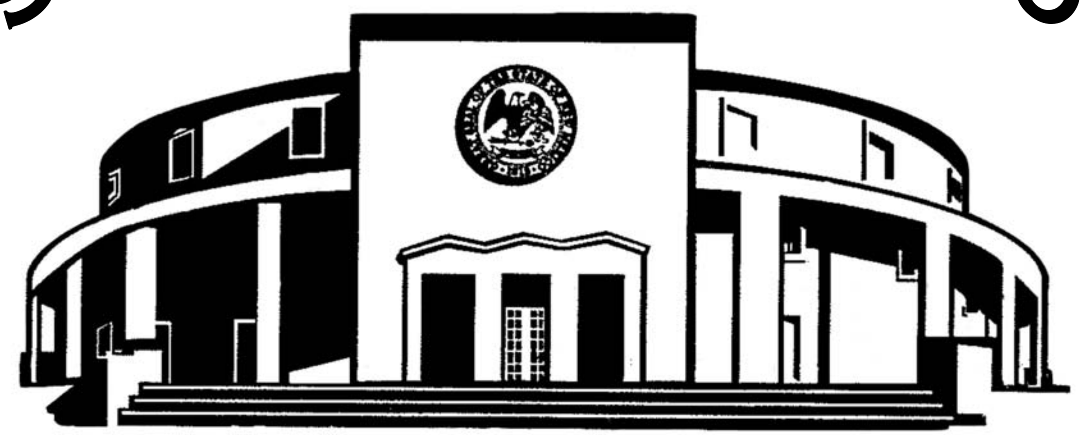
STATE OF NEW MEXICO



REPORT OF THE LEGISLATIVE FINANCE COMMITTEE TO THE FORTY-SEVENTH LEGISLATURE FIRST SESSION

JANUARY 2005

FOR FISCAL YEAR 2005 - 2006

VOLUME I

LEGISLATING FOR RESULTS: POLICY AND PERFORMANCE ANALYSIS

SENATOR BEN ALTAMIRANO
CHAIRMAN

State of New Mexico

REPRESENTATIVE LUCIANO "LUCKY" VARELA
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Senator Cisco McSorley
Senator Leonard Lee Rawson
Senator John Arthur Smith

January 18, 2005

Honorable Members
Forty-Seventh Legislature, First Session
State Capitol
Santa Fe, New Mexico 87501

Dear Fellow Legislators,

Pursuant to Section 2-5-4 NMSA 1978, the FY06 budget recommendation of the Legislative Finance Committee is provided to you. The committee recommendation for recurring appropriations from the general fund is $4.677 billion, a 6.6 percent increase over the FY05 appropriated level. Again this year, most new spending is directed toward education and health care, an attempt to focus on those areas most important to the long-term success of the state. And again this year, the committee was required to find sources of recurring money for programs initiated with non-recurring funds.

Almost half of the new spending in the recommendation is directed to public schools and more than a third of that is for the continued implementation of the three-tiered teacher licensure and pay schedule. The increase for public school support would be $128 million, including $51 million for the new licensure and pay schedule.

The recommendation for health and human services represents a nearly 10 percent increase over current year spending, an increase driven in large part by a decline in the federal match rate for the Medicaid program. A drop in federal dollars for the Temporary Assistance for Needy Families program also contributes to the recommended $107 million increase in spending in that area.

The recommended level of recurring spending roughly balances with the recommended level of recurring revenue, leaving a projected FY06 ending balance in the reserve fund of 13 percent of recurring appropriations. This amount is above both the existing reserve target of 5 percent and the proposed new target of 10 percent.

To maintain this balance, the committee was forced to cut some programs. Be assured, every cut was carefully reviewed with the welfare of New Mexicans foremost in our minds.

Finally, the most visible change in this year's budget recommendation is its presentation. In an attempt to improve the readability and accessibility of the valuable information that seemed buried in our old format, we have split the recommendation into two distinctly different volumes. In Volume I, you will find analysis of the issues and examination of management and performance. That information has always been part of the discussion of the budget recommendation for each agency but was often lost amid the very technical budget data. Volume II is the technical data and discussions of the reasoning behind the recommendation for each agency. With this reformat, we hope that this recommendation will become more useful to you both during the session and throughout the interim.

I would like to thank the membership of the Legislative Finance Committee for their long hours and dedicated service on behalf of the people of New Mexico. Together, we have prepared a responsible budget that addresses our state's many critical needs.

Sincerely,

Senator Ben Altamirano
Chairman

Contents

Report of the Legislative Finance Committee to the Forty-Seventh Legislature First Session

Volume I

Legislating for Results: Policy and Performance Analysis

January 2005
For Fiscal Year 2005-2006

Senator Ben Altamirano
Chairman

Representative Luciano Varela
Vice Chairman

David Abbey
Director

Summary of Appropriation Recommendations and Highlights

The Legislative Finance Committee (LFC) fiscal year 2006 budget recommendation strikes a balance between achieving overall fiscal responsibility and providing sufficient funding to priority programs. The recommended $4.68 billion budget is balanced: new money, the difference between expected recurring revenue and prior year recurring spending, is $299 million, while the recommended spending increase is $297 million. Although recommended spending increases by 6.8 percent, it should be recognized that $65 million of the additional proposed spending simply replaces federal funds for the Medicaid program in the Department of Health and Human Services Department. After accounting for the replacement of federal funds for Medicaid, proposed spending increases by 5.3 percent, which is in line with state economic growth as measured by personal income growth. Additional spending is allocated to meet the committee's budget guidelines which prioritized education and health care. The decision to prioritize education also reflected the committee's desire to keep faith with the voters' approval of the constitutional amendment providing additional resources for education reform. In total, education spending, including public schools and higher education, is recommended to increase by $166 million, representing 71 percent of the discretionary spending increase. Public schools are slated to receive $129 million, while higher education receives $37 million. Health care spending increases are absorbed by the Medicaid program. The Medicaid budget is proposed to grow by $87 million. Again, the lion's share of the Human Services Department increase—$56 million—simply replaces federal funds.

Fiscal Year 2006 Appropriation Recommendation. Agency requests for FY06 from the general fund total $4.79 billion, a 9.4 percent increase over FY05 appropriations. The committee recommen-

FY06 General Fund Recommendation Compared with FY05 Appropriations (In Thousands of Dollars)

Category	FY05 Approps	FY06 Requests	FY06 Recomm	Dollar Change	Percent Change
Legislative	15,456.7	15,568.8	15,568.8	112.1	0.7%
Judicial	147,059.4	164,601.9	151,949.3	4,889.9	3.3%
General Control	144,244.8	164,401.8	148,123.2	3,878.4	2.7%
Commerce & Industry	48,682.8	51,955.7	46,088.1	(2,594.7)	-5.3%
Energy, Agriculture & Natural Res	62,163.8	71,366.0	67,799.7	5,635.9	9.1%
Health, Hospitals & Human Svcs	1,004,007.7	1,163,096.6	1,111,116.1	107,108.4	10.7%
Public Safety	287,242.7	308,683.9	298,269.7	11,027.0	3.8%
Transportation	-	-	-	-	0.0%
Other Education	6,918.1	7,918.1	6,718.1	(200.0)	-2.9%
Higher Education	670,634.4	729,414.9	708,691.4	38,057.0	5.7%
Public Education	1,985,444.1	2,115,890.6	2,115,520.9	130,076.8	6.6%
Undistributed Compensation	285.1	-		(285.1)	-100.0%
State Employee Compensation			7,340.9	7,340.9	0.0%
Additional Appropriations	8,415.0			(8,415.0)	-100.0%
TOTAL	4,380,554.6	4,792,898.3	4,677,186.2	296,631.6	6.8%

Summary of Appropriation Recommendations and Highlights

dation for recurring appropriations from the general fund totals $4.677 billion, a 6.6 percent increase over the FY05 appropriated level.

Subsequent to the annual submission of operating budgets on May 1, the Department of Finance and Administration reclassified $12.2 million nonrecurring general fund special appropriations as recurring FY05 appropriations and directed agencies to add the amounts to their FY05 general fund operating budget. The criteria DFA applied to reclassify items as recurring is not readily transparent. It is important to note that the addition of $12.2 million to the FY05 recurring base reduces the amount of "new money" available in FY06 for recurring appropriations by $12.2 million.

Department of Finance and Admin.	636.5	Improve capital outlay admin
New Mexico Sentencing Commission	250.0	Support sex offender board
Cumbres and Totlec Railroad	800.0	Op costs of railroad
Cultural Affairs Department	600.0	New facilities op budget and FTE
New Mexico Livestock Board	300.0	Bovine inspection and i.d. pgm
State Engineer	1,675.7	Three watermasters plus new FTEs
Aging and Long-Term Services Depart.	595.0	
Human Services Department	3,905.0	
Department of Health	400.0	
Children, Youth & Families Department	500.0	Domestic violence shelters
Corrections Department	600.0	Sex offender treatment pgms
Department of Public Safety	265.0	Crime lab contracts
Public Education Department	755.6	New FTE for educational reform
Commission on Higher Education	300.0	Expenditures on high-skills
University of New Mexico	400.0	Native American health ctr/cancer camp
New Mexico Highlands University	250.0	Spanish instruction program
TOTAL	**12,232.8**	

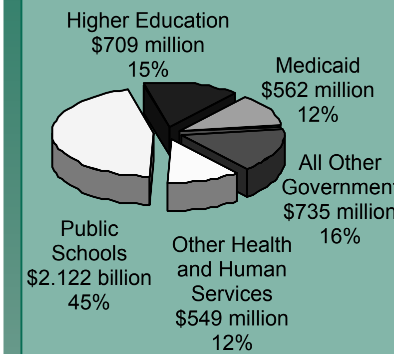
These adjustments to appropriations are as follows:

Section 5 Special Appropriations DFA booked as recurring	12,232.8
Section 7 Appropriations DFA did not book as recurring	(5,844.0)
HB19, Ch88 Corrective Action Fund	(497.9)
SB164, Ch19 Veterans' Services Department	210.0
DPS from the Appropriation Contingency Fund - Criminal Fees	630.0
Group Insurance distribution exceeded appropriation	0.3
Total Other Adjustments	**6,731.2**

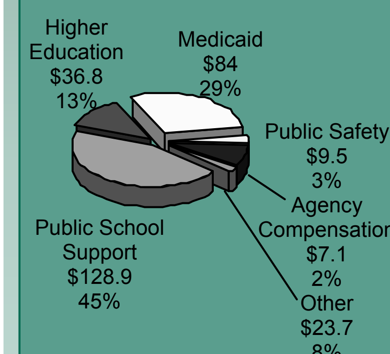
Highlights of FY06 budget recommendation are summarized below.

Public Schools. The committee recommends $2.1 billion, a general fund increase of $129 million, or 6.1 percent, for public school support including $14 million for a 1.25 percent compensation increase for school employees not receiving a salary increase from minimum salary levels established by three-tiered teacher licensing and $12.1 million for a 0.75 percent employer contribution to the education re-

FY06 Recurring General Fund Appropriation Recommendation: $4.677 Billion



New General Fund Spending: $290 Million
(In Millions)



Note: The DFA reclassification of certain special appropriations from nonrecurring to recurring and the subsequent addition to the FY05 recurring base reduces the amount of "new money" available in FY06 for recurring appropriations by $6.7 million.

Source: FY06 General Fund Recommendation Summary tirement fund. The increase accounts for 44.2 percent of new general fund spending. The recommendation, $17.3 million higher than the increase appropriated in 2004 (the banner year for public school reform), reflects the committee's support for improving public education throughout the state.

In developing the recommendation for public school support, the committee paid particular attention to funding public school reform efforts, particularly three-tiered teacher licensure minimum salaries, adequately funding growth projections, increased insurance costs, enhancing the employer contribution to the education retirement fund, and replacing revenue from the temporary assistance for needy families federal block grant with general fund. These actions account for $95.4 million of the committee's recommendation. The cost for three-tiered teacher licensing minimum salaries is $51.8 million, or 40 percent of the recommended increase for public school support.

The committee recommendation for the Public Education Department includes additional FTE to support a comprehensive data warehouse project and the No Child Left Behind student success framework, which will provide diagnosis, prescription, and technical assistance to schools in need of improvement. The committee recommends the department stabilize current program areas, improve oversight activities, and address the achievement gap. The committee also requests the department provide a detailed plan of its proposed department-wide reorganization and a status report on public school reform initiatives.

Higher Education. The committee recommends general fund at a $708.7 million for higher education for FY06. This represents an increase of $36.8 million, or 5.5 percent, from the prior year. The recommendation also includes almost $44 million of nonrecurring general fund investments in higher education. The recommendation adds $2 million for needs-based financial aid for students and calls for keeping tuition low for students and their families through a 3 percent tuition credit. The committee recommendation fully funds workload and advances opening the doors with funding for library and utility inflationary factors. Furthermore, the package provides 100 percent funding for building renewal and replacement, through a non-recurring supplement to base funding, and an additional $4.5 million from non recurring funds for the inflationary costs of libraries. The committee recommendation invests in faculty and staff salary needs through a total compensation increase of 2 percent as well as funds for additional faculty endowed chairs at the state's universities.

The committee recommendation continues to invest in the state's workforce investment initiatives by maintaining a lump-sum appropriation to the Commission on Higher Education (CHE) for nursing programs and including the high skills training initiative at two-year institutions at $600 thousand.

Also, the recommendation expands funds for NM MESA, a program promoting engineering and science awareness to minority high school students and for the adult basic education program to offset reduction of Temporary Assistance for Needy Families (TANF) funds.

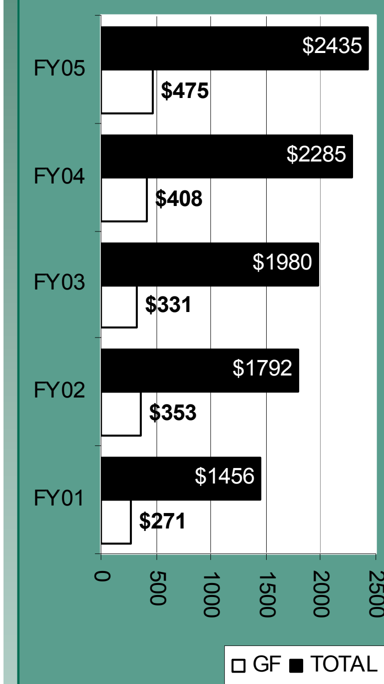
While the recommendation prioritizes higher education funding, the committee increases the call for accountability. Higher education entities need to improve planning and performance reporting, make timely submissions, and use that information to achieve targeted outcomes. The recommendation provides $7 million for student persistence and student graduation rate improvement performance awards at higher education institutions, provided a task force refines the allocation methodology.

<u>Human Services Department.</u> The committee recommends a total of $3.21 billion for the department, with a total of $630.6 million from the general fund, representing an increase of $86.3 million over the FY05 operating budget. The recommendation includes $2.6 billion, including $562 million from the general fund, for the Medical Assistance Division (MAD), which covers Medicaid, state child insurance program, and related administrative costs. The recommended general fund increase for MAD of $83.6 million is a 17.5 percent increase over the FY05 operating budget. However, $56 million of the general fund requirement is to compensate for the decline in the federal medical assistance percentage (FMAP), the federal share of total Medicaid costs.

The committee recommends $511.7 million for the Income Support Division, including $44.5 million from the general fund. In FY04 and FY05 the appropriated Temporary Assistant for Needy Families program (TANF) nonrecurring federal carryover totaled $26.9 million and $20.8 million respectively. The department reports no additional carryover is available for FY06. The committee recommendation includes $5 million of federal carryover. To augment the $5 million, the committee includes an additional $4.9 million from the general fund, making the total FY06 TANF revenue $159.8 million. To offset TANF revenue reductions, $7.4 million of TANF spending for education services is shifted to public and higher education.

The committee recommendation for the Child Support Enforcement Division (CSED) includes a general fund reduction to $8.3 million from the FY05 appropriation of $8.6 million, a 4.3 percent decrease. This is made possible by the department's implementation of an aggressive cut in the information system contract that moves key functions "in-house." An additional 15 FTE and $1.04 million are recommended as an expansion to facilitate the projected savings from the informational services contracts. The committee also includes 6 FTE and $840 thousand to institute a pilot project to convert two locations into satellite CSED field offices. The committee requests performance measures for these offices to establish their value and determine continuing expansion.

Medicaid General Fund and Total Expenditures FY01-FY05
(In millions)



Source: HSD Medicaid Program projections and appropriations.

Department of Health. The committee recommends a total expenditure of $494.1 million, with $269 million from the general fund. This is an increase of $10.3 million from the general fund, or 4 percent. Highlights of the general fund recommendation include $9.3 million to meet the FMAP rate for the Developmentally Disabled Community Services program, an additional $1 million from the general fund to move approximately 60 people off the waiting list and into developmentally disabled care slots, and an expansion of 113.5 term FTE for the department, mostly federally funded, with positions for bioterrorism staff, developmental disabilities staff, health and safety engineers, health educators, registered nurses, and epidemiologists. Additionally, the recommendation reallocates $1.6 million to cover a shortfall in personal services and employee benefits in the Long-Term Care Services Program. The recommendation applies a manageable vacancy rate to all programs and allows for compliance with both the Lewis and Jackson lawsuits and the General Services Department (GSD) rate increases. Finally, the recommendation assists the department with the governor's contract restorations.

Children, Youth and Families Department. The committee recommends $144.6 million from the general fund for FY06, a 2 percent increase over the FY05 general fund operating budget. The increase is adjusted for the transfer of the Adult Protective Services program to the Aging and Long Term Services Department (ALTSD). The transfer involved 164 FTE and a total fund transfer of $13.6 million, including $8.4 million of general fund and $5 million of other revenue. The recommendation assumes reductions in the juvenile justice program of $1.4 million to account for excess capacity in facilities.

The committee recommends $2.3 million in general fund monies, including 12 FTE, for program expansion in the protective services program. This will address a 16 percent increase in the foster care caseload, partially attributed to federal requirements and standards under the Adoptions and Safe Families Act, including enhanced screening of child and abuse and neglect reports. Moreover, the committee increased the general fund by $1.1 million to cover a cost shift in the treatment foster care program and residential treatment centers from Medicaid to the protective services program.

In the family services program, the committee recommends a general fund reduction of $2 million for childcare services for families earning above 150 percent of poverty level. These families were grandfathered when the previous 200-percent-of-poverty eligibility standard was rolled back in October 2001.

The committee recommends $500 thousand of general fund, along with an expected State Children's Health Insurance Program (SCHIP) federal match of $2 million, for the voluntary nurse home-visiting program to target services at families whose income is below 235 percent of poverty. Studies indicate that families from low income households who receive these services improve living standards, with fewer drug-related behavioral problems and less time in public assistance programs. Also, the committee recommends $1.5 million from the general fund for equalizing the childcare rates of urban and rural providers.

Corrections Department. The committee recommends a $7.8 million, or 3.8 percent general fund increase, including expansion. The department's total budget would increase from $229 million in FY05 to $236 million in FY06. The recommendation accounts for the department's projected inmate population growth of 2.3 percent and funds a 2 percent pay increase for probation and parole officers, 12 new probation and parole officers, an expansion of $1 million for the medical contract, and savings of $1.2 million on the lease for the department's central office. As of September 30, 2004 there were 72 general population beds available. At the current growth rate of 2.3 percent, the department will need more capacity in a year or less. The department is requesting capital outlay funding in FY06 to proceed with phase two of the DWI unit at the Roswell Correctional Center and the mental health unit at the Central New Mexico Correctional Facility. The department has implemented a "balanced system approach," placing offenders in the most cost-efficient, cost-effective custody level. Also, a Population Control Strategy Committee is addressing ways to stabilize and lower the prison population.

Department of Public Safety. The committee recommends a $1.4 million, or 1.9 percent, general fund increase for FY06. The committee recommends the expansion of $500 thousand for the Mobile Strike Unit to fund 6 permanent FTE and other miscellaneous costs. The committee supports the governor's *Moving New Mexico Forward: Further Along* recommendation to increase fines for commercial vehicles. The current average penalty assessment fine for violations is $114.

Courts and Judicial Branch Agencies. The committee recommends $108.1 million in total appropriations for the courts and related judicial agencies. The recommendation is a $3.4 million, or 3.3 percent, increase in general fund monies over FY05 and includes $1.07 million in expansion items. The overall increase includes $899.6 thousand increase for the district courts, primarily to fund high priority expansion FTE identified in a FY04 caseload study, and a $1.5 million increase for the Administrative Office of the Courts, primarily to fund a new lease for the Doña Ana County magistrate court and to more realistically reflect actual costs of the jury and witness and court appointed attorney programs. The recommendation also includes $832.8 thousand for Bernalillo Metropolitan Court to fund maintenance and security costs and to cover increased salaries and benefits costs.
The committee recommends $47.1 million in total appropriations and $42.7 million in appropriations from the general fund, for an increase of 2.1 percent for district attorneys. The committee also recommends a special 2 percent salary increase for entry- and mid-level district

attorneys and public defenders with the intent of addressing difficulties with attorney recruitment and retention.

LFC recognizes the collaborative efforts of the judicial branch agencies throughout the interim, especially through the Supreme Court's Criminal Justice Task Force and recommends a special appropriation of $300 thousand to the Sentencing Commission to conduct a comprehensive workload assessment of the adjudication portion of the criminal justice system that would include the courts, district attorneys, and Public Defender Department.

Energy, Minerals and Natural Resources. The committee recommends a 6.2 percent overall increase in the agency's operating budget with a 2.3 percent or $457.7 thousand increase in the general fund appropriation to support operating costs at Mesilla Valley Bosque State Park and to fund 4 FTE authorized but not funded by the Legislature in 2004.

Statewide drought conditions continue to affect State Parks Division (SPD) revenues, particularly at water related parks. Fee increases implemented in May 2004 have helped offset revenue decreases despite visitation shortfalls and SPD is hopeful this trend will continue as drought conditions persist. SPD reports 45 percent of parks showed visitation increases and 61 percent revenue increases for FY04. Nevertheless, Elephant Butte State Park realized 328,000 fewer visitors and a $140 thousand revenue decrease, bringing overall park visitation and revenue down by 141,000 visitors and $129 thousand, and demonstrating the tremendous influence of Elephant Butte on the State Parks Division. SPD has identified $31.9 million in funding needs for existing parks and an additional $7.3 million for new park initiatives. Of the total need identified, $6.7 million is available from state parks revenue bonds sold in FY04.

Department of Transportation. The committee recommendation reflects a 1.9 percent increase over the FY05 operating budget. This includes $9.9 million for the state construction program, specifically for highways in rural counties that do not qualify for prioritization of construction monies under either Governor Richardson's Investment partnership (GRIP) or Statewide Transportation Improvement Program funding. The committee urges the department to review and revise the process for prioritizing projects.

The implementation of the $1.585 billion GRIP reconstruction and improvement program of almost 1,000 miles of highway requires the department to fully use all budgeted FTE. The continued high level of vacancies within the department, more than 400 positions, is an area of concern. The department's ambitious programs necessitate that these vacant positions be filled expeditiously. The committee recommends the department report quarterly on the status of vacancies and specific activities being taken to address this issue.

Taxation and Revenue Department. The committee recommendation is $71.6 million, or an 8.7 percent increase over the FY05 operating budget. Significant increases in all funding categories should enhance revenue collections, improve Driving While Intoxicated (DWI) enforcement, and address critical customer service improvement needs in the Motor Vehicle Program. Increases in other program revenues are contingent upon enactment of legislation raising the administrative fee on Motor Vehicle Division (MVD) transactions from $0.50 to $2.00. Other program revenues also are adjusted to include an additional $1 million in other program revenues because of expected revenues from new contracts for re-sale of MVD data. Recommended base expansions include $400 thousand to enable credit card and e-check payments in all MVD and Audit and Compliance Division offices, $1.6 million to fund the MVD expansion request for maintenance of its minimum service levels, $2.6 million to fund the tax administration program expansion request for ongoing revenue enhancement efforts, and $2.8 million for a new MVD initiative to improve customer service. Funding for the revenue enhancement initiative is expected to generate an additional $10 million in tax collections, of which $7.5 million should flow to the general fund. Funding for MVD's expansion and new initiatives should be considered in light of requested special appropriations for MVD technology requirements to determine if greater investments in technology will create operational efficiencies and recurring savings, diminishing the need for some or all MVD base expansions.

Labor Department. The committee recommends a $972 thousand, or 115 percent increase, over the FY05 general fund operating budget to fund the Labor and Industrial Commission, funded in FY05 with monies from the workers' compensation administration fund.

Unless Congress adopts new legislation, Reed Act funds could cease in FY07, which would require the department to scale back operations by reducing its labor force and closing field offices. While the committee recognizes this possibility, the committee's FY06 recommendation assumes the continued availability of Reed Act funds.

Because of a healthy unemployment insurance trust fund balance, the Legislature in 2003 increased benefits to the unemployed and decreased unemployment taxes for employers. The balance is currently at $572 million; however, a sunset clause also was included to terminate these revisions after four years or sooner if the trust fund balance dropped below a threshold of 3.75 percent of the fund to total payrolls. This has occurred and the department is considering legislation to extend the enhanced benefits and tax cuts.

A November 2003 LFC audit noted that the department's one-stop operation, which provided both services and program oversight, created a potential conflict of interest in the state's implementation of the Workforce Investment Act (WIA). This could be improved by transferring management and oversight responsibilities to a new agency. The committee recommendation reflects the transfer of the WIA program to the Office of Workforce Training and Development (OWTD). The transfer of the WIA program to OWTD by executive order involved $22 million in federal funds, 38 FTE, and $700 thousand from the general fund for at-risk youth programs across the state. Plans to transfer the administration of the TANF program to the local WIA boards are also underway.

State Engineer/Interstate Stream Commission. The committee recommends an overall 7 percent decrease in the agency's base budget reflecting a slight increase in personal services and employee benefits and a significant reduction in contractual services.

The agency continues to rely on nonrecurring, special appropriations to fund an extraordinary number of term FTE in three programs. These appropriations are a mix of general fund and trust fund sources and are considered year-to-year. The agency requested $4 million in base expansion to convert the remaining term positions to permanent status in FY06. The committee supports the conversion of full-time term employees to permanent status and recommends $2 million to convert an additional 38 positions.

For FY06 the agency has requested $30 million for additional land and water rights purchases in the Lower Pecos Basin. The committee is concerned the state continues to expend considerable resources in the basin while making little or no substantial progress toward finalizing a settlement. Since 1991, the Legislature has appropriated $85.5 million for land and water rights purchases, water rights leasing, and contractual costs on the basin to settle an issue originally expected to cost $60 million.

The State Engineer estimates a total need of approximately $1.6 billion to complete the Navajo, Aamodt, Gila, and Taos water rights settlements. Of this amount, $75 million is estimated to be the state's share and $187 million the local cost share. The committee anticipates local entities will request state support for their share.

Economic Forecast

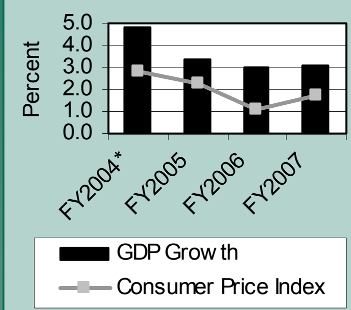
State economists rely on Global Insight, a national economic consulting firm, Cambridge Energy Associates (CERA) and the University of New Mexico Bureau of Business and Economic research to develop their economic forecast assumptions. Economic assumptions represent key variables to the revenue forecast. The economic assumptions used in developing the December 2004 revenue forecast are presented in Table 2 in the back of this document.

U.S. Economy. The U.S. economy is expected to grow at a moderate pace with low inflation over the forecasted period. Gross Domestic Product (GDP) growth is expected to cool from 4.8 percent in FY04 to 3.4 percent in FY05. In FY06 and after, the rate varies slightly around a long-term trend of just greater than 3 percent. The economic outlook indicates that inflation is expected to remain low. After peaking in early 2005, largely due to high energy prices, the forecast predicts a very low 1.1 percent inflation rate in FY06. Inflation is expected to remain below 2 percent through FY08 because of subsiding energy prices, minimal wage pressures, and competitive forces limiting retailers' ability to raise prices. Sustained high oil prices pose a risk to forecasted growth rates.

New Mexico Economy. New Mexico economic growth continues to outpace that of the national economy. Nonfarm employment grew by 1.4 percent in FY04, compared with 0.2 percent for the U.S. economy. Employment growth is expected to remain near 2 percent through 2008. Similarly, personal income and wage and salary growth forecasts suggest robust growth in the current fiscal year, followed by more moderate growth rates in 2006 and beyond. These factors are critical to revenue forecasts for such important revenue sources as gross receipts taxes and income taxes.

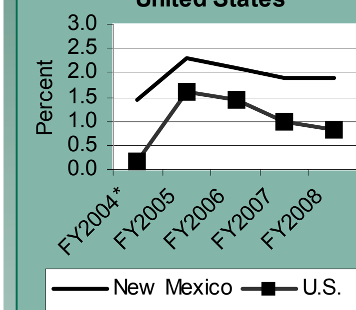
Energy Economy. Energy production and price assumptions represent critical variables for determining state general fund revenues from energy-related taxes and rents and royalties. Prices for these commodities fluctuate significantly, resulting in volatile energy-related revenues. A 10 cent change in the natural gas price estimate implies roughly a $12 million change to general fund revenues. A $1 price change in the value of oil results in a $3.5 million change in general fund revenues. Revenue estimators are naturally cautious in dealing with the volatility and unpredictability associated with these prices. They primarily rely on price forecasts provided by CERA, but also look to the futures market for guidance. State economists expect an average natural gas price of $5.20/mcf (per thousand cubic feet) in FY05 and $4.70/mcf in FY06. The natural gas price assumption is somewhat below the CERA forecasts for 2006 and 2007 and well below the futures market prices. Economists assume an average New Mexico oil price of $40 per barrel in FY05 and $35 in FY06. Energy analysts are generally in agreement that the long-term price of oil is around $35, with current high prices reflecting a risk premium for geopo-

U.S. Economic Growth and Inflation Assumptions



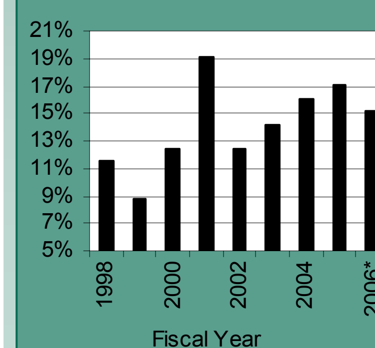
Sources: UNM BBER and Global Insight

Non-Agricultural Employment Growth: New Mexico versus United States



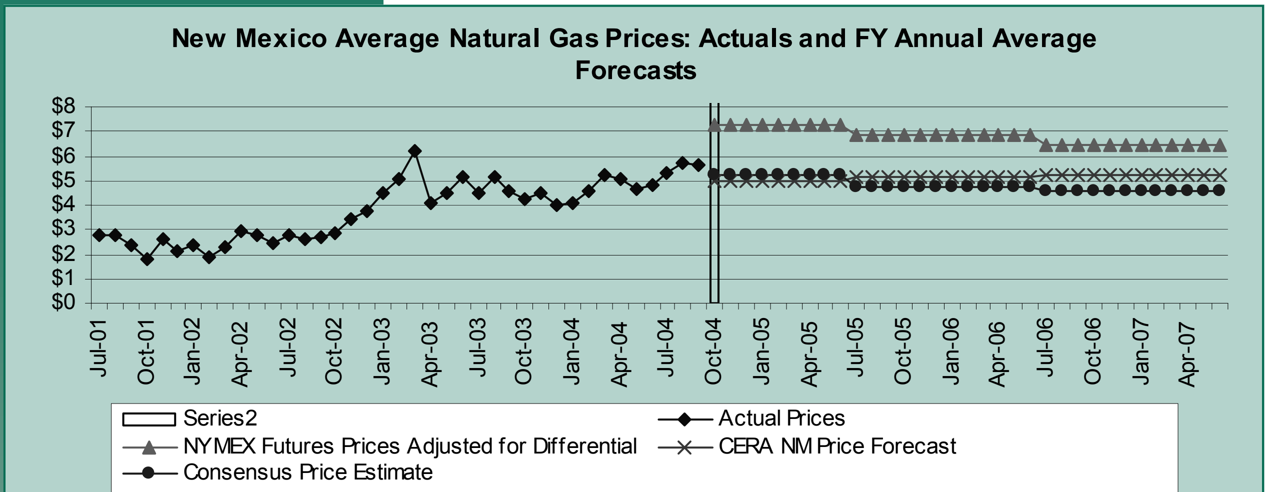
*Actual Data
Sources: UNM BBER and Global Insight

Energy-Related Revenue Share of Total General Fund



* Forecasted

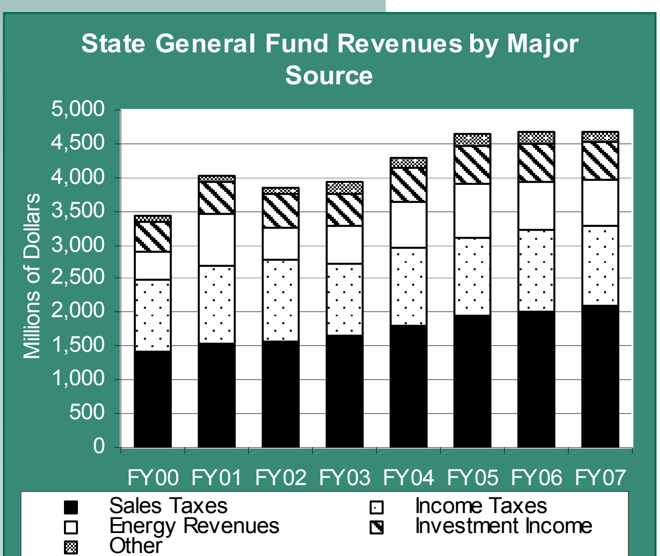
Economic Forecast



Sources: Taxation and Revenue Department ONGARD, Cambridge Energy Research Associates (CERA), and NYMEX (forecasted prices reflect data available at the time the revenue estimate was developed)

litical events. The economic assumptions show oil and gas production slowly declining by 1 percent per year after FY05.

Revenues. General fund revenue estimates for FY05 through FY07 are presented in Table 3 in the back of this document The FY05 column compares the new December estimate with the January estimate used in the 2004 legislative session to build the FY05 budget. The state's general fund revenue picture is positive and is expected to remain so through FY06. The December estimate predicts FY05 total revenues to be $4,639.6 million, $261 million higher than the January estimate. The large increase in estimated revenue is largely explained by the higher natural gas price assumption. Indeed, revisions to the forecast for severance taxes and rents and royalties account for $198 million of the $261 million revision. In FY06, revenue is forecast to grow to $4,671.9 million, or 0.7 percent above FY05 revenues. Subdued estimated revenue growth can be explained by forecasted declining personal income tax and energy-related revenues. Although expected revenue growth is negligible, estimated "new money," the difference between the FY06 recurring revenue estimate and FY05 recurring spending, is $299 million. The "new money" estimate represents a starting point in determining how much recurring spending can grow or be curbed through recurring tax reductions.



FY05 through FY07 reflect revenue estimates.

Gross Receipts Tax. The December FY05 forecast for gross receipts tax was revised upward by $18 million from the initial estimate. Revisions reflect strong year-to-date taxable gross receipts data, high anticipated revenue collections from the enhanced audit initiative, and stronger growth in wages and salaries. Gross receipts tax revenue is expected to grow by 4.5 percent in FY06 to $1,562 million, reflecting the higher FY05 base and higher-than expected wages and salaries growth.

Personal Income Tax. The December FY05 forecast for personal income tax declined by $12.5 million from the January estimate based on a Taxation and Revenue Department analysis showing that taxpayers eligible for relief from the income tax rate reductions are reducing payments more quickly than initially anticipated. FY06 personal income tax is expected to decline by 2 percent in FY06. The decline is attributable to the next step of income tax cuts. While the underlying tax base is expected to grow by about 6 percent, the estimated fiscal impact associated with FY06 tax cut step reduces expected revenues by $81 million.

Energy-Based Revenues. Energy-based revenues include both severance taxes and rents and royalties. The December forecast shows a dramatic increase for FY05 from the January estimate. Total energy-based revenues increased $198 million, which can largely be explained by higher natural gas and oil price assumptions. In FY06, however, energy-based revenues are expected to decline $79 million due to assumed lower energy prices and production levels.

Corporate Income Tax. The FY05 corporate income tax revenue estimate is revised from $123 million to $160 million, reflecting the rebound in FY04 collections and expected strong profit growth in energy and other sectors. In FY06 corporate income tax growth is expected to remain very strong, increasing by 25 percent to $200 million.

Interest Income. The FY05 estimate for interest income on state balances is expected to increase 61 percent from FY04 to reach $41 million. Interest income is anticipated to grow 22 percent in FY06 to $50 million. The primary reason for the significant growth is expected interest rate increases.

Other Revenues. Tribal gaming revenue was revised downward in the December estimate by $2.5 million in FY05 and FY06 to account for recently introduced bingo machines in San Juan Pueblo's casino. According to the Gaming Control Board, these machines represent Class II gaming and thus fall outside the purview of the state's revenue-sharing agreement. While the extent of the penetration of these machines is unknown, state revenues from Indian gaming could fall significantly if Indian casinos choose to replace Class III machines with the Class II machines.

Forecast Risks. There is a significant amount of uncertainty in the oil and natural gas markets. Oil prices have fluctuated sharply with geopolitical events, reserve reports, and changes in weather forecasts. Some market participants speculate that these factors resulted in a risk premium, raising prices higher than fundamental factors warrant. On the other hand, the consensus energy price assumptions have built in caution. The December estimate for energy-related revenues assume lower oil and natural gas prices than either CERA or the futures markets predict. Given the volatility of energy-related revenues, conservative assumptions are advisable but the level of caution is up for debate. For example, FY06 energy-related revenue estimates assume an average New Mexico natural gas price of $4.60, 50 cents less than the CERA New Mexico forecast and implying roughly $60 million in lower revenue. (Note the CERA forecast for FY06 natural gas price is $5.12, but the NYMEX futures price is over $6). Furthermore, reserves are in a healthy position and sufficient to absorb an unexpected price fall. In the final analysis, it should be recognized that although underestimated revenues are not "lost"—they become available the next year for nonrecurring purposes—underestimating recurring revenues constrains recurring spending, which might have higher priority.

Financial Summary. The general fund financial summary is reported in Table 4 in the back of this document. FY05 appropriations include LFC recommended nonrecurring special appropriations, information technology investments, and deficiency and supplemental appropriations. FY06 recurring revenues are supplemented by $7.5 million for a TRD enhanced audit initiative funded in the LFC budget recommendation. LFC recommended recurring revenues and recurring expenditures are roughly balanced. FY06 ending reserve balances are projected at $617 million, or 13 percent of recurring appropriations. Both the executive and LFC recommend that the reserve target, which traditionally has been 5 percent, be increased to 10 percent. The target is increased to reflect the policy change to accrual revenue accounting, uncertainty regarding oil and natural gas price assumptions, and the inclusion of the "education reform lock box" in the appropriation contingency fund. Reserves in excess of the 10 percent reserve target are estimated to be $149 million and are available for one-time spending, including capital expenditures and tax rebates. Finally, it should be noted that FY04 revenues are still preliminary because the executive has yet to determine how much money to recognize due to the change to accrual revenue accounting.

FY 07 BUDGET BASELINE

Revenue estimates are prepared for the current fiscal year, the budget year and three subsequent years. LFC staff also prepared an FY07 current services baseline spending estimate to contrast with the revenue estimate and test for structural stability. The fiscal structure is considered stable when revenues and the cost of providing current services grow at similar rates. Large deviations between these growth rates imply that future changes in spending or taxing policies may be needed. The LFC budget baseline presented here should be considered a work-in-progress. A collaborative effort with DFA is being planned for the near future. The revenue and expenditure baseline estimates are summarized in Table 5 in the back of this document. The baseline expenditure forecast uses the FY06 LFC budget recommendation by broad expenditure category as a starting point. The FY07 baseline assumes that the cost of providing current increases with overall inflation and service population growth. It also factors in additional spending specified in law. Spending in the legislative, general control, agriculture, and energy and natural resources sectors grows with inflation only. Spending in all other sectors increases with inflation plus population growth. The consumer price index is used as the inflation factor in all sectors except in the health sector, where medical inflation is used for the Medicaid program. An additional $20 million for education reform also is assumed, nearly all for the next stage of the three-tier teachers' salary increase. No adjustment is made for the Medicaid federal match (FMAP) rate, which may decrease based on early projections, thus increasing the share of costs paid by the state. Based on these conservative assumptions, spending growth needed to provide current services and meet other legal obligations in FY07 is estimated to be $175 million—a 3.7 percent increase.

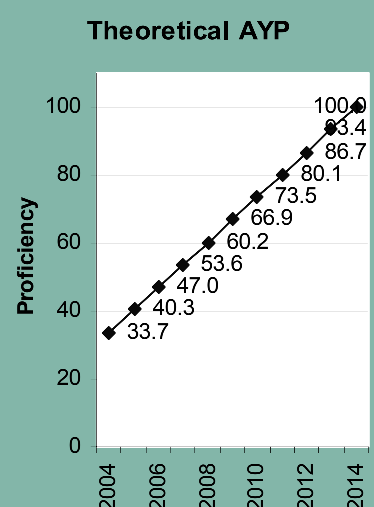
Comparing the flat revenue growth forecast for FY07 with the baseline spending forecast implies a recurring-to-recurring baseline spending deficit of about $169 million and an equivalent transfer from reserves. Given that the reserve accounts are currently very healthy, there is arguably room for a prudent drawdown; a draw of $169 million might be excessive. This implies that the Legislature and the governor would need at least to partially address the baseline fiscal imbalance by cutting spending or increasing taxes or both.

The pessimistic picture painted by this analysis is largely due to the flat revenue forecast. Assumed spending growth of 3.7 percent is modest compared with the 5.6 percent average for the past 10 years. A more optimistic revenue growth picture would only partially mitigate the problem. For example, if energy related revenues in FY07 are held constant at FY06 levels, revenue increases by $42 million, but even in this case there is a substantial $127 million shortfall. Other forecasted revenue decreases are based on current law. Personal income tax revenues are estimated to decrease because of the rate reductions scheduled for that year, and the other category shrinks as the transfer of tobacco settlement revenues sunsets.

Given the structural imbalance suggested by the budget baseline analysis, the LFC budget recommendation generally avoids recommending new program initiatives that will require recurring funding. Funding current programs already looks to be a challenge next fiscal year. Thus, financing pilot programs that are likely to need recurring funding with nonrecurring revenues implies that such initiatives will likely be sacrificed in future years, or paid for at the expense of current programs. The committee recommends that any suggested new programs be accompanied by analyses clearly demonstrating their value and the state's capacity to implement and support them. Value should be demonstrated with specific, realistic performance indicators. The capacity question should specifically address administrative issues such as who will do the work and their ability to perform.

Policy Analysis: **Public Education**

Accountability Designations	
FORMER NMAS RATINGS	NCLB/SRA DESIGNATIONS
Performance Warned	None
School Improvement I	School Improvement I
School Improvement II	School Improvement II
Corrective Action I	Corrective Action
Corrective Action II	Restructuring I
None	Restructuring II



A school scoring in the 33.7 percentile in proficiency in 2004 (4th Grade reading target) needs to make AYP at the rate of 5 percent a year until 100 percent proficiency is achieved by 2014.

LFC recommends $2.12 billion from the general fund for public schools, or 45.7 percent of the general fund for FY06. This includes an increase of $129 million in public school support. Details of the budget recommendation are found in Volume II; the following issues were considered by the committee in making the recommendation.

Achievement Gap. The achievement gap reflects the difference between identified subgroups and the school and statewide averages. For example, in fourth grade language arts, 64 percent of Caucasian students were proficient or better compared with 39 percent of African Americans, 38 percent of Hispanics, 61 percent of Asian-Americans, 24 percent of Native Americans, and 36 percent of the economically disadvantaged of all ethnicities and races.

On April 15, 2004, Public Education Department (PED) announced "Project Excel" to close the achievement gap with a goal of improving statewide proficiency by 3.5 percent to 5 percent in the next year. The following are components of the program: creation of the Secretary of Education's Advisory Council for Excellence and Equity, improved support to districts and schools through department reorganization, aggressive action planning with measurable goals and objectives, personalized support to districts, targeted district and school planning, alignment between state standards and the new criterion-referenced tests, increased parent involvement, focus on language acquisition and literacy, higher expectations of achievement, and a statewide professional development plan for educators. The first meeting of the advisory council was held on December 8, 2004, to develop an action plan for advising the secretary.

The 2004 General Appropriation Act included $1.6 million for incentives for school improvement. The committee suggests the Legislature may want to consider increasing the available funding through use of both recurring and nonrecurring funds. Because the yearly targets increase toward the goal of 100 percent proficiency by 2014, the number of schools not making AYP might grow without additional services. The current focus has been on teacher quality and pay as reflected by minimum education and experience requirements under three-tiered teacher licensure. Additional proposals to improve AYP achievement are before- and after-school sessions, a longer school day, a longer school year, additional pay to recruit highly qualified, experienced teachers by under-performing schools and other teacher incentives, and commercial supplemental learning programs. All these will require considerable planning and administration by the schools and districts and will have a significant financial impact.

Adequate Yearly Progress (2004) and Schools in the Improvement Cycle. In 2004, the New Mexico Accountability System (NMAS) ratings for public schools were changed to meet the requirements of the federal No Child Left Behind (NCLB) Act and the New Mexico School Reform Act. The key determinant is the adequate yearly progress (AYP) designation, which has three requirements for schools, school districts, and the state:

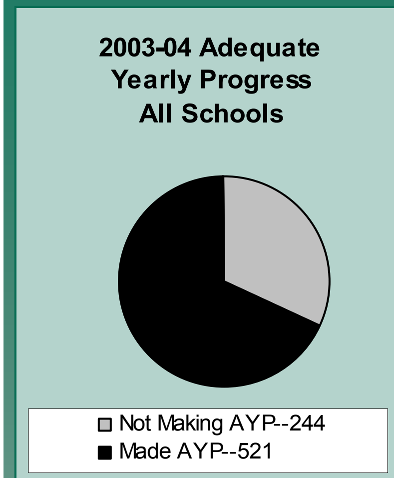
1. Achieve a 95 percent participation rate in state reading and math assessments in the school overall and among eight subgroups, which are based on ethnicity, economic status, and certain special needs,
2. Achieve student proficiency in reading of 33.7 percent among fourth graders, 44.82 percent among eighth graders, and 44.21 percent among 11th graders; and in math of 38.3 percent among fourth graders, 36.85 percent among eight graders, and 34.63 percent among 11th graders, and,
3. Either achieve 92 percent attendance for elementary and middle schools or 75 percent graduation rates for high schools.

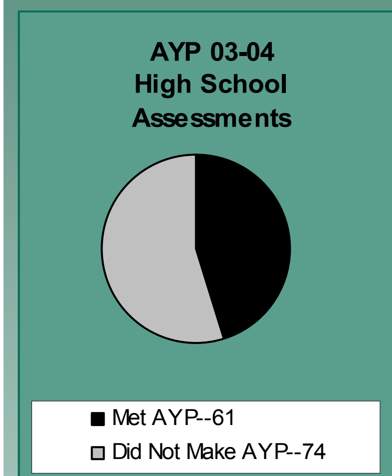
Targets for proficiency increase annually reaching a goal of 100 percent proficiency by the year 2014. Similarly, the graduation rate for high school reaches 100 percent in 2014.

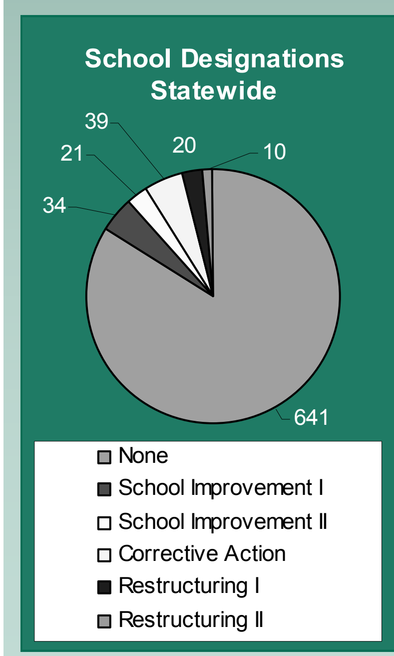
Schools already in the improvement cycle move to the new designations. Schools not making AYP two years in a row enter into the improvement cycle. They move down the list for each additional year of not making AYP. Schools in the improvement cycle making AYP two years in a row are removed from the cycle. The designations require increasing program requirements in an attempt to make AYP. Action items for "School Improvement I," for example, include notifying parents of the designation, implementing a school improvement plan (educational plan for student success or EPSS), and providing school choice to students. Actions increase in prescriptive measures to implementing supplemental services, replacing staff, extending the school year, and ultimately implementing alternative governance in "Restructuring II."

In the initial ratings issued August 30, 2004, 508 schools met AYP and 260 did not. One of the key reasons for not making AYP was participation rates, and, as a result, 125 schools requested recalculation of these assessments. PED determined that attendance numbers in the accountability data system (ADS) were not accurate at the time of testing for some schools and 13 schools were reclassified as making AYP. A disturbing statistic is the high number of high schools not making AYP (54.8 percent or 74 of 135). Under the previous rating system, 86.5 percent of the high schools were assessed at meets standards or higher.

There are 124 schools in the improvement cycle: 34 in School Improvement I, 21 in School Improvement II, 39 in Corrective Action, 20 in Restructuring I, and 10 in Restructuring II. Bernalillo, Gadsden Independent, Grants-Cibola county, and Los Lunas schools have greater than 30 percent of their schools in the improvement cycle; the Central Consolidated, Cuba Independent, Espanola, Gallup-McKinley County, Jemez Valley, Mesa Vista Consolidated, Mora Independent,



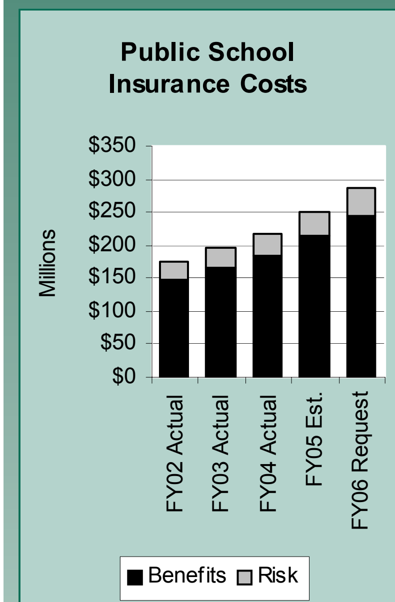




and Zuni schools all have more than 50 percent of their schools in the improvement cycle and 100 percent of the Dulce Independent Schools are in the cycle. Also of concern is that 14 of the 22 schools in the improvement cycle in Albuquerque Public Schools are located in the southwest quadrant of the city.

Of the schools in the improvement cycle for 2002-03, 19 schools made AYP two years in a row and are no longer designated as schools in need of improvement.

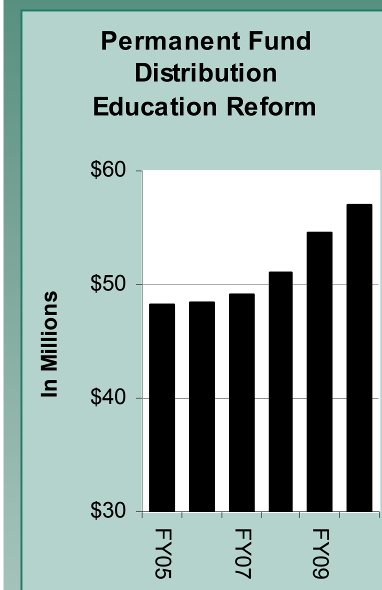
Compensation and Benefits. The education retirement fund now has an unfunded actuarial accrued liability of over $2 billion and an infinite amortization period. The Governmental Accounting Standards Board recommends this amortization period not exceed 30 years. To improve actuarial solvency, the Educational Retirement Board (ERB) is recommending the employer contribution rate be increased from 8.65 percent to 11.65 percent over five years, with additional contribution increases possible based on future actuarial studies. The committee will consider this as part of a compensation increase for public school employees. For FY06, the committee recommends an increase of 0.75 percent in employer contributions to the educational retirement fund, reducing the compensation increase by that amount. The committee also recommends any compensation increase for public school employees be the same as for all state employees but limited to those not receiving an increase as a result of minimum salary requirements of three-tiered teacher licensing.



As depicted in the graphic, health benefits and risk insurance cost increases continue to reduce the overall appropriation available for public school support. The New Mexico Public School Insurance Authority (NMPSIA) FY06 request is $287.6 million, a $35.2 million or 14 percent increase over the FY05 operating budget. Albuquerque Public Schools (APS) estimate a $5.5 million increase in FY06 will be required for their benefits and risk insurance programs. The general fund impact of these increases would be $28.9 million. However, NMPSIA recently reviewed its FY06 medical cost projection based on updated claims data that reflect implementation of new medical plans in FY05. They project a surplus in premium revenue over medical expenses and therefore the FY06 required increase for health benefits can be lowered by $8 million from the original request. This would reduce the FY06 general fund impact from $28.9 million to $20.2 million. The committee recommends $17.5 million from the general fund with the remainder coming from fund balances and contribution increases.

In addition, for the past three fiscal years, risk program spending for liability claims has exceeded the budget by at least $2 million per year. Recent trends show a leveling of workers' compensation claims but continued growth in liability and property claims. An additional $6 million was requested for the NMPSIA and APS risk-management programs. A higher level of commitment by PED, NMPSIA, APS, and local school districts to risk-mitigation training for teachers and school staff as well as preventive school maintenance will be needed to slow growth in risk claims.

Section 10-7-4 NMSA 1978 amended group insurance statutes and allowed school districts and charter schools to contribute up to 80 percent of the cost of insurance of all employees. To date, only Los Lunas Public Schools has increased the employer share but not to the 80 percent level permitted.



Education Reform Initiatives. A constitutional amendment passed in September 2003 provided an immediate increase in the annual distribution from the land grant permanent fund from 4.7 percent to 5 percent of the five-year average of the year-end market value of the fund. For FY05 through FY12, the amendment will provide an additional distribution of eight-tenths of 1 percent, for a total of 5.8 percent. It provides an additional distribution of one-half of 1 percent for the four years after that (FY13 through FY16) for a total distribution of 5.5 percent. The amendment requires any distribution above the 5 percent be used to implement and maintain education reform.

Because of the timing of the passage of the constitutional amendments, the Legislature decided to use the amount of new revenue generated above the 4.7 percent and $67 million was considered available for education reform for FY05. Of that amount, $47 million was appropriated in recurring in FY05 and an additional $10.9 million in nonrecurring funds was appropriated for FY04 and FY05. With the increase of $51.8 million for the three-tiered licensure implementation, all anticipated additional reform funds have been committed and further education reform will need to directly come from the general fund.

The 2004 General Appropriation Act included a $120 million transfer to the appropriation contingency fund for the purpose of implementing and maintaining education reforms. This fund is referred to as the "education lock box." These funds are nonrecurring and should only be used to initiate recurring purposes when revenue forecasts project sufficient increases to continue new programs. The committee recommends using the "education lock box" for the following nonrecurring expenditures: $7 million of this fund for the data warehouse project (by a transfer to the computer system enhancement fund), $4 million for a pilot of the pre-kindergarten program, $1 million for National Center for Education Statistics chart of accounts implementation, $7.3 million for criterion-referenced tests development, and $350 thousand for a public school funding formula study.

Of the $10.9 million nonrecurring education reform appropriated in 2004, most was unspent as of December 2004. Nevertheless PED requested continuation of these appropriations and another $50 mil-

Proposed Four-Tier Education Assistants Licensure Ladder

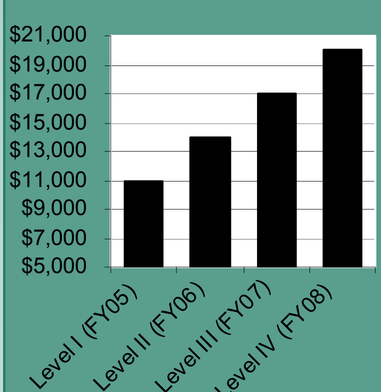
Level I
Minimum Salary, $11,000
Established FY05
License provisional for two years, nonrenewable, and would not meet NCLB requirements.

Level II
Minimum Salary, $14,000
Beginning FY06
License would be a nine-year renewable license for state qualified EAs not meeting NCLB requirements.

Level III
Minimum Salary, $17,000
Beginning FY07
License would be a nine-year renewable license for those meeting NCLB requirements but who have not earned an academic degree.

Level IV
$20,000
Beginning FY08
License would be renewable for nine years for those meeting NCLB requirements and having associate's or higher degree.

Proposed Educational Assistant Minimum Salaries



lion in FY06 for new initiatives categorized by the department as nonrecurring for a total of $59.7 million. Most, if not all, of these initiatives will result in recurring requirements in out-years. The committee recommends that any funding for FY05 initiatives come from the "education lock box." and appropriations be contingent on requirements for performance evaluation based on criteria that includes improved student performance outcomes.

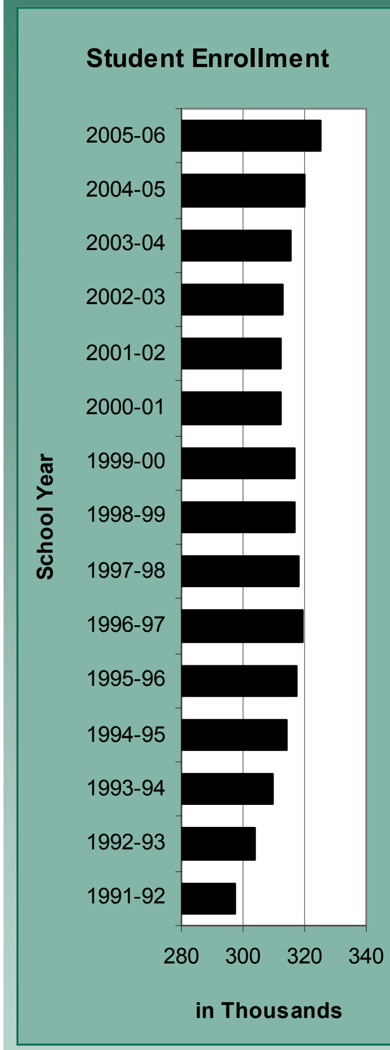
Educational Assistants Career Ladder. Section 22-10A.17.1 NMSA 1978 establishes a minimum annual salary for licensed educational assistants (EAs) of $12 thousand in FY05. However, the secretary of the Public Education Department was given the authority to reduce the minimum salary in accordance with appropriations for that purpose in each school year. Within the state equalization guarantee in the General Appropriation Act of 2004, $5 million was provided. The secretary set the minimum at $11 thousand for FY05. The department did not include a request to raise minimum salaries to the statutory requirement.

NCLB requires EAs working in schools partially funded by federal Title I funds to meet one of the following requirements by January 2006: two years of post-secondary study, an associates or higher degree, or a demonstrated rigorous standard of knowledge through state assessment.

The Educational Assistants' Career Ladder Work Group testified before the Legislative Education Study Committee that it would propose establishing a four-tier licensure. Approximately 6,100 FTE EAs are in New Mexico. The cost estimate for FY06 is $7 million. No total cost for implementation has been estimated; however, it is anticipated that Level I and Level II EAs will quickly progress to Level III because 88 of the 89 school districts receive federal Title I funding. Some districts are providing the educational opportunities to earn the associates degree and others are assisting in classes related to the testing requirements. Some legislators and administrators have questioned the need for Levels I and II and would establish a minimum pay structure requiring NCLB certification as part of licensure. The committee recommends $1.5 million to fund the current statutory requirement.

Elementary Fine Arts. The Legislature in 2003 enacted the Fine Arts Education Act to encourage local school districts to offer elementary school students opportunities to participate in visual arts, music, theater, dance and other fine arts activities. The original intent was to phase-in the program with a $4 million appropriation the first year. An additional $4 million was appropriated in 2004; however, due to the agency interpretation of the law, PED decided to allow participation by all districts in FY05. All but two small school districts implemented the program. This decision was factored into setting the unit value for FY05. The Public School Finance Act establishes a cost differential factor for fine arts of 0.0166 for FY04, 0.0332 for FY05, and 0.05 for FY06 and succeeding fiscal years. The number of fine arts program units is determined by multiplying the full-time equivalent students by the factor. To fully fund the program in FY06, an additional $15.3 million would be required for existing qualified programs. PED is proposing continuing the factor at the current 0.0332. The committee supports this recommendation if the program is fully implemented by all districts for eligible children. The committee recommends $2.5 million to fund the program at the current factor.

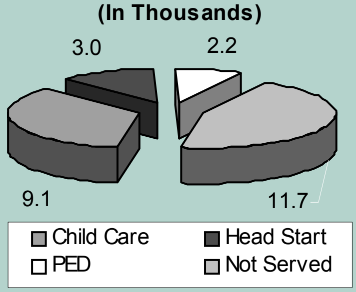
Enrollment Growth Projections. In past budget recommendations, growth has been underestimated and the committee desires that the recommendation provide a realistic estimate of expected student growth. PED estimates an enrollment growth of 1,720 students for the 2005-06 school year, an increase of 0.69 percent. Estimated units are projected to be 637,000, an increase of 13,500 units, or 2.16 percent. At the current unit value of $3,035.15, the growth would require almost $41 million. However, the committee questions the assumptions about full-day kindergarten growth of more than 7,000 projected students because full-day kindergarten was fully implemented in FY05 and, while some growth can be anticipated, it will not be of the magnitude that occurred between FY04 and FY05. Using the 4-year-old cohort projected by PED in the pre-kindergarten proposal of 28,000, the committee recommends reducing the growth estimate by 3,000, and the committee recommends $10 million be included for expected growth.



Full-Day Kindergarten. Full-day kindergarten has been fully implemented. PED issued a report, *Efficacy Study of Full Day Kindergarten*, that attempts to show the benefits of the program. It uses the dynamic indicators of basic early literacy skills (DIBELS) test results for the 2003-04 school year. The report summarizes the results of data from 66 districts and 16,037 students. Of those tested, 38 percent of students entered full-day kindergarten meeting the required benchmark for reading success. By the end of the school year, the percent increased to 55 percent. However, in initial sound fluency, 40 percent entered with proficiency and this declined to 31 percent at the end of the year. The report states, "These data indicate that the core curriculum and instruction in the area of phonological awareness needs to be evaluated." What is missing from the report is a comparison of results from children in half-day programs to those in full-day during the phase-in. However, the data was not collected. Future legislation in any new program should require comparison data of baseline data to results after implementation to determine if program goals were achieved and to allow program managers to make adjustments as required to improve outcomes.

The committee recommends replacing $4 million in TANF earmarked for full-day kindergarten with revenue from the general fund in FY06.

4-Year-Olds in New Mexico Early Education 2004
(In Thousands)



PED and CYFD estimate New Mexico has between 26,000 and 28,000 4-year-olds. Of these, approximately half are receiving some early education or childcare services.

High School Reform. New Mexico and the nation are undergoing unprecedented economic, social, and demographic shifts. The challenge facing education is to raise its sights to ensure all students successfully complete high school and are well-prepared for post-secondary education and the complexities of the workforce. The reality is New Mexico ranks 46th in high school graduation rates and 45th for those in post-secondary education ages 25 to 34. Test scores show an achievement gap between the diverse ethnic and economic groups, and New Mexico personal income as a percent of the national average has declined since 1980. As a result, PED and New Mexico First conducted a Town Hall on the "New Mexico High School Initiative." The draft report provides 17 recommendations for improving high schools, including aligning the curriculum to earlier grades and with colleges and universities, implementing a more rigorous curriculum of academic courses for graduation, raising teacher expectations for student performance, improving student and teacher mentoring, and increasing parental and community involvement. The final report will be issued by the end of December 2004 and an implementation team will be appointed to develop actions plans for each of the recommendations. Course requirements for graduation are found in statute.

Pre-Kindergarten Initiative. On September 27, 2004, at Emerson Elementary School in Albuquerque, Governor Richardson held a press conference to introduce his initiative for a voluntary 4-year old, half-day, pre-kindergarten program to be phased-in over a five-year period. Enabling legislation will be requested during the 2006 legislative session, and the initial funding request is estimated at between $7 million and $9 million. No overall program cost has been calculated but estimates range from $50 million to $70 million if implemented statewide. The program is to be managed by the Public Education Department (PED) with full and complete cooperation of the Children, Youth and Families Department (CYFD). At the local level, early childhood community councils would be established to manage the local program that would use a mix of public school pre-schools, private providers both in centers and in homes, faith-based providers, and federal Head Start programs. PED would set the standards, curriculum, and teacher qualifications, and issue requests for proposals. The community councils would develop the local plan and request funding from PED.

From information presented at the press conference, 9,100 are served in CYFD licensed or registered programs, 3,000 in federal Head Start, and 2,200 in PED pre-school programs for developmentally disabled children. The initial plan is to phase-in pre-kindergarten to the 11,700 not currently being served and enhancing the programs being offered to the other children through staff development and introduction of PED standards.

While initially the proposal was well-received, issues are now being raised by childcare providers and tribal representatives. Childcare providers have concerns that school districts will provide the pre-kindergarten programs within schools resulting in loss of clientele and income to childcare centers and homes. Representatives from the New Mexico Child Care Association expressed concerns of the loss of key staff and enrollment because of a state-funded pre-kindergarten program. Concerns were expressed at an Alamogordo Public School Board meeting on the role of the board and childcare providers in the proposed program. Native American representatives stated at the PED sponsored government-to-government meeting that the program will result in children being separated from parents at a critical time. Some tribal representatives questioned whether the program would be voluntary. The most vocal criticism was the program would be "English-based," denying Navajo children the chance to learn their native language.

The committee recommends a true pilot program because the proposal is still being developed. Questions of governance at the local level and the role of existing childcare program must be resolved before proceeding. The committee suggests the proposal be reduced in scale to approximately $4 million, funded from the "education lock box," and targeted at districts and schools within districts that have chronically underperformed. Key factors for selection should be schools in the improvement cycle, and those having high percentages of students receiving free or reduced lunch, a high number of English language learners, and a lack of private childcare services in the community. Key performance indicators need to be developed to measure whether the program results in improved success in school. Only after an extensive evaluation documenting student performance improvement should the program be expanded.

State Equalization Guarantee Formula Issues. The intent of 1974 Public School Finance Act (Sections 22-8-17 through 25 NMSA 1978) is to equalize financial opportunity at the highest possible revenue level and to guarantee each New Mexico public school student equal access to programs and services appropriate to educational needs regardless of geographic location or local economic conditions. Approximately 90 percent of the public school's operational revenue is derived from the state equalization guarantee (SEG) appropriation. Often referred to as the public school funding formula, SEG is the mechanism used to distribute funds appropriated through the Public Education Department (PED) to individual school districts.

The last comprehensive study of the formula was done in 1996-97 at a cost of $150 thousand. Adjustments to the formula have been made for specific items without a review of the total formula. For example, a factor for elementary fine arts was added in 2003 as an add-on to elementary school funding. The 2003 General Appropriations Act included $300 thousand to the Legislative Education Study Committee to study the formula; however, the provision was vetoed. Among the issues being studied by several workgroups working on education issues are a career ladder for educational assistants, minimum salaries for principals, and charter schools. In addition, as previously noted,

Think New Mexico Proposed Cost Savings

Realizing Economies of Scale: Based on estimates from the executive's "Save Smart New Mexico" program, a potential of $24 million could be saved through cooperative purchasing through the regional education cooperatives (RECs). By removing duplication of administrative services and overhead in smaller school districts and consolidating functions at RECs, $13.9 million could be saved. Think New Mexico notes the cost of district administration in New Mexico is 2.8 percent of the total cost of education while it is 0.4 percent in as Arizona and Utah.

Restructuring Districts: By consolidating the small districts of Cuba, Mesa Vista, Vaughn, Wagon Mound, and Las Vegas, Think New Mexico estimates $1.9 million could be saved through the elimination of administrative overhead. Think New Mexico recommends Albuquerque Public Schools and Las Cruces be broken up into smaller districts approaching the optimal size of 10,000 to 15,000 students. Larger districts generate additional costs as layers of administration and services are added. The estimated savings is $39.7 million.

Rethinking Salaries: Salaries at PED are substantially lower than in districts. This makes recruitment and retention of staff at PED difficult. The recommendation is to equalize administrative salaries across the state based on PED salaries. Estimated savings is $2.9 million.

Revolutionizing Energy Efficiency: Through retrofitting to new technologies and conservation, Think New Mexico estimates energy savings of 30 percent, or $12.5 million, are possible.

Re-Engineering PED: The report recommends changing PED's role to one of enforcer and moving assistance efforts to the regional education cooperatives. It also recommends reducing regulations to a reasonable level (from 665 pages). Estimated savings are $900 thousand.

the elementary fine arts factor will increase by statute from 0.0332 to 0.05 in FY06; PED proposes keeping the factor at the existing, lower number. Growing districts complain the enrollment growth factor is too low; districts losing students complain size adjustment units are insufficient to continue programs in existence. Charter schools are allowed to receive small-school formula adjustments, resulting in more funding per student than in other public schools in the district. The relationship of the training and experience index and three-tiered teacher licensure also needs to be considered.

The committee supports a complete review of the formula to ensure the original intent of SEG is maintained and any changes are considered within the context of the formula as a whole. It recommends $200 thousand from the "education lock box" for a complete study of the formula to lead to statutory changes in the Public School Finance Act.

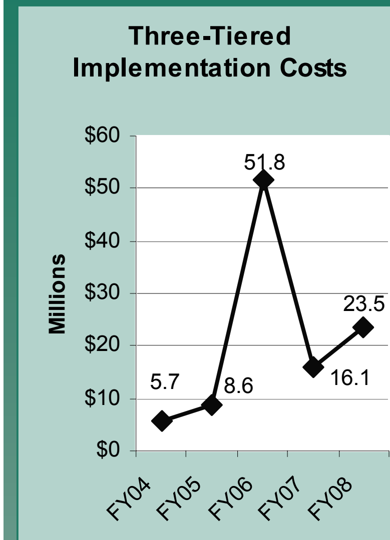
Think New Mexico. Think New Mexico, a private think tank, in its report, *Re-Allocating Resources: How to Pay for Voluntary Prekindergarten for Four-Year-Olds Without Raising Taxes*, estimates $95.8 million could be saved in public education through economies of scale, restructuring districts, rethinking administrative salaries, retrofitting buildings to be more efficient, and restructuring PED.

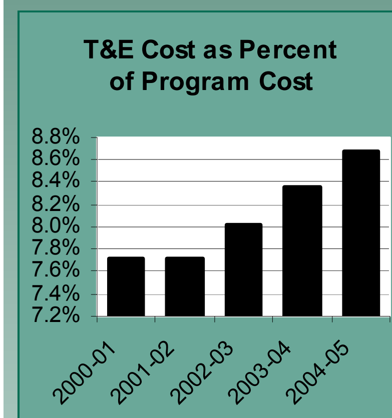
The committee has reviewed these proposals and determined further study and analysis is required and has asked PED to comment on the report. Several suggestions have merit, such as cooperative purchasing, streamlining administrative duplication, and reduction in PED regulations. However, representatives from the superintendents' association stated most, if not all, school districts are already using cooperative purchasing arrangements and doubt if significant additional savings can be realized. The savings estimated from breaking APS and Las Cruces into smaller districts need extensive analysis to determine if it is realistic. Think New Mexico used a tautological argument that smaller districts are more efficient, without proof, and then derived the estimate by comparing costs per student for smaller and larger districts and multiplying by the number of students. No detailed analysis was provided of specific savings. The committee is reluctant to specify a dollar savings until PED fully studies the recommendations; the committee discourages using any estimated savings to fund new programs at the expense of existing ones. Any savings occurring should remain in SEG to compensate for past underfunding of growth, cash balance reductions, and elementary art with the goal of increasing the unit value calculated from SEG.

Three-Tiered Teacher Licensure. In 2003, the New Mexico Legislature enacted the Public School Reform Act, which included three-tiered teacher licensure and specific requirements for licensure with minimum salary levels as follows:

2003-2004	All Levels	$30,000
2004-2005	Levels 2 and 3	$35,000
2005-2006	Levels 2 and 3	$40,000
2006-2007	Level 3	$45,000
2007-2008	Level 3	$50,000

After 2008, the minimum annual salary will be $30,000 for Level 1, $40,000 for Level 2, and $50,000 for Level 3. The Legislature provided $5.7 million in 2003 and $8.6 million in 2004 to fund these salary increases through the state equalization guarantee. Estimated costs for 2005 are approximately $51.8 million. The original estimate for the third year of implementation was $36 million, inadequate based on the actual salaries. Because approximately 86 percent of teachers are either Level 2 or 3, FY06 is expected to be the most expensive year for implementation, with growth in funding dropping to $16 million in FY07 and $23.5 million in FY08. Out-year estimates will be adjusted based on teacher retention and upward movement through levels of licensure.

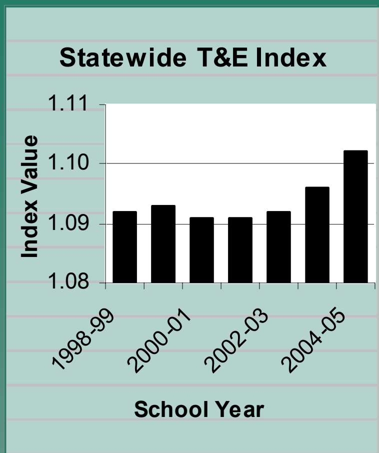




<u>**Training and Experience Index.**</u> The current version of the training and experience (T&E) index was adopted as part of the public education funding formula in 1978 with the express purpose of reducing high teacher turnover in many districts and bringing stability to the teaching force, removing an excuse several districts were using at the time for underpaying teachers for their classroom experience. The index was also intended to reward districts that employed "higher quality" teachers having academic credentials and more teaching experience. The index is defined in Section 22-8-25 NMSA 1978. A T&E index is computed for each teacher (FTE) based on the degree earned, ranging from less than a bachelor's to post-master's degree, and years of experience from none to more than 15 years. An index is computed for each district. Earned units from the formula used to calculate the state equalization guarantee are multiplied by the district T&E index. The state average has been increasing over the past four years and T&E as a percent of program costs has risen from 7.71 percent to 8.68 percent.

No changes were made in the T&E index calculations as a result of three-tiered teacher licensure. The new licensure system was based on the premise of paying teachers for performance in the classroom leading to improved student outcomes rather than inputs of years of experience and education. A funded study by Augenblick, Palaich and Associates recommended a blending of the three-tier licensure and T&E but recommended changes to formula be delayed for at least one year.

If, as expected, education reform results in better recruitment and retention of teachers, the T&E index will continue to drive an increase

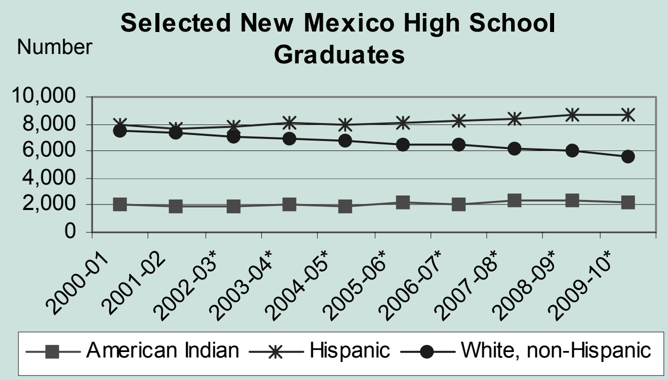


in teacher's salaries, requiring a greater share of the state equalization guarantee for the index. However, while all districts reported meeting the minimum salary requirements of three-tiered licensure, 28 of 89 districts did not give the 2 percent raise included in the General Appropriation Act of 2004. Six of these districts reported as being in collective bargaining but other districts cited declining enrollment as the major reason for not giving the raise. Twenty of these districts were above the statewide average for T&E, and eight were below. Districts, such as Albuquerque, complained they were unable to give the 2 percent raise in addition to the three-tiered requirements because funds for the raise had to be used for three-tiered salary increases.

The Public Education Department in cooperation with the Legislative Education Study Committee has convened a Training and Experience Index Workgroup to focus on the following:

- Implications of the three-tiered licensure system on the T&E index,
- Alternatives to the T&E index,
- Viability of the inclusion of instructional support staff, and,
- Recommendations for the 2005 legislative session.

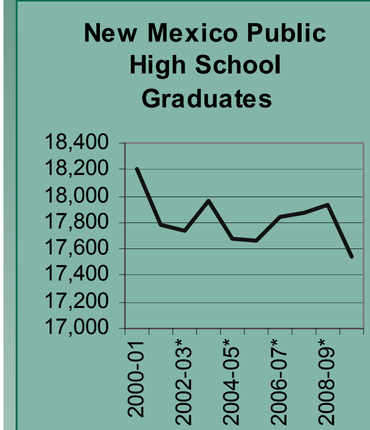
The workgroup is reviewing proposals in the Augenblick, Palaich and Associates, Inc. report plus inputs from members of the group. Because the cost of three-tiered teacher licensure will be $51.8 million in FY06, the Legislature must ensure the required funding is provided to the school districts to fund the minimum salary levels. PED should demonstrate that the current formula will do so or recommend statutory adjustments to ensure sufficient distribution.



Source: *Knocking at the College Door: Projections of High School Graduates by State, Income, and Race/Ethnicity*, December 2003

The committee's Higher Education recommendation is intended to continue the state's grade of A in the area of participation as reported in *Measuring Up 2004*, the state higher education report card. To the extent the state's strong financial position creates an opportunity for investment, the recommendation moves the state forward in addressing poor grades received in the areas of preparation, affordability and completion.

Knocking at the College Door. Late in 2003, the Western Interstate Commission on Higher Education (WICHE) updated its projections of high school graduates across the nation in its publication *Knocking at the College Door: Projections of High School Graduates by State, Income and Race/Ethnicity*. WICHE projects state-by-state enrollment in higher education by forecasting high school graduates. WICHE predicts, high growth rates are projected for California, Nevada, Arizona, Texas, and Colorado from economic and demographic drivers. The study shows New Mexico has seen relatively little growth in high school graduates since the beginning of the decade, and New Mexico projections are flat to declining through 2018, similar to Oklahoma and Nebraska, followed by Wyoming, Montana, and North and South Dakota. In New Mexico the number of white high school graduates is projected to decline, while the number of Hispanic students is projected to increase.

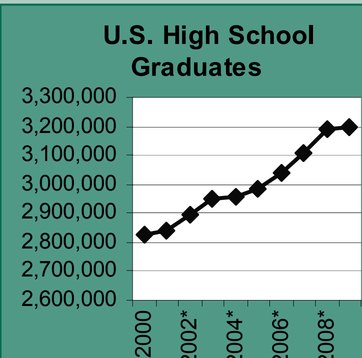


* Indicates projected numbers

New Mexico postsecondary higher education institutions have recently experienced strong enrollment growth and funded workload growth, driven by the following:

- Economic conditions (economic downturns typically result in people going back to college)
- Needs for continuing education and skills for the workplace,
- Extending access,
- Alternative delivery mechanisms,
- Retention initiatives,
- Concurrent enrollment growth.

Several states are currently developing or updating statewide higher education strategic plans, incorporating analysis from enrollment modeling and environmental scanning. The Commission on Higher Education (CHE) needs to work in a similar vein on a collaborative basis with institutional experts.



* Indicates projected numbers.

Source: Western Interstate Commission for Higher Education, 2003.

Governor's Task Force on Higher Education. A significant effort this year was the work of the Governor's Task Force on Higher Education. The LFC recommendation and the task force include fully funding higher education workload, advancing the state's higher education funding formula through the inflationary factors, providing

Measuring Up 2004 Report Card for New Mexico Higher Education

Preparation	F
Participation	A-
Affordability	F
Completion	D
Benefits	C+
Learning	I

Measuring Up 2004 Report Card Preparation

A Colorado, Connecticut, Maryland, Massachusetts, New Jersey, New York, Utah

B Alaska, Illinois, Iowa, Kansas, Maine, Minnesota, Missouri, Montana, Nebraska, New Hampshire, North Carolina, North Dakota, Pennsylvania, South Dakota, Virginia, Washington, Wisconsin

C Arkansas, California, Delaware, Florida, Georgia, Hawaii, Idaho, Indiana, Kentucky, Michigan, Ohio, Oklahoma, Oregon, Rhode Island, South Carolina, Tennessee, Texas, Vermont, West Virginia, Wyoming

D Alabama, Arizona, Mississippi, Nevada

F Louisiana, New Mexico

compensation increases for faculty and staff, enhancing accountability, and implementing a performance funding mechanism to address improvements in institutional performance.

Accountability and Performance. The report *Measuring Up 2004* highlighted New Mexico's higher education performance. New Mexico received an A- for its approach to participation, as reflected in various measures of the number of students enrolling in higher education. The state's grades were low in other areas. For example, the authors found, "New Mexico's young people are poorly prepared for college-level education, undermining their chances for success. The state is weak in providing students and families with an affordable higher education. This may undercut state efforts to send clear messages to students about the importance of taking rigorous courses and being prepared academically during high school."

In the area of *preparation*, the report found over the last 10 years, the state showed no notable progress in preparing students to succeed in college. New Mexico is one of only two states to receive an F in preparation in the 2004 report. To prepare students for success in postsecondary institutions, the Legislature might consider requiring a rigorous high school curriculum as well as enhancing the effectiveness of concurrent enrollment programs made available to all interested students. Over time, a coordinated approach is expected to result in increased readiness for college, improved student persistence and graduation as well as a reduction in the cost of remedial courses within the higher education budget.

The committee recommendation includes enhanced funding for the NM MESA (Mathematics Engineering Science Achievement) program, a program designed to promote math and science enrichment for pre-college students from historically underrepresented ethnic groups in 101 middle and high schools in New Mexico. The NM MESA program prepares these students for college majors and careers in mathematics, engineering, science, and related fields. The requested funding increase was supported by performance goals, measures, and accomplishments. In a survey of 2003 graduates, 99 percent of respondents were attending a two- or four-year degree granting institution with 74 percent at a New Mexico institution. The average ACT score of those graduates was 22. In their request, program managers linked incremental funding to their action plan; the funding will serve school districts needing feeder schools, including Las Cruces, Pojoaque and Gallup, Taos and, Jemez Mountain. Only about one-third of all New Mexico school districts have NM MESA programs. Based on findings of a program evaluation conducted in 1996, additional MESA funding should boost grade point averages leading to ACT scores exceeding state and national averages and raise completion rates for college preparatory math and science courses.

Affordability. Over the last decade, New Mexico showed no notable progress in providing affordable higher education opportunities according to the *Measuring Up 2004* report. This ranking was based on the availability of state funds for need-based financial aid. The lottery scholarship program is considered a merit-based program, and it is not possible to identify which lottery scholarships are awarded to students with need. The state clearly needs to improve on the need-based component of its state financial aid programs, such as state student incentive grant and work study.

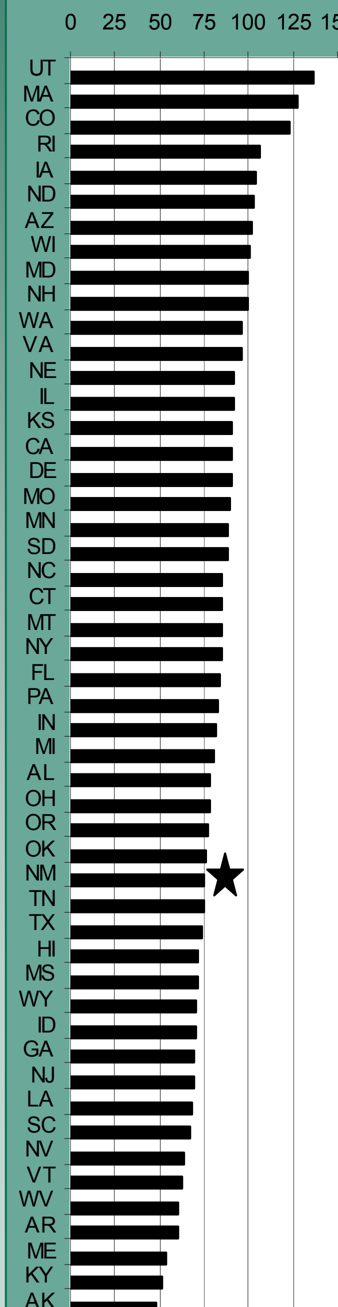
To address the state grade on affordability, the committee recommends a significant increase in need-based financial aid programs to balance the availability of merit-based scholarships from the lottery scholarship fund.

Articulation and Completion. Despite substantial improvement over the decade, relatively few students in New Mexico earn a certificate or degree in a timely manner. The number of community college students continuing to a second year posted a notable drop in the report.

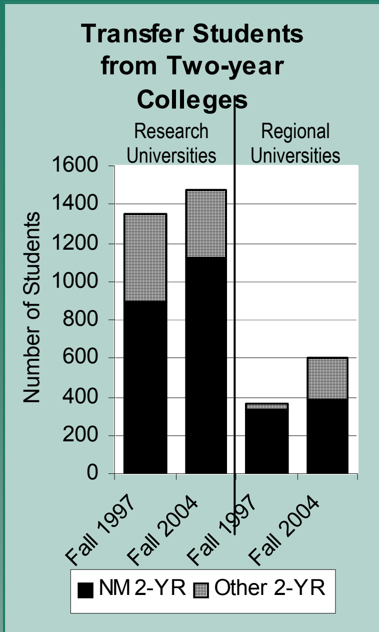
In July 2004, the commission established an articulation task force to "guarantee the transferability of academic coursework among New Mexico public two- and four-year institutions." Representatives of all four-year universities and several two-year colleges are developing a common numbering system for the general education core of classes and formulating a policy to mandate the acceptance of New Mexico two-year institutions' 35 hours general education core and the transfer of 64 hours of lower-division, college-level credit in specific majors. The initiative will include accountability measures and an assessment process. The group is expected to endorse legislation in the 2005 session to formally revise statutes to address the initiative.

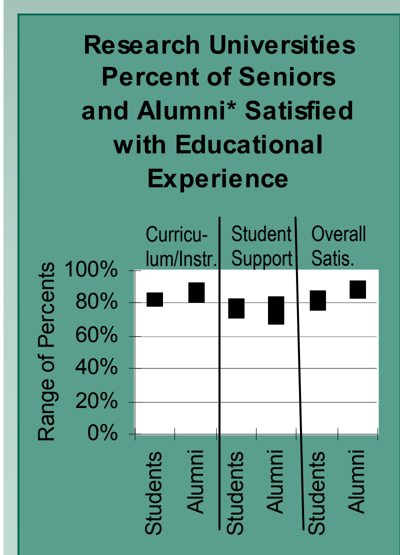
Adequacy. The National Center for Higher Education Management Systems is engaged in an analysis of higher education finance. The objective of the analysis is to relate institutional funding to adequacy. The analysis is summarized so that states can be compared. Adequacy is defined as the funding required to fulfill assigned mission at a level that meets clients' expectations. The project analyzes funding data along with key measures and develops a benchmark that represents the average funding level for the 10 states with the highest levels on each performance measure. The preliminary analysis notes New Mexico's poor performance in the student pipeline as discussed by the 2004 committee recommendation. Recent data from the draft report confirms New Mexico is a poor performer in producing undergraduates (see Volume II Appendix Higher Ed-A) but is strong in producing students with doctoral-level credentials. The state meets the benchmark for federal and industry research and development per capita. Overall the state's higher education sector ranks in the second tier out of three. (See Volume II Appendix Higher Ed-B through Higher Ed-D.) As it progresses, the project will be important to determine key areas for improvements in New Mexico's higher education sector and associated funding needs.

National Center for Higher Education Management Systems Performance Relative to Total Funding per FTE (Overall State Index Scores)



Policy Analysis: **Higher Education**





*Alumni = Bachelor Degree Recipients

Accountability in Government Initiative. The improvements in higher education reporting this year have been mixed. Colleges and universities are reporting a measure to track student persistence through the academic year. The committee recommends continued refinement of benchmarking processes to set performance targets. Some institutions have shown difficulty in submitting required information on a timely basis. The committee is encouraged the University of New Mexico Health Sciences Center (HSC) is now reporting performance accountability data across the spectrum of its operations. The new performance measures include: (1) measures in common with main campus, such as degrees awarded and research and public service expenditures; (2) measures to address medical and nursing student performance, including licensure pass rates; (3) measures on hospital operations, and (4) measures on other initiatives of the HSC. Of particular note, the HSC used a benchmarking process to develop targets. Special schools, such as New Mexico Military Institute, New Mexico School for the Blind and Visually Impaired (renamed pursuant to November 2004 constitutional amendment), and New Mexico School for the Deaf are participating in the accountability process. In the coming year, these agencies will be asked to further refine their performance measures and participate in the quarterly reporting process as well as benchmarking to improve target setting.

Through the National Conference of State Legislatures, performance management experts at the Urban Institute provided input to the committee on issues surrounding performance of the state's four-year, postsecondary institutions. Key concerns identified in the draft report are significantly lower graduation and retention rates at comprehensive universities compared with research universities, insufficient minority student recruitment at some regional institutions, the need for improvement in quality reflected in graduating senior satisfaction and alumni satisfaction surveys, and significantly lower graduation rates for males at certain institutions. The draft report found a need for more transparent comparisons among institutions.

The committee is encouraged the New Mexico Department of Agriculture (NMDA) developed a strategic plan in 2004. The process involved 42 external stakeholders and 32 employees. The new plan includes goals and objectives for several priority areas: global marketplace development; food safety and security; natural resources and environmental quality; food, health, and consumer awareness; economic development and value-added processing; agency leadership and management capacity; and regulatory compliance. The committee recommends NMDA develop an action plan including performance measures. Further, the committee recommends the department provide quarterly performance measures as a "key" agency under the Accountability in Government Act.

LFC also is concerned about the need for performance accountability for research and public service projects at four-year institutions. For the second year, the CHE has not reviewed performance of these projects.

Management Issues. Several management and funding issues need special additional attention in the upcoming interim. First, it is worth considering the extent to which postsecondary institutions are subsidizing athletics deficits with state instruction and general monies. Second, the LFC, in collaboration with DFA, needs to develop a better process for the reporting and review of higher education institution budget adjustments. Third, the University of New Mexico Health Science Center's opportunity to receive federal funds for reimbursement of costs of serving undocumented aliens should be examined. Section 1101 of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 made funds available to reimburse hospitals for emergency health services provided to undocumented aliens. The new program, Federal Reimbursement of Emergency Health Services Furnished to Undocumented Aliens, provides Medicare-equivalent reimbursement directly to hospitals on a quarterly basis. According to Federal Funds Information for States, hospitals in New Mexico are eligible for total reimbursement of $5.1 million in federal fiscal year 2005.

National Funding Trends. New Mexico's funding commitment to higher education is particularly notable given the recent declines in state funding in most states. Increases in appropriations for New Mexico higher education have ranged from about 4 percent to 6 percent over the last few years. According to the latest available data from The National Information Center for Higher Education Policymaking and Analysis, New Mexico ranks first among the 50 states in the following:

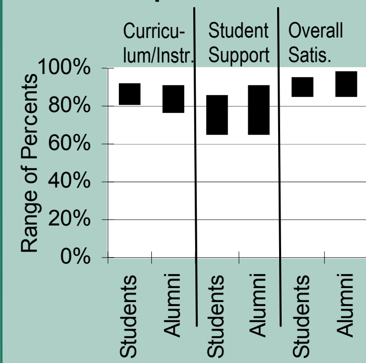
- Higher education appropriations relative to state and local tax revenues,
- Appropriation of state tax funds for higher education per $1,000 of personal income,
- Appropriation of state tax funds for higher education per capita.

The Chronicle of Higher Education reported that for FY04 state spending for higher education dropped 2.1 percent, the first spending cut since 1992-93 when appropriations dropped 0.9 percent.

An October 2004 study by The College Board found tuition increases nationally in 2004-05 were smaller than the prior year, but still high by historical standards. The study noted average college tuition and fees in 2004-05 at four-year public institutions increased from $4,645 to $5,132, an increase of 10.5 percent. At two-year public institutions, tuition and fees average $167 more than the prior year at $2,076, up 8.7 percent. The study noted the average net price masks impacts by income categories, i.e. "changes in distribution of state and institutional grant aid, as well as the introduction of education tax benefits as tuition and fee deductions, have benefited middle- and upper-income students more than lower-income students."

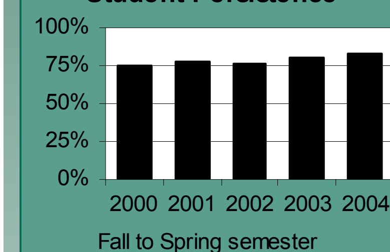
New Mexico Higher Education Funding Update. State higher education policy needs to better balance increases in state appropriations for student financial aid with increases in tuition rates and increases in

Regional Universities Percent of Seniors and Alumni* Satisfied with Educational Experience

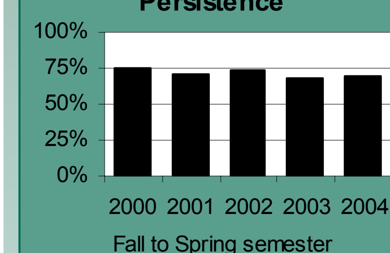


*Alumni = Bachelor Degree Recipients

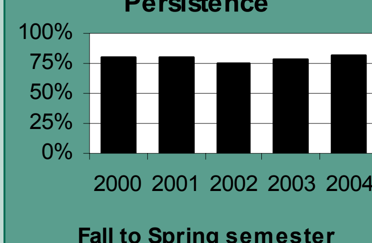
Albuquerque TVI Student Persistence

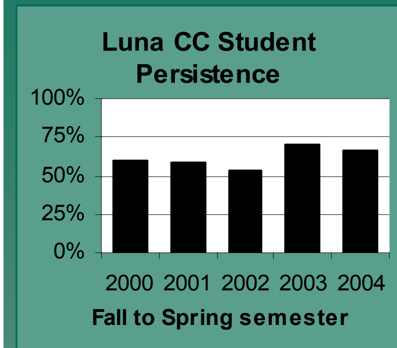


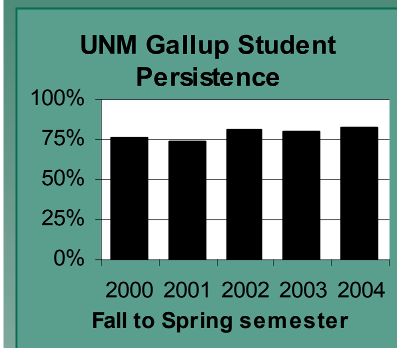
Clovis CC Student Persistence



SJC Student Persistence



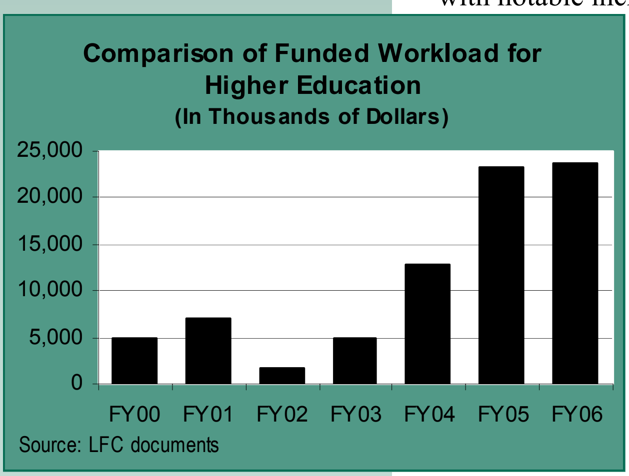




state appropriations to institutions. Further, institutions should address cost containment and productivity gains. The highest tuition increases for the 2004-2005 academic year were 13.2 percent, 13.6 percent and 13.9 percent at Santa Fe Community College, the University of New Mexico-Main campus and New Mexico State University-Grants, respectively. In comparison, the Legislature assumed postsecondary institutions would increase tuition by 4 percent in the General Appropriation Act. (See Volume II Appendix Higher Ed-E.) Further, Western New Mexico University and Mesalands Community College raised resident undergraduate fees more than 10 percent. The committee is concerned about large increases in tuition rates and fees and the resulting implications to access and student and family debt loads.

As presented in Volume II Appendix Higher Ed-F and the sidebox, the cost of workload is accelerating, to over $30 million for FY06 with an increase of 4.5 percent from the prior year. Clearly, the driver of the workload increase is strong enrollment in academic year 2003-2004 at about 5 percent increase in overall student credit hours. Annual increases in institutional student credit hour enrollment are shown in Volume II Appendix Higher Ed-G. Student credit hour enrollment increases associated with FY06 funding at four-year institutions ranged from flat at Eastern New Mexico University to almost 6 percent at Western New Mexico University. Among two-year branch community colleges, the University of New Mexico-Taos posted a decrease in student credit hours of over 8 percent due to a data revision while double-digit growth was posted at New Mexico State University-Carlsbad, New Mexico State University-Dona Ana, and University of New Mexico-Los Alamos. Finally, enrollment growth among two-year independents ranged from very slight growth at New Mexico Junior College to 9.7 percent at Albuquerque Technical Vocational Institute.

Most institutions qualify for workload increases in FY06 based on the enrollment factor. The institution receiving the largest increase in workload funding is University of New Mexico-Main at $8.8 million, a 4 percent year-over-year increase, driven by moving out-of-the-band with notable increases in all levels of enrollment. Institutions not qualifying for an increase in workload due to the enrollment factor include New Mexico Highlands University, Eastern New Mexico University-Main, Eastern New Mexico-Ruidoso, University of New Mexico-Taos, University of New Mexico-Valencia, New Mexico Junior College and Northern New Mexico Community College. Eastern New Mexico-Main, qualified for a workload increase based on a square footage change for facilities.



Enrollment increases indicate postsecondary institutions are serving student needs, and access is being addressed. However, funding growth limits the ability to improve faculty compensation.

Financial Aid. Student financial aid is provided by several major groups: federal government, state government, the institution itself, and private sources. Typical challenges facing financial aid include adequacy and availability of student aid funding compared with costs for families, shifting nature of federal aid from grants to loans, and institutional-focus on awarding merit-based financial aid, instead of need-based.

State grant and scholarship aid is divided into two categories: need-based and merit-based. Need-based grants are designed to ensure students are not denied access because of their financial circumstances. Merit scholarships are awarded to students who excel academically, without regard to their financial circumstances. During the last decade, a fundamental shift in philosophy was evident as many states began targeting more money for merit aid. States have always had merit programs, but the scholarships were awarded only to top students. Now, however, scholarships often provide the full cost of tuition to students who have a B average. In New Mexico, the lottery scholarship program supports students with a 2.5 grade point average.

The Civil Rights Projects at Harvard University examined merit-based aid programs in four states — Florida, Georgia, Michigan, and New Mexico. This work focused on whether merit-based aid programs promote college access and attainment and how well the programs serve the needs of students from different income, racial, and ethnic groups. According to the *College Affordability* report of the National Conference of State Legislatures, the Harvard project findings suggest scholarships are disproportionately awarded to middle- and upper-income students and others with high college participations rates. "Instead of equalizing financial opportunities to attend college, the Civil Rights Project report suggests that merit aid actually is increasing the disparity between rich and poor students' ability to afford college," it says.

New Mexico researchers participating in the Harvard project noted the lottery scholarship program tended to encourage students to attend institutions charging higher tuition.

New Mexico Need-Based Student Financial Aid Funding. Total state general fund support for student financial aid programs is approximately $22 million in FY05. At about $11.5 million in FY05, the largest program is the state student incentive grant for resident undergraduate students with substantial financial need who attend public and private-nonprofit institutions in New Mexico. The awards can range from $200 to $2,500 per year, as determined by the institution. The second largest of the general-fund-based student financial aid programs in FY05, at $5.2 million, is the work study program, which provides employment opportunities for qualified resident students. The state's contribution for need-based programs is small when compared with the federal investment, a significant driver of the state's low ranking in the affordability category.

Measuring Up
2004 Report Card
Affordability

A None

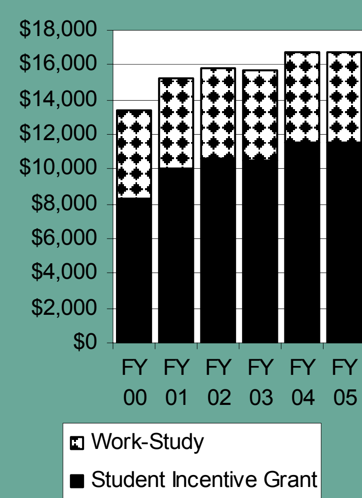
B California

C Minnesota, Utah

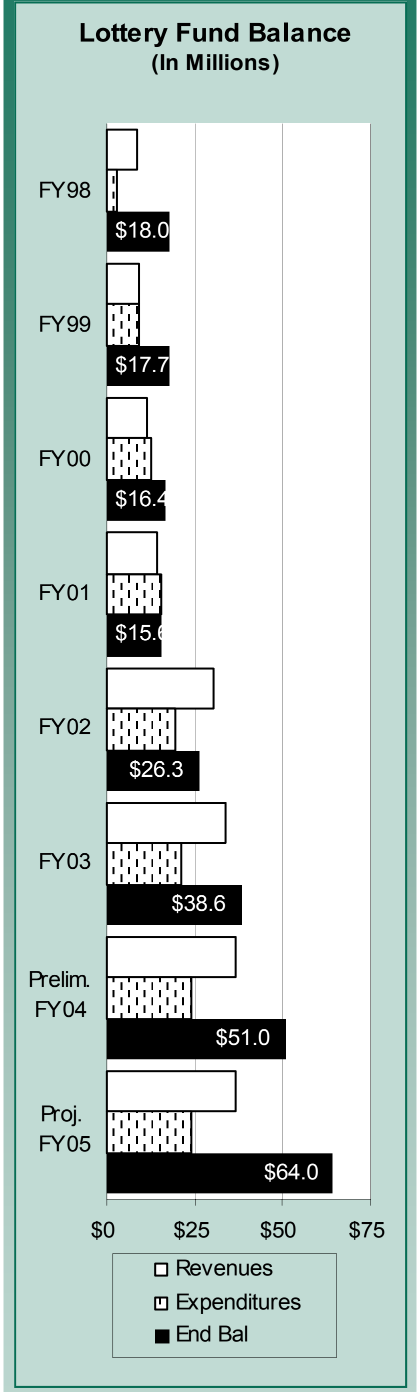
D Colorado, Hawaii, Idaho, Illinois, Indiana, Kentucky, New Jersey, North Carolina, Texas, Virgina, Wisconsin

F Alabama, Alaska, Arizona, Arkansas, Connecticut, Delaware, Florida, Georgia, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Mexico, New York, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Vermont, Washington, West Virginia, Wyoming

State General Fund Appropriations for Need-Based Student Financial Aid
(In Thousands)



Source: Legislative Finance Committee



Lottery Scholarship Funding Issues. Lottery tuition scholarship fund balances were in excess of $50 million on June 30, 2004. The Governor's Task Force on Higher Education proposed numerous changes to the lottery scholarship program, including several expanding eligibility. Among those who would be newly eligible under the task force proposal:

- Those who wait two years between high school and college;
- Students who fail to earn lottery scholarship in the first semester if they stay enrolled and increase cumulative GPA to 2.5;
- New Mexico residents attending a four-year college who have earned an associates degree with a 2.5 GPA ;
- First-generation college students;
- Working adults; and
- Qualifying students at accredited New Mexico tribal colleges, including Institute for American Indian Arts, Southwest Indian Polytechnic Institute and Dine College.

The task force also recommended the following:

- Increase the number of semesters of lottery scholarship eligibility at a community college from three to five;
- Increase the total number of eligible semesters to complete a bachelor's degree from seven to nine;
- Increase outreach to middle and high school students, including additional mentoring and tutoring funded through interest income from the lottery scholarship fund;
- Decouple lottery payments from tuition by providing a flat dollar amount as a way to allow families to claim federal tax credits.

The CHE recommended the following changes to the lottery program:

- Permit two-year window of eligibility between high school graduation and entering college,
- Extend program to tribal colleges,
- Expand eligibility to associate's degree holders pursuing a bachelor's degree,
- Expand second chance eligibility,
- Decouple lottery scholarships from tuition.

Further, the commission suggests, "The state may wish to consider using up to $25 million in lottery fund balances as matching funds to begin a need-based program." The commission utilizes nonrecurring general fund as the source of its principal need-based aid trust fund proposal.

Commission on Higher Education. The agency made significant advances in its policy analysis activities in 2004. With the assistance of various consultants, staff prepared an analysis of higher education student success issues with recommendations for student financial aid funding. Also, staff, responding to language in the General Appropriation Act of 2004 worked with stakeholders to develop a consensus recommendation to cap the state general fund costs of the Texas 135-mile tuition waiver program, responded to language in the General Appropriation Act of 2004 made recommendations for a persistence and graduation performance funding mechanism, initiated a task force to develop a common course numbering system for freshman and sophomore courses, and provided staff support for the governor's task force on higher education.

The findings of the commission staff report *Improving Student Success in Postsecondary Education in New Mexico*, as well as the recommendations of the governor's task force on higher education, were helpful in updating and expanding the findings of a 2001 report sponsored by the LFC and the CHE that discussed the state of higher education opportunity in New Mexico: "The paradox of higher education opportunity in New Mexico is the difference between the state's extraordinary efforts to invest in higher education and how relatively few New Mexicans take advantage of the resulting higher educational opportunities provided by the state."

The FY03 agency audit resulted in a qualified opinion, with two findings. The findings focused on the need for reconciliation of the general ledger for loan-for-service programs and the need to reflect statements for the Education Trust Board. Further, the audit noted $2.6 million for doubtful accounts, of which $1.2 million is in the nursing student loan area.

The agency used $156.2 thousand of general fund monies in FY04 for contracts, including $67.9 thousand for experts on financial aid, retreat services, and regent assembly costs and $20 thousand on services for the higher education funding formula. Contract spending over the amount provided in the General Appropriation Act may reflect the agency's use of monies available in its operating budget not needed for purposes appropriated. One source of these excess funds is vacancy savings from unfilled positions. The vacancy rate at the agency as of September 1, 2004, was 18.75 percent, and the vacancy rate remained at that level throughout the fall. In an effort to provide full staffing resources as well as building capacity within the organization, the committee recommends the Legislature consider that funding in the personal services category be accompanied by restrictive budget adjustment authority.

Performance Accountability. The committee urges commissioners and staff to refamiliarize themselves with various accountability initiatives and requirements of state government. In 2004, the commission updated its strategic plan and enhanced its proposed measures for consideration by the committee, but did not meet key criteria in using performance measures to manage for results. In the coming year, the commission is urged to update its strategic plan including goals, objectives, performance measures, and a robust action plan.

In its budget submission, the commission proposed various new performance measures, principally related to statewide higher education policy objectives, as well as deletion of certain other measures. While the outcome measures relating to statewide policy goals should be included in the agency's submissions to the legislative and executive branches as the agency enhances its policy analysis work, the measures, their definitions, and particularly targets associated with the measures should be established through a consultative process with higher education stakeholders. As such, the committee recommendation does not include targets for these measures. Other new proposed measures are largely output oriented, not outcome based. A significant number of the agency's proposed new measures were not defined, and targets were not set. Targets for the current budget year were improperly set for some existing measures.

The committee recommendation incorporates the targets for FY05 from the General Appropriation Act of 2004 and sets FY06 targets. The agency has not submitted the annual accountability report required under 21-1-26.7 NMSA 1978, quarterly accountability report of key agencies, consistent performance accountability measures for the Adult Basic Education program, an updated *Conditions of Higher Education* report, or research and public service project evaluations. Further, the commission appears to no longer hear and review institutional strategic plans. Finally, the commission did not act on the General Appropriation Act of 2004 requirement to report time series data on performance measures and targets for recruitment, enrollment, retention and graduation rates for Native American and Hispanic students along with an action plan by institution to achieve results.

Proposed Cabinet Agency. According to the Governor's Task Force on Higher Education, the proposed cabinet-level Department of Higher Education would have "authority to coordinate resources across the 26 colleges and universities in New Mexico." The current CHE would be abolished, and an advisory committee established "to recommend state policy regarding accountability and evaluation of progress toward state policy goals." The current governing board structure for campuses would be maintained. Further, the task force report calls for expansion of the responsibilities of the Office of Educational Accountability at the Department of Finance and Administration to address higher education issues. A joint office of the Public Education Department and the new cabinet agency would address college preparation and alignment issues. Workforce development initiatives of the proposed Department would be aligned with the Office of Workforce, Training and Development.

The Task Force recommends expanded authority for the proposed department including approval of new undergraduate and graduate programs, new campuses, and new satellite programs. It also calls for an analysis of two-year colleges, and for the secretary of higher education to develop new criteria for the structure of the two-year college system.

Healthcare Outcomes in New Mexico. The Department of Health (DOH) reports its primary mission is to improve the health of New Mexicans through education and improved access. DOH has emphasized five health status priorities: immunizations, obesity related to chronic disease, teen pregnancy, youth suicide, and hepatitis C. For some of these priorities, New Mexico lags behind national performance.

Healthcare Access. According to Quick Facts 2004, a document produced by the Health Policy Commission (HPC), "While the number per 100,000 population of licensed physicians, registered nurses, nurse practitioners, dentists and dental hygienists with [New Mexico licenses] has increased since 2002, New Mexico rates remain lower than national rates."

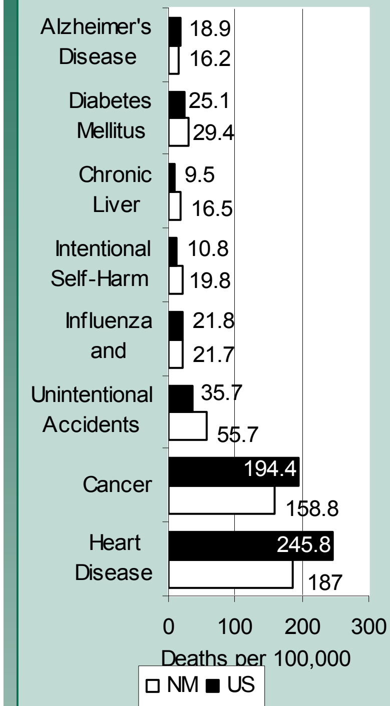
In fact, of the healthcare professionals in New Mexico, the vast majority live in Bernalillo or Santa Fe counties, with three to four professionals per 1,000 residents. HPC indicates four counties--Hidalgo, DeBaca, Mora, and Harding--have no licensed healthcare professionals. The state has a severe shortage in primary healthcare providers, dental health professionals, and mental health professionals. The University of New Mexico and the Commission on Higher Education currently offer incentives, such as loans and special programs, to students in the healthcare profession to increase supply and retention.

Insurance Access. Insuring New Mexicans is a continuing problem. For the last 10 years, the number of insured New Mexicans was below the national average. In 2002, 388,000 New Mexicans were without insurance. In a survey done by HPC in 2001, the primary reason for not having health insurance was the individual lost or changed jobs (28 percent of those surveyed), followed closely by not being able to afford coverage (26 percent). Few were ineligible for coverage due to a health condition or another reason.

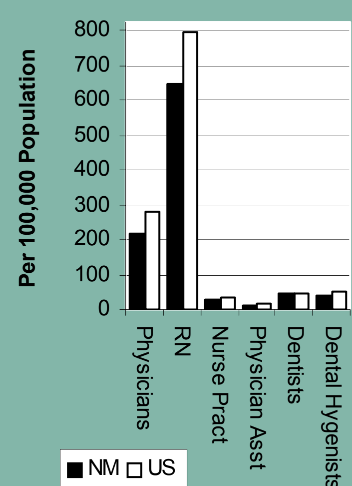
Prescription Access. According to HPC, the national spending for prescription drugs in 2001 was $140.6 billion, more than triple the amount spent in 1990. The Quick Facts report indicates increases in prescription drug spending can be attributed to three factors: an increase in the number of prescriptions dispensed, newer, higher-priced drugs, and manufacturer-initiated price increases. According to the Kaiser Family Foundation, New Mexico appears to fare relatively well with prescription costs. New Mexico's number of prescriptions is lower per capita at 8.4 than the national average of 10.6. Additionally, the average price of retail prescriptions in 2002 for New Mexico is $52.63, whereas the national average price is $54.58.

State Coverage Initiative. Governor Richardson recently announced the Human Services Department (HSD) will implement the state coverage initiative (SCI). The program is a private and public partnership designed to provide relatively low-cost health insurance. The initiative would cover uninsured adults with incomes at or below 200 percent of

New Mexico and United States Selected Death Rates, 2002

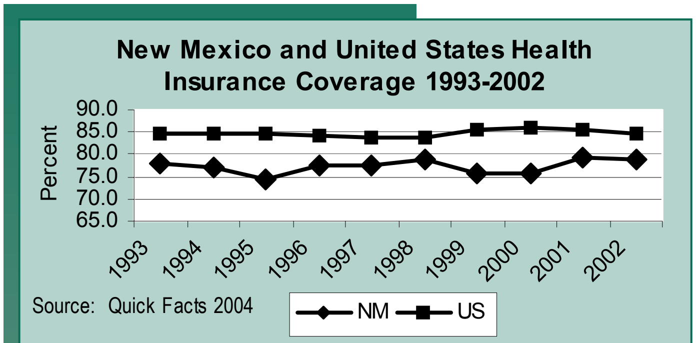


New Mexico and United States Health Care Professionals

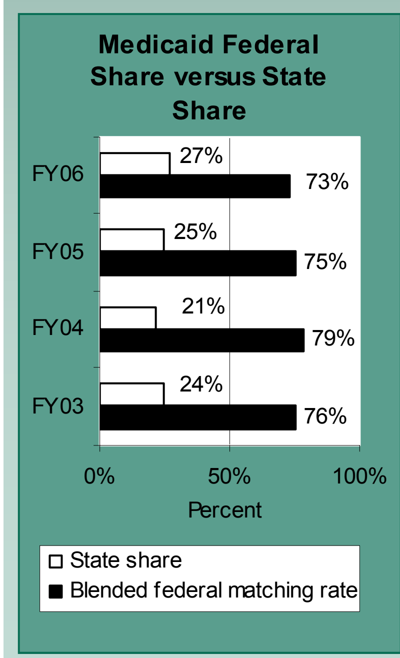


Source: Quick Facts 2004

Policy Analysis: **Health Care**



2004 Federal Poverty Guidelines (In Thousands of Dollars per Year)				
Family Size	100%	130%	185%	200%
1	$9.3	$12.1	$17.2	$18.6
2	$12.5	$16.2	$23.1	$25.0
3	$15.7	$20.4	$29.0	$31.3
4	$18.9	$24.5	$34.9	$37.7
5	$22.0	$28.6	$40.8	$44.1
6	$25.2	$32.8	$46.6	$50.4
7	$28.4	$36.9	$52.5	$56.8
8	$31.6	$41.0	$58.4	$63.1
9	$34.8	$45.2	$64.3	$69.5
10	$37.9	$49.3	$70.2	$75.9
11	$41.1	$53.4	$76.1	$82.2
12	$44.3	$57.6	$81.9	$88.6
13	$47.5	$61.7	$87.8	$94.9
14	$50.7	$65.8	$93.7	$101.3
15	$53.8	$70.0	$99.6	$107.7



the federal poverty level (FPL), or $31,340 a year for a family of three or $18,620 for an individual. HSD estimates that up to 40,000 currently uninsured New Mexicans could qualify over the course of a five-year period. HSD indicates enrollment will be managed to meet available resources. Implementation is scheduled for July 2005.

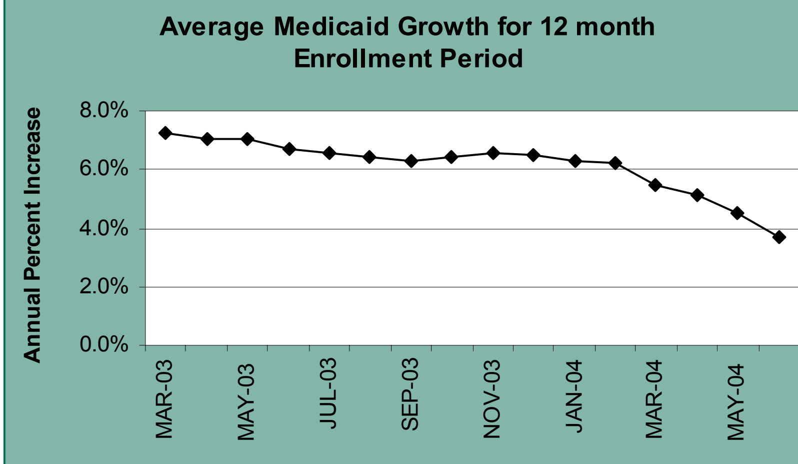
HSD anticipates contracting with managed-care organizations (MCO) to provide an insurance product with a benefit design similar to commercial coverage. The cost of the monthly premium will be shared by the employer, employee, the state and federal government. For individuals up to 100 percent FPL the monthly premium will be $20 to $30 and $75 for the participating employer, with the balance from the state and federal funds. The state and federal share are expected to qualify as a State Children's Health Insurance Program expense with a federal participation rate of 80.36 percent. The request for proposal for the FY06 managed-care contracts includes a request for a quote for an SCI monthly premium. It is unclear, however, how the premiums will be collected and transferred to either the Managed Care Organization (MCO) or HSD.

The LFC recommendation does not include SCI program funding. Although the program would help reduce New Mexico uninsured population, a Medicaid expansion at a time of program reduction in other Medicaid areas does not seem reasonable. HSD has indicated that revenues other than general fund may be available but, to date, these sources are not defined. HSD must secure a recurring funding source prior to implementation of SCI.

Federal Medical Assistance Percentage Changes. Unfortunately, due to a decline in the federal medical assistance percentage (FMAP), the FY06 general fund requirement will grow disproportionately compared with the total expenditure increase. The October 2004 Medicaid projection calls for $577.3 million from the general fund, up $98.9 million from the FY05 appropriation of $478.4 million.

For all of FY04, New Mexico benefited from an FMAP rate of 2.95 percent as part of the federal relief package provided to states. The enhanced rate expired after the first quarter in FY05. And in FY06, strong state income growth relative to all other states reduced the FMAP rate from 75.49 percent to 73.15 percent.

Growth and Control Strategies. Over the past two years a variety of methods have been employed to control growth in the Medicaid budget. These actions have included provider cuts, more frequent recertifications and other administrative controls, beneficiary copayments, and benefit reductions. The federal relief package that expired in June 2004 allowed the state to postpone some of the more aggressive measures until FY05. For FY05, the projected need for general fund monies was reduced by $40 million using these strategies. Similar efforts are common in other states. A Kaiser Family Foundation analysis released in January 2004 reports that, particularly over the past three years, states have employed many cost-reduction strategies. It reported that 49 states anticipated taking Medicaid cost containment steps in FY04. Eighteen states initiated further containment during the current fiscal year. The strategies used were variations on the policies pursued by New Mexico. The report notes enrollment growth is expected to abate and that seems to be the case for New Mexico. Medicaid enrollment growth has slowed to around 3.5 percent.



Source: HSD Medicaid Monthly Enrollment Data

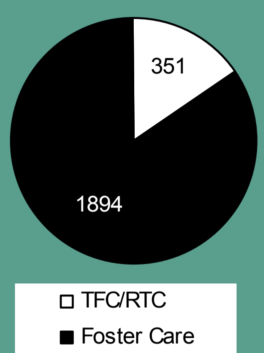
FY06 measures to limit cost growth include not providing increases for providers in either fee-for-service or managed care. In FY05, reductions totaling more than $15 million were taken for direct medical providers and $2.6 million for dentists. The FY06 recommendation leaves these reductions in place after two previous years of low or no increase. Some provider decreases occurred in FY05 in MCOs because the new contract did not include a medical inflation factor. The 2005 Segal health plan cost trend survey reports a projected average increase of 12.4 percent for commercial health maintenance organizations that include drugs. This is not a perfect analogy for the Medicaid MCOs, but it is an indicator that a 0 percent increase is far below industry trends and some consequences will result. It is reasonable to assume, that access and quality issues will arise as provider payments are reduced. In an escalating cost environment, no increase is effectively a cut. It should be anticipated that providers will respond by reducing service quality.

Leveraging Other State Funds. Identifying Medicaid eligible expenditures that currently use general fund monies as the primary revenue source is a strategy that could save state funds. Unfortunately, to date success in this area has been minimal. For FY04, an area was uncovered that allowed a savings of $1 million but there have been no other advances in this area. Currently, a national contractor with expertise in this field is working with HSD and some success is expected.

DOH is leveraging other state funds by rebasing facility rates; reviewing options for drawing Medicaid match from within DOH to maximize Medicaid collections for facilities, public health services, and school-based health centers; negotiating and collecting from other third-party payers; evaluating the rate of return on copays, service fees, and licensing fees and penalties; and rebasing its departmental basis for indirect rates on federal grants to assist with administrative services. The department indicates it can save up to $6.5 million with these initiatives; some of this revenue will be needed to address an FY05 budget shortfall. Continued use of this leverage is expected and the $6.5 million was not requested for FY06.

Sole Community Provider Hospital Funds. A Medicaid-related revenue source for hospitals is the Sole Community Provider Program. For FY06, the Medicaid projection estimates this program will have a total of $110.5 million available for participating hospitals. The federal government is the final arbiter for hospital participation, but the basic criterion is being the only hospital in a 35 mile radius. For that reason, no Albuquerque hospitals are included. A formula in federal regulations determines the maximum each hospital may receive and the maximum for the state. The county funding source is indigent funds raised through gross receipts tax. In New Mexico 23 hospitals and 27 counties participate. For FY05, the maximum distributed to any one hospital is $17.5 million and the minimum $170 thousand.

Children in Treatment Foster Care as of Sept. 30, 2004



Treatment Foster Care. Recent contracts negotiated with MCOs under the Medicaid program limited the flexibility that treatment foster care (TFC) providers have with children. Limitations on the length of stay related to medical necessity are projected to result in approximately 200 children, currently receiving care under the TFC program, to subsequently get treatment under the children protective services, Title IV-E program. Analysis of the population determined that most of the placements need to continue at the high level of service and primary funding will shift from Medicaid to the Children, Youth, and Families Department (CYFD) foster care program. CYFD is working closely with TFC providers to establish a plan for adoption or "step-down" services when a child no longer requires TFC services. The LFC recommendation includes $1.1 million general fund increase to cover these costs.

Behavioral Health Purchasing Collaborative. The Legislature, in 2004, established a behavioral health purchasing collaborative. Essentially, the collaborative is to consist of all state agencies procuring behavioral health services. Among other statutory duties, the collaborative has the responsibility to identify behavioral health needs statewide, with an emphasis on gaps, and develop a master plan; inventory all expenditures for behavioral health, including mental health and substance abuse; plan, design, and direct a statewide behavioral health system, and, finally, contract for operation with one or more behavioral health entities to ensure availability of services throughout the state. Funds will continue to be appropriated to the agency responsible for service delivery but purchasing will be done through the collaborative. HSD has identified in excess of $230 million in total services throughout state agencies that will divert to the new manager. The majority of these funds are derived from the Medicaid program, with $137 million in managed care and $45 million in fee-for-service. State and federal block grant funds will be included in phase one during FY06. Services funded through grants and prevention funds will be included in phase two in FY07. This will integrate service definitions, billing practices, and quality oversight definitions. The collaborative will use the request for proposal (RFP) process to choose a single entity to manage all funds under one umbrella. The RFP was issued November 3, 2004.

It is assumed that consolidation of behavioral health services will produce efficiencies and therefore savings. Access will be facilitated by using the "one stop" concept. The program anticipates that maximizing evidence based treatment will result in better service and outcomes. However, performance measures to determine the success of such an endeavor have not been forthcoming from the collaborative and cost-effectiveness and quality improvements remain to be evaluated.

While the future of the collaborative is uncertain, DOH indicates its role in the collaborative is to serve as the agency to implement behavioral health grants and ensure collaboration across multiple departments and stakeholders. The grants, purposes and amounts include: screening, brief intervention, referral and treatment (SBIRT), $3.5 million for each of five years; access to recovery (ATR), $7.5 million for each of three years; co-occurring state incentive grant, $1.1 million for each of three years (this grant was developed with the collaborative in mind for infrastructure to develop capacity for co-occurring disorder services across multiple departments); strategic prevention framework state incentive grant, $2.4 million for each of five years; and state incentive enhancement grant, $750 thousand for each of three years.

Self-Directed Waiver. There has been extensive discussion regarding the state's Medicaid waiver programs and related ways to cut costs within the programs. With the Medicaid waiver renewal application due in FY06, the Health and Human Services secretaries have discussed revamping the waiver system and adopting a self-directed waiver system for the state that would bring fairness, equity, and common administration across all waivers and to all individuals wanting to direct their own care through New Mexico's home- and community-based waiver programs. The new waiver would cover existing populations such as the disabled and elderly, developmentally disabled, medically fragile, and HIV/AIDS and would add new populations such as persons with brain injuries and mental illnesses. Due to the complexity of the self-directed waiver, the secretaries recommend that the new waiver be phased in. Phase one will consist of transferring interested individuals and their associated money to the new waiver. Those allocated to open slots on existing waivers will get the choice between self-directed and existing waivers and funding will stay with the associated waiver populations during this phase. Once fully implemented there would be one pool of waiver money. At that time, entry will be based on need and time on the waiting list without defining entry by population. Current waivers will be eliminated over time and all individuals will be served through a supportive, self-directed process.

FY06
Medical Assistance Division
LFC Recommendation
(dollars in millions)

General Fund Requirement on October 2004 Projection
$577.3

Reductions

Remove Behavioral Health State Coverage Initiative
$2.2

Anticipated Lower Growth by 0.67%
$4.0

More Stringent PCO Cost Restraints
$5.5

Estimated Savings from Behavioral Health Single Entity Concept
$3.6

Total Medicaid Cost Reductions
$15.3

LFC Medicaid Recommendation
$562.0

MAD Administrative Expenses
$10.9

Total MAD Recommendation
$572.9

FY05 Total - $490.0

Increase FY05 to FY06 - $82.9

Percent Increase FY05 to FY06
16.9%

Although a plan is in place, many areas need to be worked out with the federal Center for Medicaid and Medicare Services and with providers, advocates, clients, and their guardians. Neither DOH, the Human Services Department (HSD), or the Aging and Long-Term Services Department (ALTSD) have provided analyses indicating savings by implementing a self-directed waiver. The committee urges the secretaries to work with all of the aforementioned parties to develop a plan that will work for all New Mexicans. Further, the committee recommends the departments develop a cost-savings plan and present it to the committee in spring 2005.

Contract Management.

Human Services Department. Medicaid contract management grows in importance with the growing reliance on the managed-care organizations. While the behavioral health services may flow to another managed-care provider, HSD issued an RFP for the managed-care program that includes more services. The entire SCI program is anticipated to come under the MCO umbrella. Other services in total or part scheduled to be administered by MCOs are the personal-care option, utilization review, fee-for-service dental and pharmacy, and disability waiver services. The result is effectively contract management becomes the entire purpose for the Medical Assistance Division (MAD). Essentially, MAD will become the revenue source for a giant insurance complex and contract management will be the only requisite skill. In this environment, performance measures and evidence-based state health improvements are key to a successful outcome. It is incumbent on HSD to provide high-level, aggressive, transparent, performance measures integrated in the RFP.

Department of Health. With more than 1,000 contracts issued by the department each fiscal year, and each program area overseeing a portion of contractual services money, the department has lacked global contractual oversight and uniformity. In a recent audit, LFC found an informal procedure for administratively approving contracts (a signature is required) and for pre-signature review; however, this is not a documented process.

To assist in greater oversight and accountability for contracts in the department, specific language in the General Appropriation Act of 2004 requires DOH to use performance contracting. The committee recommends this language again in FY06. In another audit finding, LFC indicates, of the contracts reviewed, deliverables were often substituted for performance measures. If detailed deliverables suffice to meet the language requirement in the General Appropriation Act, the department is in compliance. DOH does not plan to revisit FY05 contracts already in place to include performance measures, but they will include them from this point on. To further assist with global oversight and accountability, DOH has created a Contracts and Grants Management Bureau and has hired a director to ensure compliance of all contracts by the department. The ultimate goal of this new bureau is to get all contracts into compliance and improve department contract procedures.

Costs for Aging and Long-Term Services Programs. An area of the Medicaid budget that continues to grow is that of aging and long-term care services. Based on October 2004 data from HSD, clients in these categories use approximately 38 percent of the total expenditures but comprise only 7 percent of the Medicaid enrollment. An area of particular concern has been the personal-care option that first appeared on the FY00 Medicaid budget at a projected cost of $7 million. For FY06, even after introduction of considerable cost restraints in the past two years, projected costs have grown to $224 million, an increase of 16 percent from FY05. Continued cost restraints in this area might be difficult, but thorough program evaluation and creative approaches must be instituted to curb this level of increase.

New Mexico has a lower total percentage of elderly, blind and disabled than the national average, but more children. However, in a similar fashion to the national average, New Mexico's total spending on elderly, blind and disabled exceeds the spending on children and adults. In a presentation to the Legislative Finance Committee, the Human Services Department noted children's medical care serves 273,403 participants at a cost of $2,300 per child, whereas nursing home care serves 6,619 participants at a cost of $25,700 per person, the personal-care option program serves 9,624 participants at a cost of $18,600 per person, and the home- and community-based waiver programs serves 5,874 participants at a cost of $43,300 per person.

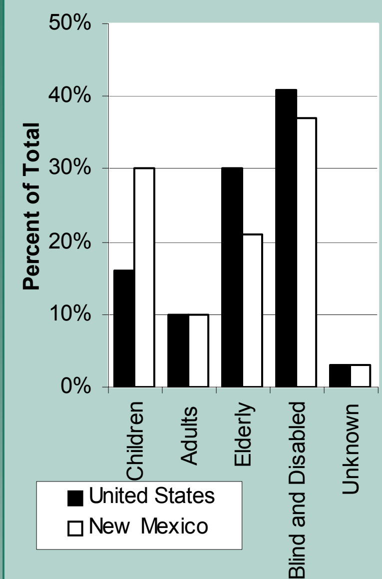
Also, it is notable that, in a summary of nursing facility revenue by payer, 64.8 percent of nursing home payments were from Medicaid, 16.6 percent from private sources, 13.2 percent from Medicare, and 5.4 percent from the Veterans' Administration and other sources.

Early Home Visiting Services. Scientific research shows that early childhood services can effectively prevent anti-social and delinquent behaviors. Programs with the most solid longitudinal research include the Nurse Home Visitation Program and the Perry Preschool Project.

Studies of these programs found that intervention resulted in fewer reported incidents of child abuse and neglect when compared with women not receiving home visitation. Nurse-visited mothers who were unmarried and from low-socioeconomic-status households when the study was initiated had fewer subsequent children, spent less time receiving federal welfare assistance, suffered fewer drug- and alcohol-related behavioral problems, and had fewer arrests and convictions than their unvisited counterparts.

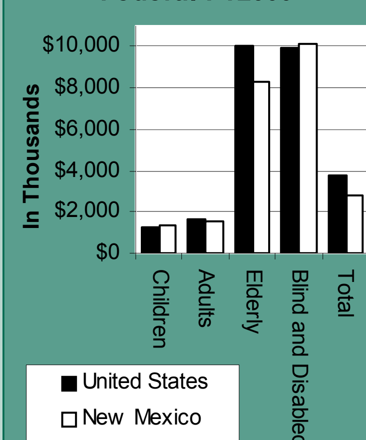
Home visitation programs provide an array of services, including prenatal and infant care training, parenting training, family-planning assistance, development of problem-solving and life skills, educational

Distribution of Medicaid Spending by Enrollment Group, Federal FY2000



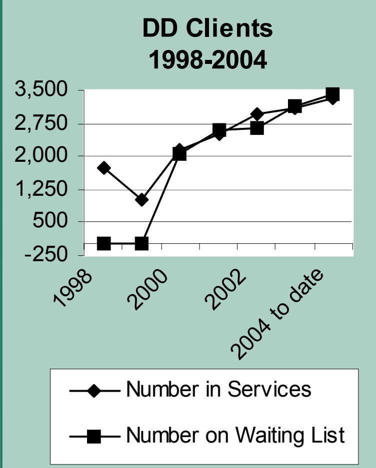
Source: Kaiser Family Foundation - statehealthfacts.org

Distribution of Medicaid Spending per Enrollee by Enrollment Group, Federal FY2000

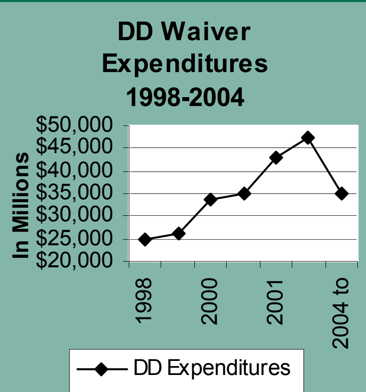


Source: Kaiser Family Foundation - statehealthfacts.org

Policy Analysis: **Health Care**



Source: DOH Office of General Council and Developmentally Disabled Community Services Program



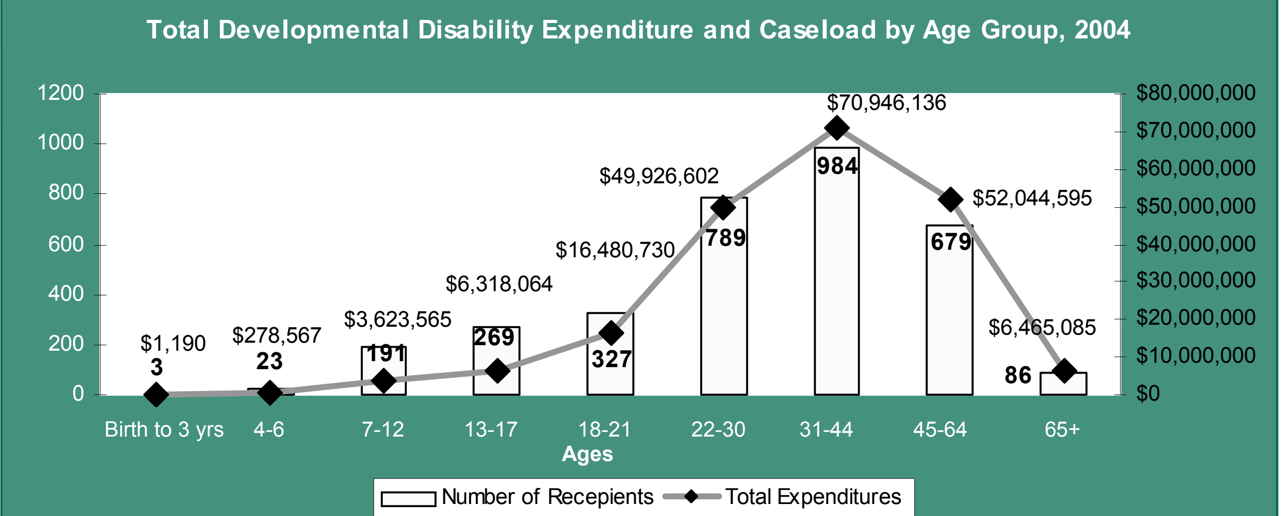
Source: DOH Office of General Counsel and Administrative Services Division

and work opportunities, and linkages with community services. The studies reviewed by the Center for Disease Control (CDC) suggest that approximately 40 percent of child maltreatment in high-risk families might be prevented by early childhood home visitation, with longer duration programs producing larger effects. The committee recommendation for CYFD expands home-visiting services.

Lewis Lawsuit. Graphs in the column indicate the number of developmentally disabled (DD) clients in service versus on the waiting list, the DD expenditures by calendar year, and the average cost per client per developmentally disabled age group.

After the August 5, 2003 ruling by a federal district judge mandating the state move individuals from the developmental disabilities Medicaid waiver waiting list to coverage within 180 days, DOH created a performance measure to ensure clients were being placed in a timely manner. In the first quarterly report for FY05, DOH indicates 56.6 percent of DD clients were placed into services within 180 days. The judge also mandated DOH spend all monies appropriated for waiver services. It should be noted the department did not request $9.3 million to cover a reduction in the federal medical assistance percentage (FMAP), the federal match rate for Medicaid, to continue existing developmental disabilities services.

Jackson Lawsuit. In a court ruling in the Jackson case, filed in 1987 involving the state's obligation to provide services to developmentally disabled clients, persons with developmental disabilities have a right to habilitation in an integrated community setting. Further, the court ruled the state discriminated against class members by segregating them at Fort Stanton and Los Lunas, and conditions at the institutions violated the class members' constitutional rights. The court ordered the transfer of the class members from the institutions and a corrective



Source: Mercer Government Human Services Consulting action plan for both institutions. Ultimately, Fort Stanton closed, and Los Lunas was converted into a community waiver program.

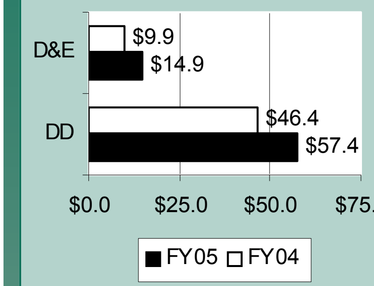
In the joint stipulation on disengagement (JSD), the persons involved with the lawsuit agreed on how to build an infrastructure adapted to community placement. The JSD has three components. The first is a plan of action. According to DOH of the 58 outcomes in the plan of action, 32 are disengaged. The second is a continuous improvement benchmark. DOH indicates 45 of the 70 continuous improvement items have been met and are disengaged. The third item relates to audit recommendations. All of the 1996 audit recommendations are disengaged, and 11 of the 25 audit recommendations from 1998 are disengaged. DOH indicates the disengagements are approximately two-thirds complete. DOH also indicates attorney fees and disengagement for this case exceed $2 million annually. This money is recommended in the Developmentally Disabled Community Services program in the other costs and contractual services categories.

In response to a suggestion by an advocate, the committee recommends an additional $1 million general fund to further reduce the DD waiting list, in accordance with the Jackson case.

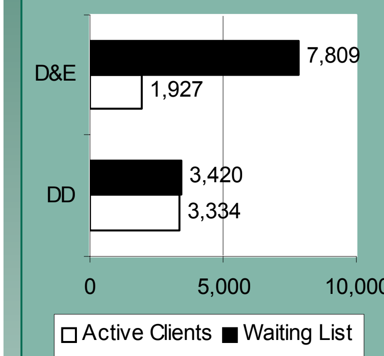
Public Employee Health Care. Double-digit increases in health-benefit costs continue to impact public and private sector budgets. For 2005, the Segal Company is predicting cost trend increases of approximately 12.5 percent for healthcare plans and 15 percent for prescription drugs. In New Mexico, three state agencies currently administer healthcare plans for more than 135,000 state and municipal employees, teachers, and retirees. The Retiree Health Care Authority, General Services Department, and Public School Insurance Authority are requesting a total of $600 million for health benefits in FY06, a 13.6 percent, or $71.6 million increase over FY05. Including the FY06 request, the average yearly increase over five years in health expenditures for the three state agencies is 14.4 percent, similar to a medical and prescription drug average yearly increase of 14.6 percent calculated from Segal Company health plan cost survey data.

The impact of this budget increase is reflected in higher benefit plan premiums for both employers and employees for FY06. However, the impact of this cost increase for employees is mitigated by the state paying a higher share of premiums due to the passage of legislation in 2004. Please see the discussion under the Compensation and Benefits section of this volume.

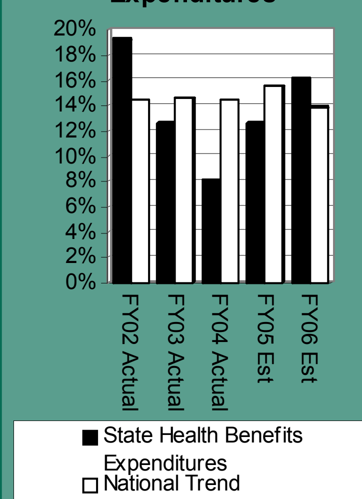
DD and D&E General Fund Appropriations
(Dollars in Millions)



DD and D&E Active Clients versus Waiting List
October 2004



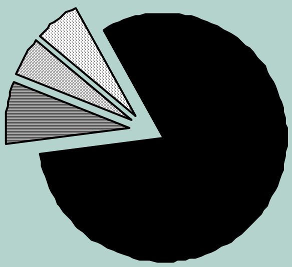
Growth in Employee Health Benefit Expenditures



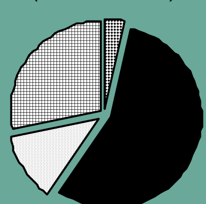
Source: Agency Budget Submissions, Segal Corp Data

Performance: **Aging and Long-Term Services**

State Agency on Aging FY04 Appropriation
Total Appropriation
$31,624.9
(In Thousands)



ALTSD FY06 Request
Total Request $49,158.6
(In Thousands)



Aging and Long-Term Services Department. For the last two fiscal years, the Aging and Long-Term Services Department (ALTSD) has had few problems meeting performance targets. In FY03 and in FY04, the agency met all but four measures in each fiscal year. The challenge lies in adequately measuring the programs transferred to ALTSD.

As one of the 15 key agencies selected to report quarterly to the Department of Finance and Administration and the Legislative Finance Committee, the department has proposed seven performance measures to report quarterly. These measures include "percent of disabled and elderly Medicaid waiver clients who receive services within 90 days of eligibility determination" and "percent of total personal care option cases that are consumer-directed." The proposed measures miss the core functions of the department's new programmatic duties. For example, with the disabled and elderly (D&E) Medicaid waiver program, the department is not measuring the cost per client, the number of clients served, or the number of New Mexicans on the waiting list. This information is vital to the legislative budget-making process.

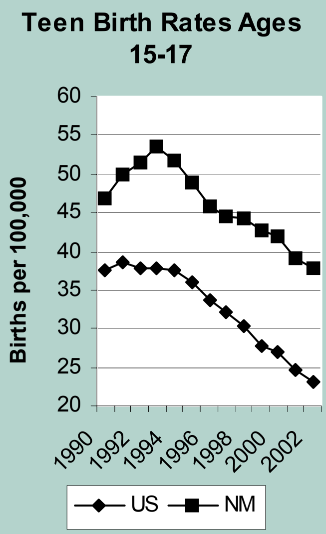
The national trend for personal-care option (PCO) cases is moving from a consumer-delegated model, which allows a personal care agency to perform all employer-related tasks such as hiring, firing, and determining number of hours worked, to a consumer-directed model, which allows the consumer or legal representative of the consumer to retain the responsibility for performing employer-related tasks. In New Mexico, 6,548 consumers out of 6,688 have chosen the consumer-delegated model of care. The consumer-directed model is less costly than the consumer-delegated model, and ALTSD would like to double the percent of all consumer-directed cases. However, PCO program, measures do not address cost containment measures, nor do they measure cost per client, number of clients served or the number of New Mexicans on the waiting list.

Overall, the agency's performance measures have not focused on the transferred programs. Although 40 percent of the agency is new in FY06, only five performance measures address new responsibilities.

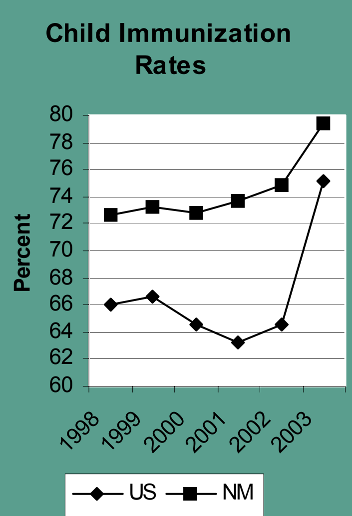
Performance: **Medical Assistance Division-HSD**

<u>Human Services Department-Medical Assistance Program.</u> All of the MAD performance measures and key quarterly reporting measures are tied to MCO performance. This allows for accurate data through use of the management information system and encounter data available in the Medicaid program. All of the measures are important indicators but one has shown particular improvement since FY03. The percent of children enrolled in Medicaid managed care who have a dental exam in the fiscal year has risen from 44 percent in FY03 to a reported 85 percent in FY04. Confirming this jump is the October 2004 quarterly report that indicates a full 33 percent of the children had an exam in just the first quarter. The FY06 recommendation is 90 percent. The other measures show improvement but not at anywhere near this pace and seem stagnant in comparison. With HSD apparently moving toward greater reliance on MCOs for service delivery, contract management requiring accountability for performance improvement becomes more important. The contracts had penalty clauses tied to performance in a limited number of areas but this concept needs expansion with higher target levels.

Performance: **Department of Health**



Source: Centers for Disease Control



Source: Centers for Disease Control

Department of Health. The Department of Health's Office of Policy, Planning and Evaluation completely overhauled the departmental strategic plan and performance measures for the FY06 budget submission. The plan, developed under the former secretary, has input from all stakeholders and focuses on 20 strategic directions, ranked in order of importance from improving age-appropriate childhood immunizations to improving internal communications. The secretary-designate believes the plan addresses too many issues and suggests changes will be made to provide greater focus. As noted in the FY05 LFC budget document, the department revamped the strategic plan and performance measures for FY05, as well. While the committee encourages state agencies to continually look forward and realizes the need to improve existing performance measures, it cautions the department on fully revamping the strategic plan and performance measures annually. The constant change loses valuable baseline data and gives neither the agency nor the Legislature the ability to make decisions based on agency performance year to year.

The department in FY06 focuses on five areas: childhood immunizations, obesity related to chronic disease, teenage pregnancy, youth suicide, and hepatitis C. DOH needs to more carefully articulate some proposed FY06 measures. DOH is proposing 32 measures in FY06, down from 42 in FY05. This is particularly problematic in the $133 million Behavioral Health Services Program, a program, where the measures proposed by DOH decreased from nine in FY05 to two in FY06. While the department indicates the reduction is due to the uncertainty surrounding the Behavioral Health Purchasing Collaborative, the committee recommends the inclusion of four of the measures from FY05 to more appropriately track this large program.

As one of the 15 key agencies selected to report quarterly to the Department of Finance and Administration and the Legislative Finance Committee, the department proposed 17 quarterly performance measures and four additional measures important to the agency but measurable only once a year. The quality of measures is mixed.

For example, while the committee is interested in the percent of current childhood immunizations, the department indicates that measure can only be reported annually, and, has, on a proxy quarterly basis, substituted the number of childhood vaccines distributed to providers. This does not adequately measure if the number of childhood immunizations is increasing. The committee encourages the department to be direct with measures, as it has with the measure of the number of births to females ages 15 to 17.

The committee recommends DOH compare itself to similar states for a complete picture of departmental progress. Additionally, the committee asks the department to provide explanatory information in quarterly reports, such as cost per client, number of New Mexicans served, and number of New Mexicans on a waiting list, if applicable.

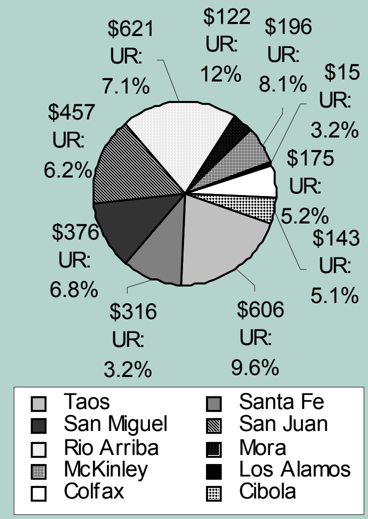
Collaboration with WIA Partners. Under the Workforce Investment Act (WIA), required partners play a key role in the sponsorship and delivery of workforce development services, particularly in coordination with the one-stop centers where employers and prospective workers can find what they need in one location. About 17 programs funded through four federal agencies are required to provide services through one-stop centers. Mandatory partners include WIA and New Mexico Department of Labor (NMDOL) programs such as Wagner-Peyser, trade adjustment programs, Job Corps, and veterans' employment programs. The committee is concerned that services are not integrated in field offices, creating public confusion, administrative inefficiency and the duplication of services. LFC recommends that Office of Workforce Training Development (OWTD) in conjunction with NMDOL and local boards develop a transition plan relating to physical or electronic co-location to increase the number of certified one-stop operations throughout the state. The committee urges OWTD to develop guidelines for certifying one-stop centers. This effort would assist in the monitoring of the one stop centers. This plan should be presented to both LFC and the legislative Welfare Oversight Committee (WOC) during the 2005 interim.

It is critical to develop a common intake system to ensure a single point of service for all participants. The committee recommends that the virtual one stop-system (VOSS) be modified as a common intake system. This would allow for tracking of client services and ensure agencies are not duplicating services. LFC recommends the development of a plan with a timeline for integrating WIA/NMDOL, Temporary Assistance for Needy Families (TANF), and training data from community colleges.

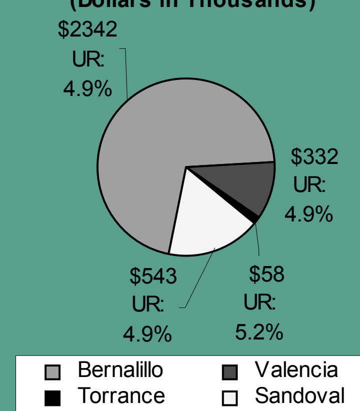
Bringing adult education and career and technical education into this workforce development system has many advantages but it also presents some challenges. The community colleges are governed by locally elected boards. Communication between these elected boards and the local board is critical if education agencies are to become equal partners in workforce development. Also, education partners will have to embrace workforce preparation as one of their primary missions and view their partnerships with the one-stop career centers as an asset to furthering the aims of education. OWTD should work with community colleges to create "career pathways" to provide low skill workers with greater job opportunities.

Child Care Services. Along with providing quality childcare, one of the main goals of the Children, Youth and Families Department (CYFD) is to promote long-term self-sufficiency by enabling parents to work, attend skills training for work, or increase educational levels. CYFD provides childcare subsidies to parents receiving TANF cash assistance and participating in the NM Works program, parents who are working but transitioning off welfare, and low-income parents at risk of becoming dependent on welfare. CYFD tracks welfare and

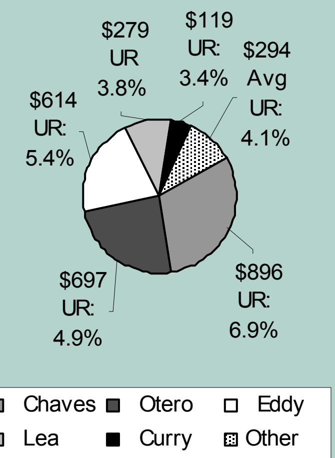
Workforce Investment Act Northern Counties, Share of Total and Unemployment Rate (Dollars in Thousands)



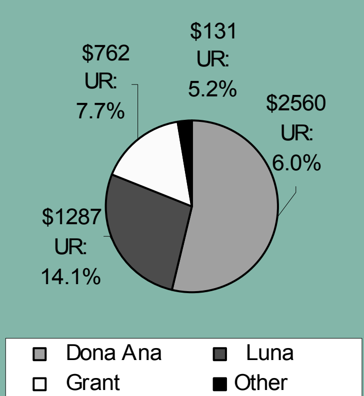
Workforce Investment Act Central Counties, Share of Total and Unemployment Rate (Dollars in Thousands)



Workforce Investment Act Eastern Counties, Share of Total and Unemployment Rate (Dollars in Thousands)



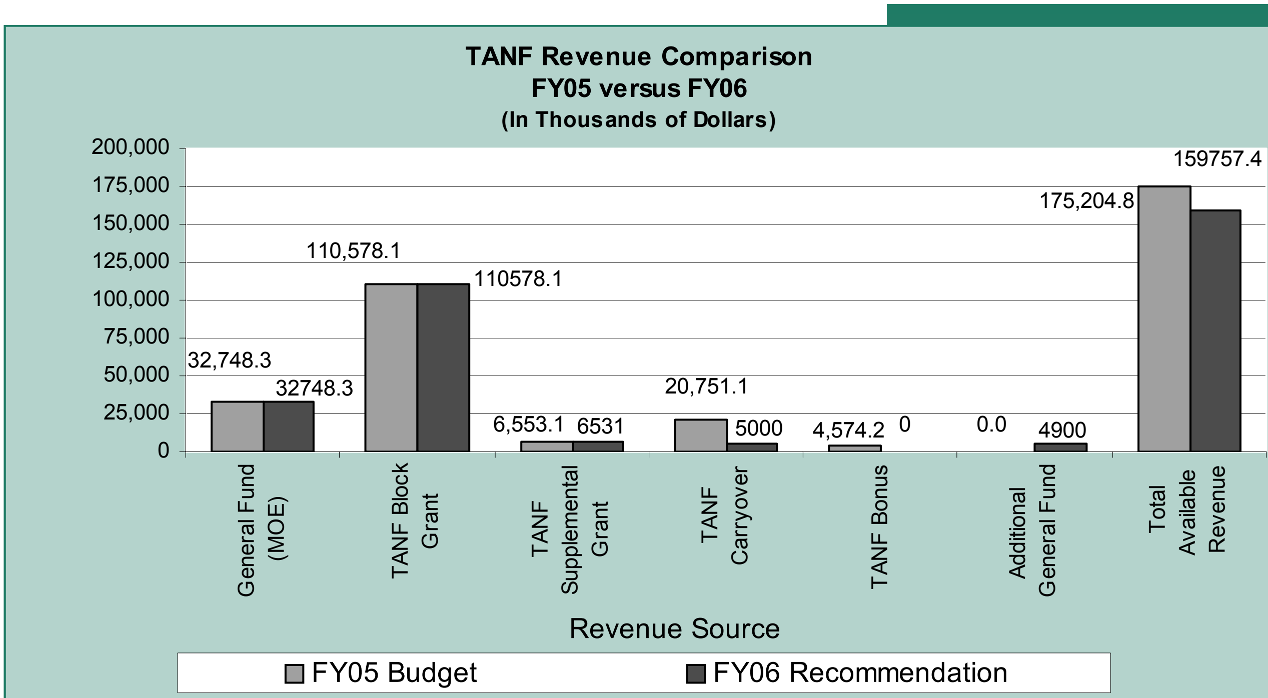
Workforce Investment Act Southwestern Counties, Share of Total and Unemployment Rate (Dollars in Thousands)



childcare data but does not use the system to compile information on the role child-care subsidies play in helping low income parents stay off welfare. Beyond the basic program eligibility requirements, the CYFD system does not track employment outcomes for these parents to see if they are getting jobs, keeping jobs, or earning more money. Approximately 4,400 TANF recipients receive childcare subsidy and 1,350 families are receiving childcare assistance under the TANF transitional to work program. Neither the Human Services Department (HSD) nor CYFD examines if eligible parents keep subsidized childcare when they transition to work or how long families continue to need this assistance. Parents leave the childcare program for a variety of reasons including earning too much to qualify for services, loss of job, or inadequate school attendance by the child. Better understanding of the reasons parents leave the program would allow for more effective planning.

This information also would enable OWTD to measure the impact of this significant investment of funds in helping families maintain jobs. Local boards could tailor services to ensure consistent and effective use of costly childcare subsidies. Consequently, OWTD should work with CYFD, HSD, and local board to develop a method of capturing this information that would help families stay in the workplace.

Temporary Assistance For Needy Families. The largest difference in Temporary Assistance for Needy Families (TANF) revenue from FY05 to FY06 is in the federal carry-over from prior years. Appropriation of the carry-over has increased the TANF budget each year in the $25 million range, but these funds are nonrecurring. When, as HSD now reports, the pool of carryover funds is depleted, the TANF program must return to a size supported only by the recurring funds, or find an alternate revenue source. In similar fashion, the TANF bonus is zero for FY06 rather than the $4.5 million estimated for FY05. These two items, zero federal carryover and zero TANF bonus, total over $25 million in lost revenue from FY05 to FY06. The final FY04 TANF expenditure report indicates approximately $9 million in cash left for that fiscal year. After allowing for some additional need in FY05, a carry-over of $5 million into FY06 is anticipated. In addition, the committee includes $4.9 million additional general fund revenue to bring the final FY06 recommendation to $159.8 million, compared with the FY05 appropriation of $175.2 million, a difference of $15.4 million. It is expected $4 million for full-day kindergarten in the general fund will move directly to the Public Education Department (PED) and the $3 million designated for early childhood development in the general fund will become part of the pre-kindergarten initiative. After reductions in HSD TANF administrative expenditures of near $3 million, about $4.5 million of programs are left with no or reduced funding. A slight trend upward in enrollment puts additional demand on cash assistance and work training programs and potentially makes funding for the other services more difficult each year. It does not appear additional federal funding will materialize, so it

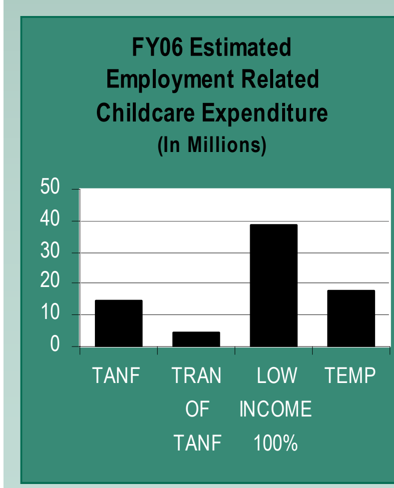


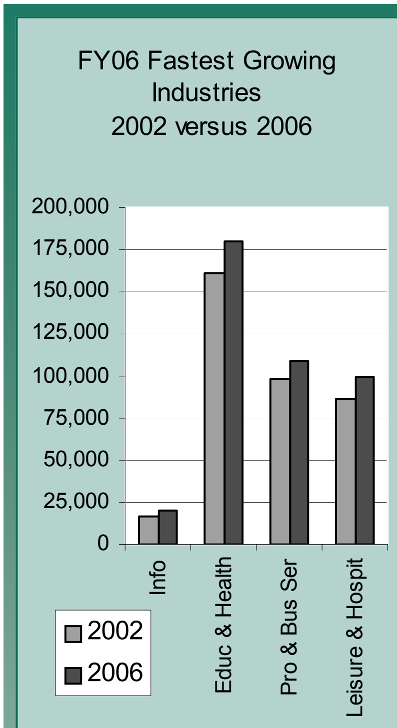
must be anticipated that, in the absence of general fund monies, TANF revenue will remain flat.

TANF New Mexico Works Contractors. Plans are underway to transfer the administration of the TANF program to the local WIA boards. The core piece of the TANF program is the New Mexico Works contractors. Five regional contractors are responsible for providing job-preparedness training consistent with TANF requirements. The five contractors are all post-secondary educational facilities:

- New Mexico Highlands University, Region One (northeast);
- San Juan Community College, Region Two (northwest);
- New Mexico State University, Region Three (Southwest);
- Eastern New Mexico University, Clovis Community College, Region Four (southeast), currently administered through the local WIA board; and
- University of New Mexico, Region Five (Bernalillo County).

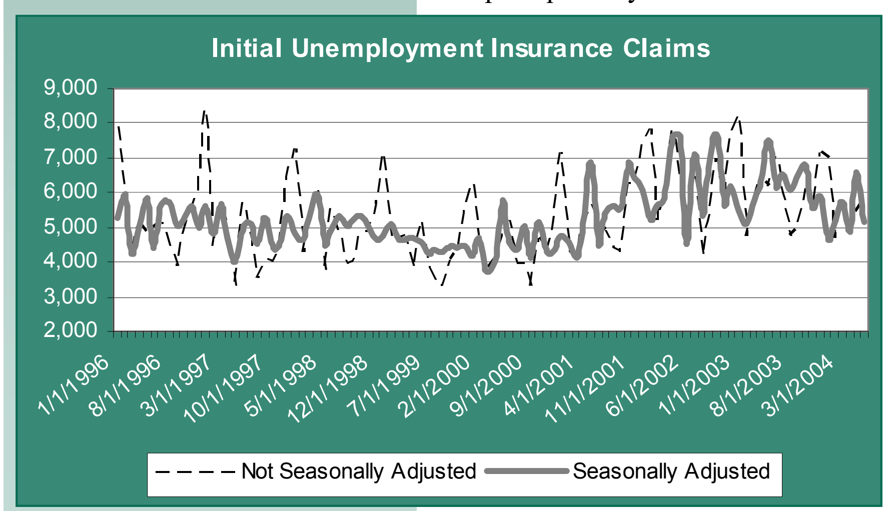
The TANF workload represents an additional 2,000 cases on top of the WIA caseload of approximately 2,900 cases. The contractors are required to provide an extensive array of services that includes not only training but job development. It is uncertain how these services will be provided under the local boards. The eastern board encountered many difficulties in the transition to an integrated TANF/WIA system even though the TANF contractor was utilized. TANF services differ from the current services being provided under the WIA program in that they require much more intensive case management and day-to-day collaboration with the local Income Support Division offices. Moreover, performance measures established by the federal government must be met for the agency to avoid fiscal sanctions. A



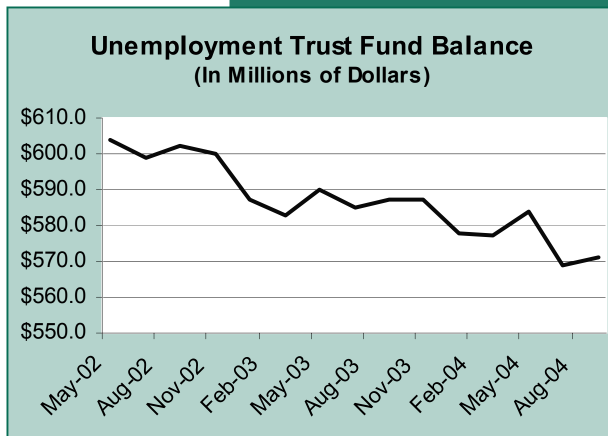


failure to meet these measures could result in sanctions of $3 million general fund. To integrate the TANF Works program with the WIA program, the local boards must develop a comprehensive plan that includes a request for proposal process, contract negotiations, cost allocation, staff program and information technology training, facility integration costs, and common program measures. The committee is concerned that services to TANF recipients may suffer if proper planning is not conducted and therefore recommends OWTD work with local boards to develop integration plans that should be presented to both LFC and WROC in the interim. OWTD needs to also address the possibility of a local board refusing to undertake the TANF program.

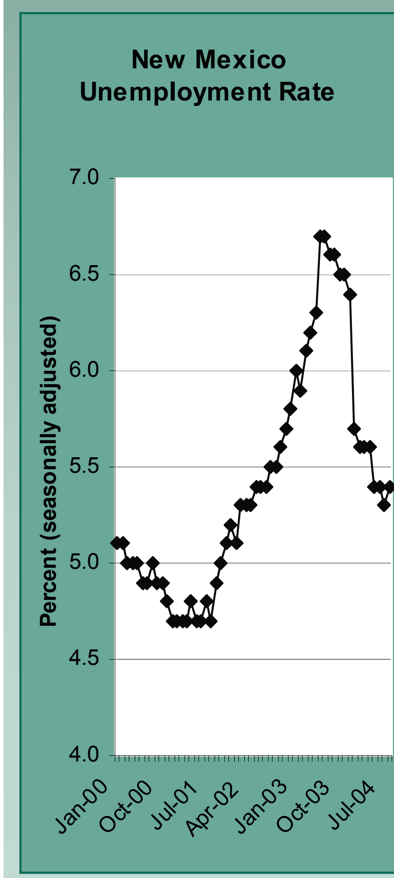
Job Training Incentive program (JTIP). Economic development needs to play a critical role in a unified, statewide strategy for workforce education, training, and development. Alignment of economic and workforce development strategic goals is an obvious requirement for fully leveraging the state's various investments in business development, film, trade with Mexico, and science and technology. The Job Training Incentive program (JTIP), administered by the Economic Development Department (EDD), can be used effectively to promote business expansion or relocation, as well as workforce development, if incorporated sensibly in a broader state strategy for improving the economic future of New Mexicans. However, as managed currently by EDD, JTIP has no clear connection to OWTD or its program strategy. The addition of a regional economist at EDD would further improve linkages between EDD and OWTD and local workforce investment boards by providing a better understanding of local and regional economic development needs and the impact on the state's broader labor market needs. JTIP job retention data from the agency in FY01 and FY02 indicates a poor rate of retention and no data has been made available for FY03 or FY04. Future JTIP appropriation should include language making funding contingent on requiring claw-back provisions (requirement to pay back funds if the business leaves the state before an agreed upon date) in every award and on requiring EDD to track and report quarterly to LFC on JTIP-funded job retention results.



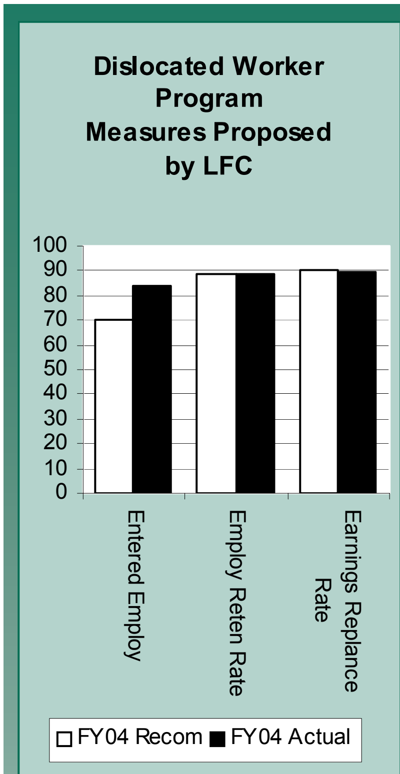
Business Needs. A November 2003 LFC audit report noted that the provision of business services needs to be an integral part of the one-stop system. Many New Mexico businesses do not consider the local WIA boards as a resource for hiring needs. The committee agrees with OWTD that local boards and one-stop centers should be evaluated on serving businesses with clear performance measures. Coordinating the workforce goals of EDD, NMDOL, and Small Business Development Centers administered by community colleges will require significant effort on the part of OWTD. This will require local boards to identify job vacancies and job surpluses in their respective areas. The office will need to recognize fastest growing business and most job openings to tailor their job training. NMDOL data on the estimated and projected wage and salary employment in New Mexico should be used to identify training needs.

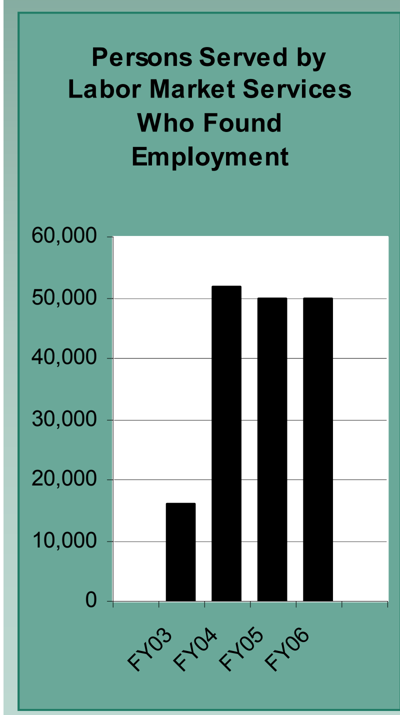


Unemployment Insurance and Trust Fund. Unemployment insurance claims have been decreasing, with 5,056 in September 2003 to 4,133 in September 2004. The Legislature in 2003 increased benefits to the unemployed and decreased unemployment taxes for employers. Specifically, the legislation eliminated the benefit denial for claimants attending school full-time, included a dependents' allowance of $15, added eligibility for victims of domestic violence, allowed for benefits to workers seeking part-time work, reduced the new employer tax rate to 2 percent, allowed for the transfer of favorable employment history from other states, and provided a zero tax rate for employers with a low experience rating. NMDOL estimated these provisions would increase benefits approximately $28 million and decrease taxes approximately $26 million per year. A sunset clause also was included to terminate these revisions after four years or sooner if the trust fund balance dropped below a threshold of 3.75 percent of total payrolls. Based on the latest available data, trust fund balances have fallen to just over 3.5 percent and consequently the program changes will sunset on December 31, 2004. Still, trust fund balances are healthy and it may be possible to extend some of the 2004 provisions.



Wage Determination. The Wage and Hour Division of the Compliance Program establishes wage rates on public works projects through wage surveys. In 2003 base rates for electricians more than doubled based on misclassifications by those surveyed and the small sample in the survey. The change in prevailing wage rates cost the state $20 million for fire alarms at public schools. In November 2003 the Labor and Industrial Commission held a public hearing to announce a rule change allowing alternative methods of calculating prevailing wage rates. The idea was to add collective bargaining agreement rates (CBAs), federal Davis-Bacon rates for New Mexico, and national labor agreements as options in addition to the traditional survey method. That decision was appealed by the Associated Builders and Contractors (ABC). The initial appeal was heard and denied by the Labor and Industrial Commission in April 2004. In June 2004, ABC appealed the commission decision to district court. The commission is waiting for the 1st Judicial District Court to schedule a hearing date because no new wage rates were set last year, today's prevailing wages are based on the flawed June 2002 data. The commission is currently conducting a traditional survey to determine next year's rates.





Under the Accountability in Government Act the New Mexico Department Labor (NMDOL) was not one of the agencies selected for quarterly performance reporting. Nevertheless, the committee encourages NMDOL and the Office of Workforce Training and Development (OWTD), in conjunction with LFC and the Department of Finance (DFA) to identify NMDOL/OWTD as a "key agency" in reporting quarterly performance targets to the governor and the Legislature. Moreover, LFC notes that there are no measures to gauge the performance of one-stop operations in the field. At least 17 partners are required to provide service through the one-stop system and most have their own performance measures. Although these performance measures may be used for assessing outcomes for individual programs, they cannot be used to measure the success of the overall system. Unified planning will be most effective when accountability provisions of WIA and other programs are also coordinated. Therefore, the committee recommends that agencies and partners develop or build on common performance measures.

NMDOL and OWTD exceeded or met the performance measures proposed by the committee in FY04. These measures included

- Percent of participants entering into unsubsidized employment,
- Percent retained in unsubsidized employment six months after entry in employment, and
- Percent increase in earnings from unsubsidized employment.

More than 50,000 individuals entered into unsubsidized employment through the Labor Market Services Program in FY04. The dislocated worker program met the six months retention rate and the increase earnings rate from unsubsidized employment.

It is difficult to determine how well the local boards performed in individual counties. The committee recommends that the agencies report these measures by county and that contract awards should be awarded based on performance.

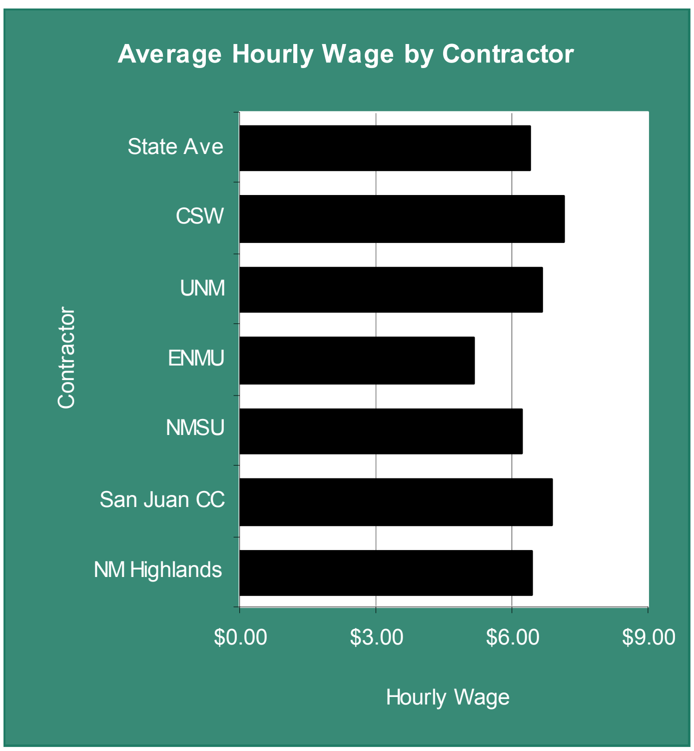
As Temporary Assistance to Needy Families (TANF) contracts migrate to other boards, strict performance standards must be negotiated among the partners. Recent federal and LFC audits noted problems in the administration of the WIA program with all of the local boards. The addition of the administration of the TANF program to the local boards increases the potential for error. LFC recommends the agency report quarterly to LFC and Welfare Reform Oversight Committee (WROC) on the status on the TANF/WIA pilot in the eastern section of the state relative to performance standards. Only San Juan Community College and N.M. State University met the TANF performance criteria of 50 percent of participants involved in a work activity in the state for all families. Failure to meet the criteria may result in a $3 million sanction to the state by the federal government.

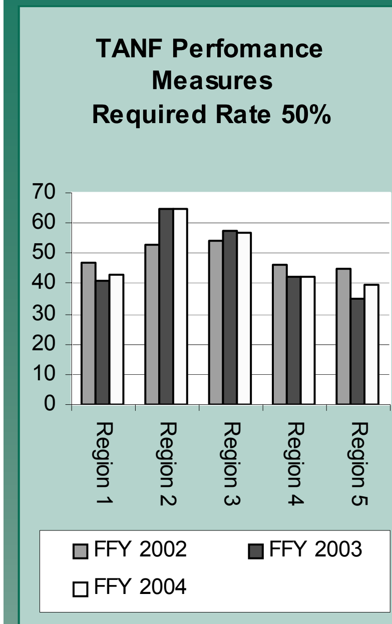
Performance: **Income Support Division-HSD**

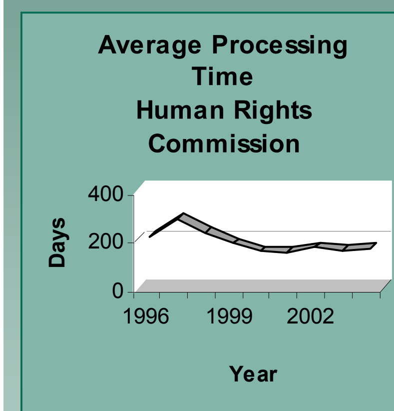
ISD measures and targets support important workforce development goals related to TANF work contractors. A measure for job retention rate has been reinstated from FY04 but the time period is only three months rather than the former six month period. However, a quarterly report key measure is for a six-month time period so this will be reported as well. Also, included in key quarterly measures is an average wage of $7 per hour. Below is a chart showing the average hourly wage by contractor.

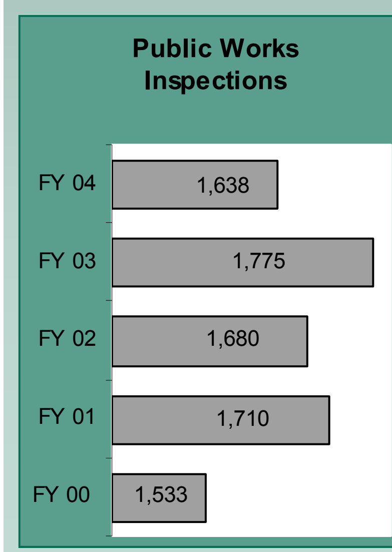
At the state average rate of $6.38 per hour, the annual salary of $13,325 does not yet arrive at 100 percent of the federal poverty level (FPL) of $15,670 for a family of three. At the goal of $7 per hour, the annual rate is still only $14,600, well below the FPL standard. See Appendix 630C. Using this as a barometer, the program as constructed is not meeting even minimum success. While overall, the proposed measures are meaningful, in the future more consideration should be given to how the measure translates into positive outcomes for the clients.

The average number of days for completion of discrimination investigations and determinations increased from 152 in FY03 to 163 in FY04. This is a slight increase and does not reflect a trend. The Labor and Industrial Commission also met the criteria for public works inspections. The measure was increased to 1,800 inspections for FY06.







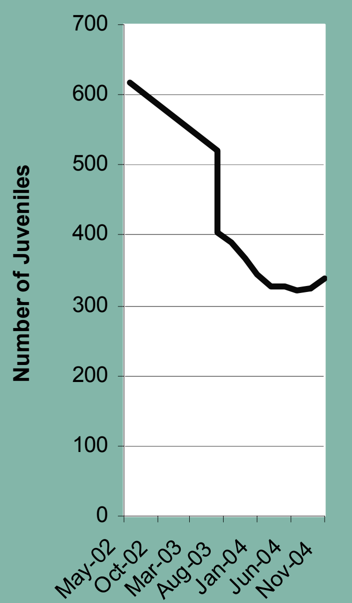


Policy Analysis: **Other Human Services**

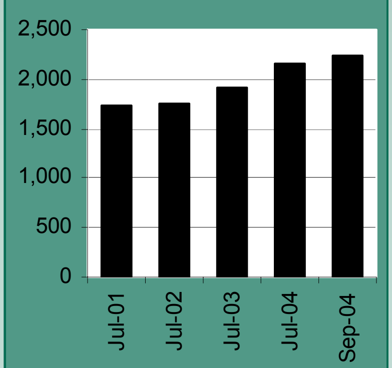
Child Support Enforcement Program Responsibilities:

- Establishing paternity;
- Establishing court orders;
- Enforcing existing orders, and
- Distributing collections

Juvenile Justice Facilities Population



Children in Foster Care



Child Support Enforcement. Child Support Enforcement is authorized under Title IV-D of the Social Security Act and carried out by the Human Services Department (HSD). An important purpose is to reduce the need for families to go on welfare through the collection of child support payments. To support this function, the federal government provides 66 percent of the revenue for the basic program, approximately $23.4 million for FY06 compared with the state general fund share of $8.3 million. There are currently 67,000 active cases.

Three years ago there was a backlog of more than 34,000 cases. With the help of a federal grant a special unit was established to work through the backlog. The unit was recently closed, with only 1,700 cases still outstanding. This manageable number of cases was then returned to the regular field offices.

Excess Capacity in Juvenile Justice Division Facilities. CYFD continues the process of redirecting their resources to "front end," or prevention services, as opposed to detention services. The department cites research asserting prevention is more cost-effective than incarceration. This strategy emphasizes an increase in local community services, including prevention, intervention, and surveillance. Resources are being reallocated to support services in a community-based setting.

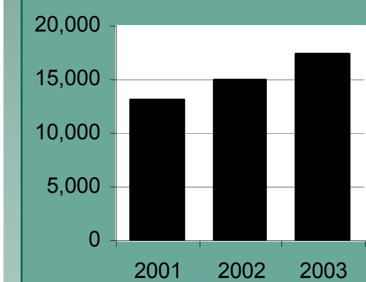
In 2000, 662 juveniles were incarcerated as opposed to the 338 juveniles currently in New Mexico detention facilities. In the last year, CYFD closed the Camino Nuevo high security facility and redeployed staff from the New Mexico Boys School (NMBS) and the Youth Diagnostic Development Center (YDDC). To further address the issue of excess capacity, the department planned to close Camp Sierra Blanca (CSB) in July 2004; the plan was rejected by the governor. CSB is a residential environmental work camp which is located in Lincoln County and opened in 1997. CSB operates through a contract with the Associated Marine Institute. The camp serves low- to medium-risk clients. A factor considered in proposing the closure of CSB was the $5.3 million in upgrades the facility needs to meet life safety and fire codes. In its favor, CSB has achieved excellent performance in rehabilitating juvenile offenders through a combination of education, behavior management, and counseling services.

Nevertheless, the drop in the population rate has increased the average cost to house a juvenile in a facility from $50 thousand in 2001 to $71 thousand per year in 2004. The juvenile population in these facilities appears to be stabilizing, but the committee is concerned with the cost-effectiveness of continued funding of facilities with 30 percent unused capacity. CYFD expects the population to grow from 338 to 360 by July 2005. The committee also has concerns related to mixing a high-risk juvenile population with a low- to medium-risk population. Several violent incidents in the last few months at YDDC have received public attention. Alternative procedures should be considered to make the facilities safer for the juveniles and the staff.

The U.S. Department of Justice reports that 80 percent of juvenile offenders have a mental health disorder while 73 percent abuse drugs and alcohol. A report released by the New Mexico Sentencing Commission last November found that eight of the state's 14 judicial districts had insufficient mental health services and 12 had inadequate sexual offender treatments available. CYFD has experienced problems in recruiting and maintaining professional staff to provide mental health services in local communities. The department plans to fully implement prevention services by the end of 2005. LFC recommends the department report in the interim to LFC and the Welfare Reform Oversight Committee on its progress. Of particular concern to the committee are the current vacant mental health and medical positions at YDDC. As of September 1, 2004, records indicate one-half vacant mental health positions and all three medical positions are vacant.

Child Protective Services. CYFD has experienced a 16 percent increase in foster care placements from January 2003 through July 2004, growing from 1,863 children to 2,162 children in foster care. Federal requirements and standards under the Adoptions and Safe Families Act have contributed to the increase in caseload. Because of enhanced screening of child abuse and neglect reports, more reports are investigated and more children are being placed in foster care to ensure their safety and well-being. CYFD continues to implement in-home services to maintain children in their homes with their families and reduce the number of children from entering foster care. Protective service field offices are reporting that drug use, especially methamphetamine, is also a major factor contributing to recent caseload increases. CYFD should project the caseload growth to plan future staffing needs.

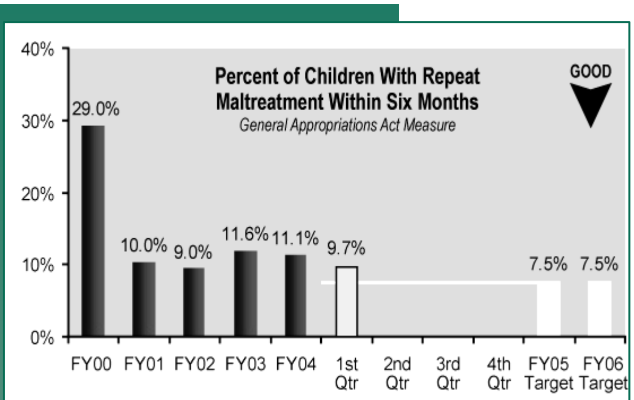
Accepted Child Protective Service Reports

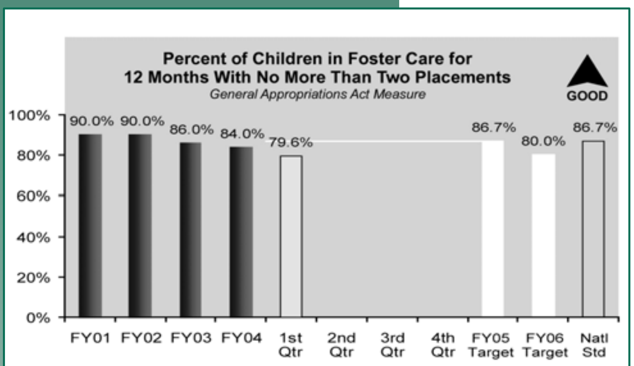


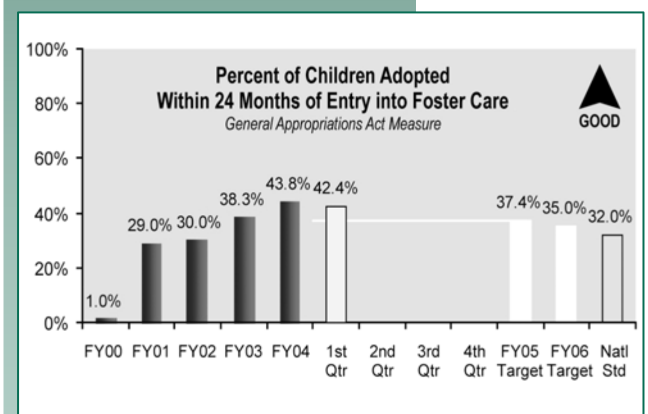
The *Joseph A v: State of New Mexico* class action case regarding the length of time clients were in the foster care system with the lack of permanency planning was dismissed by the federal court in calendar year 2000. In January 2003 the case was re-instated. CYFD established a stipulated exit plan with consent decree plaintiffs. CYFD continues to meet the plan requirements and expects to complete the plan requirements by March 2005. Some of the components of the plan include providing for the cost of a neutral third party, providing for a home studies contract, and increasing subsidy costs for children who have special needs. The plan requires CYFD maintain all stipulated requirements for at least one year.

Long-Term Care. With the creation of the Aging and Long-Term Services Department (ALTSD) and the subsequent transfer of programs from HSD, the Department of Health (DOH), and CYFD, the state has increased the focus on long-term care. ALTSD has taken over the administrative functions of the DOH and HSD long term care programs and will assume responsibility for Adult Protective Services in FY06. Careful oversight of the new agency will be needed to monitor whether program changes have been effective.

Performance: **Children, Youth and Families**





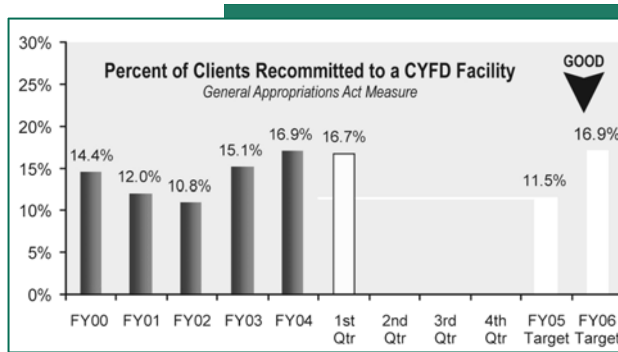


CYFD is a leader in implementing the Accountability in Government Act. The revised CYFD strategic plan clearly sets forth the mission and goals of the organization. Quarterly reports are produced and distributed to legislative committees.

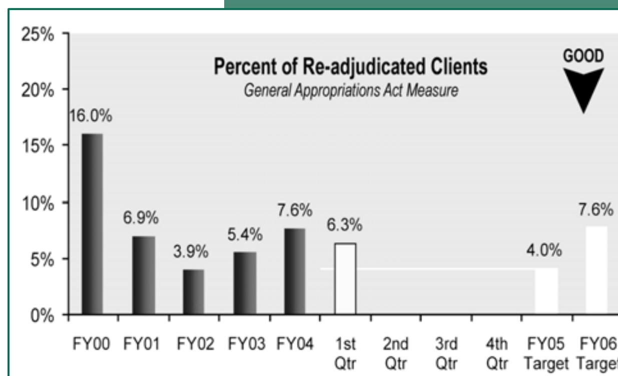
Outcomes of Protective Service Performance Measures. In FY04, the rate of maltreatment recurrence within six months was 11.1 percent, better than the rate of 11.6 percent in FY03 but still higher than the national standard. Potential barriers to preventing maltreatment recurrences are the practice of providing families with services that might not be of sufficient in intensity and duration and monitoring of a parent's progress might be too inconsistent. Some of the problem might also be attributable to the 16 percent increase in the foster-care caseload. Still, the data reflects an improvement in the first quarter of FY05.

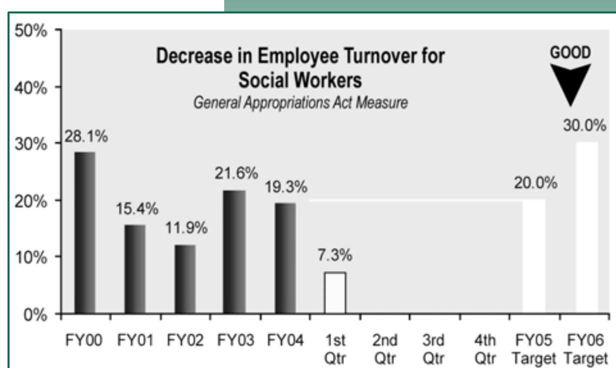
In FY04, the percent of children experiencing no more than two placements during their first 12 months in foster care was 84 percent, close to the national standard of 86.7 percent. Information suggests the agency performance on this measure might be attributed to appropriately matching children with families that meet their needs and making diligent efforts to seek relatives as potential placement resources. In FY04, the percent of all finalized adoptions occurring within 24 months of the child's entry into foster care was 43.8 percent, which exceeds the national standard of 32 percent. Information suggests CYFD's performance on this measure is partially due to the implementation of the Adoption Resource Team review process and addressing legal and other barriers to timely adoptions. The department continues to exceed performance in the first quarter of FY05.

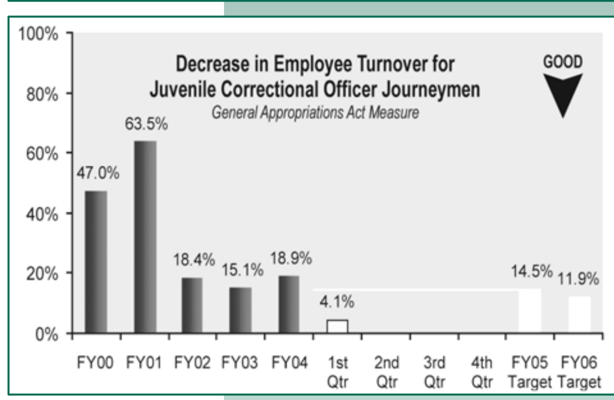
Outcomes of Juvenile Justice Department Performance Measures. LFC currently tracks eight Juvenile Justice Department measures with the focus on education and recidivism. The importance of quality education in the mainstream school system has been recognized; CYFD is advocating a model of accountability as an attempt to ensure that youths committed to a facility receive quality education. A new measure that tracks the percentage of youths who show an increase in reading, math, or language is targeted for FY05 at 70 percent. An additional new measure provides for improvement in the educational grade levels of clients. For FY05, the targeted percent of juveniles earning educational credits while in facility schools is 75 percent. These measures, while important, do not examine what happens to the individual following his or her release, including a return to school, improved academic performance, and employment. To effectively measure the educational success of the youth in a facility, CYFD should track the individual following release and analyze whether the educational effort contributed to a return to school or employment. The correlation of the individual's educational progress in the facility and recidivism rate should also be examined.



In FY04, the percentage of clients recommitted to a facility was 16.9 percent, higher than the FY03 rate of 15.1 percent. The target for FY04 and FY05 is 11 percent, but the department is changing the target to 16.9 percent for FY06. The department met a lower target in FY02 when the percentage of children recommitted to a facility was 10.8 percent. Also, the percentage of re-adjudicated clients for FY04 was 7.6 percent, higher than the FY03 rate of 5.4 percent. This target was met in FY02 when the re-adjudication percent was 3.9 percent. The department is also adjusting the target base for this measure. The first quarter report of FY05 indicates the department is not making significant progress in meeting either measure. One factor contributing to the increase is the decrease in juvenile population residing in facilities and the move to front-end preventive services. As a result, facilities are now housing a more serious type of offender more likely to return to the facility or face re-adjudication procedures. However, LFC is not supporting changing the target base for either measure because the move to front-end services should recognize the higher needs of recovering juveniles by providing enhanced services. CYFD should also take into consideration whether the individual was released from a low- medium- or high-risk facility in reporting data for these educational measures.

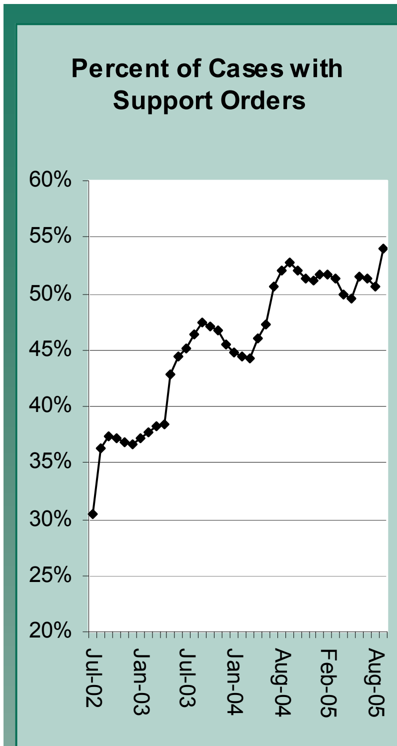


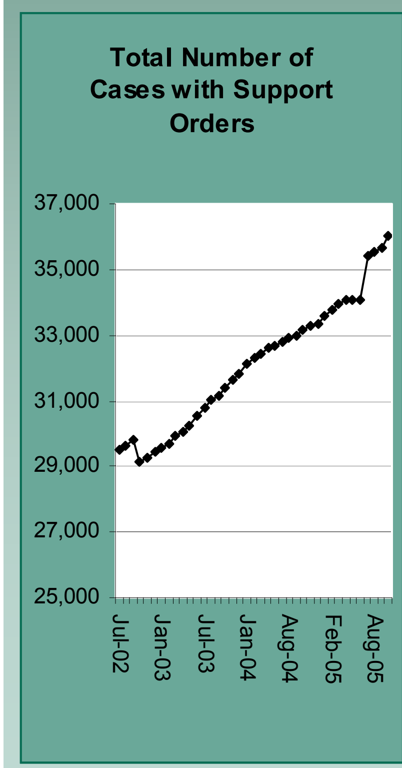




Outcomes of Program Support Measures. In FY04, the rate of turnover for social workers was 19.3 percent, better than the rate of 21.6 percent in FY03 but worse than the FY04 target of 11.9 percent. The department changed the targets to 20 percent for FY05 and to 30 percent for FY06. The new targets are not in line with the department's policy on retention of employees. The department is increasing stress management efforts and training activities on recruitment training and retention. The committee, therefore, recommends a target retention rate of 15 percent. In FY04, the rate of turnover for juvenile correctional officers was 18.9 percent, higher than the rate of 15.1 percent of FY03 but worse than the FY04 target rate of 18.4 percent. The committee supports the target rates for this measure. The first quarter data for both of these classifications appears promising.

Performance: **Child Support Enforcement-HSD**





Human Services Department-Child Support Enforcement Division. The Child Support Enforcement Program has six recommended performance measures. These measures point directly to and support the mission of the program and are generally designed to meet federal reporting requirements. The target results have improved slowly but steadily.

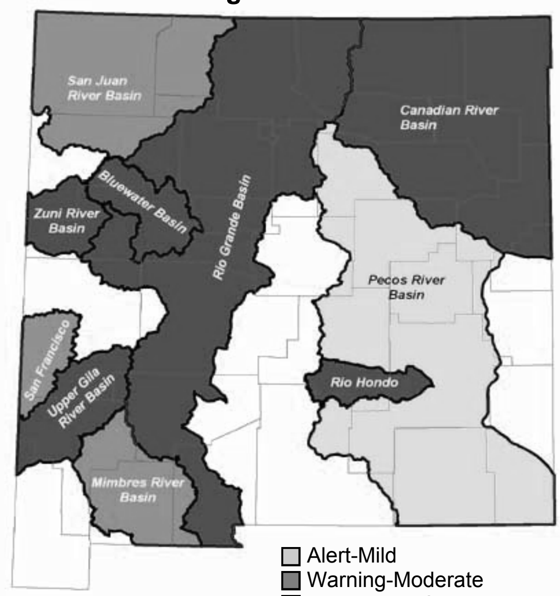
Two related measures, number of cases with an established court order and the percent of cases with an established court order, are important components of program success. Without court orders the collection process becomes more difficult due to lack of enforcement authority.

The percent of cases with support orders has increased continuously from just 30 percent in July 2002 to almost 54 percent in September 2004. The change is an important improvement but the New Mexico performance must be balanced against the national average of 72 percent.

During this same time period, the total number of cases with support orders increased from approximately 29,000 to 36,000. Coupled with the percent increase, the number looks impressive. However, the underlying reason the percent increased so much is tied to the reduction of 34,000 backlogged cases mentioned above. As these cases were reduced to the final 1,700, the percent of cases with orders steadily increased.

Drought Status. New Mexico continues to suffer moderate to severe drought conditions in all but the easternmost portion of the state, which experienced considerable rainfall in 2004. Rainfall in the mountains of northern New Mexico and southern Colorado, crucial for state water supplies, has remained below average for six of the last seven years, resulting in excessively low soil moisture levels. While rainfall in the summer was at near normal levels in many parts of the state, soil absorption prevented significant flows from reaching the state's rivers, consequently reservoir levels remain well below normal. As of October, Elephant Butte and Caballo reservoirs, key barometers of the state's water supply, hold just 9 percent of the normal water levels. Also the Rio Grande at Otowi gauge has less than half the normal flow for this time of year. The Office of the State Engineer (OSE) notes the Standardized Precipitation Index continues to reflect long-term drought conditions statewide with the long-term viewed as a 50-year drought with low precipitation levels to continue.

Hydrological Drought Status
August 2004

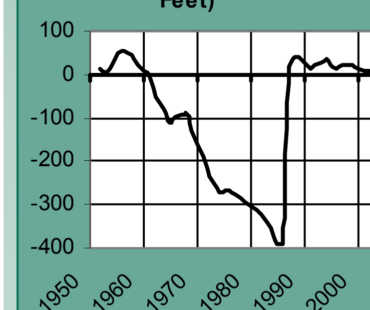


Drought conditions have moved beyond the stages of meteorological and agricultural drought, where precipitation is diminished and soil moisture is insufficient to meet crop needs, and has entered into a hydrological drought, where surface and substrate water supplies are deficient and the impact is statewide. Pressure is increasing on agriculture producers to sell or lease water rights to industrial or municipal users to meet demands in the growing urban areas, and planners in many areas are requiring a sustained source of water prior to allowing industrial or residential development. Overall economic development has not been curtailed, however with most of the basins of the state over-appropriated, the lack of available water may soon have a negative impact on the state's economy.

Status of Water Compact Agreements.

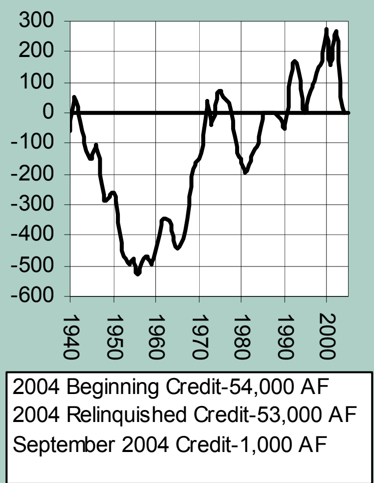
Lower Pecos Basin. Management of the Pecos River Basin is guided by the Pecos River compact, created in 1948 between New Mexico and Texas but driven by a 1988 U.S. Supreme Court decree. New Mexico was ordered to pay $14 million to Texas for historically under-delivering water to Texas and prohibited from falling short on deliveries under a system where New Mexico can accumulate a water credit but cannot maintain a deficit. The Legislature has provided an extraordinary level of funding to OSE to support OSE and the Interstate Stream Commission (ISC) efforts in the Pecos basin to accumulate enough water rights in the river to improve stream flow and ensure adequate delivery to Texas. From an original estimate of $60 million, appropriations have grown to $85.5 million and OSE estimates the need for an additional $60 mil-

Pecos River Cumulative Delivery Departures from Obligation 1952 - 2003
(In Thousands of Acre Feet)

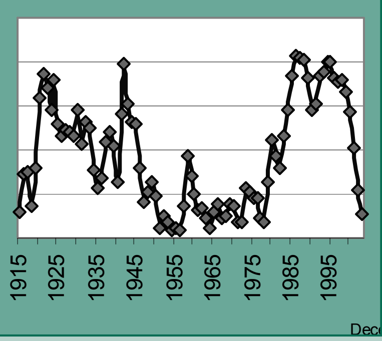


2003 Beginning Credit = 6,900 AF
2003 Credit = 2,000 AF
Total Credit = 8,900 AF

Rio Grande Compact Cumulative Delivery Departures from Obligation 1940 - 2004
(In Thousands of Acre Feet)



Elephant Butte Reservoir Content 1915-2003
(In Thousand Acre Feet)



lion for settlement activities. To date OSE has not expended funds appropriated for the purchase of land and water rights yet continues to request additional funds for these activities. In addition, the agency is entering into lease purchase agreements with land owners rather than purchasing the land outright until the Carlsbad Irrigation District adjudication is complete. It appears the state continues to spend considerable resources in the Pecos basin while making little or no substantial progress toward improving stream flow.

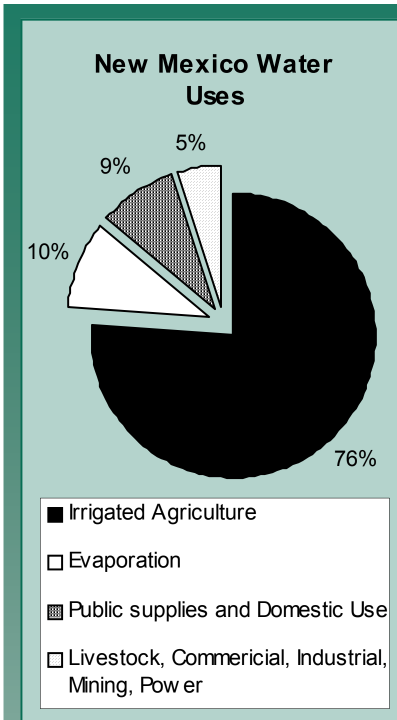
Since the 1988 Supreme Court ruling, OSE/ISC has maintained a small water delivery credit with Texas. In the most recent determination made by the federal river master, New Mexico was declared to have over delivered water to Texas in 2003 by 2,000 acre-feet, bringing the current water credit to 8,900 acre feet. OSE/ISC are cautiously optimistic the significant rainfall that occurred this summer on the southeast quadrant of the state particularly south of Brantley Dam, will result in a relatively large credit for 2004.

Rio Grande System. A situation similar to the Pecos River is imminent on the Rio Grande. In March 2004, under the provisions of Article 7 of the Rio Grande compact, OSE/ISC relinquished 54,000 acre-feet of credit leaving a cumulative credit of 1,000 acre-feet. Although delivery requirements are calculated differently than on the Pecos River, this credit amount is untenable and will only add to the considerable pressure on water managers. The *2000 Middle Rio Grande Water Supply Study* concluded that, at present levels of water use, New Mexico can, on average, barely meet its Rio Grande compact delivery obligations.

As a result of the drought, recent Rio Grande flows have been well below average when measured at the Otowi gauge, the point where compact delivery requirements are determined. These low flows coupled with significant loss attributed to extreme low soil moisture levels and higher irrigation requirements have resulted in Elephant Butte storage levels falling to as low as 45,000 acre-feet in the fall of 2004. This is a historic low for the reservoir and the National Oceanic and Atmospheric Administration projects that it could take two decades to restore water levels in reservoirs in New Mexico, even under normal weather conditions. In an effort to combat the considerable loss of water that occurs in the Rio Grande, OSE through a cooperative agreement with the U.S. Bureau of Reclamation has undertaken a project to excavate a pilot channel in the upper reaches of Elephant Butte reservoir. By December 2004, 18 miles of channel will be completed with five to six additional miles required as a result of declining water levels.

San Juan-Navajo Settlement. OSE and leadership of the Navajo Nation have agreed in principal to a proposed San Juan-Navajo settlement agreement that would resolve the claims of the Navajo Nation to the use of waters of the San Juan River Basin. A portion of the settlement requires Congress to authorize the Bureau of Reclamation to construct and operate the Navajo-Gallup Water Supply Project, transporting water to the city of Gallup and allow for water to be made available to users on the Navajo Nation. The overall cost of the projects is estimated to be $1 billion with New Mexico's share at $25 million and a local cost share of $131 million. OSE is optimistic the settlement will be concluded in FY05 and be presented to Congress for approval shortly thereafter.

Aamodt Settlement. The proposed Aamodt settlement agreement is intended to resolve the 38 year adjudication of the Pojoaque system that involves the claims of Nambe, Pojoaque, Tesuque, and San Ildefonso pueblos. At the heart of the settlement, in addition to the resolution of pueblo water rights, is the development of a new regional water system serving the area's Indian and non-Indian residents. A component of the agreement requiring area water users to abandon their domestic wells has surfaced as a major obstacle to the settlement. Negotiations are ongoing, however it appears litigation will be required to settle outstanding issues.



Active Water Resource Management (AWRM). This initiative refers to a broad range of activities that emphasize permitting transfers, monitoring and metering diversions, and limiting diversion of water to the amount authorized by existing water rights, all within the prior appropriation system. The State Engineer has targeted seven critical basins to begin implementation and has begun organizing teams within the agency to carry out planned activities. Provisions in the initiative allow for expedited transfers and replacement plans, necessary components if there is to be workable priority administration. These provisions provide a process to allow junior water right owners curtailed by priority administration to be able to quickly access a supply of water from willing sellers. A specific public safety component requires that drinking water not be cut off without recourse under the plan. The expedited transfer provisions will not take water from senior water rights holders, but rather will enhance their ability to benefit from the higher monetary value of those rights, should they choose to lease or sell their water. Performance measures have been developed to measure the agency's ability to perform AWRM in the seven identified basins.

Implementation of a State Surface Water Quality Protection Program. In its FY06 budget request, the New Mexico Environment Department (NMED) requested a small expansion (3 FTE with no need for additional funding) with large implications for water quality in New Mexico and long-term spending and staffing levels within NMED. Currently, NMED conducts intensive water quality surveys on one to two watersheds each year to determine the existence of pollutants in the stream flow. Stream impairments can be caused by point sources of pollutants (generally pollutants that are discharged through a single pipe into the stream, such as from a wastewater treatment plant), in which case, mitigation of a pollutant is addressed

Potential Advantages of State Administration of NMDES

According to NMED, potential advantages from state administration of NPDES permits include:

1. New Mexico would be able to assume full responsibility for the quality of all of its water resources.
2. New Mexico could assure water quality standards apply to bodies of water exempted under the federal Clean Water Act. In recent decisions, particularly *Solid Waste Agency of Northern Cook County vs. U.S. Army Corps of Engineers,* the courts have determined the act does not apply to intermittent streams, affecting up to 90 percent of New Mexico surface waters. This might also exempt closed basins such as the Tularosa and Mimbres.
3. New Mexico could tailor its NPDES programs to meet state circumstances and needs.
4. NMED could better integrate its efforts to promote surface and groundwater quality.
5. NMED could increase the use of voluntary compliance when possible, in contrast to federal use of formal compliance orders.
6. Opportunity for independent review of regulations, permits and enforcement though the Water Quality Control Commission would increase.

through federal permits (National Pollutant Discharge Elimination System—NPDES—permits) issued by the U.S. Environmental Protection Agency (EPA). Alternatively, stream impairments can be caused by non-point sources of pollutants (for example, pesticides and herbicides sprayed on fields), in which case, mitigation of a pollutant is addressed when NMED develops a watershed restoration plan to incorporate best management practices.

Under the NMED proposal, the state would assume responsibility for administering the NPDES permits and, thereby, develop an integrated surface water quality protection program. New Mexico is one of five states that do not operate their own NPDES programs along with Massachusetts, Idaho, Alaska, and New Hampshire.

NMED created a regulation development work group in October 2004. The workgroup anticipates proposing necessary statutory changes in the 2006 legislative session. NMED anticipates the fully authorized program could be in place by the end of 2006. The department is requesting this expansion in FY06 to develop regulations and authorization documents for getting federal approval of the state administered NPDES program. Fully implemented, the NPDES program would cost about $1.4 million funded from non general fund sources (federal grants, permit fees, and other state funds) and would have about 20.5 full-time employees. The committee recommendation includes authorization for the three positions requested.

Air Quality. New Mexico meets EPA standards for almost all measures of air pollutants. For example, the EPA reports the number of days that major pollutants exceed air quality standards at monitoring sites around the state each year. In calendar years 2003 and 2004 to date, EPA reports no instances of excessive pollutants at any New Mexico monitoring site for carbon monoxide, nitrogen dioxide, ozone, sulfur dioxide, lead, and particulates under 2.5 micrometers. Only particulates less than 10 micrometers have registered in excess of EPA standards at New Mexico monitoring sites in these two years. EPA standards for these particulates were exceeded on eight or more days in Albuquerque, Bernalillo, and Sunland Park in 2003.

In its strategic plan, NMED is addressing air quality through two new initiatives and one budget expansion request. First, using $660 thousand in EPA grant funds, they are upgrading their monitoring system to provide central real-time tracking of monitoring data that will allow public access to near real-time data from a home computer and will also allow additional monitoring sites to be added around the state without the need for additional staff to read the data.

As the second major initiative, in November 2003, NMED approved a state implementation plan for reduction of regional haze. In a sense, haze is a measure of air quality that every person can evaluate by looking at the sky and scenery. Visibility impairment in the form of regional haze obscures the clarity, color, texture, and form of what we see. Haze causing pollutants (mostly fine particulates) are caused by common air polluters — electric power generation, industrial and manufacturing processes, vehicle emissions, construction activities, and agricultural, forestry and natural burning. In addition to reflecting air quality, haze negatively impacts New Mexico tourism because visitors to wilderness areas come to enjoy scenic vistas and unique natural features that can be obscured by excessive haze. The NMED has set a goal of increasing visibility by 3.25 kilometers — about two miles — per year. The budget request indicates this target would be achieved with existing resources.

Environmental Enforcement at U.S. Department of Energy Sites. A substantial portion of NMED regulatory activity is directed at U.S. Department of Energy (DOE) sites around New Mexico, including Los Alamos National Laboratory (LANL), Sandia National Laboratories (SNL), and the Waste Isolation Pilot Project (WIPP)

*LANL***.** On May 2, 2002, NMED made a finding that past and present releases of hazardous and solid wastes at LANL constituted an imminent and substantial endangerment. The University of California and Los Alamos National Laboratory (LANL) filed four separate actions in state appeals court and federal district court on behalf of LANL. After almost two years of negotiation, NMED and parties representing LANL in October 2004 issued a draft order on consent that would settle the litigation and address the contamination on a fence-to-fence basis at LANL. Pending resolution of a separate federal facilities compliance agreement between DOE and Environmental Protection Agency (EPA), NMED expects to enter a final order on consent in early 2005. The draft order on consent addresses all contamination that currently exists at LANL, known or unknown. Groundwater contamination, old dumps, firing and detonation sites, and old industrial sites are all addressed under the order. Corrective action under the order would be completed by 2015. The order contains provisions for stipulated penalties if LANL does not comply.

*Sandia National Laboratory (SNL)***.** On September 3, 2002, NMED made a finding that past and present releases of hazardous and solid wastes at SNL constituted an imminent and substantial endangerment. In response, DOE and Sandia Corporation filed four separate actions in state appeals court and federal district court challenging the finding and draft corrective action order. A final order on consent was agreed to on April 29, 2004, that settles the litigation and addresses the contamination on a fence-to-fence basis at SNL. The draft order on consent addresses all contamination that currently exists at SNL, known or unknown. Groundwater contamination, old dumps, firing and detonation sites, and old industrial sites are all addressed under the order. Corrective action under the order would be completed by 2006. The order contains provisions for stipulated penalties if SNL does not comply.

Waste Isolation Plant Project (WIPP). WIPP is the only underground geological repository in the country permitted to permanently dispose of transuranic (TRU) radioactive waste and TRU mixed waste generated from research and production of nuclear weapons. TRU waste consists mostly of contaminated equipment, clothing, sludges, and remediation waste. The operational life of the facility is expected to be 35 years but might be significantly less if shipments are accelerated. To date, WIPP has received waste from eight DOE facilities — LANL, Rocky Flats, Idaho National Engineering and Environmental Lab, Hanford, Nevada Test Site, Lawrence Livermore Laboratory, Argonne East, and the Savannah River Site.

One regulatory issue related to WIPP involves permit violations. NMED has issued four compliance orders and one notice of violation to WIPP since the facility began receiving waste in March 1999. Two of the compliance orders concerned shipments received that contained wastes not in accordance with the permit. The first was issued in January 2002 regarding 37 drums shipped from LANL in 2001 that did not have appropriate headspace gas analysis performed. NMED assessed a $210.4 thousand penalty settled for $75 thousand. The second compliance order, issued August 31, 2004, concerned 107 drums shipped from Idaho National Engineering and Environmental Laboratory between March and July 2004 that were not sampled prior to receipt at WIPP. NMED assessed a penalty of nearly $2.4 million. Settlement negotiations are ongoing. Also, in October 2004, NMED and EPA became aware of approximately 600 drums received at WIPP in 2004 from Hanford that failed to comply with EPA's requirement that homogeneous solid waste from Hanford is not acceptable at WIPP.

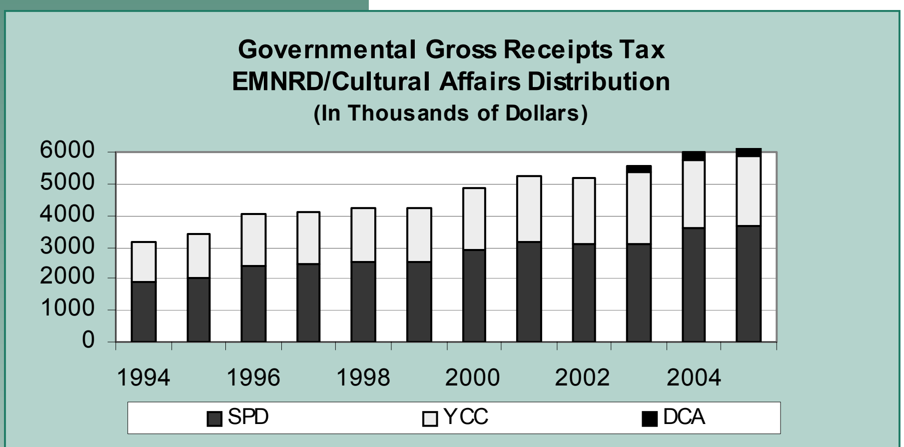
The other major regulatory issue that has arisen concerning WIPP relates to the need for an independent oversight bureau in Carlsbad. The Environmental Evaluation Group (EEG) originally performed this function under contract with DOE and the New Mexico Institute of Mining and Technology. DOE terminated the contract with EEG in 2004 over a dispute about budget. (EEG had received about $2 million per year and faced a reduction to $1.5 million.) Public criticism of the budget cut and subsequent termination of the contract claimed the actions were attributable to EEG's criticism of the technical and scientific basis of many DOE initiatives at WIPP. As a stopgap, DOE provided $600 thousand to the Carlsbad Environmental Monitoring and Research Center to augment and expand environmental monitoring activities previously handled by EEG. At the same time, NMED secured funding to reopen its DOE Oversight Bureau in Carlsbad, which is expected to achieve full staffing (7 FTE) by the end of 2004. Senator Pete Domenici introduced language into the FY05 defense authorization bill (enacted October 28, 2004) directing DOE to use competitive procedures to contract for independent reviews and evaluations of WIPP.

State Parks Expansion. In FY05, the executive made the development and creation of new state parks as well as the expansion of a number of existing parks a priority for the State Parks Division (SPD). The Legislature in 2004 appropriated $1.7 million for expansion of five parks and four new parks. Parks with expansion potential include Coyote Creek, Oliver Lee, Pancho Villa, Manzano Mountain, and Sugarite. Expansion primarily focuses on acquiring land adjacent to the parks to either provide a buffer from neighboring parcels, protect sensitive wildlife or to take advantage of land opportunities as they present themselves. With regard to new parks, SPD identified four top candidates for addition to the state park system: Vietnam Veterans' Memorial in Colfax County, Shakespeare Ghost Town in Hidalgo County, Galisteo Basin in Santa Fe County and Blackwater Draw in Roosevelt County. In addition to the $1.7 million for these opportunities, the Legislature appropriated $1.8 million for land acquisition, planning, construction, and operational costs at Mesilla Valley Bosque Park. Additionally, Eagle Nest Lake State Park was dedicated in July 2004, basic infrastructure is in place, and development activities are continuing.

Mesilla Valley Bosque Park. Planning and predevelopment activities have begun regarding Mesilla Valley Bosque Park in Dona Ana County. SPD is planning to officially open the park to the public sometime in 2005 and will begin to hire staff early in the year. A total of 400 acres have been identified for the park, much of which is controlled by the state Department of Game and Fish, International Boundary and Water Commission, U.S. Bureau of Reclamation, U.S. Bureau of Land Management, Elephant Butte Irrigation District (EBID), and other entities. In addition, negotiations continue to secure ownership of 13 acres of privately owned lands and easements to an additional 127 acres. Each of these entities will require separate agreements with SPD to include its lands within the park and permit SPD to operate programs and exercise regulatory authority. With the exception of EBID, all agencies have been cooperative and acquisition activities are progressing well. The Elephant Butte Irrigation District which owns the Picacho Drain, a vital conveyance for improving and restoring habitat, appears to be positioning itself to either oppose the park altogether or could be seeking substantial compensation to include its lands in the park. Given the relatively limited budget for development of the park, SPD will not have the resources necessary to pay EBID. Funds have already been expended on a boundary survey, a New Mexico Department of Transportation driveway permit, soil testing, and master plan preparation. SPD expects to complete and publish the master plan by the end of 2004. A major component is the characterization, size, scope, and cost of the access road. A Youth Conservation Corps (YCC) team sponsored by the Southwest Environmental Center worked at the park site this summer conducting habitat restoration. State Parks supported the YCC project by providing some equipment and materials. It is expected an expanded YCC presence will develop as the park matures.

SPD reports that funds appropriated for parks expansion and new park construction will not be completely expended in FY05 and will request legislative approval for language extending the period for expenditure through FY06. Given the considerable and sustained resources allocated to state parks, the committee recommends SPD develop a five-year plan projecting both recurring and nonrecurring costs by park and report to the Legislature during the 2005 session.

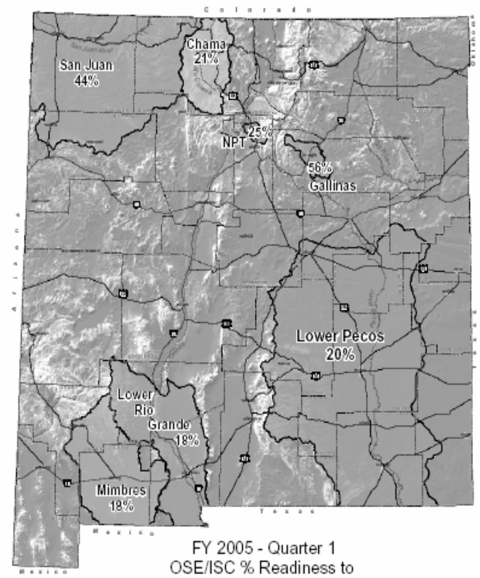
Governmental Gross Receipts Tax. Section 7-1-6.38 NMSA 1978 authorizes the distribution of 24 percent of governmental gross receipts tax revenue to the public project revolving fund for state park capital improvements and to implement the Youth Conservation Corps Act (YCCA); 41.66 percent is appropriated to implement the provisions of YCCA and the remaining 58.34 percent is appropriated for "state park and recreation area capital improvements, to include the cost of planning, engineering, design, construction, renovation, repair, equipment and furnishings." The Department of Cultural Affairs receives a 1 percent distribution for improvements at state museums and monuments and 75 percent is distributed to the public project revolving fund administered by the New Mexico Finance Authority. State Park's infrastructure management plans identify $31.9 million in funding needs for existing parks and an additional $7.3 million for new park initiatives. These are detailed in Appendix 521A in Volume II. Priority projects include additional shelters, paving, Americans with Disabilities Act compliance projects, additional campgrounds, new exhibits, water improvements and, waste facilities. The plan includes anticipated funding from federal sources, which usually require state matching funds, GGRT funds, state parks bonds, severance tax bonds, if available, and user fees. Of the total need identified, $6.7 million is available from state park revenue bonds sold in FY04. GGRT revenue is primarily applied to debt service, however approximately $800 thousand remains for other expenditures. SPD utilizes these funds to support construction crews tasked with implementing project plans and activities. (DCA capital needs for FY06 are estimated to be approximately $21 million and are detailed in Appendix 521B in Volume II.)



Performance: **State Engineer**

The OSE undertook a reevaluation of its performance measures as a result of being identified as a key agency subject to quarterly reporting. As a key agency, OSE has developed a unique format for quarterly performance reporting. The new format, is somewhat akin to "PERT charts" and covers activities under all agency programs in seven basins around the state. Most generally, the performance reports gauge progress in implementing Active Water Resource Management in each basin.

Active Water Resource Management in New Mexico



FY 2005 - Quarter 1
OSE/ISC % Readiness to
Perform AWRM within Priority Basins

With regard to FY04 measures, the agency met all performance targets with the exception of the number of aggrieved applications processed per month and the number of protested and aggrieved water rights backlogged. This primarily occurred with applications in the Lower Rio Grande Basin. OSE is beginning to focus on adjudication of this basin and the number of water rights applications is increasing dramatically. The agency will have difficulty meeting these targets well into the third quarter of FY05, but should make significant headway as the year progresses. These activities are included in the performance submeasures for key quarterly reporting.

Performance: **Environment Department**

The Department of Environment developed 43 performance measures covering a wide range of departmental activities. The measures are substantive and provide useful insights into the performance of each bureau. The department has devoted sufficient resources to track the performance data and to produce quarterly reports.

Many of the measures could be enhanced by indicating a numerical baseline when performance targets are expressed as annual percentage improvements. The department should also consider greater use of descriptive measures of general environmental quality. The department focuses its efforts on influencing these measures, devotes considerable resources to monitoring, and reporting to federal authorities. Including more of these general measures would help policymakers identify environmental quality problems and to devote sufficient resources to address them in a timely manner.

The quarterly reports are a strong first effort but should be enhanced with more extensive discussions of the reasons quarterly targets are not being met, as well as factors that contribute to performing better than anticipated. For example, in the fall 2004 quarterly report, one failure to meet a targeted level of performance was attributed to "staff resources" with no further elaboration. The department should explain if this is due to excessive vacancies, reassignment of staff, inadequate staff training, optimistic targets given staffing level, or another causes and should discuss the steps that will be taken to address the problem.

Performance: **Energy, Minerals and Natural Resources**

Oil Conservation Division greatly exceeded targets in the number of orphaned wells plugged in FY04 .

Visitor participation in State Parks Interpretive Programs statewide exceeded 193,000 in FY04.

The Renewable Energy and Energy Efficiency Program realized an increase in alternative fuel consumption of 10 percent over FY03.

The Energy, Minerals and Natural Resources Department (EMNRD) reevaluated its performance measures as a result of being identified as a key agency subject to quarterly reporting. The agency has developed a number of new measures that more accurately measure agency performance.

The renewable energy and energy efficiency program is charged with developing, expanding, and implementing clean energy programs statewide. These activities range from assisting with renewable energy projects, measuring energy savings as a result of energy retrofits and overseeing the state's alternative transportation fuel initiative. The program has received a federal grant to provide a limited number of compressed natural gas buses to school districts around the state. Additionally, seven New Mexico schools have been retrofitted with solar energy systems. These systems are free to the schools in exchange for implementing a solar energy curriculum for students. For FY04, the program exceeded targets in all areas with the exception of the annual utility costs for state-owned buildings. This measure has been changed to an explanatory measure only because the program has no control over utility costs or the construction of new buildings.

The State Forestry Division (SFD) has implemented two new measures that tie directly to its role of managing wildfires and mitigating urban interface fire threats. In FY05 SFD delivered 47 fire engines and tankers to fire departments statewide. These units were purchased using federal fiscal relief funds and will be used to support the division in its urban-wild-land interface program. EMNRD, through SFD, has completed the New Mexico Forest and Watershed Health Plan. A task force under the leadership of the EMNRD secretary is currently working to implement the plan. Program performance relating to FY04 measures was satisfactory, with activities relating to seedling distribution greatly exceeding expectations.

State Parks continues to meet or exceed most performance targets for FY04, notably with the number of interpretive programs available to park visitors. The number of programs offered exceeded targets by 25 percent statewide, this in the face of decreasing visitation and revenues. A new measure recommended for FY06 is the percent completion of new parks and expansion projects. This measure was added in response to the emphasis being placed on these activities by both the Legislature and the executive. As noted, SPD is charged with establishing a number of new parks and undertaking expansion activities at many more. Division staff participate frequently at community events to broaden the attraction of parks regionally. The division realized self-generated revenues of 81 cents per visitor, consistent with FY03 performance but slightly below targets. The committee recommends continuing with the higher target as an achievable goal for the division.

The Mining and Minerals Division (MMD) continues its steady performance year to year exceeding FY04 targets. The abandoned mine land program was extended to June 2005 as part of the federal omnibus bill passed in November 2004. This program provides funds for reclaiming abandoned mines.

In FY04 the Oil Conservation Division (OCD) was active in supporting the executive's position regarding drilling on Otero Mesa as well as being involved in a number of high profile incidents, including a gas well blowout in Carlsbad. The division has become more active in environmental activities relating to oil and produced-water spills and points to the number of violation citations issued in FY05. OCD adds two new measures, to the number of formal notices of violation issued and the percent of violations resolved in 90 days. The division notes concern with the number of oil and gas wells and facilities inspected given current staffing levels and has requested a small decrease in FY06 targets. The committee notes FY03 actual performance exceeding FY05 targets and recommends continuing at existing levels, although FY04 did not meet expectations.

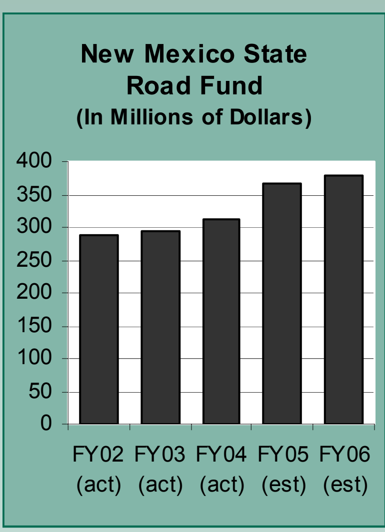
In FY05 MMD received the "Best in the West Award" from the U.S. Department of the Interior's Office of Surface Mining. The award recognized the Abandoned Mine Land Program's work at Cerrillos Hills.

State Road Fund Outlook. The New Mexico Department of Transportation (NMDOT) projects growth from the state road fund's unrestricted revenues for FY05 at $53.3 million or 17.3 percent. The growth in FY05 reflects the revenue enhancements associated with legislation passed during the 2003 special session and the 2004 regular session rather than any unusually strong economic indicators. Growth in FY06 is forecast at $13.5 million, or 3.7 percent.

State Road Fund Outlook
(in thousands of dollars)

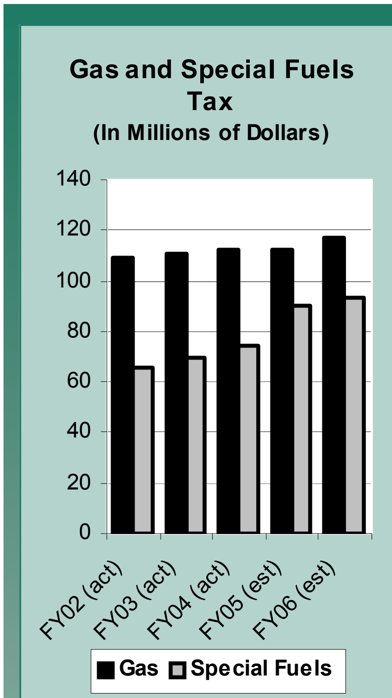
Revenue Source	FY03 Actual	FY04 Actual	FY05 Budget Estimate	FY06 Aug-04 Estimate	FY06 Growth Amount	FY06 % Growth
Gasoline Tax	110,465.0	112,107.0	111,523.0	116,802.0	5,279.0	4.73
Special Fuels Tax	69,478.0	74,546.0	88,043.0	93,500.0	5,457.0	6.20
Weight/Distance Tax	51,394.0	51,574.0	74,796.0	77,720.0	2,924.0	3.91
Vehicle Registration	43,993.0	52,996.0	68,283.0	67,315.0	-968	-1.42
Oversize/Overweight				4,000.0	0	0.00
Other State Revenues	15,989.0	18,880.0	18,588.0	19,416.0	828.0	4.45
Total Unrestricted	*292,459.0*	*311,261.0*	*365,233.0*	*378,753.0*	*13,520.0*	*3.70*
Highway Infrastructure		6,021.0		7,073	202.0	3.69
Other Revenues	23,260.0	25,478.0	24,789.0	27,107.0	2,318.0	9.35
Total State Revenues	**321,978.0**	**342,760.0**	**396,843.0**	**412,933.0**	16,090.0	**4.05**

Gasoline Taxes. Revenue for FY04 was stronger than forecast, primarily as a result of implementation in the latter half of the year of the Nambe Pueblo "gasoline tax-sharing agreement" and gradually improving economic conditions. NMDOT has forecast that revenue for FY05 may be somewhat reduced because of two off-setting factors: implementation of the Santo Domingo Pueblo "gasoline tax-sharing agreement" and the full impact of the Nambe Pueblo agreement. For FY06, NMDOT is forecasting a gradually improving economy and more stable gasoline prices, along with a more stabilized pattern of Native American gasoline sales. This should result in fairly strong growth (4.7 percent) in gasoline tax revenue.

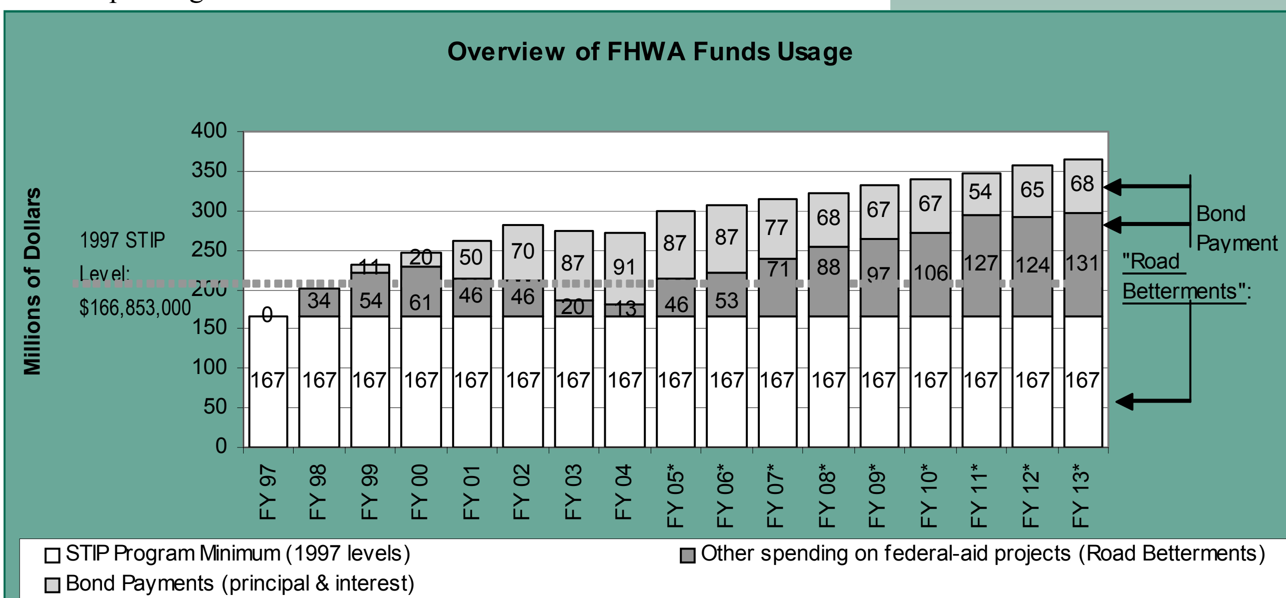


Special fuels tax continued to show surprising strength in FY04 with a 7.2 percent increase on top of a 5.8 percent growth rate in FY03. A continuation of this growth is forecast with a projected 6.2 percent increase for FY06. Typically, strength in special fuels is an indicator of commensurate growth in the weight-distance tax, for which the department estimates 3.9 percent growth in FY06.

SAFETEA Funds Outlook. The federal transportation bill establishes the level of federal funding for New Mexico for a six year period. In 2004, Congress was expected to, but did not, reauthorize the Transportation Equity Act for the 21st Century (TEA-21). The latest extension of TEA-21 through March 2005 continues federal surfacing programs at funding levels equivalent to the previous fiscal year. The competing proposals for highways and transit funding are the House of Representatives version totaling $275 billion, the Senate version, totaling $318 billion, and the administration's threat to veto any proposal for SAFETEA over $256 billion. At the center of the debate are issues regarding the overall size of the program over the next five years, the source of funds, and the relative "rate of return" to states that pay larger and smaller shares of motor fuel taxes. Programmatically all the bills emphasize safety programs, environmental streamlining, and a new infrastructure performance and maintenance program, which targets quick projects to address highway condition and congestion.

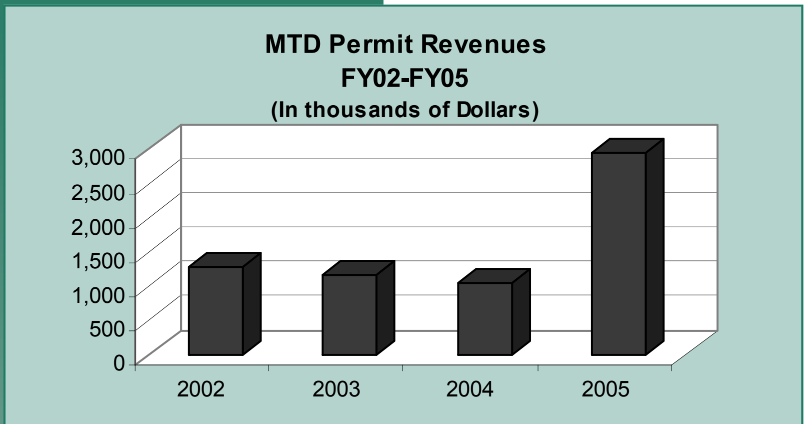


Neither house of Congress has identified any new revenue sources to fund the incremental growth of the program. The administration and the house leadership are opposed to any increase in fuel taxes, and no other funding mechanism to provide a sufficient increase has been indicated. It appears that funding formulas for distribution of funds among the states would remain approximately the same as in TEA-21. Each year, based on the federal formulae, $167 million of federal funds are allocated to New Mexico to fund the statewide transportation improvement plan (STIP), called "road betterments." Based upon the formulae the department projects flat funding for this activity from the six-year reauthorization process. The remaining funds from this distribution are used principally for bond payment activity as determined by Governor Richardson's Investment Partnership (GRIP). As more federal funds become obligated for debt service, greater pressure is placed on use of the state road fund for operating costs. This trend impacts upon legislative discretion over spending.



* Estimated -- assumes FY05 FHWA obligation authority of $300 million, and average annual growth of 2.5% per year thereafter.

MTD Tax Cards Reinstated. DPS' Motor Transportation Division (MTD) estimates the trucking industry has been underreporting its taxable activity within the state by around $7 million per year. Weight-distance tax permits and revenue were flat from 2000 to 2004 and port of entry revenue decreased by 54 percent even though heavy commercial daily vehicle miles traveled through New Mexico increased by 19 percent from 2000 to 2003. With weight-distance accounts up and truck miles traveled up, the state should expect to see trip-tax revenues drop and weight-distance tax increase. Also during this timeframe, the average number of "zero returns," (weight-distance tax accounts that reported no miles traveled within New Mexico) was 13,000. Before the elimination of the tax ID card, the Taxation and Revenue Department (TRD) had fewer than 500 "zero returns" filed each quarter.



The NM tax identification permits, suspended from December 2000 to July 2004 in response to a legal challenge, are again being issued for individual commercial vehicles. Since July 2004, TRD has issued 425,563 NM tax identification permits. Along with the reinstating of the NM tax identification permits, a system is being created to capture information for auditing purposes. MTD estimates weight distance tax revenue will increase by $1.8 million between 2004 and 2005 with the use of the NM tax identification permits.

Also, in *Moving New Mexico Forward: Further Along*, the administration highlighted increasing fines for commercial vehicle violations. The committee supports the recommendation, which will positively impact the Taxation and Revenue Department with an increase in revenues estimated at around $1 million.

GRIP Implementation and Project Planning. During the 2003 special session, the Legislature increased transportation-related taxes and fees to support the state road fund and authorized $1.585 billion of bonds to fund 37 transportation projects, including a commuter rail in the Interstate 25 corridor, over an eight-year period. Debt service for these bonds comes from the increased revenues and the state's existing dedicated federal and state transportation revenue streams. The implementation and coordination of the $1.586 billion GRIP program and the statewide transportation improvement program (STIP) is the most significant management issue confronting NMDOT. The department must leverage all available funds from GRIP bond proceeds, federal funds, and external partnerships to deliver projects. All GRIP projects must be programmed in STIP. Prior to GRIP legislation, several of the corridors included in GRIP were identified for some level of preservation in STIP (federal) funds. The programmed projects extend from federal fiscal year 2004 to federal fiscal year 2009. These funds are not available until the authorization is granted for each fiscal year. In total, it is estimated that $228.6 million, over the six-year period, in federal funds "overlap" the GRIP funding. Based on current cost estimates, the department concludes GRIP authorization is sufficient to complete all projects identified and use of STIP funds to supplement the projects is not anticipated; however, given the current trend of rising oil and steel pricing, use of STIP funds to supplement GRIP might be necessary.

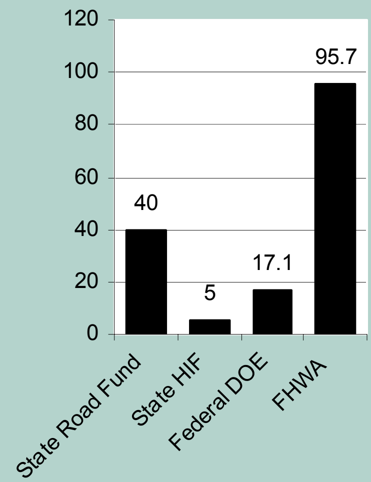
Bond Program and Debt Management. The department has a total outstanding debt of $1.6 billion with an FY05 debt service obligation of $157 million for all NMDOT bonds. The GRIP bonds account for $1.14 billion in outstanding principal with a final maturity date in 2024. Total GRIP interest and bond expenses will total $720 million through maturity of the bonds. The department through September 2004 has awarded nine projects totaling $58.7 million and nine additional projects are scheduled to be awarded by the end of 2004 for approximately $169.7 million. The annual debt service for all bonds will be no more than $160 million. NMDOT is evaluating the need for additional bonding capacity (GRIP II) to meet the needs of the state and anticipates completing such analysis for the 2007 legislative session.

Public Transportation Initiatives. In FY05, the department developed a strategic plan that included as a key element the development of transportation alternatives such as commuter rail or bus service.

Commuter Rail. GRIP legislation provided for reconstruction and improvement of the Interstate 25 (I-25) corridor from Belen to Santa Fe to accommodate public transportation elements including commuter rail. Rail activity has been accelerated while I-25 improvement has been de-emphasized. In a joint partnership between the department and the Mid-Region Council of Governments (MRCOG), the department is approaching commuter rail in two phases: Belen to Bernalillo, estimated completion in the fall 2005; Bernalillo to Santa Fe, estimated completion date in 2008. No funds have been allocated under GRIP for the second phase.

The phase one fall 2005 deadline imposed by Governor Richardson significantly altered the planning process. Minimal analysis of customer demand, fare structure, economic development, and return on investment was conducted prior to capital investments in rail cars and locomotives. These analyses are critical to determine operating revenue projections, subsidies needed to cover the rail's operating costs, the number of trains needed, locations of stations, scheduling, and coordination with local transit systems for commuter transport to worksites. Analysis is now being conducted in these areas. To meet the fall 2005 phase one operations deadline, priority was given to tasks requir-

Debt Service Funding Sources FY05 (In Millions of Dollars)



Commuter Rail Capital Acquisitions

- **10 Rail Cars –$1.9 million**
- **4 Locomotives—$9.6 millions**
- **Starting Cost estimated at $10 million**
- **Land Acquisition costs uncertain**

FTA Requirements for Rail Approval

Alternative Analysis - 2005

Preliminary Engineering - 2006-2007

Final Design - up to 2008

ing the longest acquisition lead-time, including securing track access, the purchase of train locomotives and cars, and acquiring land for stations.

GRIP funds are being used for the phase one capital funding and the initial planning of phase two. Phase two capital funding is being sought through the Federal Transit Administration (FTA) "New Starts" program for major capital transit investments. The analyses required for phase two might show that commuter rail will not be preferred and a bus or other transportation system will be a more feasible alternative. It is also possible that access to or purchase of the proposed tracks will result in a prohibitively high cost, and the project will not be undertaken.

Phase one operations are planned to be subsidized in the first three years with congestion mitigation and air quality (CMAQ) federal funding. Subsequent year subsidies will be sought from potential regional transportation district (RTD) revenue. RTDs are permitted under state law to impose a one-half percent gross receipts tax on participating municipalities. An RTD for the Albuquerque metropolitan area has been approved by two of the qualifying governmental entities and application for NMDOT commission certification is expected in December 2004. However, the tax may only be imposed by the RTD on voter approval. Passage of this tax increase is uncertain.

Self-Sustainability of Park and Ride Programs. In many respects, transportation experts argue, developing consumer demand for public transportation is not simply an issue of generating sufficient volume, but rather an issue of changing behavior. The system has to prove reliable and convenient to pull commuters from their private vehicles to public vehicles.

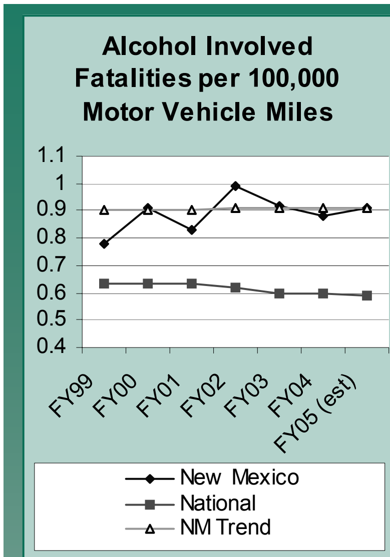
NMDOT began park and ride as a mechanism to meet a federal mandate to reduce the number of vehicles traveling through the US84/285 construction zone corridor between Santa Fe, Espanola, and Los Alamos. Service began in May 2003 and was expanded in December 2003 to include an I-25 route between Santa Fe and Albuquerque. Both ventures were fully funded by federal funds less passenger revenue. Effective December 2004 federal funding will be reduced to 40 percent of net costs for both routes. Generally the northern New Mexico routes are experiencing ridership of 17 percent of capacity and the Albuquerque to Santa Fe buses are averaging 35 to 39 percent of capacity. Increases in ridership have been noted in the Albuquerque-Santa Fe routes with declining numbers in the Espanola-Santa Fe routes. The cost per passenger to NMDOT is more than $20/day. This amount is four times the amount commuters currently pay to participate in vanpools. Consideration is being given to opening a new park and ride service connection between Las Vegas and Santa Fe and a reduction in existing less productive routes such as between Espanola and Santa Fe. The department should prioritize spending where ridership is highest and seek alternative measures for other routes. Analysis should include a discussion of costs versus benefits, including the impact of reduced traffic congestion. Additionally, all alternatives must be considered. Van pools for certain markets might be more practical and affordable to address commuters' needs than park and ride buses.

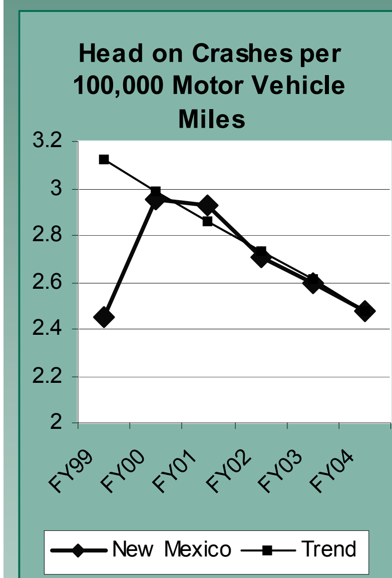
Performance Measures NMDOT. The Accountability in Government Act (AGA) required the Department of Finance and Administration to select "key agencies" for quarterly reporting. NMDOT was selected for participation. The department has been successful in either meeting or in making progress towards achieving the majority of standards set. DOT also produced an outstanding quarterly report integrating strategic goals and performance reporting along with great graphics and clear timelines and assignment of responsibility.

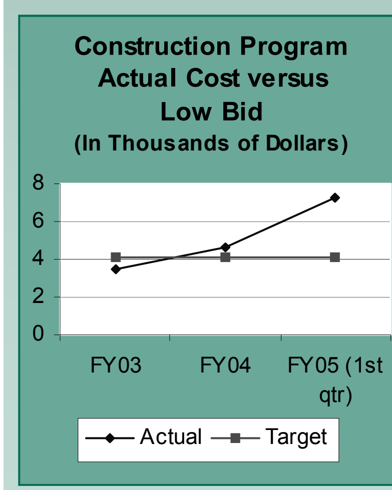
Traffic Safety Program. Data for FY04 suggests that head-on crashes and alcohol involved fatalities are down as compared with the previous year. Overall, fatalities are on the rise. The department is focusing on increased law enforcement and public education and awareness campaigns aimed at high-risk populations. Seatbelt usage is at 89.7 percent, an all time high for New Mexico.

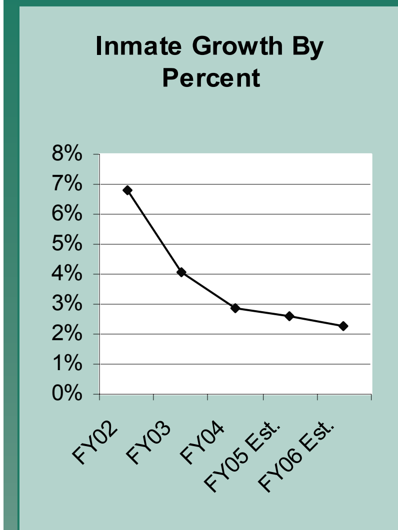
Construction Program. Concern is noted over the upward trend in differences between project final costs and the bid amount. By comparing the actual costs and the low bid amount, the department is able to determine the adequacy of its planning construction processes. The standard is for no greater than a 4.1 percent difference. In FY04 the department had a difference of 4.67 percent. The first quarter of FY05 indicates the difference as 7.28 percent. When coupled with the fragile nature of the department's funding due to bond debt servicing, this is an area of major concern that warrants continued observation and analysis.

Maintenance Program. Maintenance expenditures per lane of combined systemwide miles increased in FY04 to an average of $6.8 thousand per mile. This increase is substantially above the department's standard of $5.2 thousand per mile. This increase is directly related to increases in the cost of materials. The first quarter of FY05 indicates costs are trending below $5.2 thousand.









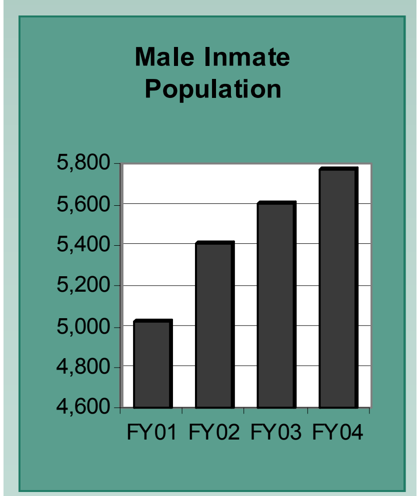
Inmate Growth and Prison Capacity. New Mexico's incarceration rate continues to increase for males and females alike. New driving while intoxicated (DWI) and sex offender laws, mandatory minimum sentences for certain crimes, and "truth-in-sentencing" laws that require serious offenders to serve 85 percent of their prison sentences have added to the increasing population.

FY06 Projections. JFA Associates, formerly of the George Washington University, projects the average annual inmate growth for the state of New Mexico from which the Corrections Department develops its budget needs. The FY06 forecast of inmate growth is down to 2.3 percent. With the estimated population at the end of FY05 at 6,516, a 2.3 percent increase in FY06 translates into an increase of approximately 148 more inmates. The LFC budget recommendation for NMCD fully funds the projected increase.

Need for Additional Prisons. NMCD's FY06 budget request includes 96 beds at the Santa Fe County Detention Center and 48 beds for overflow capacity at the old Bernalillo County Detention Center. The Santa Fe County Detention beds are relatively high in cost at $57.30 per day with no programming offered to offenders. In any event, as of September 30, 2004, there were 72 general population beds available. At the current growth rate of 2.3 percent, NMCD will need more capacity in a year or less. The department is requesting capital outlay in FY06 to proceed with phase two of the DWI unit at the Roswell Correctional Center and the mental health unit at Central New Mexico Correctional Facility. This would increase the beds by 176 for male inmates. However, this additional capacity may not match the greatest need for medium security Level 3 beds. See Volume II Appendix 770A listing capacity and population as of September 30, 2004, by correctional facility.

Also, NMCD would like to utilize Camino Nuevo in Albuquerque, formerly a juvenile correctional facility, to provide greater opportunities for Level 1 and 2 female inmates. The facility has the capacity of 192 beds. The department plans to develop programs for female inmates to participate in community work release programs to acquire marketable job skills for a smooth transition when returning to their communities. The department plans to achieve this by transferring existing NMCD positions and budget to the Camino Nuevo facility. NMCD estimates the start-up, operational and medical costs of Camino Nuevo at $1.5 million.

Population Control. To address inmate population growth along with other corrections issues, NMCD has implemented a "balanced system" approach, placing offenders in the most cost-efficient, cost-effective custody level. Such a system would use the existing prison bed inventory for violent and habitual offenders and would use alternative sanctions for nonviolent offenders.



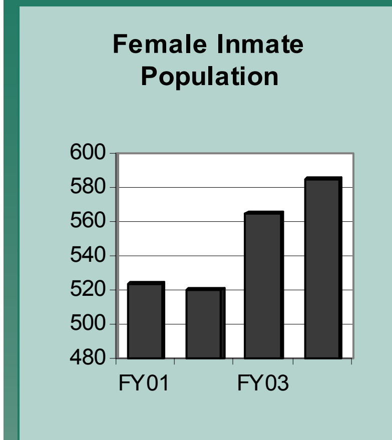
Population Control Initiatives. In February 2004, NMCD formed a Population Control Strategy Committee to address ways to stabilize and lower the prison population. To reach their objectives without jeopardizing public safety, the committee used research to develop and implement a risk instrument. The risk instrument guides the targeting of eligible prisoners and helps with monitoring the early released prisoners. The committee developed initiatives regarding in-house parolees, good-time credits, parole and probation technical violations, special program credits, and community corrections as a form of early parole supervision. The majority of their initiative deals with more efficient and effective discharge of inmates from correctional facilities. Since the creation of the committee, 292 in-house parolees have been paroled out into the community.

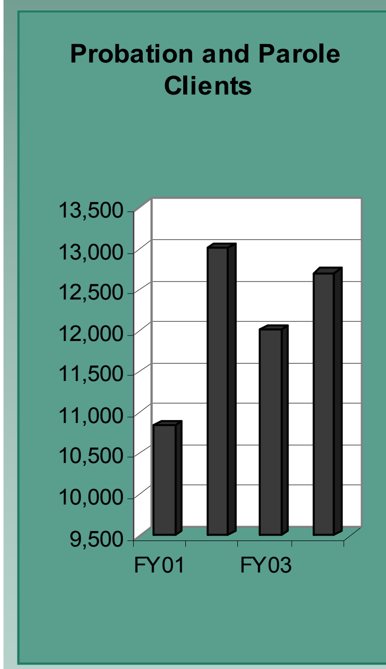
Probation and Parole Staffing. The number of parole and probation clients—offenders under state supervision outside of a prison setting—has increased by 26 percent since FY99. Currently, more than 12,500 individuals are on parole or probation in New Mexico. These numbers include those on regular supervision, in special programs under intensive supervision, and offenders supervised from out-of-state. The caseload per probation and parole officers (PPO) continues to grow and is currently ranging from 90 to 134 offenders, depending on district. Despite the increased caseload, the number of PPOs has remained constant.

Increases in Caseload for Probation and Parole. The Bureau of Justice Statistics data for 2002 reports New Mexico is highest in the nation in the increase of community corrections population in probation, with growth of 13.3 percent. Also, New Mexico ranks second in the nation in parole population with a 25.6 percent increase. A factor contributing to the increase in caseloads is the Early Plea Pilot (EPP) program. EPP is expected to reduce the backlog in the 2nd Judicial District by implementing a swift process of routing offenders into probation, jail, prison and treatment. EPP is expected to go statewide over the next few years.

Salary and Retention Issues. NMCD reports that retaining qualified officers is difficult because of the high demand for skilled, educated employees. PPOs must have a college degree and typically have experience in the criminal justice system or social services. PPOs are leaving for higher paying jobs with Albuquerque's Metropolitan Court and federal probation. In the past three years, Probation and Parole has experienced a high rate of turnover. The department has made great strides in FY04 in filling positions; however, the current vacancy rate is still relatively high at 26 percent. In summary, retention and salary issues are affecting NMCD's ability to retain its PPO positions, meaning that probationers and parolees may not be getting the support or supervision required. The potential threat to public safety under such conditions is evident. LFC recommends a 2 percent special pay increase for probation and parole officers.

Homeland Security Funding. During FY04 the Department of Public Safety (DPS) was awarded a federal homeland security grant





through the federal Office of Domestic Preparedness (ODP) totaling $24.9 million. The following table breaks down homeland security funding for FY04.

Homeland Security Funding for FY04

State Homeland Security Grant	$18,900,000
Law Enforcement Terrorism Prevention Grant	$5,600,000
Citizen Corps	$393,000
Total	$24,893,000

Eighty percent of the total grant must flow through to local jurisdictions. In New Mexico, the local jurisdictions are the 33 counties and the city of Albuquerque. No more than 20 percent of the grant can be retained by the state. Out of the state's 20 percent share of the grant, 3 percent may be used for administrative and management costs. Currently there is no statutory authority regarding the Office of Homeland Security.

State Share of Homeland Security Funding. The following table shows the state share of the grant for FY04 was $4.9 million.

State Share of Homeland Security Funding for FY04

State Homeland Security Grant	$3,700,000
Law Enforcement Terrorism Prevention Grant	$1,100,000
Citizen Corps	$11,000
Total	$4,811,000

The Governor's Office of Homeland Security has identified several projects for funding that will come from the state share of the federal grant. These projects will reduce the state share of funding by $2.2 million and will come from only the state homeland security grant. A total of $748 thousand is being allocated for administrative and management to support salaries and other activities for the Governor's Office of Homeland Security. The Governor's Office of Homeland Security deals with policy and purchase orders regarding homeland security funding. The Office of Emergency Management oversees the all other aspects of administration of the homeland security grants.

A total of $838.4 thousand is available for allocation to state agencies to support their homeland security initiatives. Currently there is no application process for the state agencies in requesting homeland security funding. The state agencies submit equipment requirements that are assessed by a review panel. The governor is recommending the prioritization of homeland security funds. A more formal allocation methodology is being developed.

DPS Officer Compensation and Manpower. The Department of Public Safety's (DPS) compensation study recommended increasing salaries and benefits estimated to cost $8.3 million, representing an average salary increase of 22 percent for State Police, Special Investigation Division (SID) and Motor Transportation Division (MTD) officers. DPS stated the increase in pay structure will make them more competitive in the market, allowing for successful recruitment of entry-level candidates and retention of current employees.

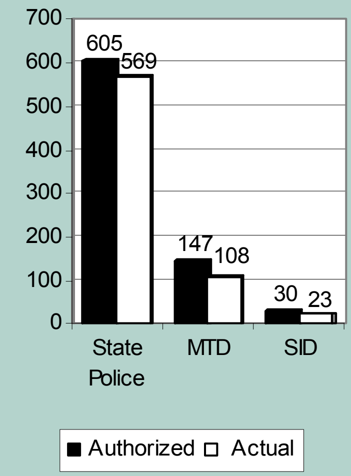
DPS based the proposed pay structure for state police on a Colorado law that requires state troopers be paid 99 percent of the average total compensation provided by the top-paying three law enforcement agencies within the state with more than 100 commissioned. The recommended increase in compensation does not address the pay disparity among State Police, SID and MTD.

The Legislature in 2004 adopted the executive recommendation for DPS in FY05, which was said to include sufficient funding to provide a 5 percent compensation increase for state police officers. However, the $1.6 million cost of the pay raises for state police officers will require the Law Enforcement program to generate a vacancy savings rate of 2.6 percent in FY05. As of August 29, 2004, the vacancy rates were 29 percent for SID, 26 percent for MTD and 5 percent for the State Police.

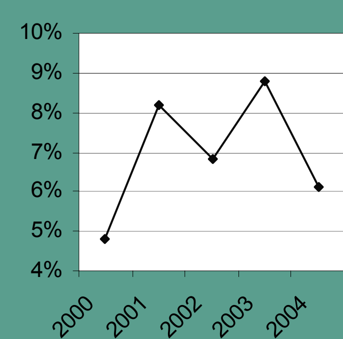
A DPS staffing study indicated the agency needs an additional 360 commissioned officers to reach the minimum staffing necessary for effective and efficient operations. Based on projections in the study, the agency will need to expand its staffing levels by 72 commissioned officers annually until 2010. Of the proposed 360 commissioned officers, 323 would be with the State Police, 16 would be with SID, and 21 would be with MTD. Since FY02, 27 State Police commissioned officers have been taken out of the districts and placed in special units, the majority moved to the Chief's Office, Governor's Security, and Special Operations. It is clear the State Police has contributed to its manpower shortage in the districts. See Volume II Appendix 790A on number of State Police commissioned officers by organizational unit.

LFC recognizes and sympathizes with DPS's need for salary increases for commissioned officers; however a recommendation cannot be made at this time due to insufficient accountability data and other personnel and management issues. LFC acknowledges DPS's commitment to the process of reviewing and improving performance measures for the law enforcement program.

Authorized and Actual Number of Commissioned Officers



State Police Turnover



Performance: **Corrections Department**

NMCD has developed well diversified key quarterly measures that address the agency's key goals: a balanced system approach, population control, comprehensive approach for female offenders, lower costs, reduced exposure to litigation, and enhancement of public relations and education efforts. The key measures report on assaults in the facilities, drug testing, turnover of correctional officers, participation in adult basic education, caseloads of probation and parole officers, profit or loss margin of corrections industries and recidivism. In addition, the department submits information on capacity and actual number of inmates by facility with its quarterly report.

Population Control. NMCD has three new key quarterly performance measures that address population control. The FY05 target for "number of inmates placed into the Sanctioned Parole Violator Program (SPVP) instead of going to prison" is 150. The FY05 first-quarter data reflects 65 inmates were placed into SPVP instead of being sent back to prison. The other two key performance measures deal with recidivism and no baseline data is available. They are "number of inmates returned to facilities within 12 months of release" and "number of inmates returned to facilities within 24 months of release." The FY05 first-quarter data shows 25.2 percent of inmates returned to facilities within 12 months of release, and 44.4 percent of inmates returned to facilities within 24 months of release.

Probation and Parole Officer. There are three performance measures related to caseload management for probation and parole officers. The key quarterly measure "average standard caseload of probation and parole officers" has a FY05 target of 81. However, the actual average standard caseload per PPO for FY04 was 92. The FY05 first-quarter data shows the current average caseload to be 85. The "average number of special program caseloads per probation and parole officer" has an FY05 target of 30. The average number of special caseloads per PPO for FY04 was 31. The "average number of intensive supervision program caseloads per probation and parole officer" has an FY05 target of 20. The average number of intensive supervision caseloads per PPO for FY04 was 22. The "percent of out-of-office contacts with offenders on maximum supervision on regular caseloads" has an FY05 target of 90 percent. This measure is new for FY05 and there is no baseline data.

LFC acknowledges DPS is moving toward improved performance measures by aligning the measures to their goals of reducing DWI, illegal drug abuse, and violent crimes, ensuring traffic safety, and increasing emergency preparedness. However, for two years in a row the performance measures have changed, creating challenges to benchmarking data. Also, DPS's current key quarterly measures for the law enforcement program cannot be measured quarterly and only address the goal of reducing DWI. LFC is committed to working with DPS in the process of developing meaningful performance measures.

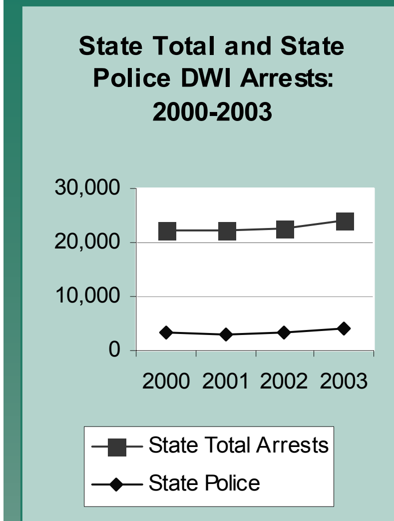
<u>Traffic Safety and DWI Initiative.</u> A traditional focus of the department has been highway fatalities and alcohol-related deaths. Crashes and fatalities declined by 3 percent in 2002. Almost 76 percent of the crashes occurred on urban road systems. In 2002, 449 people lost their lives on New Mexico highways, with 26 percent on rural roads. Alcohol-related fatalities declined by 9.6 percent between 2002 and 2003. DPS plans to carry out the governor's initiative regarding reduction in DWI with the Mobile Strike Unit dedicated to alcohol enforcement. The State Police can account for 4,213, or 21 percent, of the state's total DWI arrests in 2003.

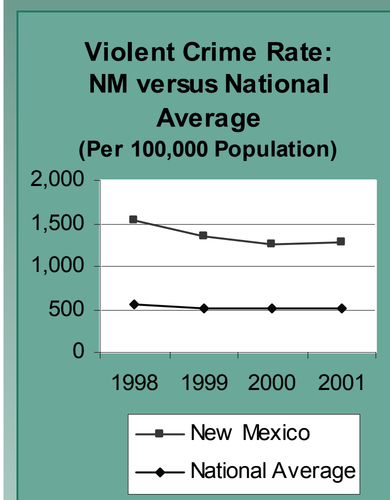
The Law Enforcement program has four performance measures dealing with DWI. The "ratio of New Mexico alcohol-related deaths to national alcohol-related deaths per 100 million vehicle miles driven and averaged over five years" has a FY06 target of 1.42. The averaging of the ratio over five years diminishes accountability. The "percent increase in sobriety checkpoints per year" has a FY06 target of 5 percent and a FY04 actual of 2.9 percent. The "number of DWI arrests per year" has a FY06 target of 3,200 and FY04 actual of 2,780. The "number of repeat DWI arrest per year" has a FY06 target of 2,200 and a FY04 actual of 2,127.

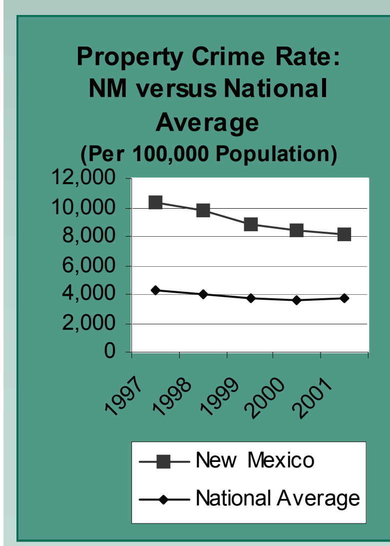
<u>Crime Statistics.</u> In New Mexico, violent crime, a DPS strategic focus, is 55 percent higher than the national average. This troubling trend dating back to the early 1990s has consistently grown larger than the national average. Similar trends exist for property crime, where New Mexico's rate is higher than the national average. Property crime includes larceny, burglary, and car theft. Currently, DPS does not include in their performance measures reported crime statistics, such as violent crime, property crime, forcible rape, robbery, aggravated assault, burglary, and motor vehicle theft.

<u>Heavy Commercial Vehicle Crashes.</u> In 2003, New Mexico had 807 serious heavy truck crashes. The number is down 15 crashes or 2 percent from 2002. From 1996 to 2003, the state averaged 818 serious heavy truck crashes a year. The number of serious heavy truck crashes has been relatively flat for the past eight years. However, the number of heavy commercial daily vehicle miles traveled in the state has increased by 2.4 million between 1996 and 2003. DPS has a performance measure on the "ratio of serious commercial motor vehicle crashes per 100 million miles driven, averaged over five years." The FY06 target is 26.1 and the FY04 actual was 26.6.

Homeland Security. The purpose of the grant is to address equipment, training, planning, and exercise needs of state and local emergency responders to prepare for and respond to a terrorist or weapons of mass destruction incident. DPS has three performance measures regarding Office of Emergency Management and Homeland Security. The "percent of compliance with 54 emergency management accreditation program standards endorsed by federal emergency management

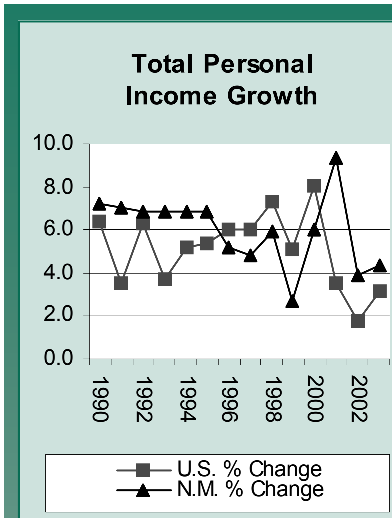


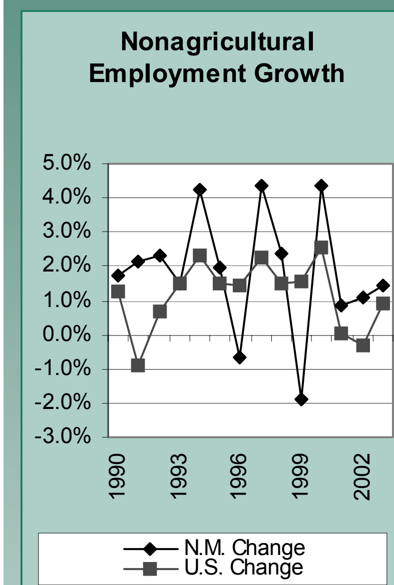




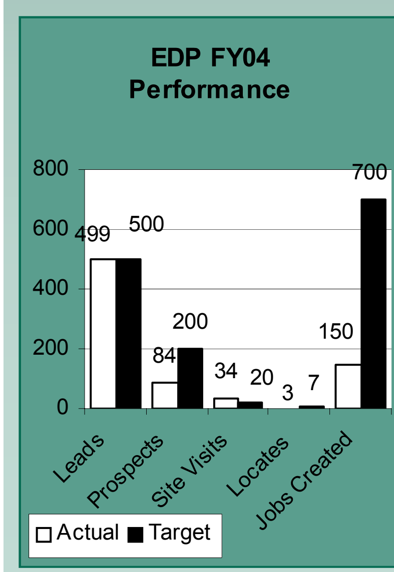
act" has a FY06 target of 95 percent. The FY04 actual was 54 percent compliance with the 54 emergency management accreditation program standards. The "percent of filed superfund amendment and reauthorization act title III and II reports compiled in the computer aided management for emergency operations database" has an FY06 target of 100 percent. The FY04 actual was 98 percent filed Superfund amendments and reauthorization act Title III and II reports in the emergency operations databases. The "number of emergency and disaster exercises conducted per year" has a FY06 target of 16. The FY04 actual number of emergency and disaster exercises was 15.

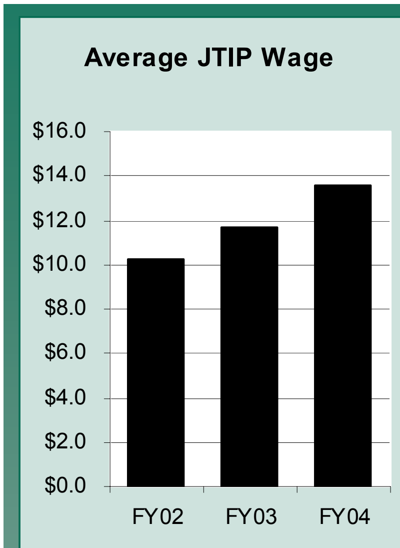
New Mexico Economic Performance. The state's economy continues to outperform national averages in terms of employment and personal income growth. While these results are due largely to factors unrelated to Economic Development Department (EDD) performance, increasing personal income growth and employment rates are part of the agency's broader mission. *Governing* magazine's 2004 rankings of states places New Mexico 37th in personal income, 46th in personal income per capita, 38th in gross state product per capita, 39th in unemployment, and 25th in economic momentum. According to the magazine, New Mexico ranked third in number of state government employees but 41st in average state government salaries and 11th in local government employees but 39th in average local government salaries. The University of New Mexico's Bureau of Business and Economic Research (BBER) reports the state economy has performed well during the last three years, averaging 1.3 percent quarterly (year-over-year) employment growth during that period, while the U. S. economy averaged –0.5 percent growth for the same period. BBER indicates total U.S. personal income growth in 2003 was 3.2 percent while total New Mexico personal income growth in the same period was 4.4 percent. BBER also indicates U.S. nonagricultural employment growth was 0.9 percent in 2003 while New Mexico nonagricultural employment growth in the same period was 1.5 percent.

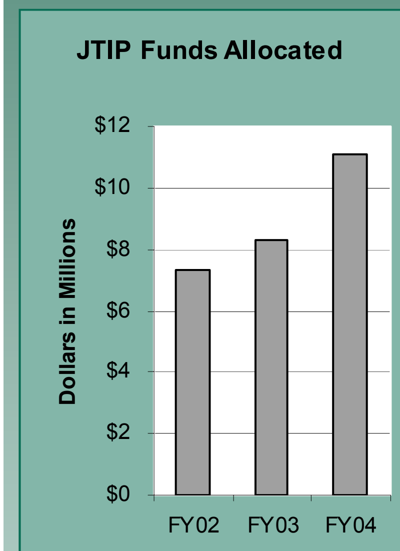


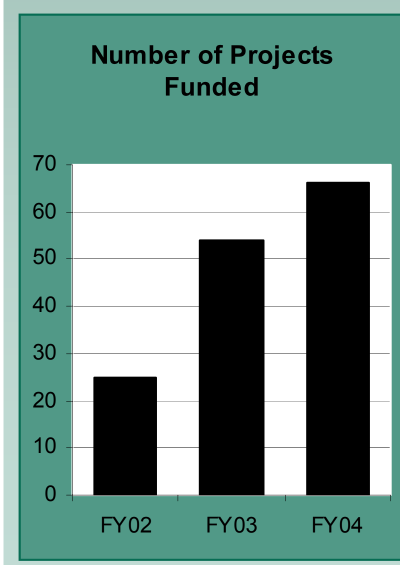


Economic Development Partnership. The New Mexico Economic Development Partnership (EDP) was created in 2003 in concert with passage of the Economic Development Corporation Act (53-7A-1 to 53-7A-6 NMSA 1978) as a 501 (C) organization to focus on recruiting new businesses to New Mexico and helping existing businesses to expand. EDP has a staff of six and is guided by a board of 15 directors that includes the secretary of EDD and a variety of economic development professionals and legislators. By statute, EDP is required to establish relationships with communities throughout New Mexico, work for those communities in recruiting the types of businesses and jobs sought by the communities, solicit economic development funds from federal and private sources, participate in economic development conferences and job fairs to educate businesses throughout the country and the world on the economic benefits and other attractions of New Mexico, and sponsor forums and conferences to improve business skills of New Mexico businesses and citizens. As an outsourced provider of business development services to EDD, EDP is not subject to governmental anti-donation restrictions and therefore arguably can be more flexible in its potential approach to recruiting new businesses to the state. EDD has essentially contracted out its business development activities to EDP, raising questions as to the logic of outsourcing core agency activities while maintaining full staffing to provide the same functions. This duplication of function has clearly created integration challenges and ambiguity of purpose for EDD business development staff in-house. The latest EDP budget still relies entirely on funding from the contract with EDD. As stipulated in statute, EDP is charged with soliciting funding from federal and private sources, as









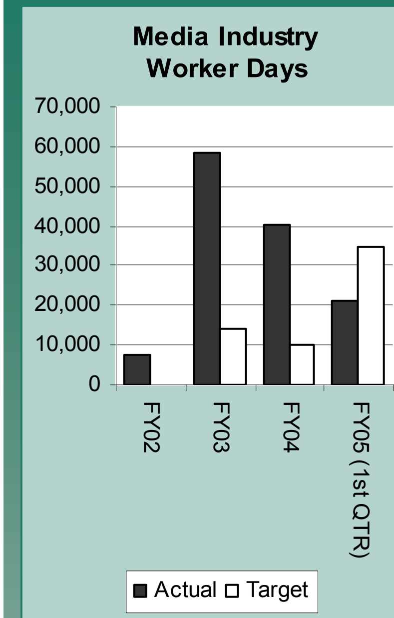
well as from the state. While the utility of outsourcing mission critical activities to a third party may be open to debate, it is clearly in EDD's and the state's best interest for EDP to aggressively expand its sources of funding.

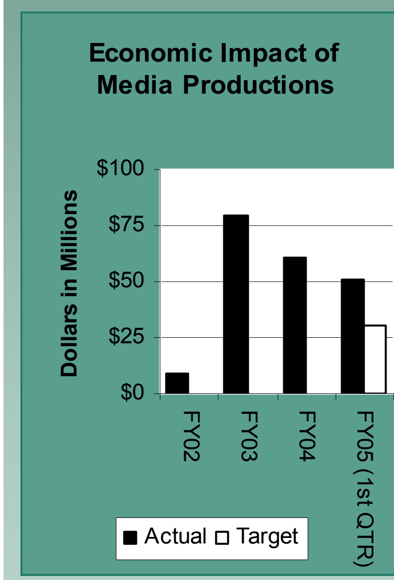
More importantly, EDP failed to meet its targets for job creation during the term of its first Joint Power Agreement (JPA) with EDD, despite a 90-day extension of the term of that agreement, raising further questions about the efficiency of outsourcing EDD business development activities. The current JPA between EDP and EDD began October 1, 2004, and terminates June 30, 2005, with reduced targets for job creation and other performance measures.

Job Training Incentive Program. The Job Training Incentive Program (JTIP), formerly known as in-plant training, continues to grow, funding training expenses for New Mexico companies and playing a central role in EDD's business recruitment and expansion activities. Recent program changes include expanded eligibility for the kinds of jobs that can be funded by the program and increased incentive for creating high wage jobs through an additional 5 percent reimbursement for jobs created that reach the wage thresholds of the high wage jobs tax credit. Another 5 percent reimbursement, in addition to the standard 50 percent, is now provided for companies creating jobs on tribal lands and for New Mexico companies that also own a twin-plant (maquiladora) facility in Mexico. However, the program still does not employ any kind of provisions requiring re-payment of funding in the event of company closure or relocation to ensure that companies, particularly low-margin call center businesses, do not take advantage of the program just as call center companies like Stream International and PENNCRO have done in the past. The program continues to reimburse call center companies for training expenses despite lack of evidence that these jobs create long-term benefit for the state. Job retention data from the agency in FY01 and FY02 indicates a poor rate of retention and no data has been made available for FY03 or FY04. Any future JTIP appropriation should include language making funding contingent on requiring claw-back provisions in every award and on requiring EDD to track and report quarterly to the LFC on JTIP-funded job retention results. As of November 8, 2004, cash balances in the JTIP fund are $24.4 million, of which $17.0 million is uncommitted.

Film Office. The department's Film Office continues to successfully recruit productions to the state and, in concert with the Governor's Office, develop and train below-the-line production crew as part of its mission to increase film activity and create jobs. In conjunction with the governor's digital media industries strategy project (MISP), $10 million in capital outlay originally appropriated in the last session for design and construction of a film training and education center has now been directed to development of community college and university programs to train film crews. The committee believes this targeted approach to development of niche advantages in the state's independent media and digital production capabilities is sound. However, use of capital outlay funds for non-capital and recurring expenditures is not an optimal funding method for execution of the MISP plan and the committee recommends requests for recurring operational and programmatic needs be submitted by the Governor's Office or the Film Office.

The Film Office's performance is measured by the number of media industry worker days generated and the economic impact of media industry productions in the state, using a multiplier of three. The committee believes measures of the direct economic impact of productions, without a multiplier, the number of productions photographed principally in the state and the number of full film crews available for work in the state would improve the program's accountability. Moreover, the committee urges the Film Office to work closely with the Taxation and Revenue Department to determine the costs associated with relevant media production tax incentives and to work closely with the Tourism Department to determine the indirect "advertising" benefits associated with principal photography of media productions in the state. The state cannot maintain its advantage over other states with tax incentives and job training programs without a better understanding of costs associated with these incentives. Finally, the value of the Governor's Film Council and its relationship with the Film Office remains unclear. Further clarification of the Film Council's role, measurement of its tangible output and better delineation of its working relationship to the Film Office would help to justify its funding and future role in the governor's MISP.

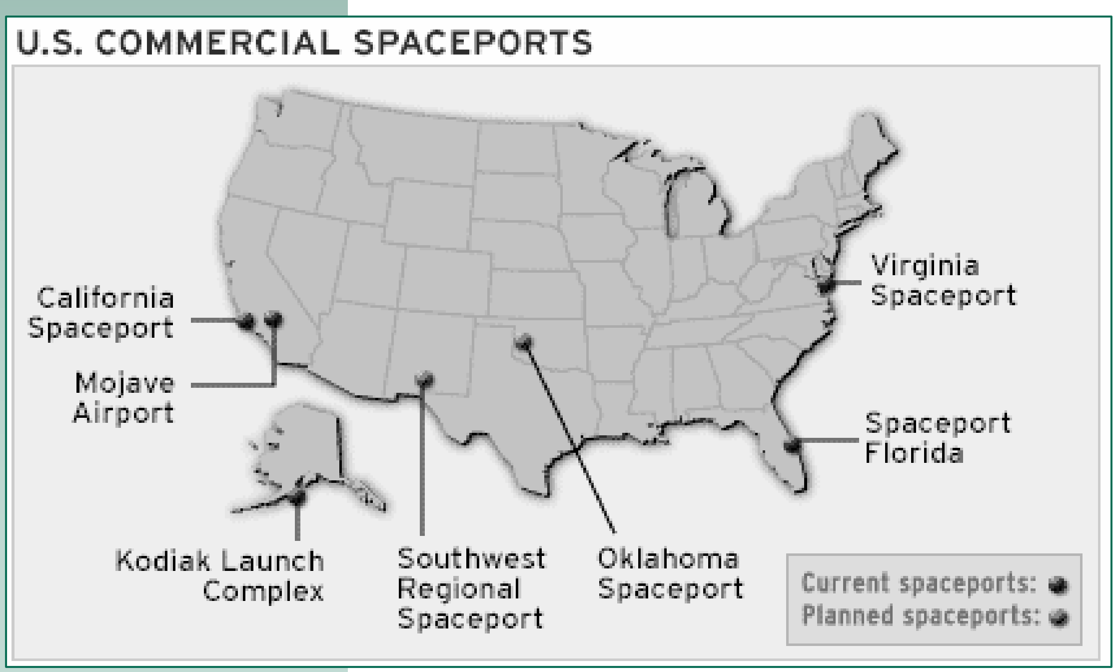




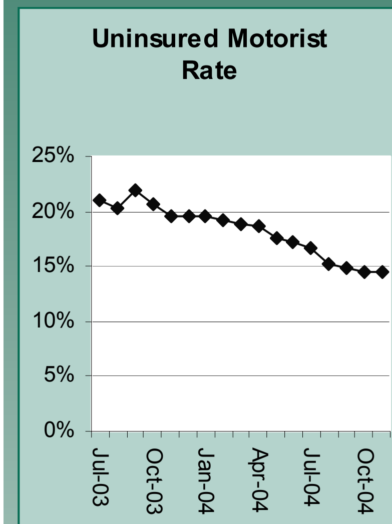
<u>Office of Space Commercialization.</u> The Technology Commercialization program's Office of Space Commercialization devoted considerable energy to winning the X Prize Cup, an annual competition for reusable space vehicles to promote space tourism and related industrial development. With $9 million in funding already appropriated to the project for building of infrastructure at White Sands Missile Range and expenses related to the competition, the department indicates the ongoing competition will eventually be moved to the Southwest Regional Spaceport at Upham, 45 miles north of Las Cruces and 30 miles east of Truth or Consequences. The committee recognizes the X Prize Cup might generate significant economic impact, including job creation, infrastructure development, and enhanced awareness of the state as a center of excellence for high-tech manufacturing and space craft development, if the competition is successful. However, the committee notes future success of this competition is dependent on recurring funding yet to be secured. New Mexico's initial win of the first X Prize Cup competition is further weakened by the terms of agency's agreement with the X Prize Foundation, which does not include exclusivity for the state. New Mexico's Southwest Regional Spaceport is one of at least seven commercial spaceports in existence or to be created around the country and the X Prize Foundation plans for expansion include exhibitions and possible future competitions at another four spaceports.

Tax Incentives. EDD indicates it requires enabling legislation for additional tax incentives to better recruit business relocations and expansions. Taxation and Revenue Department indicates the 24 existing tax credits, deductions, and exemptions created for economic development have an estimated annual cost of $57.3 million to the state. The department's proposed new tax credits, deductions, and exemptions for aircraft maintenance companies, aircraft refurbishment, research and development, private equity investment, advanced energy products manufacturers, and film technology developers will obviously increase this financial impact on the state's tax revenues and should be carefully analyzed before being created. The department should first measure specific economic development impact on the state's economy, by industry, relative to each incentive currently used before any new incentives are created.

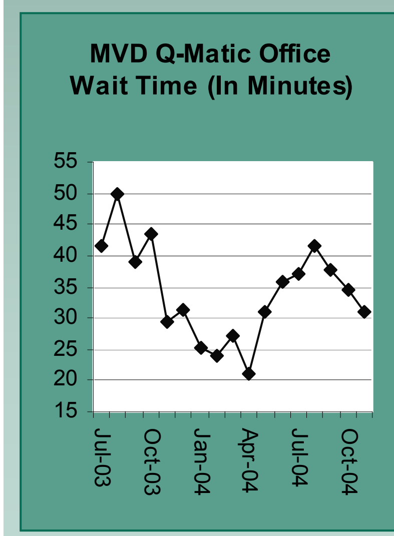
Overarching Issues. As part of a July, 2004 LFC audit of EDD and Tourism Department (TD) performance measures, the committee notes the highest performing states incorporate tourism as part of statewide economic development, facilitating overarching performance reporting of both functions. While these agencies are statutorily separate in New Mexico, both EDD and TD agreed to provide LFC with some cross-cutting performance measure data. These new measures include data related to border crossings, Mexican visitors to New Mexico visitor information centers, website hits to the TD site from Mexican visitors, cumulative box office revenues from productions shot in the state and production company expenditures on hotel rooms, airline tickets, and food sales in the state. As of the end of the first quarter of FY05, the agency quarterly reports still do not contain this data.



Tax Administration and Revenue Enhancement. LFC audit staff reviewed Taxation and Revenue Department's (TRD) FY05 baseline calculations for the program's enhanced revenue collection initiative and continues to work with the agency to assess the impact on delinquent taxpayers, the cost of enhanced collections versus returns, and the recurring nature of increased collections. To date, the state's return on investment in this initiative has been substantial but, there are still questions as to how much of the enhanced revenues are recurring. In FY04, TRD almost achieved its revenue enhancement goal of collecting $68 million in additional tax revenue, collecting $66.5 million, and exceeded its goal of enhancing the general fund by $50 million, sending $55 million in enhanced collections to the general fund. As of September 30, 2004, TRD has collected another $16.8 million over baseline, of which $12.3 million will flow to the general fund, making it very likely to achieve its FY05 goal of enhanced collections of $25 million for the general fund. Revenue estimators have included $30 million of enhanced collections in their FY06 forecasts. A July 15, 2004, report titled *Status Report of the GenTax Application System* reported the GenTax computer system adequately accounts for tax receipts submitted for processing, but some revenues received are not properly distributed to the general fund. Enhanced tax collection initiatives and the continued implementation of GenTax are potential issues for future audits.



Motor Vehicle Administrative Fees. Any future administrative fee increases should encourage citizens to use online access to conduct TRD and motor vehicle transactions. Increasing administrative fees on MVD transactions from 50 cents to $2 will provide much needed revenue increases for Motor Vehicle Division (MVD) operational expenses. However, the department should provide accurate estimates of the potential operational savings reasonably expected to develop from increased online transactions and modify the transaction fee increases for in-person and online transactions accordingly. Increasing online transactions will also help to mitigate the backlog of MVD work and the low, effective staffing rate. *Moving New Mexico Forward: Further Along* , the Governor's report to improve state government, highlights the backlog of MVD records requests that contribute to the division's resource challenge. The report recommends the agency be authorized to charge for record and title searches at $5 per request plus $1 per page, generating an estimated $902.8 thousand in general fund savings over the next four years.



e-Government. *Governing* magazine ranked New Mexico 46th in the nation for its e-government offerings in 2004. The state's MAGPortal plan to provide e-government services for a variety of state agencies through a single, unified point of online entry has still not be implemented and the state's taxpayers and motor vehicle customers continue to pay a heavy price for this delay. Interest groups' concerns about potential reduction in citizen access to public records have been intentionally inflamed to distract from commercial issues related to contractual disputes between the department and commercial resellers of MVD data. The state cannot afford to allow commercial interests to distract from the critical need for e-government services to be made available in a timely and user-friendly manner. Current levels of citizen and nonprofit organization access to public records would not be changed in any way with successful implementation of effective e-government services. In fact, citizen and nonprofit access to public data should significantly improve, as well as generate considerable cost savings for the state.

Similar urgency should apply to transitioning taxpayers from paper filings to electronic filings through some kind of unified online access point. *Moving New Mexico Forward: Further Along* indicates the agency spends $3.02 per individual return and $1.80 per business return to process paper returns, with an additional $1.05 for individual or 37 cents for business returns containing errors. No measurable cost to the department is associated with filing returns online and the report estimates that increasing these filings through better marketing and advertising could generate an estimated $3.2 million in general fund savings over the next four years. As one of the key agencies involved in ongoing efforts to develop an Internet-based state portal, TRD has made progress in providing online filing services to its customers but continues to struggle with limited additional resources for portal development and promotion. Still, in FY04 TRD exceeded its 275,000 target for number of electronically filed personal income tax (PIT) and combined reporting system (CRS) returns, reporting 387,365 were filed electronically.

Dynamic Scoring of Revenue Legislation. Dynamic scoring of fiscal impacts related to tax legislation adjusts static analyses by accounting for economic growth impacts. Laws 2003 established a two-year dynamic scoring pilot with DFA as the lead agency. The project called for dynamic analyses of bills with estimated fiscal impacts greater than $10 million. The REMI consulting firm was selected to provide software and technical assistance. In the 2004 session, DFA informed finance committee chairs that REMI consultants were available to prepare analyses upon demand. According to DFA, no requests were made. The only bill analyzed was the 2003 Personal Income Tax (PIT) rate reductions bill (see Table 9). A comparison of the initial dynamic and static analyses showed minimal fiscal impact differences. Other states that have experimented with dynamic scoring, including California, Michigan and Massachusetts, also report slow start-up in using the models and relatively small differences in dynamic and static analyses.

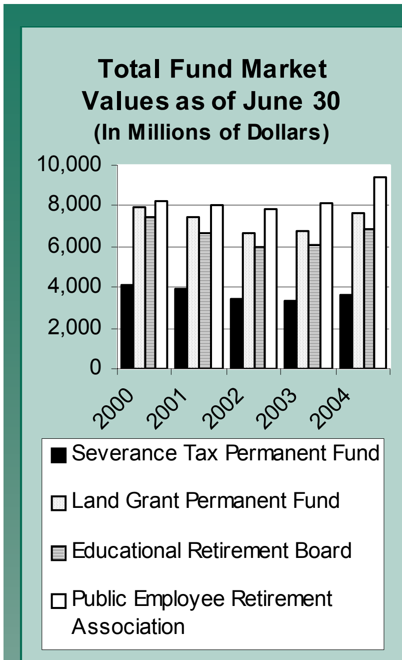
Given the complex workings of the economy, many leading economists, including Alan Greenspan (Federal Reserve Chairman), Michael Boskin (Council of Economic Advisors for President George H. Bush), Robert Reischauer (Former CBO Director and Brookings Senior Fellow) have raised serious concerns regarding the value of using dynamic models to score fiscal impacts. While acknowledging that such analyses may enrich the debate, they generally note that such models are unreliable. A major issue is how to model and estimate the behavioral changes that are at the heart of these models. For example, while economists generally agree that the net impact of lower marginal income tax rates encourage work and savings and thus economic growth, the size and timing of those impacts are debated. In addition, there are questions as to what related policies should be assumed. Will a tax cut be met by reduced government spending or increased borrowing? In a balanced budget framework like New Mexico's, a tax cut implies that spending must be reduced, raising budget allocation questions such as: are reductions to be made across the board, or are certain sectors, say education, held harmless? What are the foregone benefits of these service reductions? Perhaps most problematic is the question as to the timing of these changes. If reduced income tax rates work in attracting business to the state, expanding the job and tax base, there is still a question as to how fast that will happen? The timing question is particularly important in a state framework that requires an annual balanced budget.

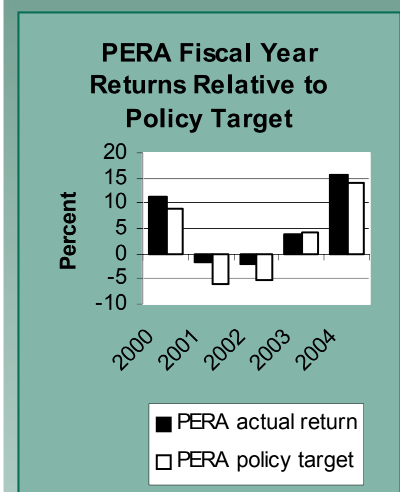
State economists will meet with REMI staff before the session to develop a work plan. The goal is to streamline the process and provide timely, transparent reports to complement traditional fiscal impact reports on large tax change proposals.

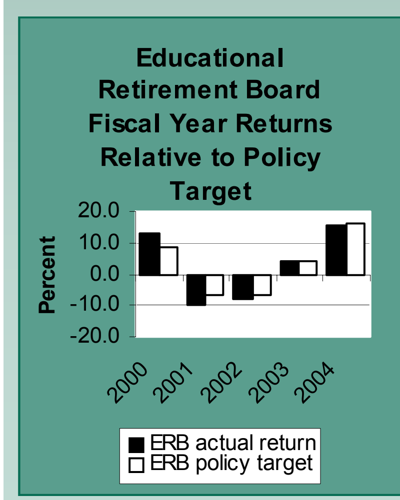
Gaming. In November 2004 the Black Gold casino at the Zia Park racetrack opened in Hobbs to gaming and simulcast racing. Live racing at Zia Park is scheduled to begin in September 2005. Pojoaque Pueblo has expressed interest in reopening the Downs at Santa Fé racetrack for gaming and live racing; however, the Racing Commission and the Gaming Control Board (GCB) are awaiting the outcome of the Attorney General's negotiations with Pojoaque Pueblo concerning gaming revenues due to the state before moving forward with licensing for new racetrack and casino operations in Santa Fé.

Nova Gaming LLC informed GCB it delivered class 2 bingo gaming machines to the Pueblo of San Juan's Ohkay Casino. Class 2 gaming machines are not subject to revenue sharing provisions in the Indian gaming compacts, and virtually indistinguishable from traditional class 3 gaming machines which currently generate $45 million in tribal gaming revenue to the state. The concern remains that, over time, gaming tribes will choose to replace the current gaming devices from which the state collects 8 percent of net take with the new class 2 machines. Among the state's options are 1) doing nothing and accepting the fact that $45 million of revenue from gaming compacts is at risk and will likely dwindle away as old machines are replaced 2) repeal bingo as a legally sanctioned form of gambling; 3) allow bingo, including electronic bingo, statewide; 4) expand, selectively or wholesale, state-sanctioned gaming; 5) renegotiate gaming compacts to exclude electronic bingo.

Policy Analysis: **Pensions and Investments**







Investment Performance Overview. While the purposes of the major New Mexico investment funds (the land grant and severance tax permanent funds and Public Employee Retirement Association and Educational Retirement Board funds) are different, they have one goal in common: to achieve the highest possible rate of return, given some level of risk tolerance.

For FY04, the value of every fund grew, with the funds' combined net asset value growing more than $3 billion to $27.5 billion. However, the asset value for each of the four funds declined modestly in the last quarter of FY04, largely as the equity market rally moderated amid investor caution over the sustainability of the economic recovery.

FY04 returns surpassed historic levels, with the ERB, PERA, and permanent funds recording 15.4, 15.6, and 14.2 percent returns, respectively. This compares with the 10-year average return for the ERB, PERA, and the permanent funds of 8.4, 10.5, and 8.8 percent, respectively. The above-trend performance in FY04 can largely be attributed to significant equity market gains. The Standard & Poor's 500 rose 19.1 percent, while international and emerging markets rose 33 percent and 34 percent, respectively.

Performance Attribution. Pursuant to the Accountability in Government Act requiring quarterly reports from key agencies, the Department of Finance and Administration and LFC have collaborated to prepare quarterly reports on investment performance. The report includes an analysis on asset values and allocation, returns relative to internal and external benchmarks, risk profiles, performance attribution, and current issues. Reports are available on the LFC website.

Two factors drive investment performance relative to the internally established policy target: asset allocation and manager effect. asset allocation refers to the over- or under-weighting of a particular asset class relative to the target portfolio allocation. These decisions can hurt or improve performance depending on how that particular asset class performed. Investment performance beyond asset allocation is attributed to the manager effect, which reflects the investment manager's skill at selecting specific investments.

In FY04, PERA was the only fund to outperform its policy target, with an annual return 1.4 percentage points higher than its target. PERA's outperformance amounted to approximately $129 million. ERB underperformed its policy target by 0.8 percentage points for the fiscal year. Meeting the target would have increased ERB earnings by $56 million. For FY04, LGPF under-performed its policy target by 1.1 percentage points, worth $84 million, while STPF under-performed its policy target by 0.9 percentage points, worth approximately $33 million

The under-performance for most of the funds was largely explained by the manager effect. The ERB manager effect accounted for 86 percent of the under-performance relative to the internal target. The LGPF and STPF manager effect contributed 82 and 100 percent of the annual under-performance, respectively, according to external reports. PERA, however, enjoyed a positive manager effect, responsible for 29 percent of the outperformance.

Management Issues. Most of the funds' management fees are not contingent upon achieving the internal policy target. SIC and ERB external manager fees are based on the average quarterly market value of the funds and not contingent on the managers meeting the agency's policy targets. PERA, on the other hand, uses performance-based fees, with the exception of its passive indexed accounts and investment managers who have established a record of success. According to outside investment experts, many fund managers are shifting to performance-based fees, where the investment manager earns a base fee by outperforming a benchmark. Performance above the normal earns a higher fee than the base, while performance below the normal results in reduced fees. SIC and ERB should consider this fee structure.

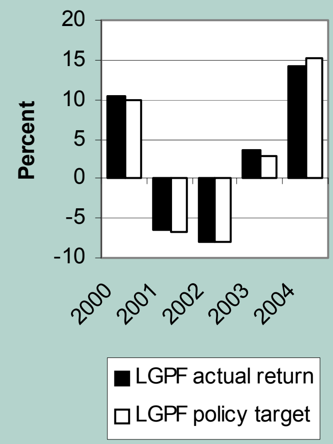
SIC internally managed fund (the SIC large cap active fund) has underperformed the index by 2.9 percentage points for the last year and 2.5 percentage points for the last five years. Due to the persistent underperformance relative to the index, SIC should consider moving from an active management strategy to one that makes a broad based index.

Alternative Investments. SIC has been increasing its allocation in private equity investments. On a longer term basis (10 years), private equity has significantly outperformed the overall fund, earning 24 percent. However, these investments lost 2.8 percent in FY04 and have underperformed the overall fund return for the past three years. According to SIC, this is normal for private equity investments where returns are typically depressed for the first three to five years due to management costs and unrealized gains. Over the long term, private equity returns are expected, on average, to be 4 percent to 6 percent higher than the returns on the S&P500 index.

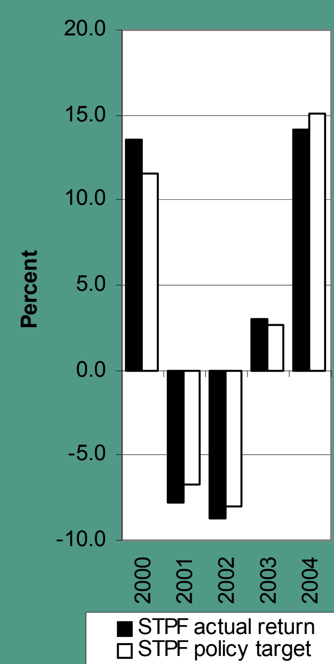
As of June 30, LGPF and STPF had $72 million invested in economically targeted investments (investments with specific statues to encourage economic development within the state of New Mexico). This compares with $43 million invested one year ago. These investments have returned 1.4 percent and 6 percent for the past one and five years, respectively. This compares with the one- and five-year benchmark rate of 1 and 3.3 percent, respectively.

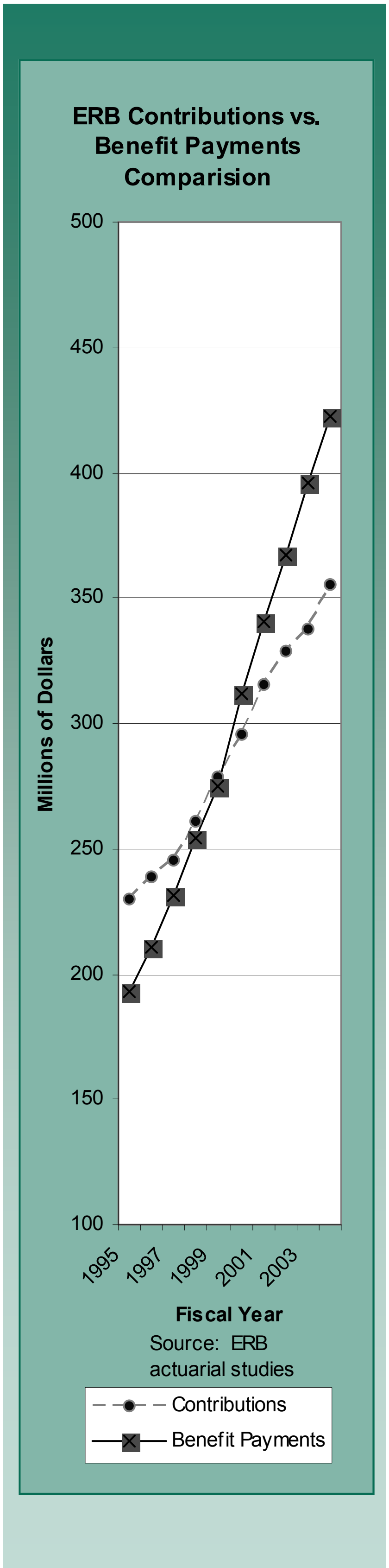
Pension Plan Updates. The state has two major pension systems: the Public Employees Retirement Association (PERA) and the Educational Retirement Board (ERB). PERA offers 27 pension plans covering state, county, and municipal employees, firefighters, judges, magistrates, and legislators. PERA has approximately 49,500 active members and 20,100 retirees. ERB offers a pension plan to public school

Land Grant Permanent Fund Fiscal Year Returns Relative to Policy Target



Severance Tax Permanent Fund Fiscal Year Returns Relative to Policy Target





and higher education employees. It has 65,000 active members and 25,000 retirees. Both plans offer a defined benefit pension, which provides a monthly annuity payment for the retiree based on years of service, final average salary, and a pension calculation factor Each plan also provides a cost of living increase yearly for retirees.

The committee closely monitors the financial health of our pension funds. A major focus of the LFC investment subcommittee has been on the actuarial solvency of the two funds. Two common measures of actuarial health:

Funded Ratio. The funded ratio is the actuarial value of assets (AVA) expressed as a percentage of actuarially accrued liabilities. On June 30, 2004, PERA had an overall funding ratio of 94 percent, which means that plan assets are 94 percent of projected liabilities. ERB's funding ratio was 76 percent. Generally, a funded ratio of at least 80 percent is considered satisfactory.

Unfunded Actuarial Liability. The unfunded actuarial liability (UAAL) is the dollar difference between a plans actuarial liability and the actuarial value of its assets (AVA), based on assumptions regarding investment income return and demographic projections. GASB states that amortization period for any UAAL should be less than 30 years. On June 30, 2004, PERA had UAAL of $680 million and an amortization period of 21 years. ERB's UAAL was $2.3 billion with an amortization period of infinity.

ERB Solvency Problem. ERB's actuarial position has slipped dramatically in the past few years. As noted above the current funded ratio is 76 percent, a dramatic drop from the 91.9 percent funded ratio on June 30, 2001. The amortization period has gone from 12 years in 2001 to infinity in 2004. Major reasons for ERB's actuarial decline are the poor fund investment return during the bear stock market of 2000-2002 and insufficient contributions to the plan.

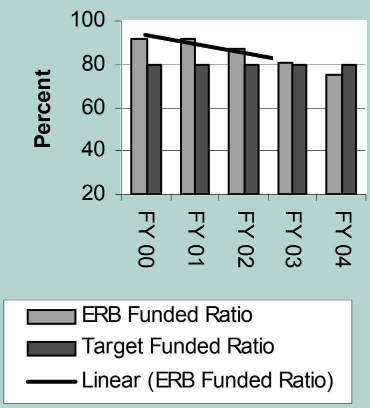
The committee held a number of hearings in 2004 on possible solutions to ERB's solvency issue. Alternatives include the following:

- **Phase in an increase in employer contributions**. ERB is likely to propose legislation for a 0.60 percent yearly increase for a 10-year period to take the employer contribution rate from 8.65 percent to 14.65 percent of payroll by FY15. The total cost of the ERB proposal is $158 million. The committee may introduce legislation for a 0.75 percent increase in the employer contribution rate for three years, for a total increase of 3 percent.
- **Issue pension bonds.** Pension bonds are a taxable debt obligation of the state issued to provide financial support to a pension fund. Issuing debt now immediately improves ERB's actuarial position but there is a risk of loss if the investment returns are lower than the interest on the borrowed funds. Also, it could prove tempting to follow a bailout with benefit increases. Although pension

bonds are offered as an alternative to contribution increases, it is still possible that a structural problem will persist because the contribution levels are too low relative to promised benefits.

- **Increase employee contributions or change plan design**. Increasing employee contributions offers the advantage that employees who will benefit from an ERB pension are helping to fix the solvency problem. However, a disadvantage of increasing employee contributions is that the fund does not retain every dollar of contribution increase due to employee withdrawals when they leave the plan. This would not be a problem with an employer contribution increase as these dollars always stay in the plan. Changing plan design, either by reducing benefits or increasing the retirement age also would improve fund solvency.

Educational Retirement Pension Fund Actuarial Position



<u>Additional Pension Legislation.</u> In addition to legislation to increase the employer contribution rate for ERB, the committee may also introduce other pension-related legislation:

- **Prudent Investor Rule**. This legislation would allow ERB and PERA to adopt the prudent investor rule in place of the current investment list. The prudent investor rule effectively allows the funds to invest in a broader array of assets, which has the potential to increase investment returns. Generally speaking, the rule's standards require investments be made with the reasonable care, skill, and caution that a prudent investor would exercise in light of the purposes, terms, distribution requirements, and other circumstances of the trust. Legislation may include language requiring enhanced executive and legislative oversight.
- **Strengthen ERB Governance.** The performance of the board has been under scrutiny given the funds investment performance and actuarial position. The current board has seven members but commonly meets with the minimum quorum of four members. An increase in board members is warranted to reduce the workload of the current board members and provide additional expertise. The legislation would enlarge the size of the board, with added members having investment experience.
- **Sunset Back to Work Provisions for Retired ERB and PERA Members**. This legislation would end the practice of retirees returning to work and also receiving a full pension. There are concerns that back-to-work provisions are encouraging earlier retirements as employees take advantage of the opportunity to collect both a pension and a paycheck. Although the provisions have not been in place long enough for a definitive actuarial study on their impact, anecdotal evidence suggests that an increasing number of retirees are returning to work which may have a negative actuarial impact on the funds in the long run.
- **Increase Contributions to Judges Retirement Fund**. While most PERA pension plans are in relatively healthy shape, the judges' retirement fund is an exception. The latest actuarial report indicates that the fund needs to increase annual contributions by about $1.35 million to address the $21.4 million un-

funded liability and meet the 30-year funding period. This is equivalent to increasing the total contribution rate from 33 percent to 47 percent of payroll. One option is legislation that increases the state contribution to the fund by 1.5 percent in both FY06 and FY07 and increase the judges' contribution by 1 percent in both FY06 and FY07. In addition, the committee also discussed reducing the pension multiplier, currently 7.5 percent for the first five years and 3.75 percent thereafter, to a level more commensurate with the 3 percent pension multiplier for state employees.

Finally, the committee is considering introduction of a memorial to require ERB to study the budget and policy implications of a defined contribution plan for new educational employees and a memorial for a two-year moratorium on pension benefit enhancement legislation.

Policy Analysis: **Budget Adjustment Authority**

Review of FY05 BAR Authority. In FY05 agencies have category budget transfer authority to move funds among personal services and employee benefits, contractual services, other and other financing uses categories. Agencies are authorized to increase budgets up to 5 percent of internal service funds/interagency transfers or other state funds appropriation contained in Section 4, of the General Appropriation. Act. Transfer authority between programs has been very limited. The Cultural Affairs, Economic Development, Labor, and Corrections departments have transfer authority to move funds between programs for very specific purposes.

Clarification of 5 Percent Limitation. Language in the General Appropriation Act authorizes agencies "that collect money in excess of those appropriated" to increase budgets up to 5 percent of their internal service funds/interagency transfers or other state funds appropriation contained in Section 4. When calculating the 5 percent limitation, current agency practice has been to include other state and internal service/interagency transfers at the total agency level rather than the program total. This practice often results in increasing budgets for a particular program within an agency that may not collect any type of fees. The language is ambiguous and should be clarified by the Legislature.

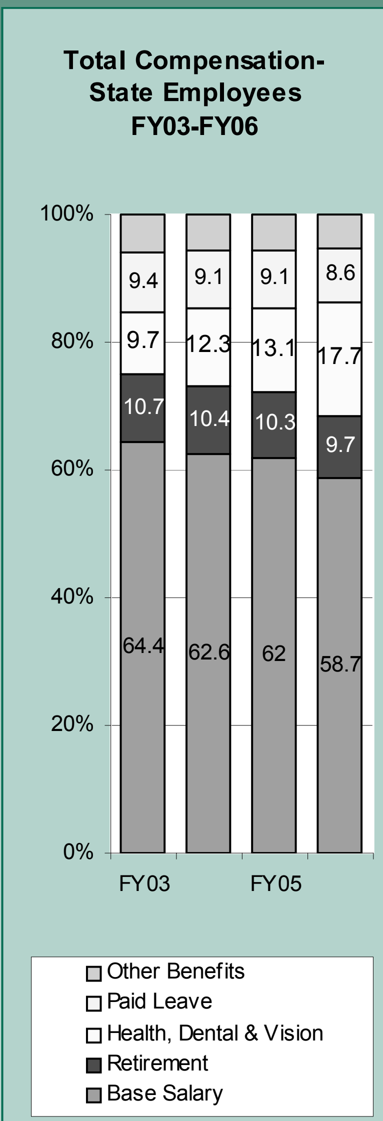
Transfers Between Agencies and Joint Powers Agreements. In 1998 as directed by the Legislature, the Legislative Council Service studied the constitutional and legal issues involved in the use of joint powers agreements (JPA) between agencies. Of particular concern was the practice of moving appropriations from one agency to another and an agency's ability to enter into a JPA with another agency as a vehicle to transfer money or statutory responsibility. The Legislature has granted very limited transfer authority between programs within an agency and no authority to move money from one agency to another. Over the past year, LFC has become increasingly concerned that state agencies are using budget adjustment requests to circumvent the appropriation process and transfer appropriations from one agency to another by moving money into the other financing uses category then entering into a JPA and sending the money to another agency.

Policy Analysis: **Compensation and Benefits**

The committee recommends $35.3 million from the general fund for direct compensation increases. In addition, the committee recommends a focus on total compensation including benefits (See below and Table 6). This approach counts significant increases in employer contributions to insurance and retirement as part of total compensation. The following table outlines the increases by employment sector.

	Direct Salary Increase	Benefit Contribution	Total Compensation Increase
Executive, Judicial and District Attorney Classified Employees	1.25%	1.4%	2.65%
Public Education Employees	1.25%*	.75%	2.0%
Higher Education Employees	2.0%**	0%	2.0%

* All employees except for teachers receiving an increase for three-tier minimums.
** Portion of increase may be used for potential contribution increases for the educational retirement board.



<u>Executive Classified Employees</u>. Personnel Board rules require the board to submit an annual report on the classified pay system to the governor and LFC by the end of the calendar year. The State Personnel Office (SPO) initiated performance-based budgeting with a single program, Human Resource Management, and five activities: recruitment and selection, classification and compensation, training and organizational development, quality assurance, and adjudication. The following strategic objectives were identified by the board:

- Revise and improve the recruitment and selection process,
- Simplify the classification and compensation system,
- Maintain strong job evaluation and salary market,
- Simplify the employee appraisal process, and
- Improve employee training and organizational development.

This year SPO chose to present their analysis without recommendation. The following represents highlights of the *State Personnel Office 2004 Compensation Report* in addition to major issues confronting the state human resource system.

External Market Competitiveness. Market data was collected from various sources to determine the competitiveness of the executive classified salary structure with the average pay in New Mexico's comparator markets and to determine how the comparator markets compare in terms of total compensation (salary and benefits).

The data demonstrates the following:

- A national trend in salary structure adjustments of between 1.6 percent and 3.2 percent,
- Public sector, tax-based system respondents projecting salary increase and structure adjustments varying between 1.6 and 2.7 percent, and
- New Mexico respondents planning salary structure adjustments of 2.2 percent and salary increases of approximately 2.8 percent.

To maintain external competitiveness, the state of New Mexico determined that mid-points for its salary ranges should be at 95 percent of the comparator market. SPO's performance measure is for base salaries of state employees to be at a compa-ratio of 92 percent of the board approved comparator market rate based on legislative authorization. A compa-ratio is a measure that expresses current pay rates as a percentage of range midpoints. For an individual at the midpoint of the range the compa-ratio is 100 percent, while someone at the minimum of the range for example might have a compa-ratio of 80 percent and someone at the maximum a ratio of 120 percent. For FY04 the compa-ratio for all state classified employees was 92.4 percent as compared with FY03 level of 90.95 percent.

The committee recommends an "un-funded" salary structure adjustment of 2 percent be made to the executive classified service salary schedule to achieve and maintain external competitiveness. Employees' compa-ratios would not increase. This adjustment is consistent with the executive and legislative policy decision that the policy line reflect 95 percent of the market line, an average increase of 2 percent reported by employers for jobs in the comparator market that are similar in duties, responsibilities, and qualifications to New Mexico's executive classified jobs. The committee cautions against the disparate treatment of employee pay among agencies. For example, an agency with other funds such as federal funds or enterprise revenue may have an easier time paying employees higher salaries than an agency with mostly general fund monies.

Total Compensation. Competitiveness in total compensation is critical in the state's ability to attract and retain employees. Total compensation is inclusive of both direct compensation, or pay for time worked, as well as indirect compensation, which is inclusive of benefits, paid leave and retirement (all paid by the state). The data shows New Mexico ranks 13th out of 25 comparator states in terms of total compensation for employees. Base pay is the largest component and the foundation of the total compensation package. The average base salary for state employees is $34 thousand and the corresponding total compensation average is $49.8 thousand.

The Legislature in 2004 increased the state's contribution level for employee health insurances in FY05 and again in FY06. The estimated general fund impact in FY06 of the contribution increases effective July 2005 is $8.4 million. An estimated additional increase of $4.1 million is also needed in FY06 to offset an increase in premiums and enrollment. Premium increases are budgeted at a 3 percent increase for managed care options and at 9 percent for triple option plans.

The impact to total compensation of both the premium increase and employer-share increase raises concerns regarding the need to monitor these costs. An employee with "family" coverage would see

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health insurance, as a percent of total compensation, rise from 13.1 percent to 17.7 percent in FY06. The full impact of the proposed 1.25 percent salary increase and premium share changes is seen in the change to an employee's net take-home pay as compared with FY05. Take home pay will increase in FY06 for an employee receiving $34 thousand between 2.2 percent and 6.7 percent (depending on the type of insurance coverage). These increases, while advantageous to an employee's disposable income, represent substantial cost increases for the state. As health insurance costs continue to escalate (nationally 28 percent between 2001 and 2003), the increased shift in cost burden to the state will make it more difficult to address employee base salary increases because benefits will require substantial resources.

Turnover and Retention. SPO serves as a "process conduit" feeding agencies lists of applicants that enable them to select the best qualified applicant. SPO is reviewing the entire hiring process and is investigating the use of web-based technology to facilitate applicants in applying for jobs and agencies in obtaining lists of eligible applicants. SPO consistently meets its performance standard in providing employment lists to agencies. The standard is not reflective of the shared responsibility of recruitment and selection between SPO and all state agencies. A more commonly used metric in both the public and private sectors is the number of days required to fill a position. This standard was initially recommended by the Hay Group in their December 2001 report to LFC.

The timely filling of vacancies is important to the continuity of service to the public and state agencies as well as to encourage the best applicants to remain interested in state employment. The time to fill a vacant position in state government averages five months. Research shows that extended periods of time to fill vacancies is detrimental to employee morale and factors into their decision to remain in state employment. The turnover rate of state employees, the percentage of employees who terminate employment inclusive of temporary employees, for 2004 was 14.3 percent as compared with a FY03 rate of 14.7 percent. This rate, while trending down, is still higher in comparison with other surveyed states.

The committee recommends all key agencies have a vacancy rate to be used as a measurement standard. Every consideration by SPO should be given to streamlining the hiring process and accelerating their current web-based hiring technology efforts.

Classification and Compensation Process Improvement. As reported in FY04, SPO continues to study and redesign managerial classifications within the state classified service. NM.HR.2001 reduced the number of managerial classifications into five manager categories: line, staff, administrative/operations, general, and executive. Soon after implementation it became apparent that many positions identified as managers were either in an incorrect manager category or were not management positions. This inconsistent allocation of management positions resulted in internal and cross-agency inequities. The governor's performance review evaluation of the human resource system noted the current ratio of managers and supervisors to technical employees is 1:3.5. The recommended ratio is 1:11. SPO developed a plan to identify and correct any misclassifications and is in the process of reviewing all of the approximately 2,000 manager positions in the classified service. Implementation was to have been completed by December 2003. Due to a variety of reasons the study will not be completed until March 2005. Reclassifying manager positions will not have any short-term budget implications. However, in the long run, it could save the state money as vacancies are filled in nonmanagerial classifications at lower pay bands.

District Attorney Classified Employees. The committee additionally recommends that an adjustment of 2 percent be made in the compensation levels of attorneys classified as associate trial attorney, assistant trial attorney, or public defender I, II and III within the offices of the district attorney and the public defender. These increases are required to correct compa-ratio disparities and to improve the ability to attract and retain attorneys within these programs. This is in addition to the 1.25 percent salary increase recommended to all public employees.

Public Education Employees. The Public Education Department did not submit a compensation request for FY06. As indicated above, the committee recommends that all public school employees, except for teachers receiving an increase for three-tier license minimums, receive a 1.25 percent direct salary increase and an additional .75 percent in

the state contribution to the educational retirement board.
The compensation increase is recurring and includes salaries, social security and Medicare taxes, retirement, and retiree health care.

Higher Education Employees. The commission requested increasing the salary structure for postsecondary institutions by 4 percent to be competitive with comparable institutions. The CHE annual review of compensation levels of four-year postsecondary institutional faculty in relation to their peers in other states was not prepared this year.

Based on the American Association of University Professors (AAUP) Faculty Salary Survey, an analysis by the Council of University Presidents notes the highest salaries at public, four-year postsecondary institutions in New Mexico are about 8 percent below the averages for peer institutions in other states. Further, several of New Mexico's four-year institutions have seen faculty salaries as a percent of peer averages erode from levels posted six years ago.

Corresponding information for community college salaries was compiled by the New Mexico Association of Community Colleges (NMACC) from an annual survey of faculty salaries in the mountain states region. The latest NMACC survey indicates average salaries at New Mexico community colleges have trended upward over the last five years, from an average of $35,410 in 2000 to $40,591 in 2004. However, when compared with the average of mountain states, salaries at New Mexico two-year institutions have dropped from 91.1 percent of the regional average to 89.5 percent of the regional average over the same time period. (The regional comparison excludes the Maricopa system serving the Phoenix metropolitan area.)

<u>2005 Capacity and Requests.</u> The state will benefit again this year from strong energy-related revenues boosting the state's bonding capacity and nonrecurring general fund revenue. Taking into consideration commitments to public school construction and education reform initiatives and the committee's recommendations on special and supplemental appropriations, the state is expected to have $287 million available for capital outlay. In addition, a number of non-interest or low-interest revolving loan funds and grant programs are available to maximize state dollars for local capital projects.

As in past years, public schools, higher education, special schools, state agencies, special projects and the executive will all make multiple requests for money. Education and local government requests alone total $1.2 billion. Other competing claims will come from local governmental entities and other special interests. The governor's priorities and recommendations will be disclosed when the executive budget document is submitted for the Legislature's consideration early in the 2005 session. Along with project prioritization and management proposals, the governor is expected to unveil plans for building public-private partnerships to deliver more and better projects at a lower cost.

CAPITAL OUTLAY RESOURCES AND REQUESTS
Fiscal Years 2005-06
FY2005-2006 Available Resources
(Dollars in Millions)

FY06 Estimated General Fund Ending Balances[1]	$ 616.8	
Less: 10% Reserve Target[2]	$ 467.7	
Total Non-Recurring General Fund Available		**$ 149.1**
Senior Severance Tax Bond Capacity	$ 177.2	
Authorized unissued bonds	$ 6.9	
Authorized but unfunded N.S. Valley Sewer Project	$ 2.0	
l0% Set-aside for water projects	$ 17.7	
Bonds to be issued in December 2004	$ 11.4	
Severance Tax Bonds Available for New Capital Projects		**$ 139.2**
Supplemental Severance Tax Bonds	$ 135.2	
Less Uses: SB 9, lease awards, prior certifications	$ 18.2	
Supplemental Severance Tax Bonds (Dedicated for Public Schools)		**$ 117.0**
TOTAL AVAILABLE CAPACITY		**$ 405.3**

1. Reflects specials, supplementals, investment technology of $133.7 million
2. Reserve balances include $120 million in lock box for education reform initiatives

The following sections describe projects presented during hearings held earlier this year that address public health and safety; licensing and certification compliance; projects to preserve life, property value, and economic development; federal mandates; continuation projects requiring additional funding for completion; and projects with matching funds to maximize state dollars.

<u>Priority Public Health and Safety Issues.</u>

Department of Health. Given the type of patient- and client-based programs administered by DOH and the substandard conditions of its facilities, DOH infrastructure needs rise above all others. Aging and deteriorating buildings have made it increasingly difficult for DOH to carry out its mission, and recent inspections by the Licensing and Certification Survey organization and the Joint Commission on Accreditation of Health Care have resulted in citations and deficiencies that could jeopardize accreditation at most of the facilities. Preliminary results of an independent assessment expected to be complete by January 2005 indicate infrastructure needs upward of $100 million.

Due to the critical need and this year's competition for funds, DOH is encouraged to certify the need for the New Mexico Finance Authority to issue bonds to begin correcting facility deficiencies as soon as possible. The Legislature in 2003 authorized the bond issuance for improvements to DOH facilities backed by a distribution of the cigarette tax, approximately $3.7 million annually, to repay the bonds and administrative costs. NMFA estimates a bond size of approximately $34 million could be issued to address the critical infrastructure needs at DOH facilities.

New Mexico Corrections Department. The department is struggling to operate and maintain buildings between 20 to 65 years old, and corrective action requirements are too numerous to list. The department will request $14 million for statewide facility repairs and security upgrades. Inasmuch as the governor has stated he will not support funding for more beds unless tied to treatment, NMCD will request $4.6 million for phase two of a 72-bed driving while intoxicated (DWI) dormitory unit at the Roswell Correctional Center (RCC). NMCD established the program in March 2004 in response to the administration's emphasis on DWI as a persistent public safety and social problem, the increased focus on DWI offenders, and as an objective of NMCD's mission to provide cognitive treatment of DwI offenders in an appropriate facility.

Children, Youth and Family Department. CYFD will request $5 million for roof repairs, security enhancements, fire protection, mechanical upgrades, and water and sewer line upgrades at the Youth Diagnostic Detention and Development Center and New Mexico Boys' School. Although not listed as a high priority for capital outlay, the State Fire Marshal recently issued a notice to the General Services Department (GSD) and CYFD requesting a corrective action plan addressing hazardous conditions at Camp Sierra Blanca (CSB). The agency requires $2.3 million to rebuild CSB dormitories and kitchen facilities. As long as clients are housed at CSB, their safety should be considered a high priority.

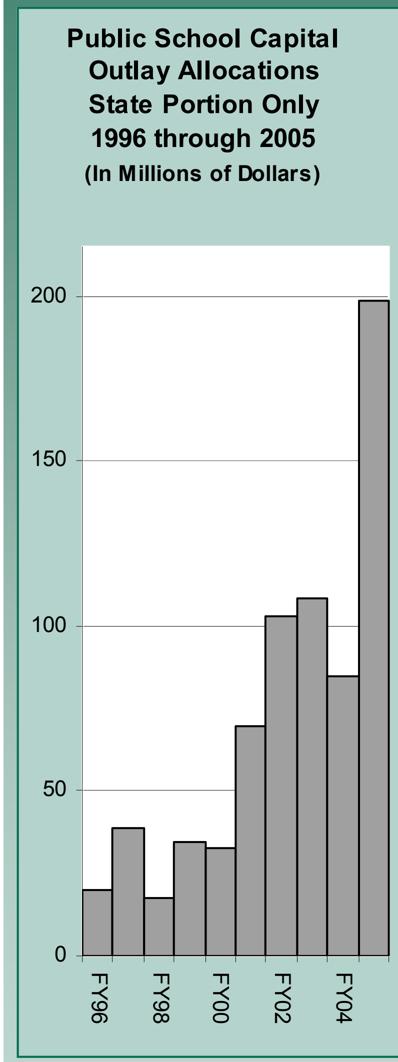
CSB is not addressed in CYFD's strategic plan and operating budget, but last summer the governor committed to continue to operate a juvenile program in Lincoln County. At some point, the administration should consider the cost-effectiveness and worthiness of maintaining the more than 50-year-old deteriorated or condemned buildings on the Ft. Stanton campus or investing funds required for modernizing the facilities. CYFD estimates at least $6 million is needed to make the campus fully functional as an open campus for low-risk clients.

Aging and Long-Term Services Department. The department received capital outlay requests totaling $43 million from the six area agencies on aging. Based on formal presentations and review of the applications and rating of critical, high, or moderate needs, the department's Policy Advisory Committee recommends $5.7 million for senior center projects statewide. The project types and the amounts: (1) code compliance, $1.2 million; (2) meals equipment, $718 thousand; (3) vehicles, $2.3 million; (4) other renovations, $1 million; and (5) other equipment, $386 thousand. Although area agencies requested more than $43 million for new construction or major additions, the advisory committee does not recommend funding for new construction. (Projects by county available upon request)

Office of the State Engineer. The State Engineer will request a total of $49.1 million for 15 projects in four categories: surface water stations, federal Endangered Species Act mandates, dam rehabilitation and renovation and water measurement. Of the request, $30 million is for water rights and land acquisition, water rights administration, and augmentation pumping in support of the Pecos settlement. Additionally, ISC is requesting $2 million per year for FY05 to FY08 for equipment and contractual services to continue to excavate and maintain the temporary channel through the Elephant Butte Reservoir sediment delta to convey New Mexico's Rio Grande compact delivery water through dry portions of the reservoir to the active reservoir pool.

General Services Department. GSD was instrumental in participating and reviewing all capital outlay projects submitted by state agencies in GSD-owned buildings and is proposing a new funding approach for statewide funding. Rather than appropriating a lump sum amount to the public building repair fund (PBRF), GSD recommends a $3 million appropriation to PCD for statewide emergencies, environmental hazards, and other general repairs and renovations at state-owned buildings, and recommends funding ranging from $1 million to $14 million for specific agencies with language identifying priority projects, with GSD concurrence. The approach will give agencies more control and involvement in prioritizing their capital needs.

The department's most critical request is $33 million to continue funding for construction of the State Laboratory Services building adjacent to the University of New Mexico (UNM). Existing facilities housing DOH Scientific Laboratory Division, Department of Agriculture Veterinary Diagnostics Services, and UNM Office of the Medical Examiner are in substandard condition and no longer meet safety and functional needs of the agencies. The Legislature in 2002 appropriated $3.1 million for plan and design of the lab, and the Legislature and the governor in 2004 appropriated $7 million for construction. The second request is for $7 million to complete the "Wire New Mexico" project to convert from an analog microwave radio system to a digital system at 80 GSD sites. According to GSD, $5 million will complete the conversion and $2 million will provide the last mile connection to



state office buildings. To date, the Legislature has appropriated $20.2 million for conversion of 53 sites to be completed by the end of 2005.

GSD will request $1.5 million for mechanical upgrades to the old Metropolitan Court building in Albuquerque. GSD should consider requesting emergency funding to temporarily protect the vacant building from arson, vandalism, and liability and await for the preliminary report from the state's master planning consultant to aid GSD in its decision of which agencies are best suited for occupying the building, which moves would be most cost-effective, and how the choice of agencies would affect public service given the lack of parking in the downtown area.

Laws 2001, Chapter 166, authorized NMFA to issue up to $75 million in office revenue bonds to build the West Capitol Complex and buy the New Mexico National Education Association (NEA) building, Public Employee Retirement Association building, and land near the Department of Transportation's district office. To date, $34.7 million from the bonds have been used to build the West Capitol Complex and buy the NEA building. The remaining $40.3 million in bonds have not been issued. Since then, GSD has determined the state could save money by terminating many of the lease agreements for office space in Santa Fe. Nevertheless, the state continues to lease space on a month-to-month basis for La Villa Rivera – a building the state sold to the landlord in 2002 for $11.4 million – and has spent $5.3 million in rent so far. The state intended to move all state agencies out of La Villa Rivera by October 2003 and space has been available in the reconstructed Villagra building since early 2004. Although the space remains empty, the Attorney General intends to move into the Villagra building in early 2005.

Public Schools.

Public Education Department. PED will request $17.8 million for its top three capital outlay priorities. The first priority is $8 million to continue the governor's third of a multiyear initiative to provide laptops to all seventh graders statewide. The second priority is $6 million for the library materials fund to support the public school districts and state institutions. The third priority is $3.8 million to replace school buses owned and operated by public schools in accordance with statutory requirements (Section 22-8-27 NMSA 1978). PED will also request a $3.8 million reimbursement to the public school capital outlay fund for portables purchased to provide kindergarten facilities in time for the beginning of the school year.

Public School Capital Outlay Council. The state has made a substantial commitment to adequately fund infrastructure for public schools statewide. Bonding capacity levels have increased over the last several years and, based on current estimates, supplemental severance tax bond capacity dedicated for public school construction will be $135 million for FY06 and projected to be in excess of $115 million annually for the next five years. Revenues have been augmented in past years by special legislative authorizations to "sweep" severance tax revenues before deposit into the severance permanent fund. This projected revenue over and above current statutory limitation for supplemental sponge notes (95 percent of revenue from the prior year revenues) could provide an additional $29 million one-time sponge note for public school projects. To date, under the direction of PSCOC, nearly $900 million has been allocated for critical capital outlay projects, continuation projects, standards-based projects, deficiency correction projects, kindergarten facilities, lease payments, and oversight expenses. FY05 was a record-breaking year for public school capital outlay funding with allocations at nearly twice the level of any previous year.

Public School Capital Outlay Task Force. PSCOTF recommendations are not yet formalized, but the funding subcommittee and maintenance subcommittee offered the following recommendations for consideration by the task force:

- Based on current funding projections, the current revenue stream is sufficient to support the capital outlay funding program.
- The subcommittee also offered options for additional funding for the deficiencies program, specifically for roofs that have degraded to serious life and safety risks. In those cases that the state pays 100 percent of the cost, funds could come from "sweep" severance tax bonds, non-recurring general fund, or a set-aside of existing project funds. Districts could use SB 9 funds as well as other local funds to meet their local match.

Higher Education and Special Schools.. New Mexico's higher education institutions (four-year and two-year post-secondary), vocational-technical institutions, and constitutional special schools will request funds totaling $155.6 million. The CHE recommendation totals $141.5 million, of which $94 million is for building renewal and replacement (BR&R) projects and $43.7 million is for 13 new construction or expansion projects. The priorities include $30 million for infrastructure, renovation and expansion; $10 million for information technology; and $5 million for compliance with the American with Disabilities Act (ADA). The Legislature historically has recommended funding of larger, more costly capital improvements for higher education projects and special schools in even years when general obligation bond capacity is available. Considering this is a non-GOB year, a lump sum amount for BR&R to address a maintenance backlog of $857 million among higher education facilities may be a more effective use of funds. LFC recommends a special appropriation of $22.2 million. The CHE also recommends $22 million for renovations at New Mexico School for the Deaf , New Mexico School for the Blind and Visually Impaired, New Mexico Military Institute and Northern New Mexico Community College.

In the Governor's Task Force on Higher Education recommendations to improve higher education in New Mexico to LFC, the task force encourages a review of the way New Mexico uses its capital outlay funding and states the "capital outlay process is outdated and is not efficiently nor effectively serving the needs of New Mexico citizens or its higher education institutions." The report states the process is not tied to state educational needs and state priorities, capital funding is seen as an entitlement, and allocations are made across institutions without regard for statewide needs or priorities. The task force recommends a demolition plan for unused buildings, an earmarked property tax for funding, a statewide inventory of facilities, and requirement that projects be planned for upkeep and maintenance and complies with the statewide strategic plan. In comparison with CHE's existing capital outlay process, it appears the only addition to the current process is the demolition plan for unused facilities and the financing mechanism for funding deferred maintenance. A proposed increase of GOB limits would require a constitutional amendment. However, the concern that the funding process may not tie to state educational needs and state priorities merits additional study and follow-up.

Cultural Preservation and Economic Development Projects. Enterprise agencies, whose programs impact the state's economy and agency revenue, are also in need of infrastructure improvements to their facilities or state match funds that will be used to maximize the state dollars with other funds. The most critical include the following:

Department of Cultural Affairs. DCA will request $19.5 million for capital improvements. The most critical request is $4.5 million to construct a Center for New Mexico Archaeology to serve as a repository for more than 11 million items . The request will be matched with $2.3 million of privately-raised money, and the federal Bureau of Land Management is offering 65 acres in Santa Fe County for the center with ample room for expansion. According to DCA, the proposed center would save the state an estimated $260 thousand annually for housing staff and another $134 thousand annually for storage. The collections were stored in substandard conditions in the Villa Rivera building and, this spring, the agency's worst fears were realized—a flood in the storage area caused more than $300 thousand in damage to the collections. Currently the collections have been moved to temporary space in the Halpin Building, but the collections need to be moved to a secure location as soon as possible.

DCA's second request is for $6.2 million for repairs and ADA upgrades at DCA facilities statewide. The funding will alleviate life, safety, and code violations that continue to exist at the facilities. The department's third priority is for $3 million to match $3 million on hand to complete construction and equipping of the Education Complex of the National Hispanic Cultural Center (NHCC). Lastly, DCA will request legislative authorization to acquire the Hubbard Museum of the American West and will request operational funding in FY06. LFC has requested a five-year financial plan for all of the state's museums.

New Mexico Environment Department. NMED will request $1.5 million to match $7.5 million in federal grants to capitalize the clean water state revolving loan fund administered by the Construction Programs Bureau (CPB) to carry out the provisions of the Wastewater Facility Construction Loan Act. The funds are used for low-interest revolving loans to construct wastewater collection and treatment facilities in New Mexico.

Cumbres and Toltec Scenic Railroad Commission. The commission will request $2 million for track rehabilitation and locomotive upgrades for the aged Cumbres and Toltec Scenic Railroad. The operation and infrastructure improvements are important to the economy of Northern Rio Arriba County and Conejos County in Colorado.

Department of Game and Fish. The department will request $3.5 million to match $3 million of federal dollars and $380 thousand of game protection fund balances for seven capital projects. The top priority is to fund dam safety evaluations at Lake Roberts, Bear Canyon, Clayton Lake, Jackson Lake, and Fenton Lake. The Office of the State Engineer considers the Lake Roberts dam to be hazardous. A maximum flood could affect home sites, businesses and agricultural lands downstream. The second priority is for improvements to the Parkview State Trout Hatchery in Los Ojos. The department discovered whirling disease at the hatchery prompting the destruction of all the fish. The improvements would enclose the raceways where the fish are held, thereby preventing animals or humans from accidentally or intentionally introducing the disease.

*Expo New Mexico***.** Expo New Mexico will request $3 million to continue ongoing renovations to various facilities and to correct code deficiencies throughout the campus of the fairgrounds. Expo New Mexico is an enterprise agency; the grounds and facilities are leased out during the year and are the principal source of revenue to support its operations.

*Energy, Minerals and Natural Resources Department***.** ENMRD's State Parks Division will request $5 million to develop and provide the necessary infrastructure for a new Shakespeare Ghost Town State Park in Lordsburg. According to EMNRD, the park will provide a venue to interpret the mining heritage. The current owners of the property will convey the property to the state if approved by the Legislature in 2005. A 2004 appropriation totaling $1.7 million for park expansion remains unspent. The second request is for $582 thousand to design and construct a theater and public facilities at the Smokey Bear Historical Park. Last year the State Forestry Division spent $5.6 million suppressing 684 wild fires. The proposed facility will be used to educate the public about fire prevention, and the division predicts the project will enhance economic development in Capitan, including allowing the theater to be integrated with community events. Other requests may include funding for improvements to the Vietnam Veterans Memorial if acquired by the state in 2005 as the governor proposes and funding to acquire land and construct a visitor facility in Cerrillos.

Department of Military Affairs. DMA will request $903 thousand for statewide armory mechanical repairs and roofs that will allow the agency to operate a less labor intensive and costly maintenance program and reduce the recurring costs to their general fund operating budget. Up to 50 percent in federal match funds are expected for some of the required upgrades. An additional $2 million is requested for security lighting, fire and electrical upgrades, masonry repair, and hardware and door repairs. An additional $500 thousand is needed for drainage and erosion control infrastructure at the Onate Military Complex. The complex is a major component in the training of New Mexico military forces, the Army National Guard, in particular.

Economic Development Department. EDD will request $10 million for the Southwest Regional Spaceport scheduled to be licensed in early 2006. The Legislature has already appropriated $9 million for infrastructure at White Sands Missile Range and other expenses related to the X-Prize competition. New Mexico has been selected to permanently host the X-Prize, and four companies have committed to come to New Mexico to compete for the X-Prize. An agreement is currently being negotiated with the State Land Office for the land. It should be noted the success of this project will depend on recurring funding yet to be secured, continued competition with six other spaceports, and the X-Prize Foundation plans for expansion at other spaceports.

EDD's second request is for $11 million for the Santa Teresa rail relocation of the Ferromex lines running through Juarez, Mexico, to a junction with the Union Pacific at some point in proximity to Santa Teresa. According to EDD, the relocation will resolve environmental, safety, and development issues for Juarez and will allow for increased international trade for New Mexico. The funds would be contingent on federal matching funds for plan, design, and construction of the lines. Other probable funding sources could include the private sector and state grants from the United States and Mexico, mixed grants, loans from international development banks, and state issued bonds.

New Mexico Tourism Department. NMTD will request $5.7 million to construct new facilities to replace the existing Glen Rio visitor center located on Interstate 40 inside the eastern border and the Gallup visitor center utilized by visitors traveling east into New Mexico on I-40 from Arizona. An additional request for $230 thousand is to update the structural evaluation of the Halpin building located in Santa Fe and to secure a "green" museum design plan for possible use of the building as New Mexico film museum.

Other Capital Outlay and Bond Issues.

Capital Outlay Reform. Capital outlay reform and the need for a comprehensive capital outlay management process continue to be topics of interest among legislators and the executive. Following the 2004 Session, the Legislative Council directed the Legislative Council Service

(LCS) and LFC staff to work with DFA to analyze and refine the administration's proposed capital outlay reforms. The LFC budget guidelines requested agencies to present significant capital outlay and informational technology projects at budget hearings. On November 1, 2004 the directors and staff of the legislative agencies and DFA met to review and discuss the proposed standards, potential reform legislation and procedures. Table 11 outlines the refined plan presented to the Legislative Council for their consideration. In addition to standards, LFC encourages and supports certain components important for a good capital management system including

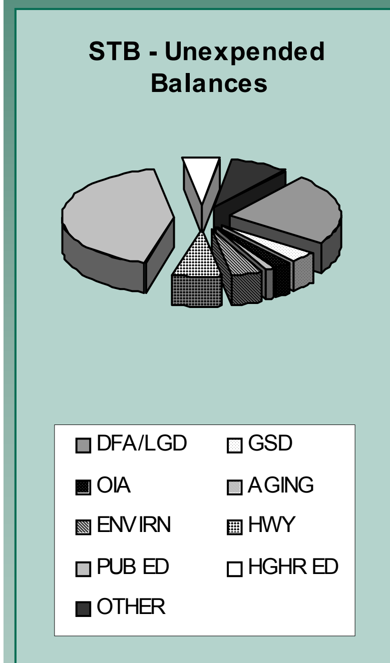
- Capital planning and budgeting (an analysis of immediate and future needs),
- Project management (monitoring and evaluating projects through implementation), and
- Asset management (appropriate maintenance of capital assets).

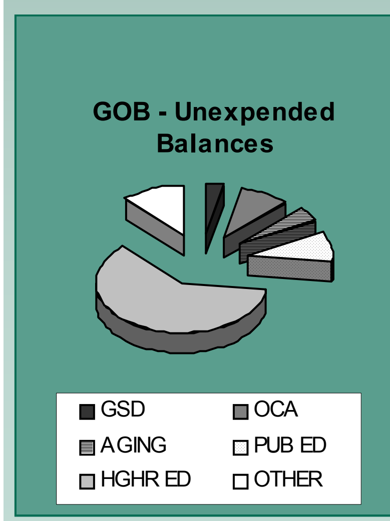
The committee expects the components will be addressed in the executive's proposal to permanently create a division within DFA to provide and oversee management of all capital outlay funding and projects.

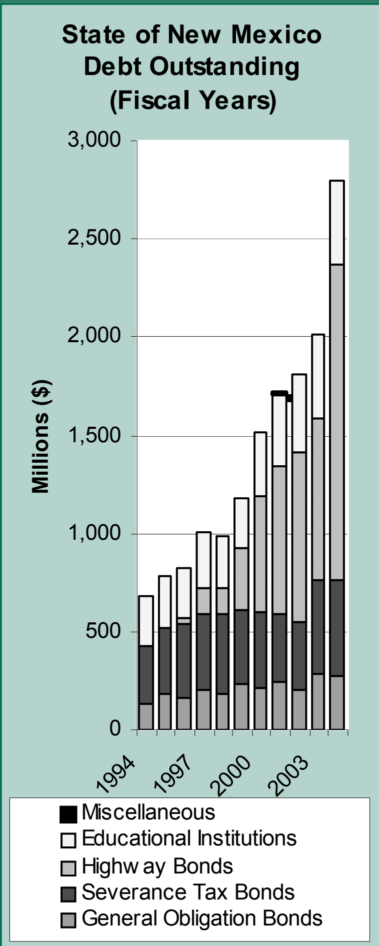
Unexpended Balances. The Legislature in 2004 appropriated and the governor approved $700 thousand to DFA for improving administration of the capital outlay program. The Capital Outlay Unit (CPU) of DFA has produced a reconciled Capital Outlay Monitoring Report with reliable figures reflecting appropriations, expenditures, and balances by year. CPU reconciled 4,103 "active" projects appropriated from STB and GOB capacity between 1992 and 2004. As of November 2004, approximately $493.5 million remains unexpended for projects authorized from GOB and STB capacity between 1992 and 2004. *The GOB balance is $226.1 million and the STB balance is $267.4 million.*

A comparison of actual bond balances maintained by the Board of Finance against CPU's report reflects near exact balances for general obligation bonds and a $71.7 million difference in severance tax bond balances. The difference is due to public school capital outlay funding appropriations made in other bills but not incorporated into the monitoring system and due to reauthorized projects still being researched and reconciled. A complete report of *all fund balances* is expected to be distributed to all legislators at the beginning of the 2005 session. During the next year, LFC and CPU staff will develop reports by county and sponsor to encourage members to track progress of projects within their districts.

Other unexpended balances not reflected in CPU's report are funds allocated to the state under the Jobs and Growth Tax Relief Reconciliation Act of 2003 as part of the national effort to stimulate the national economy. Of the $61.5 million allocated to the state, the governor authorized a distribution of approximately $29.7 million to







Sources: Board of Finance, Transportation Department, and Higher Educational Institutions

counties and municipalities statewide for various water and wastewater infrastructure projects. As of October 2004, $24.2 million of the federal funds remain unexpended.

Local Projects. Intended to promote the funding of "planned local projects" and reduce the amount of unexpended balances, CPU developed a list of the top three projects supported by municipalities, counties, tribal entities, several water association, and special districts totaling $1.8 billion. Of the amount, $968 million is needed to match local and other funds totaling $191 million available for phase one of the projects. The list is available from LFC or DFA staff.

State Debt. Outstanding state debt for New Mexico has increased significantly over the past decade, reaching $2.7 billion in 2004 and with annual growth averaging about 16 percent. This compares with the national average growth rate of 7 percent. Historically low interest rates, state fiscal downturns, and several large jumbo deals (i.e. pension obligation bonds) have prompted states' and local governments' debt issuance to rise rapidly in recent years. Two common ways of measuring debt levels are debt per capita and debt as a percentage of personal income. According to a report by a major bond rating agency, New Mexico's net tax-supported per capita debt in 2003 was $962 compared with the national median of $701. New Mexico's net tax-supported debt as a percentage of 2002 personal income was 4.1 percent compared with the national median of 2.4 percent.

New Mexico's general obligation bonds have grown modestly over the past decade compared with revenue bonds. State transportation bonds account for most revenue bond growth. Starting in 1996, the state's issuance of transportation bonds increased dramatically to build badly needed infrastructure improvements. Secondarily, policymakers saw the increased infrastructure expenditures, accommodated by debt issuance, as a way to further economic development. Innovative financing techniques introduced by the Federal Highway Administration, which included a direct pledge of federal funds for bond repayments, also encouraged the issuance of transportation bonds.

In addition, the Legislature has established several revolving loan funds and grant programs to assist local government with their capital needs by providing zero and low-interest loans or grants. For example, the New Mexico Finance Authority administers an annual distribution of 75 percent of the state's governmental gross receipts tax deposited into the public project revolving loan fund to make low-cost, low-interest loans for infrastructure, equipment emergency projects to state and other governmental entities, or grants to disadvantaged entities.

Special and Supplementals

State agencies requested $194 million from the general fund for special, deficiency, and supplemental appropriations. Requests from all funding sources total $199 million. Specific requests and funding recommendations are presented in Table 7. The committee's recommendation reflects its preference that agencies operate within appropriated resources rather than using the special, deficiency, and supplemental appropriation request process to increase operating budgets. Many of the requests did not include data showing improved performance levels, cost-benefit analysis, or other justification at a sufficient level on which to base a recommendation. With the limited information provided, the committee could not recommend many new programs or increases to current year budgets. Further, the committee is cautious about funding recurring expenses with non-recurring revenue. Finally, the committee recommends the full Legislature require meaningful data on performance outcomes, the development of clear objectives, and comprehensive cost-benefit analysis prior to appropriating funds for special, supplemental or deficiency requests.

Deficiency and Supplemental Appropriation Recommendations. Agencies requested $17.8 million from the general fund for deficiency and supplemental needs and $22.7 million from all funding sources. The committee recommends five supplemental and two deficiency requests, totaling $6.4 million from the general fund, and $3.1 million from other state funds. The most significant recommendations are a supplemental from the general fund for $4.9 million to the Department of Health to fund shortfalls in personal services and employee benefits in the Long-Term Care Services program, contract restorations, and receiverships; and $3.1 million in other state funds to the Public Schools Insurance Authority for over expenditures in the risk program.

Special Appropriation Requests. Agencies requested $175.9 million from the general fund and $176.3 million from all funds for special requests. The committee recommends a total of $124.2 million almost entirely from the general fund. Is includes six LFC initiated projects, totaling $48.1 million. The most significant recommendation is $20 million to the Public Schools Facility Authority for statewide public school roof repairs, part of $32.8 million for public schools. A number of committee initiated projects are recommended for the Commission on Higher Education (CHE). The committee recommends $43.7 million for CHE, including $22.2 million to bring FY06 funding for building renewal and replacement to 100 percent for two- and four-year post-secondary institutions as well as the New Mexico School for the Deaf and the New Mexico School for the Blind and Visually Impaired; $4.5 million nonrecurring to address library needs of two- and four-year institutions to be allocated according to the library inflationary factor; and an appropriation of $1 million for the Legislative Endowment Scholarship Fund, contingent upon fund balances being invested by the state investment council on behalf of the commission through a joint powers agreement under Section 7-8-7G NMSA 1978. Other large recommendations include $7 million for

Special Appropriations
LFC General Fund
Recommendation
(Dollars in Millions)

Higher Education - $43.7

Public Schools - $32.8

Information Technology - $34.8

Other - $12.9

Supplemental and
Deficiency
LFC General Fund
Recommendation

$6.4 million

the higher education performance fund for performance improvement awards distributed to institutions based on accountability indicators related to student persistence and student graduation, $3.8 million for the Corrections Department for the buyout of bonds for purchasing the Central Administration Building, $2.3 million to the Children, Youth, and Families Department for the final year of funding for the Joseph A. consent decree, and $2 million for the State Engineer for Interstate Stream Commission compact compliance.

With the state's adoption of the Accountability in Government Act (AGA) in 1999, New Mexico began to focus on results. The primary feature of AGA is the implementation of performance-based budgeting (PBB). New Mexico's implementation of PBB requires that agencies identify programs and performance measures and submit performance-based budget requests that establish targeted levels of performance. The state reached significant milestones when almost all state agencies completed the transition to the new performance accountability system in FY03, and key agencies began meeting quarterly reporting requirements in FY05.

2004 Interim Activities. LFC staff continue to pursue joint work plan initiatives in the area of accountability and performance-based budgeting with the State Budget Division (SBD) of the Department of Finance and Administration and the executive branch. The 2004 work plan largely focused on the implementation of quarterly reporting requirements for key agencies pursuant to amendments to the Accountability in Government Act from the 2004 session. LFC and SBD reached consensus on key agencies, which represent the bulk of general fund appropriations as well as those agencies engaged in significant initiatives of importance to the executive and legislative branches. LFC and SBD also developed instructions and guidelines for quarterly reports and worked with agencies to develop or refine measures. As shown in Table 10, the quarterly report instructions required some standard elements as well as components which could be customized, effectively encouraging agencies to reflect priorities consistent with their mission. Agencies are encouraged to utilize data, provide benchmarks and use graphics to enhance readability. Action plan elements and variance analysis are also required.

Training. This interim, LFC staff participated in training session to simulate budget hearings to present and evaluate performance information and budget requests; one of the sessions was taped for the National Conference of State Legislatures (NCSL)/Urban Institute Legislating for Results initiative. Further, LFC staff participated in an NCSL/Urban Institute initiative to develop templates for legislative staff to report succinct program evaluation results to legislators, using child care and higher education as case studies.

Agency Efforts. A few agencies have begun to improve the links in their budget requests with performance. The Department of Transportation submitted a quarterly report with a broad range of performance measures, updated in major construction and integrated with goals and budgets. The Department of Corrections provided a quarterly report with well diversified measures, including measures of violence, drug use and recidivism, accompanied by significant data disaggregation to aid in identifying strengths and weaknesses by facility. Other agencies progressing in their use of performance information to manage for results include Children, Youth and Families and the Department of Public Safety.

Unfortunately, many of the key agency reports require significant improvement and management attention. The quarterly report provided by the General Services Department reflects measures which are unchanged from the previous administration. Further, the report includes measures which reflect little evidence of activity levels, costs, risks or profitability of a $330 million enterprise. The quarterly report for the Health Department tends to overemphasize activities instead of outcomes. Further, the agency needs to improve action plans for missed targets. Finally, reports from the Commission on Higher Education and four-year post-secondary institutions were received late. Quarterly reporting is an opportunity for agencies to link their internal performance management systems to the annual performance reporting requirements of the legislative and executive branches; however, it appears most agencies are struggling with performance accountability as a supplementary requirement, rather than a tool used in the ordinary course of agency activities and decision-making. Overall, agencies tend to change measures frequently, without providing baseline data and therefore meaningful targets for relevant measures. This problem is evident in reviewing performance data reported in Volume II; clearly significant blocks of historical data are missing.

Next Steps. The committee will continue to enhance its use of information in LFC analysis and hearings. Further, the LFC staff will work with the DFA in the 2005 interim to seek a joint work plan to continue to streamline instructions, enhance overall compliance and quality of agency reports, enhance use of the benchmarking template by agencies and address the need for web posting of information. Further, the state needs to address the need for a statewide strategic plan given inaction on the Horizons Task Force created under Laws 2003, Chapter 236. A statewide strategic plan would assist the state and agencies in determining key priorities. In most states, the last phase of implementation of a performance accountability budgeting system involves the implementation of non-monetary and/or monetary performance award mechanisms. The committee recommendation includes such a proposal for higher education and will consider other opportunities in the 2005 interim for consideration at the 2006 legislative session. Finally, if the committee-sponsored bill to implement biennial budgeting is passed, then LFC will work with SBD to begin alignment of the performance accountability system.

Historically, the state has made multimillion dollar investments into large information technology (IT) projects that have failed in part or in whole. Among the failed projects:

System	Total Appropriation *	Status	Comment
SSALSA	$20 million	**Failed**	Advance Planning Document (APD) was not approved by federal departments.
TRIMS	$60 million	**Partially Failed**	PIT & CRS TRIMS modules implemented
MAGPortal	$2 million	**Failed**	New strategic plan under development.
PBPB / Edmin.com	$4.2 million	**Failed**	$600 thousand unexpended
UI Claims	$14 million	**Partially Failed**	New contract signed
MMIS / Omnicaid	$15 million	**Partially Failed**	Was not HIPAA-compliant
*Total from all sources.			

To address these failures, the Information Technology Commission should continue to require project certification, detailed project plans, and phased funding. In addition, LFC staff should resume enhanced quarterly and monthly updates on the status of IT projects at-risk. Funding for an enterprise project management system is also included in the recommendations. If used as intended, this would provide detailed IT project tracking information.

LFC used a project evaluation process based on established criteria for analyzing IT requests. The evaluation criteria include reviewing each project for the following:

- *Enterprise* - supports a statewide enterprise model for information technology,
- *Project Management* – supports sound project management and oversight practices,
- *Business Case* - articulates a compelling business value proposition,
- *Technical Approach* – uses a sound technical approach and reliable technology, and
- *Outcome* - demonstrates methods to minimize risk and ensure quality.

Basic Recommendation. LFC recommends total appropriation of $60 million, with $34.8 million from the general fund, $7.5 million from other state funds, and $17.7 million from federal funds for 29 information technology development projects. The committee recommends the FY06 special appropriation for the computer systems enhancement fund be contingent on the IT commission conducting hearings and establishing policies on use of ” open source” software.

IT Special Appropriation Recommendations. Brief descriptions of the recommended IT development projects follow.

1. <u>Administrative Office of the Courts (218)</u>. *Video Arraignment System*. LFC recommends $140 thousand from the general fund for the 5th, 9th, and 11th judicial districts and $500 thousand from the magistrate and metropolitan court capital fund, for replacement of obsolete video conferencing equipment and expansion of the video arraignment system. Prior-year appropriations total $2.1 million from this fund.
2. <u>Justice Information Division (218).</u> *Electronic Document Management System (EDMS).* LFC recommends $1.2 million for the development and implementation of EDMS. The funding is contingent on an approved, detailed project plan that includes electronic document filing in addition to other document management functions. Two-hundred thousand dollars of this funding is to be used by the Metropolitan Court to coordinate this project with the 2nd Judicial District.
3. <u>Justice Information Division (218).</u> *Information Technology Equipment Refresh.* LFC recommends $1 million for the judiciary for the replacement of obsolete equipment used to electronically process, transport, input, store, display, or print information. This amount is to be allocated by the Judicial Information Systems Council (JIFFY) and used to replace aged IT equipment for the judiciary based on the results of a formal needs assessment. Further, JIFFY, Department of Finance and Administration and the judiciary CIO should develop a methodology for IT equipment refresh and a mechanism to include funding for this equipment in the FY07 base budget request.
4. <u>Taxation and Revenue Department (333)</u>. *Ongard II*. LFC recommends $3 million ($2 million from the general fund and $1 million from the land maintenance fund) to replace the oil and natural gas information system. Two FTEs should be dedicated to this project. This system will address the risks in the current system of (1) scarcity of mainframe-qualified personnel, (2) high operating costs, (3) difficulty in modifying the system to meet legislative mandates, and (4) limitations on the agency's ability to address its goals and visions with current technology.
5. <u>Taxation and Revenue Department (333)</u>. *Motor Vehicle Division Systems Reengineering*. LFC recommends $750 thousand to complete the planning and modeling phases of the Motor Vehicle Division systems reengineering project. Two FTEs should be dedicated to this project. The implementation of this system will replace the driver, vehicle, citation, and revenue accounting and distribution systems. In total, this system will consolidate 400 separate applications into a single, web-based, easily-maintained system that can be modified to support new legislation without the need for additional appropriations. The project deliverables should be aligned with changes to MVD statutes.
6. <u>Department of Finance and Administration (341).</u> *Information Technology Equipment Refresh.* LFC recommends $4.5 million from the general fund for the replacement of obsolete equipment used to electronically process, transport, input, store, display, or

print information ("IT equipment"), comprising $1.5 million specifically allocated to the Children, Youth and Families Department to refresh its information technology equipment and $3 million allocated to the Office of the Chief Information Officer to replace aged IT equipment. The OCIO will set a deadline for submitting requests, and conduct a fair and objective evaluation of needs. Requests should be aligned with the enterprise architecture standards for IT equipment purchases. The Information Technology Commission should review the OCIO allocations prior to realease. Further, the staff recommends that DFA and the OCIO develop a methodology for IT equipment refresh and a mechanism to include funding for this equipment in the FY07 base budget request.

7. Educational Retirement Board (352). *Integrated Retirement Information System (IRIS):* LFC recommends $300 thousand from the educational retirement pension fund to complete the replacement of Educational Retirement Board (ERB) retirement accounting systems used to administer retirement benefits for educational employees of the state of New Mexico. The Educational Retirement Board should provide periodic status reports to the Legislative Finance Committee and the OCIO. Prior-year appropriations total $8.8 million from the educational retirement pension fund (with expenditures of $5.5 million). The period of time for expending the $2.75 million of prior appropriations from the educational retirement fund and the period of time for expending the $750 thousand appropriated from the educational retirement fund as contained in Subsection (16) of Section 8 of Chapter 114 Laws 2004 is extended through FY06 to complete implementation of an off-the-shelf solution for managing educational retirement membership information.
8. NM Sentencing Commission (354). *Justice Information System:* LFC recommends $400 thousand from the general fund for enhancements to justice information system (JIS) to include data exchange, query capability, portal maintenance, and the completion and publishing of the completed justice domain architecture standards, contingent on an approved plan that details the final solution for funding and ownership of JIS.
9. Office of the Chief Information Officer (361). *Enterprise Project Management System (EPMS):* LFC recommends $400 thousand from the general fund to implement a one year pilot program among OCIO, DFA, LFC, and select agencies. This funding is contingent on a certified plan for the implementation of IT asset management. The system will be used by executive agency management, OCIO and the Legislature to track and control information technology project progress, deadlines, deliverables, appropriations, and expenditures. The system will facilitate evaluating and recommending new information technology investments.
10. Public Employees Retirement Association (366). *Retirement Information Online (RIO) system:* LFC recommends $170 thousand from the public employees retirement income fund for a post-

implementation review, an upgrade to the voice response unit, and a contract for data transfer services. In addition, Legislative Finance Committee recommends $5.5 million re-appropriated from the public employees retirement income fund, pending recertification of the project by OCIO. This sum represents an unspent fund balance that reverted back to PERA funds due to not being extended in the last session. The funds will be used to complete the integrated web-based pension administration system. The appropriation includes four FTE.

11. Public Regulation Commission (430). *Corporations Information System:* LFC recommends $650 thousand from the general fund to implement a software module developed by the state of North Carolina for managing corporate registrations to enable enhanced reporting, electronic processing of certified document requests, cash management, and electronic payment services for corporations. Funding is contingent upon successfully demonstrating to LFC that the new system is not simply an automation of outdated agency business practices.
12. Gaming Control Board (465). *Central Monitoring System:* LFC recommends $1.5 million from the general fund to implement a new central gaming monitoring system contract to replace the current equipment contract. This system should provide real-time control and monitoring of gaming machines regulated by the board and actual accounting on each device. The Gaming Control Board should first, coordinate with OCIO and General Services Department to ensure an appropriate level of security to protect gaming information from known vulnerabilities; and second, implement procedures to ensure legacy systems that do not interface with the proposed system are allowed sufficient time to become compliant and undue hardship is not imposed on owners and licensees of these legacy systems. DFA and OCIO should ensure that, procurement, includes a request for proposals for information technology professional services and products. The funding is contingent on the Gaming Control Board providing a report that indicate: (1) a favorable result from its pilot project being conducted with the new gaming machines, (2) verification the new system also supports the old gaming machines, and (3) identification of significant savings opportunities such as the use of SaveSmart for equipment hardware purchases.
13. Human Services Department (630). *Human Services Department- Cubed System: LFC* recommends $2 million from the general fund and $4 million in federal funds to convert its existing HSD systems into the layered structure specified in the social services architecture plan. At least two FTEs should be assigned to this project. Funding is contingent on (1) an approved social services architecture plan, and (2) a federally-approved advance planning document.
14. Department of Labor (631). *Unemployment Insurance Systems: LFC* recommends reappropriation of $12.5 million of Reed Act Federal fund including: (1) $8.3 million for the completion of the

unemployment insurance tax system, (2) $1 million for completion of the unemployment insurance claims reengineering project, and (3) $3.2 million to meet federal accounting reporting requirements not addressed by the statewide human resources, accounting, and reporting system (SHARE) project. LFC also recommends an extension of the $600 thousand appropriation from federal funds to replace a document scanning system utilized for unemployment tax administration.

15. Department of Health (665). *Medical Billing System:*. Legislative Finance Committee recommends $500 thousand from the general fund and $300 thousand in federal funds for the implementation of an integrated billing solution addressing all Department of Health (DOH) billing and claim functions. This project will standardize claim submission with the federal Health Insurance Portability and Accountability Act compliant DOH claims that can be readily processed by third-party payers. The project will speed revenue recovery and reduce administrative expenses. The funding for this project is contingent on an approved social services architecture plan.
16. Department of Health (665). *Integrated Pharmacy System*: LFC recommends $500 thousand from the general fund to deploy a single, department-wide pharmacy management system, contingent on an approved social services architecture plan. The implementation must be coordinated with the Corrections Department to leverage their existing investment in pharmacy software. The system will centralize management of pharmacy services, including purchase order, entry, and inventory management.
17. Department of Health (665). *Laboratory Information Management System*: LFC recommends $500 thousand in the general fund and $300 thousand in federal funds to implement a single, integrated laboratory information management system that will improve laboratory information, service delivery, efficiency of operations, and supply purchasing, contingent on an approved social services architecture plan. This system will improve the state's capability to respond to health emergencies and provide billing to third-party payers, including managed-care organizations.
18. Children, Youth and Families Department (690). *Social Services Architecture Plan*: LFC recommends $500 thousand from the general fund for the development and publishing of a social services architecture plan. This project will also implement a directory of social services resources as requested by the Health Policy Commission. The appropriations for the Human Services Department and the Department of Health will be contingent upon approval of this architecture plan.
19. Corrections Department (770). *Parole Board Video Hearings*: LFC recommends $250 thousand from the general fund for the State Parole Board to implement timely parole hearings through video conferencing technology to permit offenders to be released when they have completed all the requirements of their basic sentence, reduce travel time and risk, and increase scheduling flexibility.

20. Corrections Department (770). *Criminal Management Web Architecture*: LFC recommends $200 thousand from the general fund to reduce system down-time for the criminal management information system by implementing load-balanced Internet servers (web farm) and a clustered database.
21. Department of Public Safety (790). *Automated Fingerprint Imaging System*: LFC recommends $3 million from the general fund for implementation of an automated fingerprint imaging system (AFIS) and replacement of the interim distributed imaging system, contingent on using the proposed fee revenue (currently $19) to first resolve the backlog of paper forms and then to be held in reserve for future computer system enhancements to the automated fingerprint imaging system. This funding is also contingent on a favorable assessment by the New Mexico Institute of Mining and Technology.
22. Department of Public Safety (790). *District Office Rewiring*: LFC recommends $500 thousand from the general fund for the replacement of aged wiring and associated equipment, such as routers and switches, not to include network servers, at state police district offices. This funding is contingent on a favorable assessment by the New Mexico Institute of Mining and Technology.
23. Department of Public Safety (790). *Vehicle Mobile Computers:* LFC recommends $1.5 million from the general fund for the purchasing and installation of mobile computers into New Mexico's fleet of state police vehicles. This funding is contingent upon a favorable assessment by the New Mexico Institute of Mining and Technology. In the future DPS should include mobile computers as standard equipment for new state police vehicles along with items such as vehicle communications and radar equipment.
24. Department of Transportation (805): *Statewide Traffic and Traveler Management Systems*. LFC recommends $7.8 million ($3.3 million from the road fund and $4.5 million from federal funds) from base budget to implement fiber optic infrastructure for one district, an offender history database, a national modeling and analysis program, an Administrative Office of the Courts (AOC) interlock database, a statewide deployment of roadside information elements, an integration of AOC and Traffic Safety Board (TSB) data, a statewide traffic record and evaluation pilot project, a materials management system, a statewide advanced traveler information system, a roadway information system, and an upgrade to the desktop statewide transportation improvement program. Funding for each project is contingent on (1) approval by the Transportation Safety Board, (2) development of detail project plans, and (3) certification of each project by the Information Technology Commission.
25. Public Education Department (924). *NCLB Data Warehouse:* LFC recommends $7 million from the "lock box" (state general fund) for full implementation of the architecture recommended by the decision support architecture consortium (DSAC) to meet state and federal reporting requirements, including those in the No

Child Left Behind Act. This project should implement at least the following components: data warehousing, decision-support tools, facilities information data collection, end-of-year finance data collection, grant and program data collection, safety and discipline data collection, student identification management and record collection, staff record collection, educator certification management, state assessment results management, and state curriculum information management. Four FTEs should be dedicated to this project. PED should develop a detail design that provides specific information on which applications and technology will be used to develop a flexible framework to (1) meet all current and future state and federal reporting requirements, (2) provide reporting tools for teachers, district administrators, parents, and state administrators to assess and improve student learning, and (3) assist the PED in planning, management and reporting.

26. Public Education Department (924). *NCES Chart of Accounts:* The LFC recommends an extension of time to expend $1.8 million for National Center for Educational Statistics (NCES) chart of accounts, through FY06. Further, the LFC recommends a $1 million special appropriation for training related to NCES chart of accounts.
27. Public School Facilities Authority (940). *Facilities Information Management System:* LFC recommends $500 thousand from the general fund for the development and implementation of a scaleable, web-based system to manage facilities operation and maintenance for all school districts statewide. Additional funding should be obtained from public schools, and the Public School Capital Outlay Fund.
28. Commission for Higher Education / University Consortium (950). *Network Upgrade*. LFC recommends $2.8 million from the general fund: $2.4 million for the New Mexico Institute of Mining and Technology to upgrade the network infrastructure of the Commission on Higher education communication system (CHECS) network that will provide Internet2 and Lambda Rail via a fibre-optic network and $400 thousand for Highlands University to install a regional computer network communications hub to extend the CHECS network to higher educational institutions in northern New Mexico. This network and hub will permit the delivery of distance learning, training, and other video and graphic information via high-speed communication lines.
29. Commission for Higher Education / University Consortium (950). *Remote Learning (WebCT) System Consolidation.* LFC recommends $2.5 million from the general fund for consolidating the state's multiple dispersed WebCT (remote learning) distribution centers into a central server cluster. This project will eliminate the cost and maintenance for several disparate WebCT licenses and server locations into a centrally licensed hub of three servers for the entire State. New Mexico Institute of Mining and Technology will be the designated lead agency for this project.

Summary of Audit Findings

Public Education Department-Audit of Bilingual Multicultural Education Program. According to *Overview of Public Elementary and Secondary Schools and Districts,* the National Center for Education Statistics report for the 2001-2002 school year (the most recent available), New Mexico was serving 20.6 percent (66,035) of its statewide student population through Limited English Proficient (LEP) services. The only state serving a higher percentage of LEP students was California, which serves 24.6 percent (1,510,859) of its statewide student population through limited English proficient student services. The findings:

- The state bilingual education program has become convoluted and confusing to administer. It conflicts with the state Constitution and may not satisfy the requirements of the federal No Child Left Behind Act, which requires students to take academic assessments in English within three years of attending a U.S. school and show adequate yearly progress.
- Program financial support is not in accordance with the state Bilingual Multicultural Education Act. The act requires the department to fund programs for students in grades kindergarten through three with an identifiable need to improve language capabilities before funding programs at higher grade levels. However, the law is unclear regarding whether "language capabilities" comprise English or the native language or both.

Expenditure of program funding could not be determined because expenditure data reported by school districts do not provide the necessary detail to determine bilingual education costs. The data also do not show how much of the state equalization guarantee funding generated for bilingual education is actually spent on the program.

The department has strengthened the program application, approval, and monitoring processes in various ways to be in compliance with federal and state requirements. Currently, there is no documented evidence to indicate the program is making a difference on student achievement. Although No Child Left Behind (NCLB) requires students to take assessments in English, limited English proficient students perform better on Spanish assessments than on English assessments.

It was recommended that the Legislature consider reviewing the Bilingual Multicultural Education Act to clarify its intent. Staff further recommended the following:

- Establish and implement adequate internal controls to improve data accuracy and reliability and hold districts responsible for data accuracy,
- Ensure school districts are providing adequate services to all LEP students and are properly identifying and classifying students,
- Implement an adequate chart of accounts that allows analysis of program expenditures and relates program outcomes to costs.

Public Education Department-Review of Performance Accountability Data Systems Project. The following findings resulted:

- Disconnected data collection systems result in inefficient and a labor intensive data collection processes within the department and at public school districts, as well as inconsistent data across systems.
- Data are collected in some areas because they are required; however, the data are not used or reviewed once collected.
- Sufficient training has not been provided to PED and public school district staff on how to collect and use data to improve student performance.

Data systems, designed to collect and report information before enactment of the federal No Child Left Behind Act were not designed for decision-making and do not meet current data requirements to improve student performance and meet NCLB requirements. New Mexico will face challenges meeting NCLB requirements because data collection systems were not designed to provide longitudinal performance data.

PED has been working with the Council of Chief State School Officers (CCSSO) and other states in a decision support architecture consortium (DSAC) during the course of this review. The goal is to develop a comprehensive framework of best practices to improve both technology and operational processes for decision-making to improve student performance. The cost of these systems varies widely from state to state.

States and public school districts nationwide are increasingly focusing on effective administration in education to direct the maximum funding possible to the classroom. The financial data framework, called the chart of accounts, must provide sufficient consistency and accuracy to allow conclusions to be drawn between public investment and associated gains or losses in student achievement on a local, state and national level. School districts must assign expenditures to programs in a consistent manner.

The following recommendations were made to department management:

- Consider appropriating sufficient funds and staff for a comprehensive data warehouse project, contingent on PED using a specific data model as a guide;
- Document processes and work flows at PED to identify duplication and inefficiency and reengineer data collection and use. Streamline the data collection system to assist in developing and maintaining computer systems necessary for data collection;
- Require PED to demonstrate performance through development of a strategic implementation plan, assignment of additional staff totally dedicated to the project, and periodic status reports prior to release of any funds;

- Focus on developing and implementing a new uniform chart of accounts to ensure full implementation by all public school districts by July 1, 2006;
- Provide adequate training to both PED and school district staff;
- Implement an integrated, paperless, and web-based data collection system to bring efficiency to data collection, analysis, and reporting.

New Mexico Highlands University-Review of Financial and Administrative Process. The overall financial condition of NMHU appeared to have improved in fiscal year 2004. Unadjusted FY04 revenues were greater than expenditures and encumbrances by $1.3 million. Although monthly financial reporting has improved during the past two years, additional improvements in providing meaningful financial data and analysis used for management decisions can be made with the purchase of inexpensive software and increased communication with operational management.

Although approved by the Board of Regents, a note with a local bank might violate the New Mexico Constitution because it might have required voter approval.

Nearly $1.8 million of the $3.5 million student accounts-receivable balance at June 30, 2004, is more than 365 days old. As noted in prior annual audits, the allowance for doubtful accounts is based on the number of months accounts have been outstanding rather than actual experience rates. NMHU actively attempts to collect outstanding student balances.

The following recommendations were made:

- Develop report data-mining capabilities for use in analyzing financial information and communicate with operations management to provide additional timely and meaningful discussions of NMHU's financial and operational status,
- Pay down the bank loan that may violate the New Mexico Constitution as soon as feasible and refrain from drawing on lines of credit in the future.

Children, Youth and Families Department-Audit of Child Care. FY05 cost estimates indicated that the $77.4 million allocated for provider payments will be insufficient to maintain eligibility at 150 percent of the federal poverty level. Historically, eligibility has been adjusted based upon available funding and average cost rather than a comprehensive cost analysis. This methodology is not adequate to assist in the appropriate selection of a sustainable threshold. In addition, New Mexico is funding child care at higher income levels than many other states. Childcare service funding has increased at a time when 32 other states decreased services.

Performance measures have not been aligned with program goals because the department is just beginning to clarify them for the childcare program. For example, the department has emphasized expanding the number of children receiving service to support parents participating in the workforce. However, there are no measures reporting the results of this effort.

Childcare providers owed CYFD more than $1.2 million for overpayments dating back to June 1995. One national provider owes more than $40,000 for its 14 New Mexico facilities. CYFD does not aggressively pursue collection. Most overpayments are caused by absences not being reported to the department.

The following recommendations were made:

- Include comprehensive multi-year costs analysis with the annual budget request;
- Align performance measures with program goals;
- Improve monitoring of facilities and follow-up of recurring complaints, including performing surprise inspections;
- Program the family automated client tracking system to require caseworkers to specifically authorize multiple payments and to generate a report that identifies caseworkers responsible for overpayments and provide additional training;
- Actively pursue collection of overpayments.

Children, Youth and Families Department-Review of Juvenile Justice Services. The infrastructure does not exist to provide adequate community programs to juvenile offenders at all risk levels and behavioral mental health services are lacking. Juvenile Justice Services is developing additional infrastructure for "front-end" services by initiating a statewide referral process for multi-systemic therapy and family functional therapy.

No cost-effectiveness analysis of the move from incarceration towards "front-end" services was conducted. According to a review, the average cost per day for juvenile offender incarceration is $147.16. Multi-systemic therapy-treatment and family functional therapy-treatment costs per day are $37.50 and $39.29, respectively. To accomplish the move to "front-end" services Juvenile Justice Services closed Camino Nuevo Youth Center in July 2004, and reduced the number of beds at the New Mexico Boys' School. Savings on FTE from both facilities and the utilities at New Mexico Boys' School is calculated by CYFD to be $4.9 million.

Under the move to "front-end" services, the juvenile probation and parole officers are charged with providing services to juvenile offenders in community supervision. Juvenile probation and parole officers will act as case managers for the high- to moderate- risk juveniles and will assure that services are provided to the client and family based on identified supervision and treatment needs. The juvenile probation and parole officers will be assisted by community safety officers and regional coordinators that will work with the communities to identify gaps in services. Juvenile probation and parole officers will work with therapists, providers and social workers in developing a plan of care.

Moving juveniles away from incarceration and towards community services has reduced the number of incarcerated juveniles in Juvenile Justice Services facilities leaving many facilities at half or less capacity.

Although it is too early to determine cost savings or effectiveness of "front-end" community services on rehabilitating juvenile offenders, significant start-up costs are required. Savings should result from placing juvenile offenders in treatment rather than commitment due to lower crime rates, custody costs, and recidivism. These cost savings will take years to be fully realized.

The following recommendations were made:

- Develop a cost-benefit analysis regarding the move from incarceration towards "front-end" services,
- Pull together a network of community behavioral mental health resources and avoid duplication,
- Adopt juvenile community corrections regulations,
- Monitor the number of vacant beds in state juvenile facilities,
- Complete a plan of deployment for multi-systemic therapy and family functional therapy by the FY06 budget cycle,
- Adhere to the original program design in implementing the multi-systemic therapy and family functional therapy programs,
- Establish criteria based on outcomes and performance measures to determine continued funding of program providers,
- Collaborate with the Public Education Department in the move to "front-end" services.

Human Services Department-Audit of Medicaid Personal Care Option Program. A significant problem existed with payment for services when program recipients were hospitalized. For this report, a major provider of services in Santa Fe and Bernalillo counties was selected for testing. Testing results identified the following conditions:

Examination of 121 PCO claims of one provider for Santa Fe and Bernalillo counties indicated that 72 (59.5 percent) were overpaid $30,242. This represents an average overpayment of $420 each. HSD might be able to recoup up to $1.2 million. HSD cannot detect hospitalizations and deny payments when PCO recipients are hospitalized. Hospitals have 120 days to bill and do not bill as timely as PCO providers.

Personal care attendants were overpaid $2,926 for 166.4 hours of services provided to three of 18 Santa Fe County recipients because monthly services exceeded authorized amounts.

The following recommendations were made:

- Improve PCO payment review and approval procedures, and although identified payment errors are immaterial, ensure they are not happening in other agencies by scrutinizing payment requests more closely to control costs;
- Provide a standardized form for personel care attendants to sign acknowledging that qualifying PCO services are home based and that claiming hours worked when the recipient is hospitalized or receiving certain other services outside the home constitutes Medicaid fraud, a prosecutable offense;
- Require provider agencies to have timesheets that require attendants to state positively or negatively whether the recipient was hospitalized during the service period and indicate admission and discharge dates and times if recipient was hospitalized;
- Perform match of hospital and PCO claim data for all providers to identify additional recoupments.

Environment Department-Review of the Corrective Action Fund. The nonobligated fund balance may be understated by as much as $516 thousand because work plan liabilities are overstated. Long-term (five-year) revenue and expenditure projections for the fund had not been developed.

The storage tank committee lacked sufficient coordination with the department secretary regarding work plan review, contractor payments and changes proposed to corrective action fund regulations.

Staff made the following recommendations:

- Organize a task group of technical staff to review all current state lead and responsible party work plans to identify “dead money” resulting from old and stale work plans,
- Require bureau project managers and work plan approval committees to improve review of work plans submitted by contractors for contamination site remediation to reduce the number of back-end change order requests resulting in increased costs,
- Involve the storage tank committee in the oversight and administration of the corrective action fund by reviewing all proposed work plans and payments and submitting their comments to the secretary.

Department of Health-Review of Performance Contract Management. A sample of contracts indicated the followings:

- No performance outcome measures were included.
- A standardized contract monitoring system was not in place, although one is planned.
- Policies and procedures are fragmented and out of date.
- The administrative audit process was completely informal and could not be tested.

- Contract format was inconsistent.
- Vendor performance was not documented and sanctions were rarely applied.

The department did not implement its 2004 budget request to improve internal efficiency and eliminate service duplication. The creation of a Contracts and Grants Bureau in July 2004 is a good start, but the department needs to build contract oversight, administration, and contract-writing capacity to design effective performance-based contracts and monitor program outcomes.

No department-wide strategic planning and prioritization process occurred and performance was not reflected in applying program reductions. Each division was allowed to internally evaluate and prioritize its programs, under general direction from the department secretary, and to recommend which programs could or should be cut. Contractor or program performance was not considered when the department recommended reductions.

The department has incorporated some positive performance contracting attributes into its contract management system, such as monitoring performance with regular reporting, providing performance feedback to contractors, and requiring corrective action, as well as requiring contractors to report results. The department must also ensure that performance outcome data and associated systems are reliable, valid and properly benchmarked.

A more centralized approach to performance-based contracting practices would be more effective, hasten implementation, and enhance desired service-delivery outcomes.

LFC auditors made the following recommendations:

- Develop a core set of strategically linked outcome indicators and data collection procedures that can be used for contracts in each particular service area;
- Standardize and document the performance monitoring, auditing, oversight, and pre-payment approval processes;
- Build oversight, administration, and contracting-writing capacity;
- Document vendor performance, maintain performance documentation in a central repository, and make information available on an agency-wide basis.

Taxation and Revenue Department-Review of Enhanced Tax Collections. The Department received a $5 million special appropriation during the 2003 legislative session to enhance the tax collections. The Department allocated $4 million to the Audit and Compliance Division and $1 million to the new Tax Fraud Investigations Division. The enhanced collection total was approximately $67 million, with $55.1 million going to the general fund.

The department received a $2.3 million special appropriation during the 2004 legislative session to continue the enhanced collection initiatives. The department's mandate is to collect an additional $31 million of delinquent taxes, with $25 million going to the general fund during FY05.

The Tax Fraud Investigations Division was almost fully staffed. Division policies had not been promulgated. A set of standards that would allow the department to regularly measure division progress has not been developed.

The Managed Audit Program was expanded in 2003 to include all tax programs, as part of the enhanced tax collection initiatives. The program allows taxpayers to conduct self audits and avoid penalty and interest; assessments must be paid within 30 days. The program accounted for 2.6 percent of total collections during the 17-month initiative. The department does not have procedures to monitor and enforce compliance with Managed Audit Program time limits for submitting self-audit documents within 180 days and paying assessments within 30 days.

The following recommendations were made:

- Avoid manual collections tabulation procedures,
- Maintain audit trails and review all manual procedures,
- Measure the Tax Fraud Investigations Division's effectiveness regularly and develop and adopt operating policies for the division,
- Enforce Managed Audit Program time limits,
- Ensure adequate staffing depth for the Managed Audit Program to prevent delays if the key employee is unable to perform program duties.

Taxation and Revenue Department-Status Report of the GenTax Application System. GenTax is a new computer application system implemented in October 2003 to replace the old application system for processing tax revenue receipts.

GenTax adequately accounts for all tax receipts submitted for processing. However, a significant volume of transactions with insufficient taxpayer information need to be handled manually in GenTax. The department does not perform daily cash receipts reconciliations between revenue processed in GenTax and cash deposited to the bank. As a result, reasonable assurance cannot be obtained that all bank deposits are processed by GenTax in a timely manner. Distributions to the state general fund that represent unmatched and unidentified receipts totaled $17.2 million between October 2003 and April 2004. This amount was distributed to the state general fund in July 2004.

Legal counsel for the Taxation and Revenue Department determined that the LFC audit staff should not have access to electronic records because of concerns that some of the information may contain confidential taxpayer information and violate state statutes. Without access to electronic records within GenTax, reasonable assurance cannot be obtained that all distributions in GenTax are being calculated correctly and that all amounts received by the department's taxpayer websites are deposited with the bank and processed by GenTax.

The following recommendations were made:

- Receipts processed by GenTax need to be reconciled with bank deposits on a daily basis through an automated process,
- Implement additional mail receipts processing procedures to ensure all mail receipts are batched and deposited to the bank on the date received in the mail,
- Update legislation to hold the state general fund harmless from revenue reversals due to taxpayer error,
- Transfer knowledge of GenTax to internal technical personnel,
- Develop strategies for recruiting and retaining technical support staff with technical skills vital to supporting emerging technologies,
- Amend Section 7-1-8, NMSA 1978 to grant the Legislative Finance Committee audit staff access to electronic information in GenTax for audit purposes.

Department of Finance and Administration Local Government Division-Follow-Up to the 2003 Audit of the Local DWI Grant Fund Program. The LDWI grant fund program made significant administrative improvements, addressed many findings satisfactorily, and implemented many of the recommendations from the January 2003 audit report. The LDWI grant fund program appears to be gaining momentum and fiscal and program accountability appears to be improving. Additionally, LGD should be given credit for effectively improving. Additionally, LGD should be given credit for effectively using the $500 thousand funding increase for program administration.

Some findings remain unresolved, their resolution was inadequate, or recommendations were not implemented timely. A strategic plan that clearly identifies milestones and measures program success needs to be finalized. Training and technical assistance for local DWI programs could be more effective. Few site visits were performed by LGD staff, and some local programs continue to be affected by fiscal and programmatic deficiencies. Additionally, the web-based ADE, Inc. screening and tracking mechanism pilot project was not implemented as scheduled.

The following recommendations were made:

- Distribute the strategic plan training manual and develop innovative training techniques,
- Continue working with various courts and associations, the Municipal League and Administrative Office of the Courts to improve participation in screening DWI offenders,
- Coordinate efforts with the newly appointed DWI Czar.

Department of Finance and Administration and Select Agencies-Review of Cash Reconciliation. Legislative concern exists about the untimely performance and submission of cash, revenue, and expenditure reconciliation by various state agencies. Various process improvements and statutory revisions have not produced desired outcomes. Issues related to prior performance reviews remain unresolved.

The following conditions were noted during this review:

- Fifteen agencies did not meet reconciliation submission deadlines.
- Untimely State Treasurer's Office cash balance reports affect agency compliance.
- Emphasis is not placed on recording adjusting entries timely to clear identified reconciling items. Some differences have been carried forward for over two years.
- Fifty-five agencies did not meet the year-end closing deadline.
- DFA guidelines for delinquent agencies are not enforced.

The following recommendations were made:

- Provide DFA explicit authority to sanction noncompliance;
- Enhance, implement, and enforce existing policies;
- Hold chief financial officers accountable for noncompliance;
- Formalize the reconciliation review process;
- Conduct regular training sessions for agency staff.

New Mexico Department of Transportation-Update on NM44/US 550: Structure and Pavement Warranties. The department is closely monitoring both the financial and technical aspects of the pavement and structures warranties and developed software for field inspectors to record inspection data. The department has identified significant heaving at the edges of the pavement at multiple locations north of San Ysidro. Pavement failures attributable to defects in design, materials, or construction management are subject to warranty coverage, which requires Mesa to accept "full responsibility" for design and construction management (not subject to charges against the warranty) for a period of three years from substantial completion of construction. If the department does not make a claim, repairs will be charged against the performance warranties. If a claim is made, the department could potentially recover emergency repair and other costs.

The performance warranties may not be worth the cost as identified in the following table.

Annual Rate of Return	Net Gain if Expenditures are $77.15 million	Net Gain (Loss) if Expenditures are $114 million
3.6%	$ 20.67 million	($24.52) million
6.0%	$ 69.00 million	$ 9.01 million
8.6%	$158.83 million	$ 84.36 million

It was recommended that the Legislature modify the procurement code to provide guidance for purchase of warranties and made the following recommendations to the department:

- Present a claim to Mesa before expiration of the professional services warranty and invoke specific provisions to keep the window of opportunity for negotiation open;
- Charge the cost of bridge and inspection of other structures to the pavement warranty;
- Ensure that Mesa fully documents charges with submission of each quarterly report and audit expenditures annually;
- Analyze future warranty purchases more thoroughly, prior to purchase and closely monitor future design-build contractors during the design and construction phases.

New Mexico Department of Transportation-Review of Transit Projects. The department established one strategic objective to develop transportation alternatives such as commuter bus and rail service. The Legislature appropriated funds to accomplish the transit objectives. An overall recommendation is to develop a long-term public transportation plan.

Findings related to the Commuter Rail program include the following:

- Detailed analyses to determine viability, operational requirements, and future revenue sources were not performed prior to funding and implementation.
- Negotiations for track access and maintenance are not complete.
- Future operational revenues are uncertain.

Recommendations include the following:

- Perform detailed analyses to determine specific operational and revenue requirements,
- Negotiate the best possible terms for track access,
- Coordinate connections and schedules with city transit systems,
- Identify operational management requirements and performance measures and goals.

Findings related to the Park and Ride program include the following:

- Written contract amendments were not executed prior to implementation of changes.
- Contracts do not include data collection and analysis requirements for monitoring program performance and effectiveness.
- Ridership data collection might not be reliable for measurement of established performance goals.

Recommendations include the following:

- Execute all contract modifications in writing,
- Develop and monitor realistic performance measures,

- Perform analysis to determine the most effective changes to operations.

Economic Development and Tourism Departments-Cross-Cutting Department Performance Measures. Most states surveyed for best practices include the travel and tourism industry as a component of economic development, while in New Mexico tourism and economic development are statutorily separate cabinet-level department. Tourism contributes significantly to the state's economy.

Effective cross-cutting performance measurement between departments might not be feasible in the absence of a statewide strategic plan. Each department focuses on its self-defined mission rather than working together toward a more global vision.

The Tourism Department focuses solely on marketing New Mexico as a visitor destination. The Economic Development Department focuses primarily on development activity related to publishing (including software), telecommunications, film and digital media, finance and insurance, and professional, scientific, and technical services. A statewide strategic plan would assist agencies in aligning their individual missions with common goals.

Neither department's current measures as listed in the General Appropriations Act are sufficient to improve performance because they are too narrowly focused, incomplete and untimely and incompletely relate program inputs to meaningful outcomes. Even though a variety of development incentives are in place, the Economic Development Department cannot report revenues foregone via tax breaks (a program input) because the data are not available from the Taxation and Revenue Department. This information is vital because it is part of the cost of economic development and should be included in cost-benefit analyses of the various programs.

The Tourism Department does not report the economic impact of travel and tourism, nor does it report on assistance provided to tourism-related businesses. A key tourism measure for market share is only available annually, and the Economic Development Department measures merely consider the quantity of job creation, not the quality.

Recommendations include the following:

- The Tourism Department should report available economic data quarterly, as well as assistance provided to tourism businesses,
- Both departments should benchmark aspects of economic development under agency control against national performance indices,
- The Economic Development Department should assume the lead in defining what a "quality job" is in terms of earnings and relate total program inputs, direct and indirect, to program outcomes.

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY05 OPERATING BUDGET	FY06 AGENCY REQUEST	FY06 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
Legislative						
111	LEGISLATIVE COUNCIL SERVICE	4,311.7	4,570.3	4,570.3	258.6	6.0%
112	LEGISLATIVE FINANCE COMMITTEE	3,361.3	3,461.3	3,461.3	100.0	3.0%
114	SENATE CHIEF CLERK	968.9	972.1	972.1	3.2	0.3%
115	HOUSE CHIEF CLERK	938.6	948.9	948.9	10.3	1.1%
117	LEGISLATIVE EDUCATION STUDY COMMITTEE	974.3	974.3	974.3	0.0	0.0%
119	LEGISLATIVE BUILDING SERVICES	3,316.3	3,325.0	3,325.0	8.7	0.3%
131	LEGISLATURE	1,585.6	1,316.9	1,316.9	-268.7	-16.9%
Total	**Legislative**	15,456.7	15,568.8	15,568.8	112.1	0.7%
Judicial						
205	SUPREME COURT LAW LIBRARY	1,592.4	1,655.4	1,637.0	44.6	2.8%
208	NEW MEXICO COMPILATION COMMISSION	0.0	0.0	0.0	0.0	0.0%
210	JUDICIAL STANDARDS COMMISSION	428.4	695.7	457.1	28.7	6.7%
215	COURT OF APPEALS	4,603.8	4,911.2	4,669.3	65.5	1.4%
216	SUPREME COURT	2,303.8	2,413.3	2,314.7	10.9	0.5%
218	ADMINISTRATIVE OFFICE OF THE COURTS	29,473.4	33,927.8	30,993.6	1,520.2	5.2%
219	SUPREME COURT BUILDING COMMISSION	682.8	735.9	696.7	13.9	2.0%
231	FIRST JUDICIAL DISTRICT COURT	4,999.4	5,181.0	5,064.7	65.3	1.3%
232	SECOND JUDICIAL DISTRICT COURT	17,071.4	17,916.4	17,283.3	211.9	1.2%
233	THIRD JUDICIAL DISTRICT COURT	4,500.4	4,886.8	4,567.9	67.5	1.5%
234	FOURTH JUDICIAL DISTRICT COURT	1,134.3	1,271.3	1,225.3	91.0	8.0%
235	FIFTH JUDICIAL DISTRICT COURT	4,140.3	4,275.5	4,191.3	51.0	1.2%
236	SIXTH JUDICIAL DISTRICT COURT	1,958.5	2,053.9	1,971.4	12.9	0.7%
237	SEVENTH JUDICIAL DISTRICT COURT	1,484.0	1,574.4	1,491.4	7.4	0.5%
238	EIGHTH JUDICIAL DISTRICT COURT	2,009.1	2,300.4	2,036.8	27.7	1.4%
239	NINTH JUDICIAL DISTRICT COURT	1,875.2	2,082.0	1,956.7	81.5	4.3%
240	TENTH JUDICIAL DISTRICT COURT	596.9	615.7	607.9	11.0	1.8%
241	ELEVENTH JUDICIAL DISTRICT COURT	3,516.3	3,987.6	3,609.9	93.6	2.7%
242	TWELFTH JUDICIAL DISTRICT COURT	2,090.0	2,289.9	2,149.2	59.2	2.8%
243	THIRTEENTH JUDICIAL DISTRICT COURT	3,483.6	3,942.5	3,603.2	119.6	3.4%
244	BERNALILLO COUNTY METROPOLITAN COURT	16,728.4	18,561.5	17,561.2	832.8	5.0%
251	FIRST JUDICIAL DISTRICT ATTORNEY	3,423.2	3,957.8	3,496.9	73.7	2.2%
252	SECOND JUDICIAL DISTRICT ATTORNEY	13,343.1	15,412.0	13,460.9	117.8	0.9%
253	THIRD JUDICIAL DISTRICT ATTORNEY	2,763.3	3,009.5	2,829.6	66.3	2.4%
254	FOURTH JUDICIAL DISTRICT ATTORNEY	2,225.3	2,527.7	2,311.2	85.9	3.9%
255	FIFTH JUDICIAL DISTRICT ATTORNEY	3,031.1	3,303.1	3,125.4	94.3	3.1%
256	SIXTH JUDICIAL DISTRICT ATTORNEY	1,691.8	1,947.6	1,686.5	-5.3	-0.3%
257	SEVENTH JUDICIAL DISTRICT ATTORNEY	1,824.1	1,858.2	1,835.1	11.0	0.6%
258	EIGHTH JUDICIAL DISTRICT ATTORNEY	1,959.3	2,133.0	2,039.1	79.8	4.1%
259	NINTH JUDICIAL DISTRICT ATTORNEY	1,839.8	1,917.3	1,866.9	27.1	1.5%
260	TENTH JUDICIAL DISTRICT ATTORNEY	723.7	830.0	733.4	9.7	1.3%
261	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIV I	2,498.3	2,947.3	2,545.3	47.0	1.9%
262	TWELFTH JUDICIAL DISTRICT ATTORNEY	2,052.2	2,349.0	2,061.9	9.7	0.5%
263	THIRTEENTH JUDICIAL DISTRICT ATTORNEY	2,843.7	3,500.7	3,086.1	242.4	8.5%
264	ADMIN OFFICE OF THE DISTRICT ATTORNEYS	1,006.7	1,657.1	1,156.7	150.0	14.9%
265	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIV II	1,611.4	1,973.4	1,625.7	14.3	0.9%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY05 OPERATING BUDGET	FY06 AGENCY REQUEST	FY06 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
Total	**Judicial**	147,509.4	164,601.9	151,949.3	4,439.9	3.0%
General Control						
305	ATTORNEY GENERAL	11,088.7	15,535.3	11,548.4	459.7	4.1%
308	STATE AUDITOR	2,285.5	2,398.9	2,257.7	-27.8	-1.2%
333	TAXATION AND REVENUE DEPARTMENT	56,506.9	62,553.1	56,866.7	359.8	0.6%
337	STATE INVESTMENT COUNCIL	0.0	0.0	0.0	0.0	0.0%
341	DEPARTMENT OF FINANCE AND ADMINISTRATION	11,363.4	11,441.9	11,432.6	69.2	0.6%
342	PUBLIC SCHOOL INSURANCE AUTHORITY	0.0	0.0	0.0	0.0	0.0%
343	RETIREE HEALTH CARE AUTHORITY	10.0	10.0	10.0	0.0	0.0%
344	DFA SPECIAL APPROPRIATIONS	3,929.6	5,035.8	3,985.8	56.2	1.4%
350	GENERAL SERVICES DEPARTMENT	11,011.8	12,635.6	11,241.2	229.4	2.1%
352	EDUCATIONAL RETIREMENT BOARD	0.0	0.0	0.0	0.0	0.0%
354	NEW MEXICO SENTENCING COMMISSION	606.8	606.8	606.8	0.0	0.0%
355	PUBLIC DEFENDER DEPARTMENT	29,988.0	32,891.5	31,224.9	1,236.9	4.1%
356	GOVERNOR	4,218.4	4,410.5	4,410.0	191.6	4.5%
360	LIEUTENANT GOVERNOR	631.1	618.9	618.9	-12.2	-1.9%
361	OFFICE OF THE CHIEF INFORMATION OFFICER	963.5	1,010.5	969.4	5.9	0.6%
366	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION	0.0	0.0	0.0	0.0	0.0%
369	STATE COMMISSION OF PUBLIC RECORDS	2,164.9	2,336.0	2,208.0	43.1	2.0%
370	SECRETARY OF STATE	2,930.5	4,980.0	3,021.7	91.2	3.1%
378	PERSONNEL BOARD	3,866.6	3,970.6	3,957.4	90.8	2.3%
379	PUBLIC EMPLOYEES LABOR RELATIONS BOARD	305.2	355.8	311.7	6.5	2.1%
394	STATE TREASURER	3,426.4	3,610.6	3,452.0	25.6	0.7%
Total	**General Control**	145,297.3	164,401.8	148,123.2	2,825.9	1.9%
Commerce and Industry						
404	BOARD OF EXAMINERS FOR ARCHITECTS	0.0	0.0	0.0	0.0	0.0%
417	BORDER AUTHORITY	377.7	529.9	422.6	44.9	11.9%
418	TOURISM DEPARTMENT	8,370.2	8,362.5	8,192.6	-177.6	-2.1%
419	ECONOMIC DEVELOPMENT DEPARTMENT	6,514.3	7,969.3	6,520.8	6.5	0.1%
420	REGULATION & LICENSING DEPARTMENT	13,027.5	14,121.8	13,228.2	200.7	1.5%
430	PUBLIC REGULATION COMMISSION	13,463.3	11,518.1	10,128.6	-3,334.7	-24.8%
446	MEDICAL BOARD	0.0	0.0	0.0	0.0	0.0%
449	BOARD OF NURSING	0.0	0.0	0.0	0.0	0.0%
460	NEW MEXICO STATE FAIR	0.0	0.0	0.0	0.0	0.0%
464	ST BRD LICENSURE/PROF ENGINEERS & SURVEYORS	0.0	0.0	0.0	0.0	0.0%
465	GAMING CONTROL BOARD	5,030.0	7,086.6	5,488.2	458.2	9.1%
469	STATE RACING COMMISSION	1,899.8	2,247.5	1,987.1	87.3	4.6%
479	BOARD OF VETERINARY MEDICINE	0.0	0.0	0.0	0.0	0.0%
490	CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION	800.0	120.0	120.0	-680.0	-85.0%
Total	**Commerce and Industry**	49,482.8	51,955.7	46,088.1	-3,394.7	-6.9%
Ag, Energy & Ntrl Resources						
505	DEPARTMENT OF CULTURAL AFFAIRS	26,331.0	28,336.9	26,845.0	514.0	2.0%
508	NEW MEXICO LIVESTOCK BOARD	941.0	941.0	941.0	0.0	0.0%
516	DEPARTMENT OF GAME AND FISH	179.6	283.5	179.6	0.0	0.0%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY05 OPERATING BUDGET	FY06 AGENCY REQUEST	FY06 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
521	ENERGY, MINERALS & NATURAL RESOURCES DEPT.	19,993.8	20,278.9	20,451.5	457.7	2.3%
522	YOUTH CONSERVATION CORPS	0.0	0.0	0.0	0.0	0.0%
539	COMMISSIONER OF PUBLIC LANDS	0.0	0.0	0.0	0.0	0.0%
550	STATE ENGINEER	17,237.4	21,237.4	19,105.9	1,868.5	10.8%
569	ORGANIC COMMODITY COMMISSION	276.7	288.3	276.7	0.0	0.0%
Total	**Ag, Energy & Ntrl Resources**	64,959.5	71,366.0	67,799.7	2,840.2	4.4%
Health & Human Services						
601	COMMISSION ON THE STATUS WOMEN	464.8	464.8	464.8	0.0	0.0%
603	OFFICE OF AFRICAN AMERICAN AFFAIRS	330.5	410.5	327.8	-2.7	-0.8%
604	CMSN/DEAF AND HARD-OF-HEARING PERSONS	0.0	0.0	0.0	0.0	0.0%
605	MARTIN LUTHER KING JR. COMMISSION	232.1	232.1	232.1	0.0	0.0%
606	COMMISSION FOR THE BLIND	1,537.1	1,537.1	1,573.0	35.9	2.3%
609	INDIAN AFFAIRS DEPARTMENT	2,229.9	2,537.6	2,233.2	3.3	0.1%
624	AGING & LONG-TERM SERVICES DEPARTMENT	23,467.4	32,789.1	31,725.6	8,258.2	35.2%
630	HUMAN SERVICES DEPARTMENT	544,265.8	668,256.2	630,580.0	86,314.2	15.9%
631	LABOR DEPARTMENT	841.7	2,107.1	1,813.4	971.7	115.4%
632	WORKERS' COMPENSATION ADMINISTRATION	0.0	0.0	0.0	0.0	0.0%
	OFFICE OF WORKFORCE TRAINING & DEVELOPMENT	700.0	700.0	700.0	0.0	0.0%
644	DIVISION OF VOCATIONAL REHABILITATION	5,570.5	6,545.8	5,609.2	38.7	0.7%
645	GOVERNOR'S COMMISSION ON DISABILITY	566.7	616.5	578.6	11.9	2.1%
647	DEVELOPMENTAL DISABILITIES PLANNING COUNCIL	2,813.7	3,380.5	2,968.1	154.4	5.5%
662	MINERS' HOSPITAL OF NEW MEXICO	0.0	0.0	0.0	0.0	0.0%
665	DEPARTMENT OF HEALTH	258,705.4	275,794.6	269,016.0	10,310.6	4.0%
667	DEPARTMENT OF ENVIRONMENT	14,758.8	14,758.8	14,758.8	0.0	0.0%
668	OFFICE OF THE NATURAL RESOURCES TRUSTEE	145.8	478.3	287.3	141.5	97.1%
669	NEW MEXICO HEALTH POLICY COMMISSION	1,407.7	1,406.7	1,355.4	-52.3	-3.7%
670	DEPARTMENT OF VETERANS' SERVICES	2,232.8	2,232.8	2,232.8	0.0	0.0%
690	CHILDREN, YOUTH AND FAMILIES DEPARTMENT	149,989.1	148,848.1	144,660.0	-5,329.1	-3.6%
Total	**Health & Human Services**	1,010,259.8	1,163,096.6	1,111,116.1	100,856.3	10.0%
Public Safety						
705	DEPARTMENT OF MILITARY AFFAIRS	5,289.7	5,664.7	5,407.3	117.6	2.2%
760	PAROLE BOARD	359.7	413.2	365.9	6.2	1.7%
765	JUVENILE PAROLE BOARD	368.2	379.2	375.2	7.0	1.9%
770	CORRECTIONS DEPARTMENT	207,567.3	222,567.7	215,406.8	7,839.5	3.8%
780	CRIME VICTIMS REPARATION COMMISSION	1,726.3	1,807.6	1,799.7	73.4	4.3%
790	DEPARTMENT OF PUBLIC SAFETY	73,501.5	77,851.5	74,914.8	1,413.3	1.9%
Total	**Public Safety**	288,812.7	308,683.9	298,269.7	9,457.0	3.3%
Transportation						
805	DEPARTMENT OF TRANSPORTATION	0.0	0.0	0.0	0.0	0.0%
Total	**Transportation**	0.0	0.0	0.0	0.0	0.0%
Other Education						
925	OTHER EDUCATION	6,918.1	7,918.1	6,718.1	-200.0	-2.9%
930	REGIONAL EDUCATION COOPERATIVES	0.0	0.0	0.0	0.0	0.0%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY05 OPERATING BUDGET	FY06 AGENCY REQUEST	FY06 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
940	PUBLIC SCHOOL FACILITIES AUTHORITY	0.0	0.0	0.0	0.0	0.0%
Total	**Other Education**	6,918.1	7,918.1	6,718.1	-200.0	-2.9%
Higher Education						
950	COMMISSION ON HIGHER EDUCATION	32,410.0	40,324.4	34,039.0	1,629.0	5.0%
952	UNIVERSITY OF NEW MEXICO	255,098.6	272,650.6	261,737.5	6,638.9	2.6%
954	NEW MEXICO STATE UNIVERSITY	161,015.2	174,549.6	167,132.0	6,116.8	3.8%
956	NEW MEXICO HIGHLANDS UNIVERSITY	25,755.0	26,414.1	25,930.4	175.4	0.7%
958	WESTERN NEW MEXICO UNIVERSITY	16,440.2	17,347.4	16,899.5	459.3	2.8%
960	EASTERN NEW MEXICO UNIVERSITY	37,875.2	39,969.5	38,744.2	869.0	2.3%
962	NEW MEXICO INSTITUTE OF MINING & TECHNOLOGY	32,272.8	35,243.8	33,255.7	982.9	3.0%
964	NORTHERN NEW MEXICO COMMUNITY COLLEGE	8,268.2	8,417.8	8,097.3	-170.9	-2.1%
966	SANTA FE COMMUNITY COLLEGE	12,452.0	13,292.7	12,542.3	90.3	0.7%
968	ALBUQUERQUE TECHNICAL-VOCATIONAL INSTITUTE	44,071.3	50,712.3	48,004.6	3,933.3	8.9%
970	LUNA VOCATIONAL TECHNICAL INSTITUTE	6,699.4	7,356.1	7,110.4	411.0	6.1%
972	MESALANDS COMMUNITY COLLEGE	2,326.5	2,465.6	2,372.3	45.8	2.0%
974	NEW MEXICO JUNIOR COLLEGE	7,983.1	7,529.1	7,151.5	-831.6	-10.4%
976	SAN JUAN COLLEGE	19,072.4	20,004.7	19,713.1	640.7	3.4%
977	CLOVIS COMMUNITY COLLEGE	9,495.9	10,477.8	10,064.7	568.8	6.0%
978	NEW MEXICO MILITARY INSTITUTE	0.0	0.0	0.0	0.0	0.0%
979	NM SCHOOL FOR THE BLIND/VISUALLY IMPAIRED	11.5	11.5	164.6	153.1	1331.3%
980	NEW MEXICO SCHOOL FOR THE DEAF	658.1	2,647.9	1,839.0	1,180.9	179.4%
982	HIGHER EDUCATION COMPENSATION	0.0	0.0	13,893.3	13,893.3	0.0%
Total	**Higher Education**	671,905.4	729,414.9	708,691.4	36,786.0	5.5%
Public School Support						
924	PUBLIC EDUCATION DEPARTMENT	11,493.3	15,928.5	11,636.2	142.9	1.2%
993	PUBLIC SCHOOL SUPPORT	1,974,906.4	2,099,962.1	2,103,884.7	128,978.3	6.5%
Total	**Public School Support**	1,986,399.7	2,115,890.6	2,115,520.9	129,121.2	6.5%
Public Employee Compensation						
994	UNDISTRIBUTED COMPENSATION	285.1	0.0	0.0	-285.1	-100.0%
996	PUBLIC EMPLOYEES COMPENSATION	0.0	0.0	7,340.9	7,340.9	0.0%
Total	**Public Employee Compensation**	285.1	0.0	7,340.9	7,055.8	2474.9%
Grand Total		4,387,286.5	4,792,898.3	4,677,186.2	289,899.7	6.6%

TABLE 2

U.S. AND NEW MEXICO ECONOMIC INDICATORS
By fiscal year ending June 30

	FY2004	FY2005		FY2006	FY2007
	Dec. 2004 Prelim.	Jan. 2004 Estimate	Dec. 2004 Estimate	Dec. 2004 Estimate	Dec. 2004 Estimate
NATIONAL ECONOMIC INDICATORS					
US Real GDP Growth (%, SAAR)	4.8	4.1	3.4	3.0	3.1
US Non-Agricultural Employment Growth (%)	0.2	NA	1.6	1.5	1.0
US Inflation Rate (CPI, %, SAAR)*	2.8	1.7	2.3	1.1	1.7
Overnight Yield (%)**	1.0	1.9	2.0	3.1	3.5
LABOR MARKET AND INCOME DATA					
New Mexico					
NM Non-Agricultural Employment Growth (%)	1.4	2.2	2.3	2.1	1.9
NM Personal Income Growth (%)***	4.4	5.2	6.4	5.1	5.3
NM Private Wages & Salaries Growth (%)	5.1	5.4	6.0	5.8	5.6
CRUDE OIL AND NATURAL GAS OUTLOOK					
Oil Price ($/barrel) Gross Sales Value	$30.82	$26.00	$40.00	$35.00	$32.50
Taxable Oil Sales (million barrels)	70.2	67.3	65.3	64.6	64.0
Gas Price ($ per thousand cubic feet) Gross Value	$4.85	$4.00	$5.20	$4.70	$4.55
Taxable Gas Sales (billion cubic feet)	1,534	1,500	1,534	1,519	1,503

*CPI is all Urban, Overnight Yield is the Federal Funds Rate.
**Overnight Yield = Federal Funds Rate
***Personal Income growth rates are for calendar years.
Sources: Global Insight, FOR-UNM and Consensus Revenue Estimating Group

GENERAL FUND CONSENSUS REVENUE ESTIMATES

(Dollars in Millions)

TABLE 3

	FY2004	FY2005				FY2006			FY2007		
	Dec. 04 Prelim	Jan. 04 Est.	Dec. 04 Est.	Change/ FY04	Change/ FY04	Dec. 04 Est.	Change/ FY05	Change/ FY05	Dec. 04 Est.	Change/ FY06	Change/ FY06
Gross Receipts	1,409.6	1,476.9	1,495.0	85.4	6.1%	1,562.0	67.0	4.5%	1,632.3	70.3	4.5%
Compensating	33.7	37.0	36.0	2.3	6.8%	36.9	0.9	2.5%	37.8	0.9	2.5%
TOTAL GENERAL SALES	1,443.3	1,513.9	1,531.0	87.7	6.1%	1,598.9	67.9	4.4%	1,670.1	71.2	4.5%
Tobacco	52.7	51.1	51.2	(1.5)	-2.9%	50.7	(0.5)	-1.0%	50.2	(0.5)	-1.0%
Alcohol	26.0	25.8	26.4	0.4	1.5%	26.9	0.5	1.9%	27.4	0.5	2.0%
Insurance	87.8	104.5	109.0	21.2	24.2%	114.5	5.5	5.0%	120.2	5.7	5.0%
Fire Protection	25.8	23.5	25.8	0.0	0.1%	26.8	1.0	4.0%	27.9	1.1	4.0%
Bed Tax	0.0	22.5	19.0	19.0	NA	19.5	0.5	2.6%	20.0	0.5	2.5%
Motor Vehicle Excise	115.7	121.7	121.3	5.6	4.8%	127.5	6.2	5.1%	134.0	6.5	5.1%
Gaming	38.5	49.0	47.0	8.5	21.9%	51.0	4.0	8.5%	53.6	2.6	5.0%
Leased Vehicle Surcharge	5.8	6.4	5.8	0.0	0.6%	5.9	0.1	1.1%	6.0	0.1	1.6%
Other	2.2	2.7	2.7	0.5	23.6%	2.7	0.0	0.0%	2.7	0.0	0.0%
TOTAL SELECTIVE SALES	354.6	407.1	408.2	53.7	15.1%	425.5	17.2	4.2%	442.0	16.5	3.9%
Personal Income Tax (4)	1,007.2	1,022.5	1,010.0	2.8	0.3%	990.0	(20.0)	-2.0%	955.0	(35.0)	-3.5%
Corporate Income Tax	138.2	123.0	160.0	21.8	15.8%	200.0	40.0	25.0%	210.0	10.0	5.0%
Estate	7.7	2.8	3.0	(4.7)	-61.0%	0.0	(3.0)	-100.0%	0.0	0.0	0.0%
TOTAL INCOME TAXES	1,153.1	1,148.3	1,173.0	19.9	1.7%	1,190.0	17.0	1.4%	1,165.0	(25.0)	-2.1%
Oil and Gas School Tax	297.1	249.0	337.4	40.3	13.6%	299.8	(37.6)	-11.1%	284.9	(14.9)	-5.0%
Oil Conservation Tax	13.6	12.7	17.1	3.5	26.2%	15.3	(1.8)	-10.5%	14.6	(0.7)	-4.6%
Resources Excise	5.5	5.5	5.5	0.0	0.7%	5.5	0.0	0.0%	5.5	0.0	0.0%
Natural Gas Processors	13.5	20.9	21.9	8.4	62.5%	25.8	3.9	17.8%	25.6	(0.2)	-0.8%
TOTAL SEVERANCE TAXES	329.6	288.1	381.9	52.3	15.9%	346.4	(35.5)	-9.3%	330.6	(15.8)	-4.6%
LICENSE FEES	42.9	43.4	43.6	0.7	1.7%	44.9	1.3	3.0%	45.9	1.0	2.2%
LGPF Interest	292.2	349.0	349.6	57.4	19.6%	350.6	1.0	0.3%	357.7	7.1	2.0%
STO Interest	25.4	25.0	41.0	15.6	61.6%	50.0	9.0	22.0%	50.0	0.0	0.0%
STPF Interest	172.4	172.6	173.2	0.8	0.4%	170.9	(2.3)	-1.3%	169.7	(1.2)	-0.7%
TOTAL INTEREST	490.0	546.6	563.8	73.8	15.1%	571.5	7.7	1.4%	577.4	5.9	1.0%
Federal Mineral Leasing	334.9	284.3	380.5	45.6	13.6%	340.1	(40.4)	-10.6%	324.3	(15.8)	-4.6%
State Land Office	22.1	20.6	28.2	6.1	27.8%	25.1	(3.1)	-11.0%	23.7	(1.4)	-5.6%
TOTAL RENTS & ROYALTIES	356.9	304.9	408.7	51.8	14.5%	365.2	(43.5)	-10.6%	348.0	(17.2)	-4.7%
TRIBAL GAMING	35.1	36.4	36.0	0.9	2.6%	43.0	7.0	19.4%	43.0	0.0	0.0%
TOBACCO SETTLEMENT	37.4	35.2	34.8	(2.6)	-7.1%	34.1	(0.7)	-2.0%	0.0	(34.1)	-100.0%
MISCELLANEOUS RECEIPTS	26.1	26.1	25.2	(0.9)	-3.6%	25.9	0.7	2.8%	26.5	0.6	2.5%
REVERSIONS	23.7	29.7	25.1	1.4	5.9%	26.6	1.5	6.0%	28.3	1.7	6.4%
TOTAL RECURRING	4,292.8	4,379.7	4,631.3	338.6	7.9%	4,671.9	40.5	0.9%	4,676.8	4.9	0.1%
Rev. from Accrual Accounting Change	305.6	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Enhanced Audit (non-recurring)	17.6	0.0	0.0	(17.6)	-100.0%	0.0	0.0	**NA**	0.0	0.0	**NA**
Non-Recurring Other	53.8	(1.1)	8.3	(45.5)	-84.6%	0.0	(8.3)	**NA**	0.0	0.0	**NA**
TOTAL NON-RECURRING (2) (3)	376.9	(1.1)	8.3	(368.6)	-97.8%	0.0	(8.3)	**NA**	0.0	0.0	**NA**
GRAND TOTAL	4,669.7	4,378.6	4,639.6	(30.0)	-0.6%	4,671.9	32.2	0.7%	4,676.8	4.9	0.1%

(1) Totals may not add due to independent rounding.

(2) FY04 Non-recurring other includes: $22.4 million in non-recurring reversions ($8.7 from Medicaid, $2.7 from DPS, $5.7 from computer enhancements and $5.7 from vetoed capital projects) and $4.9 million for the Phillips IRB clawback, $3.5 million for a wall street fraud payment, and $23 for Mescalero payment.

(3) FY05 non-recurring other includes $8.3 million for expected DOH reversion.

(4) The next round of income tax rate reductions is expected to reduce PIT revenues by $91 million in FY06, $101 million in FY07, and $64 million in FY08.

TABLE 4

GENERAL FUND FINANCIAL SUMMARY [1]
(Dollars in Millions)

	Preliminary FY2004	Estimated FY2005	Estimated FY2006	
APPROPRIATION ACCOUNT				
REVENUES:				
Recurring Revenue				
Recurring December Revenue Estimate	4,292.8	4,631.3	4,671.9	
Enhanced Audit			7.5	
Total Recurring	4,292.8	4,631.3	4,679.4	
Non-Recurring Revenue				
Revenue Accounting Policy Change (GASB)	305.6		-	
Enhanced Audit	17.6			
Reversions for Executive Vetoes [2]	11.4			
Other non recurring revenue [3]	42.4	8.3	-	
Total Non-recurring	376.9	8.3	-	
TOTAL REVENUE	**4,669.7**	**4,639.6**	**4,679.4**	New Money 298.8
APPROPRIATIONS				
Recurring appropriations	4,127.3	4,380.6	4,677.2	
Non-recurring Appropriations (2004)	256.0	3.7		
Specials (2005)		76.6		
Information Technology (IT) (2005`		27.8		
Deficiencies and Supplementals (2005)		6.4		
Total Non-Recurring Appropriations	256.0	114.4	-	
TOTAL APPROPRIATIONS	**4,383.3**	**4,495.0**	**4,677.2**	
Transfer to Reserves	286.4	144.6		
GENERAL FUND RESERVES				
Beginning Balances	244.4	502.4	619.4	
Transfers in from Appropriations Account [4]	286.4	144.6	0.0	
Revenue and Reversions	50.0	40.6	40.4	
Appropriations, expenditures and transfers out	(78.3)	(68.3)	(45.1)	Reserves in excess of 10% target 146.9
Ending Balances	502.4	619.4	614.6	
Reserves as a Percent of Recurring Appropriations	*12.2%*	*14.1%*	*13.1%*	

Notes:
(1) Totals may not add due to independent rounding.
(2) Vetoes include: $5.7 million from capital outlay and $4.7 for computer enhancement fund
(3) FY04 Non-recurring other includes: $11 million in non-recurring reversions from agencies ($8.7 from Medicaid, $2.7 from DPS) and $4.9 million for the Phillips IRB clawback and $3.5 million for a wall street fraud payment.
(4) Transfer includes $120 million to the Appropriation Contingency Fund in FY04 for the implementation and maintenance of education reform (Laws 2004, Chapter 114, Section 12).

TABLE 4

GENERAL FUND RESERVE DETAIL
(Dollars in Millions)

	Preliminary FY2004	Estimated FY2005	Estimated FY2006
OPERATING RESERVE			
Beginning balance	46.9	184.4	326.5
Board of Finance Emergencies	(0.5)	(1.0)	(1.0)
Other Appropriations [1]	(28.4)	(1.5)	0.0
Transfers from state support reserve account	0.0	0.0	0.0
Transfers from/to appropriation account	166.4	144.6	0.0
Ending balance	184.4	326.5	325.5
APPROPRIATION CONTINGENCY FUND			
Beginning balance	58.5	170.5	139.5
Disaster allotments	(10.0)	(10.0)	(10.0)
Other expenditures [2]	(2.0)	(1.2)	0.0
Revenue and reversions [3]	4.0	0.0	0.0
Transfers in for Education "Lock box"	120.0	0.0	0.0
Education Lock Box Appropriations	0.0	(19.8)	0.0
Ending balance	170.5	139.5	129.5
TOBACCO PERMANENT FUND			
Beginning balance	62.0	70.6	76.4
Transfers in [4]	37.4	34.8	34.1
Transfers out	(37.4)	(34.8)	(34.1)
Gains/Losses [5]	8.6	5.8	6.3
Ending balance	70.6	76.4	82.7
TAX STABILIZATION RESERVE			
Beginning balance	77.0	77.0	77.0
Transfers in	0.0	0.0	0.0
Transfers out	0.0	0.0	0.0
Ending balance	77.0	77.0	77.0
GENERAL FUND ENDING BALANCES	**502.4**	**619.4**	**614.6**
Percent of Recurring Appropriations	***12.2%***	***14.1%***	***13.1%***

Notes:

(1) Operating Reserve: other appropriations in FY04 include $3 million to the Attorney General for litigation, (Laws 2002, Chapter 4), $18.9 million for capital outlay projects (Laws 2004, Chapter 126), and $6.5 million for X prize contingent appropriations. FY05 includes $1.5 million contingent to Corrections.

(2) Appropriation Contingency Fund: Other FY04 expenditures include $1.5 million for child support enforcement and $526 thousand for the Commission for the Deaf and Hard of Hearing; FY05 includes $548 thousand for the Secretary of State and $630 thousand for Department of Public Safety.

(3) Appropriation Contingency Fund: FY04 revenue represents federal reimbursements for the 2003 fire seasons.

(4) Tobacco Settlement Permanent Fund: Transfer amounts reflects consensus revenue estimate.

(5) Tobacco Settlement Permanent Fund: Gains in FY 05 & 07 assume An 8.2 percent net return on investment.

TABLE 5

GENERAL FUND: COMBINED REVENUE AND SPENDING OUTLOOK

	Preliminary FY04	Estimated FY05	Estimated FY06	Estimated FY07
REVENUES				
Sales Taxes	1,797.9	1,939.2	2,024.4	2,112.1
Income Taxes	1,153.1	1,173.0	1,190.0	1,165.0
Energy Related Revenues	686.5	790.6	711.6	678.6
Interest Earnings	490.0	563.8	571.5	577.4
Other Revenues	165.3	173.0	174.4	143.7
Enhanced Audit			7.5	7.9
Recurring Revenue	4,292.8	4,639.6	4,679.4	4,684.7
Non-recurring Revenue	376.9			
TOTAL RECURRING REVENUE	4,669.7	4,639.6	4,679.4	4,684.7
SPENDING				
Legislative	14.9	15.5	15.8	16.1
Judicial	138.9	147.5	152.1	156.8
General Control	136.5	145.2	148.1	150.6
Commerce and Industry	47.9	49.5	46.1	46.8
Ag, Energy & Nat. Resources	59.2	64.9	67.7	68.8
Health and Human Services	915.4	1,010.2	1,111.8	1,160.4
Public Safety	280.8	288.9	300.2	309.6
Higher Education	641.6	672.5	712.6	734.7
Public Education	1,884.4	1,993.3	2,122.7	2,208.5
Recurring Spending	4,119.6	4,387.5	4,677.0	4,852.3
Non-recurring spending	256.0	328.0	-	-
TOTAL SPENDING	4,375.6	4,715.5	4,677.0	4,852.3
Transfer to/from Reserves	294.1	(75.9)	2.4	(167.6)

Notes: FY07 Growth Assumptions

1) Legislative category grows at rate of inflation, or 1.7 percent.
2) Judicial branch spending grows at rate of inflation plus population growth (or 1.7% plus 1.4%)
3) General Control Grows at rate of inflation.
4) Commerce and Industry grows at rate of inflation
5) Ag, energy and Natural Resources grow at the rate of inflation
6) Medicaid port of Health and Human Services grows at rate of population growth plus medical inflation (1.4% plus 4.3%); rest of sector grows at overall inflation plus population growth.
7) Public Safety grows at rate of inflation plus population growth.
8) Higher education grows at rate of inflation plus population growth
9) Public schools grows at rate of population and inflation and includes $20 million for reform measures.

Public Employee Compensation FY06 Recommendation

General Fund Cost

(in Thousands of Dollars)

	1.25% Compensation Increase
STATE EMPLOYEES	**Effective July 1, 2005**
Legislative	$122.6
Justices/Judges	$142.0
Judicial Employees	$519.6
District Attorneys	$13.9
District Attorneys Employees	$293.5
Executive Classified (54% split)	$5,511.5
Executive Exempt (68% split)	$400.0
State Police	$261.6
Executive Exempt Teachers	$76.1
Total	**$7,340.9**
PUBLIC SCHOOLS	**Effective July 1, 2005**
Teachers	$6,144.4
Other Cert./Non Cert. Pers	$5,098.0
Instructional Staff	$2,247.8
Transportation Employees	$501.5
Total	**$13,991.7**
	2% Compensation Increase
HIGHER EDUCATION	**Effective July 1, 2005**
Faculty	$5,990.2
Staff	$7,903.2
Total	**$13,893.4**
Total All	**$35,226.0**

TABLE 7

2005 SESSION SPECIAL, SUPPLEMENTAL, AND DEFICIENCY APPROPRIATION REQUESTS
(Dollars in Thousands)

Code	Agency	Description	Agency Request General Fund	Agency Request Other Funds/ Federal Funds	LFC Recommendation General Fund	LFC Recommendation Other Funds/ Federal Funds
SPECIAL APPROPRIATIONS						
215	Court of Appeals	For backlog of imaging and retro-conversion of microfilmed documents from old case management system	100.0	-	100.0	-
243	Fourth Judicial District Court	To replace the telephone system for the new District Court annex	13.3	-	13.3	-
252	Second Judicial District Attorney	To conduct high cost furniture lease buyout resulting in overall savings of $112.1 thousand	-	-	250.0	-
264	Administrative Office of the District Attorneys	To administer an emergency expert witness fees fund to alleviate anticipated shortfalls	2,000.0	-	100.0	-
333	Taxation and Revenue Department	For MVD codification	1,625.0	-	300.0	-
341	Department of Finance and Administration	For the weatherization program	800.0	-	800.0	-
354	New Mexico Sentencing Commission	To conduct a comprehensive workload study of the adjudication portion of the criminal justice system - courts, public defender and district attorneys	450.0	-	300.0	-
355	Public Defender Department	To adequately fund GSD charges for e-mail maintenance not accounted for in initial request. This request is tied to the FY05 supplemental for computer upgrades	114.0	-	-	-
361	Information Technology Commission	To conduct rate study at GSD	-	-	150.0	-
418	Tourism Department	For a film training program, targeting existing film crew members seeking to upgrade their skills	1,000.0	-	-	-
419	Economic Development Department	For a rural entrepreneur development program, for statewide competition and expansion into 3 more counties	600.0	-	-	-
505	Department of Cultural Affairs	For appointment of a commission to design the state's commemorative quarter	60.0	-	15.0	-
505	Department of Cultural Affairs	For museum trails and a children's oversight program to bring rural children to DCA museums	100.0	-	-	-
505	Department of Cultural Affairs	For a preservation tax credit study	75.0	-	-	-
505	Department of Cultural Affairs	To fund the governor-appointed Ft. Stanton Commission	60.0	-	-	-
505	Department of Cultural Affairs	To fund annual statewide arts conference	125.0	-	-	-
505	Department of Cultural Affairs	To purchase storage for museum collections storage - with a federal funds match through NEH	142.5	150.0	142.5	150.0
505	Department of Cultural Affairs (Cumbres & Toltec)	For track and right-of-way maintenance and a locomotive	2,000.0	-	-	-
508	New Mexico Livestock Board	For development and implementation of the animal identification system (Bovine Spongiform Encephalopathy) - includes language for continuation through FY07	400.0	-	400.0	-
516	Game and Fish Department	To institute a salary plan to enhance recruitment, retention of conservation staff - LFC has recommended 2 percent recurring for warden salaries and benefits	1,250.0	-	-	-
550	Office of the State Engineer	To fund minimum requirement of US Supreme Court-mandated Pecos Settlement	30,000.0	-	-	-
550	Office of the State Engineer	To replenish cash balances to the Improvements to the Río Grande Fund & Irrigation Works Construction Fund, expected to be depleted in FY06 and FY07 respectively	30,000.0	-	-	-
550	Office of the State Engineer	To fund Interstate Stream Commission Compact compliance	4,200.0	-	2,000.0	-
550	Office of the State Engineer	To fund 3 watermasters for 3 high priority areas	150.0	-	-	-
550	Office of the State Engineer	To fund permanent FTE for the Pecos and lower Río Grande adjudication	1,300.0	-	-	-
624	Aging and Long Term Services Department	To fund a pilot telecom system for rural Native American seniors with a recurring cost of $173.8 thousand	250.0	-	-	-
624	Aging and Long Term Services Department	To fund the aging network--various senior citizen programs throughout the state	3,749.1	-	-	-
632	Workers' Compensation Administration	To conduct a best practices seminar	-	50.0	-	25.0
647	Developmental Disabilities Planning Council	To fund the 2-1-1 information and referral system	300.0	-	-	-
665	Department of Health	To fund the state's chare of the FMAP change - included in Section 4 of the recommendation	9,268.4	-	-	-
690	Children, Youth and Families Department	To fund the final year of the Joseph A. consent decree - with a recurring cost of $1.2 million	2,345.4	-	2,345.4	-
690	Children, Youth and Families Department	For a technology refresh	3,461.4	-	-	-
690	Children, Youth and Families Department	To implement a disaster recovery system	850.7	-	-	-
705	Department of Military Affairs	To fund statewide armory renovations - $250 thousand for maintenance and repair of armories also included in Secction 4 of the recommendation	751.0	175.0	500.0	175.0
770	Corrections Department	To purchase radio, vests and special equipment for correctional officers - included in capital outlay request	1,700.0	-	1,700.0	-
770	Corrections Department	For FY06 buyout of AT&T bonds for purchasing the Central Administration Building - $50 thousand recurring for maintenance costs	3,800.0	-	3,800.0	-
790	Department of Public Safety	To purchase equipment for state crime lab	34.0	-	-	-
790	Department of Public Safety	For vehicle replacement	-	-	-	-
924	Public Education Department	For school bus replacement	-	-	-	-
940	Public School Facilities Authority (DCP)	To fund statewide public school roof repairs (Deficiencies Correction Program)	-	-	20,000.0	-
950	Commission on Higher Education	For performance funding	7,000.0	-	7,000.0	-
950	Commission on Higher Education	For the endowment fund	9,000.0	-	9,000.0	-
950	Commission on Higher Education	To enhance the Legislative Endowment Scholarship Fund - includes contingency language	-	-	1,000.0	-
950	Commission on Higher Education	To fund building renewal and replacement to be in line with ADA compliance	-	-	22,188.2	-
950	Commission on Higher Education	To fund equipment renewal and replacement	-	-	-	-
950	Commission on Higher Education	To fund libraries non-recurring inflationary component	-	-	4,500.0	-
993	Public School Support	To fund the Pre-K governor's initiative	9,000.0	-	4,000.0	***
993	Public School Support	For assessment and test development--Districts and PED	7,624.6	-	7,624.6	***
993	Public School Support	See Public School Support Funding Summary	2,450.0	-	-	-

TABLE 7

Code	Agency	Description	Agency Request: General Fund	Agency Request: Other Funds/ Federal Funds	LFC Recommendation: General Fund	LFC Recommendation: Other Funds/ Federal Funds
993	Public School Support	For National Center for Educational Statistics chart of accounts implementation	2,500.0	-	1,000.0	***
993	Public School Support	To fund a public school funding formula study	350.0	-	200.0	***
993	Public School Support	See Public School Support Funding Summary	34,929.3	-	-	-
	Computer Systems Enhancement Fund	For 28 information technology systems projects, including language to earmark $1.5 million for technology refresh for CYFD; $7 million is from the Education Lockbox	-	-	34,790.0	***
						-
SPECIAL TOTAL:			175,928.7	375.0	124,219.0	350.0
DEFICIENCY APPROPRIATIONS:				-		-
238	Eighth Judicial District Court	To fund a shortfall related to the miscalculation of federal grants overspent in FY03	15.7	-	15.7	-
342	Public Schools Insurance Authority	To fund a shortfall in the Risk Program	-	3,108.2	-	3,108.2
924	Public Education Department	To fund a shortfall in PED, related to a BAR submitted to distribute driver license fees to school districts that it did not have	1,500.0	-	-	-
924	Public Education Department	To fund outstanding balances dating back to 2000-01 to pay liabilities owed to school districts	247.0	-	-	-
				-		-
DEFICIENCY TOTAL:			1,762.7	3,108.2	15.7	3,108.2
SUPPLEMENTAL APPROPRIATIONS:				-		-
205	Supreme Court Law Library	To fund increased insurance costs combined with no vacancy savings	4.6	-	-	-
210	Judicial Standards Commission	For repayment of a Board of Finance loan for trailing dockets and attorney for upcoming trials	101.0	-	-	-
215	Court of Appeals	To fund a PS/EB shortfall due to no vacancy savings and increases in health insurance	42.9	-	-	-
216	Supreme Court	To fund increased insurance costs combined with no vacancy savings	4.0	-	4.0	-
218	Administrative Office of the Courts	To fund Judiciary-wide shortfalls in jury and witness fees	1,131.3	-	602.8	-
218	Administrative Office of the Courts	To fund Judiciary-wide shortfalls in group health insurance	1,086.5	-	-	-
218	Administrative Office of the Courts	To fund Judiciary-wide shortfalls in court-appointed attorney fee fund	224.0	-	-	-
231	First Judicial District Court	To fund the increase in GSD charges for DNS server and firewall	7.0	-	-	-
232	Second Judicial District Court	To fund increases in group insurance rates	269.2	-	-	-
234	Fourth Judicial District Court	To fund PS/EB terminal leave for retiring employees	9.1	-	-	-
235	Fifth Judicial District Court	For repayment of a Board of Finance loan to fund moving expenses for new courthouse	94.4	-	-	-
235	Fifth Judicial District Court	To fund Judiciary-wide shortfalls in group health insurance	72.6	-	-	-
238	Eighth Judicial District Court	To fund the increase in GSD charges for DNS server and firewall	8.0	-	-	-
239	Ninth Judicial District Court	To fund the increase in GSD charges for DNS server and firewall	4.3	-	-	-
239	Ninth Judicial District Court	To fund Judiciary-wide shortfalls in group health insurance	56.1	-	-	-
243	Thirteenth Judicial District Court	To purchase furniture, fixtures, and equipment for new Sandoval county courthouse	772.3	-	-	-
263	Thirteenth Judicial District Attorney	For building expansion in Valencia ($500.0) and Cíbola ($250.0) counties	750.0	-	-	-
355	Public Defender Department	For funding of contract attorneys to continue Santa Rosa riot death penalty representation per amount negotiated in mediation	679.0	-	-	-
355	Public Defender Department	For computer upgrades (286 new computers) needed to optimize agency e-mail	371.8	-	-	-
356	Governor's Office	For the Sports Authority operating budget need for March-June 2005	90.2	-	-	-
420	Regulation and Licensing Department	For manufactured housing - miscalculated budget projection	168.4	-	-	-
465	Gaming Control Board	To fund projected under funding of other costs category	102.1	-	-	-
465	Gaming Control Board	To fund PS/EB deficit due to high vacancy savings estimate in FY05 that did not materialize	257.8	-	-	-
521	Energy, Minerals & Natural Resources Dept.	To cover shortfalls due to significant increase in activity in the Oil and Gas Division as a result of higher prices	120.0	-	120.0	-
603	Office of African American Affairs	For funding of deputy director for 3 months of FY05	20.0	-	-	-
631	Department of Labor	Funding from the Reed Act funding related to loss of WIA funding of PS/EB	-	1,700.0	-	-
665	Department of Health	To fund shortfalls in personal services and benefits in the long-term care services program and contract restorations	6,915.9	-	4,900.0	-
770	Corrections Department	To fund out-of-system beds by the adopted executive recommendation in FY05	2,000.0	-	-	-
780	Crime Victims Reparation Commission	To address record increase in victim claims and payments for FY05	721.3	-	721.3	-
				-		-
SUPPLEMENTAL TOTAL:			16,083.8	1,700.0	6,348.1	-
				-		-
GRAND TOTAL:			193,775.2	5,183.2	130,582.8	3,458.2

***Education Lockbox; $7 million of the Computer Systems Enhancement Fund is from the lockbox

TABLE 8

INFORMATION TECHNOLOGY REQUESTS AND RECOMMENDATIONS - FY06
(In Thousands)

			Agency Requests				LFC Recommendation			
Code	Agency	System Description	General Fund	Other Funds	Federal Funds	Total Funds	General Fund	Other Funds	Federal Funds	Total Funds
218	Justice Information Division	For the completion of Phase IV of the video arraignment project.	154.9	557.6		712.5	140.0	500.0		640.0
218	Justice Information Division	Electronic Document Management System (EDMS).	1,277.3			1,277.3	1,200.0			1,200.0
218	Justice Information Division	IT Equipment Refresh for the Judiciary.	1,000.0			1,000.0	1,000.0			1,000.0
333	Taxation and Revenue	Oil and Gas Information system .	2,666.0	1,333.0		3,999.0	2,000.0	1,000.0		3,000.0
333	Taxation and Revenue	Motor Vehicle Division Systems reegineering	2,000.0			2,000.0	750.0			750.0
341	Department of Finance and Administration	IT Equipment refresh for Executive.	5,000.0			5,000.0	4,500.0			4,500.0
352	Education Retirement Board	Integrated Retirement Information System (IRIS)		500.0		500.0		300.0		300.0
354	NM Sentencing Commission	Justice Information System (JIS)	582.0			582.0	400.0			400.0
361	Office of Chief Information Officer	Enterprise Project Management System (EPM).	500.0			500.0	400.0			400.0
366	Public Employees Retirement Association	For completing the Retirement Online Information System (RIO).		6,285.9		6,285.9		5,670.0		5,670.0
430	Public Regulator Commission	Corporations Information System (CIS).	762.0			762.0	650.0			650.0
465	Gaming Control Board	Implement the Advanced Gaming System (AGS).	3,200.0			3,200.0	1,500.0			1,500.0
630	Human Services Division	HSD-cubed system, including replacement of ISD2.	5,182.5		10,241.5	15,424.0	2,000.0		4,000.0	6,000.0
631	Department of Labor	For completingUnemployment Insurance System Projects.			13,400.0	13,400.0			13,100.0	13,100.0
665	Department of Health	Medical Billing System.	900.0			900.0	500.0		300.0	800.0
665	Department of Health	Pharmacy System.	1,271.0			1,271.0	500.0			500.0
665	Department of Health	Laboratory Information Management System (LIMS).	1,073.0		300.0	1,373.0	500.0		300.0	800.0
690	Children, Youth & Families Department	Social Services Architecture plan.					500.0			500.0
770	Corrections Department - State Parole Board	Video Parole Hearings.	298.0			298.0	250.0			250.0
770	New Mexico Corrections Department	Criminal Management Information System (web farm).	236.0			236.0	200.0			200.0
790	Department of Public Safety	Automated Fingerprinting Imaging System (AFIS).	5,000.0			5,000.0	3,000.0			3,000.0
790	Department of Public Safety	For replacement of network wiring and routing equipment.	1,000.0			1,000.0	500.0			500.0
790	Department of Public Safety	DPS Computer Aided Dispatch (CAD)	1,981.0			1,981.0	1,500.0			1,500.0
805	Department of Transportation	$7.8 million from base budget for statewide traffic management systems.								
924	Public Education Department	Implement the Decision Support Architecture Consortium (DSAC).	10,000.0			10,000.0	7,000.0			7,000.0
940	Public School Facilities Authority	Facilities Information Management System (FIMS)	2,397.8			2,397.8	500.0			500.0
950	CHE / University Consortium	Upgrade the Net Core Infrastructure of the CHECS network.	3,151.0			3,151.0	2,800.0			2,800.0
950	CHE / University Consortium	Consolidate dispersed WebCT (remote learning) distribution centers.	3,920.0			3,920.0	2,500.0			2,500.0
	TOTAL		**53,552.5**	**8,676.5**	**23,941.5**	**86,170.5**	**34,790.0**	**7,470.0**	**17,700.0**	**59,960.0**

DYNAMIC SCORING

A two-year dynamic scoring pilot project led by the Department of Finance and Administration (DFA) with input from the LFC and other agencies was passed in the 2003 session (Laws 2003, Chapter 73) because of concerns by the economic development community that static analysis discounts the stimulative impacts central to many proposals. The pilot project is mandated for the 2004 and 2005 legislative sessions for bills with fiscal impacts greater than $10 million. DFA sent a letter to the finance committees of both legislative chambers indicating dynamic scoring analysis of eligible bills would be prepared upon request. According to DFA, no requests were forthcoming during the 2004 session; however, a dynamic analysis was prepared for the income tax reductions enacted in 2003. As detailed in Frame 4 below, the fiscal results of the dynamic analysis differed little from the static analysis. The fiscal impacts from the two analyses are summarized in the following tables. The static analysis only reports the fiscal impact of the revenues directly affected by the changes to the income tax system. The dynamic analysis, by contrast, reports how changes to the tax system alter economic incentives, the composition of the economy, and economic growth. The changes, in turn, affect the entire revenue system.

A summary of the income tax changes is presented in Frame 1. Frames 2 and 3 report the fiscal impacts estimated in a static and dynamic analysis frameworks. Frame 4 shows the differences between the two approaches. Frame 5 reports the economic impacts resulting from the dynamic analysis.

Frame 1: Synopsis of Tax Changes

Personal income tax rates are reduced from 8.2% in tax year 2002 to
- 7.7% in tax year 2003
- 6.8% in tax year 2004
- 6.0% in tax year 2005
- 5.3% in tax year 2006
- 4.9% in tax year 2007 and thereafter

Taxpayers also permitted to deduct the greater of $1,000 or the following percentage of their net capital gain income from taxable income:
- 10% in tax year 2003
- 20% in tax year 2004
- 30% in tax year 2005
- 40% in tax year 2006
- 50% in tax year 2007 and thereafter

The "grace period" for processing refunds without the state paying interest, is reduced from 75 days to 55 days following submission of the refund claim.

Frame 2: Static Analysis of Income Tax Reductions
(in millions of dollars)

General Fund Revenue Impacts	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**
Interest Payments on Refunds	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Personal Income Tax Rate Reductions	(17.1)	(72.2)	(151.1)	(254.4)	(332.4)
Capital Gains Deduction	(4.2)	(10.3)	(15.6)	(20.3)	(27.4)
Total Fiscal Impact	**(21.8)**	**(83.0)**	**(167.2)**	**(275.2)**	**(360.3)**

Frame 3: Dynamic Analysis of Income Tax Reductions
(in millions of dollars)

General Fund Revenue Impacts	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**
Gross Receipts Tax	0.7	1.9	3.7	5.8	7.2
Personal Income Tax	(21.8)	(83.2)	(167.5)	(275.7	(360.9)
Corporate Income Tax	0.03	0.08	0.2	0.2	0.3
Other Revenues	0.1	0.4	0.7	1.0	1.2
Total Fiscal Impact	**(21.0)**	**(80.8)**	**(163.0)**	**(268.7)**	**(352.2)**

Frame 4: Differences in Estimated Revenue Impacts

General Fund Revenue Impacts	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**
Static Analysis	(21.8)	(83.0)	(167.2)	(275.2)	(360.3)
Dynamic Analysis	(21.0)	(80.8)	(163.0)	(268.7)	(352.2)
Difference	**(0.8)**	**(2.2)**	**(4.2)**	**(6.5)**	**(8.1)**

In all likelihood the relatively small impacts are explained by the state's balanced budget requirement. Revenue reductions imply reductions in government spending. Reduced government spending is largely offset by increased personal consumption expenditures. So, while which sector of the economy is spending is significantly impacted, the net impact on the state economy is probably minimal. The economic impacts of the tax cut are shown in Frame 5.

Frame 5: Dynamic Economic Effects

Measure	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**
Employment (Thousand of Jobs)	(0.031)	(0.086)	(0.156)	(0.225)	(0.242)
Employment: Private Nonfarm	0.311	0.846	1.601	2.417	2.950
Employment: Government	(0.342)	(0.932)	(1.759)	(2.641)	(3.191)
Personal Income (Millions of Dollars)	(1.500)	(5.000)	(9.000)	(11.500)	(9.500)
Disposable Personal Income (Millions of Dollars)	30.0	84.000	165.500	260.000	332.000
Output (Millions of Dollars)	0.597	1.824	4.326	10.064	16.627
Population (Thousands of Persons)	0.183	0.590	1.328	2.389	3.601

TABLE 10

ACCOUNTABILITY IN GOVERNMENT ACT (AGA) QUARTERLY REPORTS JOINT GUIDELINES TO STATE AGENCIES FROM THE LEGISLATIVE FINANCE COMMITTEE AND THE DEPARTMENT OF FINANCE AND ADMINISTRATION, STATE BUDGET DIVISION JUNE 2004

Standard Items: (Produced once and included in each quarterly report)

- Agency Mission Statement
- Summary of key Strategic Plan initiatives: The 3 X 5 index card version
    - (e.g. Improve reading, improve math, minimum teachers salaries at $40k)
- Program description, purpose and budget by source of funds, along with how the program links to key agency initiatives, objectives and key Performance Measures
- Action plan describing responsibilities and associated due dates ---- who, what, where and when.

Customized Elements of Key Agency Reports

For each key measure, provide:

- Key Performance Measure statement
- Source of data used to measure results for the key Performance Measure
- 4 years of historical data, if available
- If historical data are not available, indicate benchmark (starting point) data
- Provide benchmarks comparing to data in other states and/or other government entities, as appropriate and as available
- Data for current quarter: both qualitative and quantitative
- Graphic display of data, as feasible and appropriate
- Explanation as to why performance failed to meet target if target was 10% or more below the standard set
- Proposed corrective action plan for performance that failed to meet target
- Action Plan status
- Corrective action plan for all Action Plan items that were not met

LFC/ DFA Collaboration for key Agencies

- LFC/DFA analysts will collaborate re extent of agreement on ***key measures***
- ***Key measures*** will be subject to LFC and DFA/ Governor's Office ***approval*** and agency consultation
- DFA will select approved key measures to be ***entered into the Governor's Accountability and Performance System*** as key initiatives and tracked
- *Strategic Plan formats* may be proposed by agencies and are subject to LFC/ DFA collaboration and final approval by the Executive
- ***Action Plans*** will be developed in collaboration with LFC/ DFA and are subject to final approval by the Executive
- LFC/ DFA will collaborate with agencies to develop the ***Quarterly Report format***, subject to approval by the Executive
- Key agencies will ***submit Quarterly Reports*** per the approved format
- A ***quarterly review*** will be done by the DFA and LFC analysts with agency personnel

TABLE 11

CAPITAL FINANCE REFORM PLAN

Executive and legislative staff (DFA: James Jimenez, Robert Apodaca and Mark Valdes; LFC: David Abbey and Linda Kehoe; LCS: Paula Tackett and John Yaeger) met on November 1, 2004, to discuss proposed capital finance reform ideas. The following major components of the capital finance reform plan are recommended for consideration:

Standards

- In accordance with Section 6-3-21 NMSA 1978, the Governor will submit the annual executive capital budget plan to the Legislature.
- Nonrecurring general fund revenue will be evaluated annually to determine capital project funding availability. Subsequently, a minimum threshold will be established for funding projects with bonds. The minimum threshold for funding individual projects with bonds in FY06 is $50,000. Projects below $50,000 will be funded with non-recurring general fund revenue.
- Use nonrecurring general funds for projects with a life cycle of less than 10 years (eg. vehicles, furniture, equipment, etc.).
- The entity that will own, operate and maintain the proposed project must accept funding.
- Project funds including matching funds, must be sufficient to fully fund or complete one full project phase or bonds will not be issued and the appropriation will be recommended for reauthorization at the following legislative session.
- Projects must be ready to start within six months of the date bonds are issued.
- Reauthorizations must relate to the original project and/or be for one time extension only.

Reform Legislation

- Present language in the capital bill requiring certification of project readiness will change to a certification from the recipient agency, when the authorized project has begun and reimbursement is requested for completed project expenditures. This will allow the issuance of bonds in smaller increments, to establish a "working capital pool," so recipient agencies can draw down funds by submitting certified invoices for project expenditures.
- Authorizations will expire according to the following schedule:

    - For vehicles, heavy equipment, specialized vehicles, educational technology and other equipment or furniture - one year, unless there is a third-party binding written obligation, which would extend the reversion to two years.

    - For all other projects - three years, unless there is a third-party binding written obligation, which would extend the reversion to four years. SBOF in its discretion, may extend the above reversion dates up to one additional year if the recipient agency can show diligent efforts toward expenditure of the funds for completion of the project.

- Existing projects funded by bonds over four years old, will have a six-month grace period to complete the project and unexpended balances will revert after the grace period.

Procedures

- Legislators will prepare a capital project bill draft request form for each capital project bill requested.
    - It will include project operational and maintenance costs.
- Multiple appropriations for the same project will be aggregated in the final capital bill.
- DFA will provide a quarterly report on capital projects – Bond-funded projects will be initially reported until general fund project information is reconciled and available.
    - DFA will work with LCS to run project status reports by legislative sponsor.

Reminders

- Capital bill will include funding for capital projects only.