Legislative Finance Committee
May 7 – 9, 2014
State Capitol Room 307
Santa Fe, NM 87501

<u>Wednesday May 7, 2014</u>
The following members and designees were present on Wednesday May 7, 2014: Chairman Luciano "Lucky" Varela; Vice Chairman John Arthur Smith; Representatives Henry "Kiki" Saavedra, Larry A. Larrañaga, Don L. Tripp, Edward C. Sandoval, Nick L. Salazar, James P. White, and William "Bill" J. Gray; and Senators Carlos R. Cisneros, Sue Wilson Beffort, Howie C. Morales, Clemente Sanchez, William F. Burt, Stuart Ingle and Pete Campos. Guest legislators: Senator Mary Kay Papen and John M. Sapien

<u>First Annual Home Visiting Accountability Act Outcomes Report.</u> Dana Bell, senior policy analyst, Center for Education Policy Research, University of New Mexico, highlighted challenges and risks of adverse childhood experiences faced by children in New Mexico compared with their national peers. She said in the past decade New Mexicans have risen to the challenge and come together across political divides to forge alliances and promote early childhood care and education. She said New Mexico's efforts have helped the state emerge as a national leader and it is on the forefront in putting together a home-visiting accountability system.

Ms. Bell highlighted the increased investment in home visiting from $500 thousand in 2006 to $10.6 million in FY15. Ms. Bell reviewed counties served in New Mexico as well as programs offered. She briefed the committee on the process, measures and goals of the accountability act. The process begins with analyzing the state's extensive home-visiting database and its relationship to the New Mexico Home Visiting System's research-based practices, to understand what data is already collected and available. They surveyed federal evidence-based programs and state home-visiting programs across the United States to review what best practice measurement indicators are being used nationally. They consulted with national experts in the home-visiting field on their recommendations for meeting state-level challenges in outcomes measurement. They convened and consulted with home-visiting stakeholders including all programs currently funded by the state for joint selection of measurement indicators and development of the state's measurement plan.

Ms. Bell went on to discuss goals, outcomes, reporting data and gave a summary of selected measures to focus on. She gave an overview of the annual outcomes report, whose purpose is to inform policymakers, home-visiting practitioners and the public about the current state of the home-visiting system. She said the data is organized in three sections, including the extent of, services, effective implementation, and the impact on families and children served. She said New Mexico's system has begun to establish a number of valid and reliable outcome measures and provided infrastructure for uniform reporting across programs through the Children, Youth and Family Department's (CYFD) extensive and well-maintained database. Measurement of some stated outcomes of the system will require policymakers to advance several pressing data development agendas in the state. Some long-term goals in the act such as children being ready for school at the kindergarten level will require the state to advance the agenda of establish an effective statewide system for tracking children from early childhood through the K-12 system. Other critical goals include reducing child maltreatment will require the development of new protocols for sharing data across administrative systems.

Ms. Bell gave a summary of the report's findings through FY13 including CYFD's receiving $5.9 million in state and federal home-visiting funding; CYFD funded 20 home visiting programs with the capacity to provide regular services to 1,005 families at any one time. She said during this time of expansion CYFD has worked to keep contracted programs in compliance with its standards for service delivery, screenings, and data reporting. She reviewed FY13 participation, stating 72.3 percent of families participating had been in the program for two months or more with 13.1 percent in the program for more than two years, 39 percent were enrolled for the first time, and 61 percent were continuing services begun in a previous year. Ms. Bell reviewed credentials of home visitors and six goal outcomes, including babies are born healthy, children are nurtured, children are physically and mentally healthy, children are ready for school, children and families are safe, and families are connected to formal and informal community supports. Next steps for the outcomes report are to develop a plan to enhance the quality and completeness of the data collected and reported, working toward better defining a families goals for home visiting, continued discussion on stable and predictable funding for home visiting.

Dan Haggard, deputy director of programs, early childhood services, CYFD, said as the state will develop rich data about home visiting that will enable CYFD to further develop systems and infrastructure. He discussed the importance of the state's diversity and the importance of developing a system that will enable communities to develop home-visiting programs most appropriate to their language and culture. Mr. Haggard said the data has enabled CYFD to learn about the actual cost of home visiting. The cost of providing services in rural communities is different than the cost for services in a metro area. Analyzing data and examining types of families and benefits allows the state to differentiate services based on families needs. He discussed the importance of data collected matching program goals and outcomes.

Development of Proposed Childcare Accountability Act. Katherine Freeman, president/CEO, United Way of Santa Fe County, said the New Mexico early childhood development partnership (NMECDP) is a public-private partnership created under the umbrella of United Way of Santa Fe County focused on creating public awareness for early childhood investment across the state. She discussed plans and the development of an early childhood care and education taskforce to examine child care across the state. She stated 6.9 percent of the state's population is under age 5, with 31 percent of the state's children living at the federal poverty level or below; 62 percent of New Mexico's children (ages 3 and 4) are not attending pre-school. Many children in New Mexico enter kindergarten without important pre-literacy skills, 79 percent of New Mexico's fourth graders are not proficient in reading, and 33 percent of New Mexico's high school students do not graduate in four years. She discussed the importance of high quality early care and education, which helps children succeed in school. Children who don't receive a high-quality early childhood education are 25 percent more likely to drop out of school, 40 percent more likely to become a teen parent, 50 percent more likely to be placed in special education, 60 percent more likely to never attend college, and 70 percent more likely to be arrested for a violent crime.

Ms. Freeman discussed childcare in New Mexico and the types of care provided, which include unlicensed, unregistered family, friends and neighbors. Unlicensed, registered home child care and licensed childcare centers. She went on to talk about quality rating systems (QRIS), a national effort to define a pathway to increase program quality and align compensation, define aspects of quality related with learning practices, and positive child outcomes as well as provide families with a guideline for quality. Child care in New Mexico is funded by federal and state funds with the largest sources of federal funds coming from the child care and development block grant (CCDBG), Temporary Assistance for Needy Families (TANF) and Head Start. The child care development block grant (CCDBG) is the primary source of funding for childcare assistance for low-income families in New Mexico. CCDBG is currently in the process of review with proposed federal rules released May 2013. States are required to spend a minimum of 4 percent of funds on initiatives that improve childcare quality. The federal government establishes requirements and broad basic health and safety parameters for child care. States determine policy decisions within these parameters to impact access, quality and supply of child care.

CCDBG in New Mexico is called child care assistance with a historical goal to help parents work or go to school. The secondary goal was to support health, safety and development of children. In 2014, the federal goals will require greater focus on quality, child development, school readiness, and improved coordination of early care and education. The federal law establishes the following eligibility requirements: The child must be under 13, or 19 in special cases; the household income must be under 85 percent of state median income (SMI) for a family of the same size; parents must be working, engaged in education or training pursuits or caring for a child in need of protective services; and the children must be legal citizens.

Ms. Freeman said child care assistance in New Mexico runs on a sliding fee scale and is subsidized for families with incomes at 150 percent of the federal poverty level (FPL). There are 18 thousand children currently served and 250 children on a waiting list with incomes between 150 percent and 200 percent of FPL. The projected FY15 spending level is $97.8 million, including state and federal funds. She discussed why a childcare education accountability act is necessary, stating 53 percent of children are cared for in childcare centers that rank low on a state licensing scale and just 25 percent are cared for in a center with the state's highest ranking.. She said there is an opportunity to influence state policy to determine eligibility requirements, set income eligibility, and prioritize low-income families and groups, define education and training requirements of parents, set how care is authorized, set provider payment rates and methods, determine sliding fee scales of payment and determine policies and practices. In closing, Ms. Freeman said the goal of a childcare and education taskforce would be to engage a variety of stakeholders to build consensus, research best practices on implementing quality efforts in child care and education settings, analyze policy to improve the quality and accountability of child care and education, develop legislation and policy recommendations, and present recommendations to interim legislative committees and other interested stakeholders.

Steve Hendricks, early childhood services, CYFD, highlighted the importance of a unique identifier for children to track their movement in the system from early childhood through high school. Without an identifier, the state is unable to make informed decisions and track results.

Representative Saavedra asked what qualifications are required to become a home visitor. Dan Haggard said qualifications vary from program to program, often depending on the model the community chooses and services provided.

Representative Larrañaga asked what modifications need to be made to become more effective with the home visiting act. Ms. Bell said the completeness of data reporting is extremely important, highlighting that not all data is being collected to full fidelity. She said prioritizing which data points are most important will ensure help to report key outcome measures. She said data compliance is at a higher level than it has been and they expect much fuller picture in FY15. Representative Larrañaga asked if the program should have placed more emphasis on targeting difficult-to-engage families. Ms. Bell said that is part of the data challenge and research question to understand the demographics and needs of these families. She said the state doesn't understand enough about the needs and variations of need but will as more data is collected.

Senator Beffort spoke about the number of children participating in licensed and unlicensed child care, highlighting there are only 700 licensed child care centers statewide and over three times as many of unlicensed registered homes. She spoke about Head Start and asked if the state has any authority or oversight regarding Head Start programs, highlighting the federal government does not confirm education for Head Start providers or provide curriculum. Mr. Haggard said the state mandates that Head Start meet minimal licensing requirements. Mr. Hendricks said, out of 18 thousand children served in the childcare assistance program, at least 85 percent are attending licensed childcare centers. The state is making great strides in oversight of registered care. Senator Beffort asked if teen mothers are immediately recruited into a home-visiting programs or Centennial Care. Ms. Bell said the report did not examine recruitment mechanisms. Mr. Haggard said they make referrals and ensure they understand the availability of services. Senator Beffort suggested automatic enrollment into Medicare, Centennial Care, and or home-visiting programs as a best practice.

Senator Sapien asked why the report does not examine recruitment mechanisms, to which Ms. Bell responded the study was guided by requirements of the home-visiting accountability act and that was not one of the key data points. She said the research team would like to research that topic. Mr. Haggard clarified that because it wasn't specified in the act does not mean they aren't exploring the data fully from several angles. Senator Sapien suggested the team partner with the John Paul Taylor taskforce to identify at risk children and families. Senator Sapien asked about the status of unique identifies to track children from infancy through high school. Mr. Hendricks said it is a factor they are addressing. Senator Sapien expressed frustration in that the secretary of the Public Education Department (PED) stated a unique identifier would be a priority four years ago. He spoke about the possibility to interface the PED *STARS* system with CYFD for creating a unique identifier. Mr. Haggard said the department has hired a program manager and other staff to facilitate that process.

Senator Sanchez asked about the desired outcome of this study, to which Ms. Freeman said the goal is to eliminate adverse childhood events, support children from a healthcare perspective, and ensure children reach school ready to learn. Senator Sanchez asked about programs in Cibola County. Mr. Haggard said there is a new program through Presbyterian Medical Services that just started home-visiting program.

Senator Papen asked if all the funds allocated for child care are expended, to which Mr. Haggard said all but a small amount is left unspent highlighting the department's implementation of cost-saving measures. Senator Papen asked about the requirements to be an unlicensed registered home childcare provider and what authority the state has over them. Mr. Haggard said there have been increased requirements, such as the requirement to have a criminal records check of every adult in the home as well as basic health and safety rules and regulations. Senator Papen asked how often criminal record checks are done and if anything else if required. Mr. Haggard said they require six hours of training primarily for participation in the U. S. Department of Agriculture food program. He noted the importance of being registered, which enables CYFD to have access to the home. The food program requires home visits three or four times a year and it gives CYFD authority to go into the homes at least once a year. He spoke about the desire for CYFD to expand home visiting to provide resources to these homes.

<u>Results of Utah State University's Evaluation of K-3 Plus.</u> Damon Cann, assistant professor, Utah State University, briefed the committee on the StartSmart K-3 plus program. The purpose of the StartSmart K-3 plus program is to evaluate the effectiveness of the states K-3 Plus program. He said the hallmark of the StartSmart program is a randomized controlled trial study with a group of individuals randomly assigned to receive the summer K-3 Plus services and a control group that receives only the regular school-year services. At present the students enrolled in the program are finishing the first or second grade resulting in two years worth of data. Mr. Cann explained that if you assume a student in the control group scored at the 50^{th} percentile on the tests, the study is aimed to show how much better that student would do if he or she had participated in K-3 Plus. According to the data, kindergarten students participating in K-3 Plus on average perform 5 percentage points higher on expressive vocabulary, 12 percentage points higher in letter-word identification, 4 percentage points higher on applied math problems, 12 percentage points higher on basic writing. These students show virtually no gains for social skills or receptive language. Data for first grade students who participated in K-3 Plus also showed gains, though they are not significant because it only uses data from the first cohort of students. Based on the preliminary evidence, Mr. Cann indicated students participating in K-3 Plus are benefiting significantly from their participation. He highlighted results are supportive of the program, but the picture will only be complete when data is available to show the effects of the four-year program.

<u>Update on Activities for Early Childhood Quality Initiatives.</u> Erica Stubbs, chair, Early Learning Advisory Council (ELAC), said the council just completed its second year as a volunteer board focused on the diverse early childhood programs in New Mexico. She said the ELAC must become a visionary council focused on supporting all elements of the early childhood field with input from service providers from across the state to assess, recommend and support early childhood services that meet the needs of the very diverse people of New Mexico. Ms. Stubbs outlined goals and priorities of ELAC, which include access to quality services, school readiness, and a workforce of professionals. She said the council has chosen to create two additional priorities that were determined to be necessary to support the first three, which are fiscal impact and policy. These goals have become the focus of the committees of the ELAC. A minimum of two ELAC members sit on each of these committees. The committees then work toward making recommendations to the ELAC body for review, discussion and recommendation. The council intends to look at activities from all perspectives, before making any recommendations. Ms. Stubbs discussed current activities, such as the creation of an ELAC website. The site will provide statewide information about the ELAC as well as community connections and activities. Members of the ELAC from across the state will be hosting and attending town hall meetings in predominately rural communities to continue to hear from community members with an interest in Early Childhood activities.

Claudia Medina, chair, J. Paul Taylor Taskforce, updated the committee on the work of the taskforce. She said the taskforce was created last year by a memorial and since it has worked to identify children at risk of child abuse, maltreatment and neglect. The taskforce is working to create a screening tool that can capture the factors that make a child more likely to be abused or have poor outcomes. The goal is to use this tool to collaborate with different organizations and institutions that serve children and their families from the moment a child is born including primary healthcare providers, pre-schools, childcare providers, home visitors and so on. She discussed another goal to increase the number and skills of personnel working for agencies that provide services to children and families identify core priority outcomes to be tracked by all stakeholders to guide evaluation and to improve collaboration and coordination among the different stakeholders. Ms. Medina discussed goals for 2014, including mapping all the different initiatives and programs serving children around the state, exploring the possibility of using county and tribal health councils as mechanisms for engaging regional groups. Developing a road map to execute an infant and early childhood mental health plan and a child abuse prevention plan and develop recommendations regarding policy and funding strategies required to successfully implement the above-mentioned action plans.

Katherine Freeman of the New Mexico Early Childhood Development Partnership updated the committee on the partnerships work. She discussed private dollars supporting infrastructure work currently underway, such as policy development, advocacy, workforce development and shared services. She said the partnership is funded by the Kellogg Foundation, the Alliance for Early Success, the Pew Charitable Trust and the Thornburg Foundation.

Senator Smith asked why some districts choose not to participate in the SmartStart K-3 Plus program. Mr. Cann said there have been several districts that have expressed the desire to switch to the state funded K-3 Plus program because the state funded program does not require them to have 45 percent of their students in a control group that does not receive the summer services. He highlighted the importance of holding on to as many schools and districts as possible for the duration of the study. He said if losing students in the study will hamper the ability to draw conclusions with the scientific rigor that would allow New Mexico to be used as an example for other states to follow. Senator Smith asked for a list of districts and schools choosing not to participate. Mr. Cann said six districts are continuing with their participation and indicated he felt their commitment to the study is strong; however, he noted the study cannot lose any more students and maintain its statistical integrity.

Chairman Varela asked to what extent parents are involved in the SmartStart K-3 plus program. Mr. Cann discussed elements of the study, one of which is a parent involvement component. He said the study surveys teachers and school leadership at regular intervals to track the extent to which the school is participating in the SmartStart K-3 plus program and adhering to the guidelines. Teachers are surveyed to determine what is done to satisfy the parent involvement component and the results show that it varies. Chairman Varela suggested the Legislative Education Study Committee (LESC) also receive the results of this study and suggested the LFC and LESC monitor it jointly to evaluate the program's success. Senator Sapien agreed to the collaboration.

Connecting Higher Education Budgeting and Student Performance: University of New Mexico's Experiences with Results-Oriented Budgeting and Updated Student Success Programs. David Harris, executive vice president for administration, chief operating officer and chief financial officer, University of New Mexico (UNM), introduced Chaouki Abdallah, provost, UNM, who discussed student academic success and prestigious programs at UNM. Mr. Abdallah identified hurdles to student success: insufficient academic preparation, confusing graduation paths, and financial and social issues. UNM follows instructional and support efforts at high-performing universities. Mr. Abdallah reported that such universities make sure student success is a campus-wide priority, collect data on student success, create clear student pathways to success, and provide supports in gateway or introductory classes.

Mr. Abdallah highlighted UNM's efforts to address challenges to student success, such as pre-college and first year interventions, continuous monitoring, clarifying the path to graduation, increasing need-based financial aid, and offering extended universities and distance learning opportunities. Specifically, pre-college and in-college interventions include the creation of a student success center, advising reforms and academic coaching. He noted the online tool for students that identify clear pathways to graduation and program completion. He also discussed how, after analyzing student data, a number of critical courses were identified as halting student progress if the courses were not completed. The university has targeted resources on specific efforts to help students succeed in these critical courses, such as, making a math lab and diagnostic testing available to aid students in completing critical mathematics courses. To help students complete programs faster, UNM, led by a faculty-supported study, reduced the minimum number of credit hours required for a baccalaureate degree from 128 to 120.

Mr. Abdallah noted the importance of using financial aid as a way to improve student retention and completion. The university seeks to fund everyone who has financial need but not aid those who do not have significant need or who do not meet academic requirements. The university's restructuring of aid programs will spend the same amount of money but give more to students who are in need and meet academic requirements.

He also highlighted one of the university's pre-college or early start, preparation programs. Modeled after an early start program at San Diego State University, he noted that early start requirements can be provided by any New Mexico college or university, strengthening connections between UNM and local institutions, and most importantly help students access and afford a bachelor's degree program by starting at less-expensive institutions. Also, students participating in early start programs are generally ready to complete college-level work upon enrollment, reducing the need for remedial courses.

Mr. Abdallah reported recent progress on student graduation rates. For the academic year 2012-2013 (FY13), UNM's six-year graduation rate is 48.2 percent, higher than the 45 percent rate of universities with demographics similar to UNM's. He said the university has allocated 20 percent of all new tuition funds to financial aid and also increased honors and incoming class numbers. Maintaining a focus on academic quality, Mr. Abdallah noted the university's participation in the collegiate learning assessment, a tool measuring student critical thinking, and problem solving skills; scientific and quantitative reasoning, and writing skills; and the ability to critique and make arguments. The assessment is used to determine the amount and quality of learning at UNM, as opposed to simply focusing on the number of graduates.

Mr. Harris discussed institutional finances and the state's higher education instruction and general (I&G) funding formula. He noted the current formula revisions have lacked clarity and strongly recommended the need for a predictable and stable funding mechanism with clear ties between performance criteria and funding allocations. UNM did not increase the base tuition and fees in FY15 -- the only school in the state with no base tuition increase. To address budget challenges, particularly without additional tuition and fees revenue, UNM has developed a new, internal budget process based on responsibility-oriented management (ROM) model. The model incorporates principles of responsibility-centered management and performance-based funding.

Andrew Cullen, associate vice president of planning, budget and analysis, UNM, briefed the committee on the FY15 main campus budget details. He observed that the $339 million I&G budget supports the core of the academic operation and includes both state general fund appropriations and student tuition and fees. He said the state's appropriation was $8.7 million over FY14, the net of all the dollars received through the I&G formula. The university anticipates steady enrollment for 2014-2015. Mr. Cullen directed the committee's attention to a graph illustratingFY15 main campus incremental expenses, which include increases of approximately $4.4 million in academic affairs/student affairs and approximately $3.07 in fringe and insurances.

Representative Larrañaga asked for clarification about the reduction of the minimum number of credit hours required for a degree from 128 to 120. Mr. Abdallah noted that a student must have 120 credits to satisfy program requirements; a student cannot graduate by simply completing any 120 credits. Representative Larrañaga asked whether admissions requirements have changed to achieve lower remedial education rates, to which Mr. Abdallah responded that admission requirements have not changed but the university now places students differently. Representative Larrañaga stated UNM would like to see more stability in the funding formula and asked about the Legislature's role in accomplishing this goal. Recognizing that the Legislature and executive present different funding levels for higher education, Mr. Harris said UNM would like the format both use to craft funding recommendations be stable and predictable for the long term.

Representative Gray said he has received complaints from the private sector about the types of degrees that UNM graduates, commenting on the number of social science degrees as compared to others in science, technology, engineering and mathematics (STEM) fields. He said several companies have to look to other schools to recruit employees with these types of degrees and skills. Mr. Abdallah said UNM graduates majors in all areas and informs students about the availability of jobs. He also cited recent studies indicating that many CEO's seek graduates with specific skills, like critical thinking, in addition to technical expertise. For example, philosophy may be one of the best places to learn critical thinking but may not be part of an electrical engineering degree program.

Representative White discussed tuition and financial aid and expressed concern with the number of students finishing college with large amounts of debt. He asked how UNM counsels students before they sign the loan documents. Mr. Abdallah said the total cost of education is going up and the percentage the states provide is going down, resulting in increased costs to students over time. He said UNM provides a net price calculator to help students understand what they can afford. UNM also offers courses to teach students about financial aid and money management. He said students start accumulating debt in the 5th, 6th and 7th years of an academic program, so focusing on graduating students sooner (in years four and five) will result in less debt.

Update on AFSCME/CWA Arbitration Settlement. AJ Forte, director, Risk Management Division, General Services Department (GSD), gave an overview of the AFSCME/CWA remediation plan. He said it is a two phased approach with phase one to correct salary for eligible employees moving forward and phase two to determine back-pay for affected individuals. Tom Clifford, secretary, Department of Finance and Administration (DFA), said the reason it has taken so long to finalize calculations is the lack of FTE dedicated to this effort.

Mr. Forte explained the methodology. He said in July 2008 employees were given a 2.9 percent raise, which should not have happened. The 2.9 percent was taken back and employees were given a 2 percent raise and a compound ratio was added anywhere between 1 percent and 3.5 percent. Once the correct percentage increase was calculated, the next step compounded that amount for each event in the last five years for each employee. Vanessa Readwin, human resource policy analyst, State Personnel Office, presented analysis of raw data regarding a test case. She outlined how complex each salary calculation can be stating some employees will require several hours of research and examination to determine the correct and finalized calculation. Mr. Forte highlighted the difficulty of the situation stating the department allowed compounding to occur throughout the history of these employees defaulting to the benefit of the employee each time. He said he would like to calm misconceptions, stating people are unaware of the amount of increase each individual employee will be receiving. He said 75 percent of employees will receive between a 13-cent and 50-cent increase per hour.

Mr. Forte said BDO, the state's contractor, is independently validating every individual calculation for phase-one salary adjustments. Implementation of phase one will occur June 7, 2014. Phase two is a much more complicated calculation, including gross back-pay amounts and required withholdings. Current employees will receive back wages via a special payroll in early FY15. In conclusion, Mr. Forte stated GSD is on target to begin implementation of phase one on a go-forward remediation basis and is currently on target to begin phase two.

Tom Clifford of DFA said the estimate of the go-forward cost is approximately $2 million from the general fund. He said it would be programmed into the agencies' budgets once they have the phase-one calculations finalized. The look-back costs may well be over $30 million; the general fund will be the majority of that because the state cannot bill the federal government for a retroactive cost. The only mechanism is a $2.7 million appropriation so agencies will have to find savings for this. It will reduce reversions that otherwise would have been available. Mr. Clifford said some agencies may end up in a deficiency positions.

Chairman Varela asked if the unions were on board with phase one and two. Mr. Forte said they have agreed to phase one. The GSD provided sample calculations for phase two and are waiting on approval. Chairman Varela asked if both phases would be complete in the coming fiscal year. Mr. Clifford said the state is going to implement phase one so it is not affected by the upcoming 3 percent increase that takes effect July 1, 2014. He said phase two's critical deadline is getting agency liabilities booked at the end of this fiscal year. Chairman Varela said he is not concerned with funds coming out of reserves because the governor vetoed $27 million in general fund appropriations. Mr. Clifford stated the reserves are where the money should come from; it should have been done as an appropriation rather than a deficiency. He said he cannot predict with certainty there will be agency deficiencies. However, he expressed concern that it will appear as a budget act violation for those agencies. Chairman Varela asked for LFC findings regarding implementation costs, to which Anne Hanika-Ortiz, senior fiscal analyst, LFC, stated committee staff recognize this is a moving target and know it could be $10 million in either direction. DFA predicts a ball park figure of $32 million, an additional $1.6 million for the independent audit and validation process and an additional $100 thousand for attorney fees that the unions incurred for which the state is liable. Ms. Hanika-Ortiz discussed projected reversions, stating LFC has worked with agencies to determine what their reversions will be based on their vacancy savings. The estimate as of April is approximately $45 million for these 23 agencies, and LFC staff estimates a deficit of $3.6 million if $30 million is the cost of back-pay. She said in addition to $2.7 million appropriated in the general appropriation act, the legislature also approved unlimited budget adjusting program transfers into personal services and benefits category to cover these costs. David Abbey, director, LFC, stated there may be a few agencies, such as Corrections and Children, Youth and Families, that may be deficient.

Shane Youtz, attorney, AFSCME/CWA, stated the unions are on board with the phase one methodology, it is also correct they will finalize their agreement with regard to phase two. From the unions perspective there is frustration from the 11 thousand employees that have waited through a 5 to 6 year process and their members are happy it is coming to a conclusion.

Senator Sanchez expressed concern with the possibility of errors in calculations and if employees would be burdened with knowing how much they are owed. Mr. Forte explained the methodology, stating the burden will not be placed on the employee; they are dependent on SHARE system coding. Ms. Readwin explained system queries and the process of cross checking. Mr. Clifford said they cannot guarantee the process is error free but BDO and the unions are playing a part in that process.

<u>Miscellaneous Business</u>

Action Items

Approval of April 2014 Meeting Minutes – **Senator Cisneros moved to approve the April 2014 meeting minutes, seconded by Representative Sandoval. The motion carried.**

Information Items

David Abbey, director, LFC, discussed issues surrounding a review and update on the higher education funding formula. He said an outstanding issue is deciding on a good process going forward. He said institutions have come to an agreement that performance measures are right and they are happy to be moving toward performance-based funding. However, the mechanics are still the subject of dissension. Mr. Abbey briefly highlighted the May cash balance report and the personal services and employee benefit decreases and reversions report.

Charles Sallee, deputy director, LFC, gave updates on program evaluations, the team is finishing work regarding capital outlay issues for public prisons; that report will be delivered in June. He said the evaluation team is examining best practices for reducing drop outs from high school and examining the best way to get high school dropouts a high school credential as a stepping stone to workforce certification programs. Mr. Sallee said staff are working with counties and DFA on local DWI grant programs, as well as indigent care and hospital funding.

Mr. Abbey explained the May 2014 baseline headcount report, stating the report has a bearing on agencies' ability to pay for the AFSCME settlement for both the current and next year. He said employment has virtually unchanged. The state has approximately 70 more people than were working 22 months ago yet budgets have been built on funding several vacant positions. He said the goal isn't to grow government but to right-size funding.

Rachel Gudgel, analyst, LFC, gave an update on federal hearing on the state's special education maintenance of effort (MOE). She said the hearing was to determine how the state can reduce expenditures in light of a federal overpayment. She said the question is whether that relates to New Mexico's maintenance-of-effort target and whether it allows the state to reset the MOE target to the lower level. The U.S. Department of Education is saying expenditures are related to the requirements of states to supplement with federal dollars rather than supplant, whereas the state Public Education Department is arguing about the interpretation of the 50 percent rule to allow the state to reset the MOE target in FY10. Ms. Gudgel said the state expects a determination in the next several months. If the hearing officers side with the U.S. department, New Mexico will move forward with a waiver request based on hardship and will have to submit a waiver request for FY12. If it is determined in the state's favor, New Mexico can abandon the waiver request for FY11 because it will have met MOE.

Thursday May 8, 2014

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Program Evaluation: Selected Eastern School Districts. Michael Weinberg, program evaluator, LFC, and Rachel Mercer-Smith, program evaluator, LFC, presented a report titled "Eastern New Mexico School Districts." Key findings included declining enrollments across the state challenge districts to manage resources strategically, state policies and funding mechanisms encourage inefficiencies in small school districts that may direct resources away from students and, even with smaller-than-average class sizes, academic outcomes in eastern school districts are generally similar to the rest of the state.

Among other recommendations, the study suggested the Legislature modify size adjustments in the funding formula to reflect actual differences in costs related to school and district size, increase the Public Education Department's (PED) authority to establish standards prioritizing school district spending within certain functions, require PED to develop guidelines for how school districts qualify for emergency supplemental funds, and commission a panel to recommend redistricting so there are at least 2,000 students per school district, with exceptions for extreme geographic, demographic, and transportation obstacles.

The Public Education Department should tie emergency supplemental awards to annual academic and financial performance and increase district reporting and accountability for academic improvements for English-language learners.

Paul Aguilar, deputy secretary, Public Education Department, provided the agency's response. He pointed out the number of waiver requests for consolidation in the report was inaccurate because it did not include Gallup-McKinley's request which was denied in 2014. He stated there were challenges (revenue, staffing, and facilities) because of enrollment.
PED recognizes that there is excess space but that it is difficult to close schools because of local history, local pride, and cultural preservation. He agrees that there should be a working panel to discuss consolidation.

Mr. Aguilar stated that PED works with school districts but it is not a "one-size fits all" approach and PED will work with school districts to develop five-year plans. Emergency supplemental funds are determined on a case by case basis. PED did not agree that fund balances were "volatile" or with the percent of charter schools that have increased in enrollment. The Bilingual Bureau is now fully staffed. They will be performing more desk audits and field visits and will have audited all schools districts in the next four years.

Superintendent Tom Sullivan, Moriarty, spoke about declining enrollment in his school district, resources, and regional education cooperatives (REC). He stated with charter schools "choice comes with a price" because they received incentives as a proliferation of micro-districts and triple the amount of funding. He added the process needed to be fair and transparent because charter schools misapplied the statutory language.

Superintendent Colin Taylor, San Jon, said emergency supplemental funding was essential to keep going due to a fluctuating enrollment. He said schools are important to the community; if the school goes, the town goes.

Superintendent-designate Richard Perea, Santa Rosa, the school districts and towns on the east side of the state need economic development. Santa Rosa has experienced declining enrollment and administrators perform multiple duties. He is interested in creating opportunities for students.

Superintendent Aaron McKinney, Tucumcari, said his school district is experiencing declining enrollment. They need a boost in the economy. There needs to be better teacher prep programs. They have seen a decline in teachers coming out of New Mexico universities.

Superintendent Susan Wilkinson-Davis, Vaughn, was concerned about consolidation. It is difficult enough now to get high-level parent-community involvement, which is required by the PED, without consolidating administrative positions. That would be a barrier in Vaughn, which is geographically isolated.

Joe Guillen, executive director, New Mexico School Boards Association, stated that small schools are the life blood of their communities. The Capital Outlay Council should provide incentives.

Senator Smith expressed concern the decline in enrollment in rural communities is statistically significant. There have been major changes in demographics from 2000 to 2010. Closing schools should be a decision made at the local level. Smith asked when the decision was made to close the elementary schools in Moriarty and how old the schools are. Superintendent Sullivan said the proposals were made in board meetings in December 2013 and January and February 2014. The plan was sent to PED in late February but was denied. Moriarty-Edgewood has reached an agreement with PED. The schools were built in the 1980s so they are 30 years old. Senator Smith commented used schools are difficult to sell and asked if schools are receiving money from wind power companies. Superintendent Taylor said San Jon receives money. Senator Smith said wind power funding should raise a caution flag. Population in rural New Mexico is declining and consolidation is inevitable. He said Kansas provides an example of how it can be done, but it will be difficult to get districts to consolidate.

Representative Tripp stated schools are the life blood of the community and teachers have the better jobs. He asked about technology and online courses. Superintendent Wilkinson-Davis stated Vaughn receives most of its electives through online courses and distance learning. Vaughn also receives help from a REC. She stated that students seemed to like the SBA online this year and she believed they were more successful. She said dual-credit courses are also online. Superintendent-elect Perea stated Santa Rosa works with the Clovis community consortium and Luna Community College to assist with dual-credit classes. One senior in Santa Rosa will graduate this year with her high school diploma and an associate's degree.

Senator Morales spoke about incentives and the efficiency of spending in small school districts. He wanted more clarification on the millions of dollars spent on Teachscape. He asked PED how many high schools had As and Bs and how many high schools had Ds and Fs. Mr. Aguilar said he did not have that information in front of him. Senator Morales asked why the at-risk funding received a veto, to which Mr. Aguilar said that STARs changes are made in a timely manner but PED cannot make the changes by July 1st.

Representative Sandoval asked how the charter schools were counted and if the majority were Albuquerque Public School (APS) charters. Mr. Weinberg said for funding formula purposes, each charter is funded separately.

Chairman Varela stated consolidation is a major economic issue. Mr. Weinberg said incentives are necessary and referred to the analysis stating the consolidation of administrators would free up dollars for instructional purposes. Chairman Varela asked if APS or Santa Fe consolidated schools. Mr. Weinberg said APS spending per student is similar to districts with a student population of 2,000.

Chairman Varela asked if it was parental choice to place a student in a charter school rather than the school district and if districts have a say so if charters open. Superintendent Sullivan said the charter school in Moriarty has 300 students and this impacts his district. Superintendent Brown said that the same charter school has 25 students from Estancia. He added he is still analyzing the need for a bilingual program in his district, but the greatest challenge is finding highly qualified staff.

Chairman Varela spoke about the funding formula and for the need for the LESC to participate. PED said the state is being sued for the funding formula and he would send copies of the lawsuits. Chairman Varela asked that the PED keep the committee informed. He stated it was imperative we change the funding formula. Mr. Aguilar said PED is doing a better job with the budget approval process with budget hearing for school districts. They have conducted technical reviews for one third of the districts and opted not to go with phone interviews.

Economic Development Plan. Alex Romero, chair, Economic Development Commission, addressed an issue mentioned by Chairman Varela regarding economic development in rural New Mexico. Mr. Romero acknowledged Economic Secretary Jon Barela's team worked extensively on an economic development plan that included outreach into rural New Mexico. He said the commission reviewed various drafts of the plan and approved the "innovation creates diversification" five-year economic development plan in December 2013. He said 60 organizations contributed to the plan, including 26 local economic development organizations and seven councils of governments (COGs). Two focus groups vetted the innovation, enterprise, and economic sections. He said the Economic Development Commission held three public hearings in Santa Fe, Las Cruces, and Taos with the purpose of obtaining input to address local level needs. He said the commission provided feedback and developed eight priorities with the ultimate goal to create a knowledge-based economy that provides opportunities for graduates to prosper in the state. Mr. Romero spoke about creating a culture of innovation and the need to increase the percentage of research and development that is licensed for commercial use. He said the objectives are to streamline and negotiate consistent policies around transferring technologies from the national laboratories and universities to the private sector and developing infrastructure where it is needed to provide an optimal environment for researchers and directing resources toward industry sectors that address issues critical to the growth of the state and are aligned with the research already conducted at the labs and universities.

Jon Barela, secretary, New Mexico Economic Development Department (EDD), discussed rural business development and the desire to organize a collaborative program of assistance for community economic development organizations and to provide tools and resources needed to assist with marketing plans to locate service and retail businesses. He said EDD will continue to focus on infrastructure and project funding; EDD has launched New Mexico FUNDIT, a group of representatives from all the state and federal agencies dealing with infrastructure funding.
Mr. Barela discussed borderplex and logistics industry development, stating Union Pacific's Santa Teresa intermodal facility is scheduled to open on May 28, 2014. He said seven logistics companies located in Santa Teresa in the last two years with six additional companies locating

there due to the facility. He discussed a model of cross-border development incorporating the largest inland port, including coordinated sustainable master plans, foreign trade zones, industrial efficiencies, a secured border region, quality residential living, joint health care, and education programs all centered around the Santa Teresa/San Jeronimo Port of Entry, on the New Mexico-Chihuahua border. Mr. Barela said the Business Resource Center (BRC) will be a one-stop-shop for rural business incubation services with a goal to develop an easily-accessible and intuitive website for small businesses to find the resources they need and mentor the businesses through the process of achieving sustainability. Next, Mr. Barela discussed water research and how it can become an economic development opportunity. He said a goal of EDD is to make New Mexico the water research capital of North America. He went on to discuss workforce development, recruiting new industry to the state, and the film industry.

Chairman Varela asked Mr. Barela to talk about venture capital investments, to which he replied it continues to be a challenge for the state. He said there is continued discussion of ideas on how to make funds available for venture capital we have worked collectively to improve New Mexico's competitiveness and one key principal for economic development is access to capital.

Senator Cisneros asked for an update on the possibility of a Tesla Motors battery factory in the state and also asked if the state should continue providing incentives to bring industry to the state or reserve venture capital and try to create our own industry. Mr. Barela said we are starting to see growth in the private sector; however, federal job losses are weighing down the overall job growth numbers. On September 13, 2013, the Washington post ranked New Mexico as the most reliant on federal spending, and on the heels of that report another report was issued highlighting New Mexico's private sector as the most reliant on federal government. He said the bad news is the federal government will not be a growth industry in the near future; however, we have set the state up to be more competitive. Regarding the Tesla Motors issue, Mr. Barela said New Mexico is a finalist but is unsure if our state will be selected.

Representative Larrañaga asked for Mr. Romero's views on how to create a method of private-public partnership for capital funds. Mr. Romero said the Economic Development Commission talks with businesses to assess needs and one of the first is the need for access to capital. He said the commission would like to work with EDD to educate small businesses on tax credits and market research.

State Museums and Historic Sites Overview Secretary Veronica Gonzales, Department of Cultural Affairs (DCA), gave an overview of the department, stating it is charged with managing a broad and diverse portfolio of programs. She said division directors are carefully selected through national searches, most hold doctorates, all have a formidable record of achievement in their respective fields, and all are dedicated to public service. She said the department remains challenged with limited fiscal resources but in spite of this challenge has made incredible progress over recent years.

Secretary Gonzalez emphasized the $3.3 billion impact of the New Mexico arts and cultural industry on our state's economy, stating it supports 60 thousand jobs across New Mexico, $952 million in salaries, and $246 million in tax revenues. She said DCA manages over 180 buildings, many of which are historically significant and are open to the public seven days a week. In this context, she discussed ongoing and extensive capital outlay needs and other budget issues.

David Rohr, creative director, DCA, provided background on the team of employees that designs and produces exhibitions for all the state museums and historic sites. He said his staff designs, builds and installs 15 to 20 exhibits per year in collaboration with museum curators, directors and educators. The team has specialists in exhibit design, scheduling, graphic design, photography, digital interactive design, fabrication, preparation and installation.

Senator Smith asked what the current plans are for the Camino Real Historic Site. Richard Sims, director, State Historical Sites, stated that there are obvious problems related to the site being in an isolated location but the department plans to use it as a festival venue. Senator Smith stated more emphasis should be placed on marketing the site and having better highway markers so tourists know the site is open. Better access to the site should also be considered.

Chairman Varela asked for details on the archaeological cooperative agreement with the Department of Transportation (NMDOT). Eric Blinman, director, Office of Archaeological Studies (OAS), described the mechanisms used for both preservation and the transfer of funds from NMDOT to OAS. Chairman Varela also asked for details on funding provided to and arts grants provided by the Arts Program. Loie Fecteau, director, Arts Program, stated that budgets for the Arts Division have been flat and there is demand for more funding in the state. She also stated that the Planning and Budget Subcommittee of the Arts Commission met on May 1 and recommended a little over $1 million in FY15 funding for 182 non-profit organizations – including 8 folk art apprenticeships. Chairman Varela asked the secretary for a status report on the audits for the department – especially the FY13 audit which was delayed. Greg Geisler, ASD director, provided an update. Chairman Varela emphasized the importance of completing accurate audits on time to ensure fiscal accountability and integrity. Finally, Chairman Varela asked for a plan from the department by the end of June describing how the department will fill current vacancies. Mr. Geisler stated he would provide the plan as requested. Following the presentation the committee toured the Museum of Indian Arts and Culture and the Museum of International Folk Art.

Friday May 9, 2014

The following members and designees were present on Thursday May 8, 2014: Chairman Luciano “Lucky” Varela; Vice Chairman John Arthur Smith; Representatives Henry “Kiki” Saavedra, Larry A. Larrañaga, James E. Smith, Edward C. Sandoval, Nick L. Salazar, James P. White, and William “Bill” J. Gray; and Senators Carlos R. Cisneros, Mark Moores, Mary Kay Papen, Clemente Sanchez, William F. Burt, Stuart Ingle and Pete Campos.

Program Evaluation: Resource Allocation, Cost, Availability and Effectiveness of Aging Network Services. Andrew Rauch, program evaluator, LFC, presented the executive summary for the report, stating the Aging and Long-Term Services Department (ALTSD) serves as the administrator of senior programs in New Mexico under the Older Americans Act (OAA). ALTSD is tasked with identifying needs and targeting programs to meet the needs of New Mexico’s senior population, which is ethnically and economically diverse. Roughly a quarter of the state’s senior population is Hispanic or American Indian, and a quarter live at or below 150 percent of the federal poverty line. The state ranks second in the nation for senior hunger and is fifth for senior food insecurity. He said by 2030 the population of New Mexicans over the age of 65 will be greater than the number under 18. This increase in population will place stress on the aging network. Mr. Rauch said despite the state's sizable contribution to the aging network, providers rely on other funding sources to provide adequate services. Providers are also required to meet various requirements placed on them by a myriad of oversight layers. However, the aging network needs more extensive oversight. He said strategic planning will be necessary to meet the needs of New Mexico's senior population.

Pam Galbraith, program evaluator, LFC, presented the reports major findings. She said better oversight by the department and area agencies on aging is required to ensure appropriate use of funds and service delivery. The structure of the aging network includes five tiers of management. The layering of administrative agents within the system increases administrative and compliance costs and creates a significant communication gap between providers and the department. She said the aging network lacks an early warning system to identify a provider's financial and operational risks. Specific issues of the need for an early warning system were identified through: independent financial audits, interviews with providers and local governments, and internal inspector general and internal audit reports.

Ms. Galbraith said the second significant finding was New Mexico does not have a good methodology for allocation of funds and relies heavily on state and local funding because federal funds are not growing.

Ms. Galbraith said consideration of individual needs and targeted funding to rural areas are not included in New Mexico's formula. Other state funding formulas, such as Colorado, use a straight percentage calculation where certain percentages of OAA funding are distributed based on explicit criteria. Most of New Mexico is defined as rural. Without a rural factor, the state cannot better target the rural communities, which are aging faster than other areas. She said New Mexico allocates three times as much funding as the federal government for aging services. The annual federal funding to New Mexico' senior network has been between $8 million and $9 million over the past three years, with the state contributing between $25 million to $29 million over those years. Other states are making about one-fifth the contribution of New Mexico. While state appropriations for senior programs have increased each of the past three years, the population served has increased minimally. Despite a 12 percent increase in state funding over three years, the increase in consumers served increased by less than 5 percent.

Ms. Galbraith said the lack of local cost-sharing requirements result in the state taking on a greater share of funding for aging services in some areas. Some local governments make significant contributions, while others provide little or no funding to the senior network. Clear criteria establishing what constitutes a local government's fair share for senior programs do not exist. The task of soliciting cash and in-kind donations from local governments is contractually obligated to providers but little is done. The exceptions are several pueblos and Albuquerque and Bernalillo.

Mr. Rauch reported the capital outlay process stating it may be unsuccessful in fairly and efficiently distributing funds to the most needy. The Capital Projects Bureau of ALTSD is responsible for compiling capital outlay requests, contracting funding allocations, and the administration of capital outlay projects. He said ALTSD's new capital outlay prioritization process for FY15 lacks adequate operational criteria and subjectivity still exists in the process. The new prioritization process is an improvement over the previous ranking system used by the department but the final decision on funding rests with the project review Team which is composed of members of the Capital Projects Bureau and the Area Agencies on Aging. The new prioritization system does not adequately take into consideration a program's ability to provide operational costs and maintenance costs once the capital project is complete. Providing funds to programs that cannot support the operational or maintenance costs can be detrimental to the continuation of the program.

Mr. Rauch said DFA recently decided that capital funding will only be available for projects or equipment costing more than $5,000 and have a 10-year life span. Many centers came to rely on funding for these small capital purchases. In 2014, there were 30 funded requests for these small capital purchases totaling over $72 thousand. While the new policy appears sound, it will cause short-term issues for providers who have come to rely on the ability to make small capital purchases. He said not all local governments serving as the fiscal agent and proprietor of capital equipment accept the responsibility for cost of maintenance and repair and are not required to contribute to the cost. Assets purchased with capital outlay funds become the property of the entity awarded the funding. Not all entities are contributing to repair costs for the capital equipment used by their senior centers putting the burden on the provider who does not own the equipment. However, when the equipment is disposed of, some entities will keep the auction proceeds from the sale. This goes against the State Auditor's protocol which is used by ALTSD as their directive for the capital disposal process. The proceeds from the sale of any equipment are supposed to be returned to the senior program.

The evaluation team found strategic planning is necessary to ensure the adequacy and efficiency of the aging network to meet current and future needs. He said ALTSD's performance measures do not reflect the aging network's current capacity or its ability to meet future needs as the population ages. The measures reported by Aging and Long-Term Services are volume based and do not address the aging system's capacity. This is important to measure since the Older Americans Act requires active outreach to increase network participation.

Mr. Rauch said providers face challenges and inefficiencies across the network in understanding and meeting senior needs. Rural providers face the hurdle of recruiting and retaining qualified personnel. Many of the centers visited by the LFC staff had new directors who were facing learning curves. Several directors and AAA staff mentioned there is high turnover in the data entry positions which can hinder the reimbursement process. Seniors are living longer. This is increasing the frailty of those in the system, making transportation, caregiver respite, and homemaker services more important. These services have a higher unit cost than meals, so centers will be tasked with finding innovative ways to address these needs.

Key Recommendations:
The Legislature should consult with LFC staff analysts and the department prior to proposing specific service and location capital outlay to ensure the program has the infrastructure, staffing, and operational budget to support the project.

ALTSD should assess departmental contracts with area agencies on aging and administrative code to determine if the department should recall any portions of the scope of work to ensure ALTSD maintains appropriate control of the aging system, work with local governmental entities to determine the feasibility of a minimum threshold for local contributions, and create criteria in the capital outlay prioritization system that will not allow an application to proceed if the applicant cannot demonstrate that they can provide for the ongoing operations and maintenance of the facility.

Gino Rinaldi, secretary, Aging and Long-Term Services Department, presented the agency's response to the evaluation, stating there are many challenges facing the aging network that require creative solutions to meet needs. He said the department has restructured and realigned to meet the growing demands. He discussed capital outlay reform and changes in the Office of Indian Elder Affairs, that office was isolated and ineffective. The department has since moved the Navajo Area Agency on Aging to the Senior Services Bureau so they had more support and manpower.

Mr. Rinaldi discussed revisions to contract and oversight processes in partnership with the area agencies on aging and the provider networks. He said the Administrative Services Division completed three audits in a year and have since implemented policy changes and trainings to address findings. He discussed the redesign of the capital outlay process, stating the department has been entrenched in a methodology and to revise that and to get out and train everyone has been a challenge. He stated there has been disconnect regarding budgetary needs of providers, providers were submitting their budgets after ALTSD submitted their budget was developed. He said they are aware of needs based on performance and communication and have met with area agencies to remedy the miscommunication. He discussed revisions in contact processes and is in the process of revising the administrative code. He said to address the finding of training the department has reinstituted the aging network training.

Mr. Rinaldi said the department has created a state plan using a consumer-driven process. These comments are developed into a plan at the provider level then submitted to area agencies on aging, which in turn consolidate plans and submit to ALTSD. ALTSD holds public hearings to finalize the plan before submitting it to the federal government. He said each area agency on aging has the ability to revise their plan if needed.

Chairman Varela commented on Mr. Rinaldi's response and asked the department to provide the LFC with a comprehensive plan including a timeline by January 2015. He asked what the agencies vacancy rate is to which Mr. Rinaldi said it is approximately 13 percent. Chairman Varela asked for a hiring plan to be included in his report to the LFC.

Senator Smith asked for clarification on a finding of a provider making loans to employees from agency funds. He asked where that occurred, to which Mr. Rinaldi stated Taos. Mr. Rinaldi said in working with providers the problem was identified, addressed and the individuals were removed. Senator Smith asked when this occurred, to which Ms. Galbraith said the incident was recent and the department is currently in the process of moving the program to the county for oversight. Senator Smith asked about a finding of a provider found to be in violation of payroll tax laws. Ms. Galbraith said that occurred in Grant County, where a non-profit was running the provider services. Grant County has since taken over the program. Senator Smith asked which five fiscal agents were in such disarray a change in fiscal agents was necessary. Ms. Galbraith said Wagon Mound, Torrance, San Miguel and Dona Ana. She said she could not recall the fifth fiscal agent but would get him the answer.

Senator Smith asked for clarification on the structure of planning service areas and how they operate. Mr. Rinaldi said the Older Americans Act is administrated federally and the funds flow through the ALTSD to the state designated planning service areas. Within those planning service areas, area agencies are designated. He said ALTSD give the first right of service to local governments to operate the program, if they choose not to the program is chosen by the request for proposal (RFP) process; this is how non profits can sometimes run programs. Senator Smith expressed concern with the lack of an early warning system to identify a provider's finical and operational risks to which Mr. Rinaldi said these issues were identified through our evaluation process and when we identify a struggling program that is struggling we provide resources and technical assistance are provided. Ms. Galbraith explained several findings and how they were discovered. Senator Smith suggested changing the model of oversight to prevent further misuse and error.

<u>Capital Outlay Quarterly Update and Project Management Reorganization.</u> Linda Kehoe, principal analyst, LFC, introduced fellow presenters including Tom Clifford, secretary, DFA, and George Morgan, division director, Facilities Management Division, General Services Department. Ms. Kehoe began her presentation with the quarterly update of outstanding capital funds and projects. She said the data in the report is derived from capital systems operated and maintained by the Capital Bureau of DFA, the State Board of Finance (BOF), and the cooperative assistance from multiple state agencies. As of March 2014, approximately \$527.8 million from all funding sources for 1,358 projects remains outstanding. The report does not include over \$630 million authorized in 2014 from various funding sources. Since last report in December 2013, 65 projects closed and approximately \$45.8 million was expended or reverted; an additional \$32.1 million for 124 projects are scheduled to revert June 30, 2014. Ms. Kehoe said the majority of unexpended funds were appropriated in 2012 and 2013. These were the first two years since 2008 that funds were authorized for local projects.

Ms. Kehoe discussed select projects with little or no progress, which include the proposed new Alzheimer's Skilled Nursing Unit at the New Mexico Veteran's Home. Based on the Department of Health's (DOH) request and anticipation of the federal Veteran's Administration (VA) providing 65 percent of the cost of the project, legislators appropriated \$13.8 million for the state's 35 percent share of the \$30 million cost. When DOH applied for the federal match, New Mexico's project was in the top 10 priorities, but has since dropped to the top 60 tier when the federal VA shifted their priorities to renovating existing facilities rather than allocating funds for new construction. The DOH and NM Office of Veterans' Affairs have been working with the New Mexico congressional delegation to confirm the status and intent of the federal VA, but to date there has been no response. Unless the state receives a positive response from the federal level prior to the next session, policymakers may want to consider fully funding the project with state money or changing the purpose of the existing balances for another project such as completing phase 3 of the Meadow's Nursing Home.

The $6 million authorized for the Los Lunas substance abuse center, phase two for a residential treatment center, was extended through 2018, but staff understands the bonds for the project will not be certified for the June bond sale. The delay is connected to the required general fund monies needed for operational purposes.

The 2012 and 2013 $2 million for the Mora County Complex was delayed while the county contracted for a forensic engineering assessment report to confirm the work and dollars needed to proceed with phase II of the complex. The county and its financial advisor is currently in discussion with the New Mexico Finance Authority (NMFA) to secure two separate loans, one GRT loan for $245,000 and one Administrative Office of the Court lease revenue loan for approximately $1.5 million. The county anticipates certifying readiness for issuance of the STB funds by June 2014; however, the loan request for the project is not on the NMFA board's May agenda.

The 2010 general obligation bond authorization for nearly $6 million for capital outlay at senior centers statewide has been slowly progressing. The staff of the Aging and Long-Term Care Services Department has been diligent in its efforts to assist grantees with bottlenecks. Of 31 grant agreements, only three entities report no progress including Rio Arriba and Lincoln counties and the Jicarilla Apache Tribe. As staff indicated in December, including a reversion date in GOB bills could encourage entities to expedite projects.

After nearly eight years, $1 million of the $2.5 million authorized for the South Valley Multipurpose Health Center was reauthorized in 2014 for a different purpose. Bernalillo County's desire to use the fund balances for other than a respite center resulted in a court dispute and settlement. Bernalillo County voided the agreement with the state and will complete the multipurpose center with its own funds. The $1 million was reauthorized for an Atrisco Community Adult Day Care and Respite Center facility in Albuquerque.

LFC staff has listed next steps for members to consider for the purpose of achieving greater efficiency with the state's limited funds. While LFC staff has advocated for prioritized agency requests, it is evident pre-planning of projects could reduce the amount of funds sitting idle. The members could consider appropriating general fund monies for programming, plans and designs for new construction, major renovations, and other major projects. Using the Public School Capital Outlay Council approach requiring completion of the plan and design prior to funding the construction phase would provide policymakers with a more accurate timeline and cost for projects and possible phasing of the project. Other options could include: allocating adequate funding levels to complete a full phase of a project and enforce statutory language requiring projects to commence within six months of bond issuance; ensure timely submission of the capital outlay budget by the executive branch that includes priorities and recommended funding sources; establish timelines for enacting the capital outlay bill, including executive requests and changes similar to House and Senate rules for the General Appropriation Act timelines; Establish a method for clear communication between the House, Senate, executive and legislative staff during the session; and perhaps consider an interim committee to include DFA, LFC, LCS, and PSFA staff participation to address these and other initiatives to improve the capital outlay process and prioritization of projects and funding.

Mr. Clifford provided an update on the governor's executive order regarding audit compliance and the executive's perspective on capital reform. Mr. Clifford said current sources provide almost $800 million per year for state funded capital projects not including transportation. He said these funds are sufficient to meet the critical infrastructure needs of the state. DFA's focus is to assure the public capital outlay funds are well spent. He said the water trust board is improving its processes in terms of planning and design ahead of funding the actual construction.

Mr. Clifford reviewed areas to improve including increasing staffing levels. He said the executive order related to audit and budget compliance as a prerequisite to funding projects for local governments is a critical step and is helping to improve accountability. He recommended the continuation to improve the Infrastructure Capital Improvement Plan (ICIP), stating it is a critical tool that supports the statewide allocation process.

Mr. Clifford discussed improved prioritization stating if full funding is promised it should be used to encourage entities to plan ahead and improve preparation. He highlighted the volume of local projects sometimes limits staff time available at the state level for oversight. He said the executive order has improved Audit Act compliance with the total "at-risk" entities decreasing from 51 to 30. He said some "at-risk" entities have made significant progress. He said House Bill 55 funded $89 million in critical water supply projects. In conclusion Mr. Clifford stated there are many good practices in place and highlighted areas for further improvement.

George Morgan, division director, Facilities Management Division, General Services Department, provide an overview of the capital management restructuring taking shape within his division. He said the department examined responsibilities regarding capital outlay and the challenge was to develop a facility life cycle management methodology. He said under the direction of Secretary Burckle the department conducted a business process re-engineering (BPR). The process examined resources, contracts and procurement processes. He said to optimize resources a representative of the State Purchasing Division was moved to Facilities Management Division and a re-engineering effort took place regarding the capital project management, operations and maintenance and asset management. The five tasks of the BPR include examining requirements, process mapping, procedure development, examination of roles and responsibilities with accountabilities and authorities and training. Mr. Morgan discussed utilizing technology and the development of a system to assess inventory, develop a master plan, and create a system for selection, funding, and execution of projects.

Senator Cisneros asked for clarification regarding Ms. Kehoe's suggestion of a committee being established to evaluate the capital outlay process. Ms. Kehoe said in previous years there has been a capital outlay subcommittee that was made up of council members and members of the LFC that was successful in making changes and improvements. The subcommittee was abolished after two years but it was a worthwhile committee. She said unless we get legislators engaged in what the problems are during the interim we will continue to talk and not act.

Senator Cisneros asked if the Water Trust Board has made a determination on what projects to adopt to which Mr. Clifford said they are in the process. The projects have been reviewed at the staff level and will present to the board soon.

Senator Cisneros asked if water projects that were funded such as the Las Vegas Dam and a project in Chama are taken into consideration by the Water Trust Board. Ms. Kehoe said the project in Las Vegas is $16 million, of which they received $10 million; they will be seeking community development block grant funds and looking to the Water Trust Board for a partial loan or grant. She said the project in Chama is $8.2 million and has received $8 million; they will work within the scope to complete the project with $8 million. Senator Cisneros asked for the status of the audit, to which Mr. Clifford said it is currently under review.

With no further business, the meeting adjourned at 11:39 a.m.

Chairman Luciano "Lucky" Varela

Vice Chairman John Arthur Smith