

**Minutes
of the
Fourth Meeting
of the
Government Restructuring Task Force**

**July 29-30, 2010
Room 307, State Capitol
Santa Fe**

The fourth meeting of the government restructuring task force was called to order on July 29, 2010 by Senator Tim Eichenberg, chairman, at 10:15 a.m. in Room 307, State Capitol.

Present:

Sen. Tim Eichenberg, Chairman
Rep. Patricia A. Lundstrom, Vice Chairwoman
Rep. Paul C. Bandy
Rep. Keith J. Gardner (July 29)
Mr. John Gasparich
Dr. Dan Lopez
Sen. Linda M. Lopez
Ms. Michelle Lujan Grisham
Rep. Rick Miera
Sec. Katherine B. Miller (July 30)
Sen. Steven P. Neville
Mr. Jim O'Neill
Mr. David Ortiz (July 30)
Sen. William H. Payne
Rep. Luciano "Lucky" Varela

Absent:

Mr. Patrick Baca
Sen. John Arthur Smith

Advisory members:

Sen. Carlos R. Cisneros
Sen. Mary Jane M. Garcia (July 29)
Sen. Lynda M. Lovejoy
Rep. James Roger Madalena
Rep. Al Park (July 30)
Rep. Jeannette O. Wallace

Rep. Joni Marie Gutierrez
Sen. Stuart Ingle

Legislative guest: Rep. Mimi Stewart (July 29)

(Attendance dates are noted for those members not present for the entire meeting.)

Staff: Legislative Council Service (LCS): Raúl E. Burciaga, Jonelle Maison, Kim Bannerman, Leslie Porter; Legislative Education Study Committee (LESC): David Harrell; Legislative Finance Committee (LFC): Cathy Fernandez, Brent Earnest; Department of Finance and Administration (DFA): Stephanie Lenhart

The minutes were adopted as submitted on the second day of the meeting.

Copies of presentations and other handouts are included in the meeting file.

Thursday, July 29

Committee Business

Senator Eichenberg added himself and Senator Neville to the boards and committees subcommittee. The subcommittee members are: Representatives Bandy, Wallace and Varela; Senators Eichenberg and Neville; Mr. Gasparich; and Ms. Grisham. At the subcommittee meeting held after the first day, the members elected Ms. Grisham as chairwoman of the subcommittee.

Senator Eichenberg explained to the task force that the plan is to begin getting input from other interim committees in August.

Process Overview — Mr. Tim Karpoff, Facilitator

Mr. Karpoff said with this month's agenda, the task force begins the process of decision-making as it narrows its focus. He reminded the members that the task force is not a budget committee; the point is to find what the core, essential services are that the state must provide while achieving cost savings. Another consideration is efficiency — how to improve government efficiency in the provision of those core services that may save money. Representatives Miera and Varela and Senator Eichenberg expressed their hesitance to move forward with K-12 recommendations before considering higher education because the task force needs to consider the whole P-20 system. Dr. Lopez agreed that the articulation between public schools and higher education needs to be better; however, there are substantial differences between the two systems and differences in expectations of students. The intellectual and academic rigor required in college is very different from high school and the transition to college is difficult. He worries that people think higher education is an extension of public education, which it is not. He offered that the recognition of these differences could, in fact, be part of the big ideas or transformational process Mr. Karpoff is looking for. Representative Miera reiterated his concerns about silo decision-making on public schools and higher education. Senator Eichenberg reassured him that the agenda is just one part of the decision-making process and that no final decisions are being made.

Proposals to Address State Government Restructuring, Cathy Fernandez, LFC Deputy Director

Ms. Fernandez provided a list of government agency restructuring proposals developed from the Carruthers report and the task force. She reported on nine proposals and said the others would be reported in August or September. She encouraged the task force to provide feedback on what has not yet been examined by staff; e.g., there have been no recommendations regarding the department of transportation (DOT), and that might be a department the task force wants to examine. She emphasized that staff will need direction from the task force on other analyses.

Ms. Fernandez explained that the cost savings estimates may need further refinement once the task force makes decisions.

Martin Luther King, Jr. commission (MLKJC) and office of African American affairs (OAAA).

The options are to: (1) eliminate the commission and transfer the duties to the office; (2) place MLKJC in the human services department (HSD); and (3) assign one director and co-locate the two agencies. Option 1 saves \$196.0, having OAAA retain part of MLKJC's budget to provide services. Option 2 saves \$234.8, again having HSD retain part of the budget to provide services. Option 3 saves \$128.9 in personal services and leasing.

Representative Lundstrom asked why option 2 recommended moving to HSD specifically. Ms. Fernandez said MLKJC is administratively attached to that department.

★ Representative Varela said he thought MLKJC dealt with cultural issues and perhaps it should be moved to the cultural affairs department (CAD). Ms. Fernandez said the budget code 600 agencies are considered to be advocacy agencies. She said staff will develop an option 4 that moves it to CAD. Representative Bandy supported Representative Varela's idea to move the agency to CAD and asked if the savings would be the same. Ms. Fernandez said staff would have to look at the option.

Dr. Lopez told the task force that when the Carruthers report considered consolidations and eliminations, it did not take into consideration any political issues. In response to Senator Cisneros, Ms. Renada Peery-Galon, LFC agency analyst, said MLKJC objects to any changes.

✓ **Consolidate gaming control board and state racing commission.** After a short discussion, the task force agreed the idea has merit.

✓ **Merge homeland security and emergency management department with department of public safety (DPS).** These functions had been recently split from DPS. Ms. Fernandez said staff would have to refine cost savings. Senator Eichenberg said the departments are well aware of the recommendation from the Carruthers report.

★ Representative Lundstrom said her concern is with the motor transportation division in DPS, and she wants staff to look at moving it somewhere else.

★ On questions from Representative Bandy, Ms. Fernandez said law enforcement and corrections have separate training academies, and she said staff would look at those training components.

★ Representative Varela asked about juvenile corrections. He said the juvenile justice component is having trouble in the children, youth and families department (CYFD) and the task force should consider moving it to the corrections department. He asked for the item to be on the August agenda.

Move the New Mexico health policy commission (HPC) to department of health.

Ms. Fernandez noted that this is being done, practically, because the commission's budget has been reduced.

★ Senator Neville said that the task force should consider putting all medicaid functions under one secretary. Ms. Fernandez said that she could put that item on the list. Senator Lopez said that the different departments that receive medicaid funding serve different clients and have different outreach and missions. She noted that the HPC's role is a good one and that the legislature needs an independent agency to address health policy. She opined that the recommendation will cause consternation with some legislators. After discussion of the need for independence versus the reality of staffing by the department of health (DOH), the task force agreed to continue to look at this item.

✓ **Youth mentorship.**

This is simply a move of money from DFA to CYFD, with no statutory change required. The task force supported the recommendation.

✓ **Move organic commodity commission to the New Mexico department of agriculture.**

Ms. Fernandez said that the commission's appropriation has been reduced over the last couple of years and that the commission and the department are already moving on this recommendation. The task force approved the recommendation.

✓ **Move or sunset the juvenile public safety advisory board.**

Funding for the board has been reduced and it has no full-time-equivalents. Since CYFD began using the Missouri model of juvenile justice, the idea of a juvenile parole board is no longer needed. Representative Lundstrom moved and Mr. O'Neill seconded the recommendation to sunset the agency in 2011. Representative Varela reiterated his idea to move juvenile justice out of CYFD. Senator Lopez said the juvenile and adult systems are very different and the legislature needs to be cautious in combining them. Senator Cisneros noted the current lack of funding moots the question. The vote was 11 to 1, with Senator Eichenberg voting no.

Eliminate all or the general fund portion of the civil legal services program funding.

Option 1 is to eliminate the general fund portion of funding, which would cut contracts in half. Option 2 is to eliminate the program entirely and reallocate the docket fees somewhere else. Senator Payne said he wants to see the docket fees repealed, not reallocated. He emphatically opposed using the courts as funding generators for programs. If the state wants to provide civil legal services to citizens, he said, it should do so out of its general revenue and should not use the courts. He said the add-on fees in the courts are too high and increase substantially the cost for other people to go to court. Senator Lopez said there is strong advocacy for this program. She noted that there is not enough funding to serve even her constituents, much less constituents statewide. If the state is looking for cash, for savings, it is trying to get it from the people who do not have it. Mr. O'Neill pointed out that when the task force looks at the question of whether to fund a program, it is duplicating the work of LFC, which should not be its function.

On question from Representative Lundstrom, Ms. Fernandez said that looking at the problem statement, the issue is whether this program is a core state function and should continue to receive general fund support. Senator Garcia agreed with Senator Lopez that the program is important to people who could not afford attorneys in civil matters. Senator Payne reiterated his complaint that the courts are a core function of the state as the place people go to have problems resolved. Those people are being required to subsidize others who cannot pay. The scheme makes people who need access to justice pay for that access for others. He submitted that is not the point of docket fees; if the state wants the program, it should simply pay for it. After further debate, Mr. Gasparich moved and Representative Miera seconded that the item should be turned over to another interim committee to consider. Representative Lundstrom said it should go to LFC; Senator Lopez said it should go to the courts, corrections and justice committee. The motion passed without clarification as to which committee the item should be referred. Representative Gardner voted in the negative.

✓ **Eliminate the intertribal ceremonial office and move this function to the tourism department's cooperative advertising program.**

Funding has been reduced over the last couple of years. Savings would be \$88.0.

Representative Lundstrom gave a brief history of the intertribal ceremonial office and said her only concern is that it not go to the Indian affairs department. Senator Lovejoy agreed and said funding belongs in the tourism department. The task force agreed on this recommendation.

★ At the end of her presentation, Ms. Fernandez asked if the task force wants staff analysis on ideas that are not on the agency restructuring list. In regard to a commerce department consolidation, Representative Lundstrom wants to be sure that legislative oversight on some functions is not lost. Representative Varela said that because any changes to the public regulation commission (PRC) have to go to the voters, the task force should consider removing the insurance division to another agency. Representative Lundstrom said the task force still needs to consider the water agencies, an infrastructure agency and the DOT. Representative Varela asked to look at a health and human services department and to look at moving the aging and long-term services department (ALTSD) back to CYFD.

★ Senator Lopez asked staff to look at Kansas, Arkansas or other states that moved medicaid funding to a structure similar to HPC. The purpose was to reduce interagency conflicts. Ms. Fernandez said staff would look at it as part of its health and human services department review.

★ Representative Varela said there are several streamlining studies that have been done on the magistrate system and the whole judiciary. He asked staff to find those studies and consider them as part of its judiciary review.

Senator Lovejoy expressed her opposition to any move to consolidate or eliminate the Indian affairs department. She also pointed out that just taking insurance away from PRC is not the solution; the whole agency needs review.

★ Senator Eichenberg recommended a review of moving general services functions to DFA or other departments.

★ Representative Varela asked staff to look at the Executive Reorganization Act to see if changes are needed; look at the Personnel Act to change the state personnel office's authority to create policymaking positions; and look at statutory changes that require PRC to approve superintendent of insurance decisions before they are final.

Webcasting, Online Public Comment and Public Employee Survey — Raúl E. Burciaga, Director, LCS

Mr. Burciaga explained the legislative council directive on webcasting. At present, only audio webcasting is available. The LCS is looking at video webcasting through the computer applications center's Gateway; he will be taking his findings back to the New Mexico legislative council for its decision. Representative Madalena asked if there are rules about what a member may or may not say when being webcasted. Mr. Burciaga said that certainly the member would not be allowed to campaign.

A discussion draft of the public employee survey was handed out. Senator Eichenberg asked if there would be any problem with employees filling out the forms at work. Mr. Burciaga said there should not be; if it came to that, House Bill 237 from the 2010 session requires agencies to cooperate with the task force. Asked by the senator how many state employees do not have access to computers, Mr. Burciaga replied that he would work with the executive and judicial branches to ensure access.

★ Senator Lopez recommended that the survey be adjusted and provided to the public for comment. Mr. Burciaga agreed to look into it.

Representative Varela suggested the legislative council consider allowing committee members to participate telephonically or by computer for purposes of constituting a quorum. Mr. Burciaga said the idea had been brought up but there is no decision as yet. He noted that statute allows telephonic participation for boards and commissions. Asked by the representative if the public is interested in webcasting, Mr. Burciaga said he thought they are. Related to that, Senator Payne asked if it is possible to differentiate between government and private computers in webcasting. Mr. Burciaga said perhaps, though not outside the capitol. The senator requested that Mr. Burciaga check with the chief information officer about the possibility.

Senator Neville inquired whether the camera angles are going to be changed in the senate. Mr. Burciaga pointed out that the decision is not the legislative council's; it is a senate matter.

Proposals to Address K-12 Education — Jonelle Maison, LCS Senior Bill Drafter

Ms. Maison explained that a staff subgroup identified 32 recommendations concerning public education that were made in the Carruthers report or at the last task force meeting. All but six of the 32 recommendations have been analyzed; staff rejected one of those six because it would disqualify the formula and had potential to affect the disparity calculation for federal

impact aid funding. The staff looked at the recommendations by considering their advantages and disadvantages, their cost savings, time frames for implementation and other options the task force might want to consider — in lieu of or to supplement a particular recommendation. She said the analyses had been a collaborative effort and staff included: Frances Maestas, Mr. Harrell, Eilani Gerstner and Peter van Moorsel from LESC; Rachel Gudgel and Paul Aguilar from LFC; David Hadwiger and Michael Marcelli from DFA; Scott Hughes from office of education accountability; and Kim Bannerman and Jonelle Maison from LCS.

The 11 recommendations staff identified as the most important were items 2, 3, 5, 6, 12, 15, 16, 18, 20, 28 and 30. Ms. Maison said the task force has all the recommendations and may choose others to discuss. The green pages are recommendations related to fiscal matters and the gold pages are related to program. Each recommendation is separate so the task force may shuffle them as it sees fit.

Items 2, 3 and 5 propose to change the funding formula by:

- removing or reducing the small school size adjustment;
- reducing the small district size adjustment; and
- reducing the multiplier for senior year from 1.25 to 1.045, which is the same multiplier used for grades 4-6.

Part of the impetus of items 2 and 3 is to eliminate incentives for schools and districts to stay small. There might have to be some accommodation for those schools and districts that are necessarily small, rather than small by choice. The action of reducing or removing the small district adjustment might force school district consolidation, but that is difficult for analysts to determine. Ms. Maison said that if the task force adopted recommendations 2 and 3, it would need to decide whether to remove or reduce the adjustments. The task force also would have to decide whether it wanted to recommend taking the money (\pm \$67.5 million for item 2 and \$17.3 million for item 3) back to the general fund (not appropriating it) or reallocating those amounts through the formula. Ms. Maison pointed out that there was disagreement among staff as to when these proposals could be implemented.

Ms. Maison noted that item 5, the suggestion to reduce the multiplier for senior year from 1.25 to 1.045, is based on the assumption that senior high school students rarely spend all day at school. To determine if this is a viable option, more analysis is needed to determine how much time on average seniors are spending at school.

Item 6 is to defer the educational retirement board (ERB) contributions for another year. The savings is \$18.3 million. This is labeled as a short-term time frame, with the legislature passing legislation next session. She called the task force's attention also to the employer/employee "swap" provision for all state and educational employees. That provision is set to sunset June 30, 2011, which will require an additional state contribution of \$36 million just for education unless the legislature extends the date. Combined with the \$18.3 million, the total state contribution, from the general fund, for fiscal year 2012 could be \$54.3 million if these deferrals are not extended.

Senator Payne initiated a discussion of how well the retirement fund is performing and whether it is meeting its actuarial benchmarks. Ms. Maison said the analysis points out that performance of the fund over time will determine whether the delay is de minimus or more significant. The senator expressed concerns about the fund.

Senator Neville said he is concerned that this and other recommendations are budgetary in nature and not the purview of the task force; they should be looked at by LFC. Senator Eichenberg said the task force received these recommendations and staff members tried to give the task force the benefit of their knowledge about the issues. While they may be budgetary, they concern the public school funding formula, which is a big-picture idea. The task force needs a broader picture of everything that will affect education so it can make restructuring decisions. Representative Varela said that when legislators and staff talked about creating the task force, they were looking for consolidation savings and program savings. Everything the task force comes up with has to be submitted to LFC. The two committees have to work conjunctively on saving money for the general fund. He sees these steps as gathering the information to pass on further down the line. Dr. Lopez said the task force started out with the issue of what are essential services. There are two components to the task force's charge — structural changes and savings. The difference between those is a fine line, and the members should avoid splitting hairs. He recommended the task force keep looking at these issues and pass them on to LFC. Representative Gardner pointed out that the task force had punted the legal aid question earlier, based on it being a budget matter. Senator Eichenberg reiterated his point that funding formula changes are not just a budget issue. He recommended the task force look at the recommendations it has received, including those in the Carruthers report, and decide later if any of them rise to the level of the big ideas for restructuring government. Representative Gardner repeated his dissatisfaction that the task force decided to punt the legal services question.

Item 12 started out as another recommendation, which was for the public education department (PED) to determine what its role is: technical assistance or compliance/enforcement. As analyzed, the recommendation was changed to look at the need for two budget programs for PED. The department is the only agency to have just one program for budget and appropriation purposes. The analysis found that a larger share of the appropriation each year has gone to the program side of the department, with the finance side being short-staffed over time. The feeling among the analysts is that a "de-emphasis" on financial oversight may have led to the recently reported problems in the districts. This recommendation would be accomplished without legislation. PED, DFA and LFC would work to craft the budget programming, and PED's appropriation next year would be split between the two programs. This recommendation could operate in FY 2012. This recommendation probably will not result in savings, but it is an efficiency measure and offers the legislature a better opportunity to drive policy.

Item 15 is to implement "smart caps" rather than numerical caps for charter schools. As noted in the analysis, smart caps is a means of providing "accountable replication of successful charter schools" by basing growth in the number of charter schools on proven quality rather than an arbitrary number. Staff sees this as a long-term proposal, as noted.

Senator Payne asked if this recommendation would moot the small school issue. Ms. Maison said it would not. Eliminating the small school size adjustment will impact charter schools by reducing available funding for them. Smart caps is a way of limiting charter schools to those that replicate proven successful models rather than limiting by an artificial number. The senator said, in that case, the state could be trying to copy something that it could not fund.

Item 16 is to place a temporary moratorium on the authorization of new charter schools. The time frame is short, with legislation passed in the next session. The cost savings is assumed to be \$6 million to \$10 million a year during the moratorium. The savings would come in money not appropriated. The legislature would have to determine the length of the moratorium.

Item 18 is to implement a statewide five-mill levy for public education. This proposal requires a constitutional amendment, which would go on the ballot in 2012, unless a special election is called. The implementing legislation could be passed this next year, contingent on passage of the constitutional amendment. This recommendation includes other funding options that were proposed by the funding formula task force. Ms. Maison emphasized that all the revenue estimates would have to be redone, since they were originally done in 2007, before the financial crisis.

Representative Varela asked how many mills had been earmarked for public schools prior to Big Mac, the 1981 measure that made major changes to property and other taxes. Mr. O'Neill said it was 8.925 mills. The representative said the state needs to look at property tax as a stable revenue source for schools and should reconsider the millage allocation as it stands now. In the ensuing discussion, Mr. O'Neill asked how many other options require a constitutional amendment. Ms. Maison replied the valuation increase and the permanent fund distribution require voter approval. He then asked why 40% was selected. Ms. Maison said that was the funding formula task force's recommendation, based on how much money it would raise. Mr. Gasparich noted that the money would in actuality go to the general fund. Representative Varela said earmarking the statewide property tax for education would be more acceptable for the public. In answer to Senator Cisneros, Ms. Maison said the proposed constitutional amendment failed to pass the legislature. Senator Payne said the issue is not appropriate for the task force's consideration. He noted, however, that property tax has gotten out of hand, particularly in Bernalillo county where property owners pay over 40 mills. He suggested the legislature should reform the entire system before adding new taxes.

Representative Lundstrom asked if the task force would be able to ask for further staff review on items under discussion. Senator Eichenberg responded in the affirmative. Members will tell staff their top ideas, and those may require more analysis.

Item 20 is to examine the related services (ancillary) multiplier of 25 in the formula to determine if a lower multiplier would suffice. The analyst estimates that a reduction from 25 to 24 would save approximately \$7.6 million. The question to be answered, however, is what is the appropriate multiplier. The legislature could act by bill, with an appropriation to pay for the study, or by memorial, without an appropriation. The danger of a memorial is that the next

governor, and the next secretary of public education, may decide the department does not have the resources to conduct a study. This recommendation is tied, to some degree, to the recommendation about changing the role of the regional education cooperatives (REC) (item 4) to have them provide more centralized services, such as ancillary staff.

Item 28 is the recommendation to move public school financial control back to DFA. While the recommendation will not generate savings, it could be considered an efficiency measure and one that might provide better fiscal oversight. This recommendation is longer term because it requires a constitutional amendment to delete provisions related to the secretary's role vis-a-vis school budgets and finance.

Item 30 recommends changing the teacher evaluation system by placing more emphasis and more consequences for student growth. As pointed out under *Advantages*, teacher effectiveness has long been recognized as the single most important school-based factor in student academic performance. Under *Disadvantages*, however, the analyst notes that new rules would have to be developed and any changes in the way school personnel are evaluated will likely have to be negotiated with teacher unions. For that and other reasons, such as the high-stakes nature of the recommendation, the time frame is considered long-term. A study will have to be undertaken to develop the evaluation system.

Representative Varela asked about item 32. Ms. Maison said the recommendation had been analyzed, it just was not selected as one of the 11 she discussed. The recommendation will likely cost money rather than save it. However, there are studies that show there are non-monetary incentives to entice teachers to low-performing schools.

Mr. Karpoff facilitated the ensuing discussion. He noted that the task force is facing what he calls "wicked problems". They are inherently complex, with interconnections and unforeseen consequences. As to the purview of the task force, he said the intent of the staff analyses was to respond to the Carruthers report recommendations and those of task force members and presenters. The task force must narrow its focus, keeping in mind the three bottom lines: (1) defining core, essential services of government; (2) structural changes to facilitate better service delivery; and (3) cost savings. He proposed that the task force use dot voting again as a way to focus and determine which recommendations are most important or which require more analysis. On a question from Representative Miera, Mr. Karpoff said the voting will be a little of both ideas of prioritizing and asking for more information, as a way to get a sense of what everyone is thinking. The exercise is not intended to be determinative, but to be more directive. Representative Lundstrom said that some of the recommendations are big ideas and pointed out that some ideas encompass others. Mr. Karpoff agreed.

Representative Gardner discussed item 14, which recommends extending performance contracts to traditional public schools, and noted that the schools must meet state standards and benchmarks. He suggested an additional recommendation, item 33, to analyze compliance with the federal No Child Left Behind Act.

Each member was given five dots to place on what the member considered to be either the most important items or items that need more analysis. Mr. Karpoff again stressed that the voting is not determinative, but a means to focus further discussion. The results of the voting were:

- ▶ 1, merge PED and HED = 9 dots
- ▶ 2, remove or reduce small school size adjustment = 4
- ▶ 3, reduce small district size adjustment = 0
- ▶ 4, expand role of RECs = 0
- ▶ 5, reduce senior year multiplier = 2
- ▶ 6, defer ERB contribution = 6
- ▶ 7, reduce number of school districts = 6
- ▶ 8, modify T&E with 3-tier = 2
- ▶ 9, 3-day workshop on K-12 restructuring = 1
- ▶ 10, IDEAL-NM = 1
- ▶ 11, increase PTRs = 0
- ▶ 12, better define PED role = 4
- ▶ 13, charter school performance contracts = 1
- ▶ 14, traditional school performance contracts = 3
- ▶ 15, smart caps for charter schools = 1
- ▶ 16, moratorium on new charter schools = 1
- ▶ 17, reduce student testing = 0
- ▶ 18, statewide 5-mill property tax = 1
- ▶ 19, expand use of electronic formats = 1
- ▶ 20, ancillary multiplier study = 0
- ▶ 21, suspend new school construction = 0
- ▶ 22, examine charter school facilities impact = 1
- ▶ 23, eliminate categorical restrictions = 1
- ▶ 24, cash balances = 5
- ▶ 25, make cash balances more visible = 0
- ▶ 26, implement new funding formula = 0
- ▶ 27, streamline paperwork burden = 0
- ▶ 28, DFA financial oversight = 8
- ▶ 29, transportation cost savings = 0
- ▶ 30, revise teacher competencies = 2
- ▶ 31, link student growth and teacher performance = 10
- ▶ 32, incentives to teach in high-needs schools = 3
- ▶ 33, compliance with NCLB = 2

Mr. Gasparich said there is a necessary connection between the recommendation to merge PED and HED with the recommendation to move financial oversight to DFA. Representative Miera agreed that there is such a connection but that further analysis from HED is needed prior to a full analysis of that recommendation.

Noting item 24, cash balances, Ms. Grisham said she understood the problem with giving incentives to save money, but the task force is being asked to figure out where money can be saved. The task force may need to discuss its priorities. She asked if the task force is open to having a discussion about efficiency and outcomes. Mr. Karpoff responded that the vote is intended to give the staff guidance on what items to analyze fully and return with full-blown proposals. No final decisions are being made at this moment.

Mr. Karpoff asked what was left out of the list of 32. Representative Wallace said she thought the ones selected are good points with which to begin. Representative Varela asked for clarification on item 31, tying student growth to teacher evaluation. After some discussion on what "growth" meant, Pam Herman, LESC, clarified that growth in this context is academic growth.

★ Dr. Lopez said these are a good start, but they are incremental, not transformational, ideas. The big ideas are those that are so loaded with political peril that they are difficult to consider. He noted that in 1959, there were 259 school districts. He remembered his parents and others in his small community being upset about consolidation, even though it was the right thing to do. Representative Varela said he is interested in administrative consolidation, not proposing school closures. He noted the conflict in Santa Fe over the board's decision to close several elementary schools, a decision he did not support. Mr. Karpoff said the task force is inventing options without attribution. He referred to Representative Gardner's and Mr. O'Neill's question of what is a budget or restructuring idea. Dr. Lopez said Representative Varela has raised the larger point, administrative consolidation, which could be on a statewide basis. That idea may be transformational. Representative Miera said that item 7, reduce the number of school districts, leads to another item, the merger of public and higher education, which is a major change in direction. He noted that the merger will require a constitutional amendment. Mr. Karpoff agreed that the merger may not be a cost-saving move, but it is a major change. Representative Miera continued the conversation by pointing out that item 31, teacher evaluations, is also a major shift in educational policy. Mr. Gasparich suggested that item 1, merging PED and HED, be extended to boards of regents. Senator Eichenberg supported looking at a superboard of regents. Dr. Lopez agreed that all these issues need to be looked at, but the task force must be careful of unintended consequences. He gave Florida's superboard attempt as an example. He said that when superboards occur through organic development, they work, but when they are imposed, they are not effective because the flagship schools co-opt the process. He suggested that staff look at Kentucky, California, Florida and Arizona and review the literature on when and how superboards have occurred. Representative Gardner suggested that if the task force is going to look at boards of regents, it should also look at a state school board.

Public Comment

Public comment was received from Tom Sullivan, executive director of the coalition of school administrators; Chad MacQuigg; Christine Trujillo, American federation of teachers, and Eduardo Olguin, national education association; Mark Bralley; and Dr. R.L. Richards, Texico school superintendent.

Friday, July 30

★ The meeting was reconvened by Senator Eichenberg at 8:45 a.m. The chairman said future second-day meetings will begin at 9:00 a.m. instead of 8:30 a.m. The minutes of the third meeting were approved.

Committee Business

★ Senator Eichenberg asked staff to move ahead on finalizing the survey and distributing it to public employees. He asked for a similar survey to be posted on the internet for the public.

Consensus Revenue Estimates — Katherine Miller, Secretary, DFA, and Tom Clifford, Chief Economist, LFC

Secretary Miller provided the members with the general fund consensus revenue estimate presented to the LFC on July 21, 2010. She explained the estimating process and noted that the estimate really is a consensus estimate developed by economists from DFA, taxation and revenue department (TRD), DOT and LFC. The estimates are used to build the budget proposals for legislative consideration. According to the estimate, national and state economies have experienced weaker recoveries than expected. Due to the slow growth, there is estimated to be a small net shortfall in revenues for FY 2010, which will be covered by authorized reserves and the allocation of \$20 million in federal American Reinvestment and Recovery Act of 2009 (ARRA) funds. Insufficient revenues to meet general fund appropriations are also expected for the current year, FY 2011, and allotments will be reduced pursuant to Section 14 of the General Appropriation Act (GAA) of 2010. The allotment cuts are currently being examined, and a final determination is expected by September 1, 2010. In addition, Secretary Miller said there is substantial concern that congress will not act to extend the two quarters of federal medicaid match (FMAP), which the state relied on in creating its FY 2011 budget. If the federal funds are not extended, there will be a \$160 million general fund shortfall and an overall reduction in the program of \$614 million with the loss of federal funds. The secretary then went through the reasons for the estimated budget shortfall, including weak national economic growth coupled with weak state economic growth, both of which resulted in lower revenue numbers than expected. She expressed concern that the task force must deal with a low revenue forecast as it pursues its mandate of restructuring government.

Dr. Clifford said that after transfers authorized by the legislature, FY 2011 revenue is \$151 million short, which triggers the provisions of Section 14 of the GAA of 2010, a required reduction in allotments for the remainder of the fiscal year. That amount is equal to a 3.2% budget decrease for all agencies, funds, programs and other recipients, and all programs and categories within agencies, that receive a general fund appropriation in Section 4 of that act; medicaid and the developmental disability (DD) waiver programs are exempt from the allocation reductions. Legislative agencies are reduced similarly. Dr. Clifford did point out that FY 2011 revenue is expected to increase \$350 million, or 7.3%; \$185 million of that increase is due to new legislation. The underlying revenue growth is \$165 million, or 3.4%. Revenue is not expected to reach the FY 2008 level until FY 2015. Gross receipts taxes fell sharply in FY 2010, and only gradual recovery is forecast; selective sales taxes are down in tobacco, motor vehicle

and gaming; personal income tax and corporate income tax (CIT) are weak in FY 2010; and the category "other revenues" is forecast to be lower in FY 2012 due to the exclusion of estate tax revenue, which is tied to federal action. New Mexico is lagging behind the U.S. employment growth. Construction is still down about 20%. The cumulative state loss on CITs is now similar to the federal losses, but the congressional budget office forecasts a sharp increase in federal FY 2011. Film credits were \$65 million in FY 2010, down from \$76 million in FY 2009. The general fund financial summary shows that reserves are at 3.7% after the Section 14 reductions required by the GAA. After sanding, recurring appropriations are down by \$832 million over two years. The FY 2012 budget challenge is how to make up the projected shortfall for the next fiscal year budgets. Based on the consensus revenue forecast and making several assumptions, such as a flat budget as of the Section 14 reductions, the need to replace one-time funds, the extension of ERB, retiree health care authority and public employees retirement association employee contributions and use of tobacco settlement revenue for medicaid, the shortfall is projected to be \$171 million. The economists noted the following forecast risks:

- ▶ a jobless recovery would limit growth of broad-based revenues;
- ▶ shale gas expansion in other states poses risks to prices and production in New Mexico — general fund revenue falls \$5 million for every 1% decline in gas volume;
- ▶ federal budget concerns pose risks of decreased medicaid and national laboratory funding and increased tax burdens; and
- ▶ housing and construction are likely to remain subdued for a prolonged period.

Mr. Earnest made a presentation on medicaid funding. The HSD's FY 2011 projection is \$3.98 billion, \$130 million over budget, which means \$23 million from the general fund. The prediction is that the full temporary FMAP increase is unlikely, though a step-down might still be possible. No extension of FMAP will reduce spending \$721.5 million unless the general fund offsets the federal loss with \$180.2 million; a step-down will reduce total spending \$220.5 million, unless offset with an additional \$47.2 million in the general fund. The state does know that the FMAP rate is scheduled to drop from 80.49% to 69.03% in FY 2012, which will require \$320 million of general funds to offset the change. He noted that HSD is working to contain cost, but major changes, such as eliminating programs and benefits, may be necessary to address the funding deficit. Senator Neville brought up the new federal health care reform act and asked if the additional financial burden on the state's budget to implement that legislation had been addressed. Mr. Earnest said that it had not, but it would be an additional financial burden on the states. Senator Neville said that if the task force is supposed to look at long-term restructuring of government, it must look at medicaid.

Senator Payne initiated a discussion about the projected employment growth rate, and thus revenue projections, for the next few years and opined that it is an optimistic estimate. Dr. Clifford agreed it is somewhat optimistic, but the estimate is based on national growth estimates. New Mexico usually follows the national trend. He noted that there still are major concerns in the construction industry, but oil and gas production has been fairly steady. He is also optimistic that the finalization of the federal financial regulation legislation will loosen up lending, which will benefit many sectors.

Mr. Gasparich initiated a discussion on the allotment reduction process. He expressed concerns that the legislature will have to reduce sharply FY 2012 appropriations. Secretary Miller said the FY 2012 budget requests will correspond to the Section 14 allotment reductions. Mr. Gasparich asked about the additional funding for medicaid if the federal match is not extended. Mr. Earnest said the reserves are not sufficient to handle such an event, and the program would have to be cut in some way. Secretary Miller added that part of the issue with medicaid is the FMAP maintenance of effort requirement. She said the state still has the option to issue sponge severance tax bonds.

Representative Varela asked for clarification that the FY 2012 budget will be based on the adjusted budgets after the allotments are lowered to deal with the current revenue shortfall. Secretary Miller confirmed that the lowered budgets will become the new base for the next fiscal year. She cautioned, however, that policymakers do not really understand the full impact of the 3.2% across-the-board cuts and the overall impact of the cuts will need to be examined carefully when forming next year's budget. The representative and secretary discussed further the issue of sponge bonds. Secretary Miller said even with the step-down funding from the federal government, the state cannot sustain the medicaid program at the level it is currently.

Representative Miera raised questions concerning cost-containment efforts and asked what choices the state has. Mr. Earnest said HSD has started some efforts in utilization, benefits, provider rates and hospital payments, but there have been no major changes yet to benefits. Changes to eligibility are restricted by the federal government. He agreed with the representative that provider and hospital reimbursement rates could be changed more. Referring to slide 13, the FY 2012 budget challenge, Representative Miera observed that most of the ARRA money that will now need to be replaced went to education. He expressed concern at what level those funds would be replaced. Dr. Clifford concurred.

Representative Park questioned whether the July consensus revenue estimate is as conservative as possible. Dr. Clifford answered that it is not absolutely conservative; the estimate attempts to give policymakers a point, not a range, and so, for that reason, there is always uncertainty. The reserve balance is a crucial piece in the estimate. Representative Park advised the members that it is better to plan for the worst and end up with additional money rather than the opposite. Representative Varela said LFC starts the budget process in September and by December it will have alternatives to provide.

★ After a discussion of tribal gaming revenue to the state, Representative Madalena asked for information on the revenue from each casino. He also expressed concern over cutting medicaid. He pointed out the incongruity of the state spending \$260,000 on a film industry lawyer for working 30 hours a month and cuts to one of the state's most important programs.

★ In closing, the panel noted that internet sales are going to lower the gross receipts revenues over time and that the executive can make budget cuts again in September and January based on the language of Section 14 of the GAA. Senator Eichenberg asked for the December

2009 estimate. Secretary Miller said she can provide the last three years of estimates so those can be compared to the current-year estimates.

Medicaid — Overview and Operational Structure, Kathryn "Katie" Falls, Secretary, Human Services Department

Secretary Falls presented the medicaid overview, including the operational structure of the program and financial information regarding the program. In New Mexico, medicaid covers 53% of children ages 0-21 and half of all nursing home residents; finances about 60% of nursing home and long-term care spending overall; covers 50% of births; and assists over 62,000 low-income beneficiaries. In 2009, the state paid \$237.2 million in behavioral health services. In addition, medicaid supports the safety-net institutions, such as hospitals and health clinics that provide health care to low-income and uninsured persons. To qualify for medicaid, a person must meet financial criteria and belong to one of the groups the state has defined as categorically eligible. The federal government requires participating states to cover the following: children under age six and pregnant women with incomes below 133% of the federal poverty level (FPL); children age six to 18 below 100% FPL; temporary assistance for needy families (TANF), which in New Mexico is 85% FPL; supplemental security income (SSI) recipients; persons living in medical institutions up to 300% of SSI income standard; low-income medicare beneficiaries; and relatives or legal guardians who are caretakers of children under 18. Medicaid allows states to cover optional populations. In New Mexico, these are: children ages 0-19 with incomes up to 235% FPL, which, because of income disregards, means children up to age 6 are covered up to about 300% FPL; pregnant women up to 185% for pregnancy-related services only; children aging out of foster care up to age 21; women needing breast and cervical cancer treatment; working disabled; and waiver and other services for persons ages 65 and older, blind or with another disability. While states may determine who is eligible for medicaid, they cannot limit enrollment or establish a waiting list because medicaid is an entitlement program. Because New Mexico provides the children's health insurance program (CHIP) as a medicaid expansion rather than a stand-alone program, it cannot limit enrollment for CHIP-eligible children. New Mexico expanded coverage for adults, both parents and childless adults, in 2005 through the state coverage insurance (SCI) program. This program is a waiver and uses CHIP funds, which allows New Mexico to get access to more federal funds and limit the benefit package or cap enrollment. There are 21,000 New Mexicans on the waiting list for SCI. Secretary Falls considers New Mexico to be in the middle of the road compared with eligibility and benefits of other states. Medicaid provides the following mandatory services: physician; hospital; laboratory and x-ray; early periodic screening, diagnosis and treatment, health clinics, family planning and supplies; pregnancy-related; pediatric and family nurse practitioner, nurse midwife, nursing facilities for persons 21 and older, home health care for persons eligible for nursing facilities; transportation; and medical and surgical services of a dentist. Optional services include: medications; behavioral health; dental, including dentures; physical, occupational and speech therapies; vision services, including eyeglasses; podiatry; emergency hospital; hospice care; prosthetic devices and other durable medical equipment; other health care practitioners, including psychologists, social workers and nurse anesthetists; nursing facilities for persons under 21; ICF/MR; and home and community-based waiver for D&E, DD, HIV/AIDS and the medically fragile. Secretary Falls addressed quickly how medicaid is financed because the topic

had been covered earlier in the day. She provided a breakdown of the percentage expended for each medical expense category and explained how New Mexico compares to other states in provider rates. She did note that if the federal match is not extended, medicaid programs will have to be shut down. She closed her presentation with a brief discussion of how health care reform will reshape medicaid in the future and medicaid's important role in New Mexico's health care system and economy.

Representative Miera asked the secretary whether New Mexico has the authority to set caps or limits on provider reimbursements and if it can split them. Secretary Falls answered that the state sets reimbursement and may pay for hospital and outpatient care at different rates but is not allowed to cap the number of hospital days. She cautioned that providers are not required to take medicaid patients, and if reimbursements are cut too severely, they will simply refuse to serve medicaid patients. However, she noted, the state can try to influence where care is received. Some states only pay for emergency room visits if they are truly emergencies; HSD is looking at that option. She also warned members about making changes to eligibility. Federal health care reform is going to expand coverage and increase revenue to the states. However, that additional money will not begin to flow until 2014. In the interim, states cannot reduce eligibility in preparation of implementation of federal health care reform, but they do not have additional money to cover those eligible. It puts the states in a difficult position until funding comes in 2014.

★ In answer to Representative Lundstrom, Secretary Falls discussed facility cost issues. She noted that while a lot of medicaid funding goes to "facility" costs, much of that money is for the treatment of patients, not the facility itself. It is hard to separate the two. Other states are looking at two options: (1) restricting emergency room care to true emergencies; and (2) model billing for hospital services using the outpatient prospective payment system (the medicare reimbursement system). She expressed concerns about altering emergency room services because New Mexico has many rural areas where the only care is the emergency room. She said the department is looking at expanding urgent care services to help alleviate the stress put on emergency rooms. The department is looking at what outpatient hospital charges medicare pays for. The prospective payment system is a good option the department is looking at implementing. Representative Lundstrom requested information on how much of a facility charge is for treatment and how much is administration.

Senator Neville, noting the task force's charge to analyze all of state government, asked how much medicaid would cost the general fund if the state went to the bare minimum plan required by the federal government. He also asked for a breakdown on the cost of each of the optional services the state provides. Secretary Falls said the general fund pays about \$34 million for medications; for FY 2009, all behavioral health cost about \$237.2 million; physical, occupational and speech therapies cost about \$340.0; vision, about \$331.0; podiatry, \$227.0; and prostheses and other durable medical equipment, \$200.0. She said that the department has implemented cost-containment efforts over several years and the state is now at the point where cuts to medicaid are harmful to clients.

On questions from Representative Madalena, Secretary Falls said the Indian health service receives a direct reimbursement that is additional to that received by managed care organizations. There are 80,000 Native Americans enrolled in medicaid, but the department estimates there are approximately 62,000 more who are eligible. HSD has implemented programs to try to increase Native American enrollment, including outreach and access programs in rural areas.

★ Senator Payne continued Senator Neville's line of questioning. Secretary Falls noted that with enhanced FMAP, the state cannot change eligibility and benefits. It might be able to reduce eligibility for non-disabled, non-pregnant clients over 130% FPL if the state declared a budget deficit, but she is unsure about cuts in SCI. Senator Payne said states are not required to participate in medicaid and asked if there were states that have done so. Secretary Falls said, to her knowledge, no state has chosen to opt out of the basic medicaid program. Mr. Earnest said that Nevada had talked about withdrawing, but it has not acted. Senator Payne expressed dissatisfaction with a program that costs almost three times more than private insurance and does not provide as good care as private insurance. He noted that the state is paying about \$7,100 per enrollee and \$28,000 per year for a family of four; private insurance for a family of four costs approximately \$10,000. He opined that a lot of money sloshing around in the system cannot be accounted for. Secretary Falls disagreed with the senator's numbers and asserted that the majority of medicaid money goes to long-term care. Nationally, 70% of medicaid is long-term care, including for the elderly, for which medicare does not pay. She argued that numbers get inflated because of these services and it does not really cost \$28,000 to insure a family. Senator Payne asked for the numbers on how much is spent on long-term care compared to other services. The secretary said she would provide the information. She noted that approximately 62,000 medicaid clients are dually eligible for medicare.

Representative Bandy asked if there are rules preventing patients from paying a co-pay. Secretary Falls referred the task force to page 9 of her presentation for a list of limitations. New Mexico does require some co-pays, but because the amounts are in the range of \$3.00 to \$7.00, the administrative burden often does not make them worthwhile.

Mr. Gasparich asked the secretary to address the Carruthers report recommendations for medicaid savings, including implementation of a personal care option waiver, increasing SCI premiums and moving to generics for the pharmacy benefit. Secretary Falls addressed each recommendation in turn.

Personal Care Option

The personal care option deals with long-term services, including home care. HSD has decided not to pursue a waiver in this area, but instead it is attempting to contain costs in the program. The problem with the waiver system is that it caps the number of participants, and the state will end up wait-listing a lot of people who need these types of services.

Generics Pharmacy Plan

HSD is already pursuing a pharmacy plan that encourages that generics be used first. The department has not seen the final numbers on the financial impact of this change, but currently the savings have been around \$2.3 million. She noted that some states have gone to a prescription limit, but she advised the members that the state does not want to move in that direction because people will end up in the hospital more if they cannot get their prescriptions.

State Coverage Premiums

SCI premiums are not a good way to save money because federal funds match those spent by the state. If clients are required to pay half the premium, the federal government would pull back its match. Thus, the only savings would occur if people drop the program because they cannot pay the premium, which again results in more people using hospitals as their only option.

★ Senator Eichenberg asked Secretary Falls to give the task force a summary of all cost-saving measures the department has pursued for inclusion in the task force's report.

Ms. Grisham asked for specifics on the personal care option. She noted that medicare does not pay for nonprofessional medical services, such as help with activities of daily living. Secretary Falls said the eligibility for the personal care option is 75% FPL. The department could better define who can receive what services and could cap the number of hours a client could receive care. She stressed the state must make sure medicare is the first payer. She volunteered to work with Secretary Falls' staff to research best practices and national data.

Dr. Lopez cautioned that the task force must be careful not to cripple medicaid in a way that cuts off important services; it must be careful to balance cost savings with the provision of essential services.

Mr. Ortiz asked why New Mexico had decided to provide coverage to more people who were on the higher end of the FPL. Secretary Falls replied that the decision was made in large part because of the high rate of uninsured in the state and because so many children were not insured. The cost to the state is higher if those children do not get proper health care from an early age. On another question, Secretary Falls said some school health services could be reduced.

★ Senator Eichenberg said he has heard horror stories about abuse of transportation services. He noted that \$18 million goes for transportation and asked what the department had initiated to cut back on abuses. Secretary Falls advised that transportation is a confusing area because it is sometimes mandatory and other times optional. She agreed that HSD needs to tighten up the costs, find efficiencies and prevent abuse, but that it is important that rural communities, especially Native American populations, are not cut off from health care facilities. She said that Native Americans are particularly dependent on distance transportation. The department is looking at the issue, but there will probably be little savings because it has to provide necessary transportation. Senator Eichenberg moved then to the issue of general fraud and abuse, noting that New Mexico's percentage is so much lower than national statistics. Secretary Falls asserted that the department has been working with the attorney general to crack

down on fraud and has given the attorney general's office the access it wanted to HSD data. HSD has started using the patient accounting and recording information system to cross-check that clients are not receiving medicaid or TANF services in other states. This effort has already resulted in a few million dollars in savings. The department is now providing the data sought by the attorney general's office necessary for enforcement of provider abuse. As a point of clarification, Secretary Falls said the HSD inspector general deals only with patient fraud.

Proposals to Address Restructuring of Health and Human Services Agencies — Karen Wells, Researcher, LCS

Ms. Wells said there are massive, sweeping changes coming in regard to restructuring health care delivery. Among other things will be the need to create or participate in a health exchange. There will be a huge increase in the number of medicaid- and medicare-eligible clients, which will require systemic restructuring. She said the legislative health and human services committee (LHHSC) had requested information from the departments and agencies it oversees to relay to the task force. LHHSC has not yet completed its collection of information, but Ms. Wells does have some information to report. Ms. Wells cautioned the task force against moving forward too quickly in the area of health care because of the impending national health care reform. Many changes and opportunities for restructuring are part of the health care reform legislation that will be implemented in the coming years.

HSD, DOH, ALTSD, CYFD and the workforce solutions department (WSD) all reported to the LHHSC on restructuring and efficiency ideas. All of the agencies noted some similar changes due to the recent budget cuts. These included:

- ▶ maintaining vacancy rates;
- ▶ limiting travel;
- ▶ increasing the use of technology;
- ▶ making program cuts; and
- ▶ prioritizing areas to make cuts based on needs of those served.

All departments also noted that other funding sources, like federal funds and grant funds, have been cut this past year while enrollment in programs and services has increased due to the economic situation. The departments also urged caution in pursuing major changes to the structure of health and human services agencies. They desire more time for an in-depth look at options and expect there will be further alignment and consolidation efforts as budget cuts continue. Ms. Wells went through the specific proposals and feedback given by each department.

Children, Youth and Families Department

The department has renegotiated contracts to save money, has established a waiting list for child care assistance and has applied for a federal grant to fund home visitation. The department did not offer concrete restructuring proposals; it believes it is properly organized and has been commended by other states as a "model" department. It is already working on ways to deal with the loss of federal funding and would like to meet with other health and human services secretaries to explore restructuring ideas.

Department of Health

The department has implemented a system for determining where to make cuts without affecting people with the most acute needs. It has made cuts to prevention programs and other programs that will have little impact on urgent needs. The department did not offer any concrete restructuring proposals; it believes its organizational chart is flat enough already and that reorganization would be costly in terms of both loss of services and financial burden. It did note that it is looking at redesign of the DD waiver program and is considering regionalizing public health offices.

Aging and Long-Term Services Department

The department will lose federal funding for its meals program and is looking at new partnerships to help fund the program. It has established a cost-savings task force in anticipation of a huge growth in the aging population in the next decade. The department warned against merging it with HSD at this time.

Workforce Solutions Department

The department has not been affected greatly by funding cuts to this point due to the help of the ARRA funds. In anticipation of the end of the ARRA funding, the department has looked at several cost-saving measures. It has redesigned forms to enhance efficiency through online use; it has examined administrative simplification and program reduction; and it has established a state competitive grant team. Some ideas for restructuring the department include co-locating support services at one-stop shops, consolidating the workers' compensation administration and the vocational rehabilitation division of the PED into the WSD, creating a universal call center, transferring the department's tax operation to the TRD, consolidating the inspector general and audit activities of the department, increasing internet use and proposing adjustments to the Procurement Code and the State Personnel Act to allow for expedited purchasing and hiring.

Human Services Department

The department emphasized that it is dealing with enrollment increases while losing funding from the federal government and grants. It has implemented many cost-containment measures in medicaid, including charging provider taxes, limiting pharmacy benefits to mail order, limiting emergency room visits and revamping long-term care services and programs. The department anticipates having to eliminate programs and services in the coming year and is looking at models in the federal health care reform law for ideas on how to redesign the department.

★ Representative Varela asked if LHHSC has worked with the HPC to gather data about a single payer system and asked for the total health care cost in New Mexico. Ms. Wells said she will provide a copy of the data she has. In New Mexico, a high percentage of health care is public financing, including military, government employees, medicare and medicaid. He noted his concern that the state is not leveraging all it can to bring down costs. In response to the CYFD comment about talking with other agencies, Representative Varela said that should already have been done through the cabinet. As for the DOH's comment about being flat enough, he said all the departments need to keep an open mind. He reminded the task force that

health and human services had been organized as a single department at one time. He suggested the task force look at combining ALTSD and CYFD and moving juvenile justice to the corrections department. Apropos of WSD, he suggested the WSD call center serve as a link to other departments. Regarding transferring tax responsibilities to TRD, he suggested the motor vehicle division be moved out of TRD. As for the Procurement Code, he thought purchasing should go to DFA and the task force should look at the Personnel Act for agency compliance and better enforcement by the state personnel office.

Mr. O'Neill initiated a discussion on regionalizing public health offices. Currently, there is at least one public health office in each county and statewide there are approximately 53 offices. Ms. Grisham cautioned against damaging the public health infrastructure when the task force looks to regionalization as a way to save money. The DOH does not pay for public health office facilities; those are paid by counties. The DOH only pays for the services provided in the building.

Dr. Lopez asked what portion of the WSD budget comes from the general fund. Representative Varela replied that only funding for the human rights division and labor relations division comes out of the general fund. The rest of the department's funding is federal. Dr. Lopez noted that restructuring that department would, therefore, result in very little savings for the state.

Ms. Grisham asked if the applicable departments were examining moving all waiver program administration to one office. Ms. Wells said there had been discussion but not firm decisions.

Working Group

Senator Eichenberg explained that the task force would not break into subcommittees but would stay as a committee of the whole and discuss how to move forward. Mr. Karpoff said the goal of the discussion is to give directions to staff.

Government Restructuring

Areas for further research that were identified on the first day include:

- ▶ establish a commerce department;
- ▶ move all medicaid waiver programs to HSD;
- ▶ merge ALTSD and HSD;
- ▶ establish an energy and environment department;
- ▶ establish a health care authority;
- ▶ reorganize PRC; and
- ▶ reorganize GSD.

★ Representative Lundstrom said she is interested in a commerce department, but she is also interested in protecting the current legislative oversight of several functions. She also noted that the task force should concentrate on general fund agencies as the only way to save money.

★ Representative Varela asked staff to look at the Executive Reorganization Act to see what changes need to be made vis-a-vis changing cabinet departments and to look at the Personnel Act to consider limiting the state personnel office's ability to declare positions exempt.

★ Mr. Gasparich brought up agency and department rulemaking authority. He asked the task force to keep in mind examination of administrative procedures involved in that rulemaking to ensure there is proper legislative oversight. He suggested the legislature should review all administrative rules.

★ Mr. O'Neill agreed that rulemaking needs to be examined and at least standard procedures for such rules should be established. He also reiterated his idea that all administrative hearing officers should be put in a central agency for all departments.

★ Secretary Miller opined that rather than looking at just consolidating by putting departments together and cutting a couple of positions, more money could be saved by combining services that several agencies provide in one central place.

★ Dr. Lopez cautioned that agencies are often overburdened with too many tasks. For example, the legislature keeps giving the state mine inspector new mandates without additional funding. He believes that reducing the number of requirements on agencies across state government would be beneficial. A constitutional convention may be necessary. Representative Lundstrom added that the employee survey should contain a question about how many programs are not properly funded. Mr. Gasparich also agreed that it is important to determine what unfunded mandates exist in state government.

★ Representative Lundstrom asked the task force to keep in mind that many reorganization ideas are going to have to be examined carefully and it may take more time. She said the task force must consider realistic time frames for restructuring options; for example, the PRC reorganization is very complex and will take time. She also asked the staff to examine service delivery and state contracting of services.

K-12 Education

The areas identified for further research on the first day included:

- ▶ PED-HED consolidation;
- ▶ reducing the number of school districts;
- ▶ linking student growth and teacher performance;
- ▶ deferring ERB contributions;
- ▶ moving educational finance to DFA; and
- ▶ removing the cash balance cap.

Senator Neville noted that the change in state governance had not wrought better oversight or better student outcomes. He wondered if the state made a mistake in changing from a state board of education to a cabinet department. He suggested that PED's role should be to flow

through federal funding and monitor school districts, not to take over local school board functions.

★ Mr. Gasparich asked that criteria be determined and a process set up for reducing the number of school districts.

★ Representative Lundstrom asked for an analysis of the number of colleges in the state and the graduation rates so the task force can properly examine higher education issues. Representative Bandy agreed. Dr. Lopez cautioned that graduation rates alone cannot be the only factor in determining the success of higher education institutions; many factors need to be examined.

Health and Human Resources

★ Senator Neville asked for a clear-cut, in-depth breakdown of how medicaid is funded and how much each program receives, along with which programs are mandatory and which are optional, so the task force can determine where cuts can be made. Furthering this request, Representative Miera asked the LFC to report on its audits of medicaid. He also said that provider payment amounts need to be examined.

★ Representative Lundstrom reiterated her concern that 60% of medicaid payments go to facilities while it is more important to provide services. Mr. Earnest said it is difficult to separate the money that goes to facilities to provide services and that goes to the facility itself, but he will look at the question. Ms. Grisham asked Mr. Earnest to focus on acute care, primary care and long-term care by population. That will adequately describe how much money is spent for each type of care category.

★ Senator Lopez said the fee-for-service portion needs to be examined also, not just managed care. She also thinks the task force must examine the behavioral health component of medicaid because it is a huge portion. She suggested moving medicaid funding into one central department instead of having it split between departments.

★ Representative Lundstrom asked staff to examine every board dealing with health and human services to determine which are necessary and which can be eliminated.

Public Comment

Doris Houston, Chad MacQuigg and Mark Bralley commented.

Adjournment

There being no further business, the task force adjourned at 3:45 p.m.