MINUTES
LEGISLATIVE FINANCE COMMITTEE
July 9-10-11, 2008

Senator John Arthur Smith, chairman, called the Legislative Finance Committee (LFC) to order on Wednesday, July 9, 2008, at 8:00 a.m.

The following LFC members were present on July 9:

Senator John Arthur Smith, Chair; Representative Luciano "Lucky" Varela, Vice Chair; Representatives Don E. Bratton, Brian K. Moore, Rhonda King, Edward C. Sandoval, Jeannette O. Wallace, Nick L. Salazar, and Henry "Kiki" Saavedra; and Senators Sue Wilson Beffort, Mary Kay Papen, Leonard Lee Rawson, Carlos Cisneros, and Cisco McSorley (for Pete Campos). Representative Larry Larranaga attended as a Guest.

Welcoming Remarks and Community Input. Senator John Arthur Smith, Legislative Finance Committee chairman, introduced Ray Medina, former legislator, who welcomed the committee and introduced Archie Vigil, Chama mayor. Mayor Vigil welcomed the Committee and spoke about the community of Chama, New Mexico. Elmer Salazar, representative for the Cumbres and Toltec Railroad, made a welcoming speech and spoke about the financial status of the railroad. Mayor Vigil and Mr. Salazar fielded questions from the Committee about economic development and tourism in the region.

The Chama community has a need for a new senior center. Manuel Valdez, Chama schools superintendent, expressed his gratitude for the funding of the new high school and encouraged the members to visit the building. Mr. Valdez spoke on the status of existing schools. A Kindergarten to 3rd grade school in Canones was closed due to low enrollment. School transportation continues to be an issue due to rising gas prices. Chama schools did qualify for supplemental funding, but did not make the request. Chairman Smith encouraged the community to continue to work with local government and the county commission in addition to the legislature, to find solutions for funding needs.

Inmate Population and Management. Current Inmate Population Trends and Prison Capacity. *New Mexico Corrections Department (NMCD).* Joe Williams, NMCD secretary, opened the hearing with some general statistics on inmate population, admissions and releases. A new prison at Clayton will be operated by GEO and is scheduled to begin accepting prisoners August 1 with a bed minimum of 540. It will accept Level III Prisoner classification. There will be some adjustment of prison count with Lea County going to approx 1,200; Santa Rosa 600; and, a 48 bed unit at Central will close. The PNM Level II facility will run at 288 beds, the Santa Fe County contract has been cancelled, and 48 beds at Southern will close for remodel. Clayton will be populated as a result of these changes with the balance coming from Torrance and new admits. The female space at Camino Nuevo is currently empty and the contract with CCA suspended.

There is an anticipated need for more Level V and VI beds. Plans call for turning South PNM into Level IV adding 288 high security beds. The South Level V beds will move to remodeled space at Western. Fort Stanton inmates will transition to Los Lunas, and Los Lunas to Turquoise Lodge in Albuquerque.

Report on Prison Reform Taskforce. John Bigelow, Prison Reform Task Force chair, along with Joe Williams and John Wheeler from the Department of Public Safety, presented the task force recommendations. Mr. Bigelow referenced the implementation recommendations designed to improve public safety in New Mexico.

1. The Governor should create by executive order the New Mexico council on prison reentry and transition.
2. A new reentry division should be established in NMCD to focus on the full range of needs – before, during, and after incarceration – for offenders to successfully transition to the community and stay out of prison.
3. The NMCD should create reentry centers within existing institutions.
4. The NMCD should integrate the existing Education Bureau and Corrections Industries Bureau into one bureau called the "Workforce Development Bureau".
5. The name of the NMCD should be changed to the "New Mexico Rehabilitation and Corrections Department".
6. The proposed "New Mexico Rehabilitation and Corrections Department" should promulgate and adopt policies, procedures, and programming commensurate with the philosophy that reentry begins at arrest.
7. Policies and procedures should be developed within the NMCD that will enable it and other appropriate state agencies, such as the Department of Finance and Administration, to monitor the progress and effectiveness of implementation of the task force recommendations.

Next Mr. Bigelow went on to describe the five pre-incarceration recommendations.

1. Implement a single, programmatic risk and needs assessment tool for use from pre-sentencing through reentry as recognized best practice and continue to train NMCD staff in motivational interviewing.
2. Expand the capacity and the range of existing evidence-based behavioral health and social services programs to facilitate the triage of appropriate, non-violent offenders into probation, treatment, and supportive services.
3. Expand the use of volunteer restorative justice panels in communities statewide.
4. Expand drug courts, mental health courts, and other specialty courts, and the associated community resources to make these courts successful.
5. Pre-prosecution and early plea programs can be effective tools in decreasing incarceration rates and maintaining family and community ties.

Mr. Bigelow noted that item number 2 is supported by almost everyone associated with the Committee. That expanded services are key to the success of the overall recommendations.

Mr. Bigelow then moved to the incarceration recommendations. With approximately one out of two released inmates back in prison within 3 years, a goal needs to be improvement in this situation. It is very important to focus on the inmate while incarcerated.

1. Implement a project at the Reception and Diagnostic Centers to strengthen the understanding of family and social networks in order to prepare offenders more effectively for reentry.
2. Expand treatment options available during incarceration for persons suffering from substance abuse and mental illness and implement a medication assisted treatment pilot at the New Mexico Women's Correctional Facility.
3. Gender-responsive programming, assessments, classification and probation/parole for women inmates should be continued and enhanced where appropriate.
4. Enhance and expand domestic violence prevention programs and education for inmate offenders; implement policies that will increase the level of participation; and, create programs, counseling, and support for inmate victims.
5. Improve the health care transition to connect inmates with appropriate primary care medical services in their home communities, to assist inmates in evaluating eligibility for existing public health insurance options, and to facilitate continued access to prescription medications.
6. Expand existing educational, employment, life/social skills, and faith-based programs that are successful.
7. Create new opportunities for training and employment through partnerships with government agencies, community colleges, four-year higher education institutions and private businesses.
8. Create an inmate entrepreneurial pilot project using volunteer business executives and master's of business administration students, and explore expanding access to existing or future micro-credit programs.

New Mexico Sentencing Commission (NMSC). Tony Ortiz, NMSC deputy director, contributed that he supports the task force recommendations. Probation and parole violators are currently offered alternative sanctions rather than re-imprisonment. Existing external policies like drug courts help to minimize the prison population by attacking a root cause of criminal activity, substance abuse.

Mr. Bigelow and Mr. Ortiz fielded questions from the Committee about costs to implement recommendations, and issues impacting recidivism, rehabilitation and re-integration. The task force report recommends more emphasis on developing skills rather than the in-house jobs offered by Corrections Industries. The State needs to work better with employers to identify more jobs on the outside to keep people from coming back. Costs are thought to be $15 to $17 million recurring over the next 2-3 years. The recidivism rate in New Mexico is 46 percent after three years, which is lower than the national average. The most probation/parole violations are for absconding or new crimes. Technical violators are typically offered sanctions. There are approximately 160 in-house parolees, most are sex-offenders and many cannot find a place to live in the community. More resources are needed to address inmates with mental health issues.

LFC Committee members asked presenters for the following:

- an inventory of available housing and employment services for inmates,
- data on the numbers of prison escapes, prison homicides, etc, and prison staff/inmate ratios, and
- cost projections for implementing task force recommendations as intended.

Expansion of the Statewide Home Visiting Pilot Program. Lieutenant Governor Diane Denish thanked the LFC for the opportunity to talk about the benefits of home visiting programs in New Mexico. A program of home visiting gives new parents easy access to information on social programs and services, and child development. Long-term studies have shown that successful home visiting programs have helped lower crime rates, reduce abuse and neglect, reduce reliance on welfare and lower the number of subsequent, unwanted pregnancies. Lieutenant Governor Denish stated the return on investment is $5.75 for high risk parents and $1.26 for low risk parents for every dollar invested.

The First Born Program in Silver City was named one of the 10 most innovative prevention programs in the nation when it was started 10 years ago. The Los Alamos National Lab Foundation applied this model to Rio Arriba, Los Alamos and Taos and after one year has seen dramatic results. These programs share 3 vital elements to a successful home visiting program; maximum standards, outcomes, and evaluation. Within these programs, immunizations and breastfeeding are in the 90th percentile. Some teen mothers are staying in school working toward their GED. Rio Arriba is serving 70 families per month, Taos is serving 77 families per month, and Los Alamos is to begin a program in the next few years.

National Council of State Legislatures (NCSL). Jack Tweedie, NCSL Children and Families Program director, stated there is a growing emphasis on home visiting and early childhood learning, development and intervention, particularly for children ages 0 to 3. Home visiting programs play a role in helping families address risk factors that negatively impact early childhood development. States general fund investment in home visiting went up by more than 25 percent last year.

There are stark differences between children that grow up in poverty and children that grow up in middle income families in terms of educational achievement, employment earnings and physical and mental health: teen girls are five times more likely to become pregnant and teen boys are three times more likely to get involved with the criminal justice system.

The proposed federal *education begins at home act,* if passed, will increase substantially the federal support for home visiting. The vast majority of state systems rely on a patchwork of funding sources from federal, state, local and private entities. The Pew Charitable Trust is now moving the focus of their funding efforts from Pre K to dental health and home visiting. The Buffet Early Education Fund and the Gates Foundation provide funding to support the *Birth to Five Policy Alliance* that supports states'

initiatives. Most states use Medicaid funding to support home visiting. The Committee heard discussion on ways to maximize state and federal funding through Medicaid home programs for perinatal care and early intervention services, and TANF funds.

Well designed and implemented home visiting programs can have positive effects on child development and outcomes. Low intensity programs often do not show any significant positive impact on outcomes. There are higher returns on investment for programs that target high risk families and children. High cost programs focused on specific risks such as child maltreatment, maternal depression, substance abuse and domestic violence, often see larger effects and stronger returns on investment.

A table of various national home visiting programs with different levels of intensity, and the cost benefit ratios for each was provided to the Committee. Returns come from grade retention and special education, reduced child maltreatment, reduced juvenile criminal justice costs, reduced teen pregnancy rates, reduced public assistance and increased tax collections from higher earnings. There is limited long term research data available on the benefits of home visiting programs.

Children, Youth & Families Department (CYFD). Dorian Dodson, CYFD secretary, began by stating home visiting in New Mexico will be at a $3 million level this fiscal year because of a $2 million appropriation from the legislature, and a $1 million LANL foundation grant. Secretary Dodson agreed that the State needs to increase and diversify funding sources. CYFD and Human Services Department (HSD) are looking at the terms of those components of home visiting that can access Medicaid dollars.

Dorian Dodson continued to speak about the efficiency of highly targeted programs and returns on investment. A task force of state entities and local providers looked at what should define a home visiting program in New Mexico; state, private and corporate income sources available; and, which private and local government community partnerships are critical. Currently home visiting programs are in 11 counties. CYFD will be initiating a request for proposal (RFP) to expand these programs.

Lieutenant Governor Denish stressed that private and corporate funders value funding diversification in programs being considered for grants. State support shows greater commitment and investment in a program. The private sector is interested in early childhood development because investing early may benefit the workforce in the future.

The Committee asked for more information as to what extent TANF funds can be either leveraged or reallocated to expand home visiting programs. Chairman Smith emphasized the Committees' continued support for early childhood prevention and intervention services.

Preliminary Report and FY09 and FY10 Revenue Outlook for General Fund and Road Fund. *Department of Finance and Administration (DFA).* Katherine Miller, DFA secretary, presented general fund consensus revenue projections. Revenue projections reflect a modestly expanding state economy embedded in a weakened national economy.

Weakness in broad-based taxes is balanced by strength in severance revenues. A $392.1 million increase in FY10 recurring revenue above FY09 recurring appropriations translates to a potential 6.5 percent increase in appropriations from FY09 to FY10 if all were to be appropriated.

The current estimate of FY09 through FY12 severance tax (STBF) bond capacities has been increased significantly from the December forecast, due to both near-term and long-term increases in the oil and natural gas price estimates. From the December estimate, total FY09 capacity rose $110 million, from $519 million to $629 million.

The U.S. economy shows continued weakness. The Global Insight July forecast expects oil, food and raw materials to keep rising through the middle of 2009. The State may not know for some time whether the combination of more than 6 months of job losses, one, two or more quarters of negative GDP growth, and well above target inflation will constitute a technical recession. The Committee heard more detail on highlights of the difficulties facing the U.S. economy.

Job growth has slowed in New Mexico, from over 3 percent in mid 2006 to one percent in the fourth quarter of 2007. Job growth nationwide was also 1 percent in the fourth quarter of 2007. New Mexico job growth is expected to be 1 percent for FY08 and FY09. Unemployment in New Mexico averaged 3.5 percent in 2007, and has increased this year to 3.8 percent in May. Nationally, the unemployment rate averaged 4.7 percent in 2007, and increased to 5.5 percent in May.

Residential building permits declined over the past 2 years in New Mexico by 35 percent. Over the same period, residential permits nationwide declined at 36 percent. In the first quarter of 2008, building permits declined 27 percent in New Mexico from the first quarter of 2007. The national decline for the same period was 36 percent.

Foreclosures decreased 26 percent in New Mexico between 2006 and 2007, while foreclosures increased 75 percent nationally during the same period. In May 2008, foreclosures increased by 38 percent over May 2007 in New Mexico, while the increase nationwide was 48 percent. The foreclosure rate in May 2008 in New Mexico was 1 in every 1,898 homes, only one quarter of the national rate of 1 in every 483 homes. The House Price Index was up 3.4 percent for New Mexico between the first quarter of 2007 and the first quarter of 2008. The corresponding figure for the U.S. as a whole was a decline of .03 percent.

Taxation and Revenue Department (TRD). Rick Homans, TRD secretary, provided a FY08 revenue update. Total general fund revenues for FY08 show weakness in broad-based taxes balanced by strength in severance revenues. Gross receipts and compensating taxes are the largest source of general fund revenues, representing 33 percent of total recurring revenue. These taxes are expected to finish the year at $1,925 billion compared to the December forecast of $1,974 billion, or 1.2 percent from FY07 to FY08.

Income taxes comprise 26 percent of general fund recurring revenues. Personal income tax collections for FY08 are expected to be $27.8 million less than the December revenue forecast and decline by 5.1 percent over FY07. Corporate income tax in FY08 is expected to miss the December estimate by $29 million and decline 10.6 percent from FY07. One of the factors affecting corporate income tax revenues is the strength of the Film Production Tax Credit. Selective excise taxes, particularly the motor vehicle excise tax, are also down from the December estimate and will contract from FY07. For FY08, tribal revenue sharing is expected to exceed the December estimate by $2.5 million, a 4 percent stronger revenue growth than previously expected.

Oil prices are projected to exceed the $80 per barrel December estimates for FY08, rising to $92 per barrel. Natural gas prices are also expected to exceed the December estimates and settle at $8.20 per thousand cubic feet (mcf). Overall, mineral production taxes are expected to increase from FY07 to FY08 by 26.7 percent. As a result, oil and gas revenues are expected to contribute 21.4 percent of the general fund's recurring revenues.

Federal mineral leasing (royalty) payments are expected to exceed the December forecast by $9.2 million. State Land Office general fund distributions are expected to miss the forecast by $2.3 million. The federal funds rate for FY08 has fallen from the December forecast of 4.56 percent to 3.7 percent. Balances on deposits with the State Treasurer have fallen to $2.2 billion from a peak of over $2.8 billion in July 2006.

Secretary Miller concluded the presentation with FY09 through FY13 revenue forecasts. FY09 is expected to be the peak of the increase in both oil and natural gas prices, with FY09 oil prices in New Mexico expected to average $134 per barrel and natural gas prices to average $11.50 per mcf. Oil production is expected to remain constant, as new wells being drilled in the Permian basin replace the natural decline in production from current wells. Natural gas production is expected to decline somewhat more rapidly than previously expected. Oil and natural gas revenues are expected to peak in FY09 at 25.4 percent of total general fund revenues.

The decrease in federal funds rate set by the Federal Reserve Bank, and a more slowly growing increase in balances of both the land grant permanent fund and the oil and gas severance tax permanent fund will result in a decrease in interest earnings. Treasurer's balances are also continuing to decline, in part due to more accurate revenue estimates over the last two fiscal years. There is expected to be available $391.5 million in non-recurring money for appropriation in the 2009 session. This level of non-recurring appropriation will maintain general fund balances at 10 percent of recurring appropriations.

Department of Transportation (DOT). Rhonda Faught, DOT secretary, presented the state road fund revenue update. Revenues are expected to diminish and costs are expected to increase due to the increasing price of crude oil. U.S. long term traffic volume grew at a rate of 2.8 percent from 1983 to 2006. The rate of growth began to slow in spring of 2006. In New Mexico, the slowdown in traffic volume growth began in the spring of 2007. U.S. gasoline usage has grown at a rate of 2.1 percent from 1991 to 2006. Gasoline

usage began to slow in the spring of 2007, and through March, 2008 has declined .3 percent. In New Mexico, gasoline usage has declined about .5 percent for the same period.

Revenue received from motor fuels, gasoline and special fuels (diesel) is calculated from the gallons sold, not price. Per every gallon of gasoline, 13 cents is directed to the State Road Fund. Declining travel and gasoline usage will negatively impact future revenues. The State Road Fund has four major revenue sources. They are: gasoline which makes up 28 percent of revenues, special fuels at 26 percent, weight/distance at 21 percent, and vehicle registrations at 19 percent. Gasoline revenue for the first 10 months of FY08 is down 6.6 percent from the previous fiscal year and special fuels revenue is up 8.7 percent. Gasoline and special fuel combined revenue for FY08 to date is up .3 percent from FY07.

Secretary Faught stated that it is difficult to project federal revenue resources which impacts both planning and construction. In FY08, DOT funding was $331 million and, due to a national shortfall, the State's proportional share could be reduced by $94 million for FY09. These revenues are used for road bonds debt service and funding the Statewide Transportation Improvement Program.

The Highway and Street Construction Producer Price Index (PPI) from the Bureau of Labor Statistics provides a measure that is used to determine the inflation caused losses to major construction programs such as GRIP. The expenditure pattern for 2004 and 2006 Series Bonds can be subjected to the construction PPI to show real buying power. The loss amounts to $224 million or 25 percent of the $886 million spent so far. Even with no growth in the index, forty percent of the future $800 million in expenditures will be diminished by $320 million which, when added to the to-date losses, will amount to $544 million or 32 percent of the original GRIP estimate.

DOT is beginning the preparation of its forecast for FY10 through FY13. Past review of forecasts, starting in October, 2007, began "taking out" some of the forecast increases to the extent that they are currently flat. The combination of diminishing revenues and increasing costs creates the need to refocus spending priorities. Those first priorities are payment of debt service; safety of the public and personnel; and, maintenance of the existing, invested public infrastructure.

Johnny Cope, State Transportation Committee chairman, talked about the the $4 billion shortfall in the federal Highway Trust Fund and the impact on state budgets. The trust fund is filled from taxes collected on gasoline, which may decrease as people drive less due to higher fuel prices. Committee members debated the practice of "hedging". Hedging was described as a financial strategy that lets buyers or investors protect themselves against rising prices for commodities such as oil by locking in a price for fuel. The buyer or investor can buy contracts for crude oil, for example, and reap a gain if prices rise, offsetting the higher cost of fuel.

Secretary Faught stated a $550 million shortfall for GRIP I projects, and $80 million shortfall for GRIP 2 projects. DOT estimates the department at a minimum needs $180 to $200 million recurring for road maintenance, and $250 million recurring for new construction projects. The Committee encouraged looking at all potential revenue sources to fund highway infrastructure costs. Chairman Smith stated that the legislative leadership needs to work with the executive branch to provide a balanced budget and prevent a legacy of debt for the State.

Chairman Smith adjourned the Committee at 4:50 p.m.

Senator John Arthur Smith, chairman, called the Legislative Finance Committee (LFC) to order on Thursday, July 10, 2008, at 8:30 a.m.

The following LFC members were present on July 10:

Senator John Arthur Smith, Chair; Representative Luciano "Lucky" Varela, Vice Chair; Representatives Don E. Bratton, Brian K. Moore, Rhonda King, Edward C. Sandoval, Jeannette O. Wallace, Nick L. Salazar, and Henry "Kiki" Saavedra; and Senators Sue Wilson Beffort, Mary Kay Papen, Linda Lopez (for Phil Griego), Leonard Lee Rawson, Carlos Cisneros, and Cisco McSorley (for Pete Campos). Representative Danice Picraux attended as a Guest.

Economic Development Initiatives. *Economic Development Department (EDD).* Fred Mondragon, EDD secretary, presented a report on economic development initiatives. The Local Economic Development Act (LEDA) allows municipalities and counties to enter into joint powers agreements to plan and support regional economic development projects. To date, 67 local entities have passed LEDA in their communities.

The EDD Capital Outlay Fund provides financial support for eligible business development projects that directly create jobs. Economic development infrastructure gaps in rural areas create huge demands. Eligible applicants must apply through their local government, which must agree to serve as the fiscal agent. Eligible projects must be located in communities that have passed LEDA, support job creation, and demonstrate strong support from the local government, business community, and citizens.

Capital outlay funds may only be used for planning, design and construction, or to purchase fixed assets directly related to the project. EDD will fund projects up to $500 thousand and the amount will vary according to the nature of the project. Highest priority will be given to projects located in frontier areas with populations of 15,000 or less, and rural areas with populations of 15,001 to 40,000. Examples of participating projects in Alamogordo, Taos, Santa Fe, Roswell, Jal, and Fort Summer were further detailed.

Secretary Mondragon commented on the status of the economy and economic development throughout the State of New Mexico. Daniella Glick, EDD deputy secretary, provided an update on the development progress of the New Mexico Spaceport which is set to break ground December 30, 2008. Virgin Galactic is expected to sign a

contract with the New Mexico Spaceport this month. The Committee asked about the progress of the environmental impact statement (EIS) for the New Mexico Spaceport. Ms. Glick stated that the EIS and the Corridor Study for roads are being done simultaneously and will be completed before construction begins.

EDD is working closely with the New Mexico Tourism Department and local communities to assist small businesses troubled by the slowing national economy. The Committee heard discussion on new market tax credits, capital outlay funds, local community contributions, and infrastructure programs designed to lower unemployment throughout developing areas. The Committee encouraged safeguards be put in place to protect the state's interest when considering capital outlay agreements for joint venture projects.

The Committee expressed concern about the State's ability to forecast effects of economic development investments. Chairman Smith added comments about certain tax incentives including the film tax credit and investor tax credit and their effects on infrastructure for economic development projects. There are still concerns about the fact that Virgin Galactic has not signed a contract with the New Mexico Spaceport. The Committee asked about possible appropriations to high-tech companies coming into Mesa del Sol during the upcoming legislative session.

Secretary Mondragon and Deputy Secretary Glick responded to comments and concerns raised by the Committee. The University of New Mexico and New Mexico State University could look toward developing a model to better forecast the revenue effects of economic development investments. EDD is working toward easing the concerns of companies such as Virgin Galactic. There will be $20 million in economic development capital requests coming through the Governor's office for consideration in the upcoming legislative session.

Performance Measures and Strategic Plan for the Workforce Solutions Department. *New Mexico Workforce Solutions Department (NMWSD).* Betty Sparrow Doris, secretary, began her presentation with a review of the department's executive summary, vision, mission, and goals. New Mexico needs a workforce with higher levels of education and marketable credentials in high-wage, high-demand occupations. NMWSD is implementing a demand-driven workforce investment system with targeted public and private resources to meet the emerging needs of public and private sector partners in a global economy. The Committee heard discussion on goals, and strategies implemented in the past year to address those goals.

Some of the outcomes discussed included an increase in public works inspections and public works collections. There has been a 62 percent increase in construction site inspections since 2006. There has also been an increase in wages collected for employees paid less than what was owned them by employers on public works projects. This $1.5 million represents the highest amount ever collected for employees. The apprenticeship and training fund received the highest amount ever collected from contributions by

employers on public works projects. This allowed the NMWSD to fund 26 apprenticeship programs across the state in FY07.

There were 10, 807 impacted individuals due to company layoffs between July 1, 2006 and June 30, 2008. NMWSD business services provide early intervention services that help transition affected workers into re-employment working with partner agencies. Call center wait times have been reduced 52 percent from 2006 to 2008. The Committee heard further discussion on the governance structure and duties of the Workforce Development Board.

Eastern Local Workforce Development Board. Jimmie Shearer gave a regional board perspective on expanding workforce centers in goal 2. Mr. Shearer provided a hand out "One Stop Success Stories" and provided examples of the integration of services to one location within a city. The city of Clovis received $450 thousand to do a model "One Stop". A building to house the "One Stop" was secured by a lease-purchase and will be owned in five years by the Board. There have been positive responses received from the community. The Committee heard discussion on similar consolidation projects in Portales, Hobbs, Roswell and Tucumcari. The boards are working collaboratively with EDD to coordinate the needs of businesses and the training needs of employees.

Secretary Sparrow Doris stated goals 3 and 4 include ensuring all New Mexico's youth receive the education, training, and support needed for success in postsecondary education and/or work. Goals also include providing New Mexico adults with access to life long education, training, and workforce solutions. Youth were defined as individuals up to 24 years of age. The Committee heard further discussion on adult, youth and youth-at-risk program services and outcomes.

A summary of declining federal revenues in the Workforce Investment Act was provided. Allocations to local boards decreased by $2.5 million from last year. Reed Act funding for operating budget goes to zero in FY09. There is $8 million remaining in Reed for an unemployment insurance tax system project to improve the State's antiquated employer reporting system. NMWSD will be working with the legislature to ensure recurring appropriations.

University of New Mexico's Bureau of Business and Economic Research (BBER). Dr. Lee Reynis, BBER director, further contributed to the Committee's understanding of the future New Mexico workforce supply. Economic planners considering relocating or expanding businesses are very interested in the available workforce supply. BBER projections show a continued growth in the working population, but at a slower rate than in the past. Factors affecting out-migration and in-migration include an unresponsive housing market, cultural, and barriers to employment such as disabilities, limited childcare options, and lack of transportation.

The Committee heard about how education gives people credentials, skills, confidence, and contacts, enabling them to be more agile in a world of changing technologies and labor skills requirements. New Mexico's public schools are underfunded, lack parent

involvement, have unacceptably high drop-out rates, graduate students without the skills they need, and require students to take remedial education to prepare for post-secondary education. In addition to the core skills needed to prepare for vocational, career and technical training and/or college and university, students need to be prepared to be agile problem-solvers, critical thinkers and life-long learners; skills that are also required for an ever-changing job market.

The committee heard discussion on what Dr. Reynis believes public education needs in New Mexico. Parents need to get involved from the earliest grades and learn how best to support the students' and teachers' efforts in the classroom. Public education needs to entice middle and high school students, help identify interests early, and make education relevant to students' interests and goals. There is a need to incentivize young adults to pursue jobs with room for growth and financial security as opposed to just any job.

The State needs better data in terms of education and what happens to students as they move through programs. Longitudinal databases can help track students as they move from school to school, and into the workforce. Investments in workforce development can begin early by addressing early childhood developmental issues that may affect learning.

The Job Training Incentive Programs (JTIP) is attractive as an incentive to firms considering investment in New Mexico. A JTIP retention study asked for the status and wages of trainees from the 82 companies funded by JTIP in 2004 and 2005. Of these, 58 companies responded. Study results show only 33 percent retention, but large wage gains were observed. Retention appeared to be higher in rural areas, and for manufacturing. Gains in wages were similar in rural and urban areas, and largest for non-manufacturing. To survive, high tech manufacturing companies must stay on the cutting edge in terms of product technology and production efficiencies. These companies are unlikely to see sustained job increases. However, layoffs in one company can help create the trained workforce that attracts other investments. Call centers, which drive administrative, support and waste management services, hardly offer any prospect of stable employment.

JTIP should continue to place an emphasis on business retention and expansion. This has happened mostly in the Albuquerque area, and helping businesses in more rural areas remains a challenge. Benefits need to be spread around rather than concentrating on a few big requests that could go sour. There needs to be regular annual review of policy with possibility for fine-tuning, and claw-back provisions. These efforts would benefit from better access to NMWSD wage records for purposes of analysis.

Secretary Sparrow Doris fielded questions from the Committee about a misdirected appropriation. NMDWS did not understand the intent of a State appropriation directed toward the at-risk-youth training program. The appropriation was put into a different category and used as supplemental dollars to fund operations. Director Abbey described efforts by LFC staff to identify resources within the department to fully fund the at-risk program. Director Abbey proposed shifting $230 thousand from a new initiative that the

department started but did not include in the budget request/appropriation process. The department agreed to meet with LFC staff to discuss the issue further.

The Committee asked for additional information about on-the-job training subsidies and tools that track outcomes to ensure individuals are moving through programs into the workforce successfully. The Committee heard discussion on the need for more youth summer employment opportunities, youth state government internships and support for adult education for meeting GED requirements.

The Committee expressed concern over the infrequency of Workforce Development Board meetings. The LFC is providing a review on accountability in the NMWSD and a report is expected late August or early September.

High School Performance Issues. *Office of Education Accountability (OEA).* Dr. Peter Winograd, OEA director, presented the *Ready For College 2007* and *Ready For College Update 2008* reports on high school graduates readiness for college. Ready for College reports are a joint effort by OEA, the Higher Education Department and the Public Education Department and provide information on New Mexico high school graduates taking remedial classes in math and/or reading in colleges and universities. The data only includes the 40 to 45 percent of high school graduates that attend New Mexico colleges and universities, and does not include the 11 percent that go to school out of state, or go into the military. Data should help determine if the number of highs school graduates and college freshman taking remedial courses actually decline as HED and PED strengthen their alignment.

In 2007, the Legislature passed and the Governor signed the High School Redesign Act, Dual High School & Post-Secondary Credits Act, and the Cyber Academy Act into law. These Acts cover a number of key reforms including:

- high school/college dual credit programs,
- technological infrastructure for statewide distance learning systems,
- beginning high school teacher mentoring programs,
- alternative routes for content area experts to earn licensure,
- an additional year of math required for graduation, preferably Algebra II,
- 9th grade assessment of student's reading proficiency,
- raising the dropout age to 18, and
- requiring high schools to offer distance learning, dual credit courses and advanced placement courses.

The preliminary 2008 report contains data for 18 and 19 year-old New Mexico students who graduated from a New Mexico public high school in spring of 2007 and were enrolled as college freshman in a New Mexico college or university in the fall of 2007. The full *Ready For College 2008* report will be completed later this month.

The *Ready For College 2007* listed high schools by districts, the number of high school graduates in the study, the percent of high school students taking remedial classes, and the average percent of students needing remediation from 2000 to 2006. Data from

schools with less than 10 high school graduates were not disclosed due to confidentiality issues.

In 2007, more than 1,100 New Mexico high school graduates from all ethnic groups went on to attend New Mexico colleges and universities. The latest data shows that half of high school graduates need to take remedial classes in either math and/or reading. PED needs to ensure a strong math curriculum is available in all middle and high schools. The additional year of math, particularly Algebra II should help in this effort.

The data presented to the committee does not indicate the full impact of the high school redesign legislation passed during 2007. Most of the substantive legislative changes for high school will be implemented for high school students entering 9th grade in the 2009-2010 school year. Results from these efforts will not be seen until 2012 to 2013 as these students graduate and move on to college.

Dr. Winograd's recommendations for the future include ensuring high school redesign legislation passed in 2007 is implemented, increasing communication between high school districts, colleges and universities, and requiring public post-secondary institutions to report annually to public high schools on freshman year outcomes.

Dr. Winograd encouraged the State to gather and report detailed data on student success once enrolled in higher education, and to gather longitudinal data on whether high school and college graduates are ready for work. The Committee heard discussion on the possibility of providing incentives to students who graduate from high school while concurrently receiving an associate degree.

Corine Flores Trujillo and Richard Tafoya, of Belen High school, explained the importance of steering student education, career and technical planning activities to a sequential program of study to ensure the best outcomes for students. Partnerships with local businesses support additional experiential learning opportunities. Students at Belen are also making efforts to take advantage of advanced placement classes, dual credit and distance learning enrollment. The University of New Mexico working with the districts has approved some faculty to teach academic, career, and technical education courses in the high school for dual credit.

Public Education Department Career Technical and Workforce Education Bureau. Dr. Cross Maple, PED deputy secretary, introduced Dr. Melissa Lomax, bureau chief, who reported on career and technical education in the State of New Mexico. Career and technical education includes job-related skills and relevant "real world" academic subject matter. The New Mexico Career Cluster Initiative is a tool to organize information for self-selected relevancy. There are 7 core career clusters, these being groups of related industries that employ workers with similar interests and abilities. Clusters include arts and entertainment; business; communications; energy and environmental technologies; engineering, construction, manufacturing and agriculture; hospitality and tourism; and, health and biosciences. Multiple career pathways within clusters define and illustrate

career opportunities. These efforts support New Mexico public education standards and benchmarks.

Next step planning requires programs of study to begin in high school and extend into post secondary and workforce training; to be sequential and non-duplicative; connect high school with post secondary education, and lead to industry certification or associates degrees. Programs of study may include articulated, dual and distance learning opportunities. There are 140 programs of study in 65 high schools, and 69 programs of study in 16 institutions that will be supported by a Perkins supplemental grant in 2008 to 2009. The programs of study generating the most interest are in the engineering, construction, manufacturing, and agricultural cluster. Dr. Lomax provided various national studies demonstrating the positive impact of career and technical education upon high school graduation rates, postsecondary enrollment, and labor market outcomes.

The Committee expressed concern about the differences in student performance seen in elementary schools. Dr. Cross Maple explained that short cycle diagnostic assessments are given to students three times a year to help teachers adjust their instruction to make sure students do not lose traction in their educational program. Children need to receive intervention early as an effective tool to help them acquire the basic skills needed to be successful in school. Educators must also focus on tying classroom instruction to the New Mexico standards and benchmarks. The standard-based assessment tool is ranked very high nationally and will be used to assess 9th grade competency. At present, for every 100 students who enter New Mexico public high schools as 9th graders, only 12 will ultimately graduate with an undergraduate degree.

PED is providing considerable work in professional development to address the issue of competency and directing teaching efforts towards standards and benchmarks. PED has not completed an alignment study between the New Mexico teacher certification exam and the standards-based assessment tool provided for students. PED offered to look at that issue if the Committee requests additional information.

The Committee expressed concern that teachers may not be graduating from New Mexico universities prepared to teach, particularly in more technical areas. Dr. Cross Maple stated that teachers currently going through the dossier process represent an alternative or alternate teacher education preparation program. In the case of construction industries, for example, schools may need to rely on community colleges to access teachers for those subjects.

Charter schools are held to the same standards in statute for next step plans which require students to declare a career pathway. Perkins funding is available to charter schools for this purpose. In order for schools to be supported through Perkins funds, programs of study must be both a blend of academic, and career and technical education, and ensure students receive an industry certification.

The Committee requested data from PED on the number and type of vocational training opportunities for high school students not interested in pursuing an undergraduate degree.

The Committee expressed concern that some students may not be prepared to choose a career direction as early as junior high. The Committee also requested data on the number of students served by vocational as well as career and technical education clusters since 1992, and final labor market outcomes including if certifications achieved were/are accepted by employers.

Chairman Smith made the point that without careful planning, the incremental funding for this program and others would become burdensome without definite benefits outlined. Dr. Winograd noted that reprioritization of budget items and cutting ineffective programs becomes necessary from time to time, noting Florida and other states recently undertaking these efforts.

Development of the Uranium Industry in New Mexico. *New Mexico Energy, Minerals and Natural Resources Department (EMNRD).* Bill Brancard, EMNRD mining and minerals division director, summarized the permits that are required for energy and mineral resource exploration, development, and production in New Mexico. Chairman Smith suggested that there are other Committees that may be more appropriate for advocating and reminded the body that the sole purpose of the hearing is to understand the revenue outlook as it pertains to New Mexico resources.

New Mexico State University (NMSU). Anthony V. Popp, NMSU Office of Policy analyst, provided an analysis on unemployment and fiscal impacts of uranium mining and milling in New Mexico. The employment effects will be seen in the building and operations of mines and mills. Statewide fiscal impacts will be seen in capital expenditures with Gross Receipts Tax (GRT), Personal Income Tax (PIT), Corporate Income Tax (CIT); and, in mining and milling operations with severance tax, resource excise tax, conservation tax, and GRT, PIT, and CIT.

NMSU was asked by the mining industry to provide an economic impact analysis based on certain scenarios. This analysis, called The Base Case, reflects actual planned operations of several uranium mining and milling companies. Two companies provided aggregate data for construction of mines and mills beginning in 2008, with uranium production beginning in 2012 and continuing to 2042.

The Base Case planned capital expenditures (construction) for the mine is $897 million, and for the mills $1.169 billion from 2008 to 2012. Employment impact is 2,967 jobs in mining operations, and 9,619 jobs in milling operations from 2008 to 2012. Fiscal impacts from GRT, PIT, CIT receipts is $45.6 million for the same four year period.

From 2012 to 2042, mining and milling operation anticipated production is 315 million pounds of U_3O_8. Production begins slowly in 2012, reaches peak values in 2020, and declines in the last few years of production. Cost of production varies depending on ore grade, location, depth, mining technique, and proximity of mine to mill, and is assumed to be $50 per pound of U_3O_8. The current industry projections for a selling price are $90 to $95 per pound, at least for the next several years.

Jon Indall, representing the uranium industry, contributed to the Committee's understanding of the nuclear fuel cycle. The fuel component for nuclear power is 26 percent, for natural gas is 95 percent, and for coal 77 percent of the total cost of electricity. The increase in the price of fuel for nuclear power has less of an impact than natural gas or coal. Power generation is the largest source of greenhouse gas emissions. Nuclear power is becoming more acceptable as an alternative energy source due to low greenhouse gas emissions and costs. 19.4 percent of U.S. electricity, and 16 percent of global electricity, is generated by nuclear reactors.

There are 354 reactors that are currently under construction, planned, or proposed world-wide and 75 percent of these are located in only seven countries, lead by China, Russia, U.S.A. and India. There are currently 30 countries that have nuclear energy capacity. By 2030, it is expected there will be 80 countries world-wide that will use this source for electricity. This situation is expected to drive longer-term increases in demand for uranium.

The Committee heard discussion on the legacy of abandoned mines and mills. Mr. Indall stated that there were no standards, regulations or reclamation plans required in the past as there are today. Mr. Brancard replied that abandoned uranium mines remain a problem in New Mexico. The Committee hopes that all parties can come together to serve the best interest of the state and nation.

Chairman Smith adjourned the Committee at 6:00 p.m.

Senator John Arthur Smith, chairman, called the Legislative Finance Committee (LFC) to order on Friday, July 12, 2008, at 8:00 a.m.

The following LFC members were present on July 11:

Senator John Arthur Smith, Chair; Representative Luciano "Lucky" Varela, Vice Chair; Representatives Don E. Bratton, Brian K. Moore, Rhonda King, Edward C. Sandoval, Jeannette O. Wallace, Nick L. Salazar, and Henry "Kiki" Saavedra; and Senators Mary Kay Papen, Carlos Cisneros, and Cisco McSorley (for Pete Campos). Representative Danice Picraux attended as a Guest.

Action Items

Senator McSorley asked to be added to the list of members present at the LFC meeting in Albuquerque on Thursday, June 19, 2008. Representative Saavedra moved to adopt the June 2008 Minutes, Senator Papen seconded the motion, and it passed with no objection.

David Abbey, LFC director, presented a motion to approve additional professional services contracts for FY09. Recommended contracts included $15 thousand to Amy Brulee to assist with the *SALUD!* managed care performance review; and, $13 thousand to Robert Rivera, certified public accountant, to review the SHARE payroll particularly for PERA and ERB contributions to the general fund. Representative Varela moved to

adopt the contract approvals, Senator Cisneros seconded the motion, and it passed with no objection.

Information Items

The Legislative Finance Committee will revert approximately $71 thousand to the general fund for last fiscal year as shown in the FY08 budget status report presented to the Committee.

Other items presented for the Committees' consideration included the June 2008 Cash Balance Report, the June 2008 Budget Adjustment Report and a status report on interim Program Evaluation Work Plans.

The LFC was selected as the winner of a 2008 National Legislative Program Evaluation Society Recognition of Impact Award for the "Review of the Interagency Behavioral Health Purchasing Collaborative and Follow-Up Review".

Water Rights Adjudication Reform; Middle Rio Grande Pilot Project.
Administrative Office of the Courts (AOC). Celina Jones, AOC staff attorney, presented a quarterly report of the AOC and Office of the State Engineer (OSE) working group on improving future water rights judicial adjudication in New Mexico. The AOC/OSE working group circulated a questionnaire about the State's water rights adjudication process to 247 interested persons and groups statewide, and received 27 responses to the questionnaire. A summary of those responses was provided to the Committee. The AOC/OSE working group has not reviewed nor completed analysis of those responses.

Office of the State Engineer (OSE). Greg Ridley, OSE deputy chief counsel, reported on eight areas identified by the AOC and OSE working groups' study of adjudication procedures in other states that may hold potential to improve New Mexico's water rights adjudication process. One example of an area requiring further study may include the purpose of the hydrographic survey analysis. New Mexico's method of identifying water rights may create an adversarial tone for water rights adjudications. New Mexico statutes require the OSE to identify water rights and make a preliminary determination of the elements of those water rights. Other states identify water rights by requiring water rights claimants to first file a claim, which is then evaluated for validity by the state water agency. Another issue relating to hydrographic survey analysis is their ability to go stale during the course of an adjudication. Some states address this issue by performing hydrographic survey analysis in smaller geographic increments.

New Mexico's adjudication statutes also require that all water rights claimants be identified and joined as defendants in a water rights suit. These requirements are expensive and time consuming in adjudication suits with thousands of defendants. Other states have adopted simplified and less costly procedural mechanisms such as email and internet notice.

In New Mexico, the water rights claims of each member of an acequia, irrigation district, or similar organization are adjudicated individually which contributes to the length of the

adjudication. In an adjudication with thousands of defendants, changes in ownership of water rights frequently occur. The State as plaintiff has had to bear the burden of ensuring that records of water rights ownership are current throughout any lengthy adjudication. In other states, the water rights owners themselves bear the burden of informing the court of changes in ownership.

Office of the Governor. Bill Hume further reported on the AOC/OSE work groups' anticipated next steps in determining if recommendations should be made to the public and the legislature regarding changes to New Mexico adjudication laws. After completing its fact-finding efforts, the AOC/OSE work group will prepare a report of preliminary conclusions. If the AOC/OSE work group is unable to reach consensus, two reports will be prepared. Following an as-yet undetermined public outreach process, the working group will submit a final report to the Legislature, the New Mexico Supreme Court, the Office of the Governor, and the State Engineer.

The Committee provided comments on issues of interest to members. Public education is necessary to help water right owners understand senior water rights, acre feet of water, etc. Most people with water rights measure by minutes or hour to irrigate and not acre feet, which complicates the adjudication process. The overall quantity of water appears to dictate the level of adjudication, states with more water yields less of an issue. New Mexico needs to better protect the underground water supply, especially for border areas. The Committee encouraged the work group to consider cultural, economic and geographical differences in New Mexico when considering changes to the water rights adjudication process.

The Legislative Finance Committee will be disseminating the Office of Education Accountability "Ready For College" study data on the number of high school graduates taking remedial courses to New Mexico legislators, school districts, school board members, and the Higher Education Department. The report was previously presented to LFC members on July 9 by Dr. Peter Winograd from the Office of Education Accountability. The Committee expressed concerns about accountability considering the amount of public education funding requested and provided each year by the legislature.

Tourism Marketing. Michael Cerletti, New Mexico Tourism Department secretary, introduced Caroline Beteta, California Travel and Tourism Commission (CTTC) executive director, to the Committee. A strategic look at how the CTTC has approached travel and tourism as a business and a commodity was provided. Tourism is a $96.7 billion industry in California. Challenges have included inflationary pressures on budgets, costs of media and promotion, natural disasters, lack of consistent and sustainable funding, and aggressive competition for tourists. Dedicated funding is critical to developing long term plans. The CTTC is a public/private partnership and receives funding from general fund appropriations and assessments made on businesses that benefit directly from tourism. At the present time, rental cars pay almost $40 million of the $50 million budget. Dedicated funding is critical in developing long-term plans for year-long advertising and promotion.

Visitors want a destination experience. Without promotion you lose market share, jobs and tax revenues. Ten years ago Colorado eliminated the tourism office, lost 30 percent

of the market share within 3 years, and reinstated the office. Tourism is labor intensive; jobs cannot be outsourced, and diversifies local economies. From 2000 to 2006, thousand of jobs have been lost in the manufacturing, telecommunications and farming industries, while leisure and hospitality have continued to add jobs. Tourism is an insulator from inflation for invested communities.

Goals are to protect and maintain volume in primary markets, reach new visitors, expand advertising to year-round, deepen efforts in primary international markets, and use technology to reach visitors globally. CTTC generates interest, awareness and impressions about the state as a whole as a travel destination. It is industry's job to "close the sale". Travelers are staying closer to home due to the soft economic environment. Repeat travel is critical. Examples of media and print advertising campaigns to reach domestic and international visitors was provided. The United States share of international travel is decreasing, and international travelers generally spend more. The Committee heard discussion on various ways the return on investment is measured for domestic and international travel.

Secretary Cerletti provided examples of media advertising with videos showing the "Lets go NM" advertising campaign highlighting activities within different areas of the state. The alien campaign was developed because with limited funding, the department needed something to generate responses to tourism websites and increase visitors. Representative Savaadra reflected that the California media campaigns appear to be more effective. New Mexico needs to make a greater investment in tourism to generate visitors.

The department relies on general fund appropriations. Secretary Cerletti stated it has been difficult to identify an ongoing source of revenue that is contributed to by the industry. Chairman Smith reflected that local communities have a need to advertise their own areas; the State's responsibility is to generate interest in the state as a whole. A department contractor identified a return on investment impact for the State of 40 to 1. The Committee encouraged increased private industry participation in contributing to the tourism budget. Secretary Cerletti stated the travel industry has been supportive of increased funding and the department is exploring options. A long-term statewide plan is needed. At the Committees' request, Secretary Cerletti will provide more information on various State agencies' special and cooperative advertising spending plans.

The Committee heard discussion on the proposed LFC FY10 Budget Guidelines.

Chairman Smith adjourned the Committee at 11:30 a.m.

Chairman

8/13/08
Date