

Legislative Finance Committee
Meeting Minutes
Room 322 – State Capitol – Santa Fe, New Mexico
March 21, 2012

Wednesday, March 21

The following members were present on Wednesday, March 21, 2012; Chairman John Arthur Smith, Vice Chairman Luciano “Lucky” Varela, Representatives Don Tripp, William “Bill” J. Gray, James P. White, Edward C. Sandoval, Nick L. Salazar, Larry A. Larranaga, and Rhonda S. King; Senators Carlos R. Cisneros, Mary Kay Papen, Sue Wilson Beffort, John M. Sapien, Carroll H. Leavell, Stuart Ingle, and Linda M. Lopez. Representative Ray Begaye attended as a guest.

Program Evaluation: Cost-Effectiveness of Public Health Offices. Pam Galbraith and Maria Griego, LFC program evaluators, briefed the committee. Ms. Galbraith directed the committee to folders she made with public health office information specific to counties and stated New Mexico’s 54 public health offices (PHOs) offer an array of services with a centralized system organized into five regions.

The evaluation focused on business practices, specifically on the Public Health Division’s (PHD) revenue generation and resource allocation, issues relating to contract and lease management, and the usefulness of the PHD performance monitoring process in measuring the program and intervention value to the state and clients serviced. Also, the evaluation focused on the PHD’s ability to secure funding aside from federal grants or state appropriations.

Ms. Galbraith said although evaluators found the PHD delivers needed services, issues were identified:

- Existing practices in the fiscal management system lack oversight and a sufficient reporting system;
- Contracts need to better match strategic objectives and maximize the use of limited resources;
- Performance monitoring, in clinical practice or contract management, lacks a focus on outcomes of actions and interventions;
- The PHD must pursue partnerships more aggressively to alleviate the present demand for PHD services.

Key Findings. *Lack of outcome-focused efforts and funding reductions might compromise the PHD’s ability to implement solutions to health issues facing New Mexico.* Numerous and sometimes competing health challenges and federal and state requirements complicate the efficient and effective operation of the public health service delivery system. State and federal mandates, the DOH strategic plan, the pursuit of national accreditation, core functions, funding constraints, and essential services are driving forces in the state’s public healthcare delivery system. Geography, a culturally diverse population, and significant education, health and socio-economic challenges within the state also impact the PHD to delivery of services.

The DOH is seeking national accreditation for the public health program, which presents another challenge.

The PHD should not be expected to be the direct provider of all services and programs to resolve health issues.

Performance monitoring for public health does not adequately investigate program outcomes. In spite of the broad mission and numerous strategic objectives, only three performance measures appear in the General Appropriation Act for public health and none validate the outcome of the intervention or the costs. Eleven of the 12 performance measures listed in the FY13 Department of Health strategic plan for public health are dedicated to monitoring numbers of agency activities or interventions rather than the health outcomes of those actions.

Given the state's diverse health challenges and resource constraints, the Public Health Division needs to improve resource allocation and budget management. The state must be judicious in the pursuit of federal dollars. Within the next seven years, the prevention and public health fund will be reduced by \$6.25 billion. When this is depleted, the burden falls on the state's budget to sustain the program. Funding constraints from all funding sources will require that DOH intervention efforts need to be community-targeted and effective.

Budgeted dollars are allocated to regional offices but not directly to local public health offices. Cost accounting does not funnel down to local public health offices. Without a reporting mechanism that allows program and individual office accounting for workload, it is impossible to calculate cost per unit, a key indicator in analyzing financial performance.

Staffing cuts over the past three years have made it difficult for the PHD to sustain programs in public health offices. DOH efforts to cut spending have had a disproportionate impact on those public health offices, which have a higher turnover rate and more vacancies than other sections of the DOH. Although positions have recently been opened for recruitment, the system is perceived as unstable and low-paying and the hiring process is slow. Information from the State Personnel Office (SPO) as of February 2012 indicated the PHD had 957 approved full-time positions, of which 168.5 were vacant, including clinical positions. The LFC recommends the PHD work with SPO to ensure job descriptions and qualifications are current so accurate comparisons can be made with entities competing with the PHD for recruitment.

The local public health offices are not persistent or consistent in determining a client's Medicaid eligibility or collecting third-party or sliding fee scale payments. The PHD has provider agreements with all four Medicaid managed-care companies. Observation of the process and interviews with staff demonstrate a lack of consistency in pursuing Medicaid eligibility for clients. The PHD identified time and money as the constraints on its ability to perform eligibility screenings. In the past, the PHD employed eligibility workers, but the positions were eliminated because the Human Services Department could not reimburse the division for the service. However, the New Mexico Primary Care Association (NMPCA) has a contract with the HSD and that contract obligates the NMPCA to subcontract with agencies employing eligibility workers to increase Medicaid eligibility outreach screenings.

Ms. Maria Griego briefed the committee on the evaluation of contracts within the PHD.

Key Findings. *Contract management within the PHD lacks a strategic plan to deploy \$50 million in resources and accurately measure the effectiveness of more than 300 vendors in providing public health services.* The PHD maintained 288 contracts and memoranda of agreement in FY12 for a total of \$41.8 million, a decrease of 8 percent from FY11. Contractual services accounted for 20 percent of the PHD's overall budget; therefore, it is a target for cuts when budget dollars decrease. When the PHD had to reduce spending by 40 percent, the division reduced contract spending, eliminating all health education contracts.

PHD's contracts focus on compliance reporting and not on outcomes and measuring achievement towards health goals. While PHD contracts follow the Department of Finance and Administration template, the contracts have zero stipulations measuring impact of services on the target population. Ms. Griego said PHD's largest contract is for \$5.7 million with McKee Wallwork Cleveland, LLC, for promotion of tobacco cessation, youth tobacco use prevention, and secondhand smoke awareness marketing, but the contract has no performance requirements to demonstrate how this program directly influences tobacco cessation efforts.

Contracts do not incentivize vendors to identify potential cost savings. Outside of contracts that pay for services by the hour, all contracts will pay the full contract amount. Even in cases where the contract stipulates a certain level of service, the contractor bills to ensure the full contract amount is paid by the end of the term, as was the case of University of New Mexico Hospital, contracted to provide high-risk prenatal services to 300 woman. When UNMH submits monthly invoices, it is not required to include a summary of patients served during that month, and the total amount due is one-12th of the total contract amount. While the contractor must measure how many patients served, UNM Hospital is not required to substantiate this in billings, making the performance measure worthless.

The PHD oversight of contract deliverables focuses on validating task reporting and not analyzing impact to overall program and department initiatives. Program contract managers complete quarterly two-page reports reviewing contract performance using a standardized form focusing on when deliverables were completed. In many contracts, a measure of performance is receipt of monthly billing invoices.

The PHD's contracted services might duplicate services subsidized by other programs, such as Medicaid and county indigent care programs. UNM is the largest individual contractor for the PHD with a total of 18 agreements in place for \$2.3 million, providing a variety of services that Bernalillo County also provides through the UNM Care Program. Also, stipulations of UNMH's lease agreement with Bernalillo County require the hospital to serve indigent patients as part of its obligation for receiving mill levy funds from the county. Additionally, Medicaid and the PHD's primary care contractors offer the same services UNMH is contracted to deliver. There is no appearance currently of coordination among various publicly-funded programs between the HSD, DOH, counties, and other agencies to ensure the most effective and efficient care delivery occurs. In the case of UNMH alone, almost \$1 million in potential savings could be gained from eliminating duplicate services and relocating these patients to other available programs to meet their needs.

Contract management does not include a process to identify high-performing contracts or protect contracts from funding cuts. Due to lack of measurable performance data in contracts, the PHD is unable to identify contracts that have meaningful impact on department initiatives. Having this information could assist the PHD in making strategic decisions and address spending cuts with minimal negative impact to programs. When the PHD had to reduce spending by 40 percent, all contracts for health education were eliminated indiscriminately, which while fiscally responsible, may have eliminated effective services.

Primary care is the largest contractual function of the PHD, but the division does not have a strategic plan to address service needs. State general fund dollars support the Rural Primary Healthcare Act, which provides funding to 27 entities for the provision of primary care in underserved areas of the state. Eighty-four of 96 primary care clinics throughout the state are designated as federally qualified health centers (FQHCs) and receive federal dollars as their primary source of funding. PHD's Primary and Rural Health Program manages the award and fund distribution process but does not have a formalized process for deciding where additional clinics are needed.

Primary care clinics accounted for \$11.9 million in contractual spending, or 28 percent of total contract dollars, without a single performance measure related to health outcomes. RPHCA states that funds are to assist in the provision of primary care services in underserved areas of the state to better serve health needs of the public. The DOH has interpreted this to mean their mission is to increase access to primary health care. In doing so, contracts require clinics to provide level of service reporting showing staffing levels, number of clinical visits, and number of patients served, but contracts do not include any performance measures to a clinic's efforts toward reducing acute or chronic conditions. FQHCs routinely report on health statistics required for federal funding, and this data would be a valuable resource for the PHD to assess health concerns and generate appropriate strategies to target health conditions.

Ms. Griego reviewed LFC recommendations. The PHD should

- strategically manage its contract budget to match public health priorities as described in the DOH strategic plan;
- Reassess contract performance measures to also require measurable health data to better judge service effectiveness against DOH strategic goals;
- Partner with other agencies providing similar services such as the Human Services Department, to determine if duplication of services exist, as well as assess if programs can be reallocated to better leverage federal dollars and reduce burden on state general funds;
- Build a strategy to address future primary care needs, assessing how best to use Rural Primary Healthcare Act dollars to assist clinics in further addressing high need for services in light of changes in population growth in rural New Mexico; and
- Mirror reporting requirements and performance measures to what the federal Health Resources, and Services Administration requires of federally qualified health centers and use health data to measure effectiveness of this core public health function.

Local governments are not providing their share of resources to support public health offices.

Ms. Galbraith stated state statutes were reviewed and the existing process does not abide by

statute. If the intent of the statute places responsibility for each county to contribute to the cost of the regional offices, no documents were found substantiating that it occurs.

In some cases, the state is paying lease or associated costs that exceed market values. When the General Services Department was consulted, it found 10 situations where leases or associated costs were high or extremely high compared with those of similar properties managed by the Division. Rent costs to the state range from \$5 per square foot in Roswell to \$15.45 per square foot in Moriarty. The associated expenses for 47 facilities are paid by the state.

The LFC recommends the Legislature clarify the statute to accurately reflect state and county responsibilities for facility and personnel costs or the PHD clarifies the process through regulation.

The DOH is seeking partnership with community groups to expand the capacity for services and education to New Mexicans. The PHD needs to focus on community partnerships to help alleviate some of the workload burden. Ms. Galbraith stated the DOH has made some headway by contracting with New Mexico State University for diabetic education, nutritional counseling and education and with primary care clinics for prenatal care for eligible individuals.

Patient records in the public health system are not integrated. Up to three separate electronic systems may be serving an individual client in public health offices. Ms. Galbraith said the DOH is doing everything it can to integrate those systems.

As stated in previous evaluations, a central information system for all public-funded health service programs does not exist.

Department of Health Response. Dr. Catherine Torres, secretary, Department of Health, thanked the evaluators and stated the evaluation comes at a time when the DOH infrastructure is weakened by the U.S. economy, budget, and the Affordable Care Act (ACA).

Regarding the 10 essential services of public health, Dr. Torres said the department does very well overall; she agreed that evaluating effectiveness, accessibility, and quality of personal- and population-based health services has been a weakness. This, she said, was the whole point of accreditation, with New Mexico being one of the first 10 states to go through the process. Accreditation is also important for the DOH to receive federal dollars. In 2015, about 60 percent of the U.S. population has to have access to an accredited public health office.

Dr. Torres briefed the committee on portions of her written response to key findings and recommendations located in the report. While the department agreed with many of the findings, Dr. Torres defended allocating budget dollars to regional offices versus local public health offices, saying the department needs access to move money to regions that need it on a moment's notice.

Performance monitoring for public health does not adequately investigate program outcomes. Dr. Torres said she disagrees with some of this statement because it is important to know percentages and outcomes. For example, the division tracks the number of individuals identified

with a sexually transmitted disease and the number of persons exposed to someone with an STD who were contacted, screened and treated in a timely manner.

Given the state's diverse health challenges and resource constraints, the Public Health Division needs to improve resource allocation and budget management. Dr. Torres said public health has assessed the distribution of resources to determine the most effective way to use limited resources and realign as needed. Population size alone cannot be used. Also the PHD must consider infrastructure required for each location to respond to disaster. The PHD agrees with judicious pursuit of federal dollars, yet they are dwindling.

The local public health offices are not persistent or consistent in determining a client's Medicaid eligibility, or collecting third party payments. Dr. Torres said the DOH is looking into centralized billing.

PHD contracts focus on compliance reporting and not on outcomes and measuring achievement towards health goals. Dr. Torres said this year divisions must turn in a quarterly report on contract deliverables and will begin to look at outcomes on new contracts.

Primary care is the largest contractual function of the PHD without a strategic plan to address service needs. The legislative intent of RPHCA dollars is to "assist in the provision of primary health care services through eligible programs in underserved areas of the state in order to better serve the health needs of the public."

The PHD also disagreed with the LFC's recommendation to refine the budget reporting systems so useful information is generated to help manage regional and local offices budgets because Dr. Torres said reporting systems are already providing useful information. The PHD will look into the capability of SHARE's use of a reporting category or other functionality for local health office to track local expenditures.

Responding to Vice Chairman Varela, Director David Abbey stated the follow-up to disagreements in the report would include the LFC working with the DOH for submission of budget requests, changing measures, monitoring their contracts, and possibly two hearings in the fall. Deputy Director Charles Sallee added all agencies who go through a program evaluation submit an action plan for how they intend to address the recommendations outlined in the reports and staff follows up in six months. As part of their budget requests in September, agencies must also provide the committee with an update on what actions have been taken to implement the recommendations in the report.

For FY13, Dr. Torres said the department will begin to look at deliverables and performance measures of contracts and will have more data for the committee in December. The tobacco cessation contract, she said, does have measurable impact data tied to it.

Senator Leavell asked about prenatal care, and Dr. Torres clarified that FQHCs are required to do prenatal care yet many of these centers do not want to do it, so they give this to the DOH. The DOH has begun to look at why the FQHCs are not meeting the prenatal care requirements

when they're given RPHCA money. Senator Leavell also suggested a meeting be set up with United Health Care as to why it does not pay for immunizations.

Representative Larrañaga asked why contracts do not have measurable outcomes. Dr. Maggi Gallaher, medical director, Public Health Division, using the tobacco cessation contract as an example, said the department already measures tobacco cessation efforts and has the outcome data. To make the contractor measure this takes money away from the service the DOH is trying to get out to the population.

Representative White stated that numbers are great to have and specific, measurable performance measures are even better. Invoices may tell how many people were served but the result of that encounter should be measurable. Representative White also said it was very important for the DOH to verify income eligibility and not duplicate efforts because the state cannot afford to lose money.

When it comes to the Affordable Care Act (ACA), Dr. Torres said the burden is placed on states like New Mexico with the loss of federal dollars for programs. The DOH will have to go to a "private" model of billing and employees will have to understand coding, insurances, and billing. Once the act is in place, deciding what the public health infrastructure is responsible for is going to change, and there are concerns about outbreaks.

Jane Peacock, deputy director, Public Health Division, said the department audits all family planning contracts, and contracts over \$100 thousand require an independent audit from the contractor. There were no findings with the recent audit on family planning.

Second Quarter FY12 Performance Report Cards – Charles Sallee, deputy director, LFC, briefed the committee on key state agencies and said it is a quarterly oversight tool for legislators to assess whether state government is getting results citizens want and need and at a price taxpayers can afford.

Mr. Sallee said overall the second quarter performance is mixed. Some programs made noteworthy improvements, like Child Support, and others experienced deteriorating or sub-par performance. For example, many agencies are failing to hire people in a timely manner, impacting services to the public. Some agencies with large appropriations have failed to report on a full complement of measures – Medicaid and DOH's public facilities.

Mr. Sallee also highlighted Public School Support and Behavioral Health and Income Support within the Human Services Department.

Mimi Aledo-Sandoval, senior analyst, LFC, continued the briefing by saying some performance measures within the Children, Youth and Families Department need the committee's attention. For example, staff vacancies in the Protective Services program have adversely affected performance measures.

The Economic Development Department and Workforce Solutions Department (WSD) were also mentioned, with Ms. Aledo-Sandoval noting call wait times improving within the WSD. The

Corrections Department's caseload for probation and parole officers has increased. Ms. Aledo-Sandoval gave positive and negative feedback for some measures within the Environment Department and the Department of Transportation.

The committee was directed to the State Personnel Office's performance report card, where the average time to fill a vacancy is 20 days more than the target of 40 days. The actual number of state employees completing their probationary period is also low, Ms. Aledo-Sandoval said. Vice Chairman Varela asked why this was the case and Randall Soderquist, a principle analyst with the LFC, stated the SPO reports termination and better offers are among the reasons for the departures.

Ms. Aledo-Sandoval concluded by showing the committee the new "Red, Yellow, Green Report" for the state's top 10 information technology projects, which, she said, will become part of the quarterly report card.

Richard Blair, executive budget manager with the Department of Finance and Administration, stated there has been a concerted effort over the last few years to improve performance measures for agencies: focusing on quality of measures versus quantity, outcomes versus outputs, and measuring something within the control of the agency. Measures should be innovative in terms of making agencies more efficient.

Mr. Blair talked about discontinued measures, new measures and stated work regarding performance measures is an ongoing process. There has been good work between the DFA and the LFC. Mr. Sallee added an information and output measure not perfectly in control of the agency doesn't mean the state shouldn't be looking at it.

The committee discussed Temporary Assistance for Needy Families measures, vacancy issues in terms of performance measures, and how the DFA and the LFC work with agencies. Mr. Sallee said it behooves the agencies to use the information in their requests. Demonstrating the use of performance information in budget requests is an expectation of both the DFA and the LFC.

Second Quarter FY12 Investment Report. Elisa Walker-Moran, chief economist, LFC, presented the revised report for the quarter ending in December 2011. In the future, she said, the report will include long-term returns. The report detailed the comparative investment performance of the three investment agencies: the State Investment Council (SIC), the Public Employees Retirement Association (PERA), and the Educational Retirement Board (ERB).

Under peer universe rankings, Ms. Walker-Moran said the PERA's ranking over the quarter was 50 percent, which was equivalent to its three-year ranking. The ERB also performed middle of the road and had a good performance for its three-year ranking.

Ms. Walker Moran stated there are three basic ways that a fund's returns can differ from the average: the policy, allocation, and manager effects. The quarterly policy effect is when a fund can have a long-term policy allocation benchmark that has a more or less aggressive proportion of risky assets such as stocks. When measured in isolation, this is known as the "policy effect" and is an essential responsibility of the fund's trustees. The most appropriate measurement of a

policy allocation benchmark is comparison to a defined peer group. Ms. Walker-Moran explained how PERA, ERB and SIC performed under the policy effect.

The second way a fund's return can be affected is by shifting assets away from the proportions called for by policy. This is the best measure of the value added from a chief investment officer. For example, an investment officer may have a bearish view of the stock market during the fourth quarter and used his authority to temporarily reduce a fund's risky assets to less than what was specified in their policy. The difference between the funds' temporary and long-term allocation is known as the "allocation effect." The PERA, ERB and SIC all performed slightly negatively due to the allocation effect. How staff deals with factors has a significant effect on performance.

The third way value can be added or subtracted from a fund is through the use of active management, the manager effect. In the PERA, the managers added 0.95 percent to return. The manager effect at the ERB and the SIC subtracted 0.6 percent and 0.39 percent from returns, respectively.

Ms. Walker-Moran summarized the funds' second-quarter performance by saying

- Future reports will be revised with common peer rankings to compare funds equally.
- The PERA's return was average for the quarter, with emphasis on international equity putting the fund at a slight disadvantage. The PERA's deviation from long-term allocation due to market impact resulted in lost value, however superior active investment management offset the negative impacts.
- The ERB turned in a performance that was below average even though its emphasis on risky debt strategies put them at an advantage for the quarter. This advantage was negated by rebalancing decisions and poor hedge fund performance.
- The SIC quarterly performance was above average, with its policy index putting it in an extremely good position to benefit from a rally in risk assets. Temporary deviations from its policy and poor equity manager performance muted the advantage gained from the SIC's policy index.

Representative Larranaga said the committee needs a better look at what's coming into the funds for the long-term and Scott Smith, an economist with the LFC, said both boards are making it a top priority. Anne Hanika-Ortiz, an analyst with the LFC, added that the bottom line is the pension funds are no longer able to rely on investment rate of returns to address solvency. It is necessary to be aggressive on pension reform.

Kurt Weber, interim PERA executive director, stated that 7.7 percent is taking a small risk and will not solve the \$5 billion unfunded liability and 70 percent funded status there is now. Mr. Weber said the board understands the problem will not be solved by the investments return or contributions alone. The most significant impact is to cost of living allowance (COLA), with a high cost attached to it. The retirees may reach active employees in 12 to 15 years, and the board has a goal to be 100 percent funded within that time period. Mr. Weber stated the board is talking with unions to get consensus.

Vince Smith, deputy state investment officer with the SIC, responded to Representative White's question regarding dismal investment managers by saying Thornburg would only be managing money for the SIC for six more weeks and the council has replaced 12 managers..

In response to Vice Chairman Varela on severance tax, State Investment Officer Steve Moise said there is no indication of any short-term plan to increase the flow-through of severance taxes to the severance tax permanent fund. Mr. Moise stated only 5 percent is going to the endowment, when previously it was 50 percent.

The discussion continued on COLA (cost of living allowance) and Mr. Weber stated the board is looking at a baseline reduction of COLA from 3 percent to 2 percent across all groups and a multiplier affecting current actives.

Chairman Smith stated prudent, fiscal decisions are not being made by legislators, but by advocates. The longer the state procrastinates, the more difficult it becomes. Decisions of the Legislature might not be popular, but legislators will be responsible.

Senator Beffort asked Mr. Moise to for a report on the legacy fund in North Dakota.

2012 Post-Session Fiscal Report. Tracy Hartzler-Toon gave a brief rundown of what is in the LFC's Post-Session Fiscal Report. Representative White asked whether or not the higher education funding formula was a "go." Ms. Hartzler-Toon stated the governor vetoed language similar to what was included in 2011. The secretary of the Higher Education Department and institutions want to work on mission-specific measures and refine the formula as it exists. Director Abbey said he expects there will continue to be an interim effort around improving implementation of the formula.

Analyst and Program Evaluation Work Plans. Mr. Sallee briefed the committee on the LFC work plans for FY12. Mr. Sallee highlighted key issues staff will be working on and monitoring within various blocks, such as health and human services, education, transportation and environment. The complete work plan for staff is on the LFC website.

Representative Tripp said increasing medical costs in prisons is a big issue and Mr. Sallee stated it is a topic the LFC should be monitoring this summer.

Chairman Smith said the LFC might have to look at some of the issues with the New Mexico Department of Transportation and look at bills that did not make it through that would have leveraged additional federal dollars.

Mr. Sallee continued with LFC evaluator work schedules, saying evaluators are finishing up a project involving dual credit. Other major projects include effective investments and strategies to improve student literacy by third grade; probation and parole efforts to reduce recidivism rates; and building a cost-benefit model that can be expanded with National Conference of State Legislatures and the Pew Center on the States. Mr. Sallee stated Ms. Griego will monitor the book-to-bank reconciliation issue between the DFA and SHARE. Evaluators will also study the

effectiveness of the three-tier system for teachers with the help of UNM and the Rand Corporation.

Representative King asked if the assessment will include new requirements for elementary teachers for reading and Ms. Sallee told her it would be included.

Senator Leavell wants the LFC to take a look at interstate trucking and the Motor Vehicle Division.

Miscellaneous Business

Action Items

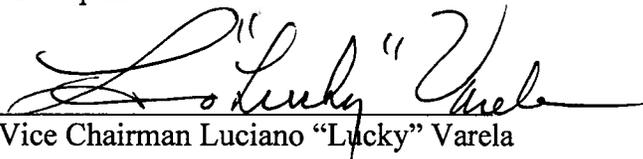
Approval of Minutes. **Senator Cisneros moved to approve January 2012 meeting minutes, seconded by Representative Tripp.**

Approval of 2012 Calendar and Committee Travel. Director Abbey provided a listing of the LFC hearing locations for the last 10 years and suggested travelling to Deming and Hobbs in the spring. **Senator Cisneros moved to approve the LFC Meeting Calendar, May's hearing location in Deming, and June's hearing location in Hobbs. Representative Larrañaga seconded the motion and the motion carried.**

With no further business, the committee adjourned at 2:16 p.m.



Chairman John Arthur Smith



Vice Chairman Luciano "Lucky" Varela

