. Romero stated Powerball sales increased 26 percent as a result, but the number of people buying Powerball tickets decreased by 32 percent. MegaMillions sales have increased, but states do not have a say in that game. Mr. Romero stated other states are experiencing significant increases in scratcher games, while New Mexico is not, partly because payouts are higher elsewhere.

Chairman Smith said the mandated percentage of return may not have been a healthy move and is extremely concerned. Mr. Romero said he has concerns about the long term -- now the vender contracts are 1.5 percent because of competition – but when contracts are up in two years to three years, he does not foresee competition driving the price down.

**FY12 Performance Report on Key Agencies and DFA Approval of FY14 Performance Measures**. David Lucero, deputy director, LFC, said this annual report represents the culmination of the quarterly performance reporting process for FY12 and will be included with agency budget requests throughout the fall. Mr. Lucero briefly highlighted various agency measures.

Richard Blair, executive budget manager, Department of Finance and Administration, said the DFA has a good working relationship with the LFC, reaching consensus on most measures for FY14. Mr. Blair said new measures were added for key agencies, and some measures were deleted. Robust measures are specific and focus on results rather than the process, and Mr. Blair cited a few examples.

Mr. Lucero added the changes the LFC would like to see in FY14 measures are the following: The Department of Health did not restore vetoed measures as requested by the LFC. The Workforce Solutions Department did not add new measures for overpayments and recoveries. The Department of Information Technology did not add measures on customer satisfaction and cost-effectiveness.

Vice Chairman Varela noted state employees say they are stretched too thin, making it difficult to meet targets in performance measures. He asked why measures are used. Director Abbey stated measures are used to evaluate agency spending requests. Mr. Blair added that one function of the budget division is to assist agencies with developing effective or efficient measures that are good indicators of performance within agencies.

In response to Representative Larrañaga, Mr. Blair stated the performance measure process begins in May when the DFA, the LFC, and agency senior management discuss measures and attempt to reach consensus. Mr. Lucero stated the process is an executive-driven process and in the Accountability in Government Act. Representative Larrañaga questioned why the Department of Health deleted 13 out of 16 measures but added only four. Mr. Blair stated the DOH was an agency with which the DFA did not reach consensus and had resistance. Senior Analyst RubyAnn Esquibel, LFC, told Representative Larrañaga approximately 44 nationally recognized measures were given to the DOH for review and consideration. Additionally, the DOH was asked to review vetoed measures from the General Appropriation Act for possible restoration to maintain a baseline of data over time. Neither request was honored. Ms. Esquibel said the department indicated it is working on a new strategic plan and public health accreditation, so it might come back in FY15 with more robust set of performance measures.

The SHARE system was briefly discussed and Mike Baca with the Department of Information Technology (DoIT) reported the SHARE program is being updated regularly. Mr. Baca said over the next few years SHARE will reach a high level of sophistication and agencies will be pleased. Senator Griego said the problem is that taxpayers are still footing the bill six years later. Mr. Baca said SHARE-related contracts since 2004 include warrantees, performance bonds, and deliverables to protect the state. Senator Griego asked Mr. Baca for a "drop-dead" date to get a drivers' license online. He asked that Mr. Baca get back to the LFC and the Research and Technology Committee with when the Information Technology Commission is meeting next.

**Thursday, September 27, 2012**

The following members and designees were present on Thursday, September 27, 2012: Chairman John Arthur Smith, Vice Chairman Luciano "Lucky" Varela, Representatives Henry "Kiki" Saavedra, Larry A. Larrañaga, Don Tripp, Edward C. Sandoval, Rhonda S. King, Nick L. Salazar, William "Bill" J. Gray, James P. White; Senators Carlos R. Cisneros, Sander Rue, Mary Kay Papen, John M. Sapien, Carroll Leavell, Steven P. Neville, and Pete Campos. Senators Linda M. Lopez and Gerald Ortiz y Pino attended as guests.

**Program Evaluation: Medicaid: Improving Outcomes for Pregnant Women and Young Children.** The evaluation was presented by Pamela Galbraith, program evaluator, and the agency response was delivered by the Human Services Department Secretary Sidonie Squier and the Medical Assistance Division Director Julie Weinberg. The complete evaluation and agency response is on the LFC website at www.nmlegis.gov

The program objectives were

- Review Medicaid program outcomes for pregnant women and young children, including measures of access, quality, and cost-effectiveness; and
- Propose potential strategies to improve outcomes and lower costs.

The evaluation's two key findings and system deficiencies supporting the findings presented to the Legislative Finance Committee (LFC) were

1. Medicaid has the funding leverage to improve health and decrease long-term costs.
    - Lack of standard screening tools and access to well-child visits hampers efforts to boost identification of delays in child development and target interventions.
    - Over a third of infants do not receive the recommended number of well-child visits through Medicaid.
    - Late and infrequent access to prenatal and dental care undermines efforts to improve birth outcomes and lower Medicaid costs for deliveries.
    - More than half of pregnant women enrolled in Medicaid enter prenatal care after the 13th week of pregnancy.
    - Complications with deliveries and newborns result in significantly higher costs.
    - Babies born prematurely are at risk for health problems, but the risk for serious complications increases as the term of pregnancy decreases.
    - Medicaid and the state in general lack a standard screening tool or assessment process for providers to identify maternal depression.

2. Improving long-term outcomes for children will require Medicaid investment in early and intensive prevention efforts.

- Some children on Medicaid have higher risk factors for multiple adverse childhood experiences, which have life-long negative health, social, and cognitive impacts and require intensive prevention services.
- Families with complex needs require additional, targeted Medicaid assistance, though the program lacks some of these needed services.
- In general, children stay enrolled in Medicaid over time, justifying prevention investments.
- Medicaid currently funds a targeted case management service, such as those provided by the Department of Health (DOH) Families FIRST program, to help clients access an array of other supports, but services are not the same as intensive home visiting.
- Families at-risk of multiple adverse childhood experiences lack access to Medicaid intensive prevention services, such as evidenced-based professional home visiting.
- Centennial Care focuses on costly clients and populations, but a balanced approach to investments in generally lower cost pregnant women and very young child are still beneficial.
- Few families in New Mexico have access to evidence-based home visiting, and Medicaid does not fund theses programs.
- Investments in Nurse-Family Partnership home-visiting programs could yield long-term results to taxpayers and society of about $5 for every dollar invested.

The Human Services Department (HSD) should

- Direct managed care organizations (MCOs) to collect information on health risk assessments to identify barriers for late entry into prenatal care so corrective measures can be implemented;
- Direct MCOs to collect, review, and report data from hospitals on complicated deliveries and compromised infants to determine if actions are needed to improve performance;
- Implement information system changes to allow data to be easily retrieved for use in analyzing subsets of populations and services rendered, including children zero to three years of age, number of pre-term deliveries, and reason;
- Require the use of validated, standardized screening and assessment tools, specifically for child developmental delays and maternal depression;
- Update agency-issued prevention guidelines to align with federal and professional organization recommendations;
- Use the DOH epidemiological data to direct MCOs to target interventions towards geographic areas experiencing poor outcomes for pregnant women and young children;
- Direct MCOS to require pediatric practices, especially those designated as medical homes, to complete Envision New Mexico provider training;
- Work with the federal Centers for Medicare and Medicaid Services (CMS) to amend the state plan or apply for a waiver to offer medical-based intensive home-visiting services to first-time, at-risk mothers
- Effectively use medical homes focused on maternal and infant care as part of its Medicaid reform;
- Begin converting at least a portion of the DOH's Families FIRST program to offer nurse-based home-visiting services. The DOH should begin with underserved areas of the state

that do not have evidence-based home visiting using early childhood investment zone data.

The Managed Care Organizations should

- Require hospitals to report elective pre-term deliveries as a performance measure so trend data can be collected on providers and hospitals.

Ms. Galbraith emphasized the one recommendation offering more at-risk families better opportunities for healthier, safer lives is for the HSD to work with the federal Centers for Medicare and Medicaid Services (CMS) to amend the state plan or apply for a waiver to offer health-based, intensive home-visiting services to first-time, at-risk mothers. Given the cost, and the need for it to be well-targeted, the HSD should also consider allowing MCOs to require prior approval before authorizing care.

Agency Response. Julie Weinberg, director, Medical Assistance Division, Human Services Department, clarified the state family-planning-only program covering men and women was implemented 18 months ago with eligibility is up to 185 percent of the poverty level. In response to the LFC recommendations, the HSD agrees or generally agrees with most findings. Regarding the recommendation that the HSD should work with CMS on a state plan amendment allowing longer term, evidence-based home visiting as an approved and reimbursed service, Ms. Weinberg stated it is important for the HSD to better understand and rigorously evaluate the existing home-visiting landscape, which includes 53 programs in operation statewide serving 4,396 families a year, before acting on this recommendation.

*The HSD should direct the use of validated, standardized screening and assessment tools, specifically for child development delays and maternal depression.* Ms. Weinberg stated the HSD will take this recommendation under consideration. Centennial Care is based on integrated total care of a person, and one of the goals will be to assess the whole person. Providers resist using a single, mandated screening tool, so compliance would be difficult.

*The HSD should effectively use medical homes focused on maternal and infant care as part of its Medicaid reform. Community health centers should be at the forefront of this reform effort in many areas of the state.* The HSD expects an expansion all kinds of medical homes addressing many different at-risk populations to develop and will continue to promote patient-centered medical homes and all models of patient centered care in Centennial Care.

Secretary Sidonie Squier said she was concerned the state would start a multi-million dollar birth to age three home-visiting program funded by Medicaid based on a small study of 400 white, rural women in New York. In her opinion, the study does not translate to the diversity in New Mexico, and only 100 of those women had results to suggest New Mexico should invest full-time in a Nurse-Family Partnership home-visiting program. Ms. Squier said data was also concerning because it was based on self-reporting, and there was no independent evaluation of the study. The cost per family of $4 thousand cited by the study was also low.

Ms. Squier referenced Centennial Care, which will be implemented in January 2014. This program includes a robust care coordination system, with all members being assessed within 10 days.

Ms. Squier stated the HSD cannot say that any of the home-visiting programs in New Mexico generate enough savings to justify a full, public investment. Ms. Squier said a $47.9 million investment in home-visiting programs, of which $18.1 million is from state funding, $24.8 million is from federal funding, and $5 million comes from private funding, is a huge amount to spend on programs lacking outcomes and coordination. Ms. Squier stated hundreds of millions of dollars are going into "like services" from various programs in different departments.

In response to Representative King, Jon Courtney, program evaluator, LFC, addressed what was considered the model for the Nurse-Family Partnership. Mr. Courtney said the cost-benefit analysis goes far beyond the 1970 study Ms. Squier referred to, and that study is not used in the model. Ten peer-reviewed studies, the oldest of which comes from 1997, were used.

Senator Sapien asked about the changes made to the family planning program. Ms. Weinberg said the program began as a program for women only up to 185 percent of the federal poverty level, providing annual reproductive health screening and contraception for payment via sterilization or contraceptive device. About 18 months ago, the state plan was modified to make the family planning waiver part of the state plan (full benefit) and added men as beneficiaries of the same benefits. Currently 43,368 people are in the program.

The number of children on Medicaid in New Mexico is 340 thousand, and growth is slower than in previous years. The department has a good rate of presumptive eligibility (coverage up to 60 days while applying for the longer term Medicaid benefit) with children. Senator Sapien expressed the importance of outreach and working together for everyone's benefit.

Representative Tripp asked for clarification on what is a medical home. Ms. Galbraith said a medical home can be a physician-led or group of practices banding together. A managed care organization recommends a medical home, which becomes responsible for the patient's care entirely. The medical home coordinates all services, referrals, and collects data.

In response to Senator Ortiz y Pino, Ms. Squier said her only objection to the LFC recommendation that the HSD work with CMS on a state plan amendment allowing longer term, evidenced-based home visiting as an approved and reimbursed service is the HSD needs to find out exactly what services are being offered before going forward with a new program. Ms. Galbraith said she sees it differently – the state does have an evidence-based, well-studied program in the Nurse-Family Partnership.

**Implementation of Affordable Care Act: Costs and Benefits of Expansion of Medicaid Eligibility.** Brent Earnest, deputy secretary, Human Services Department, said Medicaid traditionally covers low-income families, the disabled and low-income elderly. There are about 40 different categories of eligibility and 567,500 people enrolled today. The federal Patient Protection and Affordable Care Act (ACA) requires states to expand Medicaid to everyone with incomes under 138 percent of the federal poverty level (FPL), basically $26,347 for a family of three. This expansion primarily covers adults age 19 through 64, and the ACA does not allow states to change eligibility for children until 2019. The U.S. Supreme Court ruled the ACA eligibility expansion is constitutional but found it to be a distinct program for which the federal government could not penalize states for not adopting.

The HSD made estimates for Medicaid expansion focusing on FY14 through FY20, with new federal funds becoming available for the expansion. The total projected costs range from $320 million to $496 million in general fund costs, a 3.3 percent to 6.6 percent increase over what would be the current program.

Mr. Earnest said beginning January 1, 2014, 138 thousand individuals are projected to enroll in Medicaid, rising to 168 thousand by FY20. This includes three groups of new enrollees: those currently eligible who sign up because of the mandate, also known as "woodwork"; those who become eligible under the expansion, also known as "newly eligible"; and those who move from the State Coverage Insurance program (SCI) to the newly eligible category.

The total federal and state cost of this new enrollment is approximately $392.3 million in FY14, rising to $1.3 billion in FY20. ACA provides a federal medical assistance percentage (FMAP) rate for the expansion category of 100 percent for calendar years 2014 through 2016, declining thereafter down to 90 percent in 2020. However, the HSD actually projects slightly lower matching rates due to eligibility changes for new enrollees. Over seven years, total federal spending for the New Mexico Medicaid program, with expansion, is projected to be $27.45 billion, and total spending from the general fund would be $7.95 billion. Mr. Earnest said the majority of general fund cost increases are in the "out years," not in the early years. Mr. Earnest noted the ACA includes a new excise tax, part of which New Mexico's managed care organizations (MCOs) will be subject to pay. The HSD estimated rates will increase 1.9 percent due to this fee, at a total cost per year of $53.1 million ($16.4 million annually from the general fund).

Other cost increases are being analyzed. ACA requires a modified adjusted gross income (MAGI) conversion that requires the state to convert 40 eligibility categories to new categories. In effect, the states with generous income disregards (when certain income is disregarded to determine eligibility) will have to raise income eligibility levels -- estimates show this methodology would require the state to raise income eligibility for all children from birth to age 19 from 235 percent up to 350 percent of federal poverty. An additional 70 thousand children may become eligible. Additional federal guidance is coming soon.

Mr. Earnest said two more costs must be considered. In 2013 and 2014, the ACA includes an increase (approximately 10 percent) in Medicaid primary care provider reimbursement rates to the current Medicare fee schedule; in 2015 and beyond the cost to the general fund rises to about $6.3 million per year if the state maintains this new rate. Secondly, the HSD estimates new administrative costs for managing caseload increase and an additional 26 FTE will total $2.78 million a year.

*Medicaid Program General Fund Savings.* The HSD believes the ACA provides special treatment of New Mexico's SCI program, allowing this population to be treated as "newly eligible" for matching purposes. The net savings to the Medicaid program is approximately $17.9 million, because the transferred SCI clients receive the higher federal match. The general fund savings to the SCI program would reach $176 million over seven years.

As enrollment in the New Mexico medical insurance pool ends, Medicaid will realize savings in its capitation rates of about 2 percent, or $16.5 million per year in general funds, offsetting the insurer fee increase. Other estimated savings include $63 million in general fund spending with the ACA's enhanced matching rate for the Children's Health Insurance Program and possible program savings in behavioral health services, with some people becoming newly eligible for

Medicaid. Reflecting these cost factors Mr. Earnest estimated that the total costs to the general fund under the ACA would be $412.8 million from FY14 through FY20.

Mr. Earnest said revenue impacts to the state include the premium tax, which factors in the development of capitation rates paid by the state. The decline of the medical insurance pool might also have additional revenue impact. Mr. Earnest concluded his presentation, saying the multiple, dynamic factors will change over time, the uncertainty of the federal budget is a significant concern, and the department is seeking additional information about the options for states regarding expansion.

Greg Geisler, principal analyst, LFC, told the committee 2011 census data shows almost 400 thousand New Mexicans, 19.6 percent of the population, lack health insurance. The HSD estimates 162,025 of this group will be eligible for coverage with incomes at or below 138 percent of the federal poverty level in 2014 and that more than 100 thousand will sign up for Medicaid coverage by 2015. This number of newly eligible people grows to 131 thousand by 2020.

Mr. Geisler emphasized the LFC's revenue and expenditure analysis does not include woodwork enrollment because woodwork is part of the base – total Medicaid costs—and they are not expansion costs. The LFC analysis does include a lower federal match assumption for newly eligible for the first three years ($42.2 million in general fund costs), as does the HSD estimate.

In addition to the policy benefits of expanded adult coverage, there are revenue benefits to the Medicaid expansion under ACA. The state will generate additional revenues from personal income taxes, gross receipt taxes and premium taxes from new enrollment. Mr. Geisler briefly reiterated HSD expenditures—administrative costs, SCI additional match and newly eligible adults.

The net gain to the state is $32 million in FY14, jumping to $97.1 million in FY15 because it is the first full year of ACA implementation. The federal match declines over time, so in FY20 going forward, expenditures will exceed revenues. This analysis is based on HSD May estimates; future estimates are subject to change.

Mr. Geisler stated that there are other issues to consider. The ACA will have an impact on other healthcare programs, such as the county indigent fund, the sole community hospital program, and disproportionate share hospitals. Policy benefits to the Medicaid expansion include improved health of uninsured adults; improved availability of substance abuse treatment; and reduction in compensated care. There are challenges to implementation: modernizing enrollment systems, implementation of new provider contracts under Centennial Care, developing a health exchange, adequacy of provider networks, and the future of Medicaid funding given federal solvency. Finally, the possible expansion will require further review of tax credits.

Senator Papen asked if the MCO would receive a higher capitated rate for members under the request for proposal (RFP) for Behavioral Health Services. In response, Ms. Weinberg said capitation is the per-member, per-month fee the state pays on behalf of MCO members. The state pays a separate capitation payment to the MCOs for behavioral health services. The HSD will watch and preserve behavior health spending for these services in the Centennial Care Program. The state pays a supplement for Native American services now through Salud, which will remain in the Centennial Care. Ms. Weinberg said the language in the contract will hold the

MCOs accountable to spending at the level for Behavioral Health Services equal to the amount being spent now. Senator Papen said she was concerned about MCO reporting requirements – annual reports would not be often enough. More people will require behavioral health and Senator Papen said she wanted to make sure it is protected.

Representative King requested clarification on the differences and similarities between the HSD and the LFC analyses. Mr. Earnest stated the HSD analysis includes the woodwork impact; both agencies used the same 55 percent high take-up rate for first-year enrollment of newly eligible adults. The agencies differ significantly on revenue. The HSD does not include the medical insurance pool, assumptions of economic impact revenues. Mr. Geisler stated the LFC analysis focuses on Medicaid expansion, rather the HSD presentation, which included the entire Medicaid program. Legislators asked for a common chart with both perspectives. Director Abbey stated that both he and Secretary Squier agree both agencies can collaborate on joint analyses and disclose honest differences.

Representative White asked how undocumented immigrants would be covered under the ACA. Mr. Earnest said some level of uncompensated care will remain after the ACA comes in to play, and undocumented immigrants will be a part of that.

Representative Larrañaga said he is very concerned about the federal debt and what could happen if the government could not match funds once New Mexico commits to changes.

Representative Sandoval asked for the LFC's opinion on revising and changing tax expenditures in response to Medicaid expansion and the ACA. Director Abbey stated that under the ACA and Medicaid expansion, access to healthcare services should increase, therefore, potentially eliminating the need for some credits. Director Abbey recommended considering contingent legislation in 2013.

Senator Ortiz y Pino asked if the rates physicians and providers are paid is set by the HMOs. Mr. Earnest stated the state has a fee schedule that becomes the "floor" for those negotiations. The fee increases will be reset with managed care. Mr. Earnest stated the greater demand for medical services will have a price impact. Senator Ortiz y Pino expressed his concern that the revenue benefits of the ACA had been understated in the presentations.

Elisa Walker-Moran said the New Mexico Bureau of Business and Economic Research (BBER) used the HSD high enrollment scenario to estimate that personal income could increase 0.6 percent by FY20 due to additional dollar and employment impacts from Medicaid expansion. The LFC used this information to calculate other revenue impacts.

In response to Senator Sapien's question about the exchange, Secretary Squier stated the administration is developing a free market exchange where people are able to choose coverage based on needs and price. Stakeholder meetings are in progress. The New Mexico Health Insurance Alliance will run the exchange with resources and collaboration from the HSD. Ms. Squier expressed frustration with lack of guidance from the federal government.

Chairman Smith concluded the lengthy discussion by saying the challenge for the executive and legislative branch is to find something reasonable, responsible, and something we can afford.

**Medicaid and TANF: Preview of FY14 Appropriation Request.** Secretary Squier said the total HSD FY14 budget request is $5.15 billion. Of that, $1.064 billion, or 21 percent, is from the general fund, a $58.8 million increase over last year.

Ms. Squier said the Medical Assistance Division (MAD) is focused on improving the Medicaid program with four desired outcomes through Centennial Care: assuring Medicaid recipients receive the right amount of care at the right time in the most cost-effective settings; assuring the care is measured for quality, not quantity; slowing the rate of growth of program costs without cutting services, eligibility, or provider rates; and streamlining and modernizing the program for better oversight in preparation for January 2014.

Ms. Squier briefed the committee on the status of Centennial Care. The final waiver request was submitted to the federal government on August 17, 2012 for approval. The RFP for the contract for management care was released August 31, 2012. Submissions are due back to the HSD November 20, 2012. Agreements will be awarded and finalized in early January of next year. Notable changes proposed in Centennial Care: a Native American Advisory Board was created, current eligibility rates for the working disabled were set at 250 percent at FPL, and pregnancy-related services were maintained at 185 percent of FPL. Language for self-direction in Centennial Care is clarified.

Total Medicaid Program spending in FY14 is projected to be $4.06 billion with $947.5 million from the general fund. The increase over last year is due to Medicaid base growth, projected costs from Centennial Care, and the ACA. The general fund component of the Medicaid request includes $19.2 million to replace tobacco revenue, $6.6 million for federal matching fund changes, and $1.7 million to implement behavioral health homes to improve care coordination within Centennial Care. The ACA impact includes an $8.2 million to the state for the ACA health insurer fee, $7.6 million for "woodwork" impacts due to the ACA, 4.6 million for "woodwork" impacts, due to conversion of eligibility, and $1.9 million for the state share of implementing the increase for primary care providers.

The Income Support Division's purpose is to assist eligible low-income families through cash assistance, food assistance, medical assistance, energy assistance and supportive services so they can achieve self-sufficiency. SL Start manages services for the HSD under the NM Works Program and has been tasked with providing an improved model for engaging Temporary Assistance for Needy Families Program (TANF) parents and getting them back to work. Ms. Squier said since 2011, more than 8,000 people went back or to work; 3,800 people found full-time work, and 4,251 found part-time work. Ms. Squier praised SL Start for doing what they were hired to do.

The Income Support Division/TANF appropriation request for FY14 is $113.6 million, leaving $23.4 million in carryover balance. For TANF, $61.1 million goes to cash assistance. Ms. Squier said she wanted to propose two pilot programs: $1.7 million to fund a transition employment program (TEP) to provide skill-building, temporary job assignments in the private sector for NM Works participants; and funding for an addiction and substance abuse referral and prevention program in TANF. The department is requesting $2 million from the TANF block grant to go to SL Start to partner with UNM's Addiction and Substance Abuse Program and the Center for Rural and Community Behavioral Health to identify and provide services to TANF recipients who self-disclose, fail a pre-employment drug test, or lose employment due to substance abuse.

In summary, Ms. Squier said with or without Medicaid expansion, the HSD is pursuing changes that will benefit recipients, providers, and HSD staff – all while reducing the growth in costs. In TANF, the department is making strategic investments to help recipients get back to work and stay on the path to self-sufficiency.

Mr. Geisler said for the past two fiscal years ending in FY12, the HSD essentially held Medicaid program growth flat, with total managed care expenditures declining from $2.57 billion in FY10 to $2.42 billion in FY12. The department has been conservative in what was budgeted, and its cash situation has stabilized. Mr. Geisler does not anticipate another deficiency request in this next session.

Vice Chairman Varela asked if the appropriation for nursing homes was utilized. Mr. Earnest said the $26.5 million began flowing in July 2012.

Senator Leavell asked about the Carlsbad Public School situation. Ms. Squier explained the district charged the HSD more than $800 thousand for services for which it had no documentation, could not support, had many missing pieces, and consequently failed an audit. If the school district does not pay the money owed to the state, the federal government will not reimburse the HSD. Ms. Weinberg stated providers are responsible for Medicaid regulations governing their work. The district appealed the decision to an administrative law judge (ALJ), and Ms. Weinberg said she overturned the ALJ's recommendation. Ms. Weinberg was concerned about the possible precedent with Carlsbad of not collecting balances due from audits. Senator Leavell stated Carlsbad has tried to work with the department, and Ms. Weinberg said the department made an unprecedented offer but the district never met the terms of the agreement.

Mr. Ted Roth, director, Income Support Division, stated the proposed TEP is to set individuals in a six-month program designed for a higher level of case management and employment experience. If the recipient only works 20 hours, the other 20 hours to make it a full work-week will be spent on education classes or other soft-skills training.

**Children, Youth, and Families Department (690), Preview of CYFD's FY14 Budget Request.** Cabinet Secretary Yolanda Deines briefly outlined an organizational chart and said the department reorganized so all juvenile services reside under a single division. The CYFD budget request includes $217,762.8 from the general fund, reflecting a 4.83 percent increase over the FY13 operating budget; the FY14 total request is $395,692.0, reflecting a 1.83 percent increase over the FY13 operating budget. This request funds 2,100.6 FTE with an overall vacancy rate of 7.36 percent. Ms. Deines said the department continues to use several recruitment and retention strategies to address vacancy and turnover rate.

The FY14 budget request includes the following base budget increases; $5 million for childcare assistance with an additional $2 million in TANF carryover, serving an additional 1,634 children; $800 thousand to for oversight of registered childcare homes – the CYFD can no longer use federal funding for oversight purposes.

The FY14 budget request includes the following base budget increases from the general fund; $1 million to replace fund balances from the Permanent Land Fund budgeted in FY13; $450 thousand to replace federal funding from the Adoption Incentive Grant, and $500 thousand in additional funding for Client Shelter Care Services. Over the last year, more clients received care through shelter care programs statewide. For conducting background checks on employees and provide recurring funding for training, the CYFD is requesting $125 thousand. Ms. Deines said the CYFD requests $2.15 million for health insurance premium rate increases.

Throughout FY12, Juvenile Justice Services operated at or above capacity, so the CYFD is requesting an expansion of $2.625 million to re-open a 24-bed secure facility in Fort Stanton, with an anticipated opening date of October 1, 2013. The request reflects 75 percent of the costs projected to operate the facility for a full year and includes 50 additional FTE.

Ms. Deines updated the committee on Early Childhood Services. *Childcare Assistance*. Currently, there are 3,978 children on the childcare assistance waiting list, 1,758 are between 100.01 percent and 150 percent of the federal poverty level (FPL). *Home Visiting*. The CYFD plans to request $500 thousand in a special appropriation to work with communities most at-risk (investment zones) to develop more home visitation programs. The CYFD has added six new investment zone sites with new FY13 general funding and four new investment zone sites with federal funding.

Protective Services Update. Protective Services continues to work toward its practice model implementation to insure effective and consistent services are delivered to all children and families statewide.

*Case Worker/Foster Child Visits*. The CYFD has established a new measure to ensure foster children are visited monthly by caseworkers. The federal expectation is for 90 percent of foster children to be visited by the worker every month for 12 consecutive months.

*Child Well- Being Initiatives*. The CYFD is partnering with the PED and the judiciary on a taskforce aimed at improving educational outcomes for foster children. The department is also working Dr. Bruce Perry and community partners to establish trauma-informed assessments and treatment services for children in the care of protective services. The CYFD is also looking at increasing oversight of psychotropic medication use by foster children by monitoring medication decisions.

*Juvenile Justice Services (JJS) Update*. Ms. Deines said the department is continuing implementation and sustainability efforts relating to the Cambiar New Mexico model through increased quality assurance and program integrity audits; involving juvenile probation and supervised release staff in the Cambiar model training and increased involvement with transitional youth; repurposing the Juvenile Community Corrections program to assist youth transitioning back into the community with programs focusing on reducing recidivism.

Representative Tripp asked if the increased need for beds within JJS facilities means the state has not realized benefits with alternative sentencing. Ms. Deines stated in the past the number of children being held in facilities was currently 264, down from 780 children in 2004. Ms. Deines said the House Joint Memorial 21 task force addresses truancy and education issues.

Vice Chairman Varela asked how the CYFD intends to bring its 17 percent vacancy rate down to 7.36 percent. Ms. Deines said the department has temporary, experienced workers to fill the gaps while working with the State Personnel Office to manage lists and reclassifications. Management teams are being trained on how to interview, and the department is working with universities to recruit skilled potential employees. Vice Chairman Varela said in terms of hiring practices, many departments have expressed concern with NeoGov. Ms. Deines stated she believes at the current vacancy rate, the department would have the funding to cover the positions, and the SPO has been very cooperative and helpful.

Representative King commended the CYFD on home-visiting programs and expressed the importance of funding grass–root programs, especially in rural communities. Ms. Deines responded by saying there are varied, slight differences among all of the services being offered to newborns to age three. Ms. Deines said she was very much in agreement with Secretary Squier about how New Mexico defines where Medicaid dollars will be placed in terms of services for children. In regards to home visiting, Representative King said she hopes the state can come together on what is a good definition of home visiting, but there are programs out there showing results and if the state can allocate some Medicaid dollars and get a federal match through a waiver, more children will be served than if we do it independently through the general fund.

Lillian Montoya-Rael, New Mexico Early Childhood Development Partnership (NMEDCP), updated the committee on an analysis of costs associated with scaling various early childhood programs—home visiting, childcare assistance, pre-kindergarten, Teacher Education Assistance for College and Higher Education (TEACH) , and Training and Technical Assistance Program (TTAPS). For the first year of investment for FY14, the NMECDP recommends $4.2 million for home visiting, $8 million for child care assistance, $400 thousand for TEACH and $600 thousand for TTAPS, for a total of $13.2 million. The final report will include a five-year strategy. Ms. Montoya-Rael said the partnership is proposing a Home Visiting Accountability Act.

Susan Herrera, CEO, LANL Foundation, said the foundation has been working on home visiting for seven years, replicating a model out of Silver City. The first born program model will work in rural communities and next year there will be 13 counties with first born programs. Ms. Herrera said now is the time to start and go to scale in five years.

**Report of Procurement Reform Task Force**. Ed Burkle, secretary, General Services Department, said Executive Order 2011-031 formed the task force on procurement reform, and the governor requires reports twice a year. The taskforce meets monthly. Mr. Burkle listed the taskforce members, which include cabinet secretaries from the TRD, the DFA, and Aging and Long-Term Services.

*Key Task Force Objectives.* Mr. Burkle said some of the key components of the taskforce's objectives are to increase transparency, and the governor has eliminated vendor registration fees to ensure fair, open, and consistent procurement throughout the state. Another important objective, he said, is to automate the processes in state procurement. October begins Phase One of electronic procurement with the ability of the GSD to issue electronic RFPs and receive electronic proposals. Contracts are still in paper form until 2013 when an automated data warehouse will be established. House Bill 2 authorized the GSD to spend $438.5 thousand of state purchasing enterprise funds in FY12 and FY13 for this endeavor.

*Taskforce Progress.* Consolidating procurement within state agencies has proven difficult, and the taskforce is in exploratory stages of consolidation of procurement activities with the DFA and DoIT. The taskforce also formed a new "Best Value" committee that looks at other factors in addition to cost and price when making an award decision; this committee will develop a streamlined guide. A Professional Certification Program will establish minimum qualifications and emphasize training and certification for people who are charged with purchasing. Regarding contract management, Mr. Burkle stated New Mexico does not do a good job of monitoring the performance of contractors after the contracts have been issued, and the department will focus on enforcing contractual obligations. A Contract Management Bureau is being formed.

State Purchasing Agent Larry Maxwell briefed the committee on 2013 procurement reform initiatives designed to improve oversight, standardization, and streamline procurement. The various ways the Procurement Code has been interpreted and applied has caused confusion in the vendor community and loss of continuity in applying the code.

Mr. Maxwell asked the committee to allow for an amendment to the existing statutes to require the chief purchasing officer, or anyone vested with purchasing power, to register with the state. These people would have certifications after taking courses as required by the GSD.

The department has also drafted legislation to address exemptions from the procurement code: increase limit of exempt purchases from $5,000 to $10 thousand to allow for increased efficiency in how much research is conducted and looks and training materials are delivered; increase small purchase limit to $60 thousand and the direct purchase amount to $20 thousand – an opportunity for competition within small businesses and simplifies terms and conditions up to $60 thousand; strengthen suspension and debarment process by clarifying definition and allowing for suspension of vendor pending the hearing process; enhance penalty provisions for willful violations of the procurement code.

Mr. Burkle said future goals of the taskforce include continuing to review exemptions and exclusions from the procurement code; reviewing preferences such as some of the federal socioeconomic preferences; purchasing outside the procurement code; collaborative procurement. The taskforce will also review emergency procurement, encourage greater consideration of "best value" contracting, and review technology usage in the entire procurement process.

Chairman Smith noted there was little or no representation from small towns on the taskforce and wondered how small towns would respond to the certification process. Mr. Burkle responded by saying the task force does have representation from the Association of Counties. There is also participation from the Public Schools Facility Authority. Required minimum certification for chief procurement officers will go into effect 2015, with plenty of time for training for people in rural communities. Chairman Smith said he would be a tough sell.

The panel discussed emergency procurements. Mr. Maxwell stated emergencies should not include poor planning. Vice Chairman Varela asked for a clear definition of emergency procurements for state and local entities.

Responding to Senator Rue, Mr. Burkle said the department would meet with small communities, municipalities, and counties to obtain feedback for proposed legislation. The state currently operates under a procurement code adopted in 1984. Mr. Maxwell stated the procurement code applies to the expenditure of public funds by all levels of government in New Mexico unless there is an exemption or an exclusion which applies to a particular purpose.

**Friday, September 28, 2012**

The following members and designees were present on Friday, September 28, 2012: Chairman John Arthur Smith, Vice Chairman Luciano "Lucky" Varela, Representatives Henry "Kiki" Saavedra, Larry A. Larrañaga, Don Tripp, Edward C. Sandoval, Rhonda S. King, Nick L. Salazar, William "Bill" J. Gray, James P. White; Senators Carlos R. Cisneros, Sander Rue, Mary Kay Papen, John M. Sapien, Carroll Leavell, and Pete Campos. Senator Rod Adair attended as a guest.

**Update on Gaming and Racing Regulation.** Frank Baca, interim executive director, Gaming Control Board (GCB), updated the committee on the La Mesa racetrack, saying the gaming license has been voided as of June 12, 2012. The issue with the racing license is with the Court of Appeals.

Mr. Baca said the Fort Sill Apache request for land in New Mexico to be eligible for gaming has been with the U.S. Department of Interior and National Indian Gaming Commission for some time. The question for Fort Sill, he said, has always been whether or not they qualify for one of six exceptions contained in the Indian Gaming Regulatory Act in order to qualify for gaming, because they had land in trust as of October 23, 1988.

The funds generated by gaming go into the set-aside fund called the horseman's purse. In FY99, more than $2.5 million went into the fund. In FY12, the amount was more than $50 million. The Gaming Commission does not regulate this, but ensures the fund is paid.

*Class II Gaming in New Mexico.* David Norvell, vice chairman, GCB, said the state of New Mexico has no jurisdiction over tribal class II gaming under federal statute. Sun Ray Casino has 120 class II gaming machines, paying no revenue on the machines and competes with a nearby racino. Senate Memorial 52 addressing this concern will be brought to the committee in November. Class II gaming machines have a picture of a bingo card on the front and otherwise look similar to class III gaming machines.

Jeff Landers, chairman, GCB, said Governor Martinez has appointed Jessica Hernandez as general counsel for Indian gaming compact negotiations. Gathering information from the five tribes, the GCB is working on a net statistical report to analyze underpayment to the state. All parties have agreed to a mediated meeting.

In response to Senator Cisneros, Mr. Landers stated five of the 2001 compacted tribes are involved with the free play issue, and most parties involved with the 2007 compact seemed to be aware of the advent of promotional programs, such as players' clubs and slot card programs. Specific language was added in Section 11 addressing revenue share and net win calculation that placed a specific prohibition on deductions for prizes and other matters won or awarded as a result of a slot or players' club program. The free play works its way into the equation through these slots or players' clubs.

Chairman Smith requested information on all racetracks having any type of class II gaming to be submitted to the LFC, and asked whether racing days have been reduced. Racing commissioner Beverly Bourguet testified that in the case of Zia Park in Hobbs, the commission worked hard to get 60 racing days, but the horsemen only agreed to 56 days this year. With many racetracks, she said, there is a shortage of horses racing.

Vince Mares, director, New Mexico Racing Commission (SRC), updated the committee on equine drug testing, saying the SRC currently tests winning horses and is expanding testing to out of competition (30 days to 60 days) horses as well. Recent necropsies have come back suspicious for drugs and the commission will take administrative sanctions and prosecute. Mr. Mares stated the commission has a RFP out to perform equine testing because the contract with Iowa State is expired.

Mr. Mares stated investigations is another issue discussed at the LFC hearing in Hobbs. The SRC has three investigators with the goal of having six, and is working on legislation for all investigators to be law enforcement certified.

The SRC currently tracks more than 9 thousand licensees (horseman, trainers, grooms), and is working with the Association of Racing Commissions to integrate New Mexico's database to allow the commission to have a backup and more accountability to licensees.

The committee and panel discussed further the improvement in the condition of the racetrack at Zia Park Casino, stiffer penalties, and the push for legislation regarding law enforcement certification for investigators.

**Review of Capital Outlay Requests.** Linda Kehoe, principal analyst, Legislative Finance Committee, stated that based on revenue estimates presented in August, $223.7 million will be available for capital outlay from senior severance tax bonds. Projected "earmarked" funds from the senior and supplemental severance tax bonds include $179.5 million for public school construction, $33.5 million for water projects, $16.7 million for tribal infrastructure, and 16.7 million for colonias infrastructure for a total of $246.4 million. Ms. Kehoe stated it is not known how much money will be available for capital outlay from the nonrecurring general fund.

Based on a preliminary review of infrastructure capital improvement plans, state agency and local project requests total approximately $2 billion. In 2007, an assessment of only four major departments (Health, Corrections, Public Safety, and Children, Youth and Families) indicated at least $300 million was needed over a five-year period to address the most critical deficiencies, but only $73 million has been appropriated. Ms. Kehoe stated reports indicate the Property Control Division needs at least $10 million annually to address emergencies and keep state buildings under its jurisdiction in standard condition.

Ms. Kehoe presented an overview of 2013 capital outlay requests submitted by agencies, which included agencies requesting legislative authorization to expend funds from their own funds. By category, state agency request include $72.7 million to complete projects underway; $104 million for infrastructure and renovations statewide; $38.2 million for equipment, fixtures, and vehicles; $6.5 million for master plans, plan and design, and studies; $48.3 million for new facilities or expansion of existing facilities; $18.8 million to match federal funds (including $15 million for Indian water rights settlement); and $12.5 for economic development. The New Mexico Department of Transportation did not submit a request for capital funding; however, there continues to be a shortfall of $390 million to complete the GRIP I program, a gap of $304 million for roadway construction and rehabilitation, bridge replacement and repair, and a gap of $225 million for routine road and highway maintenance activities. The most critical, immediate needs in the six highway districts require at least $55 million.

In addition to state agency requests, special schools, higher education, and tribal institutions are requesting $293.7 million. Ms. Kehoe stated that if the general obligation bond issue C fails in the November, higher institutions could face a catastrophic situation with their infrastructure. Out of the $293.7 million requested, $22.6 million is requested to complete projects that were decreased when initial general obligation bond capacity estimates were reduced from $177 million to $134 million to avoid an increase in property taxes. Ms. Kehoe briefed the committee on these requests.

Approximately 98 percent of all local political subdivisions participate in an infrastructure capital improvement plan (ICIP). Final requests are due October 1, 2012 to the DFA; however, a preliminary review of the ICIP indicates local entity requests will be about $1.5 billion dollars.

In response to Senator Cisneros, Ms. Kehoe stated the HED's request will be prioritized when submitted to the LFC and the DFA by November 1, 2012. All institutions will provide the LFC with a more specific breakdown of critical infrastructure needs. Senator Cisneros said although the NMDOT did not submit a request, they should prioritize their needs for ongoing maintenance and repair.

Regarding unfinished projects, Ms. Kehoe stated that in 2012 there were at least nine projects which were vetted but never funded with a balance of about $9 million.

Director Abbey asked Mr. Gara, director, Property Control Division, how he is reconciling the millions of dollars in requests with data showing available space is up 6 percent while FTE is down 15 percent. Mr. Gara responded by saying the space utilization study will specifically look at the buildings in Santa Fe for consolidation, and the PCP will address issues with deferred maintenance. Director Abbey said the public school capital outlay taskforce has made dramatic progress. Mr. Gara added part of the executive's program is a task force that is working to develop a matrix for prioritizing capital outlay projects across all state agencies.

**Mortgage Finance Authority Overview: FY12 and FY13.** Jay Czar, executive director, New Mexico Mortgage Finance Authority (MFA), said the vision is for all New Mexicans to have quality affordable housing opportunities. The MFA, created as a quasi-government agency by the Legislature in 1975, has served more than 88 thousand people and provided $5.2 billion in financing and funding. The MFA is beginning the second year of a three-year strategic plan and has five goal groups: development of stronger communities, home ownership, rental and group shelter, talent and operations, and financial stewardship. Progress is reviewed with the board of directors on a quarterly basis.

Gina Hickman, deputy director for finance, explained the MFA's audit process, noting over the last few years the MFA has been subject to an audit an average of 24 per year conducted by nine federal agencies and three state agencies. Ms. Hickman also provided the committee with a copy of MFA's most recent issuer credit rating report. The rating was upgraded from an A+ to a AA+ during a time when the government's credit rating was being downgraded.

Mr. Czar stated that last year, the MFA provided over $275 million in low-interest financing, grants, and non-financial support for affordable housing and related services throughout New Mexico. Through tax-exempt single family mortgage bonds, the MFA provided loans in excess of $120 million to 1,032 homebuyers to acquire their first homes. The MFA is getting $2.5 million to $3 million in mortgage products a week, steadily, with 10 percent of market share throughout the state. Also, there is a "sweet spot" in the first-time homebuyer market. The MFA has provided $4 million in down payment assistance.

The MFA provided approximately $49 million in financing for new construction and acquisition/rehabilitation of 849 affordable rental homes. In terms of multi-family apartments statewide, occupancy is the highest it has been in 10 years. In New Mexico, home ownership is down to 68 percent, but still higher than surrounding states.

Mr. Czar stated the bulk of the MFA's funding comes from MFA bond issues ($128 million), $109 million from federal housing programs, $15.2 million from the MFA general fund, $10.9 from state appropriations and tax credits, and $10.5 from other sources.

Joseph Montoya, deputy director of finance, briefed the committee on funding the MFA receives from the federal government, including the Neighborhood Stabilization Program and the Tax Credit Assistance Program. This year, the MFA received 53 percent less funds from the Department of Housing and Urban Development (HUD) for the HOME Investment Partnerships Program. Mr. Montoya said federal funding will continue to decrease throughout HUD programs, significantly impacting programs such as housing development and down payment assistance programs.

Mr. Montoya said he was happy to report the MFA has used 100 percent of the American Recovery and Reinvestment Act (ARRA) allocated money, and the MFA tracks all ARRA-funded jobs by program.

The MFA has had oversight of the Regional Housing Authorities since 2009, and since then, there have been no fraud, waste, and abuse issues. Mr. Montoya stated the MFA will need to assist rural, very low income people of New Mexico because local housing authorities like Pecos, Wagon Mound, Maxwell, Springer, Cimarron might not have sufficient funds within the next two to five years.

The New Mexico housing trust fund has received a total of $15 million from the state since 2005, and another $3 million was appropriated in 2012 that has not been received. Mr. Montoya explained that for every $1 put in for housing, $15 are leveraged to provide housing opportunities for New Mexicans.

Mr. Czar added the state of New Mexico received about $97 million from the national foreclosure settlement. The MFA is in the process negotiating a MOU with the Attorney General's Office for assistance in administering the funds.

Senator Rue lauded Mr. Czar and his staff for the work the MFA and asked for a rundown of MFA's organizational chart. Mr. Czar said the organization is lean for a big organization, but the complexity of work, number of programs, and level of funding warrants the positions.

In response to Vice Chairman Varela, Mr. Czar said its audit is being finalized and noted the MFA audit year ends on September 30, the federal fiscal year. It will be approved in January. Vice Chairman Varela asked for a spending plan for FY14 from the MFA to include in the financial report. Mr. Czar stated he will provide the report within the week.

The funding process for developing affordable housing, and foreclosure ratings were briefly discussed.

***Miscellaneous Business***

*Action Items*
*Approval of August 2012 Meeting Minutes* – **Senator Cisneros moved to approve the August 2012 meeting minutes, seconded by Representative Sandoval. The motion carried.**

Information Items
Director Abbey stated information items were in binders for the committee to review.

With no further business, the committee adjourned at 11:49 a.m.

Chairman John Arthur Smith

Vice Chairman Luciano "Lucky" Varela