STATE OF NEW MEXICO

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

January 2012 ◇◇◇ For Fiscal Year 2013 ◇◇◇ Volume I

LEGISLATING FOR RESULTS: POLICY AND PERFORMANCE ANALYSIS

State of New Mexico

LEGISLATIVE FINANCE COMMITTEE

325 Don Gaspar, Suite 101 • Santa Fe, NM 87501
Phone: (505) 986-4550 • Fax (505) 986-4545

David Abbey
Director

January 17, 2012

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

Dear Fellow Legislators:

Pursuant to Section 2-5-4 NMSA 1978, the fiscal year 2013 budget recommendation of the Legislative Finance Committee is provided to you. The committee recommendation for recurring appropriations from the general fund is $5.68 billion, $250 million more than the adjusted FY12 operating budget. Although the economy continues to improve, the committee took a cautious approach, with spending kept flat on all but high priority initiatives. Any temptation to restore services or to grow spending for any other reason was tempered by the reality that the recovery has been unusually slow so far and is threatened by continuing troubles in Europe.

The committee's recommendation continues to emphasize education, public health, public safety, and care for the state's most vulnerable citizens. In addition, because the conditions to sunset the 1.75 percent retirement swap are likely to be met, public employees, including teachers, are expected to see an increase in take-home pay for the first time in four years.

The committee's general fund recommendation of $2.5 billion for public schools is an increase of 3.8 percent, or $89.2 million, from the FY12 appropriation. The recommendation includes an increase of $10.4 million for early childhood programs and $7.5 million for a new reading initiative. Another $5 million for early childhood programs is part of the recommendation for the Children, Youth and Families Department. Funding for that department would increase $13 million, or 6.7 percent over FY12, to $385 million. The $755.5 million general fund recommendation for higher education represents a 5.4 percent increase over the FY12 appropriation. The recommendation assumes the implementation of a new funding formula that emphasizes course and degree completion over enrollment. Unlike most years, the recommendation does not take credit for any revenue raised through tuition.

The committee recommends a $900.9 million general fund appropriation for Medicaid, a $33.9 million increase, or 3.9 percent over FY12. The recommendation reflects the department's projections on slower enrollment growth and limited increases in managed-care utilization but also assumes some savings from department changes to the program. Finally, the committee recommendation includes a 3.3 percent increase for the Corrections Department and 5.5 percent increase for the Department of Public Safety.

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 critical services.

Sincerely,

Senator John Arthur Smith
Chairman

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

VOLUME I
LEGISLATING FOR RESULTS: POLICY AND PERFORMANCE ANALYSIS

JANUARY 2012 FOR FISCAL YEAR 2013

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CHAIRMAN

REPRESENTATIVE
LUCIANO "LUCKY" VARELA
VICE CHAIRMAN

DAVID ABBEY
DIRECTOR

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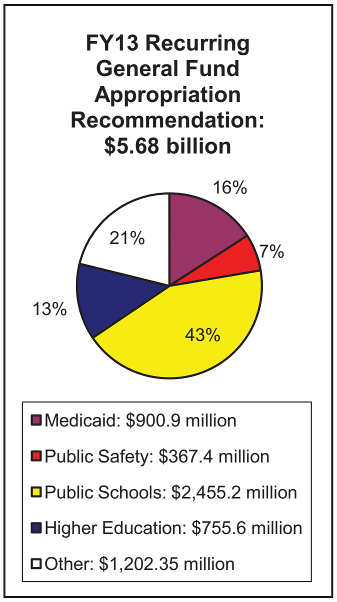
Recommendations & Highlights

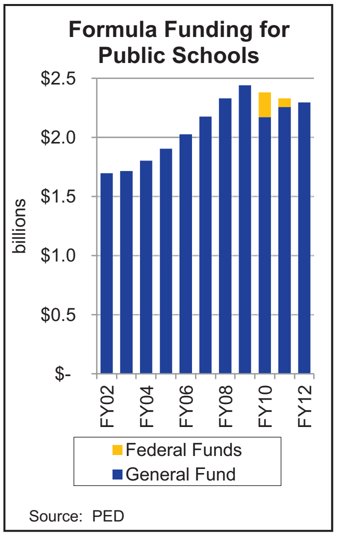
Lawmakers moved to implement extraordinary, but necessary, steps to balance the state's budget during the economic downtown, including three years of budget cutting, reallocating funds from lower priority spending items, spending cash balances, using one-time resources for ongoing commitments, and managing the personnel costs of state workers. Because of these efforts, the immediate budgetary crisis passed without a major disruption in services or widespread layoffs, and the state appears to have entered FY12 on the path toward recovery.

Initial revenue estimates dropped from $371 million of new money for FY13 in the July consensus revenue estimate to $254 million by the time the December estimate was prepared. The volatile energy markets contributed to ever-changing revenue estimates during the interim.

A recessionary hangover and concerns over a possible decrease in federal highway funds led lawmakers during the redistricting special session to cautiously fund $86.4 million of shovel-ready and time-sensitive capital outlay projects instead of the $213 million the governor proposed. The remaining available capital outlay funds not appropriated in the special session can be carried forward to the 2012 legislative session.



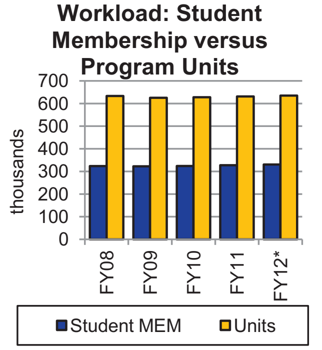
__FY13 Budget Development Approach and Methodology__. The committee's budget guidelines for FY13 prioritized funding for the state's most critical services and a general fund reserve of at least 5 percent. The guidelines listed education, public health, public safety and care for the state's most vulnerable citizens as critical areas. The committee recommends total general fund spending of $5.68 billion, $250.1 million more than the FY12 operating level.



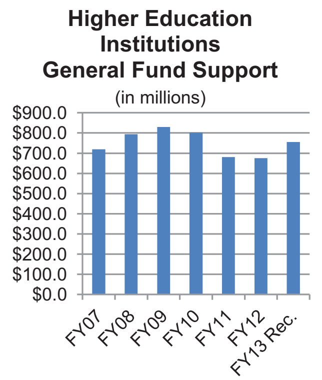
The committee replaced nearly $20 million of tobacco settlement revenue temporarily accessed to help to close budget gaps in health care and education. Similarly, legislation requiring state employees to contribute an additional 1.75 percent to retirement plans saved the state $49.7 million; however, the statute required the increased rate to sunset if the December 2011 revenue forecast projects revenues to be $100 million above FY12 appropriations and reserve levels are at 5 percent at the end of FY12. The December revenue estimates indicate the sunset conditions will be met.

The recommendation provides $17.1 million for the sixth increment of a seven-year statutory plan to annually increase the employer contribution of public and higher education employees by 0.75 percent. The recommendation is contingent on the passage of other legislation that addresses benefits and solvency concerns for the educational retirement fund. The recommendation also provides $3.4 million for an average base salary increase of 0.5 percent for all other state employees with satisfactory job performance.

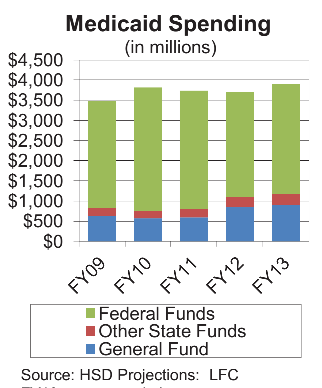
In general, agencies requested and the committee recommends spending levels flat with FY12. In keeping with budget guidelines, the exceptions were made for public school support, colleges and universities, the Medicaid Program, the Department of Public Safety, and a handful of other areas. With the sunset of the retirement swap, public employees, including teachers, will see a boost in take-home pay for the first time since 2008.



* FY12 data based on preliminary estimates
Source: PED



Source: LFC Budget Documents



Source: HSD Projections: LFC FY13 recommendation
Federal funds are estimated

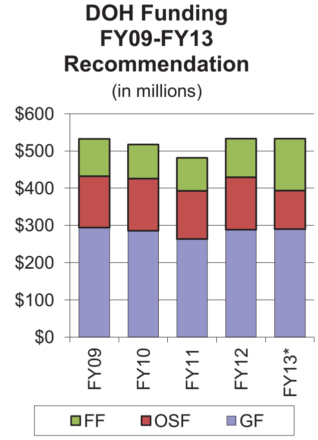
Public Schools. The committee recommends $2.5 billion in overall education funding, an increase of $89.2 million, or 3.7 percent, over the FY12 appropriation. The program cost recommendation accounts for $2.3 billion, a $49.2 million, or 2.1 percent increase, over the FY12 appropriation. This includes funding for enrollment growth, increased insurance premiums, restoration of the 1.75 retirement reduction, and modest increases in fixed costs. A focused effort is needed to update the funding formula and how the department allocates funding to districts. Consideration should be given to simplifying the funding formula, which would likely result in a formula less costly and burdensome to administer and less open to gaming within statutes and rules. The committee recommends savings from funding formula reform be put back into the formula to increase the unit value. Because research demonstrates a high return on investment for money spent on early childhood care and education for at-risk students, the committee recommendation includes increases of $10.4 million for prekindergarten and the kindergarten-three-plus program and $7.5 million for a new early reading initiative.

Higher Education. The general fund recommendation for higher education is $755.5 million, including the Higher Education Department and special schools, an increase of $39 million, or 5.4 percent, from the FY12 appropriation. The recommendation implements a new funding formula with incremental funding tied to outcomes. The recommendation includes $13.5 million for the 1.75 percent retirement swap, $15.8 million in formula funding for increased workload based on student course completion, and $13.6 million for statewide outcome measures: the total number of certificates and degrees awarded in the past academic year, the certificates and degrees awarded in workforce priority areas, and the certificates and degrees awarded to financially at-risk students. In years past, the Legislature has applied a credit related to the tuition and other non-general fund revenues collected by institutions. For FY13, the committee recognized a much lower amount of institutional non-general fund revenues, based on land grant permanent fund revenues and mill levies, in reaching its general fund recommendation.

Of the $755.6 million for higher education, nearly $100 million will support related educational activities: athletics, public television, and research and public service projects. After three years of successive reductions for these programs, the committee recommends funding most state agencies or statewide government activities, athletics, and public television at FY12 appropriation levels. A select number of agencies require new revenues to preserve accreditation and provide critical public health services. In addition to funding for instruction, general expenditures, research, and public service projects, the committee recommends $400 thousand for the University of New Mexico Health Sciences Center bachelor of arts and medical degrees (BA/MD) program, since FY06 the state has appropriated $3.86 million for this program.

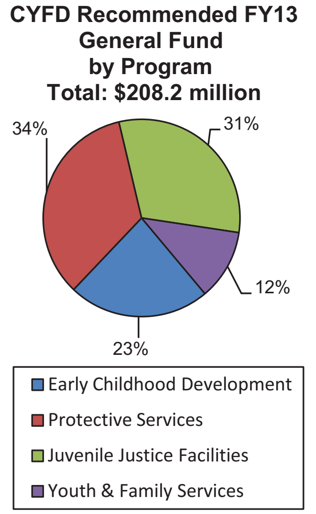
Medicaid. Fiscal year 2013 is shaping up to be the transition year for the Human Services Department (HSD) before the implementation of expanded Medicaid health coverage in 2014 through federal healthcare reform. The HSD requested $1.017 billion from the general fund, a $50.1 million increase, or 5.1 percent, compared with FY12. Approximately $48.9 million of the increase was for the Medicaid program due to modest growth in enrollment (2 percent) and utilization (1 percent). The committee general fund recommendation for Medicaid totals $900.9 million, a $33.9 million, or 3.9 percent, increase from FY12. The recommendation accepts the HSD's projection for slower enrollment growth and limited increases in medical managed care utilization but also assumes some savings from ongoing Medicaid modernization efforts.

The HSD used rate reductions and benefit changes to hold the annual cost of the physical health managed care area essentially flat since FY09 at about $1.1 billion. The changes include a 3 percent provider rate reduction in late 2009. However, cost growth of the coordination of long-term services (CoLTS) waiver program has been explosive. Total program cost in FY13 is projected to be $917 million, a $120 million, or 15 percent, increase compared with the first full-year program cost of $798 million in FY10. To slow down cost growth; the HSD has implemented rate reductions, tightened regulations for provision of personal care option services, and implemented a new client service guide to optimize client hours.



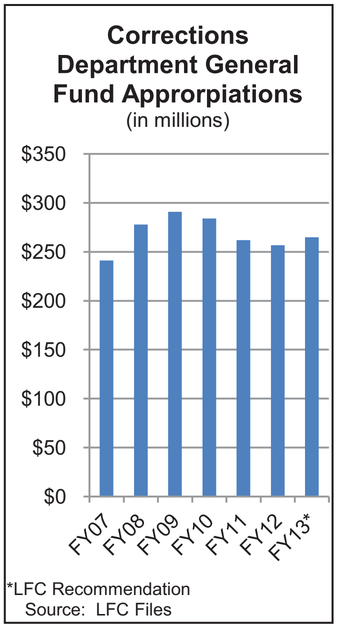
*LFC Recommendation
Source: LFC Files

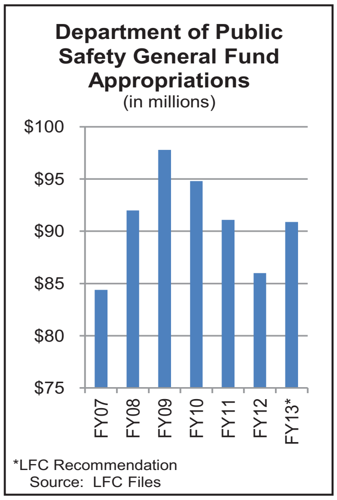
Department of Health. The committee recommends total expenditures of $532.8 million, with general fund transfers of $291.2 million, an increase of $2.5 million, or 0.9 percent, over FY12 operating levels. The recommendation provides an additional $1 million to support rural primary healthcare centers statewide and $1 million for the state employee 1.75 retirement swap. With the mission to serve and care for high-need communities in which they are located, rural primary healthcare centers can leverage state and federal resources to address some of New Mexico's most complex health system problems — access to care for uninsured and underserved people, the primary care provider shortage, disparities in care for people living in rural communities and for ethnic minorities, and creation of medical homes for low-income people. The recommendation also includes an additional $2.7 million to reduce the waiting list by serving more clients under the developmental disabilities (DD) Medicaid waiver. At the end of FY11, 3,812 DD clients were receiving services from the DD Medicaid waiver, but an additional 5,401 were on a waiting list to receive services. Lastly, the recommendation increases funding for the State Scientific Laboratory to improve testing turnaround times for driving-while-intoxicated samples and other workload requirements.



Source: LFC Files

Early Childhood Services. The committee recommends $385 million for the Children, Youth and Families Department (CYFD). The total includes $208.2 million from the general fund, a $13 million, or 6.7 percent, increase from the FY12 operating budget. The general fund increase adds $971.5 thousand for the 1.75 percent retirement swap; emphasizes the safety and welfare of children and early childhood services by reducing the CYFD's vacancy rate to 6 percent; funds vacant positions at mid-range; and provides approximately $5 million to augment early childhood programs, including $3 million to fund childcare for an estimated 800 additional children, $900 thousand for home-visiting services to sustain five new home visiting sites, and $1 million to support 10 new prekindergarten sites. The recommendation also replaces $1 million of nonrecurring revenue for domestic violence services and $2.8 million of federal Title IV-E funding for foster care and adoption assistance.





Public Safety. The general fund recommendation for the New Mexico Corrections Department (NMCD) is $265.5 million, a 3.3 percent increase from the agency's FY12 operating level. The total agency recommendation is $287.7 million, which includes $157.1 thousand in federal funds and $22 million in other revenues. As of July 2011, the department had a total of 6,571 inmates, 5,964 men and 607 women. The average cost per inmate per day in department-operated institutions is $101 versus $84 in privately operated facilities. In FY12, the NMCD imposed penalties of $1.1 million against prison contractor GEO Group, Inc. for understaffing the Lea County Correctional Facility. It also required the company to invest $200 thousand in local recruitment to ensure proper staffing and avoid future penalties. The potential increase in inmate medical, dental and mental healthcare costs raises concerns about the department's ability to implement cost-saving measures to reduce costs.

The general fund recommendation for the Department of Public Safety (DPS) is $90.9 million, a 5.5 percent, increase from the agency's adjusted FY12 general fund appropriation. The total agency recommendation is $128.5 million, which includes $13.8 million in federal funds and $23.8 million in additional revenue sources. Attrition outpacing recruitment and retention continues to be a concern for the DPS as does the impact of the U.S. Supreme Court decision in *Bullcoming v. New Mexico* on travel costs and timely forensic analysis.

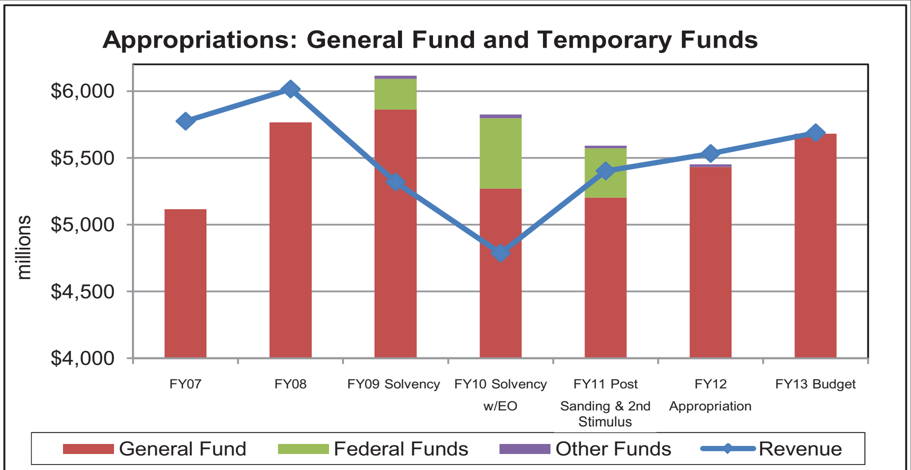
Judiciary. The committee recommends $170.8 million in total appropriations for the courts and related judicial agencies, including $140.9 million from the general fund, a 4 percent increase from FY12. The recommendation includes $800 thousand from liquor excise tax revenues for statewide drug-court programs. The recommendation for the Administrative Office of the Courts includes an increase of $885 thousand from the general fund for the magistrate courts to maintain current service levels.

The general fund budget recommendation for the district attorney offices is $55.2 million, a 3.3 percent, increase from the FY12 operating budget. Fiscal year 2011 performance data related to caseload and cost per case was used in the development of the recommendation.

Department of Transportation. The committee recommends total expenditures of $842.6 million for the Transportation Department, an increase of $21 million, or 2.6 percent, from the FY12 operating budget. For FY13, approximately $155.8 million in debt service and debt service principal was requested. Approximately $23 million of this request is related to the Rail Runner. The estimate for state road fund revenues – used by the department to create the FY13 budget submission – is projected to increase 2.8 percent over FY12 operating levels. Even with this increase in revenues, the department is projecting a maintenance gap of $203.2 million and a construction gap of $314 million. Large investment projects and interchange needs critical to the economic future of the state were not addressed by the NMDOT.

After several years of difficult budget challenges, state revenue is rebounding. In FY12 (without temporary federal funds but with revenues estimated to increase), the state was able to balance the FY12 budget without dipping into reserves. This positive news is still tempered with the threat of the economy not recovering as quickly as expected and the European Union's looming recession. The challenge for the future is to prioritize spending initiatives to maintain adequate reserves during the slow recovery anticipated in the next few years.

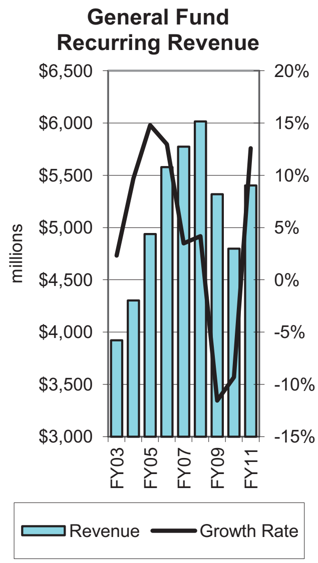
Temporary funding sources played a significant role in maintaining spending levels while revenues fell prior to FY12. Revenue increased by about 12 percent between FY10 and FY11, thanks in part to statutory tax increases. Total spending in FY12 stayed almost flat when compared with FY11. The FY12 revenues are expected to grow just 2.4 percent over FY11 due to a slower economic recovery than anticipated. The FY13 revenues are currently projected to grow 2.8 percent over FY12 revenues, and FY13 revenue is projected to exceed FY12 general fund appropriations by $254 million, creating some space to start to replace stop-gap funds and restore needed services.



Source: LFC files.

Long-Term Appropriation Trends. In FY12, appropriations were kept flat but revenues in FY11 actually increased from the sharp declines in FY09 and FY10. Prior to the impact of recent reductions, total spending growth between FY89 and FY09 averaged 6.7 percent per year. The average growth from FY89 through FY12 is 5.4 percent per year. The average growth of personal income in New Mexico since 2001 was 5.3 percent per year. Thus, recent reductions 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.

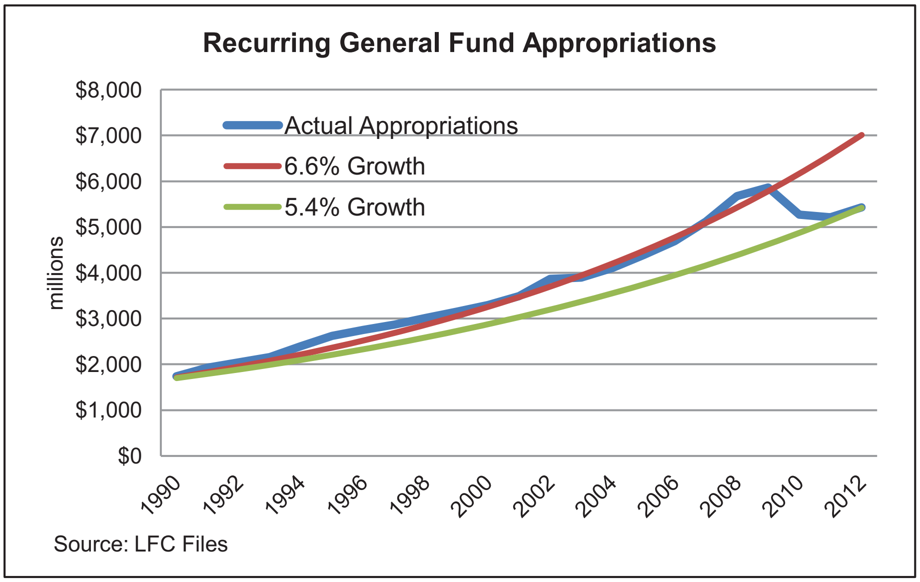


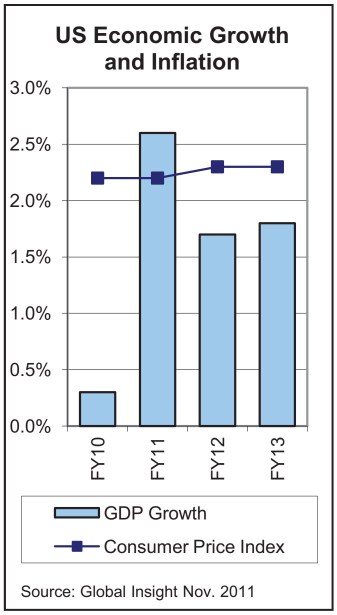
Source: LFC Files.

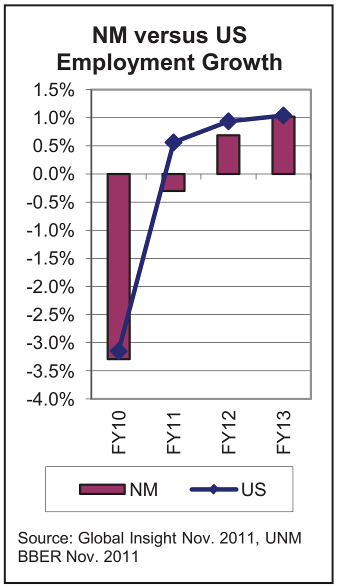
General Fund, OSF and Temporary Federal Funds: FY12 Spending Change from Prior Years

Category	**FY11 Adj. OpBud**	**FY09 Post-Solvency**
Public Schools	-2.6%	-8.6%
Higher Education	-6.0%	-17.0%
Medicaid	1.6%	1.0%
Other	-3.3%	-17.9%
Total	**-2.5%**	**-10.9%**

Source: LFC files.







Economic Outlook. The economy turned the corner from recession to recovery during FY10, but the pace of recovery has been slow, and most forecasts continue to predict slow growth and only slight relief to the high levels of unemployment for the near future. Employment growth has been particularly slow. The United States is adding jobs but not enough to significantly reduce the unemployment rate. New Mexico is still losing jobs and total employment is down by 43 thousand jobs or 5.3 percent from its peak level in FY2008. Significant job growth is not expected to resume until the second half of 2012. The previous peak number of payroll jobs, about 830 thousand, is not expected to be reached again until 2016, eight 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. 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 slight recovery in the U.S. economy in the spring, the economy has in recent months slowed down. 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 2.2 percent annual rate since the beginning of the year, enough to prevent relapse into recession but not enough to support a strong recovery.

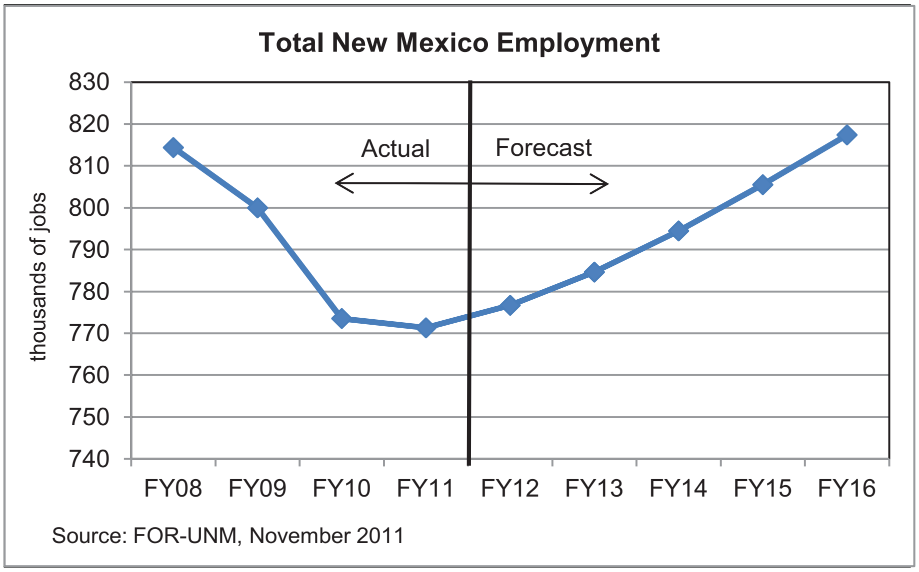
Federal stimulus spending provided temporary support for growth in FY09, FY10, and FY11 but that stimulus is no longer available for Medicaid or other major programs. A double dip recession is still a possibility due to trouble in foreign economies, with the Eurozone sovereign-debt plan for propping up struggling countries a particular concern. GI expects continued but modest growth in the economy. The November GI forecast predicts a 40 percent chance that the United

States will experience another recession. The December forecast was lowered to 30 percent.

Looking forward, the FY12 growth for real gross domestic product (GDP) is expected to slow to 1.7 percent and only increase to 1.8 percent in FY13. Inflation in the United States is expected to remain subdued, averaging 2.3 percent over the next three years. Private wages and salaries, a critical driver of gross receipts taxes, are expected to grow by 2.6 percent in FY12 and 2.8 percent in FY13.

New Mexico Economy. New Mexico nonagricultural employment growth is expected to be only 0.7 percent in FY12 and 1 percent in FY13. The continued slow recovery means some sectors are expected to be well below their peak employment even after several years. These include construction, mining, manufacturing, and retail trade. Meanwhile, the healthcare sector is expected to continue to grow, accounting for almost half of all job growth over the next three years.

The BBER's employment estimates were higher than those of the Bureau of Labor Statistics (reported by the State Department of Workforce Solutions) because of a perceived error in the BLS October 2010 totals that resulted in a reduction of 6,000 jobs in the professional and business services sector. Because of the uncertainty of this data source BBER released a new model in November 2011 using Quarterly Census of Employment and Wages data they believe will provide a more reliable forecast.



Energy Markets. Oil prices have risen sharply since the October forecast in response to expected fiscal reform in Greece and Italy and positive revisions to the second quarter GDP. Further price increases resulted from news that the Seaway pipeline would be reversed in January, thereby transporting a glut of oil marooned in Cushing, Oklahoma, to oil refineries on the Gulf Coast. Prices for West Texas Intermediate (WTI) crude were low due to the excess supply and low

New Mexico Employment Change:
2011 Q2 vs 2009 Q2 & 2010 Q2
(thousands of jobs)

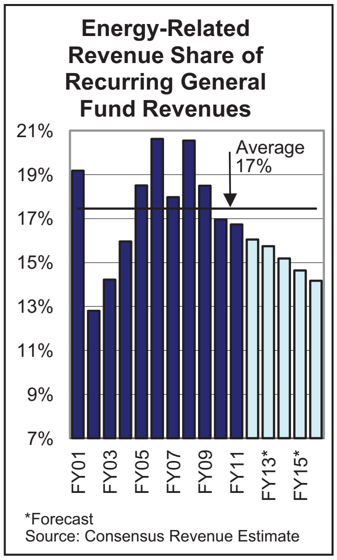
2011 compared with:	2009	2010
Total Non-Agricultural	(6.1)	1.5
Mining	3.4	2.6
Utilities	(0.3)	(0.0)
Construction	(5.1)	(0.8)
Manufacturing	(0.6)	0.5
Wholesale Trade	(0.6)	(0.9)
Retail Trade	(1.1)	0.7
Transportation	0.1	0.9
Information	(0.4)	(0.6)
Finance & Insurance	(1.3)	(0.4)
Real Estate, Rent	(0.2)	0.0
Prof. & Tech, Services	(2.6)	(0.4)
Mgt. of Companies	0.0	0.2
Admin, & Waste	0.8	0.8
Educational Services	0.7	0.4
Health Care & Social	4.0	2.0
Arts, Entertain. & Rec.	(0.3)	(0.3)
Accomodation & Food	0.8	1.3
Other Services	(0.3)	0.4
Local Government	(2.5)	(1.6)
State Government	(1.1)	(0.3)
Federal Government	0.5	(2.9)

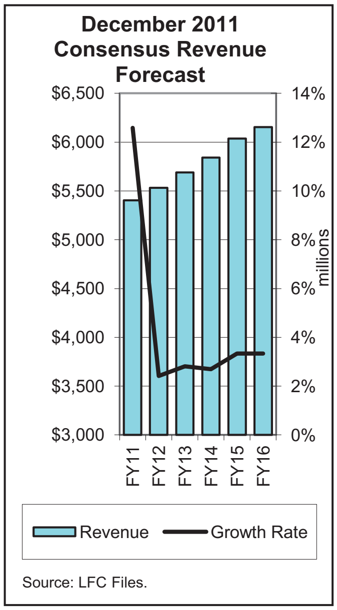
Source: FOR-UNM.

Change in NM Personal Income:
2011 Q2 versus 2010 Q2 & 2009 Q2
(billion dollars per year)

2011 compared with:	2009	2010
Total Personal Income	$5.9	$3.3
Total Wages & Salaries	$1.0	$0.6
Private W&S	$0.9	$0.7
Government W&S	$0.1	-$0.2
Dividends & Interest	$1.2	$0.7
Transfer Payments	$1.3	$0.8
Business Income	$0.8	$0.3
Other	$0.9	$0.1

Source: FOR-UNM



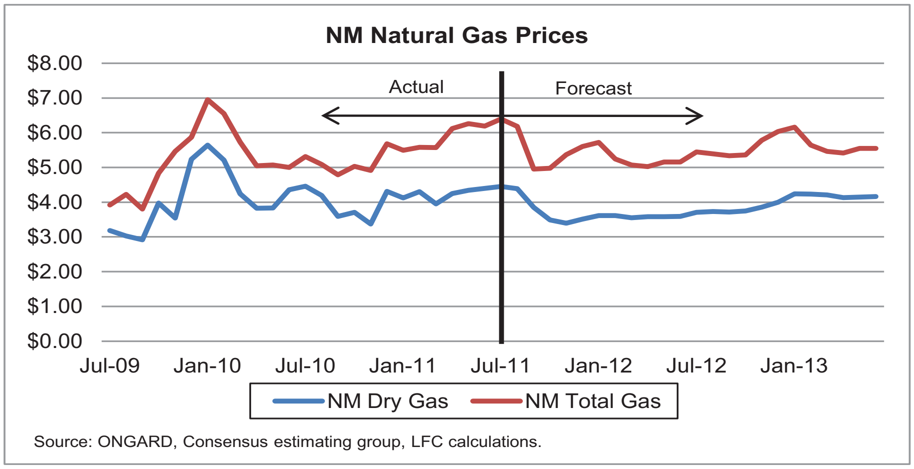


demand. The increased demand will result in higher prices. Potential European Union sanctions against Iran's oil exports add upward risk to the price forecast. However, continued economic uncertainty in the United States and Europe threaten ongoing price growth.

Oil prices are expected to remain around $87 per barrel (bbl) in the near term with moderate growth in out-years consistent with slower economic recovery and ongoing uncertainty in the oil markets. Oil volumes increased by 1 percent in FY10, but preliminary actuals show a 9 percent increase in FY11. Recent activity in the Permian Basin suggests continued growth in oil volumes in the near-term with decreasing production expected in later years with well decline. Industry analysts suggest that pipeline and trucking capacity constraints in the Permian Basin might decrease prices. In fact, the New Mexico price differential to WTI appears to have increased to $5/bbl from $4/bbl in previous years. Each additional $1/bbl in price is equivalent to $4 million in general fund revenue.

Natural gas prices continue to remain low, largely in response to supply increases resulting from technological improvements in production. Colder weather expected to begin in mid-December could provide upward pressure to current spot prices. New Mexico natural gas prices continue to see gains above Henry Hub due to high prices paid for natural gas liquids, which trend with oil prices. In FY11, the premium above the dry gas price for natural gas liquids averaged $1.40 per thousand cubic feet (mcf).

Natural gas volumes – expressed in thousands of cubic feet equivalent – fell by 7.5 percent in FY10 and preliminary actuals show a 3.4 percent decrease in FY11. Volumes are expected to continue to decline as production moves to richer plays in Texas and Pennsylvania. Although natural gas volumes are falling, higher prices and volumes for natural gas liquids help to offset the decline in total production. The liquids premium is expected to average $1.30/mcf in FY12. Each 10 cent change in natural gas price is equivalent to $10 million in general fund revenue.



Revenue Forecast. Recurring revenue growth in FY11 was 12.6 percent but about one-third of that growth was due to revenue enhancement legislation, including tax increases approved in the 2010 legislative sessions. Absent this legislation, FY11 growth would have been 8.9 percent. About one-fourth of this growth can be attributed to higher than expected energy prices and the resulting increased activity in the energy sector. Recurring revenue is forecast to grow by 2.4 percent in FY12 and 2.8 percent in FY13.

Table 3 (located in appendix) presents the latest consensus forecast of general fund revenue. Rising energy prices were a major factor in the FY11 increase, positively impacting gross receipts tax, corporate income taxes, personal income tax, severance taxes and federal mineral leasing. The FY11 increase reflects modest growth in the broad-based income and sales taxes. Steady growth of most revenues is forecast for FY12 and FY13, with the exception of a strong increase in corporate income taxes due to economic recovery but mostly due to the cap on the film credits starting in FY12.

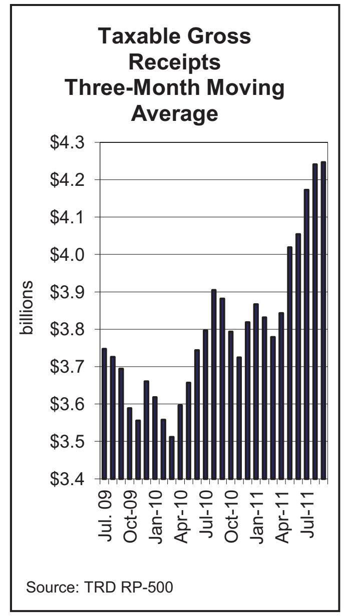
Gross Receipts Tax. Gross receipts tax (GRT) collections increased 10.8 percent in FY11 to $1.8 billion, recovering from its decline in FY10. The mining and oil and gas extraction industries experienced the largest increases in the GRT while the construction sector continued to decline. The GRT revenues are expected to reach their peak levels from 2008 in FY12. Slow but positive growth is expected in FY12 and FY13 due to the continued slow pace of hiring and spending.

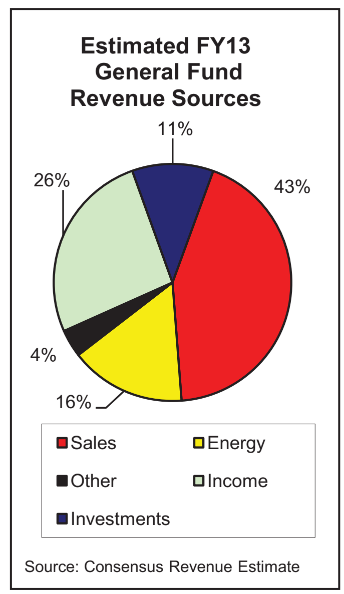
Personal Income Tax. Net collections of personal income tax (PIT) rose to $1.1 billion in FY11, an increase of 11.5 percent from FY10. Most of this growth was due to new statutes that disallowed the itemized deduction for state income taxes. Collections are expected to increase by only 2.2 percent in FY12 and 2.3 percent FY13 due to slower wage and income growth forecasts.

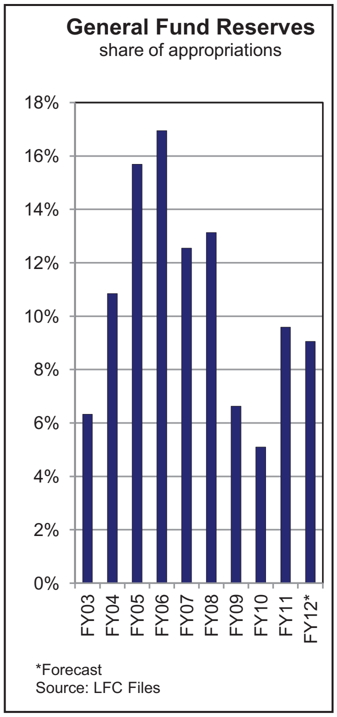
Corporate Income Tax. Corporate income tax (CIT) collections increased 83.7 percent in FY11, reaching a total of $230 million. One factor reducing net CIT collections has been an increase in payment of film production credits. Credits jumped from $46 million in FY08 to $95 million in FY11. Due to the volatility of film credits, a cap of $50 million was placed on film credits starting in FY12. CIT collections rebounded strongly from the low level in FY10 due in part to tax changes and higher corporate profits.

Energy Revenues. The FY11 severance tax revenue increased 9.2 percent, as both gas and oil prices increased and production increased. Natural gas prices increased in spring 2011 due to increased gas demand from manufacturers.

Investment Income. 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 9 percent below its peak. Distributions to the general fund began to recover in FY11 and are expected to grow by 2.3 percent in FY12 but drop 4.8 percent in FY13. Investment revenues associated with the permanent funds are expected to decline in FY13 because distributions are based







on a rolling average of the last five calendar years' market value for the respective funds. Prior to 2006, fund values were at a relative high. The decline in revenues in FY12 is due to a high market value being replaced with a much lower market value. 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 high rates, in part due to the Coordination of Long-Term Services (CoLTS) program instituted in FY09 that provided more tax collections. Offsetting much of this gain has been increased credits for assessments paid by insurers to the New Mexico 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 less than 10 percent per year for the next three years.

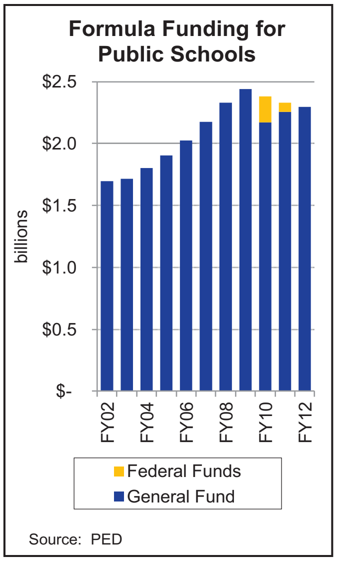
Risks to the Forecast. The United States economic recovery remains vulnerable to weakness in consumer sentiment, personal income, the housing market, currency volatility, financial sector weakness, and federal fiscal imbalance. Although consumer spending has increased slightly in recent months, high debt loads will likely limit momentum consumers are able to create for the near future. The current outlook is for slow but positive growth in New Mexico employment and personal income during FY12. If the federal payroll tax reduction is extended in calendar year 2012, this will potentially add revenue to personal income tax and gross receipts tax.

Energy markets are inherently volatile. Natural gas prices remain vulnerable to increased supplies from productivity improvements. Oil prices remain vulnerable to economic uncertainty.

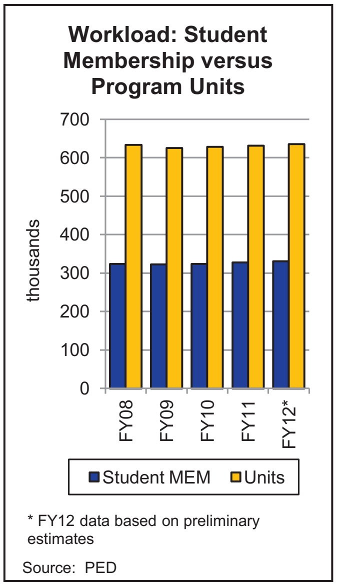
The failure of the "super committee" to agree to a federal deficit reduction deal could lead to large reductions in Social Security, Medicaid, and military spending, which could have significant impacts on the New Mexican economy. New Mexico relies heavily on federal government spending through the national labs, military institutions, and transfer payments.

General Fund Reserves. General fund reserves (see 4 located in the appendix) are projected to increase to 10.2 percent of appropriations at the end of FY12 assuming $47.1 million of deficiency and supplemental appropriations. The LFC appropriation recommendation for FY13 fits within the revenue estimate and leaves reserves at 10 percent at the end of FY13. Exceeding a 5 percent reserve balance is a major accomplishment in light of the slow but positive rate of economic recovery in the state. National rating agencies such as Moodys and Standard & Poors, traditionally have considered balances of 5 percent or above as sufficient.

During the past three years, the Legislature has worked diligently to prioritize public education funding, despite decreased general fund revenues. The Legislature continues to emphasize public education funding while placing great emphasis on results and accountability. Since FY03, general fund appropriations for formula funding for public schools have increased $580 million, or almost 34 percent. Over the same time period, however, categorical, "below-the-line," funding has decreased $20 million, or 15.2 percent, demonstrating the Legislature's commitment to preserving formula funding. During that same time period, student enrollment has increased a little more than 5 percent, although workload as measured by units has remained relatively flat.



Despite targeted efforts, student achievement results continue to be unpredictable. Graduation rates for FY11 increased modestly, and the percentage of students requiring remediation in college in FY10 decreased. Statewide student proficiency rates in FY11 decreased in reading, math, and science from FY10 proficiency rates, and the achievement gap continues to persist for all subgroups. As the economy improves, the Legislature, executive, and schools need to invest strategically in education initiatives that have demonstrated results.



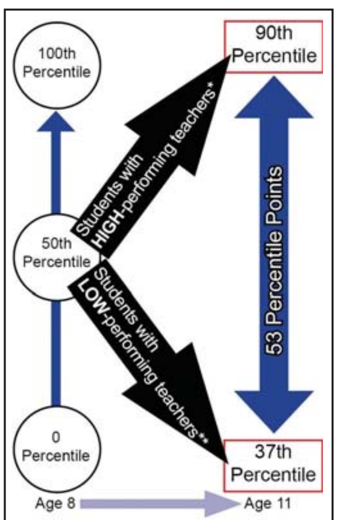
Early childhood care and education remains a major focus of the state and federal government, with a focus on early literacy. High-quality early learning experiences are proven to prepare children for success in school and later in life. Cost-benefit research demonstrates a high return on investment for money spent on early childhood care and education for at-risk children. Other major reforms include revising current teacher and school leader evaluations to measure effectiveness, creating meaningful school accountability designations that are easier to understand than federal accountability designations, and ending social promotion. All are intended to increase transparency and accountability while also improving student achievement.

Financial Issues. Despite declining state revenues over the last few years, the Legislature has limited overall reductions to public education. After accounting for all solvency measures, including unemployment and retirement reductions in FY12, general fund allocations for public school support have decreased $213 million, or 8.3 percent since FY09. General fund reductions to formula funding in FY10 and FY11 were offset by the use of $298.5 million in federal fiscal stabilization funds that were distributed to districts through the state funding formula. Impacts to public schools have been limited at a time when other state agencies have experienced reductions of more than 20 percent.

School Reform. As the federal government considers reauthorization of the Elementary and Secondary Education Act (ESEA), some states are changing laws and policies to conform to federal education policy and to be more competitive for non-entitlement federal funding. Federal and state reform initiatives include the following: linking student test scores to teacher evaluations and compensation decisions; expansion of charter schools; development of longitudinal data systems;

Effective Teacher Task Force Executive Order

- Identify measures of student achievement – representing at least 50 percent of the teacher evaluation – which shall be used for evaluating educator performance;
- Identify best practices of effective teachers and teaching, which should comprise the remaining basis for such evaluation;
- Identify how these measure of effective practice should be weighted; and
- Identify how the state can transition to a performance-based compensation system that acknowledges student growth and progress.



*Top 20 percent. **Bottom 20 percent

aggressive intervention for schools with low test scores, including school closures, firing of staff, and various forms of state and private governance of public schools; and implementing common content standards. As New Mexico considers reform, policymakers should carefully analyze short- and long-term benefits and consequences of each proposed reform.

Teacher Quality and Effectiveness. The three-tiered licensure system was designed to increase student achievement by recruiting and retaining high-quality teachers. In exchange for large minimum salary increases, teachers were expected to meet competencies and positively impact student achievement as demonstrated through annual evaluations and a professional development dossier. A joint evaluation conducted by the LFC and the Legislative Education Study Committee in 2007 found that the system had met its goal of recruiting and retaining teachers. A follow up evaluation conducted by the LFC in 2009 found that, overall, students of teachers holding level-three licenses who had gone through the professional dossier process generally outperformed their peers; however, the gains in student achievement were not statistically significant when compared with teachers at all licensure levels.

Statewide, schools continue to employ a high percentage of teachers who meet the federal "highly qualified" definition and, according to the Public Education Department (PED) are "meeting competencies" on annual evaluations. However, these are not necessarily effective teachers. During the summer, the governor convened the Effective Teacher Task Force by executive order with the purpose of delivering on the promise of recruiting, retaining, and rewarding New Mexico's most effective teachers and school leaders.

The task force noted the state does not have an effective system for recognizing the achievements of the many outstanding and effective teachers and school leaders. Further, the absence of an objective framework has resulted in the failure to effectively assess educator performance, in particular as it relates to measureable student achievement, and to reward excellence and establish accountability. Thirty-eight recommendations were made aimed at increasing teacher effectiveness and school leader accountability; however, the task force did not consider how recommendations fit within the existing three-tiered licensure system.

Implementation of the new evaluation system in a fair, uniform manner faces some challenges. The task force recommended the use of a value-added model (VAM) in an attempt to remove the effects of factors not under the control of a teacher or school, such as prior performance and socioeconomic status, thereby providing a more accurate indicator of school or teacher effectiveness than is possible when these factors are not controlled. However, application of these models to teacher evaluations is relatively new and best used when based on at least three years of data. Additionally, conclusions about a teacher's effectiveness can be vastly different depending on the model developed, and models can give false results with incomplete data.

Also, VAMs are based on the use of standardized tests. Many teachers teach subjects for which students are not subject to standardized testing (i.e. welding, music, physical education, civics). The task force recommended using a school's A through F grade in the evaluation of teachers in non-tested subjects and grades until standardized assessments can be developed; however, development of standardized tests for non-tested subjects is likely to be extremely costly.

Another key recommendation was the need for targeted, research-based professional development opportunities for all teachers. Professional development must provide ongoing learning opportunities to teachers and educational leaders that address the complex educational needs and challenges of students; teachers must be able to continually enhance and build on their instructional knowledge. At a recent conference hosted by the Los Alamos National Laboratory Foundation, Robert Marzano, CEO of Marzano Research Laboratory, noted it generally takes 10 thousand deliberate hours of teaching to become an expert at teaching (this generally translates to 10 years). Current evaluation systems are ineffective because of the length of time it takes to become an expert teacher. Mr. Marzano suggested that teachers should focus on smaller increments of teacher effectiveness annually and professional development opportunities should be tailored appropriately.

As policymakers consider replacing the current annual evaluation system, any VAM used must be transparent and adequately explained. Any evaluation framework to measure teacher and school leader effectiveness must better enable districts and policymakers to address and improve school personnel policies concerning professional development, promotion, compensation, and tenure. The system should identify teachers and school leaders who are most effective at helping students succeed, and those in need of additional targeted assistance and professional development, and inform the match between teacher assignments and student and school needs.

Early Literacy and Social Promotion. Mastery of reading by third grade is a critical milestone in a student's academic career. Students shift from learning to read and begin to read to learn in the third grade. Research shows that students who fail to achieve this critical milestone often struggle in later grades and drop out before graduating from high school. The Anne E. Casey Foundation released a report in April 2011 finding that one in six children who are not reading proficiently in third grade do not graduate from high school on time, a rate four times greater than that for proficient readers. For the worst readers, those who cannot master basic skills by third grade, the rate is six times greater.

Identifying students struggling with reading before they reach the third grade is critical to their academic success. Current state law requires schools to provide remediation programs to students who are not academically proficient and includes a provision allowing schools to

<u>Evaluation Framework Proposed by Task Force</u>

<u>Value-Added Model</u>

VAM is a type of growth model in which a school or district uses student background characteristics and other data, including prior achievement data, as statistical controls to isolate the specific effects of a particular school, program, or teacher on student academic progress. The main purpose of a VAM is to separate the effects of nonschool-related factors, such as family, peer, and individual influence, from a school's performance at any point in time so that student performance can be attributed appropriately.

Teachers in Tested Grades and Subjects

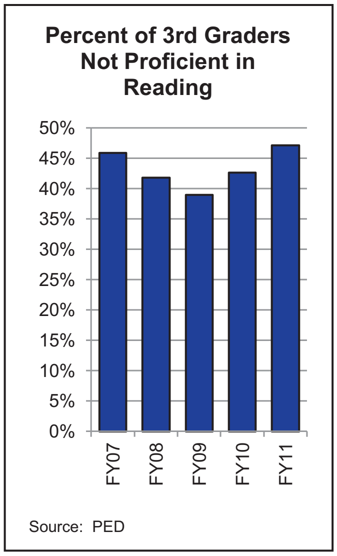
50 percent on VAM of student achievement; 25 percent on observations; and 25 percent on locally adopted, PED-approved multiple measures (which could include portfolios of teacher and student work, surveys of parents or students, or other research-based measures proven to demonstrate or correlate to student learning gains).

Teachers in Non-Tested Grades and Subjects

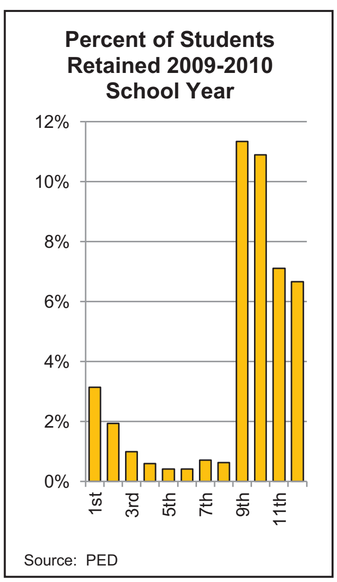
25 percent based on a school's A through F grade; 25 percent based on observation; and 50 percent based on locally adopted, PED-approved multiple measures.

"If your students keep being allowed to leave third grade and fourth grade without being able to read, you're not doing them any favors."

-Arne Duncan, Secretary of Education, U.S. DOE



During the 2009-2010 school year, approximately 3.7 percent of students statewide were not promoted to the next grade. During that same year, only 1 percent of third graders were not promoted to the fourth grade even though more than 39 percent of third graders could not read on grade level.



retain first through seventh grade students. However, current law also allows a parent to waive retention of their child.

Despite current efforts by schools to improve students' academic proficiency through intervention and remediation, an increasing percentage of students continue to fail to perform on grade level and are promoted on to the next grade. Ending social promotion, the practice of promoting a student on to the next grade despite the student's lack of proficiency, is one of the governor's top priorities. While research clearly notes the long-lasting negative effects of promoting unprepared students on to the next grade, research also shows that holding students back to repeat a grade has negative effects. Retained students have been shown to have an increased likelihood of behavioral problems, lower academic achievement, dropping out, and substance abuse issues. A 2006 National Center for Education Statistics grade retention study found high school dropouts were more likely than high school graduates to have been retained in a grade at some point in their school career. Additionally, minority students are more likely to be retained. Retention and promotion decisions must be coupled with effective intervention strategies and remediation to provide long-term benefits for low-performing students.

AYP and A Through F School Grading. Adequate yearly progress (AYP) is the primary measure under the federal ESEA used to determine whether schools and districts are making progress toward gradually increasing goals of student participation and academic proficiency. Under the ESEA, student proficiency targets reach 100 percent by 2014. These targets are generally unachievable and are expected to result in all but a few schools nationally being designated as failing schools.

Based on assessment results from the 2010-2011 school year, 720 schools, or almost 87 percent of all schools in New Mexico, failed to make AYP. This is an increase of 86 schools over the 2009-2010 school year. Since 2005, the number of schools failing to make AYP has increased 73 percent. This increase continues to be a result of more schools entering the school improvement cycle for the first time or coming off delay status for not making AYP in consecutive years.

While AYP is the federal measure of student success under the ESEA, it has been argued that AYP school accountability designations are hard to understand and not very meaningful. Because of this, New Mexico will begin ranking schools based on an A through F scale beginning with the 2011-2012 school year. The state system differs from the federal AYP system in that it includes student academic growth, and other additional academic indicators, such as high school graduation rates, growth in graduation rates, advanced placement and international baccalaureate courses, dual enrollment courses, and scores from the SAT and ACT college-entrance exams. The A through F grading system is expected to provide a clearer picture of which schools are succeeding, which ones are failing, and how best to target resources to the schools and students most in need of help. However, implementation, if rushed, might have unintended negative consequences for schools and communities. Superintendents have urged the department to extend the deadline for implementation of the rule to address outstanding questions about the proposed grading models. While the department indicates more time is unnecessary and is reluctant to extend implementation, the secretary-designate committed to consider additional suggestions from superintendents and the public during public hearings held in November.

Student Achievement. Between FY06 and FY11, student performance as measured by the percentage of students scoring proficient or above on the New Mexico Standards-Based Assessment (NMSBA) increased 9.3 percentage points in math and 2.8 percentage points in science, but decreased 7 percentage points in reading. Data from the FY11 assessment shows decreases statewide in proficiency from FY10: a decrease of 3.4 percentage points in reading, 0.4 percentage points in math, and 4.2 percentage points in science. Cut scores and grading scales used to establish proficiency rates were changed during the FY11 school year; however, the department indicates these adjustments do not affect year-over-year comparisons.

Based on FY11 assessment data, 50.2 percent of students statewide scored below proficiency in reading, 58.2 percent below proficiency in math, and 58 percent below proficiency in science. Approximately 54 percent of fourth graders and 47 percent of eighth graders continue to score below proficiency in reading, and 56 percent of fourth graders and 59 percent of eighth graders continue to score below proficiency in math. As annual changes in student achievement fluctuate, targeted efforts must be maintained to support increased student achievement.

Achievement Gap. The achievement gap, which generally refers to the observed disparity in performance on a number of educational measures between groups of students generally defined by gender, race, or socioeconomic status, continues to be a significant issue. In general, female students outperform male students. The achievement gap persists for most subgroups and is largest for Native American students. The second largest gap exists for Hispanic students and economically disadvantaged students, as measured by free and reduced-fee lunch eligibility. To narrow the achievement gap, educators must continue to focus on both race and socioeconomic subgroups.

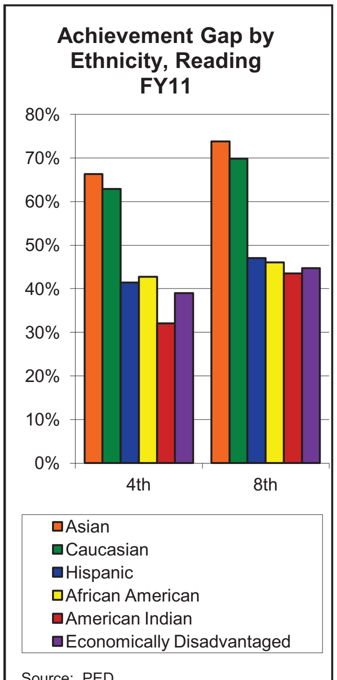
Factors affecting the achievement gap in New Mexico are students' economic backgrounds, parents' education level, access to high-quality preschool instruction, distribution of funding to districts through the funding formula, distribution of funding within districts, peer influences, educators' expectations, and curriculum and teacher quality.

Graduation Rates and College Readiness. The PED notes a modest 1.2 percent increase, from 66.1 percent to 67.3 percent, in FY10's four-year cohort graduation rate for freshmen entering high school in 2006 and graduating in 2010. The four-year cohort graduation rate currently includes students who left school and received a general educational

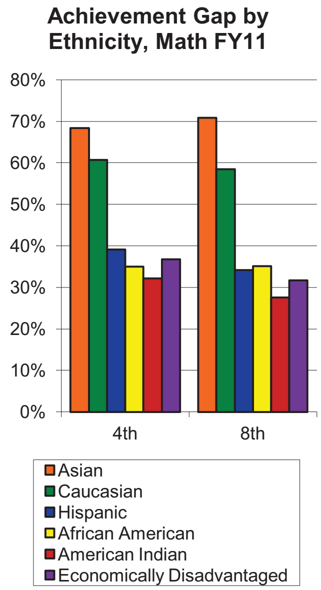
Outstanding School Grading Model Issues

The following are among the questions still being raised by superintendents:

- How many years of data will be used?
- How will the model address the limited availability of standards-based test scores for high school students?
- Will the model differentiate for special education students, English-language learners, and other populations?
- How will the new model look at mobility and attendance?
- How will the model define growth performance and cut scores:
- How will transportation be funded for students able to move from low- to high-performing schools?



Source: PED



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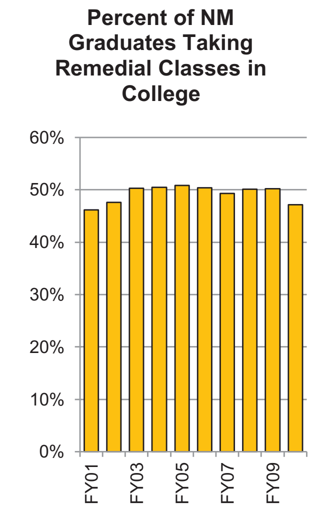


Source: OEA

development certificate (GED), moved out of state, or are still in high school. Low graduation rates continue to indicate the need for programs that keep students engaged in high school.

Fiscal year 2011 was the first year the PED and districts were required to report data useful for a better understanding of on-time graduation and dropouts, including student progress through high school from grade to grade, the number of students known to have dropped out, to have exited with the intent to earn a GED, to still be in high school, and to have met all the requirements for graduation but not passed the graduation test. This data will assist policymakers in better addressing the achievement gap and improving graduation rates.

The Office of Education Accountability (OEA) last reported on New Mexico high school graduates who required remediation in higher education in 2010. The 2010 *Ready for College* report indicates that 47.1 percent of New Mexico high school students graduating in 2009 and enrolling in a New Mexico institution of higher education the following fall required remedial courses. 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. Additionally, an increased number of remedial courses is associated with a decreased likelihood of completing a degree or certificate program. Research shows that a leading predictor that a student will drop out of college is the need for remedial reading. New Mexico's remediation rate signals the need to align high school and college curricula, better prepare students for college, and improve communication between public schools and institutes of higher education.

Funding Formula. New Mexico's funding formula consists of 24 discrete factors, not all of which are well-aligned to allocate resources in a way that ensures student success given modern education policy. The formula is generally too complex, difficult, and costly to administer. The excessive components are unnecessarily burdensome to both districts and the department. The formula also contains adjustment factors subject to local decision-making and open to local interpretation that can result in an uneven distribution of resources and inefficient district operations.

Public education funding totals approximately $2.4 billion for FY12. With almost half of annual general fund appropriations allocated to public education, the department must engage in rigorous oversight and review of data submitted by school districts and charter schools to ensure reported information legitimately reflects district enrollment and costs. Vagueness in statutes, rules and department guidelines allows "unit chasing" or "gaming" the formula. In addition, the formula is often not aligned to policy goals and statewide needs. For example, the formula fails to efficiently steer resources to districts and charter schools serving the student populations most at risk. A focused effort is needed to update the funding formula and department policy decisions. Consideration should be given to simplifying the funding formula, which would likely result in a formula less costly to administer and less open to gaming within statutes and rules.

Targeted, Cost-Effective Investments to Improve Student Success. Districts must make strategic decisions that focus on effective programs with demonstrated results. Educators must target resources to those practices that have the greatest impact on student learning, student achievement, and graduation rates. Given the economic climate, now is the time to closely analyze how public dollars are spent on education, what needs to be prioritized to improve educational opportunities for children, and what programs should be eliminated.

"The task is for us to eliminate what doesn't work and to finance, and work with, what does."
-Paul Vallas, former Superintendent, Recovery School District, Louisiana

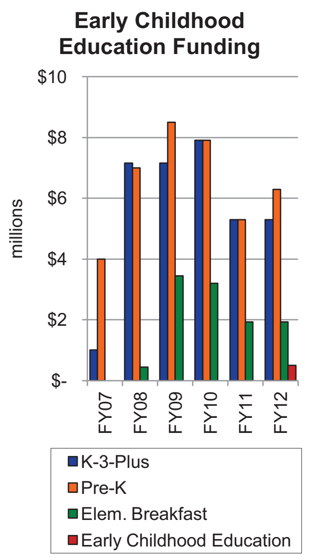
Time on Task. True learning depends on the amount of time a student spends actively engaged in learning compared with the amount of time the student needs to learn, commonly referred to as time on task. Time on task is a critical component of improved student learning. To improve student learning, students must have ample time allocated to learning, students must be engaged during that time, and the instruction during this time must be high quality. Simply increasing the amount of time available for instruction is not enough to achieve significant learning gains. Time allocated for instruction must be appropriate, effective, meaningful, and motivating to students. Educator's understanding and use of strategies designed to increase student time on task should be enhanced, both in education preparation programs at institutions of higher education, and through ongoing professional development opportunities. Educators should also adopt research-based practices proven to have the greatest impact on student learning.

According to the Education Commission of the States, while attention to a lengthier calendar is growing, the number of states requiring more than 180 days is the same this school year as it was in 1980: three. In fact, more states have allowed districts to reduce days for fiscal reasons: two states allowed districts to go to fewer than 175 days in 2000, compared with eight this year. In the past year alone, 120 districts in 17 states went to a four-day week to save money, the Denver-based ECS reports, though the savings were small.

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.

During 2011, the New Mexico School Leadership Institute partnered with numerous school districts and charter schools, the University of New Mexico, Central New Mexico Community College, the PED, and Measured Progress to provide training and ongoing support for school leaders.

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



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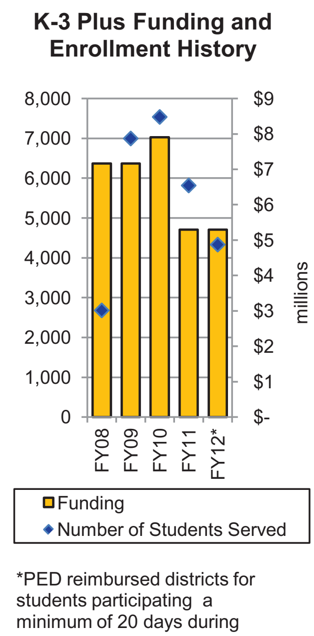


*PED reimbursed districts for students participating a minimum of 20 days during FY12.

Source: PED

strategies. Actions both principals and superintendents take, or delegate to others, to improve student academic success are second in importance to effective teachers. A principal or superintendent who is an effective instructional leader is responsible for collaborating with teachers and school administrators to define educational objectives and set school-wide or districtwide goals, provide the necessary resources for learning, and create new learning opportunities for students and staff.

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. Initiatives include support for an annual cohort of aspiring principals that includes redesigned graduate courses, a semester-long internship, professional development and mentoring, a year-long professional development opportunity for experienced charter school leaders, provision of data tools and training for school leaders on their NMSBA data, and other for-fee customized leadership development services for interested districts. The institute is also providing online professional development for all users.

Early Childhood Education Initiatives. Recognizing the importance of early learning to a student's future success, the Legislature passed the Early Childhood Care and Education Act during the 2011 session. The goal of the act is to ensure both the maintenance and the establishment of the infrastructure necessary to support quality in the system's programs and to ensure that every New Mexico child is eager to learn and ready to succeed by the time that child enters kindergarten. Ensuring children are ready to succeed by the time they enter kindergarten will improve student outcomes in the public education system. The Legislature appropriated $14 million in FY12 for public education programs targeted at early childhood students to continue to establish a sound footing for long-term student success.

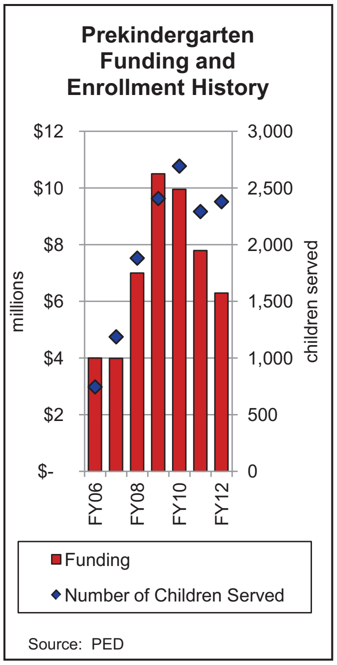
The kindergarten-three-plus program received almost $5.3 million to focus on implementing learning interventions for students in kindergarten through third grade in high-poverty schools. The program is a six-year pilot project that extends the school year by a minimum of 25 instructional days before the school year begins for participating students. The purpose of the program is to demonstrate that increased time in kindergarten and the early grades narrows the achievement gap between disadvantaged students and other students, increases cognitive skills, and leads to higher test scores for all participants. The 2012-2013 school year marks the last year of the six-year pilot program.

Preliminary results from the first year of a study conducted by Utah State University indicate kindergarten-three plus has a significant positive effect on student achievement. Kindergarten-three plus is a cost-effective way to improve student outcomes and close the achievement gap. Per-student costs during the 2010-2011 school year were approximately $910 for an additional five weeks of school. However, during the 2010-2011 school year, 5,816 students participated in kindergarten-three plus at 61 schools, only 13 percent of eligible students. Statewide, more than 45 thousand students attend eligible elementary schools – approximately 28 percent of elementary schools are eligible to participate.

The prekindergarten program administered by the PED received almost $6.3 million for FY12. Priority is given to applicants serving a larger number of at-risk students. During the 2011-2012 school year, approximately 2,380 4- and 5-year-olds were enrolled in PED-supported prekindergarten programs. Approximately 87 percent of elementary schools are Title I schools. Children, Youth and Families Department (CYFD) prekindergarten programs served an additional 2,189 4- and 5-year-olds. The PED reimbursed districts $2,418 per student, while the CYFD reimbursed prekindergarten providers $2,901 per student. Statewide, state-funded prekindergarten programs are only serving approximately 17 percent of 4- and 5-year-old students.

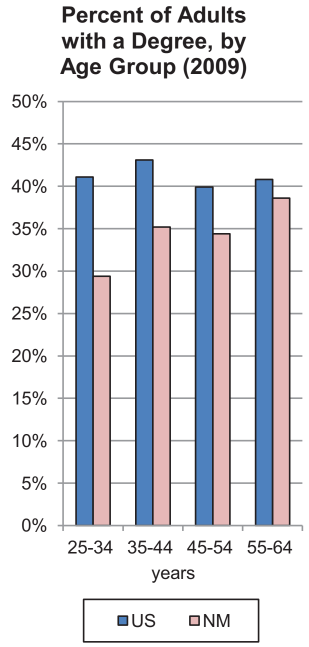
Economic Benefits of Early Childhood Programs. Economic benefits of high-quality early childhood interventions tend to be greater for programs that effectively target at-risk children than for programs that serve all children. Research shows investments in early childhood programs have the potential to generate savings that more than repay the costs and have returns to society through increased taxes paid by more productive adults and significant reductions in public expenditures for special education, grade retention, welfare assistance, and incarceration. Cost-benefit analyses for programs indicate the returns to society for each dollar invested can extend from $1.80 to $17.07. For example, the National Institute for Early Education Research provided an economic impact analysis that suggests that an estimated $5 in benefits are generated in New Mexico for every dollar invested in prekindergarten.

While general fund revenues appropriated for early childhood programs have decreased over the past several years, services and support of young students continues to be a focus of the Legislature. Resources must be effectively targeted to programs meeting the state's goals for improving student outcomes. As increased revenues become available, areas of New Mexico must be identified that have poor or negative student outcomes or high concentration of risk factors, such as child poverty. Resources must sufficiently target areas needing improvement, including geographically. Additionally, programs should be routinely monitored and results reported to ensure evidence-based investments.



Elementary Breakfast

The Elementary breakfast program received $1.9 million to support student learning by providing universal breakfast for students in qualifying schools. Changes to the Public School Code during the 2011 session required all elementary schools in which 85 percent or more of the enrolled students are eligible for free or reduced-fee lunch to establish a free breakfast program. Districts are allowed to consider time when breakfast is served to students as part of the instructional day so long as instruction occurs simultaneously. During the 2011-2012 school year, 154 schools were awarded state elementary breakfast funds. One hundred twenty-four of these schools have a free and reduced-fee lunch program enrollment of 85 percent or greater. The remaining 30 have a free and reduced-fee lunch program enrollment of less than 85 percent. To date, no schools have requested a waiver from the mandatory breakfast-after-the-bell program.



Sources: OECD *Education at a Glance*; U.S. Census Bureau, American Community Survey

Goals for Revising New Mexico's Funding Formula

- Change direction from funding inputs and operations without relation to meeting statewide goals.
- Fund student success outcomes, like graduation and other progress measures.
- Fund mission-specific, institutional outcomes.
- Provide stability and equity in funding institutions during the formula transition and implementation.
- Identify additional priorities and develop a work plan to address them.

Like other states, New Mexico continues to face increasing challenges in maintaining and producing an educated workforce to serve the state's needs. More of New Mexico's adult population has high school and some college experience (51 percent) than associates or higher-level degrees (34 percent), lagging behind the national average and well behind states with higher educational attainment. Further, the highest-educated population of New Mexicans (55 to 64 years) will soon transition out of the workforce – leaving New Mexico with the country's second largest attainment gaps between older and younger residents.

A national study reports that, by 2018, 58 percent of all jobs in New Mexico (an estimated 574 thousand jobs) will require postsecondary education. These jobs require that New Mexico increase educational attainment for residents at all levels, from certificates and two-year degrees to advanced degrees. Without action, New Mexico will fall further behind national and international benchmarks for improving the state's economic condition.

New Mexico's policies have promoted access to postsecondary education but have failed to produce more graduates. College completion rates for certificates and baccalaureate degrees are very low for part-time and full-time students, recent high school graduates and returning adults. This can be attributed to many causes – lack of preparedness for college-level work; barriers to navigating academic programs and satisfying requirements; personal finances; and balancing demands of family, work, and school. To increase retention and graduation rates, educational leaders and policymakers have begun to review and revise state and institutional financial, academic, and educational policies.

During the 2011 interim, those interested in higher education came together to study policies and provide recommendations for helping more New Mexicans get in and through college. The state has yet to set specific achievement goals for all types of students and at all educational levels. But, FY13 will mark strong progress in the right direction by targeting funds and rewarding institutional and student outcomes instead of inputs.

State Funding for Instruction and General Expenditures. The state's formula for funding instruction and general education expenditures incentivized student enrollment and campus expansion – not student outcomes. In the General Appropriation Act of 2011, the Legislature required the Higher Education Department (HED) to revise the state's formula for funding instruction and general education expenses. The HED secretary and his team worked with the Higher Education Funding Task Force (task force), university and college presidents and staff, and many others to incorporate outcome measures in the formula. In October 2011, the HED presented the first phase of this multi-year formula and applied the formula in its FY13 budget request.

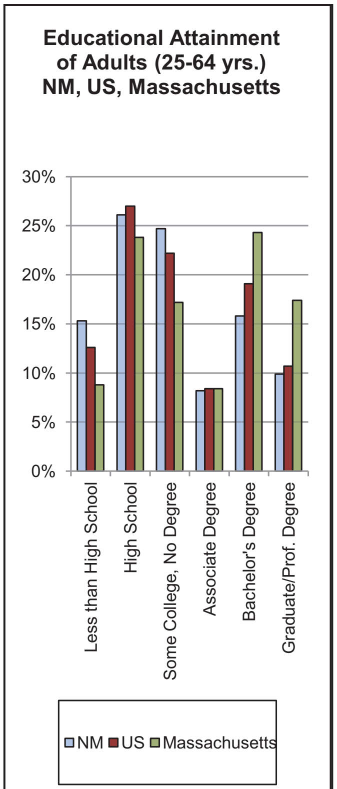
Reflecting the LFC's past recommendations, the revised formula shifts state funding from educational inputs (for example, student credit hour enrollment and facilities-related expenses) to outcomes (for example, degrees and certificates, awards in high-demand workforces). The proposal replicates some of the fundamental components of successful performance-funding models implemented in Tennessee, Ohio, Indiana, and other states.

Generally, the revised formula:

- *Simplifies the formula* by eliminating many calculations that allocated small amounts of state funding. The HED will no longer calculate expenditure values for equipment renewal and replacement (ER&R) and building renewal and replacement (BR&R) expenditures. The FY12 figures for these expenditures are embedded in the FY12 appropriation, which will serve as the base year for the FY13 calculations. The FY12 calculations generating tuition credits, tuition waivers, and specific reductions for remedial education and dual credit will not be reconsidered or recalculated in the new formula.
- *Funds instructional workload on course completion*, an intermediate outcome measure recognizing student progress toward a certificate or degree. The state will not fund institutions primarily on student credit hours counted the 21st day of each semester, eliminating funding for uncompleted student credit hours. The 2010 LFC review of University of New Mexico (UNM) and New Mexico State University (NMSU) programs estimated the state could save nearly $15 million of total instruction and general expenditure (I&G) funding annually by funding only completed credit hours.
- *Recognizes institutional efforts to achieve three statewide objectives to increase educational attainment*: increasing the number of awards and degrees earned, helping financially at-risk students earn awards and degrees, and incentivizing awards earned in high-demand workforce specialties across all sectors.

<u>Formula Review and Revision During the 2012 Interim.</u> Early in the 2011 interim, the HED secretary and others stated the revised formula used for FY13 would be the basis for later-developed outcomes measures, and that more work was necessary. Without additional outcomes measures, neither the state nor institutions can evaluate policies and reward progress toward increasing educational attainment, meeting workforce needs, and maintaining quality.

Developing Mission-Specific Outcome Measures. The institutional sectors – the research, comprehensive and community colleges – worked on mission-specific outcome measures during the 2011 interim but were unable to complete their effort in time for the FY13 budget process. With mission-specific measures, institutions can identify activities that best reflect and measure their public purpose and missions. The state can direct funding to those missions and regional specialties that advance state economic interests. Particular measures



Source: U.S. Census Bureau, 2009 American Community Survey

New Mexico has 25 colleges, universities, and two-year branch or independent colleges that host another 36 satellite learning sites. For academic year 2009-2010, these sites served more than 148 thousand undergraduate and graduate students, nearly 60 percent attended full-time.

Source: 2010 IPEDS

Revised Formula
Statewide Outcome Measures

Intermediate Outcome: Course Completion

Ultimate Outcomes:
- Certificates and degrees granted
- Certificates and degrees in high-demand workforce areas
- Certificates and degrees earned by financial at-risk students

Possible Formula
Mission-Specific Outcome Measures

Research Universities:
- Faculty performance: external dollars or number of research grants secured, percent participating in post-doctorate work
- Retention rates: first year, from time declaring a major/accepted by college for degree program to completion
- Percent of students employed in their field within nine months of graduation or pursuing a graduate degree

Comprehensive Universities:
- Degrees/certificates earned in mission-specific programs, teaching, social work, or the like
- First-time pass rate on standardized test where required by profession (nursing, teaching)
- Retention rates: first year and from time declaring a major/acceptance by college to degree to completion
- Percent of students employed in their field within nine months of graduation or pursing graduate degree

Community Colleges:
- Number of students completing basic math and literacy courses or passing pre-college competency tests
- Number of students completing 15 credits/year, or 30 credits over two years
- Transfer rate of students to four-year institutions

might recognize retention benchmarks, transfer rates, licensure rates, and research funding targets. Without such measures, the state cannot determine whether funding policies are sufficient to assess institutional productivity and effectiveness in meeting state goals.

Plan for State, Institutional, and Student Contributions to Education. The Western Interstate Commission on Higher Education (WICHE), the National Center on Higher Education Management Systems (NCHEM), and the College Board recommend that state leaders consider all resources – federal, state, institutional, and student – when determining the uses and allocations of state higher education funding. The state cannot effectively direct resources to educational policies and practices that meet statewide economic goals without comparing all revenues with resulting institutional and student outcomes.

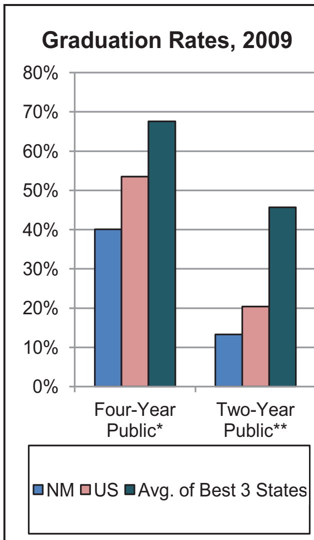
The state's current formula accounts for institutional revenues by taking tuition credits and calculating tuition waivers, land and permanent fund payments, and collected mill levies. The formula for FY13 does not fully consider institutional revenues or student resources, calculating only an "institutional share" of state fund payments and mill levies. During the 2012 interim, the LFC recommends that the HED, the task force, and the higher education community evaluate the range of state, institutional, and state resources committed to higher education and develop recommendations on ways these resources can be best applied to meet the state's educational attainment and workforce goals.

Institutional Infrastructure. In addition to the capital projects process, the state has historically appropriated general fund revenues for an inventory of state-approved instruction-related square footage and utilities. The governor has echoed the Legislature's growing concern that institutions, over time, have increased state-funded instructional space but not sufficiently improved student retention or increased graduation rates.

As state policy moves from funding inputs to outcomes, there has been insufficient consideration of how the state supports state-owned and -operated facilities and the elimination of the current formula calculations for plant and facilities operation and maintenance, BR&R, and utilities. The HED's FY13 formula proposal maintains facilities-related amounts imbedded in the FY12 appropriation level serving as the FY13 base year. In addition, the HED's proposal partially follows the task force's recommendation to include a one-time adjustment for all postsecondary institutions to better align utilities expenses across institutions. While this approach has merit, it does not fully address the state's obligation to support state-owned and -operated facilities.

As part of developing a plan describing the state, institutional, and student contributions towards education, the LFC recommends that state leaders also craft recommendations for an appropriate mechanism, whether through a capital process or another means, to provide funding for institutional facilities and infrastructure. The space and rehabilitation review and calculation used for public education could provide lessons here.

In summation, while the formula for FY13 is a solid effort to incentivize institutional and student performance, the LFC, the HED, and institutional leaders recognize that significant work is needed through FY15 to fully respond to the state's call for accountability, greater institutional effectiveness and efficiency, and improved performance by students.

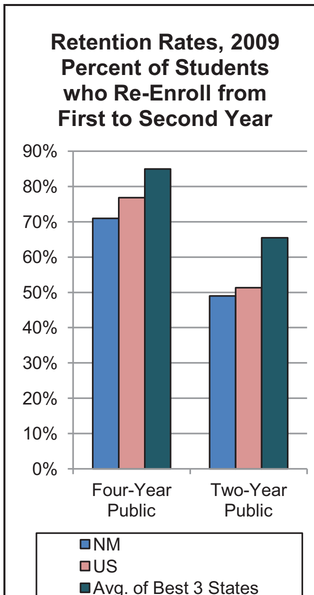


*Within six years
**Within three years

Source: NCES, IPEDS Graduation Rate Survey

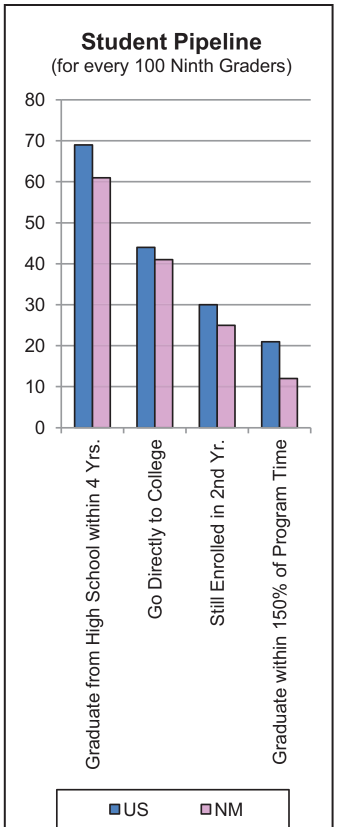
<u>Institutional Efforts to Streamline Pathways to Certificates and Degrees</u>. Outside the funding formula, there remain many policies the state and institutions should pursue to more quickly achieve the statewide goals of improving progress outcomes – higher student course completion rates and year-to-year retention rates – and achieving the ultimate goal of ramping up award production to meet state workforce projections. Institutions have begun to evaluate administrative and academic processes that make it difficult for students to navigate educational programs, make significant academic progress, and earn awards.

Reduce Excessive Course Enrollment. Complete College America's report, *Time is the Enemy* (2011), reports that New Mexico's certificate students take 50 percent to 100 percent more credits than required, associates degree students take 35 percent to 45 percent more credits than required, and bachelors degree students take 18 percent to 23 percent more credits than required. Excessive credits result in the state subsidizing more credits than reasonably necessary to earn a credential and the student paying higher tuition and fees and suffering opportunity costs over time. Students who take more credits than necessary also prohibit other students who need the same courses from enrolling – exacerbating the existing problem of limited class-offerings and requiring more time to earn an award. Institutions should review degree requirements, improve academic counseling, and streamline academic pathways, otherwise the state may withhold institutional funding for credits beyond those reasonably required for award programs or consider policies that require students pay out-of-state tuition rates for credits above degree requirements.



Source: NCES, IPEDS Enrollment Survey

Program Duplication. To address local economic demands, meet changing workforce needs, and serve diverse student populations in remote areas, institutions have expanded facilities and certificate and degree programs. At the same time, state appropriations to institutions declined 20 percent per FTE (constant 2010 dollars) between 2005 to 2010. Institutions have raised tuition and fees and identified and implemented cost-savings measures to protect instructional programs. The HED and the New Mexico Board of Finance have authority to approve new graduate programs and evaluate whether the state should allocate additional general fund appropriations for new programs. Prior to further program approvals, the LFC recommends that the HED conduct a thorough review of existing graduate programs and identify opportunities for institutions to collaborate, particularly where there are competing programs in the same region or location.



Source: NCES CCD 2008; IPEDS 2008; 2008 IPEDS GRS

New Mexico's Remedial Education Profile

47.1%	Remediation Rate, Statewide
25.0%	Completion Rate for Remedial Students, Statewide
39.4%	Baccalaureate Degree Graduation Rate
20.1%	Associate Degree Graduation Rate
33.8%	Percent of Adults with Associate Degree or Higher

Source: Education Commission of the States (Oct. 2011)

Student Services. States report improved course completion, year-to-year retention, and degree attainment when institutions provide skills-based seminars and labs, mandatory academic counseling sessions, student cohort learning experiences, and other interventions. Research supports that spending on student services has a greater impact over instructional spending at institutions where students have lower-than-average standardized test scores or higher population of Pell Grant recipients. Given the student profile at many state institutions, this research is particularly persuasive. The LFC recognizes that most of the state's federally designated Hispanic-serving and Native American-serving institutions have received significant multi-year federal funding to improve such services for their students, and the LFC will continue to follow institutional practices and programs to see if complementary statewide policies can be developed and included in the funding formula.

Dual Credit Program. Targeted and effective use of dual credit or concurrent high school/college enrollment programs can move students through college faster. The Public Education Department (PED), the HED, school districts, and higher education institutions should examine how dual credit courses, and particularly common core courses, are used by students and institutions to incentivize faster college completion rates. Also, the LFC supports additional study on the delivery, use, and quality of dual credit, core courses by New Mexico high school students to ensure state funding supports upper-level instruction and reduces the amount of time students spend in college.

More Effective Articulation Agreements. The WICHE report, *Promising Practices in Statewide Articulation and Transfer Systems* (2010), provides policy recommendations on improving articulation agreements as a means to remove barriers to educational attainment. Successful agreements might include automatic acceptance of an associate's degree or completion of core curriculum requirements to pursue upper division courses. Some states have implemented reverse articulation agreements, where two-year campuses receive credit for associates degrees earned if some credits are earned at the baccalaureate institution and four-year institutions is credited with the final degree. As the state's funding formula continues to developed, both four-year and two-year institutions might seek incentives to improve transfer and graduation rates of transfer students.

Remediation. Whether referring to recent high school graduates or returning adult students, national research demonstrates that students required to complete any level of remediation take longer to complete a certificate or degree and are less likely of earning such an award. An Office of Education Accountability report, 2010 *Ready for College,* indicates that 47.1 percent of New Mexico high school students graduating in 2009 and enrolling in a New Mexico institution of higher education the following fall required remedial courses. 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. State policies and institutional practices must be changed to retain and graduate students who have taken remedial courses.

During an October 2011 presentation to the Legislative Education Study Committee, the Education Commission of the States recommended New Mexico develop an adult completion program, that included, among other policies, improving basic skills and remedial instruction, targeting early assessment and intervention in high schools, redesigning developmental education at postsecondary institutions, and aligning remediation with adult basic education and high-demand certificate and applied associate degree programs. No student should require remediation for more than two semesters, if attending college part-time. According to national studies and pilot programs, the earlier students are enrolled in first-year, full-credit classes, the higher the retention rate to the second year and more likely a student will earn an award. Prolonged remediation nearly guarantees a student will not earn an award.

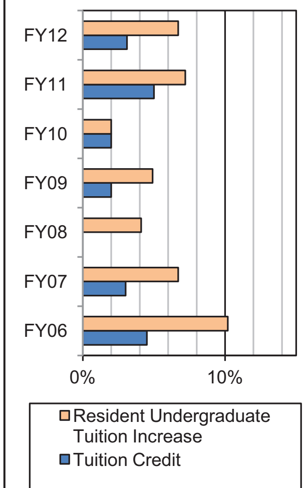
Some New Mexico institutions have implemented testing and other protocols related to providing remedial or developmental education, and these practices should be considered for statewide adoption.

Improving Educational Delivery. Institutions are expanding access, increasing enrollment, and improving learning communities by implementing distance education opportunities for all students. The state made a significant early and sustained investment in distance education, more than $10 million total for the innovative digital education and learning program (IDEAL-NM). Separate from institutional efforts, as part of IDEAL-NM, the state maintains more than 4 thousand licenses for students attending 12 institutions, including New Mexico public and tribally-controlled colleges and universities. The IDEAL-NM program also provides online training and access to some elementary schools; the Human Services Department; the Children, Youth, and Families Department; and other state agencies.

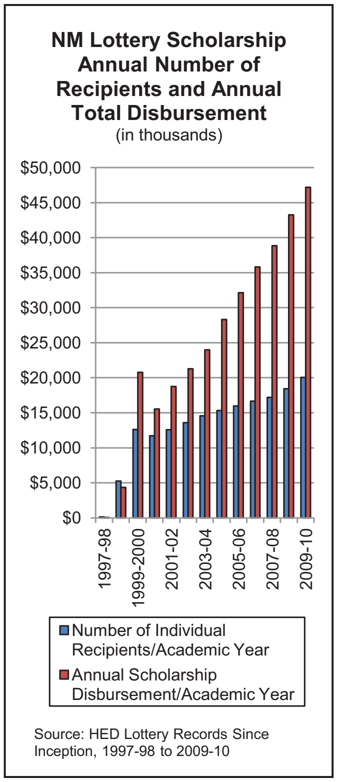
For FY13, the HED has not requested funding to continue IDEAL-NM for colleges beyond the 2011-2012 academic year. Without expanding physical campus space, state institutions are reaching more students, whether New Mexico residents or those outside the state. The state needs better enrollment and funding data to ensure that general fund revenues are targeted to best meet the educational and economic interests of New Mexico's residents.

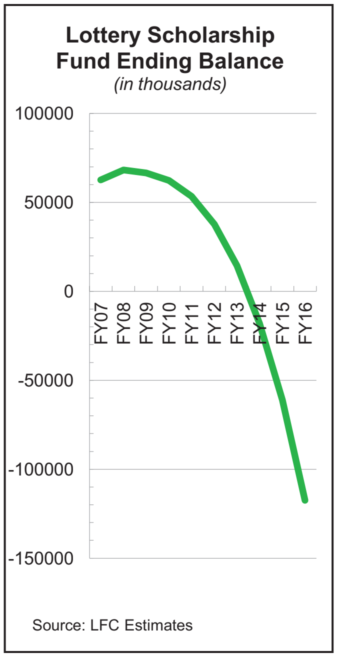
<u>Student Resources and Student Financial Aid.</u> Recent national reports have concluded federal and state financial aid policies have valued educational access over completion. Financial aid resources have steadily increased in the last 30 years without increasing the number of college graduates. Importantly, the shift from need-based aid programs to more merit-based aid programs has not increased college completion rates – instead aiding those students who have the resources and means to complete college without additional financial assistant. Like the national renewal of performance-based formula funding, there is growing recognition that aid policies must incentivize and increase student completion – not just enrollment.

Tuition Credit and Average Tuition Rate Increases, Four-Year Institutions



Source: LFC, Volume II





Federal aid programs are slowly stepping away from need-based and merit-based aid labels, instead considering what the government receives in exchange for providing aid. The federal government conditions financial aid on students making satisfactory academic process and considers academic programs in terms of students' future income and employability.

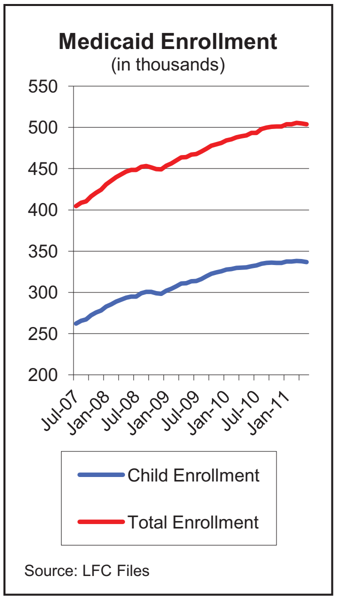
States and institutions are implementing performance-based grant programs, and many have demonstrated success at increasing both retention and completion rates among at-risk college students. The University of New Mexico (UNM) participates in one such project geared to assist low-income, first-year students improve first-to-second and second-to-third year retention and increase semester courseloads so students complete degrees on time. The LFC will continue to follow the results of these and other programs that direct financial aid to those with economic need and include mechanisms that lead to improved student performance.

Given the state's limited resources, greater pressure is needed to make sure state aid funds are being used to encourage students to earn awards and to do so quickly. For FY12, the state will budget $88 million in student financial aid, including scholarships, grants, work study, and loans. The state continues to have insufficient grant or loan resources to satisfy student need, which has increased steadily over time. The HED lacks sufficient student data indicating whether state aid recipients stay enrolled and complete their certificate or degree programs. Building on the state's momentum in developing a performance-based funding formula, the LFC recommends that the HED and institutional enrollment and financial aid leaders evaluate the state's grant aid programs to assess whether aid recipients meet state retention and completion goals and recommend policy changes that meet the state's goals of increasing degree production and timely completion.

Legislative Lottery Scholarship Program. The legislative lottery scholarship program is the state's largest financial aid program, serving New Mexico residents who have graduated from a New Mexico high school and, completing the first semester at a New Mexico college or university, meet a satisfactory grade point average. The scholarship does not require recipients to complete a Free Application for Federal Student Assistance (FAFSA), so there is no consistent data describing the socio-economic status of scholarship recipients and no way of analyzing the influence of this program on college persistence and completion across student backgrounds.

Legislators participating in the LFC's July 2011 hearing on the legislative lottery scholarship program generally agreed that socio-economic data would be helpful as legislators determine how to best address the scholarship fund's pending insolvency. Other states with lottery programs have taken steps to build solvency, and the HED and the Legislature might seek to make changes to the program for FY13 because the fund is projected to have greater recipient demand than available funds by FY16.

Federal healthcare reform, the end of federal stimulus funding, and state fiscal constraints put significant pressure on state healthcare objectives to provide sufficient care and improve the health status of New Mexicans. Perhaps nowhere in the state budget is this challenge more pronounced than in the state's Medicaid programs. Federal support dropped sharply at the end of FY11, enrollment has climbed, 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.



Federal Share of Cost for Newly Eligible Medicaid Clients	
Year	**FMAP**
2014-2016	100%
2017	95%
2018	94%
2019	93%
2020	90%

<u>Patient Protection and Affordable Care Act.</u> 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 (ACA).

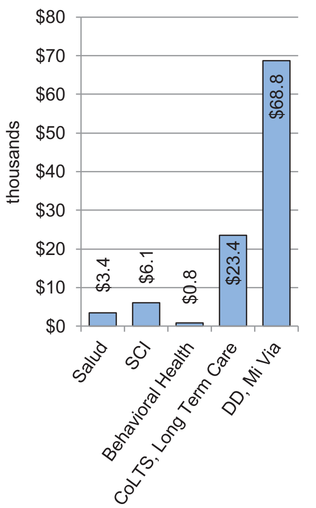
Medicaid Impact. The first of the two principal mechanisms to provide health insurance coverage under the federal law is expansion of Medicaid eligibility to those with incomes under 133 percent of the federal poverty level (FPL), or about $29,326 for a family of four. The other mechanism is subsidies for those with incomes between 133 percent and 400 percent of the 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. 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 thousand New Mexicans do not have health insurance. The Human Services Department (HSD) has estimated that about 142 thousand of these residents will qualify for Medicaid under the new expansion. Another 69 thousand children, already eligible for coverage under Medicaid or the Children's Health Insurance Program (CHIP), might enroll due to the mandate to carry insurance. The remainder of individuals will be ineligible for the Medicaid program because they do not meet the income eligibility guidelines.

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

Estimates of the costs to New Mexico to enroll the newly eligible individuals range from a total of $190 million to a total of $270 million in state funds from the period from 2014 to 2019 when federal matching funds will gradually decline from 100 percent to 93 percent. The Kaiser Commission on Medicaid and the Uninsured, for example, produced two cost estimates. The first "standard participation scenario" projected 145 thousand new Medicaid enrollees and state spending of $194 million from 2014 to 2019, similar to an April 2010 LFC estimate. The second "enhanced outreach scenario" projected almost 202 thousand new enrollees and state spending of $278 million from 2014-2019. All projections depend on how many people actually enroll in the Medicaid program.

FY11 Cost per Client in Medicaid Programs



Source: LFC Files

The estimate also depends 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 thousand 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.

Additionally, the Urban Institute testified to the Legislative Health and Human Services Committee in November that its model showed moving the SCI clients between 138 percent to 200 percent of FPL to a basic health plan as provided for under the ACA would save the state's Medicaid program $3 million in general fund revenue.

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. Cost-containment options for states have been limited to reducing provider rates and reducing benefits because the maintenance of effort (MOE) requirements under the American Recovery and Reinvestment Act (ARRA) and ACA preclude states from enacting stricter eligibility rules in their Medicaid programs. Given the MOE requirements, New Mexico might be able to apply for a federal exemption and reduce eligibility in its SCI program from 200 percent to 133 percent of the FPL, eliminating coverage for 3 thousand to 5 thousand individuals.

The Exchange and High-Risk Pools. The ACA 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 an exchange for the state. 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 program's income eligibility systems, including its Medicaid program. During the 2011 legislative session, the Legislature passed Senate Bill 38, the New Mexico Health Insurance Exchange Act. However, the bill was vetoed. The Legislature will have an opportunity to examine any necessary legislation in the 2012 session, or the state may elect to defer this responsibility to the federal government.

New federal high-risk pools, or the Pre-Existing Condition Insurance Plan, 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 New Mexico Medical Insurance Pool (NMMIP), currently offers insurance to these clients.

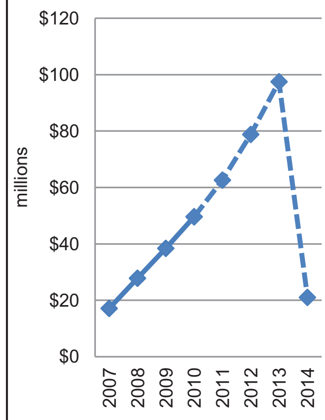
A 2011 LFC program evaluation, *Cost Effectiveness of Healthcare Tax Expenditures and of Locally Financed Healthcare Programs*, indicated the total premium tax assessment for insurance carriers accounted for $90 million in tax year 2010. Insurers eligible for the NMMIP assessment tax deduction are able to deduct 50 percent, and in some cases 75 percent, of total assessments paid off of their premium tax obligation. The NMMIP assessment tax deduction for insurance carriers accounted for $49.6 million in foregone revenue for tax year 2010 but will no longer be needed after national healthcare reform is implemented in 2014. These funds bypass the general appropriation process and are not subject to legislative scrutiny. New Mexico insurers' effective tax rate should be an estimated 3.5 percent once the NMMIP assessment deduction is applied.

If the NMMIP is no longer required as a result of healthcare reform, both the NMMIP and Health Insurance Alliance (HIA) assessment and the corresponding deduction should be addressed statutorily. The premium tax revenue that would be gained by eliminating the NMMIP tax deduction could potentially bring $49 million back into the general fund based on 2010 data.

Medicaid Budget. Federal reform and the loss of federal stimulus funds that have propped up the program come just as Medicaid enrollment has passed 500 thousand, the highest in state history. Enrollment is up more than 13 percent since 2008, and Medicaid has seen reciprocal growth in expenditures, increasing by some $800 million, or 20 percent, from $3.12 billion in FY08 to FY12 projected expenditures of $3.7 billion. Much of this growth occurred without increases to the general fund share of the operating budget due to the American Recovery and Reinvestment Act (ARRA). The ARRA raised the federal Medicaid matching rate, known as the federal medical assistance percentage, or FMAP, by about 10 percent. This enhanced rate began to phase out on December 31, 2010, and ended on June 30, 2011. As a result, the state general fund support needed for Medicaid for FY12 of $850 million has increased by $252 million, or 42 percent, over FY11.

The department faces significant challenges to manage Medicaid enrollment growth, contain healthcare inflation and utilization while providing a reasonable benefit package. 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.

State Premium Tax Cost of NM Medical Insurance Pool

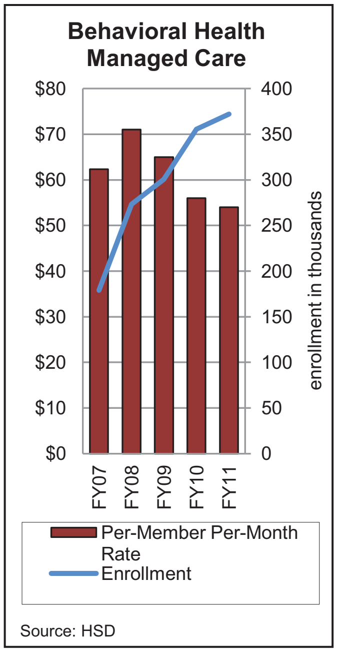


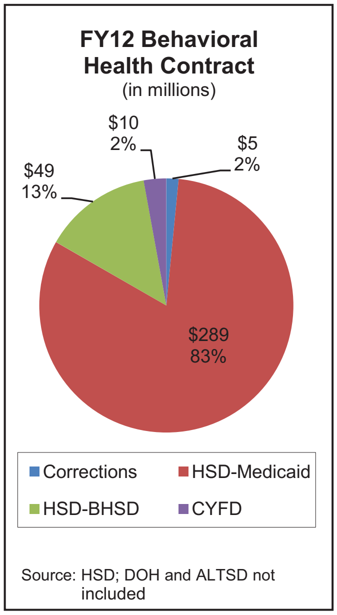
Source: NM Medical Insurance Pool; 2010-2014 projected

The Human Services Department estimates Medicaid covers the expense for 50 percent of all approximately 28,000 live births and 7 out of 10 nursing home patients.

The HSD projects it will save $41.3 million in general fund in FY12 through the following cost-containment items:

- $4.7 million in managed care rate reductions
- $5.2 million in long-term care rate reductions
- $8.1 million in State Coverage Initiative (SCI) rate reductions
- $15 million reduction in state support for SCI program
- $6.4 million in retroactive cost settlements with hospitals
- $1.2 million in reduced administrative fees





Medicaid Reform. In June 2011 the department awarded Alicia Smith and Associates a $1.6 million contract to support the HSD's efforts to redesign and modernize the Medicaid program. During the summer of 2011, the department held a number of public input sessions to receive comments from the public, advocates, and providers on the future of the Medicaid program. Those meetings were followed up with private meetings with various medical provider groups. At these public input meetings, the HSD secretary presented four broad principles of the upcoming Medicaid modernization effort:

1) Incorporate all services into a "second generation" of care better tailored to meet the needs of New Mexico's vulnerable population and offer a full spectrum of benefits from newborns to senior care,
2) Increase personal responsibility by implementing sliding scale co-pays for some high-cost services, and pursuing financial incentives to reward healthy behavior,
3) Institute pay for performance targets that move the state toward paying for healthcare outcomes rather than quantity of services provided, and
4) Increase administrative efficiencies by consolidating almost all waivers into a single waiver so the HSD can manage the program rather than the waivers.

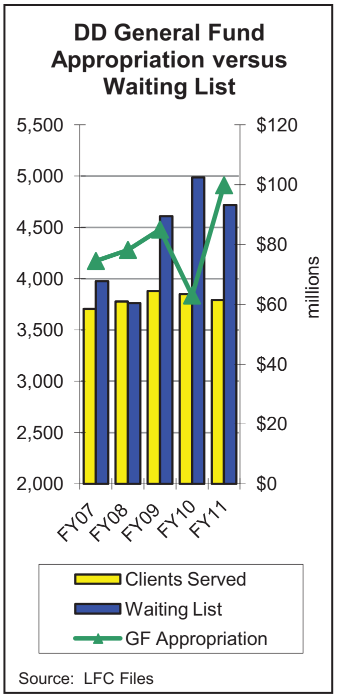
The HSD plans on rolling out a new waiver application to the federal government by early next year. There has been some skepticism about the modernization effort due to fears over benefit reductions and because of the perceived benefit of additional healthcare spending in New Mexico funded by the ACA over the next few years. However, a number of the proposals under discussion at the HSD as part of the reform effort, such as pay for performance, increased administrative efficiencies, and enhanced contract oversight are concepts that have been suggested by the LFC to the HSD in a number of program evaluations of the Medicaid program.

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.

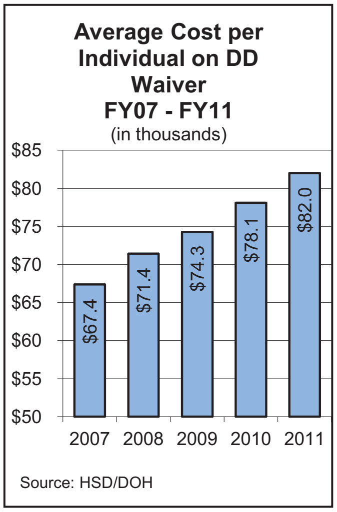
Soon after the transition from ValueOptions NM, the first statewide entity, to OptumHealth NM on July 1, 2009, problems with the OptumHealth claims system became evident. Providers were not paid for services rendered, claims were lost or improperly denied, and new requirements for providers caused confusion and mistakes. OptumHealth has been sanctioned under its contract and it took until mid-2011 to clear up most of the billing issues.

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 can serve as the primary care coordinators and care providers for the neediest clients.

As the collaborative and the HSD continue to seek incremental improvements in the behavioral health system, the future of the collaborative, which has just completed the second fiscal year with OptumHealth, is under discussion as part of Medicaid reform. The HSD has discussed bringing behavioral health back under the umbrella of physical health managed care with providers, patients, and advocates as a way to reduce administrative costs. However, some providers, as well as patients fear that behavioral health dollars could be diluted by this approach. At the same time, providers and policymakers agree that whatever administrative structure is used to manage behavioral health, a robust behavioral health provider network must be a high priority.



<u>Medicaid Waiver Programs</u>. 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; human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS), 1987; and *Mi Via* self-directed waiver (which includes the long-term brain injury program), 2006. The DD, MF and HIV/AIDS waivers are funded through the Department of Health (DOH) and receive federal Medicaid matching revenues through the HSD. Beginning in FY12, the D&E and *Mi Via* waivers were transferred from the Aging and Long-Term Services Department to the HSD. 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.



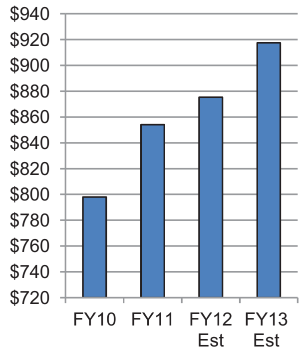
The DOH submitted a new DD waiver renewal application that received approval by the Centers for Medicare and Medicaid Services (CMS) beginning in July 2011, with the DOH planning to implement the waiver the third quarter of the state fiscal year. The new DD waiver program is currently engaged in addressing cost-containment and efficiency measures, including establishing a new resource allocation method, conducting rate studies, and implementing the supports intensity scale, a norm referenced tool for assessing and planning support needs for adults with intellection and developmental disabilities.

Developmental Disabilities Medicaid Waiver. At the end of FY11, 3,792 developmentally disabled (DD) clients were receiving services under the DD waiver. However, 4,720 individuals were on the waiting list, a decrease of 268. The number of developmentally disabled clients

History of Disengagement from Jackson Plan of Action	
2011	0
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	43 of 55 outcomes

Source: DOH

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



Source: HSD Medicaid Projections

has increased by more than 1.7 thousand since 2000. During the 2011 session, the Legislature included $1 million in the General Appropriation Act (GAA) to enroll 50 individuals eligible from the waiting list, but the Department of Health has enrolled very few of these additional clients.

The 2011 GAA includes $99.8 million from the general fund for DD waiver services, an increase of $36.8 million from the 2010 appropriation because of the need to replace expiring ARRA funds.

An additional factor in the increased costs is the growth in the average cost per client to $82 thousand in FY11, an increase of $8.5 thousand per client, or 11.2 percent, from FY10.

The 2010 LFC program evaluation of the Developmental Disabilities Support Program 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. Increased oversight and improved cost management will be necessary to maintain and expand the program. New Mexico ranks 7th among the states for the highest average cost per client. (American Association on Intellectual and Developmental Disabilities, 2008). The DOH management appears to be taking necessary steps to resolve these issues. The 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.

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 DOH reports that although it has not successfully disengaged from any other sections of the plan of action, it has filed additional disengagement motions related to supported employment and is awaiting the court's decision.

Coordination of Long-Term Services (CoLTS). The Aging and Long-Term Services Department (ALTSD) and the HSD implemented CoLTS on August 1, 2008. A Medicaid managed-care program, CoLTS is designed to provide services to the disabled and elderly (D&E) waiver recipients, personal care option consumers, nursing facility residents, and eligible individuals with brain injuries. Approximately 39,106 clients were enrolled in CoLTS during the first quarter of FY12. CoLTS has two contractors, Evercare and Amerigroup.

The managed-care program is 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 increased by 9.3 percent, or $157, from $1,683 in FY09 to approximately $1,840 in FY11. Total program cost in FY13 is projected to be $917 million, a

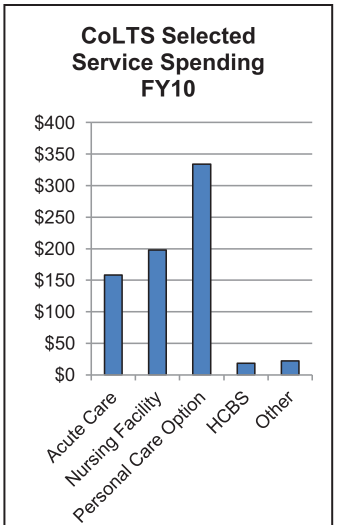
$120 million or 15 percent increase, over the first full-year program cost of $798 million in FY10.

A 2011 LFC program evaluation of CoLTS found fragmented state oversight between the HSD and the ALTSD that complicated management and likely increased costs. The 2011 GAA transferred responsibility for the entire program to the HSD effective in FY12. While the LFC evaluation found that New Mexico continues to be a leader in providing community-based services as an alternative to nursing homes, the evaluation made a number of recommendations to improve the management of the program include the following:

- Growth in personal care option services within CoLTS (up 35 percent from FY07 to $344 million in FY10) necessitate a total reevaluation of the service's role within the system, its delivery structure and unit cost, and implementation of more aggressive options to contain spending.
- CoLTS' multiple Medicaid waivers and programs complicate cost-effective managed care and the CoLTS C waiver services (formerly D&E waiver) maintain a structure that hampers efficient use of resources toward high risk Medicaid clients.
- Larger than expected cost growth in more expensive client groups and even in less expensive "healthy" client groups combined with overhead costs for managed care, such as administration, profit, and taxes, have likely exceeded any cost savings from moving to a managed-care system.
- Additionally, the HSD, as with behavioral health, is considering rolling CoLTS back into one MCO.

DOH Facilities Management. The DOH operates six facilities and an in-patient program. The 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) and New Mexico Rehabilitation Center (NMRC), the facilities finished FY11 within budget. The deficit at the FBMC and the NMRC was offset by collections from other facilities and was largely caused by the delayed collection of Medicare and Medicaid reimbursements. The FBMC moved into a new facility financed by Grant County in FY11, and the DOH began paying $4 million yearly in debt service beginning in FY12.

The general fund share of the Facilities Management Program budget remained flat at 45 percent from FY07 through FY12. The program must find other sources of revenue and implement cost-containment measures and reduce expenses, which may include changing services. The LFC program evaluation of facilities management noted that personnel assignments are not tied to the number of patients in each facility. Currently, the 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 Sequoyah Adolescent Treatment Center to a low of 51.2 percent at New Mexico Rehabilitation Center. The report states, "Low facility occupancy rates

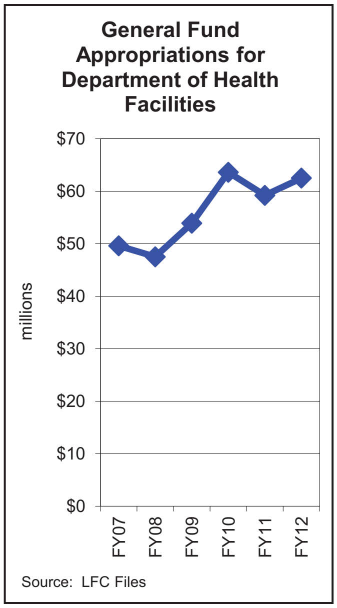


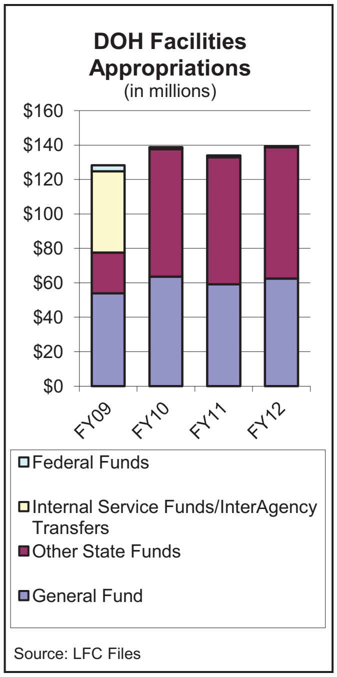
*PCO includes home health services. Other category includes sub-capitations and hospice.

Source: LFC Analysis of HSD/MCO Report 30A

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)





can increase expenses through overstaffing and infrastructure costs which remain constant." The report recommended reviewing workload requirements and establishing policies to reduce staffing when the number of patients is below capacity.

Despite less than optimum occupancy, the Facilities Management Program also has considerable overtime costs, particularly at the Los Lunas Community Program (LLCP). Total overtime for the Facilities Management Program was $6.6 million in FY10; $1.9 million was attributed to the LLCP. The overtime accounts for 13 percent of the LLCP's personal services and employee benefits costs. Budgeted overtime at the LLCP, with 347 authorized FTE, is the same as that of the New Mexico Behavioral Health Institute with more than 1 thousand FTE.

The 2010 LFC program evaluation found the Office of Facilities Management was 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 were suggested for consideration for central procurement. To date, the program has made little effort to implement this recommendation.

The DOH notes the Facilities Management Program faces some major challenges: 1) the recruitment and retention qualified health professionals; 2) high supply costs for pharmaceuticals, equipment, disposable supplies, fuel, utilities and food; and 3) the costs of the physical plants, including maintaining aging buildings and the high cost of the lease at Fort Bayard Medical Center.

Public Health. The DOH reports, New Mexico in FY11 spent approximately $97 per person for public health, of which 41 percent comes from federal funds. According to the Trust for America's Health, in FY09 New Mexico ranked 11th in per capita spending on public health. The Public Health Program (PHP) must continue to increase its Medicaid collections to offset any potential loss of federal revenues and grants. The DOH performance on immunizations has declined from 77 percent in FY09 to 65.4 percent in FY11. The Public Health Program (PHP) spends $13.5 million on primary care contracts, of which a substantial amount 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. The PHP is required to administer a program for regulating and ensuring access to medical cannabis for persons suffering from certain health conditions. The FY13 agency request moves the medical cannabis program from the PHP and adds it as a separate program within the DOH. Lastly, in FY13 the Public Health Program will be pursuing public health accreditation as provided for under the ACA.

Economic stress on families has led to an increased need for social service programs, including childcare assistance, child protective services, and Temporary Assistance for Needy Families (TANF) assistance.

Early Childhood Programs. High-quality early childhood programs are long-term investments that help children graduate from high school and improve their chances for future job market success, reduce crime, and reduce teenage pregnancy. Research on brain development has shown that learning experiences and health from before birth to age 5 greatly impact success or failure in society.

Cost-benefit research demonstrates a high return on investment for money spent on early childhood care and education for children at risk of abuse, neglect, or developmental delays. High-quality early childhood programs have an average 10 percent return, with some programs yielding returns as high as 16 percent. Research has shown that early childhood programs raise the cognitive, social, and emotional abilities of at-risk children. These programs also lead to better health outcomes for at-risk children. Investments in high-quality early childhood programs produce future savings on special education, remedial education, teenage pregnancy, juvenile rehabilitation, and welfare assistance.

Better Coordination and Targeting Investments. The Legislature has made funding early childhood services a priority and through passage of the Early Childhood Care and Education Act, the Legislature also demonstrated its commitment to providing services to children from birth to 5 years.

Enacted in June 2011, the Early Childhood Care and Education Act establishes a comprehensive early childhood care and education system through an aligned continuum of state and private programs, including home visitation, early intervention, childcare, Early Head Start, Head Start, early childhood special education, family support, and prekindergarten. The goal of the act is to ensure both the maintenance and the establishment of infrastructure necessary to support quality in the system's programs and to ensure that every New Mexico child is eager to learn and ready to succeed by the time that child enters kindergarten.

The needs of children and their families are complex and diverse and cannot be addressed with departments or programs working in isolation. Early childhood development is multifaceted and is affected by programs in several departments. The three key departments that play an integral role in early childhood development, care, and education are the Department of Health, the Department of Children, Youth and Families and the Public Education Department.

Currently, many of the early childhood programs offered by the CYFD, DOH, and PED operate independently of one another and, while all have similar goals, they are not aligned in a meaningful way. Strategic

Effectiveness of Early Childhood Services:

Nobel-Prize-winning economist James Heckman estimates that every dollar spent on early childhood education returns 10 cents annually throughout the life of the child.

New Mexico's children who attend the state-funded prekindergarten program have been found to have achieved significant positive effects in vocabulary, math, and literacy skills at the beginning of kindergarten, according to the fourth in a series of annual reports by National Institute for Early Education Research.

The latest report from the National Institute of Child Health and Human Development childcare study that has tracked more than 1 thousand kids from birth to age 15 finds benefits of high-quality child care last into the teenage years.

Cost-benefit analyses of Perry Preschool and the Chicago Child Parent Center Programs find a cost savings of $7 for every dollar invested. Cost-benefit analysis of the Abecedarian Early Childhood Intervention Project finds a cost savings of $4 for every dollar invested.

Effectiveness of Early Childhood Services (continued):

In the short term, longitudinal studies of high-quality early childhood programs, including the Perry Preschool Program, the Abecedarian Early Childhood Intervention Project, and the Chicago Child Parent Center Program find increased achievement test scores, decreased rates of being held back in school, and decreased placement in special education among low-income children. In the longer term, studies also find increased high school graduation and decreased crime and delinquency rates.

and productive cross-program partnerships focused on outcomes will ensure consistent access to a seamless continuum of services. The integration of services will reduce overlap and duplication, providing greater efficiency and effectiveness in the delivery of services to New Mexico's most vulnerable children. Alignment of services is also essential for lasting developmental gains.

A particular area of alignment concern is the current use of independent data systems. Not only do the DOH, PED and CYFD all have independent data systems, programs within the CYFD have independent data systems. The CYFD must develop one early childhood data system with compatibility to the DOH and PED systems. This will pave the way for unique identifiers that will allow for longitudinal outcome measures, as well as identification of duplication and coordination problems.

Home Visiting. Home visiting services offer support to pregnant women and new families. Home visiting is viewed as a delivery strategy for primary prevention services that are informational, developmental, and educational. The services can lead to improved maternal and child health outcomes, positive parenting, safe homes, and connections to community services.

The Legislature appropriated $2.3 million in FY12 for home visiting, with a priority on serving low-income families in at-risk communities as identified by a statewide needs assessment. Currently, Medicaid pays for approximately 70 percent of all births in New Mexico. Newborns of mothers on Medicaid are automatically enrolled in Medicaid for one year. Medicaid has the potential to play a significant role in funding home visiting services.

Evidenced-based home visiting models that are intensive (weekly visits), targeted to at-risk children, and contain a medical component have been shown to have the greatest impact. These models have a higher per-child cost but also yield the highest return on investment.

Several models of home visiting programs exist throughout the state, however, many are not evidence-based and therefore are not eligible for federal funding. All the state-funded home visiting models are standards-based and use standardized assessments, including the Edinburg screen for postpartum depression, the WAST-Short screen for partner violence and the Ages and Stages assessment for child developmental delays.

The federal Affordable Care Act is providing funding for states to expand their home visiting programs. Federal funding requires that 75 percent of service delivery use an evidence-based home visiting model. Currently, federal funding is being used to implement two evidence-based models in two of the most at-risk communities in New Mexico. The Parents As Teachers model is being implemented in McKinley County by the Gallup-McKinley County Schools and the Nurse Family

Partnership model is being implemented in the South Valley of Albuquerque by the University of New Mexico Center for Development and Disability.

Many rural counties in New Mexico lack a system to offer home visiting services. Capacity building in these areas is essential for home visiting services to reach New Mexico's most at-risk children. The CYFD recently received a $1.1 million home visiting development grant from the federal government to build capacity in the highest risk communities including, Quay and Luna counties.

Child Care. The Child Care Assistance program subsidizes the cost of childcare for families with incomes at or below 200 percent of the federal poverty level ($44,700 a year for a family of four) where the parents are working or in school and have a need for childcare. The subsidy amount varies depending the age of the child, the type of childcare, the location of the program, parental income, and the rating of the childcare program. Childcare providers include family childcare homes, licensed homes, licensed centers, before- and after-school programs, or relative care. Depending on income, a parent might also be required to pay a co-payment, however, the co-payment remains the same regardless of quality of care. In FY11, 73.3 percent of children receiving subsidized childcare services were 5 years old or younger.

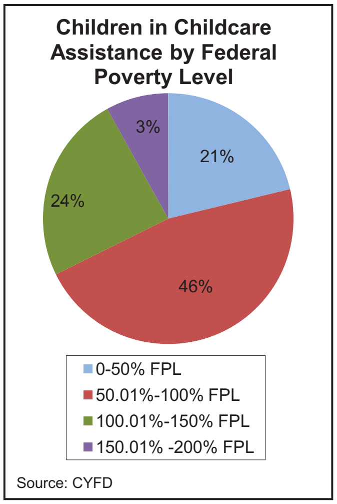
In FY12, the Legislature appropriated $82.7 million for childcare assistance, with approximately 67 percent coming from the federal Child Development Block Grant and TANF transfers. In June 2011, 22,028 children received childcare subsidies. Of all children who received childcare assistance in June 2011, 68 percent were in families with incomes at or below 100 percent of federal poverty level, or $22,350 a year for a family of four.

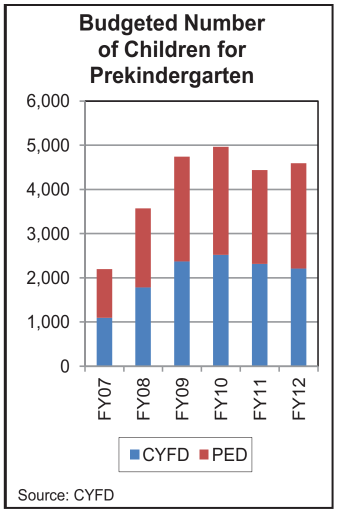
Demand for childcare assistance exceeds funding levels. The CYFD has implemented a waiting list for all clients with incomes between 100 percent and 200 percent of the federal poverty level. As of the end of September, the childcare assistance waiting list had nearly 7 thousand children on it. According to the June waiting list, almost 73 percent of the children on the list were between 100 percent and 150 percent of the federal poverty level, with approximately 42 percent being between 100 and 125 percent of FPL.

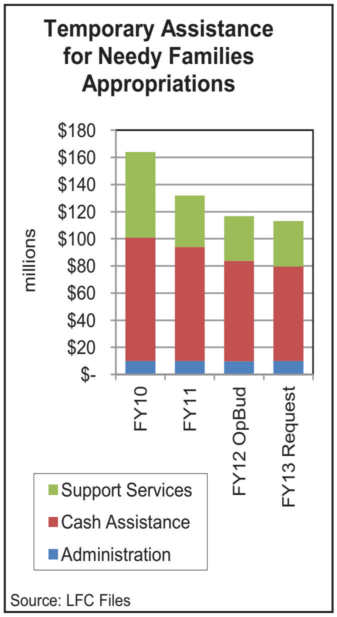
Prekindergarten. New Mexico prekindergarten program provides early childhood services in public schools and in nonpublic settings, such as community childcare centers. Prekindergarten addresses the total developmental needs of preschool children, including physical, cognitive, social, and emotional needs, and includes health care, nutrition, safety, and multicultural sensitivity. Two-thirds of enrolled children at each site must live in a Title I elementary school zone (where at least 40 percent of the students are enrolled in the federal free and reduced lunch program).

Home visiting programs have been proven to:

- Decrease the incidence of low-birthweight births by nearly half, saving states $28 thousand -$40 thousand for each one averted (Partnership for America's Economic Success, *Delivering Healthier Babies and Economic Returns);*
- Cut incidences of child abuse and neglect in half (Nurse Family Partnership, *Evidentiary Foundations of Nurse Family Partnership*); and
- Increase a father's presence in the household by 46 percent (Nurse Family Partnership, *Evidentiary Foundations of Nurse Family Partnership*).







Results of a four-year study completed by the National Institute of for Early Education Research suggest that prekindergarten programs operated by the PED and the CYFD have very similar impacts on young children, despite the fact that only licensed teachers are allowed to teach in the PED-operated programs. Costs associated with instructors under the PED are much higher than costs under the CYFD because of statutory minimum salary requirements. Policymakers must decide whether the program should be jointly administered by the two agencies in light of the similar student outcomes and different costs associated with each program.

Indentifying Gaps in Service. Innovative tools, including the combination of geographic information system mapping capabilities with social and health indicators, is helping to identify where our most at-risk children live while simultaneously pairing that data with location points for early childhood services. By mapping and aggregating indicators of risk, such as poverty, low birth weight, child abuse, high school dropout rates, and teen pregnancies, it is possible to rank communities where young children are at greatest risk for school failure or public health issues. Identifying these at-risk communities should inform policy decisions on the prioritization of limited resources.

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 might 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). As of FY12, only the block grant and limited carry-forward balances remained, 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. TANF caseloads began increasing in January 2008 and hit a peak of 21,514 cases (54,802 recipients) in December 2010, a 57 percent increase from January 2008. However, since the beginning of 2011 the number of cases has been slowly declining, reaching 19,454 in July 2011, a decline of about 12 percent. As a result, the HSD is projecting a fairly flat budget for FY13 of approximately $103.2 million, which includes a projected carry-forward of $6.7 million in federal funds for FY14.

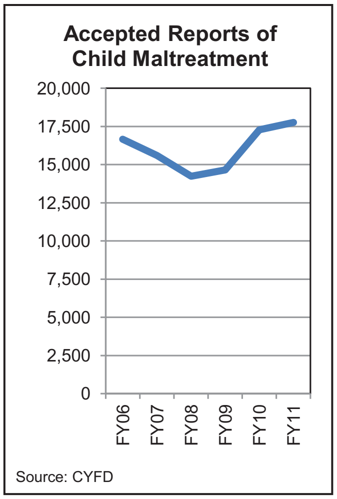
The percentage of TANF clients getting jobs and holding them remains disappointing, with only 27 percent of clients getting a job during FY11 and only 48 percent of those employed retaining the job for at least six months.

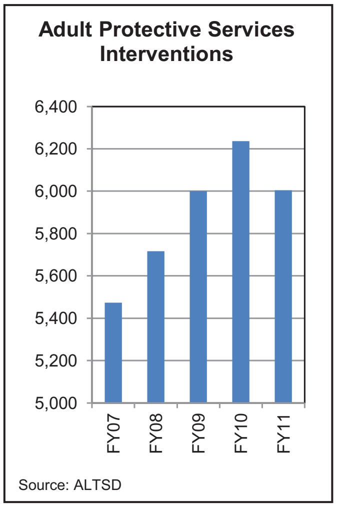
Child Protective Services. Research shows a correlation between increased rates of child maltreatment and economic downturns, when at-risk families are the most vulnerable to the stresses resulting from decreases in income, job loss, and housing issues. Along with increases in caseloads, the department 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 2011 and mid-November 2011, the CYFD received 31 reports of fatalities of children and 125 reports of serious injuries to children. The number reflects only injuries and fatalities reported to the department. The number of accepted reports of child maltreatment has increased by 3,511, or 24.6 percent, since FY08. As of October 2011, pending investigations have grown to 3,285.

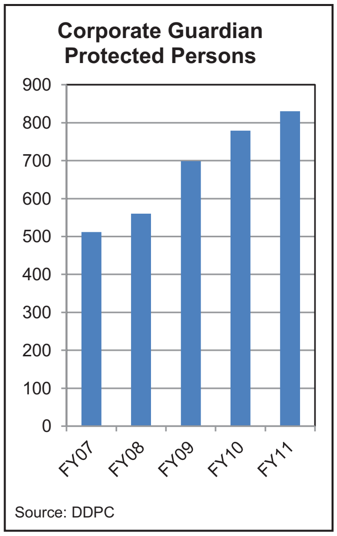
The LFC program evaluation of the CYFD's Protective Services Division (PSD) found that while the PSD's performance compares favorably with neighboring states, improving child safety hinges on making sure caseworkers are prepared, supported, and given the time necessary to make sound decisions. Worker turnover, inefficient management structures, duplication of efforts, and other systemic issues have contributed to chronic case overloads. Also, coordinating in-home services with the CYFD's Early Childhood Services Division's home visiting program and applying for a Title IV-E foster care waiver from the federal government could leverage additional resources to increase the effectiveness of family preservation efforts.

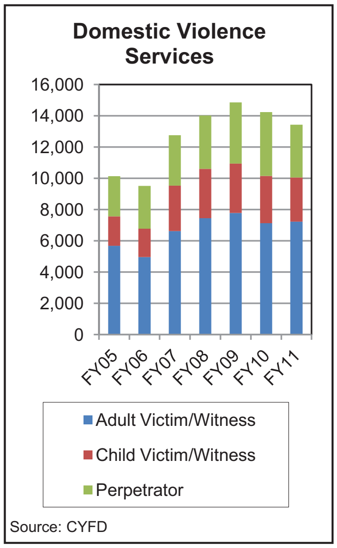
Adult Protective Services. The Aging and Long-Term Services Department's (ALTSD) Adult Protective Services (APS) program provides services mandated by state law on behalf of persons age 18 years or older. Services include investigation of reports of abuse, neglect, or exploitation; protective placement;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

In FY11, APS received and screened 10,403 reports of adult abuse, neglect, or exploitation, and reports the number of interventions for FY11 at 6,004, up 530 cases, or 9.7 percent, from FY07. This caseload has increased over the past five years at an approximate rate of 3.3 percent annually. The ALTSD attributes the increase to the economy, which has resulted in greater risk of abuse, neglect, and exploitation for the older age population, and to the aging of New Mexico's population. The number of cases requiring response in 24 hours also increased to 14.7 percent, up 2.6 percent from FY09. With the critical nature of and continued high demand for adult protective services, it remains









essential that APS is both able to fill field staff vacancies and to provide short-term home- and community-based services, whether directly or through contract agencies, to prevent continued abuse, neglect, and exploitation.

Adult Guardianship. A corporate guardian is appointed by the state to assist an individual in managing his or her legal and personal affairs. This program is administered by the Developmental Disabilities Planning Council (DDPC). Currently, 837 individuals are receiving guardianship services from the state and, as is true with other social programs, the need for state corporate guardianship services is increasing faster than the growth in revenues to support it. Requests for corporate guardianships come from APS, court-ordered placements, clients receiving services for developmental disabilities, and mental health referrals.

The FY12 general fund appropriation of $3.4 million resulted in a waiting list of 30 cases for guardianship services. The DDPC is currently only serving emergency cases and estimates the need for these services at 81 additional slots in FY12 and FY13.

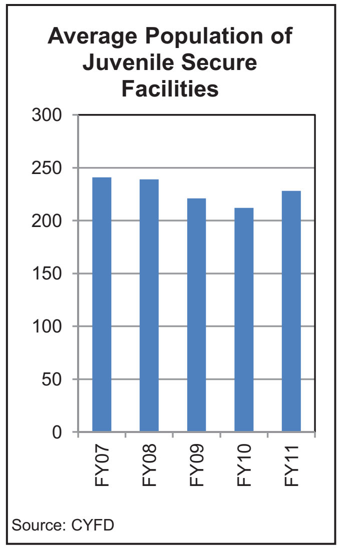
Domestic Violence. Domestic violence programs in New Mexico are funded with general fund appropriations, a federal Family Violence Prevention and Services Act grant, and the offender treatment fund. The funding maintains programs to prevent family violence and to provide immediate shelter and assistance to victims of family violence. The Legislature appropriated $10.6 million in FY12 for domestic violence services.

Juvenile Justice. The CYFD has fully implemented Cambiar New Mexico at the J. Paul Taylor Center and Youth, Diagnostic and Development Center (YDDC). The CYFD is working on aligning after-care services with the Cambiar model for juvenile offenders reintegrating back into their home communities.

In September, the CYFD underwent a reorganization to better support clients transitioning from secured facilities into the community. The following six programs were moved from the Youth and Family Services Division to the Juvenile Justice Services Division: Juvenile Probation and Aftercare, Transition Services, Juvenile Community Corrections, Juvenile Detention Certification, and Juvenile Justice Federal Programs. Performance measures, including recidivism rates and physical assaults in the juvenile justice facilities, will be used to determine the success of the Cambiar model.

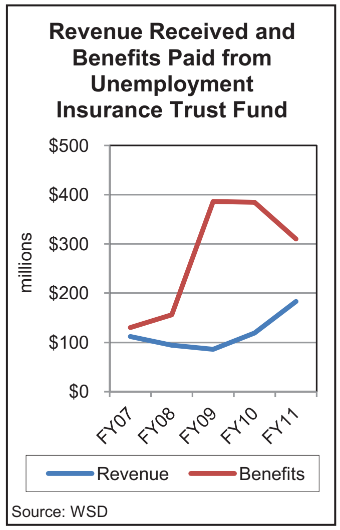
As of September 2011, juvenile probation and parole officers have an average caseload of approximately 42. The American Probation and Parole Association of America recommends no more than 25 to 35 cases per officer. Although, performance measures indicate 92 percent of clients complete formal probation in FY11, the quality of community-based transitional services offered during probation might be declining due to increased caseloads.

The secure facilities have experienced an increase in population during the first quarter of FY12. Currently, the facilities are operating at capacity. In October 2011, there was only one free bed statewide. Additionally, the female population has historically hovered around 10 percent of the total population but is currently 13 percent of the secure facility population.



Unemployment. New Mexico saw a job gain of 7.4 thousand between August 2010 and August 2011. Although the unemployment rate has been on the decrease, initial unemployment claims have increased during the first two quarters of calendar year 2011.

Unemployment Insurance Trust Fund. The partial veto of House Bill 59 eliminated the prescribed employer contribution schedule 3, subsequently creating a void for the 2012 employer contribution schedule. The New Mexico Supreme Court, acknowledging the 2011 special legislative session as an opportunity for the governor and Legislature to reach a solution, did not rule on the constitutionality of the partial veto. Subsequently, the special session did not yield a solution to the problem caused by the partial veto.



With no schedule in place for 2012, U.S. Department of Labor representatives have indicated that New Mexico contributing employers might not qualify for the maximum 5.4 percent tax credit against their federal Unemployment Tax Act (FUTA) liability. The total federal liability for the 2012 tax year could be 6 percent if the Supreme Court does not weigh in before the end of the calendar year. The result would be a tax increase for the majority of New Mexico employers.

The current statutory triggers for the unemployment insurance employer contribution schedule, found in Section 51-1-11 NMSA 1978, depend on the ratio of fund balance on June 30 to total payroll at the end of the previous calendar year. Due to benefit expansion, high unemployment, and suppressed employer contributions, the fund faces insolvency. During the special session, legislation was introduced to set up an advisory council to recommend statutory changes to provide a permanent solution for the solvency of the unemployment compensation fund; this legislation failed to pass.

Unemployment Overpayments. The U.S. Department of Labor released overpayment figures for states on September 14, 2011. Overpayments include benefits paid to individuals who are ineligible due to voluntarily quitting employment or discharged for cause, failing to actively seek employment, failure to register for referral to work or reemployment services, or claiming benefits after returning to work. From July 2010 to June 2011, New Mexico's estimated overpayment of benefits was $60.5 million, 22.4 percent of the total benefits paid during the same period.

2010 Ranking - Crude Oil Production (in thousands of barrels)		
1	Texas	426,700
2	Alaska	218,762
3	California	201,381
4	North Dakota	113,033
5	Oklahoma	69,513
6	Louisiana	67,527
7	New Mexico	65,010
8	Wyoming	53,133
9	Kansas	40,465
10	Colorado	30,870

Source: U.S. Energy Information Administration

Number of Wells Permitted by Year	
Year	Permits Issued for New Drills
2003	2,043
2004	2,414
2005	2,536
2006	2,684
2007	2,338
2008	2,355
2009	1,413
2010	1,729
2011 (YTD)	1,452

Source: OCD

Natural resource and environmental issues remain areas of both public and legislative concern. Creating a regulatory environment that both fosters development of New Mexico's natural resources and protects its fragile environment is a continuing challenge.

Energy. New Mexico enjoys considerable energy resources, including oil, natural gas, coal, and renewable resources such as solar, wind, and geothermal energy. The state is a leading producer of oil and natural gas, ranking 7th in crude oil production in 2010 and 6th in natural gas production. The state relies on the employment created through these extractive industries, as well as on the taxes and royalties that they generate.

In 2010, nearly 550 operators produced oil and gas from almost 50 thousand wells in New Mexico. Although the number of operators was slightly lower than in 2009, the number of producing wells has increased in each of the past two years. The state approved over 1.7 thousand applications for permits to drill new wells in 2010. In 2011 high oil prices and new technologies have stimulated production increases in the Permian Basin of Southeastern New Mexico and West Texas.

One oil and gas production technology getting more attention is hydraulic fracturing, or fracking, the process of fracturing a rock layer with a pressurized fluid to release petroleum, natural gas, coal seam gas, or other substances for extraction. Fracking has been used in the United States, including New Mexico, since 1947, but it has been getting more attention because methane and other chemicals used in fracking in the Marcellus Shale in Pennsylvania and New York have been linked to possible drinking water pollution.

The oil and gas industry is moving toward disclosing the chemicals used in fracking fluids. In 2011, Texas became the first state to pass legislation requiring such disclosure, and the New Mexico Oil and Gas Association (NMOGA) has filed a petition with the Oil Conservation Division (OCD) of the Energy, Minerals and Natural Resources Department to create a rule that would require disclosure from drillers in New Mexico. New York State implemented a moratorium on the practice in 2010, while at the federal level, the Environmental Protection Agency (EPA) is developing underground injection control (UIC) permitting guidance for hydraulic fracturing activities that use diesel fuels in fracturing fluids.

Environmental Regulation: The OCD regulates all oil and gas and geothermal operations in New Mexico. The NMOGA has proposed the OCD change the "pit rule" that provides the basis for regulation of many key processes and facilities in the oil and gas industry, including drilling and the siting criteria and construction and closure of below-grade tanks. The proposed changes would allow for the use of lined pits and in-place burial of drilling cuttings where these practices are used in an environmentally protective manner.

The New Mexico Environment Department (NMED) administers other environmental protection laws to regulate air quality to protect the public from exposure to airborne contaminants known to be hazardous to human health. In 2011, the EPA announced a clean air plan for the San Juan Generating Station power plant that would require installation of the best pollution-control technology available for the coal-fired facility to reduce harmful emissions by approximately 83 percent and improve visibility and respiratory health for the surrounding area by about 65 percent. However, the NMED's Environmental Improvement Board voted unanimously to reject the EPA's measure and supported a less costly plan that would not improve the air quality as much as the EPA plan.

Approximately 80 percent of New Mexico's population depends on groundwater for drinking water. To protect this resource, the NMED's groundwater discharge permit program requires facilities that discharge wastewater in a way that could contaminate groundwater to operate under permits issued by the NMED. The department manages approximately one thousand discharge permits with the goal of preventing pollution from septic tanks, dairies, mining, petroleum storage tanks, urban runoff, public and private wastewater treatment plants, food processing operations, landfills, and chemical spills or leaks. Pursuant to 2009 legislation, the Water Quality Control Commission continues to work to promulgate rules for the dairy and copper mining industries to control groundwater contamination stemming from their operations. The NMED's Drinking Water Bureau protects public health by ensuring compliance with the Safe Drinking Water Act for more than 1.2 thousand public water systems. In FY11, the bureau issued four precautionary boil water advisories and six boil water advisories for public water systems.

Water Availability: The National Oceanic and Atmospheric Administration's National Climatic Data Center reports that water year 2011 (October 2010 through September 2011) was the state's second driest year on record, with only 60 percent of normal precipitation. Drought has been particularly severe in the Southeastern Plains, with 34 percent of normal precipitation, and the middle Rio Grande Valley with 45 percent. The drought contributed to a severe fire season, including the Las Conchas Fire, New Mexico's largest ever wildfire at 156 thousand acres, and the 101 thousand acre Donaldson Fire.

The state's limited water supply, already strained by the current drought, is further restricted by the requirements of interstate water delivery obligations. New Mexico's agricultural industry has seen negative effects of the water shortage and the interstate agreements, such as the Carlsbad Project Settlement, signed in 2003 by the Interstate Stream Commission (ISC), the United States, the Carlsbad Irrigation District (CID), and the Pecos Valley Artesian Conservancy District (PVACD). Pursuant to this agreement, the ISC in March through September 2011 pumped 8,988 acre feet of water from augmentation well fields drilled in the PVACD to meet water delivery requirements to the CID. Users of domestic and irrigation wells in the PVACD reported that, during the ISC's drilling and pumping of the augmentation wells, their wells went dry or suffered reduced productivity, in some cases resulting in the loss of crops.

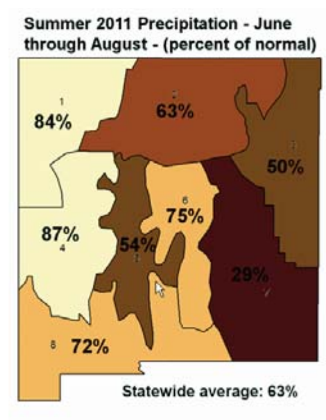
Groundwater Contamination Examples

Kirtland Air Force Base – A fuel spill at the site is one of the largest groundwater pollution problems in the state, with a 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.

Questa MolyCorp Mine- Tailing seepage from the tailings ponds and acidic metal-laden leachate generated from the weathering of the waste rock piles at the mine site have contaminated groundwater and surface water.

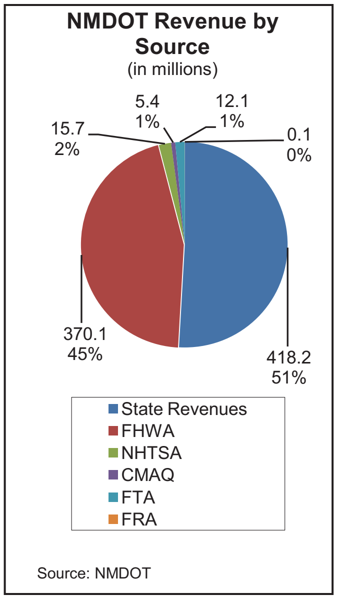
Eagle Picher Battery Factory, Socorro – Contaminants at the former battery factory include trichloroethene and 1,1-dichloroethene in groundwater and lead, chromium, and cadmium in the soil. In 1987, chlorinated compounds were detected in a Socorro municipal drinking water supply well.

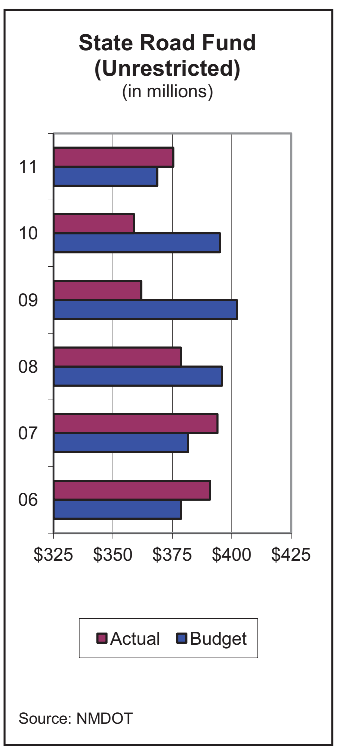
Dairies- Groundwater has been contaminated with nitrates and chlorides from wastewater stored in settling lagoons and applied to agricultural land.



Source: NOAA

Transportation





Uncertain levels of revenue combined with significant debt obligations continue to raise serious questions about New Mexico's capacity to maintain or expand the transportation infrastructure critical to its economic welfare. Current forecasts indicate steady improvement in state road fund revenue over the next few years, but ongoing budget negotiations in Congress could lead to a significant – estimates from reliable sources suggest as much as a 37 percent – reduction in federal funding for the state. Routine maintenance and repair of roads, highways, and bridges in the state is being deferred for longer periods due to insufficient funding, leading to an increase in deficient, and more importantly, potentially unsafe, highways across New Mexico. New and important projects in urban areas will inevitably be postponed, leading to increased traffic congestion and inefficiencies. In light of these problems, a renewed emphasis must be placed on developing effective strategies for future transportation needs that leverage limited financial resources and effectively engage the public, private, and nonprofit sectors.

Federal and State Transportation Funding. The seventh re-authorization for federal surface transportation programs provided by the Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was recently extended and will expire in March 2012. Congress is currently debating the conditions under which a further extension or reauthorization would occur. The Obama administration has submitted a comprehensive reauthorization proposal but it has not made any significant legislative progress. Relevant committees in both the House of Representatives and the Senate have drafted competing plans for reauthorization. Given political tensions, the future of transportation funding remains unclear.

Highway Trust Fund. Established by Congress in 1956, the HTF is the principal mechanism for funding federal highway programs. The HTF channels approximately $33 billion a year to states for highway and other transportation-related spending. In FY12, New Mexico received approximately $349 million of HTF funding, the same as previous years as a result of the basic extension of SAFETEA-LU.

Reauthorization and Potential for Federal Budget Cuts. At the time of this writing, the House Transportation, Housing and Urban Development and Related Appropriations Subcommittee had approved an FY12 spending bill that would reduce federal highway and transit spending by a little over 36 percent, consistent with the House budget resolution passed in April 2011. That resolution requires that highway and transit spending be limited to levels that can be sustained by revenue flowing into the highway trust fund through federal excise taxes on gasoline, and, according to an analysis in *Transportation Weekly*, would result in a loss of approximately $123.5 million for New Mexico – slightly less than the New Mexico Department of Transportation (NMDOT) estimates. The legislation stands in direct contrast to legislation proposed by the Senate Environment and Public Works Committee that would extend federal highway and transit funding at current levels. During an address to a joint session of Congress, President Obama called for an additional $60 billion to be invested in highway, rail, transit, and aviation projects, which would potentially result in an increase of transportation funding for New Mexico. Negotiations on the issue continue.

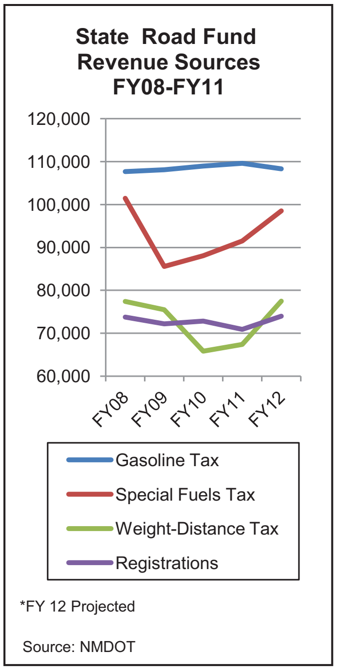
In light of the political uncertainty in Washington and in recognition of potential funding shortfalls, the NMDOT has developed an alternative budget scenario that anticipates a decrease of $149 million, or 37 percent, from FY12 operating levels. The primary areas affected by the alternative scenario are personal services and employee benefits, the design and construction of new capacity, and administrative overhead. Funding for maintenance activities would remain flat.

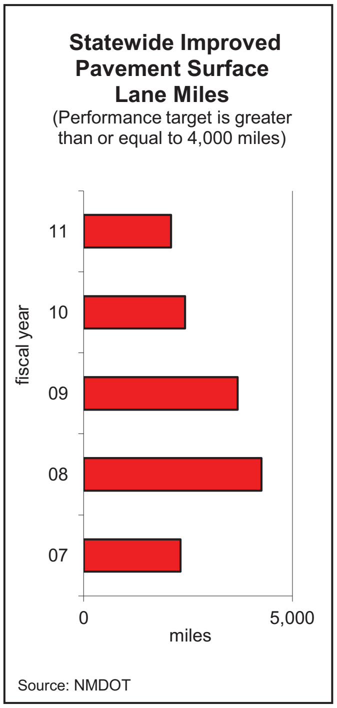
State Road Fund. Revenue associated with the state road fund (SRF) is categorized as either restricted or unrestricted. Restricted revenue is typically earmarked for special purposes, such as aviation, traffic safety, and grants to local governments. Unrestricted revenue, such as fuel taxes and weight-distance fees, support the majority of activities associated with the maintenance and operations of the state's highway and transit system. SRF revenues declined $32 million, or 8 percent from FY07 to FY10, a direct result of the recession. Freight movement and special fuels generally related to the trucking industry – typically representing almost 45 percent of SRF revenues – was severely impacted by the economic downturn.

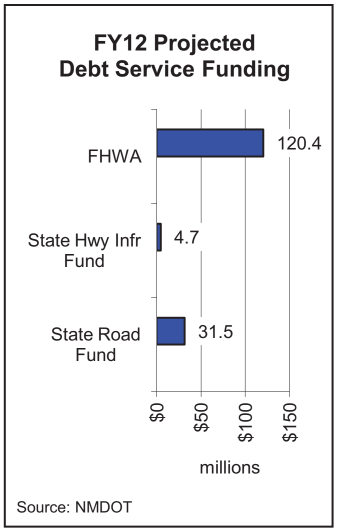
The July 2011 State Road Fund Outlook suggests a more optimistic scenario for revenues in the immediate future. The latest estimate includes an upward revision of $10.6 million to the SRF for FY11 and a $6.9 million increase to SRF revenues for FY12. The new estimates for FY13 – used by the NMDOT for the FY13 budget submission – shows an increase of $18.1 million for the SRF over FY12-approved operating levels. It should be noted that revenues are still below peak revenues attained in FY07, but projections indicate that SRF revenues will surpass FY07 levels in FY14 – a seven-year cycle.

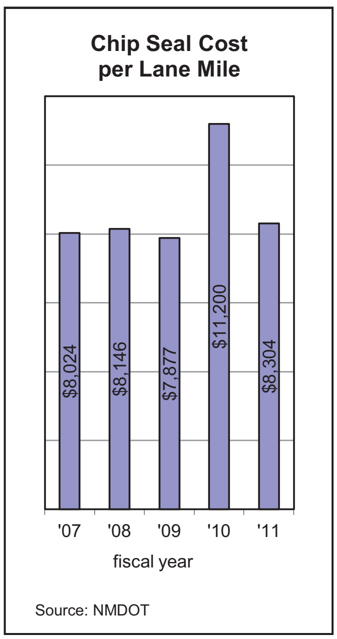
<u>Transportation Bond Debt Constraints and Outlook</u>. As of July 1, 2011, the total outstanding principal for the state associated with Governor Richardson's Investment Partnership (GRIP) stands at approximately $1.4 billion. All debt service associated with the principal – interest, liquidity, remarketing, and fees – from 2012 through final payment in 2027 totals a little under $2.5 billion.

When GRIP was established in 2003, there was a tacit, though not legislatively mandated, agreement the cost of GRIP debt would fall into the following parameters (1) All debt would be repaid by fiscal year 2027 (2) Total cost of the debt would not exceed $162 million a year (3) Debt used for federally reimbursable projects would be reimbursed by the federal government in an amount up to $122 million a year (4) The state road fund could support debt in an amount up to $40 million a year. The so-called "162-122-40-2027" agreement reflects the fundamental points of the debt management program.









The critical constraint faced by the state is the "cliff" that occurs between FY24 and FY27. At that time the state road fund will be obligated to pay all outstanding debt not eligible for federal reimbursement. The state road fund debt costs are projected to be $38.9 million in FY24, $112.3 million in FY25, $111.3 million in FY26, and $66.6 million in FY27. Even if state road fund revenues increase substantially over the next decade and a half, the negative impact of this obligation on the maintenance of highways and roads throughout the state will be substantial.

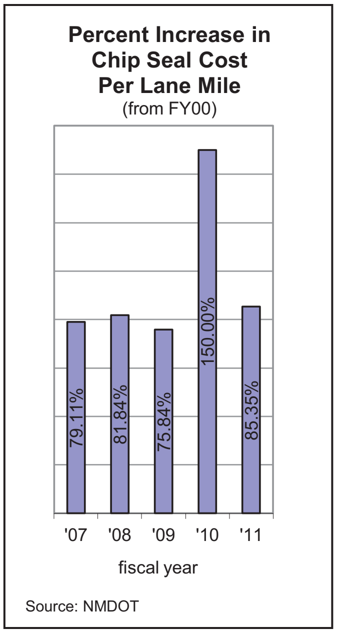
Statewide Transportation Improvement Program (STIP). The STIP is a four-year federally mandated multi-modal transportation plan and is created through a lengthy consultation process that includes NMDOT officials and engineers, local and regional governments, metropolitan and regional planning organizations (MPOs and RPOs), other state agencies, and the public. The NMDOT identifies projects assigned the highest priority through the STIP consultation process and then, after lengthy discussions with the Federal Highway Administration, agrees which projects should be funded. Although technical engineering analysis alone should ideally drive the identification of STIP projects, political factors come into play, as do concerns about roughly equivalent levels of funding across highway districts. Amendments to the STIP can be presented at State Transportation Commission (STC) meetings for approval but can also be changed through administrative action at the NMDOT.

The FY12-FY15 STIP was reviewed by the STC and was made available for public comment on the NMDOT website. The FHWA reviewed the document to ensure compliance with federal rules and regulations. The current four-year plan consists of 512 projects worth a little under $1.5 billion.

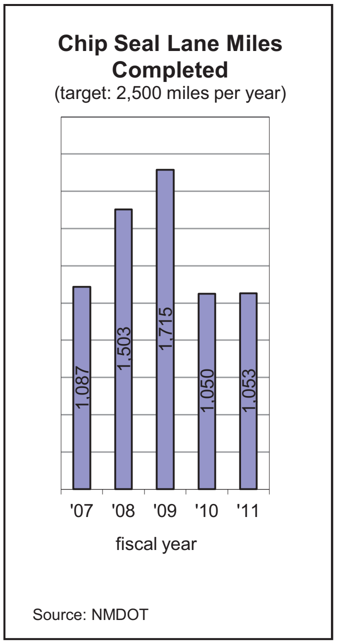
Approximately $1.3 billion in bonds have been issued under Governor Richardson's Investment Partnership (GRIP I and II), with $260.4 million remaining unissued. Currently, five projects have been authorized, while 19 projects have been indefinitely deferred given the lack of available funding.

America Recovery and Reinvestment Act funding. Congress passed the ARRA in February 2009 and to date, 106 projects have been completed in New Mexico totaling $252.6 million. The majority of these projects focused on pavement preservation and rehabilitation or complemented existing projects pursued through the SRF.

Large Unfunded Projects. Several large projects that should be considered a priority, given population growth and economic development needs in specific urban areas, are not included in the STIP because, according to the NMDOT, federal and state funding required for the projects remains uncertain. These include the Paseo del Norte/I-25 interchange, the I-40/Embudo Channel interchange, enhancements along I-25 to Paseo del Norte, and improvements along U.S. 550 near Bernalillo. Projects that have been postponed across the state because of financial considerations now total a little under $1 billion. Although it is understandable that the NMDOT is being cautious in its planning given the current budget environment and existing debt obligations, it is also essential that the agency think strategically about the future. As an example, in the case of the Paseo del Norte/I-25 interchange, the NMDOT could be more aggressive in its efforts to outline a basic financial and technical roadmap for the sequential completion of the project and establish a framework for collective action among concerned political and economic interests.



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 with 50 percent of the funds received by the New Mexico Finance Authority (NMFA) for administration of GRIP I bonds issued by the authority on behalf of the NMDOT. Loans and grants made to entities are based on a prioritized list submitted to the NMFA by the 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.

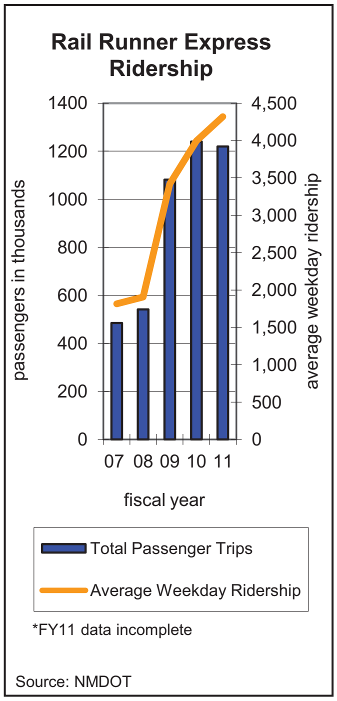


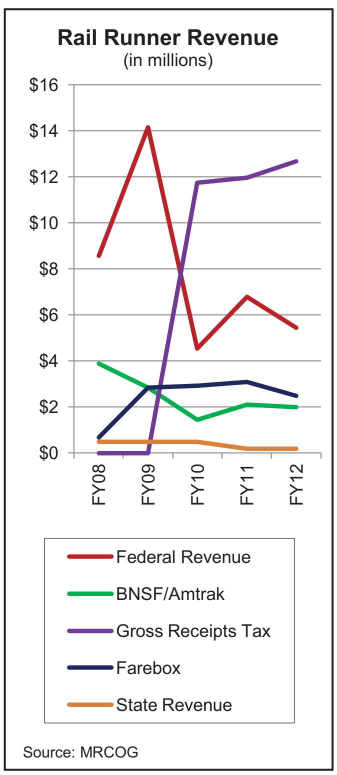
In the 2009 legislative session, House Bill 308 authorized the NMDOT to distribute up to $1 million per calendar year from the local government road fund to municipalities and counties that demonstrate financial hardship for use as all or a portion of the municipality's or county's matching fund. Funding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

As of October 2011, the NMFA allocated grants for 20 projects worth a total of $3.7 million. One project remains, which will use the $89.4 thousand balance in the account. Fund balances totaling $4.4 million were reverted to the general fund through language inserted in the 2011 General Appropriation Act.

Highway Maintenance Program. Routine maintenance consists of intensive and ongoing activities designed to preserve New Mexico's highways, roads, and bridges. The NMDOT is currently projecting a gap in routine maintenance of $250.5 million for FY11, affecting key activities such as pavement preservation, chip seal, sign replacement, drainage work, striping, bridge maintenance and replacement, and equipment replacement and repair. Long-term highway rehabilitation required on state highways has a projected shortfall of another $266.2 million.

Over the last six years, costs for pavement treatment have increased substantially. Per lane mile, costs for crack sealing have increased from $3,600 to $14,600 (306 percent), costs for microsurfacing have increased from $37,500 to $58,560 (56 percent), costs for pavement overlay have increased from $34,027 to $80,960 (138 percent), and





costs for reconstruction have increased from $1.1 million to $1.8 million (63 percent).

Chip Seal Program. The chip seal program is a major component of the NMDOT's maintenance program because it prolongs the life of the road. From FY07 to FY10, costs per lane mile for chip seal increased from $8,024 to $11,200, or 39.6 percent. Calculated from FY00 through FY11, there has been an 85.4 percent increase. In FY11, the NMDOT switched from asphalt aggregate to cold millings, and costs for chip seal dropped substantially. The current NMDOT benchmark for chip seal is 2,500 miles per year, and in FY11 only 1,053 miles were sealed, a gap of 1,447 miles.

Rest Areas. A predicted shortfall of more than $1.2 million in revenue budgeted for contract maintenance of New Mexico rest areas prompted the NMDOT to consider a plan to barricade, downsize (close the restroom facilities), or permanently close and then demolish 13 rest areas in the state, primarily those in proximity to large population centers. The NMDOT has not finalized these plans.

Public Transportation Initiatives.

Commuter Rail. The year-end unaudited financial report presented by Rio Metro Regional Transit District to the State Transportation Commission in July indicates a budget surplus of $188.1 thousand for the Rail Runner at the close of FY11. The balance will be rolled into revenue for FY12. Current budget projections for FY12 indicate a budget surplus of $593.6 thousand, primarily a result of adjustments in scheduling required to balance revenues and expenditures. Fiscal year 2013 represents a far more significant problem as $5.4 million in federal revenues will no longer be available.

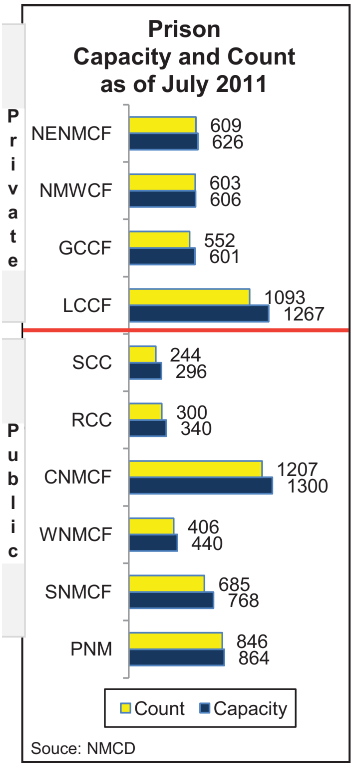
As questions concerning the financial health of the Rail Runner continue, Rio Metro has created a Fiscal Sustainability Task Force to study and provide recommendations on a range of issues: fare and scheduling changes, insurance coverage, maintenance costs, and gross receipt tax increases. In response to House Memorial 42, introduced in the 2011 regular session, the NMDOT is conducting a thorough evaluation of the Rail Runner focusing on the "costs, benefits, efficiencies and inefficiencies of the Rail Runner Express." The results of these studies will influence decisions made by the Legislature in 2012.

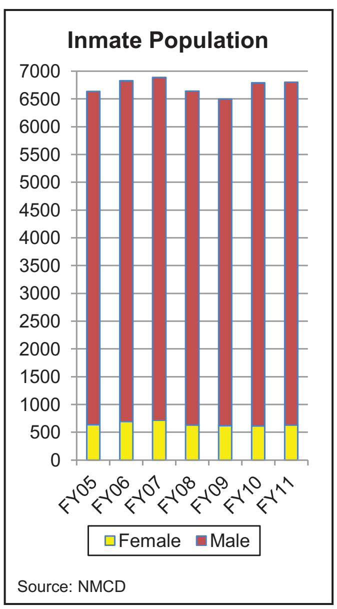
Total ridership for the Rail Runner in FY11 was 1.21 million, compared with 1.24 million in FY10, a decline of 1.7 percent. Rio Metro attributes this decline to full fares being charged on weekends, a reduction in the number of scheduled weekend trains from 14 to 10, high unemployment, and low tourism rates.

Park and Ride. New Mexico Park and Ride is an inter-city service designed to mitigate traffic on the state's highways and provide a cost-effective alternative to the state's commuters. After a peak ridership level of 370,315 in FY08, ridership declined to 258,086 in FY10, but ridership increased to 292,476 in FY11. The target level for ridership set by the NMDOT is 225 thousand.

Local Initiatives. In 2003, the Legislature authorized the creation of regional transit districts (RTD), with the purpose of providing an alternative form of transportation for those individuals unable or unwilling to use personal vehicles for daily activities. The majority of the services provided by the RTDs link regional areas difficult to reach by low-income passengers. There are currently four certified RTDs in New Mexico: the North Central RTD (NCRTD), Rio Metro RTD, Southwest RTD (SWRTD), and the South Central RTD (SCRTD). The NCRTD, Rio Metro, and SCRTD receive both federal and state funds for operation. The NCRTD and Rio Metro also receive gross receipt tax revenue, and contribute to the operating budget of the Rail Runner. Over the last year the level of fares and administrative overhead as a percentage of the cost of service have raised concerns. Over the last year there has been some controversy related to the administrative overhead at the RTDs as a percentage of service, as well as concerns that the RTDs are not charging sufficient fares, all part of a broader re-think in the state concerning the costs and benefits of public transportation.

As a specific example, the FY10 audit report for the NCRTD found a number of material weaknesses and significant deficiencies related to financial reporting and internal controls over federal awards. Many of these findings have been repeated and not resolved. Although the RTDs possess their own boards and management structures, the NMDOT should exercise greater oversight over these entities to ensure effective and efficient expenditures of increasingly constrained federal funding.





Nationwide the overall crime rate declined since 2008. However serious violent crime is not showing the same decline as less serious crime. In 2010, the Center on Quality Policing found that government bears approximately 58 percent of the tangible cost for aggravated assault, robbery, burglary, larceny, and vehicle theft. For violent crimes, victims bear 77 percent of the costs, taxpayers 14 percent, and employers 9 percent. Tougher criminal laws that impose greater sanctions and lengthier incarcerations and larger investments in law enforcement have increased the cost of public safety. Limited state revenues have created significant fiscal pressures impacting competitive recruitment and retention of commissioned officers, housing state inmates and providing services to successfully transition inmates from prison back into the community. New Mexicans desire to feel safe in their communities intensifies the expectation that government will provide adequate resources to accomplish the goal of crime prevention and public protection. Progressive correctional reforms reduce incarceration without jeopardizing public safety.

Prison Population. In June 2011, the New Mexico Sentencing Commission (NMSC) presented its 10-year population forecast (FY2010 to FY2021) to the New Mexico Corrections Department (NMCD). The annual report is designed to assist the NMCD in assessing immediate and future inmate population. Forecasting provides the NMCD with data regarding future prison populations based on current laws and policies. When those laws and policies are changed or when external factors change (i.e., number of arrests, number of felony charges filed in district court), prison populations projections change accordingly.

In FY07, the total New Mexico inmate population reached a high of 6,887. Two years later, the population dipped to 6,488, a drop of 5.8 percent. In its publication, *Possible Reasons for Decline in New Mexico Corrections Department Inmate Population,* the NMCS attributed the downturn 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. The NMSC looked at four additional factors which together might have affected the New Mexico prison population reduction: diversion for technical violators, parole in the community, earned meritorious deduction, and use of felony drug courts.

The NMSC forecast for FY12 is slow growth for male inmates and stable growth for female inmates. As of July 2011, the NMCD had a total of 6,571 inmates, 5,964 males and 607 females. The men are housed in nine facilities statewide, six publicly operated and three privately operated. The male inmate population declined in FY08 and FY09 and then increased in FY11. The female population declined in FY10 and then climbed back to FY08 levels.

Early Release To Reduce Population. An option to the NMCD to control and reduce the inmate population and reduce the cost of incarceration is to use controlled release allowed by Section 33-2-34 NMSA 1978. Under this law, offenders who are within 12 months of parole eligibility may be placed in a community-based setting. The NMSC's *Estimated Number of Offenders in New Mexico Corrections Department Facilities in October Eligible for*

Controlled Release estimated that 326 levels I and II male and female inmates (exclusive of violent or sex offenders and parole violators) are eligible for controlled release between October 2011 and September 2012. A conservative estimate is a savings of $358 thousand. The NMCD could also reduce medical costs by granting parole to inmates with terminal illnesses.

Private Prison Facilities Cost. The private facilities principally provide space for 2,046 level III classification male inmates who do not have a serious medical condition. Public facilities have 464 level III beds with 397 filled, an occupancy rate of 85.6 percent. Private facilities for male inmates have a total capacity of 2,494 beds for general population and levels II and III inmates. In July 2011, private facilities housed 2,254 inmates, or 90 percent of capacity. All female inmates are housed at the private New Mexico Women's Correctional facility in Grants. The occupancy for the women's facility hovered at 99.5 percent at the end of FY11. A contracted per diem rate determines the cost of privately held prisoners.

According to the NMCD, private prison share of total capacity is 44 percent, one of the highest among states.

New Mexico Corrections Department
Average Cost of Inmate/Non-Custodial Clients
Based on FY09 Rates

Institution / Program	Cumulative Average Population/ Caseload	Average Annual Cost per inmate/ Client-Slot
Penitentiary of New Mexico	795	$55,931
Western New Mexico Correctional Facility	355	$55,215
Southern New Mexico Correctional Facility	713	$46,257
Central New Mexico Correctional Facility	1,118	$47,917
Roswell Correctional Center	300	$30,951
Springer Correctional Center	174	$60,864
Total Department Operated Facilities	**3,455**	**$49,347**
Private Prisons (Female)	586	$33,258
Private Prison (Male)	2,322	$31,239
Total Privately Operated Facilities	**2,908**	**$31,646**
Total All Facilities	**6,363**	**$41,257**
Non-Custodial Options		
Community Corrections	915	$3,475
Residential Treatment Center Programs (Females)	53	$41,653
CC Residential Treatment Center Programs (Male)	69	$24,803
Probation & Parole (Less Intensive Supervision)	19,610	$1,521
Intensive Supervision Program	317	$3,445
Total Non-Custodial	**20,964**	**$1,813**

Source: NMCD

Inmate Per Diem All Prisons	
Prison	**Per Diem**
NMWCF	$91.12
NENMCF	$79.43
GCCF	$64.48
LCCF	$62.48
PNM	$153.24
WNMCF	$151.27
SNCF	$126.73
CNMF	$131.28
RCC	$84.80
SCC	$166.75

Source: NMCD

Non-Custodial Per Diem Rates	
Options	Cost Per Day (dollars)
Community Corrections	$9.52
Residential Treatment Center Programs (Females)	$114.12
Residential Treatment Center Programs (Male)	$67.95
Probation & Parole (Less Intensive Supervision)	$4.17
Intensive Supervision Program	$9.44

Source: NMCD

The NMCD received a six-month emergency extension on its medical contract to allow for sufficient time to issues a request for proposal, evaluate respondents and transition services, if necessary.

The NMCD private prison contracts specify required staffing patterns at facilities, including penalties for facilities with vacant position over 30-60 days, depending on the type of position, and for not staffing mandatory posts. In FY11, the NMCD assessed the Lea County Correctional Facility $1.1 million in penalties for vacant positions and required the company to invest $200 thousand in recruitment. The NMCD is changing its staffing patterns review procedures to monthly to preclude unnecessary general fund expenditures.

Medical Services. The medical contract for physical, dental, and mental health care expired on June 30, 2011. The NMCD has not issued the request for proposal to continue the services beyond the Department of Finance and Administration-granted 90-day emergency contract. The emergency contract to Corizon, Inc. from July 1 through September 30, 2011, totaled $14 million. Under the emergency contract, the NMCD pays a flat fee for basic services for up to 6,779 inmates. Pharmaceuticals are not covered under the contract and add approximately $1 million to $2 million per year to medical care. If 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 and human immunodeficiency virus/acquired immune deficiency syndrome. In comparison, health coverage for a single New Mexico state employee is approximately $5.6 thousand annually with an additional $2 thousand maximum out-of-pocket expense. To preclude unnecessary general fund expenditures, the NMCD should initiate meaningful and consistent record-keeping and maintain continual communication with the contractor, particularly with respect to off-site specialty care.

Thirteen states are implementing the National Institute of Corrections “transition from prisons to communities” model.

Transition From Prison to Communities. The NMCD has started the nationally recognized “transition from prison to community initiative” designed to increase public safety, reduce recidivism and new victimization, and make use of scarce resources in the correctional facilities and communities. The initiative requires an accountability plan that starts when the offender enters the prison system and continues during confinement through release from the institution and after discharge from supervised probation to the handoff to a health, social, or work-related services agency. This is a complete change from the traditional view of incarceration as punitive and requires partnering with other agencies and open communication within the NMCD and among public safety and justice entities. New Mexico’s initiative should include working with the Economic Development Department’s job training incentive program as a way to reconnect former inmates with the labor market and remove obstacles to reintegration.

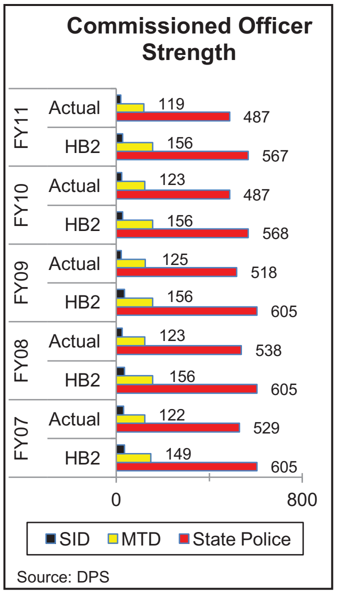
“Sentencing and corrections policies should be designed with the goals of preventing offenders’ continued and future criminal activity.” (NCSL, 2011)

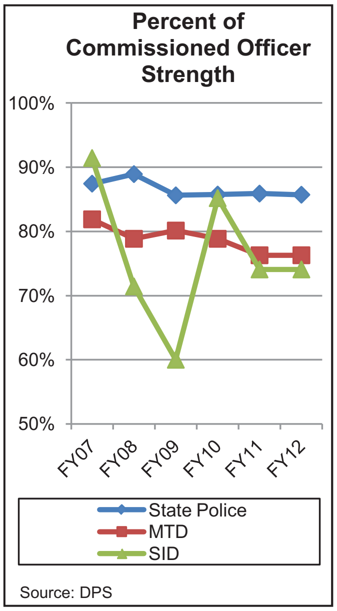
Savings can accrue by using level of risk to decide how probationers and parolees are supervised. Supervising low-risk offenders similarly to high-risk offenders is inefficient and does not improve public safety.

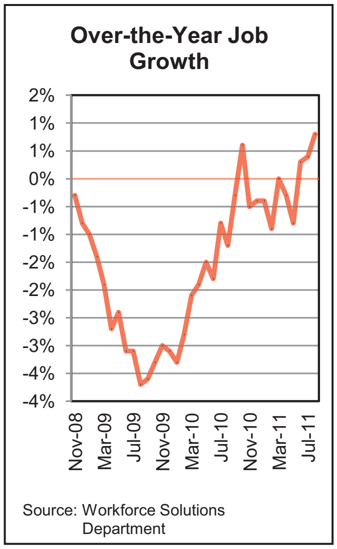
Sentencing Reform. The cost of public safety does not start and end with incarceration. Leaders in public safety are reducing costs by updating criminal codes and expanding sentencing options. According to the National Conference of State Legislatures, these approaches leave behind the notion of "soft" or "tough" on crime and instead ensure the reform contributes to a favorable return on public safety expenditures. Allowing judges the flexibility to sentence low-risk offenders to probation or community-based programs rather than prison, is considered a modernization of sentencing policy. This modernization includes risk-based sentencing, systematic use of intermediate sanctions, changes in felony thresholds, and rethinking certain sentences for certain drug offenses.

Department of Public Safety Staffing. The Department of Public Safety (DPS) has 568 State Police, 156 Motor Transportation Division (MTD), and 27 Special Investigations Division (SID) authorized commissioned officers. As of August 2011, the DPS had an actual strength of 493 State Police, 119 MTD, and 20 SID officers. The DPS continues to encounter difficulties recruiting and retaining commissioned officers either because the pay at other law enforcement agencies is higher or because of the retirement plan disparity among classification of officers. For the State Police to stave off the ever-increasing attrition rate, the DPS will have to conduct two recruit schools in FY13. Since July 1, 2011, six officers have retired, eight have resigned, and two were terminated. In December 2011, another five will retire. Retention for the classified commissioned officers will require pay parity and alignment of retirement plans.

Data-Driven Policing. Managing budget cuts and the availability of enforcement personnel requires strategic planning including, proactive policing, sharing resources, and effective use of technology. The DPS is moving toward data-driven policing, which requires deploying resources where needed instead of simply patrolling and improves accountability. It is partnering with liquor establishments on voluntary compliance to reduce under-age drinking. The agency is also sharing law enforcement resources among its divisions to reduce duplication of services. Additionally, it is looking into newer technology to allow for better response, record-keeping, and data availability. In FY12, the DPS adopted new performance measures to allow it to measure the progress in achieving goals based on data-driven policing.







Economic Development Tax Expenditure Projection for FY13 (in millions)	
Film	$50.0
Investment	$7.0
Technology Jobs	$6.6
High-Wage Jobs	$5.6
Double-Weighted sales	$5.0
Other	$10.4
Total	$84.6

Source: TRD

Except for a couple of large projects underway for some time, the process of creating new jobs in New Mexico started with a sputter in June and slowed by September.

Job Growth/Loss. New Mexico's rate of employment growth lags behind the national economy, which added jobs at a growth rate of 1 percent in the first quarter of 2011 compared with New Mexico's rate of 0.8 percent. After 32 months of consecutive job losses, the state started reporting growth in June 2011 with 2.4 thousand jobs, a growth rate of 0.3 percent. Another 6.6 thousand jobs were added in August, or 0.8 percent. Compared with rates in other states, New Mexico's nonfarm job growth rate ranked 39th among the states in July. In August, the Workforce Solutions Department (WSD) reported seven growing and five declining industries and one that was unchanged. Year-over-year growth occurred in education and health services, retail trade, wholesale trade, mining, financial activities, leisure and hospitality, and transportation. Job losses occurred in professional and business services, construction, government, manufacturing, and other services. The information industry was flat.

Unemployment. Unemployment levels improved, falling from a high of 8.7 percent in January, 2011 to 6.6 percent in August. In comparison, the national rate of unemployment improved to 9.1 percent in August from a peak of 10.2 percent during the year.

Statewide Economic Development Programs. State and local tax incentives, grants, and low-interest financing offer businesses and banks the opportunity to reduce risk while encouraging targeted economic development. New Mexico offers about 21 targeted economic development tax incentives – also referred to as tax expenditures; however, half are hardly ever used. In total, economic development tax expenditures are projected to reduce general fund revenues $84.6 million in FY13. Legislative efforts to improve accountability were hindered when the governor vetoed bills requiring tax expenditure and dedicated revenue budgets. Later, the governor issued an executive order requiring the preparation of an annual tax expenditure budget.

Other job creating programs include low-interest financing and grants. The Statewide Economic Development Finance Act (SEDFA) authorizes New Mexico Finance Authority (NMFA) to issue certain economic development bonds to lend, purchase loan participations, and make loan or bond guarantees for economic development purposes. The Economic Development Department (EDD) works with the NMFA to qualify, or recommend, businesses for financing.

State Small Business Credit Initiative and Collateral Support Participation Program. Jointly, the NMFA and the EDD applied and received $13.2 million from the U.S. Department of the Treasury (Small Business Jobs Act) State Small Business Credit Initiative. Approximately one-third of the funds are expected to be deposited in the economic development revolving fund to support new small businesses, and the remainder is expected to leverage an additional $132 million in private investment by the end of 2016. The economic revolving fund received temporary approval from the Legislature to fund projects without having to obtain specific legislative authorizations. The Collateral Support Participation Program helps to mitigate bank risk while lowering the business' debt service. Unlike the Smart Money Program, the funds will focus on buying shorter term, smaller loan participations that are subordinate to the banks.

Smart Money. The Smart Money Loan Participation Program helps create jobs in rural and underserved communities within the state. The program helps reduce the risk of the projects so that banks will more readily provide below-market interest rate loans to businesses. The last project was funded July 2009, leaving $1.3 million uncommitted for most of FY10 and FY11.

New Market Tax Credit Program. The New Market Tax Credit (NMTC) Program is a loan program funded with proceeds from the sale of federal tax credits. Finance New Mexico, a subsidiary of the NMFA, targets business development in low-income areas of the state. Since 2008, the NMTC has awarded half of the $156 million in the fund.

Film and Media Fund. The newly enacted annual aggregate cap of $50 million on the film rebate program, the tiered rebate payout schedule that stretches rebates over two or three fiscal years, and the end of interest free loans has slowed the growth of the film industry. The media fund reverted $640 thousand at the end of FY11.

Job Training Incentive Program. Funding for the Job Training Incentive Program (JTIP) decreased from a peak of $8 million in FY08 to $1.25 million for FY11. At the end of September, the JTIP fund had an un-obligated balance of $4.3 million and funding requests of $3.5 million. Since 1972, the JTIP has helped to create 52 thousand jobs by subsidizing wages for classroom and on-the-job training. A qualifying business can receive reimbursement of 50 percent to 75 percent of employee wages. One-third of the available funds are reserved for rural, frontier, and distressed areas; up to $2 million can be reserved for the film industry; and up to $1 million can be prioritized for green industries.

<u>Spaceport America.</u> Phase one of construction at Spaceport America is mostly complete and a dedication ceremony was held on October 17, 2011, that christened the main terminal building as the Virgin Galactic Gateway to Space. The week following the dedication, the *Wall Street Journal* reported Virgin Galactic pushed back the timeline for passenger flights two years to late 2013 and the time toward full-scale operations was also slowed down, marking the third revision to Virgin's operational timeline. Contributing to the delay is the need for new federal rules that have yet to be identified by the Federal Aviation Administration (FAA). The FAA rules will have to be hammered out prior to manned rocket-powered flight tests can begin. Then a new round of flight tests will have to be performed at Spaceport America to familiarize the flight crew with New Mexico's air space.

Smart Money Program Projects
(in millions)

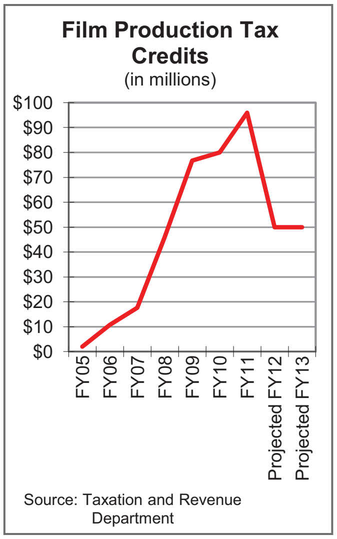
PreCheck Inc	$0.9
Western Wood Products	$1.3
Plaza Hotel	$1.7

Source: NMFA

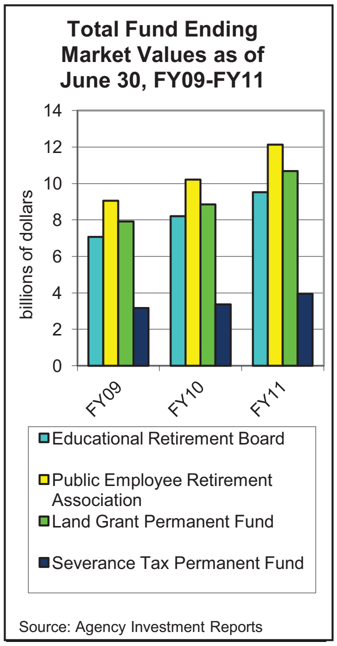
New Market Tax Credit Program Projects
(in millions)

Schott Solar	$15.5
Savoy Travel	$16.5
Hotel Parq Central	$13.8
Pros Ranch	$13.5
Vitality Works	$8.0
Molina Data Center	$10.0

Source: NMFA



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.*



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, such as closing loopholes in the Procurement Code, expanding the Governmental Conduct Act, and requiring greater disclosure of contributions and financial deals would go even further. Lawsuits have been filed to go after the pay-to-play money. Currently several parties are seeking to recoup the same money. Litigation has stalled for a number of reasons. The SIC seeks to take the lead in recouping lost state funds claiming that it is in the state's best interest.

Events the last few years highlight the need for improving management of the state's permanent and pension funds. While legislative efforts targeting key issues have been successful – such as increasing transparency of third-party marketers and improving governance of the State Investment Council (SIC) – more remains to be done to optimize returns at an acceptable risk and restore public trust that funds are effectively managed. Actions to improve the deteriorated funding status of the pension plans are essential now that the impact of prior-year investment losses is more fully recognized. Given the severity of the decline, the pension plans are unsustainable without additional pension reforms that reduce unfunded obligations.

Performance Overview. After record investment losses in FY09, the permanent and pension funds posted double-digit percentage gains for the second consecutive fiscal year ending June 30, 2011. Aggregate fund value increased by $5.6 billion, or 18.4 percent, including contributions and distributions as well as investment returns.

Asset Values For Year Ending June 30, 2011
(in millions of dollars)

Annual	ERB	PERA	LGPF	STPF	TOTAL
Ending Asset Values	9,513	12,134	10,688	3,940	36,277
Value Change	1,306	1,920	1,842	573	5,642
Percent Change	15.9%	18.8%	20.8%	17.0%	18.4%

Source: Investment Agency Reports

Through June 30, 2011, the permanent and pension funds have performed well. 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. To restore fund values to all-time highs, the funds will need to continue growing and adding value.

Impact on Long-Term Returns. Many experts question the rate-of-return assumptions for public plans in light of new market dynamics, lower inflation, and lackluster economic forecasts. The pension funds and permanent funds have decreased their projected annualized returns from 8 percent and 8.5 percent to 7.75 percent and 7.5 percent, respectively. The positive 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.

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

Fund	Five-Year	10-Year	15-year
ERB	5.3%	5.6%	7.0%
PERA	3.17%	5.39%	7.61%
LGPF	4.19%	4.88%	6.9%
SGPF	3.28%	4.39%	6.7%

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.

Peer Comparisons. Comparative measures that show how funds perform within peer groups yield additional means of gauging outcomes. In FY11, performance was not enough to keep the

Educational Retirement Board (ERB) fund near the top five. The fund returned 19.9 percent which put it in the 81st percentile with its peers. The Public Employee Retirement Association (PERA) fund returned 22.5 percent, which moved it from the 23rd to the 32nd percentile. The SIC's permanent funds improved over last year's rank; the land grant permanent fund (LGPF) and the severance tax permanent fund (STPF) were in the top quintile in their peer group.

Peer Percentile Rankings

Fund	1 Year	5 Year	10 Year
ERB	81	22	62
PERA	32	99	87
LGPF	17	63	68
STPF	16	81	79

Despite the ERB's poor one-year rank, it still remains the only New Mexico fund to rank higher than the 25th percentile for the past five years; all other funds ranked 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 managers.

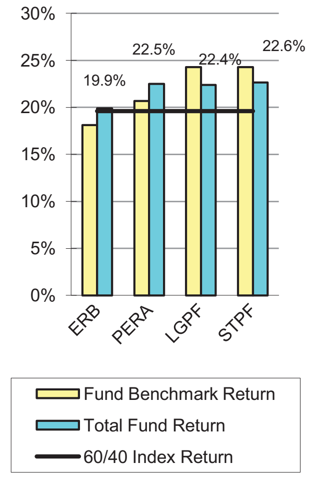
Performance versus Internal Benchmarks. Comparing funds with internal benchmarks also yields insight into how funds are managed. The ERB fund outperformed its benchmarks for one- and five-year periods. The LGPF outperformed the policy index by 32 basis points (bps) and the STPF lagged by 43 bps. The underperformance of SIC funds might be overstated, as the internal benchmark reflects a higher allocation to domestic equity. SIC has since reduced exposure to this asset class in response to market volatility.

Active versus Passive Management. Active management of asset class generally produces higher returns than passive management of asset classes. The ability to add value (or "alpha") over a passive index is minimal in more efficient markets. In these instances, it makes sense to index the asset category, especially when active managers cost more. PERA has transitioned a third of its portfolio to passive management, focusing active management where it has the best chance of adding value. The ERB has had similar trends over the past couple of years; it has replaced managers who have under-performed.

Manager Performance. PERA's managers delivered 193 bps of added value. ERB's managers turned in 230 bps of outperformance. However, past performance continues to drag down the five-year manager impacts for funds. In contrast to the pension plans, managers for the permanent funds did not create returns relative to their benchmarks in FY11. The best returns came from in-house managed equity funds at the SIC.

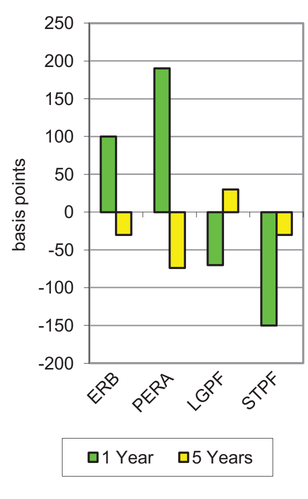
Allocation Attribution. Allocation impact reflects how deviating from target asset allocations adds or detracts from performance. Much of the allocation impact for the trailing 12 months is explained by over- and under-weighting domestic equities. This detractor for the SIC is

New Mexico One-Year Investment Agency Returns
(Ending June 30, 2011)

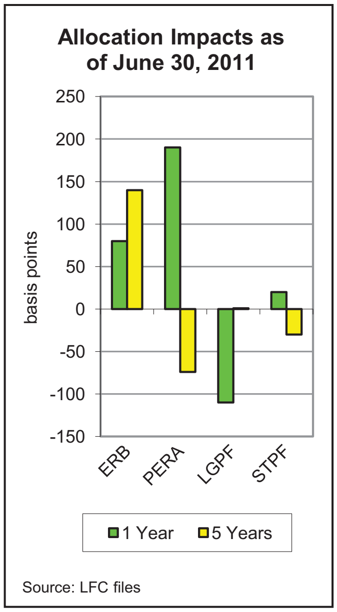


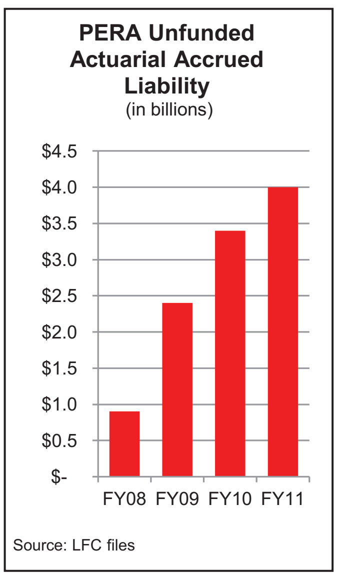
Source: Investment Agency Reports

Manager Impacts as of June 30, 2011



Source: LFC files





slightly offset by the fixed income allocation impact of 20 bps for the year, the only positive impact for the portfolio. The ERB's reporting of allocation impact is robust in all periods. The PERA's quarterly over-performance of 121 bps for domestic equities was undercut by a negative 76 bps allocation impact associated with underweighting fixed income. The PERA took a more defensive posture in this asset class with expectations of a rise in inflation, which has yet to materialize. The ERB's defensive posture reflects a desire to diversify portfolio risk and minimize return volatility by reducing exposure to equities.

Governance. Despite efforts on the part of the Legislature to increase public confidence, the potential for undue influence remains regarding management of permanent and pension funds. Additional measures to improve procurement oversight might be warranted, including penalties for those who pervert the procurement process for their own ends. In addition, current board structures continue to protect member interests rather than focusing on long-term sustainability of the funds.

Combined Fund Management. Given historic fund declines and economic pressures, the most prudent course might be to overhaul how funds are managed. One option would be to combine the ERB, PERA and SIC assets under the same investment management. Savings in manager and consultant fees could be significant for the funds.

Pension Plan Solvency. The ERB and PERA funds are mature plans with net cash outflows, which means employer and employee contributions are less than the pensions paid out. Thus, the funds depend on investment returns to keep the plans afloat. The growth in retirees who are healthier and living longer makes the dynamic even more critical going forward. An issue rarely addressed when speaking about pension fund solvency is the lack of hiring and no increase in pay to current employees. Benefits have continued to increase, however the contribution side of the pension funds has seen no growth outside of an increase in contribution rates.

Unfunded Accrued Actuarial Liability. In general, realizing returns less than the assumed long-term rate adds to the plan's unfunded liabilities. In April, 2011, the ERB decreased the investment return assumption to 7.75 percent, down from 8 percent. As a result the unfunded accued actuarial liabilities (UAAL) increased by $473 million, bringing the total UAAL for 2011 to $5.9 billion. Additionally, the PERA also decreased its assumed returns from 8 percent to 7.75 percent. The PERA had a substantial increase in its unfunded liability to nearly $5 billion. Both agencies look to make changes to improve their funded ratio as well as decrease their liabilities.

Three-Year Trend of Funded Ratios FY09-FY11

Fund	June 30, 2009	June 30, 2010	June 30, 2011
ERB	67.5%	65.7%	61.6%
PERA	84.0%	78.5%	70.5%

Source: Pension Valuations

Funded Ratio and Funding Period. Despite large investment gains for FY10 and FY11, both plans show weaker funded ratios – indicators of plan solvency that compare plan assets to pension obligations. Having 80 percent of obligations covered by assets (funded ratio) has traditionally been viewed as a minimum industry indicator of fund health. Neither plan meets that basic metric nor are they improving. 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. Both the ERB and PERA sit on an aggregate period that is now infinite, meaning – given all assumptions holding true – the debt would never be paid off for all its plans. The last actuarial valuation determined the total funded ratio will drop to 61 percent for the ERB plan and 70 percent for the PERA plan.

Contribution Increases. To address the significant UAAL of current members, the PERA offered contribution increases of two 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.

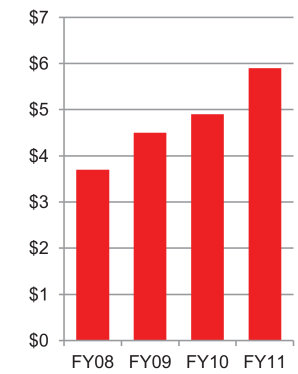
Plan	Current	Proposed	Fiscal Impact (1st 2% - FY12)
State General 3	24.01%	32.01%	$18.1 million
Municipal Fire 5 Municipal Police 5	34.8%	42.8%	$2.2 million $3.9 million

The task force "uniform" representatives were unaware of the size of the contributions being recommended by the PERA's actuaries to put the plans on a path to solvency – or that 8 percent might be insufficient given funding needs. The municipal fire plan 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 increases is questionable, and asking employees to pay the large increases impairs the ability of public employers to hire and retain qualified employees.

The Impact of COLAs. New Mexico offers a defined pension benefit plan, calculating benefits based on years of service and highest average salary. The benefits include cost-of-living adjustments (COLAs) that accrue automatically and are tied to the Consumer Price Index (CPI) for inflation. COLAs are funded as part of the state's existing pension liability. Pension benefits vest once employees meet the required service and age requirements. In light of the recent recession and continued growth of pension liabilities, many state legislatures are considering modifying contractually vested rights in the name of state solvency. As a sovereign power, a state has the right to adjust any long-term contract that is largely unfair to one party (taxpayers).

Today's taxpayers may be less enthusiastic about funding pensions for public employees for a number of reasons. While pension benefits were created originally to induce talented workers into public employment by providing future financial security to make up for a lower salary, this salary differential no longer holds true. In fact, public employees now earn more than comparable employees in the private sector.

ERB Unfunded Actuarial Accrued Liability
(in billions)



Source: LFC files

Effect of COLAs on benefits for a 50 year old retiree with a $27,025 benefit per year:

- ERB: COLAs begin at age 65. After 15 years, benefit will still be $27,025
- PERA: COLAs begin the third year into retirement. By age 65, the benefit will be $51,327

In 2011 courts in Minnesota and Colorado ruled that states have the right to reduce annual cost-of-living adjustments in pensions for public employees to save money.

In 2010,the Retirement Systems Solvency 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,
- Moving the contribution formula for the PERA's judicial and magistrate plans from docket fees to the general fund.

The state personnel office reported that the statewide vacancy rate was 19.1 percent in the fourth quarter of FY11.

RHCA Demographics

Average member age	
Medicare Supplement	73
Non-Medicare Plans	59
Number of members	
Medicare Supplement	25,232
Non-Medicare Plans	13,951
Other	
Number of spouses	9,857
Retirees that die each year	700

Source: RHCA

Plan Change Options for the ERB. Changes being explored include a grandfather period that will allow an employee meeting a retirement requirement to be immune to changes made to the plan. Currently, if the CPI is less than 2 percent then the COLA is equal to CPI. If the CPI is greater than 2 percent then the COLA is half that amount, but must settle between 2 percent and 4 percent. Current changes are targeting capping COLA's at 2 percent and moving the retirement age to 67. The ERB is also looking at changing the final average salary to the highest seven years.

Plan Change Options for the PERA. Options exist that could improve the funding status in a shorter time, close loopholes, and make the plan more affordable. For example, the 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. An offsetting enhancement for active employees could raise the pension cap from 80 percent to 90 percent – to encourage workers 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 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 the benefits earned.

Update on Retirement Systems Solvency Task Force. The Legislative Council Service hired Buck Consultants in 2010 as an independent actuarial firm to advise the task force. While the firm offered valuable recommendations for improving actuarial methods and assumptions for the PERA and the ERB, the firm found the ERB will become insolvent by 2039 and the PERA by 2058, because assets are not growing as fast as the benefits paid out.

In 2010, the ERB detailed a plan that generated controversy because it affected current members as well as new hires. The ERB's final proposal included changes the board felt were necessary to make the plan sustainable. The PERA presented plan tiers for new hires, with reduced benefits and increased retirement qualifications for 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, the PERA's proposed plan was not among the bills the task force recommended to the Investment Oversight Committee.

Retiree Health Care Authority. The Retiree Health Care Authority (RHCA) began collecting contributions from participating public entities in 1990 to provide optional medical, dental, vision and life insurance benefits to eligible retirees and their dependents. The contribution rate remained unchanged for 12 years and then remained unchanged again for another eight years when the current contribution structure was passed into law. Today, the employer and employee contribution rate is double what it was in 1990. Active employees pay 1 percent and public employers (taxpayers) 2 percent of salary toward retiree benefits. Current retirees pay between 35 percent and 50 percent of their total premiums. The declining numbers of active employees paying into the plan and the aging of the public sector workforce benefitting from the plan continues to pressure fund solvency for the RHCA.

Actuarial Condition. With a UAAL of $3.3 billion, the RHCA program is expected to become insolvent by 2027 according to the updated solvency analysis. In response, the board has adopted a five year sustainability plan that balances cost increases between the three stakeholders: employers, active employees, and retirees. The plan is expected to extend solvency into 2032 with a modest reduction to unfunded liability. The FY13 appropriation request project claim expenses at $45 million over the actual claim expenses in FY11. The request assumes a yearly increase to premiums at an amount equal to medical trends, currently 8 percent. In addition, the request assumes a retiree growth rate of 6 percent per year.

Recent Board Action. To sustain a 15-year solvency period that keeps up with medical inflation, the board approved several changes to the program in 2011. Beginning January 1, 2012, retirees will see premiums increase 8 percent for pre-Medicare retirees and 6 percent for Medicare eligible retirees, spouses, and dependents. The lower increase for Medicare eligible retirees is expected to be offset by additional revenue from the Medicare Part D prescription drug program. Due to fiscal constraints, the board will no longer subsidize a $6 thousand life insurance benefit for individuals who retire after December 31, 2011.

Medical Cost Trends. Studies suggest that medical costs trends will not stabilize anytime soon – in fact, they are expected to continue to rise over the next few years. Although the RHCA is still using more traditional techniques to manage healthcare costs, the board is inquiring into reimbursement models other than fee-for-service, and alternative approaches that encourage prevention and early detection, to reduce costs, improve health outcomes, and increase fund solvency. These approaches might prove to be more effective as cost-management tools than traditional cost-sharing methods for the future.

RHCA member health premiums

Premier Plus < age 65	$233
Spouse	$361
Deductible $300 Claims paid at 80/20 OOP $3000	
Premier < age 65	$125
Spouse	$232
Deductible $800 Claims paid at 80/20 OOP $4000	
Medicare Plan > 65	$140
Spouse	$209

Source: RHCA

The RHCA expects a 6 percent increase in retirees next year.

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%

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.

The film credit is the largest economic development expenditure

Tax expenditures are government spending programs authorized through the tax code. Although tax expenditures are an important component of the state's annual budget, the state does not have a systematic means of reporting and analyzing their effects. Nevertheless, 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.

In the current fiscal environment, a particularly troubling aspect of tax expenditures is that they function like entitlement spending, i.e. anyone who meets the statutory criteria may claim tax benefits. Thus, the only way to control the outflow of revenue is to amend the statutes, and the state typically lacks the information needed to craft the appropriate amendments. Although many tax expenditures appear to violate the LFC's principles of good tax policy, their supporters point to their advantages in meeting other public policy goals. This argument indicates the need to evaluate each of these programs to ensure that the foregone public funds are meeting the intended goals with a minimum of waste.

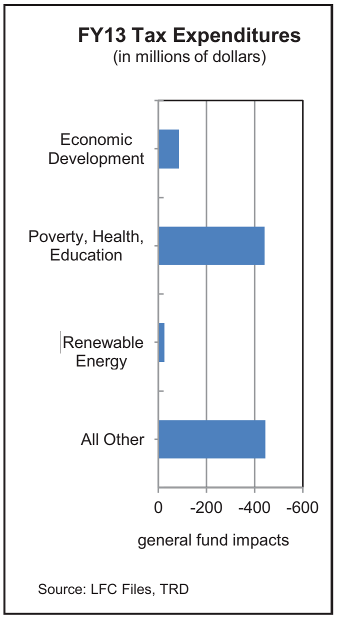
Analysis is Needed. The LFC conducted hearings on tax policy during the 2011 interim to address the need for evaluating tax expenditures. Testimony from the Taxation and Revenue Department (TRD) presented the goal of having a tax expenditure report before the 2012 session. Defining the benchmark base sometimes involves many decisions and judgments about what should and should not be considered a tax expenditure. In the context of tax policy, the TRD recommended that policymakers should ask the following: Should the tax base be income or consumption? How progressive should the tax rate structure be? Should corporations be taxed as well as individuals? What is the appropriate tax base for sales tax? Should the base be retail sales, all consumption, or value-added and should business purchases be included in the tax?

The New Mexico Tax Research Institute (NMTRI) testified that tax expenditures are deviations from a normal base and evaluation is subjective. Exemptions, deductions, and credits are used to define the tax base and not all tax exemptions, deductions, and credits are tax expenditures. Tax expenditures generally occur when transactions are excluded from the baseline tax structure and are generally positive. Tax expenditures can be negative when transactions not in the baseline tax structure are taxed or taxed more heavily than those in the baseline. The upside to coupling with federal tax expenditures by following federal rules is everything is simplified for everyone. The downside is the state is at the "whim" of the federal government.

What are "Tax Expenditures"? Tax expenditures are defined in the Congressional Budget Act of 1974 as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability."

The idea of "tax expenditures" -- tax provisions presented as equivalent to governmental outlays -- has evolved as part of the budget process in recent decades. Tax payments are viewed from the viewpoint of the government as opposed to the viewpoint of taxpayers. For example, if a taxpayer were asked if the amount of his or her retirement fund tax benefits should be properly viewed as the taxpayer's property or as the property of the government, the practical problems of the tax expenditure budget would become even more evident. [1]

New Mexico's tax code has hundreds of tax expenditures. Each of New Mexico's major tax programs contains numerous tax expenditures that affect virtually all New Mexico taxpayers. These programs give people, groups and businesses special tax credits, deductions, exclusions, exemptions, deferrals, and preferential rates in support of various government policies. Tax expenditures are not limited to economic development incentives. Some of these programs help people save for retirement, buy a home, or pay for college; others encourage companies to invest in green energy technologies; they even subsidize corporations that drill for oil or purchase real estate.



LFC has included a list of tax expenditures in its annual budget recommendation and plans to continue this practice until a formal tax expenditure budget is prepared by TRD.

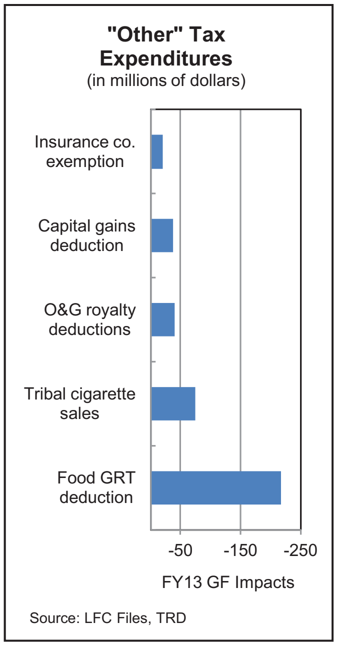
The following table summarizes the tax expenditures presently contained in New Mexico statutes along with estimates of the revenue foregone due to each provision. Total general fund revenue foregone in FY13 is estimated at $995.3 million. Local government revenues have been largely held harmless for these provisions, 92 percent of the total fiscal impact affects the general fund.

Target of Expenditures	# of Provisions	FY13 GF Impact ($millions)
Economic Development	20	($84.6)
Poverty, Health, Education	30	($440.1)
Renewable Energy	13	($24.8)
All Other	36	($445.8)
Total	**99**	**($995.3)**

Source: LFC, TRD

Economic Development. Tax expenditures in this category reduce general fund revenue by $84.6 million in FY13, with the film credit accounting for the largest impact at $50 million. The majority of the state's economic development tax expenditures have been created within the last 10 years. Many of the incentives have little evident impact on economic activity.

[1] From a 1999 'Tax Expenditures: A Review and Analysis" report by the Joint Economic Committee, US Congress.



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.

Many states have increased their use of targeted economic development incentives in recent years. 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. States should be cautious in their use of economic development incentives and require return on investment proof from those who propose new incentives.

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, and the gross receipts tax (GRT) deduction for managed-care medical services. The largest anti-poverty tax expenditures are the working families' tax credit, the low- and middle-income personal exemption, low-income comprehensive tax rebate (LICTR) and the food stamp GRT exemption.

One concern raised by healthcare tax expenditures is that they deprive the state of funds that could be spent on healthcare and generate matching federal funds. Thus, the healthcare sector may not even be a net beneficiary from the tax breaks. Meanwhile, a "patchwork" of varying tax treatment has been created in which some providers and payments are given preferred treatment, raising questions about the fairness of the tax.

Through its LICTR, New Mexico has been an innovator in the use of the personal income tax to re-distribute income. These policies have been enhanced in recent years with the addition of the working families' tax credit and the low- and middle-income personal exemption. These policies play an important role in reducing the "regressivity" of the state's GRT, the result of lower-income taxpayers spending a greater share of their incomes on items subject to the GRT. Although the income tax is a relatively efficient means of delivering these benefits, it does impose an administrative burden on the tax department, which, if not addressed through staffing, could result in funds going to unintended beneficiaries.

Renewable Energy and Energy Conservation. The renewable energy production tax credit at $20 million per year is the largest tax expenditure in this category, followed by the wind-energy equipment deduction at $2 million. The remaining credits have less than a $3 million impact combined. Actual claims have been lower than this amount in recent years because some taxpayers have failed to use all their credits. However, taxpayers can carry unused credits forward to future years, so $20 million is the total amount of credits the state could end up paying. Also, new projects are eligible for refundable tax credits so no liability is needed to use these credits.

Two concerns are raised by these tax expenditures. One is the lack of detailed information and analysis on the "rate of return" to the state. Second, information is lacking on the interaction of these benefits with other subsidies and mandates. In addition to state tax benefits, renewable power investors may benefit from property tax relief, from federal income tax relief, and from subsidies paid by regulated utilities. In addition, regulated utilities may subsidize these investments through regulated rate setting because they are mandated to generate specific portions of their power generation from renewable sources.

To calculate the exact cost of GRT deductions and exemptions requires them to be listed on tax returns. This is burdensome for taxpayers and the TRD.

Other Tax Expenditures. The tax expenditures that cannot be categorized have grown. Of the total $445.8 million in tax expenditures in this category, $217 million, or 46 percent, is due to the GRT deduction for food sold for home consumption. Some provisions in this category have been in place longer, dating back decades in some cases. Since the provisions in this category address varying purposes, it is difficult to generalize about their effects.

Average Tax Rate (% 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

<u>What Preferences are Not Tax Expenditures?</u> Tax expenditures do not include provisions that define the proper scope of the tax base, prevent double taxation, or avoid interference in interstate commerce. It is difficult in some cases to make these distinctions. For example, the 50 percent deduction for net capital gain income can be viewed as an incentive to invest in New Mexico or as an attempt to reduce the taxation of inflationary gains, i.e. to define the proper tax base. Another example is the food GRT deduction, which has been excluded from the sales tax base in many states. Developing a tax expenditure list involves subjective judgments.

The broad-based nature of New Mexico's GRT means that many exemptions and deductions are needed just 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. Similar issues arise in other tax programs. The TRD gave testimony that taxing consumption and exempting savings and investment would increase economic growth. A recent study of Canadian provinces found that reducing taxes on business inputs, by switching to a value-added tax, increased the level of investment by about 12 percent.

<u>Tax Rate Differences.</u> The concept of tax expenditure is not easily applied to differences in tax rates, in part because no generally accepted definition of the "correct" tax rate for a particular program exists. The usual approach is to look to tax rates in other states. This raises two problems: (1) differences in the tax base definition; and (2) different taxes play different roles in each state's overall tax system. Comparing

The process of appropriating should include a side-by-side analysis of line-item expenditures and a comparison of foregone revenue.

tax rates between tax programs – for example the motor vehicle excise tax rate versus the GRT rate – must also be adjusted for tax base differences. Within a given tax program, different rates are sometimes applied to different industry segments. For example, the oil and gas school tax rate on natural gas is 4 percent while the rate on crude oil is 3.15 percent. However, because of the lack of a generally accepted definition of the correct rate, it is not clear whether oil is taxed too low or gas is taxed too high. Finally, some goods – e.g. 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. Spending through the tax code should be considered the same, or nearly the same, as program expenditures. The difference between the two is that tax expenditures reduce revenues and generally bypass the annual legislative review process. Most often, tax expenditures are open-ended with respect to tenure and the amount of foregone revenue. Any review of tax expenditures is generally accomplished as a process toward generating a revenue projection.

Model Tax Expenditure Reporting States:

1. Louisiana
2. Minnesota
3. Connecticut
4. Oregon

Seven states do not regularly report tax expenditures:

1. Alabama
2. Alaska
3. Indiana
4. Nevada,
5. New Mexico
6. South Dakota
7. Wyoming

For the most part, tax expenditures start out with a specific public-policy goal – such as poverty reduction, taxpayer equity, or job creation; however, once tax expenditures are enacted generally no agency is held accountable, other than the revenue collecting agency, for the effectiveness of the program. A tax expenditure budget allows policymakers to compare tax incentives benefitting different industries and income levels and to indicate publicly whether they support or oppose certain tax expenditures.

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 an agency's performance goals could improve statewide resource allocation, allowing for re-prioritization during difficult economic times.

Transparency of the tax code improves accountability by providing a complete picture of government spending and subsidies. Taxpayers regularly want to know and participate in how their tax dollars are spent. In many cases, it is unclear who actually benefited from a given tax break and what unintended consequences must have occurred. Transparency also helps to avoid cross-agency or governmental subsidies to the same beneficiary – often characterized as corporate welfare.

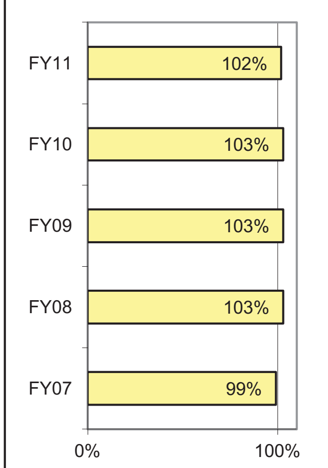
Elements of a Good Tax Expenditure Report. Although the best practice would be to incorporate tax expenditures into the annual budgetary process, or appropriation bill, most states publish a separate tax expenditure budget report. A good tax expenditure report is a difficult undertaking. Calculating foregone revenue is only the first step. To answer questions like whether the expenditure is achieving its goals requires detailed analysis. Objectivity is required. Agencies or individuals with a vested interest in promoting a program might not provide a reliable assessment of program effectiveness.

August 9, 2011 – Governor Susana Martinez issues Executive Order 2011-071 "Requiring Preparation of an Annual Tax Expenditure Budget

To achieve its goals of improving transparency, encouraging accountability, and saving money, a tax expenditure report should be accessible and contain detail and analysis. Developing such a report will require that taxpayer beneficiaries provide more information than they do now, and that the TRD be authorized to release the information. A balance will have to be struck between the need for public information and the taxpayer's need for confidentiality.

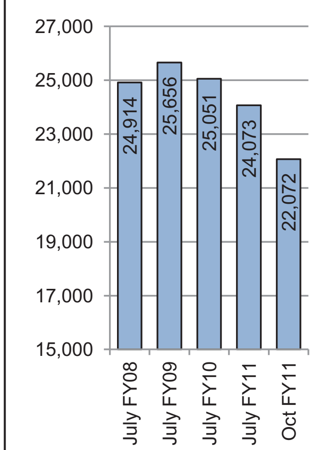
Action Steps. On August 9, 2011, Governor Susana Martinez signed an executive order requiring preparation of an annual tax expenditure budget. As ordered by the governor, the annual tax expenditure budget will be prepared as a joint product of the executive branch agencies. The Taxation and Revenue Department will lead this effort and coordinate with other agencies to develop the budget. Another step that could be taken is to add a sunset date to all existing and new tax incentives.

Public Employee Compensation



State Classified Employee Average Compa-Ratio

Source: SPO



Baseline FTE Count

Source: SPO

Over the last year, the issue of comparable and equitable compensation for public sector employees has been at the very forefront of policy debates across the country. Of specific importance are policy questions concerning an appropriate and sustainable balance between direct compensation and benefits. Efforts by states to recruit and retain qualified individuals to work in government depend on finding this balance.

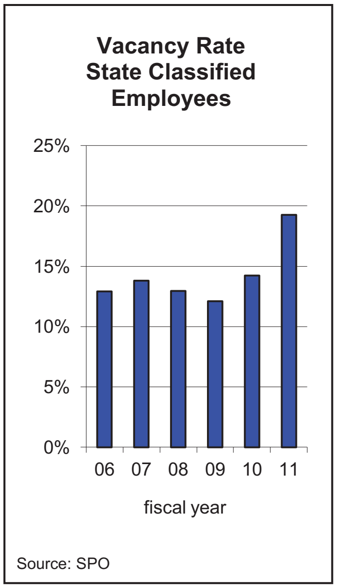
With this in mind, the State Personnel Office (SPO) initiated an across-the-board analysis of the New Mexico personnel system with the goal of substantial policy reform. Using as a reference point the 2006 Hay Group recommendations that emphasized the need for an integrated and coherent approach to total employee compensation and pay for performance, the agency is now collecting data – average base salaries and benefits, multiple components of pay, new hire compa-ratio and compa-ratio by pay band, percent of and reason for new hire turnover, and so on – that allows it to better evaluate personnel practices in the state, using as a benchmark best practices pursued in other states. This effort has already lead to substantial revisions in policy and process at the agency. This initiative is long overdue and absolutely essential if New Mexico is to succeed in its pursuit of viable and sustainable economic growth.

That said, as this process continues, careful consideration should be given to the rights and protections made available to employees under existing and accepted state labor law. Necessary reform of state personnel policy should not be used as a convenient excuse to dismiss employees without appropriate justification. Recent reductions in force (RIFs) are a case in point. The RIFs should have firm budget rationale and, if possible, be avoided through employee attrition, budget transfers, and even supplemental appropriations.

Executive Classified Employees. Between FY07 and FY11, the average state classified employee's salary increased from $38.8 thousand to $41.9 thousand, and the average benefit increased from $25.5 thousand to $27.4 thousand. The average compa-ratio – an expression used to identify an employee's position within a pay band relative to the midpoint of the pay band – rose from 98 percent to 103 percent from FY07 to FY10, and then declined slightly to 102 percent for FY11. The compa-ratio for new hires, a new measure for the SPO, stands at 1.13 for the fourth quarter of FY11, on average well above the expected and budgeted entry salary level.

A 1.5 percent retirement contribution shift from employer to employee for state workers making over $20 thousand was extended through FY12 and FY13, and an additional 1.75 percent contribution shift was passed by the Legislature in the 2011 regular session. The 1.75 percent shift extends through FY13 but has a sunset provision.

New-hire turnover rates increased from 20 percent in FY10 to 25 percent in FY11, and new hires who successfully completed their probationary period declined from 71 percent in FY10 to 61 percent in FY11, a significant concern to the SPO. The statewide classified personnel turnover rate stands at 7.2 percent. The agency created a set of baseline measures to identify reasons for turnover and allow a better analysis of current trends. Considered critical are increased levels of training, more consistent performance evaluations, and equitable mechanisms of promotion and pay.



Vacancy rates in state government rose again in FY11 and are still considered to be high compared with previous fiscal years, standing at a statewide average of 19.1 percent in the fourth quarter of FY11. High vacancy rates partially result from executive agencies responding to lower appropriations and the hiring freeze in 2008. However, with the loosening of hiring restrictions, the executive direction that a sub-set of long-vacant positions be eliminated, and less stringent budget conditions, the vacancy rate should decline over FY12.

Based on the October 2011 table of organizational listings (TOOL) report, there are currently a total of 22,072 state classified employees. This compares with 23,572 in October 2010, a decrease of 15 thousand employees, or 6.4 percent.

Employee Group Health Benefits. The New Mexico Retiree Health Care Authority (RHCA), Albuquerque Public Schools (APS), Risk Management Division (RMD), and New Mexico Public School Insurance Authority (PSIA) form the Interagency Benefits Advisory Committee (IBAC) and collectively provide medical, dental, vision, and life insurance benefits to approximately 210 thousand public employees and dependents at an annual cost of $1 billion. The IBAC was created by the Health Care Purchasing Act (Section 13-7 NMSA 1978) to jointly issue request for proposals but does not require consolidated purchasing.

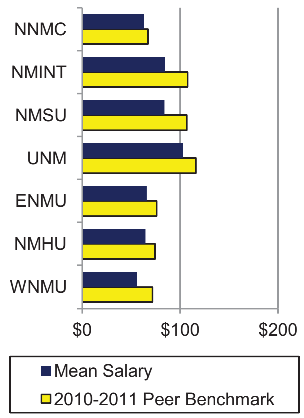
Actual Medical and Prescription Claim Expenditures
(in millions of dollars)

	GSD	PSIA	APS	RHCA	Total	% Change
FY06	213.1	202.3	56.2	147.7	619.2	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	306.8	260.9	84.2	212.3	864.2	+10

Source: LFC files

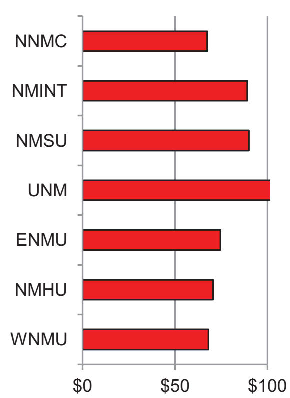
Cost Savings Initiatives. As self-insured entities, the IBAC members pay for claims as they incur instead of paying a fixed premium to an insurance carrier. Administrative service fees are paid to third-party-payers for claims processing and payments and access to discounted provider networks. The IBAC members have collectively contracted with a consultant to assist with evaluating a request for proposals to provide group medical, dental, Medicare, and vision benefit plans for its members for plan years 2012 to 2016. To mitigate the impact of rising

Four-Year Universities Peer Comparison, Full Professor 2010-2011
(in thousands)



Source: Council of University Presidents, 2010 IPEDS Faculty Salaries Survey

Average Full-Time Faculty Compensation, Four-Year University, Fall 2010
(in thousands)



Source: Council of University Presidents, 2010 IPEDS Faculty Salaries Survey

medical costs, each offer will be evaluated as to the efficacy of chronic disease management and wellness programs and alternative reimbursement methodologies that might be an option to traditional fee-for-service models.

Changes in State Employee Health Benefits Over Time (in dollars)

	2006				2009			
	Individual Coverage		Family Coverage		Individual Coverage		Family Coverage	
State	State Cost	Employee Share	State Cost	Employee Share	State Cost	Employee Share	State Cost	Employee Share
AZ	356	25	818	125	446	30	1158	150
CO	190	0	460	362	340	6	783	257
MO	381	30	977	258	445	31	1219	277
NM	**201**	**86**	**551**	**236**	**273**	**68**	**806**	**201**
UT	321	24	883	66	333	17	915	48
TX	343	0	671	328	343	361	638	311

Source: NCSL

Moving Toward Quality. The delivery of health care to active state employees and retirees can no longer be limited to a plan of benefits funneled through a discounted provider network. For the future, plan administration will require more effort on the part of state health plans to (1) Understand the health risks of their respective pools (2) Analyze claim information to predict future cost drivers and trends and (3) Provide this information to medical providers so care is delivered at the highest quality available. Studies suggest that poor quality medical care and medical errors can add between 15 percent and 30 percent to a self-insured plan's medical costs.

Future Trends. States are evaluating if the imposition of surcharges for failure to participate in wellness initiatives would help mitigate the rising costs of health care. However, the imposition of surcharges against individuals with "unhealthy" lifestyles – smokers as an example – may be considered discriminatory unless a state has a wellness program that has opt-in and opt-out options for employees. An added complexity is health problems caused by addiction, such as nicotine, or problems with a genetic component, such as diabetes and hypertension. Support programs that provide incentives for employees to meet certain health targets and offer rewards in the form of lower premiums may yield better results.

Higher Education. The Delta Cost Project's *Trends in College Spending, 1999-2009*, notes that institutions, facing declines in state funding and other revenues, have balanced budgets by raising other revenues and reducing some expenditures. Generally, this has been done by protecting instructional costs and student services, reducing noninstructional expenses, and maintaining overall compensation levels. The report notes that overall compensation, including benefits, comprises between 68 percent and 71 percent of education and general spending in public higher education.

Nationally, compensation for all faculty and noninstructional educational staff at public institutions remained flat from 2002 to 2009;

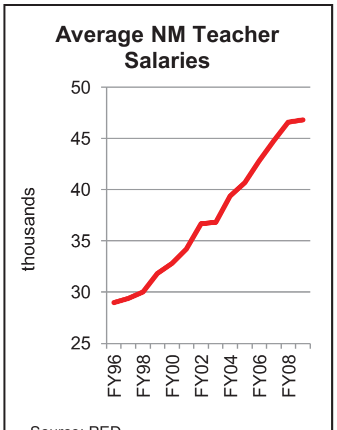
however, public, full-time faculty salaries have not increased while institutional noninstructional staff (such as, accountants, human resources) salaries rose slightly. In New Mexico and surrounding mountain states, salaries have followed this trend, though the average faculty salary at all institutional levels – research and master's universities, baccalaureate and community colleges – are consistently among the lowest in the country, with the exception of those institutions in the Deep South.

Further, while total compensation has largely remained flat, the cost of institutional employee benefits have increased (about 25 percent) as part of compensation costs at public institutions. According to national data, public institutions have the highest institutional costs for retirement and health care (as a percentage of salary) than either private, independent or religiously-affiliated institutions. For FY11, the Higher Education Price Index, an index similar to the national consumer price index, reported that faculty salaries declined very slightly (less than one percent) while benefits increased 7.5 percent for institutions in the Mountain Region, which includes New Mexico. These increasing benefit costs have offset institutional savings from flat salaries and reducing other employee costs, such as hiring part-time faculty or professional staff instead of full-time faculty and staff and maintaining or reducing clerical, craft and maintenance staff – all of whom serve more students due to increased enrollment.

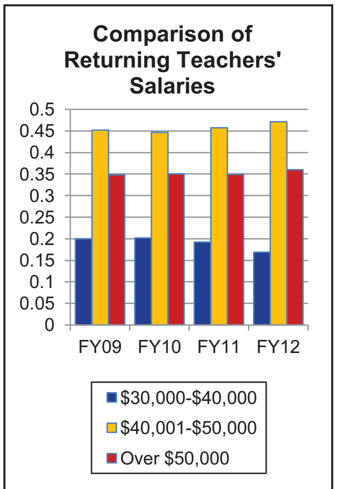
With respect to the University of New Mexico Health Sciences Center (UNM HSC), a 2011 LFC report noted that School of Medicine salaries fall below the standard set by their American Association of Medical College-accredited peers. The recent UNM HSC self-study reported that, for FY10, only one department in the School of Medicine compensated its faculty within the top 25th percentile of benchmark institutions, all other departments fell below the 75th percentile for like institutions. The UNM HSC estimated that nearly $35 million would be necessary to raise faculty salaries to the top quarter of benchmark institutions.

Public Education. Appropriations to the state equalization guarantee (SEG) distribution for employee compensation have increased $615 million since FY03 despite decreased general fund appropriations, including solvency measures. These appropriations include $416 million for direct salaries and benefits, $59 million for increased employer contributions to the Education Retirement Fund (ERB), and $139 million for annual increases in the employer share of employee insurance benefits.

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. Statute mandates minimum salaries for teachers with a Level I license ($30 thousand), a Level II license ($40 thousand), and a Level III license ($50 thousand). Another $218.2 million was appropriated for annual salary increases for teachers. As a result, the average annual returning teacher salary has increased by



Source: PED



Source: PED

almost $10 thousand since FY03. For FY11, the PED estimated the average annual returning teacher salary to be $46,291. The FY11 estimated average was an increase of $2,279 over the FY10 estimated average. For FY12, the average budgeted annual returning teacher salary, based on estimated contracts, increased to $46,633.

According to the National Education Association (NEA), nationally, during the 2009-2010 school year, the average teacher salary was $55,200. The NEA ranks New Mexico as having the 10th largest average annual salary increase from FY99 to FY09, an increase of 41.2 percent over that time period.

In 2010 voters defeated a $155.3 million general obligation bond (GOB) package, and the 2011 regular session failed to produce a capital outlay bill. In the 2011 special session on redistricting, a stop gap capital outlay appropriation of $86.4 million was adopted. Mounting infrastructure needs will certainly present a challenge to policymakers in the 2012 legislative session.

As in past years, state and local entities are requesting funds well beyond capacity: $2.3 billion in requests ($706.1 million state requests and $1.6 billion for top three local project requests) compared with capacity of $433 million from all sources. Capacity falls to $310 million if general obligation bond capacity is reduced to prevent a mill levy increase.

Absent general fund surpluses, capital outlay appropriations declined dramatically in recent years. This significantly impacted all political subdivisions of the state. After three years of no state grants, local entities will seek funds for critical needs, such as the Paseo del Norte project in Albuquerque, and roads statewide, incomplete water and wastewater projects, and other public safety and health facilities. If policymakers are inclined to fund local projects, they should remain vigilant of volatile financial conditions and reach consensus on a spending total early in the session and reach consensus for criteria and guidelines applicable to local projects.

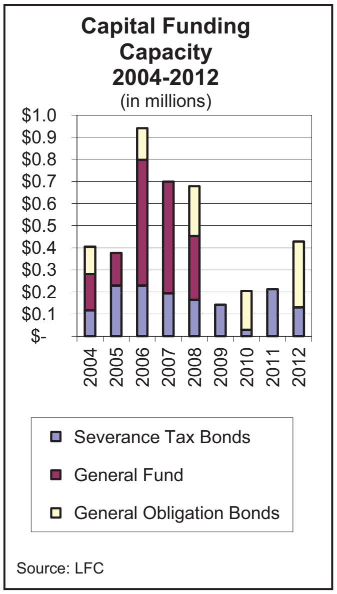
The staff of the Department of Finance and Administration requested staff from both the Legislative Council Service and Legislative Finance Committee to assist in developing a statewide survey of incomplete projects. The results of the survey will be available during the 2012 session. A "preliminary uses" scenario developed by staff of the LFC for both STB and general obligation bond capacity for consideration by the full Legislature also is in Volume III.

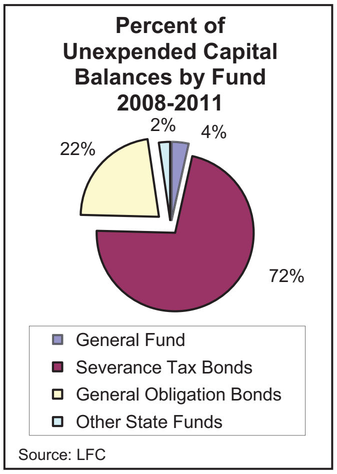
Unexpended Funds. The Legislature appropriated or authorized more than $1 billion between 2008 and 2011 for 3,563 capital projects. As of September 2011, approximately $425.7 million for 979 projects are outstanding (including 2011 special session authorizations). Only 4 percent of the outstanding funds were allocated from the general fund. Approximately $91.2 million appropriated between 2008 and 2010 for 312 projects reveal no progress. Of the inactive projects, over $18 million is for 82 projects sponsored by individual legislators. The lists of projects will be mailed to legislators following the hearing.

2008-2011 Capital Outlay Funding
Outstanding Projects Only
(in millions)

Year	Number of Projects	Amount Appropriated	Amount Expended	Amount Unexpended	Percent Expended by Year
2008	400	$ 383.8	$ 235.2	$ 148.6	61%
2009	228	$ 167.1	$ 74.6	$ 92.5	45%
2010	166	$ 82.4	$ 18.5	$ 63.9	22%
2011	185	$ 123.7	$ 3.0	$ 120.7	2%
Total	**979**	**$ 757.0**	**$ 331.3**	**$ 425.7**	

Source: Capital Projects Monitoring System





- **Outstanding proceeds of capital appropriations prior to 2011 declined from last year from $688 million to $305 million**

Capital Appropriations with No Expenditures (in millions)		
Year	Number of Projects	Dollar Amount
2010	129	$ 36.2
2009	75	$ 43.7
2008	108	$ 11.3
Total	**312**	**$ 91.2**

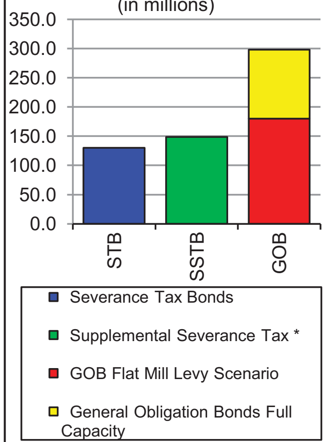
Source: Capital Projects Monitoring System

Note: Excludes 2011 authorized and reauthorized projects. Projects for 2008 will revert 6/30/2012.

LEGEND		
	Project on schedule	102
	Behind schedule or little activity	48
	No activity or bonds not sold	31
Total Active Projects		181
Other report information:		
	Appropriation expended or project complete	29
X	Additional funds needed	5

Note: "Red" includes 22 projects authorized in 2011 special session.

Capital Outlay Capacity for 2012 Total $577.0
(in millions)



* For public school construction
Source: LFC

Capital Projects Greater than $1 Million. As of September 2011, balances for projects $1 million or greater tracked by LFC staff total more than $367.2 million for 181 projects. The appropriations monitored account for nearly 86.2 percent of all unexpended balances.

<u>2012 Capital Funding Outlook</u>. As detailed in Volume III, severance tax bond (STB) net capacity is $130.3 million after earmarks for the water project fund, tribal infrastructure fund, and colonias infrastructure fund.

General obligation bond (GOB) capacity is $298 million, and is limited to 1 percent of net taxable value less the amount of bonds outstanding. If GO bonds are issued in this amount, the mill levy in property tax year 2013 is estimated at 1.77 mills, 0.41 mills higher than the 2011 mill levy of 1.36. To maintain a flat mill levy, around 1.49, GOB capacity would be about $180 million.

Supplemental severance tax bond capacity dedicated for public school construction is approximately $148.7 million.

Consensus revenue estimates indicate no nonrecurring general fund monies will be available for capital outlay in 2012.

<u>State Debt</u>. 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 $6,535, down slightly from FY08. The average for all states was much higher at $8,164 an indication New Mexico has not over-leveraged its residents relative to other states.

<u>Funding Requests</u>. State agencies, higher education institutions, and special schools requested more than $706 million for capital projects. The LFC staff recommendations to the full Legislature for funding consideration are based on criteria listed in the sidebar, site visits, review of infrastructure capital improvement plans, monthly meetings with major departments, and testimony at hearings held in the interim. The following summaries reflect the most critical projects impacting public health and safety and ongoing projects requiring additional funds to complete. Other requests, including authorization to expend money for capital from "other state funds," and LFC staff recommendations for capital from all state funding sources are summarized in Volume III.

Aging and Long-Term Care Services Department. The ALTSD received capital outlay requests totaling $40.8 million from senior programs statewide. Based on formal presentations and review of the applications, the ALTSD assigned a rating of critical, high, or moderate need to the projects. The ALTSD and area agencies on aging recommended $10.2 million for code compliance, renovations, specialized vehicles, and other equipment statewide. The ALTSD also listed five partially funded construction projects requiring an additional $1.7 million to complete. The LFC recommends more than $11.8 million for projects listed in Volume III.

Higher Education Department and Special Schools. The HED conducted hearings over two weeks in Albuquerque, Española, Las Cruces, and Roswell. All secondary institutions, the three special schools, and the Institute of American Indian Arts presented requests. Institutions of higher education and special schools requested more than $395 million for capital needs from general obligation bond (GOB) capacity. The issuance of GOB requires approval by the electorate in the November 2012 general election. The HED recommended approximately $176 million for 32 projects. The LFC recommends over $157.2 million for projects listed in Volume III.

Special Schools. The Public School Capital Outlay Council (PSCOC) reopened the deficiency correction process with a commitment to address infrastructure deficiencies at the New Mexico School for the Deaf (NMSD) and the New Mexico School for the Blind and Visually Impaired (NMSBVI). Also, the PSCOC moved to adopt adequate standards for the schools and allow them to apply for annual standards funding.

In November 2011, the PSCOC awarded approximately $13 million for three projects on the campuses of the two schools. The NMSD was awarded $6.8 million to plan, design, and renovate Dillon Hall and for site improvements. The NMSBVI was awarded $6.1 million for renovations to the Watkins Education Center. A match might be required but could be waived to advance the projects.

Library General Obligation Bond Request. The New Mexico Library Association (NMLA) requested $29.6 million on behalf of public libraries, public school libraries, academic libraries, and tribal public libraries. Public libraries, public school libraries, and tribal libraries propose to continue making allocations with requested 2012 GOB funds based on population and full-time-equivalent student enrollment. However, New Mexico colleges and universities are working on a cooperative effort to use their funds toward electronic resources (academic journals, electronic reference books, electronic books, educational films, etc.) to provide resources to students regardless of institution or course work, particularly in rural areas. The proposed plan might be able to provide more purchasing power and outreach. The LFC recommends $4 million for public and charter school libraries, $3 million for public libraries, $3 million for academic libraries, and $700 thousand for tribal libraries.

Public Education Department. The PED requested $19.9 million for school bus replacement ($14.9 million for 176 buses) and construction or renovation of prekindergarten classrooms ($5 million). The PED owns and operates 2.3 thousand buses statewide. In accordance with Section 22-8-27, NMSA 1978, buses are required to be replaced every 12 years, especially those that are older with high mileage. The LFC recommendation includes reauthorizing $5 million from balances originally authorized for the Income Support Division information system to be used for replacement of buses and $2.5 million for prekindergarten classrooms.

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.

Funding Criteria for Higher Education and Special Schools

- Safety
- Space Utilization or Instructional and General (I&G)
- Square Footage per Full-Time Enrollment
- Full-Time Student Enrollment Trends
- Timeline for Project Completion
- Funding from Other Sources
- Green Assessment for Buildings
- Facility Condition Index (FCI)
- Programmatic Use of Building

Library System General Obligation Bond Request:

- Public and charter school libraries - $10.4 million
- Academic institutions - $8.9 million
- Public libraries - $8.9 million
- Tribal public libraries - $1.5 million

Children, Youth and Family Department. The CYFD requested $31 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 more than $1.9 million to plan, design, and acquire land for construction of the Cambiar model juvenile facility in the southeastern part of the state, consistent with the department's long-term master plan and $2 million for infrastructure and renovations at the YDDC and the JPTC. The department is currently working with the Property Control Division to assess the possibility of using the old Roswell Rehabilitation Center for the proposed facility. Use of an existing facility and state-owned land will save the state a considerable amount of money.

New Mexico Corrections Department. The NMCD requested $28.8 million for heating, ventilation, and air conditioning (HVAC) systems at Central and Western correctional facilities and HVAC upgrades at Western facilities and security, maintenance, and repairs and equipment at facilities statewide. The LFC recommendation includes $12 million to complete HVAC systems at Central and Western correctional facilities and $3 million for renovations, repairs, and equipment statewide. As repair costs mount, the department needs to ensure repairs are cost-effective and should start planning for mid- to long-term replacement needs.

Cultural Affairs Department. The department requested $17 million for the preservation and maintenance of museums and monuments statewide, projects requiring completion, and equipment. The LFC recommendation includes $3.5 million to address major health and safety deficiencies, repairs, and other renovations at museums and state monuments statewide and $2.5 million to complete the most critical unfinished projects as prioritized by the department, including furniture, equipment and exhibits.

New Mexico Environment Department. The NMED requested $2.9 million for the clean water state revolving loan fund and a new "healthy river" initiative intended to improve water quality and enhance the riparian areas along New Mexico rivers and streams. The LFC recommendation includes $1.4 million for a 20 percent state match toward a $7 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.

Department of Health. The DOH requested $21 million to address patient health and safety issues, critical infrastructure and construction, and complete ongoing projects. The DOH facilities have been cited by the Joint Commission, the state fire marshal, and the state Health Facility Licensing and Certification Bureau. The LFC recommendation includes $3 million to replace hospital windows and to address other safety deficiency issues, $4.7 million to complete construction of Meadows and Ponderosa long-term care facilities, and $300 thousand to purchase equipment for the State Scientific Laboratory Division.

Department of Public Safety. The DPS requested $6.5 million for fleet and equipment replacement and building renovation and repairs. The LFC recommendation includes $3.6 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 built in 1985.

General Services Department. The GSD requested $24 million for its top four priorities to address statewide repairs and major renovations, unforeseen emergencies, and demolition and decommission of unused structures. The LFC recommendation includes $5 million for the purpose of preserving and restoring state facilities statewide. Of the $5 million, $4 million is derived from balances originally authorized for the land purchase for the development of the health and human services complex. The LFC also recommends $10 million for major renovations to the Manuel Lujan, Jr., building in Santa Fe and $2 million for decommissioning and demolition of state-owned structures deemed unsafe and unusable.

Capitol Buildings Planning Commission. The Capitol Buildings Planning Commission (CBPC) continued to review the *Capital Master Plan* to determine the best use of state properties owned and leased in Santa Fe, Albuquerque, Los Lunas, and Las Cruces. The commission heard updates of key property issues, results of a state agency survey conducted by the Property Control Division (PCD), and the framework for "asset management best practices."

The CBPC approved two components toward adoption of a strategic asset management model: (1) an inventory and database of state facilities and sites, and (2) a comprehensive and consistent assessment of state facilities except for public schools and secondary education facilities.

Master plan consultants proposed external contractors perform the building condition assessments, the PCD manage the process, and a committee representing major agencies occupying the facilities be established to provide input and monitoring of the progress, while the CBPC provides general oversight and review of the outcomes. The deliverables will include identifying the building condition and a prioritized list of repairs needed, including associated costs; identifying current use and office capacity and integrating the collected data into the state building inventory database; and establish a reliable source of funds for capital building renewal.

State Agency Lease Survey. The PCD compiled information from 321 existing leases representing $42.3 million in annual lease payments for 2.33 million square feet of space housing 5,814 full- and part-time employees. The average square foot per full-time-equivalent position is 401 – an annual leased-space cost of $7,282 per employee. To date, 28 leases were identified for potential consolidation to save $2.7 million annually for leased space. The PCD will closely monitor other properties with shorter than two-year agreements for potential consolidation – 89 leases representing $9 million annually.

PROJECTS REQUIRING ADDITIONAL FUNDS TO COMPLETE

- Southern, Central and Western correctional HVAC replacements
- Completion of Meadow/Ponderosa long-term care facility
- Law Enforcement Academy renovations
- Española State Police District Office plan and design
- Purchase of two-way radios for public safety communications
- Museum of Natural History Education Center
- Farm and Ranch Heritage Museum exhibits and security
- NM Archaeology Center furniture, fixtures, and equipment
- Bosque Redondo exhibits

PROPERTY CONTROL DIVISION REGIONAL UPDATE TO CAPITOL BUILDINGS PLANNING COMMISSION:

- New Fort Bayard Medical Center leased from Grant County completed and occupied by Department of Health in March 2011.
- Roswell Rehabilitation Center completed and occupied in April 2011.
- New Motor Vehicle Division office in Santa Fe occupied in April 2011.
- Department of Workforce Solutions building renovation in Las Cruces complete.
- J. Paul Taylor renovations 80 percent complete.
- State Police district offices in Las Cruces and Las Vegas under construction.
- Santa Teresa port-of-entry weigh station in progress; Property Control Division and Verde Group, LLC finalizing parcel exchange for new station.
- NM Behavioral Health Institute, Meadows phase 1 in Las Vegas 91 percent complete; 2011 funds allow bidding for phase 2 by January 2012.
- Contract for forensic sally port at NM Behavioral Institute awarded.
- Renovations underway for Bataan, Runnels, and Lujan buildings in Santa Fe.
- Demolition design underway for Quonset hut at General Services Department surplus property site and old barracks on former College of Santa Fe site.
- Executive office building project underway; archaeological survey to begin October 31, 2011; Demolition process for "casitas" underway.

To date, eight leases have been either renegotiated or terminated resulting in lease cost-savings of more than $819 thousand annually. The agency is working on a companion survey for state-owned space. With a 14 percent reduction in FTE over the last three years, space needs have changed dramatically. The PCD has expressed concerns for the adequacy of funding for maintenance for state facilities and reports the public building repair fund has balances of less than $1 million. The division has suggested a recurring revenue stream for maintenance.

Planning and Financing of State Facilities. The CBPC staff estimate state property managers need $2.3 million over two years for a condition assessment of state facilities, $1.4 million over three years to assist agencies in developing facilities master plans, a reliable revenue source to generate $40 million annually for a building renewal program; and $2 million annually for management of the condition assessment, prioritization of renewal projects, and maintenance of databases. While the expertise of consultants and the need for assessments is relevant, it is also important to consider increasing the capacity of staff at the Property Control Division and Department of Finance and Administration to adequately manage state assets.

OTHER PROPERTY ISSUES

Health and Human Services Complex. The governor's decision for approving the state building development at the Las Soleras site has been extended an additional six months. To date, the legislature has authorized $4 million from severance tax bonds and authorized the New Mexico Finance Authority to issue an additional $2 million in office revenue bonds for acquisition of land, plan, and design of the facility at the site.

Inasmuch as FTE has declined by 14 percent over the last three years, the PCD needs to continue assessing and making better use of state-owned space. If it is determined a new facility would more adequately fulfill space needs, perhaps a more cost-effective plan would be to revisit building on state-owned property at the South Capitol Complex.

New Mexico Department of Transportation. The proposed Rail Runner station for the Las Soleras site and the environmental assessment is under review by the Federal Highway Administration (FHWA). The FHWA has expressed a variety of concerns regarding the current design and further review may be prolonged.

Capitol Buildings Planning Commission Supported Legislation. (1) Legislation intended to strengthen current infrastructure capital improvement planning process consistent with CBPC principles; (2) legislation extending appropriations for continued planning statewide; (3) appropriation bill to fund the facility condition assessment and to assist agencies in developing master plans; and (4) support of capital funds for the General Services Department, the Cultural Affairs Department, and the New Mexico Department of Transportation.

New Information Technology System Implementation. Information technology (IT) innovations can help governments save taxpayer money and improve services. Yet, few IT projects are completed without unexpected changes, increased costs, or longer schedules. New Mexico, too, has had some costly challenges and false starts regarding the implementation of new IT projects. The Department of Information and Technology (DoIT) Compliance and Project Management Program is required by law to provide oversight for state agency IT projects. However, the DoIT could do more to provide robust and transparent oversight so New Mexicans can be more confident that the state's substantial investments in IT are not wasted.

New Mexico agencies are working on a number of IT projects vital to the state's everyday operations. For example, the Human Services Department (HSD) has begun a project to replace the current Income Support Division (ISD) Integrated Services Delivery (ISD2) System, which supports the administration of the Supplemental Nutrition Assistance (SNAP), Temporary Assistance for Needy Families Program (TANF), Medicaid, and other assistance programs. The existing IT system has been in operation for 23 years and it can no longer support business operations due to increased needs, complexity, and the new federal and state requirements. According to the HSD, even a short amount of downtime would result in substantial legal and financial liability. The project is in the implementation phase and has been appropriated $78 million, including $13.6 million in severance tax bonds appropriated during the November 1, 2011 special session.

Large IT projects have notoriously high failure rates. In 2009, Gartner, a leading IT research and advisory firm, reported that as many as 25 percent of such projects completely fail and an additional 40 percent are not delivered on time, within budget, or with all the expected functionality and features. In New Mexico, the HSD ISD2 was initially funded in 2001, as the state system applicant link to services for assistance (SSALSA) project. In October 2002, the HSD reported to the Information Technology Commission (ITC) that the SSALSA project did not have qualified staff, federal approval, or sufficient funding. Further, the LFC reported the HSD had incurred almost $20 million in contractor costs, of which it still owed $11.6 million. Ultimately, the HSD used appropriations from the general fund and federal funds to pay the balance, but the SSALSA project was never completed.

In May 2011, the Motor Vehicle Division (MVD) of the Taxation and Revenue Department (TRD) cancelled its contract for the motor vehicle reengineering project, after it had already spent approximately $5.4 million to replace the 20-year-old driver and vehicle modules.

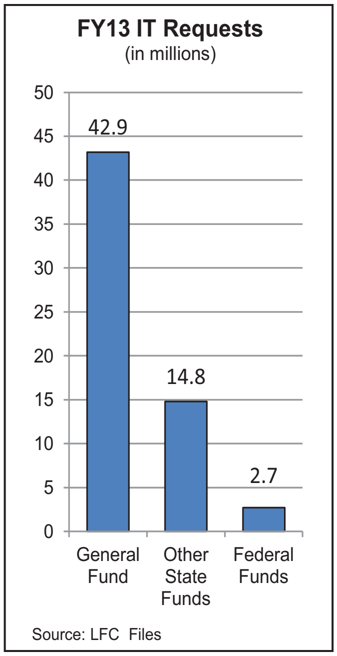
FY13 State Agency IT Request
(in thousands)

Agency	Total
AOC	$2,956.0
AODA	$154.0
TRD	$11,090.0
RHCA	$3,000.0
GSD	$4,519.5
ERB	$1,750.0
CPR	$1,272.4
SOS	$1,275.0
PRC	$2,159.5
DCA	$550.0
SLO	$2,332.0
OSE	$515.0
HSD	$4,042.5
CYFD	$1,718.0
NMCD	$525.0
DPS	$21,300.0
PED	$1,150.0
Total	**$60,308.9**

Source: LFC Analysis

Poor economic conditions and poor implementation of some projects led to decreased IT expenditures, and investments that could improve service and efficiency have been delayed.

HSD's replacement system for administration of public assistance has been appropriated $78 million with $64 million in federal funds and about $14 million in state money.



The DoIT Compliance and Project Management Program has expressed interest in developing an IT dashboard for New Mexico, but it is not in a near-term plan.

The DoIT should develop outcome-based performance measures based on reasonable industry standards for IT project management.

The DoIT recommended $20.8 million from all funding sources, of which $12 million is from the general fund.

Additionally, the department plans to spend $1.3 million on the federal commercial driver's license information system, part of which the TRD states will support the future MVD replacement system. The department has issued a new request for information and is seeking guidance for a better approach to the complicated system.

While the DoIT has been reluctant, the IT industry has shifted toward more accountability and transparency in the oversight of IT projects. For example, in June 2009, the U.S. Chief Information Officer launched the IT dashboard, a website that allows federal agencies, industry, and the general public to view details of federal IT investments. The purpose of the dashboard is to provide information on the effectiveness of government IT programs and to support decisions regarding the investment and management of resources.

As of the end of FY11, the DoIT Compliance and Project Management Program was providing oversight for 51 DoIT-certified agency projects worth $231.7 million. Historically the program has had weak performance measures and has not provided sufficient information about the progress or status of agency IT projects. However, in FY12 the program began providing quarterly reports on the top 10 IT projects with the largest budgets. The DoIT is encouraged to make these reports transparent and robust by, for example, verifying agency-reported data, validating independent verification and validation contract work, and encouraging innovative and cost-saving approaches for implementing large IT projects, such as modular or phased implementation. Finally, the program should develop performance measures that address whether projects are on time, within budget, and effectively meeting the state's needs.

FY12 Information Technology Recommendation. Agencies submitted 35 IT funding requests for FY13 totaling $60.3 million, of which $42.9 million was from the general fund. The two largest requests were from the TRD for the GenTax upgrade ($6.2 million) and the Department of Public Safety for Computer-aided Dispatch and Records Management System ($7 million). The LFC recommendation is $13.9 million from all sources with $11.6 million from the general fund. Priority was given to projects underway and of critical need.

Special, Supplemental, and Deficiency Recommendations. State agencies requested $85.7 million from the general fund for special, supplemental, and deficiency appropriations. Requests from all funding sources totaled $90.6 million. The total request was 134 percent greater than the requests for FY12. 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.

The LFC recommends $38 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 a total of $33.7 million from the general fund for special appropriation requests for FY12 and FY13, including $19.7 million in contingency funding for the Human Services Department to pay a potential claim to the federal government for provider overcharges in the Personal Care Option program, $5 million for the Job Training Incentive Program, and $2 million for emergency supplemental funding for school districts and charter schools experiencing operating budget shortfalls.

The LFC also recommends $3.5 million from the general fund for supplemental requests for FY12, including $1 million for the Children Youth and Families Department to offset the loss of federal funds for the Protective Services Program, $600 thousand for the Corrections Department's personal services and employee benefits, and $513 thousand for the Secretary of State to fund election-related expenses.

For FY11 deficiencies, the LFC recommends $742 thousand from the general fund associated with the transfer of the Coordination of Long-Term Services (CoLTS) program from the Aging and Long-Term Services Department to the Human Services Department.

The Human Services Department's Medicaid program has consistently run large negative fund balances due to a combination of overspending and reporting errors in claiming federal matching funds. The specific amount needed for a deficiency appropriation, and reason for the negative fund balance, remains unclear and requires further examination after the FY11 audit is released. Further, the department is awaiting approval of reimbursement requests from the federal government that would reduce the negative balance significantly. The recommendation transfers $75 million to the appropriation contingency fund pending the determination of the final amount required from the general fund appropriation account. The Legislature has already appropriated $11.9 million towards resolving the deficiency.

Special, Supplemental, and Deficiency Recommendations include

- $4.9 million for 2012 legislative session expenses;
- $500 thousand for FY13 costs associated with five judgeships for six months;
- $300 thousand to prevent shortfalls in personal services and employee benefits in magistrate courts statewide;
- $296 thousand in fund balances for costs associated with jurors, interpreters and witnesses for the Administrative Office of the Courts;
- $264 thousand for the Law Enforcement and Motor Transportation programs.

PERFORMANCE REPORTS

Now more than ever, performance-based budgeting is playing an increasing role in making government more accountable and effective. Over the last three years, as economic conditions squeezed budgets, performance data helped to prioritize programs and allocate limited resources.

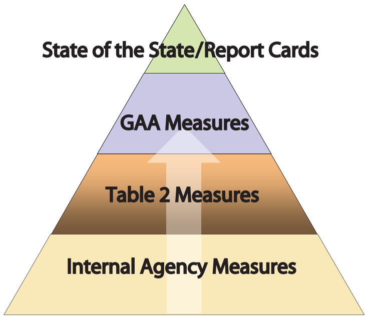
The Accountability in Government Act (AGA) traded budget flexibility for information about how government agencies economically, efficiently, and effectively carry out their responsibilities and provide services. Prior to the AGA, appropriations to state agencies were tightly controlled by the Legislature with precise attention paid to individual budget categories and incremental spending of salaries, office supplies, in- and out- of state travel, etc. After the AGA, the focus switched to results as measured by performance (inputs, outputs, outcomes, etc).

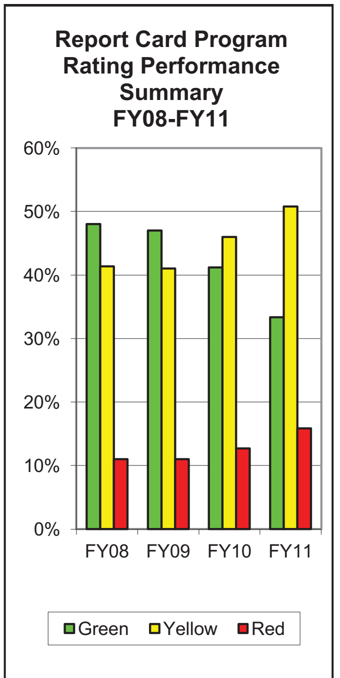
Report Cards. To facilitate the performance review, the LFC developed a dashboard report, a report card, to add greater emphasis and clarity to the reporting process, stimulate discussion on agency performance, and focus budget discussion on results. Criteria for rating performance were established with consideration for improvement or decline in performance with some deference to economic conditions, austerity measures, etc. In general, green ratings indicate performance achievement. Red ratings are not necessarily a sign of failure but do indicate a problem in the agency's performance or the validity of the measure. Yellow ratings highlight a narrowly missed target, significantly improved or a slightly lower level of performance. Performance criteria are reviewed on the following page. Although the report cards reveal a few good performance results, there is room for improvement – in the reporting process, measuring the right things, benchmarking to national and state data, developing corrective action plans, and making a stronger connection to agency budgets

FY11 Performance. Given spending reductions of approximately 10 percent over the last three fiscal years, some unmet needs remain and a higher level of performance outcomes would be more desirable. Performance outcomes indicate a need to address deteriorating roads, dismal grade school reading and math proficiency, low graduation rates, lengthy waiting lists, etc. A number of efficiency measures indicate slower processing times, longer wait times, and increased caseloads and backlogs are noted throughout the state. However, most agencies requested flat budgets indicating a need for more data-driven decision making. Performance outcomes indicate the need for more action plans and strategic planning that improve outcomes.

In accordance with the provisions of the AGA, the ability of the 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. For FY13, the DFA made very limited changes to improve the process of reporting meaningful and useful data.

Performance Measure Hierarchy



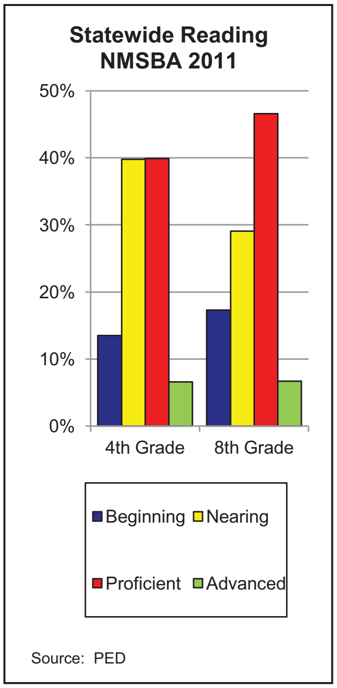


Source: LFC Files

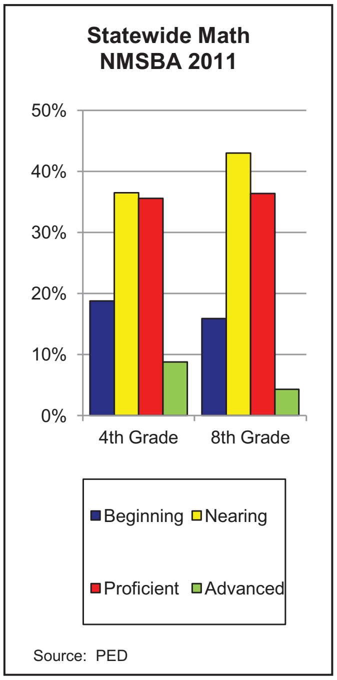
PERFORMANCE REPORT CARD CRITERIA
LEGISLATIVE FINANCE COMMITTEE

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 FY11, three strategic elements were considered in evaluating the effectiveness of New Mexico's public schools: student achievement, teacher quality, and student persistence. Between FY06 and FY11, student performance as measured by the percent of students scoring proficient or above on the New Mexico Standards-Based Assessment (NMSBA) increased 9.3 percentage points in math and 2.8 percentage points in science, but decreased 7 percentage points in reading. Data from the FY11 assessment shows decreases statewide in proficiency from FY10: 3.4 percentage points in reading, 0.4 percentage points in math, and 4.2 percentage points in science. Based on FY11 assessment data, 50.2 percent of students scored below proficient in reading, 58.2 percent of students scored below proficient in math, and 58 percent of students scored below proficient in science. Approximately 54 percent of fourth graders and 47 percent of eighth graders continue to score below proficient in reading, and 56 percent of fourth graders and 47 percent of eighth graders continue to score below proficient in math.

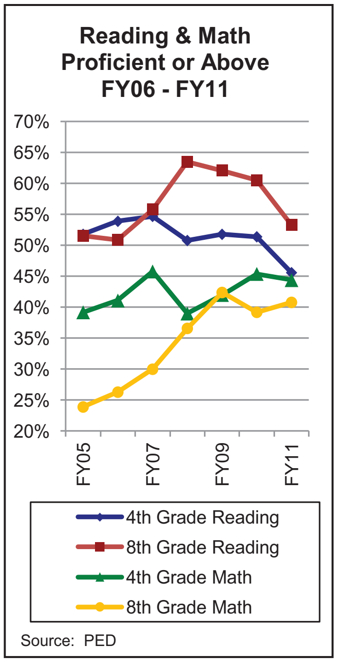


The Public Education Department (PED) notes a modest 1.2 percent increase, from 66.1 percent to 67.3 percent, in FY10's four-year cohort graduation rate for freshmen entering high school in 2006 and graduating in 2010. Based on FY11 assessment results, 720, or 86.6 percent of all schools, failed to make adequate yearly progress (AYP) and are in the school improvement cycle for the FY12 school year, an increase of 86 schools over FY11.



Performance measures for public school support provide a snapshot of student performance generally when data is available after the end of the school year. Little or no consistent data is available through the year on student achievement and performance for state policymakers. Because public school support accounts for almost half of the state's budget, the Legislature should consider implementing a statewide short-cycle assessment reported to the department at least three times a year. The majority of school districts currently use short-cycle assessments. These assessments are designed to assist educators in making instructional decisions and also to indicate student academic growth within a school year. Additional benefits to intermediate reporting of student academic performance include (1) providing teachers the data necessary to alter instructional practices throughout the year to address student needs and (2) assisting the department in determining how to better support schools.

Research clearly demonstrates the importance a teacher has on student learning. Despite having a "highly qualified" teacher work force, improvement in student achievement continues to progress slowly. The current teacher evaluation system needs to better measure the effect teachers have on student learning. Annual teacher evaluations and the professional development dossier process should be strengthened to require the use of student academic achievement as a factor in determining overall teacher effectiveness. Any evaluation framework to measure teacher effectiveness must better enable districts and policymakers to address and improve school personnel policies concerning professional development, promotion, compensation, and tenure.

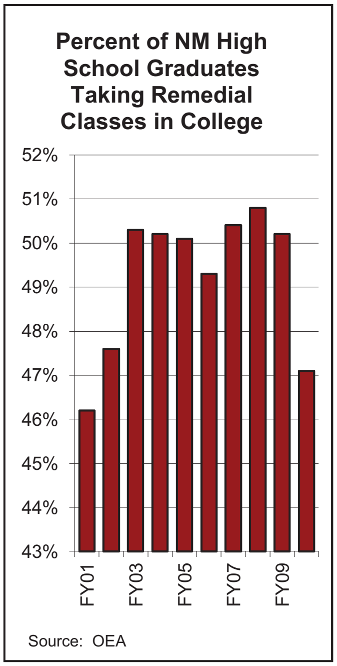


Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of fourth-grade students who achieve proficiency or above on the standards-based assessments in reading	51%	74%	46.5%	R
Percent of eighth-grade students who achieve proficiency or above on the standards-based assessments in reading	61%	72%	53.3%	R
Percent of fourth-grade students who achieve proficiency or above on the standards-based assessments in mathematics	45%	67%	44.4%	R
Percent of eighth-grade students who achieve proficiency or above on the standards-based assessments in mathematics	39%	63%	40.8%	R
Percent of recent New Mexico high school graduates who take remedial courses in higher education at two-year and four-year schools	47.1%	40%	Not Reported	R
Current year's cohort graduation rate using the four-year cumulative method	66.1%	80%	67.3%	R
Annual percent of core academic subjects taught by highly qualified teachers, kindergarten through twelfth grade	99.5%	100%	97.1%	Y
			Overall Program Rating	R

Department Operations. The department recently revised its mission to place an emphasis on a smarter return on New Mexico's investment, requiring real accountability for real results, ensuring students are ready for success, rewarding effective educators and leaders, and providing effective options for parents. The department's performance measures provide little meaningful measure of progress by the department.

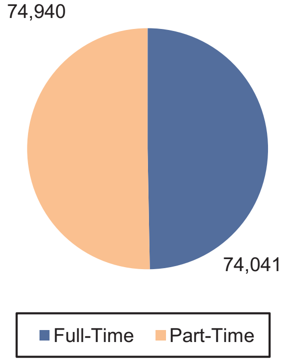
The department continues to struggle to meet targets on several performance measures. The LFC has continuing concern about the resources allocated to financial operations within the department and district oversight; however, the LFC recognizes that under new leadership the department is focusing on both. The time required to distribute federal flow-through funds to school districts has been a concern; however, the department has decreased the time required to distribute federal flow-through funding to districts. Additionally, since the middle of FY10 the department has not established a schedule for school district and charter school audits and has not engaged in a continuous effort to ensure data reported by school districts is accurate. The department indicates the FY12 reorganization allocates 4 FTE to complete ongoing audits to ensure accurate data is reported by school districts.

While the department expresses full confidence in the quality and accuracy of the data in the student teacher accountability reporting system (STARS), the LFC remains concerned with the integrity of data reported by districts to STARS. The agency works with districts to scrub data to ensure accuracy prior to moving the data into the warehouse; however, PED audits and LFC evaluations have noted numerous instances of inaccurate data entry resulting in inequitable distribution of funding to districts. The department reports the STARS data warehouse is 100 percent in production as funded; however, it is not 100 percent complete. The department has not allocated funds for the completion of the data warehouse other than direct appropriations for the project. The PED indicates the initial proposal for the data warehouse was not well developed; for FY12 the department is in the process of evaluating STARS to determine what the final data warehouse should be, including analytical tools, and will develop a strategic methodology to implement the project. Data-driven decision-making relies on accurate data collection and is increasingly important because student achievement data drives policy decisions and statutory directives, especially with the new school grading system and potential changes to the teacher evaluation system.



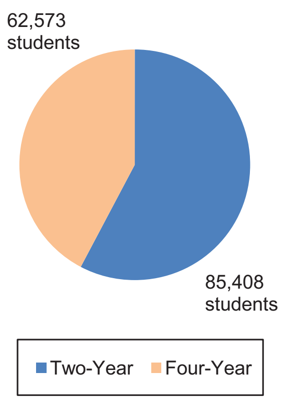
Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of Elementary and Secondary Education Act adequate yearly progress designations publically reported by August 1st	100%	100%	100%	G
Percent completion of the data warehouse project	100%	75%	100%	R
Percent of teachers passing all strands of professional dossiers on the first submittal	71%	85%	76%	Y
Annual percent of core academic subjects taught by highly qualified teachers, kindergarten through twelfth grade	99.5%	100%	97.1%	Y
Percent completion of the audit schedule for the public education department internal audit section	0%	100%	0%	R
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)	18.2	7	19.4	R
			Overall Program Rating	Y

Total Certificate and Degree Seekers, Attendance Fall 2010



Source: IPEDS, 2010 Fall Enrollment Survey

Pursuing Degrees and Certificates, by Type of Institution



Source: IPEDS, 2010 Fall Enrollment Survey

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 (AGA).

Many of the current institutional AGA measures reflect enrollment goals, student academic targets, and other institutional goals. To support the new funding formula and the four-year and two-year sectors' efforts to develop mission-specific outcome measures, the LFC anticipates that institutions will refine the current AGA measures and identify others during the 2012 interim. The LFC supports progress and outcome measures that track student and institutional progress toward the state's educational and workforce goals and results that can be funded through the formula.

Universities. Most of New Mexico's public four-year institutions participate in the Voluntary System of Accountability (VSA), a web-based portal for providing basic information about the institution, its programs, and its population. In addition to the VSA, the federal government and national organizations are collecting and reporting institutional data on affordability, student learning outcomes, and student experiences.

Access measures illustrate how well students enter and move through the postsecondary educational pipeline. University measures can include transfer rates to four-year institutions or financial aid eligibility and receipt. During the last few academic years, both Eastern New Mexico University and New Mexico Highlands University have experienced steady increases in full-time, undergraduate degree-seekers who have transferred from other institutions.

As leaders emphasize the need for targeting funding efforts to meet the country's and the state's economic needs, measures targeting increased educational attainment have become more important. Graduation rates and other progress measures, like measuring semester-to-semester, fall-to-fall, and lower-to-upper division retention rates, illustrate how institutions hinder or foster student success. New Mexico's ultimate goal of increased graduation rates cannot be met without improving student retention rates – at all grade levels and all institutions.

Since fall-to-fall and other retention rates have been highlighted during the most recent years, institutions have targeted federal and state resources toward improving student services – increased and improved academic counseling; implemented skills-based labs, workshops and seminars; and established learning cohorts, among others. Some institutions have changed how they interact with those students most likely to dropout of college, generally incorporating online delivery of student services and coursework. A notable success is ENMU's Student Success research and public service project.

Retention Fall-to-Fall	Fall 2009 to Fall 2010 Actual	Fall 2010 to Fall 2011 Target	Fall 2010 to Fall 2011 Actual	Rating
UNM freshman retention	78.3%	77.4%	74.1%	R
NMSU freshman retention	74.8%	75%	71%	R
NMIMT freshman retention	73.7%	75%	70.6%	R
ENMU freshman retention	61.6%	62%	63.9%	G
NMHU freshman retention	48.3%	53%	50.6%	R
WNMU freshman retention	51.1%	53%	50.4%	R
NNMC freshman retention	55.4%	55%	54.9%	Y
		Overall Program Rating		R

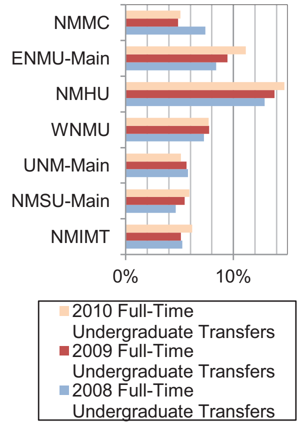
While most of the universities exceeded their FY11 target for graduating students within six years, none of the comprehensive institutions exceeded their peer benchmark rate (36 percent). Among the research institutions, only New Mexico Institute for Mining and Technology surpassed its peer benchmark rate (44.1 percent), with the others falling a percent or two below their peer ratings.

Six-Year Completion Rates for First-Time, Full-Time Freshman	Fall 2004-Summer 2010 Actual	Fall 2005-Summer 2011 Target	Fall 2005-Summer 2011 Actual	Rating
UNM	44.4%	45.5%	45.1%	Y
NMSU	44.5%	45%	46.7%	G
NMIMT	44.5%	50%	47.4%	Y
ENMU	24.1%	34.5%	23.7%	R
NMHU	18.9%	20%	20.9%	G
WNMU	20.1%	20%	17.1%	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 the NMACC.

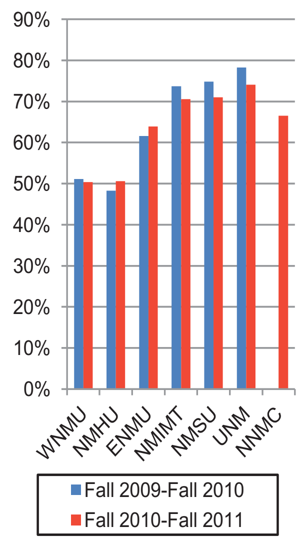
Important intermediate outcome measures that can lead to increased graduation and transfer rates include fall-to-spring semester retention rates, academic progress points – completing 15 and 30 credits towards a certificate or degree – and timely completion of a certificate or degree. With respect to retention, the institutions that reported data all improved the number of students who registered for the following semester, though

Percent of Full-Time Undergraduate Degree-Seekers who Transferred to Four-Year Institutions

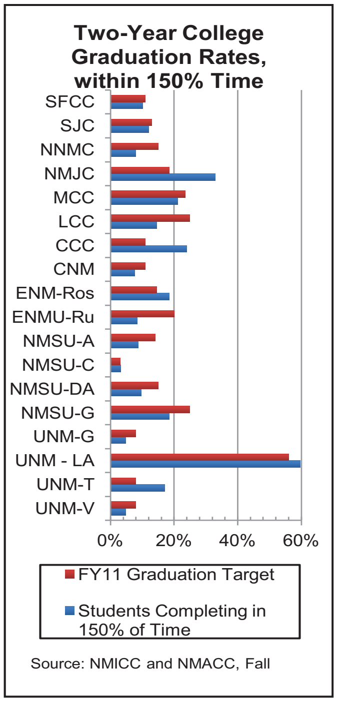


Source: IPEDS, 2008, 2009, 2010

University Freshmen Fall-to-Fall Student



Source: 2011, Council of University Presidents



NMSU-Carlsbad and UNM-Valencia failed to sustain their fall 2009-spring 2010 retention rates or meet their fall 2010-spring 2011 targets.

Retention, Fall-to-Spring	Fall 2009 to Spring 2010 Actual	Fall 2010 to Spring 2011Target	Fall 2010 to Spring 2011 Actual	Rating
ENMU-Roswell	75.9%	75.9%	76%	G
ENMU-Ruidoso	67%	64%	70.3%	G
NMSU-Alamogordo	77.1%	78%	77.9%	G
NMSU-Carlsbad	69%	71%	67.8%	R
NMSU-Dona Ana	82.6%	81%	82.9%	G
NMSU-Grants	76%	78%	78.4%	G
UNM-Gallup	81.4%	83%	81.3%	Y
UNM-Los Alamos	82.9%	76%	80%	G
UNM-Taos	76.7%	70%	79.1%	G
UNM-Valencia	75.7%	80%	73.6%	R
			Overall Program Rating	G

Two-Year Independent Community Colleges. Performance measures for the two-year community colleges are reported annually along with semi-annual reports submitted by the NMICC.

The fall-to-spring retention rates continue to be mixed at the independent community colleges, with two institutions reporting no improvement over FY10 rates. Like graduates at the branch colleges, of those students who completed their certificate or degree in FY11, all of the independent institutions saw more than 80 percent of their graduates in jobs or continuing education.

Retention, Fall-to-Spring	Fall 2009 to Spring 2010 Actual	Fall 2010 to Spring 2011 Target	Fall 2010 to Spring 2011 Actual	Rating
Central NM	79.7%	81%	81.1%	G
Clovis	70.6%	79%	68.8%	R
Luna	67.9%	80%	70.5%	Y
Mesalands	67.8%	64.7%	69.8%	G
New Mexico Jr.	62%	73.5%	70.8%	Y
Northern NM	76.9%	81%	75.9%	R
San Juan College	76.8%	76%	80.3%	G
Santa Fe	79%	80%	79%	G
			Overall Program Rating	Y

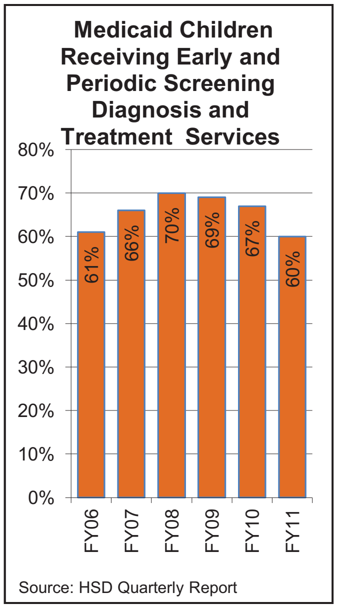
Higher Education Department. The HED consists of two programs: (1) Policy Development and Institutional Financial Oversight and (2) Student Financial Aid. The department has focused its attention on revising the funding formula and suspending campus expansions for a brief period and has done so outside of the department's existing strategic plan for FY12.

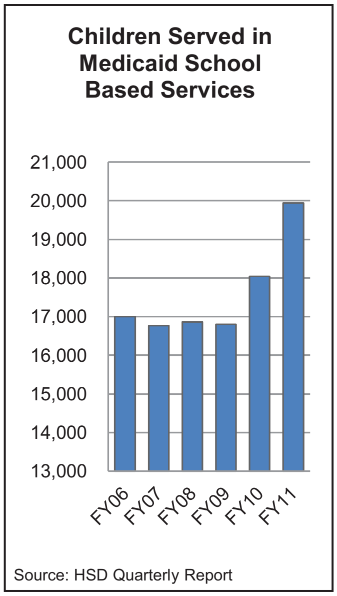
During FY12, the department reviewed its AGA measures and revised many to target activities and functions within its control and reduce reporting some institutional data. In the HED divisions that are fully-staffed, the department's performance has improved, particularly with certain financial disbursements. But, given the persistent, high vacancies with the department's administrative services and institutional finance divisions, the LFC notes the HED is unlikely to maintain its competency level in FY12 and AGA measures that have since been eliminated might need to return in FY14. The LFC supports redirecting the department's measures to monitor and improve departmental performance and maintains an interest in the department's development of the P-20 (preschool through college) student data system, particularly gathering data on dual credit and remedial coursework, and oversight of institutional facilities and capital projects, including updating the statewide facility condition index. In addition, the LFC requests that the department review state financial aid programs for effectiveness and productivity, including the collections rate for loan program beneficiaries who fail to perform required service in the state.

Policy Development and Institutional Financial Oversight and Student Financial Aid	Actual FY2010	Target FY2011	Actual FY2011	Rating
Percent of properly completed financial aid allocations and draw-downs processed within 30 days	100%	90%	100%	G
Percent of properly completed capital infrastructure draws released to the state board of finance within 30 days of receipt from institutions	100%	95%	95%	G
Percent of capital project evaluations and audits performed to ensure institutional accountability and responsibility	0%	10%	0%	R
Percent of students who receive state loan-for-service funding who provided service after graduation	94%	95%	92%	Y
			Overall Program Rating	Y

The UNM Health Sciences Center reported AGA Measures for FY11. Highlights include

- A slight decline in the percentage (68 percent) of human poisoning exposures treated safely at home after contact with the Poison Control Center, down from FY10. The more individuals who are treated safely at home, the less likely more costly, emergency visits are required.
- The UNM Hospital inpatient readmission rate declined from FY10 but was still slightly higher than the target rate.
- UNM Hospital Clinic reported a 6.7 percent increase in the total number visits for the same time period reported in FY10.





The department had strong performance in a number of areas in FY11, including the child support enforcement area and in output-oriented measures such as individuals served by the Medicaid program and percent of eligible children receiving food stamps. Room for improvement remains in other areas; in particular in the employment area for Temporary Assistance for Needy Families (TANF) recipients and in certain measures targeted at children's health. Under the new administration, the department is continuing to add measures targeting quality outcomes and focusing less on enrollment in programs. New measures on number of emergency room visits per member month and hospital readmissions within 30 days are being added to measure quality of care. In the behavioral health area (see next section on the behavioral health collaborative), a measure is being added on the number of pregnant females with substance abuse disorders receiving state-funded behavioral health services.

However, outcome measures are needed for key high cost areas, such as pre-natal care and long-term care for the elderly and disabled. The LFC recommends the agency add meaningful outcome measures that can be benchmarked on the quality of the care provided by the Medicaid program.

Medical Assistance Program. The HSD tracks most of this performance data through its contracts with managed-care organizations (MCOs). The department should continue to develop outcome measures to determine whether client health is improving. Some of this data (e.g., for asthma and diabetes) is already reported to the HSD. Also, efficiency measures, such as cost per-client and average enrollment in key managed-care programs, are needed because these figures principally drive the Medicaid budget. The HSD is moving away from certain performance measures that measure its efforts to add adults and children to Medicaid starting in FY13.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of children in the Medicaid school-based services	18,038	16,500	19,941	G
Percent of children in Medicaid managed care receiving early and periodic screening, diagnosis and treatment services	67%	70%	60%	R
Percent of age-appropriate women enrolled in Medicaid managed care receiving breast cancer screens (cumulative)	53%	55%	54%	Y
Number of adults enrolled in state coverage insurance (SCI)	53,918	40,000	42,299	G
The percent of children two to twenty-one years of age enrolled in Medicaid managed care who had at least on dental visit during the measurement year	73%	70%	70%	Y
			Overall Program Rating	Y

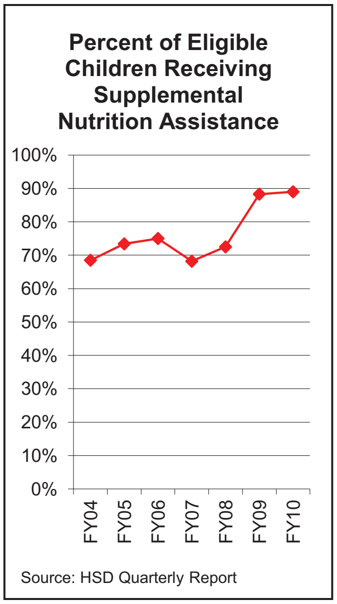
Income Support Program. The program has had greater success in meeting the federally required work participation rates in the Temporary Assistance for Needy Families (TANF) program over the past few years but performance slipped in FY11. Better coordination with New Mexico's one-stop centers for job 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 department has worked to reach out to SNAP-eligible clients but significant enrollment growth is due mostly to the economic recession and lower eligibility criteria.

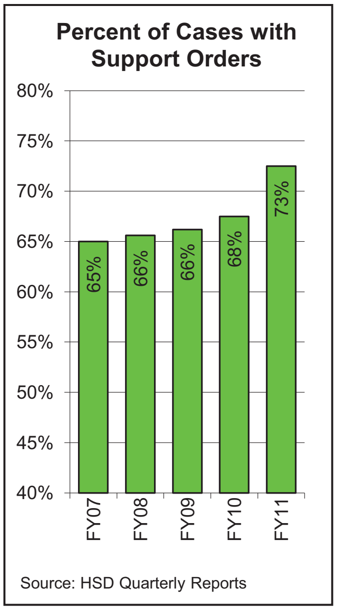
Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of TANF participants who retain a job for six or more months[1]	46.5%	60%	48.5%	R
Percent of TANF two-parent recipients meeting federally required work requirements	56.7%	60%	50.9%	R
Percent of TANF recipients (all families) meeting federally required work requirements	42.4%	50%	42.9%	R
Percent of SNAP-eligible children participating in the program	85.7%	75%	92.5%	G
Percent of expedited food stamp cases meeting the federally required timeliness of seven days	99.2%	98%	99.3%	G
			Overall Program Rating	Y

[1]HSD reports on a six-month retention rate instead of a three-month retention rate as in the General Appropriation Act. Target is set for three-month retention rate.

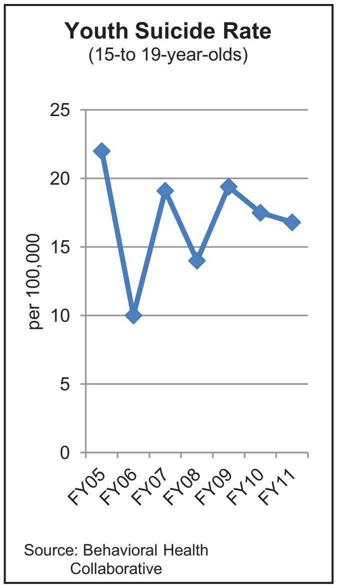
Child Support Enforcement Program. Child support enforcement dollar collections, acknowledged paternity, and cases with support orders all exceed the targets. After several years of incremental improvement, the percent of child support owed that has been collected has dipped slightly to 57.4 percent, driven in part by the recession as well as the increased number of child support orders.

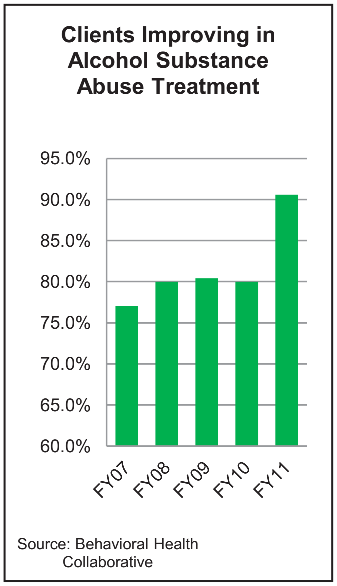
Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of children with paternity acknowledged or adjudicated	73.6%	75%	88%	G
Total child support enforcement collections, in millions	$115.4	$110.1	$123.5	G
Percent of child support owed that is collected	57.8%	60%	57.4%	Y
Percent of cases with support orders	68%	70%	72.5%	G
			Overall Program Rating	G





Behavioral Health Collaborative



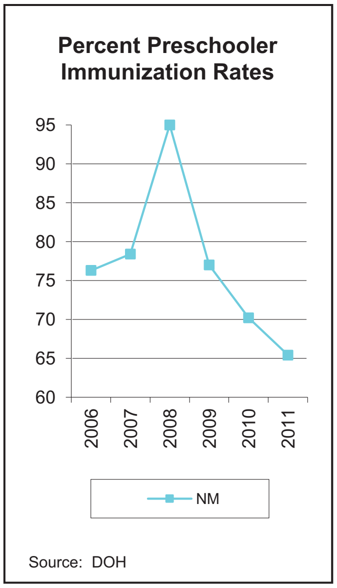


This 17-member oversight body is charged with coordinating a single, statewide behavioral health system. The Behavioral Health Purchasing Collaborative relies on the resources of its member agencies, primarily the Human Services Department (HSD). The collaborative has developed a broad set of performance 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.

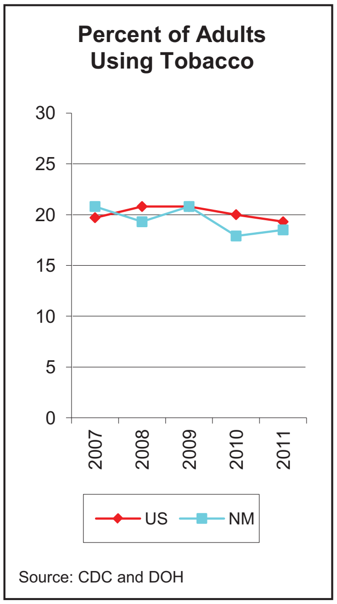
The measures are reported to the collaborative by various lead agencies across the state, ranging from the Public Education Department to the Department of Public Safety. The statewide entity, currently OptumHealth NM, served 83,605 individuals in FY11, slightly higher than FY10.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Youth suicide rate among fifteen-to-nineteen year-olds per one hundred thousand (based on three year averages)	17.5	14	16.8	Y
Percent of people receiving substance abuse treatment who demonstrate improvement in the drug domains on the addiction severity index	67%	75%	70.7%	Y
Percent of people receiving substance abuse treatment who demonstrate improvement in the alcohol domain on the addiction severity index	80%	80%	90.6%	G
Percent of youth on probation who were served by the statewide entity	62.6%	45%	47.8%	G
Percent of adults on probation who were served by the statewide entity	21%	39%	22%	R
Percent of individuals discharged from inpatient facilities who receive follow-up services at seven days	34.4%	37%	36.5%	Y
Percent of individuals discharged from inpatient facilities who receive follow-up services at thirty days	51%	59%	57.6%	Y
Number of individuals served annually in substance abuse or mental health programs or both administered through the statewide entity contract	81,579	81,500	83,605	G
Reduction in the gap between children in school receiving behavioral health services and their counterparts in achieving age appropriate proficiency scores in reading (R) and math (M) (eighth grade)	10.8% R 4.8% M	15.6% R 11.9% M	9.2%R 8.1%M	G
Percent of persons receiving substance abuse treatment or services by the statewide entity arrested for driving while intoxicated	16.1%	4%	4%	G
			Overall Program Rating	Y

The Department of Health (DOH) completed FY11 meeting fewer than 40 percent of the performance targets for its measures, resulting in red or yellow overall program ratings. In some instances, the ratings were due to data being unreliable and measures not reflecting the core function of the program, significant budget expenditures, or stated strategic and mission objectives. The agency should include more meaningful outcome measures and more national benchmark measures for the Public Health, Developmental Disabilities Support, and Facilities Management Programs, and more efficiency measures denoting average cost per client for the Developmental Disabilities Support Program. The Department of Finance and Administration (DFA), at the request of the agency, has approved fewer FY13 performance measures for the DOH and this change will result in less performance accountability. The agency should consider adding outcome measures for teen pregnancies, suicide, hepatitis, tuberculosis, childhood obesity, medical cannabis, and adult immunizations to align with its stated goals and objectives. Inclusion of an Epidemiology and Response Program measure to gauge the readiness and capacity of the public healthcare system in New Mexico would be desirable. The Facilities Management and Developmental Disabilities Support Programs are both of such a size and importance that they both merit additional outcome measures for patient care and services, as well as enhanced measures of financial performance.

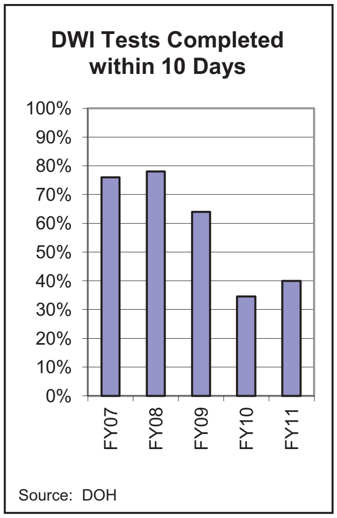


Public Health Program. Immunization rates in many states, including New Mexico, have decreased because the Centers for Disease Control (CDC) have changed the standard series of vaccines by which preschool children's rates of immunization are measured. The quarterly data for the Women, Infants and Children (WIC) Program does not support the annual data conclusion. Adult tobacco use showed a slight improvement, ending 0.5 percentage points below the target.



Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of preschoolers fully immunized	70.2%	82%	65.4%	R
Number of eligible women, infants and children program participants receiving services	118,299	123,000	112,324	R
Number of visits to agency-funded school-based health centers	60,817	40,000	55,616	G
Percent of adults who use tobacco	17.9%	19%	18.5%	G
			Overall Program Rating	Y

Epidemiology and Response Program. The number of health emergency exercises exceeded the FY11 target by 46, so a more ambitious target should be considered. One new trauma center was supposed to have been verified and designated by the end of FY11, which would have brought the total to 10, but the center received an extension to designate in FY12.



Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of health emergency exercises conducted to assess and improve local capability	105	60	106	G
Number of designated trauma centers in the state	8	10	9	Y

Overall Program Rating Y

Laboratory Services Program. Results for the Laboratory Services Program were impacted by staffing vacancies, increased sample load, and a large number of subpoenas, discovery orders, and court testimonies.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of blood tests from driving-while-intoxicated cases analyzed and reported within ten business days	34.6%	75%	40%	R
Percent of public health threat samples for communicable diseases and other threatening illnesses analyzed within specific turnaround times	95.4%	98%	94.4%	R

Overall Program Rating R

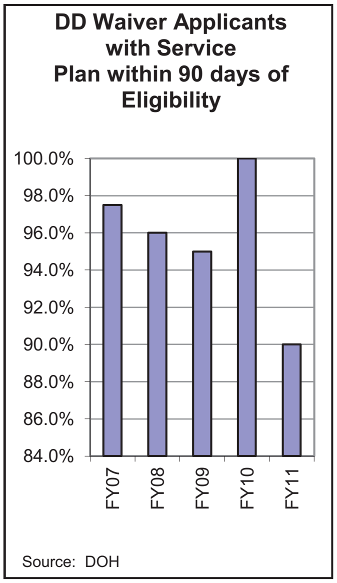
Facilities Management Program. The results for substantiated cases of abuse are commendable and reflect a strong emphasis on day-to-day care for residents; however, one substantiated case of abuse changed this trend. A program of this size ($131.6 million) and importance needs additional outcome measures for patient care and services, as well as enhanced measures of financial performance.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of substantiated cases of abuse, neglect and exploitation per hundred residents in department of health long-term care programs confirmed by division of health improvement	0	0	0.24	R
Percent of billed third-party revenues collected at all agency facilities	NA	75%	60%	R

Overall Program Rating R

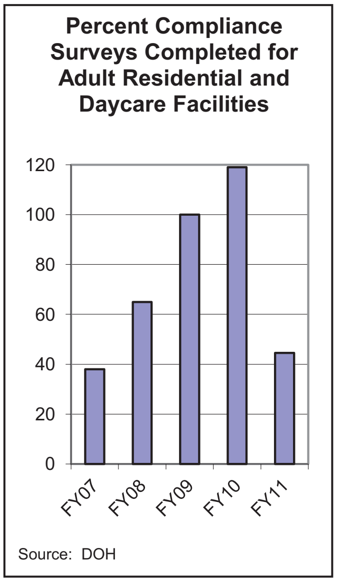
Developmental Disabilities Support Program. The Developmental Disabilities Support Program did not report its performance measure data in a timely manner. Cost inflation is a major issue within this program with increased service utilization and exceptions driving up average cost per client, which limits the availability to bring in new clients from the waiting list. A program of this size and importance could benefit from additional outcome measures and data, as well as performance data on average cost per client and overall cost reduction strategies that are measurable.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of adults receiving developmental disabilities day services engaged in community-integrated employment	32%	30%	35%	G
Percent of developmental disabilities waiver applicants who have a service plan in place within ninety days of income and clinical eligibility determination	100%	98%	90%	R
Number of individuals on the developmental disabilities Medicaid waiver waiting list	4,988	4,720	5,401	R
			Overall Program Rating	Y

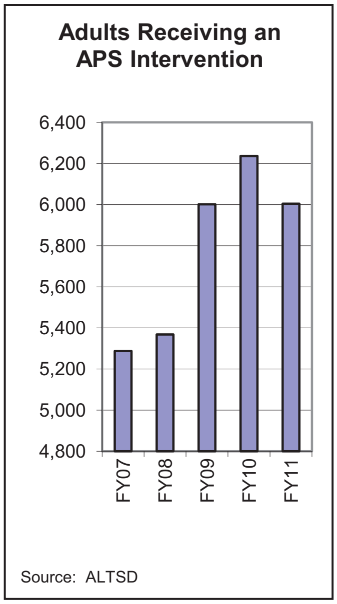


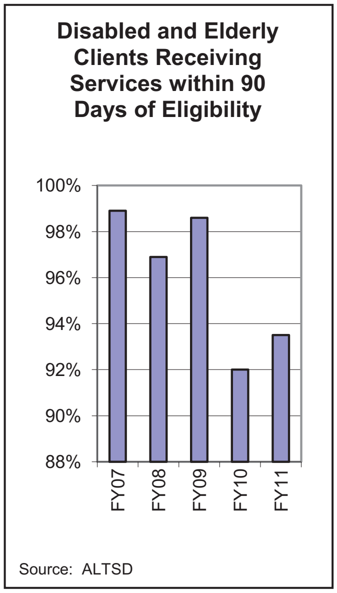
Health Certification, Licensing and Oversight. The Health Certification, Licensing and Oversight Program did not meet any of its performance measures. The department reports compliance surveys are being negatively impacted due to budget cuts and hiring freezes. The agency's action plan indicates priority is given to statutorily required investigations and serious complaints while other incidences will remain uninvestigated until staffing is restored.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of required compliance surveys completed for adult residential care and adult daycare facilities	119%	95%	44.5%	R
			Overall Program Rating	R



Aging & Long-Term Services





The Aging and Long-Term Services Department (ALTSD) is improving the quality of its outcome measures to better quantify program performance. The agency's measures now focus somewhat less on numbers served and increasingly on meaningful outcome measures, comparative national benchmark measures, and efficiency measures denoting average cost per client. Some FY11 targets were set too low and need to be adjusted for future years based on historical experience.

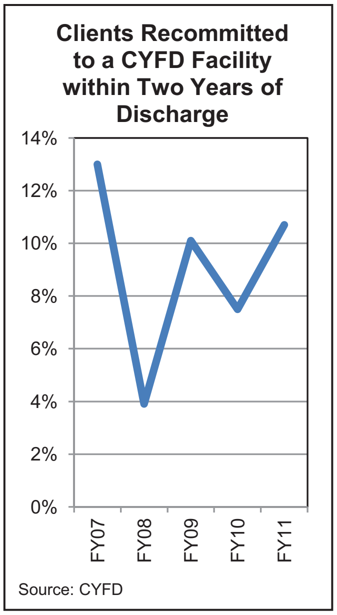
FY11 ALTSD Performance. The overall grade of yellow reflects that the ALTSD did not meet all of its performance targets. The resolved ombudsman complaints are below the target but reflect prevention efforts to reduce the number of complaints in long-term care facilities. Percent of calls to the resource center continues to exceed the target so the target should be adjusted upward. The average number of months individuals are on waiting lists is increasing but is somewhat dependent on appropriations. The Long-Term Services Program is moving to the Human Services Department in FY12.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of ombudsman cases resolved	3,795	5,000	3,398	Y
Percent of people calling the aging and disability resource center in need of two or more daily living services	32.9%	25%	41.8%	G
Number of persons receiving aging network community services	115,376	56,000	93,197	G
Percent of total personal care option cases that are consumer directed	24.7%	10.8%	30.5%	G
Percent of disabled and elderly Medicaid waiver clients who receive services within ninety days of eligibility determination	92%	90%	93.5%	G
Average number of months that individuals are on the disabled and elderly waiver registry prior to receiving an allocation for services	56	60	68	R
Number of brain injury clients served through the mi via self-directed waiver	347	347	334	R
Number of adults receiving an adult protective services intervention	6,236	5,625	6,004	G
			Overall Program Rating	Y

The Children, Youth and Families Department (CYFD) provides support services for childcare, children in protective custody, prekindergarten, domestic violence, and youth in detention. Economic stress on families has led to an increased need for CYFD services.

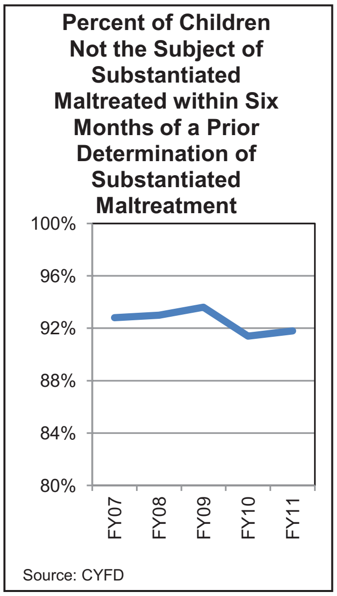
Juvenile Justice Facilities. The CYFD is continuing to implement the Cambiar model. The Juvenile Justice Services (JJS) Division is focused on establishing a well-defined inter-disciplinary system within the facilities and contends that current recidivism rates are not indicative of the new model's performance.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of clients recommitted to a children, youth and families department facility within two years of discharge from facilities (cumulative)	7.5%	10%	10.7%	R
Percent of incidents in juvenile justice services facilities requiring use of force resulting in injury (cumulative)	2.7%	3%	2.5%	G
			Overall Program Rating	Y

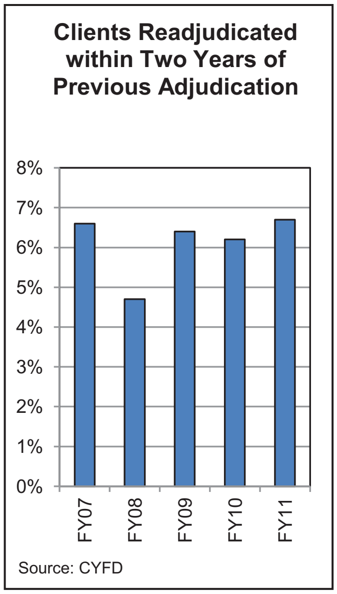


Protective Services. Cases have become more complex often involving families whose children are diagnosed with disabilities, parents who are incarcerated, and families lacking adequate housing. The increased caseloads have negatively impacted the staff's ability to work with families. Program staff works with Medicaid and medical and behavioral health providers to address the limited services in rural areas, contributing to timely family reunification.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of children not the subject of substantiated maltreatment while in foster care	99.67%	99.68%	99.72%	G
Percent of children not the subject of substantiated maltreatment within six months of a prior determination of substantiated maltreatment	91.4%	93.0%	91.8%	Y
Percent of children reunified with their natural families in less than twelve months of entry into care	71.5%	69.9%	63.65%	R
			Overall Program Rating	Y



Early Childhood Services. Star level 2 will become the new minimum childcare quality benchmark effective July 2012. In FY13, the CYFD will also incorporate a new home visiting measure that better captures the program's performance.



Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of children receiving state subsidy in stars/aim high programs level two through five or with national accreditation (cumulative)	69.8%	69%	69.8%	G
Percent of mothers participating in home visiting identified as having symptoms of postpartum depression	N/A	Baseline	27.4%	
			Overall Program Rating	G

Youth and Family Services. To streamline transition services to clients, the CYFD has dissolved the Youth and Family Services Division. Probation officers and transition services are now within the Juvenile Justice Services Division. The Cambiar model encourages client-probation officers relationships begin while the client is still committed to a CYFD facility.

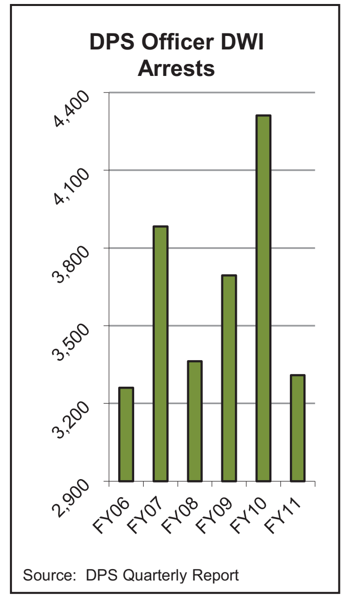
Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of clients readjudicated within two years of previous adjudication (cumulative)	6.2%	5.8%	6.7%	R
Percent of clients who complete formal probation (cumulative)	90.6%	90%	92.0%	G
Percent of adult victims or survivors receiving domestic violence services who have an individualized safety plan (cumulative)	92.4%	70%	92.9%	G
Percent of adult victims or survivors receiving domestic violence services who are made aware of other available community services (cumulative)	87.1%	70%	88.7%	G
			Overall Program Rating	Y

Program Support. Although the Juvenile Justice Services Program is reducing its youth care specialist vacancy rate through continual recruiting, it is still experiencing high turnover rates. For FY13, the CYFD will use turnover rates instead of vacancy rates as an indicator of employee satisfaction and retention.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent vacancy rate for youth care specialists (cumulative)	9.0%	8.0%	12.3%	R
			Overall Program Rating	R

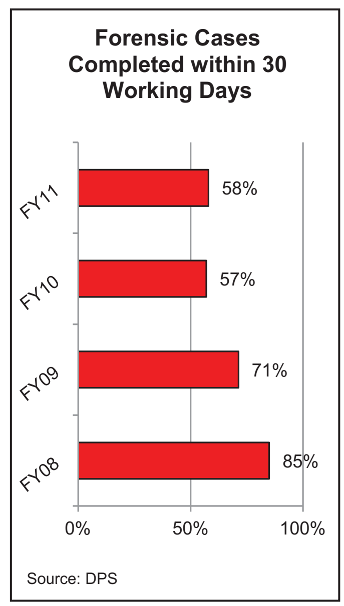
Department of Public Safety

The Department of Public Safety (DPS) performance measures focus on the department's key goals and initiatives to reduce alcohol abuse, reduce illegal drug abuse, reduce violent crime, and ensure traffic safety. However, the measures do not measure the impact of enforcement efforts or the state of public safety in New Mexico, so the DPS is making significant changes to all its performance measures for FY13.



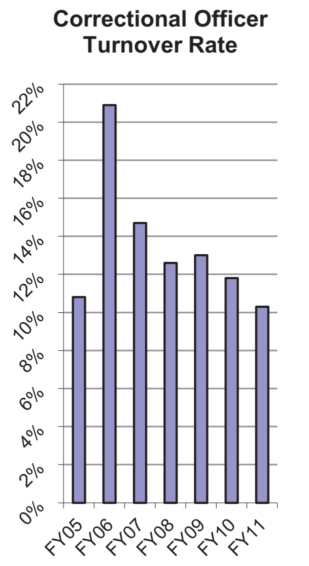
Law Enforcement Program. Performance levels are directly associated with program staffing, and maintaining the number of commissioned officers is a key element for all law enforcement measures. Recruitment and retention continue to be significant issues for the department, although, generally, the department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

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of total driving-while-intoxicated arrests by commissioned officers	4,311	3,200	3,309	G
Number of driving-while-intoxicated crashes investigated by commissioned officers	192	200	247	G
Number of fatal crashes in New Mexico	330	400	280	G
Number of drug arrests by commissioned officers	1,404	1,000	1,280	G
Number of criminal cases investigated by commissioned officers	18,694	15,000	17,766	G
Number of administrative citations issued by special investigations division for selling or giving alcohol to a minor	235	150	440	G
Percent of strength of commissioned officers	85.3%	81%	86.7%	G
Number of criminal citations or arrests for the illegal sales or service of alcohol to minors and intoxicated persons by the special investigations division	546	200	238	G
			Overall Program Rating	**G**

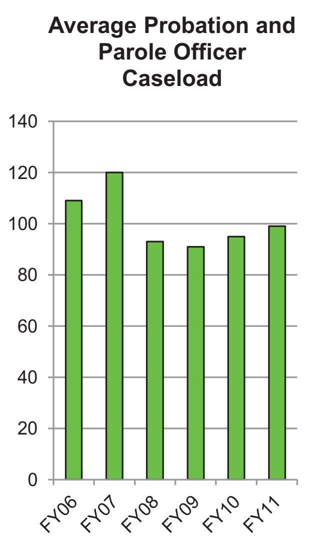


Program Support. The forensic science unit, DNA and chemistry, maintained a 34 percent vacancy rate and was able to complete 58 percent of all cases received in FY11 within 30 working days. Lab modernization and continued recruitment initiatives will help the department reduce its vacancy rate and achieve its FY12 targets.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of unfilled forensic scientist vacancies within the DNA discipline	4	5	5	G
Number of unfilled forensic scientist vacancies within the chemistry unit	4	4	3	G
			Overall Program Rating	**G**



Source: NMCD Quarterly Report



Source: NMCD Quarterly Report

New Mexico Corrections Department's (NMCD) performance measures report on its core functions, especially as they relate to incarceration, release, and recidivism of inmates. The measures are well-developed and established to evaluate the NMCD's performance over time. The two critical indicators of safety within the prisons are assaults on inmates and staff.

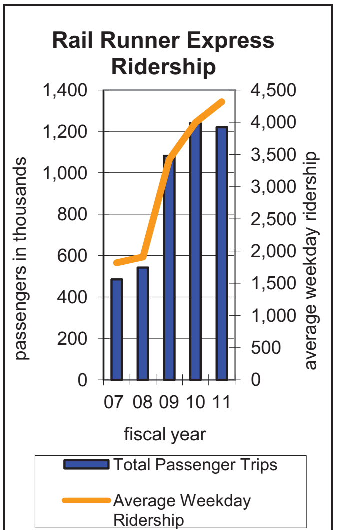
Inmate Management and Control Program. This program met or exceeded all but two performance measures. The performance data reflect the department's success in providing safe and secure prison operations. The recidivism rates measured are arguably the most meaningful outcomes of all and reflect deterioration from FY10 levels.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of serious inmate-on-inmate assaults in private and public facilities	19	23	14	G
Number of serious inmate-on-staff assaults in private and public facilities	6	11	4	G
Percent of inmates testing positive or refusing the monthly drug test	1.8%	2%	1.4%	G
Percent turnover of correctional officers	11.8%	13%	10.3%	G
Percent of prisoners re-incarcerated within thirty-six months after being discharged from the New Mexico corrections department prison system or into community supervision	43.6%	47%	44.6%	G
Percent of female offenders successfully released in accordance with their scheduled release date	95%	90%	84%	R
Percent of male offenders successfully released in accordance with their scheduled release date	86%	90%	85%	R
			Overall Program Rating	Y

Community Offender Management Program. The agency indicates that failure to achieve the FY11 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	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Average standard caseload of probation and parole officers	95	92	99	R
			Overall Program Rating	R

The Department of Transportation (NMDOT) performance continues to show mixed results. Significant progress has been made on critical concerns related to alcohol and non-alcohol traffic fatalities, but results related to public transit suggest the need for a more coherent long-term strategy for the Rail Runner and Park and Ride. The number of miles on New Mexico roads and highways in deficient condition continues to increase. The NMDOT should continue efforts to create a revised set of performance measures that better capture the NMDOT goals and outcomes and can be used to benchmark its performance across other states.

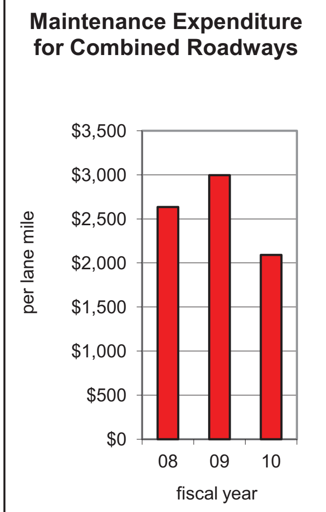


*FY11 data incomplete

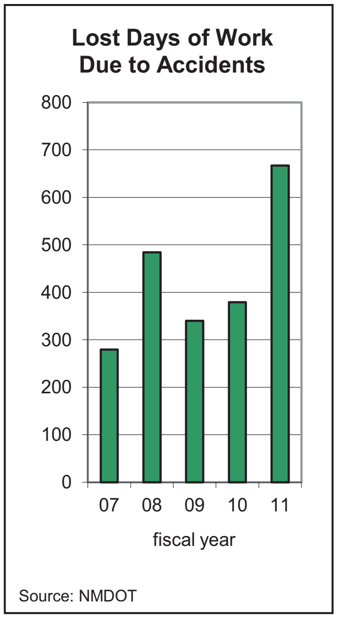
Source: NMDOT

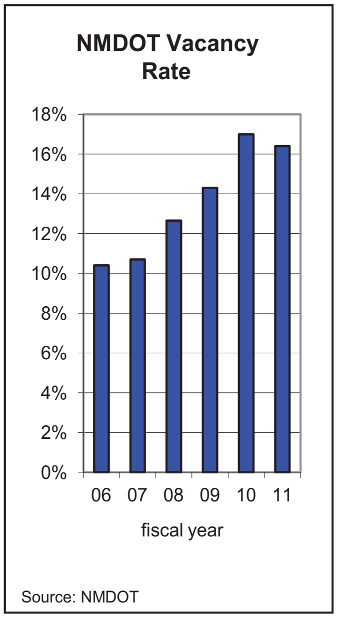
Programs and Infrastructure Program. Even taking into account the weak economy and schedule changes, results for ridership and revenue for the Rail Runner and Park and Ride suggest the NMDOT and the regional transit districts should re-think public transportation policies in New Mexico. Contracts let to bid as scheduled remain far under the FY11 target. This is a critical performance measure and administrative procedures at the NMDOT should be revised to improve results. Although significant attention is directed to deficient roads in the state, the measure related to airport runways in good condition suggests the NMDOT will have to direct limited resources in this area as well.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Ride quality index for new construction	4.1	≥4.0	4.0	G
Revenue dollars per passenger on park and ride	$2.63	$2.70	$2.67	Y
Annual number of riders on park and ride (cumulative)	258,086	≥225,000	292,476	G
Annual number of riders on the rail runner corridor in millions (cumulative)	1.2	≥1.5	1.2	R
Percent of programmed projects let according to schedule	66%	≥75%	56%	R
Number of passengers not wearing seatbelts in motor vehicle fatalities	147	≤184	114	G
Number of non-alcohol-related traffic fatalities (cumulative)	204	≤260	217	G
Number of alcohol-related traffic fatalities (cumulative)	147	≤155	89	G
Total number of traffic fatalities (cumulative)	351	≤405	306	G
Percent of airport runways in good condition	75%	≥ 70	60%	R
			Overall Program Rating	Y



Source: NMDOT





<u>Transportation and Operations Program</u>. The condition of New Mexico roads and highways continue to deteriorate, a trend that should cause significant concern given safety and liability costs. In addition, the NMDOT has not kept up with maintenance goals, primarily a result of state road fund revenue shortfalls. Data on the percent of non-interstate and interstate miles rated good were not collected by the NMDOT even though these were General Appropriation Act measures. The NMDOT is currently negotiating new agreements with the Federal Highway Administration (FHWA) on appropriate methodology for accurate data collection on deficient conditions that would allow federal funds to be used for analysis.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of statewide pavement preservation miles (cumulative)	2,432	≥4,000	2,094	R
Percent of non-interstate miles rated good	86%	≥88%	N/A	R
Percent of interstate miles rated good	99%	≥97%	N/A	R
Number of combined systemwide miles in deficient condition	3,171	< 2,500	3,407	R
Amount of litter picked off department roads (tons)	15,527	≥16,000	15,282	R
Customer satisfaction levels at rest areas	9%	98%	98.7%	G
			Overall Program Rating	R

<u>Business Support Program</u>. The end of the executive-imposed hiring freeze has allowed the NMDOT to fill a number of vacant positions. However, most of the positions were filled through internal promotion, causing the vacancy rate to remain flat. The NMDOT states the accident data is skewed because 511 lost days come as a result of two employees – 338 days lost for one individual and 173 days lost for another individual.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of external audit findings	18	≤6	N/A	R
Percent of invoices paid within thirty days	94%	≥95%	95%	G
Vacancy rate in all programs	17%	≤14%	16.4%	R
Number of employee injuries (cumulative)	107	≤100	102	R
Number of employee work days lost due to accidents (cumulative)	379	< 175	667	R
Number of working days between expenditure of federal funds and request for reimbursement from federal treasury	6	10	6	G
			Overall Program Rating	Y

For much of the economic recession and during most of the weak recovery that followed, the state was challenged to add more new jobs than it lost. After nearly 32 months of job losses, New Mexico's job growth outlook began to improve in June and improvement has continued through August. Any job growth must be considered in relative terms and although indicators show positive growth, the overall number of people with jobs in the state is below pre-recession levels.

Even in normal times, the process of creating jobs is challenging for the Economic Development Department (EDD), given limited economic development incentive tools compared to other states. Performance in the EDD's smaller programs shows positive results; however, in some cases the measures are a weak indicator of the program's activities and drift from the stated program mission. The department is working on a restructuring plan for FY14 to eliminate and consolidate programs.

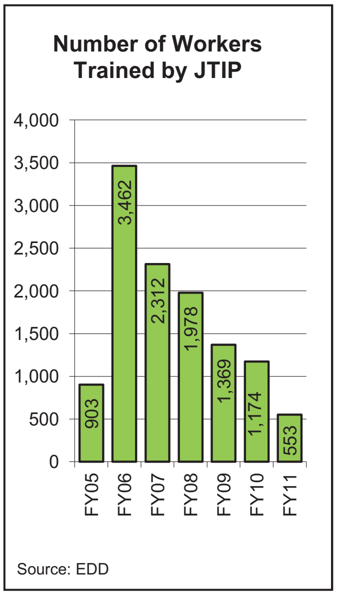
Economic Development Program. Except for the MainStreet Program, performance targets were set as the economic meltdown started and were not adjusted to reflect the severity of the economic downturn. Outcomes for all measures indicate deteriorating performance compared with FY10 but might be indicative of having reached the bottom of the downturn. The Job Training Incentive Program (JTIP), the high-performing incentive program, was able to exceed the targeted level of businesses participating in the program by awarding smaller awards and revising rules to shorten grant periods and quickly grant de-obligated awards. Although the overall program rating should be red, the assigned rating considers the current economic climate. Business relocations facilitated by the New Mexico Partnership, the state's quasi-public recruiting nonprofit, are down significantly from an FY08 peak of nearly 3,984 relocations, a reflection of tight money markets and lack of cash incentives to help induce relocations.

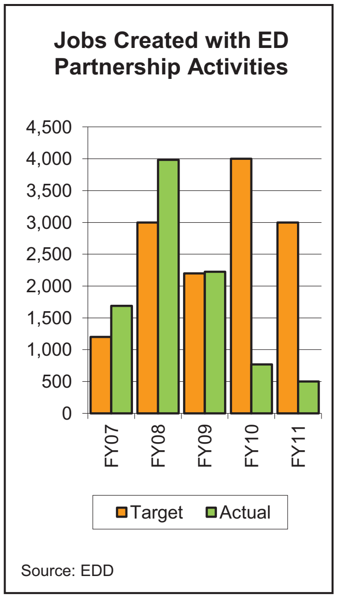
Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Annual net increase in jobs created due to economic development department efforts	2,763	4,500	1,922	R
Total number of rural jobs created	1,446	1,500	958	R
Number of jobs created through business relocations facilitated by the economic development partnership	767	3,000	499	R
Number of jobs created by the mainstreet program	681	570	598	G
Percent of employees whose wages were subsidized by the job training incentive program still employed by the company after one year	55%	60%	47%	R
Overall Program Rating				Y

EDD FY11 Funding by Division

	FY11 Budget (in millions)	FTE
ED	$3.12	26
Film	$1.16	11
Trade	$0.35	4
Tech	$0.11	2
Program Support	$3.25	22
Total	$7.99	65

Source: EDD Operating Budget





Film. The number of media industry worker days increased compared with a previous high of 151 thousand in FY08. A new $50 million aggregate annual rebate cap set to take effect in FY12 set in motion a rush to wrap up projects and submit reimbursement requests, pushing FY11 performance outcomes higher than expected.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of media industry worker days	142,524	177,000	181,366	G
Economic impact of media industry productions in New Mexico, in millions	$558.6	$300.0	$696.6	G
Number of films and media projects principally made in New Mexico	109	85	96	G
			Overall Program Rating	G

Office of Mexican Affairs. In general, the Office of Mexican Affairs (OMA) has a hard time quantifying its activities, and most of the program's staff is focused on diplomatic efforts rather than on job creation. Many of the program's activities are duplicated or similar to activities of the Border Authority and for FY12, the FTE and the majority of the operating budget were consolidated with the International Trade Program within the Economic Development Program of the EDD.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Dollar value of New Mexico exports to Mexico as a result of the Mexican affairs program, in millions	$433.8	$350	$383.7	G
Number of leads generated for potential maquiladora supplier projects	15	10	15	G
Number of trade missions to Mexico, annually	6	5	3	R
			Overall Program Rating	G

Technology Commercialization Program. The FY12 operating budget was reduced after passage of the New Mexico Research Application Act that authorized the creation of a state nonprofit corporation to foster intellectual property economic development.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Amount of investment as a result of office of science and technology efforts, in millions	$64.7	$10	$87.6	G
Number of new angel investors found as a result of office of science and technology efforts	27	18	23	G
			Overall Program Rating	G

Department of Environment

The Environment Department generally met FY11 targets, attributing underperformance to vacancies stemming from the hiring freeze. However, measures should be meaningful indicators of environmental health and safety. The department should report more on environmental quality impacts than on whether inspection processes are followed.

Water Quality. The program's measures should illustrate the quality and safety of New Mexico's limited water supply. While it is important that the program is performing inspections and issuing permits, the public is more interested in inspection outcomes than in the fact that they took place.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of permitted facilities receiving annual compliance evaluations and field inspections	42%	50%	54%	G
Percent of permitted facilities where monitoring results do not exceed standards	72%	70%	72%	G
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	94%	90%	92%	G
Percent of large quantity hazardous waste generators inspected	40.7%	20%	45.7%	G
			Overall Program Rating	G

Environmental Health. The failure to ensure for the second straight year that food-related violations are corrected timely is alarming and could erode confidence in the safety of New Mexico's food service industry.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of new septic tank inspections completed	78%	90%	78%	Y
Percent of high-risk food-related violations corrected within timeframes noted on the inspection report issued to permitted commercial food establishments	86%	100%	84%	R
Percent of radiation-producing machine inspections completed within the timeframes indicated in the radiation control bureau policies	98%	85%	86%	G
			Overall Program Rating	Y

Environment Department FY11 Funding by Program

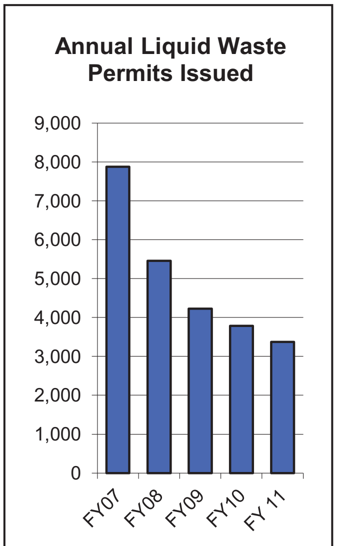
Program	FY11 Budget (in millions)	FTE
Water Quality	$21,473.9	194
Environment Health	$10,280.9	132
Environment Protection	$17,868.8	197
Water & Wastewater Infrastructure Development	$10,337.4	79
Program Support	$8,598.4	79

Source: NMED Operating Budget

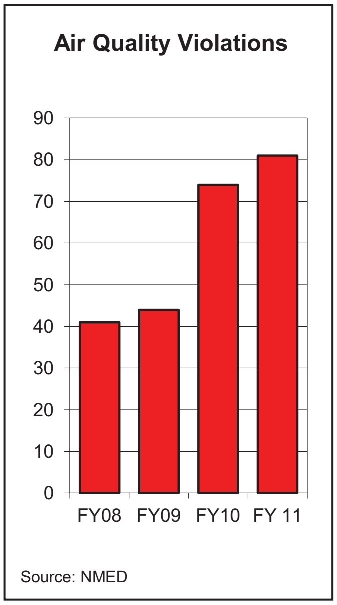
Water Quality Bureau Performance Trend

FY07	Y
FY08	G
FY09	Y
FY10	Y
FY11	G

Source: LFC Files



Source: NMED LWB



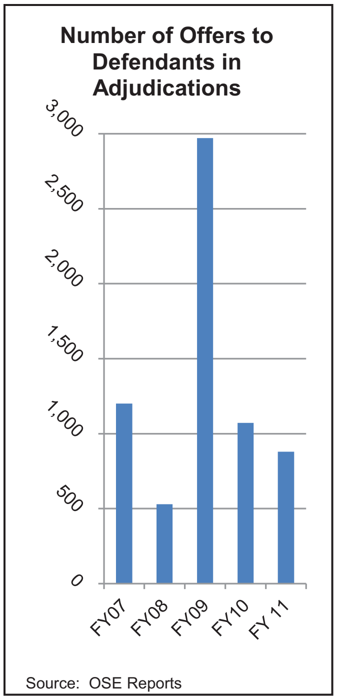
Environmental Protection. The program's measures are among the NMED's more meaningful performance indicators. The program is not only performing inspections, but also ensuring the subject of the inspections complied with regulations or acted to correct violations. As a result, the public can be confident the Environmental Protection Bureau is working to protect and improve environmental quality by minimizing the hazardous impacts from potential sources of water and air pollution. Although many underground storage tank facilities are not currently complying with NMED regulations, the program notes this results from a recent increase in the stringency of the regulations. The department reports compliance is increasing annually and is expected to meet the target in out-years.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of landfills meeting ground-water monitoring requirements	95%	75%	97%	G
Percent of facilities taking corrective action to mitigate air quality violations discovered as a result of inspections	97%	100%	100%	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	82%	75%	86%	G
Percent of underground storage tank facilities in significant operational compliance with release prevention and release detection regulations of petroleum storage tank regulations	55%	90%	62%	R
			Overall Program Rating	Y

Water and Wastewater Infrastructure Development Program. The program's bureaus completed inspections and processed applications, but this compliance does not indicate whether New Mexico's water and wastewater infrastructure is improved. In FY13 restructuring will eliminate this program, moving its bureaus to other divisions. The restructuring is an opportunity to revisit bureaus' responsibilities and improve accountability.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of uniform funding applications processed for water, wastewater and solid waste projects	277	300	265	Y
Percent of public drinking water systems inspected within one week of notification of system problems that might impact public health	100%	100%	100%	G
			Overall Program Rating	Y

Increased workload and a high vacancy rate have contributed to the Water Resource Allocation Program's reduced capacity for serving the state's water users. The Office of the State Engineer's (OSE) other programs were more successful managing the state's water resources in FY11 through adjudicating in-state water rights and meeting interstate compact requirements.



Water Resource Allocation. Although the program is successful in inspecting dams in New Mexico, staffing shortages negatively affect other aspects of its work. The program is not providing the expected level of customer service, evidenced by its decreased capacity for processing applications, resulting in the backlog. This problem is exacerbated by the ongoing drought, which contributes to increased applications to transfer water rights.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Average number of unprotested new and pending applications processed per month	66	65	56.4	R
Number of unprotested and unaggrieved water right applications backlogged	435	597	629	R
Number of dams inspected per year	101	110	111	G
Number of transactions abstracted annually into the water administration technical engineering resource system database (cumulative)	25,707	22,000	20,974	R
			Overall Program Rating	R

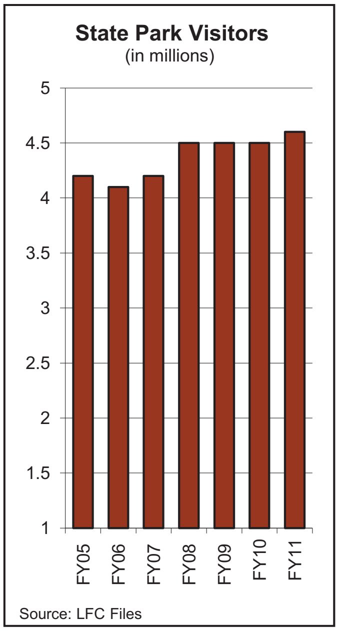
Interstate Stream Compact Compliance and Water Development Program. The program is meeting its delivery requirements as required by the Pecos River and Rio Grande compacts, and the accumulated delivery credit provides a buffer in the event of continuing water shortages.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Pecos river compact accumulated delivery credit or deficit, in acre-feet (AF)	100.1K AF Credit	0 (Credit)	99.6K AF Credit	G
Rio Grande river compact accumulated delivery credit or deficit, in acre-feet (AF)	164.7K AF Credit	0 (Credit)	164.7K AF Credit	G
			Overall Program Rating	G

Litigation and Adjudication. The program reports it is operating under budget constraints that limit its capacity for making progress in the state's 12 active adjudications. The program continues to make incremental progress in completing the ongoing adjudications, despite a reduction in the number of offers made in FY11. Barring the start of additional active adjudications, the percentage of adjudicated water rights should increase each year, justifying an increase in the target.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of offers to defendants in adjudications	1,072	1,000	880	Y
Percent of all water rights that have judicial determinations	48%	45%	51%	G
			Overall Program Rating	Y

The varying missions of the Energy, Minerals and Natural Resources Department's programs generally met FY11 targets. State Parks saw increased visitation and revenue, the Healthy Forests Program is training firefighters and preparing communities to deal with wildfires, and the Oil and Gas Conservation Program continues to monitor the safety and environmental impacts of oil and gas production facilities, a critical source of employment and income for New Mexico.

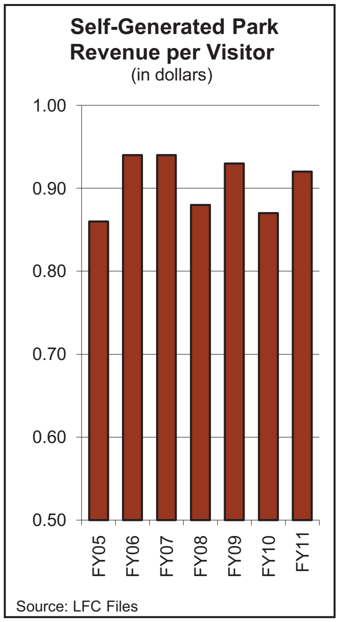


Renewable Energy and Energy Efficiency Program. The current measures do not clearly indicate the program's effectiveness and will be revised in FY13. The first measure is particularly unclear in that the percentage reduction in energy use each year is not cumulative – energy savings from a past retrofit continue to contribute to performance.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 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	15%	15%	15.7%	G
Percent of retail electricity sales from investor-owned utilities in New Mexico from renewable energy sources	9%	10%	8.7%	R
			Overall Program Rating	Y

Healthy Forests Program. The severe fire season highlights the importance of preparing both firefighters and at-risk communities. The program is effective in both areas: The fire training largely takes place in the winter and spring in advance of the fire season, and more at-risk communities are preparing for wildfires. State Forestry is effective enough in treating land affected by wildfires that the target should be increased to reflect the program's capacity.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of nonfederal wildland firefighters provided technical fire training appropriate to their incident command system	1,339	500	818	G
Percent of at-risk communities participating in collaborative wildfire protection planning	25%	25%	46%	G
Number of acres restored in New Mexico's forests and watersheds	17,133	8,000	19,280	G
			Overall Program Rating	G



State Parks Program. A strong fourth quarter allowed state park visitation to reach FY10 levels, and the increase in per-person fees indicates the program is efficiently creating recreational opportunities for New Mexicans while preserving cultural and natural resources.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Self-generated revenue per visitor, in dollars	$0.87	$0.87	$0.92	G
Number of visitors to state parks, in millions	4.6	4.2	4.6	G
			Overall Program Rating	G

Mine Reclamation Program. The program is ensuring the environmental compliance of active mines and the safety of abandoned mines. Given the high profile of hard-rock mine accidents nationwide and worldwide, a measure illustrating the safety of active New Mexico mines is of general interest and should be added.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of permitted mines with approved reclamation plans and adequate financial assurance posted to cover the cost of reclamation	98%	100%	99%	G
Percent of abandoned uranium mines with current site assessments (cumulative)	70%	75%	90%	G
			Overall Program Rating	G

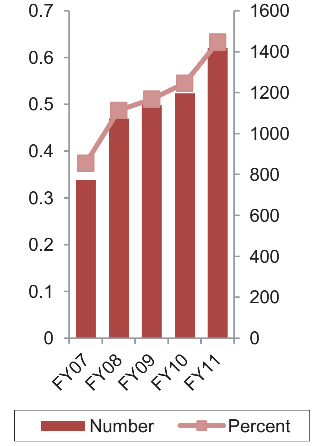
Oil and Gas Conservation Program. The department inspected about 10 thousand fewer wells and facilities than in FY10. Given recent increased activity in the Permian Basin and New Mexico's reliance on the industry for both employment and state revenue, the program should continue to inspect and report on the safety of oil and gas facilities.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of inspections of oil and gas wells and associated facilities	38,352	23,500	27,816	G
			Overall Program Rating	G

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. The Motor Vehicle Division (MVD) continues to be impacted by high vacancies, with wait times for both the call center and field offices significantly above targets. Improvements in the Tax Administration Program have boosted collections over FY10 despite fewer FTE.

TRD FY11 Funding by Division		
	FY11 Budget (in millions)	FTE
Tax Ad.	$31.70	545
MVD	$24.30	357
Prop Tax	$3.30	45
Comp Enf	$2.20	31
Prog Sup	$20.70	205
Total	$82.20	1,183.00
Source: FY11 Operating Budget		

Tax Administration Program. This program has been impacted by vacancies but is taking steps to increase collections. For example, accounts with potential bank and levy actions are routed to the call center where they can be handled more efficiently, and a new collection system module consolidates all types of taxpayer debt, which improves debt tracking and collection. The outcome for electronically filed returns in FY11 was short of the 65 percent target, although it is 8.8 percent higher than FY10. The department is implementing a regulation that requires major business taxpayers to file electronically.

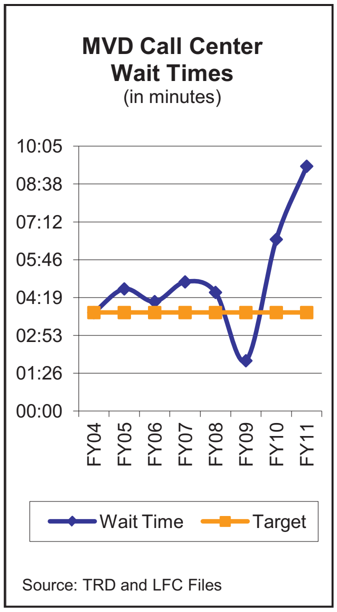


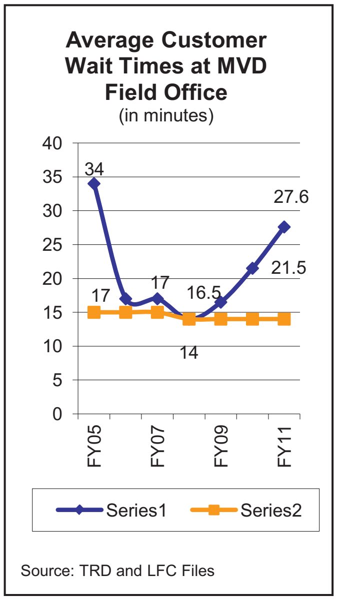
Source: TRD and LFC Files

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Collections as a percent of collectable outstanding balances from June 30, 2010	18.3%	20%	15.4%	R
Collections as a percent of collectable audit assessments generated in the current fiscal year	53%	40%	51%	G
Percent of electronically filed personal income tax and combined reporting system returns	54.5%	65%	63.3%	Y
			Overall Program Rating	Y

Compliance Enforcement Program. There are currently 40 open cases under investigation. The agency exceeded the target for investigations referred to prosecutors by 4 percent, with an average of 44 percent for FY11. While "successful tax fraud prosecutions" is a useful measure, the program states the 100 percent target may be unrealistic.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Successful tax fraud prosecutions as a percent of total cases prosecuted	100%	100%	93%	Y
Number of tax investigations referred to prosecutors as a percent of total investigations assigned during the year	New Measure	40%	44%	G
			Overall Program Rating	G





Motor Vehicle Program. High vacancies continue to impact the MVD, with the vacancy rate at 18 percent for field offices and 25 percent for the call center at the end of FY11. Wait time in field offices is still substantially above the 14 minute target. Due to some inconsistent use of the Q-Matic system that measures wait times, the department is working to standardize its use for the offices that use it. The MVD is developing a new corrective action plan to improve call center wait times, including a voice recognition system to allow customers to self-serve, which should help reduce call center demand.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of registered vehicles with liability insurance	91.0%	91.0%	90.9%	G
Average call center wait time to reach an agent, in minutes	6:32	3:45	9:19	R
Average wait time in q-matic equipped offices, in minutes	21:30	14:00	27:06	R
			Overall Program Rating	R

Property Tax Program. Property taxes contribute approximately $1.5 billion of revenue to New Mexico's counties annually. Thirty-one of the 33 counties passed the sales ratio test; on average, 94 percent of post-sales assessments across New Mexico were increased to 85 percent of the most recent sales prices.

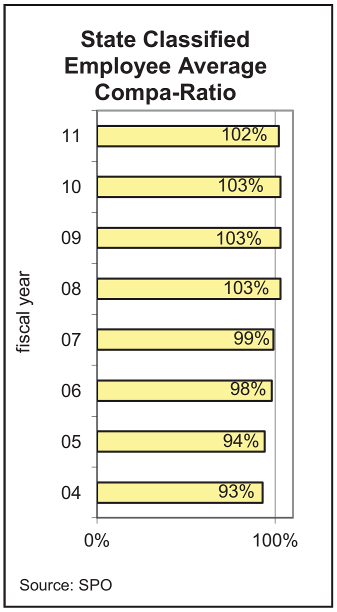
Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of counties in compliance with sales ratio standard of eighty-five percent assessed value to market value	91%	92%	94%	G
Number of appraisals and valuations for companies conducting business within the state subject to state assessment	539	500	515	G
			Overall Program Rating	G

Program Support. Of 1,365 license revocation cases scheduled in the fourth quarter, three were rescinded due to clerical errors or an incorrect address.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of driving-while-intoxicated drivers license revocations rescinded due to failure to hold hearings in ninety days	0.29%	<1%	0.29%	G
			Overall Program Rating	G

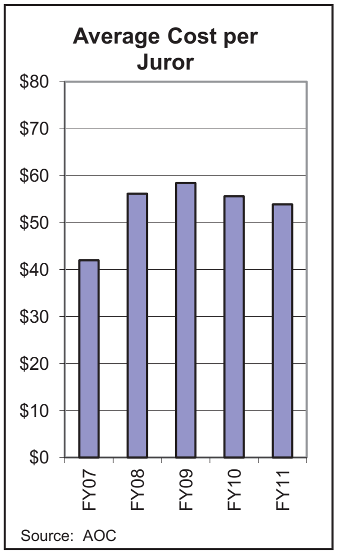
The performance of the State Personnel Board (SPB) remains difficult to assess because the agency is in the process of significant reorganization. Taken as a whole, the agency has made visible improvement in measuring and evaluating its performance, including efforts to benchmark measures with personnel systems in other states. Transparency at the agency has increased substantially. The agency is addressing ongoing problems with employee retention, lack of performance appraisals, high turnover, and high vacancy rates across state government.

Performance measures for FY11 have been met in an adequate fashion, although some data are unavailable for review because the agency elected not to collect it or it is considered inaccurate. A number of the current measures are being discontinued – and were not collected this year – given the agency view that they had no relevance. In cooperation with the LFC, the SPB has made extensive revisions in FY13 performance measures that more accurately reflect policies related to recruitment, training, promotion, and employee retention in the state.



Human Resource Management.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Average employee pay as a percent of board-approved comparator market, based on legislative authorization	103%	100%	102%	G
Average days to fill a vacant position	49	40	53	R
Percent of rule compliance audit reviews performed during the fiscal year	6	5	5	G
Percent of new employees who successfully complete their probationary period	71%	85%	61%	R
Percent of eligible employees with a completed performance appraisal on record at the close of the fiscal year	66%	99%	66%	R
Percent of personnel system review audits performed during fiscal year	3	4	4	G
Percent of new hire turnover	20%	25%	25%	Y
Percent of union grievances resolved prior to formal arbitration	95.5%	95%	100%	G
			Overall Program Rating	Y



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. The AOC became a key agency in FY10.

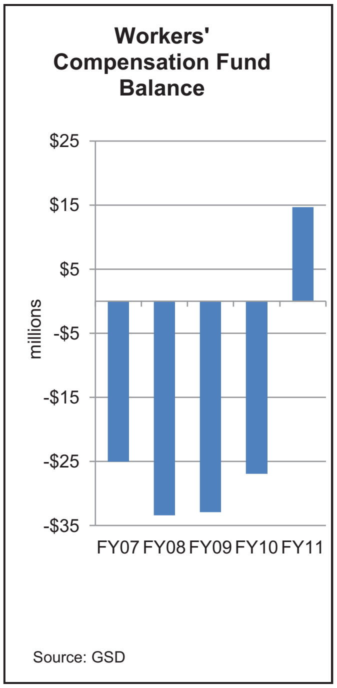
Administrative Services. The Supreme Court has reduced jury pay from $7.50 to $6.25 an hour. The change in jury pay will be implemented beginning in FY12. The reduction in jury pay is projected to save $500 thousand annually and will help the AOC meet the $50 per juror target as well as help to address some of the budgetary issues facing the program. The introduction of a new process for juror orientation that allows potential jurors to complete their orientation remotely through the use of electronic-formatted training materials is also saving money. Because the new orientation procedure has not been implemented in all districts for the full year, exact cost savings are not yet known. Currently the jury and witness fund has $1.4 million in outstanding loans through the Board of Finance. The loans were necessitated by an increase in juror pay, increase in juror and interpreter usage, and budget reductions. For FY11, the Legislature appropriated $4.1 million from the general fund and $2.1 million in other state funds for jury and witness payments

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Average cost per juror	$55.70	$50.00	$55.86	Y
			Overall Program Rating	Y

Magistrate Court Program. Budget reductions have forced the magistrate court program to leave clerk vacancies unfilled. American Recovery and Reinvestment Act (ARRA) funds totaling $125 thousand prevented furloughs at the magistrate court through FY11. The high clearance rates through FY11 might be the result of a 1.2 thousand drop in case filings in magistrate court in FY10. This reduction has allowed the magistrate courts to begin reducing the backlog in the courts.

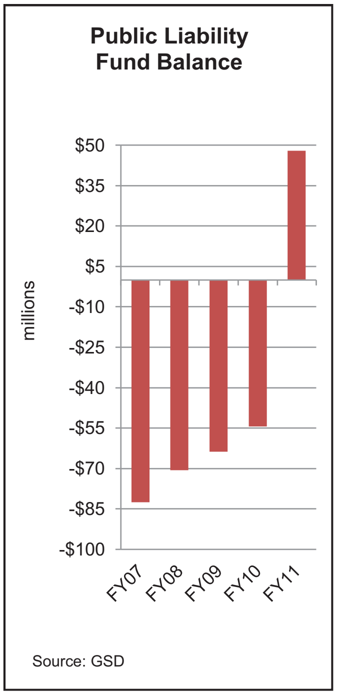
Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Bench warrant revenue collected annually, in millions	$3.15	$2.4	$3.4	G
Percent of cases disposed as a percent of cases filed	100.1%	95%	106.1%	G
Percent of magistrate courts financial reports submitted to fiscal services division and reconciled on monthly basis	99.2%	100%	96%	Y
			Overall Program Rating	G

The agency is working to improve productivity, effectiveness, and strengthen collaboration among agencies to improve services. The risk funds have not consistently met their targets. Due to a 30 percent vacancy rate, the Building Services Division has required custodial staff to do more with less, which has contributed to high staff turnover and deferred maintenance. Thanks to a robust 60-day legislative session, revenues for the State Printing and Graphics Services Program outpaced expenditures, however, the program is still recovering from losses in prior years.



Risk Management Program. Traditionally, the GSD has had a 50 percent target for most risk funds. Rates for FY12 and FY13 do not support sufficient reserves and funding to cover estimated future losses and administrative costs. Some years one or more funds has had a negative cash balance after that year's claims expenses are paid. Improved claims management procedures in addition to successful loss prevention plans should result in lower claims expenses and improved fund reserves. Agencies demonstrating success with implementing loss prevention plans should be rewarded with lower premiums or credit toward future premiums.

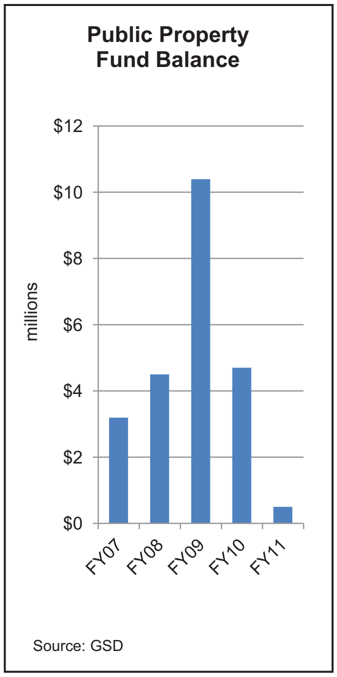
Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Projected financial position of the workers compensation fund	30%	20%	24%	G
Projected financial position of the public liability fund	54%	50%	48%	Y
Projected financial position of the public property fund	309%	50%	2%	R
			Overall Program Rating	Y



Employee Group Health Benefits Program. The State Personnel Office (SPO) reported there were 21,974 state employees as of July, 2011. Based on the SPO estimate, only 83 percent of eligible state employees are purchasing state health insurance. To maintain a flat budget year over year, the program has increased out-of-pocket expenses for covered employees. The program collected $334 million in program revenues and paid out $306 million in claims to health providers in FY11.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of eligible state employees purchasing health insurance	91%	90%	92%	Y
Percent of state group prescriptions filled with generic drugs	80%	80%	82%	G
			Overall Program Rating	G

Transportation Services Program. The number of long-term leased vehicles declined from 2,074 in January 2011 to 1,996 in August 2011. The top three agencies using air travel were Children's Medical Services (58



percent), Department of Transportation (11 percent) and New Mexico Tech (12 percent). The Aviation Services Bureau reports revenues for FY11 were $722 thousand and expenditures were $969 thousand.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of total accounts receivable dollars uncollected 120 days after invoice due date	17%	≤5%	7%	Y
Percent of short-term vehicle use	49%	80%	46%	R
Percent of total available aircraft fleet hours used	43%	65%	22%	R
			Overall Program Rating	Y

Building Office Space Management and Building Services Program. In FY11, the program maintained 1.5 million square feet at a cost of $6.14 per square foot (ft^2). The industry standard is $8.54 per ft^2. The state pays $42 million per year to lease 2.3 million per ft^2 of space. Based on a recent survey, the program reported an agency average of 401 per ft^2 per FTE for leased space compared with industry averages of 100 to 250 per ft^2 per FTE. The PCD reports an increase of 19 thousand per ft^2 in occupied state-owned space by the fourth quarter of FY11.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of property control capital projects on schedule within approved budget	96%	90%	94%	G
Percent of state-controlled office space occupied	90%	90%	97%	G
			Overall Program Rating	G

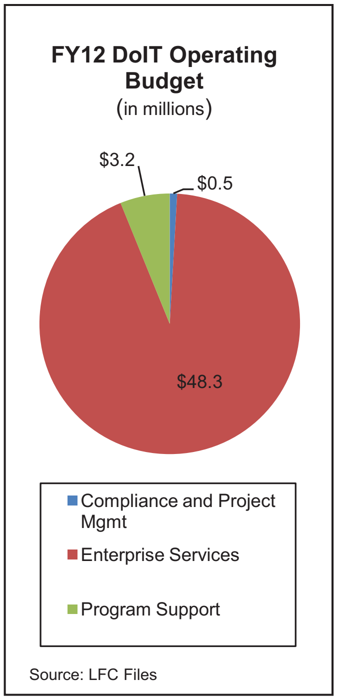
Procurement Services Program. In FY11, the program closed 27 out of 30 complaints of procurement and process violations valued at $444 thousand. Most were for "no valid contract" and all but one was under $50 thousand. In FY10, the program closed 33 complaints valued at $1.3 million. A task force was formed in FY11 and is currently reviewing regulations and possible legislation to improve the procurement process and help with migration to e-procurement.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Number of small business clients assisted	80	250	361	G

Number of government employees trained on Procurement Code compliance methods	612	500	600	G
			Overall Program Rating	G

<u>State Printing Services Program</u>. For FY11, revenues were $1.54 million and expenditures were $1.49 million. Comparing similar 60-day legislative sessions, FY11 sales revenue declined 5.6 percent compared with FY09. The program's cash balance for FY11 is a negative $220 thousand due to losses experienced in previous years. The program is working toward capturing a larger percentage of the $3 million expended by state agencies on outside printing and graphic services.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of individual printing services that break even, including 60 days of operating reserve	95%	95%	97%	G
Sales growth in state printing revenue compared with previous fiscal year	0%	0%	-5.6%	R
			Overall Program Rating	Y



While measurement goals for Compliance and Project Management and Enterprise Services programs are largely met, the department is developing better tools to demonstrate both effective oversight of agency information technology (IT) projects and timely resolution of help desk issues based on defined priorities. The department is reviewing alternatives to the antiquated accounts receivable (A/R) system and is in the process of hiring an additional 2 FTE in the A/R unit.

Compliance and Project Management. The program is down to 7 FTE from 11 FTE in FY10. At the end of the FY11, 51 agency-certified projects worth $231.7 million were open. Agencies are required to provide monthly status reports on these DoIT-certified projects. While the program's performance measures are met, they provide little information about the status of agency IT projects. To demonstrate whether agency IT projects are successful, on time, and at budget, the department has agreed to reinstate the "green-yellow-red" report card for agency IT projects with the largest budgets or other elements of risk.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of executive agency certified projects reviewed monthly for compliance and oversight requirements	100%	100%	100%	G
Percent of information technology projects requiring formal architecture review that receive a formal architecture review prior to project implementation	100%	100%	100%	G
			Overall Program Rating	G

Enterprise Services. The FY11 average queue-time for the help desk was nearly 20 seconds, yet queue time has improved over the past three quarters. The DoIT is developing new measures, such as a measure to track resolution time for help desk incidents based on priority level, and others to better quantify savings or cost avoidance from innovation and consolidation.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Queue-time to reach a customer service representative at the DoIT help desk, in seconds	19.6	≤17	19.9	Y
Percent of unscheduled downtime of the mainframe	0.098%	≤0.01%	0.07%	Y

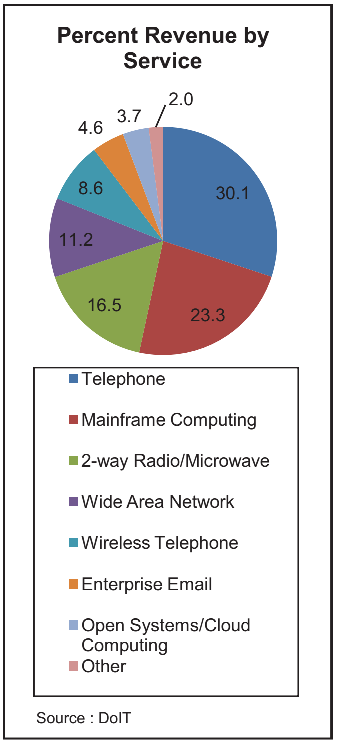
Percent of business days the statewide human resources management reporting system (SHARE-HCM) is unavailable due to unscheduled downtime from 8:00 a.m. to 5:00 p.m. Monday through Friday.	New Measure	≤ 5%	1.41%	G

Overall Program Rating Y

<u>Program Support</u>. Percent of audit corrective action plan commitments completed on schedule is based on the FY10 financial audit — four of the 12 FY09 audit findings were resolved. There were no additional findings in the FY10 audit. At the end of FY11, the department had four unresolved findings, two involving accounts receivables. The DoIT is considering a new SHARE accounts receivables (A/R) module to standardize data and ease reconciliation and is working to add 2 FTE to the A/R unit. The DoIT rate structure for services is a standard model and improvements typically result from advancements to the underlying service technology or to savings in overhead. The agency is evaluating new strategies for overhead recovery, such as a tier-level grade rate for high-volume customers (e.g., granting lower rates to agencies for usage over certain amounts), as well as pilot service offerings in telecommunications technology.

Measure	FY10 Actual	FY11 Target	FY11 Actual	FY11 Rating
Percent of accounts receivable dollars collected within sixty days of the invoice due date	42%	60%	79%	G
Dollar amount of receivables over sixty days old (in millions)	$4.7	$7.5	$7.64	Y
Percent of voice, data and radio services meeting federal standards for cost recovery	100%	100%	100%	G
Percent of audit corrective action plan commitments completed on schedule	22%	95%	33%	R

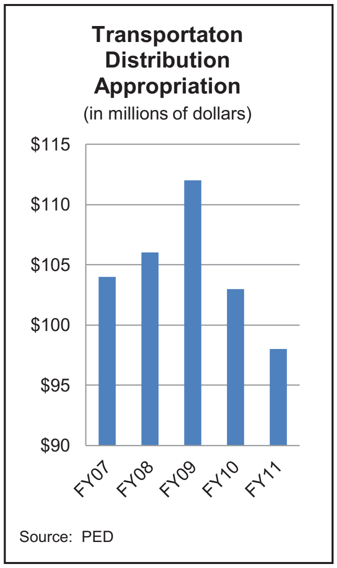
Overall Program Rating Y



A prior LFC evaluation resulted in the Department of Corrections collecting $1.1 million in contract violation penalties.

The state spends more money to subsidize inefficiently sized districts and charter schools than on at-risk students.

Previous LFC Medicaid Salud! recommendations saved HSD $183 million.



In a period of state budget challenges, program evaluations can identify strategies to efficiently allocate public resources to core government services. This includes identifying best practices and opportunities for cost-savings in duplicative, outdated, or inefficient programs. Evaluations review compliance with laws and regulations and compare New Mexico's performance to benchmarks across the country with the goal of recommending changes to each agency or institution as well as the Legislature. The significant issues and recommendations from the 12 projects conducted in 2011 are summarized below.

Public Schools

K-12 Funding Formula. Public education funding formulas reflect public policy goals and establish incentive structures to meet them. New Mexico's funding formula is responsible for distributing over $2 billion annually and consists of 27 discrete factors addressing specific policy goals. The formula has been modified more than 80 times since the 1970s, but some factors do not allocate resources in a way that ensures student success given modern education policy. The evaluation recommended overhauling the formula and improving the Public Education Department's (PED) administration and oversight.

Southern School Districts. Public education is a core state responsibility that at $2.3 billion accounts for 45 percent of all state spending. Overall, Deming Public Schools, Gadsden Independent School District, and Hatch Valley Public Schools provide varied examples of success in their operations, finances, and most importantly, student performance. Most students in these districts start school behind their peers and do not catch up; well over half are not proficient in either reading or math. The formula, however, does not efficiently steer resources to the incremental costs for serving at-risk students. It also contains adjustments subject to local self-reporting that result in some districts getting more, fewer resources for everyone else, and inefficient district operations.

School Bus Transportation. The PED is responsible for overseeing and distributing more than $100 million in state funding to transport about 180 thousand students. The formula factors are not documented and appear to have been arbitrarily changed in some years. Because the PED lacks an audit process to validate the accuracy of district-reported data, some districts might receive more funding at the expense of other districts. Also, the PED paid $1 million from a capital appropriation to buy and install 2,350 GPS units in school buses. Some of those units were unaccounted for.

Cost Effectiveness of the 12^{th} Grade. In FY11, $97 million was allocated for approximately 20 thousand 12^{th} graders, 4 percent of total formula funding. Many students graduate with credits in excess of state requirements, while a significant number of students receive a diploma without meeting the state's requirements. The funding formula weight attributed to the 12^{th} grade appears reasonable, but clearer standards are necessary to define student membership and account for dual credit. Recommendations include establishing a maximum age limit for public school students and monitoring high schools to ensure graduates meet state requirements.

Higher Education

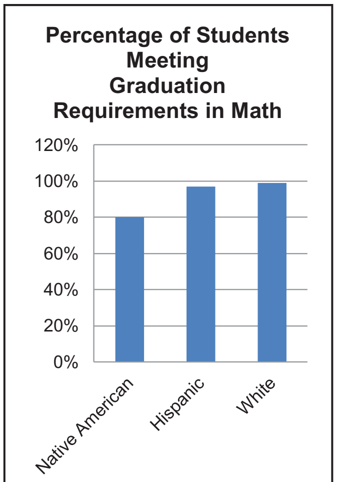
University of New Mexico Health Sciences Center. In FY10, the state provided $99 million of the University of New Mexico (UNM) Health Sciences Center's (HSC) $1.1 billion budget. Although from FY08 to FY10 increases occurred in Instruction and General support for all UNM HSC students, changes in workload as measured by student enrollment or credit hours have been minimal. The UNM HSC has not done an in-depth analysis to ensure spending is in line with its goals. In FY10, University Hospital received more than $825 million in Medicaid service reimbursement and supplemental funding and other state and local funds. However, reimbursement and structural changes in the healthcare arena could create significant challenges to the University Hospital system. The UNM HSC should routinely report to the Legislature the effectiveness of costly programs, and the governing boards of the UNM HSC should closely monitor the clinical service program financial status.

Community Colleges. In FY12, New Mexico appropriated 13 percent of the general fund, $731 million, to higher education. As of 2009, community college students make up 59 percent of New Mexico's total postsecondary education population. Central New Mexico Community College has the highest postsecondary enrollment in the state and Doña Anna Community College's has steadily increased. This evaluation assessed the oversight of community colleges and the use of governance and management best practices; analyzed funding from all sources and cost-effectiveness of fiscal and human resource decisions; and reviewed how policy, spending and personnel changes have contributed to the outcomes.

Health and Human Services

Coordination of Long-Term Services (CoLTS). The Coordination of Long-Term Services (CoLTS) program cost $800 million in FY10 and delivered services to 38 thousand elderly and disabled New Mexicans per month. The program coordinates the financing of physical health care with long-term care services, including nursing home, community-based services, and personal care. The Legislature needs to play a greater role in reviewing the potential fiscal impact of Medicaid waiver and state plan changes, such as CoLTS, before their implementation. Also, the program's structure and oversight needs streamlining to ensure future affordability. These changes are needed to allow managed-care organizations (MCOs) to seamlessly manage the full continuum of care, provide community-based services to those most at risk of nursing home placement, and change MCO capitation rate structures to ensure minor changes in services do not result in large-scale costs to the state.

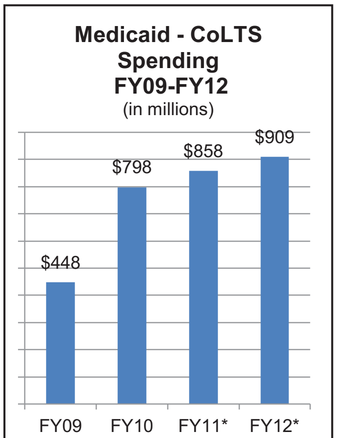
Medicaid Fraud and Abuse. In FY10, New Mexico's Medicaid program served more than 460 thousand New Mexicans at a cost of $3.8 billion. Fraud, waste, and abuse controls for Medicaid exist in the Human Services Department (HSD), including contracted MCOs, and within the Medicaid Fraud and Elder Abuse Division of the Office of the Attorney General. As a whole, they do not pay for themselves, suffer from fragmented program integrity oversight, and foster a pattern of wasteful spending. A refocusing of personnel, the implementation and use of meaningful performance



Source: Select School Districts

UNM School of Medicine	FY08	FY09	FY10
Enrollment	303	317	334
Student Credit Hours	5,440	5,819	6,462
Instruction Allocation (in millions)	$32.3	$34.3	$33.9

Source: Official Enrollment Report Fall 2010 and HSC Report of Actuals



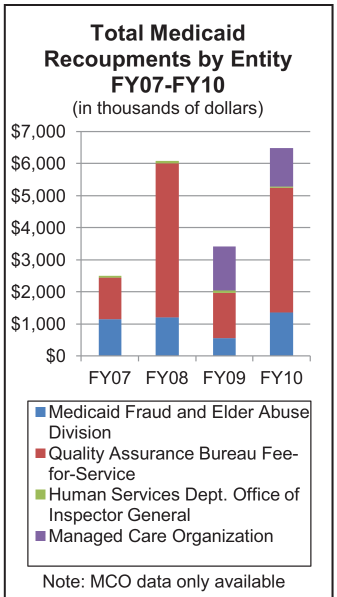
FY09 data based on partial year.

*Projected

Source: HSD

measures, increased oversight of MCOs, and more effective communications among entities will improve outcomes.

Healthcare Finance through Tax Code Policy and Local Counties. Overall, New Mexico's healthcare tax expenditures account for an estimated $290 million in foregone revenue each year, but their true impact is difficult to measure. The state does not systematically collect data on existing tax expenditures, instead relying on forecasting to gauge impact. More than $100 million is raised annually by counties to support indigent programs, to participate in the funding of Medicaid programs, and to contribute to the support of sole community provider hospitals. Recommendations include having the Taxation and Revenue Department expand data collection for evaluating the financial impact of healthcare tax expenditures, having hospitals provide more information on the use of sole community provider funds, and having the HSD report more data on locally raised Medicaid funds.



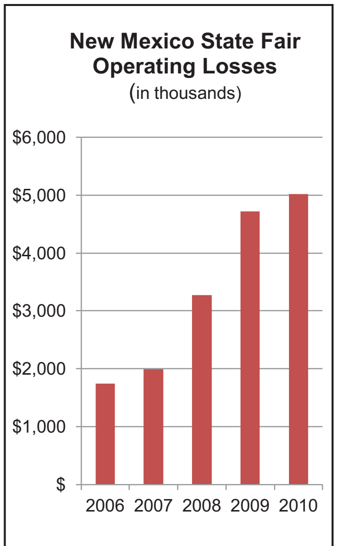
Source: OAG, HSD

Protective Services Division. In FY12, the Children, Youth, and Family Department's Protective Services Division (PSD) received $58 million in general funds to protect abused or neglected children. While the PSD has thorough policies and procedures, improving child safety hinges on making sure caseworkers are prepared, supported, and given the time necessary to make sound decisions. Worker turnover, inefficient management structures, duplication of efforts, and other systemic issues have contributed to chronic case overloads. Also, the PSD can reallocate a greater percentage of general fund dollars to preserve families and protect children through in-home services.

The State Fair evaluation resulted in the recovery of $215 thousand and identified an additional $1.1 million due to the State Fair.

General Government

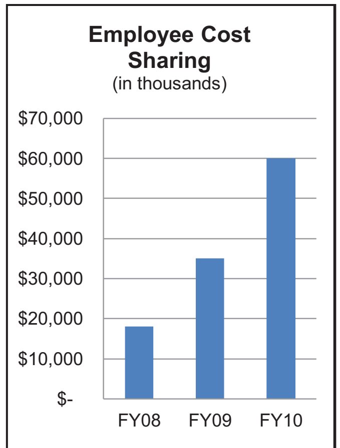
New Mexico State Fair. As an enterprise agency of the state of New Mexico, the State Fair is designed as a self-sufficient entity governed by an appointed commission. Operating revenues of $13 million in FY10 came from the annual Fair event, the Albuquerque Downs, concerts, and numerous other events. The New Mexico State Fair is fiscally insolvent and has continued to operate by not paying key creditors. Additionally, the State Fair failed to properly manage contracts. A combination of management and legislative actions are needed to increase accountability and oversight to ensure that the State Fair continues to play a vital economic and cultural role.



Source: LFC Analysis

Selected Capital Outlay Reviews. These reviews, to be presented in January, will determine if projects were planned according to legislative intent, evaluate the oversight by sponsoring agencies, measure return on investment, and verify that applicable state laws, rules, and regulations were followed. Projects reviewed include the Economic Development Initiative, the J. Paul Taylor Center, dam rehabilitations, Diné College Library, and the Okay Owingeh Airport.

Public Employee Health Benefits. The Risk Management Division (RMD) of the General Services Department and the New Mexico Public School Insurance Authority (NMPSIA) were created to design benefit plans, procure insurance products, apportion or receive contributions toward the purchase of insurance from participating entities, and enter into contracts with vendors for self-insurance pools. In FY10, combined spending for both entities was more than $520 million for health benefits, providing coverage for 135 thousand enrollees. 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. Key recommendations include creating a New Mexico Healthcare Finance Authority (HCFA) to administer health and risk benefits on behalf of governmental entities, including state and local governments, school districts, and institutions of higher education; abolishing the NMPSIA and RMD as separate entities and merging the functions for health benefits and risk funds into the new HCFA; establishing acceptable rates for state-sponsored programs; and only allowing rate changes with state approval.



Source: RMD and NMPSIA

Business Unit	Description	FY12 Operating Budget	FY13 Agency Request	FY13 LFC Recomm.	$ Over Adj. FY12 Oper.	Percent Change
Legislative						
111	LEGISLATIVE COUNCIL SERVICE	5,368.2	5,482.1	5,419.0	50.8	0.9%
112	LEGISLATIVE FINANCE COMMITTEE	3,842.3	3,879.0	3,922.8	80.5	2.1%
114	SENATE CHIEF CLERK	1,101.1	1,117.0	1,111.9	10.8	1.0%
115	HOUSE CHIEF CLERK	1,054.5	1,065.3	1,065.1	10.6	1.0%
117	LEGISLATIVE EDUCATION STUDY COMMITTEE	1,181.7	1,181.7	1,194.0	12.3	1.0%
119	LEGISLATIVE BUILDING SERVICES	3,853.2	3,853.2	3,881.6	28.4	0.7%
131	LEGISLATURE	1,916.0	0.0	1,920.2	4.2	0.2%
Total Legislative		18,317.0	16,578.3	18,514.6	197.6	1.1%
Judicial						
205	SUPREME COURT LAW LIBRARY	1,483.8	1,511.7	1,505.6	21.8	1.5%
208	NEW MEXICO COMPILATION COMMISSION	0.0	0.0	0.0	0.0	0.0%
210	JUDICIAL STANDARDS COMMISSION	706.9	737.7	742.9	36.0	5.1%
215	COURT OF APPEALS	5,339.4	5,446.2	5,514.3	174.9	3.3%
216	SUPREME COURT	2,783.9	2,842.6	2,879.3	95.4	3.4%
218	ADMINISTRATIVE OFFICE OF THE COURTS	38,252.7	40,341.0	39,878.5	1,625.8	4.3%
219	SUPREME COURT BUILDING COMMISSION	777.5	848.9	833.4	55.9	7.2%
231	FIRST JUDICIAL DISTRICT COURT	5,890.9	6,068.7	6,115.7	224.8	3.8%
232	SECOND JUDICIAL DISTRICT COURT	20,103.8	21,072.2	21,051.5	947.7	4.7%
233	THIRD JUDICIAL DISTRICT COURT	5,827.4	5,943.9	6,064.4	237.0	4.1%
234	FOURTH JUDICIAL DISTRICT COURT	1,943.3	2,069.2	2,027.0	83.7	4.3%
235	FIFTH JUDICIAL DISTRICT COURT	5,651.3	5,764.3	5,839.8	188.5	3.3%
236	SIXTH JUDICIAL DISTRICT COURT	2,893.4	2,941.5	3,010.3	116.9	4.0%
237	SEVENTH JUDICIAL DISTRICT COURT	2,055.4	2,096.5	2,124.9	69.5	3.4%
238	EIGHTH JUDICIAL DISTRICT COURT	2,562.3	2,613.5	2,613.6	51.3	2.0%
239	NINTH JUDICIAL DISTRICT COURT	2,973.1	3,034.0	3,078.8	105.7	3.6%
240	TENTH JUDICIAL DISTRICT COURT	718.6	743.6	751.6	33.0	4.6%
241	ELEVENTH JUDICIAL DISTRICT COURT	5,538.5	5,649.2	5,730.4	191.9	3.5%
242	TWELFTH JUDICIAL DISTRICT COURT	2,826.8	2,883.3	2,926.8	100.0	3.5%
243	THIRTEENTH JUDICIAL DISTRICT COURT	6,007.6	6,395.9	6,274.8	267.2	4.4%
244	BERNALILLO COUNTY METROPOLITAN COURT	21,087.9	21,831.5	21,937.8	849.9	4.0%
251	FIRST JUDICIAL DISTRICT ATTORNEY	4,455.4	4,616.9	4,639.8	184.4	4.1%
252	SECOND JUDICIAL DISTRICT ATTORNEY	15,866.3	16,193.3	16,414.2	547.9	3.5%
253	THIRD JUDICIAL DISTRICT ATTORNEY	4,185.0	4,611.5	4,300.7	115.7	2.8%
254	FOURTH JUDICIAL DISTRICT ATTORNEY	2,852.8	3,180.1	2,906.4	53.6	1.9%
255	FIFTH JUDICIAL DISTRICT ATTORNEY	4,074.0	4,226.5	4,209.9	135.9	3.3%
256	SIXTH JUDICIAL DISTRICT ATTORNEY	2,358.8	2,618.5	2,477.2	118.4	5.0%
257	SEVENTH JUDICIAL DISTRICT ATTORNEY	2,190.6	2,283.4	2,231.8	41.2	1.9%
258	EIGHTH JUDICIAL DISTRICT ATTORNEY	2,346.2	2,714.8	2,397.7	51.5	2.2%
259	NINTH JUDICIAL DISTRICT ATTORNEY	2,537.6	2,755.9	2,594.8	57.2	2.3%
260	TENTH JUDICIAL DISTRICT ATTORNEY	931.4	966.1	957.3	25.9	2.8%
261	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIVISION I	2,995.3	3,645.6	3,106.8	111.5	3.7%
262	TWELFTH JUDICIAL DISTRICT ATTORNEY	2,389.7	2,695.7	2,506.9	117.2	4.9%
263	THIRTEENTH JUDICIAL DISTRICT ATTORNEY	4,278.3	5,237.3	4,398.6	120.3	2.8%
264	ADMINISTRATIVE OFFICE OF THE DISTRICT ATTORNEYS	1,793.9	1,994.9	1,840.0	46.1	2.6%
265	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIVISION II	1,910.7	2,060.2	2,012.8	102.1	5.3%
Total Judicial		190,590.5	200,636.1	197,896.3	7,305.8	3.8%

TABLE 1 GENERAL FUND AGENCY RECOMMENDATION SUMMARY

Business Unit	Description	FY12 Operating Budget	FY13 Agency Request	FY13 LFC Recomm.	$ Over Adj. FY12 Oper.	Percent Change
	General Control					
305	ATTORNEY GENERAL	8,157.3	11,157.3	9,758.7	1,601.4	19.6%
308	STATE AUDITOR	2,212.2	2,823.7	2,416.6	204.4	9.2%
333	TAXATION AND REVENUE DEPARTMENT	52,927.5	52,993.1	53,407.7	480.2	0.9%
337	STATE INVESTMENT COUNCIL	0.0	0.0	0.0	0.0	0.0%
341	DEPARTMENT OF FINANCE AND ADMINISTRATION	21,984.0	22,080.7	22,661.9	677.9	3.1%
342	PUBLIC SCHOOL INSURANCE AUTHORITY	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%
350	GENERAL SERVICES DEPARTMENT	12,803.9	13,304.0	13,690.7	886.8	6.9%
352	EDUCATIONAL RETIREMENT BOARD	0.0	0.0	0.0	0.0	0.0%
354	NEW MEXICO SENTENCING COMMISSION	529.8	529.8	529.8	0.0	0.0%
355	PUBLIC DEFENDER DEPARTMENT	38,898.4	38,898.4	40,145.3	1,246.9	3.2%
356	GOVERNOR	3,357.6	3,357.6	3,391.6	34.0	1.0%
360	LIEUTENANT GOVERNOR	671.0	575.8	579.9	-91.1	-13.6%
361	DEPARTMENT OF INFORMATION TECHNOLOGY	472.0	868.7	741.6	269.6	57.1%
366	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION	0.0	0.0	0.0	0.0	0.0%
369	STATE COMMISSION OF PUBLIC RECORDS	2,405.3	2,838.2	2,601.5	196.2	8.2%
370	SECRETARY OF STATE	4,351.3	6,610.9	4,686.2	334.9	7.7%
378	PERSONNEL BOARD	3,852.4	3,852.4	3,896.1	43.7	1.1%
379	PUBLIC EMPLOYEE LABOR RELATIONS BOARD	212.6	212.6	214.0	1.4	0.7%
394	STATE TREASURER	3,550.8	3,537.7	3,572.3	21.5	0.6%
	Total General Control	156,386.1	163,640.9	162,293.9	5,907.8	3.8%
	Commerce and Industry					
404	BOARD OF EXAMINERS FOR ARCHITECTS	0.0	0.0	0.0	0.0	0.0%
417	BORDER AUTHORITY	331.4	391.4	333.4	2.0	0.6%
418	TOURISM DEPARTMENT	8,268.5	8,268.5	8,300.7	32.2	0.4%
419	ECONOMIC DEVELOPMENT DEPARTMENT	6,455.0	6,455.0	6,497.2	42.2	0.7%
420	REGULATION AND LICENSING DEPARTMENT	12,590.1	12,740.1	12,726.8	136.7	1.1%
430	PUBLIC REGULATION COMMISSION	7,771.2	8,091.1	7,836.8	65.6	0.8%
446	MEDICAL BOARD	0.0	0.0	0.0	0.0	0.0%
449	BOARD OF NURSING	0.0	0.0	0.0	0.0	0.0%
460	NEW MEXICO STATE FAIR	0.0	0.0	0.0	0.0	0.0%
464	STATE BOARD OF LICENSURE FOR ENGINEERS & LAND SUR	0.0	0.0	0.0	0.0	0.0%
465	GAMING CONTROL BOARD	5,180.2	5,694.6	5,498.4	318.2	6.1%
469	STATE RACING COMMISSION	1,849.3	2,000.1	2,013.4	164.1	8.9%
479	BOARD OF VETERINARY MEDICINE	0.0	0.0	0.0	0.0	0.0%
490	CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION	87.0	87.0	87.0	0.0	0.0%
491	OFFICE OF MILITARY BASE PLANNING AND SUPPORT	119.3	119.3	120.8	1.5	1.3%
495	SPACEPORT AUTHORITY	489.6	489.6	456.2	-33.4	-6.8%
	Total Commerce and Industry	43,141.6	44,336.7	43,870.7	729.1	1.7%
	Agriculture, Energy and Natural Resources					
505	CULTURAL AFFAIRS DEPARTMENT	26,933.0	26,933.0	27,163.1	230.1	0.9%
508	NEW MEXICO LIVESTOCK BOARD	454.4	454.4	459.4	5.0	1.1%
516	DEPARTMENT OF GAME AND FISH	0.0	0.0	0.0	0.0	0.0%
521	ENERGY, MINERALS AND NATURAL RESOURCES DEPARTM	19,535.1	19,935.1	20,134.7	599.6	3.1%
522	YOUTH CONSERVATION CORPS	0.0	0.0	0.0	0.0	0.0%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

Business Unit	Description	FY12 Operating Budget	FY13 Agency Request	FY13 LFC Recomm.	$ Over Adj. FY12 Oper.	Percent Change
538	INTERTRIBAL CEREMONIAL OFFICE	30.0	30.0	30.0	0.0	0.0%
539	COMMISSIONER OF PUBLIC LANDS	0.0	0.0	0.0	0.0	0.0%
550	STATE ENGINEER	14,598.5	14,598.5	14,776.9	178.4	1.2%
569	ORGANIC COMMODITY COMMISSION	0.0	0.0	0.0	0.0	0.0%
	Total Agriculture, Energy and Natural Resources	61,551.0	61,951.0	62,564.1	1,013.1	1.6%
	Health, Hospitals and Human Services					
601	COMMISSION ON STATUS OF WOMEN	0.0	0.0	0.0	0.0	0.0%
603	OFFICE OF AFRICAN AMERICAN AFFAIRS	695.4	695.4	681.0	-14.4	-2.1%
604	COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS	300.0	300.0	0.0	-300.0	-100.0%
605	MARTIN LUTHER KING, JR. COMMISSION	172.7	209.1	198.8	26.1	15.1%
606	COMMISSION FOR THE BLIND	1,889.4	1,889.4	1,900.3	10.9	0.6%
609	INDIAN AFFAIRS DEPARTMENT	2,400.1	2,400.1	2,355.9	-44.2	-1.8%
624	AGING AND LONG-TERM SERVICES DEPARTMENT	40,663.9	42,910.9	41,980.9	1,317.0	3.2%
630	HUMAN SERVICES DEPARTMENT	967,295.8	1,017,445.0	1,002,725.8	35,430.0	3.7%
631	WORKFORCE SOLUTIONS DEPARTMENT	3,217.4	4,217.4	3,760.1	542.7	16.9%
632	WORKERS' COMPENSATION ADMINISTRATION	0.0	0.0	0.0	0.0	0.0%
644	DIVISION OF VOCATIONAL REHABILITATION	5,348.7	5,673.6	5,619.3	270.6	5.1%
645	GOVERNOR'S COMMISSION ON DISABILITY	645.7	954.0	816.4	170.7	26.4%
647	DEVELOPMENTAL DISABILITIES PLANNING COUNCIL	4,135.3	4,570.5	4,522.3	387.0	9.4%
662	MINERS' HOSPITAL OF NEW MEXICO	0.0	0.0	0.0	0.0	0.0%
665	DEPARTMENT OF HEALTH	288,707.1	288,707.1	291,247.5	2,540.4	0.9%
667	DEPARTMENT OF ENVIRONMENT	11,354.9	11,354.9	11,045.8	-309.1	-2.7%
668	OFFICE OF THE NATURAL RESOURCES TRUSTEE	86.4	86.4	87.0	0.6	0.7%
669	NEW MEXICO HEALTH POLICY COMMISSION	4.7	0.0	0.0	-4.7	-100.0%
670	VETERANS' SERVICES DEPARTMENT	2,634.4	3,070.0	2,723.8	89.4	3.4%
690	CHILDREN, YOUTH AND FAMILIES DEPARTMENT	195,171.9	203,171.9	208,182.6	13,010.7	6.7%
	Total Health, Hospitals and Human Services	1,524,723.8	1,587,655.7	1,577,847.5	53,123.7	3.5%
	Public Safety					
705	DEPARTMENT OF MILITARY AFFAIRS	6,297.6	6,297.6	6,322.7	25.1	0.4%
760	PAROLE BOARD	442.7	469.1	463.7	21.0	4.7%
765	JUVENILE PUBLIC SAFETY ADVISORY BOARD	24.1	24.1	24.1	0.0	0.0%
770	CORRECTIONS DEPARTMENT	256,976.5	264,928.3	265,494.0	8,517.5	3.3%
780	CRIME VICTIMS REPARATION COMMISSION	1,674.0	1,713.6	1,710.0	36.0	2.2%
790	DEPARTMENT OF PUBLIC SAFETY	86,218.8	89,803.6	90,949.0	4,730.2	5.5%
795	HOMELAND SECURITY AND EMERGENCY MANAGEMENT	2,467.6	2,467.6	2,393.2	-74.4	-3.0%
	Total Public Safety	354,101.3	365,703.9	367,356.7	13,255.4	3.7%
	Transportation					
805	DEPARTMENT OF TRANSPORTATION	0.0	0.0	0.0	0.0	0.0%
	Total Transportation	0.0	0.0	0.0	0.0	0.0%
	Other Education					
924	PUBLIC EDUCATION DEPARTMENT	10,534.2	10,634.2	10,739.6	205.4	1.9%
925	PUBLIC EDUCATION DEPARTMENT-SPECIAL APPROPRIATIO	17,055.8	47,784.2	35,419.9	18,364.1	107.7%
930	REGIONAL EDUCATION COOPERATIVES	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%

TABLE 1 GENERAL FUND AGENCY RECOMMENDATION SUMMARY

Business Unit	Description	FY12 Operating Budget	FY13 Agency Request	FY13 LFC Recomm.	$ Over Adj. FY12 Oper.	Percent Change
	Total Other Education	27,590.0	58,418.4	46,159.5	18,569.5	67.3%
	Higher Education					
950	HIGHER EDUCATION DEPARTMENT	35,819.1	35,819.1	31,866.6	-3,952.5	-11.0%
952	UNIVERSITY OF NEW MEXICO	268,562.3	267,572.3	284,696.5	16,134.2	6.0%
954	NEW MEXICO STATE UNIVERSITY	175,341.5	175,984.0	185,034.3	9,692.8	5.5%
956	NEW MEXICO HIGHLANDS UNIVERSITY	27,433.7	27,194.8	29,049.6	1,615.9	5.9%
958	WESTERN NEW MEXICO UNIVERSITY	16,532.5	16,791.7	17,587.5	1,055.0	6.4%
960	EASTERN NEW MEXICO UNIVERSITY	39,373.1	39,223.8	42,115.3	2,742.2	7.0%
962	NEW MEXICO INSTITUTE OF MINING AND TECHNOLOGY	34,596.6	34,948.3	36,272.0	1,675.4	4.8%
964	NORTHERN NEW MEXICO COLLEGE	10,091.2	10,042.8	10,545.8	454.6	4.5%
966	SANTA FE COMMUNITY COLLEGE	12,166.1	12,002.9	12,527.7	361.6	3.0%
968	CENTRAL NEW MEXICO COMMUNITY COLLEGE	43,086.0	43,686.8	47,935.7	4,849.7	11.3%
970	LUNA COMMUNITY COLLEGE	7,448.1	7,375.1	7,725.5	277.4	3.7%
972	MESALANDS COMMUNITY COLLEGE	4,179.4	4,098.4	4,295.9	116.5	2.8%
974	NEW MEXICO JUNIOR COLLEGE	5,829.3	5,935.6	6,196.0	366.7	6.3%
976	SAN JUAN COLLEGE	21,801.0	21,575.4	23,243.8	1,442.8	6.6%
977	CLOVIS COMMUNITY COLLEGE	8,428.8	8,350.5	8,769.4	340.6	4.0%
978	NEW MEXICO MILITARY INSTITUTE	1,816.1	1,816.1	2,642.4	826.3	45.5%
979	NEW MEXICO SCHOOL FOR THE BLIND AND VISUALLY IMP	675.2	675.2	1,099.9	424.7	62.9%
980	NEW MEXICO SCHOOL FOR THE DEAF	3,385.3	3,385.3	3,938.4	553.1	16.3%
	Total Higher Education	716,565.3	716,478.1	755,542.3	38,977.0	5.4%
	Public School Support					
993	PUBLIC SCHOOL SUPPORT	2,338,422.0	2,377,780.8	2,409,013.7	70,591.7	3.0%
	Total Public School Support	2,338,422.0	2,377,780.8	2,409,013.7	70,591.7	3.0%
	Other					
992	ERB 0.75 PERCENT INCREASE	0.0	0.0	17,079.6	17,079.6	0.0%
992	REPLACE TOBACCO SETTLEMENT - 50 PERCENT	0.0	0.0	19,282.7	19,282.7	0.0%
996	STATE EMP COMP - 0.50 PERCENT	0.0	0.0	3,400.0	3,400.0	0.0%
997	DISTRICT COURT JUDGESHIPS (2)	0.0	0.0	460.0	460.0	0.0%
	Total Other	0.0	0.0	40,222.3	40,222.3	0.0%
	Grand Total	5,431,388.6	5,593,179.9	5,681,281.6	249,893.0	4.6%

U.S. AND NEW MEXICO ECONOMIC INDICATORS — TABLE 2

December 2011 Consensus Forecast

	FY2011	FY2012	FY2013	FY2014
NATIONAL ECONOMIC INDICATORS				
US Real GDP Growth (level annual avg, % yoy)*	2.6	1.7	1.8	3.2
US Inflation Rate (CPI, annual avg, % yoy)**	2.2	2.3	2.3	2.3
Federal Funds Rate (%)	0.16	0.09	0.10	0.42
NEW MEXICO LABOR MARKET & INCOME DATA				
NM Non-Agricultural Employment Growth (%)	-0.3	0.7	1.0	1.2
NM Personal Income Growth (%)***	4.5	4.2	3.1	3.0
NM Private Wages & Salaries Growth (%)	2.6	2.6	2.8	3.4
CRUDE OIL AND NATURAL GAS OUTLOOK				
NM Oil Price ($/barrel)	$84.60	$86.75	$87.75	$88.50
NM Taxable Oil Sales (million barrels)	68.8	69.5	68.9	68.4
NM Gas Price ($ per thousand cubic feet)****	$5.50	$5.20	$5.60	$5.90
NM Taxable Gas Sales (billion cubic feet)	1,239	1,173	1,188	1,069

*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 IHS Global Insight, BBER FOR-UNM revised

TABLE 3

General Fund Consensus Revenue Estimate
December 2011

	FY11		FY12		FY13		FY14	
	Preliminary Audit	% Change from FY10	Forecast	% Change from FY11	Forecast	% Change from FY12	Forecast	% Change from FY13
Gross Receipts Tax	1,811.4	10.8%	1,865.0	3.0%	1,935.9	3.8%	2,011.4	3.9%
Compensating Tax	69.2	35.9%	69.5	0.5%	73.1	5.2%	75.9	3.8%
TOTAL GENERAL SALES	1,880.6	11.6%	1,934.5	2.9%	2,009.0	3.8%	2,087.3	3.9%
Tobacco Taxes	88.2	93.0%	86.4	-2.0%	84.7	-2.0%	83.1	-1.9%
Liquor Excise	25.7	0.4%	25.9	0.8%	26.1	0.8%	26.7	2.3%
Insurance Taxes	132.7	1.8%	129.3	-2.6%	134.7	4.2%	137.9	2.4%
Fire Protection Fund Reversion	17.6	252.0%	15.9	-9.4%	15.2	-4.9%	14.4	-5.3%
Motor Vehicle Excise	103.7	12.4%	110.2	6.3%	114.3	3.7%	121.6	6.4%
Gaming Excise	65.8	1.1%	66.6	1.2%	66.7	0.1%	67.3	1.0%
Leased Vehicle Surcharge	5.0	-12.3%	5.2	4.0%	5.3	1.0%	5.3	1.0%
Other	2.5	-21.9%	2.8	13.2%	3.0	7.1%	3.2	4.3%
TOTAL SELECTIVE SALES	441.2	18.3%	442.3	0.3%	449.9	1.7%	459.4	2.1%
Personal Income Tax	1,066.2	11.5%	1,090.0	2.2%	1,115.0	2.3%	1,150.0	3.1%
Corporate Income Tax	229.8	83.7%	310.0	34.9%	375.0	21.0%	410.0	9.3%
TOTAL INCOME TAXES	1,296.0	19.8%	1,400.0	8.0%	1,490.0	6.4%	1,560.0	4.7%
Oil and Gas School Tax	378.7	16.7%	358.6	-5.3%	376.0	4.9%	365.7	-2.8%
Oil Conservation Tax	19.7	20.1%	18.5	-6.1%	19.3	4.3%	18.8	-2.6%
Resources Excise Tax	9.9	5.3%	10.0	1.0%	10.0	0.0%	10.0	0.0%
Natural Gas Processors Tax	18.2	-55.0%	22.0	20.7%	23.6	7.4%	22.6	-4.2%
TOTAL SEVERANCE TAXES	426.5	9.2%	409.1	-4.1%	428.9	4.9%	417.1	-2.8%
LICENSE FEES	49.8	-1.0%	51.5	3.4%	53.7	4.2%	55.9	4.1%
LGPF Interest	446.2	2.1%	459.7	3.0%	433.0	-5.8%	427.6	-1.2%
STO Interest	14.8	-33.0%	17.3	16.9%	23.4	35.0%	39.3	68.3%
STPF Interest	184.6	-1.3%	183.4	-0.7%	172.5	-5.9%	160.1	-7.2%
TOTAL INTEREST	645.6	-0.1%	660.4	2.3%	628.9	-4.8%	627.0	-0.3%
Federal Mineral Leasing	411.8	15.9%	420.0	2.0%	419.0	-0.2%	423.7	1.1%
State Land Office	65.6	-3.1%	58.6	-10.7%	47.4	-19.1%	46.2	-2.5%
TOTAL RENTS & ROYALTIES	477.4	12.9%	478.6	0.3%	466.4	-2.6%	469.9	0.8%
TRIBAL REVENUE SHARING	65.9	2.8%	70.4	6.8%	75.4	7.1%	78.2	3.7%
MISCELLANEOUS RECEIPTS	52.1	17.3%	46.0	-11.8%	46.2	0.5%	47.1	2.0%
REVERSIONS	67.3	68.3%	40.0	-40.6%	40.0	0.0%	40.0	0.0%
TOTAL RECURRING	5,402.4	12.6%	5,532.8	2.4%	5,688.2	2.8%	5,841.8	2.7%
TOTAL NON-RECURRING	66.8	-86.1%	18.3	-72.6%	(3.3)	-118.0%	(0.9)	-72.7%
GRAND TOTAL	5,469.2	3.6%	5,551.1	1.5%	5,684.9	2.4%	5,840.9	2.7%

General Fund Financial Summary - LFC Recommendation (Millions)

TABLE 4

	Preliminary FY2011	Estimated FY2012	Estimated FY2013
APPROPRIATION ACCOUNT			
REVENUE			
Recurring Revenue			
December 2011 Consensus Forecast	$ 5,402.4	$ 5,532.8	$ 5,688.2
Total Recurring Revenue	$ 5,402.4	$ 5,532.8	$ 5,688.2
Nonrecurring Revenue			
Total Non-Recurring Revenue (1)	$ 66.8	$ 18.3	$ (3.3)
TOTAL REVENUE	**$ 5,469.2**	**$ 5,551.1**	**$ 5,684.9**
APPROPRIATIONS			
Recurring Appropriations			
General Appropriation	$ 5,212.9	$ 5,431.3	$ 5,681.3
Total Recurring Appropriations (2)	$ 5,212.9	$ 5,431.3	$ 5,681.3
Nonrecurring Appropriations			
2011 Regular & Special Sessions (3)	$ 18.3	$ 5.8	$ -
2012 Deficiencies, Supplementals, and Specials (4)	$ -	$ 47.1	$ -
Total Nonrecurring Appropriations	$ 18.3	$ 52.9	$ -
TOTAL APPROPRIATIONS	**$ 5,231.2**	**$ 5,484.2**	**$ 5,681.3**
Transfer to(from) Reserves	$ 238.0	$ 66.9	$ 3.6
GENERAL FUND RESERVES			
Beginning Balances	$ 278.0	$ 501.9	$ 552.3
Transfers from (to) Appropriations Account	$ 238.0	$ 1.9	$ 3.6
Revenue and Reversions	$ 58.9	$ 40.1	$ 49.8
Appropriations, expenditures and transfers out	$ (73.0)	$ 8.4	$ (35.3)
Ending Balances	**$ 501.9**	**$ 552.3**	**$ 570.4**
Reserves as a Percent of Recurring Appropriations	*9.6%*	*10.2%*	*10.0%*

(1) FY11 includes $36 million in one-time fiduciary tax revenue, $2.1 million for tax amnesty, $1.9 million in IT and Telecom overcharges to be refunded to the General Fund by DOIT, $26 million fund transfer for solvency, and $800 thousand for homeland security deficiency reversions. FY12 includes $11.4 million fund transfer for solvency, and $6.9 million for tax amnesty.

(2) FY 13 includes $460 thousand of recurring appropriations found in Section 5.

(3) 2011 Special Session FY12 appropriations include $1.3 million for feed bill, $0.5 million for Medicaid and SNAP, and $4 million for police vehicles.

(4) FY12 includes $11.6 million for IT requests and $4.9 million for the legislative feed bill. FY12 excludes $460 thousand shown in the FY13 recurring appropriation subtotal and $2 million appropriated from the Education Lock Box.

TABLE 4 General Fund Financial Summary - LFC Recommendation
RESERVE DETAIL
(Millions)

	Preliminary FY2011		Estimated FY2012		Estimated FY2013	
OPERATING RESERVE						
Beginning balance	$	36.2	$	274.5	$	276.5
BOF Emergency Appropriations/Reversions	$	0.3	$	-	$	-
Transfers from/to appropriation account (1)	$	238.0	$	1.9	$	3.6
Ending balance	$	274.5	$	276.5	$	280.1
APPROPRIATION CONTINGENCY FUND						
Beginning balance	$	29.6	$	5.2	$	54.2
Disaster allotments	$	(28.8)	$	(16.0)	$	(16.0)
Other appropriations (1)	$	-	$	65.0	$	-
Transfers in	$	-	$	-	$	-
Revenue and reversions	$	4.3			$	-
Ending Balance	$	5.2	$	54.2	$	38.2
Education Lock Box						
Beginning balance	$	53.1	$	47.1	$	45.1
Appropriations (GAA Section 5&6)	$	(6.0)	$	(2.0)	$	-
Transfers in (out)	$	-	$	-	$	-
Ending balance	$	47.1	$	45.1	$	45.1
Total of Appropriation Contingency Fund	$	52.3	$	99.3	$	83.3
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	$	132.0	$	148.0	$	149.5
Transfers in	$	38.6	$	38.6	$	38.6
Appropriation to tobacco settlement program fund	$	(19.3)	$	(19.3)	$	(19.3)
Gains/Losses	$	16.0	$	1.5	$	11.2
Additional transfers to Program Fund	*$*	*(19.3)*	*$*	*(19.3)*	*$*	-
Ending balance	$	148.0	$	149.5	$	180.0
TAX STABILIZATION RESERVE						
Ending balance	$	26.1	$	26.1	$	26.1
GENERAL FUND ENDING BALANCES	**$**	**501.9**	**$**	**552.3**	**$**	**570.4**
Percent of Recurring Appropriations		*9.6%*		*10.2%*		*10.0%*

(1) Transfer from FY12 appropriation account to appropriation contingency fund for shortfalls in federal revenue.

TABLE 5

2012 Legislative Session
Special, Supplemental, and Deficiency Appropriations
(in thousands)

				Agency Request			LFC Recommendation		
	Agency Code	Agency	Description	General Fund	Other State Funds	Total	General Fund	Other State Funds	Total
	SPECIAL/NEW INITIATIVES APPROPRIATIONS								
1		Legislative	For 2012 legislative session expenses.	4,878.1		4,878.1	4,878.1		4,878.1
2	218	Administrative Office of the Courts	Pay back board of finance loan for jury and witness shortfalls.	1,478.0		1,478.0	-		-
3	218	Administrative Office of the Courts	To purchase new IT equipment to support the new case management system in the courts.	705.0		705.0	500.0		500.0
4	***218***	***Administrative Office of the Courts***	***For FY13 for 2nd and 13th District Court for judgeships.***	***1,140.5***		***1,140.5***	***460.0***		***460.0***
5	231	First Judicial District Court	To contract moving expenses associated with the new court complex.	20.0		20.0	-		-
6	232	Second Judicial District Court	Costs associated with change in venue for the sentencing phase of the Astorga trial.	41.8		41.8	-		-
7	305	Attorney General's Office	Water litigation related to operation of Rio Grande Project.	1,500.0		1,500.0	-		-
8	341	Department of Finance and Administration	For the possibility of a fiscal agent transition.	250.0		250.0	-		-
9	350	General Services Department	Implement an e-bid and contracts management web-based system in FY12.		150.0	150.0		150.0	150.0
10	350	General Services Department	Continuing support for an e-bid and contracts management web-based system in FY13.		309.0	309.0		150.0	150.0
11	419	Economic Development Department	Funding for the Job Training Incentive Program (JTIP).	5,000.0		5,000.0	5,000.0	-	5,000.0
12	465	Gaming Control Board	For possible arbitration expenses against Tribal gaming.	750.0		750.0	200.0		200.0
13	508	New Mexico Livestock Board	Purchase 26 new vehicles to sufficiently update their fleet.	608.0		608.0	500.0	-	500.0
14	539	Commissioner of Public Lands	Electrical system upgrade (replacement of electrical circuit panels and lightning protection installation).		350.0	350.0		-	-
15	539	Commissioner of Public Lands	Removal and purchase of an electronic space saver record filing system.		50.0	50.0	50.0	-	50.0
16	539	Commissioner of Public Lands	Microfilm conversion of Land Office records.		706.0	706.0	-	-	-
17	539	Commissioner of Public Lands	Extension of period for expending special appropriation for land management information system authorized in 2010 Laws, Chapter 6 to June 30, 2012.			-			-
18	539	Commissioner of Public Lands	The appropriations to the SLO include $436,200 from the land maintenance fund for emergency funding.	-	-	-	-	-	-
19	630	Human Services Department	Contingency funding for possible federal disallowance of Medicaid expenses for Personal Care Option (PCO) Program. The HSD FY13 request includes this non recurring item.			-	19,700.0	-	19,700.0
20	630	Human Services Department	Annual authorization to carryover SSI reimbursements for General Assistance Program.			-	Language Only		-
21	631	Workforce Solutions Department	The WSD requested the following language - "The period of time for expending the twenty five million fifteen thousand dollars in unexpended federal funds available through the American Recovery and Reinvestment Act contained in Subsection 9 of Section 5 of Chapter 6 of Laws of 2010 is extended through fiscal year 2013 pursuant to the contractual obligation for the retain age fees due after the warranty period has lapsed."			-	Language Only		-
22	645	Governor's Commission on Disability	Purchase modified accessible ramp van.	50.0		50.0	50.0	-	50.0
23	790	Department of Public Safety	For fuel for vehicles used by the Law Enforcement and Motor Transportation Programs.	1,665.9		1,665.9	380.0		380.0
24	790	Department of Public Safety	Wide area network telecommunication circuits for State Police and Motor Transportation offices statewide.	240.0	-	240.0	-	-	-
25	805	Department of Transportation	Extends other state and federal funds in program and infrastructure program to prevent disruption of projects that span multiple years.			-	Language Only		-
26	805	Department of Transportation	Extends other state and federal funds in transportation and highway operations program to prevent disruption of projects that span multiple years.			-	Language Only		-
27	924	Public Education Department	Enhance, upgrade, and improve the Student Teacher Accountability Reporting System (STARS), and to implement an athletic equity reporting data base system.	550.0		550.0			-

*Italic/Bold items are for FY13.

TABLE 5

2012 Legislative Session
Special, Supplemental, and Deficiency Appropriations
(in thousands)

	Agency Code	Agency	Description	Agency Request General Fund	Agency Request Other State Funds	Agency Request Total	LFC Recommendation General Fund	LFC Recommendation Other State Funds	LFC Recommendation Total
28	924	Public Education Department	Support enhancement of the Operating Budget Management System (OBMS).	600.0		600.0			-
29	924	Public Education Department	Emergency supplemental appropriation from appropriation contingency fund lock box.	7,442.5		7,442.5	2,000.0		2,000.0
30	950	Higher Education Department	Additional funding to satisfy state-matching requirement for federal adult basic education grant.	835.9		835.9	-		-
	SPECIAL/NEW INITIATIVES TOTAL			27,755.7	1,565.0	29,320.7	33,718.1	300.0	34,018.1
	SUPPLEMENTAL APPROPRIATIONS:								
31	210	Judicial Standards Commission	To cover shortfall in personal services and employee benefits.	10.0		10.0	-		-
32	216	Supreme Court	To hire an administrative assistant that has been left vacant for two years.	42.0	-	42.0	20.0	-	20.0
33	218	Administrative Office of the Courts	To prevent shortfalls in personnel services and employee benefits in magistrate courts statewide.	300.0	-	300.0	300.0	-	300.0
34	218	Administrative Office of the Courts	For FY12 through FY13 costs associated with jurors, interpreters, and witnesses.	500.0		500.0		296.0	296.0
35	218	Administrative Office of the Courts	To provide adequate funding to the court-appointed attorney fund.	150.0	-	150.0	74.8	-	74.8
36	219	Supreme Court Building Commission	To prevent personal services and employee benefits and maintenance and utility shortfalls.	66.4	-	66.4	27.0	-	27.0
37	232	Second Judicial District Court	To prevent personal services and employee benefits shortfalls.	169.1	-	169.1	63.0	-	63.0
38	234	Fourth Judicial District Court	To purchase essential maintenance agreements.	22.3	-	22.3	-	-	-
39	308	State Auditor	Replace network servers and purchase audit software in FY12.	58.0		58.0			-
40	308	State Auditor	Fill two vacant positions (audit manager and staff auditor) for FY12.	71.6		71.6			-
41	350	General Services Department	Additional funding to pay FY12 property insurance premium of $1,175 million; a BAR of $500 thousand redirected funding for this purpose to pay maintenance staff salaries and benefits, and to restore security contracts for FY12.	500.0		500.0	-		-
42	350	General Services Department	Support actual salary and benefits expenditures over adjusted FY12 operating budget for State Purchasing Division.		60.0	60.0		60.0	60.0
43	370	Secretary of State	Pay anticipated FY12 election-related expenses.	553.0		553.0	513.0		513.0
44	420	Regulation and Licensing Department	To fund three inspector positions which are not currently funded.	150.0		150.0	50.0		50.0
45	491	Office of Military Base Planning and Support	The operating budget for FY12 was reduced beyond an austerity level. This request would pay for the annual audit of the agency and commission meetings as required by statute.	23.0	-	23.0	20.0	-	20.0
46	505	Department of Cultural Affairs	Supplemental funding for Los Luceros, the Halpin Building, and the Center for New Mexico Archaeology (CNMA).	178.2	-	178.2	58.3	-	58.3
47	624	Aging and Long-Term Services Department	For aging and disability resource center and Ombudsman Program.	544.4	-	544.4	180.0	-	180.0
48	647	Developmental Disabilities Planning Council	For Guardianship Program, language to appropriate/expend in FY12 the FY11 general fund revenue and transfers fund balances of $190 thousand; language to not revert general fund revenue and transfers in FY12 & appropriate/expend balance in FY13; and an additional $112 thousand from general fund.	112.0	-	112.0	112.0	-	112.0
49	670	Veterans' Services Department	To adequately fund personal services and employee benefits for FY12 to meet existing employees expenditures, and to hire two veteran service officers for the Clovis and Las Cruces operational areas.	220.0	-	220.0	161.0	-	161.0
50	690	Children, Youth and Families	The request for FY12 is to cover the loss in Title IV-E funding. The funding will be used to maintain staffing and operating cost levels in the Protective Services Program.	2,000.0	-	2,000.0	1,000.0	-	1,000.0
51	770	Corrections Department	To cover shortfall in personal services and employee benefits.	600.0	-	600.0	600.0	-	600.0
52	780	Crime Victims Reparation Commission	For victim payments to 75 percent of request.	153.0	-	153.0	75.0	-	75.0

*Italic/Bold items are for FY13.

TABLE 5

2012 Legislative Session
Special, Supplemental, and Deficiency Appropriations
(in thousands)

#	Agency Code	Agency	Description	Agency Request: General Fund	Agency Request: Other State Funds	Agency Request: Total	LFC Recommendation: General Fund	LFC Recommendation: Other State Funds	LFC Recommendation: Total
53	790	Department of Public Safety	Fuel for the Law Enforcement and Motor Transportation Programs.	587.6		587.6	264.0		264.0
54	790	Department of Public Safety	Telecommunication wide area network circuits for state police and motor transportation offices.	250.0		250.0			-
55	950	Higher Education Department	Additional funding to maintain state-matching requirement for federal Adult Basic Education grant.	169.0		169.0	-		-
	SUPPLEMENTAL TOTAL			**7,429.6**	**60.0**	**7,489.6**	**3,518.1**	**356.0**	**3,874.1**
	DEFICIENCY APPROPRIATIONS:					-			
56	243	Thirteenth Judicial District Court	To cover costs associated with gross deficit fund balance from FY10.	50.0	-	50.0	-	-	-
57	259	Ninth District Attorney	To correct balances in SHARE.	302.8		302.8	-		-
58	333	Taxation and Revenue	Regarding the general fund offset for food and healthcare deduction of $4.4 million, the Legislature provided language appropriating these funds to the TRD but omitted the County portion, Section 7-1-6.47. The request covers estimated FY12 shortfall of $900 thousand.			-	**Language Only**		-
59	342	Public School Insurance Authority	To increase budget authority from fund balance to cover the costs of public liability settlements and other claims-related expenditures.		1,446.3	1,446.3		1,446.3	1,446.3
60	460	Expo NM, home of the State Fair	2011 state fair season shortfall.	1,000.0		1,000.0	-		-
61	539	Commissioner of Public Lands	Legal expenses to cover claimed legal costs for Attorney General and the SLO joint contract in FY11.		1,800.0	1,800.0	-	-	-
62	624	Aging and Long Term Services	Obligations of the Mi Via Program which has been transferred to the Human Services Department.	742.3		742.3	742.3		742.3
63	630	Human Services Department	Medicaid prior year deficiency.	48,405.9	-	48,405.9	-	-	-
	DEFICIENCY TOTAL			**50,501.0**	**3,246.3**	**53,747.3**	**742.3**	**1,446.3**	**2,188.6**
	SPECIAL/NEW INITIATIVE, SUPPLEMENTAL & DEFICIENCY TOTAL			**85,686.3**	**4,871.3**	**90,557.6**	**37,978.5**	**2,102.3**	**40,080.8**
	INFORMATION TECHNOLOGY				**-**	**-**	**-**	**-**	**-**
	GRAND TOTAL			**85,686.3**	**4,871.3**	**90,557.6**	**37,978.5**	**2,102.3**	**40,080.8**

*Italic/Bold items are for FY13.

TABLE 6

INFORMATION TECHNOLOGY REQUESTS - FY13
Agency Requests and LFC Staff Recommendations
(In Thousands)

System Replacement / Enhancements			Agency Request				DOIT Recommendations				LFC Recommendation			
Code	Agency	System Description	GF	OSF	FF	Total	GF	OSF	FF	Total	GF	OSF	FF	Total
218	Administrative Office of the Courts	Disaster Recovery/Business Continuity	$1,400.0			$1,400.0	$700.0			$700.0				**$0.0**
218	Administrative Office of the Courts	Judicial Telecommunications	$614.0			$614.0	$254.0			$254.0				**$0.0**
218	Administrative Office of the Courts	e-Filing	$942.0			$942.0					$942.0			**$942.0**
264	Administrative Office of the District Attorneys	Consolidated Offender Query	$154.0			$154.0	$154.0			$154.0				**$0.0**
333	Taxation and Revenue	GenTax Upgrade	$6,230.0			$6,230.0	$6,430.0			$6,430.0	$6,230.0			**$6,230.0**
333	Department	ONGARD Modernization	$3,240.0	$1,620.0		$4,860.0					$100.0			**$100.0**
343	Retiree Health Care Authority	REBIS Upgrade		$3,000.0		$3,000.0		$2,840.0		$2,840.0		$1,946.3		**$1,946.3**
350	General Services Department	e-Bid and Contracts Management		$458.5		$458.5								**$0.0**
350	General Services Department	SHARE Accounts Receivable and Fixed Assets gap analysis	$620.0			$620.0	$300.0			$300.0	$100.0			**$100.0**
350	General Services Department	Medical Claims Data Analysis Tool		$1,548.0		$1,548.0		$1,548.0		$1,548.0				**$0.0**
350	General Services Department	SHARE Cobra Optimizations and Configuration		$1,893.0		$1,893.0		$1,500.0		$1,500.0				**$0.0**
352	Educational Retirement Board	IRIS Application Upgrade		$1,750.0		$1,750.0								**$0.0**
369	Commission of Public Records	Centralized Electronic Records Repository	$1,272.4			$1,272.4	$450.0			$450.0	$1,272.4			**$1,272.4**
370	Secretary of State	Infrastructure Replacement Project	$1,275.0			$1,275.0	$220.0			$220.0	$220.0			**$220.0**
430	Public Regulation Committee	Division of Insurance - e-IDEAL reauthorization & expansion	$0.0	$1,964.5		$1,964.5		$590.0		$590.0				**$0.0**
430	Public Regulation Committee	Corporations Division e-Reporting and key from Image		$195.0		$195.0								**$0.0**
505	Department of Cultural Affairs	Virtual Museum of New Mexico	$550.0			$550.0								**$0.0**
539	State Land Office	Land Information Management System		$2,332.0		$2,332.0		$2,332.0		$2,332.0				**$0.0**
550	Office of the State Engineer	Water Rights System Business Process Management	$365.0			$365.0	$200.0			$200.0	$365.0			**$365.0**
550	Office of the State Engineer	Electronic Document and Contact Management System	$150.0			$150.0								**$0.0**
630	Human Services Department	Child Support Enforcement System Mainframe Migration	1,187.5		$2,305.0	$3,492.5								**$0.0**
630	Human Services Department	Child Support Enforcement System CA Gen Upgrade	187.0		$363.0	$550.0					187.0		$363.0	**$550.0**
690	Children, Youth and Families	EPICS Phase 2 - Client Management	$1,718.0			$1,718.0	$350.0			$350.0	$1,200.0			**$1,200.0**
770	Corrections Department	Corrections Management Information System	$525.0			$525.0	$300.0			$300.0	$643.0			**$643.0**
790	Department of Public Safety	Computer-aided Dispatch and Records Management System	$7,000.0			$7,000.0	$2,000.0			$2,000.0	$300.0			**$300.0**
790	Department of Public Safety	Criminal Justice Information System	$3,600.0			$3,600.0								**$0.0**
790	Department of Public Safety	Forensic and Evidence Management System	$1,500.0			$1,500.0								**$0.0**
790	Department of Public Safety	Traffic Records Repository	$3,250.0			$3,250.0								**$0.0**
790	Department of Public Safety	Satellite Modem	$1,300.0			$1,300.0								**$0.0**
790	Department of Public Safety	Court Disposition Integration System	$500.0			$500.0								**$0.0**
790	Department of Public Safety	New Mexico FastID	$1,900.0			$1,900.0								**$0.0**
790	Department of Public Safety	Law Enforcement National Data Exchange	$750.0			$750.0								**$0.0**
790	Department of Public Safety	Western Identification Network for AFIS	$1,500.0			$1,500.0								**$0.0**
924	Public Education Department	Operating Budget Management System (OBMS)	$600.0			$600.0	$450.0			$450.0				**$0.0**
924	Public Education Department	STARS Enhancements and Upgrades	$550.0			$550.0	$200.0			$200.0				**$0.0**
TOTAL			**$42,879.9**	**$14,761.0**	**$2,668.0**	**$60,308.9**	**$12,008.0**	**$8,810.0**	**$0.0**	**$20,818.0**	**$11,559.4**	**$1,946.3**	**$363.0**	**$13,868.7**

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