Report of the Legislative Finance Committee to the Forty-Eighth Legislature Second Session

January 2008
For Fiscal Year 2009

Volume I

Legislating for Results: policy and performance analysis

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January 15, 2008

Honorable Members
Forty-Eighth Legislature, Second Session
State Capitol
Santa Fe, New Mexico 87501

Dear Fellow Legislators:

Pursuant to Section 2-5-4 NMSA 1978, the fiscal year 2009 budget recommendation of the Legislative Finance Committee is provided to you. The committee recommendation for recurring appropriations from the general fund is $6 billion, a 6.4 percent increase over the FY08 appropriated level. Recurring general fund revenues are projected to grow by just 2.4 percent in fiscal year 2009, but both stronger than expected revenue growth and controlled spending growth in fiscal year 2008 means New Mexico budget drafters have about $370 million in "new money" to work with for fiscal year 2009.

With revenue forecasts declining and almost-daily news of an economic downturn, the committee took a cautious approach when developing this budget. This spending plan is a prudent approach that takes care of the state's most important needs without endangering our future financial position.

The committee's recommendation continues to emphasize public education, access to health care, public safety, and public employee compensation. About $160.6 million of the some $362 million in new spending would go to the public schools and colleges, including $84 million for increases to pay and benefits. Both public school and higher education employees would receive an average 2 percent pay raise and increases in contributions to the educational retirement and retiree healthcare plans, for a total compensation package equal to a 2.95 percent increase.

Another $90 million in new spending would go to the Human Services Department, mostly for the Medicaid healthcare program. Other agencies receiving significant increases from the general fund are the Corrections Department, Aging and Long-Term Services Department, and Department of Workforce Solutions, which is losing federal funding. The committee also proposes raising salaries throughout state government, with $21 million for average compensation increases of 2.4 percent for all state employees and an additional 2 percent for staff attorneys in district attorney offices.

The committee recommendation sets aside $20 million for proposals for ongoing spending that come up during the legislative session that starts in January and would leave operating reserves at the prudent level of 10 percent of current spending.

I would like to thank the membership of the Legislative Finance Committee for their hard work 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 John Arthur Smith
Chairman

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JANUARY 2008 FOR FISCAL YEAR 2009

SENATOR
JOHN ARTHUR SMITH
CHAIRMAN

REPRESENTATIVE
LUCIANO “LUCKY” VARELA
VICE CHAIRMAN

DAVID ABBEY
DIRECTOR

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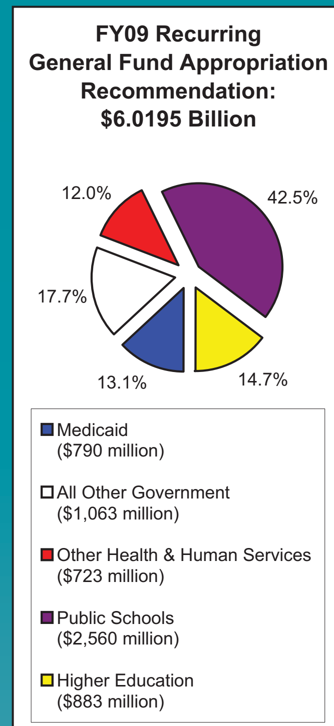
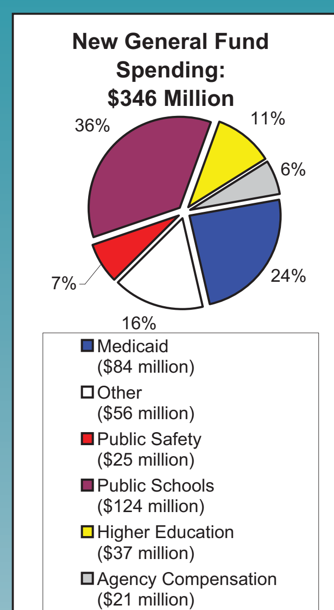
Summary of Recommendations and Highlights

The Legislative Finance Committee (LFC) fiscal year 2009 budget recommendation prioritizes spending in the areas of education, public safety, public employee compensation, and adequate health care access, including reducing the number of uninsured. Last year, the appropriation act emphasized adequate funding of existing programs and left recurring revenues unspent for use in FY09. Projected FY09 revenue growth is only 2.4 percent. Fortunately, revenues in FY08 grew more than expected, allowing for additional growth in the budget. Combined with the recurring revenue not appropriated in 2007 for FY08, the recurring revenues available allow a maximum 6.5 percent growth in state budget appropriations. The forecast for revenues remains lower than the last few years and caution about these future revenues is reflected in the recommendation.



The recommended $6 billion general fund budget is a 6.4 percent increase over FY08 and includes $20 million for additional spending proposals during the 2008 legislative session. About $160.6 million of the $361.7 million in new money for FY09 is recommended for public schools and higher education institutions, including $84.1 million for salary and benefit increases. Other significant spending recommendations include an 11.8 percent increase, or $83.5 million, for the Human Services Department Medicaid program; a 12.5 percent increase for the Workforce Solutions Department to replace lost federal funding; and significant increases in the Aging and Long-Term Services Department and Department of Corrections. The recommendation also includes $149.6 million for special, supplemental, deficiency, and information technology appropriations. This leaves approximately $150 million for general fund capital outlay and a very prudent FY08 reserve level of 10 percent – reflecting the committee's concern about the next few years' revenue projections and the need to maintain critical government services.



The recommendation also includes $20.9 million to increase salaries and benefits for state employees by an average of 2.4 percent and an additional 2 percent for staff attorneys in district attorney offices.

Fiscal Year 2009 Appropriation Recommendation. After the 2007 legislative session, LFC classified $43.3 million of Laws 2007, Chapter 21 (Senate Bill 611), as recurring appropriations as indicated in the *2007 Post-Session Fiscal Review* general fund financial summary report. Prior to submission of operating budgets, the Department of Finance and Administration (DFA) classified $32.3 million of Laws 2007, Chapter 21 (Senate Bill 611), appropriations as recurring and directed agencies to adjust operating budgets accordingly. For the third year in a row, the criteria DFA applied to classify items as recurring is not readily transparent. The difference between the classification of recurring appropriations by DFA and LFC in Laws 2007, Chapter 21 (Senate Bill 611), results in a decrease of $11 million from the FY08 recurring base and increases the amount of "new money" available in FY09 for recurring appropriations. The section below is a high-level reconciliation, beginning with FY08

Summary of Recommendations and Highlights

appropriations and FY08 adjustments and ending with the final FY08 operating budget.

FY08 Recurring Operating Budget:	
Appropriations	**5,639,118.7**
Feed Bill	14,450.0
Additional Judgeships - HB291, Chapter 140	2,172.8
Metro & Magistrate Court Judge Salaries, Chapter 170	423.1
Interlocks for Certain Out-of-State Drivers	1,100.0
Senate Bill 611	43,275.0
Total Appropriations	5,700,539.6
DFA Adjustments to FY08 OPBUD:	
Failed Contingency SB551 DFA	(150.0)
Accelerated ERB - VETO	(14,506.8)
SB611 LFC booked recurring - DFA booked nonrecurring	(10,957.6)
Total Adjustments	(25,614.4)
Total Operating Budget	**5,674,925.2**

Highlights of the FY09 budget recommendations are summarized below.

FY09 General Fund Recommendation Compared with FY08 Appropriations (in thousands of dollars)

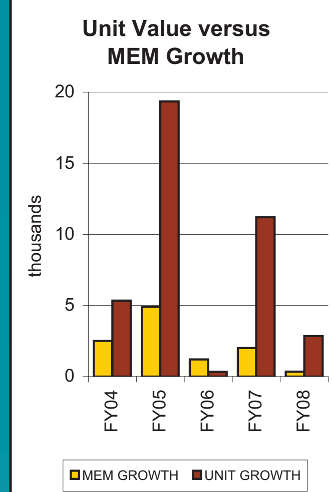
Category	FY08 Operating Budget	FY09 Requests	FY09 Recomm	Dollar Change	Percent Change
Legislative	18,808.6	19,915.0	19,915.0	1,106.4	5.9%
Judicial	205,779.2	234,821.9	212,064.2	6,285.0	3.1%
General Control	197,705.7	225,028.1	201,635.8	3,930.1	2.0%
Commerce & Industry	58,369.0	73,089.8	59,955.6	1,586.6	2.7%
Energy, Agriculture & Natural Res	86,559.9	104,176.4	91,827.5	5,267.6	6.1%
Health, Hospitals & Human Svcs	1,393,377.6	1,598,869.9	1,513,321.7	119,944.1	8.6%
Public Safety	383,336.3	428,197.1	408,187.2	24,850.9	6.5%
Transportation	-	-	-	-	0.0%
Other Education	53,982.2	79,015.6	48,887.1	(5,095.1)	-9.4%
Higher Education *	846,311.1	60,715.4	882,843.7	36,532.6	4.3%
Public Education	2,430,695.7	2,502,694.1	2,559,919.4	129,223.7	5.3%
State Employee Compensation			20,536.7	20,536.7	
Special Compensation			411.5	411.5	
TOTAL	5,674,925.2	5,326,523.3	6,019,505.4	344,580.1	6.1%

* Note: LFC did not receive a comprehensive budget request for higher education institutions from the Department of Higher Education

Public Schools. The committee recommends $2.6 billion for public school support and related appropriations, an increase of $124.1 million, or 5 percent. The recommendation includes $40.1 million for an average 2 percent salary increase for public school employees, $15 million for a 0.75 percent employer contribution to the education retirement fund, and $4 million for a 0.2 percent employer contribution for retiree health care, contingent on passage of legislation, for a total compensation increase of 2.95 percent. The recommendation also includes $25 million for the first year of implementation of the new funding formula, contingent on passage of legislation, $33.6 million for “opening the doors,” and $8 million for elementary physical education. For FY09, public school support accounts for 43.2 percent of the general fund recommendation.

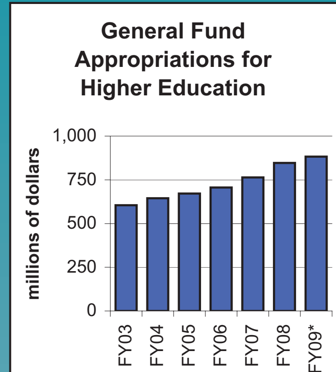
Increased fuel costs for school buses continue to be of concern. The transportation recommendation of $110.7 million includes an additional $5.1 million, most of which is for fuel.

The recommendation emphasizes paying for existing programs over new initiatives. The recommendation for kindergarten-three-plus includes $7.2 million from the general fund and $3 million from the temporary assistance for needy families (TANF) grant for FY09. Also included is $2.5 million for the schools in need of improvement fund, $3 million for the school improvement framework, $2.5 million for elementary school breakfasts, $2 million for new teacher mentorship, and $7 million from the general fund and $2 million from the TANF grant for FY09 for pre-kindergarten. The highly effective summer math, science, and reading institutes are recommended at $3 million.



Source: LFC Files; PED Statbook 2002 - 2006

<u>Higher Education.</u> The committee recommends $882.8 million from the general fund for higher education in FY09, an increase of $36.5 million, or just over 4 percent, from FY08. The committee recommendation provides more than $700 thousand to fully fund workload. Consistent with the recommendations of the Formula Enhancement Task Force, there is $2.1 million to cushion the impact of automatic formula funding reductions for institutions with lower enrollments. The recommendation includes $4.4 million for inflationary increases to fully address the cost of "opening the doors" and provides an increase of $3.9 million for building renewal and replacement needs. The committee recommends a 1.5 percent tuition credit, which reduces general fund appropriations to higher education institutions by $3.2 million. Higher education institutions are provided the flexibility of increasing tuition for resident students up to 4.5 percent in the 2008-2009 academic year, without incurring a reduction in general fund appropriations.



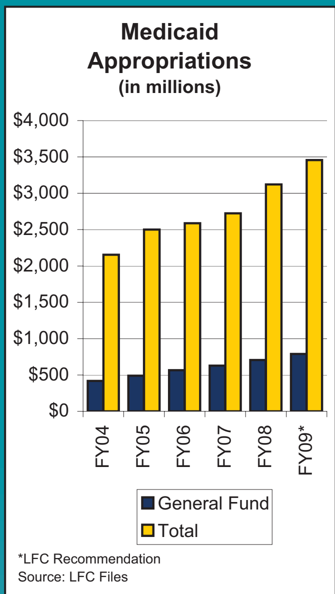
*LFC Recommendation

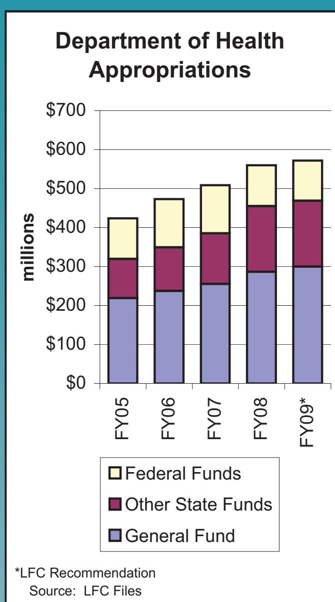
The recommendation provides a $2.4 million lump sum increase to address the fiscal needs of the University of New Mexico Health Sciences Center (HSC) and $200 thousand for Hepatitis C Community Health Outcomes (Project ECHO). The committee recommends an increase of $200 thousand for the homeland security project of New Mexico Institute of Mining and Technology in Hidalgo County.

With a compensation plan identical to that for public school employees, the committee recommendation invests in faculty and staff salary needs through a total compensation increase of 2.95 percent.

The committee recommendation invests in the state's workforce with $3.5 million for nursing education programs, $750 thousand for dental hygiene initiatives, and $600 thousand to maintain high-skills training at two-year institutions.

Summary of Recommendations and Highlights





Human Services Department. The committee recommendation totals $4.1 billion, an 11 percent increase over FY08. The recommendation from the general fund of $907.2 million is $90 million more than FY08. As expected, the largest increase is in the Medical Assistance Division (MAD), which includes Medicaid spending, with total expenditures for FY09 rising to $3.1 billion from $2.9 billion and general fund requirements to $695.1 million from $631.3 million. This includes a general fund increase of $63.8 million, or 10.1 percent, but does not include the Medicaid Behavioral Health Program expenditures of $323.4 million, of which $94.9 million is an appropriation from the general fund. The total Medicaid requirement from the general fund is $790 million, an increase of $83.5 million, or 11.8 percent. Included is $10.5 million for Medicaid administration.

The committee recommends $533 million, including $50.1 million from the general fund, for the Income Support Division (ISD). The committee recommendation for Temporary Assistance for Needy Families (TANF) totals $168 million – $40.5 million from the general fund and $127.5 million from federal funds. This revenue level supports $9.5 million for administration, $68 million in total cash assistance, $12 million for work contracts, $32.2 million for child care, and $31.4 million for programs in other agencies.

Department of Health. The committee recommends total expenditures of $572.1 million, with $299.9 million from the general fund. This is an increase of $13.4 million from the general fund, or 4.7 percent. Highlights of the general fund recommendation include increasing developmental disabilities Medicaid waiver services by $4 million to move 160 people off the waiting list into developmental disabilities care slots, increasing funding for the Family Infant Toddler (FIT) program by $1 million to serve an additional 1,000 children, and $700 thousand and 12 FTE for drug treatment services at Turquoise Lodge. In addition, the committee recommends $2.75 million in additional funding for core public health functions including tuberculosis management ($750 thousand and 4 FTE), childhood immunizations ($1 million and 6 FTE), increased breast and cervical cancer screening ($500 thousand), and expanded services for school-based health centers ($500 thousand).

Children, Youth and Families Department. The committee recommends $206.8 million from the general fund for FY09, an $11 million, or 5.6 percent, increase over FY08. The committee recommends a $4.8 million increase for Juvenile Justice Services (JJS) including $3.6 million for medical services, $500 thousand for library and education upgrades, and $700 thousand for increased property lease costs and General Service Department rate increases. An increase of $3.1 million is recommended for the Protective Services Division (PSD), including $663 thousand to replace Medicaid (Title XIX) and foster care and adoption assistance (Title IV-E) federal funds, $471.4 thousand to increase the foster and adoption family rate subsidy, and $2 million for foster care and adoption caseload growth.

The committee recommends a $2 million increase from the general fund for the Family Services Division (FSD), including $1 million to expand the home-visiting program serving pregnant women just before birth and their infants from birth through age three, and $658 thousand to replace federal quality improvement funds.

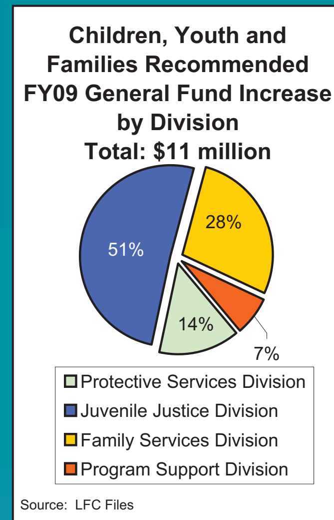
Corrections Department. The committee recommends $294.7 million from the general fund, a $17.3 million increase over FY08, mostly to increase inmate beds by 209 in FY09. The largest increase is $11.7 million for medical services.

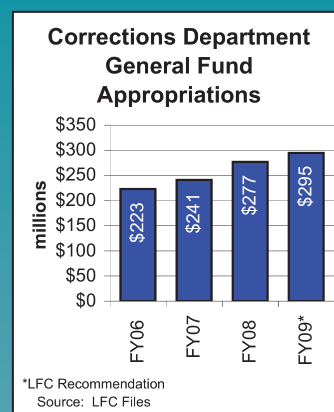
The committee recommends a decrease in care and support of $1.1 million by budgeting private prisons at the minimum guarantee levels. In FY07, the male inmate population dropped by 4.1 percent and the female population dropped by 10.4 percent. As of November 26, 2007, the male inmate trend rate of growth is 0.1 percent and female inmate trend rate of growth is a negative 5.7 percent for FY08. This has left an excess of capacity at the public correctional facilities. The committee recommendation supports the use of public correctional facilities beds before private prison facility beds.

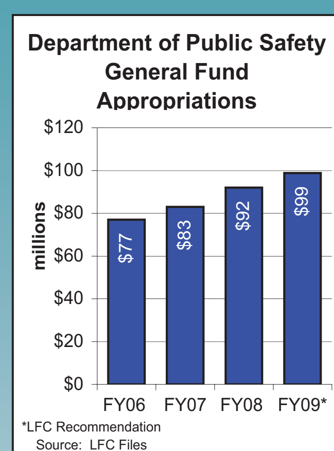
Department of Public Safety. The committee recommends $98.9 million from the general fund, a $6.8 million increase over FY08. The committee recommends a total appropriation of $124.7 million. This includes $1.5 million for the recurring expense of replacing vehicles, $2.1 million in General Service Department and Department of Information Technology rate increases, $1.2 million for overtime for commissioned officers, and $502 thousand for information technology services and maintenance.

The Department of Public Safety requested $6.9 million from the road fund for FY09, a $914 thousand, or 15.6 percent, increase over FY08. DPS did not request, but the committee recommends, $1 million for an additional 12.5 FTE at the port-of-entries operating 24 hours a day. Based on results from the Motor Transportation Division's capacity testing, the additional inspections at the ports should generate $7 million in road fund revenue.

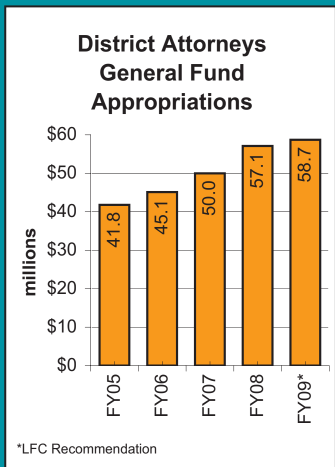
Courts and Judicial Branch Agencies. The committee recommends $175 million in total appropriations for the courts and related judicial agencies, including $151.2 million from the general fund, a 3 percent increase over FY08. The increase includes approximately $614 thousand to replace lapsing DWI First Offender Program and Mental Health Court grant funds for Bernalillo County Metropolitan Court, $206.8 thousand to replace lapsing drug court grant funds for district courts, and $525 thousand for the enhancement of drug court programs statewide. The recommendation funds an additional 31.5 FTE.

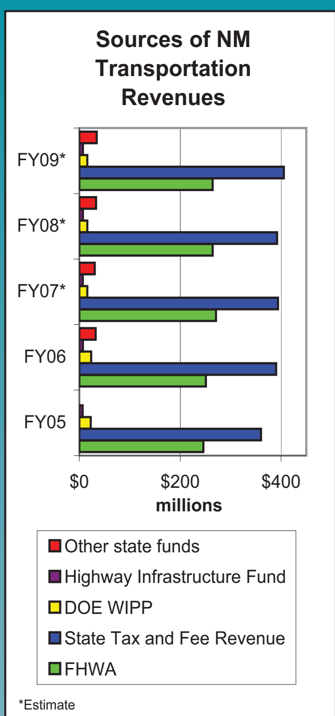






Summary of Recommendations and Highlights





District Attorneys. The committee recommends $62.9 million in total appropriations, including $58.7 million in appropriations from the general fund, a 3 percent increase over FY08. The committee's recommendation of an additional $625.4 thousand and 12 FTE is based on the New Mexico Sentencing Commission workload study. In FY07, the total number of case prosecuted in all district attorney's offices was 68,206, a 13 percent increase over FY06.

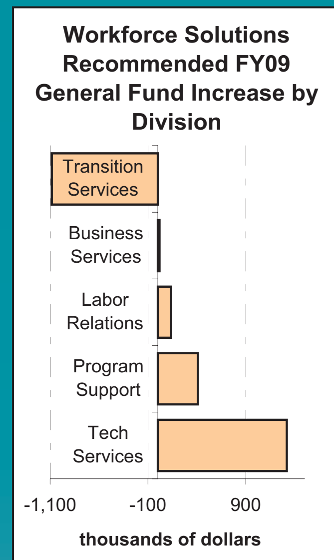
Department of Transportation. The committee recommends a total expenditure that is 1.2 percent more than the FY08 operating budget. This $10 million increase reflects the impact of declining revenues at both the federal and state levels and the increased cost of materials for road construction and maintenance. The recommendation consolidates funding for all public transportation activities, including $11 million for commuter rail operational costs, into a separate Public Transportation Program. The recommendation also includes $13.1 million for a state construction program specifically designated for highways in rural counties that do not qualify for prioritization under either Governor Richardson's Investment Partnership (GRIP) or the Statewide Transportation Improvement Program (STIP).

State Engineer. The committee recommends a total expenditure of $47.9 million for FY09. The recommendation includes $29.1 million in general fund revenue, a $3.7 million increase over FY08. This increase is due primarily to funding initiatives in the litigation and adjudication program where a general fund increase of $3.2 million supports a 4 FTE expansion for Middle Rio Grande adjudications and replaces the FY08 appropriation of $2.9 million in other transfers associated with budgeting severance tax bond proceeds for adjudication.

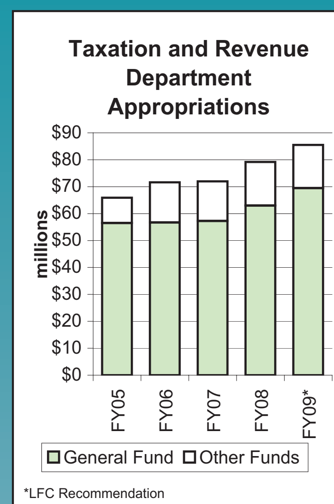
Environment Department. The committee recommends a total budget of $109.2 million, including $68.9 million for operations and almost $13 million for direct expenditures related to remediation of hazardous waste and petroleum product sites. Revenues generated from 18 special funds provide about 50 percent of total sources and federal funding contributes about one third. The recommendation includes $16.9 million in general fund revenue, a 3.2 percent increase over FY08. The committee recommends funding for a new program relating to septic tank refuse to protect groundwater quality and additional FTE, funded by permitting fees, to improve air quality – particularly in the Four Corners region. An additional $567.2 thousand and 7 FTE are recommended to address the state's fragmented approach to water and wastewater infrastructure by encouraging greater interagency collaboration and optimum funding practices suggested by House Joint Memorial 86 adopted during the 2005 legislative session.

Summary of Recommendations and Highlights

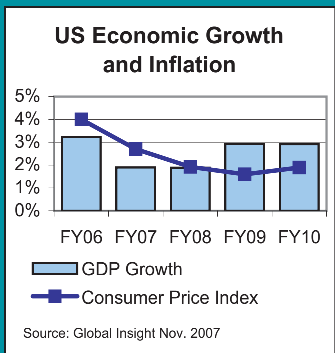
Workforce Solutions Department. The committee recommends an $800 thousand, or 11 percent, increase from the general fund to replace federal funds. Previously, the department was able to use distributions from the federal 2002 allocation of the Reed Act to supplant federal grant reductions, but Reed Act funding has diminished. Although the recommendation for revenue from the general fund increased, the overall recommendation is an 11.4 percent reduction.

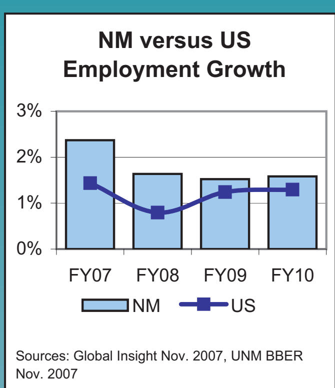


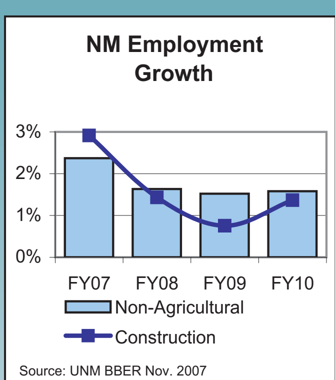
Taxation and Revenue Department. The committee recommends $69.5 million from the general fund for FY09, a $1.7 million, or 2.5 percent, increase over FY08. The total recommendation of $85.5 million is a 1.3 percent increase. The recommendation adequately funds current program and base needs. In addition, the recommendation supports several expansions, including more audits of tax credit applications, internal audits of Motor Vehicle Division (MVD) partners, and 8 FTE to increase the size of the Las Cruces MVD field office. The total revenue increase due to LFC recommendations of new Taxation and Revenue Department activities is $2.1 million to the general fund, $300 thousand to the road fund, and $100 thousand in other revenue.



Fiscal Outlook and Policy







The national economy slowed significantly in FY07 and New Mexico's economy slowed as well. The extent of the housing decline and the full impact of the credit crisis that hit over the summer are not fully known. Possible budget cuts at Los Alamos National Laboratory and workforce adjustments at Intel and other companies have made the economic forecast cloudier than in the past few years.

State economists rely on Global Insight (GI), a national economic consulting firm, PIRA Energy Group, a provider of energy market data and analysis, and the University of New Mexico Bureau of Business and Economic Research (BBER), to develop their economic forecast assumptions, key variables that drive the revenue forecast. Major national and New Mexico economic assumptions used in developing the December 2007 revenue forecast are presented in Table 2 at the end of this document.

U.S. Economy. The November 2007 GI outlook is for the U.S. economy to grow at a rate of less than 2 percent in 2007 and 2008, down sharply from 2006. The prime suspects are the housing decline and the credit crunch: GI is forecasting housing starts to bottom out in mid-2008, down sharply from FY06. Home values have already fallen and the decline in 2008 is expected to be 7.4 percent. This will have an impact on consumer spending, on which the economy has grown dependent. Consumer spending will also be impacted by the price of gasoline, which has increased steadily as the price of oil has approached $100 per barrel.

On the plus side, exports have been unusually strong because of the low value of the dollar. The dollar fell to parity with the Canadian dollar for the first time in 30 years and is at an all time low relative to the Euro. In addition, inflation has not appeared in any meaningful way, which recently allowed the Federal Reserve to cut the federal funds rate by a significant 100 basis points to 4.25 percent. This move took some of the pressure off the credit markets and caused a rally in the stock market.

New Mexico Economy. The New Mexico economy has performed better than that of the nation over the last few years. New Mexico employment growth is expected to continue to exceed national employment growth for several years. However, construction has been a major driver of the state's economy over the last few years and slower construction growth could have ramifications in all other industries. Growth in construction employment drove job growth in FY07 but is expected to be a drag on employment growth in FY09. This could rebound when construction begins on major developments such as Mesa del Sol and SunCal in Albuquerque.

This forecast, prepared by BBER in November, includes only adjustments for job cuts at the state's national laboratories that have been announced at that time; further cuts may be made if the laboratories face federal budget reductions. One version of the laboratories federal budget authorization, which still has not been finalized, indicates there might be as many as 2,500 layoffs, which will disproportionately impact the economy since these jobs are some of the highest paying jobs in the state. Los Alamos National Laboratory has already announced more than 500 job cuts, cuts that could become layoffs if the reduction cannot be managed through voluntary departure and attrition.

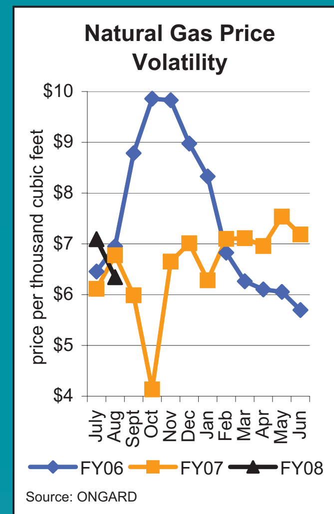
Energy Markets. Natural gas markets have quieted down for the most part, settling between $6 and $8 per thousand cubic feet (mcf). The extreme highs of FY06, driven by a bad hurricane season, were not seen in FY07. The forecast remains flat at a level higher than forecast by PIRA but lower than the forecast from GI or the NYMEX futures. The December 2007 consensus price estimate for FY09, $6.60/mcf, is $0.70 higher than the December 2006 consensus estimate. As a rule of thumb, every 10 cent difference in the price of natural gas has a $12 million impact on general fund revenue; this difference alone is worth $84 million in general fund revenue.

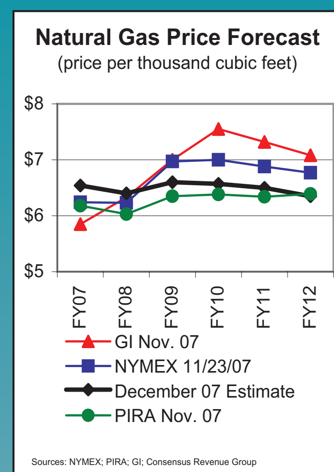
The oil outlook is very different. The price of oil has continued to rise and has recently approached $100 per barrel (bbl), even in New Mexico where the price tends to be lower than the global price. The forecast for FY09 has increased $14/bbl from the December 2006 forecast to $75/bbl. The rule of thumb for oil is that every $1 change in the price of crude oil changes general fund revenue by about $5 million, so this increase will result in an additional $70 million in general fund revenue.

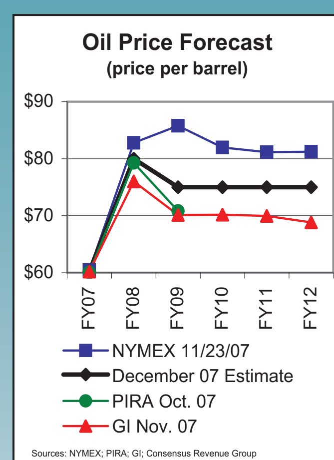
Although recent fluctuations in energy prices may appear erratic, much of the volatility can be explained by fundamental supply and demand relationships. Hurricanes and political crises in many of the world's oil producing regions have reduced supply, causing upward pressure on energy prices. Strong worldwide economic growth and post-hurricane construction have also pushed prices higher by increasing demand. Conversely, demand has been reduced by conservation and moderate heating and cooling seasons.

U.S. energy consumption grew by an average of 0.6 percent per year over the last decade, while domestic natural gas production remained flat and domestic oil production declined by an average of 2.3 percent per year. Excess U.S. demand for oil has been met by increased imports, but because natural gas is not yet easily transported overseas, excess demand has increased pressure on natural gas prices. This trend could change in the future as liquid natural gas becomes widely available in U.S. markets.

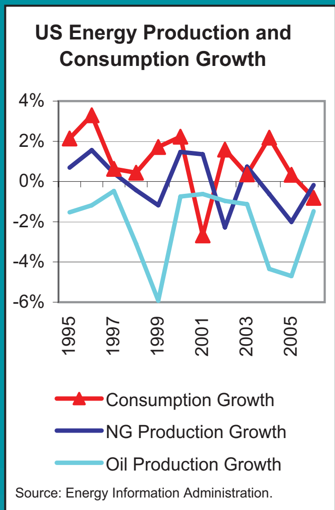
Revenue Forecast. The state's general fund revenue outlook calls for moderate but positive growth. General fund revenue estimates for FY08 through FY10 are presented in Table 3 at the back of this document. Although the state's reserves remain high due to energy revenues, the forecast expects revenue growth to be below average in FY08 through FY10.

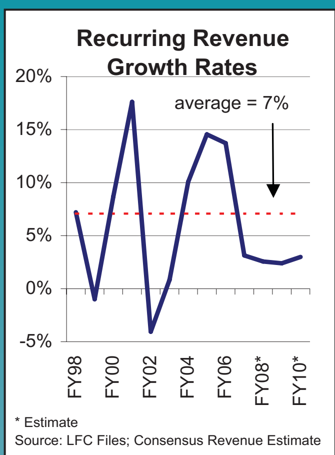


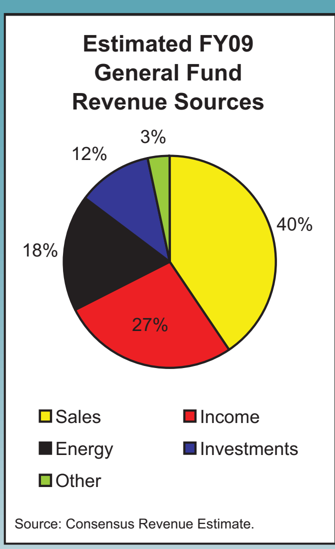




Fiscal Outlook and Policy







The FY08 column of Table 3 compares the December 2007 estimate with the December 2006 estimate, used to build the FY08 budget. FY08 revenue is now expected to total $5.9 billion, $57 million higher than expected when the FY08 budget was crafted. This increase in estimated revenue is due to higher forecasts for energy-related revenues and income taxes, partially offset by a lower forecast of gross receipts taxes. Significant tax legislation enacted in 2007 also lowered the forecast of FY08 general fund revenues by $77 million. The tax relief package passed in the 2007 session will decrease general fund revenues by $135 million by 2011.

In FY09, revenue is expected to reach $6.0 billion, 2.4 percent growth over FY08. “New money” for the FY09 budget, recurring revenue in excess of prior-year recurring appropriations, totals $369 million.

Gross Receipts Tax. Gross receipts tax (GRT) collections are estimated to be $2 billion in FY09. GRT growth slowed to 4.2 percent in FY07 and is expected to be 3.3 percent in FY08 due to a slowing economy and myriad credits and deductions enacted in the past few legislative sessions. Though the slowdown is broad-based, the large construction sector and the volatile mining sector look especially weak in coming years. A new taxable contract arrangement at Los Alamos National Laboratory boosted GRT collections beginning in FY07. Growth in construction taxable gross receipts was only 5.7 percent in FY07, down from the 24 percent growth in FY06. Construction was a major contributor to growth in recent years.

Corporate Income Tax. Corporate income tax (CIT) collections grew by 22 percent in FY07, coming off of 60 percent growth in FY06. The share of tax revenue from mining operations, which includes oil and gas producers, now represents almost 65 percent of the total collections from the largest taxpayers. This is up from approximately 37 percent in FY04. Because CIT collections are expected to follow the oil and gas revenue trends, revenue is expected to decline slightly in FY08 as energy markets level off.

Personal Income Tax. Personal income tax (PIT) growth has been weak for several years due to phased-in rate reductions. In the 2005 regular session, the rate cut phase-in was delayed by one year. With an improved revenue forecast, the rates were accelerated in the 2005 special session. The final rate reduction takes place in tax year 2008, making FY09 the last fiscal year with growth dampened by the cuts. In FY09, PIT collections are expected to grow by 2.3 percent. Growth will return to the normal range of about 6 percent in FY10 and about 3 percent in FY11 and FY12.

Energy Revenues. Energy revenues significantly bolstered general fund revenues and reserves in FY05 and FY06 before falling by nearly 9 percent in FY07. Energy revenues are expected to grow slightly in FY08 before declining further. Energy revenues peaked at 21 percent of general fund revenues in FY06, but will head back towards the long term average over the forecast period.

Interest Income. Income from state investments is estimated to be $695.4 million in FY09, a 7.5 percent increase over FY08. Although distributions from the land grant and severance tax permanent funds are expected to grow by a combined 10 percent, State Treasurer earnings are expected to fall by 11.4 percent due to a falling interest rates and a smaller portfolio balance. The treasurer's balance falls when reserves decline and when general fund capital outlay project funds are drawn down.

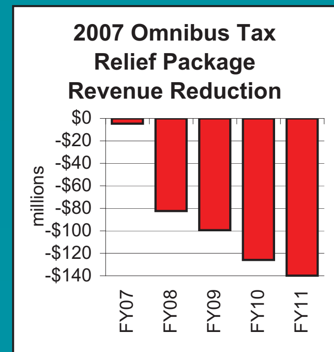
Other Revenues. The FY09 estimate for remaining revenues is $197.7, representing growth of 4.8 percent from FY08. This category includes license fees, miscellaneous receipts, reversions, and tribal gaming revenue sharing payments.

The trend in personal income and gross receipts taxes changes in the last five years tells a cautionary tale. Deductions from gross receipts are proliferating and causing the erosion of the base for this critical revenue. Credits against the personal income tax, likewise, are numerous enough to raise questions about whether this tax is levied equitably across similarly situated taxpayers — one of the principles of sound tax policy.

Forecast Risks. New Mexico is still in very strong financial shape, primarily due to extraordinary oil and natural gas prices and reserve levels above 10 percent. However, maintaining a 10 percent reserve while adequately funding capital outlay in the years to come will be difficult. The energy price forecasts are flat over the next several years, but a sudden decline would have a significant impact on revenues. Energy prices have bolstered the state's income taxes as well as the gross receipts tax. Mining and oil and gas extraction accounted for 10 percent of the growth in taxable gross receipts from FY05 to FY06. The risk is acute in counties and cities where the primary source of revenue is from these volatile commodities.

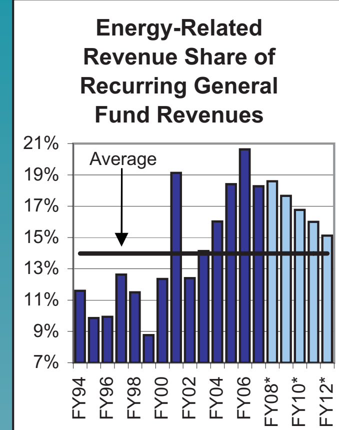
Summary of Risks to the December 2007 Forecast

Risk	Downside	Upside
Energy Markets	Production bottlenecks limit access to market and wellhead prices fall, leading to lower severance taxes, rents and royalties, and corporate income taxes.	Oil and natural gas prices and production remain higher than forecast due to geopolitical concerns, weather-related pressures, strong global economic growth, and technological development.
Gross Receipts Tax	Housing slowdown grows worse and gasoline prices force reduced consumption. Mortgage rate resets depress consumption. Access to credit slows business growth. National laboratory reductions result in lower revenues.	
Income Taxes	Intel downsizing is greater than announced and national laboratory budget reductions result in larger job losses. Dollar remains at all time lows depressing export growth and manufacturing.	
Tax Credits	The film credit has been incredibly successful and has reached levels never anticipated. If growth continues, credits will reduce corporate income tax revenues by $100 million by FY09. There are early indications that the renewable energy production tax credit is much higher than originally estimated.	
Corporate Profits	Recent growth may be related to nonrecurring federal actions and driven by oil and gas and construction.	Profits are driven by external factors, which continue to provide strength.
Revenue Processing	Errors and delays in reporting of actual revenues caused by SHARE and the change to modified accrual accounting threaten revenue estimating accuracy by reducing the timeliness and reliability of information available at the time of the estimate. Recent revenue processing changes at TRD have also reduced the reliability of preliminary revenue reports.	

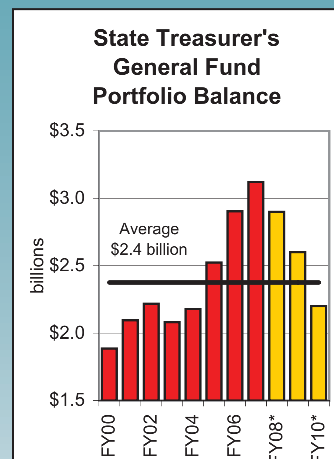


Personal Income Tax Rate Cut Schedule

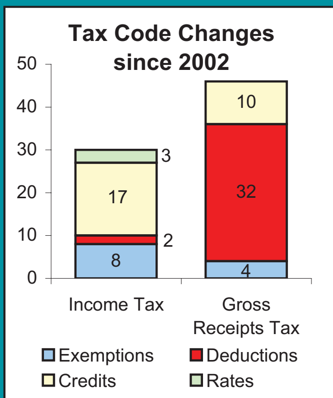
Top PIT Rate by Tax Year	Original 2003 Legislation	2005 Regular Session	2005 Special Session
2005	6.0%	6.0%	5.7%
2006	5.3%	5.8%	5.3%
2007	4.9%	5.3%	5.3%
2008	4.9%	4.9%	4.9%

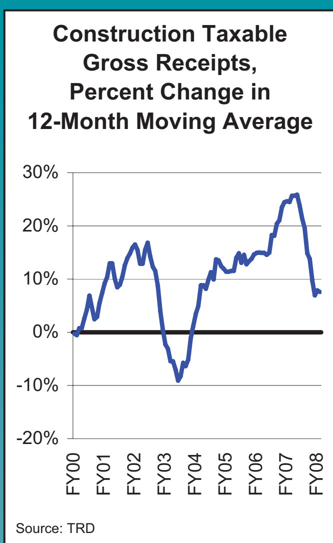


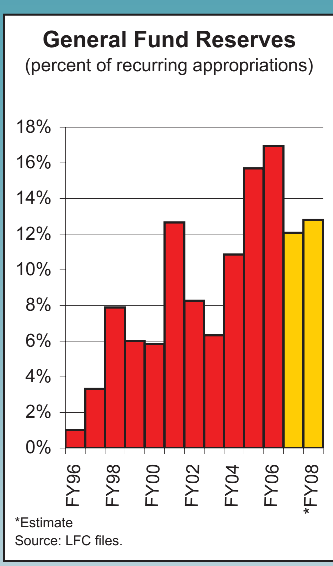
*Forecast
Source: Consensus Revenue Estimate.



*Estimate
Source: LFC Files







Construction continues to be a major risk. While a housing slowdown is built into the revenue estimates, a more serious contraction of the construction industry could lower revenues significantly. In FY06, the construction industry accounted for 24 percent of the employment growth and 26 percent of growth in taxable gross receipts. Growth in construction gross receipts has slowed considerably and construction is not expected to add any growth to the total in FY08. Unlike oil and gas, this industry is concentrated in areas with diverse economies.

Financial Summary. At the end of FY07, general fund reserves totaled $618.3 million, representing 12.1 percent of recurring appropriations. Statute requires that, if the general fund operating reserve exceeds 8 percent of the previous year's appropriations, any excess revenue must be transferred to the tax stabilization reserve. FY07 was the first year since FY04 that no transfer to the tax stabilization reserve occurred.

With the LFC spending recommendation for special, information technology, supplemental and deficiency appropriations, general fund reserves are expected to be $728.1 million at the end of FY08, or 12.8 percent of recurring appropriations. This allows for $150 million for general fund capital outlay and still maintaining a 10 percent reserve level in FY09. Only $225.8 million of that total, or 4.4 percent of recurring appropriations, is in the operating reserve, the reserve that does not require special legislative approval for expenditure. Money in the tax stabilization reserve and the appropriation contingency fund may only be used under certain conditions.

Baseline Expenditure Forecast. The baseline expenditure forecast is based on the LFC recommendation for FY09 and thereafter shows expenditures increasing at about 3.4 percent per year. This out-year growth rate is led by the expected costs of Medicaid. The Congressional Budget Office expects Medicaid expenditures to grow at 8 percent over the next five years. Medicaid made up 12.3 percent of state expenditures in FY07 and is expected to rise to 15 percent by FY12.

For other major categories, the expenditure forecast is linked to the Global Insight forecast of the consumer price index (CPI) and New Mexico population. As of the latest forecast, CPI is expected to grow by approximately 1.8 percent annually while population is expected to grow approximately 1.2 percent per year. The forecast for Corrections is based on corrections population estimates from JFA Associates.

Under the baseline expenditure forecast, expenditures are expected to exceed revenues beginning in FY10. However, the projected out-year expenditure growth rate of 3.4 percent should be viewed as a "bare bones" spending scenario. It does not explicitly provide for employee compensation increases, reduction in federal funds, or new initiatives like universal health care a new education funding formula. The projected 3.4 percent baseline growth rate is well below the 6.3 percent average growth over the last decade. Because the state's Constitution prohibits incurring a deficit, a mix of revenue and spending options will be necessary to ensure a balanced budget.

	Prelim	Op. Bud.	LFC Rec.	Baseline Forecast		
Expenditures:	FY07	FY08	FY09	FY10	FY11	FY12
Legislative	17.3	18.8	20.1	20.4	20.8	21.2
Judicial	180.8	205.8	213.5	220.1	226.7	233.5
General Control*	165.9	197.7	203.1	207.0	210.8	214.6
Commerce and Industry	51.6	58.4	60.4	61.5	62.6	63.8
Ag, Energy & Nat. Resources	75.4	86.6	92.5	94.2	95.9	97.7
Health and Human Services	1,234.1	1,393.4	1,523.6	1,609.9	1,701.1	1,798.4
Medicaid	629.0	707.0	795.4	859.0	927.7	1,001.9
Other Health and Human Services	605.0	686.4	728.3	750.9	773.4	796.5
Public Safety	333.3	383.3	411.0	427.4	444.1	462.8
Corrections	240.7	277.4	296.7	309.6	322.8	337.8
Other Public Safety	92.5	105.9	114.3	117.8	121.3	125.0
Higher Education	763.9	846.3	888.8	916.4	943.9	972.1
Public Education	2,293.5	2,484.7	2,626.6	2,686.7	2,747.5	2,811.4
Total	**5,115.7**	**5,674.9**	**6,039.5**	**6,243.7**	**6,453.4**	**6,675.4**
Spending Increase	408.3	559.2	364.6	204.2	209.7	222.0
Spending Growth Rate	8.7%	10.9%	6.4%	3.4%	3.4%	3.4%

*In FY09, $20.9 million for compensation and $20 for legislative initiatives is prorated across all agencies.

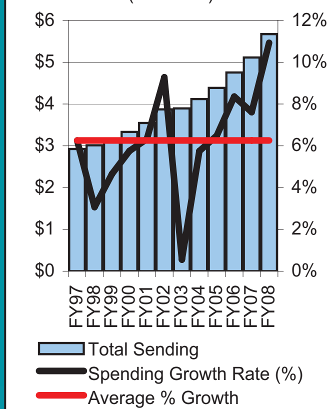
Notes
1) Medicaid spending grows according to CBO projections of federal medicaid spending.
2) Corrections spending grows at inflation plus projected corrections population growth rate
3) Public schools grow at inflation plus projected age 5-19 population growth rate.
4) All other agencies grow at the expected rate of inflation.
5) Sources for economic growth, inflation, and demographics include Global Insight, UNM, and JFA Associates.

Tax Expenditures and Tax Accountability. LFC proposed legislation in the 2007 session to address tax expenditures and tax incentive accountability. The bill on tax incentive accountability, House Bill 697, failed to pass and the bill on tax expenditures, House Bill 235, was vetoed through the governor's inaction. In the 2007 interim, LFC joined with the Taxation and Revenue Department (TRD) and the Economic Development Department to educate members and the public on the importance of monitoring the tax structure. The main thrust of the presentations was the need for accountability and adherence to sound tax principles:

- Adequacy: Revenue should be adequate to fund government services.
- Efficiency: Tax base should be as broad as possible to minimize rates on any group.
- Equity: Tax should be fairly applied across similarly situated taxpayers and incomes.
- Administrability: Tax collection should be simple and easily understood by taxpayers to maximize compliance.
- Accountability: Deductions, credits, and exemptions should be easy to monitor and evaluate.

Each new tax proposal should be evaluated on these principles to determine how the proposal fits into the existing tax structure. The appendix includes a sample of "tax expenditures," or deviations from established tax policy, and TRD has begun a multi-year study of tax expenditures beginning with a review of existing business tax credits. One major step was the creation of a tax form for corporate income tax credits similar to the one for personal income tax.

General Fund Expenditure History
(in billions)



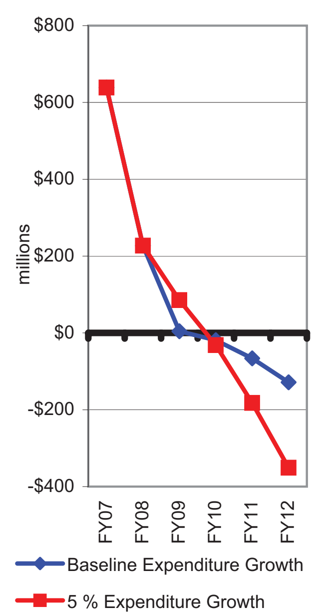
Source: LFC Files

Baseline Revenue and Expenditure Forecast
(in millions of dollars)

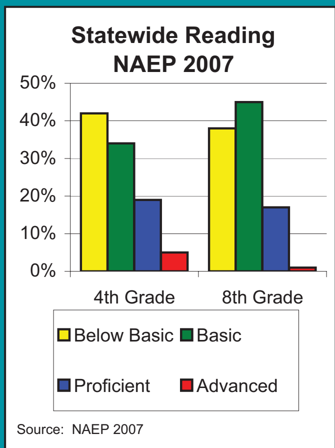
	Recur. Revenue	Recur. Spending	Baseline Balance
FY07	5,754.6	5,115.7	**638.9**
FY08*	5,902.3	5,674.9	**227.4**
FY09*	6,044.1	6,039.5	**4.6**
FY10*	6,225.0	6,243.7	**(18.7)**
FY11*	6,387.2	6,453.4	**(66.2)**
FY12*	6,547.1	6,675.4	**(128.3)**

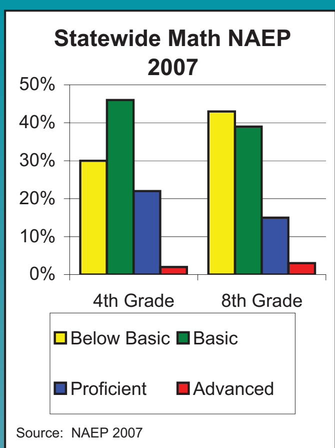
* Indicates forecast
Source: Consensus Revenue Estimate; LFC.

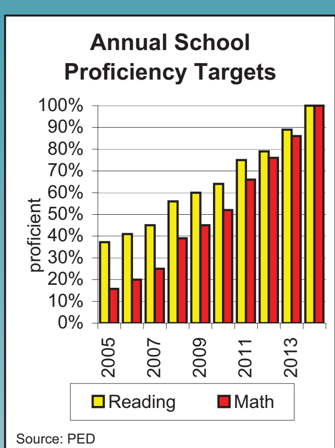
Structural Stability in Budget



Sources: Consensus Revenue Estimate; LFC.







The Legislature continues to invest aggressively in public education: fully funding the three-tier licensure structure for teachers; bringing compensation levels to regional averages; funding increased minimum salaries for principals and assistant principals; implementing full-day kindergarten statewide; establishing a charter school division and a math and science bureau within the Public Education Department (PED); dedicating a funding stream to finance public school construction statewide; and shoring up the education retirement fund with increased employer contributions. Despite these efforts, results are mixed. The number of New Mexico fourth graders scoring proficient or better in both math and reading on the National Assessment of Educational Progress improved slightly to 24 percent. Math scores for eighth graders also improved, with 18 percent proficient or better. In contrast, eighth grade reading scores dropped. However, the number of New Mexico schools subject to state intervention as required by the federal No Child Left Behind (NCLB) Act continues to grow, and the achievement gap among demographic groups of students remains large.

Adequate Yearly Progress. Adequate yearly progress (AYP) is the primary measure used under NCLB to determine whether or not individual schools and districts are making progress toward gradually increasing goals of academic proficiency and is based on an annual measure of student participation and achievement on statewide assessments and other academic indicators. The target for school proficiency is 100 percent by the year 2014. Similarly, high school graduation rate targets reach 100 percent by 2014. For FY07 the statewide average for proficiency met the annual measurable objective, the first time since NCLB was implemented.

PED reports for the 2007-2008 school year (SY08) 328 schools, or 40.4 percent of all schools, are in the school improvement cycle, a decrease of 21 schools over 2006-2007. This reduction is a result of fewer schools entering the school improvement cycle for the first time.

	Schools in Improvement Cycle		
NCLB Designations	**2005**	**2006**	**2007**
School Improvement I	125	140	27
School Improvement II	33	110	108
Corrective Action	18	33	106
Restructuring I	33	15	24
Restructuring II	27	51	63
Total	**236**	**349**	**328**

Source: PED

Although fewer schools are entering school improvement, concern remains regarding the large number of schools moving into restructuring. Of the 87 schools in restructuring I and restructuring II, 83 are classified as Title I schools with a high-poverty population primarily serving minority students. The performance of these schools is problematic as it indicates that more schools in long-term school improvement continue to fall short of achieving AYP goals and may not have the ability to do so.

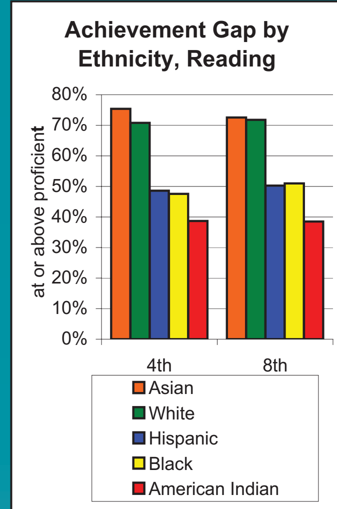
While AYP is the reported measure of achievement for meeting NCLB requirements, the more important gauge of student academic performance is the annual measurable objective of proficiency on the New Mexico Standards Based Assessment (NMSBA). Data from SY07 assessment suggests that while student performance is increasing at a modest rate, approximately 45 percent of fourth graders and 43.4 percent of eighth graders continue to score below proficiency in reading, and 53.9 percent of fourth graders and 69.2 percent of eighth graders score below proficiency in math.

Significant differences occur between student proficiency as measured by the NAEP and NMSBA. NAEP measures student performance on a common assessment given to a sample of students nationally and is used only for a state-by-state comparison, while NMSBA measures individual student performance. By either measure, the number of students scoring below proficiency is of concern.

Achievement Gap. In contrast to AYP, which measures cohort proficiency, the achievement gap, which refers to significant discrepancies between the academic performance among groups of students and between individual students and their potential, continues to be a persistent and more significant issue among different groups of students. A study conducted by the Education Trust examining data from the National Assessment of Education Progress suggests, "By the time minority students reach grade 12, if they do so at all, are about four years behind other young people. Indeed, 17-year-old African-American and Latino students have skills in English, mathematics and science similar to those of 13-year-old white students." In New Mexico the situation is even worse for Native American students.

NCLB mandates states to set the same performance targets for economically disadvantaged children, children with disabilities, English language learners, and children from all major ethnic and racial groups. If any individual subgroup fails to achieve performance targets, the entire school is considered to be failing. The effect of this is that all schools are considered to be successful only if they close the achievement gap. The increasing number of schools in corrective action, restructuring I and restructuring II, particularly those serving high poverty and minority students, is indicative that the achievement gap continues to exist in the state, and district efforts to narrow the gap are not having much success. Primary factors affecting the achievement gap in New Mexico are the state's high poverty rate and the disparity in the quality of teachers. In New Mexico, the vast numbers of failing schools are in extremely rural areas subject to abject poverty, unable to attract effective teachers and instructional leaders.

School Improvement Framework. In response to the need for additional resources focused on high-needs schools, PED has



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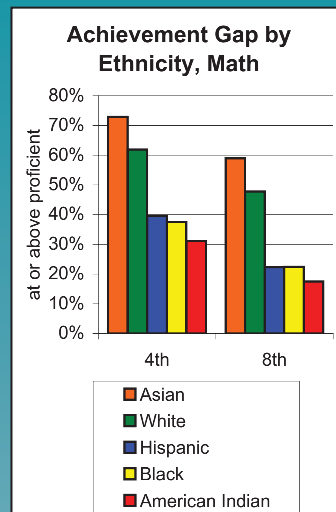

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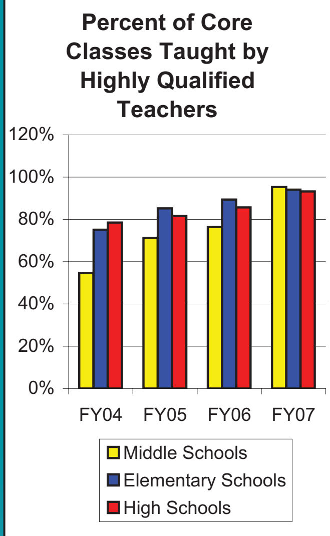
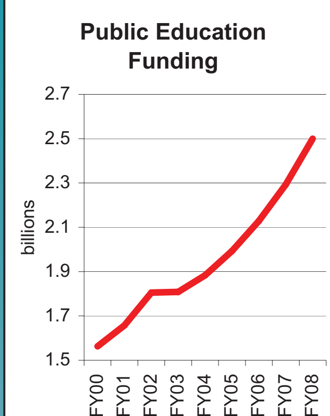


Source: Office of Educational Accountability



Source: LFC Files

implemented the New Mexico School Improvement Framework as its approach to supporting continuous school improvement and increasing educational support capacity to all districts and schools, particularly those in need of improvement. The framework is based on building educational capacity, monitoring schools for accountability, implementing sanctions, and recognizing and rewarding sustained student achievement. For FY07, $8.4 million was appropriated to provide assistance to all 89 school districts but was focused on districts with schools in the school improvement cycle. Of note were funds allocated to provide comprehensive systems and program realignment services to 22 priority schools, or about 41 percent of restructuring II schools statewide. The framework also included funding for extended school day and school year initiatives that were offered to five districts with the highest need - Gallup/McKinley, Central Consolidated, Española Valley, Dulce, and Cuba, which had 31 of the statewide total of 51 schools in restructuring II. All these districts serve large populations of Native American and Hispanic students in high-poverty areas. For FY07, only six of 73 schools in these districts achieved AYP.

The School Improvement Framework process is focused on five basic elements - data collection, quality instruction, assessment intervention, and professional development. Building on what was learned from the previous year implementation, the framework changed to focus on effective practices while implementing a number of key changes, including the following:

- Revising the previous framework to eliminate repetition of concepts,
- Focusing on a formalized process to implement and evaluate the framework,
- Providing mandates for interventions focused on students not proficient in reading or math,
- Reallocating resources to meet mandates on a school-by-school basis,
- Requiring superintendents and principals of targeted school districts and schools to attend a leadership academy, and
- Mandating operational Student Assistance Teams.

These revisions appear to be focused on requiring schools to be more engaged on what interventions are effective and could lead to a higher level of preparedness of both teachers and instructional leaders. Although the reporting requirement attached to the appropriation for the school improvement framework was vetoed in FY07, a status report on the effectiveness of the program is expected by the end of 2007.

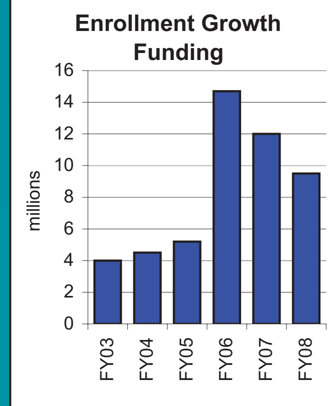
Funding Formula. The objective of the Public School Finance Act (Sections 22-8-17 through 22-8-25 NMSA 1978) is to equalize educational opportunity at the highest possible revenue level and guarantee each public school student equal access to programs and services appropriate to educational need, despite geographic location or local economic conditions. More than 90 percent of a school district's operational revenue is generated from the state equalization guarantee

(SEG), the mechanism used to distribute funds appropriated to PED to individual school districts.

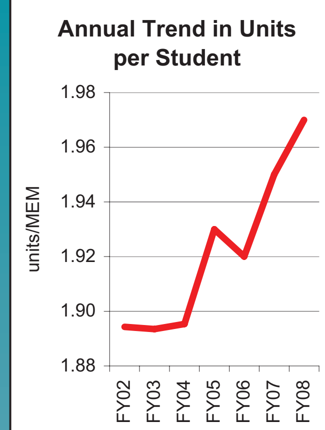
The last comprehensive review of the funding formula, in 1996, found that the formula continued to distribute funds equally and recommended few changes. In recent years, however, school districts have complained that distributions through SEG have not been sufficient to meet annual operational costs, particularly with what the districts refer to as "mandated expenditures." Although sufficient funding is appropriated statewide to meet these requirements, when distributed through the formula, some districts receive far less than required, especially those with less experienced teachers. To combat this cycle, substantial and sustained increases in funding are required to provide incentives to recruit and retain highly effective principals and teachers. In its current form, the SEG calculation does not provide for directing increased funding to these failing, high-poverty schools. A thorough analysis of providing an adequate education to students in Kansas concludes the cost to fund at-risk students is 48 percent greater than the base cost per student statewide and 73 percent higher for urban students. By comparison, New Mexico's funding formula provides between 11 percent and 17 percent in additional funding for at-risk students.

To address these issues, the Funding Formula Study Taskforce (FFST) created by Laws 2005, Chapter 49, is developing a recommendation to the Legislature for a new public school funding formula based on what educational stakeholders statewide have determined a sufficient education should include. The American Institutes for Research (AIR) is conducting the study and has presented a number of recommendations to FFST for consideration. AIR is to evaluate the current funding formula as it relates to the equity of funding to districts, and whether the funding received is sufficient to meet the educational needs of students. The proposed new funding formula is substantially different from the existing formula in the manner with which allocations are calculated and is focused on pupil need based on four separate measures: student poverty, English language learner status, student mobility, and special education needs. The proposed formula adjusts for the differences in the cost of operations of middle schools and high schools, compared with elementary schools, and includes adjustments for differences in the scale of operational costs of districts and charter schools, particularly those associated with small schools and districts. The proposed formula accounts for many of the unit adjustments currently in place, breaks out the factors in the at-risk index into three separate components, simplifies the collection of pupil need variables, and retains the simplicity of a basic pupil-weighted system. Of note is that the proposed formula includes an index of staff qualification (ISQ) that takes into account staff training and education, much like the old training and experience index but aligned with the three-tier licensure system.

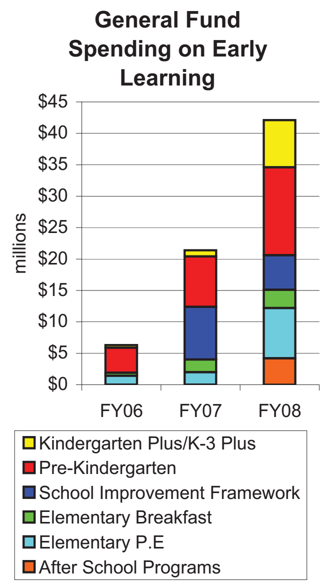
Since FY04, the average number of units generated per student has increased steadily to approximately 1.92, representing an increase of 4.2 percent. This increase in the number of units, generally unaccounted for in the development of the funding recommendation, has led over time to a



Source: LFC Files



Source: LFC Files



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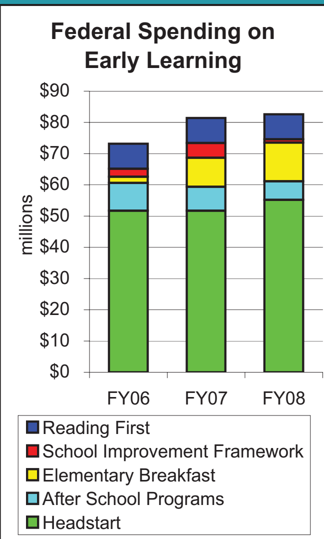


Source: LFC Files

significant dilution of the unit value, calculated months after the appropriation becomes law by dividing the statewide SEG amount by the number of units, and the underfunding of other districts and programs. This growth is primarily related to a significant increase in the number of units claimed by certain districts for ancillary special education services. Since FY06, the number of related units claimed for these services grew by approximately 8,550, effectively diluting the unit value by $12.7 million in FY07 and $17.5 million in FY08. An LFC audit of the Albuquerque Public Schools revealed weaknesses in existing statute that allows districts to claim units without tying FTE to caseloads. Statutory changes are necessary to close these loopholes and PED should consider revising its rules to provide specific guidance to districts regarding positions eligible for related services funding.

Early Learning. The Legislature in FY08 provided $42 million in funding for programs targeted at early childhood students to establish a sound footing for long-term learning success. This doubles state funding from FY07 and amounts to a 600 percent increase in early learning funding over FY06. In addition, federal funding for early childhood and elementary programs for FY08 totals approximately $82.6 million. Of this amount, $55.2 million is for Head Start, an increase of $3.5 million over FY07 and an endorsement of the need to reach more low-income children and children of immigrants and migrant workers. Of state-funded programs, kindergarten-three-plus and pre-kindergarten focus on implementing learning interventions for students in kindergarten through third grade in high-poverty schools. Additional funding supports student learning and health by providing breakfast for elementary students and elementary physical education as well as a number of quality after-school programs.

Early Childhood/Elementary Program Overview
(in thousands)

PROGRAM	FISCAL YEAR 2006 GF	2006 FF	2007 GF	2007 FF	2008 GF	2008 FF
Kindergarten Plus/Kindergarten-3-Plus	$400.0	-	$999.0	-	$7,500.0	-
Pre-Kindergarten (including CYFD)	$4,000.0	-	$7,991.6	-	$14,000.0	-
Reading First	-	$8,000.0	-	$8,000.0	-	$8,000.0
Head Start	-	$51,730.0	-	$51,730.0	-	$55,195.0
School Improvement Framework	-	$2,555.5	$8,397.5	$4,721.9	$5,500.0	$1,057.7
Breakfast for Elem. Students	$475.0	$2,000.0	$2,000.0	$9,290.8	$2,850.0	$12,397.5
Elementary Physical Education	$1,425.0	-	$2,000.0	-	$8,000.0	-
21st Century Learning Centers	-	$8,913.8	-	$7,717.0	$1,500.0	$5,934.2
After School Nutrition/Physical Activity					$650.0	-
After School Enrichment					$2,000.0	-
Total	**$6,300.0**	**$73,199.3**	**$21,388.1**	**$81,009.7**	**$42,000.0**	**$82,584.4**

NOTE: The expenditures noted include both recurring and non-recurring appropriations for the listed initiatives.

Source: PED, LFC & LESC Files

Kindergarten-Three-Plus. Laws 2007, Chapter 12, (House Bill 198) expanded the kindergarten-plus program to kindergarten-three-plus providing an extended school year of up to 25 additional days for students in kindergarten through the third grade in schools with at least 85 percent of students eligible for free and reduced lunch. Results of the second year of the kindergarten-plus pilot program reported by the Office of Educational Accountability (OEA) indicate that participants demonstrate improved literacy skills with notable decreases in the number of children classified in the highest risk categories. PED notes in its SY06 report that students who participated in kindergarten-plus entered kindergarten with a higher level of preparedness than their peers who did not participate. The data also suggests the vast majority of students participating in kindergarten-plus programs are entering kindergarten with appropriate entry-level reading skills and more students who participated in kindergarten-plus reached benchmarks than students who did not participate.

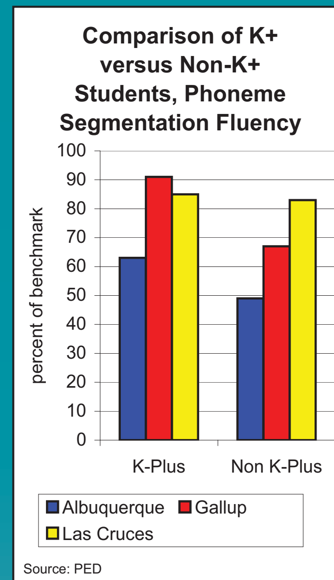
Pre-Kindergarten. A study conducted by Dr. Robert Lynch of Washington College finds, "Research is increasingly demonstrating that the policy of investing in early child-hood development provides a wide array of significant benefits to children, families and society as a whole." For FY08, the Legislature continued its support for the expansion of a voluntary, half-day pre-kindergarten pilot program targeted at areas where public elementary schools are designated as "Title I" the federal designation for programs for low income students, and are not meeting the proficiency component required for calculating AYP.

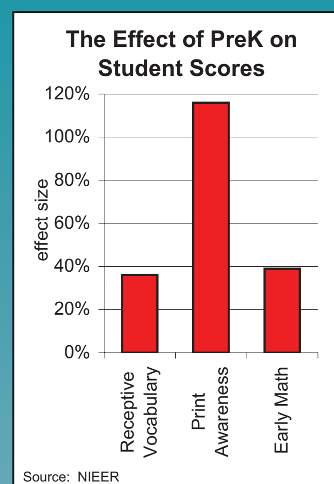
Results published by the National Institute for Early Education Research (NIEER) of assessments conducted on pre-kindergarten students in the 2006-2007 school year, as well as students who completed the pre-kindergarten program in 2005-2006, suggest the New Mexico initiative is producing statistically significant increases in children's vocabulary, math, and print concepts scores. The data as presented precludes a comparison of student achievement between PED and Children, Youth and Families Department (CYFD) programs.

The program evaluation included an assessment of overall classroom quality, early language and literacy support, and mathematics support. Mean scores for the different assessments indicates pre-kindergarten program classrooms to be of good quality overall, early language and literacy support to be of fair quality, and mathematics support to be of limited quality. To improve quality, the departments will need to focus on those programs with quality scores adjacent to or below the mean.

Student achievement data continues to be provided as a composite of all students rather than by the department, either PED or CYFD, administering the program, as requested by the Legislature. The Office of Educational Accountability (OEA) notes that current funding is not sufficient to assess the number of students needed to provide the requested information and estimates that about 1.9 percent of total appropriations or $183 thousand in FY08 would be needed to conduct expanded evaluations.

After-School Programs. After-school programs are defined as safe, structured activities that organize regularly in the hours after school and offer activities to help children learn new skills and develop into responsible adults. Recent research focused on extended learning time for students beyond the regular school day notes that this time can represent either an opportunity to learn and grow, through quality after-school



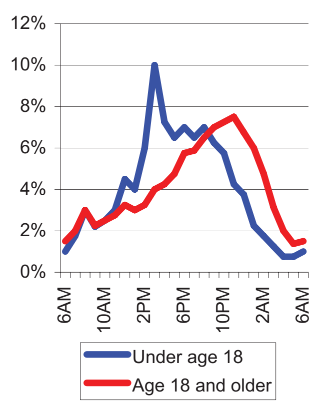


programs, or a time of risk to youth's health and safety. Of the 377,946 school-age children in New Mexico, 19 percent, or 71,810, are unsupervised after school and able to participate in after-school programs.

The relationship between after-school program participation and violence prevention and increased achievement among youth is progressively more evident as new research emerges. *After School Programs: Keeping Children Safe and Smart*, a joint report from the U.S. Department of Education and U.S. Department of Justice, suggests students in after-school programs display fewer behavioral problems, better ability to handle conflicts, and improved self-confidence. For FY08, the Legislature appropriated $4.2 million for before-and-after-school programs statewide.

To receive state funding, after-school programs must align themselves with one of the following descriptions:

Incidence of Violent Victimizations by Time and Age Group



Source: National Youth Violence Resource Center

After-School Enrichment Programs. These programs include academic enrichment tutoring activities, quality physical activity programs, quality nutrition education programs, and transportation for students where needed to participate in the programs. They are typically staffed with both school and community-based personnel.

After-School Physical Activity and Nutrition Programs**.** These programs include quality physical activity and nutrition education activities. The goal of the program is to provide accessibility to these programs in areas where these programs do not exist or are limited in order to help prevent obesity.

State 21st Century Community Learning Centers Programs. Federal 21st Century Community Learning Centers (CCLC) programs provide literacy programs and other academic enrichment opportunities for children, particularly students who attend high-poverty and low-performing schools. 21st Century grants are awarded for five years with full funding for the first three years, a 20 percent reduction in year four, and a 40 percent reduction in year five, with grantees expected to find or identify new sources of funding to continue programs. Currently 29 funded programs exist in New Mexico, 19 in their fourth year of federal funding and 10 in their third year of federal funding. Appropriations for FY08 will supplement federal 21st Century funding statewide up to or near the requested levels for all funded programs as reflected in their applications.

All of these early learning programs provide early support to children, and the executive continues to call for expansion of most programs. For example, in response to the NIEER evaluation, the governor again issued a call for implementation of universal pre-kindergarten. As noted in the table below, this would require approximately $60.6 million in additional funding and could be implemented but in all likelihood at the expense of other promising programs.

With dramatic increases in state investments, all of these programs have value. The challenge is determining what investments are most cost-effective with proven results to achieve the committee's policy goals of increasing opportunities to high-poverty students and reduce the achievement gap.

Early Childhood/Elementary Programs Expansion Costs
(dollars in thousands)

PROGRAM	FY08		FY08 SERVICES				ADDITIONAL RESOURCES			
	GF	FF	STUDENTS	SCHOOLS & SITES	EVAL	CURRENT FUNDING CRITERIA	STUDENTS	SCHOOLS	INCREMENTAL COST	PROPOSED FUNDING CRITERIA
Kindergarten-3 Plus	$7,500.0	-	5,641	62	YES	85% FRL	19,310	111	$13,729.4	85% FRL
Pre-Kindergarten	$14,000.0	-	3,570	[1] 130	YES	85% FRL	16,170	Varies	$60,615.8	Universal
Reading First	-	$8,000.0	16,400	89	YES	85% FRL				
School Improvement Framework	$5,500.0	$1,057.7	Varies	[2] 88	YES	School Improvement				
Breakfast For Elementary Students	$2,850.0	$12,397.5	70,017	190	NO	OPEN	154,014	434	$8,800.5	Universal
Elementary Physical Education	$8,000.0	-	32,500	[3] 100	YES	85% FRL	97,500	334	$24,000.0	Universal
21st Century Learning Centers	$1,500.0	$5,934.2	Varies	72	YES	Competitive			$5,934.2	[4] Existing Programs
After School Nutrition & Physical Activity	$650.0	-	Varies	25	YES	Competitive				
After School Enrichment	$2,000.0	-	Varies	38	YES	Competitive				

NOTES:

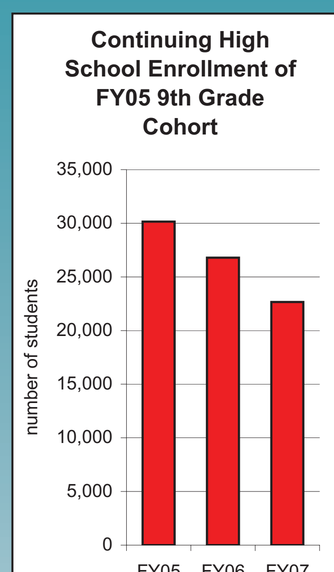
[1] These reflect the entire Pre-kindergarten appropriation to both PED and CYFD. PED is providing service to 56 sites in 22 school districts and CYFD is providing service to 74 sites operated by 36 providers.

[2] In addition to these 88 school sites, the School Improvement Framework provides services and technical assistance to all 89 school districts.

[3] These represent almost 25 percent of the K-12 population statewide. The first increment is focused on schools with at least 85 percent of the population eligible for free and reduced lunch.

[4] 21st Century Learning Centers are five year federally funded programs that are fully funded for the first three years and reduced funding for the final two years with the expectation the programs will secure other funding sources. This amount indicated as the incremental cost of fully funding existing programs when federal funding expires.

<ins>**High School Reform, Dual Credit**</ins>. Laws 2007, Chapter 27, (Senate Bill 943) provides the framework for the Higher Education Department (HED) and PED to establish a dual-credit program where high school students, under certain conditions, may enroll in college-level courses offered by public colleges. These courses may be academic or career-technical, but not remedial or developmental, and allow the student to earn credit toward high school graduation and a college degree or certificate. To fund the dual-credit initiative, the school district or charter school where the student is enrolled is obligated to pay for any required textbooks and course supplies through the postsecondary bookstore. The public postsecondary institution is required to waive general fees for the dual credit course and HED is authorized to revise procedures in the higher education funding formula to address enrollment in dual-credit courses.



Source: PED

The school district or charter school where the student is enrolled is allowed to claim funding for the student if the student is enrolled in the school at least half time. HED will seek additional funding for providing the dual-credit courses to the same student, which could result in the state funding both institutions for providing an education to the same student. To lessen the cost of double-funding, there should be consideration of modifying the student-weighted factor contained in the funding formula for 12th grade.

A recent study conducted by Johns Hopkins University reports that 26.5 percent of all public high schools in New Mexico lose at least 40 percent of their students before the students reach their senior year, compared with a national average of 12 percent. Superintendents note the large numbers are indicative of a high number of students living in poverty, high-minority

10 Essential Elements of Longitudinal Student Databases

1. Unique Student Identifier
2. Students' Enrollment, Demographic and Program Participation Data.
3. Time Series Test Records
4. Data on Missed Tests
5. Teacher Identifier; Correlated to Students
6. *Student Transcript Data
7. *Students' College Readiness Scores
8. Students' Graduation and Dropout Data
9. *Public and Higher Education System Records' Interoperability.
10. Audit and Validation Capability.

NOTE: * not completed

populations, and a large number of students who drop out because they are bored or don't fit in. Superintendents report increased success in keeping these students in school by offering dual-enrollment classes that are focused on specific areas of interest, keeping students on track to graduation.

Student Teacher Accountability Reporting System (STARS). Nationally, 48 states are in various stages of implementing longitudinal student database systems. Many states have had difficulties creating effective systems within funding limitations and experienced significant operational follow-up costs (e.g. maintenance and software upgrades). Estimated costs in North Carolina, for instance, have reached $250 million and a planned system in Idaho, supported by private sources, was halted at $21 million amid total cost estimates of $180 million. Cost differences may vary significantly among states due to differences in demographics and the states' structure. Increases in cost estimates and updates, as well as underestimating challenges and overestimating results, are a standard trend of these data systems.

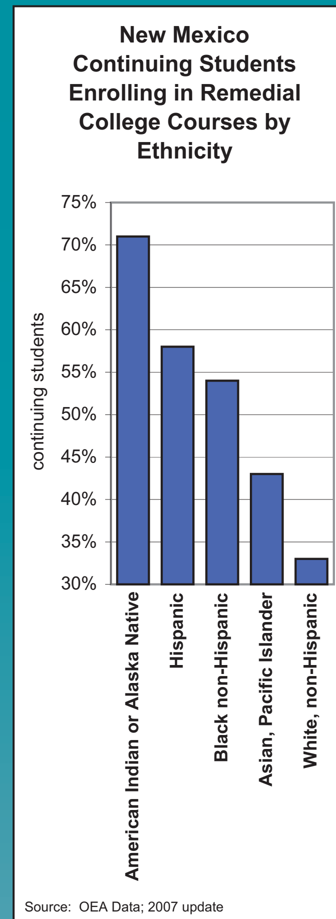
As of June 2007, 27 states have received $115 million in federal grant awards for the implementation of longitudinal, or seamless, data systems spanning students' enrollments in both public and higher education institutions. In the 2007 awards cycle alone, 13 states received $62.2 million in grants from the federal Grants for Longitudinal Data Systems competition. Of particular concern, although PED had sought out grant funding in the initial 2006 year, PED did not apply for a federal award for the STARS system in 2007.

Accuracy, Access, Data-Entry, and Other Issues. During the 2007 legislative session, PED was unable to provide enrollment data from STARS for use in determining funding recommendations. The department blamed inaccurate submissions from districts and charter schools for the delay as data could not be reliably certified by the department in time for effective decision-making. A critical test of the system will come when the 2007-2008 school year 40th day data is available.

PED notes increased funding will provide the ability to incorporate a defined-user login to establish access levels. Currently, access to the system is poorly defined and includes not only districts' STARS coordinators, but other district appointed personnel, which creates a significant security issue related to confidential student data. A cohesive security structure is necessary. Both LFC and the Legislative Education Study Committee agree legislative staff must be included as defined users of the system.

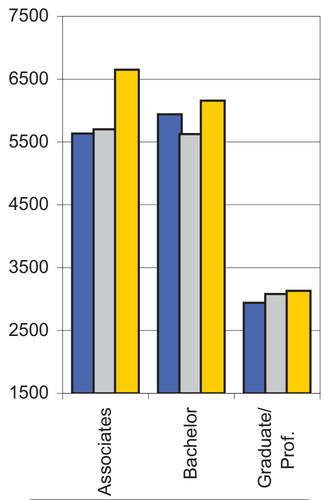
District capacity for successful data entry remains an issue. Accuracy of data begins at the district level and the quality of training that district personnel receive varies significantly. The department has made efforts to instruct district users through the STARS Fall data conference but may have to provide additional local training. Consistent, accurate entry of student data across the 89 school districts remains the most significant challenge for achieving the ultimate goal of data-driven decision-making.

Both federal and state governments report the need for databased decision-making and improved performance in higher education. Federal policy discussions are focusing on information systems and data, new measures of learning, the use of incentives, and an emphasis on collaboration and innovation. At the 2007 annual meeting of the National Conference of State Legislators, higher education leaders called on the states to emphasize the importance of accountability and improved outcomes. Concerns about equality for minority and low-income students in higher education are on the rise. In a late-2006 report of the Education Trust, only four flagship higher education institutions received Bs for being accessible to minority and low-income students: University of Hawaii, University of New Hampshire, University of New Mexico, and University of Vermont. No institution was awarded an A. Within New Mexico, higher education policy over the last year particularly focused on preschool through college (P-20) issues and changes to the higher education funding formula.

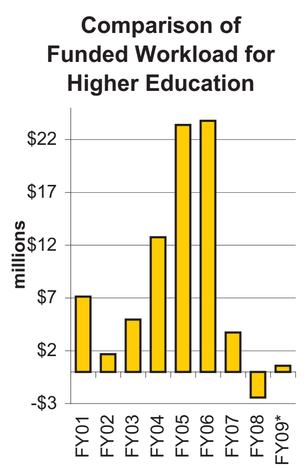


P-20. Education agencies and institutions in the state are undertaking the ambitious task of creating a more integrated educational system, spanning pre-kindergarten through higher education and workplace readiness. Following national sentiment, the P-20 approach is seen as the most likely system to produce results in the areas of student achievement, workforce skills development, college readiness, retention, and matriculation, and in many cases, regional economic development. While national studies tout the benefits of establishing these systems, a systematic plan is necessary to maximize results and minimize redundant efforts statewide. In short, given the stated importance of the outcome, evaluation of new and existing reform initiatives is necessary in consideration of limited resources available.

Remedial Education. The necessity and costs of remedial education for incoming New Mexico college freshmen, both in dollars and time, are a major concern. A June 2007 follow-up study conducted by the Office of Educational Accountability (OEA) reported a static 49 percent of New Mexico public school graduates enrolled in a New Mexico college are enrolled in remedial math or literacy courses at higher education institutions statewide. A failure to align rigor and content of high school courses with the challenges associated with college coursework has increased students' enrollment in remedial classes, lengthened the college experience, potentially increased student debt burden, and ultimately lowered some students' probability of college success. OEA states a need to focus on increasing overall



Source: HED Condition of Higher Education in NM 2005-2006



*LFC Recommendation
Source: LFC Files

academic performance, course rigor, counseling and support systems, and standards for college-bound students at the high school level.

Alignment of Courses and Dual Credit. The passage of two high school redesign bills, Laws 2007, Chapter 308, (Senate Bill 561) and Laws 2007, Chapter 307, (House Bill 584) has the potential to greatly increase the rigor of high school curriculum through more stringent statewide required course loads in math, English, and lab-based sciences beginning in 2009. Through participation with the American Diploma Project, New Mexico has made some progress in establishing the STARS longitudinal data system, one of five tasks necessary to align high school courses with college requirements. But New Mexico has yet to extend the tracking capability to higher education students and institutions, a cornerstone of a successful P-20 system. Other tasks include holding schools accountable for successful matriculation of students to college or the work place, aligning graduation requirements with college and employer expectations, and using existing assessments for college admissions.

The Higher Education Department (HED) has made significant progress in implementing a cohesive framework to provide dual credit for students through development of boilerplate contracts for districts and higher education institutions in addition to updating the New Mexico administrative code for governance of these district/institutional relationships. Higher education institutions are urged to waive tuition for district students, while districts are required to provide students access to texts and other materials. One issue needing resolution is a review of the potential for substantial increases in attendance through dual credit programs resulting in the state effectively double-funding these students, through both the state equalization guarantee for public schools and the higher education funding formula.

Funding Formula. In 2007, the Formula Enhancement Task Force recommended the following in order of priority:

- Provide full workload funding, including changing enrollment bands and "soft landing" for institutions with declining enrollment;
- Continue to provide inflationary funding (cost of opening the doors) in four areas: group health insurance, libraries, utilities, and risk insurance;
- Encourage dual-credit programs, with a tuition credit offset for the student credit hours taken as "dual credit"; and
- Advance recurring performance funding.

Further, the task force considered a proposal to develop equity for athletics funding, but due to the potential cost of over $5 million, did not advance the proposal. This methodology was based on the maximum allowable scholarships for a given sport and the cost of attendance. Rodeo was also added to the model. The task force only recommended an approval process requirement for new athletics programs.

The task force also considered the potential need and scope of a study to determine the cost of instruction. The study would analyze whether the funding factors used in the formula are reflective of these costs today and compare these data with institutional peer groups. About 1990, the Commission on Higher Education (CHE), the predecessor of HED, prepared a detailed cost analysis on which to base adjustments to the funding formula originally developed in the late 1970s. CHE requested, but did not receive, $179 thousand for a cost model project in FY01. Updates for the funding formula have been simple inflationary aggregations and some ad hoc adjustments over the years.

Enrollment Band Changes. The principal driver of the incremental general fund cost of higher education is workload, and particularly enrollment growth as measured by student credit hours.

The current formula focuses on student enrollment changes above or below an "enrollment band" for each institution and each branch campus. Workload calculations recognize increases or decreases in workload driven by enrollment changes and the mix of courses offered (tiers, lower, upper, and graduate). The same methodology is used for both two- and four-year institutions. For positive growth, if an institution exceeds a 3 percent change in either student credit hours or base dollars, it qualifies for additional workload funding. For negative growth, if an institution declines by 5 percent or more only in student credit hours, it loses funding. If an institution falls within the enrollment or base dollar band, it does not receive a workload adjustment directly attributed to students but may receive workload for facilities.

Higher education enrollment in New Mexico continues to show a significant slowdown. For academic year 2005-06, which determined funding for FY08, five institutions posted enrollment declines of 5 percent or greater for the first time. Seven institutions posted enrollment declines of 5 percent or greater in academic year 2006-07 (see Volume III). Overall, total student credit hours declined almost 1 percent in academic year 2006-

Incremental FY09 fiscal impact of the General Fund cost of the 2007 Formula Enhancement Task Force recommendations:

- ***Reduce upper enrollment band and provide for "soft landing" for lower enrollment band, retroactive to FY08: $3.3 million***
- ***Encourage dual enrollment through elimination of tuition credit offset: $1.9 million***
- ***Performance funding: 1 percent of instruction and general funding: $8.2 million***

FY08 Institutional Enrollment Decline Below the Band:
NM Junior College
UNM Los Alamos
WNMU
Clovis CC
ENMU Ruidoso

The 2007 General Appropriation Act in Section 5 provided a $2.7 million nonrecurring appropriation to these institutions to offset the automatic formula funding reduction.

FY 09 Institutional Enrollment Decline Below the Band:

Luna CC
ENMU Roswell
NMSU Carlsbad
UNM Los Alamos
Clovis CC
WNMU
San Juan College
(See details in Volume III.)

Institutions Posting Enrollment Losses Greater than 5 Percent in Both FY08 and FY09:
Western New Mexico University
UNM Los Alamos
Clovis Community College

FY09 Institutional Enrollment Growth Above the Band:

NMSU, Main
ENMU Ruidoso
Mesalands
NMHU
NMSU Grants
NMSU Dona Ana
UNM Taos
(See details in Volume III.)

2007. The net incremental cost of general fund workload in FY09 under the current formula is about $584 thousand, with significant reductions for the affected seven institutions. (This amount backs out $5.4 million related to the HED proposed methodology change on square footage funding of instruction and general facilities).

Beginning last year, colleges raised concerns about the loss of the full reduction in workload funding when the negative 5 percent threshold is triggered. The full magnitude of a one-year funding reduction is difficult to absorb, given the significant portion of the institutional budget represented by personal services and employee benefits. In the 2007 legislative session, a nonrecurring appropriation of $2.7 million was included in the General Appropriation Act to protect the five institutions that posted enrollment losses greater than 5 percent from the automatic funding reductions triggered by the formula.

The formula enhancement task force sought a relatively permanent solution to the enrollment decline concern, in particular, to avoid appropriation declines so steep as to guarantee a clamor for hold harmless. The task force proposal would cap the potential enrollment decline for a given year at 2.5 percent to provide for a "soft landing." For example, an enrollment loss of 6 percent would trigger the band. However, an institution would lose a maximum of general fund appropriation associated with an enrollment decline of 2.5 percent per year, rather than the full extent of actual decline in the first year. The task force proposal would be retroactive to FY08 to apply the new approach to the first set of institutions impacted by the enrollment losses outside the band.

Further, the task force proposed the positive enrollment growth band would be reduced from 3 percent to 2.5 percent. In the task force presentation to LFC, it was noted that this approach would reflect symmetry for the enrollment bands.

Dual Credit. The dual enrollment proposal is in response to Laws 2007, Chapter 227, which removed the responsibility of school districts to pay tuition for high school students taking college classes. The task force proposal is for a tuition credit offset for those student credit hours categorized as "dual credit." The rationale for this approach is that if the institution does not collect tuition revenue for taking dual enrollment courses, then the formula should not assume a tuition credit. The first-year impact is estimated by HED at $1.9 million.

Note that coupled with the high school reforms from the 2007 session the number of high school students taking dual-credit courses could increase significantly. Under the new requirements, every high school student will be required to take either a dual enrollment, a distance education, or an advanced placement course to graduate. The cost of this program could escalate.

Currently, students taking dual enrollment courses are counted in both the public education and higher education funding formulas. This elimination of the tuition credit would represent the third form of general fund cost of the program. One potential option to reduce the general fund cost would be to amend the public school funding formula to reduce the net effective average weight of 12th grade.

Performance Funding. Because the higher education funding formula is heavily dominated by student credit hour enrollment (an input), there is continuing interest in incorporating a portion of the higher education funding appropriation for improvements in performance outcomes. Performance funding mechanisms in higher education are difficult to design.

The Legislature in 2006 provided $5 million from the general fund to the higher education performance fund for expenditure in fiscal years 2006, 2007, and 2008 for performance awards to public postsecondary educational institutions that meet or exceed performance targets for freshmen enrollment and persistence, including those for minority students. In addition, performance awards may be developed to increase graduation rates, including for minority students. In May 2007, the Higher Education Department announced the first round of performance awards in the total amount of $2.5 million (see Volume III for institution specific details). The remaining $2.5 million is unallocated.

The task force proposes to increase the recurring base of the instruction and general (I&G) appropriations by $8.2 million, 1 percent of the instruction and general funding base of all higher education institutions. For FY09, the performance mechanism would use the measures for each campus as reported under the Accountability in Government Act and included in the General Appropriation Act. In particular, institutions would use three performance measures reported by all comparable institutions, and performance award funding would be allocated based on a sliding scale of whether or not each institution meets its specified targets. These measures and associated weights would be as follows:

The 2008 task force work is still in the planning process. An institutional work group will be preparing this winter for next year's interim work. The preliminary work plan for the task force will potentially address

- New performance measures;
- Funding by mission, including vocational training;
- Library funding;
- Building renewal and replacement (BR&R)
- Information technology costs and equipment renewal and replacement (ER&R)
- Formula adjustments for sharing programs;
- Athletics
- Technical formula issues.

In FY08, in preparing the general fund appropriations for instruction and general use for each campus, the Legislature did not assume institutions would increase tuition.

- It was the first time since FY98 that the Legislature took this action.
- This is the only area of state government funding where other sources of revenue were not considered when developing the appropriation recommendation.

Each 1 percent of tuition increase in the tuition credit would reduce general fund appropriations by $2.1 million in FY09.

In 2007, the Legislature included language capping tuition increases at each campus by 5 percent. (Note: New Mexico Junior College was exempt from the tuition cap in the 2007 General Appropriation Act.)

Nationally, the last five years have posted the steepest rise in tuition and fees at four-year public universities of any five-year period in the 30-year history of the College Board survey.

Four-Year Universities:

- Percent of full-time, degree-seeking, first-time freshmen completing an academic program within six year (weight = 40 percent);
- Percent of full- time, degree-seeking, first-time freshmen retained to second year (weight = 40 percent);
- Number of undergraduate transfer students from two-year colleges (weight = 20 percent).

Two-Year Branch Campuses and Independent Colleges:

- Percent of new students taking nine or more credit hours successful after three years (weight = 33.3 percent);
- Percent of graduates placed in jobs in New Mexico (weight = 33.3 percent);
- Percent of first-time, full-time, degree-seeking students enrolled in a given fall term who persist to the following spring term (weight = 33 percent).

Building Renewal and Replacement. In 2007, the Legislature provided a $41 million special appropriation for facilities - half to be distributed according to the building renewal and replacement formula and half to be distributed based on the facility condition index. The executive vetoed language impacting portions of the distribution methodologies. An Attorney General opinion on the action is pending. Nonetheless, the significant need for funding for facilities remains. An acceptable method to update square footage by institution and allocate funding is needed.

Improving Persistence and Graduation Rates. Improving persistence and graduation rates is a national concern. The National Center for Education Statistics found graduation rates at four-year institutions with similar admissions criteria typically declined as the percentage of financially needy students increased. For all institutions defined as low-income-serving, the median six-year graduate rate in 2004 was 39 percent. In comparison, the rate was 51.4 percent for the universe of four-year institutions. The study identified 319 low-income-serving institutions across the nation. At some of these universities, nearly 80 percent of students graduated in six years. While differences in academic preparation may explain some of the variation, a search for best practices that could be adapted locally would be worthwhile.

Research on graduation among low-income-serving institutions indicated the following factors tend to improve graduation rates:
1) personalize the undergraduate experience, 2) emphasize the teaching mission, 3) create a shared sense of community by involving students, and 4) emphasize an institutional culture to promote success with strong leadership, clear goals and resource

commitment. As noted by the Pell Institute for the Study of Opportunity in Higher Education, best practices of high-performing, low-income-serving institutions include intensive advising systems, supplemental instruction, and small, structured academic and social communities for first-year students. For first-generation students interviewed throughout Texas, raising aspirations, navigating the admissions process, and supporting the transition to college life are key.

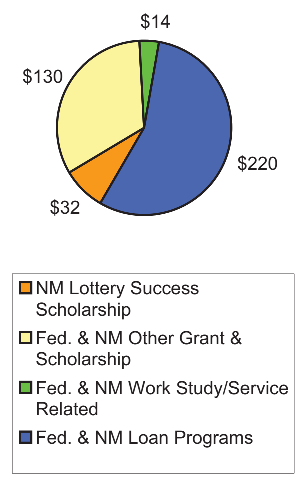
Many institutions are experimenting to identify practices particularly effective on their campuses. For example, AT&T provided a $1 million grant for personal coaching services to all 264 first-year and transfer students at Our Lady of the Lake College in San Antonio, Texas. According to preliminary data, fall-to-spring semester retention rates for freshman increased 5 percent from the prior year to 89 percent. The retention rate was 93 percent for students who attended at least seven coaching sessions. In comparison, only 69 percent of students who attended only one session returned in the spring semester. A similar program at Chapman University in California showed improvements in credit hours, grade point average, and course withdrawals.

Financial Aid. Student financial aid is provided by several major groups, including the federal and state governments, the institutions themselves, and private sources. Challenges include the adequacy and availability of student aid funding compared with increased costs for families, rising student loan burden, and an adequate mix of need-based versus merit-awarded grants.

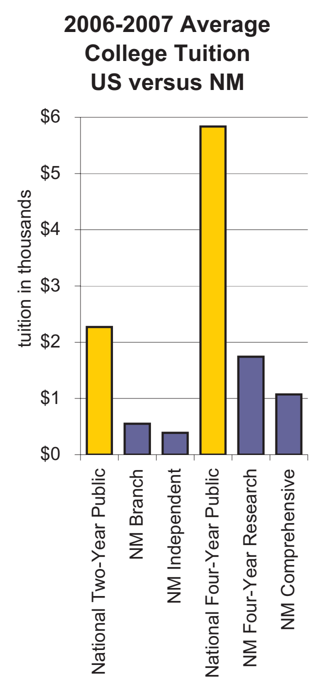
State grant and scholarship aid is divided into two categories: need-based and merit-awarded. Need-based grants are designed to ensure all students have equal access to higher education and are not denied access due to financial circumstances. Merit scholarships are awarded to students excelling academically, regardless of financial circumstances.

The proportion of state and federal student aid awards by aid category have changed significantly between the 2004-2005 and 2005-2006 academic years. In the period, aggregate awards from lottery sources increased 14 percent, while grant and scholarship aid were down 8 percent and work study and service-related grants similarly declined by 4 percent. In this one year, however, the proportion of federal student loan money available to total aid available has increased from 49 percent to 55 percent, representing a significant change in the composition of aid awarded.

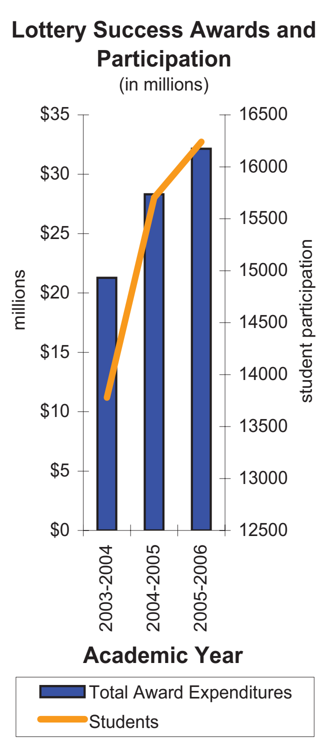
2005-2006 New Mexico Combined State and Federal Student Financial Aid
(in millions)



Source: The Condition of Higher Education in New Mexico, HED, various years



Source: Annual Survey of Colleges, The College Board; NMHED Condition of Higher Education, various years.



State Student Financial Aid 2005-2006	Number of Recipients	Total Amount Awarded
Grant and Scholarship Programs		
3% Scholarship	8,420	$6,645,490
Athletic Scholarships	1,412	$6,689,095
Child Care Grant	44	$18,926
Competitive Scholarships	1,470	$2,024,304
Legislative Endowment	191	$189,258
Lottery Success Scholarship	16,240	$32,152,671
New Mexico Scholars	295	$1,318,981
Student Choice	450	$1,004,700
Student Incentive Grant (SSIG)	14,049	$12,010,488
Vietnam Veterans	17	$21,349
Total, Grant and Scholarship Programs	42,588	$ 62,075,262
Loan Programs		
Medical Loans	6	$67,500
Nursing Loans	74	$396,493
Minority Doctoral Loans	7	$105,000
Allied Health Loans	10	$94,000
Teachers' Loans	73	$265,788
WICHE Loans	75	$1,706,300
Total, Loan Programs	245	$ 2,635,081
Work/Service-Related Programs		
Graduate Scholarships	95	$611,922
State Work-Study	3470	$6,859,263
Total, Work/Service-Related Programs	3565	$ 7,471,185
Total State Financial Aid	**89,231**	**$72,181,528**

Loan for Service and Work Study Programs. Increased student debt burden can negatively affect students' entry into public service careers, including teaching and social services, because students are less apt to pursue lower-paying occupations. This issue specifically impacts healthcare capacity where new doctors and health professionals select lucrative specialties and urban job markets over general practice and suburban and rural locales.

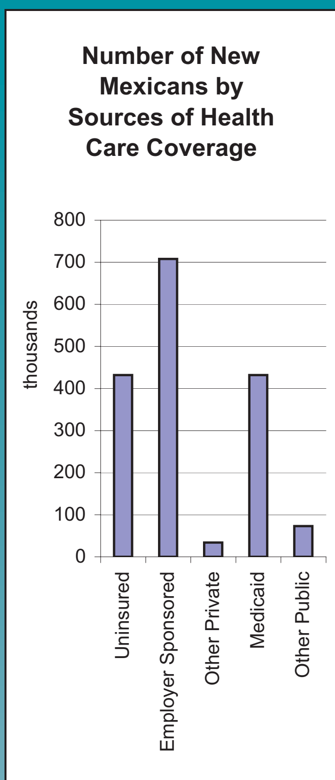
According to the American Association of State Colleges and Universities, while average debt levels are rising nationally, select states, including New Mexico, are taking proactive roles to overcome the subsequent service shortages through creative programs, such as loan-for-service and debt repayment programs. While these efforts can be successfully directed to target specific shortages in public service occupations, overall increases in funding for general work study or service-related programs can assist students in multiple fields in retention and subsequent attainment of degrees.

Need-Based Financial Aid. Barriers to higher education perpetuate economic disparities to low-income individuals. The upward adjustment of the Pell Grant award, the fundamental need-based grant, represents a significant change in federal policy. The federal College Cost Reduction and Access Act was signed into law in late September 2007. It will significantly change the student financial aid environment, both through a multi-year increase in the amount of Pell Grant awards and similar incremental reduction of over 80 percent of federal subsidy rates received by education lenders. With passage of this legislation, the value of the maximum Pell Grant award will increase to $4,600 in 2008, ultimately reaching $5,400 in 2012.

*Distribution of College Affordability Funding***.** To date, the New Mexico Legislature has appropriated $97 million to the need-based endowed scholarship program: $95 million directed to the endowment fund and $2 million directed to the scholarship fund for near-term expenditure. The 2007 appropriation of $48 million for the scholarship fund was passed contingent on investing the endowment with the State Investment Council to increase yield. Passage of Laws 2007, Chapter 85, (House Bill 308) has extended applicant eligibility to include students of tribal colleges in New Mexico.

Lottery Scholarships. The Legislature in 2007 enacted Laws 2007, Chapter 72, (Senate Bill 364) to extend solvency of the Lottery Success program, enacting a minimum distribution of revenue to the scholarship fund. At least 27 percent of gross revenues through this year and 2008, increasing to 30 percent thereafter, will be transferred to the beneficiary account to constrain operational expenses. Through passage of Laws 2007, Chapters 74 and 73, (Senate Bills 687 and 689, respectively), eligibility for lottery scholarships has been extended to select military dependants and to disabled students.

Policy Analysis: **Health Care**



Providing adequate health care to New Mexico citizens is challenging. Programs are constantly being created, expanded, and funded but new demands spring up just as quickly. Medicaid and State Children's Health Insurance Program (SCHIP) provide the basics for low-income children and an expanding State Coverage Insurance (SCI) program holds promise for providing healthcare coverage for more adults. Establishment of the Behavioral Health Collaborative brought together diverse agency interests to help integrate policy and service delivery with the experimental single-entity behavioral health provider concept. Disabled and elderly populations are helped with programs like the personal care option and the Medicaid waivers. State and federal funds amount to almost $4 billion of expenditures that support a complex of insurance companies, hospitals, providers, and consumers each with their own set of financial, emotional, business and human needs. Now as New Mexico entertains the idea of health care for all, the level of health care complexity rises again with stakeholders anxious to contribute and simultaneously profit.

Expanded Healthcare Initiative. An estimated 432,000 New Mexicans have no health insurance. Increasing healthcare coverage is deemed critical for all New Mexicans, given the high rate of uninsured and low per-capita income levels and the correlation between coverage and improved access to health care. Two potential approaches to the problem may be inter-related: expanded health insurance coverage and reduction of what may be described as costs in excess of most individuals' ability to pay. In addition to the human cost associated with the issue are financial burdens imposed on both consumer and provider of uncompensated care.

*Health Care Coverage for New Mexicans Committee***.** To begin addressing such issues, the Health Care Coverage for New Mexicans Committee (HCNMC), an ad hoc group comprising both executive and legislative branch participants, was created. The committee morphed into existence without specific legislation or an executive order after the failure of a statutory effort.

Five healthcare coverage models were proposed to HCNMC by proponents with three chosen for deeper study. Mathematica Policy Research, Inc. evaluated costs and implications associated with each model. In the end, the committee did not endorse any particular model; rather, it agreed that certain components of each model showed potential for inclusion in a major New Mexico health coverage reformation. The committee chose to recommend elements it considers vital to a statewide health coverage policy.

Subsequent to the HCNMC proposal, the executive unveiled a proposal for what might be termed a hybrid insurance approach using many of the findings of HCNMC. The Human Services Department contracted with Mathematica to "cost out" the new proposal. A final executive proposal is pending but great legislative attention is expected.

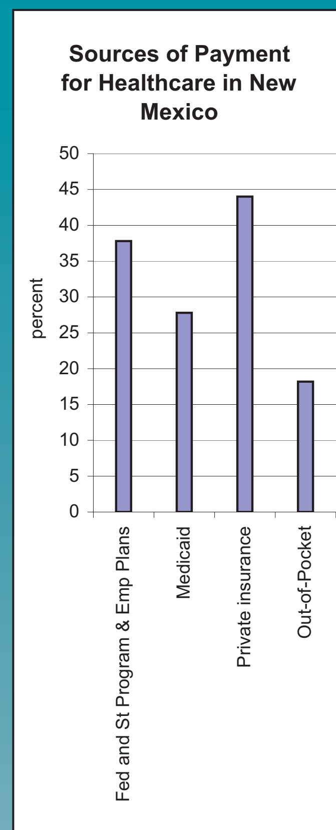
Themes of the universal healthcare agenda :

- Create a single statewide unified healthcare authority or governance structure to implement healthcare reforms with universal coverage, cost and quality controls, and oversight of healthcare delivery in New Mexico;
- Maximize enrollment in Medicaid and SCHIP as soon as economically feasible;
- Reform New Mexico health insurance and health maintenence organization requirements to guarantee access for individuals regardless of health status or pre-existing condition; require a standard percent of premium collected by insurance companies to be spent on direct services; lower the 20 percent that insurance carriers can add to small group rates due to health status and claims experience; and implement common data reporting;
- Allow employers to buy into the state employee health risk pool and individuals without access to commercial insurance to buy into a Medicaid benefit plan;
- Consolidate or create larger health insurance risk pools where beneficial and consolidate public administrative functions;
- Require individuals to obtain coverage through public programs or commercial insurance.

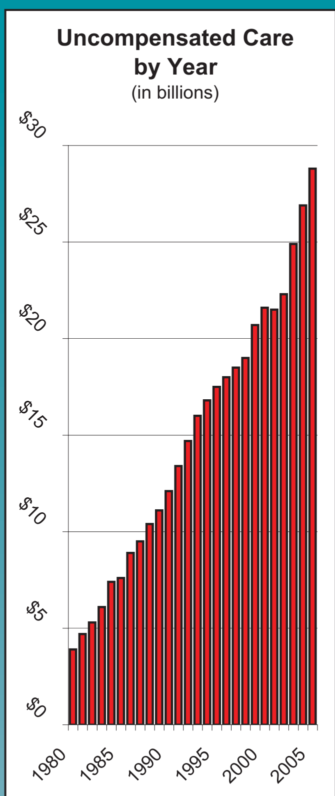
These concepts strike a chord of common sense but due diligence needs to be exercised before any next step. While the establishment of a healthcare authority may be expedient, the duties of the authority should be well-defined prior to creation. A key issue is whether to enact a framework for care or an entire universal care program. It should also be clear whether the establishment of the authority is the same as adopting universal health care, or if the program then needs to return to the Legislature for detailed approval.

Other Considerations. While the consolidation of state healthcare agencies seems laudable, there should be skepticism until the goal of such integration is clear, and the expected results are identified. Consolidation alone does not ensure a better result. Also, while the goal is lower cost and more efficient systems, the expectations of financial winners and losers in such a process should be clear. If financial losers become hesitant to remain insured, then a barrier to universal coverage is raised rather than lowered. The same care must be exercised in consideration of community rating. Insurance regulation must be carefully considered to minimize the possibility of unleashing unintended consequences.

Finally, costs to the general fund should be clearly understood. The consensus of policymakers might be to move forward at any cost, but that does not negate the need to have a reasonable idea of what the cost may be. This is to ensure other state needs can be met and to create revenue sources consistent with the cost. Extensive work should be done estimating financial requirements, and this can't be done with any accuracy in the absence of coverage details. Moving forward without cost parameters gets the cart in front of the horse. Examples of unanswered concerns:



- The Mathematica study indicates covering the 400,000 uninsured will not cost the state more money. However, anticipated savings do not total the 20 percent increase in cost at current per-person expenditure levels; and,
- Of the 400,000 uninsured approximately 200,000 are currently eligible for Medicaid, which could create a general fund requirement of $240 million and a total cost of $800 million, but additional revenue sources are not detailed.



Uncompensated Care. In October 2006 the American Hospital Association (AHA) issued a report on uncompensated hospital care cost. The data came from the AHA's Annual Survey of Hospitals, the most comprehensive source of hospital financial data. The chart shows a steady increase nationally in hospital uncompensated care from $3.9 billion in 1980 to $28.8 billion in 2005. These uncompensated care figures represent the estimated cost of bad debt and charity care to the hospital. This figure is calculated for each hospital based on its actual cost of providing service. The uncompensated care figure does not include Medicaid or Medicare underpayment costs or other contractual allowances. For example, University of New Mexico Hospital (UNMH) reported uncompensated care of $44 million in FY05.

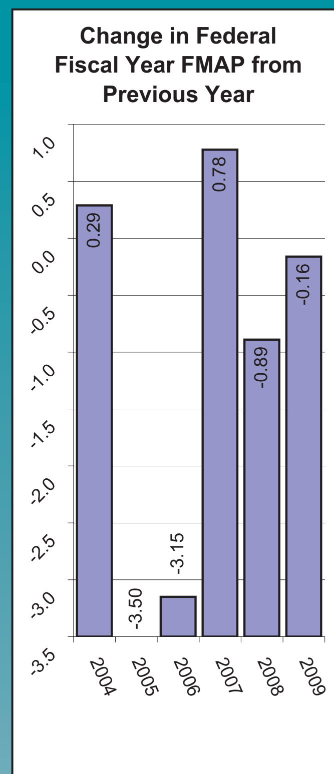
Initiatives to expand healthcare insurance coverage, such as Insure New Mexico, should reduce the level of uncompensated care and lessen the burden on individual providers. In addition, with fewer uninsured, the demands on county indigent funds should diminish, allowing for other uses of the monies or relief of the county tax on citizens.

*Sole Community Provider Hospital Funds***.** A Medicaid-related revenue source for hospitals is the sole community provider program. For FY09, the Medicaid projection estimates this program will have a total of $238.9 million, including a state match of $65.2 million, available for participating hospitals. The state match is generated by the county indigent fund raised through a gross receipts tax. 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. In New Mexico, 27 hospitals and 27 counties participate. This funding source has increased rapidly in the past few years, making it difficult for some counties to provide the match for maximum federal participation.

UNMH does not participate in this program because the Albuquerque metro area contains several hospitals within its 35-mile radius. However, UNMH does participate in a program know as the upper payment limit. This is a "sister" program to the sole community provider program and essentially partially compensates for the lower reimbursements for hospital patient care paid by state Medicaid. UNMH received about $14 million in FY06, almost half of the state total of $31 million. The balance was distributed to 26 other New Mexico hospitals. Federal regulatory action makes the continuation of this and other similar federal programs uncertain after FY09, potentially creating a greater general fund need to support UNMH.

Both of these programs have caps dictated by federal regulation and are not entitlement programs like regular Medicaid.

Federal Medical Assistance Percentage. The federal government's share of a state's expenditures for Medicaid is called the federal medical assistance percentage (FMAP). The FMAP is determined annually based on a statutory formula that uses the average per-capita income of each state and the United States for the three most recent calendar years for which data is available from the U.S. Department of Commerce. This formula is designed to pay a higher FMAP to states with lower per capita income relative to the national average, which explains New Mexico's relatively, but shrinking, high percentage. The minimum FMAP is 50 percent and the maximum 83 percent regardless of the calculated number. Overall, the federal government finances about 57 percent of all Medicaid costs annually.

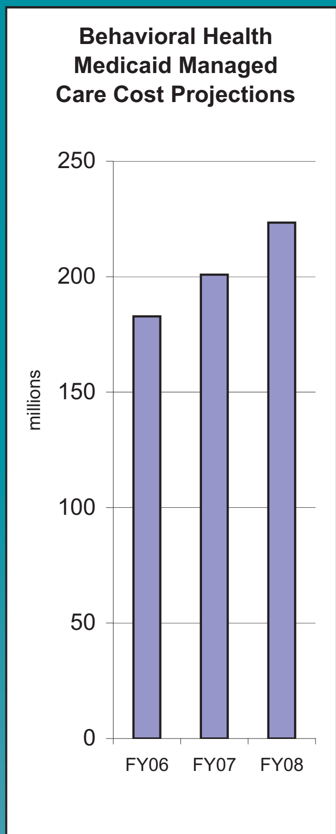


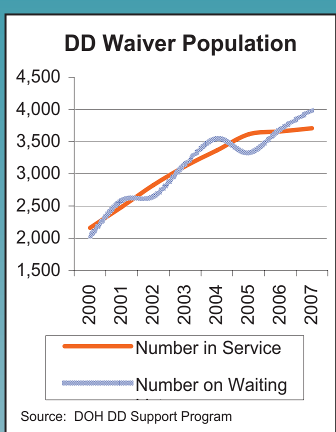
In New Mexico the percentage has fallen in recent years because per capita income in New Mexico grew faster than the national rate. The latest information puts New Mexico's FY09 FMAP at 70.92 percent, down from FY08's 71.26 percent; the corresponding FY09 state share is 29.08 percent compared with 28.74 percent in FY08. At this new higher percent the general fund requirement results in a near $10 million increase with no increase in service level.

The state children's health insurance program (SCHIP) is federally funded with an enhanced FMAP to encourage the expansion of coverage to children in families with higher incomes. A state's SCHIP matching rate is based on its FMAP, enhanced by reducing the state share by 30 percent. New Mexico's FY09 enhanced rate is 79.65 percent down from 82.40 percent in FY2004.

A federal waiver for SCHIP has allowed funding for adults in the State Coverage Insurance program (SCI), and SCI is an important component of New Mexico's efforts to expand insurance. However, continuation of the funding source is uncertain because some pending versions of SCHIP reauthorization eliminate adults partially or totally. Reduction of federal funding for adults would make state healthcare insurance expansion considerably more expensive for New Mexico. The outcome of the federal legislation could determine the structure and extent of any healthcare insurance expansion.

Medicaid Behavioral Health Program. A new Medicaid Behavioral Health Program was created with resources transferred from the Medical Assistance Division to emphasize the behavioral health expenditures from both the fiscal and performance perspective. In addition, legislation transferred the Department of Health Behavioral Health Services Division to HSD. It was anticipated the Behavioral Health Services Division (BHSD) would join the Medicaid Behavioral Health program to create a comprehensive behavioral health program. Unfortunately, these two programs were not integrated in the operating budget process and, as





might be expected, the Medicaid Behavioral Health program was not included as part of the FY09 request. Instead, the behavioral health Medicaid funds were re-integrated into the Medical Assistance Division, and the new Behavioral Health Services Division contained only nonmatching general fund. The failure to combine all behavioral health funding in the Behavioral Health Services Division negates legislative intent to combine such common purpose appropriations for more transparency in the New Mexico behavioral health effort.

This is an important consolidation because HSD is the lead agency for the New Mexico Interagency Behavioral Health Collaborative (collaborative), and HSD's expertise includes managing large federal grant programs to maximize available resources. A major goal of HSD is to improve access to behavioral health services statewide and moving BHSD to HSD fits the department's self-stated mission; however, the final result was two programs rather than one consolidated behavioral health entity.

Substance Abuse. BHSD provides leadership for New Mexico behavioral health services and works closely with the collaborative. Substance abuse services are an integral part of the array of behavioral health treatments. The combination is particularly important because co-occurring disorders, substance abuse coupled with mental disorders, are frequently observed, and both become an integral part of therapy. There are 69 New Mexico provider locations for traditional services, such as inpatient detoxification and related needs, with a total FY07 expenditure level of over $11 million. In addition a substance abuse prevention and treatment block grant provides an additional $4.3 million. Over $3.5 million in FY07 was focused on a methamphetamine initiative that served only nine New Mexico communities.

Demand for substance abuse services is on the upswing, and BSHD indicates intensive outpatient programs are in the development stage to provide alternatives to 24-hour residential treatment. The outpatient services provide a minimum of nine treatment hours per week from a multi-disciplinary team. Programming may include individual, group, and family counseling; withdrawal management; and drug refusal skills. There has been a continuing concern that residential treatment centers services are being denied faster than outpatient programs are becoming available, and BHSD's challenge lies in creating the alternate service capacity.

Medicaid Waiver Programs. New Mexico currently has five waivers to the Medicaid program to allow home- and community-based services to certain patients. The waivers and dates of implementation: developmental disabilities (DD), 1984; disabled and elderly (D&E), 1983; medically fragile (MF), 1984; HIV/AIDS, 1987; and the Mi Via self-directed waiver (which includes the long-term brain injury program), late 2006. The medically fragile, AIDS, and DD waivers are funded through DOH. The Mi Via self-directed waiver and D&E waivers are administered through the Aging and Long-Term Services Department (ALTSD); however, the Medicaid funding for these programs comes through HSD and DOH. The key issue the state faces for the largest programs, DD and D&E, is that demand exceeds available slots, despite almost continuous increases in state funding.

Developmental Disabilities Medicaid Waiver. DOH defines a developmental disability as a severe chronic disability attributable to a mental or physical impairment, including brain trauma, or a combination of mental and physical impairments. To be eligible, the disability must be manifested before the age of 22, continue indefinitely, result in substantial functional limitations in three or more areas of major life activity as defined in the waiver, and reflect the need for a combination and sequence of special care treatment or other services that are long-term and individually planned and coordinated.

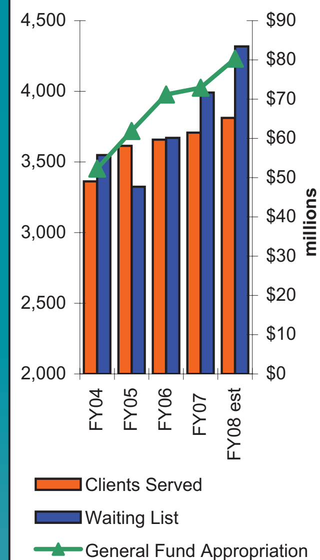
At the end of FY07, 3,707 DD clients were receiving services and 3,991 were on the central registry waiting list. An estimated 189 individuals came off the waiting list in FY07. The number of DD clients has increased by over 1,500 since 2000. However, despite strong legislative support for funding to reduce the waiting list, the list seems to grow in tandem with the number of DD clients.

The General Appropriation Act of 2007 included an additional $5 million for DD waiver services in FY08. It is expected that this increased level of funding should reduce the waiting list (currently approaching 4,000) by approximately 215 individuals. Another $2.4 million was provided for provider rate increases.

The Legislature also provided $11.4 million in supplemental funding to DOH for DD shortfalls in FY06 and FY07. In FY09 the DOH projects a per-person cost from the general fund of $22.1 thousand, up 13 percent over FY06. This translates into a total cost, with federal funds, of $76 thousand per person, compared with $67.4 thousand in FY06. At an LFC hearing on Medicaid waivers in Ruidoso in July, DOH reported that cost increases can be attributable to decreases in the federal match for Medicaid services, increased utilization by DD clients within their annual resource allotments, inflation in the cost of services such as clinical care and in-home support, and increased preference of DD clients for more expensive community living arrangements. Other factors pushing costs higher are clients with severe emotional disorders as well as an increasing number of high cost clients mandated by the judicial system.

Jackson Lawsuit. The Jackson lawsuit, filed in 1987, involves the state's obligation to provide services to DD clients in an integrated community setting, as opposed to a state facility. The department has been ordered by the court to complete a plan of action to comply with the complaints against the state and has successfully disengaged from 33 of the 58 outcomes in the plan of action and has met 45 of the 70 continuous improvement requirements. However, little progress has been made since the last waiver hearing in 2005, due, in part, to a confrontational legal strategy by DOH that sought to limit plaintiff legal fees as well as access to documents. The cost of this inaction is high - DOH is spending $4.5 million a year on lawsuit-related costs, such as consultants and plaintiff attorney fees.

DD Appropriation versus Waiting List



Source: LFC Files

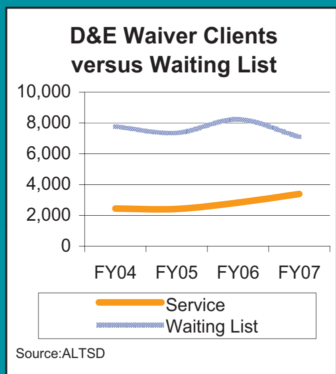
History of Disengagement from Jackson Plan of Action

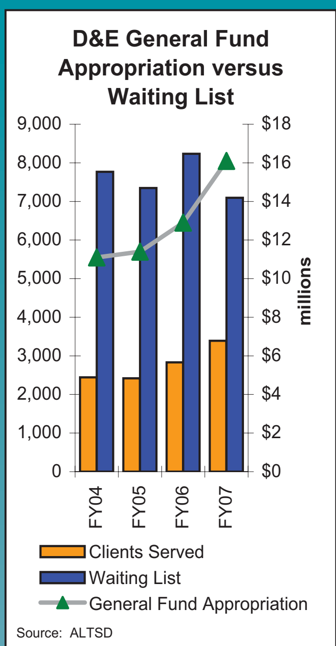
2007	0
2006	5*
2005	1
2004	0
2003	1
2002	0
2001	3
2000	18
1999	8
1998	2
Total	33 of 58 outcomes

*Deleted with consent of plaintiffs. All others by action of court.

Source: DOH

Policy Analysis: **Health Care**





In September 2007 the Jackson plaintiffs filed a motion in U.S. District Court for further remedial relief to address DOH noncompliance. The filing noted concerns in five areas: (1) supported employment, (2) day services, (3) case management, (4) individual service planning, and (5) assistive technology. The plaintiffs are requesting appointment of a "court monitor" to facilitate and enforce DOH compliance with provisions of the lawsuit.

DOH has responded by disputing their noncompliance, objecting to the individual proposed by the plaintiffs as court monitor, and requesting appointment of a "special master" instead. The differences between a court monitor and special master appear to be mostly technical. It appears that DOH hopes that a special master could be a neutral technical expert who could assist the department in proving to the court they have made progress in meeting lawsuit requirements and, therefore, quicken the pace of lawsuit disengagement. However, there is the risk that a special master could recommend program or management changes that could drive up the cost of the program. It remains to be seen how this current legal dispute will be resolved, but the willingness of the new DOH secretary to embrace this potentially risky approach suggests a desire by the department to move forward on disengaging from the lawsuit.

Disabled and Elderly Medicaid Waiver. The D&E waiver enables elderly persons with disabilities to receive Medicaid services and live in home and community settings instead of institutions. In addition to the overall waiver criteria of income and level of care, persons on the D&E waiver must be disabled or blind, meet Social Security disability criteria, and must have a need for nursing home level of care.

The number of unduplicated D&E clients for FY07 was 3,391, with approximately 2,900 clients on the waiver during June 2007. The central registry waiting list was 7,096 on June 30, 2007, but had increased to 8,380 by October 31, 2007. ALTSD attributes the registry growth to more individuals with brain injuries seeking services as well as a slowdown in enrollments they implemented to keep the program within its budget. ALTSD has made progress in reducing the wait for services (a key quarterly measure) to 28 months in October 2007, down from 60 months when the agency took over the program.

Mi Via Self-Directed Waiver. The administration received approval for the Mi Via Self-Directed Waiver during fall 2006 and has begun implementation. People who meet medical and financial eligibility for services under the DD, D&E, Medically Fragile, and HIV/AIDs waivers or the brain injury program can qualify for Mi Via. New clients have the option of a traditional waiver or Mi Via. Also, clients already on one of the Medicaid waivers can transfer to Mi Via. There is no "new" funding per se for Mi Via, funding for clients comes from existing waiver budgets. The goals of Mi Via are to facilitate greater participant choice and control over the types of services and supports purchased within an agreed-upon budgetary amount. Services provided will include current waiver services plus other supports that may not be available under the current structure, including home appliances, assistive technology, or medical equipment.

As of November 2007, 240 individuals had met eligibility requirements of the Mi Via program, had service/support plans approved, and approved budgets. Through July 2007, about 235 individuals, or about 3.3 percent of those currently on DD, D&E, and MF waivers have applied to transfer to Mi Via, much less than the original estimate of up to 15 percent. ALTSD believes many current waiver clients are taking a wait-and-see approach. ALTSD has not compiled data at this time comparing costs savings (if any) from clients moving to Mi Via.

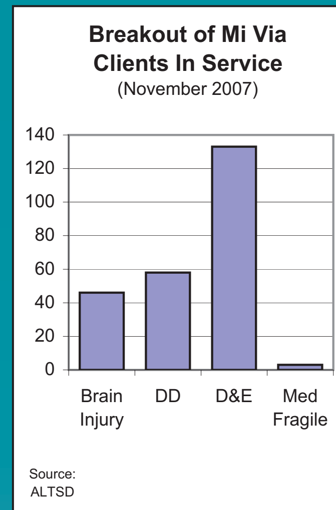
Brain Injury Program Implementation. Laws 2005, Chapter 243, (HB 318) directed ALTSD to "provide services to persons with brain injuries, with emphasis on long-term disability services provided through home- and community-based programs." However, ALTSD delayed implementation of the program as it was included as part of an application to the federal government for the Mi Via self-directed waiver. Approval of the waiver was received in October 2006, and the department has implemented the brain injury program. A FY08 appropriation of $1.9 million will replace nonrecurring funding of $2 million provided for the program in FY06 and reauthorized for FY07. According to ALTSD, funding of $1.9 million will generate a federal match of $4.8 million, providing a total of $6.7 million for long-term brain injury services. A preliminary estimate is that this level of funding will provide services to nearly 200 individuals at an annual cost of $35 thousand per year.

Although approximately 36,000 individuals in New Mexico have brain injuries, many of them will not be eligible for waiver services because they will not meet service requirements equivalent to nursing home admission requirements. Through mid-November, 46 clients are receiving long-term brain injury services through Mi Via.

<ins>**Coordinated Long-Term Services Program**</ins>**.** HSD and ALTSD submitted a waiver application to the federal government to implement the Coordinated Long-Term Services (CLTS) program at the beginning of FY09. CLTS would be a new, capitated managed long-term care program run by national managed care organizations Amerigroup and Evercare. These vendors were selected in 2004 by HSD to work with the state to plan, design, implement, and administer a coordinated long-term care system. CLTS would provide primary, acute, and long-term services to an estimated 38,000 individuals in the following groups:

- Nursing home residents
- D&E waiver participants
- Personal care option (PCO) participants
- Healthy dual eligibles (Medicaid/Medicare)
- Certain persons with a brain injury not previously enrolled in a waiver.

CLTS enrollment will be mandatory for the above groups for all their Medicaid services. ALTSD notes total Medicaid expenditures (state and federal) for acute and long-term services for the CLTS target population was approximately $675 million (excluding dual eligible spending).



How will CLTS interface with Mi Via?

According to ALTSD, Mi Via will be an alternate avenue for clients who are eligible for the D&E waiver or who are brain injured to receive care. Mi Via participants will be enrolled in CLTS for their physical health services but may receive their waiver services from Mi Via.

CLTS Key Target Groups	
Dual eligibles	18,500
PCO	10,500
Nurs home	6,000
D&E	3,000
2007 population est.	**38,000**

Source: ALTSD

American College of Surgeon Guidelines on Trauma Center Levels:

Level I. Comprehensive care is available on a 24-hour basis; all surgical subspecialties are available immediately. Complete care can occur.

Level II. Comprehensive care is available on a 24-hour basis; most surgical subspecialties are available promptly. Complete care can occur.

Level III. Comprehensive care is available on a 24-hour basis; general surgery is available and select specialty coverage is available promptly. For complete care a patient may need to be transferred to a Level I or II trauma center.

Level IV. Can provide physician-directed basic services for the evaluation, initial stabilization, and early transfer of acutely injured patients to a higher level trauma center. A level IV typically has limited on-call general surgical and subspecialty services.

CLTS is intended to

- Coordinate Medicare and Medicaid funding streams and services, replacing the currently fragmented system of entitlement and waiver based programs;
- Promote home- and community-based services and decrease dependency on expensive nursing facilities utilization;
- Provide a broader range of supports and services in a coordinated managed care environment;
- Provide a framework for an aggressive program of quality management and data sharing;
- Enable the state to more effectively manage public resources and serve more eligible people.

However, some advocates have raised concerns that moving to a managed care approach through CLTS will add another layer of bureaucracy and that future cost savings will be achieved through reducing services. Outstanding issues of concern with CLTS include the methodology and data to be used to determine capitated rates, the administrative costs to be paid to the contractors, contract performance measures to ensure quality of care, and possible uses for cost savings.

At the same time, a vocal group of advocates believes that ALTSD has delayed implementation of the money-follows-the person (MFP) program in favor of CLTS. ALTSD has stated that MFP, which allows persons receiving Medicaid institutional dollars to use these dollars for community services, will be wrapped into the CLTS program.

Trauma Centers. Adding to the already difficult financial picture for hospitals are the expensive and often unreimbursed trauma center services. Trauma centers sprang up in the 1970s and 1980s but were already declining in numbers by the late 1990s. The reverse trend resulted largely from the poor financial return for these centers. New Mexico has only three designated trauma centers, the University of New Mexico Hospital, St. Vincent Regional Medical Center in Santa Fe, and San Juan Regional Medical Center.

Only 60 percent of New Mexico citizens live within 90 miles of a trauma center and for most eastern New Mexico residents the centers are in Texas. These centers must maintain additional high-expense specialized providers and equipment. It can be argued more New Mexico trauma centers are needed. Laws 2006, Chapter 13, created the Trauma System Fund Authority to provide funding to sustain existing trauma centers, support the development of new trauma centers, and develop a statewide trauma system.

The Legislature appropriated $5.4 million in FY08 for authority activities. The Trauma Authority allocation of these funds is as follows: $4.1 million to support existing trauma centers at UNM, San Juan Regional Medical Center, and St. Vincent Regional Medical Center; $659 thousand to develop Level III trauma centers at Carlsbad, Alamogordo, and Roswell;

$137 thousand to develop a Level IV trauma center at Roosevelt General Hospital in Portales; and $541 thousand for trauma system support activities, such as emergency medical services equipment and training statewide.

Autism. Public concern over the lack of services for children with autism spectrum disorders and their families was a major topic of discussion during the 2007 legislative session. According to the Department of Health, the rate of autism spectrum disorder in New Mexico is estimated to be 3.6 per 1,000 children, or approximately 1,813 total children under the age of 18 statewide.

The General Appropriation Act included new funding of $2 million for direct autism services and $500 thousand for autism evaluation services at the University of New Mexico Health Sciences Center. In addition, $927.5 thousand of funding was provided for autism training and parent support services.

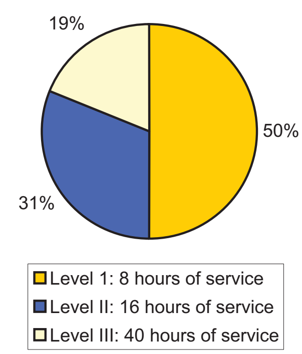
School-Based Health Centers. School-based health centers (SBHC) are intended to help improve the lives of New Mexico's children by placing healthcare services within schools, often in underserved areas. The typical SBHC is designed to provide integrated medical and behavioral-health services. The majority of SBHC's are funded at a level that provides less than 40 hours of primary care and 40 hours of behavioral healthcare per week.

Currently, the Department of Health (DOH) operates 58 sites with a FY08 budget of $3.5 million. Four additional sites are funded with New Mexico Community Foundation grants. Approximately 18,900 students were served at these sites in FY07.

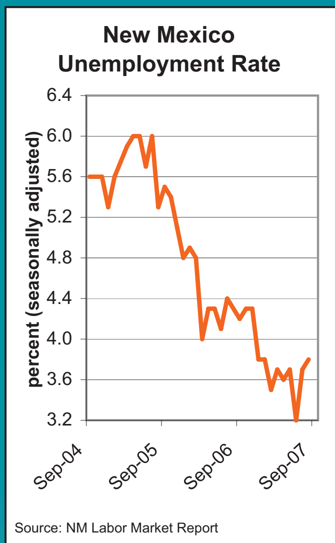
DOH FY 08 Spending Plan for New Autism Funding:

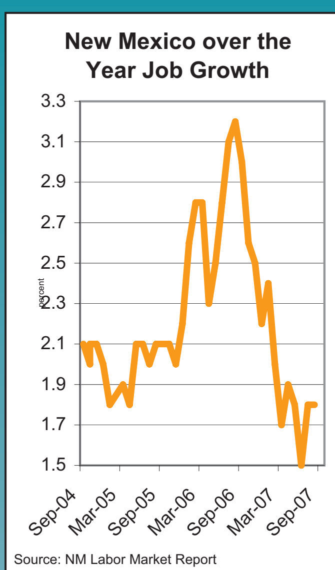
- $1.85 million for intensive skill building services for 100 children.
- $652 thousand for parent training for 120 families.
- $275 thousand to train 100 professionals
- $500 thousand for 225 diagnostic evaluations for kids
- $150 thousand for respite care for families.

School-Based Health Center Operating Hours



Policy Analysis: **Workforce Development**





New Mexico's unemployment rate has fallen to record lows, recently reaching a rate of 3.2 percent, the lowest rate since 1976, after having peaked in the middle of 2005 at 6 percent. Coinciding with the low rate of unemployment, the rate of job growth has slowed.

Although the Department of Labor reports that since 2001 New Mexico has received $382.1 million in funds from the department's Employment and Training programs, annual funding has decreased in recent years.

Recognizing the decrease in federal revenues, the governor proposed a consolidation of New Mexico's workforce system by combining the Labor Department with the Office of Workforce Training and Development into a new agency, Department of Workforce Solutions (DWS). The department aims to build a market-driven workforce delivery system that prepares jobseekers with the requisite skills to meet current and emerging needs of employers in New Mexico.

One Stop Shops/Workforce Centers. Efforts to establish a universal and unified one-stop shop/workforce center system continue; however, progress has been slow. A long-sought goal of having two comprehensive one-stop shops in each region was recently realized when the Eastern Workforce Board opened its second comprehensive one-stop shop. The Southwestern and Central regions have each opened one-stop shops/workforce centers and are working toward establishing them as comprehensive and integrated centers.

The state continues to provide workforce services in a bifurcated system with Temporary Assistance for Needy Families (TANF) NM Works providing services separately from DWS's one-stop shops/workforce centers. House Memorial 38 passed by the Legislature in 2007 requests DWS, the Coordination Oversight Committee, local workforce boards, and other partner agencies to:

- Establish at least two co-located comprehensive one-stop centers in each workforce region prior to June 30, 2008;
- Contribute financially to a cost allocation plan for the operation, administration, and maintenance of the one-stop centers and ensure that quality services are provided and maintained;
- Facilitate coordination of workforce centers to streamline accessibility; and
- Establish a common data intake and reporting system for local workforce boards for the purpose of standardizing common goals and performance accountability.

The memorial requires reporting of one-stop progress no later than September 1 of each year. The department has focused on developing the internal structure of the newly consolidated department and expects to work next with local boards to establish new goals for one-stop shops/workforce centers.

Unemployment Insurance Trust Fund. Over the last several years, the Legislature has approved changes to the unemployment insurance (UI) system in New Mexico. Unprecedented low unemployment and steady job growth has allowed the federal UI trust fund balance to steadily grow to $563.3 million.

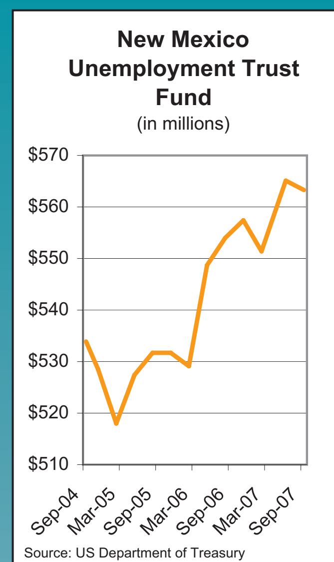
In an attempt to slow the growth of the UI trust fund, the Legislature authorized a reduction of employer UI tax rates and expanded or increased benefits to the unemployed but set in place provisions so the enhancements would expire in January 2008 or if the balance in the trust fund dipped too low. Shortly after the enhancements went into effect, the trust fund balance dipped slightly but soon recovered and continues to grow.

After having learned that New Mexico paid benefits that were the 36th lowest in the nation, the Legislature in 2007 increased benefits to the unemployed by increasing the dependent allowance to $25 from $15 per week, increasing the weekly benefit amount to 53.5 percent of the beneficiary's weekly wage, and eliminating the one week wait period. The Legislature also made permanent enhanced benefits and lower tax rates approved in 2003.

State Unemployment Insurance Trust Fund. Even as tax rates were reduced and benefits were increased, the solvency of New Mexico's federal UI trust fund remained among the highest in the nation. The Legislature in 2007 authorized the creation of a state UI trust fund by re-directing a portion of employer UI contributions away from the federal trust fund into a newly created "state" unemployment insurance trust fund for a period of three and a half years.

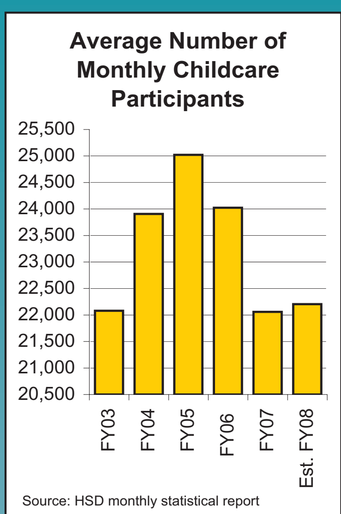
For 14 quarters, employers will continue to pay their unemployment insurance contributions; however, a reduced contribution will be deposited into the federal unemployment insurance trust fund and a newly imposed state contribution will be deposited into the "state" unemployment insurance trust fund. Although employers report on a modified wage reporting form, a single payment is being accepted by the DWS. The first deposits into the state trust fund will occur in November 2007 when employers are required to pay taxes related to the quarter ending September 30.

DWS projects the fund will reach $150 million in three and a half years. The state fund, administered by the state investment officer, will be invested much in the same manner as the land grant permanent fund. Interest from the state trust fund, projected at $6 million annually, will be available for appropriation by the Legislature for activities relating to the administration of unemployment insurance or employment security programs. In the event of a severe economic downturn, the principal balance can be used to pay unemployment benefits.



Policy Analysis: **Social Services**

One study by the Federal Reserve Bank of Minneapolis reported on the high economic returns gained through investments made in early childhood development such as the Perry Preschool Project. The study revealed program participants earned a rate of return of 4 percent in part from higher wages while the non-participating public and government earned 12 percent from higher productivity and lower social service expenditures, the combined rate of return of 16 percent exceeded stock market rates of return.



Social service programs aim to improve human welfare, protect vulnerable populations, and provide a safety net to many New Mexicans, especially with regard to issues relating to older persons, persons with disabilities, families in poverty, and troubled youth.

Early Childhood. New Mexico increased investments in early childhood programs in recent years in hopes of raising its ranking of 48th among states in indicators of child well-being. Numerous studies of programs in other states have shown positive outcomes to children, families, taxpayers, and government from investments made in high-quality early childhood development (ECD) programs. These studies have demonstrated that publicly funded high-quality ECD programs, especially when targeted toward children in poverty, improve infant mortality, birth weight, academic performance, and workforce productivity; additionally, the programs have also proven to reduce juvenile delinquency; child abuse; drug, alcohol, and tobacco use; substance abuse; teen pregnancy; and crime.

Programs achieving the higher returns on investment have curriculum that includes family engagement, well-trained early childhood personnel, and low child-to-staff ratios, and are intensive.

Child Care Children receiving subsidized child care dropped from a monthly high of 25,023 in 2005, when income eligibility was at 200 percent of the federal poverty level (FPL), to 22,000 in 2007. Income eligibility dropped to 150 percent of FPL in FY06 but has inched back up to 155 percent and 165 percent. Since 2007 the agency's goal has been to increase the income eligibility level back to 200 percent of FPL.

Child care expenditures peaked in 2005 and decreased through 2007 but are projected to increase slightly in 2008. Of particular interest has been the decreased program participation even though income eligibility has increased. Between 2006 and 2007, the average number of monthly participants dropped by 2,000. Although fewer children are being covered, Children, Youth and Families Department (CYFD) reports that 100 percent of eligible families who apply for child care subsidies receive benefits, possibly the result of full day kindergarten or publicly funded pre-kindergarten.

Home Visiting Over the past several years, the state has launched an effective home visitation program. Early home visit efforts, including the Welcome Home Baby program were an ineffective "light touch" approach. Later, CYFD switched programming to a more intensive medical model targeted to first born infants and mothers and used the Behavioral Health Purchasing Collaborative's fiscal agent, ValueOptions New Mexico, to process payments. Due to the slow start and programming transitions, $400 thousand of the FY07 appropriation was not spent and will revert to the general fund.

To help guide program development, the Legislature in 2007 appropriated $35 thousand to study and recommend a comprehensive, long-range plan to phase in a statewide universal home visiting program. A home visiting development group consisting of staff from CYFD, Department of Health, Human Services Department, Higher Education Department and Public Education Department and other early childhood experts, is to report to the interim legislative Health and Human Services Committee by November 1, 2007. Preliminary reports from the group estimate a need of $3 million, including $1 million for program start-up costs, and $2 million to expand the number of sites and to increase the reimbursement rates paid to providers.

The Legislature has encouraged CYFD to pursue a federal match with Medicaid funds; however, CYFD has done little to develop this funding stream. Over the last three years, the Legislature included language requiring either portions of the appropriation to be matched with Medicaid funding or quarterly reporting on progress securing a Medicaid match, but the language was vetoed each year.

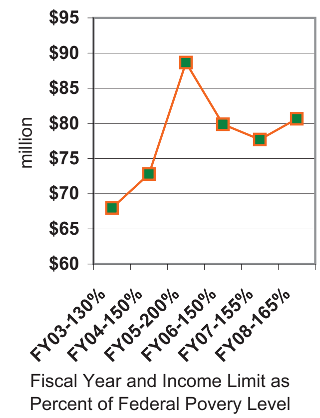
Several other states receive Medicaid funding for home visiting initiatives, including Louisiana, Georgia, which amended its state plan to include home visiting services, and Oklahoma, which has been able to use targeted case management (TCM) and nursing skills education as a method to receive Medicaid administrative billing revenue.

Head Start. Head Start is a federal Department of Health and Human Services (HHS) program targeted to children age 3 to 5 years from low-income families. Created in 1965 as part of the war on poverty, Head Start provides education, health, and nutrition programming to children and their families. Providers receive funding directly from HHS.

New Mexico supplements the federal Head Start program with $1.4 million from the general fund to extend the hours of care beyond the school day and to provide year-round programming. Eligibility for the New Mexico program is extended to children from birth through age 5 with income eligibility guidelines prioritizing TANF clients. An additional $500 thousand of state funds are provided to child care centers which provide early and education services based on the Head Start model, but are not actual Head Start providers. This $1.9 million also serves as maintenance of effort (MOE), the state spending that draws in federal funds for the Temporary Assistance for Needy Families (TANF) program.

Pre-Kindergarten The Legislature in 2005, provided $5 million in nonrecurring funding to pilot a pre-kindergarten program for about 1,500 4 year olds. In 2006 funding increased to $8 million for 2,200 children and in 2007 $14 million for approximately 3,568 4 year olds. Funding for the pre-kindergarten program is evenly split between the Public Education Department (PED) and CYFD. Program funding includes professional development, transportation, teaching materials, and program evaluation funds.

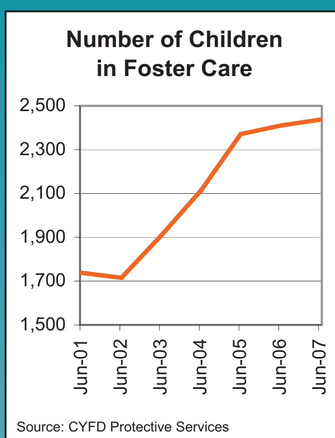
Total Childcare Expenditures and Income Eligibility Limits



Pre-kindergarten serves to better prepare children (especially those in a disadvantaged population) to succeed in kindergarten. Pre-kindergarten differs from child care by focusing on developing a child's (1) social development, (2) physical development, (3) emotional development, and (4) cognitive development.

A study by the National Institute for Early Education Research (NIEER) at Rutgers University, randomly selected 4 year olds attending pre-kindergarten and nonparticipants to follow and test each fall to evaluate the effectiveness of the pre-kindergarten initiative. Preliminary results show pre-kindergarten had a positive impact on children's early language, literacy, and mathematical development; however, it is unclear how long the gains last. The most recent NIEER study showed that New Mexico's pre-kindergarten program accomplished:

- Increased vocabulary scores nearly eight raw score points, a gain of 54 percent over the year;
- Raised math scores almost two raw score points, or a 40 percent gain over the year;
- Increased print awareness nearly 26 percentage points; more than double the growth of nonparticipants.



The NIEER study seems to echo other studies that show many of the vocabulary, math, and other gains dissipate over time.

Protecting Vulnerable Populations.

Child Protective Services Anticipating the termination of Title XIX (Medicaid) targeted case management (TCM) reimbursements, the Children, Youth and Families Department requested the general fund replacement of $6.2 million of federal funds over the last two years in the Protective Services Division. As expected, the Center for Medicaid and Medicare Services (CMS) verified the termination of TCM services. The remaining balance of $2.2 million of federal TCM funds will require a general fund replacement; however, CYFD has been able to identify federal Title IV-E (foster care) and Title XIX administrative funds available, resulting in a net need for a general fund replacement of $700 thousand.

Overall caseload growth which grew 26 percent between 2003 and 2006 but slowed to one percent in FY07 and recently inched up to two percent. Although the caseload growth has slowed, the number of children in foster and adoptive care remains high. Recognizing that adoption or other permanent placement is desirable for foster children, CYFD successfully recruited more adoptive parents in the last year, resulting in an adoption caseload increase of 8 percent.

In 2006, CYFD identified a need to increase foster care reimbursement rates by $100 per placement per month. The rate of reimbursement has been identified as a key factor in the decision to foster a child in national studies of foster parent recruitment. The 2006 and 2007 legislative sessions increased the reimbursement rate by $25 and $50 respectively. There remains a need to increase the number of foster parents; therefore, the remaining $25 reimbursement increase is needed.

Child Support Enforcement. Child support is an important component in the effort to provide at least adequate home financial support for children. Currently, New Mexico has almost 59,000 open cases. A key aid in enforcement is a court order legally establishing a payment obligation. In New Mexico the number of cases with court orders has slowly increased from approximately 33,000 in FY04, 52.1 percent, to 38,180, 64.5 percent, currently. The Child Support Enforcement Division has a total budget of $31.7 million with 399 FTE. With these resources the division is able to collect $95 million of child support annually, $3 for each dollar spent. Nationally, however, about $4.50 is collected for each dollar spent. New Mexico's relatively low return is probably a reflection of the state's low per-capita income.

Adult Protective Services. The Aging and Long-Term Services Adult Protective Services (APS) division provides services mandated by state law on behalf of persons age 18 years or older. Services include investigation of reports of abuse, neglect, exploitation or both; protective placement; caregiver services; and legal services, such as filing for guardianship or conservatorship. This division transferred to the department from CYFD on July 1, 2005.

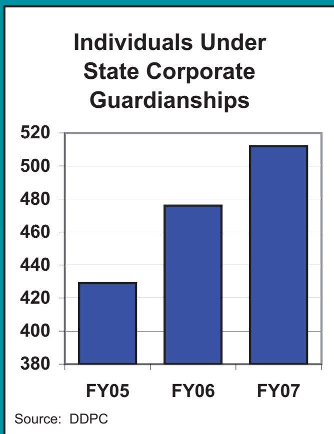
Laws 2007, Chapter 91, (House Bill 319) amended the Adult Protective Service Act to grant APS the authority to impose civil fines and penalties for interference with investigations or preventing access to alleged victims. In addition, the act now mandates a focus on prevention and the establishment of multidisciplinary teams to address the needs of complex cases.

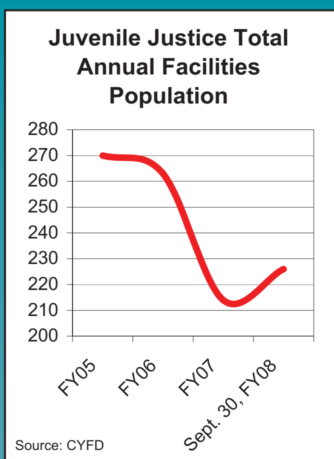
APS reports the total number of interventions for FY07 remained stable at 6,147 compared with 6,137 for FY06, despite the shift during the third quarter of 2007 away from facility investigations, historically close to 30 percent of all investigations (Department of Health staff has primary responsibility for investigating abuse allegations in nursing homes.) APS investigations in homes, unlicensed facilities, and community Medicaid programs are anticipated to increase as APS staff continue meeting with professional and community groups to provide education regarding recognition of abuse, neglect, and exploitation of adults. APS notes that, nationally, about 90 percent of home and community referrals for adults involve abuse, neglect, or exploitation by a caregiver who is a relative. Often this maltreatment involves perpetrators with substance abuse issues.

Adult Guardianship. A corporate guardian is appointed by the state to assist individuals in managing their legal and personal affairs. Clients receiving corporate guardianship services from the state numbered 512 at the end of FY07. The Developmental Disabilities Planning Council (DDPC) is projecting continued growth in guardianship due to increased demand for slots from APS and clients receiving state

Adult Protective Service employees (client service agents) provided in-home services to 295 clients and contract agency homemakers served 724 individuals in FY 2007.

On average, each client receiving contract services received 3.1 hours of in-home care and support per week at an annual cost of $2337 per client. By providing in-home services, whether directly or through contracts, APS was able to maintain more individuals safely in their homes.





services in the developmental disabilities and mental health areas. The state has a limited ability to curtail growth in this area because courts determine the guardianship caseload. DDPC has contracted with University of New Mexico to evaluate 200 wards to determine whether full guardianship is needed or less restrictive legal alternatives are appropriate. To date, 77 evaluations have been completed and 82 percent of clients were deemed to need full guardianship.

The waiting list for guardianship-related legal services was at 323 at the end of FY07. DDDC hopes that growth will slow due to implementation of an income-based eligibility requirement for legal services of 300 percent of the federal poverty level. The Legislature provided $2.86 million for contractual services for guardianship and related legal services at DDPC in FY08, including $250 thousand in special funding. This represents an increase of approximately $600 thousand, or 26 percent, over FY07 funding.

Domestic Violence. New Mexico ranks high among other states in the number of deaths by intimate partners. The Legislature helped to strengthen domestic violence programming by adopting initiatives to protect victims of domestic violence by enabling the use of alternative mailing addresses when safety is of a concern, increased probationary periods for those convicted of battery and aggravated battery against household members, and mandatory offender treatment. To learn more about prevention, legislation authorized the creation of a domestic violence homicide review team, to share information and learn more about domestic violence and sexual-assault-related homicides in New Mexico and identify service gaps between nongovernmental and government entities.

Funding for domestic violence was consolidated at CYFD and has increased over the last two years. Issues of victim confidentiality versus the need for program oversight complicated the issuance of contracts at the beginning of FY08 but were resolved with CYFD and providers agreeing to redacted victim identification information during the audit process.

Juvenile Justice. Since 2004, New Mexico's juvenile justice system has been in a state of transition. Local, state, and national trends have shifted toward locking up only the most violent and serious juvenile offenders and treating those with minor offenses in the community with nonsecure rehabilitation services. In New Mexico, the average number of juveniles in secured facilities has declined 67 percent, from 658 placements in July 2001 to 220 placements on June 30, 2007.

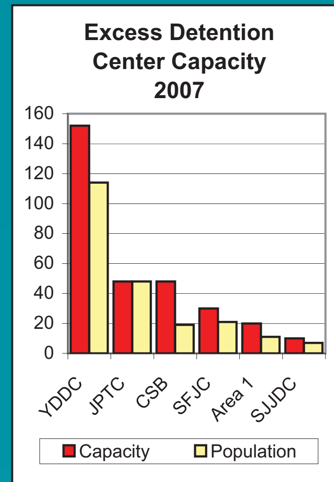
LFC completed a performance review in 2004 and a follow up in 2006. Following the initial LFC review, the American Civil Liberties Union (ACLU) of New Mexico threatened to bring a lawsuit against CYFD to improve juvenile detention. While several improvements have come about, several challenges remain.

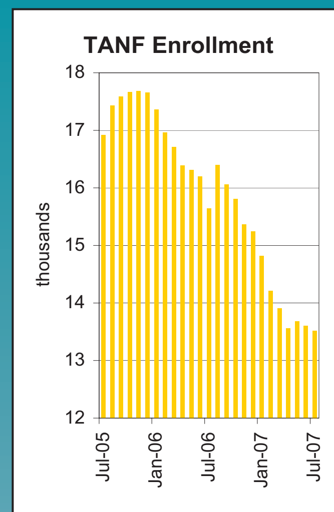
The department closed Camino Nuevo and the New Mexico Boys'

School in Springer, shifting the savings toward improving services and adding smaller, more regionally dispersed facilities. Smaller regional facilities are more expensive to operate, which has led to higher per-diem rates. The per-diem rates vary by facility and type of programming. Camp Sierra Blanca and San Juan Juvenile Detention are the least expensive. The J. Paul Taylor facility in Las Cruces and Youth Diagnostic and Development Center (YDDC), the most expensive facilities, serve a wider spectrum of clients who often need more specialized programming, such as sexual offender treatment and more intensive behavioral health services.

Juvenile Detention Facility Census					
Facility	Population: June 30, 2007				Capacity
	Population	Capacity	Utilization	FY08 Budget	Per Diem
JPT	48	48	100.00%	$6,745,895	$385.04
Area 1	11	20	55.00%	$2,521,731	$345.44
YDDC	114	152	75.00%	$18,335,017	$330.48
Santa Fe	21	30	70.00%	$2,737,500	$250.00
CSB *	19	48	39.58%	$2,748,457	$156.88
San Juan	7	10	70.00%	$505,890	$138.60
Statewide	220	308	71.43%	$33,594,490	

* Does not include the cost of education

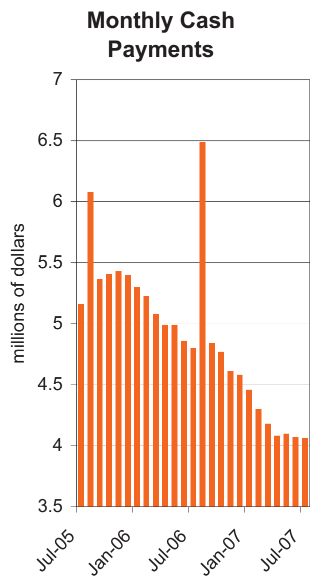


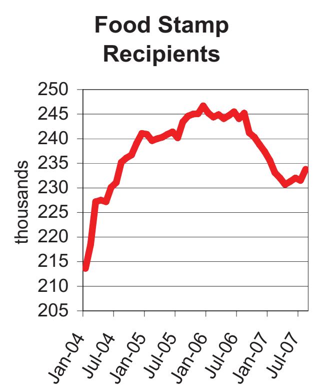


Despite additional facilities that are regionally dispersed, the facilities are not currently configured to keep juveniles close to home. Some of the facilities are too specialized, leading to underutilization. Camp Sierra Blanca can only accept clients with low risk and low needs; Area 1 can only accept clients 18 years of age or older who have completed their general equivalency diploma (GED); female detention is only offered in Albuquerque; and sex offender treatment is only offered at YDDC. Frequently, juveniles from the northern part of the state are housed in the central or southern facilities, which often disconnects the juveniles from their families and communities.

High turnover in senior management has led to frequent changes in the long-term vision relating to facility use. With each management change, the mission and programming at each facility has changed, making it difficult to plan future facility needs and train staff. Within the last three years, Camp Sierra Blanca's mission has shifted from a juvenile detention facility, briefly identified for closure, a probationary camp for nondetention juveniles, then switched back to a detention facility. Several of the re-integration centers have also seen major shifts in programming and mission.

CYFD proposes another major shift in facility programming modeled after Missouri's Division of Youth Services. Missouri, up until 1983 operated large centralized juvenile detention/training centers, much like New Mexico. Missouri transformed its detention system, replacing larger facilities with smaller regional facilities aimed at keeping youth closer to their homes and families, and began staffing its facilities with college-educated "youth specialists" rather than





Source: HSD Monthly Statistical Report

traditional corrections officers. Programming within Missouri's facilities is centered on group therapy and ensuring a continuum of care, which begins before a juvenile enters detention and continues afterward.

Temporary Assistance for Needy Families. After a series of short-term extensions since 2002, Temporary Assistance for Needy Families (TANF) was reauthorized last year as part of what is known as the Deficit Reduction Act (DRA). During the existence of the TANF program (since 1996) funding has not increased, meaning the effective buying power has diminished over time. The federal block grant was reauthorized at the same level through September 2010, currently at an annual $16.6 billion with New Mexico's portion $110.6 million. However, New Mexico receives an additional $6.3 million from supplemental grants reauthorized for only three years. As part of the reauthorization, TANF recipients must meet new federal work participation rates, regardless of whether they receive federal funding or are in a separate state-funded program. The work participation change affected the Education Works program and college attendance no longer substitutes for direct employment.

In recent years the total New Mexico TANF budget has ranged from $150 million to $158 million. However, declining enrollment, has left funds available to carryover into subsequent years. For FY07, cash assistance was appropriated at $69.2 million but reported expenditures were $60.3 million. Continued caseload decline in FY08 may further reduce spending, leaving approximately $20 million of carryover available in FY09 from case assistance alone. While by federal regulation carryover funds are only available for cash assistance, the result frees up current funds for other uses. These uses could expand current efforts such as domestic violence, substance abuse, or new programs like pre-kindergarten in low-income schools. However, the executive proposed an increase to the state's "standard of need" for TANF cash assistance recipients, the first increase in 12 years, funded from the carryover funds. HSD reported the current maximum award for a family of three is $389 per month; the proposal raises the maximum to $447. Increasing the standard of need will result in a $7 million increase in overall cash assistance payments and reduces the potential for support service program increases.

A similar enrollment reduction or stagnation has occurred in other public assistance such as food stamps and general assistance. Food Stamp enrollment increased continuously until the middle of 2006, stagnated for a few months, then declined steadily for almost 12 months. Beginning in mid-2007 a modest increase in enrollment is noted. The monthly payments were near $15 million in January 2003, approached $21.5 million in mid-2006, and dropped to $20.5 million by August 2007. These reduced enrollments and payments impact simultaneously both the former recipients and the local economies. A reason for this reduction in public assistance usage is not apparent.

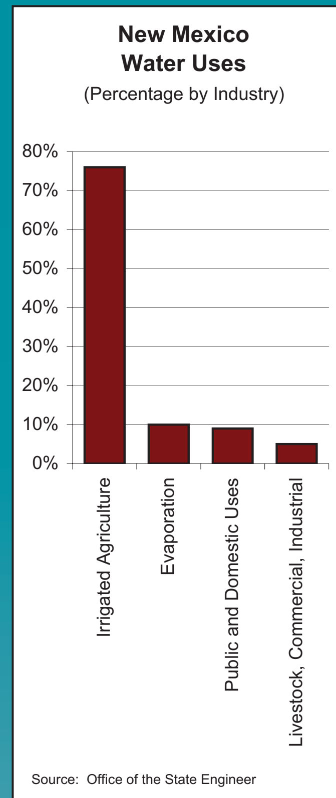
A sustainable water supply is essential to New Mexico's future, but the state faces the complicated process of reconciling competing interests. For example, one of the key policy issues is how to preserve New Mexico's agriculture heritage while meeting the demands of a growing urban and industrial base. Water policy will also need to address related local land-use planning decisions and distribution priorities for water supplies that appear to be taxed to the limit by current uses. Maintaining water quality remains a priority.

Additional issues relating to natural resources include those concerning air quality, climate change, and clean energy.

Water Rights Adjudication Issues. Adjudication of water rights is the legal process for establishing a right to use certain waters, determining a priority date, and quantifying the extent of the water right. While the State Engineer institutes the adjudication process, New Mexico has no "preferred" or "generally accepted" procedure for adjudicating water rights. This situation gives rise to numerous collateral problems: no evident progress or slow progress in adjudication; the inconsistent application of rules associated with the lack of a statutory bases for adjudication; the perception the State Engineer has an adversarial relationship with the public; and confusion on the part of the public as to how to respond to the State Engineer's processes.

Because of this lack of "official" process – and in response to committee concerns – the Administrative Office of the Courts evaluated the procedures followed in several states that adjudicate water rights judicially, rather than administratively. While the adjudication procedures in Idaho, Montana, and Colorado differ in many respects, the similarities may account for their success in adjudicating water rights. Generally they have a statutory framework for adjudication, place the burden on water rights claimants within set timeframes and assign the courts the responsibility to resolve claims with the water engineer serving as technical expert.

The statute that governs water rights adjudications in New Mexico was adopted in 1907 and, in fact, offers little procedural guidance as to how water rights are to be adjudicated. The procedure followed in New Mexico today is an outgrowth of the procedure the Office of the State Engineer (OSE) developed when it was adjudicating water rights in the Roswell Artesian Basin in the 1950s. While this procedure has withstood court challenges, New Mexico's courts have historically ruled on the fairness – not the efficiency – of the procedure. In contrast, the legislatures of Idaho, Montana and Colorado have adopted comprehensive procedural statutory schemes for adjudicating water rights. Moreover, because New Mexico does not have a comprehensive procedural scheme, a water rights adjudication is governed by the same procedural rules that apply to other lawsuits of a civil nature, despite the fact that adjudications differ from ordinary civil lawsuits in several respects, and these differences can create procedural difficulties that



Adjudication of Water Rights Seeks to Establish a Number of Basic Elements:

- Source of water
- Point of water diversion
- Place of use of water
- Proof of beneficial use of water
- Ownership of land where water is used for beneficial use
- Date of first use or priority date
- Amount of water use

OSE Litigation and Adjudication Program Funding History
(in millions)

The Litigation and Adjudication Program serves as the legal advisor to the State Engineer and provides legal representation to the Water Resources Allocation Program in all water right administrative hearings.

undermine the efficiency and increase the contentiousness of an adjudication. To address these issues a number of policy and procedural reforms appear to be required.

Service of Process and Notice of the Adjudication. In New Mexico each water right claimant whose identity is known to OSE is formally served with process in the manner required by the Rules of Civil Procedure. However, in Idaho, Montana and Colorado, claimants are not formally served with process due to the fact that either the Legislature or the responsible water court has specified an alternative and less burdensome means for giving notice to claimants that they must file a formal water rights claim.

Filing of Claim. In New Mexico, the OSE identifies water rights claimants when it conducts the hydrographic survey. However, water rights claimants have no obligation to either make their identities known to OSE, or to identify with specificity the extent and priority of their claims. In Idaho, Montana and Colorado claimants must file a claim with the state water agency or the responsible water court, and those who do not may suffer consequences.

Role of the State Engineer. In New Mexico, OSE is the plaintiff in a water rights adjudication and commences litigation against each water right claimant on behalf of the state. In Idaho, Montana and Colorado the state water agency does not routinely litigate against the state's water rights claimants. Rather, the water agency examines water rights claims and makes recommendations to the court with respect to the disposition of the claims.

Procedure Resolving Objections and Inter Se *Proceedings.* To determine the validity of all water rights in a stream system, two tasks must be accomplished: (1) The state must have an opportunity to examine and object to the validity of each water right claim. (2) Each water right claimant must have the opportunity to object to the validity of all other claimants' claims. In New Mexico, these two tasks are performed during two distinct phases of the adjudication: the "subfile" phase and the *inter se* phase. In Idaho, Montana and Colorado, both tasks are accomplished in a single proceeding, with the requirement that claimants file claims with either the state water agency or the court, setting in motion a procedure and timeline for filing and resolving objections from both the state and other claimants.

Role of Judiciary. In New Mexico, OSE submits to each claimant a so-called "consent order," which sets forth OSE's conclusions with respect to the nature and extent of the claimant's water right. If the claimant agrees with the state's conclusions, the claimant signs the consent order, and the court routinely enters the order approving the claim. If the claimant refuses to sign the consent order, the court will conduct a trial to determine the nature and extent of the water right. In Idaho, Montana and Colorado, the court assumes a more proactive role in the management of the claims review process.

Water Courts. In New Mexico, two of the state's three active adjudications are presided over by a retired district judge who has no administrative support. The third adjudication is presided over by a sitting judge who maintains a full docket of non-water cases. In Idaho, Montana and Colorado, adjudications are presided over by a "water judge" who, depending on the state, has no other responsibilities or whose water responsibilities are deemed paramount.

The next major adjudication for New Mexico will be the Middle Rio Grande where the State Engineer estimates there may be some 180,000 water rights claimants. OSE further predicts that adjudication of the Middle Rio Grande may take 40 years, with total costs running to some $240 million. This is simply unacceptable, and a decision about whether some of the approaches used in other states should be incorporated into New Mexico's adjudication processes – including a comprehensive examination of political, legal, and budgetary ramifications – must be addressed by the Legislature, the executive, and the courts.

Water Markets. While an efficient adjudication system is critical for the effective management of water rights, continued inefficiencies in water markets may threaten New Mexico's water sustainability. Scarce information on pricing, layered on outdated water law such as the "use it or lose it" principle, run counter to conservation efforts and optimized resource allocation. For example, efforts to use "offsets," various strategies aimed at producing a zero net depletion on a water basin in an area of urban growth by offsetting the increase of municipal and industrial use with reduction somewhere else – usually in agriculture – remain contentious. Policies that address protecting water rights and retaining local management of water while meeting the growing need for commercial, industrial, and residential use would enhance any adjudication reform.

Such policies could address public pricing requirements, full-cost water pricing, and updating terminology – such as "beneficial use" – to accommodate current realities. In addition, water rights relating to new sources of water, such as processed water from oil and gas production, need to be clarified in line with incentives for their use. Finally, significant water savings could accrue from new ways to store and convey water.

WATERS Program Issues. Aligned within OSE's Water Resources Allocation Program (WRAP), the Water Administration Technical Engineering Resource System (WATERS) is designed to make the agency's extensive water rights records more readily accessible to staff and the public. By design, the WATERS program is a web-based system that tracks the progress of new applications through the stages of the administration process from the date of filing until action is taken. It provides information on the history of individual water rights claims in New Mexico, court orders and decrees, hydrographic survey results, water-right applications pending before the State Engineer, and electronic images of water-right documents.

Office of the State Engineer Water Resources Allocation Program Funding History
(in millions)

Source: LFC Files

"For the 21st century, the State must develop water markets and water banking mechanisms that will facilitate the voluntary movement of water from old uses to new, with the marketplace supplying the appropriate rewards and the State providing the necessary safeguards."
-2003 NM State Water Plan

Reported Market Prices for Water Rights in NM Basins
(in thousands)

Rio Chama	$2.5-$7.5
Roswell-Sr. Artesian	$2.4
Rio Hondo	$7.1
Taos Valley	$10.0
Upper Rio Hondo	$10.5-$14
Upper Rio Grande	$10- $12
Upper Pecos	$10-$15
Mid Rio Grande-So	$15-$20
Mid Rio Grande-No	$20-$35
Santa Fe Tributaries	$45

Source: F.Lee Brown, Water Economist

NMED Programs Protecting Water

- Surface Water Quality Standards Program (WQS)
- Total Maximum Daily Load (TMDL) Program
- National Pollutant Discharge Elimination System (NPDES)
- Nonpoint Source Management Program
- U.S. Department of Energy Environmental Oversight and Monitoring Program
- Clean Water Revolving Loan Program
- Wastewater Revolving Loan Programs Ground Water Management Program
- Underground Injection Control and Public Water Supply Programs of the Safe Drinking Water Act (SDWA),
- New Mexico Oil Conservation Division
- Hazardous Waste Management, Petroleum Storage Tank and Solid Waste Management programs of the federal Resource Conservation and Recovery Act (RCRA).

The federal government and 49 other states deal with work processes by horizontally managing government through some form of uniform administrative procedures, such as the Administrative Procedure Act (APA). New Mexico is the only state that does not use a mandatory APA approach, leaving the regulatory framework fragmented.

Source: Louis W. Rose, Esq., *New Mexico's Regulatory Framework*

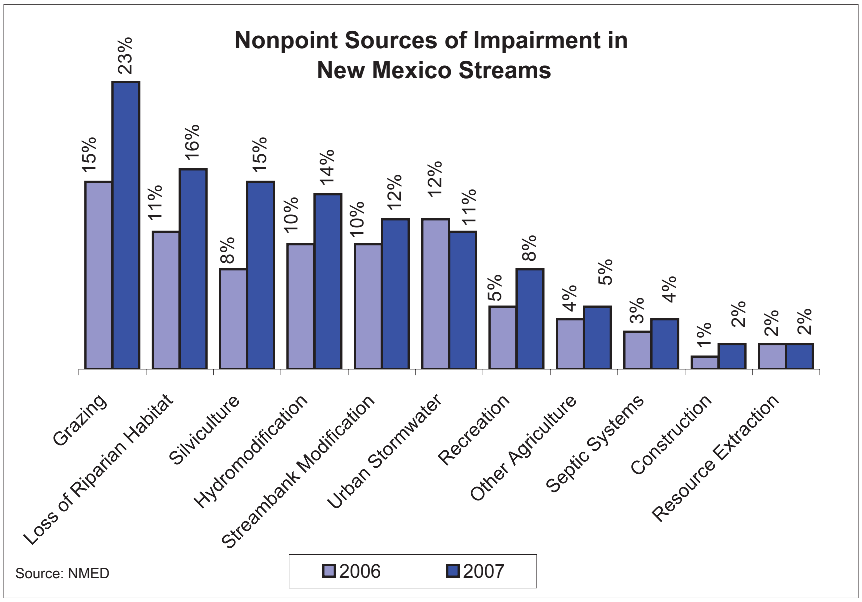
Although WATERS began as a "project" to protect and preserve water right records in an electronic database, OSE has recently come to realize (1) that WATERS should be considered a system of administering water rights that is better included in OSE's normal business processes; and (2) that the system is not, and can never be finished, because water rights change daily, legislation and rules change, and technology advances. However, OSE's Water Rights Adjudication Tracking System (WRATS), used by the Litigation and Adjudication Program, cannot share information with WATERS. While WRATS is used to generate legal pleadings and manage its data and attorney work product as water rights are adjudicated by the court system, and WATERS is used to store a variety of historical and current data and work products to facilitate the processing of water rights applications and to administer water rights, the complementary nature of the two electronic databases is not being fully exploited.

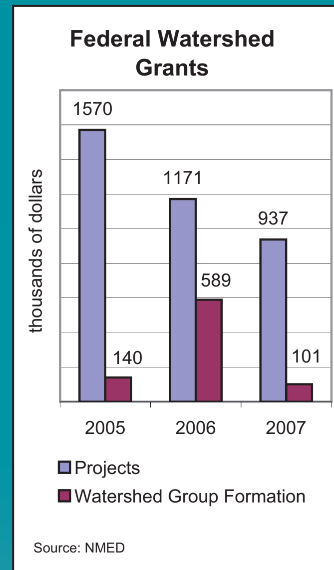
Water Quality. Preserving the current inventory of water for current and future use remains a key component of the state's water management and challenges remain:

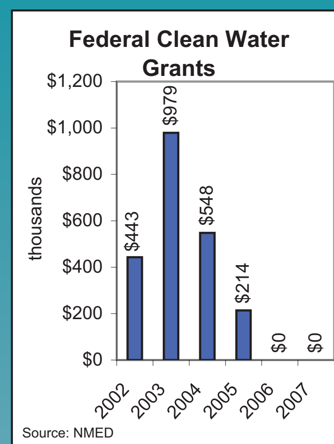
- Remediating contaminated sites is expensive, and meeting unfunded federal mandates continues to siphon off available funds
- An inefficient water, wastewater, and solid waste capital project system leaves projects stranded or critical needs unaddressed
- The lack of widespread use of asset management puts the state at-risk from aging systems
- Directing sufficient resources toward pollution prevention through the permitting, monitoring, and compliance enforcement has become hampered by staff turnover and vacancies
- Multi-agency jurisdiction complicates rulemaking and compliance as well as providing redundancy in some instances
- Pollution prevention strategies that include loss prevention, waste reduction, material conservation, energy efficiency, renewal, reusage, and recycling remain underused.

According to the New Mexico Environment Department (NMED), from a total of over 6,725 primarily perennial stream miles as measured by the Environmental Protection Agency (EPA), almost 2,083 assessed miles, or 31 percent, have impaired designated or attainable uses. Out of a total of 83,195 acres of significant identified lake, reservoir, or playas, 55,857 acres do not fully support designated uses.

Surface Water. NMED lists excessive temperature, sedimentation and siltation, and cloudiness as the major causes of river and stream impairment in New Mexico. Nonpoint-source impairment continues to account for the majority of the impairment, with grazing, forestry and stream bank modification remaining major contributors. For a variety of reasons, of particular concern is the growing loss of riparian or streamside habitat, now the second highest contributor to stream impairment. Fully 80 percent of all vertebrate wildlife in the Southwest depend on riparian areas.







In addition, according to the U.S. Geological Survey, loss of habitat can signal extensive groundwater mining, no longer considered an acceptable approach to water resource management.

NMED's River Ecosystem Restoration Initiative (RERI) aims at restoring the integrity of New Mexico's riparian habitats. According to NMED, ecosystem health is "of central importance to water quality, aquatic and terrestrial biodiversity, agriculture, aquaculture, fishing, aquifer recharge and recreation." The program awarded $2.4 million to 11 projects for FY08, and the department is looking to expand its restoration efforts through a $5 million capital outlay request in FY09. This program marks a distinct change in policy, moving beyond reliance on declining, narrower-focused, federally funded watershed and clean water monitoring programs with a state-funded ecosystem program that would coordinate with other agencies, such as the Department of Game and Fish. According to NMED, this program would also be used to match U.S. EPA wetlands grants for greater leveraging. However, this program has neither statutory authority nor provisions for accountability.

Of great concern is the growing impairment of New Mexico's lakes and reservoirs due to atmospheric deposition. In particular, mercury is highly toxic. NMED notes, "While most non-essential uses of mercury have been banned or severely constrained, releases to the global environment from power generating stations and mineral extraction continue to be a refractory problem." Laws 2007, Chapter 143, established new requirements regarding mercury emission reduction for coal burning power plants, exempting those built and generating electricity prior to July 1, 2007. New Mexico's Four Corners area is home to two such coal-burning power plants. The San Juan Generating Plant is undergoing a several-year renovation as part of a 2004 lawsuit settlement to address several emission issues.

"The Minnesota Pollution Control Agency (MPCA) has combined an array of innovative programs, involving recycling, legislative action, cooperative agreements with business, municipal/regional sanitation districts, and industry, into a comprehensive mercury reduction strategy. Given the ubiquity of mercury in the environment, MPCA's plan has begun to yield positive results in a surprisingly short time. A similar program could be developed for New Mexico."
- *Mercury White Paper*, NMED

The Construction Programs Bureau notes that small community water systems must develop the sophistication to become as self-sufficient as possible, with accurate rate setting, adequate financial accounting, certified operators, and an asset management approach that addresses operations, maintenance, and replacement costs in addition to infrastructure needs.

Uranium Mining

Between 2004 and 2006, uranium mining claims rose from 4,300 to 32,000 in four western states – Colorado, New Mexico, Utah and Wyoming.

Homestake Mining manages a groundwater restoration program at the site of its former mill near Grants that is scheduled for completion by 2017 at a cost of $49.8 million.

NMED would be required to issue water discharge permits for all three types of uranium mining. Each has drawbacks: Pit mines leave open scars on the land; underground mines leave tailings; and in situ mining may directly contaminate groundwater through its chemical process.

Uranium mines on federal land do not pay a severance tax to the federal government.

However, the state has no control over emissions from the Four Corners Generating Plant and the proposed Desert Rock coal-burning plant because they are on tribal land.

Groundwater. Groundwater provides 90 percent of the drinking water for New Mexico. While the state's use of surface water is increasing, groundwater will remain the primary source in the state. Thus, as a limited core resource, protecting groundwater is essential.

Failed or improperly installed septic and illegal cesspool systems continue as the greatest contributors to groundwater pollution, but other potential sources are emerging as serious concerns. One related issue is the illegal dumping of septage, which is waste from septic tanks. NMED has identified this practice as severe enough to warrant greater oversight. The department notes that insufficient disposal facilities in the state may be a factor, perhaps due to the lack of any state requirement to provide these facilities as part of the wastewater or solid waste permitting process. However, NMED proposes additional regulations under the Water Quality Act to mitigate septage dumping as a matter of common practice or economics.

Small, rural, unlined solid waste facilities, or "dumplings," also pose a potential threat to the environment and human health. Twenty-three such facilities face the federal "Subtitle D" requirement for closure or lining by August 2008, yet the communities have little or no money to carry out the mandate. An attempt to recharge the solid waste facility grant fund with $5 million failed in the 2007 session. The fund is fully committed, leaving local entities little recourse but to pursue loans through the Rural Infrastructure Program or grants through special appropriations. According to NMED, this process is subject to the same lack of technical and financial expertise that plagues New Mexico's rural regions regarding water, wastewater, and solid waste infrastructure because incorrect language associated with appropriations can limit adequate implementation.

The resurgence of uranium mining and milling also may threaten water quality. While the state Court of Appeals recently upheld a more stringent health standard for uranium in groundwater that would apply to new groundwater discharge permits, the question remains whether the new standard will be applied to cleanups at all closed mines and mills because state law allows the department to grant variances. In addition, whether legacy mine and mill cleanups will be required prior to any new production – and who will pay for the cleanups – is part of the ongoing debate.

Climate Change. Scientists predict greater demand for water in the face of a decreased supply due to warmer temperatures, which will reduce snow pack and increase evaporation. According to the University of New Mexico, the 2 percent rate of warming in New Mexico during the 20th century has been about twice the global average rate, in line with an inland region. Simulated 21st century temperatures are about four times that amount and researchers point to greenhouse emissions as the culprit rather than natural causes. While others counter this claim, the governor is promoting several initiatives based on this "greenhouse effect" as fact.

Emission Reduction. Executive Order 05-33 established the New Mexico Climate Change Advisory Group (CCAG) and set annual reduction targets for greenhouse gas (GHG) emissions. The resulting CCAG report offered 69 recommendations projected to reduce GHG emissions by approximately half, with an estimated net economic savings of over $2 billion for the state's economy over this period. However, several of the typically high-priced recommendations, like nuclear power or new transmission and storage for renewable energy, were not quantified.

In addition, the administrative and operational costs for state agencies to implement the recommendations were not considered. Executive Order 2006-69 directed eight state agencies to carry out many of the CCAG recommendations, effectively adding to the growing number of unfunded mandates imposed on agencies. Therefore, as with several programs the state has started, the true costs of the initiatives were not deliberated *prior* to embarking on their implementation.

Furthermore, while stakeholder input significantly contributed to GHG policy development, legislative discussion has been minimal. In fact, much of the GHG policy has bypassed the statutory process altogether, using the route of executive order and implementation through administrative code instead. The mandatory GHG reporting rules tentatively approved by the Environmental Improvement Board in October 2007 exemplify this process. The adoption of the California clean car rules in November 2007 is another example. In this case, an effective cost-benefit analysis is glaringly absent, calling into question whether any gains will outweigh significant impacts to auto dealers along the border and rural communities. The constitutionality of this EIB rulemaking is being challenged in state court.

Thus, the budgetary process remains the sole avenue for vetting the merits and costs of many of these climate change programs, a process that may be limited by various factors: the program may be already up and running; the program's final cost may be obscured by incremental implementation over various budget cycles; the program may be assimilated into current air quality programs without the spotlight an expansion request would provide; or the program may find annual funding through special appropriations as part of the budget consensus process.

Clean Energy. The issue of global warming is intricately linked with energy policies and development of alternative forms of energy. Clean, or renewable, energy is defined as electrical energy generated with low or zero emission, typically generated by solar, wind, hydropower, geothermal, nonfossilized-fuel cells, and biomass resources. The challenge is achieving both environmental protection and economic

Climate Change

Governor's Executive Orders:

- 2004-019 Clean Energy State
- 2005-033 Climate Change and Greenhouse Gas (GHG) Reduction
- 2005-049 Increased Renewable Fuels in State Government
- 2006-001 Adopting Leadership in Energy and Environmental Design (LEED) building standards for state agencies
- 2006-69 New Mexico Climate Change Action Plan

Simulations show an 8 percent to 29 percent drop in flow of the Rio Grande.

Because the costs of new programs have not been fully quantified before implementation, the result has been a consistent upward drift to state government and operating budgets. For greenhouse gas emission programs, the only funding source remains the general fund because they are not covered by federal Title V air quality grants, nor has a fee structure been imposed – as was proposed by House Bill 431 during the 2007 session – to generate funds to support these programs.

Selected State Renewable Energy Initiatives

Wind Development - A total of 497 megawatts of wind power capacity has been installed at the wind power plants representing over $500 million in investment.

Solar Incentives - More than 100 New Mexico taxpayers received state solar tax credits totaling $532,000 for solar systems installed on their homes in 2006.

Biomass - A landfill biomass project at the Paseo Real Wastewater Treatment Plant is on-going to determine the compatibility of methane gas to be used as a boiler fuel. Over 73 million standard cubic feet of methane is produced annually at the landfill.

Biodiesel - The Energy, Minerals and Natural Resources Department (EMNRD) is working with state government fleets including the Department of Transportation and school districts to promote the use of biodiesel in diesel fleet vehicles, including the heavy-duty truck and school buses that are large users of diesel.

Source: EMNRD

efficiency. On an average cost basis, some renewables are competitive with conventional energy sources; however, in many cases renewables are still not competitive. Supportive policies are still needed to encourage the further development and deployment, especially of "new" renewables in energy markets.

Of particular interest is the establishment of the New Mexico Renewable Energy Transmission Authority (RETA), the newly created quasi-governmental entity in Santa Fe. It is the nation's first renewable energy transmission authority created to develop electric transmission with an emphasis on renewable energy development for export to out-of-state markets. Under RETA, at least 30 percent of a transmission project's energy must be renewable-derived electricity; up to 70 percent may be from other sources. RETA will focus on electric system transmission infrastructure planning, financing, construction, and operation. It will provide revenue bonding authority to finance projects, which could involve owning or leasing the facilities, and charge participating entities fees to service the bond debt and recover administrative costs.

Concerns about the adequacy of revenues from fuel taxes and the indirect link between fuel taxes and specific improvements to highways are forcing a re-examination of long-term options for highway financing. Intense inflationary pressure combined with decreases in federal funding, minimal growth in the state road fund (SRF), and a saturated bonding capacity dictate that the state evaluate and develop alternative strategies for the future funding of highway maintenance and construction and public transportation systems.

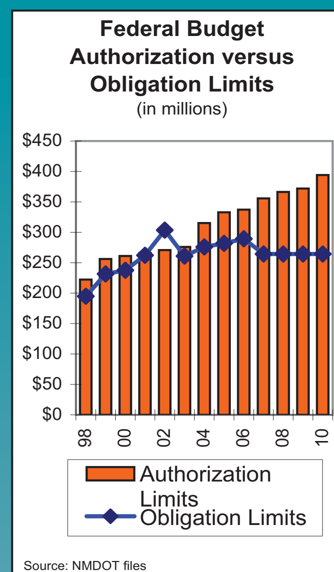
Federal Funding. Rescissions of funding appropriated through the Safe, Accountable, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) in the past two years, compounded by Congress's increased use of "earmarks" within SAFETEA-LU, have significantly reduced the federal funding available to meet statewide infrastructure needs.

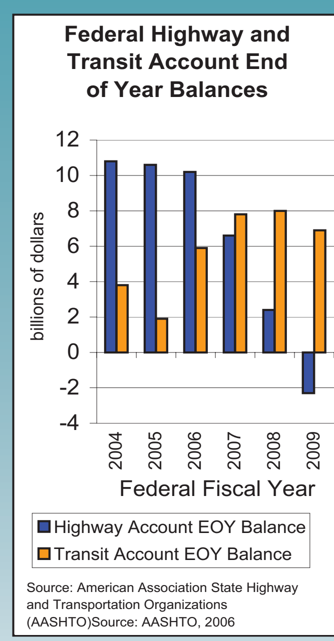
Every five years Congress enacts multiyear legislation, such as the SAFETEA-LU for federal fiscal years (FFY) 2004-2009, authorizing federal spending for the nation's surface transportation programs and setting overall funding for these activities. As discussion starts on successor legislation, it appears that both Congress and the administration wish to have states assume more financial responsibility for the federal non-interstate highway systems. This is in part motivated by the status of the federal highway trust fund.

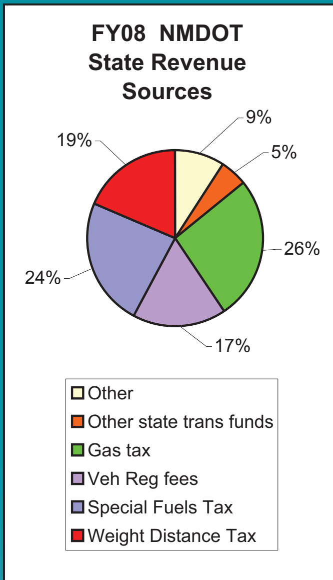
Highway Trust Fund. The highway trust fund (HTF) was established in 1956 to provide a dedicated source of federal funding for highways and is divided into two accounts, the highway and the transit programs. It has been known for some time that SAFETEA-LU would experience funding problems because expenditure levels contained within the act were larger than projected revenues. Unfortunately, this funding shortfall occurred sooner than predicted, with HTF deficits being forecast as early as FFY 2009.

Rescissions. Over the five-year period designated for SAFETEA-LU (FFY 2004-2009), New Mexico was scheduled to receive $1.8 billion in highway funding representing a 30.3 percent increase over SAFETEA-21 levels. However, Congress rescinded part of this scheduled funding, resulting in New Mexico's FY08 allocations being reduced about $35 million below the FY07 allocation; and, it is expected that this will be the minimal decrease New Mexico Department of Transportation (NMDOT) should anticipate each of the remaining years of SAFETEA-LU.

"States face many challenges as they examine new ways to finance their highway systems, including planning for major projects, assessing the long-term viability and stability of new revenue sources, developing implementation strategies for new financing methods, and identifying winners and losers for alternative financing strategies." Federal Highway Administrator Mary Peters







HM 35 Funding Option Recommendations and Funding Potential:

Redirect existing revenue

1. Move motor vehicle excise tax revenue to NMDOT - $136 million
2. Move gross receipts tax (GRT) on NMDOT projects to NMDOT - $14 million
3. Improve weight distance and trip tax enforcement- $19 million

New revenue

4. Enact quarter cent GRT increase for NMDOT - $121 million
5. Enact GRT on gas - $116 million
6. Enact GRT on Special Fuels - $78 million
7. Enact vehicle registration fee dedicated to highway maintenance - $122 million
8. Local Option transportation GRT - $80 million
9. Index Special Fuels Tax- $25 million - $60 million
10. Index Gasoline Tax - $31 million - $76 million
11. Index Vehicle registration and transaction fees - $19 million - $46 million
12. Index Weight-Distance and Trip Tax - $25million to $60 million

If the forecasts for HTF solvency are accurate, deeper cuts to the states are predicted as the federal government tries to balance this fund.

For states such as New Mexico, that have leveraged their federal grants in anticipation of SAFETEA-LU payments, substantial problems will be experienced as the level of rescissions increases. In a worst case scenario, NMDOT predicts New Mexico could lose as much as $100 million to $150 million per year in federal revenue with only enough federal revenues to make the debt servicing payments for Governor Richardson's Investment Partnership (GRIP).

State Road Fund Sources. The revenues associated with SRF are categorized as either restricted or unrestricted. Restricted revenues are usually designated by legislation for special purposes. Examples of this are the local government road fund, the state infrastructure bank, and the aviation fund. Unrestricted revenues, such as the fuel tax and motor carrier fees, are not designated for any one specific program activity and support the bulk of the activities associated with New Mexico's highway system.

Gasoline Tax. The gasoline tax accounts for almost 28 percent of the revenue used to finance NMDOT programs. The rate of 17 cents per gallon is a unit-based tax that has no relationship to the price of a gallon of gasoline and is not indexed to inflation. The present value of the gasoline tax, in 1987 dollars, is 9.6 cents per gallon. Additionally, as the price of gasoline rises, demand will decrease as drivers seek alternative means of transportation, reduce their vehicular travel, and vehicles become more fuel-efficient. This will result in lost tax revenue to the state as fewer gallons of gasoline are consumed. Expected growth in gasoline tax revenue in FY08 is minimal with a 1.45 percent increase being projected over FY07.

*House Memorial 35***.** The Legislature pursuant to House Memorial 35 established a task force charged with assessing NMDOT's financial situation and the needs for a sustainable transportation system in New Mexico. The task force presented its recommendations to both the governor and the Legislative Finance Committee. This review process is similar to that occurring in many states in attempting to address increasing costs, eroding revenues, and an aging infrastructure. The task force has recommended options for consideration by the Legislature in both the short and long term. These options include dedicating existing taxes to NMDOT, enacting new taxes, and getting more aggressive in collecting existing taxes. The task force has indicated that prior to 1991 all revenue collected from the motor vehicle excise tax was dedicated to the transportation department. This is not necessarily correct. The motor vehicle excise tax was established in 1955, as part of the motor vehicle code, with 100 percent of the revenues being dedicated to the general fund. It was not until 1980 that the distribution was changed to allow 25 percent to be allotted to SRF. In 1982 this allocation was changed to 100 percent with the excise tax increasing to 2 percent. In 1988 the current motor vehicle excise tax was enacted as part of the tax code and provided that 5/12th of the now 3 percent tax go to SRF with the remainder to the general fund. Additionally, only 12 states provide for 100 percent of their motor vehicle excise taxes to be dedicated to the transportation department.

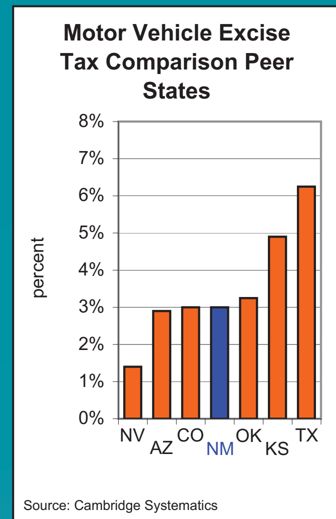
While storm clouds are on the horizon, a thoughtful, analytical and long-term resolution could still be developed in the next two to three years, as the task force has recommended. The tax and public policy issues are complex and must be approached with significant analysis and thought regarding their implementation and their long-term impact upon the state.

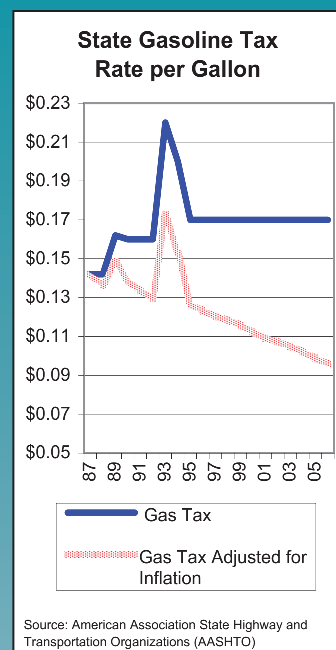
State Transportation Improvement Program. Through October 2007, NMDOT has 57 construction contracts for GRIP projects valued at over $672 million with another 30 contracts valued at $364 million in the process of being awarded for federal fiscal year 2007.

Inflation coupled with extensive changes in the scope of projects and an underfunded commuter rail project have resulted in GRIP being almost half a billion dollars short of the requisite funding for completion of all projects designated by the Legislature.

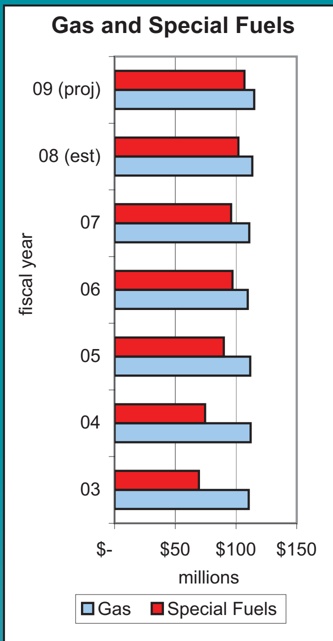
The 2003 GRIP-enabling legislation authorized $1.585 billion for specific projects. However, the legislation did not specify any dollar amounts for the projects. This allowed NMDOT to shift funding among the GRIP projects to cover commuter rail costs, project scope changes, and a 47 percent inflation rate in the past three years. However project costs have raised the expected cost for GRIP to $2.44 billion, an $855 million increase over the $1.585 billion originally forecast by NMDOT.

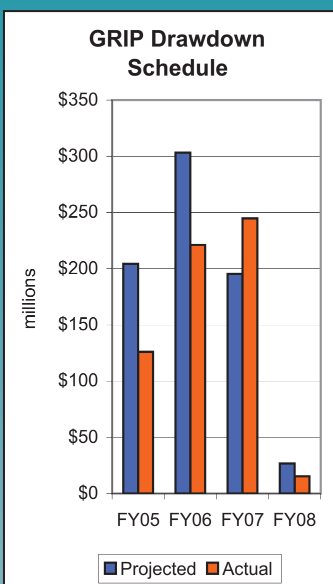
In 2007, to offset GRIP shortfalls, the Legislature appropriated an additional $52.8 million from both the general fund and severance tax bonding authority for FY07, FY08, and FY09. GRIP funding has also been augmented by the use of GRIP interest and Statewide Transportation Improvement Program (STIP) funding.





Policy Analysis: **Transportation**





Source: NMFA

The State Transportation Commission, under increasing pressure from inflation and continued budget rescissions from the federal government, in September 2007 reduced STIP funding for GRIP projects by $161 million to $202.5 million. The $161 million was reprogrammed into other STIP projects to offset inflation also being experienced within the statewide construction program. This has left GRIP with a shortfall of $494 million.

The Legislature has repeatedly expressed concern regarding NMDOT's need to manage and monitor GRIP funds. But these concerns have repeatedly been deflected. In 2003, GRIP-enabling legislation included language expressing the "…intent of the Legislature" to restrict GRIP bond issuances to $350 million per year and provided that the Legislature annually appropriate these funds. This safeguard language was to ensure that sufficient capacity existed to support the bonding and to allow legislative oversight on program management. The language was vetoed.

In 2007, additional language in the General Appropriation Act (GAA) limited GRIP funding for commuter rail to no more than $318 million. It also was line-item vetoed. Since vetoed, commuter rail costs have accelerated by 33 percent to a projected level of $425 million plus another $50 million being held in escrow. In 2006 and 2007, $24.1 million of GRIP bond premium revenue was appropriated by the Legislature through the GAA for U.S. Highway 491 for cost increases associated with the project's scope change. Again, this was line item vetoed.

Funding Shortfall Projection. While this funding shortfall is real and needs to be addressed, it is not imminent. As of October 2007, NMDOT had $108.7 million in unencumbered GRIP bond proceeds and another $388.6 million of GRIP funding currently committed to projects. The department currently holds $436 million of unsold GRIP bonding authority and plans to offer $200 million of these bonds for sale in January of FY09 and the remaining $236 million in FY10.

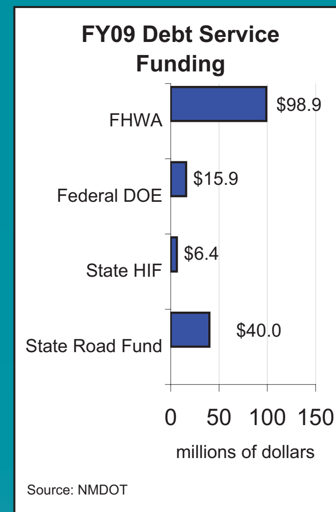
Bond Program and Debt Management. The department has a total outstanding debt of $1.6 billion with an FY09 debt service obligation of $161.2 million for all NMDOT bonds. The Transportation Commission established an internal policy limiting annual debt service for all bonds to no more than $162 million. 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.

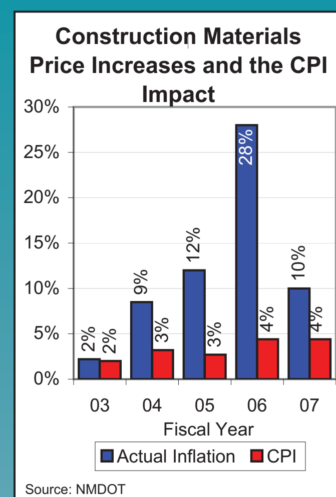
GRIP II. The Legislature in 2007 approved $102.8 million in both general fund and severance tax bond (STB) funding for FY07, FY08, and FY09 for specific local government projects throughout the state. The process for awarding these monies was based on the availability of the required match and the readiness of the locality to proceed to bid. The 2007 STB funding for $50 million was allocated to 42 projects. The FY08 STB issuance of $20 million has been awarded to 17 projects with allocations to be made in December 2007. General fund distributions in the amount of $24.8 million were made for an additional 13 projects.

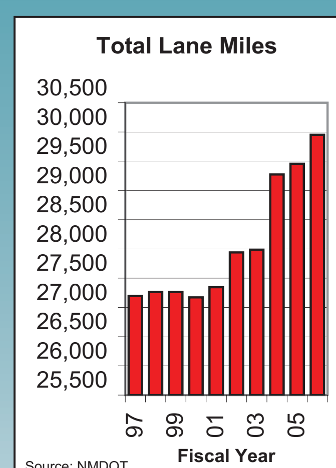
Highway Maintenance. Maintenance costs continue to accelerate due to inflationary trends for oil and material costs and due to the remote areas and the cost of mobilization of materials and equipment. The total number of lane miles within the NMDOT system has increased by 11.4 percent as has the average number of miles maintained per FTE since FY97. In FY07 NMDOT expended over $75.2 million in maintenance expenditures as compared with $70.8 million in FY06. The legislature in 2007 approved 55 FTE for maintenance activities. The unexpected extreme weather experienced in FY07 resulted in many districts postponing some routine activities.

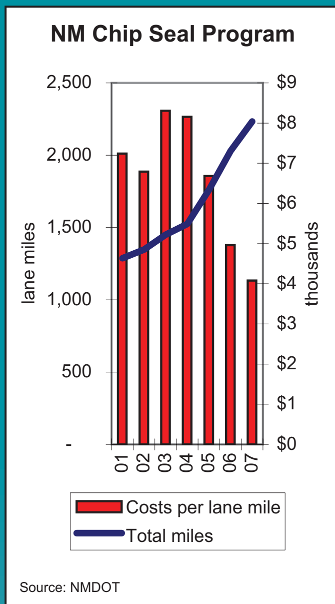
Chip Seal Program. This program is a major component of the maintenance program of the department. Chip sealing resurfaces existing roads, thus prolonging their life. Between FY99 and FY06 costs increased 92.3 percent resulting in a 42.6 percent decrease in the miles per year that could be sealed. In 1999 the 2,400 miles that were chip-sealed equated to a schedule that would allow for a road to be resealed every five to six years. The sealed 1,133 miles in FY07 (a reduction from the FY06 level of 1,378 miles) at over $7 thousand per mile equates to a nine to ten year cycle. A move to the longer cycle will result in the quality of the roads throughout the state eroding at the same rate, but it will now take twice as long to be repaired.

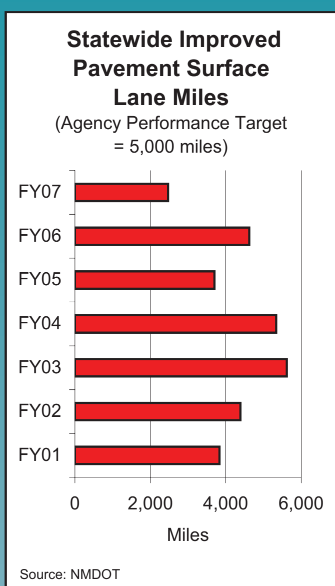
Bridge Maintenance. In FY07 the state had 239 bridges considered structurally deficient, a 6.6 percent decrease from the FY06 level of 256. Bridge maintenance funding is at an all time high with many bridges scheduled for replacement within various STIP and GRIP projects. Over 10 percent of the total deck area of NMDOT maintained bridges are considered deficient. Bridge replacement costs have risen from an FY04-05 cost of $75 per square foot to FY07 estimates of $125 per square foot, a 13.6 percent increase over FY06. This is a direct result of rising steel, concrete, and energy pricing. The replacement cost for these deficient structures would be in excess of $216 million.











Public Transportation Initiatives. NMDOT's strategic plan identifies transportation alternatives such as commuter rail or bus service as a key element. However, the budget and appropriations for public transportation are contained in each of the three programs of the department, thus making it difficult to track performance progress and budgetary compliance.

Commuter Rail. Total state funding for commuter rail, both phase one and two, is projected at $475 million. This includes $50 million being held in escrow. No federal funds are associated with this project. NMDOT identifies the funding streams for this project as follows: $325 million in GRIP I bond proceeds, $17 million in STB as approved by the Legislature in 2007, $46.5 million in GRIP bond premiums and $11.5 million in investment earnings from GRIP bonds. NMDOT has offset the loss of $75 million in planned federal revenues with these funds as a result of the Middle Rio Grande Council of Governments (MRCOG) failing to request the federal funding.

NMDOT has expended $141 million on phase one, Belen to Albuquerque, and projects expenditures of $259 million with $25 million being held in reserve for projected contingency expenses on phase two, Bernalillo to Santa Fe. Phase two completion is expected in December 2008.

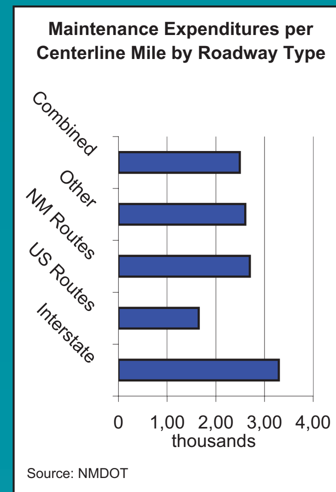
MRCOG reports that operating costs are planned to increase from the current level of $12 million a year to $20 million on completion of phase two. Initial analysis indicates that this is a conservative estimate. Federal funding, $10 million per year, currently being used for operating expenses will expire in FY09. Concern exists that funds designated for state roads will be diverted to pay for these costs.

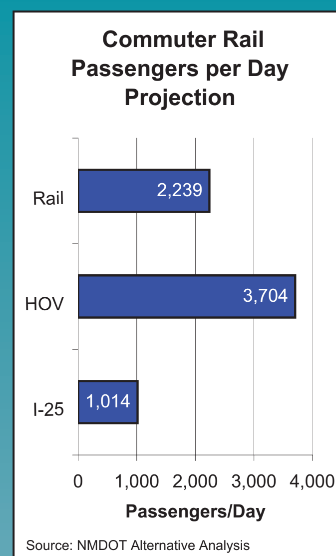
Within the past six months three people have died in accidents at private rail crossings. There are 68 rail crossings between Belen and Bernalillo, of which 22 do not have crossing barriers or warning devices. These recent incidents have resulted in planned upgrades of some of these crossings and the closing of others with preliminary costs as high $15 million.

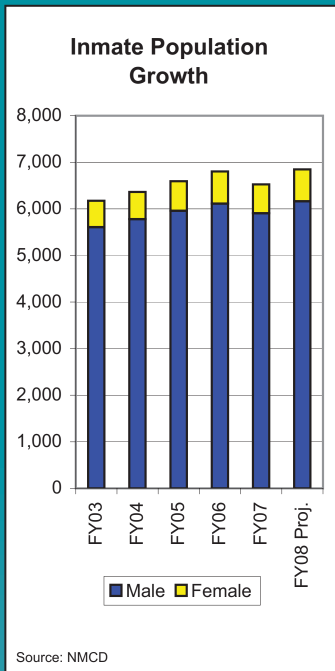
Sustainability of Park and Ride Programs. The development of consumer demand for public transportation requires a change in consumer behavior patterns over the long term. The surge in retail gasoline prices is serving as that catalyst with Park-and-Ride ridership levels at an all time high. NMDOT has stated that Park-and-Ride programs in the Bernalillo corridor will be closed on completion of commuter rail.

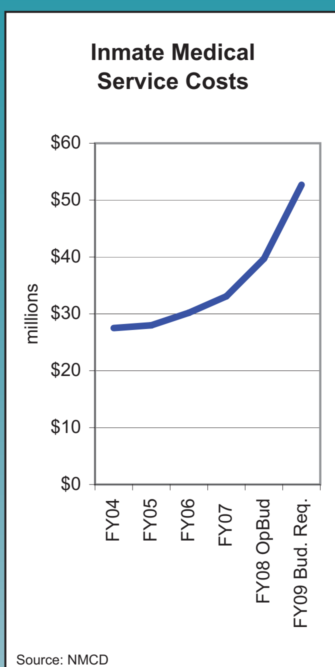
All alternatives should be considered in meeting public transportation needs with consideration also being given to van pools for certain markets where they are more practical and affordable in addressing commuters' needs than either Park-and-Ride buses or commuter rail.

Santa Teresa Rail Relocation. Within SAFETEA-LU $14 million was earmarked for planning activities associated with the relocation of the rail yards in downtown El Paso to the Santa Teresa port. Union Pacific Corporation announced in October 2006 that it would begin construction of a new $150 million to $350 million terminal facility at Strauss, N.M., about four miles west of Santa Teresa. Additionally, Union Pacific agreed to construct an intermodal ramp at this location no later than 2015. This ramp will be expected to process a minimum of 100,000 container units annually. The agreement between the state and Union Pacific was contingent on the state removing the gross receipt and compensating taxes for locomotive fuel. This legislation was passed by the Legislature in 2007. Additionally, the governor pledged $5 million to improve a county road connecting N.M. highway 136 in Santa Teresa with the new Union Pacific facilities in Strauss. NMDOT indicates that these funds will be taken from the earmarked $14 million rather than from other highway funds.









The cost of public safety continues to increase as tougher crime laws over the last several years have led to a need for additional resources. The new crime laws have directly and indirectly increased district attorney and public defender caseloads, court cases, state inmate population, and caseloads for probation and parole officers. This has created significant fiscal pressures, including housing state inmates, providing adequate supervision of offenders in the community, competitive recruitment of State Police officers, and timely analysis of deoxyribonucleic acid (DNA) cases.

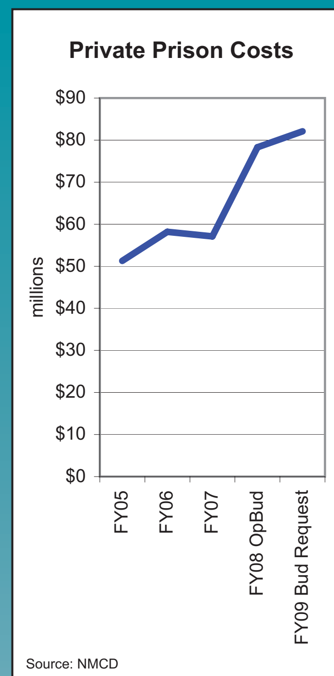
Prison Population Projections. Although the total state inmate population grew by an average rate of 4.1 percent between FY01 and FY06, the male inmate population dropped by 250, or 4.1 percent in FY07, and the female inmate population dropped by 73, or 10.4 percent. In the first quarter of FY08, the male population grew at a slow 1 percent and the female population continued to decline. The FY08 savings from slow growth in inmate population will most likely be absorbed by the $8 million shortfall in medical services.

As of October 31, 2007, the New Mexico Corrections Department (NMCD) reports 5,946 male inmates and 611 female inmates were in public and private correctional facilities. While this left 378 male inmate beds available, the department was short by six security-level-3 beds. JFA Associates projects the inmate population will grow from 2008 to 2017 by 1,819 inmates. The FY09 forecast of inmate growth overall is at 175, or 2.5 percent, with male inmate growth at 136, or 2.1 percent, and female inmate growth at 39, or 5.6 percent. Based on the JFA Associate projections, additional male inmate beds will be needed by May 2013, and additional female inmate beds will be needed by November 2012.

Increasing Costs of Incarceration. The cost of incarcerating state inmates continues to escalate. The cost of medical services has increased by $14.6 million, or 58.8 percent, since FY03. The cost of private prison beds has risen by $26.3 million, or 50.7 percent, since FY03. The trend of rising costs continues with NMCD's budget request for FY09 that increases the general fund base budget by $27.2 million, or 9.8 percent. The majority of the increase is due to the cost of the new medical contract with Correctional Medical Services Inc. and the opening of the Northeastern New Mexico Detention Facility in Clayton estimated for July 2008.

NMCD reports based on actual expenditures in FY06, it costs $85.59 per day to incarcerate an individual in New Mexico. The average cost per day for public facilities was $97.33 and for private facilities was $69.96. The LFC *Review of Facility Planning Efforts and Oversight of Private Prisons and Health Programs* found that private prisons cost more than they should due to contract price increases. Forty-two percent of state inmates are in private prisons. New Mexico's private prison contracts provide for automatic price increases based on the consumer price index (CPI). The review found neighboring states do not renew private facility contracts based on CPI, and New Mexico pays higher per diem rates than other states for inmates of similar security classification. The review also notes that providing price increases on fixed private prison construction costs may result in the state paying a minimum of around $34 million more than it should over 20 years to Lea and Guadalupe counties. Based on the issues raised by the LFC review, NMCD was in contract renegotiations with its private prison vendors in August 2007. NMCD reports it will take several months to have new contract amendments, if any. Possible amendments to the private prison contracts could have substantial savings.

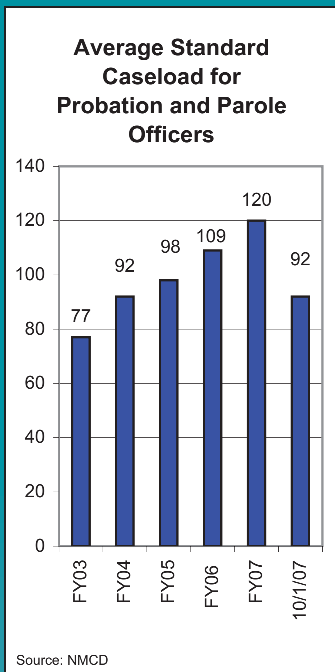
Population Control Initiatives. Due to fiscal constraints many states have moved to a balanced system approach that is tough with violent, high-risk offenders and uses alternatives to incarceration for nonviolent, low-risk offenders. This move to a balanced system approach has been fueled by studies reporting that it costs taxpayers more to incarcerate drug-involved offenders than the average cost of the crimes avoided. Rehabilitation and prevention programs that are research-based and well-implemented are found to produce better returns for the taxpayers' dollar than prison expansion. States, including New Mexico, have implemented alternative programs, such as electronic monitoring, restorative justice, drug courts, treatment-focused day reporting, treatment halfway houses, and first offender programs for drug use or crime.

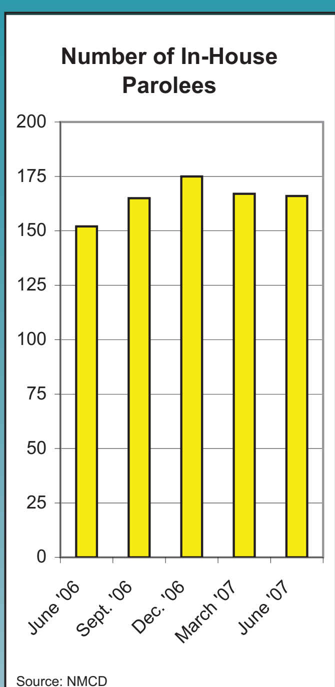


Drug Courts. New Mexico's drug courts provide rehabilitation to offenders in the criminal justice system because of an underlying problem with substance abuse. Drug courts have three goals: reduce recidivism, reduce substance abuse among participants, and rehabilitate participants. Participants in drug courts must be nonviolent and referred to the program by a judge. Currently, there are nine adult drug courts, three family dependency drug courts, and 13 juvenile drug courts statewide. The drug court graduate recidivism rate is 13.4 percent during three years post graduation. The average cost per client in drug courts is around $24.11 a day.

The Pew Charitable Trusts. In 2006, the Pew Charitable Trusts started the Public Safety Performance Project to assist states in advancing fiscally sound, data-driven polices in sentencing and corrections that protect the public, hold offenders accountable, and control corrections costs. Texas is participating in the project, which helps states determine factors driving prison growth and provides policy audits to identify potential options for reform, promising approaches, and best practices in other states. The project also helps state officials, practitioners, and others to share knowledge and ideals through policy forums, public opinion surveys, multi-state meetings, and online information.

High Probation and Parole Caseloads. On October 1, 2007, 13,514 individuals were on parole or probation in New Mexico. The number includes those on regular supervision, in special programs under intensive supervision, and New Mexico offenders under supervision in other states. The U.S. Bureau of Justice Statistics reports that in 2005





New Mexico was fourth in the nation for increases in parole population (16.1 percent) and eighth in the nation for increases in probation population (5.5 percent).

The average standard caseload per probation and parole officer is 92. This is the lowest caseload in almost five years. In recent years the high caseloads have contributed to high turnover and retention problems. The Legislature appropriated funding for an additional 15 probation and parole officers in FY07 and 25 new probation and parole officers in FY08. Also, NMCD at the beginning of FY08 raised the starting salary of probation and parole officers from $14 to $16 an hour to help address problems with recruitment.

In-House Parolees. As of October 1, 2007, 163 parolees were serving parole in NMCD correctional facilities. In-house parolees are individuals who serve out their parole within a state correctional facility due to lack of an approved parole plan. These individuals can be discharged into the community with no supervision. An approved parole plan hinges greatly on the availability of community programs. In-house parolees in New Mexico struggle with finding substance abuse programs, housing assistance, services for behavioral and mental health issues, and sex offender programs.

Section 31-21-13.1 NMSA 1978 states, "Inmates eligible for parole, or within twelve months of eligibility for parole, or inmates who would otherwise remain in a correctional institution for lack of a parole plan or those parolees whose parole the board would otherwise revoke are eligible for intensive supervision programs." JFA Associates noted the number of parole violators returning to prison increased 40.3 percent between FY05 and FY06. NMCD's FY08 operating budget funds population growth that assumes around 150 inmates and parolees will be placed in intensive supervision under the Community Offender Management Program after the first quarter. Inmate growth in FY08 will be partially managed by expanding efforts to reduce the number of in-house parolees and individuals returning to prison on technical parole violations.

GPS Requirement for Sex Offenders on Parole. In the 2007 legislative session, Section 31-21-10.1 NMSA 1978 was amended to require the adult Parole Board to include real-time monitoring of every sex offender released on parole for the entire time the sex offender is on parole. There was no appropriation that accompanied the new law to fund real-time monitoring of sex offenders. With statute requiring from five years to a lifetime of parole for sex offenders and with approximately 800 sex offenders in state correctional facilities, the costs of global positioning satellite (GPS) on every sex offender under parole could be substantial. NMCD estimates it will cost $10,235 a year to have a sex offender on active GPS. It is estimated that 200 sex offenders will be paroled in FY08. To put all these paroled sex offenders on active GPS will cost around $2 million.

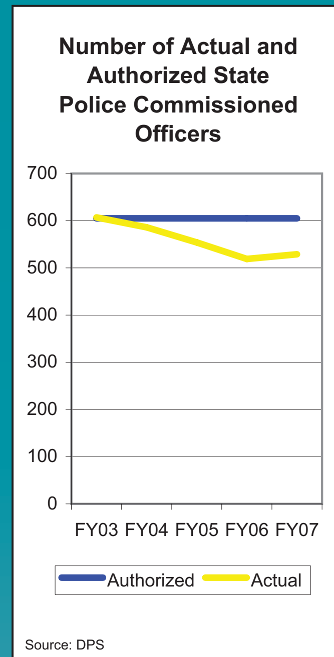
Recruitment and Retention of Commissioned Officers. As of October 1, 2007, the vacancy rate for commissioned officers in the Department of Public Safety (DPS) was 13.8 percent for the State Police, 16.2 percent for the Motor Transportation Division (MTD), and 21 percent for the Special Investigation Division (SID). State Police is introducing a lateral program for the spring 2008 State Police academy. The lateral program is to attract individuals who have experience as law enforcement officers. Also, the State Police is looking at implementation of sign-on bonuses to compete with incentives being offered by local law enforcement agencies throughout New Mexico.

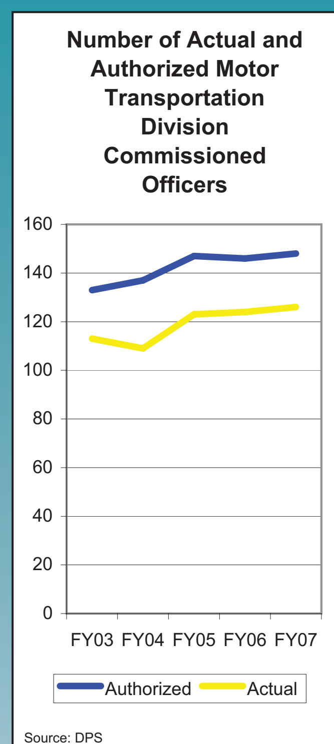
MTD and SID Officers Retirement. Sixty-two law enforcement agencies offer a 20-year retirement for commissioned officers in New Mexico. MTD had 31 commissioned officers leave the division between February 8, 2005, and July 20, 2007. Of the 31 officers, 14 stated in exit interviews that the reason for leaving was due in part to finding better benefits with other law enforcement agencies. With the State Police offering a lateral program in 2008, MTD and SID commissioned officers may seek to transfer to the State Police to take advantage of its 20-year retirement plan. MTD reports that 70 percent to 80 percent of the commissioned officers it recruits are tenured officers. These tenured officers are often looking to keep or obtain a 20-year retirement plan. An actuarial study is being conducted by the Public Employees Retirement Association on the cost to implement the 20-year retirement for MTD and SID. The study is projected to be completed sometime in December 2007.

DNA Analysis Backlog. In fall 2006, district attorneys reported problems in prosecuting cases due to delays in drug evidence and DNA testing. Due to great concern for public safety stemming from reports of cases being dropped because of these delays, the Legislature appropriated an additional $1 million for crime laboratories in FY08. Of that total, $400 thousand was for operating costs of a new Southeastern Crime Lab in Hobbs, $150 thousand was additional funding for the Southern Crime Lab in Las Cruces, and $536 thousand is for hiring additional forensic scientists at the Northern Crime Lab in Santa Fe.

Much of the crime lab backlog stems from vacancies. At the beginning of FY08, the Northern Crime Lab was funded for 11 DNA analyst positions and eight were vacant. DPS has had difficulty in recruiting experienced DNA analysts. A professional services agency was used for recruitment efforts, but no potential candidates were found. The department initiated an extensive recruitment effort in August 2007. Future recruitment efforts will also benefit from new forensic science programs at New Mexico Highland University and Eastern New Mexico University-Portales.

Drunken Driving Initiatives. In calendar year 2005, New Mexico ranked eighth in the nation for alcohol-related fatalities per 100,000 motor vehicle miles traveled. In 2006, alcohol-related fatalities in the state decreased by 12.8 percent. This is the lowest rate per 100,000 ever

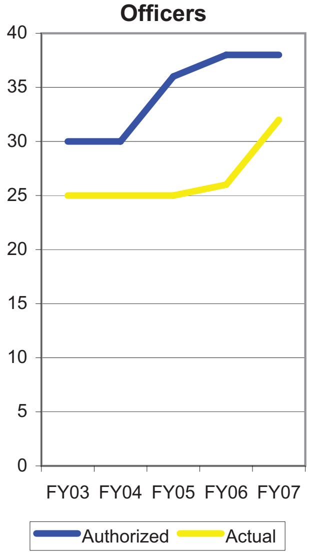




recorded. DPS reported that in FY07 alcohol-related fatalities in New Mexico were down 20.1 percent from FY06.

DWI Courts. New Mexico's five driving-while-intoxicated (DWI)/drug courts are in the following counties: Doña Ana, Eddy, Valencia, McKinley and Bernalillo. DWI courts are voluntary programs, of a minimum of nine months, designed for nonviolent defendants convicted of multiple, misdemeanor DWI offenses. Installation of an interlock device is required on any vehicle driven for the length of the program. Currently, data on recidivism is collected at the Bernalillo County Metropolitan Court and McKinley County Magistrate Court. The recidivism rate during the three years post graduation is 3.2 percent at the Metro Court and is 15.9 percent at the McKinley County Magistrate Court.

Number of Actual and Authorized Special Investigation Division Commissioned Officers



Source: DPS

Native American DWI Issues. In December 2006, the governor appointed a state tribal task force to address DWI issues. This was spurred by the fact that the number of McKinley County DWI offenses was not dropping along with the state. This task force is focusing on four areas: (1) increasing law enforcement in the Navajo Nation through a grant to fund two law enforcement officers focused on DWI; (2) developing cross-commissioning agreements between the McKinley County sheriff and the Navajo Nation; (3) sharing data through use of the uniform traffic citation to ensure an arrest record and the ability of the Motor Vehicle Division to revoke the driver's license; (4) targeting Native Americans with public service announcements on DWI.

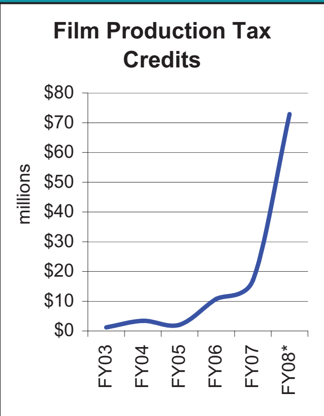
Ignition Interlock Compliance. Currently, there is a 45 percent compliance rate with the interlock laws. Courts allow offenders to sign a waiver stating they do not own a car. About 50 percent of offenders sign this waiver. Some counties have checked against the Motor Vehicle Division's records to ensure vehicles are not registered in the offenders' names. The majority of offenders do not have vehicles registered in their names. Additional funding through the Department of Finance and Administration's local government grants is directed toward compliance units to ensure offenders are complying with the interlock laws. The "DWI czar," the head of the executive's DWI efforts, supports alternative sanctions for offenders who sign waivers, such as the secure continuous remote alcohol monitors that monitor real-time drinking.

Rules and Regulations on Serving Alcohol. Changes to the Liquor Control Act in 2006 gave the state the authority to revoke a bar or restaurant's liquor license after three convictions for serving alcohol to minors or over-serving people. Over-serving is defined as serving alcohol to an individual with a blood-alcohol content of 0.14 percent within 90 minutes of the time the person was served. Any combination of the three convictions from either category will lead to a revoked liquor license. As of September 2007, six liquor establishments in McKinley and San Juan counties had three or more convictions for serving alcohol to minors or over-serving people and were in the process of having their licenses revoked by the state.

Office of Homeland Security. The Homeland Security and Emergency Management Department Act created a noncabinet level department. The law removed the Emergency Management and the Homeland Security Support Program from DPS and the Office of Homeland Security from the Governor's Office to create a separate Homeland Security and Emergency Management Department. The purpose of the new department is to consolidate and coordinate homeland security and emergency management functions; serve as the central primary coordinating agency in response to emergencies, disasters, and acts of terrorism; and serve as the conduit for federal assistance and cooperation in response to emergencies, disasters, and acts of terrorism.

In pursuit of new companies and industries, the state has developed a range of tax incentives, marketing programs, and capital outlay funds to promote job growth. Yet access to a skilled workforce is paramount for companies in their decision to locate or grow a business in any location. Any comprehensive economic development strategy must encompass education and workforce training. While financial incentives play a role in marketing, it is difficult to know whether any particular incentive was necessary to create jobs or recruit a company. Foregone revenue through tax credits or grants made to companies for training means less revenue available for education or other critical state programs. While new jobs bring new tax revenue and provide opportunities to the citizens of the state, the best strategy for growing the economy and creating those jobs is debatable.

Economic Development Department. As the lead agency for creating jobs in the state, the Economic Development Department (EDD) assists existing businesses to expand operations, helps new businesses get started, and, through the Economic Development Partnership, recruits new companies to the state.



*Estimate
Source: TRD and LFC Files

Many economic development programs operate beyond the department, leaving significant funding outside of the agency's operating budget and the normal budget appropriation process. From the Smart Money program at the New Mexico Finance Authority to private equity investment authority at the State Investment Council, expenditures on this broad set of economic development programs are more difficult to monitor and less transparent for the public.

Filming in New Mexico. New Mexico offers one of the most generous film incentive packages in the country. Production companies may receive a 25 percent tax rebate on expenditures, reimbursement of employee wages through the Job Training Incentive Program (JTIP), and zero-interest loans from the State Investment Council. In addition, the state has invested large capital outlay appropriations in media production education programs at New Mexico's colleges and universities. These subsidies, coupled with New Mexico's varied landscape and proximity to Los Angeles, have led to significant growth in the number of films made in the state.

Loans from the State Investment Council. Since 2002, SIC has loaned production companies $198 million without interest for a share of film profits. Of this amount, $168.7 million remains unpaid. To date the state has received one advance payment of $500 thousand for its loan to Lionsgate to film *Employee of the Month* in New Mexico.

This program is unique among state film incentives, and the bulk of SIC's lending has occurred in the last three years, coinciding with the increased tax credit.

25 Percent Tax Rebate. For FY07, the state approved $17.1 million in refundable tax credits to production companies, which spent $158.7

million in the state. The 25 percent credit became effective at the beginning of 2007, and in the first five months of FY08 tax refunds totaling $30.4 million have been approved for 18 film and media projects. At this pace, the film production tax credit will cost the general fund more than $70 million in FY08.

While other states offer tax credits, some greater than New Mexico's 25 percent rate, many are nonrefundable, transferable, or capped, making them less generous or more burdensome for the industry. Missouri, for example, offers a 50 percent tax credit, but the program is capped at $1.5 million per year. In Louisiana, a major competitor for film projects, production companies may receive tax credits up to 35 percent of expenditures, but they are nonrefundable and transferable. In addition, many other states only apply the tax credits to larger projects, typically those spending more than $300 thousand.

Building a Film Workforce. The Film Office grants up to $2 million per year to production companies through JTIP to pay up to 50 percent of employee wages. The program has also used this funding to host worker training days around the state.

Another $22 million has been appropriated in capital outlay to the Department of Finance and Administration and allocated, at the direction of the Governor's Office, to the state's higher education institutions for film and media programs. New film and media arts degree programs have been established at the University of New Mexico, New Mexico State University, and Eastern New Mexico University.

Sustainability. The still unanswered question is whether the film industry is sustainable in New Mexico. The film crew base has grown to about 1,700 – enough for five or six productions at one time. The privately financed and built Albuquerque Studios is a major investment in the state, providing state-of-the-art facilities for filmmaking. The groundbreaking for Sony Imageworks and its partnership with the University of New Mexico should make the state an important player in digital and special effects productions. Nevertheless, the film workforce is inherently, and necessarily, transient. The industry seeks low-cost locations, creating competition among the states for generous tax credits. Without New Mexico's subsidies to the industry, production companies would likely find other locations, and the workforce would be forced to follow.

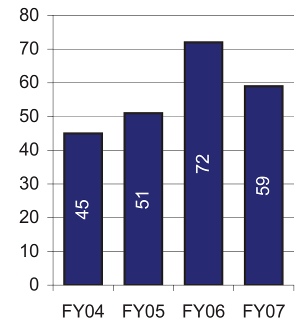
Job Training Incentive Program. Despite its name, JTIP serves more as a company recruitment tool than a workforce development program. EDD and the Economic Development Partnership, a private nonprofit created in statute, market the program to prospective companies as an incentive to relocate to New Mexico. JTIP reimburses companies 50 percent to 80 percent of the wages paid to newly hired employees for up to six months. This training incentive is commonly considered one of the most generous in the country.

$21.7 Million Capital Outlay Appropriations to the Media Fund

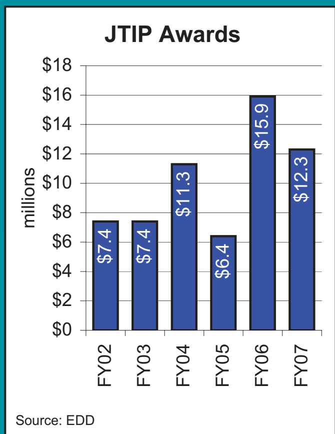
Program	Millions
Film Tech Training	$1.40
UNM / ARTSLab	$3.00
NMSU / CMI	$2.50
College of Santa Fe	$1.00
NM Tech	$1.00
DCA / NMHU	$0.26
NM Filmmakers	$0.50
Renewable energy documentary/EDD	$0.15
Other	$0.10
Cash Balance	$11.80
Approved projects	*$4.90*
Available balance	$6.90

Source: Office of the Governor

Film and Media Productions in New Mexico



Source: Film Office



Capital Outlay and Special Appropriations for the Spaceport and X-Prize Cup

- **1998/2005: $8.6 million for planning and design**
- **2004: $1.5 million for the environmental impact statement**
- **2004: $4 million for spaceport and X-prize Cup**
- **2004: $5 million for X-prize Cup**
- **2005: $1 million for planning and design**
- **2006: $100 million for planning, design, construction of the spaceport**
- **2006: $200 thousand for marketing of X-prize Cup**
- **2007: $750 thousand for X-prize Cup operations**
- **2007: $10 million for spaceport road (GRIP II)**

At least one-third of all JTIP funds must be spent in rural areas – a requirement mandated by Section 21-19-13 NMSA 1978. The program has had difficulty meeting this requirement, and the JTIP board adopted policy changes for FY08 to allow higher wage reimbursements in rural, frontier, economically distressed, and Native American areas.

Job Retention. In December 2006, EDD conducted a job retention study. The JTIP survey of 89 businesses that participated in the program from 2002 to 2006 found only 34 percent of trainees were still employed by the company that received JTIP funds. These results are not distinguishably different from a similar study in 2003, and the department should begin reporting such findings annually.

Spaceport in the Desert. Building a spaceport in Sierra County remains a contentious issue. With $115.1 million appropriated in capital outlay funds and another $10 million from Governor Richardson's Investment Partnership (GRIP) II, the Legislature has made a significant commitment to the project. Its promise to make New Mexico a leader in the nascent space tourism industry won't be realized for several years, and the risks for the state's investment remain high.

After the contingencies were effectively removed on the first installment, but with limited severance tax bond capacity in 2007, the Spaceport Authority certified the need for funding, and $21.6 million in bonds were sold in FY07. To access the second $33 million, the spaceport must be licensed by the Federal Aviation Administration and the Spaceport Authority must have signed a lease with an anchor tenant and must be reporting quarterly to LFC on progress at the spaceport.

Other Funding. Laws 2006, Chapter 15, allowed municipalities or counties to impose a regional spaceport gross receipts tax, with 75 percent of revenues dedicated for the Spaceport Authority and 25 percent for local spaceport related activities. Doña Ana County voters narrowly passed an increase in gross receipts taxes in April 2007 to support spaceport construction. According to EDD, the tax in Doña Ana County should raise more than $7 million annually and allow the Spaceport Authority to issue $50 million in bonds for construction. Before spending the tax revenue, the county must join a regional spaceport district with at least one other taxing city or county. To date, no other county or municipality has passed the tax, and Doña Ana County will delay collecting the tax until it can form a district and spend the revenue. Sierra County is expected to put the tax before voters next year.

Federal funding for the spaceport is tenuous. Given NASA's interest in partnering with the private sector, there may be opportunities for grants for operational activities. The communities near the spaceport may also be eligible for federal economic development grants. However, direct earmarked appropriations for construction of the spaceport seem unlikely.

Spaceport Competition. Spaceports in other states and countries have been announced and are in various stages of licensing and design. As a new industry, competing flight systems and technologies are being developed, with some vehicles launching vertically and others, like Virgin Galactic, horizontally. Several spaceport projects are being designed around these different systems, but it is widely regarded that Virgin Galactic and its partner, Scaled Composites, have the most proven design.

Spaceport Oklahoma is licensed by the FAA for commercial flights, and the Oklahoma-based Rocketplane Kistler plans to launch horizontally from the former Clinton-Sherman Air Base. Spaceports in west Texas, Florida, Wisconsin, Virginia, California, and Ohio are in various planning and operational stages.

Plans for other spaceports in Singapore, the United Arab Emirates, Sweden, and Australia have been announced. Virgin Galactic, while maintaining its plan to headquarter in New Mexico, has announced plans for operational agreements with other spaceports.

Border Development. While one of only four border states, New Mexico ranks near the bottom in trade with Mexico, and both sides of the border are largely undeveloped. The Border Development Act, enacted in 1991, was designed to encourage economic growth of the border region and promote ties and trade with Chihuahua, Mexico. Due to the state's rural and sparsely populated 180-mile border with Chihuahua, development has been focused in the areas around El Paso, Texas, and Juarez, Mexico – the only nearby industrial cities. With access to rail and interstate highways, new warehouse facilities, and planned developments, Santa Teresa, N.M., should be poised for significant economic activity and development over the next few years.

Union Pacific Rail Relocation Project. Union Pacific Corporation announced in October 2006 it will relocate significant portions of its operations from El Paso, Texas, to a new $150 million terminal facility at Strauss, N.M., about four miles west of Santa Teresa. With a new terminal facility and intermodal ramp, anticipated by 2015, Union Pacific will be able to accommodate more rail traffic. The intermodal ramp is expected to process a minimum of 100,000 container units annually, and the company is in the process of acquiring land for the facilities.

By moving facilities to New Mexico, Union Pacific can expand operations and El Paso can redevelop valuable downtown land.

With the expectation that the project will be a significant boon to development of the region, bringing new jobs, warehousing facilities, and infrastructure investment, the Legislature passed an exemption from gross receipts and compensating taxes for locomotive fuel in the economic development omnibus tax bill (Laws 2007, Chapter 172, House Bill 839). The exemption is effective July 1, 2009, if EDD certifies that construction of the railroad locomotive refueling facility has commenced in Doña Ana County. The anticipated cost of the exemptions is $3.3 million by FY10. Also in support of the project, another $1.5 million was appropriated in Laws 2007, Chapter 42, (Senate Bill 827) to improve a county road connecting NM Highway

136 in Santa Teresa with the new Union Pacific facilities in Strauss. Another $3.5 million will be taken from the $14 million federal appropriation provided under the 2005 Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU).

Verde Group Development. The Verde Group, an El Paso real estate development firm, recently broke ground on a major residential development in Santa Teresa. The company has designs for master plan communities along the entire U.S.-Mexico border, including a 20,000 acre development in New Mexico. The first phase of the plan calls for 4,000 homes in the next 10 years, with initial construction of 400 to 500 homes. The company also owns the Santa Teresa industrial park, another 30,000 acres around Columbus, and 19,000 acre-feet of water rights in the Santa Teresa area.

Colonias are often associated with "third world" living conditions.

Colonias. While such projects are promising for the region, major obstacles exist. Of particular concern is the proliferation of colonias—unincorporated, rural communities that lack electricity, water systems, and other basic infrastructure. Over the past three years, $15.5 million has been appropriated in capital outlay for the colonias initiative – an effort to improve infrastructure and enhance social and economic development opportunities. The $5 million appropriated in 2005 was allocated to 15 projects, all in Doña Ana County. In 2006, another $5.9 million was appropriated to the Department of Finance and Administration, and in 2007, the Legislature appropriated another $5.5 million for colonias statewide.

Economic Development Programs at the New Mexico Finance Authority. Through the Statewide Economic Development Finance Act, the New Mexico Finance Authority (NMFA) is increasingly involved in the financing of economic development projects around the state. Two programs that may work in tandem are specifically focused on financing for businesses with less access to capital in the traditional markets.

The Smart Money and New Markets Tax Credits programs at New Mexico Finance Authority are designed to give rural businesses more access to capital, but there is little legislative oversight of the programs.

Smart Money. First capitalized with a $10 million general fund appropriation in 2005 and supplemented with a $2 million appropriation in 2007, the Smart Money Loan Participation Program partners with banks in New Mexico to finance economic development projects identified and evaluated by NMFA and EDD. By investing state money, the program reduces the risk of private lenders that then provide below market rate loans to borrowers. To date, the NMFA board, with consultation from EDD, has approved three participation requests – Plaza Hotel (Las Vegas) through Valley National Bank; Western Wood Products (Raton) through International Bank; and PreCheck, Inc. (Alamogordo) through Alamogordo Federal Savings – for a total of $3.8 million.

New Markets Tax Credit Program. To take advantage of the federal New Markets Tax Credit, NMFA formed a for-profit community development entity. FinanceNM, LLC, was recently awarded $110 million in federal tax credits to distribute to private investors that provide equity for economic development projects identified by FinanceNM. To qualify for the credit, the investment by FinanceNM must be in a business in a low-income census tract. For example, with Mesa Del Sol in a low-income census tract, investments in Albuquerque Studios would qualify for the credit.

The two programs, in combination with other economic development tax incentives, will serve as additional marketing and financing tools for economic developers around the state. While these programs may be particularly beneficial to small rural communities, where access to capital is limited, legislative oversight is particularly important. For example, NMFA should set a target rate of return for Smart Money and report quarterly on investment results.

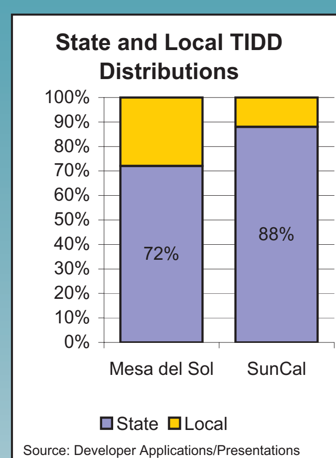
Tax Increment Financing. The first Tax Increment Development District (TIDD), Mesa del Sol, was approved in 2007. Mesa del Sol was formed by the city of Albuquerque and approved by the state Board of Finance (BOF). NMFA reviewed the financing, authorized by the Legislature. The Legislature put a $500 million cap on the amount of bonds supported by the state share that could be issued. Beginning on January 1, 2008, 75 percent of the state share and 67 percent of the city share of gross receipts tax revenue will be diverted to Mesa del Sol to finance public infrastructure. Estimates provided by Mesa del Sol indicate the district will be a net gain to the state and city. The city, when negotiating the final master development plan, required at least 15 percent of all Mesa del Sol dwelling units be affordable housing and mandated the TIDD perform an annual review of the no-net-expense condition.

The greatest concern is that the positive returns to the general fund indicated in the cost-benefit analysis were based on the assumption development would not happen without the TIDD. Four other features of the final development plan stand out as concerns. First, the city is allowing Mesa del Sol to charge a 5 percent contract management fee for the infrastructure to be paid from bond proceeds. Second, the city is allowing the use of "excess incremental revenues," those not needed for debt service, to satisfy the city's no-net-expense rules. Third, the city has opened the door to the use of incremental revenues for operations and maintenance of infrastructure subject to approval by bond counsel. Fourth, capital outlay appropriations in the districts seemingly duplicate the tax expenditure for the TIDD.

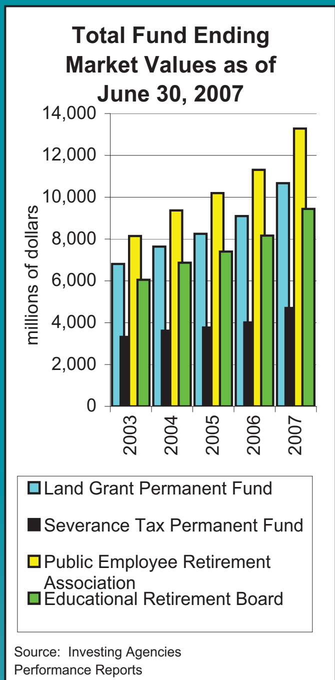
At least one application for a TIDD is likely to come up for legislative authorization in 2008. Currently, the city of Albuquerque, the city of Las Cruces, Bernalillo County and Doña Ana County have all passed ordinances allowing TIDDs, and SunCal on Albuquerque's West Mesa is considering an application. These are New Mexico's high growth areas, and to the extent that creating TIDDs diverts the growth in gross receipts taxes from the general fund, managing the operations of state government could be impaired.

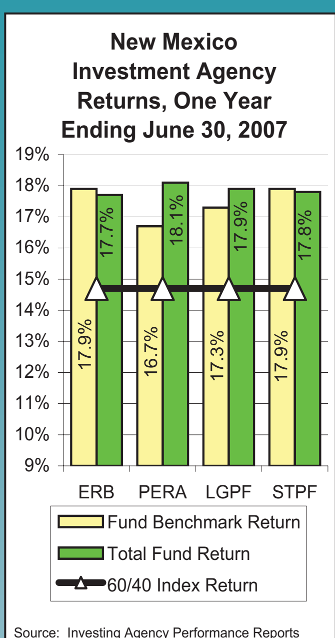
Approved Tax Increment Development Districts in New Mexico

- **Bernalillo County**
- **Doña Ana County**
- **Albuquerque**
- **Las Cruces**



Policy Analysis: **Investments and Pensions**





Oversight of the major state funds continues to be a committee priority. A small sampling of other states shows that the level of legislative oversight in New Mexico is relatively high. Most other states rely on the agencies to report on investment performance and policy without much comparison among agencies. LFC provides members and the public with a quarterly investment report that addresses performance across the funds and important issues affecting the investing environment, such as national trends or in-depth analysis of particular investment strategies. In addition, for the third year, an interim legislative committee has reviewed a broad range of issues relating to investments and the pension plans. Even greater attention is warranted going forward as all of the agencies responsible for investing the state's permanent funds and retirement funds venture further into alternative assets, especially given the market developments detailed below. Understanding asset risks, investment performance, plan benefits, and other components affecting plan solvency helps legislators monitor the funds to ensure their ability to provide their designated benefits over the long term.

Investment Performance Overview. The state has four major funds. Two are managed by the State Investment Council (SIC): the land grant permanent fund (LGPF) and the severance tax permanent fund (STPF). Both provide general fund recurring revenues. As a result of a constitutional amendment in 2003, LGPF distributes 5.8 percent of the five-year average of the year-end balance to the general fund for public education. This rate will drop to 5.5 percent in 2013 and to 5 percent in 2017. STPF distributes 4.7 percent of the five-year average of the year-end balance to the general fund. The distribution rates are set in the Constitution and can only be changed by amending the Constitution. The other two funds are pension funds managed by the Public Employees Retirement Association (PERA) and the Educational Retirement Board (ERB). All four funds reported impressive earnings for FY07 for the second year, with combined net asset value growing $5.5 billion to $38.1 billion.

In reviewing performance among the funds, it is important to keep in mind the funds have different asset allocations, different strategies, and different restrictions. All of the funds have entered alternative investment asset classes—which include private equity, hedge funds, real assets, and real estate—but SIC has been allocating to these asset classes longer than PERA or ERB, so it has higher allocations and more mature investments. SIC also has a constitutional restriction on the amount it can invest in the equity asset class that has outperformed all of the other classes.

Fund Performance versus Benchmarks. Each fund devises a fund benchmark unique to its particular portfolio policy and asset allocation targets. The difference between this fund benchmark and actual returns is quantified in terms of "basis points," where one basis point equals 0.01 percent or 0.0001, and represents a quick means of assessing how well a fund performed during the related time period. Further insight is provided by separating attribution into its manager and allocation components. The manager effect is simply the excess return added relative to the manager's individual benchmark. In a year like FY07—where for most of the year the market enjoyed a broad spectrum of positive returns for equities—excess returns are difficult for managers to achieve. Indeed, the gap between returns and the 60/40 stock and bond portfolio index narrowed significantly from FY06, when fund returns outpaced this marker by a whopping average of 665 basis points, mostly attributable to manager gains. In contrast, manager returns for FY07 were meager. Asset allocation, particularly the overweighting in equities, accounted for most of the funds' return in excess of benchmarks.

The allocation component measures how well a portfolio strategy compares performance within asset classes. For example, the return of the domestic equity asset class is compared with the return of the Standard & Poor's 500 stock index. The asset classes are constantly monitored and periodically rebalanced to match the target asset class allocation.

Investment Performance for One Year Ending June 30, 2007. For the one-year period ending June 30, 2007, the investment program returns all exceeded 17.6 percent. PERA posted the highest return of 18.1 percent, exceeding its internal benchmark by 137 basis points and ranking above 63 percent of the funds in the All Public Plans Mellon Universe. Asset allocation contributed 0.73 percent and manager value, before fees, added 0.50 percent. LGPF came in 63 basis points above its benchmark, and STPF was just 9 basis points behind its benchmark. ERB missed its benchmark by 29 basis points, ranking in the 34th percentile of the Independent Consultants Cooperative (ICC) Public Funds Universe. The returns were all only slightly higher than a straight 60/40 index, which returned 14.7 percent for the year.

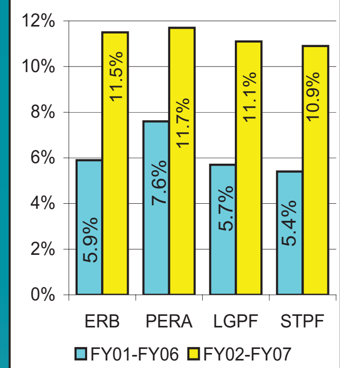
Investment Performance by Fund

	ERB	PERA	LGPF	STPF
One Year Performance				
Fund	**17.7**	**18.1**	**17.9**	**17.8**
Policy Index	17.9	16.7	17.3	17.9
60/40	14.7	14.7	14.7	14.7
Five Year Performance				
Fund	**11.5**	**11.7**	**11.1**	**10.9**
Policy Index	11.4	10.5	10.8	11.1
60/40	8.4	8.4	8.4	8.4
Ten Year Performance				
Fund	**7.7**	**9.8**	**8.5**	**8.3**
Policy Index	8.1	7.9	7.8	8.2
60/40	7.0	7.0	7.0	7.0

5- and 10-Year Investment Returns. The returns for the five-year period ending June 30, 2007, were significantly improved over those of the five-year period ending in 2006 not only because of strength in returns in FY07 but also because another four quarters of the bear market of 2000-2002 dropped out of the calculation. For example, PERA reports a five-year return of 11.7 percent, up from the 7.6 percent reported for June 30, 2006, and 120 basis points ahead of its benchmark for the period. LGPF also shows dramatic improvement, and although missing its target for the fourth year in a row, STPF's five-year return more than doubled from FY06.

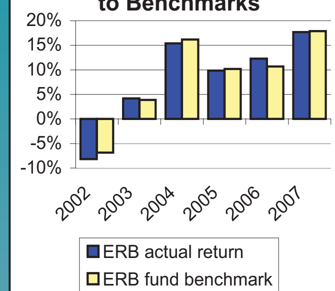
For the 10 years ending June 30, 2007, PERA had the highest return, 9.8

New Mexico Investment Agency Five Year Return Comparison: FY01 - FY06 and FY02 - FY07



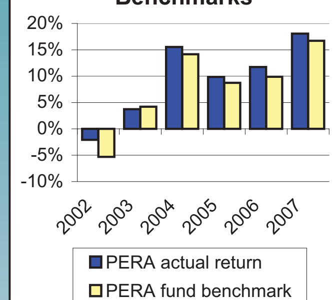
Source: Investing Agency Performance Reports

ERB Returns Relative to Benchmarks

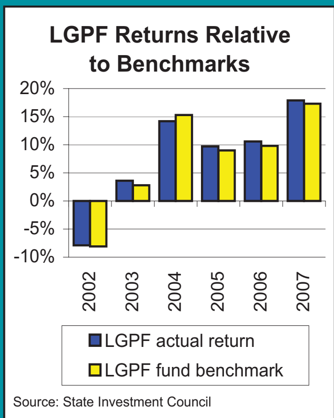


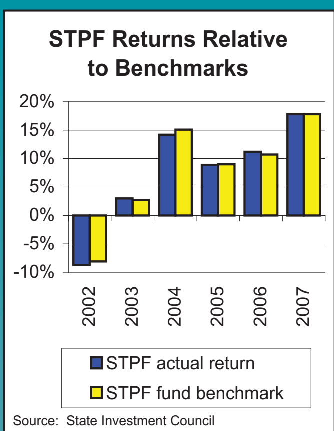
Source: Educational Retirement Board

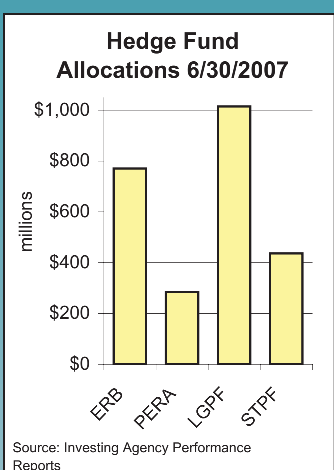
PERA Returns Relative to Benchmarks



Source: Public Employees Retirement Association







percent, which beat its policy target of 7.9 by almost 200 basis points and topped the 60/40 index of 7 percent by a robust 268 basis points. LGPF and STPF returned 8.5 percent and 8.3 percent respectively, both outperforming their benchmarks. For this period, at 7.7 percent, ERB fell behind its policy target of 8.1 percent by 40 basis points. Although ERB came in slightly higher than the 60/40 index, the actuarial assumption used for calculating solvency for the two pension plans is 8 percent.

Alternative Investments. Since the passage of the "Prudent Investor Act" in 2005, agencies responsible for investing pension and permanent funds have initiated or expanded investments in nontraditional or alternative investments to optimize returns and reduce risk. Principally, these investments are in hedge funds (or "absolute return" funds), real estate, and private equity. SIC has also made "economically targeted investments" that invest in New Mexico, with economic development a part of the expected return versus a focus on bottom-line return.

Most of the traditional investments move together over time so funds invested in the traditional 60/40 split of equity and fixed income have high volatility as measured by standard deviation. Alternative investments, on the other hand, are expected to have low correlations with the equity/fixed income portfolio and so can move in the opposite direction, allowing less volatility and greater expected return. Whether this anticipated benefit of moving assets into the alternative mix is realized remains to be seen.

Status Report. By investing in funds composed of several hedge funds (a fund-of-funds approach), ERB completed its rollout into hedge funds by fiscal year-end. PERA's alternative targets, which will mirror ERB's 15 percent allocation across the three asset classes when completed, will roll out new targets for the alternative asset classes over time. For example, as of August 2007 the target allocation for hedge funds was 3 percent. When completed, 5 percent hedge funds and 5 percent real estate/real assets will be funded by a 10 percent reduction in fixed income, and the 5 percent private equity will be funded from equities. PERA is taking more time through its direct fund strategy for hedge funds proposed by its alternative consultant, Cliffwater.

Fund Asset Allocation Detail, Quarter Ending June 30, 2007

	ERB		PERA		LGPF		STPF	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target
Total US Equity	**41%**	**40%**	**42%**	**40%**	**52%**	**53%**	**51%**	**53%**
International Equ	**20%**	**18%**	**29%**	**25%**	**12%**	**10%**	**13%**	**10%**
Total Fixed Incon	**26%**	**27%**	**26%**	**35%**	**19%**	**18%**	**15%**	**12%**
Total Alternatives	**12%**	**15%**	**2%**	**0%**	**16%**	**19%**	**21%**	**25%**
Private Equity	0.6%	5.0%	0.1%		5.1%	6.0%	8.8%	12.0%
Hedge Funds	8.2%	5.0%	2.1%		9.5%	10.0%	9.3%	10.0%
Real Estate/Real /	3.0%	5.0%	0.0%		1.6%	3.0%	2.4%	3.0%
Cash Equivalents	0.8%	0.0%	0.5%	0.0%	0.5%	0.0%	0.7%	0.0%
Total Fund %	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Private equity for both pension funds remains insignificant as of fiscal year-end, and it is expected that this allocation could take several years to fully materialize. However, for some of the investments, manager fees will be paid out of committed funds prior to investment returns, contributing to what is known as the "j-curve," which could produce a slight drag on overall performance in this "ramp-up" period.

Similarly, the deployment into real estate will take time. ERB's current portfolio comprises real estate investment trusts (REITs), which will be liquidated to fund direct investments into limited partnerships. PERA's 5 percent allocation will be equally split between real estate and real assets, which include investments in energy, commodities and Treasury inflation protected securities or TIPS. Investments in real estate and real assets are designed to counter inflation.

SIC invests portions of STPF and LGPF in alternative investments. For STPF, SIC has a target of 25 percent allocated to alternatives: 12 percent in private equity, 10 percent in hedge funds, and 3 percent in real estate. For LGPF, alternatives will eventually make up 19 percent: 6 percent in private equity, 10 percent in hedge funds, and 3 percent in real estate. Both funds are approaching the allocations for these targets.

Asset Allocation and Performance. FY07 demonstrated the critical nature of positioning assets along an efficient frontier to harness the power of diversification. Limits or directives on asset categories can correspondingly limit returns, as demonstrated by the four-year underperformance of the STPF. By design, this fund has a much lower exposure to international equities—which has buoyed the retirement funds' returns over the last two years—and invests in economically targeted investments and film loans that can have lower returns.

This year also demonstrated how quickly markets can change with the implosion of the credit and housing markets. ERB's REIT portfolio, which had been delivering returns in the 20s, sharply reversed course with a 9.9 percent loss in the fourth quarter of FY07. Preliminary first quarter FY08 results indicate a 10.9 percent loss. During this same time, managers who based their strategies on quantitative analysis were also hit hard. The question of whether the market stress is short-lived or marks a substantial change that will need to be incorporated into the quantitative analysis models remains to be answered.

This market turmoil pressured hedge funds as well, with funds composed of several funds in a portfolio (fund of funds) down an average of 2 percent for August. However, ERB's preliminary data for January through July 2007 provides a unique opportunity to view classic hedge fund behavior. ERB's hedge fund composite returned 2.4 percent for the three months ending July 31, 2007 and 9.6 percent calendar year-to-date, beating the related benchmarks of 1.7 percent and 7.3 percent for the corresponding time periods. More importantly, both equity and fixed income returns were negative for the same three-month period. Exceeding return targets, outperforming the asset class of fixed income being replaced by the hedge funds, and maintaining value in a down U.S. equity market are the primary

In the current market environment, the portfolio strategy using hedge funds is being tested.

ERB - Preliminary Data Performance Detail

Asset Class	Bench-mark	3 Months July 07	Calendar YTD Jan-Jul 07
U.S. Equity	*-1.5%*	-1.6%	3.6%
Intl Equity	*n.a.*	4.1%	12.5%
Fixed Income	*n.a.*	-1.1%	1.4%
Hedge Funds	*1.8%*	2.4%	9.6%
Private Equity	*5.8%*	3.5%	n.a.
Real Estate	*-17.2%*	-16.4%	-13.2%
Fund Benchmark		-1.0%	3.6%
Total Fund Return		**-0.5%**	**4.2%**

Management fees for alternative investments are structured differently than traditional investments.

"The basic funding objective of the Fund is to avoid transfers of the cost of statutory obligations between generations of taxpayers."

Source - Executive Summary of the June 30, 2007 Actuarial Valuation Report of the Judicial Retirement Fund

PERA is within GASB standards for funding period. ERB projects it will be within the standard when the increased contribution rates are fully phased in.

objectives of a hedge fund strategy and all were successfully met during this short-term snapshot. Sustaining similar performance over the long term will determine program success.

Another concern is uncertainty regarding pricing for some investments, where valuation can be obscured due to the evaporation of public trading in underlying securities, such as what occurred during the credit market crunch. According to Goldman Sachs, less than half of all securities trade on exchanges, and more securities are priced by dealers who don't publish quotes. As a result, the value of some assets in mutual funds, hedge funds, and other complex investment vehicles is uncertain. In addition, some assets are being carried at book value rather than being "marked to the market," the price the asset would bring on the open market.

Oversight and Governance. Although the 2005 Prudent Investor Act removed the tight scope of investments, it placed greater responsibility on the investment directors and the boards for investment choices and oversight. This is especially true because many alternative investments are not subject to the same scrutiny and regulations that govern traditional equity and fixed income investments. In addition, alternative investments involve unique tracking issues, including lagged reporting, valuation, and proper benchmarking.

Most alternative investments have a component with a performance fee, a base fee, or both that is deducted from the "pool" or fund assets instead of being paid via a voucher. Therefore, as both PERA and ERB migrate up to 15 percent of assets in these alternative categories, the related "pooled" fees will miss the appropriation process and total fees will be underreported, unless a system is initiated to "capture" the amount of these fees. A secondary consequence is that returns for traditional assets will be reported *gross* of fees while returns for hedge funds will be reported *net* of fees. For the private equity and real estate asset classes, the expenses and fees are advanced by the fund separately; the return, however, may be calculated both gross and net of manager fees and expenses.

Manager fees for alternative investments are typically higher than those for traditional assets and can run up to 200 basis points. Thus, transparency of manager fees for the alternative assets becomes a concern, especially when analyzing whether the additional costs associated with the alternative investments, including the higher manager fees, are outweighed by the anticipated benefits of lowered volatility and sustainable excess returns.

Pension Plan Updates. PERA offers 31 pension plans covering state and local government employees, municipal and volunteer firefighters, judges, magistrates, and legislators. As of June 30, 2007, PERA had 51,547 active members and 23,700 retirees, reflecting a 5 percent growth in the number of retirees from FY06 to FY07. ERB offers a pension plan to public school and higher education employees. Preliminary numbers indicate it has just over 62,600 active members and 27,658, also a 5 percent growth over FY06. Both plans are defined benefit plans, which provide a monthly annuity payment for the retiree based on years of service, highest average salary, and a pension calculation factor established by the Legislature. Each plan also provides an annual cost-of-living increase for retirees.

The committee monitors the financial health of the two pension funds by focusing on actuarial solvency calculations, primarily the funded ratio and funding period that are detailed below.

Funded Ratio. The funded ratio is the actuarial value of assets (AVA) expressed as a percentage of actuarially accrued liabilities. As of June 30, 2007, PERA maintained its overall funded ratio of 93 percent, which means that plan assets are 93 percent of projected liabilities.

ERB's 2007 funded ratio increased slightly from FY06 to 70.5 percent. However, using market value of assets rather than the AVA generates a 77.6 percent funded ratio, up from 71.9 percent as of June 30, 2006. The AVA smoothes returns over several years and so includes years prior to the strong returns the fund has seen recently. Generally, a funded ratio of at least 80 percent is considered satisfactory.

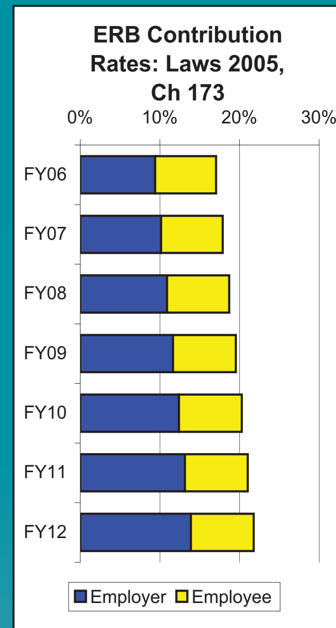
Unfunded Actuarial Accrued Liability and Funding Period. The unfunded actuarial accrued liability (UAAL) is the dollar difference between a plan's actuarial liability and the actuarial value of its assets based on assumptions regarding investment income return and demographic projections. The Governmental Accounting Standards Board (GASB) states that the amortization period for any UAAL should be less than 30 years.

As of June 30, 2007, PERA had an aggregate UAAL of $930.3 million and an amortization or funding period of 13 years, well below the GASB standard.

ERB's UAAL increased during FY06 from $3.1 billion to $3.6 billion but decreased during FY07 slightly by $23.7 million. ERB's actuary estimates that the increased contributions will result in the UAAL being fully amortized in about 19 years. However, because GASB does not permit the consideration of contribution rates not yet in effect, ERB's funding period remains at infinity.

If contribution, demographic, and investment assumptions hold, the most recent valuation indicates this infinite funding period will continue through FY08, turn positive in FY09, and meet the GASB 30-year funding period during late 2010. The funded ratio is projected to reach over 80 percent by FY12. These last two solvency measures show notable improvement from the original estimates compiled in 2005, primarily due to excess investment returns achieved over the last two years. Projections are particularly sensitive to investment returns because any one year can significantly differ from the long-term expected average of 8 percent.

Due to this sensitivity of projections to actuarial assumptions, particularly to investment returns, the prudent approach is to "stay the course" regarding the contribution increases to mitigate any impact from future investment returns falling *below* the 8 percent assumption, which could just as easily swing the projections the other way.



Original 2005 ERB Estimates	
Turn Positive:	FY09
Meet GASB 30-year funding period:	FY12
Meet GASB 80% funded ratio:	FY21

From FY05 through FY07 all actuarial assumptions held except investment returns, which exceeded the 8 percent assumed rate in each year: 9.51 percent (FY05), 12.3 percent (FY06), and 17.6 percent (FY07).

To address the under-funding of the judicial plan, Laws 2005, Chapter 246, increased the employee and employer contributions while requiring slightly higher retirement conditions for those entering the plan on or after July 1, 2005. PERA estimated the new terms of the plan would reduce the contribution shortfall from 14 percent to 4.92 percent.

As of June 30, 2007, the judiciary retirement fund shows an unfunded actuarial liability of $21.4 million and a funding period of infinity.

RHCA Premium Increases

2006	3.5%
2007	6.0%
2008	9.0%

New Mexico Judicial and Magistrate Retirement Funds. The funding ratio for the PERA-sponsored judicial plan improved slightly, from 77.7 percent to 79.4 percent, primarily due to the high investment gains for FY07. However, the PERA actuary reports that even with the increased contributions and reduced benefits effective July 1, 2005, contributions for FY07 remain insufficient by 7.51 percent of payroll. Approximately 48 percent of contribution revenue comes from docket fees, which bear little relationship to judicial payroll – the main driver of pension benefits. The actuary cautions that, in the absence of future gains, the funded condition of this plan will deteriorate unless this contribution issue is addressed. The same caution is issued regarding the magistrate retirement fund, where a 2 percent contribution deficiency will likely lead to a deterioration of the plan's fully funded condition in the absence of experience gains.

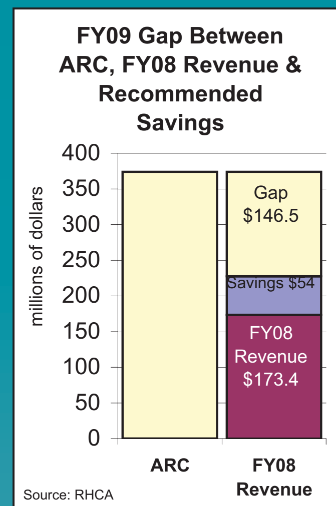
New Mexico Retiree Health Care Authority. The Retiree Health Care Authority (RHCA) provides group and optional healthcare benefits and life insurance to New Mexico's current and future eligible retirees and their dependents. RHCA has 466 participating employers, including all state agencies and all public school districts, 59 charter schools, 22 counties, 23 cities, and 10 institutions of higher education. Total enrollment as of June 30, 2007, is 38,137.

The past two years have been among the most challenging for the agency since it was created in 1990. In addition to rapidly rising healthcare costs and increasing demand as more retirees become eligible for benefits, the RHCA fund is projected to become insolvent as early as 2014. Additionally the fund's UAAL exceeds $4 billion, largely the result of new, federal accounting standards. Finally, all revenues entering the system are being used to pay for benefits of current retirees with no prefunding for future beneficiaries as envisioned when RHCA was created.

In response to these challenges, the RHCA board approved an average 9 percent increase in premiums set to take effect on January 1, 2008. The board also approved a number of benefit design changes intended to equalize benefits and costs among existing plans and increase the solvency period. Overall the changes will add 1.5 years of solvency based on a projected 8 percent medical trend.

The Legislature passed Laws 2007, Chapter 168, to establish a work group to study how to improve the solvency and reduce the UAAL. The work group, consisting of representatives of the Department of Finance and Administration, the Office of the Governor, the Human Services Department, the Legislative Council Service, RHCA, and the Legislative Finance Committee reported its recommendations to LFC in October 2007. The work group considered and recommended all options that would extend the solvency of the fund, reduce the fund's UAAL and provide prefunding of benefits for future retirees. Recommendations include the following:

- Limit state subsidy to 50 percent of projected costs for retirees and 25 percent of projected costs for spouses (New Mexico currently subsidizes 67.5 percent of projected costs for retirees and 47.6 percent of projected costs for spouses),
- Set future premium adjustments to track medical trends,
- Establish solvency at 25 years and maintain that level through regular increases to premiums and employer/employee contributions,
- Implement a rule that provides different levels of subsidies, based on age, for all retirees,
- Maintain the suspense fund appropriation of an additional $3 million per year from House Bill 728 and use the money to prefund future retiree benefits,
- Increase the employer/employee contribution from the current 1.9 percent to 2.4 percent and use additional funds to provide prefunding of future benefits,
- Address the under-funding of the annual required contribution (ARC),
- Rebalance the RHCA board to provide for greater representation by the non-retiree sector,
- Focus on the UAAL and ARC in addition to solvency to gauge fiscal condition of the program

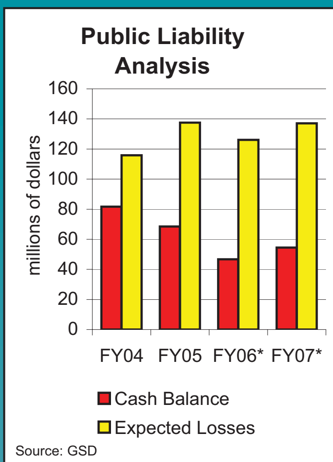


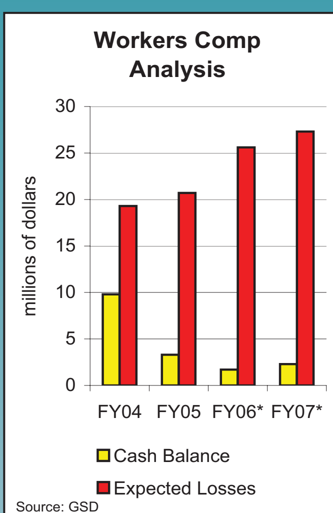
RHCA has undertaken a number of internal reforms to strengthen its administrative capacities. The agency replaced an outdated administrative rule that allowed local public bodies to join the system at a significantly undervalued rate. RHCA requested an outside review of its information technology systems to improve an inadequate accounts receivables system. RHCA also commissioned a review of the work of its actuarial firm that found its assumptions and projections related to solvency and unfunded liability to be generally valid.

Policy Analysis: **Internal Services**

GSD risk reserves have stabilized over prior years in most funds. However, workers compensation and public liability are still below a 50 percent reserve level.

Late in 2006, GSD discovered that it had failed to pay as much as $9.5 million in unemployment premiums to the Department of Labor.





Risk Management. The General Services Department (GSD) operates public liability, workers' compensation, property, and unemployment compensation risk management programs. As in prior years, the major issue facing the state's risk reserve funds is the level of fund balances and actuarial position. A consistent policy regarding fund balance levels is lacking.

A 2006 study by LFC staff found little consistency in how other states set fund balance levels. In general, keeping fund balances too low puts the state at risk should payouts be higher than expected, while keeping fund balances too high ties up scarce revenue.

GSD has made some progress in addressing the issues raised by the 2006 study, with the public property fund in particular stabilizing. However, the conditions of the largest fund, public liability, and worker's compensation and unemployment compensation funds remain volatile.

In 2007, the Risk Management Advisory Board recommended all funds achieve and maintain a 50 percent actuarial position within three years.

In recent years, large losses, particularly in the area of medical malpractice and fire and hail damage, have reduced the public liability and public property actuarial position. The public liability position is at 37 percent, while the public property FY06 ending projected actuarial position has actually improved and stood at 400 percent. However, it may be difficult to sustain that level of reserves given the largely uncontrollable nature of fires, storm damage, etc.

The workers' compensation actuarial position has declined to 7 percent due to the implementation of payments for pre-existing conditions, lump-sum payments for permanent-partial disability, and large settlements over recent years. Rate holidays for agencies also contributed to the declining actuarial position of the fund.

In December 2006, GSD discovered it had failed to pay unemployment premiums it collected to the Department of Labor, and numerous local public entities, as well as state agencies, are in arrears. In total, the amount owed by state agencies alone reached approximately $9.5 million. Many local public bodies may be hard pressed to come up with funds to pay arrears.

GSD is undertaking a more robust collection effort to recoup payments owed by both agencies and local public bodies.

Department of Information Technology. Laws of 2007, Chapter 290, (the Information Technology Act), created a new cabinet-level department by combining the Information Systems Division (ISD) and the Communications Division of GSD with the Office of the Chief Information Officer (OCIO). The new agency, the Department of Information Technology (DoIT), became effective July 1, 2007, although the transition was not a smooth one. Uncertainty regarding expenses and FTE transfers from GSD remains to be clarified during the FY09 budget cycle.

Rates. Section 7 of The Information Technology Act formed the Information Technology Rate Committee (ITRC), which consists of seven members responsible for developing rates charged state agencies for information technology (IT) and communication services. The ITRC plans on meeting quarterly to review these rates, particularly given the number of issues challenging the rate-setting process.

Internal Cost Models May Not Apply. The two GSD divisions were not transferred into DoIT as stand-alone divisions but have been combined and aligned across enterprise services and enterprise operations bureaus. Thus, the prior internal cost models developed under GSD may no longer apply, and the biggest challenge facing DoIT is properly recording internal costs along these new alignments. Compiling good data that accurately reflects these costs will be essential for setting rates for adequate cost-recovery and ensuring overcharging does not occur.

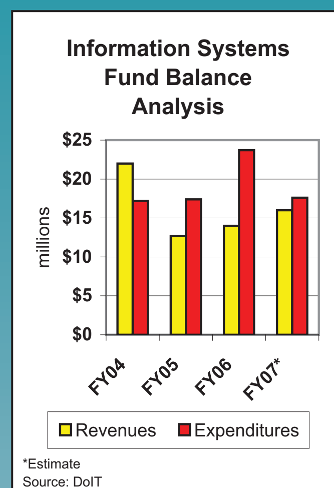
Information Systems Fund. Fund solvency is in question. Revenues dropped by 42 percent from FY04 to FY05 and only slightly recovered in FY06, while expenditures exceeded revenues the last three years. As a result, almost $10 million was under-recovered during this period. Because FY07 and FY08 rates are set to recoup actual costs only, this loss will be carried forward into FY09. The fund shows a projected negative fund balance as of August 2007, which DoIT later estimated in October 2007 was about $4 million. Complicating this issue is the fact that the financial audits for FY05 and FY06 for GSD are not yet completed and the FY07 audit will be late, making fund balance estimates unreliable.

In addition to the under-recovery, DoIT reports that the federal Division of Cost Allocation has filed claims for nearly $15 million against the state Information Systems Division for overcharging federal programs in certain cost centers over a 10-year period. The latest federal claim of $4.6 million stems from FY04, which DoIT states is actually $1.8 million. Even at this reduced rate, the payment could be a serious blow to fund solvency. Thus, DoIT is seeking two supplemental appropriations to address this federal claim, one for $1.8 million to pay as an agreed settlement and one for $2.8 million if New Mexico loses a countersuit it has initiated in federal court.

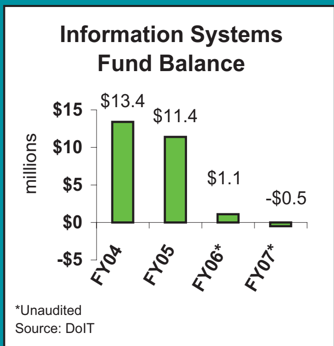
Potential Budget Impacts. According to DoIT, agencies were impacted by IT rate adjustments in FY07 due to two primary reasons: the cost-allocation method used for the FY07 published rates was not adequate, and the billing system was grossly under-recovering mainframe usage. Five hundred thousand dollars was appropriated from the general fund to cover deficiencies in various agencies that are heavy mainframe users. DoIT explains that because FY08 budgets are based on the FY07 original rates, the same scenario will arise in FY08. For example, DoIT reports that the Taxation and Revenue Department will most likely require an approximate $600 thousand supplemental appropriation.

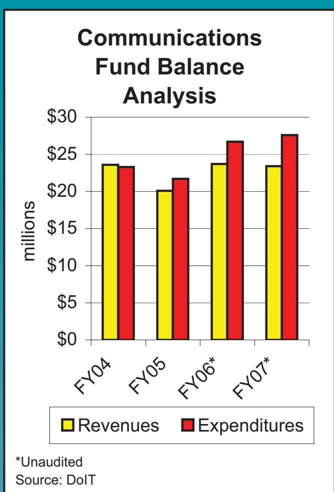
In 2006 the Legislature appropriated $150 thousand to the Office of the Information Officer (OCIO) for a study of the GSD information systems and telecommunications rates. Beginning July 1, 2007, GSD revised rates for information systems processing based on to this OCIO study that recommended the following items:

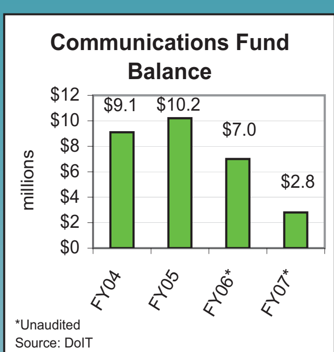
- Collapse some of the billed services into larger rate categories to simplify the process,
- Use actual rather than budgeted costs for rate setting,
- Clearly define all services aligned with business processes,
- Map all costs to the services,
- Implement a quarterly rate review process, and
- Develop a services catalog.



DoIT maintains it is committed to an improved cost-based methodology for rate-setting, ensuring that each service recovers its own cost. This practice will effectively end the federal claims issue going forward.







Communications. DoIT provides telecommunications (voice and data) and radio communications services. Although it appears that revenues and costs have been somewhat more aligned than for information systems, DoIT reports that nearly $7 million was under-recovered during FY06 and FY07 due to cost escalations with no offsetting rate hikes. New FY08 and FY09 rates should recover these costs. However, DoIT notes that the state needs to invest in additional bandwidth and is requesting $5.6 million for Wire New Mexico, which will most likely require future rate increases. DoIT is also requesting a $3.75 million special appropriation to upgrade the telephone system.

SHARE. DoIT has assumed full responsibility for the Statewide Human Resource Accounting and Management System (SHARE), which had been led by GSD, the Department of Finance and Administration, and the State Personnel Office (SPO). The system, intended to replace and consolidate all accounting and payroll systems within state government and integrate human resource management activities and data within one centralized system, went "live" July 1, 2006. Since its implementation a myriad of problems have impacted

- payments to employees and vendors,
- the ability of agencies to have information regarding the current status of their budgets and finances,
- the reliability of the reports being generated, and
- federal reimbursements to the state.

These problems have raised significant questions regarding the project's design, the implementation plan, the quality of employee training, the state's readiness to implement, and the ability to have accurate and timely financial information. In fact, unreliability of accounting information continues into the FY09 budget cycle. SHARE promoters have pointed to users as a main cause of system errors and propose additional training as a primary resolution. DoIT is requesting a $935 thousand special appropriation to this end, adding to the SHARE workload for the agency to monitor contract development, deliverables and implementation. With a vacancy rate of almost 20 percent, concerns arise regarding how effectively the agency will be able to deliver on its statutory mandates and agency objectives.

Information Technology Commission and Project Certification. Per the Oversight of Information Technology Rule, the Information Technology Committee (ITC) played a central role in certifying projects, providing an open channel for information on state IT projects to flow to interested parties, including the LFC. However, upon its inception, DoIT completely took over this function and now maintains that the ITC will serve more in a strategic planning capacity. LFC is working with DoIT to clarify the ITC's role through the rulemaking process, which requires public comment. For example, LFC is proposing that the ITC review projects over a certain dollar threshold (such as projects over $1 million). The ITC was slow to form due to the lack of governor appointees, and the commission's final role appears diluted.

Policy Analysis: **Public Employee Compensation**

Employee compensation remains a high priority for FY09. Accordingly, $88 million from the general fund is recommended for compensation and benefit increases. While this increase continues to address the Legislature's concern with maintaining job market parity and attracting quality applicants, it also reflects a slowdown in recurring revenues.

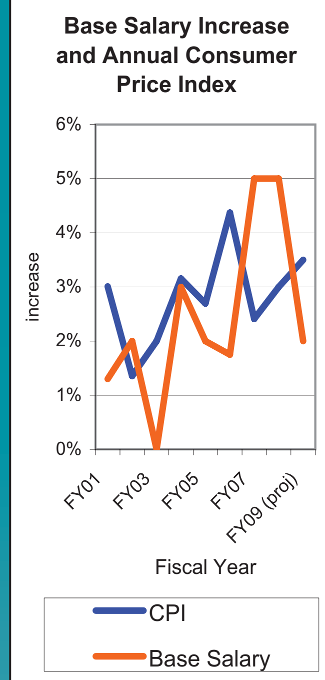
The following table outlines the recommended compensation and benefits increases per employment sector:

Employee Group	Base Salary Increase	Benefit Adjustment	Average Total Compensation Increase
Judicial Employees	2.4%	0.20	2.60
District Attorney Classified	2.4%	0.20	2.60
Executive Classified	2.4%	0.20	2.60
State Police	2..0%	0.20	2.60
Public Education	2.0%	0.95	2.95
Higher Education	2.0%	0.95	2.95

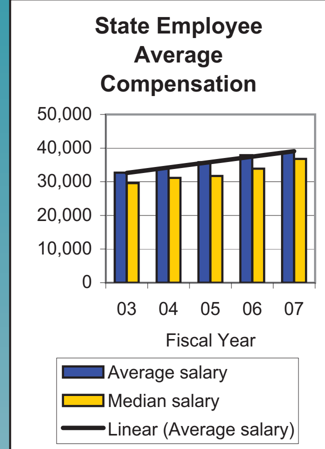
This recommendation provides all employees with salary and benefits increases to become effective July 1, 2008. Salary increases will continue to be awarded based on employee job performance. This allows employees to progress through the salary range, reducing the salary compaction problems that had been evidenced in state government. These increases are recurring and are inclusive of salaries, social security and Medicare taxes, retirement, and retiree health care contributions.

This recommendation recognizes the changes to the Educational Retirement Act. Laws 2005, Chapter 273, which authorizes seven years of 0.75 percent increases in the employer contribution, effectively increasing the employer contribution from 8.65 percent in FY05 to 13.9 percent in FY12 (an increase of 5.25 percent over seven years). Additionally, this recommendation reflects a recommended 0.2 percent increase to the retiree healthcare contribution made by the state. This increase is contingent upon passage of other legislative action being introduced with regards to the retiree healthcare system.

Executive Classified Employees. As a result of enhanced state revenues in both 2006 and 2007, the Legislature was able to grant salary increases that allowed for significant adjustment to employee base compensation, with additional adjustments for employees in market-impacted positions. The state, through this action, has been able to maintain employee salary levels at a competitive rate. Problems with employee salary compaction within pay ranges still exist; however, these problems are reduced because employees



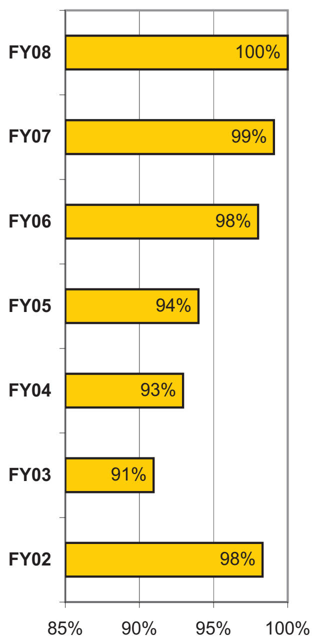
Source: LFC Files and U.S. Bureau of Labor Statistics



Source: State Personnel Office

A compa-ratio is a measure that expresses current pay rates as a percentage of range mid-points.

State Classified Employee Average Compa-Ratio



Source: SPO

received merit adjustments in the past two years that allowed them to progress through the pay ranges based on their relative positions in the pay band. Concern remains that while individual employee pay has risen significantly (10 percent) in the past two years, the pay structure continues to fall behind market, because structure adjustments have not been made or recommended by the State Personnel Office (SPO). SPO estimates the low end of the classified pay plan may be as much as 12 percent behind market. This can best be evidenced when comparing the minimum of each salary range with the starting pay for employees within that range. Employee starting rates cluster above the 25th percentile of the salary range, which would indicate market pressure on starting pay. This exacerbates pay compaction and further impacts recruitment because applicants see minimum rates that bear no relationship to market conditions or actual starting salaries.

The Legislatures in 2006 and 2007 provided state employees with direct compensation increases averaging 5 percent in each year. Employees received 2 percent across-the-board increases each year and an additional average 3 percent increase based on the employees' compa-ratio, or position in the range. These increases were contingent on satisfactory job performance. This allowed employees with lower compa-ratios, the farthest behind the market average, to receive a higher percentage increase than employees closer to or above the average market pay for their position. This resulted in the average compa-ratio for state employees increasing from 92.8 percent in FY06 to 99 percent in FY07 and to 100 percent in FY08, its highest level in over five years.

Annual Compensation Report. State Personnel Board (SPB) rules require submission of an annual report to both the governor and the LFC on the classified pay system at the end of each calendar year. In 2004, the SPB ceased its practice of making recommendations to the Legislature regarding structure adjustments to the pay plan and specific compensation adjustments to classifications significantly impacted by market conditions. This has left the Legislature, as the appropriating authority, without the strategic information it needs to prioritize and balance the needs of the compensation system. This problem is further compounded by employees, unions, and individual agencies independently lobbying the Legislature for special market adjustments without any concern regarding the impact to the state's compensation structure. This piecemeal approach has not served the state well, as evidenced by a continuing lag behind market rates and a 50 percent reduction in applicants for state jobs.

A review of SPO by LFC this past year revealed the current processes for awarding pay increases in state government have a number of weaknesses:

- They are not fair and equitable either within or between agencies.
- They are not consistently used by agencies or even within agencies.
- Employee pay opportunities are dependent on the "have" and "have not" funding of agencies.
- Starting pay is inconsistent among agencies.

This uneven and inconsistent playing field directly impacts employee retention and recruitment throughout state government.

External Market Competitiveness. The state in 2001 established a policy that provides for salary range mid-points at 95 percent of the comparator market. In 2006, the average compa-ratio for state employees was 92.8 percent, as compared with a 2008 level of approximately 100 percent.

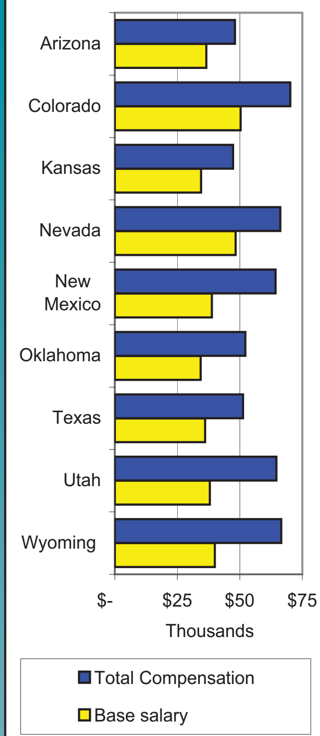
Total Compensation. The term "total compensation" describes the complete rewards and recognition the state provides employees. In addition to direct compensation or pay for time worked, indirect compensation includes benefit costs, paid leave, and retirement, in addition to other rewards that cannot be easily quantified but provide indirect, real, and valuable benefits.

The Central States Regional Total Compensation Analysis for 2007 shows New Mexico ranking fourth in total compensation out of the Central States eight comparator states compared with a third place ranking in 2006. New Mexico is ranked fifth in base compensation when compared to these same states. While base pay is the largest component and the foundation of total compensation, continued growth in indirect compensation reflects the state's increased share of employee benefit costs and the impact of escalating premiums costs. Historically, the Legislature has sought to offset limited salary increases by shifting the cost burden for employee benefits from the employee to the state. This growth in indirect compensation is a significant recurring cost with implications for the future in the ability to attract and retain quality employees.

The Hay Group in its 2006 report to the LFC indicated, "Different elements of the total remuneration of state employees continue to be administered by separate agencies; salary by SPO; health benefits by GSD; retirement by PERA etc." The current system inhibits the state's ability to develop a coordinated strategic approach to employee compensation and benefits.

Coupled with the SPO review by LFC this year, it is recommended that a thorough review of the compensation philosophy and policies of

Comparator Market Survey 2007



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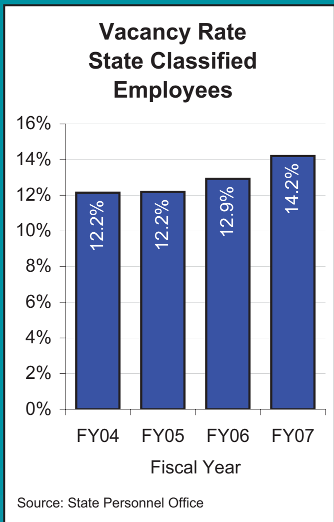
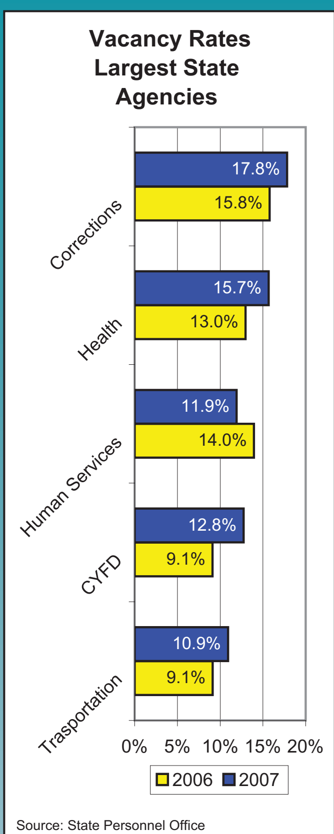




the state be conducted, by either a separate legislative oversight committee on compensation or by a subcommittee of LFC, to ensure that employees are treated in a fair and consistent manner as was envisioned by the 2004 Hay Group's study. This creates an opportunity for the Legislature and the executive to discuss in detail the issues surrounding both employee base and total compensation and to develop a more unified and strategic approach. Absent a clearly defined strategy regarding salary administration with specific and defined objectives, pay structure, compaction, and employee morale issues will continue to grow and impede our state government's ability to move from a reactionary position on compensation issues to a more proactive position as envisioned in N.M.HR2001.

Performance Increases. Prior to 2004, annual salary increases were provided through step or merit increases. The concept of performance pay was a cornerstone of NM.HR.2001 but was discontinued in 2004 by the executive because of the shift to collective bargaining. The Hay Group in its 2006 analysis stated, "This is a significant change since 2002 and interestingly, is counter to the trend in pay delivery in the USA, both in the private and public sector."

Without a system or funding for performance pay, such as step or merit increases, there exists a systemic inability for employees to advance within a pay range. The inability to reward or advance employees is hampering efforts to recruit and retain highly competent employees, further frustrating managers and supervisors.

SPO over three years ago discontinued performance reviews due to concerns with the existing system and forms. Since then, new forms have been developed and training courses are underway. On the surface, movement is being made towards the implementation of a performance review system that would determine salary increases; however, it is quite apparent this is not a priority for implementation.

Employee Turnover and Retention. The state's compensation picture will continue to be influenced by many factors over the next several years. The impact of the "baby boomer" retirements throughout all employment sectors is of great concern. Job opportunities for employees will significantly increase turnover, creating vacancies in an increasingly competitive labor market.

Vacancy rates in state government have escalated from an FY06 level of 12.9 percent to 14.2 percent for FY07. High turnover and vacancy rates are costly to state government. Using industry-standard tools to calculate, the cost of turnover to the state is conservatively estimated to be in excess of $50 million per year without factoring in the cost of overtime or lost productivity. It is recommended all key agencies set a target for vacancy rates and on the number of calendar days to fill vacant positions as part of their measures.

<u>Higher Education Employees</u>. The committee recommends a 2.0 percent salary increase for all higher education employees. As part of a total compensation package, the committee recommendation includes a 0.75 percent contribution to the Educational Retirement Board (ERB) as mandated in statute, as well as a 0.2 percent increase in the state's contribution to the retiree healthcare system for a total compensation increase of 2.95 percent.

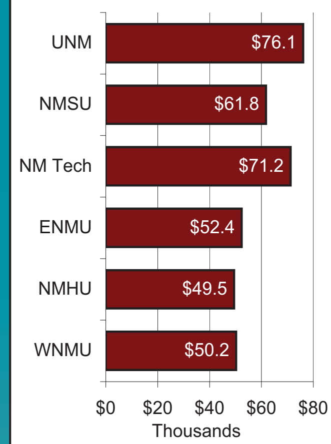
An analysis of the American Association of University Professors (AAUP) faculty salary survey by the Council of University Presidents notes the highest salaries at public four-year postsecondary institutions in New Mexico are about 9 percent below the averages for peer institutions in other states.

The committee heard testimony on behalf of faculty at the state's universities concerning the need to retain and attract quality faculty and, particularly, the need to close the salary gap with institutional peers. The request focused on options for funding the 2006 Higher Education Department (HED) faculty salary study with a potential cost of $42.5 million over three years. The testimony emphasized the loss of faculty due to retirements and resignations and salary compression concerns. Finally, some colleges are facing salary competition from public schools because teacher pay has improved under the three-tier licensure system.

The New Mexico Independent Community Colleges (NMICC) and the New Mexico Association of Community Colleges (NMACC) jointly submitted a summary of average full-time faculty salaries (adjusted to nine-month equivalency) for fall 2006. The report is generally based on data reported to the federal Department of Education, which represents a shift in methodology from previous year's analysis prepared by NMACC. The average for independent colleges was approximately $45.3 thousand, with an average of about $42.2 thousand for branch colleges. New Mexico salaries were at 92.3 percent of the average of community colleges in the mountain states region.

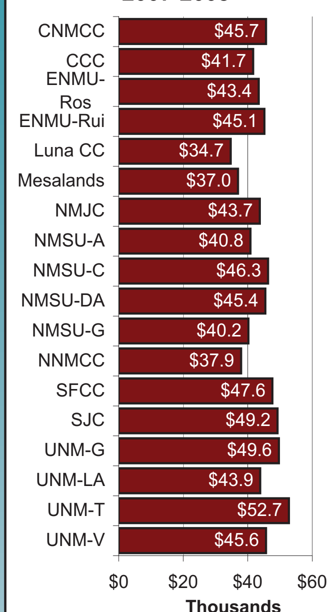
The University of New Mexico (UNM) Health Sciences Center (HSC) continues to advance the faculty compensation initiative that began last year. Further, the institution is facing a) the need for additional doctors because residents are now limited to an 80-hour work week, b) the potential unionization of residents c) record patient numbers, and d) escalating severity of patient illness.

Mean Salary Comparison, Four-Year Universities, 2007-2008

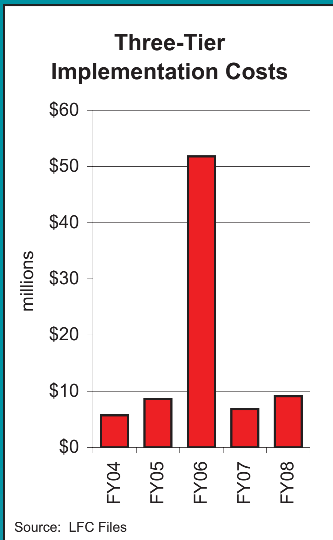


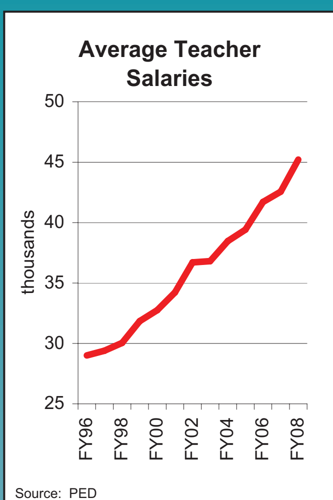
Source: Council of University Presidents

Mean Salary Comparison, Two-Year Colleges, 2007-2008



Source: NM Assoc. of Community Colleges.





Public Education. Since FY04, the Legislature has appropriated $307.4 million for salary increases, completed funding of the three-tier career ladder for teachers, and established minimum salaries for school principals and assistant principals based on responsibility. The minimums are set at $60 thousand for elementary principals, $70 thousand for middle and junior high principals, and $80 thousand for high school principals. To support these minimums, the Public Education Department (PED) is charged with developing an evaluation system that includes student achievement data and alignment with the schools' educational plan for student success.

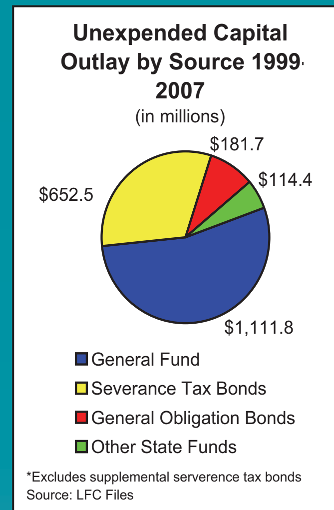
While increasing teacher compensation improves recruitment and retention, the three-tier ladder does not help schools achieve the goal of employing quality teachers because pay is not tied to outcomes, particularly student performance. As mentioned above, the new principal evaluation system includes a student performance component, and the committee recommends the teacher evaluation system be modified to include student performance as an evaluation factor.

With the extraordinary financial commitment made by the Legislature to teacher pay, expectations are high that schools will demonstrate significant student improvement, much of which has not materialized.

The Legislature's commitment to improving teacher salaries to regional averages has resulted in improvement. For FY05, the most recent year data is available, a survey by the American Federation of Teachers indicates that starting annual salaries for teachers in New Mexico were on average, $1,522 higher than surrounding states. Overall, average teacher salaries were on average about $1,000 below neighboring states. Within these averages, however the T&E index in the school funding formula results in undo variations. Additional funding provided through the T&E factor allows some districts to hire a more educated workforce, exacerbating disparities in opportunities for some students.

Continuing to improve salaries for educational employees remains a priority for the committee, and an average 2.0 percent salary increase for all public school employees is recommended. As part of a total compensation package, the committee recommendation includes a 0.75 percent contribution to ERB as mandated in statute as well as a 0.2 percent increase in the state's contribution to the retiree healthcare system.

Policymakers have taken advantage of the influx of energy-related revenues in recent years to make meaningful investments in properly planned and managed state and local assets. However, given the expectation of limited and volatile funding in future years, legislators and the executive continue to scrutinize the vast amounts of money and large number of projects that remain unexpended and inactive. A lack of planning, a piece-meal approach to funding projects, and escalating construction costs continue to be the main reasons for delays in successfully completing projects — reasons that should compel policymakers to carefully distinguish funding for projects by priority, need, public purpose, and merit.



Unexpended Funds. Between 1997 and 2007, the Legislature authorized over $3.7 billion for over 17,000 capital projects. Of the amount, over $2.1 billion remains unexpended for over 8,500 projects, including $721.6 million for nearly 3,000 projects authorized in 2007. Of particular concern is the $590 million for 2,960 projects appropriated between 2002 and 2006 with little or no progress.

Capital Appropriations with No Activity
(in millions of dollars)

Year	# of projects	Dollar amount
2006	1,390	414.2
2005	833	102.0
2004	412	50.0
2003	259	13.5
2002	66	10.0
Total	2,960	$ 589.7

Source: LFC Files

Authorized but Unissued Bonds. As of October 2007, approximately $102.7 million in severance tax bonds for 35 authorized projects has not been issued. The $102.7 million includes $78.3 million for the spaceport and $4 million authorized through FY10 for the water and sewer distribution system in Bernalillo County. According to bond counsel, bonds were not issued for various reasons — incomplete certifications, projects not ready to commence, possible anti-donation issues, or the need for additional funds. A list of the projects "by sponsor" may be found in Volume III. The list may include authorizations scheduled for bond issuance in December 2007.

Capital Projects Greater than $1 Million. The Legislative Finance Committee staff tracks projects funded for $1 million or greater to provide greater accountability for larger projects. As of November 2007, 346 projects totaling $1.1 billion (including $368.4 million appropriated in 2007 for 129 projects) account for 53 percent of outstanding capital balances. To date, 209 projects are on schedule, 91 are behind schedule or have had little activity, 46 are inactive or bonds have not sold, and 18 require additional funds to complete the project. The complete report of the projects can be found on the LFC website.

Project Status for Projects Funded $1 million or Greater

LEGEND		
	Project on schedule	209
	Behind schedule or little activity	91
	No activity or bonds not sold	46
X	Additional funds needed	18
Total Active Projects > $1million		346

Source: LFC Files

Projects funded by severance tax bonds (STB) are of particular concern. Based on the certification of project readiness by

Inactive Projects
($1 million or greater)

- Coors & Sequoia Road Improvements - $2 million authorized in 2004; bonds sold in 2004; project in initial planning and engineering stage; DOT anticipates combining with Coors and Quail road project but still under evaluation.
- Cannon Air Force base - $5 million appropriated in 2006 for land and water rights acquisition; bonds sold July 2006; grant agreement not issued pending decision by Air Force.
- San Juan Community College – $1.2 million appropriated in 2006 to construct learning commons plaza; bonds sold in July 2006; college will not expend until prior year funds are utilized.
- San Juan Community College - $1.6 appropriated in 2006; bonds sold in July 2006; college will not expend 2006 funds until prior year funds are utilized.
- Sandoval County broad band project - $1 million appropriated from general fund in 2006; DFA ceased all payments until further notice pending outcome of state audit.

grantees, the Board of Finance authorizes the sale of bonds. The issuance of tax-exempt bonds for projects not ready to commence leaves the state open to noncompliance with the Internal Revenue Service Code. Failure to spend STB proceeds in a timely manner causes the state, under IRS regulations, to have to rebate interest earnings the state could otherwise use to reduce the cost of a project or to reduce debt service costs.

Capital Project Management. The joint Legislative Council and Legislative Finance Committee Capital Outlay Subcommittee continued to review the existing capital process, management concerns, and the obstacles to complete outstanding projects. The 2007 work plan consisted of the following:

- Review “successes” and procedures used during the 2007 legislative session and recommend further improvements,
- Hear testimony on critical statewide projects to assess need and prioritize project funding,
- Review and improve criteria for planning and prioritizing of both state and local projects, and
- Review the existing reauthorization process.

The adopted recommendations of the subcommittee to the full Legislature are as follows:

- Establish criteria for determining the merit and funding of both state and local capital projects,
- Report a preliminary prioritized listing of state agency capital needs to the full Legislature for their consideration,
- Establish timelines for passage of the capital bills, and
- Reform of the reauthorization process.

Volume III contains a full listing of the approved criteria, proposed state agency capital funding to the full Legislature, timelines for passage of the capital bills, and proposed changes to reauthorizations.

Capital Outlay Reporting. The Capital Project Monitoring System (CPMS), operated and maintained by the Local Government Division of the Department of Finance and Administration (DFA), continues to be cumbersome and time-consuming for state agencies overseeing capital projects. However, until the State Human Resources, Accounting and Management and Report System (SHARE) has the capability of implementing the more than 9,000 outstanding projects into the system, CPMS is the only means of centrally tracking capital expenditures. The utilization of SHARE was originally scheduled for July 2006. During the interim, DFA and LFC staff discussed measures to improve the quality of data generated by CPMS. The executive held a meeting with representatives of the major state agencies to address the importance of refining and improving the report. A task force comprising of state agencies and LFC staff will continue efforts to improve capital project reporting.

Capital Outlay Performance Audit. A team of LFC analysts and program evaluators conducted a review of 52 randomly selected capital projects authorized between 2004 and 2006. DFA agreed on the criteria for the random selection. The objective of the review was to assess current capital project management techniques, identify best practices, and evaluate and report on project outcomes. The findings and outcomes of the performance audit will be available on the LFC website following a presentation of the results of the review to the LFC in early January 2008.

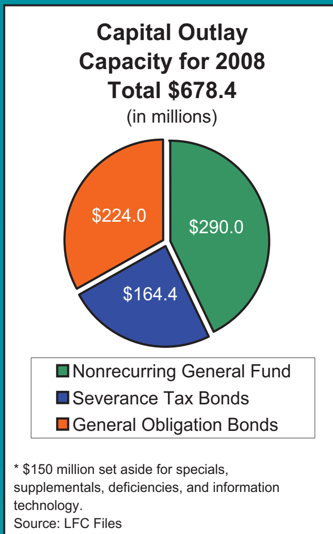
Review of Lease Purchase and Other Building Finance Options. According to a recent review of state-owned facilities (full report available on LFC website), building booms of state prisons, health facilities, and state offices during the 1950s, 1960s and 1980s has left New Mexico state government with an aged facility inventory that will need replacement or substantial renovation in the near future. Most state-owned facilities are well beyond a reasonable useful life. Some of these buildings may be "moth-balled" or turned into museums, but most are in active use and will have to be replaced, expanded or both to deal with future growth. Recently, the state has moved away from state ownership toward leasing to deal with the need for additional space needs, including prisons, health facilities, warehouses and offices.

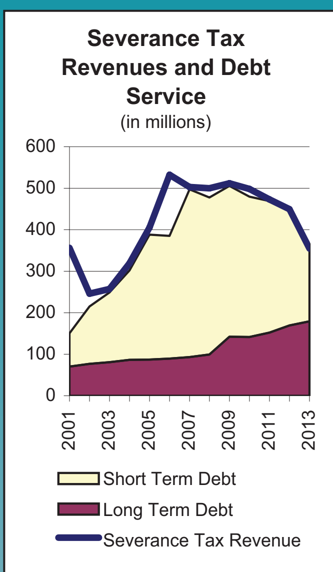
A basic analysis of state ownership versus lease options indicates that, in today's market, the state would substantially reduce recurring costs by owning a larger portion of its space, and leasing less. The state must approach the need to replace its huge facility inventory and deal with state growth with a comprehensive "buy-versus-lease" analysis on each project and an overall facility plan for the state that yields the greatest long-term savings to the state's taxpayers.

Capital Building Planning Commission. The commission's legislative proposals will not be finalized until January 2008. However, the initiatives under consideration by the commission include the following:

Inactive Projects Continued ($1 million or greater)

- Eagle Nest dam repair - $3 million authorized from game protection fund in 2003; engineering difficulties require additional data analysis; extension of time will be requested in 2007.
- Dam renovations - $2 million appropriated from general fund in 2005; Office of State Engineer waiting for Game and Fish Department to complete design.
- Department of Information and Technology (DoIT) - $5 million appropriated in 2005 for conversion from microwave to digital; $25 thousand expended to date; GSD has not received status report from DoIT.





- Due to demand for more parking spaces, a request for additional funding for construction of the capitol parking structure;
- Legislation authorizing the Property Control Division to enter into lease purchase agreements for the south capitol campus development;
- Support of $8 million for phase 1 of the south capitol campus development, including the proposed new health & human services complex;
- Authority to exchange land in Santa Fe County to facilitate the south capitol complex development;
- Authority to trade or exchange the current laboratory facility on the University of New Mexico campus for approximately two acres of land adjacent to or in close proximity to the new state laboratory facility in Bernalillo County;
- Support of certain state agency capital outlay projects falling within the master plans under the purview of the commission.

2008 Capital Funding Outlook. In recent years, oil and natural gas revenues increased significantly, adding hundreds of millions to the general fund. The windfall provided a tremendous amount of nonrecurring general fund — $781.1 million in 2006 and $770.5 million in 2007 while still maintaining 10 percent reserve levels. However, as energy revenues have leveled off, so have excess revenues. In 2008, only $290 million will be available to lawmakers for all general fund nonrecurring uses. This assumes a set aside of $150 million for one-time funding in the General Appropriation Act.

Severance tax bond (STB) net capacity is $164.4 million ($298 million less prior year authorizations: $29.8 million for the water project fund, $4 million for North and South valley sewers in Bernalillo County, $20.3 million unissued bonds, $44.3 million for the spaceport, $7.5 million for Department of Transportation maintenance, and $29.8 million for Governor Richardson's Infrastructure Program I and II. General obligation bond capacity, generally authorized for higher education, public and special schools, senior citizen centers, and libraries, is $224 million. Approximately $208.2 million of supplemental severance tax bond capacity is available for public school construction projects.

State Debt. Despite the considerable capital outlay of recent years, the state has not added significantly to its long-term debt obligation. Long-term debt service is expected to be $180 million by FY13, up from $93 million in FY07. Most of the severance tax bonds for capital outlay have been issued as short- term notes that use up the capacity but do not add to long-term debt. However, use of short-term notes prevents significant transfers to the permanent fund.

According to the U.S. Census Survey of Government Finance, the combined long-term state and local debt per capita for New Mexico was $5,343 in FY05. The average for all states was much higher at $6,903 — an indication New Mexico has not over-leveraged its residents.

Funding Requests for Consideration. State agencies, higher education institutions, and special schools requested $1.2 billion for capital projects. Testimony at legislative and executive hearings in the interim provided legislators, the executive, and their staff an opportunity to learn of the most important capital funding requests for 2008. Given the limited funding, the following summaries reflect the most critical projects impacting public health and safety, projects requiring additional funds to complete, and other projects meeting the criteria adopted by the interim capital outlay subcommittee. Other requests, including authorization to expend money for capital from "other state funds" are summarized in Volume III.

Department of Health. DOH requested $11 million to address facility deficiencies and security upgrades impacting patient health and safety at the Behavioral Health Institute in Las Vegas and other facilities, $11.5 million to *complete* construction of the New Mexico Rehabilitation Center in Roswell and Alzheimer's unit at the Veteran's Center in Truth or Consequences, and $4 million to *complete* renovations and construction at county health facilities in Roosevelt, Rio Arriba, Dona Ana, and Otero Counties.

Ranked as a second priority over more critical client-based needs at its own facilities, DOH requested $10 million to construct a dental school on the University of New Mexico (UNM) campus. The project was not presented as a priority by UNM during Higher Education Department public hearings for facility needs.

In response to House Memorial 1 (Forty-Sixth Legislature, First Session, 2003) a State Dental Education summit was held in August 2003 to assess the adequacy of current dental education programs needed to meet the needs and desires of state residents and students in New Mexico. As a result of the summit, an executive summary states "a dental school is not the most cost effective or advantageous way to address the issue of provider shortage and misdistribution." Participants of the summit (New

Key Criteria Used by LCS/LFC Capital Outlay Subcommittee To Prioritize State Asset Needs.

- Project will eliminate health and safety hazards and other liability issues
- Project is in progress and requires additional funds to complete
- Project is necessary due to state, federal, or court mandate or to comply with state and federal licensing, certification, or regulation
- Funding of project will maximize federal, local, and enterprise revenue
- Project is new construction or renovation designed with energy-efficiency features and information technology connectivity and interoperability
- Project provides direct services to students, staff, or the general public
- Project is included in state or local government Five-Year Capital Improvement Plan and is ready to commence
- Investment provides future operating cost savings with a reasonable expected rate of return
- Project is needed to address population or client growth (i.e., adult and juvenile facilities, senior centers, water systems, roads, etc.)

Construction Projects in Progress (require funds to complete)

- Roswell Rehabilitation Center construction
- Public health office renovations
- John Paul Taylor Center gym and vocational classrooms
- Human Services Department methamphetamine treatment center in Los Lunas
- Las Cruces and Las Vegas state police district offices
- Lordsburg port of entry
- Santa Teresa port of entry
- State forensic laboratory
- Archaeological Center
- Border Authority offices
- Motor Vehicle field office in Santa Fe
- Court of Appeals building
- Bernalillo County Metro Court

Mexico Dental Association, New Mexico Health Policy Commission, and UNM School of Medicine) unanimously agreed that an Oral Health Institute established at the UNM School of Medicine was a more desirable and significantly less expensive path to offering greater benefits in the areas of service, research, and education. The Legislature currently funds five Western Interstate Commission of Higher Education slots for dental education. It is unknown how many dental graduates paid for by the state practice in New Mexico. Only 20 percent of UNM School of Medicine graduates remain to practice in New Mexico.

Children, Youth and Families Department. CYFD requested $5.4 million to *complete* the gym and vocational classrooms at the John Paul Taylor Center, for waterline repairs at the Youth Diagnostic Development Center, for automated security systems at five facilities housing adjudicated youth, and funds for programming a pilot project for a 10-12 bed unit based on the "Missouri model".

New Mexico Corrections Department. NMCD requested $4.5 million to renovate kitchens at its Central New Mexico Correctional Facility, Southern New Mexico Correctional Facility, and Roswell Correctional Center. The kitchen at Central New Mexico has been closed due to code noncompliance. Another $15 million is requested to *complete* security upgrades and infrastructure deficiencies at its facilities. Existing infrastructure and security systems at the maximum level institutions have become a life-safety issue.

Human Services Department. HSD requested $6 million to *complete* construction and equipping of a 16-bed treatment facility in Los Lunas for methamphetamine and other substance abuses. The center will provide 24-hour room and board to women who cannot access treatment in their communities and for children who need a safe place to live during the mother's treatment.

Aging and Long-Term Care Services Department. ALTSD received capital outlay requests totaling $56.5 million from senior programs statewide. Based on formal presentations and review of the applications, ALTSD assigned a rating of critical, high, or moderate need to the projects. The department and area agencies on aging requested $9.3 million for senior center renovations, vehicles, and equipment needs statewide. ALTSD historically does not recommend major construction, but the department listed 16 projects totaling $9.2 million as "critical" construction need. A delay in addressing the construction projects now could prove costly in the future.

Department of Public Safety. DPS requested $6.7 million for the annual fleet replacement of 320 vehicles, a recurring cost that should be requested as part of the operating budget. DPS requested $16 million to *complete* construction of the Las Cruces and Las Vegas state police district offices and the Lordsburg port of entry. An additional $4.5 million is needed to *complete* construction of the Santa Teresa port of entry, a project supported by the General Services Department, Department of Transportation, and the Border Authority.

DPS requested $35 million to replace its 35-year-old state crime laboratory in Santa Fe -- a $12 million increase over last year's request. The Legislature in 2007 appropriated $1 million to plan and design the laboratory "adjacent to or in near proximity to the new laboratory services building in Albuquerque." The department rejected the funding in favor of constructing the laboratory in Santa Fe. The Property Control Division (PCD) of GSD, withdrew its request for proposals to plan and design the facility, and negotiations between PCD and the University of New Mexico to acquire land for the project have been delayed. Given the recent accounts by prosecuting attorneys, the courts, and other public safety officials of the backlog of deoxyribonucleic acid (DNA) and other tests impacting the judicial process, it is imperative that policy-makers and the department resolve differences in the location of the laboratory. An independent feasibility study could determine the most suitable and cost effective location of the laboratory.

General Services Department. GSD requested $13 million to support repairs and upgrades for 748 buildings under its jurisdiction. The funding request included the plan and design of the internal system of the Manuel Lujan building in Santa Fe. As reported previously, the majority of state-owned facilities are well beyond a reasonable useful life.

Public Education Department. PED requested $5 million to *continue* construction or renovation of pre-kindergarten classrooms statewide, $5 million to replace 64 school buses owned and operated by public schools, and $3.5 million for library materials. Unexpended funds totaling $3.5 million appropriated to PED and DFA in 2006 and 2007 for pre-kindergarten classrooms could be reauthorized to the Public School Capital Outlay Council for oversight of the classroom construction.

Higher Education Department. Institutions of higher education and special schools requested over $400 million for capital outlay

HED Recommendation per Institution (Projects in Volume III)

- Eastern New Mexico University - $13.7 million
- New Mexico Highlands University - $9 million
- New Mexico Institute of Mining and Technology - $9.5 million
- New Mexico State University (Main Campus) - $27.3 million
- Northern New Mexico College - $5 million
- University of New Mexico (main and off-site) - $22.4 million
- University of New Mexico Health Sciences Center - $21.1 million
- Western New Mexico University - $11.1 million
- Eastern New Mexico University (Roswell) - $4 million
- Eastern New Mexico University (Ruidoso) - $400 thousand
- New Mexico State University (Alamogordo) - $1.5 million
- New Mexico State University (Carlsbad) - $1 million
- New Mexico State University (Dona Ana) - $8.5 million
- New Mexico State University (Grants) - $400 thousand
- University of New Mexico (Gallup) - $900 thousand
- University of New Mexico (Los Alamos) - $400 thousand
- University of New Mexico (Taos) - $3.3 million

HED Recommendations (continued)

- University of New Mexico (Valencia) - $1.3 million
- Central New Mexico Community College - $9.2 million
- Clovis Community College - $4 million
- Luna Community College - $4.5 million
- Mesalands College - $6 million
- New Mexico Junior College - $5 million
- San Juan College - $6 million
- Santa Fe Community College - $4.2 million
- New Mexico Military Institute - $2 million
- New Mexico School for the Deaf - $5.7 million
- New Mexico School for the Visually Impaired - $1.6 million
- Other HED Recommendations:
  Dental school - $10 million
  Energy efficiency improvement fund - $20 million

needs. HED recommended nearly $220 million, the full general obligation bond (GOB) capacity, for 40 projects. Volume III contains a complete listing of HED-prioritized funding recommendations. A cabinet secretary and staff new to the capital outlay process swiftly took charge of developing guidelines and a transparent process to hear capital requests from 30 institutions of higher education and special schools. HED recommendations were developed based on public hearings, data provided by the institutions and special schools, and responses to questions asked of each applicant. Many of the questions related to enrollment growth, facility condition levels, project readiness, square footage per full-time-equivalent student, energy-efficiency standards, and other funds available for the projects. Although in "draft" form, the secretary's statement of values and general criteria planned for prioritizing next years' requests will provide for a more quantifiable method for recommending capital funding.

HED requested $20 million from GOB capacity for an "energy efficiency fund" to allocate funds for specific projects intended to reduce energy costs. According to HED, funds would go to institutions proposing quantifiable and credible energy savings. While the investment of funds toward energy-efficient buildings would provide future operating cost savings and a reasonable expected rate of return, it may be advisable to statutorily establish the fund and parameters of the program. Inasmuch as a "fund" is not a capital asset, it may be more appropriate to fund such a program from the general fund.

Department of Game and Fish. The department requested $7.2 million for its program's most critical infrastructure needs: to *complete* renovations at Lake Roberts dam and to perform safety assessments at the McGaffey Lake dam and Laguna del Campo dam. Renovations to the Lake Robert's dam and spillway will be put to bid by July 2008.

Energy, Minerals and Natural Resources Department. EMNRD requested $500 thousand to replace fire trucks and inmate crew carriers and $2 million to renovate parks and facilities statewide. The current 10-year-old fire trucks do not have sufficient water storage capacity. Governmental gross receipt tax bonding for park improvements is committed for the next 12 years.

New Mexico Environment Department. NMED requested $1.5 million to match federal funds to capitalize the clean water state revolving loan program to assist local governments in financing the construction of critical wastewater collection and treatment facilities. The state match will generate $7 million in federal funds. The construction Planning Bureau has a priority list demonstrating over $348 million in unmet wastewater infrastructure needs for communities throughout the state.

Several legislators are urging support for a $5 million appropriation to the solid waste facility grant fund. The solid waste program is administered by NMED, but the fund is depleted. The purpose of the program is to help communities meet recycling and solid waste infrastructure needs statewide.

Office of the State Engineer. OSE requested $4.6 million for surface and groundwater measurement, both of which are related to adjudication. OSE should use the water project fund authority for this request. OSE requested $l.3 million to *complete* construction of the Elephant Butte Channel and $5 million for continued funding of the Pecos River settlement. Given the testimony before interim committees, consideration should be given to providing funds to the acequia project fund administered by the New Mexico Finance Authority (NMFA). According to statute, the Water Trust Board implements the eligibility requirements for the fund with the guidance of the Legislature. The current fund balance is $100 thousand, which was contributed by the Healy Foundation.

Department of Indian Affairs. IAD requested $5 million to capitalize the tribal infrastructure project fund (TIPF) created by statute in 2005. The purpose of the Tribal Infrastructure Act is to fund water and wastewater systems, roads, electrical power lines and other infrastructure for projects on Native American lands. Currently, the preamble of the capital bill requires all unused capital funds to revert to TIPF rather than the original source of funding.

Department of Military Affairs. DMA requested $2.5 million to match federal funds of $7.5 million to plan, design, renovate, or expand the old army aviation support facility and $2.5 million to renovate armory facilities statewide, including the Rio Rancho armory.

Taxation and Revenue Department. TRD requested $3.7 million to *complete* construction and renovations of the motor vehicle field offices in Santa Fe and Taos and $450 thousand for security upgrades at the Manuel Lujan building in Santa Fe.

Workforce Solutions Department. WSD requested $2.9 million to address deficiencies and health and safety issues at their facilities

Appropriations between 2003 and 2007 for Initiatives Created without Statutory Authority

- Water innovation fund: $22.5 million
- Water and wastewater regionalization - $3 million
- River basin ecosystem restoration - $2.5 million
- Colonias fund - $15.5 million
- Film initiatives - $21.7 million
- Clean energy projects - $9.7 million
- Manure to clean energy projects - $2 million
- Wildlife habitat clean energy projects - $1 million
- Local rodeo initiatives - $5.1 million
- Economic development initiatives - $4.3 million
- Transit planning and development projects - $1 million

in Albuquerque, Silver City and Deming. The funds will also address roof and code compliance issues at other facilities statewide.

Local Government Division. LGD requested $21.5 million for six initiatives: $4 million for the water innovation fund, $2 million for the housing trust fund, and $2 million for the Home Equity with Required Occupation program (see "New Mexico Mortgage Finance Authority"), $5 million for colonias infrastructure improvements, $3.5 million for voting machines, and $5 million for film and media projects. Between 2003 and 2007 funding for the water innovation, colonias, film and media programs, and other programs have been appropriated in the capital bill without enabling legislation to provide a process and eligibility limits for the programs. The $10 million authorized in 2004 for a film production and training center was specifically authorized for capital outlay purposes; however, the funds have been used for operational expenditures.

New Mexico county clerks, with the approval of the Board of Finance, borrowed $3.5 million from the voting machine fund to replace newly purchased electronic voting equipment with paper ballot equipment to comply with Section 1-9-7.1 NMSA 1978. Two options are available to assist county clerks with payment of the loan: (1) an appropriation to pay the loan borrowed from the voting machine fund, or (2) legislation authorizing BOF to forgive the loan.

Department of Cultural Affairs. DCA requested $7 million for major upgrades and repairs at facilities statewide. A request for $2.7 million will *complete* construction of the Archaeological Center and the education complex at the National Hispanic Cultural Center. An additional $2.7 million is requested to *complete* construction, exhibits, and venues for phase II at the Farm and Ranch Heritage Museum, to furnish and equip the New Mexico History Museum, and to *complete* renovations of the Girard exhibit.

Expo New Mexico. As part of its master plan for facilities and to provide a safe environment for youth participants, Expo New Mexico requested $1.5 million to plan and design a new youth multi-purpose center and to renovate restroom facilities throughout the campus. Based on a master plan and public input, $11 million is requested to improve the food and entertainment zone. The public survey indicates the zone to be the main attraction for their visits. To be competitive with other event venues in the state and based on a feasibility study, Expo requested $36 million to construct a new exposition building for art festivals and livestock shows, as well as to attract new car and trade shows and other events requiring large covered areas. The site for the exposition building is identified. However, consideration should be given to allocating funds for an independent feasibility study.

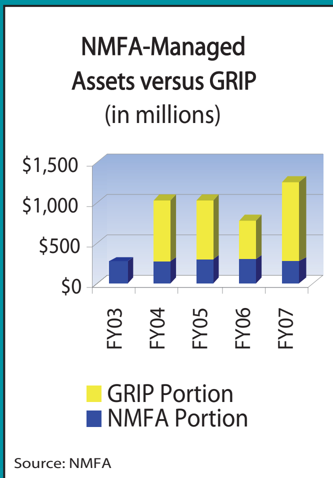
Economic Development Department. EDD requested $4.5 million to *complete* infrastructure for an automotive plant in Bernalillo County, but it is not certain the project will materialize. If the plant does not locate in New Mexico, the $3.5 million appropriated in 2007 should be reauthorized to the economic development fund along with new funds of $5 million, contingent on creating the fund by enabling legislation, thereby giving EDD the flexibility it needs to attract economic development as potential events arise.

EDD requested $5 million for land acquisition and infrastructure for “project Pinnacle” — a national financial services company. According to EDD, the company could bring 1,500 high-wage jobs to the state and will locate at either Mesa del Sol in Albuquerque or in Rio Rancho. EDD requested $1.5 million for a fire station in Santa Teresa, including hazardous materials and emergency equipment to serve the port of entry, airport, surrounding industries, and the community. Funding should be contingent on the project not locating within a tax increment financing district that receives gross receipt taxes to finance public infrastructure. EDD requested $3 million for the Main Street revolving loan fund to provide owners of eligible properties with low-cost financial assistance for restoration and rehabilitation of property meeting certain eligibility criteria.

Border Authority. The authority requested $550 thousand to *complete* construction, furnishing and equipping of its Santa Teresa headquarters.

Cumbres &Toltec Scenic Railroad Commission. C&TSRC requested $3.2 million for track and locomotive gear rehabilitation to meet federal standards. State allocations should be contingent on a match from the state of Colorado.

Court of Appeals. The court requested $6.6 million to *complete* construction and furnishing of a new court building. To date, the Legislature has appropriated $9 million for the project. Construction documents will be completed in February 2008, and construction is expected to begin in May 2008. The new facility will provide public efficiency and make the court more accessible to the communities from which the bulk of its cases originate.



- Region I, II and VII are no longer viable entities
- Region III is under the operation of the Mid-Region Council of Governments
- Region IV, V, and VI continue to operate according to the Regional Housing Authority Act

Bernalillo County Metropolitan Court. The court requested $4.3 million to *complete* the fourth floor build-out for three courtrooms and chambers to support additional judges requested for FY09. A recent workload assessment conducted by the New Mexico Sentencing Commission and the National Center for State Courts indicates 5.25 judges are needed to handle the current caseload in Bernalillo County.

Supreme Court. The Supreme Court Commission requested $555 thousand for a fire suppression system to address a "risk report" issued by the Risk Management Division. The report states the building is severely exposed to a fire hazard, and there is no automatic protection to minimize damage should a fire occur.

Local Government and Tribal Entity Requests. According to the Infrastructure Capital Improvement Plan compiled by DFA, local, tribal, and other political subdivisions list $2.5 billion of infrastructure needs. The top five priorities total $2.3 billion for five major categories: water, health, quality of life (libraries, parks, senior centers, community and cultural centers, etc.), transportation, and public safety. A listing of the top five priorities for all governmental entities participating in ICIP is available through LFC or the Local Government Division.

New Mexico Finance Authority Issues. The New Mexico Finance Authority (NMFA) oversees over $1.8 billion in gross assets, including bond proceeds, pledged revenues, loan payments, administrative fees, federal grant revenue, and interest income. The increase in managed gross assets is consistent with the growth in NMFA programs. The loans receivable portion of managed gross assets is attributed to new loans, while growth of the invested cash portion is attributed to bond proceeds. The increase in managed gross assets is mostly due to the highway construction program called the Governor Richardson's Investment Partnership (GRIP). NMFA issued over $460 million in state transportation revenue bonds in FY07.

*Bond Ratings***.** The authority's bond portfolio grew from $350 million in FY03 to over $850 million in FY07, excluding GRIP bond proceeds. The authority issued three public project revolving fund bond issues totaling $134.8 million in FY07. Standard & Poor recently upgraded NMFA senior lien public project revolving fund revenue bonds rating from AA to AA+.

Governor Richardson's Investment Partnership. As of September 30, 2007, the market value of GRIP I investment portfolio was

$986.5 million, a decrease of $16.6 million since August 2007. The decrease is attributed to draw-downs totaling $10.6 million for road projects and debt service payments of $11.7 million, including earnings of $4.1 million and $1.6 million in debt service receipts.

2008 Legislative Agenda. The governing board and staff of NMFA will seek support of the following legislation: authorization bills for the SMART money and public project revolving fund programs, general fund appropriations of $1 million for the local government planning fund, and $2 million for a 20 percent state match to federal funds for the drinking water revolving loan fund.

New Mexico Mortgage Finance Authority Issues.

Oversight of Regional Housing Authorities. Laws 2007, Chapter 50, repealed several sections of the Regional Housing Authority Act and increased financial and operational oversight of the authorities. An appropriation of $850 thousand was made to DFA for regional housing oversight agreements with MFA. MFA hired a regional housing authority liaison to implement the oversight responsibilities for the regional housing authorities.

Program Support. DFA has requested an additional appropriation of $800 thousand in their FY09 budget request for the Energy$mart program. MFA has identified approximately 40,000 homes eligible for Energy$mart funds. State-allocated funds that support the program will leverage $1.5 million in funding from the U.S. Department of Energy Weatherization Assistance Program (WAP) and additional funds from the federal Low Income Home Energy Assistance Program (LIHEAP). The Human Services Department (HSD) estimates it will receive federal funding in the amount of $10.4 million for LIHEAP. MFA aids in the administration of the two programs through joint powers agreements with DFA and HSD.

The New Mexico Housing Trust Fund created in 2005 received an initial appropriation of $10 million and additional funding totaling $3 million in the 2006 and 2007 legislative sessions. To date, MFA has awarded approximately $12 million of fund appropriations, which has leveraged over $163 million in other housing funding and will result in 960 housing units throughout New Mexico.

Snapshot of MFA Financial Status

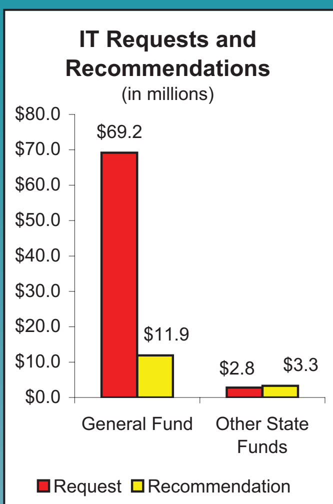
Metric	in millions (unless indicated otherwise)
Assets under	$2,645.10
Total book assets	$1,663.20
Earning assets	$1,226.50
Excess revenues over expenses	$6.12
Annual return on average earning assets	0.53%
Retained earnings	$137.60
MFA general fund expenses	$7.84
MFA general fund revenues	$12.01

Source: MFA

2008 MFA Legislative Initiatives

- Housing trust fund - $15 million
- Housing rehabilitation statewide - $2 million
- Energy$mart Program (home weatherization) - $5 million
- Home Equity with Required Occupation program (HERO) - $2 million
- Energy$avers program - $2.5 million
- Home buyer's education program - $1 million

Five Funding Principles:
- Enterprise
- Business Case
- Project Management
- Technical Approach
- Outcome



FY2009 Funding Requests. The quality of information technology (IT) project funding requests deteriorated to an all-time low. Agencies have identified goals or missions that a proposed project might support, but the required detail to delineate project scope, project management, cost, and executive management support typically is lacking. Only the Taxation and Revenue Department addressed most or all of the funding principles established as guidelines on which funding decisions are made. The quality of the submissions has deteriorated for the following reasons:

- Project descriptions do not describe the project for which funding is being requested;
- Cost/benefit analysis is not presented, or if an attempt is made to present it, the data is insufficient to support the request;
- Information is not provided on the progress to date and how additional funding will allow a project to be completed successfully;
- Requests for technology items outside of the established criteria, such as maintenance, routine equipment and software replacement or upgrades, staff increases, and capital projects, are requested here instead of as recurring expenditures or special appropriations; and
- Coordinated training for agencies by the Department of Information Technology (DoIT), Department of Finance and Administration (DFA), and LFC has not been provided.

Staff received requests from state agencies and educational institutions totaling $72 million: $46.6 million from agencies for new or continuing system replacements, $3.2 million for hardware or network upgrades and additional staff or training, and $22.2 million from institutions of higher education.

Recommendation. Additional information gathered from agencies allowed this recommendation to be developed. The recommendation is based on critical need and not on quality of the submissions. The FY09 recommendation is $12 million from the general fund and $3.3 million from other state funds. The FY09 requests and recommendations are in Table 7.

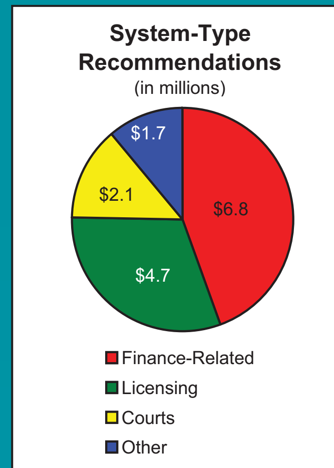
The IT recommendation does not include requests for equipment replacement or expansions to agency programs or universities totaling $25.2 million. The requests for those items should have been made from the base budget, specials, supplemental, or capital recommendations.

Two projects recommended for funding are of concern to LFC staff: the Statewide Human Resource, Accounting and Management Reporting (SHARE) system and the Retiree Health Care Authority replacement of its benefit system.

- DFA did not request any funding for SHARE even though the LFC performance review recommended project sponsors request funds to address issues at the State Treasurer's Office and the State Purchasing Division. SHARE reports are not easily accessible to LFC fiscal analysts or agencies for financial analysis. Additionally, budget preparation functionality and General Appropriation Act interfacing is not available at this time. Training for state workers is included in a special appropriation for DoIT.
- RHCA's request to replace its retiree insurance benefits system is a critical need for the agency and its customers; however, the staffing capacity and current workload pose significant risk to the success of this project. To minimize the risk, LFC staff recommends full planning and commercial off-the-shelf system identification and DoIT's assistance with planning, vendor selection, and implementation.

Projects of Concern. LFC staff did not recommend additional funding for the following projects but is concerned about progress and ongoing success. The following is a discussion of those projects.

- *The Public Education Department* (PED) requested $7.3 million for a web interface to the Student Teacher Accountability Reporting System (STARS), but it was not recommended because of concerns about long-term project planning, training, and hosting. PED has paid $1.7 million for hosting services from the $11.2 million appropriated. PED does not provide monthly detailed written status reports to committee staff unless specifically requested. Moreover, PED has not been able to provide timely the statutorily required 40^{th}, 80^{th}, and 120^{th} day data using STARS as promised. One term full-time-equivalent position is recommended as a special appropriation for district-level training.
- *The Department of Information Technology* (DoIT) requested another $5.8 million for Wire New Mexico to complete the digital microwave build out and to expand fiber connections statewide. This project has received over $41 million since the initial appropriation in 1998. Currently, balances from capital and the General Appropriation Act appropriations are available.
- *The Higher Education Department* received $6.4 million in nonrecurring and $1.7 million in recurring funds for the innovative digital education and learning project out of the $10.7 million requested. Last year LFC recommended $500 thousand to properly plan the project. Nine months after the appropriations became available; the project is still in the planning phase.



Key IT Recommendations:

To include Metro Court in the statewide integrated and consolidated case management system, $2.1 million;

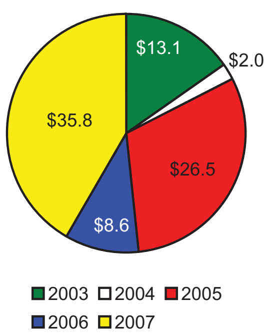
To begin replacement of the Motor Vehicle Drivers Licensing System, $4.5 million;

For Statewide Human Resource Accounting and Management Reporting system enhancements, $2.5 million;

To begin replacement of the oil and natural gas accounting database, $1 million.

- DoIT received $14 million to plan, construct, renovate, improve, purchase, and equip a computing application center through a general fund appropriation to DFA in the capital bill. The $14 million was appropriated and DoIT certified release of the money without a business plan. Although a competitive procurement process was used, the contract to purchase the super computer was issued to the company that in January 2007 offered a 60 percent discount. As part of the FY09 budget, DoIT and the Governor's science advisor requested $4.7 million and $6 million for ongoing operations and for a building using a business plan that does not identify critical success factors and does not have sustainable revenue generation.

Appropriation Extensions by Fiscal Year
(in millions)



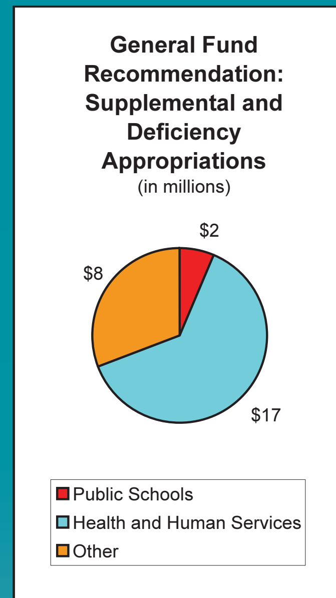
Prior-Year Appropriation Extensions. Agencies have requested extensions of time to use prior-year appropriations of $86 million from all funds. Project certification and contract approval is taking about six months so projects are being delayed. Although the funds appropriated are available as soon as the bill is signed, the certification process does not start until July. Moreover, the introductory paragraph to Section 7 of the General Appropriation Act does not extend the time to use the appropriation for more than one full fiscal year. The language allowing use of the appropriations needs to be changed to allow agencies to use the funds for three fiscal years. This will avoid having to reauthorize appropriations every year because of certification or contracting delays. Of the $86 million in requested extensions, $29.6 million from appropriations made from 2004 to 2007 had not been allotted by DFA.

Use IV&V for projects that are
- mission critical, large, or complex;
- using new or unfamiliar technology;
- expected to produce a high level of accuracy or quality; or
- highly visible.

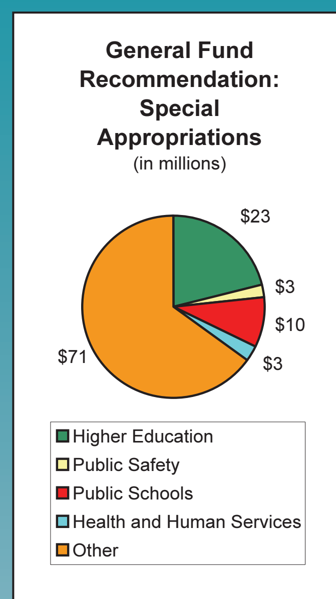
Independent Validation and Verification. The purpose of independent validation and verification (IV&V) is to provide a quality process to evaluate whether or not a system complies with regulations, specifications, or conditions imposed. The use of IV&V should be based on criticality, constraints, and complexity of projects because the primary purpose is to ensure users' needs are satisfied. The House Appropriation and Finance Committee (HAFC) during the 2007 legislative session recommended the Office of the Chief Information Officer, now DoIT, not require IV&V on equipment replacement, needs assessments, planning, or small project where IV&V would be cost prohibitive. DoIT has not followed HAFC's recommendation.

Special, Supplemental and Deficiency Appropriations

State agencies requested $104 million from the general fund for special, supplemental, and deficiency appropriations. Requests from all funding sources total $112 million. Specific requests and funding recommendations are presented in Table 6. The committee's recommendation prioritizes critical or mandated services related to education, health care, and public safety and reflects a preference that agencies operate within appropriated resources rather than using special, supplemental, and deficiency appropriations to increase operating budgets. Many of the requests were for programs or initiatives that are recurring and, as such, are an inappropriate use of nonrecurring revenue. In addition, many agencies did not provide the necessary documentation of budget shortfalls to recommend supplemental appropriations.



Supplemental and Deficiency Appropriation Recommendations. Agencies requested $32 million from the general fund for deficiency and supplemental needs and $34 million from all funding sources. The committee's general fund recommendation is $27 million. This includes $4 million to General Services Department (GSD) for delinquent unemployment compensation to the Workforce Solutions Department with the expectation that GSD will recoup $2 million from agencies other funding sources; $2.8 million to the Department of Information Technology in the event the department loses its case against the federal government regarding information technology services; $12.5 million for Medicaid cost over-runs; $2 million to Children, Youth and Families Department for shortfalls in the Protective Services and Juvenile Justice Services programs; and $1.6 million to cover projected shortfalls for school bus fuel.



Special Appropriation Recommendations. Agencies requested $72 million from the general fund and $78 million from all funding sources for special requests. The committee's general fund recommendation is $110.6 million. In special appropriations, $22.7 million is for higher education projects; including $6.3 million to restore funding to certain institutions lost when the governor vetoed language in the General Appropriation Act of 2007 that affected the method of distribution, rather than the facility condition index methodology; $5 million for the University of New Mexico Health Sciences Center to purchase state of the art patient care equipment and $300 thousand for pediatric oncology programs; $5 million to the college affordability endowment fund to provide need-based student financial aid; and $5 million to the faculty endowment fund. Other significant recommendations include $8.1 million to the Public Education Department (PED) to hold school districts harmless from reductions in state equalization guarantee distributions resulting from implementation of a new public school funding formula and $6 million to the Economic Development Department for the Job

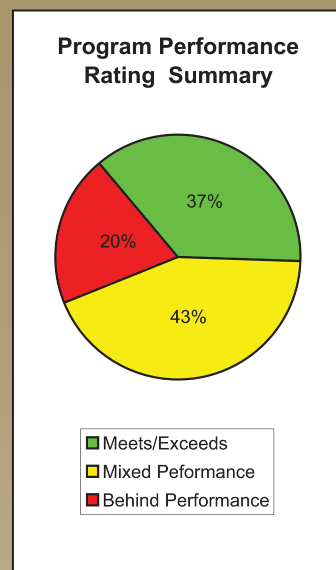
Training Incentive Program. The committee also recommends $12.2 million for capital requests that were identified to be more appropriately funded from special appropriations and include $3 million for the solid waste facility grant fund to help communities meet recycling and solid waste infrastructure needs statewide; $2 million to DPS for vehicles; $5 million for patient care equipment at UNM Health Sciences Center; and $1 million for MainStreet redevelopment. Finally, $51 million is appropriated to the Department of Transportation's road maintenance program to address shortfalls related to fuel and construction inflation and loss of federal funds.

Performance Reports

Accountability in Government

The Accountability in Government Act (AGA) is the framework for performance-based budgeting that provides agencies with budget flexibility to meet desired outcomes of state programs. Under the current system, the largest agencies report quarterly to LFC and the Department of Finance and Administration (DFA) on progress in meeting their targeted level of performance. To bring greater attention to agency performance, LFC staff initiated a report card project in the 2006 interim to add clarity to the performance reports, stimulate discussion on agency performance, and link budget decisions to results. Significant strides have been made in meeting the first two objectives, but more needs to be done to directly link budgets to performance results.

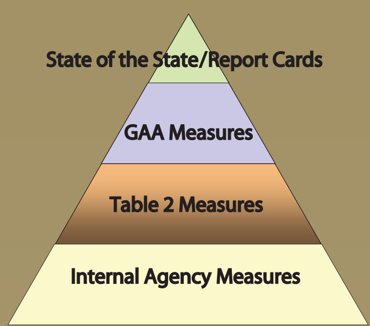
Interim Activities. While monitoring FY07 agency performance during the 2007 interim, LFC also identified areas in need of improvement, especially in the quality of performance measures, and worked with agencies to include new or revised measures in their proposals to DFA for FY09. The highest priority concerns were reported to DFA, and several of the concerns were addressed. The General Services Department, for example, developed new measures for risk management, property control, transportation, and procurement services. The Department of Health added new measures for its facilities relating to customer satisfaction, abuse and neglect, and quality of care. Conversely, some agencies still lack key measures, such as new outcome measures for the Temporary Assistance for Needy Families (TANF) Program at the Human Services Department (HSD) that gauge the development of self-sufficiency. LFC suggestions to create new programs at the Department of Public Safety and Department of Transportation were also not implemented.



Report Cards. A key element in monitoring agency performance is the use of report cards. While the report cards are a tool for the Legislature to focus resources where most needed, they also provide information to the public about the performance of its government in an easy to understand format. To this end, the report cards are now posted on the LFC website. The report cards are also constructive tools to focus on the relevance of the performance measures and the process of setting realistic targets. The targeted level of performance at agencies can be easily compared with national benchmarks, particularly in the health and human services agencies.

LFC rates measures and programs with recognition of improvement or decline in performance. In general, green ratings indicate success in achieving a targeted level of performance for FY07 and were not given for any missed target. Yellow ratings highlight a narrowly missed target or significantly improved but not fully performing program. Red ratings are not a sign of failure but indicate a need for attention and provide an opportunity for a dialogue between the agency and the Legislature. To date, agencies have expressed concern about being labeled a failure when receiving a red rating for missing targets or slipping in performance. However, the purpose of the report card is to focus attention and discussion on the outcomes of agency programs and spending.

Performance Measure Hierarchy



FY07 Performance. The report cards for FY07 were reviewed by agencies, and where appropriate, the report cards were revised to incorporate agency input. While a higher percentage of programs achieved a green rating than they did in FY06, the large majority of agency programs are underperforming. At the August LFC hearing the yellow and red ratings drew attention from the performance subcommittee. In some cases, agencies cited a lack of resources or unrealistic targets for failure to achieve certain outcomes.

Taken together the performance reports in this volume may be viewed as a state of the state report. The report cards here include the more meaningful measures and those that best represent a program's performance. As some measures are more important than others and with other measures not printed, the overall program rating is not a calculation of the individual measure ratings.

Next Steps. The ability of LFC and its staff to improve measures is limited. Fundamentally, authority over performance reporting resides in the executive. DFA approves new measures or deletes others, and the LFC role of consultation has varying degrees of success. LFC will again recommend important measures and programs for the General Appropriation Act (GAA) that were excluded by DFA.

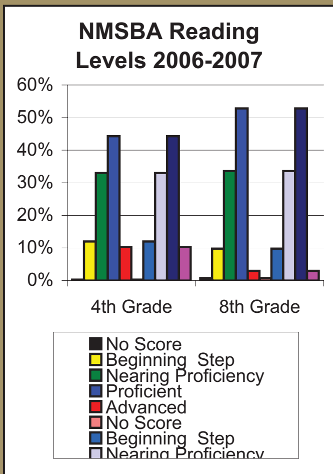
There is a continual need to focus on the improvement of measures to ensure they gauge the core functions of agency programs. The measures presented in the Table 2's of Volume II are sometimes a poor representation of agency efforts. In many cases, the data doesn't appear reliable, there are too many measures, and measures change too frequently to be used as a decision-making tool. For example, at the Public Education Department and Higher Education Departments baseline data is not provided to compare results or set targets. The Department of Health has changed measures for public health so frequently it is hard to track results from one year to the next. At the Environment Department too many measures use jargon that obscures progress in meeting desired environmental outcomes, like clean air and clean water.

Given these problems with the agency reports, the use of performance report cards remains important. With numerous demands on the limited time of the part-time Legislature, the report cards should be a quick-access tool to review agency performance and facilitate budgetary and appropriation decisions. This shift in budget decision-making takes time and requires more reliable agency performance reports. Nevertheless, the committee remains committed to accountability for state spending and the wise stewardship of public resources.

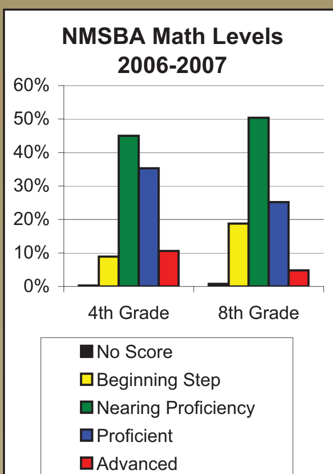
PERFORMANCE REPORT CARD CRITERIA
LEGISLATIVE FINANCE COMMITTEE

Process • Data is reliable • Data collection method is transparent • Measure gauges the core function of the program or relates to significant budget expenditures • Performance measure is tied to agency strategic and mission objectives • Performance measure is an indicator of progress in meeting annual performance target, if applicable **Progress** • Agency met, or is on track to meet, annual target • Action plan is in place to improve performance **Management** • Agency management staff use performance data for internal evaluations	**Process** • Data is questionable • Data collection method is unclear • Measure does not gauge the core function of the program or does not relate to significant budget expenditures • Performance measure is not closely tied to strategic and mission objectives • Performance measure is a questionable indicator of progress in meeting annual performance target, if applicable **Progress** • Agency is behind target or is behind in meeting annual target • A clear and achievable action plan is in place to reach goal **Management** • Agency management staff does not use performance data for internal evaluations	**Process** • Data is unreliable • Data collection method is not provided • Measure does not gauge the core function of the program or does not relate to significant budget expenditures • Performance measure is not related to strategic and mission objectives • Performance measure is a poor indicator of progress in meeting annual performance target, if applicable • Agency failed to report on performance measure and data should be available **Progress** • Agency failed, or is likely to fail, to meet annual target • No action plan is in place for improvement **Management** • Agency management staff does not use performance data for internal evaluations

Public Education



Source: PED



Source: PED

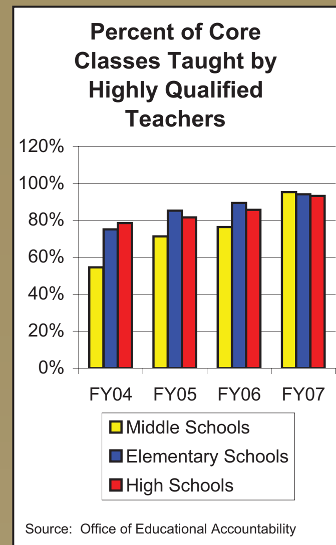
The growing number of schools entering restructuring I and restructuring II indicates the persistence of the achievement gap; district efforts to narrow the gap are having little success. Student academic performance on the New Mexico Standards-Based Assessment suggests that greater than 45 percent of fourth and eighth students score below proficiency in reading, and greater than 53 percent of fourth graders and 69 percent of eighth graders score below proficiency in math. Concerns remain regarding the ability of the department to process and track data accurately using the STARS data warehouse and whether the data will be useful in making funding decisions for the 2008 legislative session. For FY07, three strategic elements were considered in evaluating the effectiveness of New Mexico's public schools: student achievement, teacher quality, and customer services.

Student Achievement. In spite of lagging improvement in student proficiency, student performance statewide in FY07 for the first time exceeded the annual measurable objective requirements of NCLB. This is primarily due to the small incremental increase called for in the annual measurable objective for FY07. Hispanic and African-American students made modest improvements in reading but continue to fall behind white and Asian students and the situation for Native American students is even worse.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of elementary school students who achieve the school year 2006-2007 No Child Left Behind Act annual measurable objective for proficiency or above on standards-based assessments in reading and language arts	52.3%	49.0%	56.0%	G
Percent of middle school students who achieve the school year 2006-2007 No Child Left Behind Act annual measurable objective for proficiency or above on standards-based assessments in reading and language arts	49.5%	42%	47.8%	G
Percent of elementary school students who achieve the school year 2006-2007 No Child Left Behind Act annual measurable objective for proficiency or above on standards-based assessments in mathematics	39.9%	33.0%	41.9%	G
Percent of middle school students who achieve the school year 2006-2007 No Child Left Behind Act annual measurable objective for proficiency or above on standards-based assessments in mathematics	25.5%	20%	27.3%	G
Percent of recent New Mexico high school graduates who take remedial courses in higher education a two-year ad four-year schools.	NEW	55.0%	49.3%	G
			Overall Program Rating	G

Teacher Quality. With the implementation of three-tier licensure, the percent of classes taught by highly qualified teachers was expected to improve to the NCLB requirement of 100 percent. The department did not provide this information until year-end, noting that the information is not available earlier from STARS. The delay in reporting this data, in light of the three-tiered licensure, is a significant failure of the department in ensuring the secretary meets her responsibility of verifying level three-A teachers have the credentials necessary to receive compensation as level three-A teachers.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Annual percent of core academic subjects taught by highly qualified teachers in kindergarten through twelfth grade	88.0%	95.0%	94.2%	Y
			Overall Program Rating	Y



Customer Services. Customer satisfaction with schools appears to be falling off, perhaps suggesting parents are placing more value in school performance relating to AYP or are concerned with ongoing issues relating to staff misconduct. This is a change from the past when it appeared parents were perhaps discounting these issues as long as they felt that schools were working to involve them.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of stakeholders positively rating their involvement with public elementary, middle and high schools	87.0%	80.0%	75.3%	R
Percent of school districts and charter schools participating in the National Center for Educational Statistics Chart of accounts	NEW	100.0%	100.0%	G
			Overall Program Rating	Y

Data Warehouse. The department continues to experience difficulties in meeting targets for operational responsibilities relating to the data warehouse (STARS) and resolution of prior-year audit findings. Progress is steady regarding the implementation of the corrective action plan but much slower in completing the audit section schedule of audits. Department prioritization of the internal audit function does not adequately address the importance of accurate student counts, timely monitoring of internal control structures, and oversight activities relating to state and federal funding streams. Multiple findings in the department's FY06 independent audit could be resolved through prioritization of this key operational responsibility.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of No Child Left Behind adequate yearly progress designations publicly reported by August 1st.	New	100%	100%†	Y
Percent completion of the data warehouse project. ††	New	50%	40%	R
Percent of fiscal year 2004 audit findings not repeated in fiscal year 2005.	New	100%	47%	R
Percent of completion of fiscal corrective action plan.	New	100%	90%	R
			Overall Program Rating	R

Comments:

† Percent of NCLB-AYP designations were publicly reported on August 3, 2007, because of the time necessary to verify the complex processing related to producing school and district reports.

†† Phases two and three of the data warehouse project have not been funded. The department has focused its information technology efforts to fully implement phase one. This has included working closely with school districts and within the department to efficiently and accurately enter data to populate the warehouse. The inability of the department to access and use timely and accurate data is causing considerable difficulties in the department meeting reporting deadlines.

The Higher Education Department is expected to report performance measures for its agency along with performance measures for higher education outcomes for the state. The Council of University Presidents, New Mexico Association of Community Colleges, and the Independent Community Colleges submit accountability reports and data on behalf of the state's universities, branch campuses, and independent colleges, respectively. These four entities are designated by the Department of Finance and Administration and Legislative Finance Committee as key agencies under the Accountability in Government Act.

Higher Education Department. The Higher Education Department (HED) consists of two programs: Policy Development and Institutional Financial Oversight and Student Financial Aid.

Given its mission, the lack of outreach services and events for students is of significant concern. HED noted a director of outreach was hired in the third quarter. Finally, the HED quarterly submission should include *Fiscal Watch* quarterly institutional financial reports.

LFC staff has communicated to HED the need for significant improvements in its AGA submission. The agency needs to develop the appropriate performance measures. Overall ratings for the HED programs reflect a lack of reported data and missed targets.

HED did not submit performance data and enhanced performance measures discussed with LFC and the Department of Finance and Administration within the September budget submission. New FY07 measures proposed by the agency are missing from the quarterly reports, such as building renewal and replacement monitoring, the facility condition index status, timely special project and flow-through appropriations distributions, and review of special appropriation performance reports. Other improvements in performance measures for quarterly and annual reporting are needed. For example, the financial status data reported quarterly by public post-secondary institutions is missing. Links between annual and quarterly reports are poor. For example, quarterly reporting of performance data, such as performance for the adult basic education program, is missing. The agency's need to improve target setting and set benchmarks is evident. In addition, the agency's need to improve the quarterly report format was requested by LFC in the 2007 budget recommendation.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of properly completed capital infrastructure draws released to the state board of finance within thirty days of receipt from the institutions	77%	90%	63%	R
Percent of adult basic education students who set attainment of general educational development as a goal	Not Reported	16%	19%	G

Mission: To administer a coordinated statewide system of public postsecondary education with governance shared between the department and the governing boards of the colleges and universities.

Quarterly Report HED Checklist

1. Executive summary of strategic plan, including mission statement - PARTIAL
2. Definition of program with purpose statement and one paragraph on how program supports strategic plan and mission, including total program budget and FTE - NO
3. Meaningful measures developed in collaboration with LFC - INCOMPLETE
4. Measures support states objective or activity that supports program purpose - INCOMPLETE
5. History of previous four years' measurement data presented quarterly - NO
6. short narrative explaining variance of more than +/- 10 percent - NO
7. Short statement of data source and reliability - NO
8. Action plan, including who, what, where when - NO
9. Extensive use of graphics to make report visually appealing with an emphasis on ease of comprehension - NO
10. Final format suitable for public use - NO
11. Update as required by changes at appropriate point in PBB cycle - NO

Overall, HED is struggling to meet all of its targets, with poor performance resulting in many red ratings in its policy and institutional finance program.

Number of outreach services and related events provided to secondary schools and students related to college readiness, college preparation curriculum and financial aid	100	120	60	R
Percent of properly completed financial aid allocations and draw-downs processed within 30 days	71%	90%	70%	R
			Overall Program Rating	R

Poor performance for capital infrastructure draw-downs and accountability is attributed by HED to ineffective internal quality control. HED notes it is initiating these processes and discusses strengths in reviewing capital project requests. Weaknesses in financial aid allocations and draw-downs were attributed to calendar and fiscal year closing and staffing challenges. Hiring of Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) staff is increasing the "quantity and quality" of outreach services and events.

Student Financial Aid. The department did not report performance results for measures within the Student Financial Aid Program as of the September budget submission; however, many of the program's measures are not reported on a quarterly basis because they are driven by the academic year. LFC staff will be working with the department in the FY09 interim to develop performance measures to track outreach to New Mexico high school students in addition to College Affordability Act performance measures.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Number of lottery success recipients enrolled in or graduated from college after the ninth semester	Not Reported	2,500	2,944	G
Percent of students meeting eligibility criteria for state loan programs who continue to be enrolled by the sixth semester	81%	75%	77%	G
Percent of students meeting eligibility criteria for work-study programs who continue to be enrolled by the sixth semester	74%	70%	73%	G
Percent of students meeting eligibility criteria for need-based programs who continue to be enrolled by the sixth semester	64%	65%	62%	Y
			Overall Program Rating	G

Universities. Semi-annual reports on retention rates are submitted by the Council of University Presidents. This report card emphasizes the reporting period fall-to-spring. The University of New Mexico (UNM), Eastern New Mexico University (ENMU), and Western New Mexico University (WNMU) showed year-over-year improvements. ENMU and WNMU exceeded their targets for retention of first-time, full-time, degree-seeking students.

Both New Mexico State University (NMSU) and the New Mexico Institute of Mining and Technology (NM Tech) showed a decrease in year-over-year student retention in this performance measure. The drop at NM Tech was 4 percentage points.

New Mexico Highlands University (NMHU) showed a significant decline in retention of freshman from fall 2006 to spring 2007. The actual retention rate in spring 2007 was 11 percent below the prior spring and 13 percent below the target. The retention rate was the lowest percentage in seven years of historical data. The situation at NMHU illustrates the implications of institutional policy decisions.

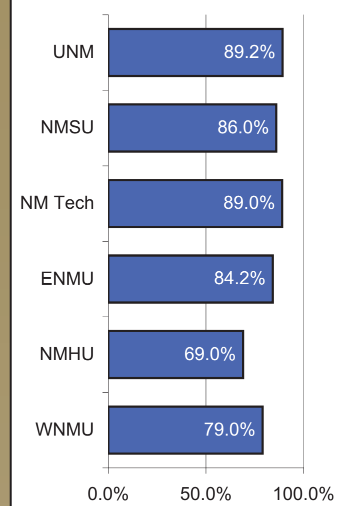
In response to an LFC staff request, NMHU provided a report indicating a significant increase in the size of the fall 2006 freshmen class, probably due to the implementation of the university's "Hope Scholarship." The "increase seems to have occurred largely among students who were not preparing for college, and perhaps were not highly motivated to attend college. This seems to have resulted in a large number of students who experienced problems with attendance and academic performance early in the fall semester. These problems then resulted in an increase in students earning very low GPAs in the fall, and a subsequent decrease in our fall-to-spring retention rates."

The overall program rating reflects both that half the institutions showed improved performance and that NMHU lost a significant number of students. A yellow performance measure rating reflects a decline of less than 5 percent, while a red performance rating reflects a decline greater than 5 percent.

Inconsistent reporting among institutions and between two- and four-year colleges is a concern. For example, targets for fall-to-spring performance are not available for the three research universities, and the reporting periods vary between two- and four-year institutions.

Retention Fall-to-Spring	Fall 2005 to Spring 2006 Actual	Fall 2006 to Spring 2007 Target	Fall 2006 to Spring 2007 Actual	Rating
UNM freshman retention, fall to spring	88%	TBD	89.2%	G
NMSU freshman retention, fall to spring	87.6%	TBD	86%	Y
NMIMT freshman retention, fall to spring	93%	TBD	89%	Y
ENMU freshman retention, fall to spring	79.2%	80%	84.2%	G
NMHU freshman retention, fall to spring	80%	82%	69%	R
WNMU freshman retention, fall to spring	76.8%	77.5%	79.0%	G
		Overall Program Rating		Y

University Freshmen Student Retention Fall 06 to Spring 07



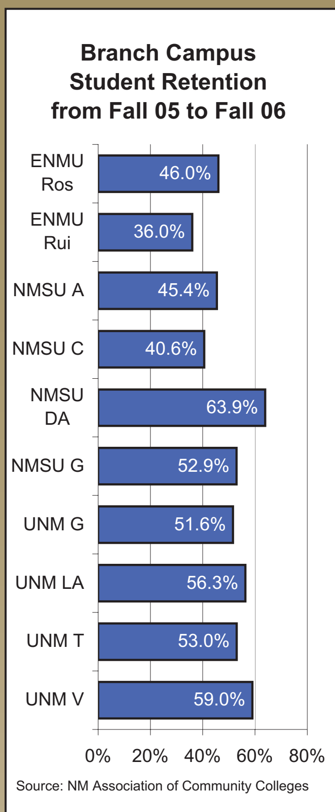
Source: Council of University Presidents

"While there is some variation over time, administrative costs (for New Mexico universities) have tended to remain fairly constant and at or below the average rates for each institution's peer institutions"

-----Performance Effectiveness Report of the New Mexico Council of University Presidents, December 2007

Two-Year Branch Campuses. Semi-annual reports on retention rates are submitted by the New Mexico Association of Community Colleges. This report card reflects the reporting period fall 2005 to fall 2006, reflecting a delayed reporting period compared with four-year institutions. Two-year branch campuses reported mixed performance in retaining first-time, full-time freshmen to the second year.

Among those exceeding the performance targets, ENMU-Roswell noted it established a systematic advising plan to address retention and enhance student participation in the academic community. NMSU-Doña Ana identified a large number of initiatives focused on student retention, including increases in the number of academic and student financial aid advisors, expansion of peer tutors, creation of a Student Success Center, and small class sizes.



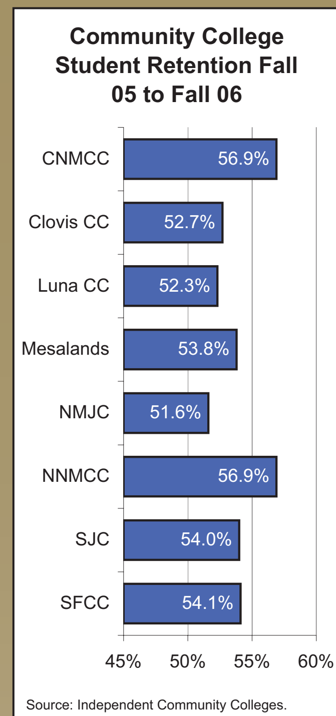
UNM-Los Alamos noted all first-time, full-time, degree-seeking freshmen must enroll in the, Introduction to Undergraduate Study course, which develops research, analysis, comprehension, critical thinking, and other academic skills. Students must also attend a weekly tutoring session at the free tutor center.

The overall program rating reflects that only 50 percent of the institutions met their targets. A green performance measure rating reflects actual performance was above the target. Only UNM-Valencia exceeded its target, while exhibiting lower performance than the prior period. When comparing actuals relative to target or to prior year, a yellow performance measure rating reflects a decline of less than 5 percent, while a red performance rating reflects decline greater than 5 percent.

Inconsistent reporting among institutions and between two- and four-year colleges is a concern. For example, reporting periods vary between two- and four-year institutions. The delay in the reporting period for two-year colleges is significant. Further, the branch campuses have not submitted an updated monitoring plan.

Retention, Fall-to-Fall	Fall 2004 to Fall 2005 Actual	Fall 2005 to Fall 2006 Target	Fall 2005 to Fall 2006 Actual	Rating
ENMU Roswell	35.00%	43.00%	46.00%	G
ENMU Ruidoso	38.00%	39.00%	36.00%	Y
NMSU Alamogordo	50.9%	52.28%	45.41%	R
NMSU Carlsbad	51.5%	43.82%	40.6%	R

NMSU Dona Ana	58.80%	60.63%	63.90%	G
NMSU Grants	64.60	55.00%	52.94%	R
UNM Gallup	55.40%	56.3%	51.60%	Y
UNM Los Alamos	54.80%	56.49%	56.31%	G
UNM Taos	48.00%	49.5%	53.00%	G
UNM Valencia	63.20%	56%	59.00%	G
			Overall Program Rating	Y



Two-year Independent Community Colleges. Semi-annual reports are submitted by the New Mexico Independent Community Colleges on retention rates. The report card is for the reporting period fall 2005 to fall 2006 reflecting a delayed reporting period compared with four-year institutions. Two-year independent colleges reported mixed performance in retaining first-time, full-time freshmen to the second year.

Clovis Community College and Mesalands exceeded their target and prior-year actuals. Both colleges emphasized the importance of an early alert system to identify at-risk students.

Northern New Mexico College and Santa Fe Community College exceeded their targets, but posted performance below the prior year. This data may suggest that each institution revisit its target-setting process.

Luna Community College did not meet its performance target for this measure and, further, performance declined compared with the prior comparable period. Additional information and analysis is needed on the cause of the significant loss of students. Further, the institution does not present an action plan. Luna's performance on this measure showed erosion when compared with historical data.

The overall program rating reflects that only 50 percent of the institutions met their targets. A green performance measure rating reflects the actual performance was above the target. When comparing actuals relative to target or to prior-year actuals, a yellow performance measure rating reflects a decline of less than 5 percent, while a red performance rating reflects a decline greater than 5 percent.

Inconsistent reporting among institutions and between two- and four-year colleges is a concern. For example, reporting periods vary between two- and four-year institutions. The significant delay in the reporting period for two-year colleges is significant. Further, the independent colleges have not submitted an updated monitoring plan.

Central New Mexico (CNM) is addressing student persistence and graduation improvement, in part, through the use of achievement coaches (see discussion earlier in this volume). There is typically one coach per school (such as business, applied technologies, communication and humanities). The achievement coaches help students with both academic issues as well as personal and financial issues. CNM reports the achievement coaches have been extremely helpful to students.

Retention Fall-to-Fall	Fall 2004 to Fall 2005 Actual	Fall 2005 to Fall 2006 Target	Fall 2005 to Fall 2006 Actual	Rating
Central NM Community College	55.1%	61.6%	56.9%	Y
Clovis Community College	48.0%	47%	52.7%	G
Luna Community College	56.8%	60.0%	52.3%	R
Mesalands Community College	46.3%	49.7%	53.8%	G
New Mexico Junior College	45.8%	54.06%	51.6%	Y
Northern NM College	61.0%	53%	56.9%	G
San Juan College	53.9%	58.5%	54.0%	Y
Santa Fe Community College	55.0%	51.04%	54.1%	G
			Overall Program Rating	Y

Medical Assistance Division. All of these measures are meaningful in nature and point toward activities that may provide better health outcomes. Human Service Department (HSD) reports some of the FY07 measures were too aggressive and not attainable. With that in mind, improvement from FY06 was used as a consideration where applicable as well as the absolute FY07 target. However, the rating for the measure on breast cancer screening remains red because performance has declined from FY06.

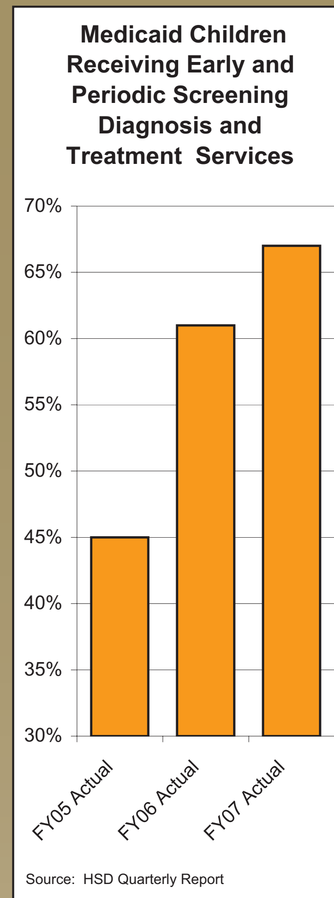
With the increasing interest in some form of universal health coverage, measures related to this topic should be added. Examples should include:

- Number of employers and employees enrolled in the Small Employers Insurance Program;
- Number of employers with employees enrolled in State Coverage Insurance.

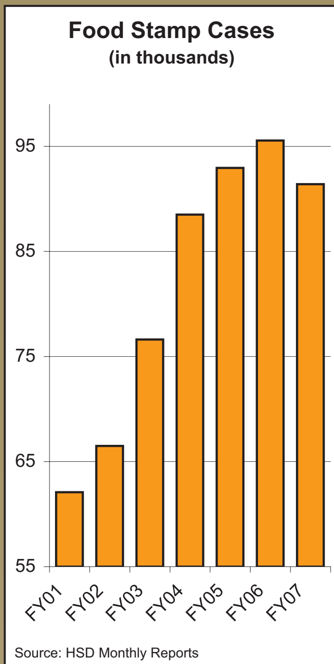
While these are all technically outputs, in aggregate they measure the desired outcome of expanding health coverage for New Mexicans.

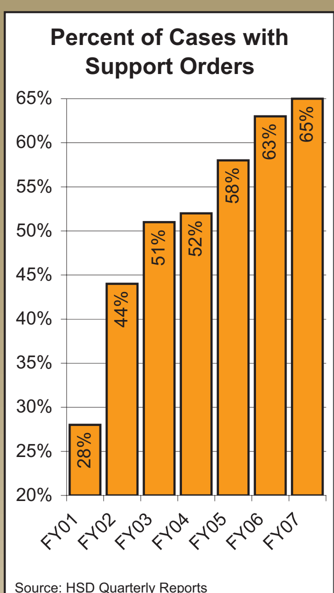
Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of children enrolled in Medicaid managed care who have a dental exam	68%	92%	69%	Y
Percent of readmissions to the same level of care or higher for individuals in managed care discharged from a resident treatment center	5.1%	12%	4%	G
Number of children in the Medicaid school-based services	17,004	16,500	16,770	G
Percent of children in Medicaid managed care receiving early and periodic screening, diagnosis and treatment services	61%	85%	67%	Y
Percent of women enrolled in Medicaid managed care and in the age appropriate group receiving breast cancer screens	65%	75%	56%	R
Percent of women enrolled in Medicaid Managed care and in the age-appropriate group receiving cervical cancer screens	65%	75%	68%	Y
			Overall Program Rating	Y

Income Support Program. Generally the measures are meaningful and of benefit to the client. The clients have only a 60-month window of federal funding cash assistance participation, so failure of the program to provide acceptable service is especially detrimental when the client must leave the program without the requisite skills for self-sufficiency. The Food Stamp Program is not performing as expected, but all welfare related programs in New Mexico currently show declining enrollment. The Welfare Reform Committee and the Legislative Finance Committee have encouraged HSD to



Medicaid is a program approaching the $4 billion expenditure level so six measures might not adequately describe its overall performance. However, on the measures chosen by HSD to be important and meaningful, only one falls into the red category for failure to meet annual targets.





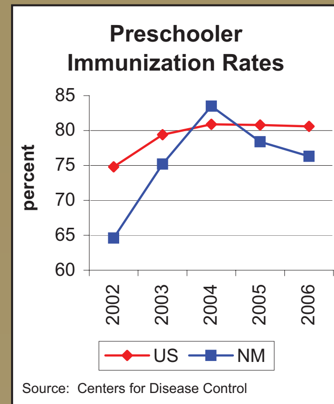
incorporate outcome measures indicative of developing self-sufficiency. HSD, while agreeing such measures are valuable, especially in a declining enrollment environment, has not yet requested any be included for FY09.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of temporary assistance for needy families participants who retain a job for three or more months	70.2%	75%	77.5%	G
Percent of all temporary assistance for needy families recipients meeting federally required work requirements	49.4%	60%	N/A	Y
Food stamp caseload	95,690	N/A	N/A	Y
Percent of food-stamp-eligible children participating in the program.	72%	93%	68%	Y
Percent of expedited food stamp cases meeting the federally required timeliness of seven days	98.3%	98%	98.5%	G
Number of temporary assistance for needy families cash assistance recipients who receive a job	7,092	9,500	8,535	Y
			Overall Program Rating	Y

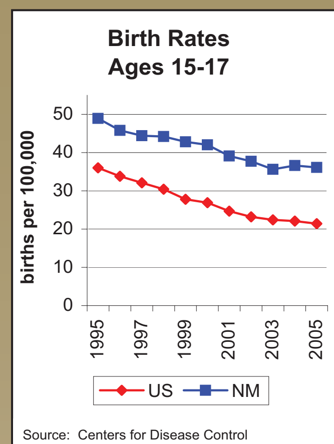
Child Support Enforcement Program. The measures are meaningful and point directly to services important to the client. In addition, the services support the HSD mission of improving the well-being and self-sufficiency of New Mexicans. The measure on cases with support orders has improved but is still is far behind the national benchmark of 75.8 percent. For situations like these an action plan should be included that points the way to higher achievement. Such a plan would help focus the resource requirement for both management and budget purposes.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of temporary assistance for needy families cases with support orders receiving collections	58%	65%	54.4%	R
Total child support enforcement collections, in millions	$89.4	$95	$95.3	G
Percent of child support owed that is collected	54%	65%	56.3%	Y
Percent of cases with support orders	62.7%	65%	65%	G
Percent of children born out of wedlock with voluntary paternity acknowledgement	65%	75%	74.2%	G
Percent of children with court-ordered medical support covered by private health insurance	35%	37%	33%	Y
			Overall Program Rating	Y

DOH's performance report for the year ending June 30, 2007, showed that DOH met less than 50 percent of its targets. Agency strengths include a user friendly, graphically detailed quarterly report and experienced core staff in charge of performance reporting. Also, the agency has many measures that tie to key agency priorities, in particular in the public health area. Limitations include too many annual-only measures for large dollar programs (in part due to data-reporting limitations) and DOH's limited ability to influence performance measures driven by the behavior of patients and other clients.



Public Health Program. Childhood immunizations continue to be an area of concern. After three years of improvement, performance declined for a second straight year in FY07, with only 76.3 percent of preschoolers receiving five key vaccines, down from 78.4 percent last year and well below the target of 92 percent. Teen pregnancy also continues to be a major problem, as well as youth suicide. With tobacco settlement revenue flowing into anti-smoking programs, a decline in tobacco use is expected. The overall grade of yellow reflects the department had mixed success in meeting the often ambitious targets for the 23 measures in this program.



Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of preschoolers fully immunized (5-shot series)	78.4%	92%	76.3%	R
Suicide rate among 15-19 year olds per 100,000	15.3	5.0	25.1	R
Annual number of births registered at vital records for females age 15-17	1,518	1,300	1,617	R
Number enrolled in syringe exchange programs	9,564	15,000	11,402	Y
Tobacco use by adults	20%	18%	20.1%	Y
			Overall Program Rating	Y

Measures are not shown for the DOH Facilities Division. DOH reports quarterly on length of stay at six facilities, as well as the number of substantiated abuse cases at their facilities. It is promising that DOH has proposed new measures for facilities in FY09 that address quality of care, including "incidence of pressure sores in long-term care facilities" and "percent of patients who receive drug rehabilitation treatment at Turquoise Lodge who have not relapsed six months after treatment."

Epidemiology and Response Program. Performance has improved in the vital records area. This program's work with the Trauma Authority is expected to lead to statewide trauma system improvements.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Number of pandemic influenza plan exercises statewide	10	50	105	G
Percent of birth certificates issued within seven days of receipt of fees and materials	66%	73%	99%	G
			Overall Program Rating	G

Department of Health

The committee held a hearing in May 2007 on DOH's quarterly performance report. While DOH deserves credit for continuing to seek improved measures and setting aggressive targets, there is room for improvement. DOH should

1. *Establish key quarterly measures for public health priorities, such as immunizations;*
2. *Avoid establishing measures targeted to short term initiatives such as the year-old measure on pandemic flu that DOH now wants to delete;*
3. *Avoid wholesale changes in measures because of changes in management priorities or problems in collection of data;*
4. *Add performance measures relating to the quality of life for the 3,800 clients on the developmental disabilities waiver.*

DOH is implementing an internal audit process to ensure quality of quarterly performance data. They plan to review one-fourth of all measures each quarter.

Scientific Laboratory Program. The laboratory meets proficiency standards and target completion times for communicable diseases. Although the target for completion of blood alcohol tests related to driving while intoxicated was not met, the state lab has made significant progress in speeding up analysis for DWI cases with additional staff and training.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of blood tests from DWI cases analyzed and reported within seven business days.	27%	90%	76%	Y
			Overall Program Rating	Y

Behaviorial Health Program. This program was transferred to the Human Services Department (HSD) at the start of FY08. The Behavioral Health Collaborative and its contractor, ValueOptions, developed a number of meaningful new measures relating to substance abuse and mental health during FY07 that are in the FY09 HSD request.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Suicide rate among adults 20 years and older (per 100,000)	22.4	21.7	22.6	R
Percent of people receiving substance abuse treatment who demonstrate improvement on three or more domains on the addiction severity index (drug)	62%	67%	66%	Y
			Overall Program Rating	Y

Developmental Disabilities Support Services Program. An overall decline in performance for most measures merits a red rating. Slow progress in employment for developmentally disabled (DD) clients is a concern. Decline in client satisfaction with the Family Infant Toddler program and slower implementation of DD client service plans bear monitoring.

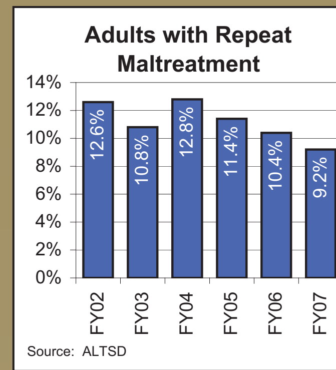
Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of adults receiving developmental disabilities day services who are engaged in community-integrated employment	33%	45%	35%	R
Percent of families who report an increased capacity to address their child's developmental needs as an outcome of receiving early intervention services	99%	99%	92%	Y
Percent of DD waiver applicants who have a service plan in place within 90 days of clinical and eligibility determination	99%	99%	97.5%	Y
			Overall Program Rating	R

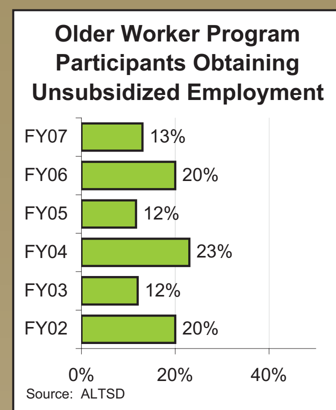
Aging and Long-Term Services Department

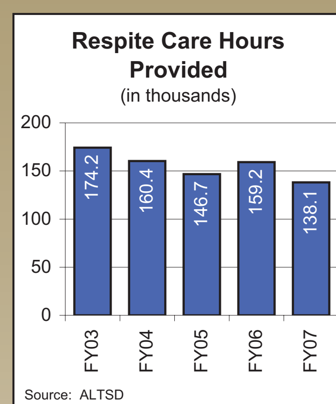
For FY08, the Aging and Long-Term Services Department (ALTSD) revamped its performance measures, deleting numerous measures but adding new key measures such as "number of adults receiving adult protection services (APS) intervention." Self-directed services based in community settings are a key initiative of the department, with new targets added for long-term brain injury services and for number of clients transitioned from nursing homes back into the community. No new measures are proposed by the department for FY09.

<u>FY07 ALTSD Performance</u>. ALTSD reports meeting 17 of 37 performance targets. Performance on eight select key measures in the Long-Term Services, Adult Protective Services, Aging Network, and Consumer and Elder Services programs are shown below. The brain injury program is just being implemented, so the client count is small. Note that the brain injury target was developed for FY08 but the agency chose to self-report on the target in FY07. The overall grade of yellow reflects that the department did not meet all of its performance targets. Key targets were met in the ombudsman program and adult protective services, but performance in the aging network program is a concern, with a decline in measures such as respite care and adult daycare hours provided.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Number of ombudsmen cases resolved	4,342	5,000	5,509	G
Percent of individuals participating in the federal worker program obtaining unsubsidized permanent employment	20.2%	16%	13%	R
Number of congregate and home-delivered meals served to eligible participants	3,572,975	3,500,000	3,486,900	Y
Number of hours of respite care provided	159,281	147,000	138,143	R
Percent of Disabled and Elderly (D&E) Medicaid waiver clients who receive services within ninety days of eligibility determination	98.2%	100%	98.3%	G
Percent of adults with repeat maltreatment	10.4%	9.5%	9.2%	G
Number of brain injury clients served through the Mi Via self-directed waiver	N/A	100	11	Y
Percent of total personal-care option cases that are consumer directed	7.6%	6%	10.6%	G
			Overall Program Rating	Y

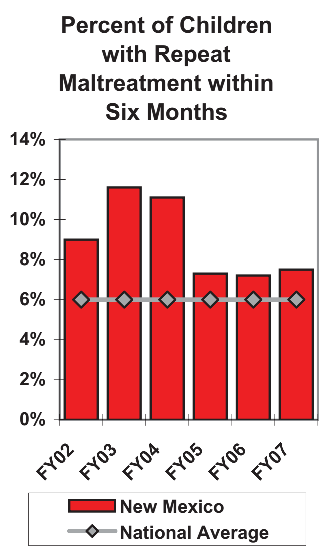






Children, Youth and Families Department

The mission of the Children, Youth and Families Department (CYFD) is to enhance family safety and well-being. The department provides support services for child care, children in protective custody, pre-kindergarten, domestic violence, youth in detention, and salaries and benefits for 2,051 employees.



Source: CYFD final FY07 Quarterly Report and ACF website

Juvenile Justice Services. The program improved educational performance in FY07 compared with FY06. The number of children in the community corrections program increased, indicating more juveniles are receiving community-based services.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of clients who complete formal probation	90.0%	83.0%	90.0%	G
Percent of youth confined over ninety days who show an increase in reading, math or language arts scores between children, youth and families department facility admission and discharge	52.7%	70.0%	60.0%	R
Percent of re-adjudicated clients	6.0%	5.0%	6.6%	R
Percent of clients recommitted to a children, youth and families department facility	13.6%	11.5%	13.0%	R
Percent of clients earning education credits while in facility schools	72.0%	75.0%	82.0%	G
Number of children in community corrections programs	982	800	1,214	G
			Overall Program Rating	Y

Protective Services. Although the program achieved or exceeded all of its FY07 targets, many of the targets are below national standards, which are established at the 75th percentile based on information reported by states.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of children adopted within twenty-four months of entry into foster care	32.8%	35.0%	38.1%	G
Percent of children maltreated while in foster care	0.58%	0.90%	.83%	G
Percent of children determined to be maltreated within six month of a prior determination	7.2%	7.5%	7.1%	G
Percent of children committed to a juvenile facility who were the subjects of an accepted report of maltreatment within five years of a commitment	26.0%	65.0%	23.2%	G
Number of children in foster care for twelve months with no more than two placements	2,145	2,100	2,232	G
			Overall Program Rating	G

Family Services. The department underperformed on measures related to domestic violence, missing the FY07 targets but improving over FY06. Domestic violence performance is of concern because New Mexico ranks in the top five among states for the number of domestic violence incidences.

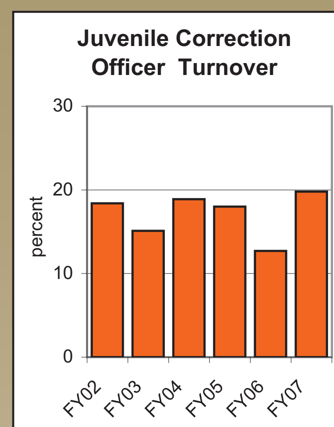
Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of family providers participating in the child and adult care food program	89.6%	82.0%	93.0%	G
Percent of movement through levels one through five of aim high	24.5%	20.0%	N/R	R
Percent of children receiving state subsidy in aim high programs at levels two, three, four and five and with national accreditation	24.5%	15.0%	45.4%	G
Percent of adult victims receiving domestic violence services who show improved client competencies in social, living, coping and thinking skills	55.2%	65.0%	53.3%	R
Percent of adult victims receiving domestic violence services living in a safer, more stable environment	71.4%	85.0%	78.0%	R
			Overall Program Rating	Y

Program Support. National studies indicate that stable long-term relationships with adult authority figures are a key component to client rehabilitation. High turnover undermines the agency's core mission. The increased juvenile correctional officer turnover in FY07 was attributable to the transition of the Springer detention facility to the Department of Corrections.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Turnover rate for social workers	20.1%	15.0%	19.3%	R
Turnover rate for juvenile correctional officers	12.7%	11.9%	19.8%	R
			Overall Program Rating	R

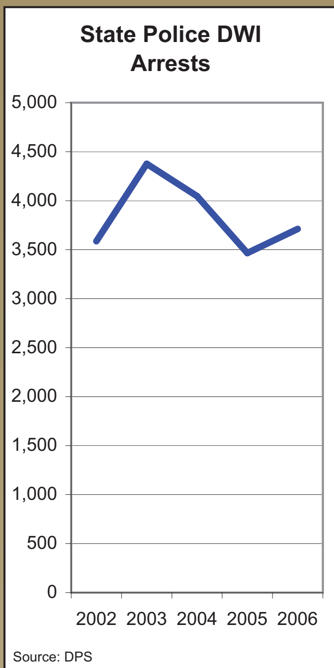
According to the National Coalition Against Domestic Violence, "As of 2003, New Mexico was ranked 3rd in the country for incidents of domestic violence."

Source: CYFD Quarterly Performance Reports



Source: CYFD Quarterly Performance Reports

Department of Public Safety



In May 2006, the Department of Public Safety (DPS), LFC, and the Department of Finance Administration agreed on 13 new key quarterly measures for FY07 that address all the department's initiatives and goals. The new key quarterly measures encompass traffic safety, driving-while-intoxicated (DWI), illegal drugs, violent crime, vacant commissioned officer positions, and forensic services.

Law Enforcement Program. The Law Enforcement Program has seen an increase in the productivity of its commissioned officers as reflected in the key quarterly performance measures. The department has a number of internal measures that have also shown an increase in commissioned officers' productivity. The following internal DPS measures all saw substantial increases in FY07: number of undercover narcotic buys, patrol hours performed by officers, number of seat belt citations, number of child restraint citations, and number of hazardous moving violation citations.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Number of DWI arrests	3,261	3,656	3,883	G
Number of drug arrests by commissioned officers	1,125	984	1,393	G
Number of administrative citations issued for selling or giving alcohol to a minor	NA	200	166	R
Number of criminal cases investigated	14,976	14,225	16,443	G
Percent of strength of commissioned officers	84.8%	90%	86.9%	R
			Overall Program Rating	G

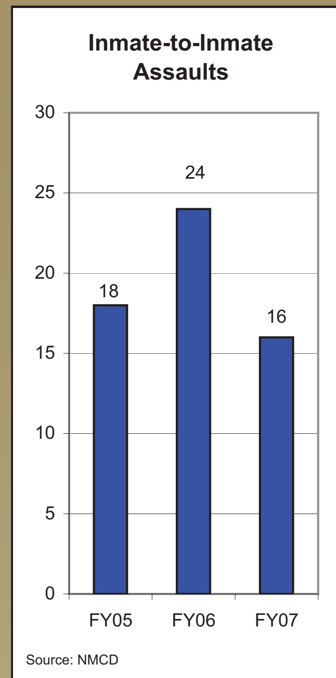
Program Support. The Technical Support Division within Program Support oversees forensic evidence analysis in Santa Fe, Las Cruces, and Hobbs. This division has had a severe backlog in deoxyribonucleic acid (DNA) analysis. The backlog is due to problems in the recruitment and retention of DNA analysts. DPS has been increasing recruitment efforts to fill these vacant positions.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of DNA cases completed within 70 days from submission	44.8%	100%	13.2%	R
			Overall Program Rating	R

In FY07, the male inmate population dropped by 250, or 4.1 percent and the female inmate population dropped by 73, or 10.4 percent. This brought about much needed relief to state correctional facilities at or near capacity. The key quarterly performance measures indicate safe conditions in the correctional facilities, along with increasing challenges to supervision of offenders in New Mexico communities.

Inmate Management and Control Program. The decrease in the state inmate population in FY07 appears to have a positive impact on performance measures that focus on the conditions within the correctional facilities. It is clear that the department is performing well in regards to the day-to-day operations of the correctional facilities.

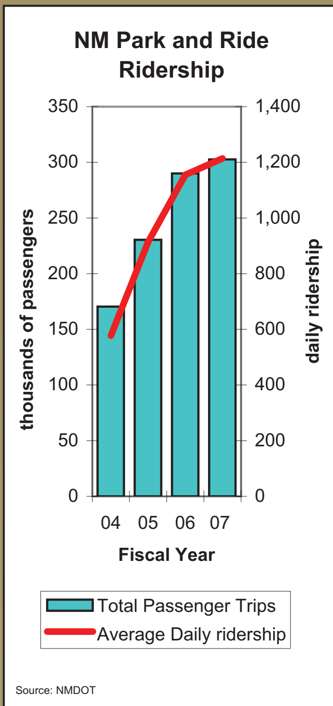
Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Number of serious inmate-to-inmate assaults in private and public facilities	24	27	16	G
Number of serious inmate-to-staff assaults in private and public facilities	7	10	7	G
Percent of inmates testing positive in monthly drug tests	2.06%	<=5%	1.61%	G
Percent turnover of correctional officers	21%	15%	13.86%	G
			Overall Program Rating	G

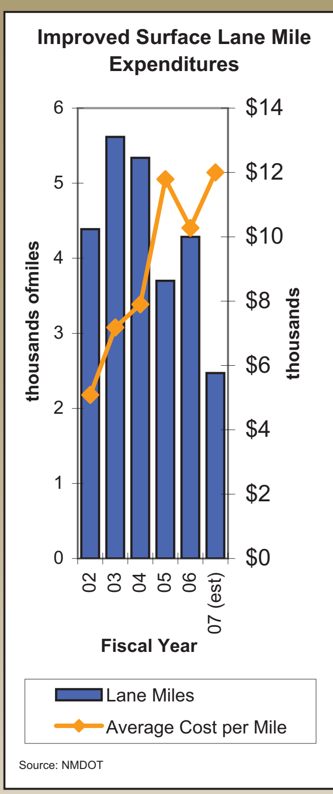


Community Offender Management. At the end of FY07, the average standard caseload per probation and parole officer was 119.5. The high caseloads have contributed to high turnover and retention problems. The New Mexico Corrections Department reports implementing the use of a call center for minimum classification probationers and parolees to report to in order to make the workload more manageable. The department also increased the starting salary for probation and parole officers from $14 to $16 an hour at the beginning of FY07.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Average standard caseload of probation and parole officers	109	92	119.5	R
			Overall Program Rating	R

Department of Transportation





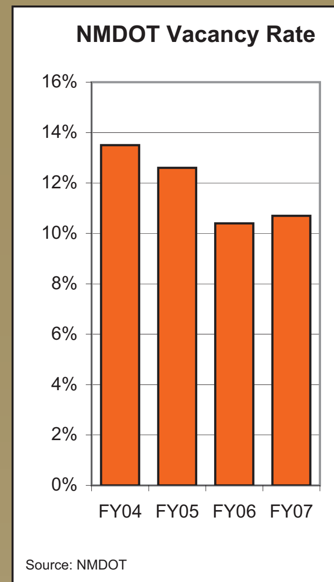
The New Mexico Department of Transportation (NMDOT) continued to experience significant price increases throughout FY06 that impacted the department's ability to meet it performance indicators relative to maintenance and construction activities. Additionally, weather-related emergencies, flooding and snow storms, hampered the department's ability to accomplish several of its maintenance and construction goals as resources were redirected to address repairs and replace damaged roadways. The inflationary pressures in construction and maintenance materials are forecast to continue though at a lower rate through FY08. These constraints have forced the department to significantly modify the State Transportation Improvement Plan (STIP) and maintenance projections in such areas as chip-sealing.

Programs and Infrastructure Program. The department has been challenged with a very ambitious STIP and Governor Richardson's Investment Partnership (GRIP) schedule, federal rescissions, and inflationary costs that have continued to grow at a rate of 37 percent. Given these challenges, NMDOT has had to reassess its production and letting schedule to balance available resources and prioritize its scheduling system. Park and Ride ridership increases are being driven by the reaction of the general public to the escalating price of gasoline and their increased interest in public transportation options.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Ride quality index for new construction	4.1	>=4.3	4.1	R
Revenue dollars per passenger on park and ride	$2.51	$1.60	$2.81	G
Annual number of riders on park and ride	289,984	200,000	302,104	G
Percent of final cost over bid amount	3.25%	4%	8.7%	R
Percent of front-occupant seat belt use by the public	89.5%	92%	90%	R
Number of traffic fatalities per one hundred million vehicle miles traveled	2.09	2.4	2.23	R
			Overall Program Rating	R

Transportation and Operations Program. Both indicators show significant declines in FY07 as price increases begin to be absorbed within both the construction and maintenance budgets. The heavy rains and subsequent flooding in the beginning of FY07, in addition to the seven heavy snowfalls experienced in winter FY07, impacted the maintenance and construction workloads and consequently the department's ability to meet these criteria.

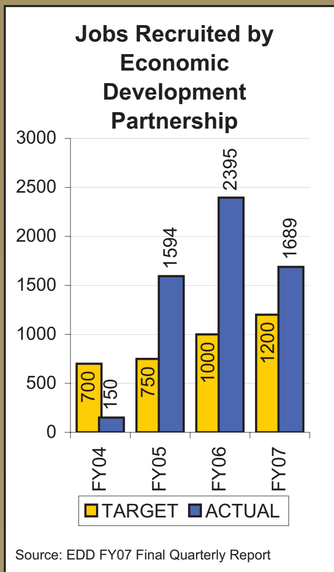
Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Number of statewide improved pavement surface miles	4,685	5,000	2,470	R
Number of combined system-wide miles in deficient condition	826	<=2,500	1,850	G
			Overall Program Rating	Y



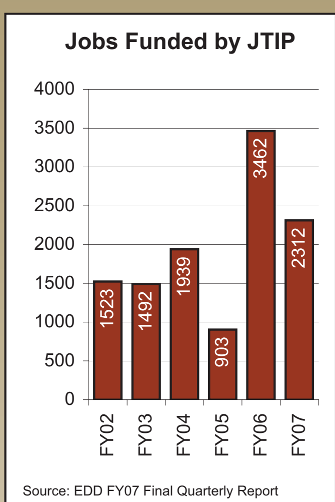
<u>Programs and Infrastructure Program.</u> The department has actively been working with the State Personnel Office to reduce their vacancy levels by improving recruitment efforts, adjusting pay levels, and aligning positions where the greatest need exists. It is imperative that the department close the gap rapidly on filling vacancies to meet its workload.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of vacancy rate in all programs	10.4%	8.5%	10.7%	R
			Overall Program Rating	R

Economic Development Department



Job creation numbers are based on company reports of anticipated total employment, not actual jobs created. EDD does not revise reports.



The department's performance is generally strong for the year in many of its key measures, especially job recruitment. EDD's smaller programs are not meeting many of the targets, in some cases because the measures are poor indications for the program's activities. On the whole, EDD produces a useful quarterly report that includes historical data and explanations for underperforming activities. The report could be improved by adding more detailed action plans for improving performance.

Economic Development. The program met the most important measures for FY07, especially those for job recruitment and community development. The challenge in measuring this program's performance is in counting jobs created. For example, the announcement by Tesla Motors of its plan to build a car manufacturing plant counts as 400 jobs in the EDD report even though the plant is still in the planning and construction phase. Business expansions are tracked through the Job Training Incentive Program, and the department has missed this target for the last three years. EDD should report annually on the retention rates of employees at companies who received JTIP awards.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Cumulative number of communities certified through the community certification initiative	23	25	31	G
Number of business expansions assisted by the economic development program in urban areas of New Mexico	35	42	34	R
Total number of rural jobs created	2,192	2,200	1,451	R
Number of rural and urban jobs created	6,151	3,700	4,112	G
Number of jobs created through the economic development partnership	2,395	1,200	1,689	G
			Overall Program Rating	G

Film. The Film Program continues to exceed its performance targets by large margins. The economic impact of film productions is stated as a multiplier of $3 to every $1 spent by production companies, which is unrealistic. The program missed for the first time its target of productions photographed in New Mexico, but the number of large productions, like films, has increased. This precipitous increase in film productions is due largely to the rebate to companies equal to 25 percent of their expenditures.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Number of media industry worker days	161,137	75,000	168,046	G
Economic impact of media industry productions in New Mexico, in millions	$350.1	$140	$473.7	G

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Number of films and media projects principally photographed in New Mexico	68	65	59	R
			Overall Program Rating	G

Office of Mexican Affairs. In general, the Office of Mexican Affairs has a hard time quantifying its activities, and most of the program's staff appear focused on "macro" New Mexico-Chihuahua issues, such as diplomatic efforts, and not specifically on job creation. EDD reports the program is working with the Economic Development Partnership, a private nonprofit group created in statute to work with the department, to increase recruitment efforts on the border.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Dollar value of New Mexico exports to Mexico as a result of the Mexican affairs program, in millions	$183.9	$350	$332.8	Y
Number of jobs created by maquiladora suppliers	18	250	20	R
Number of new facilities opened by maquiladora suppliers	0	6	1	R
			Overall Program Rating	R

Technology Commercialization. The aerospace and aviation company recruitment measure is a function of the Economic Development Program, not Technology Commercialization, and the technology intensiveness index has not been reported by the State Science and Technology Institute.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Number of jobs created by aerospace and aviation companies	269	170	43	R
Ranking of New Mexico in technology intensiveness according to the state science and technology institute index	N/A	12	N/A	Y
			Overall Program Rating	R

EDD FY08 Funding by Division

	FY08 Budget (in millions)	FTE
ED	$3.6	26
Film	$1.4	12
Trade	$0.4	3
Tech	$0.3	4
Program Support	$3.7	23
Total	$9.4	68

Environment Department

"Prevention of groundwater contamination is clearly more cost effective and technically achievable than remediation. The cost of one facility inspector for one year, who may assess compliance at up to 100 facilities during that year, is equivalent to the cost of one ground water investigation, at one contaminated site of average size and complexity."

The migration of the liquid waste database to a web-based system, which will allow the public to run their own permit searches, is behind schedule. When completed, it will increase efficiency by reducing staff time spent responding to permit record requests.

For FY07, the department exhibited a slight performance decline in almost all bureaus, primarily due to staffing considerations as described within each affected program below. Increased FTE and operating budget for FY08 to address these issues should improve results.

Water and Waste Management. The Water Quality Program has slipped in its overall program rating from FY06, from green to yellow. Most notably, the number of permitted water-discharge facilities receiving inspections has dropped significantly due to maintaining vacancies to preserve a depleting water quality management fund, the primary funding source for this permit program. With new funding from the corrective action fund incorporated into the FY08 operating budget, the bureau is actively recruiting personnel to improve this measure. NMED attributes the progress reflected in the national laboratory measure to the added staff provided in FY07 for Los Alamos National Laboratory oversight, which handled 12 of 14 document submittals within given timeframes. At 1/4, submittals for Sandia National Laboratory remain problematic.

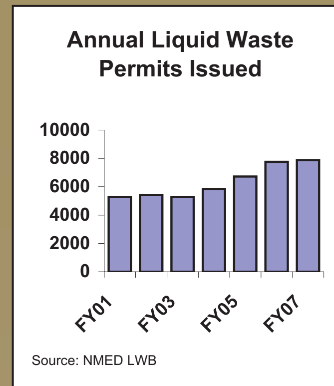
Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of permitted facilities receiving annual compliance evaluations and field inspections	64%	65% of 875	42% of 875	R
Percent of permitted facilities where monitoring results do not exceed standards	73%	75%	76%	G
Percent of cases in which sandia national laboratory and Los Alamos national laboratory are notified of agency action on document submittals within the timeframes specified in the executed consent orders	11%	90%	72%	Y
Percent of inspections that are first time inspections for hazardous waste notifiers, generators and transporters	71%	20%	80% (45/56)	G
			Overall Program Rating	Y

Environmental Health. The Environmental Health Program (EHP) records the only improvement in overall rating for the year, primarily due to its dramatic improvement in septic tank inspections. The Radiation Bureau continues to be negatively impacted by inspector vacancies, although it maintained its FY06 performance outcome.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of new septic tank inspections completed	61%	80%	80%	G
Percent of public water systems that comply with acute maximum contaminant levels	100%	95%	99.7%	G
Percent of radioactive material licensee and radiation producing machine inspections completed within nuclear regulatory commission (NRC) and food and drug administration (FDA) guidelines	92%	100%	92%	Y
			Overall Program Rating	G

Environmental Protection. The first two measures address the goal of protecting public health and the environment by requiring the monitoring of groundwater beneath landfills. The Solid Waste Bureau (SWB) shows a decline in performance from FY06, which the bureau attributes to a staffing shortage caused by several complex administrative compliance orders and ongoing investigations. The bureau's action plan to improve these measures includes adding two enforcement employees to increase inspections, thereby creating a tougher stance that may encourage compliance. Additional steps include directing the new permit section manager to place greater emphasis on allocating staff resources to groundwater issues and filling the FTE hydrologist position added for FY08.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of landfills meeting ground-water monitoring requirements.	71%	93%	66%	R
Percent of inspected solid waste facilities in substantial compliance with the solid waste managements regulations	74%	75%	65%	R
Percent of facilities taking corrective action to mitigate air quality violations discovered as a result of inspections	100%	95%	100%	G
Percent of serious worker health and safety violations corrected within the timeframes designated on citations issued by the consultation and compliance sections	97%	95%	95%	G
			Overall Program Rating	Y

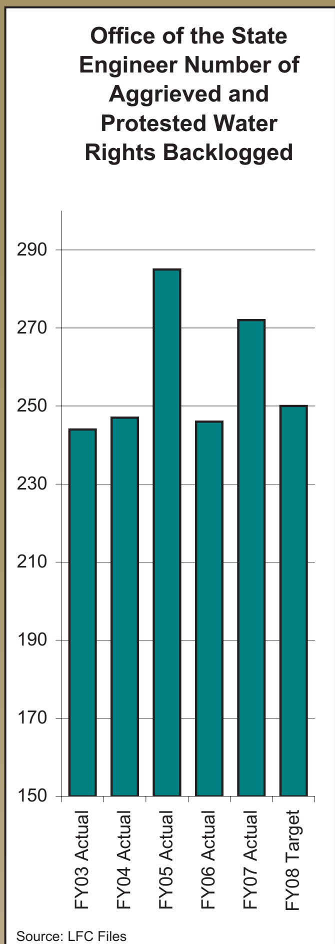


Air Quality Bureau:
The AQB reports that inspections found eleven facilities during FY07 with violations and that all eleven have taken corrective action.

Solid Waste Bureau:
SWB reports that only 48 out of 73 facilities submitted the required monitoring documents and provides a seven step action plan to improve this outcome.

Occupational Safety Bureau:
Regarding worker safety, for 4th quarter the OSB reports 536 occupational citations were issued and 496 were abated timely. For FY07, 1,184 of 1,247 citations were abated.

Office of the State Engineer



For FY07, OSE met or exceeded measurements in both Program Support and Interstate Stream Compact Compliance Program; however, OSE continued to encounter difficulties in the Water Resource Allocation and the Litigation and Adjudication Programs.

Water Resource Allocation. This program did not meet the majority of its FY07 program performance targets. While the targets could be considered to be ambitious, it appears that the backlog continued to grow.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Number of protested and aggrieved water rights backlogged	246	198	272	R
Percent of applications abstracted into the water administration technical engineering resource system database	50.9%	54%	56.5%	G
Average number of unprotested new and pending applications processed per month	67	80	82	G
			Overall Program Rating	Y

Litigation and Adjudication. The program did not meet its objectives with respect to the number of offers to defendants in adjudications. Although the target was not for the percent of water rights adjudicated, it is of great concern that the pace of adjudications could stretch for decades.

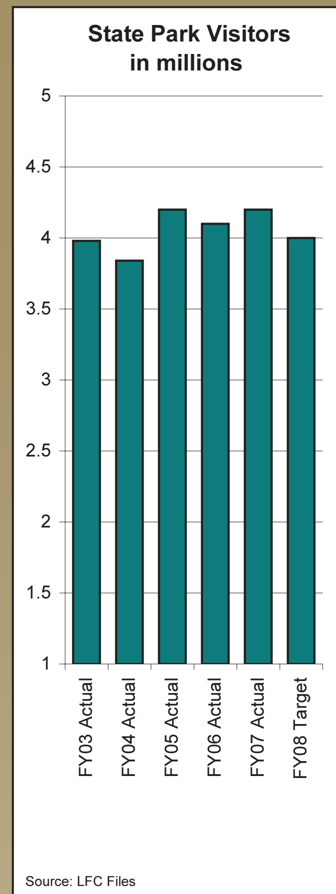
Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Number of offers to defendants in adjudications	1,733	1,800	1,200	R
Percent of all water rights that have judicial determinations	41%	40%	42%	G
			Overall Program Rating	Y

Energy, Minerals and Natural Resources

For FY07, the department generally met or surpassed all significant performance measurement criteria.

State Parks. This program exceeded program goals except for interpretive programs. Problems with delivering interpretive programs were due to three factors: flooding on several occasions but particularly Memorial Day weekend that prevented the delivery of approximately 100 interpretive programs; difficulties filling interpretive positions at the Rio Grande Nature Center, and the extended absence of the interpretive officer at Veterans' Memorial Center. New parks and park expansion projects accounted for $8.2 million in expenditures in FY07.

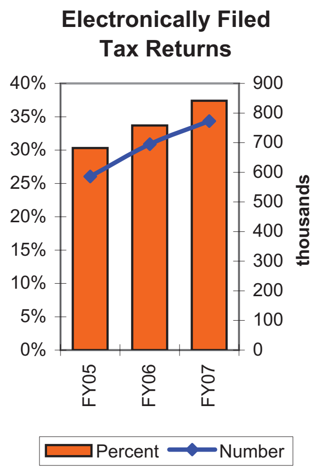
Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Self-generated revenue per visitor, in dollars	$.94	$.83	$.94	G
Number of visitors to state parks, in millions	4.1	4	4.2	G
Percent completion of new parks and park expansion projects receiving appropriations	N/A	45%	50%	G
Number of interpretive programs available to park visitors	2,289	2,500	2,415	Y
			Overall Program Rating	G



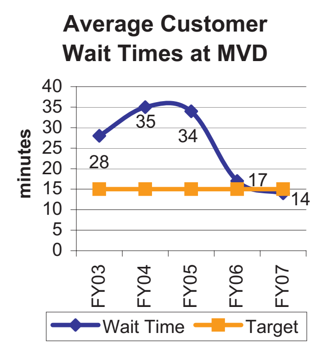
Oil and Gas Conservation Program. The program managed 12 site remediation projects in FY07 costing approximately $3 million and exhausting reclamation funds available for this purpose.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of inventoried orphaned wells plugged annually	27.8%	25%	22.5%	Y
Number of inspections of oil and gas wells and associated facilities	28,553	21,740	24,400	G
			Overall Program Rating	Y

Taxation and Revenue Department



Source: TRD and LFC Files



Source: TRD and LFC Files

The Taxation and Revenue Department met most of its performance targets for FY07, and the agency has demonstrated a commitment to quarterly reporting and performance-based budgeting. Continued service improvements are evident at the Motor Vehicle Division and revenue collection efforts are showing good results. The Property Tax Program is not fully performing, perhaps the result of understaffing. In most deficient areas the agency has provided an action plan to improve performance.

Tax Administration. The program's performance is strong. The measure for electronically filed returns had an ambitious target that the department did not attain. Nevertheless, the number of electronic filers is increasing yearly.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Collections as a percent of collectable outstanding balances from June 30, 2006	20%	10%	18.2%	G
Collections as a percent of collectable audit assessments generated in the current fiscal year	34%	40%	40%	G
Percent of electronically filed personal income tax and combined reporting system returns	33.7%	45%	37.4%	R
			Overall Program Rating	G

Motor Vehicle. MVD has shown improvement in serving customers. While the wait times at offices are below the target for the first time, the methodology may not accurately assess the actual customer wait times. Customers frequently wait in line before receiving a Q-Matic ticket, which "starts the clock." Wait times on the phone fell to 3:23 in the fourth quarter, but the yearly average is well above the target. In addition, it is important to note that the measure of insured drivers is for registered vehicles; it does not necessarily indicate the percent of insured vehicles on the roads.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of registered vehicles with liability insurance	87%	87%	89%	G
Average call center wait time to reach an agent, in minutes	4:10	3:45	4:55	R
Average wait time in Q-Matic equipped offices, in minutes	17	15	14	G
			Overall Program Rating	G

Property Tax. The program missed its target for resolution of delinquent accounts, yet reports that in terms of dollars it is exceeding its target. TRD reports the program is focusing its resources to resolve the high-dollar accounts, which results in a lower percent of accounts resolved. For FY09, the department will begin reporting on the average assessed value of property versus the market value.

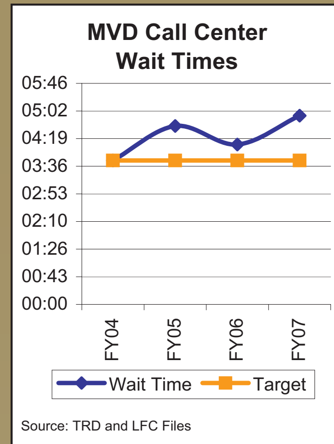
Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Percent of delinquent accounts that are resolved	62%	88%	66%	R
Number of appraisals and valuations for companies conducting business within the state subject to state assessment	504	510	511	G
			Overall Program Rating	Y

Compliance Enforcement. The Tax Fraud Investigation Division (TFID) of the Compliance Enforcement Program enforces the Tax Administration Act and seeks to reduce taxpayer fraud though investigation and prosecution. TFID successfully prosecuted every case it has brought against a taxpayer.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Successful tax fraud prosecutions as a percent of total cases prosecuted	100%	80%	100%	G
			Overall Program Rating	G

Program Support. While the program continues to meet both of its performance measures, a measure of the percent of protests resolved would be better than the number. TRD continues to increase the number of driving-while-intoxicated hearing officers to ensure that hearings are scheduled within 90 days. In FY07, 0.7 percent, or 13, of DWI-revoked licenses were rescinded because a hearing was not held within 90 days.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Number of tax protest cases resolved	730	728	802	G
Percent of driving-while-intoxicated drivers license revocations rescinded due to failure to hold hearings in ninety days	0.9%	2%	0.7%	G
			Overall Program Rating	G



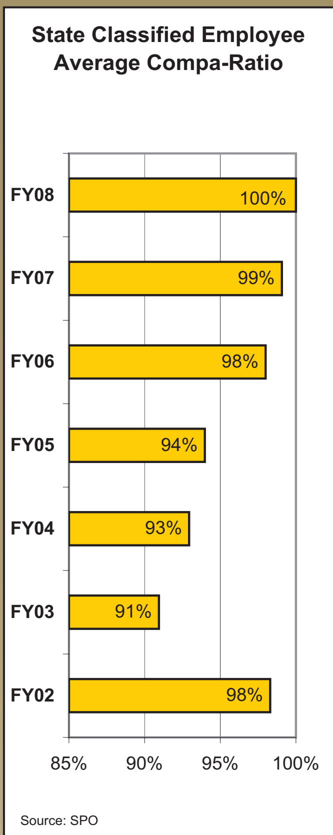
TRD FY08 Funding by Division

	FY08 Budget (in millions)	FTE
Tax Ad.	$31.1	551
MVD	$26.1	375
Prop Tax	$3.2	50
Comp Enf	$2.6	34
Prog Sup	$21.4	210
Total	$84.4	1220

State Personnel Board

The State Personnel Board (SPB) is responsible for the maintenance of New Mexico's merit pay system. The established performance measures do not adequately reflect the full spectrum of responsibility of the SPB and were modified in both FY07 and FY08. Additionally, as the statewide human resource information system is fully developed, additional measures will be integrated as access to data improves.

Average pay as a percent of the comparator market significantly improved to 99 percent for FY07 and to 100 percent in FY08 as a result of the pay increases provided by the Legislature in 2007. Quality assurance audits are a critical measure because they gauge the level of oversight being given to state agencies by SPB in ensuring merit system compliance. This activity was reinitiated in FY07 by SPO; however, the target was not achieved. Training activity has again been given priority by SPO in FY07 but not sufficiently to achieve the targeted levels.



<u>Human Resource Management</u>.

Measure	FY06 Actual	FY07 Target	FY07 Actual	FY07 Rating
Average employee pay as a percent of board-approved comparator market, based on legislative authorization	94%	95%	99.1%	G
Percent of managers and supervisors completing board required training as a percent of total manager and supervisor category employees	90%	90%	<50%	R
Percent of quality reviews (audits) performed on agencies in accordance with the quality assurance program	N/A	95%	<50%	R
Percent of managers and supervisors in medium to small agencies who successfully complete SPO-sponsored management or supervision training	N/A	90%	16%	R
Percent of union grievances resolved prior to formal arbitration	0%	70%	0%	G
Average days to fill a vacant position	N/A	90	75	G
			Overall Program Rating	Y

Program Evaluation Activity

Program evaluations provide objective assessments about the extent to which government agencies economically, efficiently, and effectively carry out their responsibilities and perform services. They include evaluating compliance with laws and regulations, reviewing information system implementation and recommending changes to the Legislature.

During 2007, the Program Evaluation unit completed 11 projects. Program evaluation activity included full program evaluations, quick response evaluations, and follow-up evaluations. All of the evaluations can be accessed through the committee website.

Significant findings and recommendations are summarized below.

Enforcement and Compliance with Statutes, Rules and Regulations at the State Personnel Office. The purpose of the State Personnel Act is to establish a system of personnel administration based solely on qualification and ability. The State Personnel Board should ensure that the State Personnel Office (SPO) is meeting its obligations under the act and board rules and regulations through effective quality assurance reviews and that agencies are following the act. SPO should maintain and track written agreements and records of line authority granted to agencies as required by board rule. Also, SPO should develop procedures whereby employees can report complaints without fear of retaliation.

State Contracting Process and Use of Performance Contracting. *Governing Magazine*'s February 2005 issue gave New Mexico State government a grade of "B" for financial management, which included procurement of goods and services. The Department of Finance and Administration (DFA) Contracts Review Bureau should develop standardized audit tools and checklists specifically designed to enhance the review of proposed contracts and amendments. All professional service contracts and amendments exceeding $1 million should be reviewed by the Attorney Generals' Office. DFA and the General Services Department should develop and make available to all agencies procurement procedures and guidelines and detailed instructions for issuing professional services contracts.

Statewide Human Resource, Accounting and Management Reporting System. The system replaced all existing state accounting, human resources and procurement systems with a PeopleSoft enterprise resource-planning system. DFA should complete the work necessary to produce timely, complete and reliable management reports; identify configuration and

Findings:
SPO no longer:

- Tests potential candidates
- Screens job applicants
- Ranks candidates
- Maintains employment history records for non-SPO employees

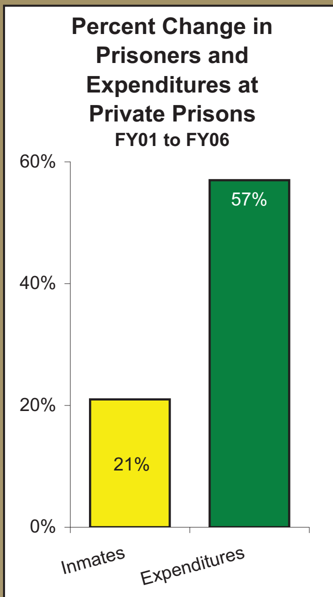
SPO's working environment warrants further investigation by a third party.

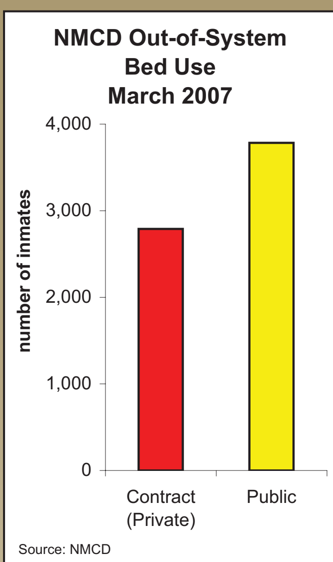
Finding:
Contracting in New Mexico is very decentralized.

Over 99 percent of invoices for nine agencies during July and August 2007 were paid within the 30-day statutory requirement.

Share Project Funding (in thousands)	
Agencies Contributions	$11,697.0
Appropriations	$20,000.0
Total Funding	**$31,697.0**
Source : LFC Analysis	

Finding:
The Facility Management Division does not have an all-encompassing strategic plan that focuses on effectively administering and monitoring its facilities.





Finding:
Sixty-two percent of parole certificates sampled were issued late.

Findings:
More than $4.6 million in questioned costs identified between DPS and federal audit of the Border Prosecution Initiative.

programming issues; seek adequate funding to fully address them, including those at the Department of Transportation; seek sufficient funding to adequately train end users and technical staff; establish performance metrics to assess performance over time; and work with agencies to re-engineer business processes. The Department of Information Technology should ensure future information technology projects have ongoing sponsor commitment, risk assessment and mitigation, and qualified project managers.

Performance of Facility Management Division. The purpose of the facilities management program at the Department of Health (DOH) is to oversee facilities that provide health and behavioral healthcare services, including mental health, substance abuse, nursing home, and rehabilitation programs in facility and community-based settings and serve as the safety net for the citizens of New Mexico. DOH should review each facility's organizational chart, clarify roles and responsibilities for the facility administrators, establish goals and objectives for the facilities, and communicate these decisions to facility employees; consider more appropriate and meaningful performance measures for the different types of services offered including chemical dependency; develop timelines and implementation plans to address software and technical issues at facilities; and develop quality assurance mechanisms capable of validating facility data for performance measures.

Correctional Facility Planning Efforts. The Corrections Department's operating practices and facilities meet national standards. However, public concerns continue regarding the cost, quality, adequacy, and effectiveness of the state's prison operations. The department should modify its agreements for private correctional facilities; restructure Lea and Guadalupe county rates using a three-tier per diem structure, including a base per diem, incremental per diem, and a separate debt service fee; reduce past price increases in recalculating the debt service fee; align the per diem rate similar to the Clayton agreement to save an estimated $4.9 million per year or $49 million over 10 years; withhold no less than 5 percent of the total estimated contract amount as a performance incentive for maintaining low vacancy rates; and require the medical vendor to provide monthly reports on medical spending by defined expense categories and staff vacancies, especially for critical professions such as physicians and dentists.

Parole Management and Video-Conferencing Readiness. An inefficient reentry process delays timely inmate release and results in substantial, unnecessary incarceration costs. The board should issue parole certificates timely; update standard decision-making criteria and guidance for any conditions imposed; ensure that board members uniformly apply parole decision-making criteria; require all board members to participate in training; and schedule as many video hearings as possible to maximize associated benefits.

Southwest Border Prosecution Initiative. The U.S. Department of Justice (DOJ), Office of Justice Programs, provides funds to Arizona, California, New Mexico, and Texas, to reimburse local governments for costs associated with the prosecution of crimes declined by local U.S. Attorneys' offices or referred to other local agencies. DOJ appointed the Department of Public Safety (DPS) New Mexico's authorized designee responsible for requesting reimbursements on behalf of the 14 district attorneys. The Administrative Office of the District Attorneys and DPS should coordinate with all district attorneys to develop standardized processes and procedures for identifying, tracking, and calculating reimbursement for cases eligible for initiative reimbursement; and coordinate with all district attorneys and DOJ to clarify and resolve disputes regarding Initiative guidelines.

DPS holds future payments to offset questioned costs.

Three-Tiered Teacher Licensure System. Over $82 million has been invested in raising teachers' minimum salaries over the past four years to implement the three-tiered licensing system. The Public Education Department (PED) should propose a statutory amendment to balance executive flexibility with the Legislature's constitutional appropriation authority. PED should report annually to the Office of Educational Accountability (OEA), Legislative Education Study Committee, and LFC on professional development spending, both federal and state funds, and explain whether that spending meets its own guidelines for high-quality professional development. PED, in collaboration with the Legislature, OEA, the Higher Education Department, higher education institutions, educational organizations, and other key group, should create a systematic plan for the recruitment, preparation, mentoring, evaluation, professional development, and support for school principals and other school leaders.

General Fund Appropriation for New Mexico's Three-Tiered Teacher Licensure Systems

Fiscal Year	Recurring Appropriations
FY04	$5,700.0
FY05	$8,638.7
FY06	$51,800.0
FY07	$6,841.3
FY08	$9,118.6
Total	**$82,098.6**

Source : LESC

Albuquerque Public Schools' Selected Operations. The Albuquerque Public Schools (APS) provide educational services to over 87,000 children. PED should propose statutory changes to clearly define certified or licensed ancillary service providers eligible for funding through the funding formula; revise its rules based on the amended statute; recover and revert to the general fund the $2.6 million in excess funds distributed to APS in FY08; and establish and implement processes to validate ancillary service provider FTE and special education data. APS should transfer insurance fund balances to a separate fund and study the impact of teacher experience and qualifications on student performance.

Funded Ancillary FTE and Special Education Students

FY02	527	17,434
FY03	474	17,387
FY04	478	17,187
FY05	476	17,002
FY06	453	16,937
FY07	574	16,579
FY08	633	16,240

Source: APS

Program Evaluation Activity

Findings:
Some RECs experience cash flow problems stemming from a change to preferred method of reimbursement.

Regional Education Cooperatives. PED should streamline its review process of cash reimbursements and ensure that Regional Education Cooperatives' (REC) submissions are complete and correct; enhance oversight of RECs through the designation of one internal FTE to oversee RECs operations, services, planning, and cash reimbursements and conduct regular meetings; request an additional $1.05 million in nonrecurring funds to bring the cash assistance amount to $1.8 million to mitigate RECs cash flow problems; and monitor the RECs expenditures and cash flow issues.

Findings:
Behavioral health appropriations remain fragmented.

The collaborative’s payment and business practices continue to cause concerns.

Pre-paying ValueOptions for services not yet rendered is still contrary to best practice as specified by the Procurement Code.

Follow-up Review of the Behavioral Health Collaborative. Overall, the collaborative had implemented few of the report’s recommendations. In response to the 2006 LFC report, the Legislature in 2007 passed House Bill 727, which contained many of the report’s recommendations and additional legislative provisions. The bill was vetoed. The follow-up review concluded changes were still necessary to improve the collaborative’s accountability to the Legislature and oversight capabilities. The Legislature should assess legislation granting the collaborative rulemaking authority, requiring a consolidated behavioral health budget, quarterly performance reports and an annual report to the Legislature; and continue to consolidate behavioral health appropriations into a single program in the General Appropriation Act. The report recommended the collaborative collect overpayments made to ValueOptions in FY07.

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY08 OPERATING BUDGET	FY09 AGENCY REQUEST	FY09 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
Legislative						
11100	LEGISLATIVE COUNCIL SERVICE	5,589.0	6,119.4	6,119.4	530.4	9.5%
11200	LEGISLATIVE FINANCE COMMITTEE	4,110.1	4,291.6	4,291.6	181.5	4.4%
11400	SENATE CHIEF CLERK	1,140.1	1,177.0	1,177.0	36.9	3.2%
11500	HOUSE CHIEF CLERK	1,129.6	1,146.1	1,146.1	16.5	1.5%
11700	LEGISLATIVE EDUCATION STUDY COMMITTEE	1,236.5	1,261.5	1,261.5	25.0	2.0%
11900	LEGISLATIVE BUILDING SERVICES	3,916.4	4,232.5	4,232.5	316.1	8.1%
13100	LEGISLATURE	1,686.9	1,686.9	1,686.9	0.0	0.0%
Total	**Legislative**	18,808.6	19,915.0	19,915.0	1,106.4	5.9%
Judicial						
20500	SUPREME COURT LAW LIBRARY	1,784.5	1,828.4	1,812.3	27.8	1.6%
20800	NEW MEXICO COMPILATION COMMISSION	147.0	190.0	125.5	-21.5	-14.6%
21000	JUDICIAL STANDARDS COMMISSION	802.2	837.2	820.3	18.1	2.3%
21500	COURT OF APPEALS	5,511.4	5,715.1	5,690.1	178.7	3.2%
21600	SUPREME COURT	3,003.4	3,116.6	3,005.5	2.1	0.1%
21800	ADMINISTRATIVE OFFICE OF THE COURTS	41,970.4	52,348.6	43,887.8	1,917.4	4.6%
21900	SUPREME COURT BUILDING COMMISSION	761.6	780.3	775.0	13.4	1.8%
23100	FIRST JUDICIAL DISTRICT COURT	6,474.0	7,239.8	6,564.0	90.0	1.4%
23200	SECOND JUDICIAL DISTRICT COURT	21,793.9	23,088.2	22,143.8	349.9	1.6%
23300	THIRD JUDICIAL DISTRICT COURT	6,471.5	6,985.2	6,542.4	70.9	1.1%
23400	FOURTH JUDICIAL DISTRICT COURT	2,100.7	2,807.9	2,115.2	14.5	0.7%
23500	FIFTH JUDICIAL DISTRICT COURT	6,146.6	6,572.8	6,317.0	170.4	2.8%
23600	SIXTH JUDICIAL DISTRICT COURT	3,037.6	3,518.6	3,113.0	75.4	2.5%
23700	SEVENTH JUDICIAL DISTRICT COURT	2,304.9	2,488.2	2,293.5	-11.4	-0.5%
23800	EIGHTH JUDICIAL DISTRICT COURT	2,531.3	2,840.3	2,632.5	101.2	4.0%
23900	NINTH JUDICIAL DISTRICT COURT	3,334.3	3,576.8	3,369.1	34.8	1.0%
24000	TENTH JUDICIAL DISTRICT COURT	745.1	827.2	750.3	5.2	0.7%
24100	ELEVENTH JUDICIAL DISTRICT COURT	5,600.9	6,859.8	5,829.0	228.1	4.1%
24200	TWELFTH JUDICIAL DISTRICT COURT	3,174.5	3,293.7	3,196.0	21.5	0.7%
24300	THIRTEENTH JUDICIAL DISTRICT COURT	6,221.6	7,778.2	6,282.4	60.8	1.0%
24400	BERNALILLO COUNTY METROPOLITAN COURT	22,627.4	24,670.2	23,903.9	1,276.5	5.6%
25100	FIRST JUDICIAL DISTRICT ATTORNEY	4,771.0	5,105.4	4,704.1	-66.9	-1.4%
25200	SECOND JUDICIAL DISTRICT ATTORNEY	16,867.7	19,414.9	17,469.4	601.7	3.6%
25300	THIRD JUDICIAL DISTRICT ATTORNEY	4,185.8	5,186.3	4,546.8	361.0	8.6%
25400	FOURTH JUDICIAL DISTRICT ATTORNEY	3,312.1	3,489.6	3,284.6	-27.5	-0.8%
25500	FIFTH JUDICIAL DISTRICT ATTORNEY	4,395.8	4,764.4	4,574.8	179.0	4.1%
25600	SIXTH JUDICIAL DISTRICT ATTORNEY	2,471.0	2,820.9	2,497.2	26.2	1.1%
25700	SEVENTH JUDICIAL DISTRICT ATTORNEY	2,380.3	2,487.7	2,424.4	44.1	1.9%
25800	EIGHTH JUDICIAL DISTRICT ATTORNEY	2,571.3	2,771.9	2,671.3	100.0	3.9%
25900	NINTH JUDICIAL DISTRICT ATTORNEY	2,714.7	2,789.6	2,768.0	53.3	2.0%
26000	TENTH JUDICIAL DISTRICT ATTORNEY	980.0	1,038.0	1,031.2	51.2	5.2%
26100	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIV I	3,423.6	3,758.0	3,569.2	145.6	4.3%
26200	TWELFTH JUDICIAL DISTRICT ATTORNEY	2,551.4	2,803.8	2,526.4	-25.0	-1.0%
26300	THIRTEENTH JUDICIAL DISTRICT ATTORNEY	4,397.1	5,123.5	4,534.7	137.6	3.1%
26400	ADMINISTRATIVE OFFICE OF THE DISTRICT ATTORNEYS	2,092.0	3,663.7	2,200.1	108.1	5.2%
26500	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIV II	2,120.6	2,241.1	2,093.4	-27.2	-1.3%

TABLE 1

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

BUDGET CODE	DESCRIPTION	FY08 OPERATING BUDGET	FY09 AGENCY REQUEST	FY09 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
Total	**Judicial**	205,779.2	234,821.9	212,064.2	6,285.0	3.1%
General Control						
30500	ATTORNEY GENERAL	15,570.0	17,589.0	16,219.0	649.0	4.2%
30800	STATE AUDITOR	2,691.1	3,471.2	2,859.7	168.6	6.3%
33300	TAXATION AND REVENUE DEPARTMENT	67,805.5	72,734.0	69,519.8	1,714.3	2.5%
33700	STATE INVESTMENT COUNCIL	0.0	0.0	0.0	0.0	0.0%
34100	DEPARTMENT OF FINANCE AND ADMINISTRATION	15,880.2	18,659.4	16,541.8	661.6	4.2%
34200	PUBLIC SCHOOL INSURANCE AUTHORITY	0.0	0.0	0.0	0.0	0.0%
34300	RETIREE HEALTH CARE AUTHORITY	8.9	10.0	10.0	1.1	12.4%
34400	DFA NON-OPERATING FUNDS	14,446.3	14,894.5	13,061.9	-1,384.4	-9.6%
35000	GENERAL SERVICES DEPARTMENT	16,776.9	22,122.0	16,871.0	94.1	0.6%
35200	EDUCATIONAL RETIREMENT BOARD	0.0	0.0	0.0	0.0	0.0%
35400	NEW MEXICO SENTENCING COMMISSION	819.9	819.9	819.9	0.0	0.0%
35500	PUBLIC DEFENDER DEPARTMENT	41,028.6	46,509.0	42,679.9	1,651.3	4.0%
35600	GOVERNOR	4,613.2	4,786.0	4,786.0	172.8	3.7%
36000	LIEUTENANT GOVERNOR	828.2	843.4	843.4	15.2	1.8%
36100	DEPARTMENT OF INFORMATION TECHNOLOGY	1,138.8	1,057.0	942.8	-196.0	-17.2%
36600	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION	0.0	0.0	0.0	0.0	0.0%
36900	STATE COMMISSION OF PUBLIC RECORDS	2,923.9	3,026.4	2,959.9	36.0	1.2%
37000	SECRETARY OF STATE	4,006.8	8,685.6	4,098.6	91.8	2.3%
37800	PERSONNEL BOARD	4,541.7	4,838.1	4,577.6	35.9	0.8%
37900	PUBLIC EMPLOYEE LABOR RELATIONS BOARD	339.9	348.3	348.0	8.1	2.4%
39400	STATE TREASURER	4,285.8	4,634.3	4,496.5	210.7	4.9%
Total	**General Control**	197,705.7	225,028.1	201,635.8	3,930.1	2.0%
Commerce and Industry						
40400	BOARD OF EXAMINERS FOR ARCHITECTS	0.0	0.0	0.0	0.0	0.0%
41700	BORDER AUTHORITY	521.3	716.6	566.6	45.3	8.7%
41800	TOURISM DEPARTMENT	11,286.8	17,297.7	11,619.5	332.7	2.9%
41900	ECONOMIC DEVELOPMENT DEPARTMENT	9,382.0	10,220.1	9,400.3	18.3	0.2%
42000	REGULATION AND LICENSING DEPARTMENT	16,698.1	19,362.0	16,896.7	198.6	1.2%
43000	PUBLIC REGULATION COMMISSION	11,165.6	13,339.2	11,433.1	267.5	2.4%
44600	MEDICAL BOARD	0.0	0.0	0.0	0.0	0.0%
44900	BOARD OF NURSING	0.0	0.0	0.0	0.0	0.0%
46000	NEW MEXICO STATE FAIR	0.0	348.0	348.0	348.0	0.0%
46400	STATE BRD LICENSURE FOR PROF. ENGINEERS/LND SUR	0.0	0.0	0.0	0.0	0.0%
46500	GAMING CONTROL BOARD	6,332.6	6,611.5	6,379.4	46.8	0.7%
46900	STATE RACING COMMISSION	2,363.1	3,001.4	2,394.1	31.0	1.3%
47900	BOARD OF VETERINARY MEDICINE	0.0	0.0	0.0	0.0	0.0%
49000	CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION	100.0	100.0	100.0	0.0	0.0%
49100	OFFICE OF MILITARY BASE PLANNING & SUPPORT	154.3	154.3	154.3	0.0	0.0%
49500	SPACEPORT AUTHORITY	365.2	1,939.0	663.6	298.4	81.7%
Total	**Commerce and Industry**	58,369.0	73,089.8	59,955.6	1,586.6	2.7%
Agriculture, Energy and Natural Resources						
50500	DEPARTMENT OF CULTURAL AFFAIRS	32,728.5	37,712.2	34,067.0	1,338.5	4.1%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

BUDGET CODE	DESCRIPTION	FY08 OPERATING BUDGET	FY09 AGENCY REQUEST	FY09 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
50800	NEW MEXICO LIVESTOCK BOARD	1,726.5	2,348.9	1,306.3	-420.2	-24.3%
51600	DEPARTMENT OF GAME AND FISH	333.1	1,113.1	333.1	0.0	0.0%
52100	ENERGY, MINERALS AND NATURAL RESOURCES DPT	25,923.5	31,730.4	26,598.4	674.9	2.6%
52200	YOUTH CONSERVATION CORPS	0.0	0.0	0.0	0.0	0.0%
53800	INTERTRIBAL CEREMONIAL OFFICE	157.9	159.7	159.7	1.8	1.1%
53900	COMMISSIONER OF PUBLIC LANDS	0.0	0.0	0.0	0.0	0.0%
55000	STATE ENGINEER	25,387.5	30,715.6	29,062.6	3,675.1	14.5%
56900	ORGANIC COMMODITY COMMISSION	302.9	396.5	300.4	-2.5	-0.8%
Total	**Agriculture, Energy and Natural Resources**	86,559.9	104,176.4	91,827.5	5,267.6	6.1%
Health, Hospitals and Human Services						
60100	COMMISSION ON THE STATUS OF WOMEN	629.8	729.8	749.8	120.0	19.1%
60300	OFFICE OF AFRICAN AMERICAN AFFAIRS	1,161.7	891.2	847.3	-314.4	-27.1%
60400	COMMISSION FOR THE DEAF & HARD-OF-HEARING PERS	0.0	0.0	0.0	0.0	0.0%
60500	MARTIN LUTHER KING, JR. COMMISSION	402.1	404.0	404.0	1.9	0.5%
60600	COMMISSION FOR THE BLIND	2,005.0	2,422.1	2,100.2	95.2	4.7%
60900	INDIAN AFFAIRS DEPARTMENT	3,454.5	3,675.4	3,534.7	80.2	2.3%
62400	AGING AND LONG-TERM SERVICES DEPARTMENT	46,911.7	59,794.7	50,363.0	3,451.3	7.4%
63000	HUMAN SERVICES DEPARTMENT	817,227.1	950,952.4	907,231.9	90,004.8	11.0%
63100	WORKFORCE SOLUTIONS DEPARTMENT	7,262.9	13,488.6	8,060.2	797.3	11.0%
63200	WORKERS' COMPENSATION ADMINISTRATION	0.0	0.0	0.0	0.0	0.0%
64400	DIVISION OF VOCATIONAL REHABILITATION	6,126.5	6,287.2	6,283.8	157.3	2.6%
64500	GOVERNOR'S COMMISSION ON DISABILITY	856.6	1,025.7	898.3	41.7	4.9%
64700	DEVELOPMENTAL DISABILITIES PLANNING COUNCIL	3,801.1	5,892.8	4,236.2	435.1	11.4%
66200	MINERS' HOSPITAL OF NEW MEXICO	0.0	0.0	0.0	0.0	0.0%
66500	DEPARTMENT OF HEALTH	286,415.5	308,390.0	299,835.5	13,420.0	4.7%
66700	DEPARTMENT OF ENVIRONMENT	16,354.0	18,818.8	16,878.3	524.3	3.2%
66800	OFFICE OF THE NATURAL RESOURCES TRUSTEE	417.5	417.5	417.5	0.0	0.0%
66900	NEW MEXICO HEALTH POLICY COMMISSION	1,331.2	1,830.5	1,365.6	34.4	2.6%
67000	VETERANS' SERVICES DEPARTMENT	3,167.9	4,075.1	3,259.5	91.6	2.9%
69000	CHILDREN, YOUTH AND FAMILIES DEPARTMENT	195,852.5	219,774.1	206,855.9	11,003.4	5.6%
Total	**Health, Hospitals and Human Services**	1,393,377.6	1,598,869.9	1,513,321.7	119,944.1	8.6%
Public Safety						
70500	DEPARTMENT OF MILITARY AFFAIRS	7,436.9	7,635.0	7,388.6	-48.3	-0.6%
76000	PAROLE BOARD	488.1	584.2	547.8	59.7	12.2%
76500	JUVENILE PAROLE BOARD	434.4	437.6	437.6	3.2	0.7%
77000	CORRECTIONS DEPARTMENT	277,387.7	309,650.4	294,672.1	17,284.4	6.2%
78000	CRIME VICTIMS REPARATION COMMISSION	2,242.8	2,302.6	2,300.0	57.2	2.6%
79000	DEPARTMENT OF PUBLIC SAFETY	92,038.3	103,561.7	98,867.9	6,829.6	7.4%
79500	HOMELAND SECURITY AND EMERGENCY MANAGEMENT	3,308.1	4,025.6	3,973.2	665.1	20.1%
Total	**Public Safety**	383,336.3	428,197.1	408,187.2	24,850.9	6.5%
Transportation						
80500	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%

TABLE 1

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

BUDGET CODE	DESCRIPTION	FY08 OPERATING BUDGET	FY09 AGENCY REQUEST	FY09 LFC RECOMM	DOLLAR CHANGE	PERCENT CHANGE
Other Education						
92400	PUBLIC EDUCATION DEPARTMENT	14,956.3	20,549.1	17,503.7	2,547.4	17.0%
92500	OTHER EDUCATION	39,025.9	52,190.5	31,383.4	-7,642.5	-19.6%
93000	REGIONAL EDUCATION COOPERATIVES	0.0	0.0	0.0	0.0	0.0%
94000	PUBLIC SCHOOL FACILITIES AUTHORITY	0.0	6,276.0	0.0	0.0	0.0%
Total	**Other Education**	53,982.2	79,015.6	48,887.1	-5,095.1	-9.4%
Higher Education						
95000	HIGHER EDUCATION DEPARTMENT	44,243.2	60,715.4	45,747.6	1,504.4	3.4%
95200	UNIVERSITY OF NEW MEXICO	319,451.8	0.0	324,675.1	5,223.3	1.6%
95400	NEW MEXICO STATE UNIVERSITY	201,196.8	0.0	208,286.7	7,089.9	3.5%
95600	NEW MEXICO HIGHLANDS UNIVERSITY	33,007.9	0.0	33,301.9	294.0	0.9%
95800	WESTERN NEW MEXICO UNIVERSITY	19,616.6	0.0	20,085.1	468.5	2.4%
96000	EASTERN NEW MEXICO UNIVERSITY	48,581.4	0.0	49,198.6	617.2	1.3%
96200	NEW MEXICO INSTITUTE OF MINING AND TECHNOLOGY	40,281.1	0.0	39,960.9	-320.2	-0.8%
96400	NORTHERN NEW MEXICO COLLEGE	11,190.9	0.0	11,232.5	41.6	0.4%
96600	SANTA FE COMMUNITY COLLEGE	15,329.2	0.0	14,370.6	-958.6	-6.3%
96800	CENTRAL NEW MEXICO COMMUNITY COLLEGE	55,245.4	0.0	53,395.2	-1,850.2	-3.3%
97000	LUNA VOCATIONAL TECHNICAL INSTITUTE	8,417.9	0.0	8,543.2	125.3	1.5%
97200	MESALANDS COMMUNITY COLLEGE	2,811.0	0.0	3,050.2	239.2	8.5%
97400	NEW MEXICO JUNIOR COLLEGE	7,000.0	0.0	7,620.0	620.0	8.9%
97600	SAN JUAN COLLEGE	21,210.2	0.0	22,053.1	842.9	4.0%
97700	CLOVIS COMMUNITY COLLEGE	10,422.0	0.0	10,200.5	-221.5	-2.1%
97800	NEW MEXICO MILITARY INSTITUTE	1,763.5	0.0	1,885.0	121.5	6.9%
97900	NM SCHOOL FOR THE BLIND AND VISUALLY IMPAIRED	306.4	0.0	344.7	38.3	12.5%
98000	NEW MEXICO SCHOOL FOR THE DEAF	3,870.8	0.0	3,914.6	43.8	1.1%
98200	HIGHER EDUCATION COMPENSATION	0.0	0.0	24,978.2	24,978.2	0.0%
98300	HIGHER EDUCATION COMPENSATION REVERSION	2,365.0	0.0	0.0	-2,365.0	-100.0%
Total	**Higher Education**	846,311.1	60,715.4	882,843.7	36,532.6	4.3%
Public School Support						
99300	PUBLIC SCHOOL SUPPORT	2,430,695.7	2,502,694.1	2,559,919.4	129,223.7	5.3%
Total	**Public School Support**	2,430,695.7	2,502,694.1	2,559,919.4	129,223.7	5.3%
Public Employee Compensation						
99400	PUBLIC EMPLOYEE COMPENSATION	0.0	0.0	20,536.7	20,536.7	0.0%
99600	SPECIAL COMPENSATION	0.0	0.0	411.5	411.5	0.0%
Total	**Public Employee Compensation**	0.0	0.0	20,948.2	20,948.2	0.0%
Grand Total		5,674,925.3	5,326,523.3	6,019,505.3	344,580.0	6.1%

TABLE 2

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

	FY2007 Preliminary Actual	FY2008 Dec. 07 Estimate	FY2009 Dec. 07 Estimate	FY2010 Dec. 07 Estimate	FY2011 Dec. 07 Estimate	FY2012 Dec. 07 Estimate
NATIONAL ECONOMIC INDICATORS						
US Real GDP Growth (%, SAAR)	1.9	1.9	2.9	2.9	2.8	2.6
US Inflation Rate (CPI, %, SAAR)*	2.7	1.9	1.6	1.9	1.8	1.8
Overnight Yield (%)**	5.25	4.56	4.31	4.75	4.75	4.75
NEW MEXICO LABOR MARKET AND INCOME DATA						
New Mexico						
NM Non-Agricultural Employment Growth (%)	2.4	1.7	1.7	1.6	1.5	1.5
NM Personal Income Growth (%)***	7.6	6.5	5.2	4.8	4.8	4.9
NM Private Wages & Salaries Growth (%)	11.9	5.8	3.8	3.8	3.8	3.6
CRUDE OIL AND NATURAL GAS OUTLOOK						
Oil Price ($/barrel) Gross Sales Value	$60.23	$80.00	$75.00	$75.00	$75.00	$75.00
Taxable Oil Sales (million barrels)	57.8	58.0	57.0	55.9	54.9	53.9
Gas Price ($ per thousand cubic feet) Gross Value	$6.54	$6.40	$6.60	$6.57	$6.50	$6.35
Taxable Gas Sales (billion cubic feet)	1,493	1,463	1,434	1,405	1,377	1,349

*CPI is all Urban.
**Overnight Yield = Federal Funds Rate
***Personal Income growth rates are for the calendar year in which each fiscal year begins.
Sources: Based on November 2007 Global Insight, November 2007 FOR-UNM.

TABLE 3

GENERAL FUND CONSENSUS REVENUE ESTIMATES

(Dollars in Millions)

	FY2007	FY2008			FY2009		FY2010	
	Preliminary Actual	Dec. 06 Est	Dec 07 Est	% Change From FY07	Dec 07 Est	% Change From FY08	Dec 07 Est	% Change From FY09
Gross Receipts Tax	1,833.1	1,945.3	1,910.0	4.2%	1,973.0	3.3%	2,034.2	3.1%
Compensating Tax	59.8	63.1	64.0	7.0%	66.8	4.3%	69.6	4.3%
TOTAL GENERAL SALES	1,892.9	2,008.4	1,974.0	4.3%	2,039.8	3.3%	2,103.8	3.1%
Bed Tax	0.6	0.0	-	NA	-	NA	-	NA
Tobacco Taxes	45.3	47.7	46.2	2.0%	46.2	0.0%	46.2	0.0%
Liquor Excise	27.0	29.5	25.8	-4.3%	26.2	1.6%	26.6	1.7%
Insurance Taxes	107.6	103.8	105.7	-1.7%	108.5	2.6%	116.6	7.4%
Fire Protection Fund Reversion	19.9	21.1	19.1	-4.1%	18.4	-4.0%	17.5	-4.7%
Motor Vehicle Excise	131.5	131.5	136.0	3.4%	141.8	4.3%	147.9	4.3%
Gaming Excise	65.2	68.7	68.3	4.7%	71.6	4.9%	73.4	2.5%
Leased Vehicle Surcharge	5.9	6.6	4.7	-21.3%	4.7	0.6%	4.7	0.6%
Other	2.3	2.0	2.0	-13.0%	2.1	3.0%	2.1	1.5%
TOTAL SELECTIVE SALES	405.3	410.9	407.8	0.6%	419.5	2.9%	435.1	3.7%
Personal Income Tax	1,163.8	1,181.0	1,147.8	-1.4%	1,174.4	2.3%	1,245.2	6.0%
Corporate Income Tax	460.5	400.0	440.0	-4.5%	450.0	2.3%	450.0	0.0%
Estate Tax	0.1	0.0	-	-100.0%	-	#DIV/0!	-	#DIV/0!
TOTAL INCOME TAXES	1,624.4	1,581.0	1,587.8	-2.3%	1,624.4	2.3%	1,695.2	4.4%
Oil and Gas School Tax	431.8	413.3	427.9	-0.9%	420.7	-1.7%	409.4	-2.7%
Oil Conservation Tax	19.8	20.9	19.7	-0.6%	19.3	-2.1%	18.8	-2.6%
Resources Excise Tax	13.2	10.1	13.2	-0.3%	13.2	0.0%	13.2	0.0%
Natural Gas Processors Tax	35.6	33.0	35.3	-0.7%	32.2	-9.0%	31.7	-1.6%
TOTAL SEVERANCE TAXES	500.5	477.3	496.2	-0.9%	485.4	-2.2%	473.1	-2.5%
LICENSE FEES	49.4	51.9	49.7	0.7%	52.0	4.7%	54.5	4.7%
LGPF Interest	364.7	387.5	390.7	7.1%	433.8	11.1%	472.8	9.0%
STO Interest	68.4	81.3	79.0	15.6%	70.0	-11.4%	65.0	-7.1%
STPF Interest	171.0	176.8	177.2	3.6%	191.6	8.1%	203.5	6.2%
TOTAL INTEREST	604.0	645.6	646.8	7.1%	695.4	7.5%	741.2	6.6%
Federal Mineral Leasing	501.0	503.0	553.7	10.5%	535.6	-3.3%	525.5	-1.9%
State Land Office	50.4	50.0	47.3	-6.2%	46.3	-2.1%	45.3	-2.2%
TOTAL RENTS & ROYALTIES	551.4	553.0	601.0	9.0%	581.9	-3.2%	570.7	-1.9%
TRIBAL REVENUE SHARING	54.1	54.3	64.5	19.1%	69.2	7.4%	72.7	5.0%
MISCELLANEOUS RECEIPTS	35.6	38.2	35.4	-0.5%	35.7	0.9%	36.0	0.9%
TOBACCO SETTLEMENT	-	0.0	-	NA	-	NA	-	NA
REVERSIONS	36.9	24.8	39.1	6.0%	40.8	4.3%	42.7	4.7%
TOTAL RECURRING	5,754.5	5,845.6	5,902.3	2.6%	6,044.0	2.4%	6,225.0	3.0%
Non-Recurring Other	-	47.0	47.0	NA	-	NA	-	NA
TOTAL NON-RECURRING	-	47.0	47.0	NA	-	NA	-	NA
GRAND TOTAL	5,754.5	5,892.6	5,949.3	3.4%	6,044.0	1.6%	6,225.0	3.0%

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

GENERAL FUND FINANCIAL SUMMARY

TABLE 4

Dollars in Millions

	Preliminary FY2007	Estimated FY2008	Estimated FY2009	
APPROPRIATION ACCOUNT				
REVENUE				
Recurring Revenue				
December 2007 Consensus Revenue Estimate	5,754.5	5,902.3	6,044.0	
Additional Revenue			2.1 (3)	
Total Recurring Revenue	5,754.5	5,902.3	6,046.1	
Non-Recurring Revenue				**FY09**
December 2007 Consensus Revenue Estimate	-	47.0 (2)	-	**New Money** 361.7
Total Non-Recurring Revenue	-	47.0	-	
TOTAL REVENUE	**5,754.5**	**5,949.3**	**6,046.1**	
APPROPRIATIONS				
Recurring Appropriations - General	5,113.1	5,674.9	6,019.5	
Specials, Supplementals and Deficiencies		9.4	-	
Recurring Appropriations - Other (2008)			20.0	
Total Recurring Appropriations	5,113.1	5,684.4	6,039.5	
Non-Recurring Appropriations (2007)	814.3 (1)	49.5		
Specials, I.T. and Supplementals and Deficiencies		124.0	16.2	
Non-Recurring Appropriations (2008)				
Total Non-Recurring Appropriations	814.3	173.5	16.2	
TOTAL APPROPRIATIONS	**5,927.5**	**5,857.9**	**6,055.7**	
Transfer to Reserves	(173.0)	91.4	(9.6)	
GENERAL FUND RESERVES				**FY08** Reserve
Beginning Balances	798.3	618.3	728.1	Over 10 %
Transfers in from Appropriations Account	(173.0)	91.4	(9.6)	159.7
Revenue and Reversions	91.2	50.6	76.4	
Appropriations, expenditures and transfers out	(98.2)	(32.1)	(43.8)	**FY09**
Ending Balances	618.3	728.1	751.1	Reserve
Reserves as a Percent of Recurring Appropriations	*12.1%*	*12.8%*	*12.4%*	Over 10 % 147.1

(1) Includes $20.5 million for higher education building renewal and replacement - LFC Chair has requested an Attorney General opinion concerning this veto but the amount is included here for numerical consistency with DFA.

(2) One time settlement with Burlington for federal mineral leasing payments.

(3) TRD request for additional auditors expected to enhance revenue.

TABLE 4

GENERAL FUND FINANCIAL SUMMARY

Dollars in Millions

	Preliminary FY2007	Estimated FY2008	Estimated FY2009
OPERATING RESERVE			
Beginning balance	359.6	135.9	225.8
Appropriations (1)	(1.7)	(1.5)	(1.5)
Transfers to BOF Other Financing (2)	(9.0)	-	-
Transfer to ACF	(40.0)	-	-
Transfers from/to appropriation account	(173.0)	91.4	(9.6)
Transfers to Tax Stabilization Reserve (3)	-	-	-
Ending balance	135.9	225.8	214.7
Percent of previous fiscal year's recurring appropriations	*2.9%*	*4.4%*	*3.8%*
APPROPRIATION CONTINGENCY FUND			
Beginning balance	19.9	35.4	25.4
Disaster allotments	(18.2)	(10.0)	(10.0)
Other expenditures-2007	(6.3) (4)		
Other expenditures-2008	-	-	-
Transfers in	-	-	-
Revenue and reversions	40.0	-	-
Ending Balance	35.4	25.4	15.4
Education Lock Box			
Beginning balance	79.8	74.9	74.9
Appropriations	(4.9)	-	-
Ending balance	74.9	74.9	74.9
STATE SUPPORT FUND			
Beginning balance	-	1.0	1.0
Revenues	1.0	-	-
Appropriations	-	-	-
Ending balance	1.0	1.0	1.0
TOBACCO PERMANENT FUND			
Beginning balance	84.6	116.7	146.6
Transfers in	36.2	41.2	64.7
Transfers out	(18.1)	(20.6)	(32.3)
Gains/Losses	14.0	9.3	11.7
Ending balance	116.7	146.6	190.7
TAX STABILIZATION RESERVE			
Beginning balance	254.4	254.4	254.4
Transfers in	-	-	-
Transfers to Taxpayers Dividend Fund	-	-	-
Ending balance	254.4	254.4	254.4
Percent of previous fiscal year's recurring appropriations	*5.4%*	*5.0%*	*4.5%*
GENERAL FUND ENDING BALANCES	**618.3**	**728.1**	**751.1**
Percent of Recurring Appropriations	***12.1%***	***12.8%***	***12.4%***

Notes:

(1) FY07 and FY08 includes $1.5 million for Board of Finance emergencies.

(2) FY07 includes a contingency from 1998 that was reauthorized in 2005 for space commercialization and $377 thousand for reversions

(3) NMSA 6-4-4 1978 requires that if the operating reserve balance exceeds 8 percent of the prior fiscal year's recurring appropriations, the excess of 8 percent must be transferred to the tax stabilization reserve.

(4) FY07 includes 1.9 million for SF CC, $2 million for behavioral health and $1.6 million for reversions.

TABLE 5

Public Employee Compensation FY09

	1% Total Cost FY08	General Fund Share	1% General Fund Cost	LFC Proposed Incr	LFC GF Impact
STATE AGENCIES					
Legislative:					
Legislative employees	$ 134,071	100.0%	$ 134.1	2.4	$ 321.8
Judicial:					
Justices and judges	$ 173,780	100.0%	$ 173.8	2.4	$ 417.1
Judicial employees	$ 809,045	100.0%	$ 809.0	2.4	$ 1,941.7
Magistrate judges	$ 61,402	100.0%	$ 61.4	2.4	$ 147.4
District attorneys	$ 18,071	100.0%	$ 18.1	2.4	$ 43.4
District attorney employees	$ 418,433	100.0%	$ 418.4	2.4	$ 1,004.2
Total Judicial	$ 1,480,731		$ 1,480.7		$ 3,553.8
Executive:					
Executive classified:					
Classified employee groups	$ 9,901,999	54.0%	$ 5,347.1	2.4	$ 12,833.0
Motor transportation officers	$ 77,692	50.8%	$ 39.5	2.4	$ 94.7
Special investigation officers	$ 19,070	100.0%	$ 19.1	2.4	$ 45.8
Subtotal executive classified	$ 9,998,761		$ 5,405.6		$ 12,973.5
Executive nonclassified:					
Executive exempt	$ 699,367	68.8%	$ 481.2	2.4	$ 1,154.8
Executive Exempt Teachers:					
Children, Youth and Families	$ 32,500	68.8%	$ 22.4	2.4	$ 53.7
School for the Blind	$ -	68.8%	$ -		$ -
Department of Health	$ 6,421	68.8%	$ 4.4	2.4	$ 10.6
Corrections Department	$ 59,481	68.8%	$ 40.9	2.4	$ 98.2
Executive exempt teachers	$ 98,402	68.8%	$ 67.7		162.5
State police	$ 368,495	88.0%	$ 324.3	2.4	$ 778.3
Subtotal executive nonclassified	$ 1,166,264		$ 873.1		$ 2,095.5
Total Executive	$ 11,165,025		$ 6,278.8		$ 15,069.0
Total State Agencies	$ 12,779,827		$ 7,893.6		$ 18,944.5
PUBLIC SCHOOLS --- See Footnote 1					
Teachers	$ 12,437,747	100.0%	$ 12,437.7	2.0	$ 24,875.5
Other instructional staff	$ 1,979,734	100.0%	$ 1,979.7	2.0	$ 3,959.5
Other Certified and Non-certified, inc. EA's	$ 5,171,834	100.0%	$ 5,171.8	2.0	$ 10,343.7
Transportation employees	$ 453,989	100.0%	$ 454.0	2.0	$ 908.0
Total Direct Compensation Public Schools	$ 20,043,304		$ 20,043.3		40,086.6
HIGHER EDUCATION					
Faculty	$ 3,512,981	100.0%	$ 3,513.0	2.0	$ 7,026.0
Staff (includes ABE)	$ 4,954,223	100.0%	$ 4,954.2	2.0	$ 9,908.4
Total Higher Education	$ 8,467,204		$ 8,467.2		$ 16,934.4
TOTAL DIRECT COMPENSATION ALL PUBLIC EMPLOYEES	**$ 41,290,335**		**$ 36,404.1**		**$ 75,965.6**
ADDITIONAL SPECIAL DIRECT COMPENSATION RECOMMENDATIONS (SECTION 8)					
District Attorneys		100.0%	$ 205.8	2.0	$ 411.5
Total Special Compensation Recommendation	$ -		$ 205.8		**$ 411.5**
ADDITIONAL SPECIAL BENEFITS RECOMMENDATIONS (SECTION 4)					
State Agencies					
RHCAA Contribution increase			$ 7,893.6	0.20	$ 1,578.7
Executive Exempt Teachers					
ERB (% of direct pay) 2009			$ 67.7	0.75	$ 50.8
RHCAA Contribution increase				0.20	$ -
					$ 50.8
Public Education Benefit Adjustment					
ERB (% of direct pay) 2009			$ 20,043.3	0.75	$ 15,032.5
RHCAA Contribution increase				0.20	$ 4,008.7
					$ 19,041.1
Higher Education Benefit Adjustment					
ERB (% of direct pay) 2009			$ 8,467.2	0.75	$ 6,350.4
RHCAA Contribution increase				0.20	$ 1,693.4
					$ 8,043.8
Total Special Benefits Recommedation					**$ 28,714.5**
TOTAL COMPENSATION RECOMMENDATION (direct and indirect)					**$ 104,680.0**

TABLE 6

2008 Legislative Session
Special, Supplemental and Deficiency Appropriations
(in thousands)

			Agency Request		LFC Recommendation	
Code	Agency	Description	General Fund	Other Funds/ Federal Funds	General Fund	Other Funds/ Federal Funds
SPECIAL/NEW INITIATIVES APPROPRIATIONS						
111	Legislative Council Service	For a legislative history project.	-	-	150.0	-
216	Supreme Court	To furnish the chambers of the newly elected justice.	5.0	-	5.0	-
216	***Supreme Court***	***For a fire suppression system.***	***555.4***	***-***	***555.4***	***-***
218	Administrative Office of the Courts	For an independent staff study of the courts.	150.0	-	100.0	-
218	Administrative Office of the Courts	To implement video arraignment in magistrate courts.	-	950.0	-	950.0
218	Administrative Office of the Courts	For infrastructure, vehicles, IT, and security equipment for state courts.	2,858.6	-	2,475.0	-
218	Administrative Office of the Courts	For a Dona Ana County metro court study.	-	-	75.0	-
240	Tenth Judicial District	For architectural/engineering services to study and assess the space facility needs of the Tenth Judicial District court.	200.0	-	-	-
256	Sixth District Attorney	To replace vehicles, computers and printers.	-	78.0	-	78.0
260	Tenth District Attorney	To replace computers, printers, furniture and phones.	-	133.6	-	126.0
261	Eleventh District Attorney	For a new building and for personal services and employee benefits for FTE funded through the southwest border prosecution initiative.	-	1,300.0	-	-
305	Office of the Attorney General	To reduce demand for methamphetamines by raising awareness about the negative consequences and risks associated with its use.	2,500.0	-	-	-
305	Office of the Attorney General	To support technical and legal work relating to interstate water conflicts.	2,400.0	-	-	-
305	Office of the Attorney General	For pay equity.	113.0	-		-
305	Office of the Attorney General	For a compensation study.	75.0	-	50.0	-
333	Taxation and Revenue Department	To replace imaging equipment, out-dated kiosks, and obsolete eye-testing machines.	1,585.7	-	1,585.7	-
333	Taxation and Revenue Department	Language to extend 2006 appropriation to centralize the issuance of drivers' licenses.	Language only	-	Language recommneded	-
333	Taxation and Revenue Department	Language to extend 2004 appropriation for a revising motor vehicle division "agent" agreements.	Language only	-	Language not recommneded	-
341	Department of Finance Administration	Language to reauthorize capital appropriation for operations of Abiqui boys' and girls' facilities.	Language only	-	Language not recommneded	-
341	Department of Finance Administration	To develop specialized geodatabases for census blocks and to implement these databases as a tool for state level participation in the local update census addresses program.	1,079.7	-	300.0	-
341	Department of Finance Administration	For intrastate air service, contingent on a revenue guarantee contract with an airline.	-	-	1,000.0	-
341	Department of Finance Administration	To develop a training model for financials, including payroll, and the human capital management (HCM) modules (requested by DoIT).	-	-	935.0	-
355	Public Defender Department	Language to extend 2004 appropriation for Santa Rosa prison riot cases.	Language only	-	Language recommneded	-
355	Public Defender Department	Language to extend 2005 appropriation for contracting representation for defendants in death penalty cases.	Language only	-	Language recommneded	-
355	Public Defender Department	Language to extend 2006 appropriation for litigation expenses related to drug cartel case defense.	Language only	-	Language recommneded	-
361	Department of Information Technology	To develop a training model for financials, including payroll, and the human capital management (HCM) modules (recommended to DFA).	935.0	-	-	-
361	Department of Information Technology	For staffing and operation expenses for the New Mexico computing applications center.	4,700.0	-	1,000.0	-
361	Department of Information Technology	To replace 80 two-way radios.	800.0	-	-	-

TABLE 6

2008 Legislative Session
Special, Supplemental and Deficiency Appropriations
(in thousands)

			Agency Request		LFC Recommendation	
Code	Agency	Description	General Fund	Other Funds/ Federal Funds	General Fund	Other Funds/ Federal Funds
361	Department of Information Technology	To upgrade the existing statewide Fujitsu telephone network.	3,750.0	-	-	-
366	Public Employees Retirement Association	To upgrade digital imaging capabilities.	-	230.0	-	230.0
366	Public Employees Retirement Association	For software upgrades.	-	1,700.0	-	1,700.0
369	Commission of Public Records	For a feasibility study to determine space needs and projected 30-year growth for the state records centers in Albuquerque and Santa Fe.	50.0	-	50.0	-
370	Secretary of State	To implement and enhance political financial reporting system.	176.5	-	-	-
370	Secretary of State	To upgrade software for Uniform Revised Limited Partnership Act.	154.8	-	-	-
370	Secretary of State	For the 2008 general election.	-	-	1,089.0	-
394	State Treasurer	For SHARE related reports.	280.0	-	-	-
417	Border Authority	To update computer equipment, servers, and wiring for the new Border Authority building.	100.0	-	-	-
418	Tourism Department	For title sponsorship of the New Mexico Bowl.	500.0	-	-	-
419	Economic Development Department	For operations of business incubators.	1,000.0	-	-	-
419	Economic Development Department	To sponsor programs of the national association of Latino independent producers.	150.0	-	-	-
419	Economic Development Department	To the development training fund for the job training incentive program.	10,000.0	-	6,000.0	-
419	Economic Development Department	For the arts and cultural districts programs.	500.0	-	-	-
419	Economic Development Department	For New Mexico community capital to enhance access to capital for underserved businesses.	350.0	-	75.0	-
419	***Economic Development Department***	***To the mainstreet capital outlay grant fund to provide low-cost financial assistance to owners of eligible properties for the redevelopment of central business districts statewide.***	***1,000.0***	***-***	***1,000.0***	***-***
430	Public Regulation Commission	For rental expenses at Marian Hall.	1,000.0	-	800.0	-
430	Public Regulation Commission	To prepare an independent study of the organizational structure and agency effectiveness.	150.0	150.0	75.0	-
430	Public Regulation Commission	To increase consumer outreach.	50.0	50.0	-	-
430	Public Regulation Commission	For an employee training program.	30.0	30.0	-	-
430	Public Regulation Commission	For a Qwest performance assurance plan.	30.0	-	30.0	-
430	Public Regulation Commission	For replacement of six vehicles.	170.0	-	-	-
430	Public Regulation Commission	To repair the Fire Fighter Training Academy parking lot.	-	50.0	-	50.0
430	Public Regulation Commission	For equipment and software to broadcast commission hearings over the Internet.	30.3	29.7	30.3	29.7
430	Public Regulation Commission	Language to extend 2007 appropriation for IT systems, software and facilities.	Language only	-	Language recommneded	-
460	***State Fair Commission***	***For an independent feasibility study to determine due diligence and costs of replacing or renovating the exposition building located on the State Fair campus.***	***150.0***	***-***	***150.0***	***-***
491	Office of Military Base Planning	For a statewide military installation strategic plan and for matching funds for federal department of defense grant to study land use issues.	150.0	-	-	-
505	Department of Cultural Affairs	For travel and research of rock art and rock art sites.	20.0	-	-	-
505	Department of Cultural Affairs	To the mainstreet loan fund for low interest loans to businesses in mainstreet districts.	400.0	-	-	-
505	Department of Cultural Affairs	To purchase archival collections relating to the history of New Mexico.	150.0	-	-	-
505	Department of Cultural Affairs	To purchase of classroom media and audio visual equipment.	125.0	-	-	-
505	Department of Cultural Affairs	For costs associated with the museum van of enchantment.	300.0	-	-	-
505	Department of Cultural Affairs	For a data management storage system.	140.0	-	-	-
505	Department of Cultural Affairs	For planning and implementation of centennial activities.	1,800.0	-	100.0	-
505	Department of Cultural Affairs	To promote the Museum of New Mexico's 100th anniversary/ marketing for opening of the State History Museum.	1,500.0	-	350.0	-

TABLE 6

2008 Legislative Session
Special, Supplemental and Deficiency Appropriations
(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
505	Department of Cultural Affairs	For moving costs of the New Mexico History Museum.	250.0	-	250.0	-
516	Department of Game and Fish	Language to extend 2007 appropriation for Pecos canyon area in San Miguel, Santa Fe, and Mora counties.	Language only	-	Language recommneded	-
521	Energy Minerals and Natural Resources Dept.	For staff training, supplies, and student transportation.	500.0	-	-	-
521	Energy Minerals and Natural Resources Dept.	To promote state parks.	100.0	-	-	-
521	Energy Minerals and Natural Resources Dept.	For a Las Vegas skating pond feasibility study.	25.0	-	-	-
521	Energy Minerals and Natural Resources Dept.	Language to extend 2005 appropriation for acquisition and planning at Shakespeare ghost town state park.	Language only	-	Language recommneded	-
539	Commissioner of Public Lands	Language to hold in suspense amount received pursuant to entered in for the sale of state royalty interests.	Language only	-	Language not recommneded	-
539	Commissioner of Public Lands	For the land stewardship program.	-	500.0	-	500.0
550	Office of the State Engineer	To update the state water plan.	600.0	-	400.0	
550	Office of the State Engineer	For the interstate stream compact compliance program.	1,500.0	-	-	-
624	Aging & Long-Term Services Department	To provide high speed networking upgrade to complete transition of adult protective services from CYFD to ALTSD.	250.0	-	-	-
624	Aging & Long-Term Services Department	To develop a model for court monitoring of guardianship cases.	200.0	-	75.0	-
624	Aging & Long-Term Services Department	To facilitate interest and start-up of micro boards supporting individuals with disabilities.	100.0	-	100.0	-
630	Human Services Department	To create a health coverage authority, with contingency.	1,321.5	-	-	-
630	Human Services Department	For a historical study of individuals who have left New Mexico Works.	180.0	-	-	180.0
630	Human Services Department	For an external quality review of behavioral health services.	250.0	-	250.0	-
630	Human Services Department	For a food stamp penalty assessment.	1,350.0	-	1,350.0	-
630	Human Services Department	Language to extend 2007 appropriation for information technology system updates.	Language only	-	Language recommneded	-
632	Workers' Compensation Administration	For a medical cost study on workers' compensation claims.	-	694.7	-	-
665	***Department of Health***	***To purchase analytical equipment to support DWI and autopsy testing, environmental testing, and communicable disease outbreak detection.***	***450.0***	***-***	***450.0***	***-***
667	Environment Department	Language to extend 2007 appropriation to clean up the Terreo mine site.	Language only	-	Language recommneded	-
667	Environment Department	For administrative costs associated with the river ecosystem restoration initiative.	29.2	-	-	-
667	Environment Department	For the lower Rio Grande water quality program.	458.6	-	-	-
667	Environment Department	For a statewide river ecosystem prioritization system.	167.0	-	-	-
667	***Environment Department***	***To fund the solid waste facility grant fund to help communities meet recycling and solid waste infrastructure needs statewide.***	***3,000.0***	***-***	***3,000.0***	***-***
670	Department of Veterans' Services	To replace federal funds not received in FY08 for transitional housing, job training and other veterans services.	297.0	-	-	-
670	Department of Veterans' Services	For video teleconferencing equipment.	30.0	-	-	-
670	Department of Veterans' Services	For wireless laptops.	24.2	-	24.2	-
690	Children, Youth and Families Department	For replacement of microfilm adoption case files.	467.9	216.7	-	-
690	Children, Youth and Families Department	For implementation of the Missouri model for juveniles.	1,076.5	-	535.0	-
690	Children, Youth and Families Department	For the lease of 42 additional vehicles.	380.2	-	-	-
770	Corrections Department	To purchase an emergency generator and to build a vehicle service bay with storage unit.	445.0	-	445.0	-
770	Corrections Department	For kitchen equipment at correctional facilities.	106.0	-		-
770	Corrections Department	For equipment and security improvements at correctional facilities and probation and parole offices.	1,424.7	-	-	-
770	Corrections Department	To purchase inmate transportation vehicles and utility vehicles.	432.5	-	-	-
770	Corrections Department	For purchase of modular units.	150.0	-	150.0	-
770	Corrections Department	To repave parking lots and some perimeter roads at various facilities and the central office.	925.0	-	-	-

TABLE 6

2008 Legislative Session
Special, Supplemental and Deficiency Appropriations
(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
770	Corrections Department	For equipment, software and vehicles in the corrections industries program.	2,218.2	-	-	-
770	Corrections Department	To replace education inmate computers and purchase of educational television equipment.	194.7	-	-	-
790	***Department of Public Safety***	***To replace vehicles.***	***2,000.0***	***-***	***2,000.0***	***-***
805	Department of Transportation	To supplement the highway maintenance fund.	-	-	25,000.0	-
805	Department of Transportation	To supplement the state road fund for highway maintenance activities statewide.	-	-	6,600.0	-
805	Department of Transportation	To offset incurred oil and maintenance cost for all state road activities.	-	-	19,577.9	-
924	Public Education Department	For a pilot program to assist districts statewide with student teacher accountability reporting system and operating budget management system systems. (1 FTE)	-	-	69.0	-
924	Public Education Department	Language to extend 2007 appropriation for outdoor classroom initiative.	Language only	-	Language not recommneded	-
924	Public Education Department	For emergency support of school districts experiencing shortfalls in operating budgets.	-	-	1,500.0	-
924	Public Education Department	For federal draws and balances. Agency requested $2.2 million after LFC hearings.	-	-	-	-
924	Public Education Department	For holding school districts harmless from reductions in state equalization guarantee distributions resulting from implementation of a new public school funding formula. The appropriation is contingent on the enactment. The appropriation is from the separate account of the appropriation contingency fund dedicated for the purpose of implementing and maintaining educational reforms created in Section 12 of Chapter 114 of Laws 2004.	-	-	8,100.0	-
950	Higher Education Department	For science, technology, engineering, and mathematics teacher education grants to higher education institutions to increase faculty salaries, scholarships and enrollment.	1,500.0	-		
950	Higher Education Department	To hold harmless public postsecondary institutions impacted by executive line-item vetoes of 2007, which resulted in the use of building renewal and replacement methodology, rather than facility condition index methodology.	-	-	6,295.3	-
950	Higher Education Department	To the college affordability endowment fund. Prior to distribution, Higher Education Department shall require accountability plan from higher education institutions.	-	-	5,000.0	-
950	Higher Education Department	To the faculty endowment fund.	-	-	5,000.0	-
952	University of New Mexico Health Sciences Center	For operational funding for the stem cell facility.	2,000.0		-	-
952	University of New Mexico Health Sciences Center	For the pediatric oncology program.	300.0	-	300.0	-
952	***University of New Mexico Health Sciences Center***	***To purchase state-of-the-art patient care equipment.***	***5,000.0***	***-***	***5,000.0***	***-***
958	Western New Mexico University	For the master in social work program at Western New Mexico University.	-	-	300.0	
962	New Mexico Institute of Mining and Technology	For the geophysical research center.	-	-	250.0	-
964	Northern New Mexico Community College	For start up funding for new degree programs.	-	-	600.0	-
SPECIAL/NEW INITIATIVE TOTAL			**71,867.2**	**6,112.7**	**110,601.8**	**3,843.7**

TABLE 6

2008 Legislative Session
Special, Supplemental and Deficiency Appropriations
(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
SUPPLEMENTAL APPROPRIATIONS:						
216	New Mexico Supreme Court	For transcription of recorded criminal cases.	10.0	-	10.0	-
216	New Mexico Supreme Court	For reimbursement of travel and per diem for court committee members.	25.0	-	-	-
218	Administrative Office of the Courts	To increase the court appointed attorney fund.	250.0		150.0	
218	Administrative Office of the Courts	For juror and interpreter payments.	500.0	-	300.0	-
219	Supreme Court Building Commission	For repairs and equipment.	10.6	-	10.6	-
252	Second District Attorney	For salary and benefits of 4 FTE in the domestic violence project unit.	140.0	-	140.0	-
350	General Services Department	For unemployment compensation delinquent payments to New Mexico Department of Workforce Solutions; requiring GSD to recoup two million dollars ($2,000,000) from non-general fund agencies other state funds by June 30, 2009. Disbursement subject to Board of Finance approval of need and repayment plan.	4,300.0	-	4,000.0	-
350	General Services Department	For positions and contractual services affected by the DoIT transition.	613.0	-	-	-
361	Department of Information Technology	To restore fund balance for information processing services provided to state agencies.	1,860.0	-	-	-
361	Department of Information Technology	For payment to the federal government for over-charged information technology services, contingent on a negative determination against the state in New Mexico Department of Information Technology v U.S. Dept of Health and Human Services and Michael O'Leavitt (Case # Dist of Columbia 1: 07-CV-01603).	2,800.0	-	2,800.0	-
361	Department of Information Technology	To increase data center and infrastructure security.	296.0	-	-	-
394	State Treasurer	For implementation of a disaster recovery plan.	180.0	-	180.0	-
420	Regulation and Licensing Department	For 2 financial examiners.	168.9	-	-	-
420	Regulation and Licensing Department	For unpaid invoice from the Risk Management Division.	56.8	-		-
495	Spaceport Authority	For relocation costs for a new executive director and reimbursement to Economic Development Department.	260.5	-	-	-
505	Department of Cultural Affairs	For a Sullivan exhibition at national the Hispanic Cultural Center.	50.0	-	-	-
505	Department of Cultural Affairs	For state document distribution services.	31.0	-	-	-
508	New Mexico Livestock Board	To replace federal funds for the state veterinarian and food safety public health veterinarian.	173.6	-	-	-
508	New Mexico Livestock Board	For a shortfall due to loss of federal co-operative matching funds.	91.6	-	-	-
508	New Mexico Livestock Board	For replacement of federal funds in the meat inspection program.	121.0	-	-	-
550	Office of the State Engineer	For a shortfall in funding of leased office space.	274.0	-	274.0	-
550	Office of the State Engineer	For general fund replacement of severance tax bond revenue in the litigation and adjudication program in the personal services and employee benefits category.	2,981.2	-	-	-
630	Human Services Department	For information technology charges in the Income Support Division.	957.6	1,436.4	957.6	1,436.4
630	Human Services Department	For additional caseloads in Medicaid.	-	-	12,500.0	27,000.0
631	Workforce Solutions Department	For compensation increases which exceed appropriation in the General Appropriation Act of 2007.	993.3	-	-	-
647	Development Disabilities Planning Council	For legal services provided to individuals seeking guardianship services.	210.0	-	-	-
665	Department of Health	For implementation of the billing and electronic health records project.	840.4	-	-	-
665	Department of Health	To increase the number of licensing surveys conducted in health care facilities.	440.2	-	-	-
665	Department of Health	To continue statewide tuberculosis services.	443.1	-	-	-
665	Department of Health	For receivership expenses.	500.0	-	500.0	-

2008 Legislative Session
Special, Supplemental and Deficiency Appropriations
(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
690	Children Youth and Families Department	For shortfalls and special needs in the Protective Services and Juvenile Justice Services programs.	1,994.0	-	1,994.0	-
690	Children Youth and Families Department	To increase building and staff security.	376.0	60.0	-	-
690	Children Youth and Families Department	For costs associated with an audit of the Title IV-E University Stipend Program.	997.9	-	997.9	-
690	Children Youth and Families Department	To replace federal funds in the Protective Services Program.	1,900.0	-		-
790	Department of Public Safety	For overtime for State Police officers.	1,500.0	-	-	-
790	Department of Public Safety	For fuel for State Police fleet.	1,500.0	-	-	-
790	Department of Public Safety	For salaries and benefits for the Special Investigations Division.	250.0	-	-	-
924	Public Education Department	To develop additional grade-band appropriate performance tasks in language arts, mathematics and science.	1,527.0	-	-	-
950	Higher Education Department	To pay for salaries and employee benefits.	164.2	-	-	-
993	Public School Support	For fuel for public school buses.	1,633.1	-	1,633.1	-
SUPPLEMENTAL TOTAL			**31,420.0**	**1,496.4**	**26,447.2**	**28,436.4**
DEFICIENCY APPROPRIATIONS:						
218	Administrative Office of the Courts	For a shortfall in jury and witness program.	489.0	-	489.0	-
404	Board of Examiners for Architects	For an over-expenditure in personal services and employee benefits category	-	5.4	-	5.4
449	Board of Nursing	For shortfall in FY07 personal services and employee benefits.	-	12.2	-	12.2
645	Governor's Commission on Disability	For shortfall in funds used to sponsor the Southwest Conference on Disability and other services.	79.0	-		
924	Public Education Department	For Information Service Division and motor pool charges.	62.0	-	62.0	-
DEFICIENCY TOTAL			**630.0**	**17.6**	**551.0**	**17.6**
SPECIAL/NEW INITIATIVE, SUPPLEMENTAL & DEFICIENCY TOTAL			**103,917.2**	**7,626.7**	**137,600.0**	**32,297.7**

Note: Italicized and bolded text indicate item was originally a capital appropriation request.

TABLE 7

INFORMATION TECHNOLOGY RECOMMENDATIONS - FY09

System Replacement / Enhancements			Agency Request		LFC Recommendation	
Code	Agency	System Description	General Fund	Other State Funds	General Fund	Other State Funds
112	Legislative Finance Committee	Statewide Human Resource, Accounting and Reporting System Requirements Analysis for Capital, Budget Preparation and General Appropriation Act interface			300.0	
218	Administrative Office of the Courts	Case Management System	2,100.0		2,100.0	
218	Administrative Office of the Courts	Electronic Filing Pilot Project	1,000.0			
264	Administrative Office of the District Attorneys	Web Case Management System	225.0			
333	Taxation and Revenue Department	Point of Sale System	13.7	2,752.5	0.0	2,752.5
333	Taxation and Revenue Department	Motor Vehicle Driver Licensing System	750.0		4,500.0	
333	Taxation and Revenue Department	Integrated Database Management System to Database2 Migration	300.0			
333	Taxation and Revenue Department	New Mexico Tax WebFile Expansion	500.0			
333	Taxation and Revenue Department	Gentax Tax Increment	793.0			
333	Taxation and Revenue Department	Electronic Content Management	500.0			
333	Taxation and Revenue Department	Interactive Voice Response System	230.0			
333	Taxation and Revenue Department	GenTax Business Credit Manager	906.2			
333	Taxation and Revenue Department	Oil and Natural Gas Accounting and Reporting Database Replacement	3,200.0		1,000.0	
341	Department of Finance and Administration	Statewide Human Resource, Accounting and Reporting System Data Warehouse for financial reporting and data analysis			500.0	
343	Retiree Health Care Authority	Retiree and Employer Insurance Contribution System	2,500.0			500.0
350	General Services Department	Statewide Human Resource, Accounting and Reporting System Strategic Sourcing and E-Procurement	500.0		500.0	
361	Department of Information Technology	Wire New Mexico	5,750.0			
361	Department of Information Technology	Information Technology Asset Management	750.0			
369	State Commission on Public Records	Central Electronic Record Repository	1,600.0		1,000.0	
370	Secretary of State	Voter Registration Election Management System Reporting Enhancements	150.0			
370	Secretary of State	Secretary of State Knowledgebase Campaign Reporting Enhancements	176.5			

TABLE 7

INFORMATION TECHNOLOGY RECOMMENDATIONS - FY09

System Replacement / Enhancements			Agency Request		LFC Recommendation	
Code	Agency	System Description	General Fund	Other State Funds	General Fund	Other State Funds
394	State Treasurer's Office	Investment System (QED) Disaster Recovery	180.0		150.0	
394	State Treasurer's Office	SHARE Enhancements	300.0		300.0	
394	State Treasurer's Office	Online banking system Local Governments	150.0			
420	Regulation and Licensing Department	Wireless cards, equipment, implementation services	138.5	46.2	138.5	46.2
505	Department of Cultural Affairs	Cultural Resource Information System	564.0		560.0	
550	State Engineer's Office	Electronic Content Management	570.0			
550	State Engineer's Office	Dam Safety Information System	350.0			
550	State Engineer's Office	Water Rights Adjudication Tracking System to Water Administration Technical Engineering Resource System Assessment	208.0			
665	Department of Health	Integrated Time Collection w/SHARE interface	900.0		900.0	
690	Children, Youth and Families Department	Service Oriented Architecture and Web Solution Phase I	1,742.0			
770	Department of Corrections	Electronic Content Management Needs Assessment	270.0			
790	Department of Public Safety	Rapid Identification	1,700.0			
790	Department of Public Safety	Electronic Content Management	250.0			
790	Department of Public Safety	Automated Fingerprinting Information System Photo Lineup	200.0			
924	Public Education Department	Student and Teacher Accounting and Reporting System web interface	7,350.0			
924	Public Education Department	STARS Data Sharing Interface	1,450.0			
924	Public Education Department	Student Information System Charter Schools	5,000.0			
924	Public Education Department	Innovative Digital Education and Learning - Cyber Academy Staff	130.0			
950	Higher Education Department	Data Sharing Unique Identification	500.0			
-	Various Agencies	Building Upgrades	1,180.0			
-	Various Agencies	Equipment	1,950.0			
-	Universities	Requests from all universities for system enhancements, equipment replacement, membership fees and capital needs	21,971.8			
Information Technology Total			**68,998.7**	**2,798.7**	**11,948.5**	**3,298.7**

TABLE 8

Examples of New Mexico Tax Expenditures

Tax	Item	Estimate	Year	Calculation	Why is it a tax expenditure?
General and Selective Sales Taxes	Rural Job Tax Credit	187,000	FY07	Amount of Credit	Credit against GRT, Compensating or Withholding
	Insurance Premium Credit for Medical Insurance Pool	29,900,000	FY07	Amount of Credit	Credit against Insurance Premium Tax
	Interstate Telecommunications Gross Receipts Tax	*		Difference between GRT and tax; Local impact not included	Item that is not in GRT base and subject to lower rate
	Exemption for Sales by Governments	*		Amount that would have been collected.	
	Sales of Tangible Personal Property to Governments	*		Amount that would have been collected.	GRT deduction and Compensating Tax exemption
	Stadium Charge	*		Amount that would have been collected.	Exemption from the Governement Gross Receipts.
	Agricultural Products Exemption	*		Amount that would have been collected.	Exemption from GRT
	Gasoline and Special Fuels	*		Amount that would have been collected.	Exemption from GRT
	Nonprofit Organization Dues and Fees	*		Amount that would have been collected.	Exemption from GRT
	Newspaper and Magazine Deduction	*		Amount that would have been collected.	Deduction from GRT
	Gross Receipts Tax Holiday	2,500,000		TGR for period x rate	Exemption from GRT
	Locomotive Fuel Gross Receipts	*		Amount that would have been collected	Deduction from GRT
	Motor Vehicle Excise Tax	25,778,275	FY06	Difference between GRT and tax; Local impact not included	Item that is not in GRT base and subject to lower rate
	Space Program Gross Receipts Deduction	*		Amount that would have been collected	Deduction from GRT
	Railroad Private Car Tax	38,336	FY05	Difference between property tax and this tax; local option	This may or may not result in lower tax;
	Parimutual Tax Capital Improvements Credit	*		Amount of Credit	Credit against Parimutual Tax
	Oil/Gas Pipelines	*		Amount that would have been collected.	Exemption from the Utilities and Carrier Inspection Fee
	Food/Medical Service Deduction	40,000,000	FY06	Amount of deduction multiplied by the state rate	Deduction from GRT
	Uranium Enrichment Plant Equipment Compensating Tax Deduction	*		Amount of deduction multiplied by the state rate	Deduction from GRT
	Uranium Enrichment Gross Receipts Deduction	*		Amount of deduction multiplied by the state rate	Deduction from GRT
	Industrial Revenue Bonds	*		Value of equipment imported * compensating tax rate (5%); Value of	Exemption from compensating tax
	Hired car/bus/airplane	*		Amount that would have been collected	Exemption from the Utilities and Carrier Inspection Fee
	Bingo/Raffle Tax	30,380	FY03	Difference between GRT and tax; Local impact not included	Item that is not in GRT base and subject to lower rate
Corporate Income Tax	Double-weighted sales apportionment for Corporate Income Tax	*		Difference of using the single weighted sales factor and the double	Double-weighting of sales only applies to manufacturing
	Insurance Companies, pensions, S-corporations and Non-profit Corporations Exemption	*		Amount that would have been collected	Exemption from CIT
	Separate Corporate Entity Filing Option	*		Difference in amount of tax collected using consolidated reporting	Preferential CIT rate
	Sustainable Building Tax Credit	*		Amount of Credit	Credit against the CIT
	Film Production Credit	2,558,340	FY07	Amount of Credit	Credit against the CIT
	Welfare-to-work	229,000	CY04	Amount of Credit	Credit against the CIT
	Corporate provided child care	n.c.		Amount of Credit	Credit against the CIT
	Cultural Property Preservation	*		Amount of Credit	Credit against the CIT
	Qualified Business Facility Rehabilitation	*		Amount of Credit	Credit against the CIT
	Renewable energy production	*		Amount of Credit	Credit against the CIT
	Affordable Housing Production	*		Amount of Credit	Credit against the CIT
Personal Income Tax	Low Income Comprehensive Tax Rebate	25,605,163	CY02	Amount of Credit	Credit against the PIT
	Working Families Tax Credit	30,000,000	CY07	7.5 percent of federal credit	Refundable credit against PIT
	Child Daycare Credit	1,887,029	CY02	Amount of Credit	Credit against the PIT
	Property Tax Rebate	3,977,951	CY02	Amount of Credit	Credit against the PIT
	Angel Investment Credit	750,000		Amount of Credit	Credit against the PIT
	Armed Forces Income tax exemption			NM tax of armed force members	Exemption from PIT
	Film Production Credit	3,910	FY06	Amount of Credit	Credit against the PIT
	Welfare-to-work	93,710	CY03	Amount of Credit	Credit against the PIT
	Corporate provided child care	*		Amount of Credit	Credit against the PIT
	Cultural Property Preservation	193,710	CY05	Amount of Credit	Credit against the PIT
	Qualified Business Facility Rehabilitation	4,790	CY02	Amount of Credit	Credit against the PIT
	Renewable energy production	*		Amount of Credit	Credit against the PIT
	Affordable Housing Production	*		Amount of Credit	Credit against the PIT
	Technology Jobs Credit	37,241	CY05	Amount of Credit	Credit against the PIT
	Rural Job Tax Credit	2,454	CY02	Amount of Credit	Credit against the PIT
Property Tax	Elk Hunting Assessment	*		Difference from Commercial Assessment	Property assessed at agricultural rate rather than commercial rate
	Industrial Revenue Bonds	*		Estimated assessed value * property tax rate	Exemption from property tax
	Veteran's Exemption	*		$3,500 exemption from assessed value	Decreases assessed value
	Head of household exemption	*		$2,000 exemption from assessed value	Decreases assessed value
	Valuation Freeze (Low income elderly and disabled)	*		Growth in value of property * property tax rate	Frozen assessed value

* Cost estimates were not available for these tax expenditures.

Note: Compiled by LFC economists