MINUTES
Legislative Finance Committee
State Capitol, Room 322 - Santa Fe, NM 87501
April 13 - 15, 2016

Wednesday, April 13th
The following members and designees were present on Monday, March 21, 2016: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, William F. Burt, Stuart Ingle, Howie C. Morales, George K. Muñoz, Steven P. Neville, and Pete Campos; and Representatives Larry A. Larrañaga, Luciano "Lucky" Varela, Nick L. Salazar, Paul C. Bandy, Jason C. Harper, George Dodge Jr., and Patricia A. Lundstrom. Guest legislators: Senators Lee S. Cotter and Mary Kay Papen.

Update on Public School Financial Issues. First discussing interim priorities, Hanna Skandera, secretary of the Public Education Department (PED), said the agency wants to partner with state legislators to establish a standard for charter schools. Secretary Skandera talked about enhancing and supporting the teacher ecosystem through recruitment, preparation, evaluation, placement, training and support, and pay and licensure. Other priorities include expanding personalized learning opportunities and implementing New Mexico's educator equity plan. The equity plan, which was submitted to the U.S. Department of Education in June 2015, outlines measures to close equity gaps. A chart in the presentation showed most struggling students do not have the most effective teachers. In one measure, Secretary Skandera said New Mexico has been waived from the highly qualified teacher (HQT) requirement, allowing flexibility regarding specific requirements of the federal Elementary and Secondary Education Act (ESEA). The waiver allows, for example, a highly effective high school science teacher to teach sixth-grade science. This flexibility can be especially useful in rural areas. Other measures include issuing hard-to-staff stipends, continuing the pay-for-performance pilot, and implementing the Teachers Pursuing Excellence mentoring program.

Paul Aguilar, deputy secretary of PED, updated the committee on financial issues. Reporting on the FY16 80th day count, Mr. Aguilar said enrollment in full-day kindergarten is down by 1,963 students, or about 7 percent. Enrollment in first grade has also decreased. However, enrollment in all other grade level units increased. The final unit value increased by $10.60, which Mr. Aguilar said was determined by taking into account declining revenue conditions, including the 0.6 percent reduction in general fund revenue for FY16.

Mr. Aguilar then talked about PED's audit of special education ancillary services FTE data. Mr. Aguilar said PED reviews data for accuracy after every reporting date to ensure districts and charter schools are receiving appropriate funding. Mr. Aguilar said a recent audit found a significant number of FTE claims for which special education services were supposed to be provided but were not. After investigation, PED found that a number of districts were either underreporting their numbers or misclassifying some services. PED then worked with most of those school districts to determine correct reporting data, which consequently increased funding for some and decreased funding for others. Mr. Aguilar said PED did not change the way districts calculate FTE. Mr. Aguilar mentioned that Albuquerque Public Schools has not provided PED documentation on the services they are providing, justifying their claims.

Mr. Aguilar said PED's FY15 audit contains three findings for PED, six findings for the Division of Vocational Rehabilitation (DVR), and 195 findings for state-chartered charter schools. Some audit findings will be addressed by implementing new processes recommended by the auditor. Regarding the maintenance-of-effort (MOE) issued at DVR, Mr. Aguilar said the general fund appropriation to DVR is not sufficient to match all available dollars from the federal government. Of the $19 million available in federal funds, the state is only able to match $16.8. The General Appropriation Act of 2016 allows DVR to use fund balances to make up the $2.2 million difference. To address the 195 audit findings, PED is requiring all state chartered charter schools to submit a corrective action plan by May 8, 2016.

Senator Morales expressed concern that PED's perception of how it's handling the data errors reported by some school districts is not consistent with the perception felt by many ancillary providers. Senator Morales then mentioned the nine school districts involved in the data reporting issues in 2011, which he feels PED targeted and were made to feel criminal. Regarding PED's recent audit, Senator Morales expressed concern that some school districts may be in danger of losing ancillary staff, resulting in a reduction of services. In response to Senator Morales regarding MOE requirements, Mr. Aguilar said the situation is a reporting issue, not a reduction in services issue; therefore, it should not affect the MOE.

In response to Senator Morales, Mr. Aguilar said if the data reported by a school district does not reflect the evidence provided, PED would need to intervene and set its budget. Representative Lundstrom requested that PED provide the committee a copy of its review.

In response to Chairman Smith, Secretary Skandera said PED is working with the Higher Education Department to develop a report that provides education preparation program information on individual teachers. The report will contain three years of in-the-classroom data and will be used to determine best placement.

In response to Chairman Smith, Secretary Skandera said many rural districts have applied for the hard-to-staff stipend. Secretary Skandera said PED will provide the committee a list of the districts and charter schools that have applied for the stipend and a list of final awards made.

Some individuals from the audience then briefly addressed the committee. Margenia Richardson, a licensed vocational rehabilitation counselor from the Cuba Independent School District, expressed concern the data recorded in the student teacher accountability reporting system (STARS) does not reflect travel time, meeting time, or the time it takes to prepare an individual education program (IEP) document. Ms. Richardson said she was informed by her director that her hours may be cut, which she said would be detrimental to the students she serves.

A representative from the National Association of Social Workers (NASW) said that, while he agrees that there needs to be accountability, PED has created level of mistrust by the way it has handled the data-reporting issue.

Carla Wilhite from the New Mexico Occupational Therapy Association (NMOTA) said some ancillary providers have communicated to the NMOTA that workloads are expected to increase as result of a decrease in FTE available for services. Ms. Wilhite commented that PED needs to clarify the difference between caseloads and workloads.

FY15 Quarterly Report on Investment Performance. Bob Jacksha, chief investment officer for the Educational Retirement Board (ERB), said investment earnings at end of 2016 were approximately $167 million, a return rate of 1.4 percent, net of investment management fees. Portfolio returns fell short of actuarial targets in most time periods measured. Actual returns exceeded policy index in all periods measured. The fund was valued at $11.1 billion at the end of 2016. A chart in the presentation showed the investment growth from 2007 to 2015. Another chart showed the rate of return by periods of years. ERB sets a target rate of 7.75 percent. The return rates fall short until the 30-year period, where the return rate is 9.2 percent.

Mr. Jacksha said volatility has a negative effect on portfolio returns. A chart in the presentation showed the variation in returns for three portfolios caused by different levels of volatility. For the past 10 years, ERB has been working to reduce the volatility in investment returns through the asset allocation process. The percentage of assets in public equities has been reduced from 70 percent in 2006 to 34 percent in 2015.

Discussing the outlook for FY16, Mr. Jacksha said New Mexico is in a period of historical uncertainty. Year-to-date returns are estimated to be about 0 percent, with a plus or minus 1 percent margin of error. Mr. Jacksha said, although unlikely, it is possible the actuarial target of 7.75 percent will be met at quarter end.

Next to address the committee was Jon Grabel, chief investment officer of the Public Employees Retirement Association (PERA). In December 2015, PERA reviewed the strategic asset allocation process. Mr. Grabel said, because investments are experiencing a period of muted returns, the portfolio needs to be repositioned and excessive risks need to be avoided. PERA has reduced the number of asset categories from nine to four: global equity; risk reduction and mitigation; credit oriented; and real assets. The reduction will better position the asset groupings to power portfolio for different economic environments.

Then discussing fund performance, Mr. Grabel said PERA’s fund balance was $13.9 billion on December 31, 2015. The fund lost 1.1 percent, and was down $90 million net of fees. Referring to a chart in the presentation, Mr. Grabel pointed out the reduction in volatility for the PERA fund.

Concluding his presentation, Mr. Grabel said PERA anticipates it will implement an updated strategic asset allocation in FY17. The actuarial rate of return assumption is likely to be decreased. Mr. Grabel said a lower actuarial return assumption would result in a one-time increase in the plan’s liabilities but will better reflect market realities and facilitate a less risky portfolio.

Last to address the committee was Steve Moise, state investment officer for the State Investment Council (SIC). On December 31, 2015, SIC’s net asset value was $19.95 billion, of which 95 percent is permanent funds and 5 percent is governmental client funds. Referring to a chart in the presentation, Mr. Moise said royalty inflows to the land grant permanent fund have decreased, increasing the pressure for better earnings. Of the assets SIC manages, 46 percent is public equity, 32 percent is private market investments, and 22 percent is fixed income. SIC is working to reduce volatility.

Reporting on 2015 permanent fund returns, Mr. Moise said SIC exceeded its long-term return target of 7 percent for the three-, five-, and seven-year periods. However, one- and 10-year returns were below target.

SIC updates its annual investment plan annually. The plan uses a 10-year outlook on the financial markets to determine if the current return targets are realistic and if the asset allocation is effective. In analyzing market trends, Mr. Moise said expected rates of return have been reduced in other similar portfolios while reducing benefit levels when possible. New investment strategies will be proposed in the next investment plan.

In response to Representative Varela, Mr. Moise said the city of Santa Fe considered establishing a $50 million sovereign wealth fund to benefit sustainability and improve the poverty level. However, the proposal was not endorsed by the council.

Health Notes. Jenny Felmley, Ph.D., program evaluator for the Legislative Finance Committee (LFC), presented a report on Medicaid managed care, provider networks, and access to care. Over 850 thousand people, or about 40 percent of New Mexicans, are now enrolled in the state's Centennial Care Medicaid program, at a cost of over $5 billion dollars. Ms. Felmley said expanding Medicaid coverage, however, is of limited value unless there is meaningful access to care for all members. New Mexico is unlikely to see improved health outcomes without establishing and maintaining a strong foundation of provider networks through which patients can access health care.

The Human Services Department (HSD) monitors the adequacy of the Medicaid provider network by reviewing numerous reports from the state's four Centennial Care managed care organizations (MCOs). According to the reports, the MCOs are meeting their contractual requirements for geographic access to primary care providers (PCPs), as well as most physical health, long-term care, and behavioral health providers. At the same time, the reports show some notable gaps in provider networks. There are shortages for physical health specialists, such as dermatologists, neurologists, and rheumatologists, and there are significant behavioral health network gaps, particularly in the areas of access to various intensive outpatient therapies. The reports are not always accurate or timely; to date, HSD has assessed MCO sanctions totaling over $5.5 million, the bulk of which were for problems with reports.

The Centennial Care contracts include requirements regarding appointment timeliness standards. A table in the report summarized these requirements. Simply having a healthcare provider located within a reasonable distance from a prospective patient's home is not a guarantee that the patient will be able to access services when needed. Ms. Felmley said MCO reports provide an unclear picture of their compliance with this aspect of access to care, and HSD does not appear to be monitoring the issue. HSD reports steadily increasing use of hospital emergency rooms. A persistent portion of this use is for routine urgent care conditions, which may be an indicator that some Medicaid recipients are turning to the ER because they cannot get a timely appointment with their PCP.

LFC conducted its own survey of PCPs in seven New Mexico counties, intending to gather data on wait times for routine new patient appointments. The LFC survey found average wait times for the surveyed counties ranged from three weeks to nearly two months. The survey also found significantly fewer PCPs accepting new Medicaid patients than has been reported by the MCOs. LFC's review of Centennial Care MCO reports, combined with results from the LFC survey, led to concerns that some Medicaid recipients in New Mexico may face barriers when they attempt to access the healthcare system.

In response to the report, Brent Earnest, secretary of HSD, said, because federal standards do not exist, access to care is challenging for states to demonstrate. New Mexico is especially challenged because it is highly rural. In addressing the inherent gaps in the provider networks, HSD has implemented telemedicine. HSD has also expanded the use of community health workers.

Secretary Earnest said a University of California, Los Angeles, study found that when California's Medicaid membership increased, the system experienced a spike in emergency room (ER) utilization, which later declined significantly. As more preventive care and treatment for chronic illnesses is provided, New Mexico will likely experience the same decline in ER utilization. HSD continues to focus on addressing non-emergency use of the ER.

Secretary Earnest said, overall, the report indicates existing networks are adequate and patient satisfaction rates are high. Secretary Earnest said HSD will use LFC's survey as a tool as it continues to monitor the program.

In response to Representative Larrañaga, Secretary Earnest said HSD is working on cost-containment efforts. Subcommittees are currently exploring ways to reduce Medicaid spending and will be making recommendations. Representative Larrañaga expressed concern that some members may be receiving care that is excessive or not needed.

In response to Representative Bandy, Ms. Felmley said of the seven counties surveyed, three were rural counties, three were urban counties, and one was a frontier county. Nancy Smith-Leslie, director of the Medical Assistance Division at HSD, said, except for primary care, there are no federal requirements on the number of specialists that must be provided for a certain number of members. Although requirements exist in the MCO contracts for specialists, there are no sanctions because of the shortage of specialists.

Senator Cisneros said he is concerned that HSD's cost-containments efforts could lead to a decreased level of services provided. Secretary Earnest said recommendations provided by the subcommittees will be evaluated on its impact to members.

Special Review: HSD Eligibility Determination Lawsuit. Jon Courtney, Ph.D, program evaluation manager for LFC, presented a special review of the HSD eligibility determination lawsuit. A 2014 ruling under the decades old case known as the Hatten-Gonzales lawsuit found

New Mexico families were being improperly denied food and medical assistance. A series of court orders sought to have the Human Services Department (HSD) remedy the situation, including stopping all automatic denials and closures of Medicaid and Supplemental Nutrition Assistance Program (SNAP and formerly called food stamps) cases. HSD has testified to LFC on a number of occasions that the Hatten-Gonzales lawsuit and court orders have resulted in financial costs to the state with the potential of keeping people on Medicaid that otherwise should not be on Medicaid. Given the Medicaid budget situation and projected shortfall that will result in cuts to provider rates and possible changes to benefits, LFC's special review sought to examine what, if any, financial impact the lawsuit has had on the state. The review estimated a general fund financial impact of $2.4 million in additional benefits and $3 million in administrative costs for a total of $5.4 million since 2014. The review also found an upcoming court case could have additional financial impact for the state with potential results of financial sanctions and a partial takeover of HSD.

In response to the special review, Brent Earnest, secretary of HSD, said the agency takes its responsibility of providing accurate, timely and accessible information to applicants seriously. Secretary Earnest said HSD is going to continue to demonstrate to the court that they are in compliance with requirements. Secretary Earnest said HSD recognizes that the lawsuit places the state at risk for financial costs that would otherwise not exist.

There were no questions from committee members.

Legislating for Results: Using Report Cards and Performance Data for Decision-Making. Charles Sallee, deputy director of the Program Evaluation Unit at LFC, updated the committee on staff efforts to provide performance information using report cards. Using an example of an appropriations bill prior to the Accountability in Government Act (AGA), Mr. Sallee pointed out that the high number of programs and level of detail provided on state agency budget allocations, while important, did not always get across the most important thing, its missions.

As result of the AGA, the state now has a robust set of performance information, which Mr. Sallee said places New Mexico as a national leader. Since 2007, LFC has used report cards to report this performance information. Recently, the Department of Finance and Administration expressed concerns on the report card process. While LFC staff shares some of the concerns, Mr. Sallee said staff works with agencies yearly to improve reported performance measures and ensure effective action plans are in place for improving performance and aligning with strategic plans. Current performance measures vary widely from agency to agency. The best show meaningful outcomes, but many are still more output-oriented and lack connection to agency goals and mission. LFC recently updated the performance measures guidelines. To address some of the concerns, LFC has also updated elements of the report card.

In response to Representative Larrañaga, Mr. Sallee said performance data should be valued by agency management and be used to make decisions. Mr. Salle pointed out that the performance data reported in the General Appropriation Act is less than what is being reported to LFC. Performance data reported in the act is high level. There is a significant amount of additional data available that agencies can use internally to manage programs. The performance measures guidelines can assist agencies in doing a self-evaluation.

Miscellaneous Business

Action Items.
Approval of March Minutes. Senator Cisneros moved to adopt the March meeting minutes, seconded by Representative Larrañaga. The motion carried.

Approval of Interim Calendar and Travel. Senator Cisneros moved to adopt the interim calendar and travel, seconded by Representative Larrañaga. The motion carried.

Approval of Interim Staff Work Plans. Senator Cisneros moved to adopt interim staff work plans, seconded by Representative Larrañaga. The motion carried.

Approval of LFC Contracts. Senator Cisneros moved to adopt the LFC contracts, seconded by Representative Larrañaga. The motion carried.

Approval of Annual Leave Payout. Senator Cisneros moved to authorize the annual leave payout, seconded by Representative Larrañaga. The motion carried.

Information Items
Review of Monthly Financial Reports
David Abbey, director, LFC, briefed the committee on information items. Christina Keyes, economist for the LFC, presented the monthly general fund revenue tracking report, reflecting accruals through January 2016. Total recurring revenue collection in January was $382 million. Year-to-date revenues were down 10.6 percent from the same period last year. Revenues are tracking at $6 billion, which is $46.7 million, or 0.8 percent, below the consensus revenue estimating group's revised January forecast. Revenues appear to be tracking approximately with the February guidance for a 2 percent revenue reduction from the January estimate.

Jon Clark, economist for LFC, directed members to two charts in the report that showed year-to-date revenue collections. Gross receipts through January are down about 9 percent. The health care and hospitality sectors show some strength.

Reporting on oil and gas, Ms. Keyes said companies have continued to reduce their drilling activities, particularly in the Permian Basin. LFC staff gets a weekly report on the number drilling rigs in operation. Since last year, the number of drilling rigs in operation has dramatically reduced. Oil storage is at record levels.

Regarding employment, Mr. Clark said, although slightly positive in January, overall employment growth remains around 0 percent. February continued the previous month's loss of 7,700 jobs in the mining industry, a decline of 27.4 percent from 2015. The transportation, warehousing, and utilities sector lost 1,700 jobs, or 6.9 percent, and manufacturing lost 700 jobs, or 2.6 percent. Offsetting these losses, education and health services gained 6,100 jobs. The leisure and hospitality sector is also experiencing growth.

Thursday, April 14th

The following members and designees were present on Monday, March 21, 2016: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, William F. Burt, Lee S. Cotter, Howie C. Morales, George K. Muñoz, Steven P. Neville, and Pete Campos; and Representatives Larry A. Larrañaga, Luciano “Lucky” Varela, Nick L. Salazar, Paul C. Bandy, Jason C. Harper, Jim R. Trujillo, and Patricia A. Lundstrom.

Program Evaluation: Local Workforce Boards. Michelle Aubel, program evaluator for LFC, presented the report *WIA Job Training and Employment Programs – Service Outcomes, Cost Effectiveness, and Coordination with the State.* Despite progress, New Mexico’s workforce development system remains fragmented, with no common plan to coordinate over 35 programs identified delivering education, training, and social services to New Mexicans. The 15 programs mandated by the 1998 federal Workforce Investment Act (WIA) to coordinate activities through a “one-stop shop” concept are inconsistently co-located, a best practice designed to end 75 years of operating separately.

As of February 2016, over 58 thousand New Mexicans were unemployed and looking for work but the vast majority will not use the employment and training assistance provided under WIA programs serving adult, dislocated worker, and disadvantaged youth populations.

The evaluation assessed program effectiveness, cost-effectiveness, and coordination with mandated partners for the four regional local boards administering the WIA programs. The boards spent about $12 million annually to serve, on average, 3,700 New Mexicans in WIA employment and training programs. These programs are 100 percent federally funded, and grants have declined over 60 percent since inception. The Workforce Solutions Department (WSD) augmented formula grants with supplemental grants during the recession and also obtained special funding targeting high growth industry segments, such as health care. Otherwise, the local boards have just begun to seek alternative funding sources and to leverage WIA program funding with others to expand reach and accelerate outcomes for eligible job seekers.

While outcomes for adult programs have improved over the five-year review period, placing people in employment still lags pre-recession levels by 10 percentage points. Statewide, the youth program underperforms similar programs nationally, even after accounting for New Mexico’s lower graduation rates. Furthermore, New Mexico ranks last in its cohort region in terms of successful outcomes for youth per dollar spent.

WIA training improved outcomes for participants but had limited impact on filling workforce shortages due to the small number of people served and “in-demand” policies that might be driving training dollars toward growth occupations that don’t have a shortage of workers.

Recommendations include inventorying the vast array of governmental and community-based entities involved in the state’s workforce system to reduce duplication, identify strategic alliances, streamline service delivery, and leverage resources. Options include placing mandated partners under one agency and reducing WIA administrative costs by replacing the four boards with one statewide administrator. Where applicable, workforce centers could be relocated to community colleges where much of the training takes place. The governor and Legislature should examine the role of funding the system once coordination and duplication issues are addressed. All stakeholders should review the youth program underperformance and adopt new strategies found in other states that have proven effective.

Celina Bussey, secretary of WSD, said LFC's report proves more needs to be done to support local workforce regions and boards and ensure the state is receiving the most value on every dollar spent. Secretary Bussey said, with legislative guidance, WSD will work to achieve the objectives outlined in the report. Secretary Bussey talked about having collaboration, coordination, and communication in the workforce development system and having effective ways to measure its progress.

Speaking for the central region board was Dewey Cave, executive director of the Mid-Region Council of Governments. Mr. Cave said, while the evaluation reports the good work being done, it also demonstrates the challenges workforce connection offices face. Job fairs are regularly held in the central region, which Mr. Cave said have been very successful in recruitment. Also in the central region, the On-the-Job Training (OJT) program has trained 2,646 people and has put 778 people to work.

Judith Cooper, chair of the Eastern Local Board, said the report is comprehensive and gives good recommendations. Ms. Cooper said the eastern region faces unique challenges because there is low population density and low unemployment.

Representing the northern region board was its chair, Floyd Archuleta. Mr. Archuleta said the board agrees with the report's key conclusions and recommendations. Mr. Archuleta said local governments, county commissioners, city councils, and school boards in the northern region have begun working collaboratively to identify and address the needs of its workforce system.

Steve Duran, administrator for the southwestern region board, said the report will be used to strengthen the workforce system in the region. Mr. Duran said the board will work with its customers, service and training providers, and WSD to implement the report's recommendations. Mr. Duran talked doing more for New Mexico's youth, such as creating summer youth work experience opportunities.

In response to Representative Varela, Secretary Bussey said the virtual one-stop system, or VOSS, is essentially a case-management system used by all four regions. Representative Varela then asked about state board membership. Secretary Bussey said the 50 members on the board are too many. The Workforce Innovation and Opportunity Act (WIOA) allows for board membership to be downsized. Representative Varela requested information on salary differential between the net outflow of job types (e.g., oil and gas jobs) and the net increase in jobs (e.g., health care and hospitality). Secretary Bussey said her economists could develop this information using federal salary ranges for different occupations.

In response to Representative Larrañaga, Art Martinez from the Workforce Connection Office in Torrance County said a business consultant worked with Google and the office provided resources. Funds were given for training and staff was provided. Representative Larrañaga asked whether attaining the workforce needed was an issue for Google. Mr. Martinez said it is unclear why Google did not stay in New Mexico.

In response to Representative Lundstrom, Jerilynn Sans – a representative from the central board – said there are several OJT contracts and customized trainings with local governments and some nonprofits. For example, the board has initiated maintenance worker trainings in Torrance County. Mr. Duran said the southwestern board also pursues opportunities to work with its local governments. Representative Lundstrom commented on the fact that programs were not co-located and requested a mapping of programs listed as "referral" and co-located for each workforce center.

Update on Workforce Innovation and Opportunity Act (WIOA) Combined State Plan. Celina Bussey, secretary of the Workforce Solutions Department, said the Workforce Innovation and Opportunity Act (WIOA), signed into law in July 2014, supersedes the Workforce Investment Act (WIA) of 1998. Secretary Bussey said the vision of WIOA is to foster better alignment of federal investments in job training, integrate service delivery across programs, improve efficiency in service delivery, and ensure that the workforce system is job-driven and matches employers with skilled individuals.

Reporting on the status of implementation, Secretary Bussey said New Mexico has submitted the WIOA combined state plan to the federal government for the years 2016 to 2019. The plan identifies six core programs: 1) adult program; 2) dislocated worker program; 3) youth program; 4) Adult Education and Family Literacy Act program; 5) Wagner-Peyser Act program; and 6) vocational rehabilitation program. The plan includes one additional partner program, the Senior Community Service Employment program.

A chart in the presentation showed the population for prime working age adults has decreased since 1993. Secretary Bussey said the increase in the state's older workforce gives good reason to work collaboratively with the Aging and Long-Term Services Department on its senior employment program. The population for the state's younger workforce has also increased. Secretary Bussey said New Mexico's youngest generation in the workforce is what the state needs to be focusing on.

In 2014, the unemployment rate for New Mexico youth was 23.7 percent, eighth highest in the country. WIOA has shifted the focus from in-school youth to out-of-school youth. WSD has met with local service providers to ensure their programs are aligning with the WIOA initiative to focus out-of-school youth. Secretary Bussey said WIOA places a significant emphasis on youth dollars being spent on employment opportunities.

The adult, dislocated worker, and youth programs administered under WIOA provide career and training services at the 21 New Mexico workforce connection centers located across the state. Secretary Bussey said the adult and dislocated worker programs, in coordination with the Wagner-Peyser Employment Services, are pivotal pieces of the one-stop delivery system and the foundation of the workforce system. The system provides universal access to career and training services to meet the diverse needs of participants.

The adult education programs provide opportunities for learning basic literacy skills, being placed in employment and workplace programs, obtaining a high school equivalency certificate, enrolling in postsecondary education programs, and learning English and civics. Many of the programs are housed at community colleges and branch campuses.

New Mexico has two vocational rehabilitation programs: the New Mexico Commission for the Blind and the Division of Vocational Rehabilitation.

Secretary Bussey discussed the strategies outlined in the state plan that will be used to accomplish the vision of WIOA. The strategies are

- Strengthening workforce development and education linkages;
- Emphasizing work-based experiences for target populations;
- Emphasizing broader participation in career pathways and sector strategies; and
- Increasing coordination efforts between employment and training activities and partner programs to improve the quality of participants' experiences and interactions with the workforce system.

Secretary Bussey concluded with a brief overview of upcoming activity. With the state plan submitted, WSD will now begin working with the local workforce boards on the development of their local WIOA plans. The State Workforce Development Board will begin organizing the indentified committees under the plan to assist in the implementation of the four strategies contained in the state plan.

In response to Representative Varela, Secretary Bussey said a reorganization of the Department of Vocational Rehabilitation (DVR) that would move the agency from under the Public Education Department to WSD would align workforce training programs into a more centralized placed.

In response to Representative Lundstrom, Secretary Bussey said WSD reports performance measures on the adult, dislocated worker, and youth programs and Wagner-Peyser programs. Specifically, there are measures on retention of employment, earnings, and education attainment.

In response to Senator Cisneros, Secretary Bussey said she would provide LFC staff a breakdown on where dollars are being administered at both the agency level and local level.

Community College Role in Workforce Development. Alice Letteney, chief executive officer at the University of New Mexico-Valencia (UNM-Valencia), said a college degree or college training has become critical to a successful career. Ms. Letteney said the programs offered at UNM-Valencia are focused on creating employment opportunities for students. In 2015, 376 students were enrolled in the career and technical programs at UNM-Valencia.

Rita Gallegos-Logan, senior program manager of workforce training at UNM-Valencia, said the allied health programs offered at UNM-Valencia are personal care attendant, nursing assistant, phlebotomy technician, and emergency medical technician. Medical assistant will be a new program in fall 2016. Some of the students in the programs are high school students participating in dual credit. Ms. Gallegos-Logan mentioned the trade adjustment community college career training grant, which has funded a number of programs, including Skill Up Network Pathway Acceleration in Technology and Healthcare program and credit for prior learning.

Reporting on noncredit workforce training, Ms. Gallegos-Logan talked about the American Heart Association training center at UNM-Valencia. The center has trained a total of 29,146 students in CPR and first aid since 2003. Regarding adult education, UNM-Valencia offers high school equivalency and English as a second language (ESL) training. In other noncredit workforce training, the Manufacturing Council of Valencia County recently worked with UNM-Valencia to create the Manufacturing Operator Certificate program. The program has so far trained 15 students.

Lastly discussing the Workforce Connection of Central New Mexico, Ms. Gallegos-Logan said there are currently 231 individuals doing on-the-job training, and 729 individuals doing customized training. Ms. Gallegos-Logan said there needs to be more collaboration with community colleges to offer more individual training accounts (ITAs). ITAs are issued to individuals for coursework that prepares them for high-demand occupations as identified by the local board. Fewer individuals are served for courses they take at the community colleges than those served at local businesses through OJT and customized training.

Next to address the committee was Robert Rhodes, assistant to the president of Governmental and Community Affairs at New Mexico Junior College (NMJC). Mr. Rhodes gave a brief overview of NMJC's workforce training programs. NMJC worked with Urenco USA to create the nuclear technician program. The highly technical program, now accredited, is designed to provide students with the opportunity to develop the technical expertise, math and analytical skills, and interpersonal skills required to begin successful careers as nuclear operations technicians. The program, which serves about 100 students every year, attracts students from around the world. The coursework has been made available online. Dr. Rhodes pointed out that, like the Nuclear Technician program, it is important to create the programs according to industry demands. Dr. Rhodes provided the committee a copy of NMJC's guidelines on noncredit workforce training.

Samantha Sengel, chief advancement and community engagement officer at Central New Mexico Community College (CNM), then provided an overview of CNM's workforce development and training. Ms. Sengel said focus has traditionally been placed on attaining skills, which is what the highs skills funding grant supports. Each year, CNM serves about 5,000 students in noncredit coursework, 30 thousand students in credit coursework, and 5,000 students in adult education programs. Ms. Sengel said, to best serve these students, business and industry need to play a vital role in their education and training. To address the challenges that people often face in attaining the skills necessary to be successful in the workforce, CNM is creating an environment of many opportunities for education and credential attainment. CNM is measuring the outcomes of its students to ensure programs are achieving what they were created to do.

Ms. Sengel said CNM continues to look for innovative ways to ensure individuals have the opportunities to attain the most relevant skills. CNM has implemented the Deep Dive Coding Bootcamp, a 10-week web development boot camp that teaches the fundamentals of modern web development and coding to build websites, software, and apps. Ms. Sengel reported an 84 percent completion rate for the 90 students that have so far gone through the boot camp.

CNM is structuring its noncredit programs to create a pathway for students. A diagram in the presentation mapped noncredit training leading to possible credit toward a certificate or associate degree. Ms. Sengel said all students are given access to several resources to help them succeed, including job coaching, academic coaching, social services connections, and financial literacy.

Ms. Sengel lastly talked about the Mission: Graduate program. The goal of the program is to increase degree attainment and ensure New Mexico is competitive when measured against the nation in 2020.

In response to Senator Cisneros regarding partnerships with the high schools, Mr. Rhodes said, while there are some levels of collaboration with high schools, it is not enough. Ms. Gallegos-Logan said UNM-Valencia is currently working with 10 high schools in Socorro and Valencia counties. Some students are earning certificates before high school graduation. The Belen and Los Lunas high schools have adjusted school hours to allow students to attend classes either online, at the high school, or at UNM-Valencia. UNM-Valencia currently has about 800 participating in dual credit. The School of Dreams Academy in Los Lunas is an early college high school. At CNM, there are almost 3,000 high school students taking classes in the current semester. Ms. Sengel recommended that changes be made so that certain college credits count for certain high school credits.

In response to Representative Larrañaga, Mike Puelle, chief executive officer of Associated General Contractors (AGC), said AGC works to connect existing resources through partnerships. AGC encourages high schools to use the National Center for Construction Education and Research curriculum because it is certifiable training.

Tax Expenditure Report. Demesia Padilla, secretary of the Taxation and Revenue Department, said the tax expenditure report is the fourth one since the governor's executive order in 2011. Secretary Padilla said TRD has made great strides in the quality and scope of the report. The report is intended to be used a management tool. Secretary Padilla pointed out that the expenditure data being reported reflects 2014 filed income tax returns, meaning 2013 activity; whereas, the gross receipts tax data in the report is current.

Frank Crociata, tax policy director of TRD, said a tax expenditure is federally defined as "those revenue losses attributable to provisions of the federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." Mr. Crociata noted that not all exemptions, deductions, or credits, are tax expenditures.

According to the 2015 report, there were 130 tax expenditures, 100 non-expenditures, and 24 marginal provisions. For each expenditure listed in the report, the fiscal impact is calculated. Each impact is categorized according to a reliability factor. Mr. Crociata said the reliability factors are critical in determining the accuracy of the estimate. The factors are from one to four, one being the highest reliability. Mr. Crociata said there is a stark difference in reliability between factors of one and two and factors of three and four. Of the 130 tax expenditures, 69 have a reliability factor of one, 15 have a reliability factor of two, 17 have a reliability factor of three, and 11 have a reliability factor of four. Chairman Smith pointed out in the LFC brief a list of FY15 tax expenditure costs. Mr. Crociata noted that the top 10 highest costs listed were for expenditures that have a reliability factor of four.

For the first time in the report, TRD grouped the expenditures into five categories: citizen benefits; economic development incentives; environment, conservation, and renewable energy; healthcare incentives; and highly specialized industry. Mr. Crociata said, although there is debate on where some expenditures are placed, the percentage of each category helps TRD see the areas where spending is occurring.

Mr. Crociata said several improvements were made in the 2015 report. TRD used more accurate estimates for eight personal income tax expenditures. Communication with other agencies has improved, providing better analysis for TRD. Plans for future improvements to reporting include expanding categories of expenditures, expanding on the renewable energy production tax credit analysis return on investment, and providing a cost and benefit analysis on five expenditures.

Richard Anklam, president and executive director of the New Mexico Tax Research Institute, said the reliability factors are helpful to consumers of the report. Mr. Anklam described New Mexico's gross receipts tax as a hybrid, which he said makes using the tax expenditure report in New Mexico harder than it is in some states. Mr. Anklam talked about using the report for other purposes besides doing analysis on economic development. Mr. Anklam said the report is a valuable tool.

Representative Harper said that policymakers can still make great strides to improve tax policy even though the data is not 100 percent complete. The Revenue Stabilization and Tax Policy Committee (RSTP) is considering doing work sessions, which would involve educational sessions on tax policy and problem solving sessions, to work toward a tax package that improves tax policy.

Senator Morales asked if TRD has done an analysis on the principles of tax policy. Secretary Padilla said the report contains some statute recommendations. Secretary Padilla said TRD will consider presenting to RSTP some of the recommendations. Regarding healthcare provisions, Senator Morales said an LFC evaluation found that some principles of tax policy are not working in the area of adequacy. Mr. Morales said, according to the analysis, there is a discrepancy between the amount of spending and the amount of exemptions. Mr. Anklam agreed that there is cause for concern for certain elements in the state's healthcare provisions.

In response to Senator Morales, Secretary Padilla said New Mexico is part of a memorandum of understanding among other states, the federal government, and software vendors to prevent fraud. As result, there have been an increased number of requests from TRD for additional documentation from taxpayers.

Representative Hall commented about the need for tax reform, which Chairman Smith said needs to have the approval of the executive. Mr. Anklam said the last successful tax reform effort happened in the ‘60s. Mr. Anklam said changes can also be made incrementally.

In response to Representative Hall, Secretary Padilla said the sunset provisions are helpful because it requires those industries that received an incentive to report back and demonstrate the benefit the state received.

Friday, April 15th

The following members and designees were present on Monday, March 21, 2016: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, William F. Burt, Lee S. Cotter, Howie C. Morales, Jacob R. Candelaria, Steven P. Neville, and Pete Campos; and Representatives Larry A. Larrañaga, Luciano “Lucky” Varela, Nick L. Salazar, Paul C. Bandy, Jason C. Harper, Jim R. Trujillo, and Patricia A. Lundstrom.

Improving Efficiency and Productivity at New Mexico’s Colleges and Universities. New Mexico State University (NMSU) is currently working on a project as part of the institution’s efforts to transform NMSU into a 21st century university. Garrey Carruthers, chancellor of NMSU, said an initial consultation with the company Deloitte Development, LLC, led to the conclusion that the university needed to be reorganized.

NMSU currently faces several challenges, such as decreasing state support, increasing costs of delivering educational services, and declining enrollment. Chancellor Carruthers said the goal of the project is to create a university that can sustain itself.

Reporting on the status of the project, Chancellor Carruthers said five teams have been assembled. Team one will focus on organizational restructuring. Standards for staff-to-manager ratios will be established, and an organizational structure will be developed that meets guidelines and properly classifies all jobs. Team two will focus on support staff coverage ratios. Currently, the administrative assistant-to-principal ratio is 11:1; the preferred ratio is 13:1. Team three will focus on IT service delivery. The goal of the team is to create an optimal IT organization structure using a shared services model, which Chancellor Carruthers said should result in significant cost savings. Team four will work to improve NMSU’s finance service delivery system by establishing a finance shared service model, standardizing processing and reports, and optimizing the use of technology. Lastly, team five will focus on purchasing vendors and authority. Chancellor Carruthers talked about purchasing through preferred vendors and decreasing the use of procurement cards (PCards) for certain purchases.

The teams’ tasks are scheduled to be completed by November 15, 2016. NMSU will report on the project at the Board of Regents meeting the following month. Major restructuring requires approval by the board. Chancellor Carruthers said the outcome of the project may be an annual savings of $5 million to $6 million for the university.

Barbara Damron, secretary of the Higher Education Department (HED), then provided an update on higher education and agency activity. New Mexico has 32 higher education institutions. A chart in the presentation showed that New Mexico has a high postsecondary institution-to-population ratio, which Secretary Damron said is common for large states with low population levels. Another chart in the presentation provided data on FY15 faculty FTE and salaries by higher education institutions. Research institutions tend to have more faculty. Secretary Damron said there is little research data that establishes what good faculty ratios are.

Secretary Damron talked about the challenges two-year institutions face in carrying out their mission. A two-year institution mission that focuses on transferring students to four-year institutions conflicts with another focus on making students career-ready by providing career and technical education. Missions of four-year institutions are also conflicted in that focus is placed on both academic research and academic teaching.

A chart in the presentation showed that higher education enrollment peaked during the recession. Although enrollment has since declined, credential production has increased. Since 2012, the number of students receiving degree and certificates has increased about 15 percent, which Secretary Damron attributed to performance funding.

Concluding her presentation, Secretary Damron talked about creating efficiencies through statewide coordination given the current trends on higher education funding. Secretary Damron suggested the funding formula may be one avenue to create efficiencies.

Chairman Smith pointed out to committee members an LFC brief in their binders that analyzed higher education enrollment.

In response to Representative Larrañaga, Chancellor Carruthers said, although NMSU's branches are involved in some aspects of its staffing evaluation, the project is limited to the Las Cruces campus.

In response to Representative Larrañaga, Chancellor Carruthers said the Office of Facilities and Services, which oversees NMSU's capital investments, is highly efficient in its operations and regularly updates its 5-year capital plan.

In response to Representative Lundstrom, Chancellor Carruthers said community colleges were initially established to serve the local employee base and provide technical career training. Over time, their missions evolved to also serve students preparing to transfer to a university. Representative Lundstrom expressed concern for the separate funding formula for the two-year community colleges and universities, explaining that the functions are the same.

Chancellor Carruthers lastly stated that NMSU's application to HED requesting authorization to offer students from Mexico a reduced tuition rate was recently approved. NMSU is expecting to enroll between 75 and 100 students from Mexico in fall 2016.

Status of $1 Million or Greater Capital Projects and Other State Property Issues. Linda Kehoe, principal analyst, LFC, reported on outstanding capital funds. As of March 2016, nearly $900 million from all funding sources for 2,589 projects remains outstanding, including $132.7 million earmarked funds for water, colonias, and tribal infrastructure projects. Since December 2015, $9.9 million was spent on water projects, leaving a balance of $69.5 million; for colonias projects, $5.1 million was spent, leaving a balance of $34.2 million; and for tribal infrastructure projects, $2.7 million was spent, leaving a balance of $29 million. Ms. Kehoe pointed out that the balances do not include the $374.2 million from supplemental severance tax bonds for public schools.

Since the December 2015 quarterly report, 159 projects closed with approximately $86.2 million expended or reverted. Of the outstanding funds, 4 percent was general fund revenue, 64 percent was severance tax bond proceeds, 20 percent was general obligation bond proceeds, and 12 percent was other state funds.

LFC tracks funds appropriated for $1 million or greater projects. As of March 2016, of the $1.2 billion appropriated for 221 projects unexpended balances total $663.8 million, or 78 percent of appropriated funds. Since December 2015, five appropriations, totaling $9.6 million, were fully expended.

Reporting on the status of the 2014 water project initiative, Ms. Kehoe said 79 percent of dollars remain unspent of the $83.5 million authorized for water projects. Attachment B listed the projects, totaling about $10 million, for which bonds were not sold. Ms. Kehoe noted noncompliance for several projects. New to the quarterly report was a status on Public School Capital Outlay Council and Public School Facilities Authority projects and funds. There are currently three projects in development, 23 projects in the plan and design phase, and 28 projects under construction. The remaining attachments provided detail on the water, colonias, and tribal infrastructure funds.

Secretary Ed Burckle, General Services Department (GSD), presented an update on the department's Facilities Management Division (FMD). In 2013, the Property Control Division and Building Services Division were merged into FMD. Secretary Burckle said the merge reduced GSD's FTE needs by 19. Referring to a chart, Secretary Burckle stated 50 percent of the state's total cost of ownership accounts for acquisition, 25 percent accounts for renewals and deficiencies, and the remaining 25 percent accounts for operations and maintenance.

George Morgan, director of FMD, said the state owns 750 buildings, totaling 6.8 million square feet. Of the 750 buildings, FMD has assessed the condition for approximately 600 buildings. The FMD oversees an additional 2.7 million square feet in leased property.

Mr. Morgan said GSD has implemented the Capital Asset Management Program System (CAMPS) at a cost of approximately $1.4 million. As part of CAMPS, the asset information management (AIM) system was launched. Mr. Morgan described AIM as a database of records for facilities. After showing committee members how the system works, Mr. Morgan demonstrated how GSD's new external website, launched under SharePoint, will be used to facilitate the progress of projects. A public facing website is currently in development. The website, expected to launch May 2016, will provide the public with information on active projects. Mr. Morgan said the purpose of the AIM system and website is to provide transparency and show where and how state dollars are being used.

Mr. Morgan said GSD is currently managing about $150 million in capital outlay projects. After expenditures, encumbrances, and allocations nearly $10.7 million is uncommitted. To address the remaining balance, GSD is working agencies to determine how to spend the remainder of their appropriations.

Mr. Morgan lastly talked about facility condition assessment (FCA) project. It is a goal of FMD to maintain an ongoing assessment of the condition of state owned facilities. The FCA and asset inventories of 603 buildings took place in 2015. FMD's goal is to reduce statewide deferred maintenance by conducting an FCA on 20 percent of all state owned buildings annually starting in FY17. The FCA will provide a number of benefits, including providing an accurate representation of current needs, supporting informed repair or replace decisions, providing a view of overall asset value, and validating agency requests for capital funding.

There were no questions from committee members.

With no further business, the meeting adjourned at 11:16 a.m.

John Arthur Smith, Chairman

Jimmie C. Hall, Vice Chairman