STATE OF NEW MEXICO

Report of the Legislative Finance Committee to the Fiftieth Legislature First Session

January 2011 | for Fiscal Year 2012 | volume I

LEGISLATING FOR RESULTS:
POLICY AND PERFORMANCE ANALYSIS

State of New Mexico
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January 18, 2011

Honorable Members
Fiftieth Legislature, First Session
State Capitol
Santa Fe, New Mexico 87501

Dear Fellow Legislators:

Pursuant to Section 2-5-4 NMSA 1978, the fiscal year 2012 budget recommendation of the Legislative Finance Committee is provided to you. The committee recommendation for recurring appropriations from the general fund is $5.39 billion, $186.6 million more than the adjusted FY11 operating budget. While almost every area of state government would be cut, those cuts are offset by increases of hundreds of millions of dollars for Medicaid and tens of millions for public school support, for an overall increase of 3.6 percent increase. The recommendation assumes lower-than-requested General Services Department rates, reduced spending on building space because of the shrinking workforce, and an extension of temporary shift of retirement contributions from employer to employee.

The committee's recommendation continues to emphasize public education and access to health care and, with the continuing economic crisis, focuses on programs that demonstrate efficiency and effectiveness. To preserve critical services while cutting spending, the committee recommendation targets savings in contracts and personnel, including eliminating positions vacant for long periods of time and nonessential public information officers, deputy directors, and other managers.

The committee faced the challenge of building a budget that would address needs far in excess of revenue growth. Among the needs is the growing number of New Mexicans dependent on the social services safety net even as the federal support that has kept that safety net intact is being pulled away. Spending on public education, a service guaranteed by the state constitution, has been, like Medicaid, protected from the worst of the state cuts over the last few years by an infusion of federal stimulus dollars no longer available.

The committee's general fund recommendation of $3.1 billion for education is an increase of less than a half percent from the FY11 adjusted budget, reflecting an overall increase of $37 million for public schools and an overall decrease of about $29 million for the state's colleges. The public schools recommendation includes more than $88 million to replace the disappearing federal funds and assumes program cost reductions of $38.6 million by eliminating funding for one non-instructional professional development day, shifting the employee's portion of the Education Retirement Board contribution for return-to-work employees from the employer to the employee, and formula adjustments, including tightening eligibility for small school and small district funding units.

Similar to the recommendation for public schools, the recommendation for the Human Services Department includes an increase in general fund spending mostly to cover the loss in federal stimulus funds. The recommendation places a priority on maintaining the department's essential services, and anticipates the department will find administrative and nonessential program savings in FY12 to continue the most critical functions – Medicaid healthcare coverage, cash assistance and support services for poor families, and substance abuse and mental health services. The combined recommendation from the general fund for Medicaid is $854.5 million, a $253 million, or 42.2 percent, increase from FY11. In addition to replacing federal funds, the recommendation supports enrollment that is at its highest point in state history. However, it also assumes the department will pursue additional cost containment, from provider rate decreases to a redesign of the long-term services waivers.

I would like to thank the membership of the Legislative Finance Committee for their hard work on behalf of the people of New Mexico and the LFC staff for its thoughtfulness and diligence on this very difficult task. Together, we have prepared a responsible budget that protects the most vulnerable New Mexicans.

Sincerely,

"Lucky"

Representative Luciano "Lucky" Varela
Chairman

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REPORT OF THE LEGISLATIVE FINANCE COMMITTEE TO THE FIFTIETH LEGISLATURE FIRST SESSION

VOLUME I LEGISLATING FOR RESULTS: POLICY AND PERFORMANCE ANALYSIS

JANUARY 2011 FOR FISCAL YEAR 2012

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VICE CHAIRMAN

DAVID ABBEY
DIRECTOR

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At the close of the 2010 legislative regular and special sessions, the Legislature was optimistic that New Mexico was on the road to economic recovery. New Mexico had a balanced budget that avoided severe spending cuts for the most vulnerable citizens and took advantage of the federal funds flowing into the state to provide relief.

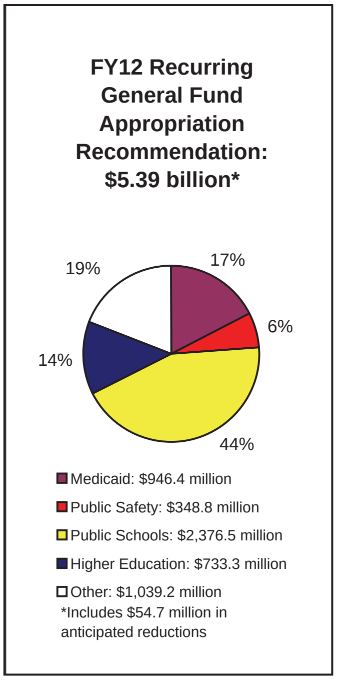
One significant assumption contained in the 2010 General Appropriation Act for FY11 was that enhanced federal medical assistance percentages (FMAP) set to expire on December 31, 2010 would be extended for the entire FY11. By July, Congress still had not extended the enhanced federal matching rate and a full extension, as assumed in the budget did not look likely. By the end of the summer, Congress did act on a step-down proposal, but left the Medicaid program facing a general fund shortfall of $47.2 million.

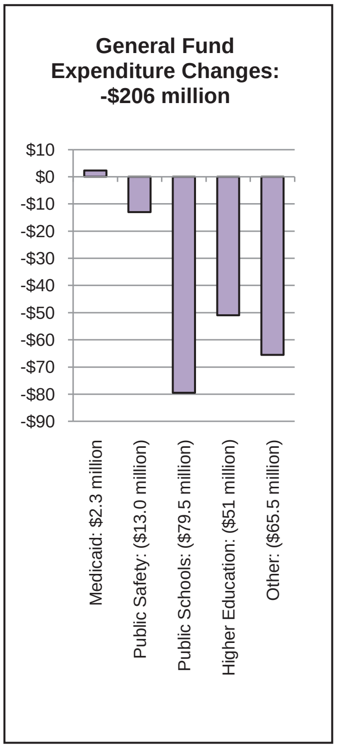
The first consensus revenue estimate in July also brought bad news. Weakness in gross receipts and income taxes caused recurring revenue to drop and, after transfers authorized by the Legislature, FY11 recurring revenue was $151 million, or 3.2 percent, short of the amount needed to cover recurring appropriations.

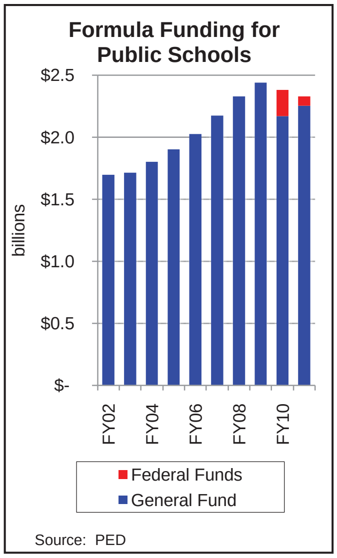
Anticipating continuing volatility of state revenues and recognizing the need for a mechanism for the executive to be able to take quick action in the event of a budget shortfall, the Legislature included language in the 2010 General Appropriation Act requiring the governor, with the approval of the Board of Finance, to reduce allotments to all agencies except the Medicaid program. In September, allotments were reduced by 3.2 percent, and the budget was back in balance, leaving reserves at 3.8 percent.

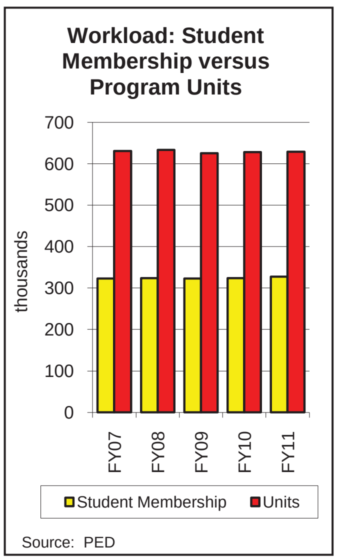
After the budget reductions and trying to deal with an unanticipated Medicaid hole in fiscal year 2011, the committee learned the economic outlook for the state was dark. New Mexico's labor markets had deteriorated since the December 2009 consensus estimate, energy-related revenues were weak, and New Mexico was identified as one of eight states still in recession. The committee faced the challenge of building a budget that would address needs far in excess of revenue growth. Among the needs is the growing number of New Mexicans dependent on Medicaid and other programs in the social services safety net even as the federal support that has kept that safety net intact is being pulled away. Spending on public education, a service guaranteed by the state constitution, has been, like Medicaid, protected from the worst of the state cuts over the last few years by an infusion of federal stimulus dollars that are now going away.

<u>FY12 Budget Development Approach and Methodology</u>. In developing the guidelines for FY12, the committee recognized the constitutional requirement for developing a balanced budget for the operations of government yet wanted to preserve the state's most critical services. Guidelines were developed that emphasized education, public health, and public safety and ensured the state met









the needs of its most vulnerable citizens. The committee prioritized funding for existing programs that demonstrate efficiency and effectiveness, are linked to strategic plan and performance goals, and do not duplicate bureaucratic structures. The recommendation avoids across-the-board cuts to agency budgets, furloughs, layoffs, and budget reductions that create commitments for future legislatures. The committee recommends total general fund spending of $5.39 billion, $186.6 million more than the adjusted FY11 operating budget. While almost every area of state government would be cut, those cuts are offset by increases of hundreds of millions of dollars for Medicaid and tens of millions for public school support, for an overall increase of 3.6 percent.

The recommendations reflect the FY11 adjusted general fund appropriation pursuant to Laws 2010 2nd Special Session, Chapter 6, Section 14. To achieve the spending reductions while maintaining services, the committee recommendation targets savings in contracts and personnel, including eliminating positions vacant for long periods of time and nonessential management positions such as public information officers or deputy directors. The recommendation reflects reduced General Services Department rates from the requested level, reduces building rent as a reflection of a shrinking workforce, and assumes an extension of Laws 2009, Chapter 127, which temporarily decreased the share of the retirement contribution paid by the employer.

Public Schools. The committee recommends $2.4 billion in overall education funding, an increase of $37.2 million, or 1.6 percent over the adjusted FY11 appropriation. The program cost recommendation accounts for $2.3 billion, a $54.2 million, or 2.4 percent, increase over the adjusted FY11 appropriation. This includes $88.3 million to replace $23.9 million in federal fiscal stabilization funds used in the FY11 appropriation and $64.4 million in education jobs fund. The committee recommendation assumes program cost reductions of $38.6 million by eliminating funding for one non-instructional professional development day, shifting the employee's portion of the Education Retirement Board (ERB) contribution for return-to-work (RTW) employees from the employer to the employee, and formula adjustments to addresses duplication and inefficiency. Formula adjustment options include changing eligibility requirements for small school units and small district units, removing special education related services staff from base units multiplied by the training and experience index factor, and reducing the unit multiplier in the funding formula for 12th grade students. These reductions are intended to have minimal direct impact on classroom funding.

Higher Education. The committee recommends $733.3 million recurring general fund appropriations for higher education, including the Higher Education Department and special schools, a decrease of $28.9 million, or 3.8 percent, from the adjusted FY11 appropriation. The recommendation prioritizes instruction and general funding and addresses some formula equity concerns. The recommendation includes formula funding for workload at a cost of $20 million, an amount that continues to grow considerably every year. The recommendation takes credit for a tuition increase of 3.1 percent for resident students at the four-year institutions and 9.5 percent at the two-year institutions, reducing general fund appropriations to higher education institutions by $11 million, respectively.

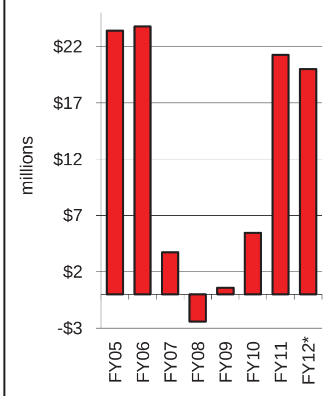
For FY12, tuition waivers, which allow out-of-state students to pay in-state tuition under certain circumstances, are expected to have a general fund impact of almost $85 million, an amount significantly greater than what is spent on need-based financial aid for New Mexico students. The recommendation reduces the waiver programs for the nonresident waiver by 50 percent and the nondiscrimination waiver by 40 percent resulting in a general fund reduction of approximately $10.3 million for FY12. Research and public service projects (RPSP) continue to take away considerable resources from the core mission of the institutions. For FY11, RPSP accounted for just under $100 million. The FY12 recommendation reduces RPSP by $9.9 million, consolidates a number of lines and moves some lines into instruction and general funding at the Health Sciences Center (HSC). Appropriations to HSC are reduced by 3.1 percent but can be offset with unrestricted fund balances at the center.

Medicaid. The Human Services Department (HSD) faces a dual challenge in fiscal year 2012. Additional federal funds from the American Recovery and Reinvestment Act (ARRA) will have dried up even though demand for services may still be at historically high levels. To meet this challenge the recommendation places a priority on maintaining the department's essential services, and the department will have to find administrative and nonessential program savings in FY12 to continue the most critical functions – Medicaid healthcare coverage, cash assistance and support services for families in the Temporary Assistance for Needy Families (TANF) program, substance abuse and mental health services, and assistance for parents pursuing necessary child support payments.

This is especially true for Medicaid. The recommendation from the general fund for Medicaid at HSD is $854.5 million, a $253 million, or 42.2 percent, increase from FY11. This replaces declining federal funds from the federal stimulus program funds and supports enrollment that is at its highest point in state history. Combined with other state and federal funds, the recommendation supports total Medicaid expenditures of $3.61 billion in FY12. With HSD projecting significantly higher spending, the department will have to pursue additional cost containment, from provider rate decreases to a redesign of the long-term services waivers. The recommendation is also supported by the continuation of appropriations from tobacco settlement payment revenue and a supplemental appropriation in FY11.

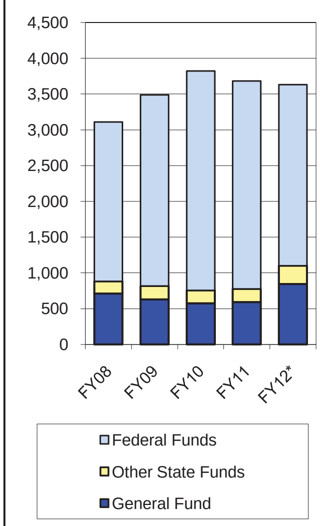
Department of Health. The committee recommends total expenditures of $528.9 million, with revenues of $282.7 million coming from the general fund. This is an increase of $22.7 million, reflecting

Comparison of Funded Workload for Higher Education



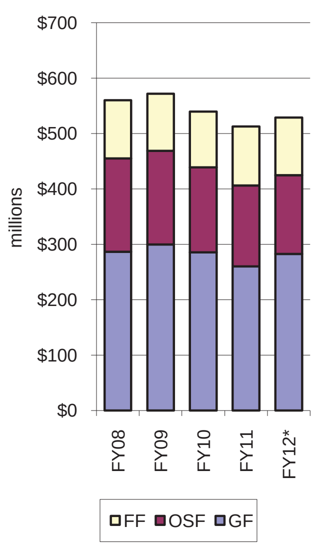
*LFC Recommendation
Source: LFC Files

Medicaid Spending
(in millions of dollars)



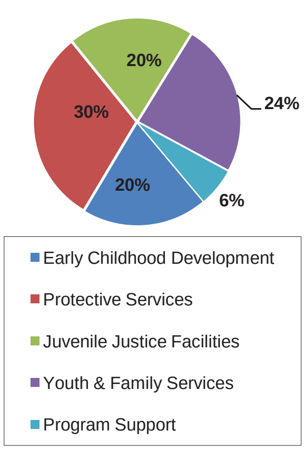
Source: HSD Projections; LFC recommendation
Federal funds are estimated.

DOH Funding
FY08-FY12
Recommendation



*LFC Recommendation
Source: LFC Files

CYFD Recommended FY12
General Fund by Program
Total: $190.6 million



Source: LFC Files

replacement of federal funding reductions resulting from the end of stimulus funds from the American Recovery and Reinvestment Act. This is an 8.7 percent increase from FY11 adjusted appropriations. Average annual budgets for individuals covered by the developmental disabilities Medicaid waiver are capped at $72.5 thousand and personal services and employee benefits are reduced in facilities run by the department through elimination of performing some out-patient functions that should be paid for by county governments. One substance abuse treatment center is recommended for closure because of increased bed space at a newly constructed facility in another part of the state. Primary care contracts are reduced because of increased federal funding directly to federally qualified providers. Funding for personnel and benefits is increased at the state laboratory to improve turnaround times for driving while intoxicated tests. Where permissible by statute, the agency should raise fees for services to collect additional revenues.

Early Childhood Services. The committee recommends $368.6 million for the Children, Youth and Families Department (CYFD). The total includes $190.6 million from the general fund, a $7 million, or 3.8 percent, increase from the adjusted FY11 operating budget. The general fund increase supports reducing CYFD's vacancy rate to 6.8 percent and addressing lost TANF funding for child care and prekindergarten. The recommendation emphasizes services for early childhood and the safety and welfare of children. This includes supporting a relatively flat budget for the Juvenile Justice Facilities Program, funding increases for the Protective Services Program, and maintaining the funding for home visiting services and prekindergarten to the adjusted FY11 appropriation.

The committee recommends $26.1 million in TANF funds transferred from HSD and a $5.9 million increase from the general fund to fund childcare assistance at $79.7 million in FY12. The recommendation should fund continued enrollment of children in families with incomes at 100 percent and below the federal poverty level (FPL) - currently $22 thousand a year for a family of four. At this level of funding, CYFD estimates it may be necessary to disenroll approximately 850 children above 150 percent of the FPL.

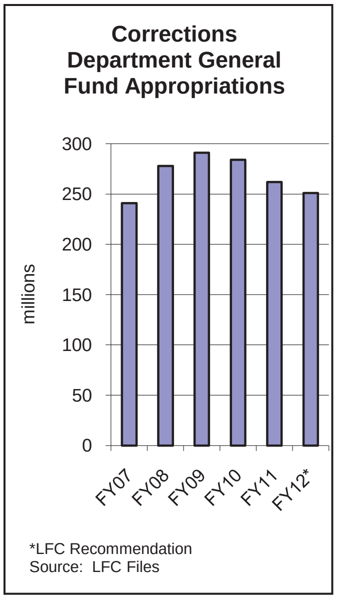
Public Safety. The general fund recommendation for the New Mexico Corrections Department is $251.9 million, a 4.1 percent decrease from the agency's adjusted FY11 appropriation. The total agency recommendation is $275.2 million, which includes $20.9 million in federal funds and $2.3 million in other revenues. As of August 2010, the department had a total of 6,408 inmates, 5,826 males and 582 females. The average cost per inmate per day in department-operated institutions is $123, as opposed to $84 dollars in privately-operated facilities. Questions have been raised concerning the department's oversight of private prison contracts and the associated operational costs. The committee recommends that department staff perform staff vacancy rate compilations to assist the cabinet secretary in enforcing contractually required staffing patterns and associated penalties.

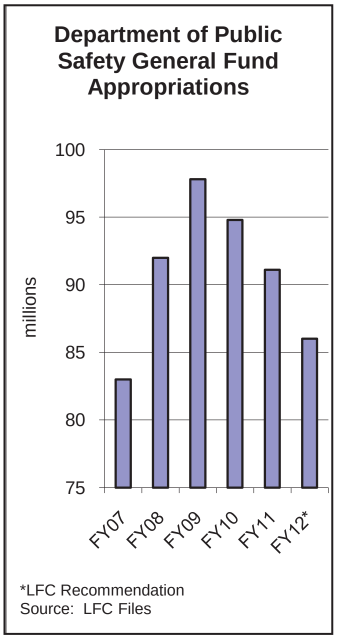
The general fund recommendation for the Department of Public Safety is $86 million, a 2.4 percent decrease from the agency's adjusted FY11 general fund appropriation. The total agency recommendation is $122.8 million, which includes $14.7 million in federal funds and $22.3 million in additional revenue sources. A central issue facing the department for FY12 is State Police staffing and assignments. The department should review these staffing levels and, if warranted, reassign officers to meet the needs of understaffed district offices.

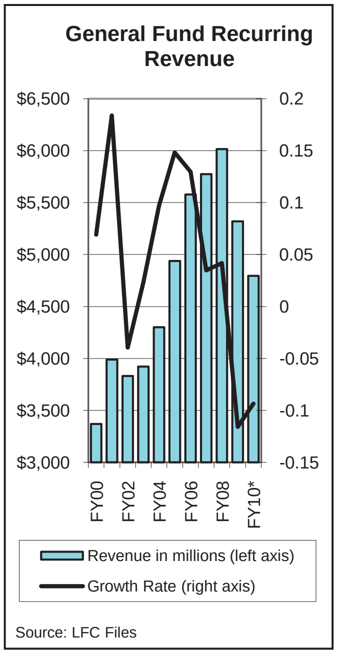
Judicial. The committee recommends $167 million in total appropriations for the courts and related judicial agencies, including $136.7 million from the general fund, a 1 percent decrease from FY11. The recommendation includes $1 million from liquor excise tax revenues for statewide drug-court programs. The recommendation for the Administrative Office of the Courts includes $3.8 million for jury and witness payments and $100 thousand for judges pro tem contracts.

The general fund budget recommendation for the district attorney offices is $54 million, a 0.9 percent decrease from the FY11 adjusted appropriation. FY10 performance data related to jury, bench, nolle prosequi, dismissed and post-adjudication cases was used in the development of the recommendation. When each agency's data was compared to its general fund operating budget and attorney FTE, it suggested that certain districts may be disproportionately funded. The recommendation attempts to balance out funding levels among the districts.

Department of Transportation. The committee recommends a total expenditure level of $827.9 million, a 3.1 percent increase over the FY11 operating budget. State road fund revenue declined substantially in recent years, from a peak of $394 million in FY07 to a low of $365.2 million in FY10. Modest revenue growth provides an opportunity to boost spending on road maintenance and reconstruction.







General Fund Plus Temporary Federal Funds: FY11 Spending Change From Prior Years		
Category	FY10 Post-Solvency	FY09 Post-Solvency
Public Schools	-2.3%	-6.2%
Higher Education	-8.0%	-11.6%
Medicaid	-0.5%	-0.6%
Other	-6.7%	-15.1%
Total	**-4.0%**	**-8.5%**

Source: LFC files

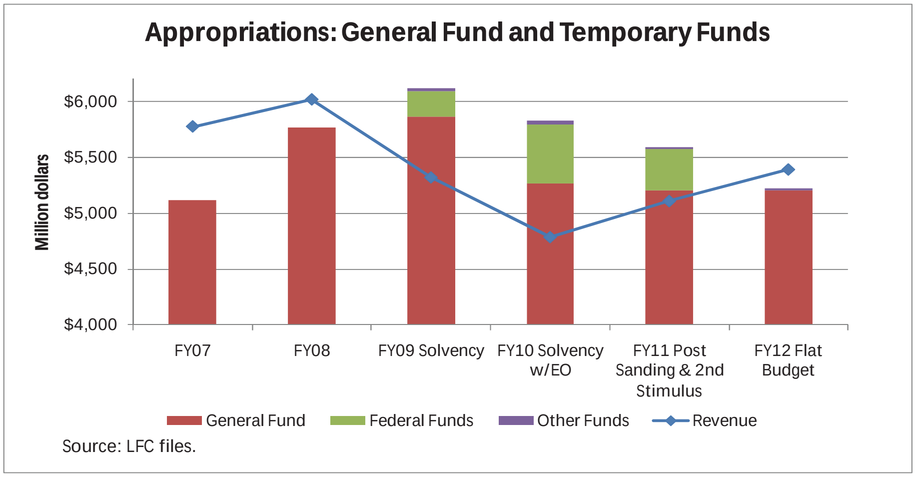
Three Years of Solvency Initiatives. Recurring general fund revenue fell by a cumulative 20 percent - or $1.2 billion - between FY08 and FY10. In response, the Legislature initiated three rounds of solvency initiatives. Nonrecurring measures included voided or swapped general funds for capital outlay projects, fund transfers, temporary revenue enhancements, and a nearly $600 million drawdown of reserves. Recurring appropriations were reduced by more than $800 million and revenues were increased by $186 million. Notwithstanding these measures, and even with projected revenue growth in FY12, the state faces a significant funding shortfall due to the need to replace hundreds of millions of temporary federal funds. In addition, reserves are dangerously low for the difficult economic environment.

2009 Regular Session. Faced with a projected $454 million FY09 shortfall, the Legislature approved one-time revenue enhancements and fund transfers of $141 million, spending reductions of $192 million, and voids and swaps of capital outlay spending of $150 million. The resulting budget left general fund reserves of more than 10 percent. To offset cuts to services, temporary federal stimulus funds of $228 million were substituted for general fund dollars. The result was total recurring FY09 spending - including temporary federal funds - of $6.1 billion, up slightly from the original FY09 operating budget.

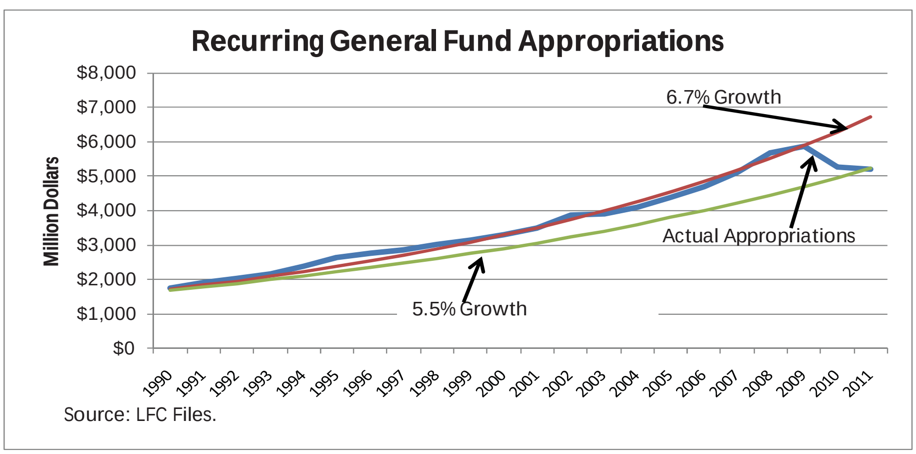
2009 Special Session. The October 2009 consensus revenue estimate showed FY10 revenues were forecast to fall $760 million short of budgeted appropriations. In response, the Legislature reduced FY10 appropriations by $250 million ($223 million after vetoes), voided or swapped $136 million of capital outlay projects, and swept $115 million from various funds into the general fund. Some $527 million of temporary federal funds were used to offset impacts on recurring spending so that the combined total of state and temporary federal spending for FY10 decreased by $291 million, or 4.8 percent.

2010 Regular and Special Sessions. Faced with an estimated funding gap of $300 million as they prepared the FY11 budget, the Legislature adopted an FY11 budget down $66 million in general fund spending that included $236 million of revenue increases. After vetoes, the revenue increases were reduced to $186 million. A total of $369 million of temporary federal funds was used to supplement general fund appropriations.

Temporary federal and other funds have played a significant role spending and revenue over the last several years. Revenue is expected to increase by about 12 percent between FY10 and FY12, thanks in part to statutory tax increases. Total spending, including temporary funds, has decreased by 8.5 percent as of FY11. However, the FY11 budget uses almost $400 million of temporary funds. Thus, even though FY12 revenue is projected to exceed FY11 general fund appropriations by $187 million, and even assuming continuation of cost-saving measures in the FY11 budget, the state faces a shortfall of roughly $215 million in funding the current level of services.

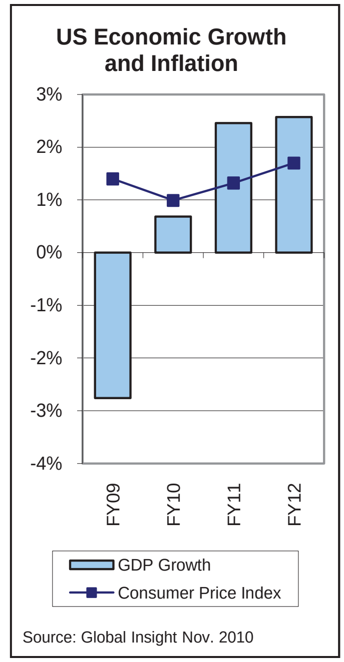


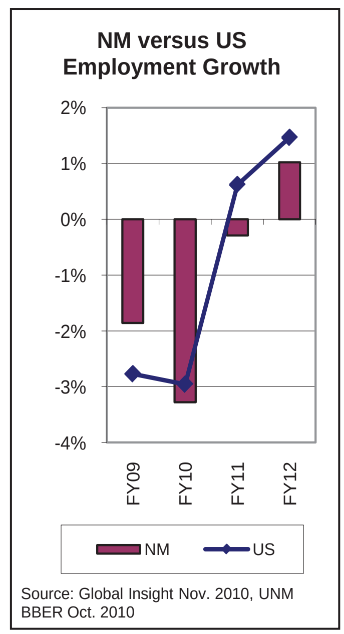
Long-Term Appropriation Trends. The sharp drop in revenue and appropriations over the last two years has altered the long-term rate of growth of total appropriations. Prior to the impact of recent reductions, total spending growth between FY89 and FY09 averaged 6.7 percent per year. After recent reductions, average growth from FY89 through FY11 is 5.5 percent per year. The average growth of personal income in New Mexico over this period was 5.6 percent per year. Thus, recent reductions have brought spending closer into line with personal income growth.



When considered by category of spending, the health and human services component of total general fund spending is the fastest growing, with a compound annual growth rate since 1989 of almost 8 percent per year. Education spending, both higher education and public education, has averaged about 5 percent per year.

Economic Outlook. The United States economy turned the corner from recession to recovery during FY10, but the pace of recovery has been uneven, and most forecasts predict sluggish growth and continuing high levels of unemployment for the near future. Employment growth has been particularly sluggish. The United States is adding jobs but not enough to reduce the unemployment rate. New Mexico is still losing





Change in New Mexico Employment: 2010 Second Quarter versus 2008 Second Quarter (thousands of jobs)	
TOTAL	(47.0)
LOGGING AND MINING	(4.3)
CONSTRUCTION	(15.7)
MANUFACTURING	(5.5)
WHOLESALE TRADE	(3.1)
RETAIL TRADE	(9.0)
TRANSPORTATION, UTILITIES	(4.5)
INFORMATION	(1.4)
FINANCE	(1.9)
PROFESSIONAL SERVICES	(10.1)
HEALTH & SOCIAL SERVICES	6.0
LEISURE & HOSPITALITY	(0.8)
OTHER SERVICES	(2.6)
LOCAL GOVERNMENT	1.3
STATE GOVERNMENT	(0.9)
FEDERAL GOVERNMENT	5.2

Source: FOR-UNM

Change in NM Personal Income: 2010 Second Quarter versus 2008 Second Quarter (billion dollars per year)	
Total	$2.1
Total Wages & Salaries	-$0.4
Private W&S	-$1.1
Government W&S	$0.6
Dividends & Interest	-$0.2
Transfer Payments	$2.5
Business Income	-$0.3
Other	$0.7

Source: FOR-UNM

jobs and total employment is down by 46,000 jobs, or 5.3 percent from its peak level three years ago. Significant job growth is not expected to resume until the second half of 2011. The previous peak number of payroll jobs, about 850,000, will not be reached again until 2015, seven years after that level was first achieved.

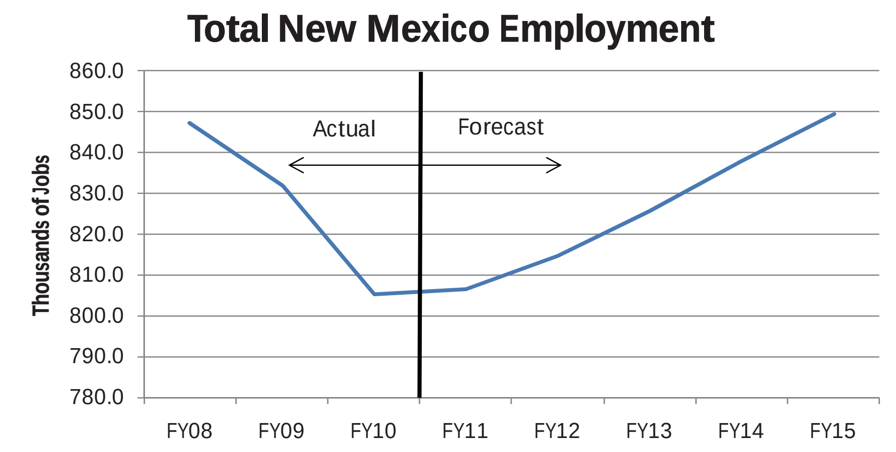
The consensus revenue estimating group relies on Global Insight (GI) for a forecast of the national economy and on the Bureau of Business and Economic Research (BBER) at the University of New Mexico for a forecast of the New Mexico economy. The group subscribes to the oil and gas price forecasting service of the PIRA Energy Group, in addition to drawing on GI's energy price outlook. A summary of the key economic assumptions underlying the consensus revenue forecast is presented in Table 2 at the end of this document.

U.S. Economy. After a burst of growth at the end of 2009, the U.S. economy slowed dramatically in the spring, as the financial crisis in Europe spread to U.S. markets and the effects of stimulus spending began to wane. Consumer spending has been growing at a 2 percent annual rate since the beginning of the year, enough to prevent relapse into recession but not enough to support a strong recovery.

Federal stimulus spending has provided temporary support for growth, and the recently announced plan to extend tax cuts should continue that support through 2011. The Federal Reserve Board (Fed) plans to implement another round of monetary stimulus over the next several months, so interest rates should remain low. The Fed's actions have raised concerns over potential inflation, some of which has already been observed in rising commodity prices. GI expects inflation to remain subdued because high unemployment is preventing significant wage inflation. The Fed's action has also prompted criticism from U.S. trading partners, which are concerned the resulting weakness of the dollar will reduce their exports to the United States. The potential for a series of countervailing protectionist measures poses a significant threat to the economic recovery according to GI.

New Mexico Economy. New Mexico payroll employment continued to fall from already low levels throughout the first six months of 2010. In raw numbers the biggest losers are construction, services and wholesale/retail trade. In percentage terms, the construction sector is down more than 25 percent, mining is down 20 percent, and manufacturing is down 15 percent. These sectors are all important because of the "multiplier" effects they can have on the rest of the state's economy. Private sector wages and salaries are more than $1 billion below their level of two years ago. Business and investment income are also down sharply. Transfer payments are up, due in part to increased Medicaid spending.

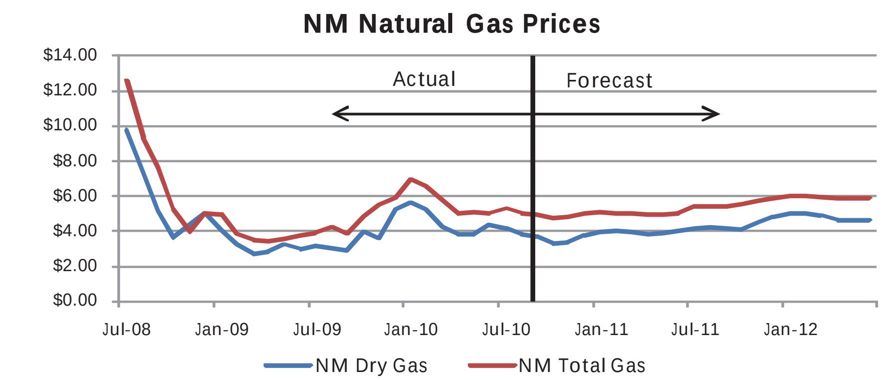
Employment growth in New Mexico is expected to be minimal until the second half of 2011. After that, modest growth is expected. The sluggishness of the recovery means some sectors will still be well below their peak employment even after several years. These include construction, mining, manufacturing, and retail trade. Meanwhile, the healthcare sector will continue to grow, accounting for almost half of all job growth over the next three years.



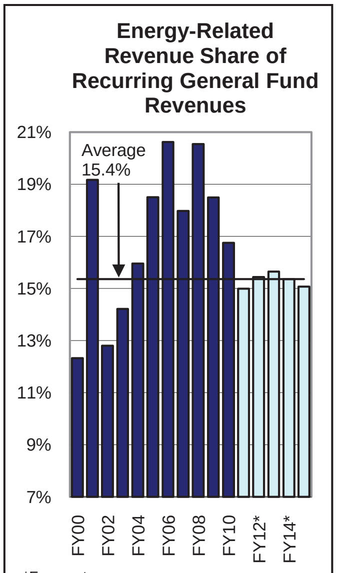
Source: FOR-UNM.

Energy Markets. After declining sharply in FY09, crude oil prices rebounded and remained in a range from $60 to $80 per barrel during FY10. Demand for crude oil is being supported by global economic growth, especially in developing countries. In addition, speculation appears to be one of the drivers as prices in recent months have approached $90.

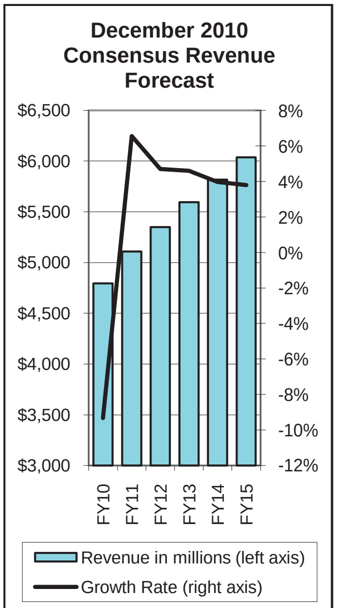
New Mexico natural gas prices rose from $4 per thousand cubic feet to almost $7 last winter, but then fell back to the $5 level by the end of the fiscal year. The slowdown of economic growth has reduced demand for gas, while supply has been rising due to significant production increases in shale formations. Despite the downward pressure on "dry" gas prices, the state's tax and royalty income continues to benefit from the extra value producers are deriving from natural gas liquids. This extra value added $1.10 per thousand cubic feet to the average taxable value of gas products in FY10, a 27 percent premium over the value of dry gas alone.



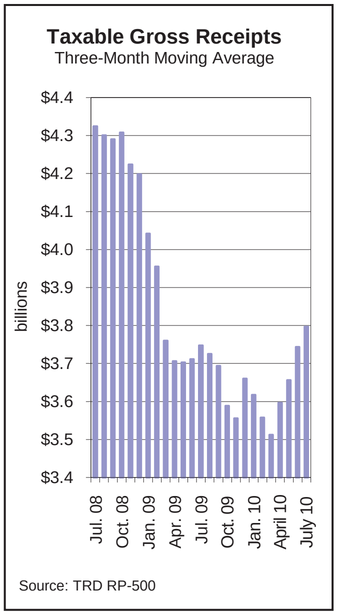
Source: ONGARD, Consensus estimating group, LFC calculations.

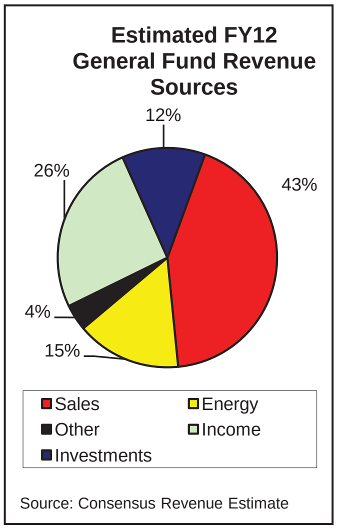


*Forecast
Source: Consensus Revenue Estimate



Source: LFC Files





Natural gas production has been declining in New Mexico due to sharply reduced drilling activity and declining production from existing wells. Total gas produced fell by 7.5 percent in FY10, an acceleration from the 2.6 percent decrease in FY09. A variety of factors are contributing to the decline, including competitive pressure from increased shale production in other states, decreased profit margins due to lower prices, increased gathering pipeline charges, and tougher environmental regulations.

Revenue Forecast. After falling by 11.6 percent in FY09, general fund revenue fell by another 9.3 percent in FY10, creating a cumulative decrease of over 20 percent from the FY08 peak. Revenue growth of 7.6 percent is expected in FY11, but about half of that growth is due to revenue increasing legislation approved in the 2010 legislative sessions. Revenue is forecast to grow by 4.4 percent in FY12.

Table 3 (located in appendix) presents the latest consensus forecast of general fund revenue. Falling energy prices were a major factor in the FY10 decline, but gross receipts tax and corporate income taxes also fell sharply, a reflection of the deteriorating economy. The FY11 increase reflects modest growth in the broad-based income and sales taxes and a small decrease in oil and gas-related revenue. Steady growth of most revenues is forecast for FY12, with the exception of a strong increase in corporate income taxes as the economic recovery gathers momentum.

Gross Receipts Tax. Gross receipts tax (GRT) collections fell 11.3 percent in FY10, the worst year-over-year performance in at least 30 years. Construction, mining, and manufacturing led the way into a broader economic decline. Taxable gross receipts plummeted at the end of FY09, and then fell even more in the first half of FY10. Collections finally began to turnaround in the last quarter of FY10, but revenues are still down by 10 percent compared with their peak levels in 2008. Slow growth is expected in FY11 due to the feeble pace of hiring and spending.

Corporate Income Tax. Corporate income tax (CIT) collections fell by 23 percent in FY10, reaching a total of $125 million, only 27 percent of the peak level of FY07. In addition to the underlying weakness of liabilities, another factor reducing net CIT collections has been a sharp increase in payment of film production credits. Credits jumped from $46 million in FY08 to $66 million in FY10. CIT collections are expected to rebound strongly from this low level in FY11. Payments increased to $103 million in the first quarter of FY11, almost double the amount received in the first quarter of FY10.

Personal Income Tax. Net collections of personal income tax (PIT) rose slightly to $957 million in FY10, but they were still down 20 percent from their peak level in FY08. Withholding payments rose by 6.6 percent, but most of this was due to correction of misreporting in prior periods. Refund claims remained at a very high level while estimated and final payments fell by 17 percent. Collections are expected to grow by 9.3 percent in FY11, but most of this growth is due to new statutes that disallow the itemized deduction for state income taxes. Excluding this item, growth of only 3.5 percent is expected.

Energy Revenues. FY10 revenue fell sharply for the second straight year, as both gas and oil prices fell and production continued to decline. Natural gas prices rallied in the middle of FY10 due to increased gas demand from manufacturers. Prices fell again at the end of the fiscal year, however, under pressure from increased supplies and the weakening pace of economic growth.

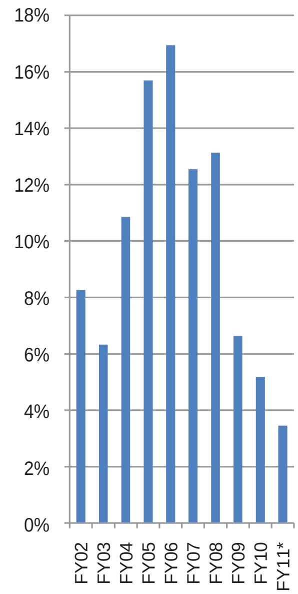
Investment Income. Earnings on State Treasurer's balances declined sharply in FY10, a reflection of lower balances and lower yields. The state's permanent funds have been gradually recovering from the sharp drop in market value during the 2008 financial crisis, though the combined value of the funds is still 13 percent below its peak. Distributions to the general fund will continue to be negatively affected, however, as the formula looks back to the previous five calendar years. In addition, beginning in FY13, the distribution rate from the land grant permanent fund mandated by voters in the 2004 constitutional amendment will drop from 5.8 percent to 5.5 percent.

Other Revenues. Health insurance premiums tax collections have been growing at double-digit rates, in part due to the Coordination of Long-Term Services (CoLTS) program instituted in FY09. Offsetting much of this gain has been increased credits for assessments paid by insurers to the medical insurance pool (NMMIP). NMMIP credits are estimated to have grown by more than 50 percent in FY09 and are expected to continue growing by more than 30 percent per year for the next three years.

Risks to the Forecast. The vulnerability of the economic recovery is the main risk to the forecast. The current outlook is for no growth in New Mexico employment during FY11. While this outlook incorporates some degree of caution, it also underlines the significant risk the economy might slip backward. The housing market remains a huge question mark, because prices continue to decline and sales are stagnant despite historically low interest rates. Natural gas prices perhaps pose less-than-usual risk to the FY11 forecast, but could lower FY12 revenue if expected improvements in demand do not materialize. Recent supply improvements are having a dramatic impact on markets, with the implications for New Mexico's prices and volumes being largely negative.

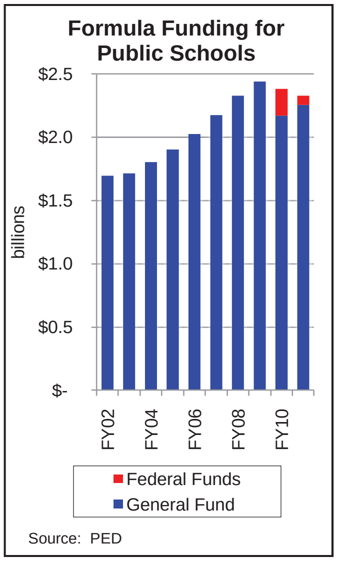
General Fund Reserves. Following the December consensus revenue forecast, general fund reserves were projected to fall to 4.5 percent of appropriations at the end of FY11. The LFC recommendation would fit within the forecast revenue and would leave reserves at 5 percent at the end of FY11 and at the end of FY12. Although still a relatively low level of reserves given the degree of economic uncertainty, a 5 percent reserve is a major accomplishment in light of sharply declining state revenues. Forecast errors have increased sharply in recent years, increasing the state's need for reserves to offset unanticipated revenue weakness.

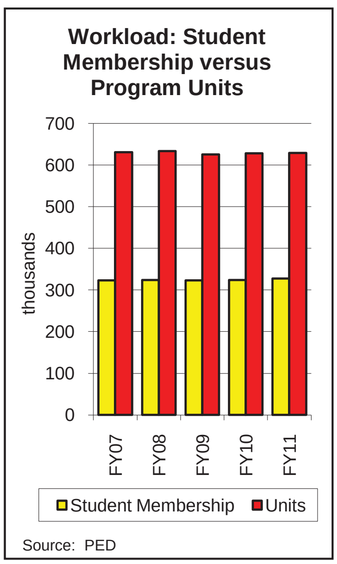
General Fund Reserves
(percent of appropriations)



*Forecast
Source: LFC files

Public Education





The Legislature has worked hard to keep the education budget intact and continues to emphasize funding for public education while placing great emphasis on results and accountability. Since FY02, formula funding for public schools has increased $582.4 million, or 32.9 percent, though workload has remained flat and student enrollment has only increased 3.5 percent. Early childhood education remains a main focus of the Legislature and executive, while high school redesign efforts continue, though at a reduced level. Despite targeted efforts, student achievement results continue to be mixed. On the upside, graduation rates have increased, and the percentage of students requiring remediation in college has decreased. However, statewide student proficiency remains relatively flat, and the achievement gap continues to persist for all subgroups. In these trying economic times, the Legislature, executive, districts, and school boards must continue to balance priorities and invest in education initiatives with proven results.

Financial Issues. In the face of decreased state revenues, the Legislature has managed to limit overall reductions to public education. After accounting for all solvency measures including available federal funds distributed through the funding formula, combined public education support has decreased $160.8 million since FY09. General fund reductions were offset by the use of federal fiscal stabilization funds and federal education jobs fund during this time. As a result, total public education support has decreased 6.2 percent since FY09 at a time when other state agencies experienced operational reductions of more than 15 percent.

In addition to stimulus funds appropriated to the SEG to replace general fund appropriations, districts have been awarded approximately $206 million in other federal funds that can be expended in some instances up to FY13. A spending analysis completed by the executive indicates that, as of September 30, 2010, approximately 57 percent of these federal funds remain unexpended. Amounts remaining unspent include $34.8 million in Title I allocations and $53.6 in special education allocations that can be used to cover shortfalls in operational budgets, to purchase textbooks and materials, and to provide professional development. The spending analysis indicates in some instances districts and charter schools are not on track for expending funds pursuant to each grant's individual spend plan. Of concern are the reasons districts are not expending these funds and a possible federal sweep of all unexpended funds. Districts are encouraged to fully expend these funds prior to their federal spend dates.

Funding Formula. In 2006, a task force was created to study the funding formula, including associated costs, and a thorough analysis of all formula components and consideration of changes to the formula. The task force, with assistance from the American Institute of Research (AIR), set out to answer the question, "What is the cost of providing all New Mexico public school students with a sufficient education and how should the state equitably distribute these resources so that all students have the opportunity to meet the goals set forth by the public and the state?" The question was framed by the constitutional requirement that the state must provide "a uniform system of free public schools, sufficient for the education of, and open to, all the children of school age in the state." Recommendations from the task force focused on a new, more equitable funding formula, and called for additional funding in excess of $300 million to achieve adequacy. This study and the recommended additional funding has prompted districts to consider suing the state for adequate education funding.

AIR established professional judgment panels (PJP) to determine the resources needed to meet educational sufficiency. Each PJP was told not to consider revenue sources because doing so would inherently impose a budget constraint that would undermine the identification of the level of funding necessary to provide a sufficient education. As a result, some of the recommendations amounted to a wish list given unlimited resources. Arguably, this approach to determining sufficiency is referred to as a costing-out methodology and focuses on the cost differences between current expenditures and a "model school" determined by a PJP. Eric Hanushek of Stanford University, in *Science Violated: Spending Projections and the "Costing Out" of an Adequate Education*, (2006), cautions that costing-out studies should not be interpreted as scientific studies but rather as political documents frequently contracted for by parties interested in increasing spending for education.

Despite devising a new funding formula that appears to distribute available funding more equitably based on far fewer variables than the current funding formula, much of the discussion surrounding the new funding formula has focused on the additional funding necessary to reach sufficiency. Continued identification of duplication, fraud, and waste by districts leads to concerns that additional funding without other changes will not lead to improved student outcomes. The following subsections address aspects of the funding formula that might create incentives for duplication of administrative services or efforts of districts to "chase" formula units with little educational benefits.

Special Education. According to the National Center for Education Statistics, New Mexico's rate of identifying special education students is historically above the national average. Funding for these programs is determined by multiplying the number of eligible members times the unit weight and the unit value. Currently, the number of students that can be identified as needing special education services is not limited. AIR recommended the state fund special education using a single, overall weight rather than three separate weights, eliminating the need to identify children in particular categories and minimizing the fiscal incentive to identify students with higher weights. The study also recommended the state set a fixed identification rate equal to the statewide average, again removing fiscal incentives to over-identify special education students. Both AIR recommendations encourage districts to pursue early intervention and other pre-referral strategies.

Federal Grants

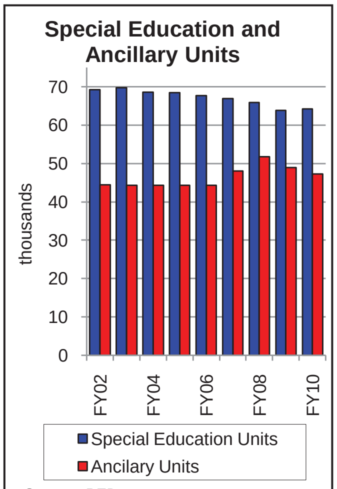
thousands

Award Amount	9/30 Balance	Spend Date
Education for Homeless Children and Youth Recovery Act		
$548	$305	Sept. 2011
Title I		
$80,803	$34,849	Sept. 2011
Title II		
$5,139	$2,308	Sept. 2011
Child Nutrition Grants		
$925	$57	Sept. 2011
Preschool Grants for Children with Disabilities		
$3,402	$2,384	Sept. 2011
IDEA-B		
$91,147	$53,622	Sept. 2011
Educaton Jobs Fund		
$64,378	$64,378	Sept. 2012
School Improvement Grant		
$24,144	$23,826	Sept. 2013

Source: NMORR

New Funding Formula

Sufficient per Pupil Cost
= Base Per Pupil Cost X
Poverty Adjustment X
English Language Learner Adjustment X
Special Ed. Adjustment X
Mobility Adjustment X
6-8 Enrollment Adjustment X
9-12 Enrollment Adjustment X Total Enrollment Adjustment



Source: PED

Duplication of Administrative Costs

Districts operating different schools under one roof with shared administration, which receive small school adjustment units:

- Bernalillo
- Carrizozo Municipal Schools
- Floyd Municipal Schools
- Grady Municipal Schools
- House Municipal Schools
- Lake Arthur Municipal Schools
- Logan Municipal Schools
- Melrose Public Schools
- San Jon Municipal Schools

Southwest Learning Centers operates three charter schools in one building. The founder applied for a single charter; however, PED advised the founder to split the charter into three, enabling each charter to receive small school units.

Las Vegas City Schools operates two elementary schools on the same campus, each qualifying for small school units.

Two school districts are maintained in Las Vegas, serving approximately 3,600 students. Each district receives small district units. The secretary of PED denied an application to divide Albuquerque Public Schools, which serves more than 94,000 students, into two districts, stating "The financial benefits of economies of scale with a district the size of APS cannot be denied."

Designated "at risk" by State Auditor because annual audit has not been completed:

- Northwest Regional Center Cooperative REC #2 – last audit reviewed 2005
- Jemez Valley Public Schools –last audit reviewed 2007
- Las Vegas City Schools – last audit reviewed 2008
- Floyd Municipal Schools – last audit reviewed 2007
- Lovington Municipal Schools –last audit reviewed 2007
- Vaughn Municipal Schools – last audit reviewed 2008

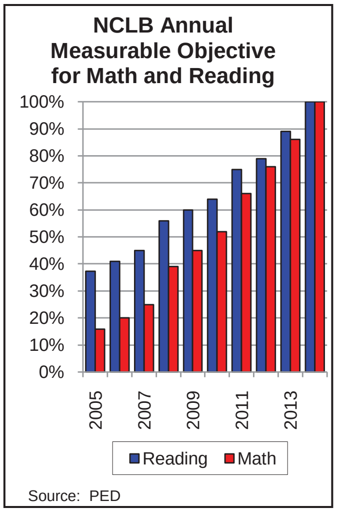
Policy makers should not expect annual audits to detect fraud and abuse. For example, the former Jemez Mountain Public Schools business manager embezzled more than $3 million that went unnoticed for several years.

Ancillary Services. Ancillary services, also called related services, are provided to special education students, in addition to a special education program to aide the student's success. Only licensed and certified ancillary service and diagnostic service FTE can be considered for related services funding. These are funded through the formula at 25 units per FTE. However, PED rules defining ancillary service providers include a number of positions not generally considered to be ancillary staff eligible for related services funding. Neither statute nor regulation specifies how an individual employee's related service FTE is calculated nor are eligibility criteria or caseload criteria established. PED does not validate ancillary-support service provider units claimed for funding, but rather PED relies on district superintendents to certify those units, resulting in districts hiring more ancillary staff providers than needed at maximum caseloads. The Legislature should consider statutory changes to clearly define those certified or licensed ancillary service providers necessary and eligible for funding through the funding formula and establish FTE calculation criteria.

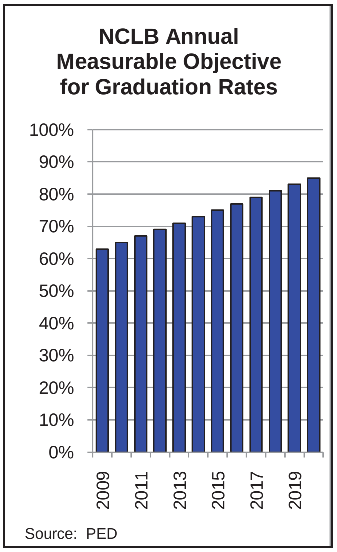
School and District Size Adjustment. In FY10, 79 of 89 school districts, and 65 of 72 charter schools claimed small school units at a cost of approximately $67.5 million. At the same time, 72 of 89 school districts claimed small district units at a cost of approximately $17.3 million. These size adjustments are included in the current funding formula to recognize the increased costs of operating small schools and small districts, particularly in rural areas. It was not anticipated that schools and districts would use this provision to create and maintain small schools, particularly in urban areas. Some of the charter schools claiming size adjustment units share a building with other charter schools or share school administrators and administrative staff but claim size adjustment units as separate schools. Some districts are doing the same thing by claiming two separate schools that occupy the same building. In some cases, district school and charter school enrollment is capped to take advantage of the size adjustment units. The impact to the SEG from this could be as high as $30 million annually. Lawmakers should consider changes to the funding formula to address this issue and define narrower eligibility parameters.

Cost-Effectiveness of 12th Grade and Dual Credit. The current funding formula applies the largest cost differential factor to 12th grade to determine base program units so long as the student is enrolled in at least one half of the minimum course requirements approved by PED. This is one of the most costly groups of students to educate, yet some students may already have achieved subject matter mastery or satisfied graduation requirements before their senior year. Dual credit double funding also continues to be of concern as the number of high school students enrolled in dual credit courses continues to increase. Both the school district or charter school where the student is enrolled and the institute of higher education are allowed to claim funding for the student. Legislative agencies and the University of New Mexico plan a performance review in 2011 reviewing this issue.

Student Achievement. Adequate yearly progress (AYP) is the primary measure under the federal No Child Left Behind Act (NCLB) used to determine whether schools and districts are making progress toward gradually increasing goals of student participation and academic proficiency on statewide assessments and other academic indicators. Under NCLB, student proficiency and high school graduation rate targets reach 100 percent by 2014. However, these targets are generally unachievable and are expected to result in all but a few schools nationally being designated as schools in need of improvement.



Based on assessment results from SY10, the Public Education Department (PED) reported 634 schools, or 76.7 percent of all schools, were in the school improvement cycle for SY11. This is an increase of 74 schools over SY10. Since 2005, the number of schools failing to make AYP has increased 52.4 percent. This increase continues to be a result of more schools entering the school improvement cycle for the first time or coming off of delay status for not making AYP in consecutive years.



While AYP is the primary measure of student success under NCLB, a more accurate indicator of student achievement is student proficiency. Over the last six years, overall student performance as measured by the percent of students scoring proficient or above on the New Mexico Standards-Based Assessment (NMSBA) has increased 12 percentage points in math, 3 percentage points in reading, and 6 percentage points in science. Data from the 2010 assessment, however, only shows annual gains in math of 1 percentage point, while science proficiency scores remain unchanged, and reading proficiency scores dropped 2 percentage points statewide. Approximately 55 percent of fourth graders and 61 percent of eight graders continue to score below proficiency in math, and 49 percent of fourth graders and 39 percent of eight graders continue to score below proficiency in reading. In spite of incremental long-term gains, continued targeted efforts must be maintained to sustain continued increased achievement.

Graduation Rates. PED reports an almost 6 percent increase in the four-year cohort graduation rate over 2009. The data indicates that 66.1 percent of freshmen entering high school in 2006 graduated in four years. The graduation rate currently does not include students who left school and received a general education development certificate (GED), moved out of state, or are still enrolled in high school. FY11 will be the first year PED and districts are required to report data useful for a better understanding of on-time graduation and dropouts, including the number of students who are known to have dropped out, have exited with the intent to earn a GED, are known to still be in high school, have met all the requirements for graduation but have not passed the graduation test, and progresses through high school from grade to grade. This data will assist policy makers in better addressing the achievement gap and improving graduation rates.

In response to New Mexico's low graduation rate, the executive has committed $8.4 million of the governor's discretionary American

4-Year Cohort Graduation Rates Class of 2009

District	Rate
ALAMOGORDO	63.8%
ALBUQUERQUE	65.1%
ANIMAS	>98.0%
ARTESIA	73.5%
AZTEC	67.1%
BELEN	62.3%
BERNALILLO	59.3%
BLOOMFIELD	67.4%
CAPITAN	63.1%
CARLSBAD	74.5%
CARRIZOZO	90.9%
CENTRAL CONS.	60.5%
CHAMA VALLEY	>98.0%
CIMARRON	87.8%
CLAYTON	79.1%
CLOUDCROFT	86.8%
CLOVIS	71.0%
COBRE CONS.	88.8%
CORONA	91.8%
CUBA	60.0%
DEMING	73.8%
DES MOINES	76.0%
DEXTER	86.3%
DORA	90.8%
DULCE	53.9%
ELIDA	>98.0%
ESPAÑOLA	51.3%
ESTANCIA	63.2%
EUNICE	78.2%
FARMINGTON	66.6%
FLOYD	83.1%
FT. SUMNER	96.3%
GADSDEN	69.2%
GALLUP	55.3%
GRADY	87.3%
GRANTS	68.5%
HAGERMAN	73.7%
HATCH	65.7%
HOBBS	69.4%
HONDO	87.2%
HOUSE	27.2%
JAL	80.7%
JEMEZ MOUNTAIN	81.5%
JEMEZ VALLEY	80.6%
LAKE ARTHUR	68.8%
LAS CRUCES	64.9%
LAS VEGAS CITY	73.7%
LOGAN	69.3%
LORDSBURG	59.3%
LOS ALAMOS	88.8%
LOS LUNAS	75.0%
LOVING	81.0%
LOVINGTON	73.0%
MAGDALENA	69.5%
MAXWELL	97.0%
MELROSE	>98.0%
MESA VISTA	81.1%
MORA	74.9%
MORIARTY	62.8%
MOSQUERO	NA
MOUNTAINAIR	71.5%
PECOS	67.4%
PEÑASCO	80.9%
POJOAQUE	76.3%
PORTALES	69.9%
QUEMADO	87.2%
QUESTA	88.4%
RATON	63.6%
RESERVE	95.2%
RIO RANCHO	71.8%
ROSWELL	67.7%
ROY	>98.0%
RUIDOSO	80.1%
SAN JON	87.7%
SANTA FE	60.0%
SANTA ROSA	84.4%
SILVER CITY CONS.	72.4%
SOCORRO	79.5%
SPRINGER	74.3%
TAOS	69.2%
TATUM	80.0%
TEXICO	>98.0%
TRUTH OR CONSEQ.	66.4%
TUCUMCARI	66.6%
TULAROSA	80.1%
VAUGHN	56.6%
WAGON MOUND	34.6%
WEST LAS VEGAS	66.7%
ZUNI	69.7%
Statewide	66.1%

Source: PED

Recovery and Reinvestment Act funds to the Graduate New Mexico initiative. The initiative seeks to bring 10,000 dropouts back to school to earn a diploma by the spring of 2011 and close the achievement gap. Among the initiatives funded are online cultural competence training for teachers, expansion of the online course project called IDEAL-NM, the annual preparation of a report card that will include achievement, graduation rates, dropout rates, college attendance, college remediation rates and post secondary attainment levels for each ethnic group. The Lograr ("to achieve") Institute was also created to identify and work with communities with large Hispano/Latino student populations with low graduation rates with the goal of eliminating the achievement gap for those students. Of the $8.4 million, PED has retained $2.4 million in administrative set-asides. To date, only 461 dropouts have enrolled in the program. Alarming is the amount of nonrecurring funds used to support an initiative to bring students back to school, especially in light of Carlsbad's recent graduation initiative that resulted in increased retention of students and increased number of graduates with relatively little additional funding.

Remediation. The 2010 *Ready for College* report indicates that 47.1 percent of New Mexico high school students graduating in 2009 and enrolling in college or university courses the following fall require remedial courses once attending a New Mexico institution of higher education. The report is limited and only includes data about those approximately 40 percent to 48 percent of high school graduates who attend New Mexico colleges and universities. The study indicates students who require remedial courses in college are less likely to complete a degree or certificate program, and an increased number of remedial courses is associated with a decreased likelihood of completing a degree or certificate program. The high number of graduates needing remediation indicates students need to be better prepared for college, and the alignment between high school and college curriculums needs to be improved. It also indicates the need for better communication between high schools and institutes of higher education.

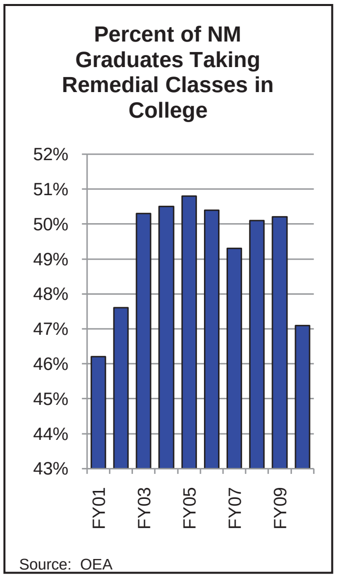
Achievement Gap. The achievement gap, which refers to the difference in performance among groups of students compared with their peers, continues to be a significant issue. In spite of overall gains in student achievement over the past six years, the achievement gap continues to persist for most subgroups and is largest for Native American students. Another gap to note is the gap for economically disadvantaged students, as measured by free and reduced lunch eligibility. This gap is the second largest gap, indicating that not only do educators need to focus on lower performing race and ethnicity subgroups but also on economically disadvantaged students.

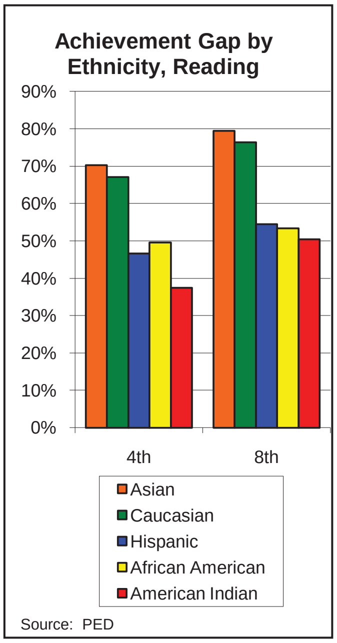
Primary factors affecting the achievement gap in New Mexico are students' economic background, parents' education level, access to high-quality preschool instruction, inadequate distribution of funding to districts through the funding formula, inadequate funding within districts to schools with the highest need, peer influences, teachers' expectations, curricular quality, and teacher quality. These influences are exacerbated in New Mexico where the vast numbers of struggling schools are in extremely rural areas and unable to attract and retain effective teachers and instructional leaders.

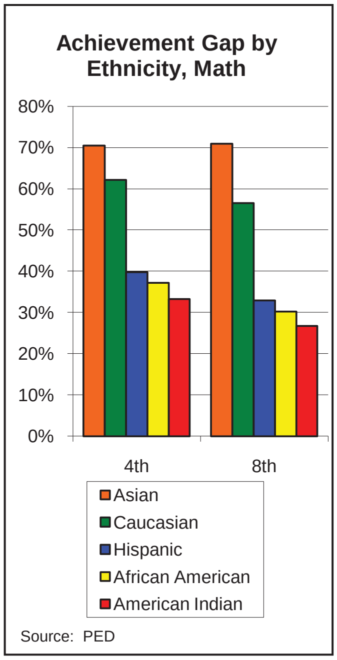
School Improvement. The department is responsible pursuant to NCLB to identify schools and districts for improvement and then to offer the support needed that will lead to improvement. The timeline cannot be changed nor can the sequence of what happens to a school or district; however, the state can determine the types of support it offers at various levels. PED has again updated the school improvement framework for SY11. The framework was originally implemented in response to the need for additional resources focused on high-needs schools. It is designed to strengthen instructional practices and provide tools and benchmarks for monitoring school improvement strategies and interventions. The framework serves as a technical assistance document that outlines the roles and responsibilities of schools, districts, and PED for improving student achievement. With the number of schools in the "restructuring two" category continuing to increase, time is running out for the department to begin making large-scale improvements in school and district performance.

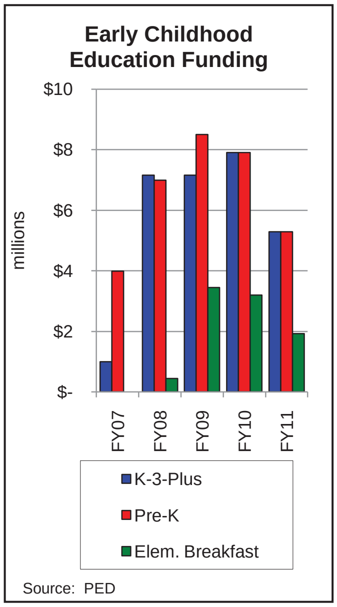
School Improvement Grant. The federal government established the school improvement grant fund (SIG) to improve student achievement in Title 1 schools identified for improvement, corrective action, or restructuring to enable those schools to make AYP. In FY10, New Mexico was awarded $28.5 million in SIG funding available for use over three years, or until September 2013. Nine chronically low-performing schools were selected by PED to implement rigorous interventions that hold the promise of producing rapid improvements in student achievement and school culture. These funds have the potential to support implementation of the fundamental changes needed to improve student achievement in these nine schools. The department should consider using these resources to develop strategies that can be scaled up and applied broadly to low-performing schools statewide.

Charter Schools. Charter schools are public schools established via a performance contract, or charter, with the state or a local school board, called an authorizer. The number of charter schools in operation in New Mexico has grown from four schools in 1995 to 81 in 2011. Charter schools were originally intended to be incubators of innovation designed to provide alternative education opportunities and improve student performance. However, charter schools have similar levels of student performance as similar traditional public schools. Charter school students show the same levels of growth in the scale scores that determine proficiency as school districts, though charter students have a lower graduation rate on average than traditional public school students. As the costs of charter schools to the state increase, the charter school movement should focus on improving charter school quality. In moving toward more accountability on the part of charters, the department should consider requiring authorizer training to improve the application and renewal process, performance contracts to drive the use of data in renewal decisions, and transparent school closure protocols that will









assist in the closure of poor performing schools.

Targeted Investments to Improve Student Achievement. It is critical now more than ever that districts make strategic decisions that focus on effective programs with proven results. Educators must target resources to those practices that have the greatest impact on student learning, student achievement, and graduation rates. Given the economic decline the state is currently facing, now is the time to closely analyze how public dollars are spent on education, what needs to be prioritized to improve educational opportunities for kids, and what programs should be eliminated.

Early Education Initiatives. In FY11, the Legislature appropriated $12.5 million for programs targeted at early childhood students to continue to establish a sound footing for long-term student success. Of the total allocated to early education initiatives, the kindergarten-three-plus and prekindergarten programs received almost $5.3 million each to focus on implementing learning interventions for students in prekindergarten through third grade in high-poverty schools. The remaining $1.9 million funded the breakfast for elementary students program that supports student learning and health by providing universal breakfast for elementary students in qualifying schools. While funding levels have decreased over the past several years, services and support of young students continues to be a focus of the Legislature.

Time on Task. Paul Vallas, a superintendent with a long history of leading school reform efforts nationally, refers to the need to "shake the trees" in education. Educators should adopt those practices that have the greatest impact on student learning. Time on task is a critical component of improved student achievement. Time on task refers to the time a student spends in the class room actively engaged in learning. Simply increasing the amount of time available for instruction is not enough to achieve learning gains. Time allocated for instruction must be appropriate, effective and meaningful, and teacher understanding of time on task must be enhanced.

Data-Driven Decisions. In addition to increased time on task, more emphasis needs to be placed on instructional strategies that improve student success. With the current focus on student achievement, there is a continuous search for ways to help schools improve their student outcomes. Primary among these is the effective use of data to drive classroom instruction, including the use of short-cycle assessments. Data-driven decision-making is a structure of teaching and management that allows classroom teachers and supervisors to use high quality assessment information at the classroom level. Educators can use this data to make quick and effective decisions about what children need, how instruction is planned and delivered, how it will be evaluated, and what changes will be made in response to the evaluation. Educators, however, continue to struggle with improving student achievement in an environment that impedes these efforts (e.g. high stakes testing, rapidly changing reforms, community expectations, and other non-instructional responsibilities). An increasing number of educators statewide appear to be focused on using data to guide their educational decisions and are realizing significant success in improving student achievement.

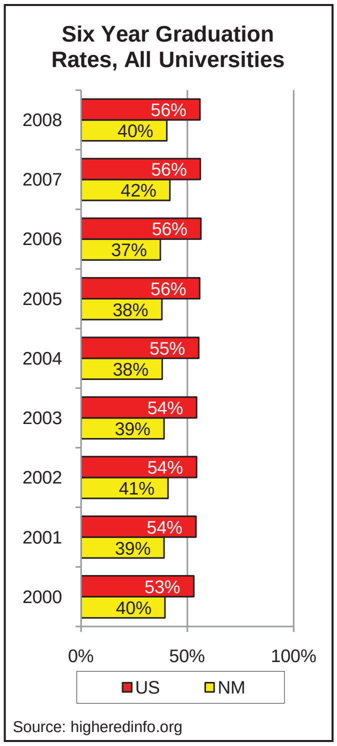
Instructional Leadership. High quality instructional leadership and stability appear to be the most significant factors in how fast and to what extent teachers embrace changes to instructional practices and strategies. The New Mexico School Leadership Institute (NMSLI) was established in FY10 to create a collaborative infrastructure for strengthening school and district leadership, and to help improve student outcomes through recruitment, preparation, and professional support of school leaders. The first cohort of potential administrators graduated from the institute's aspiring superintendents program in the spring of 2010. Graduates are currently serving as superintendents of the Animas and Lovington school districts. Fifteen leaders are participating in the second cohort. NMSLI is also engaged in ongoing professional development opportunities for school principals and other educational leaders aimed at training these individuals to use data to make instructional decisions. As NMLSI plans future initiatives, the institute should be mindful to focus on only those initiatives that fall within its statutory charge and those that will have widespread application and can be easily sustained at current funding levels.

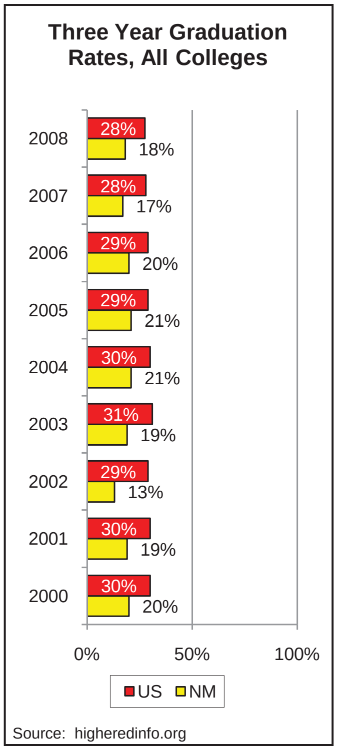
"The task is for us to eliminate what doesn't work and to finance, and work with, what does."
-Paul Vallas, former superintendent, Philadelphia

Linking Teacher Evaluations to Student Performance. Now that almost all New Mexico teachers are meeting the federal "highly qualified" standard, policy considerations are turning to the issues of teacher effectiveness and whether teachers are providing instruction that will lead to high levels of student achievement. Since 2003, the Legislature has made extraordinary financial commitment to teacher pay with the expectation that schools would demonstrate significant student improvement. Much of that expected improvement has not appeared; student achievement continues to progress slowly and the achievement gap continues to be a significant issue. Annual teacher and principal evaluation systems and the professional dossier should be strengthened to require the use of student growth as a factor in determining overall teacher and principal effectiveness.

"Incremental change isn't going to get us where we need to go. We've got to be much more ambitious. We've got to be disruptive. You can't keep doing the same stuff and expect different results."
-Arne Duncan, U.S. Secretary of Education

High School Redesign Initiatives. During SY10, high school redesign initiatives were implemented that are expected to increase high school rigor, increase student achievement and graduation rates, and better prepare high school students for a college or career path. Students entering the ninth grade in SY10 will be required to take an additional year of math at the algebra II level and required to take at least one distance learning, dual credit, advanced placement, or honors course to graduate. Traditional ninth grade assessments and high school competency exams have been eliminated and replaced with a set of exams that assess student readiness for high school, college, and the workplace. Beginning in SY12, juniors will be required to take the 11th grade NMSBA for both AYP purposes and as the high school exit exam. Juniors who fail the NMSBA will be allowed to retake the assessment or prepare a standards based portfolio. The cumulative effects of these initiatives won't be seen until FY13.





A recent study conducted by the Georgetown Center of Education and the Workforce suggests that by 2018, the United States will require about 22 million new college degrees but will fall short of that number by at least 3 million. New Mexico is already experiencing this shortfall in the production of teachers, particularly in math and science, healthcare professionals, computer science personnel, and community service providers.

The state of New Mexico is a national leader in committing its tax effort and spending toward higher education, dedicating about 15 percent of annual general fund appropriations for this purpose. To complement this commitment at a time when enrollments are at all-time highs, institutions need to improve both academic and operational efficiency. A recent LFC program evaluation of the University of New Mexico (UNM) and New Mexico State University (NMSU) identified a number of efficiency issues that need to be addressed. These should be useful to develop an independent improvement framework for each institution of higher education.

Funding Formula. The Higher Education funding formula, as originally envisioned, calculates the costs associated with providing a system of higher education in New Mexico with differentials for lower division, upper division and graduate classes as well as calculations for other factors, including building renewal and replacement (BR&R), equipment renewal and replacement (ER&R), library acquisition, instructional space, utilities, and institutional support.

Over time, a number of factors on the expenditure side as well as the revenue side of the formula have been changed, causing inequities in funding among institutions to occur. Coupled with a number of antiquated funding calculations, many based on data from as far back as 1994, it is doubtful the current formula accomplishes its original objective. As a result, the formula is now used primarily as the distribution tool to allocate legislative appropriations among institutions.

Further, the existing funding formula does not address many of the policy goals outlined in statute, such as improving the quality of programs central to an institution's missions, eliminating unnecessary, unproductive or duplicate programs, and promoting greater accountability by tracking spending.

Funding Formula Task Force. The Higher Education Funding Task Force met throughout the 2010 interim to address a number of issues identified through the appropriation process during the 2010 session. The membership of the task force was appointed by the Higher Education Department (HED) secretary; most members are the chief financial officers of the colleges and universities. Most of the issues considered were advanced by institutions to increase revenue.

A lesser priority for the task force has been addressing a number of LFC and executive concerns regarding the funding of inputs primarily based on enrollment while disregarding outcomes based on completion criteria, fully funding enrollment growth at average cost rather than the lower marginal cost of providing services for additional students, and funding excess credit hours. No recommendations regarding these issues are forthcoming and the Legislature will again be faced with competing pressures from the institutions during the 2011 session.

Student Credit Hours. A primary and desirable feature of an effective funding formula is long-term predictability. The current formula provides for workload adjustment only when student credit hours or instruction and general (I&G) costs increase by at least 3 percent or if student credit hours decrease by at least 5 percent. In years when workload remains within this band, the growth is "saved" until the institution breaks out of the band. At that time all of the "saved" workload is used to calculate the increase or decrease in workload, resulting in dramatic shifts in funding from year to year.

Funding Growth. While the task force focused principally on changes to the tuition revenue credit and replacing the "enrollment band" with a two-year average for enrollment workload, it overlooked a critical funding component: determining the marginal cost of educating additional students.

Currently, the funding formula assumes that costs grow linearly with enrollment and each credit hour within the cost matrix is funded at the same level without accounting for existing capacity within institutions. All institutions have unused capacity both with human capital and space that can be used to accommodate additional students at little additional cost. At some institutions this capacity could be relatively small, but at most it appears it could be well into the hundreds of students.

While workload calculations include adjustments for instructional support, student services, physical plant, and utilities, the number of student credit hours has the most significant effect on workload growth. For FY11, student credit hours accounted for almost $27.1 million, or 73 percent of the workload adjustment. In FY12, student credit hours are projected to account for $33.8 million, or a little over 93 percent of the total workload adjustment.

Completion. While the reliance of the higher education funding formula depends on student credit hours, a large number of students are not completing individual courses, much less persisting to graduation. A recent LFC program evaluation suggests that, at UNM and NMSU over a three-year period, $58.4 million in formula funding was generated for student credit hours never completed by students. This difference in formula funding accounted for an estimated $7.1 million at NMSU in FY09 and almost $12.4 million at UNM. Assuming similar completion trends statewide, the total instructional workload for courses enrolled but not completed is almost $44 million annually, accounting for almost 5 percent of the annual statewide general fund appropriation.

Higher Education Funding Inequities

- Undergraduate credit hours are funded equally at four-year and two-year institutions, although the cost of providing services varies significantly.
- The tuition revenue credit is applied to institutions with very different tuition costs.
- Inequities are causing a resource shift from the four-year sector to the two-year sector.
- Two-year institutions may use revenue from their mill levy to offset the cost of tuition increases.

Efficiency Issues to Be Addressed by the Funding Task Force

- Improving on-time completion,
- Limiting excess credit hours above what is required for graduation,
- Reducing excess administration across campuses,
- Improving space utilization,
- Reducing the number of campuses, learning centers, and other leased space statewide.

Opportunities for Operational Efficiencies

- Reduce or realign academic colleges and departments.
- Reduce low enrollment academic programs.
- Encourage higher course loads by faculty and students.
- Maximize instructional capacity.
- Eliminate all subsidies for branch campuses and learning centers.
- Ensure enterprise systems are self-sufficient and eliminate I&G subsidies.
- Optimize staffing for custodial and maintenance services.
- Hold colleges accountable for excess utility usage.
- Consolidate libraries across the state.
- Consolidate administrative units.

UNM has identified about $5.8 million in FY11 efficiency reductions, $7.6 million in FY12 efficiency reductions and is considering other long-term reduction initiatives.

Central New Mexico Community College has taken steps to eliminate or consolidate a number of inefficient vocational programs and shift resources to more efficient programs.

A 2006 U.S. Department of Education report, *The Toolbox Revisited, Paths to Degree Completion from High School through College*, finds major contributors to extended time to degree are excessive no-penalty course withdrawals and no-credit repeats. The report notes "We can keep students continuously enrolled, but if much of that enrollment is nullified by withdrawals and repeats, we have retention without education. Every seat marked with a withdrawal or no-credit bars another student from sitting down."

Excess Credit Hours. The LFC evaluation of UNM and NMSU found that, because the funding formula does not create incentives for course completion or degree completion and efficiency measures are not considered, graduates at these institutions earn on average about 150 student credit hours, or 15 percent in excess of what is required for graduation. Although comprehensive data is not available for all institutions, this appears to be a common occurrence statewide that should be addressed. Additionally, many students take university courses regularly with no intent on graduating, yet the state continues to subsidize these hours. Both Texas and Arizona have moved to restrict state funding for excess student credit hours. The funding task force should consider similar restrictions where students desiring to take additional hours would incur the full cost of classes.

An area of particular concern are the number of student credit hours claimed for distance learning classes, particularly for those students who reside outside of the state and country. In this case the state is paying for credit hours that have no practical benefit to New Mexico in terms of a return on its investment. These students should be required to pay the entire cost of these classes and these credit hours removed from the workload calculation.

Program Duplication. Workload funding also includes funding for instructional space. As a result of the economic downturn, more students are enrolling in classes both as first time students and as returning students seeking advanced degrees or job retraining. This is causing unprecedented competition among the institutions for every available student credit hour and, as a consequence, driving extraordinary growth in the number of programs offered. Institutions have moved to boost student credit hours by expanding the number of programs being offered statewide, irrespective of service area or mission focus. As a result, similar programs are competing with each other in an effort to increase enrollment, particularly in the Albuquerque area, with NMSU and Highlands offering competing social work programs, and NMSU offering public health and education courses that compete with UNM.

Facility expansion continues unabated, with Doña Ana Community College recently opening its eighth facility in Doña Ana County, Santa Fe Community College beginning construction on a new learning center that will be made available to four-year institutions, and Central New Mexico Community College (CNM) and UNM opening new campuses in Rio Rancho adjacent to each other. Although these facilities are paid for by local revenues, the operating costs associated with these facilities are borne by the state through the increase in square footage accounted for in the funding formula. Because most facility expansion appears not to include a comprehensive space utilization study and has not been approved by the Legislature, consideration should be given to not funding this growth under the formula workload calculation. Additionally, changes to current statute should be considered to close loopholes that allow institutions to continue to expand construction without legislative approval.

Tuition Waivers. Currently, institutions statewide take advantage of about 14 programs that waive out-of-state tuition for students, generally as an incentive to attend the institution. These include waivers for non-resident athletes, Texas residents attending schools within 135 miles of the border, undergraduate competitive scholarships, graduate assistants, active duty military-national guard and dependents, foreign military, and certain tribal members.

The funding formula accounts for the difference between out-of-state tuition and in-state tuition as a reduction to the tuition revenue credit for each institution. The result is that the general fund picks up the differential, raising concerns as to whether this is a true credit or just a transfer of cost from institutions to the general fund. For FY10, these waiver programs had a cost to the general fund of about $60 million, and preliminary estimates for FY12 project this amount to grow to a little more than $85 million.

Recent rule changes approved by HED will expand the waiver programs at the large institutions and are projected to increase the total waiver amount by more than $11 million annually to almost $96 million. At UNM, this rule change increased the authorized slots from about 650 to more than 1,500 and at NMSU from about 400 slots to more than 1,000, all without legislative approval.

The public policies issues for consideration by the full Legislature and the new administration are 1) should the general fund pick-up the cost of waivers and 2) should the state continue to pay more than $85 million for a program that has merit but greatly exceeds what the state pays in financial aid for its own students to attend New Mexico institutions?

The Legislature should consider consolidating some of these programs, deleting others, placing restrictions on the changes that were adopted for FY11, and directing that the cost of the waivers be paid by the institutions.

Tuition Revenue Credit. The funding formula includes a mechanism to account for increases in the tuition credit assumed in the annual state appropriation and tuition increases implemented by the institutions. As a result of the wide variation in the cost per student credit hour at the different institutions, the application of the tuition credit has a disparate impact on those institutions with higher tuition rates. For example, in

Higher Education Funding Formula Goals

- Improve the quality of programs central to the institutions' missions;
- Improve programs to meet targeted statewide needs, eliminate unnecessary, unproductive or duplicate programs;
- Consider faculty salary increases supported by analysis based on peer institutions, workload, and educational outcomes;
- Recognize costs from enrollment increases;
- Provide equipment, maintenance, and library funding;
- Fund off-campus courses;
- Provide incentives for pursuing alternative funding sources;
- Encourage sharing of resources, including joint instructional programs;
- Facilitate student transfers;
- Encourage energy conservation;
- Promote greater accountability by tracking spending;
- Make computer-based distance education accessible.

Source: Section 21-2-5.1 (b) NMSA 1978

Estimated Impact of Tuition Waivers - FY12	
Active Duty Military, National Guard, Dependents	$ 3,355.4
Arizona Receprocity	$ 1,113.6
Colorado Receprocity	$ 2,139.0
GI Bill Veteran (new)	$ 633.4
Graduate Assistant	$ 17,390.4
International Military, Spouse or Dependent	$ 131.5
National Guard Members	$ 84.1
NM Tribal Membership	$ 1,497.6
Non-discrimination	$ 10,459.3
Non-Resident Exchange	$ 2,086.8
Non-Resident Athletes	$ 6,261.7
Other Non-Resident	$ -
Out-of-State Navajo Nation	$ 1,438.2
Texas 135	$ 13,474.8
Undergraduate Competitive Scholarship (1)	$ 8,028.8
WICHE Student Exchange	$ 4,609.3
Senior Citizen	$ 588.3
Non-resident less than 6 hours	$ 12,165.7
TOTAL	**$ 85,457.9**

Source: HED FY12

(1) Does not include the estimated impact from 2010 rule change.

FY11, a 5 percent tuition credit at UNM equals $8.35 per student credit hour while at CNM it would be $2.05 per student credit hour. When the total number of credit hours at each institution is multiplied against these numbers, the effect is considerable and demonstrates how, over time, the bulk of tuition increases are borne by students at the four-year institutions. This difference appears to be causing a fairly significant shift in resources to the two-year institutions away from the four-year institutions.

The current formula also takes credit for tuition raised above the legislatively mandated amount. The effect of this is that all tuition revenue generated is ultimately rolled into the base, constraining the institutions ability to use that revenue for discretionary purposes in future years. The funding task force recommended eliminating this provision to provide flexibility to the institutions. Consideration should be given to continuing to take a credit against a portion of tuition (30 percent or 40 percent) but also allowing institutions some of the flexibility they desire.

Mill Levy Credit. In addition to the tuition credit, the formula takes credit for revenues the four-year institutions receive from the land grant permanent fund and the mandatory mill levy the two-year institutions have in place.

Community colleges can, subject to referendum in the taxing district, impose additional millage as they deem appropriate up to a total of five mills for operations and an additional five mills for capital improvements. While not all of the community colleges have excess mill levies in place, for those that do, the funding formula does not consider this excess millage in its calculations, and institutions can use this funding at their discretion.

This ability to raise discretionary revenue has created equity issues among institutions because these revenues can be used to hold down tuition, offset decreases in state funding, or provide instructional or other services, while the constitutional institutions do not have access to similar revenues. Further, for those institutions that use the excess millage to hold down tuition rates, the tuition revenue credit gap noted above is exacerbated. The higher education blue ribbon task force that developed and implemented many of formula changes, including the instructional matrix change, contemplated that by fully funding BR&R and other "general" components of the I&G, these differences would be mitigated by relative expenditure growth. With BR&R and equipment renewal and replacement (ER&R) only partially funded, these differences are magnified and should be addressed by the funding task force.

Building Renewal and Replacement. Presently, building renewal and replacement funding is tied closely to the gross square footage of buildings used for instruction. This funding is used to maintain facilities and is included as part of the I&G appropriation. The Higher Education Department *Manual of Financial Reporting* requires the institutions to budget these funds specifically for BR&R purposes. Institutions have requested flexibility language in the General Appropriation Act (GAA) to allow for the use of some or all of these funds for operational purposes, claiming need based on reduced general fund appropriations. The funding task force recommended a temporary change be made to the *Manual of Financial Reporting* to allow up to the entire BR&R amount to be used for other I&G purposes. The recommendation includes a sunset provision to preclude this practice from continuing once the revenue situation improves.

Equipment Renewal and Replacement. The formula also provides funding for replacing equipment with a cost greater than $1 thousand. The practice of funding equipment separately appears to be unnecessary and should be included as part of the I&G calculation. Changes have been requested by some institutions to allow for less expensive pieces of equipment, in particular desktop and laptop computers, to qualify for funding. These types of purchases should be planned and executed from existing operational funding and not from a set-aside pot of money. This is one of the extensive calculations noted above that take considerable time to distribute a relatively small amount of money.

Financial Aid. Student financial aid in New Mexico is intended to help students pay for educational expenses at institutions of higher education in the state. For 2010, there were nine federal and 605 state student aid programs in place nationally in addition to merit aid provided by individual institutions. Federal grants available include Pell Grants, federal supplemental educational opportunity grants (SEOG), national science and mathematics access to retain talent (SMART) grants, academic competitiveness grants, federal Work-Study Program, federal Stafford Loans (subsidized and unsubsidized), state student incentive grants, and federal parent loans for undergraduate student (PLUS).

In spite of the variety of financial aid programs available, nearly 60 percent of financial aid offered in the state is in the form of federal Pell Grants or federal Stafford loans. New Mexico's efforts to use financial aid to increase access have been successful. According to a report from the National Center for Educational Statistics, New Mexico is ranked eighth in the nation for the percentage of the state's population enrolled in college. Freshman enrollment continues to increase at all institutions, however, the quality of incoming freshman appears to be static or declining, with a larger number of marginally prepared students being accepted.

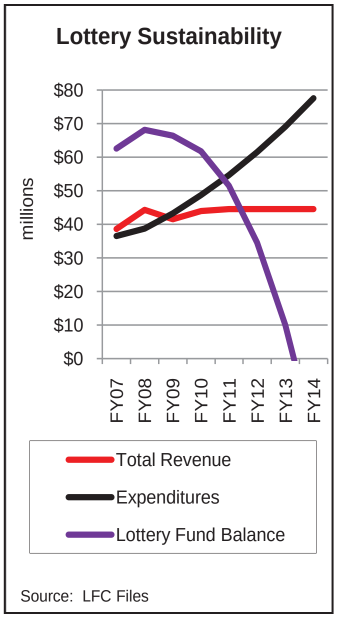
The result of this is that student borrowing has increased and fewer students are graduating on time. Of particular concern are those students who leave school without a degree but with accumulated debt. These students are generally worse off because their earning potential has not improved and they now have significant debt to pay off.

On the positive side, a recent LFC evaluation suggests that about 3.8 percent of all New Mexicans have some college experience, ranking the state fifth in the nation in terms of percentage of the population with

EFFECT OF THE TUITION REVENUE CREDIT - FY11

Institution	Rate/SCH	5% Tuition Credit
NMIMT	$ 165.84	$ 8.29
NMSU	$ 155.00	$ 7.75
UNM	$ 166.97	$ 8.35
ENMU	$ 104.75	$ 5.24
NMHU	$ 90.20	$ 4.51
NNMC	$ 41.13	$ 2.06
WNMU	$ 109.00	$ 5.45
ENMU-Roswell	$ 46.40	$ 2.32
ENMU-Ruidoso	$ 28.50	$ 1.43
NMSU-Alamorgordo	$ 61.00	$ 3.05
NMSU-Carlsbad	$ 33.00	$ 1.65
NMSU-Dona Ana	$ 46.00	$ 2.30
NMSU-Grants	$ 56.00	$ 2.80
UNM-Gallup	$ 53.00	$ 2.65
UNM-Los Alamos	$ 49.00	$ 2.45
UNM-Taos	$ 54.00	$ 2.70
UNM-Valencia	$ 51.25	$ 2.56
CNM	$ 41.00	$ 2.05
CCC	$ 30.00	$ 1.50
LCC	$ 29.00	$ 1.45
MCC	$ 40.45	$ 2.02
NMJC	$ 29.00	$ 1.45
SJC	$ 32.00	$ 1.60
SFCC	$ 32.30	$ 1.62

Source: HED



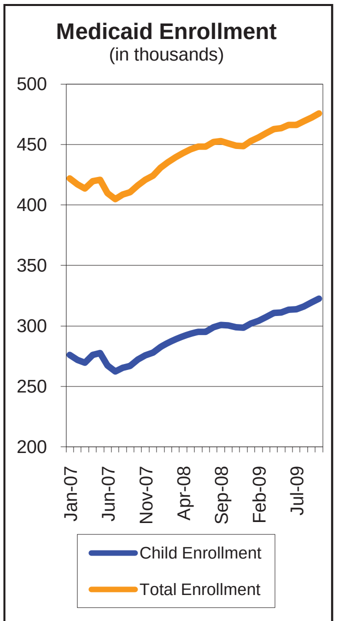
some college. The ready availability of financial aid can be a positive tool in assisting these students in returning to school.

Legislative Lottery Scholarship. A key factor in providing increased access to students is the legislative lottery scholarship (LLS). Since 1996, more than 61,000 New Mexicans have attended and more than 25,000 have graduated from New Mexico's colleges and universities. In 1992 and prior to LSS, New Mexico ranked 37th in the nation in terms of high school graduates enrolling directly into college. By 2006, New Mexico's ranking on this metric improved to sixth with over 70 percent enrolling directly from high school. In FY09, there were 18,426 lottery recipients statewide with an average award of about $2,350 for a total cost to the lottery scholarship fund of about $43.3 million.

The growth in the popularity of the scholarship, the level of expenditure, stagnant revenues, and tuition and enrollment increases are raising concerns regarding the solvency of the lottery fund. For FY09, lottery expenditures of about $43.3 million exceeded lottery income of about $41.5 million and lottery fund balances declined, leaving a smaller pool from which to earn interest.

In the current fiscal climate, general fund support will likely continue to be reduced causing institutions to consider raising tuition. Assuming an average tuition increase over the next few years of 7 percent and interest earned on the lottery fund of about 1.5 percent, the projected FY12 lottery fund balance of about $34 million will be about half of what it was in FY09 and is expected to zero out in FY14. While these projections could be viewed as worst case, even best case scenarios raise concerns. Assuming a 5 percent tuition increase, slower growth in the number of recipients, and moderate increases in revenues, the fund will have a negative balance in FY15.

The end of federal stimulus funding, federal healthcare reform, and state revenue declines put significant pressure on state healthcare programs to provide sufficient care and improve the health status of New Mexicans. Nowhere in the state budget is this challenge more pronounced than in the state's Medicaid programs. Federal support drops sharply at the end of FY11, enrollment has climbed sharply, and federal reform mandates significant changes. The state is faced with major decisions about the benefits and services it provides and must seek new opportunities to reduce costs while improving the quality of care.



Source: LFC Files
Medicaid and CHIP only

Patient Protection and Affordable Care Act. On March 23, 2010, President Obama signed H.R. 3590, the Patient Protection and Affordable Care Act (P.L. 111-148), and on March 30, 2010, signed H.R. 4872, the Health Care and Education Affordability Reconciliation Act of 2010 (P.L. 111-152). Together, these bills make up federal healthcare reform and are commonly known as the Affordable Care Act or PPACA. The new law touches almost every part of the nation's healthcare system – from insurance reform and individual mandates for coverage to Medicare benefits and pharmaceuticals. States will be responsible for carrying out many provisions and financing portions of the reforms.

Federal Share of Cost for Newly Eligible Medicaid Clients

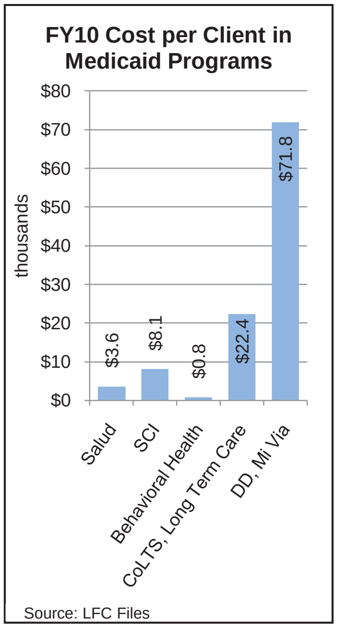
Year	FMAP
2014-2016	100%
2017	95%
2018	94%
2019	93%
2020 -	90%

Medicaid Impact. The two principal mechanisms to provide health insurance coverage are expansion of Medicaid eligibility to those with incomes under 133 percent of the federal poverty level (FPL) and subsidies for those with incomes between 133 percent and 400 percent of FPL to purchase insurance through a health benefit insurance exchange. Most significantly for purposes of the state budget, the federal healthcare reform expands eligibility for Medicaid to all individuals under 65 with incomes up to 133 percent of the federal poverty level (about $29,326 for a family of four). A new special adjustment to the calculation of income will bring the effective income eligibility rate to 138 percent of FPL.

According to U.S. Census Bureau data, approximately 440,000 New Mexicans do not have health insurance. The Human Services Department (HSD) has estimated that about 142,000 of these residents will qualify for Medicaid under the new expansion. Another 69,000 children, already eligible for coverage under Medicaid or the Children's Health Insurance Program (CHIP), may enroll due to the mandate to carry insurance.

Cost and Financing. The federal government will pay 100 percent of the cost of enrolling the newly eligible population in Medicaid expansion from 2014 – 2016, stepping down to 90 percent by 2020 and beyond.

Estimates of the costs to New Mexico to enroll the newly eligible



individuals range from $190 million to $270 million from 2014 to 2019. The Kaiser Commission on Medicaid and the Uninsured, for example, produced two cost estimates. The first projected 145,000 new Medicaid enrollees and state spending of $194 million from 2014-2019, similar to an April 2010 LFC estimate. The second estimated almost 202,000 new enrollees and state spending of $278 million over the six-year period.

These figures do not include several other parts of the reform that may carry costs or savings. For example, more enrollment of children already eligible for Medicaid will not bring enhanced matching rates in the initial years, but from 2016-2019 the federal government will begin paying the entire cost of children eligible for CHIP coverage – 185 percent to 235 percent of the FPL in New Mexico. The estimate also hinges on the federal government's definition of "newly eligible" and its treatment of New Mexico's State Coverage Insurance (SCI) program. If the more than 50,000 SCI participants, plus those on the waiting list, qualify as "newly eligible" and, thus, qualify for the higher federal matching rates, the state will realize significant savings. If this population is not newly eligible, then the converse is true and state costs rise. HSD is awaiting confirmation from the federal government that SCI participants will be "newly eligible" for the Medicaid coverage.

In addition to SCI, New Mexico's CHIP program provides coverage to about 8,000 children between 185 percent and 235 percent of the FPL. CHIP remains largely the same but with expanded access to children above regular Medicaid eligibility levels. States may cap enrollment in CHIP when block grant funds are exhausted. Children unable to obtain coverage for lack of state and federal funding may receive tax credits to purchase a CHIP-similar plan on the exchange. In addition, the law provides an option for states to provide CHIP coverage, under certain conditions, to children of state employees, even if they are eligible for state employee plan benefits.

States may also create a basic health plan for uninsured individuals between 133 percent and 200 percent of the FPL who would otherwise receive premium subsidies on the exchange. States electing this option may receive 95 percent of the federal funding that would have gone to the individuals to purchase insurance on the exchange.

Other changes to disproportionate share hospital (DSH) payments, federal matching rates for primary care reimbursement, and new administrative costs will carry budget impacts for the state. These impending changes come at a time when states have been forced to curtail Medicaid spending in the wake of the economic recession and state revenue declines. Cost-containment options for states have been limited to reducing provider rates and eliminating benefits because the maintenance of effort (MOE) requirements under the American Recovery and Reinvestment Act (ARRA) and PPACA preclude states from enacting stricter eligibility rules in their Medicaid programs. States must maintain eligibility levels in place as of the date of enactment (March 23, 2010) for adults through 2014 and children through 2019. PPACA does provide for an exception to the MOE requirement for some adults if a state can certify, on or after December 1, 2010, that it is experiencing a budget deficit or projects a budget deficit in the following fiscal year. Given the MOE requirements, New Mexico might be able to apply for the federal exemption and reduce eligibility in its SCI program from 200 percent to 133 percent of the FPL, eliminating coverage for 3,000 to 5,000 individuals.

The Exchange and High-Risk Pools. PPACA also requires the creation of health insurance exchanges by 2014 to offer group-rate private health insurance to individuals and small employers. If a state elects not to operate a state-based exchange, the federal government will operate a regional exchange. Individuals with incomes between 133 percent and 400 percent of the federal poverty level will receive federal subsidies to purchase insurance on the exchange. Small employers will receive tax credits to purchase group policies. The exchange will require seamless transition and communication with a state's income eligibility systems, including its Medicaid program. The Legislature will have an opportunity to examine any necessary legislation in the 2011 and 2012 sessions.

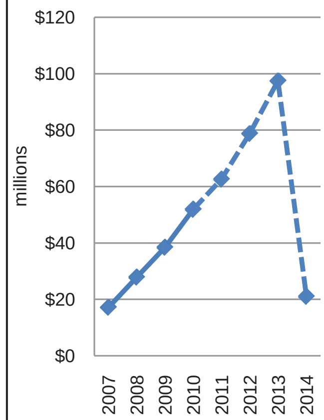
New federal high risk pools began operating on July 1, 2010, with the intent that they serve as a bridge for coverage until the guaranteed issue provision becomes effective in 2014. At that point, insurers will no longer be able to deny coverage based on preexisting health conditions. New Mexico's high-risk pool, the NM Medical Insurance Pool (NMMIP), currently offers insurance to these clients.

In 2013, NMMIP programs are estimated to "cost" the state almost $100 million due to a provision that reduces premium taxes for insurers. When NMMIP's clients become eligible to purchase insurance through the exchange in 2014, its programs will be obsolete. In 2014, the state should realize a significant increase in premium tax revenue. The Legislature likely will have to take action to eliminate the NMMIP or alter its function and repeal the premium tax credits for the NMMIP assessment.

<u>Medicaid Budget.</u> Federal reform and the loss of federal stimulus funds that have propped up the program come just as Medicaid enrollment is at its highest point in state history. Enrollment is up more than 20 percent since 2008, and Medicaid has seen reciprocal growth in expenditures, increasing by some $800 million, or 28 percent, from FY08 ($3.12 billion) to FY11 ($3.98 billion). This growth occurred without increases to the general fund share of the operating budget due to the American Recovery and Reinvestment Act (ARRA). ARRA raised the federal Medicaid matching rate, known as the federal medical assistance percentage, or FMAP, by about 10 percent. This enhanced rate begins to phase out on December 31, 2010, and ends on June 30, 2011.

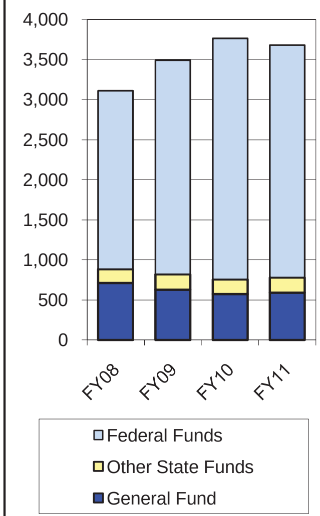
Medicaid faces significant challenges to manage the enrollment

State Premium Tax Cost of NM Medical Insurance Pool

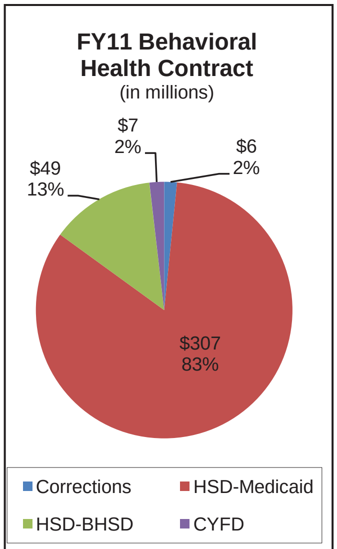


Source: NM Medical Insurance Pool; 2010-2014 projected

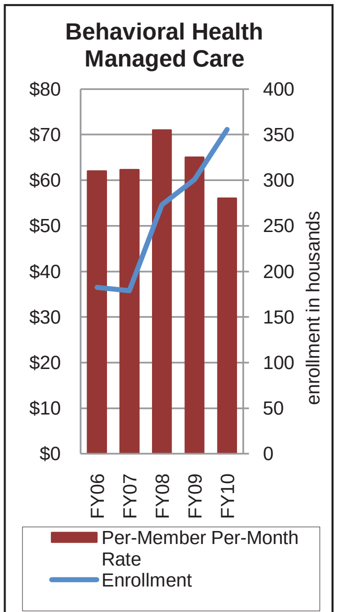
Medicaid Spending
(in millions of dollars)



Source: LFC Files; HSD Projections
Federal funds are estimated.



Source: HSD; DOH and ALTSD not included.



Source: HSD

growth, provide a reasonable benefit package, and ensure fair compensation for managed-care companies and providers with declining revenue. The department has initiated a fairly aggressive cost-containment plan to achieve savings in FY11 and FY12, just as almost all other states have done. Given the significant shift in the share of state funding required for FY12; however, more cost containment will be necessary.

Potential Revenue Options. As Medicaid and healthcare expenditures consume greater shares of the state general fund, many states have turned to targeted taxes to generate state funds to match with federal Medicaid revenue. Sometimes called provider "assessments" or "fees," the taxes are generally levied on revenue at hospitals, nursing homes, intermediate care facilities for mental retardation (ICF-MR), and managed-care companies. While limited by federal rules, in most states the cost of the tax is sent back to the providers in their Medicaid reimbursement rates.

Last year, Colorado, Arkansas, and Tennessee, among others, created such assessments for their Medicaid programs. With significant pressure on the Medicaid budget, New Mexico may want to explore provider tax options again in the 2011 session.

Behavioral Health Care. Created in 2004, the Behavioral Health Purchasing Collaborative was designed to develop, manage, and support a single behavioral healthcare delivery system in New Mexico. The collaborative functions as a virtual agency, pooling funding from five agencies to buy a managed-care product from a so-called statewide entity – currently, OptumHealth NM, a subsidiary of United Healthcare – to manage mental health care and substance abuse treatment services.

Soon after the transition from ValueOptions NM, the first statewide entity, to OptumHealth NM on July 1, 2009, problems with the OptumHealth claims system became evident. Providers were not paid for services rendered, claims were lost or improperly denied, and new requirements for providers caused confusion and mistakes. OptumHealth has been sanctioned under its contract and an appointed state monitor is reviewing its system to ensure compliance with contract terms, including timely payment.

The collaborative is also charged with directing a statewide system of behavioral healthcare services. Since inception, the collaborative has been moving toward a system of care that emphasizes comprehensive community support services, as part of its effort to promote community over residential treatment. These services are a key component for designation as a core service agency, which will be the primary care coordinators and care providers for the neediest clients. This concentration of services in about 36 provider agencies has raised some concerns about service limitation in parts of the state. Monitoring this transformation process has been difficult because the collaborative provides a limited performance report to gauge the success of its programs.

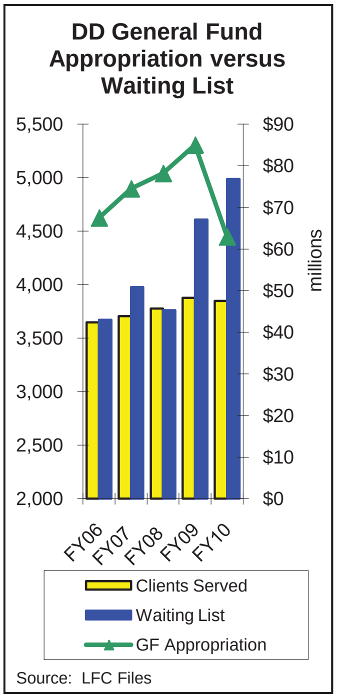
Medicaid Waiver Programs. New Mexico has five waivers under the Medicaid program to allow home- and community-based services to certain patients. The waivers and dates of implementation are as follows: developmental disabilities (DD), 1984; disabled and elderly (D&E), 1983; medically fragile (MF), 1984; HIV/AIDS, 1987; and the *Mi Via* self-directed waiver (which includes the long-term brain injury program), 2006. The DD, MF and HIV/AIDS waivers are funded through DOH and receive Medicaid match through HSD. The D&E and *Mi Via* waivers are administered by ALTSD; however, the Medicaid funding for these programs comes through HSD and DOH. The key issue the state faces for the largest of these waiver programs, DD and D&E, is demand that exceeds available slots despite almost continuous increases in state funding. The DD waiver is up for renewal, with the application to be sent to CMS by June 30, 2011.

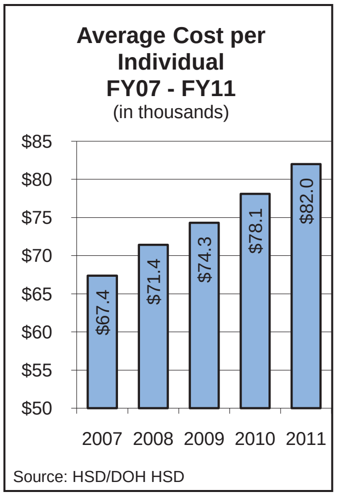
Developmental Disabilities Medicaid Waiver. A developmental disability is a severe, chronic disability attributable to a mental or physical impairment, including brain trauma, or a combination of mental and physical impairments, that manifests itself before the age of 22, continues indefinitely, results in substantial functional limitations in three or more areas of major life activity as defined in the waiver, and reflects the need for a combination and sequence of special care treatment or other services that will be long term.

At the end of FY10, 3,848 developmentally disabled clients were receiving services. However, 4,988 were on the waiting list, an increase of 378. The number of developmentally disabled clients has increased by more than 1,700 since 2000. During the 2010 session, the Legislature included $2.25 million in Laws 2010, Chapter 6, to enroll approximately 100 individuals eligible from the waiting list, and the Department of Health is enrolling additional clients.

The 2010 General Appropriation Act includes $63 million from the general fund for DD waiver services, a reduction of $6.2 million from the 2009 appropriation because of the enhanced FMAP discussed under Medicaid ARRA funding. With the elimination of the enhanced FMAP and a reduction in the base rate to 69.36 percent, DOH estimates $103.6 million, an increase of $40.6 million, will be required in FY12.

An additional factor in the increased costs is the growth in the average cost per client to $82 thousand in FY12, an increase of $8.5 thousand per client, or 11.2 percent, from FY11. The LFC performance evaluation, *Departments of Health and Human Services Evaluation of Developmental Disabilities Program*, June 9, 2010, found spending levels for the existing DD waiver program are unsustainable, the program lacks a needs-based assessment tool and utilization review process to ensure participants receive the right care at the right time, the waiting list considerably outpaces allocations causing individuals to wait seven to eight years to receive waiver services, and increased oversight and improved cost management will be necessary to maintain and expand the program. Of the clients, approximately 45 percent are





"The departments [DOH and HSD] and the Legislature, through focused efforts, have the opportunity to revamp the [DD waiver] program to one which contains costs, delivers the right services to the right individuals and allows those waiting for waiver services to enter the system more quickly."
LFC Performance Evaluation, June 9, 2010.

History of Disengagement from Jackson Plan of Action	
2010	5
2009	4
2008	1
2007	0
2006	0
2005	1
2004	0
2003	1
2002	0
2001	3
2000	18
1998-1999	10
Total	49 of 58 outcomes

Source: DOH

designated as level one, those needing the most intense array of care; 39 percent at level two, the medium level of services; and only 11 percent are at level three, those needing the least services. This is contrary to other states surveyed where the distribution is more of a bell-shaped curve, with most individuals in the intermediate level of care. New Mexico ranks 7th among the states for the highest average cost per client. (American Association on Intellectual and Developmental Disabilities, 2008).

The performance evaluation recommends the following to contain costs in the program:

- Curb goods and services to specific goals in the individual service plan;
- Require utilization review and approval by program staff of all exceptions, outliers, and additional services;
- Require program staff approval of initial and annual level of care determinations;
- Include level of care in rates paid for family living reimbursement;
- Use a validated assessment tool in making level of care determinations; and
- Modify the Medicaid payment system to ensure payments that exceed the annual resource allocation (ARA) are denied.

DOH has developed a cost-containment plan estimated to save $5.2 million in the second half of FY11 and twice that number for FY12. The department has put emphasis on the waiver renewal but the cost-containment effort must be implemented by January 1, 2011, to reduce the additional general fund needed to support the program.

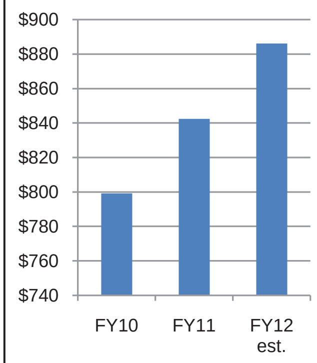
Jackson Lawsuit. The Jackson lawsuit, filed in 1987, involves the states' obligation to provide services to DD clients in an integrated setting, as opposed to a state facility. The department was ordered by the court to complete a plan of action to ensure compliance with the finding of the court. The state has made considerable progress in the past year to disengage from nine of the 58 outcomes required by the lawsuit. The state notified plaintiff attorneys on September 16, 2010, of the intent to file a motion for complete disengagement from the lawsuit because the state has moved from institutions to community-based system, the constitutional violations have been corrected, and the costs of the lawsuit. Both the plaintiffs and the state have provided written arguments and await the decision.

Coordination of Long-Term Services (CoLTS). The Aging and Long-Term Services Department (ALTSD) and HSD implemented CoLTS on August 1, 2008. A Medicaid managed-care program, CoLTS is designed to provide services to the disability and elderly (D&E) waiver recipients, personal care option consumers, nursing facility residents, and eligible individuals with brain injuries. On September 10, 2010, 38,092 clients were enrolled in CoLTS, which has two contractors: Evercare and Amerigroup.

The managed-care program was supposed to provide better care and save money. Costs have continued to increase at a rapid rate for the program. The weighted average cost per member per month has increased from $1,683 in FY09 to $1,774 in FY10. This is an annual cost increase of $91, or 5.4 percent, and amounts to $41.6 million in total costs. In FY10, HSD requested an increase of $30.7 million from the general fund for the increased costs over what had been projected in the previous fee-for-service program. Reasons for the increase suggested by both HSD and ALTSD are increased use of existing services and addition of new services for which an individual is eligible. Legislators continue to receive complaints over the timeliness of payments but the situation has improved.

Management of CoLTS is split between ALTSD and HSD; however, duplication exists. The contracts with the two managed-care providers contain provisions duplicating activities performed by ALTSD, especially in outreach and quality assurance. The joint powers agreement between the agencies was approved by the Department of Finance and Administration on November 16, 2007, and has not been updated to reflect responsibilities with the implementation of CoLTS.

Coordination of Long-Term Services Program Costs
(in millions)



Source: HSD Medicaid Projections

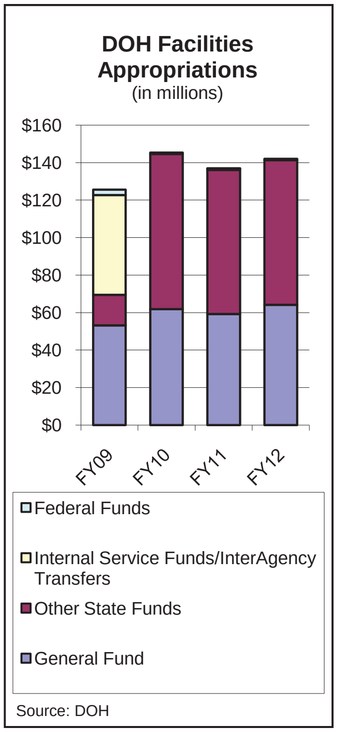
<u>DOH Facilities Management.</u> DOH operates six facilities and an in-patient program. DOH has made an effort to increase revenues from sources other than the general fund, and with the exception of Fort Bayard Medical Center (FBMC), the facilities finished FY10 within budget. FBMC's unaudited deficit in collections was approximately $3 million, offset by collections from other facilities. The deficit at FBMC was largely caused by the delayed collection of Medicare reimbursements and the failure to be recertified for Medicaid for most of the fiscal year. FBMC moved into a new facility financed by Grant County, and the department will begin paying $4 million yearly in debt retirement beginning in FY12.

DOH Facilities Management Program:

- Fort Bayard Medical Center (FBMC)
- New Mexico Behavioral Health Institute (NMBHI)
- New Mexico Rehabilitation Center (NMRC)
- New Mexico State Veterans' Home (NMSVH)
- Sequoia Adolescent Treatment Center (SATC)
- Turquoise Lodge (TL)
- Los Lunas Community Program (LLCP)

The percent of the Facilities Management Program budget from the general fund continues to increase from 38.4 percent in FY07 to a requested 45.2 percent in FY12. This increase from the general fund is unsustainable in light of the projected revenues for FY12. The program must find other sources of revenue and implement cost-containment measures and reduce expenses, which may include changing services. Review of financial information reveals wide variation between budgeted and actual revenue and expenses. Facilities must operate within their budgets. The department states, "The program cannot continue to sustain additional reductions to the general fund budget without seriously jeopardizing patient care levels and accreditation, licensing and certification."

LFC performance evaluations of facilities management noted that personnel assignments are not tied to the number of patients in each facility. Currently, DOH does not decrease staffing when a facility census decreases, thus incurring unnecessary costs. The average daily occupancy for the period April 2008 to April 2009 was 76.6 percent. The occupancy rate ranged from a high of 95.8 percent at Sequoia



H1N1 IMMUNIZATIONS

State	All Persons 6 mos and older	25-64 With Chronic Conditions
NM	**27.5%**	**27.1%**
Region 6	17.8%	18.7%
CO	23.9%	27.0%
AZ	24.9%	21.8%
TX	16.1%	16.8%
US	23.9%	25.2%

Source: DOH

Adolescent Treatment Center to a low of 51.2 percent at New Mexico Rehabilitation Center. The report states, “Low facility occupancy rates can increase expenses through overstaffing and infrastructure costs which remain constant.” The report recommends reviewing workload requirements and establishing policies to reduce staffing when the number of patients is at a level below capacity.

Despite less than optimum occupancy, the program also has considerable overtime costs, particularly at Los Lunas Community Program (LLCP). Total overtime for the program was $6.6 million in FY10; $1.9 million was attributed to LLCP. The overtime accounts for 13 percent of LLCP’s personal services and employee benefits costs. Budgeted overtime at LLCP, with 347 authorized FTE, is the same as that of New Mexico Behavioral Health Institute, with over 1,000 FTE. The management situation at LLCP is difficult because the administrator position has been vacant since April 2009 and Santa Fe staff have been overseeing the operation.

The 2010 LFC performance evaluation found the office of facilities management is not taking “advantage of central solicitation for goods and services common to all facilities: cost reporting, oxygen service and supply, laboratory services, billing consultants, equipment maintenance and monitoring, (and) biohazard waste removal” are suggested for consideration for central procurement. To date, the program has made little effort to implement this recommendation.

Improvements in the management of FBMC have been noted in trying to vacate U.S. Department of Justice oversight for deficiencies identified in the May 2006 Civil Rights of Institutionalized Persons Act investigation of FBMC. DOH plans to have all issues resolved in FY11 after the move to the new facility in November 2010.

Public Health. DOH continues to put significant emphasis on immunizations and increased the percent of preschoolers fully immunized since 2005. However, the efforts to immunize New Mexicans against the H1N1 influenza challenged the program. The immunization program tasked the Public Health Program to use all resources to organize and train providers, receive and distribute vaccine doses, record data, and monitor results. In a report issued by the Centers for Disease Control and Prevention (CDC), New Mexico exceeded the national average for immunizations given and was higher than surrounding states. However, the immunization rate for preschoolers declined to 70.2 percent, compared with 77 percent in FY09. The Public Health Program spends $14 million on primary care contracts, of which 40 percent is spent on undocumented individuals living in the state. The issue of caring for undocumented persons is not included in health reform and will continue to put pressure on the public health budget.

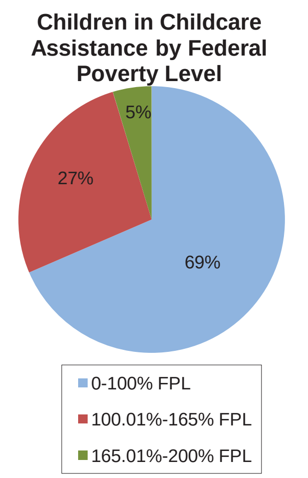
Stresses stemming from the economic downturn are increasing demands on social services programs, such as child protective services and Temporary Assistance for Needy Families (TANF) assistance. State agencies face the challenge of prioritizing core social services and connecting individuals and families to services available in their communities.

Early Childhood Programs. Early childhood programs are long-term investments that help children graduate from high school, stay out of trouble with the law, and obtain good jobs later in life. Research on brain development has shown the early years of a child's development are critical to establishing a foundation for future learning, behavior, and health.

Over the last five years, the Legislature has made significant investments in early childhood services by funding prekindergarten, home visiting, and other initiatives. Early childhood programs exist in several state agencies, creating problems with coordination and duplication of services. With shrinking resources, it is imperative that early childhood programs are evaluated and prioritized and target at-risk children.

Child Care. In the 2008 special session, the Legislature appropriated $7.2 million from the TANF federal block grant for childcare subsidies in FY09, of which $5 million subsidized childcare costs for families with incomes at or below 165 percent of the federal poverty level (FPL) and $2.2 million was used to begin increasing eligibility to 200 percent of FPL. The Children, Youth and Families Department (CYFD) also received a substantial amount of one-time funding from the American Reinvestment and Recovery Act (ARRA) 2009. ARRA provided New Mexico with $17.8 million in child care development block grant funding. CYFD dedicated $13.8 million of the ARRA funding to provide childcare assistance to an additional 2,200 children who qualify for the program based on a family income up to 200 percent of FPL. In hindsight, the childcare expansion may not have been sustainable.

The Legislature appropriated $85.8 million in FY11 for childcare assistance, of which $38.4 million was from TANF funding. In July 2010, the Human Services Department (HSD) reported an $18 million miscalculation in TANF carry-forward balances available for FY11. HSD, along with CYFD, began to implement a plan that would reduce CYFD's FY11 budget by $13.5 million in childcare assistance. On September 20, 2010, CYFD sent out letters notifying the families of the 7,000 children to be disenrolled from the childcare program. Since the release of the notification letters, childcare providers have proposed taking an 4 percent reduction to provider rates, an estimated $2.2 million savings for FY11, and the governor has provided $2 million in ARRA governor discretionary funding to avoid the disenrollment of children. CYFD hopes to use TANF contingency funds to fund the childcare program through the remainder of FY11. The childcare assistance program will be challenged in FY12 to find replacement



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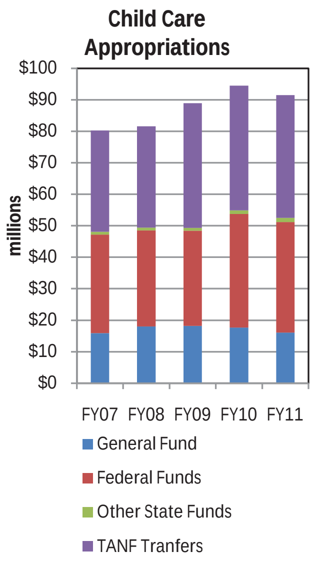

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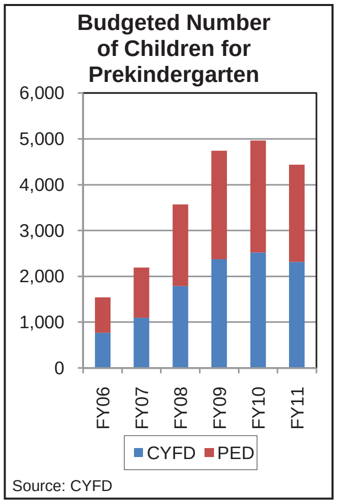
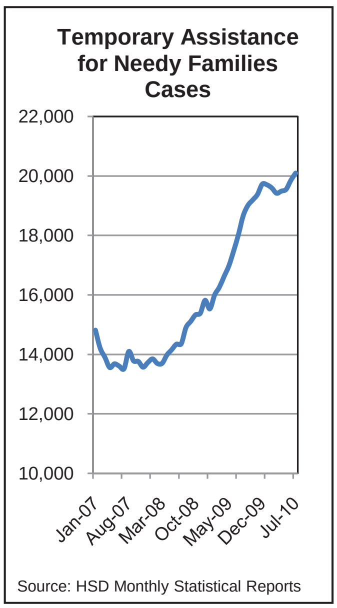




funding for the reductions in TANF, along with the need for better coordination among child care, Head Start, and prekindergarten programs for consensus on policy goals, such as quality programs and educational outcomes.

Home Visiting. Home-visiting services offer support to pregnant women and new families. The services can lead to improved maternal and child health outcomes, positive parenting, safe homes, and connections to community services. The Legislature appropriated $2.2 million in FY11 for home visiting that reflects a reduction of $500 thousand in TANF funding. In July 2010, Governor Richardson released $766 thousand in nonrecurring federal stimulus funding from the government service fund for home-visiting services for at-risk families.

Additionally, federal funds for home-visiting services have been made available to states through the Patient Protection and Affordable Care Act of 2010 in the form of noncompetitive formula-based grants. New Mexico is projected to receive $952 thousand for the first two years, of which up to $500 thousand may be used for planning, implementation, and data collection. Priority is to be given to serving low-income families in at-risk communities, as identified by a statewide needs assessment, and use of an evidence-based home-visiting model for 75 percent of service delivery. Promising new home-visiting models may be funded with the remaining 25 percent. CYFD should consider following the same criteria as the federal government by targeting at-risk infants and families and providing intensive and research based home-visiting models.

Prekindergarten. New Mexico prekindergarten program (preK) provides early childhood services in public schools and in nonpublic settings, such as community child-care centers. Two-thirds of enrolled children at each site must live in a Title I elementary school zone.

For the past five years, CYFD has contracted with the National Institute for Early Education Research (NIEER) at Rutgers University to conduct a study that randomly selected 4-year-olds attending preK and nonparticipants to evaluate the effectiveness of the initiative. The research has established the following key findings:

- PreK meaningfully impacts young children's language, literacy and math development;
- Overall classroom quality is good, but some improvements are needed, particularly in classroom support for early mathematics;
- Impacts of preK and classroom quality are similar for preK program sites administered by the Public Education Department and CYFD; and
- An estimated $5 in benefits are generated in New Mexico for every dollar invested in preK.

States being impacted by declining state revenues are being creative in funding preK programs. For example, Maryland and New Jersey have used money provided under Title I of the federal Elementary and Secondary Education Act. Title I funding can be used for preschool, and the flexible funding stream allows districts to subcontract with Head Start and childcare programs.

Protecting Vulnerable Populations. New Mexico has a variety of comprehensive, coordinated services that focus on vulnerable populations that experience disparities due to lack of resources and increased exposure to risk. These services protect children and the elderly, assist in child support enforcement, and help victims of domestic violence.

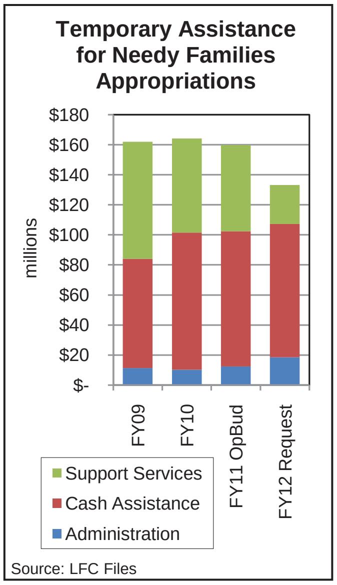
Temporary Assistance for Needy Families. Under the Temporary Assistance for Needy Families (TANF) program, states receive a federal block grant to provide cash assistance and work support programs to low-income families. States have broad discretion to meet the program's four stated goals, and states are required to report on the work participation rates of TANF clients. Failure to meet federally established work rates may trigger penalties.

Over the last several years, TANF program revenue has come from three sources – the TANF block grant, carry-forward balances, and American Recovery and Reinvestment Act (ARRA). In FY12, only the block grant will remain, requiring the program to significantly cut back support services and cash benefits.

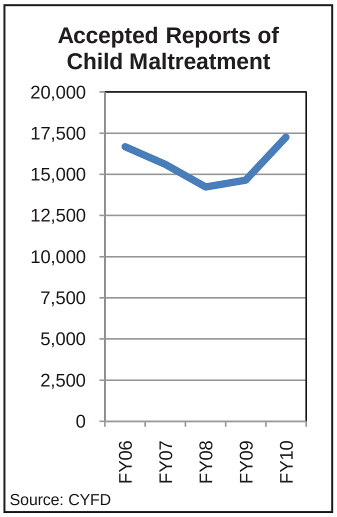
The caseload in the TANF program saw precipitous increases during the economic recession, and the TANF program began spending its fund balance and ARRA grant funds at a faster rate than projected. The TANF caseloads began increasing in January 2008 and hit 20,768 in August 2010, a 49.9 percent increase from January 2008. With about 2.5 persons per case, 52,750 New Mexicans received TANF assistance in August. Caseloads likely will remain high until the economy begins producing new jobs.

The caseload growth and recession have begun impacting the reported work participation rates of TANF clients, with fewer families meeting the job requirements in FY10 than in FY09. Continued decline in these rates could jeopardize funding due to federally imposed penalties.

Child Protective Services. Research shows a correlation between increased rates of child maltreatment and economic downturns, when at-risk families are the most vulnerable to the stresses resulting from decreases in income, job loss, and housing issues. Along with increases in caseloads, the department has noted more complex child welfare cases. These cases involve families whose children are diagnosed with disabilities, parents who are incarcerated, and families lacking adequate housing. Between January 2010 and November 2010, CYFD received 137 reports of fatalities or serious injuries to children. The number reflects only injuries and fatalities reported to the department.



Source: LFC Files



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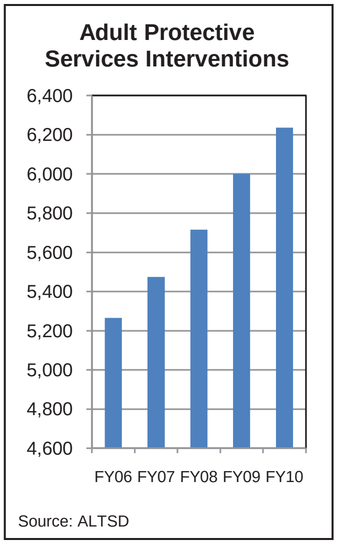
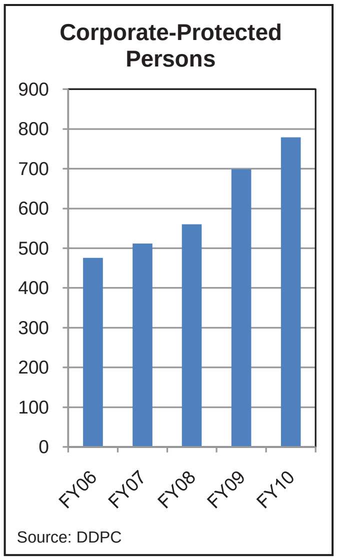




Many states are looking for innovative ways to cope with the increase in cases of reported child abuse, focusing on better ways to use staff and community resources. One method is the differential response, also known as the alternative response, which allows protective service workers to consider factors such as the type and severity of the reported abuse, age of the child, and willingness of the parent to participate in services. Sixteen states have enacted legislation to either start a differential response approach or create a pilot project. Differential response and best practices of other states should be considered to address the growing caseloads in protective services.

Adult Protective Services. The Aging and Long-Term Services Department (ALTSD) Adult Protective Services (APS) program provides services mandated by state law on behalf of persons age 18 years or older. Services include investigation of reports of abuse, neglect, or exploitation; protective placement; caregiver services; and legal services, such as filing for guardianship or conservatorship.

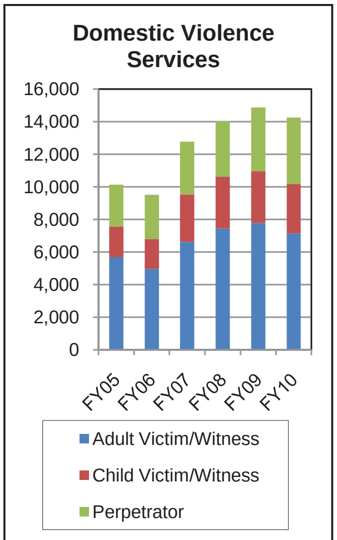
APS reports the number of interventions for FY10 at 6,236, up 203 cases, or 3.1 percent, from FY08. This caseload has increased over the past five years at an approximate rate of 4 percent a year. ALTSD attributes part of the increase to the economy, which has resulted in greater risk of abuse, neglect, and exploitation for the older age population. Of the older population, the majority of calls are for self-neglect, such as poor hygiene and nutrition; of all calls, 47.2 percent were for self-neglect, 23.1 percent for neglect by others, 16.8 percent were for exploitation, and 12.5 percent for abuse. The number of cases requiring response in 24 hours also increased to 12.4 percent, up 2.2 percent from FY09. Immediate responses have a significant impact on the program because of the high vacancy rate of over 11 percent. The program received 158 requests for legal assistance, of which 47 cases were referred to the Office of Guardianship for services.

Adult Guardianship. A corporate guardian is appointed by the state to assist individuals in managing his or her legal and personal affairs. This program is administered by the Developmental Disabilities Planning Council (DDPC). Currently, 779 individuals are receiving guardianship services from the state and, as is true with other social programs, the demand is growing faster than revenues to support it. Requests come from APS, court-ordered placements, clients receiving services for developmental disabilities, and mental health referrals.

The FY11 general fund appropriation of $3.4 million resulted in a waiting list of 40 cases for guardianship services. DDPC is currently only serving emergency cases and estimates the need for these services at 84 additional slots in both FY11 and FY12.

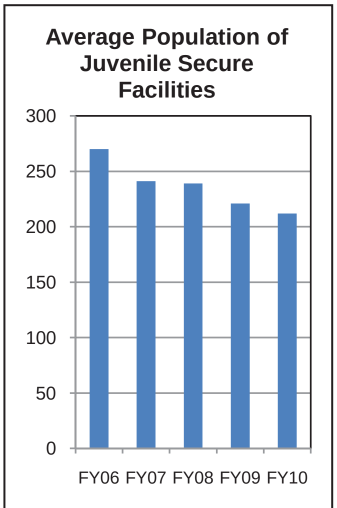
Domestic Violence. Domestic violence programs in New Mexico are funded with general fund appropriations, federal Family Violence Prevention and Services Act grant, and the offender treatment fund. The funding maintains programs to prevent family violence and to provide immediate shelter and assistance to victims of family violence and their dependents. The Legislature appropriated $11.2 million in FY11 for domestic violence services. However, due to further reductions in TANF funding, it is estimated the funding will be reduced by $2 million, bringing total funding to $9.2 million for FY11.

With reductions to domestic violence services, data becomes critical to assess and prioritize statewide needs. New Mexico does not have a national incident-based reporting system (NIBRS) for domestic violence but the Department of Public Safety collects incident-based data through the state criminal justice information system, with 75 percent of law enforcement agencies currently reporting incident-based data on domestic violence. New Mexico is currently in the testing phase of NIBRS, which began in August 1996. The available incident-based data on domestic violence should be used to in allocating funding for domestic violence services.



Source: CYFD

Juvenile Justice. CYFD has fully implemented Cambiar New Mexico at the J. Paul Taylor Center and Youth, Diagnostic and Development Center (YDDC) and projects it will complete training at the Camino Nuevo facility by the end of 2010. CYFD is working on aligning after-care services with the Cambiar NM model for juvenile offenders reintegrating back into their home communities. Each secure juvenile facility has a transition coordinator that assists with the release plans. The department also requires Juvenile Community Correction providers to focus on life skills training. The department will have new performance measures in FY12 to assist in evaluating the effectiveness of Cambiar New Mexico, including measures of the percent of clients with improvement in reading on standardized pre- and post testing, percent of clients with improvement in math on standardized pre- and post testing, and number of physical assaults in juvenile justice facilities.



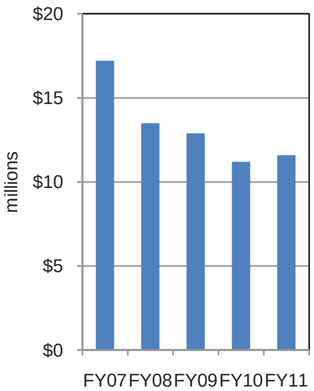
Source: CYFD

Master Plan for Cambiar NM. In May 2009, RicciGreene Associates/Wilson and Company was awarded the contract to develop a facility master plan for implementing Cambiar NM statewide. The master plan was completed in August 2010; it establishes a four-phase implementation plan. The plan divides New Mexico into four regions (central/northeast, northwest, southeast and southwest) and recommends building five new facilities over the next 17 years. The master plan also includes a second scenario for building a facility in central New Mexico and closing secure juvenile facilities in Albuquerque. It is estimated the cost to implement the four phases will be $100 million to $150 million.

Workforce Services. New Mexico saw a job loss of 9,900 between August 2009 and August 2010. The record high number of unemployed New Mexicans who need unemployment insurance (UI) benefits and assistance in obtaining new employment has greatly impacted the Workforce Solutions Department (WSD).

Workforce Training. The federal Workforce Investment Act (WIA) of 1998 replaced the Job Training Partnership Act with a goal of

Workforce Investment Act Funding: FY07-FY11



Source: WSD

strengthening coordination among various employment, education and training programs. WIA allows 85 percent of the state's WIA grant funds to be allocated to local workforce boards to provide adult, dislocated worker, and youth services. The local boards oversee WIA funding that provides individual training for adults and dislocated workers, adult and dislocated worker on-the-job training, and youth programs.

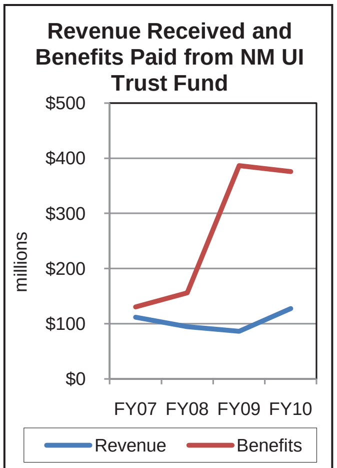
Workforce training services exist in several state agencies, creating problems with coordination and duplication of services. The Human Service Department contracts with New Mexico State University and others to operate the New Mexico Works program. The program is funded through the TANF block grant and is designed to help TANF clients find and retain jobs. Although targeted on a specific set of clients, these work training programs may be similar to those of WIA. The Division of Vocational Rehabilitation also provides work training programs. Some of the WIA services are duplicated by Wagner-Peyser, Adult Basic Education, and adult literacy programs. WSD could request a waiver from the U.S. Department of Labor (DOL) to become a single service delivery area and reduce the number of regional boards. This would assist in making the WIA programs more efficient and would give WSD the ability to better coordinate WIA and Wagner-Peyser Act services at the workforce connection centers statewide. Declining state revenue makes it critical for state agencies to streamline workforce training services and eliminate duplication. State agencies have the potential to leverage their workforce training funding to help increase employment, retention, and earnings for New Mexicans.

Unemployment Insurance Trust Fund. Employer taxes are collected by WSD and deposited in the federal treasury in the New Mexico UI trust fund. Three years ago the fund was among the most solvent in the United States, with a balance of $553.3 million. In the 2007 legislative session, the Legislature increased the average weekly unemployment benefit by $4 to $242 and increased the dependent allowance benefit by $10 to $25 for each qualifying child under the age of 18. Also, certain enhancement benefits enacted in 2003 were made permanent, including benefits for victims of domestic violence, full-time students, part-time workers, and military spouses.

Due to the high unemployment rate over the past two years, WSD has experienced an unprecedented demand for unemployment insurance benefits – paying $375.9 million in FY10 alone. The trust fund is declining at a rate of around $850 thousand a day. Laws 2010, Chapter 55, enacted the following statutory changes to address the declining New Mexico UI trust fund:

- Implementing unemployment insurance contribution increases effective January 1, 2011, through December 31, 2011;
- Eliminating the state UI trust fund and transferring fund balance of approximately $107 million to New Mexico's UI trust fund for payment of benefits; and
- Discontinuing the temporary increase to the weekly benefit amount enacted by Laws 2009, Chapter 97, changing it from 60 percent to 53.5 percent of the average weekly wage.

The estimated revenues to the New Mexico's UI trust fund from the changes to statute are approximately $133 million for FY11. However, even with the additional revenues, WSD projects the trust fund will have a negative balance by August 2011. If the UI trust fund becomes insolvent, New Mexico will be required to take out a loan with the U.S. DOL and employer taxes will automatically go from schedule 1 to schedule 6 at an estimated average yearly cost of $512 per employee, an increase of $298 per employee. In the 2011 legislative session, the new administration and Legislature will need to evaluate whether adjustments are needed for employer contribution rates and UI benefits to address the depleting fund balance.



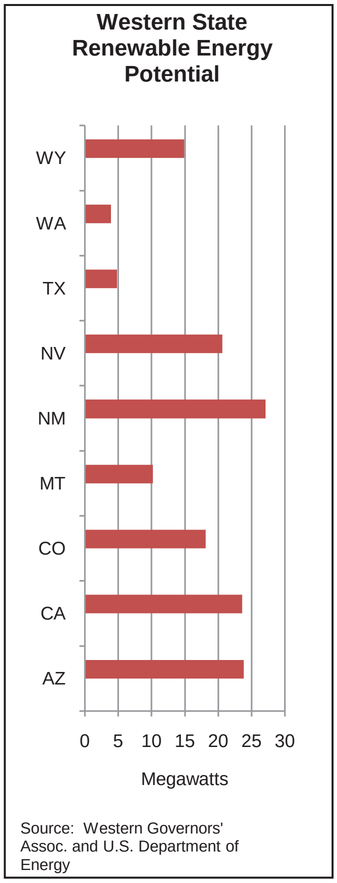
Source: WSD

Unemployment Overpayments and Fraud. WSD's benefit accuracy measurement program determines accuracy of paid and denied UI claims. The department is required to randomly sample 480 UI claims each year to determine whether payments complied with the laws and policies of New Mexico. Based on the random sample, U.S. DOL estimates total overpayments for all states. The following two rates are reported for overpayments of UI benefits:

- Annual – includes all possible fraud, non-fraud recoverable and non-recoverable overpayments; and
- Operational – includes those overpayments the states are reasonably expected to detect and establish for recovery.

New Mexico's annual rate of overpayments is $97 million and the state's operational rate of overpayments is $22 million. WSD noted the high annual rate is due in part because New Mexico is a "warning" state, meaning individuals who fail to report work-search results are given a warning and, on a second instance, lose UI benefits. To address the problem of UI overpayments and fraud, consideration should be given to rule and statutory changes, such as penalties and interest assessed on UI overpayment or fraud, authority to add cost of collection, and elimination of the initial warning for failure to report work search results.

Natural resource and environmental issues remain high profile topics. Often concern is centered on the priority of these areas compared with other citizen needs, such as health care or public safety. Finding balance for the many important areas of government is a continuing challenge.



Renewable Energy Potential. New Mexico is generally considered an area with great opportunity for renewable energy supply. A June 2009 joint initiative of the Western Governors' Association and the Department of Energy reported New Mexico as the western state with the highest potential renewable-energy-generating capacity, 27,000 megawatts. New Mexico's capacity is approximately evenly divided between solar and wind with over 13,000 megawatts each and the 1,000 balance attributed to geothermal and biomass potential.

A recent Los Alamos National Laboratory analysis identifies nine likely renewable energy development zones and forecasts potential development from 2015 to 2030. Seven of the nine are categorized as wind zones with a total generating capacity of 4,890 megawatts and two solar zones with a capacity of 310 megawatts. The report estimates if this level of capacity is developed by 2030, New Mexico could expect creation of 25,000 temporary and permanent jobs and receive total tax revenues of near $73 million. New Mexico's primary utility, Public Service Company of New Mexico (PNM), has a total generating capacity in the range of 2,500 megawatts, apparently adequate for the entire state. PNM's mandated 20 percent renewable systemwide energy requirement by 2020 means only 500 megawatts is necessary. So, as these renewable projects come on line, the product must be exported. New Mexico lacks adequate transmission capability to connect the nine likely zones to an export hub, and this may be the greatest barrier to the state's renewable energy development. The Los Alamos report estimates that upgrading existing transmission lines and adding over 800 miles of new transmission lines could cost $1.3 billion. For infrastructure costs at this level, financial viability is a prerequisite to further development, and this is ultimately dependent on consumer rate levels.

Water Supply. Recently it was reported that the Rio Grande "went dry" just south of Albuquerque. The southwest United States, including New Mexico, has been subject to dry conditions for many of the past 10 years. However, the Palmer drought index, a common source of drought information, reports New Mexico currently has no short-term drought conditions and approximately 25 percent of the state is unusually to very moist (primarily based on soil conditions). But, even under these modestly favorable conditions, the Rio Grande was very low in Albuquerque and without running water in some places below Albuquerque.

This situation is not uncommon at various points along the stream in the middle Rio Grande, particularly from Los Lunas to Elephant Butte. Such an occurrence would be even more common without the co-operation of several governmental entities with overlapping responsibilities and authorities that may theoretically be at odds with each other but whose common interests frequently outweigh the differences. These agencies coordinate to manage the river and its reservoirs from Heron Dam to Elephant Butte during the irrigation season for multiple purposes. One of the purposes is to meet certain river flow targets to maintain compliance with a U.S. Wildlife Service (Service) biological opinion. The biological opinion provides endangered species protections to ensure adequate Rio Grande water.

The entities involved in coordinating Rio Grande water flow are the U.S. Fish and Wildlife Service (Service), the U.S. Bureau of Reclamation (Reclamation), the U.S. Bureau of Indian Affairs (BIA), the Corps of Engineers (Corps), the Middle Rio Grande Conservancy District (MRGCD), the Albuquerque/Bernalillo County Water Authority (Water Authority), the New Mexico Interstate Stream Commission, and the New Mexico Office of the State Engineer.

Under the biological opinion, when river flow at Central Avenue in Albuquerque drops below 100 cubic feet per second (cfs), a complex response is triggered among the entities. One hundred cfs is the threshold which the Service established in the biological opinion as the minimum needed for the endangered silvery minnow to survive in the Albuquerque reach of the river. This entity calls on the Bureau of Reclamation (Reclamation) to exercise its responsibility to find water to meet that and other flow targets. Reclamation has been a prolific purchaser of San Juan Chama (SJC) water to fulfill this responsibility. The water is stored in upstream reservoirs, including Heron, El Vado and Abiquiu.

When river flow drops to levels that might affect the Service flow target of 100 cfs at Central Avenue, the Water Authority is obligated to reduce and ultimately quit drawing native Rio Grande water from the river. The Water Authority then must increase pumping from the underground aquifer to supply the municipality, which creates space in the aquifer ultimately replenished by Rio Grande water, making the river even more vulnerable to future low-water conditions. And, watching over the entire process is the N. M. Interstate Stream Commission and various water masters, hoping to ensure delivery to Texas, comply with applicable Office of State Engineer permits, and simultaneously protect the interests of New Mexico water rights holders.

The description is simplified but reveals the complexity of delivering water in this one situation. While all entities have responsibilities to their constituents, none has absolute authority to control the process. The common interest is to prevent creating an extreme imbalance that would lead to one entity forcing a court-ordered allocation that in the end may not benefit anyone. It is a tenuous relationship requiring continued if strained cooperation among diverse entities. Any extended drought conditions could result in the collapse of the house of cards.

Greenhouse Gas Policy. In November 2010, the Environmental Improvement Board (EIB) adopted rules by a four to three vote to reduce global warming pollutants through a regional cap-and-trade program. The program will consist of mandated emission standards (cap) that allows a firm to meet allowances by either reducing emissions directly or by purchasing excess credits generated by firms that reduce beyond their allowances (trade). It will apply to sources that report emissions of 25,000 metric tons (mtons) or more of carbon dioxide (CO_2) equivalent per year under the companion reporting rule 20.2.300 NMAC. Facilities in the program are required to reduce emissions 2 percent annually, and NMED would distribute allowances equally to the

Greenhouse Gases include:

- Carbon Dioxide (CO_2)
- Methane (CH_4)
- Nitrous Oxide (N_2O)
- Hydrofluorocarbons
- Sulfur hexafluoride
- Perfluorocarbons

WESTERN CLIMATE INITIATIVE PARTNERS & OBSERVERS

number of tons under the cap for each year. The program will start in 2012 provided sufficient market size of 100 million metric tons (mtons) greenhouse gases within the Western Climate Initiative (WIC), a group of seven states and four Canadian provinces that joined forces in 2007 to implement a cap-and-trade system. At this point, California is the only other state on schedule to begin implementation in 2012.

Economic Impact of Cap-and-Trade. The primary concern of implementing a cap-and-trade program in New Mexico prior to federal standards is that it would significantly increase energy costs to local producers, businesses, and consumers without having any measureable effect on GHG emission reduction and possibly drive business out of the state. On the flipside, the *Wall Street Journal* reports that businesses such as wind-turbine makers would benefit from a CO2 emissions cap because it would make alternatives to coal and oil more cost-competitive.

At least two estimates of the potential costs of compliance with the cap-and-trade proposal have been presented to EIB. One study concluded compliance costs would have minimal effects on the state's economy by the year 2020 and under some scenarios showed positive impacts when the policy was designed to grant rights to emit CO2 without charge to the current emitters prior to implementation of cap-and-trade. A second study by NMED found a small positive impact to the New Mexico economy if the WCI were implemented. The primary reason for positive impacts in both studies is reduced costs of businesses and households due to energy savings.

Results of these two studies were challenged in testimony from Tristate Generation and Transmission, Inc. The testimony argued that many of the economic benefits in both of the other studies are due not to the cap-and-trade policy but rather to other "complimentary" policies assumed to be implemented in addition to cap-and-trade. The specific elements of the cap-and-trade policy assumed in the studies do not match those being recommended by NMED. However, Tristate Generation and Transmission, Inc. testimony did not provide its own estimates of the impacts of cap-and-trade. It concluded the estimates provided in the other two studies would not be a reliable basis on which to make a decision about the proposed regulations.

According to two reports, maintaining status quo would also have economic impacts. The Natural Resource Defense Council contends that, if present trends continue, the annual cost of global warming for the U.S. alone may reach 3.6 percent of gross domestic product (GDP) by the end of this century. A Sandia National Laboratories report estimates the average risk of damage to the U.S. economy from climate change is on the order of $1 trillion over the next 40 years, with losses in employment equivalent to nearly 7 million full-time jobs. To put these estimates in perspective, total GDP over the next 40 years is likely to be $2,000 trillion, so the Sandia estimate of impacts comprises about 0.05 percent of total GDP. For comparison, in today's economy that translates into about $8 billion nationwide. Although not insignificant, given the uncertainty in these estimates, and their relatively small magnitude, the economic impacts of global warming are probably not one of the most important areas of concern.

Water Quality. Approximately 80 percent of New Mexico's population depends on groundwater for drinking water. The state yields an average of less than 15 inches of precipitation annually. While the water supply in some areas of the state is renewable, many communities rely solely on nonsustainable groundwater aquifers. In general, groundwater quality is good; however, New Mexico does not have a full ambient groundwater quality monitoring program; therefore, it is impossible to estimate the volume of water that has been contaminated.

The primary groundwater quality protection program is the groundwater discharge permit program authorized by the Water Quality Act (74-6-5 NMSA 1978). Facilities that discharge wastewater in a manner that has potential to contaminate groundwater are required to operate under permits issued by NMED or the Oil Conservation Division. Known sources of groundwater contamination include septic tanks, dairies, mining, petroleum storage tanks, urban runoff, public and private wastewater treatment plants, food processing operations, landfills, and chemical spills or leaks. The groundwater discharge permit program has been largely successful in protecting groundwater supplies. However, budget and staffing shortages in recent years have delayed permit issuance and limited regulatory oversight.

NMED estimates New Mexico has approximately 7,000 miles of perennial rivers and streams and approximately 175 freshwater publicly accessible lakes with total annual stream flow averages of over 5.7 million acre-feet. NMED implements several primarily federally funded programs intended to assess the condition of and improve the quality the state's surface waters. NMED's assessment of monitored surface waters revealed approximately 39 percent of stream miles and 64 percent of lake and reservoir acres do not meet water quality standards. Most impairments result from degraded watersheds and nonpoint or diffuse sources of pollutants caused by grazing, degraded forests and rangelands, malfunctioning septic systems, construction activities, stream bank degradation, roads, recreational activities, urban storm water run-off, and resource extraction. The state has had to issue fish consumption advisories for 28 lakes and reservoirs and three rivers due to elevated concentrations of various contaminants including mercury, dichlorodiphenyltrichloroethane (DDT), and polychlorinated biphenyls (PCBs). A significant threat to the future of the state's surface water quality program is the reduced capacity of the State Laboratory Division to analyze water quality samples collected by NMED.

Groundwater Contamination Examples

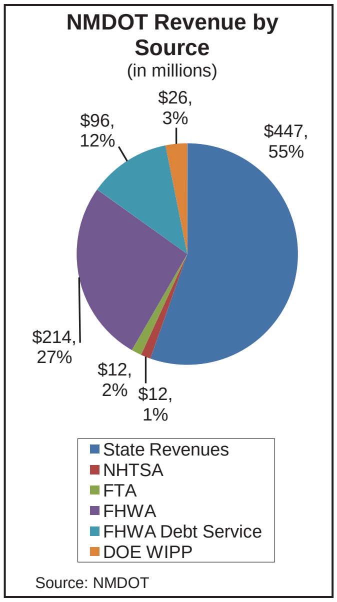
Kirkland AFB Fuel Spill- one of the largest groundwater pollution problems in the state with half-mile of fuel floating on the water table and contamination dissolved in the water extending a mile toward Albuquerque Water Utility Authority's Ridgecrest Wellfield.

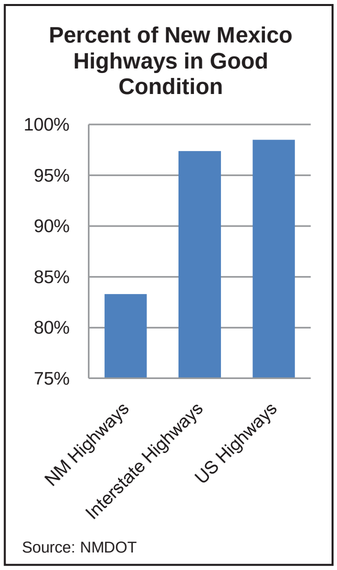
Grants Mineral Belt- liquid wastes from legacy mining and milling operations discharged directly to the alluvium. The extent of contamination is unknown but at least one subdivision has been forced to abandon wells, and they are now hooked up to the Milan water system.

Las Cruces Griggs and Walnut Plume– contaminated with perchloroethylene. Four municipal drinking water supply wells are currently impacted and one well was taken out of service.

Dairies- groundwater has been contaminated beneath at least 50 dairies. For example, 4,000 acre-feet of water has been contaminated in Artesia, and nitrate concentrations are at least 20 times the state water quality standard. Nitrates can result in blue baby syndrome.

Transportation





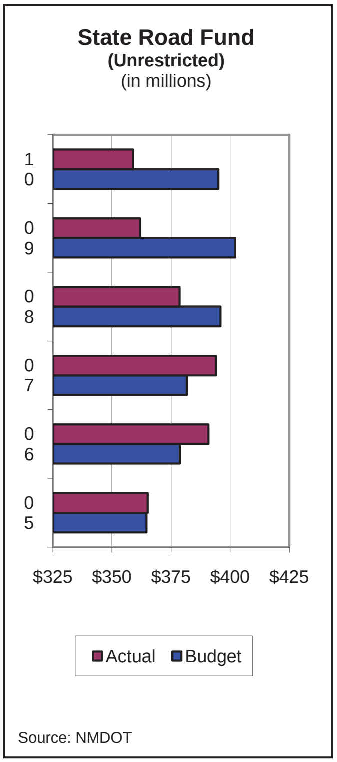
After a decade of solid improvement, uncertain levels of transportation program revenue raise serious questions about New Mexico's capacity to maintain and build the physical infrastructure on which its economic welfare and prosperity relies. Forecasts suggest flat federal funding and marginal increases in state funding over the next several years. A shortage of sufficient revenue streams and debt service capacity means routine maintenance and repair of our roads, highways, and bridges will be deferred in the immediate future. State roads through rural communities are especially vulnerable to this trend. However, the challenge is not just maintaining the existing roads, highways, and bridges. It also entails responding to current and future demands for an enhanced transportation infrastructure that mitigates congestion and facilitates movement. Emphasis should be placed on developing a coherent strategy that identifies viable alternative revenue sources and establishes realistic spending priorities for transportation initiatives.

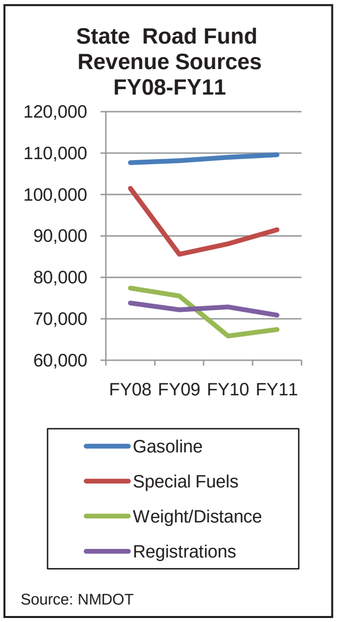
Federal Funding. The existing authorization for federal surface transportation programs provided by the Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFETEA-LU) expired on September 30, 2009, and the prospects for re-authorization remain problematic. Legislation has become increasingly complex as states compete for federal resources in a constrained budget environment. This has led to paralysis in Congress on appropriate next steps for transportation policy. As a result, transportation programs will almost certainly continue to operate on the basis of authority provided in continuing resolutions or extensions.

Highway Trust Fund. Established by Congress in 1956, the HTF is the principal mechanism for funding federal highway programs. Administered by the Federal Highway Administration (FHWA) within the Department of Transportation (DOT), the HTF channels approximately $33 billion in funding to states for highway and other transportation-related spending. In FY11, New Mexico received approximately $349 million of HTF funding.

In the five previous reauthorizations of federal transportation programs, federal fuel taxes and other sources of revenue dedicated to the HTF provided states with increased funding on an annual basis. Beginning in 2008 this was not the case. The economic recession and high gasoline prices affected both commercial and private driving habits, which caused a sharp decrease in fuel tax revenues. The account balance dropped more rapidly than expected – outlays exceeded receipts by $10.4 billion – and required an immediate replenishment to remain solvent. Further replenishments by Congress may be required, but the current budget environment makes that option politically difficult.

State Road Fund. Revenue associated with the state road fund (SRF) is categorized as either restricted or unrestricted. Restricted revenue is typically earmarked for special purposes, such as aviation, traffic safety programs, and grants to local governments. Unrestricted revenue, such as motor vehicle registration fees, fuel taxes, and asset sales, support the bulk of the activities associated with maintenance and operations of the state's highway system. SRF revenue has declined substantially in recent years but forecasts suggest a very slow recovery in FY12 and the following fiscal years. As a result, the state will have to make difficult decisions about which projects to fund. With 30,446 lane miles to maintain, there is no definitive answer to how that funding will be effectively and efficiently allocated for competing construction and maintenance needs.





<u>Construction Program Plans.</u> The Statewide Transportation Improvement Program (STIP) is a five-year federally mandated plan for the state's highway construction and rehabilitation programs and is substantially supported by HTF disbursements in accordance with the provisions within SAFETEA-LU. In recent years, the STIP plan has been incrementally altered through amendments by the State Transportation Commission (STC). This has significantly hindered efforts to prioritize funding needs through engineering analysis.

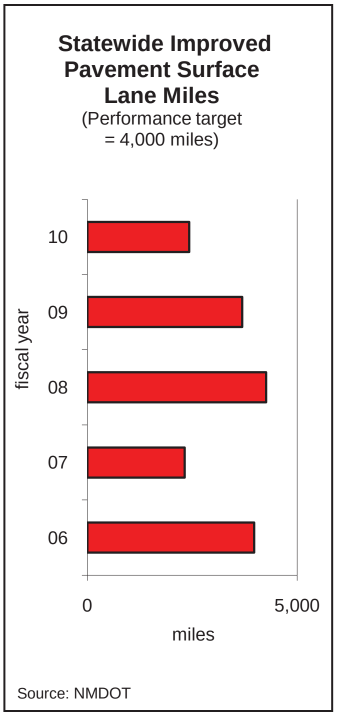
Governor Richardson's Investment Partnership. In 2003, the Legislature increased transportation-related taxes and fees to support the state road fund and authorized the New Mexico Finance Authority (NMFA) to issue $1.585 billion in bonds over an eight-year period to fund 37 transportation projects, including commuter rail in the Interstate 25 corridor. Debt service for these bonds comes from the increased revenue streams passed in the 2003 special session and the state's existing dedicated federal and state transportation revenue sources. In 2008, the Legislature increased GRIP funding by over $53 million to address the inflationary impact of a 30 percent increase in construction materials.

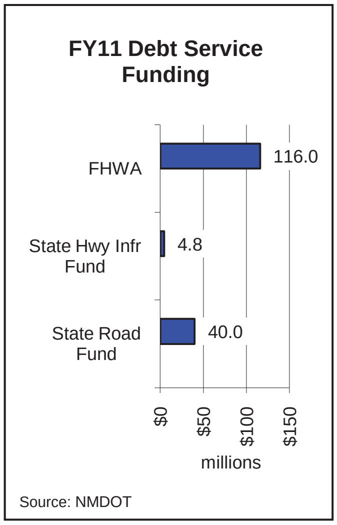
On August 26, 2010, the NMFA approved the sale of $200 million of GRIP bonds to retire a Bank of America line of credit. The line of credit had been used to provide low-cost, short-term financing for GRIP projects. According to NMFA staff and financial advisors, the cost of funds at 2.19 percent was the lowest rate in the history of the bond market. The net available to NMDOT was $200 million.

On September 23, 2010, with State Transportation Commission concurrence, the NMFA authorized the sale of $437.2 million in bonds to refund fixed rate bonds issued at higher interest rates. According to NMFA, the refunding represents a net present value debt service savings of $22.4 million. More than $1.3 million in bonds have been issued to date; $260.4 million remains unissued.

Shortfalls in SRF revenue will delay the issuance of the remaining $234.6 million in bonds authorized by the GRIP legislation, indefinitely deferring 19 additional transportation construction projects worth at least $391 million in the state.

GRIP II. In 2007, the Legislature identified 116 specific local government highways and road construction projects totaling $180.4 million that would compete for a limited amount of state funding. To





date, $110.4 million in both general fund and severance tax bonds were authorized. As of June 30, 2010, $90.7 million has been deposited in the fund. Awards for the funding are prioritized by NMDOT based on the availability of a required match and the readiness of the locality to proceed to bid.

NMDOT certified 86 projects as funded and ready to proceed with completion by January 2012. As of September 30, 2010, 51 projects have been completed, 12 projects are under design, and 23 projects are under construction. Approximately $75.2 million has been expended.

Local Transportation Infrastructure Fund. In 2005, the Legislature created a revolving loan fund within the Local Transportation Infrastructure Act to assist local entities with low-cost financial assistance for transportation projects. The fund is capitalized by 50 percent of funds received by NMFA for administration of GRIP I bonds issued by the authority on behalf of NMDOT. Loans and grants made to entities are based on a prioritized list submitted to NMFA by NMDOT. Local governments are allowed to use the funds as the matching requirement for local transportation projects. However, entities have had more interest in "grants" rather than loans. As a result, the issuance of bonds by the authority has not been exercised.

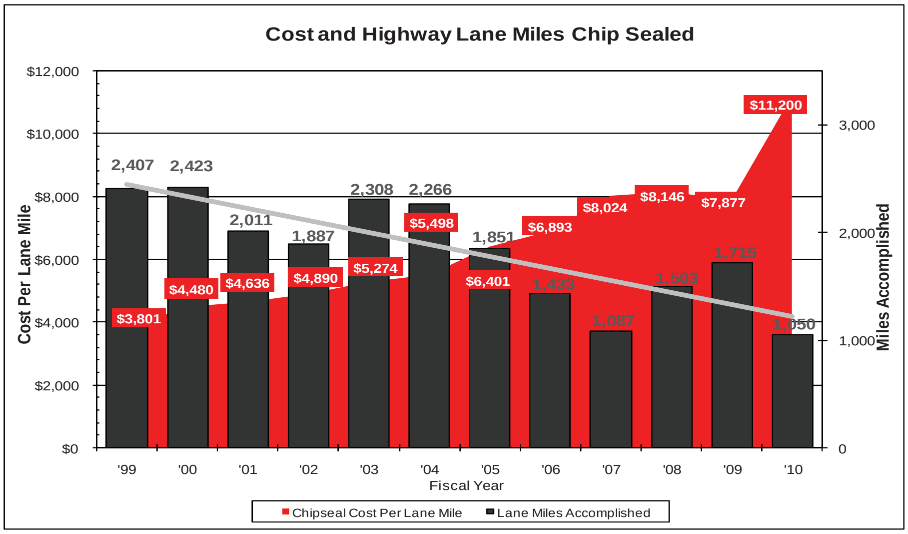
In the 2009 legislative session, House Bill 308 authorized NMDOT to distribute up to $1 million per calendar year from the local government road fund to municipalities and counties that can demonstrate financial hardship for use as all or a portion of the municipality's or county's matching fund. Funding in excess of the $500 thousand could be funded through the local government road fund with the balance being funded through local transportation infrastructure fund.

As of October, 2010, NMFA has transferred nearly $6.4 million for LTIF projects, and grants for 20 projects have been allocated with a total cost of $4.2 million; $2.1 million remains uncommitted.

America Recovery and Reinvestment Act. Congress passed ARRA in February 2009, and to date, over $252.6 million has been spent on highway infrastructure projects in New Mexico. The majority of these projects have been focused on pavement preservation and rehabilitation or complementing existing projects pursued through the SRF.

Highway and Bridge Maintenance. Routine maintenance consists of intensive activities designed to preserve the condition of New Mexico's highways, roads, and bridges. NMDOT is currently projecting a gap in routine maintenance of $184 million in FY10, affecting key activities such as pavement preservation, chip seal, drainage work, striping, bridge maintenance, and equipment repair.

Chip Seal Program. The chip seal program is a major component of NMDOT's maintenance program because it prolongs the life of roads and highways. Costs have increased 150 percent and output has decreased to about 40 percent of the desired outcome. This represents a current annual gap of $16.2 million.

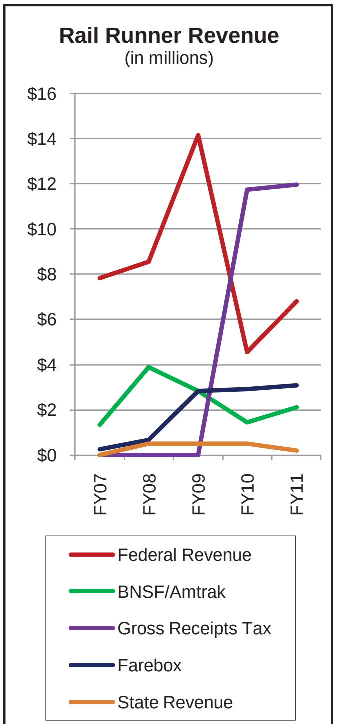


Rest Areas. A predicted shortfall of over $1.2 million in revenue budgeted for contract maintenance of New Mexico rest areas prompted NMDOT to consider a plan to barricade, downsize (close the restroom facilities), or permanently close and then demolish 10 rest areas in the state, primarily those in close proximity to large population centers. NMDOT has suspended these plans for the immediate future.

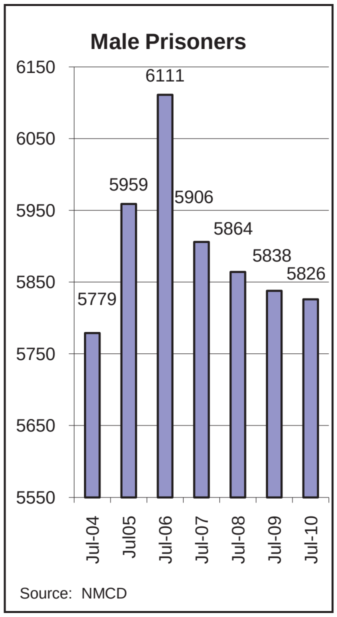
Regional Transportation Districts. In 2003, the legislature authorized the creation of regional transit districts (RTD), the core purpose being to provide an alternative for individuals who because of their age, physical or mental ability, financial status, or personal inclination are unable or unwilling to use single occupancy vehicles for daily activities. There are currently four certified RTDs in New Mexico: the North Central RTD (NCRTD), the Rio Metro TRD, the Southwest RTD (SWRTD), and the South Central RTD (SCRTD). NCRTD, Rio Metro, and SCRTD receive both federal and state funds for operation; SCRTD receives state funds. Voters in the North Central RTD and Rio Metro areas passed gross receipt tax measures in 2008 to fund transit programs in their areas.

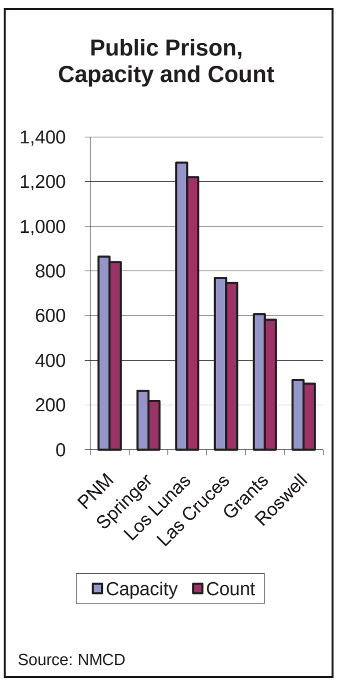
Rail Runner. Rio Metro's year-end unaudited final report indicates the Rail Runner had a surplus of $254,481 in FY10. This will be rolled over as revenue into the FY11 budget. Ridership on the Rail Runner is currently down 15 percent for the months of September 2010 when compared with September 2009. Federal revenues through the Congestion Mitigation and Air Quality Improvement Program have been the primary source of funding for the Rail Runner, and the potential elimination of these funds in FY13 could place a significant burden on the state. Because the Rail Runner is an enterprise operation, transition plans that will remove the need for government funding entirely should be developed by the Legislature.

Park and Ride. New Mexico Park and Ride is an inter-city service designed to mitigate traffic on the state's highways and provide cost-effective alternatives to the state's commuters. After a peak ridership level of 370,315 in FY08, numbers declined to 316,220 in FY09 and then to 258,086 in FY10. The target level for ridership set by NMDOT is 225,000.



Source: MRCOG





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 for law enforcement and incarceration. However, limited state revenues have created significant fiscal pressures, including housing state inmates, providing adequate supervision of offenders in the community, and competitive recruitment and retention of state police officers. Still, New Mexico citizens expect public safety agencies to have adequate resources to accomplish the goals of crime prevention and public protection.

Prison Population. In June 2010, the New Mexico Sentencing Commission (NMSC) presented its FY11 population forecast to the New Mexico Corrections Department (NMCD). The report is designed to assist NMCD in assessing the immediate and future resident population of the department. Forecasting provides the NMCD with data regarding future prison populations based on current policies and procedures. When those policies and procedures are changed or when external factors change (i.e. numbers of arrests, amendments to sentencing laws, number of felony charges filed in district courts), projections of prison populations may also change.

The total New Mexico inmate population on June 30, 2006, reached a high of 6,803 and by May 2008 the population dipped to 6,361. This represented a 6.6 percent drop in the prison population over a two-year period. At the request of the Legislative Finance Committee, NMSC prepared a paper to explain possible reasons for this downturn in the prison population and, generally, attributed the decline to two factors: more nonviolent and drug offenders were being released than being admitted into prison, and violent offenders were being admitted and released at the same rate. NMSC looked at four additional factors which together may have affected the New Mexico prison population reduction: diversion for technical violators, parole in the community, the earned meritorious deduction law that allows sentence reductions, and felony drug courts.

As of July 2010, NMCD had a total of 6,408 inmates, 5,826 males and 582 females. The men are housed in nine facilities, six publicly and three privately operated. The location, residential capacity, and current population for each facility is shown in the graphs. The sidebar graph shows New Mexico's male inmate population dropping over the past six years. The female population also has declined but is only about 10 percent of the male total. Consequently, relative changes in the male population result in a greater impact of the overall inmate cost.

Private Prison Facilities Cost. The private facilities principally provide the space for level III classification male inmates. Public facilities have 464 level III beds with 442 occupied, a utilization rate of 95.3 percent. Approximately 2,460 level III men are in private prisons. With the public level III beds essentially full, additional inmates at this classification will generally be housed in a private facility. All female inmates are housed at the private New Mexico Women's Correctional facility in Grants. The occupancy for this facility hovered at 98 percent at the end of FY10 and capacity may be exceeded. The cost for these prisoners is determined by a contracted per diem rate.

According to a recent NMCD report, private prisons housed 45 percent of the total inmate population and public facilities 55 percent. On a comparable date a year ago, the percents were 44 and 56 respectively. By comparison, nationally, from 2000 to 2005, the percent of inmates in private facilities increased from 16 percent to 23 percent. NMCD is managing the inmate population to minimize the private prison cost that adds to the predominately fixed public facility infrastructure cost. However, the New Mexico prison system has become dependent on private contractors due to the limited public space to house level III prisoners. The cost of the private prison contracts are about $68 million annually.

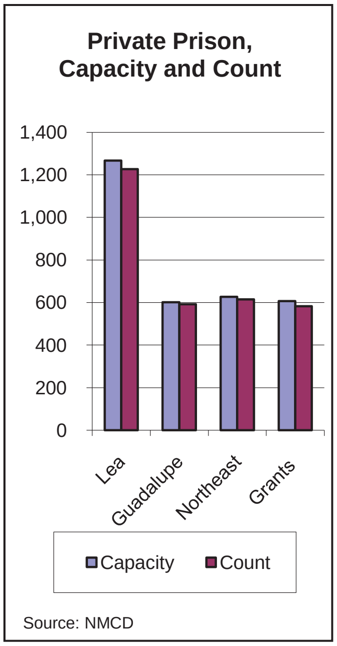
New Mexico Corrections Department
Average Costs of Inmate/Non-Custodial Clients
Based upon FY08 Actual Expenditures

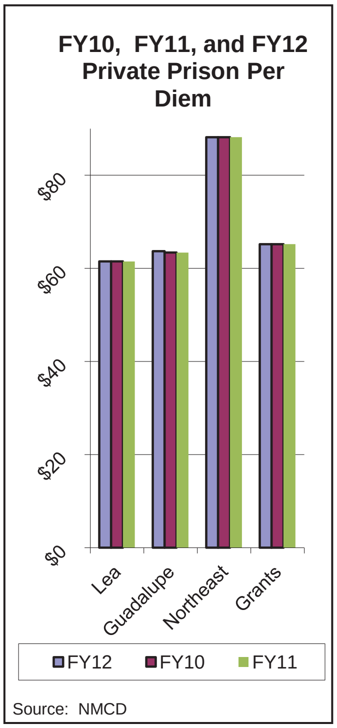
Institution / Program	Cumulative Average Population/ Caseload	Average Annual Cost Per Inmate/ Client-Slot	Cost Per Day (dollars)
Penitentiary of New Mexico	862	$ 52,292	$ 143.27
Western New Mexico Correctional Facility	377	52,185	142.97
Southern New Mexico Correctional Facility	723	44,641	122.31
Central New Mexico Correctional Facility	1,300	39,050	106.99
Roswell Correctional Center	313	27,468	75.25
Springer Correctional Center	112	87,051	238.50
Total Department Operated Facilities	*3,687*	*$ 45,060*	*$ 123.45*
Private Prisons (Females)	587	$ 34,183	$ 93.65
Private Prison (Males)	2,185	29,853	81.79
Total Privately Operated Facilities	*2,772*	*$ 30,770*	*$ 84.30*
Total All Facilities	***6,459***	***$ 38,928***	***$ 106.65***
Non-Custodial Options			
Community Corrections	917	$ 3,684	$ 10.09
Residential Treatment Center Programs (Females)	54	$ 35,869	$ 98.27
CC Residential Treatment Center Programs (Males)	83	$ 17,629	$ 48.30
Probation & Parole (Less Intensive Supervision)	19,304	$ 1,412	$ 3.87
Intensive Supervision Program	336	$ 4,601	$ 12.60
Total Non-Custodial	***20,693***	***$ 1,719***	***$ 4.71***

Source: NMCD

NMCD private prison contracts specify required staffing patterns of facilities, including penalties for facilities with vacant positions over 30-60 days (depending on the type of position) and not manning mandatory posts. Vacancy information and potential penalty amounts should be calculated by NMCD on a regular basis and, where appropriate, penalties enforced to preclude unnecessary general fund expenditures.

Early Release To Reduce Population. In October 2010 the New Mexico Sentencing Commission (NMSC) issued a study estimating the number of prisoners possibly eligible for early but controlled release from prison. Early release is authorized in Sections 33-2A-1 to 33-2A-8 NMSA 1978, the Corrections Population Control Act, provided they have never been convicted of a felony offense involving a firearm. In addition, offenders convicted of any violent or sex crime and drug





"While the New Mexico Corrections Department is providing programming designed to return its prisoners to the community as productive, law abiding citizens upon the completion of their sentences, the department does not believe that the early release of prisoners is in the best interests of the public or public safety."

Source: NM Sentencing Commission

trafficking were omitted along with inmates in higher custody levels or with parole violations. The data are extracted from the confined file, which contains information on 6,277 inmates confined on August 27, 2010. The findings note a total of 402 offenders are eligible for early controlled release between the dates of October 1, 2010, and September 30, 2011.

The Pew Charitable Trusts report *One in 100* offers the following two strategies to help reduce prison costs: (1) reduce prison admissions through front-end sentencing and diversion initiatives, such as drug courts and community corrections alternatives to prison, and through back-end inmate population management procedures such as parole violation sanctions and interim residential housing rather than re-incarceration; and (2) reduce prison length of stay through aggressive early release based on successful behavioral health treatment, education accomplishment, or similar criteria. These options should be considered and applied where appropriate.

Medical Contract. In FY11, NMCD and the new administration will be required to issue a request for proposals (RFP) on a new medical contract that would provide medical, dental, and psychiatric care for NMCD inmates. The current medical vendor for inmate care is Corrections Medical Services, which is in its fourth and final year of its agreement with NMCD. Under the FY11 contract, the state pays a fee not for each inmate but a flat fee of $41.5 million for basic services for up to 6,779 inmates. With add-ons for certain pharmaceuticals and tax, the total jumps to $47.3 million. If the inmate population reaches the maximum number, the annual cost per client is $7 thousand. This is for comprehensive care with only a few exceptions, such as hepatitis (a common and serious ailment among the prison population) and human immunodeficiency virus/acquired immune deficiency syndrome. In comparison, single health coverage for a New Mexico state employee is approximately $5.2 thousand annually with an additional $2 thousand maximum out of pocket expense. To preclude unnecessary general fund expenditures, NMCD should initiate meaningful and consistent record-keeping and maintain continual communication with the new contractor, particularly with respect to off-site specialty care.

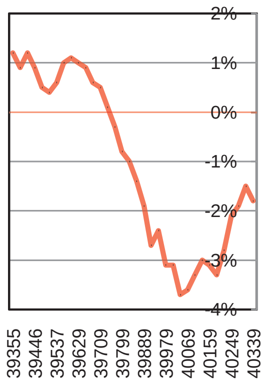
State Police Staffing. State Police were at an authorized strength of 605 before 37 vacant positions were eliminated from the executive request in the 2010 legislative session. This results in an authorized strength of 568 officers. The department was at 537 on January 1, 2010; however, since that time, 35 officers have left, 25 of which, the department indicates, have gone to other police agencies due to salary incentives. This results in current officer strength of 502, as of September 2010. The recruit school scheduled to begin in October will start with between 22 and 25 officers if all who have been accepted begin training; however, the department anticipates that no more than 15 officers will graduate from the school at the end of March.

The agency has received two discretionary federal stimulus awards from the governor. The first award of $150 thousand is to help law enforcement officers stop and prosecute illegal cockfighting and dog fighting and respond to animal hoarding cases. The award will support an investigator, training, and a field manual for officers across the state. The second award of $1 million is to support the purchase of 11 new police cars and pay for additional fuel for the State Police fleet. However, despite the additional funding, the department expects to lose 10 additional officers between by December 31, 2010, and another 10 officers between January 1 and March 31, 2011.

New Mexico's economic development programs have been challenged during the economic recession and financial crisis. Employment levels have fallen to near record lows while jobless rates have reached near record highs.

As evidenced in the 2009 LFC report *Survey of Economic Development Initiatives*, New Mexico has spent hundreds of millions of dollars over several years on tax incentives and economic development grants without a statewide plan or an economic development brand and with limited coordination among agencies and programs. Development enticements that granted cash or rebates masked the state's weak economic development foundation.

Over-The-Year Job Growth

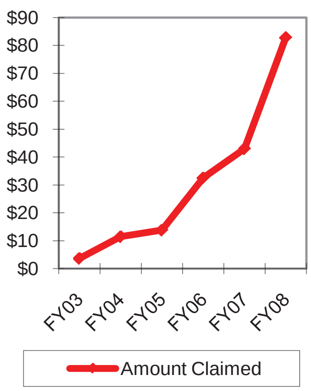


Source: Workforce Solutions Department

Job Growth and Loss. New Mexico's economy has underperformed most neighboring states and the United States overall, where signs of a recovery are beginning to show. The number of jobs lost has risen beyond 50,000 since December 2007 and continues to increase. The rate of job loss has slowed recently and, during FY10, over-the-year job loss measured through June 2010 reached 14,200, or a negative 1.8 percent. Over the year, only two sectors added jobs – the education and health services sector and the leisure and hospitality sector, while 11 other sectors experienced continued losses.

Unemployment. The level of unemployment continued on an upward trend to 8.2 percent at the end of June 2010, compared with 7.1 percent a year ago. In comparison, the national rate of unemployment of 9.5 percent in June was down from a peak of 10.2 percent during the year.

Total Business Incentive Tax Credits Claimed
(in millions)



Source: Taxation and Revenue Department

Development Incentives. State and local tax incentives, grants, and low-interest financing offer businesses the opportunity to reduce risk while encouraging targeted economic development. Many states, including New Mexico, have increased their use of targeted economic development incentives in recent years. New Mexico enacted most of the current tax incentives within the last 10 years. Currently, New Mexico offers about 20 targeted economic development tax incentives – also referred to as tax expenditures. In total, economic development tax expenditures are projected to reduce general fund revenues by $104.6 million in FY12, with film production credits accounting for $70 million, or 67 percent, of the total. Of the remaining 19 incentives, nine are each expected to have a fiscal impact of less than $200 thousand.

Tax Credits Claimed in 2009
(in millions)

Film	$76.7
Renewable Energy	$24.5
Technology Jobs	$6.0
Rural Health Prac.	$5.2
High-Wage Jobs	$14.4
Investment	$11.6
Lab Partnerships	$2.5
Other	$1.5
Total	$142.4

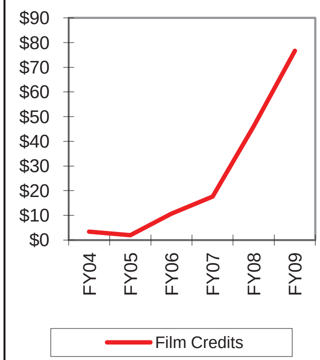
Source: TRD

Another set of development incentives, centered on a renewable energy cluster, aim to encourage alternative energy production, conservation, and manufacturing. New Mexico offers about 12 energy related tax incentives, and again one credit dominates the cluster. The renewable energy production credit accounts for $20 million, or 77 percent, of the projected $26 million expected to be distributed in FY12.

Targeted incentives may provide a relatively low-cost means of making the state a more attractive place for new investment, but often tax incentives have unintended consequences, or place a greater burden on those not directly benefiting from the incentive.

Film. While most states offer some sort of film incentive, few match New Mexico's generous 25 percent rebate, loans with 0 percent interest, and subsidized training programs for production crew through the Job Training Incentive Program (JTIP). In the early years, film projects were typically small, low-budget productions or independent films. As the industry grew larger, big-budget productions dominated – several were Oscar-nominated films. Today the film industry is seeing longer series television productions and movie productions returning to the state to film sequels. To grow local film production, the Film Office sponsors conferences and competitions with grants and awards to local screenwriters, filmmakers, film shorts, and documentaries.

Film Production Tax Credits
(in millions)



Source: Taxation and Revenue Department

Media Fund. Hoping to build and entrench the film culture and industry beyond his term, the governor awarded $1.1 million from capital outlay funds that were appropriated to the media fund. The awarded funds will support the fledgling academic programs for film production at several of the state's colleges and universities. Funds will be used to purchase equipment, expand existing curriculum, and expand outreach to high school students.

In addition, the governor allocated $1.75 million of federal discretionary stimulus funds for renovation and construction at Los Luceros for the Milagro Film Institute; a new training center focused on Native American and Hispanic filmmakers modeled after the Sundance Institute. The operating budget for Milagro will be supported with annual transfers of $150 thousand from the Department of Cultural Affairs and $120 thousand from the Film Office.

Tax Increment Development Districts. FY10 saw the approval of bond issuance for another tax increment development district (TIDD), bringing the total in the state to three and a significant increase in gross receipts tax distributions for TIDDs. In addition, the Legislature had previously authorized the issuance of $500 million of revenue bonds for Mesa del Sol, $164 million for Quorum/Winrok, and $8 million for the Las Cruces TIDD for road construction. In addition to state GRT, this project has been dedicated a portion of local GRT and property tax. The Legislature was not asked to approve bonds for the Suncal TIDD because the developer was forced into bankruptcy by the collapse of the real estate market. Mesa del Sol issued their first bond, in the amount of $3.6 million, in October 2009. The stated purpose of the proceeds was for reimbursement of public infrastructure.

Tax Increment Development District GRT Distributions	
Quorum/Winrock	$12,274
Mesa del Sol	$640,614
Las Cruces	$717,933
Total	$1,370,821

Source: TRD

Job Training Incentive Program. JTIP subsidizes wages for classroom and on-the-job training for businesses that create new jobs. A qualifying business can receive reimbursement of 50 percent to 75 percent of employee wages. One-third of the available funds is reserved for rural, frontier, and distressed areas and up to $2 million may be allocated to film and multimedia companies. Up to $1 million may be prioritized for training in "green" industries. After receiving $5 million from the

New Market Tax Credit Program Projects (in millions)	
Schott Solar	$15.5
Savoy Travel	$16.5
Hotel Parq Central	$13.8
Pros Ranch	$13.5

Source: EDD

Unfunded Economic Development (in millions)	
Spaceport	$7.5
Schott Solar	$2.0
Fidelity	$2.5
Hewlett Packard	$6.0
Signet	$5.0

Source: EDD

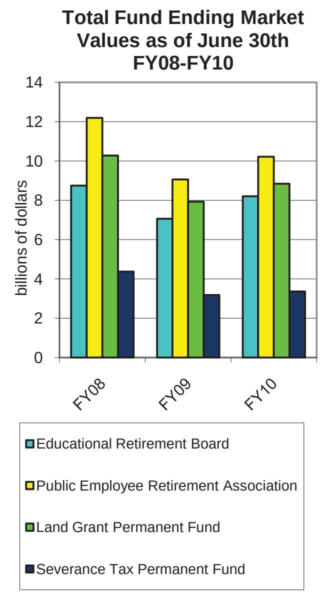
Legislature in 2010 and combining unobligated and de-obligated fur the program was able to grant $11.9 million for 35 projects, including nine in rural communities. These obligated funds are projected to help create 1,172 new jobs. The average wage of the newly created JTIP jobs was $22.44 per hour.

Smart Money. The Smart Money Loan Participation Program provides low-cost financing for economic development projects that create jobs in rural and underserved communities. To reduce the risk associated with financing a project, the New Mexico Finance Authority (NMFA) partners with a bank, allowing businesses the opportunity to receive lower interest rates than would otherwise be the case. Through September 2010, NMFA had allocated $6 million to six projects. The Legislature in 2009 authorized a $5 million general fund balance "swap" with severance tax bond capacity; however, the authorization was vetoed by the governor, leaving a balance of $1 million for future projects.

New Market Tax Credit Program. New Mexico was awarded $110 million of federal tax credits to help generate capital for economic development projects in rural and underserved areas. NMFA created Finance New Mexico, a community development entity (CDE) organized as a limited liability company, for the purpose of receiving and distributing the federal new markets tax credit (NMTC) from the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) program. The NMTC program essentially sells federal tax credits to an investor to raise a pool of cash then purchases an equity stake in the emerging business. This financing mechanism generates "up front equity" to reduce the business' risk to a level such that a conventional loan can be obtained from a bank. Once the business is established, the financing is unwound, allowing the business to seek refinancing. Through September, four projects have been financed and another is expected to be approved by January 2011, leaving a balance of $35 million for additional projects.

Spaceport America. Construction of the world's first purpose built commercial spaceport continues in the desert of Sierra County. A dedication ceremony was held on October 22, 2010, for the completed runway. The dedication was marked with a visit from Virgin Galactic founder Sir Richard Branson and a fly-over and landing of the newly developed WhiteKnightTwo and SpaceShipTwo. The final bid package for phase one construction – related to information technology and communication – was issued in October. Substantial completion of the terminal hangar facility (THF) is expected by March 1, 2011, with Virgin Galactic and the Spaceport Authority taking possession of the building and completing tenant-specific build-out by fall 2011. Meanwhile, Virgin Galactic will continue test flying the spaceships for the next 12 to 18 months. Once licensed by the Federal Aviation Administration, Virgin Galactic expects to launch one flight per month from the New Mexico Spaceport.

Events have converged over the last few years to highlight the need for improving the state's management of its permanent funds. While legislative efforts targeting key policy issues have so far been successful – such as increasing transparency of third-party marketers and improving governance of the State Investment Council – more remains to be done to ensure best practices for institutional funds are implemented to encourage good governance, optimize returns at acceptable risk, and restore public trust that the funds are being effectively and ethically managed. In particular, actions to improve the deteriorated funding status of the pension plans appear essential now that the impact of prior-year investment losses is being more fully recognized. Given the severity of the decline, the pension plans appear unsustainable without additional pension reform that reduces the unfunded obligations.



Source: Agency Investment Reports

Performance Overview. The state has two permanent funds, the land grant permanent fund (LGPF) and the severance tax permanent fund (STPF), and two public pension plans, the Public Employees Retirement Association (PERA), and the Educational Retirement Board (ERB). After suffering record investment losses in FY09, these funds posted double-digit percentage gains for the fiscal year ending June 30, 2010. Aggregate fund value increased by $3.4 billion, or 12.5 percent, including contributions and distributions as well as investment returns. Three primary factors contributed to the positive performance: the return to more normal financial markets for most of the year, improved manager execution, and higher allocations to alternative asset classes and fixed income opportunities that in general performed well.

Asset Values
For Year Ending June 30, 2010
(in millions)

Annual	ERB	PERA	LGPF	STPF	TOTAL
Ending Asset Values	$8,179	$10,214	$8,846	$3,367	$30,635
Value Change	$1,117	$1,157	$918	$188	$3,408
Percent Change	15.8%	12.8%	11.6%	5.9%	12.5%

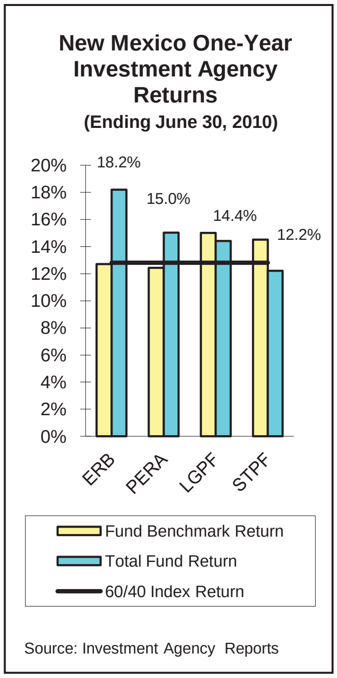
Source: Investment Agency Reports

The increase in market values for the permanent and pension funds appears encouraging. However, when compared with the aggregate high of $38.6 billion attained in 2007, the funds still have ground to recover from losses sustained during the 2008-2009 financial markets meltdown. Despite first quarter gains, returns required to restore fund values might not be achievable in the near term, given the headwind presented by the uneven economic recovery and continued market volatility.

Impact on Long-Term Returns. While the pension funds expect to earn 8 percent over the "long run," the permanent funds' assumed return is 8.5 percent. However, the positive one-year returns were not sufficient to overcome market meltdowns during 2001-2003 and 2008-2009, and even 15-year averages stubbornly remain below these targets. Many experts are questioning the rate-of-return assumptions for public plans in light of new market dynamics, lower inflation, and lackluster economic forecasts.

Securities Lending

Some agency returns presented in this report reflect impacts stemming from their securities lending programs. The Public Employees Retirement Association wrote off a realized loss in the second half of FY10 of $70 million. The State Investment Council had written off its entire unrealized losses of $322 million at the end of FY09 and is now showing some recovery in the portfolio as the underlying assets regain value.



The STPF failed to beat the 60/40 Index, a hypothetical passive portfolio of 60 percent equities and 40 percent fixed income that returned 12.6 percent for FY10. The underperformance appears to be due to the allocation in economically target investments (ETIs) that have dragged down performance for a number of years. The expectation was that the economic development generated by the investments would more than make up for their loss of market returns. However, the economic impacts of this program have not been substantiated.

Five-Year, 10-Year and 15-Year Returns*

Fund	Five-Year	10-Year	15-year
ERB	3.9%	2.6%	6.6%
PERA	1.29%	3.6%	7.23%
LGPF	2.2%	2.2%	6.5%
SGPF	1.4%	1.5%	6.0%

Source: FY10Q4 Investment Reports

*The most relevant time period for the permanent funds for general fund distributions is the five-year period while ERB and PERA both emphasize longer term performance.

Performance Evaluation. While important, "absolute" measures of fund performance – such as reported returns and changes in fund values – are incomplete by themselves. Comparative measures that show how funds performed against certain benchmarks as well as within peer groups yield additional means of gauging outcomes.

Peer Comparisons. ERB's 18.2 percent return placed the fund in the second percentile of its peer group for FY10, with only one other fund doing better. PERA results also placed in the top quartile of its group of U.S. public funds from a one-year performance standpoint, representing a substantial turn-around from last year's low ranking in the 93rd percentile, and can be attributed primarily to better active management.

Peer Percentile Rankings

Fund	1 Year	5 Year	10 Year
ERB	2	10	72
PERA	23	97	69
LGPF	39	83	79
STPF	58	93	86

However, ERB still remains the only New Mexico fund to rank higher than 25th for the past five years; all other funds rank well in the last quartile of their peer groups for the five-year period. Longer-term, all funds fall in the bottom half of their peer groups, indicating that over this period the best performing funds had either differing plan structures that produced higher returns under various market conditions, such as holding higher allocations in U.S Treasuries during turbulent markets, or better performing managers.

One-Year Relative Performance Versus Benchmarks. Each fund devises a fund benchmark unique to its asset allocations. The difference between this internal benchmark (policy index) and the actual return is quantified in terms of "basis points" (bps), where one basis point equals 0.01 percent, and is a quick means of assessing how well a fund performed in relative terms during the related time period. Although all four funds reported substantial one-year gains, only ERB and PERA beat their policy indices – by 550 bps and 260 bps, respectively. This performance for the pension funds is a marked improvement over FY09, when both funds significantly underperformed their internal goals. Relative results for the STPF produced a final one-year 230 bps shortfall for that fund, primarily due to economically targeted investments.

Active Versus Passive Management. Managers are hired to actively manage asset classes with the expectation they will deliver higher returns than those achievable through merely placing assets in an index fund (passive management). The ability to add value (or "alpha") over a passive index is minimal in the more efficient markets, such as domestic large cap equities. In these instances, it may make sense to simply index the asset category, especially because active managers cost more. Thus, PERA has transitioned about a third of its portfolio to passive management, focusing active management where it has the best chance of adding alpha. ERB followed suit late in FY10 when the board fired U.S. large cap managers due to underperformance and indexed this asset class, a "best practice" for funds over $5 billion.

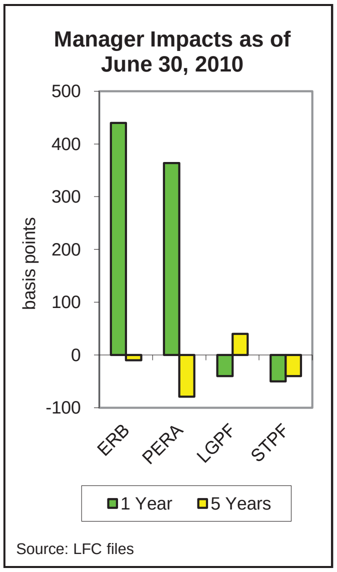
Manager Performance. In a reversal of prior years, PERA's managers delivered 364 bps of added value; only one firm fell more than 100 bps behind its benchmark in FY10 compared with seven in FY09. ERB's managers turned in 400 bps of outperformance for the fiscal year. As with PERA, hedge fund and fixed income managers significantly performed over their hurdles. Poor past performance, some of which resulted in terminations, continues to drag down the five-year manager impacts for both funds. In contrast to the pension plans, managers for the permanent funds did not create substantial returns relative to their benchmarks in FY10. Their underperformance is most visible in the U.S. small/mid cap equities and in real estate, where the funds underperformed benchmarks by 460 and 650 bps, respectively.

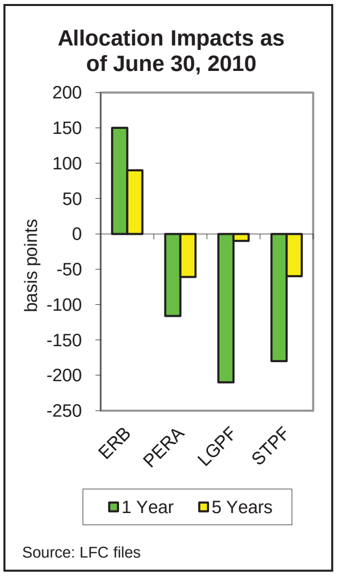
Allocation Attribution. One of the most important decisions the boards make is asset allocation, which is weighting each asset type in the portfolio to maximize the overall return with a given level of risk. Allocation attribution measures the impact from deviating from these target weightings. All plans have reduced – or are planning on reducing – exposure to equities by redeploying assets into alternatives to increase diversification. ERB, for example, has a long-term target of 32 percent for its alternative category. Because some of these alternative asset classes – such as private equity – take time to fully invest, lower interim targets are set and adjusted upward toward the long-term targets as the program matures. This practice ensures allocation impacts are not overstated in the meantime. See Volume III for current asset allocations.

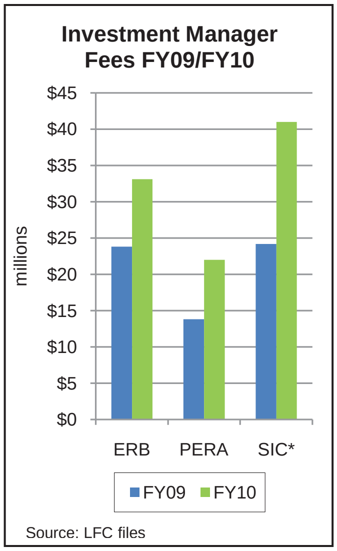
As an example of how board decisions can impact fund performance through allocation impacts, PERA missed the upswing in the emerging markets when the board fired an emerging markets manager and took several months to hire a new one. Also, the board's decision to reduce U.S. equity exposure mid-March 2009, right before the equity market started rebounding from its low, continues to detract from PERA's longer-term performance.

Implementing "Best Practices". All three agencies have been implementing selected recommendations from the Ennis Knupp evaluation performed in 2009. While most are policy-driven, one proposal to allow ERB and PERA to hire their own custody agents will require legislation. Both agencies note the report's conclusion that economies of scale arising from combining the funds are minimal

PERA's overall alternative composite, a combination of all the alternative investment returns, yielded 16 percent for the fiscal year, outperforming its benchmark by 435 basis points. Hedge funds contributed the most at 16.5 percent.







Custody Agent
Prior legislation that changed the governance for the State Investment Council (SIC) also allowed the SIC to hire its own custody agent, partly due to the complications of changing the fiscal agent for each manager in an investment portfolio.

Combined Fund Management
"For potential efficiencies to be realized, there must be some common elements in investment policy and consultants. This would facilitate the pooling of investment accounts where applicable - which offers the best potential for savings."
-NEPC Consultant Allan Martin

These savings may also be realized through requiring that all manager contracts contain a statewide declining marginal fee schedule that would automatically be applied as state assets were added under management by any of the funds.

because the funds already demand competitive pricing due to their size.

Governance and Procurement Practices. While Section 6-8-22 NMSA 1978 reduced the potential for pay-to-play transactions through greater disclosure of third-party marketing expenses, other means of influence-peddling remain possible. Even with the reduced power of the state investment officer implemented in Sections 6-8-2 through 6-8-4 NMSA 1978, the potential for undue influence remains for both the SIC and ERB. Additional measures to improve procurement oversight and governance may be warranted, including specified penalties for those who pervert the procurement process for their own ends. Banning firms found guilty in civil or criminal cases from doing business with the state, for example, may deter kickback schemes.

In addition, current board structures appear geared toward preserving current member interests rather than focusing on the long-term sustainability of the funds, particularly for PERA, where the absence of strong leadership to "look outside the box" for solutions to solvency issues is a concern. Replacing the ex officio secretary of state position with an independent member may broaden the board's view on how to meet current challenges with more innovative means.

Combined Fund Management. Given the historic fund declines and economic pressures on sponsor resources, the most prudent course may be to completely overhaul how the funds are managed. One option would be to combine the ERB, PERA and SIC assets under the same investment management. Potential savings, primarily through optimizing manager fee schedules and reducing consultants, could be significant. For example, ERB's consultant noted that one of the fund's managers would reduce its fee from 40 bps to 25 bps if additional state assets came under its management.

Perhaps even more significantly, better performance may be obtained from concentrating the state's assets in a single agency with investment professionals to carry out the boards' asset allocation strategies. It might be fast-changing markets require quicker responses than those achievable through monthly meetings and the protracted procurement process for traditional assets.

Pension Plan Solvency. Both ERB and PERA are mature plans with net cash outflows: employer and employee contributions into the plans are less than the pensions and expenses paid out of the plans. Thus, the funds depend on investment returns to keep the plans afloat. The growth in retirees and changing demographics, where people are living longer, makes the dynamic even more critical going forward.

*Impact on Pension Solvency***.** Despite gains for FY10 about twice the required 8 percent assumption, both plans show weaker funded ratios – indicators of plan solvency that compare plan assets to pension obligations. Absent offsetting gains, this negative trend will continue for some time as the substantial FY08-FY09 losses are "rolled in" the actuarial calculations.

Three-Year Trend of Funded Ratios FY08-FY10

Fund	June 30, 2008	June 30, 2009	June 30, 2010
ERB	71.5%	67.5%	65.7%
PERA	93%	84%	78.5%

Source: Pension Valuations

*Unfunded Accrued Actuarial Liability***.** In general, realizing returns less than the assumed long term rate of 8 percent adds to the plan's unfunded liabilities (pension obligations). The upward trend in these unpaid pension promises is alarming. Once valued under $1 billion, PERA's unfunded accrued actuarial liability (UAAL) had climbed to $3.4 billion as of June 30, 2010. ERB's UAAL stands at $4.9 billion for its FY10 valuation.

Funded Ratio and Funding Period. Having 80 percent of these obligations covered by assets (funded ratio) has traditionally been viewed as a minimum industry indicator of fund health. Neither plan meets that basic metric. In addition, both plans go far beyond the recommended period of time to pay off the UAAL of 30 years established by the Governmental Accounting Standards Board (GASB). ERB's funding period has stretched to 62.5 years and PERA's aggregate period is now infinite, meaning – given all assumptions holding true – the debt would never be paid off for all its plans.

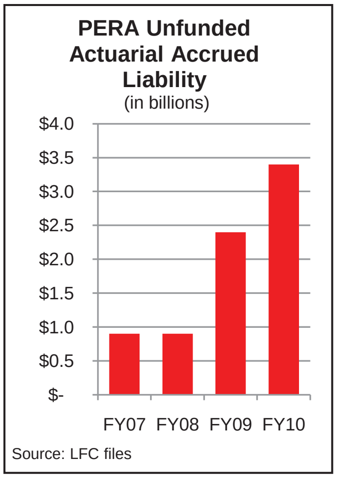
Pension Plan Reform. Due to concerns regarding pension fund solvency, Laws 2009, Chapter 288, (House Bill 573) increased the service requirement from 25 years to 30 years for new hires under non-uniform PERA plans and ERB. In addition, the bill created a 25-member task force to look at PERA, ERB and the Retiree Health Care Authority (RHCA) and recommend additional plan changes for the 2011 Legislative Session.

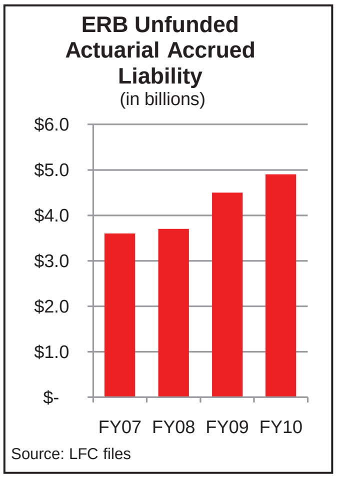
Retirement Systems Solvency Task Force. The Legislative Council Service hired Buck Consultants as an independent actuarial firm to advise the task force. While the firm offered valuable recommendations for improving current actuarial methods and assumptions for PERA and ERB, most importantly, the firm found both ERB and PERA failing actuarial measures of solvency. Further, the Buck analysis projects that PERA and ERB will run out of money by 2058 and 2039, respectively.

The task force relied solely on the ERB and PERA to present solutions. Based on a member survey, ERB detailed a preliminary solvency plan that quickly generated controversy because it affected current members as well as new hires. ERB's final proposal included changes the board feels necessary to make the plan sustainable. PERA presented new plan tiers for new hires, with reduced benefits and increased retirement qualifications for both non-uniform and uniform members. However, task force representatives of uniform members balked at increasing the required service to 25 years, noting their members had indicated a preference for higher contributions over benefit changes. Thus, PERA's proposed plan was not among the bills that the task force recommended to the Investment Oversight Committee to consider for adoption.

Pay-to-Play

Rules to mitigate "pay-to-play" investments were adopted by the Securities Exchange Commission, such as prohibiting campaign contributions within two years for managers. Proposed legislation for New Mexico goes even further, such as closing loopholes in the Procurement Code, expanding the Governmental Conduct Act, and requiring greater disclosure of all contributions and financial deals.





Contribution Increases. To address the significant UAAL of current members, PERA offered contribution increases of 8 percent (2 percent per year for four years) for five plans. The resulting total contribution as a percent of payroll would rise as high as 43 percent under this plan as noted in the sample chart below.

Plan	Current	Proposed	Fiscal Impact (1st 2% - FY12)
State General 3	24.01%	32.01%	$18.1 million
Municipal Fire 5/ Municipal Police 5	34.8%	42.8%	$2.2 million/ $3.9 million

It appeared that the task force "uniform" representatives were unaware of the size of the contributions being recommended by PERA's actuaries to put the plans on a path to solvency – or that the actuaries cautioned even 8 percent might be insufficient given funding needs. The municipal fire plan, for example, could need as much as an 11 percent contribution increase for a final 45.8 percent contribution rate. The ability of the plan sponsors to pick up any of the proposed increases is questionable, and asking the employees to pay the large increases impairs the ability of public employers to hire and retain qualified employees. Thus, it might prudent to consider other options to improve PERA's solvency and control costs.

Additional Plan Change Options for PERA. Options exist that could improve the funding status in a shorter time, close loopholes, and make the plan more affordable. For example, the cost-of-living adjustment (COLA) – set at 3 percent regardless of age or inflation – could be tied to a fund solvency threshold, such as an 80 percent funded ratio and 30 years amortization rate. An offsetting enhancement for active employees could raise the pension cap from 80 percent to 90 percent – which would reward employees to work longer. Conversely, benefits could be reduced for retiring before a minimum age, such as 60. Closing loopholes for pension spiking is also important. This occurs, for example, when a part-time employee finishes his or her career working full time and enjoys a pension based on the full-time, higher three-year average salary. A more actuarially-sound approach would be prorating the pension according to benefits earned under each plan. Finally, a minimum retirement age would help preserve retiree health benefits.

While these plan changes require an actuarial analysis to quantify the fiscal impacts, they strive to bring the PERA plans into better financial shape quicker and in a more equitable manner. According to a National Conference of State Legislatures report, 20 states implemented pension changes during 2010 to meet similar challenges faced by New Mexico. Some–like Colorado–have pending litigation challenging modifications for current retirees or vested employees. Shoring up defined benefit plans weakened by underfunding or investment declines, aligning benefits more realistically with demographics, reducing huge liabilities that may now show up on sponsor balance sheets and impair bonding, reducing costs – whatever the reasons – legislators across the country are struggling on the best approach to meet public pension obligations.

Retirement Systems Solvency Task Force

This task force recommended three bills to the Investment Oversight Committee (IOC):

- Delaying the two 0.75 percent ERB employer contribution increases due in FY12 and FY13 to spread over six years to FY17,
- Reinstating the $15 thousand salary exemption for the PERA return-to-work program, and
- Moving the contribution formula for PERA's judicial and magistrate plans from docket fees to the general fund.

Of these bills, IOC adopted the ERB employer contribution percent delay for sponsorship.

Contribution Shortfalls as of June 30, 2010

State General Plan - 6.67%
Municipal Police - 7.49%
Municipal Fire - 11.04%

These deficits have grown from a year ago and the actuary cautions that they will continue to grow as the investment losses from FY08 and FY09 are "smoothed" into their calculations.

New Mexico Constitution

While the New Mexico Constitution protects vested pensions as a property right, Section 22 (E) also specifies the following caveat: *Nothing in this section shall be construed to prohibit modifications to retirement plans that enhance or preserve the actuarial soundness of an affected trust fund or individual retirement plan.*

Retiree Health Care Authority. The Retiree Health Care Authority (RHCA) provides optional medical, dental, vision, and life insurance benefits to eligible retirees and their dependents. RHCA has 466 participating employers, including all state agencies, public school districts, 56 charter schools, 22 counties, 23 cities, and 10 institutions of higher education. Total enrollment as of September 30, 2010, is 42,740.

In 2007, a report evaluating the long-term trend and actuarial condition of the RHCA fund was presented to the Legislature. Most importantly, this report projected RHCA would become insolvent by 2014. In response, several solutions were identified and implemented. For example, the RHCA board increased premiums and reduced the subsidy provided to retirees. In addition, in 2009 the Legislature adopted several changes to the program including

- Increased employee and employer contributions to the program from 1.95 percent to 3 percent over a four-year period;
- Removed the sunset clause for a $3 million tax suspense fund distribution;
- Increased employee and employer contributions for employees in “enhanced retirement plans” from 1.95 percent to 3.75 percent over a four-year period;
- Required that retirees purchase service credit from RHCA equal to the actuarial present value when purchasing service credit from PERA and ERB; and
- Required that return-to-work employees and their employers contribute to the fund.

Subsequent Board Action. The RHCA board approved several changes to the program beginning January 1, 2010, as follows:

- Consolidated three-plan design model (gold, silver and bronze) into a two-plan design model (premium and premium plus);
- Increased premiums charged to retirees an average of 8 percent for calendar year 2010;
- Increased premiums charged to retirees an average of 8 percent for calendar year 2011; and
- Increased the annual out-of-pocket maximum on the premier plan from $3 thousand to $4 thousand effective January 1, 2011.

Despite the changes initiated by the Legislature and actions taken by the board, current and future retirees can expect to receive a subsidy in excess of the employee and employer contributions paid to the program over a 25-year period.

Actuarial Condition. With a UAAL of $2.9 billion, the RHCA program is expected to become insolvent by 2026 according to the updated long-term solvency analysis. Expenditures are expected to exceed all available revenue sources by $141 million per year. This analysis assumes the board will continue to increase premiums annually at an amount equal to medical trends, currently projected at 8 percent annually. In addition, the analysis assumes that payroll will remain flat through FY12 and grow 4 percent thereafter.

Retiree Health Care Authority

Plan Demographics	
Average Age	
Medicare Plans	73.3
Non-Medicare Plans	53.7
Population as a whole	66
Oldest Member	104
Youngest Member	Newborn
Gender Mix	
Female	58%
Male	42%

Source: RHCA

Per-Member-Per-Month Costs	
Non-Medicare	**$501**
Prescription	$89
Medical	$412
Medicare	**$303**
Prescription	$162
Medical	$141
Non-Medicare/Medica	**$391**
Prescription	$130
Medical	$261

Source: RHCA

Retiree Subsidy Levels	RHCA Pays	Retiree Pays
Pre-Medicare		
Retiree	65%	35%
Spouse	40%	60%
Dependent	0%	100%
Medicare		
Retiree	50%	50%
Spouse	25%	75%
Dependent	0%	100%

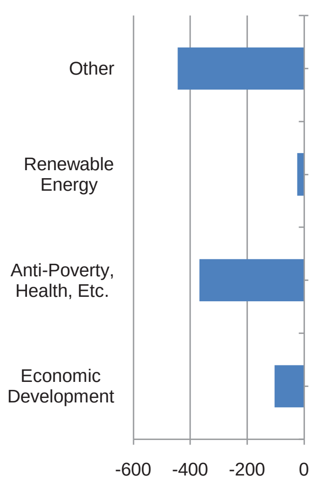
Source: RHCA

Tax Policy

LFC TAX POLICY PRINCIPLES:

Adequacy:
Revenue should be adequate to fund needed government services.
Efficiency:
Tax base should be as broad as possible and avoid excess reliance on one tax.
Equity:
Different taxpayers should be treated fairly.
Simplicity:
Collection should be simple and easily understood.
Accountability:
Preferences should be easy to monitor and evaluate.

FY12 Tax Expenditures
(in millions of dollars)



Source: LFC Files, TRD

In response to the sharp decline in state revenues, LFC conducted several hearings on tax policy subjects during the 2010 interim. One hearing addressed "tax expenditures," which were found to be reducing state revenues significantly, yet the state does not conduct a systematic review or evaluation of their effectiveness. At the August meeting, the LFC looked at healthcare tax policy, and heard a number of questions about whether tax policies are being properly coordinated with expenditure policy. A review of local government revenues found a lack of timely and comprehensive information with which to evaluate the adequacy of local revenues. Testimony on "progressivity" of the state's tax code suggested that, although some state taxes are regressive, other tax policies help to offset the problem. In addition, the spending side of the state budget is highly progressive, so the net effects of the state budget on many low-income households are likely to be progressive. The practice of "pyramiding" in the gross receipts tax (GRT) was reviewed. Although pyramiding contributes a large part of the GRT revenue, it might have deleterious consequences for the state's economy. On the issue of combined reporting for corporate income tax purposes, LFC heard that the state might want to consider requiring combined reporting, or adopting alternative policies to prevent tax avoidance. However, there are circumstances under which requiring combined reporting could create a disincentive for some companies to invest in the state's economy.

Tax Expenditures. The term "tax expenditures" refers to revenue foregone through tax reductions for individuals or activities that are intended to achieve some purpose of public policy. Tax expenditures can be an efficient means of targeting selected populations for benefits and also of influencing the decisions of private individuals to further the goals of public policy. However, in the current fiscal environment, a concern with tax expenditures is that the only way to control the outflow of revenue is to amend the statutes. In addition, the lack of performance criteria makes it difficult to determine whether the expenditures are achieving desired objectives. These arguments point to the need for a "tax expenditure budget," which would evaluate each of these programs to ensure that foregone public funds are meeting the intended goals with a minimum of waste.

The following table summarizes general fund impacts of tax expenditures by the general purpose of the provisions. Total revenue foregone in FY12 is estimated at $941.1 million. This table excludes a number of exemptions and deductions that are not really tax expenditures but rather are needed to prevent double taxation or to achieve other important tax policy goals.

Target of Expenditures	Number of Provisions	FY12 General Fund Impact ($millions)
Economic Development	20	($104.6)
Poverty, Health, Education	30	($367.5)
Renewable Energy	12	($24.5)
All Other	34	($444.5)
Total	**96**	**($941.1)**

Source: LFC calculations, TRD.

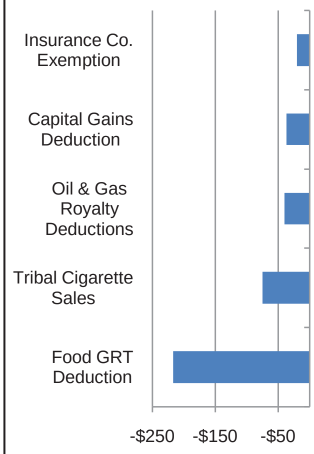
Economic Development. The film credit is the largest component in this category, accounting for $70 million. Almost all of the state's economic development tax expenditures have been created within the last 10 years. Many of the incentives have seen little activity. Such incentives may provide a relatively low-cost means of making the state a more attractive place for new investment. However, the state is seldom privy to all the information needed to determine how much incentive should be offered. In addition, targeted incentives create inequities within the tax code.

Anti-Poverty, Health Care and Education. Health care is targeted with $220.7 million of the total $367.5 million in tax expenditures in this category. The largest components are the insurance premiums tax credit for New Mexico Medical Insurance Pool (NMMIP) assessments ($77 million) and the GRT deduction for managed-care medical services ($75 million). The largest anti-poverty tax expenditures are the working families' tax credit ($45 million), the low- and middle-income personal exemption ($30 million), low-income comprehensive tax rebate (LICTR) ($24 million) and the food stamp GRT exemption ($20 million).

Renewable Energy and Energy Conservation. All of these tax expenditures have been created in the last 10 years. The largest is the renewable energy production tax credit at $20 million per year. Actual claims have been lower than this amount in recent years because some taxpayers lack sufficient "tax appetite" to use all of their credits. However, taxpayers can carry unused credits forward to future years, so $20 million is the total amount the state is promising for each year of operations by qualified power generators. Also, new projects are eligible for refundable tax credits so no liability is needed to use these credits.

Other Tax Expenditures. Of the total $444.9 million in tax expenditures in this category, $217 million, or 49 percent, is due to the GRT deduction for food sold for home consumption. This deduction is not primarily targeted at low-income families, because food stamp purchases are exempt from tax due to other provisions of law. The food GRT deduction is apparently intended to reduce taxation of necessities. This treatment is inconsistent, however, because the state taxes many of the necessities of life including income, property, energy use, etc. The fiscal impact on the general fund is compounded by the need to make hold-harmless payments to local governments of $100 million per year

FY12 General Fund Impacts of "Other" Tax Expenditures



Source: LFC Files, TRD

Model Tax Expenditure Reporting States:

1. Oregon
2. Minnesota
3. Connecticut

States that Do Not Regularly Report Tax Expenditures:

1. Alabama
2. Alaska
3. Georgia
4. Indiana
5. Nevada
6. New Jersey
7. New Mexico
8. South Dakota
9. Wyoming

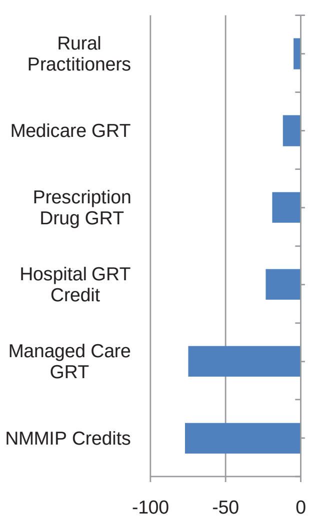
Average Tax Rate
(percent of retail price)

Gross receipts tax	7%
Motor vehicle excise	3%
Oil and gas taxes	8.5%
Hard minerals taxes	1% - 3%
Insurance premiums	3% - 4%
Liquor excise	7.5%
Cigarette	30%
Fuels taxes	6.6%

Source: LFC estimates.

New Mexico healthcare tax laws create a patchwork of different treatment in which taxes due depend on the type of service provided, the organizational form of the provider and the source of payment.

FY12 Healthcare Tax Expenditures
(in millions of dollars)



Source: LFC files, TRD

even though the state is not collecting any tax from food sales.

Exemptions and Deductions that Are Not Tax Expenditures. The broad-based nature of New Mexico's GRT means that many exemptions and deductions are needed to limit the tax base to something closer to the retail sales taxes imposed in most other states. These are not tax expenditures. Examples include deductions for goods and services sold to governments and nonprofit organizations. In addition, the broad base definition of the GRT would have the effect of creating double taxation, either within the GRT or when combined with income taxes and other sales taxes. Many exemptions and deductions are needed to prevent such double taxation. Examples include the exemptions for wages, dividends, and interest. These are not tax expenditures.

Tax Rate Differences. The concept of tax expenditure is not easily applied to differences in tax rates. In part this is because there is no generally accepted definition of the "correct" tax rate for a particular program. The usual approach is to compare one state's tax rates with rates in other states. This raises two problems: (1) Other states may define the tax base differently, for example, the GRT has a different tax base than most states' retail sales tax; and (2) Each tax plays a different role in each state's tax system, thus, a low tax rate on one tax may be offset by a high rate on another. Comparing tax rates between tax programs – for example the motor vehicle excise tax rate and the GRT rate – must also be adjusted for tax base differences. Finally, some goods like liquor and cigarettes are taxed at both the wholesale and retail level, so the combined effective tax on these items is larger than suggested by the wholesale tax rate alone.

Tax Expenditure Accountability. New Mexico, as part of the Accountability in Government Act (AGA), adopted performance based budgeting; however, tax expenditures were not a part of the AGA. Annual review of tax expenditures is necessary to ensure they are effective, equitable, and accomplishing their intended purpose. Measuring revenue that is foregone alongside performance goals could improve statewide resource allocation, allowing for reprioritization during difficult economic times.

Developing such a report will require that taxpayers provide more information than they do now and that the Taxation and Revenue Department be authorized to release the information.

Healthcare Tax Expenditures. Healthcare spending is a very important component of the state's budget. In addition to direct appropriations, the state is "spending" a large amount annually on tax exemptions, deductions, and credits for the healthcare sector. Although these policies are well-intentioned, they raise a number of concerns from the standpoint of good tax policy and efficient use of public monies.

Revenue Adequacy. These preferences have removed from the tax base one of the fastest growing sectors of the economy, limiting future revenue growth. Because healthcare expenses are a fast-growing part of state spending, the result is a double-squeeze from the health sector: slower revenue growth and faster spending growth. Also, unlike tax expenditures, direct state spending on health care could leverage federal Medicaid spending, dramatically increasing the bang for the buck.

Economic Efficiency. Tax preferences are not available for all healthcare payers and providers. Among providers, nonprofit operations have a number of benefits not available to for-profit operations. Government-run hospitals also enjoy tax-related financial advantages over for-profit operators. Among for-profit operators, some receipts are exempt from the gross receipts tax while others are not.

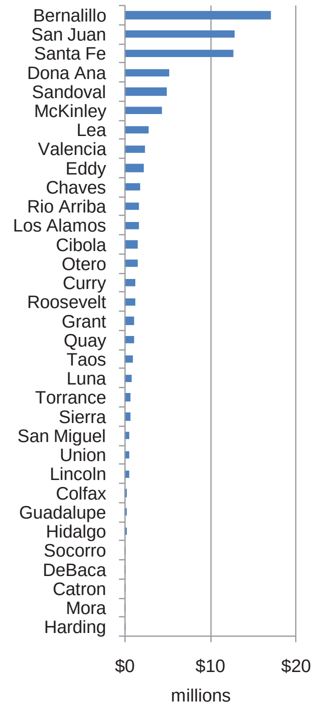
Equity. The uneven tax treatment of different providers and payers for health care means the system is unfair. Supporters of tax preferences sometimes argue a particular industry segment is constrained in its ability to pass on or otherwise escape the burden of taxation. Although the issue of tax shifting is an important one, the state usually lacks information needed to determine the merits of this argument.

Local Government Healthcare Revenue Policy. Local governments commit considerable resources to health care. Almost every county has adopted one or more local option GRT dedicated to healthcare spending. In addition, several counties provide support for local hospitals through their property tax. One question raised by these programs is whether they are being adequately coordinated with state-run programs, the Medicaid program in particular. Better coordination could lead to increased federal matching funds, thus leveraging state and local revenues and expanding services for New Mexicans.

County Indigent Funds. The Indigent Hospital and County Health Care Act authorizes counties to pay healthcare claims for indigent county residents. All but two counties in New Mexico participate in the program and have imposed the second one-eighth local option GRT increment. The act requires counties to report to the Health Policy Commission about its use of county indigent funds. Each county determines eligibility criteria – e.g., income limits – and the services that qualify for reimbursement. Where county programs pay for clients who are otherwise eligible for Medicaid or the State Coverage Insurance (SCI) program, there remains an opportunity to better leverage federal funds.

Sole Community Provider Program. A federal/state payment program, the Sole Community Provider (SCP) Program is designed to support hospitals that are the only hospital in a community. All hospitals in New Mexico qualify for this or similar programs with the exception of Albuquerque's privately operated hospitals. Each year, hospitals must negotiate with counties to provide the full matching share. In some years, not all counties have provided the full amount needed to draw down all the federal revenue. However, in the last few years, counties and hospitals have benefited from enhanced federal matching funds from the stimulus bill. These funds have reduced the amounts counties

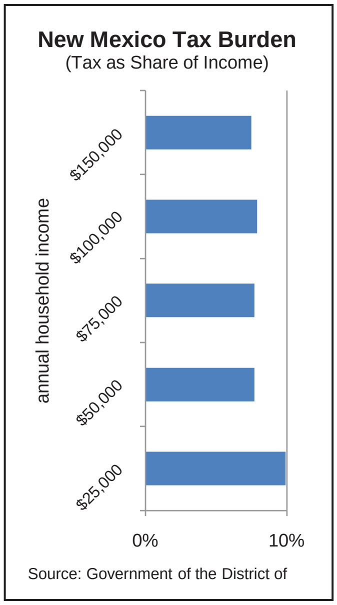
County GRT for Health Care

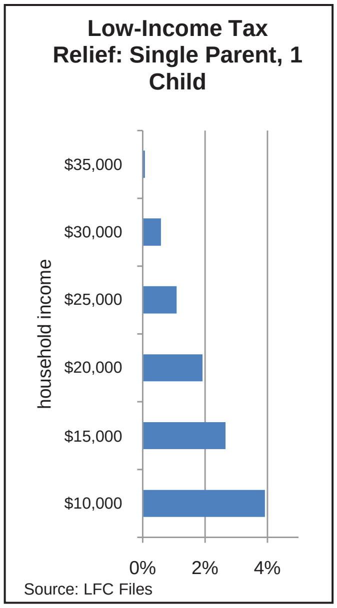


Source: LFC files, TRD

FY09 County Health Care (in millions)			
Revenues			
GRT 2nd 1/8th	GRT 3rd 1/8th	Other*	Total
$38.2	$18.7	$41.3	$98.2
*grants, penalties, reimbursements and interest			
Expenses			
Direct Health Care**	CSMF ***	SCP^	Total
$23.5	$16.6	$46.8	$87.1
providers, administration and other costs * County Supported Medicaid Fund ^Sole Community Provider Fund			
FY09 Balances			$11.1

Source: Health Policy Commission





needed to contribute to draw down the full amount available under the SCP program. Counties provided $45.6 million, about the amount required, for the program in FY09.

Local Option Revenue and Healthcare Spending. County Indigent Fund balances reached $11.1 million at the end of FY09. Since FY03, revenue growth has outpaced expenditures by more than 50 percent. In FY09, the second one-eighth increment generated $53.6 million, with $38.2 million available for county indigent fund programs. Of the 25 counties with a third one-eighth option, eight dedicated all or part of the revenue to their county indigent fund. The others used the revenue for general purposes. Including other revenue, counties raised $98.2 million for county indigent fund programs and spent $87.1 million (including the sole community provider funds).

County-Supported Medicaid Fund. Counties also raise revenue directly to support the state's Medicaid program. Counties may impose a separate 1/16th increment to pay this share (7-20E-18 and 27-10-3), or supply an equivalent amount. Counties raised $24.5 million for Medicaid matching funds in FY10. The funding is used broadly in the Medicaid program, just like general fund appropriations.

Provider Taxes for Medicaid Matching Funds. States increasingly are turning to targeted provider taxes to generate new revenue to match federal Medicaid funds. According to the National Council of State Legislatures, in FY10, 44 states had at least one Medicaid provider tax; and in 2009, nine states added or expanded provider taxes and fees. Typically, these taxes have been used to expand Medicaid services to new populations or at least maintain Medicaid reimbursement rates to hospitals and other providers. With significant pressure on the Medicaid budget, New Mexico may want to explore provider tax options again in the 2011 session.

Federal law does not allow a guarantee that taxes will be returned to a provider; however, a so-called "safe harbor" provision of federal law allows the return of taxes to providers if the sum is less than 5.5 percent of the provider's revenue. This effectively allows states to impose a 5.5 percent tax on provider revenue and send it back to providers in their Medicaid reimbursement. The tax revenue for the state may be matched with federal funds and used broadly in the Medicaid program.

Last year, Colorado enacted a new provider tax of up to 5.5 percent of hospital revenue. This "provider fee" was levied on all 98 Colorado hospitals and will generate an estimated $600 million in revenue. With another $600 million in federal Medicaid matching funds, $1.2 billion will be available to expand Colorado's Medicaid program, reduce the uninsured rate, and maintain reimbursement rates. The Colorado Hospital Association championed the legislation.

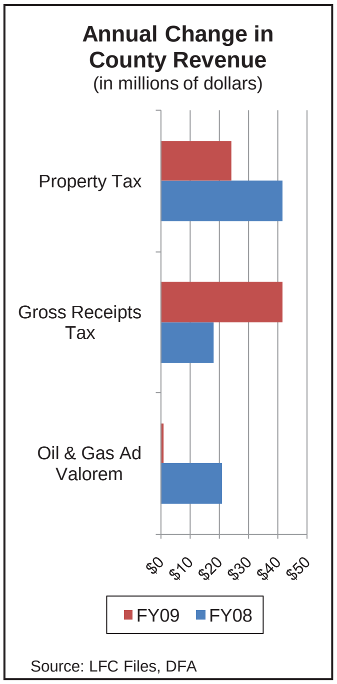
Progressivity and State Taxes. Many studies of state and local tax systems make the argument that these systems are "regressive," i.e. the tax burden on low-income households is higher than that on high-income households. Because the ultimate burden of a tax is often shifted to someone other than the person legally responsible for payment, the debate hinges on determining the ultimate burden or incidence of each of the state's taxes. Unfortunately, economic theory and evidence are often inadequate to provide a reliable determination of this incidence. Also, when considering the impacts of the state's budget on households, it is important to include the incidence of state and local government spending as well as taxes. Most state spending is on education and health care which are generally progressive, i.e. benefits are larger for low-income households than for high-income households. Thus, the combined effects of spending and taxes may be progressive even if the tax burden by itself is somewhat regressive.

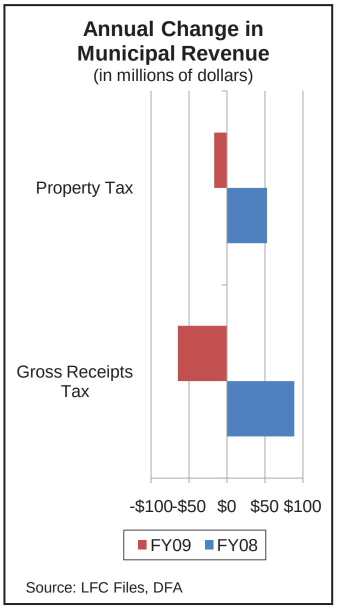
Most of the concern about tax regressivity stems from the heavy reliance that many states place on the retail sales tax. Low-income households typically save less and spend more of their income. Thus a larger portion of their spending might be subject to sales tax, and the sales tax is likely to impose a higher burden as a percent of income on these households. In contrast, the income tax is usually seen to be a "progressive" tax, i.e. high-income households pay a higher portion of their income than do low-income households. This results from the higher rates typically imposed on higher-income households and from the allowance of exemptions and deductions, more valuable as a percent of income to low-income households.

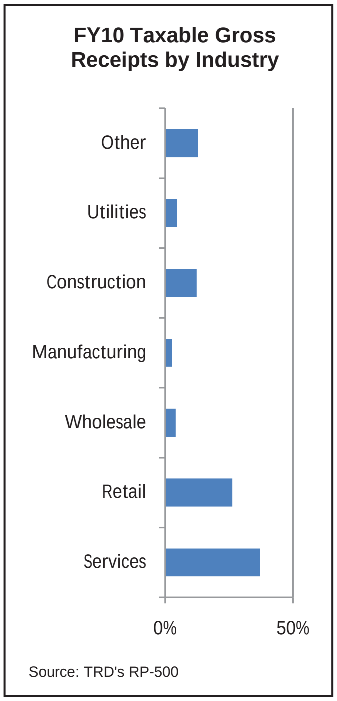
New Mexico has taken a number of steps to mitigate the regressivity of its tax system. Several income tax credits and exemptions reduce the overall regressivity of the tax system. These include the low-income comprehensive tax rebate, the working families tax credit, the low- and middle-income personal exemption, the GRT deduction for food stamps, the property tax rebate for elderly, and others.

Local Government Revenues. Local governments administer a large and growing revenue base, comparable to roughly 50 percent of the funds being distributed through the State's budget. Although these budgets comprise a large portion of the state and local government sector, relatively little information has been available to evaluate trends, or to consider whether resources are distributed in an equitable way.

Counties collected a total of $814 million in tax revenue in FY09, 46 percent from the property tax, 41 percent from the GRT, and 9 percent from oil and gas ad valorem taxes. County tax collections increased significantly between FY07 and FY09. Property tax collections rose by $65.5 million, or 21 percent, while GRT collections rose by $59.7 million, or 22 percent.





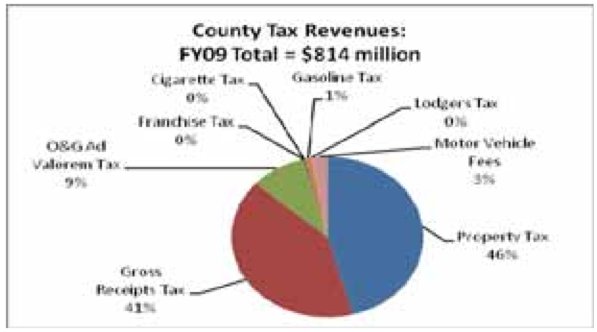


Multi-State Business Tax Comparison

(Business Tax Collections as Percent of Gross State Product)

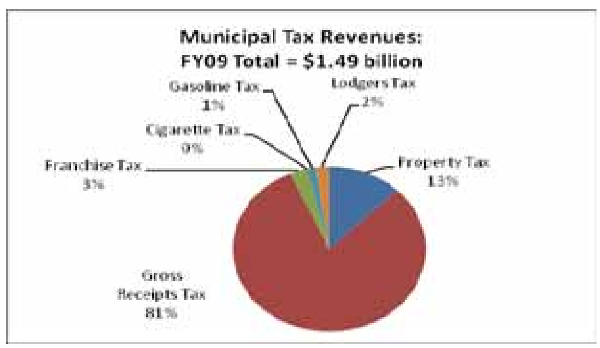
	New Mexico	U.S. Average
Property Tax	0.8%	1.7%
Sales Tax on Inputs	1.9%	1.1%
Corporate Income Tax	0.5%	0.5%
Other Taxes	2.9%	1.6%
Total	6.0%	4.9%
Total Excluding Severance Tax	4.6%	4.7%

Source: Council on State Taxation.



Source: DFA, Local Government Division, Annual Reports.

Municipal governments collected a total of $1.49 billion of tax revenues in FY09, with GRT being the dominant revenue, at over 80 percent of the total, and property tax a distant second, at 13 percent. After rising by 10 percent in FY08, municipal tax revenue fell by 6 percent in FY09, leaving the total 4 percent, or $61 million, higher in FY09 than FY07. GRT revenue was up by $23.6 million, or 2 percent, while property tax revenue was up by $36.5 million, or 24 percent, between FY07 and FY09.



Source: DFA, Local Government Division, Annual Reports.

<u>Gross Receipts Tax Pyramiding</u>. New Mexico's GRT is a hybrid of a retail sales tax and a gross receipts tax. The tax is imposed on all receipts from sale or lease of property and services. The GRT provides only limited exclusions from tax for transactions between businesses. As a result, a large portion of the base is composed of business-to-business (BTB) transactions. Services comprise almost 40 percent of the GRT tax base, easily the single largest component. Retail and wholesale trade comprise 30 percent, and the next largest is construction at 15 percent. Estimates of the share of the total GRT derived from BTB transactions range from one-third up to one half.

The following table provides an illustration of the pyramiding problem in the energy-producing sector. Because few deductions apply as products are sold in this sector, the effective tax rate – total taxes paid as a percent of final product value – can be much higher than the statutory tax rate.

Pyramiding Illustration

	Sales	GRT
Drilling Contractor	$100.00	$7.40
Natural gas producer	$200.00	$14.80
Electric utility	$400.00	$29.60
Commercial power user	$800.00	$59.20
Final product sales/Total Tax	$800.00	$111.00
Effective tax rate	N/A	13.9%

Combined Reporting for the Corporate Income Tax. An actively debated issue in recent years has been the treatment of affiliated companies under New Mexico's corporate income tax. New Mexico law allows related companies their choice of filing as separate companies, as a unitary combined group, or as a consolidated group as defined under federal law. Each of these options creates both advantages and disadvantages for taxpayers. The election may give taxpayers the ability to reduce their tax burden and can be seen as promoting economic development in the state. For example, if a profitable company is considering establishing a new affiliate in New Mexico, but does not expect the new affiliate to be profitable in the near term, allowing that company to file on a separate basis for the New Mexico operation would mean the company will not owe tax to New Mexico until its New Mexico operations are profitable. If that company were instead required to file on a combined basis, it would owe taxes immediately on the profits it earns in other states. This could cause companies to reconsider whether to establish operations in New Mexico.

Separate reporting might provide companies with the opportunity to make payments to a separate but related company headquartered in a different state. These payments reduce New Mexico income tax, and, if the receiving company is in a non-taxing jurisdiction, the net result for the group is a reduction of taxes. Under combined reporting, this structure would not reduce taxes because income of the entire group is included on the return.

Although requiring combined reporting is one way to limit tax avoidance, other methods are available, some of which are included in current New Mexico statutes. In testimony to LFC, Helen Hecht, tax counsel for the Federation of Tax Administrators, outlined these statutes.[1] Using its existing powers, New Mexico has been able to collect tax from companies that attempted to shift income out of state through the kinds of transactions described above. Despite the state's success in the past, however, Ms. Hecht noted that there are some good reasons the state should consider requiring combined reporting. Currently statutes must be applied on a case-by-case basis, which is both time-consuming and unpredictable. Also, the extent of the state's current authority is unclear, creating additional uncertainty. If the state were to require combined reporting, Ms. Hecht recommended the Legislature provide statutory guidance on the definition of a "unitary"

Western States Corporate Income Tax Rates

Arizona	6.968%
California	8.84%
Colorado	4.63%
Idaho	7.6%
Montana	6.75%
New Mexico	4.8/6.4/7.6%
Oklahoma	6.0%
Oregon	6.6%
Texas*	1.0%
Utah	5.0%

*Margin Tax
Source: CCH Group, State Tax Handbook

Western States Business Tax Comparison
(Business Taxes as a Percent of Gross State Product)

	Total	Total Excluding "Other"*
Arizona	4.7%	4.4%
California	4.6%	4.1%
Colorado	4.2%	4.0%
Idaho	4.7%	4.3%
Montana	6.4%	4.7%
New Mexico	6.0%	3.9%
Oklahoma	5.3%	4.0%
Texas	5.3%	4.3%
Utah	3.9%	3.6%
Average	5.0%	4.1%

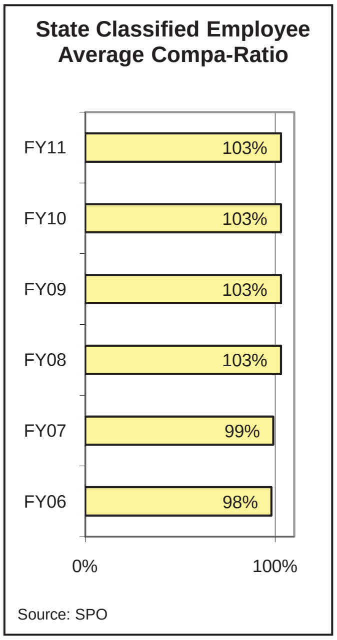
*Severance taxes are the main component of Other Taxes for those states with minerals production.
Source: Council on State Taxation.

business group, because this would help avoid legal conflicts. She also recommended a number of other related issues be addressed in statute. As a narrower alternative, the state may wish to consider implementing an “add-back statute,” which would prohibit the types of transactions generally thought to result in tax avoidance. As a narrower approach, this would address only part of the problem but would be less likely to affect taxpayers not engaged in tax avoidance.

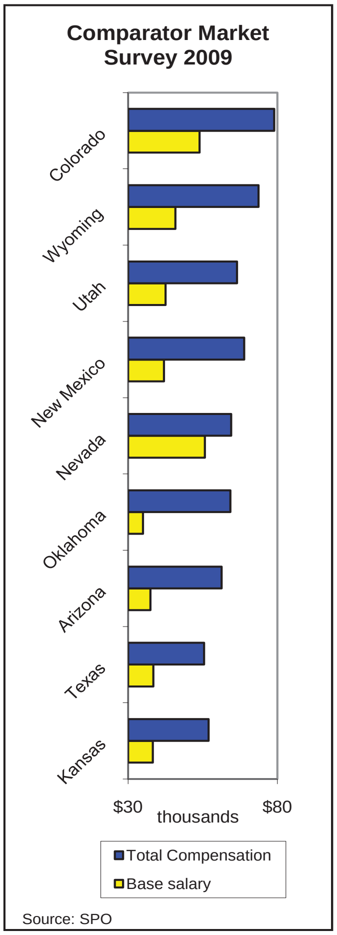
Public Employee Compensation

In the current economic environment policy-makers must develop innovative approaches to ensure fair and equitable treatment, promote recruitment and retention, and increase the efficiency of state government. Of particular importance is the identification of a fiscally solid and sustainable mix of state employee salary and benefits that reflects both best practices and market rates in the private sector and other state governments. To this end, the 2006 Hay Group recommendations that emphasized the need for an integrated and coherent approach to total employee compensation and pay for performance should be re-visited. In particular, salaries, insurance, and retirement benefits continue to be administered by separate agencies, limiting the capacity of state government to make coordinated and strategic decisions on the development of human capital.

Problems remain in the provision of accurate, timely, accessible, and transparent data to all stakeholders related to hiring, pay, and performance practices in state government. Similarly, the decentralization of responsibilities and tasks suggest a lack of coherence between the State Personnel Office (SPO) and state agencies. SPO should make a concerted effort to aggregate, analyze, and disseminate recent data and identify, recommend, and enforce appropriate personnel policies in state agencies. Also, a comprehensive analysis of the impact the 2006 state collective bargaining agreement is having on workforce hiring, retention, and development compared with other states would be useful.



Executive Classified Employees. Between FY05 and FY09, the average state classified employee's salary increased from $34 thousand to $42.1 thousand, with the average compa-ratio rising from 92.8 percent to 103 percent. In FY10 the average compa-ratio was stable at 103 percent. Compa-ratio is an expression used to identify an employee's position within a pay band relative to the midpoint of the pay band.



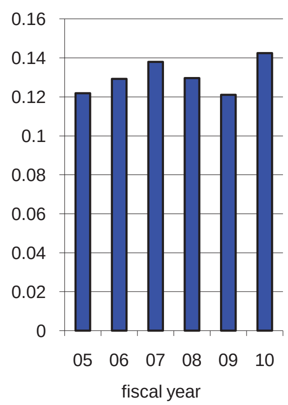
New Mexico stands at a comparative midpoint among western-central states in terms of both its base salary and total compensation. The 1.5 percent retirement "swap," in which part of the contribution was shifted to employees, expires on June 30, 2011, but could continue or even increase in response to the budget shortfall.

New hire turnover rates have improved slightly. SPO has established a new baseline in FY09 to better analyze outcomes for the following fiscal years.

Vacancy rates in state government are still considered to be high compared with previous fiscal years, standing at 14.25 percent in the fourth quarter of FY10. High vacancy rates partially result from executive agencies responding to lower appropriations. However, many of these positions have remained unfilled for several years, raising questions about whether these positions are needed to effectively achieve specific agency missions.

Public Employee Compensation

Vacancy Rate State Classified Employees



Source: State Personnel Office

PSIA		
Salary	Employee	Employer
<$15K	25%	75%
$15K -/< $20K	30%	70%
$20K -/< $25K	35%	65%
$25K+	40%	60%

APS		
Salary	Employee	Employer
< $29K	20%	80%
$29K +	40%	60%

GSD/RMD		
Salary	Employee	Employer
<$50K	20%	80%
$50K -/< $60K	30%	70%
$60K+	40%	60%

Executive Exempt Employees. The number of executive exempt employees has continued to decline since the hiring freeze in November 2008, dropping from 511 in FY09 to 415 in FY10.

Employee Group Health Benefits. The General Services Department, Risk Management Division (RMD), Public Schools Insurance Authority (PSIA), Albuquerque Public Schools (APS) and Retiree Health Care Authority (RHCA), collectively referred to as the Interagency Benefits Advisory Committee (IBAC), provide medical, dental, vision, and life insurance benefits to approximately 200,000 public employees and eligible dependents at an annual cost approaching $1 billion.

Between FY06 and FY11, double-digit growth in healthcare-related expenditures for IBAC participants was common. A portion of this growth was the result of increased plan participation from cities, counties, and universities in GSD's risk pool. Spending is now projected to grow an average of 8 percent annually. The chart below represents total spending by agency:

Annual Expenditures by Program
(in millions)

	GSD/RMD	PSIA	APS	RHCA	Total	% Change
FY06	$ 213.1	$ 202.3	$ 56.2	$ 147.7	$ 619.3	NA
FY07	$ 264.3	$ 217.0	$ 58.3	$ 168.2	$ 707.8	14%
FY08	$ 301.0	$ 263.5	$ 66.0	$ 181.2	$ 811.7	15%
FY09	$ 335.0	$ 285.4	$ 73.1	$ 199.8	$ 893.3	10%
FY10	$ 381.7	$ 286.3	$ 79.5	$ 220.2	$ 967.7	8%
FY11	$ 353.0	$ 286.3	$ 84.2	$ 223.4	$ 946.9	-2%

Cost Savings Initiatives. As a result of recent budget limitations and fiscal constraints, IBAC members have been required to pursue all possible cost-containment strategies for limiting the state's share in healthcare-related expenditures. These strategies include increased member cost sharing (increased copays, deductibles, and coinsurance); consolidated purchasing of prescription services; limited medical options; and a premium surcharge for participants who fail to submit to a biometric screening.

The Government Restructuring Task Force is currently evaluating a variety of options regarding the future direction of IBAC, including administrative consolidation, risk pool consolidation, and consolidated purchasing requirements. The consolidation of these programs may limit administrative costs and further leverage medical plan providers.

Higher Education Employees. Analysis of data from the integrated postsecondary education data system (IPEDS) and faculty survey information from the American Association of University Professors (AAUP) by the Council of University Presidents suggests that average faculty salaries at the four-year institutions continue to lag behind peer institutions. For 2009-2010, New Mexico Tech, New Mexico State University, and New Mexico Highlands University made gains relative to their peers while the University of New Mexico, Eastern New Mexico University, and Western New Mexico University fell further behind. Statewide, salaries range from 81.5 percent of peer salaries at Western to 92.4 percent at Highlands.

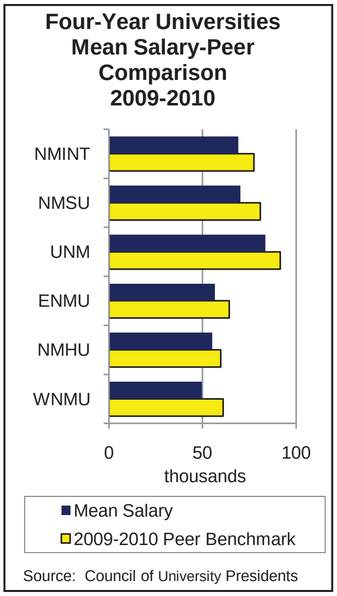
While faculty salary increases at the universities varied from no growth to about 14 percent over the last five years, between 2008-2009 and 2009-2010, salaries grew very little and in some cases declined.

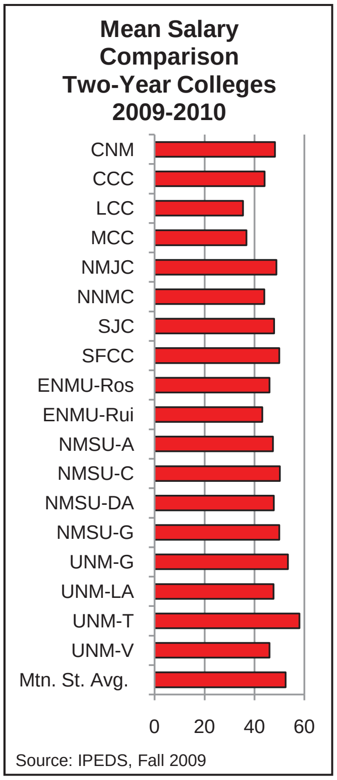
Data for New Mexico's two-year colleges suggests the institutions continue to fall behind their peer institutions within the Rocky Mountain Association of Community Colleges. The New Mexico Independent Community Colleges (NMICC) and the New Mexico Association of Community Colleges (NMACC) jointly submitted salary data for fall 2009 indicating the average for the independent community colleges was about $44.4 thousand and $49 thousand for the branch colleges. The combined average reflects a gap of about 10.6 percent from the regional average, up from about 8.9 percent last year.

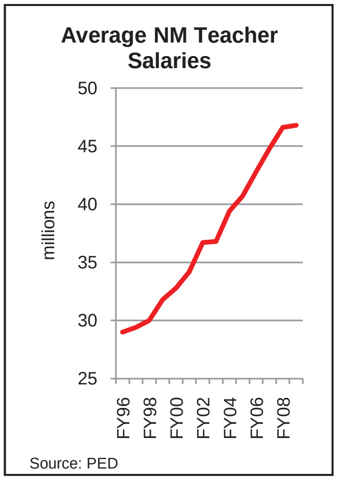
<u>Public Education.</u> Appropriations for employee compensation increased $645.6 million since FY03 despite decreased FY10 and FY11 general fund appropriations. These appropriations include $442 million for direct salaries and benefits, $64 million for increased employer contributions to the Educational Retirement Fund (ERB), and $140 million for annual increases in the employer share of employee insurance benefits. FY10 appropriation increases covered salary increases for educational assistants and increased employer ERB contributions, and FY11 increases covered increases in the employer share of insurance benefits for employees.

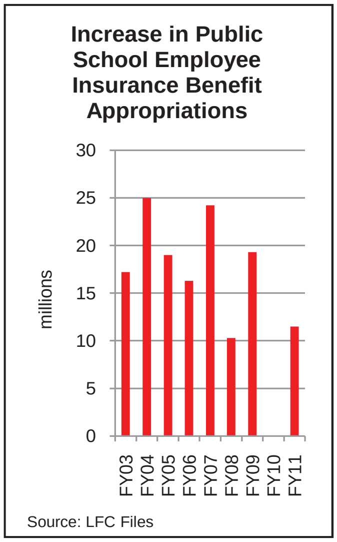
A considerable portion of the increase for direct salaries and benefits funding, $82.3 million, was used to pay for the incremental cost of the three-tiered licensure system. Another $218.2 million was appropriated for annual salary increases for teachers. As a result, the average annual teacher salary has increased by almost $10 thousand since FY03. For FY10, PED estimated the annual average teacher salary to be $46,793, or an hourly rate of $35.04. According to the National Education Association, New Mexico ranks as having the 10th largest average annual salary increase from FY99 to FY09 nationally, increasing average salaries 41.2 percent over the ten years.

The three-tiered licensure system was designed to increase student achievement by recruiting and retaining high-quality teachers. In exchange for large increases in minimum salaries, teachers were expected to meet competencies and positively impact student achievement as demonstrated through annual evaluations and a professional development dossier (PDD). However, the three-tiered licensure system does not tie teacher pay to student outcomes, particularly student performance. An evaluation conducted by LFC in 2009 found that teachers at all licensure levels produce gains in student achievement; however, there was no significant difference in student achievement across licensure levels. Expectations that student









performance would significantly improve have not been met, indicating the need to further analyze annual evaluations and the PDD process and include student academic performance as an evaluation factor.

Insurance Benefits. Since FY03, $140 million has been appropriated to districts to cover the increased costs associated with the employer share of employee insurance benefits. The FY11 appropriation included $11.5 million to cover APS and PSIA requests to fund the annual increase in the employer share of employee insurance benefits. Funding is distributed to districts through the state equalization guarantee (SEG), generally resulting in APS receiving a greater share of funding than requested. Appropriations to cover increases in the employer share of employee insurance benefits could be appropriated directly to APS and PSIA to ensure a more equitable distribution.

In FY11, PSIA and APS received $2 million from the governor's discretionary ARRA funds to offset public school employee's premiums. These funds were used to provide a one-time adjustment to employee contributions during the month of October. However, neither agency requested additional support.

Infrastructure needs and deferred maintenance at state-owned facilities continue to grow and require more resources than the Legislature will have in 2011. State agencies, including public education and higher education, are requesting funds well beyond capacity: $1.5 billion in requests compared with limited capacity of approximately $237.8 million. The funding constraints are exacerbated by the defeat of the $155.2 million higher education general obligation bond question in November 2010.

The new administration and the Legislature have an opportunity to review the existing process for prioritizing and funding capital outlay requests. A state facility plan as part of the budget process developed jointly by the Legislature and the executive – a plan that goes beyond the current Infrastructure Capital Improvement Plan – may be the best method for prioritizing funds for all infrastructure needs. A comprehensive plan and analysis of needs and requests would provide policy makers with clear and complete comparative cost-benefit analysis to inform their deliberations regarding decisions to acquire land, build, buy, or lease facilities.

Until such time as other improvements to the capital process are developed, this document contains information and recommendations approved by the Legislative Finance Committee for consideration by the full Legislature.

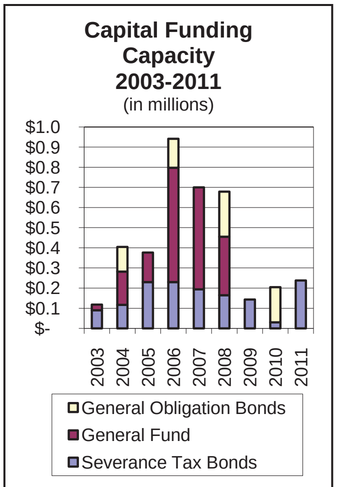
Unexpended Funds. The Legislature appropriated or authorized more than $1.9 billion between 2007 and 2010 for 6,802 capital projects. As of November 18, 2010, approximately $688.1 million for 1,546 projects remains outstanding. In accordance with LFC FY12 budget guidelines, the status of projects appropriated from both the general fund and severance tax bond capacity will be closely monitored for potential voidance or reauthorization for solvency.

2007-2010 Capital Outlay Funding Outstanding Projects Only
(in millions)

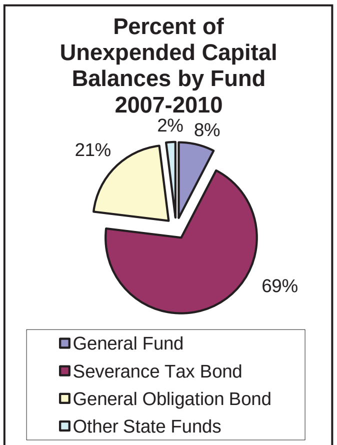
Year	Number of Projects	Amount Appropriated	Amount Expended	Amount Unexpended	Percent Expended by Year
2007	421	$ 251.3	$ 143.0	$ 90.5	57%
2008	567	$ 399.9	$ 135.7	$ 251.0	34%
2009	481	$ 323.7	$ 67.2	$ 245.9	21%
2010	77	$ 103.6	$ 2.8	$ 100.7	3%
Total	**1,546**	**$ 1,078.5**	**$ 348.7**	**$ 688.1**	

Source: capital outlay monitoring system

Capital Projects Greater than $1 Million. As of September 21, 2010, balances for projects $1 million and greater total more than $474 million



Source: LFC

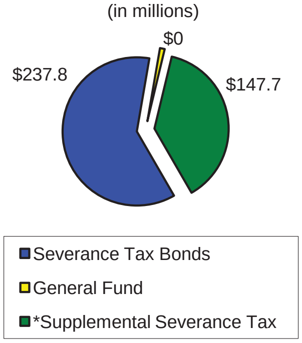


Source: LFC

Status of Projects Greater than $1 million

LEGEND		
(green)	Project on schedule	151
(yellow)	Behind schedule or little activity	69
(red)	No activity or bonds not sold	14
Total Active Projects		234
Other report information:		
(blue)	Appropriation expended or project complete	50
X	Additional funds needed	5

Capital Outlay Capacity for 2011 Total $385.5
(in millions)



* For public school construction

Source: LFC

2010 General Obligation Bond Issue Results:

Bond Issue A: Senior Projects - $7.7 million

Bond Issue B: Library Allocations - $7 million

Bond Issue C: Public School Projects - $5 million

Bond Issue D: (FAILED) Higher Education and Special School Facilities - $155.2 million

for 234 projects. The funds account for nearly 62 percent of all unexpended balances.

2011 Capital Funding Outlook. Consensus revenues indicate no nonrecurring general fund monies will be available for capital outlay in 2011. Severance tax bond (STB) net capacity is $237.8 million ($264.7 million gross less prior-year authorized unissued bonds totaling $400 thousand and 10 percent of capacity equal to $26.5 million for deposit into the water project fund). Supplemental severance tax bond capacity dedicated for public school construction is approximately $147.7 million.

For the Legislature in 2012, severance tax bond capacity will be further reduced due to passage of legislation in 2010 authorizing 5 percent for deposit in the tribal infrastructure project fund and 5 percent for deposit in the colonias infrastructure project fund. The effective date of the legislation for both programs is July 1, 2011. The amount for STB allocation to the funds will be based on total STB capacity on January 15, 2012. The total effect of the new legislation and the previously authorized water project fund obligates 20 percent of each year's severance tax bonding capacity.

State Debt. During the past several years, most severance tax bonds were issued as short-term notes. In the bonding capacity calculation for FY11, a larger proportion of STB capacity has been designated for long-term bonds than in prior years. As a result, the annual STB debt service will increase from $112 million in FY10 to $122 million in FY13. The estimate assumes short-term notes will be used to maximize capital outlay. However, the use of short-term notes means little or no funds will be available for transfer to the severance tax permanent fund.

According to the latest data from the U.S. Census Survey of Government Finance, the combined long-term state and local debt per capita for New Mexico was $6,610 in FY08, up slightly from FY07. The average for all states was much higher at $8,234 – an indication New Mexico has not over-leveraged its residents relative to other states.

Funding Requests for Consideration. State agencies, higher education institutions, and special schools requested more than $1.5 billion for capital projects. The LFC capital project recommendations to the full Legislature for funding are based on criteria approved by the committee, including specific site visits performed by LFC staff. Projects out of compliance could result in the loss of federal funding. Other requests, including authorization to expend money for capital from "other state funds" and recommendations for other state funding sources, are summarized in Volume III.

Aging and Long-Term Care Services Department. ALTSD received capital requests totaling $49.9 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 recommended $3.9 million for senior center renovations, code compliance, and vehicles. LFC recommends the $3.9 million request for projects listed in Volume III.

Department of Health. DOH requested $43.8 million to address patient health and safety issues and critical infrastructure and to complete ongoing projects. The LFC recommendation includes $11.4 million to address infrastructure deficiencies and roof replacements, security upgrades and equipment replacement, stabilization of the foundation of La Plata and House 322 buildings, completion of Meadows phase 2, purchase of transportation vehicles to comply with the Americans with Disabilities Act, and for planning and design of a new forensic unit at New Mexico Behavioral Health Institute in Las Vegas; $9.3 million to complete the Alzheimer's skilled nursing unit and upgrade of electrical, heating, ventilation, and air conditioning systems at the New Mexico State Veterans' Home; and $450 thousand to purchase analytical equipment for the State Laboratory Division.

Children, Youth and Family Department. CYFD requested $4 million to plan, design, and acquire land (approximately 16 acres) for a 54-bed juvenile detention facility in southeastern New Mexico and for improvements to the Youth Diagnostic Development Center (YDDC) and John Paul Taylor Center (JPTC). The LFC recommendation includes $2 million to plan, design, and acquire land for implementation of the Cambiar model in the southeastern part of the state consistent with the department's long-term master plan and $2 million for infrastructure and renovations at YDDC and JPTC.

New Mexico Corrections Department. NMCD requested $31.4 million for heating, ventilation, and air conditioning (HVAC) systems at Southern and Central correctional facilities and HVAC upgrades at Western facilities; security, maintenance, and repairs and equipment at facilities statewide; and replacement or repair of water and wastewater systems at Roswell and Western correctional facilities. The LFC recommendation includes $10 million for HVAC systems at Southern, Central, and Western correctional facilities; $2.9 million for kitchen renovations at Southern and Central correctional facilities; $1 million for security upgrades, repairs, and equipment statewide; $1.2 million for construction of water and wastewater system (engineering plans are complete) at Roswell correctional facility; and $500 thousand for planning and design of a water and wastewater erosion control at Western correctional facility.

Department of Public Safety. DPS requested $31.5 million for fleet and equipment replacement, building renovation and repairs, and new construction projects. The LFC recommendation includes $2.5 million to replace high-mileage vehicles and to upgrade satellite communications; $1.4 million to renovate the old academy dormitories constructed in 1969; and $700 thousand to plan and design the renovation and expansion of the existing Española state police district office.

General Services Department. GSD requested $34.6 million for statewide repairs and major renovations, unforeseen emergencies, and

CRITERIA FOR PRIORITIZING CAPITAL OUTLAY NEEDS

- Project will eliminate potential or actual health and safety hazards and liability issues.
- Project will address backlog of "deferred" maintenance and prevent deterioration of state-owned assets, including projects of cultural or historical significance.
- Project required due to federal, state, or court mandate.
- Project is necessary to comply with state or federal licensing, certification, or regulatory requirements.
- Request is included in state Five-Year Capital Improvement Plan for projects ready to commence or require additional funding for completion.
- Investment provides future operating cost savings with a reasonable expected rate of return.
- Project provides direct services to students, staff, or the general public.

PROJECTS REQUIRING ADDITIONAL FUNDS TO COMPLETE

- NM Veteran's Center Alzheimer's Skilled Nursing Unit ($6 million)
- NM Military Affairs Farmington Readiness Center ($1.6 million)
- Southern and Central NM correctional facilities kitchen remodels ($2.9 million)
- Museum of Natural History Education Center ($750 thousand)
- National Hispanic Cultural Center Education Complex ($225 thousand)
- Farm and Ranch Heritage Museum exhibits and security ($1 million)
- NM Archaeology Center water system and furniture, fixtures, and equipment ($500 thousand)
- Bosque Redondo exhibits ($500 thousand)
- Fort Selden property acquisition ($100 thousand)

demolition and decommission of unused structures. The LFC recommendation includes $5 million for repair and renovation statewide, $10 million for major renovations to the Manuel Lujan, Jr., building in Santa Fe, $2 million for renovations to the Harold Runnels building and south complex infill, and $2 million for decommissioning and demolition of state-owned structures deemed unsafe and unusable.

Cultural Affairs Department. The department requested $14.4 million for the preservation and maintenance of museums and monuments statewide, projects requiring completion, and equipment. The LFC recommendation includes $4 million for repairs and renovations at museums and state monuments statewide and $3.1 million to complete the following projects: education center at the Museum of Natural History ($750 thousand), the education complex at the National Hispanic Cultural Center ($225 thousand); outdoor exhibit and security fencing at the Farm and Ranch Heritage Museum ($1 million); water system infrastructure and furnishings and equipment at the New Mexico Archaeology Center ($500 thousand); phase 2 exhibits at Bosque Redondo State Monument ($500 thousand); and completion of the property acquisition at Fort Selden State Monument ($100 thousand).

New Mexico Environment Department. NMED requested $11.5 million for the clean water state revolving loan fund, water and wastewater infrastructure, the rural infrastructure revolving loan program, and the river ecosystem restoration initiative. The LFC recommendation includes $2 million for a 20 percent state match toward a $10 million federal grant for the clean water state revolving fund (Chapter 76, Article 6A, NMSA 1978). The state and federal funds are used to improve water quality and wastewater facilities statewide.

Public Education Department. PED requested $13.8 million for school bus replacement ($8.8 million for 103 buses) and prekindergarten classrooms ($5 million). PED owns and operates 2,300 buses statewide. In accordance with Section 22-8-27 NMSA 1978, buses are required to be replaced every 12 years, high mileage and aged buses in particular. Passage of bond question C will provide $2 million for prekindergarten classrooms for expenditure during 2011. The LFC recommendation includes $4.3 million for replacement of 50 buses. Delays in replacing the state-owned buses could create a liability for the state.

Special Schools. The New Mexico School for the Deaf (NMSD) originally requested $6.9 million to complete renovations at Dillon Hall – the principal facility on campus for delivery of secondary education. The request is consistent with the school's facility master plan. However, due to the failure of bond question D for higher education and special schools, NMSD is requesting $3 million for critical infrastructure deficiencies. The LFC recommendation includes $5 million appropriated to the public school capital outlay fund for deficiencies throughout the campus, including renovations to Dillon Hall. The Public School Facility Authority has been of tremendous assistance in loaning their expertise in project management for NMSD capital projects.

The New Mexico School for the Blind and Visually Impaired (NMSBVI) originally requested $2.9 million to address critical deficiencies in the gymnasium and natatorium – buildings that support the school's physical education instructional programs and extracurricular programs for the students. However, with the failure of bond question D, NMSBVI is requesting $3.5 million to correct deficiencies and code violations for the Watkins Education Center. The LFC recommendation includes $3.5 million appropriated to the public school capital outlay fund for infrastructure renovations to the center.

Higher Education Institutions. Limited capital outlay capacity is not adequate to replace the $155.2 million lost with the defeat of bond question D for higher education facilities. The LFC recommendation includes $20 million appropriated to the Higher Education Department (HED) to allocate to public higher education institutions to address unforeseen "critical" incidents impacting the health and safety of students, staff, and the public. The criteria and application process for project eligibility shall be developed by the HED Capital Projects Review and Approval Committee. The criteria, application process, and allocations shall be subject to review by LFC and approval by the State Board of Finance.

State Road Construction and Maintenance. In 2003, the Legislature increased transportation-related taxes and fees to support the state road fund and authorized the New Mexico Finance Authority (NMFA) to issue nearly $1.6 billion in bonds for transportation projects and a commuter rail. In 2007, the Legislature authorized funding for specific local government highways and road construction projects, and in 2005 created a revolving loan fund within NMFA to assist local entities with low-cost financial assistance for local infrastructure transportation projects.

Despite the efforts to address transportation needs statewide, more than $450 million is needed for projects authorized in 2003 and 2007, and approximately $200 million is needed for road maintenance statewide. The number of highway miles that underwent maintenance in FY10 was down a third from FY09. The New Mexico Department of Transportation (NMDOT) reports 2,432 miles of highway were repaired in FY10, compared with 3,691 in FY09. Because of budget cuts, that number is expected to drop again in FY11.

Given the state's financial condition, the underfunded state road fund, and the significant road maintenance needs, the LFC recommendation includes $50 million appropriated to the state road fund to address critical interstate and highway needs and $50 million to address deferred road repairs statewide.

Capitol Building Planning Commission. The Capitol Building Planning Commission (CBPC) continued to review the *Capitol Master Plan (CMP)* to determine the best use of state-owned and -leased properties in the metropolitan areas of Las Cruces, Santa Fe, and Albuquerque. The commission heard updates of key property issues,

Principles of Master Planning Process by Capitol Buildings Planning Commission

- Locating state agencies to achieve functional, operational, and logistical efficiency;
- Promoting convenient public access to government services;
- Providing equitable and adequate space;
- Realizing economic efficiencies;
- Protecting long-term asset values; and
- Establishing a framework for individual campuses.

Legislation and Funding Supported by Capitol Building Planning Commission

- Legislation intended to strengthen current infrastructure capital improvement planning process consistent with CBPC principles,
- Capital funds for the General Services Department,
- Capital funds for the Cultural Affairs Department.

developed a lease/purchase agreement process and guidelines for use by state agencies (final approval delayed until December 16, 2010), and approved legislation and capital funding requests to move forward to the full Legislature.

The most comprehensive hearings related to existing legislative authorizations totaling $112 million for land acquisition and construction of a new health and human services complex and a new executive office building.

Health and Human Services Complex. Legislative authorization exists for land acquisition and construction of a state facility at Las Soleras in Santa Fe. Proposed financing for the acquisition of the property includes $4 million from severance tax bonds, $2 million in bond anticipation notes to be issued by NMFA, and trade of the state-owned Galisteo property (4.451 acres) valued at $1.9 million, for a cash and trade total of $7.9 million. The remaining $2.2 million will be gifted by Las Soleras.

In accordance with Laws 2009, Chapter 145, Subsection D, CBPC approved the final review of the purchase agreement and cash option agreement between the Property Control Division (PCD) and the Paseo Nuevo, Ltd. Co., contingent on the final purchase occurring 90 days after approval by the Office of Attorney General (AG) and the Board of Finance (BOF). On October 28, 2010, the NMFA board approved the use of bond anticipation notes for the land purchase and passed an "intent resolution" for issuance of the bonds pending approval by all necessary parties. As of this writing, BOF approved the acquisition, but the AG has not.

The action taken by CBPC to delay the final purchase agreement for the Las Soleras property provides the new administration with time to review the proposal. The delay also allows the Legislature to re-evaluate the project in light of the 8 percent to 9 percent decrease in the state workforce, weak real estate market, and government reorganization, which may diminish the need for new buildings. The pressure to reduce agency budgets is likely to remain over the next couple of years, suggesting the workforce will continue to shrink, and the state office space needs may be less in the coming years.

Executive Office Building. The site selection and programming were completed by the architect in July 2010. According to PCD, the request for proposals for design and construction of the project will be issued by the end of 2010. PCD reports the original selected site adjacent to the new parking structure might not be suitable for the new 50,000-square-foot facility. However, this should be determined during the design phase, and the building could be scaled down.

OTHER PROPERTY ISSUES

Lease Purchase and Other Building Finance Options. The Property Control Division of the General Services Department (GSD) currently owns and maintains 6.6 million square feet of office, hospital, prison, and other facility space throughout the state. In addition, state agencies lease approximately 6.7 million square feet of space statewide at an annual cost in excess of $50 million.

During the interim, GSD and LFC staff reviewed office space utilization in conjunction with the reduction in state government workforce. Questions surfaced regarding the effective use of state-owned space and the cost of leased space. Information regarding occupancy levels for all state agencies was gathered to identify potential savings opportunities. The information included a detailed list of office locations, square footage, lease amounts, lease terms, the number of state employees assigned to each location, and the number of vacant positions at each location.

Analysis of the data demonstrates the need for GSD and the executive to reevaluate space needs and identify opportunities to reduce lease costs. Options could include renegotiating current lease agreements based on current real estate market conditions, reducing the amount of leased space and identifying vacant state-owned office space to accommodate agency needs. Evaluating future needs for space statewide is important because downward pressure on employment continues to drive up vacancies throughout state government. In recent years, the state has acquired an inventory of property in Santa Fe including locations on Jaguar Drive, the College of Santa Fe, in Valdez Industrial Park, and on Galisteo.

Lease Data for Select Agencies

Human Services Department

Square Feet	756,471
Annual Cost	$16.2 million
FTE Assigned	2,058
Vacant FTE	347

Department of Health

Square Feet	259,472
Annual Cost	$3.9 million
FTE Assigned	559.5
Vacant FTE	81

Children Youth and Families Department

Square Feet	527,818
Annual Cost	$8.6 million
FTE Assigned	1,037.5
Vacant FTE	157.5

Taxation and Revenue Department

Square Feet	210,515
Annual Cost	$8.6 million
FTE Assigned	506.5
Vacant FTE	69

Department of Vocational Rehabilitation

Square Feet	138,664
Annual Cost	$2.7 million
FTE Assigned	315
Vacant FTE	48

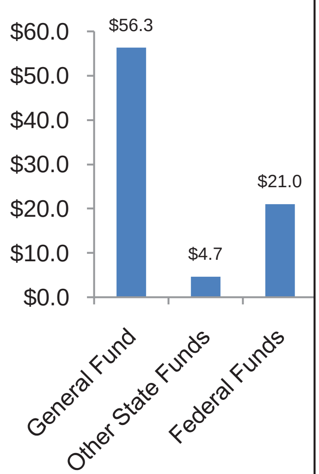
Note: The New Mexico Department of Transportation suspended action indefinitely for feasibility studies for redevelopment of its headquarters and District 5 properties.

FY12 State Agency IT Request
(in thousands)

Agency	Total
AOC	$1,217.0
CD	$350.0
CYFD	$1,718.0
DPS	$6,520.0
ERB	$3,500.0
GSD	$4,000.0
HSD	$36,844.0
PED	$16,399.6
SCRA	$1,272.4
SEO	$1,325.0
SOS	$2,324.3
TRD	$6,546.0
Total	**$82,016.3**

Source: LFC Analysis

FY12 Nonrecurring IT Requests
(in millions)



Source: LFC Analysis

Technology is the tool that will allow state government to gain efficiencies, save money, and operate with a smaller workforce, especially in austere budget times. Although all benefits of using technology for day-to-day operations or for information sharing have not been fully quantified, reducing or eliminating redundant data entry or reducing the need to print or email documents can save time and money.

Using Technology To Achieve Savings. Using technology to capture data once and use it multiple times by different organizations to achieve savings is demonstrated with sharing citation data among law enforcement, the courts and the Taxation and Revenue Department (TRD) Motor Vehicle Division.

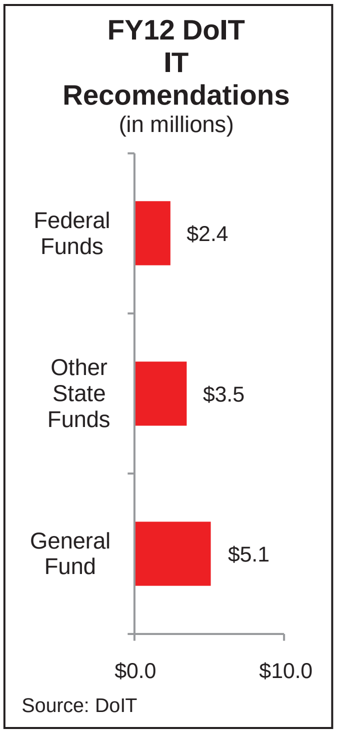
Additionally, the judiciary is implementing a statewide case management system with integrated electronic content/document management and electronic filing that is already providing staff efficiencies and savings. An electronic records repository would greatly reduce the cost of records retention across state government. More and more state agencies are transacting business using electronic data collection methods, yet the agency responsible for overall state government records management cannot meet its statutory responsibility due to a lack of technology. The State Commission on Public Records does not have the technology in place to accept state agency's electronic records. Instead, electronically collected data has to be converted to paper or microfilm, incurring additional cost for supplies and storage.

New Mexico Sunshine Portal. Laws 2010, Chapter 34, created the Sunshine Transparency Act requiring the Department of Information Technology (DoIT) to create a portal for government transparency and accountability to be available no later than July 1, 2011. DoIT staff working with a contractor created the architecture and the searchable public-access portal, which could be available for public use as early as January 1, 2011. The public-access portal could immediately save money in state agencies in all three branches of government because staff would no longer need to spend time responding to inspection of public records requests or printing and mailing the paper records. The site could rank in the top five in the nation.

FY12 Information Technology Recommendations. LFC received 42 information technology (IT) requests from 12 state agencies totaling $82 million. The Human Services Department (HSD) did not request any funding in the requests submitted in September 2010 for its Income Support Division integrated delivery system (ISD2). In October 2010, HSD requested $15.8 million in general fund revenues or severance tax bonds and $21 million in federal funds for ISD2, which included a request to add federally required health insurance exchange provisions. Eleven of the 42 requests totaling $49.2 million were for ongoing projects, $31 million was for new projects, and $1.4 million was for projects that did not meet the strict IT project criteria.

The recommendation is $2.2 million from the general fund and $4.7 million from other state funds. The LFC recommendation reflects the use of technology to achieve savings across state agencies. DoIT recommended $1.9 million for HSD's ISD2 request and $3.3 million for the upgrade of the TRD tax system. LFC does not support either recommendation. Currently, HSD has $30 million to contract with a vendor and start the project. The current version of the replacement tax system requires $2.7 million annually to maintain and support, 82 percent of the cost of the software, well above the industry standard of 18 percent to 22 percent.

HSD and TRD requested extensions of time to expend appropriations from 2007 and 2009, respectively. LFC does not recommend either extension of time. The appropriation to HSD has been available for over three years and other IT projects have been a greater priority. Although, HSD has spent $433.6 thousand, almost $700 thousand remains available from general fund revenues and federal funds. TRD requested additional time to spend $1.8 million for an upgrade to its tax system, which was completed and the project closed out in July 2010. The remaining balance should be reverted to the general fund.



Supercomputer. In 2007, New Mexico purchased the world's fastest supercomputer, Encanto, for $11 million. Three years later Encanto has fallen to 32nd fastest in the world. Since Encanto was purchased, the New Mexico Computing Application Center (NMCAC) has been unable to generate sustainable operating revenue. NMCAC has relied almost exclusively on state general fund revenues ($5.9 million) to operate. In 2009 and 2010, NMCAC received $402.7 thousand from private sources. Even though it had no sustainable private revenue sources and no appropriated general fund revenues past FY10, NMCAC spent $2.9 million to procure gateways for 20 state universities and colleges to access the supercomputer. It is questionable whether an entity unable to generate sustainable operating revenue can continue as a "going concern" and leaders should seriously consider divesting the state of this asset.

Encanto has fallen to 32nd fastest in the world.

Gateways at Universities

Special, Supplemental and Deficiency Recommendations. State agencies requested $26.5 million from the general fund for special, supplemental, and deficiency appropriations. Requests from all funding sources totaled $38.6 million. Specific requests and funding recommendations are presented in Table (5). The committee's recommendation prioritizes critical or mandated services in ordinary years and reflects a preference that agencies operate within appropriated resources rather than using special, supplemental, and deficiency appropriations to increase operating budgets.

LFC recommends $24.3 million from the general fund for special, supplemental, and deficiency requests. Recommendations are based on agencies documenting need. Several agencies did not provide projections or documentation of shortfalls to justify requests. The committee recommends $12.5 million for special requests, including $4 million for school districts. LFC also recommends $19.7 for supplemental requests, including $100 thousand for jury and witness costs, $300 thousand for public defender operating shortfalls, $8.6 million for childcare programs, and $2.3 million for the Developmentally Disabled and Medically Fragile Medicaid Waiver program.

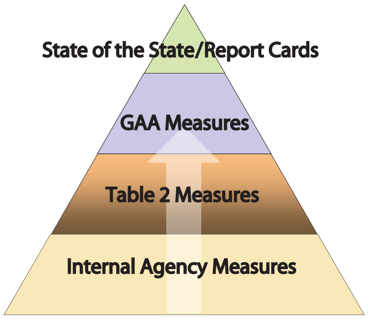
Fund Transfers. LFC recommends transferring cash balances from various funds to the general fund in the amount of $50.3 million. The funds were analyzed including outstanding encumbrances or other commitments against the balance to ensure availability of the funds for transfer to the general fund and that sufficient amounts remain to cover any outstanding obligations. Specific transfer recommendations are presented in Volume III.

Significant recommended transfers include $20 million from two funds administered by the New Mexico Finance Authority (NMFA) – the contingent liquidity account and the common debt reserve fund. These funds are used to provide liquidity for unforeseen or extraordinary events, as well as to provide additional assurance to bondholders and ratings agencies. Sufficient balances remain to ensure future liquidity. The contingent liquidity account and common debt reserve are funded annually by an amount equal to 25 percent of governmental gross receipts tax flow-through received by the NMFA each fiscal year. Also, $15.3 million is recommended for transfer from the college affordability endowment fund. The September 30 fund balance was $21.6 million. After deducting FY11 and proposed FY12 appropriations, the balance is $15.3 million. Thirteen other funds are recommended for transfer in amounts up to $5 million.

PERFORMANCE REPORTS

In response to a growing demand for accountability and transparency from the public and the Legislature, the Accountability in Government Act (AGA) was signed into law on March 10, 1999. Implementing the provisions of the act ushered in performance-based program budgeting – a process that focuses on results as measured by performance (inputs, outputs, outcomes, etc.), rather than on objects of expenditure (salaries, supplies, travel, etc.). More extensive LFC reporting on performance began with the first Volume I compilation in January 2005 for the FY06 budget cycle. Policy and performance information were initially integrated in the same sections. By January 2007 the performance information evolved into a separate section of Volume I that highlighted the growing importance of the process. It is a process that demands active participation from the LFC and DFA staff and executive agencies to foster continuing improvement.

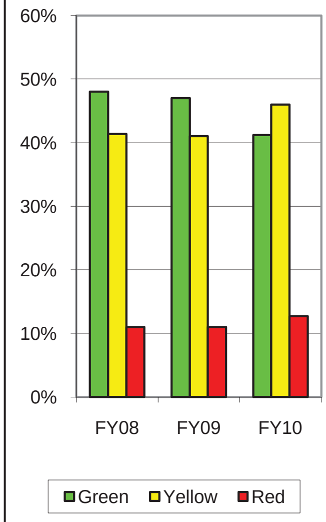
Performance Measure Hierarchy



Report Cards. LFC staff individually reviewed agency strategic plans, program measures, and objectives to ensure that program measures were aligned with agency direction and mission. LFC senior management then reviewed the results with staff. This collaboration was to ensure that performance measures were actually evaluating the programs in a meaningful fashion and that report card criteria are applied consistently among all agencies. The agency report cards are the outcome of this effort and are a key element in monitoring agency performance. Performance criteria are reviewed on the following page.

FY10 Performance. Where appropriate, individual report cards were revised to incorporate agency input. A lower percentage of programs achieved a green rating, 41 percent compared with 47 percent, than in FY09. The percent for both yellow and red increased, leaving the overall results lower. This reverses the upward trend for the past two years. Taken together the performance reports in this volume may be viewed as a state of the state report. The report cards include the more meaningful measures that best represent a program's performance.

Report Card Program Rating Performance Summary FY08-FY10



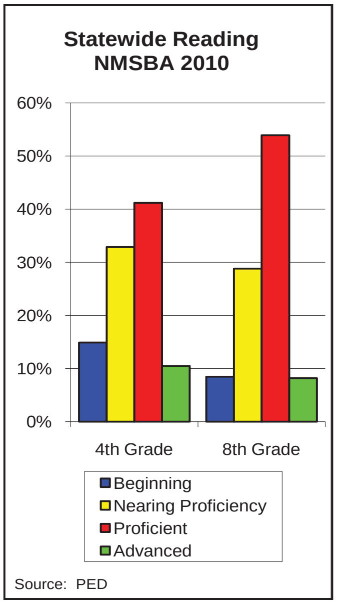
Source: LFC Files

In accordance with the provisions of the AGA, the ability of LFC and its staff to improve measures is limited, as fundamental authority over performance reporting resides in the executive. The Department of Finance and Administration (DFA) approves new measures and deletes others, and the LFC's role is that of consultation. Some agencies have too many measures tracking process, as opposed to the effectiveness of core functions. Other agencies may not have enough measures given the size of their programs and appropriation level. Many have demonstrated considerable progress in the application of performance measurements in program evaluation. But, successes aside, LFC would like to see more agency action plans that address performance issues. Nevertheless, LFC will continue to recommend important measures and programs for the General Appropriation Act and, if the situation merits, recommend measures not endorsed by DFA.

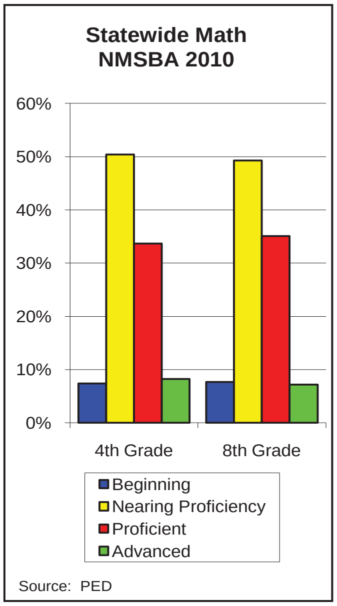
PERFORMANCE REPORT CARD CRITERIA
LEGISLATIVE FINANCE COMMITTEE

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

For FY10, three strategic elements were considered in evaluating the effectiveness of New Mexico's public schools: student achievement, teacher quality, and student persistence. The Public Education Department certified its annual report of student achievement, highlighting a graduation rate of 66.1 percent for freshman entering high school in 2006 and graduating in 2010, an almost 6 percent increase over 2009. This number does not include students who left school and received a general education development (GED) certificate, moved out of state, or are still enrolled in high school. The department reported, based on FY10 assessment results, 549 schools, or 66.4 percent of all schools are in the school improvement cycle for the FY11 school year, an increase of 41 schools over FY10. This increase continues to be the result of more schools entering the school improvement cycle for the first time or coming off of delay status for not meeting AYP in consecutive years.

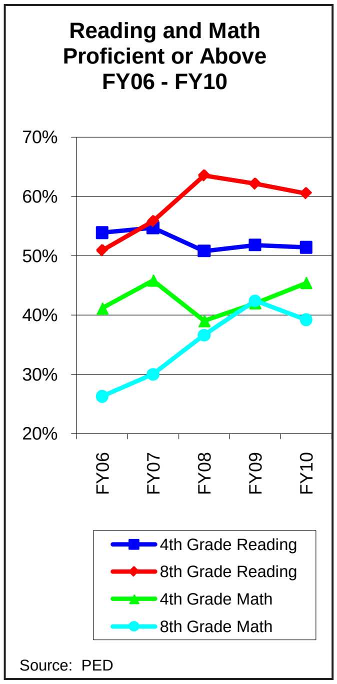


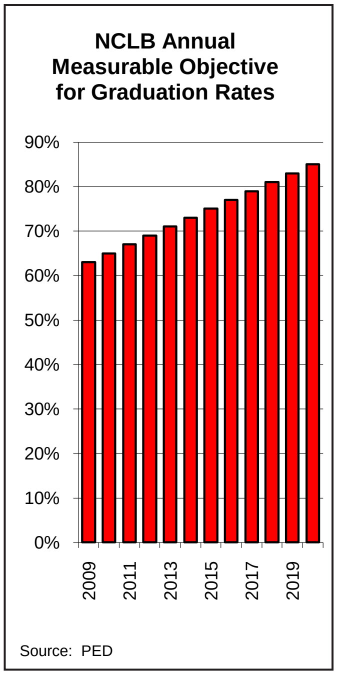
Public school support accounts for little under half of the state's budget with limited accountability because most data are collected and reported annually and as a statewide composite, making it difficult to assess progress by districts during the year. To address this, the Legislature should consider requiring a statewide short–cycle assessment to be reported to the department at least three times a year. Over 70 districts already use one of at least nine short-cycle assessments. These assessments are not designed to assess proficiency but can be used to assist in making instructional decisions and also to indicate student growth within a school year. An additional benefit to interim reporting of student growth would be to help the department determine how to better support schools.



Student Achievement and Teacher Quality. New Mexico students show a gradual upward trend in math and reading achievement. The percentage of students proficient or above has increased 12 points in math and 3 points in reading over the last six years. The percentage of students proficient or above in math increased in all grades but eighth in 2010. Eighth-grade math scores have increased almost 60 percent over the last six year; however they have decreased 3 points from FY09. New Mexico students show small and irregular growth in reading achievement. The percentage of students proficient or above in reading increased in fifth and 11th grades, and decreased in third, fourth, sixth, seventh and eighth grades, though eighth grade still shows the largest increase over the past six years at 9 percent. Fourth-grade proficiency levels over the same period of time remains relatively flat.

With the implementation of three-tier licensure, the percent of classes taught by highly qualified teachers should continue to improve to the No Child Left Behind (NCLB) requirement of 100 percent. Statewide, schools continue to increase the numbers of highly qualified teachers teaching classes, moving toward 100 percent. Because a large number of teachers from external sources such as Teach for America and Save the Children are used by some districts in the state, achieving the 100 percent goal will be difficult. Generally, these are high-quality teachers but they lack the certification and training required to be considered high quality under





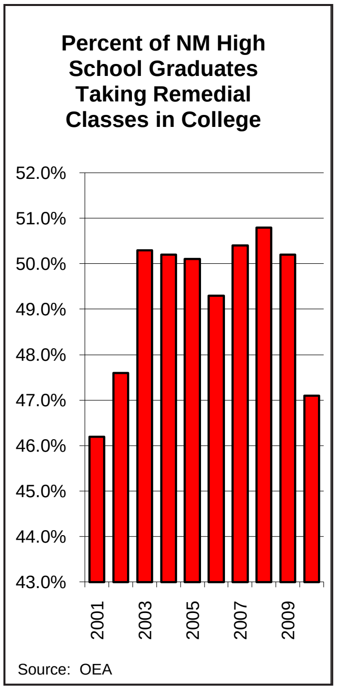
NCLB. Highly qualified teachers, however, aren't necessarily highly effective. Despite having a workforce of teachers that is almost 100 percent highly qualified, significant achievement gains are still not being attained.

Measure	**FY09 Actual**	**FY10 Target**	**FY10 Actual**	**FY10 Rating**
Percent of fourth-grade students who achieve proficiency or above on standards-based assessments in reading	51.8%	65%	51%	R
Percent of eighth-grade students who achieve proficiency or above on the standards-based assessments in reading	62%	65%	61%	R
Percent of fourth-grade students who achieve proficiency or above on the standards-based assessments in mathematics	42%	50%	45%	R
Percent of eighth-grade students who achieve proficiency or above on the standards-based assessments in mathematics	42.4%	40%	39%	R
Percent of recent New Mexico high school graduates who take remedial courses in higher education at two-year and four-year schools	50.2%	40%	47.1%	R
Current year's cohort graduation rate using the four-year cumulative method	60.3%	60%	66.1%	R
Annual percent of core academic subjects taught by highly qualified teachers, kindergarten through twelfth grade	98.2%	100%	99.5%	Y
			Overall Program Rating	R

Department Operations. The department continues to experience problems with a number of financial operations and with providing timely reimbursements to school districts. Districts continue to complain about the extra time needed for the department to process and pay reimbursements. Since FY09, $271 million in federal funds have been awarded to districts to assist with reduced general fund availability. As of September 2010, $181.7 million remains unexpended. With decreased general fund allocations, distribution of these federal funds in an accurate and timely manner is more critical than ever.

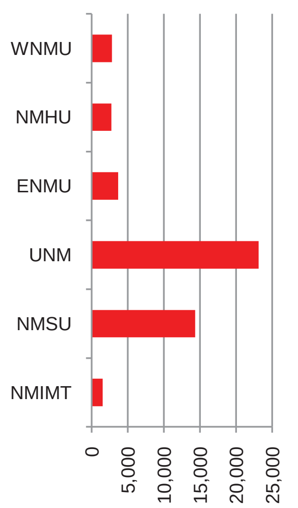
The department also continues to experience difficulties in processing and tracking data accurately using the STARS data warehouse. STARS is 100 percent in production as funded; however, it is not 100 percent complete. Phase three of the data warehouse project has been stalled; the department estimates $4.5 million additional funding is needed to bring STARS up to speed with data reporting.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of No Child Left Behind Act adequate yearly progress designations publicly reported by August first	100%	100%	100%	G
Percent completion of the data warehouse project	100%	75%	100%	Y
Percent of teachers passing all strands of professional dossiers on the first submittal	N/A	85%	71%	R
Percent of teachers adequately informed and trained on the preparation of the licensure advancement professional dossiers	81%	95%	75%	R
Percent of customers interacting with the public education department who report satisfaction with their telephone communications with the department	92.5%	97%	95%	Y
Average processing time for school district budget adjustment requests, in days (direct grants)	4	7	4	G
Average processing time for school district budget adjustment requests, in days (flow-through funds)	18.8	7	18.2	R
		Overall Program Rating		Y



Most institutions statewide began participation in the national Voluntary System of Accountability (VSA) in FY09 when fees were covered by the Lumina Foundation. Now that the institutions are required to cover their own fees, most are opting out, this after signaling that VSA would be a superior and more transparent method of measuring performance.

Full-Time-Equivalent Student Enrollment Fall 2010



Source: CUP, 2010

The Higher Education Department (HED) reports performance measures for its agency along with performance measures for higher education outcomes for the state. The Council of University Presidents (CUP), New Mexico Association of Community Colleges (NMACC), and the New Mexico Independent Community Colleges (NMICC) 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.

Universities. For FY09, most of the universities agreed to participate in the Voluntary System of Accountability (VSA), an initiative by public four-year universities to supply basic, comparable information through a common set of performance indicators and a unified web-based report.

Three-year start-up funding for the initiative was provided by the Lumina Foundation, with institutions scheduled to pick up the cost, estimated at $27 thousand annually, beginning in 2010. New Mexico's institutions are resisting participating because of the cost, a nominal amount of an almost $800 million annual appropriation to higher education. The reasons the institutions are unwilling to pay relatively little money for a system that would improve reporting and comparative data analysis are unclear.

The state's four-year institutions use common measures as well as measures reflecting each institution's unique mission, students, and local needs. The Council of University Presidents, in its annual *Performance Effectiveness Report* (PEP), notes all institutions reached their highest full-time-equivalent (FTE) enrollment in fall 2010 when compared with the past five years. For 2010, enrollment is up 63.3 percent at Western New Mexico University (WNMU) and 20 percent at Eastern New Mexico University (ENMU) compared with FY06.

Measures of access include transfer students from two-year community colleges into four-year universities. Overall, the number of transfer students is increasing statewide, with the University of New Mexico (UNM) accounting for almost 50 percent of total transfers. New Mexico State University (NMSU) exceeded targets for transfers by about 20 percent and ENMU by more than 34 percent.

Retention and graduation rates continue to be primary indicators of institutional performance, with the comprehensive universities continuing to lag behind the research universities in retaining freshman. For FY10, freshman retention from fall 2009 to fall 2010 was flat or down with only New Mexico Highlands (NMHU) and WNMU showing improvement.

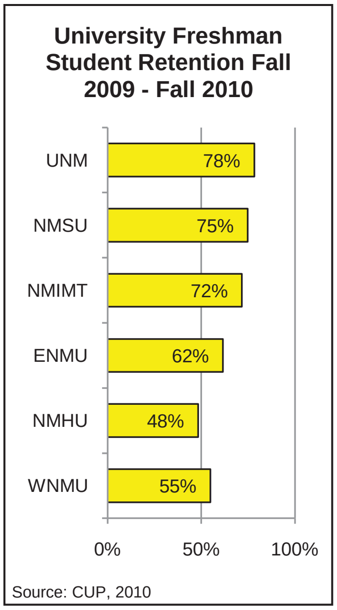
Of concern are declining six-year completion rates for first-time, full-time freshman at the New Mexico Institute of Mining and Technology (NMIMT), ENMU, and WNMU. ENMU is implementing an outreach program to connect with students nearing graduation who have stopped out or dropped out. WNMU notes issues related to a diverse working population but is not implementing additional intervention programs because of budget constraints.

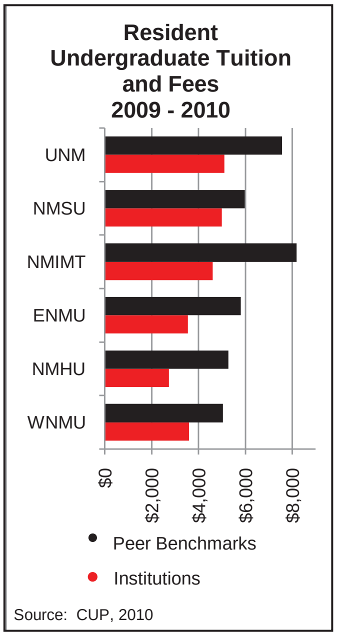
Institutional efficiency remains a concern for the Legislature. One measure is the ratio of total educational resources dedicated to administrative costs relative to total education and general expenditures. For FY10, these ranged from a low of 4.8 percent at UNM to a high of 13.3 percent at WNMU. Some differences over time are apparent but in general these percentages appear to remain fairly stable.

The UNM Health Sciences Center (HSC) reports measures for the first-time pass rate on the North American Pharmacist Licensure Examination, student pass rates on the American Nurses Credentialing Center examination, the number of autopsies performed by the Office of the Medical Investigator, and the number of patient days at the Carrie Tingley Hospital.

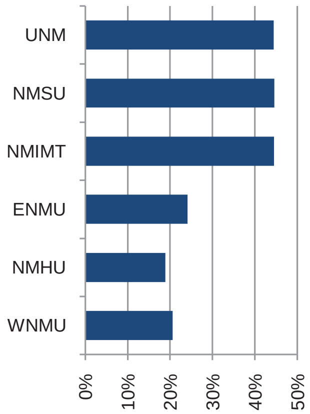
Retention Fall-to-Fall	**Fall 2008 to Fall 2009 Actual**	**Fall 2009 to Fall 2010 Target**	**Fall 2009 to Fall 2010 Actual**	**Rating**
UNM freshman retention	79.2%	77.2%	78.3%	G
NMSU freshman retention	75.4%	78%	74.8%	R
NMIMT freshman retention	72%	75%	71.7%	R
ENMU freshman retention	61.2%	61.5%	61.6%	G
NMHU freshman retention	45.3%	53%	48.3%	R
WNMU freshman retention	52.1%	66.5%	54.9%	R
			Overall Program Rating	Y

Six-Year Completion Rates for First-Time, Full-Time Freshman	**Fall 2003-Summer 2009 Actual**	**Fall 2004-Summer 2010 Target**	**Fall 2004-Summer 2010 Actual**	**Rating**
UNM	42.7%	45.5%	44.4%	Y
NMSU	44.7%	45.0%	44.6%	Y
NMIMT	45.4%	50%	44.5%	Y
ENMU	29.2%	34.0%	24.1%	R
NMHU	18.6%	20%	18.9%	Y
WNMU	25.6%	24.5%	20.6%	R
			Overall Program Rating	Y



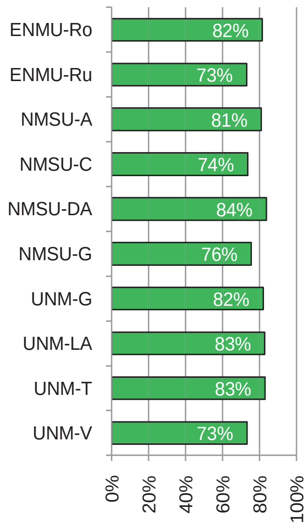


Six-Year Completion Rate First-Time, Full-Time Freshman 2004-2010



Source: CUP, 2010

Branch Campus Student Retention Fall 2009 - Spring 2010



Source: NMACC, 2010

Transfers from Two-year Colleges	2008-2009 Actual	Spring/Fall /Spring 2009-2010 Target	Spring/Fall/ Spring 2009-2010 Actual	Rating
UNM	1,532	1,690	1,839	G
NMSU	848	750	902	G
NMIMT	40	40	50	G
ENMU	551	430	578	G
NMHU	492	450	430	R
WNMU	167	170	138	R
			Overall Program Rating	Y

__**Two-Year Branch Campuses**__. Performance measures for the two-year branches are reported annually along with semi-annual reports submitted by NMACC. This report includes data through spring 2010, reflecting a delayed reporting period compared with four-year institutions.

The two-year branch colleges report improvement in retaining first-time, full-time freshmen to the second year for all but two of the institutions. Although NMSU-Grants met its annual target for FY10, it dropped about 5 percentage points below FY09. UNM-Valencia did not meet its target and dropped more than 13 percentage points below FY09. The strongest improvement occurred at ENMU-Roswell and NMSU-Carlsbad, both of which have implemented several initiatives to address erosion in freshman persistence rates.

Retention, Fall-to-Spring	Fall 2008 to Spring 2009 Actual	Fall 2009 to Spring 2010 Target	Fall 2009 to Spring 2010 Actual	Rating
ENMU-Roswell	74.1%	76.9%	81.6%	G
ENMU-Ruidoso	68.5%	60.0%	73.0%	G
NMSU-Alamogordo	79.1%	78%	81.0%	G
NMSU-Carlsbad	63.3%	71.0%	73.7%	G
NMSU-Dona Ana	83.2%	81.0%	83.7%	G
NMSU-Grants	80.8%	75.0%	75.6%	G
UNM-Gallup	83.1%	82.0%	82.0%	G

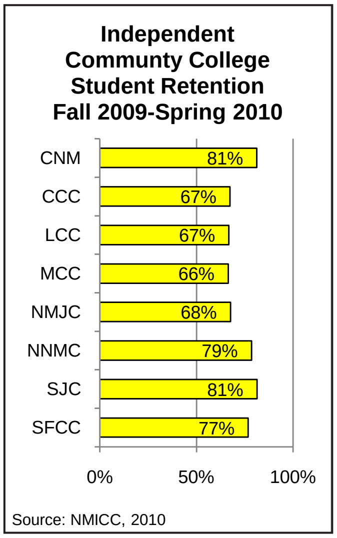
UNM-Los Alamos	80.9%	78.0%	82.9%	G
UNM-Taos	77.6%	75.0%	83.0%	G
UNM-Valencia	86.8%	80.0%	73.2%	R
			Overall Program Rating	G

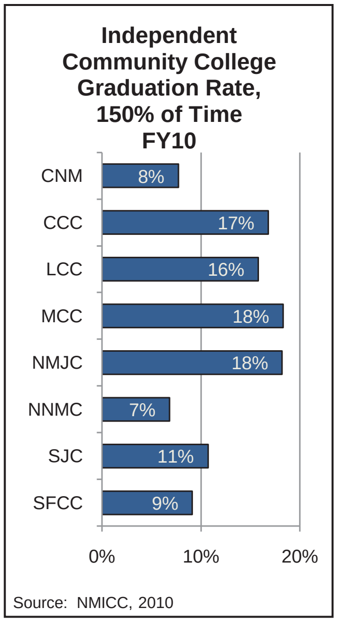
Two-year Independent Community Colleges. The Independent Community College Accountability Report and a subset of performance measures are reported annually by NMICC. Fall to spring retention at the independent community colleges is mixed for FY10. While these institutions posted average improvement in freshman persistence in FY09, half reported reduced persistence in FY10 with another showing no change. The current economic situation has been pointed to as a factor in enhancing student interest in staying in college, which makes the reduced persistence rates difficult to explain. Clovis Community College reported activity at Cannon Air Force Base is stabilizing, yet it posted a relatively sizeable decline in freshman retention.

All but one of the institutions fell below targets for the percent of first-time, full-time degree-seeking students completing within three years. This may be correlated to the increase in transfers to the four-year institutions, but more analysis is needed. All of the independent colleges showed strong results for students obtaining jobs or staying in college.

Retention, Fall-to-Spring	Fall 2008 to Spring 2009 Actual	Fall 2009 to Spring 2010 Target	Fall 2009 to Spring 2010 Actual	Rating
Central NM Community College	79.6%	81.0%	81.2%	G
Clovis Community College	72.2%	78%	67.4%	R
Luna Community College	66.2%	80%	66.7%	R
Mesalands Community College	70.5%	64%	66.4%	G
New Mexico Junior College	68.0%	73.5%	67.6%	R
Northern NM College	77.6%	80%	78.5%	Y
San Juan College	76.3%	76%	81.3%	G
Santa Fe Community College	81.5%	79%	76.8%	R
			Overall Program Rating	Y

Inconsistent reporting between the two-year and four-year institutions remains a concern.





Only three of the independent community colleges demonstrated improvement in the percent of first-time, full-time degree-seeking students completing within three years.

All of the independent community colleges demonstrated strong performance in the percent of student completing programs or continuing their education in New Mexico

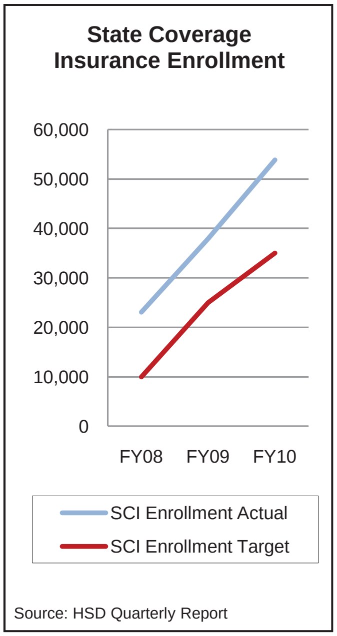
Percent of First-time, Full-time Degree-Seeking Students Completing within 150% of time	**2009 Actual**	**2010 Target**	**2010 Actual**	**Rating**
Central NM Community College	8.4%	11%	7.7%	R
Clovis Community College	10.5%	9.7%	16.8%	G
Luna Community College	14.6%	26.0%	15.8%	R
Mesalands Community College	21.1%	28.5%	18.3%	R
New Mexico Junior College	24.1%	34%	18.2%	R
Northern NM College	7.4%	15%	6.8%	R
San Juan College	12.2%	15%	10.7%	R
Santa Fe Community College	8.4%	11%	9.1%	R
		Overall Program Rating		Y

Percent of Program Completers Placed in Jobs or Continuing Education in NM	**Actual**	**Target**	**Actual**	**Rating**
Central NM Community College	91.2%	86%	92.9%	G
Clovis Community College	84%	80%	87.1%	G
Luna Community College	94.7%	94%	95%	G
Mesalands Community College	78.7%	78%	81.7%	G
New Mexico Junior College	83.3%	80%	85.7%	G
Northern NM College	81.9%	80%	91.2%	G
San Juan College	75%	68%	82.8%	G
Santa Fe Community College	87.5%	86%	88.8%	G
		Overall Program Rating		G

Higher Education Department. The Higher Education Department (HED) consists of two programs and has a department strategic plan in place through 2012; but did not submit a monitoring plan. Although HED is an oversight agency, LFC has not received a performance report card since FY07.

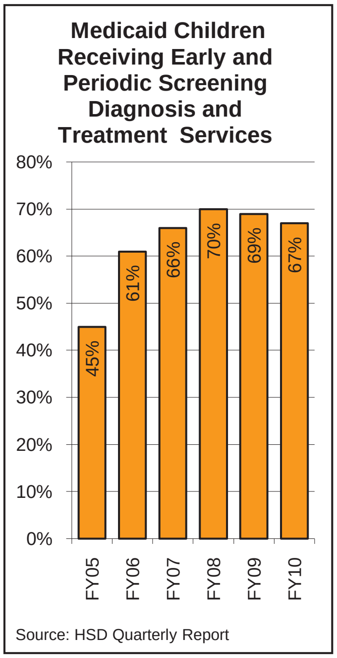
The department needs to develop measures related to oversight and compliance, particularly measures that address building renewal and replacement monitoring, the facility condition index status, timely special project and flow-through appropriations distributions, and review of special appropriation performance reports.

Surging enrollment across the department's programs is straining performance in the Medical Assistance, Income Support, and Child Support Enforcement programs. While more individuals are enrolled in HSD programs, lower percentages of these clients are accessing services, especially in Medicaid. Given the size and importance of these social services programs, especially Medicaid and the Temporary Assistance for Needy Families (TANF), broader measures of client health and job status are necessary to monitor and gauge program effectiveness. The department's quarterly report is clearly presented and includes action plans to address lower performing areas.

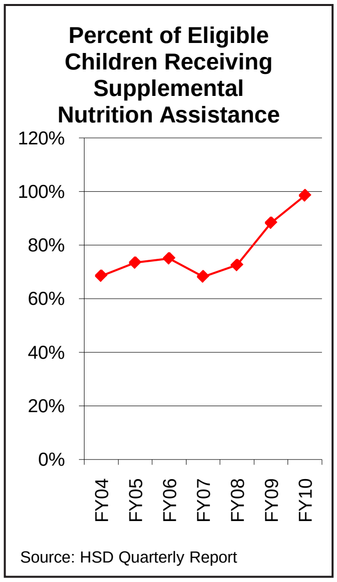


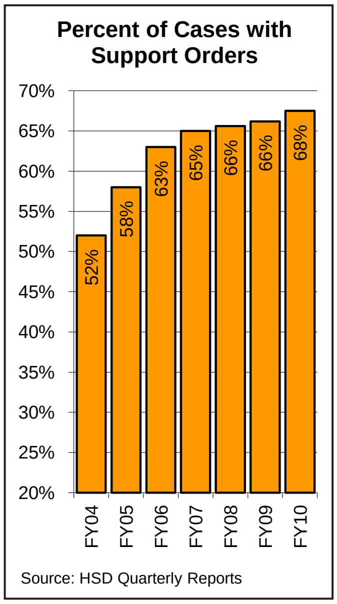
Medical Assistance Program. HSD tracks most of this performance data through its contracts with managed-care organizations (MCOs). The department sets performance targets for the MCOs and has a financial incentive program for performance. The department should report on a broader set of outcome measures to determine whether client health is improving. Some of this data (e.g., for asthma and diabetes) is already reported to HSD and will be reported more publicly in future years.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Number of children in the Medicaid school-based services	16,795	17,500	18,038	G
Percent of children in Medicaid managed care receiving early and periodic screening, diagnosis and treatment services	71%	69%	67%	R
Percent of age-appropriate women enrolled in Medicaid managed care receiving breast cancer screens (cumulative)	51%	53%	53%	G
Number of adults enrolled in state coverage insurance (SCI)	37,918	35,000	53,918	G
Percent increase of eligible children under twenty-one years of age who get healthcare coverage through medical assistance programs	6.3%	5%	5.2%	G
			Overall Program Rating	G



Medicaid Behavioral Health. Medicaid is the dominant payer of behavioral health services, but the department reports only one Medicaid-only behavioral health measure. Any readmission should be at a lower level of care in a residential treatment center – an indication of improvement in behavioral health. HSD has raised concerns about the validity of the data for this measure, and the methodology for its calculation is being revised. Separately, the Behavioral Health Collaborative submits a quarterly report, tracking the behavioral health programs across state government.





Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of readmissions to the same level of care or higher for individuals in managed care discharged from a residential treatment center	9.5%	8%	6.5%	Y
			Overall Program Rating	Y

Behavioral Health Services Program. The Behavioral Health Collaborative is required to report on behavioral health measures across state government, and the measures here are reported annually or bi-annually. The Behavioral Health Collaborative's Quality Improvement Committee plans to work with providers to improve outcomes for these clients. For FY11, the program will track and report additional quarterly measures that gauge progress in meeting these annual targets.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of people receiving substance abuse treatment who demonstrate improvement on two or more domains of the addiction severity index for alcohol	80.4%	79%	80%	G
Percent of people receiving substance abuse treatment who demonstrate improvement on two or more domains of the addiction severity index for drugs	61%	75%	67%	R
Suicide rate among adults age twenty and older per one hundred thousand	20.6	20	22.6	R
Suicide rate among children age fifteen to nineteen per one hundred thousand	18.5	14	17.5	R
			Overall Program Rating	R

Income Support Program. The program has had greater success in meeting the federally required work participation rates in the Temporary Assistance for Needy Families (TANF) program over the past few years but performance slipped in FY10. Better coordination with New Mexico's one-stop centers for job placement services is needed to better serve clients. The program is meeting all of its performance measures in the Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps), and SNAP enrollment continues to grow. The significantly high penetration rate of SNAP enrollment will be overstated if population data is not current. The department has worked to reach out to SNAP-eligible clients, but this significant enrollment growth is due mostly to the economic recession.

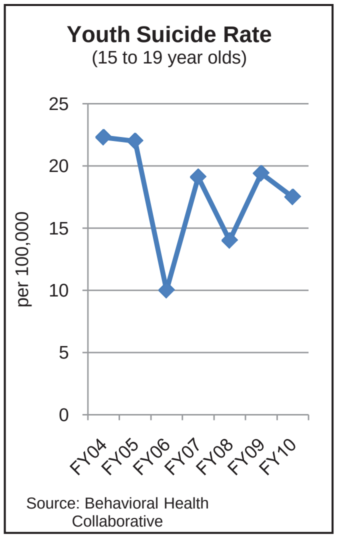
Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of TANF participants who retain a job for six or more months[1]	42.8%	78%	46.5%	R
Percent of TANF two-parent recipients meeting federally required work requirements	81.4%	60%	60.5%	G
Percent of TANF recipients (all families) meeting federally required work requirements	55.7%	50%	44.7%	R
Percent of SNAP-eligible children participating in the program	88.3%	72%	98.5%	G
Percent of expedited food stamp cases meeting the federally required timeliness of seven days	97.9%	98%	98.5%	G
Number of New Mexico families receiving food stamps	127,141	95,150	155,831	G
			Overall Program Rating	Y

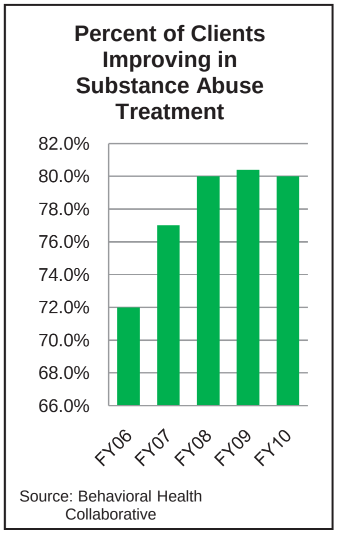
[1]HSD reports on a six-month retention rate instead of a three-month retention rate as in House Bill 2. Target is set for three-month retention rate.

Child Support Enforcement Program. As in other programs, higher unemployment and caseload growth have impacted performance in this program. Caseloads grew from 58,137 to 62,098, or 6.8 percent, in FY10. Nevertheless, the percent of cases with support orders – a key measure of enforcement – has steadily improved, moving from 51 percent in FY04 to 67.5 percent in FY10. However, the program is below the national average of 79.1 percent. While collections continue to increase, more child support is owed during the recession.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of children with paternity acknowledged or adjudicated	69.8%	72%	73.6%	G
Total child support enforcement collections, in millions	$111.1	$105	$115.4	G
Percent of child support owed that is collected	59.3%	59%	57.8%	R
Percent of cases with support orders	66.2%	69%	67.5%	R
			Overall Program Rating	Y

Behavioral Health Collaborative



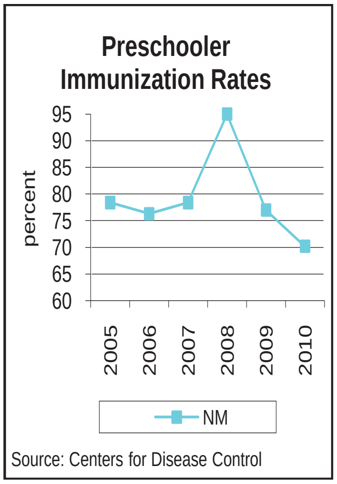


This 17-member oversight body is charged with coordinating a single, statewide behavioral health system. Without a budget or staff, the collaborative relies on the resources of its member agencies. The collaborative has developed a broad set of performance measures to track progress in meeting client needs and restructuring behavioral health in New Mexico to emphasize community-based care. The collaborative, however, needs a more thorough quarterly report explaining the data and actions needed to improve performance.

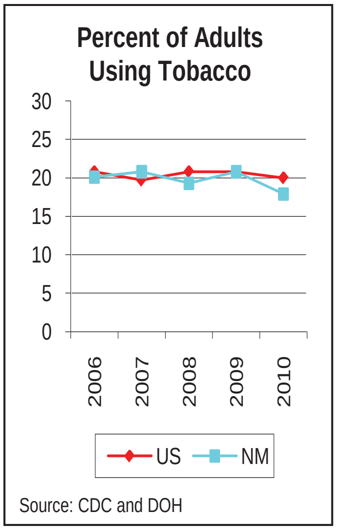
The measures are reported to the collaborative by various lead agencies across the state, ranging from the Public Education Department to the Department of Public Safety. The collaborative reviews the data each year. The statewide entity, currently OptumHealth NM, served a slightly higher number of individuals than FY09. However, since inception, the statewide entity has served about 75,000 New Mexicans, yet total costs and expenditures have increased significantly as clients access more services.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Youth suicide rate among fifteen to nineteen year-olds per one hundred thousand (based on three year averages)	17.9	14	17.5	R
Percent of people receiving substance abuse treatment who demonstrate improvement in the drug domains on the addiction severity index	61%	75%	67%	R
Percent of people receiving substance abuse treatment who demonstrate improvement in the alcohol domain on the addiction severity index	80.4%	80%	80%	G
Percent of youth on probation who were served by the statewide entity	42.6%	45%	62.6%	G
Percent of adults on probation who were served by the statewide entity	21.4%	39%	20%	R
Percent of individuals discharged from inpatient facilities who receive follow-up services at seven days	32.1%	37%	34.5%	R
Percent of individuals discharged from inpatient facilities who receive follow-up services at thirty days	55.4%	59%	52.7%	R
Number of individuals served annually in substance abuse or mental health programs or both administered through the statewide entity contract	76,105	73,000	77,578	G
Reduction in the gap between children in school who are receiving behavioral health services and their counterparts in achieving age appropriate proficiency scores in reading (R) and math (M) (eighth grade)	13.5% R 18% M	N/A	11.9% R 15.6% M	Y
Percent of persons receiving substance abuse treatment or services by the statewide entity arrested for driving while intoxicated	13.6%	12%	12%	G
			Overall Program Rating	**Y**

The Department of Health (DOH) tracks performance data in an easy to read and understand format. Consistency of staff in performance evaluation provides continuity of data collection and reporting. Solid performance is evident in the Public Health, Epidemiology and Response, Health Certification Licensing and Oversight and Administration programs. The Laboratory Services Program continues to struggle with vacancies in key positions and court subpoenas limit staff availability. The Developmental Disability Support Program needs to develop meaningful measures for this important and expensive program. New measures have been adopted for FY11, although none are in the 2010 General Appropriation Act. New measures will be included in FY11 for facilities management. Not measured was the agency response to the H1N1 influenza, which was commendable and resulted in New Mexico having the highest vaccination rate in the region.



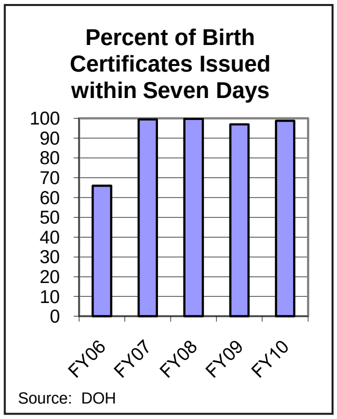
Public Health Program. Childhood immunizations continue to get significant attention but the rate declined 7 percent from FY09. This may be the result of the emphasis on H1N1 vaccinations established by federal authorities. The percentage of adults using tobacco products continued to decline; however, the 2010 General Appropriation Act reduced tobacco cessation funding, and this measure needs to be closely followed to assess the impact.

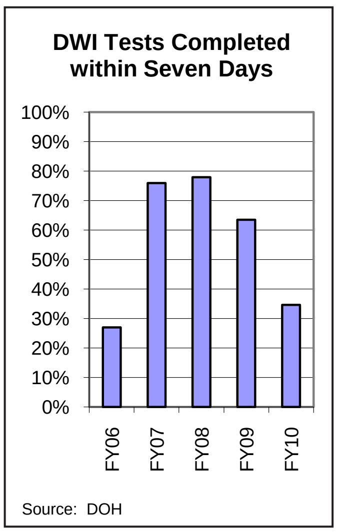


Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of preschoolers fully immunized	77%	82%	70.2%	Y
Number of providers using the statewide immunization registry	330	360	453	G
Number of visits to agency-funded school-based health centers	43,421	43,500	60,817	G
Percent of adults who use tobacco	20.8%	19.2%	17.9%	G
			Overall Program Rating	G

Epidemiology and Response Program. The program is above target on two measures. Also, the real world response to the H1N1 influenza A has validated the state's readiness to respond to pandemic flu emergencies. Despite reduced funding, two additional trauma centers have been added.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Number of health emergency exercises conducted to assess and improve local capability	53	85	105	G
Number of designated trauma centers in the state	6	10	8	Y





Percent of birth certificates issued within seven days of receipt of fees and materials	97%	98%	98.7%	G
			Overall Program Rating	G

<u>Scientific Laboratory Program</u>. The number of subpoenas and discovery orders increased 32 percent, requiring laboratory scientists to spend considerable time in court to defend test results, which significantly contributed to the underperformance in DWI testing. Communicable disease samples have increased and vacancies impede turn-around times. The new state laboratory should provide a better working environment with increased capabilities.

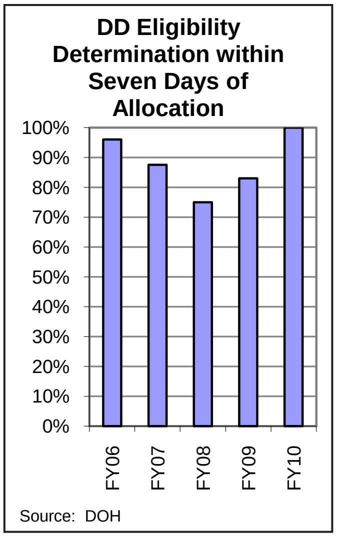
Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of blood tests from driving-while-intoxicated cases analyzed and reported within seven business days	63.5%	90%	42.4%	R
Percent of public health threat samples for communicable diseases and other threatening illnesses analyzed within specific turnaround times	98.5%	98%	95.4%	Y
			Overall Program Rating	Y

<u>Facilities Management Program</u>. The results for substantiated cases of abuse are commendable and reflect a strong emphasis on day-to-day care for residents. However, a program of this size and importance needs to have additional measures, especially for services and financial information. Additional performance measures have been developed for FY11 on percent of operational capacity beds filled and percent of billed third-party revenues received.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Number of substantiated cases of abuse, neglect and exploitation per 100 residents in department of health long-term care programs confirmed by division of health improvement	.12	0	0	G
			Overall Program Rating	Y

<u>Developmental Disabilities Support Services Program</u>. The measure for early intervention services reflects satisfaction with the program by clients and case management teams. To improve the time for both income and clinical eligibility determination, prospective clients will be contacted in advance of allocation to accomplish preliminary steps. Cost inflation is a major issue within the program, with increased service utilization and exceptions driving up average cost per client, which limits the ability to bring in new clients from the waiting list.

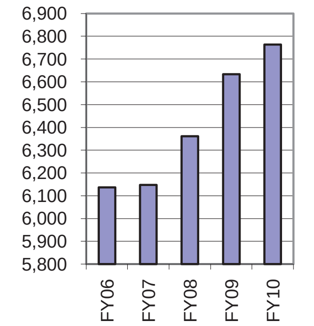
Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of adults receiving developmental disabilities day services engaged in community-integrated employment	32%	40%	NA	R
Percent of developmental disability waiver applicants determined to be both income eligible and clinically eligible within ninety days of allocation	83%	95%	100%	G
Percent of families who report an increased capacity to address their child's developmental needs as an outcome of receiving early intervention services	95.8%	97%	99.5%	G
			Overall Program Rating	R



Health Certification, Licensing, and Oversight. The number of developmental disability providers receiving an unannounced survey has improved significantly. This is a critical function of this program to ensure clients are treated appropriately. The measure for background checks for individuals seeking health-related employment has been dropped because it has been 100 percent for several years.

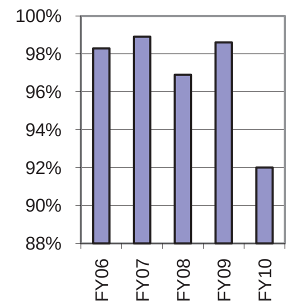
Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Number of disabled disability provider agencies receiving an unannounced survey	131	125	145	G
Percent of required compliance surveys completed for adult residential care and adult daycare facilities	100%	80%	119%	G
			Overall Program Rating	G

Adults Receiving an APS Intervention



Source: ALTSD

Disabled and Elderly Clients Receiving Services within 90 Days of Eligibility



Source: ALTSD

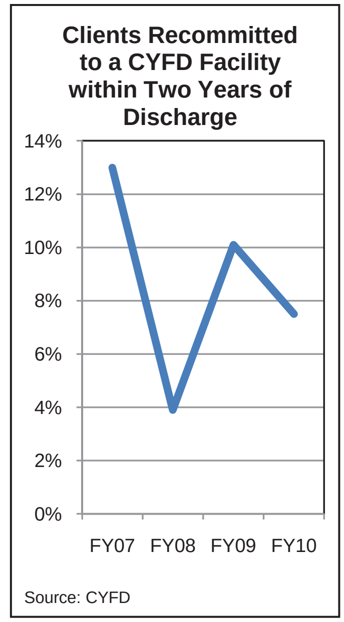
For FY10, the Aging and Long-Term Services Department (ALTSD) emphasized performance measures for adult protective services and long-term services. Most key measures are output measures; the department needs to place more emphasis on outcome measures so program value can be assessed. The agency is addressing this and Coordinated Long-Term Care Services will be added in FY11.

FY10 ALTSD Performance. The brain injury program is new and the client count is growing. The overall grade of yellow reflects that the department did not meet all of its performance targets. Key targets were too high for the ombudsman, who has no control over number of complaints, and call center services, which had a target significantly below the actual. Similarly, the average number of months individuals are on waiver lists is somewhat dependent on appropriations. Adult Protective Services Program met targets but the Aging Network Program needs a more meaningful measure and one based on historical information.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Number of ombudsman cases resolved	4,313	6,100	3,795	Y
Number of individuals calling the aging and disability resource center in need of two or more daily living services	15,342	13,000	16,574	G
Percent of individuals age sixty and over receiving aging network community services	29%	40%	29.3%	R
Percent of total personal care option cases that are consumer directed	18.8%	12%	24.7%	G
Percent of disabled and elderly Medicaid waiver clients who receive services within ninety days of eligibility determination	98.6%	100%	92%	R
Average number of months that individuals are on the disabled and elderly waiver registry prior to receiving an allocation for services	42	24	56	R
Number of brain injury clients served through the mi via self-directed waiver	317	135	330	G
Number of adults receiving an adult protective services intervention	6,633	6,250	6,764	G
			Overall Program Rating	**Y**

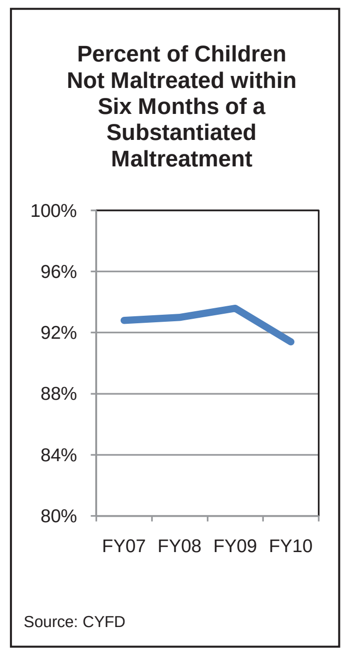
The mission of the Children, Youth and Families Department (CYFD) is to enhance family safety and well-being. The department provides support services for child care, children in protective custody, prekindergarten, domestic violence, and youth in detention.

Juvenile Justice Facilities. CYFD has implemented Cambiar New Mexico, based on the Missouri Model, at the J. Paul Taylor Center and Youth Diagnostic and Development Center. Cambiar NM focuses on group therapy, case management, and mixing of special needs youth. In FY12, new performance measures will evaluate the effectiveness of Cambiar NM.



Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of clients recommitted to a children, youth and families department facility within two years of discharge from facilities (cumulative)	10.1%	10%	7.5%	G
Percent of incidents in juvenile justice services facilities requiring use of force resulting in injury (cumulative)	4%	3%	2.7%	G
			Overall Program Rating	G

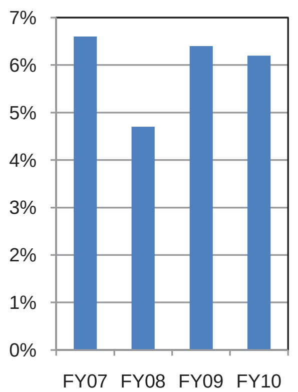
Protective Services. CYFD saw an increase of 2,606 accepted reports of child abuse between FY09 and FY10. The child welfare cases are becoming more complex, involving families whose children are diagnosed with disabilities, parents who are incarcerated, and families lacking adequate housing. Despite effective management and efforts of the protective services staff, performance is declining, and it is a growing area of concern for the department.



Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of children who are not the subject of substantiated maltreatment while in foster care	99.5%	99.68%	99.67%	Y
Percent of children who are not the subject of substantiated maltreatment within six months of a prior determination of substantiated maltreatment	93.6%	91.5%	91.4%	Y
Percent of children reunified with their natural families in less than twelve months of entry into care	72.7%	69.9%	71.5%	G
			Overall Program Rating	Y

Early Childhood Services. The performance measures do not gauge all the core functions of the program. A performance measure is needed for prekindergarten on reading test scores or a prekindergarten test such as the Dynamic Indicators of Basic Early Literacy Skills (DIBELS). Also, CYFD

Clients Readjudicated within Two Years of Previous Adjudication



Source: CYFD

continues to struggle with developing meaningful outcome measures for home visiting.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of children receiving state subsidy in stars/aim high programs level two through five or with national accreditation (cumulative)	69.2%	60%	69.8%	G
Percent of family providers participating in the child and adult care food program (cumulative)	94.9%	92%	94.7%	G
			Overall Program Rating	G

Youth and Family Services. CYFD's action plan regarding client readjudication calls for increased emphasis on transitional services for clients in communities and greater collaboration with communities to identify and promote more intensive services.

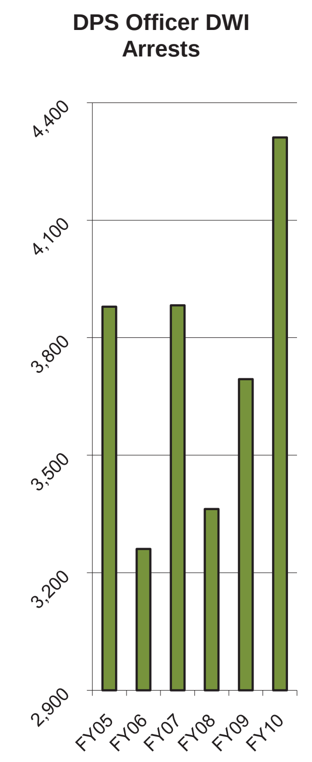
Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of clients readjudicated within two years of previous adjudication (cumulative)	6.4%	5.8%	6.2%	R
Percent of clients who complete formal probation (cumulative)	91%	90%	90.6%	G
Percent of adult victims or survivors receiving domestic violence services who have an individualized safety plan (cumulative)	72.5%	70%	92.4%	G
Percent of adult victims or survivors receiving domestic violence services who are made aware of other available community services (cumulative)	New	baseline	87.1%	NA
			Overall Program Rating	G

Program Support. While CYFD did not make its target in FY10 for vacancy rate for youth care specialists, the department did reduce the vacancy rate over the prior fiscal year.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent vacancy rate for youth care specialists (cumulative)	10.6%	8%	9%	Y
			Overall Program Rating	Y

Department of Public Safety

The Department of Public Safety performance measures appropriately focus on the agency's key goals and initiatives to reduce alcohol abuse, reduce illegal drug abuse, reduce violent crime, and ensure traffic safety. Additionally, the department continues its efforts to coordinate with federal, state, and local agencies to prevent and respond to all natural and man-made disasters, including acts of terrorism.



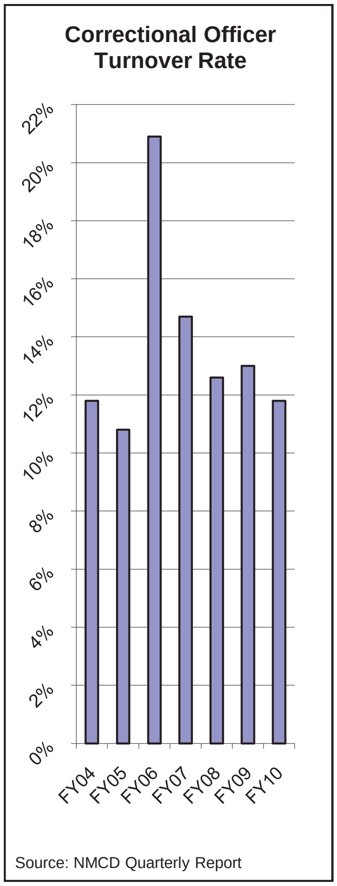
Source: DPS Quarterly Report

Law Enforcement Program. Performance levels are directly associated with program staffing, and maintaining the number of commissioned officers is a key element for all law enforcement measures. Recruitment and retention continue to be significant issues for the department, although, generally, the department meets or exceeds all significant operational performance targets.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Number of repeat DWI arrests by DPS-commissioned officers	1,332	1,400	1,905	G
Number of total DWI arrests by DPS-commissioned officers	3,694	3,400	4,311	G
Number of criminal cases investigated by DPS-commissioned officers	17,525	15,000	18,694	G
Percent of strength of DPS-commissioned officers	84.2%	87%	85.3%	Y
Number of criminal citations or arrests for the illegal sales or service of alcohol to minors and intoxicated persons by the Special Investigations Division	230	200	235	G
			Overall Program Rating	G

Program Support. Although the forensic science unit completed 100 percent of all cases received in FY10, vacancies in the DNA and chemistry units added to the time required to process submissions. With lab modernization and recruitment initiatives and the department believes it will resolve this issue during FY11.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of forensic cases completed within thirty days	71.3%	85%	57.1%	R
Number of criminal record jackets updated.	1,204	1,200	1,292	G
			Overall Program Rating	Y



The New Mexico Corrections Department has developed well-diversified key quarterly measures and the targets basically have been met. Measures pertaining to the timely release of parole-eligible inmates help control prison population and costs. The measure related to recidivism, which shows improvement over the 36-month time period, reflects to the agency's success related to re-entry and rehabilitation.

Inmate Management and Control Program. This program met or exceeded all performance measures. A serious assault is any assault or battery that causes significant injury to staff and may lead to outside medical treatment. The performance data reflect the department's success in providing safe and secure prison operations. The recidivism rates measured are arguably the most meaningful outcomes of all and reflect an improvement over FY09 levels.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Number of serious inmate-to-inmate assaults in private and public facilities	19	23	19	G
Number of inmates testing positive or refusing the monthly drug test	2.2%	<=2%	1.8%	G
Percent turnover of correctional officers	10.01%	13%	11.8%	G
Percent of prisoners re-incarcerated within thirty-six months after being released from New Mexico corrections department prison system into community supervision or discharged	46.34%	47%	43.6%	G
Number of serious inmate-to-staff assaults in private and public facilities	7	6	6	G
			Overall Program Rating	G

Community Offender Management Program. The agency indicates that failure to achieve the FY10 target is the result of budget-imposed vacancies and an increase in offender population groups. However, caseload is not, in and of itself, a measure of program effectiveness, and additional measures should be considered.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Average standard caseload of probation and parole officers	91	92	95	Y
			Overall Program Rating	Y

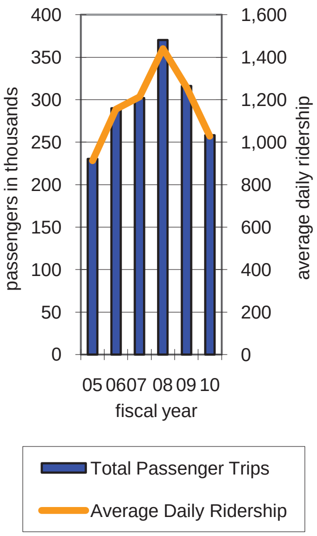
The New Mexico Department of Transportation's (NMDOT) construction and maintenance programs reflect reductions in state road fund revenues and over $40 million in budget reductions in FY10. The cuts impacted the Statewide Transportation Improvement Plan (STIP), including Governor Richardson's Investment Partnership (GRIP), in terms of project planning and completion. Maintenance activities have been curtailed and field maintenance positions remain unfilled.

Programs and Infrastructure Program. Commuter rail showed an increase in total ridership over the fiscal year but did not meet targets. Park and Ride service increased over the fiscal year largely attributable to opening the Bernalillo to Santa Fe leg and the discontinuance of Park and Ride service between Albuquerque and Santa Fe. This has impacted both revenue dollars collected and the number of riders on Park and Ride. Commuter rail measures need to be improved to provide for tracking ridership between stations, specifically between Belen and Santa Fe, which should assist in determining cost-effectiveness of routes and overall operations. The department proposes to diminish this reporting activity.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Ride quality index for new construction	4.1	≥4	4.1	G
Revenue dollars per passenger on park and ride	$2.91	$2.95	$2.63	R
Annual number of riders on park and ride	316,233	≥225,000	258,086	G
Annual number of riders on the rail runner corridor in millions (cumulative)	N/A	≥1.5	1,240,016	R
Percent of final cost-over-bid amount on highway construction projects	5.2%	≤6%	4%	G
Percent of programmed projects let according to schedule	75%	≥75%	66%	R
Number of passengers not wearing seatbelts in motor vehicle fatalities	N/A	≤184	147	G
Number of non-alcohol-related traffic fatalities (cumulative)	231	≤160	204	R
Number of alcohol-related traffic fatalities (cumulative)	144	≤160	147	G
			Overall Program Rating	Y

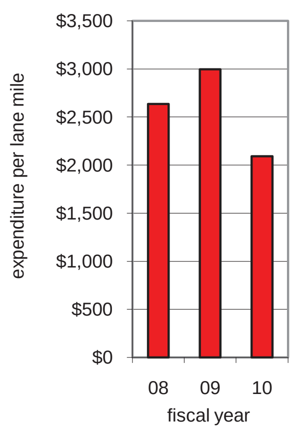
Transportation and Operations Program. Only about 60 percent of the annual target for the number of statewide pavement miles preserved was accomplished in FY10. Districts have addressed budget reductions by completing less maintenance. The inclement weather for the fiscal year was

NM Park and Ride Ridership

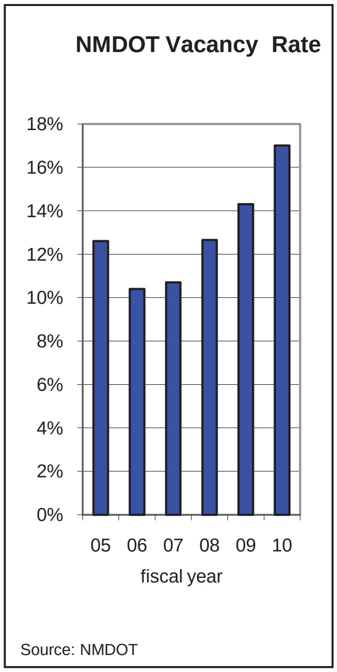


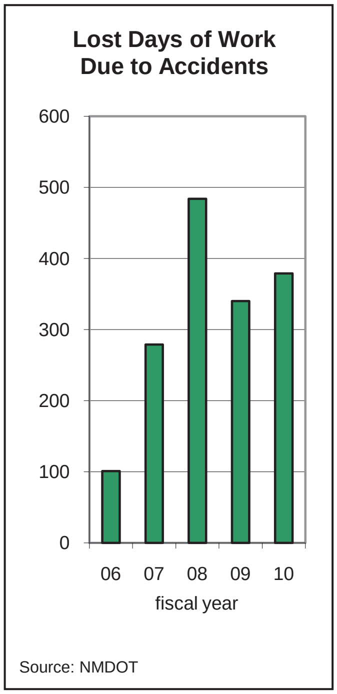
Source: NMDOT

Maintenance Expenditure for Combined Roadways



Source: NMDOT





also a factor that resulted in expenditures of 180 percent of the snow removal budget.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Number of statewide pavement preservation miles (cumulative)	3,691	≥4,000	2,393	R
Maintenance expenditures per lane mile (cumulative)	$2,997	≥$3,500	$2,091	R
Amount of litter picked off department roads (tons)	15,459	≥16,000	15,527	Y
Customer satisfaction levels at rest areas	98%	98%	98.7%	G
			Overall Program Rating	R

<u>Programs and Infrastructure Program.</u> Financial reporting continues to be an issue as the department endeavors to maintain control on cash balances and federal reimbursements. The Federal Highway Administration recently changed the timing of reimbursements to the department from monthly to semi-annually, a delay that hinders planning and the refinancing of existing debt.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Number of employee days lost due to accidents (cumulative)	400	≥110	379	R
Percent of vacancy rate in all programs	14.4%	≤9%	17%	R
			Overall Program Rating	R

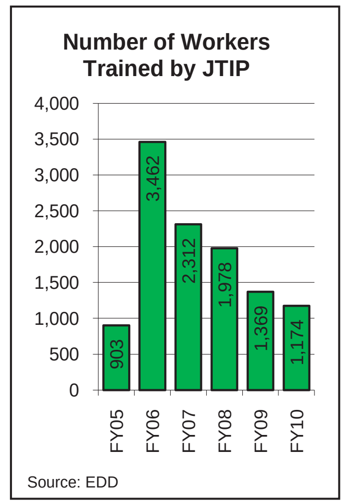
Economic Development

In the 12 months ending June 2010, the state posted an annual job loss rate of 1.8 percent representing a loss of 14,200 jobs. Given the weak economy, the process of creating jobs has been challenging for the Economic Development Department (EDD). However, the department reports job gains were made in the technology sector, primarily in renewable energy.

EDD FY10 Funding by Division		
	FY10 Budget (in millions)	FTE
ED	$3.41	28
Film	$1.45	12
Trade	$0.51	4
Tech	$0.26	3
Program Support	$3.57	23
Total	$9.21	70

Source: EDD Operating Budget

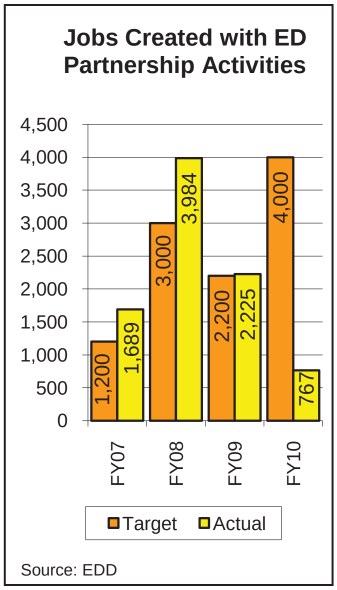
<u>Economic Development Program</u>. Performance targets in the Economic Development program were set well before the national and statewide economic meltdown started; therefore, the overall program rating considers the current economic climate. Business relocations are down significantly from a year ago, a reflection of tight money markets and lack of cash incentives available to the department to induce relocations. The number of jobs created decreased 1,800, or 40 percent, from the FY09 level.



Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Annual net increase in jobs created due to economic development department efforts	4,570	4,500	2,763	R
Total number of rural jobs created	1,641	1,500	1,446	R
Number of jobs created through business relocations facilitated by the economic development partnership	2,225	4,000	767	R
Number of jobs created by the mainstreet program	549	400	681	G
Percent of employees whose wages were subsidized by the job training incentive program still employed by the company after one year	35%	60%	55%	R
			Overall Program Rating	Y

<u>Film</u>. The number of media industry worker days decreased to 142,500 from a high of 151,000 in FY08. The economic impact of film production decreased $115.5 million over the year to $559 million. The very impressive positive economic impact is calculated by the department using an economic multiplier of 3; however, a more generally accepted multiplier of 1 or 1.5 may be more appropriate.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Number of media industry worker days	143,165	177,000	142,524	R
Economic impact of media industry productions in New Mexico, in millions	$674.1	$240.0	$558.6	G
Number of films and media projects principally made in New Mexico	89	85	109	G
			Overall Program Rating	G



Office of Mexican Affairs. The Office of Mexican Affairs (OMA) works to improve business and political relationships with Mexico by organizing trade missions, conferences, and facilitating meetings with Mexican officials. The activities of OMA do not lend themselves well to performance measurement because most of the activities are diplomatic rather than quantitative. A large number of leads generated or completed trade missions does not often translate into measurable job creation.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY010 Rating
Dollar value of New Mexico exports to Mexico as a result of the Mexican affairs program, in millions	$317.8	$350	$433.8	G
Number of leads generated for potential maquiladora supplier projects	N/A	10	15	G
Number of trade missions to Mexico, annually	N/A	5	6	G
			Overall Program Rating	G

Technology Commercialization Program. The Technology Commercialization Program (TCP) assists companies expand; creating new sustainable, high-wage employment; and recruiting new direct investment from out-of-state companies. TCP shares a mission that overlaps with the New Mexico Research Application Act. The act authorized the creation of a state nonprofit corporation to foster intellectual property economic development and attract technological investment. The two structures could be consolidated.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Amount of investment as a result of office of science and technology efforts, in millions	$31.7	$10	$64.7	G
Number of new angel investors found as a result of office of science and technology efforts	52	12	27	G
			Overall Program Rating	G

Department of Environment

With a few exceptions, performance was about the same as FY09. In most cases, the agency attributed underperformance to agency vacancies stemming from the hiring freeze. Performance patterns over the last three years confirm the notion that permitting programs are particularly sensitive to vacancy rates, trending up or down accordingly.

Water Quality. The Ground Water Quality Bureau prioritized its reduced workforce on issuing permits and developing new mining and dairy regulations, resulting in fewer inspections.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of permitted facilities receiving annual compliance evaluations and field inspections	61%	65%	61%	Y
Percent of permitted facilities where monitoring results do not exceed standards	73%	75%	72%	Y
Percent of cases in which Sandia national laboratories and Los Alamos national laboratory are notified of agency action on document submittals within the timeframes specified in the executed consent orders	93%	90%	94%	G
			Overall Program Rating	Y

Environmental Health. High inspector and field office vacancies caused the Environmental Health Program to fall short of meeting measures.

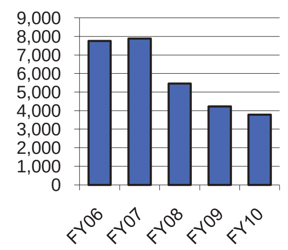
Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of new septic tank inspections completed	93%	85%	78%	Y
Percent of high-risk food-related violations corrected within timeframes noted on the inspection report issued to permitted commercial food establishments	85%	100%	86%	Y
Percent of radiation-producing machine inspections completed within the timeframes indicated in the radiation control bureau policies	91%	95%	94%	G
			Overall Program Rating	Y

Environment Department FY10 Funding by Program

Program	FY10 Budget (in millions)	FTE
Water Quality	21,555.2	205
Environment Health	10,508.2	136
Environment Protection	17,314.1	203
Water & Wastewater Infrastructure Development	10,808.2	89.5
Program Support	8,746.2	83

Source: NMED Operating Budget

Annual Liquid Waste Permits Issued



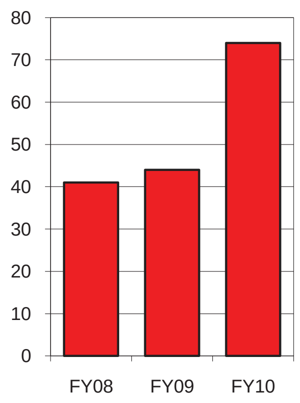
Source: NMED LWB

Water Quality Bureau Performance Trend

FY07	Y
FY08	G
FY09	Y
FY10	Y

Source: LFC Files

Air Quality Violations



Source: NMED

Environmental Protection. In response to a stricter amendment to the Ground Water Protection Act, the Petroleum Storage Tank Bureau is no longer giving tank owner and operators additional time to submit required documentation before closing an inspection. Instead, it initiated a new practice of documenting all violations at compliance inspections. The new practice has resulted in fewer facilities in compliance but as facilities become more familiar with the elevated inspection, compliance is expected to improve.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of landfills meeting ground-water monitoring requirements	72%	80%	95%	G
Percent of active solid waste facilities and infectious waste generators inspected that were found to be in compliance with the New Mexico solid waste rules	81%	75%	82%	G
Percent of serious worker health and safety violations corrected within the timeframes designated on citations issued by the consultation and compliance sections	95.9%	95%	95.7%	G
Percent of underground storage tank facilities in significant operational compliance with release prevention and release detection regulations of petroleum storage tank regulations	58%	90%	55%	R
			Overall Program Rating	Y

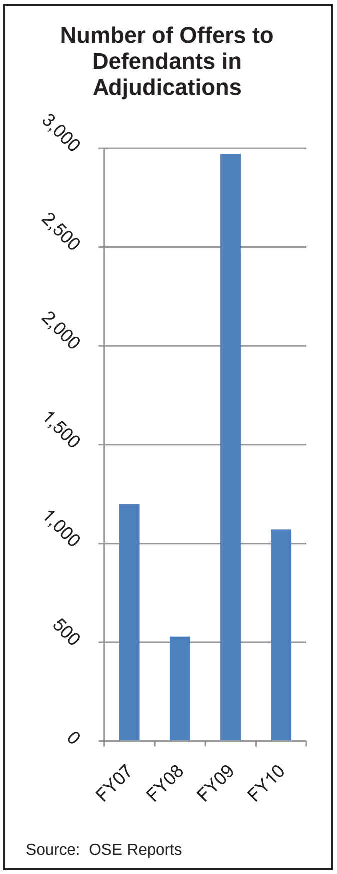
Water and Wastewater Infrastructure Development Program. The Drinking Water Bureau processed 100 percent of applications for water, wastewater, and solid waste projects, inspected 92 percent of public water systems when requested and 100 percent of public water systems surveyed are in compliance with drinking water regulations. Thus, the overall FY10 program rating is green.

Overall Program Rating G

The agency generally exceeded the targets for FY10. All three programs performed at a high level based on the targets.

Water Resource Allocation. The measure on the number of dams inspected was included for FY10 to establish a baseline. The estimated target of 110 seems reasonable based on the final number of 101. The average number of un-protested new and pending applications is lower than the target and would appear to be the desired result. However, it could be achieved due to lower application requests and not more efficient operations. The same could also be true for the other two measures and in future years consideration should be given to targets that include a percent based on the number of transactions or applications submitted.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Average number of unprotested new and pending applications processed per month	74	70	66	Y
Number of unprotested and unaggrieved water right applications backlogged	481	597	435	G
Number of dams inspected per year to establish baseline	New Measure	110	101	Y
Number of transactions abstracted annually into the water administration technical engineering resource system database (cumulative)	25,047	22,000	25,707	G
			Overall Program Rating	Y



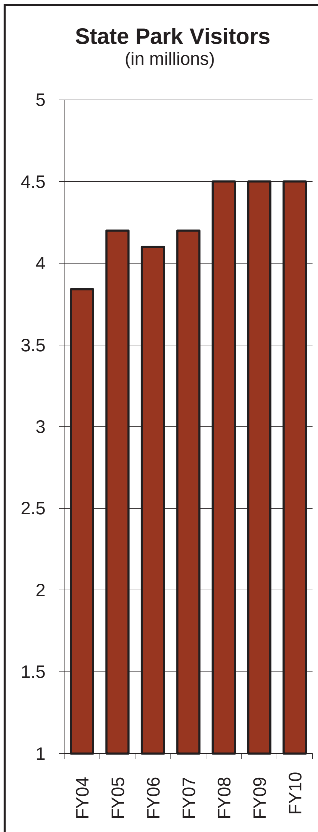
Interstate Stream Compact Compliance and Water Development Program. Targets are clearly exceeded for both measures. However, the result may be as dependent on the amount of rain received as good management.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Pecos river compact accumulated delivery credit or deficit, in acre-feet (AF)	98.5K AF Credit	0 (Credit)	100K AF Credit	G
Rio Grande river compact accumulated delivery credit or deficit, in acre-feet (AF)	116.0K AF Credit	0 (Credit)	100.5K AF Credit	G
			Overall Program Rating	G

Litigation and Adjudication. The percent of water rights with adjudications should go up each year unless new rights are issued faster than adjudications can be processed. Again, as in prior programs, to make the measure more meaningful the percent should be reported as a function of new rights issued.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Number of offers to defendants in adjudications	2,972	1,000	1,071	G
Percent of all water rights that have judicial determinations	43%	45%	48%	G
		Overall Program Rating		G

In general, the agency met FY10 targets. In the State Parks Program, visitation and revenue were flat compared with the prior year level, which could create problems in future years as fees become a more important revenue source. In other programs that failed to meet targets, the agency is able to offer reasoned explanations for the miss.

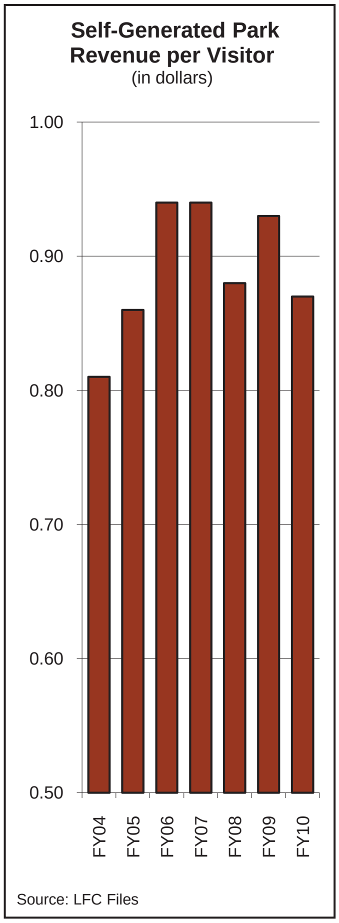


Renewable Energy and Energy Efficiency Program. All targets were achieved or surpassed. The program indicates data are collected using new internet-based software so energy usage can be entered directly by the facility that participated in the energy-saving projects.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent reduction in energy use in public facilities receiving energy-efficiency retrofit projects through the Energy Efficiency and Renewable Energy Bonding Act, the Public Facilities Energy Efficiency Act, the Water Conservation Act or the clean energy projects program	10%	15%	15%	G
Percent of retail electricity sales from investor-owned utilities in New Mexico from renewable energy sources	9%	10%	12%	G
		Overall Program Rating		G

Healthy Forests Program. Two of the three results exceeded the targets and the third met the target. The bulk of the fire training takes place over the winter and spring months in advance of the fire season. The target for the number of acres restored was obviously underestimated and should be adjusted.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Number of nonfederal wildland firefighters provided technical fire training appropriate to their incident command system	2,898	500	576	G
Percent of at-risk communities participating in collaborative wildfire protection planning	44%	25%	25%	G
Number of acres restored in New Mexico's forests and watersheds	17,933	8,000	17,600	G
		Overall Program Rating		G



State Parks Program. A strong fourth quarter led to more state park visitors than targeted. Increasing per person fees is an important target for future years to help supplement revenues.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Self-generated revenue per visitor, in dollars	$0.93	$0.87	$0.87	G
Number of visitors to state parks, in millions	4.5	4	4.5	G
			Overall Program Rating	G

Mine Reclamation Program. Two closed mines lack an approved plan so the target of 100 percent was not achieved but still represented improvement. The percent of abandoned uranium mines with a current site assessment exceeded the target by 40 percent .

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of permitted mines with approved reclamation plans and adequate financial assurance posted to cover the cost of reclamation	96.5%	100%	98%	Y
Percent of abandoned uranium mines with current site assessments (cumulative)	23%	50%	70%	G
			Overall Program Rating	G

Oil and Gas Conservation Program. The measure for the amount of water diverted from disposal for other uses will be dropped for future years. The development of these projects has stalled, and the operators are not reporting significant water savings due to a lack of success. The number of inspections did not fall as anticipated and remains essentially at the FY09 level.

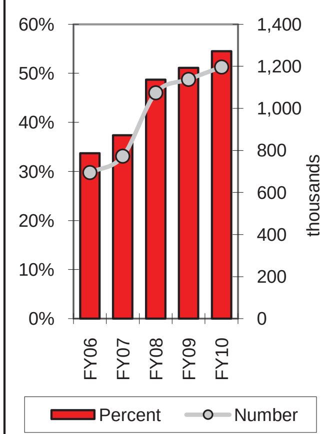
Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Number of inspections of oil and gas wells and associated facilities	38,318	23,500	37,642	G
Percent increase in the amount of water diverted from disposal for other uses	425.8%	10%	0%	R
			Overall Program Rating	Y

The Taxation and Revenue Department (TRD) performance measures center on the department's mission to administer and enforce taxation and revenue laws and the motor vehicle code. In light of the economy, revenue collection efforts are showing good results; however, the total amounts being collected are lower than in previous years. Although the department has improved Motor Vehicle Department (MVD) customer service levels, the department experienced a slight uptick in call center and field office wait times, the result of the state's hiring freeze and furloughs. The department is committed to expanding and improving online services to save money and tax filing accuracy.

TRD FY10 Funding by Division		
	FY10 Budget (in millions)	FTE
Tax Ad.	$35.2	617.7
MVD	$25.7	384
Prop Tax	$3.5	49
Comp Enf	$2.5	36
Prog Sup	$23.0	229
Total	$89.9	1,315.7

Source: FY10 Operating Budget

Electronically Filed Tax Returns



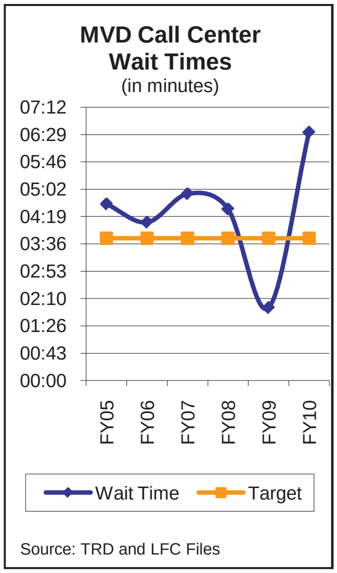
Source: TRD and LFC Files

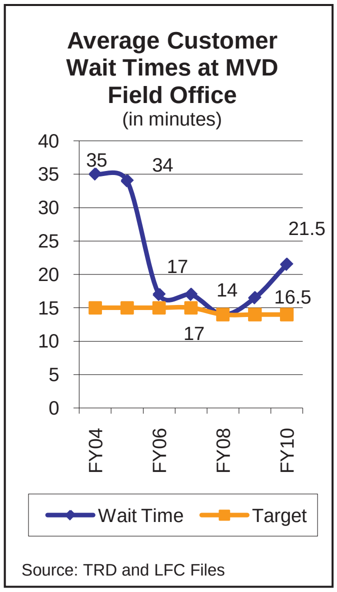
__Tax Administration Program__. Collections of outstanding tax balances fell short of the target and are mostly the result of the state of the economy and the inability of tax filers to pay amounts owed from previous years. To help stem the growth of outstanding balances, the department has started the collection process earlier resulting in an increase in the number of collections occurring within the same year as the assessment jumped to 53 percent. The percentage of electronically filed tax returns continued its slow but steady increase. Although more taxes were electronically filed, the performance outcome was short of the targeted level because the target was aggressively increased from 45 percent to 65 percent. Electronically filed tax returns have been shown to have lower error rates, faster processing times, and save money by reducing printing, mailing, processing, and audit costs.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Collections as a percent of collectable outstanding balances from June 30, 2009	21.9%	20%	18.3%	Y
Collections as a percent of collectable audit assessments generated in the current fiscal year	39%	40%	53%	G
Percent of electronically filed personal income tax and combined reporting system returns	51%	65%	54.8%	R
			Overall Program Rating	Y

__Compliance Enforcement Program__. Prosecutions of tax fraud seek to reduce the incidence of taxpayer fraud. The department will improve performance reporting in FY11 by incorporating a new measure on the number of investigations referred to prosecutors as a percent of assigned investigations.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Successful tax fraud prosecutions as a percent of total cases prosecuted	100%	90%	100%	G
			Overall Program Rating	G





Motor Vehicle Program. Over the past several years, TRD has worked to increase the percentage of registered vehicles with liability insurance. Today, liability insurance levels exceed the national weekly insurance rate of 85.4 percent. Motor Vehicle Division (MVD) call center and field office wait times increased due in part to the higher vacancy rate created by the statewide hiring freeze, employee furloughs, and implementation of the centralized license issuance initiative.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of registered vehicles with liability insurance	90.5%	91%	91%	G
Average call center wait time to reach an agent, in minutes	1:55	3:45	6:32	R
Average wait time in q-matic equipped offices, in minutes	16:48	14:00	21:30	R
			Overall Program Rating	R

Property Tax Program. The performance measure regarding the number of appraisals and valuations exceeded the target and surpassed the prior two year's performance levels. The department notes that, in light of falling property and asset values, property tax valuations have become more contested. Protest volume doubled in FY10 to $1.5 billion of taxable valuation, placing nearly a quarter of the Property Tax Program's assessments in protests, formal department hearings, or district court action.

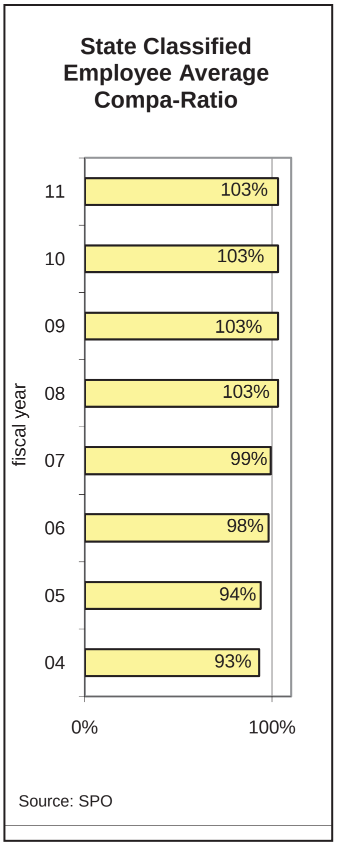
Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of counties in compliance with sales ratio standard of eighty-five percent assessed value to market value	91%	90%	91%	G
Number of appraisals and valuations for companies conducting business within the state subject to state assessment	489	510	539	G
			Overall Program Rating	G

Program Support. The department has increased the number of driving while intoxicated (DWI) hearing officers to ensure that hearings are scheduled within 90 days, has reduced the target level from 2 percent in FY07 to less than 1 percent in FY10, and has achieved the lower targeted level.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of driving-while-intoxicated drivers license revocations rescinded due to failure to hold hearings in ninety days	0.4%	<1%	0.29%	G
			Overall Program Rating	G

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 again in FY10. Through FY10, the department continues its focus on fully implementing the human resource segments of the SHARE data system, to varying degrees of success. Partnership with state agencies on the recruitment and retention process is improving but still sub-optimal. Economic conditions have increased the number of online applications for advertised positions, slowing the review process.

The state classified employee average compa-ratio improved from 92.9 percent in FY04 to 103 percent in FY010 as a result of the pay increases provided by the Legislature. Compa-ratio is an expression used to identify an employee's position within a pay band relative to the midpoint of the pay band.

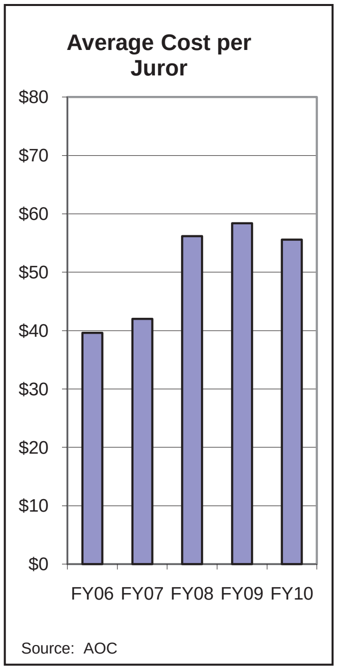


Human Resource Management.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Average employee pay as a percent of board-approved comparator market, based on legislative authorization	103%	100%	103%	G
Average days to fill a vacant position	44	40	49	R
Percent of managers in medium to small agencies who successfully complete SPO-sponsored management and supervision training	84%	85%	71%	R
Percent of new employees who successfully complete their probationary period	71%	85%	71%	R
Percent of eligible employees with a completed performance appraisal on record at the close of the fiscal year	79%	99%	66%	R
Percent of personnel system review audits performed during fiscal year	12	3	3	G
Percent of new hire employee turnover	Baseline	≤25%	20%	G
Statewide vacancy rate	11.2%	Not Reported	15.4%	Y
Percent of union grievances resolved prior to formal arbitration	75%	98%	96%	Y
			Overall Program Rating	R

Administrative Office of the Courts

The goal of the Administrative Office of the Courts (AOC) is to assist the judiciary in its mission to provide access to justice, resolve disputes justly and timely, and maintain accurate records of legal proceedings that affect the rights and legal status of New Mexico citizens. AOC became a key agency in FY10.



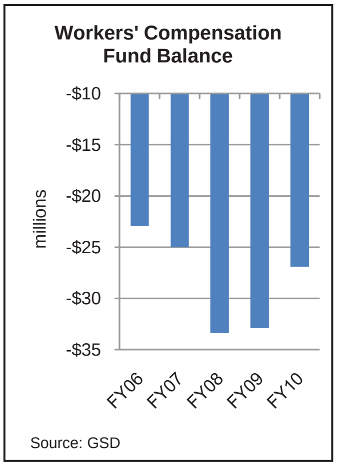
Administrative Services. Jury orders for the courts are no longer being executed by the Administrative Office of the Courts because potential juror names are now directly uploaded into the jury management software system by each individual court. The new process is cheaper and more efficient. As provided by statute, AOC makes available to the courts the master jury database for its respective counties. This allows the courts to randomly select jurors as they need them. Thus, AOC no longer prints and mails the summonses for the courts, and the courts no longer return the undeliverables to AOC. For this reason, AOC will no longer report on the performance measure "percent of jury summons successfully executed" (measure No.1). AOC plans to work with LFC and DFA to develop other jury measures for consideration.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of jury summons successfully executed	72.5	92%	N/A	Y
Average cost per juror	$58.4	$42.0	$55.6	Y
			Overall Program Rating	**Y**

Magistrate Court Program. The program oversees the 51 magistrate courts in the state. Budget reductions have forced the magistrate court program to leave clerk vacancies unfilled. The state will eliminate the Tatum magistrate judgeship effective December 31, 2010.

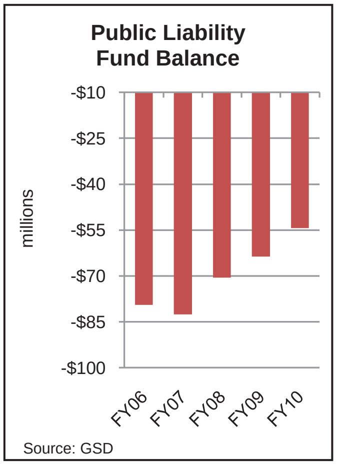
Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Bench warrant revenue collected annually, in millions	$2.6	$2.4	$3.1	G
Percent of cases disposed as a percent of cases filed	100%	95%	98%	G
Percent of magistrate courts financial reports submitted to fiscal services division and reconciled on monthly basis	99.2%	100%	96%	Y
			Overall Program Rating	**G**

The General Services Department (GSD) continues to improve reporting by providing documentation of performance. Despite improvement to the financial condition of the risk management funds, unemployment compensation claims have begun to exceed projections, resulting in a negative fund balance. The viability of the State Printing Services Program is in question as operational costs exceeded revenue in FY10. In addition, GSD should begin to track and report the monthly costs of the employee group health benefits program, office space utilization for state-owned and leased office space, and procurement violations.



Risk Management Program. In FY10, GSD experienced an extraordinary increase in the number of unemployment compensation claims, significantly deteriorating the financial condition of the state unemployment compensation fund. Otherwise the financial condition of the workers compensation fund continues to improvement, while the public liability fund remains stable.

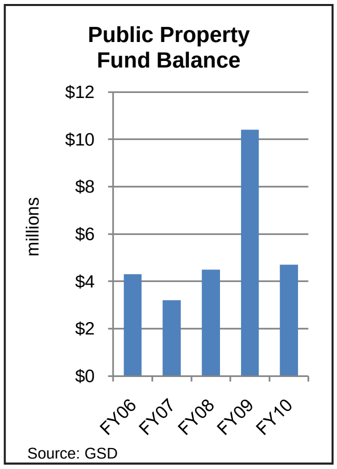
Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Projected financial position of the workers compensation fund	13%	20%	30%	G
Projected financial position of the public liability fund	53%	50%	54%	G
Projected financial position of the state and local public body unemployment compensation funds	138%	50%	State: (87%) LPB: 221%	R
			Overall Program Rating	Y



Employee Group Health Benefits Program. The percent of eligible state employees purchasing health insurance has declined; however, the measure remains above the targeted performance. In addition, the percent of state group prescriptions filled with generic drugs has improved, which is expected to reduce overall costs of the program.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of eligible state employees purchasing health insurance	97.5%	90%	91.3%	G
Percent of state group prescriptions filled with generic drugs	76.4%	80%	80.5%	G
			Overall Program Rating	G

Transportation Services Program. GSD reports that the Transportation Services Program has been adversely affected by state budget constraints and agency policies limiting travel as indicated by the decline in percent of short-term vehicle use and the percent of total available aircraft fleet hours used.



Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of total accounts receivable dollars uncollected 120 days after invoice due date	21%	≤20%	17%	G
Percent of short-term vehicle use	90%	65%	49%	R
Percent of total available aircraft fleet hours utilized	88%	90%	64%	R
			Overall Program Rating	Y

<u>Building Office Space Management and Building Services Program</u>. GSD reports that 6.2 million square feet of the available 6.9 million state-controlled office space is currently occupied. However, the lack of specific occupancy data has resulted in a rating of yellow for this measure.

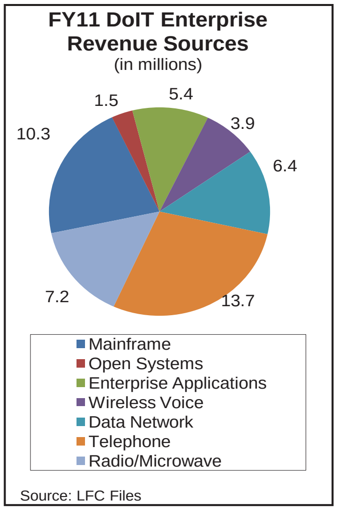
Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of property control capital projects on schedule within approved budget	91.5%	90%	96.2%	G
Percent of state-controlled office space occupied	90%	90%	90.4%	Y
			Overall Program Rating	Y

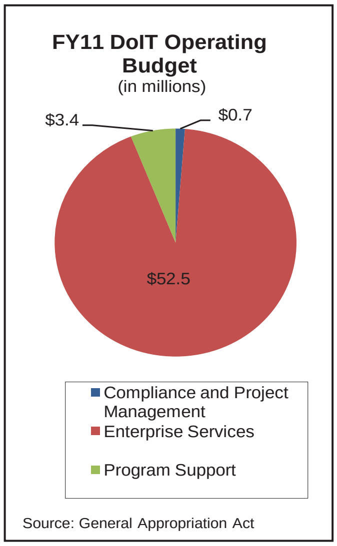
<u>Procurement Services Program</u>. GSD exceeded the number of small business clients assisted as measured by the number of walk-in clients as well as the number of government employees trained in Procurement Code compliance and methods. However, GSD should begin to monitor and report the number of procurement violations, emergency procurements and sole source determinations on a quarterly basis because the existing measures do not gauge the core function of the program.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Number of small business clients assisted	235	80	245	G
Number of government employees trained on Procurement Code compliance methods	250	515	612	G
			Overall Program Rating	Y

State Printing Services Program. GSD reports the percent of individual printing services that break even, including 60 days of operating reserve fell within the targeted performance; however, the state printing fund has been in a negative cash balance position since the middle of FY10. Therefore, evidence to support the targeted performance remains questionable.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of individual printing services that break even, including 60 days of operating reserve	93%	95%	95%	R
Sales growth in state printing revenue compared with previous fiscal year	84%	10%	0%	R
			Overall Program Rating	R





The Department of Information Technology (DoIT) ended its third year of operation since the consolidation of the Information Systems Division and Telecommunication Division with the Office of the Chief Information Officer. For FY11, DoIT has combined enterprise services and operations under one enterprise program.

Enterprise Services Program. The Project Oversight and Compliance Division monitored 71 information technology projects worth $218.3 million to ensure compliance with appropriation guidelines in FY10. In addition, DoIT reports improvements to data collection and reporting methods with consolidation of wireless, long-distance, and toll-free telephone services generating approximately $3.9 million savings in FY10.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of executive agency certified projects reviewed monthly for compliance and oversight requirements	100%	100%	100%	G
Amount of information technology savings and cost avoidance realized through enterprise services	$5.2 million	$5.0 million	$3.9 million	Y
			Overall Program Rating	G

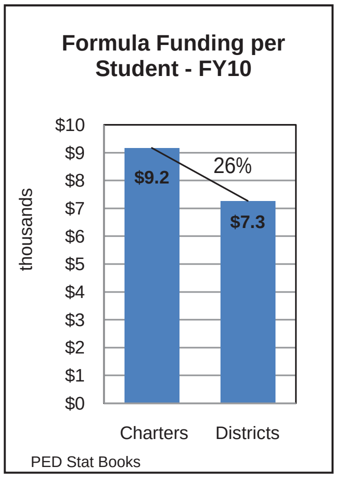
Enterprise Operations Program. DoIT reports improvements to its enterprise storage and back-up capabilities and achieved the targeted performance in FY10. DoIT also began tracking the percent of critical data located in the enterprise data center not compromised upon a breach of security. Despite receiving thousand of cyber attacks daily, DoIT has been able to prevent damage to the state network while relying on users to disregard suspicious emails.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of servers successfully backed up as scheduled	88.7%	100%	100%	G
Percent of critical data located in the enterprise data center not compromised upon breach of security	New Measure	100%	100%	G
			Overall Program Rating	G

Program Support. DoIT successfully reduced the dollar amount of receivables more than 60 days old; however, the percent of accounts receivable dollars collected within 60 days remains below the targeted performance. Overall, improved collection efforts and reductions to internal costs allowed the department to transfer $5.4 million to the equipment replacement fund in FY10.

Measure	FY09 Actual	FY10 Target	FY10 Actual	FY10 Rating
Percent of accounts receivable dollars collected within sixty days of the invoice due date	68%	60%	42%	R
Dollar amount of receivables over sixty days old (in millions)	$7.1	$7.5	$4.7	G
Percent of voice, data and radio services meeting federal standards for cost recovery	100%	95%	100%	G
		Overall Program Rating		Y

In FY10, charter schools generated about $24.1 million in small school adjustments and $7.5 million in growth funding.



If closure of poorly performing charter schools is not a viable option, policy makers should strongly consider a hard cap on charter schools statewide.

Over a three-year period, NMSU and UNM generated about $58.4 million in formula funding for student credit hours never completed by students.

The state waives an estimated $60 million in out-of-state tuition, but has not targeted those waivers to ensure institutions attract higher quality students that are likely to stay in state.

Program evaluations provide objective assessments about the extent to which government agencies efficiently and effectively carry out their responsibilities and produce desired results. They include evaluating compliance with laws and regulations, reviewing information system implementation, and recommending changes to the Legislature. During 2010, the Program Evaluation unit completed nine projects. All of the evaluations can be found on the committee website. Significant issues and recommendations are summarized below.

Education. The state of New Mexico spends about 60 percent of its budget on public and higher education. Assessment of governance, resource allocation and performance of the state's schools and institutions of higher education were a top priority in 2010. The evaluation report of Deming, Hatch Valley, and Gadsden school districts was set for release in January 2011.

Charter Schools. Like other states' school reform efforts, New Mexico offers educational services through public charter schools, which generally operate independent of school districts. Since the late 1990s, the number of charter schools has increased, hitting 72 in FY10, and accounted for about four percent of students statewide and about five percent of state formula funding. Overall, charter schools have high per-student funding formula costs due to favorable adjustments, need better oversight and monitoring, and produce similar levels of student performance as traditional public schools. Current costs to the state are driven by favorable funding formula adjustments for charter schools that total $34.7 million. The report recommended the Legislature modify the state funding formula to clarify that charter schools, intentionally small like alternative and vocational schools, are exempt from receiving small school funding and clarify thresholds necessary to qualify for additional growth funding. Further the state should strengthen the application and renewal process to require better financial and capital planning and clearer performance expectations to ensure poorly performing charters receive increased oversight or are closed. Finally, the deadline for putting charter schools into public facilities by 2015 should be extended until the full cost has been examined.

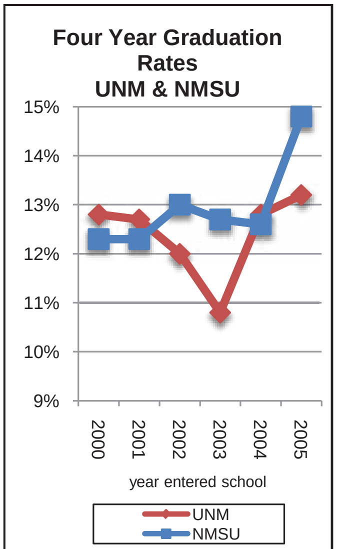
Higher Education. A comprehensive assessment of higher education first evaluated the two largest universities, New Mexico State University (NMSU) and the University of New Mexico (UNM). Both universities need improved outcomes for students, attention to structural changes to administrative and academic functions, and better monitoring of teaching capacity to contain costs for students and taxpayers while ensuring academic excellence. NMSU and UNM should set a goal to double the four-year graduation rate without dilution of quality starting with the class of 2013; reform budgeting practices to invest in academic excellence; and implement a comprehensive re-prioritization process to include regular academic and sunset reviews for academic and support programs.

Given the level of public investment and need for results, the state has an interest in the cost-effectiveness of all of its higher education institutions, not just NMSU and UNM. However, the state lacks robust planning efforts and uses finance mechanisms that generally encourage growth to meet undefined "access" goals, do not take into account performance or institutional capacity, and do not reward excellence. The Legislature should consider funding formula changes to provide incentives for cost-effective services, greater completion rates, and on-time degree production; to exclude duplicative or unnecessary degree programs from funding; and to boost funding for identified centers of excellence. The combination of stagnant lottery revenues, increased numbers of students earning the legislative lottery scholarship and increased tuition threaten the long-term solvency of this successful program. The state has time to extensively evaluate options for improving solvency.

<u>Health and Human Services.</u>

Department of Health - Developmental Disabilities Medicaid Waiver Program. The developmental disabilities waiver (DD waiver) offers a broad array of community-based services, in lieu of institutional care, to individuals with a developmental disability. Program quality ranks high nationally. However, the lack of a needs-based assessment tool to ensure people receive the right care at the right time and poor fiscal oversight results in unsustainable spending levels. Average per person program spending is almost as much as institutional care, potentially threatening Medicaid waiver cost-neutrality requirements. Better cost management and possible benefit redesigns will be necessary to maintain or expand the program to others on the waiting list for services. Better performance reporting to the legislature and public could help build on positive benefits initially provided through program and federal consent decrees. DOH should regularly report to the Legislative Finance and Health and Human Services Committees on progress made to disengage from the Jackson lawsuit.

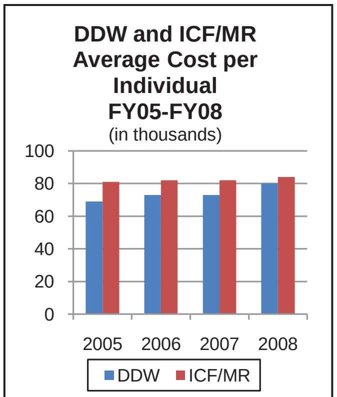
State Employee and Teachers Healthcare Benefit Plans. The Risk Management Division (RMD) of the General Services Department and the New Mexico Public School Insurance Authority (NMPSIA) administer self-insurance plans for health benefits for more than 135,000 public employees and their eligible dependents. In FY10, the



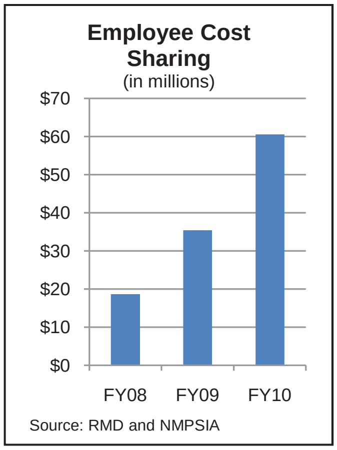
Source: NMSU/UNM

Nearly 25 percent of the students in each university's incoming freshman classes were in the bottom half of their high school class and over 25 percent had less than a 3.0 grade point average.

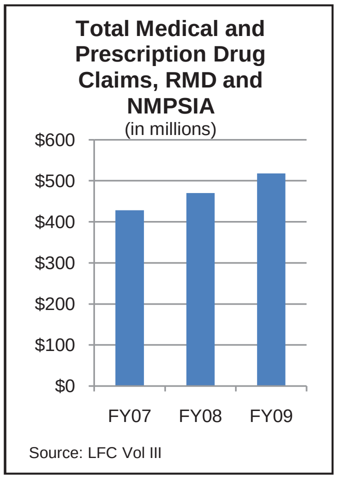
Tuition and fees account for only about 30 percent of the total cost of attendance.



Source: HSD/ DOH



Rising healthcare costs have been increasingly paid by employees, increasing 225 percent in three years.



agencies spent over $520 million for health benefits. Overall, the state has not maximized the purchasing power for health benefits nor taken advantage of comprehensive quality improvement initiatives that would better contain costs. Neither agency has provided the administrative oversight necessary to impact the pricing for medical services or to ensure that enrollees are receiving quality services. Expenses have continued to climb despite decreasing enrollment and use of services. The state should centralize all insurance functions of NMPSIA and RMD under a single Healthcare Finance Authority (HCFA) to leverage the state's purchasing power, remove duplicative functions, improve the efficiency of operations, and coordinate purchasing and quality initiatives with other major public healthcare purchasers, such as Medicaid.

Human Services Department and Aging and Long-Term Services Department - Medicaid Coordination of Long-Term Services. The CoLTS program was designed to address the fragmented mix of institutional, state plan, and home- and community-based services to elderly and disabled Medicaid recipients. The evaluation, set for completion in January 2011, assessed the progress implementing this program and associated costs, as well as providing an update on the implementation status of recommendations made in 2009 to improve the Salud managed-care program.

Corrections Department - Staffing Vacancies Follow-Up. Staff was requested to follow-up on testimony by the New Mexico Corrections Department (NMCD) to the Court, Corrections and Justice Committee regarding private prison contract enforcement efforts. The contracts specify required staffing patterns of facilities, including penalties for facilities with vacant positions more than 30-60 days (depending on the type of position) and not failure to man mandatory posts. NMCD has chosen to not enforce financial penalties for staffing patterns at the private prisons, which is within the secretary's discretion per the contract. However, based on NMCD monitoring reports, an estimated $5 million per year was potentially eligible for state recovery due to excess vacancies and failure to staff mandatory posts. Regardless of decisions to enforce penalties, NMCD paid an estimated $22.7 million in salary and benefits over four years for vacant positions at private prisons. If facilities' operational quality is not hampered due to high staff vacancies, then the state may be paying for unnecessary staffing levels at private facilities.

Information Technology.

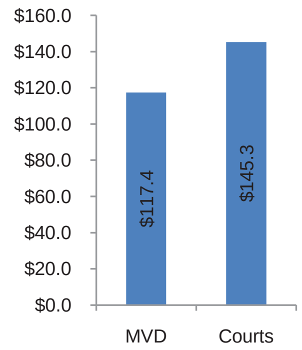
Department of Information Technology - Review of Information Technology and Telecommunication Services. The review sought to determine the Department of Information Technology's (DoIT) progress to streamline and improve IT and telecommunication services provided to state agencies. DoIT has made progress, but further opportunities exist to continue to enhance services and lower costs. Reducing the number of executive branch chief information officers by six would save an estimated $1 million and streamline operations. The Legislature should amend the E-911 Act to include state-owned infrastructure in developing a comprehensive network by leveraging existing infrastructure. DoIT should adopt energy efficiency standards for the data center to save on cooling, power usage, and equipment costs and should provide virtualization and cloud computing to close decentralized data centers. Filling seven vacant IT positions could allow DoIT to save an estimated $2.7 million in overtime and contractual services. DoIT should also work with the federal Division of Cost Allocation to collapse companion services to address over-recovery and the need for a $3.9 million general fund appropriation.

In FY09, DoIT lost $1.2 million because it did not recover its costs.

Five hundred ninety-two unsupported smart phones are accessing the state's e-mail system and DoIT loses about $73 thousand annually.

Administrative Office of the Courts – Case Management, E-Filing and E-Citations Status Report. The report provided an update of the case management system (Odyssey) implementation, including electronic data sharing through e-filing and e-citations. Odyssey is meeting the courts' needs and the Administrative Office of the Courts (AOC) is reducing its reliance on the contractor. Data sharing through e-filing and e-citations promises to provide efficiencies and savings. The actual savings from e-filing data sharing could not be quantified; however, savings from e-citation data sharing could be as high as $262.7 thousand annually. To take full advantage of the technology and reduce costs, AOC should adopt Chaves Magistrate Court best practices, change business practices at the courts and AOC, provide more directed training to attorneys on e-filing, and work with the Department of Transportation (DOT) on an e-citation data repository. DOT should work with the Department of Public Safety to deploy the citation software to State Police and Motor Transportation divisions.

Annual Savings From Data Sharing
(in thousands)



Source: LFC Analysis

Children, Youth, and Families Department – Information Technology Staff Augmentation. For eight years CYFD has augmented its information technology (IT) staff by contracting for maintenance and support for its family automated client tracking system (FACTS). In FY11, CYFD reduced the contract amount to $391 thousand and the number of contractors from 10 to three. CYFD could further reduce contractual services by $260 thousand by filling two vacant positions.

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

Business Unit	Description	FY11 Operating Budget	Laws 2010 2nd Spl Session Chpt 6, Sect 14	FY11 Adj. Operating Budget	FY12 Agency Request	FY12 LFC Recomm.	$ Over Adj. FY11 Oper.	Percent Change
Legislative								
111	LEGISLATIVE COUNCIL SERVICE	5,585.8	-181.2	5,404.6	5,482.1	5,242.5	-162.1	-3.0%
112	LEGISLATIVE FINANCE COMMITTEE	4,015.4	-130.3	3,885.1	3,885.1	3,768.5	-116.6	-3.0%
114	SENATE CHIEF CLERK	1,130.1	-36.7	1,093.4	1,117.0	1,060.6	-32.8	-3.0%
115	HOUSE CHIEF CLERK	1,078.5	-35.1	1,043.4	1,065.3	1,012.1	-31.3	-3.0%
117	LEGISLATIVE EDUCATION STUDY COMMITTEE	1,232.4	-40.0	1,192.4	1,192.4	1,156.6	-35.8	-3.0%
119	LEGISLATIVE BUILDING SERVICES	4,017.5	-130.3	3,887.2	4,047.5	3,770.6	-116.6	-3.0%
131	LEGISLATURE	1,350.9	0.0	1,350.9	1,350.9	1,310.4	-40.5	-3.0%
132	LCS LEGISLATIVE INFORMATION SYSTEMS	533.1	0.0	533.1	533.1	517.1	-16.0	-3.0%
133	LCS ENERGY COUNCIL DUES	31.8	-1.0	30.8	32.0	32.0	1.2	3.9%
Total Legislative		18,975.5	-554.6	18,420.9	18,705.4	17,870.4	-550.5	-3.0%
Judicial								
205	SUPREME COURT LAW LIBRARY	1,605.8	-52.1	1,553.7	1,556.4	1,490.8	-62.9	-4.0%
208	NEW MEXICO COMPILATION COMMISSION	158.6	-5.1	153.5	153.5	0.0	-153.5	-100.0%
210	JUDICIAL STANDARDS COMMISSION	755.8	-24.5	731.3	823.8	713.4	-17.9	-2.4%
215	COURT OF APPEALS	5,654.6	-183.4	5,471.2	5,470.2	5,395.6	-75.6	-1.4%
216	SUPREME COURT	2,948.8	-95.7	2,853.1	2,876.4	2,813.7	-39.4	-1.4%
218	ADMINISTRATIVE OFFICE OF THE COURTS	40,658.3	-1,319.1	39,339.2	40,228.0	38,828.3	-510.9	-1.3%
219	SUPREME COURT BUILDING COMMISSION	797.4	-25.9	771.5	837.4	783.3	11.8	1.5%
231	FIRST JUDICIAL DISTRICT COURT	6,233.8	-202.3	6,031.5	6,210.2	5,901.1	-130.4	-2.2%
232	SECOND JUDICIAL DISTRICT COURT	20,951.4	-679.8	20,271.6	22,032.4	20,261.8	-9.8	0.0%
233	THIRD JUDICIAL DISTRICT COURT	6,198.2	-201.0	5,997.2	6,137.4	5,859.4	-137.8	-2.3%
234	FOURTH JUDICIAL DISTRICT COURT	2,027.9	-65.8	1,962.1	2,310.3	1,942.2	-19.9	-1.0%
235	FIFTH JUDICIAL DISTRICT COURT	5,910.8	-191.9	5,718.9	5,745.6	5,686.7	-32.2	-0.6%
236	SIXTH JUDICIAL DISTRICT COURT	3,055.0	-99.2	2,955.8	2,997.2	2,919.0	-36.8	-1.2%
237	SEVENTH JUDICIAL DISTRICT COURT	2,189.7	-71.0	2,118.7	2,253.0	2,076.8	-41.9	-2.0%
238	EIGHTH JUDICIAL DISTRICT COURT	2,610.1	-84.7	2,525.4	2,690.8	2,510.3	-15.1	-0.6%
239	NINTH JUDICIAL DISTRICT COURT	3,156.3	-102.4	3,053.9	3,077.1	3,004.4	-49.5	-1.6%
240	TENTH JUDICIAL DISTRICT COURT	756.4	-24.5	731.9	735.2	725.0	-6.9	-0.9%
241	ELEVENTH JUDICIAL DISTRICT COURT	5,831.3	-189.2	5,642.1	5,997.8	5,588.5	-53.6	-1.0%
242	TWELFTH JUDICIAL DISTRICT COURT	2,973.1	-96.4	2,876.7	3,035.2	2,864.3	-12.4	-0.4%
243	THIRTEENTH JUDICIAL DISTRICT COURT	6,296.6	-204.2	6,092.4	6,600.9	6,034.4	-58.0	-1.0%
244	BERNALILLO COUNTY METROPOLITAN COURT	21,972.5	-712.9	21,259.6	22,805.9	21,269.2	9.6	0.0%
251	FIRST JUDICIAL DISTRICT ATTORNEY	4,718.6	-153.1	4,565.5	4,616.9	4,525.8	-39.7	-0.9%
252	SECOND JUDICIAL DISTRICT ATTORNEY	16,588.9	-538.2	16,050.7	16,220.3	16,163.8	113.1	0.7%
253	THIRD JUDICIAL DISTRICT ATTORNEY	4,438.4	-144.0	4,294.4	4,342.4	4,225.6	-68.8	-1.6%
254	FOURTH JUDICIAL DISTRICT ATTORNEY	3,064.5	-99.5	2,965.0	3,228.3	2,882.0	-83.0	-2.8%
255	FIFTH JUDICIAL DISTRICT ATTORNEY	4,273.2	-138.6	4,134.6	4,174.6	4,124.3	-10.3	-0.2%
256	SIXTH JUDICIAL DISTRICT ATTORNEY	2,480.4	-80.4	2,400.0	2,664.4	2,382.6	-17.4	-0.7%
257	SEVENTH JUDICIAL DISTRICT ATTORNEY	2,333.8	-75.7	2,258.1	2,333.8	2,212.0	-46.1	-2.0%
258	EIGHTH JUDICIAL DISTRICT ATTORNEY	2,530.1	-82.1	2,448.0	2,730.0	2,322.7	-125.3	-5.1%
259	NINTH JUDICIAL DISTRICT ATTORNEY	2,689.1	-87.3	2,601.8	2,601.8	2,563.5	-38.3	-1.5%
260	TENTH JUDICIAL DISTRICT ATTORNEY	977.8	-31.8	946.0	1,061.1	940.4	-5.6	-0.6%
261	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIVISION I	3,210.3	-104.2	3,106.1	3,665.6	3,024.8	-81.3	-2.6%
262	TWELFTH JUDICIAL DISTRICT ATTORNEY	2,528.8	-82.0	2,446.8	2,581.5	2,413.4	-33.4	-1.4%
263	THIRTEENTH JUDICIAL DISTRICT ATTORNEY	4,543.4	-147.4	4,396.0	5,345.2	4,352.6	-43.4	-1.0%
264	ADMINISTRATIVE OFFICE OF THE DISTRICT ATTORNEY	1,919.3	-62.3	1,857.0	1,986.0	1,782.6	-74.4	-4.0%
265	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIVISION II	2,015.5	-65.4	1,950.1	2,136.7	1,932.5	-17.6	-0.9%

TABLE 1 GENERAL FUND AGENCY RECOMMENDATION SUMMARY

Business Unit Description	FY11 Operating Budget	Laws 2010 2nd Spl Session Chpt 6, Sect 14	FY11 Adj. Operating Budget	FY12 Agency Request	FY12 LFC Recomm.	$ Over Adj. FY11 Oper.	Percent Change
Total Judicial	201,054.5	-6,523.1	194,531.4	204,263.3	192,516.8	-2,014.6	-1.0%
General Control							
305 ATTORNEY GENERAL	11,703.3	-379.6	11,323.7	11,532.7	8,323.7	-3,000.0	-26.5%
308 STATE AUDITOR	2,271.2	-73.6	2,197.6	2,445.7	2,233.4	35.8	1.6%
333 TAXATION AND REVENUE DEPARTMENT	63,638.5	-2,064.6	61,573.9	64,225.5	58,194.1	-3,379.8	-5.5%
337 STATE INVESTMENT COUNCIL	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
341 DEPARTMENT OF FINANCE AND ADMINISTRATION	14,618.6	-474.5	14,144.1	14,081.9	13,536.7	-607.4	-4.3%
342 PUBLIC SCHOOL INSURANCE AUTHORITY	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
343 RETIREE HEALTH CARE AUTHORITY	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
344 DFA SPECIAL APPROPRIATIONS	10,259.6	-333.0	9,926.6	10,035.2	8,268.4	-1,658.2	-16.7%
350 GENERAL SERVICES DEPARTMENT	14,670.7	-476.0	14,194.7	15,226.9	13,642.9	-551.8	-3.9%
352 EDUCATIONAL RETIREMENT BOARD	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
354 NEW MEXICO SENTENCING COMMISSION	679.8	-22.1	657.7	657.7	529.8	-127.9	-19.4%
355 PUBLIC DEFENDER DEPARTMENT	40,988.7	-1,329.9	39,658.8	41,818.5	39,048.4	-610.4	-1.5%
356 GOVERNOR	3,942.6	-127.9	3,814.7	3,472.2	3,300.9	-513.8	-13.5%
360 LIEUTENANT GOVERNOR	777.2	-25.2	752.0	752.0	633.7	-118.3	-15.7%
361 DEPARTMENT OF INFORMATION TECHNOLOGY	710.1	-23.0	687.1	818.0	662.4	-24.7	-3.6%
366 PUBLIC EMPLOYEES RETIREMENT ASSOCIATION	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
369 STATE COMMISSION OF PUBLIC RECORDS	2,589.2	-84.1	2,505.1	2,745.4	2,505.1	0.0	0.0%
370 SECRETARY OF STATE	4,600.4	-149.2	4,451.2	6,762.8	4,406.7	-44.5	-1.0%
378 PERSONNEL BOARD	4,127.7	-133.9	3,993.8	4,550.4	3,827.2	-166.6	-4.2%
379 PUBLIC EMPLOYEE LABOR RELATIONS BOARD	261.8	-8.4	253.4	253.4	214.8	-38.6	-15.2%
394 STATE TREASURER	3,916.6	-127.1	3,789.5	3,789.5	3,634.7	-154.8	-4.1%
Total General Control	179,756.0	-5,832.1	173,923.9	183,167.8	162,962.9	-10,961.0	-6.3%
Commerce and Industry							
404 BOARD OF EXAMINERS FOR ARCHITECTS	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
417 BORDER AUTHORITY	377.0	-12.3	364.7	364.7	349.3	-15.4	-4.2%
418 TOURISM DEPARTMENT	9,368.4	-303.7	9,064.7	9,102.8	8,314.0	-750.7	-8.3%
419 ECONOMIC DEVELOPMENT DEPARTMENT	7,987.4	-259.1	7,728.3	7,728.3	6,520.6	-1,207.7	-15.6%
420 REGULATION AND LICENSING DEPARTMENT	14,045.1	-455.9	13,589.2	13,692.2	12,767.9	-821.3	-6.0%
430 PUBLIC REGULATION COMMISSION	9,840.7	-319.4	9,521.3	9,521.3	8,248.6	-1,272.7	-13.4%
446 MEDICAL BOARD	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
449 BOARD OF NURSING	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
460 NEW MEXICO STATE FAIR	391.8	-12.7	379.1	379.3	318.6	-60.5	-16.0%
464 STATE BOARD OF LICENSURE FOR ENGINEERS & LAND	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
465 GAMING CONTROL BOARD	5,589.7	-181.3	5,408.4	5,713.4	5,463.4	55.0	1.0%
469 STATE RACING COMMISSION	2,154.8	-69.9	2,084.9	2,209.2	1,878.2	-206.7	-9.9%
479 BOARD OF VETERINARY MEDICINE	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
490 CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSIO	93.7	-3.0	90.7	90.7	87.0	-3.7	-4.1%
491 OFFICE OF MILITARY BASE PLANNING AND SUPPORT	136.7	-4.5	132.2	132.2	120.8	-11.4	-8.6%
495 SPACEPORT AUTHORITY	1,167.3	-37.9	1,129.4	1,129.4	835.0	-294.4	-26.1%
Total Commerce and Industry	51,152.6	-1,659.7	49,492.9	50,063.5	44,903.4	-4,589.5	-9.3%
Agriculture, Energy and Natural Resources							
505 CULTURAL AFFAIRS DEPARTMENT	30,340.3	-984.5	29,355.8	29,507.1	27,838.5	-1,517.3	-5.2%
508 NEW MEXICO LIVESTOCK BOARD	662.1	-21.5	640.6	640.6	370.2	-270.4	-42.2%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

Business Unit	Description	FY11 Operating Budget	Laws 2010 2nd Spl Session Chpt 6, Sect 14	FY11 Adj. Operating Budget	FY12 Agency Request	FY12 LFC Recomm.	$ Over Adj. FY11 Oper.	Percent Change
516	DEPARTMENT OF GAME AND FISH	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
521	ENERGY, MINERALS AND NATURAL RESOURCES DEPA	22,417.4	-727.3	21,690.1	22,178.7	20,288.2	-1,401.9	-6.5%
522	YOUTH CONSERVATION CORPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
538	INTERTRIBAL CEREMONIAL OFFICE	87.6	-2.8	84.8	84.8	30.0	-54.8	-64.6%
539	COMMISSIONER OF PUBLIC LANDS	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
550	STATE ENGINEER	18,090.8	-586.9	17,503.9	17,503.9	15,927.7	-1,576.2	-9.0%
569	ORGANIC COMMODITY COMMISSION	24.9	-0.8	24.1	24.1	0.0	-24.1	-100.0%
Total	**Agriculture, Energy and Natural Resources**	71,623.1	-2,323.8	69,299.3	69,939.2	64,454.6	-4,844.7	-7.0%
	Health, Hospitals and Human Services							
601	COMMISSION ON STATUS OF WOMEN	736.4	-23.9	712.5	712.5	686.0	-26.5	-3.7%
603	OFFICE OF AFRICAN AMERICAN AFFAIRS	740.2	-24.1	716.1	716.1	604.1	-112.0	-15.6%
604	COMMISSION FOR DEAF AND HARD-OF-HEARING PERS	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
605	MARTIN LUTHER KING, JR. COMMISSION	319.5	-10.4	309.1	309.1	176.5	-132.6	-42.9%
606	COMMISSION FOR THE BLIND	1,993.8	-64.6	1,929.2	1,929.2	1,898.0	-31.2	-1.6%
609	INDIAN AFFAIRS DEPARTMENT	3,070.3	-99.6	2,970.7	2,970.7	2,413.2	-557.5	-18.8%
624	AGING AND LONG-TERM SERVICES DEPARTMENT	46,331.5	-1,503.2	44,828.3	45,855.0	40,845.1	-3,983.2	-8.9%
630	HUMAN SERVICES DEPARTMENT	708,904.0	-3,498.8	705,405.2	1,083,873.8	953,891.2	248,486.0	35.2%
631	WORKFORCE SOLUTIONS DEPARTMENT	4,942.7	-160.4	4,782.3	7,554.8	2,427.7	-2,354.6	-49.2%
632	WORKERS' COMPENSATION ADMINISTRATION	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
644	DIVISION OF VOCATIONAL REHABILITATION	5,693.1	-184.7	5,508.4	5,515.4	5,383.4	-125.0	-2.3%
645	GOVERNOR'S COMMISSION ON DISABILITY	1,120.9	-36.5	1,084.4	1,084.4	658.0	-426.4	-39.3%
647	DEVELOPMENTAL DISABILITIES PLANNING COUNCIL	4,197.5	-136.0	4,061.5	4,964.9	4,150.0	88.5	2.2%
662	MINERS' HOSPITAL OF NEW MEXICO	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
665	DEPARTMENT OF HEALTH	265,323.9	-5,370.5	259,953.4	306,170.2	282,652.0	22,698.6	8.7%
667	DEPARTMENT OF ENVIRONMENT	14,723.8	-477.6	14,246.2	14,246.2	13,376.9	-869.3	-6.1%
668	OFFICE OF THE NATURAL RESOURCES TRUSTEE	303.4	-9.8	293.6	293.6	230.1	-63.5	-21.6%
669	NEW MEXICO HEALTH POLICY COMMISSION	150.6	-4.9	145.7	818.0	137.5	-8.2	-5.6%
670	VETERANS' SERVICES DEPARTMENT	2,931.7	-95.0	2,836.7	2,836.7	2,740.6	-96.1	-3.4%
690	CHILDREN, YOUTH AND FAMILIES DEPARTMENT	189,713.1	-6,155.1	183,558.0	214,745.8	190,600.1	7,042.1	3.8%
Total	**Health, Hospitals and Human Services**	1,251,196.4	-17,855.1	1,233,341.3	1,694,596.4	1,502,870.4	269,529.1	21.9%
	Public Safety							
705	DEPARTMENT OF MILITARY AFFAIRS	6,643.9	-215.6	6,428.3	6,628.3	6,371.6	-56.7	-0.9%
760	PAROLE BOARD	474.2	-15.4	458.8	541.9	449.4	-9.4	-2.0%
765	JUVENILE PUBLIC SAFETY ADVISORY BOARD	24.9	-0.8	24.1	24.1	0.0	-24.1	-100.0%
770	CORRECTIONS DEPARTMENT	271,591.3	-8,811.7	262,779.6	273,020.0	251,882.7	-10,896.9	-4.1%
780	CRIME VICTIMS REPARATION COMMISSION	1,865.8	-60.6	1,805.2	1,805.2	1,684.1	-121.1	-6.7%
790	DEPARTMENT OF PUBLIC SAFETY	91,038.8	-2,953.8	88,085.0	88,465.2	85,981.7	-2,103.3	-2.4%
795	HOMELAND SECURITY AND EMERGENCY MANAGEME	2,802.0	-90.9	2,711.1	2,711.1	2,486.6	-224.5	-8.3%
Total	**Public Safety**	374,440.9	-12,148.8	362,292.1	373,195.8	348,856.1	-13,436.0	-3.7%
	Transportation							
805	DEPARTMENT OF TRANSPORTATION	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Total	**Transportation**	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
	Other Education							
924	PUBLIC EDUCATION DEPARTMENT	14,423.3	-467.9	13,955.4	14,331.7	12,469.3	-1,486.1	-10.6%

TABLE 1 GENERAL FUND AGENCY RECOMMENDATION SUMMARY

Business Unit	Description	FY11 Operating Budget	Laws 2010 2nd Spl Session Chpt 6, Sect 14	FY11 Adj. Operating Budget	FY12 Agency Request	FY12 LFC Recomm.	$ Over Adj. FY11 Oper.	Percent Change
925	PUBLIC EDUCATION DEPARTMENT-SPECIAL APPROPRI	16,673.8	-541.1	16,132.7	17,757.6	14,302.2	-1,830.5	-11.3%
930	REGIONAL EDUCATION COOPERATIVES	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
940	PUBLIC SCHOOL FACILITIES AUTHORITY	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Total	**Other Education**	31,097.1	-1,009.0	30,088.1	32,089.3	26,771.5	-3,316.6	-11.0%
Higher Education								
950	HIGHER EDUCATION DEPARTMENT	40,217.8	-1,304.9	38,912.9	41,047.7	37,523.3	-1,389.6	-3.6%
952	UNIVERSITY OF NEW MEXICO	296,183.2	-9,609.5	286,573.7	282,506.4	273,755.4	-12,818.3	-4.5%
954	NEW MEXICO STATE UNIVERSITY	193,799.9	-6,287.8	187,512.1	187,168.6	179,052.5	-8,459.6	-4.5%
956	NEW MEXICO HIGHLANDS UNIVERSITY	29,108.1	-944.3	28,163.8	27,995.9	27,694.3	-469.5	-1.7%
958	WESTERN NEW MEXICO UNIVERSITY	17,840.5	-578.9	17,261.6	17,935.1	17,126.6	-135.0	-0.8%
960	EASTERN NEW MEXICO UNIVERSITY	42,921.0	-1,392.5	41,528.5	41,827.6	40,514.8	-1,013.7	-2.4%
962	NEW MEXICO INSTITUTE OF MINING AND TECHNOLOG	37,349.2	-1,211.8	36,137.4	35,573.1	35,031.4	-1,106.0	-3.1%
964	NORTHERN NEW MEXICO COLLEGE	10,876.5	-352.9	10,523.6	10,563.8	10,273.3	-250.3	-2.4%
966	SANTA FE COMMUNITY COLLEGE	13,276.1	-430.7	12,845.4	13,409.0	12,726.1	-119.3	-0.9%
968	CENTRAL NEW MEXICO COMMUNITY COLLEGE	49,455.6	-1,604.5	47,851.1	51,308.2	45,933.1	-1,918.0	-4.0%
970	LUNA COMMUNITY COLLEGE	8,021.6	-260.3	7,761.3	7,688.6	7,479.0	-282.3	-3.6%
972	MESALANDS COMMUNITY COLLEGE	4,346.9	-141.0	4,205.9	4,201.4	4,165.0	-40.9	-1.0%
974	NEW MEXICO JUNIOR COLLEGE	6,536.0	-212.0	6,324.0	6,332.0	5,716.5	-607.5	-9.6%
976	SAN JUAN COLLEGE	22,526.0	-730.9	21,795.1	23,045.4	21,537.8	-257.3	-1.2%
977	CLOVIS COMMUNITY COLLEGE	8,951.8	-290.4	8,661.4	8,946.0	8,799.1	137.7	1.6%
978	NEW MEXICO MILITARY INSTITUTE	1,955.6	-63.5	1,892.1	1,835.2	1,818.6	-73.5	-3.9%
979	NEW MEXICO SCHOOL FOR THE BLIND AND VISUALLY	723.8	-23.5	700.3	679.3	679.3	-21.0	-3.0%
980	NEW MEXICO SCHOOL FOR THE DEAF	3,753.4	-121.8	3,631.6	3,522.5	3,517.8	-113.8	-3.1%
Total	**Higher Education**	787,843.0	-25,561.2	762,281.8	765,585.8	733,343.9	-28,937.9	-3.8%
Public School Support								
993	PUBLIC SCHOOL SUPPORT	2,386,607.7	-77,432.6	2,309,175.1	2,485,365.8	2,349,685.6	40,510.5	1.8%
Total	**Public School Support**	2,386,607.7	-77,432.6	2,309,175.1	2,485,365.8	2,349,685.6	40,510.5	1.8%
Other								
995	EXPAND EMPLOYER-EMPLOYEE RETIREMENT SWITCH	0.0	0.0	0.0	0.0	-49,700.0	-49,700.0	0.0%
996	GOVERNMENT RESTRUCTURING TASK FORCE	0.0	0.0	0.0	0.0	-5,000.0	-5,000.0	0.0%
Total	**Other**	0.0	0.0	0.0	0.0	-54,700.0	-54,700.0	0.0%
Grand Total		5,353,746.8	-150,900.0	5,202,846.8	5,876,972.3	5,389,535.6	186,688.8	3.6%

U.S. AND NEW MEXICO ECONOMIC INDICATORS

TABLE 2

December 2010 Consensus Forecast

	FY2010	FY2011	FY2012	FY2013
NATIONAL ECONOMIC INDICATORS				
US Real GDP Growth (level annual avg, % yoy)*	0.7	2.5	2.6	2.9
US Inflation Rate (CPI, annual avg, % yoy)**	1.0	1.3	1.7	2.0
Federal Funds Rate (%)	0.15	0.15	0.3	2.7
NEW MEXICO LABOR MARKET & INCOME DATA				
NM Non-Agricultural Employment Growth (%)	(3.2)	0.2	1.0	1.3
NM Personal Income Growth (%)***	0.0	3.5	2.2	3.2
NM Private Wages & Salaries Growth (%)	(2.3)	2.2	3.6	3.7
CRUDE OIL AND NATURAL GAS OUTLOOK				
NM Oil Price ($/barrel)	$71.29	$76.87	$82.69	$85.60
NM Taxable Oil Sales (million barrels)	62.9	64.2	64.2	63.9
NM Gas Price ($ per thousand cubic feet)****	$5.20	$5.00	$5.75	$6.37
NM Taxable Gas Sales (billion cubic feet)	1,283	1,229	1,191	1,154

*Real GDP is BEA chained 2005 dollars, billions, annual rate.
**CPI is all urban, BLS 1982-84=1.00 base.
***Personal Income growth rates are for the calendar year in which each fiscal year begins.
****The gas prices are estimated using a formula of NYMEX, PIRA and Global Insight future prices as well as a liquid premium based on oil prices.
Sources: November Global Insight, November PIRA and November FOR-UNM BBER

TABLE 3

General Fund Consensus Revenue Estimate
December 2010

	FY10		FY11		FY12		FY13	
	Preliminary Audit	% Change from FY09	Forecast	% Change from FY10	Forecast	% Change from FY11	Forecast	% Change from FY12
Gross Receipts Tax	1,634.4	-10.8%	1,740.0	6.5%	1,810.0	4.0%	1,900.0	5.0%
Compensating Tax	50.9	-27.2%	64.5	26.7%	67.7	5.0%	71.2	5.2%
TOTAL GENERAL SALES	1,685.3	-11.4%	1,804.5	7.1%	1,877.7	4.1%	1,971.2	5.0%
Tobacco Taxes	45.7	-7.8%	81.0	77.2%	78.6	-3.0%	77.8	-1.0%
Liquor Excise	25.6	-0.9%	25.5	-0.4%	26.0	2.0%	26.4	1.5%
Insurance Taxes	130.3	6.9%	137.3	5.4%	142.2	3.6%	147.3	3.6%
Fire Protection Fund Reversion	5.0	-83.8%	18.3	266.0%	17.4	-4.9%	16.3	-6.3%
Motor Vehicle Excise	92.3	-8.2%	98.3	6.5%	107.4	9.3%	116.0	8.0%
Gaming Excise	65.1	-5.9%	64.9	-0.3%	66.0	1.7%	67.2	1.8%
Leased Vehicle Surcharge	5.7	16.3%	5.8	1.8%	5.6	-3.4%	5.7	1.8%
Other	3.2	38.9%	3.0	-6.0%	3.0	0.0%	3.2	6.7%
TOTAL SELECTIVE SALES	372.9	-7.9%	434.1	16.4%	446.2	2.8%	459.9	3.1%
Personal Income Tax	956.6	-0.2%	1,055.0	10.3%	1,095.0	3.8%	1,135.0	3.7%
Corporate Income Tax	125.1	-23.0%	220.0	75.9%	260.0	18.2%	300.0	15.4%
TOTAL INCOME TAXES	1,081.7	-3.5%	1,275.0	17.9%	1,355.0	6.3%	1,435.0	5.9%
Oil and Gas School Tax	324.5	-12.4%	328.5	1.2%	360.7	9.8%	380.8	5.6%
Oil Conservation Tax	16.4	-10.2%	16.7	1.8%	18.2	9.0%	19.1	4.9%
Resources Excise Tax	9.4	-16.3%	10.0	6.4%	10.0	0.0%	10.0	0.0%
Natural Gas Processors Tax	40.4	0.1%	17.9	-55.7%	22.4	25.1%	21.0	-6.2%
TOTAL SEVERANCE TAXES	390.7	-11.2%	373.1	-4.5%	411.3	10.2%	430.9	4.8%
LICENSE FEES	50.3	0.4%	52.0	3.4%	53.9	3.7%	57.3	6.3%
LGPF Interest	437.1	0.8%	445.2	1.9%	451.6	1.4%	429.8	-4.8%
STO Interest	22.1	-67.4%	16.2	-26.7%	20.2	24.7%	39.8	97.0%
STPF Interest	187.1	-2.2%	184.6	-1.3%	180.9	-2.0%	174.0	-3.8%
TOTAL INTEREST	646.3	-6.7%	646.0	0.0%	652.7	1.0%	643.6	-1.4%
Federal Mineral Leasing	355.3	-30.0%	368.2	3.6%	398.0	8.1%	417.8	5.0%
State Land Office	67.7	85.8%	58.8	-13.1%	43.9	-25.3%	42.8	-2.5%
TOTAL RENTS & ROYALTIES	423.0	-22.2%	427.0	0.9%	441.9	3.5%	460.6	4.2%
TRIBAL REVENUE SHARING	64.1	-2.0%	65.4	2.0%	67.2	2.8%	70.1	4.3%
MISCELLANEOUS RECEIPTS	44.4	4.0%	47.2	6.3%	43.9	-7.0%	46.7	6.4%
REVERSIONS	40.0	2.6%	40.0	-31.7%	40.0	0.0%	40.0	0.0%
TOTAL RECURRING	4,798.7	-9.4%	5,164.3	7.2%	5,389.8	4.4%	5,615.3	4.2%
TOTAL NON-RECURRING	478.9	1444.3%	2.1	-99.5%	6.9	228.6%	(3.3)	-147.8%
GRAND TOTAL	5,277.6	-1.3%	5,166.4	-2.2%	5,396.7	4.5%	5,612.0	4.0%

GENERAL FUND FINANCIAL SUMMARY

TABLE 4

LFC Recommendation
(Dollars in Millions)

APPROPRIATION ACCOUNT	Preliminary FY2010	Estimated FY2011	Estimated FY2012
REVENUE			
Recurring Revenue			
December 2010 Consensus forecast	$ 4,798.7	$ 5,164.3	$ 5,389.7
Total Recurring Revenue	$ 4,798.7	$ 5,164.3	$ 5,389.7
Nonrecurring Revenue			
December 2010 Consensus forecast	$ 479.9	$ 2.1	$ 6.9
2011 Proposed Fund Transfers	-	*50.4*	-
Total Non-Recurring Revenue	$ 479.9	$ 52.5	$ 6.9
TOTAL REVENUE	**$ 5,278.6**	**$ 5,216.8**	**$ 5,396.6**
APPROPRIATIONS			
Recurring Appropriations			
Recurring Appropriations - Post Solvency & FY11 Sanding	$ 5,357.9	$ 5,202.8	$ 5,389.5
Total Recurring Appropriations	$ 5,357.9	$ 5,202.8	$ 5,389.5
Nonrecurring Appropriations	$ 93.3	$ 1.1	$ -
2011 Proposed Special & Supplemental Appropriations	-	*24.3*	-
Total Nonrecurring Appropriations	$ 93.3	$ 25.4	$ -
TOTAL APPROPRIATIONS	**$ 5,451.2**	**$ 5,228.2**	**$ 5,389.5**
Transfer to(from) Reserves	$ (172.5)	$ (11.4)	$ 7.1
GENERAL FUND RESERVES			
Beginning Balances	$ 388.6	$ 278.1	$ 261.0
Transfers from (to) Appropriations Account	(172.5)	(11.4)	7.1
Revenue and Reversions	120.0	50.8	51.7
Appropriations, expenditures and transfers out	(58.0)	(56.5)	(51.0)
Ending Balances	**$ 278.1**	**$ 261.0**	**$ 268.8**
Reserves as a Percent of Recurring Appropriations	*5.2%*	*5.0%*	*5.0%*

TABLE 4 **GENERAL FUND FINANCIAL SUMMARY**

RESERVE DETAIL

(Dollars in Millions)

	Preliminary FY2010	Estimated FY2011	Estimated FY2012
OPERATING RESERVE			
Beginning balance	$ 37.4	$ 36.2	$ 34.7
BOF Emergency Appropriations	(1.2)	(1.5)	-
Transfers from/to appropriation account	-	-	7.1
Chapter 3, Laws 2009 - SS (HB6)	-	-	-
Ending balance	$ 36.2	$ 34.7	$ 41.7
APPROPRIATION CONTINGENCY FUND			
Beginning balance	$ 11.5	$ 29.6	$ 18.6
Disaster allotments	(9.9)	(11.0)	(11.0)
Other appropriations	-	-	-
Transfers in	25.0	-	-
Revenue and reversions	3.0	-	-
Ending Balance	$ 29.6	$ 18.6	$ 7.6
Education Lock Box			
Beginning balance	$ 19.1	$ 53.1	$ 49.1
Appropriations (Section 5 2010 GAA)	(6.0)	(4.0)	-
Transfers in(out)	40.0	-	-
Ending balance	$ 53.1	$ 49.1	$ 49.1
STATE SUPPORT FUND			
Beginning balance	$ 1.0	$ 1.0	$ 1.0
Revenues	$ -	$ -	$ -
Appropriations	$ -	$ -	$ -
Ending balance	$ 1.0	$ 1.0	$ 1.0
TOBACCO PERMANENT FUND			
Beginning balance	$ 121.0	$ 132.0	$ 142.9
Transfers in	40.9	40.0	40.0
Appropriation to tobacco settlement program fund	(20.5)	(20.0)	(20.0)
Gains/Losses	11.1	10.8	11.7
Additional transfers to Program Fund	*(20.5)*	*(20.0)*	*(20.0)*
Ending balance	$ 132.0	$ 142.9	$ 154.6
TAX STABILIZATION RESERVE			
Beginning balance	$ 198.7	$ 26.1	$ 14.7
Transfers in	-	-	-
Chapter 3, Laws 2009 - SS (HB6)	*(115.0)*	-	-
2010 Special Session reserve transfers	*(57.5)*	*(11.4)*	
Ending balance	$ 26.1	$ 14.7	$ 14.7
GENERAL FUND ENDING BALANCES	**$ 278.1**	**$ 261.0**	**$ 268.8**
Percent of Recurring Appropriations	*5.2%*	*5.0%*	*5.0%*

TABLE 5

2011 Legislative Session
Special, Supplemental, and Deficiency Appropriations
(in thousands)

	Code	Agency	Description	Agency Request: General Fund	Agency Request: Other State Funds	Agency Request: ISF/IAT	Agency Request: Federal Funds	Agency Request: Total	Agency Request: R/N	LFC Recommendation: General Fund	LFC Recommendation: Other State Funds	LFC Recommendation: ISF/IAT	LFC Recommendation: Federal Funds	LFC Recommendation: Total	LFC Recommendation: R/N
	SPECIAL/NEW INITIATIVES APPROPRIATIONS														
1		Legislature	For 2011 legislative session expenses.	-	-	-	-	-	N	8,326.7	-	-	-	8,326.7	N
2	218	Administrative Office of the Courts	To pay back several Board of Finance loans for jury and witness shortfalls.	1,478.0	-	-	-	1,478.0	N	-	-	-	-	-	N
3	420	Regulation and Licensing Department	To hire an Information Technology Application Developer.	61.5	-	-	-	61.5	N	-	-	-	-	-	N
4	420	Regulation and Licensing Department	To fill a vacant Application Developer position.	88.4	-	-	-	88.4	N	-	-	-	-	-	N
5	420	Regulation and Licensing Department	To reclassify and fill an Information Technology Generalist II position.	26.9	-	-	-	26.9	N	-	-	-	-	-	N
6	420	Regulation and Licensing Department	To fill a vacant Information Technology Database Administrator 2 position.	77.8	-	-	-	77.8	N	-	-	-	-	-	N
7	420	Regulation and Licensing Department	To replace rugged laptop computers used by CID/MHD inspectors and investigators.	65.3	-	-	-	65.3	N	-	-	-	-	-	N
8	420	Regulation and Licensing Department	To hire two call center technicians, one compliance officer and office manager in the CID program.	387.5	-	-	-	387.5	N	-	-	-	-	-	N
9	420	Regulation and Licensing Department	To cover fuel costs for CID inspectors and investigators.	54.0	-	-	-	54.0	N	-	-	-	-	-	N
10	505	Cultural Affairs	For the New Mexico Centennial.	500.0	-	-	-	500.0	N	200.0	-	-	-	200.0	N
11	630	Human Services Department	To pay the state share of a twelve-month transition period if a non-incumbent contractor is successful in winning the Medicaid Management Information System (MMIS) fiscal agent contract re-bid. Funding will be used to takeover the OmniCaid component of the MMIS, implement several peripheral systems, establish offices in Santa Fe and Albuquerque and hire and train staff.	4,000.0	-	-	12,000.0	16,000.0	N	-	-	-	-	-	N
12	630	Human Services Department	**Language:** Any unexpended balances remaining at the end of fiscal year 2011 from reimbursements received from the social security administration to support the general assistance program shall not revert but may be expended by the human services department in fiscal year 2012 for payments to recipients in the general assistance program.						N	**Language Only**					N
13	630	Human Services Department	**Language:** The period of time for expending the four hundred two thousand five hundred dollars ($402,500) appropriated from the general fund and the seven hundred twenty-eight thousand nine hundred dollars ($728,900) in federal funds contained in Subsection 59 of Section 5 of Chapter 28 of Laws 2007 as extended by Subsection 72 of Section 5 of Chapter 3 of Laws 2008 as extended by subsection 44 of section 5 of Chapter 124 of Laws of 2009 for updates to information technology systems related to changes in the federal temporary assistance for needy families program is extended through fiscal year 2014.						N	**Language Only**					N
14	770	Corrections Department	To purchase a cashless commissary and trust fund accounting system for correctional facilities.	100.0	-	-	-	100.0	N	-	-	-	-	-	N
15	924	Public Education	For emergency support to school districts.	6,000.0				6,000.0	N	4,000.0				4,000.0	N
16	924	Public Education	For emergency support to small rural school districts.	4,000.0				4,000.0	N	-	-	-	-	-	N
				16,839.4	**-**	**-**	**12,000.0**	**28,839.4**		**12,526.7**	**-**	**-**	**-**	**12,526.7**	

TABLE 5

2011 Legislative Session
Special, Supplemental, and Deficiency Appropriations
(in thousands)

#	Code	Agency	Description	Agency Request: General Fund	Agency Request: Other State Funds	Agency Request: ISF/IAT	Agency Request: Federal Funds	Agency Request: Total	Agency Request: R/N	LFC Recommendation: General Fund	LFC Recommendation: Other State Funds	LFC Recommendation: ISF/IAT	LFC Recommendation: Federal Funds	LFC Recommendation: Total	LFC Recommendation: R/N
6	341	Department of Finance Administration	The Board of Finance is requesting $750 thousand to supplement the $1.5 million appropriated to the Board of Finance emergency loan fund. As a result of the state's recent budget reductions and the economic downturn, the Board of Finance has seen an increase in the number and size of emergency loan requests in FY11.	750.0	-	-	-	750.0	N	-	-	-	-	-	N
7	355	Public Defender Department	For operating costs.	500.0	-	-	-	500.0	N	300.0	-	-	-	300.0	N
8	420	Regulation and Licensing Department	To purchase supplies.	22.0	-	-	-	22.0	N	-	-	-	-	-	N
9	465	Gaming Control Board	For costs of arbitration as outlined in the dispute resolution section of the 2001 Gaming Compact.	64.2	-	-	-	64.2	N	64.2	-	-	-	64.2	N
10	465	Gaming Control Board	To payback a loan from the Board of Finance. The loan was used to reduce furlough hours and meet the 50% rule.	177.9	-	-	-	177.9	N	-	-	-	-	-	N
11	630	Human Services Department	For a shortfall in the medical assistance program for Medicaid. The source of the funds is reallocated government services funds, which shall free up general fund elsewhere in the department for Medicaid.	-	-	-	-	-	N	-	-	-	8,000.0	8,000.0	N
12	630	Human Services Department	For transfer to the children, youth and families department for childcare programs. The total transfer, including TANF funds, shall not exceed $34.2 million.	-	-	-	-	-	N	8,654.0	-	-	-	8,654.0	N
13	644	Division of Vocational Rehabilitation	To reimburse the Social Security Administration for five years of non federal match that was required for the New Mexico work incentive program.	33.0	-	-	-	33.0	N	-	-	-	-	-	N
14	645	Governor's Commission on Disability	For the adaptive driving program, from agency fund balance.	-	-	46.0	-	46.0	N	-	-	-	-	-	N
15	645	Governor's Commission on Disability	For the community outreach program for the deaf, from agency fund balance.	-	-	80.0	-	80.0	N	-	-	-	-	-	N
16	647	Developmental Disabilities Planning Council	To fund mental health treatment guardians for 38 persons, corporate guardianship services for 395 incapacitated persons, and legal services to appoint a family member as a guardian for 125 persons.	288.7	-	-	-	288.7	N	200.0	-	-	-	200.0	N
17	665	Department of Health	To pay for attorney fees in the Jackson vs. Los Lunas lawsuit and to satisfy settlement requirements of the recent Foley litigation agreement.	1,024.1	-	-	-	1,024.1	N	-	-	-	-	-	N
18	665	Department of Health	To supplement the Developmentally Disabled and Medically Fragile Medicaid Waiver Program.	2,344.4	-	-	-	2,344.4	N	2,344.4	-	-	-	2,344.4	N
19	770	Corrections Department	To cover additional cuts in private prisons and medical contracts.	2,787.0	-	-	-	2,787.0	N	-	-	-	-	-	N
	SUPPLEMENTAL TOTAL			**9,652.6**	**-**	**126.0**	**-**	**9,778.6**		**11,862.6**	**-**	**-**	**8,000.0**	**19,762.6**	
	DEFICIENCY APPROPRIATIONS:							-							
1	243	Thirteenth Judicial District Court	To cover a $50 thousand shortfall in the other costs category.	50.0	-	-	-	50.0	N	-	-	-	-	-	N
2	669	Health Policy Commission	To cover a deficiency in personal services and employee benefits.	5.3	-	-	-	5.3	N	5.3	-	-	-	5.3	N
	DEFICIENCY TOTAL			**55.3**	**-**	**-**	**-**	**55.3**		**5.3**	**-**	**-**	**-**	**5.3**	
	SPECIAL/NEW INITIATIVE, SUPPLEMENTAL & DEFICIENCY TOTAL			**26,547.3**	**-**	**126.0**	**12,000.0**	**38,673.3**		**24,394.6**	**-**	**-**	**8,000.0**	**32,294.6**	
	GRAND TOTAL			**26,547.3**	**-**	**126.0**	**12,000.0**	**38,673.3**		**24,394.6**	**-**	**-**	**8,000.0**	**32,294.6**	

INFORMATION TECHNOLOGY REQUESTS - FY12
Agency Requests and LFC Recommendations
(In thousands)

System Replacements and Enhancements			Agency Request				LFC Recommendation			
Code	Agency	System Description	General Fund	Other State Funds	Federal Funds	Total	General Fund	Other State Funds	Federal Funds	Total
218	Administrative Office of the Courts	E-Filing and Document Management	$942.0			$942.0	$942.0			**$942.0**
218	Administrative Office of the Courts	Disaster Recovery	$275.0			$275.0				**$0.0**
333	Taxation and Revenue Department	GenTax Upgrade	$4,655.0			$4,655.0				**$0.0**
333	Taxation and Revenue Department	Interactive Voice Response for Tax Programs	$750.0			$750.0				**$0.0**
333	Taxation and Revenue Department	Disaster Recovery/Business Continuity Hot Site	$1,141.0			$1,141.0				**$0.0**
350	General Services Department	SHARE Benefits and Consolidated Omnibus Budget Reconciliation Act [1]		$1,200.0		$1,200.0		$1,200.0		**$1,200.0**
350	General Services Department	SHARE Accounts Receivable and Fixed Assets	$1,300.0			$1,300.0				**$0.0**
350	General Services Department	Electronic Content Management Conversion	$1,500.0			$1,500.0				**$0.0**
352	Educational Retirement Board	Integrated Retirement Information System Upgrade		$3,500.0		$3,500.0		$3,500.0		**$3,500.0**
369	State Commission of Public Records	Centralized Electronic Records Repository	$1,272.4			$1,272.4	$1,272.4			**$1,272.4**
370	Secretary of State	Voter Registration and Election Management System Replacement	534.9			$534.9				**$0.0**
370	Secretary of State	Commercial Filings Records Management System	689.7			$689.7				**$0.0**
370	Secretary of State	Disaster Recovery Plan	95.1			$95.1				**$0.0**
370	Secretary of State	Infrastructure Upgrades	1,004.6			$1,004.6				**$0.0**
550	State Engineer's Office	Water Rights System Modernization	$300.0			$300.0				**$0.0**
550	State Engineer's Office	Electronic Document and Content Management System	$200.0			$200.0				**$0.0**
550	State Engineer's Office	Dam Safety Information Management System	$525.0			$525.0				**$0.0**
550	State Engineer's Office	Pecos Well Field and Surface Water Measurement	$300.0			$300.0				**$0.0**
630	Human Services Department	Income Support Division Integrated Service Delivery System Replacement	$15,844.0		$21,000.0	$36,844.0				**$0.0**
690	Children, Youth and Families Department	Enterprise Provider Information and Constituent Services	$1,718.0			$1,718.0				**$0.0**
770	Corrections Department	Correction Management Information System Upgrade	$250.0			$250.0				**$0.0**
770	Corrections Department	Electronic Content Management	$100.0			$100.0				**$0.0**
790	Department of Public Safety	Satellite Communication Upgrade Planning	$100.0			$100.0				**$0.0**
790	Department of Public Safety	Criminal Justice Information System	$500.0			$500.0				**$0.0**
790	Department of Public Safety	Records Management System and Computer Aided Dispatch	$500.0			$500.0				**$0.0**
790	Department of Public Safety	Disaster Recovery/Business Continuity	$1,500.0			$1,500.0				**$0.0**
790	Department of Public Safety	FastID (Remote Fingerprinting System)	$1,000.0			$1,000.0				**$0.0**
790	Department of Public Safety	Forensic and Evidence Management System	$1,620.0			$1,620.0				**$0.0**
790	Department of Public Safety	Disposition Data Interface Study	$300.0			$300.0				**$0.0**
790	Department of Public Safety	Traffic Records Repository	$250.0			$250.0				**$0.0**
790	Department of Public Safety	National Law Enforcement Data Exchange	$750.0			$750.0				**$0.0**

INFORMATION TECHNOLOGY REQUESTS - FY12
Agency Requests and LFC Recommendations
(In thousands)

System Replacements and Enhancements			Agency Request				LFC Recommendation			
Code	Agency	System Description	General Fund	Other State Funds	Federal Funds	Total	General Fund	Other State Funds	Federal Funds	Total
924	Public Education Department	P-20 Statewide Longitudinal Data System	$4,379.6			$4,379.6				**$0.0**
924	Public Education Department	Video Conferencing	$4,250.0			$4,250.0				**$0.0**
924	Public Education Department	STARS User Interface	$4,250.0			$4,250.0				**$0.0**
924	Public Education Department	Student Management System Carve Your Path	$285.0			$285.0				**$0.0**
924	Public Education Department	Charter Schools Student Information System	$1,250.0			$1,250.0				**$0.0**
924	Public Education Department	STARS Annual Yearly Progress Recoding	$210.0			$210.0				**$0.0**
924	Public Education Department	Student Management System User Interface	$575.0			$575.0				**$0.0**
924	Public Education Department	Licensure System Enhancement	$500.0			$500.0				**$0.0**
924	Public Education Department	STARS Support and Training	$200.0			$200.0				**$0.0**
924	Public Education Department	Strategic Plan for Student Success	$350.0			$350.0				**$0.0**
924	Public Education Department	Server Consolidation at DoIT	$150.0			$150.0				**$0.0**
Total			**$56,316.3**	**$4,700.0**	**$21,000.0**	**$82,016.3**	**$2,214.4**	**$4,700.0**	**$0.0**	**$6,914.4**

1. The appropriation should be to DoIT as the technical owner of SHARE

NEW MEXICO STATE
PRINTING & GRAPHICS
A DIVISION OF GENERAL SERVICES DEPARTMENT