STATE OF NEW MEXICO

Report of the Legislative Finance Committee to the Fifty-Third Legislature

January **2017** | **FIRST SESSION**
For Fiscal Year **2018** | Volume 1

LEGISLATING FOR RESULTS: POLICY AND PERFORMANCE ANALYSIS

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

Dear Fellow Legislators:

Pursuant to Section 2-5-4 NMSA 1978, the fiscal year 2018 budget recommendation of the Legislative Finance Committee is provided to you. The committee recommendation for recurring appropriations from the general fund is $6.052 billion and assumes $123.3 million in new revenue, additional spending reductions, or both. The recommendation reduces general fund appropriations to agencies by an average of 0.4 percent; however, cuts vary and some programs – including the state equalization guarantee for public schools, the judiciary, economic development and tourism, and child protective services – were kept whole or saw a small increase.

With the 2016 fiscal year ending with the state's books in the red, three rounds of budget cuts needed to keep spending within revenues for the current budget year, and projections that income in the 2018 fiscal year will be close to $100 million less than spending in FY17, the last 17 months have been among the hardest financially the state has faced. The committee had few options left to close the budget gap – some critical state services already are suffering – and had a difficult task in protecting vulnerable New Mexicans, public schools, public safety, and healthcare services without forcing some state agencies to close their doors.

The committee recommendation reduces funding for early childhood programs slightly, mostly in the special services provided by the Public Education Program, but increases spending for home visits to new families and the prekindergarten program managed by the Children, Youth and Families Department. The recommendation for public school support, distributed to school districts through the funding formula, is up slightly from FY17, but Public Education Department initiative funding is cut substantially and higher education spending is down. The spending plan for Medicaid is a slight decrease from FY17 but the recommendation includes a special appropriation contingent on enactment of legislation authorizing a tax on the health services sector or additional cuts if the contingency is not met. Finally, the recommendation calls for a small increase for the Corrections Department and a small decrease for the Department of Public Safety.

I would like to thank the membership of the Legislative Finance Committee for their hard work on behalf of the people of New Mexico and the LFC staff for its inventive efforts on this nearly impossible task. Together, we have prepared a spending plan that, with additional efforts, will do the least harm in very difficult times.

Sincerely,

Senator John Arthur Smith
Chairman

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

VOLUME 1 LEGISLATING FOR RESULTS: POLICY AND PERFORMANCE ANALYSIS

JANUARY 2017 FOR FISCAL YEAR 2018

SENATOR JOHN ARTHUR SMITH
CHAIRMAN

REPRESENTATIVE JIMMIE C. HALL
VICE CHAIRMAN

DAVID ABBEY
DIRECTOR

NEW MEXICO LEGISLATIVE FINANCE COMMITTEE 1957 60 YEARS 2017

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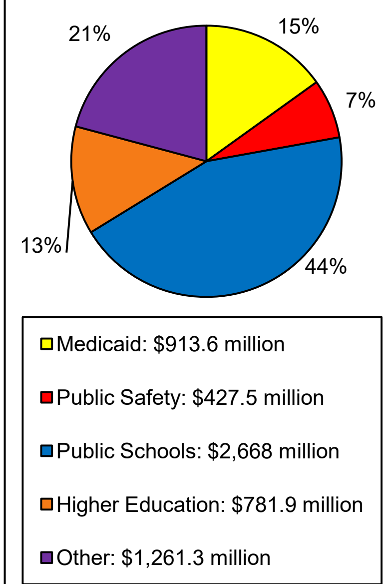
Recommendations and Highlights

Undeniably, a lack of diversified revenue sources is contributing to the need for an unprecedented series of budget balancing measures. An ever deepening spiral of solvency-driven cuts, needed to balance spending with available revenue, is impinging on the services New Mexicans have come to expect. Policymakers have turned nearly every stone to evaluate expenditures levels, fees collected, available fund balances to sweep into and swap with general fund revenues, loopholes, and unspent appropriations to rebalance the budget.

At the 2016 regular legislative session, policymakers faced falling revenue estimates late in the budget deliberation process. Agency budgets for FY16 were trimmed $31 million, an average of 0.5 percent, to quickly boost reserve funds. Late in the 2016 legislative session, agency general fund appropriations were reduced again 2 percent to 4 percent, depending on policy priorities, for the FY17 budget year. However, quickly after the legislative session ended, it was readily apparent spending would exceed expected revenues and additional solvency measures would be needed.

FY18 Recurring General Fund Appropriation Recommendation: $6.05 billion



Source: LFC Files

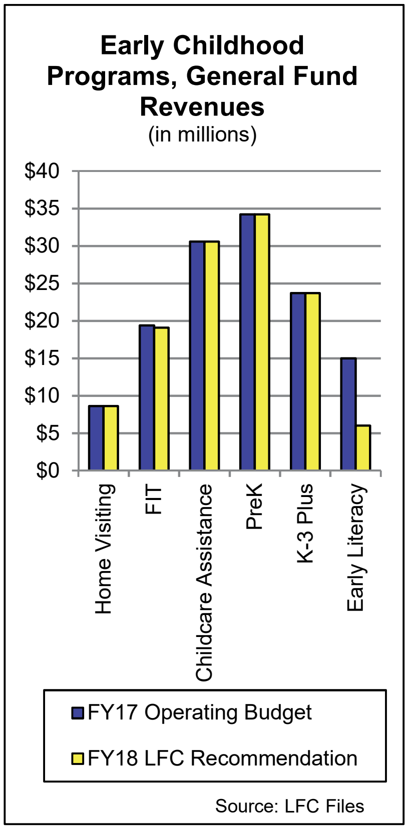
Anticipating revenues would continue to fall and miss forecasted levels, the Legislature provided the governor authority in the 2016 General Appropriation Act to reduce many FY17 appropriations and general fund allotments an additional $62 million, about 2 percent on average; however, the language was vetoed. Near the end of the first quarter of FY17, the Legislature was called to a special session to rebalance the FY17 appropriations to meet updated forecasted revenues. Action taken in the special legislative session transferred cash balances into the general fund, canceled and swapped capital outlay appropriations, cut agency budgets, and closed tax loopholes for a total of approximately $350 million. After executive vetoes, general fund budgets were reduced an average of 2.4 percent with cuts ranging from 1.5 percent to 5.5 percent. After three rounds of cuts, some agency general fund appropriations were reduced nearly 10 percent over a 10-month period and more may be needed.

Continued anemic revenue collections will require the Legislature consider a fourth round of budget balancing measures in 2017 to close a $85.5 million deficit for the budget year and additional measures to balance the FY18 budget. Further, given the state's heavy dependence on federal revenues for public education, Medicaid, national laboratories and military bases, and highway transportation significant, the recent election poses budgetary risk. Policymakers will have to consider every option to preserve publicly financed service levels while reducing expenditure levels to align with projected revenues.

Budget Development and Priorities

Budget Development

In August 2016, the consensus revenue team from the Department of Finance and Administration (DFA), Taxation and Revenue Department (TRD), Department of



Transportation (NMDOT), and LFC lowered the recurring revenue estimates by $431 million for FY17 and $625 million for FY18. The special legislative session in September 2016 added $23 million to the FY17 revenue estimate and $39 million to FY18, but the December forecast again lowered the revenue estimates by about $130 million in each of the two fiscal years. Recurring revenue for FY16 was down 7.8 percent from FY15, and projected revenues for FY17 fell again to negative 1.9 percent. Projected growth in FY18 is 5.9 percent from a combination of economic and non-economic factors. However, even with this growth, "new money," projected recurring revenue less current year appropriations, is projected to be negative $103.4 million in FY18, leaving a hole to fill after addressing negative projected reserve balances in FY17.

Priorities

Never before has the Legislative Finance Committee (LFC) had such difficulty balancing the committee's public policy priorities of protecting vulnerable citizens, funding public education, providing health care and preserving public safety, and keeping state agency doors open.

The constitutional mandate to balance expenditures with available revenues may require consideration of new revenue options. With every budget-balancing tactic in consideration, the FY18 LFC budget recommendation assumes additional revenues, budget cuts, or a combination of the two will close a $123.3 million gap to balance the state's checkbook.

Recommendation

Agencies requested $6.248 billion from the general fund; the LFC recommendation is $6.052 billion and assumes $123.3 million of new revenue or additional adjustments will be enacted to fully balance the budget. The recommendation reduces general fund appropriations for agencies by $25.7 million, an average of 0.4 percent from the spending levels adjusted for cuts made during the 2016 special legislative session.

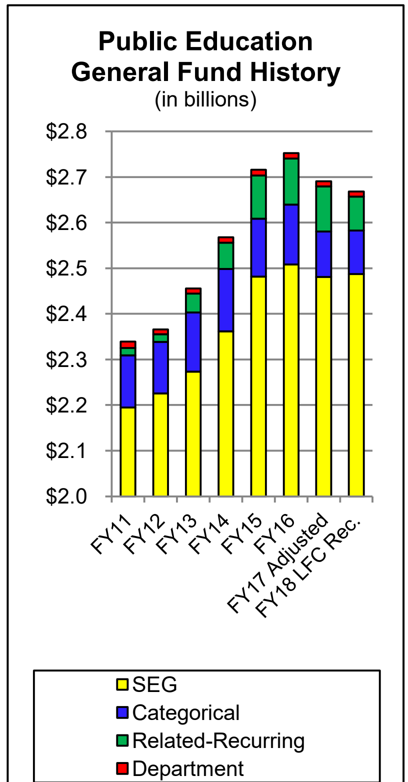
Early Childhood

Funding for early childhood programs in the LFC FY18 recommendation is $246.4 million across the Children, Youth and Families, Public Education, and Health departments. Total recurring appropriations decreased by $7 million, mostly in the Public Education Department; however, the recommendation for the Children, Youth and Families Department includes an increase of nearly $2 million from federal revenues and $1.5 million of new general fund revenues appropriated in the 2016 special legislative session for home-visiting to new families and prekindergarten.

Education

The committee recommendation for education prioritizes funding for instruction and maintains investments in data-driven and cost-effective programs. LFC recommends a total of $3.4 billion in general fund appropriations for education in FY18, a $27.4 million, or 0.8 percent, decrease from adjusted FY17 appropriations.

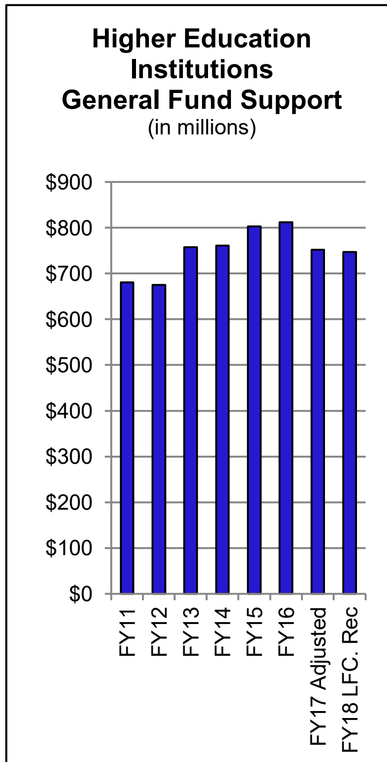
Public Education. The committee recommends $2.67 billion in general fund support for public education, a decrease of $22.5 million, or 0.8 percent, from adjusted FY17 appropriations. The program cost recommendation, which totals $2.56 billion, is an increase of $6.2 million, or 0.2 percent, over the FY17 appropriation and includes adjustments for projected unit changes in FY18 and funding for an early literacy initiative. This appropriation is intended to help school districts and charter schools implement targeted early literacy interventions and remediation, including reading coaches, reading specialists, and teacher professional development to support kindergarten through third-grade students who are not proficient in reading.



Source: LFC Files

The committee recommends $95.4 million in general fund revenue for transportation, textbooks, and other "categorical" public school support, a $3.7 million decrease from FY17 appropriations. However, the recommendation includes $25 million from the public school capital outlay fund to supplement instructional materials and transportation funding. LFC also recommends making two separate transportation allocations – one for school districts and one for charter schools. Lastly, the committee recommends a decrease of $25 million, or 25.3 percent, for related, recurring initiatives – "below-the-line" funding appropriated to the department instead of the school funding formula. The recommendation prioritizes early childhood education programs, programs improving educator quality, school turnaround efforts, and services directly supporting students. The recommendation decreases general fund appropriations to most initiatives with large unspent balances and limited evidence of improving student outcomes.

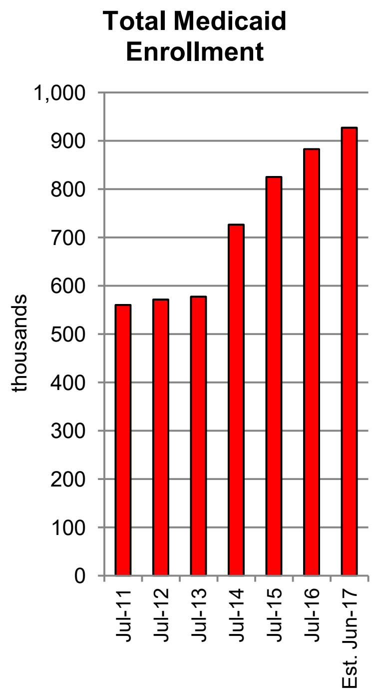
Higher Education. The committee recommends a total of $781.9 million in general fund support for higher education, a decrease of $5 million, or 0.6 percent, from the FY17 adjusted operating level. To avoid duplication of instruction-related items, LFC's recommendation combines several research and public service project appropriations with instruction and general purposes (I&G) appropriations. The committee's recommendation applies a 6.5 percent reduction to account for cost-savings associated with these combined appropriations and provides flexibility to institutions to manage austere budgets. LFC recommends a 2.5 percent reduction for public television and athletics, because these programs have access to alternative sources of revenue. The recommendation also reduces the I&G appropriation for the University of New Mexico (UNM) Health Sciences Center because UNM receives a separate I&G appropriation through the higher education funding formula. LFC expects UNM's main campus will help to offset the reduction. Finally, LFC recommends targeted reductions in areas that duplicate kindergarten-through-12th grade services, require high institutional support transfers, or do not leverage other revenues sufficiently.



Source: LFC Budget Documents

Human Services

The LFC recommendation generally adopts the Human Services Department's (HSD) request, with a slightly lower projection for Medicaid enrollment and an additional $15.4 million in general fund cost-containment. Recommended savings include eliminating the Centennial Care Rewards program, which provides gifts for healthy behavior. While the program has shown some positive impacts, such programs are still not proven to be cost-effective. The committee recommends limited premiums for certain allowable populations, a thorough evaluation of



Source: HSD November 2016 Medicaid Projection

the state's generous benefit package to optimize healthcare outcomes and system efficiency, and additional care coordination and MCO administration efficiencies which LFC has recommended for the past two years.

Finally, the LFC recommendation for Medicaid includes a $63 million special appropriation contingent on enactment of legislation authorizing a tax on or other form of generating new general fund revenue from the health services sector, or an equal amount of additional cost containment if the contingency is not met.

Health

The $288.2 million LFC general fund recommendation for the Department of Health is flat with the FY17 adjusted operating budget. Recognizing a shift in safety-net healthcare financing, the committee recommendation prioritizes funding for direct services that may not have increased revenue as a result of implementation of the federal Affordable Care Act. LFC's recommendation for general fund revenue increases spending on the Developmental Disabilities (DD) Medicaid Waiver Program, rural and primary health clinics, and personnel in the Facilities Management Program, the Health Certification, Licensing, and Oversight Program, and the Vital Records and Health Statistics Bureau. The recommendation eliminates general fund support for the trauma system fund, recognizes savings to refinance Fort Bayard Medical Center, and applies improved federal support to the DD Waiver Program.

Public Safety

The committee recommends $415 million in general fund support for the Corrections Department (NMCD) and the Department of Public Safety (DPS), $1.1 million, or 0.3 percent, more than the adjusted FY17 budget. For NMCD, the committee recommends a total increase of $2.6 million to address increased healthcare contract costs and remedy correctional officer compaction and vacancy rates and reflects savings through increased Medicaid billing by behavioral health providers. For DPS, the LFC recommendation reduces the budget $1.6 million, or 1.3 percent, and prioritizes funds for officer pay. The committee recommends DPS consider reducing contributions to the public safety retirement plan and reallocating a portion of the savings toward continued implementation of the officer pay plan. The recommendation for both agencies prioritizes safe staffing levels and effective strategic management.

Transportation

The New Mexico Department of Transportation (NMDOT), mainly funded with state road fund (SRF) revenues for highway maintenance and federal funds for road construction and debt service, projected state road fund growth of 2.7 percent and expected overall slightly declining federal funds. The LFC recommendation fully funds the NMDOT request of $862.8 million and adds 19 new positions within the Modal Program, including seven positions transferred from other NMDOT programs and 12 positions transferred from the Department of Public Safety. LFC recommends the requested 42 new positions be reclassified from existing NMDOT vacant positions. Over the past several years, NMDOT has requested, and LFC has supported, additional funding in the personal services and employee benefits category to reduce the department's vacancy rate. The LFC recommendation fully funds NMDOT's request for personnel costs, which applies an 8 percent to 10 percent vacancy rate.

Economic Development

The LFC recommendation for the Economic Development Department (EDD) includes $2 million in recurring funding for the Job Training Incentive Program (JTIP). EDD continues to fall below targeted levels for rural job creation, and the recommendation includes language clarifying that at least one-third of the JTIP appropriation must be spent for training in rural areas. The recommendation does not provide additional funding for Local Economic Development Act funds due to fund balances of $29 million as of November 2016. The committee recommendation provides $175 thousand for business incubators, shown to have one of the lowest costs per job created among economic development programs. Finally, for the first time since FY11, the recommendation does not increase funding for tourism advertising, holding levels flat with the FY17 adjusted operating budget of $8.9 million.

Compensation

Since 2009, state employee salaries have only increased by 4 percent while WorldatWork reports U.S. salaries as a whole increased by 21 percent, or about 3 percent annually. New Mexico currently ranks sixth within the eight-state public sector regional comparator market with an average base salary of $44.8 thousand.

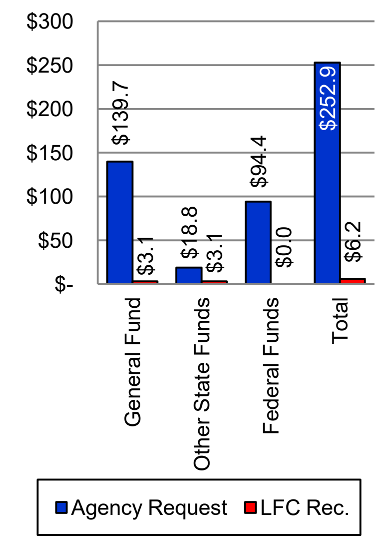
Despite state agencies filling vacancies sooner and reducing turnover rates, the statewide vacancy rate grew by 2.4 percent from the fourth quarter of FY16 and was 15.7 percent statewide at the end of the first quarter in FY17. Overtime usage continues to be substantial and totaled $54.4 million in FY16 and $48.2 million in FY17, mostly in the Corrections, Health, and Transportation departments.

Deficiency, Special, and Supplemental Appropriations

The limited amount of funding available for special, supplemental, and deficiency appropriations was prioritized for critical or mandated services and where performance and cost-benefit data was available, including budget projections, a demonstrated lack of available funding, and verification that recurring expenses were not being covered with non-recurring revenue. LFC acknowledges the many needs of agencies; however, given the weak economic climate and bleak revenue outlook, the committee encourages agencies to reprioritize current resources. State agencies submitted 97 requests totaling $253 million for special, supplemental, and deficiency appropriations, including $139.7 million from the general fund and $113.1 million of other revenues. Sixty-six special appropriation requests totaled $107.3 million, including $96.5 million from the general fund and $10.8 million from other revenues. Thirty-three requests for supplemental and deficiency appropriations totaled $145.6 million, including $43.2 million from the general fund and $102.4 million from other revenues.

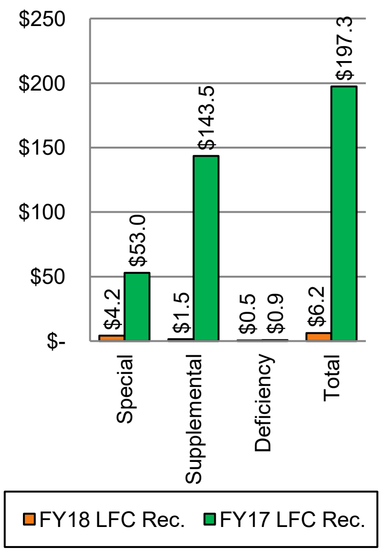
LFC recommends $6.2 million for 19 nonrecurring special, supplemental, and deficiency appropriations, including $3 million from the general fund and $3.1

Agency Requests and LFC Recommendations for Special, Supplemental, and Deficiency Appropriations
(in millions)



Source: LFC Files

LFC Recommendations for Special, Supplemental, and Deficiency Appropriations
(in millions)



Source: LFC Files

million from other revenues. Recommended general fund appropriations include $700 thousand for magistrate court leases, $524 thousand for the computer systems enhancement fund, and $500 thousand for juror and interpreter costs incurred in FY16.

Information Technology

The LFC recommendation for IT funding totals $4.2 million for four projects. Funding sources include $524 thousand from the general fund, $1.5 million from other state funds, and $2.2 million in federal funds. The recommendation prioritizes ongoing projects that leverage federal funds and projects and have potential cost savings to the state, including two on-going public safety projects.

Capital Outlay and Infrastructure

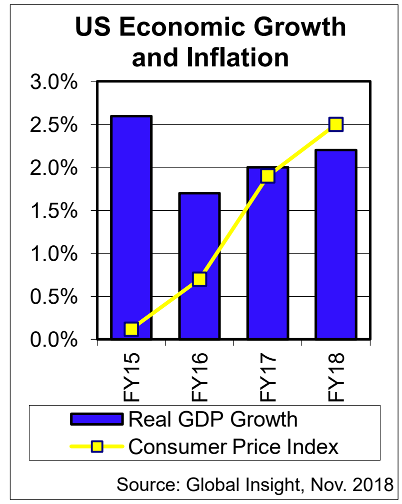
Available capital capacity in 2017 is at an all-time low, less than $65 million after solvency measures enacted in the 2016 legislative special session. State and other political subdivisions requested $1.7 billion for capital projects, including $588 million for water, transportation, quality of life (libraries, parks, senior centers, community and cultural centers, etc.), environment (utilities, landfills, clean energy, solid waste, etc.), and public safety

The bleak capacity forecast provides policymakers and all levels of government with an opportunity to address the more than $1.1 billion outstanding for over 2,500 projects and consider reviewing and reauthorizing inactive capital outlay projects to projects that can be completed or developed into a functional phase.

The LFC staff "framework" for state entities addresses the most critical projects impacting public health and safety, preservation of state facilities, and completion of projects in progress. The "proposed" funding for consideration by the full Legislature includes $64.1 million from severance tax bond capacity, and $25.3 million from "other state funds."

Economic Forecast

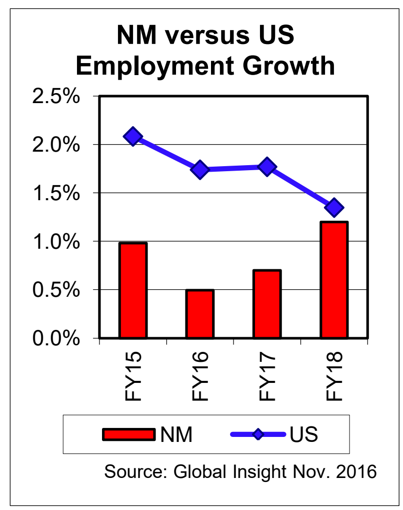
State revenues continue to struggle to recover from the oil price shocks of FY16 and the ensuing low oil and gas prices that are expected to last for several years. Significant declines in projected revenues for FY16 and FY17 sparked a special legislative session to take corrective action, bringing the operating reserve back into balance and adding $22.6 million to the FY17 revenue estimate and $39 million to FY18. Despite these efforts, revenue projections continue to decline. The December 2016 revenue estimate revised the FY17 forecast downward by $130.8 million to $5.6 billion and the FY18 forecast by $127.3 million to $5.9 billion. Preliminary FY16 ending reserve balances were $145.6 million, just 2.3 percent of recurring appropriations. Projected FY17 ending reserve balances are negative $85.5 million. During the 2017 session, legislators will be challenged to prioritize spending, generate revenues, and rebuild reserves to bolster the state's fiscal health.



Economic Forecast

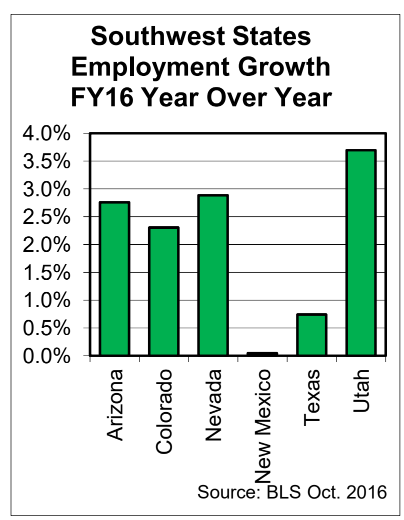
U.S. Economy

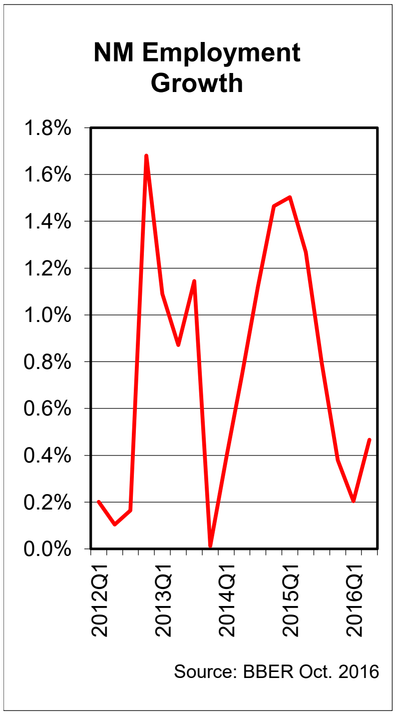
National economic growth has continued at the slow-to-moderate pace seen over the last few years, and the forecasts, developed prior to the November elections, call for continued moderate growth. No immediate impediments appear to be developing, within the United States or internationally; therefore, the forecast predicts economic growth will continue throughout the forecast horizon. The effect of the election on the economy and the federal budget raises significant uncertainty, but markets appear to expect increased economic activity and rising interest rates.

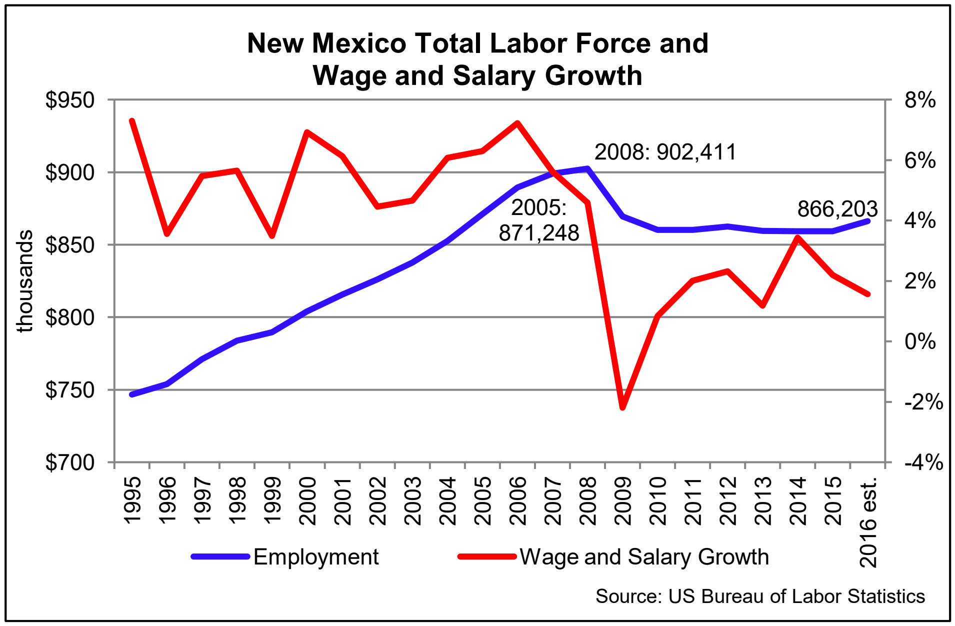


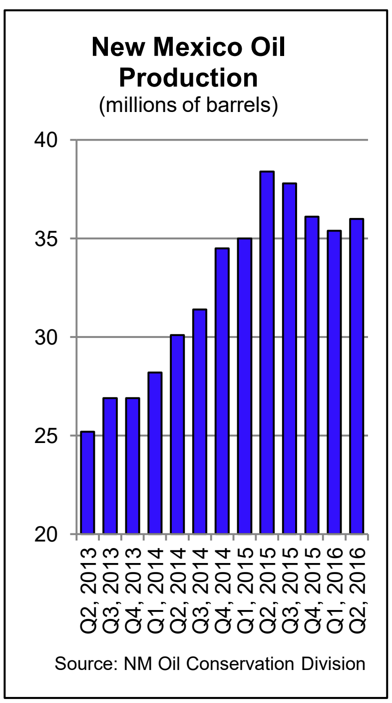
New Mexico Economy

The downturn in the extractives industry significantly impaired New Mexico's economy, and while it seems the state might finally have hit bottom for job losses in the mining sector with year-over-year declines shrinking in October, other industry sectors are now faltering, resulting in total year-over-year job losses for September and October 2016. The economic forecasts used for the August revenue estimate assumed average employment growth of 1.3 percent, but for the December estimate, the average fell to less than 0.4 percent. New Mexico has not regained pre-recession total employment levels since 2005. Additionally, the weak labor market has depressed wage and salary growth in the state. Average hourly earnings have stagnated, and average weekly earnings continue to fall. September 2016 average weekly earnings were $690, down 1.5 percent from $700 a year ago.









Energy Markets

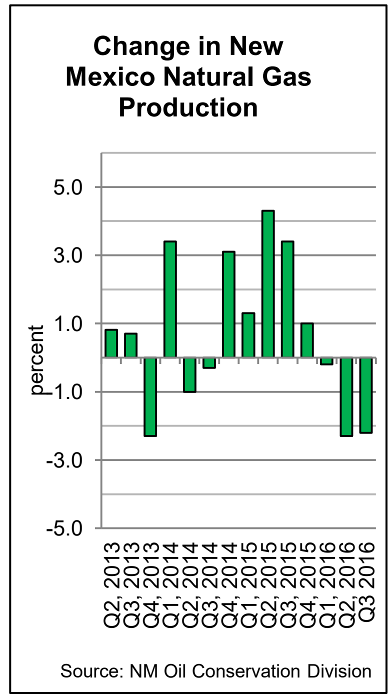
The oil and gas sector remains depressed by the severe collapse in commodity prices. Price declines, which began in 2014, continued into 2016. Spot prices for West Texas Intermediate (WTI) fell from $107/bbl in June 2014 to $26/bbl in February 2016, landing at $49/barrel (bbl) by the end of October 2016. WTI prices at Cushing, Oklahoma, are expected to average around $47/bbl in FY17 before recovering to between $52/bbl and $60/bbl in FY18 through FY21. New Mexico prices assume a differential that lowers the state rate compared with WTI prices by approximately $4.20/bbl. As a rule of thumb, a $1 change in the price of oil, sustained over the course of a full fiscal year, leads to a $9.5 million change in New Mexico general fund revenue.

Oil production in New Mexico has continued at high levels, and the U.S. oil supply is awash with excess supply, as demand has not kept pace. Drilling activity in New Mexico declined with prices, and it remained stagnant over the first quarter of FY17. While prices remain low, producers are expected to continue doing “more with less” in the near term by keeping production levels up despite little growth in drilling activity.

Low prices and large supply levels also impaired natural gas activity in the state. Natural gas prices fluctuated from a low of $1.64/thousand cubic feet (mcf) in March 2016 to a high of nearly $3/mcf in July 2016. For natural gas, a $0.10/mcf change in price over a fiscal year leads to a $6.5 million change in general fund revenue. While natural gas prices are expected to rise over the next five years, production in the state is expected to gradually decline in keeping with its years long pattern of decline.

Revenue Forecast

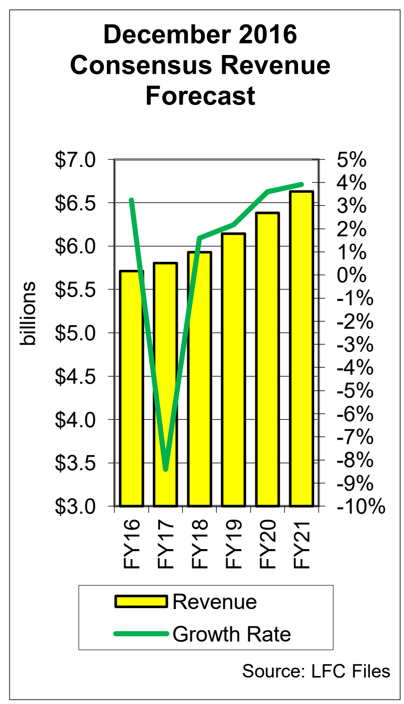
The economic forecast is weak, but the revenue forecast is even weaker. Part of this can be explained by tax expenditures, corporate net operating losses, possible prior overpayments of corporate tax liability, and declining wage and salary growth. However, some of the revenue weakness is not explainable due to limitations in data and reporting. Estimated recurring revenues in FY16 were down $486 million, or 7.8 percent, compared with FY15, and the estimate for FY17 fell by $109 million, or 1.9 percent, from FY16. The FY17 and FY18 forecasts were revised down by about $130 million each from the August 2016 estimates and $866 million each from the December 2015 estimates. In just one year, New Mexico lost nearly $1 billion from each of the two years in estimated revenues. Additionally, FY17 year-to-date revenues are worrisome even with a more pessimistic outlook – first quarter revenues declined 9.4 percent from a year ago.



Selected Tax Law Changes / Tax Expenditures	FY16	FY17	FY18
Rate Reduction and Single-Sales Apportioning (CIT)	-39.8	-42.1	-68.8
High-Wage Jobs Tax Credit (GRT)	-58.2	-36	-11.9
Health Care Practitioner Deduction/Hold Harmless (GRT)	-73.8	-126.8	-72.4
Manufacturing Deduction (GRT)	-20	-27.2	-37
Construction Deduction (GRT)	-15.6	-13	-13.7
Film Production Tax Credit (CIT)	-50	-50	-50
Total for Selected Tax Changes / Expenditures	**-257.4**	**-295.1**	**-253.8**

Source: LFC Files

The decline in oil prices and resulting fall in industry employment levels eroded gross receipts tax (GRT) revenue in FY16, and the impact continues into FY17. The revenue estimate projects GRT revenues will decrease in FY17 by $107 million, or 5.4 percent. Economic growth is not expected to increase GRT revenues until FY18. Additionally, tax expenditures – deviations from baseline taxes (e.g. exemptions, deductions, and credits) designed to create preferential tax treatment rather than to define the base – are creating a significant drag on growth, although two notable changes were made during the 2016 special legislative session that provide positive general fund revenue impacts of tens of millions of dollars in FY18. The Legislature closed loopholes in medical deductions and the high-wage jobs tax credit that previously allowed unintended recipients to use the tax expenditures. The Legislature also restricted the high-wage jobs tax credit in other ways to control the skyrocketing cost of the program.

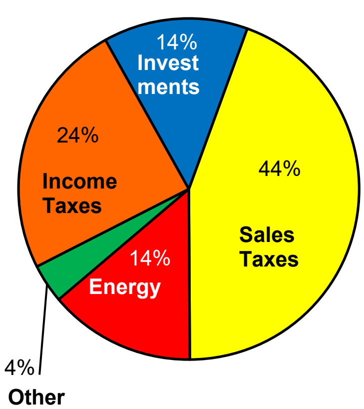


Declining average weekly wages combined with slow employment growth resulted in FY17 personal income tax revenue projections essentially flat with FY16. The forecast assumes gradual growth in FY18 and later years as the economic forecasts call for improved economic conditions.

Corporate income tax (CIT) revenues are highly volatile and one of the most difficult revenue sources to forecast. Fiscal year 2016 revenues fell to about half of the FY15 level in large part due to economic conditions but also due to the effects of the omnibus tax package of 2013, which made several changes to the corporate income tax code. The most notable changes, resulting in the largest fiscal impacts, were a phased-in rate reduction and single sales factor apportionment, allowing some companies, including manufacturing operations, to claim less revenue in New Mexico.

With recovering, albeit low, oil and gas prices, FY17 federal mineral leasing (FML) revenue is projected to grow 7.7 percent over FY16. Despite the downward pressure of low prices on severance tax revenues, the December consensus revenue estimate projects 11 percent year-over-year revenue growth in FY17 and

Source: TRD RP-500



Source: Dec. 2016 Consensus Revenue Estimate

8 percent growth in FY18. However, future severance tax revenues are expected to grow at a more modest rate beyond FY18 in keeping with the projected slow growth of oil and gas prices.

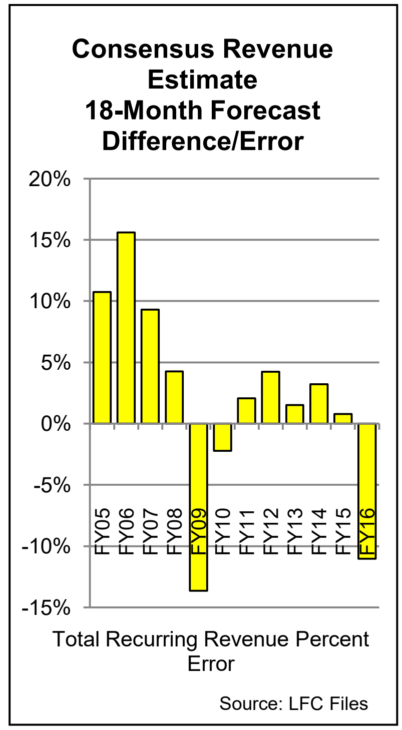
The federal Affordable Care Act (ACA) continues to influence insurance premium tax revenues. The rate at which members of the New Mexico Medical Insurance Pool (NMMIP) transition to either Medicaid or the ACA insurance exchange has been high in the last two years, but the pool's board is taking a drawn-out approach to transitioning remaining members out of the pool. Insurers pay assessments into the pool, created to cover "uninsurable" patients but no longer as necessary because the ACA now mandates coverage for high-risk patients, and receive credits against their owed premium taxes, directly affecting general fund revenue. NMMIP costs are shrinking but at a slower rate than earlier projections due to the slow transition of members out of the pool and the high per-member cost of those remaining, putting downward pressure on general fund revenue estimates for FY18 and beyond.

The December 2016 consensus revenue estimate projects FY18 recurring revenue at $5.9 billion, representing 5.9 percent growth over the $5.6 billion projected for FY17. Expected growth is partially due to economic factors such as rising oil and gas prices and increasing inflation. Additionally, permanent fund interest distributions are expected to grow by 7.4 percent for the land grant permanent fund (LGPF) and 5.1 percent for the severance tax permanent fund (STPF), increasing general fund revenues by $50 million, or 0.9 percent compared with FY17. Roughly one-third of the growth is due to non-economic factors. More than half the 7.5 percent growth in GRT is due to lower projected costs of the healthcare practitioner deduction and high-wage jobs credit, contributing $79 million, or 1.4 percent, to overall revenue growth. Furthermore, the liquor excise distribution rate to the general fund will increase by statute in FY18 to provide about $19 million, or 0.3 percent, in additional revenue.

Risks to the Forecast

Energy volatility remains the greatest risk to the revenue forecast because pricing volatility causes large revenue shocks. Sharp price declines in 2015 and 2016 led to broad layoffs in the industry, sales of oilfield equipment, foreclosures, and bankruptcies of oil companies. State tax revenues continue to suffer from the direct and indirect effects of this economic shift in the petroleum industry. Moving forward, significant variability in market pricing, elevated international supply, and lower demand levels in tandem with the application of advanced technology in drilling and extraction methods have potential to strongly influence the expected flows of revenues. An unexpected downturn in oil and gas prices poses a significant downside risk to the forecast. However, efforts to cut global production, including the recent agreement in November 2016 for Organization of the Petroleum Exporting Countries and Russia to cut production by nearly 2 million bbls/day may lead prices to rise at a greater rate than currently expected.

Issues with data availability and reliability contribute to revenue risk, and these risks are particularly high for some revenues in this estimate. For example, CIT revenues for the first four months of FY17 were $5.3 million due to zero or negative receipts for three of the four months. Typically, at least 20 percent of annual CIT revenues are received within the first four months, and in only one year in the last 18 did CIT return a lower percent during that period of time. While there is some upside risk to CIT because of the extreme uncertainty and fluctuations in this revenue source, there is substantial downside risk if FY17 continues that monthly revenue trend. Without knowing what caused the dramatic downturn in revenues, the CIT estimates barely qualify as ballpark figures.

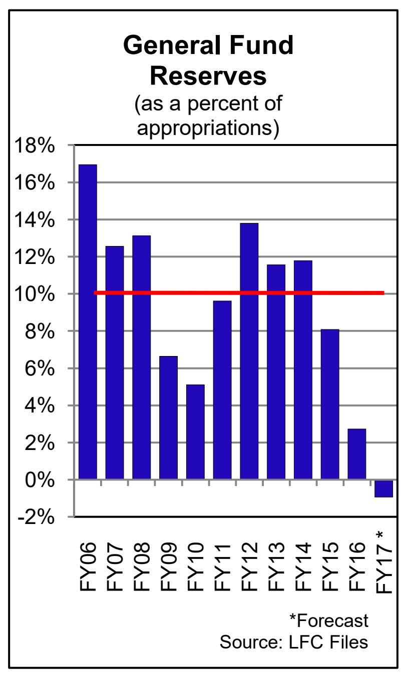


In recent years, several tax expenditures have had a larger fiscal impact than initially estimated, significantly contributing to an overestimate of revenue. In some cases, the revenue impacts have significantly exceeded initial estimates, requiring changes in statute to curb the impact, such as those made during the 2016 special legislative session to the high-wage jobs tax credit and medical deductions. The wide array of tax expenditures available creates opportunity for unforeseen increases in costs due to economic factors or exploitation of unknown loopholes. Data-mining by accountants and tax attorneys to search for possible loopholes or unused but applicable tax expenditures exacerbates this problem.

The federal government will review bids from a variety of entities to take over management of Los Alamos National Laboratory sometime in 2018. Currently, the for-profit management status of the laboratory allows the state to collect gross receipts taxes and corporate income taxes that would be lost if the management contract was given to a governmental or nonprofit organization. The loss in gross receipts tax revenue to the state could be roughly $24 million or more, and the loss to the Los Alamos local government would be almost as great.

General Fund Reserves

Revenues in FY16 fell below expenditures by $595 million, and revenues in FY17 are estimated to fall below appropriations by $237.9 million, resulting in a projected operating reserve balance of negative $129.6 million, down from the zero balance at the end of FY16. Total FY17 ending balances are projected at negative $85.5 million, down from a positive balance of $145.6 million at the end of FY16.



Revenues and Tax Policy

LFC TAX POLICY PRINCIPLES

Adequacy:
Revenue should be adequate to fund needed government services.

Efficiency:
Tax base should be as broad as possible and avoid excess reliance on one tax.

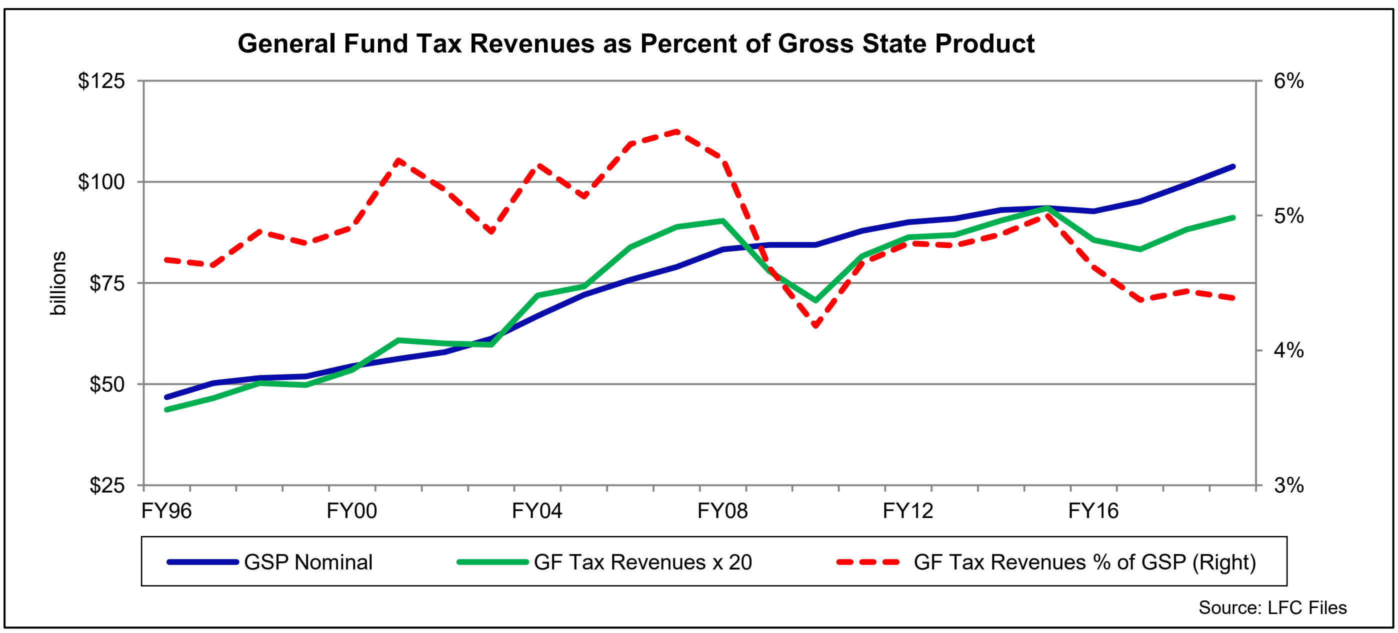
Equity:
Different taxpayers should be treated fairly.

Simplicity:
Collection should be simple and easily understood.

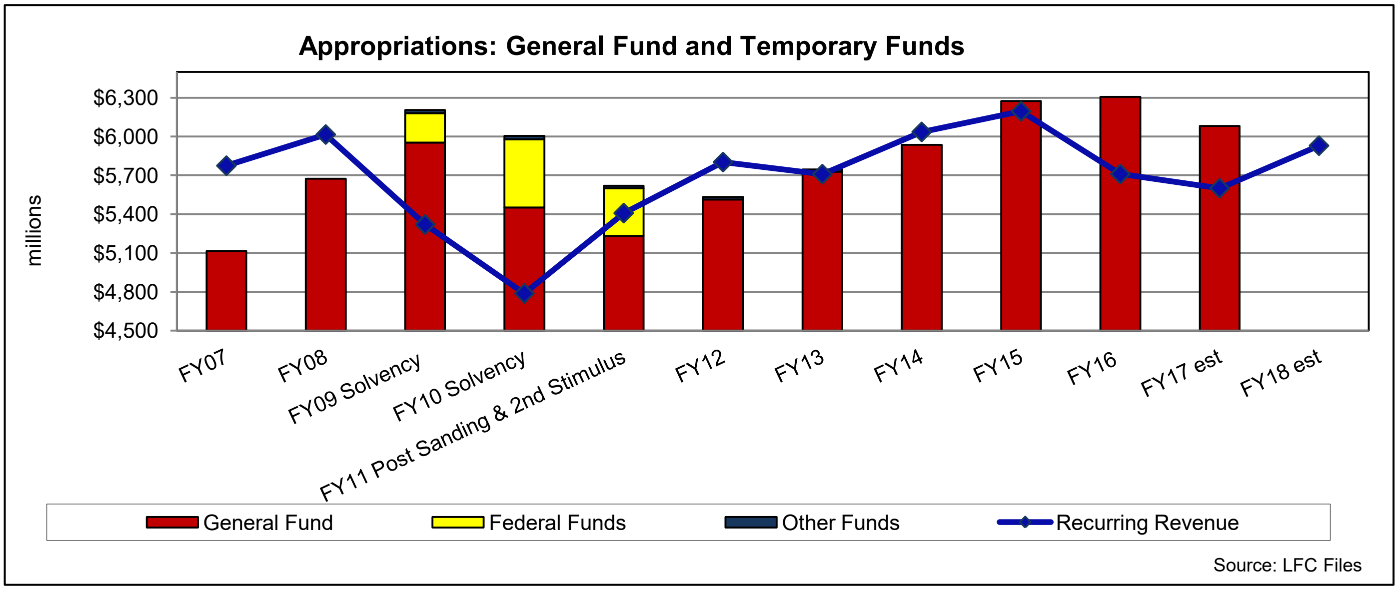
Accountability:
Preferences should be easy to monitor and evaluate.

For all the issues with New Mexico's tax system, the sudden, significant downturn in revenues during FY16 proved tax adequacy, volatility, and efficiency are the most pressing issues. The state's strong reliance on the extractives industry for roughly a third of its revenues, directly and indirectly, and a tax code that gradually became a patchwork of exemptions, deductions, and credits over the years resulted in plummeting revenues that forced substantial cuts to a wide array of state agencies and programs. To rebuild reserves, the state faces the choice of additional agency operating budget cuts or raising revenues.

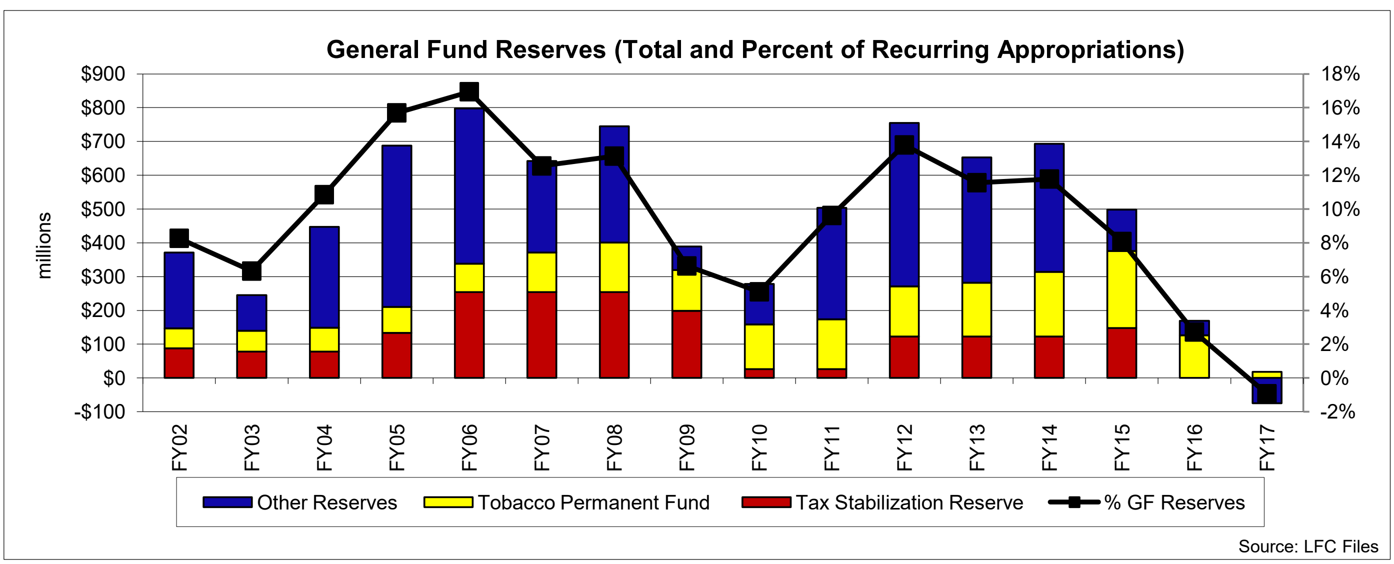
The graph below demonstrates the declining amount of general fund tax revenues represented as a percent of gross state product (GSP), also called state gross domestic product (GDP), the commonly accepted measurement of the economic output of a state that includes all value added by industries within the state. It shows how well the economic engine of the state is performing relative to past performance or national growth. The declining percentage of tax revenue indicates tax growth is not keeping pace with underlying economic activity.



Over the last two decades, only one year during the depth of the Great Recession – FY10 – exhibited a lower tax revenue ratio than FY16, and FY17 and FY18 are projected to fall even lower. The general fund tax revenues shown above attempt to match activity included in GSP with related taxes. All taxes are included, but items such as permanent fund interest earnings are excluded because they do not directly relate to GSP and tax policy.



For decades leading up to the Great Recession, the New Mexico economy grew at a pace that exceeded the national growth rate, and the strongest growth (during the 2000s until the recession) coincided with the highest ratio of New Mexico taxes to GSP. The high taxes likely did not contribute to the growth, but neither did they harm the growth rate. Since the Great Recession, both tax growth in relation to GSP and GSP in relation to national GDP have declined.



New Mexico Taxation Trends and Reform Potential

For more than a decade, the trend in New Mexico taxation policy has been to focus on piecemeal changes to the gross receipts tax (GRT) and a tax environment favorable to business development. However, rising exemptions, deductions, and credits eating into net gross receipts tax revenue necessarily meant raising the rate overall, narrowing the base and placing a greater burden on those left paying the tax. To maintain revenues in the wake of the Great Recession, the statewide GRT rate increased 1/8 percent to 5.125 percent. Combined with local options, the GRT rate is as high as 8.94 percent in some municipalities. Contributing to the

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LFC TAX EXPENDITURE POLICY PRINCIPLES

1) Vetted – Was the proposed new or expanded tax expenditure vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters?

2) Targeted – Does the tax expenditure have a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals?

3) Transparent – Does the tax expenditure require at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies?

4) Accountable – Does the required reporting allow for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency? Is the tax expenditure set to sunset unless legislative action is taken to review the tax expenditure and extend the sunset date?

5) Effective – Does the tax expenditure fulfill the stated purpose? If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – are there indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure?

6) Efficient – Is the tax expenditure the most cost-effective way to achieve the desired results?

increase in local rates was a 2013 amendment to the food and medical deductions law that allowed local governments to raise the GRT rate by ¾ percent to compensate for the phase-out of "hold-harmless" payments the state initially made to local governments to compensate for the loss of GRT revenue. For years, tax experts have advised state policymakers that New Mexico needs a tax structure overhaul built on a broad base and focused on adequacy, efficiency, and equity. The lack of tax reform has contributed to the fiscal distress of FY16 and downgrade of state bond ratings.

GRT Pyramiding

The increase in GRT rates has also exacerbated the effect of tax pyramiding, still an issue in many industries. Pyramiding occurs when the GRT is applied to business-to-business purchases of services, supplies, raw materials, and equipment, creating an extra layer of taxation at each stage of production. The New Mexico Tax Research Institute (NMTRI) estimates effective GRT could reach 17 percent in certain sectors, such as manufacturing and research and development, a significant disincentive to businesses considering expanding or locating in New Mexico. Legislation enacted in 2012 to address tax 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 narrowly constructed to limit uncertainty and minimize further tax revenue losses.

Tax Expenditure Policy Principles

LFC relies on its tax policy principles when analyzing existing and proposed policies, but the principles are not targeted enough for use in evaluation of tax expenditures – exemptions, deductions, and credits. For future evaluations, including fiscal impact reports for new or significantly expanded deductions and credits, LFC staff developed the tax expenditure policy principles shown on the left.

Tax Expenditure Costs

Rising tax expenditure costs contributed to the revenue forecasting error in FY16 and FY17. In particular, the high-wage jobs tax credit, initially estimated at $15 million in August 2015, soared to nearly $60 million in FY16. Additionally, a hearing officer decision allowed hospitals to take medical deductions they previously were unable to, resulting in an estimated $49 million impact to the general fund in FY17.

Sample Revenue Enhancement Options

There are many revenue enhancement options, particularly in light of the wide array of tax expenditures that lower tax revenues and certain tax rates that have remained unchanged over many years and may be lower than those in surrounding states. The options discussed below are just a few of the possibilities that seem of particular interest.

Repeal 2004 Medical Deduction and Level Playing Field

Legislation enacted during the 2016 special legislative session fixed a loophole that allowed hospitals to qualify for the 2004 health care practitioner deduction;

however, this fixed a small piece of a larger issue. The healthcare industry continues to lead New Mexico job growth, but the array of exemptions, deductions, and credits means it is largely untaxed. GRT revenues fell by 2.9 percent for the industry in FY16. Because falling state revenues resulted in reduced Medicaid reimbursement rates, the hospital industry is in support of tax increases. Additionally, the patchwork of tax exemptions results in uneven taxation that creates incentives for certain business structures. Repealing the 2004 deduction and other deductions and credits and replacing them with a flat deduction at a lower rate would level the playing field and generate additional tax revenue. This would also increase local revenues that would reduce or eliminate the need for hold harmless payments.

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. These are unit taxes not indexed to inflation, and a relatively constant volume of fuel purchases and increased vehicle fuel efficiency have contributed to an erosion of the purchasing power of fuel tax revenue. The major benefactor of fuel taxes is the road fund (see infrastructure discussion); however, local governments receive a portion of revenue as well, used for local road maintenance. The reduced purchasing power of fuel taxes is constraining local governments' ability to build and maintain their road infrastructures. An increase in the fuel tax of 5 cents would bring New Mexico's tax in line with Colorado's.

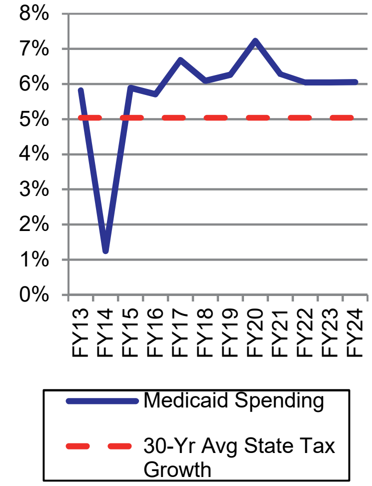
Motor vehicle excise taxes in New Mexico are less than half the rates in many places in Arizona, Colorado, and Texas. New Mexico's rate is 3 percent, while rates in surrounding areas can be as high as about 8 percent after adding in local rate increments. The Arizona and Texas statewide rates alone are nearly double New Mexico's. Each additional percent added to New Mexico's rate would generate nearly $50 million for the general fund.

Remote Seller and Internet Access Taxation

Federal efforts to regulate state taxing authority for in-state activities could affect state revenues. The proposed Marketplace Equity Act and Marketplace Fairness Act would grant states authority to impose taxes on remote Internet retailers that compete with local retailers but do not have to collect and remit sales or gross receipts taxes to a purchaser's home state. It is unclear whether this or a similar bill will pass or how the specific provisions would affect New Mexico, but several states are not waiting for federal legislation and are pushing the boundaries of a state's ability to unilaterally tax remote sellers. If New Mexico were to pursue this option, it could generate new revenue for the state and reverse the erosion of the retail sales sector in the state economy. It would also level the playing field for local businesses.

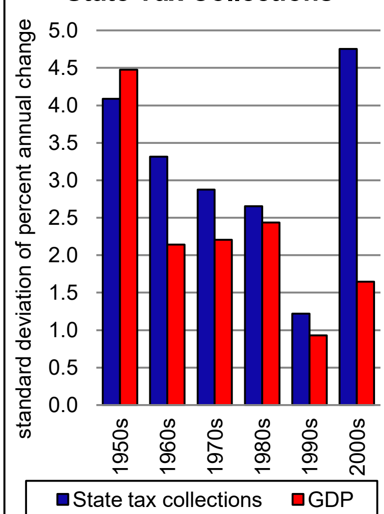
Potential legislation would not have to contradict the 1992 Supreme Court *Quill Corp v. North Dakota* decision, in which the court determined a seller must have a physical presence in the state to impose a sales tax. Whether New Mexico's GRT would fall under this ruling is in dispute, but the tax could be voluntary until the

Medicaid Spending Growth Versus State Tax Growth



Sources: Moody's Analytics, CMS Forecast, Census Bureau

Increased Volatility in State Tax Collections



Sources: Census Bureau, Bureau of Economic Analysis, Moody's Analytics

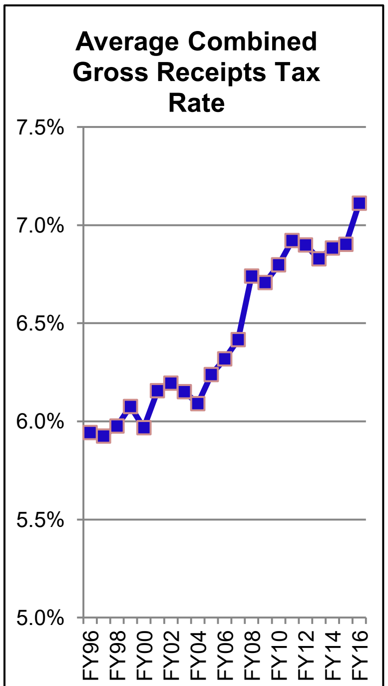
State Gasoline Tax Rates
(in cents per gallon)

Arizona	19
California	48.7
Colorado	22
Oklahoma	17
Nevada	33.1
New Mexico	**17**
Texas	20
Utah	24.5

Source: The Tax Foundation

Leveraging Local Option Health Taxes

Many counties have substantial indigent fund balances and yet have a reduced need for these funds in the wake of the Affordable Care Act and Medicaid expansion. The state could leverage these funds by increasing county-supported Medicaid transfers to help offset the rapidly rising costs of Medicaid expansion.



Source: LFC Files

court has a chance to readdress its ruling or Congress passes legislation authorizing state taxation. Alabama was able to get some large Internet retailers to sign up voluntarily, perhaps as a result of the nationwide trend to attempt to tax Internet sales but also likely due to an incentive Alabama put in place that allows companies that sign up voluntarily to keep a small portion of the resulting tax revenues.

Nonprofit Gross Receipts Taxes

Receipts of and sales to nonprofit companies are largely exempt or deductible from GRT, and the amount of GRT lost to the state is estimated by TRD at about $150 million annually. However, this estimate has the worst possible reliability factor due to little or no direct reporting and could be significantly higher given the size of the nonprofit healthcare sector alone. Additionally, Sandia and Los Alamos national laboratories could switch to nonprofit management contracts, eliminating tens of millions of dollars the state currently receives in GRT. Restructuring or removing these tax expenditures could generate additional revenues and prevent possible future losses.

Remove the Tax Deduction for Junk Food

Deducting food from GRT costs New Mexico about $230 million annually. One possible option to reduce this cost would be to remove the deduction for junk food products. It might require detailed rulings by TRD to clarify what would be taxed and could require a significant time lag for retailers to implement the changes into the cash register software systems, but estimates of savings to the state could be in excess of $50 million, including reduced hold-harmless payments to local governments that will see increased revenues.

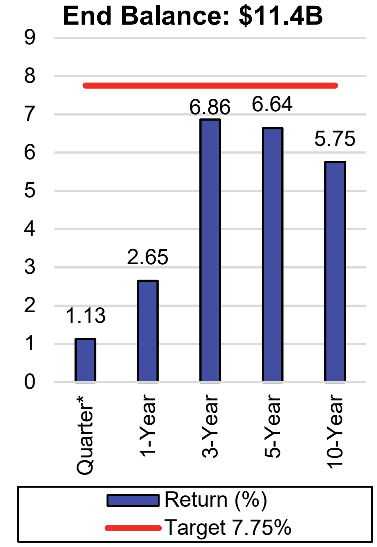
A Closer Look: The Tax Gap, Audit and Compliance, and Fraud

One area to examine in addressing revenue shortfalls is tax revenue collection. The tax gap is defined as money legitimately owed to the state but not paid. The Taxation and Revenue Department (TRD) is tasked with retrieving those tax dollars. Moreover, the state forgoes hundreds of millions of dollars annually to targeted exemptions, credits, and refunds. While these policies intend to promote economic development and other goals, unintended consequences can occur due to poor policy design. This evaluation assessed the effectiveness and efficiency of TRD efforts to reduce the tax gap as well as reviewed tax policy areas potentially contributing to lost revenues in a broader view of the tax gap.

TRD's Audit and Compliance Division (ACD) collected $1 billion over the last five years. Despite progress, a 36 percent increase in year-end delinquent accounts indicates a slowdown in collection effectiveness. ACD could benefit from an overhaul of its call center, where over half of delinquent collections take place.

The LFC evaluation made recommendations to increase oversight of tax policy and tax gap recovery efforts through interim committees such as LFC and the Revenue Stabilization and Tax Policy Committee. LFC staff also recommends the Legislature consider reversing budget cuts to divisions at TRD that yield positive returns on tax collection efforts. Further, the Legislature should implement a rigorous sunset review and periodic evaluation of tax policies. TRD should also find a way to better quantify New Mexico's tax gap, reassess staffing allocations, and adopt a new compliance tool. (Read the report.)

Among primary responsibilities of state investment programs is the fiduciary obligation to safeguard the fund for future generations. A carefully crafted, diversified portfolio balances risk and return. The use of alternative investments, such as hedge funds and real estate, can increase potential returns but comes with risks that necessitate an increase in due diligence and risk analysis. New Mexico's investment agencies – the Educational Retirement Board (ERB), Public Employees Retirement Association (PERA) and State Investment Council (SIC) – have recently implemented investment policy changes to diversify their portfolios through an increase in alternative investments and, in turn, have increased their use of expensive active managers. While fund performance has potential, long-term returns are performing below their targets and below similar public funds.



Source: Agency Investment Reports
*not annnualized

Performance Overview

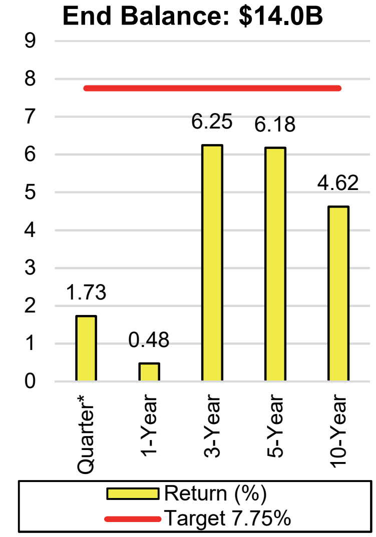
Investment performance slowed in FY16 with aggregate value for all four funds decreasing by $700 million, or 1.6 percent, including contributions and distributions as well as investment returns.

Asset Values for Year Ending June 30, 2016

(in billions of dollars)

Annual	ERB	PERA	LGPF	STPF	Total
Asset Values	11.4	14.6	14.8	4.5	45.3
Value Change	(0.1)	(0.5)	(0.2)	0.1	(0.7)
Percent change	(0.5)%	(3.8)%	(1.4)%	2.0%	(1.6)%

Source: Investment Agency Reports

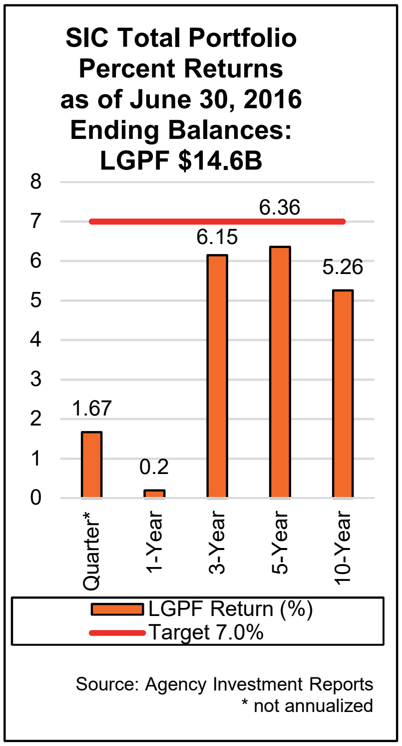


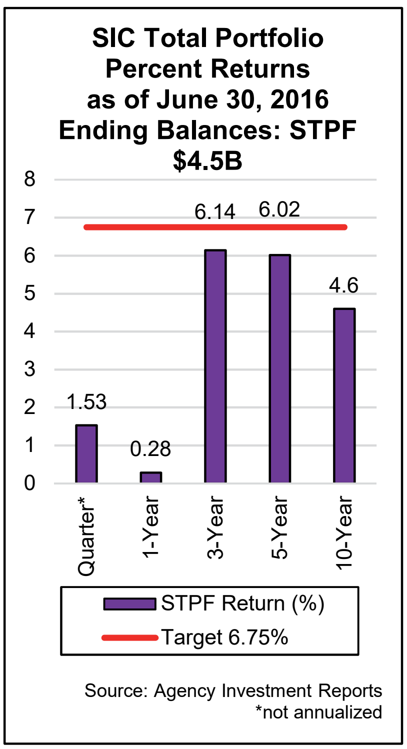
Source: Agency Investment Reports
*not annnualized

Short- and Long-Term Returns. The one-, three-, and five-year returns for pension funds missed their annual performance return targets of 7.75 percent for ERB and 7.25 percent for PERA. The permanent funds, both invested by SIC, decreased their projected annualized returns from 7.5 percent to 7 percent for the land grant permanent fund (LGPF) and 6.75 percent for the severance tax permanent fund (STPF).

One-year returns were especially sensitive to volatility in global markets and a drop in the oil market that has diminished investment balances and long-term potential returns. The market meltdown of 2008-2009 continues to suppress 10-year returns.

Management Fees. Combined, New Mexico's investment agencies spent nearly $380 million for management fees in FY16. ERB paid the highest in proportion





to the overall fund, 84 basis points (bps) or .84 percent of the total fund, primarily for investments in private equity and opportunistic credit. Opportunistic credit, a type of fixed income investment strategy, is an alternative investment category with a risk profile higher than traditional investments and lower risk than various other alternative investments, including private equity.

FY16 Investment Portfolio Fees

	Management Fees	Performance Fees	Total Fees	Annual Cost (in bps)
ERB	$107,897,524	$11,502,554	$119,400,078	84
PERA	$57,272,886	$21,990,322	$79,263,208	36
SIC	$137,441,213	$51,622,745	$189,063,958	59
Total	**$302,611,623**	**$85,115,621**	**$387,727,244**	

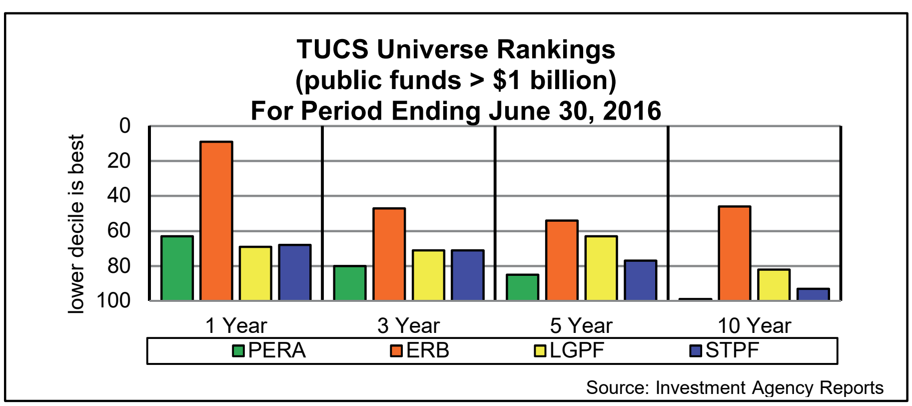
Source: Agency Investment Report

PERA paid the lowest fees in proportion to the overall fund, totaling 36 basis points for the fiscal year. PERA has actively pursued lowering its management fees. The agency paid the majority of its fees for investments in global equity and real assets.

SIC, paid the largest portion of its fees for investments in private equity, totaling $54 million, followed by hedge funds and real estate, respectively.

Peer Comparisons. The investment funds' performance was mixed when compared with similar public funds. To compare the three investment plans on a similar basis, analysts use the Wilshire Trust Universe Comparison Service (TUCS), a national benchmark service for the performance and allocation of institutional assets that includes comparison with approximately 77 public funds with more than $1 billion in assets. A lower number (1 is best) denotes better performance when compared to other public funds within a comparable investment universe.

ERB performed very well in the one-year period and was the only fund to do better than the median for the three- and 10-year periods. PERA, LGPF, and STPF ended the one-year period in below-average percentiles – 63rd, 69th, and 68th, respectively. The ERB fund was the best performing for all rankings. PERA performed slightly better than the permanent funds for the one-year period. However for the three-, five, and 10-year periods the permanent funds outperformed PERA. LGPF and STPF performed similarly for the one- and three-year periods; however, LGPF performed better for the five- and 10-year periods.



Early Childhood

Nationally, policymakers are increasingly focusing on early care and education programs to improve both short-term and long-term outcomes for at-risk populations. The trend is no different in New Mexico, where policymakers are beginning to see the results. In New Mexico, as elsewhere, early childhood programs initially were intended to support parents working or going to school while providing children safe care. However, with research consistently showing a child's experiences in the first few years has lifelong impacts on developmental, physical, and social outcomes, these programs have evolved into more comprehensive services.

In New Mexico, early childhood programs currently serve children and families prenatally through third grade at a cost of nearly $240 million annually. These programs, focused on safety, physical care, behavioral health, developmental screening, parental support, and early education, have proven to significantly reduce more expensive and typically less effective remediation later in life. From this significant investment, the state is beginning to realize returns, including increased reading and math competency for low-income children, reduced special education designations, and more consistent utilization of early well-child visits which should improve long-term outcomes for children.

Benefits of Early Care and Education

The foremost purpose of the early care and education system in New Mexico is to reduce adverse childhood experiences -- potentially traumatic events such as emotional or physical abuse or neglect, substance abuse in the home, or the incarceration of a parent. The original study on adverse childhood experiences, conducted by the U.S. Center for Disease Control and Prevention in the mid-1990s, found a strong relationship between adverse experiences and a child's development and long-term risk of substance abuse, behavioral health issues, low economic and educational attainment, and other poor outcomes. Reducing the number of adverse experiences – at risk families often have more than one – can greatly reduce the risk of negative cyclical-generational health and well-being outcomes.

Similarly, because the basic architecture of a child's brain forms in the first few years of life, research shows these earliest years may present the most significant opportunity to remediate developmental delays and address the cognitive and social delays that can result from less stimulating emotional and physical environments, as well as the severely diminished neurological development that can result from unstable and stressful environments.

Not surprisingly, early care and education programs have been shown to increase school completion rates and each high school graduate, LFC and other studies show, produces benefits of $278 thousand for the graduate and $100 thousand for

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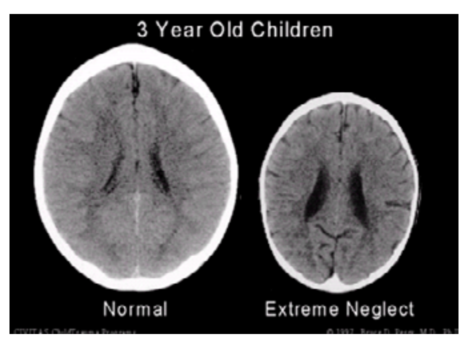
What is an adverse childhood experience?

- A child who experiences physical, emotional, or sexual abuse
- A child who often feels unsafe or unsupported by their caregivers
- A child who often experiences food insecurity
- A child with a caregiver struggling with substance abuse or behavioral health needs
- A child who experienced domestic violence
- A child with a household member who has been incarcerated

Brain Size Relating to Maltreatment



Source: UNM Health Sciences Center

taxpayers and other beneficiaries, compared with a non-graduate. In turn, increased economic success reduces the likelihood an individual will use welfare or commit a crime. Research is also beginning to show children who received high-quality early interventions have better physical health in their mid-30s than peers who did not receive services, with lower rates of pre-hypertension, heart disease, and obesity, reducing the need for costly healthcare later in life. Recognizing this, the U.S. Center for Disease Control and Prevention reports the early childhood care is now a priority initiative for the prevention of obesity and improving heart health.

However, the long-term returns from early interventions vary. While the Perry Preschool Project, which studied the impact of high-quality early education on low-income minority preschoolers in Michigan, is estimated to have saved $7 for every $1 invested due to lower education and welfare expenditures and gains in economic engagement, early results in New Mexico, on average, are closer to $2 for every $1 invested. Partially because a majority of early childhood programs are independently operated and partially because of a rapidly growing system and changing program standards, program quality can vary widely. As the early care and education system in New Mexico grows in funding and access, attention to consistent, high-quality services is paramount to growing returns on investment.

Childcare Assistance is a subsidy program for families with children between the ages of 3 weeks and 14 years whose families make less than 150 percent of the federal poverty level (FPL).

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.

Prekindergarten is an educational program for 3 and 4-year-olds shown to significantly impact math and reading proficiency for low-income participants.

K-3 Plus is an extended school year program focused on increasing time-on-task in schools with large numbers of low-income students.

Family, Infant, Toddler (FIT) is a statewide comprehensive system of early intervention services for children from birth to age 3 diagnosed with developmental delays, disabilities, and serious medical conditions.

Head Start is a federal program supporting the comprehensive development of children from birth to age 5 through early childhood education, child health screening and intervention, and parental supports.

The New Mexico Early Care and Education System

The early childhood care and education system is primarily administered by the Children, Youth and Families Department (CYFD). Programs include childcare assistance, home-visiting, prekindergarten, the extended school year program K-3 Plus, Family, Infant, Toddler (FIT) program, and Head Start.

Capacity Gaps and Expansion Barriers

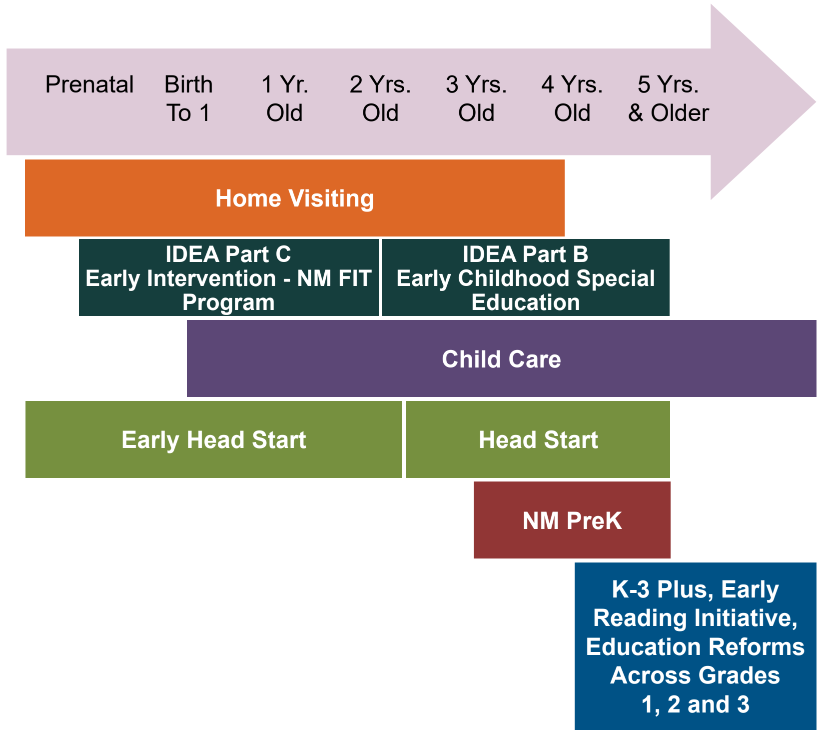
Despite significant, targeted investments by the Legislature in the state's early childhood programs, New Mexico remains behind most other states in many indicators of child well-being. LFC's *Gap Analysis and Spending Plan* report (January 2015) examined home-visiting, prekindergarten, child care, and K-3 Plus for gaps in services, barriers to program expansion, and potential funding options.

While home-visiting has achieved successes in some high-risk New Mexico communities, developing community relationships and infrastructure continues to be a barrier to expansion. The majority of at-risk clients remain unserved, and the state lacks sufficient information about whether the program is reaching the targeted population.

In contrast, New Mexico is close to providing sufficient funding to ensure all low-income 4-year-olds receive at least some type of early education when childcare assistance, prekindergarten, and Head Start are considered. Possibly as a result of increased access for 4-year-olds to childcare and prekindergarten, enrollment in federally funded Head Start has experienced a significant decline and New Mexico is losing federal revenues due to a decline in enrollment. The state needs to better coordinate across programs to prevent over-saturation for one age group, while other age groups are under-served. New Mexico could consider shifting more prekindergarten funding to 3-year-olds or encouraging Head Start programs to shift more services to Early Head Start.

LFC estimates remaining statewide funding need for all early childhood services is close to $190 million. To close service gaps and continue improving early childhood outcomes, targeted interventions are needed, such as focusing state-funded home-visiting services to at-risk, low-income families in high-need communities. Additional funding is needed to grow at a rate to both serve more clients and improve quality.

New Mexico's Early Childhood Care and Education System



Source: UNM Center for Education Policy Research

Continued Quality Improvement

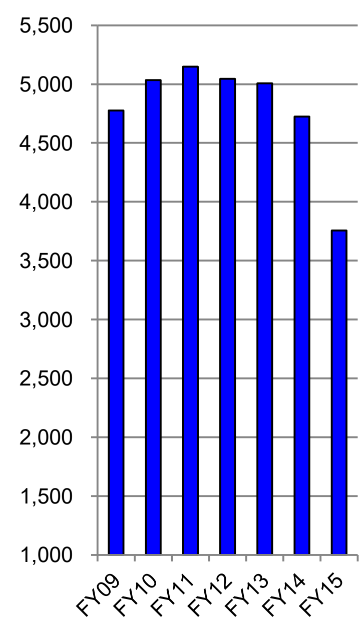
Continued quality improvement for New Mexico early childhood programs is essential to ensuring a positive return on investment and better outcomes for at-risk families. With this in mind, the federal government invested in a quality improvement grant called Race to the Top-Early Learning Challenge (RTT-ELC). In 2012, New Mexico was awarded $37.5 million during the second phase of RTT-ELC.

The New Mexico RTT-ELC grant was used to improve early childhood care quality and professional development for staff. The four goals of New Mexico's RTT-ELC reform agenda are 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. A new rating system, Focus, will be New Mexico's third-generation TQRIS. The current rating system, Aim High, was implemented in 2000 but will transition to Focus by 2017. The goal of Focus is to more closely align childcare services with prekindergarten services with the hope of improving school readiness for the 17 thousand to 18 thousand children who receive childcare assistance each month.

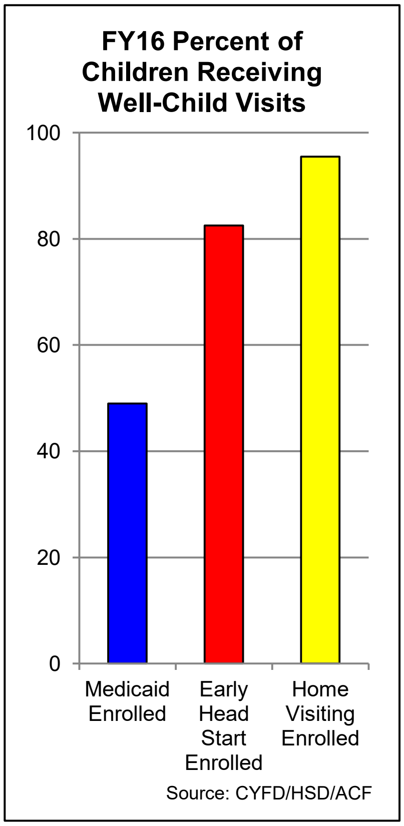
However, it should be noted high-quality programs require significant investment. Inputs such as well-educated and experienced teachers, small group sizes, and one-on-one coaching are costly but predictive of positive long-term outcomes. In FY17, CYFD will spend about $8 million for quality improvement on childcare programs.

One key challenge to improving the quality of early childhood programs and ensuring positive outcomes is to reduce churn and ensure children and families stay in programs long enough to benefit. LFC estimates over 30 thousand unique children enter the childcare assistance program each year but may not receive services long enough to attain positive outcomes; however, this problem is not unique to New Mexico. With this in mind, the federal government reauthorized the federal Child Care and Development Block Grant (CCDBG) Act in 2014 with several changes. The most significant change, which could reduce churn, is a new 12-month eligibility period versus the current six months. Extending the recertification process may result in increased enrollment.

4-Year-Olds Enrolled in Head Start



Source: Administration for Children and Families



Additionally, New Mexico publishes several key reports available to the public to monitor the quality of early childhood programs. The *Annual Home-Visiting* report is published in the beginning of each year. In 2016, the third edition of this report showed a continued evolution of attention to quality and growth of the home-visiting program statewide. Additionally, in 2017 CYFD is expected to release the first edition of an annual childcare accountability report.

New Mexico Investment and Funding Strategy

The Legislature has increased spending on early childhood programs by more than $100 million over the last five years in a strategic, targeted way to communities in need of services and system building. Scaling up programs, while ensuring programs maintain fidelity to evidence-based models, requires significant continued support and technical assistance. Scaling up too fast without attention to quality has been shown to produce less positive outcomes. This is one of the most difficult barriers to growing early childhood systems nation-wide.

For example, a recent evaluation of Tennessee prekindergarten programs showed gains in math, language, and reading but those gains did not last through kindergarten. This is in stark contrast to the results of other public prekindergarten programs, in Boston and New Jersey, which have closed between 20 percent and 30 percent of the educational achievement gap between low-income students and the national average. The Tennessee program is universal and was expanded quickly to provide services statewide. Researchers believe key elements to obtain lasting outcomes in public programs are strategic development of evidence-based programming, careful and attentive implementation, and continued performance monitoring.

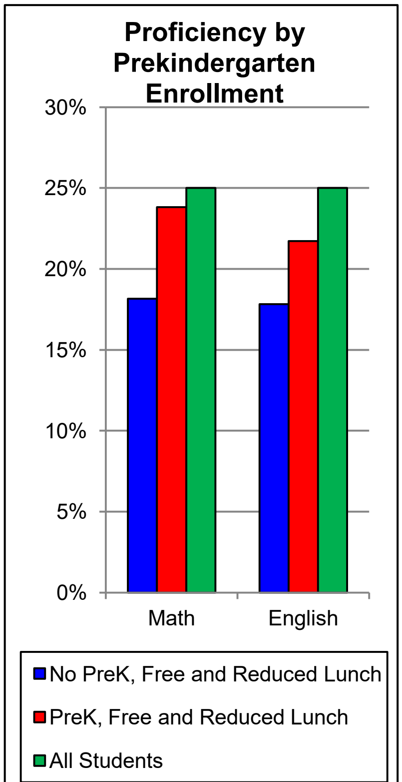
A Closer Look

Early Childhood Accountability Report

In 2016, LFC published the second Early Childhood Accountability Report intended to provide a system wide look at key early childhood indicators across state agencies and consolidate information regarding expenditures and outcomes. Additionally, the report examined trend data indicating mixed results regarding performance measures examined the previous year. Key findings in the report included home-visiting services improved the rates of well-child visits and numbers of mothers initiating breast feeding; childcare assistance costs increased due to implementation of higher quality standards (Focus); prekindergarten is associated with better performance on standardized testing, lower special education identification, and lower retention rates; Head Start enrollment is falling and performance lagging behind the nation; and K-3 Plus has been scientifically proven to improve student performance in reading, math, and writing.

Additionally, a significant finding in the report notes that many of the educational outcomes are measured by reading and math proficiency in the third grade. However, from the state-created standards-based assessment (SBA) to the multi-state Partnership for Assessment of Readiness for College and Career (PARCC) test brought with it a number of differences, including a radically different definition of school readiness or proficiency. The average prekindergarten participant was proficient under the SBA but not the PARCC. However, prekindergarten participants score significantly higher on the PARCC than non-prekindergarten peers. Although the distribution of scores follows a normal distribution for both tests, the cutoff for what is considered to be proficient or "school ready" has shifted from roughly the 50th percentile on the SBA to roughly the 75th percentile under PARCC. This shift in where the cutoff is drawn in the distribution redefines success for about 25 percent of New Mexico's students. The distribution also provided a potential benchmark for New Mexico to compare performance with other states using the same test and cutoff scores. Available data indicates New Mexico ranks last in the nation among available scores for third grade PARCC English language arts proficiency. (Read the report.)

Additionally, the state should consider exploring other non-state general fund options to grow programs, such as federal Medicaid revenue for home-visiting. LFC reported that in 2010, Medicaid covered nearly 20 thousand births, or 71 percent of the 28 thousand births in the state; but by FY13 Medicaid paid births increased to 82 percent. This concentration of Medicaid-funded births should allow for federal matching funds to be used to pilot targeted home-visiting in small geographic areas and to families with the highest risk factors. This strategy would allow the state to control costs while evaluating the viability of expanding services statewide.



Source: PED /CYFD

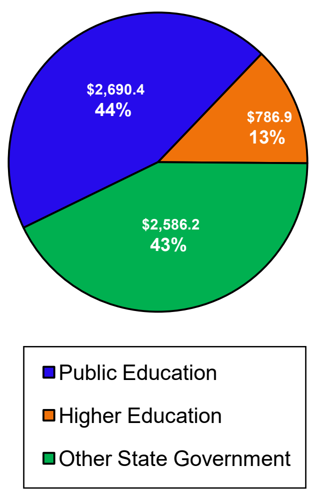
Return on Investment

An April 2014 LFC Results First report of early childhood evidence-based programs examined actual return on investment for two programs in New Mexico, prekindergarten and child care. LFC staff found a positive return on investment in prekindergarten in improved third grade test scores and a decreased likelihood of retention and special education identification, which were not monetized.

The potential returns on investment for other early childhood programs in New Mexico were also examined and look promising, including Head Start and the home-visiting Nurse Family Partnership. However, the report cited potential program fidelity shortcomings for Head Start and limited availability of other evidence-based programs, such as the Nurse Family Partnership. Funding what works, successful implementation, and program fidelity are key in achieving improved outcomes and cost-beneficial results.

Research indicates early reading proficiency is a strong predictor of future educational and employment success. However, 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.

FY17 General Fund Appropriations
(in millions)



Source: LFC Files

For more info:
Public Education Report Card
Page 93

Despite spending more than $3.3 billion a year on public and higher education programs, many New Mexico students are not prepared to pursue college or careers, and multiple interventions have produced marginal or mixed results. While several initiatives have begun to show some promise, scalability remains a challenge for the state. Without a coordinated effort to address systemic barriers in the education and workforce pipelines, New Mexico will continue to lag behind other states in student achievement levels and outcomes.

Public Education

Annually, the state allocates about 44 percent of general fund revenues to public schools, education initiatives, and the Public Education Department (PED). Solvency measures from the 2016 special legislative session reduced general fund appropriations for public education by $68.4 million, or 2.5 percent, but included $12.5 million in supplemental severance tax bond proceeds to supplant these reductions. Prioritization of general fund appropriations will continue to be a challenge, given recent shortfalls in state revenue, continued volatility of revenue sources, and the large proportion of state expenditures allocated to public schools. Calculated decisions must be made at the state and local level to focus spending on programs proven to increase student achievement and ensure the state is getting the best return on its investment.

In the 2016 National Conference of State Legislatures report, *No Time to Lose*, a bipartisan group of state lawmakers found 10 nations that fared well on international academic comparisons shared common elements: strong early childhood education programs, especially for disadvantaged children; highly selective teacher preparation programs; better pay and working conditions for teachers; and more time for curriculum development, with a focus on high standards. The group also found high-performing countries tended not to administer standardized tests annually like the United States, but instead at key transition points in a student's career. The assessments emphasize essays over multiple-choice, a more costly approach, in an effort to engage students' complex thinking skills. However, the report emphasized, "These countries prioritize this investment as a small fraction of the total cost of their education system, knowing that cheaper, less effective, less rigorous assessments will not lead to world-class teaching or high student achievement."

The report also indicated high-performing countries focused attention on resources used to serve economically disadvantaged students, the most likely to perform poorly, and efforts to narrow the achievement gap between low- and high-performing students. Emphasis on career or vocational training programs were increased, and collaboration among educational institutions and employers were encouraged to improve workforce opportunities. Investments were made in early childhood programs and systemic strategies for schools to improve the quality of education during critical developmental stages before the achievement gap began to widen.

Every Student Succeeds Act

The 2015 reauthorization of the federal Elementary and Secondary Education Act, titled the Every Student Succeeds Act (ESSA), maintained many of the same provisions as past iterations of federal education legislation, such as requirements for state plans and report cards. However, in response to many of the complaints about the 2001 reauthorization of the No Child Left Behind Act, ESSA offers states new flexibility in assessment types, accountability systems, and funding.

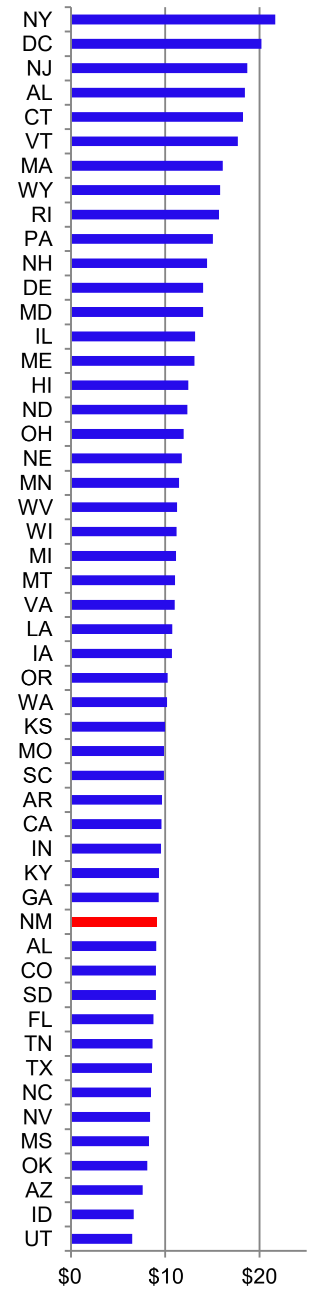
New provisions in ESSA allow local education agencies (LEA) to administer a locally selected, nationally recognized assessment for high school students, like the SAT or ACT, instead of the state-determined academic examinations for math, English language arts, and science. States are also permitted to develop and administer computer-adaptive assessments that analyze a student's response and adjust the difficulty of questions during an exam to measure individual academic proficiency and growth. In response to the number of parents who remove their children from testing, ESSA ensures state and district laws allow for parents to opt out; however, if less than 95 percent of students participate in the tests, states must include – and are required to calculate – student proficiency in a manner that effectively assigns a score of zero to nonparticipants.

According to PED, approximately 97 percent of eligible students completed the FY16 Partnership for Assessment of Readiness for College and Careers (PARCC) test, compared with just over 95 percent in FY15, and nearly 99 percent of participants took the test on a computer. Given trends in the use of performance-based or competency-based assessments, portfolios, and interim tests, New Mexico will need to consider the merits of evaluating student achievement solely on the PARCC test or applying for the ESSA innovative assessment pilot to develop alternative assessment systems. More pressing, however, will be issues surrounding the timeliness and accuracy of assessment results for educators and schools to begin using assessment feedback to improve performance.

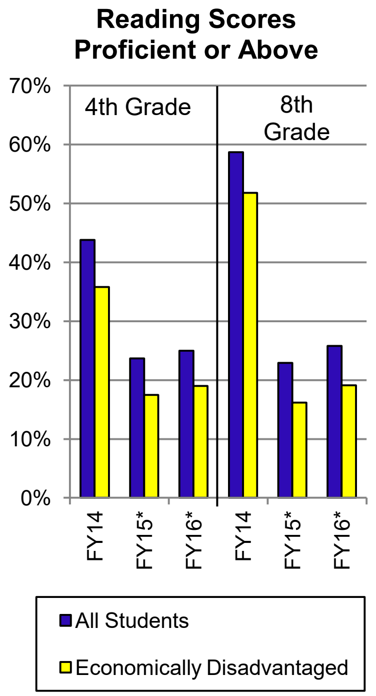
ESSA requires state accountability plans to include five indicators: (1) proficiency on assessments, which may include growth for high school proficiency; (2) growth in proficiency in elementary grades; (3) high school graduation rates; (4) progress of English learners toward proficiency; and (5) an indicator of school quality or student success (SQSS), which carries less weight than the other indicators. States may choose their own SQSS indicator, although ESSA suggests measures such as student engagement, educator engagement, access to advanced coursework, postsecondary readiness, school climate, or other scientifically based measures likely to increase student academic achievement or success. ESSA also includes multiple changes to how states will assess and report data on English learners. Most new provisions that impact New Mexico will take effect in FY18, and state plans are due in spring 2017.

Federal school improvement grants have been discontinued under ESSA, and states are now required to reserve up to 7 percent of federal Title I funds to support low-performing schools through a competitive or formula-driven process. In FY16, New Mexico LEAs received $112.6 million in Title I, Part A grants. ESSA provides new flexibility with Title II funds to attract, prepare, support, and retain effective teachers and administrators serving high-poverty, minority students. States

State Per Pupil Expenditures
(in thousands)

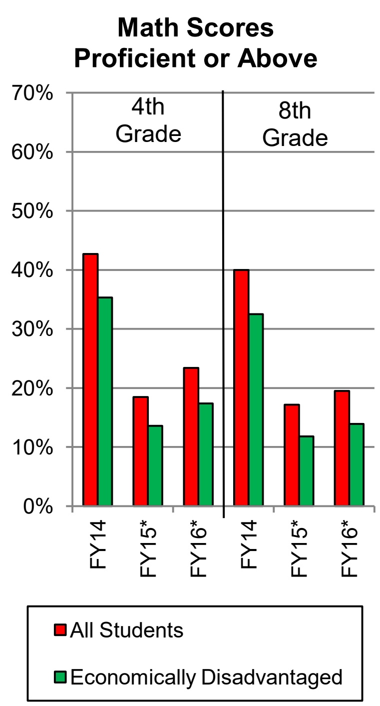


Source: U.S. Census Bureau



*The PARCC assessment was administered in FY15 for the first time.

Source: PED



*The PARCC assessment was administered in FY15 for the first time.

Source: PED

may also use Title II funding to develop, implement, and enhance their evaluation systems. In FY15, New Mexico LEAs received $17 million in Title II funds.

As national enrollment of students in traditional and alternative teacher preparation programs continues to decline and retiring educators exit the profession, the state will need new strategies to improve the supply and quality of new teachers. According to New Mexico State University, New Mexico school districts had about 500 teacher openings at the end of 2015, and the shortage was more pronounced in special education and early childhood education. Use of federal funding to build local grow-your-own programs and professional development for new teachers may address chronic recruitment and retention issues.

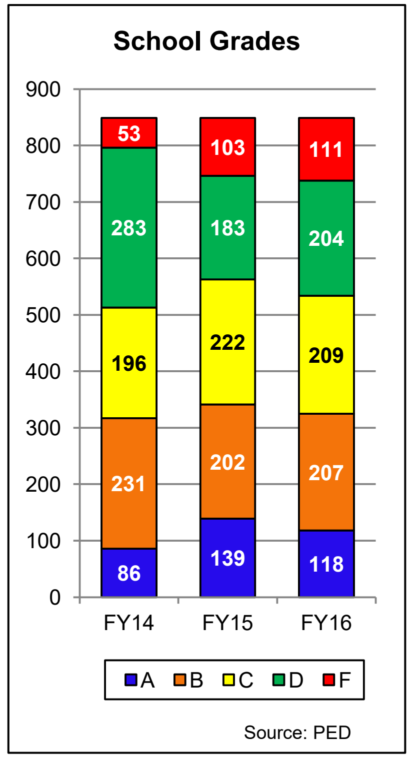
The Achievement Gap

Some children fare worse on academic performance than others, resulting in a large achievement gap, a disparity in performance between groups of students defined by gender, race, language, and socioeconomic status. Research has shown the achievement gap is largely a function of poverty and language. New Mexico has high rates of students at risk of academic failure, primarily students from low-income families and students learning English. Additionally, many students are not proficient in either their home language or English, creating unique challenges. When not adequately addressed, the achievement gap persists well into high school, postsecondary education, and the workforce.

In FY16, the performance of economically disadvantaged fourth graders in both reading and math lagged the statewide average by about 6 percentage points. Statewide, 25 percent of fourth graders were proficient in reading and 23.4 percent were proficient in math. Although lower than desired, the results for economically disadvantaged fourth graders were an improvement over FY15. For eighth graders the achievement gap percentage was similar for reading and math. Again, disadvantaged eighth graders demonstrated improvement from FY15, but statewide proficiency levels were 16.2 percent for reading and 11.8 percent for math. With just two years of experiencing the PARCC test in New Mexico, it is unknown if this trend of a narrowing achievement gap will continue.

School Grades. According to PED, the value of PARCC scores embedded within the school grade formula will incrementally increase each year as schools begin to adjust to the new assessment. In FY16, the number of schools with A and B scores declined while the number of D and F schools increased. A September 2016 Legislative Education Study Committee (LESC) study found schools with higher student populations qualifying for free and reduced-fee lunch (FRL) had a higher percentage of D and F school grades, while schools with lower FRL student populations had a higher percentage of A and B school grades. The LESC findings suggested lower math proficiency scores were related with higher FRL percentages. LESC indicated the focus on academic proficiency, rather than academic growth, in school grades would make improvements to current standings more difficult for schools in low socioeconomic areas.

Time on Task. An October 2014 LFC evaluation noted 12 percent of all low-income elementary students missed 10 or more days of school in FY14, compared with only 6 percent of their more affluent peers. The report indicated schools need to address attendance issues and improve "time-on-task" as part of the effort to close the achievement gap. An elementary student absent 10 or more days loses a minimum of 15 hours of both language arts and math instruction, depending on school schedule configurations. Habitual truancy and absenteeism further contribute to lost time in the classroom. In FY16, 12.8 percent of elementary school, 14.4 percent of middle school, and 24.1 percent of high school students were habitually truant. Research indicates absence from school – for any reason, excused or unexcused – is a primary cause of low academic achievement and a powerful predictor of which students will eventually drop out of school. More time in the classroom is important; however, achievement gains from increased attendance can be lost if students are not on task. New Mexico should develop a framework to guide districts on maximizing time-on-task practices that includes appropriate tools, infrastructure, and professional development.



College and Career Readiness. While remediation needs for New Mexico high school graduates attending in-state higher education institutions remains higher than desired – 43.3 percent in FY15 – this need has decreased since FY13. Students who require remedial classes in college are less likely to complete a degree or certificate program. The results of a new approach in Florida suggests mandating remedial classes might hinder academic progress. In 2014, Florida community colleges stopped requiring low-performing students to take noncredit remedial classes and instead let them choose. Since then, most Florida students take regular college math and English classes in their first year and pass rates for college-level classes have not dropped dramatically. Florida colleges have added tutoring, web-based classes, and advisers to help students succeed. Although further study is necessary to ascertain whether remedial courses are necessary to prepare students for college-level work or create unnecessary barriers, the issue could be mitigated by better aligning high school curricula to college requirements and workforce readiness.

Early college high school and career technical education (CTE) programs continue to offer promising pathways for middle and high school students. Early college high school programs collaborate with higher education institutions to

A Closer Look — Time on Task Study

Almost all school districts exceed the statutory minimum of 180 instructional hours, averaging the equivalent of 194 instructional days in a school year. However, student academic performance remains disappointing and does not meet performance targets. The LFC's evaluation, *Assessing "Time-on-Task" and Efforts to Extend Learning Time (summer 2016)*, analyzed the differences in learning time among schools serving a variety of student populations, and research-based best practices to promote time-on-task. The evaluation found students lose 32 percent of instructional time per year, or the equivalent of 62 standard instructional days, due to factors such as late starts, recess, and breakfast after the bell. Additionally, teacher absenteeism, student absenteeism, truancy, discipline, re-teaching, parent-teacher conferences, and standardized test administration were factors impacting instructional days.

Time for learning is important, but more time alone will not increase academic achievement. Most school districts are not conducting comprehensive quality time analyses to assess academic learning time. The majority of teachers in New Mexico indicate having received little to any professional development on time-on-task. About 95 percent of teachers are generally rated effective or better for time-on-task in the Teachscape evaluation rubric, indicating teachers are receiving little, if any, feedback for improving time-on-task practices. The evaluation recommends equalizing elementary and secondary school hour requirements, working with teacher preparation programs to include practices to increase time-on-task, and analyzing Teachscape data to identify time-on-task trends for use in professional development. (Read the report.)

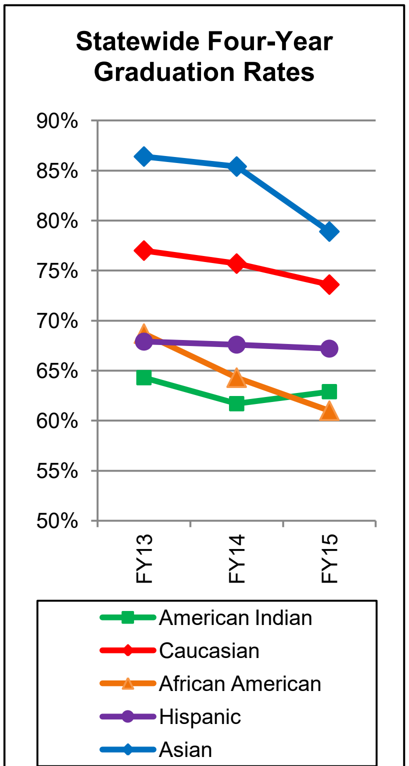
A Closer Look

Charter Schools Study

If counted as a single school district, the state's charter schools would rank as the third largest district in terms of student enrollment and funding. New Mexico has 102 charter schools, including two virtual charter schools. These schools serve approximately 7 percent of the student population and make up 11 percent of all public schools. The LFC's evaluation, *Performance, Cost, and Governance of Selected Charter Schools (winter 2016)*, studied six selected charter schools and made recommendations to address student achievement, school finance, governance, and virtual education issues.

Achievement data shows little difference in student performance between charter schools and traditional public schools in New Mexico. Charter schools tend to serve a lower percentage of Hispanic, economically disadvantaged, and English learners compared with traditional public schools. Challenges exist with school grading, as some charter school missions are unique and do not align well with criteria set by the Public Education Department. In FY15, selected charter schools had more experienced teachers, lower teacher turnover rates, and higher average teacher salaries than the statewide average. Oversight by state and local authorizers is inconsistent and revocations of charters are rare, despite poor charter school performance. The report recommends additional guidance for authorization and accountability of charter schools and separate funding formulas for charter schools. The report also recommends new formula funding and accountability structures to address virtual schools, due to issues of cost-effectiveness. (Read the report.)

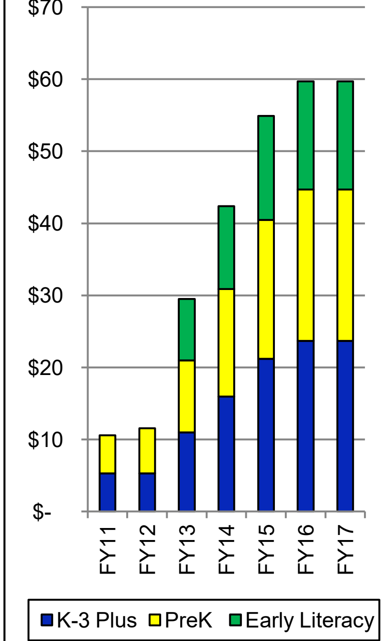
help students graduate with a high school diploma and an associate's degree or industry credential without incurring postsecondary debt. Graduates are able to enter the workforce or apply credits to a bachelor's degree. New Mexico receives federal funding for CTE programs, which provide students education and training opportunities necessary for specialized careers. According to the Southern Regional Education Board, a nonprofit, nonpartisan education organization, high-quality CTE programs should align with community needs and provide a robust career development process that begins in middle school and continues on to postsecondary education and employment.



Source: PED

Graduation Rates. Lagging high school graduation rates in New Mexico produce significant drains on the state's economy. National research suggests adults without a high school credential are more likely to live in poverty, become incarcerated at some point in their lives, rely upon public assistance, costing taxpayers $200 thousand over their lifetimes. In New Mexico, adults without a high school credential earn an annual median income of $17 thousand, compared with $25 thousand a year for high school graduates. Over 50 percent of the adults incarcerated in New Mexico lack a high school credential. Though the state's four-year graduation rate has increased since FY08, New Mexico's dropout rate has increased as well. A September 2014 LFC report noted nearly 7,700 ninth grade students failed to graduate in four years, and in FY13, 7,200 students dropped out of the state's public school system. According to the report, increasing the number of students who graduated annually by 2,600 would result in an estimated $700 million net benefit to taxpayers, 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. However, promising initiatives are being implemented inconsistently across the state or not at all, and efforts are not targeted in schools and school districts where dropouts tend to be concentrated. PED has been developing a system to identify students at risk of dropping out early to provide targeted interventions; however, the system has not been implemented statewide and only a few schools are using the system. Additionally, LFC found the state is spending millions on public school students over age 22 who never earn a high school credential.



Public Education Initiatives

Rapid implementation of high-profile initiatives continues to prove challenging for PED and few performance measures exist for department initiatives. PED continues to advance initiatives aimed at improving student outcomes, including a school grading system, a teacher and school leader evaluation system, new teacher and school leader training programs, targeted interventions for low-performing schools, a new graduation initiative, an early warning system, a merit pay pilot and stipend initiatives, and an early literacy intervention program. Funding for department initiatives increased over 480 percent from $17.1 million in FY12 to $99.1 million in FY17.

The state invests heavily in early childhood programs intended to improve school readiness and foundational early literacy skills. These programs include prekindergarten, Reads to Lead (early reading initiative), and K-3 Plus – an extended school year program. Early experiences influence learning, and quality early care and education programs result in both immediate and long-term benefits. Prioritized investments in early childhood programs are producing positive outcomes for participants, especially where high-quality instructional time is significantly increased and programs are implemented with fidelity to best practices. However, current needs outweigh available funding, resulting in limited improvements in student achievement data.

Number of Students Served in K-3 Plus

Summer 2014	18,056
Summer 2015	19,383
Summer 2016	18,949

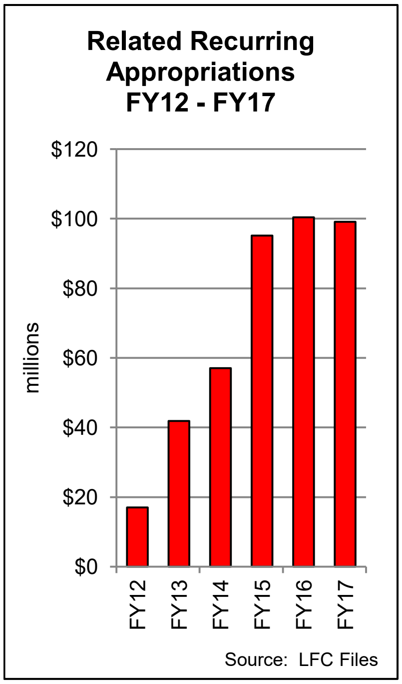
Source: PED

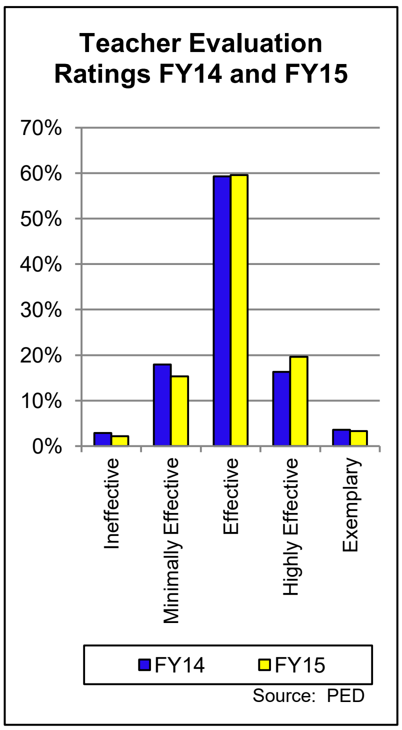
K-3 Plus. K-3 Plus adds 25 instructional days before the school year for economically disadvantaged and low-performing students and demonstrates success in improving math and reading skills, helping to close the achievement gap. For FY16, funding for K-3 Plus increased 11.6 percent over FY15 levels, allowing the department to serve 19.4 thousand students during the summer of 2015. Seventy percent of kindergarten students in K-3 Plus reported meeting proficiency benchmarks in early reading skills for phonological awareness on the middle-of-year assessment. For summer 2016, 272 schools serving 18.9 thousand students received initial awards for K-3 Plus. According to PED, 66 percent of kindergarten through third-grade students scored at or above the early reading benchmark at the end of the 2015-2016 school year, compared with 54 percent scoring at or above the benchmark at the beginning of the year.

For FY17, the Legislature appropriated $23.7 million for K-3 Plus, flat with FY16 levels. Due to flat funding, school districts and charter schools were funded at the same level as summer 2015. Since the FY16 final unit value was higher than the FY15 unit value, fewer students will be served in K-3 Plus in the summer of 2016. Also, pilot programs for fourth grade and fifth grade authorized in the General Appropriation Act of 2016 were not funded because it would have resulted in cuts to existing programs.

Prekindergarten. Fiscal year 2016 funding for PED-administered prekindergarten programs increased by almost $5.3 million, or 27.4 percent. For FY16, PED and the Children, Youth and Families Department (CYFD) were budgeted to serve 8,761 four-year-old children in state-funded prekindergarten, or 30.2 percent of the eligible population.

NMLead. Collaborative partnerships between PED and higher education institutions, schools districts, and other organizations have resulted in innovative principal preparation programs and leveraged best practices for turning around chronically failing schools. New Mexico's own school turnaround program,





2015 NCTQ State Teacher Quality Yearbook Grade for New Mexico and Surrounding States

New Mexico	C
Arizona	C-
Colorado	C
Oklahoma	B-
Texas	C-
Utah	C+

Principals Pursuing Excellence (PPE), has shown some success, with over 60 percent of participating cohorts improving grades for their schools by one or more letter grades within one or two years. Additionally, FY16 PARCC math proficiency increased 4.2 percent and reading proficiency increased 4.9 percent for PPE schools, compared with an increase in the state average math proficiency score of 2.5 percent and reading proficiency score of 1.3 percent. Fiscal year 2017 funding for PED teacher and school leadership preparation remained flat at $4.1 million from FY16. According to a 2008 study by Robinson, Lloyd, and Rowe, the leadership of a school principal is a determining factor for school effectiveness, second only to the impact of teachers.

Issues

Teacher Quality

Research clearly demonstrates teacher quality impacts student learning. Research conducted by Eric Hanushek, a fellow at the Hoover Institution of Stanford University, finds, "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, having a top-quartile teacher rather than a bottom-quartile teacher four years in a row could be enough to close the achievement gap. While New Mexico has made changes in evaluating teacher performance, other policy levers should continue to be addressed, including teacher and school leader preparation programs, effective recruitment and retention strategies, teacher and school leader placement, and compensation to achieve the highest quality education workforce.

The *2015 State Teacher Policy Yearbook* is a review of state laws, rules, and regulations governing the teaching profession, published by the National Council of Teacher Quality (NCTQ). The report measures progress toward a set of 32 policy goals focused on preparing, retaining, and rewarding effective teachers. For 2015, New Mexico received a "C" grade, an improvement over 2011 and 2013 when the state's grade was a "D+." According to the report, New Mexico made progress in the areas of teacher preparation program accountability, alternative licensure route eligibility, alternative licensure route usage and providers, and licensure advancement based on evidence of teacher effectiveness.

Educator Evaluations. The teacher evaluation process is being challenged in two lawsuits. The first lawsuit, brought by the American Federation of Teachers New Mexico, the Albuquerque Teachers Federation, and other plaintiffs, argues the state's teacher evaluation system is unfair and could put teachers at risk of being punished or fired. The other lawsuit, brought by the National Education Association of New Mexico, claims the evaluation system unlawfully takes control of teacher evaluations and supervision away from local school districts. The trials for both lawsuits have been postponed.

In the National Education Association of New Mexico case, the Court of Appeals denied PED's request for interlocutory, or emergency, review of the partial injunction that prevents PED from using teacher evaluations to inform employment, advancement, or licensure decisions. It appears PED will be prevented from enforcing sections of the evaluation regulation barred by the interlocutory appeal during the 2016-2017 school year.

PED announced in January 2016 plans to simplify the evaluation system and make it more uniform across the state by reducing the number of tests included in calculating teachers' scores, ending the use of student achievement data over a year old, and releasing evaluation results in the fall rather than the spring. In FY17, PED selected Istation as the new short-cycle assessment that will be included in evaluations for teachers teaching kindergarten through second-grade students.

Special Education Maintenance of Effort

On February 10, 2016, PED staff notified legislators and legislative staff that the department reached a tentative $85 million settlement with the U.S. Department of Education (USDE) on total shortfalls from FY11 through FY15. PED indicated the department agreed to increase the base MOE amount by $3 million a year over the next five years. Additionally, the department agreed to bind the Legislature to appropriate an additional $9 million a year for five years beginning in FY17 for proven special education programs. PED indicated the annual $9 million appropriation would not be distributed to school districts and charter schools based on their proportion of formula funding but rather in a manner similar to related recurring initiatives funding.

If the base appropriation each year would be insufficient to increase the MOE requirement by $3 million, up to $3 million of the $9 million appropriation could be used to ensure the growth requirement in base spending. This means the amount used to ensure base growth would be allocated to school districts and charter schools through the formula. To date, an agreement has not been formally reached and it is unclear if the provisions of a negotiated settlement framework proposed by PED exist.

It is also unclear if the department could qualify for a waiver of the annual MOE requirement by demonstrating all special education students have access to a "free appropriate public education" (FAPE) provision allowed in the federal law. To date, PED has been unwilling to advance an argument pursuant to the FAPE provisions, noting USDE has indicated the state would likely be unable to meet the burden of proof.

Higher Education

As New Mexico works to improve public education outcomes, the state also must focus on providing diverse, affordable, and completion-driven postsecondary opportunities for high school graduates. Higher education in New Mexico has shown significant progress in this regard in recent years, as degree awards have increased and institutions demonstrate a focus on providing instruction in the face of budget reductions. However, the state's higher education system still has room to improve collaboration among institutions and narrow its attention to key priorities.

Maintenance of Effort

In FY12, the U.S. Department of Education (USDE) notified the Public Education Department (PED) that the state failed to meet the maintenance of effort (MOE) provision of Part B of the federal Individuals with Disabilities Education Act (IDEA-B) in FY10 and FY11 and was facing potential reductions to federal IDEA-B funding as a result. The MOE provision of IDEA-B requires states to maintain state-level financial support of special education as a condition of continued receipt of federal IDEA-B funds and effectively prohibits states from supplanting state revenues appropriated for special education students with federal IDEA-B dollars.

Provisions of IDEA-B allow the U.S. Secretary of Education to grant a waiver to a state that does not meet annual MOE requirements based on (1) a showing of precipitous declines in financial resources and exceptional and uncontrollable financial circumstances, or (2) clear and convincing evidence that all children with disabilities have available to them a free appropriate public education (FAPE).

In FY13, the USDE alleged New Mexico fell short of MOE requirements for in FY10 by $48.1 million and FY11 by $34.1 million. PED submitted waiver requests for FY10 and FY11, citing precipitous declines in financial resources during those years. USDE granted the state's request for a waiver in FY10 but not for FY11. Additionally, USDE noted the state failed to meet requirements in FY12 by $26.4 million and may have failed to meet requirements in FY13.

In response, the Legislature made multiple appropriations to meet MOE requirements in FY13, FY14, and FY15 in the General Appropriation Acts of 2013 and 2014. During the 2013 legislative session, $36 million was appropriated to PED in Laws 2013, Chapter 191 to ensure MOE was met in FY13 and FY14, contingent on final negotiation and settlement with USDE. During the 2016 special legislative session, this $36 million appropriation was deauthorized.

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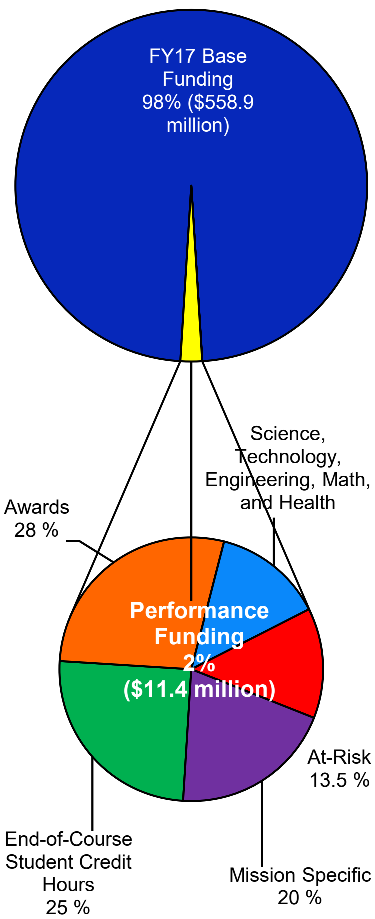
Distribution of I&G Funding FY17



Source: LFC Files

Public Higher Education Net Tuition Revenue per FTE

	FY08	FY15	Change
U.S.	$4,556	$6,006	31.8%
N.M.	$1,201	$3,719	209.7%

Source: SHEEO, SHEEF FY15

Appropriations and Instructional Support

Reduced general fund appropriations, compounded by declining enrollment, have had a cascading effect on institutions' budgets in FY17. For some institutions, this resulted in reduced expenditures (up to 25 percent), employee cutbacks, and elimination of programs. Some institutions sought to close budget gaps by raising tuition, as much as 18 percent at one university, and by using fund balances, on track to decline by 44.7 percent at the state's three research institutions between FY15 and FY17. For some colleges, general fund revenue may continue to decline further as a function of the higher education funding formula, which bases a certain percentage of appropriations on performance measure outcomes. Additional flexibility in the use of appropriations may provide relief to these institutions.

Higher Education Funding Formula. New Mexico's mechanism for calculating instruction and general (I&G) appropriations is based on the desire to see improved outcomes, primarily degree awards, and a portion of annual I&G funding is allocated based on certain performance criteria. In FY17, due to a lack of "new money" added to I&G funding, and to mitigate severe cuts for some institutions, total performance funding was limited to 2 percent of I&G appropriations, while FY16 performance funding was 6.5 percent.

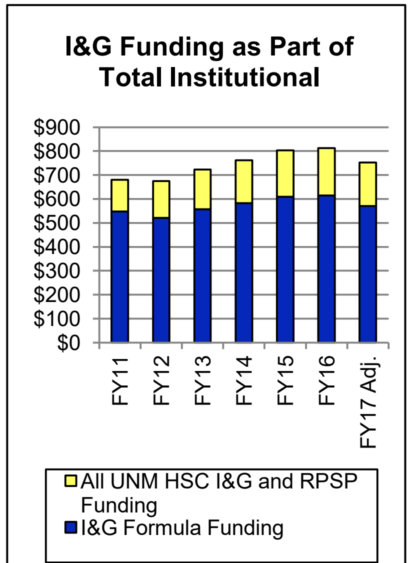
Whereas in previous years the interim was a time for recommending adjustments to the higher education I&G funding formula, in 2016 work on the formula called for stability. The current atmosphere in higher education funding also calls for phasing out "soft landings," such as a hold-harmless and stop-loss measure meant to prevent certain institutions from suffering a significant funding loss in a single year. Because the formula has been in place for about six fiscal years, and because institutions have had time to prepare for potential losses, these soft landings are no longer necessary, especially because they require new money in the formula, which may be difficult to come by in the current revenue environment.

Although the formula will lead to some institutions with reduced appropriations, the state should continue to reward performance at higher education institutions, even if it is a low percentage of overall funding as seen in FY17. Data reported since the implementation of the formula show degree awards are increasing throughout the state, at least partially the result of the performance-based formula.

Research and Public Service Projects. Higher education institutions are provided a greater degree of flexibility in their appropriations than most state agencies. Each college or university has substantial latitude in spending the formula-driven I&G appropriation. However, throughout the years a number of ear-marked appropriations have been added to higher education appropriations for specific purposes. Generally called research and public service projects (RPSPs), some of these appropriations serve a specific purpose unrelated to instruction, such as the New Mexico Department of Agriculture at New Mexico State University. Other RPSPs, however, duplicate I&G appropriations, creating disparities in fairness in higher education funding.

As an example, adjusted FY17 appropriations to Luna Community College included an RPSP of $536 thousand for "student retention and completion," while the college was also eligible to receive a portion of $7.4 million of I&G funding in the higher education funding formula specifically set aside to encourage colleges to retain and graduate students. While several institutions receive similar RPSP appropriations, some do not, raising issues of equity.

For FY18, the Legislature should consider combining some instruction-related RPSP appropriations with formula-distributed I&G appropriations. In addition to addressing equity, this allows for two positive effects. First, consolidation of instruction-related appropriations provides much needed flexibility in budgeting, which becomes particularly important as revenues decline. Second, by rolling instruction-related projects into the I&G formula, program prioritization is made at the institutional level, rather than at the state level.

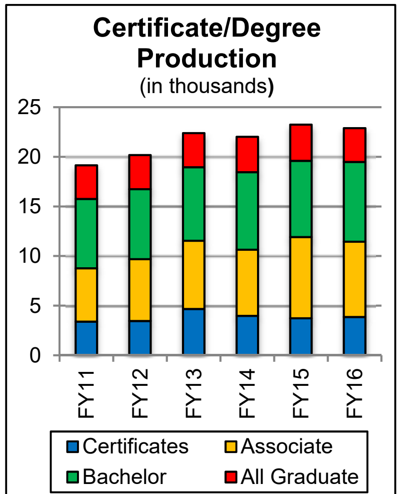


Source: DFA General Fund Summaries

Higher Education Collaboration and Postsecondary Attainment

While reduced appropriations present challenges for institutions as they seek to balance budgets, the current fiscal environment is also an opportunity to retool and rethink higher education in New Mexico. This calls for an inventory of programs and services offered, with an eye toward coordinating efforts and bringing institutions together to work as a system, rather than individual entities.

Institutional Collaboration. New Mexico offers significant access to public postsecondary education. Excluding facilities run by the same institution in a single municipality, New Mexico's 25 state-supported postsecondary educational institutions operate at least 48 stand-alone campuses, satellite sites, and learning centers. These facilities have been competing for fewer students in recent years – academic year 2014-2015 enrollment declined to levels not seen since before the recession, and enrollment dropped 10.4 percent since its peak in FY11.



Source: HED FY17 Formula Data, LFC Files

With fewer students and declining revenue, the current number of access points for higher education may become more difficult to maintain. If programs, campuses, satellite sites, or learning centers are closed, institutions will need to take care to not adversely affect the students they serve. This requires collaborative efforts with other institutions in the area. This also requires an evaluation and alignment

A Closer Look

On-Time Graduation and Degree Production

The number of postsecondary degrees awarded in New Mexico has grown by 15 percent since 2012; however, on-time degree completion remains low when compared with other states and institutions with similar student populations, and postsecondary attainment in New Mexico lags behind other states. The LFC's *On-Time Graduation and Degree Production* compared data that generally signifies student success across institutions, such as college admissions scores and retention rates, and compared the information with graduation rates at both in-state and out-of-state institutions.

The evaluation found activities at the state's higher education institutions that promise improved on-time completion, but New Mexico still ranks 49th in on-time completion rates of first-time, full-time students. If New Mexico is going to move the needle on degree attainment, it needs to implement reforms at a faster and more uniform scale. The evaluation further suggests New Mexico's performance-based funding formula is a step in the right direction but more emphasis should be placed on degree production. The evaluation also suggests codification of student credit hours for associate and baccalaureate degrees and financial incentive programs to encourage implementation of best practices, such as agreements between community colleges and four-year institutions for on-time degree completion. (Read the report.)

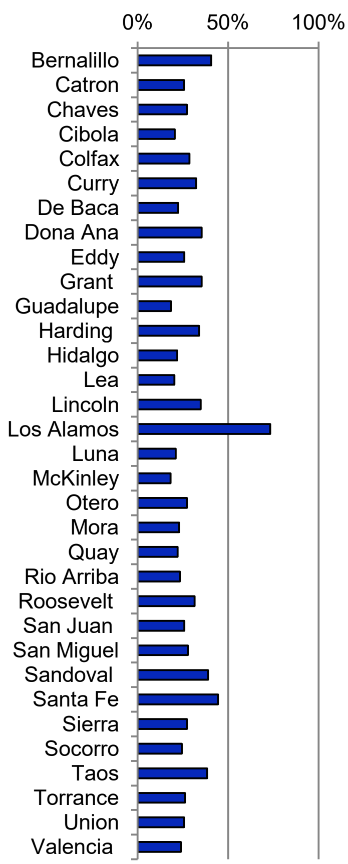
A Closer Look

Science, Technology, Engineering and Math Degree Production

High tech industries have created 65 percent of new jobs since the recession, and their employees earn twice as much as the average worker outside the industry; however, the LFC's *Science, Technology, Engineering and Math (STEM) Degree Production and Employment Outcomes* evaluation notes even though New Mexico has significant high-tech resources, the state ranks 50th in high tech employment growth since 2000. New Mexico ranks first in the country in Ph.D. scientists and federal research dollars per capita, and the number of STEM degrees awarded has increased each year, with a 32 percent increase between 2009 and 2014.

Despite these advantages, the evaluation found New Mexico higher education institutions are still under-producing STEM degrees for the high tech economy the state desires; an average high tech industry in a state will open 4,600 jobs per year, while New Mexico institutions are graduating 2,600 STEM students each year. Further impeding the success of some New Mexicans, the evaluation found STEM graduates who did not attend high school in New Mexico are 20 percent more likely to major in STEM and three times more likely to receive an advanced degrees compared with their New Mexico high school graduate counterparts. The evaluation suggests the Higher Education Department, the Workforce Solutions Department, and higher education institutions seek feedback from the high tech industry to better align high tech career pathways and create opportunities for innovation among New Mexico students and the industry. (Read the report.)

NM Residents Ages 25-64 with Associates Degree or Higher



Source: 2014 American Community Survey

of degree programs both with other institutions as well as with state workforce needs to ensure programs vital to local business and industry continue.

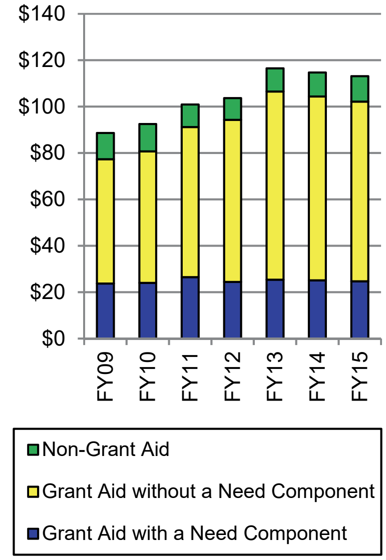
Statewide Attainment Goal. In summer and fall of 2016, the Higher Education Department (HED) called together stakeholders to develop a strategic plan, which includes a postsecondary credential attainment goal. This is a step in the right direction, as at least 27 other states have set attainment goals in pursuit of a more educated citizenry. The department's attainment goal is ambitious – 66 percent of working-age New Mexicans would have at least some sort of postsecondary credential by 2030. However, the department's goal does not just require more degree awards; it also requires New Mexico agencies, departments, and industry to work together to improve retention of workers in the state. To reach the attainment goal and improve outcomes for students, better coordination from central leadership, namely HED, will be critical.

Student Financial Aid

In FY17, about $23 million was appropriated to HED to disperse to 21 general-fund-supported student financial aid programs in New Mexico. Although these programs are specified in statute, HED is given the latitude to determine the allocation of these funds. These programs are in addition to New Mexico's largest financial aid program, the Legislative Lottery Tuition Scholarship. In addition to New Mexico's programs, individual institutions have their own financial aid offerings, some supplemented by state-supported student financial aid. Further, the U.S. Department of Education awarded about $177.9 million to 51 thousand students in New Mexico in the 2014-2015 award year, as well as $255.6 million in direct loans to 49.4 thousand students.

Without the funds to sufficiently fund all 21 of New Mexico's general- fund-supported financial aid programs, the Legislature and HED, as well as the Department of Workforce Solutions and other stakeholders, may find it beneficial to reevaluate New Mexico's student financial aid system in favor of one that prioritizes the spending of the limited funding available, whether that be for low-income students or workforce demands. As an example, LFC evaluations have found New Mexico is under-producing science, technology, engineering, and mathematics (STEM) degrees necessary to develop a high tech economy. In addition, New Mexico has difficulty retaining the STEM majors New Mexico institutions graduate. Rather than insufficiently funding several programs, the state could focus on this one area to ensure New Mexico's high tech economy is able to develop, whether through STEM scholarships or loan for service, or both. This is merely an example, but any future work on this topic should be data-driven with an eye toward filling gaps in the state's workforce.

New Mexico Student Grant and Aid Programs
(in millions)



Source: NASSGAP Surveys, FY09-FY15

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Economic Development Department Report Card
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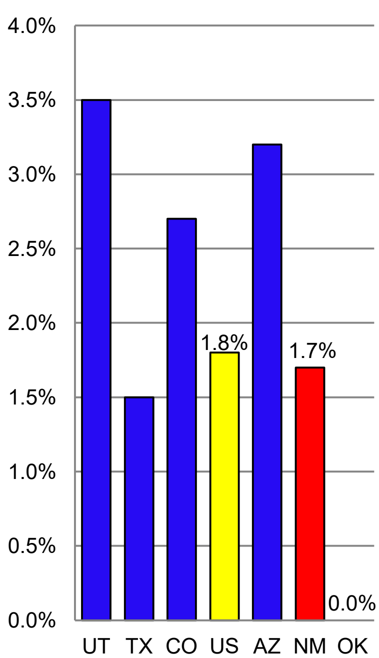
New Mexico has strongly funded economic development programs over the last few years, attempting to create more jobs in a weak economy, particularly across rural parts of the state. However, despite more funding and an increase in tax incentives, fewer jobs are being created. Reporting and accountability also prevent the state from determining whether funding for many economic development programs is being spent efficiently.

Opportunity Costs

Efforts To Boost Job Growth

The Legislature has made an effort to make New Mexico a more attractive location for business, passing a significant tax reduction bill in 2013, adding a suite of incentives in 2015, expanding Job Training Incentive Program (JTIP) funding, and significantly increasing funding for Local Economic Development Act (LEDA) projects in 2015 and 2016. In 2016, the Legislature appropriated $6 million for JTIP, the second highest appropriation for the program in four years and the third highest in the last eight years. The Legislature also included an additional $6 million for LEDA projects, bringing the total unencumbered funding level to $39 million.

FY15 Over-the-Year Job Growth by State



Source: Workforce Solutions Department

Job Training Incentive Program. To encourage economic development and job growth, the Legislature appropriated $71 million for LEDA projects and $15 million for JTIP disbursements from the 2014 through 2016 fiscal years. The Legislature appropriated $6 million for JTIP in 2016. Historically funded through special appropriations, the Legislature appropriated $500 thousand for JTIP in the recurring budget in FY15 and increased this to $2 million in the FY16 and FY17 budgets to provide stability for the program because it has shown success in appropriating funds quickly to qualifying businesses. In addition to the recurring appropriation, the Economic Development Department (EDD) received a $4 million nonrecurring special appropriation for JTIP for use in FY16 and FY17.

The JTIP statute requires at least one-third of the appropriations in a fiscal year to be spent on training in rural areas. JTIP funds do not revert, making it somewhat difficult to track what portion of a year's appropriation was spent on rural training in a given year, but EDD appears to have violated the statute each year for at least the last three fiscal years. The agency spent 18.6 percent of FY14 awards on rural training, and this dropped to 14.6 percent of FY15 awards and just 13.3 percent of FY16 awards. The agency should propose legislation if it wants to change or eliminate the rural provision instead of providing millions of dollars to companies seemingly in violation of the statute. The statute also provides a $2 million cap on JTIP funds for film and multimedia training and makes no mention of this being an annual cap. The legislative intent appears to be to provide funding for this ongoing program, but additional legislation may be needed to clarify the cap is on an annual basis as assumed by EDD.

Local Economic Development Act. The Legislature appropriated $6 million for LEDA in 2016, bringing the three-year total to $71 million. EDD currently has $29 million remaining unexpended and unencumbered.

While EDD reported a slight increase in jobs created through department efforts for FY16 compared with FY15, increased LEDA funding has not always led to more jobs. EDD reported fewer jobs created through department efforts for FY15 than in FY14, with double the amount of LEDA funds spent. The FY15 job creation results were only a slight increase from FY13, a year in which EDD received no LEDA funds. The department doubled their LEDA spending in FY16 from FY15, with little overall job growth. In FY16, businesses announced 2,426 jobs created with $15 million in LEDA funds.

The cost per job created through LEDA funding for FY16 ranges from as little as $900 per job up to $23 thousand per job for Santa Fe Spirits, with $50 thousand per job for historic theaters. In early FY17, Facebook was awarded $10 million in LEDA funding for a data center in Los Lunas. This is the largest award in at least the last six years. The first phase of the project will cost $250 million and bring an estimated 30 to 50 data center jobs, excluding construction jobs; a cost per job ranging from $200 thousand to $333 thousand. Facebook also qualified for up to $1 million in JTIP funding, but has not accepted or agreed to JTIP fund use. Fortis construction of Oregon is the contractor for the data center and plans to hire New Mexico subcontractors and vendors for the construction phase.

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Rapid Workforce. Following the 2016 legislative session, the Rapid Workforce Development Act was enacted, and $1.3 million is available to the Economic Development Department (EDD) to implement this training program. The new program will identify workforce skills gaps for new or expanding companies and create customized technical or vocational training programs at higher education institutions. However, the agency has not yet spent any of the funding and is developing rules and regulations on the program structure.

A Closer Look: STEM Workforce and Employment

Almost two-thirds of new jobs created since the recession have been in the high tech industries, but LFC's evaluation *STEM Workforce Production and Employment Outcomes* found New Mexico, while strong in federal research dollars and the number of Ph.D. scientists, is last in high tech job growth since 2000. Incorporating innovation into university culture is nationally recognized as a necessary strategy for effective 21st century education and economic prosperity. However, there is little evidence that innovative research is being effectively used in New Mexico as a strategic asset to foster economic investment from corporations at the national or international level.

Universities in the border states of Colorado, Texas, and Utah have attracted significantly higher corporate research dollars and investments by institutionalizing corporate relationships, though none of New Mexico's research universities have done so. As a consequence, there is no formal process where relationships with private industry are established, coordinated, and maintained at the institutional level. The evaluation recommends that New Mexico's research universities consolidate and coordinate all corporate relations, including the following corporate interactions with the institution: Corporate Sponsored Research; Use of University Laboratories and Equipment; Access to Student Talent; Philanthropic Investment; Workforce Development; Technical and Scientific Services; Technology Transfer and Licensing; Corporate Partnerships; Infrastructure Development and Relocation Opportunities. (Read the report.)

Effective Use of State Dollars

Based on LFC analysis dating to 2009, New Mexico suffers from economic development program fragmentation and duplication and still lacks a comprehensive strategic plan. Additionally, there is significant duplication in statewide economic development efforts, leading to a waste of resources and sometimes conflicting strategies and messaging. Also, many tax incentives are "stackable," and companies often receive assistance from a variety of programs to create jobs, with little data reported. 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 quality infrastructure, regulatory concerns, and a skilled workforce. In a variety of surveys, business executives consistently list skilled labor, available real estate, and infrastructure (including high-quality educational infrastructure) as the most important assets when choosing a business location.

Regional Unemployment Insurance Exhaustion Rates

California	47.6%
Arizona	40.8%
Nevada	39.4%
Utah	25.8%
New Mexico	**38.4%**
Colorado	44.6%
Texas	46.5%

Source: WSD

Funding for job creation programs should be prioritized to those proven effective through return on investment analysis, reasonable cost-per-job data, and economic impact studies, such as tourism advertising and business incubators. Funding should also prioritize programs that address skill gaps and other structural deficiencies, such as integrated basic education and skills training (I-BEST) and apprenticeship training programs. While short-term economic development programs can be useful, programs that provide long-term enhancement of New Mexico's assets, including infrastructure and education, should receive priority in a challenging revenue and budget environment.

Unemployment and Workforce

Regional Unemployment Insurance Average Duration
(in weeks)

California	17.3
Arizona	15.5
Nevada	16.0
Utah	12.4
New Mexico	**17.3**
Colorado	14.6
Texas	16.2

Source: WSD

Noting high unemployment rates and a high rate of the unemployed exhausting benefits before finding a job, the Workforce Solutions Department (WSD) shifted its system in FY17 to help unemployed individuals get back to work faster. The agency launched the re-employment strategies and eligibility assessments (RESEA), a tool that allows WSD to identify the unemployment insurance (UI) claimants most likely to exhaust their benefits and return them to work quicker through individualized and targeted employment services and counseling, as well as referrals to training. Additionally, the agency is using statewide workforce connection offices to implement case management for job seekers.

Unemployment. New Mexico's unemployment rate, 6.6 percent at the end of August 2016, and higher than the national average of 5 percent, indicates New Mexico is either struggling to recover from the Great Recession or is in a new normal of a low growth. Additionally, when people stop seeking employment, and 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.

Unemployment Insurance. In 2015, New Mexico implemented a new employer contribution structure with tax rates that vary by employer and are primarily dependent on the employer's "experience" rating and the overall fiscal condition of the UI trust fund. An employer's experience rating benefit ratio is the amount of claims filed during the previous three years divided by the employer's average taxable payroll. After an employer's experience rating is determined, a reserve factor based on the trust fund solvency, is added to establish the final contribution rate. The new computation structure was a result of significant stakeholder input and discussion; however, some employers experienced substantial UI tax increases due to their individual experience rating. It is important to note an employer's contribution rate can be lowered relatively quickly because benefit charges are based on the previous three years of experience.

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Workforce Solutions Department Report Card
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State Unemployment Insurance Tax. In addition, many business in 2015 saw significant rate increases as a result of low trust fund balances. However, as of October 2016 the trust fund reserves increased to $377 million, allowing the reserve factor to drop to 2.5. This should provide considerable relief to employers.

Health and Communities

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Human Services Department Report Card
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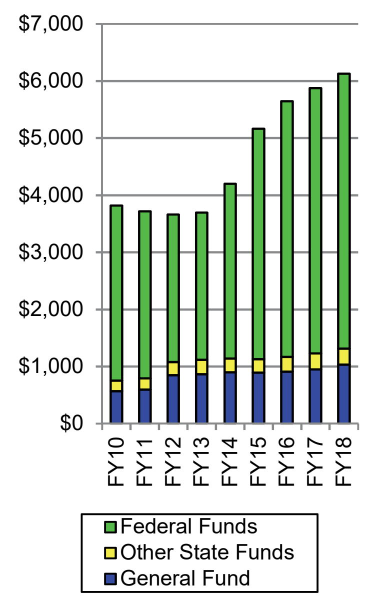
Like much of the nation, New Mexico's safety net healthcare delivery system – and related funding mechanisms – continues to be reshaped by the Affordable Care Act (ACA) and Medicaid expansion. Bookending these changes, unlike in many other states, are two periods of limited revenue growth that reduced the state's appetite to expand investments in the Department of Health. Instead, and with little choice, state health spending continues to grow in the federally matched Medicaid program. With a protracted economic slump, a growing Medicaid budget leaves less room for investment in many other critical state needs. In FY18, the state will have to continue cost-containment and system reform efforts to ensure progress toward the goals of access, efficiency, and improved health outcomes.

Medicaid Expenditures FY12 - FY18
(in thousands)



Source: HSD operating budget submissions and Medicaid projections

In the past year, New Mexico's behavioral health system stabilized somewhat as new initiatives showed promise and the state's overall national mental health ranking improved. Efforts to improve protections for children at risk of abuse or neglect have been less successful, frustrating policy makers and the public. Similarly disheartening, issues regarding how public assistance benefits for low-income families are approved and renewed continue; however, the Income Support Division of the Human Services Department appears to be on track for a more transparent and proactive resolution.

Health Care for Low-Income Families

The Kaiser Family Foundation (KFF) recently reported Medicaid now provides health insurance coverage to more than one in five Americans and the New Mexico rate is twice that. Medicaid accounts for over one-sixth of all U.S. health care expenditures. In New Mexico, Medicaid is expected to cost over $1 billion in general fund revenue for FY18 and over $6 billion with federal matching funds. Medicaid is the second highest expense for the state behind public education. Kaiser reports Medicaid accounts for over one-sixth of all U.S. healthcare expenditures.

Enrollment, Utilization, and Cost Projections

As the state enters FY18, Medicaid is projected to provide comprehensive medical care, including hospitalization, doctor visits, pharmaceuticals, vision services, and dental services to more than 928 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).

Almost a quarter of the recipients are newly enrolled adults who became eligible with the expansion of Medicaid under the Affordable Care Act to adults with incomes

A Closer Look

Medicaid Managed-Care Provider Network and Access to Care

LFC's review of Centennial Care provider network in *Health Notes: Managed Care Provider Network and Access to Care* (Spring 2016) indicates some Medicaid recipients in New Mexico may face barriers when they attempt to access the healthcare system and behavioral health services

The review found the program is meeting the requirement for having no less than one primary care provider for every 2,000 Medicaid enrollees, and Centennial Care managed-care organizations (MCOs) and other physical, long-term, and behavioral health providers are meeting their contractual requirements for geographic access to primary care providers (PCPs). However, the provider networks have some notable gaps, including too few dermatologists, neurologists, rheumatologists, and other specialists. The behavioral health network has significant gaps as well, particularly in the areas of access to various intensive outpatient therapies.

Simply having a healthcare provider within a reasonable distance from a prospective patient's home is not a guarantee the patient will be able to access services when needed, and the LFC brief found issues with appointment timeliness standards. Because MCO reports provide an unclear picture of compliance with access to care, and HSD does not appear to be monitoring the issue, LFC conducted its own survey of PCPs in seven New Mexico counties. The LFC survey found average wait times ranged from three weeks to nearly two months. The survey also found significantly fewer PCPs accepting new Medicaid patients than has been reported by the MCOs. Lastly, HSD reports steadily increasing use of hospital emergency rooms for routine urgent care conditions, which could indicate some Medicaid recipients are turning to the ER because they cannot get a timely appointment with their PCP.

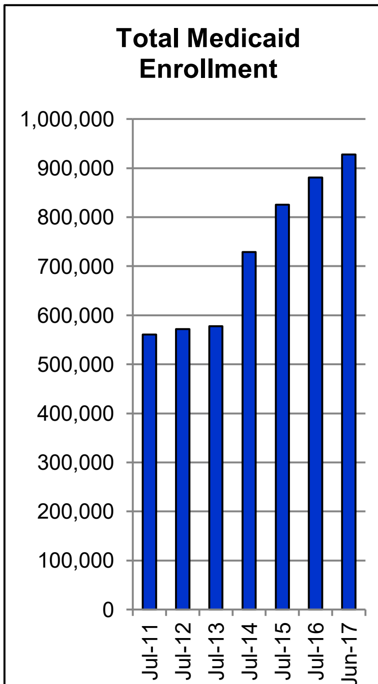
The review concluded HSD needs to enhance its oversight of Centennial Care contractual requirements. (Read the report.)

up to 138 percent of the federal poverty level (about $16,242 for a single person). Including the expansion population, enrollment growth has increased nearly 32 percent over FY14. In FY18 Medicaid enrollment is expected to further stabilize, and expenditures will be driven more by the economy, rising prescription drug costs and other spending pressures, and policy decisions such as payment reform and other initiatives designed to control costs and improve health outcomes.

Medicaid Cost Drivers. While federal Medicaid spending is projected to slow in FY17, most states are projecting increases in FY17 spending, largely due to the phase-down of the federal share of the costs for the expansion population from 100 percent to 95 percent January 2017 and down to 94 percent in beginning January 2018.

Rising Drug Costs. As reported in LFC's September 2016 *Health Notes* on drug costs, total Medicaid drug spending from FY14 through FY16 rose by 83 percent. The increase was driven by a 50 percent increase in utilization, mostly due to expanded enrollment, but also by 64 percent and 50 percent increases in spending on brand drugs and generic drugs, respectively, and a 212 percent increase in spending on specialty drugs, particularly hepatitis C drugs.

Administrative and Per Capita Medical Costs. Increasing enrollment, while beginning to stabilize, is expected to add $40 million to general fund in FY18. However, while in August 2016 HSD reported a 10 percent increase in costs across all service categories for the previous 12 months, it also noted a decrease in per-person medical and administrative costs for the same period. Enrollment growth and utilization and appeared to be the overwhelming cost drivers, the largest increases associated with long term services and supports and the newly eligible category. HSD reported flat per-capita costs for that period and a



Source: HSD August 2016 Medicaid Projection

3 percent decrease in per-capita administrative costs, including care coordination, centennial rewards, and other non-medical costs.

Cost-Containment and Medicaid Reform Efforts. During the 2016 legislative session, as the state's budget worsened, the Legislature directed HSD to implement cost-containment measures in FY17 to slow the growth of Medicaid expenditures. According to a National Association of Medicaid Directors' survey, in FY17 New Mexico was among 36 states that reduced rates for inpatient hospital stays; however, fewer states simultaneously decreased other rates as well. Noting New Mexico Medicaid rates were higher than most surrounding states, HSD subsequently lowered or froze rates across at least six other categories, including primary care physicians, specialists, and dentists. Rates together with other cost-containment efforts should save $30 million of general fund revenue. The first phase of provider rate reductions were implemented in July and August 2016; additional rate codes remaining above 100 percent Medicare rates, a method of comparing state Medicaid rates, will be reduced in January 2017. Despite the rate reductions, Medicaid is still projected to end FY17 with a deficit.

Medicaid Advisory Groups

New Mexico could do more to increase transparency and evidence-based decision-making in state health coverage policies. Nineteen states belong to the Medicaid Evidence-Based Decisions Project (MED), sponsored by the Oregon Health and Science University's (OHSU) Center for Evidence-Based Policy. MED uses high-quality evidence-based analysis to support benefit design and coverage decisions made by state programs.

Subcommittees of New Mexico's Medicaid Advisory Committee (MAC) were convened to develop recommendations for cost-containment and provide a venue for public comment. However, limited staffing and analytical support and resources impede thorough analysis of policy options. The state's Medicaid policy decisions could benefit from a more rigorous, evidence-based process that takes better advantage of other states' experience and research. For example, OHSU is working with the New York State Department of Health and State University of New York to support the state's Medicaid redesign efforts.

Quality of Care, Outcomes, and Data Analytics

While missing more rigorous state targets, New Mexico managed-care organizations met or exceeded the national average in 2015 for a number of performance measures, including annual dental visits, child immunization status, well-child visits in the first 15 months of life, and diabetes testing. For Medicaid, HSD primarily reports on performance measures from the Healthcare Effectiveness Data and Information Set (HEDIS), a tool used by more than 90 percent of U.S. health plans to measure performance on important dimensions of care and service. However, the usefulness of data is limited due to lag times for claims and encounters.

For behavioral health, while limited access to care and prevalence of disease continue as major challenges for the state, there were promising indicators of improvement as 2016 came to a close. For example, New Mexico improved more

Prescription Drug Costs

Annually states spend more than $20 billion on prescription drug coverage for public employees, incarcerated individuals, higher education, and Medicaid.

In October 2016, the National Academy of State Health Policy Pharmacy Costs Work Group released its findings on how states can address rising drug costs. The findings describe proposals ranging from regulatory interventions to more market-oriented approaches for states to consider when developing policies to help control rising pharmaceutical costs. The proposals focus on consumer protections, increasing oversight and price regulation, and coordinating state purchasing power across public employees, Medicaid and Corrections.

NASHP policy suggestions for states to control drug costs:

Increase price transparency to create public visibility and accountability;

Create a public utility model to oversee in-state drug prices;

Purchase and distribute in bulk high-priced, broadly-indicated drugs that protect public health;

Use state unfair trade and consumer protection laws to address high drug prices;

Seek the ability to re-import drugs from Canada on a state-by-state basis;

Pursue Medicaid waivers and legislative changes to promote greater purchasing flexibility;

Enable states to operate as pharmacy benefit managers to broaden their purchasing and negotiating powers;

Pursue return-on-investment pricing and forward financing approaches to allow flexible financing based on long-term, avoided costs;

Ensure state participation in Medicare Part D through employer group waiver plans;

Protect consumers against misleading marketing;

Use shareholder activism through state pension funds to influence pharmaceutical company actions.

than any other state in Mental Health America's *The State of Mental Health in America 2017* report, improving from 44th in the nation to 22nd. For access to care, New Mexico's ranking improved from 33rd to 23rd.

Nevertheless, the quality of data for behavioral health is even more challenging than for physical health; the journal *Health Affairs* recently reported there is little evidence the quality of behavioral health care in the U.S. has improved in the last 10 years and the level of performance and the rate of improvement of HEDIS measures for behavioral health are only mediocre.

Medicaid Management Information System. The Human Services Department's Medicaid management information system (MMIS) is at the end of its contracted life. The system does not meet the new Centers for Medicare and Medicaid certification standards and cannot be extended without losing federal matching funds for operations and maintenance.

A new system will allow for improved data analytics related to population health, outcomes and health improvement, improved claims processing and financials, and improved pharmacy benefits management. The system will also incorporate a unified public interface, a customer-centric service incorporating a consolidated customer service center and web interface that supports social media, mobile technology and user-friendly services.

All-Payer Claims Database. To bend the healthcare cost curve, states must contain healthcare overutilization and prices. While states vary in these approaches, experts have pointed out the vital role multi-payer health data and information systems will play in healthcare and payment reforms. Consequently, a growing number of states are implementing all-payer claims databases (APCDs) that aggregate claims and administrative data from public and private payers statewide.

In early 2016, New Mexico partnered with the All-Payer Claims Database Council, a collaboration between the National Association of Health Data Organizations and the University of New Hampshire's Institute for Health Policy and Practice, to develop a plan for New Mexico's APDC. The resulting white paper concluded New Mexico has a strong stakeholder community largely in support of some form of APCD development. Stakeholders found consensus around many points, such as mandated reporting, executive branch leadership, and diversification of multiple funding sources; however, other details concerning legislative and administrative rules needed, funding approach, location of the data system, and technical development considerations have yet to be made.

Among the recommendations are that New Mexico should begin APCD data collection under existing legislative authority; specify key provisions for the collection, release, and protection of APCD data; and fully describe the overall governance structure for APCD oversight and articulate a plan for APCD leadership and operations.

New Mexico's Health Insurance Exchange

Despite improved access, affordable health care is not guaranteed. While evidence shows exchanges have increased access and helped reduce the number of those

Copayments

According to the National Association of Medicaid Directors (NAMD) 2016 annual survey, most states require some type of beneficiary copayments. Five states reported new or increased copayments for the Medicaid expansion population in FY16 or FY17.

NAMD survey results also showed Medicaid policies related to beneficiary premiums changed little for FY16 and FY17, except for Medicaid expansion waivers. In FY16, Montana implemented a Medicaid expansion waiver that included provisions to impose premiums or monthly contributions. At the time of the survey, Arkansas, Arizona, Kentucky, and Ohio had Medicaid waivers pending with premium provisions intended for FY17.

In June 2016, the Benefit Package, Eligibility Verification and Recipient Cost-Sharing Cost-Containment Subcommittee released recommendations for copayments on certain prescription drugs. HSD indicated it will submit a request to the Centers for Medicare and Medicaid (CMS) to implement copayments for certain drugs, for populations with higher incomes, and for non-emergent use of the emergency room. To date, HSD is not considering the implementation of premiums for Medicaid beneficiaries.

Oregon Health Evidence Review Commission was established in 2012 to do the following:

Develop and maintain a list of prioritized health services; develop or identify evidence-based healthcare guidelines for use by providers, consumers, and purchasers of health care in Oregon; and conduct comparative effectiveness research of health technologies.

without insurance to an all-time low, the cost of coverage may still be out of reach for some. Further, for many low-income people, movement between health plans or out of them altogether, referred to as "churn," can cause disruptions in care, reduced medication adherence, increased emergency room use, and worsening self-reported health.

Open Enrollment 2017 Brings Higher Premiums. In addition to expanding Medicaid eligibility, the Affordable Care Act (ACA) expanded access to health insurance coverage to low-income people through subsidized coverage in federal and state-based marketplaces. The New Mexico exchange uses the federal HealthCare.gov portal to allow users to compare plans and identify available tax credits and subsidies. Insurance purchased through the federal HealthCare.gov exchange will likely rise an average 25 percent in 2017; however, federal tax credits will increase along with premiums, and subsidies will offset the higher cost of monthly premiums for many.

The U.S. Census Bureau's annual *Health Insurance Coverage in the United States* report finds the uninsured rate in New Mexico dropped from 14.5 percent in 2014 to 10.9 percent in 2015.

A recent study in the health policy journal *Health Affairs* found that, particularly in expansion states, marketplace enrollees reported significant improvements in the affordability of care between 2014 and 2015. The number of people reporting unmet needs or difficulty paying family medical bills decreased significantly. However, the report notes, even in expansion states, other policies may be needed to reduce coverage transitions or gaps in coverage caused by shifts in eligibility between Medicaid eligibility and marketplace coverage.

Molina Healthcare, the largest provider of individual insurance on HealthCare.gov in New Mexico, received an average increase of 24 percent.

New Mexico Health Connection, received a 33 percent increase.

Christus St. Vincent Health Plan, received a 15.7 percent increase.

Blue Cross Blue Shield New Mexico, which didn't participate in the exchange in 2016, will offer coverage in 2017 with premiums 80 percent higher than the last year it offered coverage.

The "Churn" Effect. While far more individuals than ever are covered by health insurance, low-income individuals may be more susceptible to the adverse impacts of "churning." A variety of circumstances can lead to churning, such as job changes, eligibility changes (for the marketplace or Medicaid), insurers exiting a marketplace, or other administrative disruptions in coverage, such as difficulty with renewing Medicaid. Any of these changes can cause a gap in coverage and potentially expose people to significant financial risk and impaired access to care.

In a 2015 survey of over 3,000 low-income adults in three states, *Health Affairs* found about 25 percent of respondents had changed coverage in the previous 12 months. The report notes about 20 percent of the respondents who changed coverage were uninsured people who gained coverage; however, for the others, churning caused a variety of problems, such as forcing respondents to change doctors; change prescription medications, skip doses, or stop taking the medications altogether; and otherwise experience what they perceived to be negative changes in quality of care and health.

The Colorado All Payer Claims Database provides a unique opportunity to analyze payments for specific services by payer type and identify areas of cost savings potential.

Massachusetts uses its APCD to provide a better understanding of chronic conditions, including to evaluate the quality and costs of care for lung, colorectal, breast and prostate cancer – the four most common causes of cancer mortality.

States have adopted various policies to reduce churning, to reduce both the negative health affects as well as the administrative costs associated with re-enrolling individuals as they change coverage. One policy option is a 12-month continuous eligibility for Medicaid, currently part of a national effort to improve retention rates for children. The option has only recently become an option for adults; the Centers for Medicare and Medicaid recently informed states they can apply through an accelerated process for a section 1115 waiver that allows them to use 12-month continuous eligibility for adult beneficiaries. To date, only New York has adopted this approach.

Safety Net Care Pool

The New Mexico Medical Insurance Pool (NMMIP) was created by the Legislature in 1987 as a nonprofit program to provide health insurance to people previously considered uninsurable. However, the ACA eliminated the ability for a person to be denied insurance coverage, and Medicaid expansion and the health insurance exchange have largely eliminated the need for a high-risk insurance pool such as NMMIP. Last year an LFC evaluation determined that closing the NMMIP would generate approximately $30 million in additional premium tax revenues annually, of which the majority would be available to help fund growing Medicaid obligations and other state budget priorities. Moreover, closing NMMIP would also save the state approximately $13.7 million in general fund appropriations paid to Centennial Care MCOs for NMMIP assessments.

In June 2015, the NMMIP board of directors approved a phased transition plan for recertifying the eligibility of policyholders and moving those eligible for alternative coverage out of the pool. The plan was originally to occur over the next three open enrollment periods, between 2015 and 2017, for completion prior to the 2018 coverage year. However, in September 2015, the NMMIP board voted to delay this process by one year, starting instead with the 2016 enrollment period, and completing the recertification project in 2018 for the 2019 coverage year. The board cited Blue Cross Blue Shield's exit from the exchange as well as concerns related to overall market stability as reasons for delaying the recertification process.

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In its final recommendations to HSD, the Long-Term Leveraging Medicaid Subcommittee recommended establishing a firm deadline to transition the remaining NMMIP members.

Behavioral Health

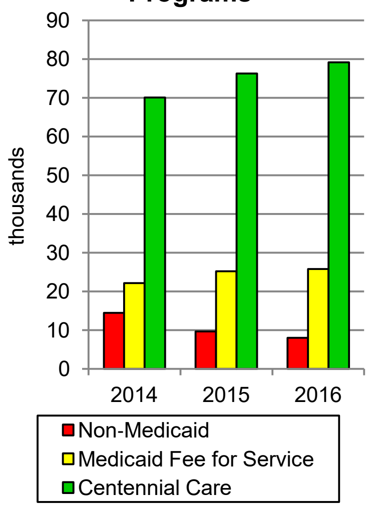
In FY17, New Mexico's fragile behavioral health system continued to face challenges, many not unlike those faced by similar communities around the country, such as fragmented systems, limited access and availability, and insufficient resources to meet the service demands. Yet there are promising new initiatives and national rankings show New Mexico is making gains; the latest Mental Health America's annual rankings show that, for the second year in a row, the state improved in all areas ranked: adult, youth, need, and access.

The National Registry of Evidence-Based Programs and Practices, maintained by the U.S. Substance Abuse and Mental Health Services Administration, has an independent review of the quality of scientific outcomes of Pax Good Behavior.

Nevertheless, generations of New Mexicans depend on the state's ability to fill gaps and improve outcomes. In FY18, HSD will adopt a new HEDIS measure for behavioral health that will measure follow up appointments after an individual visited an emergency room for mental illness

Behavioral Health Collaborative

In late FY16, the Behavioral Health Collaborative approved a new 18 month strategic plan, aimed at filling critical gaps, as opposed to attempting further major disruptive system changes, and a focus on regulation, finance and workforce issues. Plan goals include identifying and eliminating inconsistencies in behavioral health statutes, regulations, and policies; increasing the productivity, efficiency, and effectiveness of the current provider network; implementing a value-based purchasing system that supports integrated care and reinforces better health outcomes; and identifying, developing and promoting implementation of effective strategies for state, counties and municipalities to work together to fund the provision of better behavioral health care, especially for high health care utilizers. During the past fiscal year new initiatives were launched and several showed encouraging results despite limited resources.



Source: HSD quarterly performance reprts

New and Continuing Programs. The state has launched a number of new evidenced-based programs that are already demonstrating promising outcomes. This is modest, but hopeful change in a system that continues to be under-resourced and lacks much in the way of basic infrastructure and access to services.

BHSD received a $1 million allocation in FY16 for the establishment of behavioral health investment zones (BHIZ). The two recipient counties, Rio Arriba and McKinley, have submitted their second year plans and budgets for review. In collaboration with a large group of community stakeholders, the Rio Arriba County BHIZ is currently evaluating the gaps in services and resources for individuals needing detoxification. The McKinley County BHIZ recently redesigned its approach and is focusing efforts on the top 200 most chronically ill individuals who most often end up in protective custody due to substance use.

Implementation efforts are continuing for crisis triage and stabilization centers, licensed by the Department of Health (DOH) with programmatic approval by BHSD. These centers, not planned to be physically part of an inpatient hospital or included in a hospital's license, are intended to provide stabilization of behavioral health crises, including short-term residential stabilization. HSD has been working with DOH to establish the new standards for facility licensing and establish the new level of care and program reimbursement mechanisms.

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Pax GBG (for good behavior game), piloted during the 2016 school year in Bloomfield, Espanola, and Santa Fe public schools, is an evidence-based game-based program designed to improve mental health and reduce criminal and substance use behaviors. Results from the pilot found significant reductions in disruptive and inattentive behaviors, specifically 38 percent in Bloomfield, 43 percent in Espanola and 35 percent in Santa Fe public schools. During fall 2016, two of the original school districts committed to support the following trainings, with approximately 75 new teachers enrolled. This should result in an additional 2,331 New Mexico students receiving Pax GBG without additional state funding.

The "Treat First" model of care is an approach to clinical practice improvement in behavioral health. It has been in a pilot mode with six provider agencies, led by BHSD. The organizing principle has been to ensure a timely and effective response to a person's needs as a first priority. Within the six months of the trial, close to 800 clients had been treated, and the program was found to be effective in enhancing client engagement, reducing the number of "no-shows," increasing the quality of the assessment and treatment plans, and in some cases, escalating the case closure rate. As a result, the pilot has been extended by nine months to permit further expansion and the adoption of new rules so that Treat First can be recognized as standard clinical practice.

Behavioral Health Administration. In FY18 HSD will move forward with plans to transition behavioral health administrative services from the current contractor OptumHealth to a state-staffed and-operated system. HSD has hired a contractor to help plan a timeline and cost estimates for the effort.

Bringing the administrative services functions "in house" should allow the department to be more responsive to behavioral health clients, providers, and policy makers. BHSD will have the ability to streamline claims and invoice non-Medicaid payments to the behavioral health provider network through a state owned web-based payment system. This system will also allow BHSD to report in real time and to customize reporting relative to changing needs. It will also facilitate BHSD moving away from the current fee-for-service payment methodology that reinforces provider productivity and toward prospective payment methodologies that promote quality service delivery and positive outcomes

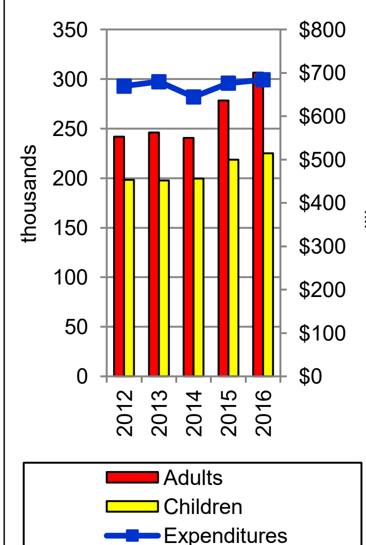
While SNAP caseloads are determined by a number of factors, studies of the economy and SNAP caseloads at the state and local level found the economy explained 70 percent to 90 percent of the increase in caseloads; it also found lags of up to two years between changes in the economy and changes in SNAP participation.

Additionally, studies show, even in states with improving economies, SNAP is reaching a larger share of eligible people, especially working families.

Income and Food Security

Fiscal year 2016 brought tremendous challenges for the HSD Income Support Division, including how benefits are approved and renewed by Income Support Division workers and the adequacy of department efforts to comply with court orders stemming from a long-standing lawsuit. Over the summer the department received a court order for a special master appointed to objectively measure HSD's progress meeting state and federal mandates for administering federal Medicaid and SNAP benefits. The special master, selected by a federal judge in November 2016, represents a fresh start for the program by providing objective and dedicated guidance to help HSD come into compliance with federal and state standards for administrating its food and Medicaid programs.

SNAP Enrollment and Expenditures



Note: Enrollment based on monthly average and includes active cases with zero benefits.

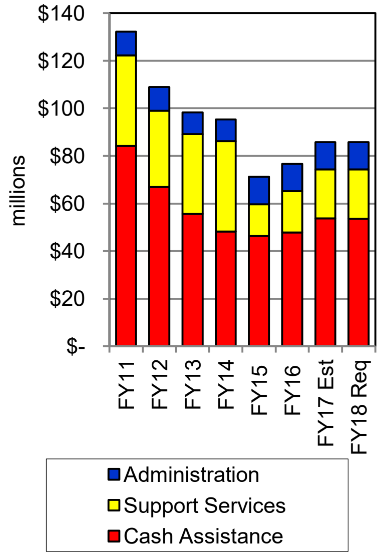
Source: HSD SNAP Projections

While nationally SNAP caseload growth slowed 5.4 percent from 2013 to 2015, caseloads grew in a few states, including by 2.9 percent in New Mexico. The SNAP caseload in June 2016 was 256,301, a 10.4 percent increase from a year ago. This translates to 531,628 individuals (306,517 adults and 225,111 children); the increase was largely attributable to a larger number of adults.

Nationally, the average monthly number of TANF recipients declined 24 percent from 2013 to 2016; in New Mexico the decline was 19.8 percent. The New Mexico TANF caseload was 12,174 in June 2016, a decrease of 4.5 percent from June 2015 and included 31,969 individuals: 8,446 adults and 23,523 children. The Center on Budget and Policy Priorities (CBPP) argues TANF responded only modestly to the severe recession and caseloads returned to pre-recession levels while unemployment remained high and the amount of cash assistance provided to families eroded in almost every state.

The federal Health and Human Services Department has informed states more can be done to increase work participation and provide work activities leading to better employment outcomes and foster long-term economic stability for TANF families. HSD currently supports subsidized employment and in FY16 introduced enhanced services for TANF participants. HSD finalized a memorandum of understanding with the Department of Workforce Solutions for vocational training and is working with Higher Education Department on collaboration for high school equivalency courses.

Safety Net Health Care



Note: Excludes TANF transfers to other

Source: LFC Files

The state's safety net has been substantially reshaped by the ACA and Medicaid expansion and the Department of Health has been challenged with less general fund revenue; consequently, taking advantage of new medical billing opportunities for services should be a top priority and would help ensure vital services are not cut.

Additionally, high provider density in some areas, provider growth and contraction in other areas, and a web of federal, state, and private services should require the state to periodically re-evaluate services offered and re-consider geographic availability. According to the U.S. Census, between 2013 and 2015, the number of uninsured people in New Mexico decreased by 158 thousand, and the uninsured rate decreased from 18.6 percent to 10.9 percent. Presumably, the uninsured population is composed of many non-citizen U.S. residents and Native Americans – exempted from health insurance requirements. Because of this, the rate of insured people is likely uneven across the state, and some areas may require more services funded through the general fund. Demand for public health service delivery warrants a thorough re-evaluation in light of recent statewide revenue shortages.

Public Health Transformation

Consolidating public health offices with rural and primary health clinics is an option that has been discussed in the past, but may be more realistic given current fiscal constraints and changes in funding due to ACA. Many public health offices and rural clinics are close to each other, including 11 that share buildings and 42 that share zip codes. Some services in both the state-run and state contracted clinics are duplicated, but not all of the services currently offered at one are offered at the other.

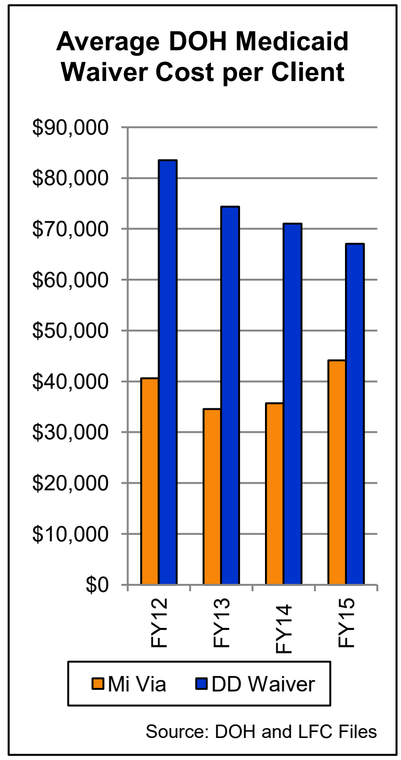
Developmental Disabilities Waiver and Wait List Growth Rates

	DD Waiver Growth Rate	DD Waiver Wait List Growth Rate
FY09	0%	8%
FY10	-2%	6%
FY11	0%	8%
FY12	-1%	8%
FY13	4%	10%
FY14	0%	5%
FY15	15%	-3%
FY16	5%	5%
FY17	2%	0%
Average	3%	5%

Source: LFC Files

DOH saved money when it closed its underused Alamosa Public Health Office three miles from another office and collocated with a rural and primary healthcare clinic. However, reorganizing health offices and clinics to serve a broader swath of the population would require the Public Health Division in some cases to shift services from public health offices to rural and primary health clinics, through contracts, to maintain initiatives such as children's medical services, family planning, harm reduction, naloxone distribution, and others. If services were shifted from public health offices to rural health offices in some localities it is unclear whether federal revenue streams, such as Title X family planning, would be jeopardized. With a large portion of New Mexico's population living under the poverty line, geographic availability of services and transportation is also a major concern.

Much of this transformation would have to occur at a time when New Mexican health lags behind other states. Teen pregnancy, obesity, diabetes, preterm births, and substance abuse are at some of the highest rates in the nation and in some cases are headed in the wrong direction. These trends can be reversed without increasing costs to the state. For example, increasing the availability of long-acting reversible contraceptives (LARC), seen as the key to reducing teen pregnancy as was demonstrated in Colorado, could have long lasting impact in New Mexico. But barriers stand in the way of using LARCs to reduce teen and unintended pregnancy: high up-front costs, untrained staff, billing issues, and the perception that some of these contraceptives are not safe. Recent policy changes may help reduce some of these barriers but more remains to be done, such as ensuring the healthcare workforce is trained on LARC insertion, ensuring clinic shelves remain stocked with LARCs so they can be inserted on the same day as the initial visit, and encouraging hospitals and birthing centers to insert LARCs immediately post-partum.

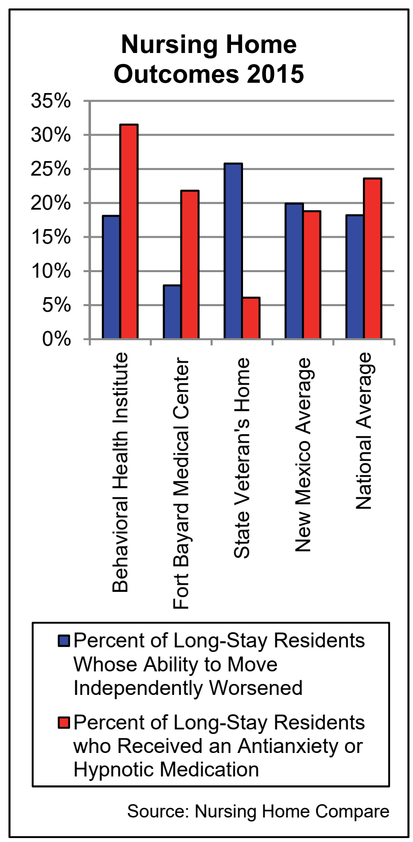


Facilities' Budget: A Continual Concern

With shortfalls in FY15, FY16, and possible shortfalls in FY17, the department has considered either closing facilities or cutting certain service lines, such as the chemical dependency units (CDU) at Fort Bayard Medical Center, Turquoise Lodge Hospital (TLH), and the New Mexico Rehabilitation Center (NMRC). With ACA implementation it may be time to reconsider state operation of some of these facilities.

Having already closed the adolescent chemical dependency unit at TLH, the state should consider closing or getting Bernalillo County to take over the facility to reduce general fund spending from this hospital. This option requires more discussion because about half of the people seen at the hospital are from Bernalillo County, which receives rent payments from the state, and the rest are from counties statewide. Bernalillo County also recently increased gross receipts taxes and dedicated about two-thirds of the increase to mental and behavioral health, which could be a possible revenue source for the hospital.

Far to Go on Intellectual and Developmental Disabilities



Since FY08, the waiting list for home and community-based services for people with developmental disabilities provided by the Medicaid waiver (DD waiver) has grown at twice the rate as new slots. With an average 5.5 percent growth rate since FY08, the DD waiver waiting list grew to 6,500 in FY16 and an individual could wait 10 years before receiving services. According to DOH, in any given year, if less than 300 new slots are made available, the wait list will grow. Slots become available when appropriations increase, when DD waiver recipients move out of state or die, and when the average cost per client decreases.

In FY11, partially in response to a 2010 LFC evaluation of the DD waiver program, the department implemented a new evaluation system to determine appropriate amounts of services called the support intensity scale. Since that time, the average cost per client dropped from a high of about $73.3 thousand in FY12 to about $69.9 thousand in FY16. Much of these cost savings were used to create new slots. Between FY14 and FY15, 590 slots were added to the waiver and the waiting list shrunk for the first time since at least FY08. The added slots were also due to increased general fund appropriations.

Options To Reduce DD Waiver Wait Times. In February 2016, a taskforce made recommendations to reduce the waiver waiting list, including working to attract more people into the Mi Via waiver program, a self-directed long-term services and support Medicaid waiver program that serves people with developmental disabilities and others. In FY15, on a cost per client basis, Mi Via was about $44.1 thousand and the DD waiver was nearly $70 thousand. Working to attract more people into the Mi Via program would reduce the number of people

DD Waiver Statistics:

- Current wait time is 10.4 years,
- Waiver service registrations received each year is 1,000,
- FY17 appropriations added 40 DD waiver slots,
- Six states, not including New Mexico, use local funds for a portion of the Medicaid matching requirement,
- The DD waiver wait list has not been culled for clients that have moved out of state, are deceased, or may not need the comprehensive array of services on the DD waiver.

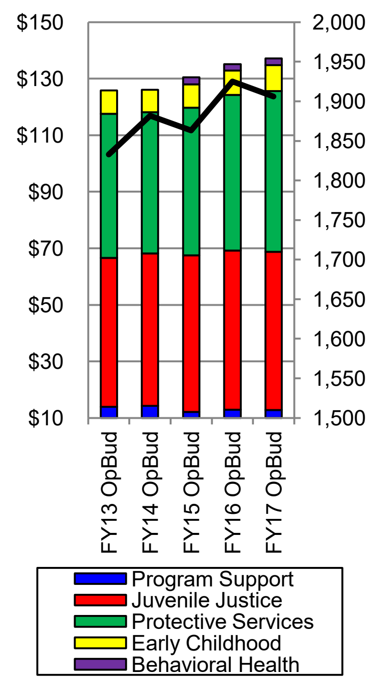
on or seeking to be on the DD waiver and has the potential to slow wait time growth. The state had some success over the last few years with this approach and the Mi Via program has grown 417 percent since FY11 to serve about 796 people.

The taskforce also estimated, to reduce the length of time clients spend on the wait list to three years, it would cost about $31.3 million in additional state general fund matching dollars every year through FY21. The taskforce report also found that achieving the three-year wait-time goal by 2021 would present challenges because it would be difficult for the network of service providers to expand this quickly.

Alternatively, DOH recommends developing a support waiver targeting individuals who do not currently need the comprehensive array of services in the traditional DD and Mi Via waiver programs.

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. Despite being mostly exempt from the deep budget cuts applied to much of state government, New Mexico's efforts to protect those populations have produced mixed results.



Source: CYFD OpBud and

Child Abuse and Neglect

On average, 2,300 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. New Mexico struggles with inadequate child welfare outcomes and increasing reports of abuse or neglect. Reports of abuse or neglect have increased year-over-year since 2010, from 31.2 thousand to the current 38.6 thousand, and those that are investigated also increased from 17.4 thousand to 20.8. Counter intuitively, given rising reports and investigations, the number of cases of abuse or neglect that were substantiated in FY16 decreased to 5,719. Currently, the average monthly caseload is 19.3 for permanency planners, who manage children in care, and nine for investigators. While investigation caseloads are close to best practice standards, permanency caseloads are significantly above the recommended 12 to 15. High caseloads and the increasing severity of maltreatment has led to staff burnout and turnover. While the state has invested in increasing staff the turnover rate remains high.

Neglect and abuse affect a child's emotional, physiological and behavioral health. In FY16, the agency continued to report an increase in the number of children subjected to repeat maltreatment. 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 they are 18. The report found CYFD dedicated few resources to preventive services.

Juvenile Justice. Almost a third of the 286 beds in facilities operated by the Juvenile Justice Services, which provides prevention, intervention, and aftercare services for delinquent youth, were empty throughout FY16, possibly the result of increased use of front-end services. A key finding of a 2016 LFC evaluation of Juvenile Justice found CYFD has made positive gains in client outcomes since implementing a rehabilitative model, rather than a punitive one, and resources now need to be realigned to meet changing system demands. Among other key recommendations, the report suggests CYFD focus more resources on multisystemic therapy (MST), an evidence-based treatment targeted at reducing recidivism and improving long-term outcomes for youth.

Child Health. In New Mexico, 8.8 percent of babies had low-birth weights in 2014, putting them at risk of dying before their first birthday and of experiencing developmental problems and disabilities. New Mexico's infant mortality rate was 5.4 per 1,000 children, below the 6.1 national average, immunization rates declined to 66 percent versus the national average of 70 percent. However, children who participate in home- visiting services, where a paraprofessional visits the family, received a significantly higher percentage of well-child visits. Continued focus on expanding early intervention services for children and families will be key to improving child health outcomes.

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Children, Youth and Families Department Report Card

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Courts and Justice

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The criminal justice system has been faced with the paradigm of 'tough on crime' sentencing enhancements and reform initiatives juxtaposed with reduced budgets and limited staffing. Courts struggle to keep the doors open with reduced staff, district attorneys are barely able to screen cases for trial due to extreme vacancies, and the public defender is refusing cases because caseloads are unmanageable to the point of unconstitutionality. When core functions of the justice system are delayed or hindered, justice is effectively denied.

Reform in the Justice System

Various reforms in recent years have increased the strain on the judicial system. In November 2014, the Supreme Court issued a case management order (CMO) imposing strict timelines and scheduling rules for all cases proceeding through the 2nd Judicial District. Based on recommendations from the Bernalillo County Criminal Justice Review Commission, the order went into effect in February 2015. The CMO affects police, courts, public defenders, and the District Attorney, which reports many dismissed cases due to its inability to meet the 10-day deadline for discovery and low staff morale. Conversely, the CMO has reduced the backlog of cases in the 2nd Judicial District, allowed for reasonable PDD caseloads in the district office, and reduced the jail population.

Case Filings in Relation to Jury Payments

District	Change in Case Filings (FY15 - FY16)	Change in Jury Payments (FY15 - FY16)
1st JD	-1.9%	23.2%
2nd JD	-7.8%	39.2%
3rd JD	-3.9%	6.6%
4th JD	6.5%	8.1%
5th JD	3.7%	-10.4%
6th JD	5.9%	-16.2%
7th JD	1.8%	155.3%
8th JD	3.5%	45.4%
9th JD	5.5%	-21.8%
10th JD	8.6%	-14.5%
11th JD	4.9%	-23.1%
12th JD	-0.1%	4.7%
13th JD	5.2%	2.1%
Magistrates	2.4%	-17.6%
Metro	0.0%	-3.1%

Source: AOC

Statutory changes, including those resulting from the more than 70 crime bills introduced in the 2016 legislative session, have further strained the justice system. While robust consequences might increase the safety of New Mexicans, they have come with a cost. Each enhancement adds complication, cost, and time for both the prosecution and defense attorneys and burdens court staff, most notably the court clerks, where turnover is near an average of 50 percent in magistrate courts. In 2016, a DWI conviction was increased from a third-degree felony to a second-degree felony, time was added to the sentence for a DWI convictoin beyond the fourth instance, and prosecutors were given the ability to review the juvenile record of an adult defendant.

Budget Constraints

The FY17 operating budgets of the courts, district attorneys, and the Public Defender Department (PDD) were reduced by 3 percent in the 2016 special session. In response, the Administrative Office of the Courts (AOC) reduced funding for drug courts by 20 percent, which will affect each district court. The Court of Appeals reported it will furlough employees to keep its doors open, and the Supreme Court will stop paying some salaries and reported it could furlough as well. The district attorneys plan to cease calling expert witnesses in cases and may also face furloughs. PDD may begin refusing cases in other areas of the state in addition to Lea County. Even before the FY17 cuts, the judicial system was stressed.

An acute example of budget strain arises in the 5th Judicial District, composed of Chaves, Lea, and Eddy counties. In October 2016, the public defender notified the court it wouldn't take any additional cases in Lea County for 90 days. According to PDD, caseloads per attorney in the 5th Judicial District were 141 percent of the maximum National Advisory Commission (NAC) standards between June 2015 and May 2016 because the agency has not been able to pay enough for either staff or contractors to take cases. The District Attorney reported in Lea County, felony cases have increased by 91 percent since FY11, and 17 percent from FY15 to FY16. The reported effects of reduced FY17 budgets, fewer expert witnesses and possible staff furloughs, will exacerbate caseloads. The district court recently dissolved a grand jury due to shortfalls in the jury and witness fund.

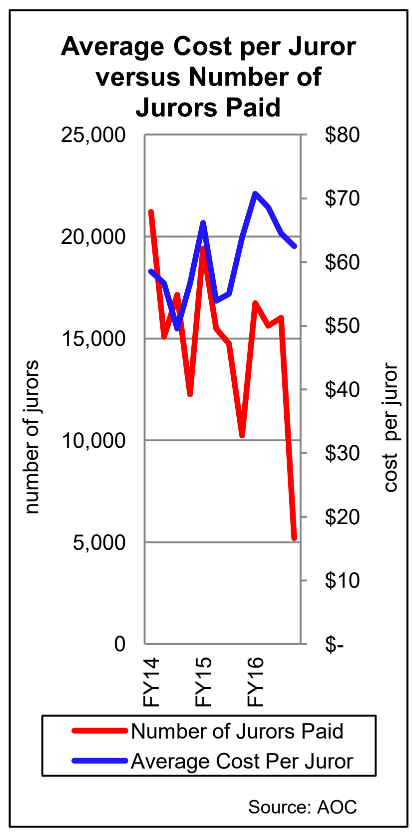
Jury and Witness Fund. Despite the fact that trial by jury is a constitutional provision and right, New Mexico is struggling to provide jury trials due to limited funding. For the last seven years, the jury and witness fund, administered by AOC, has experienced shortfalls. Although statute requires the state to pay jurors the state minimum wage, the Legislature has included language in the General Appropriations Act since FY11 allowing the Supreme Court to lower juror pay to fit within the fiscal year's appropriation. Expenses for both jurors and interpreters have historically exceeded appropriations and AOC cannot afford paying the already reduced rate of $6.25 an hour. New Mexico has the highest juror pay in the country and is the only state that pays jurors by the hour; most other states pay jurors a small sum per day and require employers to continue paying employees called for jury duty.

Case filings and jury payments. The Administrative Office of the Courts (AOC) reported an interesting contrast between case filings and jury payments statewide. In many districts, while case filings went down, jury use, and therefore payments, went up. This contrast indicates courts are clearing their backlogged cases and in doing so, increasing juror usage. In the 2nd Judicial District Court in particular, case filings decreased by 7.8 percent while jury payments increased by almost 40 percent, or $358.9 thousand. This could be a result of the Supreme Court's case management order (CMO), which ordered the district to designate judges to focus on reducing the backlog. AOC is projecting a need for over $1 million in supplemental and deficiency funding for the jury and witness fund because of increasing costs.

Juror Pay Comparison

State	Rate Paid by State
Idaho	$10 per day
Washington	$10 per day
South Dakota	$10 per day if reporting, $50 per day if sworn
Oregon	$10 per days 1 and 2, $25 per day remaining
Arizona	$12 per day
Montana	$13 per day if reporting, $25 per day if sworn
California	$15 per day after first day
Utah	$18.50 per day 1, $45 per day thereafter
Oklahoma	$20 per day
North Dakota	$25 per day 1, $50 per day after
Alaska	$25 per full day
Texas	$40 per day after first day
Nevada	$40 per day after first two days
Colorado	$50 per day after first three days, for which employer pays
New Mexico	$50 per day at the reduced $6.25 per hour rate

Source: National Center for State Courts



Pretrial Detention. In November, New Mexico voters approved a constitutional amendment, strongly supported by the judicial branch, to allow judges to deny bail to any defendant deemed too dangerous and to waive bail for those financially

PDD reported between June 2015 and May 2016 statewide caseloads per staff attorney were 113.4 percent of National Advisory Committee (NAC) maximums, on average. The highest caseloads for this period were in the 5th Judicial District (Chaves, Lea, and Eddy Counties), and the lowest were in the 2nd, attributable to the CMO. To lower caseloads to the maximum allowable limit, the state needs 23 staff attorneys according to PDD data. PDD requested funding for 25 attorney positions for FY18.

unable to pay. Supporters of the measure say it will improve justice for indigent defendants and heighten community safety by keeping dangerous criminals in jail. To help judges execute this new discretionary power, the John and Laura Arnold Foundation provided a nationally renowned risk assessment tool to Bernalillo County as a pilot for eventual use in the entire state. The judiciary hopes the risk assessment will work in conjunction with the new Department of Public Safety clearinghouse for the criminal history of defendants, anticipated to be functional in 2017. The risk assessment tool uses multipliers and data to rate a defendant's risk and determine if he or she should be released pending trial or detained without bail. The tool does not restrict judges, but aids in impartial decision-making about conditions of release. Recent court cases show concern that the assessment may not work for all defendants, especially first time offenders. Costs could increase as more defendants are funneled into pre-trial programs instead of being detained by the counties for long periods of time before deemed innocent or guilty. The cost of increased pre-trial program usage could fall on the district attorneys, the courts, or the counties, none of which have the budget capacity.

Consequences

Pressure on the system is contributing to an increase in crime in the Albuquerque metropolitan area, and in October 2016, a report was released linking the decrease in Metropolitan Detention Center population to the increase in crime. However, many factors are contributing to crime in Bernalillo County and in the rest of state. Lack of jobs in the metro and rural areas of New Mexico has caused inmates to struggle to reintegrate into society upon release and many return to a life of crime. High vacancies in state, county, and city police departments contribute to this uptick in crime as well.

PDD Staff Attorney Case Numbers in Comparison with National Advisory Commission Maximums

(June 2015 through May 2016)

District	Felony	Juvenile	Misdemeanor	Percent of National Advisory Committee Maximums	Lawyers Needed to Reach 100% Maximum
1st Judicial District	1,838	312	1,873	110.4%	2
2nd Judicial District	8,472	968	12,691	101.0%	6
3rd Judicial District	1,808	302	2,061	117.6%	2
5th Judicial District	2,676	298	2,236	141.1%	7
9th Judicial District	854	163	1,144	114.7%	1
11th Judicial District	2,151	248	2,708	149.8%	3
12th Judicial District	871	185	1,083	124.5%	2
Total	18,670	2,476	23,796	113.4%	23

Source: PDD

In response to the crisis, the LFC, in agreement with the Department of Finance and Administration (DFA), is piloting a restructured budget layout for the district courts that will appropriate expenditure authority to one line item, as opposed to four, in each judicial entity with a budget under $8 million to allow more internal control, oversight, and easier management of limited funding. Because the Supreme Court has oversight of all lower courts (Article VI, Section 3, Annotation II, New Mexico Constitution), it developed a unified budget approach for budget requests. By appropriating a total to one line item, the Legislature is recognizing the unified budget approach and the Supreme Court's authority over the judicial branch.

New Mexico's climbing crime rate and prison population has spurred public safety investments over the last five years. However, even with the increased funding, New Mexico is still among the most violent states in the nation, with the second highest rate of rape and fourth highest rate of aggravated assault. To "move the needle" on crime rates and prison population growth, adherence to evidence-based programs is more important than ever.

Cities nationwide are seeing spikes in violent crimes with no clear cause, a trend also seen in New Mexico. In 2014, New Mexico was the fourth most violent state in the nation behind Alaska, Nevada, and Tennessee.

Public Safety

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Department of Public Safety Report Card
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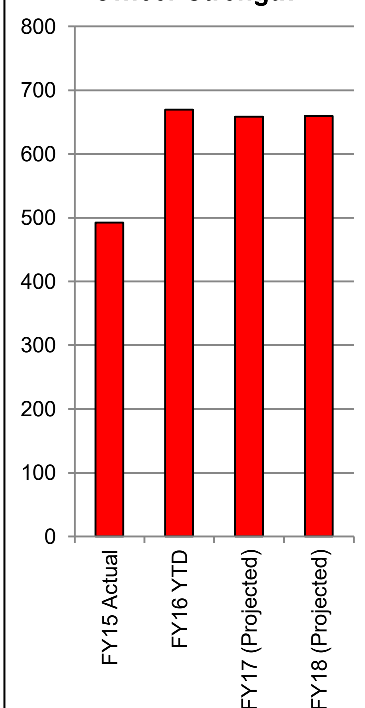
Crime rates in New Mexico outpace other western states and the nation. Over the last five years, New Mexico's violent crime rates have grown 15 percent while property crime rates jumped 5 percent. Among southwestern states, only Nevada and Utah have seen violent and property crime rates grow faster. Nationally, violent crime fell 4 percent and property crimes fell 3 percent. Between 2014 and 2015, FBI data shows violent crime in the state spiked 10 percent while property crimes increased 4 percent.

Manpower and Pay

The Department of Public Safety (DPS), like other police forces nationwide, is challenged when it comes to recruiting and retaining officers. Citing low salaries and a competitive market, the department requested a $10.8 million pay plan in 2013 with the goal of becoming the third highest payer in the state market, with a pay rate of roughly $22 an hour. Currently, the third highest payer in the market, Los Alamos, pays $25 per hour on average. Over three phases and $7.5 million, the pay plan equalized pay among officers in the department, raised officer pay from 12th in the state to 6th, and shortened salary steps, allowing officers to earn more money more quickly. The Legislature also appropriated a total of $3.1 million in FY16 and FY17 for additional recruit schools and new officer salaries. However, DPS estimates it will need an additional $7.1 million to complete the pay plan objectives. Besides improving pay, DPS is changing the agency's standard recruit testing method to a nationally validated model and reassessing physical training and background check practices to quicken the recruitment process.

Average State Police Officer Strength



Source: Department of Public Safety

Ascertaining the success of the pay plan is difficult. Since FY15, vacancy rates have fallen from 12 percent to 10 percent. To reach full staffing levels, the agency would have to hire 75 more officers than the current level. Since FY15, DPS has recruited 98 officers but manpower has grown only 12 additional officers. To illustrate the challenge of building up manpower, if the $7.5 million invested toward recruiting new officers is divided by only the 12 additional officers, then the state invested $625 thousand per new officer. Other alternatives include employing databases that map crime hotspots or to expand cooperating agreements with local police jurisdictions. Other entities, like New York City, rely heavily on crime software to determine where police coverage is most needed.

Rape Kit Backlog Clearance Cost Estimate
(in thousands)

FY17	$	870.2
FY18	$	365.5
FY19	$	365.5
FY20	$	121.5
Total	$	1,722.7

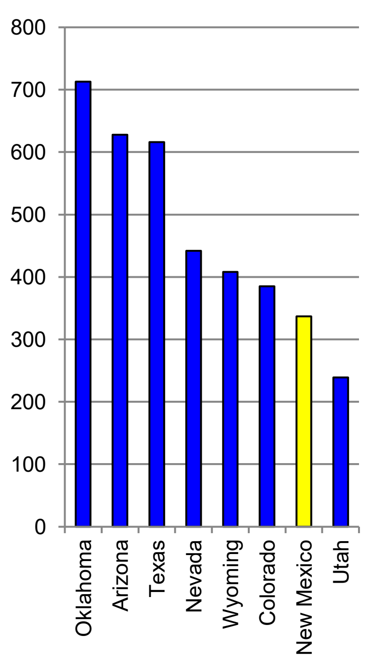
Source: Department of Public Safety

FY16 DPS Forensic Scientist and Dispatcher Average Vacancy and Turnover Rates

	Average Vacancy Rate	Average Turnover Rate
Forensic Scientists	30%	20%
Dispatchers	20%	26%

Source: Department of Public Safety

2014 Incarceration Rate per 100,000 Residents



Source: Corrections Statistical Analysis (CSAT)

Sexual Assault Kit Backlog Progress

The Legislature in 2016 appropriated $1.2 million for DPS to begin clearing a backlog of 1,400 untested rape kits within the department's jurisdiction. In the first year alone, DPS estimates it will spend $975 thousand to hire three additional scientists to work on the backlog, purchase equipment, and remodel space to accommodate the additional FTE and equipment. DPS received a $2 million grant from the U.S. Department of Justice to fund the remaining amount needed to process the backlog, maintain forensic scientist salaries, create a case management database, and educate the public on the database.

Criminal History Clearinghouse

In August 2015, the New Mexico Supreme Court's Ad Hoc Pre-Trial Release Committee recommended the state develop a centralized data clearinghouse for criminal histories that could reduce the jail population 15 percent. A clearinghouse would allow judges to more quickly assess risk during arraigning and sentencing. The courts estimate 3,000 jail inmates, or almost 40 percent, are pretrial detainees held for an estimated $72 per day. The clearinghouse would allow jurisdictions to compile the criminal history of a defendant and conduct an empirical risk assessment to determine flight risk and danger to the community. Criminal history records will be generated from databases at the Children, Youth and Families Department, the Administrative Office of the District Attorneys, the Administrative Office of the Courts, the National Crime Information Center, and the New Mexico Corrections Department (NMCD). DPS was appropriated $600 thousand to create the database and estimates the project will cost the state almost $1 million to create and implement over the next three years. DPS anticipates the clearinghouse will be operational by spring 2017, starting with small, local courts that do not have access to criminal history data.

Corrections

NMCD efforts to reduce recidivism and release parolees timely appear to be progressing, with inmate populations expected to stabilize. However, recidivism remains high and, while focused on evidence-based recidivism reduction, the department can provide only limited information on outcomes. To slow population growth and contain costs, NMCD has worked to parole inmates on time, and provide better services for incarcerated persons, including determining Medicaid eligibility before release. The department also adopted an internal policy requiring no less than 70 percent of total recidivism programming be evidence-based as defined by the Pew-MacArthur Results First Initiative. The department has spent the last year working with Pew to update their evidence-based programming inventory to ensure the state uses what works best. Further, the LFC has identified cost-effective recidivism reduction programs, such as residential drug abuse treatment programs, many of which need to be funded consistently and reassessed periodically to determine effectiveness. However, little information about program outcomes within the state is available. In FY16, NMCD reported 46 percent of released inmates returned to prison within the prior three years, including 17 percent for technical parole violations, such as missing a scheduled office visit.

Factors driving inmate growth vary; however, the New Mexico Sentencing Commission (NMSC) shows male admissions for violent crimes have grown an average 3 percent over the last four years while female admissions for violent crime increased 28 percent: 14 percent in property crime, 18 percent in drug crimes, and 36 percent in public order crimes, such as DWI.

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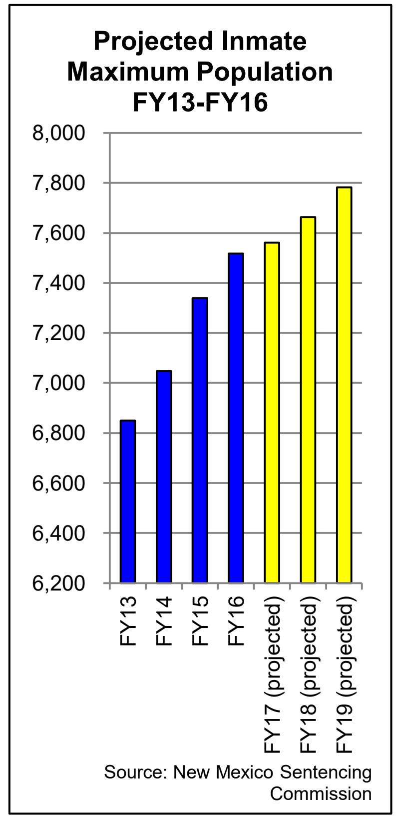
Prison Facilities and Staffing

Although growth is moderate, the rising prison population places the department at risk of overcrowding and dangerous understaffing. Currently, the department has an average 590 vacant beds in which to place prisoners, including an average 402 empty beds at publicly run facilities. Industry standards suggest a 5 percent bed vacancy rate to prevent overcrowding and allow for safe population shifting. However, if inmate populations continue to rise with no change in recidivism rates, facilities could soon be much closer to full.



In addition to overcrowding and understaffing, recent studies have shown many of NMCD's prison facilities would cost more to repair than to replace. The General Services Department (GSD) released a facility condition index listing Southern New Mexico Correctional Facility and Central New Mexico Correctional Facility as the department's highest-need facilities. The high maintenance costs and distance between prisons and needed services, such as hospitals and social work organizations, are cost drivers that could be minimized by building a larger facility near a metro area while taking old beds offline. The Arizona Department of Corrections operates a state-run 6,000 bed facility near Phoenix with a daily per inmate cost of $61, much less than the NMCD's average $103 per inmate. A modern prison could also safely allow higher inmate-to-staff ratios, potentially reducing the number of staff needed and vacancy rates.

New Mexico's prisons, built in response to the 1980 riot, are staff-intensive. Driven by difficult working conditions and low pay, vacancy rates in state prisons are critically high, ranging from 11 percent at Southern New Mexico Correctional Facility in Las Cruces to 49 percent at the Roswell Correctional Center. The Legislature appropriated $4.5 million last session to boost correctional officer salaries an average 6.5 percent to help improve retention. However, the department may be able to further improve retention with loan repayment programs, nonrecurring bonuses, or more take home pay. Vacancy rates could also be reduced by locating prison facilities closer to major metropolitan centers, where the potential workforce is larger.

The Corrections Department's recidivism rate of 47 percent between FY12 and FY15 dropped to 46 percent in FY16. However, LFC is concerned these figures may not be accurate because the department's aging offender management system may not capture all necessary data. NMCD was allocated $4.6 million in FY17 to purchase a new offender management system which should enable easier access and reporting of recidivism data by the agency. Comparing recidivism among states is extremely difficult as states measure recidivism with different definitions and variables.

Conversely, the Administrative Office of the Courts reported an average recidivism rate of 21 percent for drug courts and 37 percent for mental health treatment courts.

The poor facility conditions and high vacancy rates have driven stakeholders from the Legislature, executive, and the corrections department to consider the development of a new, more efficient prison system. Stakeholders have discussed creating a master plan similar to one in Utah that analyzes custody classification, economic impact, cost-benefits, healthcare, and staffing.

Additionally, NMCD gained the potential to take over a 1,200 bed minimum security prison when the federal government discontinued its private prison contract in Milan. The prison could offer a way to shutter older, rundown prisons, save the state future construction costs, and provide a pool of experienced employees. However, the prison must offer the correct configuration of security levels to relieve overcrowding.

U.S. Bureau of Justice Statistics reports New Mexico incarcerated 337 out of every 100 thousand residents in 2014, a rate lower than many surrounding states. However, New Mexico's incarceration rate has grown 3 percent since 2013; only Arizona and Wyoming saw rates grow over the same period. Utah, Colorado, Nevada, Texas, and Oklahoma saw rates decrease or remain stable.

Other states, like neighbor Utah, have begun reducing both crime and prison populations through sentencing reform, revised parole eligibility standards, and strengthened community corrections programs. However, community programs for issues like mental health treatment must be strong to maintain low crime and prison population rates.

Meaningful sentencing reform, including medical and geriatric parole, could also reduce the potential for overcrowding in prisons. Focusing on crime carries a price tag for the state because enhancements have potential to create more and longer prison sentences.

Inmate Medical Care

In addition to increased costs due to the growth in the prison population, the department is also faced with increased healthcare costs due to new, more costly contracts and medical inflation. This summer, NMCD contracted with Centurion to provide healthcare services, Boswell to provide pharmacy services, and MHM Correctional to provide behavioral healthcare for women inmates. While the new contracts include some provisions to contain costs, all three contracts escalate in cost every year an average 3 percent, and lack quality of care performance measures. However, the contracts do task Centurion with procuring the reduced drug prices available through a specific federal program, require appropriate use of generic drugs, and limit drug supplies to last no longer than 30 days at a time. NMCD will continue to cover the costs of specialty drugs. NMCD could further reduce drug pricing by joining a drug purchasing collaborative or partnering with a university hospital to procure reduced pricing.

New Mexico Corrections Department Facility Condition Index*

Central New Mexico - Medical Admin.	109%
Southern New Mexico - Education	102%
Penitentiary of NM - North Facility	100%
Southern New Mexico - Gym	100%
Southern New Mexico - South	96%
Penitentiary of NM - South	88%
Southern New Mexico - Warehouse	79%

Source: General Services Department

* The facility condition index is found by dividing deficiency and renewal costs for a building by the current replacement value. A figure of 100 percent or above indicates the cost of repair is equal or greater than the cost of replacement.

A Closer Look

Prescription Drug Costs: Maximizing State Agency Purchasing Power

A major cost driver within the Corrections Department is the 7,000 percent increase in the cost of hepatitis C (HCV) drugs resulting in a 200 percent increase in prescription spending within the department. NMCD's substantial increase in pharmaceutical spending has been driven mostly by rising drug prices, rather than general increased utilization. The previous healthcare contractor, Corizon, reported 3,100 inmates were known to have HCV; from the data provided by NMCD, it is likely that fewer than 100 of the inmates were treated with expensive specialty drugs. NMCD did not report how many inmates are receiving treatment or what price NMCD has negotiated, making it impossible to determine how much it would cost the department to treat the entire infected population.

Attempting to mitigate costs, NMCD stipulated in its new contract with Centurion that the contractor is responsible for pursuing eligibility in the "340B program", a Medicaid program in which drug makers reduce prices for HCV medication as well as drugs for cancer, HIV, hemophilia, dialysis, and some psychotropics. However, there are legal barriers to correctional facilities obtaining this pricing. To date, the only state that has successfully garnered 340B pricing for inmates is Texas, where the University of Texas Medical Branch provides full medical care, including pharmacy services.

Several states, including Massachusetts, Minnesota, and Tennessee, are facing lawsuits for failing to provide timely HCV treatment. NMCD contracts with the University of New Mexico's Project Echo to provide training and consultation for HCV treatment; however, NMCD has not provided LFC with any strategic plan for treating inmates and avoiding potential litigation. NMCD should explore options for reducing pharmacy costs, including participation on the Minnesota Multistate Contracting Alliance or another group purchasing pool. (Read the report.)

For the second time in less than eight years, unexpended capital outlay funds were targeted to supplement the state's budget shortfall for fiscal year 2017. As policymakers seek to close the funding gap for fiscal year 2018, they may need to once again consider voiding inactive capital funding authorized in 2015 and 2016. Dramatic declines in energy-related revenues, combined with the need to address solvency issues using future capacity in the last special session, leaves the available capital capacity in 2017 at an all-time low, less than $65 million compared with the $1.7 billion requested to date by state and other political subdivisions.

The bleak capacity forecast poses uncertainty for funds needed for critical and incomplete infrastructure projects, but it also provides policymakers and all levels of government with an opportunity to address the more than $1.1 billion outstanding for over 2,500 projects. In a year with little or no money, legislators may want to consider reviewing and reauthorizing inactive capital outlay projects to move funding to projects that can be developed into a completed or a functional phase. The voters approved the general obligation bonds to provide $174.3 million for senior citizen centers, libraries, higher education facilities, and public safety issues that will ease the need to fund projects for these facilities.

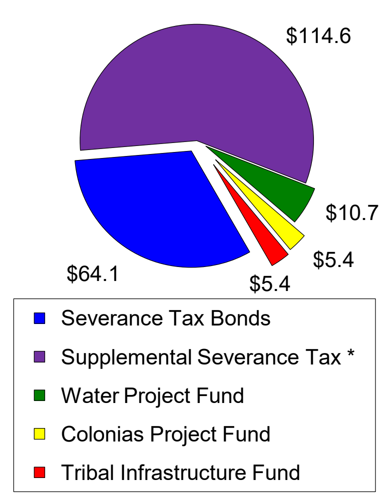
Over the years, legislative proposals have taken aim at developing an efficient process for planning, prioritizing, and funding "local" projects; however, the current capital process continues to divert funding from the most critical and basic infrastructure needs for both state and local facilities. Without procedures to ensure projects are adequately funded, communities will continue to have deficient road and water systems, and the conditions at state facilities will continue to amplify the risk to patients and the potential liability to the state.

Recognizing the inadequacies in the state's capital outlay process, representatives of the Association of Counties, the New Mexico Municipal League, and staff of the executive and legislative branches joined efforts to review and develop "administrative" changes aimed at improving the process. A section within this document addresses steps underway to streamline and improve the process across all levels of government.

Capital Outlay

2017 Capital Funding Outlook. As detailed in "Volume III," early revenue projections indicate net senior severance tax bond (STB) capacity is approximately $64.1 million. Earmarked funds for water infrastructure, colonias, and tribal infrastructure total $21.5 million, 18 percent of the total of net STB capacity. During the special legislative session, state law was amended to permanently reduce the percentage of senior severance tax bonding capacity earmarked to the water project, tribal infrastructure, and colonias infrastructure funds by 1 percent

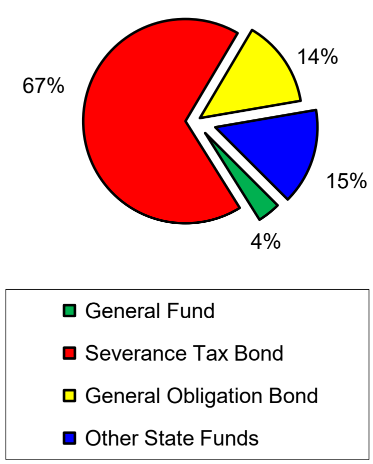
Capital Outlay Bonding Capacity Uses for 2017
(in millions)



* For public school construction

Source: LFC Files

Percent of Unexpended Capital Balances By Fund 2009-2016



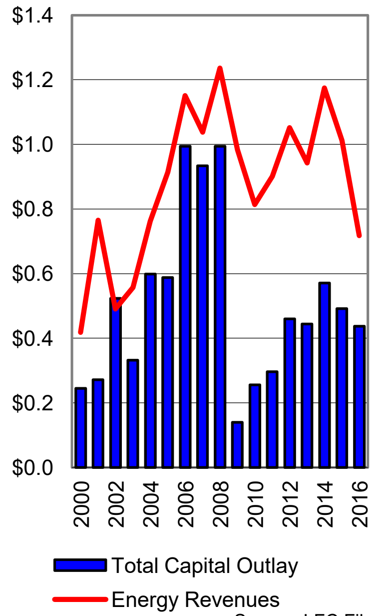
Source: LFC Files

Senior Severance Tax Bonds Earmarked Funds 2012 - 2016
(in millions)

Fund	Projects Awarded	Amount	Balance
Water	131	$90.9	$63.6
Colonias	156	$50.1	$38.4
Tribal	129	$42.2	$33.8
Total	**416**	**$183.2**	**$135.8**

Source: Capital Projects Monitoring System

Capital Outlay and Energy Revenues
(in billions)



Source: LFC Files

Status of Projects Greater than $1 Million
(as of September 2016)

G	Project on schedule	99
Y	Behind schedule or little activity	109
R	No activity or bonds not sold	22
Total Active Projects		**230**
Other report information:		
B	Appropriation expended or project complete	28
X	Additional funds needed	4

Source: LFC Files

Office of State Auditor Awards to Small Communities for Audits

- 54 awards granted to 31 entities in 13 counties in FY15
- 57 awards granted to 29 entities in 15 counties in FY16
- 26 awards granted to 15 entities in 10 counties in FY17
- $80 thousand requested by State Auditor to help small political subdivisions fulfill financial reporting requirements in FY18

starting in FY17. The earmark for the water project fund is reduced from 10 percent to 9 percent, and the earmarks for tribal and colonias are both reduced from 5.5 percent to 4.5 percent. The allocations of earmarked funds in 2016, totaling $37.5 million, are listed on the LFC website. The supplemental sponge issuance dedicated for public school construction is expected to be about $114.6 million. The final capacity estimates are released by the State Board of Finance in January 2017.

Unexpended Funds. As of September 2016, approximately $842.8 million for 2,581 capital outlay projects is outstanding. Balances for projects funded for $1 million or more exceed $711.5 million for 230 projects, nearly 84 percent of all unexpended balances.

2009-2016 Capital Outlay All Fund Sources

Year	Number of Projects	Amount Appropriated	Amount Expended	Amount Unexpended	Percent Expended
2009	1	$10.0	$9.4	$0.6	94%
2010	0	$0.0	$0.0	$0.0	0%
2011	1	$0.3	$0.0	$0.3	0%
2012	9	$15.0	$11.0	$4.0	73%
2013	277	$157.9	$90.8	$67.0	58%
2014	618	$336.8	$102.3	$234.5	30%
2015	873	$337.1	$39.5	$297.6	12%
2016	802	$243.8	$5.0	$238.7	2%
Total	**2,581**	**$1,100.8**	**$258.0**	**$842.8**	

Note: Data includes projects for water, colonias and tribal earmarked funds; 2009 balances are for Indian water rights matching funds.

Source: Capital Projects Monitoring System

Authorized but Unissued Bonds. Severance tax bonds authorized in 2015 and 2016 totaling $19.7 million for 53 projects remain unissued, nearly $1 million from 2015 and $18.7 million from 2016. As of December 6, 2016, 19 projects in 11 counties in the amount of nearly $1.3 million remain unissued due to noncompliance with audit requirements. The Legislature appropriated $100 thousand to the Office of the State Auditor (OSA) in FY17 to assist small political subdivisions with meeting financial reporting requirements under the Audit Act; $80 thousand was requested in FY18. OSA developed an application process for distributing the funds.

Facility Condition Assessment. A recently completed statewide assessment indicates the state needs to spend almost $260 million to address current facility needs. The facility condition index (FCI) assessment of each of the 603 buildings under the jurisdiction of the General Services Department identifies the funding needs to immediately address deficiencies impacting the security and safety of the state-housed clients, staff, and the public. Assessments yield an FCI for each facility. (See “Volume III.”) A higher FCI indicates a higher need for repair and an FCI of 60 percent or higher suggests demolition and replacement may be a more cost-effective option than renovation.

The agencies with the highest FCI include the Human Services Department (HSD) for 10 buildings, New Mexico Corrections Department (NMCD) for 260 buildings and FMD for 29 buildings. According to the 2015 facility condition assessment report, the state would have to appropriate $258 million within the next year to address current needs. This includes approximately $20.5 million for immediate needs and $10 million for life safety needs. If left unfunded over the next five years, the amount needed to address deficiencies is expected to increase to $435.3 million by 2021.

When the Legislature and the executive supported the funding for the assessment, it was anticipated the facility condition assessments would help state agencies and policymakers to prioritize funding for the most critical infrastructure deficiencies, similar to the approach taken for funding public schools. Unfortunately, with only $41 million appropriated in 2016 for state facilities and less than $65 million in capacity in 2017, the LFC staff framework addresses life and safety needs at a bare minimum to lessen the effects of fire and related hazards for facilities housing clients “24/7” and others heavily used by the public and for demolishing unsafe vacant facilities.

Funding Requests

State agency priority capital requests total $502.7 million while higher education institutions and special and tribal school requests total $82.1 million. 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 the LFC staff-proposed framework for capital are summarized in “Volume III.”

Aging and Long-Term Services Department. ALTSD received capital outlay requests totaling $7.3 million for senior centers statewide. Based on formal presentations, review of the applications, and site visits, ALTSD recommends and LFC staff proposes under the framework $1.3 million for projects that address the most critical needs and have a life cycle of 10 years or more.

Higher Education, Special Schools, Public Education. The Higher Education Department (HED) held hearings in Albuquerque, Crownpoint, Farmington, Ruidoso, and Silver City. All postsecondary institutions, the three special schools, Dine College, the Institute of American Indian Arts, Navajo Technical College, and Southwestern Indian Polytechnic Institute made requests for infrastructure projects totaling approximately $82.1 million. HED requested $12.5 million to provide grants for “emergency” needs at institutions based on an application process and allocations determined by the HED Capital Outlay Committee. Due to limited STB capacity and the recent passage of the general obligation bond issue totaling $131.1 million for higher education facilities statewide, the LFC staff does not support the recommendation.

The LFC staff framework supports $4 million authorized from the public school capital outlay fund to address deficiencies and other infrastructure improvements for Zuni litigant districts in McKinley and Cibola counties.

2016 General Obligation Bond Issue Results:

Bond Issue A:
Senior Projects - $15.2 million

Bond Issue B:
Libraries - $10 million

Bond Issue C:
Higher Education, Special Schools, and Tribal Facilities - $131.1 million

Bond Issue D:
Public Safety Projects - $18 million

Criteria and Assigned Points for Prioritizing Senior Citizen Projects (105 Points Possible)

- Critical need (30 points)
- Matching funds and functional phase (15 points)
- Readiness to proceed (15 points)
- Project oversight (15 points)
- Cost benefit (10 points)
- Timely expenditures and reporting (20 points)

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.

Children, Youth and Families Department

Eagle Nest Reintegration Center

Camino Nuevo Youth Center

Corrections Department

Housing Unit Roof

Obsolete Security Monitors

Children, Youth and Families Department. CYFD requested nearly $4.2 million for infrastructure and security upgrades statewide. The request includes $1.4 million for a vocational education and physical plant building at the Youth Diagnostic Development Center in Albuquerque. The LFC staff framework supports $2.8 million for infrastructure and security upgrades at juvenile detention facilities statewide.

New Mexico Corrections Department. NMCD requested $30.2 million to complete heating ventilation and air conditioning and roof renovations as well as security upgrades at correctional facilities statewide. The Legislature should consider the department's request to fund master planning and to examine the merits of building a new facility versus investing more state money into the current poorly designed and aged prisons. The LFC staff framework supports $7.5 million to complete roof, security, heating ventilation and air conditioning, and other infrastructure upgrades, renovations and repairs statewide.

Cultural Affairs Department. The department requested $15.1 million to preserve and renovate museums and monuments statewide, to complete ongoing projects, and to purchase and install equipment, including the construction of a new collections facility on State Road 599 campus in Santa Fe. The LFC staff framework proposes the $3 million to address the agency priorities for critical life, health, and safety at museums, monuments, and historic sites statewide.

Department of Health. DOH requested $30.4 million to address patient health and safety issues impacted by aged infrastructure and a backlog of repairs. Given the large funding request and limited funds, the Executive Capital Outlay Committee asked DOH to submit a revised request based on the most critical issues that could be addressed in the short term. The revised $8 million request prioritizes public health and safety, equipment, facility renovations, and architectural design for the vital records program. The LFC staff framework supports nearly $7.4 million to plan, design, purchase and install fire alarm and security surveillance systems, and for other renovations at facilities statewide. The $7.4 million includes $350 thousand to plan and design a new facility or to expand at an existing state-owned site to house the Vital Records and Health Statistics Bureau, $500 thousand for scientific and analytical medical equipment, and $500 thousand for improvements at the Old Fort Bayard campus.

Department of Public Safety. DPS requested nearly $11.2 million for infrastructure improvements at district offices statewide to purchase and equip a new emergency rescue helicopter; and to plan and design a new state police district office in Santa Fe. The LFC staff framework supports $7 million to purchase and equip a new helicopter for search and rescue operations. The existing helicopter is a 2009 model requiring more than $450 thousand for replacement parts and with annual maintenance costs totaling nearly $1 million. The department's helicopter is not safe and is severely limited by temperature, density altitude, and other harsh environments involved in the state police operations. The framework also supports $2 million to plan, design, renovate, furnish, equip and address erosion control at State Police District offices statewide.

General Services Department. The Facilities Management Division (FMD) of GSD requested nearly $240 million to address deficiencies, renewals, emergencies and unforeseen repairs and renovations at facilities statewide; $28.5 million to acquire property and to renovate a new child wellness center for CYFD; and $1.2 million to decommission and demolish unusable state-owned buildings. The LFC staff framework supports $5.8 million to preserve and restore facilities statewide, including $1.3 million to plan, design, decommission, demolish and remediate asbestos for structures deemed unsafe in Hobbs, Los Lunas, and Albuquerque. Additional funds requested by FMD for facilities under its jurisdiction are proposed but listed under individual agencies.

Office of the State Engineer. OSE requested $21.6 million to satisfy the state's cost share related to the Indian Water Rights for the Aamodt Settlement, surface and groundwater measurement statewide and rehabilitation of Cabresto, Morphy, and Lake Maloya Dams. The LFC staff framework supports $2 million for improvements to dams; $9.1 million for Aamodt Settlement immediate needs in FY18; and $15.2 million authorized from the New Mexico unit fund to comply with the provisions of federal law to pay the costs of the New Mexico unit or other water use alternatives to meet water supply demands in the Southwest water planning region of New Mexico.

Local Government and Tribal Entity Requests. According to the Infrastructure Capital Improvement Plan (ICIP) compiled by the Local Government Division of DFA, local, tribal, and other political subdivisions submitted nearly $3 billion of infrastructure needs. The top five priorities total $588 million for five major categories: water, transportation, quality of life (libraries, parks, senior centers, community and cultural centers, etc.), environment (utilities, landfills, clean energy, solid waste, etc.), and public safety. A listing of the top five priorities for all governmental entities participating in ICIP is available through LFC or the Local Government Division.

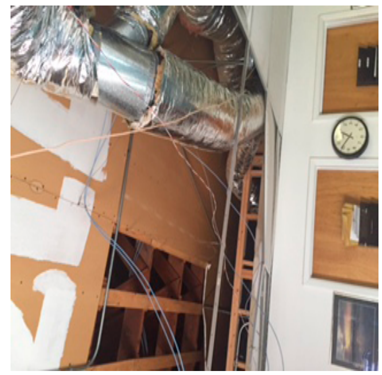
Capitol Buildings Planning Commission. The Capitol Buildings Planning Commission (CBPC), in partnership with the Facilities Management Division (FMD) issued a request for proposals and selected two companies for master planning services to assist the commission and FMD in its decisions to lease, purchase, or dispose of state buildings or property in Santa Fe, Albuquerque, Las Cruces and Los Lunas metropolitan areas. The scope of work includes providing assistance to state agencies with master planning using current space utilization data and the facility condition assessment and incorporating the plans into a statewide master plan.

Besides master planning, the committee identified the need to keep the building inventory website updated ensure agency ICIPs are in compliance with the master plan and clarify CBPC role for approving real property dispositions.

CBPC endorsed legislation for introduction in the 2017 legislative session for the purpose of defining the commission's role in reviewing the disposition of state-owned real property. The proposed legislation would provide that the commission review and make a recommendation on the disposition of state property "prior" to the development and introduction of a joint resolution relating to the disposition of state property. Currently, the commission is limited to reviewing transactions related to the disposition of state property "after a resolution has been passed by the Legislature and after the disposition of state property has been consummated.

Department of Health

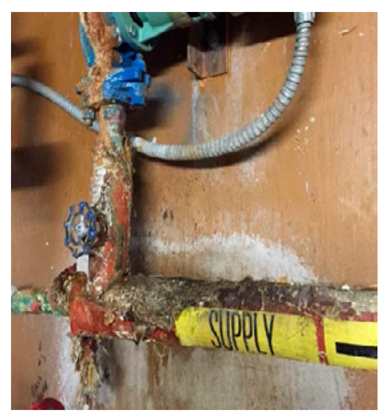
NMBHI Cracked Sidewalks



Old Fort Bayard

Department of Cultural Affairs

Museum of Indian Arts



Space Museum

Local FY18 Requests
Top 5 Priorities by Category
(estimated project costs)

Category	Requested Amount
Water	$225,268,804
Transportation	$129,697,103
Quality of Life	$158,131,998
Environment	$37,942,014
Public Safety	$18,022,626
Economic Development	$8,005,863
Housing	$8,261,426
Health	$997,326
Public Education	$1,625,000
Other Education	$381,700
Total	**$588,333,860**

Source: DFA-Local Government Division

LFC Staff Site Visits in 2016

- Mora County Courthouse (Mora)
- Luna Community College Media Center (Las Vegas)
- Navajo Technical University (Crownpoint)
- Harriat Sammons Building (Farmington)
- San Juan College (Farmington)
- Central New Mexico Community College (Albuquerque)
- Eastern New Mexico University (Ruidoso)
- Western New Mexico University (Silver City)
- Fort Bayard Medical Center (Santa Clara)
- Old Fort Bayard Medical Center (Santa Clara)
- John Paul Taylor Juvenile Facility (Las Cruces)
- Southern New Mexico Correctional Facility (Las Cruces)
- New Mexico State Veterans Hospital (Truth or Consequences)

Administratively Improving the Capital Outlay Process for Local Projects

The fractured nature of funding local government capital projects leaves millions of dollars sitting idle, often for many years that could be used for critical infrastructure to protect the health and safety of New Mexico citizens. The current process has created a proliferation of projects and puts an unreasonable strain on state and local government resources. In addition, due to the difference in the geography of the legislative districts, resources are allocated unevenly between rural and urban districts. Typically construction costs are higher in rural New Mexico.

The failed attempts to make changes through legislation in past years led to the formation of a group to discuss issues and ways to address improvements through managerial changes. Since April 2016, legislative and executive staff and the directors of the New Mexico Municipal League (NMML) and the New Mexico Association of Counties (NMAC) referred to as the "work group" have met to review the current state process, surveyed local entities for input, and developed methods to simplify the process. The anticipated results will provide accountability of state and local funds, reduce the cumbersome paper shuffling, aid in the backlog of uncompleted projects, and lessen the administrative burden for state and local entities.

Enhancements to Date

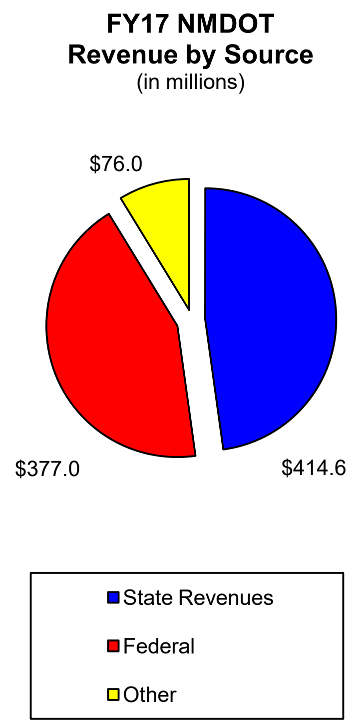
- The NMML and NMAC increased outreach and education regarding the Board of Finance (BOF) paperless, web-based questionnaire system that dramatically streamlines the local government submission and the state's review prior to issuance of bonds.
- The BOF will distribute questionnaires required for bond issuance to grantees within the governor's bill signing period to allow the bonds to be sold more quickly.
- The BOF will no longer issue bonds for projects with anti-donation issues or for those grantees not in compliance with audit requirements.
- The BOF will publish the list of authorized but unissued projects on its website.
- The "work group" developed a summary of guidelines for use by legislators and local entities to assist in ensuring projects are ready to go and are high priorities for communities.
- The "work group" developed a checklist of "best practices" to assist grantees in effectively managing and overseeing their projects.

Next Steps

- DFA should survey all grantor agencies regarding their current processes to identify best practices and prescribe standard approaches at the state level.
- State agencies and political subdivisions should hold workshops to provide consistency in timelines, required documentation, and improved communication between grantors and grantees.
- The "work group" should consider input from the Councils of Government and the Navajo Nation and chapter houses, acequias, and other rural entities.
- All parties should continue to identify and implement management changes to improve the local capital outlay process.
- The Legislature should support the work of the group and consider creating an interim committee in 2017 to continue further improvements to the capital outlay process and allocation of state funds.

Summary of 2016 Special Session Legislation

Chapter 5, Laws of 2016, Special Session (Senate Bill 8) added $89.7 million of non-recurring general fund revenue in fiscal year 2017. The bill reverted $56.2 million in general fund appropriations for capital expenditures authorized in 2015 and 2016 and provided for continued funding for the same projects from STB and authorized the issuance of additional taxable STB proceeds. The bill also voided 113 local capital projects totaling $10.4 million and voided $15.6 million from unused supplemental STB balances. The bill further reduced water, tribal, and colonias earmarks by 1 percent each providing a recurring combined $4.7 million in capacity in future years.

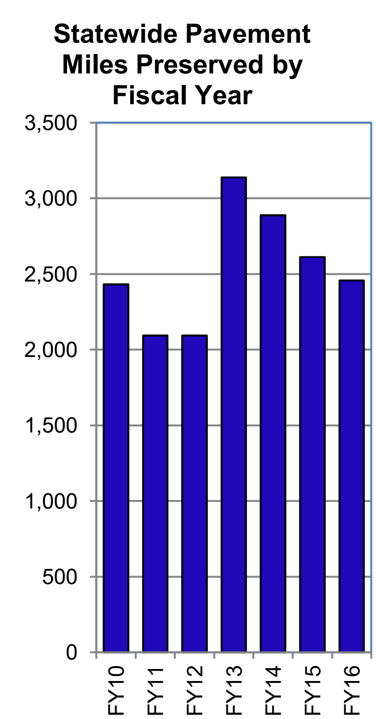


Source: NMDOT

Transportation Infrastructure

New Mexico's statewide transportation infrastructure network, 30 thousand lane miles of interstate corridors and U.S. and state highways, are maintained by the New Mexico Department of Transportation (NMDOT). Construction needs of the transportation network have increased as routine maintenance has been deferred and expenses have increased. At the same time, road fund revenue growth is not keeping pace with inflation, and debt service payments require a sizeable share of revenue.

Road Conditions in New Mexico. NMDOT conducts an annual review of road conditions for all New Mexico roads. From FY13 to FY15, the review shows the percent of non-interstate lane miles in good condition fell from 70 percent to 68 percent. The continued deterioration of New Mexico roads will likely result in highway maintenance cost increases because road treatments become more expensive with greater deterioration. For example, roads in fair condition typically require treatments costing between $12 thousand and $36 thousand per lane mile, while roads in poor condition require reconstruction costing up to $1.5 million per lane mile. The annual condition assessment helps NMDOT determine priority projects; the results of the assessment are shared with the Legislature and are publicly available in NMDOT's report card. However, the department is not required to use information collected in the road condition assessment to set priorities in the Statewide Transportation Improvement Program (STIP). NMDOT is in the process of implementing an asset management system that will provide project recommendations based, in part, on return on investment (ROI) concepts. This new system will rely heavily on road condition assessment data to set priorities.



Source: NMDOT

The NMDOT 10-year condition analysis shows 5.1 percent of bridges are structurally deficient. Given the continuation of bridge funding at $93 million per year, 1.4 percent of bridges will be structurally deficient in 10 years. However, NMDOT analysis suggests bridge funding could be reduced by $18 million while still improving overall bridge conditions. Achieving balance in bridge and road funding is critical to keeping the system in the best condition possible given the resources available.

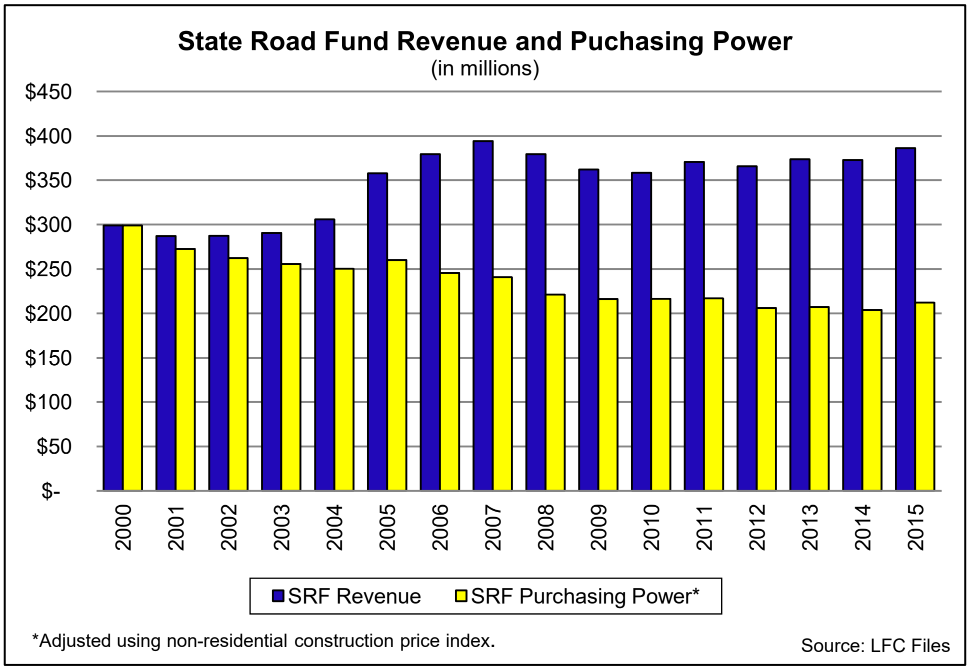
State Road Fund. The state road fund, which primarily pays for maintenance while federal funds are primarily used for construction and debt service, is composed of revenues from gasoline tax, special fuel (diesel) tax, the weight distance tax on commercial trucking, vehicle registration fees, and other fee and permit assessments. Over the past 15 years, the state road fund (SRF) had average annual growth of 1.9 percent. While the growth rate tracks with the consumer price index, or inflation rate, the non residential construction price index increased by an average 4.1 percent over this period, resulting in a 29 percent decrease in purchasing power of road user revenues since the year 2000. The majority, or 91.3 percent, of road user revenues are directed to the SRF for use by NMDOT while 8.7 percent are directed to local governments for local infrastructure projects.

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 tax of 4.7% plus local rates.

Source: NMDOT

The slow growth in SRF revenue, forecast at 2.7 percent from FY17 to FY18, is primarily attributable to gains in passenger and commercial vehicle fuel efficiency reducing demand for fuel and slow population growth resulting in fewer drivers on New Mexico roadways. New Mexico has the lowest gasoline tax in the southwest region at 17 cents per gallon. The tax was last changed in 1995 when it was decreased by 3 cents per gallon. In addition to slow revenue growth, neither the gasoline nor special fuels taxes are indexed to inflation, resulting in a constantly eroding revenue stream to the SRF.



Further diminishing NMDOT's funding for construction and maintenance activity is annual debt service principal and interest related to issuance of bonds to pay for road and transit infrastructure projects, including the space port and the Rail Runner train service. Annual debt service payments will average $153 million through 2027.

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; strengthening consumer demand leads to increased consumer spending and increased freight movement. While strength in the weight distance revenue is encouraging, it is highly sensitive to changes in national economic conditions.

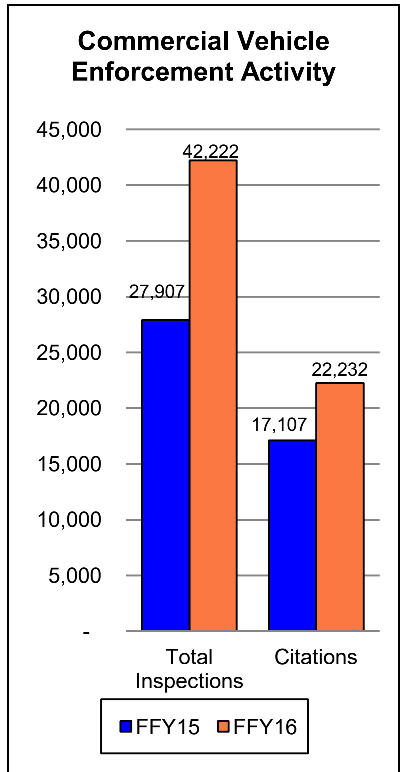
State Gasoline Tax Rates
(cents per gallon)

California	42.4
Nevada	33.9
Utah	29.4
Colorado	22.0
Texas	20.0
Arizona	19.0
New Mexico	**17.0**
Oklahoma	17.0

Source: The Tax Foundation

Port-of-Entry Initiative. A 2013 LFC evaluation and a 2014 study by the New Mexico Sentencing Commission revealed noncompliance and foregone revenue from collections of the weight distance tax, trip tax, and oversize and overweight permit on commercial truckers. In response, the Legislature worked with the Taxation and Revenue Department (TRD), the Department of Public Safety (DPS), and NMDOT to transfer the operation of port of entry facilities from DPS to NMDOT and provide funding necessary to maintain a higher staffing level at port facilities throughout the state.

During the 2016 legislative session, NMDOT received budget adjustment authority allowing the department to accept up to $700 thousand from TRD, up to $1.3 million from DPS, and up to $2 million from the state road fund to hire temporary workers to staff port facilities statewide. NMDOT used this authority to fill 44 FTE to staff and support operations at the 12 active ports of entry.



Source: LFC Files

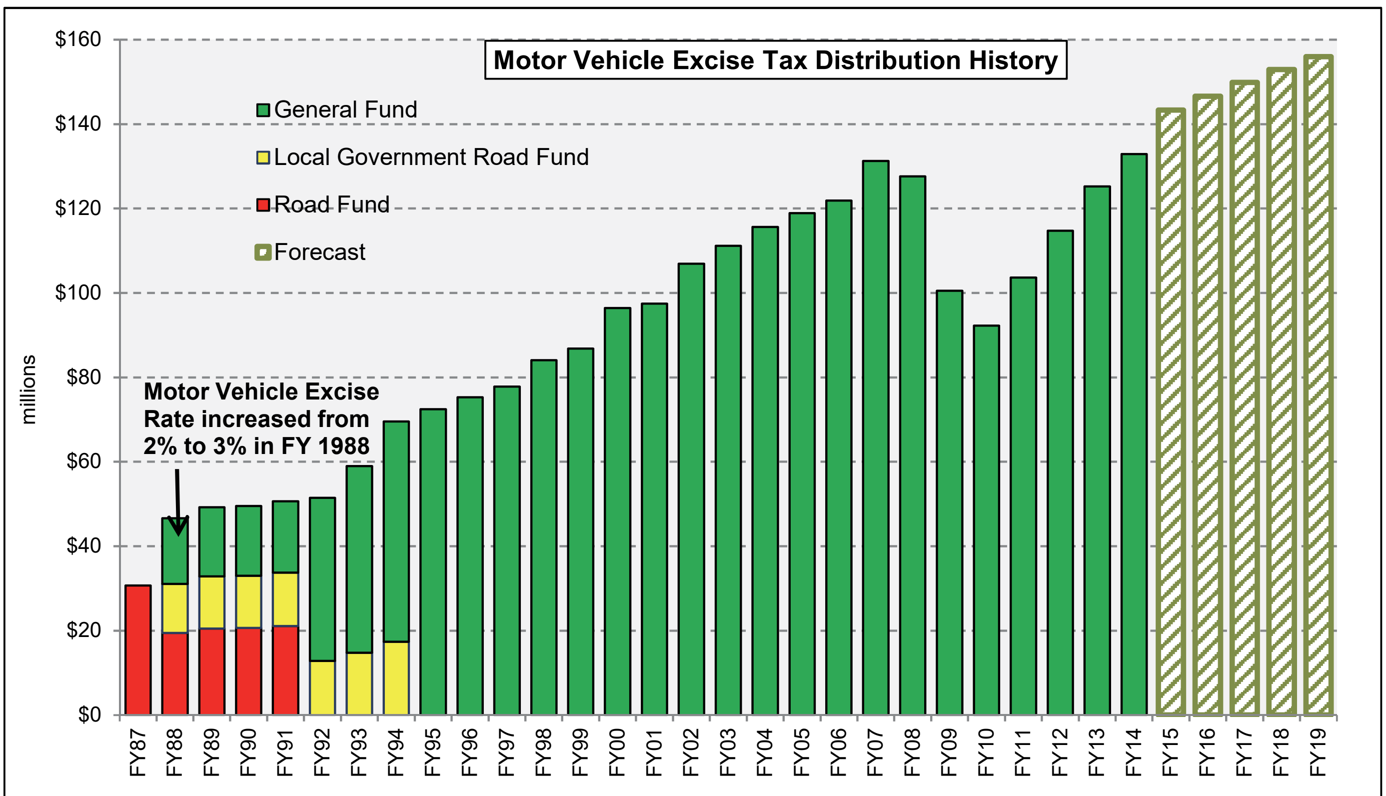
Though there has been a slight increase in revenue in oversize and overweight and trip tax revenue, NMDOT is not ready to attribute the increase to improved enforcement efforts. However, enforcement activity has increased significantly, with motor transit officers spending more time on patrol since the transfer of port operations to NMDOT.

Revenue Options

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 could be pursued.

Fuel Tax Increase. Many states have addressed the loss of purchasing power from gas tax revenue by increasing the fuel tax rate and indexing to inflation. Utah recently converted a unit tax on fuel to a percentage-based, or ad valorem, tax of 12 percent on gasoline and diesel fuel. The tax set a minimum "floor" price per gallon of $2.45 and a maximum "ceiling" price of $3.33 per gallon. The Utah tax model will allow the effective gas tax rate to fluctuate between 29.4 cents and 40 cents per gallon.

Motor Vehicle Excise Tax. As of the August revenue estimate, New Mexico anticipated receiving $143 million in FY15 from a 3 percent excise tax on motor



Source: NMDOT

vehicle sales in the state. New Mexico's motor vehicle excise tax is significantly lower than surrounding states.

For more info:
Department of Transportation Report Card
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Federal Transportation Revenue. The Fixing America's Surface Transportation Act, or FAST, is a five-year transportation funding authorization effective from 2016 to 2020. The FAST will provide states with funding increases of approximately 2 percent through 2020, depending on federal obligation authority and apportionments; however, the purchasing power of federal road funds is expected to decline due to inflation. Historically, federal revenues make up between 45 percent and 50 percent of NMDOT's operating budget. Since FY08, nominal federal funding increased 14.2 percent; however, adjusted for inflation the federal funding actually decreased by 0.4 percent over this period. Federal funding increases helped to alleviate some of the budget pressure resulting from stagnant SRF revenue, but the increases have not kept pace with price increases, resulting in constantly diminishing purchasing power.

2014 Water Project Summary
(in thousands)

County	Number	Amount	Balance
Bernalillo	7	$3,105	$594
Chaves	1	$100	$100
Cibola	3	$1,118	$1,040
Colfax	7	$1,945	$1,693
Curry	2	$420	$82
Dona Ana	13	$10,547	$8,421
Eddy	4	$1,054	$333
Grant	3	$508	$165
Guadalupe	7	$1,055	$988
Harding	2	$70	$65
Lea	6	$1,316	$1,220
Lincoln	9	$910	$445
McKinley	3	$545	$125
Mora	3	$782	$652
Otero	6	$4,907	$4,617
Quay	1	$50	$0
Rio Arriba	22	$9,360	$6,499
Roosevelt	2	$195	$107
San Juan	7	$1,891	$889
San Miguel	14	$13,232	$11,932
Sandoval	11	$2,760	$1,071
Santa Fe	19	$2,170	$743
Sierra	3	$520	$235
Socorro	2	$500	$257
Taos	14	$1,001	$327
Torrance	5	$1,310	$801
Valencia	4	$3,386	$884
Multiple	4	$2,135	$1,826
Statewide	7	$16,600	$7,955
Total	**191**	**$83,492**	**$54,065**

Source: LFC Files

Water Infrastructure

Despite allocating $1 billion since 2002 to improve water infrastructure, local area needs are estimated at $1 billion to $3 billion. State agency needs total an additional $200 million. By itself, investment in water infrastructure could add 36 thousand jobs each year for 20 years in New Mexico, according to the National Association of Water Companies. But funding is in decline to support such an aggressive investment plan.

An LFC progress report on water infrastructure spending found the state's water trust fund is still projected to run out in 20 years. The water project fund receives annual distributions from the water trust fund, but relies heavily on highly variable severance tax bond (STB) inflows. In addition to STB funds, other sources are likely to decline, at least in the short term. Operating the water project fund more as a revolving loan fund would reduce the uncertainty of annual revenues, allowing for improved planning.

The improved distribution rate from the federal Environmental Protection Agency drinking water state revolving fund (DWSRF) is a bright spot for water project funding. A 2014 federal Office of Inspector General study found unliquidated loan obligations resulted in missed opportunities to improve drinking water infrastructure. In 2013, New Mexico had almost a third of its monies sitting idle, the highest nationally. As of April 2016, program initiatives reduced this percentage to 9.3 percent, putting more dollars to work for New Mexicans. The national average is 5 percent.

Communities lacking revenue sources to invest in water systems, and even those with greater ability to finance projects, will continue to seek grant funding, such as capital outlay, if it is available. Fragmentation of funding programs persists, and lack of planning or requirements for capital outlay requests can leave projects sidelined due to incomplete funding or project readiness.

2014 Water Projects. Water was the primary focus of the 2014 capital outlay bill, 189 water projects funded at a cost $83.5 million. As of October 2016, over one-quarter of the funding was dedicated to projects that had not drawn a single penny from the appropriation. Additionally, $54 million, or 65 percent of all funding, was unspent. Only 52 of the 189 projects were complete. In the nearly three years since the funds were appropriated, 12 projects totaling $9.4 million have been reauthorized to change the purpose or extend the time to spend the funds beyond the original four year period. Additionally, funding for 24 projects totaling $1.8 million was deauthorized during the 2016 special session due to inactivity.

NMED is leading a water infrastructure team to identify needs and connect local governments to funding programs, to further the discussion of the value of water and the importance of water infrastructure in New Mexicans' daily lives, and to assist local governments with long-term asset management and planning. Despite these efforts, difficulties remain in marketing state and federal loan programs.

PSCOC Award Allocations

FY16 to FY18 (estimate)

(in thousands)

	FY16	FY17 estimate	FY18 estimate
PSCOC Projects	$150.1	$86.4	$60.0
Lease Assistance	$14.9	$12.0	$14.6
Total	**$165.0**	**$98.4**	**$74.6**

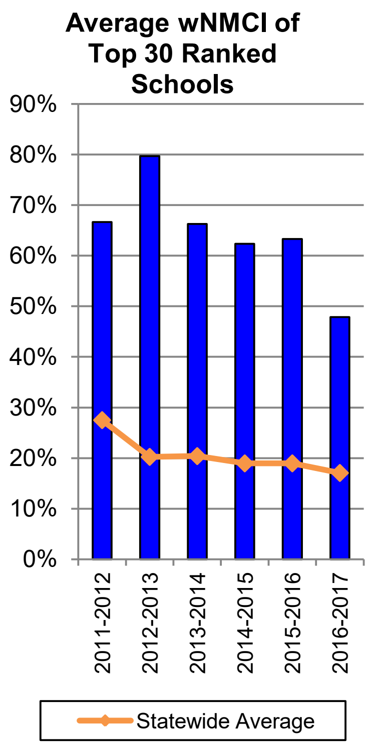
Source: PSFA

Public Schools

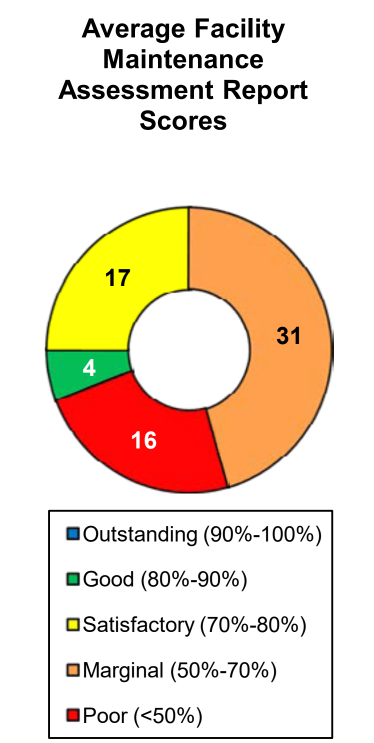
Despite fiscal challenges, New Mexico's education infrastructure has steadily improved in recent years. Since FY05, the Public School Capital Outlay Council (PSCOC) has awarded approximately $2.3 billion for lease assistance, deficiency-correction, and standards-based projects for school districts, charter schools, the New Mexico School for the Blind and Visually Impaired, and the New Mexico School for the Deaf. The facility condition index (FCI), a ratio of repair cost and improvement to a facility's value, has improved from 66.7 percent in FY05 to 32.1 percent in FY16. A lower FCI indicates a building in better condition; however, the Public School Facilities Authority (PSFA) has estimated maintaining the current FCI would cost the state about $169 million annually over the next six years. In FY16, PSCOC made 17 standards-based awards totaling $150.1 million for planning and constructing school facility projects. PSCOC also provided $15 million in lease assistance awards to charter schools, $500 thousand in supplemental funding and emergency awards, and $900 thousand in facilities master planning awards. However, only 70 percent of project funds were under contract within 15 months of award, a 10 percentage point decrease from FY15.

The average statewide weighted New Mexico condition index (wNMCI), a measure of how well school facilities meet educational needs, also improved from 40.5 percent in FY05 to 17.1 percent in FY16. The state uses the wNMCI to rank and prioritize projects based on relative need. Both the FCI and wNMCI scores indicate the need for school facility construction and repair has declined significantly, prompting PSCOC to shift its focus toward extending a building's life cycle rather than creating new construction and design projects. System initiatives include roofing, electrical distribution, electronic communication, plumbing, lighting, mechanical, fire prevention, facility shell, interior finishes, and heating, ventilation, and air conditioning systems. Actions during the special legislative session removed funding restrictions for building system repair, renovation, or replacement initiatives identified by PSCOC, including a $15 million cap on expenditures and the timeframe for expenditure between FY16 and FY20. PSCOC recently developed a scoring and criteria pilot for ranking system projects, which will be implemented in FY17.

The facility maintenance assessment report (FMAR), a tool introduced in FY13 to measure maintenance effectiveness, indicates the current statewide average



Source: PSFA



Source: PSFA

maintenance score is 65.7 percent – an improvement from 60 percent in FY13 but still less than the threshold for a satisfactory FMAR score. PSFA estimates approximately 76 percent of schools in New Mexico are getting less than the standard life expectancy out of existing building systems. Additionally, districts in the highest 20th percentile of property values have, on average, 58 percent more space than recommended by adequacy standards and an FMAR score of 52 percent, signifying poor maintenance effectiveness and costly operation of underutilized space.

PSFA reported public school facilities in award year 2015-2016 reached 62 million gross square footage (GSF) statewide, an increase of about 476 thousand GSF from award year 2014-2015. The state increased public school facilities about 9.5 million GSF, or 18 percent, during the last 10 award years despite 3.5 percent growth in student enrollment. In award year 2015-2016, student enrollment decreased slightly from 340.4 thousand to 339.6 thousand students, flagging a need for PSFA to carefully consider the effectiveness of current and future space use.

The Zuni lawsuit concerning the allocation of public school capital outlay is still active and was reopened in 2014. Gallup McKinley County Schools (GMCS) filed an amended complaint in 2015 and included PSCOC as a defendant. GMCS is primarily concerned that, because of the district's low bonding capacity and high capital needs, the district cannot afford school construction above the technical definition of adequacy for facilities such as teacherages, auxiliary gyms, and additional playing fields.

To invest and support digital learning, the Legislature established the broadband deficiency correction program (BDCP) during the 2014 legislative session to address education technology needs over the next five years. PSCOC expended $5 million in FY16 and budgeted $15 million for BDCP awards; however, project reversions are expected to be $7.5 million by the end of the year. PSFA found 85 percent of schools were connected to fiber but 92 percent of schools needed wireless network upgrades. The study also indicated 77 percent of school Internet connection speeds were slower than 100 kilobytes per second (kbps) per user and upgrading every school in New Mexico to that standard would cost up to $8.6 million over current spending. For context, common dial-up modems in the 1990s provided Internet speeds up to 56 kbps through telephone lines. Reaching 1 megabyte per second per user (1,000 kbps), would cost the state up to $130.6 million over current expenditure levels. PSFA recommends a statewide procurement strategy for broadband services, in conjunction with libraries and healthcare institutions of the state, to flatten prices for school districts and reduce geographic service disparities.

Information Technology

Although New Mexico has established some important elements for IT governance, others, such as the Information Technology Commission (ITC), have all but ceased functioning. Further, insufficient strategic planning, including the lack of an equipment replacement plan, outdated statutes and rules, and limited and inconsistent policies and procedures within the Department of Information Technology (DoIT) hinder effective oversight of the state's IT infrastructure and investments.

IT Governance and Accountability

Information Technology Commission. ITC has not fully functioned since 2011, resulting in a lack of accountability and transparency when making significant IT decisions. Several of DoIT's responsibilities require ITC approval and, consequently, the agency's policy plans are uncertain for the prudent allocation of state IT resources and statutes and rules are outdated. The recent LFC program evaluation on DoIT enterprise service rates and project management and oversight recommended the Legislature consider revising ITC membership and clarify its duties in statute.

FY18 State Agency IT Requests
(in thousands)

Agency	Agency Request
AOC	$2,410.0
DFA	$3,073.9
SOS	$985.0
SPO	$1,000.0
DCA	$400.0
HSD	$91,075.1
DOH	$5,660.0
ENV	$215.6
CYFD	$1,951.0
NMCD	$5,000.0
DPS	$3,683.0
PED	$2,323.6
Total	**$117,777.2**

Source: LFC Files

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

Department of Information Technology. DoIT was created to improve statewide IT systems and provide core technical infrastructure for agencies. LFC's program evaluation found DoIT has made significant improvements since 2010, but issues remain with unspent revenue, the rate-setting process, service delivery, and oversight. The LFC evaluation noted DoIT's financial statements continually show operating deficits despite increases in cash balances and rates, in part driven by service rates that include equipment replacement. In addition, DoIT's rate setting is not always substantiated by a documented process and rates are subject to adjustment from other factors, such as budget constraints. With the decline in statewide general fund revenue, DoIT needs to consider other sources of revenue for equipment replacement when establishing rates to decrease the impact on agency budgets.

Furthermore, DoIT has not met its statutory responsibility to establish and maintain annual equipment replacement fund (ERF) plans for its enterprise functions. Lack of planning has led to ERF revenues outpacing expenditures. Without providing the Legislature an annual ERF plan and reconciliation report as required by statue, accountability to state taxpayers is reduced.

The Department of Information Technology does not sufficiently use service level agreements, a best practice and essential for management and IT service delivery.

Information Technology Evaluations

EPICS Status. An LFC program evaluation found CYFD has not prioritized planning for the child protective services component of the Enterprise Provider Information Constituent Services (EPICS) project, putting compliance and significant federal funding in jeopardy. Also, the EPICS project has been scaled down, resulting in the creation of additional data silos, vendor costs, and program integrity concerns. Weak project management has resulted in significant project risk. The LFC evaluation noted improving project planning and management and reprioritization to secure federal funding is needed.

A web-based case management system, such as EPICS, has the potential to improve CYFD decision-making for children and families, having more comprehensive information available in real time.

Selected IT Project Status

DoIT established a new tool to improve its ability to make decisions related to its rate model, but risks remain.

ONGARD Replacement. The Legislature appropriated $10 million in 2016 to the Taxation and Revenue Department (TRD) to replace the Oil and Natural Gas Administration and Revenue Database (ONGARD). The project struggles with multi-agency management issues and competing and shared priorities. It appears TRD and the State Land Office (SLO) do not concur with the results of a 2015 business process analysis and the project lacks unified goals and objectives. Implementation of TRD's severance tax module is progressing. However, delays in SLO issuing a request for proposals for a system to track royalty obligations

Restructuring DoIT's compliance and program management program may allow its functions to be funded through the enterprise rates, creating general fund savings, with minimal impact to DoIT's rates.

DoIT has not revised IT contract terms and conditions to accommodate cloud services or improve other key clauses, such as indemnification and liability.

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and payments will likely impact the overall project schedule. In addition, the project does not have a "prime contractor" responsible for synchronizing two project management plans once they are developed. Key areas of concern for the project include governance and project management – these deficiencies create significant risks in scope and schedule.

SHARE Upgrade. The SHARE upgrade project will update the state's human resources and accounting system to the current version of PeopleSoft. The project is in the planning phase and the upgrade will take at least 23 months to complete. The SHARE upgrade team plans for two key phases: human capital management in spring 2017 and financials in fall 2017. DoIT is holding quarterly project update briefings with key management from DFA, the State Treasurer Office (STO), and LFC. However, DoIT has yet to provide LFC a detailed project plan including STO's treasury module, with specific milestones and deliverables. DoIT established the SHARE Modernization Agency Readiness and Training Network consisting of state employees across agencies selected to facilitate change and communications about the upgrade. Although DoIT requires agencies to engage in independent verification and validation (IV&V) for all projects, DoIT has yet to award an IV&V contract for the $19 million project, which presents a risk to the project.

New Mexicans expect the state to invest in the protection and conservation of natural resources while promoting economic development and responsible industry activity through clear and consistent regulation. However, in times of extraordinary financial constraints, funding for both regulation and conservation may take a back seat to high-priority public services, such as law enforcement and early childhood programs. Nevertheless, the state agencies responsible for managing and protecting New Mexico's natural resources continued to address contaminated waters, forest fires, flooding, a radioactive leak, and other emergencies. Additionally, New Mexico has seen a modest recovery from severe drought, progress on development of new transmission lines and renewable electricity generating capacity, and a gradual increase in oil and gas drilling activity beginning in the spring of 2016.

Water Management

Availability of water is vital to New Mexico's economy, evidenced by the use of the state's closing fund to acquire water rights for the Facebook data center to be constructed in Los Lunas. Further, renewed efforts to transfer water rights from the San Agustin Plains to the middle Rio Grande highlight the difficulties driven by water scarcity. Eco-tourism in New Mexico benefits from increased river flows and lake levels as shown by large increases in state park visitation in relatively wet years.

According to the U.S. Drought Monitor, two-fifths of the state was still in drought or abnormally dry in October 2016. However, no areas were experiencing severe drought, a significant improvement from recent years.

Priority Administration

State and local water administrators continue to plan for times of shortage. Efforts to finalize regional water plan updates are in progress and an update to the statewide water plan is expected in 2017.

However, to administer water, the Office of the State Engineer (OSE) must determine who owns how much and with what priority. State law gives the greater right to the earliest users and those with later "priority dates" can be cut off in times of drought, but much of the state is unadjudicated. Although water rights adjudications in general continue to progress slowly, both the Taos and Aamodt (or Nambe-Pojoaque-Tesuque) adjudications are near completion. Taos Pueblo agreed to a finalized settlement – to which no other parties objected – and only domestic and stock well rights remain to be determined by the court.

In spring 2016, a federal judge overruled approximately 800 objections to the proposed Aamodt settlement, regarding water use in the Nambe-Pojaque-Tesuque watershed, clearing the way to meet the September 2017 deadline to finalize the case – the longest running federal lawsuit in the country. OSE continues to reevaluate the state's approach to water rights adjudications and plans to pursue opportunities that could significantly accelerate the process after completing the Aamodt adjudication.

Adjudication Progress, by Basin
October 2016

Stream System	% Acres Adjudicated
NORTHERN NEW MEXICO ADJUDICATIONS	
San Juan	19%
Jemez	100%
Red River	100%
Zuni	0%
Rio San Jose	0%
Rio Chama	99%
Taos/Hondo	100%
Santa Cruz/Truchas	100%
Nambe/Pojoaque/Tesuque	100%
Santa Fe	74%
Subtotal	**63%**
ADJUDICATIONS	
Stream System	**% Acres Adjudicated**
Nutt Hockett	100%
Rincon Valley	77%
Northern Mesilla	23%
Southern Mesilla	20%
Outlying Areas	44%
Lower Rio Grande Subtotal	**41%**
Animas Underground	20%
Subtotal	**38%**
PECOS ADJUDICATION	
Stream System	**% Acres Adjudicated**
Cow Creek	0%
Gallinas	100%
Upper Pecos (groundwater)	97%
Upper Pecos (surface water)	undetermined
Pecos Supplemental/Misc.	23%
Hondo Basin	100%
Fort Sumner Irrigation District	0%
Fort Sumner (groundwater)	100%
Pecos Valley Aretesian Conservancy District	96%
River Pumpers	100%
Carlsbad Underground	3%
Carlsbad Irrigation District	100%
Penasco	0
Subtotal	**87%**
Active Grand Total	**65%**

Source: Office of the State Engineer

An August 2015 breach at the Gold King Mine in Colorado contaminated the Animas and San Juan rivers with millions of gallons of wastewater carrying heavy metals. NMED worked with a variety of partners, including other state agencies, higher education institutions, and local governments, to develop a long-term monitoring plan to identify the impacts of the spill and to generate the data needed to assess potential risks. While EPA designated the Gold King Mine as a Superfund site, it is only contributing 10 percent of the funding needed for monitoring efforts in New Mexico. Both New Mexico and the Navajo Nation have lawsuits pending against EPA regarding the contamination. The federal agency classified the mining district which includes Gold King as a Superfund site in September 2016.

The Chevron Questa Mine in Taos County is also a Superfund site, and trustees, including the state, reached a $4 million settlement with the mine owner. The funds will be used to plan and implement projects that compensate for damage to groundwater and aquatic habitat resources.

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Lead-contaminated drinking water in Flint, Michigan, drew nationwide attention in 2016. Analysis of EPA data showed 17 New Mexico public drinking water systems, including mutual domestic associations, schools, prisons, casinos, and hospitals, were found to have elevated levels of lead since 2012.

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Office of the State Engineer Report Card
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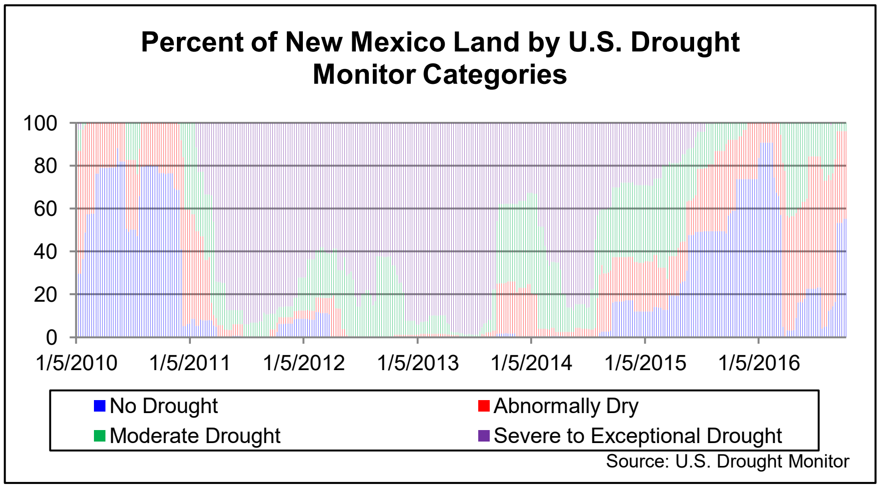
Beyond water supply, responsible management and water infrastructure improvements are necessary for economic development. While most systems are well managed and some water projects progress timely when receiving state funding, many are unplanned or underfunded. This creates delays and opportunity costs and can also pose a risk to public health.



Water Quality

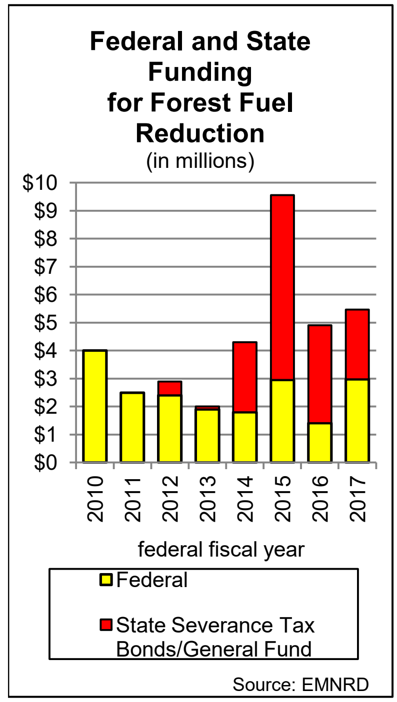
The Water Quality Control Commission, represented by the Environment Department (NMED), concluded its defense of the "copper rule," which allows groundwater under mining operations to be polluted above regulatory standards, and is awaiting a decision from the state Supreme Court. NMED also proposed changes to ground- and surface-water protection rules to be reviewed by the commission in 2017. These changes include aligning some contaminant levels with federal standards, exempting minor changes to discharge permits from the public notice and participation process, making additions to the list of regulated pollutants, removing "technical infeasibility" as a basis for alternative abatement, and increasing fees to better support program expenses.

New Mexico, along with 26 other states and many business organizations, is challenging a proposed Environmental Protection Agency (EPA) rule that would require a federal permit to discharge into certain waterways previously beyond EPA jurisdiction. Federal courts have stopped implementation of the rule pending resolution of the legal challenges. The impact on landowners, businesses, and economic activity in New Mexico would be extensive because a large portion of the state's surface waterways are naturally ephemeral or intermittent and were not covered by prior federal regulations. NMED expects a decision near the end of 2017.

Interstate Stream Compacts

New Mexico is party to eight interstate water compacts, including those for the Rio Grande and the Pecos River, and failing to meet delivery requirements, the responsibility of the Interstate Stream Commission (ISC), can strain New Mexico's budget and the economy. New Mexico was ordered to pay Texas $14 million after the U.S. Supreme Court ruled New Mexico under-delivered Pecos River water to Texas from 1950 to 1983. To maintain deliveries since then, New Mexico has retired water rights and installed wells to pump groundwater to supplement deliveries during dry periods.

In a more recent dispute, a court-appointed special master in July 2016 rejected New Mexico's attempt to dismiss a 2013 suit brought by Texas, which claims groundwater pumping south of Elephant Butte Reservoir reduced deliveries at the New Mexico-Texas border in violation of the Rio Grande Compact. New Mexico had asked for dismissal of the case with the arguments that the point of delivery in the compact is at Elephant Butte and the state has the authority to administer water rights within its borders. New Mexico still has an opportunity to argue the merits of the case; however, the potential liability of losing the lawsuit is enormous and the Attorney General's Office and ISC continue to prepare to see the case through but also to explore alternative resolutions.



Gila River Diversion

The New Mexico Central Arizona Project Entity, designated to oversee spending of $90 million in federal funds to meet water supply demands in Catron, Luna, Hidalgo, and Grant counties, limited its engineering contractor to studying diversion projects to those costing between $80 million and $100 million following earlier designs estimated at up to $1 billion. By reducing the budget, the entity also acknowledged the project will not be capable of delivering New Mexico's full allotment of Arizona Water Settlement Act water rights. Based on modeling of the river's flows, critics of the project question whether any "wet" water would be available for a diversion project despite the rights granted to New Mexico under the federal law. Still, the entity has spent $6.55 million on staff costs, engineering and scientific reports, website development, and legal services. This does not include $3 million for additional engineering studies and environmental reviews in FY17 and $9.1 million for smaller local projects, such as wells, pipelines, effluent reuse, and ditch improvements. Although the authority to select projects is granted to the entity by federal and state law, the power to appropriate funds resides with the Legislature. The Legislature could decline to make appropriations from the fund if the decisions by the entity are not aligned with legislative priorities.

Two bills passed during the 2016 legislative session addressed forestry issues. Senate Bill 110 allowed the state's forest land protection revolving loan fund to receive revenue from other government agencies for forest and watershed management projects. Additionally, Senate Bill 128 established New Mexico as a member of the Interstate Compact for the Prevention and Control of Forest Fires, which provides for reciprocal aid in fighting forest fires among compacting states.

Fires, Forests, and Watershed Health

In recent years, severe forest fires led to evacuations, structural damage, increased public health costs, and reduced tourism. Additionally, wildfires damage soil, making affected areas more prone to erosion and evaporation and carrying sediment and ash into rivers and streams, negatively impacting fishing and recreational activities, clogging treatment plants, and highlighting the need to secure clean water supplies for New Mexicans.

While drought conditions contributing to the risk of fire are beyond control, the threat of forest fires highlights the importance of hazardous fuel reduction across private and public land. In 2016, the Legislature again appropriated funds for forest thinning and watershed restoration to the State Forestry Division and the State Land Office received a $1 million recurring increase to restore state trust lands, including forests and watersheds. Also, the Department of Game and Fish is working with other agencies to preserve landscapes and habitat. While New

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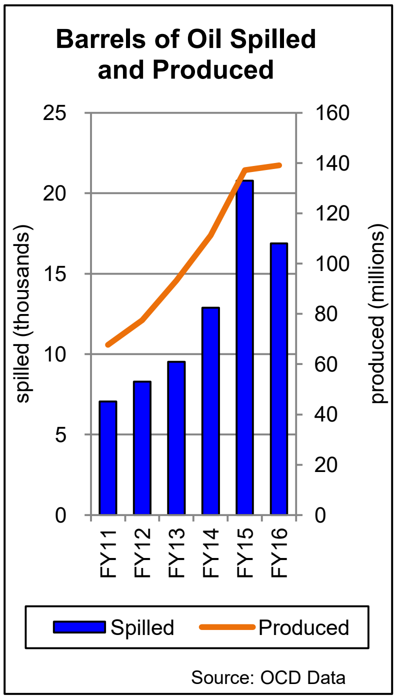
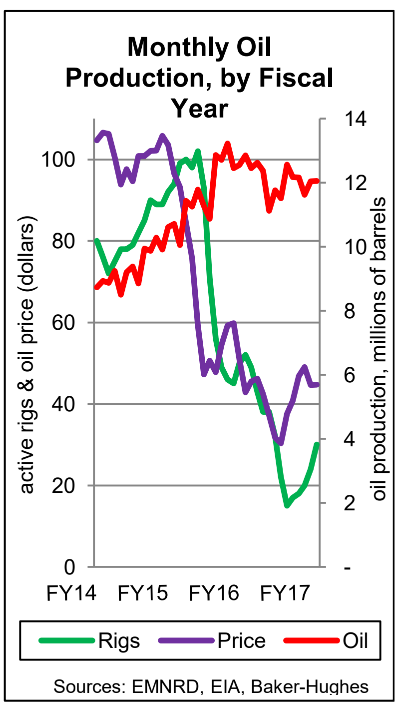


In fall 2014, researchers reported the highest concentration of methane gas in the atmosphere was found in the Four Corners region. A subsequent study by NASA found the "hot spot" is primarily due to natural gas production. The study also revealed other minor sources, such as methane leaking from a coal mining "venting shaft" and natural seeps underground. Ten percent of the sources in the study were responsible for more than half of recorded emissions.



Mexico's efforts continue to fall 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, agencies report difficulty in expanding efforts further due to their project partners' limited capacity to take on additional work.

Energy Development

Renewable Energy

New Mexico could reap economic benefits from its renewable energy potential as demand increases from other states needing to import more electricity to meet renewable portfolio standards. However, transmission capacity, bottlenecks, and long interconnection paths limit the viability of exporting renewable energy because it is generated far from major load centers and export markets. While upgrading New Mexico's existing grid offers substantial economic development opportunities, it also presents environmental challenges and right-of-way issues on federal and tribal lands.

In 2016, the Federal Energy Regulatory Commission issued an order authorizing Clean Line Energy to charge negotiated rates for the Western Spirit line. This high voltage transmission project is planned to be 140 miles, originating in east-central New Mexico and connecting to the grid at Public Service Company of New Mexico's Rio Puerco substation outside Albuquerque. Clean Line anticipates development costs to be near $200 million and could allow over $1 billion of investment in renewable electricity generation that otherwise could not be built due to existing grid limitations. The project is in the development and permitting phase and construction could begin as early as the first quarter of 2018.

Oil Production and Regulation

New Mexico started to see a gradual increase in the number of drilling rigs in spring 2016, after the decline that started in December 2014 following the dramatic drop in oil prices. New Mexico saw record oil production in FY16 because, while operators reacted to reduced prices by lowering the number of active rigs, improved technology prevented a dramatic decline in production.

Oil and Gas Spills. The Oil Conservation Division continued a high pace of field inspections in FY16, and just 1.8 percent found an operator in violation of regulations. Oil production and the number of oil spills was relatively flat but the amount spilled declined by nearly 4,000 barrels, or 18 percent. While the number of gas well spills increased by 31 percent, the division believes a reporting error in the Hobbs district office accounts for a significant portion of the increase. The error occurred when staff required operators to file spill reports for agency approved natural gas flaring.

State Employment and Compensation

The state's current compensation approach has challenges, including recruiting and retaining personnel in corrections, health care, child protective services, and other critical areas. Employees' benefit packages are generous, unlike wage levels, but benefits alone appear insufficient to attract and retain high-quality employees to the most critical jobs. The state's compensation approach should be re-examined to provide the incentives necessary to ensure consistent delivery of essential services.

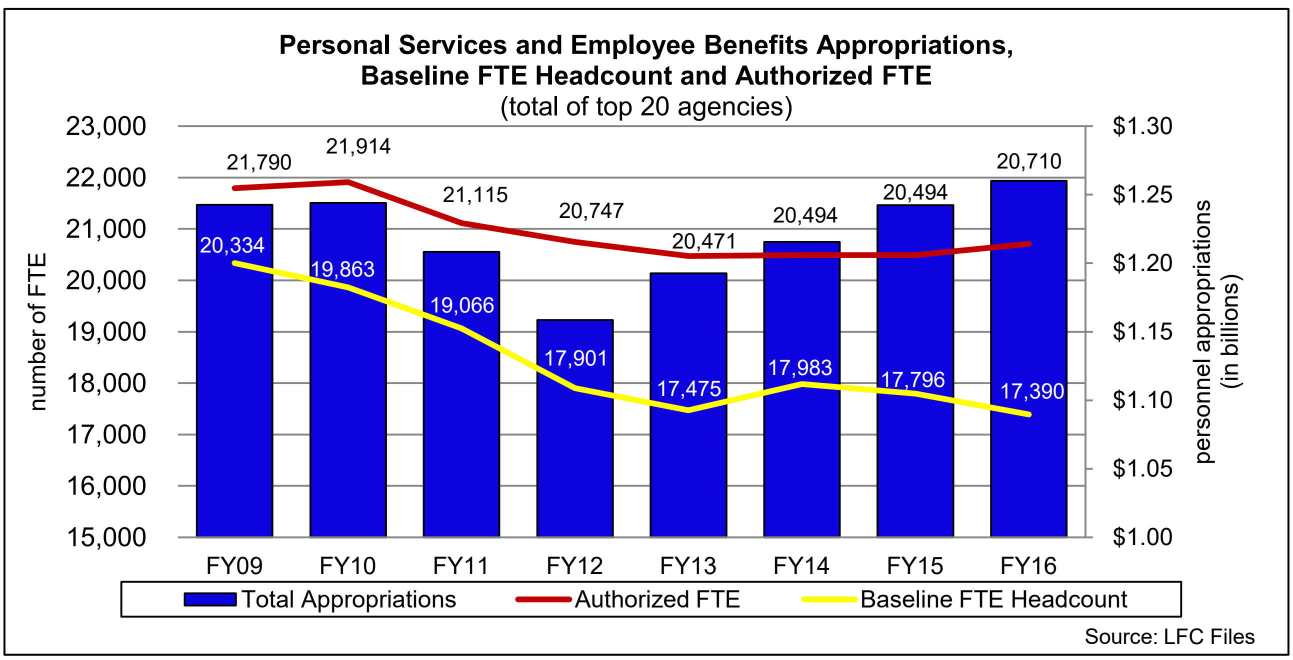
Total Compensation
Private Sector versus State Government

	Salary	Benefit
Pvt. Sector	70%	30%
Colorado	68%	32%
Texas	66%	34%
Nevada	65%	35%
Arizona	62%	38%
Oklahoma	60%	40%
Kansas	59%	41%
New Mexico	57%	43%
Utah	56%	44%
Wyoming	55%	45%

Source: SPO

Cost and Compensation

Agencies have maintained high vacancy rates since the 2008 recession even though hiring freezes implemented due to economic uncertainty were lifted. State employment is about 3,000, or 14.7 percent below FY09 peak levels even as personnel budgets increased. As of October 1, 2016, 21,905 employees were in state service, compared with 22,669 employees on October 1, 2015. Surplus personnel funding has been used by agencies to cover the cost of contract labor as well as operational expenses and ad hoc salary increases.



The recession had a profound effect on agency personnel policy; during the recession, no salary increases were appropriated by the Legislature and agencies severely restricted or stopped providing employee salary increases all together. The stagnation of wages resulted in compaction in the pay system as new employees were hired at salary levels at or close to those of incumbent employees. Pay freezes had the greatest effect on employees in health care and other high-demand fields; the combination of high market demand and stagnant state wages resulted in salaries falling increasingly behind market rates. The market-to-pay plan

When compared with both the states in our region and the private sector, New Mexico contributes significantly more toward the cost of employee healthcare and retirement benefits.

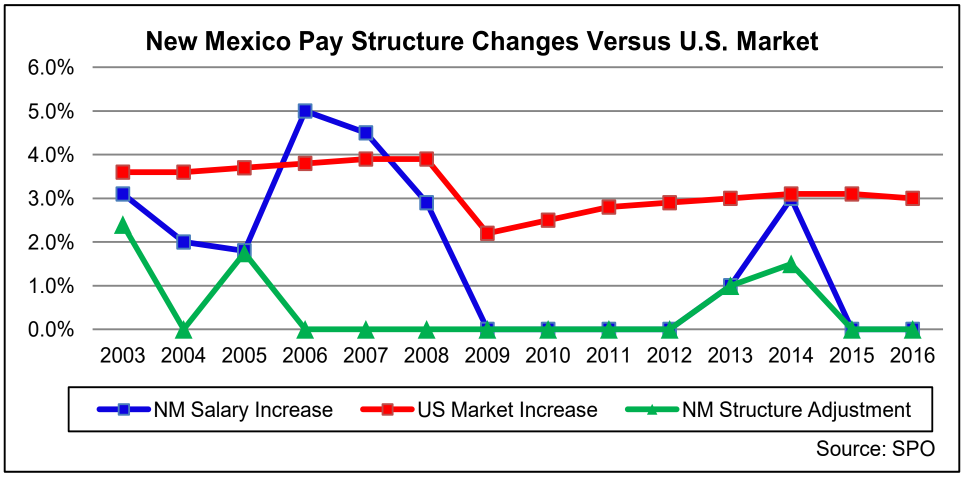
disparity is hindering the state's ability to recruit and retain qualified employees in many of the highest demand and most difficult to fill occupations.

Even in years when the Legislature provided cost-of-living adjustments (COLAs), SPO did not routinely adjust the pay structure. With only four changes to the compensation structure since 2003 and average United States wage growth of 3.1 percent per year over this time, it is unsurprising the pay structure is significantly behind the market.

Eight-State Total Compensation Comparison

Nevada	$	99,326
Wyoming	$	93,830
Colorado	$	84,828
Utah	$	84,513
New Mexico	***$***	***77,659***
Arizona	$	71,882
Oklahoma	$	62,643
Kansas	$	62,066
Texas	$	60,871

Source: SPO



Occupation-Based Pay Structure

To address market-to-pay plan disparities, SPO began advocating for implementation of an occupation-based compensation system in 2012. The occupation-based plan would replace the current, single pay plan with 11 occupation-based groups and go from 1,200 to 900 job classifications. The goal of the new structure is to minimize salary inequities between similar jobs across agencies, provide policymakers greater flexibility to fix inequities, and address recruitment, retention, and turnover issues.

Proposed New Occupation Groups

- Corrections
- Health Care
- Information Technology
- Protective Services
- Social Services
- Engineering
- General Administration
- Legal
- Management
- Scientific
- Trades and Labor

Implementation of the occupation-based pay structure requires SPO to determine what positions should be placed into a given occupational group and what the pay ranges should be. The determination of the pay ranges should reflect market pay rates for jobs in a given field and may require the state to provide significant increases to certain employees to align their salaries with market rates and ensure all employees are paid at least the range minimum. Additional compensation may be required to prevent pay compaction between employees based on tenure and job duties. Once implemented, the structure must be kept up-to-date to account for changes in inflation and market demand in different fields.

While SPO has made progress over the past four years placing job classifications into the new occupational groups, the executive has yet to implement the system statewide and has not delivered a comprehensive compensation plan to the Legislature for the past several years.

The new salary structure for correctional officers, recently completed, used the entirety of the $4.5 million appropriated by the Legislature to increase salary range minimums but failed to address salary compaction. That compaction may prove detrimental to morale at the department because only employees paid less than the new minimum received salary increases and new hires will be paid at levels closer to more senior employees. Although lawsuits alleging pay discrimination between women and men at NMCD are currently moving through the court system, the SPO plan does not address pay equity.

FY15 In Pay Band Salary Increases

(dollars in thousands)

Agency	FTE	Cost
CYFD	1,192	$ 1,617.4
DOT	799	$ 1,832.6
DPS	238	$ 764.8
DGF	54	$ 163.7
DCA	54	$ 118.4
RLD	54	$ 134.2
Other	317	$ 1,038.3
Total	**2,708**	**$ 5,669.4**

Source: SPO

Compensation Adequacy

SPO compiles an annual classified service compensation report, including salary and benefit comparisons between New Mexico state employees and national and regional competitors. SPO's 2013 annual report, the last year the data were made available, noted 71 of the 152 benchmark classifications, or almost half, trail market pay rates by more than 10 percent.

The results of the survey show that while the state's pay plan is generally behind the market, the gap is not uniform. For example, in the IT field, an IT business analyst position is paid 16 percent over the market rate while applications developers are paid between 2 percent and 11 percent lower than the market rate. This is complicated further by use of alternative pay bands to fill positions at salaries in excess of the maximum rate for the position.

Another indication the salary structure is behind the market is the high compa-ratios of new hires. A compa-ratio is the level in the pay range relative to the mid-point, so a compa-ratio of 100 percent is the midpoint of the pay range. Historically, new hires have entered state service at compa-ratios below midpoint, typically around 80 percent, and moved up through the pay range. From FY11 to FY14, the average new hire compa-ratio increased from 91 percent to 96 percent indicating the mid-point of the range has become the entry level for new hires.

Alternative pay bands (APB) are used to fill positions at salary rates in excess of the maximum rate allowed by the pay plan. Nearly one-third of the state's workforce is currently assigned to an APB.

In addition to pay comparison data, salary inadequacy may be seen in the high vacancy and turnover rates among state government nurses and other employee

Compensation Cost, Vacancy, and Turnover Rates for High-Demand Positions

	Cost to Increase Pay 1%	FTE Affected	Annual Turnover Rate	Current Vacancy Rate
CYFD				
Youth Care Specialists	$120,800	234	22%	26%
CPS Social Workers	$291,100	517	29%	18%
Nurses	$15,500	20	Unknown	Unknown
DPS				
State Police Officers	$864,200	667	7%	20%
Forensic Scientists	$23,500	44	20%	30%
Dispatchers	$39,200	102	26%	22%
DOH				
Nurses	$681,500	321	25%	21%
Miner's Hospital				
Nurses	$69,300	36	25%	29%
Judiciary				
Judge pay	$286,500	167		
Court Clerks	$277,300	700	32%	12%
Statewide Average			**14%**	**13%**

Source: LFC Files

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The failure to provide regular adjustments to the pay structure results in nearly 50 percent of state employees being paid outside of the existing structure.

Legislative Salary Increase History

	CPI	State of NM
FY12	3.2%	0.0%
FY13	2.1%	0.0%
FY14	1.5%	1.0%
FY15	1.6%	3.0%
FY16		0.0%
FY17		0.0%

Source: LFC Files

The Legislature provided $5.75 million for targeted salary increases for the New Mexico Corrections Department and the Department of Public Safety during the 2016 session.

Eight-State Average Government Salaries

Nevada	$	64,792
Colorado	$	54,300
Wyoming	$	52,050
Utah	$	47,656
New Mexico	**$**	**44,554**
Arizona	$	44,116
Texas	$	40,398
Oklahoma	$	37,700
Kansas	$	36,056

Source: SPO

groups. Typically, when compensation lags market rates, it takes longer to recruit employees and incumbent employees are more likely to leave the organization for a higher salary elsewhere. In this way, inadequate compensation leads to difficulty in recruitment and retention and increased vacancy and turnover rates.

In the case of nurses, high turnover and vacancy rates reflect high demand for those skills, and the difference in vacancy rates at DOH facilities and the Miner's Hospital may signal additional difficulty recruiting nurses to work in rural areas. While this information is useful for determining compensation adequacy, current SPO reports do not contain vacancy and turnover rates by occupation group. Targeted increases could help address irregularities and inequities; however, SPO should set priorities and establish criteria for adjustments, such as how far behind the market salaries are, average time to fill vacant positions, turnover, and the impact on public health and safety.

Pay Plan Adjustment

To prevent the state's compensation structure from falling further behind the market, it is necessary to pursue targeted or cost-of-living (COLA) salary adjustments (or some combination of the two) to maintain competitiveness in the labor market. In the 2016 session, both the LFC and executive recommended targeted increases. LFC based its recommendation on vacancy and turnover rates for key occupations. While SPO advocated for occupation group increases, the agency did not provide the Legislature data showing how targeted increase needs were prioritized.

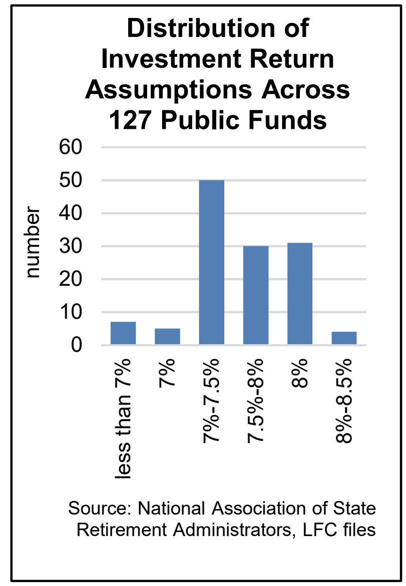
Over the past two legislative sessions, SPO stated cost-of-living adjustments (COLAs) should not be pursued because not all occupations face the same market pressures. However, one-third of state employees are currently in alternative pay bands and SPO estimates 15 percent of the workforce may be misclassified.

Cost-of-Living Adjustments. A salary structure must be adjusted regularly for factors impacting labor costs, including inflation and demand for labor, to keep up with market rates. This does not necessarily mean a corresponding change in salary for individual employees. Regular adjustments to the salary structure ensure state compensation rates track with changes in labor market conditions over time. While an adjustment most often means providing all employees a salary increase, it is important to continue pay structure adjustments even in the absence of new money to ensure that position salaries remain competitive.

Targeted and Merit-Based Increases. The implementation of the occupation-based pay structure will allow policymakers greater ability to target salary increases to occupational groups which are furthest behind the market and face the most significant recruitment and retention difficulties. Merit-based increases are commonly used to reward individual employee performance and are most often directly related to employee performance reviews. Merit-based increases may also be used to equalize pay within an occupational group based on factors such as time on the job. Most of the states in the eight state market comparator employ either targeted or merit increases to keep pay structures up-to-date.

While SPO states targeted pay increases are the most effective method of adjusting the salary structure, the executive has not provided the Legislature with a comprehensive compensation plan in several years. However, the Legislature has included targeted pay initiatives in the General Appropriations Act for the past two years. During the 2015 session, $1.1 million was provided for pay increases for nurses and related staff. During the 2016 session, $4.5 million was provided for officer salary increases at the Corrections Department and $1.25 million for police officer increases.

In July, PERA reduced its actuarial investment return hurdle from 7.75 percent to 7.25 percent for the first 10 years then restores it to 7.75 percent thereafter. ERB's is still 7.75 percent but expects to revisit the actuarial assumption next year.

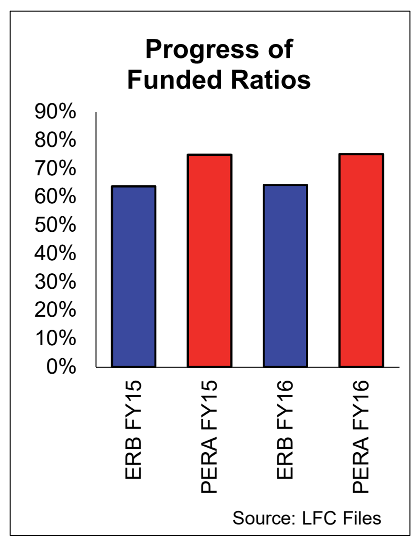


Benefits

Pensions. This year, the state's two pension systems, the Public Employees Retirement Association (PERA) and Educational Retirement Board (ERB), distributed to 80 thousand retirees over $2 billion in benefit payments through plans expected to replace 60 percent of preretirement income, on average, after 25 years of work. One-hundred thousand employees are expecting a pension when they retire over the next 25 to 30 years. However, the state's workforce is more fortunate than most New Mexicans working in the private sector, who do not have a publicly funded guaranteed pension for life with no risk. According to the National Institute on Retirement Security, New Mexico is one of the weakest states in terms of financial security for its seniors.

Post-Pension Reform. Since the pension reforms of 2013, intended to put the then-troubled pension plans on the path to solvency, liabilities and the time needed to pay off those liabilities have increased, primarily because investment returns fell short of the actuarial hurdle of 7.75 percent the past two years. While the pension funds are moving toward sustainability, as evidenced by the growth in funded ratios which reflects the amount of benefits prefunded, smaller COLAs and more accurate reporting of pensionable wages, their combined unfunded liability – the gap between assets and pension obligations – has crept up to $11.5 billion and the amortization period is still longer than the recommended 30 years. However, the state's pension liability may be higher than projected. Overly optimistic payroll growth projections mean payroll contributions will likely be lower than expected, while inaccurate mortality assumptions mean benefits must last longer than expected. Further, investment targets may not be achievable and lowering the targets by 0.5 percent to 1 percent, to a more achievable 6.75 percent, increases pension liabilities almost one-third over the long-term.

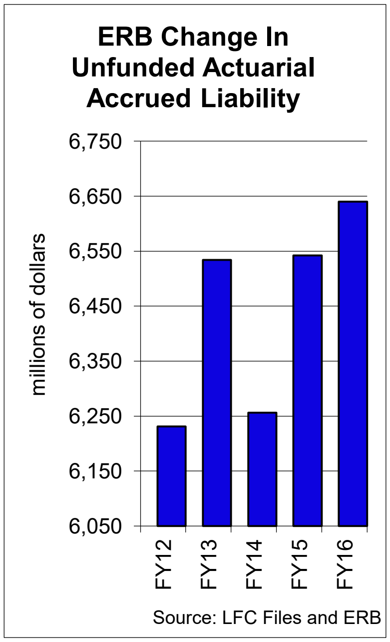
According to the National Association of State Retirement Administrators, over the last 25 years, public funds exceeded the average 7.62 percent assumption.



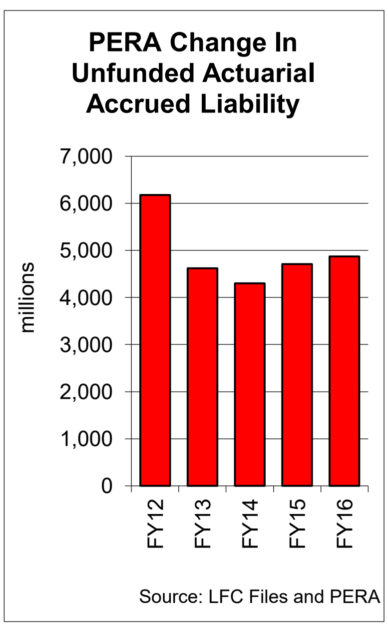
Reducing Expenses. PERA and ERB could save money through certain joint operations. Consolidation in administration could include a unified call center, for example. The two investment programs also have access to the same indexes, markets and consultants, and could leverage scale in external manager fee negotiations. For FY16, fees totaled $238 million between the two agencies; $38 million was covered by the operating budgets for traditional assets, such as stocks and bonds, and $200 million was deducted directly from investment account balances for alternative investments and profit-sharing arrangements. In total, fees paid were less than prior years because investment returns were lower, more assets were managed internally, and fees were lowered or eliminated through renegotiation. Notably, the industry is seeing investors moving away from rewarding "old-school" money managers based on short-term performance to passive and index investing because it is simpler, cheaper and often outperforms actively managed funds.

ERB's increased funded ratio is attributed to lower COLAs, which are tied to general inflation and further reduced until the funded ratio is 100 percent. PERA's increased funded ratio is primarily attributed to more accurate reporting of pensionable wages.

Hybrid Pension Plans. The persistence of defined-benefit (DB) pension systems -- which is where the employer promises a specified pension benefit



Pensions must earn at least 3 percent just to offset the difference between payroll contributions to the funds and distributions from the funds for benefits and expenses. Returns above that percentage are needed to reduce the amount of benefits that are not prefunded.



amount at retirement predetermined by a formula based on salary, years of service and age rather than investment returns -- for public employees continues to pressure state budgets. Last year, New Mexico's government agencies and public schools contributed nearly $720 million toward their employees' future pensions, an increase of approximately $7 million from the prior year despite a smaller workforce. At the same time, renewed support for hybrid pension plans over DB plans has coincided with a workforce that has become more mobile, preferring retirement savings that employees can take with them from job to job. The Legislature should consider a memorial to study self-directed retirement plans that more equitably share the risks with employees.

Group Health Benefits. The Affordable Care Act was good for public employees under the state's group health benefit plans in that it required investments in prevention; prohibited preexisting coverage exclusions for new members; and allowed young adults to be covered on their parent's health plans up to age 26. However, these consumer protections came at a cost and require the state to better manage the financial risk of directly providing health benefits to employees and their families and improve effective management of the plans. In 2016, the Interagency Benefits Advisory Committee (IBAC) spent 8 percent of premium and other revenue, or about $75 million, on administration which, as two LFC performance reviews have recommended, could be lowered if the four plans were consolidated.

Eligibility. IBAC plans have different criteria regarding an employee's eligibility. For instance, the New Mexico Public School Insurance Authority (NMPSIA) allows schools to determine the number of work hours required for insurance eligibility, with some working as few as 15 hours. This helps small schools with recruitment challenges. However, increasing the requirement to 30 hours reduces costs for employers and may allow more workers to be covered by Medicaid or receive financial assistance in the marketplace. In 2016, New Mexicans paid an average of $127 per month after tax credits for marketplace plans.

Design. The state provides premium subsidies to make health coverage more affordable for lower-wage state employees. The employer's cost is spread over a four-tier structure, with lower-wage workers paying less than higher-wage workers. The subsidy is based on the employee's annual income and does not take into account the plan type, such as single, single plus spouse, or family plan. Because salary-based premiums do not consider other household income, such as a spouse's salary, the state could reconsider premiums by family size. Some plans are also implementing surcharges for spouses with other coverage available. Another cost savings measure could be to reduce from 80 percent to 60 percent the statutory contribution rate state agencies, public schools, and universities may pay on behalf of an employee.

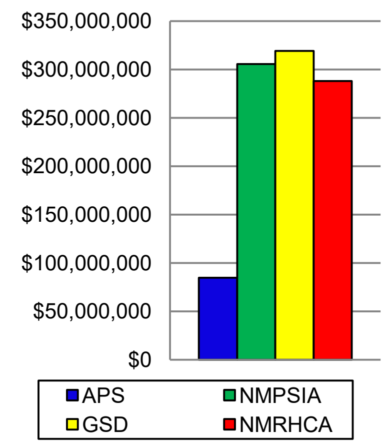
Financing. This year, IBAC negotiated new contracts for health benefits for 185 thousand members, which is expected to save $25 million annually. Despite a smaller risk pool overall, costs rose $40 million, or 5 percent, to over $900 million in FY16. One-fifth of costs are attributed to pharmaceutical drug pricing, which is rising faster than medical pricing which is more stable. NMPSIA incurred the highest cost per member, followed by APS then GSD. The predominant payment method under IBAC plans is still fee-for-service, which may add to costs because it pays for care not always well-coordinated. In the new provider contracts, IBAC required delivery systems to pursue value-based payment alternatives. IBAC also required better coordination between the management of pharmacy benefits and medical delivery systems.

Retiree Health Benefits. The New Mexico Retiree Health Care Authority (NMRHCA) completed its biennial valuation and the funded ratio of the trust fund increased from 10 percent to 11 percent due to the actuarial value of assets increasing relative to the actuarial accrued liability for benefits. Ten years ago, the funded ratio was 3 percent. However, despite larger deposits to the long-term fund, the new valuation placed the unfunded actuarial accrued liability at $3.8 billion with close to a $150 million gap in contributions still needed to pre-fund benefits. In 2007, before the statutory increase in contribution rates and tax distributions, the gap was $400 million.

The Legislature during the special legislative session temporarily reduced an annual tax distribution to the NMRHCA. The impact moves the projected year of insolvency from FY36 to FY32. Reductions to current benefit levels will need to be contemplated by the board to regain a 20 year minimum solvency period. Next year, changes under Governmental Accounting Standards Board Statements 74 and 75 on other postemployment benefit liabilities will impact NMRHCA similarly to new pension standards, which require participating employers to report their portion of the plan's total liability on financial statements. This change will require NMRHCA to adopt a lower earnings target, which will mean losing additional years of solvency.

The state pays between 20 percent and 80 percent of group health premiums; lowering the cap to 60 percent may provide funding to adjust the current pay structure.

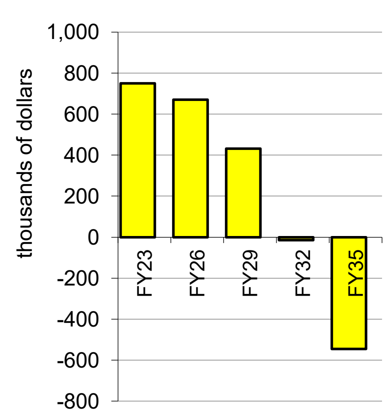
IBAC Employee Healthcare Expenditures



Source: LFC Files

NMRHCA has a $475 million trust fund and a $3.8 billion unfunded liability. The year of insolvency is now FY32 but expenditures could begin to exceed revenues in 2023.

NMRHCA Assets at Fiscal-Year-End (includes reduction in tax revenue January 1, 2017)



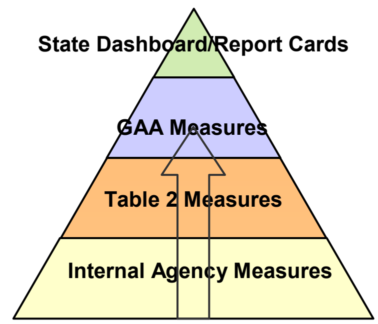
Source: LFC Files and NMRHCA

Performance

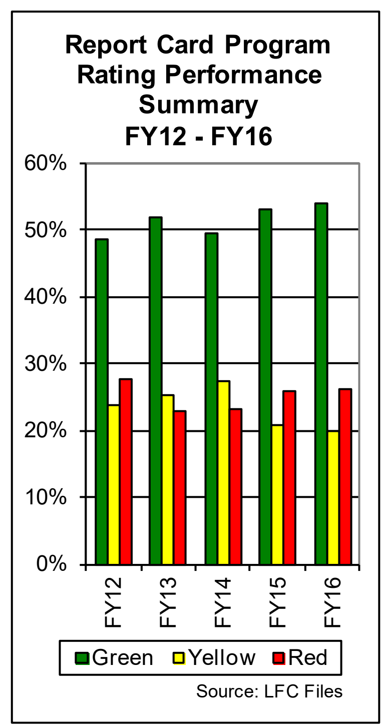
Fiscal year 2018 brings particularly acute budget challenges and will require state agencies to use performance indicators and tools, such as cost-benefit analysis, more effectively than ever before to ensure limited resources are used to cut ineffective programs and bolster effective ones.

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).

Performance Measure Hierarchy



Revitalizing Performance Measures. 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. In 2016, LFC staff worked with DFA to renew and improve the performance measure process. DFA initially directed agencies to report fewer performance measures, report measures on an annual basis, and report more output than outcome measures. Ultimately, LFC and DFA agreed on sweeping changes that eliminated more than 600 less-useful measures and converted others to informational explanatory type measures. LFC staff remains concerned the proposed changes may lessen transparency, provide less data on how state agencies effectively carry out their responsibilities, and diminish many of the previous gains to improve accountability. LFC staff will monitor agency FY18 budget requests, may recommend more restrictive budget adjustment authority, and may add measures where performance reporting was diminished.



Report Cards. LFC's agency report cards add emphasis and clarity to the reporting process and help focus budget discussions 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 or a slightly lower level of performance. Performance criteria and elements of good performance measures are reviewed on the following pages.

FY16 Performance and Future Outlook. Fiscal year 2016 report cards showed a continuing decrease in yellow ratings, as well as increases in both green ratings and red ratings, as agencies continue to struggle to implement evidence-based investments and strategies. Outcome measures indicating a need for more aggressive efforts include poor year-over-year job growth, reading proficiency in schools, Medicaid measures to assess quality of care and efficiency, behavioral health services, child maltreatment cases, and recidivism among of inmates. Performance results continue to miss targets due to persistent high staff vacancy rates that negatively impact agencies, including problems with recruitment and retention.

PERFORMANCE REPORT CARD CRITERIA
LEGISLATIVE FINANCE COMMITTEE

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

ACCOUNTABILITY IN GOVERNMENT
Performance Measure Guidelines

Elements of Good Performance Measures	**Agency Quarterly Reports**	**Elements of Key Agency Reports**	**Elements of LFC Performance Report Card**
Ideal performance measures should be • ***Useful:*** Provide valuable and meaningful information to the agency and policymakers • ***Results-Oriented:*** Focus on outcomes • ***Clear:*** Communicate in a plain and simple manner to all stakeholders (employees, policymakers, and the general public) • ***Responsive:*** Reflect changes in performance levels • ***Valid:*** Capture the intended data and information • ***Reliable:*** Provide reasonably accurate and consistent information over time • ***Economical:*** Collect and maintain data in a cost-effective manner • ***Accessible:*** Provide regular results information to all stakeholders • ***Comparable:*** Allow direct comparison of performance at different points in time • ***Benchmarked:*** Use best practice standards • ***Relevant:*** Assess the core function of the program or significant budget expenditures	Each quarterly report should include the following standard items • 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	Key Measure reporting should include • 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	Each quarterly Report Card should include the following standard items • Key events or activities that affected the agency in the previous quarter • Status of key agency initiatives • National benchmarks for key measures, when possible • Explanation for any area(s) of underperformance • Agency action plans to improve results Analyst may include: • Measures or data reported by another reputable entity when agency data is inadequate

Children, Youth & Families Department

The state child welfare system in New Mexico continues to struggle despite increased funding and staff to provide adequate care for at-risk children and families. In particular, the Juvenile Justice Services and Protective Services programs reported mixed outcomes for FY16. Several FY16 performance outcomes indicate too many children and families are re-entering the child welfare system multiple times. This re-engagement can lead to poor life-long outcomes for children and indicates the state welfare system is not adequate. Conversely, preventive services for young children exceeded performance targets. This demonstrates some success in the state's continued focus on improving up-stream services as a strategy to improve child well-being and reduce engagement rates with the child welfare system later.

KEY ISSUES

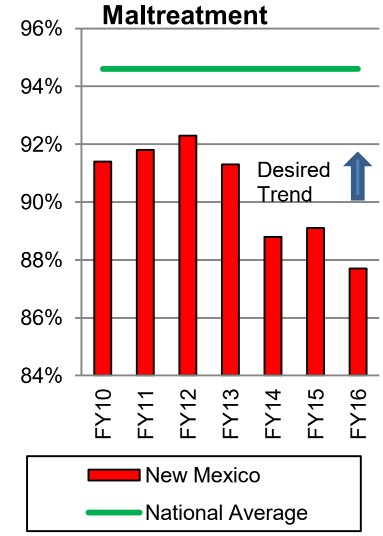
The struggle continues in New Mexico to improve outcomes for children in the welfare system. Performance in repeat maltreatment and juvenile recidivism continued to fall well below targeted levels. However, early intervention services for care and education reported increased access and quality services.

AGENCY IMPROVEMENT PLANS

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

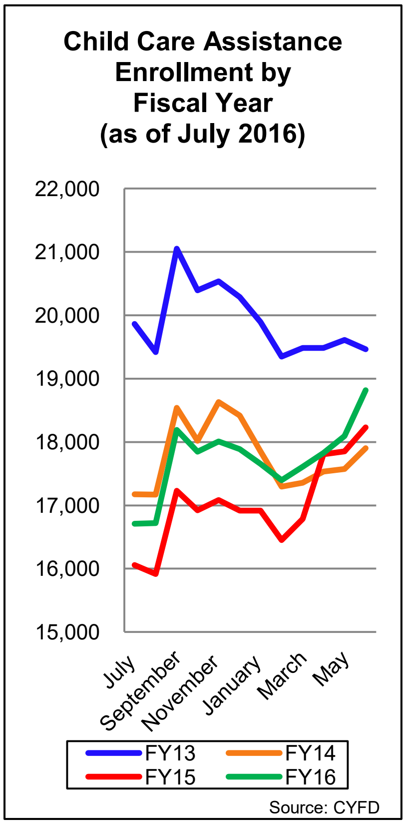
Juvenile Justice Services. The Juvenile Justice Services program continued to report rising rates of formal probation completion. As probation completion rates rise, non-committed juvenile recidivism rates should fall. Beginning in 2011, New Mexico made a concerted effort to reduce the number of youth committed to secure juvenile facilities, instead redirecting juveniles to more effective and less costly community-based services. However, performance outcomes for secure juvenile facilities continue to worsen, including recidivism and incidents of physical assault. The decision to divert more youth to community-based services also means juveniles who are committed to secure facilities are a higher-risk and higher-need population. The agency reported continued efforts to improve training for staff on verbal de-escalation and physical handle-with-care procedures to improve performance and the overall environment in juvenile secure facilities.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Incidents in juvenile justice services facilities requiring use of force resulting in injury	2.2%	1.6%	1.5%	1.6%	Y
Physical assaults in juvenile justice facilities	346	374	<250	448	R
Clients recommitted to a children, youth and families department facility within two years of discharge from facilities	9.7%	7.6%	9.0%	9.5%	R
Clients who complete formal probation	81.8%	83.2%	70.0%	85.4%	R
Turnover rate for youth care specialists	14.4%	22.4%	14.0%	18.3%	R
				Program Rating	Y



Source: CYFD/ NCANDS
*National Average 94.6%

Protective Services. The Protective Services program reported a continued increase in the percent of children who experience repeat maltreatment. This means adverse childhood experiences are occurring in a relatively short period of time --six months-- after a previously substantiated case of maltreatment. Highly effective child welfare systems reduce repeat maltreatment rates, but in New Mexico the rate continues to increase. In FY13, 7.7 percent of children experienced repeat maltreatment, closer to the national average; by FY16, the repeat maltreatment rate had risen to 12.3 percent. In addition, family stress caused by a weak economy and high risk rates are also contributing factors. The agency believes the largest contributing factors to this decline in performance are high caseload and staff turnover rates for protective service workers and an inability to require parents to follow through with needed services. The agency proposed legislation to improve family engagement but is not expected to re-introduce the legislation; instead it will focus on initiatives such as the Family Support Worker program and identifying safety assessment and family planning training for protective service workers. Turnover rates for protective service workers remained high despite an increase of over $2 million for FTE to reduce caseloads in FY16.



Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Children who are not the subject of substantiated maltreatment within six months of a prior determination of substantiated maltreatment	88.8%	89.1%	93.0%	87.7%	R
Children who are not the subject of substantiated maltreatment while in foster care	99.9%	99.8%	99.7%	99.8%	G
Children reunified with their natural families in less than twelve months of entry into care	59.4%	64.1%	65.0%	60.4%	R
Children adopted within twenty-four months from entry into foster care	31.8%	32.1%	33.0%	23.3%	R
Children in foster care for twelve months with no more than two placements	76.8%	73.8%	79.0%	70.5%	R
Turnover rate for protective services workers	26.4%	29.0%	20.0%	29.7%	R
				Program Rating	R

Early Childhood Services. Early Childhood Services met or exceeded all performance measures during FY16. This reflected greater focus on improving access to early preventive services concentrated on family engagement, child care, and education. The percent of children in state-funded prekindergarten showing measurable progress in kindergarten readiness is notable. The state emphasized expanding prekindergarten access to improve long-term educational outcomes. In its *State Preschool Yearbook* for 2014-2015, the National Institute for Early Education Research ranked New Mexico 18th in the nation for the percent of 4-year-olds enrolled in state-funded prekindergarten, above the national average. Additionally, the state also ranked highly in the number of quality indicators achieved. This means that, as the state expanded access, it also continued to maintain quality, key to ensuring a positive return-on-investment.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Children receiving state subsidy in focus program, levels three through five	New	New	10%	21%	G
Licensed childcare providers participating in focus, levels three through five	New	New	15%	20%	G
Parents who demonstrate progress in practicing positive parent-child interactions	New	New	30%	44%	G
Children in state-funded prekindergarten showing measurable progress on the preschool readiness for kindergarten tool	90%	94%	92%	94%	G
				Program Rating	G

Funding allocated through the state equalization guarantee (SEG) distribution represents both the bulk of state spending on public schools and the primary way school districts and charter schools receive most of their funding. Mid-year reductions in the General Appropriation Act of 2015 adjusted the general fund appropriation for SEG in FY16 to $2.493 billion, still an increase of 0.5 percent over FY15. Precipitous declines in revenues resulted in mid-year reductions again in the General Appropriation Act of 2016. Laws 2016, First Special Session, Chapter 6, reduced public education funding in the amount of $68.4 million, including $37.8 million from SEG for non-instructional expenditures. For FY17, the general fund appropriation to the SEG totals $2.481 billion, a decrease of $11.3 million, or 0.5 percent below the reduced FY16 appropriation.

Student Performance. The percent of students achieving proficient scores on the new Partnership for Assessment of Readiness for College and Careers (PARCC) assessment in math and English dropped by more than half when compared with FY14 results on the previous standards-based assessment (SBA). While proficiency rates indicate there is room for significant improvement, results from FY15 and FY16 should be considered new baseline data and not directly comparable to prior year results. An August 2016 LFC evaluation found the cutoff score for proficiency or "school ready" increased from the 50th percentile on the SBA to roughly the 75th percentile under PARCC, reducing the number of students previously considered proficient under SBA. In FY16, reading and math proficiency scores improved slightly for fourth and eighth grade students, but third grade reading scores decreased slightly from FY15. The percentage of third, fourth, and eighth grade students reading on grade level in FY16, as measured by PARCC, was 24.2 percent, 25 percent, and 25.7 percent respectively. The percentage of third, fourth, and eighth grade students doing math on grade level was 29.9 percent, 23.1 percent, and 11.3 percent.

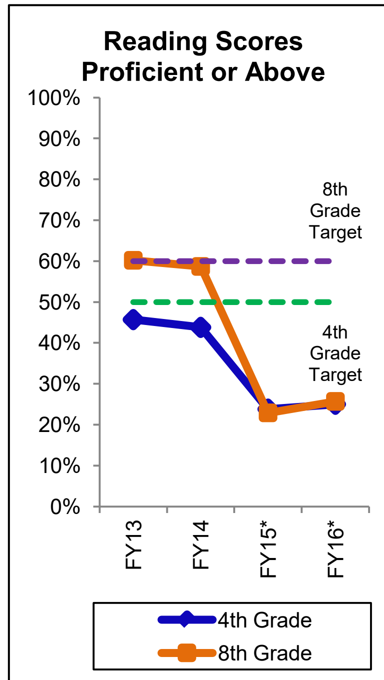
Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Percent of fourth-grade students who achieve proficiency or above on standards-based assessments in reading	43.8%	23.8%	50%	25%	R
Percent of fourth-grade students who achieve proficiency or above on standards-based assessments in mathematics	58.7%	18.8%	50%	23.1%	R
Percent of eighth-grade students who achieve proficiency or above on standards-based assessments in reading	42.7%	22.9%	60%	25.7%	R
Percent of eighth-grade students who achieve proficiency or above on standards-based assessments in mathematics	40%	17.2%	50%	11.3%	R
Percent of recent high school graduates who take remedial courses at higher education institutions	48.4%	43.3%	<40%	N/A	N/A
Four-year cohort graduation rate using shared accountability	70.3%	69.3%	75%	N/A	R
			Program Rating		R

KEY ISSUES

Public Education Department (PED) initiatives relating to early childhood development and school turnaround are incrementally improving student proficiency rates – especially for students of color; however, graduation rates, school grades, and overall student achievement continue to remain lower than desired. With projected budgetary shortfalls, the department will need to work closely with school districts and charter schools to develop a plan that will significantly improve student outcomes.

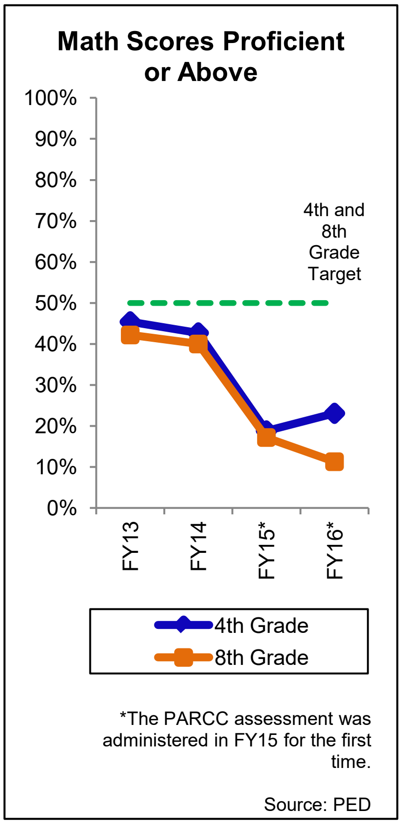
AGENCY IMPROVEMENT PLANS

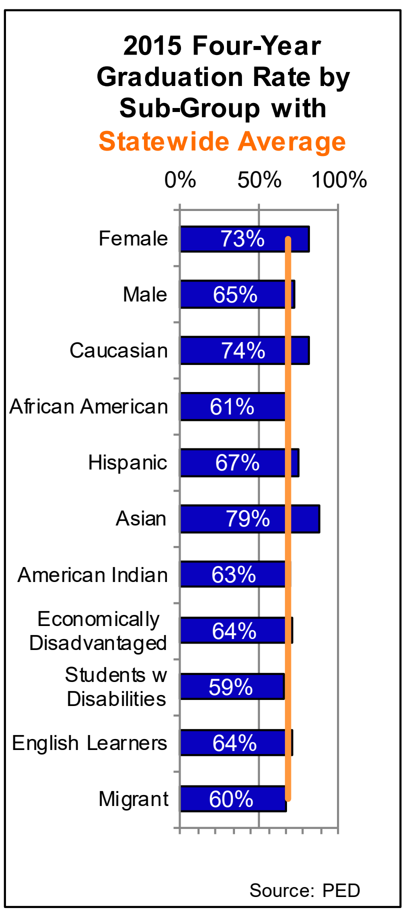
Submitted by agency?	No
Timeline assigned by agency?	No
Responsibility assigned by agency?	No



*The PARCC assessment was administered in FY15 for the first time.

Source: PED





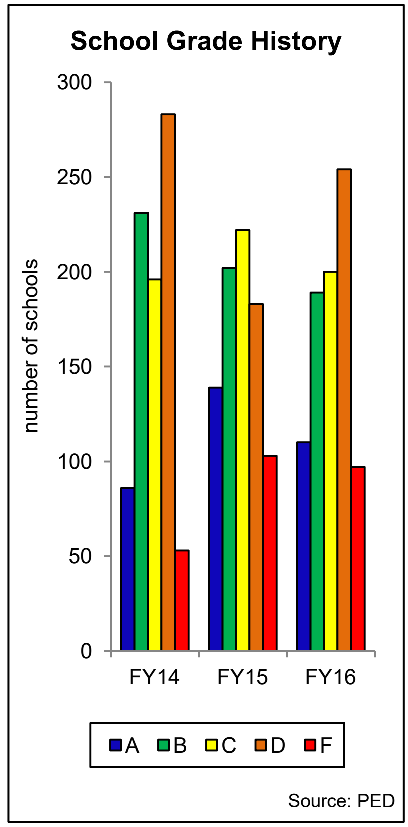
Graduation Rates. The statewide four-year cohort graduation rate has declined annually since FY12, from 70.4 percent to 68.6 percent in FY15. The rate decreased by 0.7 percentage points from FY14 to FY15. The four-year cohort graduation rate follows a cohort of students entering ninth grade through four years of high school; considering those students that need an additional year to complete high school, the five year graduation rate increases modestly. The five-year rate for FY14—which accounts for students that entered high school during the 2010-2011 school year—was 70.5 percent, 1.3 percentage points higher than the four-year graduation rate. The five-year graduation rate has also been declining over the past several years.

<u>Department Operations</u>. Data reported by PED shows mixed results, and timeliness of reported information continues to be a concern. The department resumed data validation audits of funding formula components and program compliance, but only audited six local education agencies in FY16 compared with 13 audits in FY15. To ensure equitable distribution of the SEG and other categorical grant funding, the department needs to focus on completing more audits expeditiously. PED is not meeting FY16 targets for processing school district budget adjustment requests for both state and federal grants and is taking almost twice as long to process budget adjustment requests for direct grants compared with FY15. PED took 38 days on average to process federal reimbursements to school districts and charter schools, 12 days longer than the average in FY15 and 10 days over the FY16 target. Processing time affects cash flow for many school districts and charter schools, especially those with small cash balances. PED indicates the increase in process time is primarily due to personnel turnover and a 12 percent increase in volume of federal reimbursement requests.

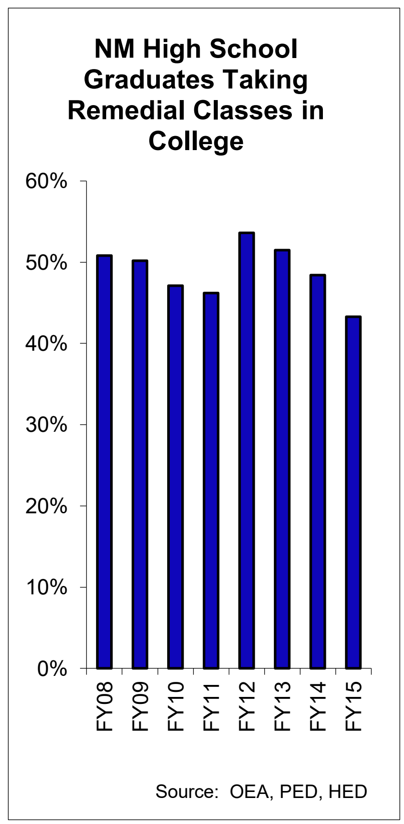
According to the State Personnel Office organizational listing report, PED averaged 233.7 filled FTE in the fourth quarter, ending the year with $56 thousand, or 0.4 percent, of their FY16 personal services and employee benefits appropriation. The department has steadily filled positions since FY13 to address high turnover and in FY16, the department had an average vacancy rate of 3 percent, or approximately 7 vacant positions. In FY16, PED budgeted $1.6 million in related recurring "below-the-line" appropriations – intended to directly support school districts and charter schools – for department personnel costs. For FY17, PED budgeted approximately $1.2 million for department personnel costs. The $1.2 million of below-the-line appropriations budgeted for PED personnel costs are in addition to PED's operating budget and did not appear in PED's FY17 operating budget request. In the past, it has been customary for PED to budget funds for department personnel from appropriations for Indian education, prekindergarten, IDEAL-NM, and K-3 Plus. LFC staff has raised concerns about the FY17 operating budget with DFA.

In the funding formula, each special education ancillary FTE claimed generates 25 program units, or approximately $101 thousand in funding. Any adjustments to a school district's reported ancillary FTE affects the level of funding a district receives. LFC staff received preliminary data on the results of the department's special education ancillary FTE data validation from PED, which indicated 15 school districts and charter schools adjust reported ancillary FTE after 120th day data was reported. Four school districts and charter schools increased their reported ancillary FTE after reopening their 80th day count. The impact of the FTE data validation is still unclear; different information has been provided to LFC and Legislative Education Study Committee. Any net reduction of ancillary FTE will likely have a negative impact on the level of state support for special education maintenance of effort requirements.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Percent of teachers passing all strands of professional dossiers on the first submittal	79.5%	76%	80%	78%	R
Percent of teachers passing all strands of professional dossiers on the first submittal	0	13	35	6	R
Percent of teachers passing all strands of professional dossiers on the first submittal	181	226	Explanatory	242	N/A
Number of eligible children served in state-funded prekindergarten	6,808	8,604	Explanatory	5,457	N/A
				Program Rating	Y



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 standards-based and other assessments, with small values awarded for student surveys, attendance, student and parent engagement, and other factors. For FY16, 110 schools received an "A" grade, a decrease of 29 schools, or 20.9 percent, from FY15. The percent of schools receiving a "D" grade increased by 71 schools, or 38.8 percent, from FY15 to FY16.



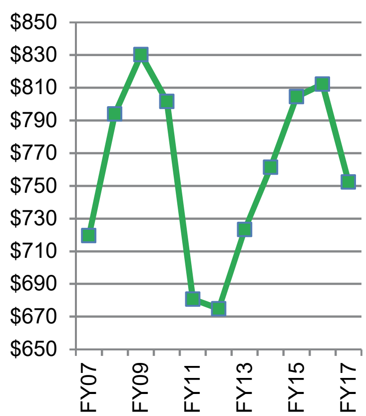
College Remediation. The number of students needing remedial courses in New Mexico postsecondary institutions continues to remain higher than desired, indicating high schools are graduating students that are not ready for college-level courses. Historically, about half of New Mexico high school graduates go on to a New Mexico postsecondary institution, and in that cohort over 40 percent require at least one remedial course. In conjunction with the Higher Education Department, PED reports postsecondary remedial rates for FY15 were 43.3 percent, a 5.1 percentage point improvement from 48.4 percent in FY14. A 2011 Office of Education Accountability study found students who are required to take remedial courses in college are less likely to graduate on time, and students with a higher number of remedial courses are less likely to graduate in six years. A student who takes one remedial course has a 67 percent chance of graduating in six years while a student taking four remedial courses has a 1 percent chance. In New Mexico, a higher percentage of Native American and Hispanic students take remedial courses. The high number of students requiring remediation signals a need for better preparation and improved alignment between high schools and colleges in New Mexico.

Higher Education

KEY ISSUES

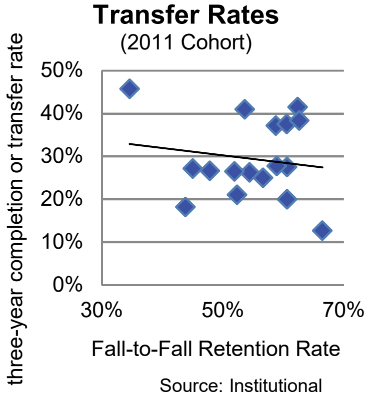
Results remain mixed at higher education institutions, with overall retention and graduation rates showing promise when compared with prior year outcomes. To better help the Legislature and higher education stakeholders understand the postsecondary landscape, more frequent reporting of information, even if it is qualitative in nature, may provide a better picture of how the state's investment in these 24 colleges and universities is supporting statewide goals.

Higher Education General Fund Support
(in millions)



Source: LFC Files

Community College Fall-to-Fall Retention and Three-Year Completion or Transfer Rates
(2011 Cohort)



Source: Institutional Performance Measure Submissions

The Higher Education Department (HED) and the state's colleges and universities have focused on improving postsecondary outcomes by rewarding performance through the state's instruction and general (I&G) funding formula. In turn, institutions have concentrated on ways to improve student outcomes and have done so despite significant swings in general fund appropriations and enrollment. Efforts to improve outcomes over the last five years have paid off in terms of overall degrees awarded; however, institutions continue to demonstrate wide variation in key performance indicators, particularly in retention and completion rates. Further, while retention rates are frequently used as a predictor of graduation, LFC analysis of retention data shows there is not always a correlation. Although data for higher education is generally dictated by the academic calendar, the inconsistencies in data suggest the need for more frequent reporting to help legislators and stakeholders better understand the progress institutions are making, especially in light of New Mexico's recently established postsecondary attainment goal.

STUDENT RETENTION

Research Institutions. New Mexico's four-year research institutions demonstrated mostly consistent fall-to-fall retention rates, with a slight dip at New Mexico State University (NMSU).

First-Time, Full-Time Student Fall-to-Fall Retention	Fall 2013 to Fall 2014 Actual	Fall 2014 to Fall 2015 Actual	Fall 2015 to Fall 2016 Target	Fall 2015 to Fall 2016 Actual	Rating
New Mexico Institute of Mining and Technology	78.8%	75.1%	77.0%	76.9%	G
New Mexico State University	74.0%	74.0%	74.0%	72.0%	R
University of New Mexico	79.1%	79.5%	79.2%	79.7%	G
				Program Rating	G

Comprehensive Institutions. Northern New Mexico College (NNMC) has shown noteworthy improvement over the last three years with retention rates moving from the lowest among the 2013 cohort at comprehensive institutions to the highest in the 2015 cohort. All other institutions remained mostly flat with prior-year retention rates. Eastern New Mexico University (ENMU) fell short of its target for the fiscal year; however, the institution did improve slightly over the previous year and the target was set relatively high compared with prior-year actual retention rates.

First-Time, Full-Time Student Fall-to-Fall Retention	Fall 2013 to Fall 2014 Actual	Fall 2014 to Fall 2015 Actual	Fall 2015 to Fall 2016 Target	Fall 2015 to Fall 2016 Actual	Rating
Eastern New Mexico University	59.3%	58.1%	64.5%	58.7%	Y
New Mexico Highlands University	48.4%	52.4%	53.0%	52.7%	Y
Northern New Mexico College	39.0%	54.0%	66.5%	63.8%	G
Western New Mexico University	56.8%	51.5%	53.0%	53.9%	G
				Program Rating	Y

Community Colleges. Community colleges, and branch campuses of the University of New Mexico (UNM), NMSU, and ENMU, have improved student retention, although results remain mixed. A community college president noted during the July 2016 LFC meeting a community college's ability to retain students shares an inverse relationship with the local economy – recently laid-off employees tend to seek education at community colleges but drop out without completing their programs when job opportunities return.

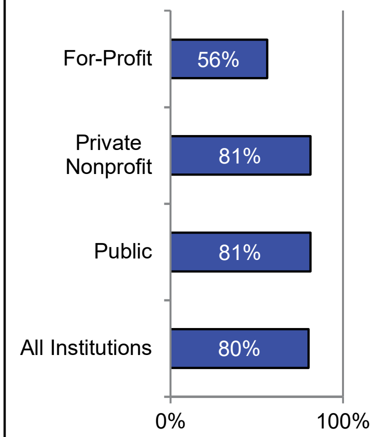
First-Time, Full-Time Student Fall-to-Spring Retention	Fall 2013 to Spring 2014 Actual	Fall 2014 to Spring 2015 Actual	Fall 2015 to Spring 2016 Target	Fall 2015 to Spring 2016 Actual	Rating
ENMU-Roswell	74.2%	74.2%	76.2%	81.8%	G
ENMU-Ruidoso	23.0%	55.8%	65.0%	51.4%	R
NMSU-Alamogordo	68.1%	72.0%	79.8%	71.4%	R
NMSU-Carlsbad	68.2%	71.2%	70.0%	Did Not Report	R
NMSU-Dona Ana	79.3%	79.2%	81.0%	74.5%	R
NMSU-Grants	63.5%	67.2%	74.0%	77.8%	G
UNM-Gallup	80.4%	81.8%	84.0%	81.2%	R
UNM-Los Alamos	74.0%	80.0%	79.5%	77.4%	R
UNM-Taos	71.3%	74.4%	80.0%	78.9%	Y
UNM-Valencia	78.0%	77.6%	80.0%	83.7%	G
Central New Mexico CC	81.7%	81.4%	83.0%	83.7%	G
Clovis CC	73.4%	83.1%	74.0%	83.6%	G
Luna CC	67.5%	58.3%	70.0%	55.7%	R
Mesalands CC	78.2%	74.0%	70.0%	81.5%	G
NM Junior College	76.5%	82.8%	80.0%	84.4%	G
San Juan College	74.6%	82.7%	83.0%	79.2%	Y
Santa Fe CC	78.3%	77.9%	79.0%	Did Not Report	R
				Program Rating	Y

PROGRAM COMPLETION AND GRADUATION

Research Institutions. Six-year graduation rates improved at two institutions, and data from the FY18 higher education funding formula indicate NM Tech awarded 14.2 percent more bachelor's degrees in FY16 than the previous year, while NMSU awarded 4.6 percent more. Across all research institutions, baccalaureate degree awards were up 5 percent in FY16.

Six-Year Completion Rates for First-Time, Six-Year Completion Rates for First-Time, Full-Time Degree-Seeking Students	Fall 2008 to Summer 2014 Actual	Fall 2009 to Summer 2015 Actual	Fall 2010 to Summer 2016 Target	Fall 2010 to Summer 2016 Actual	Rating
NM Tech	45.1%	49.0%	48.0%	49.2%	G
NMSU	46.0%	42.0%	47.0%	45.0%	Y
UNM	47.6%	49.0%	48.0%	43.9%	R
				Program Rating	Y

Nationwide Retention Rates at Four-year Institutions



Note: First-time, full-time undergraduates who returned to the institutions to continue their studies the following fall (2013 cohort).

Source: NCES

Retention and Student Loan Default Rates

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.

New Mexico's statewide student loan default rate of 19.3 percent for the FY13 three-year cohort is significantly higher than the national average of 11.3 percent across all states and territories.

Institutional Student Loan Three-Year Default Rate by Institutional Type (FY13)

	0 - 10%	11 - 20%	21 - 30+%
Research	1	2	0
Comprehensive	0	3	1
Two-Year	0	3	4

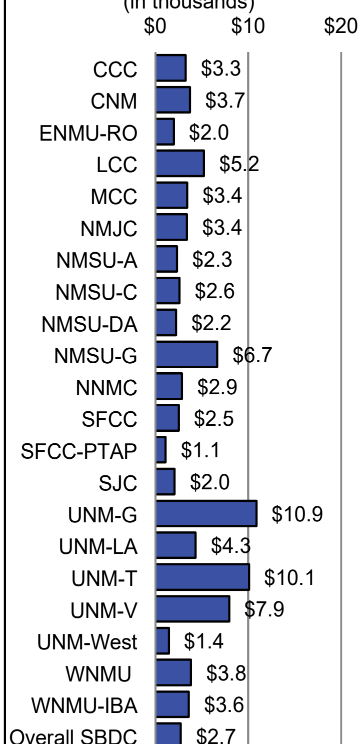
Source: U.S. Department of Education
Branch figures included in main campus
Data not available for Mesalands CC

Small Business Development Center

Santa Fe Community College hosts the Small Business Development Center (SBDC), which receives $4.1 million in general fund support each year to provide confidential consultation for current and future business owners in the areas of business expansion, financing, marketing, and procurement, among other services. In addition to a procurement assistance program and an international business accelerator, the SBDC oversees 20 service locations housed in higher education institutions throughout the state.

SBDC leverages about $1.1 million in grants from the U.S. Small Business Administration and the U.S. Defense Logistics Agency each year. As a condition of these federal grants, the SBDC must track certified data indicating the number of jobs created or saved in addition to associated costs.

FY16 Small Business Development Center Cost Per Job Created/Saved
(in thousands)



Source: New Mexico Small Business Development Center

Comprehensive Institutions. Nearly all comprehensive institutions exceeded FY16 six-year completion targets, with NNMC improving by 4 percent but ultimately falling short of its goal. Baccalaureate degree awards were up 2.7 percent among all comprehensive institutions in FY16.

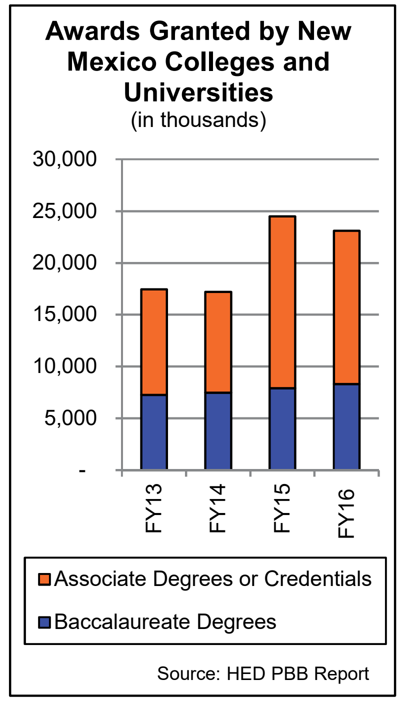
Six-Year Completion Rates for First-Time, Full-Time Degree-Seeking Students	Fall 2008 to Summer 2014 Actual	Fall 2009 to Summer 2015 Actual	Fall 2010 to Summer 2016 Target	Fall 2010 to Summer 2016 Actual	Rating
ENMU	27.1%	30.7%	30.0%	31.9%	G
NMHU	17.2%	17.9%	20.0%	22.2%	G
NNMC	15.0%	15.0%	25.0%	19.0%	Y
WNMU	20.9%	25.0%	23.0%	24.2%	G
				Program Rating	Y

Community Colleges. Completion rates at community colleges tend to vary greatly, primarily due to the vastly different student populations at the colleges. For example, the fall 2012 cohort at UNM-Los Alamos comprised just 39 first-time, full-time students. Had the institution graduated five additional students from that cohort, the college's completion rate would have jumped 12.9 percent, giving UNM-Los Alamos the highest completion rate among any branch campus. By comparison, Central New Mexico Community College's fall 2012 cohort included 2,419 students.

Clovis Community College (CCC) demonstrated the highest growth in completion rates, more than tripling its prior-year rates; however, the college attributes the increase to a correction in how it calculates graduation rates. Prior-year rates at CCC were artificially low, according to New Mexico Independent Community College staff. Meanwhile, New Mexico Junior College (NMJC) demonstrated consistent growth, although the college remains well behind its target. NMJC generally requests targets much higher than actual graduation rates each year, so despite the growth, the institution frequently does not meet its high targets.

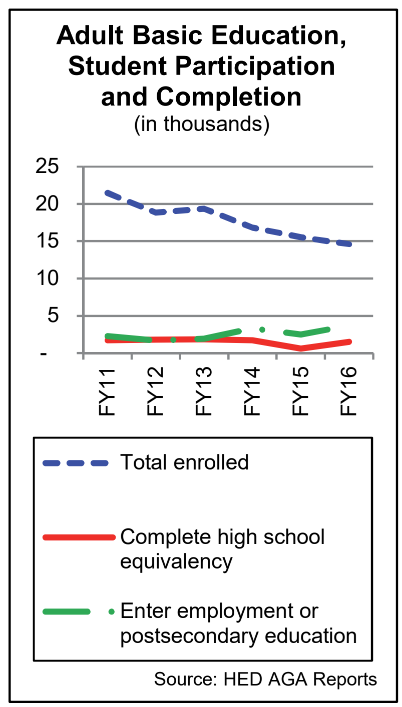
Three-Year Completion Rates for First-Time, Full-Time Degree-Seeking Students	Fall 2010 to Spring 2013 Actual	Fall 2011 to Spring 2014 Actual	Fall 2012 to Spring 2015 Target	Fall 2012 to Spring 2015 Actual	Rating
ENMU-Roswell	23.3%	23.6%	17.5%	30.6%	G
ENMU-Ruidoso	18.9%	16.3%	20.0%	16.4%	Y
NMSU-Alamogordo	8.2%	11.0%	14.0%	8.3%	R
NMSU-Carlsbad	3.5%	3.9%	10.0%	Did Not Report	R
NMSU-Dona Ana	12.7%	11.2%	15.0%	10.4%	R
NMSU-Grants	15.5%	9.3%	20.0%	14.2%	R
UNM-Gallup	6.1%	8.6%	10.0%	7.5%	R
UNM-Los Alamos	57.6%	47.4%	60.0%	17.9%	R
UNM-Taos	4.2%	10.9%	20.0%	5.6%	R
UNM-Valencia	10.4%	7.6%	10.0%	10.2%	G
Central New Mexico CC	10.6%	13.1%	11.0%	16.1%	G
Clovis CC	7.5%	12.0%	14.0%	41.9%	G
Luna CC	19.9%	16.9%	20.0%	11.2%	R

Mesalands CC	25.6%	39.6%	45.0%	41.0%	Y
NM Junior College	13.4%	16.6%	33.0%	21.9%	Y
San Juan College	12.6%	13.8%	15.0%	14.8%	Y
Santa Fe CC	8.6%	10.1%	11.0%	Did Not Report	Y
				Program Rating	**Y**



Higher Education Department. Results from the adult education program administered by HED show considerably more students are achieving the high school equivalency credential and entering postsecondary education or training, while the number of students obtaining employment has tapered off in recent years. The department overhauled its performance measures for FY17, so future adult education data will be shown as percentages of students entering postsecondary education or obtaining employment rather than the number of students.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Number of adult education students obtaining employment	2,021	1,530	1,800	1,429	R
Number of adult education students who enter into postsecondary education or training	1,299	947	1,200	2,277	G
Number of students who earn the high school equivalency credential	1,733	594	1,900	1,488	Y
				Program Rating	**Y**



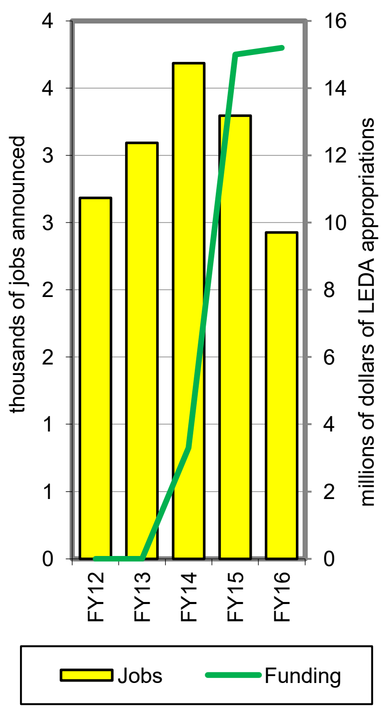
Economic Development Department

KEY ISSUES

The Economic Development Department fell short of achieving several performance targets, including number of rural jobs created by the New Mexico Economic Development Partnership and average wages for jobs funded through the Job Training Incentive Program. The agency has not disclosed a plan to reach their targets.

AGENCY IMPROVEMENT PLANS

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



Sources: EDD, LFC files

The Economic Development Department reported 1,980 new jobs during the fourth quarter of FY16; however, the department missed the year-long target for FY16 job creation. Similarly, total nonfarm employment in June 2016 was 14 thousand jobs higher than in June 2015, a 1.7 percent increase for the year and the state's largest gain since March 2007. However, the monthly average of year-over-year growth in total nonfarm employment during FY16 was just 100 jobs, or 0.2 percent.

Economic Development Program. EDD struggles to meet rural job growth targets, reaching just 36 percent of the annual rural jobs goal by the end of the fiscal year. In addition, statute requires one-third of Job Training Incentive Program (JTIP) appropriations be spent on training in rural areas, but EDD has violated this statute every year for the last three fiscal years. The agency spent 18.6 percent of FY14 awards on rural training, and this dropped to 14.6 percent in FY15 awards and just 13.3 percent in FY16.

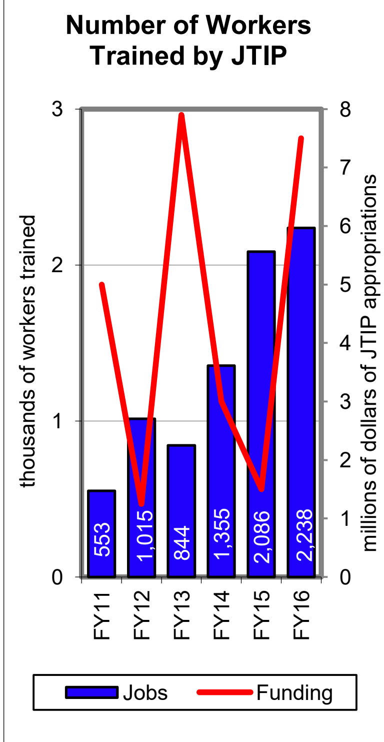
The Economic Development Department awarded $15.2 million in Local Economic Development Act (LEDA) funds during FY16, closing on 23 projects. Businesses announced 2,426 jobs, resulting in a cost-per-job of $6,265, assuming the jobs materialize In the fourth quarter, nine projects were closed, with businesses planning to create 1,572 jobs.

The Job Training Incentive Program (JTIP) trained 2,238 workers, more workers than in any year since 2008. However, the average hourly wage for trainees in FY16 was $18.04, missing the target of $20 by almost 10 percent. JTIP served 60 companies, eight of which were rural, for a total of $13.4 million obligated. The agency is unable to provide full-year data to calculate the percentage of trainees still in New Mexico until the Department of Workforce Solutions releases the data.

The Economic Development Partnership missed its annual target. The NM Partnership finished FY16 with 10 projects closed and a total job creation of 1,519 jobs. The organization continues to work with the Tourism Department to develop advertisements to recruit businesses using the New Mexico True brand. This will leverage financial resources, and extend the reach of the successful statewide brand to help market the state to potential businesses.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Jobs created due to economic development department efforts	3,686	3,294	4,500	4,140	Y
Rural jobs created	1,562	726	1,750	641	R
Business advocacy cases closed	67	72	65	63	Y
Jobs created through business relocations and competitive expansions facilitated by the economic development partnership	1,624	222	2,000	1,519	R
Workers trained by the job training incentive program	1,355	2,086	1,400	2,238	G

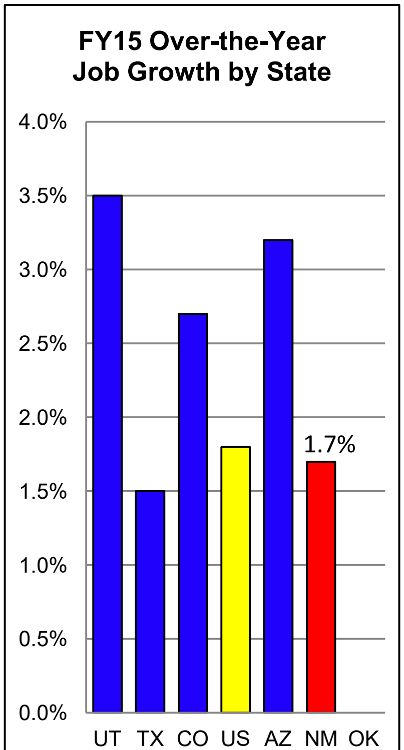
	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Average hourly wage of jobs funded through the job training incentive program	$17.32	$17.67	$20.00	$18.04	Y
				Program Rating	Y



Sources: EDD, LFC files

Film Program. Film activity continued to increase in FY16. The film office finished FY16 with six feature films in progress as well as six television series in production. Two measures are still below FY15 levels however, all targets were met and exceeded. Direct spending by the film industry beat the target by $187 million. The film office continues to focus on three main initiatives: (1) recruitment of emerging media and production (2) workforce development; and (3) statewide outreach. During FY16, the film office hosted the annual film and media educational summit at Central New Mexico Community College in Albuquerque. The event hosted over 70 educators, industry professionals, and students. The film office also had a keynote speaker at the Desert Lights Film Festival in Alamogordo. The festival celebrates the achievements of young filmmakers and was attended by over 400 students.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Film and media worker days, in thousands	189	298	190	260	G
Direct spending by film industry productions, in millions	$162	$286	$200	$387	G
Films and media projects principally made in New Mexico	61	79	61	63	G
				Program Rating	G



Source: Workforce Solutions Department

Tourism Department

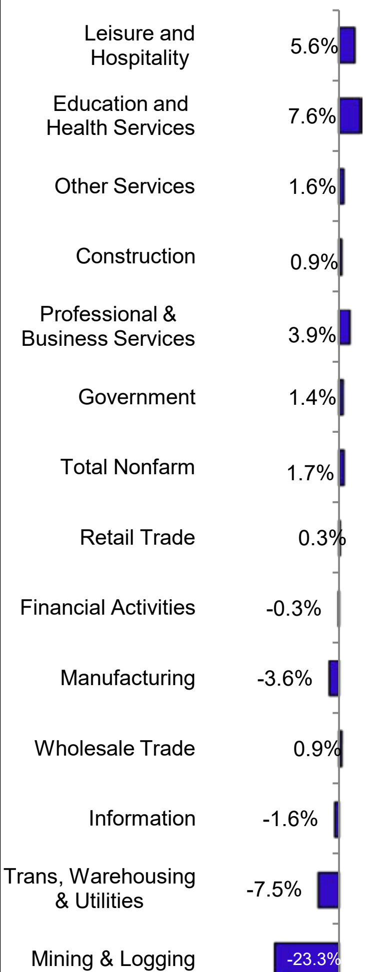
KEY ISSUES

While the department exceeded its targets, performance for the two measures involving electronic media dropped from FY15. In addition, while the department can provide outside data supporting its performance figures for lodging, the "official" number from the Taxation and Revenue department was not available and could not be included in this report.

AGENCY IMPROVEMENT PLANS

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

June 2016 Year-over-Year Job Growth by Industry



Source: Workforce Solutions Department

The New Mexico Tourism department met and exceeded all measures for FY16. The leisure and hospitality industry led year-over-year employment growth in the state, with 5.6 percent, or 5,300 additional jobs, when looking at June 2015 compared with June 2016, its largest gain since 1990.

Marketing and Promotion Program. The Tourism Department is not receiving timely data from the Taxation and Revenue Department on gross receipts taxes collected for accommodations. However, the agency is able to provide data and supporting indicators. Lodging and accommodations continue to show growth. According to Rocky Mountain Lodging, receipts are up 14.3 percent year-over-year. The number of seasonally adjusted leisure and hospitality jobs increased 17 percent since the end of fiscal 2016, reaching 3,400 jobs. Overall job growth in this industry was steady in FY16, increasing 35.5 percent compared with FY15.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Increase in Rocky Mountain lodging total receipts	6.4%	5.6%	2.5%	TBD	TBD
New jobs created in the leisure and hospitality industry year-over-year	1,500	2,900	2,750	3,400	G
Youtube views of department videos, in thousands	New	820	25	593	G
				Program Rating	G

New Mexico Magazine Program. Advertising revenue per issue increased dramatically after the program hired a new magazine sales representative at the start of FY16. The agency directed the marketing team to drive promotion of the magazine as a smart advertising option for destination and travel clients. The department exceeded the target for number of views of the digital visitor guide; however, he total was lower in FY15.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Advertising revenue per issue, in thousands	$57	$65	$72	$213	G
Visits to nmmagazine.com and newmexico.org, in thousands	1,040	1,189	565	942	G
				Program Rating	G

Workforce Solutions Department

The Workforce Solutions Department (WSD) met or exceeded targeted performance for many training and employment connection services but fell significantly below target for the number of youth receiving services from local workforce boards. The Unemployment Insurance (UI) trust fund showed continued reserve growth after being nearly insolvent during the Great Recession. At the end of FY16, the UI trust fund balance grew to $327 million after total benefit payouts of $203 million.

Unemployment Insurance. The average wait time to file a new UI claim missed the targeted level; however, this is a new measure and the target may need to be reviewed. It will be important for the agency to reduce this time in the future to ensure timely access to an essential social safety net program. WSD reported the agency answered an average of 5,746 calls per week during the final quarter of FY16.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Eligible unemployment insurance claims issued a determination within twenty-one days from the date of claim	79%	95%	75%	91%	G
Accuracy rate of claimant separation determinations	88%	89%	75%	93%	G
Average wait time to speak to a customer service agent in unemployment insurance operation center to file a new unemployment insurance claim	New	New	15 min.	20 min.	R
Average wait time to speak to a customer service agent in unemployment insurance operation center to file a weekly certification	New	New	15 min.	15 min.	G
First payments made within fourteen days after the waiting week	84%	92%	85%	92%	G
			Program Rating		Y

Employment Services. As the state continues to struggle with higher than average unemployment rates, the program's continued focus and achievement on connecting dislocated workers to re-employment services is key to improving statewide economic outcomes. The Wagner-Peyser employment program is focused on providing a variety of re-employment services, including job search assistance, referral, and placement.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Average six-month earnings of persons entering employment after receiving Wagner-Peyser employment services	$13,122	$13,553	$12,500	$13,748	G
Individuals receiving Wagner-Peyser employment services	121,727	98,489	150,000	91,704	R
Unemployed individuals employed after receiving Wagner-Peyser employment services	53%	58%	51%	57%	G
Individuals who have received Wagner-Peyser employment services retaining employment after six months	75%	80%	70%	80%	G

KEY ISSUES

New Mexico's workforce system continues to struggle with high unemployment rates resulting in persistent pressure on the Workforce Solutions Department to provide training and employment opportunities to dislocated individuals. However, the unemployment benefits trust fund has continued to stabilize contributions and build reserves.

AGENCY IMPROVEMENT PLANS

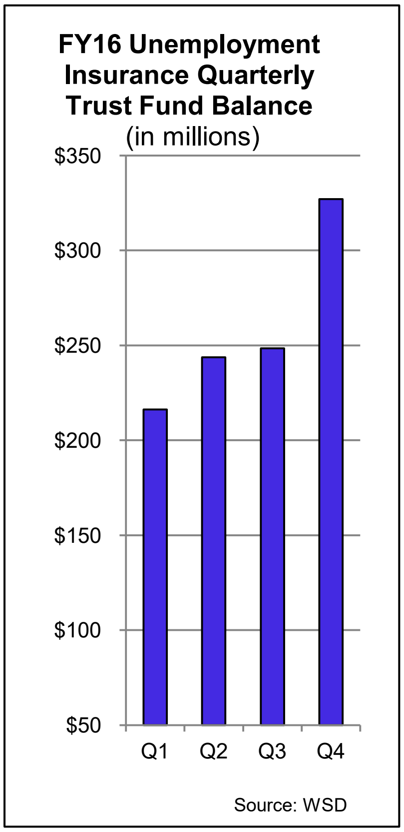
Submitted by agency?	Yes
Timeline assigned by agency?	No
Responsibility assigned by agency?	Yes

Unemployment Insurance Trust Fund Annual Results
(in millions)

Total Contribution Revenue Received	$ 370.5
Total Benefit Payout	$ 203.1

Source: WSD

Recently separated veterans retaining employment after six months	71%	74%	65%	73%	G
Disabled veterans entering employment after receiving workforce development services	42%	44%	45%	46%	G
Average six-month earnings of persons entering employment after receiving veterans' services	$16,522	$15,841	$16,000	$17,429	G
				Program Rating	G



Labor Relations. Performance on the number of days to make a determination in a charge of discrimination and the number of registered apprentices missed targeted levels. The agency reported a backlog of discrimination cases due to high vacancy rates; however, a plan to redistribute the caseload is being developed to improve performance.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Wage claims investigated and resolved within ninety days	91%	100%	91%	93%	G
Average number of days to investigate and issue a determination of a charge of discrimination	New	New	180	203	R
Apprentices registered and in training	New	New	1,320	1,281	R
Compliance reviews and quality assessments on registered apprenticeship programs	New	New	6	6	G
				Program Rating	Y

Program Support. Performance on the number of youth receiving Workforce Innovation and Opportunity Act services (WIOA) missed the targeted level, however, this is a new measure. Because WIOA services are provided at the regional level, local workforce boards are responsible for both providing services and recruitment. New Mexico should consider leveraging educational services at local colleges for outreach to youth for WIOA youth services.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Youth receiving Workforce Innovation and Opportunity Act services as administered and directed by the local area workforce boards	New	New	1,400 (Rolling)	856	R
Youth who enter employment or are enrolled in post-secondary education or advanced training after receiving Workforce Innovation and Opportunity Act services	New	New	57%	59%	G
Adults and dislocated workers receiving Workforce Innovation and Opportunity Act services	2,193	3,023	2,600 (Rolling)	2,805	G
Individuals who receive Workforce Innovation and Opportunity Act services who retain employment	87%	93%	85%	90%	G
				Program Rating	Y

Human Services Department

Fiscal year 2016 brought tremendous challenges for the agency, including how benefits are approved and renewed by Income Support Division workers and the adequacy of department efforts to comply with court orders stemming from a long-standing lawsuit. The department received a court recommendation for a special master to assist the court with determining compliance with federal requirements. Equally challenging was the relentless pressure of declining state revenues that required the department to slow the growth of Medicaid's nearly $6 billion program. As the year came to a close, the department adopted preliminary Medicaid cost-containment activities. While missing most internal performance targets, HSD met or exceeded national averages for a number of Medicaid performance measures.

Medical Assistance Division. In its most recent Medicaid projection, HSD reported a modest $9.9 million increase in general fund need for FY17, putting the total projected shortfall for the year at $34.3 million. Expenditure decreases due to cost-containment efforts and increases in certain revenues, such as certified public expenditures and intergovernmental transfers, countered slight increases elsewhere in the budget. Looking forward, ongoing risks include new federal Centers for Medicare and Medicaid rules for managed care and mental health parity.

New Mexico performance for infants who had six or more well-child visits and newborns whose mothers received a prenatal care visit in the first trimester is quite low and the reasons for that complex. However, HSD incorporated infant well-child visits into a recent managed-care organization (MCO) contract amendment. Beginning in FY17, MCOs are required to focus more on outcomes and provide details about corrective actions to improve performance. As an incentive, HSD raised reimbursement rates for early and periodic screening, diagnostic and treatment (EPSDT) screens by 5 percent. However, some experts argue for more comprehensive screens, provider training, and referrals for children with one or more conditions.

Tracking performance for prenatal care is more complicated due to the implementation of a payment reform initiative and bundled payments, which link a single payment to multiple services received during an "episode of care," pregnancy in this case. HSD should work with MCOs to develop an alternative method of monitoring and reporting prenatal visits that can be isolated from the rest of the "bundle," which now includes services before, during, and after delivery.

For asthma management, New Mexico is performing about 2 percent below the national average of 91 percent. For dental visits, while missing the FY16 target of 70 percent, New Mexico exceeded the national average of 49 percent by a significant 12 percent. MCOs initiated interventions for both measures through quality improvement projects.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16* Actual	Rating
Infants in Medicaid managed care who had six or more well-child visits with a primary care physician during the first fifteen months	47%	49%	70%	43%	R

KEY ISSUES

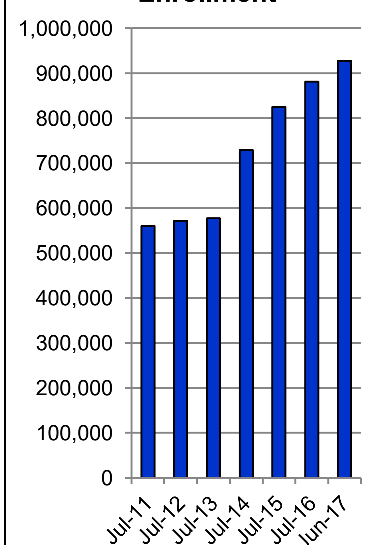
Serious concerns remain within the Income Support Division regarding HSD's compliance with federal requirements for administering benefits; however, recent court actions over the summer resulted in detailed action plans and an independent special master to evaluate department compliance with federal standards for Medicaid and SNAP benefits.

Initial cost-containment efforts have begun to slow the growth of Medicaid; however, considerable pressures remain for the upcoming FY18 budget, particularly as federal support declines for the expansion population.

AGENCY IMPROVEMENT PLANS

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

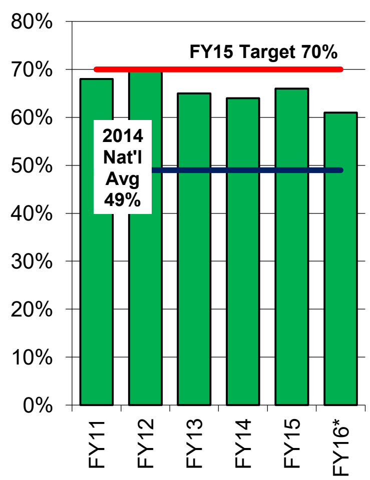
Total Medicaid Enrollment



Source: HSD
August 2016 Medicaid Projection

The number of New Mexicans without health insurance coverage dropped by nearly 25 percent last year. Due to the expansion of Medicaid under the Affordable Care Act, New Mexico's uninsured rate has plummeted by almost half since 2011

Medicaid Children Receiving Annual Dental Visit



Source: HSD Quarterly Report
*FY16 reported by calendar year; therefore, fiscal year data is incomplete

Children and youth in Medicaid managed care who had one or more well-child visits with a primary care physician during the measurement year	88%	84%	92%	71%	R
Children ages two to twenty-one enrolled in Medicaid managed care who had at least one dental visit during the measurement year	64%	66%	70%	61%	Y
Children in managed care with persistent asthma appropriately prescribed medication	92%	91%	94%	89%	Y
Hospital readmissions for children ages two to seventeen within thirty days of discharge	6%	7%	10%	8%	G
Hospital readmissions for adults eighteen and over within thirty days of discharge	11%	13%	9%	13%	R
Emergency room visits per one thousand Medicaid member months	49	51	40	47	Y
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	85%	84%	86%	58%	Y
Newborns with Medicaid coverage whose mothers received a prenatal care visit in the first trimester or within forty-two days of enrollment in the managed care organization	73%	71%	85%	No Data	R
				Program Rating	R

*HSD uses a rolling average; the most recent unaudited data available includes the last two quarters of FY15 and the first two quarters of FY16.

Income Support Division. Some critical federal court decisions are pending regarding revelations about how benefits are approved and renewed by ISD workers and the department's efforts to comply with court orders stemming from a long-standing lawsuit. Nevertheless, while significant risks remain, court actions over the summer resulted in a critical change that provides the agency with an opportunity to correct its course and avoid the imposition of an outside entity to take over operations to enforce compliance (referred to as a receivership).

The Department of Health released new data showing a record-high 347 New Mexicans 65 and older died of injuries related to falls in 2015. HSD noted older New Mexicans die from fall-related injuries at higher rates than other U.S. seniors, although the cause it not certain.

Falls are also the leading cause of ER visits and hospitalizations for seniors in New Mexico and nationally, contributing to increasing healthcare costs.

In July 2016, a federal court ordered the appointment of a special master to review and determine HSD's compliance with court orders and federal law governing how the department processes supplemental nutrition assistance program (SNAP) and Medicaid benefits. The special master will be accountable only to the court and will not be supervised by plaintiffs or the HSD secretary. This is an important change because, until now, there has not been an objective observer who can assist the court with determining HSD compliance. In July 2016, HSD received notice from the federal Administration for Children and Families that New Mexico successfully met both its overall and two-parent work participation rates for fiscal year 2014 (the latest information available) under the Temporary Assistance for Needy Families (TANF) program. However, the federal partners noted New Mexico could do more to provide work activities that will lead to better employment outcomes and foster long-term economic stability for TANF families including subsidized employment and career pathway training in high demand occupations. The Center on Budget and Policy Priorities (CBPP) makes a similar argument, noting states should consider using more of their TANF funds to help TANF recipients and other low-income parents gain the education and skills they need to qualify for jobs that will help them escape poverty.

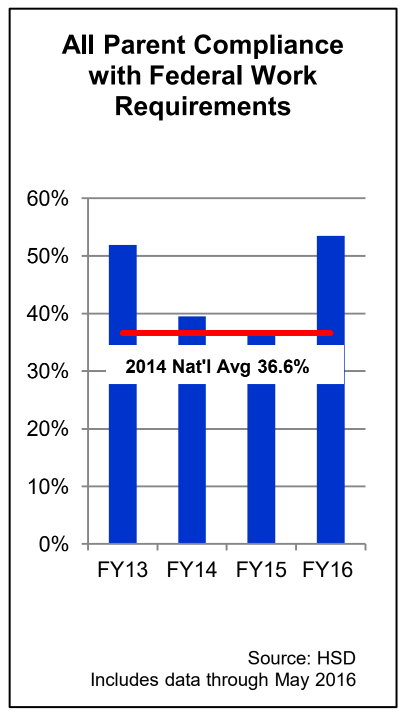
To this end, the department has been providing subsidized employment and has recently taken steps to expand services to TANF clients, including establishing a memorandum of understanding with the Department of Workforce Solutions to provide vocational training and working with the Higher Education Department to assist clients with achieving a high school equivalency degree.

The SNAP caseload (number of households receiving benefits) in June 2016 was 256,301, a 10.4 percent increase from one year ago. The SNAP caseload has risen by 2,749 cases, or 1.1 percent, since May.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Regular supplemental nutrition assistance program cases meeting the federally required measure of timeliness within thirty days	74.9%	95.4%	99.0%	98.0%	Y
Expedited supplemental nutrition assistance program cases meeting federally required measure of timeliness within seven days	67.1%	95.5%	99.0%	98.7%	Y
Temporary assistance for needy families clients who obtain a job during the fiscal year	56.2%	58.3%	52.0%	53.5%	G
Children eligible for supplemental nutritional assistance program participating in the program with family incomes at one hundred thirty percent of poverty level	81.7%	90.3%	88.0%	93.0%	G
Temporary assistance for needy families two-parent recipients meeting federally required work requirements	44.3%	38.6%	60.0%	62.0%	G
Temporary assistance for needy families recipients (all families) meeting federally required work requirements	39.5%	36.3%	55.0%	51.8%	G
				Program Rating	G

Note: FY16 third quarter data is the most recent data available from the Department of Workforce Solutions.

The TANF caseload (number of households receiving benefits) was 12,174 in June 2016, a decrease of 4.5 percent from June 2015. But the TANF caseload in June 2016 had 150 cases more than May 2016, an increase of 1.2 percent over the previous month.

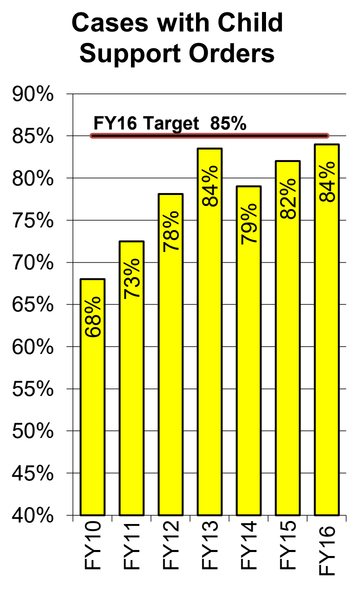


Child Support Enforcement Division. The Child Support Enforcement Division can help establish paternity, child support obligations, collect child support and enforce child support court orders. To ensure compliance with child support orders, HSD can withhold wages, intercept income tax refunds, and suspend driver, professional, and game and fish licenses.

CSED has been successful in meeting total child support enforcement collection targets largely due to automated wage garnishments; in FY16 the program exceeded its target by about $800 thousand. For FY16, the department increased its target for cases with support orders by 1.5 percent; despite just missing the target, performance improved significantly over the previous fiscal year.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Children with paternity acknowledged or adjudicated	110.7%	98.2%	100%		Y

Total child support enforcement collections, in millions	$137	$140	$140	$140.8	G
Child support owed that is collected	57.0%	57.5%	62.0%	56.8%	Y
Cases with support orders	79%	82%	85%	84%	G
				Program Rating	G



Source: HSD Quarterly Reports

Note: Children with paternity acknowledged or adjudicated is reported in the federal fiscal year.

Program Support. Program support measures are largely output-oriented, focusing on timeliness of invoice payments and compliance with federal grant and reporting requirements.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Federal grant reimbursements completed that minimize the use of state cash reserves in accordance with established cash management plans	95%	100%	100%	100%	G
Intentional violations in the supplemental nutrition assistance program investigated by the office of inspector general completed and referred for an administrative disqualification hearing within ninety days from date of assignment.	100%	86%	90%	No data*	G
Rate of administrative cost used to collect total claims in all programs administered by the restitution services bureau.	32%	17%	12%	12%	G
				Program Rating	G

* During the fourth quarter of FY16 staff and resources of the Office of Inspector General were committed to an ongoing investigation, preventing collection of data for this measure until further notice.

Behavioral Health Collaborative

New Mexico's fragile behavioral health system continues to face challenges, including the loss of an additional provider, Agave Health. Yet there were also promising new initiatives, including impressive outcomes from a pilot project that teaches students self-regulation in the context of collaborating with others. Nevertheless, the ongoing national challenge of poor behavioral health measurement and outcomes, exacerbated in New Mexico, must somehow be addressed with ever more limited resources.

In FY16, Agave Health terminated its contract to operate in 12 locations in 10 counties, serving about 3,170 Centennial Care members. However, HSD reported the majority of clients were transitioned by July 2016. The fiscal year also saw some promising initiatives, such as the Pax Good Behavior Game (GBG) piloted during the 2016 school year in Bloomfield, Espanola and Santa Fe public schools. Pax GBG is an evidence-based program found to increase good mental health and reduce criminal and substance use behaviors. Results from the pilot found significant reductions in disruptive and inattentive behaviors, specifically 38 percent in Bloomfield, 43 percent in Espanola and 35 percent in SFPS.

Nevertheless, a leading peer-reviewed journal, *Health Affairs*, reported there is little evidence the quality of behavioral health care in the United States has improved in the last 10 years. In New Mexico, limited resources, dispersed rural communities, and chronic lapses in infrastructure and capacity building have resulted in mental health and substance abuse problems lagging below the lackluster national performance. Generations of New Mexicans depend on the state's ability to fill gaps and improve outcomes.

In late FY16, the Behavioral Health Collaborative approved a new 18 month strategic plan. Plan goals include identifying and eliminating inconsistencies in behavioral health statutes, regulations, and policies; increasing the productivity, efficiency, and effectiveness of the current provider network; implementing a value-based purchasing system that supports integrated care and reinforces better health outcomes; and identifying, developing, and promoting implementation of effective strategies for the state, counties, and municipalities to work together to fund the provision of better behavioral health care, especially for high healthcare users.

Finally, *Health Affairs* also indicated the level of performance and the rate of improvement of Healthcare Effectiveness Data and Information Set (HEDIS) measures for behavioral health are only mediocre. However, for FY18, HSD will adopt a new HEDIS measure for behavioral health that will measure follow up appointments after an individual visits an emergency room for mental illness.

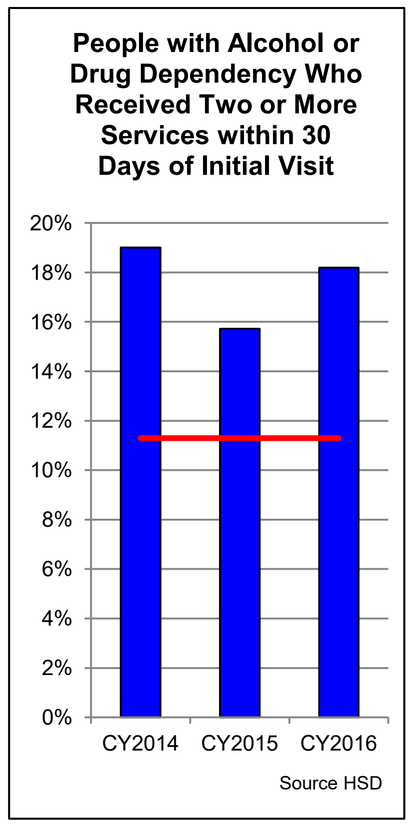
Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Adults diagnosed with major depression who received continuous treatment with an antidepressant medication	41%	37%	37%	29%	R
Individuals discharged from inpatient facilities who receive follow-up services at seven days	26%	30%	45%	33%	R

KEY ISSUES

The Behavioral Health Collaborative has a new strategic plan with specific goals and timelines; however, priority goals of the previous strategic plan went unfulfilled. There is much work to do for the entity to demonstrate it has overcome administrative struggles. The increased behavioral health needs of New Mexicans combined with the current budget crisis compound the challenges of access to care, service gaps, and limited infrastructure.

AGENCY IMPROVEMENT PLANS

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



Individuals discharged from inpatient facilities who receive follow-up services at thirty days	52.3%	45.6%	65%	52.4%	Y
Readmissions to same level of care or higher for children or youth discharged from residential treatment centers and inpatient care	6.7%	8.6%	5%	6.8%	R
Suicides among fifteen to nineteen year olds served by the behavioral health collaborative and Medicaid programs	0	2	2	0	G
			Program Rating		Y

According to the Annual Consumer and Family/Caregiver Satisfaction Survey, 12.9 percent (144 people) of survey respondents indicated their housing situation was getting in the way of recovery. Of these, 38 percent indicated they were happy with staff's help to solve their housing problem. In 2015, 17.8 percent (206 people) indicated housing was an issue.

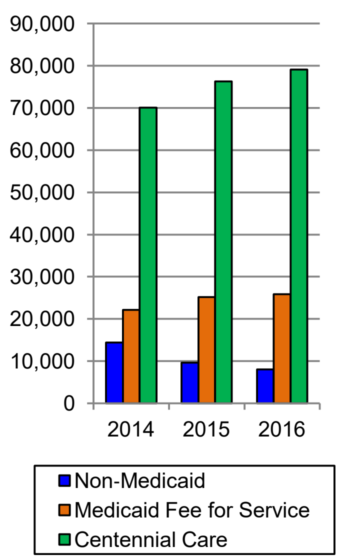
In any one quarter of FY16, over 1,400 persons were served through telemedicine in rural and frontier counties. In FY16, 3,192 distinct persons were served in these counties, an 18.3 percent increase over FY15

The Behavioral Health Network of Care is operating as the official website for the Behavioral Health Collaborative. The portal: http://www.newmexico.networkofcare.org/mh/

HSD reported 18 percent of people with a diagnosis of alcohol or drug dependency received two or more additional services within 30 days of initiating treatment. While well below the FY16 target, the result exceeded the FY15 result of 16 percent and federal benchmark of 11.3 percent. The percent of individuals discharged from inpatient services who received follow-up services after seven and 30 days were 33 percent and 50 percent, respectively, missing FY16 targets of 45 percent and 65 percent. While reporting delays contribute to poor results, managed-care organizations (MCOs) are working to improve discharge planning and follow-up coordination to improve outcomes and avoid costly re-admissions. Telemedicine has increased nationally as a recognized way to improve access, particularly in rural states such as New Mexico. HSD reports 3,192 unduplicated individuals received telehealth services in FY16 (and not all FY16 claims have been submitted yet), up from 2,699 in FY15.

In FY18, the department will not report on two measures addressing the gap in achieving age appropriate proficiency scores in reading and math between children in school who are receiving behavioral health services and their counterparts, citing the goals were substantially met. The FY15 targets to reduce the gap to below 10.9 percent (math) and 7.2 percent (reading) were surpassed. The gap in math among the 8th graders who were receiving behavioral health care as compared with their counterparts not receiving behavioral health care, was 1.4 percent. The gap in reading among the 5th graders was 3.8 percent. The Public Education Department's goal was to reduce the gap to 5 percent for both by 2020.

Number of Individuals Served Annually in Substance Abuse or Mental Health Programs



Source: HSD

Department of Health

Expanding wait lists, falling revenues, management turnover, high vacancies, reduced general fund appropriations, and uncertainty drove the department's performance in FY16 and is expected to impact the department's performance in the future. Managing the budget, the department made difficult decisions and shuttered the community pool in Los Lunas, five school-based health centers statewide, and a public health office in the South Valley of Albuquerque. The adverse trends in FY16 will persist and should provide impetus to run a leaner, strategically driven, performance-managed department.

The department ended the year with a shortfall in the Facilities Management Division, possibly due to revenue collection falling short. The department's FY17 budget was built largely on the assumption that revenue collection would improve as a result of expanded medical coverage under the Affordable Care Act. The department had mixed results collecting revenue in FY16 and should work to improve revenue collection activities ensuring budget difficulties do not carry over into FY17. A recent LFC evaluation found multiple opportunities for the department to leverage additional Medicaid funding.

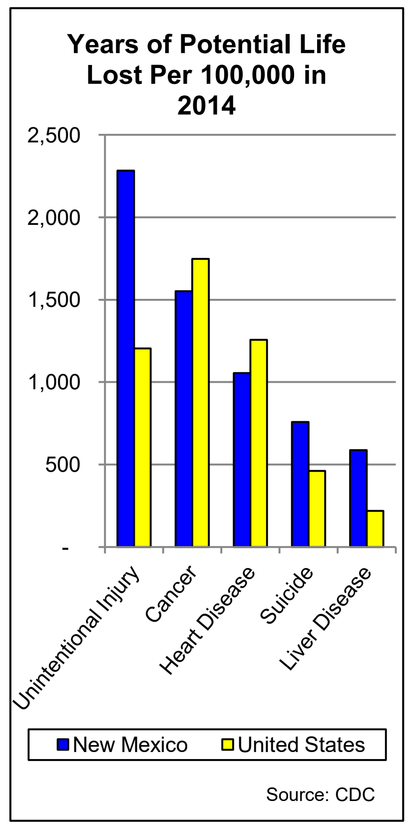
KEY ISSUES

For FY17, the quality of measures improved and is expected to lead to better outcomes. For FY18, the number of measures was reduced and quality might not be as high.

AGENCY IMPROVEMENT PLANS

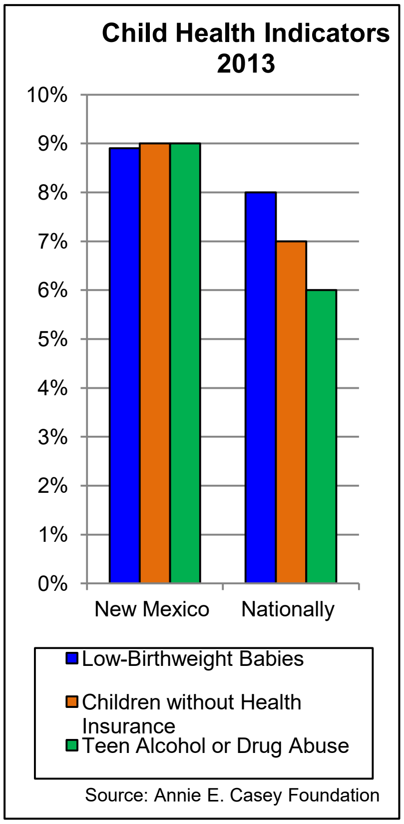
Submitted by agency?	Yes
Timeline assigned by agency?	No
Responsibility assigned by agency?	No

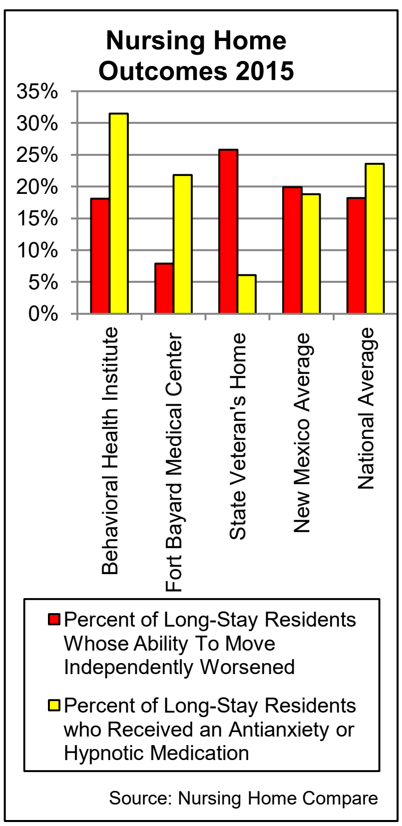
Public Health. The Affordable Care Act (ACA) shifted the need for safety net health services in some cases away from public health offices into primary care offices covered by Medicaid and private insurance options, leading to fewer visits. To ensure direct services are not reduced, patient billing opportunities should be maximized in FY17. The program received a red rating for the first measure, which may be indicative of the Office of School and Adolescent Health working with the Human Services Department and Centennial Care managed-care organizations to reduce duplicate services under Medicaid expansion. The target for the measure on effective contraception distribution was not met and only 60 percent of females ages 15 through 17 seen in public health offices received effective contraceptives. The department's action plan for this measure is to provide confidential clinical services and teen-friendly clinical practices to support teens in reaching life goals.



Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Students using school-based health centers who receive a comprehensive wellness exam	34%	34%	38%	26%	R
Quit Now enrollees who successfully quit using tobacco at seven month follow-up	32%	31%	33%	33%	G
Teens ages fifteen through seventeen receiving services at clinics funded by the family planning program	2,717	1,334	2,900	1,405	R
Female clients ages fifteen through seventeen seen in public health offices given effective contraceptives	53%	55%	66%	60%	Y
Women, infants, and children recipients who initiate breastfeeding	78%	80%	85%	81%	Y
				Program Rating	**Y**

Epidemiology and Response. The program added five key measures to improve reporting on stroke, heart attack occurrence, emergency preparedness, and Naloxone (a powerful opiate overdose reversal drug) distribution. During the





fourth quarter, the department reported five infant cases of pertussis (whooping cough); however, the total number of cases decreased from prior years. The program increased the number of Naloxone kits distributed to 1,031 from a total of 381 in FY15 due to a bill passed during the 2016 legislative session that ensured wider access to Naloxone.

Measure	**FY14 Actual**	**FY15 Actual**	**FY16 Target**	**FY16 Actual**	**Rating**
Ratio of infant pertussis cases to total pertussis cases of all ages	1:13	1:12	1:15	1:13	Y
Acute care hospitals reporting stroke data into approved national registry	6.8%	9.3%	13.6%	9.3%	R
Acute care hospitals reporting heart attack data into approved national registry	9.1%	11.6%	13.6%	13.9%	G
Hospitals reporting bed availability in the healthcare emergency preparedness bed reporting system within four hours of request	81%	82%	75%	76%	G
Naloxone kits provided in conjunction with prescription opioids	154	381	500	1,031	G
Counties with documented implementation plans for developing regionalized emergency medical services response	21%	42%	27%	42%	G
				Program Rating	**G**

Facilities Management. For performance in any hospital system, it is important to monitor not only patient outcomes – reduced substance misuse, lower risk of injury – but also how well the system manages resources to provide the highest quality of care. In the fourth quarter, the percent of long-term care patients experiencing one or more falls with injury remained too high. The measure on falls with injury will be changed in FY18 to match national benchmark data for long-term care facilities.

In February 2016, LFC staff evaluators looked into reports of problems at the Fort Bayard Medical Center (FBMC), such as patient safety, uncompetitive salaries compared with the private sector, facility deficiencies, a lack of operational oversight, and a $3 million budget deficit. Evaluators suggested a more in-depth independent review of the facility is needed to gain a better understanding of the issues.

Measure	**FY14 Actual**	**FY15 Actual**	**FY16 Target**	**FY16 Actual**	**Rating**
Staffed beds filled at all agency facilities	96%	96%	90%	92%	G
Long-term care residents with healthcare acquired pressure ulcers	4.3%	4.3%	6.4%	2.8%	G
Long-term care patients experiencing one or more falls with injury	New	0.5%	3.3%	8.6%	R
				Program Rating	**Y**

Developmental Disabilities Support Division. While the program met most performance targets, there continues to be a large number of individuals on the developmental disabilities waiver waiting list. Average waiting times for people seeking services on the Medicaid waiver for individuals with developmental disabilities are as high as 10.4 years and new registrations are exceeding new slot availability by almost 2-to-1. Alternatives to reduce the wait list should be explored, including getting local governments to provide a funding match, recruiting more people into the less expensive Mi Via waiver, and starting a new supports waiver.

Recent actions may allow the program to disengage from the decade's long Jackson lawsuit and meet requirements as a part of the Waldrop lawsuit settlement. The 2016 General Appropriations Act included a $6.8 million appropriation for expenses related to the two lawsuits. Settlement mandates are expected to increase client service levels, improve program infrastructure, and provide technical assistance to service providers to improve service delivery systems to clients.

Allocation of 2016 GAA Disengagement and Settlment Supplemental Appropriation ($6.8 million)

	Waldrop	Jackson
FY 16	$ 1,122.9	$ 941.9
FY 17	$ 1,789.4	$ 2,985.8
TOTAL	**$ 2,912.3**	**$ 3,927.7**

Source: DOH

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Developmental disabilities waiver applicants who have a service plan in place within ninety days of income and clinical eligibility determination	75%	91%	93%	54%	R
Adults receiving developmental disabilities community inclusion services who also receive employment services	27%	29%	33%	38%	G
Individuals on the developmental disabilities waiver receiving services	4,403	4,610	4,000	4,622	G
Individuals on the developmental disabilities waiver waiting list	6,133	6,365	6,400	6,526	R
Children served through the family infant toddler (FIT) program who receive all of the early intervention services on their individualized family service plan within thirty days	98%	98%	97%	97%	G
				Program Rating	Y

DD Waiver and Wait List Growth Rates

	DD Waiver Growth Rate	DD Waiver Wait List Growth Rate
FY09	0%	8%
FY10	-2%	6%
FY11	0%	8%
FY12	-1%	8%
FY13	4%	10%
FY14	0%	5%
FY15	15%	-3%
FY16	5%	5%
FY17	2%	0%
Average	3%	5%

Source: LFC Files

Aging & Long-Term Services Department

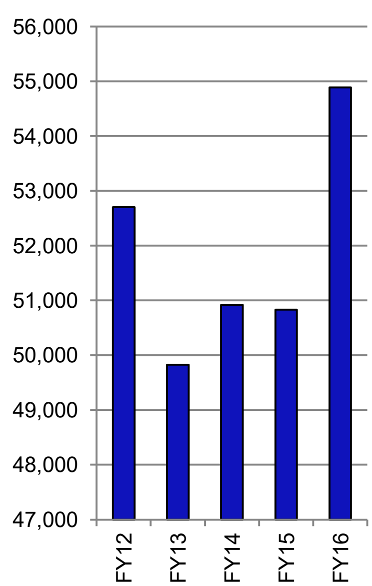
KEY ISSUES

While the Aging and Long-Term Services Department met most performance targets, the department could improve performance monitoring to align with strategic planning and to better monitor outcomes for New Mexico's aging population.

AGENCY IMPROVEMENT PLANS

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

Number of Individuals Served Food Through the Aging Network



Source: ALTSD

The department's plan includes goals to coordinate services for older New Mexicans, support evidence-based health promotion, and enhance public and private partnerships. Inadequate performance monitoring makes it difficult to assess the department's success at accomplishing these and other goals. Recent LFC program evaluations recommended improving performance measures to reflect the prevalence of adult abuse and capacity to meet the needs of an aging population. Performance outcomes are not tracked and data is not used for strategic planning purposes. The department has the means to provide a more robust set of performance data but does not. Furthermore, it is unknown whether the coming wave of older adults will need or want services provided through current service delivery models, or whether services meet the expectations of a new generation of older adults.

Improved measures would focus on adult maltreatment, repeat maltreatment, investigator caseloads, and Adult Protective Services post-maltreatment data. Better performance monitoring in the Aging Network would track the effect of respite care on longevity of the caretaker and other service outcomes to provide a clear picture of the Aging Network's capacity and its adequacy in meeting the needs of the senior population.

Aging Network. Strategic planning and the use of performance data in the Aging Network should be reworked. Four area agencies on aging serve the entire state under the Aging and Long-Term Services Department. One agency serves all non-metro non-Native American regions of the state, encompassing almost all of rural New Mexico. The base of operations for the non-metro agency is in Northern New Mexico, and it is impossible to determine whether it meets the needs of the 274 thousand older New Mexicans who live within the 120,189 square miles this agency covers. Improved measures would help determine whether the aging network is providing needed services to the right people.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Older New Mexicans whose food insecurity is alleviated by meals received through the aging network	61%	87%	62%	94%	G
Hours of caregiver support provided	379,097	392,872	400,000	429,612	G
				Program Rating	G

Consumer and Elder Rights. The current suite of performance measures and other available data makes it impossible to determine what the department is doing to accomplish its goals. For example, the department worked with a nonprofit public policy research group and conducted a survey to develop a caregiver report, but the report did not outline a way to evaluate the department's effectiveness.

The action plan for the measure on transitional assistance requires staff to assess referrals within 72 hours, ensure follow ups are done for six months post-discharge, and train options counselors on assessment tools. For the measure on live calls answered, the appropriation increased 7 percent to add staffing to the Aging and Disability Resource Center in FY16, but the program continues to experience vacancies and is not reaching the performance target.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Ombudsman complaints resolved within sixty days	99.5%	98.3%	95.0%	99.7%	G
Residents requesting short-term transition assistance from a nursing facility who remained in the community during the six month follow-up	New	New	85%	86%	G
Calls to the aging and disability resource center that are answered by a live operator	78%	70%	85%	72%	R
				Program Rating	Y

Average Annual Investigations Per Case Worker

Region	FY13	FY14	FY15
Metro	104	113	107
Northeast	54	56	69
Northwest	103	96	71
Southeast	71	66	64
Southwest	66	77	90
Statewide	**79**	**82**	**84**

Source: Adult Protective Services

Adult Protective Services. A recent LFC evaluation stated that reports of adult abuse, neglect, and exploitation are increasing; however, current data and performance measures make it difficult to assess the effectiveness of the program in preventing future maltreatment. The current performance measure of investigation volume may not illustrate need or the incidence of substantiated maltreatment cases. Additionally, the program does not report repeat maltreatment, hampering the state's ability to determine the effectiveness of interventions.

Substantiated Allegations by Type

Type	FY13	FY14	FY15
Abuse	146	163	224
Neglect	314	339	345
Self-Neglect	968	1,117	1,095
Exploitation	200	205	391
Sexual Abuse	4	6	15
Total	**1,632**	**1,830**	**2,070**

Source: Adult Protective Services

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Adult protective services investigations of abuse, neglect or exploitation	6,665	5,931	6,100	6,315	G
Emergency or priority one investigations in which a caseworker makes initial face-to-face contact with the alleged victim within prescribed time-frames	97%	98%	98%	99%	G
				Program Rating	G

Corrections Department

KEY ISSUES

The Corrections Department continues to struggle with high probation and parole officer caseloads and prison violence. The agency maintained good recidivism measure performance and instituted an internal policy mandating the majority of programming be evidence-based. NMCD also invested significant resources into transitional living services.

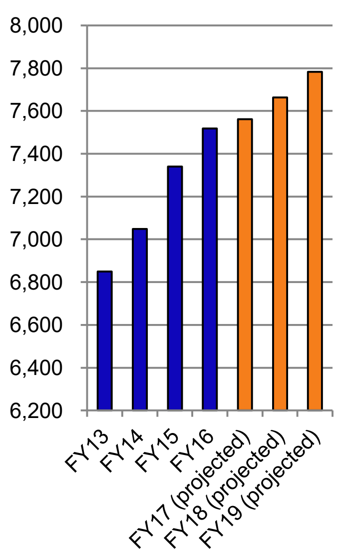
AGENCY IMPROVEMENT PLANS

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

In FY16, the Corrections Department (NMCD) had an average of 386 unoccupied beds system wide, a vacancy rate of 5 percent. The state's inmate population is projected to grow 1 percent in FY17 and 2 percent per year thereafter. Without additional beds added or meaningful sentencing reform, stagnate recidivism rates and enhanced sentencing could diminish remaining capacity by FY19. Rising populations have driven NMCD to evaluate the best methods to reduce recidivism and slow population growth, including development of new, more efficient prisons. NMCD has improved on timely release of eligible inmates, Medicaid eligibility determination before release, recidivism rates, and education. The department also adopted an internal policy requiring no less than 70 percent of total programming be evidence-based as defined by the Pew-MacArthur Results First Initiative.

Inmate Management and Control. 2016 proved to be a violent year within the state's prisons, partly due to implementing a rehabilitation model versus a security and containment incarceration model. The change allows for more movement among inmates, which can lead to violent clashes. The department established the Predatory Behavior Management Program to help decrease violent occurrences and is working toward alternatives to incarceration for nonviolent offenders to reduce overcrowding.

Projected Inmate Highest Population FY13-FY16

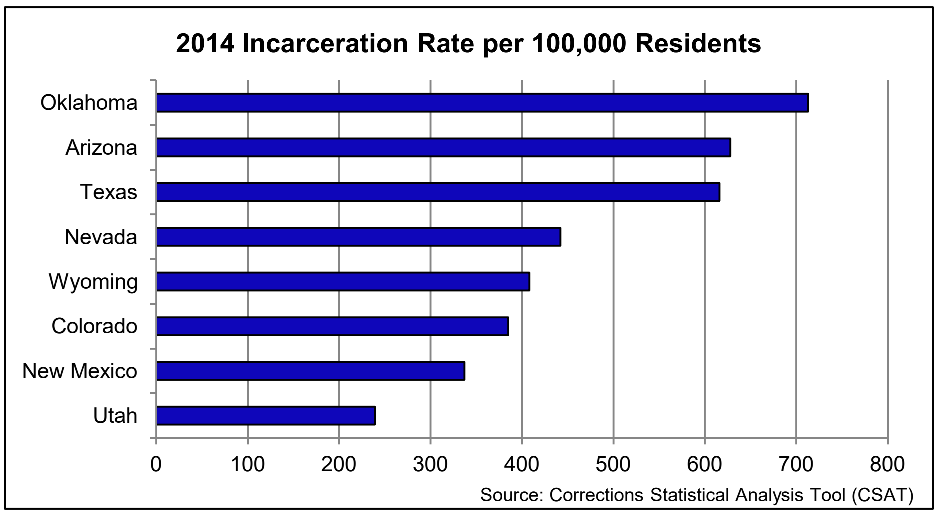


Source: New Mexico Sentencing Commission

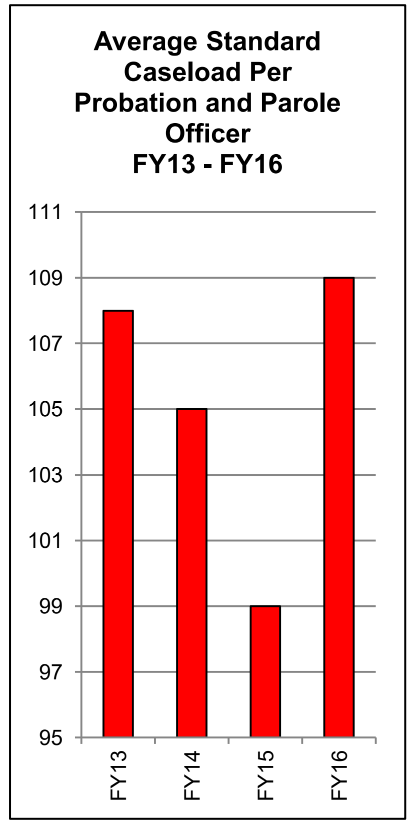
Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Thirty-six month recidivism rate	47%	47%	44%	46%	R
Inmate-on-inmate assaults with serious injury	9	13	10	21	R
Inmate-on-staff assaults with serious injury	5	2	4	9	R
Inmates testing positive for drug use or refusing to be tested in random monthly drug tests	New	New	≤1.5%	1.8%	Y
Release-eligible women still incarcerated past their scheduled release date	New	New	10%	9%	G
Release-eligible men still incarcerated past their scheduled release date	New	New	10%	9%	G
Inmates pre-enrolled in Medicaid at time of release	New	New	95%	83%	Y
Recidivism rate of offenders due to new charges or pending charges	25%	23%	20%	22%	Y
Recidivism rate of offenders due to technical parole violations	22%	17%	20%	17%	G
Eligible inmates who earn a general equivalency diploma	54%	64%	75%	76%	G
				Program Rating	**G**

Community Offender Management. Average standard caseloads peaked in FY16 with probation and parole officers carrying an average of 109 cases over the year, well above the target of 95 and much higher than the 99 caseload average last year. The increased number of release eligible inmates discharged from the department may partially contribute to higher probation and parole caseloads. The agency maintains an open recruitment agreement with the State Personnel Office allowing for efficient hiring practices that should help reduce caseloads. The agency's twelve person security threat intelligence unit exceeded the target for absconder apprehension; there are currently around 1,700 absconders from New Mexico prisons.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Average standard caseload per probation and parole officer	105	99	95	109	R
Absconders apprehended	12%	28%	26%	30%	G
				Program Rating	Y



Factors driving inmate population growth vary; however, the New Mexico Sentencing Commission reports admissions for men for violent crimes have grown an average 3 percent over the last four years, while admissions for drug crimes have risen 7 percent. Admissions for women have increased in every category of crime in the last four years: 28 percent in violent crime, 14 percent in property crime, 18 percent in drug crimes, and 36 percent in public order crimes.



Department of Public Safety

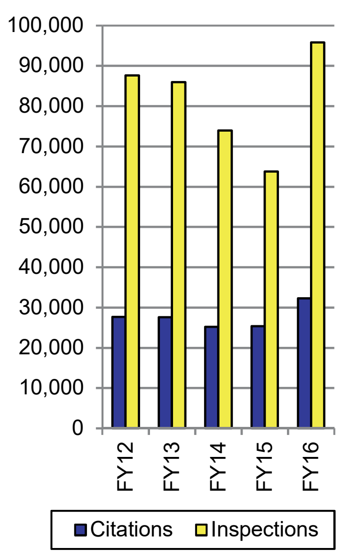
KEY ISSUES

The Department of Public Safety excelled in many performance measures but struggled with forensic science measures. However, in FY16 the department took initiative and implemented internal compensation increases for forensic scientists to aid in retention. Forensic scientist retention is critical: Vacant positions can take more than a year to fill and require up to two years of training to become fully proficient.

AGENCY IMPROVEMENT PLANS

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

DPS Commercial Motor Vehicle Citations and Inspections FY12-FY16



Source: Department of Public Safety

The State Police (NMSP) has a strong focus on commercial motor vehicle (CMV) safety. In August 2016, NMSP officers conducted a CMV saturation patrol in Eddy and Lea counties in response to high rates of commercial motor vehicle crashes. Officers issued 220 citations and conducted 145 inspections. Almost half of the CMVs inspected were placed out of service due to violations. NMSP pledged to continue monitoring roadways to ensure safety.

The Department of Public Safety (DPS) devoted significant resources toward improving officer recruitment and retention in recent years; however, only 15 new officers were added during FY16. DPS benefited from historically low retirement rates and improved retention, evidence improving salaries may be having a positive effect. However, the department still lacks many forensic scientists within the labs and struggles with an average 21 percent vacancy rate. DPS received no new funding to increase scientist pay but reprioritized $258 thousand to boost both starting pay and incumbent employee pay by 10 percent.

Among other priorities, the agency received a $1.2 million special appropriation to begin work on the untested sexual assault kit backlog, including hiring DNA scientists, covering overtime costs, buying DNA casework supplies, and modifying the Santa Fe laboratory. DPS submitted an application to the Department of Justice to fund the remaining $600 thousand to $800 thousand needed to complete the three-year project.

Law Enforcement. The State Police had 668 officers on staff at the end of FY16 but still maintained an average vacancy rate of 10 percent. Despite vacancies, the agency excelled at meeting targeted levels within the Law Enforcement Program, most notably the DWI measures the agency missed last fiscal year.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
DWI arrests per patrol officer	8	9	9	9	G
DWI checkpoints and saturation patrols conducted	915	1,051	1,175	2,421	G
Traffic-related enforcement projects held	1,692	2,542	1,700	3,293	G
Criminal investigations conducted per commissioned personnel assigned to patrol and investigations	New	57	15	24	G
Drug-related investigations conducted per commissioned personnel assigned to investigations	New	26	12	63	G
Commercial vehicle citations issued per commissioned personnel assigned to enforcement duties	New	New	522	342	Y
Commercial motor vehicle safety inspections conducted per filled commissioned personnel assigned to inspection duties	New	New	397	622	G
				Program Rating	G

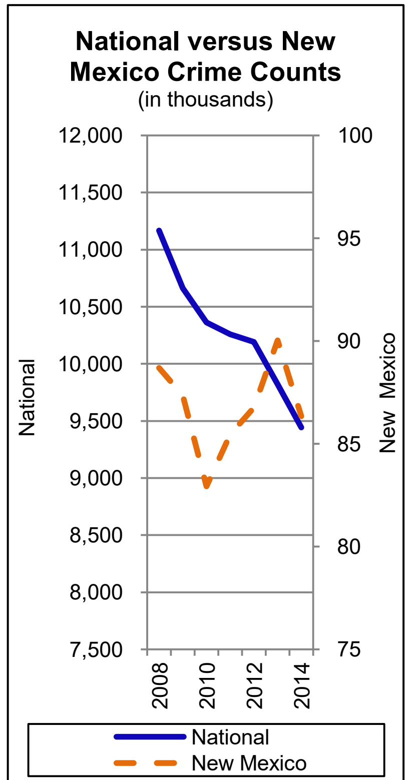
Statewide Law Enforcement Support. Although DPS did not meet targets for forensic science cases completed per scientist, the gross case clearance rate tells a different story. On average, the department cleared 93 percent of cases received this year. In some areas, all cases received within the year were completed and the backlog was reduced, as seen by the 130 percent completion rate in the latent finger print area.

Crime rates, encompassing both violent and property crimes, are influenced by many factors, such as economic conditions, education levels, policing practices, and judicial environments.

Department of Public Safety FY16 Forensic Cases Received and Completed

Case Type	Cases received	Cases completed	Completion rate
Biology and DNA	3,372	2,203	65%
Latent Fingerprint	954	1,244	130%
Firearm and Toolmark	533	472	89%
Chemistry	4,522	3,962	88%

Source: Department of Public Safety



Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Forensic biology and DNA cases completed per filled scientist position within thirty working days	34%	24%	50%	13%	R
Forensic latent fingerprint cases completed per filled scientist position within thirty working days	12%	12%	50%	22%	R
Forensic firearm and tool-mark cases completed per filled scientist position within thirty working days	46%	49%	50%	15%	R
Forensic chemistry cases completed per filled scientist position within thirty working days	49%	85%	60%	5%	R
Average turnaround time of civil applicant results posted to the New Mexico applicant processing service from the date the fingerprints are taken to the date of posting, in working days	New	1.3	4.0	1.3	G
				Program Rating	Y

The department invested $425 thousand in FY17 to move starting pay for dispatchers from the bottom of the market to the middle of the market. Starting pay will increase 14.4 percent, and average pay will increase 12.5 percent.

Administrative Office of the Courts

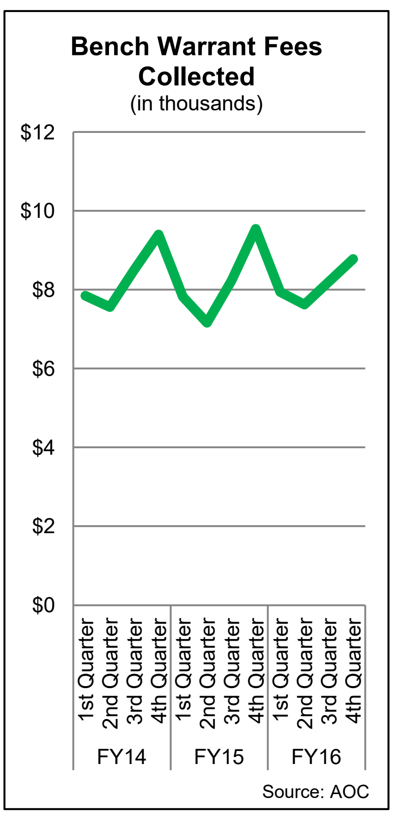
KEY ISSUES

During the 2016 interim, the judiciary grappled with the issue of court clerk pay. AOC found, based on the clerks' job description and daily duties, the position is currently a pay band too low. This is a contributing factor to the FY15 magistrate clerk turnover of 35 percent.

Improving clerk pay in district and magistrate courts was top priority for the judiciary in the 2016 legislative session and will be in 2017 as well. Under current funding levels, magistrate courts cannot afford to move clerks to the next pay band.

AGENCY IMPROVEMENT PLANS

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



Despite reduced funding levels and continued need for supplemental and deficiency appropriations in three of four programs, the Administrative Office of the Courts (AOC) ended FY16 exceeding or meeting most of its performance targets. In all programs, staff experienced heavy workloads in FY16, but AOC continues to search for efficient and innovative ways to maintain service levels.

Administrative Support. The Administrative Support program continues to receive red ratings due to uncontrolled costs per juror and the shortfall in the jury and witness fund, which also pays for court interpreters. AOC received funding for a new juror system that will result in better management of the jury and witness fund because it will assist in timeliness of payments and provide better juror tracking to project payment levels. However, AOC is projecting a jury and witness shortfall of over $900 thousand that will need to be covered by supplemental and deficiency funding in the 2017 Legislative session.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Number of jurors paid	65,726	59,876	n/a	53,562	Y
Average cost per juror	$55.40	$59.85	$50.00	$67.44	R
				Program Rating	R

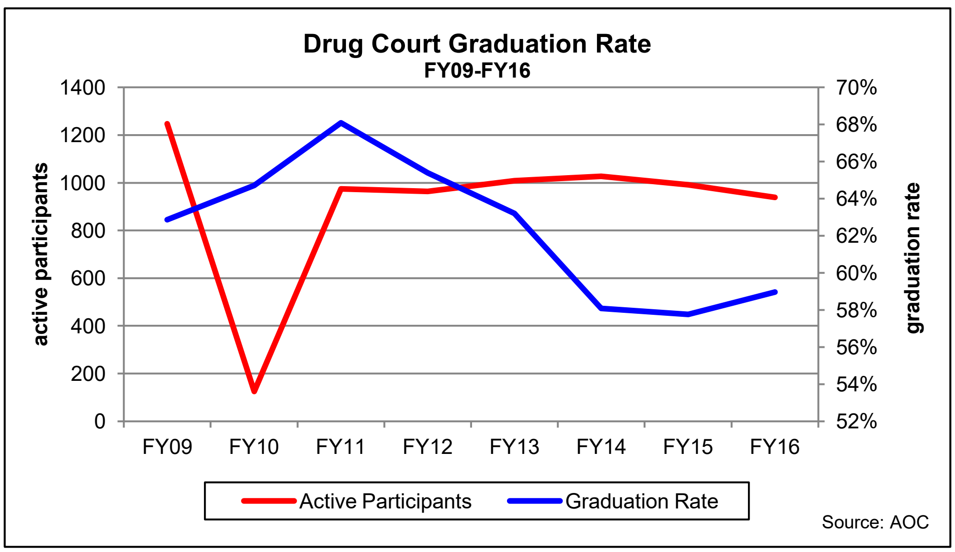
Statewide Judiciary Automation. Despite being short-staffed, the program restructured employee responsibilities to streamline assistance and help desk calls and worked with the agencies to become more proficient with the Odyssey case management system. Staff continue to receive high ratings on customer surveys following resolution of assistance calls.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Average time to resolve automation calls for assistance in hours	8.5	3.9	n/a	16.2	G
Judicial computer user qualitative rating of judicial information program help desk support	97.1%	97.5%	n/a	97.2%	G
Help desk calls resolved	18,258	23,668	n/a	27,376	G
				Program Rating	G

Magistrate Courts. Fee collections in magistrate courts have been declining since FY11 at a rate of 4.2 percent annually, or 19.2 percent total. Bench warrant fee collection has decreased 5.8 percent since FY11 and, despite meeting the target for FY16, remains a volatile source of income for the program. The drop in fee revenue affects several funds used for magistrate operations, including the facility fund that pays the Bernalillo County Metropolitan Court facility debt. The depleting fee funds have, in effect, eliminated AOC's spending cushion, requiring the Legislature to appropriate more general fund revenue.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Case fees and fines collected, in millions	$16.1	$15.0	n/a	$14.3	G
Bench warrant revenue collected annually, in millions	$3.3	$3.3	$3.1	$3.3	G
Cases disposed as a percent of cases filed	100.8%	101.9%	95.0%	102.4%	G
				Program Rating	G

Special Court Services. The various statewide programs within Special Court Services experienced good results due to a focus on evaluations and partnerships with national and local organizations. Though certain judicial districts saw a decrease in the number of supervised visitations and safe exchanges, one resulting in a reduced contract for FY17, the state saw an increase in visits conducted overall. Similarly, Court Appointed Special Advocates (CASA) exceeded its target for children assigned to volunteers despite the mid-year request for proposals for local CASA providers and negotiations between AOC and the national CASA organization.



Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Average number of supervised child visitations and safe exchanges conducted	1,016	1,396	1,000	1,339	G
Children assigned to CASA volunteers	1,795	1,855	1,200	1,741	G
				Program Rating	G

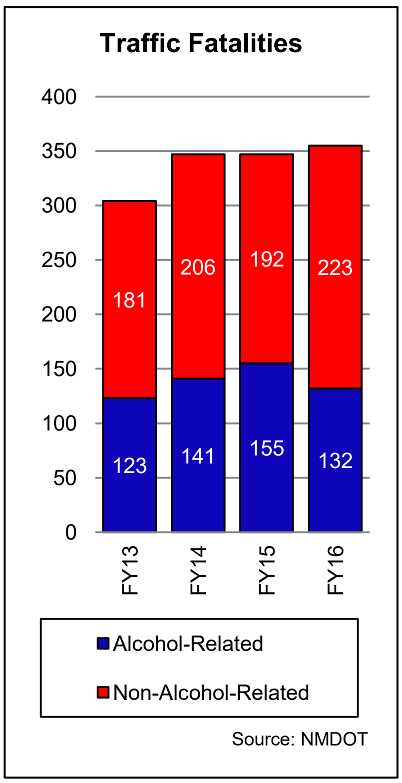
Department of Transportation

KEY ISSUES

NMDOT continues to struggle with funding shortfalls and the resulting lack of maintenance. While the latest road condition assessment shows moderate improvements in highway conditions, the number of lane miles in deficient condition increased by 8 percent over the past year.

AGENCY IMPROVEMENT PLANS

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



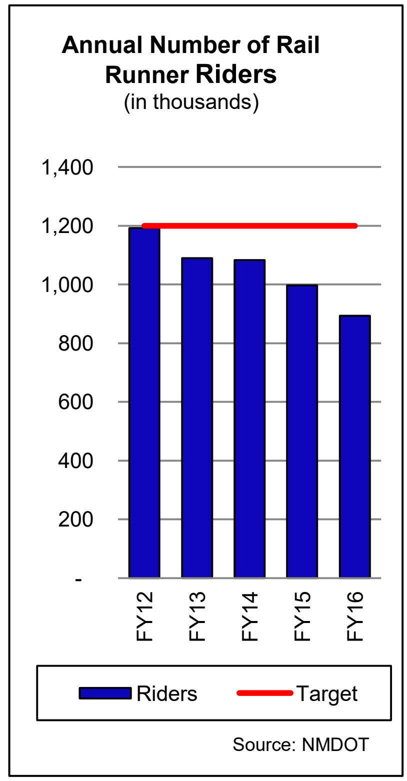
Department of Transportation performance was mixed in FY16, with conflicting performance not only among programs but within activities. While the department exceeded both its target and FY15 performance for projects completed on schedule, it missed the target for the timeliness of putting projects out to bid. The number of state road lane miles in deficient condition is up, but the share of national highway system roads in good condition is also up and the U.S. Department of Transportation ranked New Mexico 17th for road conditions and seventh for bridge conditions. Department performance on overall traffic fatalities was better than the FY16 target or FY15 performance but the number of pedestrian fatalities exceeded the target and prior-year performance.

Programs and Infrastructure. With some traffic fatality figures up and some down, some project management statistics better and some worse, and major misses on both measures on public transportation, the Programs and Infrastructure Program earned an overall performance rating of yellow for FY16.

A significant decrease in alcohol-related fatalities was partially offset by a large increase in pedestrian fatalities, with total fatalities increasing slightly in FY16. On project management, 28 of the 55 projects were let (put out for bid) on schedule. NMDOT is increasing training for project development staff and has begun designing statewide transportation infrastructure improvement program (STIP) projects earlier to ensure more projects are let on schedule. While NMDOT faced difficulty in letting projects on time, the agency reported an 89 percent on-time annual completion rate, exceeding the target and improving performance over FY15. An increase in the cost-over-bid amount is related to incentive pay on the Paseo del Norte project. On transportation use, ridership on the Park and Ride shuttle and the Rail Runner declined relative to FY15. The current low price of gasoline and diesel are rendering these transit services less competitive relative to driving. Though NMDOT reports Rail Runner performance, it does not operate the passenger rail service.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Traffic fatalities	347	347	<345	355	Y
Occupants not wearing seatbelts in traffic fatalities	147	126	<150	133	G
Pedestrian fatalities	62	61	<45	72	R
Alcohol-related fatalities	141	155	<130	132	Y
Projects put out for bid as scheduled	70%	50%	>75%	51%	R
Projects completed according to schedule	90%	84%	>80%	89%	G
Final cost-over-bid amount on highway construction projects	1.0%	2.0%	<2.5%	3.5%	Y
Annual number of riders on park and ride, in thousands	315.7	291.9	>325.0	264.2	R
Annual number of riders on the rail runner, in thousands	1,083	997	>1,200	894	R
			Program Rating		Y

Transportation and Highway Operations. NMDOT conducts an annual survey of statewide road conditions. The most recent data, for FY15, shows National Highway System (NHS) and state highway conditions improved slightly while interstate conditions worsened. In addition, NMDOT was unable to achieve the pavement preservation target. The lack of regular, consistent maintenance contributes to the deteriorating condition of New Mexico roadways; for FY16, NMDOT anticipates a $107 million gap in maintenance funding. As the condition of roads deteriorates, the cost to repair them increases significantly. Annual maintenance costs for one lane mile of good condition road are between $12 thousand and $36 thousand. For a very poor condition road requiring reconstruction, the cost is as high as $1.5 million per lane mile.

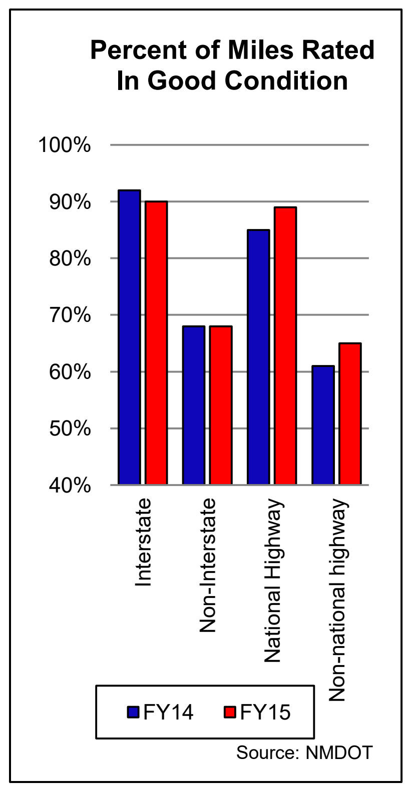


Source: NMDOT

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Number of statewide pavement preservation lane miles	2,889	2,611	>2,750	2,457	Y

FY16 road condition survey	FY13 Actual	FY14 Actual	FY15 target	FY15 Actual	Rating
Interstate miles rated good	94%	92%	>92%	90%	Y
National highway system miles rated good	88%	85%	>85%	89%	G
Non-national highway system miles rated good	63%	61%	>75%	65%	R
Lane miles in deficient condition	8,287	8,751	<8,000	9,451	R
				Program Rating	Y

Program Support. Since FY12, NMDOT reduced its vacancy rate from a peak of 18 percent. Fiscal year 2016 is the third year NMDOT has given targeted compensation increases to maintenance workers and engineers; NMDOT provided salary increases to 354 FTE in FY16. Despite efforts to improve hiring and retention, the vacancy rate increased as the department left positions vacant as a result of deteriorating revenue projections.



Source: NMDOT

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Vacancy rate in all programs	13.6%	12.0%	<11.0%	14.0%	Y
Employee injuries	105	95	<90	89	G
Employee injuries occurring in work zones	28	27	<45	32	G
				Program Rating	G

Department of Information Technology

KEY ISSUES

A key issue in FY17 will be ensuring the DoIT rate setting process is adequate to avoid the costly overruns of the recent past and ensure DoIT is providing only those services agencies value and at an appropriate price.

AGENCY IMPROVEMENT PLANS	
Submitted by agency?	No
Timeline assigned by agency?	No
Responsibility assigned by agency?	No

DoIT's FY17-FY19 strategic plan has not been approved by the IT Commission; however, the draft plan includes the following six state strategic goals:

Deliver of high quality government services that will benefit constituents and support economic development;

Optimize efficiency via continuous process improvement and maintain a high quality agile technology infrastructure;

Fully leverage IT investments through effective development, implementation, resource optimization and management of IT technical services;

Effectively manage and value information as an asset to drive operational efficiencies and decision that support mission needs;

Recruit, sustain and retain the best technology workforce to effectively deliver excellent IT services; and

Develop and implement governance by which the state coordinates data and information management programs.

In FY16 the Department of Information Technology (DoIT) continued to struggle with the critical task of appropriately setting the rates it charges for the services it provides to state agencies. While the department's FY17-FY19 strategic plan indicates the department will develop a five-year business plan for services and projected revenues, the plan remains in draft form and has not been approved by the Information Technology Commission. DoIT did not provide a five-year business plan in response to an LFC request. Otherwise, department performance remained steady in FY16, with slight improvements in service desk call responsiveness but with modest declines in collections of accounts receivable. The department continues to have poor measures for the Compliance and Project Management Program.

Compliance and Project Management. Historically, measures for this program have been output focused; for example, reported information included the number and appropriated budget of IT projects reviewed for oversight compliance or the number and budget of approved IT professional services contracts. For FY18, most explanatory measures will be eliminated; however, the department will report on a new measure tracking timeliness of professional contract reviews (quality feedback within 5 days), which addresses the importance of efficiency and good customer service.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Number and appropriated budget of executive agency certified projects reviewed monthly for compliance and oversight requirements	84/ $407	74/ $242	N/A	87/ $274	N/A
			Program Rating		N/A

Enterprise Services. The lack of transparency in rate setting was a challenge in FY16. Over the past two years it became increasingly evident the department struggles with setting appropriate rates and collecting sufficient revenue for the cost of services it provides to state agencies. For example, in FY15 DoIT requested an emergency budget adjustment to cover prior-year vendor bills and then during the 2016 legislative session, the department requested a $6 million supplemental appropriation to cover ongoing projected budget shortfalls. An LFC program evaluation assessing DoIT's rate development process is scheduled to be released in October 2016.

In FY14, the department began tracking service desk calls by priority. With the exception of priority level three calls, DoIT has made substantial progress in improving timeliness of help desk services. However, LFC has long recommended that DoIT also track agency customer satisfaction over all of its services including technical support, communications, infrastructure, and oversight of state agency IT projects. For FY18, DFA and LFC agreed to recommend an annual customer service survey.

Continuing education is critical in the fast-changing field of information technology. In FY15, DoIT began reporting on the percent of staff who receive a minimum of 24 hours of training in their specific technology field. DoIT reported difficulty in assuring all employee training is reported; therefore, the agency did not report a final FY16 result for this measure.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Service Desk Calls by Priority:					
Priority 1 (8 hours)	71%	100%	90%	100%	G
Priority 2 (24 hours)	54%	90%	90%	96%	G
Priority 3 (40 hours)	92%	93%	90%	79%	Y
Priority 4 (80 hours)	100%	100%	90%	100%	G
Priority 5 (160 hours)	100%	100%	90%	100%	G
Mainframe uptime available for user access or batch scheduling	99.8%	99.9%	99.9%	100%	G
Scheduled uptime the statewide human resources management reporting (SHARE financials) is available during business hours	99.3%	99.9%	99.5%	99.9%	G
Staff who receive a minimum of twenty-four hours of training in their specific technology field	New	13%	60%	No Data	Y
				Program Rating	G

An LFC program evaluation assessing DoIT's rate development process and its process for providing oversight for the state's most expensive and at-risk IT projects is scheduled to be released in October 2016.

Program Support. Collections of accounts receivables slipped for the third consecutive year from a high of 83 percent in FY14. Collections are contingent to a significant degree on timeliness of agencies' ability or willingness to pay, a factor that could be exacerbated by the difficult financial situation the state continues to struggle with. However, LFC learned there have also been instances in which DoIT financed equipment upgrades for agencies without a complete understanding or commitment with the agency regarding how the costs of those upgrades would be reimbursed.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Percent of accounts receivable dollars collected within sixty days of the invoice due date	83%	81%	75%	73%	R
Dollar amount of account receivables over sixty days, in millions	$5.0	$4.2	$7.5	$3.3	G
				Program Rating	Y

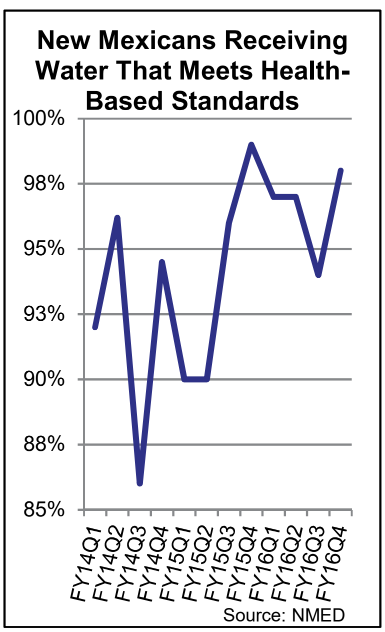
Department of Environment

KEY ISSUES

Strained resources and the need to respond to emergencies limited the Drinking Water Bureau staff's ability to record performance data in FY16. At the end of the fiscal year, 14 of 60, or 23 percent, of the bureau's positions are vacant. In addition to difficulty filling existing positions, the U.S. Environmental Protection Agency suggests the bureau would need 12 more positions to adequately regulate drinking water, based on New Mexico's geography and population. The Drinking Water Bureau was pressed to provide support to local governments when a well failed in Moriarty, in the aftermath of wildfires, and in implementing a new federal coliform rule. While the agency must respond to such events as they occur, emergencies take away from other priorities and reduce performance in key areas. This is especially true if there are a high number of vacant positions.

AGENCY IMPROVEMENT PLANS

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



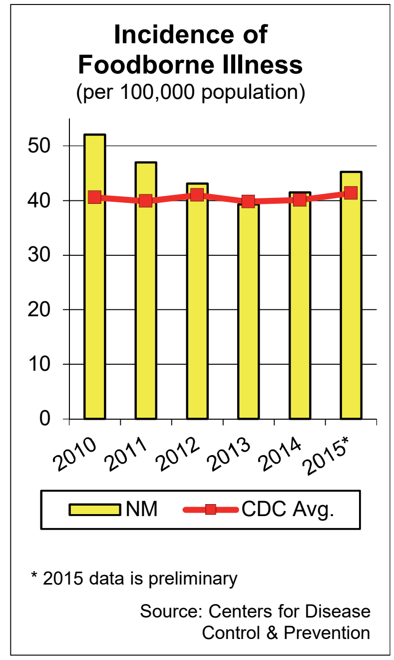
The Environment Department (NMED) met most performance targets in FY16. While the agency's measures remained heavily oriented toward output-based activities, such as number of facilities inspected, this report card highlights existing measures that focus on issues of concern, like air and water quality and occupational safety. Similar to some existing measures, agreed on measures for FY17 will center more on outcomes and explanatory data regarding regulatory compliance.

Resource Protection. While NMED met the target for inspections of groundwater discharge facilities, the percent of facilities where monitoring shows compliance with standards is below both the annual target and actual performance in prior years. Terminating permits for facilities previously identified as in compliance but which are now inactive, and transferring other permits to another division in response to statutory and regulatory changes reduces the number of facilities considered but has not reduced the number of facilities that are out of compliance with standards. Additionally, some permits allow for exceedance of, or variance from, typical groundwater quality standards depending on factors such as proximity to groundwater; a facility may be in compliance with its permit but not other standards. The agency fell slightly short of the target for two new measures of surface-water quality monitoring but was able to surpass the target of restoring over 100 miles of rivers and streams in FY16. The agency missed the target for the unobligated corrective action fund balance because the reported $2.6 million balance does not include a $1 million reserve required by regulation.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Groundwater discharge permitted facilities inspected	68%	53%	55%	65%	G
Permitted facilities where monitoring results demonstrate compliance with groundwater standards	70%	66%	72%	63%	R
Underground storage tank facilities in significant compliance with release prevention and detection requirements	83%	77%	75%	77%	G
Unobligated balance of the corrective action fund at time of fund certification, in millions	$3.0	$4.5	$3.0	$2.6	Y
Miles of river restoration	New	New	100	103	G
Stream miles monitored for water quality in target area	New	New	90%	83%	Y
Lake acres monitored for water quality in target area	New	New	90%	88%	Y
				Program Rating	Y

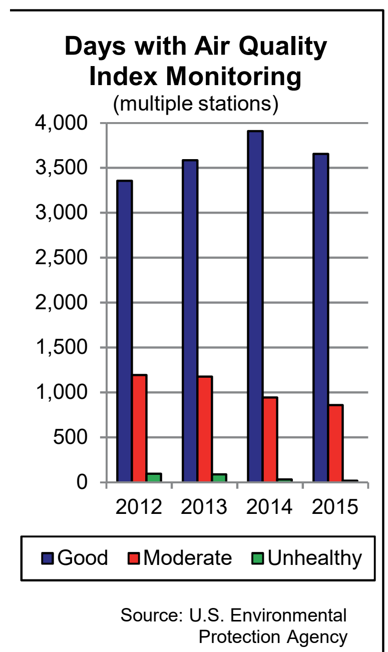
Environmental Health. With increased awards in the second half of the fiscal year, in accordance with historical trends, NMED met the target for funding water infrastructure projects through its loan and grant programs. More than 31 thousand New Mexicans were receiving water that did not meet health-based standards at the end of FY16. This is better than earlier periods in FY16 but falls short of year-end FY15 when 99 percent of New Mexicans received water meeting health-based standards. This figure is driven by infrastructure failures and poor operations and maintenance but also by outside events like fires and subsequent flooding.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Population served by community water systems that receive drinking water meeting health-based standards	95%	99%	100%	98%	Y
New loans made from the clean water state revolving fund program and the rural infrastructure revolving loan program, in millions	$33.4	$27.4	$20.0	$30.7	G
Large quantity hazardous waste generators inspected	28%	29%	25%	31%	G
				Program Rating	G



Environmental Protection. All of the air quality and serious occupational safety violations discovered through agency inspections in FY16 were either corrected timely or are currently being addressed. After agreeing to report on air quality ratings for FY17 – rather than the response to violations – NMED requested to discontinue the measure for FY18 out of concern the agency does not regulate air quality in Bernalillo County, the state's largest population center. However, agreement was reached to report this as explanatory data without a performance target.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Solid waste facilities and infectious waste generator inspections finding substantial compliance with solid waste rules	87%	98%	85%	93%	G
Landfills compliant with groundwater sampling and reporting requirements	96%	95%	100%	100%	G
Facilities taking corrective action to mitigate air quality violations discovered as a result of inspections	96%	98%	100%	100%	G
Serious worker health and safety violations corrected within the timeframes designated on issued citations from the consultation and compliance sections	96%	98%	95%	96%	G
				Program Rating	G



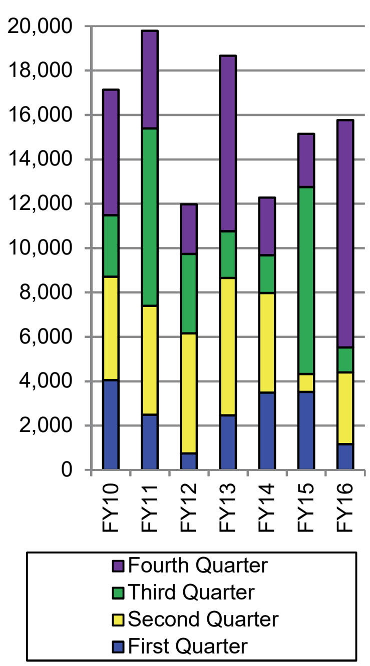
Energy, Minerals and Natural Resources Department

KEY ISSUES

State parks lost $5.8 million, or $1.35 per visitor, in FY15 when comparing operating costs to visitor revenues. The State Parks Division (SPD) is looking to new sources for raising revenue to fund park operations, such as partnering with individuals and other governmental, private, or nonprofit entities. In past years, the agency has been successful in attracting outside support, like the donor-funded, state-of-the-art reptile exhibit at the Living Desert Zoo and Gardens State Park in Carlsbad. SPD is also working to recruit volunteers and agreed to begin tracking and reporting, as a performance measure, on volunteer activities beginning in FY18. Volunteers can improve the visitor experience while saving agency resources.

AGENCY IMPROVEMENT PLANS

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



Source: EMNRD

The Energy, Minerals and Natural Resources Department fell short of some key performance targets in FY16, including forest treatment and state park revenue, while significantly improving in many areas. Despite rough conditions and difficulty accessing certain areas, the State Forestry Division treated more acres in the fourth quarter of FY16 than in any quarter since at least FY12. State parks attracted a record number of visitors, nearly 5.5 million, in FY16, while working to strike a balance between bringing in revenues and offering affordable recreation.

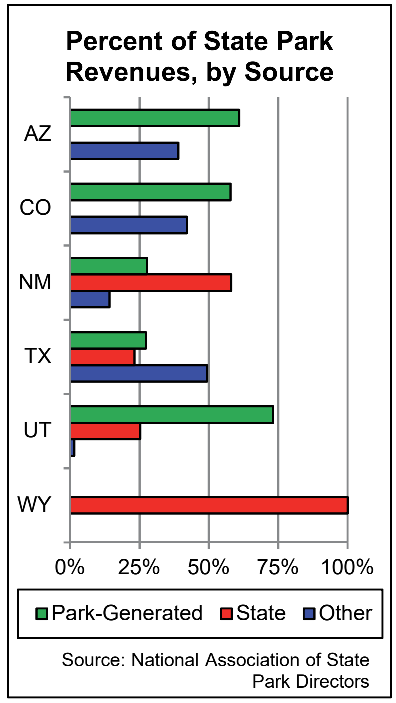
Healthy Forests. The agency thinned over 10 thousand acres in the fourth quarter but fell short of the annual target due to impaired access to project areas earlier in the fiscal year. Due to a delayed start to the monsoon season, most of New Mexico remains abnormally dry or in moderate drought, and forecasts through spring 2017 show above average temperatures and below average precipitation. Significant fire activity typically peaks from late June to early July, coincident with summer thunderstorms. July 2016 had above normal temperatures and virtually no statewide precipitation, causing above normal fire activity in the summer. However, monsoonal moisture was sporadic, but the increase in precipitation and relative humidity was enough to deter large fires later in the fire season.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Nonfederal wildland firefighters trained	2,074	1,625	1,875	1,627	R
Acres treated in New Mexico's forest and watersheds	12,277	15,142	19,000	15,762	R
At-risk communities or local fire departments provided funding for wildland firefighting equipment or training	133	112	110	126	G
People employed under the veterans firefighter program	New	New	30	45	G
				Program Rating	Y

State Parks. Starting FY16 with record attendance at Elephant Butte for the 2015 Independence Day weekend, visitation to state parks easily surpassed the target. Per-visitor revenue declined but overall visitor revenue increased by $335 thousand, or 8 percent, over FY15 levels, to $4.4 million, the highest since FY11. The National Association of State Park Directors reports New Mexico state parks generate just over one-quarter of their operating revenue, lower than both Colorado and Arizona, which rely on park revenue for over half of expenses, but in line with Texas.

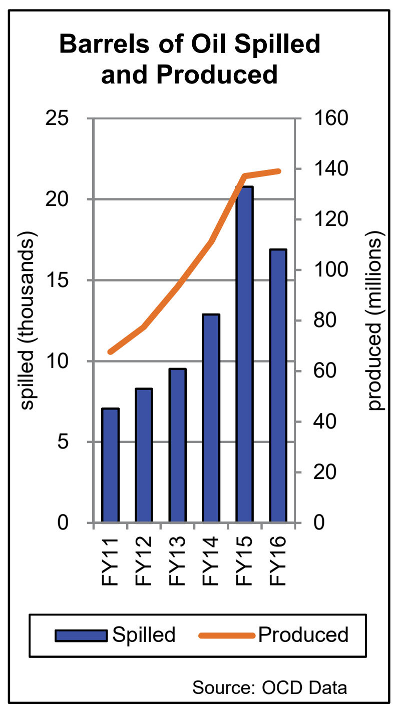
Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Visitors to state parks, in millions	3.98	4.68	3.90	5.46	G
Self-generated revenue per visitor	$0.96	$0.87	$0.96	$0.81	R
Interpretive programs available to park visitors	2,358	1,780	2,500	1,312	R
Boating safety courses completed	712	753	700	937	G
				Program Rating	Y

Mine Reclamation. Four mines do not have adequate financial assurance: three mines operated by Freeport McMoran, Inc. (FMI) and the Asarco Deming Mill. EMNRD recently received letters from FMI addressing required modifications to its permits, including reducing third-party guarantees and increasing the value of trust agreements. The agency is reviewing recently submitted financial information for the third-party guarantees. The Deming site is under application with a new owner. Two Peabody Energy coal mines, El Segundo and Lee Ranch, are under Chapter 11 bankruptcy protection and a motion and stipulated order covering financial assurance was not approved in FY16. EMNRD is working with the Attorney General's office to ensure New Mexico is properly represented during the bankruptcy process. Peabody is working with the agency to reduce the financial assurance required by actively performing reclamation and submitting bond release applications per their permit requirements.



Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Permitted mines with approved reclamation plans and adequate financial assurance posted to cover the cost of reclamation	99%	99%	100%	96%	Y
Required inspections conducted to ensure compliance with permits and regulations	100%	100%	100%	97%	Y
				Program Rating	Y

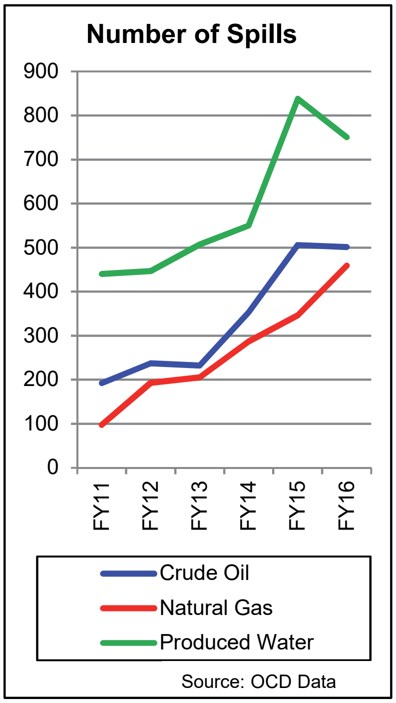
Oil and Gas Conservation. The Oil Conservation Division (OCD) continued a high pace of field inspections in FY16, and just 1.8 percent resulted in a violation issued. Oil production and the number of oil spills was relatively flat, but the amount spilled declined by nearly 4,000 barrels, or 18 percent. The number of gas well spills increased by 31 percent. However, OCD believes a reporting error in the Hobbs district office accounts for a significant portion of the increase in gas spills. The error occurred when staff required operators to file spill reports for agency approved natural gas flaring, including a natural gas processor plant that went out, which is deductible from production taxes.



Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Inspections of oil and gas wells and associated facilities	38,920	47,539	39,000	49,624	G
Application to drill permits approved within ten business days of receipt	New	90%	60%	85%	G
Abandoned oil and gas wells properly plugged using reclamation fund monies	32	31	30	36	G
Number of oil and gas well spills	640	852	N/A	1,465	▲*
Size of oil spills, in barrels	12,874	20,775	N/A	16,889	▼*
				Program Rating	G

*Color of arrow rating on explanatory measures, i.e. measures beyond the agency's control and without performance targets, indicates whether increase or decrease is improvement or decline from prior performance.

Energy Conservation and Management. Applications for solar photovoltaic system certifications reached the annual amount of tax credits available on June



15, 2016, requiring the excess applications to be returned. In the fourth quarter of FY16, the agency received 30 solar applications per day, which delayed reviews and caused it to miss the annual performance target. The agency missed the target for Waste Isolation Pilot Plant trainings because shipment inspection trainings were not conducted in FY16 due to the WIPP shutdown. However, related trainings and practice exercises were conducted as needed to comply with the cooperative agreement with the federal Department of Energy.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Applications for clean energy tax credits reviewed within thirty days	99%	75%	99%	90%	R
Reduction in energy use in public facilities upgraded by clean energy projects	11%	14%	10%	10%	G
Inventoried clean energy projects evaluated	66	64	63	69	G
Waste isolation pilot plant-related trainings and practice exercises conducted	51	45	51	45	R
				Program Rating	Y

Office of the State Engineer

With increased focus on processing water rights applications and continued inspection efforts, the Office of the State Engineer met key performance targets in FY16. While Nearly 300 dams fall under State Engineer jurisdiction, over half of which are considered "high hazard potential" – meaning downstream populations could be affected by a breach, rather than any pressing threat or risk of dam failure. Still, over one third of these dams do have some deficiency, like inadequate spillway capacity, deferred maintenance, age, or design limitations. The Legislature appropriated $1 million to plan, design, and construct high hazard dam repairs statewide in 2017.

Water Resource Allocation. The agency fell short of the target for populating the water administration technical engineering system database and attributed this to the need to train new employees and the effort to eliminate the backlog of applications accumulated during the recently completed Lea Basin abstracting project. The program is performing well on other measures, particularly in processing applications and dam inspections.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Unprotested water right applications backlogged	1,513	1,219	650	422	G
Average of unprotested applications processed per month	76	108	70	93	G
Dams inspected	116	101	100	107	G
Water rights transactions entered in the agency's database	18,888	22,792	23,000	18,287	Y
				Program Rating	Y

Interstate Stream Commission. While agreement on New Mexico's Rio Grande Compact credit is the subject of ongoing litigation, the state's Pecos River Compact credit continues to be positive. New Mexico accrued an annual water delivery credit of 11.9 thousand acre-feet for the 2015 calendar year, resulting in a cumulative credit of 109.5 thousand acre-feet.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Delivery credit on the Pecos river compact, in thousand acre-feet	95.7	97.6	≥ 0.0	109.5	G
Delivery credit on the Rio Grande compact, in thousand acre-feet	62.4	0.0	≥ 0.0	0.4	G
				Program Rating	G

Litigation and Adjudication. The FY16 target for percent of water rights adjudicated, set during the 2014 legislative session, was met before FY16 began and the target for number of offers to defendants in adjudications was surpassed in the third quarter. The current measure for the percent of water rights with judicial determinations does not provide a clear view of progress because it only reflects active adjudications.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Offers to defendants in adjudications	540	594	600	839	G
Water rights with judicial determinations	55%	62%	59%	63%	G
				Program Rating	G

KEY ISSUES

The agency's strategic plan identifies completion of licensing and adjudicating all water rights as a goal of the Litigation and Adjudication Program (LAP). While the plan does not provide a detailed strategy of how LAP will accomplish this goal, agency staff regularly met with a legislative working group during the 2015 interim and committed to exploring new approaches to adjudications.

Water rights adjudications in general continue to progress slowly, but both the Taos and Aamodt (or Nambe-Pojoaque-Tesuque) adjudications are near completion. Taos Pueblo agreed to a finalized settlement – to which no other parties objected – and only domestic and stock well rights remain to be determined by the court. In line with the 2015 interim meetings, OSE is working to develop a strategy that could significantly reduce the time and cost of adjudications, and plans to pursue a different approach after completing the Aamodt adjudication.

AGENCY IMPROVEMENT PLANS

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

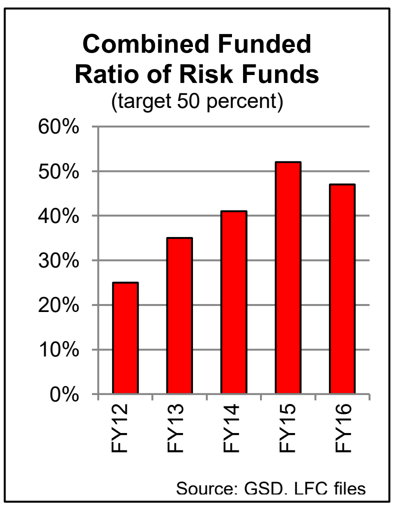
General Services Department

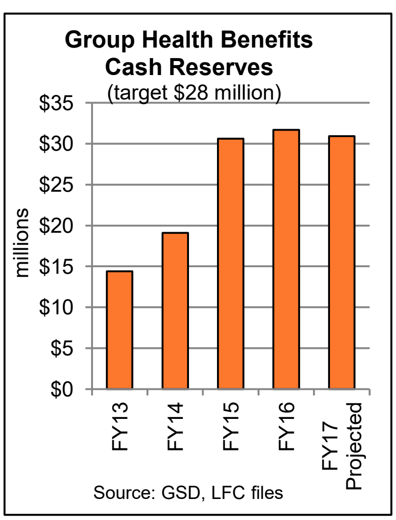
KEY ISSUES

Although GSD improved performance on several measures, including that for the financial health of the risk funds, the department continues to be challenged by costly conflicts arising from poor human resource practices in some agencies; an inefficient, decentralized purchasing system that allows agencies to buy goods and services with little oversight; and property-use policy that allows agencies to occupy state-owned buildings at no cost and with little incentive to conserve utilities or use space efficiently.

AGENCY IMPROVEMENT PLANS

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





The General Services Department (GSD) improved performance on 13 of 15 measures, including those concerning the financial health of the risk funds, the maintenance of state facilities and systems, and the use of technology to improve efficiencies. How the department manages insurance, benefits, facilities, procurement, and other support functions affects the cost of those services and directly impacts funding available for higher priority programs serving New Mexico.

Risk Management. The program had stronger revenue collections the past few years from rates established to improve the solvency of the funds. Due to a smaller workforce and improved loss control, the program closed more claims than it opened, although the average cost per workers' compensation claim increased due to inflation.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Projected financial position of the public property fund	250%	274%	50%	340%	G
Projected financial position of the workers' compensation fund	18%	28%	50%	37%	Y
Projected financial position of the public liability fund	22%	22%	50%	32%	Y
				Program Rating	G

Group Health Benefits. Cost increases on a per-member basis outpaced projections from fee-for-service pricing and prescription drug price increases. Over the past three years, the Legislature funded premium increases of 28 percent, above the industry trend when annualized, to replace use of fund balances during the recession. For many employees, the higher premiums were often imposed without a corresponding pay increase, which resulted in lower take-home pay.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Prescriptions filled with generic drugs	84%	84%	82%	85%	G
Change in medical premium compared with industry average	8%	3%	≤ 7%	- 4%	G
Change in per member healthcare costs	$328	$367	≤ $396	$386	Y
				Program Rating	G

Facilities Management. For GSD, the average facility condition index for its 29 largest buildings was 21 percent, a figure calculated by dividing the repair and maintenance needs in a particular year by the current replacement value of buildings and systems. This suggests the program has done a good job maintaining facilities with limited resources. However, GSD needs a better plan to sustain regular updates and make them a useful tool to help the state prioritize capital project funding. Finally, space per FTE continues to be higher than the recommended benchmark as agencies expand in the space they occupy despite fewer employees.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Preventive maintenance service completed on time	New	New	80%	93%	G
Capital projects on schedule and within approved budget	88%	90%	94%	94%	G
Change in average cost per square foot for leased space	New	$17	$16	$18	Y
			Program Rating		G

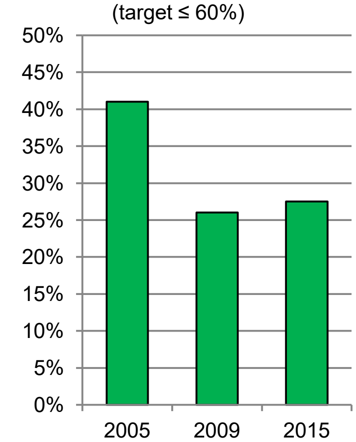
Total Capital Outlay Appropriations for Statewide Repairs
(2013-2017)

2017	$	4,000,000
2016	$	2,000,000
2015	$	-
2014	$	4,500,000
2013	$	500,000

Source: LFC Files

Procurement Services. The program is moving toward a more centralized model to aggregate spending and standardize contracts and procurement forms and processes; however, some suppliers, state agencies and local governments are resistant to change. New requirements for buyer certification training and additional follow-up and training requirements for procurement violators should help. According to a 2016 LFC performance review of procurement, agencies use noncompetitive bid processes and apply Procurement Code exemptions inappropriately, which increases costs for the state.

Statewide Average Facility Condition Index
(target ≤ 60%)

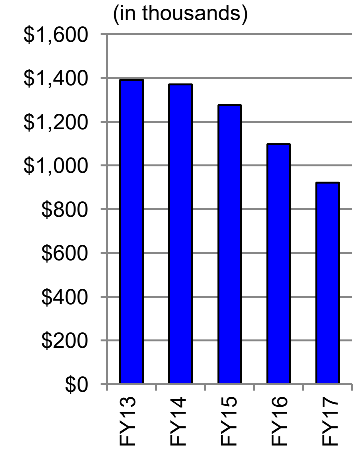


Source: GSD, LFC files

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Projected quarterly fee payments from vendors, in thousands	New	New	$501	$390	R
Agency visits for compliance with procurement requirements	New	New	2	7	G
Increase in e-procurement invitation to bids and request for proposals	New	306	321	325	G
			Program Rating		Y

Transportation Services. The program is encouraging agencies to use the motor pool instead of more expensive long-term leased vehicles. This year, the program began installing global positioning satellite units with electronic monitoring built into user rates. This should improve safety and lower fuel and maintenance costs by promoting better driving behavior.

State Purchasing Program's General Fund Appropriations
(in thousands)



Source: GSD, LFC files

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Vehicles older than five years	1,075	936	597	916	Y
Vehicles accumulating one thousand miles per month	598	637	732	697	Y
Vehicle operating costs per mile, compared with industry	New	New	<$0.59	$0.47	G
			Program Rating		G

State Personnel Board

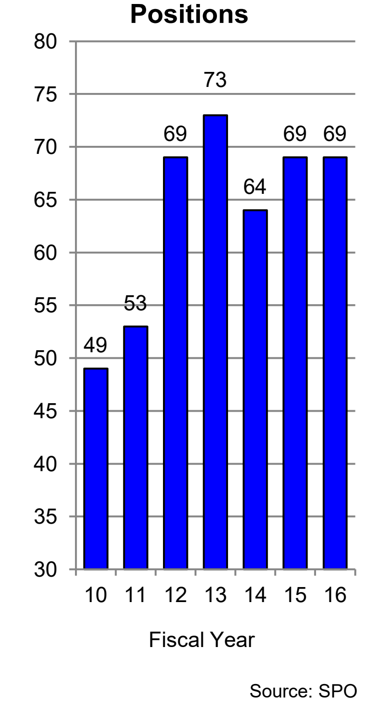
KEY ISSUES

The current salary structure has fallen behind the broader labor market rates, resulting in difficulty in recruiting and retaining well-qualified employees. SPO developed a new compensation structure to address this but has not completed the salary studies needed to prioritize needs and estimate costs to align salaries to market rates.

AGENCY IMPROVEMENT PLANS

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

Average Number of Days To Fill Vacant Positions



Time To Fill Positions

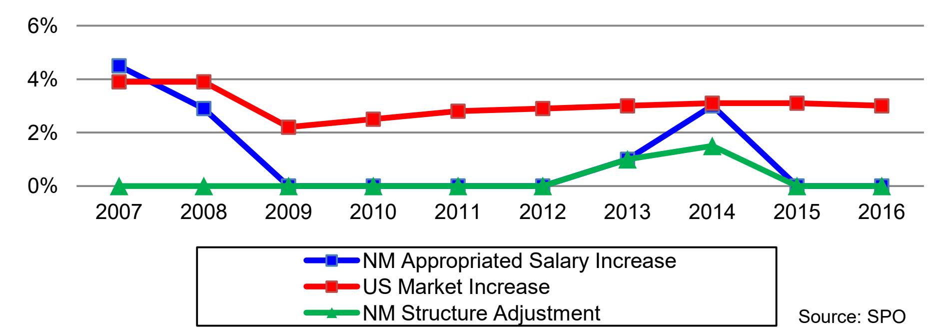
FY16 Average

Agency	Days To Fill
CYFD	79
Health	69
Corrections	85
Miner's Hospital	46

Source: SPO

The state's current pay structure, developed and maintained by the State Personnel Office (SPO), has fallen significantly behind market pay rates for many job classifications due to lack of regular adjustments. Even in years when the Legislature provided across-the-board salary increases, SPO often did not adjust the pay structure.

New Mexico Pay Structure Changes Versus U.S. Market



In addition to general pay structure inadequacy, the time to fill vacant positions failed to improve from 69 days and turnover increased from 11.4 percent in FY15 to 14.7 percent in FY16. Longer times to fill positions and increased turnover likely contributed to a 2 percent increase in the vacancy rate from FY15. While fiscal constraints will require agencies to maintain high vacancy rates for the foreseeable future, it is important that SPO work with agencies to reduce the time to fill positions to ensure New Mexico does not lose high-quality applicants, not only due to below market pay, but also due to hiring wait times of over two months. SPO has not proposed an action plan for increasing hiring efficiency or reducing turnover.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Classified service vacancy rate	15.0%	13.2%	13.0%	15.2%	R
Average number of days to fill a position from the date of posting	64	69	55	69	R
Average state classified employee compa-ratio	100%	101%	95%	102%	R
Average state classified employee new-hire compa-ratio	96%	97%	91%	97%	R
New employees who successfully complete their probationary period	68%	67%	75%	70%	Y
Classified employees voluntarily leaving state service	6.1%	11.4%	14.0%	14.7%	Y
Classified employees involuntarily leaving state service	New	2.3%	4.0%	2.1%	G
State employee average overtime usage per month, in hours	16.0	15.5	12.0	16.2	R
State employees receiving overtime	17%	16%	25%	17%	G
				Program Rating	R

Taxation and Revenue Department

The Taxation and Revenue Department has been successful in meeting a majority of performance targets and exceeding those for the resolution of tax protest cases and waiting times in Motor Vehicle Division (MVD) field offices. The Property Tax Program slightly exceeded the target for delinquent property tax collections. However, the average MVD call center wait times were longer than the recommended target and the Tax Administration Program did not meet the target for electronically filed returns.

Tax Administration. Fiscal year 2016 audit assessments total $85.7 million, although all but $33.3 million of that is uncollectable because the assessments are less than 90 days old, are being protested, have been partially or completely abated, or are part of a bankruptcy proceeding. Of the collectible balance, the state collected $14.1 million, or 43 percent. Collections of outstanding balances from FY15 were $121.1 million, 19 percent of collectable outstanding balances and an improvement over outstanding balance collection in FY15. Legislation enacted in 2016 increased the protest filing period from 30 days to 90 days. This requirement has hampered the timeliness of collection of assessments.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Collections of collectable assessments outstanding at the end of the prior fiscal year	18%	12%	18%	19%	G
Collections of collectible assessments generated in the current fiscal year plus assessments generated in the last quarter of the prior fiscal year	61%	59%	60%	43%	Y
Electronically filed personal income tax and combined reporting system returns	90%	92%	93%	85%	R
				Program Rating	**Y**

Compliance Enforcement Program. A total of eight tax compliance cases were assigned to program agents in FY16, one less than in FY15. Of these, seven investigations were referred for criminal prosecution during the year.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Tax investigations referred to prosecutors as a percent of total investigations assigned during the year	33%	78%	50%	88%	G
				Program Rating	**G**

Property Tax Program. Delinquent property tax collections have increased and slightly surpassed the FY16 target amount of $11 million and were up from the FY15 target of $10 million. In the first quarter, focus was on accounts near or at the 10th year of delinquency. Per statute, delinquencies over 10 years are no longer collectible.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Delinquent property tax collected and distributed to counties, in millions	$13.1	$10.4	$11.0	$11.6	G
				Program Rating	**G**

KEY ISSUES

The "tax gap," the difference between taxes owed and taxes paid, drifted up from $539 million in FY12 to over $730 million by the end of FY16. Collection of delinquent taxes has remained consistent at 18 percent annually over the last five years. However, department analysis shows adding three additional revenue agents would result in $1.3 million more in general fund revenue.

AGENCY IMPROVEMENT PLANS

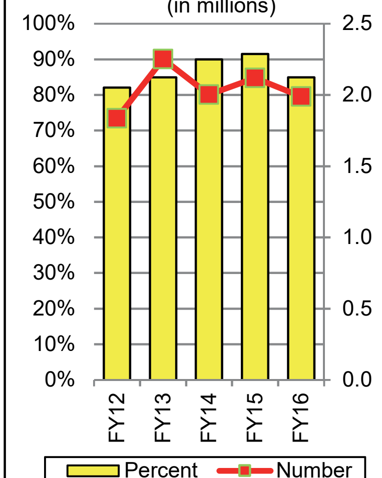
Submitted by agency?	Yes
Timeline assigned by agency?	No
Responsibility assigned by agency?	Yes

TRD FY16 Funding by Division
(in millions)

Program	Budget	FTE
Tax Administration	$31.3	504
Motor Vehicle Division	$27.9	347
Property Tax	$3.4	41
Compliance Enforcement	$1.7	22
Program Support	$21.7	182
Total	$86.0	1,096

Source: TRD FY16 Operating Budget

Electronically Filed Tax Returns
(in millions)



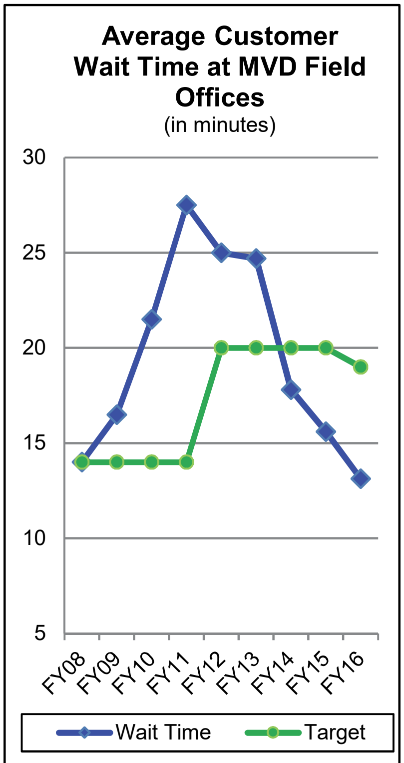
Source: TRD and LFC Files

Motor Vehicle Program. Wait times in "Q-matic" equipped offices are better than the target time of 19 minutes. MVD plans to continue expanding online transaction opportunities to reduce foot traffic in field offices. The percent of vehicles with liability insurance met the target of 92 percent. Call center wait times missed the target of five minutes with an average wait time of just over six minutes.

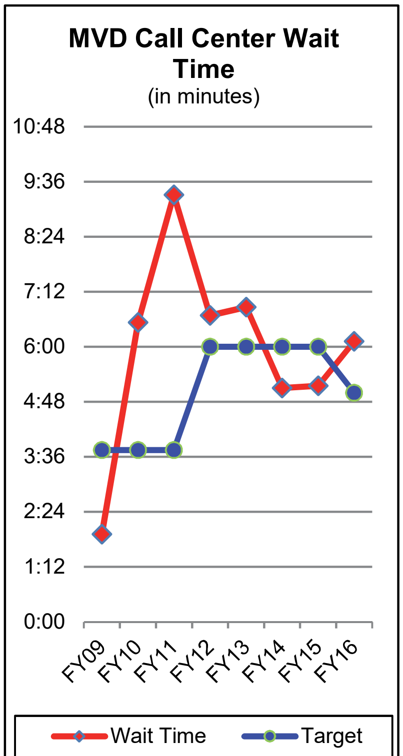
Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Registered vehicles with liability insurance	91%	91%	92%	92%	G
Average wait time in "q-matic" equipped offices, in minutes	17:24	15:36	19:00	13:08	G
Average call center wait time to reach an agent, in minutes	4:48	5:09	5:00	6:07	R
				Program Rating	G

Program Support. The number of resolved protested tax cases has exceeded targets since FY14. During FY16, the department resolved a record 1,897 tax protest cases, exceeding the target by 597. However, much of this increase in resolutions was the result of an increase in protests, triggered by a department decision to delay refunds to further scrutinize the returns for identifying theft or tax fraud. Many of these protests were resolved by the end of June.

Measure	FY14 Actual	FY15 Actual	FY16 Target	FY16 Actual	Rating
Tax protest cases resolved	1,306	1,380	1,300	1,897	G
				Program Rating	G



Source: TRD and LFC Files



Source: TRD and LFC Files

GENERAL FUND AGENCY RECOMMENDATION SUMMARY — TABLE 1

Business Unit	Description	FY17 Adjusted Operating Budget	FY18 Agency Request	FY18 LFC Recomm.	$ Over Adj. FY17 Oper.	Percent Change
Legislative						
111	LEGISLATIVE COUNCIL SERVICE	5,660.0	5,660.0	5,660.0	0.0	0.0%
112	LEGISLATIVE FINANCE COMMITTEE	4,100.3	4,100.3	4,100.3	0.0	0.0%
114	SENATE CHIEF CLERK	1,130.3	1,130.3	1,130.3	0.0	0.0%
115	HOUSE CHIEF CLERK	1,097.7	1,097.7	1,097.7	0.0	0.0%
117	LEGISLATIVE EDUCATION STUDY COMMITTEE	1,233.4	1,233.4	1,233.4	0.0	0.0%
119	LEGISLATIVE BUILDING SERVICES	4,054.9	4,158.9	4,054.9	0.0	0.0%
131	LEGISLATURE	2,236.8	2,236.8	2,236.8	0.0	0.0%
Total	**Legislative**	19,513.4	19,617.4	19,513.4	0.0	0.0%
Judicial						
205	SUPREME COURT LAW LIBRARY	1,507.6	1,554.2	1,508.0	0.4	0.0%
208	NEW MEXICO COMPILATION COMMISSION	0.0	0.0	0.0	0.0	0.0%
210	JUDICIAL STANDARDS COMMISSION	818.3	861.9	818.3	0.0	0.0%
215	COURT OF APPEALS	5,661.9	5,989.2	5,718.5	56.6	1.0%
216	SUPREME COURT	3,229.3	3,424.2	3,230.8	1.5	0.0%
218	ADMINISTRATIVE OFFICE OF THE COURTS	48,564.8	54,578.4	49,526.3	961.5	2.0%
218	ADMINISTRATIVE OFFICE OF THE COURTS	0.0	0.0	0.0	0.0	0.0%
219	SUPREME COURT BUILDING COMMISSION	930.7	1,011.4	931.0	0.3	0.0%
231	FIRST JUDICIAL DISTRICT COURT	6,814.8	7,280.3	6,867.2	52.4	0.8%
232	SECOND JUDICIAL DISTRICT COURT	22,329.0	23,499.5	22,489.0	160.0	0.7%
233	THIRD JUDICIAL DISTRICT COURT	6,387.6	6,791.7	6,387.6	0.0	0.0%
234	FOURTH JUDICIAL DISTRICT COURT	2,273.1	2,420.8	2,273.1	0.0	0.0%
235	FIFTH JUDICIAL DISTRICT COURT	6,442.8	6,839.2	6,442.8	0.0	0.0%
236	SIXTH JUDICIAL DISTRICT COURT	3,187.8	3,382.1	3,187.8	0.0	0.0%
237	SEVENTH JUDICIAL DISTRICT COURT	2,317.2	2,457.4	2,317.2	0.0	0.0%
238	EIGHTH JUDICIAL DISTRICT COURT	2,916.2	3,156.5	2,916.2	0.0	0.0%
239	NINTH JUDICIAL DISTRICT COURT	3,322.1	3,547.1	3,322.1	0.0	0.0%
240	TENTH JUDICIAL DISTRICT COURT	899.2	947.6	899.2	0.0	0.0%
241	ELEVENTH JUDICIAL DISTRICT COURT	6,273.0	6,720.6	6,317.3	44.3	0.7%
242	TWELFTH JUDICIAL DISTRICT COURT	3,326.1	3,474.0	3,326.1	0.0	0.0%
243	THIRTEENTH JUDICIAL DISTRICT COURT	6,906.3	7,308.0	7,036.3	130.0	1.9%
244	BERNALILLO COUNTY METROPOLITAN COURT	22,855.2	24,276.9	22,955.2	100.0	0.4%
251	FIRST JUDICIAL DISTRICT ATTORNEY	5,213.2	5,794.8	5,250.7	37.5	0.7%
252	SECOND JUDICIAL DISTRICT ATTORNEY	17,830.8	18,480.2	17,975.4	144.6	0.8%
253	THIRD JUDICIAL DISTRICT ATTORNEY	4,648.8	5,042.9	4,653.1	4.3	0.1%
254	FOURTH JUDICIAL DISTRICT ATTORNEY	3,032.0	3,345.1	3,058.5	26.5	0.9%
255	FIFTH JUDICIAL DISTRICT ATTORNEY	4,829.2	5,063.9	4,870.2	41.0	0.8%
256	SIXTH JUDICIAL DISTRICT ATTORNEY	2,741.1	3,043.4	2,783.6	42.5	1.6%
257	SEVENTH JUDICIAL DISTRICT ATTORNEY	2,410.2	2,497.1	2,436.1	25.9	1.1%
258	EIGHTH JUDICIAL DISTRICT ATTORNEY	2,593.2	2,685.4	2,628.9	35.7	1.4%
259	NINTH JUDICIAL DISTRICT ATTORNEY	2,824.5	3,035.2	2,877.6	53.1	1.9%
260	TENTH JUDICIAL DISTRICT ATTORNEY	1,202.4	1,386.0	1,221.0	18.6	1.5%
261	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIVISION I	3,878.7	4,006.6	3,888.7	10.0	0.3%
262	TWELFTH JUDICIAL DISTRICT ATTORNEY	2,900.9	3,115.1	2,963.2	62.3	2.1%
263	THIRTEENTH JUDICIAL DISTRICT ATTORNEY	4,873.9	5,218.1	4,936.2	62.3	1.3%
264	ADMINISTRATIVE OFFICE OF THE DISTRICT ATTORNEYS	2,188.8	2,624.5	2,188.8	0.0	0.0%
265	ELEVENTH JUDICIAL DISTRICT ATTORNEY, DIVISION II	2,151.0	2,375.4	2,197.8	46.8	2.2%
280	PUBLIC DEFENDER DEPARTMENT	47,389.9	53,741.2	47,863.8	473.9	1.0%

Table 1: General Fund Recommendation Summary

GENERAL FUND AGENCY RECOMMENDATION SUMMARY — TABLE 1

Business Unit	Description	FY17 Adjusted Operating Budget	FY18 Agency Request	FY18 LFC Recomm.	$ Over Adj. FY17 Oper.	Percent Change
Total	**Judicial**	267,671.6	290,975.9	270,263.6	2,592.0	1.0%
	General Control					
305	ATTORNEY GENERAL	8,978.5	18,902.8	10,050.4	1,071.9	11.9%
308	STATE AUDITOR	2,690.4	2,847.0	2,690.4	0.0	0.0%
333	TAXATION AND REVENUE DEPARTMENT	51,271.7	51,543.1	50,701.7	-570.0	-1.1%
337	STATE INVESTMENT COUNCIL	0.0	0.0	0.0	0.0	0.0%
340	ADMINISTRATIVE HEARINGS OFFICE	1,505.9	1,559.6	1,505.9	0.0	0.0%
341	DEPARTMENT OF FINANCE AND ADMINISTRATION	23,033.6	22,699.6	22,323.7	-709.9	-3.1%
342	PUBLIC SCHOOL INSURANCE AUTHORITY	0.0	0.0	0.0	0.0	0.0%
343	RETIREE HEALTH CARE AUTHORITY	0.0	0.0	0.0	0.0	0.0%
350	GENERAL SERVICES DEPARTMENT	13,084.3	14,087.4	14,087.4	1,003.1	7.7%
352	EDUCATIONAL RETIREMENT BOARD	0.0	0.0	0.0	0.0	0.0%
354	NEW MEXICO SENTENCING COMMISSION	524.6	555.1	499.6	-25.0	-4.8%
356	GOVERNOR	3,261.0	3,261.0	3,260.0	-1.0	0.0%
360	LIEUTENANT GOVERNOR	532.4	532.4	487.1	-45.3	-8.5%
361	DEPARTMENT OF INFORMATION TECHNOLOGY	885.4	890.1	445.1	-440.3	-49.7%
366	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION	0.0	77.3	0.0	0.0	0.0%
369	STATE COMMISSION OF PUBLIC RECORDS	2,476.4	2,620.5	2,476.4	0.0	0.0%
370	SECRETARY OF STATE	7,233.1	11,136.5	7,733.1	500.0	6.9%
378	PERSONNEL BOARD	3,933.1	3,921.4	3,812.9	-120.2	-3.1%
379	PUBLIC EMPLOYEE LABOR RELATIONS BOARD	213.7	231.0	213.7	0.0	0.0%
394	STATE TREASURER	3,428.6	4,207.1	3,428.7	0.1	0.0%
Total	**General Control**	123,052.7	139,071.9	123,716.1	663.4	0.5%
	Commerce and Industry					
404	ARCHITECTURAL REGISTRATION	0.0	0.0	0.0	0.0	0.0%
417	BORDER AUTHORITY	299.5	316.9	299.5	0.0	0.0%
418	TOURISM DEPARTMENT	12,815.8	12,883.6	12,815.8	0.0	0.0%
419	ECONOMIC DEVELOPMENT DEPARTMENT	8,564.6	8,837.5	8,564.6	0.0	0.0%
420	REGULATION AND LICENSING DEPARTMENT	12,343.3	12,408.4	12,343.3	0.0	0.0%
430	PUBLIC REGULATION COMMISSION	6,666.8	7,534.8	6,666.8	0.0	0.0%
440	OFFICE OF THE 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	REGULATION AND LICENSING	0.0	0.0	0.0	0.0	0.0%
465	GAMING CONTROL BOARD	5,157.7	5,457.9	5,157.7	0.0	0.0%
469	STATE RACING COMMISSION	1,981.9	2,097.2	1,981.9	0.0	0.0%
479	BOARD OF VETERINARY MEDICINE	0.0	0.0	0.0	0.0	0.0%
490	CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION	111.8	118.3	111.8	0.0	0.0%
491	OFFICE OF MILITARY BASE PLANNING AND SUPPORT	181.9	194.7	181.9	0.0	0.0%
495	SPACEPORT AUTHORITY	419.6	444.0	0.0	-419.6	-100.0%
Total	**Commerce and Industry**	48,542.9	50,293.3	48,123.3	-419.6	-0.9%
	Agriculture, Energy and Natural Resources					
505	CULTURAL AFFAIRS DEPARTMENT	27,840.2	29,010.5	27,840.2	0.0	0.0%
508	NEW MEXICO LIVESTOCK BOARD	853.7	903.4	700.0	-153.7	-18.0%
516	DEPARTMENT OF GAME AND FISH	0.0	0.0	0.0	0.0	0.0%
521	ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT	18,133.3	18,202.7	17,341.7	-791.6	-4.4%

GENERAL FUND AGENCY RECOMMENDATION SUMMARY TABLE 1

Business Unit	Description	FY17 Adjusted Operating Budget	FY18 Agency Request	FY18 LFC Recomm.	$ Over Adj. FY17 Oper.	Percent Change
522	YOUTH CONSERVATION CORPS	0.0	0.0	0.0	0.0	0.0%
538	INTERTRIBAL CEREMONIAL OFFICE	77.1	77.6	50.0	-27.1	-35.1%
539	COMMISSIONER OF PUBLIC LANDS	0.0	0.0	0.0	0.0	0.0%
550	STATE ENGINEER	17,867.2	17,961.7	17,867.2	0.0	0.0%
Total	**Agriculture, Energy and Natural Resources**	64,771.5	66,155.9	63,799.1	-972.4	-1.5%
	Health, Hospitals and Human Services					
603	OFFICE OF AFRICAN AMERICAN AFFAIRS	747.7	751.6	729.1	-18.6	-2.5%
604	COMMISSION FOR DEAF AND HARD-OF-HEARING PERSONS	373.2	799.4	319.4	-53.8	-14.4%
605	MARTIN LUTHER KING, JR. COMMISSION	311.2	329.3	293.1	-18.1	-5.8%
606	COMMISSION FOR THE BLIND	1,940.7	2,053.7	1,938.8	-1.9	-0.1%
609	INDIAN AFFAIRS DEPARTMENT	2,522.4	2,518.2	2,240.5	-281.9	-11.2%
624	AGING AND LONG-TERM SERVICES DEPARTMENT	44,409.0	44,409.0	44,398.7	-10.3	0.0%
630	HUMAN SERVICES DEPARTMENT	1,031,779.3	1,152,311.2	1,029,096.5	-2,682.8	-0.3%
631	WORKFORCE SOLUTIONS DEPARTMENT	8,976.6	9,024.0	8,976.5	-0.1	0.0%
632	WORKERS' COMPENSATION ADMINISTRATION	0.0	0.0	0.0	0.0	0.0%
644	DIVISION OF VOCATIONAL REHABILITATION	5,647.6	5,677.5	5,647.6	0.0	0.0%
645	GOVERNOR'S COMMISSION ON DISABILITY	1,223.4	1,279.7	1,217.9	-5.5	-0.4%
647	DEVELOPMENTAL DISABILITIES PLANNING COUNCIL	5,072.3	5,393.4	5,072.4	0.1	0.0%
662	MINERS' HOSPITAL OF NEW MEXICO	0.0	0.0	0.0	0.0	0.0%
665	DEPARTMENT OF HEALTH	288,200.0	285,281.4	288,199.3	-0.7	0.0%
667	DEPARTMENT OF ENVIRONMENT	11,999.5	12,062.8	11,622.5	-377.0	-3.1%
668	OFFICE OF THE NATURAL RESOURCES TRUSTEE	247.5	248.9	247.5	0.0	0.0%
670	VETERANS' SERVICES DEPARTMENT	3,238.9	3,572.1	3,176.1	-62.8	-1.9%
690	CHILDREN, YOUTH AND FAMILIES DEPARTMENT	244,963.6	246,463.6	246,463.6	1,500.0	0.6%
Total	**Health, Hospitals and Human Services**	1,651,652.9	1,772,175.8	1,649,639.5	-2,013.4	-0.1%
	Public Safety					
705	DEPARTMENT OF MILITARY AFFAIRS	6,691.0	7,625.5	6,691.0	0.0	0.0%
760	ADULT PAROLE	476.2	482.8	476.2	0.0	0.0%
765	JUVENILE PUBLIC SAFETY ADVISORY BOARD	13.6	14.4	13.2	-0.4	-2.9%
770	CORRECTIONS DEPARTMENT	293,676.9	302,469.6	296,280.8	2,603.9	0.9%
780	CRIME VICTIMS REPARATION COMMISSION	2,333.8	2,469.6	2,324.0	-9.8	-0.4%
790	DEPARTMENT OF PUBLIC SAFETY	120,628.4	119,634.4	119,068.8	-1,559.6	-1.3%
795	HOMELAND SECURITY AND EMERGENCY MANAGEMENT	2,598.7	2,750.0	2,598.8	0.1	0.0%
Total	**Public Safety**	426,418.6	435,446.3	427,452.8	1,034.2	0.2%
	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	11,065.3	11,065.3	11,065.3	0.0	0.0%
925	PUBLIC EDUCATION DEPARTMENT-SPECIAL APPROPRIATIONS	99,131.7	96,631.7	74,099.6	-25,032.1	-25.3%
930	REGIONAL EDUCATION COOPERATIVES	0.0	0.0	0.0	0.0	0.0%
940	PUBLIC SCHOOL FACILITIES AUTHORITY	0.0	0.0	0.0	0.0	0.0%
949	EDUCATION TRUST BOARD	0.0	0.0	0.0	0.0	0.0%
Total	**Other Education**	110,197.0	107,697.0	85,164.9	-25,032.1	-22.7%

Table 1: General Fund Recommendation Summary

GENERAL FUND AGENCY RECOMMENDATION SUMMARY — TABLE 1

Business Unit	Description	FY17 Adjusted Operating Budget	FY18 Agency Request	FY18 LFC Recomm.	$ Over Adj. FY17 Oper.	Percent Change
Higher Education						
950	HIGHER EDUCATION DEPARTMENT	34,606.0	35,426.8	34,606.0	0.0	0.0%
952	UNIVERSITY OF NEW MEXICO	294,671.4	294,855.8	292,097.4	-2,574.0	-0.9%
954	NEW MEXICO STATE UNIVERSITY	192,695.7	192,414.2	192,067.7	-628.0	-0.3%
956	NEW MEXICO HIGHLANDS UNIVERSITY	29,375.5	29,392.9	29,072.6	-302.9	-1.0%
958	WESTERN NEW MEXICO UNIVERSITY	19,151.9	19,232.8	19,037.5	-114.4	-0.6%
960	EASTERN NEW MEXICO UNIVERSITY	43,316.4	43,336.1	43,175.8	-140.6	-0.3%
962	NEW MEXICO INSTITUTE OF MINING AND TECHNOLOGY	35,878.2	35,912.5	35,704.4	-173.8	-0.5%
964	NORTHERN NEW MEXICO COLLEGE	10,627.3	10,459.2	10,173.2	-454.1	-4.3%
966	SANTA FE COMMUNITY COLLEGE	13,736.0	13,798.9	13,773.2	37.2	0.3%
968	CENTRAL NEW MEXICO COMMUNITY COLLEGE	53,276.3	53,783.6	53,771.8	495.5	0.9%
970	LUNA COMMUNITY COLLEGE	8,065.7	7,915.5	7,359.9	-705.8	-8.8%
972	MESALANDS COMMUNITY COLLEGE	4,196.0	4,116.6	4,105.7	-90.3	-2.2%
974	NEW MEXICO JUNIOR COLLEGE	6,131.4	6,138.1	6,095.9	-35.5	-0.6%
976	SAN JUAN COLLEGE	23,240.1	23,036.5	23,013.4	-226.7	-1.0%
977	CLOVIS COMMUNITY COLLEGE	9,487.8	9,435.2	9,417.3	-70.5	-0.7%
978	NEW MEXICO MILITARY INSTITUTE	2,870.7	2,870.7	2,864.2	-6.5	-0.2%
979	NEW MEXICO SCHOOL FOR THE BLIND AND VISUALLY IMPAIRE	1,464.4	1,464.4	1,464.4	0.0	0.0%
980	NEW MEXICO SCHOOL FOR THE DEAF	4,076.4	4,076.4	4,076.4	0.0	0.0%
Total	**Higher Education**	786,867.2	787,666.2	781,876.8	-4,990.4	-0.6%
Public School Support						
993	PUBLIC SCHOOL SUPPORT	2,580,232.5	2,579,232.5	2,582,774.8	2,542.3	0.1%
Total	**Public School Support**	2,580,232.5	2,579,232.5	2,582,774.8	2,542.3	0.1%
Grand Total		6,078,920.3	6,248,332.2	6,052,324.3	-26,596.0	-0.4%

U.S. AND NEW MEXICO ECONOMIC INDICATORS

December 2016 Consensus Forecast

	FY2016	FY2017	FY2018	FY2019
NATIONAL ECONOMIC INDICATORS				
US Real GDP Growth (annual avg, % yoy)[1]				
IHS Global Insight	1.7	2.0	2.2	2.2
Moody's Analytics[2]	1.7	2.3	2.9	2.4
US Inflation Rate (CPI-U, annual avg, % yoy)[3]				
IHS Global Insight	0.7	1.9	2.5	2.4
Moody's Analytics[2]	0.7	1.8	2.7	2.7
Federal Funds Rate (%)				
IHS Global Insight	0.30	0.60	1.10	1.90
Moody's Analytics[2]	0.30	0.60	1.40	2.40
NEW MEXICO LABOR MARKET AND INCOME DATA				
NM Non-Agricultural Employment Growth	0.5	0.7	1.2	1.4
NM Nominal Personal Income Growth (%)[4]	3.5	2.4	3.6	4.5
NM Total Wages & Salaries Growth (%)	1.2	2.4	4.0	4.2
NM Private Wages & Salaries Growth (%)	1.2	3.0	4.9	5.0
CRUDE OIL AND NATURAL GAS OUTLOOK				
NM Oil Price ($/barrel)	$37.85	$43.00	$48.00	$50.00
NM Taxable Oil Volumes (million barrels)	146.7	143.0	143.0	143.0
NM Gas Price ($ per thousand cubic feet)[5]	$2.42	$3.15	$3.31	$3.26
NM Taxable Gas Volumes (billion cubic feet)	1,175	1,144	1,108	1,075

[1] Real GDP is BEA chained 2009 dollars, billions, annual rate
[2] For National Indicators, DFA used Moody's Analytics forecasting service in the revenue estimating process.
[3] 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 begins.
[5] 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: November 2016 IHS Global Insight, BBER: FOR-UNM, October 2016

GENERAL FUND CONSENSUS REVENUE ESTIMATE
December 2016
(millions of dollars)

	FY16		FY17		FY18		FY19	
	Unaudited Actual	% Change from FY15	Forecast	% Change from FY16	Forecast	% Change from FY17	Forecast	% Change from FY18
Gross Receipts Tax	1,975.4	-5.7%	1,868.6	-5.4%	2,007.9	7.5%	2,103.8	4.8%
Compensating Tax	46.9	-34.7%	50.0	6.7%	53.5	7.0%	57.8	8.0%
TOTAL GENERAL SALES	2,022.3	-6.7%	1,918.6	-5.1%	2,061.4	7.4%	2,161.6	4.9%
Tobacco Taxes	79.8	-3.1%	75.0	-6.0%	74.5	-0.7%	74.0	-0.7%
Liquor Excise	6.7	-74.4%	6.9	2.5%	26.1	278.3%	28.9	10.7%
Insurance Taxes	207.9	38.7%	229.2	10.2%	238.6	4.1%	252.9	6.0%
Fire Protection Fund Reversion	15.1	-0.6%	15.5	2.9%	15.9	2.6%	16.4	3.1%
Motor Vehicle Excise	150.4	8.4%	142.5	-5.2%	147.5	3.5%	153.0	3.7%
Gaming Excise	63.1	-10.5%	58.5	-7.2%	58.0	-0.9%	58.0	0.0%
Leased Vehicle Surcharge	5.5	5.7%	5.4	-2.5%	5.4	0.0%	5.4	0.0%
Other	3.0	511.7%	2.2	-27.1%	2.2	0.0%	2.2	0.0%
TOTAL SELECTIVE SALES	531.5	8.8%	535.2	0.7%	568.2	6.2%	590.8	4.0%
Personal Income Tax	1,327.2	-0.9%	1,331.0	0.3%	1,346.0	1.1%	1,370.0	1.8%
Corporate Income Tax	118.5	-53.4%	70.0	-40.9%	100.0	42.9%	93.0	-7.0%
TOTAL INCOME TAXES	1,445.7	-9.3%	1,401.0	-3.1%	1,446.0	3.2%	1,463.0	1.2%
Oil and Gas School Tax	236.8	-36.9%	273.3	15.4%	295.9	8.3%	299.1	1.1%
Oil Conservation Tax	11.4	-43.4%	14.3	25.7%	15.5	8.4%	15.7	1.3%
Resources Excise Tax	11.2	-16.0%	13.0	16.0%	13.0	0.0%	13.0	0.0%
Natural Gas Processors Tax	20.4	9.5%	10.0	-50.9%	10.9	9.0%	12.9	18.3%
TOTAL SEVERANCE TAXES	279.8	-34.6%	310.6	11.0%	335.3	8.0%	340.7	1.6%
LICENSE FEES	54.8	-1.9%	55.8	1.7%	56.9	2.0%	58.1	2.2%
LGPF Interest	555.1	10.4%	540.5	-2.6%	580.7	7.4%	614.6	5.8%
STO Interest	21.6	27.2%	-	-100.0%	19.7	-	28.0	42.1%
STPF Interest	193.5	5.9%	200.4	3.6%	210.6	5.1%	218.4	3.7%
TOTAL INTEREST	770.3	9.6%	740.9	-3.8%	811.0	9.5%	861.0	6.2%
Federal Mineral Leasing	390.0	-28.1%	420.0	7.7%	434.0	3.3%	435.0	0.2%
State Land Office	47.8	13.2%	55.0	15.0%	55.0	0.0%	55.0	0.0%
TOTAL RENTS & ROYALTIES	437.8	-25.1%	475.0	8.5%	489.0	2.9%	490.0	0.2%
TRIBAL REVENUE SHARING	64.4	-4.1%	64.2	-0.3%	64.7	0.7%	67.7	4.6%
MISCELLANEOUS RECEIPTS	48.1	-14.4%	61.5	28.0%	56.7	-7.8%	59.5	4.9%
REVERSIONS	55.2	7.3%	37.5	-32.1%	40.0	6.7%	50.0	25.0%
TOTAL RECURRING	5,708.8	-7.8%	5,600.2	-1.9%	5,929.1	5.9%	6,142.4	3.6%
TOTAL NON-RECURRING	3.3	na	202.8	na	-	na	-	na
GRAND TOTAL	5,712.1	-8.4%	5,803.0	1.6%	5,929.1	2.2%	6,142.4	3.4%

General Fund Financial Summary:
December 2016 Consensus Revenue Estimate
(millions of dollars)

	Preliminary FY2016	Estimate FY2017	Estimate FY2018
APPROPRIATION ACCOUNT			
REVENUE			
Recurring Revenue			
August 2016 Recurring Revenue Forecast Adjusted for Special Session Action	$ 5,672.1	$ 5,731.0	$ 6,056.4
December 2016 Revenue Forecast	$ 36.7	$ (130.8)	$ (127.3)
Total Recurring Revenue	$ 5,708.8	$ 5,600.2	$ 5,929.1
January 2016 Nonrecurring Revenue Update	$ 3.3	$ -	$ -
2016 Session Nonrecurring Revenue Legislation [1]		$ 74.3	$ -
2016 Special Session Nonrecurring Revenue Legislation [2, 4]	$ -	$ 127.0	
Total Nonrecurring Revenue	$ 3.3	$ 201.3	$ -
TOTAL REVENUE	**$ 5,712.1**	**$ 5,801.5**	**$ 5,929.1**
APPROPRIATIONS			
Recurring Appropriations			
General Appropriation	$ 6,234.7	$ -	
2016 Legislation & Feed Bill	$ 6.2	$ 6,228.3	
2016 Legislation FY16 Sanding	$ (31.0)		
2016 Special Session Recurring Appropriation Reductions [4, 5]	$ -	$ (206.1)	
2017 Legislation & Feed Bill		$ 10.3	$ 6,052.4
Total Recurring Appropriations	$ 6,209.9	$ 6,032.5	$ 6,052.4
Nonrecurring Appropriations			
2016 Legislation & Prior Year Appropriations	$ 97.2	$ 1.3	
2016 Special Session Nonrecurring Appropriations [3, 5]		$ 2.5	
2017 Session Nonrecurring Appropriations		$ 3.1	$ -
Total Nonrecurring Appropriations	$ 97.2	$ 6.9	$ -
TOTAL APPROPRIATIONS	**$ 6,307.1**	**$ 6,039.4**	**$ 6,052.4**
Transfer to (from) Reserves	$ (595.0)	$ (237.9)	$ (123.3)
Target Appropriation Account Transfers (Revenue/Expenditure Reduction TBD)		$ 250.0	$ 123.3
Adjusted Transfer to/from Reserves	$ (595.0)	$ 12.1	$ 0.0
GENERAL FUND RESERVES			
Beginning Balances	$ 713.1	$ 145.6	$ 164.5
Transfers from (to) Appropriations Account	$ (486.0)	$ 12.1	$ 0.0
Revenue and Reversions	$ 105.9	$ 62.1	$ 46.0
Appropriations, Expenditures and Transfers Out	$ (187.4)	$ (55.3)	$ (57.0)
Ending Balances	**$ 145.6**	**$ 164.5**	**$ 153.5**
Reserves as a Percent of Recurring Appropriations	*2.3%*	*2.7%*	*2.5%*

Notes:

2016 numbers are preliminary unaudited, and adjustments may be needed to match the 2016 audit.

1) Laws 2016, Chapter 12 (HB311)

2) Laws 2016, Second Special Session, Chapter 4 (SB2) - sweeps and transfers

3) Laws 2016, Second Special Session, Chapter 3 (SB6) - revenue package

4) Laws 2016, Second Special Session, Chapter 5 (SB8) - capital outlay sweeps

5) Laws 2016, Second Special Session, Chapter 6 (SB9) - appropriation reductions, not including the $22 million vetoed from the reduction to PED's special appropriations

Table 4: General Fund Financial Summary and Reserve Detail

General Fund Financial Summary:
December 2016 Consensus Revenue Estimate
RESERVE DETAIL
(millions of dollars)

	Preliminary FY2016	Estimate FY2017	Estimate FY2018
OPERATING RESERVE			
Beginning Balance	$ 319.8	$ (0.0)	$ 10.0
BOF Emergency Appropriations/Reversions	$ (2.0)	$ (2.0)	$ (2.0)
Transfers from/to Appropriation Account	$ (486.0)	$ 12.1	$ 0.0
Transfer to ACF/Other Appropriations	$ (20.0)	$ -	
2016 Revenue Legislation [1]	$ 40.6	$ -	
Transfer from Tax Stabilization Reserve	$ 147.5	$ -	
Ending Balance	$ (0.0)	$ 10.0	$ 8.1
APPROPRIATION CONTINGENCY FUND			
Beginning Balance	$ 28.4	$ 34.3	$ 26.0
Disaster Allotments	$ (16.3)	$ (16.0)	$ (16.0)
Other Appropriations	$ -	$ (0.3)	$ -
Transfers In	$ 20.0	$ -	$ -
Revenue and Reversions	$ 2.2	$ 8.0	$ -
Ending Balance	$ 34.3	$ 26.0	$ 10.0
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	$ 216.4	$ 110.4	$ 127.4
Transfers In	$ 39.6	$ 48.0	$ 39.0
Appropriation to Tobacco Settlement Program Fund	$ (18.5)	$ (18.5)	$ (19.5)
Gains/Losses	$ 3.6	$ 6.1	$ 7.0
Additional Transfers from TSPF	$ (21.6)	$ (18.5)	$ (19.5)
Transfer to General Fund Appropriation Account [2]	$ (109.1)	$ -	$ -
Ending Balance	$ 110.4	$ 127.4	$ 134.4
TAX STABILIZATION RESERVE			
Beginning Balance	$ 147.5	$ -	$ -
Transfers In	$ -	$ -	$ -
Transfer Out to Operating Reserve	$ (147.5)	$ -	$ -
Ending Balance	$ -	$ -	$ -
GENERAL FUND ENDING BALANCES	**$ 145.6**	**$ 164.5**	**$ 153.5**
Percent of Recurring Appropriations	*2.3%*	*2.7%*	*2.5%*

Notes:

2016 reserve numbers are preliminary estimates, and adjustments will be needed to match the 2016 audit.

1) Laws 2016, Chapter 12 (HB311)

2) Laws 2016, Second Special Session, Chapter 4 (SB2) - sweeps and transfers

2017 Special, Supplemental, and Deficiency Appropriations
(in thousands)

	SPECIAL, SUPPLEMENTAL, AND DEFICIENCY APPROPRIATIONS:					Agency Request			LFC Rec.		
	Agency Code	Agency	Language	FY	R/N	General Fund	Other Funds/ Federal Funds	Total	General Fund	Other State Funds	Total
	SPECIAL APPROPRIATIONS:										
1	218	Administrative Office of the Courts	To purchase remote interpreting equipment.	17/18	N	$10.0	$0.0	$10.0	$0.0	$0.0	$0.0
2	218	Administrative Office of the Courts	To purchase assisted listening equipment.	17/18	N	$10.0	$0.0	$10.0	$0.0	$0.0	$0.0
3	218	Administrative Office of the Courts	To purchase 2 vehicles.	17/18	N	$40.0	$0.0	$40.0	$0.0	$0.0	$0.0
4	218	Administrative Office of the Courts	To purchase interpreter scheduling software.	17/19	N	$0.0	$100.0	$100.0	$0.0	$0.0	$0.0
5	218	Administrative Office of the Courts	To purchase video equipment for arraignments.	17/18	N	$225.0	$0.0	$225.0	$0.0	$0.0	$0.0
6	218	Administrative Office of the Courts	For a security analysis contract.	17/18	N	$250.0	$0.0	$250.0	$0.0	$0.0	$0.0
7	218	Administrative Office of the Courts	To purchase video arraignment equipment.	17/18	N	$0.0	$260.0	$260.0	$0.0	$0.0	$0.0
8	218	Administrative Office of the Courts	For information technology for all judicial entities.	17/18	N	$325.0	$0.0	$325.0	$0.0	$0.0	$0.0
9	218	Administrative Office of the Courts	For a workload study contract.	17/18	N	$400.0	$0.0	$400.0	$0.0	$0.0	$0.0
10	218	Administrative Office of the Courts	For eSignature and criminal eFiling capabilities in the Odyssey case management system.	17/18	N	$0.0	$400.0	$400.0	$0.0	$0.0	$0.0
11	218	Administrative Office of the Courts	To replace video bridge for arraignments.	17/18	N	$0.0	$400.0	$400.0	$0.0	$0.0	$0.0
12	218	Administrative Office of the Courts	To address court priorities including funding for vehicles, furniture and equipment at courts statewide.	17/18	N	$579.1	$0.0	$579.1	$0.0	$0.0	$0.0
13	218	Administrative Office of the Courts	To address court priorities including funding for furniture and equipment in magistrate courts statewide.	17/18	N	$600.0	$0.0	$600.0	$0.0	$0.0	$0.0
14	218	Administrative Office of the Courts	To purchase redaction software for electronic case documents.	17/18	N	$0.0	$1,250.0	$1,250.0	$0.0	$0.0	$0.0
15	264	Administrative Office of the District Attorneys	Any unexpended balances remaining at the end of fiscal year 2017 from revenues received in fiscal year 2017 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 attorney's office for expenditure in fiscal year 2018. Prior to November 1, 2017, the administrative office of the district attorneys shall provide the department of finance and administration and the legislative finance committee 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 2017 for each of the district attorneys and the administrative office of the district attorneys.			Language Only			Language Only		
16	264	Administrative Office of the District Attorneys	Any unexpended balances remaining at the end of fiscal year 2017 from revenues received in fiscal year 2017 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 attorney's office for expenditure in fiscal year 2018. Prior to November 1, 2017, the administrative office of the district attorneys shall provide to the department of finance and administration and the legislative finance committee a detailed report documenting the amount of all southwest border prosecution initiative funds that do not revert at the end of fiscal year 2017 for each of the district attorneys and the administrative office of the district attorneys.			Language Only			Language Only		
17	305	Office of the Attorney General	To defend the Rio Grande compact. The appropriation is from the consumer settlement fund of the attorney general's office.	17/18	N	$0.0	$2,000.0	$2,000.0	$0.0	$600.0	$600.0
18	341	Department of Finance and Administration	For disbursement to the renewable energy transmission authority for operating costs in fiscal year 2018. The renewable energy transmission authority shall report to the interim New Mexico finance authority oversight committee on the status of the agency's operating budget.	17/18	R	$100.0	$62.5	$162.5	$50.0	$0.0	$50.0
19	341	Department of Finance and Administration	Payment Card Industry - Data security standards compliance program	18	N	$750.0	$0.0	$750.0	$0.0	$0.0	$0.0
20	350	General Services Department	To hire a project coordinator to develop and administer master planning guidelines and provide pre-implementation and training to executive agencies. The 2016 special session swept PBRF's that had been appropriated and encumbered for this purpose.	17/18	N	$160.0	$0.0	$160.0	$0.0	$0.0	$0.0
21	350	General Services Department	To provide for the assessment and valuation of vacant lands to include land surveys, title searches and recording of deeds. The 2016 special session swept PBRF's that had been appropriated and numbered for this purpose.	17/18	N	$850.0	$0.0	$850.0	$0.0	$0.0	$0.0
22	350	General Services Department	To hire contractors to assess tenant use space assignments and update agreements for buildings owned by GSD. The 2016 special session swept PBRF's that had been appropriated and encumbered for this purpose.	17/18	N	$500.0	$0.0	$500.0	$0.0	$0.0	$0.0
23	370	Secretary of State	Any unexpended balances in the administration and operations of elections program of the secretary of state remaining at the end of fiscal year 2017 made from the general fund shall not revert to the general fund and shall be available for expenditure in fiscal year 2018	17	N	Language Only					
24	417	NM Border Authority	For phase II of the Santa Teresa railroad study.	17/18	N	$3,300.0	$0.0	$3,300.0	$0.0	$0.0	$0.0

Table 5: Special, Supplemental & Deficiency Appropriations, 2017 Requests

2017 Special, Supplemental, and Deficiency Appropriations
(in thousands)

	SPECIAL, SUPPLEMENTAL, AND DEFICIENCY APPROPRIATIONS:					Agency Request			LFC Rec.		
	Agency Code	Agency	Language	FY	R/N	General Fund	Other Funds/ Federal Funds	Total	General Fund	Other State Funds	Total
25	419	Economic Development Department	To the development training fund for the job training incentive program.	17/18	N	$10,000.0	$0.0	$10,000.0	Language Only		
26	419	Economic Development Department	The request is to maintain a balance of $50,000,000 in LEDA funds.	17/18	N	$10,000.0	$0.0	$10,000.0	$0.0	$0.0	$0.0
27	419	Economic Development Department	To restore funding for the MainStreet program.	17/18	N	$350.0	$0.0	$350.0	$0.0	$0.0	$0.0
28	419	Economic Development Department	To restore funding for incubators, staff, facility costs and services needed to grow tenant businesses.	17/18	N	$65.0	$0.0	$65.0	$0.0	$0.0	$0.0
29	505	Department of Cultural Affairs	From the Art in Public Places fund for capital, exhibit, and repair related expenditures.	17/18	N	$0.0	$1,555.2	$1,555.2	$0.0	$1,555.2	$1,555.2
30	539	Commissioner of Public Lands	For natural resource restoration and remediation of state trust lands. The appropriation is from the state lands maintenance fund.	17/18	R	$0.0	$500.0	$500.0	$0.0	$0.0	$0.0
31	539	Commissioner of Public Lands	To complete historical back file conversion. The appropriation is from the state lands maintenance fund.	17/18	N	$0.0	$550.0	$550.0	$0.0	$0.0	$0.0
32	550	Office of the State Engineer	To continue water litigation under interstate compacts.	17/18	N	$2,050.0	$0.0	$2,050.0	$0.0	$600.0	$600.0
33	630	Human Services Department	To cover the costs of plaintiffs' attorneys and the cost of a special master associated with the ongoing Deborah Hatten Gonzales lawsuit.	17/18	N	$1,332.4	$617.6	$1,950.0	$400.0	$0.0	$400.0
34	630	Human Services Department	For the medical assistance program.	18	R	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
35	632	Workers' Compensation Administration	To purchase equipment, software, and storage for video conferencing and equipment for building security.	17/18	N	$0.0	$188.0	$188.0	$0.0	$188.0	$188.0
36	644	Department of Vocational Rehabilitation	Any unexpected or unencumbered balance in the division of vocational rehabilitation remaining at the end of the fiscal year 2017 shall not revert.	17	N	Language Only					
37	647	Developmental Disabilities Planning Council	To purchase a ramp van for transportation of staff and advocates statewide.	17/18	N	$65.0	$0.0	$65.0	$0.0	$0.0	$0.0
38	647	Developmental Disabilities Planning Council	Any unexpended balances in the office of guardianship program of the developmental disabilities planning council remaining at the end of fiscal year 2018 from appropriations made from the general fund and internal services funds / interagency transfers shall not revert.		N	Language Only					
39	665	Department of Health	To restore funding to trauma system fund.	17/18	R	$1,500.0	$0.0	$1,500.0	$0.0	$0.0	$0.0
40	665	Department of Health	To restore funding to the emergency medical systems fund.	17/18	R	$250.0	$0.0	$250.0	$0.0	$0.0	$0.0
41	665	Department of Health	To purchase and install analytical equipment in the in the laboratory services program.	17/18	R	$450.0	$0.0	$450.0	$0.0	$0.0	$0.0
42	665	Department of Health	For ongoing compliance with the waldrop lawsuit settlement and Jackson lawsuit disengagement, for strategic plan development, to train certified medication aids, and to establish two project ECHO hubs.	17/18	R	$7,349.3	$1,712.3	$9,061.6	$0.0	$0.0	$0.0
43	665	Department of Health	For two FTE to support continued growth of the mi-via self directed Medicaid waiver.	17/18	N	$62.1	$62.1	$124.2	$0.0	$0.0	$0.0
44	665	Department of Health	For one FTE to support implementation of the new client data management system in the developmental disabilities support program	17/18	R	$41.4	$41.4	$82.8	$0.0	$0.0	$0.0
45	665	Department of Health	For a rate study to assure compliance with new federal rules in the developmental disabilities support program	17/18	N	$75.0	$75.0	$150.0	$0.0	$0.0	$0.0
46	665	Department of Health	To support the developmental disabilities dental clinic transferring from the facilities management program to the developmental disabilities support program	17/18	N	$310.0	$0.0	$310.0	$0.0	$0.0	$0.0
47	665	Department of Health	To assure compliance with a new federal rule in the developmental disabilities support program	17/18	N	$1,000.0	$1,000.0	$2,000.0	$0.0	$0.0	$0.0
48	665	Department of Health	To establish an internal quality review function in the health certification, licensing and oversight program as a result of Jackson lawsuit disengagement activities	17/18	R	$604.6	$0.0	$604.6	$0.0	$0.0	$0.0
49	665	Department of Health	To replace a database linking staff in the health certification, licensing and oversight program with non-licensed facilities.	17/18	N	$250.0	$0.0	$250.0	$0.0	$0.0	$0.0
50	665	Department of Health	For ongoing field survey tool validation in the health certification, licensing and oversight program.	17/18	R	$50.0	$50.0	$100.0	$0.0	$0.0	$0.0
51	665	Department of Health	Any unexpended balances in the public health program of the department of health in the contractual services category from appropriations made from the county-supported Medicaid fund for the support of primary health care services related to the rural primary health care act remaining at the end of fiscal year 2016 shall not revert and shall be expended in fiscal year 2017 to support primary health care services in the Public Health Program.	17	N	Language Only					

2017 Special, Supplemental, and Deficiency Appropriations
(in thousands)

	SPECIAL, SUPPLEMENTAL, AND DEFICIENCY APPROPRIATIONS:					Agency Request			LFC Rec.		
	Agency Code	Agency	Language	FY	R/N	General Fund	Other Funds/ Federal Funds	Total	General Fund	Other State Funds	Total
52	665	Department of Health	Any unexpended balances in the public health program of the department of health in the Other State Funds category from appropriations made for children's medical services for the support of children with special health care needs and complex medical conditions remaining at the end of fiscal year 2016 shall not revert and shall be expended in fiscal year 2017 for maintenance of the infrastructure to provide comprehensive services to children with special health care needs per federal requirements Social Security Act, Title V 45 CFR 75-307 program income shall be used in accord with the following alternatives, (A) Addition in the public health program.	17	N		Language Only				
53	665	Department of Health	Any unexpended balances in the public health program of the department of health in the other state funds category from appropriations made for the Title X Family Planning Program for the support of family planning and related preventive health services for teens, women and men remaining at the end of fiscal year 2016 shall not revert and shall be expended in fiscal year 2017 for program services per the Department of Health and Human Services Grants Policy Statement, Section II, Page 60, program income must be used as provided in the notice of award.	17	N		Language Only				
54	665	Department of Health	Any unexpended balances in the developmental disabilities support program of the department of health in the other financing uses category remaining at the end of the fiscal year 2016 from appropriations made from the general fund shall not revert to the general fund and shall be expended in fiscal year 2017 to support the developmental disabilities Medicaid waiver program in the developmental disabilities support program of the department of health.	17	N		Language Only				
55	665	Department of Health	Any unexpended balances in the health certification, licensing and oversight program of the department of health in the other state funds category from appropriations made for the state-imposed civil monetary penalties in accordance with senate bill 445, remaining at the end of fiscal year 2016 shall not revert and shall remain available in future fiscal years to fund temporary management of failing facilities and health facility receivership.	17	N		Language Only				
56	690	Children, Youth and Families	Any unexpended balances in the protective services, early childhood services, and juvenile justice facilities programs of the children, youth and families department remaining at the end of fiscal year 2016 from appropriations made from the general fund shall not revert and may be expended in fiscal years 2017 and 2018.	17/18	N		Language Only				
57	690	Children, Youth and Families	Any unexpended balances in the protective services, early childhood services, and juvenile justice facilities programs of the children, youth and families department remaining at the end of fiscal year 2017 from appropriations made from the general fund shall not revert and may be expended in fiscal years 2018.	18	N		Language Only				
58	770	New Mexico Corrections Department	For inmate population growth, the treatment of hepatitis C, increases in overtime due to the recent correctional officer pay restructuring, and other costs.	17/18	R	$8,000.0	$0.0	$8,000.0	$0.0	$0.0	$0.0
59	770	New Mexico Corrections Department	To cover a projected deficit in salaries and benefits and restore funding for transitional living.	17/18	R	$1,000.0	$0.0	$1,000.0	$0.0	$0.0	$0.0
60	790	Department of Public Safety	The period of time to expend the appropriation to the department of public safety in Subsection 17 of Section 5 of Chapter 11 of Laws 2016 of one million two hundred thousand dollars ($1,200,000) of general fund to process backlogged rape kits is extended through fiscal year 2018.	18	N		Language Only			Language Only	
61	805	Department of Transportation	The period of time for expending up to three hundred seventy-five million dollars ($375,000,000) of other state funds and federal funds appropriations to the project design and construction program of the department of transportation pertaining to prior fiscal years is extended though fiscal year 2017.				Language Only			Language Only	
62	805	Department of Transportation	The period of time for expending up to fifty-five million dollars ($55,000,000) of other state funds and federal funds appropriations to the highway operations program of the department of transportation pertaining to prior fiscal years is extended through fiscal year 2017.				Language Only			Language Only	
63	805	Department of Transportation	The period of time for expending up to fifty million dollars ($50,000,000) of other state funds and federal funds appropriations to the modal program of the department of transportation pertaining to prior fiscal years is extended through fiscal year 2017.				Language Only			Language Only	
64	993	Public Education Department	For emergency support to school districts experiencing shortfalls. All requirements for distribution shall be in accordance with Section 22-8-30 NMSA 1978.	18	N	$4,000.0	$0.0	$4,000.0	$0.0	$0.0	$0.0
65	993	Public Education Department	For expenditures associated with legal fees related to funding formula lawsuits.	18	N	$2,500.0	$0.0	$2,500.0	$250.0	$0.0	$250.0
66	99220	Computer Systems Enhancement Fund	For transfer to the computer systems enhancement fund for system replacements or enhancements.	18	N	$37,103.5	$0.0	$37,103.5	$524.0	$0.0	$524.0
	SPECIAL APPROPRIATIONS TOTAL					$96,507.4	$10,824.1	$107,331.5	$1,224.0	$2,943.2	$4,167.2

Table 5: Special, Supplemental & Deficiency Appropriations, 2017 Requests

2017 Special, Supplemental, and Deficiency Appropriations
(in thousands)

	SPECIAL, SUPPLEMENTAL, AND DEFICIENCY APPROPRIATIONS:					Agency Request			LFC Rec.		
	Agency Code	Agency	Language	FY	R/N	General Fund	Other Funds/ Federal Funds	Total	General Fund	Other State Funds	Total
68	SUPPLEMENTAL AND DEFICIENCY APPROPRIATIONS:										
71	215	Court of Appeals	To cover shortfalls that would cause staff furloughs.	17	R	$70.0	$0.0	$70.0	$19.0	$0.0	$19.0
72	216	Supreme Court	To cover shortfalls that would cause staff furloughs.	17	N	$80.0	$0.0	$80.0	$0.0	$0.0	$0.0
73	218	Administrative Office of the Courts	For a projected shortfall in the children's court mediation fund.	17	N	$40.5	$0.0	$40.5	$0.0	$0.0	$0.0
74	218	Administrative Office of the Courts	For shortfalls in the court-appointed attorney fund.	17	N	$475.0	$0.0	$475.0	$200.0	$0.0	$200.0
75	218	Administrative Office of the Courts	For a projected shortfall in the facility fee fund for debt service on Bernalillo County Metropolitan Court.	17	N	$500.0	$0.0	$500.0	$0.0	$0.0	$0.0
76	218	Administrative Office of the Courts	For juror and interpreter costs in fiscal year 2017.	17	N	$609.0	$0.0	$609.0	$300.0	$0.0	$300.0
77	218	Administrative Office of the Courts	For the magistrate court for a projected shortfall in lease payments.	17	N	$1,328.6	$0.0	$1,328.6	$700.0	$0.0	$700.0
78	218	Administrative Office of the Courts	For risk management and department of information technology premiums from fiscal year 2015.	16	N	$71.0	$0.0	$71.0	$0.0	$0.0	$0.0
79	218	Administrative Office of the Courts	For juror and interpreter costs incurred in fiscal year 2016.	16	N	$994.5	$0.0	$994.5	$500.0	$0.0	$500.0
80	235	Fifth Judicial District Court	To offset over-reversion from prior year.	16	N	$0.3	$0.0	$0.3	$0.0	$0.0	$0.0
81	262	Twelfth Judicial District Attorney	To offset over-reversion from prior year.	16	N	$0.4	$0.0	$0.4	$0.0	$0.0	$0.0
82	263	Thirteenth Judicial District Attorney	To offset over-reversion from prior year.	16	N	$22.2	$0.0	$22.2	$0.0	$0.0	$0.0
83	280	Public Defender Department	To fill 12 staff attorney positions to reduce caseloads.	17	R	$912.3	$0.0	$912.3	$0.0	$0.0	$0.0
84	333	Taxation and Revenue Department	To cover a projected shortfall in the contractual category in the program support program in fiscal year 2017	17	R	$300.0	$0.0	$300.0	$0.0	$0.0	$0.0
85	333	Taxation and Revenue Department	To cover a projected shortfall in the other costs category in the tax administration act program related to postage and mailing services	17	R	$250.0	$0.0	$250.0	$0.0	$0.0	$0.0
86	342	New Mexico Public Schools Insurance Authority	To balance actuarial adjustments for liability and workers compensation claims. The agency is working with DFA's CAFR unit on a different way to budget these routine adjustments so they impact year-end financials but not the operating budget.	16	N	$0.0	$6,537.1	$6,537.1	$0.0	$0.0	$0.0
87	342	New Mexico Public Schools Insurance Authority	To balance the actual cost of health insurance claims due to increased utilization by some high cost members.	16	N	$0.0	$1,898.5	$1,898.5	$0.0	$0.0	$0.0
88	350	General Services Department	To cover utility rate increases; building maintenance; increased DoIT rate assessments; increased property insurance.	17	R	$1,157.0	$0.0	$1,157.0	$112.5	$0.0	$112.5
89	350	General Services Department	To eliminate historical losses for the State Printing program.	16	N	$156.6	$0.0	$156.6	$0.0	$0.0	$0.0
90	361	Department of Information Technology	To cover projected shortfall in the Enterprise Services Program in SFY17.	17	N	$3,700.0	$0.0	$3,700.0	$0.0	$0.0	$0.0
91	370	Secretary of State	Notwithstanding the provisions of 1-19A-10 NMSA 1978, the secretary of state is appropriated one hundred seventy-nine thousand dollars ($179,000) from the public election fund for expenditures related to the 2016 general election.	17	R	$0.0	$179.0	$179.0	$0.0	$179.0	$179.0
92	370	Secretary of State	To pay court ordered costs and fees to the ACLU	17	N	$117.2	$0.0	$117.2	$0.0	$0.0	$0.0
93	370	Secretary of State	To pay expenses in the administration program.	17	R	$146.4	$0.0	$146.4	$0.0	$0.0	$0.0
94	505	Department of Cultural Affairs	For existing debt owed to the general fund for prior year energy efficiency improvements at the Museum of Art, Space History, and natural History and Science.	16	N	$441.0	$0.0	$441.0	$0.0	$0.0	$0.0
95	550	Office of the State Engineer	The period of time for expending one million eight hundred fifty seven thousand one hundred dollars ($1,857,100) of the two million dollars ($2,000,000) appropriated from the consumer settlement fund of the office of the attorney general to the office of the state engineer in Subsection 37 of Section 5 of Chapter 101 of Laws 2015 to continue water litigation under interstate compacts is reappropriated to the office of the state engineer for the same purpose and is extended through fiscal year 2017.	16	N	Language Only					
96	609	Indian Affairs Department	To offset over-reversion from prior year.	16	N	$789.9	$0.0	$789.9	$0.0	$0.0	$0.0
97	624	Aging and Long-Term Services	To cover a projected shortfall in the Adult Protective Services Program in FY17	17	R	$230.0	$0.0	$230.0	$0.0	$0.0	$0.0
98	630	Human Services Department	To cover a Medicaid shortfall in 2017 that includes push forward from FY2016 of $12.6 million.	17	N	$24,982.0	$93,753.7	$118,735.7	$0.0	$0.0	$0.0
99	665	Department of Health	For a projected shortfall in the personal services and employee benefits category in program support in fiscal year 2017	17	N	$1,500.0	$0.0	$1,500.0	$0.0	$0.0	$0.0
100	665	Department of Health	For a projected shortfall in the vital records and health statistics bureau of the epidemiology and response division in fiscal year 2017	17	N	$500.0	$0.0	$500.0	$0.0	$0.0	$0.0
101	665	Department of Health	For a projected shortfall in the personal services and employee benefits category of the facilities management program in fiscal year 2017	17	N	$1,000.0	$0.0	$1,000.0	$0.0	$0.0	$0.0
102	665	Department of Health	For a shortfall in the in the personal services and employee benefits category of the facilities management program in fiscal year 2016	16	R	$1,562.7	$0.0	$1,562.7	$0.0	$0.0	$0.0
103	993	Public Education Department	For expenditures associated with legal fees related to funding formula lawsuits.	17	N	$1,300.0	$0.0	$1,300.0	$0.0	$0.0	$0.0
104	SUPPLEMENTAL AND DEFICIENCY APPROPRIATIONS TOTAL					$43,236.6	$102,368.3	$145,604.9	$1,831.5	$179.0	$2,010.5
105	SPECIAL, SUPPLEMENTAL, AND DEFICIENCY APPROPRIATIONS TOTAL					$139,744.0	$113,192.4	$252,936.4	$3,055.5	$3,122.2	$6,177.7

FY18 IT Funding Requests

(in thousands)

FY18 - Information Technology System Replacement/Enhancements				Agency Request				LFC Recommendation			
Item	Code	Agency	Brief System Description	GF	OSF	FF	Total	GF	OSF	FF	Total
1	218	Administrative Office of the Courts	Redaction of Judiciary Electronic Case Documents	$1,250.0			$1,250.0	$0.0			$0.0
2	218	Administrative Office of the Courts	Video Network Operations Center (VNOC) Video Bridge Replacement Project	$400.0			$400.0	$284.0			$284.0
3	218	Administrative Office of the Courts	VNOC Video Remote Interpreting (VRI) Equipment Refresh	$260.0			$260.0	$0.0			$0.0
4	218	Administrative Office of the Courts	Language Access System (LAS) Scheduling Software	$100.0			$100.0	$0.0			$0.0
5	218	Administrative Office of the Courts	Odyssey Case Management System Enhancement	$400.0			$400.0	$0.0			$0.0
6	341	Dept. of Finance and Administration	Capital Planning and Project Management	$3,073.9			$3,073.9	$0.0			$0.0
7	370	Secretary of State	Campaign Finance System Modernization	$985.0			$985.0	$0.0			$0.0
8	378	State Personnel Office	Personnel Records Digitization and Modernization Project	$1,000.0			$1,000.0	$0.0			$0.0
9	505	Department of Cultural Affairs	Standardized Admission Ticketing System - Replacement	$400.0			$400.0	$0.0			$0.0
10	630	Human Service Department	Medicaid Management Information System (MMIS) Replacement	$7,374.7		$67,710.1	$75,084.8	$0.0		$0.0	$0.0
11	630	Human Service Department	Child Support Enforcement System Replacement	$5,436.7		$10,553.6	$15,990.3	$0.0		$0.0	$0.0
12	665	Department of Health	Administrative Services Division - Network Infrastructure Upgrade	$1,250.0			$1,250.0	$0.0			$0.0
13	665	Department of Health	Vital Records Birth and Death Records Imaging and Electronic Document Management	$750.0			$750.0	$0.0			$0.0
14	665	Department of Health	Developmental Disabilities Support Division Client Management System Implementation	$240.0		$2,160.0	$2,400.0	$240.0		$2,160.0	$2,400.0
15	665	Department of Health	ERD All Payers Claims Database	$350.0			$350.0	$0.0			$0.0
16	665	Department of Health	Scientific Laboratory Division - Laboratory Information Management Systems Upgrade	$310.0			$310.0	$0.0			$0.0
17	665	Department of Health	Division of Health Improvement (DHI) Facilities Licensing and Reporting Application Replacement	$350.0		$250.0	$600.0	$0.0		$0.0	$0.0
18	667	Environment Department	IT Disaster Recovery (hardware and software)	$215.6			$215.6	$0.0			$0.0
19	690	Children, Youth and Families Dept.	Systems Modernization Planning	$709.0			$709.0	$0.0			$0.0
20	690	Children, Youth and Families Dept.	CYFD Pull Together Web Self-service	$686.5			$686.5	$0.0			$0.0
21	690	Children, Youth and Families Dept.	Enterprise Reporting, Business Intelligence (BI) and Analytics	$555.5			$555.5	$0.0			$0.0
22	770	Corrections Department	Offender Management System Replacement	$5,000.0			$5,000.0	$0.0	$961.0		$961.0
23	790	Department of Public Safety	Records Management System (RMS)	$3,250.0			$3,250.0	$0.0	$500.0		$500.0
24	790	Department of Public Safety	Law Enforcement Academy Document and Training Management System	$433.0			$433.0	$0.0			$0.0
25	924	Public Education Department	IT Transformation - Data warehouse and Reporting system	$2,323.6			$2,323.6	$0.0			$0.0
			TOTAL	**$37,103.5**	**$0.0**	**$80,673.7**	**$117,777.2**	**$524.0**	**$1,461.0**	**$2,160.0**	**$4,145.0**