

MINUTES
Legislative Finance Committee
Farmington/Grants, NM 87501
July 19 - 21, 2017

Wednesday, July 19th

Joint Session: Legislative Finance Committee (LFC) and Revenue Stabilization and Tax Policy Committee (RSTP)

The following LFC members and designees were present on Wednesday, July 19, 2017: Chairwoman Patricia A. Lundstrom; Vice Chairman John Arthur Smith; Representatives Jim R. Trujillo, Larry A. Larrañaga, Harry Garcia, Sharon Clahchischilliage, James G. Townsend, George Dodge Jr., and Randall S. Crowder; and Senators Carlos R. Cisneros, Steven P. Neville, Sander Rue, Howie C. Morales, George K. Muñoz, William F. Burt, and Pete Campos. Guest legislators: Representative Eliseo Lee Alcon.

RSTP members and designees present: Chairman Carlos R. Cisneros; Vice Chairman Jim R. Trujillo; Senators John Arthur Smith, Gay G. Kernan, Pat Woods, William E. Sharer, Bill Tallman, George K. Muñoz, and Clemente Sanchez; and Representatives Roberto “Bobby” J. Gonzales, Jason C. Harper, Tim D. Lewis, Antonio Maestas, Javier Martinez, Rod Montoya, Sharon Clahchischilliage, James R.J. Strickler, and Carl Trujillo.

Welcoming Remarks. In a joint meeting, the Legislative Finance Committee (LFC) and Revenue Stabilization and Tax Policy Committee (RSTP) were welcomed by Tommy Roberts, mayor of Farmington; Jack Fortner, commissioner of San Juan County; and LoRenzo Bates, speaker of the Navajo Nation Council.

Speaker Bates said the uncertain future of the Navajo Generating Station, which generates between \$30 million and \$40 million in revenue annually for the Navajo Nation, is impacting development of the Navajo Nation’s FY18 budget. The new fiscal year begins October 1. The budget is already facing other impacts, including a weakened oil and gas industry and reduction in federal funding. The council is currently working to extend the power plant’s lease agreement with the current owners to continue production.

Speaker Bates reported issues preventing many tribal members from complying with the New Mexico Real ID Act. Many tribal members do not have a birth certificate, a requirement of the new law. Also, many residences do not have a street address. On behalf of the Navajo Nation, a lobbying firm is working with the New Mexico Taxation and Revenue Department (TRD) to establish solutions. TRD is considering accepting alternative forms of documentation.

Speaker Bates briefly reported other current issues and activity of the Navajo Nation.

Mayor Roberts said Farmington is facing challenging economic times largely because of a shrinking tax base stemming from increased exemptions, deductions, and credits, Internet sales, and job losses. Gross receipts tax (GRT) revenue continues to be below what was collected in 2009. Mayor Roberts is supportive of tax reform that broadens the tax base and reduces the tax

rate. He recommends the food and medicine gross receipts tax be reimposed. If tax on food and medicine is reimposed and local hold harmless payments for food and medicine repealed, state revenue would increase by \$303.5 million. Mayor Roberts also recommends taxing Internet sales.

Commissioner Fortner said it unclear when the oil and gas industry will bounce back. In the meantime, Farmington is working to strengthen other avenues of business, including the retail and outdoor industries.

Commissioner Fortner expressed concern for doing away with the hold harmless provision without reimposing the food and medicine tax.

In response to Vice Chairman Smith, Mayor Roberts said the underground economy is hurting both state and local government. Mayor Roberts suggested the state invest more dollars to fight noncompliance of the underground economy. Vice Chairman Smith said the Legislature in the past has provided additional dollars for TRD to hire additional compliance personnel; however, those dollars were used to hire other personnel.

Representative Harper said New Mexico's tax policy is an outlier compared with the nation; however, great progress is being made to pass meaningful tax reform. Representative Harper said, according to the New Mexico Municipal League, repeal of the food tax has hurt low-income families most, countering who it is meant to help. Representative Harper said legislators should do what is right to fix the state's issues rather than what is popular to be reelected.

Utility Regulation. Sandy Jones, chair of the Public Regulation Commission (PRC), said it is the job of PRC to balance the interests of industry and consumers, ensuring safe, reliable, and affordable utilities. However, its job has become especially challenging in the last 10 years because of policy changes impacting the industry and the intrusion of nonregulated entities and deregulated markets.

The utility industry is evolving; more and more consumers want new technologies to manage and monitor their utilities, a demand that requires significantly more investment. Renewable energy is another demand, which Commissioner Jones said costs just as much to generate. As the industry evolves, more investment will need to be made to address cyber security.

Ernest Archuleta, chief of staff of PRC, gave brief background information about PRC. Five elected officials serve on the commission. In 2005, PRC tasked utility providers with establishing an integrated resource plan (IRP) that evaluates renewable energy, energy efficiency, load management, distributed generation and conventional supply-side resources on a consistent and comparable basis and take into consideration risk and uncertainty of fuel supply, price volatility, and costs of anticipated environmental regulations in order to identify the most cost-effective portfolio of resources to supply the energy needs of consumers.

Cydney Beadles, director of the Legal Division of PRC, said the commission is committed to ensuring transparency in the utility industry, allowing for public participation in the process. Similar to a court, cases are brought before PRC for determination of rates and applications for a

new generating station or the abandonment of one. Intervenors of cases may include the attorney general, municipalities, and public interest groups. PRC's Utility Division staff participates in all cases, advocating for the public interest.

Ms. Beadles said the Public Service Company of New Mexico (PNM) recently submitted its 2017 IRP, recommending shut-down of the San Juan Generating Station after the current coal supply agreement ends in June 2022. PNM's abandonment case will be brought forth to PRC in 2018.

New Mexico's consumption of electricity is lower than the national average. John Reynolds, economics bureau chief of the Utility Division of PRC, said residential households in New Mexico average a lower monthly bill than those in other states. In 2016, almost 17 percent of U.S. electricity consumption derived from renewable resources, a source that is inconsistent because it is weather-dependent. Gas-fired generation serves as the best back-up because it can respond quickly. Mr. Reynolds said increased availability of shale gas has kept gas prices low. Also, gas-fired generation is less costly to construct.

In 2004, the Legislature enacted the Renewable Energy Act, creating a state renewable portfolio standard. By 2020, investor-owned utilities are required to generate 20 percent of total retail sales from renewable energy resources, and rural electric cooperatives are required to generate 10 percent of total retail sales from renewable energy resources. It is estimated that by 2023 only a small fraction of the energy generated will be coal-based.

Mr. Archuleta briefly talked about other issues impacting the state. For example, the entry of Uber ride-share services in New Mexico has led to several job losses in the taxi community.

Representative Montoya expressed concern for the significant job loss that would result from shutting down the San Juan Generating Station. Chairwoman Lundstrom requested a letter be sent on behalf of LFC and RSTP to PRC requesting information on the station's abandonment case, specifically what the economic impact would be if the station closed and what the plan would be and cost of returning the area to greenfield condition. The committee voted in favor of sending the letter (see attached letter).

Senator Burt commented that the renewable energy industry should be subject to the same rules and regulations as the extractive industry. Senator Burt pointed out some wind farms in New Mexico are producing energy for other states, yet, except for the land owner, New Mexico is not receiving any incentive, such as tax revenue, on the resources being tapped.

In response to Vice Chairman Smith, Commissioner Jones said PRC has nine months from when a case is submitted to make a determination. Up to three one-month extensions may be granted. Extensions are often requested by PRC because of the limited staff it has to prepare for a case.

Public Service Company of New Mexico Integrated Resource Plan. Sayuri Yamada, director of Government Affairs of the Public Service Company of New Mexico (PNM), said change in the energy industry is taking place more now than has happened in the last 100 years PNM has been doing business in New Mexico. As a regulated utility, PNM is obligated to provide their

service at a fair rate but still given the opportunity to recover costs of providing that service and turn a profit.

PNM's current integrated resource plan (IRP), posted on its website, includes recommendation to retire operations at the San Juan Generating Station (SJGS) after the coal supply agreements end in June 2022. Pat O'Connell, director of Planning and Resources, said the integrated resource planning incorporates a public advisory process; 17 public meetings were held this past year. PNM is planning for a coal-free resource portfolio by 2031. Mr. O'Connell said the goal is to transition to a more flexible energy supply and increase renewable energy. To create more wind energy, PNM will need to invest in new transmission.

Several factors support PNM's retirement of coal-based energy production, including load forecast and price of natural gas. By moving to a more flexible energy supply and increasing renewable energy, PNM will achieve cost-savings that will also benefit its customers.

PNM's IRP was filed June 3, 2017. Next, PNM will be issuing a request for proposals (RFP), requesting bids on energy resources and storage that meets the IRP. The SJGS retirement case will be filed with the PRC in 2018.

Ms. Yamada said she understands what the impact will be to the community should the SJGS close. Ms. Yamada said it is important to PNM to be transparent, adding that PNM and the community need to work together to find solutions.

In response to Chairwoman Lundstrom, Mr. O'Connell said it is not a requirement of the IRP to include plans and costs of returning the SJGS to green-field condition. The IRP does include decommissioning costs. In response to Senator Neville, the power lines will continue to be in operation, exporting power generated by wind farms to California and Arizona.

In response to Senator Muñoz, Mr. O'Connell said it will cost approximately \$400 million to replace the energy no longer supplied by the SJGS with energy supplied by a new gas-fired power plant. Mr. O'Connell said natural gas energy emits fewer pollutants per mega watt hour than coal energy.

Environmental Regulation. Butch Tongate, secretary of the Environment Department (NMED), said changes imposed by the new federal administration are changing the way NMED conducts its oversight.

Richard Goodyear, interim director of NMED's Environmental Protection Division, and bureau chief of the Air Quality Bureau, said construction of a new power plant requires three permits: a construction permit, operating permit, and prevention of significant deterioration permit. There are currently 21 power plants in the state.

Mr. Goodyear gave a brief overview of federal and state regulation. Federal regulation is authorized by the Clean Air Act. State regulation is authorized by the New Mexico Air Quality Control Act. Additional detail was provided on the regulation of the San Juan Generating Station

(SJGS). Under the Regional Haze Rule of the Clean Air Act, the SJGS is required to have best available retrofit technology (BART), used to control emissions.

In response to Representative Crowder, Mr. Goodyear said many of the standards mandated by the state are equivalent to federal standards. Representative Crowder said he is concerned the standards mandated by the state but not the federal government could be hindering economic development in New Mexico.

In response to Senator Sanchez, Secretary Tongate said NMED has improved the permit processing time significantly. Current processing times are similar to neighboring states.

Outlook for the Energy Industry. Ken McQueen, secretary of the Energy, Minerals and Natural Resources (EMNRD), said most wells drilled today are horizontal oil wells. There are currently 59 rigs operating in New Mexico. The number of rigs operating largely depends on the price of oil and gas. The majority of the rigs operating in the United States are in Permian Basin. New Mexico is currently the fifth largest producer of crude oil in the United States.

Natural gas production in New Mexico remains steady. Secretary McQueen said natural gas produced by the San Juan Basin is decreasing because of lack of drilling. For the first time last fall, the Permian Basin produced more natural gas than the San Juan Basin. Oil production in New Mexico has doubled since 1994, hitting a high of over 440 thousand barrels of oil produced per day on average in February 2017. Eight-two percent of total oil production in New Mexico in 2017 will be produced by 11 publicly-traded companies, including Concho Resources Inc. and EOG Resources.

Secretary McQueen said drilling technologies and techniques are evolving. Extended reach horizontal wells are increasing. Many operators are now using multi-well pads for drilling, providing several advantages, including decreased surface disturbance and improved gas capture. Drillers are increasing their use of nonpotable water sources.

The Oil Conservation Division of EMNRD is currently working on five regulatory initiatives, addressing gas capture, horizontal rules, spill rules, stimulation reporting, and online filing. Providing an outlook for the future, Secretary McQueen said the Permian Basin will continue to be the most active basin in the United States. Natural gas prices are expected to remain depressed because of over-supply.

Ryan Flynn, executive director of the New Mexico Oil and Gas Association, said, in 2016, the oil and gas industry provided the state \$1.6 billion in revenue and 100 thousand jobs. Oil and gas prices are extremely volatile and hard to predict. In September of 2013, the price of oil was \$110 per barrel (bbl); the price of oil is currently averaging \$46/bbl.

According to Director Flynn, the U.S. Bureau of Land Management (BLM) permitting process is constraining the oil and gas industry in New Mexico. Director Flynn estimates that BLM permitting wait time is costing the state approximately \$2.3 million in potential revenue per day. The Department of Interior recently submitted an order to address the wait time, which Director Flynn said should result in quicker action.

Director Flynn said greenhouse gas emissions are decreasing even as production is increasing. According to NMED data, greenhouse gas emissions are on track to fall 33 percent from 2012 levels by the end of this year. According to Environmental Protection Agency data, methane emissions from petroleum systems have decreased by almost 29 percent since 1990. Director Flynn attributed the decrease to new innovations and the transition of more gas-fired energy generation and less coal-fired energy generation. New innovations are also helping decrease water consumption of the industry.

Director Flynn said hydraulic fracturing, also known as fracking, has proven to be a safe technology. Director Flynn said studies have found no credible threat to groundwater resulting from fracking and, in the 50 years of using the technology, New Mexico has not had one incident of ground water contamination.

Concluding, Director Flynn said the industry will continue to work hard to generate revenue for the state while operating in a responsible manner.

Tom Mullins, president of the Independent Petroleum Association of New Mexico, reported on the San Juan Basin and briefly addressed issues affecting the industry. The San Juan Basin primarily produces natural gas. Approximately 75 percent of oil and gas wells in New Mexico have a production rate that is marginal, an issue that Mr. Mullins said needs to be considered when imposing regulation.

Clark Mosely, chief executive officer of the Navajo Transitional Energy Company, said the Navajo Generating Station is expected to remain in operation until 2031. Mr. Mosely invited legislators to visit the Navajo mine and observe operations. The mine currently employs 340 people.

Mr. Mosely briefly talked about regulatory issues. Some changes have positively impacted the industry. For example, the Office of Surface Mining recently rescinded the stream protection rule.

In response to Representative Garcia, Director Flynn said the state's permitting process is much more efficient than BLM's. The long wait time for obtaining a permit from BLM makes it difficult to plan large scale projects, discouraging oil and gas companies from doing business in New Mexico.

Senator Muñoz asked how the Legislature can help the oil and gas industry. Director Flynn said reporting issues between the State Land Office and the Taxation and Revenue Department is a major issue for the industry. Director Flynn said a central reporting system needs to be established. Secretary McQueen said the oil and gas industry needs reliable, consistent regulatory framework. Mr. Mullins recommended reducing severance tax on natural gas wells operating at a marginal rate.

Promoting Economic Development Department in Northwest New Mexico. Mathew Geisel, secretary of the Economic Development Department (EDD), said, since January 2011, EDD has helped create over 16 thousand jobs. In recent months, the private sector has experienced

significant job growth, particularly in the construction industry. Secretary Geisel said increased investment made by the state has helped New Mexico become more competitive with surrounding states. The increased investment has also helped support homegrown businesses, including Skorprios, Meow Wolf, Sol Aero, and PESCO. PESCO, a manufacturer of process and production equipment in Farmington, will soon be expanding its business, adding an additional 170 jobs over a five-year period. PESCO is receiving \$100 million from the Local Economic Development Act (LEDA) fund for the expansion. The company is also approved to receive Job Training Incentive Program (JTIP) funds.

Barbara Brazil, deputy director of EDD, updated the committee on the status of LEDA and JTIP funding and projects. LEDA funded 14 projects in 2017, resulting in the creation of 543 jobs. JTIP investments resulted in over 2,000 workers trained. JTIP board members increased the minimum wage requirements for JTIP reimbursements. The minimum wage requirement is now \$11 in urban areas and \$9.50 in rural areas. JTIP is funding an internship program to encourage hiring college students. Ms. Brazil said EDD is putting actions in place to ensure accountability of LEDA and JTIP dollars.

Ms. Brazil then shared with the committee some success stories of LEDA and JTIP investments. JTIP dollars have helped the Plenish and Vapour Organic Beauty Company in Taos grow. Raytheon, a defense contractor company, received \$200 thousand from the LEDA fund in 2014 to expand its business of manufacturing sub assembly components. The expansion resulted in 150 new jobs. Secretary Geisel said Facebook is bringing to New Mexico high paying jobs. Facebook will be employing 104 people at the Los Lunas facility, set for construction in 2017. The construction will likely employ over 1000 people.

The New Mexico Partnership is under contract with EDD to assist businesses with relocation and site selection. Tim Nitti, president and chief executive office of the New Mexico Partnership, said it's the Partnership's belief that the pipelines, across the board among economic development organizations in the state, are not deep enough. The inadequacy of pipelines is attributed to three main issues: lack of awareness about New Mexico, lack of state promotion, and resource constraints. To address these issues, Mr. Nitti said the state needs to maximize effectiveness of existing sales activities, increase pipeline quantity, diversity, and quality by marketing the state and its communities to a much larger audience of decision-makers and influencers, evolve New Mexico's messaging by highlighting the state's unique differentiators and competitive advantages, and maximize cost and resource efficiency to partially mitigate lower available resourcing for economic development statewide.

Reporting on economic development in northwestern New Mexico, Warren Unsicker, chief executive officer of the Four Corners Economic Development (4CED), said the struggling oil and gas industry is forcing the economy to become more diversified. Mr. Unsicker said northwest New Mexico has key advantages for economic development. Besides having low energy costs and infrastructure in place to transmit energy, Farmington is centrally located for outdoor business, has certification from the ACT Work Ready Communities, has a college offering over 119 certificates and degrees, and has a dedicated airport.

4CED is recruiting for business similar to the New Mexico Partnership, engaging in trade shows, sales missions, and events. 4CED is also partnering with several entities for economic development opportunities.

Mr. Unsicker talked about the state doing all it can to protect its base jobs. Mr. Unsicker included in his presentation a letter signed by over 250 residents of San Juan County expressing concern for PNM's recommendation to shut down the San Juan Generating Station in 2022. The letter asserted that PRC's evaluation process for decision-making does not take into account full economic impacts. The letter conveyed that while there is an understanding about the uncertainty for long-term viability of coal power, the closure would be premature and detrimental to the economy.

Mr. Unsicker concluded with brief overview of current economic development initiatives in the area.

In response to Representative Crowder, Secretary Geisel said EDD is collaborating with the Tourism Department to leverage the New Mexico True brand for new economic development opportunities.

In response to Representative Garcia, Ms. Brazil said Solo Works, a job training program in Grants, has received strong support from the community. The program has so far graduated 7 individuals; another 7 are nearing completion.

In response to Senator Muñoz, Mr. Nitti said the current success rate of projects in the pipeline is extremely volatile. New Mexico needs to add more relevant projects to the pipeline. Senator Muñoz commented that LEDA investments need to be focused on large scale projects.

Profiles of Aztec, Farmington, and Central Consolidated School Districts. Committee members were given profiles of the Aztec, Farmington, and Central Consolidated school districts. Sunny Liu, analyst for LFC, said the profiles provide information on school district performance. Representatives from the school districts briefly addressed the committee. Colleen Bowman, superintendent of the Central Consolidated School District (CCSD), said closure of the San Juan Generating Station would severely impact the school district. Christina Aspaas, school board secretary of CCSD, said there is great concern about future funding for the school district. Gene Schmidt, superintendent of Farmington Municipal Schools, said the school district is working hard to achieve excellence. Superintendent Schmidt said tax reform is needed to address the many challenges New Mexico is facing, including educational issues. Representative Clahchischilliage said concerns will continue to be voiced and considered while the Legislature does its work.

Thursday, July 20th

The following members and designees were present on Thursday, July 20, 2017: Chairwoman Patricia A. Lundstrom; Vice Chairman John Arthur Smith; Representatives Jim R. Trujillo, Larry A. Larrañaga, Tomas E. Salazar, Sharon Clahchischilliage, James G. Townsend, Harry Garcia, and Randall S. Crowder; and Senators Carlos R. Cisneros, Steven P. Neville, Sander Rue, Clemente Sanchez, William F. Burt, and Pete Campos. Guest legislators: Representatives Eliseo Lee Alcon, Roberto "Bobby" J. Gonzales, and Jason C. Harper; and Senator Pat Woods.

San Juan College Update. Toni Hopper Pendergrass, president of San Juan College (SJC), gave an overview of San Juan College (SJC). SJC serves almost 12 thousand students a year. The average student age is 32. In partnership with surrounding school districts, SJC opened an early college high school. The San Juan College High School is a free, public high school on the campus of San Juan College. The school opened in the fall of 2016 with 80 students. Within four years, students will graduate with a New Mexico high school diploma, as well as an associate degree or certificate from SJC.

SJC recently implemented a new five-year strategic plan. The plan focuses on executing an agile and responsive business model, expanding signature programs, delivering an internationally accessible energy resources curriculum, and growing the health sciences programs.

President Hopper Pendergrass reported on workforce and economic development. SJC expanded its workforce education; six new business and information technology academies have been added. SJC's Quality Center for Business is working with the community to create new business opportunities. The U.S. Economic Development Administration recently granted SJC \$1.4 million to establish a program that assists people who are laid-off.

President Hopper Pendergrass talked about SJC partnerships. The college has 18 guaranteed admission agreements with New Mexico Highlands University (NMHU), ensuring seamless transitions for students. SJC employees may request a reciprocal tuition waiver to pursue a higher-level degree at NMHU. SJC and New Mexico Tech (NMT) have entered into an agreement, guaranteeing admission for SJC students who wish to obtain a degree from NMT through San Juan College. Other partnerships include working with the San Juan Regional Medical Center and PESCO, Inc.

SJC School of Energy opened in 2005. Construction of the building was largely funded with money raised by industry partners; the state contributed \$5 million. Total cost of the building was \$16.8 million. Eddi Porter, director of Strategic Partnerships of SJC, talked about SJC's relationship with BP America.

President Hopper Pendergrass reported on SJC performance. The Government Finance Officers Association has awarded SJC the certificate of achievement for excellence in financial reporting for the past three years. President Hopper Pendergrass said SJC's bond rating is being maintained. Dual credit enrollment increased 86 percent over the last five years. SJC is first in the nation for issuing certificates to Native American students and second in the nation for granting associates degrees to Native American students. SJC's graduation rate increased 143 percent since 2010.

SJC's budget declined 10.7 percent in FY18. President Hopper Pendergrass said closure of the San Juan Generation Station would result in a \$2 million funding loss for the college. President Hopper Pendergrass made recommendations for the funding formula. Recommendations include restoring the awards matrix to original values for comprehensive and community colleges instead of "flat" tier funding, allocating dual credit funding as a constant amount per credit hour for all institutions, and allowing institutions to count all less-than-one-year certificates.

Senator Rue asked how the college managed the 10.7 percent decline in budget. Edward DesPlas, vice president of Administrative Services of SJC, said the college made reductions in its discretionary spending, motor vehicle fleet, and workforce.

In response to Representative Garcia, President Hopper Pendergrass said SJC's tuition is competitive with other peer institutions.

In response to Senator Woods, President Hopper Pendergrass said significant improvement has been made on the process of transferring credit hours.

Regional Infrastructure Issues. Jeff Kiely, executive director of the Northwest New Mexico Council of Governments, said a number of infrastructure initiatives are happening in northwest New Mexico. One such initiative is the Navajo-Gallup Water Supply Project. The project will divert over 37 thousand acre-feet of water annually from the San Juan River, treat it to meet drinking water quality standards, and deliver it to Gallup and surrounding communities through 260 miles of pipelines and 24 pumping stations, providing a long-term sustainable water supply. Patrick Page, deputy construction engineer for the Bureau of Reclamation (BOR), said full delivery of project water is scheduled for 2024. To date, the project has been financed with \$568.5 million from federal funds and \$13.6 million from state funds. Total cost of the project is \$1 billion, of which \$50 million is the state's obligation and it is likely the state has met this obligation through direct contributions and cost sharing credits.

In response to Chairwoman Lundstrom, Mr. Page said water will first be delivered to the far eastern side of the Navajo reservation in 2019.

In response to Representative Townsend, Mr. Page said the project is designed to meet the needs of 250 thousand people. Once completed, operation and maintenance of the system will become the responsibility of the Navajo Tribal Utility Authority.

Kim Carpenter, chief executive officer of San Juan County, reported on the San Juan County Master Utility Study. The recently completed study, conducted by Souder Miller and Associates, determined areas in San Juan County needing utility infrastructure such as water, electricity, gas, broadband, wastewater, etc., and determined if existing infrastructure is able to support the needs of the community. Results of the study will be used to develop a master utility plan. Mr. Kiely said the study will help prioritize investments.

Jonas Armstrong, analyst for LFC, then updated the committee on current road fund projects in McKinley County and San Juan County. Committee members were given a list of projects, which included the cost and estimated completion date for each project. Costs for all projects totaled \$1.5 million. Mr. Armstrong also provided the committee information on current capital outlay projects in McKinley County and San Juan County.

In response to Chairwoman Lundstrom, Lisa Boyd Vega, assistant district engineer for construction of the Department of Transportation (NMDOT), said the U.S. 491 road project will be completed by the end of this year.

Representative Gonzales asked about the condition of bridges in San Juan County. Paul Brasher, acting district engineer for District 5 of NMDOT, said 16 of the 126 bridges in San Juan County are classified as functionally obsolete. School bus drivers are being discouraged from driving on one particular bridge. The total cost of replacing the bridge is estimated at \$4 million.

The committee then recessed to travel to the Escalante Generating Station.

Escalante Generating Station Tour and House Memorial 72 Update. Jeff Kiely, executive director of the Northwest New Mexico Council of Governments provided an update on House Memorial 72, which recognizes the Escalante Generating Station as an economic anchor for Cibola County and McKinley County. The memorial requires a study to be developed and analyzed that will focus on the following: potential for co-generation and co-location of base industries, tech research facilities and businesses that can be supported by the proximity; best practices of cluster developments in other states; workforce strategies; and development of public-private partnerships. The final report will be presented in January 2018.

The committee then toured the station. Tri-State Generation Transmission Association Inc. is a wholly member-owned generation and transmission cooperative serving large portions of rural Colorado, Nebraska, New Mexico and Wyoming. Eleven of the 16 electric cooperatives in New Mexico receives power from Tri-State and Tri-State distributes electric power to farms, ranches, households, industries and businesses. Tri-State currently operates two facilities in New Mexico; the Escalante Generating Station, in Prewitt, and the Pyramid Generating Station, near Lordsburg. Tri-State also owns 8 percent of Unit 3 at San Juan Generating Station, near Farmington, scheduled to close in 2020. The San Juan generating station (SJGS) is one of the five largest coal-fired power plants in the Western United States as a cost-efficient, minemouth power plant. SJGS is a major source of base economic, value-adding export jobs and tax revenue for New Mexico. SJGS and the San Juan Coal Company (SJCC) mine employ 657.

The Escalante Generating Station was opened in 1984 and currently produces 250 megawatts of electricity for the region. The power plan has 110 employees and is one of the largest employers in McKinley County. Of the 110 employees, 985 live in either McKinley or Cibola County and receive \$14.2 million in payroll and benefits.

Coal for the plant is purchased from the El Segundo Mine, about 35 miles north of the power plant. The Escalante Generating Station's purchases from the mine supports an estimated 34 mining workers.

The plant sells steam, water, and electivity to the Bio Pappel McKinley manufacturing facility which employs 120 workers. Escalante employs an additional 123 indirect employees throughout the course of a year.

Friday, July 21st

The following members and designees were present on Friday, July 21, 2017: Chairwoman Patricia A. Lundstrom; Vice Chairman John Arthur Smith; Representatives Jim R. Trujillo, Larry A. Larrañaga, Tomas E. Salazar, Sharon Clahchischilliage, James G. Townsend, Harry Garcia, and Randall S. Crowder; and Senators Carlos R. Cisneros, Steven P. Neville, Pat Woods, Clemente Sanchez, George K. Muñoz, William F. Burt, and Pete Campos. Guest legislators: Representative Eliseo Lee Alcon.

Miscellaneous Business.

Action Items.

Senator Cisneros moved to adopt the June 2017 meeting minutes, seconded by Representative Trujillo. The motion carried.

Senator Cisneros moved to adopt a third party contract with the Bureau of Business and Economic Research UNM, seconded by Representative Trujillo. The motion carried.

Review of Monthly Financial Reports and Information Items. David Abbey, director of LFC, briefed the committee on information items.

New Mexico Corrections Department. David Jablonski, secretary of the New Mexico Corrections Department (NMCD), provided an overview of the state prison system, explaining the state operates six public prisons and five private prisons with an average yearly population of 7,000 as of the date of the hearing with an additional 17 thousand people on probation and parole statewide. Secretary Jablonski stated Western New Mexico Correctional Facility (WNMCF) became a women's prison in October 2016 and houses approximately 325 inmates. The facility houses a long-term care unit and a predatory behavior management unit.

Secretary Jablonski informed the committee the agency's largest budget concern is the contract with Management Training Corporation, the private prison contractor operating the Otero County Prison Facility in Chaparral, which expires this year. Secretary Jablonski estimates the contract through the remainder of FY18 will cost \$9 million and that the 600 inmates cannot be absorbed at the prison into the state's other facilities.

Secretary Jablonski explained NMCD is working to establish a letter of agreement with Christus St. Vincent Regional Medical Center to provide the telemedicine services needed to procure 340b federal drug discount program pricing. Secretary Jablonski said the agency is in the process of hiring a clinical nurse auditor and is contracting with a company to provide nurse auditors with an expertise in compliance reviews to ensure quality healthcare. Secretary Jablonski said NMCD treated 37 inmates for hepatitis C (HCV) in FY17 at an average patient cost of \$59.9 thousand, \$28.5 thousand less per inmate than it took to treat 66 inmates in FY16. Secretary Jablonski attributed falling costs to market forces, lower inmate infection acuity rates, and working with Project ECHO (Extension for Community Care Outcomes).

Secretary Jablonski discussed substance abuse treatment services available to inmates, including residential drug abuse programs and intensive outpatient services. Secretary Jablonski explained the agency revised policy to capture more inmates in substance abuse programs by shortening the time-to-release date from nine months to six months and intensifying hours per day spent in class, allowing the agency to educate those who arrive on short sentences. Secretary Jablonski also explained the department implemented an opioid overdose education program that distributes two doses of the medication Narcan to inmates diagnosed with opioid use disorder on release in compliance with Laws 2017, Chapter 59 (House Bill 370). NMCD has partnered with the Human Services Department to fund the program.

Secretary Jablonski also updated the committee on the partnership with the Pew MacArthur Results First Initiative. In coordination with Pew, the agency developed an inventory showing 80 percent of the department's programs are evidence-based. Secretary Jablonski pledged to move funding away from less effective programs to higher performance programs identified in coordination with Pew. Secretary Jablonski explained 90 percent of funds are already directed towards evidence-based programming.

Secretary Jablonski discussed staffing issues at NMCD, citing custody staff vacancy rates upwards of 20 percent. Referencing the pending closure of the Cibola County Correctional Center, Secretary Jablonski stated the agency plans to hold an abbreviated lateral academy for 30 to 35 officers. Secretary Jablonski also described efforts to switch to 12 hour shifts from eight hour shifts in an attempt to reduce overtime costs and improve correctional officer quality of life.

Finally, Secretary Jablonski informed the committee about safety upgrades at the facilities, including the creation of fugitive apprehension units, which arrest probation and parole absconders. The units have captured more than 2,700 absconders in 2016, an increase of more than 2,500 apprehensions per year since 2011. NMCD also installed body scanners at three of the prisons so far this year to curtail drug smuggling and will move to install the scanners at the remaining state facilities.

In response to Senator Cisneros, Jennifer James, Health Services Administrator at NMCD, explained that HCV re-infections among inmates are very low. The agency is only aware of one re-infection; the Ms. James explained the re-infection was not due to bad behavior.

In response to Senator Cisneros, Secretary Jablonski explained the NMCD projects to spend \$18 million on overtime this fiscal year and spent \$17 million in FY17. In response to Vice Chairman Smith, Secretary Jablonski explained that on average, correctional officers in state prisons work an average of 25 hours per week of overtime.

Phillipe Rodriguez, administrative services director, explained to Vice Chairman Smith the agency will request \$47 million for capital outlay needs in FY19 for heating, ventilation and air conditioning (HVAC), generators, fire suppression equipment, sewer, and security needs.

Representative Townsend asked if NMCD's move to 12-hour shifts requires more officers to make the new shift length workable and asked if the new shift format had been studied before it was implemented. Anthony Romero, deputy director of Adult Prisons, informed the committee a study was completed with favorable results and no predicted increase in budget needs and a requirement for less staff in the future.

Senator Muñoz expressed concerns around NMCD's inability to hire qualified personnel when the prison in Milan closed last year and asked if the department is prepared to quickly hire candidates from the closing Cibola County Correctional Center. Secretary Jablonski stated the agency is working with SPO to hire qualified personnel quickly.

Senator Burt spoke about chronically high vacancy rates among custody staff and the effects of overtime on officer performance. Secretary Jablonski shared the senator's concerns and

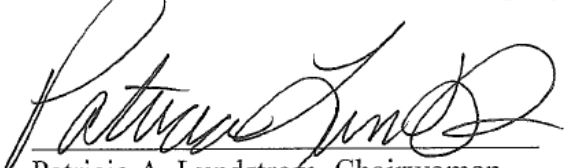
explained that NMCD is working to provide recruitment differentials and geographic pay to help recruit and retain officers more efficiently.

Representative Lundstrom asked how the State Personnel Office (SPO) plans to help NMCD deal with high vacancy and turnover rates now that SPO consolidated the NMCD's human resources. The committee agreed to send a letter to SPO detailing concerns about plans to help the agency.

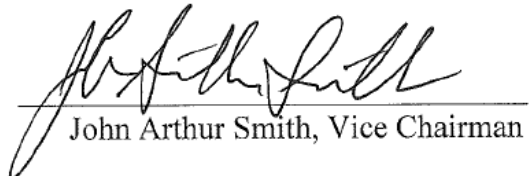
Representative Lundstrom asked why Centurion was unable to procure 340b federal discount drug pricing within six months as stipulated in the company's contract with NMCD. Ms. James explained that the process was very complex and explicitly excludes correctional facilities from participating. NMDC and Centurion have worked with Christus St. Vincent Regional Medical Center to establish the conditions needed to obtain the pricing. Mike Rivers, vice president of Operations at Centurion, explained the goal of six months in the contract was ambitious and that the company has worked to achieve the discount pricing.

The committee toured the Western New Mexico Correctional Facility on conclusion of the hearing. The committee observed a residential drug abuse program meeting and spoke to the inmates about the need for more programming, especially professional and trade education and reintegration training. The committee toured Corrections Industries operations at the prison where inmates make plastic bags for sale to state agencies. Members also observed meetings within the prison's Therapeutic Behavioral Health unit and the Mental Health Treatment Center geared toward helping inmates make behavioral changes. The committee also observed needs for capital funding, including security and infrastructure upgrades.

With no further business, the meeting adjourned at 12:00 p.m.



Patricia A. Lundstrom, Chairwoman



John Arthur Smith, Vice Chairman

Representative Patricia A. Lundstrom
Chairwoman

Representative Paul C. Bandy
Representative Randal S. Crowder
Representative George Dodge, Jr.
Representative Jimmie C. Hall
Representative Larry A. Larrañaga
Representative Nick L. Salazar
Representative Jim R. Trujillo

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Senator George K. Munoz
Senator Steven P. Neville

July 19, 2017

Ernest Archuleta, Chief of Staff, Public Regulation Commission
Sandy Jones, Chair, Public Regulation Commission
New Mexico Public Regulation Commission
1120 Paseo de Peralta/P.O. Box 1269
Santa Fe, NM 87504

RE: Public Service Company of New Mexico Integrated Resource Plan

At the joint Legislative Finance Committee and Revenue Stabilization and Tax Policy Committee hearing in Farmington on July 19, Four Corners Economic Development (4CED) presented to the committees many concerns regarding the impact of the closure of the San Juan Generating Station (SJGS). The concerns were widespread and included job losses and tax revenue losses for local governments and the state government. 4CED reports SJGS and the San Juan Coal Company (SJCC) employ 657 people, and an additional 925 jobs are indirectly connected to the facilities. The average age of the direct employees is 47 years old, making career change difficult, and the average wage (excluding benefits) is \$86 thousand.

4CED also reports SJGS and SJCC pay \$26 million annually in taxes to the state in addition to the taxes paid to local governments. If these facilities close, the state will lose these tax payments in addition to losing income taxes from employees' wages and other tax revenues from indirect and induced impacts.

In addition, 4CED reports SJGS and SJCC represent the largest source of assessed property in San Juan County, and the two companies pay \$9.6 million annually in property taxes – of this, San Juan County receives almost \$3.4 million, San Juan College receives \$2 million, and the central consolidated school district receives \$3.7 million. Not only would this property tax revenue be lost with the facilities' closure, San Juan County would lose gross receipts tax revenue as a result of fewer employed people making purchases in the community.

The committees request the Public Regulation Commission (PRC) answer the following questions.

Does PRC believe it is responsible to consider the economic impacts to the state, local, and tribal governments when making decisions on items such as the request by the Public Service Company of New Mexico (PNM) to close SJGS by 2022? If so, how does PRC make such an evaluation? Are job losses considered? Are tax revenue losses and secondary impacts considered, and if so, what tax programs are evaluated and in what manner?

How does PRC intend to address concerns of the committees and of San Juan County and its citizens regarding the proposed abandonment of this significant industrial facility and the resulting loss in tax revenue and continued rate payment for debt recovery?

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Office of the Secretary of New Mexico

Revenue

Is the total cost to New Mexico residents and electricity consumers considered? For example, is the cost of state incentives for renewable energy generation and the severance tax revenues generated from fossil fuel extraction taken into account?

What are some options PRC could consider that would lessen the immediate impact to San Juan County and allow for more time to develop and implement a plan to reduce the local economic impact?

Does PRC have adequate resources to analyze the full range of effects of the proposed closure and abandonment of SJGS? What resources would PRC require to perform an adequate analysis? Can you provide data demonstrating the increasing number and complexity of cases under review, particularly utility cases?

When will PRC schedule hearings on the PNM IRP to allow the public to voice their concerns and to test assumptions underlying the IRP's conclusions? How many hearings? How much advance notice will be given to allow time for interested parties to prepare analyses and comments?

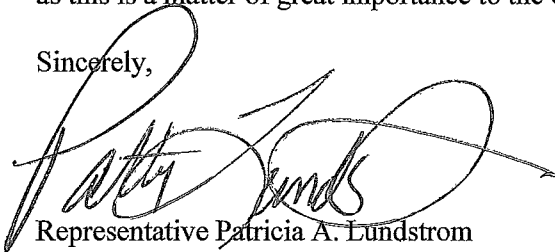
Should the Legislature and PRC revisit the renewable portfolio standards and the current weighting priority given to certain types of energy production, instead letting the utility industry use the lowest cost options? Is it necessary to provide this type of protection for the renewable energy industry given the changing economics?

PRC requires utilities to assume a carbon tax, but there is currently no tax in effect, so why does PRC require this assumption?

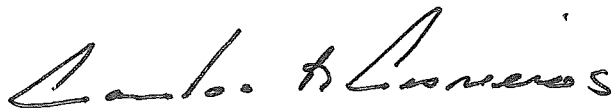
What action would PRC recommend the Legislature take to modernize statutes involving PRC?

Please address these questions and any other issues PRC deems relevant to the proposed closure of SJGS as this is a matter of great importance to the committees.

Sincerely,



Representative Patricia A. Lundstrom
Chair
Legislative Finance Committee



Senator Carlos Cisneros
Chair
Revenue Stabilization and Tax Policy Committee

CC: Members, Legislative Finance Committee
Members, Revenue Stabilization and Tax Policy Committee