Legislative Finance Committee
Angel Fire Resort
10 Miller Lane
Angel Fire, NM
August 12, 13, 14, 2009

Wednesday, August 12

The following members were present on Wednesday, August 12: Chairman Luciano "Lucky" Varela, Vice-Chairman John Arthur Smith, Representatives Donald E. Bratton, Rhonda S. King, Larry Larrañaga (for Don Tripp), Edward C. Sandoval, Jeanette O. Wallace, Nick L. Salazar, and Henry "Kiki" Saavedra; and Senators Carlos R. Cisneros, Sue Wilson Beffort, Carroll Leavell, John M. Sapien, Rod Adair (for Stuart Ingle), Mary Kay Papen, and Pete Campos.

The following Health and Human Services Subcommittee members were present on Wednesday, August 12: Chairwoman Danice Picraux, Vice-Chairwoman Dede Feldman, Representatives Mimi Stewart, and Keith Gardner, and Senators Gerald Ortiz y Pino and Cisco McSorley.

Welcoming Remarks. Linda Calhoun, mayor, Red River, welcomed the committee and reported that the community continues to upgrade its infrastructure. Tourism continues to remain steady. The Red River Valley charter school begins its ninth year with 72 children enrolled. The town works closely with the Questa school board and has begun construction on phase one of a new multi-purpose building funded through legislative appropriations to be completed in October. Delivery of a new aerial ladder truck was received in July and a new fire station will be complete by the end of the year; the station is funded through capital outlay and community development block grant funds. Paving and completion of infrastructure repairs near the Red River ski area have begun using GRIP II funds. The town has applied for federal stimulus funds to complete a sidewalk serving the handicapped and children's fishing ponds. Capital outlay has also allowed an update of the wastewater treatment plant and all but $50 thousand in capital outlay has been expended. Existing funds have been committed and will be spent by the end of the year.

A clean audit was received in 2007-2008 and the town is preparing for its upcoming audit. One of the town's biggest challenges is having a community of 480 people, but needing to provide services for 3 thousand to 5 thousand people because of the number of visitors. Figures easily swell to between 10 thousand and 12 thousand during peak tourist season and up to 20 thousand during the Memorial Day weekend. The revenue stream is dependent on gross receipts tax (GRT), which fluctuates dramatically with the seasons. The town is surrounded by the national forest and growth continues to be a challenge; a process to acquire forest service lands through the Town Site Act has begun and should be completed within a couple of years.

Larry Leahy, mayor, Angel Fire, reported there have been some challenges in terms of tourist dollars; however, GRT funds have held up. Residential construction has slowed dramatically; contractors and skilled builders have left the valley and those who have stayed are primarily working on remodeling projects. Funding made available through capital outlay is being used for a ladder truck and a storage tank for a $1 million Water Trust Board project. Federal stimulus funds will assist in fixing roads; however, funds are on a reimbursement basis. Much like the town or Red River, the village provides services to between 10 thousand and 12 thousand people and infrastructure challenges are enormous.

Don Day, county manager, Colfax County, reported the county's main objective during the last year was to build a new district court building. The vast majority of funding comes from local resources and capital outlay from the Legislature. Secondary priorities include improving bridges, improvements at the airport, and renovating the existing county building.

Health Care Reform: Controlling Costs and Improving Quality of Care.

Update on Federal Health Care Reform: Implications for States. Carolyn Ingram, director, Medical Assistance Division, Human Services Department (HSD), reported that she serves as the vice-chair for the National Association of Medicaid Directors. Part of that responsibility is participating in federal health care reform discussions with the Centers for Medicaid and Medicare Services, as well as other groups. Currently, there are three concepts and two drafts of bills for healthcare reform: the House bill, the Senate Health, Education, Labor and Pensions (HELP) committee bill, and the Senate Finance Committee white paper. The Senate Finance Committee has jurisdiction over Medicaid. Each bill varies in detail but they all include some of the same proposals creating an insurance exchange. Impacts for New Mexico would include a lot of new clients coming into the Medicaid program because of an individual mandate and a requirement for the states to cover all individuals with incomes up to133 percent of poverty. Other impacts include a new screening and enrollment function, data sharing, wrap-around services for some individuals, reduction in disproportionate share hospital (DSH) payments, cuts to Medicare Advantage plans, requirements for fraud and abuse detection programs, and increases in primary care provider rates.

Cost-Containment Strategies: Medicaid. Pamela Hyde, secretary, Human Services Department, reported on cost-containment options and implications in Medicaid. FY09 billings will continue for a couple of years, and a $120 million to $130 million surplus is projected due to federal stimulus funds that will be transferred into the House Bill 920 fund. In FY10, a $37 million to $40 million deficit is estimated; however, additional federal revenue could be received due to the stimulus bill if New Mexico's unemployment rates average more than 7 percent for a quarter. Federal disallowances could increase the deficit. For FY11, a $200 million to $300 million shortfall is projected. The growth in Medicaid is so fast that it has an implication for the next year and has to be annualized. The state loses federal American Recovery and Reinvestment Act funds halfway through FY11. Cost containment will be necessary unless new revenue is found.

Cost containment requires state plan amendments, waiver changes, regulation changes, input from the Medicaid advisory committee, and other requirements, leaving the state with no choice,but to start cost containment in the fall. Changes that can be made within the next year or two include changing eligibility, eliminating or reducing benefits, reducing provider reimbursement rates, slowing enrollment growth, making administrative changes, and fundamentally restructuring the program after ARRA funding goes away. Other state and local agencies will be impacted and waiting lists for certain programs would grow. Every hospital in the state would have reductions in revenue, and almost all community-based health providers would be affected. Every dollar of general fund monies not spent represents $5 of lost economic activity. Not covering some children and adults results in lost federal bonus funds and increases future healthcare costs. Uninsured numbers will also increase.

Brent Earnest, senior fiscal analyst, LFC, added the FY10 shortfall is driven by greater enrollment in Medicaid. In particular, enrollment and expenditures in the State Coverage Insurance program have grown significantly. Director Abbey suggested the committee consider spreading the cost of replacing federal stimulus funds across the entire budget rather than just Human Services

Department.

Senator Ortiz y Pino asked about changing the profit margin of managed-care companies. Secretary Hyde said the profit margin has been reduced; overall limits on administrative costs have been established. Senator Ortiz y Pino requested information be provided to the committees regarding the profit made last year for each of the managed-care entities on the Salud contract, behavioral health managed-care contract, and the projections for the Coordination of Long-Term Services (COLTS) contract. Senator Feldman asked about cost-containment efforts directed at quality and reimbursements for hospital readmissions or any other medical errors. Ms. Ingram said Medicaid copies Medicare in denying claims for the dually eligible population if there has been a medical error.

Representative Bratton asked about the issue on private insurance portability. Secretary Hyde said employers who currently offer coverage pay 75 percent of the premium on average for individual policies. Ms. Ingram added that both the Senate and House are looking at providing an option for states who want to create a co-op base.

Payment Reform: Patient Centered Medical Homes. Dr. Michael Kaufman, New Mexico Medical Society, reported on the medical home model and how it can change the delivery of health care. Every patient, especially those with chronic illnesses would be placed into a collaborative care model that includes a personal physician and team integrated for patients needs. The Medical Society and the health plans have formed a committee and have conducted an online poll for physicians to determine where they stand in establishing patient medical homes; only 5 percent of physicians could be certified currently, and the number of practices with electronic medical records is minimal. Dr. Kaufman asked the committee to consider a small appropriation to the Department of Health or Human Services Department to conduct an evaluation of each pilot plan.

Review of the Dartmouth Atlas of Health Care Project on Variations in Health Care Spending: Utilization and the New Mexico Experience. Dr. Bill Weiss, associate director, Institute for Public Health, University of New Mexico (UNM) Health Sciences Center, reported the atlas is derived from an analysis of the Medicare database. The database is unique because of its ability to look at phenomena across the country and the variation of cost. The variation in per-enrollee cost from one region to another is not explainable by age, sex, race, cost of living, access to technology, differences in health status, or withholding of needed care. The Dartmouth Atlas demonstrates marked geographic differences in services used and costs. Differences are associated with the number of providers, notably specialists. Hospital services and costs rise with the number of available beds, and continued growth is independent of current capacity not attributable to demographic or economic differences. More care and higher spending is not associated with better quality or outcomes.

There are a spectrum of values of providers within a healthcare system. Fee-for-service payment is a powerful driver of types and volume of services provided, growth of procedure, and capital investments in expensive capacity impacting the growth of costs to the public. As an alternative to reducing coverage, deploying organization and operation innovations and incentives will reduce costs while rewarding quality and outcomes. An explicit mandate from the Legislature and executive branch to the provider system is needed to outline the goals to control costs.

Improving Quality of Care. Patricia Montoya, project director, New Mexico Medical Review Association (NMMRA), reported that NMMRA is the quality improvement organization for the state as designated by the Centers for Medicare and Medicaid Services (CMS). NMMRA is also the state-designated external quality review organization. Through a contract with HSD, managed-care contractors are audited, including those under Salud, the behavioral health area, and COLTS, per Medicaid statute and regulations and adherence to performance measures and performance improvement tasks. NMMRA also has three contracts with the Department of Health (DOH). In 2008, the Robert Wood Johnson Foundation (RWJF) made a $300 million commitment to implement a major initiative to improve the quality and equality of health care by aligning forces for quality, including performance measurement and public reporting, consumer engagement, and quality improvement. Albuquerque was one of the communities designated for funding with a total of $1.4 million over a three-year period. All heath plans, acute care hospitals, the greater medical association, nursing, the business community, and consumers are participating.

Dr. Weiss said the medical home implies an active major role of patient care coordination, management follow-up, and integration. Fee-for-service carries an incentive to inflate volume. The challenge is to keep the incentive system in place and replace it in areas that are dysfunctional and running up costs without return.

<u>University of New Mexico Health Sciences Center Strategic Initiatives.</u>

Strategic Planning Update. Dr. Paul Roth, executive vice president, UNM Health Sciences Center, and dean, School of Medicine, reviewed the strategy of the Health Sciences Center and objectives and said the center has three missions: education, delivery of patient care, and research impacting the communities of the state. UNM's goal is to make more progress in health care by 2020. UNM Hospital plans to expand its primary care base within the Bernalillo County area and has developed an advanced medical home working with local advocacy groups and other social agencies. UNM is working in partnership with Presbyterian to discuss planning for a Rio Rancho hospital.

Nurse Training. Dr. Roth introduced the new dean for the college of nursing. UNM is collaborating with Central New Mexico Community College (CNM) to grow the bachelor's nursing program in conjunction with their associate degree program. The university has also worked with the Taos campus in supporting their development of an associate degree of nursing program. There is a statewide plan in development for nursing education. The doctor of nursing practice is a new degree allowing nurses to provide an extraordinary power to provide health care both in and out of the hospital and to build a faculty base.

Health Sciences Center Finances. Dr. Roth reviewed the sources for funding for the Health Sciences Center. The center includes three colleges: pharmacy, nursing, and medicine. Allied health programs and the university hospitals are also included. The total budget is $1.1 billion, representing 55 percent of the UNM budget and is dependent on the generation of clinical revenue. An excess of $7 million in federal stimulus funding for research grants has been received.

Academic Programs Admission and Pipelines. Dr. Roth reported that the School of Medicine was created to offer a medical education opportunity as well as to assist with addressing medically underserved areas in the state. Students and applicants are required to take the Medical College Admissions Test (MCAT) to determine scholastic cognitive understanding of the sciences and verbal skills. Students apply to a medical school through the American College Admissions System, a national program. Dr. Roth explained the application process and the criteria ranking for applicants. To obtain a license and practice medicine in New Mexico, students must pass two additional standardized tests and subsequent tests and recertify every 10 years. Over 50 percent of graduates are staying in New Mexico for their residency programs.

The bachelor's/doctoral degree (BA/MD) program consists of only New Mexico high school students; two-thirds of these students are from rural areas. The program was an experiment created in an effort to increase the number of physicians based on an understanding that students who have roots in the community would most likely practice in those communities. Students go through a four-year curriculum in the UNM College of Arts and Sciences and are automatically admitted to medical school. Dr. Roth said there will only be one request for expansion funding from UNM during the next session for funding of the BA/MD program.

Vice-Chairman Smith asked about the possibility of a dental program. Dr. Roth said New Mexico needs to be more responsive in creating opportunities for professional dental education. Two options have been developed to address the possibility of more dentists practicing in New Mexico. A BA/DDS would create the same pipeline as the BA/MD. Building a dental school would cost an estimated $40 million to $60 million in capital outlay funding to construct the facility and approximately $20 million a year for faculty, staff, and other related costs. The other alternative is a regional dental school.

Overview of Federal Office of Management and Budget Program Assessment Rating Tool (PART). Arley Williams, principal analyst, LFC, provided a summary of performance analysis for federal activities and budgets using the program assessment rating tool (PART). LFC staff is considering using the PART for activities as a tool to inform budget analysis and link budgets to performance.

Tour of Vietnam Veterans Memorial State Park. Dave Simon, state parks director, explained that Victor and Jeanne Westphall established the memorial in honor of their son, Lt. David Westphall, killed in Vietnam in May 1968. When it opened in 1971, it was the first memorial of its kind in the United States, dedicated solely to Vietnam veterans even while the war was still underway. Admission is free. The park does not charge entrance fees and support for the operations of the memorial is reliant on general fund revenues and self-generated revenue earned by other parks and directed to these facilities. Average annual visitation is 42,278. The memorial was closed to visitors at the end of FY09 ifor renovation of the visitor center. The memorial is scheduled to reopen in spring 2010. Mr. Simon explained that the park is staffed with a park manager, an interpretive ranger, and a park technician; the FY10 operating budget is $154,345.

Tour of Eagle Nest Lake State Park. Mr. Simon explained that the park was established on July 3, 2004, as New Mexico's 32nd state park. The park consists of approximately 872 acres owned by New Mexico State Parks, transferred to state parks from the state Department of Game and Fish, as well as a "joint management area" on the east side of the lake. FY09 visitation was 194,165, which reflected a 43 percent increase over the FY08 visitor count of 135,666, making it the sixth most visited state park in the system from July 2008 through June 2009. Mr. Simon explained that the park is staffed by a park manager, a ranger, and a park technician as well as seasonal staff; and that the FY10 operating budget is $167,263. Mr. Simon added that $43,355 in revenue is generated from the sale of Parks Annual Day Use and Annual Camping Passes.

Thursday, August 13

The following members were present on Thursday, August 13: Chairman Luciano "Lucky" Varela, Vice-Chairman John Arthur Smith, Representatives Donald E. Bratton, Rhonda S. King, Larry Larrañaga (for Don Tripp), Edward C. Sandoval, Jeanette O. Wallace, Nick L. Salazar, and Henry

"Kiki" Saavedra; and Senators Carlos R. Cisneros, Sue Wilson Beffort, Carroll Leavell, John M. Sapien, Rod Adair (for Stuart Ingle), Mary Kay Papen, and Pete Campos. Representatives Mimi Stewart, Dennis Kintigh, Rick Miera, Danice Picraux, and Cynthia Nava; and Senator Stephen Fischmann attended as guests.

Public School Funding, Accountability and Enforcement.

Affordable and Targeted Investments to Improving Student Outcomes. Winston Brooks, superintendent, Albuquerque Public Schools (APS), provided a review of academic goals for APS and an overview of initiatives to be implemented in the 2009-2010 school year.

Student proficiency results were released just prior to the meeting and 27 APS schools made AYP for 2008-2009, including one high school. Mr. Brooks noted that another six high schools met 35 of 37 AYP (adequate yearly progress) targets but were still considered to have failed to meet the annual objective. In the six schools that came close, all failed to achieve AYP in the special education subgroup. Since special education students are required to take the same test as all other students, this trend will probably continue for most schools. Earlier this year the districts decided to adopt objectives for all schools to improve student proficiency scores by 3 percent per year. These targets are not aligned with federal No Child Left Behind Act AYP targets but are more reasonable and achievable and do not set up schools in advance to fail. Based on these criteria, 33 schools in the district exceeded targets in reading with gains of more than 5 percent and 70 schools exceeded target in math. In addition to the 3 percent target set for proficiency gains, the APS board adopted a total of 14 targets focused on among others participation on statewide assessments, attendance, graduation rates, lowering the achievement gap, and reduce truancy. APS met or exceeded 10 out of 14 targets set by the board in FY09 and expects to meet all goals in coming years. In addition, APS was one of three urban schools districts in the United States asked to participate in a formative assessments study to determine the effectiveness of short-cycle assessments and the use of data to drive instruction rather than total dependence on annual high-stakes assessments.

To help teachers, principals, and students meet these goals the district has or will adopt a number of initiatives in the current school year. These include keeping all high schools open and offering classes until 7 p.m. daily to allow those students who need to be in school but for different reason are unable to attend during the day to take classes required for graduation. The district has also moved management of schools back to the central office to get back to a more standardized curriculum, operating hours, and for more efficiency in administrative operations. A focus on using data to make instructional and managerial decisions will also be a focus of the district, and professional development will be offered to assist staff to become proficient in this area.

Sanctions and Incentives To Improve Accountability. Stan Rounds, superintendent, Las Cruces Public Schools, focused on school and district accountability. He noted that the accountability net used by the schools is too wide and not directly focused on real issues and the process is not timely. To emphasize the issue he noted that while only five of 27 schools in the Las Cruces Public School made AYP the data generated was a snapshot in time, was not effective for use in making instructional decisions and because schools fail if they miss only one of 37 criteria did not reflect what was really going on in the schools. Mr. Rounds also noted that incentives are not properly aligned, are poorly targeted by the schools, and insufficient in size. To make assessments more effective, real time assessment, instructional incentives and consequences have to be aligned. Policy directions need to focus on the building level as a community, and incentives should reward the entire team. Accountability should focus and sanction only a few needy schools and be deliberated and significantly assistive. Most importantly he notes education struggles from past practices rather than getting rid of what doesn't work and expanding initiatives that do work.

To put some identified best practices into play, New Mexico State University, Dona Ana Community College, and the Las Cruces public schools in collaboration with a local aerospace company will open an early college high school in a new technical park operated by the university that will provide incentives to students to graduate and provide a head start to college or other post-secondary opportunities.

As an aside to the presentation topic, Mr. Rounds encouraged the committee to make budget reduction recommendations for FY10 solvency as quickly as possible to give the districts as much flexibility as possible in implementing and reductions.

Sheila Hyde, assistant secretary, Quality Assurance and Systems Integration Division, Public Education Department, reported on efforts the department is taking to assist schools in the school improvement cycle. The efforts include aligning standards with curriculum, measuring student progress, measuring achievement, and imbedding information in teacher practices. The department has organized 20 focus groups around the state to speak to parents, teachers, building-level educators, and central office educators about these issues and has developed a table of responsibilities for schools and districts based on the feedback received. Ms. Hyde provided an overview of the major changes that relate directly to classroom practice and professional development that for the first time include instructional audits, curriculum audits, and reviews of teacher time-use efficiency in the classroom. While most of the work the division does relates to schools in the school improvement cycle, it appears that most if not all of the information can be used by any school to improve instruction, drive instructional decisions, and verify whether current practices are maximizing opportunities for all students.

Update on Statewide Schools of Education Activities to Coordinate Leadership and Teacher Preparation Programs. Richard Howell, dean, College of Education, University of New Mexico (UNM), provided an update on leadership preparation programs for administrators and current accountability processes for teacher preparation programs. The deans and directors of education programs at the institutions of higher education have formed a working group focused on the alignment of teacher and educational leadership preparation programs among the institutions. The partnerships formed among the institutions are expected to result in teachers better prepared for the rigors of the classroom and principal candidates having experienced a more comprehensive and uniform preparation and internship program. The early results of these cooperative efforts have been more universal support for the development of new approaches to prepare educational leaders for the state.

As a result of SB211, colleges of education programs were required to develop the teacher education accountability reporting system (TEARS). The colleges and programs participating in the preparation of teachers have made significant progress in developing a statewide template that provides internal integrity of programs. Much work remains but continuing efforts on refining the reporting process to districts is underway.

Math and science education continues to be of concern both with regard to student achievement and the ability of teachers, particularly elementary teachers, to effectively teach these subjects. SB462, introduced during the 2009 legislative session, focused on developing a statewide infrastructure supporting a wide range of changes necessary to change how math and science are taught in schools, as well as the way teachers are prepared to teach math and science. While the bill did not pass it did elevate the discussion regarding the need to improve teacher quality with regard to math and science education. The schools of education recognize this need and are preparing a teacher-quality grant seeking stimulus funds to begin reforming math and science education.

Paul Aguilar, principal analyst, LFC, said the increase in proficiency statewide has been significant and sustained in some areas over the last few years and continues to improve. He noted the state has spent a lot of resources, time and effort on elementary programs and secondary programs; more emphasis needs to be placed on middle schools to ease the transition from elementary schools and reduce dropouts earlier.

Representative Salazar asked if AYP is a good measurement of success for students. Mr. Brooks said because of the NCLB, there is now an accountability system to review data more than in the past. The AYP targets established state by state are incremental and arbitrary marks to get to 100 percent proficiency in math and reading by 2014.

Senator Sapien asked about career technical education and how it fits into the overall business model affecting the drop out rate. Mr. Brooks said every student who graduates should be college ready. The set of skills required, whether in college or the vocational technical, should be the same. Chairman Varela added the career technical component used to be in the public schools and disappeared not providing an alternative. The panel responded that career technical is provided in the schools; however, the terminology for vocational education may not have been communicated correctly. Veronica Garcia, secretary, PED, will provide the committee with a report on all districts and high schools with career technical programs.

Review of Findings of 2003 Blue Ribbon Tax Commission; Review of Tax Credits and Exemptions 2003 to Present and Relation to Tax Policy Principals. Becky Gutierrez, senior economist, LFC, provided background information for the Blue Ribbon Tax Commission. The commission's general goal was to align New Mexico's taxes more closely with its economy and its future. The commission focused on eight key issues when formulating its recommendations:

- Tax relief for low- and middle-income families
- Gross receipts tax (GRT) of medical practitioners and hospitals
- Gross receipts tax on food for home consumption
- Tax treatment of commercially active nonprofits
- Personal income tax rates and capital gains
- State road fund sources
- Liquor and other excise taxes
- Corporate income taxes

In addition, the commission addressed a number of concerns about tax administration. A significant cut in personal income tax rates and capital gains taxation enacted during the 2003 regular session reduced state revenues significantly. Because most of the tax relief already passed was targeted at middle and upper income households, the commission focused its attention on ways to provide new relief for lower-income households.

The commission and its staff developed a comprehensive set of 196 separate proposals to improve the tax system; 71 specific recommendations were adopted. Recommendations affecting the general fund were intended to be revenue neutral while those affecting the road fund were intended to raise revenue. Proposals that were not recommended included removing the GRT from sales of food for home consumption and imposing GRT on commercially active nonprofits.

The 2003 special session adopted a number of commission recommendations for increasing road fund revenue. Subsequent legislative sessions have adopted a number of other recommendations. In addition, the GRT deduction for food sold for home consumption was adopted along with repeal of the 0.5 percent credit in municipal areas.

Tom Clifford, chief economist, LFC, reviewed tax policy principles adopted by the committee and tax cut provisions adopted since the Blue Ribbon Commission. Programs such as the working families' tax credit and the low-income personal exemption create a drain on state revenues. The gross receipts tax (GRT) deduction for food sales is estimated to reduce general fund revenue by $75 million per year after taking into account a repeal of the 0.5 percent credit. A variety of other provisions have targeted services for low-income households.

The deduction for medical services reimbursed by managed-care organizations (MCOs) was among the recommendations endorsed by the commission. There was concern about the availability of adequate and appropriate health care. There are a number of tax policy concerns regarding these provisions. As the healthcare sector is exempted from the tax base, the growth rate is reduced over time. The tax code is used to subsidize the provision of health care.

The commission recommended the high-wage job tax credit and the small business research and development tax holiday credit for economic development; both were adopted by the Legislature. In addition, a number of other provisions have been adopted, including the film production tax credit, extension of the manufacturer's investment tax credit, and extension of double-weighted sales apportionment for manufacturers. By targeting particular sets of businesses for incentives, an uneven playing field is created for other businesses that do not qualify. These incentives fail the efficiency principal because they substitute political decisions regarding the allocation of resources for decisions made in the market place. However, incentives can be carefully targeted to stimulate economic activity that would not have otherwise occurred in the state. A set of principles to evaluate economic development proposals is suggested.

Several renewable energy incentives have been adopted in the last several years. These are not intended to achieve tax policy objectives; they are tax expenditures using public funds to subsidize certain private activities and should be evaluated using the criteria of expenditure policy; however, these policies do have tax policy implications. Many of these provisions also have sunsets.

Credits and exemptions adopted in the last six years have reduced the annual general fund revenue by $350 million. Funds going out through the tax budget are not being coordinated with expenditure policies. It is recommended LFC stay involved with the TRD tax expenditure budget to ensure the analysis is helpful in evaluating the usefulness of tax expenditures.

Senator Beffort said in regards to changing the income taxes, it not only affects the wealthy but the small business that are not incorporated. Mr. Clifford said the rate relief extends low in the income scale. Representative Kintigh said tax credits function as behavior modifiers and are not revenue producers. Mr. Clifford agreed and said once a provision gets into law it does not receive an annual reassessment.

Senator Leavell requested a study on what the oil and gas regulations and the proposed California

Clean Air Act will do for the state and tax revenues. Mr. Clifford said the oil and gas volume forecast is monitored on a month-to-month basis and is considered when preparing the revenue outlook. It is expected that there will eventually be a volume impact for reduction in drilling.

Representative Larrañaga asked about the tax treatment of commercially active nonprofit organizations. Mr. Clifford said the commission was concerned that for-profit and nonprofit hospitals were treated differently under the GRT. The commission recommended that be mitigated by providing tax relief to the for-profit hospitals; the state has subsequently adopted that provision to some extent. A GRT credit has been provided to the for-profit hospitals for the state's share of their GRT; the credit is phasing in over several years. Other nonprofit entities are still exempt. Representative Saveedra requested information on what nonprofits pay back to themselves.

Representative Larrañaga asked about changes in the funding source for state roads. Mr. Clifford said there were several provisions adopted by the 2003 special session to raise revenue for the road fund. N.M. Department of Transportation (DOT) revenues are down. The department is aware of the long-term financing problem and is looking at alternatives to improve funding sources. The commission recommended a gasoline tax increase and indexing the tax over time to keep pace with inflation.

New Mexico Voices for Children. Bill Jordan, policy director, New Mexico Voices for Children, provided several potential revenue generators for the state. He stated that every dollar in government spending returns $1.58 in economic growth; every dollar in tax cuts returns 70 cents. The source for these estimates was not provided.

Status of State Building Initiatives and Other Capital Outlay Acquisitions. David Millican, finance director; city of Santa Fe; Arturo Jaramillo, secretary, General Services Department; Gary Giron, secretary, Department of Transportation; Bill Cisneros, chief executive officer, N.M. Finance Authority

College of Santa Fe. David Coss, mayor, reported that the Santa Fe city council voted to purchase the College of Santa Fe. The college will remain open through the summer and fall. Students who are pursuing accreditation are signing up with Laureate Education Inc., a for-profit education company. The structure of the deal includes bargaining down the debt loan and purchasing the campus for $19.5 million. The city council approved borrowing $30 million to pay off the debt, buy the campus from the College of Santa Fe, and create a reserve and contingency fund to address deferred maintenance issues. A lease has been negotiated with Laureate Education Inc., to run an accredited four-year college. The city is requesting the reauthorization of $5 million for the purchase.

Tina Ludutsky-Taylor, special assistant to the president, Santa Fe Community College (SFCC), reported she is the lead for the community college in putting together a proposal for higher learning center in Santa Fe. The college has been working with the city and the state to establish a public four-year higher education complex. The college has submitted and received approval for the preliminary plan through the Higher Education Department (HED). The college will establish a learning center district within the SFCC district through the Learning Center Act. SFCC will be the lead administrative higher education institution and will partner with public and private four-year colleges and universities both in-state and out-of-state to bring in the bachelor's completion and graduate programs. Institutions that are part of the consortium will generate revenue to pay for operation through the formula funding they will receive through enrollment.

Arturo Jaramillo, secretary, General Services Department (GSD), said the federal government is interested in acquiring 100 acres at Fort Bayard next to the Fort Bayard cemetery. GSD is proposing to trade the land at Fort Bayard for two tracks in Santa Fe. SFCC has bonding capacity to put up the higher education learning center. Currently HED is leasing space. GSD has the ability to move state agencies from private leases into state-owned facilities. By combining capitalized dollars already committed to the higher education leases through the New Mexico Finance Authority (NMFA) and contributing and combining the resources of the bonding, monies could be generated for SFCC that the state could use to build a complex that would require one basic infrastructure sharing common facilities. The facility would bring higher education to residents Santa Fe, northern New Mexico, and surrounding areas at local and state tuition rates. Other funds include $4 million through a memorandum of understanding (MOU) from the American Reinvestment and Recovery Act (ARRA) that can be used for purchase of property or government services. Discussion on a number of different concepts with the city of Santa Fe involves other track purchases.

Health and Human Services Complex. Secretary Jaramillo said the Health and Human Services complex is a 10-year-old concept; $2 million has been appropriated to allow for the programming of the campus. The master plan strategy is to consolidate four human services agencies that share common clientele, federal programs, and federal oversight agencies. The complex would foster the interaction and collaboration essential to efficient operations and would allow centralized public accessibility. Private lease space would be vacated, achieving substantial long-term general fund savings.

As part of the planning, it was necessary to secure a constitutional amendment allowing lease purchase agreements. During the last session, the Legislature passed and the governor signed House Bill 728 authorizing GSD to enter into contracts to acquire phase one of the complex. The bill also authorized NMFA to issue up to $80 million in lease purchase revenue bonds to finance the development of the complex. HB154 allowed an appropriation of $4 million for land site acquisition. Two million dollars has been committed from prior appropriations for programming and extensive work has been completed with the agencies involved. If a request for proposals (RFP) for the design build is done within the next 18 months, the state will benefit from the contracting environment. The Capital Building Planning Commission (by the terms of HB728) reviews all contracts including land acquisition contracts. It has been proposed to acquire 20 acres of land immediately proximate to the Railrunner station at the Las Soleras development. Basic terms involve three terms of consideration: cash, trades of land, and other considerations (in this case a gift from the developers). The basic terms were $6 million in cash and a trade of the state's ownership of the Galisteo and Valdez property with the exception of tracts being held in the event the state forensic laboratory and the Motor Vehicle Division (MVD) office are built. The remaining smaller tracks would be traded as would the Galisteo property and the remainder (up to 20 acres) would be gifted. The price was capped at no more than $20 a square foot with the actual price being the fair market value of the land. If property appraised at lower amounts, greater amounts of property would be purchased. Whatever remains of the 20 acres would then be given to the state in a bargain sale gift. The Capital Building Planning Commission toured all the available sites considered for this development and felt this subdivision would bring a great deal of value. Secretary Jaramillo said he proposed that the gift be up front and in the amount of $6 million matching the contribution in cash. The two trades would then be at the end of the deal and if that consideration exceeded the value of 20 acres, a greater increment of land would be gifted.

Department of Transportation (Main Complex/District V). Gary Giron provided an update on the

Department of Transportation (NMDOT) general office property and District 5 property. Under HB239, NMDOT is authorized to develop properties with the intention of getting a general office building that the administration and general office of the department will use without spending any state dollars. The department issued an RFP to conduct a feasibility study for the development of the properties. An MOU was entered into with GSD and Department of Finance and Administration (DFA) to approve the process for the RFP, as well as any future steps. Decisions will be recommended to the State Transportation Commission for final approval. The RFP is pending approval of the selected bidder at the next State Transportation Commission meeting. The RFP will examine the possibilities and uses of the properties to look at planning concepts, land use, density, business planning, and financing. The process will be transparent and will include the city, neighborhoods, and state and legislative input. Once the first phase is complete, DOT will begin working with the oversight committee and the State Transportation Commission to determine the next steps for the development of the general office and District 5.

Mr. Giron said the city of Santa Fe has a significant role in the development. The city may not have final approval for all phases, but it has a key approval and it is important that it is a partner, understanding all the issues. The local community will also be included in the first part of the planning process so special needs are understood.

Vice-Chairman Smith asked about the bidders for the DOT complex. John Alejandro, staff architect, NMDOT, replied that eight proposals were reviewed through a quality-based selection process. Proposals were reviewed and short listed. Three firms were identified, interviewed, and ranked.

General Services Department / Information Technology Rates. David Archuleta, senior fiscal analyst, LFC, reported on proposed FY11 rates for the General Services Department (GSD) and Department of Information Technology (DoIT). GSD recently completed its financial audits for FY06 through FY08; while DoIT recently completed its FY08 audit. Charges for risk coverage, including public liability, public property, workers' compensation, surety, and unemployment compensation, will see a reduction totaling $2.8 million in FY11, or 3.8 percent below FY10. Approved rates for FY10 included a $4.6 million reduction, with estimated general fund savings of $1.2 million. Group health rates are scheduled to remain flat with FY10 operating levels, which were also flat with FY09 operating levels. DoIT proposes an overall increase of $194 thousand, or 0.4 percent, for information technology (IT) telecommunication and radio rates.

Secretary Jaramillo highlighted the risk management rates and said there have been significant reductions in claims and lower settlements. Public liability reserves have improved to 53 percent while a much more assertive approach has been taken in defending frivolous lawsuits. Workers' compensation reserve soundness remains an issue; however, it is at 15 percent and not threatened. In FY09, rates totaled $74 million while FY10 rates totaled $65 million. The FY11 proposed rates will be reduced to $64 million.

The various components of rates for each category of insurance coverage require five years of actual claims experience. Rates are developed a year and a half in advance by using five years of loss history. Actuaries then multiply those losses by a lost development factor based on national standards. In addition, the amount of excess insurance coverage purchased beyond self-insured retention limits is added, as well as overhead cost for the Risk Management Division (RMD) operations. Lastly, a consumer factor is added for inflationary purposes. The only increase RMD is seeking is a $5 million addition to the workers' compensation fund to move the soundness factor from 15 percent into the mid to high 20s. The proposed premium for risk coverage totals $64.4

million. Loss experience and exposure are used to allocate premiums to customer agencies.

As of June 29, 2009, the workers' compensation soundness factor was 15 percent, up significantly from past years. The public liability soundness factor is 53 percent, up from 46 percent last year and 40 percent the year before. Public property is 618 percent, which includes $12 million in fund balance; however, there is a significant number of claims outstanding against this fund.

Secretary Jaramillo provided history for unemployment compensation rates. At the close of FY09, the fund balance stood at $3.2 million while the obligation to the Workforce Solutions Department is current and completely paid. Based on the actuaries' calculation, estimated revenues of $8 million and claims of $5.8 million will leave the fund balance at the end of FY10 the same as FY09.

Healthcare premiums increased between 10 percent and 12 percent nationally. Through prudent use of its reserves GSD has been able to hold rates flat for three consecutive fiscal years. Customers include agencies, local public bodies, and university participants. Plan changes made in FY10 are expected to reduce the state's cost by $9 million. The fund balance at the end of any fiscal year is ordinarily necessary to cover the incurred but not reported liabilities or "run off" claims. Actuaries have requested a reserve for disability of $6.5 million. Projected FY10 reserve revenues are expected to generate $345 million; while projected expenses are estimated to be $333 million, leaving a fund balance of $50 million. Based on the reserve, it is believed there are sufficient funds to cover the run off and the end of FY10 and keep the rates flat for FY11. Revenues totaling $345 million in FY11 against $364 million in expenses as projected by the actuary will leave $31 million for carryover or run-off claims. After three years of flat rates, it is anticipated that rates will need to be increased or additional plan design changes will need to be implemented in FY12.

The Transportation Services Division (TSD) is part of GSD and manages the state motor pool and Aviation Services Bureau. The proposed rate to the state motor pool is a $1 net overall increase per car per month.

The Aviation Services Bureau mission is to get public officials into outlying areas in a cost- effective way. The division is operated with three aircraft on a total annual budget of $1.7 million. Guidelines for state aircrafts were issued during the budget reduction cycle requiring agencies to submit criteria justifying the use when flying. Criteria include emergency response surveillance activities, multi-passenger transportation, health and safety considerations, and Aviation Services Bureau coordination. A contract with the state Forestry Division is being negotiated to generate enterprise revenues. There have also been discussions with NMDOT to put a digital camera in the turbo commander, allowing air photography and homeland security services. Secretary Jaramillo provided information on proposed rates for transportation.

Marlin Mackey, secretary, Department of Information Technology (DoIT), reported that the department has 47 rates that include 14 changes in FY11. Revenues for FY10 using existing rates total $53.5 million while the FY11 proposed rates total $53.7 million (not including the SHARE rate). Rates for wireless and long-distance charges were reduced in January 2009, were carried over in FY10 and will carry over in FY11, resulting in a $1.1 million savings. Increases for radio and emergency rates total $520 thousand.

In FY10, resources supporting the SHARE system were consolidated and moved to DoIT. Increases in rates are for the equipment replacement fund and include depreciation. An FY11 IT plan and budget will include spending options. The fund balance totals $17 million, $8 million reserved for cash flow and $7.5 million for accounts receivable.

Future changes affecting the rate structure include the use of mainframe and a broadband network. Federal stimulus money is currently available for expansion of the broadband network and 14 letters have been submitted by the governor's office to different companies supporting broadband initiatives.

Chairman Varela asked about risk management and what authority the department has to remove a lawsuit from an agency, to settle, or to go to court. Secretary Jaramillo said it is often a difficult issue. RMD controls the litigation, but the agency and employee are clients. Cases where the client does not want to settle are typically not. The decision is given to the director of RMD and the secretary of GSD. If there is a serious dispute about whether a matter should be settled, judgment will be made in the best interest of the state.

Friday, August 14

The following members were present on Friday, August 14: Chairman Luciano "Lucky" Varela, Vice-Chairman John Arthur Smith, Representatives Donald E. Bratton, Rhonda S. King, Larry Larrañaga (for Don Tripp), Edward C. Sandoval, Jeanette O. Wallace, Nick L. Salazar, and Henry "Kiki" Saavedra; and Senators Carlos R. Cisneros, Sue Wilson Beffort, John M. Sapien, Rod Adair (for Stuart Ingle), Mary Kay Papen, and Bernadette Sanchez (for Pete Campos). Representative Dennis Kintigh and Senators Sander Rue and Stephen Fischmann attended as guests.

Preliminary FY09 General Fund Report and Update for FY10-FY12. Katherine Miller, secretary, Department of Finance and Administration (DFA), reported on the general fund consensus revenue estimates. Estimates reflect a state economy having a difficult time. Global Insight (GI) expects the National Bureau of Economic Research to declare the end of the recession as of July or August 2009. It is expected gross domestic product (GDP) will grow in the second half of the year but not strongly enough to stabilize employment until 2010. Global Insight and Bureau of Business and Economic Research at UNM expect job losses in the state through the end of the calendar year into the first quarter of 2010. This job weakness is reflected in substantial reductions in expected revenues for FY09 through FY14. Revenue growth is likely for FY11 through FY14.

The New Mexico Office of Recovery and Reinvestment identified $3.188 billion in estimated fiscal stimulus funds for New Mexico; $1.1 billion has been made available and $142.5 million paid out. This revenue estimate assumes that at least $132 million of fiscal stimulus funds will be available on the revenue side to balance the FY09 budget. The key factor in the revisions to the revenue forecast is a decline in the broad-based revenues that are responsive to the weak economy. These revenues include gross receipts tax, corporate tax, personal income tax, and motor vehicle excise tax. Receipts from these sources general held up during most of FY09, but receipts for the last three months including the critical final settlement period for personal income tax have been below projections.

Although the U.S. GDP growth rate is now forecasted to be lower in FY09, FY10, and FY11 than in the February forecast, New Mexico personal income and private wages and salaries are expected to be somewhat stronger. Natural gas prices are virtually the same for FY09 and somewhat lower than the February estimate for FY10 and FY11. Natural gas volumes are slightly stronger in the February forecast. With these changes in assumptions, oil and natural gas revenues will be about $32 million stronger than estimated in February for FY09. FY10, FY11, and FY12 total oil and natural gas revenues are currently estimated to be between $1.6 million and $5.7 million more than estimated in February.

Predicted recurring revenue for FY09 has decreased by $309.1 million, and the FY10 forecast has been lowered by $432.6 million. The FY11, FY12, and FY13 forecasts have also been decreased. After including all of the action known as the "solvency package" and reversions and transfers, FY09 total revenues are still about $121.5 million short of restoring a 10 percent reserve. FY10 total revenues are short an additional $427.7 million from maintaining a 10 percent of current year reserves level, assuming that FY09 ending reserves are restored to the same 10 percent reserves level assuming that FY09 ending reserves are restored to the same 10 percent level. Total general fund revenues are not expected to exceed the FY08 peak level of $6.063 bllion before FY15.

DFA has previously reported that the structure of the reserves is an issue than needs to be addressed so that the general fund operating reserve balances are sufficient to pay the obligations in the appropriation account. The critical issue at this juncture is the aggregate reserve amount as a percentage of current year appropriations. The preliminary estimate of FY09 revenues and appropriations indicates an 8 percent balance in reserves. As a consequence of the revenues reported, the estimated reserve balance for FY10 will be negative400 thousand million, or 0 percent of appropriations.

The national economy continues to struggle although there are recent signs that the bottom of the recession has been reached. While output is expected to begin growing this quarter, there may be many more months of job losses before U.S. employment is turned around. The February forecast reflected national job losses in each of the preceding 13 months and anticipated negative GDP growth for at least four quarters. The February forecast also expected consumer prices, once increasing rapidly, to decrease. Since the February forecast was made, the national economic outlook further weakened. The August forecast by HIS Global Insight is for even weaker growth in real GDP in 2009, with somewhat higher, but still low inflation in 2009 and 2010. U.S. real GDP is expected to decline by 1.6 percent in FY09, rather than the 1.2 percent decline assumed in the February forecast. Rather than a projected inflation rate of 1 percent in FY09, prices are now expected to rise by 1.4 percent. The February forecast assumed a decline in prices in FY10 of 0.7 percent; prices are now expected to rise 0.5 percent. While national consumer spending and sentiment remains weak, or perhaps as a collateral consequence, personal savings rates have recently increased dramatically. Personal savings can be loaned by banks and other investors to start and expand businesses and purchase cars, homes, and consumer goods; however, as the savings rate increases, consumption falls. From a revenue standpoint consumption generates more gross receipts tax revenue than does capital spending.

As measured by seasonally adjusted employment levels, New Mexico has been in recession since May 2008. The Bureau of Business and Economic Research (BBER) is currently forecasting job losses until January 2010. The February forecast anticipated slow economic growth for New Mexico this year and next and then a pickup to normal levels after FY11. Employment growth was expected to fall to negative 0.6 percent for FY09, fall another 0.1 percent for FY10 and then increase near 1.7 percent annually thereafter with the unemployment rate expected to remain near 4.5 percent through the next five years.

Personal income growth was expected to reach 5.3 percent in FY09, fall to 0.7 percent in FY10 and remain 3.5 percent to 4.5 percent thereafter. The latest forecast from the BBER indicates further weakness in employment but increases in wages and salaries and personal income in FY09 and

FY10. Employment revisions and regularly scheduled personal income revisions may change the absolute numbers but not the general pattern. Based on the most recent data, job growth has slowed from over 3 percent in mid-2006 to negative 2.5 percent as of May 2009 revised reports. The U.S. average for the May 2008 to May 2009 period was down 4 percent. Despite the significant job losses, New Mexico still ranked 11 among all states in job growth for this period.

New Mexico's unemployment rate was 6.5 percent, up 2.5 percent year over year and 0.7 percent from the prior month. The national May 2009 unemployment rate was 9.5 percent, up 3.9 percent year over year and slightly up from the prior month. The New Mexico economy lost 21,200 nonagricultural jobs over year, a 2.5 percent decline.

New Mexico's total personal income grew to $64.4 billion in the first quarter of 2009. National growth in personal income over the same period was 0.7 percent, down 1.3 percent from the prior quarter. New Mexico ranked 43 nationally in income in 2007, a considerable improvement from the 48 ranking in per capita income in 1998.

In the first six months of 2009, RealtyTrac reported a New Mexico foreclosure rate of less than one-fourth the national rate. RealtyTrac ranks New Mexico 37 among states for foreclosures for the first half of the calendar year and 31 among states for foreclosures for the latest quarter.

Marilyn Hill, deputy secretary, Taxation and Revenue, reported on the FY09 revenue update. Total general fund revenues for FY09 are expected to be about $170 million below the February forecast and recurring revenues $309 million less than estimated in February. Shortfalls are due to substantial weakness in the broad based taxes including oil and gas; revenues are stronger than the February forecast. The $309 million recurring shortfall for FY09 is composed of a $354 million shortfall contributed by gross receipts, personal income and corporate income taxes partially balanced by $45 million in net surplus from all the other recurring sources. The estimated error is substantial for this relatively short forecast period, but virtually no state government adequately anticipated the depth or duration of the recession. DFA will not close the books on FY09 until mid or late October. New Mexico is expected to have a FY10 gap of 6.3 percent putting it 43 ranking of the 48 states which face or faced shortfalls for the current fiscal year. This data has not been adjusted for this revenue estimate

New Mexico's fiscal situation is better than most states for several reasons. Although the general fund gap for FY09 is comparable in percentage terms to other states, the state entered FY09 with high levels of reserves: 13 percent of appropriations. New Mexico has also made dramatic strides to improve its economic growth and position itself for long-run sustained economic growth. The results of these initiatives are reflected in the relative strength of the New Mexico economy over the forecast period and greater resilience in general fund revenues. The general revenue outlook has worsened since the February forecast, which was based on expected near-term weakness in the oil and gas revenues followed by slowly growing oil and gas prices and moderate growth in gross receipts, personal income, corporate income, motor vehicle excise taxes and investment income. Growth in the broad-based taxes has virtually stopped or turned negative.

Gross receipts and compensating taxes are the largest source of general fund revenues representing 35 percent of the total recurring revenue. These taxes are expected to fall by 0.7 percent from FY08 to FY09. For the first 10 months of FY09, the weighted average price received by New Mexico's natural gas producers was $7.50 per thousand cubic feet (mcf). The Consensus Forecast Group expects a final weighted average price of $5.60/mcf for FY09. During the first 10 months of FY09, the weighted average price received by New Mexico's oil producers was $65.39 per barrel (bbl). The Consensus Forecast Group expects a final weighted average of $65.50 for FY09. During FY08, monthly oil volumes averaged 5 million barrels.

FY09 collections for the oil and gas school tax are expected to exceed the February 2009 forecast by approximately $20 million. Federal mineral leasing payments are expected to exceed the February forecast by $1 million. Total general fund revenues from oil, natural gas, and hard minerals in FY09 are expected to exceed the February forecast by $31.9 million. The forecast for FY10 is virtually unchanged.

Personal income taxes comprise approximately 20 percent of general fund recurring revenues. Several factors have caused FY09 personal income tax revenues to decline from FY08 levels by more than 16 percent. The recession has caused larger than anticipated declines in capital gains, resulting in an estimated $60 million decline in FY09 personal income tax revenues. Capital gains are expected to remain low in FY10, but to slowly recover over the following years. Estimated payments are also lower than expected, although it is difficult to ascertain whether the decrease in payments is due to a change in payment patterns, lower than expected personal income, or some combination of both.

Profits of non-oil and gas corporations are expected to continue to drop according to the recent GI forecast, resulting in lower corporate income tax revenues. In addition, net operating losses carried forward from 2008 are expected to lower corporate income tax revenues in FY10. Total credits administered as corporate income tax refunds will total $80 million for FY09. These credits include the film production tax credit.

Selective excise taxes, particularly the motor vehicle excise tax, are sensitive measures of consumer sentiment. The category total is expected to grow by 2.4 percent in FY10, in spite of a 2.5 percent decline in motor vehicle excise taxes. The federal "cash for clunkers" program is anticipated to have a noticeable positive effect on the motor vehicle excise tax, adding as much as $5 million to collections in FY10. Insurance revenues will continue to grow for FY11 while motor vehicle excise tax will grow slowly from a lower base.

Secretary Miller continued and said over the past six years reversions have averaged $41 million per year to the general fund and $5 million to the appropriation contingency fund. The usual pattern has been for agencies to wait until after their agency audit has been completed to remit the amount of reversion calculated by the auditors. FY09 reversions are calculated to be only $31 million by September 30; an increase by $20 million. These revenues are scored as recurring because of the difficulty of determining whether a particular reversion is recurring or nonrecurring, timely or delinquent. In addition, the state is expected a windfall from the Public Education Department. Reversions for the state equalization guarantee (SEG) will be bolstered by significantly higher federal impact aid and forest reserve payments.

With various transfers, the general fund financial summary shows appropriation fund balances and reserves must be restored, an approximated $428 million budget deficit for FY10 must be remedied, and an adequate budget for FY11 must be built. General fund reserves will likely be targeted at less than a 10 percent level for FY09 and FY10. The structure of the general fund reserves must be continually addressed. Secretary Miller highlighted risks to the forecast.

In further comment on the revenue update, Mr. Clifford reported significant differences between the trends in personal income and taxable income contributed to the forecast error. Taxable income has been falling much more quickly than personal income, a fact the estimators had not incorporated into their outlook. According to the most recent date, employment growth has continued to deteriorate, and total employment is now about 3 percent, or 27,000 jobs, below year-ago levels. The FY09 recurring revenue forecast was $309 million less than the previous forecast. As FY10 begins, reserves are 8.4 percent of FY10 appropriations. After fund transfers of HB920, FY09 revenues still fell $133 million short of appropriations with no authority to cover the shortfall. FY10 will decline by another $433 million compared to the forecast. General fund balances by the end of FY10 will be negative if there are not modifications made; an accumulative $675 million reduction over the two year period from the prior forecast. The forecast from by GI indicates the U.S. economy will lose 7 million jobs from the peak to the trough of this recession.

The revenues forecast for FY11 shows a negative $90 million compared with FY10 appropriations. Federal funds totaling $152 million will also need to be replaced if flat spending is maintained in all programs. Vice-Chairman Smith encouraged the executive branch to redirect nonrecurring funds to close out FY09.

<u>**Adoption of LFC Budget Guidelines.**</u> Cathy Fernandez, deputy director, LFC, reported the purpose of the LFC budget guidelines is to provide analysts with direction and guidance on development of the FY11 budget requests, as well as prioritize capital spending and other one-time investments. The committee will continue to emphasize essential services to the most vulnerable of the population and ensure the citizens of the state are safe. The committee is committed to avoiding across-the-board cuts to agency budgets, furloughs, layoffs, and budget reductions that create commitments for future legislatures. Director Abbey indicated figures will be updated to reflect the revenue estimate. **Representative Salazar moved to adopt the LFC budget guidelines subject to revisions, seconded by Senator Cisneros. Motion carried.**

<u>**New Mexico Highlands University Forest and Watershed Restoration Institute.**</u> Kent Reid, interim director, New Mexico Highlands University Forest and Watershed Restoration Institute, reported the institute was established by Congress in 2004, with the principal missions of reducing the risk of catastrophic wildfire in the southwest and restoring health to ecosystems that contain forest and woodlands. The institute works with state forestry and the New Mexico Forest Industry Association to re-work the forest workers safety program. Mapping services are provided to community groups, watershed associations, contracts, and soil and water conservation districts that cannot afford to conduct mapping on their own.

<u>**Miscellaneous Committee Business**</u>

<u>**Action Items**</u>

LFC FY11 Budget Request. Director Abbey reported that staff recommends a flat request for the LFC FY11 budget request. **Senator Cisneros moved to approve the LFC FY11 budget request, seconded by Representative King. Motion carried.**

Approval of LFC Minutes -- July 2009. **Senator Cisneros moved to approve the July 2009 LFC minutes, seconded by Representative King. Motion carried.**

Information Items

July LFC Budget Status Report. Director Abbey reported that staff is planning on a 4 percent reduction for the current fiscal year with modest vacancy savings and anticipating significant savings in contracts, equipment, and out-of-state travel. Vice-Chairman Smith encouraged staff and the executive branch to review delaying contracts, employment, travel, and purchases.

July Cash Balance Report. Director Abbey reported that staff will work with DFA to mind funding in the treasury to identify surplus balances.

Director Abbey referred members to other information items, the July BAR Report, the Monthly Report on Federal Stimulus Funding, the LFC Program Evaluation Status Report, and the LFC Staff Comments on Proposed FY11 Changes to Agency Performance Measures Cash Balance Report and the May BAR Report.

With no further business, the committee adjourned at approximately 11:00 a.m.

Chairman

Oct 5/09
Date