

STATE OF NEW MEXICO

EXECUTIVE BUDGET RECOMMENDATION

Fiscal Year 2016
(July 1, 2015 - June 30, 2016)

GOVERNOR SUSANA MARTINEZ

January 2015

Prepared by:
State Budget Division
Department of Finance and Administration
190 Bataan Memorial Building
Santa Fe, NM 87501
(505) 827-3640
(505) 827-3861 (fax)

DEPARTMENT OF FINANCE AND ADMINISTRATION

Thomas E. Clifford, Ph.D, Cabinet Secretary
Andrew Jacobson, Deputy Cabinet Secretary

STATE BUDGET DIVISION

Michael Marcelli, State Budget Division Director
Richard Blair, State Budget Division Deputy Director

Executive Analysts

Andrew Miner	Joe Giannotto
Bryson Frazier	Kristy Borrego Ojinaga
Cinthia Martinez	Latishia Ortiz
Cyndi Montoya	Michael Regensberg
Ed Smith	Robert McGrail
Ellen Veseth	Steve Riggs
Jacqueline Martinez	

Betty Garcia, Office Manager

Prepared by:
State Budget Division
Department of Finance and Administration
190 Bataan Memorial Building
Santa Fe, NM 87501
(505) 827-3640
(505) 827-3861 (fax)



State of New Mexico

Susana Martinez
Governor

To the People of New Mexico:

I am pleased to introduce my spending priorities for the 2016 fiscal year. This is my fifth budget as Governor, and it continues my commitment to responsible budgeting, while targeting state funding toward initiatives designed to grow our state's economy and improve the education and general well-being of New Mexico's children.

History of Balanced Budgets and Adequate Reserves

Four years ago, I inherited the largest structural deficit in state history. Working with the Legislature, we balanced our budget without raising taxes on small businesses or families; instead, we prioritized state funding toward educating our children and providing for the most vulnerable, trimmed spending in numerous state agencies, and began to operate government more efficiently.

When I came into office, the State's reserves were dangerously low; our savings account was quickly drying up. Thanks to prudent budget policies and spending restraint, we began the current fiscal year with reserves at nearly 11 percent of appropriations – more than double the level I inherited. Our track record of responsible budgeting has enabled us to weather the recent dramatic decline of oil prices, and maintaining strong reserves will continue to ensure that state services are provided should revenues not materialize as projected.

Not only is the State's financial house in order, but along the way, we have made incredible strides in improving the climate for job creation in New Mexico. We curbed the double and triple taxation that had plagued construction and manufacturing businesses in New Mexico for years, passed landmark tax reform that reduced the business tax rate by 22 percent, overhauled and reformed the unemployment insurance system, and removed the tax on locomotive fuel – helping to establish a thriving border port in southern New Mexico that is providing tremendous opportunities for global trade and commerce.

We are exporting goods at a record level in New Mexico, tourism is on a significant rise, and our most recent unemployment report ranked New Mexico 15th in the nation in the growth of our private sector.

We are making progress. Education is more centered on student learning, and our state is becoming more competitive for jobs. But, there is more work to do, and the enclosed budget funds initiatives that will continue our efforts to make New Mexico an even better place to live.

Preparing New Mexico Children for a Prosperous Future

The FY16 Budget I am submitting to the Legislature calls for \$68 million in new public education spending, a 2.5 percent increase that brings total spending on public education to \$2.783 billion.

\$15.2 million of the increase is dedicated to a new “At Risk” component of the State Equalization Guarantee that I signed into law during the 2014 legislative session. This increase will help provide more services to some of New Mexico’s neediest children.

To better recruit quality teachers, I am proposing an increase in the minimum starting teacher salary from \$32,000/year to \$34,000/year, as well as additional compensation for highly effective Tier 3 teachers statewide. These two initiatives comprise \$11.7 million of my proposed public education increase, and will help ensure that our newest teachers receive competitive pay, while retaining our experienced and highly effective teaching staffs.

I am also calling for the establishment of a new teacher mentoring program to help turn around our struggling schools, for additional textbook funding (\$4.7 million), and for a “school supply bucket” program that will provide every teacher with a \$100 pre-loaded debit card to use for the purchase of school supplies in their classrooms. In addition, my budget requests \$1.5 million in funding to recruit math, science, bilingual, and special ed teachers into districts that have a difficult time finding and retaining these types of instructors.

On my watch, funding for pre-K has more than doubled, and I am again supporting an expansion of pre-K in this budget (as well as an expansion of K-3 Plus, a program that provides summer tutoring for struggling readers). I am hopeful the Legislature will continue to fund previously authorized programs to provide reading coaches in New Mexico schools, to provide additional pay for outstanding teachers through local-level pilot programs, and to improve the graduation rate and career readiness of our students.

Job Creation and Tools to Help Businesses Thrive

New Mexico’s economy must become more competitive, more diverse, and less reliant on federal government spending.

In particular, I am working to accomplish three goals:

- Make it easier for small businesses in New Mexico to expand and grow
- Attract new companies and jobs from other states and countries
- Make New Mexico a high-tech jobs leader

As noted, we have already made important strides in leveling the playing field with our neighboring states. Lowering the corporate income tax rate and allowing manufacturers to be taxed based on the location of their sales is making New Mexico more welcoming for private investment. For example, a recent Ernst and Young report found that New Mexico's tax burden for manufacturing used to be the third highest in the western region; today, it is the lowest, and most competitive in the west.

To build on this momentum, I am proposing that we increase the size of our closing fund for economic development projects to \$50 million, as well as expand the successful Job Training Incentive Program (JTIP), which helps businesses in New Mexico pay a portion of the salary of new workers as they are being trained. And, to encourage greater innovation in New Mexico, I am proposing, among other initiatives, to spend \$1 million through the Technology Research Collaborative (TRC) to bring products and ideas being developed at our labs and universities to the marketplace in New Mexico.

These efforts will help improve New Mexico's economy and create jobs, alongside several tax reforms I am proposing that would make it easier for small businesses to grow, encourage the relocation of businesses to MainStreet districts, incentivize private investment in high-tech start-ups, and provide additional benefit to companies creating technology jobs.

Keeping New Mexicans Safe and Healthy

A critical function of state government is to help ensure the safety and well-being of our children. My budget calls for several improvements to the way we investigate child abuse in New Mexico, including expanding the use of child advocacy centers, increasing the usage of family support workers, and utilizing technology to allow law enforcement officers to have access to the case history of a family's interaction with the Children, Youth, and Families Department.

My budget also increases funding for emergency dispatch services and forensic scientists at the Department of Public Safety, as well as for caseload growth and transition programs in our correctional facilities. It funds the implementation of the second phase of a compensation restructuring plan for commissioned police officers at the state level, and provides funding for additional law enforcement training academies.

To meet the needs of the expanded population eligible for Medicaid, my budget recommendation includes an increase of \$33.8 million for Medicaid, behavioral health improvements, and other related health programs.

Other priorities

Non-recurring spending in my budget will address a variety of critical needs, including preserving the Lottery Scholarship for New Mexico students, and investing in a variety of information technology programs to make government more efficient and customer-friendly. These IT projects include the development of an online small business portal, improvements to Motor Vehicle Division systems, a case management system to prevent the early release of inmates, the digitization of state personnel records, and much more.

In total, this \$6.29 billion budget proposal represents a 2.3% increase in state spending. Over the coming weeks, we will continue to monitor projected revenue levels and adjust our budget accordingly to ensure that state spending growth remains at an appropriate and responsible level. This includes monitoring oil and gas prices, which are currently low, and several other tax revenue streams, which are currently trending above our previous forecast.

It is my honor to have recently been re-elected as governor of our wonderful state, and I am committed to working in a bipartisan manner to ensure that we build upon the progress we have made in recent years. I believe that New Mexico's best days are ahead of us. Working together, we can pass real reform that will have a lasting impact on New Mexico families.

Sincerely,

A handwritten signature in cursive script that reads "Martinez".

Susana Martinez
Governor

Highlights of Executive Recommendation

The FY16 Executive Budget Recommendation is the fifth consecutive balanced budget proposed by Governor Susana Martinez that addresses the essential needs of New Mexicans while also making strategic investments to build for a more prosperous future. In just four years, Governor Martinez has led the state to overcome a \$450 million budget shortfall and rebuild funding for essential public services. This was accomplished through comprehensive tax reforms and sustained revenue growth. This FY16 Executive Budget Recommendation (hereafter “Recommendation”) addresses many pressing challenges, including: reforming education to ensure our children can read and are prepared for the future, increasing resources for public safety and child welfare, providing necessary health care services for those most in need, and enacting economic development measures designed to support small businesses and make New Mexico more competitive for job growth.

The Recommendation is based on the General Fund Revenue outlook prepared by the economists of the legislative and executive branches, known as the “consensus group” (Appendix A). Details of their forecast are presented in Appendix A. Total recurring revenue increased by a healthy 5.8 percent in FY14, in large part due to a 25 percent jump in revenue based on crude oil and natural gas production. Due to the recent decline in oil and gas prices, recurring revenue growth is expected to fall to 1.3 percent in FY15 before rebounding by 2.8 percent in FY16. General Fund reserves were 10.8 percent of recurring appropriations at the end of FY14. These reserves are adequate to ensure the budget is sustainable despite revenue volatility.

The current General Fund Revenue Outlook is subject to greater-than-usual uncertainty due to the recent decline of oil and natural gas prices. Although most of the decline in prices was incorporated in the Outlook prepared in December, both oil and gas prices have been subject to additional declines since its preparation. Most analysts expect prices to rebound over the course of the coming year as low prices lead to less production and increased consumption. Another factor mitigating the impact of falling oil and gas prices is the additional revenue generated by

increased consumer spending on goods and services due to savings realized at the gasoline pump. As has been the practice in the past, the consensus revenue estimating group will be asked to review an adjusted Outlook before the budget receives final approval in the House of Representatives. This review will provide the most current and objective analysis of revenues to serve as the basis for developing the budget for the State of New Mexico.

Total “new money,” the excess of FY16 revenue over FY15 recurring appropriations, is \$141 million - enough for a 2.3 percent increase in total recurring spending, or for targeted tax cuts. Priorities targeted for this spending in the Recommendation include: \$68 million for public school support and education reforms; \$4 million to continue public safety compensation improvements for commissioned law enforcement officers; \$6 million to offer additional law enforcement training academies and for better recruitment of forensic scientists and emergency dispatchers; \$10.5 million for caseload growth and other program needs at the Department of Corrections; \$10 million to improve child protection and other programs at the Children, Youth and Families Department; \$32 million to fully fund necessary increases in the Medicaid program; and \$6 million to institutions of higher education as they graduate more students well-prepared to thrive in the New Mexico workforce. The Recommendation also includes \$1.5 million in new funding to expand the successful “New Mexico True” advertising campaign, and \$2 million to expand the MainStreet and Job Training Incentive Programs (JTIP) vital to supporting the growth of small businesses throughout New Mexico.

The Executive Recommendation contains \$105.5 million for non-recurring General Fund needs. Major components include: \$50 million for Local Economic Development Act (LEDA) closing fund grants to help in the recruitment and retention of companies and jobs; \$18 million for critical information technology needs throughout state government; \$2.5 million for a reformed higher education endowment program targeting science and technology research and education; \$11 million to fulfill financial obligations in several higher education work study and loan repayment programs; \$6.5 million in Lottery Scholarship funding to ensure nearly full funding of the Scholarship for the next three semesters; \$1 million in Technology Research Collaborative funding to improve technology transfers from our national labs and universities to an emerging high-tech business sector in the state; and \$5.5 million in non-recurring funding for the JTIP program.

Overview of Executive Recommendation

Through this Recommendation, Governor Martinez continues her commitment to responsible spending and efficient governance, while focusing investments on economic growth initiatives and public education reforms. This Recommendation serves as the starting point for productive and cooperative negotiations with the legislature to meet the needs of the people of New Mexico.

K-12 PUBLIC SCHOOL SUPPORT

This Recommendation increases recurring General Fund spending for public education in FY16 by \$68 million, a 2.5 percent increase over FY15. This increase reflects a commitment of over 48 percent of new recurring revenues to public education. Including this increase, total General Fund recurring spending for public education in FY16 is projected to be \$2.783 billion, or 44 percent of total recurring appropriations - the highest total in the State's history.

“Above-the-Line” Spending: \$43.1 million

The Recommendation includes an increase of \$43.1 million in direct distributions to school districts and charter schools through the State Equalization Guarantee (SEG), also known as “above-the-line” spending. This funding, distributed through the Public School Funding Formula is discretionary to local school boards and governing bodies of charter schools, provided that the special program needs contained in the funding formula are met. In addition, if a public school has been rated D or F for two consecutive years, the department shall ensure that the local school board or governing body of a charter school is prioritizing resources of the public school toward proven programs and methods linked to improved student achievement until the public school earns a C or better for two consecutive years.

One of the most significant provisions of the “above-the-line” spending budget recommendation is \$15.2 million for the “At-Risk” component signed into law by the governor in 2014. This law contains reporting by school districts and charter schools on the methods implemented to increase student achievement, and how the “At Risk” dollars will assist with closing the achievement gaps.

Other components of the “above-the-line” spending Recommendation include funding for projected growth in student enrollment (\$11.1 million), and accounts for the cost increases associated with insurance and other fixed costs borne by school districts and charter schools (\$10.5 million). This recommendation also contains \$6.7 million for a 6.3 percent increase in the annual minimum salary for Level 1 teachers from \$32,000 to \$34,000. The proposed change will help to attract and retain qualified teachers, and will affect approximately 2,356 teachers across the state.

Categorical and Supplemental appropriations, which are not included in the SEG formula, include funding for transportation, out of state tuition, emergency supplemental, instructional materials, dual credit instructional materials and Indian education. Transportation funding is recommended at \$99.8 million to pay for the costs associated with transporting students to and from school. These include funding for maintenance and operations, fuel and contractor bus rental fees. The Recommendation also includes funding for instructional materials to be used by districts, charter schools and non-public schools to purchase instructional materials at no cost to students. For FY15, \$20 million was appropriated to the instructional material fund from recurring revenues, with another \$5 million from nonrecurring sources. The Recommendation consolidates this funding in the instructional materials fund, all from recurring revenue.

Targeted Program or “Below the Line” Spending: \$21.7 million

The Recommendation includes increased funding for targeted interventions and programs “below-the-line” by \$21.7 million. These appropriation recommendations are part of the Public School Support appropriation but have specific uses tied to them and must be spent according to specific requirements. Unlike the “above-the-line” appropriations that can be spent on unspecified purposes, “below-the-line” funds must be used for initiatives and programs that are proven to improve outcomes for students. This recommended increase brings total below-the-line spending on these targeted investments to 4.6 percent of the total recurring spending on public education in the Recommendation.

1. School Supply Bucket for Teachers: \$2.3 Million

This Recommendation provides funding to allow teachers to purchase much needed classroom supplies and instructional materials for their students. Each teacher will receive \$100.00 to be used specifically for classroom supplies and materials. The Public Education Department (PED) will administer the program and partner with a bank to issue prepaid debit cards to be distributed to each teacher in the state.

2. Recruitment of Certain Hard-to-Staff Teachers: \$1.5 Million

This Recommendation provides funding for districts and charter schools seeking to recruit or retain effective, highly effective, or exemplary teachers who specializing in PreK-12 special education or who are endorsed in bilingual education. Funding will be targeted to establish recruitment incentives for bilingual and special education teachers, continue incentives to retain highly qualified math and science teachers, and provide additional support for bilingual or special education teachers in their first two years. Funds will also apply to other hard to recruitment positions identified by school districts and charter schools.

3. Science, Technology, Engineering and Math (STEM): \$2.5 million

The Recommendation provides for an additional \$0.5 million for the STEM initiative launched by the Martinez Administration. This funding provides for materials, training and recruitment of STEM related teachers, and programs for school districts and charter schools across New Mexico.

4. Teachers Pursuing Excellence Mentorship Initiative: \$2.5 Million

This recommendation provides funding to allow for the development of a Teachers Pursuing Excellence mentorship program, modeled after the Principals Pursuing Excellence (PPE) program, which contributed to over 50 percent of participating schools increasing their letter grade in the first year of implementation. Teachers Pursuing Excellence will partner high performing teachers with struggling teachers for mentorship, sharing of best practices and direct support.

5. Teacher and School Leader Programs and Supports for Training Preparation, Recruitment and Retention: \$9.0 Million

This Recommendation provides increased funding to meet additional demand for the established Performance Incentive Pay Pilot Program. Using local expertise and negotiating with local partners, school districts and charter schools will create innovative systems to reward teachers and principals for their excellence. The program will allow districts and charters the ability to pilot an incentive pay program, increase the retention of high performing teachers and principals, and improve performance through incentive pay policies.

6. Interventions and Support for Students, Struggling Schools and Parents: \$12.5 Million

This Recommendation provides \$12.5 million in funding for interventions and support for students, struggling schools and parents, a \$2.0 million increase over FY15. Through the A-F School Grading Act, PED is able to identify struggling schools and support students and teachers with targeted interventions. This allows for differentiated technical assistance, opportunities for professional development, data-driven decision-making training and resources for best practices.

7. K-3 Plus: \$22.2 Million

This Recommendation provides a \$1 million increase in the K-3 Plus program, which provides summer tutoring to struggling readers. At this funding level, services will reach approximately 23,000 students. Priority is given to serving the students most in need of assistance. K-3 Plus is coordinating with the New Mexico Reads to Lead! initiative to provide professional development for teachers and administrators, offering parent training and support, and supporting the effective use of reading coaches.

8. Pre-Kindergarten: \$21.0 Million

This Recommendation provides a \$1.8 million increase to \$21 million in funding for the New Mexico Pre-Kindergarten Program, which is jointly administered by PED and the Children, Youth and Families Department (CYFD). This program provides increased access

Overview of Executive Recommendation

to voluntary high-quality pre-kindergarten programs, developmentally appropriate activities, linguistically and culturally appropriate curriculum and focus on school readiness. In FY15, funding provided half-day programs for 4,589 students and extended day programs for 493 students. Funding for Pre-K and the number of students served each year has doubled under the Martinez Administration.

COMPENSATION REFORMS

The Recommendation includes \$4 million in targeted compensation increases for commissioned officers at the Department of Public Safety. This continues the phased approach taken by the Martinez Administration to raise pay for new recruits and seasoned officers. Such an increase is necessary to address significant salary gaps compared to other public safety entities and problems with the recruitment and retention highly qualified officers.

HIGHER EDUCATION

Higher Education Department (HED): \$1.0 million

The Recommendation provides \$1.0 million for a Social Worker Loan Repayment program administered by HED. The increase will target gains in the supply of social workers by granting awards to students attending New Mexico institutions of higher education. The increase will aid in establishing much needed qualified professionals in designated shortage areas within the state, while also supporting the students in this career path by assisting the individual with repayment of outstanding student loans.

Higher Education Institutions: \$6.1 million

For state institutions of higher education, the Recommendation includes an increase of \$6.1 million in the Instruction and General (I&G) category of their budgets. The funding is distributed through a formula that rewards institutions based on their performance in producing state-desired outcomes.

The I&G formula is a distributive model which protects a significant portion of each institution's base, while carving out a portion to be re-distributed (along with new money) based on performance. The Executive recommendation results in 8 percent of the FY16 I&G budget to be allocated based on institutional performance outcomes continuing the Administration's policy of increasing targeted funding each year.

In the Recommendation outcomes funding is comprised of \$44.2 million carved from the base, plus \$4.8 million of new money, for a total of \$49 million. The formula distributes this outcomes funding as follows:

- Total Degree and Certificate Awards 27%
- Awards to At-Risk 13.5%
- Awards to STEM-H 13.5%
- Mission Measures 20%
- Workload (SCH) 25%
- Base Operating Costs 1%

For this year, an additional \$1.2 million is available in order to provide for both Hold Harmless and Stop/Loss provisions. The Hold Harmless provision is enacted for an institution that receives a reduction in funding through the formula but can demonstrate improved performance in production of raw total awards from one three year period to the current three year period. In this case, that institution would not face a reduction in funding and would be held flat to the prior year amount. The Stop/Loss provision dictates that a reduction in funding for any institution will be capped at 1 percent from their previous year's I&G funding.

The Recommendation also provides an increase to the University of New Mexico's Health Sciences Center of \$0.9 million. The increase will help to meet the need for more medical residencies in New Mexico, focusing on general surgery, internal medicine and psychiatry.

HEALTH AND HUMAN SERVICES

Human Services Department (HSD): \$33.8 million

Medicaid enrollment continues to exceed projections and expected to exceed 785,000 by the end of FY15, growing to over 820,000 by the end of FY16. This total includes over 215,000

Overview of Executive Recommendation

newly eligible adult beneficiaries who are participating in the program as a result of the decision by Governor Martinez to expand Medicaid in 2013. The expansion includes more adults than originally anticipated who qualify for Medicaid under pre-expansion eligibility criteria and are, therefore, not eligible for the higher federal match rate. This change, along with higher than anticipated enrollment growth and medical cost inflation, are the basis for the addition of \$32 million in General Fund expenditures proposed in this Recommendation to fully fund the program in FY16.

The Recommendation includes \$0.7 million for the Medical Assistance Division to expand administration services, primarily for quality review, cost reporting, actuarial analysis, and the development of new payment methodology. These improvements will help ensure that taxpayer money is being used to produce the best health care and health outcomes for New Mexicans.

The Executive recommendation includes an addition \$1 million to expand behavioral health services. Additional funds will be used to develop a statewide crisis access line, to provide transitional living services, and to expand non-Medicaid behavioral health services for veterans.

Children, Youth and Families Department (CYFD): \$10.0 million

Funding for the Protective Services Division (PSD) in this Recommendation is \$9.6 million higher than the FY15 operating budget. The General Fund increase for this program is \$6.7 million. In FY14, protective services experienced an increase of 326 children in care as compared to the previous fiscal year. In addition, more children in care are having increased medical and mental health needs. The increase includes \$1.5 million for additional care and support payments for foster and adoptive children.

This Recommendation includes the expenditure of \$2.1 million in General Fund for forty five new positions to assist with child abuse investigations, reduce the amount of overtime paid to current case workers, reduce burnout and create a more manageable workload for staff. The

additional staff will have a positive impact on the retention rate of caseworkers. The Recommendation also includes the following community-based service expansions at the local level to enhance the coordination of services between investigative agencies and to provide support to at-risk families:

- \$1.2 million to establish seven additional Child Advocacy Centers, where CYFD caseworkers or investigators, law enforcement officers who investigate child abuse, and community providers will be co-located to coordinate the support of all the entities investigating child abuse and neglect. This will ensure more comprehensive services are provided to children and more coherent investigations conducted.
- \$1.0 million to establish five Family Support Services Sites. These sites will assist families who frequently interact with CYFD by ensuring that family members are receiving appropriate counseling and services, in an effort to prevent violence from occurring in the home. The program is an intervention that targets families with three or more referrals to PSD for screened-in allegations of child abuse and neglect.
- \$0.7 million to provide long-term supportive housing, including case management services, for at-risk families.

The Recommendation for the Juvenile Justice Services Division (JJSD) includes a net increase of approximately \$2.5 million in General Fund expenditures over the FY15 operating budget. Major initiatives include \$0.8 million to open a twelve-bed reintegration center. This center will open in the southwestern portion of the state and will allow for continued regionalization, ensuring families of clients placed in this facility are able to participate in the youth offender's rehabilitative process and that the JJSD has sufficient beds available for clients on supervised release and probation. The role of regionalized reintegration centers is vital to the overall success of the Cambiar New Mexico model.

The Recommendation also includes \$1 million in General Fund expenditures to help JJSD fill vacant positions that are needed to provide the levels of supervision and support that are necessary for the successful operation of the program. The additional funding will allow the JJSD

Overview of Executive Recommendation

to continuously recruit new employees, manage overtime cost, provide full coverage within the facilities and field offices, and meet the challenges of the high turnover rate of Youth Care Specialists.

The Behavioral Health Services Division budget recommendation reflects an overall increase in General Fund expenditures of approximately \$1.3 million. The increase represents a transfer from the Early Childhood Services for the Infant Mental Health Program in the amount of \$0.7 million and new funding of \$0.05 million to increase rates for Safe House interviews, and \$0.79 million to increase rates for Shelter Care. Rates for Safe House and Shelter Care have not been adjusted for 10 years. CYFD is statutorily obligated to provide these services and this rate increase will help ensure the availability of these services.

PUBLIC SAFETY

Crime Victims Reparation Commission: (*\$0.55 million*)

This Recommendation includes a General Fund increase of \$0.55 million for the Crime Victims Reparation Commission. From FY13 to FY14, costs for victims' medical payments and other expenses have increased approximately 25 percent. In recent years, the agency has relied upon special appropriations; supplemental requests; and "rolling forward" reimbursement requests into the next fiscal year in order to meet budget requirements. In addition, the federal government determined in 2013 that Indian Health Services is now the payer of last resort for Native American victims of violent crime, thus increasing the burden on the Commission's budget.

Corrections Department: (*\$10.5 million*)

This Recommendation includes a base increase of \$10.5 million from the General Fund for the Corrections Department. This increase includes funds for elevated costs in care and support for both the inmate management and control and community offender management programs. In addition, the Recommendation supports a requested increase of \$1.6 million for medical contracts and funds for building repairs and maintenance at correctional facilities statewide. The Recommendation also includes \$0.8 million in General Fund expenditures for the

expansion of the Security Threat Intelligence Unit to reduce the average caseload per investigator, reduce the number of fugitives outstanding; and increase the overall percentage of absconders apprehended.

Department of Public Safety: (\$10.0 million)

The Recommendation includes a base increase of \$10.0 million from the General Fund for the Department of Public Safety. This increase includes several items in support of the agency's efforts to improve recruitment and retention of officers and other key positions. \$4.0 million is included for funding phase II of the compensation increase plan for commissioned state law enforcement officers at DPS. In addition, \$2.5 million is recommended to fund a second recruit school in FY16, with a target of 30 additional officers graduating. \$0.98 million is included to fund six vacant motor transportation officers and five vacant forensic scientist positions, as well as \$0.8 million is included to fund thirteen new positions and critical needs in emergency dispatch services. The recommendation also includes \$1.4 million for increased liability, unemployment and communication rate increases assessed by other state agencies.

Department of Military Affairs: (\$0.1 million)

The Recommendation includes a base increase of \$0.1 million from the General Fund to the Department of Military Affairs for continued support of the Youth Challenge Program.

Department of Homeland Security and Emergency Management: (\$0.25 million)

The Recommendation provides an additional \$0.25 million in General Fund to the Department of Homeland Security for one new position in emergency management assistance, and planning of the Statewide Mass Notification System.

GENERAL CONTROL

Taxation and Revenue Department: (\$0.55 million)

The Recommendation includes an increase of \$0.5 million, or 1 percent, to fund the agency's modernization efforts. A \$0.1 million expansion of 2 FTE to the Property Tax Division is recommended to oversee county property tax auctions on behalf of the agency. This expansion is

Overview of Executive Recommendation

recommended in addition to a \$0.4 million increase for the Motor Vehicle Division to increase the security of and centrally process driver's licenses. Other increases are recommended for temporary MVD clerks, property tax auction contractors, as well as for ONGARD and TAPESTRY servers.

Public Defender Department: (\$1.1 million)

This Recommendation includes a \$1.1 million increase in order to fund increased staffing and contract attorney services in areas where they are most urgently needed.

Department of Information Technology: (\$0.2 million)

This Recommendation includes a \$0.2 million increase to support the New Mexico Broadband Program through the expansion of two full time employees.

Department of Finance and Administration (DFA): \$0

The Recommendation for DFA is flat, while funding 6 CPA positions to assist with the New Mexico Comprehensive Annual Financial Report (CAFR). These positions will ensure the CAFR is being audited in accordance with industry standards, will prevent undetected issues such as the lack of cash account reconciliations and will ensure the CAFR is produced in a timely manner. The funding for these expansions comes from the Recurring Special Appropriations administered by DFA.

COMMERCE AND INDUSTRY

Tourism Department: (\$1.5 million)

The Recommendation includes an increase of \$1.5 million for the "New Mexico True" marketing and promotion campaign of the Tourism Department.

Economic Development Department: (\$2.0 million)

The Recommendation includes an increase of \$1.5 million for the Job Training Incentive Program (JTIP), and a \$0.5 million increase in funding for MainStreet development efforts across the state.

NATURAL RESOURCES

Environment Department: (\$0.5 million)

The Recommendation includes \$0.5 million recruit and retain required technical and professional staff.

State Engineer: (\$1.0 million)

The Recommendation includes \$0.57 million to hire seven additional staff to reduce backlog and increase efficiency. The Water Resource Allocation Division continues to experience an increase in work and demand for services, including the processing of water permits, without adequate resources to meet those demands. The growing backlog impacts business and development efforts throughout the state, and new tribal settlement agreements require additional personnel for the administration of water rights including the management of protests generated by the settlement agreements.

The Recommendation also includes \$0.4 million for six additional information management positions in order to achieve key agency initiatives, such as reducing the water right application backlog and implementing critical real-time water measurement. The Office of the State Engineer is increasingly reliant on information technology to effectively accomplish its mission of protecting and managing the water resources in New Mexico. Each major programmatic area within the agency, including water rights adjudications, active water resource management, interstate compact compliance, and water rights application processing, is heavily dependent upon information technology systems and solutions to achieve desired outcomes. These positions are critical to meeting the significant demand for information technology services, solutions to support the priorities of the programs, and improved services for constituents.

NON-RECURRING GENERAL FUND APPROPRIATIONS

The Recommendation includes \$105.5 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 at least 8.0 percent of recurring appropriations.

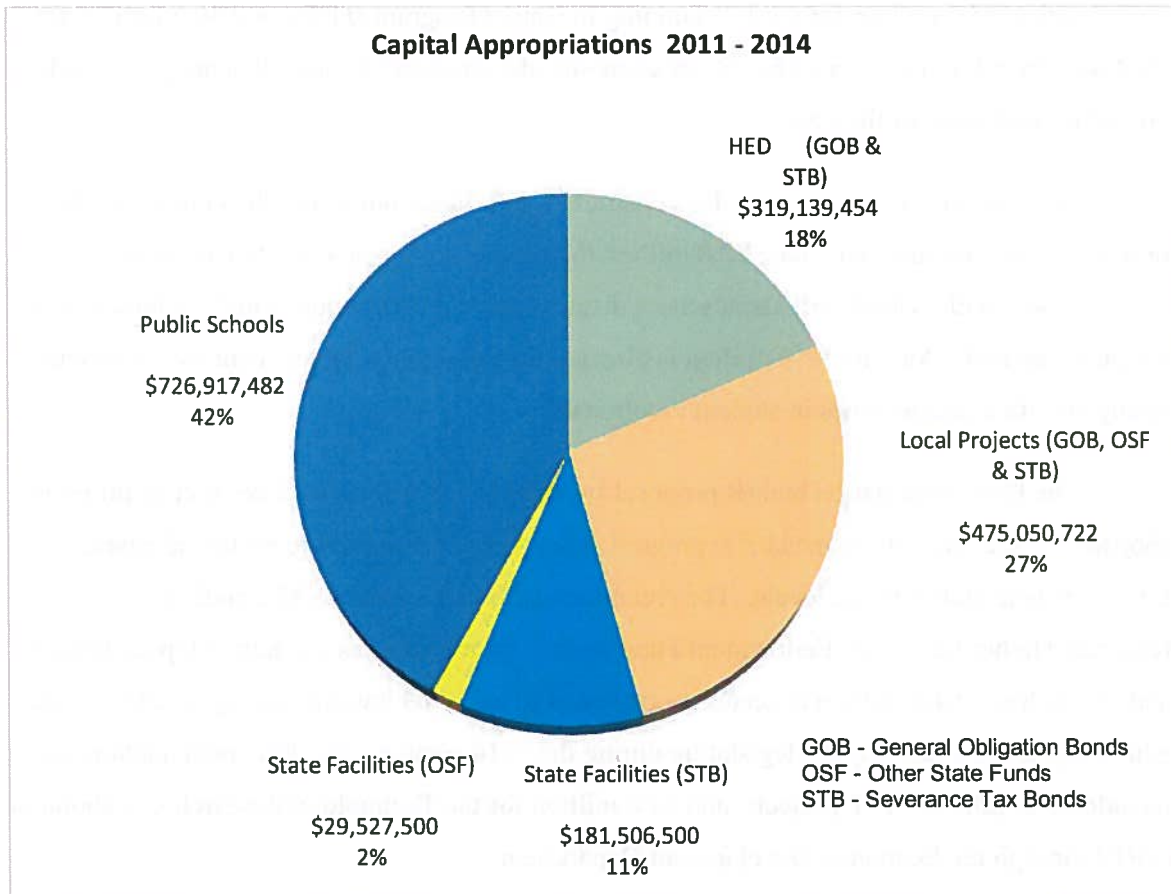
A significant use of non-recurring funding is for the Economic Development Department to provide job incentive programs and other activities that spur economic development. The Recommendation includes \$50 million (\$25 million in General Fund, and \$25 million from Severance Tax Bonds) for Local Economic Development Act (LEDA) funding for New Mexico communities, \$5.5 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.

Education reform initiatives also constitute a significant portion of the Governor's budget proposal. These initiatives include \$2.0 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 \$2.0 million is directed for Emergency Supplementals to districts facing shortfalls and declines in student enrollment.

The Recommendation budget proposal includes \$11.0 million to cover special program shortfalls in the Student Financial Aid program, as well as \$6.5 million to ensure adequate Lottery Scholarship funding levels. The recommendation also contains \$2.5 million for a reformed Higher Education Endowment Fund so that our universities can attract top professors and researchers. \$4.8 million is needed to pay costs of an FY09 lawsuit relating to union wages, which was not provided by the legislature during the 2014 session. The Recommendation also includes \$18 million for IT projects, and \$1.0 million for the Technology Research Collaborative (TRC) through the Economic Development Department.

Capital Outlay Priorities

A total of \$502.9 million of Severance Tax Bond (STB) funding will be available for new capital projects in the coming year. Most of this funding has been earmarked by statute or by prior legislatures. The following chart illustrates the uses of state capital funding over the last four fiscal years. The largest single category of use is public schools, followed by local capital projects, higher education institutions and finally state agencies. One implication of the process of spreading funding among so many recipients is that critical statewide needs are often unfunded, or they require many years to gain sufficient funding.



As illustrated in the following table, the state will have \$230.8 million of STB funding after earmarks and other commitments. The Recommendation utilizes \$25 million of this funding for Local Economic Development Act (LEDA) projects. Along with \$25 million of

Overview of Executive Recommendation

General Fund money, this will give the State adequate resources to compete for the most attractive new business opportunities. The Recommendation also includes \$60 million of STB proceeds be earmarked for highway infrastructure projects in the coming year, and a similar amount in each of the next two years. This money can be used to leverage other funding sources to enable completion of large-scale critical infrastructure projects around the state (refer to Appendix B: Debt Affordability).

The Martinez Administration has made substantial progress in reforming the capital outlay process in New Mexico, and additional initiatives are planned in the future. The State needs to improve the process by which capital projects are planned, funded and managed. A particular challenge is created by the State funding of local capital projects. Coordination is often lacking between the Legislature, the Executive agencies and the local entities that are the intended beneficiaries of these grants.

In response to Governor Martinez's Executive Order 2013-006, Local governments have made substantial progress in the area of improved financial accountability. This Order requires entities to be in compliance with the State Audit Act in order to be approved for state capital outlay funding. Approximately 26 percent of municipalities did not have current audits in 2013. That number is down to 8 percent as of December 2014. In addition, state agencies are working with local entities whose audits identified significant deficiencies and material weaknesses by requiring special conditions or the use of a fiscal agent to manage the project and further safeguard public funds.

One important new initiative is legislation to create a Capital Outlay Planning Division. The legislation incorporates "good practices" identified in the National Association of State Budget Officers, *Capital Budgeting in the States Report*. These include: specific and clear definition of capital expenditures; identifying institutional responsibilities and developing capital budgeting systems that target informational needs accordingly; maintaining centralized oversight of capital projects to ensure consistency; ensuring effective legislative involvement occurs throughout the capital budgeting process; maintaining a centralized database for state capital assets to streamline the record keeping process; and identifying criteria used to set capital infrastructure priorities and understand how priorities influence the selection of capital projects.

TAX REFORM

Bipartisan efforts led by Governor Martinez have transformed New Mexico's tax policies, creating a far more competitive environment for business investment and job growth.

Independent reviews show the state now has one of the most competitive tax policies for manufacturers of any state in the Western United States. However, New Mexico's tax laws still contain many traps for the unwary, and they have been found to be especially punitive of new investment by small businesses and headquarters operations. Several important tax reform initiatives have been developed in the last several years that should be considered for action during the coming legislative session. These include updates and expansions of the Angel Investment Tax Credit, the Technology Jobs Tax Credit, and the Renewable Energy Production Tax Credit. In addition, new initiatives under development should target the needs of small businesses and headquarters. Finally, the state has long been criticized for the appearance of unfairness because the hearing officers who adjudicate tax disputes are employees of the Taxation and Revenue Department, which is a party to the disputes. This should be corrected with new statute to create a truly independent hearing office to review these cases.

TRIBAL GAMING COMPACTS

Gaming compacts for five tribes entities are scheduled to expire at the end of FY15. Those compacts have been renegotiated by the Martinez Administration and are expected to be ready for review and approval by the legislature during the 2015 legislative session. If those compacts were to expire without new compacts in place, the State would lose approximately \$20 million dollars in annual revenue, and those five tribes would no longer be able to operate their casinos. This would result in a significant number of lost jobs and over \$200 million dollars in lost annual revenue for those tribal governments. Once new compacts are completed and approved, the associated revenue sharing payments will constitute an increase in future General Fund revenue.