

STATE OF NEW MEXICO

EXECUTIVE BUDGET RECOMMENDATION

Fiscal Year 2015

(July 1, 2014 - June 30, 2015)

GOVERNOR SUSANA MARTINEZ

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State of New Mexico

Susana Martinez
Governor

To the People of New Mexico:

After closing the largest structural deficit in state history three years ago, I am proud to report that New Mexico's fiscal position remains strong and steady. Projected revenues once again exceed last year's spending, by roughly \$293 million, and due to prudent budgeting and spending restraint, our reserve levels stand at just under 10 percent – an important feat, given how badly the recent arbitrary federal budget cuts and a sluggish national economy have impacted state revenues and employment.

Make no mistake: We are in a sound fiscal position today because of our bipartisan efforts over the past three years to ensure that we live within our means and focus our investments on priority areas like educating our children and growing our economy. We need to exercise similar restraint and have a similar focus in the upcoming legislative session.

My proposed budget for the upcoming fiscal year calls for significant investments in education reform and a commitment to tackling pressing economic issues head-on - including expanding the health care workforce to meet unprecedented demands for primary care services, investing in water infrastructure and research throughout the state to lay a firmer foundation for economic growth, and enacting reforms in higher education and our state's tax code to grow, attract and develop new research, innovation, and high-tech firms in New Mexico.

All told, this \$6.07 billion budget proposal represents a 3.0% increase in recurring spending, or \$178.6 million. Coupled with non-recurring spending requests totaling \$112 million in FY14 and FY15, largely for pre-existing commitments and contingencies, total new spending will equal projected new revenue, preventing any draw-down of the state's savings account and preserving reserve levels at just below 10%.

Education Reform: Ensuring Our Children Can Read, Preparing them for the Workforce

With respect to public education spending, I am recommending \$100 million in new funding to support the needs of New Mexico's classrooms and public school students (for a total of \$2.667 billion in public school spending). This proposal includes \$15.5 million for the "New Mexico Reads to Lead" program, which funds early childhood reading initiatives that identify and support struggling readers between kindergarten and the third grade. And just as we must support struggling students, it is critical that we invest in interventions designed for our struggling schools as well. Specifically, I am proposing \$9 million to directly help the state's lowest-performing schools improve their student achievement. This is an increase of \$5 million over last year's funding, which will allow for the same training and research-based interventions in "C" schools that have been reserved only for "D" and "F" schools over the past two years, as well as support struggling schools that have had their federal funding cut due to sequestration.

Additionally, my budget calls for investing nearly \$36 million in Pre-K and K-3 Plus, an increase of \$5 million over last year's funding. Since taking office, we have doubled funding and participation in Pre-K, and K-3 Plus is now a permanent, well-utilized intervention that allows over 11,000 struggling students to receive additional summer instruction and help each year.

To support our teachers, I am proposing that we raise the minimum starting annual teacher salary in New Mexico from \$30,000 to \$33,000 and reward the state's highest-performing teachers and school leaders with monetary stipends – initiatives that cost roughly \$18.6 million. And I aim to spend \$2.5 million to recruit and retain math and science teachers in communities and schools that are sorely lacking instructors in these areas.

I am hopeful that the Legislature will also approve my request for \$1.5 million to expand the use of "parent portals" in New Mexico schools; these are online tools that parents can use daily to track their child's attendance, homework assignments, and grades, as well as receive regular feedback from their teacher(s). My budget proposal also includes \$500,000 to help start additional early college high schools throughout New Mexico. And I am advocating a significant increase in funding for textbooks and instructional materials (from \$21 million to \$30 million, a 43% increase).

Economic Leadership in Uncertain Times: Workforce, Infrastructure and Innovation

To create jobs in New Mexico, it is critical that we diversify our economy, grow our private sector, and reduce our heavy reliance on the federal government. Last session, we passed landmark tax reform that dramatically improved New Mexico's competitiveness with our surrounding states. These reforms included a

22% reduction in the business tax rate, a significantly lower corporate tax base for manufacturers, and improved targeting of the important high-wage jobs tax credit.

To further improve our state's ability to compete for jobs, I propose making the Job Training Incentive Program (JTIP) permanent in our state budget. This incentive encourages businesses to expand or relocate in New Mexico by committing the state to pay part of a new employee's salary while he/she is being trained. In the past, JTIP has been funded on a year-to-year basis, in an unpredictable manner; by moving \$1.5 million this year into the state's recurring budget, and additional funding in the years to come, it will provide a greater level of certainty for economic developers and companies looking to expand or move to New Mexico. In addition, my budget calls for at least \$10 million in funding for Local Economic Development Act (LEDA) grants, which act as a closing fund for New Mexico to pay for infrastructure improvements or land acquisition to recruit companies to expand or relocate in our state.

Additionally, key building blocks for economic development include cultivating a talented and trained workforce, investing in critical infrastructure that lays a foundation for economic growth, and encouraging research and innovation that spawns start-up companies and new investment.

With respect to workforce development, in addition to replicating early college high schools to produce workers in the industries that thrive in the local areas they serve, we must dramatically expand our health care workforce to meet the challenges posed by recent unprecedented changes in health care. Specifically, the expansion of Medicaid eligibility will add up to an additional 205,000 New Mexicans to Medicaid, with the particular goal that more patients will have access to primary care, as opposed to using costly emergency rooms. This means New Mexico will face an even greater challenge in securing an adequate supply of health care practitioners in the future. To help meet this challenge, my budget provides \$5 million to significantly expand New Mexico's health care workforce. The specific policies I propose to fund include:

- \$1.5 million to double the number of awards in New Mexico's nursing loan-for-service and health professional loan repayment programs (as well as add 6 new dental slots through the WICHE program). Over 10 years, this could result in an additional 720 new primary care practitioners who are required to work for a period of time in rural areas of New Mexico.
- Roughly \$1.6 million to add 24 new Nurse Practitioner slots and \$750,000 to expand the number of family practice residency slots by 7 at the University of New Mexico.
- \$500,000 to institute the first-ever statewide training and voluntary certification program for community health workers throughout New Mexico.

- \$600,000 to expand the use of telehealth services, a more cost-effective way to connect rural-area patients and their practitioners to other specialists and physicians.
- Over \$200,000 in marketing funds to recruit nurse practitioners to New Mexico, seizing on the favorable licensure and practice climate for NP's in the state.

With respect to infrastructure development, recent drought, fires, and floods have exposed weaknesses in the water storage and delivery systems in many New Mexico communities, as well as damaged precious watersheds and led to several towns running completely dry. I have already announced my proposal to spend \$112 million, or roughly 60%, of the State's capital outlay budget on water infrastructure projects that rehabilitate our dams, repair our watersheds, and provide critical water system upgrades in communities throughout New Mexico – to ensure a clean water supply and to prevent water emergencies. In addition, this budget proposes to spend \$2 million on water research to help us ensure a stable water supply in the future and \$450,000 to establish two funds designed to provide immediate assistance to any community facing a water supply emergency and technical assistance to small communities to help them prevent these emergencies and ensure a clean water supply for their residents.

Finally, with respect to spurring research and innovation in New Mexico, I propose allocating \$2 million to the Technology Research Collaborative in order to fund enterprising projects with commercial potential that are the result of partnerships between researchers at New Mexico's laboratories and universities, and the private sector. Secondly, by reforming the Higher Education Endowment Fund and investing \$7.5 million in it, we can also attract top researchers and professors to state institutions in order to train up and recruit students who are able to serve as a stronger high-tech workforce in New Mexico or become innovators and entrepreneurs themselves. Finally, I propose that we improve our tax treatment of innovation by expanding the use of the Angel Investment credit, allowing for greater private investment in small New Mexico start-ups, and reforming the Technology Jobs Tax Credit and current research and development tax credit to better support New Mexico companies that are creating jobs through their research and development activities.

Taken together, these measures will ensure a larger health care workforce throughout the State, an improved water infrastructure to better allow for economic growth, and an economy that values and encourages the sort of research and innovation that can create a thriving high-tech sector and high-paying jobs.

Other Items

I am also proposing several other initiatives, including allocating \$1 million to make the "Returning Heroes" firefighting program permanent. This is an initiative we launched last year to hire returning veterans and train them to battle the wildfires we unfortunately face each summer.

Regarding our efforts to increase tourism to New Mexico, my budget includes \$2.5 million in new funding for the Department of Tourism to expand the advertising of New Mexico to additional outside markets. Tourism is on the rise in New Mexico for the third straight year, with overall tourism numbers increasing by 2.6% in 2012, leading to a record level of 32 million visitors to our state. Tourism spending and employment have both surpassed pre-recession levels, with tourism spending increasing by 7% in 2012.

And to protect our most vulnerable, I am proposing \$25 million to improve reimbursements for nursing homes, community providers, and the behavioral health network, as well as expand transitional living and employment support services for behavioral health patients. This funding is available, in part, due to state savings resulting from the recent decision to expand Medicaid.

With respect to compensation for state employees, my budget includes \$14.2 million in targeted compensation increases for state employees in positions that are traditionally the hardest to recruit and retain. This includes \$4.5 million to implement the first phase of an overhaul of the pay structure for the New Mexico State Police. The remaining funding will be used to enact complete reforms of the classification structure for correctional officers, protective services employees, IT workers throughout state government, and health and engineering professionals. These targeted reforms and classification overhauls will impact 32% of the state workforce, and we hope to enact similar classification reforms for the rest of state government over the next one to two years.

One Time Expenditures

I propose \$111.8 million to cover one-time obligations and various contingency items. These include funding for the transition to Common Core standards in New Mexico classrooms, emergency supplemental funding for small school districts, critical IT projects in state agencies, and \$10 million in contingency funding for special education maintenance-of-effort obligations. In addition, I propose to spend \$11 million to meet Legislative Lottery Scholarship obligations to New Mexico students for the upcoming Spring semester, and I strongly urge lawmakers to enact broad-based, balanced reforms to the structure of the scholarship in order to ensure solvency for future semesters. And to make up for lost Tobacco Settlement revenue, which goes in part to

the Lottery Scholarship, I am proposing \$12 million to backfill lost revenue to the scholarship and several health and early childhood programs.

\$20 million is the estimated non-recurring cost of back-pay compensation to comply with last year's court rulings on a 2009 labor union lawsuit. The recurring cost of compliance is currently projected to be much less, at approximately \$2 million annually.

Other non-recurring items, discussed earlier, include \$1.5 million for JTIP (in addition to the proposed \$1.5 million in recurring funds), \$7.5 million to recruit researchers and professors through the Higher Education Endowment Fund, and \$10 million for LEDA grants.

I am optimistic about New Mexico's future. State government's fiscal house is in order, we are enacting tax reforms to make our economy more competitive, and we are implementing education reforms that place the achievement and success of our students as our highest priority. In order to maintain this progress, though, we must continue our bipartisan efforts to adopt responsible state budgets that restrain spending growth and invest in these targeted areas of greatest importance. The challenges posed by a dysfunctional federal government are real, and the need to lead in the face of various economic challenges (health care changes, unprecedented drought, and increased competition among states) is equally real.

Working together, I know that we can tackle these challenges – protecting those in need, investing in our kids, and competing for the jobs of tomorrow. Thank you for taking the time to review my budget proposal.

Sincerely,

A handwritten signature in black ink, appearing to read "Susana Martinez". The signature is fluid and cursive, with the first letter of "Susana" being a large, stylized "S".

Susana Martinez
Governor

Highlights of Executive Recommendation

With this FY15 budget recommendation, for the fourth straight year Governor Susana Martinez proposes a balanced budget that addresses the essential needs of New Mexico citizens while making strategic investments to build a more prosperous future. In just three years under the Governor's leadership, the state has gone from facing a \$450 million shortfall to sustained revenue growth which has enabled us to rebuild funding for the most essential public services while enacting comprehensive tax reforms. The challenges addressed by this budget include: reforming education to ensure our children can read and are prepared for the future, building a workforce to meet the needs of the 21st century economy, modernizing the water supply infrastructure of the state, improving efficiency in the provision of public services and continuing to meet the needs of our most vulnerable populations.

The Executive budget recommendation is based on the General Fund revenue forecast prepared by the consensus revenue estimating group. Details of their forecast are presented in Appendix A. After falling by 1.6 percent in FY13, total recurring revenue is projected to increase 2.7 percent in FY14 and 5.5 percent in FY15. Under current projections General Fund reserves will be 9.6 percent of recurring appropriations at the end of FY14. Because this is less than the prudent target reserve level of 10 percent, it is critical that the combination of recurring and non-recurring spending in the FY15 budget does not exceed total available new money of \$293 million.

As in past years, the State faces numerous demands on new money due to prior commitments, legal obligations and other critical needs. This Executive recommendation proposes \$112 million for these needs, which include the transition to Common Core standards in New Mexico classrooms, emergency supplemental funding for small school districts, critical IT projects in state agencies, \$10 million in contingency funding for special education maintenance-of-effort obligations, \$11 million to meet Legislative Lottery Scholarship obligations to New Mexico students for the upcoming Spring semester, \$12 million to make up for lost Tobacco Settlement revenue which had been budgeted to ongoing operations, and \$20

million for back-pay compensation to comply with last year's court ruling on a 2009 labor union lawsuit. The lawsuit settlement will also impose an estimated \$2 million of recurring costs annually.

After meeting these critical obligations, and setting aside \$2.6 million for tax reforms aimed at improving economic development, remaining new money for recurring appropriations, while preserving a prudent reserve level of just under 10 percent, is \$178.6 million - enough for a 3.0 percent increase. Priorities targeted for this spending in the Executive recommendation include: \$100 million for public education, compensation reforms, healthcare and high-technology workforce initiatives, caseload growth at Corrections, early childhood programs at the Children, Youth and Families Department, the Medicaid waiver program for persons with disabilities, water rights litigation at the Office of the State Engineer, and outcomes-based initiatives in higher education institutions. To spur research and innovation in New Mexico, the Executive recommendation proposes to fund the Technology Research Collaborative, as well as tax reforms to better support New Mexico companies that are creating jobs through their research and development activities. The budget also includes \$2.5 million in new funding for the Department of Tourism to expand the advertising of New Mexico to additional outside markets.

This budget demonstrates the Governor's commitment to ensure that state government fulfills its role of efficiently providing essential public services while facilitating the robust growth of the New Mexico economy. This balanced approach has already enabled the state to make significant progress in recovering from the recession, and it can continue to provide the basis for a stronger recovery in the future. This Executive recommendation can serve as the starting point for productive, cooperative negotiations with the Legislature to meet the needs of the people of New Mexico.

K-12 PUBLIC SCHOOLS

This Executive recommendation increases recurring General Fund spending for public and charter schools in FY15 by \$100 million, a 3.9% percent increase over FY14. Including this increase, total General Fund recurring spending for public school support will be \$2.667 billion, the highest total in the State's history. Public school funding will comprise 44% percent of total recurring General Fund spending in FY15.

“Above-the-Line” Spending: \$44.5 million

The Executive recommends a significant increase in “Above the Line” spending, which is distributed to school districts according to the funding formula but which is not restricted to specific spending purposes. The Executive recommends this funding be earmarked for: the statutory increase of 0.75% in the employer contribution rate for Education Retirement Account members (\$11.5 million); projected growth in student enrollment (\$11.1 million), and increases in insurance and fixed costs within districts (\$15.2 million). This recommendation also contains \$6.5 million to increase the minimum salary for Level 1 teachers from \$30,000 to \$33,000. Many school districts have expressed concern that the current starting salary is simply not competitive with those in other occupations. The proposed change will help to attract and retain qualified teachers, and will affect approximately 2,000 teachers across the state. Categorical increases of \$2.4 million for transportation will assist districts with projected increases in fuel and maintenance costs associated with transporting students to and from school. The Budget also includes a significant increase in funding for textbooks and instructional materials (from \$21 million to \$30 million, a 43% increase).

“Below-the-Line” Spending: \$55.4 million

The Executive recommends increasing funding for targeted interventions and programs that school districts can use for the identified purpose. This spending, which would comprise about 4 percent of total public school support in the Executive recommendation, would help the state to achieve a number of important education reform goals.

1. Rewarding Highly Effective Teachers and Principals: \$12 Million

This recommendation would provide funding to establish a pilot program in which school districts may choose to participate to provide stipends based on effectiveness to both highly effective teachers and principals. The program will be based on locally-designed reward systems, and results from the pilot will be used to assist policy makers in determining how to potentially implement a statewide effort to support our most effective teachers.

2. New Mexico Student-Parent Portal: \$1.5 Million

The recommendation provides funding for districts who are not currently utilizing a Parent Portal. Parent Portals are web-based services that provide parents and students with access to real-time information including attendance, grades and assignment descriptions. This tool enables greater parent involvement, which many studies have identified as a critical component of student success.

3. Next Generation Teacher and Principal Preparation: \$8.5 Million

This program would support a partnership with New Mexico Institutions of Higher Education and organizations to create a teacher and principal preparation training program. The focus of these programs will be to ensure that New Mexico is providing a highly effective teaching workforce, another critical component in improving student achievement.

4. Science, Technology, Engineering and Math (STEM) Initiative: \$2.5 Million

This funding will provide partnerships between students and teachers to support STEM related courses, degree offerings, and trainings. Funding will also be utilized to recruit and retain highly qualified math and science teachers. The budget provides for additional training for teachers already in the classroom in these content areas.

5. New Mexico Reads-to-Lead Early Reading: \$15.5 Million

The Executive recommends funding of \$15.5 million, an increase from the \$11.5 million contained within the operating budget, for Early Reading initiatives across the State. During FY13, only 55.2% of New Mexico students in the 3rd grade scored proficient or above in the reading sections of the Standards Based Assessment (SBA). The reading coaches and intervention specialists used by school districts and charter schools within this funding allocation will help students with the highest need to bridge the achievement gap.

6. Early College High Schools: (\$500 Thousand)

Funding to provide for five additional early high schools across the state, and support the partnership between local business organizations, school districts and institutions of higher education.

COMPENSATION REFORMS

The Executive recommends \$14.2 million in targeted compensation increases for state employees in positions that are traditionally the hardest to recruit and retain. This includes \$4.5 million to implement the first phase of an overhaul of the pay structure for the New Mexico State Police. The remaining funding will be used to enact complete reforms of the classification structure for correctional officers, protective services employees, IT workers throughout state government, and health and engineering professionals. These targeted reforms and classification overhauls will impact 32% of the state workforce. The Executive will continue to review the compensation structure of other occupations throughout state government, and may recommend additional classification reforms in the future.

MEDICAID EXPANSION

As a result of Governor Martinez's decision to expand the state's Medicaid program, as many as 205,000 additional low income New Mexicans are now eligible for the program. The Human Services Department expects to enroll approximately 148,000 new Medicaid enrollees during calendar year 2014 alone. Because the federal government will assume a greater share of the cost of these new enrollees, substantial General Fund savings will be realized. The Executive recommends that a portion of these savings be used for administrative costs related to the expansion, and also to increase rates and services for recipients of behavioral health and long-term care services. After these reallocations, the General Fund will realize a net savings of \$10 million in FY15.

The Medical Assistance Division will need \$1.8 million to expand administration services, primarily for quality review, cost reporting and actuarial analysis. To shore up the behavioral health network that provides essential mental health and substance abuse services across the state, the Executive recommends \$7.8 million from the General Fund and \$17.5 million in federal funds to improve rates, particularly for the network of core service agencies and rural provider agencies. For long term care service providers, such as nursing facilities and personal care option providers, the Executive recommends \$5 million from the General Fund and \$11.2 million in federal funds. This funding will help partially restore reductions from prior years and assist nursing facilities while the state considers a new rate structure.

\$15.3 million in General Fund savings in the Behavioral Health Services Division is directly attributable to Medicaid expansion. Medically-related services provided to adults receiving mental health and substance abuse services through the Division can now be billed to Medicaid. Previously these services were funded with 100% General Fund. The Governor proposes to repurpose \$12.1 million of these savings to expand the scope and range of behavioral health services and to enhance the management oversight, program evaluation, and quality improvement systems for providers and programs funded by the Division.

Pursuant to an evaluation of the “Sole Community Provider” component of New Mexico’s Medicaid program, the state’s hospitals are facing a significant cutback of federal funding. The Human Services Department has successfully negotiated with the Federal government for reimbursement rate increases that will offset much of this funding decrease. However, the proposed solution will require counties to come up with dedicated revenue to commit to the support of their hospitals. The Executive recommendation includes \$9 million of state General Fund money as a supplement to the required local contributions. However, this funding will be contingent upon enactment of legislation to dedicate matching funds from counties.

TAX REFORM

Diversification and growth of our industrial base are the keys to a prosperous future for our citizens. To address these vital needs, Governor Martinez proposes a multi-faceted approach featuring strategic investments in education, infrastructure, job training, and tax reform that build

Overview of Executive Recommendation

on our strengths and help to address our weaknesses. Reforms adopted in the past two legislative sessions have dramatically improved New Mexico's competitiveness for new investment. This year the Executive recommendation allocates \$2.55 million of the recurring revenue base for two initiatives targeted at encouraging investment in small businesses that will increase the productivity of the New Mexico workforce.

Angel Investment Credit: One proposal would increase the number and amount of eligible investments under the Angel Investment Act. This statute encourages investors to take on more of the inherent riskiness of small business startups, providing critical early-stage funding to New Mexico businesses. Investors would be able to claim the 25 percent credit on up to \$250,000 per investment, compared with \$100,000 under present law, for investments in up to five eligible businesses per year. The cap on total credits paid would increase from \$750,000 to \$2 million per year. Eligible businesses are those employing New Mexicans in the manufacturing and R&D sectors.

Technology Jobs and Small Business Research and Development Credits: A second proposal would combine the Technology Jobs Tax Credit and the Research and Development Small Business Tax Credit, and, in the process, increase the value of these credits for small businesses. These credits directly reward spending that increases the productivity of New Mexico workers. Currently small businesses have been largely excluded because they have yet to generate large tax liabilities against which to claim the credits. The proposal would make a portion of the credits "refundable," so companies can benefit even if their taxes are less than their credits earned. In addition, the percentage rate of both the "base" and the "additional" credit would increase from 4 percent to 5 percent of eligible spending. Both credits are doubled in rural areas. New reporting requirements would enable the state to evaluate the effectiveness of the credits. Combined with other initiatives in this budget, these incentives will significantly improve the climate for innovative businesses to grow in New Mexico.

HIGHER EDUCATION

Higher Education Department (HED): The FY15 Executive budget recommendation for the Higher Education Department provides \$1.5 million to increase the Loan for Service, Loan for Repayment and Western Interstate Commission for Higher Education (WICHE) Programs. The increases will be targeted at increasing the supply of health care professionals in New Mexico, by allowing the department to issue more grant awards to students attending New Mexico higher education institutions. The increase will aid in establishing much needed health care professionals in designated shortage areas within the state, while also supporting the health professional by assisting the individual with repayment of outstanding student loans.

Higher Education Institutions: For state institutions of higher learning, the Executive recommends an increase of \$8.3 million in the Instruction and General category of their budgets. The increase would be allocated by a formula that rewards institutions based on the number of degrees and certificates awarded, awards to at-risk students and awards in STEM fields. \$3.1 million of the recommended increase is funded using mission-specific performance measures which are unique to each sector. In addition, the increase would be based in part on mission-specific measures, as recommended by the institutions themselves during the interim. Research institutions would be rewarded based on the amount of research funding they secure, two-year institutions would be rewarded based on the number of students who successfully complete at least 30 credit hours of coursework, and four-year institutions would be rewarded based on the number students completing at least 60 hours of coursework. These measures should encourage specialization that enhances the productivity of all institutions.

An additional \$58 million in the base budget of each institution would be reallocated to award progress in outcome-based measures of academic progress: Total Degrees/Awards, Science, Technology, Engineering, Mathematics, and Health (STEMH) degrees, awarded to At Risk students, and End-of-Course student credit hours. The proposed formula will encourage institutions to increase graduation rates and focus on STEMH degrees in order to develop a competitive workforce in New Mexico while also helping to close the achievement gap.

Overview of Executive Recommendation

The Executive also recommends an increase to the University of New Mexico's Health Sciences Center of \$2.4 million. The increase will help to meet the need for nurse practitioners in the State of New Mexico as well as increase the School of Medicine's budget in order to hire faculty physicians to provide care to New Mexican's as well as conduct medical research. The Executive recommends \$2 million for New Mexico State University's Water Resources Research Institute to address water scarcity challenges New Mexico faces now and in the future. The Executive recommendation also increases New Mexico Institute of Mining and Technology's budget by \$2 million for the Technology Research Collaborative. The increase will give New Mexico the opportunity to bring in innovative ideas and products to develop a strong economy by establishing advanced technology centers, creating new opportunities for businesses, facilitating the commercialization of technology and creating high-wage jobs in New Mexico. In addition to the above recurring appropriations, the Executive's non-recurring recommendation also contains \$7.5 million to replenish and reform the Higher Education Endowment Fund to attract top researchers and professors to state institutions in order to train and recruit students who are able to serve as a stronger high-tech workforce in New Mexico or become innovators and entrepreneurs themselves.

HEALTH AND HUMAN SERVICES

Human Services Department (HSD): Savings from the Medicaid expansion and the implementation of Centennial Care make possible a \$10 million reduction in the General Fund budget of HSD in FY15. The Executive recommendation also redirects funding to support increased expenditures for the maintenance and operation of the ASPEN system, the new information management system that will provide integrated case management, eligibility determination, and benefit delivery system for the public assistance programs administered by HSD. As discussed earlier under "Medicaid Expansion," the Governor recommends a major initiative to enhance mental health and substance abuse treatment services. Since the Medicaid program will now absorb many of the costs of core services provided to low income individuals, there is an opportunity to shore up both the infrastructure and oversight of this program while providing for a variety of new and expanded community support services to aid program recipients. The Executive recommends reinvesting \$12.1 million of the \$15.3 million savings

resulting from Medicaid expansion in the Behavioral Health Services Division in these new services and supports. The Governor's initiative includes directing \$4.6 million of this reinvestment for a "Quality Compliance Initiative" that would include the provision of on-going technical assistance and regular compliance audits of providers. The reinvestment in behavioral health services will also include \$3.5 million to maintain the state's crisis hotline and transitional living services. Finally, the Governor recommends spending \$2.5 million for supportive housing for veterans and the development of peer support systems and \$1.5 million as an emergency reserve for community programs that serve high need individuals or that serve more individuals than currently projected.

Children, Youth and Families Department (CYFD): The Executive budget recommendation creates a new Behavioral Health Services Division with thirty-six FTE. This new program will allow CYFD to concentrate its resources on the development of a strong and well-coordinated behavioral system for youth. Most of the funding and the FTE for the new division has been carved out of the agency's Program Support Division. The Executive recommendation also provides \$100.0 thousand for the creation of a Training Academy at CYFD. By providing professional development and more comprehensive core training for the Protective Services and Juvenile Justice Service programs, the Training Academy should increase staff retention and increase the competencies of employees providing direct services to children, youth and families. The Executive recommendation also provides \$659.7 thousand for ten additional investigators in the Protective Services Division and about \$350.0 thousand to expand domestic violence services. The Executive recommendation includes over \$2.2 million in additional care and support payments for children in the custody of CYFD and for an increase in monthly foster care payments to families providing foster care services. In the Juvenile Justices Division, the Executive recommendation includes approximately \$519.0 thousand to annualize operating costs for the Lincoln Pines Youth Center. The recommendation maintains, and in several critical areas, expands services that support children and families. An additional \$3 million in General Fund is proposed to increase provider rates for infant care and \$2 million in federal Temporary Assistance for Needy Families funds is proposed to replace Tobacco Settlement Program Funds to annualize other child care provider rate increases that will take effect in FY14.

Aging and Long Term Services Department (ALTSD): The Executive budget recommendation expands services for New Mexico's most vulnerable senior citizens. General Fund support for senior centers, senior transportation, respite care, meals and other support services provided by the Aging Network are increased by \$1.4 million. Nearly \$485.0 thousand of additional General Fund is included to increase the number of emergency home support hours available to seniors and persons with disabilities who are at risk of institutional placement.

Department of Health (DOH): Because of operational savings in a number of existing programs, the Executive recommends a flat General Fund budget of \$302.2 million dollars, but recommends reallocation of funding between programs to achieve important objectives. One reallocation will enable the state to fully address the treatment of developmentally disabled persons and thereby resolve the Jackson litigation. Another will provide services to an additional 675 families in the Family Infant and Toddler Program. In addition, the Executive recommends an increase of \$1.3 million for expansion of the Telehealth and Community Health Worker initiatives, as well as advertising funds to promote this program to prospective students. The Telehealth initiative will provide training and workforce development opportunities to PCPs, nurses, mid-level healthcare providers, and Community Health Workers in rural areas by connecting them to specialists. At least 325 medical providers would receive training on the best practices in chronic and infectious disease prevention, diagnosis, treatment, and prescribing. At least 160 knowledge network chronic and infectious disease telementoring clinics will be held. The Community Health Worker Initiative will support the Department of Health (DOH) in state statute to implement a statewide standardized competency-based training program and a voluntary professional certification process/program for Community Health Workers in New Mexico with oversight by the New Mexico Department of Health. Certified Community Health Workers would be required to complete a background check in order to complete the certification process. Community Health Workers play a critical role in: reducing health disparities, increasing access to care, and coordinating comprehensive care. There are approximately 800-900 trained Community Health Workers in New Mexico.

Developmental Disabilities Planning Council (DDPC): The Executive recommends a General Fund increase of \$594.3 thousand, of which \$450.0 thousand is for projected caseload increases in guardianship services. The increase will provide additional corporate guardianship services to sixty-eight individuals and treatment guardianship services up to seven hundred additional individuals.

Division of Vocational Rehabilitation: The Executive recommends a General Fund increase of \$497.6 thousand of which \$417.8 thousand is allocated to serve approximately 1,500 additional clients and to meet maintenance of effort requirements. The remaining \$79.8 thousand increase will be utilized in the Independent Living programs to provide services to an additional 50 individuals.

Workforce Solutions Department: The Executive recommends a base General Fund increase of \$900.0 thousand to replace non-recurring fund balances from the Workers Compensation Administration. In addition, the recommendation includes another \$8.8 million in IT maintenance support of the new Unemployment Insurance Information Technology system.

PUBLIC SAFETY

The Executive recommends a \$6.1 million General Fund increase for the Department of Military Affairs, Corrections Department, the Department of Public Safety, and the Department of Homeland Security. The recommendation for the Department of Military Affairs includes a base increase of \$0.2 million for the Youth Challenge Program, the Civil Air Patrol youth education program and GSD/DoIT rate increases.

Corrections Department: (\$3.7 million) This recommendation includes a base increase of \$2.8 million to increase prison capacity by approximately 190 inmates, to support the Department's GSD and DoIT rate increases, and to provide funding for building repairs and maintenance for correctional facilities statewide. The recommendation also includes \$0.9 million for expansion of the Security Threat Intelligence Unit.

Overview of Executive Recommendation

Department of Public Safety: (\$1.7 million) This recommendation includes a base increase of \$1.7 million to support vehicle replacement within the Law Enforcement Division; base increases to support other operating costs such as fuel, grounds, roadways and other maintenance; and \$0.25 million to support the DNA Crime Lab in Albuquerque.

Department of Military Affairs: (\$0.2 million) This recommendation supports an increase of \$0.2 million to fully restore the Youth Challenge and Civil Air Patrol programs. The increase will support education for at risk youth in New Mexico. The increase also includes a small amount for the General Services Department rate increases.

Department of Homeland Security and Emergency Management: (\$0.5 million) The recommendation provides an additional \$0.5 million General Fund to the Department of Homeland Security as the required state match for various federal grants and for a Statewide Mass Notification System.

GENERAL CONTROL

The Executive recommendation for FY15 includes a \$7.6 million increase in General Fund for the Attorney General, State Auditor, Taxation and Revenue Department, General Services Department, Commission on Public Records, State Treasurer, Secretary of State and the Public Defender Department.

Attorney General's Office: (\$0.4 million) The Executive recommendation includes an increase of \$388.6 thousand for base increases in personnel costs, contractual services and an expansion request with two new FTE. These positions will work on prosecuting, as mandated by law, sex offenders who are scheduled for parole hearings before the Adult Parole Board.

Secretary of State: (\$1.65 million) This recommendation includes an increase of \$1.6 million General Fund. The recommendation funds the agency request for personnel costs and the agency has plans to fill all positions by June, 2014 in order to be fully staffed for the upcoming elections. A significant increase for election equipment for polling locations is also included in the recommendation.

Taxation and Revenue Department: (\$2.2 million) The recommendation includes an increase of \$2.2 million to fund the agency's modernization efforts. Included in this amount is \$1.1 million to provide maintenance for GenTax, which replaces an FY14 non-recurring appropriation and will ensure that the state's recently overhauled tax filing system remains up-to-date. There is also \$350.0 thousand to support the newly launched Document Management System so that the Motor Vehicle Division can efficiently manage as many as 12 million documents electronically each year. Two new IT Applications Developers positions will increase General Fund by \$188.0 thousand to support information technology programs. New operational expenses total \$360.0 thousand and primarily relate to information technology supplies and services across the department.

General Services Department: (\$0.65 million) This recommendation includes an increase of \$650.0 thousand to reduce state airplane fees for customers as well as to provide funds for the Facilities Management Division to pay utility expenses for state buildings.

Public Defender Department: (\$0.9 million) This recommendation includes a \$916.8 thousand increase for personal services and related benefits to reduce vacancy rates and contracted attorney services.

Department of Finance and Administration (DFA): (\$1.5 million) The FY15 Executive recommendation for DFA includes an increase of \$1.5 million to support four additional FTE to assist the department in complying with mandatory regulations, and monitoring of local public entities. The increase will also enable the department to comply with section 12-6-3 NMSA 178 of the Audit Act. The Executive recommendation also incorporates a transfer of \$27.9 million to the Children Youth and Development Department and the Human Services Department for the County Supported Medicaid Fund. This transfer is incorporated into the Department of Finance and Administration budget to correctly balance the flow through of other state funds to the Human Services Department and the Department of Health.

COMMERCE AND INDUSTRY

The Executive recommendation for FY15 includes an increase of \$5.6 million in General Fund to the agencies regulating and promoting commerce and industry.

Overview of Executive Recommendation

Tourism Department: (\$2.5 million) An increase of \$2.5 million is proposed to support a marketing and promotion campaign for the Tourism Department. Over the last few fiscal years, the Department's advertising budget has been severely reduced restricting the Department's ability to influence in-state, domestic, and international markets that affect the positive growth and development of New Mexico. The recommendation will support the expansion of these efforts into additional strategic markets. In fiscal year 2014, the Executive recommendation also included an increase of \$2.5 million. These increases continue to contribute to all-time highs of 32 million domestic visitors (previously 31.4 million in 2008) and visitor spending of \$5.9 billion (previously \$5.5 billion in 2011) as well as job creation in the tourism industry of 2,167.

Economic Development Department: (\$1.7 million) The recommendation includes an increase of \$1.5 million for the Job Training Incentive Program, funding for international trade offices in Mexico City and Brazil and personnel costs. The non-recurring spending recommendation includes \$10 million in funding for Local Economic Development Act (LEDA) grants, which act as a closing fund for New Mexico to pay for infrastructure improvements or land acquisition to recruit companies to expand or relocate in our state.

The recommendation also includes \$700.0 thousand to the Gaming Control Board for contractual services for gaming compact negotiations and two additional auditors; \$200.0 thousand to the Racing Commission for three additional FTE and equine testing contracts; and, \$500.0 thousand to the Public Regulation Commission to replace funds for operational costs left by the establishment of the Office of Superintendent of Insurance and the transfer of the Corporations Bureau to the Secretary of State's office.

NATURAL RESOURCES

The Executive recommendation for FY15 includes an increase of \$7.8 million in General Fund to the agencies that promote, protect, and regulate our natural resources agencies.

Environment Department: (\$2.6 million) The Executive recommendation includes \$1.6 million to fund Superfund match, which replaces an FY14 non-recurring appropriation and is required by the Environmental Protection Agency in order to maintain federal support for clean-up of

contaminated sites. There is also \$450.0 thousand to establish two funds designed to provide immediate assistance to any community facing a water supply emergency and technical assistance to small communities to help them prevent these emergencies and ensure a clean water supply for their residents. An increase of \$600.0 thousand is provided to offset cuts in federal revenue.

The Department of Cultural Affairs recommendation of \$0.6 million includes funding for personal services and employee benefits to ensure that performance measures and statutory requirements are met. The \$337.0 thousand increase for the New Mexico Livestock Board is to replace declining other revenue, and to cover general operating costs. The \$1.3 million increase for the Energy, Minerals and Natural Resources Department is intended to support efforts to promote its Healthy Forests Division, Veterans Fire Crew Program and administrative oversight.

Finally, the recommendation provides increased funding for the Office of the State Engineer in the amount of \$3.0 million. This includes base increases to personal services and employee benefits and other costs related to water issues, an expansion in the Water Resource Allocation Program to reduce the backlog of water rights applications and increase dam inspections and \$800.0 thousand to replace diminishing fund balance in the Irrigation Works Construction Fund for irrigation projects and reservoir improvements.

CAPITAL OUTLAY

In the current year's budget, approximately \$627 million is available to fund new capital projects. Over \$232 million of this amount has been previously earmarked for capital projects by legislative action. Another \$43 million is needed for previous legislative authorizations. The remaining \$185 million in severance tax bonds and \$167 million in general obligation bonds are available for new authorizations.

Important steps have been taken over the last year to improve the capital outlay funding process by addressing longstanding weaknesses in the capital outlay system. More information is going into the process of determining project funding, and more oversight is being exercised over how funds are spent. To continue and expand efforts to improve the use of capital outlay funds, this year the Governor recommends that a significant portion of available resources – 60

Overview of Executive Recommendation

percent, or \$112 million, of Severance Tax Bond capacity – be dedicated to critical water infrastructure projects around the state. By focusing these resources on one of our most critical deficiencies, we can make significant progress in both public health and in economic development.

NON-RECURRING APPROPRIATIONS

The Executive recommendation includes \$111.8 million in non-recurring General Fund expenditures to meet critical needs at various state agencies. This level of non-recurring spending maintains healthy reserves of 9.6 percent of recurring appropriations.

A significant use of non-recurring funding is for the Economic Development Department to provide job incentive programs and other activities that spur economic development. The recommendation includes \$10 million for Local Economic Development Act (LEDA) funding for New Mexico communities, \$1.5 million for the Job Training Incentive Program (JTIP), and \$0.5 million for the Mainstreet Program, which facilitates economic development projects that are particularly crucial in rural areas of the state.

The Executive is recommending \$13.8 million for Information Technology Systems. Major projects include: modernizing the Motor Vehicle Division System (\$4.9 million); final stages of the Department of Public Safety's overhaul of the Records Management System (\$1.5 million); and funding for the Children, Youth and Family Department's new Enterprise Provider Information Constituent Services System to improve client services (\$2.6 million).

Education reform initiatives also constitute a significant portion of the Governor's budget proposal. These initiatives include \$2.5 million to assist with the transition to Common Core standards statewide, which will assist school districts and charter schools with benchmarking to national standards. Another \$8.7 million is directed for Emergency Supplementals to districts facing shortfalls and declines in student enrollment. Additionally, \$1.6 million is recommended to support the new teacher evaluation system, which provides essential training to teachers who are not meeting performance standards.

The state was recently informed by the U.S. Department of Education that it failed to meet the federal maintenance of effort requirements for FY 10 and FY11 and may see a reduction in its annual federal grant for special education. In order to try and mitigate this impact, the Public Education Department submitted a waiver request to the U.S. Department of Education and is awaiting a determination. The Executive recommendation includes \$10.0 million in non-recurring funds for FY15 to reduce the impact to special education programs in the event the waiver is denied.

The Governor's budget proposal includes \$16.0 million to cover shortfalls in the Lottery Fund to ensure there are adequate funds for student scholarships. The recommendation also contains \$7.5 million to replenish the Higher Education Endowment Fund so that our universities can attract top professors and researchers. Another \$7.2 million is recommended to replace a one-time appropriation from the Tobacco Settlement Program to support the Children, Youth and Family Department's reimbursements of certain child care providers as well as to fund the Department's pre-kindergarten and home visiting programs.

The Governor's budget proposal also includes \$2.0 million for the Department of Finance and Administration for reconciliation of bank and book transactions to bring the state's checkbook into balance. And finally, \$20 million is needed for back pay to state workers as a result of a recent state Supreme Court decision relating to the FY09 pay raise dispute.