

STATE OF NEW MEXICO

REPORT OF THE LEGISLATIVE FINANCE COMMITTEE
TO THE FIFTY-SECOND LEGISLATURE
FIRST SESSION

JANUARY 2015
FOR FISCAL YEAR 2016

VOLUME I



LEGISLATING FOR RESULTS:
POLICY AND PERFORMANCE ANALYSIS

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Honorable Members
Fifty-Second Legislature, First Session
State Capitol
Santa Fe, New Mexico 87501

Dear Fellow Legislators:

Pursuant to Section 2-5-4 NMSA 1978, the fiscal year 2016 budget recommendation of the Legislative Finance Committee is provided to you. The committee recommendation for recurring appropriations from the general fund is \$6.29 billion, \$140.4 million more than the FY15 operating budget, leaving an amount in reserves equal to 8.2 percent of proposed appropriations. Given the extraordinary fluctuations in the price of oil, this recommendation is meant as a starting point; adjustments in January are likely.

With the exception of the volatile oil industry, New Mexico economic growth has been steady but slow since the Great Recession. The committee chose to focus the state's limited resources on the key areas of education, early childhood, public health, workforce development and economic growth, public safety, and the protection of vulnerable citizens and on programs with performance-based results.

The committee recommends an average increase in general fund appropriations to state agencies of 2.3 percent, with slightly higher increases for corrections, economic development, public safety and the Public Defender Department and substantially higher increases for early childhood programs. Almost 60 percent of "new money" would go to public schools and higher education; other increases would address growth in the Medicaid program, at-risk students in public schools and higher education, the healthcare workforce, and behavioral health.

The recommended increase for early childhood programs is nearly \$25 million, or 10 percent, and includes \$13.6 million for prekindergarten, \$3.6 million for paraprofessional home visits to families with infants, and \$6.5 million for extended school year and early literacy programs.

The committee's recommendation for public school support, a nearly \$55 million increase, includes funding to implement the expansion of the funding factor for at-risk students adopted during the 2014 session and almost \$31 million to raise the minimum pay for starting and experienced teachers.

Finally, the recommendation includes \$30 million for Local Economic Development Act projects – an incentive to new and expanding businesses – and \$7.4 million for the Job Training Incentive Program.

I would like to thank the members 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 prioritizes cost-effective spending that provides the most benefit to New Mexicans.

Sincerely,

Representative Luciano "Lucky" Varela, Chairman

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VOLUME I LEGISLATING FOR RESULTS: POLICY AND PERFORMANCE ANALYSIS

JANUARY 2015
FOR
FISCAL YEAR 2016

REPRESENTATIVE
LUCIANO "LUCKY" VARELA
CHAIRMAN

SENATOR
JOHN ARTHUR SMITH
VICE-CHAIRMAN

DAVID ABBEY
DIRECTOR



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Recommendations & Highlights

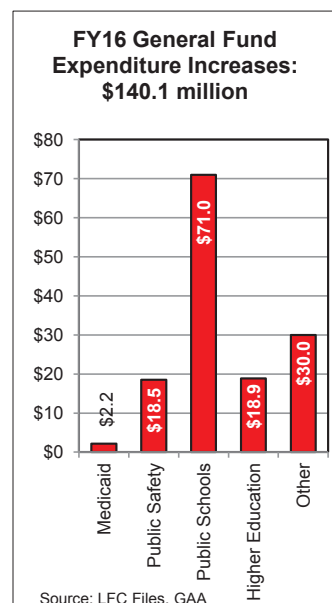
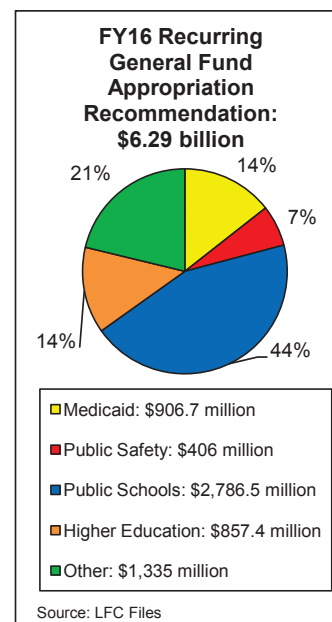
New Mexico's halting economic recovery continues, with a third year of growth over the revenue levels reached before the Great Recession. However, the fall's unprecedented fluctuations in oil prices, occurring even as this recommendation was being developed, were an unambiguous reminder that New Mexico must be cautious as it grows expenditures. Further buffeting the need to address growing demand for state resources and essential services were a host of headwinds, including plummeting oil prices that cut projected revenue by half between August and December, unexpected prior-year budget shortfalls, weak job growth, and continued cash reconciliation uncertainty. Nevertheless, the Legislative Finance Committee FY16 recommendation reflects an ongoing commitment to protecting those most in need while creating the foundations for future economic growth.

Priorities and Budget Development

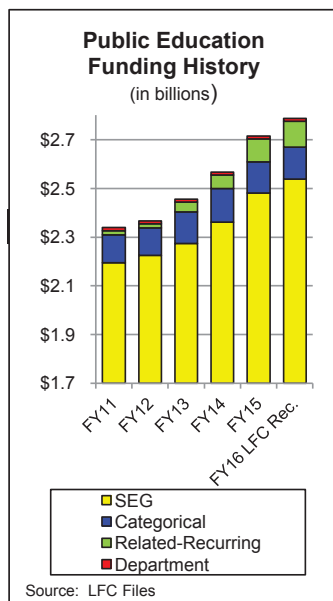
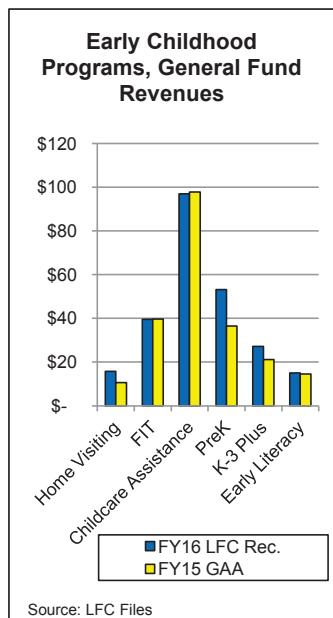
Priorities. Even as revenue projections shifted during fall 2014, the Legislative Finance Committee (LFC) focused on well-articulated budget priorities: increases for education, early childhood investments, public health, workforce development and economic growth, public safety, and the protection of vulnerable citizens. Targeted investments were recommended to address growth in the Medicaid program, at-risk student funding in public and higher education, healthcare workforce development, substance abuse, and behavioral health.

LFC recommended larger-than-average increases for public school support; the Public Defender, Tourism, Economic Development, Corrections, Public Safety, and Children, Youth and Families Departments; and the Office of the State Engineer. Nearly 58 percent of the "new money" is allocated to public and higher education; still, the LFC recommendation addresses key initiatives for behavioral health, healthcare workforce development, job creation and early childhood initiatives.

Budget Development. The revenue projections changed dramatically as the committee considered FY16 budget requests. In August 2014, the consensus revenue team from the Department of Finance and Administration (DFA), Tax and Revenue Department (TRD), and LFC projected "new money" – FY16 projected recurring revenue less FY15 recurring appropriations – to be \$285 million, or 4.6 percent. The consensus team revised their outlook in December, reducing the revenue growth projection to \$141 million, or approximately 2.3 percent, over FY15 levels. Given the lower revenue projection and additional liabilities facing the state, the committee recommended spending \$6.29 billion, \$140.4 million more than FY15 operating levels, and leaving \$516 million, or 8.2 percent, in reserve.



Recommendations & Highlights



Recommendation

The committee's spending recommendation is balanced with December revenue projections; however, the committee noted the price of oil continued to fall and cautioned additional spending adjustments may need to be considered in January.

Early Childhood. The LFC recommendation increases funding for early childhood initiatives by nearly \$25 million, a 10 percent increase over FY15 appropriations. The increased funding includes \$6.5 million for early literacy programs and the K-3 Plus extended school year program, \$13.6 million for prekindergarten, \$3.8 million for home visits to families with infants, and \$300 thousand to support provider training and education advancement.

Education. Continuing the trend of prioritizing investment in education, the committee recommends a total \$3.66 billion in general fund appropriations for FY16, a nearly \$90 million, or 2.4 percent, increase over prior year levels. The recommendation continues to support efforts that lead to a qualified teaching workforce and improved student performance at all levels, from early literacy to workforce training and college completion.

Public Education. The committee recommends almost \$2.8 billion in general fund support for public education, an increase of \$71 million, or 2.6 percent, over FY15 appropriations. The program cost recommendation, which totals \$2.6 billion, is an increase of \$54.9 million, or 2.2 percent, over the FY15 appropriation and includes three adjustments for projected unit changes in FY16 and funding to implement changes to the at-risk index that become effective in FY16. Additional increases include funds for insurance premiums and fixed costs, funding for school districts and charter schools to implement dropout and truancy prevention programs consistent with a recent LFC program evaluation and PED efforts, and \$30.1 million for targeted minimum salary increases for level one teachers and level two and three educators who meet competencies. The minimum salary increases are contingent on enactment of legislation revising the three-tiered licensure system to make student achievement a more significant component.

The committee recommends a \$3.1 million, or 2.5 percent, increase in categorical public school support, primarily the result of replacing \$5 million of nonrecurring revenues appropriated in FY15 for instructional materials with recurring general fund revenues. Lastly, the committee recommends an increase of \$10.5 million, or 11.1 percent, for related, recurring initiatives – “below-the-line” funding appropriated to the department instead of through the funding formula – to be targeted to early childhood education, teacher quality, and school improvement.

In addition to general fund increases, the committee also recommends reallocating \$3 million in fund balances to specific initiatives. The committee's focus continues to be on early childhood education programs that demonstrate improved outcomes for students, including prekindergarten, early literacy, and the K-3 Plus extended school year program.

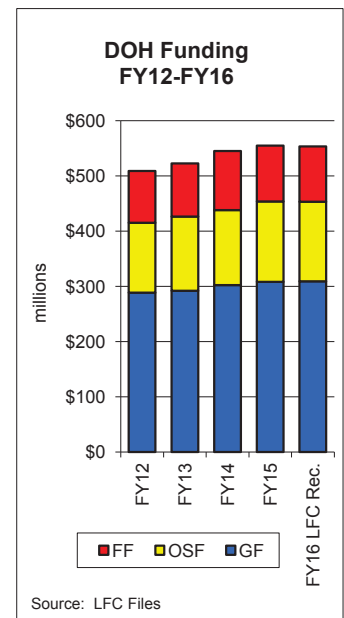
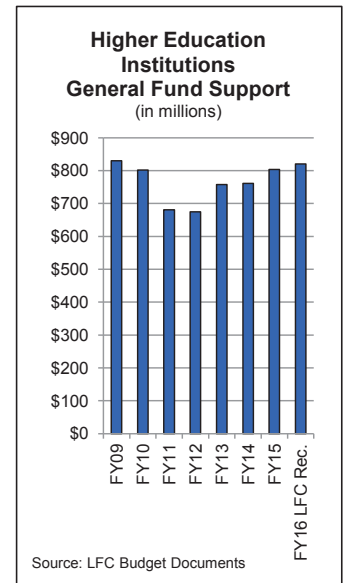
Recommendations & Highlights

Higher Education. The committee recommends \$857.5 million in general fund appropriations for FY16, an increase of \$18.8 million, or 2.2 percent, over FY15 appropriations. The recommendation increases support for the instruction and general (I&G) formula funding (\$13.8 million), the University of New Mexico Health Sciences Center instruction and general expenditures (\$470 thousand), research and public service projects (\$3.1 million), and student financial aid programs and adult basic education (\$1.4 million). Building on the Legislature's efforts to address the state's shortage of healthcare workers, the recommendation expands the capacity of graduate nursing education and resident physician programs, in addition to increasing loan repayment programs for licensed healthcare practitioners in New Mexico.

Health. The committee recommendation for the Human Services Department (HSD) is \$6.62 billion in total funding, an increase of \$800 million, or 13.8 percent, compared with FY15. The recommendation includes \$1.016 billion in general fund appropriations, a 0.3 percent increase compared with FY15, and \$20.8 million in additional tobacco settlement program fund revenue to help offset a decline in other state fund revenues expected in the new year. Use of tobacco fund revenue is contingent on legislation in the 2015 legislative session authorizing the transfer. The committee recommendation includes funding for most costs associated with increased Medicaid enrollment, higher utilization, and revenue losses, such as lower drug rebate revenue; however, it does not include about \$11 million of projected cost inflation requested by HSD. The recommendation also contains \$1.8 million to keep Medicaid primary care provider rates at Medicare levels to encourage provider participation and improve access to care; federal support for the higher rates ends January 2015.

The committee's recommendation for the Department of Health (DOH) is an overall 0.3 percent decrease from FY15 but includes a \$1 million increase in general fund revenue, a 0.3 percent increase. Importantly, the recommendation supports a 3 percent increase for nurses' salaries in the Public Health and Facilities Management Programs to enhance recruitment and retention, an increase of \$2.2 million in general fund revenue and contracts within the Facilities Management Program to maintain the state's safety net hospitals, \$1 million to serve an approximate 50 clients on the waiting list for services under the developmental disabilities (DD) Medicaid waiver, and a \$300 thousand rate increase each for DD waiver and Family, Infant, Toddler Program providers.

Public Safety. The LFC recommendation addresses prior-year budget deficiencies and funds options to improve inmate population management. The recommendation shores up the Corrections Department's base through an FY14 deficiency appropriation, an FY15 supplemental appropriation, and increased FY16 appropriations for population growth. The department has a range of options to manage inmate populations and control costs, including using excess public prison capacity to reduce private prison costs, revisiting the department's controlled-release policies, studying whether changing the custody level regime would result in more efficient prison space use, reducing the number of inmates eligible for release who are serving parole inside the



Recommendations & Highlights

prisons, and ensuring inmates stay out of prison once released by increasing community-based resources for parolees. The recommendation includes \$1.2 million through a special appropriation for startup funding for transitional living services for men and women. In addition, the recommendation will allow the department to generate parole plans for inmates lacking placement and reduce the number of release-eligible inmates (REI). Over time, the reduction in REIs will reduce inmate population growth, possibly delay the need for additional women's prison space, and reduce costs related to the men's population.

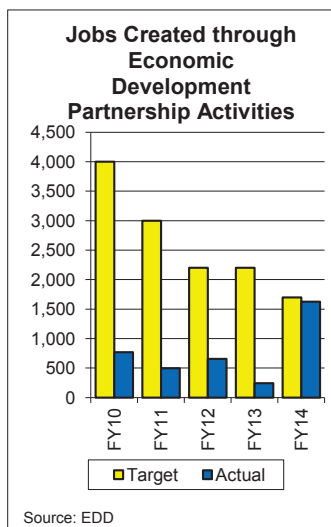
Transportation. The Department of Transportation (NMDOT), funded primarily by the state road fund and federal funding awards, anticipates FY16 road fund revenue to increase by \$7.6 million, or 2 percent, over FY15 levels. In general, the majority of the state road fund (SRF) is used for highway maintenance, while Federal Highway Administration (FHWA) revenue is used to fund construction-related expenses.

NMDOT estimates the annual shortfall in maintenance funding to be \$116 million. The LFC recommends increasing the use of SRF fund balance by \$4 million and reducing personal services and employee benefits by \$1.5 million to provide a \$5.5 million increase over the requested budget for road maintenance.

Economic Development. The Economic Development Department (EDD) requested a total of \$7 million for the Job Training Incentive Program (JTIP) and requested a nonrecurring appropriation of \$50 million for projects under the Local Economic Development Act (LEDA), which funds land, buildings, and infrastructure sought by new or expanding businesses. The Jobs Council interim committee requested funding for more than a dozen current and new programs related to job creation, including \$12 million for JTIP and \$50 million for LEDA projects. The LFC recommendation increases funding for JTIP to \$7.4 million, funding for LEDA projects to \$30 million, and funding for the Economic Development Partnership to \$1.4 million to market the state to business, including promoting recent changes to gross receipts and corporate income taxes. The LFC recommendation also includes language requiring additional reporting and oversight for LEDA funds, improving transparency, and providing legislators and the public with additional information to determine the effectiveness of the program.

Capital Outlay and Infrastructure. Recognizing infrastructure funding is critical to public health, safety, and economic vitality, the Legislature's major challenge in 2015 is addressing needs at state-owned and -operated facilities, at the same time it meets expectations to fund local needs – and to do it all with limited resources.

State agencies, higher education institutions, special schools, and local political subdivisions requested \$1.2 billion for capital projects, compared with \$230.8 million severance bond tax capacity. An additional \$246.9 million is earmarked specifically for public schools, water, colonias, and tribal infrastructure. The Legislative Finance Committee staff framework for consideration by the Legislature proposes \$128.8 million from severance tax



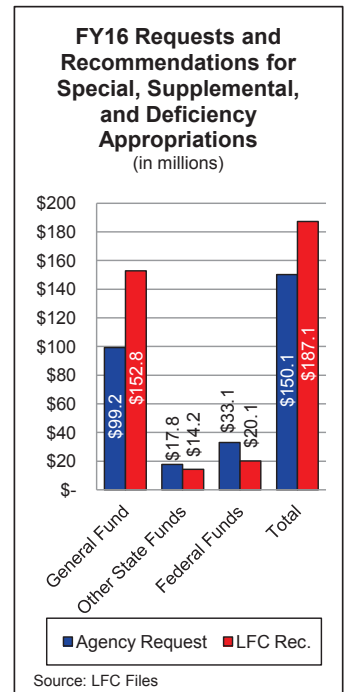
Recommendations & Highlights

bond capacity and approximately \$41.2 million from “other state funds.” The funding addresses the most critical projects impacting public health and safety, preservation of roads and state facilities, and completion of projects in progress. The nearly \$800 million requested by eligible local entities reflects only the top three priorities listed in the Infrastructure Capital Improvement Plan. The order of project priorities were for water, transportation, quality of life (fire and public safety, vehicles, parks, cultural facilities, etc.), and environment projects.

Deficiency, Special, and Supplemental Appropriations. State agencies requested \$150.1 million for special, supplemental, and deficiency appropriations for FY16, including \$99.2 million from the general fund and \$50.9 million of other revenues.

LFC recommends \$187.1 million for nonrecurring special, supplemental, and deficiency appropriations, including \$152.8 million from the general fund and \$34.3 million from other revenues. A significant portion of the funding, \$76 million, is to address deficiencies, including \$60 million from the general fund for a shortfall in Medicaid in prior years. Supplemental appropriations add \$37.8 million. Special appropriations, including \$35.9 million for economic development, are just \$73.6 million, or 39 percent of the overall funding recommendation. Recommended appropriations include \$30 million for Local Economic Development Act (LEDA) projects, including \$24 million from the general fund, \$5.5 million for the Job Training Incentive Program, \$4 million for the Office of the State Engineer and the Attorney General’s Office for water litigation, and \$5 million to increase faculty and researchers at New Mexico colleges and universities.

Information Technology. The LFC recommendation for IT funding totaled \$21.3 million for 10 projects. Funding sources included \$12 million from general fund revenues, \$3.7 million from other state funds, and \$5.6 million in federal funds. The recommendation prioritized ongoing, well-prepared and well-managed system requests that demonstrated strong positive returns on investment for the agency and New Mexico.



\$7.1 Million to Address Behavioral Health Needs

The committee addressed serious concerns about the lack of adequate behavioral health treatment in New Mexico by adding \$7.1 million in general fund support to many agencies and programs.

HSD’s recommendation included \$2.5 million for regional crisis stabilization units, \$1.5 million for transitional and supportive housing, \$1.2 million for health homes to coordinate physical and mental health treatment of the sickest patients, and \$400 thousand for promotion, outreach, and expansion of HSD’s crisis and access phone line. An additional \$700 thousand in Temporary Assistance for Needy Families (TANF) was included in the Children, Youth and Families Department recommendation for a supportive housing pilot project for at-risk families.

The recommendation for the Department of Health added \$518 thousand for targeted salary increases to recruit and retain nurses in state-funded facilities and public health offices. New Mexico State University would receive an additional \$300 thousand to expand the behavioral health and psychiatry nurse practitioner program, and the University of New Mexico Health Sciences Center would receive funding to expand Project ECHO’s training of behavioral health primary care and community health workers.

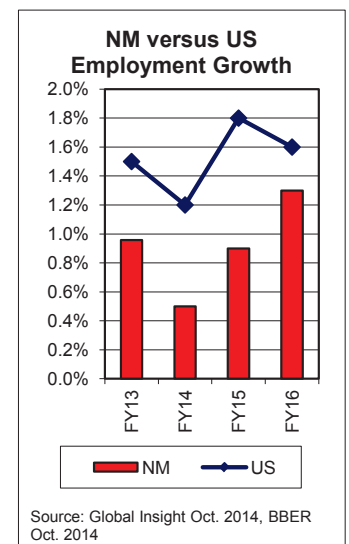
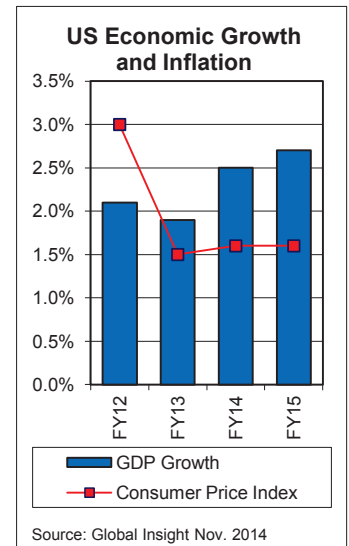
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State revenues have benefitted from strong growth in oil production volume and high oil prices in recent years, bolstering revenue growth amid an otherwise tepid economic recovery. However, New Mexico's heavy reliance on oil and gas revenues was evident in the most recent revenue estimating cycle. When oil prices declined by nearly half from their mid-summer peak, the result was a major downward revision to the revenue estimate. Driven by reductions in the revenue forecasts for severance taxes and royalties, projected "new money" was cut by more than half to just over \$140 million from \$285 million in August. During the 2015 session, appropriators will be challenged to prioritize spending and maintain adequate reserves if revenues continue to fall.

Economic Forecast

U.S. Economy. Despite real gross domestic product (GDP) growth of 3.5 percent in the third quarter and 2.6 percent growth projected in 2015, the recovery from the Great Recession continues to underwhelm. Since the low point in 2009, real GDP in the United States has grown by an average rate of 2.2 percent. This growth falls short of the more robust expansions seen after the two previous recessions in 2001 and in 1990-91. The Federal Reserve ended its quantitative easing bond-buying program intended to inject money into the economy in October, and it is expected to move to increase interest rates around June 2015. The forecast assumes no further shutdowns of the federal government over budgetary issues or the debt ceiling. The sharp drop in oil prices since the summer is expected to boost real GDP growth by up to 0.4 percent as consumers benefit from lower gasoline prices, contributing to higher consumer spending. The national employment picture remains brighter than it is in New Mexico as the labor market continues to strengthen. U.S. job gains were 214 thousand (1.5 percent) in October, and the unemployment rate fell to a low of 5.8 percent in October, from 6.1 percent two months earlier.

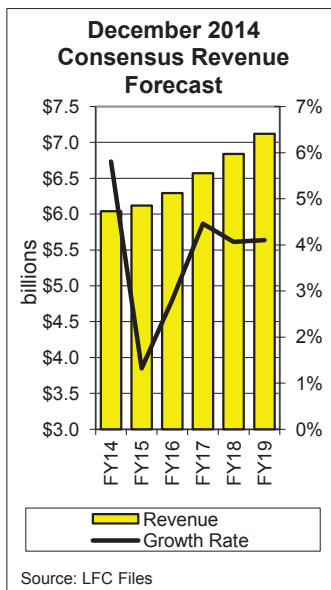
New Mexico Economy. Economic recovery in New Mexico has not been as robust as at the national level. Employment growth in New Mexico was relatively flat for a long period, although recent reports from the New Mexico Workforce Solutions Department indicate job growth has edged upward. Year-over-year growth was 0.6 percent in August, 0.8 percent in September, and 1.1 percent in October. This appears to be an improvement compared with employment data from the federal Bureau of Labor Statistics for the first quarter of 2014, which shows New Mexico added 2,161 jobs (0.3 percent) in the first quarter of 2014. Forecasters anticipate the rate of employment growth to be 0.9 percent in 2015 and to peak in 2016 with a gain of 1.3 percent before slowing again. Growth in wage and salary disbursements, a driver of gross receipts taxes, is expected to be 3.5 percent in FY15 and 3.9 percent in FY16.



Economic Forecast

New Mexico Employment Change: 2014 Q2 versus 2012 Q2 & 2013 Q2 (thousands of jobs)		
2014 compared with:	2012	2013
Total Non-Agricultural	11.0	3.7
Mining	3.3	1.1
Utilities	0.0	(0.0)
Construction	1.3	0.7
Manufacturing	(1.0)	(0.5)
Wholesale Trade	0.2	0.0
Retail Trade	1.5	0.8
Transportation	0.5	0.6
Information	(0.8)	(1.2)
Finance & Insurance	0.3	0.2
Real Estate, Rent	0.6	0.2
Prof. & Tech. Services	0.4	0.3
Mgt. of Companies	0.0	0.0
Admin. & Waste	0.3	(0.3)
Educational Services	0.1	0.1
Health Care & Social	2.9	1.3
Arts, Entertain. & Rec.	(0.0)	(0.0)
Accommodation & Food	3.6	1.7
Other Services	(1.0)	(0.3)
Local Government	0.1	(0.2)
State Government	0.7	0.2
Federal Government	(2.1)	(1.0)

Source: BBER - October 2014



Energy Markets. As late as June, the West Texas Intermediate (WTI) oil price was over \$105 per barrel, supported by unrest in the Middle East and the Ukraine-Russia conflict. The New Mexico oil price has historically been approximately \$5 below the WTI price. Since the early summer, however, WTI prices have plummeted by almost a half, trading as low as \$55 per barrel in mid-December. The drop in the oil price can be attributed to sluggish demand in the wake of an Organization of the Petroleum Exporting Countries decision in November to maintain production and higher-than-expected supply. In particular, IHS notes the steady increase in U.S. oil production, plus growth in Libyan oil output, are major contributors to the supply, which has more than offset the upward pressure on prices from Middle Eastern and Central European conflicts. Despite the sharp decline in prices, U.S. oil production continues to grow, especially in Texas and North Dakota. The price drop is expected to contribute to reduced investment and spending but no slowing of production trends. It is unclear whether market prices will decline below the breakeven point for producers in New Mexico.

Oil prices averaged above \$95 per barrel (bbl) in FY14 but are projected to remain significantly lower throughout the forecast period. Prices are expected to average around \$71/bbl in FY15 and \$66/bbl in FY16 before recovering to \$72 in FY17, \$76 in FY18, and \$80 in FY19. Oil volumes increased by 16 percent in FY12, 20 percent in FY13, and 18 percent in FY14. The forecast assumes positive growth of 7.6 percent in FY15 and 4.1 percent in FY16. Each additional dollar per barrel change in price sustained over one year is equivalent to a \$7.5 million change in New Mexico's general fund revenue.

Natural gas prices averaged \$5.13 in FY14 and are estimated to average \$4.90 in FY15 and FY16 before gradually increasing toward \$5.20 by FY19. New Mexico natural gas prices continue to see gains above Henry Hub (Louisiana) prices due to high prices paid for natural gas liquids, which trend with oil prices. The premium above the dry gas price for natural gas liquids averaged 83cents per thousand cubic feet in FY14 and is expected to average 80 cents/mcf over the forecast period. Each 10 cent change in natural gas price is equivalent to an \$8 million change in general fund revenue.

Nationally, gas production continues to grow; the U.S. was the world's largest natural gas producer in 2013 thanks to the growing market share of shale gas. However, in New Mexico, natural gas volumes fell by 1.6 percent in FY12 and 4 percent in FY13 before a modest 0.7 percent increase in FY14. Volumes are expected to resume declining at rates between 0.5 percent and 3.3 percent over the forecast period.

Revenue Forecast. The December 2014 consensus revenue estimate projects FY16 revenue at \$6.29 billion, representing 2.8 percent growth over the \$6.12 billion projected for FY15. "New money" in FY16, defined as FY16 projected recurring revenue less FY15 recurring appropriations, is projected to be \$141 million, or 2.3 percent of FY15 appropriations.

The gross receipts tax forecast was bolstered somewhat by a strong first quarter of FY15. Strength is still expected from contributions of the oil and gas industry, but to a lesser extent after the drop in oil prices. GRT revenue

Economic Forecast

is estimated to grow 4.9 percent in FY15 and 5 percent in FY16 after considering revenue reductions for projected tax preferences, such as the manufacturing deduction.

Fiscal year 14 saw strength in personal income tax (PIT) revenue from oil and gas withholding revenue, and this is expected to continue in FY15 and FY16. Personal income tax revenue is expected to grow 4 percent in FY15 and a more conservative 3.1 percent in FY16, which indicates some upside risk.

Corporate income tax (CIT) receipts in late FY14 fell short of consensus projections, thanks to quarterly payments and final settlements coming in below past trends. The revenue estimate incorporates the revenue impact of 2013 legislation that lowers the tax rate and permits single-sales-factor income apportioning for some corporations. It also includes the effect of the film production tax credit, estimated to cost \$50 million per year. Corporate income tax revenues are estimated to see modest growth in FY15, and remain at that approximate level in FY16.

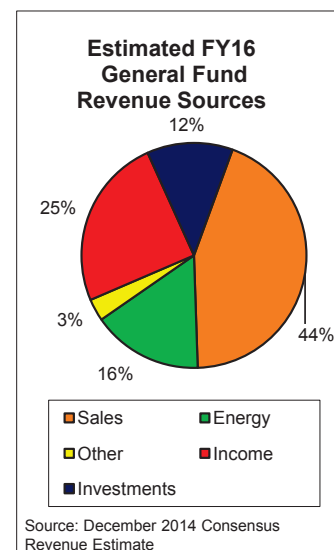
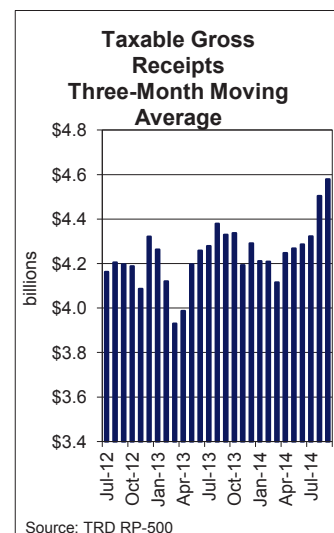
The reduction in oil and gas prices results in a 15 percent reduction in estimated FY15 severance tax revenues estimated and a further 2 percent decline in FY16. The decline in oil prices also contributed to a reduction in the federal mineral leasing (FML) revenue estimate for FY15 onward. The federal Budget Control Act requires a portion of FML revenues be sequestered each month. However, the sequestration reductions are returned to the state at the end of the federal fiscal year.

Revenues associated with the permanent funds will see growth in FY16. The distribution is projected to increase as low investment fund market values dating from recession years are replaced with higher, recent market values in the calculation of the five-year average market value. The rate of distribution from the land grant permanent fund to beneficiaries is scheduled to decrease from 5.5 percent of the fund's market value in FY16 to 5.0 percent in FY17.

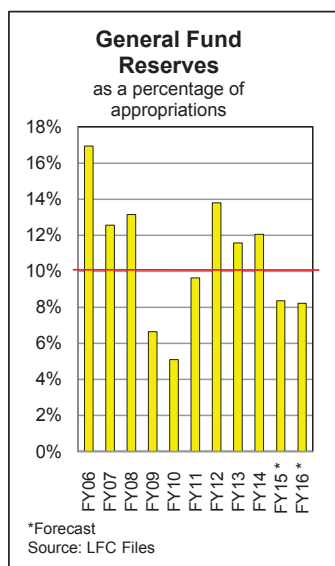
The FY14 insurance premium tax estimate contains the first fiscal impacts from the Affordable Care Act (ACA). Although the Human Services Department revised Medicaid enrollment upward, insurance premiums tax revenue during the forecast period was revised downward to reflect more conservative estimates for the rate of enrollment in the insurance exchange and a slower decline in New Mexico Medical Insurance Pool assessments, which result in higher credit claims against premiums tax revenue to the general fund.

Risks to the Forecast

The main risk to the forecast is energy volatility. Although oil prices have declined sharply, it is unclear whether the prices have reached a floor. Nearly 20 percent of general fund revenue comes from severance taxes and royalties, so this volatility can cause large revenue shocks.



Economic Forecast



The result of the Supreme Court decision in *Eunice v. State of New Mexico Taxation and Revenue Department (TRD)* concerning adjustments to distributions to local governments creates a risk to the GRT forecast. The legal status of the case is uncertain as TRD has been granted a motion for rehearing with the New Mexico Supreme Court. Estimating the potential revenue impact of an adverse court decision is complex, but TRD notes potential general fund losses could reach \$20 million per year.

Although legislation to tighten qualifying criteria for the high-wage jobs tax credit has led to more denials of tax credit claims; approximately \$100 million in denied claims are being protested. The risk to the general fund if all claims are granted or settled could be as much as \$50 million in FY15 and FY16.

General Fund Reserves. The general fund financial summary in Table 4 shows unaudited FY14 revenues exceeded appropriations by \$114 million, growing general fund reserves to \$709 million, or 12 percent of recurring appropriations. Considering the LFC spending recommendation, FY15 revenue is expected to fall nearly \$210 million short of appropriations, reducing estimated FY15-ending reserves to \$515 million, or 8.4 percent. Reserves at the end of FY16 are expected to be \$516 million, or 8.2 percent of recurring appropriations. Due in part to New Mexico's heavy reliance on volatile energy-related revenues, a reserve balance of 10 percent is favorable.

After the comprehensive and controversial amendments to the Corporate Income and Franchise Tax Act in 2013, the Legislature in 2014 did not have much appetite for additional major tax reform, instead limiting tax law changes to a few gross receipts tax (GRT) exemptions and an amendment to net operating loss carryover provisions for corporate taxpayers. The GRT exemptions are part of a larger trend that has dominated tax law changes for more than a decade, and that has contributed to significant issues with that tax. A conversation on tax policy must address these issues, discuss other tax concerns facing the state and how they relate to job creation and economic development, and explore tax policy matters that affect local government revenues.

Trends in New Mexico Taxation

Broad changes to personal income and corporate income statutes have been relatively infrequent in the past dozen years. After personal income tax cuts in 2003, 2010 saw an amendment that added state and local taxes deducted on taxpayers' federal tax returns back into net income when determining state income tax liability. In 2013 the top corporate income tax (CIT) rate was reduced and single-sales income apportioning was allowed for some corporations. The following year, the CIT net operating loss carry-forward provision was extended. Apart from these amendments and a 2010 cigarette tax increase most tax law amendments have affected the gross receipts tax.

In 2003, the enactment of the food and medical deductions from gross receipts spurred passage of many additional exemptions, credits, and deductions each year. These provisions have narrowed the tax base. To maintain revenue adequacy and in the wake of the great recession, the GRT rate was increased 1/8 percent to 5.125 percent. Combined with local option taxes, the GRT is as high as high as 8.81 percent in some municipalities. Further, the 2013 tax reform package provided all local governments with the authority to increase rates up to 3/4 percent to compensate for the phase out of "hold-harmless" payments to counties, created to reimburse counties for revenue lost when the GRT on food and medicine was eliminated in 2003. The gross receipts tax, in its current state, is in need of reform, and a study of the tax that generates recommendations for reform is warranted.

Pyramiding. The increase in GRT rates has also exacerbated the effect of pyramiding, which occurs when the GRT is applied to business-to-business purchases of supplies, raw materials, and equipment, creating an extra layer of taxation at each stage of production. This is a critical issue for New Mexico because the GRT taxes professional services not taxed in other states, such as legal services, accounting services, transportation, and similar services. This

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.

Selected GRT Rates for NM Cities and Counties (as of January 2015)

Highest Rates	
Española (Santa Fe Cty.)	8.81%
Taos Ski Valley	8.69%
Española (Rio Arriba Cty.)	8.57%
Raton	8.52%
Logan	8.38%
San Jon	8.38%
Tucumcari	8.38%
Lowest Rates	
Bernalillo County	6.06%
Chaves County	6.06%
Socorro County	6.00%
Colfax County	5.75%
Eddy County	5.75%
Union County	5.69%
Lea County	5.50%

Source: TRD

Revenues & Tax Policy

Jurisdictions That Have Enacted the 3/8% "Hold Harmless" GRT	
Municipality	Enacted
Corrales	14-Jan
Española (RA & SF)	14-Jul
Las Cruces	14-Jul
Lovington	15-Jan
County	Enacted
Cibola County	14-Jul
Grant County	15-Jan
Harding County	15-Jan
Sierra County	15-Jan
Valencia County	15-Jan

Source: TRD

Revenue Impacts of Selected Tax Law Changes and Tax Expenditures (in millions of dollars)			
Tax Law Change / Tax Expenditure	FY15	FY16	Year Enacted
CIT Rate Reduction and Optional Single-Sales Apportioning (CIT)	(32.7)	(64.4)	2013
Mandatory Combined Reporting (CIT)	7.5	5.8	2013
High-Wage Jobs Tax Credit	(15.0)	(15.0)	2004
Manuf. Deduction (GRT)	(13.6)	(20.0)	2012
Construction Deduction (GRT)	(14.9)	(15.6)	2012
Film Production Tax Credit (CIT)	(50.0)	(50.0)	2002
Locomotive Fuel Tax Exemption (Comp)	(3.0)	(3.0)	2011
Total	(121.7)	(162.2)	

Source: LFC files and Consensus Revenue Estimating Group

pyramiding can force price increases and make our New Mexico industries less competitive compared with other states. The 2011 New Mexico Tax Research Institute/Ernst & Young business competitiveness study calculated the effective New Mexico tax rates for business support services, electrical equipment manufacturing and aerospace products and parts were in excess of 20 percent before considering tax incentives. After incentives, food products manufacturing, business support services, and electrical equipment manufacturing sectors had effective tax rates in excess of 10 percent. In all these sectors, GRT pyramiding contributed to the high effective rate.

Legislation in 2012 to address pyramiding in the manufacturing and construction sectors was onerous to administer and more open-ended than intended, doubling its estimated fiscal impact and requiring legislation to reduce the revenue losses. Future anti-pyramiding legislation should be carefully constructed to avoid ambiguity and uncertainty.

Cost of Recent Tax Law Changes and Incentives. Tax policy changes for economic development come at a cost. In recent years, several economic development tax expenditures have had larger fiscal impacts than initially estimated, in some cases requiring statute changes to curb the impact. Following the expansion of the credit in 2001, the statute governing the high-wage jobs tax credit (HWJTC) was amended in 2013 to tighten the eligibility requirements for both employers and employees; however, protests from filers could result in additional HWJTC claims, representing a downside risk to future revenues. The 2013 tax package also changed the manufacturing tax credit to tighten the qualifying standards for businesses claiming this deduction. These cases illustrate the need for a conservative approach in estimating the initial impacts of such tax preferences, particularly in cases where a phase-in delays full impacts to out-years.

The corporate income tax rate and income apportioning changes, as well as several tax expenditures either enacted or amended since 2012, significantly impacts the State's bottom line. The impacts of the HWJTC and the construction GRT deduction are assumed to be in the tax base and, therefore, no additional adjustments are made to the revenue forecast based on these tax expenditures. HWJTC claim denials have increased since 2013 legislation tightened qualifying requirements. However, approximately \$100 million in claims is currently under protest.

Effective Tax Policy and Job Growth. A competitive tax structure is an important contributor to retention of existing companies and recruitment of new companies to New Mexico. Unusual taxes or disparately high rates create a disincentive for companies to stay in or move to a location. If a state's tax structure falls within the range of peer states, businesses will typically base their location decisions on other factors, such as labor, real estate, infrastructure, and transportation from suppliers and to the markets. In some cases, particularly if the decision-maker will be relocating, quality of life can also play a significant role. New Mexico's tax structure includes incentives aimed at attracting specific industries, such as film, and aims to reward high-wage job creation. New Mexico's tax structure largely falls relatively in line with peer states, except for the gross receipts taxes (GRT). Because this is an

unusual tax nationwide, its very existence is sometimes a concern for companies considering relocating or expanding to the state.

Other Tax Policy Trends

Internet and Taxation. The proposed federal Marketplace Equity Act and the Marketplace Fairness Act would grant states authority to impose taxes on remote Internet retailers who compete with local retailers but currently do not have to collect and remit sales or gross receipts taxes to a purchaser's home state. It is unclear whether these bills will pass or how their specific provisions would affect New Mexico. The imposition of New Mexico tax on remote sellers represents a potential bonus "upside risk" to the revenue forecast, although the risk is limited because major online retailers are already collecting and remitting sales tax.

Another Internet-related tax policy change at the federal level was the temporary extension of the Internet Tax Freedom Act (ITFA), which imposed a moratorium on new state and local taxes on Internet access fees while preserving ("grandfathering") existing Internet access taxes. The Center on Budget and Policy Priorities argues Congress should lift the ban and let states decide whether they and their local governments will impose taxes on Internet access charges. Making the ITFA permanent and stripping the grandfather clause could result in revenue reductions in New Mexico.

Electronic Cigarettes. Several states have begun to examine the market for electronic cigarettes and develop a tax structure similar to traditional tobacco products, such as cigarettes. The consumption base for tobacco taxes is being eroded by the increased market share of electronic cigarettes, which in New Mexico are not currently subject to an excise tax. The use of such products has grown amid unclear federal regulation, and research about the health effects of e-cigarettes, which deliver nicotine through a heated vapor, is limited. A tax on e-cigarettes equivalent to the tax rate on traditional tobacco products would restore this revenue source and would minimize preferential treatment by taxing all tobacco products equally. However, opponents of such a tax cite e-cigarettes' reduced negative health impact and its potential but unproven use as a smoking cessation tool. They contend a tax would discourage its use in favor of traditional tobacco products.

Indian Gaming Compact. The consensus revenue estimate includes a downward adjustment to tribal revenue sharing revenue in FY16 and subsequent years to reflect the expiration of the 2001 gaming compact. If a compact is enacted, depending on the terms, the revenue forecasts for those years may be adjusted upward to reflect the restoration of a revenue sharing agreement. Because negotiations with the state had not been successful, the pueblo of Pojoaque attempted to negotiate a compact directly with the U.S. Department of the Interior, circumventing the state. However, in October a federal judge blocked the pueblo's attempt to negotiate directly with the federal government, ruling the controlling federal law, the Indian Gaming Regulatory Act (IGRA), allows tribes to take compact disputes to the Interior Department only if a federal judge finds the state acted in bad faith. No such

States with E-Cigarette Taxes

North Carolina: An excise tax is levied on vapor products at the rate of five cents (5¢) per fluid milliliter of consumable product. All invoices for vapor products issued by manufacturers must state the amount of consumable product in milliliters.

Minnesota: E-cigarettes and liquid capsules are considered tobacco products and are subject to the tobacco tax, currently 95 percent of the wholesale cost of any product containing or derived from tobacco. Retailers are required to purchase the product in which wholesale tax has been paid. Consumers who purchase from someone who has not paid the tobacco tax must pay a tobacco consumer use tax.

Revenues & Tax Policy

Food and Medical Hold Harmless Distributions to Local Governments (in millions of dollars)			
FY	Food	Medical	Total
2009	\$92.3	\$27.1	\$119.4
2010	\$96.0	\$29.3	\$125.3
2011	\$97.5	\$31.5	\$129.0
2012	\$101.8	\$34.1	\$135.9
2013	\$103.2	\$34.2	\$137.4
2014	\$105.7	\$32.4	\$138.1

Source: TRD

State Gasoline Tax Rates (cents per gallon)	
Arizona	19
California	52.89
Colorado	22
Oklahoma	17
Nevada	33.15
New Mexico	17
Texas	20
Utah	24.5

Source: The Tax Foundation

Selected Motor Vehicle Sales Tax Rates		
State	Tax Rate	Notes
Arizona	5.60%	Plus up to 3% in local rates.
Colorado	7.62% (Denver)	State Tax of 2.9% plus local rates
New Mexico	3.00%	
Oklahoma	3.25%	
Texas	6.25%	
Utah	6.85% (SLC)	State rate of 4.7% plus local rates

Source: DOT

bad-faith finding has been made. Ratification of a new compact is an upside risk to the forecast.

Local Government Revenues

Distributions to Local Governments. Several tax policy issues directly affect revenues to local governments. Perhaps the most significant issue is that of adjustments to tax revenue distributions to local governments. For instance, if a taxpayer initially paid a tax in the wrong jurisdiction and amends the tax return to report the proper jurisdiction, TRD adjusts distributions to the affected local governments to reflect the corrected return. This could be done by reducing distributions to one local government and increasing distributions to another. However, in some cases, this can result in a zero distribution to some small local governments, impeding their ability to operate. This issue was litigated with Eunice successfully challenging TRD's ability to adjust some distributions. Estimating the fiscal impact to the state is complex, but TRD notes the result of the court decision in *Eunice v. State of New Mexico* TRD could create a risk to GRT revenues of approximately \$20 million per year. The department has been granted a motion for rehearing with the New Mexico Supreme Court and the fiscal impact is dependent on the final outcome in that case.

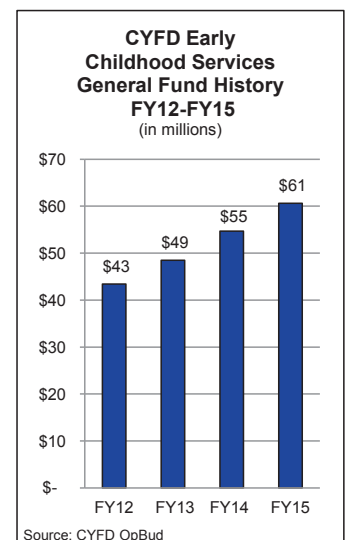
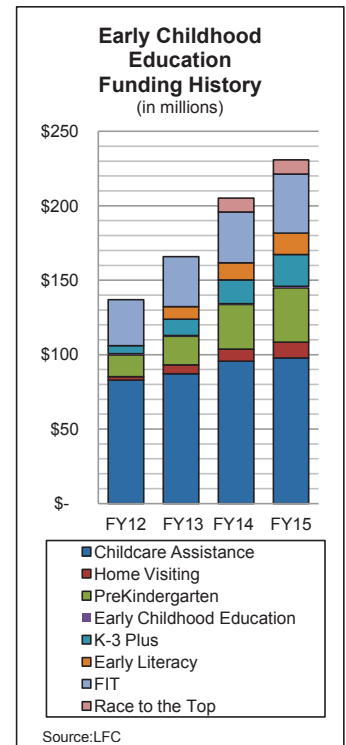
Food and Medical Deductions. Legislation enacted in 2013 phases out over 15 years the hold-harmless distribution to municipalities and counties that offset the food and medical deduction. The long period of the phase-out should give local governments some time to reprioritize budget expenditures to manage the reduction in revenue, and the law authorizes local option GRT rates to restore lost revenue. However, this would add to an already high GRT rate. One alternative would be to restore food and medical services to the gross receipts tax base, if not statewide, then at the local level. This would eliminate the need for hold-harmless payments while broadening the GRT base and potentially enabling a rate reduction. The restoration to the tax base of certain healthcare services is supported by the implementation of the Affordable Care Act, which expands healthcare coverage to over 100 thousand uninsured adults and diminishes the need for subsidization of healthcare costs. An increase in the working-families tax credit could offset additional tax burden on low-income taxpayers, but fraudulent claims are a concern.

Fuel Tax and Motor Vehicle Excise. The tax rate charged on gasoline was last changed in 1995, when it was decreased by 3 cents to 17 cents per gallon. The tax on special fuels, such as diesel, has not been increased since 2003, when it was increased by 3 cents to 18 cents per gallon. This unit tax is not indexed to inflation, and relatively constant levels of fuel purchases and increases in vehicle fuel efficiency have eroded the purchasing power of fuel tax revenue. The major benefactor of these fuel taxes has been the road fund (see "Transportation" in this volume), but local governments also receive a portion of this revenue for local road maintenance. Lower purchasing power of fuel taxes is constraining local governments' ability to build and maintain their road infrastructures.

Family relationships and a child's earliest experiences influence development from birth through adulthood, research shows. Early childhood initiatives have the potential for widespread economic and social benefits for both children and families. The New Mexico Legislature has increased early childhood funding nearly 70 percent since FY12. However, improved leadership, coordination, and oversight are needed. Starting prenatally and extending in a continuum of services through age five, with priority for children and areas of the state most at-risk, these programs may help break the cycle of poverty and reduce the need for more costly remediation in adulthood. Promising evidence-based programs - such as paraprofessional home visits to families with small children, prekindergarten, and K-3 Plus extended school year - are underway in New Mexico, but service and capacity gaps exist.

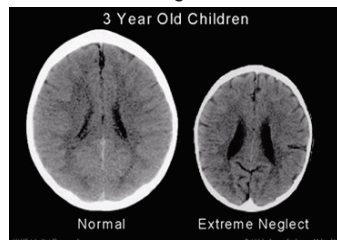
Targeting At-Risk Families. Families living in poverty are exposed to risk factors that can impair a child's development. More than half the academic achievement gap found between children from economically advantaged and disadvantaged families in later school years is already present when children enter kindergarten. A recent LFC evaluation found one quarter of children entering kindergarten are unable to identify one letter, and more than 80 percent of children from low-income families are behind on the first day of school. Research indicates early reading proficiency is a strong predictor of future educational and employment success. In New Mexico, low-income and rural children are at a higher risk for developmental delays than their peers. Impoverished children lag in math, literacy, and social skills. The Census Bureau reports a higher percentage of New Mexican children are living in poverty than any other state except Mississippi. Quality early education and care before age 5 greatly impacts future success and highlights the need for investments in targeted, evidence-based interventions.

Early Childhood Brain Development. Research indicates the most rapid period of brain development occurs in the first few years of life. During this time, the basic architecture of a child's brain starts to form with ongoing implications into adulthood. This means the earliest years may present the most significant opportunity but also the highest risk. Brain development is slowed for children in less stimulating emotional and physical environments, leading to cognitive and social delays. When children experience stressful environments, the body's stress response system is activated, producing a range of physiological reactions. When stressful environments persist, the body's response system remains activated, resulting in toxic stress. Toxic stress impairs neurological growth and the development of executive function skills. In contrast, in a nurturing environment, the brain develops executive function skills, including the ability to focus, filter distractions, self-regulate,



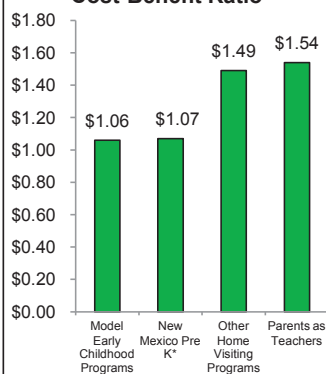
Early Childhood

Brain Size Relating to Maltreatment



Source: UNM Health Sciences Center

Results First Initiative
Cost-Benefit Ratio



Source: New Mexico Results First

delay gratification, and remember, organize and use information. These functions are essential for improved education, behavioral, and economic outcomes. As a result, research shows later interventions may be less successful. Programs that identify and support children and families who are most at-risk for experiencing toxic stress can reduce or avoid the need for more costly and less effective remediation and support programs later.

Support for Families. Early care and education programs provide developmental support for families and improve life-long outcomes for children. Childcare assistance provides low-income working families a safe and affordable childcare placement while parents work or go to school and presents an opportunity to enhance a child's healthy cognitive, emotional, social, and physical development. Additionally, home visiting programs address maternal and child health issues, support positive parenting practices, and provide access to supportive services.

Early Childhood Programs and Cost-Effectiveness. New Mexico continues to show leadership in increased investment in early care and education. Despite significant focus on early childhood programs, New Mexico continues to rank low in the Annie E. Casey Foundation's annual *Kids Count Data Book*, which ranks states according to 16 child well-being measures, primarily because of the large number of children in need of services. In FY15, the Legislature increased funding for early childhood well-being programs by 13 percent. By investing in early childhood programs, taxpayers may save more over time through decreased juvenile delinquency, criminal activity and educational remediation. In addition, strategic investments, along with careful attention to implementation and monitoring performance, could improve the social and cognitive skills of children, with benefits extending throughout a child's life.

A Closer Look: Early Childhood Outcomes

An April 2014 LFC *Results First* report of early childhood evidence-based programs showed participation in high-quality early childhood programs improved outcomes and reduce the need for spending on remediation in the future when implemented correctly. These savings are a result of reducing remediation needs in public and higher education, special education, juvenile rehabilitation, juvenile and adult criminal activity, and welfare assistance.

The report examined actual return on investment for two programs in New Mexico, prekindergarten and childcare. LFC staff found a positive return on investment in prekindergarten in improved third-grade test scores and also found decreased likelihood of retention and special education identification, which were not monetized.

Childcare programs, regardless of state-awarded quality level, were not found to be cost-beneficial. The potential returns on investment for other programs currently run in New Mexico were also examined and look promising, including Head Start and the home-visiting Nurse Family Partnership. However, the report also cited potential program fidelity shortcomings for Head Start and limited availability of other evidence-based programs, such as Nurse Family Partnership.

Funding what works, successful implementation, and program fidelity are key in achieving improved outcomes and cost-beneficial results.

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Home Visiting. The Legislature has continued to prioritize funding for early intervention home visiting services since FY12. Home visiting is an intensive parent education program shown to effectively reduce child abuse and improve health. This voluntary program provides family support and basic parenting skills critical to improving childhood outcomes during pregnancy and through the first few years of a child's life. Additionally, home visiting assists health professionals in identifying mothers with postpartum depression and connects them with behavioral health resources. Research shows early family support programs are an effective system of early intervention for at-risk families.

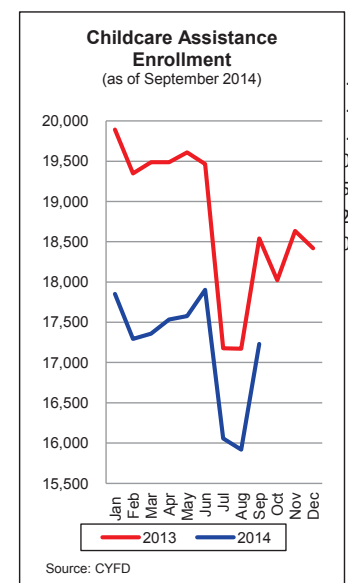
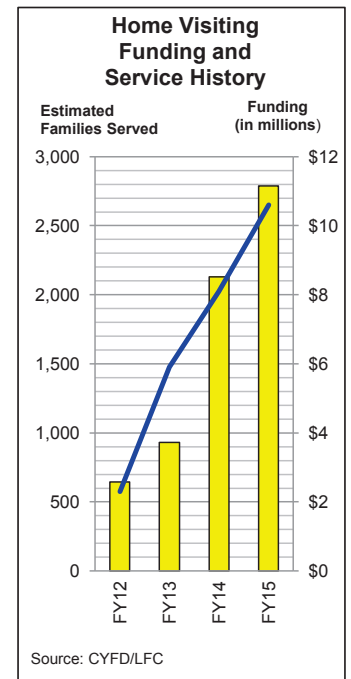
In FY15, the LFC estimated almost 2,800 families would receive state-funded home visiting services, but an estimated 8,000 eligible families would go without these services. Policymakers should consider continued investment in this evidence-based model with the expectation of increased transparency through the Home Visiting Accountability Act annual report.

Family, Infant, Toddler Program. More than 14 thousand children and families benefit from Family, Infant, Toddler (FIT) program services in New Mexico through a network of over 33 community providers. FIT provides a statewide comprehensive system of early intervention services for children from birth to age 3 diagnosed with developmental delays, disabilities, and serious medical conditions. The program provides services when a child's developing brain is most susceptible to remediation and less costly. Early intervention also reduces the need for special education in the public education system. The program receives referrals from parents, medical providers, and social service and child care personnel. The program is funded with federal funds, Medicaid, general fund revenue, and private insurance, and has a 5 percent annual increase in children served while constrained with declining federal and insurance revenue and providers' requests for higher rates.

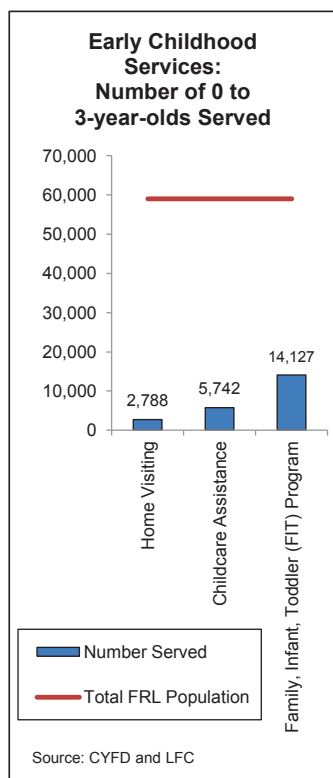
Childcare. Administered by the Children, Youth, and Families Department (CYFD), the Childcare Assistance Program in New Mexico serves about 18 thousand children up to age 13 at a cost of \$97 million annually. The program subsidizes the cost of child care for families with incomes at or below 200 percent of the federal poverty level (FPL), or about \$48 thousand annually for a family of four. As of November 2013, all participating families at 150 percent of the FPL receive automatic assistance.

Historically, child care has been viewed as a welfare support program, allowing low-income parents to work. However, since 2004, LFC evaluations emphasized quality initiatives intended to improve outcomes and recommended shifting funding toward more costly, high quality programs.

Due to cost-containment measures implemented in 2012, such as a requirement that single parents register with the Child Support Enforcement Division, the number of children participating in childcare assistance has dropped, resulting in a surplus of funds in FY14. The agency reinvested this \$16 million surplus in provider rate increases to compensate for the higher cost of quality child care. Policymakers should expect better results, including



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improved school readiness and performance, in exchange for this significant reinvestment.

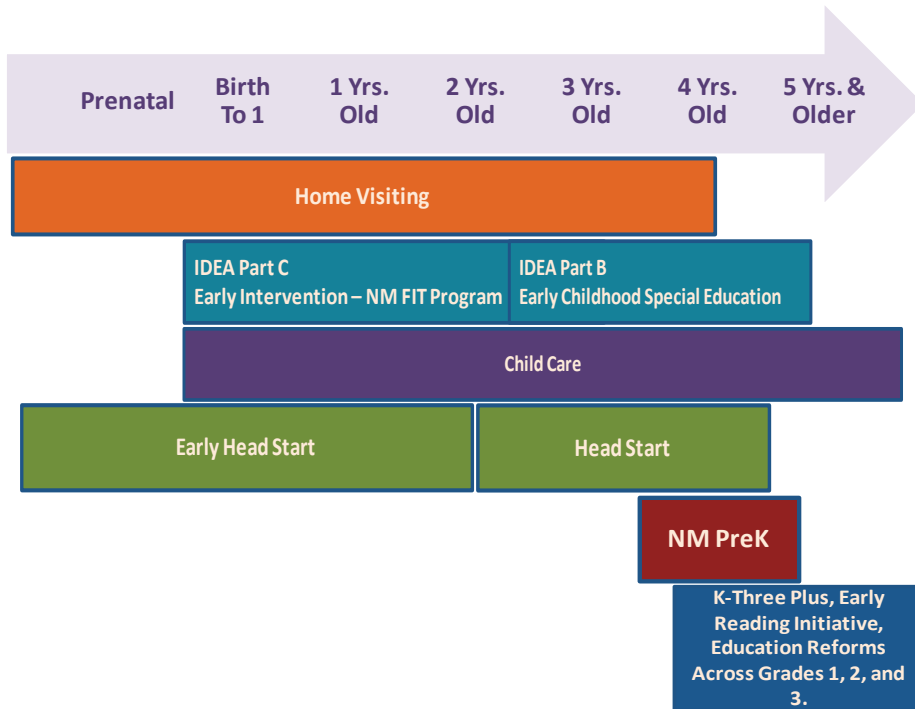
Child Care Funding Sources and Uses		
	FY14 Actual	FY15 Budget
SOURCES		
CCDF (Federal)	\$22,607	\$46,601
Title IV-E (Federal)	\$900	\$900
TANF (Federal)	\$23,778	\$30,527
Employment & Training (Federal)	\$0	\$0
Other State Funds	\$779	\$750
General Fund	\$37,840	\$35,283
Total Revenue	\$85,904	\$114,061
USES		
Child Care Services*		
1-Star	\$6,092	\$6,366
2-Star	\$23,168	\$26,539
3-Star	\$14,349	\$23,699
4-Star	\$6,223	\$7,247
5-Star	\$23,160	\$34,080
Child Care Services 1-5 Star Uses Total	\$72,992	\$97,931
Quality Initiatives (TTAP, etc)	\$4,623	\$8,437
Admin/Eligibility	\$8,289	\$7,693
Total Spending	\$85,904	\$114,061
Balance	\$0	\$0

Source: CYFD

To improve results, the state is implementing Focus, a new tiered quality rating and improvement system (TQRIS), funded through the federal Race to the Top-Early Learning Challenge (RTT-ELC) grant. The essential elements of Focus include observational child assessment, curriculum planning and support, family engagement strategies, health and safety practices, comprehensive program assessment and continuous improvement, and early childhood educator workforce training. These essential elements are indicators of high-quality early childhood programs and practices. Currently, childcare providers may volunteer to participate in the Focus pilot, and 150 providers are signed up statewide.

An LFC evaluation found 43 percent of children enrolled in childcare assistance were receiving services from lower quality providers. Focus includes differential payment system for Focus providers to encourage participation.

New Mexico's Early Childhood Care and Education System



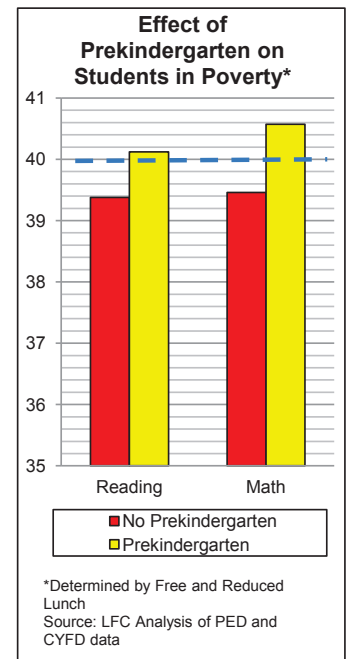
Source: UNM Center for Education Policy Research

Prekindergarten. A recent LFC evaluation found prekindergarten (PreK) had a significant impact on math and reading proficiency for low income 4-year-olds. In FY15, CYFD and the Public Education Department (PED) provided almost 7,500 children with PreK services, including about 1,800 slots for extended day services. Prior to FY15, PreK programs were only two and a half hours long each day. To increase student achievement, services were extended to allow for longer hours. LFC analysis indicates significant service gaps exist for 3-year-olds. Nationally, policymakers are extending PreK services to allow participation for 3- and 4-year-olds, and research indicates extending services through age 5 further promotes proficiency in math and reading by third grade. The Legislature should consider expanding PreK services for 3-year-olds to support continued gains in student achievement outcomes.

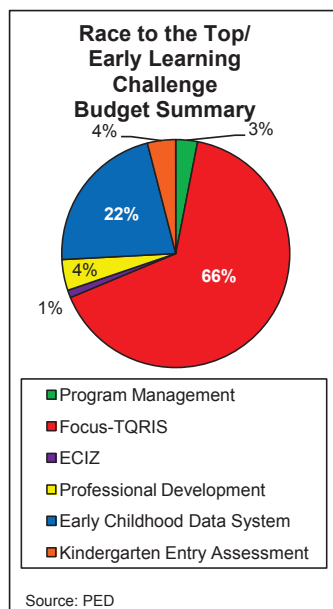
Early Childhood Programs Administration and Implementation

Concerns. Three significant reports recently released highlighted capacity, administration, and implementation difficulties for the early childhood services. The RAND Corporation, in *Getting to Outcomes Plan*, reported CYFD failed to implement home-visiting programs in two of the four communities targeted for pilots under a \$2.6 million federal grant awarded in 2011. The evaluation found CYFD struggled to develop capacity in McKinley County and the south valley of Albuquerque, although pilot programs were in place in Luna County and Quay County.

A report from the Johnson Consulting Group, *Opportunities to Strengthen Early Childhood Services, Program and Systems in New Mexico*, found that,



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although New Mexico is a leader in public investment in early childhood programs, leadership, system development, and executive interagency coordination are needed. Recommendations from the report included making early childhood programs a higher priority for the governor's Children's Cabinet, including providing strong leadership and oversight of activities and investments; supporting local early childhood system development in investment zones; establishing common eligibility definitions and creating pathways for the range of children with disabilities and other special health needs, including coordinating funding and services through Medicaid; and ensuring a broad vision for early childhood mental health planning and development by incorporating ideas from the J. Paul Taylor taskforce.

Similarly, a report by the National Academy of Sciences, *Strategies for Scaling Effective Family-Focused Preventive Interventions to Promote Children's Cognitive, Affective, and Behavioral Health*, found significant bottlenecks in New Mexico include developing demand for services, building organizational and provider capacity, building state agency contract and management capacity, establishing mechanisms for quality improvement, ensuring sustainable funding, and overcoming organizational silos.

Race to the Top-Early Learning Challenge

In 2012, New Mexico was awarded \$37.5 million during the second phase of the discretionary federal grant Race to the Top-Early Learning Challenge (RTT-ELC). The purpose of the grant is to help states focus birth through age 5 early learning and development systems and build unified approaches to supporting young children and families.

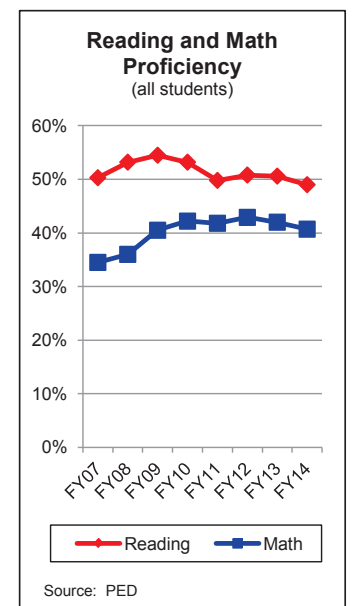
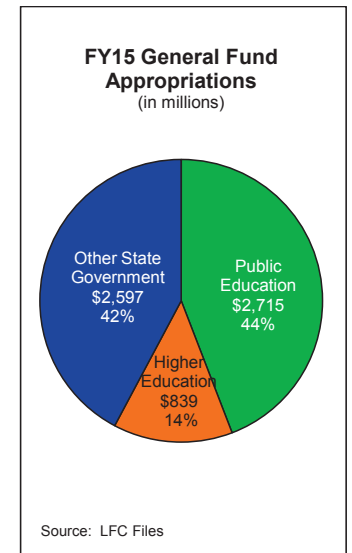
The New Mexico RTT-ELC grant focuses on improving early childhood care quality and staff professional development programs. The four goals that constitute New Mexico's RTT-ELC reform agenda include implementing a tiered quality rating and improvement system (TQRIS), establishing early childhood investment zones (ECIZ), implementing a kindergarten readiness assessment, and building an early learning data system. Focus will be New Mexico's third-generation TQRIS. The current system, Aim High, was implemented in 2000 but will transition to Focus by 2017.

The purpose of improving childcare quality is to improve the health and well-being of children and promote school success. Focus is an observational tool to document early childhood provider curriculum and planning based on the *New Mexico Early Learning Guidelines*, and established common program standards.

Investment in a strong, highly functioning education system is essential to ensure strong long-term economic development and a productive, vigorous workforce. To improve the health and economic well-being of families and communities, the state emphasizes the education of all students and dedicates nearly 60 percent of the state's general fund revenues to public and higher education. However, despite these spending levels, many children and young adults are not achieving success at expected levels or at levels of surrounding states, and expected gains from these investments have failed to materialize. The state cannot systematically address barriers in the educational pipeline without agencies, school districts and schools, colleges and universities, and employers developing action plans and allocating funding accordingly. For example, recently the executive has initiated a number of initiatives to improve student outcomes, but projected outcomes have yet to be fully realized. To ensure New Mexico's public and higher education students get the best education, available funding must target strategies proven to improve student success.

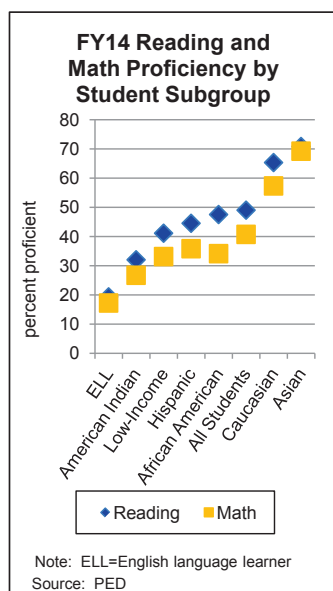
Public Education

Research indicates the state's public education funding formula fails to steer enough dollars to students at-risk of failure and two lawsuit brought by a handful of school districts, some students, and the New Mexico Center on Law and Poverty and the Mexican American Legal Defense and Education Fund argue just that. But how formula funding is spent is substantially left to the discretion of school districts and charter schools and formula funds are often not earmarked or directed to specific programs or practices with proven success. Because of this, the executive has pushed to put more public school funding into initiatives aimed at closing the achievement gap between at-risk students and successful students, with the funding controlled by the Public Education Department (PED). This raises the question of whether the money is being distributed fairly. Policymakers must balance initiative and formula funding to ensure the dollars are where they need to be. Similarly, the PED must ensure the more than \$2.7 billion spent on public schools in New Mexico is focused on programs and practices with demonstrated results.



Public School Funding: Formula versus Initiative

Public schools, whether charter or traditional, receive about 91 percent of their money through the funding formula, sometimes called above-the-line funding. The formula, designed to guarantee each public school student equal access to programs and services appropriate to educational need despite geographic location or local economic conditions, is enrollment-driven with weighted factors for school and district size, teacher qualifications, students' special needs, and other circumstances. School districts and charter schools receive formula dollars as a lump sum and decide how to spend it. Other funding for public education, so-called below-the-line funding, is appropriated to PED to address legislative and department priorities, such as prekindergarten, extended school-year and early literacy projects, and school improvement. The department often has broad discretion on how money is allocated.



More than 65 percent of public education students are from low-income families, primarily minority students, or identified as English-language learners.

Socioeconomic Gaps. One of the state's most significant challenges to improving the lives of students and families is addressing the achievement gap – the disparity in performance between groups of students defined by gender, race, language, or socioeconomic status. Generally, minority students and economically disadvantaged students fare more poorly than their peers due to parents' education levels, access to high-quality early childhood care and education, distribution of public education funding through the funding formula, allocation of funding within school districts, peer influences, educators' expectations, and curriculum and teacher quality. The achievement gap, when not adequately addressed, persists well into high school, postsecondary education, and the workforce. In many instances, students who start school behind their peers or fall behind in public education will never finish high school, graduate, or complete a postsecondary degree or certificate program, and many struggle to be successful in the workplace.

The state funds many programs that target at-risk students at all levels, including early intervention programs offered at prekindergarten through the early elementary levels. State grants supplement federal funds to help at-risk middle and high school students prepare for college. It is important to identify those at risk of falling behind as early as possible, target limited resources to evidence-based programs, and continue to support at-risk students throughout their educational career to ensure they leave high school prepared for college or the workforce.

At-Risk Students and Closing the Achievement Gap. Only 3 percent of public education formula funding is allocated to the state's at-risk students, identified as those living in poverty, English-language learners, and highly mobile students, despite the significant impact those factors have on academic achievement. Research shows educating at-risk students requires additional resources, though studies vary on the costs. States differ on the funding allocated for at-risk students but, in some instances, provide up to 50 percent more funding for at-risk students than other students. Because of legislation enacted in 2014, New Mexico will allocate a little more than 10.0 percent more funding for each at-risk student in FY16 – this will be an increase from the approximately 9.2 percent that will be allocated per student in FY15.

To ensure more students succeed and the achievement gap is narrowed, early identification of at-risk students and implementation of appropriate education strategies are essential. Educators must ensure students master basic skills, like reading and math. Extended-day or extended-school year programs, increased time on task, quality early childhood care and education programs, and targeted interventions for students falling behind will help close the

achievement gap. Additionally, the Legislature may want to consider further increases to the at-risk index in the funding formula.

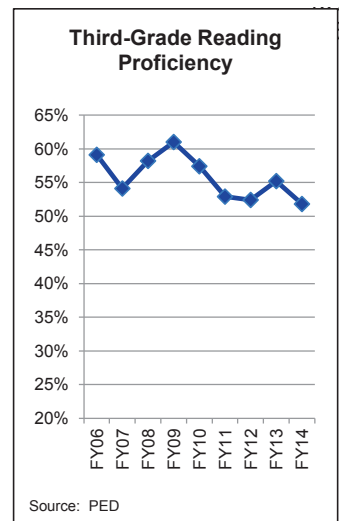
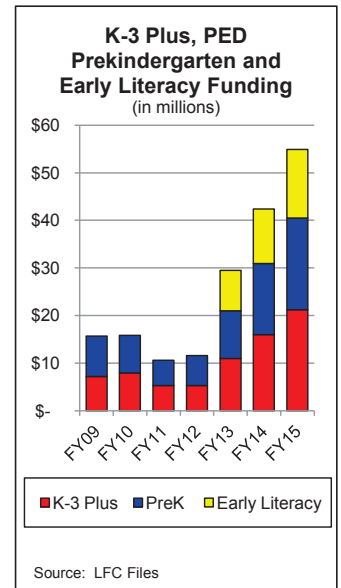
Early Childhood Education. A continuum of high-quality, evidence-based early learning programs for children is essential from birth to age 5 to ensure they are ready for school and then from age 5 to 8 as they learn to read. Early experiences influence learning and the quality of early public education can mean immediate as well as long-term benefits. Despite increased investments in early childhood programs, a large percentage of public school students still begin school behind their peers. A comprehensive public education strategy to close the achievement gap and ensure all children succeed begins with programming at the earliest grades. Kindergarten readiness and the quality of early public education programs are critical.

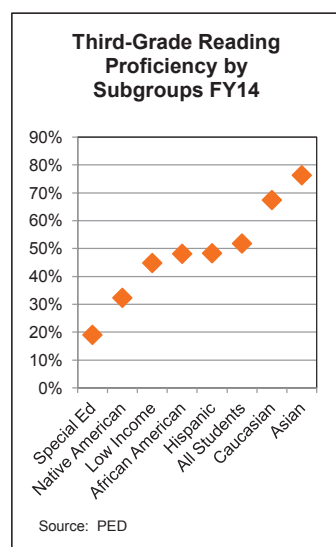
School Readiness. Children from low-income homes and children not proficient in English often start school behind and must learn more than a year's worth of information each school year to catch up to their more affluent English-speaking peers. A large percentage of New Mexico students come from low-income households or are English-language learners. The state invests heavily in early learning programs intended to ensure school readiness and foundational early literacy skills, including paraprofessional home visits to families with young children, prekindergarten, special education prekindergarten, PED's keystone early literacy initiative New Mexico Reads to Lead, and K-3 Plus – an extended school year program.

Beginning with the FY16 school year, each kindergarten student will be evaluated with the state's kindergarten readiness assessment – an assessment that measures language, numeracy, and social skills in order to identify learning deficiencies that need to be addressed immediately. Currently, the New Mexico standards-based assessment (NMSBA) administered beginning in third grade provides the earliest snapshot of student performance. Earlier standardized assessment results will allow elementary schools to design targeted educational programs that close the achievement gap earlier.

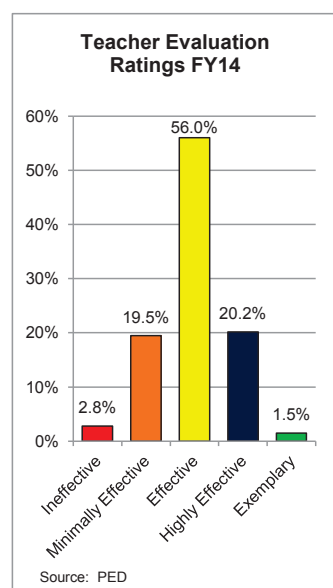
Early Childhood Education Programs. Significant state investments in early childhood programs began with implementation of full-day kindergarten more than 10 years ago. Since then, the state has invested heavily in two evidence-based programs at public schools – half-day prekindergarten funded through PED and the Children, Youth and Families Department and K-3 Plus. These two programs target low-income students and are positively affecting student performance. More recently, funding has also been appropriated for early literacy intervention, including reading coaches, new instructional materials, and other interventions intended to improve early literacy skills. Results from the early literacy intervention appropriation remain mixed and concerns persist that distributions have not been targeted to the lowest performing schools or low-income students.

Early Literacy. While school readiness is extremely important and indicative of the likelihood of future success, mastery of reading by third grade is a critical milestone in a student's academic career. Students shift from learning to read to reading to learn in the third grade. Early reading proficiency is well-established as a strong predictor of high school graduation





Early childhood investments appear to provide cost-effective alternatives to retaining students.



rates and future earning potential. Research shows students who fail to achieve this critical milestone often struggle in later grades and are at greater risk of dropping out before graduating. Identifying struggling readers before the third grade is critical to academic success.

Third-Grade Retention. Despite targeted early childhood investments, statewide third-grade reading proficiency rates averaged 51.8 percent in FY14, a decrease of 3.4 percentage points from the FY13 average. Even though many third-grade students are unable to read on grade level, they are promoted to the fourth grade. The executive recommends implementing a mandatory retention policy for certain third-grade students unable to read on grade level. However, national research indicates mandatory retention policies produce mixed results. Research shows negative effects of promoting unprepared third graders to fourth grade; however, it also shows holding students back to repeat a grade has negative effects, including an increased likelihood of behavioral problems, lower academic achievement, dropping out, and substance abuse issues, especially when not coupled with effective interventions. Improvement in early literacy is dependent on effective identification of struggling readers and access to targeted, coordinated intervention strategies while in the appropriate grade level.

Teacher and School Leader Quality. Research clearly demonstrates the importance of educators in student learning. When it comes to improving student achievement, teacher quality matters most. Research conducted by Eric Hanushek shows “The students of an ineffective teacher learn an average of half a year’s worth of material in one school year, while the students of a very good teacher learn 1.5 year’s worth – a difference of a year’s worth of learning in a single year.” Additionally, *Identifying Effective Teachers Using Performance on the Job* found having a top-quartile teacher rather than a bottom-quartile teacher four years in a row could be enough to close the achievement gap. This indicates teachers must be able to help students achieve more than a year’s worth of growth to close the achievement gap. To ensure this, policymakers should continue to address other policy levers, including teacher preparation programs, effective recruitment and retention strategies, and compensation to achieve the highest quality teacher and principal workforce.

College of Education Preparation Programs. Teacher and school leader preparation programs are important contributors to the quality of classroom instruction and school leadership. Recent studies, both national and local, raise concerns about college of education (COE) programs, including low entrance and exit standards, inadequate focus on early literacy and other program weaknesses, and limited quality student teaching opportunities. In addition to ensuring existing educators are effective, focus must also be shifted to ensure COE and other educator preparation programs are producing high-quality, equipped graduates. By more closely overseeing quality on the front end, PED can reduce the burden of dealing with ineffective educators after they are already in the classroom.

Annual Teacher Evaluation. To identify teachers who are struggling and identify and recognize top performers, PED implemented a new evaluation system in FY14. Prior to FY14, evaluations of teachers only identified

whether teachers were meeting competencies or not. The new evaluation system – based 50 percent on student growth as measured through testing, 25 percent on multiple observations, and 25 percent on other district-adopted measures – classifies teachers as exemplary, highly effective, effective, minimally effective, or ineffective. Results from the first year of the new teacher evaluation system show more than three-quarters of teachers evaluated received a rating of effective or higher.

While most stakeholders agree the old evaluation system was ineffective, controversy continues to surround the new evaluation system. While recognizing the current teacher evaluation process has promise, critics note significant technical glitches and results that sometimes appear inconsistent. Most educators are satisfied with the observation piece of the evaluation system, though they note the process is time-consuming. A major point of contention is the use of student test scores to evaluate teacher performance.

Given implementation of new assessments in FY15 aligned to common core state standards, educators are concerned student proficiency results will decline sharply, negatively affecting teacher evaluations. Educators have requested PED delay the use of test scores in annual evaluations or alternatively, decrease the amount of each annual evaluation based on student test results. PED denied initial requests, arguing the federal government could deny the state's waiver from certain provisions of the federal No Child Left Behind Act if the department changed the evaluation system. Since that time, the federal government – acknowledging enormous pressures mounting on the nation's teachers because of new academic standards and more rigorous standardized testing – announced it would allow a one-year delay in using test scores for teacher evaluations in states that requested it. At this time, it is unclear if any changes will be made to New Mexico's evaluation system for the FY15 school year; however, it is important to note formative test results from FY15 will not be included in evaluation results until FY16.

Educator Compensation. Current policy discussions have focused on the need to increase pay to attract and retain the best educators while also ensuring large investments in the licensure system are improving student performance. Previous evaluations of the three-tiered licensure system confirmed the system decreased widespread teacher shortages, reduced the number of unqualified teachers, and improved teacher pay. Recently, however, school districts statewide have noted concerns about the ability to recruit and retain qualified, effective educators – reporting they are unable to compete with neighboring states that offer larger take home pay.

Minimum salaries for licensed educators were established in statute in 2003 at \$30 thousand for level one, \$40 thousand for level two, and \$50 thousand for level three; however, there is no single statewide salary schedule. PED reports the average salary paid to returning teachers during the FY14 school year was \$45,572, while the average salary budgeted in FY15 rose to \$47,394. The National Education Association (NEA) indicates New Mexico ranked 47th nationally in FY13 in terms of the average salary of public school teachers (including first-year teachers). Despite the state's low ranking, NEA reports the change in average salaries of New Mexico public school teachers was 23 percent between FY03 and FY13, ranking New Mexico 30th in terms

Despite its availability, student test score data from the FY14 school year was not used to establish student growth – data from the FY11 through FY13 school years was used – raising questions about the timely use of data and whether it is appropriate to base a large part of a teacher's evaluation on performance data more than a year old.

Comparing educator salaries within the state and across states is difficult because of differences in pay structures. Contracts differ from location to location – different number of instructional days, non-instructional days, hours per day, etc. Also, pay reported may or may not include bonuses, stipends, supplemental pay, retirement benefits, or fringe benefits. Additionally, comparisons do not take into consideration cost-of-living differences throughout the state. Several nationally-known sources compare salaries, but do not control for variables among locations.

License Level	Minimum Salary for FY15
Teachers	
Level One	\$32,000
Level Two	\$40,000
Level Three A	\$50,000
Administrators	
ES Princ.	\$60,000
Ast. ES Princ.	\$55,000
MS Princ.	\$70,000
Ast. MS Princ.	\$57,500
HS Princ.	\$96,000
Ast. HS Princ.	\$62,500

Source: LFC Files

The School Personnel Act establishes a minimum salary for level one teachers at \$30 thousand; however, the GAA of 2014 increased the minimum salary to \$32 thousand for FY15. Without additional legislative action, the minimum salary for a level one teacher will return to \$30 thousand in FY16.

of growth nationwide. Salary information for school administrators is not as readily available as that for teachers. PED reports the average principal salary in FY13 was \$71,528 and the average salary budgeted for FY14 was \$72,641. In FY13, PED reports annual salaries of principals ranged from a low of \$56,146 to a high of \$118,553. According to the U.S. Department of Labor, Bureau of Labor Statistics (BLS), the national median pay for a school administrator in 2012 was \$87,760. Occupational Information Network (ONET) data indicates, nationally, the median pay for a school administrator rose to \$88,400 in 2013. The data shows the median pay for a New Mexico school administrator was \$75,600 in 2013.

Through language in the General Appropriation Act of 2014, the Legislature increased the salary minimums established in statute for licensed teachers and administrators by \$2 thousand per license level; however, the governor vetoed all increases for level two and three license holders. The mandatory increase for level one license holders is only effective for FY15.

In addition to funding included in the GAA of 2014 to increase minimum salaries and for an average pay increase for all school employees, more than \$7.2 million was appropriated to PED and has been earmarked for an incentive pay pilot for teachers and administrators in FY16. Criticism surrounding pay increases based on education and experience, factors LFC research suggests are not closely tied to teacher quality, led PED to implement an incentive pay pilot tied to student achievement. School districts and charter schools receiving the pilot funding must use the new evaluation system to identify teachers and administrators for incentive pay. Awards will be prioritized for teachers and principals in low-performing schools. Merit pay structures are controversial and have mixed results, depending on implementation. PED indicates the pilot will provide local data that will allow policymakers to evaluate the success of merit pay.

As the Legislature addresses educator pay, it is important to note increased pay alone does not necessarily lead to improved student outcomes. For example, Nevada is ranked 18th nationally in terms of average salaries of public school teachers and the median salary for an administrator is 20 percent higher than New Mexico; however, the most recent Kids Count report from the Annie E. Casey Foundation ranked Nevada the lowest state in the nation in terms of student achievement. The Legislature should continue to link pay to effective practices, including annual evaluations and licensure advancement that will result in improved student outcomes.

Licensure Advancement. Past LFC evaluations of the licensure system noted the local and state evaluation systems failed to screen teachers for effectiveness in the classroom. Local and state evaluations are both components of the three-tiered licensure system and required for licensure advancement. The three-tiered licensure system requires teachers to submit a professional development dossier (PDD) for level advancement. Local evaluations are part of the PDD. Historically, school administrators conducted local evaluations every one to three years and focused on evaluating classroom practice. Beginning with FY14, local evaluations also include student growth pursuant to the evaluation system PED implemented by regulation. Recognition of student growth in the annual evaluation is the

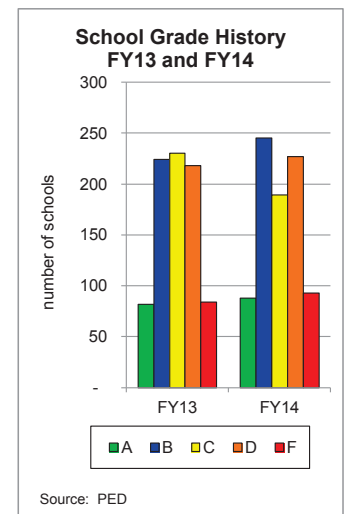
first meaningful step to link student achievement data to licensure advancement.

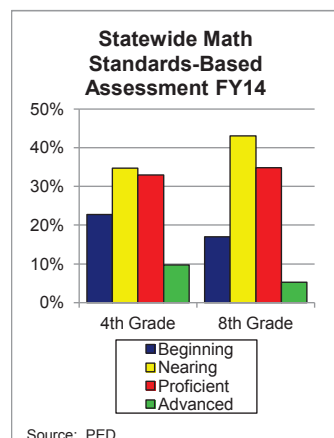
A Closer Look: Improving Educator Quality

Quality teaching is the most influential school factor affecting academic success. New Mexico continues to make efforts to improve teacher quality including the three-tiered system (intended to increase the recruitment and retention of quality teachers to improve student achievement), the state's new teacher evaluation system (intended to identify effective and ineffective teachers), and continued investments in college teacher preparation programs. LFC staff has evaluated these efforts finding the three-tiered system decreased widespread teacher shortages, reduced unqualified teachers, and improved teacher pay. However, the system does not improve student performance as there is little difference in student performance between tiers. The new teacher evaluation system remains controversial and LFC staff found potential issues with the use of the value added models (VAM), most notably that many teachers' ratings change depending on the value-added models used to estimate impact on student achievement. LFC staff also found New Mexico's teacher preparation programs are not providing teachers with the tools students need to close the achievement gap. Recommendations for improvement to these efforts include tying the three-tiered system to the how teacher pay is funded (T&E index), creating a statewide VAM that uses two different calculations to obtain a composite score to help eliminate VAM biases for teachers of certain populations, and incorporation of teacher preparation program outcome data and employment retention rates in the higher education performance-based funding formula.

Accountability and School Grades. The state's school grading formula is used for both state and federal accountability purposes to gauge how schools are performing annually. The system gives schools a letter grade between A and F based largely on student performance on the NMSBA and other assessments, with small values awarded for student surveys, attendance, student and parent engagement, and other factors. For FY14, 29 percent of schools received lower grades than the previous year. The remaining 71 percent increased or stayed the same. Growth in F grades outpaced growth in A grades in FY14.

The school grading system serves as the basis for prioritizing certain state and federal appropriations and is integrated into the regulations on teacher and school leader evaluations. PED intended the system to be easier to understand than federal adequate yearly progress (AYP) designations, improving stakeholders and policymakers access to school performance data and improving school management; however, some confusion remains. The formula uses a value-added model (VAM) – one that compares actual student improvement or decline against a student's projected performance based on past performance and other factors – to measure the impact of a specific teacher, but it is highly technical and not readily understandable to the layperson. PED has not made comprehensive technical data related to calculation of school grades available for analysis, making it difficult for schools to recreate grade calculations or to make instructional policy decisions. Additionally, stakeholders are concerned the grading system may not accurately reflect the quality of public schools, in part because of significant fluctuations in school grades from year to year. PED should ensure the calculation of school grades is transparent and adjust calculations if needed to better align to actual school performance.



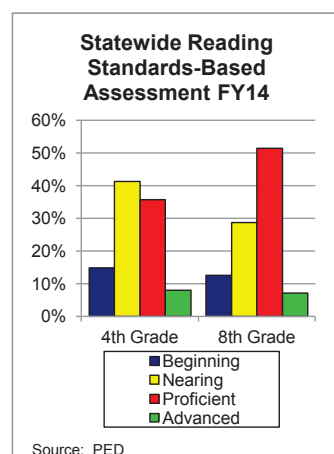


Student Persistence. While individual groups of students show gains in proficiency over time, statewide data from the NMSBA during the 2013-2014 school year shows modest decreases in proficiency overall for all subgroups except Asian students. For FY14, only 43.8 percent of fourth graders and 58.7 percent of eighth graders scored proficient in reading, and 42.7 percent of fourth graders and 40.0 percent of eighth graders scored proficient in math. It is likely some of the declines in proficiency can be attributed to new common core state standards and using computers to administer the test. The graduation rate remained relatively flat, at 70.3 percent for the FY13 class. The achievement gap continues to persist for most subgroups and is largest for Native American, Hispanic, and economically disadvantaged students.

College and Career Readiness. Many high school students fail to graduate, and a high percentage of those who do graduate are not prepared to enter college or the workforce.

Common Core State Standards

Educational standards provide clear goals for student learning at each grade that help teachers ensure students have the skills and knowledge needed to advance grades and ultimately graduate. Fiscal year 2015 marks the first year of full integration of common core state standards (CCSS) in public schools – new math and English standards designed to ensure high school graduates are prepared to enter credit-bearing college courses or the workforce. In addition to new standards, students will be required to take a new computer-based assessment beginning with the FY15 school year aligned to the CCSS. Concerns persist that schools will not have sufficient technology or adequate training to administer computer-based assessments in the 2014-2015 school year and proficiency results will decline and negatively affect teacher evaluations and school grades. For example, the state piloted administration of computer-based assessments during the FY14 school year and saw marked declines in proficiency for those students participating in the pilot. Despite test-related concerns, the new standards should improve critical-thinking, problem-solving, and analytical skills students need to be successful in the future. Additional benefits of the CCSS include collaboration among states on development of textbooks, teaching materials, and assessments.



Graduation Rate. The four-year cohort high school graduation rate for 2013 remained relatively flat. Most subgroups showed little change in the graduation rate; however, special education students showed the largest change, with a 4.1 percentage point increase. Fiscal year 2013 marked the first year a student needed to demonstrate subject matter competency in five required subject areas on the NMSBA or through an alternative portfolio to graduate. As the state moves to a new computer-based assessment, PED will need to reestablish the lowest score a student can earn to demonstrate competency for graduation purposes and should consider issues related to computer administration of tests that do not directly correlate to proficiency. Otherwise, graduation rates for FY15 could drop.

Dropping out of high school is related to a variety of factors, including individual, family, school, and community influences. No single risk factor can be used to accurately predict who is at risk of dropping out; however, accuracy of dropout prediction increases when a combination of risk factors are considered. Schools must ensure early identification of students at risk of dropping out and implement effective, evidence-based practices and programs to keep students engaged and on track to graduate. PED is developing an

early warning system to collect student data and provide information about students at-risk of dropping out that should be completed during the FY15 school year. Information should allow schools to implement practices that address student risk factors to improve the likelihood of success.

A Closer Look: Improving High School Graduation Rates

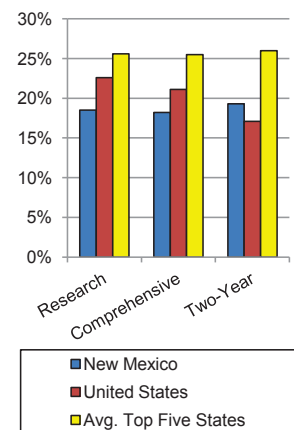
Lagging high school graduation rates in New Mexico produce significant drains on the state's economy. Though the state's four-year graduation has increased since FY08, the dropout rate increased as well. Roughly 7,700 students who enter ninth grade fail to graduate in four years. In FY13, nearly 7,200 students dropped out of the state's public school system, with half concentrated in 25 schools. LFC staff assessed various efforts to increase the number of adults in New Mexico with a high school credential including dropout prevention and recovery efforts, and analyzed resource allocation and costs associated with various dropout prevention and recovery efforts. Increasing the number of students who graduate annually by 2,600 would result in an estimated \$700 million in net benefits to tax payers, society, and these students over their lifetimes. Evidence-based strategies, including alternative education programs, case management, mentoring and counseling, and vocational training, increase the likelihood that at-risk students will graduate. Evaluation findings suggest promising initiatives are being implemented inconsistently across the state or not at all. Efforts are not targeted in schools and school districts where dropouts tend to be concentrated. Additionally, the state is spending millions on adults over the age of 22 in the public school system that never earn a high school credential and tend to be enrolled for far less than a complete school year. Recommendations included implementing evidence-based dropout prevention strategies in a systematic and organized way in areas with the greatest number of dropouts. Additionally, the state should modify statute to move dropout recovery efforts for adults over the age of 22 from public schools to the adult basic education system and adequately fund adult basic education.

College Remediation. Forty-eight percent of New Mexico high school students graduating in 2012 and enrolling in New Mexico colleges the following fall required remedial courses. This is a decrease from the prior year's rate of 52 percent; however, rates still remain higher than FY11. Research indicates students who require remedial courses in college are less likely to complete a degree or certificate program.

Implementation of the new common core state standards should assist in identifying students who are not college or career-ready early in their high school career; however, basic high school programming for math and English must be improved, and high school and college curricula should be better aligned. Additionally, communication between institutions of higher education and public schools and PED and HED needs to be improved.

High-Quality High School Programs. To produce graduates able to meet the demands of either college or the workforce, the state should continue to address the pathways from high school to postsecondary training and academic study. The traditional high school experience is not a successful model for all students. School districts must organize high schools around preparing students both academically and technically. In addition to offering pathways intended to prepare students for college, high school programs should consider adequately preparing students for skilled jobs. To achieve the dual mission of preparing students for both careers and college, schools should consider aligning curricula with identified workforce needs and the general education college core and establishing clear academic pathways.

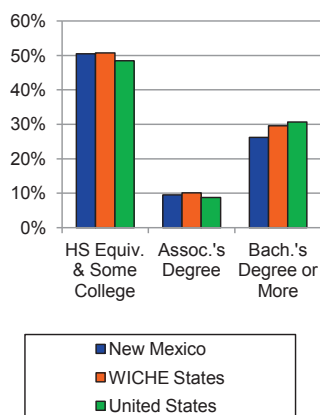
College Completion - Recent High School Graduates:
Undergraduate Awards per 100 Full-Time Equivalent Undergraduates



Source: NCES, IPEDS 2011-2012 Completions

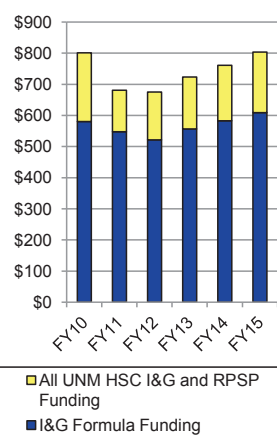
Education

Educational Attainment of the Population 25 Years and Older, 2012



Source: U.S. Census Bureau, 2012 American Community Survey, One-Year Public Use Microdata Sample

I&G Funding as Part of Total Institutional Funding
(in millions)



Source: DFA General Fund Summaries

School districts and charter schools implement diverse academic programming in an attempt to decrease the skills gap and increase graduation rates and college and career readiness. New Mexico invested in new early college high school (ECHS) and workforce readiness initiatives in FY14 and FY15. Both initiatives allow enrolled students to graduate with a high school diploma and an associate's degree or industry credential without incurring postsecondary debt. Graduates are able to enter the workforce or apply credits to a bachelor's degree. Additionally, many high schools, in collaboration with institutions of higher education, continue to offer dual credit courses. Moreover, the state receives federal funds for career technical education (CTE) programs. According to the Southern Regional Education Board, a nonprofit, nonpartisan education organization, high-quality CTE programs should align secondary education to specific postsecondary education and training opportunities, which in turn are informed by an industry advisory committee and linked to regional or national labor market opportunities. Additionally, CTE programs should be supported by a robust career development process that begins in middle school and continues throughout secondary education and is aligned to community needs.

Higher Education

New Mexico spends \$840 million in state general fund revenues to support higher education institutions, related programs, and students. Of this, \$665 million goes directly to colleges and universities for classroom instruction, student services, academic support, and related campus expenses. Another \$130 million supports public agencies, public service projects, and research to improve the health and well-being of New Mexicans. Lastly, in addition to \$60 million from other revenues, the state provides nearly \$25 million in general fund support as scholarships, grants, and loans to college students to increase the state's educational attainment rates and to attract high-demand professionals for public and health services. The state's commitment to support postsecondary education has remained high, even during the recent recession. But, it is uncertain whether these investments have paid off with sufficient increases in the number of New Mexicans with postsecondary credentials and degrees and college students who complete workforce training and college programs.

The state lacks clear and measurable goals for higher education institutions. Without broadly developed and articulated goals and strategies to address the state's needs, policymakers and institutional leaders cannot adequately mark progress, review and analyze weaknesses or barriers in program delivery, apply evidence-based practices, and target resources effectively. A number of efforts have started along this path, but the state needs to sharpen existing instruments and clarify targets for educational attainment and college completion. Imprecise instruments -- such as, the higher education instruction and general (I&G) funding formula, broad and numerous financial aid programs, and the state's lack of input on tuition and other revenues -- have exposed gaps in well-intentioned and well-directed efforts to meet state interests.

State Appropriations Focus on Results. Following national trends, New Mexico has sought to increase the number of residents with

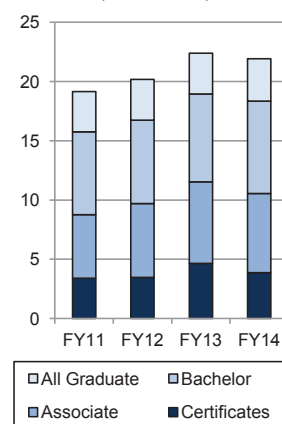
postsecondary certificates and degrees. Since FY13, the state has based a portion of general fund appropriations on an institution's performance and student success. During the 2014 interim, two LFC hearings focused on the I&G funding formula – the primary tool in directing funding toward general statewide priorities. The hearings reviewed recent changes to the formula, appropriation levels, and proposed changes. Following the hearings, additional scrutiny of institutional performance data from the last four academic years resulted in specific formula recommended changes to recognize both award production at a specific period of time and improved production over time.

I&G Funding Supports Improved Performance. For the last three years, the state has appropriated an increasing amount of I&G formula funding based on statewide, shared outcome measures: (1) total certificates and degrees awarded; (2) awards earned in science, technology, engineering, mathematics, and health (STEMH) fields; and (3) awards earned by financially at-risk students. For FY15, the state included sector- or mission-specific measures in the formula. The measure for research institutions recognized a percentage of total research grant and contract dollars generated, and measures for comprehensive and two-year institutions provided additional funds based on the numbers of students who reach academic milestones and completed dual credit hours delivered. In addition, the state transitioned from funding student enrollment to funding completed credit hours. To earn state funding, institutions have revised existing and implemented new programs to help students persist and complete academic and training programs. Institutional leaders have presented their efforts and preliminary results at LFC hearings during the last two interim sessions.

Data shows institutions increased performance on formula outcome measures. (See Comparison of Instruction and General Formula for FY16 Budget: Statewide Outcomes, LFC Supplemental Charts and Tables, Volume III, 2015.) However, it is uncertain whether formula incentives generated this increase. The majority of graduating students were in the college pipeline before the new funding formula was in place. Further, institutions experienced peak enrollments during the recession, resulting in larger graduating classes during this time. It is unclear whether institutions can maintain growth on outcome measures – and earn additional state funding -- given flat high school graduation rates and declining enrollments in FY14 and FY15. Additional scrutiny is necessary to determine whether improved institutional and student performance can be attributed to supplemental institutional programming, formula changes, or simply high enrollment numbers.

While including sector-specific measures in the formula rewards institutions for excelling at their public purposes, HED, DFA, LFC, and institutions support developing institution-specific and productivity measures. Where a general formula recognizes high-level performance, targeted measures can reward institutions for meeting specific community needs, helping particular student populations excel, or supporting regional economic development. Further, institutions can be recognized for efficiently providing a quality education. Sample productivity measures report the average number of program graduates per 100 full-time equivalent (FTE) students or per \$100

Certificate/Degree Production for I&G Formula Calculation
(in thousands)



Source: HED FY16 Draft Formula Data

Undergraduate Awards per 100 FTE

	NM	US
Research	18.5	22.5
Comprehensive	19	21
Two-Year	18	17

Source: NCES, IPEDS Completions, Financial & Enrollments Surveys (2010-2011)

Undergraduates and Total Funding per FTE

(All I&G Revenues, 2010-2011; in thousands)

	NM	US
Research	\$14.5	\$17.2
Comprehensive	\$11.5	\$10.5
Two-Year	\$6.3	\$6.2

Source: NCES, IPEDS Completions, Financial & Enrollments Surveys

Education

State Agencies Affiliated with Higher Education Institutions

- N.M. Department of Agriculture
- Agriculture Experiment Station
- Cooperative Extension Service
- Bureau of Geology and Natural Resources
- Bureau of Mine Safety
- Children's Hospital
- Tingley Hospital
- Office of Medical Investigator
- Poison and Drug Information Center

thousand in I&G revenues. Productivity is one, but not the only, way to recognize differences between institutional economies of scale or the base costs of smaller and larger institutions that provide academic and workforce programming.

State Investments in Research and Public Service Projects. The state spends a minimum of \$130 million in general fund revenues on state agencies and research and public service projects administered by colleges and universities. As part of a program's or project's annual budget request, an institution submits a narrative describing goals and objectives, annual performance targets, and prior-year performance results. During the budget process, HED, DFA, and LFC review the proposals and supporting documentation. However, once a program or project receives funding, HED provides little oversight of whether funded programs address state priorities and use cost-effective and evidence-based methods to accomplish stated goals. Because many of these programs and projects have received multiple years of support, the department has a sufficient record and reason to scrutinize whether present funding is based on proposed outcome measures and the program performs consistent with industry standards or benchmarks.

A Closer Look: Adult Secondary and Postsecondary Education

More than 220 thousand adults in New Mexico and over 50 percent of the adults incarcerated in New Mexico lack a high school diploma or equivalent – nearly 10 percent of the state's adult population. The LFC's *Cost-Effective Options for Increasing High School Graduation and Improving Adult Education* (fall 2014) assessed state and local government and non-profit organization efforts to increase the number of adults in New Mexico with a high school credential, including adult basic education (ABE) programs.

In FY13, \$8.8 million was distributed by the Higher Education Department to ABE providers to serve 19 thousand students. New Mexico spends nearly \$450 per adult in ABE programs compared with \$8,975 per adult student attending public schools, most of whom attend charter schools. Although educating adults in public schools costs almost 20 times more than ABE programs on a per student basis, graduation rates for adults in both settings are similar.

A significant need for ABE services exists in New Mexico, but resources are stretched thin and not targeted to those students most able to earn a credential. Additionally, New Mexico's ABE performance on several federal indicators lags behind that of surrounding states, likely a result of low instruction intensity.

To improve adult educational attainment, additional investments in adult basic education services are warranted if targeted to support high-quality programs and provide more intensive and specific services. Any increases in adult basic education funding should be used for performance funding and professional development, instead of simply providing the same level of services to more adults.

In 2003, HED completed a review of approximately 25 percent of then-funded research and public service projects. For a variety of reasons, no such review has occurred since. LFC last completed an evaluation of select research and public service projects in January 2008. While a number of the LFC's recommendations have become common practice as part of the budget development process, a thorough review of research and public service projects and their alignment with state priorities is needed. Some of these programs and projects serve statewide constituencies; many serve specific

communities and do so successfully. A review and analysis of existing efforts could lead to improved coordination of services, an expansion or scaling-up of services to help more communities, or a revision or termination of programs that fail to provide sufficient services in a cost-effective manner.

Boosting Educational Attainment with Financial Aid. In addition to funding institutions directly, the state provides students and professionals with financial aid in the form of grants, scholarships, and loans. Low tuition policies and the Legislative Lottery Tuition Scholarship Program provide recent high school graduates with broad access to state institutions but do not address other barriers to college completion. Scholarship and loan repayment programs support New Mexico residents seeking high-demand professional credentials, such as dentistry, various health care professions, and teachers. Both funding students in school and recruiting and retaining licensed professionals with financial aid incentives can boost the state's educational levels.

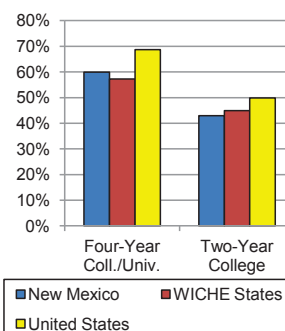
Connecting Appropriations, Tuition, and Financial Aid. New Mexico has relied on low tuition rates and significant state appropriations to provide students with access to a postsecondary education. However, this approach is inadequate to recruit, retain, and graduate students, particularly low-income and first generation students.

New Mexico provides four-year institutions with an average of 51 percent of total I&G revenues; for two-year institutions the amount is closer to 45 percent. (See Higher Education Institutions, Instruction and General Revenues, FY14 Actuals, LFC: Supplemental Charts and Tables, Volume III, 2015.) Significant state and local government support reduces the amount of tuition revenue an institution requires to support I&G expenditures. However, this tuition burden is not experienced equally because of tuition discounting and related financial aid policies and availability of a student's resources. For example, for students in the lowest income quartile, the net cost of attending college (tuition, fees, books, room and board) ranges from 42 percent to 60 percent of the student's household income; for students in the median income quartile, the net cost is 10 percent to 14 percent of household income.

Institutions do not charge the same amount of tuition and fees to all students. Published tuition rates vary, by program, resident status, and level of study. (See New Mexico Public, Post-Secondary Institutions, Tuition and Fees, Per Semester AY 2013-2014, LFC: Supplemental Charts and Tables, Volume III (2015).) These rates are further affected by institutional financial aid policies that provide awards to students who bring specific talents, skills, or experiences to the institution. For example, public institutions charge higher tuition rates for nonresident students but use tuition revenues from these students to underwrite institutional scholarships and grants for others – particularly students who demonstrate high academic success (and low financial need). While it is difficult to compare tuition rates charged to individual students given the varying institutional aid awarded, these rates are lower than an institution's published rate.

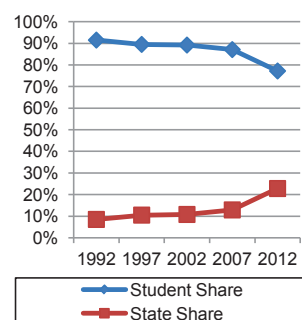
As public institutions, the state should learn more about how much institutions charge which students and award institutional aid to reduce the cost of attendance for some students. This information is critical for

Net Cost of College Attendance for First-Time, Full-Time Undergraduates as Percent of Families in Lowest Income Quartile (2011-2012)

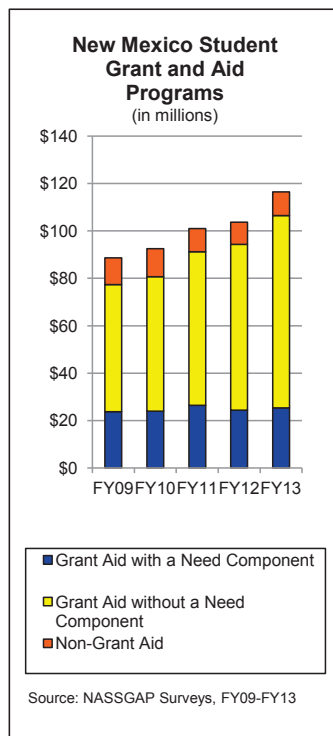


Source: NCHEMS, NCSL (Sept. 2014)

State and Student Support of Higher Education Operating Revenues



Source: SHEEO, NCHEMS



policymakers to determine the correct balance between funding students and institutions directly and increasing the state's education attainment rate.

Multiple State Financial Aid Programs, Limited Accountability. The state supports about 25 financial aid programs, administered by HED. The Legislative Lottery Scholarship Program (LLSP) is the largest in terms of awards granted annually and has the largest individual scholarship amount. But the state funds many other need-based programs, totaling an average \$24 million in annual general fund support. These programs target veterans, firefighters, health professionals, teachers, and others. In addition, other statutory tuition waiver or scholarship programs exist for foster children, athletes, undocumented students, and others; these programs are administered by institutions. National experts have called on states to collapse multiple, small, need-based and specialty aid programs into one or two programs to eliminate confusion for student applicants and make the aid process more transparent.

While the LLSP has received great attention and review by the Legislature and executive, other programs have not. HED submits annual reports on state program totals but the state's financial aid or institution-administered waiver programs have not been sufficiently reviewed in recent years. In FY12 and prior years, the I&G funding formula accounted for institutional aid programs. Recent I&G formula changes do not calculate these aid costs. A review of state and institutional aid programs would provide a benchmark for considering program revisions and alignment with state educational goals.

Legislative Lottery Scholarship Program

The Legislative Lottery Tuition Scholarship Act was enacted in 2014 to significantly change the state's primary financial aid scholarship program. Generally, starting in FY15, freshmen and sophomore students are eligible to receive tuition scholarships for seven semesters and must complete 15 credit hours per semester to maintain scholarship eligibility. More senior or legacy students can receive the scholarship for up to eight semesters while completing 12 credit hours per semester. All students must maintain a 2.5 grade point average to receive the scholarship. Even after adding nearly \$30 million in general fund and other revenues to the Lottery Tuition Fund at the end of FY14 and for FY15, scholarships will not cover the full cost of tuition. Instead, a scholarship will be the average tuition level at each institution, reduced by a percentage to maintain total fund solvency. Additional revenues will be added to the fund for FY16 and FY17 to maintain relatively high scholarship levels for students.

A Clear Path Forward

For years the executive, Legislature, school districts and schools, colleges and universities have worked to advance general statewide goals for improving student performance at all levels of education. While many efforts have resulted in discreet successes in particular schools or districts or higher education institutions, the state needs a comprehensive action plan with widely accepted benchmarks to guide the education community in meeting the needs of the state, regional and local governing bodies, employers, communities, and families. Educators must target resources to those practices that can have the greatest impact on student achievement, graduation rates, and college and career readiness. If stakeholders can join together to articulate a state vision with a clear set of educational objectives, the Legislature will be better positioned to direct funds in support of state priorities and provide oversight of formula distributions and individual projects and initiatives.

New Mexico's economy continues to struggle, lagging behind neighboring states and the national average for job creation. The state lacks a comprehensive plan to guide investments in economic development, and many programs are duplicative and do not report outcomes demonstrating effectiveness. Currently, the state lacks sufficient information to know whether funding for economic development programs is well-spent or wasted.

How do States Boost Job Growth?

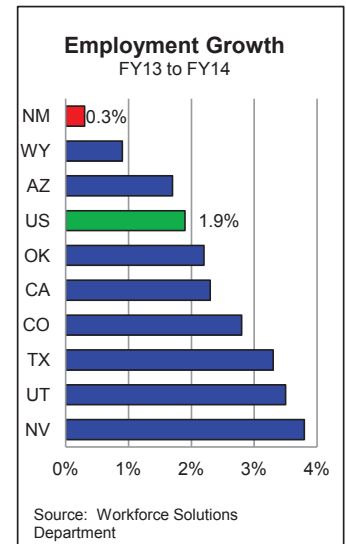
States are experimenting with three approaches to boosting job growth: 1) reduce tax rates to encourage existing businesses to expand and to recruit new businesses; 2) pass tax incentives to recruit businesses; and 3) work on education, infrastructure, and business assistance issues to enhance the business environment for new and existing companies. Some states are experimenting with multiple approaches in different industries, and all three approaches have seen short-term successes and failures. However, low tax rates and lucrative tax incentives alone are not enough to achieve long-term business growth. In a variety of surveys, business executives almost invariably list skilled labor, available real estate, and infrastructure (including high quality educational infrastructure) as the most important assets when choosing a business location. Often, a state's lack of comprehensive planning to improve these structural assets contributes to poor job growth.

Many Issues. A continuing issue with New Mexico's economic development efforts is the search for a silver bullet -- a single program or incentive that will cure the state's economic ills. This ignores the multitude of long-term, structural challenges New Mexico faces, including high school dropout rates, lack of infrastructure and available buildings for businesses, regulatory concerns, and a tax structure that is uncompetitive for companies in industries affected by high gross receipts tax rates and pyramiding.

Job growth usually closely correlates with overall economic growth and state tax revenues. If economic development efforts are unsuccessful and job growth is meager or negative, the state has insufficient revenue to implement a wide variety of programs. However, if tax cuts and lucrative incentives eat away at a significant portion of a state's budget, funding for the structural programs essential to business growth and quality of life might be insufficient. Any short-term successes could be overwhelmed in magnitude by potential job losses due to this insufficient structural funding.

Lack of Coordination

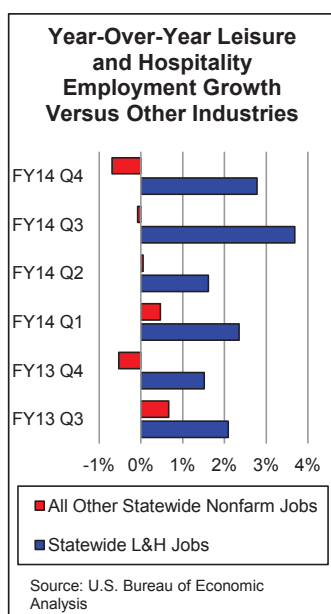
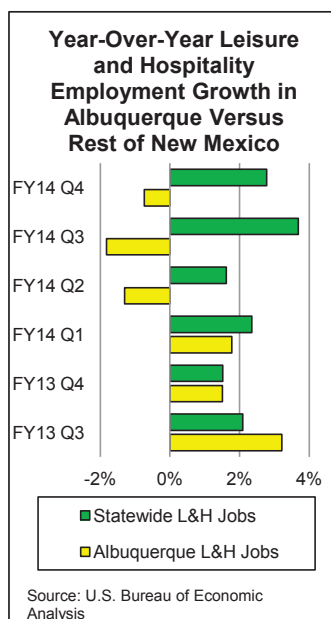
Based on LFC analysis dating back to 2009, New Mexico suffers from economic development program fragmentation and duplication and still lacks a comprehensive strategic plan. Additionally, the state has no overall economic development branding strategy as it does for tourism. Texas and



The popular magazine for business executives and site selectors, *Area Development*, listed the top states for business in 2014:

1. Georgia
2. Texas
3. South Carolina
4. Alabama
5. Tennessee
6. Louisiana
7. Indiana
8. North Carolina
9. Ohio
10. Mississippi

Economic Development & Workforce Training



other states are using branding strategies to market their areas as business friendly and often target specific industry sectors. Without a clear focus or brand, New Mexico's scattershot approach fails to leverage state and local efforts to recruit business. The state could use the Tourism Department's strategic branding and coordination with local partners as a model for economic development as a whole.

Need for Statewide Planning. The Economic Development Commission updated the state's five-year economic development plan in 2014 for the first time in more than three years. However, it does not provide the statewide leadership and coordination necessary for effective planning and collaboration with other agencies and entities involved in economic development -- it is a plan for the department rather than the state as a whole. The EDC could incorporate planning efforts by the state's seven economic development districts for a more comprehensive, coordinated, and integrated plan. The commission's next plan update should create links between state agencies that play a role in long-term economic development so efforts are less duplicative and more unified.

If the Economic Development Commission were to include an action item matrix in the next plan update, assigning responsibility and timeframes to each item, the likelihood of achieving the goals would increase substantially. If an action item creates a new program or requests additional funding for an existing program, the plan should disclose the estimated cost per job to implement the program and report results from states with similar programs. Every action item should relate to at least one metric in a set of performance measures and targets.

Effective Use of State Dollars. Many of the state's economic development programs do not report outcomes demonstrating cost effectiveness, making it difficult to prioritize funding. Additionally, without a statewide strategy, it is difficult for policymakers to effectively invest in economic development. Funding should be prioritized to those select programs proven effective through return on investment and economic impact studies, such as tourism advertising; shown to be the most cost-effective, such as business incubators and the Economic Development Partnership; or that address skill gaps and other structural deficiencies, such as Integrated Basic Education and Skills Training (I-BEST) and apprenticeship training programs. Programs that provide long-term enhancement of New Mexico's assets, including infrastructure and education, should be funded before programs that act as short-term stopgaps and that cost the state significantly more in the long run. Additionally, efforts to improve job creation often focus on business recruitment efforts, one of the three levers of economic development, but this can leave the other two levers, business creation and business expansion, without programs or funding.

Cost Per Job. LFC is analyzing available data to determine cost-effectiveness for many programs. (See "Cost Per Job" in the LFC Volume III for rankings.) Many tax incentives are "stackable," and companies often receive assistance from a variety of programs to create jobs, resulting in a total cost per job far higher than any one line item. Reporting and data

Economic Development & Workforce Training

quality issues regarding jobs created add to the difficulty in precisely estimating the cost per job. Accurately measuring this would necessitate legislation requiring companies using any of New Mexico's tax incentives or discretionary funding to publicly disclose employment data.

Tourism Employment and Data Reliability

The leisure and hospitality industry no longer leads New Mexico's job growth, adding 1,500 jobs from June 2013 to June 2014, but the industry now exceeds pre-recession employment levels. Tourism employment levels for Albuquerque took a sudden, sharp dive in October 2013, coinciding with the federal government shutdown, and year-over-year industry job losses continued in every month but one through the end of FY14. It is possible the city has not yet recovered from losses accrued during the shutdown and from federal spending cutbacks, or it could indicate data reliability issues. Overall employment levels in the rest of New Mexico were relatively flat during this period, but jobs in leisure and hospitality increased by 2.8 percent during FY14 throughout the non-metro area of the state -- nearly 10 times the state's overall job growth rate.

Local Economic Development Act and Clawbacks. The Economic Development Department (EDD) funded \$3.3 million in projects in FY14 through the Local Economic Development Act (LEDA), often referred to as the state's "closing fund" because it is used to "close" deals. The funds are used for land, building, or infrastructure for new, expanding, or relocating companies. The act includes a requirement for the agency and the communities involved in the projects to include a "clawback" provision that allows recovery of a portion of the public funds used on infrastructure if the company creates fewer jobs than expected. LFC staff reviewed the LEDA contracts for funds disbursed by EDD in FY14 and found some clawback provisions inadequate. A few contracts require repayment of as little as 10 percent of the LEDA funds, leaving up to 90 percent of the state funds at risk and without any return to the state if the company does not create new jobs.

Manufacturing

Fiscal year 2014 ended with the 20th consecutive month of declining employment in New Mexico's manufacturing sector, which led the state's year-over-year industry sector job losses at 6.8 percent for June 2014. Manufacturing job losses cut the state's meager job growth by nearly half for FY14. New Mexico continues to shed jobs in this sector despite 11 months of increasing manufacturing employment nationwide and the state's recent ranking by Ernst & Young as "best in the West" for a manufacturing business environment.

Many businesses are unaware of New Mexico's 2013 tax package that contributed to the Ernst & Young ranking; EDD could use funds remaining at the end of a fiscal year that would otherwise revert to advertise the economic benefits the state can offer to expanding and relocating companies.

As many as 600 thousand manufacturing jobs in the United States remain unfilled because companies cannot find potential employees with the right skills, according to a study by Deloitte and the Manufacturing Institute. Adding to the demand for a trained manufacturing workforce, Walmart is encouraging its suppliers to bring back manufacturing from overseas.

Manufacturing Re-Shoring Trend

Manufacturing companies are beginning to bring back operations from overseas, resulting in new job opportunities.

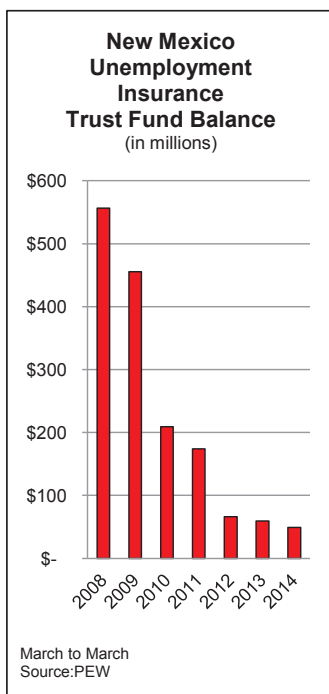
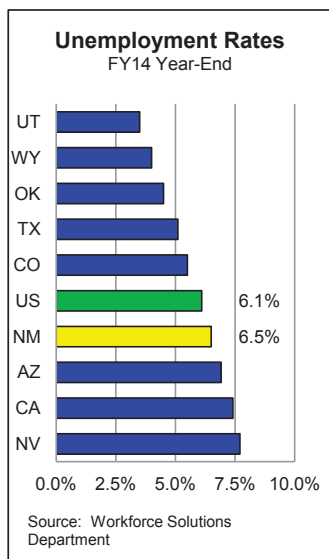
Manufacturers identify labor costs, proximity to market, and skills of the workforce as the three most important factors in selecting locations for manufacturing or supplier operations, according to survey data of North American manufacturers by Accenture.

Nearly half of manufacturers with offshore manufacturing and supply operations report issues with cycle and delivery times and product quality.

Companies also report offshore supplier material and component costs increased an average of 73 percent from 2007 to 2010, and logistics and transportation costs increased an average of 57 percent.

In the study, 61 percent of respondents report considering more closely matching supply location with demand location by on-shoring or near-shoring manufacturing and supply.

Economic Development & Workforce Training



Creating an Effective Workforce

The state's workforce training and development programs face increasing pressure to produce and retrain employees for current and prospective job opportunities, especially in light of underemployment and regional unemployment levels. New Mexico's programs are mostly funded with federal and private sector revenues, with limited support from the state. More importantly, the workforce training and development programs, no matter the funding source, are not grounded in a statewide plan, not well-coordinated, and not comprehensive in addressing population or local economic needs.

Career and Training. Lagging high school graduation rates in New Mexico produce significant drains on the state's economy. According to the U.S. Census, more than 220 thousand adults in New Mexico lack a high school diploma or equivalent. National research suggests adults without a high school credential are more likely to live in poverty and rely on public assistance. A recent LFC evaluation found that increasing the number of students who graduate annually by 2,600 would result in an estimated \$700 million in net benefits to taxpayers, society, and these students over their lifetimes. Additionally, to improve economic outcomes the state should focus on implementing targeted, evidence-based dropout prevention strategies.

Investing in research-based training and basic education proficiency is essential to improving job opportunities; however, adult education efforts also need to be coordinated with the state's workforce system to enhance their potential impact. Program funding from local workforce boards is fragmented and could better facilitate efforts to encourage workforce development, adult education, and vocational rehabilitation services. To incentivize such efforts, boards could implement common performance measures focused on these services serving this population. Additionally, public schools must partner with communities in more strategic ways to identify workforce needs and provide educational programming to enable students entering the workforce directly after graduation to be successful.

Unemployment. New Mexico's unemployment rate, 6.5 percent at the end of FY14, exceeded the national average of 6.1 percent, indicating New Mexico is either still struggling to recover from the recession or is in a new normal of low growth. Additionally, when people stop seeking employment, they technically exit the workforce and are no longer counted in the unemployment rate, resulting in an artificially low number. If these people stay in the state, they continue to draw on social services, costing the state significant resources. In FY14, the Workforce Solutions Department (WSD) began additional reporting on the solvency of the unemployment insurance (UI) trust fund, including fund balance, quarterly revenues, and benefits paid out. During the recession, many state UI funds, including New Mexico's, were in danger of becoming insolvent. Nationally, states went into debt by \$47 billion to pay unemployment benefits. In March 2008, prior to height of the recession, New Mexico's fund balance was \$557 million. As of March 2014, the New Mexico fund balance was down to \$49 million.

New Mexico spends approximately 17 percent, or \$13.7 billion, of its gross state product on healthcare, making healthcare one of the largest sectors in the state's economy. Medicaid represents \$5 billion of government spending in New Mexico and one-third of healthcare spending in the state. Many people, with or without health insurance coverage or Medicaid, still do not receive recommended healthcare services, and the quality of care may vary depending on socioeconomic factors, such as difficulty accessing care, the availability of health care professionals, and ability to pay. Additional factors that influence health include genetics and individual choices, as well as neighborhood, environmental, and institutional factors.

Social Determinants of Healthy Communities

People's health is significantly influenced by where they live, jobs, and schools. More than half a million New Mexicans, more than 25 percent of the state's population, live in poverty, including more than one-third of the state's children. Some families struggle to achieve basic needs for food, shelter, transportation, and health care. Food security, education, and employment are other significant indicators of healthy communities.

According to the 2013 Department of Health's *State of Health in New Mexico* report, low socioeconomic status impacts health at various levels. At the individual level, it may manifest in inconsistent access to care due to lack of health insurance coverage or ability to pay or by engagement in unhealthy behaviors given economic or family demands. At the community level, exposure to various public health concerns is also an issue, including poor housing, lack of parks or public transportation, and limited accessibility to health and social services.

Leveraging Dollars

If it hopes to finally overcome persistent poor physical and behavioral health outcomes, New Mexico must ensure efficient and effective use of all resources, including Medicaid, Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance (SNAP), tobacco settlement revenue, and state general fund revenues. New Mexico must work to identify and meet the needs of underserved populations and ensure healthcare and public assistance dollars are spent on evidence-based programs and services, particularly in behavioral health, to efficiently and effectively improve the lives of its most vulnerable populations.

Five Strategies for Reducing Wasteful Healthcare Spending

Consumer Activism and Transparency

- Encourage patients and consumers to become actively involved in their own care.

Systems Improvements and Care Coordination

- Link providers in actual or virtual teams. Make all relevant information available at point of care.
- Reduce fragmentation in the delivery of care.
- Improve care coordination and eliminate redundancy.

Patient Safety and Quality Improvement

- Encourage and support quality improvement initiatives to reduce healthcare treatment errors.

Medical Home and Culture of Health

- Ensure patients are actively engaged, along with their clinicians, in managing their own health.
- Promote healthy workplaces and environments that make wellness a priority.

Payment Integrity/Fraud and Abuse

- Engage the community in programs that simplify the billing process while eliminating opportunities for fraud and abuse.
- Educate public and provider community impact of fraud on available resources.
- Recognize providers for high levels of payment integrity and reward for best practices.

Source: I-Sight, Fraud Investigation, 2010, Five Strategies to Control Cost, Quality and Access Healthcare

Health Care

Programs supported by tobacco settlement funding at the Department of Health:

- Tobacco cessation and prevention
- Diabetes prevention and control
- HIV/AIDS services
- Breast and cervical cancer screening.

Programs supported by tobacco settlement funding at the Human Services Department:

- Medicaid
- Breast and cervical cancer treatment

Programs supported by tobacco settlement funding at the University of New Mexico Health Sciences Center:

- Medical school
- Research in genomics and environmental health
- Poison Control Center
- Pediatric oncology program
- Specialty education in trauma
- Specialty education in pediatrics

The Indian Affairs Department receives \$249.3 thousand from the tobacco settlement revenue for its tobacco cessation program.

Medicaid Expansion. Medicaid expansion under the federal Affordable Care Act (ACA) provides New Mexico the opportunity not only to expand access but to reallocate resources to improve healthcare delivery to underserved populations. On January 1, 2014, New Mexico began expanding Medicaid as allowed by the ACA. For New Mexico, this means all adults with incomes up to 138 percent of the federal poverty level (about \$16,000 for a single person) are eligible for Medicaid. A year ago, the Human Services Department (HSD) estimated approximately 170 thousand individuals would meet the new eligibility criteria; the department now estimates it will have 216 thousand newly eligible enrollees by the end of FY16.

The federal government will cover 100 percent of the costs of newly eligible enrollees through 2016, stepping down to 90 percent in 2020. Due to increased enrollment, utilization, medical cost inflation, and other factors, HSD estimates New Mexico's total Medicaid budget is expected to grow by nearly \$416 million in FY16 (federal and state dollars), including nearly \$40.4 million in additional state general fund support.

Medicaid currently provides comprehensive medical care (hospitalization, doctor visits, pharmaceuticals, etc.), vision services, and dental services to more than 644 thousand New Mexicans – primarily children, pregnant mothers, parents in the Temporary Assistance for Needy Families (TANF) program, and certain elderly and disabled individuals receiving Supplemental Security Income (SSI). The total number of enrollees is projected to be nearly 787 thousand by June of 2015, increasing to more than 800 thousand in FY16.

Leveraging Medicaid. With the expansion of access and reallocation of resources provided for under the ACA as a starting point, the state can maximize the new opportunities and fill many of the healthcare gaps for New Mexico's underserved populations.

For example, a January 2014 report released by the American Mental Health Counselors Association and the National Association of State Mental Health, points out that, under ACA, states are responsible for conducting outreach and enrollment for vulnerable and underserved populations eligible for the new Medicaid expansion, as well as for enrolling people in state health insurance exchanges.

Targeted outreach and enrollment, including identifying specific barriers relevant to outreach and enrollment, is critical for reaching newly eligible adults with mental illness and substance abuse disorders.

Reaching the population with mental illness may also require restructuring the relationships between Medicaid and community mental health centers, substance abuse providers, and criminal justice systems, all of whom may have limited experience with Medicaid eligibility and enrollment systems.

Finally, information technology systems that facilitate data-sharing among Medicaid, mental health and substance abuse providers, and criminal justice and other relevant systems are critical for outreach efforts.

Medicaid and Inmates. One area ripe for leveraging Medicaid is for individuals in the criminal justice system. These people are less healthy than the general population, including significantly higher prevalence of certain chronic diseases, and are far more likely to be uninsured. Most states, including New Mexico, interpret federal Medicaid policies as requiring the termination of Medicaid benefits once recipients are incarcerated.

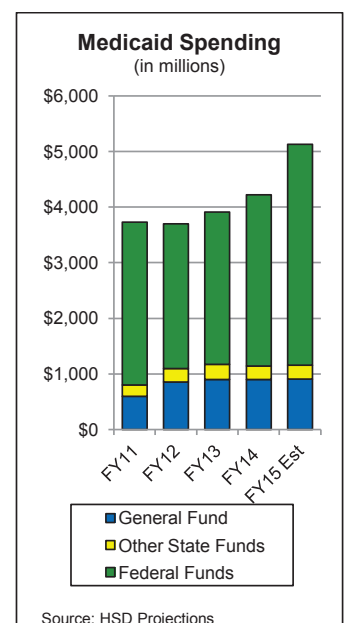
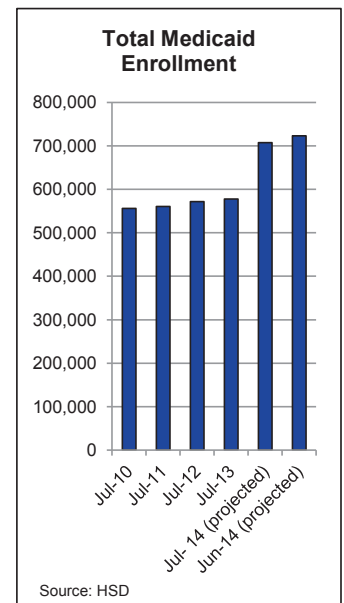
However, federal Medicaid administrators clarified that prisoners can enroll while still incarcerated, although only to pay for inpatient care provided outside the prison system. In response to the federal clarification, a third of state prison systems have created programs to help facilitate prisoner Medicaid enrollment. HSD has cited certain information technology problems prohibiting the department from implementing a process to allow suspension of Medicaid upon incarceration rather than termination of benefits, which would facilitate quicker reinstatement of benefits and treatment upon release. However, the potential benefits of this change to this vulnerable population are substantial, and HSD should work diligently on finding a solution as other states have.

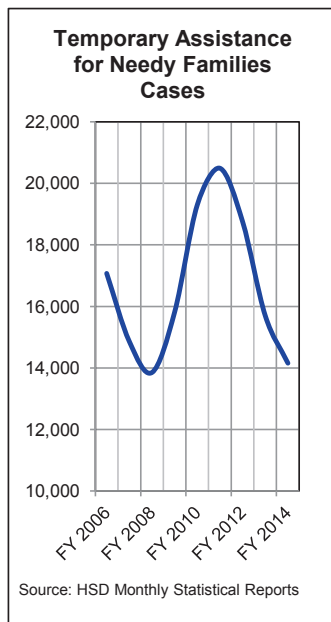
Medicaid and Home Visiting. Although a potential area for leveraging Medicaid, HSD did not request funding for a Medicaid program to provide nurse home visits to families with newborns for FY16 and the governor vetoed \$500 thousand included in the General Appropriation Act of 2015 for evidence-based home-visiting services. However, given 82 percent of births are delivered with Medicaid dollars, the state should further leverage Medicaid funding to help ensure these newborns and their families have ongoing early intervention and prevention support services as recommended by research groups, such as Johnson Group Consulting, Inc. These services are vital to early child development and success later in life.

Leveraging TANF and Food Stamps. 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. However, as in the Medicaid program, changes in state policy could help New Mexico leverage federal TANF and Supplemental Nutrition Assistance Program (SNAP) funds to improve the welfare of the state's most vulnerable populations. Given TANF and food stamps are almost 100 percent federally funded, failing to ensure all New Mexicans in need of this assistance receive it is akin to throwing money away; it amounts to fewer dollars for families in need and fewer dollars back into the New Mexico economy.

The TANF caseload saw precipitous increases during the economic recession, peaking at 21,514 cases (54,802 recipients) in December 2010, an increase of 57 percent from the impact of the recession. However, from the beginning of 2011 the number of cases has dropped to 14,462 (37,849 individuals) in October 2014. That figure was a 2.7 percent increase compared with the prior year, yet nearly at pre-recession lows despite a continuing lagging New Mexico economy.

HSD speculates the implementation of a 15 percent reduction in benefits in FY11, stricter job search requirements and other eligibility criteria, the





relative ease of obtaining SNAP benefits, and an increase in clients with Social Security disability coverage have reduced interest in the program.

Unused TANF balances have exceeded \$20 million since FY12 and are projected to reach \$55 million at the end of FY16. Factors in the increased carryover are a \$9.8 million contingency grant received in FY14 and cash assistance spending that was 25 percent lower than the FY14 appropriation. Given the continued need for financial assistance by struggling New Mexico families, the department could consider reversing the 15 percent reduction in the cash benefits amount, which appears to have precipitated the decline in TANF caseloads.

Supplemental Nutrition Assistance Program. The state, along with much of the nation, has also experienced declines in SNAP caseloads. New Mexico is eligible to waive certain work requirements for SNAP recipients for an additional year; however, the department elected to phase-in additional work requirements, explaining that implementing the requirements ahead of the federal waiver expiration allows the department to assess its preparedness for implementing and enforcing the new restrictions. The department has faced scrutiny for implementing mandatory changes for a vulnerable population that might have weak ties to the labor market and at the same New Mexico continues to experience slow economic growth and job creation.

Under the proposed changes, all SNAP recipients ages 16 to 59 would be required to participate in employment and training (E&T) registration and work search requirements unless they meet a specific exemption, such as being physically unable to work or being the primary caretaker for a child under 6 years. However, after a state district judge blocked the actions after accusations HSD failed to follow proper procedures, in November 2014 the department announced a delay in the planned regulations, stating it would restart the regulatory process, including a public notice and hearing. The work requirements are expected to affect about 80 thousand food stamp recipients. HSD notes the new rules are intended to assist SNAP recipients to look for work, engage in job training, or obtain employment. The new rules are expected to be implemented early 2015.

Following the concurrent implementation of Centennial Care, the Medicaid expansion, and a new information technology system to administer benefits at the beginning of 2014, HSD experienced dramatic increases in client applications for benefits, which resulted in significant backlogs in application processing and inappropriate closure or denial of benefits for some clients. For example, HSD received an average of 31 thousand applications per month in September 2013, which increased to an average of 56 thousand applications per month by May 2014. The department responded to the challenges by hiring and training more people, requiring mandatory overtime, and changing some business practices to meet the increased demand and reduce the backlogs. HSD reports it eliminated the backlogs and is preparing for the next rush of applications expected with the next open enrollment in November 2014.

Other Insurance Options and the Uninsured

For low income and other uninsured populations who may not qualify for Medicaid, the New Mexico Health Insurance Exchange (NMHIX) and the state's Safety Net Care Pool (SNC) offer alternative methods of coverage; however, adequate outreach efforts to attract applicants to the NMHIX and a satisfactory method to fund the SNC still allude state policy makers.

The NMHIX board was appointed in April 2013 to support development of New Mexico's health insurance marketplace. The current exchange uses New Mexico information technology (IT) called the SHOP system to allow small businesses (50 or fewer employees) to provide insurance for their employees. New Mexico elected to develop its own exchange IT system for individuals to buy insurance in time for the 2014 open enrollment; however, changing federal requirements and other issues caused significant delays with implementation of the system. Consequently, the NMHIX board voted in August 2014 to keep the federal healthcare.gov exchange for individuals for another year to help ensure the new state-based exchange for individuals could be sufficiently tested prior to going live.

As of August 22, 2014, 134 employers with 656 employees and dependents were enrolled in the SHOP and a total of 33 thousand were reported enrolled in the individual market, well below the early goal of 84 thousand enrollees. Outreach contractors reported to the board in the summer of 2014 that its media campaign lacked targeted, culturally sensitive communication efforts, which contributed to the poor enrollment numbers.

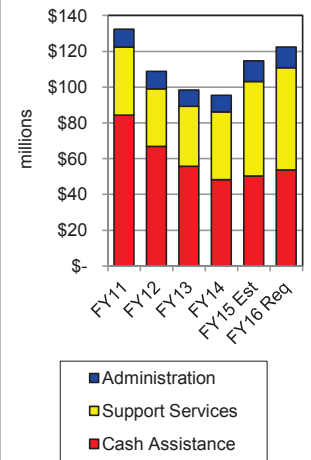
Safety Net Care Pool. Effective January 1, 2014, the Safety Net Care Pool (SNC) replaced the Sole Community Provider program in New Mexico. At its peak, the Sole Community Provider program provided more than \$275 million in annual county and federal funding to hospitals for uncompensated care. However, problems surfaced with the methods some counties used to provide the match for federal funds, as well as the methodology used by HSD to calculate program payments. As a result of these issues, and the projected decrease in uncompensated care due to Medicaid expansion, the Sole Community Provider program was replaced by the federally approved SNC, now estimated at \$69 million.

Last year, the Legislature passed Senate Bill 268, et al. as part of the implementation of the SNC pool. The final bill contained a mandate that counties contribute the equivalent of a 1/12th of a percent gross receipts tax to the pool. In exchange, the counties were authorized to raise gross receipts taxes by up to 1/12th of a percent. Some counties have raised concerns the new law leaves them short of funds to pay for indigent healthcare programs outside of Medicaid, like preventive care clinics and health care in jails.

Behavioral Health

Despite spending nearly half a billion dollars in FY15, and, according to an August 2014 article published in *Psychiatric Services* titled "Back to the

**Temporary Assistance
for Needy Families
Expenditures**



Source: LFC Files

Future,” four transformations of the behavioral health system in the past 20 years, New Mexico continues to lead the nation in damaging substance abuse and mental health (behavioral health) outcomes. For adults, New Mexico leads the nation in alcohol-death rates and is ranked among the worst in the nation in drug overdose death rates, suicide rates, and serious mental illness rates. Piecemeal efforts—including limited leadership, poor coordination, duplicative efforts, and a lack of evidenced-based practices or comprehensive data about expenditures and health outcomes—contribute to the state’s continued poor performance in behavioral health care.

A Closer Look: Evidence-Based Behavioral Health Care

In a **Results First** report issued in September 2014, LFC program evaluators note the state’s persistent challenges in behavioral health outcomes, along with gaps in services, have substantial consequences in costs to consumers and taxpayers, including increased criminal activity, increased use of the healthcare system, property loss, decreased labor market earnings, and preventable deaths.

Research provides evidence that many behavioral health services and programs are effective, and many have benefits that will outweigh the costs of implementation. It is also possible that many high-priced programs are worth funding. However, due to how services are billed and reported, the state does not have detailed information on spending for an estimated \$209 million in adult behavioral health -- whether it is funding effective services, whether services are in high-need areas, or whether services are producing expected results.

The Program Evaluation Unit report estimates the state only spends 11 percent of its limited funding on proven and effective programs for adults, even though past studies have recommended greater spending on these services. Further complicating efforts to improve outcomes, the state has implemented multiple large scale changes to how it oversees and finances behavioral health since the late 1990s.

Status of State’s Behavioral Health Collaborative. Although less than 10 years old, interest in the Behavioral Health Collaborative, a purchasing cooperative of the 15 state agencies that finance behavioral health care, seems to be waning. The collaborative was created in 2005 to simplify administration by contracting with a single behavioral health organization to administer services. In statute, collaborative members, cabinet secretaries and agency managers, were supposed to meet monthly to plan and implement a comprehensive, recovery-oriented system of care in the public sector.

However, at least two agencies have chosen to assume management of funds previously dispersed through the collaborative and the new director of the HSD’s Behavioral Health Division says the division is reassessing the importance of the collaborative and will make a recommendation to the department secretary.

In June 2014, in light of the assumption of Medicaid-funded behavioral health care into the Centennial Care program, the collaborative requested proposals from behavioral health entities to administer the delivery and payment of non-Medicaid behavioral health services. However, the process failed to produce an adequate candidate and the department has reportedly elected to extend the contract with OptumHealth.

Restructuring of New Mexico Behavioral Health Providers. The Attorney General's Office continues to investigate 15 New Mexico behavioral healthcare providers suspected of fraud by the HSD. Both of the providers for whom the reviews are complete were cleared. LFC requested HSD provide an update regarding the quality of client services from the Arizona-based providers that replaced most of the suspended agencies, including cost per client, visits per client and utilization within the areas of the shuttered New Mexico providers, and timeliness and accuracy of billing. In the fall of 2014, on Arizona-based provider projected it would be insolvent without a significant rate increase.

Despite reports of serious disruptions in service following the provider reorganization, HSD responded with a report indicating a 30.8 percent increase in total behavioral health recipients in FY14 over FY15. However, HSD was not able to provide client or provider-level detail. LFC staff is working with the agency to verify the reported information and obtain more client and provider-level data that would address LFC concerns regarding quality of services under the provider reorganization. Individuals served by non-Medicaid funding represent 22 percent (25,095 persons) of all individuals served. Medicaid recipients make up 78 percent (89,219 persons) of people served.

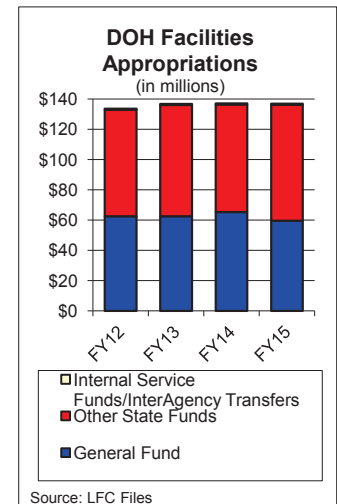
Public Facilities

The Department of Health (DOH) operates six facilities and a community program. DOH reports its occupancy rate for staffed beds was 81 percent at the end of FY14. However, the occupancy rate for all licensed beds was 57 percent at the end of the fiscal year. The occupancy rate ranged from highs of 87 percent at the State Veterans' Center and 85 percent at the Behavioral Health Institute's long-term care program, to lows of 30 percent at the Turquoise Lodge substance abuse treatment center's adolescent unit and 40 percent at the New Mexico Rehabilitation Center's medical rehabilitation unit. At the same time as occupancy rates are declining, DOH is not hiring healthcare workers at these facilities, but is instead using funds dedicated for healthcare workers' salaries to pay for more expensive contract healthcare workers.

State facilities are projecting their Medicaid, Medicare, and private insurance revenue will substantially decline in the current and next fiscal year. The revenue decline is driven by low occupancy rates, lagging billing and collections, and financial management practices at the hospitals.

The state facilities must find other sources of revenue and implement cost-containment measures as the general fund should not continue to provide increasing support for expensive contract healthcare workers in lieu of hiring state-employed healthcare workers, particularly while facilities continue to experience declining revenues and rates of occupancy.

Public Health. New Mexico spends approximately \$79.60 per citizen for public health care not covered by the state's Medicaid program. The per



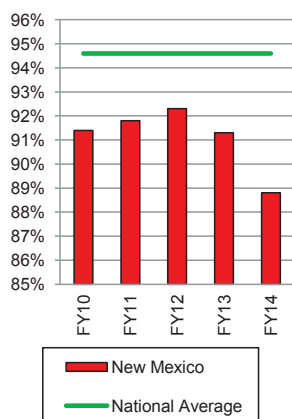
Medicaid Collections as a Percent of Facility's Total Revenue

- Fort Bayard Medical Center: 51%
- New Mexico Behavioral Health Institute: 35%
- New Mexico Rehabilitation Center: 22%
- New Mexico State Veterans' Home: 33%
- Sequoyah Adolescent Treatment Center: 18%
- Turquoise Lodge: 21%
- Los Lunas Community Program: 44%

Source: LFC Files

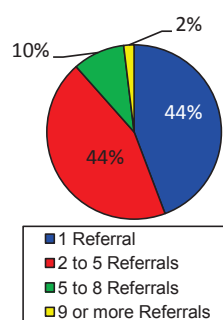
Health Care

Children not the Subject of Substantiated Maltreatment within Six Months of a Prior Determination of Substantiated Maltreatment



Source: CYFD, NCANDS
*National Average 94.6%

Number of Accepted Re-Referrals of Reported Maltreatment 2004-2012



Source: NCANDS

capita expenditure for public health is declining, and is substantially subsidized with federal funds. Federal support for public health continues to decrease with the continued implementation of the federal Affordable Care Act. The Department of Health's Public Health Program must continue to increase its Medicaid collections to offset losses in federal revenues and to maximize revenue within rural primary care clinics in an effort to slow the erosion of the state's public health services.

DOH's Public Health Program spends \$14.7 million on contracts with primary care providers, of which a substantial amount is spent on undocumented individuals living in the state and people with limited access to care. Care for undocumented individuals is not addressed under federal healthcare reform or Medicaid, and will continue to put pressure on the public health budget. Other challenges for the program include rising pharmaceutical and supply costs, regulation changes for clinical laboratories and other facilities, and changes in the federal vaccination schedule for children.

Protecting Vulnerable Populations

The health of a community is not only related to the physical health of individuals but also the treatment of populations at risk of abuse or neglect. New Mexico's efforts to protect those populations have produced mixed results.

Child Abuse and Neglect. Over 2,000 New Mexico children are in the care of the Children, Youth and Families Department's (CYFD) Protective Services Division, responsible for investigating reports of child abuse and neglect, protecting children at risk, and overseeing adoption and foster care. On average, a CYFD investigator typically looks into 171 reports of child maltreatment a year, more than twice the national average of 69 reported by the U.S. Health and Human Services Department, Administration of Children and Families. Adding to system stress, the cost of foster care and support is increasing due in particular to specialized foster care and maintenance costs. High caseloads and increasing severity of maltreatment has lead to staff burnout and turnover.

An LFC program evaluation found New Mexico has a particularly high rate of repeat maltreatment and lower-than-average investment in preventative services. Neglect and abuse affect a child's emotional, physiological and behavioral health and represent a substantial cost to taxpayers in the form of social services, criminal justice, and healthcare costs.

Juvenile Justice. Juvenile Justice Services, which provides prevention, intervention, and aftercare services for delinquent youth, has five juvenile justice facilities that can house up to 286 committed youths. However, secure juvenile facilities on average maintained 85 empty beds in FY14, which may be a result of increasing front-end services, such as Juvenile Justice Advisory Committees (JJAC), that keep juveniles out of secure facilities. JJAC advocates for the prevention of delinquency, alternatives to secure detention,

improvement of the juvenile justice system, and the development of a continuum of graduated sanctions for juveniles in local communities. The Cambiar New Mexico model, implemented in 2008, emphasizes rehabilitative and regionalization; recommitments remained relatively flat in FY14. Juvenile youth center services include individual and family counseling and educational opportunities. Committed youths can attain either a general educational development (GED) certificate or high school diploma and continue with trade education at youth facilities across the state.

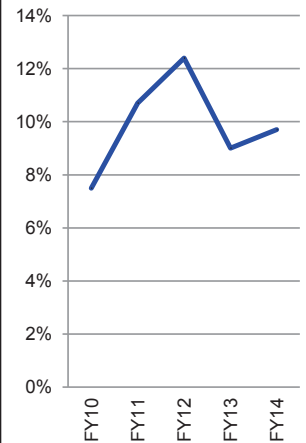
Developmental Disabilities. The developmental disabilities (DD) Medicaid waiver program provides a comprehensive array of services to children and adults with developmental disabilities, a severe or chronic mental or physical impairment, including autism and brain trauma, or a combination of mental and physical impairments. To be eligible for program services, the disability must manifest itself before the age of 22, continue indefinitely, result in substantial functional limitations in three or more areas of major life activity as defined in the waiver, and reflect the need for a combination and sequence of special care treatment or other services that are long-term and individually planned and coordinated.

Developmental Disabilities Medicaid Waiver Status. During the 2014 legislative session, \$3.3 million in general fund revenue for the DD waiver was added to the program to enroll an additional 175 individuals from the waiting list of thousands of eligible applicants. During the 2013 legislative session, \$4.6 million was added to the program to enroll an additional 227 individuals. During the 2012 session, the Legislature added \$2.8 million to enroll up to 150 additional clients. Despite the annual increase in funding, much of the money was reverted or diverted to other areas of the budget, and DOH was slow in adding clients to the waiver.

Despite a \$6 million increase in general fund appropriations from FY11 to FY13, the number of clients served over this same period only increased by 17 clients for a total of 3,829. However, as of June 30, 2014, 4,403 individuals were served under the DD waiver, an increase of 574 individuals receiving services over FY13 levels. This increase in individuals served denotes a significant improvement. Nevertheless, 6,133 individuals remained on the DD waiver waiting list at the end of FY14, an increase of 38 individuals over FY13.

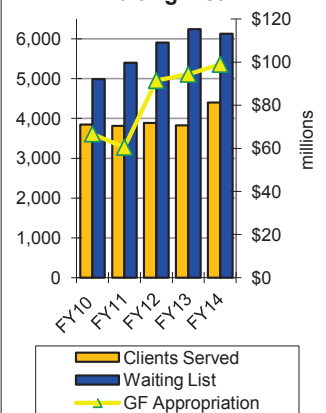
DD Waiver Restructuring. DOH submitted a new DD waiver renewal application that received approval by the Centers for Medicare and Medicaid Services (CMS) effective July 2011 for a five-year period. The goals for the new structure are to develop a sustainable, cost-effective system; increase and promote the independence of persons served and decrease their dependence on paid supports; use a supports intensity scale (SIS) assessment tool that identifies individual needs; develop and implement a resource allocation model based on individual needs; maximize resources in an equitable manner; improve the management of administrative and direct services costs; and move more individuals off the waiting list and into DD waiver services. These efforts lowered the average cost per client from \$85.3 thousand in FY10 to \$71.3 thousand in FY14.

Clients Recommitted to a CYFD Facility within Two Years of Discharge



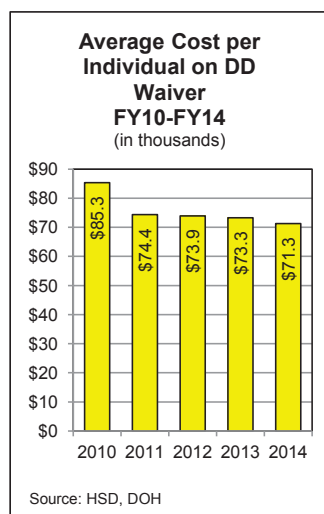
Source: CYFD

DD General Fund Appropriation versus Waiting List



Source: LFC Files

Health Care



However, in FY16 the DD waiver program is likely to see an increase in the average cost per individual. In FY15, the Legislature appropriated \$500 thousand to increase DD waiver program provider rates, and DOH also increased various reimbursement rates. Additionally, the federal government is implementing new regulations that could increase the cost of care.

Concurrently, the DD waiver restructuring continues to provoke opposition by providers concerned with rate reductions and changes in client mix, and by clients concerned about the application of the supports intensity scale (SIS) assessment tool and the impact on individual supports and budget. Several families with members receiving services through the DD waiver have sued the Human Services Department over the way the Health Department is using the supports intensity scale (SIS) assessment tool to determine a client's level of need and, in turn, the services the client receives. Under a stipulated interim agreement, the agencies have extended services to certain transitional clients and expanded services for other clients.

A Closer Look: Reducing Child Maltreatment

The LFC issued a New Mexico Results First report in April 2014 on evidence-based programs to reduce child maltreatment. The U.S. Department of Health and Human Services (HHS) reports the child victim rate has steadily risen in New Mexico over the last four years and surpassed four of our neighboring states in 2012. In New Mexico, 36 percent of children who are the victim of a substantiated case of maltreatment will be abused or neglected again before they are 18 years of age. The average child in foster care in New Mexico has three placements, although some have had many more.

About five out of every 1,000 New Mexico children in the New Mexico child protection system will receive preventive services, compared with the national average of 43 children per 1,000. A reduction of child maltreatment, even by 10 percent, can save tens of millions of dollars by reducing costs to police, need for protective services, and use of the health care system by potential victims.

The Results First report identified three programs that would be wise investments for New Mexico to reduce child maltreatment: alternative (differential) response, SafeCare, and Nurse Family Partnerships.

SafeCare has never been implemented in New Mexico, but alternative response programs were run as a pilot from 2005-2007 and outcome data showed families who accepted assessment services had a lower rate of repeat maltreatment, had fewer children removed and placed in foster care, and had almost half as many repeat reports compared with families who declined services. However, the pilot was discontinued and the program is not currently run in the state.

Nurse Family Partnerships, which provide for a nurse to visit the homes of high-risk families with newborns, currently has slots available for 50 families. In FY14 and FY15, the governor vetoed a \$500 thousand appropriation for home visiting in the Medicaid program that would have leveraged an additional \$1.1 million in matching federal funds for such a program.

Research shows that investing in families before it is necessary to remove children is a safer, more cost-effective approach. In many cases, the benefits to taxpayers and society outweigh the costs. Strategic investments, along with careful attention to implementation and performance monitoring, could help the state achieve reductions in child maltreatment and improve outcomes for New Mexico families.

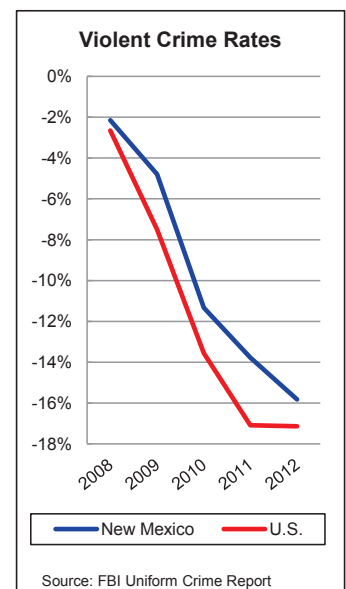
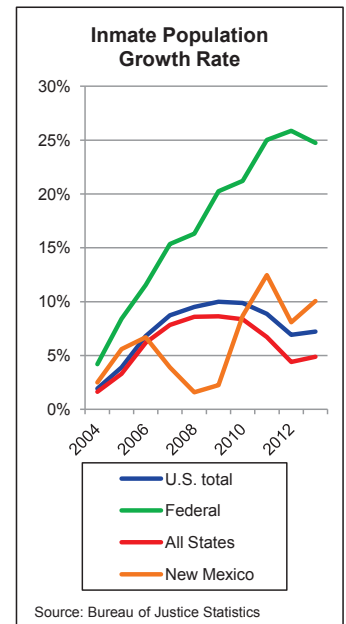
Roughly 10 percent of the state's budget is spent on ensuring the public is safe and order is maintained, from the highway officer who stops a speeder to the prison guard who watches over a murderer to the judge who resolves a dispute among neighbors. On a typical day, 620 State Police and Motor Transportation officers are serving and 175 magistrate and district judges are reviewing civil and criminal cases. Roughly one out of every 44 adults in New Mexico is either incarcerated or under the supervision of a probation or parole officer. But the cost of ineffective efforts to protect the public are higher, with the victims, inmates' families, the economy, and society paying the price. For example, roughly 20 percent of children in CYFD custody were removed because of parental incarceration. It is critical, with so many demands for the state's limited dollars that the state spends criminal justice dollars on programs that work.

Corrections Reform

From 1994 to 2012, seven states were able to reduce their imprisonment rates and, at the same time, decrease overall crime rates. For example, New York decreased its imprisonment rate by 24 percent and the crime rate by 54 percent. In New Mexico, like in most states, crime rates are decreasing while the imprisonment rate is increasing. However, while 35 states reformed their criminal justice and corrections systems in 2013 to reduce prison populations, New Mexico was not one of them.

To decrease New Mexico imprisonment, during the 2013 and 2014 interim periods, the Criminal Justice Reform Subcommittee met, discussing and recommending a wide variety of reforms such as requiring the New Mexico Corrections Department (NMCD) to spend 80 percent of its recidivism reduction programming budget on evidence-based programs and services. In the meantime, LFC, the New Mexico Corrections Department, and the New Mexico Sentencing Commission have developed, and are continuing to improve on with timely updates, the New Mexico Results First initiative – a systematic approach to evaluating recidivism reduction policy options. Figuring out how to reduce recidivism – what works, what does not – is the key to a safer New Mexico.

A recent case study published by the Pew Charitable Trusts, "*New Mexico's Evidence-based Approach to Better Governance: A Progress Report on Executing the Results First Approach*," stated "The Results First approach has enabled state policy makers to get a clearer picture of the comparative value of potential taxpayer investments and to direct resources to the most effective programs." Using Results First, New Mexico has been able to calculate and compare the long-term costs and benefits of strategies to reduce recidivism, creating a menu of programs for policy-makers to choose from.



Public Safety and Justice

Promising areas to contain inmate healthcare costs

- Telehealth,
- Medicaid financing, and
- Medical or geriatric parole

Effective Prison Space Use Options

- Reduce the number of release-eligible inmates,
- Work to increase community-based resources,
- Reduce administrative errors in the parole process,
- Ensure prisoners are not over-classified,
- Realign bed space to match needs, and
- Build new housing units

Reasons Inmates Are Not Released on Time

- Inadequate community based resources for parolees,
- Administrative issues causing parole hearings to be delayed or canceled, and
- Inmates not participating in the parole process

For example, education in prison is relatively inexpensive at \$634 per participant per year and is estimated to reduce recidivism in the six years following release by as much as 11.8 percent, saving an estimated \$9.8 million. Conversely, NMCD is operating an intensive supervision program (ISP), a highly structured and concentrated form of probation and parole. LFC estimates this program provides no return on investment and does not reduce recidivism for participants. But, if treatment is required within ISP, LFC estimates the program reduces recidivism by 9 percent.

Effective Prison Space Use. Partially due to prison space not matching prison population security needs, about 14 percent of public prison beds sit idle. Moving inmates from private facilities to public facilities may not be an immediately viable option; however, over time it is something to consider. Almost all level III inmates are held at privately operated facilities and few are held at publicly operated facilities, resulting in little level III excess capacity in public prisons. Until the Otero County Prison opened, the department operated with little excess capacity in public facilities; now the department has excess level II capacity and indicates a preference to maintain 10 percent excess capacity, but this is expensive.

Capacity and Population by Security Level

	State Run Facilities			Privately Operated Facilities		
	Capacity	Population	Difference	Capacity	Population	Difference
Level I	376	310	66			
Level II	1,772	1,580	192	13	7	6
Level III	304	245	59	2,382	2,193	189
Level IV	404	364	40			
Level V	60	55	5			
Level VI	288	248	40			
RDC	336	247	89			
Total	3,540	3,049	491	2,395	2,200	195

*Specialty Units and segregation were not included

Despite a shifting inmate population, the department's cost to run public facilities with empty beds has not changed. With a large number of prison beds at publicly operated prison facilities empty and more private prison beds filled above minimal contractually guaranteed levels, the New Mexico Corrections Department (NMCD) is essentially paying twice for some prison beds: once for the empty bed in a public prison and once for the extra filled bed in a private prison. Since March 2013, when inmates began moving into Otero County Prison (OCP), the number of prisoners held in private facilities increased 11.6 percent and decreased in public facilities 3.8 percent. Also, the number of empty security level II beds in state-run facilities has increased significantly since March 2013 because inmates were moved to OCP.

Release Eligible-Inmates. Anywhere between 180 and 300 inmates are eligible for release but are spending their parole sentences in prison. Release Eligible Inmates (REI) cost the state an estimated \$10.3 million in FY14. The leading causes for REIs include a lack of community resources for parolees,

Public Safety and Justice

administrative issues causing parole hearings to be canceled, and inmates not participating in the parole process. Additionally, some REIs, once their sentences have run out, are released without community supervision – posing a public safety risk. In 2012, New Mexico was 14th in the nation for “maxing out” inmate sentences or releasing inmates straight into the community without supervision, according to a recent report from the Pew Charitable Trusts. Of inmates released in 2012, 30.7 percent had maxed out their sentences and did not have to serve a period of parole. The national average max out rate is 21.5 percent.

Additionally, in FY14 about 15 percent of inmate parole hearings were canceled. These cancellations are often due to incomplete parole hearing packets and other administrative issues slowing the release of inmates and increasing the number of REIs. Without complete hearing packets, it is impossible for the parole board to set the conditions of parole, causing many inmates to wait a month or longer for the next parole hearing. Also, without adequate community-based resources, caseworkers cannot develop adequate parole plans, delaying parole hearings and inmate releases. While half-way houses cost roughly \$30-\$50 per day per resident, NMCD spends \$99.31 per day per REI.

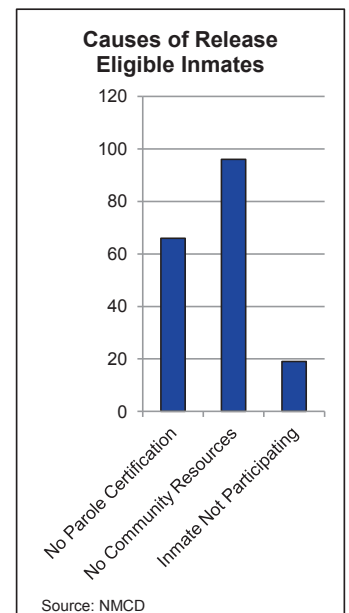
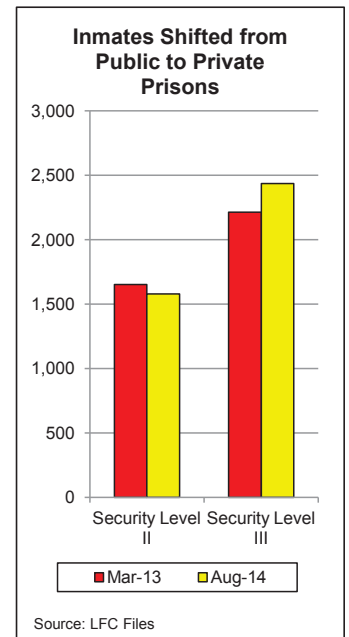
Classification Management. The department should evaluate reducing the number of security classifications from the current six levels to a three or four custody level regime – as federal prisons and many other states do – allowing existing facilities to be used for a wider variety of inmates. No other state in the southwest uses six security levels. With a minimum, medium, and maximum custody level regime the department would more easily be able to consolidate prisoners, possibly reduce administrative costs, and possibly reduce transportation costs.

Additionally, the number of level II inmates has recently decreased while level III inmates have increased. The department should re-evaluate inmate classifications and ensure that inmates housed in level III private prisons are not over-classified and move them to level II facilities if warranted.

Department of Public Safety Manpower

Salary disparities between Department of Public Safety (DPS) law enforcement officers and other law enforcement officers around the state have restricted the department’s ability to recruit and retain officers. In FY14, the Legislature appropriated amounts equal to an average 3 percent salary increase for officers and in FY15 appropriated an amount equal to an 8 percent salary increase. With the FY15 appropriation, the department eliminated salary disparities between the State Police, Motor Transportation Police, and Special Investigations Division officers.

Recent salary increases have helped the department recruit and retain officers but current manpower numbers remain well below New Mexico Sentencing Commission (NMSC) recommended levels. The State Police and Motor Transportation Division currently have 620 patrol officers and sergeants and NMSC found that 808 patrol officers and sergeants are required to patrol New



Public Safety and Justice

Mexico highways and interstates. Based on a staffing study conducted by a consultant, the department is planning on making DPS officers salaries competitive through a three-phase approach. The first phase was implemented in FY15, and the department requested \$4 million for FY16 to implement phase II of the salary plan.

A Closer Look: Corrections Capital Outlay

The 1980 New Mexico prison riot and subsequent *Duran* consent decree and settlement agreement profoundly affected the design and cost of prison facilities and the services provided. To limit the likelihood of another riot, NMCD opted to build smaller, pod style, housing units, which reduced the number of inmates an individual officer can supervise. In June 2014, LFC issued a report reviewing capital outlay planning, spending, and outcomes for public prisons. LFC staff found that while the design of the state's public prisons made sense when constructed, over time the prisons have proven to be extremely costly and inefficient.

More modern prisons in other states, and private prisons in New Mexico operate more efficiently with lower costs with larger housing units, allowing a single officer to supervise many more inmates. Along with the inefficient design of the state's public prisons, there is approximately \$277 million in capital needs at these facilities. The evaluation found inadequate planning and oversight of capital outlay projects has led to deficient outcomes. Through cost-benefit analysis, LFC staff showed New Mexico could realize significant savings by replacing existing housing units at public prisons with larger and more operationally efficient facilities. Improved project prioritization could also provide savings.

District Attorney and Public Defender Staffing levels		
	DA	PD
Attorneys	398	405
staff	609	303
Total Need	1007	708
Current staff	892	365
percent under-staffed	11.4%	48.4%

Source: NM Sentencing Commission

In its first year as an independent commission, the Public Defender Commission (PDC) is seeking additional funding to address a shortage of staff, as well as to increase contract defense attorney payments.

PDC was appropriated \$44.5 million from the general fund and had 365 filled FTE at the onset of FY15 while district attorneys (DAs) were appropriated \$64.2 million and employed 892 FTE. While a cautious approach must be taken when defining the optimal funding ratio between PDC and the DAs, it is clear that the current funding level of PDC is inadequate given current caseloads.

Currently, PDC does not maintain an office in five of the 13 judicial districts. The cumulative effect of the lack of Public Defender offices and FTE is increased reliance on contract attorneys to handle defense work. The PDC pay schedule for contract attorneys has not changed significantly since 2001 and provides low rates for legal representation. For example, a contract attorney in Bernalillo County defending a client on a misdemeanor would receive a reimbursement of \$180 and \$540 for a fourth degree felony.

Without a substantial and sustained effort to increase PDC funding, it will become increasingly difficult to maintain a functioning indigent defense system and more likely that court action will be taken to mandate attorney pay. Several recent motions filed by contract attorneys have resulted in a judge's order to provide all criminal defendants effective counsel regardless of available funding. At this point, PDC is facing potential judicial orders to set contract attorney reimbursement rates.

Future funding to address New Mexico's statewide infrastructure needs largely depends on tax revenues generated from oil and gas production. Even though oil and gas prices fell during fall 2014, the current projection indicates more money will be available for capital needs than in 2014. As in past years, infrastructure requests for state and local needs are far greater than available bonding capacity.

Last legislative session, the executive's statewide water initiatives took priority over funding requests for facilities owned and operated by the state. Meanwhile, the lack of funding for essential infrastructure improvements at state-owned facilities further impacted the already substandard conditions at hospitals, the Veterans' Home, nursing homes, public safety facilities, detention centers, courts, and cultural facilities. The failure to pass a capital outlay bill during the 2011 session, combined with the decision not to fund capital projects at any of the state-owned facilities in 2014, amplifies the need to fund state facilities or risk unsafe conditions for citizens that are housed and under the protection of the state at these facilities. A lack of resources to address fire and environmental codes and possible violations, Americans with Disabilities Act regulations, and other licensing and certification requirements could mean significant additional costs to the state, including a loss of federal funds.

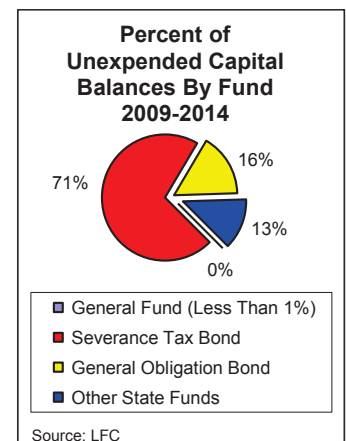
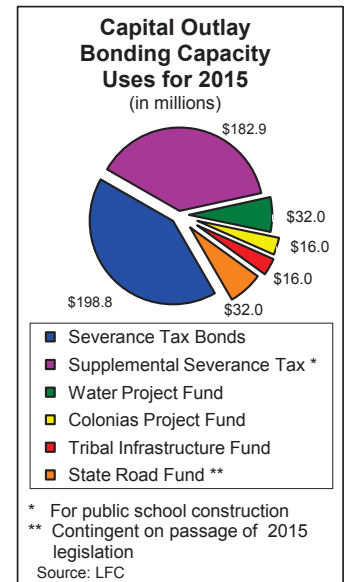
The need to address competing infrastructure needs, such as roads and water projects, is clear. The key is to ensure proper balance and to ensure preliminary engineering assessments and plans and designs of the projects have been completed and reviewed prior to funding.

Capital Outlay

2015 Capital Funding Outlook. As detailed in the *Volume III*, net senior severance tax bond (STB) capacity is \$198.8 million. Earmarked funds for water infrastructure, colonias, and tribal infrastructure total \$64 million, 32.2 percent of the total of net STB capacity. Supplemental severance tax bonds totaling \$182.9 million are earmarked and dedicated for public school construction. The 2014 allocations for the earmarked funds totaled \$61.5 million and are listed on the LFC website.

Contingent on passage of legislation in 2015, the LFC staff framework includes a proposed 10 percent of senior severance tax bonds, \$32 million, for deposit into the state road fund to address road repairs and maintenance deficiencies statewide.

Unexpended Funds. The Legislature appropriated or authorized more than \$811 million between 2009 and 2014 for 2,592 capital projects. As of September 2014, approximately \$611.7 million for 1,845 projects is outstanding. Less than 1 percent of the outstanding funds were allocated from the general fund. As of September 2014, balances for projects \$1 million or greater total more than \$437.1 million for 182 projects, nearly 71.5 percent of all unexpended balances.



Status of Projects Greater than \$1 Million		
LEGEND		
G	Project on schedule	113
Y	Behind schedule or little activity	59
R	No activity or bonds not sold	10
Total Active Projects		182
Other report information:		
B	Appropriation expended or project complete	17
X	Additional funds needed	2

Source: LFC

Public Infrastructure

2009-2014 Capital Outlay All Fund Sources "Outstanding" Projects Only (in millions)

Year	Number of Projects	Amount Appropriated	Amount Expended	Amount Unexpended	Percent Expended for Year
2009	1	\$10.0	\$8.8	\$1.2	88%
2010	3	\$1.1	\$0.3	\$0.8	30%
2011	46	\$69.5	\$47.2	\$22.3	68%
2012	286	\$227.4	\$91.6	\$135.7	40%
2013	606	\$251.2	\$59.2	\$192.0	24%
2014	903	\$269.9	\$10.2	\$259.7	4%
Total	1,845	\$829.1	\$217.3	\$611.7	

Source: Capital Projects Monitoring System

Note: Excludes earmarked funds

Senior Severance Tax Bonds Earmarked Funds 2012 - 2014 (in millions)			
Fund	Projects Awarded	Amount	Balance
Water	82	\$96.7	\$79.6
Colonias	120	\$44.0	\$37.8
Tribal	76	\$44.0	\$32.2
Total	278	\$184.7	\$149.6

Source: Capital Projects Monitoring System

Major Completed Projects, 2014	
Description	Amount
2010 GOB library funds	\$7.0 million
Court of Appeals building	\$6.0 million
Correctional renovations	\$4.0 million
GSD facility repairs statewide	\$3.5 million
Las Cruces State Police office	\$3.3 million
DoIT two-way radios	\$3.0 million
NMSD Dillon Hall renovations	\$2.6 million
2010 GOB instructional materials	\$2.0 million

Source: Capital Projects Monitoring System

Outstanding Capital Projects. The state has invested or authorized large amounts of money for capital projects demonstrating little or no progress. Major severance tax bond projects not certified for issuance include \$6 million for the Los Lunas Drug and Substance Abuse Center and more than \$3.8 million for the East Aztec arterial route construction. Revenue bonds authorized for issuance by the New Mexico Finance Authority for up to \$26 million for an executive office building and \$80 million for land acquisition and construction of a health and human services complex (an agreement between the state and the developer has expired) remain inactive. The state invested more than \$5.3 million for the Mora County complex that is an unoccupied shell. According to the Administrative Office of the Courts and Mora County officials, \$2.3 million is needed to address site drainage issues and complete the interior of the first floor for office use by the court and county sheriff.

Authorized but Unissued Bonds. Severance tax bonds authorized in 2013 and 2014 totaling \$25.2 million for 113 projects remain unissued (\$2.8 million from 2013 and \$22.4 million from 2014). As of October 31, 2014, 38 projects in 17 counties in the amount of \$2.7 million remain unissued due to noncompliance with audit requirements in accordance with Executive Order 2013-006. The Legislature appropriated \$160 thousand to the Office of the State Auditor (OSA) to assist small political subdivisions with meeting financial reporting requirements under the Audit Act and requested the same amount for FY16. OSA developed an application process for distributing the funds.

Obstacles Hindering the Capital Outlay Process

Several obstacles hinder the progress of small and large capital projects at the state and local levels. Infrastructure projects have been historically funded without complete programming, plans and designs, complete cost estimates, phasing when possible, adequate funding levels, timelines, tracking, and accountability.

A lack of adequate planning, a method for establishing project priorities and weak oversight of state funds for local projects has led to ineffective uses of state resources, including unspent proceeds, incomplete projects, waste, and misuse.

State Debt. According to 2012 data from the U.S. Census Survey of Government Finance, the combined long-term state and local debt per-capita for New Mexico was \$7,917. The per-capita average for all states was higher at \$9,338, indicating New Mexico has not over-leveraged its residents relative to other states.

Public Infrastructure

In New Mexico, state government accounted for 45.7 percent of the total amount of outstanding long-term state and local government debt, while local governments accounted for 54.3 percent. Nationally, state governments account for 38.9 percent of the debt, with local governments accounting for 61.1 percent.

Funding Requests. State agencies, higher education institutions, and special and tribal schools requested \$431.4 million for capital projects. The LFC staff “framework” for consideration by the full Legislature is based on criteria, 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-proposed dollars for capital from all state funding sources are summarized in *Volume III*.

Aging and Long-Term Services Department. ALTSD received capital outlay requests totaling \$55.5 million for senior centers statewide. Based on formal presentations, review of the applications, and site visits, ALTSD assigned a rating of critical, high, or moderate to the projects. ALTSD and area agencies on aging requested nearly \$11 million for projects rated as “critical” or “high” for major construction, code compliance, renovations, specialized vehicles, meals equipment, and other equipment statewide. The LFC staff framework proposes nearly \$7.8 million only for “critical” projects with a useful life expectancy of 10 years or more.

Higher Education Institutions and Special Schools. The Higher Education Department (HED) held hearings in Albuquerque, Las Cruces, Roswell, Las Vegas, and Santa Fe. All secondary institutions, the three special schools, Dine College, the Institute of American Indian Arts, Navajo Technical College, and Southwestern Indian Polytechnic Institute presented requests totaling \$125.4 million for infrastructure projects statewide. With significant consensus, the staff of LFC, HED, and Department of Finance and Administration developed a framework for the most critical infrastructure needs impacting the health and safety of the students, faculty, and the general public.

The LFC staff framework proposes more than \$26.9 million in spending, including \$2 million to New Mexico Institute of Mining and Technology to relocate a data center currently housed in a 1940s era converted fire station, \$2 million to New Mexico State University (NMSU) to repair utility tunnels impacting the entire campus, \$6 million to complete the University of New Mexico Health Sciences education building, and \$1.5 million to Central New Mexico Community College for electrical and mechanical upgrades

The New Mexico School for the Deaf and the New Mexico School for the Blind and Visually Impaired received a considerable amount of funding authorized from the public school capital outlay fund in recent years. The two schools currently have \$30 million for major projects in progress. The framework includes \$130 thousand to match funds allocated by the Public School Capital Outlay Council to plan and design renovations to Delgado Hall at New Mexico School for the Deaf.

2014 General Obligation Bond Issue Results:

Bond Issue A:

Senior Projects - \$16.4 million

Bond Issue B:

Libraries - \$10.8 million

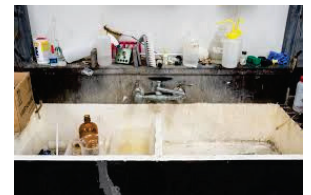
Bond Issue C:

Higher Education, Special Schools, and Tribal Facilities - \$139.8 million

Criteria for Prioritizing Higher Education Needs

- Student, faculty, and public safety
- Project completion
- Funding from other sources
- Project readiness
- Facility condition index
- Full-time student enrollment trends
- Programmatic use of building
- Energy-efficiency standards
- Space utilization for Instructional & General (I&G)

Western New Mexico University



Science Laboratory – Harlan Hall

New Mexico State University



Utility Tunnel System Repairs

Public Infrastructure

Children, Youth and Families Dept



YDDC Storage

New Mexico Corrections Dept



WNMCF Housing Unit Infrastructure

Cultural Affairs Dept - Bookmobile



Public Education Department. PED requested \$6.2 million to replace aged and high mileage school buses and \$2.5 million for construction or renovation of prekindergarten classrooms. PED owns and operates approximately 900 school buses statewide. In accordance with Section 22-8-27, NMSA 1978, buses are required to be replaced every 12 years. The LFC staff framework proposes \$8.7 million for both requests from the public school capital outlay fund, contingent upon approval by the Public School Capital Outlay Council.

The Zuni, Gallup-McKinley County, and Grants-Cibola County public schools recently reopened the Zuni lawsuit to address whether the standard-based process is meeting constitutional adequacy requirements. The districts are concerned they cannot fund the costs for their facilities beyond adequacy standards. Currently, the Public School Capital Outlay Council is attempting to address the districts' concerns without court intervention. If the case proceeds to court, a legal decision to expand current adequacy standards could have significant financial implications for the state. The LFC staff framework proposes \$5 million from the public school capital outlay fund to address deficiencies and other infrastructure improvements for Zuni litigant districts.

Children, Youth and Families Department. CYFD requested more than \$1.6 million to plan and design a 54-bed juvenile detention facility in the Roswell area. CYFD also requested \$4 million to plan and design and construct a visitor's center and storage warehouse and for improvements to the Youth Diagnostic and Development Center (YDDC) in Albuquerque, for improvements to the John Paul Taylor Juvenile Center in Las Cruces, and for improvements to the Lincoln Pines Juvenile Center near Fort Stanton. The LFC staff framework proposes more than \$4 million for the visitor's center warehouse and improvements at the YDDC campus and for improvements at the John Paul Taylor Juvenile Center and at Lincoln Pines Youth Center.

New Mexico Corrections Department. NMCD requested \$28.5 million to complete infrastructure systems at the Western New Mexico Correctional Facility (WNMC) and renovations and security upgrades at correctional facilities statewide. The department operates six public prison campuses totaling 2.5 million square feet, ranging in age from 33 to 70 years old, and housing over 7,000 inmates. The majority of correctional facilities have exceeded their 30-year life span and require attention to correct safety hazards, intermittent operational interruptions, and further facility deterioration and damage to state assets.

The LFC staff framework proposes \$5.3 million to complete infrastructure upgrades for two units at WNMC, \$2.9 million for security upgrades at the Roswell, Springer, and Central Correctional Centers, and \$2 million for renovations and repairs statewide.

Cultural Affairs Department. The department requested \$24.5 million to preserve and renovate museums and monuments statewide, to complete ongoing projects, and to purchase and install equipment, including replacement of high-mileage bookmobiles. The department is responsible for 191 buildings with over 1.3 million square feet valued at \$650 million and the buildings contain irreplaceable art and artifacts valued at more than \$300 million. Major concerns are a dysfunctional fire suppression at the Space

Public Infrastructure

History Museum, flooding and drainage issues at the Farm and Ranch Heritage Museum, high-mileage bookmobiles serving rural areas, a lack of shelving and inadequate storage for collections.

The LFC staff framework proposes \$6.3 million – \$6 million to address major life, health, and safety repairs at museums, monuments, and historic sites statewide, and \$300 thousand to replace one high mileage bookmobile.

New Mexico Environment Department. NMED requested \$1.3 million for a state match expected to generate a federal grant totaling \$6.5 million to capitalize the clean water state revolving loan, and \$1.5 million for a river restoration program. The LFC staff framework proposes \$1.3 million funded from the public project revolving loan fund for the state match of the federal grant and \$1 million from severance tax bond capacity for river restoration and preservation.

Department of Health. DOH requested \$34.4 million to address patient health and safety issues impacted by aged infrastructure and a backlog of repairs and to complete the final phase of constructing the Meadows long-term care facility in Las Vegas. DOH facilities have been cited for code violations by the Joint Commission (an independent, not-for-profit accreditation organization), the state Fire Marshal, and the state Health Facility Licensing and Certification Bureau.

The LFC staff framework proposes \$16 million to complete the long-term care nursing facility; \$5.7 million to address patient health and safety and deficiency issues at the Behavioral Health Institute in Las Vegas, Fort Bayard Medical Center in Grant County, the New Mexico State Veterans' Home in Truth or Consequences, the Sequoyah facility in Albuquerque, and the New Mexico Rehabilitation Center in Roswell; and \$500 thousand for specialized equipment for the state Scientific Laboratory Division.

Proposed funds to complete the Meadows long-term care facility are by far the largest amount within the LFC staff framework. Providing nursing home services in two separate buildings one-half mile apart is a challenge to provide a safe and therapeutic environment and continuity of care for the 49 residents still residing in the old Ponderosa building. The 1955 structure has an institutionalized environment without privacy and dignity rather than a home-like environment. The operational and maintenance costs to maintain the two buildings have increased dramatically, and reducing costs would better serve the clients.

Department of Public Safety. DPS requested nearly \$6.4 million to purchase property for use as a law enforcement training firing range; to plan, design, and construct a new Chama state police facility; to plan, design, renovate, and expand the Roswell State Police District Office; to plan and design a new state police district office and records and evidence center in Santa Fe; and to plan and design renovations of the Santa Fe Crime Laboratory. The LFC staff framework proposes \$2 million to acquire the land for the firing range in Santa Fe, \$600 thousand for a new state police facility in Chama, and \$2.5 million for renovations and expansion of the Roswell State Police District Office, to include the motor transportation staff, and temporary relocation of support services, such as dispatching.

Cultural Affairs Dept



Lincoln Tunstall Store Stucco

Department of Health



NMBHI Aged Infrastructure



NMBHI Ponderosa



NM Veterans' Home Pool Tunnel Piping

Department of Public Safety



Shooting Range

Public Infrastructure

General Services Department



Oil & Conservation Building – Hobbs

Funding Criteria for Critical Investments in State Assets

- 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 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.

LFC Staff Site Visits in 2014

- New Meadows Phase 2 Opening (Las Vegas)
- Manual Lujan, Sr., Building (Santa Fe)
- Plaza Maya Building (Albuquerque)
- Museum of Indian Art and Culture (Santa Fe)
- Santa Teresa Port of Entry (Santa Teresa)
- John Paul Taylor Juvenile Facility (Las Cruces)
- Southern New Mexico Correctional Facility (Las Cruces)
- New Mexico Department of Agriculture (Las Cruces)
- New Mexico State University (Las Cruces)
- Taylor-Barela-Reynolds-Mesilla State Monument (Mesilla)
- New Mexico Farm and Ranch Heritage Museum (Las Cruces)
- Bookmobile Tour of Otero County

General Services Department. The Facilities Management Division (FMD) of GSD requested \$17.6 million to address repairs and major renovations at facilities statewide. The department is responsible for the repairs and maintenance of 6.8 million square feet of space throughout the state. A 2009 assessment identified \$476.8 million needed to address deferred deficiencies impacting the security and safety of the staff and members of the public. While facility repairs are a major concern, the ratio of project management compared with the number of major projects are not adequate to address the needs in a timely manner.

The LFC staff framework proposes \$5.5 million to preserve and restore facilities statewide and \$1 million to demolish structures deemed unsafe and unusable, including asbestos remediation. Additional funds requested by FMD for facilities under its jurisdiction are proposed but listed under individual agencies.

Capitol Buildings Planning Commission. The Capitol Buildings Planning Commission (CBPC), in partnership with GSD, continued to work with state agencies and the courts to update the *State Master Plan* for Santa Fe, Albuquerque, Las Cruces and Los Lunas metropolitan areas. The five-year Master Plan implementation strategy recommends constructing new facilities in a cost-effective manner, phasing in projects over several years, redirecting lease revenue to fund capital costs, minimizing multiple moves, and relocating agencies from leased space to state-owned space.

GSD completed a space use assessment for seven state-owned buildings in Santa Fe, resulting in an average 68 percent efficiency level for usable space, excluding non-administrative GSD. To achieve the desired minimum of 80 percent efficiency would cost an estimated \$33 million for renovations. GSD and CBPC expect to develop and approve the space standards by next spring and will wait for results from a facilities condition assessment expected to be completed in 2015 before requesting funds.

A statewide inventory of real assets and leased properties displayed through a web-based database was launched in 2014. During 2014, CBPC spent \$260 thousand to add self-reported FTE data, lease detail, and mapping capabilities to the database. How the inventory will be maintained remains uncertain, but ongoing efforts for CBPC will include working with agencies to reconcile data irregularities and lease and FTE information, including development of a quarterly or annual updating process and training for agency personnel.

In light of the sale of a historic building in the state capitol complex to a private entity, and at the request of CBPC, the Legislative Council Service drafted several versions of legislation to improve existing statutes relating to the role of CBPC, the Legislature, and the executive, in the disposition of state-owned real property. As of December, a final draft of the legislation had not been released.

The commission heard testimony from the secretary of the Department of Cultural Affairs (DCA) and a representative of New Mexico State University (NMSU) who conducted a study of possible agricultural uses for the Los Luceros property located 10 miles north of Espanola on U.S. Highway 68. Because the property is not able to generate sufficient revenue through agricultural activities to pay for the approximate \$400 thousand to \$500

Public Infrastructure

thousand of operating costs, three options were suggested: 1) managing the property as a state monument or museum, 2) selling the property as is, with the deed restrictions in place, or 3) entering into a public/private partnership for various aspects of the property. The commission did not make a final recommendation.

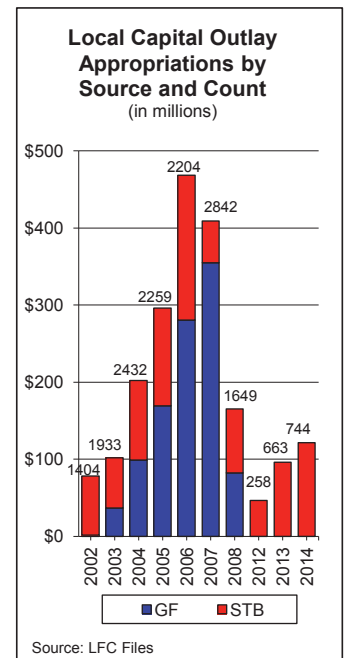
The LFC staff framework proposes \$500 thousand to plan, design, renovate, and stabilize the Alcalde Sustainable Agriculture Research and Extension Center serving Los Luceros in Rio Arriba County, contingent on land acquisition from DCA or a long-term lease agreement between NMSU and DCA.

State and Local Capital Outlay Issues. New Mexico continues to rank poorly for capital outlay management and processes and is the only state whose capital functions are not integrated. Opportunities for improvement include centralized planning oversight, prioritizing, funding, and accountability for both state and local project funds. It is unclear if duties and responsibilities specified in current statutes are being fully implemented and enforced.

Of significant concern is how best to address the state's responsibility for state-owned facilities, while also meeting legislators' expectations for infrastructure funding requested by local officials and other constituents. At the same time, local infrastructure like roads, water and wastewater systems are basic needs for communities, as well as prerequisites to attract economic development dollars to the state; however, long-range planning continues to be inadequate, and where present, is typically not aligned with prioritization and funding of capital outlay requests.

Critical steps can be taken to protect taxpayer monies and to protect the state's bond ratings. The steps could include the following:

- Assess the number of incomplete projects initiated by the executive and Legislature;
- Determine state's responsibility for completing projects at the local level that may have created hazards and impacted public health and safety;
- For new projects, require planning and other sources for matching funds to be eligible for state funding (consider model used by PSFA for determining match);
- Identify and rank local government priorities, utilizing *Infrastructure Capital Improvement Plan* maintained by the Capital Outlay Bureau/LGD of DFA;
- Assure projects meet the anti-donation provisions of the state constitution;
- Assure grantees will accept responsibility for operating and maintaining projects (possibly requires passage of resolution by the local entity agreeing);
- Provide legislators and the executive with tools to evaluate and prioritize projects;
- Develop appropriate and politically reasonable capital outlay standards (same as state);
- Provide for centralized administration for tracking, accountability, completion and timely reversions of the funds.

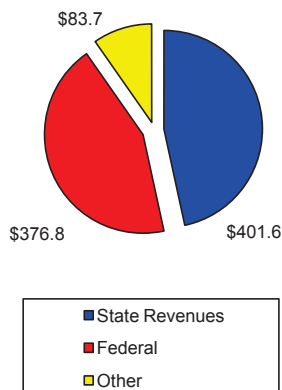


Local FY16 Requests Top 3 Priorities by Category (estimated project costs)	
Category	Requested Amount
Water	\$283,434,389
Transportation	\$210,418,617
Quality of Life	\$157,831,119
Environment	\$62,148,662
Public Safety	\$43,227,646
Economic Development	\$19,151,000
Housing	\$11,434,610
Health	\$5,583,500
Public Education	\$2,436,305
Higher Education	\$725,000
Total	\$796,390,848

Source: DFA-Local Government Division

Public Infrastructure

**FY15 NMDOT
Revenue by Source**
(in millions)



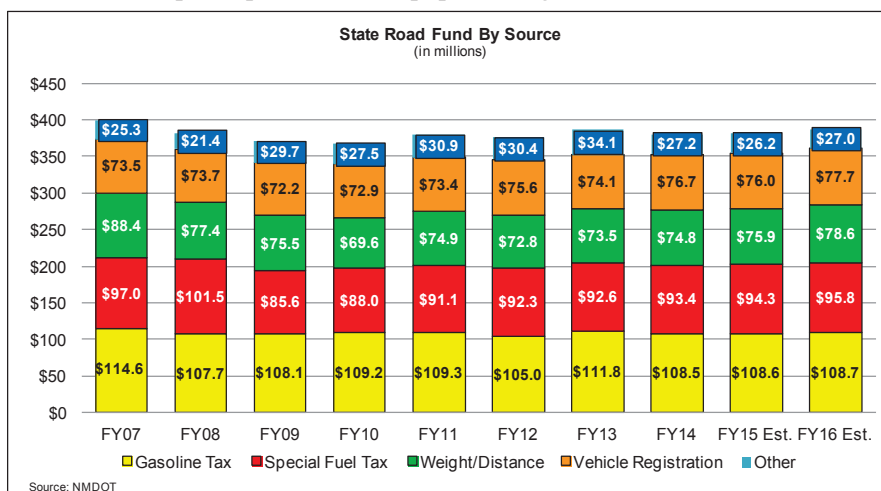
Source: NMDOT

Transportation Infrastructure

New Mexico's statewide transportation infrastructure network, 30 thousand lane miles of interstate corridors and U.S. and state highways, is maintained by the New Mexico Department of Transportation (NMDOT). Construction needs of the transportation network have increased as routine maintenance is deferred, expenses have increased, and maintenance has been performed less frequently. At the same time, revenue growth is not keeping pace with inflation, and debt service payments require a sizeable share of revenue. To ensure a safe, reliable, and robust transportation network, the Legislature and NMDOT must work together to identify efficiency gains and new revenue sources.

Overview of the State Road Fund. The state road fund is composed of revenues from gasoline tax, special fuel (diesel) tax, weight-distance tax on commercial trucking, vehicle registration fees, and other fee and permit assessments. In FY14, the road fund realized revenues of \$374.5 million, an increase of 0.3 percent from FY13. NMDOT estimates road fund growth of 1.8 percent between FY15 and FY16.

The slow growth in road fund revenues is related to a plateau in gasoline tax revenue brought on by gains in passenger vehicle efficiency, fewer vehicle-miles traveled per-capita, and slow population growth.



Special fuels tax and weight-distance tax revenues are driven by national consumer demand and tend to be closely related to the state of the U.S. economy. NMDOT noted the slowing growth rate of special fuels tax revenue is primarily due to increasing efficiency in heavy trucks.

Although the state road fund continues to grow, albeit slowly, the purchasing power of the fund has been significantly diminished as a result of material and construction industry price increases. NMDOT estimates that, relative to calendar year 2005, the purchasing power of the state road fund has decreased by more than 10 percent.

Debt Constraints and Outlook. Declining revenues are further constrained by significant, long-term debt obligations associated with the Governor Richardson's Investment Partnership (GRIP) projects. The total outstanding principal on transportation infrastructure debt is currently \$1.44

billion. In FY16, NMDOT will pay \$141 million in debt service. When the effects of debt service are accounted for, the purchasing power of the state road fund decreased 32 percent since 1999.

To decrease debt obligations, NMDOT refinanced previously issued bonds to take advantage of current low interest rates. In December 2014, NMDOT refinanced \$87 million in bonds issued in 2006 and realized a \$10.5 million present value savings. This is the most recent of several restructuring efforts that NMDOT credits with saving of \$78.6 million since 2010.

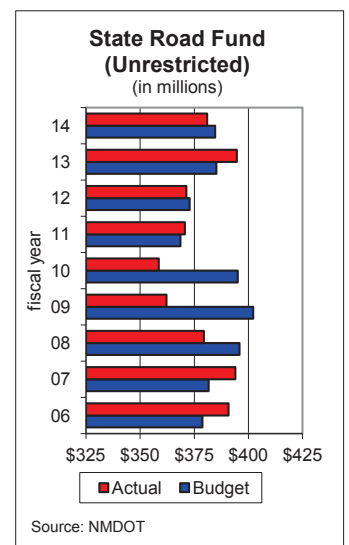
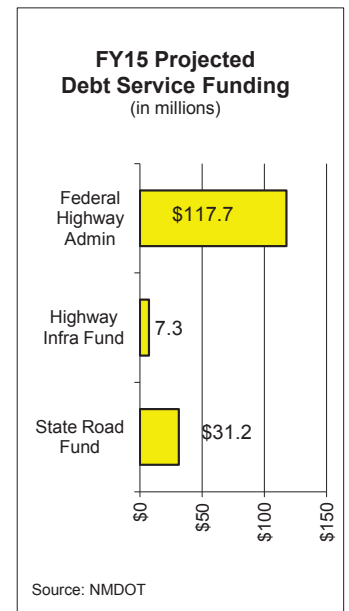
New Mexico's Transportation Needs. NMDOT recently completed the first-of-its-kind assessment of all systemwide lane miles. The assessment used state-of-the-art imaging equipment to determine roadway conditions throughout the state. The results show New Mexico roadways are in significantly worse condition than previously thought: In FY12, 84.5 percent of non-interstate lane miles were reported in good or fair condition; in FY13, the assessment showed only 70 percent were in good or fair condition. Based on this assessment, NMDOT estimates FY15 highway construction and maintenance needs total \$866.1 million. The combined maintenance and construction budgets for FY15 total \$407.5 million resulting in an unfunded need, or gap, of \$458.6 million.

State Highway Maintenance Program. NMDOT estimates total systemwide maintenance needs to be \$266 million in FY15. The current \$150.2 million maintenance budget for FY15 leaves a maintenance gap of \$115.8 million. The maintenance gap estimate represents the per year cost of implementing a regular maintenance schedule for roads statewide based on current road conditions.

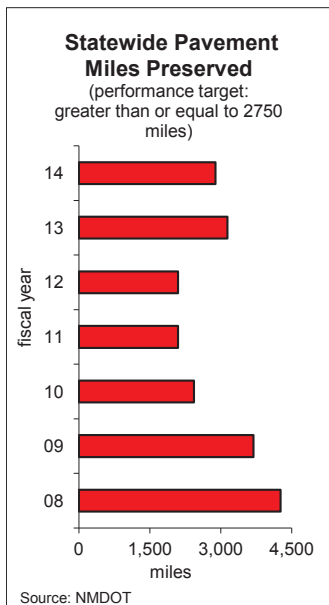
Because NMDOT is unable to provide maintenance consistently, roadways continue to deteriorate to the point of needing to be reconstructed at a significantly increased cost. NMDOT estimates the annual cost of maintaining a good condition road to be \$15 thousand per lane mile, a fair condition road costs an average \$180 thousand per lane mile, and a poor condition road may cost \$500 thousand to \$1.2 million per lane mile to rehabilitate or reconstruct.

Construction Needs. NMDOT estimates the FY16 need for construction to be \$600.1 million. The largest need is for roadway reconstruction and rehabilitation, which NMDOT estimated to be \$452.6 million. In addition to roadway construction, another \$147.5 million is needed to replace and repair bridges across the state. The current funding available for new construction is \$257.3 million leaving a gap of \$342.8 million for FY15.

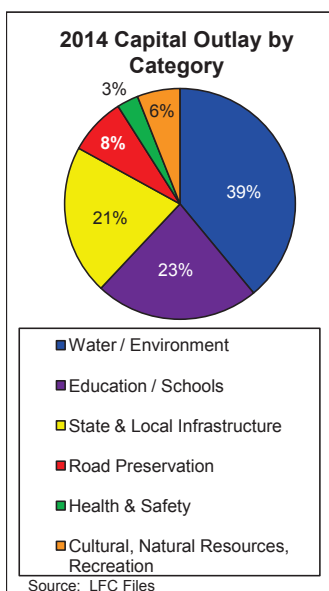
State Transportation Improvement Plan. NMDOT's construction funding is distributed through the state transportation improvement plan (STIP) process. The STIP is a four-year, federally mandated, multi-modal transportation plan created through consultation among NMDOT officials, engineers, local and regional governments, metropolitan and regional planning organizations (MPOs and RPOs), other state agencies, and the public. Once stakeholders statewide have identified the highest priority projects in the state, NMDOT works with the Federal Highway Administration (FHWA) to determine which projects should be funded and what the state funding match will be. All of the projects that receive funding are then placed into the STIP.



Public Infrastructure



Of \$89 million in capital outlay appropriated to water projects in 2014, nearly \$20 million went toward wastewater projects.



The FY15 STIP contains a total of 61 projects at a total cost of \$158 million comprised of \$136.8 million in federal funds and \$21.2 from the state road fund.

NMDOT priorities. NMDOT provided the Legislature a list of 20 unfunded major investment projects with a total cost of \$640.5 million. The largest single project is the widening of U.S. 82 from Artesia to Lovington from two lanes to four at a cost of \$90 million. Other projects include \$40 million for improvements to NM 136 at the Santa Teresa port of entry, \$37 million for an interchange at I-25 and Rio Bravo in Albuquerque, \$25 million for a bridge replacement on U.S. 54 in Quay county, \$50 million for capacity and safety enhancements on U.S. 64 between Farmington and Bloomfield, and \$20 million for reconstruction on the I-40 in District 6, McKinley and Cibola counties.

Legislative Options for Increasing Revenues. The Legislature has a number of options to increase state road fund revenues, including stricter enforcement of existing rules, tax code changes and increases, and authorizing existing bonding capacity for road construction and maintenance. To prevent further deterioration of New Mexico's transportation network, some or all of these options should be pursued.

Transportation Infrastructure Committee. The Transportation and Infrastructure Revenue Subcommittee was created by the Legislative Council Service in 2013 to identify current and new sources of transportation revenue and make recommendation to the full Legislature to meet the needs of the states transportations infrastructure network.

Proposed Legislation. The committee endorsed two revenue increasing bills for the 2015 session. The first would reduce public school capital outlay funding by \$100 million and increase the state road fund by that amount in each fiscal year from 2016 to 2021. The second would authorize counties or municipalities to increase their special fuels tax by up to 2 cents to match the current local government authority for a gas tax increase. NMDOT stated, while local governments currently have additional taxing authority over gasoline, none has exercised the option to increase the tax.

Water Infrastructure

Water and Wastewater Systems. Water was the primary focus of the 2014 capital outlay bill, with nearly \$89 million in severance tax bond revenue appropriated for more than 300 water and wastewater projects. This investment targeted an estimated need of over \$1 billion for water infrastructure improvements statewide. However, inasmuch as the criteria and prioritization process for many of the projects was unclear at the onset of the legislative session, the value and adequacy of the funds appropriated for the water initiative may not be known until preliminary engineering assessments, plans, and designs are completed. While water is a critical health and safety component impacting many citizens and communities within the state, deferring infrastructure improvements at state-operated facilities will significantly impact long-term maintenance costs.

Water Projects Review, Planning, and Funding

The state appropriated \$525 million over the past decade for water projects that continue to suffer, from a fragmented funding process to problematic project oversight and execution. A December 2014 LFC program evaluation on select water projects found only 10 percent of nearly \$27 million in state appropriations for nine selected local water projects resulted in successful outcomes.

At a cost of almost \$7 million, the Cabresto Dam project resulted in an upgraded “satisfactory” safety rating but the dam still seeps water at an unanticipated rate. Dam owners expressed dissatisfaction with the completed project because they believe modifications to meet dam safety requirements prevent the dam from holding water levels sufficient for irrigation.

Rio Rancho’s water system expansion projects remain underused due to growth not meeting expectations. Half of the expenditures associated with City Center development, also known as the Paseo Gateway Corridor, remain significantly underused. The other half, almost \$4 million, is sunk in a nonproducing well.

The Hatch Valley Arroyo Dam #6 project was stopped by high cost. Originally built to protect land from floods, the dam must now meet more stringent OSE requirements to also protect people who have moved into the area. Known as “hazard creep,” the phenomenon increased the estimated cost from \$600 thousand to \$3 million.

Two projects remain stalled due to lack of sufficient funding. The issues underpinning these results call for a need for better planning, coordination, prioritization, and oversight of resources shared with local entities to minimize waste, abuse or mismanagement and effectively attain project goals. New Mexico must address these inefficiencies in the capital outlay process so each dollar is well spent.

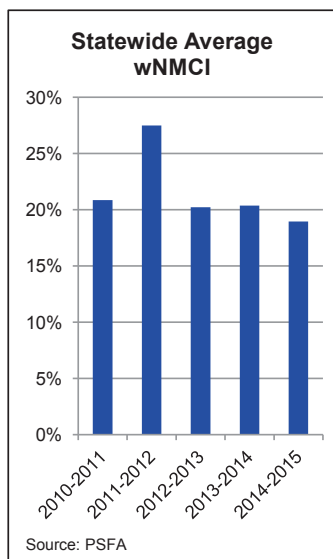
A November 2013 Legislative Finance Committee program evaluation of the Water Trust Board found New Mexico’s high rate of grant awards for water projects adversely impacts the effectiveness of related loan programs and multiple application processes complicate water project funding, which may contribute to duplication of effort because funding agencies overlap. The report recommended that the state establish a centralized process for statewide water project funding and require the use of a single uniform funding application process. To ensure the fidelity of such a process, LFC staff called for increased efforts to assist smaller utilities in developing asset management and source water protection plans and increasing technical and managerial capacity. The report also proposed a single, interagency committee responsible for coordinating all water funding programs and requiring a centralized reporting process to measure effectiveness.

Oversight. The Environment Department (NMED) is leading a “water infrastructure team” to develop a plan to address critical water system needs. Participants include representatives from executive and legislative agencies, county and municipal governments, and nonprofit community assistance organizations. The team is focusing on four key goals: a priority list of statewide needs, an annual budget for water projects, a plan to provide technical capacity to participating entities, and a process for communities to implement asset management plans.

NMED sent a survey to prospective grantees and borrowers to identify, and clarify the scope and intent of, water and wastewater projects statewide. Results of the survey and other outcomes of the team’s work will be presented to the Legislature during the 2015 legislative session. In addition to this effort, New Mexico First held a Town Hall on Water Planning, Development, and Use in April 2014, and is expected to advance their recommendations to the Legislature over the next two years.

Arizona Water Settlement Act. Under the Arizona Water Settlement Act, enacted by Congress in 2004 to resolve regional water disputes, New Mexico has the option to use \$66 million in federal funds, adjusted to reflect inflation, to meet water supply demands in Catron, Luna, Hidalgo, and Grant counties. In November 2014, the Interstate Stream Commission (ISC) elected to notify the U.S. Secretary of the Interior of New Mexico’s intent to construct a diversion project on the Gila River, making an additional \$34 million to \$62 million in federal funds available. While ISC elected to notify

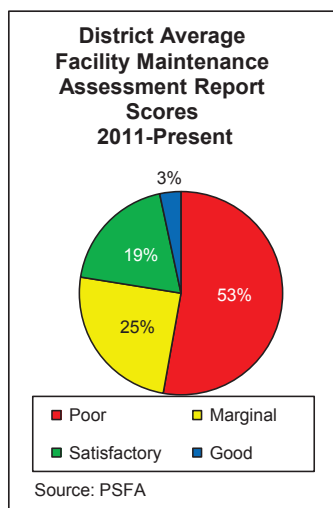
Public Infrastructure



PSCOC Award Allocations, FY14 to FY16 (est.)
(dollars in thousands)

	FY14	FY15 est.	FY16 est.
PSCOC Projects	\$206.8	\$279.9	\$151.7
Lease Assistance	\$13.0	\$14.6	\$15.0
Total	\$219.8	\$294.5	\$166.7

Source: PSFA



the Secretary of the Interior of its intent to construct a diversion project, it did not commit the state to future spending. With ISC's cost estimates for such a project ranging from \$575 million to \$650 million, New Mexico would have to find other funding to cover project costs exceeding the \$100 million to \$128 million in available federal funds.

Public Schools

In the 10 years since establishment of the current public school capital outlay program, the state has made significant progress improving school facilities. Between FY05 and FY14, the Public School Capital Outlay Council (PSCOC) awarded more than \$1.7 billion to fund replacement or renovation of more than 580 schools statewide. Since 2003, the statewide average facility condition index (FCI) has improved from 70.0 percent to 35.5 percent. The state also measures whether school facilities meet the educational needs of students with the weighted New Mexico condition index (wNMCI). The average wNMCI has improved from 163 percent to 19 percent. These scores indicate the need for school facility construction and repair has dropped dramatically, the number of critical standards-based projects funded each year is decreasing, and policymakers are now able to shift focus to renovation rather than replacement. However, weaknesses in facility maintenance have become evident, with more than half of school districts demonstrating poor facility maintenance leading to reduced lifespan of facilities. Focus on maintenance improvement will lead to more efficient spending of state dollars and for public school resources to be used to their maximum value.

With the improved condition of schools, policymakers are considering using supplemental severance tax bonds (SSTBs) for other critical capital needs such as roads, water infrastructure, and higher education facilities. Additionally, policymakers are concerned about low annual transfers to the severance tax permanent fund (STPF). However, policymakers must also consider the resources required to maintain current facilities – the Public School Facilities Authority (PSFA) estimates nearly \$158 million in state funding is needed yearly to maintain the current FCI. Additionally, if the reopened Zuni case challenging current adequacy standards were to proceed to court, a legal decision could have significant financial implications for the state. All of this indicates the need to balance the concerns of maintaining improvements made in public school facilities, challenges to the severance tax permanent fund, and other critical statewide capital needs.

Information Technology

While New Mexico has implemented some essential elements of good information technology (IT) infrastructure governance, critical components – such as detailed financial information, project status transparency, and strong leadership and strategic planning – continue to lag, contributing to the continuing lack of confidence that the millions in annual state IT expenditures are wisely spent.

Best practices in New Mexico IT infrastructure include a state chief information officer (secretary of the Department of Information Technology), a committee that certifies funding in approved phases for large IT projects (Project Certification Committee), and an IT commission (ITC) responsible for broad strategic planning in the state. However, the responsibilities of these

organizations must be better defined and policies and processes strengthened to improve state strategic planning and project oversight. For example, while some good infrastructure is in place, outdated statutes and rules have not been updated to reflect and guide current infrastructure and practices.

Information Technology Commission. After nearly a three-year long gap, in FY14 the commission began meeting quarterly as required by statute. However, quarterly meetings may not be frequent enough because progress on ITC goals has been very slow. Work on a new state IT strategic plan has been put off until after the 2015 legislative session, and efforts to research best practices in state IT governance, revamp outdated statutes and rules, and plans to reevaluate the commission's mission and goals have not been completed.

Department of Information Technology. While the Department of Information Technology (DoIT) provides a "top 10" report card for the state's most costly IT projects, it needs to do more to instill confidence that state IT dollars are being spent wisely. To strengthen its role and ensure critical IT projects succeed (and poorly planned projects are halted when necessary), the program needs to formalize standards and processes, verify agency-reported data when appropriate, and develop a more formal and automated IT project portfolio or "dashboard" to allow it to better track and manage project status and funding information. Existing informal methods to track agency project status, develop reports, and assess agency compliance with standards and Project Certification Committee requests is not sufficient and has allowed some projects to "fly under the radar" and elude proper oversight.

LFC Performance Evaluations. This past year the Secretary of State (SOS) began the process of overhauling mission-critical IT systems used for administering and conducting elections and filing and maintaining records vital to New Mexico's commerce and industry systems. These systems are used every day by 33 county clerk offices, candidates, lobbyists, banking institutions, the media, taxpayers, foreign and domestic corporations, and other business entities within New Mexico. LFC found that, while SOS has improved its IT systems, the department uses project management best practices inconsistently and created unnecessary risks for their projects. LFC staff recommended the agency develop consistent project management practices for all IT projects, develop a replacement cycle in its operating budget, and improve disaster recovery and business continuity planning.

LFC also evaluated the Human Services Department's project to replace its integrated service delivery (ISD2) system for eligibility determination, benefit issuance and case management system with the Automated System Program and Eligibility Network (ASPEN). The purpose of ASPEN is to improve public access to services through the web and streamline services by providing field staff with a more efficient and technically advanced eligibility tool. ASPEN will enhance HSD's ability to administer over seven programs, including Temporary Assistance to Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), Low-Income Home Energy Assistance (LIHEAP), Medicaid, and Cash Assistance. LFC determined that one of the most expensive IT projects in the state (\$115 million), the project was very well managed and is a model for best practices in project management and oversight.

FY16 State Agency IT Requests (in thousands)		
Agency	Agency Request	LFC Rec
AOC	\$1,295.0	\$180.0
TRD	\$19,861.5	\$8,861.5
DFA	\$2,771.0	\$375.0
GSD	\$1,470.0	\$0.0
SOS	\$1,400.0	\$1,400.0
SPO	\$2,070.0	\$0.0
RLD	\$1,400.0	\$0.0
OSE	\$1,300.0	\$1,300.0
HSD	\$9,600.0	\$6,200.0
NMED	\$350.0	\$2,708.5
CYFD	\$4,836.2	\$0.0
NMCD	\$8,500.0	\$250.0
DPS	\$2,500.0	\$0.0
TOTAL	\$57,353.7	\$21,275.0

Note: Some agency requests are for multiple projects and amounts shown include all funding sources.

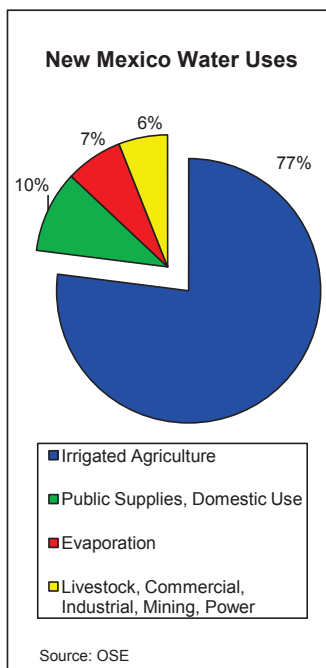
Source: LFC Files

The Secretary of State was inconsistent in its use of project management best practices, creating unnecessary risks for the project.

The Human Services Department's ASPEN benefits IT project is a model for best practices in project management and oversight.

Natural Resources

New Mexico continues to receive less-than-average annual precipitation. Although the state received above-average monsoons in the past two summers, the drought persists. In 2014, these rains increased storage levels at Elephant Butte and Caballo reservoirs, but only to 8.5 percent and 14 percent of capacity, respectively.



Managing New Mexico's natural resources requires a balance between protecting the environment for future generations while maximizing the economic benefits natural resources provide. Oil production surged in recent years, leading to increased economic activity and state revenues while also raising concerns about water quality and other environmental impacts. At the same time, most of the state is suffering through a prolonged drought that threatens both industry and the natural environment.

Water Management

The ongoing drought in New Mexico highlights the variability of water supplies in the state and the great challenges facing water managers. This uncertainty, more pronounced during drought years but ever-present, demands long-term planning to ensure the state's water supply is resilient and flexible.

Recognizing this, the Legislature, in 2014, appropriated \$89 million for more than 300 water and wastewater projects. In anticipation of additional water funding initiatives in future years, a "water infrastructure team" is working to develop a plan to address critical water system needs. The New Mexico Environment Department is leading this effort, which includes representatives from executive and legislative agencies and nonprofit community assistance organizations. The team is focusing on four key goals: a priority list of statewide needs, an annual budget for water projects, a plan to provide technical capacity to participating entities, and a process for communities to implement asset management plans. Outcomes of the team's work will be presented to the Legislature during the 2015 legislative session.

Priority Administration. The state constitution mandates priority administration of water rights by users' seniority; however, the state is not prepared should it need to enforce this rule. Adjudications, which establish who legally owns the water and how much, continue at a glacial pace. Moreover, strict priority administration of water rights, even in fully adjudicated basins, has the potential to cause hundreds of millions of dollars in damage to the economy as junior users face the possibility of being cut off completely.

Several recent court decisions emphasize the Legislature's crucial role in crafting water policy, notably the Supreme Court decision affirming the State Engineer's statutorily granted authority to implement Active Water Resources Management. Innovative water management takes legal, social, economic, and environmental perspectives into account and includes alternative administration, such as water leasing and shortage-sharing agreements, in efforts to share limited supplies.

Growing Demand. Water rights application backlogs continue to grow despite increased staffing levels, negatively impacting economic activity. High oil and gas exploration and production in the Permian Basin, ongoing adjudications, and pending litigation regarding inter-basin transfers are testing the capacities of New Mexico's water managers and policymakers. Beyond intrastate management decisions, New Mexico's interstate compact obligations and study of a possible diversion project to be funded under the Arizona Water Settlement Act (AWSA) loom.

Water Research

In addition to the governor and Legislature's investment in water infrastructure projects during the 2014 legislative session, the Water Resources Research Institute (WRRI) received a large budget increase in FY15. This funding was intended to support WRRI's aggressive plan to develop a statewide water budget, assess brackish groundwater, research hydraulic fracturing extraction techniques, and examine desalination technologies. The FY15 operating budget included funds for WRRI to connect researchers with industry and water managers, increase staff, and fund faculty and student research grants.

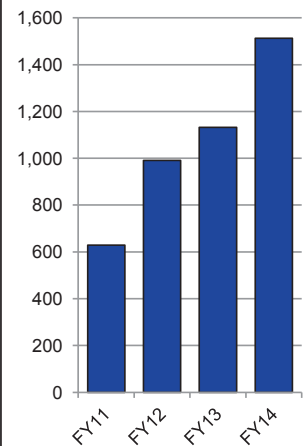
Improved Planning. Essentially all of the more than 300 participants at New Mexico First's April 2014 town hall on water planning and use supported improved planning efforts. The state should promote long-term water planning and budgeting, while maintaining short-term adaptability to address contingencies. The Office of the State Engineer continues working to update regional and state water plans, specifically by identifying the regions' water supply and demand. Updated regional plans are expected in the first half of 2015, after which the state water plan will be updated with the revised regional plans.

Interstate Compacts. Claiming widespread groundwater pumping in the lower Rio Grande Valley south of Elephant Butte Reservoir reduced deliveries at the New Mexico-Texas border in violation of the Rio Grande Compact, Texas filed suit in the U.S. Supreme Court in January 2013. The federal government intervened in March 2014, arguing that certain New Mexico water users in the Lower Rio Grande must obtain a contract from the U.S. Bureau of Reclamation (BOR) to pump groundwater within the boundaries of the Rio Grande Project. New Mexico's motion to dismiss, and related matters, will be heard when the court assigns a special master to the case. Losing this case would place enormous pressure on Southern New Mexico farmers who rely on the Lower Rio Grande to irrigate their crops.

Gila River Diversion. Under the Arizona Water Settlement Act (AWSA), enacted by Congress in 2004 to resolve water use disputes among Arizona, New Mexico, and Native American communities, New Mexico has the option to use \$66 million in federal funds, adjusted to reflect inflation, to meet water supply demands in Catron, Luna, Hidalgo, and Grant counties. New Mexico is eligible to receive an additional \$34 million to \$62 million because, in November 2014, the Interstate Stream Commission (ISC) elected to notify BOR of its intent to construct a project to divert additional Gila River water.

Under the AWSA, New Mexico has the authority to use up to 14 thousand additional acre-feet of water from the Gila and San Francisco rivers, although it must ensure an equal amount of New Mexico water is available to the

Number of
Unprotected and
Unaggrieved Water
Rights Backlogged



Source: OSE Reports

Oil and gas activity and the ongoing drought have led to an increase in water rights applications to the Office of the State Engineer, causing the application backlog to grow in FY14 despite increased staffing levels.

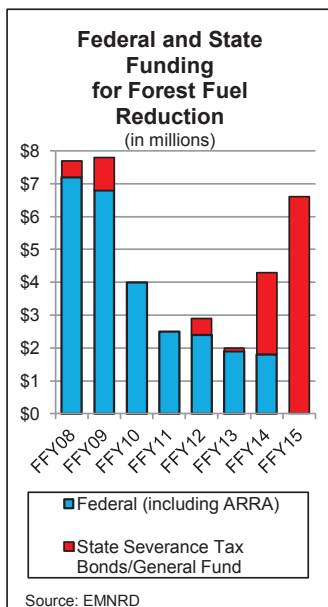
Natural Resources

Central Arizona Project on the Colorado River to compensate downstream users across the state line. New Mexico would have to find other funding to cover the costs of a diversion project exceeding the \$100 million to \$128 million available in federal funds. Estimates on the cost of the project have ranged from \$200 million to \$1 billion, with Interstate Stream Commission contractors estimating costs from \$575 million to nearly \$650 million.

While ISC elected to notify BOR of its intent to construct a diversion project, it did not commit the state to future spending. Rather, this allowed use of additional funds for a diversion project. In the meantime, New Mexico can use the funds to continue studying the potential cost and water availability. Required federal studies could take another five years to complete.

Impact of Federal Activity on Natural Resources Management

More than 40 percent of land in New Mexico is owned by the federal government, and federal decisions to list species as either threatened or endangered impact land management throughout the state. In 2014, the federal Fish and Wildlife Service (FWS) declared the lesser prairie chicken as threatened and the New Mexico meadow jumping mouse as endangered. These declarations, and the federal constitution, limit the role of New Mexico's policy makers and other stakeholders in land management decisions. In past years, cooperative agreements between landowners and FWS obviated the listing of species, specifically the dunes sagebrush lizard in 2012. While similar agreements did not prevent FWS from listing the lesser prairie chicken as threatened in 2014, aggressive conservation efforts by the New Mexico Department of Game and Fish and its partners sufficiently enhanced or restored Rio Grande trout habitat to prevent that species' listing. Continuing to work toward conservation agreements to prevent the listing of additional species will maximize New Mexico's voice and autonomy in natural resources management and related economic development opportunities.



Fires, Forests, and Watershed Health

Watershed health impacts water supply, not only because it determines how much water reaches the stream system but also because a drought stricken forest is vulnerable to fire. The threat of forest fires highlights the importance of hazardous fuel reduction across private and public land. Despite sharp decreases in federal funding, targeted federal initiatives in FY14 helped New Mexico's forest managers increase firefighter training and forest and watershed restoration efforts. To mitigate this decrease, the Legislature significantly increased funding for watershed restoration and wildfire mitigation at urban forest interfaces in FY14 and FY15. Still, the number of acres treated decreased by more than one-third in FY14 and fell well short of the acreage experts estimate should be treated annually to thin overgrown forests so they are more resilient to fire, drought, insects, and disease.

Severe forest fires in recent years led to evacuations, structural damage, public health costs, and declining tourism. On top of these direct costs, post-fire flooding impacted the quality of watersheds, highlighting the need to secure clean water supplies for New Mexicans. Wildfires damage soil, making affected areas more prone to erosion and evaporation and carrying sediment and ash into rivers and streams, damaging water quality, clogging treatment plants, and negatively impacting fishing and recreational activities. New Mexico should leverage U.S. Department of Agriculture Emergency Watershed Protection Program funds to protect drinking water and prevent catastrophic damage to watershed health caused by flooding and erosion in the aftermath of forest fires.

Energy Development

New Mexico's abundant natural resources – solar, wind, geothermal, and oil and natural gas – provide wide-ranging economic development opportunities.

Renewable Energy. New Mexico ranks second in the nation for solar-generated electric power production capacity and 12th in potential wind-generated electric power production capacity. New Mexico can reap the economic benefits from this potential as demand increases. Other states, notably California, will need to import more electricity in coming years to meet renewable portfolio standards.

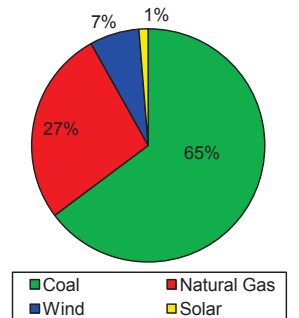
However, exporting large amounts of renewable power currently is not viable because of limited transmission capacity, bottlenecks, and long interconnection paths. Because renewable energy is generated far from major load centers and export markets, New Mexico needs to develop the necessary infrastructure. Several independent transmission projects are in various stages of development and routing. While upgrading New Mexico's existing grid offers substantial opportunities, including diversification of revenues and job creation, it also presents challenges in the form of environmental concerns and obtaining rights of way through federal and tribal lands.

SunZia Transmission is working with New Mexico, Arizona, and federal authorities to construct infrastructure to transport electricity to western power markets and load centers. The project would enable the development of renewable energy resources, including wind, solar, and geothermal generation by creating access to the interstate power grid. In 2014, stakeholders agreed to bury five miles of line to address the federal White Sands Missile Range's objection to transmission lines where training operations occur.

Oil Production Surging. After reaching a low-point during the Great Recession, oil production in New Mexico increased by 54 percent since 2010. Technological advances, such as horizontal drilling and hydraulic fracturing, allow companies to tap supplies previously unprofitable to develop, and New Mexico ranked sixth in oil production in 2013. This activity is a key source of revenue for New Mexico and demands an enhanced level of service from state agencies working with and providing oversight of industry.

Although nearly all of the oil production is occurring in the Permian Basin of Southeastern New Mexico, there are some signs that the San Juan Basin in the state's northwestern corner may pick up. As of October, the federal Bureau of Land Management was working to revise its resource management plan to address issues related to the development of Mancos Shale oil in the southern San Juan Basin and had leased 90 percent of 1.4 million acres for oil and gas production. Moreover, Western Refining plans to reactivate a pipeline to move thousands of barrels of oil daily from the Four Corners region to the Permian Basin and Texas refineries. However, signals are mixed; BP recently put 2,200 wells in the region up for sale.

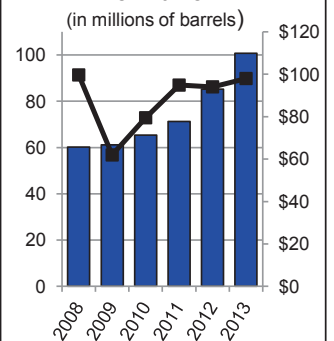
New Mexico Net Electricity Generation by Fuel Type, FY14



Source: U.S. Energy Information Administration

New Mexico's Renewable Portfolio Standards require that 20 percent of all electricity sold by investor-owned electric utilities, and 10 percent sold by cooperatives, come from renewable energy resources by 2020.

New Mexico's Oil Production & Price Per Barrel

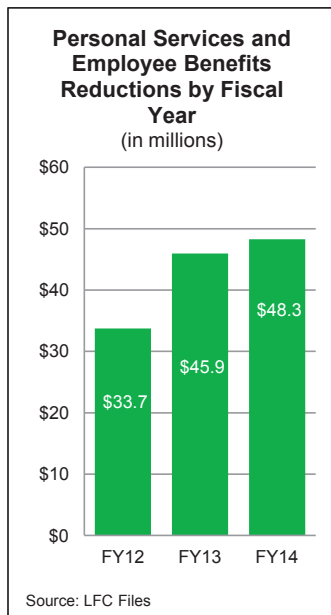


Source: U.S. Energy Information Administration

New Mexico's annual oil output increased 54 percent between 2010 and 2013, surpassing pre-recession highs and ranking sixth among other states. Natural gas production has not recovered as quickly and in 2012 was at its lowest point since 1991. However, natural gas production slightly increased in 2013.

Government Administration

The State Personnel Office reports the classified service salary structure is at least 18 percent behind the market.



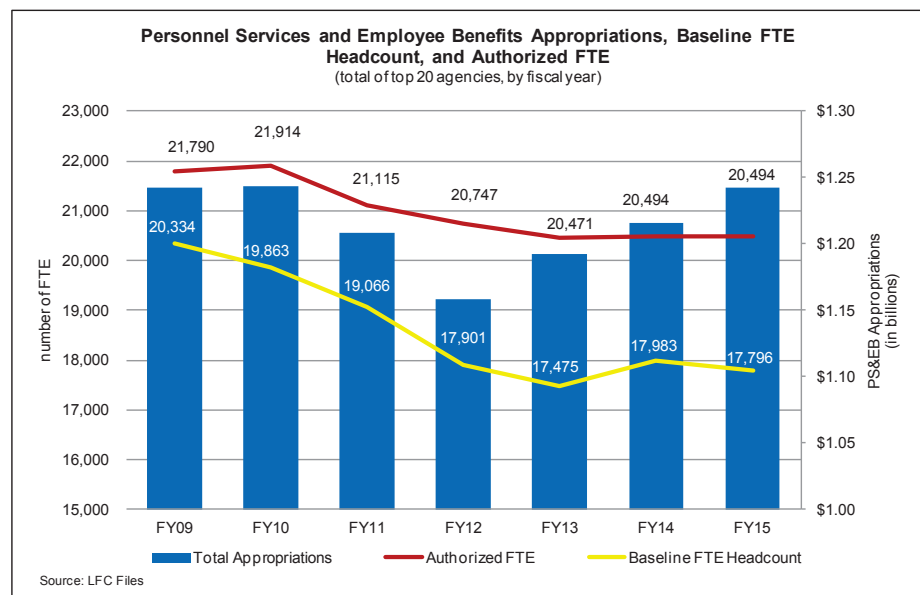
How well government performs is directly linked to the work-product of individual employees. To deliver high-quality services to New Mexico residents in a consistent timely manner, the state must recruit, reward, and retain qualified, high-performing employees with a competitive compensation package.

Background

Despite improved new employee retention rates and a shortened time to fill vacant positions, state employment levels remain over 3,000, or 13 percent, below FY08 peak levels. The leveling in the overall number of state workers occurs despite significant year-over-year growth in agency budgets, increased starting salaries, and the 2013 and 2014 salary increases.

Lower employment levels persisted since FY12, suggesting the current employment level is a trend that will continue. This employment level paradigm will require the Legislature and the executive to decide whether funding for vacant positions should be redirected to other purposes.

In response to stagnant compensation levels and rising vacancy rates, the Legislature in 2014 appropriated \$107 million for compensation increases in FY15, including a 3 percent cost of living adjustment (COLA) for all state and public and higher education employees. Additional amounts were appropriated for caseworkers, judges, juvenile justice employees, and public safety officers. The Legislature in 2013 appropriated \$33 million for an average 1 percent salary increase for all state employees and a 3 percent salary increase for commissioned state police and Motor Transportation Division officers.



Government Administration

The recent COLAs improved salary adequacy in aggregate but did not sufficiently address the variance between agencies and jobs. The current pay plan places jobs into pay ranges based on job complexity but does not account for varying levels of market demand for skills, resulting in high-demand jobs compensated under the market rates while lower-demand jobs may pay better than market rates.

Salary Comparison

The State Personnel Office (SPO) makes two kinds of salary comparisons. The first compares New Mexico state salaries with the national market, including private sector employers, using a point system that allows a comparison of jobs with similar responsibilities. The second compares New Mexico state salaries with public sector salaries in neighboring states.

National Market Comparison. In the 2013 annual compensation report, SPO reported New Mexico state salaries are significantly behind U.S. national market rates by 18 percent on average and lag the U.S. market at every pay band. The disparity between New Mexico state salaries and the U.S. market is due, in part, to the current salary schedule, which sets pay rates considerably under market rates and results in difficulty in attracting, retaining, engaging, and rewarding employees.

Pay Band	NM Policy	US Market	Percent Difference
25	\$ 18,246	\$ 20,917	-12.8%
30	\$ 22,012	\$ 26,431	-16.7%
35	\$ 24,292	\$ 29,769	-18.4%
40	\$ 26,969	\$ 33,687	-19.9%
45	\$ 30,141	\$ 38,330	-21.4%
50	\$ 34,007	\$ 43,990	-22.7%
55	\$ 37,764	\$ 48,624	-22.3%
60	\$ 41,632	\$ 52,207	-20.3%
65	\$ 46,203	\$ 56,442	-18.1%
70	\$ 51,759	\$ 61,589	-16.0%
75	\$ 58,299	\$ 67,648	-13.8%
80	\$ 66,035	\$ 74,815	-11.7%
85	\$ 75,388	\$ 83,481	-9.7%
90	\$ 86,430	\$ 93,710	-7.8%
95	\$ 99,651	\$ 105,958	-6.0%
96	\$ 115,405	\$ 120,553	-4.3%
97	\$ 134,182	\$ 137,949	-2.7%
98	\$ 156,546	\$ 158,667	-1.3%

Source: SPO

Regional Public Sector Comparison. When comparing New Mexico state employees to other public employees in the region, SPO uses a set of

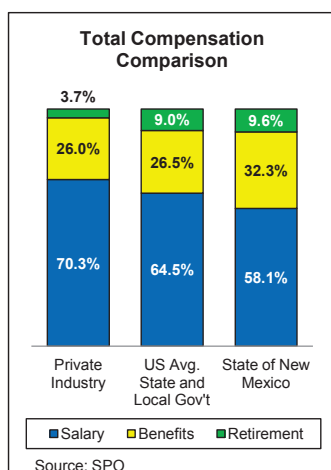
Eight-State Comparator Market Salary Ranking	
Wyoming	\$ 84,653
Utah	\$ 79,407
Colorado	\$ 78,547
New Mexico	\$ 72,156
Nevada	\$ 72,000
Arizona	\$ 70,790
Oklahoma	\$ 60,644
Texas	\$ 59,987
Kansas	\$ 58,803

Although SPO reports New Mexico state employees are 18 percent behind the national salary market, the state is ranked favorably when compared with public employees in the eight surrounding states. However, some job classifications are behind both benchmarks, indicating a need for targeted salary adjustments.

Government Administration

Eight-State Comparator Market Total Compensation Ranking		
Colorado	\$	52,270
Wyoming	\$	47,922
Nevada	\$	46,446
Utah	\$	45,749
New Mexico	\$	41,912
Texas	\$	40,310
Kansas	\$	36,356
Oklahoma	\$	36,314
Arizona	\$	35,422

Source: SPO, 2013



benchmark classifications, or jobs, representing a variety of occupations and complexity levels. SPO then compares salaries in New Mexico with an eight-state comparator market of Arizona, Colorado, Kansas, Nevada, Oklahoma, Texas, Utah, and Wyoming.

Despite New Mexico state salaries lagging the national market, New Mexico compares favorably to the eight surrounding states in SPO's comparator market. In terms of salary, New Mexico ranked fifth, and in terms of total compensation, ranked fourth as shown in the sidebar.

Benefit comparison. The difference in rankings between salary only and total compensation is a function of New Mexico state employees' benefits, including pension, health insurance, and retiree health care. In New Mexico, state workers receive 58 percent of total compensation in salary and 42 percent in a benefit package, compared with a national average for state and local government workers of 64.5 percent of total compensation in salary and 35.5 percent in benefits. The largest single difference in benefits between state workers in New Mexico and nationally is health insurance. New Mexico workers receive 18.2 percent of total compensation in health insurance benefits, while nationally, insurance makes up 12.2 percent of total compensation.

When compared with the private sector, the ratio of the benefit portion of state employee total compensation becomes larger; workers in private industry receive 70 percent of total compensation in salary and 30 percent in benefits.

The mix of salary and benefits in terms of total compensation suggests a portion of salary inadequacy is offset by a richer benefit package for state workers in New Mexico. However, some high-demand positions are compensated well below the eight-state average. For example, New Mexico state technical support specialists are 9 percent to 36 percent under market, probation officers are 23 percent to 32 percent under market, nurse practitioners are 11 percent under market, and correctional officers are between 12 percent and 19 percent under market.

Addressing Recruitment and Retention

Agency-Driven Salary Increases. To recruit and retain quality employees, agencies have resorted to the use of reclassifications and alternative pay bands (APB) to allow salaries to be paid in excess of the pay schedule. Agencies have increasingly relied on the use of APB to provide competitive salaries; at the close of 2013, SPO estimated 31 percent of the state's job classifications were assigned to an APB. In addition, misclassification of jobs has become increasingly common. SPO estimates as many as 50 percent of management positions are misclassified; the duties of many positions classified as managers do not require management skills or experience, but rather, the classification was used as a "work around" by the agency to provide justification for salary increases.

Government Administration

Both the use of APB and the tendency of agencies to classify non-managers into management positions to justify salary increases reflect the need to update the current pay plan, essentially unchanged since adoption in 2001.

New Pay Structure. In response to the disconnect between market rates and state salaries, SPO proposed, and the State Personnel Board approved, a new “occupationally-based” salary structure. The new structure will place state employees into one of 16 occupational groups, each with its own pay plan, consisting of architecture, engineering and surveying; business and financial occupations; community and social services; education and training; cultural affairs; grounds-keeping and cleaning; health care; information technology; skilled trades and labor; legal; office and administrative support; protective services; human resources; healthcare support; transportation and materials moving; and life and physical sciences and technical.

These new groupings allow SPO to account for changes in market salary rates and provide a more targeted strategy for increasing employee pay. Further, it allows policymakers to address problems in recruitment and retention in specific occupations and agencies and propose salary increases to correct them.

This approach is used by many western states, including California, Texas, Idaho, Nevada, Wyoming, South Dakota, Colorado, and Montana.

Implementation. Throughout fall 2014, SPO worked to identify which and how many employees are in each occupational group, how far salaries for those occupational groups were under market rates, and develop a plan to address salary deficiencies. The new occupational groups have new pay ranges, which are narrower to provide less variance in salary among similar or identical jobs. Although the occupationally-based system has been formally adopted and SPO has begun implementation, the implementation will be cost-neutral until appropriations for compensation are adopted.

Solvency of Post Employment Benefits.

Public Employee Post-Employment Benefits. Legislation signed into law in 2013 and 2014 put the Public Employees Retirement Association (PERA) and Educational Retirement Board (ERB) pension systems on a sustainable path for over 200 thousand retirees, public employees, teachers, judges and magistrates (and future hires) by increasing contributions and reducing benefits. The legislation was in response to deteriorating funding levels for the pension funds. The changes are expected to help the funds reach a 100 percent funded level within 30 years, assuming investments over the long-term earn the current *discount rate* of 7.75 percent and future legislation changing retirement rules or benefit structures do not erode the gains made.

The Impact of Discount Rates. The discount rate is the net present value of future pension benefit obligations. If a pension plan has enough assets today and anticipated contributions to pay all benefits for the foreseeable future, the plan may use its long-term earnings assumption as its discount

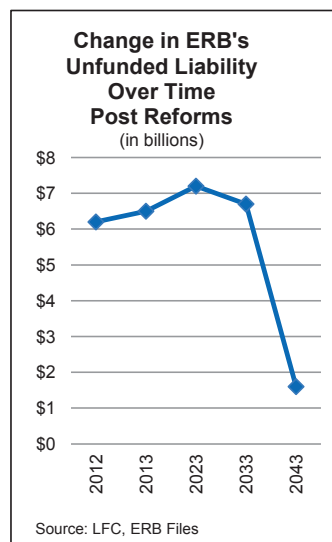
The Social Security Administration announced a 1.7 percent cost of living adjustment (COLA) for benefits in 2015 and anticipates a 2.2 percent COLA in 2016.

For each dollar paid by the state of New Mexico in salary, employees receive an additional 72 cents in benefits

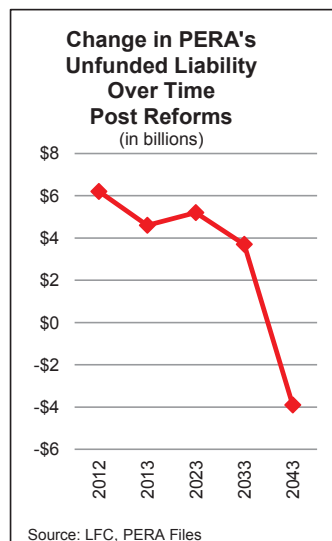
A 1 percent COLA for all public employees, including those in public schools and higher education, would cost approximately \$47.1 million, including \$34.1 million from the general fund.

This year ERB saw an *increase* in retirements (1,289 compared with 1,243 last year) and PERA a *decrease* in retirements (2,170 compared with 2,525 last year).

Government Administration



Because the PERA fund is projected to reach a 100 percent funded level earlier than expected, some taxpayer-funded employer contributions could be reduced.



rate. Discount rates are highly controversial, and with good reason. For example, when the state reduced its discount rate from 8 percent to 7.75 percent in 2011, the small adjustment added \$850 million to the state's unfunded pension liability. A study by the Society of Actuaries, a national industry group, concluded that public plans should use an expected investment earnings assumption that they believe can be achieved over the next 20- to 30-year period with a 50 percent probability. According to the National Association of State Retirement Administrators, the median return assumption is currently 7.75 percent. In a low-inflation, low-interest rate environment, this may be optimistic.

Benefits. Policymakers have opportunities to reduce costs for pension plans. For example, PERA's benefit calculation for new hires (2.5 percent \times years of service \times final average salary), although reduced from 3 percent due to pension reform, is still one of the most generous, with many states ranging from 1.5 percent to 2.5 percent. In addition, the annual COLA at 2 percent, although phased in over seven years, is provided irrespective of age or inflation. The savings attributable to changing the COLA to one that is based on inflation and a minimum age to receive a COLA of at least 65 – as is exercised by ERB – could be substantial and COLAs are not a property right until paid. Aligning retirement eligibility closer to when one receives Social Security and Medicare would benefit not only the pension plans, but also retiree health plans administered by the Retiree Health Care Authority.

Closing Loopholes. Closing loopholes could also further enhance the pension funds. This is especially important for ERB because of the temporary reduction in the COLA formula until the plan is 90 percent funded. Changes could include requiring PERA retirees who go to work for an ERB-affiliated employer to pay contributions, capping how long one can work under return-to-work (RTW) programs, and strengthening anti-spiking laws to reduce the negative impact from employees receiving large pay increases before retiring.

Return-to-Work. About half of the 3,300 retirees in ERB's RTW program are teachers and half are administrators and other school employees. The purpose of the program was to allow highly effective teachers, especially in math and science fields, the option to work without suspending their pension. Under the program, most re-employed ERB retirees make contributions to the fund; however, employers and their employees working less than quarter time or earning less than \$15 thousand are not required to make contributions, nor are PERA retirees who work for schools after retirement. Under a loophole, they collect both a pension and a salary and do not contribute to the fund.

Each year, legislation is proposed to expand PERA's RTW program for public safety needs. The provisions in these bills are never temporary, rarely cost neutral to the fund, and could entice employees to retire earlier which means pension benefits would be paid out longer, having a negative effect on the fund. Presently, to be eligible to return to work under PERA's RTW program, a retired member must complete a 12 month break in service. After 12 months, the retiree has two options: suspend their pension and elect not to make contributions or earn service credit or suspend their pension and elect to

Government Administration

make contributions and accrue additional service credit, which makes them eligible to have their final average salary recalculated after their re-employment ends. Some temporary staff, such as legislative session and election poll workers are exempt from RTW rules, as are elected officials.

RETIREMENTS BY TYPE						
	State General	State Police & Corrections	Municipal General	Municipal Police	Municipal Fire	Total
FY14	1,011	83	796	179	101	2,170
FY13	1,285	60	933	177	70	2,525
FY12	1,075	83	761	183	86	2,188
FY11	1,005	90	767	166	98	2,126
FY10	858	67	741	166	77	1,909
FY09	599	71	510	113	60	1,353

RTW BY TYPE						
	State General	State Police & Corrections	Municipal General	Municipal Police	Municipal Fire	Total
FY14	282	3	286	159	16	746

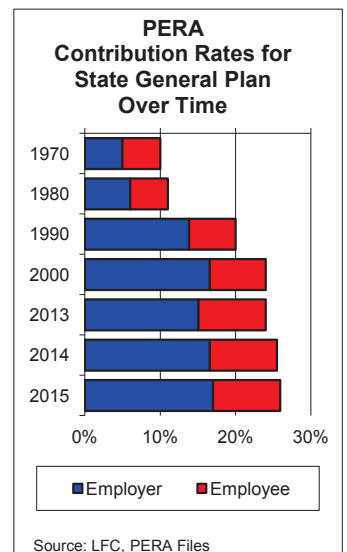
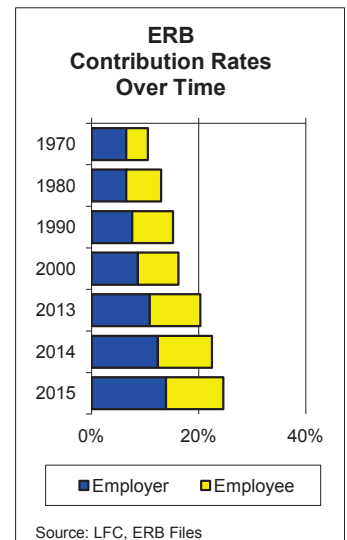
Source: LFC Files, PERA

Impact of Union Settlement on Pension Benefits. PERA has been working with the Department of Finance and Administration to adjust pension benefits as a result of the union back-pay settlement. This is because the audit conducted by the General Services Department to validate the methodology for the back-pay calculations did not include pension amounts. Active PERA members will have their PERA account balances adjusted to reflect back wages. For affected members who have since retired, PERA may need to recalculate final-average-salary calculations and pension benefit amounts, which could take some time and be costly to recalculate. Retirees entitled to an increase in their benefit amounts will receive a retroactive adjustment.

Governmental Accounting Standards Board Changes. The Governmental Accounting Standards Board (GASB) approved changes that not only apply to plans such as PERA and ERB that administer pension benefits, but also to participating employers that provide pension benefits to employees. A major change is a requirement that employers participating in multiemployer cost-sharing plans report their portion of the plans' total unfunded liability on financial statements. Failure to do so could impact the ability for local governments to issue bonds. PERA and ERB will be expected to provide this data to employers and schools as soon as practical, to allow enough time to incorporate pension liabilities into future financial reports.

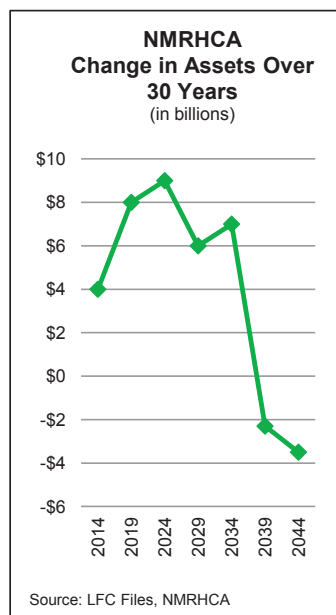
Proposed GASB Changes for Other Post-Employment Benefits. GASB also proposed draft guidance for the reporting of health insurance and other benefits for retirees (OPEB). Just as GASB's new pension standards require employers that offer defined-benefit pension plans report their net pension liability in financial statements, the GASB draft guidance would also require OPEB plans, such as that managed by the Retiree Health Care Authority (RHCA) and its participating employers, to recognize net OPEB liabilities in much the same way. Local governments' OPEB liabilities could exceed their net pension liabilities because these entities do not often set aside money to pay OPEB promises. However, OPEB liabilities can be lower than pension liabilities, depending on how soon retirees become eligible for Medicare.

Retiree Health Care Authority Solvency. RHCA provides subsidized medical and life insurance and retiree-paid dental and vision benefits to more



RHCA has grown its trust fund to close to \$400 million; the plan is now 10 percent funded, up from 6 percent, which puts the program ahead of most states which have set aside only five percent on average to cover retiree health.

Government Administration



than 50,000 retirees and dependents. The benefit is not a constitutionally protected property right, although employees make nonrefundable payroll contributions for an expected future benefit. Financing is from retiree premiums, payroll and employer contributions, and other revenue including an annual tax suspense fund distribution. Employees work five years to qualify for a premium subsidy, the maximum of 50 percent given at 20 years.

Actuarial Condition. In 2033, projected annual revenues to the OPEB program will begin to fall short of projected expenditures and RHCA will need to start taking money from long-term reserves and investments to cover claims and administrative costs. Upward pressures include tax revenue shortfalls, declining public payroll, growth in retiree membership, increasing healthcare costs, and the uncertainty of the impact of healthcare reform.

RHCA Board Action. Over the past five years, changes have preserved the benefit for a rolling 15-year period. This summer, the board approved changes that reduce spousal subsidies, establish a minimum age of 55 to receive a subsidy, increase years of service to receive a maximum subsidy, and begin phasing out the life insurance subsidy. Changes to eligibilities affect new retirees after 2020 (public safety excluded). These changes support a positive fund balance through 2033. In 2015, the Legislature will be asked to increase contributions from 3 percent to 4 percent of payroll. This change, if enacted, would support a positive fund balance until about 2040. Once the 25-year solvency goal is attained, the benefit plan will be about 50 percent funded.

Unintended Consequences for RTW Programs

When RTW was first implemented, actuaries working for the pension funds said it would be cost neutral as long as contributions continued to be paid to the funds. However, an unintended consequence began to emerge that would negatively impact financial solvency over time. RTW programs were encouraging some employees to retire earlier than they might have otherwise. There was no incentive to work until one reached their pension maximum, when the opportunity to receive both a pension and a salary was available by retiring and returning to work.

Among the most important decisions a government investment agency can make is where to invest the public's money. Responsible asset allocation results in a diversified portfolio that balances risk and return. However, the more an agency turns to alternative investments to increase potential returns, the more it must provide due diligence. New Mexico's investment agencies – the Educational Retirement Board (ERB), Public Employees Retirement Association (PERA) and State Investment Council (SIC) – have recently adjusted their investment policies to increase alternative investments and, in turn, have had to increase their use of expensive active managers. While near-term performance on all the funds has been promising, long-term returns have been below their targets and below similar funds.

Performance Overview

Returns on the state's four investment funds, the two pension funds and the land grant and severance tax permanent funds invested by SIC, were solid with double digit percentage gains in FY14. While impacted by the economic downturn in 2009, aggregate fund value increased by more than \$5.3 billion, or 13.6 percent, representing the net effect of contributions, distributions, and investments returns for the one-year period ending June 30, 2014.

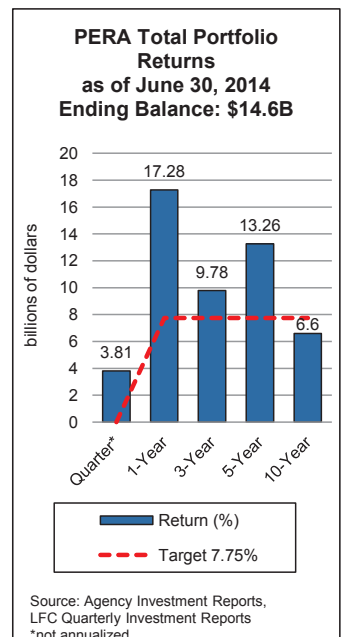
Asset Values for Year Ending June 30, 2014					
(in billions of dollars)					
Annual	ERB	PERA	LGPF	STPF	Total
Asset Values	11.3	14.6	14.2	4.6	44.7
Value Change	1.1	1.7	2.1	0.5	5.3
Percent Change	11.3%	12.8%	17.0%	11.3%	13.6%

Source: Investment Agency Reports

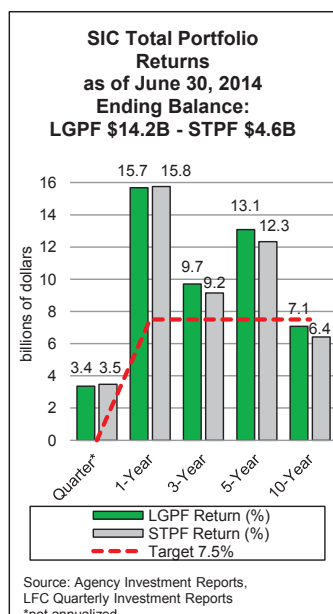
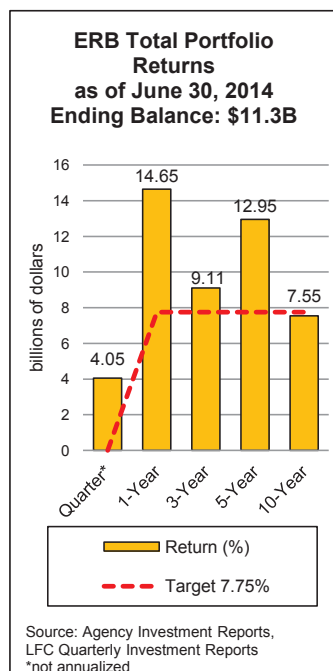
Short- and Long-Term Returns. Differences in the performance of the three investment agencies can be explained by how the returns generated by these agencies differed from that of the archetype fund and how management and consultants added or subtracted value.

The one-, three-, and five-year returns exceeded the investment agencies' respective annual targets, 7.5 percent for SIC and 7.75 percent for ERB and PERA. Ten-year returns fell short of long-term targets because they reflect investment performance during the global financial crisis. Also, long-term returns were exacerbated by policy restrictions that, at the time, did not allow asset allocations to invest in potentially more profitable but riskier alternatives.

Final FY14 figures for the land grant and severance tax permanent funds and the state's two pension funds show investment returns for the one-, three- and five-year periods exceeded their long-term targets of 7.5 percent and 7.75 percent. Ten-year returns fell short of the targets, because of the recession and partly because past investment policies made the portfolios sensitive to market volatility

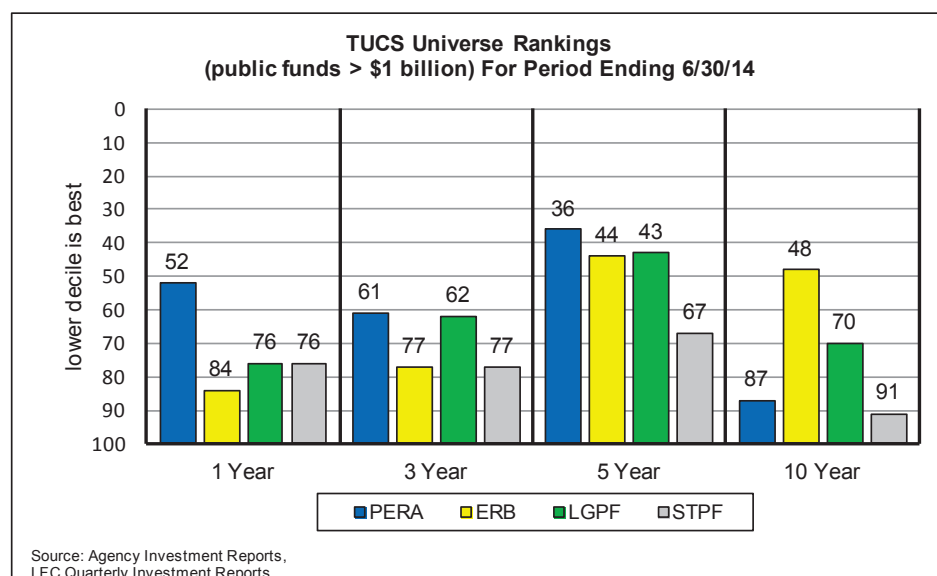


Investments Report



Peer Comparisons. The funds' performances are mixed when compared with other similar public funds. All but the severance tax permanent fund outperformed the median of the peer funds in the five-year period but none did better than the median in the one-, three-, and 10-year periods.

Staff at the investment agencies notes their long-term performance rankings are affected by rules guiding asset allocation in place at the time, as well as the recession. SIC, ERB, and PERA have since diversified their portfolios through investment in alternative assets, like hedge funds and private equity.



To compare the three funds on the same basis, analysts use the Wilshire Trust Universe Comparison Service (TUCS), a benchmark for the performance and allocation of institutional assets that includes approximately 77 public funds with more than \$1 billion in assets.

Attribution Analysis. New Mexico's investment returns were affected, both positively and negatively, by three basic "effects" that reflect the impact of investment decisions. The "policy effect" is a reflection of an investment agency's strategy on how to allocate its assets, including its aggressiveness in investing in growth assets, such as stocks. Measured in isolation against a defined peer group, it is an essential responsibility of a fund's trustees.

The "allocation effect" is the impact on the fund by the agency's deviation from its allocation policy and is the difference between a fund's temporary and long-term asset allocation.

The "manager effect," which comes into play when a portfolio is actively invested, is the difference between the return on the index and the return on the portfolio of an active manager.

Policy Effect. PERA's policy index lagged the median fund by 0.19 percent and by 1.55 percent during the one- and three-year periods, respectively. ERB trailed the median fund by 349 basis points or 3.49 percent in the one-year

Investments Report

period and by 141 basis points in the three-year period. SIC's LGPF investment policy as of June 30 called for a 31 percent allocation toward domestic equities and a 15 percent allocation toward non-U.S. equities. Hence, SIC's policy index performed 94 basis points below the median fund in the one-year period. The three-year policy effect is 59 basis points above the median fund performance.

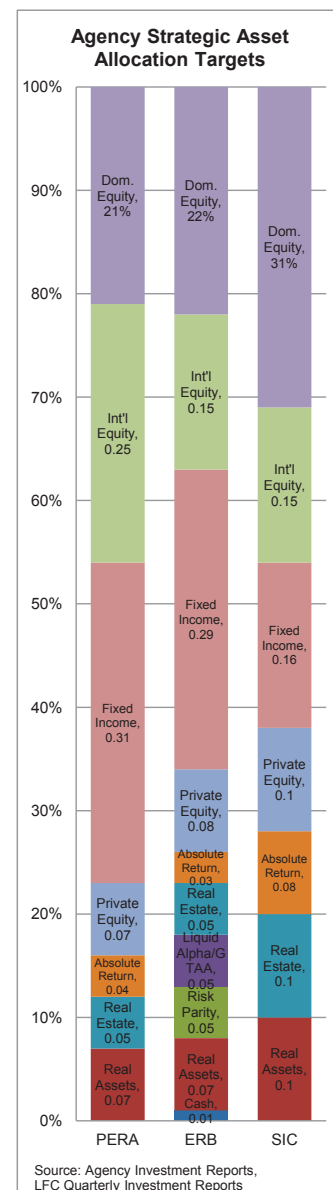
Allocation Effect. PERA's asset allocation for the one-year period added 51 basis points while a deviation from asset allocation detracted 21 basis points for the three-year period. ERB's one-year result shows a loss of 20 basis points, resulting primarily from value lost by deviation from allocation targets in alternative assets and in domestic and international equities.

Value added in opportunistic credit, risk parity, and in real estate offset losses in real assets and in international equity markets, contributing to ERB's allocation that added 10 basis points during the three-year period. The one-year allocation effect for the SIC was negative 43 basis points. SIC's investment staff notes a lowered equity exposure hindered quarterly returns, though the agency is positioned in a somewhat protective manner should the equity markets turn.

Manager Effect. PERA's 66 basis points benefit from manager effect in the one-year period was largely realized through active manager outperformance in fixed income, absolute return, real assets, and real estate. PERA's three-year manager effect of 180 basis points was largely influenced by fixed income, absolute return, real assets and domestic equity.

ERB's manager effect in the one-year period was a positive 80 basis points because of gains in private real estate and global tactical asset allocation (GTAA) and in opportunistic credit that offset losses in private equity composite, non-U.S. emerging market debt, and non-U.S. developed markets equity.

The one-year manager effect of SIC is negative 55 basis points because value added in fixed income and in absolute return was offset by value lost in private equity, non-U.S. equity, U.S. equity and real estate. SIC notes its three- and five-year manager effects are influenced by previous managers and by portfolio restructurings that have been in place for a short amount of time.



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PERFORMANCE REPORTS

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Accountability in Government

In recent years, tight budgets posed significant challenges for agencies; some used performance data to prioritize efforts and allocate limited resources. The 2016 budget year provides an opportunity to strategically address some long-standing challenges for the state; however, to make the most of the opportunity, agencies need to more effectively use performance indicators and tools, such as cost-benefit analysis, to ensure limited resources are used to cut ineffective programs and bolster effective ones.

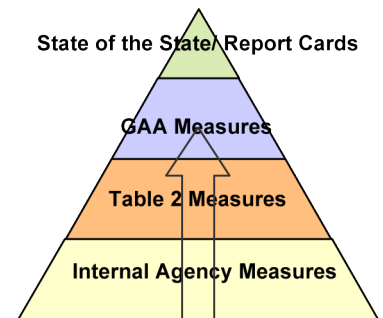
The Accountability in Government Act (AGA) traded budget flexibility for information about how state agencies economically, efficiently, and effectively carry out their responsibilities and provide services. Prior to the AGA, agency appropriations were tightly controlled by the Legislature with attention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

Report Cards. To facilitate reviews of agency performance, LFC developed a dashboard report, a report card, to add emphasis and clarity to the reporting process and focus budget discussion on evidence-based initiatives and programming. Criteria for rating performance were established with consideration for improvement or decline in performance and 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 and elements of good performance measures are reviewed on the following pages. While the report cards are generally good tools, there is room for improvement – in reporting results, measuring the right things, benchmarking to national and state data, developing corrective action plans, and making a stronger connection to agency budgets.

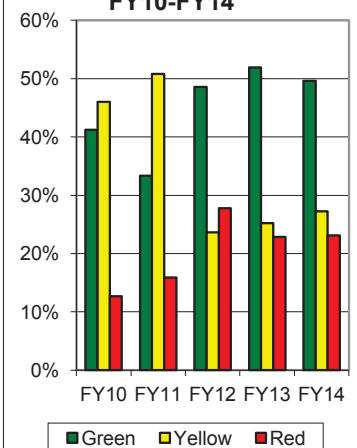
FY14 Performance and Future Outlook. Fiscal year 2014 report cards showed a slight increase in yellow ratings, a slight decrease in green ratings, and comparatively flat red ratings as agencies continue to struggle implementing evidence-based investments and strategies. Some outcome measures indicate a need to address items such as poor year-over-year job growth, reading proficiency in schools, Medicaid measures to assess quality of care and efficiency, behavioral health services, teen pregnancy rates, child maltreatment cases, recidivism rate of inmates, and water rights application backlog. Performance results continue to miss targets due to high staff vacancy rates that continue to negatively impact agencies, an outdated and uncompetitive pay structure, problems with recruitment and retention, and an elevated number of days to fill vacant positions. For FY16, agencies requested substantial funding increases; however, relatively few requests were based on results or tied to higher performance levels.

In accordance with the provisions of the AGA, the ability of LFC and its staff to improve measures is limited, as fundamental authority over performance reporting resides in the executive. The Department of Finance and Administration (DFA) approves new measures and deletes others, and LFC's role is that of consultation.

Performance Measure Hierarchy



Report Card Program Rating Performance Summary FY10-FY14



Source: LFC Files

PERFORMANCE REPORT CARD CRITERIA
LEGISLATIVE FINANCE COMMITTEE

<p>Process</p> <ul style="list-style-type: none"> • 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. <p>Progress</p> <ul style="list-style-type: none"> • Agency met, or is on track to meet, annual target. • Action plan is in place to improve performance. <p>Management</p> <ul style="list-style-type: none"> • Agency management staff use performance data for internal evaluations. 	<p>Process</p> <ul style="list-style-type: none"> • 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. <p>Progress</p> <ul style="list-style-type: none"> • Agency is behind target or is behind in meeting annual target. • A clear and achievable action plan is in place to reach goal. <p>Management</p> <ul style="list-style-type: none"> • Agency management staff does not use performance data for internal evaluations. 	<p>Process</p> <ul style="list-style-type: none"> • 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. <p>Progress</p> <ul style="list-style-type: none"> • Agency failed, or is likely to fail, to meet annual target. • No action plan is in place for improvement. <p>Management</p> <ul style="list-style-type: none"> • Agency management staff does not use performance data for internal evaluations.

ACCOUNTABILITY IN GOVERNMENT
Performance Measure Guidelines

Elements of Good Performance Measures	Agency Quarterly Reports	Elements of Key Agency Reports
<p>Ideal performance measures should be</p> <ul style="list-style-type: none"> • <u>Useful:</u> Provide valuable and meaningful information to the agency and policymakers • <u>Results-Oriented:</u> Focus on outcomes • <u>Clear:</u> Communicate in a plain and simple manner to all stakeholders (employees, policymakers, and the general public) • <u>Responsive:</u> Reflect changes in performance levels • <u>Valid:</u> Capture the intended data and information • <u>Reliable:</u> Provide reasonably accurate and consistent information over time • <u>Economical:</u> Collect and maintain data in a cost-effective manner • <u>Accessible:</u> Provide regular results information to all stakeholders • <u>Comparable:</u> Allow direct comparison of performance at different points in time • <u>Benchmarked:</u> Use best practice standards • <u>Relevant:</u> Assess the core function of the program or significant budget expenditures 	<p>Each quarterly report should include the following standard items</p> <ul style="list-style-type: none"> • Agency mission statement • Summary of key strategic plan initiatives • Program description, purpose and budget by source of funds • How the program links to key agency initiatives, objectives, and key performance measures • Action plan describing responsibilities and associated due dates 	<p>Key Measure reporting should include</p> <ul style="list-style-type: none"> • Key performance measure statement • Data source to measure key measure results • Four years of historical data (if available) • Current quarter data (both qualitative and quantitative) • Graphic display of data as appropriate • Explanation for measures 10 percent or more below target • Proposed corrective action plan for performance failing to meet target • Action plan status • Corrective action plan for action plan items not completed

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Children, Youth & Families

The earliest childhood experiences set the pathway to lifelong health and development. Quality early childhood care and development programs can address the roots of socioeconomic disparities and have long-term positive implications for public policy. New Mexico continues to focus on aligning early childhood systems to build unified approaches and support for young children and families.

Juvenile Justice. The percent of clients recommitted to a juvenile facility within two years of discharge increased slightly in FY14 but met the target. The effect of the system-wide implementation of the Cambiar model in Juvenile Justice Facilities (JJF) may not impact youth recidivism until the next fiscal year. The continued increase in incidents requiring use of force that results in injury is concerning. The Children, Youth and Families Department (CYFD) reported an action plan to implement best-practice policies to de-escalate incidents and avoid injuries that result from the use of force.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of clients recommitted to a children, youth and families department facility within two years of discharge from facilities	12.4%	9.0%	10.0%	9.7%	G
Percent of incidents in juvenile justice services facilities requiring use of force resulting in injury	1.4%	1.8%	1.5%	2.2%	R
Percent of juvenile justice division facility clients age eighteen and older who enter adult correction within two years after discharge from a juvenile justice facility	n/a	n/a	8.0%	7.1%	G
Percent of clients re-adjudicated within two years of previous adjudication	6.6%	5.8%	6.0%	6.0%	G
Program Rating					Y

Protective Services. The percentage increase in children subjected to substantiated repeat maltreatment is concerning. An LFC evaluation found 36 percent of children who are the victim of a substantiated case of maltreatment will be abused or neglected again before age 18. Additionally, according to the U.S. Health and Human Services Department, Administration of Children and Families, the national caseload average for child protective services investigators is 69 annually; however, CYFD investigators average 89 investigations per worker annually. The agency identified accurate and timely assessments of safety threats, protective capacities, risk factors, adequate staffing levels, and sufficient arrays of resources for families as a way to reduce repeat maltreatment.

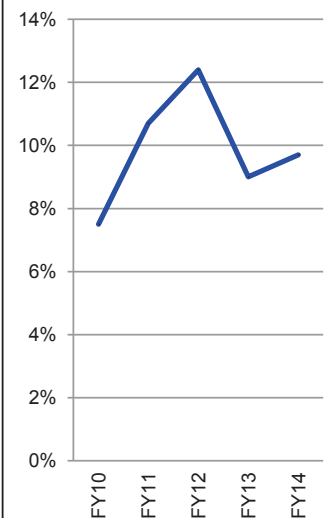
KEY ISSUES

The Children, Youth and Families Department fell short achieving targeted levels, including increase in incidents requiring use of force that results in injury and the increase in the percent of children subjected to substantiated repeat maltreatment. However, the agency has a plan to close the gap. The agency FY16 budget request increased front-end family support services to reduce repeat maltreatment.

AGENCY IMPROVEMENT PLANS

Submitted by agency? Yes
 Timeline assigned by agency? No
 Responsibility assigned by agency? Yes

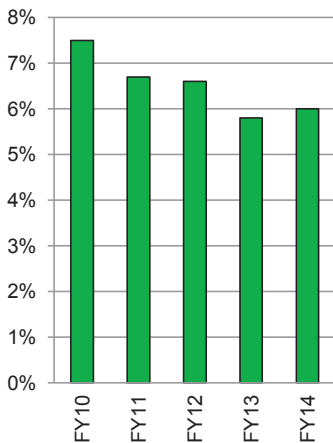
Clients Recommitted to a CYFD Facility within Two Years of Discharge



Source: CYFD

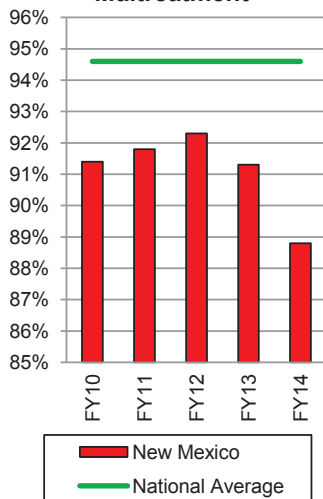
Children, Youth & Families

Percent of Clients Readjudicated within Two Years of Previous Adjudication



Source: CYFD

Children not the Subject of Substantiated Maltreatment within Six Months of a Prior Determination of Substantiated Maltreatment



*National Average 94.6%

improve outcomes for children and reduce placement in foster care. Research indicates a 10 percent reduction in child maltreatment and foster placement care could save tens of millions of dollars, and alternative response programs may be an option. Alternative Response (also called Family Assessment Response or Differential Response) is a system of responding to child abuse referrals such that, if there are no imminent concerns about a child's safety, a family assessment is conducted with the goal of engaging a family to determine strengths and needs and establishing a plan for the future, instead of requiring a determination of maltreatment or that the child is at risk of maltreatment. This system of response is perceived as less intrusive than a traditional investigation. A 2011 LFC program evaluation reported implementing a differential response system can provide better outcomes for children, more positive experiences for families, and long-term cost savings.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of children who are not the subject of substantiated maltreatment within six months of a prior determination of substantiated maltreatment	92.3%	91.3%	93.0%	88.8%	R
Percent of children who are not the subject of substantiated maltreatment while in foster care	99.5%	99.7%	99.7%	99.9%	G
Percent of children reunified with their natural families in less than twelve months of entry into care	67.3%	62.4%	71.5%	59.4%	Y
Percent of children in foster care for twelve months with no more than two placements	79.3%	76.6%	83.3%	76.8%	R
Percent of children adopted within twenty-four months from entry into foster care	35.2%	31.3%	26.8%	31.8%	G
Percent of adult victims or survivors receiving domestic violence services who have an individualized safety plan	92.8%	92.3%	93.0%	92.0%	Y
Percent of adult victims or survivors receiving domestic violence services who are made aware of other available community services	89.0%	87.7%	90.0%	87.0%	Y
Program Rating					Y

Early Childhood Services. The goal of increasing childcare quality is to improve the health and well-being of children, including school success. Research indicates evidence-based quality early care and development improves outcomes for children and highlights the need for continued investment. To achieve this, the state's early childhood development system is transitioning from a

Children, Youth & Families

workforce support system to a care-oriented system focused on early development and education. New Mexico was awarded a four-year \$37.5 million Race to the Top-Early Learning Challenge (RTT-ELC) federal discretionary grant to improve early learning and development systems for children from birth through age five. RTT-ELC childcare providers will transition to Focus, New Mexico's third-generation Tiered Quality Rating and Improvement System (TQRIS). Focus will include common program standards and comprehensive system and curriculum planning. While CYFD exceeded the target for mothers participating in home visiting and identified as having symptoms of postpartum depression, the downward performance trend is concerning and may be due to few resources in rural communities for women with symptoms of postpartum depression. The agency reported it is working with local communities to developing the infrastructure to respond to this need for services.

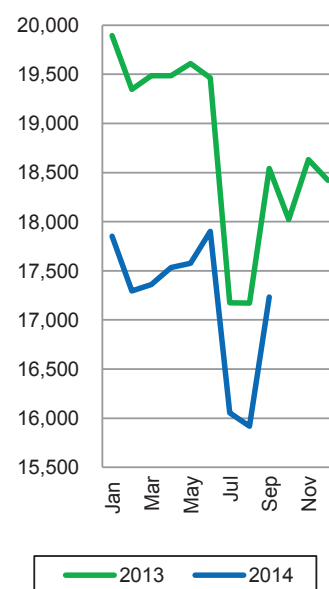
For FY16, the agency and the Legislative Finance Committee (LFC) proposed additional performance measures for the Early Childhood Services program (ECS). The department will report on the percent of infants on schedule to be fully immunized by age two, the percent of parents who show progress in practicing positive parent-child interactions, and the percent of children and licensed childcare providers participating in FOCUS levels three through five.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of children receiving state subsidy in Stars/Aim High programs level three through five or with national accreditation	n/a	39.5%	25.0%	41.1%	G
Percent of mothers participating in home visiting identified as having symptoms of postpartum depression and referred to services and receiving services	45.0%	36.7%	25.0%	30.2%	G
Percent of licensed child care providers participating in Stars/Aim High programs levels three through five or with national accreditation	n/a	32.3%	25.0%	31.6%	G
Program Rating					G

The National Conference of State Legislatures recommends establishing child protective services investigator caseload standards, so investigators have sufficient time to work with families and fully assess risks and the families' strengths as a strategy to reduce child maltreatment.

Providing support for children and families to sustain safe, stable, and predictable environments is essential for healthy brain development.

Childcare Assistance Enrollment
(as of September 2014)



Source: CYFD

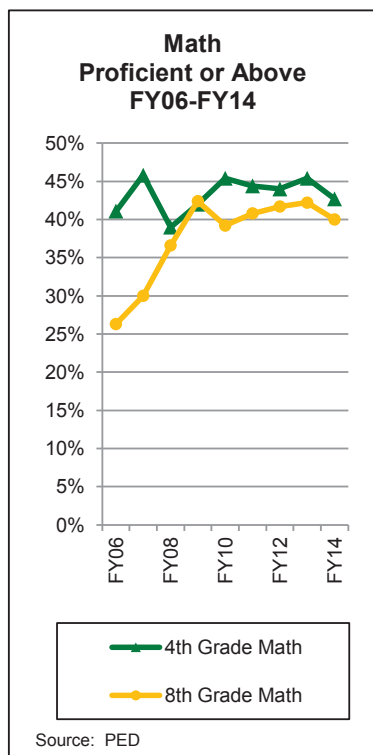
Public Education

KEY ISSUES

Public Schools fell short on achieving several performance targets, including the percent of students proficient in math and reading and the percent of graduates who require remedial education upon college entry. Additionally, the Public Education Department failed to meet the target for auditing school district and charter school data. Incremental progress is being made; however, neither the department nor school districts and charter schools appear to have a plan to significantly improve student outcomes.

AGENCY IMPROVEMENT PLANS

Submitted by agency?	No
Timeline assigned by agency?	No
Responsibility assigned by agency?	No



The strategic elements considered to evaluate the effectiveness of public schools are student achievement, student persistence, and teacher quality. Between FY06 and FY14, student performance as measured by the percent of students scoring proficient or above on the New Mexico Standards-Based Assessment (NMSBA) increased 8.1 percentage points in math and decreased 1.6 percentage points in reading. While specific groups of students showed gains in proficiency over time, data from the FY14 assessment shows modest decreases in proficiency statewide for all subgroups. Based on FY14 assessment data, 51.0 percent of students scored below proficient in reading and 59.3 percent of students scored below proficient in math. Statewide data for third-grade reading proficiency, a major focus of the Public Education Department (PED), showed a 3.4 percentage point drop from FY13.

State proficiency rates may decline over the next few years as the state implements computer-based assessments aligned to new content standards. During the 2013-2014 administration of the NMSBA, 23.1 percent of students participated in computer-based assessments and their proficiency rates were, on average, lower than students taking paper and pencil tests. PED should work to identify why student performance declined on computer-based assessments and ensure students are better prepared during the upcoming school year.

The statewide four-year cohort graduation rate remained relatively flat in FY14 at 70.3 percent, falling shy of the 75.0 percent target. However, increases in the graduation rate show the achievement gap closing modestly for Hispanics, Native Americans, and special education students. Special education students showed the largest gains, at almost 5 percentage points, while Native American students showed the largest decrease at 1 percentage point. The graduation rate increased 30.2 percent since FY08, with Native American students gaining 41.6 percent and Hispanic students gaining 35.3 percent. However, remediation rates remain high – more than 48 percent of high school graduates require remedial courses in New Mexico institutions of higher education. School districts and charter schools should continue to work to identify students at risk of dropping out earlier and create high school programs that keep students engaged and effectively prepare students for college or the workforce.

School performance is based largely on student performance on the NMSBA, with small values awarded for other factors, such as student surveys, attendance, and school efforts to involve students and parents in education. For FY14, 88 schools received an A, 244 received a B, 188 received a C, 230 received D, and 93 received an F. Compared with grades issued for FY13, approximately 7 percent more schools are shown as receiving a failing grade (a D or F).

Student achievement continues to progress more slowly than desired and the achievement gap persists. Research shows a number of state-funded programs targeted to the state's most at-risk students are having positive impacts on student achievement, including prekindergarten and the K-3 Plus extended school year program.

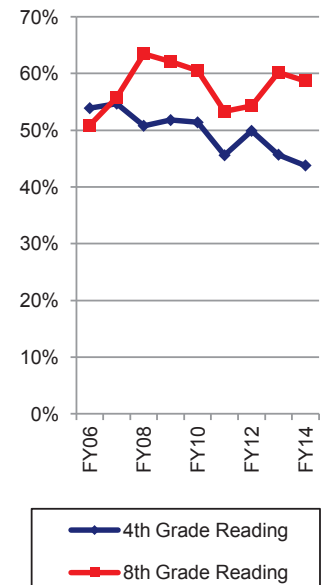
Public Education

Performance measures for public school support provide a snapshot of student performance when data is available after the end of the school year. Little or no consistent student performance data is available for policymakers through the year. For FY14, the Legislature appropriated significant amounts of money for short-cycle assessments for fourth through 10th-grade students and for reading assessment for kindergarten through third-grade students. Statewide data from these assessments is not being collected or reported, though it is available and used at the school district and charter school level. The department should collect and report short-cycle assessment data at least three times a year, allowing policymakers access to data more than once annually. Additional benefits of intermediate reporting of student academic performance include providing teachers the data necessary to inform instructional practices throughout the year and assisting PED in determining how to better support schools.

Fiscal year 2014 marks the first year of implementation of the state's new teacher evaluation system. In general, feedback from educators has been positive with regard to observations and the rubric used to complete observations. However, much concern still exists about the accuracy of data used to calculate teacher effectiveness and the use of student test scores for 50 percent of the evaluation. Results show 73 percent of educators evaluated were rated effective, highly effective, or exemplary. The remaining educators were rated minimally effective or ineffective. Despite concerns, the evaluation system provides meaningful data that will allow policymakers to address and improve school personnel policies concerning professional development, promotion, compensation, and tenure.

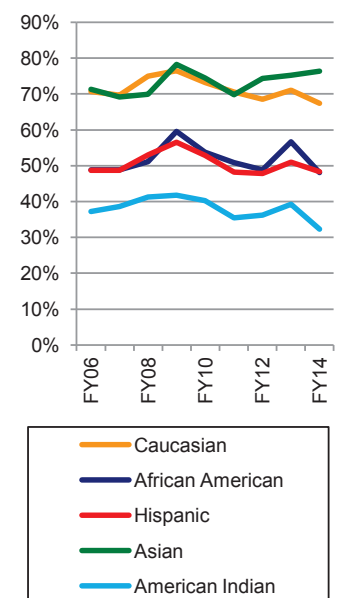
Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of fourth-grade students who achieve proficiency or above on standards-based assessments in reading	49.9%	45.7%	52%	43.8%	R
Percent of eighth-grade students who achieve proficiency or above on standards-based assessments in reading	54.3%	60.2%	60%	58.7%	Y
Percent of fourth-grade students who achieve proficiency or above on standards-based assessments in mathematics	44.0%	45.4%	50%	42.7%	R
Percent of eighth-grade students who achieve proficiency or above on standards-based assessments in mathematics	41.7%	42.2%	50%	40.0%	R
Percent of recent New Mexico high school graduates who take remedial courses in higher education at two-year and four-year schools	53.6%	51.5%	40%	48.4%	R

**Reading
Proficient or Above
FY06-FY14**



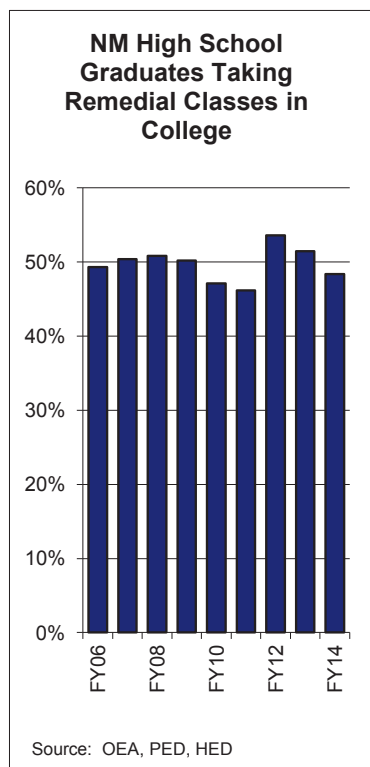
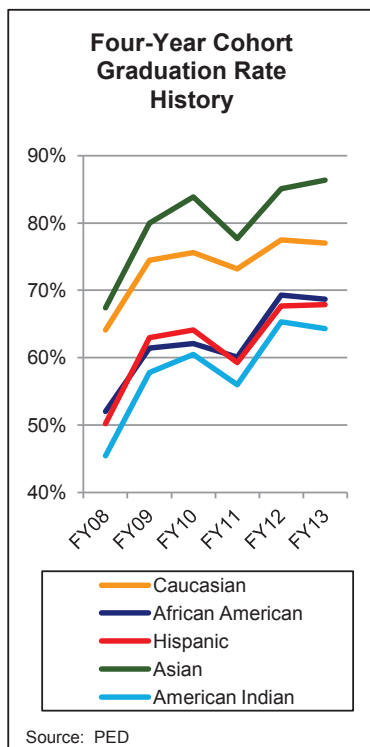
Source: PED

**Third-Grade Reading
Proficient or Above
FY06-FY14**



Source: PED

Public Education



Current year's cohort graduation rate using four-year cumulative method	70.4%	70.3%	75%	n/a	Y
Program Rating	R				

Department Operations. The Public Education Department (PED) provides program and fiscal oversight to public schools to ensure accountability for almost half of the state budget. Many performance measures are reported annually and provide limited quarterly information on progress made by the department. Operations at PED appear to be improving, as indicated by decreased audit findings in the department's FY13 audit and a decreased vacancy rate.

Appropriations for employee salaries and benefits increased in FY13 and FY14; however, the department has been unable to fill many funded, vacant positions. Increased FTE will likely result in improved technical assistance and oversight.

The department established a plan in FY13 to resume annual auditing of local education agencies for funding formula components and program compliance to ensure funding is claimed appropriately. PED resumed auditing in the first two quarters of FY13; however, to date, the department has only completed one audit of charter school membership since the second quarter of FY13.

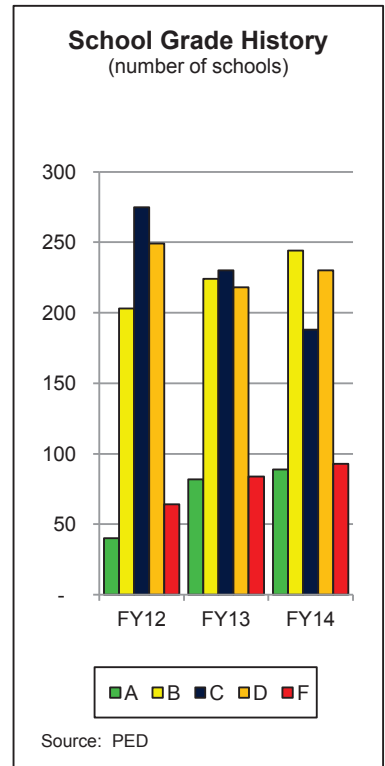
PED's recently released FY13 audit noted 164 findings, 14 of which are directly attributable to department operations. No material weaknesses were noted; however, the audit did identify a number of significant internal control deficiencies. PED resolved 50 percent of FY12 findings and received two fewer findings than in FY12, indicating improved oversight over financial functions in FY13. PED's management response to certain deficiencies in the audit indicates the department is committed to continuing to improve financial operations and financial oversight of school districts and charter schools.

The remaining 150 findings, a decrease from FY12, are attributable to state-chartered charter schools and the Division of Vocational Rehabilitation, which PED oversees. PED's FY12 and FY13 audits noted ongoing issues regarding oversight of and communications with charter schools.

PED continues to advance initiatives aimed at improving student outcomes, including a school grading system, common core state standards, a new computer-administered standards-based assessment, a teacher and school leader evaluation system, targeted interventions for low-performing schools, a new graduation initiative, and an early literacy intervention program. Rapid implementation of high-profile initiatives continues to prove challenging. Insufficient department administration and oversight of school districts and charter schools, accuracy of reported data, and restricted collaboration with policymakers and other stakeholders continue to raise concerns.

Public Education

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of teachers passing all strands of professional dossiers on the first submittal	91.7%	84%	80%	79.5%	G
Number of data validation audits of funding formula components annually	n/a	20	150	0	R
Number of elementary schools participating in the state-funded elementary school breakfast program	156	159	Explanatory	181	G
Number of eligible children served in state-funded prekindergarten	4,535	5,068	Explanatory	6,808	G
Program Rating					Y



Higher Education

KEY ISSUES

The Higher Education Department and the state's 25 colleges and universities reported mixed results on student retention and program completion. Institutions serving traditional-age students maintained or slightly improved their performance. Many institutions serving adult, generally part-time students achieved less success at retaining and graduating students. While institutions have strategic plans and policies to improve student performance, the department does not yet have a statewide plan to increase the number of New Mexicans with postsecondary credentials and degrees or close the achievement gaps for particular students.

AGENCY IMPROVEMENT PLANS

Submitted by agency? No
Timeline assigned by agency? No
Responsibility assigned by agency? No

Retaining and graduating students results in lower student loan default rates. Default rates among students who dropped out or failed to earn a credential or degree are significantly higher than institutional average default rates.

Institutional Student Loan Three-Year Default Rate by Institutional Type (2011 Cohort)			
	0 - 10%	11 - 20%	21 - 30+%
Research	2	1	0
Comprehensive	0	3	1
Two-Year	1	2	15

Source: U.S. Department of Education

Over the last three years, the Higher Education Department (HED) and the state's colleges and universities focused intensely on the higher education instruction and general (I&G) funding formula. In turn, institutions concentrated on ways to improve student performance and did so during challenging times when enrollments grew significantly as the economy declined and more students lacked sufficient preparation for completing college-level work. High enrollments resulted in lower per-student spending, with increased tuition and fee revenues unable to offset declines in financial aid and state appropriations. As instructional revenues increased during the last few years, efforts to improve performance have begun to succeed as more students persist and complete workforce and academic programs, though institutions continue to struggle to exceed peer benchmarks.

Student Retention. Generally, student retention has improved or remained level among all institutions. An important measure for institutions, student retention is a strong indicator of student completion rates and predictor in student loan default rates. New Mexico has one of the lowest levels of student debt in the nation but also the highest default rates. New Mexico institutions, with their various missions and student populations, face differing challenges and levels of success in student retention efforts. Statistically significant declines in overall enrollment are frequently reflected in lower retention rates for first-year students.

Research Universities. Nearly every four-year institution exceeded prior-year levels for fall-to-fall retention of students in the 2013 cohort. Research institutions continue to improve first-year retention rates as they admit better-prepared students, enroll more full-time students, and increase first-year academic and social interventions. These efforts are particularly successful with first-generation college students and those pursuing highly structured science, technology, engineering, mathematics and health (STEMH) programs.

Measure: First-Time, Full-Time (FT/FT) Student Fall-to-Fall Retention	Fall 2011 to Fall 2012 Actual	Fall 2012 to Fall 2013 Actual	Fall 2013 to Fall 2014 Target	Fall 2013 to Fall 2014 Actual	Rating
New Mexico Institute of Mining and Technology (NM Tech)	74.4%	76.6%	74.0%	78.8%	G
New Mexico State University (NMSU)	72%	74%	73%	74%	G
University of New Mexico (UNM)	76.6%	77.7%	78.8%	79.1%	G
Program Rating					G

Comprehensive Institutions. Though improving slightly, comprehensive colleges and universities continue to struggle with retention. These institutions have broader admissions policies and frequently serve an older student population that requires more remediation and pre-college academic preparation. Similar to research universities, comprehensive institutions employ various techniques and

programs to improve student engagement on campus and in the classroom, structure clear academic pathways, and provide necessary instructional aids to complement classroom instruction.

First-Time, Full-Time (FT/FT) Student Fall-to-Fall Retention	Fall 2011 to Fall 2012 Actual	Fall 2012 to Fall 2013 Actual	Fall 2013 to Fall 2014 Target	Fall 2013 to Fall 2014 Actual	Rating
Eastern New Mexico University (ENMU)	62.5%	58.1%	64.5%	59.3%	Y
New Mexico Highlands University (NMHU)	55.3%	47.2%	53.0%	48.4%	Y
Northern New Mexico College (NNMC)	61.0%	55.0%	66.5%	39.0%	R
Western New Mexico University (WNMU)	80.1%	77.3%	81.5%	79.6%	Y
Program Rating					Y

Community Colleges. Two-year institutions also continue to struggle to retain students, attributable to improving regional economies and students' lack of college readiness. Colleges have implemented programs to improve initial course placement, require academic counseling, and jump-start college preparedness – from academic boot camps or subject-specific labs and tutorials to teach writing, studying, and time-management skills. However, these evidence-based efforts to improve retention and success were strained by the 2008 cohort of two-year college students, generally older and part-time students.

First-Time, Full-Time (FT/FT) Student Fall-to-Spring Retention	Fall 2011 to Spring 2012 Actual	Fall 2012 to Spring 2013 Actual	Fall 2013 to Spring 2014 Target	Fall 2013 to Spring 2014 Actual	Rating
ENMU – Roswell	76.3%	74.2%	77.0%	74.2%	Y
ENMU – Ruidoso	69.0%	74.0%	69.0%	65.8%	R
NMSU -Alamogordo	71.2%	75.2%	79.8%	70.6%	R
NMSU – Carlsbad	68.1%	66.2%	72.5%	68.2%	Y
NMSU – Dona Ana	78.3%	77.8%	81.0%	79.3%	Y
NMSU – Grants	77.6%	76.9%	77.0%	63.5%	R
UNM – Gallup	84.9%	83.5%	82.0%	80.4%	Y
UNM – Los Alamos	80.7%	79.6%	79.0%	74.0%	Y
UNM – Taos	75.5%	80.2%	75.5%	72.3%	Y
UNM – Valencia	80.1%	81.4%	80.0%	78.0%	R
Central New Mexico	83.2%	81.7%	83.0%	80.4%	Y
Clovis CC	56.5%	70.8%	65.4%	71.6%	G
Luna CC	69.9%	61.8%	85.0%	67.6%	Y
Mesalands CC	74.6%	51.4%	65.5%	52.7%	Y
NM Junior College	87.8%	87.1%	72.5%	79.7%	Y

Institutional Strategies to Improve Student Performance

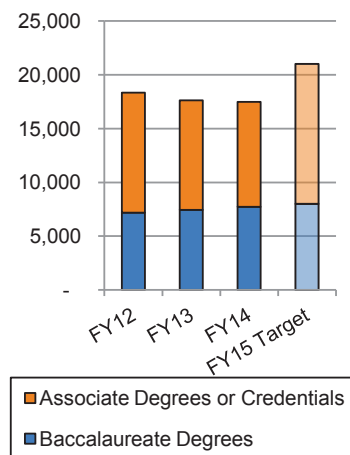
The majority of institutions are

- Making tutoring available on request,
- Referring students for additional writing or math help, and
- Using data systems to “trigger” faculty and advisor intervention based on student performance.

Many institutions are

- Using student learning and living cohorts based on academic year or academic program;
- Providing summer academic “boot camps” to better prepare first-year students and eliminate remedial work;
- Contacting students for early registration for the following semester;
- Reviewing program credit requirements to ensure students can graduate timely;
- Publishing clear academic pathways or degree maps for students, faculty, and advisors; and
- Contacting students near graduation to identify and eliminate barriers to completion.

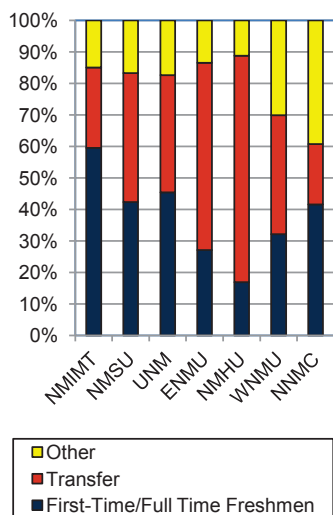
Awards Granted by New Mexico Colleges and Universities
(in thousands)



Source: HED and Institutional PBB Reports

Higher Education

Profile of Baccalaureate Degree Recipients
2013-2014
Academic Year



Source: 2014 Performance Report,
Council of University Presidents

In *Completing College: A National View of Student Attainment Rates Fall 2008 Cohort*, findings include

- Fewer students entering this cohort completed programs in six years, down from 56.1 percent to 55 percent.
- Graduation rates for traditional-age students who enrolled full-time remained steady – but represent a declining population of college students.
- Largest drops in completion were among older and part-time students – those making up the largest increases in enrollment.
- Completion rates for all students starting at two-year colleges dropped from 39.8 percent in 2007 to 39.1 percent in 2008.
- Fewer two-year college students went on to complete four-year degrees than the prior-year student cohort.

San Juan College	79.3%	82.5%	83.0%	74.6%	Y
Santa Fe CC	76.5%	78.8%	79.0%	78.3%	Y
Program Rating					Y

Program Completion and Graduation. Colleges and universities are experiencing higher program completion than in prior years due to peak enrollments and institutional efforts. With the state's increased allocation of general fund appropriations based on student outcomes, most institutions report increasing certificate and degree totals. (See "Statewide Outcomes Data, FY16 I&G Formula," *Volume III*.) Notably, this improvement is not reflected in the Accountability in Government Act (AGA) measure, which reports growth rates (versus numbers) for a small portion of the students attending institutions – first-time, full-time students (FT/FT), excluding transfer students and students who stopped-out of college and returned.

Six-Year Completion Rates for First-Time, Full-Time Degree-Seeking Students	Fall 2006 to Summer 2012 Actual	Fall 2007 to Summer 2013 Actual	Fall 2008 to Summer 2014 Target	Fall 2008 to Summer 2014 Actual	Rating
NM Tech	48.9%	44.2%	45.0%	45.1%	G
NMSU	44.0%	43.0%	47.0%	46.0%	Y
UNM	45.8%	48.2%	48.0%	47.6%	Y
ENMU	23.7%	28.6%	30.0%	27.1%	R
NMHU	16.2%	18.4%	20.0%	18.3%	Y
NNMC	100.0%	50.0%	25.0%	52.0%	G
WNMU	19.1%	22.7%	23.0%	20.9%	R
Program Rating					Y

Community Colleges. Two-year college completion rates varied tremendously. A number of institutions that experienced enrollment gains over 20 percent also increased timely student completion rates, though they may not have reached their FY14 targets. These institutions credited the growth with improved programming, clear academic pathways, and better counseling. A number of institutions that experienced flat or declining enrollments maintained, but did not improve, timely completion rates. Most of these institutions had not fully implemented programming changes for the fall 2010 cohort and continued to serve an increasing number of part-time and older students.

Three-Year Completion Rates for First-Time, Full-Time Degree-Seeking Students	Fall 2008 to Spring 2011 Actual	Fall 2009 to Spring 2012 Actual	Fall 2010 to Spring 2013 Target	Fall 2010 to Spring 2013 Actual	Rating
ENMU – Roswell	18.7%	21.2%	16.0%	23.3%	G
ENMU – Ruidoso	8.7%	13.5%	20.0%	18.9%	G

Higher Education

NMSU – Alamogordo	6.4%	9.9%	14.0%	8.2%	R
NMSU – Carlsbad	6.2%	9.4%	6.0%	3.5%	R
NMSU – Dona Ana	11.7%	13.6%	15.0%	12.7%	R
NMSU – Grants	18.4%	16.1%	22.0%	18.3%	Y
UNM – Gallup	13.1%	5.5%	8.0%	6.1%	Y
UNM – Los Alamos	69.8%	44.9%	57.0%	57.6%	G
UNM – Taos	21.4%	23.6%	8.0%	4.2%	R
UNM – Valencia	7.2%	10.4%	5.0%	7.6%	R
Central New Mexico	7.7%	10.4%	11.0%	9.7%	Y
Clovis CC	4.3%	7.6%	14.0%	10.2%	G
Luna CC	19.9%	16.9%	20.0%	19.9%	G
Mesalands CC	58.8%	53.5%	25.0%	25.6%	Y
NM Junior College	13.5%	12.8%	33.0%	13.4%	Y
San Juan College	13.5%	15.2%	15.0%	12.6%	Y
Santa Fe CC	5.0%	10.1%	11.0%	8.6%	R
Program Rating					Y

Higher Education Department. The department reports on statewide student performance, including those in adult education programs. For the most recent academic year, the department reported a decrease in the number of enrolled adults in elementary and secondary education programs. Supporting the Integrated Basic Education and Skills Training (IBEST) and other career-adult education programs, the state has seen an increase in these students completing academic and workforce training programs.

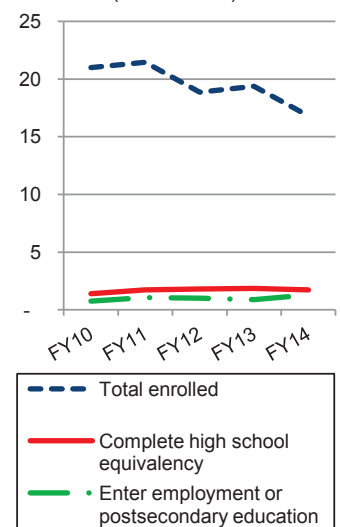
Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Number of adult education students obtaining employment	678	1,065	1,000	2,021	G
Number of adult education students who enter into postsecondary education or training	1,001	871	1,200	1,299	G
Number of students who earn the high school equivalency credential	1,800	1,854	2,000	1,733	Y
Program Rating					G

The department revised its performance funding formula for distributing adult education funding and revised some of its performance targets. As part of institutional AGA measures for FY16, institutions will report the progress of students who complete 40 hours of coursework in preparation for an equivalency exam. Previously, institutions received funding based on lower levels of student enrollment. Changing the focus to a student success benchmark that is closer to what is required to earn a credential should result in more students earning their high school equivalency credential and entering the workforce or postsecondary education.

"Student demographics [for the 2008 cohort] won out over improved institutional efforts."

Doug Shapiro, National Student Clearinghouse Research Center

Adult Basic Education, Student Participation and Completion
(in thousands)



Source: HED AGA Reports

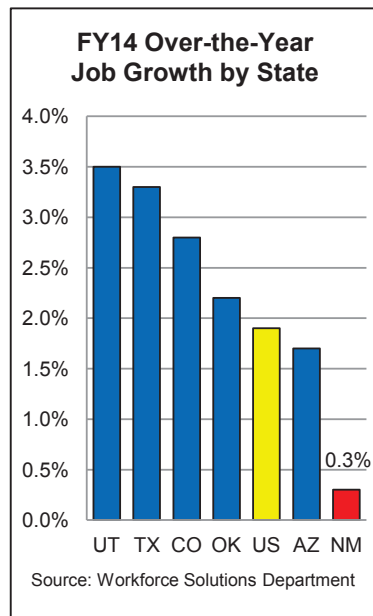
Economic Development Department

KEY ISSUES

The Economic Development Department fell short on achieving several performance targets, including number of jobs created by the Economic Development Partnership and the MainStreet program and average wages for jobs funded through the Job Training Incentive Program. The agency does not have a plan to close the gap.

AGENCY IMPROVEMENT PLANS

Submitted by agency? No
Timeline assigned by agency? No
Responsibility assigned by agency? No



New Mexico experienced lackluster job growth during FY14 compared with the country and neighboring states. Despite the meager overall growth, the Economic Development Department (EDD) exceeded its job creation target for the third consecutive year and produced the highest job numbers of the last five years. However, this discrepancy partly reflects data quality and reporting issues and the ongoing issue of reporting announced jobs versus jobs created and filled. Accurately measuring jobs created would necessitate legislation requiring companies using any of New Mexico's tax incentives or Local Economic Development Act (LEDA) funding to publicly disclose employment data for a period of time.

EDD included 600 jobs for the Union Pacific (UP) rail project in its numbers, but UP notes only 406 jobs exist now, and it expects to create the remaining 194 by 2025. A time period of this length introduces significant market and economic factors that make accurate job estimates infeasible. Additionally, the agency claimed credit for 258 jobs for Fidelity in Albuquerque; however, the agency previously claimed credit for 1,250 Fidelity jobs under the prior administration. In fact, Fidelity never approached this job number, and the Workforce Solutions Department reports current Fidelity employment is 525. Similarly, EDD also claimed credit for 40 jobs at PreCheck despite a current employment level more than 100 jobs below the number for which the agency previously claimed credit.

Economic Development Program. The Economic Development Commission issued a five-year economic development plan in early 2014, but it does not assign responsibility or timelines to each of the objectives. Furthermore, it lacks strategic goals involving other key agencies and organizations involved in economic development. The Economic Development Partnership's performance measure results were its highest in several years, after the Legislature appropriated an additional \$300 thousand for the Partnership for FY14, although accuracy and data quality issues affect this measure as well. The MainStreet Program narrowly missed the annual jobs target, but Place Economics released an economic impact study that determined for every state dollar invested in the MainStreet program since 1986, MainStreet districts saw private sector investment of \$21.89 in building rehabilitation and \$22.55 in new construction. The report also estimates the program costs taxpayers \$1,127 per net new job, making it one of the most cost-effective job creation programs in New Mexico. The Job Training Incentive Program (JTIP) trained more workers than in any year since FY08; however, the average wage for trainees fell 13 percent below the annual target and 6 percent below the FY13 average.

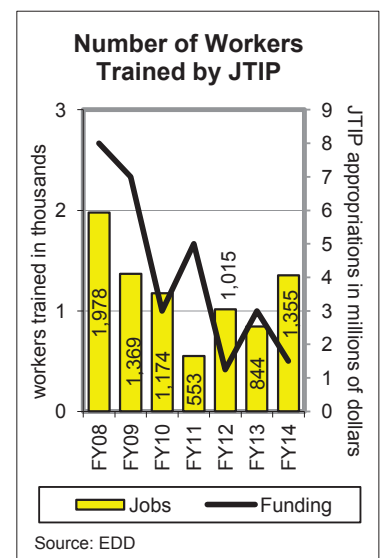
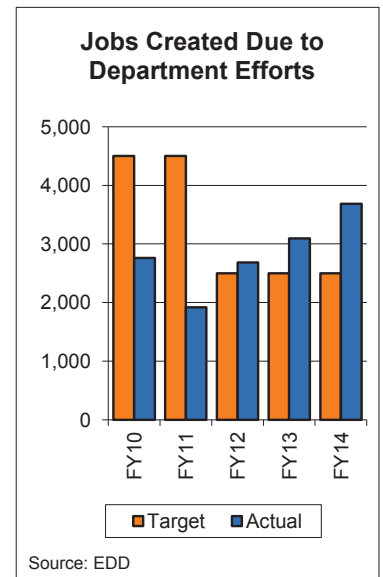
Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Total number of jobs created due to economic development department efforts	2,684	3,093	2,500	3,686	Y
Total number of rural jobs created	1,542	1,440	1,250	1,562	Y

Economic Development Department

Number of jobs created through business relocations facilitated by the economic development partnership	657	244	1,700	1,624	Y
Number of jobs created by the mainstreet program	592	529	600	580	Y
Percentage of employees whose wages were subsidized by the job training incentive program still employed by the company after one year	72%	72%	66%	68%	G
Number of workers trained by the job training incentive program	1,015	844	1,000	1,355	G
Average wage of jobs funded through the job training incentive program	\$16.39	\$18.46	\$20.00	\$17.32	Y
Number of business advocacy cases solved	new	58	45	67	G
Number of businesses provided technical assistance resulting in a funding package and job creation		new	5	5	G
Overall Program Rating					Y

Film Program. Outcomes for the Film Program indicate increased activity in New Mexico's film industry compared with FY11 and FY12 and comparable performance to FY13. The Film Office reports New Mexico is now viewed by the industry as one of the most competitive states for recruiting television series after the Legislature added an additional 5 percent rebate for these productions. Five series filmed in the state in FY14, up from four in FY13, and three in FY12.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Number of media industry worker days	143,046	216,461	150,000	189,782	G
Direct spend by film and media industry productions, in millions		new	\$225	\$162.1	Y
Number of film and media projects made in New Mexico	57	53	60	61	G
Overall Program Rating					G



Tourism Department

KEY ISSUES

The Tourism Department fell short on achieving two performance targets for the New Mexico Magazine Program, including advertising revenue. However, the agency hired a new sales representative, and revenue is growing again.

AGENCY IMPROVEMENT PLANS

Submitted by agency? Yes
Timeline assigned by agency? Yes
Responsibility assigned by agency? Yes

Tourism Department FY15 Funding by Division		
	FY15 Budget (in thousands)	FTE
Marketing and Promotion	\$9,720.9	36.5
Tourism Development	\$2,104.4	5
NM Magazine Program	\$3,365.6	14
Support	\$1,572.1	13
Total	\$16,763.0	68.5

Source: Tourism Operating Budget

The proportion of the Tourism Department general fund budget spent on advertising and promotion increased annually from an average of 28 percent between FY07 and FY11 to 67 percent in FY15.

Jobs data from the Workforce Solutions Department may reflect measurement biases from a recent change in how the agency gathers employment data, and revisions to the job numbers may be necessary in the third quarter of FY15.

Leisure and hospitality spending and related tax revenues continue to increase substantially year over year, trending up between 5.6 percent to 8.9 percent for FY14. The industry no longer leads job growth in the Albuquerque metro but continues as a job leader for the rest of New Mexico, according to data from the Workforce Solutions Department. Excluding Albuquerque, industry employment rose 2.8 percent during FY14; including the city, the rate drops to a more modest 1.7 percent.

Marketing and Promotion Program. The Tourism Department is using the additional advertising funds appropriated for FY14 to expand marketing efforts farther into Texas, to include Dallas and Houston, and to begin advertising in Chicago. Last year's return-on-investment study showed ads in Colorado and Arizona produced the greatest returns, so the department will continue the campaign in those states.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent increase in gross receipts tax revenue for accommodations receipts	n/a	0.9%	2.0%	6.4%	G
Number of new jobs created in the leisure and hospitality industry year-over-year	n/a	3,700	800	1,500	G
Dollars spent per overnight primary visitor per day	\$63.50	\$74.91	\$63.00	\$76.82	G
New Mexico's domestic overnight visitor market share	1.0%	1.0%	1.0%	1.0%	G
Percent of visitors who choose New Mexico as their primary destination	72%	71%	70%	70%	Y
Program Rating					G

New Mexico Magazine Program. *New Mexico Magazine* was named the best state/regional magazine for 2013 by the Western Publishing Association for the second consecutive year. The absence of a southern New Mexico advertising sales representative from October 2013 through May 2014 significantly reduced advertising revenue per issue, but the agency reports revenue is trending upward again. The magazine remains operationally profitable for the third year in a row.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Circulation rate	94,221	91,197	95,000	89,556	Y
Advertising revenue per issue, in thousands	\$65	\$68	\$80	\$57	R
Number of visits to nmmagazine.com and newmexico.org, in thousands	n/a	715	565	1,040	G
Program Rating					Y

Workforce Solution Department

The Workforce Solutions Department (WSD) has employed an array of strategies to encourage workforce development, including training new and incumbent workers to meet the demands of evolving industries. The agency is continuing to experience some performance improvements but struggled to meet the target for reaching an agent in the call center. WSD proposed to refine several performance measures to support workforce development, business services, and Unemployment Insurance (UI) services in FY16.

Workforce Transition Services. Call-center transaction times remain an issue for the department, increasing to an average of 44 minutes. The call center was significantly impacted during the second quarter by the federal government shutdown, seasonal agricultural workers, and the pending end of the Emergency Unemployment Compensation (EUC) program, all of which contributed to increased average call times. The performance measure includes several services available through the UI call center, including new claims, password issues, weekly certifications, and overpayments issues. To more accurately track transaction time within the call center in FY16, WSD will report on the average wait times to speak to a customer service agent to file a new UI claim and the average wait times to file a weekly certification. The decrease in youth who enter employment or postsecondary education after receiving services is of concern. The department reported providers are working to better align youth activities, specifically work experience, with growing industries and sectors.

As of the fourth quarter, WSD began reporting on the solvency of the unemployment insurance trust fund, including fund balance, quarterly revenues, and benefits paid out. Due to the Great Recession, many state UI funds, including New Mexico's, were in danger of becoming insolvent. Collectively, states went \$47 billion into debt to pay unemployment benefits. In March 2014, New Mexico's fund balance was down to \$49 million from \$557 million in March 2008.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of youth participants who entered employment or are enrolled in postsecondary education or advanced training after receiving Workforce Investment Act services	57%	57%	57%	56%	Y
Percent of eligible unemployment insurance claims issued a determination within twenty-one days from the date of claim	72%	66%	75%	79%	G
Percent of individuals who received Wagner-Peyser employment services retaining employment after six months	new	new	70%	75%	G

KEY ISSUES

The Workforce Solutions Department fell short on achieving several performance targets, including the average transaction wait time for the call center, and percent of human rights cases that receive probable cause determinations and resolved within one year. The Department does not have a plan to close the gap.

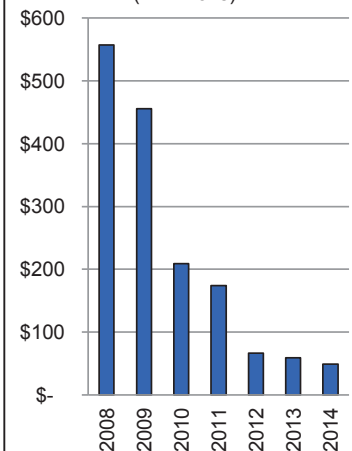
AGENCY IMPROVEMENT PLANS

Submitted by agency?	No
Timeline assigned by agency?	No
Responsibility assigned by agency?	No

Unemployment Insurance Trust Fund Annual Results (in millions)	
Total Contribution Revenue	\$ 246.6
Total Benefit Payout	\$ 235.2

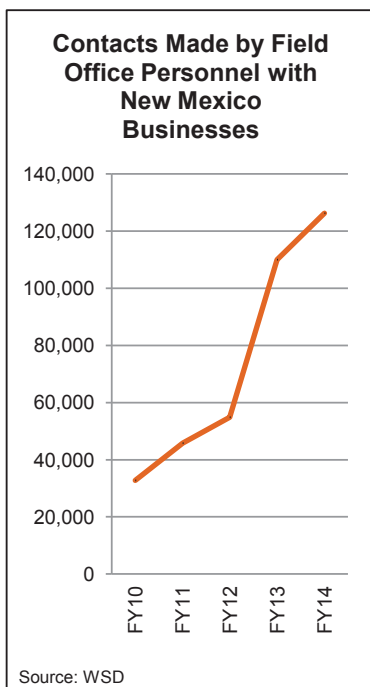
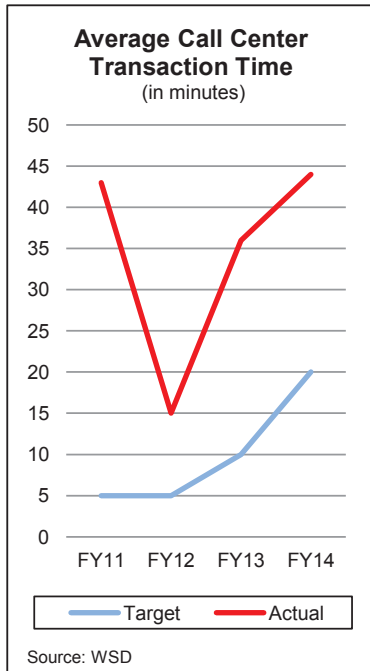
Source: WSD

New Mexico Unemployment Insurance Trust Fund Balance
(in millions)



*March to March
Source: PEW

Workforce Solution Department



Average time to complete transaction with the unemployment insurance call center, in minutes.

15 36 10 44 **R**

Program Rating **Y**

Business Services. The department continued to meet or exceed the target for customer satisfaction and contacts made by field office personnel with New Mexico businesses. A key focus of WSD is to develop the state workforce to meet the needs of businesses and provide business services; therefore, the marked increase in personal contacts between FY13 to FY14 demonstrates the department outreach efforts.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of employers sampled reporting customer satisfaction	98%	98%	99%	99%	G
Number of personal contacts made by field office personnel with New Mexico businesses to inform them of available services or provide actual services	54,858	110,069	50,000	126,296	G

Program Rating **G**

Labor Relations. The Labor Relations Division enforces the New Mexico Human Rights Act. While the bureau exceeded the target for wage claims resolved within ninety days, the decrease in probable cause determinations resolved during the year is concerning. The agency reported the bureau had previously been tracking performance data measure incorrectly but corrected the problem.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of wage claims investigated and resolved within ninety days	89%	91%	90%	91%	G
Percent of human rights cases that receive probable cause determinations that are resolved within one year	new	new	90%	69%	R
Percent of targeted public works inspections completed	new	new	90%	100%	G

Program Rating **Y**

Human Services Department

Fiscal year 2014 was a challenging year for the Human Services Department (HSD); it worked to complete implementation of its new ASPEN benefits information technology system, the roll out of the state's Centennial Care Medicaid program, Medicaid expansion, and the controversial restructuring of behavioral health providers. While many situations are stabilizing, FY15 will bring new information about how New Mexicans are faring under the new systems and programs.

Given approximately one-third of New Mexicans rely on the state's Medicaid program and one in three dollars in state spending is for Medicaid, the department needs to provide more information regarding quality of care and cost-effectiveness. Starting in FY13, the department began adding performance measures targeting quality outcomes and focusing less on enrollment; however, measures to track health outcomes for clients and efficiency measures, such as cost-per-client, are needed to capture cost-effectiveness of programs. Further, the department has too few measures for the many long-term services provided.

The department had mixed performance results at the end of fiscal year 2014. The Child Support Enforcement Program reports exceeding most targets, with total collections a record \$137 million for the year. Hospital readmissions and emergency department visits have also improved (decreased) from FY13 and the department largely met FY14 targets. End-of-year measures for well-child visits are well below FY14 targets and fiscal years 2012 and 2013, although the department intends to reconcile FY14 in the first quarter of 2015. Work participation rates for Temporary Assistance for Needy Families (TANF) clients are also below targets and past-year performance; although they are still largely better than low national averages.

Medical Assistance Program. Year-end measures for well-child visits and percent of children with persistent asthmas appropriately prescribed medication are well below targets and fiscal years 2012 and 2013 levels. More encouraging, hospital readmissions and emergency department visits decreased from FY13 levels and largely met FY14 targets. The percentage of adults with diabetes who had a HbA1c test (measures average blood sugar) during the measurement year was also low; however, the department reports lab data is not available through encounter data and results may change when HEDIS (healthcare effectiveness data and information set) data is available for the new managed care organizations. Due to the implementation of Centennial Care in January 2014, data for the number of individuals transitioning from nursing facilities to community-based services will not be available until the third quarter of FY15.

KEY ISSUES

The Human Services Department reports performance measures are difficult to track on a quarterly basis because information is based on encounter data and providers have up to 120 days to submit the data to HSD. In many instances, a reconciliation of FY14 data will be available in the first quarter of 2015, often allowing for an upward revision of the performance result.

AGENCY IMPROVEMENT PLANS

Submitted by agency?	No
Timeline assigned by agency?	No
Responsibility assigned by agency?	No

New Outcome-Oriented Performance Measures for Medicaid

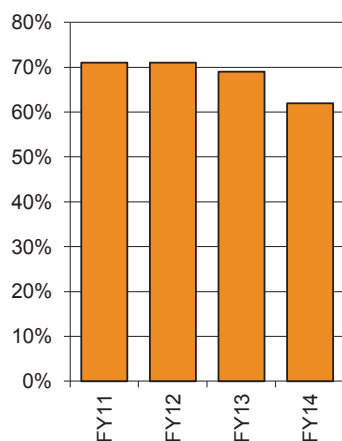
Two new measures for FY15 include

The number of persons age sixty-five and older identified at risk for falls who have been asked at least annually about the occurrence of falls and the number of members treated for related risks.

Percent of members reporting satisfaction with centennial care services.

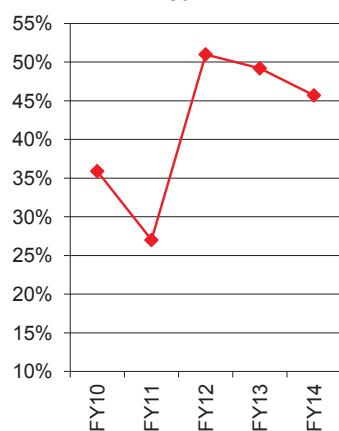
Human Services Department

**Medicaid Children
Receiving Annual
Dental Visit**



Source: HSD Quarterly Report

**TANF Clients Newly
Employed during the
Year**



Source: HSD Quarterly Report

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of infants in Medicaid managed care who had six or more well-child visits with a primary care physician during the first fifteen months	66%	63%	72%	52%	Y
Percent of children and youth in Medicaid managed care who had one or more well-child visits with a primary care physician during the year	92%	92%	92%	83%	Y
Percent of children ages two to twenty-one enrolled in Medicaid managed care who had at least one dental visit during the year	70%	65%	72%	62%	Y
Percent of children in Medicaid managed care with persistent asthmas appropriately prescribed medication	89%	92%	89%	68%	Y
Percent of hospital readmissions for children age two to seventeen within thirty days of discharge	12%	8%	10%	7%	G
Percent of hospital readmissions for adults eighteen years and over, within thirty days of discharge	19%	13%	10%	11%	G
Rate of emergency room visits per one thousand Medicaid member months	58	39	45	35	G
Percent of individuals in Medicaid managed care ages eighteen through seventy-five with diabetes (type 1 or type 2) who had a HbA1c test during the measurement year	84%	84%	86%	50%	R
Number of individuals who transition from nursing facilities placement to community-based services	198	168	150	n/a	

Program Rating Y

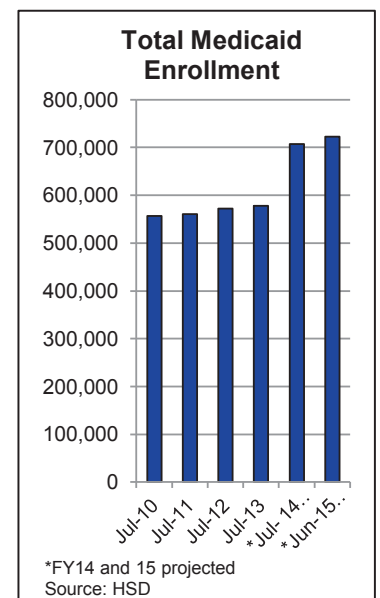
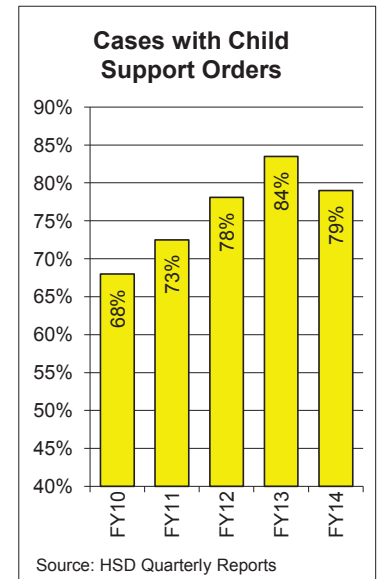
Income Support Program. Although still better than low national averages, clients who obtained and retained employment after receiving services from workforce contractor SL Start, as well as the number of clients meeting federally required work participation rates in the Temporary Assistance for Needy Families (TANF) program, declined compared with FY13 levels. The department notes typical reasons for noncompliance include the client did not complete or update required work participation agreements and individual responsibility plans or did not complete assigned work hours. Finally, department performance in enrolling children in the Supplemental Nutrition Assistance Program (SNAP) declined slightly again in FY14.

Human Services Department

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of temporary assistance for needy families clients who obtain a job during the federal fiscal year	52%	55%	50%	46%	R
Percent of temporary assistance for needy families two-parent recipients meeting federally required work requirements	48%	72%	60%	45%	R
Percent of temporary assistance for needy families recipients (all families) meeting federally required work requirements	56%	48%	50%	39%	R
Percent of children eligible for supplemental nutritional assistance program participating in the program at one hundred thirty percent of poverty level	80%	85%	88%	81%	Y
Program Rating					R

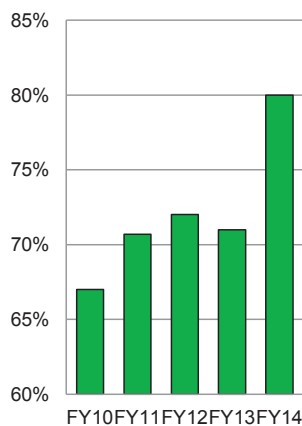
Child Support Enforcement Program. Child support enforcement collections, acknowledged paternity, and cases with support orders all exceeded targeted levels. The percent of child support collected, while below the target, improved slightly from the FY13 level actual results to 56.3 percent. The program is continuing the bench warrant amnesty/sweep project, outreach to new obligors, and efforts to obtain modified support orders.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of children with paternity acknowledged or adjudicated	99%	103%	90%	101%	G
Total child support enforcement collections, in millions	\$130	\$132	\$135	\$137	G
Percent of child support owed that is collected	56.7%	55.8%	60.0%	56.3%	Y
Percent of cases with support orders	78%	84%	75%	79%	G
Program Rating					G



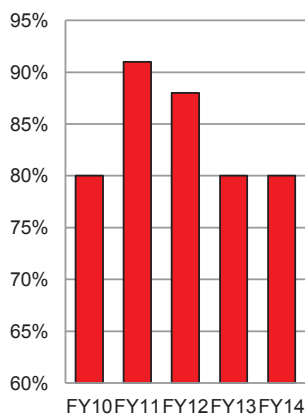
Behavioral Health Collaborative

Clients Improving in Drug Substance Abuse Treatment



Source: Behavioral Health Collaborative

Clients Improving in Alcohol Substance Abuse Treatment



Source: Behavioral Health Collaborative

New Mexico will invest more than \$500 million for behavioral health services in FY15, yet the state continues to lead the nation in damaging substance abuse and mental health outcomes. For adults, New Mexico leads the nation in alcohol-death rates and is ranked among the worst states for drug overdose death rates, suicide rates, and serious mental illness rates. It is estimated more than 100 thousand New Mexican adults need, but are not receiving, treatment for behavioral health issues. While the Human Services Department (HSD) reports of significant increases in numbers of persons served is encouraging, the state has much work ahead to ensure behavioral health outcomes follow suit.

According to an August 2014 American Psychiatric Association article (*Back to the Future: New Mexico Returns to the Early Days of Medicaid Managed Care*), despite four transformations of the behavioral health system in the past 20 years, New Mexico has managed little progress improving outcomes.

In short, the state needs a better inventory of how it currently spends money on adult behavioral health and should reprioritize spending to target investments in programs likely to produce the outcomes the state desperately needs.

The 17-member Behavioral Health Purchasing Collaborative is charged with coordinating a statewide behavioral health system. The collaborative cites the state's transition to Centennial Care and the timing of the reporting cycle for claims and services for delays in reporting on performance during the year.

At its October 9, 2014, meeting, collaborative leadership indicated staff would compile a report assessing the extent to which the entity had met actionable items in its FY11 through FY14 strategic plan. Results of the report will serve as a benchmark for development of a new strategic plan for the collaborative, which has not lived up to its early promise to provide leadership, structure, oversight, and coordination of behavioral health services in New Mexico.

Although the responsibilities of the collaborative are defined in New Mexico law, the recent history of the entity appears to demonstrate waning interest on behalf of statutorily identified members. Further, an HSD analysis of workforce needs in the behavioral health system has not been performed since the 2002 *Behavioral Health Needs and Gaps* report. The 2013 LFC program evaluation found a pronounced shortage of behavioral health professionals in New Mexico.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of people receiving substance abuse treatment who demonstrate improvement in the drug domains on the addiction severity index	72%	71%	80%	80%	G

Behavioral Health Collaborative

Percent of people receiving substance abuse treatment who demonstrate improvement in the alcohol domain on the addiction severity index	88%	80%	90%	80%	R
Percent of youth on probation served by the statewide entity	40%	57%	45%	TBA	G
Percent of individuals discharged from inpatient facilities who receive follow-up services at seven days	36%	40%	38%	26%	R
Percent of individuals discharged from inpatient facilities who receive follow-up services at thirty days	52%	59%	60%	52.8%	R
Percent of readmissions to same level of care or higher for children or youth discharged from residential treatment centers and inpatient care	7%	7%	7%	4%	G
Individuals served annually in substance abuse or mental health programs or both administered through the collaborative statewide entity contract	84,559	87,723	85,000	114,723	G
Program Rating					Y

Drug Overdose Deaths per 1000,000 Persons in 2010	
WV	28.9
NM	23.8
KY	23.6
Nevada	20.7
OK	19.4
USA	12.3

Source: CDC

Department of Health

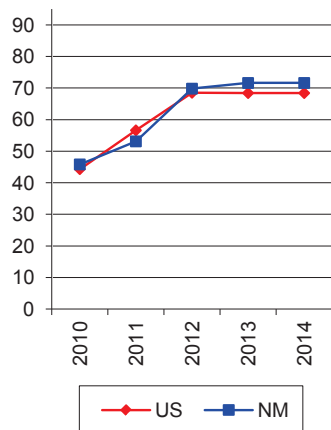
KEY ISSUES

The Department of Health fell short on achieving 46 percent of its performance targets including smokers quitting who use the call-in line, naloxone prescriptions, facilities' uncompensated care and occupancy rates, developmental disabilities (DD) supported employment, timely DD service plans, and completing quality surveys for the Medicaid waiver programs. DOH did report plans to close the gaps.

AGENCY IMPROVEMENT PLANS

Submitted by agency? Yes
Timeline assigned by agency? No
Responsibility assigned by agency? Yes

Percent of Preschooler Immunization Rates



Source: CDC and DOH

New Mexico has the highest teen pregnancy rate in the country. Hispanic teens have the highest birth rates both in New Mexico and nationally. Risk factors impacting the high teen pregnancy rate are poverty, education, rural versus urban population, and access to services.

The Department of Health (DOH) continues to report on too few outcome performance measures to properly determine how effectively and efficiently it is meeting strategic and mission objectives. This is in spite of the fact the department's epidemiologists collect and report on data, and a majority of the department's programs are required by the federal government to regularly report on performance. The department should include more meaningful measures, including more outcome and efficiency measures denoting average cost per client for the Public Health, Developmental Disabilities Support, and Facilities Management programs, which can be benchmarked to other states. Also, the budgets for Epidemiology and Response, Laboratory Services, and Health Certification, Licensing, and Oversight total \$47 million, but these three programs only report on a combined total of four performance measures.

For the last two fiscal years, the governor vetoed six of the department's performance measures related to immunization rates, preventing HIV/AIDS, conducting health emergency exercises, analyzing public health threat samples, conducting compliance surveys of the state's private adult residential care and daycare facilities, and substantiating cases of abuse, neglect, and exploitation in state facilities. The LFC program evaluation, *New Mexico's Children: Risk Factors Impacting on Health and Social Development*, serves as a model for important health performance measurement.

Public Health Program. Given Public Health is a \$187 million program, three performance measures is inadequate. The program should consider adding outcome measures for low-birth-weight babies, childhood obesity, teen births, suicide, substance abuse, smoking cessation, oral health, hepatitis, diabetes, tuberculosis, pertussis, adult fall injuries, and adult immunizations to align with its strategic plan objectives. The Public Health Program improved its infectious disease outcomes for HIV/AIDS, sexually transmitted diseases, and childhood immunizations but saw declines in the federal Women, Infants and Children (WIC) program.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of preschoolers fully immunized	70%	72%	90%	72%	Y
Number of teen births prevented among females ages fifteen to seventeen receiving services in agency-funded clinics	na	797	850	1,547	G
Percent of quit now enrollees who successfully quit using tobacco at seven-month follow up	33%	33%	40%	32%	R
Program Rating					Y

Epidemiology and Response Program. The department did not report performance measures in FY13 for the Epidemiology and

Department of Health

Response Program. Previously, the program reported on two performance measures, but the governor vetoed these measures for FY13. For FY14, two measures were added regarding indicators to address drug overdose rates, and traumatic injury staff training. Inclusion of a program measure to gauge the readiness and capacity of the public healthcare system in New Mexico would be desirable as a key quarterly measure.

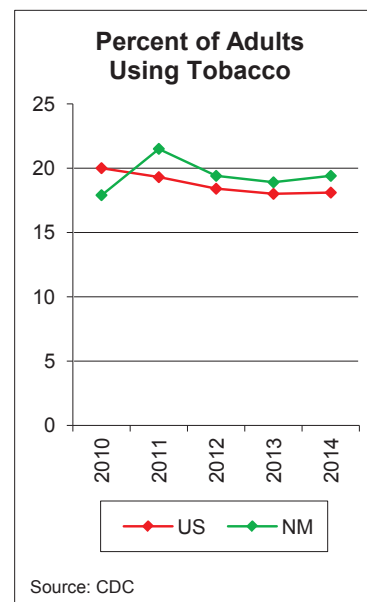
Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Number of naloxone prescriptions provided in conjunction with prescription opioids	na	na	1,000	154	R
Program Rating					R

Laboratory Services Program. The Laboratory Services Program reports its staff requires time for training or testifying at court proceedings around the state impacting laboratory testing time and, at times, impacting performance. Therefore, for years the Legislature has provided full funding for the program's personal services and employee benefits, resulting in fewer vacancies and an improved performance trend.

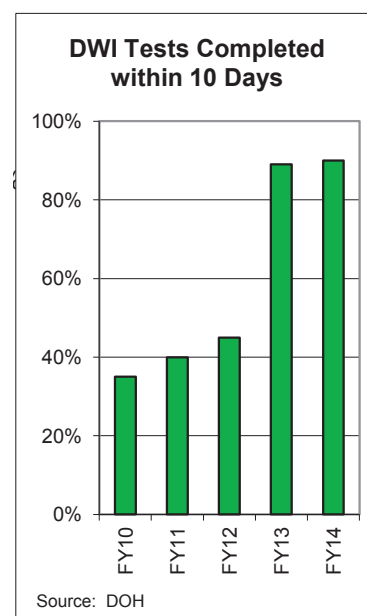
Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of blood alcohol tests from driving-while-intoxicated cases analyzed and reported within ten business days	45%	89%	95%	90%	Y
Program Rating					G

Facilities Management Program. The state health facilities continue to provide no data on patient health outcomes and too little data on hospitals' quality, efficiency, and financial performance, particularly in relation to staffing rates as a function of occupancy levels. The department reports its occupancy rate for staffed beds was 81 percent at the end of FY14. However, the occupancy rate for all licensed beds was 57 percent at the end of the fiscal year. Measuring the facilities' occupancy rate per licensed bed is a better indication of the state's overall return on investment. Also, facilities' collection of third-party revenue reflects a change in methodology and not necessarily a trend improvement.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of billed third-party revenues collected at all facilities	60%	57%	90%	91%	Y
Total dollar amount, in millions, of uncompensated care at all agency facilities	\$35	\$43	\$37	\$48	R
Percent of operational capacity (staffed) beds filled at all facilities	87%	86%	100%	81%	R
Program Rating					R



Smoking among New Mexico high school youth remained higher than the national rate for several years. Especially high smoking rates are seen among youth with poor academic grades, American Indian youth, and youth whose parents have lower levels of education.

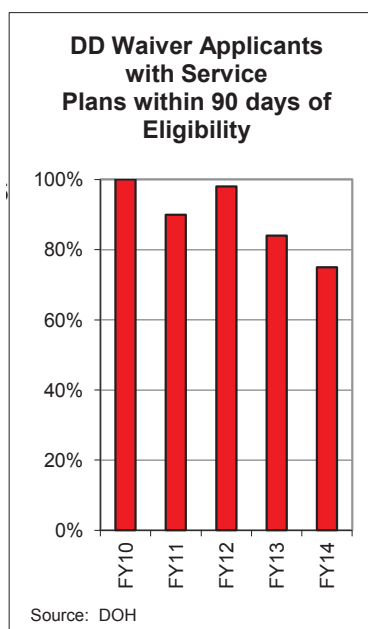


Department of Health

New Mexico had 62 thousand Women, Infant and Children (WIC) program participants in FY13, up from 58 thousand but still lower when compared to other states in the region.

New Mexico's 2012 suicide rate was 20 per 100,000, whereas the national rate was 12 per 100,000.

Since 2008, New Mexico's infant pertussis rate has doubled from 56.2 to 100 cases per 100,000 infants.



Developmental Disabilities Support Program. The number of developmental disabilities waiver clients has grown in conjunction with increased funding over the last three years, and the program appears to be experiencing an overall upward trend in performance results for access. However, program performance is declining when gauged by supported employment and service plan rates.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of adults receiving developmental disabilities day services engaged in community-integrated employment	36%	30%	38%	27%	R
Percent of developmental disabilities waiver applicants with a service plan in place within ninety days of income and clinical eligibility determination	98%	84%	100%	75%	R
Number of individuals on the developmental disabilities waiting list	5,911	6,248	6,330	6,133	G
Number of individuals on the developmental disabilities waiver receiving services	3,888	3,829	4,000	4,403	G
Program Rating					Y

Health Certification, Licensing, and Oversight Program. The program reports the results for the percent of Quality Management Bureau surveys and compliance surveys are negatively impacted by staff vacancies although additional FTE have been funded by the Legislature. The agency's action plan indicates priority is given to statutorily required investigations and serious complaints.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of developmental disabilities, medically fragile, behavioral health, and family, infant, toddler providers receiving a survey by the quality management bureau	71%	95%	100%	76%	R
Program Rating					R

Aging & Long-Term Services Department

The Aging and Long-Term Services Department (ALTSD) continues to improve the quality of its outcome measures to better quantify program results. An additional 11 thousand people received Aging Network community services, such as meals, senior employment, respite care, volunteer services, and Alzheimer's disease and caregiver support.

Consumer and Elder Rights Program. The program measures reflect prevention efforts to reduce the number of complaints in nursing homes and assisted living facilities. The program is using a care coordination model developed at the Aging and Disability Resource Center in response to the complexity of care needs.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of ombudsman complaints resolved within sixty days	98.6%	98.2%	90.0%	99.5%	G
Percent of people accessing consumer and elder rights programs in need of two or more daily living services who are satisfied with the information, referral, and assistance received	40%	44%	40%	43%	G
Program Rating					G

Aging Network Program. The program served 50 thousand people 3.7 million meals. This represents 68 percent of the 74 thousand senior New Mexicans estimated to have food insecurity and is up 8 percent from FY13. Despite increased annual funding from the Legislature, outcomes generally are declining.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Number of people whose food insecurity is alleviated by meals received through the aging network	52,703	49,827	49,827	50,922	G
Program Rating					Y

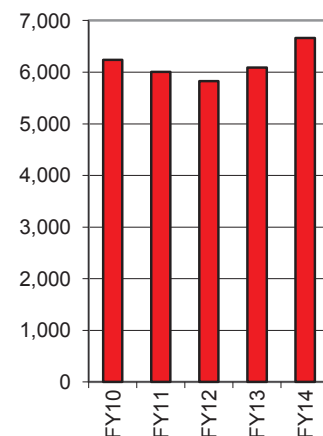
Adult Protective Services Program. The program conducted 6,665 investigations, for which 98 percent had face-to-face contact with a caseworker within the prescribed timeframes for emergency cases.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of emergency or priority one investigations in which a caseworker makes contact with the victim within prescribed times frames	85%	97%	95%	98%	G
Number of adults receiving adult protective services' investigations of abuse, neglect or exploitation	5,824	6,092	6,000	6,665	Y
Program Rating					G

Food insecurity is defined by the U.S. Department of Agriculture as limited access to adequate food due to lack of money and other resources. Since the onset of the recession in 2007 through 2012, the number of seniors experiencing the threat of hunger is 21 percent in New Mexico.

In FY14, 101,021 people received Aging Network community services, up 12 percent from the 90,055 people who received services in FY13.

Adults Receiving an Adult Protective Services Intervention



Source: ALTSD

In FY14, 45 percent of individuals exiting from the federal older worker program obtained unsubsidized employment. The FY14 performance target is 30 percent.

The 2014 LFC performance evaluation, *Aging and Long-Term Services Department - Resource Allocation, Cost, Availability and Effectiveness of Aging Network*, recommended the agency work with local governmental entities to determine the feasibility of a minimum threshold for local contributions through cash or in-kind donations and track service outcomes and report them as performance measures to give a better idea of the Aging Network's capacity and its adequacy in meeting the needs of the senior population.

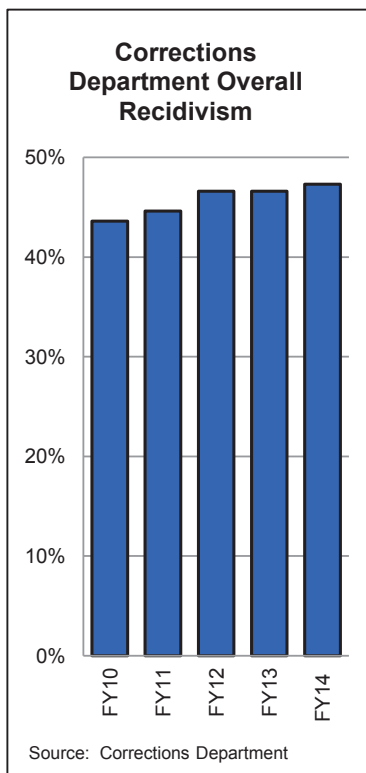
New Mexico Corrections Department

KEY ISSUES

The New Mexico Corrections Department fell short on achieving several performance targets; including overall recidivism, timely releases, sex offender recidivism, and parole officer caseloads however, it does have a plan to close the gap, such as providing evidence-based recidivism reduction programming.

AGENCY IMPROVEMENT PLANS

Submitted by agency? Yes
 Timeline assigned by agency? No
 Responsibility assigned by agency? No



The department reduced staff turnover considerably in FY14, exceeding expectations after salaries were increased by 6 percent. Inmate-on-inmate violence and inmate-on-staff violence remain flat partly due to random drug testing of inmates. Drug testing should remain an area of concern due to the relationship between increased drug use and inmate violence.








The overall recidivism rate remains elevated and may contribute to an increased inmate population in the future. The department should continue strategically investing in programs proven to reduce recidivism. Through Results First, a joint project with the Pew MacArthur Foundation, New Mexico has been able to systematically calculate and compare the long-term costs and benefits of strategies to reduce recidivism, creating a menu of programs for policymakers to choose from. Results First also helped create an inventory of recidivism reduction programs and identify the extent to which they are evidence-based. The department used Results First data to end the ineffective therapeutic communities program and replace it with the residential drug abuse program two years ago, but has not used the approach since.

Inmate Management and Control. As many as 200 to 300 inmates continue to serve time in a prison facility rather than being supervised on less expensive parole. Inmates serving time in prison, rather than on parole, cost the state an estimated \$10.3 million in FY14. The leading causes are a lack of community resources for parolees, administrative issues causing parole hearings to be canceled, and inmates not participating in the parole process. Additionally, some inmates serving parole sentences in prison, once their sentences have run out, are released without community supervision – posing a public safety risk.



The department will require a deficiency appropriation for FY14 mostly due to the union lawsuit settlement that cost the department \$6.4 million. Adding to the shortfall, in late FY13 the department began moving inmates from various public facilities to the privately operated Otero County Prison (OCP), increasing costs by about \$8 million. At the same time the department did not reduce fixed costs at the now, less populated, public facilities and has not found a way to reduce the impact on the budget.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Thirty-six month recidivism	47%	47%	44%	47%	R
Number of inmate-on-inmate assaults with serious injury	21	16	18	9	G
Number of inmate-on-staff assaults with serious injury	1	5	4	5	Y
Percent of inmates testing positive for drug use or refusing to be tested in a random monthly drug test	1.7%	2.1%	≤2.0%	2.0%	G

New Mexico Corrections Department

Percent of female offenders released in accordance with their scheduled release dates	79.7%	77.5%	90.0%	78.2%	
Percent of male offenders released in accordance with their scheduled release dates	82.2%	80.7%	90.0%	78.4%	
Percent of sex offenders re-incarcerated within thirty-six months	36.1%	27.8%	30.0%	45.8%	
Recidivism rate of the success for offenders after release program by thirty-six months	37.0%	28.2%	32.0%	36.0%	
Thirty-six month recidivism due to new charges or pending charges	22.7%	24.3%	23.0%	23.8%	
Thirty-six month recidivism due to technical parole violations	New	New	20%	15%	
Program Rating					

Community Offender Management. Average standard caseload exceeded targeted levels, but appropriations for salary increases should help reduce elevated vacancy rates among probation and parole officers. Eventually, if recruitment and retention issues are managed effectively, the department should make some progress toward manageable parole officer caseloads. Additionally, there continues to be a dearth of community resources for inmates release, affecting the percentage of inmates successfully released in accordance with scheduled release dates.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Average standard caseload per probation and parole officer	114	108	95	105	
Program Rating					

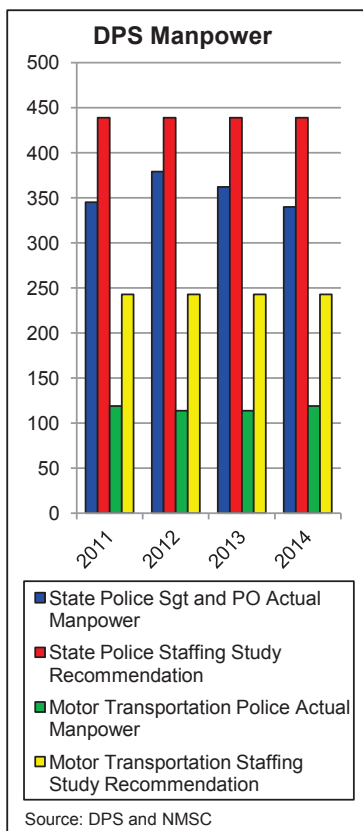
Department of Public Safety

KEY ISSUES

The Department of Public Safety fell short on achieving several performance targets, including number of drug-related investigations and commercial motor vehicle safety inspections, but submitted a corrective action plan to close the gap by increasing officer salaries and increasing recruitment and retention.

AGENCY IMPROVEMENT PLANS

Submitted by agency? Yes
Timeline assigned by agency? No
Responsibility assigned by agency? No



An outdated and uncompetitive pay structure limits Department of Public Safety (DPS) efforts to meaningfully recruit and retain law enforcement officers. To address performance issues related to elevated vacancies, the Legislature appropriated \$3 million to implement the first phase of a three-phase salary structure overhaul. The first phase eliminated salary disparities between Motor Transportation Police and State Police.

Law Enforcement Program. The agency increased the number of traffic enforcement projects, saturation patrols, Liquor Control Act enforcement, and traffic-related citations in FY14. This may have contributed to a leveling off in the number of traffic fatalities and alcohol-related traffic fatalities. The number of investigations conducted did not reach targeted levels and should remain an area of focus.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Number of driving-while-intoxicated arrests per patrol officer	8.1	7.7	12.0	8.2	G
Number of driving-while-intoxicated checkpoints and saturation patrols conducted	724	1,117	750	915	G
Number of traffic-related enforcement projects held	849	1,209	850	1,692	G
Number of criminal cases investigated per full time equivalent assigned to patrol and investigations	56	55	60	58	Y
Number of drug-related investigations per full time equivalent assigned to investigations	17	5	20	6	R
Number of licensed alcohol premise inspections per agent assigned to alcohol enforcement duties	103	96	288	360	G
Number of minor compliance operations per agent assigned to alcohol enforcement duties	15	9	16	16	G
Program Rating					Y

Motor Transportation Program. The DPS, Taxation and Revenue Department, and Department of Transportation are developing a proposal to expand the use of civilian staff for revenue collection at ports of entry. This should enhance DPS's efforts to improve traffic safety and enforce compliance with the weight distance tax.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Number of commercial motor vehicle safety inspections	87,682	86,013	90,000	73,988	R
Number of commercial motor vehicle citations issued	27,684	27,617	30,000	25,188	R
Number of noncommercial motor vehicle citations issued	11,226	14,294	11,500	13,159	G
Number of motor carrier safety trainings completed	25	51	32	43	G
Program Rating					Y

Administrative Office of the Courts

The Administrative Office of the Courts (AOC) completed implementation of the electronic case management system (CMS) in all courts with the exception of the Court of Appeals and the Supreme Court. Interpreter payments from the jury and witness fund continue to increase resulting in AOC maintaining reductions in juror pay to help cover the revenue shortfall. Budget increases in the Court Appointed Special Advocate (CASA) program resulted in an increase in the number of children assigned a volunteer. In the Magistrate Court program, bench warrant revenue collected in FY14 matched that in FY13.

Administrative Support. The recidivism rate of 21.5 percent for participants in New Mexico drug-court programs is significantly better than the rate of 47 percent experienced by the New Mexico Corrections Department. The program received a yellow rating because average pay per juror exceeded the target.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Recidivism rate for drug court participants statewide	New	New	N/A	21.5%	N/A

Program Rating

Y

Magistrate Court Program. Magistrate courts disposed of 104.4 percent of cases filed in the fourth quarter for a total clearance rate of 100.8 percent in FY14.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Bench warrant revenue collected annually, in millions	\$3.1	\$3.3	\$3.1	\$3.3	G
Percent of cases disposed as a percent of cases filed	100.7%	101.1%	95.0%	100.8%	G

Program Rating

G

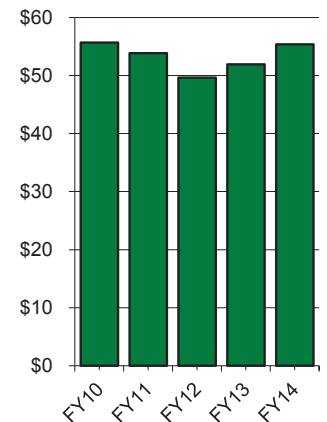
Special Court Services. The FY14, Court Appointed Special Advocate (CASA) program budget of \$1.2 million reflected an increase of \$170 thousand, or 14.2 percent, over FY13 operating levels. AOC attributes much of the growth in the number of assigned CASA volunteers to this increased funding level.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Number of cases to which court-appointed special advocates volunteers are assigned	858	862	1,000	1,024	G

Program Rating

G

Average Cost per Juror



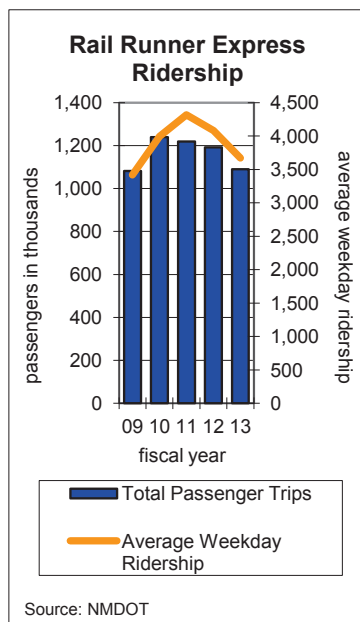
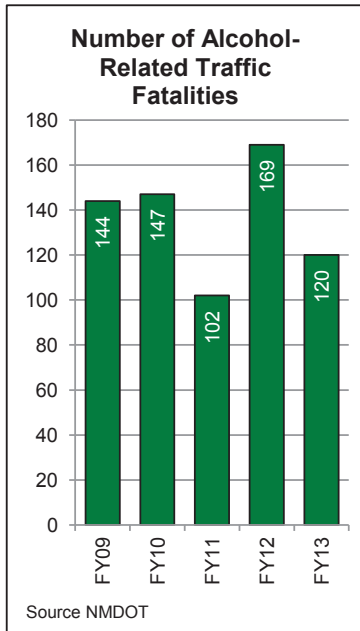
Source: LFC Files

The average cost per juror was \$55.40 in FY14, up from \$51.93 in FY13.

Interpreter costs increased from 18 percent of jury and witness expenditures in FY02 to 38 percent in FY14.

In FY14, the Special Court Services program provided an average 1,016 supervised child visitations and exchanges per month, exceeding its target of 1,000.

Department of Transportation



Performance results for the Department of Transportation (NMDOT) are mixed. The number of traffic fatalities – alcohol-related in particular – has risen. With the exception of the number of statewide miles preserved, measures for road and highway conditions are not available for FY14. The number of combined systemwide lane miles in deficient condition doubled between fiscal years 2012 and 2013. The department placed an emphasis on the final cost-over-bid amounts on contracts and made significant progress in this area. The number of riders on Park and Ride increased while the number of riders on the RailRunner continues to decrease. Vacancy rates remain high, although the department has made considerable progress over previous fiscal years.

Programs and Infrastructure. The number of traffic fatalities and alcohol-related fatalities increased over FY13 levels, the latter a particular concern given earlier progress on the measure as a result of high-visibility law enforcement operations. The percent of bridges in fair condition or better is far above the FY14 target. The percent of projects let as scheduled improved and is above the FY13 target level but should be higher. The percent of final cost-over-bid amount on highway construction projects improved significantly. The percent of airport runways in satisfactory or better condition is far below FY13 levels – the department cites new evaluation methods. The annual number of riders on Park and Ride is far above the FY13 target while ridership on the RailRunner continues to decline and remains below target levels and below FY12 and FY13 actuals.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Number of traffic fatalities	395	304	≤ 345	343	G
Number of alcohol-related fatalities	169	120	≤ 130	137	R
Number of non-alcohol-related fatalities	226	184	≤ 215	206	G
Percent of bridges in fair condition or better (based on deck area)	93%	93%	>75%	94%	G
Percent of airport runways in satisfactory or better condition	64%	66%	≥ 60	50%	R
Number of pedestrian fatalities	57	54	≤ 43	58	R
Ride quality index for new construction	4.1	4.2	≥ 4.0	4.2	G
Percent of final cost-over-bid amount on highway construction projects	3.0%	3.5%	≤ 3.0%	1.0%	G
Percent of projects in production let as scheduled	65%	63%	≥ 70%	70%	G

Department of Transportation

Annual number of riders on park and ride	310,128	312,320	≥275,000	315,738	G
Annual number of riders on the rail runner, in millions	1.2	1.2	> 1.3	1.1	R
Program Rating					Y

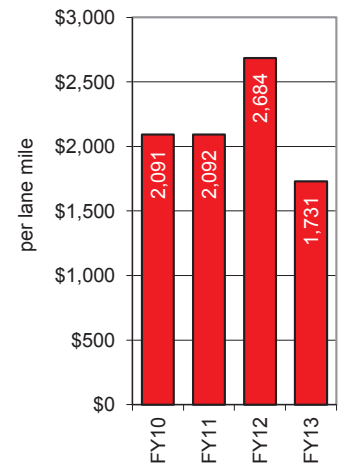
Transportation and Highway Operations. Performance results are difficult to ascertain given that data on critical measures related to road and highway conditions are assessed on an annual basis. Current federal regulations associated with the moving ahead for progress in the 21st century (MAP-21) initiative which requires better assessment tools be implemented. The number of statewide preservation miles preserved – a key indicator for NMDOT performance – is above FY14 targets but below FY13 levels. Significantly, the number of lane miles in deficient condition more than doubled between FY12 and FY13. FY14 data is not available.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of non-interstate lane miles rated good	85%	70%	≥ 85%	n/a	
Percent of interstate lane miles rated good	97%	94%	≥ 97%	n/a	
Number of combined systemwide miles in deficient condition	3,644	8,128	≤ 3,500	n/a	
Number of statewide pavement miles preserved	2,142	3,139	>2,500	2,889	G
Amount of litter collected from department roads, in tons	9,001	6,825	≥14,000	6,201	R
Customer satisfaction at rest areas	99%	99%	≥ 98%	99%	G
Program Rating					Y

Business Support. The department made some progress during the fiscal year on its vacancy rate but is still below the FY14 target. Agency officials face continued problems with recruitment and retention of employees.

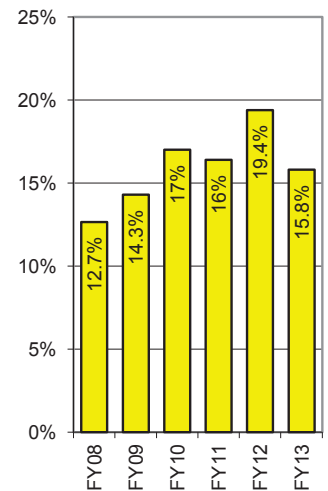
Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Vacancy rate in all programs	19%	16%	≤ 11%	14%	R
Number of employee injuries occurring in workzones	baseline	19	≤ 50	28	G
Number of employee injuries	90	81	≤ 95	106	R
Program Rating					Y

Maintenance Expenditure for Combined Roadways



Source: NMDOT

NMDOT Vacancy Rate



Source: NMDOT

Department of Information Technology

KEY ISSUES

Fiscal year 2014 was the first year the Department of Information Technology set individual measures for time to address service desk calls based on priority. DoIT noted it will be reevaluating the targets set for each priority to determine whether the target is realistic and within best practices.

AGENCY IMPROVEMENT PLANS



Submitted by agency? No
Timeline assigned by agency? No
Responsibility assigned by agency? No

DoIT FY14 Funding by Division (in thousands)		
Program	Budget	FTE
Enterprise Svc	\$51,940.70	168
Compliance and Proj Mgt	\$860.00	7
Prog Sup	\$3,293.60	35
Equip Replace	\$5,824.90	n/a
Total	\$61,919.20	210








Source: FY14 DoIT Operating Budget

The Department of Information Technology is tasked with a number of critical information technology responsibilities beyond the basic services and functions reflected in this report card, and the competing demands pose challenges with respect to meeting critical IT needs of the state including strategic planning, enterprise services, and oversight of IT projects. For example, the department is responsible for developing a new project plan to upgrade the state's SHARE (statewide human resources management reporting) accounting system. However, ongoing delay of this upgrade impacts other state IT systems, such as the Human Services Department ASPEN benefit project, which requires the completed upgrade for some necessary program interfaces.

Compliance and Project Management. At the end of FY14, there were 84 department-certified IT projects at an estimated cost of \$407 million. The program continues to release a quarterly "green-yellow-red" performance report for state IT projects with the largest budgets.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Number and appropriated budget of executive agency certified projects reviewed monthly for compliance and oversight requirements	100%	100%	n/a	84 \$407M	
Program Rating					

Enterprise Services. The program met performance targets for mainframe availability and the SHARE financials system. The new FY14 measure tracking help desk calls by priority allows the department to actively monitor and track improvement of customer service. DoIT reports of 192 help desk quality control surveys collected, 96 percent reflected overall satisfaction.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Service Desk Calls by Priority:					
Priority 1 (8 hours)	n/a	64%	90%	71%	
Priority 2 (24 hours)	n/a	37%	90%	54%	
Priority 3 (40 hours)	n/a	51%	90%	92%	
Priority 4 (80 hours)	n/a	83%	90%	100%	
Priority 5 (160 hours)	n/a	100%	90%	100%	
Queue-time to reach a customer service representative at the DoIT help desk, in seconds	14	12	<19.0	9	
Percent of mainframe uptime affecting user access or batch scheduling	100%	100%	99.9%	99.8%	

Department of Information Technology

Percent of scheduled uptime
the statewide human resources
management reporting
(SHARE financials) is
available during business
hours

98.9% 99.6% 99.9% 99.3%

Y

Program Rating

Y

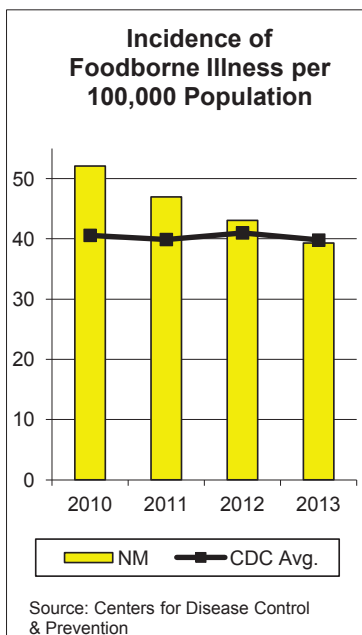
Program Support. Collection of accounts receivables is cyclical, with collections typically increasing in the third and fourth quarters of the year. In FY14, collections within 60 days of the invoice due date exceeded the FY14 target of 75 percent. The department implemented a new billing system in FY13 that consolidated the disparate and aged billing systems into a web-enabled system that provides improved customer access and accounts receivable capabilities. The department hired additional staff and a new manager to address previous collection issues.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of accounts receivable dollars collected within sixty days of the invoice due date	81%	45%	75%	83%	G
Dollar amount of account receivables over sixty says	\$7.5M	\$7.1M	\$7.5M	\$5M	G
Program Rating					G

In FY14, collections within 60 days of the invoice due date exceeded the target of 75 percent.

Department of Environment

According to the Drinking Water Bureau's 2013 Annual Compliance Report, 625, or 56 percent, of New Mexico's public water systems received at least one significant violation of drinking water quality standards in 2013.



The Department of Environment is meeting inspection and permitting targets, however, most of the department's measures are process-oriented rather than providing indicators of environmental protection. The measures should be revised to include outcome-oriented measures, such as the number of days ambient air quality standards are violated, to help legislators formulate policies and practices to ensure air and water are cleaner for New Mexicans.

Field Operations and Infrastructure. The program identified 257 water systems that could be vulnerable if the only source of water is impaired or cannot produce adequate quantities. Although it is important the program inspect and survey public water systems, the results of those inspections and the number of water systems not in compliance with standards are of interest.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of public water systems surveyed to ensure compliance with drinking water regulations	87%	95%	92%	93%	G
Percent of large quantity hazardous waste generators inspected	20%	24%	20%	28%	G
Percent of high-risk food-related violations corrected within the timeframes noted on the inspection report issued to permitted commercial food establishments	83%	92%	100%	99%	G
Program Rating					G

Resource Protection. Although measures track whether permitted facilities are complying with groundwater standards, the program's performance results do little to indicate whether pollution is prevented or water quality is improving. Measures, such as the number of New Mexico's surface waters that are impaired, should be adopted.

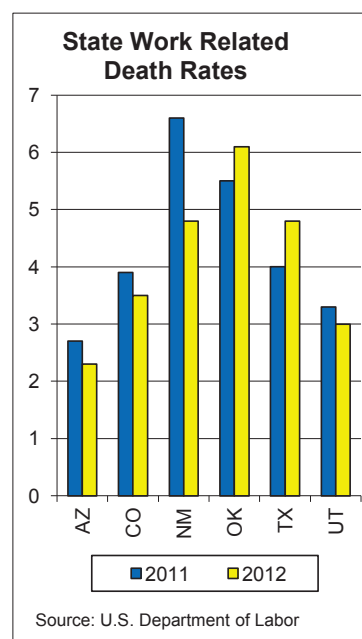
Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of permitted groundwater discharge facilities receiving annual field inspections and compliance evaluations	46%	52%	50%	68%	G
Percent of permitted facilities where monitoring results demonstrate compliance with groundwater standards	71%	71%	71%	70%	Y
Percent of underground storage tank facilities in significant operational compliance with release prevention and release detection requirements of the petroleum storage tanks regulations	69%	60%	70%	83%	G
Program Rating					Y

Department of Environment

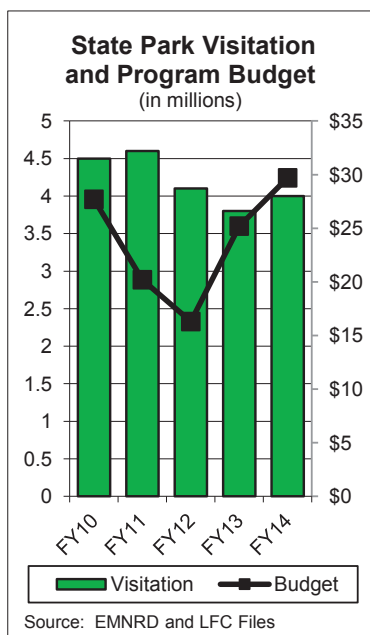
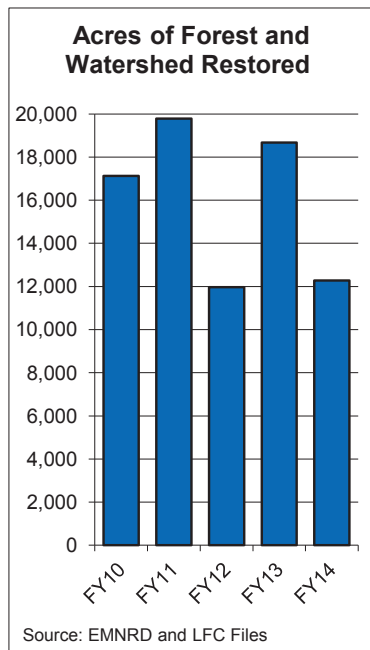
Environmental Protection. As of 2012, New Mexico ranked 39th nationally in workplace fatalities. For four out of the five years for which data is available, New Mexico has higher rates of private sector occupational injuries and illnesses than the national average. The program's measures are among the more meaningful in the department because they provide information concerning improved worker safety and solid waste facility compliance with environmental regulations. Nevertheless, additional outcome measures of interest should be adopted.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of permitted active solid waste facilities and infectious waste generators inspected that were found to be in compliance with the New Mexico solid waste rules	85%	82%	80%	87%	G
Percent of radiation-producing machine inspections completed within the timeframes identified in the radiation control bureau policies	88%	99%	88%	98%	G
Percent of landfills compliant with groundwater sampling and reporting requirements	95%	100%	75%	96%	G
Percent of serious worker health and safety violations corrected within the timeframes designated on issued citations from the consultation and compliance sections	93.6%	93.1%	95.0%	95.9%	G
Percent of referrals alleging serious hazards responded to via an on-site inspection or investigation	93.1%	93.6%	95.0%	95.8%	G
Percent of facilities taking corrective action to mitigate air quality violations discovered as a result of inspections	100%	97%	100%	100%	G
Program Rating					G

In 2012, New Mexico ranked 39th nationally in workplace fatalities with 4.8 fatalities per 100 thousand workers, as compared with the national rate of 3.4. At the same time, New Mexico had 3.9 injuries and illnesses per 100 full-time workers, which exceeded the national rate of 3.4. Fatality rates are affected by a state's major industries, and New Mexico's rates are similar to Oklahoma's and Texas'.



Energy, Minerals & Natural Resources Department



The Energy, Minerals and Natural Resources Department (EMNRD) met most FY14 targets despite challenges related to inclement weather, drought, fire, floods, high fuel prices, and increased production of oil and gas.

Healthy Forests. The program exceeded FY14 targets for all measures due to targeted federal funding. However, between federal fiscal years 2011 and 2014, federal funding for state fire assistance decreased 27.5 percent, and it is expected to continue to do so. To mitigate the impact of this decrease, the Legislature appropriated significant funds for wildfire mitigation at urban forest interfaces and watershed restoration. Despite the increased state funding, the number of forest and watershed acres restored decreased by more than one-third. Experts suggest 50 thousand to 100 thousand acres should be treated per year to proactively thin overgrown forests so they are more resilient to fire, drought, insects, and disease.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Number of nonfederal wild land firefighters provided technical fire training appropriate to their incident command system	1,474	1,687	600	2,074	G
Number of at-risk communities or local fire departments provided funding for wildland firefighting equipment or training.	n/a	89	60	133	G
Number of acres restored in New Mexico's forests and watersheds	11,971	18,669	8,000	12,277	G
Program Rating					G

State Parks. Drought, cold, and flood, fire, and other natural disasters continue to affect visitation and corresponding revenues. The program should look for new revenue opportunities and ways to save money.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Number of visitors to state parks, in millions	4.1	3.8	4.0	4.0	G
Self-generated revenue per visitor	\$1.05	\$0.97	\$1.05	\$0.96	Y
Number of people who complete a certified New Mexico boating safety education course	625	772	800	712	Y
Program Rating					Y

Mine Reclamation. Despite renewed interest in mine exploration, the program performed 100 percent of required inspections in FY14. All permitted mines must have financial assurance to cover the cost of reclamation, including coal and uranium mines. Ninety-seven out of 98 mines are permitted with adequate financial assurance and approved reclamation plans. The mine with inadequate financial

Energy, Minerals & Natural Resources Department

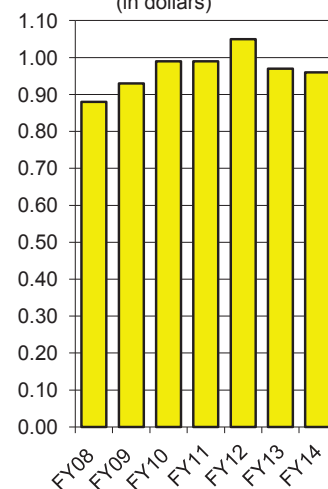
assurance is currently under application with a new owner, and a permit and updated financial assurance are expected to be forthcoming.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of permitted mines with approved reclamation plans and adequate financial assurance posted to cover the cost of reclamation	100%	100%	100%	99%	Y
Percent of required inspections conducted per year to ensure mining is being conducted in compliance with approved permits and regulations.	100%	100%	100%	100%	G
Program Rating					G

Oil and Gas Conservation. High exploration, drilling, and production activity in New Mexico demonstrate the need to enhance services. The program increased inspections of oil and gas wells, despite the continued heavy workload for inspectors. However, the agency noted it may not sustain the same level of inspections as reported in FY14 because of problems with recruitment and retention, primarily stemming from competition with the private oil and gas sector in New Mexico. This has contributed to a vacancy rate of 23 percent. The program is currently working with a group of contractors to properly plug a significant number of wells resulting from the business failure of the former Xeric Oil and Gas Corp. There are 45 such wells southwest of Hobbs, 32 of which were plugged in FY14.

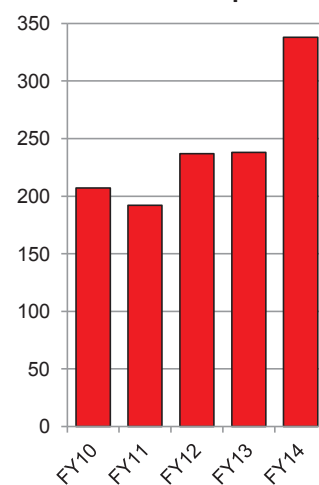
Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Number of inspections of oil and gas wells and associated facilities	35,147	37,707	23,500	38,920	G
Number of abandoned oil and gas wells properly plugged using reclamation fund monies	n/a	57	25	32	G
Program Rating					G

Self-Generated Park Revenue per Visitor
(in dollars)



Source: EMNRD and LFC Files

Number of Reported Oil and Gas Spills



Source: Oil Conservation Division

Office of the State Engineer

KEY ISSUES

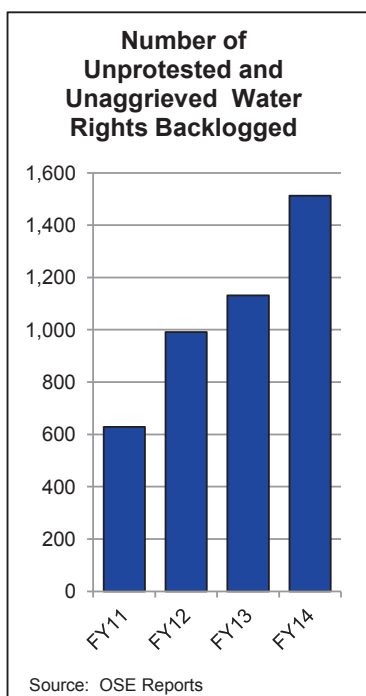
The Office of the State Engineer fell short on achieving several performance targets, including the number of backlogged water rights applications, the number of transactions abstracted into the agency's database, and progress on adjudications. OSE did not provide a plan to close the gap.

AGENCY IMPROVEMENT PLANS

Submitted by agency? No
Timeline assigned by agency? No
Responsibility assigned by agency? No

The Legislature increased the department's operating budget by 17 percent in FY15, including \$1.2 million to address the application backlog and \$600 thousand for hydrographic survey staff to ease bottlenecks in adjudications.

Increased oil and gas activity and the ongoing drought have led to an increase in applications, causing the application backlog to increase in FY14 despite a decrease in vacancy rates.



Despite increased rainfall, the majority of New Mexico remains in drought, according to the federal *Drought Monitor*. The ongoing drought continues to strain the limited water supply. The department attributes the backlogs in water rights applications to both the high number of applications submitted due to continued drought conditions and high staff vacancies.

Water Resource Allocation. Growing water rights application backlogs demonstrate the high demand for services, including that driven oil and gas activity in the Permian Basin, the ongoing lower Rio Grande adjudication, and pending (*Texas v. New Mexico*) litigation. For the last few years, high vacancy rates inhibited effective and efficient management of the program. However, in FY14 vacancy rates decreased, resulting in an increased number of dams inspected and applications processed per month.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Number of unprotested and unaggrieved water right applications backlogged	991	1,332	650	1,513	R
Average number of unprotested new and pending applications processed per month	46	32	65	76	G
Number of transactions abstracted annually into the water administration technical engineering resources system database	24,678	22,331	23,000	18,888	R
Number of dams inspected per year	64	93	100	116	G
Program Rating					R

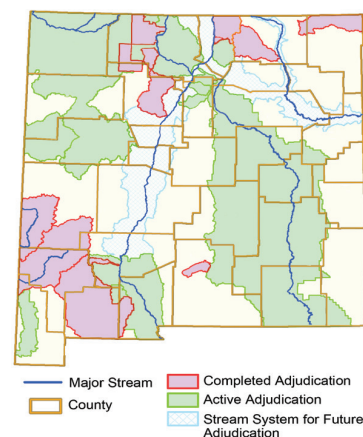
Interstate Stream Compact Compliance and Water Development. The program is meeting its delivery requirements as required by the Pecos River and Rio Grande compacts. Drought conditions in the Rio Grande watershed persist. Even with the open Elephant Butte delta channel, very low volumes of water entered middle Rio Grande reservoirs during spring 2014 snow-melt runoff. Between March and July, inflow to El Vado reservoir is expected to be approximately 40 percent of the 30 year average, while the Rio Grande at San Marcial, just upstream of Elephant Butte reservoir, is expected to be only 8 percent to 10 percent of average for the same period.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Cumulative state-line delivery credit (Pecos river compact)	99K AF	100K AF	N/A	102K AF	G
Rio Grande compact accumulated delivery credit	164K AF	80K AF	N/A	62K AF	G
Program Rating					G

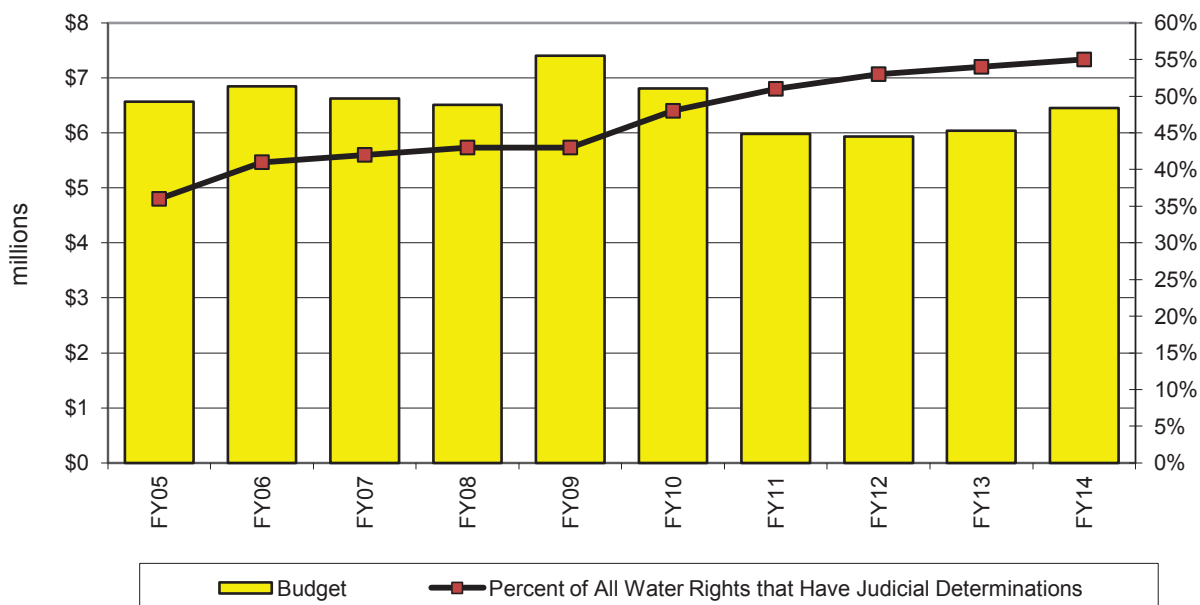
Litigation and Adjudication. Adjudication continues at a glacial pace. Without full adjudication, the state lacks a legal basis for enforcing water rights during times of drought. Currently, 12 adjudications are pending in New Mexico. Six are in state court and six are in federal court. Most adjudications started 30 to 60 years ago and the Litigation and Adjudication Program may be decades away from adjudicating all water rights in New Mexico. The agency notes difficulty in recruiting and retaining engineers and attorneys at salaries competitive with the private sector. The program relies on contractual services to augment its staff attorneys and advance the state's active adjudications.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Number of offers to defendants in adjudications	880	640	600	540	R
Percent of all water rights that have judicial determinations	51%	53%	54%	55%	Y
Program Rating					R

Status of Adjudications by Basin



Litigation and Adjudication Budget and Percent of All Water Rights with Judicial Determinations



Source: OSE

General Services Department

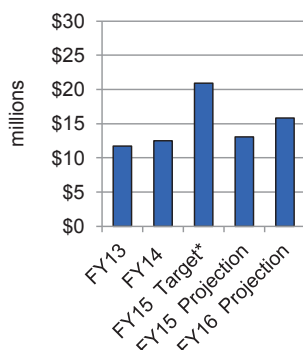
KEY ISSUES

GSD fell short on several measures for FY14 including change in medical premium compared with industry trend, capital projects on schedule, and number of procurement violations. GSD is working on closing these gaps with benefit changes that include lower medical premium increases for FY16, and the implementation of training programs leading to industry certification for agency project managers and state and local government procurement officers.

AGENCY IMPROVEMENT PLANS

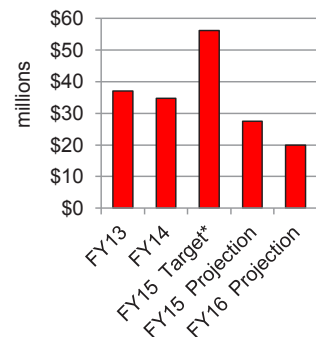
Submitted by agency? Yes
Timeline assigned by agency? No
Responsibility assigned by agency? Yes

Workers' Comp Cash Balances



*Target is 30 percent of projected liabilities
Source: GSD, LFC files

Public Liability Cash Balances



*Target is 50 percent of projected liabilities
Source: GSD, LFC files

GSD continues to demonstrate improvement in the quality of performance measures. However, inconsistent data and incomplete documentation is impacting some programs, and the agency is working to resolve these issues to ensure that meaningful data is collected.

Risk Management. Risk fund reserve ratios continue to decline; however, starting FY15, a five-year rate plan should increase reserves to actuarially sound levels. Overall, payments from risk funds decreased 5 percent from the prior fiscal year, a decrease of 8 percent when compared with the five-year average, largely due to fewer payments from the unemployment compensation funds. The decline in unemployment compensation claims also reflects fewer employees.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Financial position of public property fund	154%	91%	50%	250%	G
Financial position of the workers' comp fund	28%	25%	30%	18%	R
Financial position of the public liability fund	23%	38%	50%	22%	R
Attorney fees (in millions)	\$11.4	\$10.8	\$10.2	\$11.0	Y
Program Rating					Y

Employee Group Health Benefits. Medical premiums increased above industry trends over the past two years, and employee out-of-pocket costs were also increased. The program is adopting strategies that could increase costs initially, such as worksite wellness programs and health clinics, to slow the growth of healthcare costs over time.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Prescriptions filled with generic drugs	83%	84%	80%	84%	G
Change in medical premium compared with industry average	- 4%	- 4%	≤7%	11%	R
Claim costs for the top three diagnoses	New	\$68,826.3	\$66,761.5	\$54,776.5	G
Participation in wellness programs	New	1,117	1,151	1,564	G
Program Rating					Y

Facilities Management. The program struggles to manage space under an outdated state space standard and has made little progress adjusting to fewer public employees. In addition, agencies do not pay use fees to occupy state-owned buildings, so incentives to control costs are limited. As a result, utility consumption did not decrease as much as expected in state-owned buildings, despite efficiencies installed under a federal program and improvements in building maintenance.

General Services Department

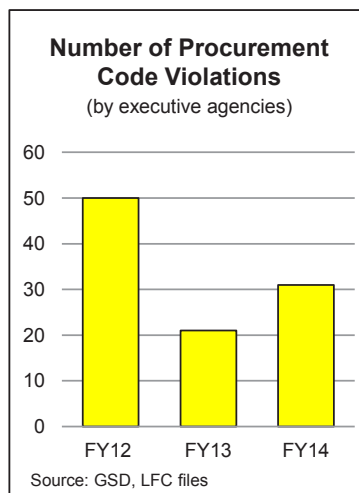
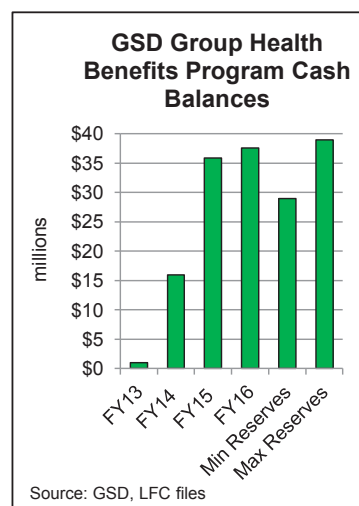
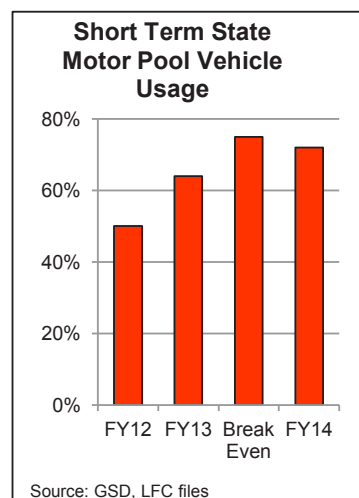
Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Electricity consumption	New	21,930,273 kWh	21,272,365 KWh	21,625,273 kWh	Y
Lease square footage, in millions	New	2.5	2.4	2.6	Y
Lease costs, in millions	New	\$44.3	\$42.0	\$47.1	R
FMD projects on schedule	95%	93%	92%	87%	R
Program Rating					Y

Transportation Services. Short-term motor pool use reflects higher usage compared with the prior two fiscal years because of efforts to remove underutilized long-term leased vehicles from agencies, more relaxed in-state travel policies, and less employee personal vehicle use.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Short-term vehicle use	50%	64%	67%	72%	G
Vehicles accumulating 1,000 per month	New	41%	45%	30%	R
State vehicles beyond five years	New	52%	20%	54%	R
Revenue generated from surplus property, in thousands	\$620.0	\$478.0	\$502.0	\$1,031.0	G
Program Rating					Y

Procurement Services. The number of procurement violations is on the rise, sometimes emanating from the same agencies which reflect inadequate training and oversight. The measure for sole source procurements reflects a new online portal that allows data from local public bodies to be reported in addition to that from state agencies. As a result, the number has increased dramatically.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Employees trained on Procurement Code	636	754	600	689	G
Procurement Code violations	50	21	20	31	R
Sole source procurements	45	132	125	236	Y
New awards to businesses with New Mexico preference		New	5%	7%	Y
Program Rating					Y



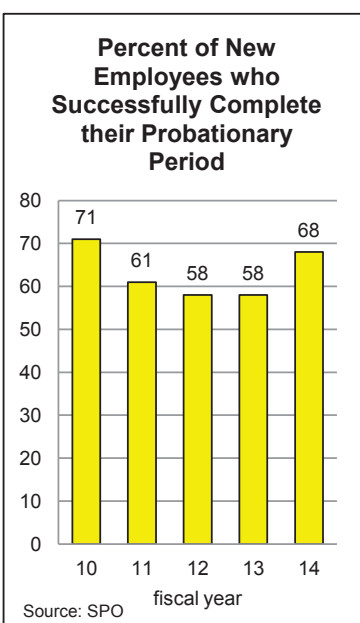
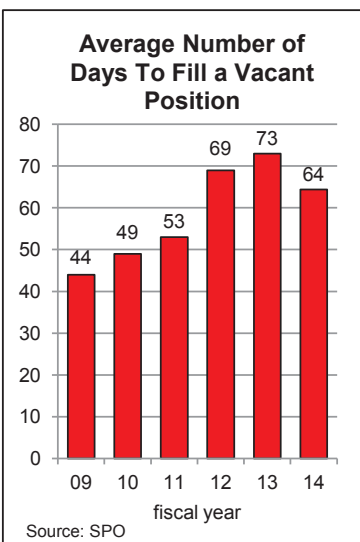
State Personnel Board

KEY ISSUES

The State Personnel Board did not meet the targets for average number of days to fill vacant positions and percent of new employees successfully completing their probation period. The department did not submit an improvement plan.

AGENCY IMPROVEMENT PLANS

Submitted by agency? No
Timeline assigned by agency? No
Responsibility assigned by agency? No



A revised salary and classification structure based on occupational groups has been developed to remedy long-standing problems related to recruitment, reward, and retention. The new occupationally based structure will allow the State Personnel Office (SPO) to better align state salaries to the market for specific occupations to improve recruitment and retention. SPO has not yet provided an estimated cost for matching state employee salaries to market rates. SPO is working with agencies and applicants to improve hiring rates by providing one-on-one application assistance, as well as participating in job fairs targeted at recruiting for specific state agencies. SPO continues to pursue “shared services” agreements with state agencies having fewer than 100 employees, designed to establish more effective human resource capabilities and functions.

Human Resource Management. The program continues to miss targets on its performance measures, though improvements have been made. The average number of days to fill a vacant position has seen its first reduction since the FY08-09 time period and may indicate SPO and agency staff have better integrated NEOGOV into their hiring processes. Additionally, SPO reports a 96 percent increase in applications received from FY11 to FY14. The percent of new employees who successfully complete their probationary period has increased and SPO credits this to the implementation of a hiring process, which better matches applicants to employers. The comparisons that exceed the targeted level suggests the current pay plan salaries lag market rates and are insufficient to recruit, reward and retain state employees.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Statewide classified service vacancy rate	20%	15%	12.0%	15%	Y
Average number of days to fill a vacant position	69	73	40	64.4	R
Percent of new employees who successfully complete their probationary period	58%	58%	85%	68%	R
Percent of eligible employees with a completed performance appraisal on record at the close of the fiscal year	58%	93%	99%	99%	G
Average new hire compa-ratio	93.5%	94.4%	91.0%	96.1%	R
Percent of turnover of employees leaving state service	new	8%	18%	6.1%	G
Program Rating					Y

Taxation & Revenue Department

In light of a recovering economy and despite high vacancies, the Taxation and Revenue Department (TRD) met or exceeded most performance targets, including significant reductions in Motor Vehicle call center and field office waits.

Tax Administration Program. Of the FY14 audit assessments of \$38 million in unpaid taxes, \$11.4 million is less than 90 days old, \$14 million is in protest, and \$1.1 million has been abated or is in bankruptcy, leaving a collectible balance of \$11.5 million. The percent of electronically filed tax returns continued its upward trend. The option for e-filing exists for both personal income tax and the combined reporting tax system.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Collections as a percent of collectable outstanding balances from the end of the prior fiscal year	18.4%	17.6%	18.0%	18.0%	G
Collections as a percent of collectable audit assessments generated in the current fiscal year	64%	66%	55%	61%	G
Percent of electronically filed personal income tax and combined reporting system returns	82%	85%	85%	90%	G
Program Rating					G

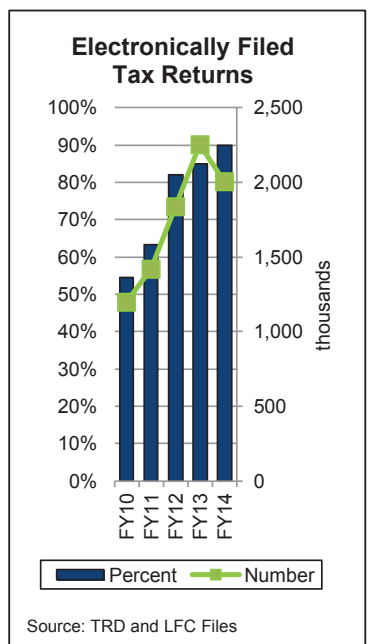
Compliance Enforcement Program. A total of 13 tax compliance cases were assigned to program agents in FY14. Of these, four investigations were referred for criminal prosecution during the year. This is a drop from FY13, when the program earned a “green” rating, for referring six out of nine investigations for criminal prosecution.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Number of tax investigations referred to prosecutors as a percent of total investigations	15%	67%	40%	30%	Y
Program Rating					Y

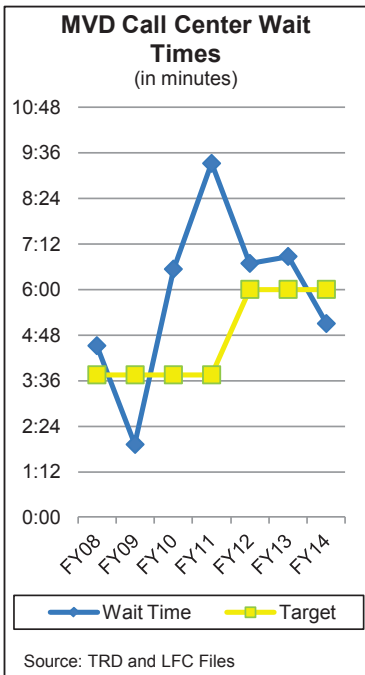
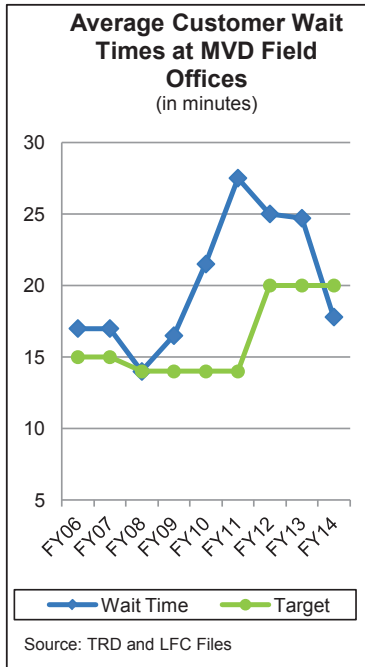
Motor Vehicle Program. Field office wait times decreased an average of seven minutes between FY13 and FY14, with a notable fourth quarter performance of 13 minutes, 48 seconds. Average call center wait times also improved greatly from the previous fiscal year, dropping 1 minute, 30 seconds, with an impressive fourth quarter wait time of 2 minutes, 42 seconds. The percent of insured vehicles held steady at 91 percent, which, although it misses the target, exceeds national averages.

TRD FY14 Funding by Division (in millions)		
Program	Budget	FTE
Tax Administration	\$31.3	507
Motor Vehicle Division	\$26.7	348
Property Tax	\$3.3	39
Compliance Enforcement	\$2.2	28
Program Support	\$20.8	187
Total	\$84.3	1109

Source: TRD FY14 Operating Budget



Taxation & Revenue Department



Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of registered vehicles with liability insurance	92.0%	91.0%	92.0%	91.0%	Y
Average wait time in q-matic-equipped offices, in minutes	25:06	24:42	20:00	17:48	G
Average call center wait time to reach an agent, in minutes	6:41	6:52	6:00	5:06	G
Program Rating					G

Property Tax Program. The measure of the amount of delinquent property tax collected was a new performance measure in FY14. Of the \$13.5 million collection reported for FY14, \$12.8 million has already been received and an additional \$700 thousand is anticipated in FY15. The collection exceeds the target of \$7 million by almost two-fold.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Amount of delinquent property tax collected and distributed to counties, in millions	\$11.3	\$12.4	\$7.0	\$13.5	G
Program Rating					G

Program Support. Fifteen of 4,744 DWI cases were rescinded due to errors by the Motor Vehicle Division and mistakes by the Hearings Bureau and hearings officers.

Measure	FY12 Actual	FY13 Actual	FY14 Target	FY14 Actual	Rating
Percent of DWI driver's license revocations rescinded due to failure to hold hearings within ninety days	0.2%	0.5%	<1.0%	0.3%	G
Program Rating					G

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

Business Unit	Description	FY15 Operating Budget	FY16 Agency Request	FY16 LFC Recomm.	\$ Over Adj. FY15 Oper.	Percent Change
Legislative						
111	LEGISLATIVE COUNCIL SERVICE	5,924.4	6,126.3	6,126.3	201.9	3.4%
112	LEGISLATIVE FINANCE COMMITTEE	4,307.2	4,350.3	4,350.3	43.1	1.0%
114	SENATE CHIEF CLERK	1,210.7	1,213.9	1,213.9	3.2	0.3%
115	HOUSE CHIEF CLERK	1,175.4	1,178.8	1,178.8	3.4	0.3%
117	LEGISLATIVE EDUCATION STUDY COMMITTEE	1,297.1	1,308.9	1,308.9	11.8	0.9%
119	LEGISLATIVE BUILDING SERVICES	4,342.5	4,342.5	4,342.5	0.0	0.0%
131	LEGISLATURE	2,090.2	2,197.9	2,197.9	107.7	5.2%
132	ENERGY COUNCIL DUES	38.4	38.4	38.4	0.0	0.0%
Total Legislative		20,385.9	20,757.0	20,757.0	371.1	1.8%
Judicial						
205	SUPREME COURT LAW LIBRARY	1,547.4	1,607.0	1,591.6	44.2	2.9%
208	NEW MEXICO COMPILATION COMMISSION	0.0	0.0	0.0	0.0	0.0%
210	JUDICIAL STANDARDS COMMISSION	858.3	891.7	891.7	33.4	3.9%
215	COURT OF APPEALS	5,943.8	5,943.8	5,943.8	0.0	0.0%
216	SUPREME COURT	3,249.6	3,472.9	3,407.0	157.4	4.8%
218	ADMINISTRATIVE OFFICE OF THE COURTS	46,772.8	55,611.4	50,430.9	3,658.1	7.8%
219	SUPREME COURT BUILDING COM	923.0	987.1	964.2	41.2	4.5%
231	FIRST JUDICIAL DISTRICT COURT	6,886.4	7,260.9	7,057.8	171.4	2.5%
232	SECOND JUDICIAL DISTRICT COURT	23,062.9	24,583.6	23,414.8	351.9	1.5%
233	THIRD JUDICIAL DISTRICT COURT	6,581.8	7,481.3	6,680.8	99.0	1.5%
234	FOURTH JUDICIAL DISTRICT COURT	2,252.7	2,328.0	2,278.1	25.4	1.1%
235	FIFTH JUDICIAL DISTRICT COURT	6,604.7	6,776.6	6,734.7	130.0	2.0%
236	SIXTH JUDICIAL DISTRICT COURT	3,249.6	3,466.5	3,310.1	60.5	1.9%
237	SEVENTH JUDICIAL DISTRICT COURT	2,378.6	2,441.6	2,411.6	33.0	1.4%
238	EIGHTH JUDICIAL DISTRICT COURT	2,906.5	3,080.3	2,970.0	63.5	2.2%
239	NINTH JUDICIAL DISTRICT COURT	3,403.7	3,660.7	3,472.5	68.8	2.0%
240	TENTH JUDICIAL DISTRICT COURT	889.0	989.3	919.6	30.6	3.4%
241	ELEVENTH JUDICIAL DISTRICT COURT	6,309.1	6,666.2	6,438.6	129.5	2.1%
242	TWELFTH JUDICIAL DISTRICT COURT	3,277.0	3,603.8	3,356.8	79.8	2.4%
243	THIRTEENTH JUDICIAL DISTRICT COURT	7,113.7	7,513.1	7,235.5	121.8	1.7%
244	BERNALILLO COUNTY METROPOLITAN COURT	23,795.6	24,330.0	24,021.4	225.8	0.9%
251	FIRST JUDICIAL DISTRICT ATTORNEY	5,262.3	5,698.6	5,400.0	137.7	2.6%
252	SECOND JUDICIAL DISTRICT ATTORNEY	18,380.3	20,441.6	18,744.5	364.2	2.0%
253	THIRD JUDICIAL DISTRICT ATTORNEY	4,716.1	5,114.6	4,820.7	104.6	2.2%
254	FOURTH JUDICIAL DISTRICT ATTORNEY	3,179.7	3,297.0	3,179.9	0.2	0.0%
255	FIFTH JUDICIAL DISTRICT ATTORNEY	4,872.1	5,479.2	5,009.3	137.2	2.8%
256	SIXTH JUDICIAL DISTRICT ATTORNEY	2,783.0	3,046.7	2,844.1	61.1	2.2%
257	SEVENTH JUDICIAL DISTRICT ATTORNEY	2,504.3	2,578.0	2,539.2	34.9	1.4%
258	EIGHTH JUDICIAL DISTRICT ATTORNEY	2,671.9	2,841.3	2,735.2	63.3	2.4%
259	NINTH JUDICIAL DISTRICT ATTORNEY	2,853.1	3,084.6	2,935.7	82.6	2.9%
260	TENTH JUDICIAL DISTRICT ATTORNEY	1,182.3	1,402.8	1,206.2	23.9	2.0%
261	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIVISION I	3,540.2	4,082.3	3,638.1	97.9	2.8%
262	TWELFTH JUDICIAL DISTRICT ATTORNEY	2,758.5	3,486.1	2,900.6	142.1	5.2%
263	THIRTEENTH JUDICIAL DISTRICT ATTORNEY	5,037.6	5,235.4	5,199.4	161.8	3.2%
264	ADMINISTRATIVE OFFICE OF THE DISTRICT ATTORNEYS	2,207.5	2,709.4	2,265.2	57.7	2.6%
265	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIVISION II	2,207.8	2,479.5	2,245.9	38.1	1.7%
Total Judicial		222,162.9	243,672.9	229,195.5	7,032.6	3.2%

TABLE 1

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

Business Unit	Description	FY15 Operating Budget	FY16 Agency Request	FY16 LFC Recomm.	\$ Over Adj. FY15 Oper.	Percent Change
General Control						
305	ATTORNEY GENERAL	10,767.0	18,197.5	10,767.0	0.0	0.0%
308	STATE AUDITOR	3,170.3	3,170.3	3,120.3	-50.0	-1.6%
333	TAXATION AND REVENUE DEPARTMENT	57,839.3	59,120.4	58,525.6	686.3	1.2%
337	STATE INVESTMENT COUNCIL	0.0	0.0	0.0	0.0	0.0%
341	DEPARTMENT OF FINANCE AND ADMINISTRATION	26,262.2	27,606.7	26,693.6	431.4	1.6%
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	14,367.7	15,117.7	14,367.7	0.0	0.0%
352	EDUCATIONAL RETIREMENT BOARD	0.0	0.0	0.0	0.0	0.0%
354	NEW MEXICO SENTENCING COMMISSION	578.2	578.2	578.2	0.0	0.0%
355	PUBLIC DEFENDER DEPARTMENT	44,489.2	96,244.7	50,132.0	5,642.8	12.7%
356	GOVERNOR	3,599.1	3,599.1	3,599.1	0.0	0.0%
360	LIEUTENANT GOVERNOR	588.2	588.2	588.2	0.0	0.0%
361	DEPARTMENT OF INFORMATION TECHNOLOGY	877.4	1,277.4	977.4	100.0	11.4%
366	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION	0.0	0.0	0.0	0.0	0.0%
369	STATE COMMISSION OF PUBLIC RECORDS	2,798.1	3,008.7	2,871.9	73.8	2.6%
370	SECRETARY OF STATE	7,457.2	7,958.2	7,639.8	182.6	2.4%
378	PERSONNEL BOARD	4,295.1	4,409.6	4,378.1	83.0	1.9%
379	PUBLIC EMPLOYEE LABOR RELATIONS BOARD	231.1	258.0	241.2	10.1	4.4%
394	STATE TREASURER	3,785.1	3,998.2	3,824.2	39.1	1.0%
Total General Control		181,105.2	245,132.9	188,304.3	7,199.1	4.0%
Commerce and Industry						
404	BOARD OF EXAMINERS FOR ARCHITECTS	0.0	0.0	0.0	0.0	0.0%
417	BORDER AUTHORITY	330.9	330.9	330.9	0.0	0.0%
418	TOURISM DEPARTMENT	12,337.8	15,977.0	14,021.0	1,683.2	13.6%
419	ECONOMIC DEVELOPMENT DEPARTMENT	7,387.3	12,014.6	9,499.6	2,112.3	28.6%
420	REGULATION AND LICENSING DEPARTMENT	13,688.0	13,977.8	13,688.0	0.0	0.0%
430	PUBLIC REGULATION COMMISSION	7,852.6	9,333.8	7,898.8	46.2	0.6%
440	OFFICE OF SUPERINTENDENT OF INSURANCE	0.0	0.0	0.0	0.0	0.0%
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	5,724.5	6,242.7	5,897.4	172.9	3.0%
469	STATE RACING COMMISSION	2,430.2	2,902.9	2,530.2	100.0	4.1%
479	BOARD OF VETERINARY MEDICINE	0.0	0.0	0.0	0.0	0.0%
490	CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION	123.2	210.0	126.9	3.7	3.0%
491	OFFICE OF MILITARY BASE PLANNING AND SUPPORT	200.5	200.5	200.5	0.0	0.0%
495	SPACEPORT AUTHORITY	463.1	463.1	463.1	0.0	0.0%
Total Commerce and Industry		50,538.1	61,653.3	54,656.4	4,118.3	8.1%
Agriculture, Energy and Natural Resources						
505	CULTURAL AFFAIRS DEPARTMENT	30,373.3	31,715.6	31,123.6	750.3	2.5%
508	NEW MEXICO LIVESTOCK BOARD	1,400.9	1,400.9	1,400.9	0.0	0.0%
516	DEPARTMENT OF GAME AND FISH	0.0	0.0	0.0	0.0	0.0%
521	ENERGY, MINERALS AND NATURAL RESOURCES DEPARTM	22,566.2	22,816.2	22,766.2	200.0	0.9%
522	YOUTH CONSERVATION CORPS	0.0	0.0	0.0	0.0	0.0%
538	INTERTRIBAL CEREMONIAL OFFICE	104.7	104.8	104.8	0.1	0.1%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

TABLE 1

Business Unit	Description	FY15 Operating Budget	FY16 Agency Request	FY16 LFC Recomm.	\$ Over Adj. FY15 Oper.	Percent Change
539	COMMISSIONER OF PUBLIC LANDS	0.0	0.0	0.0	0.0	0.0%
550	STATE ENGINEER	18,707.5	24,190.9	20,082.5	1,375.0	7.3%
Total Agriculture, Energy and Natural Resources		73,152.6	80,228.4	75,478.0	2,325.4	3.2%
Health, Hospitals and Human Services						
603	OFFICE OF AFRICAN AMERICAN AFFAIRS	809.1	825.6	825.6	16.5	2.0%
604	COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS	299.2	300.0	300.0	0.8	0.3%
605	MARTIN LUTHER KING, JR. COMMISSION	336.6	474.8	361.7	25.1	7.5%
606	COMMISSION FOR THE BLIND	2,089.8	2,157.9	2,154.4	64.6	3.1%
609	INDIAN AFFAIRS DEPARTMENT	2,701.1	2,876.7	2,726.7	25.6	0.9%
624	AGING AND LONG-TERM SERVICES DEPARTMENT	47,491.3	49,884.3	48,063.1	571.8	1.2%
630	HUMAN SERVICES DEPARTMENT	1,012,947.9	1,054,458.5	1,015,602.6	2,654.7	0.3%
631	WORKFORCE SOLUTIONS DEPARTMENT	11,389.0	14,706.4	11,564.0	175.0	1.5%
632	WORKERS' COMPENSATION ADMINISTRATION	0.0	0.0	0.0	0.0	0.0%
644	DIVISION OF VOCATIONAL REHABILITATION	5,800.1	5,800.1	5,700.1	-100.0	-1.7%
645	GOVERNOR'S COMMISSION ON DISABILITY	1,323.0	1,393.8	1,322.3	-0.7	-0.1%
647	DEVELOPMENTAL DISABILITIES PLANNING COUNCIL	5,207.8	6,956.8	5,399.0	191.2	3.7%
662	MINERS' HOSPITAL OF NEW MEXICO	0.0	0.0	0.0	0.0	0.0%
665	DEPARTMENT OF HEALTH	307,971.0	314,621.0	309,000.0	1,029.0	0.3%
667	DEPARTMENT OF ENVIRONMENT	12,757.8	14,181.7	13,358.1	600.3	4.7%
668	OFFICE OF THE NATURAL RESOURCES TRUSTEE	277.7	280.2	277.7	0.0	0.0%
670	VETERANS' SERVICES DEPARTMENT	3,360.0	4,023.1	3,460.0	100.0	3.0%
690	CHILDREN, YOUTH AND FAMILIES DEPARTMENT	232,393.6	249,604.4	244,995.0	12,601.4	5.4%
Total Health, Hospitals and Human Services		1,647,155.0	1,722,545.3	1,665,110.3	17,955.3	1.1%
Public Safety						
705	DEPARTMENT OF MILITARY AFFAIRS	7,073.7	7,446.5	7,215.1	141.4	2.0%
760	ADULT PAROLE BOARD	493.5	490.6	490.6	-2.9	-0.6%
765	JUVENILE PUBLIC SAFETY ADVISORY BOARD	15.0	15.0	15.0	0.0	0.0%
770	CORRECTIONS DEPARTMENT	279,465.1	296,042.0	291,633.9	12,168.8	4.4%
780	CRIME VICTIMS REPARATION COMMISSION	1,879.9	2,771.2	2,398.4	518.5	27.6%
790	DEPARTMENT OF PUBLIC SAFETY	109,113.8	119,512.3	114,358.5	5,244.7	4.8%
795	HOMELAND SECURITY AND EMERGENCY MANAGEMENT	2,523.0	3,084.7	2,523.0	0.0	0.0%
Total Public Safety		400,564.0	429,362.3	418,634.5	18,070.5	4.5%
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	11,969.2	11,969.2	11,969.2	0.0	0.0%
925	PUBLIC EDUCATION DEPARTMENT-SPECIAL APPROPRIATIO	95,122.8	6,000.0	105,647.9	10,525.1	11.1%
940	PUBLIC SCHOOL FACILITIES AUTHORITY	0.0	0.0	0.0	0.0	0.0%
949	EDUCATION TRUST BOARD	0.0	0.0	0.0	0.0	0.0%
Total Other Education		107,092.0	17,969.2	117,617.1	10,525.1	9.8%
Higher Education						
950	HIGHER EDUCATION DEPARTMENT	35,283.3	40,358.8	36,711.6	1,428.3	4.0%

TABLE 1

GENERAL FUND AGENCY RECOMMENDATION SUMMARY

Business Unit	Description	FY15 Operating Budget	FY16 Agency Request	FY16 LFC Recomm.	\$ Over Adj. FY15 Oper.	Percent Change
952	UNIVERSITY OF NEW MEXICO	315,323.6	323,311.7	322,098.8	6,775.2	2.1%
954	NEW MEXICO STATE UNIVERSITY	205,508.8	209,381.6	209,716.3	4,207.5	2.0%
956	NEW MEXICO HIGHLANDS UNIVERSITY	31,564.7	31,890.5	32,216.4	651.7	2.1%
958	WESTERN NEW MEXICO UNIVERSITY	20,438.0	20,815.3	21,144.2	706.2	3.5%
960	EASTERN NEW MEXICO UNIVERSITY	46,520.4	47,052.4	47,481.0	960.6	2.1%
962	NEW MEXICO INSTITUTE OF MINING AND TECHNOLOGY	38,319.0	38,864.9	39,146.3	827.3	2.2%
964	NORTHERN NEW MEXICO COLLEGE	11,650.5	11,372.8	11,797.6	147.1	1.3%
966	SANTA FE COMMUNITY COLLEGE	14,509.4	14,765.6	14,869.7	360.3	2.5%
968	CENTRAL NEW MEXICO COMMUNITY COLLEGE	55,644.4	58,338.8	57,925.3	2,280.9	4.1%
970	LUNA COMMUNITY COLLEGE	8,730.8	8,681.1	8,730.8	0.0	0.0%
972	MESALANDS COMMUNITY COLLEGE	4,509.2	4,502.0	4,509.2	0.0	0.0%
974	NEW MEXICO JUNIOR COLLEGE	6,530.6	6,669.1	6,690.1	159.5	2.4%
976	SAN JUAN COLLEGE	25,170.3	25,170.3	25,220.0	49.7	0.2%
977	CLOVIS COMMUNITY COLLEGE	10,192.5	10,319.5	10,369.8	177.3	1.7%
978	NEW MEXICO MILITARY INSTITUTE	3,028.8	3,042.5	3,028.8	0.0	0.0%
979	NEW MEXICO SCHOOL FOR THE BLIND AND VISUALLY IMP	1,391.6	1,526.9	1,509.1	117.5	8.4%
980	NEW MEXICO SCHOOL FOR THE DEAF	4,290.9	4,371.7	4,290.9	0.0	0.0%
983	NAVAJO TECHNICAL UNIVERSITY	0.0	200.0	0.0	0.0	0.0%
984	INSTITUTE OF AMERICAN INDIAN ARTS	0.0	200.0	0.0	0.0	0.0%
Total Higher Education		838,606.8	860,835.5	857,455.9	18,849.1	2.2%
Public School Support						
993	PUBLIC SCHOOL SUPPORT	2,608,377.6	2,672,060.6	2,668,896.5	60,518.9	2.3%
Total Public School Support		2,608,377.6	2,672,060.6	2,668,896.5	60,518.9	2.3%
Compensation Increase						
990	HARD TO FILL CLASSIFICATIONS/AFSCME	1,994.5	0.0	0.0	-1,994.5	-100.0%
Total Compensation Increase		1,994.5	0.0	0.0	-1,994.5	-100.0%
Other Adjustments						
991	GENERAL SERVICES RISK/HEALTH RATES	0.0	0.0	-4,500.0	-4,500.0	0.0%
Total Other Adjustments		0.0	0.0	-4,500.0	-4,500.0	0.0%
Grand Total		6,151,134.6	6,354,217.4	6,291,605.5	140,470.9	2.3%

TABLE 2

U.S. AND NEW MEXICO ECONOMIC INDICATORS

December 2014 Consensus Forecast

	FY2014	FY2015	FY2016	FY2017
<i>NATIONAL ECONOMIC INDICATORS</i>				
US Real GDP Growth (level annual avg, % yoy) ¹				
IHS Global Insight	2.5	2.7	2.5	3.2
Moody's Analytics ²	2.5	2.7	3.6	3.2
US Inflation Rate (CPI, annual avg, % yoy) ³				
IHS Global Insight	1.6	1.6	1.3	1.8
Moody's Analytics ²	1.6	1.7	2.1	2.6
Federal Funds Rate (%)				
IHS Global Insight	0.08	0.15	0.91	2.46
Moody's Analytics ²	0.08	0.10	1.06	3.06
<i>NEW MEXICO LABOR MARKET AND INCOME DATA</i>				
NM Non-Agricultural Employment Growth	0.5	0.9	1.3	1.3
NM Nominal Personal Income Growth (%) ⁴	0.5	3.0	4.1	4.9
NM Private Wages & Salaries Growth (%)	2.4	4.3	4.5	4.5
<i>CRUDE OIL AND NATURAL GAS OUTLOOK</i>				
NM Oil Price (\$/barrel)	\$95.14	\$71.00	\$66.00	\$72.00
NM Taxable Oil Volumes (million barrels)	113.4	122.0	127.0	131.0
NM Gas Price (\$ per thousand cubic feet) ⁵	\$5.13	\$4.90	\$4.90	\$4.95
NM Taxable Gas Volumes (billion cubic feet)	1,187	1,181	1,150	1,118

¹ Real GDP is BEA chained 2009 dollars, billions, annual rate² For National Indicators, DFA used Moody's Analytics forecasting service in the revenue³ CPI is all urban BLS, 1982-84=1.00 base.⁴ Personal Income growth rates are for the calendar year in which each fiscal year begins⁵ The gas prices are estimated using a formula of NYMEX and Global Insight Future prices as well as a liquid premium based on oil prices.

Sources: October 2014 IHS Global Insight, BBER: FOR-UNM, October 2014

TABLE 3

GENERAL FUND CONSENSUS REVENUE ESTIMATE
December 2014
(Millions of Dollars)

	FY14		FY15		FY16		FY17	
	Unaudited Actual	% Change from FY13	Forecast	% Change from FY14	Forecast	% Change from FY15	Forecast	% Change from FY16
Gross Receipts Tax	1,992.0	3.9%	2,090.0	4.9%	2,195.0	5.0%	2,292.0	4.4%
Compensating Tax	78.4	53.9%	63.9	-18.5%	65.9	3.1%	70.4	6.8%
TOTAL GENERAL SALES	2,070.4	5.2%	2,153.9	4.0%	2,260.9	5.0%	2,362.4	4.5%
Tobacco Taxes	78.5	-8.8%	79.0	0.7%	78.1	-1.1%	77.4	-0.9%
Liquor Excise	26.4	0.4%	26.7	1.3%	6.7	-74.9%	6.9	3.0%
Insurance Taxes	115.1	7.0%	140.0	21.7%	183.0	30.7%	213.0	16.4%
Fire Protection Fund Reversion	16.1	-12.2%	14.9	-7.4%	13.8	-7.4%	12.8	-7.2%
Motor Vehicle Excise	133.3	6.2%	141.3	6.0%	145.6	3.0%	149.9	3.0%
Gaming Excise	66.5	5.4%	67.9	2.2%	68.1	0.3%	68.3	0.3%
Leased Vehicle Surcharge	5.2	4.7%	5.2	-0.1%	5.2	0.0%	5.2	0.0%
Other	2.9	-217.5%	1.1	-64.3%	2.4	128.6%	2.4	0.0%
TOTAL SELECTIVE SALES	443.9	4.3%	476.1	7.3%	502.9	5.6%	535.9	6.6%
Personal Income Tax	1,254.9	1.1%	1,305.0	4.0%	1,345.0	3.1%	1,405.0	4.5%
Corporate Income Tax	196.8	-26.3%	215.0	9.3%	210.0	-2.3%	217.0	3.3%
TOTAL INCOME TAXES	1,451.7	-3.7%	1,520.0	4.7%	1,555.0	2.3%	1,622.0	4.3%
Oil and Gas School Tax	500.7	31.8%	421.1	-15.9%	408.6	-3.0%	435.1	6.5%
Oil Conservation Tax	27.2	31.1%	22.7	-16.7%	22.1	-2.6%	23.8	7.7%
Resources Excise Tax	13.0	-3.5%	12.7	-2.4%	12.7	0.0%	12.7	0.0%
Natural Gas Processors Tax	16.2	-33.1%	19.0	17.3%	21.0	10.5%	19.0	-9.5%
TOTAL SEVERANCE TAXES	557.1	27.1%	475.5	-14.6%	464.4	-2.3%	490.6	5.6%
LICENSE FEES	51.7	3.3%	51.6	-0.1%	51.8	0.3%	51.9	0.2%
LGPf Interest	449.4	1.9%	496.2	10.4%	545.6	10.0%	540.2	-1.0%
STO Interest	19.0	28.9%	15.0	-21.0%	35.0	133.3%	65.0	85.7%
STPF Interest	170.5	-3.2%	182.7	7.2%	193.6	6.0%	203.5	5.1%
TOTAL INTEREST	638.9	1.1%	693.9	8.6%	774.2	11.6%	808.7	4.4%
Federal Mineral Leasing	569.9	24.0%	532.0	-6.6%	487.0	-8.5%	505.0	3.7%
State Land Office	47.5	6.4%	47.5	0.0%	47.5	0.0%	47.5	0.0%
TOTAL RENTS & ROYALTIES	617.3	22.4%	579.5	-6.1%	534.5	-7.8%	552.5	3.4%
TRIBAL REVENUE SHARING	67.6	-4.4%	70.0	3.6%	53.3	-23.9%	56.2	5.4%
MISCELLANEOUS RECEIPTS	45.0	9.1%	46.6	3.5%	49.9	7.1%	52.2	4.6%
REVERSIONS	96.5	46.8%	53.0	-45.1%	45.0	-15.1%	40.0	-11.1%
TOTAL RECURRING	6,040.1	5.8%	6,120.0	1.3%	6,291.9	2.8%	6,572.3	4.5%
TOTAL NON-RECURRING	0.4	-35.2%	-	-100.0%	-	na	-	na
GRAND TOTAL	6,040.5	5.8%	6,120.0	1.3%	6,291.9	2.8%	6,572.3	4.5%

TABLE 4

General Fund Financial Summary: December 2014 Consensus Revenue Estimate
(in millions of dollars)

	Estimated FY2014	Estimated FY2015	Estimated FY2016
<u>APPROPRIATION ACCOUNT</u>			
REVENUE			
Recurring Revenue			
August 2014 Consensus Forecast	\$ 6,007.5	\$ 6,239.7	\$ 6,435.7
December 2014 Consensus Revenue Update	\$ 32.6	\$ (119.7)	\$ (143.8)
2014 Legislation	\$ -	\$ -	\$ -
Total Recurring Revenue	\$ 6,040.1	\$ 6,120.1	\$ 6,291.9
Nonrecurring Revenue			
August 2014 Consensus Forecast	\$ -	\$ -	\$ -
December 2014 Consensus Revenue Update	\$ 0.4	\$ -	\$ -
2015 Legislation (1)		\$ (0.5)	\$ -
Total Non-Recurring Revenue	\$ 0.4	\$ -	\$ -
TOTAL REVENUE	\$ 6,040.5	\$ 6,120.1	\$ 6,291.9
APPROPRIATIONS			
Recurring Appropriations			
General Appropriation	\$ 5,892.9	\$ 6,151.2	\$ 6,291.6
Legislative Session Costs - Feed Bill	\$ 6.1	\$ 9.5	
Total Recurring Appropriations	\$ 5,899.0	\$ 6,160.7	\$ 6,291.6
Nonrecurring Appropriations			
Prior Year Appropriations	\$ 41.7	\$ 13.4	
2014 Audit Adjustment (2)	\$ (14.5)	\$ 3.0	
2015 Deficiencies, Supplementals, Specials (3)		\$ 140.8	\$ -
2015 IT Appropriations		\$ 12.0	\$ -
Total Nonrecurring Appropriations	\$ 27.2	\$ 169.2	\$ -
TOTAL APPROPRIATIONS	\$ 5,926.2	\$ 6,329.9	\$ 6,291.6
Transfer to(from) Reserves	\$ 114.4	\$ (209.9)	\$ 0.3
GENERAL FUND RESERVES			
Beginning Balances	\$ 671.4	\$ 708.8	\$ 514.9
Transfers from (to) Appropriations Account	\$ 114.4	\$ (209.9)	\$ 0.3
Revenue and Reversions	\$ 73.9	\$ 69.4	\$ 57.2
Appropriations, Expenditures and Transfers Out	\$ (150.8)	\$ (53.5)	\$ (56.1)
Ending Balances	\$ 708.8	\$ 514.9	\$ 516.2
<i>Reserves as a Percent of Recurring Appropriations</i>	<i>12.0%</i>	<i>8.4%</i>	<i>8.2%</i>

Notes:

- (1) Special appropriation to the State Land Office (SLO) from other state funds reduces SLO general fund revenue distribution.
- (2) Reduction in 2014: \$10 million special education maintenance of effort (MOE) contingency moved to FY15 operating reserve; \$3 million MOE contingency available for expenditure in FY15; and \$1.5 million to the Public Education Department for school bus fuel not expended.
- (3) 2015 potential deficiency appropriations include \$60.2 million to the Human Services Department for Medicaid receivables.

TABLE 4

General Fund Financial Summary: December 2014 Consensus Revenue Estimate

RESERVE DETAIL

(in millions of dollars)

	Estimated FY2014	Estimated FY2015	Estimated FY2016
OPERATING RESERVE			
Beginning Balance	\$ 327.1	\$ 345.8	\$ 118.9
BOF Emergency Appropriations/Reversions	\$ (1.0)	\$ (2.0)	
Contingent Liability - Cash Management (1)	\$ (31.7)	\$ -	\$ -
Transfers from/to Appropriation Account	\$ 114.4	\$ (209.9)	\$ 0.3
Contingent Liability for PED MOE (HB2 & HB628) (2)	\$ (46.0)		\$ -
Transfer to ACF/Other Appropriations	\$ (17.0)	\$ (15.0)	
Ending Balance	\$ 345.8	\$ 118.9	\$ 119.2
APPROPRIATION CONTINGENCY FUND			
Beginning Balance	\$ 16.4	\$ 18.4	\$ 16.9
Disaster Allotments	\$ (19.2)	\$ (16.0)	\$ (16.0)
Other Appropriations		\$ (0.5)	
Transfers In	\$ 17.0	\$ 15.0	
Revenue and Reversions	\$ 4.2	\$ -	
Ending Balance	\$ 18.4	\$ 16.9	\$ 0.9
Education Lock Box			
Beginning Balance	\$ 9.1	\$ 3.1	\$ 3.1
Appropriations	\$ (6.0)	\$ -	\$ -
Transfers In (Out)	\$ -	\$ -	\$ -
Ending Balance	\$ 3.1	\$ 3.1	\$ 3.1
Total of Appropriation Contingency Fund	\$ 21.5	\$ 20.0	\$ 4.0
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	\$ 170.3	\$ 193.1	\$ 227.5
Transfers In (3)	\$ 21.1	\$ 39.9	\$ 40.1
Appropriation to Tobacco Settlement Program Fund	\$ (10.6)	\$ (20.0)	\$ (20.1)
Gains/Losses	\$ 31.5	\$ 14.5	\$ 17.1
Additional Transfers From TSPF (4)	\$ (19.3)	\$ -	\$ (20.1)
Ending Balance	\$ 193.1	\$ 227.5	\$ 244.6
TAX STABILIZATION RESERVE			
Beginning Balance	\$ 147.5	\$ 147.5	\$ 147.5
Transfers In	\$ -	\$ -	\$ -
Ending Balance	\$ 147.5	\$ 147.5	\$ 147.5
GENERAL FUND ENDING BALANCES	\$ 708.8	\$ 514.9	\$ 516.2
<i>Percent of Recurring Appropriations</i>	<i>12.0%</i>	<i>8.4%</i>	<i>8.2%</i>

Notes:

(1) The FY13 general fund audit does not reduce the operating reserve by a \$31.7 million contingent liability in FY13 (in addition to the previously identified \$70 million contingent liability in FY12) for SHARE reconciliation to the cash account. The contingent liability is a downside risk to reserves, and is reported in FY14 in this summary.

(2) The FY13 general fund audit does not include an FY13 transfer of \$20 million from the operating reserve to the Public Education Department. The transfer is contingent on appropriations in the General Appropriation Acts of 2012 and 2013 being insufficient to meet federal special education maintenance of effort (MOE) requirements. This summary shows the \$20 million transfer and \$16 million transfer occurring in FY14.

(3) After the reduction, the FY14 Tobacco Master Settlement Agreement (MSA) payment is \$21.1 million. The transfer shown in FY15 assumes no reduction.

(4) Additional transfer in FY16 is contingent on passage of legislation.

TABLE 5

2015 Legislative Session Special, Supplemental, and Deficiency Appropriations
(in thousands of dollars)

Agency Code	Agency	Description	Agency Request			LFC Recommendation		
			General Fund	Other Funds/ Federal Funds	Total	General Fund	Other Funds/ Federal Funds	Total
SPECIAL/NEW INITIATIVES APPROPRIATIONS								
1	111	Legislative Council Services	\$0.0	\$0.0	\$0.0	\$200.0	\$0.0	\$200.0
2	218	Administrative Office of the Courts	\$0.0	\$0.0	\$0.0	\$1,000.0	\$0.0	\$1,000.0
3	218	Administrative Office of the Courts	\$530.0	\$0.0	\$530.0	\$0.0	\$0.0	\$0.0
4	218	Administrative Office of the Courts	\$250.0	\$0.0	\$250.0	\$0.0	\$0.0	\$0.0
5	218	Administrative Office of the Courts	\$1,192.2	\$0.0	\$1,192.2	\$0.0	\$0.0	\$0.0
6	218	Administrative Office of the Courts	\$480.0	\$0.0	\$480.0	\$0.0	\$0.0	\$0.0
7	218	Administrative Office of the Courts	\$120.0	\$0.0	\$120.0	\$0.0	\$0.0	\$0.0
8	218	Administrative Office of the Courts	\$100.0	\$0.0	\$100.0	\$0.0	\$0.0	\$0.0
9	218	Administrative Office of the Courts	\$200.0	\$0.0	\$200.0	\$0.0	\$0.0	\$0.0
10	218	Administrative Office of the Courts	\$0.0	\$295.0	\$295.0	\$0.0	\$0.0	\$0.0
11	218	Administrative Office of the Courts	\$0.0	\$780.0	\$780.0	\$0.0	\$0.0	\$0.0
12	218	Administrative Office of the Courts	\$0.0	\$220.0	\$220.0	\$0.0	\$0.0	\$0.0
13	218	Administrative Office of the Courts	\$250.0	\$0.0	\$250.0	\$0.0	\$0.0	\$0.0
14	232	Second Judicial District Court	\$150.4	\$0.0	\$150.4	\$0.0	\$0.0	\$0.0
15	232	Second Judicial District Court	\$148.8	\$0.0	\$148.8	\$0.0	\$0.0	\$0.0
16	233	Third Judicial District Court	\$32.0	\$0.0	\$32.0	\$0.0	\$0.0	\$0.0
17	234	Fourth Judicial District Court	\$40.0	\$0.0	\$40.0	\$0.0	\$0.0	\$0.0
18	239	Ninth Judicial District Court	\$85.0	\$0.0	\$85.0	\$0.0	\$0.0	\$0.0
19	241	Eleventh Judicial District Court	\$50.0	\$0.0	\$50.0	\$0.0	\$0.0	\$0.0
20	241	Eleventh Judicial District Court	\$50.0	\$0.0	\$50.0	\$0.0	\$0.0	\$0.0
21	241	Eleventh Judicial District Court	\$40.0	\$0.0	\$40.0	\$0.0	\$0.0	\$0.0

TABLE 5

2015 Legislative Session Special, Supplemental, and Deficiency Appropriations
(in thousands of dollars)

Agency Code	Agency	Description	Agency Request			LFC Recommendation		
			General Fund	Other Funds/ Federal Funds	Total	General Fund	Other Funds/ Federal Funds	Total
22	242 Twelfth Judicial District Court	To purchase imaging equipment.	\$20.0	\$0.0	\$20.0	\$0.0	\$0.0	\$0.0
23	242 Twelfth Judicial District Court	For furniture and equipment at the Lincoln County courthouse.	\$31.0	\$0.0	\$31.0	\$0.0	\$0.0	\$0.0
24	242 Twelfth Judicial District Court	To replace furniture at the Otero County courthouse.	\$15.0	\$0.0	\$15.0	\$0.0	\$0.0	\$0.0
25	251 First District Attorney	For physical security enhancements.	\$121.5	\$0.0	\$121.5	\$0.0	\$0.0	\$0.0
26	256 Sixth District Attorney	To pay for employee liability premium error.	\$13.5	\$0.0	\$13.5	\$13.5	\$0.0	\$13.5
27	264 Administrative Office of the District Attorneys	Any unexpended balances remaining at the end of fiscal year 2015 from revenues received in fiscal year 2015 and prior years by a district attorney from any Native American tribe, pueblo or political subdivision pursuant to a contract, memorandum of understanding, joint powers agreement or grant shall not revert and shall remain with the recipient district attorneys' office. The administrative office of the district attorneys shall provide the department of finance and administration and the legislative finance committee prior to November 1, 2015 a detailed report documenting the amount of all funds received from Native American tribes, pueblos and political subdivisions pursuant to a contract, memorandum of understanding, joint powers agreement or grant that do not revert at the end of fiscal year 2015 for each of the district attorneys and the administrative office of the district attorneys.		Language Only			Language Only	
28	264 Administrative Office of the District Attorneys	Any unexpended balances remaining at the end of fiscal year 2015 from revenues received in fiscal year 2015 and prior years by a district attorney or the administrative office of the district attorneys from the United States department of justice pursuant to the southwest border prosecution initiative shall not revert and shall remain with the recipient district attorneys' office. The administrative office of the district attorneys shall provide to the department of finance and administration and the legislative finance committee prior to November 1, 2015, a detailed report documenting the amount of all southwest border prosecution initiative funds that do not revert at the end of fiscal year 2015 for each of the district attorneys and the administrative office of the district attorneys.		Language Only			Language Only	
29	305 Attorney General	To provide pre-foreclosure services to homeowners. The appropriation is from the mortgage settlement awarded to the attorney general's office to provide housing counseling, litigation and foreclosure mediation for homeowners facing foreclosure.	\$0.0	\$500.0	\$500.0	\$0.0	\$500.0	\$500.0
30	305 Attorney General	To defend the Rio Grande compact. The appropriation is from the consumer settlement fund.	\$0.0	\$9,000.0	\$9,000.0	\$0.0	\$2,000.0	\$2,000.0
31	341 Department of Finance and Administration	For the second phase of the cash remediation project.	\$3,946.0	\$0.0	\$3,946.0	\$3,946.0	\$0.0	\$3,946.0
32	341 Department of Finance and Administration	For automation support of the state of New Mexico's comprehensive annual financial report.	\$1,224.2	\$0.0	\$1,224.2	\$1,224.2	\$0.0	\$1,224.2
33	341 Department of Finance and Administration	For disbursement to the renewable energy transmission authority for operating costs.	\$350.0	\$23.9	\$373.9	\$250.0	\$0.0	\$250.0

TABLE 5

2015 Legislative Session Special, Supplemental, and Deficiency Appropriations
(in thousands of dollars)

Agency Code	Agency	Description	Agency Request			LFC Recommendation		
			General Fund	Other Funds/ Federal Funds	Total	General Fund	Other Funds/ Federal Funds	Total
34	341	Department of Finance and Administration To the board of finance division of the program support program of the department of finance and administration for projects pursuant to the Local Economic Development Act. The state board of finance shall approve the release of each of three equal increments of funding from this appropriation to the economic development department. The board's approval shall be predicated on its approval of quarterly reports from the department to the board and the legislative finance committee that include details of projected expenditures, including company or project names, locations, use of funds expended to date, jobs created to date, jobs announced, private investment to date, private investment announced and clawback provisions. The other state funds appropriation is from the contingent liquidity account fund established by the New Mexico finance authority. Any funds remaining at the end of a fiscal year shall not revert.	\$0.0	\$0.0	\$0.0	\$24,000.0	\$6,000.0	\$30,000.0
35	350	General Services Department To develop and administer master planning guidelines and provide pre-implementation and training to executive agencies, to provide assessment of space and tenant assignments in buildings owned by the facilities management division and to provide assessment and valuation of land managed by the facilities management division. The appropriation is from the public building repair fund.	\$0.0	\$0.0	\$0.0	\$0.0	\$1,200.0	\$1,200.0
36	350	General Services Department To develop and administer master planning guidelines and to provide pre-implementation and training to executive agencies. The appropriation is from the public building repair fund.	\$0.0	\$210.0	\$210.0	\$0.0	\$0.0	\$0.0
37	350	General Services Department To provide assessment of space and tenant assignments in buildings owned by the facilities management division. The appropriation is from the public building repair fund.	\$0.0	\$500.0	\$500.0	\$0.0	\$0.0	\$0.0
38	350	General Services Department To provide assessment and valuation of land managed by the facilities management division.	\$750.0	\$0.0	\$750.0	\$0.0	\$0.0	\$0.0
39	350	General Services Department The period of time for expending the one million four hundred thousand dollar (\$1,400,000) appropriation from the public buildings repair fund in Subsection 23 of Section 5 of Chapter 227 of Laws 2013 extended by Subsection 13 of Section 5 of Chapter 63 of Laws 2014 to the property control division of the general services department to conduct facility condition assessments of all state facilities under the jurisdiction of the property control division of the general services department is re-appropriated to the facilities management division of the general services department for the same purpose and is extended through fiscal year 2016.		Language Only			Language Only	
40	366	Public Employees Retirement Association For conversion of vital long-term records to microfilm and for system modifications.	\$0.0	\$350.0	\$350.0	\$0.0	\$350.0	\$350.0
41	370	Secretary of State For expenses related to the 2016 primary election.	\$1,041.4	\$0.0	\$1,041.4	\$0.0	\$0.0	\$0.0
42	419	Economic Development Department For the development training fund.	\$5,500.0	\$0.0	\$5,500.0	\$5,500.0	\$0.0	\$5,500.0
43	419	Economic Development Department For the mainstreet program, including sufficient funding for frontier areas of the state.	\$500.0	\$0.0	\$500.0	\$350.0	\$0.0	\$350.0
44	419	Economic Development Department For the second phase of a film tax incentive study.	\$50.0	\$0.0	\$50.0	\$0.0	\$0.0	\$0.0
45	419	Economic Development Department The period of time for expending the ten million dollar (\$10,000,000) appropriation contained in Subsection 33 of Section 5 of Chapter 63 of Laws 2014 for projects pursuant to the Local Economic Development Act is extended through fiscal year 2016.		Language Only			Language Only	
46	420	Regulation and Licensing Department For the securities division to deploy a mass-media public service campaign to inform the public about prevention and detection of investment fraud. The appropriation comes from the securities enforcement and investor education fund.	\$0.0	\$150.0	\$150.0	\$0.0	\$0.0	\$0.0

TABLE 5

2015 Legislative Session Special, Supplemental, and Deficiency Appropriations
(in thousands of dollars)

Agency Code	Agency	Description	Agency Request			LFC Recommendation		
			General Fund	Other Funds/ Federal Funds	Total	General Fund	Other Funds/ Federal Funds	Total
47	420	Regulation and Licensing Department	\$0.0	\$35.0	\$35.0	\$0.0	\$35.0	\$35.0
48	465	Gaming Control Board	Language Only			Language Only		
49	465	Gaming Control Board	\$80.1	\$0.0	\$80.1	\$0.0	\$0.0	\$0.0
50	495	Spaceport Authority	\$3,620.8	\$0.0	\$3,620.8	\$500.0	\$0.0	\$500.0
51	505	Department of Cultural Affairs	\$250.0	\$0.0	\$250.0	\$150.0	\$0.0	\$150.0
52	505	Department of Cultural Affairs	\$500.0	\$0.0	\$500.0	\$300.0	\$0.0	\$300.0
53	508	Livestock Board	\$300.0	\$0.0	\$300.0	\$0.0	\$50.0	\$50.0
54	516	Game and Fish	\$0.0	\$350.0	\$350.0	\$0.0	\$350.0	\$350.0
55	516	Game and Fish	\$0.0	\$525.0	\$525.0	\$0.0	\$525.0	\$525.0
56	521	Energy, Minerals and Natural Resources Department	\$135.0	\$0.0	\$135.0	\$0.0	\$0.0	\$0.0
57	539	Commissioner of Public Lands	\$0.0	\$260.0	\$260.0	\$0.0	\$260.0	\$260.0
58	539	Commissioner of Public Lands	\$0.0	\$1,421.1	\$1,421.1	\$0.0	\$0.0	\$0.0
59	550	Office of the State Engineer	\$4,500.0	\$0.0	\$4,500.0	\$2,000.0	\$0.0	\$2,000.0
60	609	Indian Affairs Department	\$100.0	\$0.0	\$100.0	\$0.0	\$0.0	\$0.0
61	624	Aging and Long-Term Services Department	\$150.0	\$0.0	\$150.0	\$0.0	\$0.0	\$0.0
62	630	Human Services Department	Language Only			Language Only		
63	632	Workers' Compensation Administration		\$200.0	\$200.0		\$0.0	\$0.0
64	665	Department of Health	N/A			Language Only		

2015 Legislative Session Special, Supplemental, and Deficiency Appropriations
(in thousands of dollars)

TABLE 5

	Agency Code	Agency	Description	Agency Request			LFC Recommendation		
				General Fund	Other Funds/ Federal Funds	Total	General Fund	Other Funds/ Federal Funds	Total
65	670	Department of Veterans Services	For operating expenses at the proposed state veteran's cemetery in Fort Stanton contingent on the federal government providing capital outlay funding for the cemetery.	\$136.2	\$0.0	\$136.2	\$0.0	\$0.0	\$0.0
66	690	Children, Youth and Families Department	For a families in need or court-ordered services pilot program.	\$162.4	\$0.0	\$162.4	\$0.0	\$0.0	\$0.0
67	690	Children, Youth and Families Department	To replace desktop computers.	\$2,644.6	\$0.0	\$2,644.6	\$0.0	\$0.0	\$0.0
68	770	Corrections Department	To address deferred maintenance at department facilities statewide. The appropriation is from the land grant permanent fund.	\$0.0	\$2,000.0	\$2,000.0	\$0.0	\$2,000.0	\$2,000.0
69	770	Corrections Department	Any unexpended balance remaining at the end of fiscal year 2015 from revenues received from the United States department of justice to house undocumented foreign nationals in New Mexico corrections department prison facilities shall not revert and shall remain with the corrections department for expenditure in fiscal year 2016. The New Mexico corrections department shall provide to the department of finance and administration and the legislative finance committee by November 1, 2015, a detailed report documenting the amount of all funds received from the United States department of justice for housing undocumented foreign nationals that do not revert at the end of fiscal year 2014 and also ensure proper reporting in the department's fiscal year 2015 audit.						
70	770	Corrections Department	For a transitional living pilot program.	\$2,000.0	\$0.0	\$2,000.0	\$1,200.0	\$0.0	\$1,200.0
71	790	Department of Public Safety	For vehicle replacement.	\$2,435.0	\$0.0	\$2,435.0	\$750.0	\$0.0	\$750.0
72	790	Department of Public Safety	For a thirty-officer seven-week lateral officer school to be held in fiscal year 2015 or 2016.	\$605.0	\$0.0	\$605.0	\$605.0	\$0.0	\$605.0
73	790	Department of Public Safety	For improvements to emergency dispatch services.	\$320.0	\$0.0	\$320.0	\$0.0	\$0.0	\$0.0
74	790	Department of Public Safety	For latent finger print contractors to clear backlogged cases.	\$205.0	\$0.0	\$205.0	\$205.0	\$0.0	\$205.0
75	805	Department of Transportation	The period of time for expending up to four hundred million dollars (\$400,000,000) of other state funds and federal fund appropriated to the programs and infrastructure program of the department of transportation pertaining to prior fiscal years is extended through fiscal year 2016.						
76	805	Department of Transportation	The period of time for expending the eighty million dollars (\$80,000,000) of other state funds and federal funds appropriated to the highway operations program of the department of transportation is extended through fiscal year 2016.						
77	924	Public Education Department	The period of time for expending the two million nine hundred ninety-one thousand eight hundred dollars (\$2,991,800) general fund appropriation made to the public education in Paragraph o of Subsection 1 of Chapter 63 of Laws 2014 for school leader preparation is extended through fiscal year 2016 for the same purpose.						
78	924	Public Education Department	For expenditure in fiscal years 2015 and 2016 for legal fees related to two education funding sufficiency lawsuits and reopening of the Zuni lawsuit.	\$1,200.0	\$0.0	\$1,200.0	\$750.0	\$0.0	\$750.0
79	924	Public Education Department	For the fiscal year 2014 financial statement audit.	\$960.0	\$0.0	\$960.0	\$75.0	\$0.0	\$75.0
80	950	Higher Education Department	To complete the state's common course numbering and naming system and align with the general education core course matrix.	\$150.0	\$0.0	\$150.0	\$0.0	\$0.0	\$0.0
81	950	Higher Education Department	To increase Native American college readiness and college completion at New Mexico's colleges and universities.	\$132.4	\$0.0	\$132.4	\$0.0	\$0.0	\$0.0

TABLE 5

2015 Legislative Session Special, Supplemental, and Deficiency Appropriations
(in thousands of dollars)

Agency Code	Agency	Description	Agency Request		LFC Recommendation	
			General Fund	Other Funds/ Federal Funds	General Fund	Other Funds/ Federal Funds
82	950	Higher Education Department	\$103.0	\$0.0	\$103.0	\$0.0
		To complete a feasibility study of establishing a statewide center to coordinate international study abroad opportunities for students attending New Mexico colleges and universities.				\$0.0
83	950	Higher Education Department	\$100.0	\$0.0	\$100.0	\$0.0
		To provide a teacher-mentoring program for students attending colleges of education at New Mexico colleges and universities.				\$0.0
84	950	Higher Education Department	\$0.0	\$0.0	\$0.0	\$5,000.0
		To increase faculty and researchers at New Mexico colleges and universities by funding the higher education endowment fund.				
85	0	Computer Systems Enhancement Fund	\$0.0	\$0.0	\$0.0	\$12,005.0
		For transfer to the computer systems enhancement fund for system replacements or enhancements.				
SPECIAL/NEW INITIATIVES TOTAL			\$38,070.5	\$16,820.0	\$54,890.5	\$13,270.0
					\$60,023.7	\$73,293.7

SUPPLEMENTAL AND DEFICIENCY APPROPRIATIONS:						
86	218	Administrative Office of the Courts	\$596.1	\$0.0	\$596.1	\$0.0
		For juror, witness and interpreter incurred costs in fiscal year 2014.				\$596.1
87	218	Administrative Office of the Courts	\$358.0	\$0.0	\$358.0	\$0.0
		For a shortfall in the court-appointed attorney fund in fiscal year 2015.				\$358.0
88	218	Administrative Office of the Courts	\$1,150.0	\$0.0	\$1,150.0	\$0.0
		To replace vetoed magistrate court operations fees.				\$0.0
89	218	Administrative Office of the Courts	\$842.8	\$0.0	\$842.8	\$0.0
		For juror and interpreter costs.				\$842.8
90	218	Administrative Office of the Courts	\$20.0	\$0.0	\$20.0	\$0.0
		For judges pro-tempore.				\$0.0
91	255	Fifth District Attorney	\$46.9	\$0.0	\$46.9	\$0.0
		For an audit adjustment for fiscal year 2014.				\$0.0
92	260	Tenth District Attorney	\$28.0	\$0.0	\$28.0	\$0.0
		For a projected shortfall in expert witness costs in fiscal year 2015.				\$28.0
93	341	Department of Finance and Administration	\$206.5	\$0.0	\$206.5	\$0.0
		To increase the number of reviews by the citizens review board.				\$0.0
94	350	General Services Department	\$461.5	\$0.0	\$461.5	\$0.0
		To pay for historical losses in the state printing program of the general services department.				\$225.0
95	355	Public Defender Department	\$130.0	\$0.0	\$130.0	\$0.0
		For a shortfall in contracts and operation expenses in fiscal year 2014.				\$0.0
96	355	Public Defender Department	\$2,800.0	\$0.0	\$2,800.0	\$0.0
		To increase the flat reimbursement per case rate for contract counsel statewide.				\$1,500.0
97	394	State Treasurer	\$60.0	\$0.0	\$60.0	\$0.0
		For annual and sick leave payout of exempt staff.				\$0.0
98	419	Economic Development Department	\$70.1	\$0.0	\$70.1	\$0.0
		For a projected shortfall in the personal services and employee benefits category in the economic development program in fiscal year 2015.				\$0.0
99	419	Economic Development Department	\$57.3	\$0.0	\$57.3	\$0.0
		For a projected shortfall in the personal services and employee benefits category in the program support program in fiscal year 2015.				\$0.0

TABLE 5

2015 Legislative Session Special, Supplemental, and Deficiency Appropriations
(in thousands of dollars)

	Agency Code	Agency	Description	Agency Request			LFC Recommendation		
				General Fund	Other Funds/ Federal Funds	Total	General Fund	Other Funds/ Federal Funds	Total
100	430	Public Regulation Commission	For a projected shortfall in the personal services and employee benefits category in the policy and regulation program in fiscal year 2015.	\$480.0	\$0.0	\$480.0	\$0.0	\$0.0	\$0.0
101	624	Aging and Long-Term Services Department	For a projected shortfall in personal services and employee benefits in adult protective services in fiscal year 2015.	\$350.0	\$0.0	\$350.0	\$150.0	\$0.0	\$150.0
102	630	Human Services Department	For increases in medicaid enrollment.	\$13,111.0	\$30,505.0	\$43,616.0	\$7,500.0	\$17,500.0	\$25,000.0
103	630	Human Services Department	For a shortfall in medicaid in prior years.	\$0.0	\$0.0	\$0.0	\$60,000.0	\$0.0	\$60,000.0
104	647	Developmental Disabilities Planning Council	For a projected shortfall in the personal services and employee benefits category in fiscal year 2015.	\$50.0	\$0.0	\$50.0	\$0.0	\$0.0	\$0.0
105	665	Department of Health	For a projected shortfall in the personal services and employee benefits category in fiscal year 2015 and for additional funding for contract healthcare providers and provider agreements for healthcare providers.	\$6,400.0	\$0.0	\$6,400.0	\$0.0	\$0.0	\$0.0
106	690	Children, Youth and Families Department	For a projected shortfall in the personal services and employee benefits category in the protective services program in fiscal year 2015.	\$1,114.2	\$249.5	\$1,363.7	\$1,114.2	\$249.5	\$1,363.7
107	690	Children, Youth and Families Department	To repay human services department for overbilling.	\$500.0	\$0.0	\$500.0	\$500.0	\$0.0	\$500.0
108	690	Children, Youth and Families Department	For a projected shortfall in care and support for foster care payments in fiscal year 2015.	\$3,141.9	\$2,347.6	\$5,489.5	\$3,141.9	\$2,347.6	\$5,489.5
109	770	Corrections Department	For a shortfall in the personal services and employee benefits category in the inmate management and control program in fiscal year 2014.	\$4,774.0	\$0.0	\$4,774.0	\$4,774.0	\$0.0	\$4,774.0
110	770	Corrections Department	For a shortfall in the personal services and employee benefits category in the community offender management program in fiscal year 2014.	\$0.0	\$937.1	\$937.1	\$0.0	\$937.1	\$937.1
111	770	Corrections Department	For inmate growth and overtime in high custody prison facilities. The appropriation is contingent on approval from the board of finance.	\$7,000.0	\$0.0	\$7,000.0	\$2,000.0	\$0.0	\$2,000.0
112	780	Crime Victims Reparation Commission	For crime victims reimbursements.	\$650.0	\$0.0	\$650.0	\$569.7	\$0.0	\$569.7
113	790	Department of Public Safety	For an expanded recruit school in fiscal year 2015.	\$780.1	\$0.0	\$780.1	\$0.0	\$0.0	\$0.0
114	924	Public Education Department	For administration of new standards-based assessments (the partnership for assessment of readiness for college and career or PARCC assessments) in fiscal year 2015.	\$5,000.0	\$0.0	\$5,000.0	\$0.0	\$0.0	\$0.0
115	950	Higher Education Department	For a shortfall in the student financial aid special program fund for loan repayment, loan-for-service and tuition waiver obligations incurred during fiscal year 2014.	\$11,000.0	\$0.0	\$11,000.0	\$9,500.0	\$0.0	\$9,500.0
SUPPLEMENTAL AND DEFICIENCY TOTAL				\$61,178.4	\$34,039.2	\$95,217.6	\$92,799.7	\$21,034.2	\$113,833.9
SPECIAL/NEW INITIATIVE, SUPPLEMENTAL & DEFICIENCY TOTAL				\$99,248.9	\$50,859.2	\$150,108.1	\$152,823.4	\$34,304.2	\$187,127.6

TABLE 6

FY16 IT Project Funding Requests
(in thousands)

System Replacement / Enhancements				Agency Request				LFC Recommendation			
	Code	Agency	System Description	GF	OSF	Federal	Total	GF	OSF	Federal	Total
1	218	Administrative Office of the Courts	Judicial Enterprise Cyber-Security Enhancements	\$295.0			\$295.0	\$180.0			\$180.0
2	218	Administrative Office of the Courts	Jury Management System Replacement	\$780.0			\$780.0				\$0.0
3	218	Administrative Office of the Courts	Reconciliation, Cash Receipt and Suspense (RCS) Management System Replacement	\$220.0			\$220.0				\$0.0
4	333	Taxation and Revenue	Motor Vehicle Modernization (Tapestry) Project	\$5,171.5	\$3,690.0		\$8,861.5	\$5,171.5	\$3,690.0		\$8,861.5
5	333	Taxation and Revenue	Redesign the ONGARD System	\$7,333.0	\$3,667.0		\$11,000.0				\$0.0
6	341	Dept. of Finance and Administration	Redevelopment of Budget System	\$250.0			\$250.0	\$250.0			\$250.0
7	341	Dept. of Finance and Administration	Implement Capital Outlay Planning and Project Management System	\$2,271.0			\$2,271.0				\$0.0
8	341	Dept. of Finance and Administration	Develop and implement a Budget and Finance Bureau Database for Local Public Entities	\$250.0			\$250.0	\$125.0			\$125.0
9	350	General Services Department	SHARE Account Receivable and Fixed Assets	\$720.0			\$720.0				\$0.0
10	350	General Services Department	SHARE Strategic Sourcing		\$750.0		\$750.0				\$0.0
11	370	Secretary of State	Implement Integrated Reporting & Integrity System (IRIS) Phase 3	\$1,400.0			\$1,400.0	\$1,400.0			\$1,400.0
12	378	State Personnel Board	Personnel Record Digitization and Modernization Project	\$2,070.0			\$2,070.0				\$0.0
13	420	Regulation and Licensing Department	Construction Industries Division Licensing Consolidation	\$1,400.0			\$1,400.0				\$0.0
14	550	State Engineer	Redesign and automate the Water Rights Business Management System	\$800.0			\$800.0	\$800.0			\$800.0
15	550	State Engineer	Litigation & Adjudication System Modernization Project Phase 2	\$500.0			\$500.0	\$500.0			\$500.0
16	630	Human Services Department	Implement Child Support Enforcement System Replacement (CSESR)		\$3,400.0		\$3,400.0				\$0.0
17	630	Human Services Department	Replace current Medicaid management Information System (MMIS)	\$620.0		\$5,580.0	\$6,200.0	\$620.0		\$5,580.0	\$6,200.0
18	667	Environment Department	Information Technology Architecture Modernization	\$350.0			\$350.0				\$0.0
19	690	Children, Youth, and Families	EPICS Phase 4 - FACTS Juvenile Justice	\$4,836.2			\$4,836.2	\$2,708.5			\$2,708.5
20	770	Corrections Department	Implement Commercial Off-the-Shelf (COTS) Offender Management System	\$8,500.0			\$8,500.0	\$250.0			\$250.0
21	790	Department of Public Safety	Implement Records Management System (RMS)	\$2,500.0			\$2,500.0				\$0.0
Total				\$40,266.7	\$11,507.0	\$5,580.0	\$57,353.7	\$12,005.0	\$3,690.0	\$5,580.0	\$21,275.0

TABLE 6

FY16 IT Project Funding Requests
(in thousands)

Code	Agency	System Description Agency Request	Total				LFC Recommendation			
			GF	OSF	Federal	Total	GF	OSF	Federal	Total
341	Dept. of Finance and Administration	For the Legislative Finance Committee, and Department of Finance and Administration and any other agency that uses the system to enter into a joint powers agreement for the purpose of cooperating and cost sharing in the joint design, development, acquisition and implementation of the budget system.								Recommend
361	Dept. of Information Technology	The period of time for expending the five million dollar (\$5,000,000) appropriation from the computer systems enhancement fund contained in Subsection 7 of Chapter 227 of Laws 2013 to stabilize and upgrade the statewide human resources, accounting and management reporting system to current levels of hardware and software is extended through fiscal year 2017.								Recommend
369	State Commission of Public Records	The period of time for expending the eight hundred twenty-two thousand four hundred dollar (\$822,400) appropriation from the computer systems enhancement fund contained in Subsection 9 of Section 7 of Chapter 227 of Laws 2013 to continue implementation of the centralized electronic records repository system is extended through fiscal year 2017.								Recommend
394	State Treasurer	The period of time for expending the one million nine hundred fifty thousand dollar (\$1,950,000) appropriation from the computer systems enhancement fund contained in Subsection 11 of Section 7 of Chapter 227 of Laws 2013 to implement a treasury module in the statewide human resources, accounting and management reporting system is extended through fiscal year 2017.								Recommend
440	Office of Superintendent of Insurance	The period of time for expending the one million two hundred fifty thousand dollar (\$1,250,000) appropriation from the computer systems enhancement fund contained in Subsection 13 of Section 7 of Chapter 227 of Laws 2013 to migrate the insurance system and processes to a paperless, web-based environment is extended through fiscal year 2017. The appropriation is from the insurance operations fund.								Recommend
790	Department of Public Safety	The period of time for expending the two million eight hundred fifty thousand dollar (\$2,850,000) appropriation from the computer systems enhancement fund contained in Subsection 19 of Section 7 of Chapter 227 of Laws 2013 to implement an integrated computer-aided dispatch and records management system is extended through fiscal year 2017. Release of the appropriation is contingent on the department of public safety issuing a request for information regarding available system alternatives, issuing a request for proposals, and submitting a project plan to the department of information technology, department of finance and administration and the legislative finance committee that includes milestones, estimated completion dates for each milestone, estimated total cost and deliverables.								Recommend



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