MINUTES
Legislative Finance Committee
State Capitol, Room 322 - Santa Fe, NM 87501
March 21 - 22, 2016

Monday, March 21st
The following members and designees were present on Monday, March 21, 2016: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, William F. Burt, Stuart Ingle, Howie C. Morales, George K. Muñoz, Steven P. Neville, and Pete Campos; and Representatives Larry A. Larrañaga, Luciano "Lucky" Varela, Nick L. Salazar, Sharon Clahchischilliage, Monica Youngblood, George Dodge Jr., and Patricia A. Lundstrom. Guest legislators: Senator Lee S. Cotter and Representative Conrad James.

General Fund Revenue and Economic Update. Elisa Walker-Moran, chief economist for the Taxation and Revenue Department (TRD), first pointed out that the presentation is not a new revenue forecast but a review on where general fund revenues are currently tracking. Ms. Walker-Moran then proceeded with an update on income trends. Income and wage data varies by source. However, all sources indicate that New Mexico incomes are rising. The Bureau of Economic Analysis data indicates that New Mexico per capita personal income increased 5.2 percent from 2013 to 2014. Bureau of Business and Economic Research (BBER) forecasts personal income to grow 3.2 percent in FY16. A chart in the presentation indicated personal income will remain positive in outgoing years.

Then updating the committee on employment trends, Ms. Walker-Moran said the Workforce Solutions Department (WSD) estimates that from 2012 to 2022, employment will increase approximately 12 percent and 100 thousand jobs will be created. BBER forecasts non-agricultural employment to grow 0.6 percent in FY16 and continue to slowly grow through FY20. Although New Mexico's unemployment rate has decreased from 8.1 percent in 2010 to 6.5 percent in 2014, New Mexico is recovering from the recession more slowly than neighboring states. Ms. Walker-Moran said there is a decrease in long-term unemployment, which indicates that people are finding jobs more quickly.

Efrain Ibarra, economist for TRD, then discussed oil and natural gas. Oil prices averaged $31.98 per barrel in December 2015. The fiscal year-to-date average price is $40.73, $3.73 above the January consensus revenue estimating group forecast of $37. Mr. Ibarra said oil prices must average $33 for the remainder of the year to meet the projected forecast. For natural gas, prices averaged $2.33 per thousand cubic feet in December 2015. The fiscal year-to-date average price is $2.65, 10 cents above the January consensus revenue estimating group forecast of $2.55. Natural gas prices must average $3.45 for the remainder of the year to meet the projected forecast. In December 2015, oil production declined 9.3 percent and natural gas production declined 7.2 percent. Lower production in the Permian Basin was caused by a severe winter storm that halted production for about six days.

General fund revenues in the last six months total $153.1 million. If price and production conditions stay the same on average for the next six months, FY16's general fund revenue total will meet the January consensus revenue estimating group projection of $294.5 million.

Mr. Ibarra then talked about domestic and global market risks. Low oil demand and high supply in the global market poses a downward risk. Members of the Organization of the Petroleum Exporting Countries (OPEC) will meet with Russia in Doha on April 17, 2016, presumably to reach a global supply deal. Favorable risks include increased gasoline demand due to lower prices and the upcoming driving season. Also, U.S. inventory levels have been more favorable than analysts expected and unchanged federal rates for the current quarter is bringing stability to markets.

Hector Dorbecker, economist for TRD, talked about the gross receipts tax (GRT). In the first seven months of FY16, local governments received $1.3 billion in GRT. Although the GRT collected is approximately $38 million or 2.8 percent less than what was collected in the first seven months of FY15, it is $59 million or 4.6 percent higher than the same period in FY14.

Mr. Dorbecker said that, according to BBER, mining employment will decrease 12.4 percent for FY16's third quarter and construction employment will increase by 3.8 percent, suggesting that a small percentage of mining workers may be moving to the construction sector.

Mr. Dorbecker lastly spoke about the upside and downside risks to the general fund revenue forecast, which he said is dependent on the price of oil and production.

Ms. Walker-Moran then gave a brief overview of business tax credits. Monthly data on business tax credits are shared with the consensus revenue estimating group. A table in the presentation listed some of the credits paid for FY15 and FY16. New Mexico paid $50 million in film credit in FY15.

Ms. Walker-Moran concluded TRD's presentation with a brief outlook on general fund revenues. Current income, employment, oil, and natural gas trends are in-line with January's consensus forecast.

David Abbey, director of the Legislative Finance Committee, then presented a general fund revenue and economic update. New information in January 2016 led to a revision in the forecast. Compared with the December 2015 forecast, the FY16 recurring revenue estimate was revised downward by $144.8 million to $6.02 billion, and the FY17 revenue estimate was revised downward by $201.7 million to $6.26.

As unfavorable economic and energy market news continued during 2016 legislative session, the Department of Finance and Administration and LFC jointly provided guidance to legislative leaders for additional reductions of $125 million in FY16 and FY17 for budgeting purposes. The additional reductions were not reflected in the consensus revenue forecast. However, LFC prepared the tracking reports, revenue forecasts, and the general fund financial summary to show the impact of the reduction by $125 million for both fiscal years.

Reserve balances at the end of FY15 were $713 million, or 11.6 percent of recurring appropriations. Reflecting 2016 legislative action, projected FY16-ending reserve balances are $349.3 million, or 5.6 percent of recurring appropriations. Projected FY17-ending balances are $343.6 million, or 5.5 percent. A healthy level to maintain bond ratings and provide a cushion for economic volatility is 10 percent.

David Abbey went over several charts and tables provided in the presentation. Latest numbers indicate employment growth has come to a halt. One chart showed that New Mexico is lagging significantly in the nation in wage and salary growth rates. Regarding oil and gas, Mr. Abbey said natural gas prices are worrisome. Discussing general fund revenue monthly tracking, Mr. Abbey pointed out that it would be in the best interest of agencies to constantly be attentive to revenue numbers.

Demesia Padilla, secretary of TRD, said personal income tax data may be delayed because the agency is taking more time to analyze returns and issue refunds to reduce fraud. The Internal Revenue Service is currently experiencing security breaches about four times a day.

In response to Representative Larrañaga, Mr. Abbey said the August 2016 consensus revenue estimate should provide a reliable figure for planning purposes. The consensus revenue estimate will be finalized after the audit is complete in December.

In response to Senator Morales, Ms. Walker-Moran said employment grew 0.6 percent in the last six months. The healthcare and tourism sectors experienced the most growth. Ms. Walker-Moran said BBER forecasts growth in construction.

Representative Lundstrom commented on whether business tax credits are boosting economic development and creating jobs. In response to Representative Lundstrom regarding high-wage tax credits, Ms. Walker-Moran said businesses can apply for the credit when a new job is created.

Chairman Smith commented that when capital outlay dollars and tax refunds are delayed, spending is slowed in New Mexico, which especially hurts rural areas. Mr. Ibarra said the expected wait-time to receive a tax refund is six to eight weeks. Currently there are 39 thousand delayed refunds.

Financing Medicaid in FY17 and Beyond. Beginning with a Medicaid budget summary, Brent Earnest, secretary of the Human Services Department (HSD), said total projected expenditures is $5.68 billion for FY16. The state will receive $4.5 billion in federal funding for Medicaid, leaving a state funding need of about $1.2 billion. Two-hundred fifty-seven million dollars will be covered by other state funds, leaving a general fund need of $933.4 million. FY16's general fund appropriation for Medicaid was $891.7 million. Medicaid was appropriated $18 million in supplemental funding during the 2016 legislative session, reducing the shortfall to $23.7 million. Projections indicate a general fund shortfall of $62.8 million for FY17.

A graph in the presentation showed projections for Medicaid enrollment, expenditures, and revenues through FY22. Projections indicate continued growth in Medicaid enrollment.

Enrollment numbers are tracking closely to previous projections. Another graph compared the general fund need with cost-containment and without cost-containment. With cost-containment, the general fund need for FY17 is $914 million. Without cost-containment, the amount increases to $977 million.

Several variables can impact Medicaid expenditures and general fund need. Long-term impacts include Medicaid enrollment increases, high drug costs, Medicare Part B premiums, and reduced federal fund matching rates.

Secretary Earnest then talked about cost-containment strategies and implementation. The Medicaid Advisory Committee (MAC), which HSD meets regularly with, has created subcommittees to focus on cost-containment strategies for Medicaid. The Provider Payments Cost-Containment Subcommittee is currently working on providing recommendations for reducing provider reimbursement rates effective July 1, 2016. A second subcommittee will be working to find cost-savings in Medicaid benefits, eligibility verification measures, and recipient cost-sharing, including premiums. Secretary Earnest noted copayments and other cost-sharing initiatives would not be possible to implement in time for FY17 but could be possible by FY18. A third subcommittee will be developing recommendations for long-term cost-containment strategies, including ways to leverage Medicaid differently.

HSD is working on ways to reduce managed-care organization (MCO) administrative costs. At the start of 2016, the MCO capitation rates changed with increases in some cohorts and decreases in others, resulting in a net reduction of 3.4 percent. At the start of FY17, changes in the Care Coordination program and Member Rewards program will result in additional reductions to administration costs, with an estimated total savings of $15 million.

In 2015, HSD used the delivery system improvement fund to increase the use of community health workers, increase members served by patient centered medical homes, increase the use of telemedicine (by 45 percent over 2014), and reduce non-emergent use of the emergency room by 14 percent (two MCOs reached the target in 2015).

Secretary Earnest gave a brief update on care coordination. Ten percent of Medicaid enrollees are assigned to higher levels of care coordination. The jail-involved care coordination pilot project was mentioned. The purpose of the pilot is to ensure that people leaving jails are connected to services more quickly.

HSD is also piloting a project to address the needs of the relatively small number of individuals requiring the most expensive care, sometimes referred to as “super-utilizers.” Using an integrated software tool, the pilot identifies the MCOs highest users of ER services and targets interventions and better care management to reduce the need for costly ER visits. MCOs were tasked with implementing interventions to reduce emergency room utilization and developing recommendations for better management of super-utilizers. A graph in the presentation showed progress in emergency room reduction for the top 10 super-utilizers with each MCO.

Regarding health home implementation, Secretary Earnest said HSD will first focus on San Juan and Curry counties. HSD estimates 800 members will be enrolled in health home services by the end of 2016.

Using healthcare effectiveness data and information set (HEDIS) performance measures, graphs in the presentation showed how New Mexico compares with the national average in child dental visits, well-child visits, diabetes testing, prenatal care visits, and children receiving asthma medication. New Mexico ranks well above the national average in child dental visits. MCOs implemented strategies to improve well-child visits and asthma measures, which lag behind national averages. HSD is making efforts to improve MCO performance measures, such as assessing monetary penalties. Final audited 2015 HEDIS performance measures should be available to the department by July 1, 2016.

Secretary Earnest lastly updated the committee on MCO payment reform projects, which build on existing efforts to move away from volume-based payments, allow for provider incentives to improve outcomes, and encourage shared risk. Secretary Earnest said given the current state budget, HSD is moving quickly, but carefully, to reduce Medicaid spending in FY17 and future years.

In response to Senator Cisneros, Secretary Earnest said rates are set with MCOs usually once a year, the next rate changes take place July 1, 2017. There will likely be administrative changes to reduce rates to MCOs. Secretary Earnest said the administrative changes could save the Medicaid program approximately $15 million. Other changes could also reduce contract costs.

In response to Senator Cisneros, Secretary Earnest said while the MAC meets quarterly, the subcommittees will meet more often. Secretary Earnest said HSD will report to legislative leadership on fiscal impact proposals.

In response to Representative Lundstrom, Secretary Earnest explained the MAC is composed of representatives of consumer advocates, providers and others and is mandated by the federal government.

In response to Senator Morales regarding funding received for physician residency training, Secretary Earnest said a state plan amendment was submitted that would pay residential training for community primary care providers. Secretary Earnest said he would provide the senator with a summary of the state plan amendment.

Senator Smith asked about the funds withheld from the Medicaid behavioral health providers that have since been cleared of accusations of fraud. Secretary Earnest replied that OptumHealth is holding the funds pending the outcome of HSD administrative hearings and appeals.

2nd Quarter FY16 Performance Reports. Jenny Felmley, program evaluator for the LFC, said pursuant to the Accountability in Government Act (AGA), quarterly reports are required of key agencies, including performance measures and results approved by the Department of Finance and Administration (DFA) and other measures agencies consider important to operations. Each quarter, LFC analysts review agency performance reports and develop report cards for select measures. Committee member packets included an example of one agency's quarterly report. Ms. Felmley said the amount of useful performance data reported by agencies varies from agency to agency.

Ms. Felmley then proceeded with an overview of FY16 2nd quarter report cards. The Human Services Department began reporting federal healthcare effectiveness data and information set (HEDIS) measures based on a rolling four-quarter reporting period to help mitigate the considerable lags in managed-care organization reporting times. LFC staff is concerned the measures misrepresent performance levels.

For the Department of Health, three individuals were added to the developmental disabilities waiver program (DD waiver), while the waiting list grew by 19 over the first quarter of FY16. Additionally, only 42.8 percent of DD waiver applicants had a service plan in place within 90 days of income and clinical eligibility determination.

The Children, Youth and Families Department continued to struggle to meet targeted performance levels in the Juvenile Justice Services (JJS) and Protective Services (PS) programs. A continued rise in the number of physical incidents in JJS facilities and a rise in repeat maltreatment in PS during the second quarter of FY16 are a concern. The Early Childhood Services (ECS) program, however, met or exceeded most FY16 targets for the second quarter, including increasing the percent of children receiving high-quality child care services.

LFC analysis shows the prison population at the Corrections Department remained stable both of the last two quarters. However, measures of inmate violence, positive drug tests or drug test refusals, and recidivism increased in the second quarter.

Second quarter performance data reported by the Public Education Department (PED) showed mixed results and the quality and accuracy of reported information continues to be a concern. PED is not likely to meet targets for completing data validation audits of funding formula components or for auditing individual school districts or charter schools for funding formula and program compliance. PED reported completing no data validation audits of funding formula components in the first half of FY16. To ensure equitable distribution of the state equalization guarantee and other categorical grant funding, the agency needs to complete more audits more timely. The FY14 audit for PED, state-chartered charter schools, and the Division of Vocational Rehabilitation (DVR) is complete and was recently released by the State Auditor's Office. The audit contains multiple opinions and 174 findings.

In response to Representative Varela, LFC analyst Clint Elkins said because PED and the Higher Education Department (HED) report certain measures only annually, the data is presented differently than the typical report card format. LFC analyst Travis Dulany said staff work plans for 2016 include finding ways to obtain the data sooner and more frequently.

For Energy, Minerals, and Natural Resources, visitation to state parks remained strong in the second quarter of FY16 compared with the same period in FY15 and is expected to exceed the annual target by 1.4 million visitors and exceed FY15 visitation by 621 thousand, but self-generated revenue per visitor remained below the annual target.

The New Mexico Environment Department's performance regarding inspection activities, and most measures of compliance, are on pace to meet the annual targets. However, some key measures raise concerns. While the agency was able to timely address nearly all serious worker health and safety violations, the number of violations increased nearly four-fold from the first to the second quarter, from 61 to 236. Further, 57 thousand New Mexicans were being served by water systems not meeting health-based standards in the second quarter according to the agency.

Regarding economic development and tourism, New Mexico gained 2,600 jobs year-over-year at the end of the second quarter, and the 0.3 percent growth rate remains less than one-sixth the national average. However, the leisure and hospitality industry led employment growth in the state for the second straight quarter, reaching 4.9 percent job growth, or 4,800 jobs, year-over-year.

The Workforce Solutions Department improved performance across a majority of programs during the second quarter of FY16, including timeliness of claims determinations and payments. However, the unemployment insurance call center experienced a significant rise in wait times to both file a new claim and file weekly certifications for existing claims. The agency reported increased wait-times due to rising claims in the mining industry, including oil and gas exploration and extraction workers.

Member packets included a status report on information technology projects. The Taxation and Revenue Department (TRD) completed a business impact analysis in preparation to begin replacing the state's oil and natural gas administration and revenue database system ONGARD. The biggest risk for the project involves the availability of tri-agency subject matter experts. Ms. Felmley said it is essential that key oil and gas experts from the Energy, Minerals, and Natural Resources Department, State Land Office, and TRD be available to define the future state of ONGARD.

The Department of Information Technology (DoIT) SHARE team initiated quarterly reporting to LFC and other stakeholders regarding the software program's update. DoIT expects the upgrade to be completed in 18 to 24 months, with an estimated budget of $15 million.

Richard Blair, deputy director of the Department of Finance and Administration, talked about evaluating the report card process. Mr. Blair said the agency is often concerned the performance measures are not understandable. In some cases, there are duplicate measures. Mr. Blair said some measures conflict with each other. Mr. Blair said the public should easily understand why a particular performance measure is important. Mr. Blair said the performance-based budgeting system, used to collect and track performance data, is not user friendly and needs to be updated constantly. Mr. Blair suggested upgrading to a new system.

In response to Representative Youngblood, Mr. Blair said best practices in other states are being looked at to develop what would work best for New Mexico. David Lucero, deputy director of the LFC, said there is a process in statute that requires reviewing measures with state agencies annually. Mr. Lucero said LFC staff researches best practices in other states and national organizations to make recommendations. Those recommendations require DFA approval.

LFC Director David Abbey said some agencies have too many measures, but there should not be too few. Mr. Abbey said there is a constant look to ensure what is being measured is meaningful. Mr. Abbey said, however, there is opportunity for improvement.

Miscellaneous Business

Action Items.
Approval of January Minutes. Senator Cisneros moved to adopt January's meeting minutes, seconded by Representative Hall. The motion carried.

Information Items
Review of Monthly Financial Reports
David Abbey, director, LFC, briefed the committee on information items.

Tuesday, March 22nd
The following members and designees were present on Monday, March 21, 2016: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, William F. Burt, Stuart Ingle, Howie C. Morales, George K. Muñoz, Steven P. Neville, and Pete Campos; and Representatives Larry A. Larrañaga, Luciano "Lucky" Varela, Nick L. Salazar, Sharon Clahchischilliage, Monica Youngblood, Roberto "Bobby" J. Gonzales, and Patricia A. Lundstrom.

Program Evaluation: Status of the Enterprise Provider Information Constituent Services (EPICS) Project Brenda Fresquez, program evaluator, presented the report *Status of the Enterprise Provider Information Constituent Services (EPICS) Project.* The Children, Youth and Families Department's (CYFD) enterprise provider information constituent services (EPICS) system is intended to replace the mission-critical family automated client tracking system (FACTS), providing a web-based system for child welfare, juvenile justice, early childhood services, and behavioral health. Planned functionality, such as creation of a unique early childhood identifier, interoperability between agencies, and inclusion of child care licensure data have resulted instead in development of separate data systems. The scope of the EPICS system continues to change while project costs continue to increase. CYFD's estimated project costs have increased 111 percent since the project started in FY12, from $12.6 million to $26.6 million, a figure that does not include protective services functionality.

The evaluation assessed the status of EPICS system implementation, including planning, project management and oversight, budget allocation and expenditures and interfaces with other systems.

The evaluation found CYFD has not prioritized planning for the child protective services component, putting federal compliance and significant federal funding in jeopardy. Also, the EPICS project has been scaled down, resulting in the creation of additional data silos, additional vendor costs, and program integrity concerns. EPICS project management is not typical of large complex IT projects resulting in significant project risk. By not adequately planning the entire EPICS project, implementation and the project timeline continues to be extended.

In year five of the multi-year, phased project, EPICS project planning and implementation are incomplete, total project costs are unknown and CYFD is relying on costly staff augmentation contractors to support the project. CYFD has implemented phase one provider management and phase two client management on budget but behind schedule. In November 2015, also behind schedule, CYFD implemented phase three service management for all program groups with the exception of Juvenile Justice Services (JJS) facilities.

Although CYFD cited budget and staffing constraints, it currently costs 52 percent to 95 percent more per FTE to have IT contractors support EPICS development than in-house IT staff. In addition, CYFD's current disaster recovery plan has not been fully tested, the plan lacks detail, and policy is needed to be in line with best practices.

A web-based case management system, such as EPICS, has the potential to improve decision-making for children and families by allowing CYFD to gather more comprehensive information that can be seen in real time by various stakeholders and decision-makers. However, improving project planning and management and reprioritization to secure federal funding is needed. The report included a series of recommendations to improve the EPICS project and maximize federal dollars.

Monique Jacobson, secretary of CYFD, said after meeting with the secretary of DoIT last year, CYFD staff identified some of the project issues presented in LFC's report. The secretary said she is working with staff on addressing the technological needs to ensure CYFD is meeting its mission.

Newly hired Chief Information Officer Victor Leon said CYFD agrees with and fully supports the findings and recommendations presented in LFC's report. CYFD also agrees with and supports the framework of oversight and compliance by LFC to ensure funds are being used appropriately and effectively. Mr. Leon said project findings are formulating the basis for corrective actions.

Mr. Leon said on the completion of remaining early childhood services projects, EPICS will in essence be closed. The agency will issue a request for proposal (RFP) for remaining program areas. Mr. Leon said by issuing an RFP for the delivery and formal acceptance of a product from a proven vendor, CYFD will effectively push the appropriate level of risk onto the vendor. As an additional safe guard, CYFD has procured the services of a new vendor for independent verification and validation (IV&V) oversight. In conjunction with current projects, the agency is implementing a more structured project management development framework. Mr. Leon said, while the agency works through the transition phase, it is important the FACTS system is maintained. CYFD is formulating a structured plan to maintain and enhance current systems.

Mr. Leon said CYFD agrees with the report that the agency relies too heavily on contracts in support of the EPICS project. CYFD is assessing current contract deliverables and has begun discussions with vendors on impending changes. Mr. Leon said CYFD is also working to address the lack of business continuity and disaster recovery plans and policies. Lastly, Mr. Leon said CYFD is committed to its mission to improve the lives of New Mexico's children.

In response to Representative Varela, Charles Sallee, deputy director of the LFC, stated the standard process for agencies is to provide LFC with an action plan to be submitted within 30 days of the report, stating CYFD has begun working on it. LFC staff will use the action plan to evaluate progress.

In response to Representative Larrañaga, Secretary Jacobson said CYFD is in constant contact with the federal child bureau liaison and program managers to ensure the agency is not in a position of losing federal funding.

In response to Representative Larrañaga, Mr. Leon said the purpose of the early childhood integrated data system (ECIDS) is to build a data warehouse, containing data from CYFD, the Public Education Department, and Department of Health. Data extracted from EPICS will be placed into this data warehouse for reporting purposes.

In response to Chairman Smith, Connor Jorgenson, analyst for the LFC, said he recently spoke with director of the State Personnel Office (SPO) and was told the IT salary study was not complete. A timeline for completion was not given; however, Mr. Jorgenson said a $15 thousand contract with Neville Blair Kenning, paid for by the Human Services Department, should enable SPO to finish the study.

2016 Post-Session Fiscal Review. LFC analyst Carlie Malone presented a draft version of LFC's post-session fiscal report for 2016. Ms. Malone said the report begins with an overview of the current state of the budget, which achieved solvency by transferring and reverting cash balances to the general fund, partly by using the full allocation of tobacco settlement revenue, and reprioritizing spending levels. Ms. Malone said, despite the difficult conditions during the 2016 legislative session, legislators were able to prioritize funding increases for the Public Education Department, the Medicaid program, the Department of Public Safety, and services for vulnerable populations. FY16 appropriations, reduced by $31 million in the General Appropriation Act (GAA), are expected to exceed revenue by $400 million, requiring a large transfer from the reserve account to the appropriations account. The transfer will bring reserve levels down to 5.6 percent at the close of FY16. Total general fund appropriations for FY17 are $6.228 billion, down $7.2 million from FY16's operating budget. Reserve levels are projected to be 5.5 percent at the close of FY17.

For the first time, the report provided a general fund outlook from FY18 to FY20. LFC staff built a projection based on general fund revenue and expenditure estimates. Ms. Malone said the projection indicates expenditure needs will exceed incoming revenue significantly.

The report provided an overview of FY17 appropriations made by the Legislature. General fund appropriations for the Children, Youth and Families Department increased by $4.6 million, or 2 percent. The increase was largely appropriated to the Protective Services Division. For public education, general fund appropriations total $2.759 billion, an increase of $6.8 million, or 0.2 percent, over FY16 appropriations. General fund appropriations for higher education total $828.5 million, a decrease of $20 million, or 2.4 percent, from FY16 appropriations. The Legislature maintained appropriation levels or minimized reductions for public safety initiatives, special schools, and student financial aid. The Economic Development Department received nonrecurring capital outlay appropriations of $6 million for Local Economic Development Act (LEDA) projects and $6 million for the Job Training Incentive Program (JTIP). JTIP received an additional $2 million in recurring appropriations to provide stability for the program. The Workforce Solutions Department received $9.5 million in general fund appropriations, a decrease of 12.7 percent under FY16 appropriations. However, the FY17 appropriation fully funds operations using other revenue sources. General fund appropriations for Medicaid increased by $21 million. In addition, House Bill 311 allows full use of the projected $18.5 million in FY17 tobacco revenues for Medicaid expenses. In light of the state's fiscal challenges, the GAA contains a number of provisions requiring the Human Services Department to slow the growth of Medicaid costs. Total recurring general fund appropriations for public safety and justice increased by $16.6 million, or 4 percent. Nonrecurring appropriations total $17.6 million for inmate growth, hepatitis C treatment, rape kit backlog processing, court vehicles and equipment, juror and interpreter costs, and magistrate court lease payments. Two capital outlay bills were passed authorizing $332.2 million in severance tax and general obligation bonds for statewide infrastructure projects. The governor vetoed 154 appropriations totaling $8.1 million in severance-tax-bonded projects. The Department of Transportation received $867.6 in general fund appropriations, an increase of $2.9 million, or 0.33 percent, over FY16. The GAA included targeted increases to restore state trust lands, cover rising operations and maintenance costs at state parks, and allow for improved permitting and compliance efforts to protect water quality. With limited exceptions, government administration general fund budgets were reduced by 4 percent. Regarding compensation and employee benefits, $4.5 million was appropriated for correctional officers, $1.2 million for state police officers, and $5.4 million for level two and level three teacher salary increases.

LFC analyst Sunny Liu then provided a brief overview of the report's appendixes. Appendix G detailed future recurring general fund revenue and appropriation estimates given certain assumptions.

In response to Senator Cisneros, LFC analyst Linda Kehoe said it was the first time parts of the general obligation bill have been vetoed. Ms. Kehoe said the governor's message indicated the three projects were vetoed because they were not vetted through the Higher Education Department.

In response to Representative Larrañaga, Ms. Kehoe said all major renovation and construction projects have four years to complete. However, there are some projects that have been reauthorized since 2004. Representative Larrañaga commented that the capital outlay process needs improvement. Ms. Kehoe said accountability in capital outlay appropriations has greatly improved since she first started working at the LFC. Ms. Kehoe said capital outlay reform would need legislators' support.

In response to Representative Larrañaga, Rachel Gudgel, director of the Legislative Education Study Committee (LESC), said she and LFC Director David Abbey are working together on a letter to congressional delegation requesting flexibility in the maintenance of effort target for reauthorization of the Individuals with Disabilities Act Part B (IDEA-B).

Representative Lundstrom requested LFC staff provide a breakdown of funds appropriated to the water trust fund in the capital outlay bill for the last two years.

Fiscal Analyst and Program Evaluation 2016 Interim Work Plans. David Lucero, deputy director of the Legislative Finance Committee, presented to the committee a draft version of LFC staff work plans for 2016. Committee members are welcome to recommend an assignment before they're approved by the committee at the next meeting.

Mr. Lucero provided an overview of analysts work plans. The higher education analyst will be focusing on collaborative efforts among the higher education institutions to reduce cost and the need for instruction and general (I&G) funding, forward momentum on the performance based funding formula, and evaluating the research and public service projects (RPSPs). Among other assignments, the public education analyst will be focusing on understanding the budget implications of declining school district enrollment. Regarding human services and Medicaid, focus will be placed on Medicaid cost drivers and monitoring the Human Services Department implementation of the cost-containment initiative. The analyst for the Department of Health will be analyzing the agency's spending and efforts to maximize the use of patient revenue. Analyst work plans for child services and workforce development include identifying barriers to expand early childhood services, identifying how early childhood behavioral health system can be used to support families and at-risk children, and monitoring the development of a state plan to implement the Workforce Innovation Opportunity Act (WIOA). Regarding economic development, focus will be placed on oversight and expenditures for the Local Economic Development Act (LEDA) and Job Training Incentive Program (JTIP). The analyst for public safety will be working with the analysts of capital outlay to determine the feasibility of building a new prison to accommodate the growing prison population. Regarding transportation, work plans include assessing the state's transportation system and identifying costs of maintaining and improving the road network. Work plans for state personnel include reviewing the compensation structure and evaluating how it ranks with neighboring states and the local market. The analyst for natural resources will be reviewing the water trust issues and water infrastructure projects. Regarding capital outlay, the analysts will continue the $1 million and greater quarterly reporting. Work plans for the judiciary include working with the Administrative Office of the Courts on the unified budget. The analyst for the General Services Department will be working with the agency on risk and health insurance, office space utilization, procurement process, fleet management, and printing and operating costs. Regarding boards and commission, the sunset process will be reviewed. The analyst for finance and administration will be monitoring the Oil and Natural Gas Administration and Revenue Database (ONGARD) modernization project. The economists work plans include focusing on improving the LFC revenue estimating and forecasting models.

Deputy Director Charles Sallee then discussed program evaluators work plans. Several projects are already ongoing. Three are near completion: one evaluated managed care provider network and access to care within the Medicaid program, another reviewed local workforce board job training and employment programs, and the third evaluated the eligibility lawsuit impact on Medicaid enrollment and cost. Evaluations on education, which will be presented later in the interim, include assessing "time on task" and efforts to extend learning and evaluating science, technology, engineering, and mathematics (STEM) degrees. An evaluation on the effectiveness of the Cambiar facility program and community-based juvenile justice services is scheduled to be completed in June. Next priorities include evaluating pharmaceutical costs and evaluating children's behavioral health services.

Program evaluation work plans include shorter projects called progress reports, which are follow-ups from previous evaluations. A progress report on Water Trust Board issues is currently scheduled. Regarding information technology, work plans include reviewing IT rates and project oversight. Mr. Sallee listed projects that are not scheduled but are available to move forward at the direction of the committee.

Representative Lundstrom suggested looking at the indirect cost rate at higher education institutions. Representative Varela suggested reviewing the report card process. Chairman Smith commented on the need to fix lottery funding. Director Abbey said work plans for the higher education analyst include tracking legislative lottery tuition scholarship program revenues, particularly with regard to higher year-to-date revenues due to January run-up for the Powerball jackpot. Mr. Abbey said staff will look into recommending to the committee policy options for the lottery. Chairman Smith asked that the recommendations include funding the lottery scholarship through higher education's budget.

With no further business, the meeting adjourned at 11:41 a.m.

John Arthur Smith, Chairman	Jimmie C. Hall, Vice Chairman