MINUTES
LEGISLATIVE FINANCE COMMITTEE
May 6-7-8, 2008

Senator John Arthur Smith, chairman, called the Legislative Finance Committee (LFC) to order on Tuesday, May 6, 2008, at 8:30 a.m.

The following LFC members were present on May 6:

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, Phil A. Griego, Leonard Lee Rawson, Stuart Ingle, Carlos Cisneros, and Pete Campos.

Chairman Smith noted the replacement appointments by the Legislative Council Service of Senators Ingle and Papen. Also Chairman Smith anticipates a challenging year with education, health, highway infrastructure, retiree health care and other initiatives competing for limited dollars.

FY09 General Fund Revenue Update. *Department of Finance and Administration (DFA).* Katherine Miller, DFA secretary, presented a preliminary review of the general fund revenue update to the committee. Ms. Miller began by stating high prices for crude oil and natural gas are producing state revenues that offset some weakness in revenues from taxes and interest on the state's investments. A more comprehensive consensus forecast will be presented to the LFC in July.

The committee heard speculation on the national economy as prepared by Global Insight (GI) and PIRA (formerly the Petroleum Industry Research Associates), the state's economic and energy price forecasters. GI attaches only a 30 percent probability for an extended and deep recession. Recent preliminary estimate of national GDP growth for the first quarter of 2008 was a positive 0.6 percent, higher than expected. PIRA points to a bullish oil market in the second half of 2008. World economic growth is forecast to grow 3.3 percent, slightly above the long-term rate.

The committee heard discussion on the state's economy. Job growth has slowed from over 3 percent in mid-2006 to 1 percent in the fourth quarter of 2007. Job growth nationwide was also 1 percent in the fourth quarter of 2007. State unemployment was 3.7 in March of this year, the same level as March of 2007. Nationally, the unemployment rate increased to 5.1 percent in March of this year, an increase from 4.7 in March 2007.

Residential building permits in New Mexico declined in the past two years by 35 percent. Over the same period, residential permits nationwide declined by 36 percent. Foreclosures decreased by 26 percent in New Mexico between 2006 and 2007, while foreclosures increased 75 percent nationally during the same period. New Mexico's foreclosure rate in the first quarter of 2008 was 1/4th the national rate. The House Price Index was up 5.4 percent for New Mexico between the fourth quarter of 2006 and the fourth quarter of 2007, as opposed to 0.8 percent for the nation as a whole. The committee heard further discussion on other indicators that show that while the New Mexico's economy is slowing, it is still growing and in better shape than the national economy.

Taxation and Revenue Department (TRD). Rick Homans, TRD secretary designate, continued with the preliminary review of the revenue update. Broad-based taxes, especially gross receipts and corporate income, are reflecting the slowdown in the national and New Mexico economies, while oil and natural gas revenues appear to be well ahead of the forecast.

Revenues from gross receipts and compensating taxes for FY08 could be as much as $60 million below the December forecast. TRD expects taxpayer payments in the federal economic stimulus package to help decrease the estimated shortfall by December.

Personal income tax and corporate income tax receipts are currently running below year-ago levels. Film production credit claims have tapered off. The federal economic stimulus package included a substantial amount of bonus depreciation. Any decrease in corporate income taxes as a result will record as a decrease in state corporate income tax collections.

A summary of energy-related revenues was provided. Producers have shifted drilling strategy from equal numbers of oil and gas wells in the Permian and San Juan basins, to one that emphasizes oil drilling in response to crude oil prices of $120 per barrel. Proposed "pit rules" may serve to slow the pace of both oil and gas drilling for up to one year. Market forces, however, will force producers to keep rigs active in preferred locations such as New Mexico.

Natural gas prices for most of the fiscal year have not changed in proportion to crude oil prices. Only recently have gas prices increased and they are likely to continue to rise. Changes in natural gas production volumes will show a decline of 4 percent to 5 percent year-over-year, while oil production volumes will likely grow year-over-year.

The new 2 percent administrative fee imposed on federal mineral leasing payments is expected to become permanent. Director Abbey encouraged DFA and executive staff to not consider this issue a lost cause but continue with lobbying efforts.

Oil and gas emergency school tax revenues will be about $85 million above the forecasted level for FY08. Continued high oil and natural gas prices will further increase collections through the remainder of FY08.

The federal surtax on gas is 18.4 cents per gallon. A proposed "tax holiday" this summer on the federal surtax on gas could negatively impact state revenues by $90 million. The national conference of state legislators did not identify New Mexico in a report on states benefiting from oil and gas revenues. The committee expressed concern that energy producing states like New Mexico do not have a strong voice to protect their interests nationally. Chairman Smith expressed additional concern over New Mexico's over reliance on oil and gas revenues and supports the need for New Mexico to broaden its economic base.

Performance Review of Domestic Violence Programs. Donna Hill-Todd, LFC program evaluation manager, provided a review of domestic violence program within the Children, Youth and Families Department (CYFD). As a result of major changes in leadership and the procurement process of TANF funds within the domestic violence community, the LFC recognized the need to review the domestic violence program. The review team evaluated domestic violence policies, procedures, and rules, as well as funding and expenditures for 2006-2008.

The following were key findings in the funding and procurement process:

- A fair and effective procurement process exists for domestic violence providers.
- Use of offender treatment funds need to be included in future appropriation requests and operating budgets.
- Domestic violence services are being provided to TANF eligible families.
- Performance measure definitions were not clear and targets not evaluated. It is unclear how CYFD is monitoring performance or using performance data.
- The Coalition Against Domestic Violence did not have a procurement process in place that ensured accountability and supported independent provider monitoring.

Key recommendations included the following:

- Use of the offender treatment fund should be authorized in the General Appropriation Act. More statewide programs for offenders should be identified and supported so the fund can be consistently used each year.
- Performance measures should be in terms that are understandable to the public. Performance targets should be realistic and compare actual performance with expected results. A data-supported monitoring plan should be developed.

Dorian Dodson, CYFD secretary, stated she was pleased with the LFC audit report and gave thanks to the LFC staff for their diligent and cooperative approach.

The committee expressed concerns over the lack of domestic violence services in rural areas. CYFD is looking more at outreach and public awareness campaigns to help identify any unmet need. The committee heard discussion on best practices in other states to reduce domestic violence and increase quality of life for survivors.

The committee encouraged CYFD to resolve billing issues with rural providers serving Native Americans. Secretary Dodson replied that department staff and Native American providers and advocates are working toward developing a culturally relevant service definition manual.

The committee requested a report from the department on progress within the offender treatment program. Secretary Dodson and Sharon Pino, the state's domestic violence czar, committed to exploring other restorative justice programs, including a program in Canada showing low re-offender rates.

The administrative office of the district attorneys has applied for a federal grant to implement a *SAVAN* program in New Mexico. *SAVAN* (Statewide Automated Victim Assistance and Notification) helps victims of crime get custody status and court information about offenders.

The Missouri model is rolling out as planned in the J. Paul Taylor center, staff is being trained, and the facility is being remodeled. The Missouri model stresses group therapy and personal development over isolation and punishment for juvenile offenders.

Projected Cost of Covering Uninsured to 300 percent of Poverty. *Human Services Department (HSD).* Pamela Hyde, HSD secretary, provided a presentation on the costs of providing healthcare coverage for uninsured children and adults in New Mexico. The sources of data for the presentation included Child Protective Services (CPS) data, various New Mexico household and employer surveys and studies, and HSD Medical Assistance Division's bi-monthly Medicaid expenditure and enrollment projections.

Seventy-nine percent of all New Mexicans have health insurance coverage: 444,000 through Medicaid, 515,000 through Medicare and other public programs such as state retiree health care programs, and 600,000 through the private sector commercial insurance market. Twenty-six percent of all New Mexicans under age 65 and not in prison or nursing facilities did not have healthcare coverage for six months or more. Twenty-one percent of all New Mexicans did not have coverage in the previous 12 months.

The committee heard discussion on age and income demographics for uninsured children and adults in New Mexico:

- 364,000 children are living in households with incomes below 300 percent of the federal poverty level (FPL), and 21.9 percent are uninsured. Most (235 percent FPL) are eligible for Medicaid/State Coverage Health Insurance Program (SCHIP).
- 170,000 children are at 300 percent FPL and above, and 8.2 percent are uninsured. Some are eligible for Premium Assistance Program for Kids (PAK).
- 400,000 adults, 19 through 64, are below 200 percent FPL, and 46.3 percent are uninsured. Most are eligible for Medicaid or the State Coverage Initiative (SCI). Some are eligible for employer-based coverage but cannot afford it.
- 204,000 adults, 19 through 64, are between 200 to 300 percent FPL, and 28.9 percent are uninsured. Some are eligible for SCI, employer-based coverage, or New Mexico Medical Insurance Pool (NMMIP) if high-risk.
- 543,000 adults, 19 through 64, are at 300 percent FPL and above and 11.6 percent are uninsured. They are not Medicaid or SCI eligible. Some are eligible for employer-based coverage, HIA or NMMIP if high-risk.
- Of the 247,000 adults over age 65, 1.6 percent are uninsured and 25 percent are below 100 percent FPL. Most are Medicare eligible.

The committee heard discussion on New Mexico ethnicity demographics:

- Of the 765,000 Hispanics, 23 percent are uninsured, 43.5 percent of total uninsured population.
- Of the 191,000 Native Americans, 28.3 are uninsured, 13.3 percent of total uninsured.
- Of the 476,000 white, non-Hispanics 10.9 percent are uninsured, 12.8 percent of total uninsured.
- Of the 496,000 other multi-ethnic and multi-racial populations, 24.8 percent are uninsured, 30.4 percent of the total uninsured.

HSD estimates 11,000 to 21,000 undocumented workers in New Mexico are also uninsured. In addition to ethnicity demographics, the committee requested a report on industry demographics within the uninsured population.

Healthcare costs in New Mexico are projected to be $6.9 billion in FY10 for persons under age 65, rising to $9.18 billion in FY14 with the number of uninsured remaining constant. Of these costs, 12.4 percent will be paid by the state, 60.4 percent by private premiums, and 27.2 percent by federal expenditures.

According to Secretary Hyde, total healthcare costs would be about the same in FY14 even after adding the uninsured to various federal, state, and private coverage programs. This can occur through cost savings in uncompensated care and county indigent care, cost containment through early intervention and preventive care, slower growth in premium and provider rates, and other cost-saving strategies, which were further detailed.

National healthcare spending is expected to grow 6.7 percent annually through 2017. Healthcare costs drivers include lifestyle choices, an aging population, healthcare expectations, new technology, provider rates, healthcare workforce scarcity, size of risk pools, and benefit packages.

Currently in New Mexico, an employer's average monthly cost for an employer-sponsored insurance premium is $283 for an individual and $802 for a family policy, or 71 percent of the cost to insure. An employee's average monthly cost for an employer-sponsored insurance premium is $82 for an individual policy and $232 for a family policy, or 29 percent of the cost to insure. Fifty-nine percent of New Mexico employers offer coverage for employees, compared with 77.4 percent nationally. Twenty-four percent of employers who did not offer coverage said they would pay up to $200 per month to cover employees. Sixty-six percent of all New Mexico employees are in firms of 50 or more, most of which offer coverage.

The committee heard discussion on new legislation to help increase access to rural and border healthcare providers that included gross receipts tax exemptions, increased loan repayment programs, and tax credits.

Over 17,000 applicants and 700 employers statewide are participating in SCI, a waiver program within Medicaid for nondisabled adults. The committee encouraged aggressive outreach efforts in the event a cap is placed on the waiver.

HSD general fund (GF) costs for low-income individuals and families in Medicaid programs in FY07 are approximately $619.6 million; 79 percent is projected to be spent on general and behavioral health and 21 percent on long-term care services. The Department of Health (DOH) and Aging and Long-Term Services Department (ALTSD) also receive Medicaid GF appropriations for long-term care services. HSD GF costs increased between 6 percent and 16 percent annually from FY03 through FY08 due to growth in enrollment, older or sicker populations, growth in new technologies and cost of services, provider rate increases, and changes in the federal medical assistance percentage (FMAP). The FY09 composite rate is 71.3 percent for all programs and populations.

In households with children below 300 percent FPL, 52,647 uninsured New Mexico children are eligible but not enrolled in general Medicaid or SCHIP. The projected cost is $12 million per year to cover 10,000 additional children in this population. SCHIP is seeking reauthorization in calendar year 2009. In households at 300 percent FPL and above, 14,000 New Mexico children are eligible for PAK and employer-based coverage. For families, the average cost for a PAK premium is $47 per month. PAK currently covers children up to age 12. Using PAK, the projected cost is $7.8 million.

In adult-only households below 200 percent FPL, 189,308 low-income uninsured New Mexico adults ages 19 through 64 are currently eligible but not enrolled in Medicaid or SCI. The projected cost is $121 million per year to cover 38,000 additional adults. SCI is seeking renewal in FY10. In households at 200 percent to 300 percent FPL, 62,224 uninsured New Mexico adults may qualify for employer-based, individual commercial market, or publicly subsidized programs. The projected cost to provide a state subsidy is $33 million per year to cover 12,500 additional adults.

Secretary Hyde suggested a list of priorities that included children below 300 percent FPL, adults below 200 percent FPL, Hispanics, Native Americans and other racial and ethnic groups, persons in higher income brackets who choose not to enroll in employer-sponsored or other partially-funded coverage such as Medicare, and adults under age 64 in households 200 to 300 percent FPL without employer-sponsored, state or federally subsidized coverage available.

Director Abbey requested the committee consider some of the assumptions:

- *FMAP decline.* Projections assume a constant FMAP over five years. Given the decline in the share of federal Medicaid dollars, the projection may underestimate the general fund need. A 0.5 percent decline in the FMAP on $3.3 billion in program expenditures reduces federal revenue by about $16.5 million.
- *What is in the Medicaid base?* Federal Medicaid dollars fund several programs at other agencies, including the developmentally disabled (DD) and the disabled and elderly (D&E) waivers at DOH. Expanding Medicaid to cover new populations will affect the ability to increase services to currently served populations. Simply to provide services to the more than 4 thousand individuals on the DD waiting list would cost about $100 million. About 24 percent of the state match for Medicaid is either appropriated to other departments, like DOH, or comes from other funds, like the Sole Community Provider Hospital Fund.

The committee requested more information on the following:

- How hospitals define uncompensated care,
- Disparity on insurer provider reimbursement rates among sister states,
- How the differences in provider, hospital and related healthcare delivery fees are determined for an insurer as opposed to an individual cash payer.

The committee heard discussion on expansion of medical and nursing programs, as well as tax credits, provider licensing, nursing and physician retention and recruitment issues.

Chairman Smith stated that any reform effort must also address provider and health care consumer expectations.

State of Washington Government Accountability System. Arley Williams, LFC principal analyst, presented an overview of best practice in a government accountability system. In April 2008, the Harvard University Kennedy School Ash Institute for Democratic Governance and Innovation selected Washington state government management accountability and performance program (GMAP) as one of the top 50 most innovative programs in the country. In November 2007, the Council of State Government also gave GMAP its innovation award in recognition of being one of eight outstanding programs in the nations.

Ms. Williams provided the committee a detailed history on the development of the program beginning with strategic planning in 1992 to the final development of GMAP in 2005. *Governing Magazine* reported in March of 2008 that Washington state was "ahead....in controlling spending by keeping track of where investments were and were not paying off".

Ms. Williams emphasized the GMAP system emphasizes performance measures, data and disciplined decision-making in an open forum of discussion with persistence in following up with results. The committee viewed a webcast accountability forum showing an open, public meeting that involved the governor of Washington and her transportation secretary. Other key elements within the GMAP system included citizen engagement, training calendars, emphasis on quality improvement, "plain talk" initiative, and data-based decision-making. Ms. Williams also detailed potential areas needing improvement within the GMAP system.

Craig Johnson, LFC performance auditor, provided a report to the committee on New Mexico's progress relative to other states in the area of government accountability. The general goal is to improve services to citizens by strengthening government policy and performance. In *Grading the States 2008,* the report shows how well states manage their money, people, infrastructure and information; four areas critical for ensuring New Mexico policy decisions and practices deliver the intended outcomes. By reviewing specific criterion used to earn a grade, New Mexico can gain insight into what is considered best practices.

The committee heard discussion on the criteria used to grade how well a state manages information. The criteria included strategic direction, performance budgeting, managing for performance, program evaluation, and online information. New Mexico showed weakness in providing the public access to information about the state. New Mexico showed strength in performance-based budgeting. At the request of the committee, a matrix of grades neighboring states received was provided. When looking at other states, best practices included gathering the right information, making the measures more meaningful, increasing the use of the information, further integrating the performance data into policy and budget discussions, and increasing public access to the information.

Action Items

Vice Chairman Varela moved to adopt the April 2008 minutes, Representative King seconded the motion, and it passed with no objection.

The LFC staff recommended to the committee a transfer to the Legislative Council Service of $30 thousand to complete a professional service contract with American Institutes for Research (AIR). The purpose of the contract was to support a task force evaluating the equity and sufficiency of the public school funding formula. The committee approved the contract and agreed to transfer funds to the Legislative Council Service by operating transfer.

Information Items

A performance measure evaluation prepared by LFC staff for the New Mexico Environment Department (NMED) was not well received by the agency. NMED expressed concern that the LFC did not demonstrate a standardized methodology for the evaluation. Director Abbey is working toward developing guidelines to better inform and instruct agencies about the performance measure evaluation process.

There are no revisions to the 2008 program evaluation work plan as of April 30, 2008.

Previously, some committee members expressed a desire to receive interim hearing documents in advance of the hearing date. There was discussion of a pilot: selected preliminary drafts of briefs and reports subject to change could be made available to the committee at least three days prior to committee hearings. Chairman Smith stressed the need for members to consider the confidential nature of the draft versions.

Director Abbey presented the revised 2008 committee calendar to the committee and encouraged the members to secure lodging for the summer meetings in Albuquerque, Chama, and Cloudcroft.

Chairman Smith adjourned the committee at 5 p.m.

Senator John Arthur Smith, chairman, called the Legislative Finance Committee (LFC) to order on Wednesday, May 7, 2008, at 8:30 a.m.

The following LFC members were present on May 7:

Senator John Arthur Smith, chair; Representative Luciano "Lucky" Varela, vice chair; Representatives Don E. Bratton, Brian K. Moore, Rhonda King, Henry "Kiki" Saavedra), Edward C. Sandoval, Jeannette O. Wallace, Nick L. Salazar, and Senators Sue Wilson Beffort, Phil A. Griego, Leonard Lee Rawson, Carol Leavell (for Stuart Ingle), Carlos Cisneros, and Bernadette Sanchez (for Pete Campos). Representative Danice Picraux attended as a Guest.

Approaches to Controlling Greenhouse Emissions.

Climate Change and Its Impacts on New Mexico. *University of New Mexico (UNM).* David S. Gutzler, UNM earth and planetary sciences professor, began the presentation with graphs that demonstrated global warming in the 20^{th} and early 21^{st} centuries with a rapid warming trend after the 1970s. The 10 warmest years during this time have all occurred since 1995. The temperature in the Southwest is expected to increase and at increasingly faster rates.

A model simulation of North America depicting the percentage of change in snow depth in March by mid-21st century demonstrated decreases in snow pack throughout the western mountains. The decreases are due principally to temperature changes resulting in more rain and less snow. In New Mexico, the snow pack disappears south of Santa Fe.

Model simulations of western North America during the same time period demonstrated changes in snowmelt runoff with much earlier peak runoff dates driven by warmer temperatures, resulting in less snow and warmer springtime temperatures. Under these conditions, soil moisture will decrease due to an increase in evaporation over water surfaces (evapotranspiration).

By mid-21st century the middle Rio Grande will experience a decrease in inflows and an increase in depletion due to the warmer climate. Earlier snowmelts will flood streams and greatly reduce total stream flow volume. A line graph demonstrating the precipitation history of north-central New Mexico based on tree ring data supports climate change concerns.

Mr. Gutzler summarized the principal effects of projected climate change on New Mexico. Temperature increases are likely to continue at an accelerated rate as greenhouse gas forcing slowly overwhelms. Warmer temperatures in New Mexico will lead to reduced snowpack, less spring runoff, more evaporation from reservoirs, and drier soil conditions. The impacts of episodic droughts would be more severe in a warmer climate, regardless of any long-term trends in precipitation. The rate and global effects of a rise in temperatures and sea levels remain uncertain.

<u>Cap and Trade of CO2 as It Affects New Mexico</u>. *New Mexico State University (NMSU).*
J. Thomas McGuckin, NMSU economics professor, provided a presentation on greenhouse gas (GHG) and its relation to global warming, and cap and trade of CO2 as it affects New Mexico. Cap and trade is a market-based program designed to reduce the costs of implementing CO2 emission reductions.

The greenhouse effect of methane is 20 times greater than carbon dioxide. Carbon dioxide and methane gas concentrations have systematically increased over the last 100 years relative to previous centuries. Agriculture and animal products produce methane. Coal mining and oil wells also produce methane. Electrical production and fossil fuel extraction account for 63 percent of total greenhouse gases (GHG). Potential effects on agriculture and water supplies over time were further detailed.

Policies to reduce GHG include a cap and trade market for carbon credits, a straight carbon tax on emissions, and imposing emission standards on firms. The "cap" is a mandated reduction from a firm's historical CO2 or methane emissions. The "trade" would allow a firm with relatively high costs to meet a GHG reduction target, to either purchase credits from a firm that has reduced their emissions greater than required and earned excess "credits", or purchase credits through an exchange that equal GHG reductions through "carbon projects." As in all markets, the price of a carbon credit would be set by the interaction of buyers and sellers and available technology to reduce emissions.

Issues with cap and trade include initial allocation of carbon "credits," mandatory participation, monitoring and compliance, market transparency, and scope of the market. The market will not work without extensive monitoring of compliance and penalties for noncompliance. There is currently a voluntary market for carbon credits. Mr. McGuckin figured out his carbon footprint for the transportation to provide this presentation and paid $20 for a carbon credit or offset from *The Nature Conservancy*, which theoretically will use the money to reduce emissions by planting trees to absorb CO2. The discussion pointed out that one weakness with this process is the uncertainty of the carbon project in terms of performance and timing: Did the project take place and produce the projected carbon reduction? If the project is to grow trees, when will the offset occur since the carbon footprint has already taken place?

Firms will not willingly incur costs unless they see a direct benefit. According to Mr. McGuckin, a real functioning market will require strict monitoring and compliance to maintain integrity; and, to make a cap and trade program work the cap must be mandated. Costs to reduce carbon in the electric industry can be passed on to the consumer through rates. The electrical industry is already committed to renewable portfolio standards and the trading of renewable energy certificates. Other big industrial sources of GHG that could be part of cap and trade include coal mining, and oil and natural gas production. Establishing a CO2 standard will make energy use more expensive. Cap and trade, in theory, makes it less expensive overall to implement GHG reduction.

Executive order 2006-69 set a framework for a GHG policy and implementation. New Mexico has joined the multi-state the Western Climate Initiative looking into designing a cap and trade program. Regional cap and trade programs are being developed in the Northeast (nine states), Midwest (six states), and in Europe. The United Nations through the Kyoto protocol has also established a cap and trade emission program that the United States has not signed.

<u>Reducing Greenhouse Gas in New Mexico.</u> *New Mexico Environment Department (NMED).* Jim Norton, NMED environmental protection director, provided a presentation on greenhouse gas reduction initiatives and the implementation of climate change reduction strategies. New Mexico is one of many states joining together across the country to address climate change issues. The federal government has not provided any strategic direction on these issues until recently.

Projected changes in New Mexico climate including public health impacts were detailed to the committee. The Intergovernmental Panel on Climate Change (IPPC) made up of 2000 scientists studying climate change have all agreed humans are contributing by burning fossil fuels. In New Mexico, electricity is the primary source of GHG emissions, primarily from coal plants. The fossil fuel industry is second because as natural gas is removed from the ground CO2 mixed in is vented into the atmosphere as it is processed to flow through pipelines. Transportation is the third biggest source and the fastest growing.

In 2005 an executive order set a target for emission reductions for the state of New Mexico. Historically emissions have been going up and targets included 2000 levels by 2012, 10 percent below 2000 by 2020 and 75 percent below 2000 by 2050. The executive order also required NMED to report on the impacts of global warming, inventory GHG emissions, and create a Climate Change Advisory Group (CCAG) to address climate change and make recommendations for meeting emission reduction targets. CCAG's final report issued in December 2006 was provided to the committee. An executive order mandated action on 20 of the recommendations by eight agencies.

Sandra Ely, NMED energy and environmental policy coordinator, provided a report on agency activities. Energy, Minerals, and Natural Resources Department (EMNRD) created a blueprint for the geologic sequestration of carbon dioxide. The department's work toward developing clean fuels and renewable energy policies was further detailed. Regulation and Licensing Department (RLD) established new green building codes and a green building bureau to work on education and outreach. Taxation and Revenue Department's (TRD) energy tax credit promotes clean coal technologies, solar power generation, and electricity production from waste heat. Department of Finance and Administration (DFA) is working with local governments to implement GHG emission reduction programs such as installing LED traffic lights, improving municipal vehicle fleets, and improving building codes. New Mexico Department of Agriculture (NMDA) is working on manure management strategies and manure utilization for electricity or steam generation.

NMED included a report on financial incentives for promoting clean vehicles, truck stop electrification and anti-idling ordinances, public education and outreach, and development of an oil and gas emissions reduction study. GHG reporting rules were adopted October 2007 that require the largest industrial sources to report annually starting with 2008 emissions in 2009. Smaller industrial sources will begin reporting with 2009 emissions in 2010. The committee requested more detail on the definition of each.

The California clean car standards adopted in November 2007 will go into effect with model year 2011 vehicles. Twelve states have adopted the clean car standards.

New Mexico has joined with 10 states and provinces to form the Western Climate Initiative (WCI). Goals include setting a greenhouse gas reduction goal, developing a cap and trade program, and agreeing to measure emissions in the same way. Preliminary recommendations include consistent emission reporting, establishing a declining cap through 2020, and include in the cap and trade program electricity, large combustion sources, industrial processes and waste management, oil and gas production and processing. The WCI is considering inclusion of transportation fuels and heating fuels.

New Mexico has joined The Climate Registry with 39 other states to standardize and centralize GHG data. New Mexico has also joined the Chicago Climate Exchange with over 300 entities which participate in a voluntary and legally binding GHG emissions trading program.

<u>Issues for Industrial and Energy Users.</u> *Association of Commerce and Industry (ACI).* Louis Rose, attorney, stated ACI and the business community are in the process of formulating policy decisions on climate change and GHG emission regulation. Cap and trade programs and placing a carbon tax on emissions will likely increase costs for electrical production and oil and gas

production. Countries like China and India allowed to develop goods and services without comparable reductions and at a lower cost may make it difficult for western companies to compete.

Reducing carbon emissions regionally may have no affect on the world globally. Mr. Rose pointed out that any proliferation of regional and local approaches is potentially dangerous without discussions and solutions addressed at the national level. State environmental laws are not designed to address the breadth of these issues. ACI would like to see broad based discussions and a climate change policy to help identify legislation to implement that policy. The business community is concerned the executive may move on regulatory changes before bringing legislation before the body.

Public Service Company of New Mexico (PNM). Jeff Burks, director of environmental sustainability for PNM resources, provided an overview of PNM's position on climate change policy. PNM generates with coal, one of the larger sources of GHG emissions, particularly CO2. The industry on a national basis is responsible for 33 percent of all GHG emissions emitted in the United States. Any regulation of GHG emissions is expected to have profound impacts on PNM's operations and the prices customers pay for electricity.

PNM sees progress at the national level in the development of a climate change policy. The Lieberman-Warner bill proposes a national cap and trade program for GHG emissions and covers 80 percent of GHG emissions in the United States economy. The more opportunities to reduce GHG emissions from more sectors the lower the cost of reducing emissions through a cap and trade program. The committee heard discussion about other federal legislation being proposed to address climate change policy.

PNM participates in the United States Climate Action Partnership, a coalition of leading United States businesses and national environmental groups that work with the federal government on developing federal climate change policy. PNM agrees that the earth is warming, and that human activity is contributing. A national cap and trade program is the least costly and most environmentally effective way to reduce GHG emissions. The sulfur dioxide cap and trade program has had great success under the Federal Acid Rain Program and is a good model moving forward. Additional policies will be needed to complement a national cap and trade program. State and local governments will need to implement energy efficiency performance standards, renewable energy portfolio standards, compliance standards, and energy codes especially for commercial buildings. State governments will also need to adopt fiscal policies that support investments in technology and provide incentives for businesses to address GHG aggressively.

PNM's current portfolio of technologies will only go so far in meeting the kind reduction in GHG emissions needed by mid-21st century. New Mexico needs to develop a new generation of energy-producing technology in the utility industry to meet goals set in federal legislation and in the governor's executive order by 2050.

Climate change legislation needs to achieve significant cost-effective long-term reductions. Legislation also needs to balance the economic and energy needs of the country. PNM believes a mandatory cap and trade program will result in lowering GHG emissions at the lowest cost, but not eliminate costs. Economic modeling performed on three pieces of federal legislation currently being considered indicate energy prices will increase 25 to 60 percent by the year 2030. The price of a ton of GHG under a federal cap and trade program will be between $30 and $70 per ton. PNM believes energy efficiency is the key to addressing GHG emissions, and will also help address the growing demand for energy.

Update on Clean Energy Government. *General Services Department (GSD).* Arthur Jaramillo, GSD secretary, provided a presentation on the activities within GSD divisions involved in GHG emissions reduction and energy efficiency. Secretary Jaramillo introduced Eric Oboe, the new GSD lead-by-example coordinator.

Initiatives employed to manage government buildings (11 million square feet) and vehicles (2210) statewide include the following:

- Design and construct green buildings,
- Reduce building and vehicle energy use 20 percent by 2015,
- Reduce per-capital energy use 10 percent by 2012,
- Draft building and vehicle energy efficiency recommendations,
- Hire "lead-by-example" coordinator to promote energy savings strategies for state government operations,
- Install sub-meters to monitor electrical and irrigation water use,
- Purchase 90 percent of electricity consumed from renewable energy sources,
- Implement full-scale recycling,
- Use high-content recycled paper products,
- Use natural gas vehicles,
- Retrofit incandescent lighting with compact fluorescent lamps,
- Retrofit workplace lighting to T-8 fluorescent lighting,
- Develop procurement language that requires energy-efficient and green products when possible.

Sixty-six percent of GSD fleet vehicles are capable of using alternative fuels, but the lack of alternative fuels stations in the state is a constraint. A policy is in place that requires appropriate vehicle use and alternative fueling when within 10 miles of a fueling station.

Statewide public transit use increased 15.2 percent and includes Park and Ride and Rail Runner ridership. Department of Transportation projects include traffic light retrofits with LED lamps. EMNRD initiatives include installing solar equipment in state parks to promote the use of renewable solar energy.

The committee stressed the need for the legislative body and state agencies to consider the economic impact to the business and industry community within any climate change policies or regulatory actions.

A presentation will be made in June to the LFC by EMNRD regarding wind and solar renewable energy projects in New Mexico.

<u>GRIP Project Status Report and Project Needs.</u> *New Mexico Department of Transportation (NMDOT).* Robert Ortiz, DOT deputy secretary for highway operations, provided a presentation on state transportation needs, GRIP I and GRIP II, and the Rail Runner project.

The nation faces a crisis in transportation due to an aging infrastructure and limited federal dollars. States are forced to critical decisions on how roads are maintained and how to construct new roads due to flat or declining state transportation dollars and rising costs. The committee heard discussion on transportation needs in other states. Chairman Smith said the executive committee of the national conference of state legislators noted the No. 1 issue nationally was transportation, with health care running a strong second. NMDOT will have the department's budget recommendations to address state transportation needs firmed-up by late summer for the committee's consideration.

NMDOT is working collaboratively with Department of Information Technology (DoIT), DFA and LFC to resolve issues with SHARE. The state of Wyoming has resolved their federal aid program billing issues within the PeopleSoft solution. NMDOT is optimistic the same solution will work in New Mexico. NMDOT has had issues with SHARE in terms of getting quality reports to do federal aid program billings but has not lost any opportunity to bill or receive federal aid.

NMDOT is working through national organizations with other states to provide recommendations to national policy makers on transportation issues. A "buy American" clause is in all federally funded state transportation projects. Material inspection reports are required for manufacturers and provided by vendors to ensure highway transportation materials meet certain standards.

A status report on GRIP highway projects was provided to the committee. Sixty-three highway projects have been awarded for $748 million, and 27 have been completed. Sixteen engineering and development projects have gone to contract for $52 million. Change orders and GRT total $85 million. The total of contracts authorized is $885 million. DOT has paid to date on that sum $638 million.

Nineteen highway projects will be let to contract in federal FY08 for $376 million. To date 5 have been awarded for $75 million. A bid letting history on GRIP highway projects in FY04 through FY07 which included the number of projects and amount of each project was provided. Ninety-three percent of projects have been awarded to New Mexico contractors. GRIP has resulted in over 3.9 thousand direct construction jobs. State Land Use has generated revenues in excess of $289 thousand. A detailed listing of state-wide projects let to contract for $1.3 billion was provided.

A summary of the GRIP letting program was provided for the remainder of the projects. There is $50 million non-GRIP and $35 million GRIP funding as of May 7, 2008 to be used to let 8 projects through November of 2008. DOT anticipates additional funding of $200 million through a summer bond sale for an additional 10 projects. A 4th bond sale of $236.5 million in FY10 will fund an additional 16 projects. There are 29 separate projects for $489 million that remain unfunded.

GRIP II legislation established a local government transportation fund and identified revenue from severance tax and the general fund in FY07 to FY09. Grip II legislation identified 160 local government projects that totaled $180 million. The $103 million provided for in the legislation was less than needed to fund all the projects identified. A process was developed for project selection by NMDOT on a first-come first-served basis and was dependent upon project readiness and match availability. The Grip II match requirement for a project cost of $0 to $500 thousand is 10 percent, $500 thousand to $1 million is 20 percent, $1 million to $6 million is 35 percent, and greater than $6 million in total project cost, 45 percent. Fifteen local governments did not submit applications to compete for GRIP II funding although their projects were included in the legislation.

The total funding available for GRIP II projects as of July, 2008, is $91.1 million. Seventy-three projects are funded to date. Twenty-eight projects will be competing for $12 million in severance tax funds remaining in FY09. There is a gap in funding of approximately $53.4 million for remaining Grip II listed projects.

There was an additional $77 million in funding listed in GRIP II legislation for the Spaceport project, GRIP projects, and district highway maintenance. Eight projects have been completed to date. Twenty-six projects are in design. Thirty-two projects are under construction. A spreadsheet by district detailing the status of each Grip 2 project was provided. The committee heard discussion on various projects of interest to members.

Chairman Smith stated GRIP II may not have been a fiscally responsible piece of legislation. The gap in funding for GRIP I is $495 million and for GRIP II is $80.5 million. There are also recurring gaps in funding each year of $83 million for highway maintenance, $15 million for Rail Runner operations, $245 million for unfunded highway construction, $81 million for bridge needs, $30 million for rural public transit, $7 million for park & ride, and $40 million for aviation. The total gap in funding is close to $1.1 billion.

Capital Building Status Report on the Proposed Health and Human Services Super Complex, Transit Oriented Development Facility, Capitol Parking Structure, Other State Buildings. *Department of Transportation (NMDOT).* Gary Giron, NMDOT business support deputy secretary, provided a presentation on the general office transit-oriented development project. The general office transit-oriented development project was terminated last year. Because of the issues that arose during the procurement process, the secretary asked for NMDOT's Office of Inspector General to review the bid process. A copy of key findings within a report issued March 13 was provided to the committee.

NMDOT has taken corrective actions to correct noted deficiencies and has developed a new project team that is evaluating the process and also has enlisted the support of the secretaries of the Department of Finance and Administration (DFA) and the General Services Department (GSD) to review the NMDOT plan for the project and advise the agency on future steps.

General Services Department (GSD). Arthur Jaramillo, GSD secretary, presented a status report on the south capital parking garage project the Property Control Division is constructing for the Legislative Council Service. The project evolved from Capital Building Planning Commission discussions during open meetings. The Legislature authorized $15.6 million from bond issuance payable from existing gross receipts tax intercept for the project.

The Capital Building Commission visited with the city Land Planning and Use Department regarding sub capital district zoning requirements. The Historic District and Landmark Act enacted in 1961 and amended in 1983 provided that structures within the city's historic district conform to certain historic design review board requirements. The committee heard about the collaborative approach the state, county, and city took to bring the structure in greater conformity with the historic design of the area. The committee saw artist renderings of the preliminary and final designs. A presentation of the proposed structure is scheduled before the historic design review board on May 13, 2008. If there are no significant obstacles, the project will break ground and be completed by April of 2009.

Secretary Jaramillo encouraged the Legislature to look at adopting amendments to the historic district act that create a more collaborative process to avoid future conflicts.

The Human Services Department (HSD) proposed "Super Complex" will consolidate human services agencies that work collaboratively and share the same clientele, in order to realize economic efficiencies through asset-sharing and reduced costs by owning rather than leasing space. A November 2007 analysis provided that savings could be realized of $120 million to $150 million over the next 30 years, based on a comparison of the costs of construction to the costs of continuing to lease office space. Agencies identified to occupy the complex include HSD, Department of Health (DOH), Public Education Department (PED), Children, Youth and Families Department (CYFD), Aging and Long-Term Services Department (ALTSD), and the Workforce Development Department (WDD).

Consultants estimated space requirements at 686,000 gross square feet. At $250 per square foot the cost would be $185 million to $215 million, including several million for deferred maintenance. State agencies in Santa Fe currently lease approximately 786,000 square feet at an annual cost of $14.4 million. Provisions in existing leases allow termination under certain circumstances, including moving a state entity into a state-owned complex.

Secretary Jaramillo surmised that if projects are financed through the New Mexico Finance Authority (NMFA) bonding capacity, and structures are owned by NMFA and GSD under legislation, there would be strong argument that agencies placed would be considered as having moved into a state-owned complex. The Legislature recently granted the authority for lease-purchasing within a constitutional amendment. A final analysis will be completed soon.

The committee heard discussion on various proposed building sites in Santa Fe. Chairman Smith encouraged GSD to also look at other locations in New Mexico when considering state building projects.

Chairman Smith adjourned the committee at 5 p.m.

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

The following LFC members were present on May 8:

Senator John Arthur Smith, chair; Representative Luciano "Lucky" Varela, vice chair; Representatives Don E. Bratton, Brian K. Moore, Rhonda King, Henry "Kiki" Saavedra, Edward C. Sandoval, Jeannette O. Wallace, Nick L. Salazar, and Senators Sue Wilson Beffort, Mary Kay Papen, Phil A. Griego, Leonard Lee Rawson, Carol Leavell (for Stuart Ingle), Carlos Cisneros, and Pete Campos.

Student Persistence and Graduation at New Mexico's Largest Higher Education Institutions: Situation and Outlook. *University of New Mexico (UNM).* David J. Schmidly, UNM president, provided a report on student persistence and graduation at UNM. UNM has identified four priorities: student success, systemic excellence, healthy communities, and economic and community development. For student success the priorities are affordability, access, graduation rates and retention rates. UNM's budget is $2 billion. Twenty percent is from state funding. The other 80 percent is leveraged as a result of various activities.

The two biggest challenges are graduation and retention rates. Eight years of data provided showed poor graduation rates of 39.7 percent in 1994 to 44 percent in 2001. Mr. Schmidly reflected that a major flagship university should not be below 50 percent. Data provided showed relatively high retention rates (first year to second year) of 71.6 percent in 1999 to 76.6 percent in 2006. Despite a large retention rate the first year, there is a large drop out rate in the junior and senior years.

Strategies to increase graduation rates were detailed to the committee. UNM will be working more closely with P-20 (preschool through college graduation) through middle school outreach, high school curriculum alignment, and enhanced teacher training to understand college readiness standards. The newly formed division of enrollment management coordinates recruitment, admissions, financial aid, and has seen great improvement in enrollment numbers. Standardized test scores will no longer be driving admissions. The biggest predictor of student success at UNM is the academic intensity of the high school curriculum and grade point average. UNM is looking at increasing high school GPA admission requirements and phasing in additional college preparatory classes that the students take in high school to 16 (from 13).

The Gateway Program in partnership with Central New Mexico Community College (CNM) will allow students admitted to UNM with a provisional or hold status to complete 24 hours of core classes before being released for full enrollment at UNM. The Lockheed-Martin building has been purchased and will be converted into a student learning and success center for the college enrichment program. The 2+2 program model will also be in partnership with CNM and will be the basis for the new campus at Rio Rancho. Students will take their first two years of coursework at CNM and in their last two years transfer into upper division courses at UNM.

Another strategy being considered is to guarantee a student's starting tuition for four to five years as an incentive to taking full loads, dropping fewer classes, and graduating on-time. The committee heard discussion on other state universities that have implemented similar models which have improved graduation and persistence rates.

Graduate enrollment reached a historical high in 2004 but has been declining since. New approaches to grow graduate enrollment include adding 50 new graduate assistantships and increasing their salaries to be more competitive in recruiting top students. Mr. Schmidly stated there is an incredible opportunity for New Mexico higher education institutions to lead the way in growing a diverse workforce of engineers and scientists to meet the future needs of industries moving into the state.

New Mexico State University (NMSU). Michael Martin, NMSU president, provided a report on student persistence and graduation at NMSU. Priorities are to improve student success and retention rates, to improve graduation rates and to maximize the flexibility of graduates to go onto additional education if they choose. Graphs comparing certain variables over time showed a retention rate for freshman of 75 percent for fall of 2006 through fall of 2007. Graduation rates for students entering fall of 2001 and obtaining a bachelors degree in six years was 41.5 percent.

Strategies to improve retention and graduation rates include installing a system to better track, intervene and orient new students to the college experience. NMSU is working closely with the community colleges in the area to blend coursework, programs and opportunities for students. Other strategies include improving resident halls, creating more flexible schedules to address limited parking and working students, and providing more support for Gateway and similar courses. The regents and student association have developed a five year plan for tuition increase parameters. Ethnic programs have been greatly strengthened and include a new center for Native American studies.

According to President Martin, the current method of measuring success in university graduation rates across the country does not apply in New Mexico. New Mexico students are becoming increasingly nontraditional and do not track within a four- to six-year graduation rate. Students attending half-time may need eight years to graduate. NMSU is increasing on-campus jobs so students can blend the need to work with their university schedule. For many students the barrier of going to college is not the cost of college, but the cost of not working. President Martin would like to see additional means of tracking students who start at one higher education institution and finish at another, to better reflect student success.

Relative to most other states, many NMSU students need developmental courses because their high school coursework has not prepared them for college. Graduation rates for traditional high school students across the country are flat or declining. The college student population being served is changing because people are coming back to school later in life or obtaining second degrees. In closing, President Martin stated NMSU will continue to work toward increasing retention and graduation rates for traditional students, and accelerating the graduation rates for non-traditional students.

Central New Mexico Community College (CNM). Katharine Winograd, CNM president, provided a report on student persistence and graduation at CNM. Fifty-six percent of the state's population in higher education is attending at a community college. New Mexico is the third largest in the United States in terms of college entry through a community college. California and Washington states are higher. CNM student enrollment accounts for 18 percent of all higher education enrollments in New Mexico.

New Mexico ranks 46^{th} among states in the number of high school student graduates and 47^{th} in the number of college graduates. Community colleges are the providers of remedial education in New Mexico. The number of students entering for remedial education is increasing. CNM currently has nationally recognized best practices in remedial instruction.

The committee heard discussion on challenges community colleges face in retaining and graduating students. Eighty percent of students attending CNM work, 35 percent full-time and most are vulnerable in terms of their economic status. For instance, bus passes approved by the legislature helped students continue to attend college who would otherwise have dropped out due to high gas prices. More than 54 percent of students have children and child care issues. More than 65 percent of students attend part-time and may take three years or more to complete their coursework.

CNM will continue to use data to measure what is valued at the college. CNM has aligned its tuition policy with economic conditions within its community, and decreased tuition rates this year. Scholarships that provide emergency funding are available for students to help pay for eye glasses, rent, baby bottles, formula, etc. Students in the film program are given an opportunity to attend class and finish their coursework while on location. The committee heard discussion on other strategies used to assist students to be successful.

New Mexico Higher Education Department (NMHED). Reed Dasenbrock, NMHED secretary, summarized that graduation rates in the state are low and are not improving. Graduation rates are worse for minority students despite a strong record of access. New Mexico needs to increase the number of people entering higher education, and increase the number of people leaving with degrees of all kinds.

Secretary Dasenbrock emphasized the importance of attainment. The United States led the way internationally with higher education attainment until 10 years ago. A bar graph comparing the United States with seven other countries demonstrated the United States had the lowest percentage of adults ages 25 to 34 with an associate's degree or higher, at 39 percent. New Mexico lags behind the United States as a whole. An additional bar graph adding New Mexico demonstrated that only 28 percent of adults ages 25 to 34 have earned an associate's degree or higher. New Mexico ranks 47^{th} in college graduation rates when compared with other states.

New Mexico has the best record of access to higher education of any state in the region and the worst record of graduation rates and overall degree completion. The challenge is to improve graduation rates while maintaining the record of access. Mr. Dasenbrock would like to see public policy focus more on completion rates as opposed to graduation rates. The formula enhancement task force is proposing a change in the funding formula. New Mexico funds institutions using 21 day enrollments as opposed to enrollments at the end of the semester. The fundamental transaction between the state and the institution surrounds credit hour production, instead of degree production which might prove more useful.

Arley Williams, LFC principal analyst, emphasized the need to clearly identify statewide goals, and then determine the appropriate funding structure. For example, community colleges in

Washington can receive additional funding for each student who passes a remedial mathematics examination, earns a degree, or completes the first 15 units of college level courses.

Given tight state government budgets, a Lumina Foundation presentation to the formula enhancement task force emphasized making opportunity affordable and making higher education more productive by aligning financial incentives with results, decreasing the unit cost of both education delivery and non-instructional functions, and developing cost-effective approaches to meeting increased student demand.

The higher education formula enhancement task force will add the following to its work plan for 2008 and will be reporting to the committee later in the interim.

1) Review and revisit the formula's incentive funds,
2) Identify mechanisms to expand participation by assisting students challenged by the higher education system, and
3) Address mission-specific funding needs such as nurses and doctors.

Catherine Cross Maple, Public Education Department (PED) deputy secretary of learning and accountability, stated PED has a very active P-20 alignment taskforce co-chaired with higher education. PED has been working toward aligning high school graduation rates with expectations at the post secondary level. New Mexico's ninth grade cohort graduation rate is expected to be 60 percent. The unique student identification number and the statewide data system are in place for tracking and data reporting.

Pathways was developed in partnership with the business community to guide high school students toward a set of skills and career interests. Dual credit will be available at every high school in the state and will support students who do not have access to certain classes in their high schools, but will have access at the post secondary level. Distance education and on-line learning opportunities will also work toward improving the high school program.

Sixty-five percent of community college students are taking remedial courses. The committee expressed concern that students graduating from New Mexico public high schools are unprepared to do college coursework. The committee also expressed concern that universities may not be doing the best job possible in preparing teachers to teach a college-readiness curriculum.

Chairman Smith adjourned the committee at 10:30 a.m.

John Arthur Smith | 6-20-08
Chairman | Date