

MINUTES
Legislative Finance Committee
Red River, NM
August 28 - 30, 2019

Wednesday, August 28th

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

The following members and designees were present on Wednesday, August 28, 2019: Chairman John Arthur Smith; Vice Chairwoman Patricia A. Lundstrom; Senators Carlos R. Cisneros, Steven P. Neville, William F. Burt, George K. Muñoz, Clemente Sanchez, James P. White, and Pete Campos; and Representatives Roberto “Bobby” J. Gonzales, Jason C. Harper, Javier Martinez, Jack Chatfield, Harry Garcia, Candie Sweetser, and Randal S. Crowder. Guest legislators: Senators Mary Kay Papen, Shannon Pinto, and Mimi Stewart; and Representatives Phelps Anderson, Kelly K. Fajardo, Dayan Hochman-Vigil, and Patricio Ruiloba.

RSTP members and designees present: Chairman Carlos R. Cisneros; Vice Chairman Javier Martinez; Senators John Arthur Smith, Peter Wirth, Bill Tallman, Gay G. Kernan, George K. Muñoz, Clemente Sanchez, and Pete Campos; and Representatives Roberto “Bobby” J. Gonzales, Rod Montoya, James R.J. Strickler, Jason C. Harper, Antonio Maestas, Susan K. Herrera, Micaela Lara Cadena, Christine Chandler, and Martin Zamora.

Welcoming Remarks. Mayor Linda Calhoun said Red River has 450 residents. Over 350 thousand people visit Red River annually, many partaking in the town’s numerous events, including the Enchanted Circle EMS Association Conference and Mountain High Head Injury Camp. Mayor Calhoun said tourism drives Red River’s economy. The Red River Brewing Company boosted the economy when it opened in May 2018. The company employs about 85 people during peak season. In FY19, lodging tax revenue increased 6.6 percent, totaling \$830 thousand; gross receipts tax revenue increased 5 percent, totaling \$1.9 million.

Mayor Calhoun said Red River, known for its outdoor recreation, is the first municipality in New Mexico to pass an ordinance allowing recreational off-highway vehicles (ROV) to drive inside town limits. Because ROVs cause more wear and tear on roads, the town established the Red River Off-Road Coalition to assist the National Forest Service in maintaining, repairing, and enhancing off-road trails in surrounding areas of Carson National Forest. Mayor Calhoun said the state collects off-highway vehicle (OHV) permit fees, but not enough is disbursed to local governments for maintaining trails. The majority of ROV operators in Red River are not residents of New Mexico and not required to purchase a permit if the OHV is registered and in compliance with the home state. Neighboring states, however, require both resident and nonresident OHV operators to purchase a permit. Mayor Calhoun recommended legislators consider changing the OHV permit fee structure in New Mexico to increase revenue for maintaining trails.

Reporting on current infrastructure projects, Mayor Calhoun said Red River is working with the Department of Transportation on reconstructing sidewalks throughout town to meet Americans with Disabilities Act (ADA) standards. Phase two of Red River’s water system improvement

project is underway. The town's wastewater system was recently upgraded. New fire hydrants and water meters are being installed in town and two motels are being converted into additional workforce housing.

Mayor Calhoun said this year's U.S. Capitol Christmas tree will come from the Carson National Forest. A 60-foot blue spruce tree near Red River was selected and will be transported shortly after it is cut down November 6. The tree will be decorated with over 10 thousand New Mexico-made ornaments.

Preliminary FY19 General Fund Revenues, FY20 Revenue Update, FY21 Outlook, and General Fund Financial Summary. Olivia Padilla-Jackson, secretary of the Department of Finance and Administration (DFA), introduced the consensus revenue estimating group (CREG), comprising staff from DFA, Legislative Finance Committee (LFC), Taxation and Revenue Department (TRD), and Department of Transportation (DOT). TRD Secretary Stephanie Schardin Clarke said CREG's projections are based on several sources, primarily IHS Global Insight, Moody's Analytics, and University of New Mexico's Bureau of Business and Economic Research forecasts.

Reporting on the U.S. economy, Secretary Schardin Clarke said national economic growth is expected to remain modest. In FY19, real U.S. real gross domestic product increased 2.6 percent, and the inflation rate was 2.1 percent. Housing market growth remains positive but still below pre-Great-Recession levels. Rising trade tensions and a slowdown in global economic growth add uncertainty to the forecast. In July 2019, the Federal Reserve announced the first rate cut since 2008 in an effort to mitigate risks.

New Mexico's current economic condition is positive. Secretary Schardin Clarke said gross domestic product increased 4.6 percent this past fiscal year, third highest in the country. Oil production is soaring and job growth is rising. In FY19, nonfarm jobs increased 2.4 percent. Notably, mining jobs increased 8.9 percent, construction jobs increased 8.4 percent, and leisure and hospitality jobs increased 6 percent. The unemployment rate is currently 4.9 percent, slightly higher than the U.S. average.

Secretary Schardin Clarke said the number of oil rigs operating in the state is stable, averaging 105 oil rigs in recent months. CREG expects oil prices to increase from \$51.80 per barrel (bbl) in FY19 to \$52.50/bbl in FY20. Oil production is expected to increase from 298 million barrels produced in FY19 to 356 million barrels in FY20 and 500 million barrels in FY21. New Mexico is leading the nation's top four producing states in oil production growth.

Secretary Padilla-Jackson said FY19 general fund revenue is estimated at \$7.82 billion, a 14 percent increase over FY18. After expenditures, remaining FY19 general fund revenue will leave an estimated \$1.7 billion for reserves. General fund revenue is projected to decrease 0.6 percent in FY20, then increase to \$8 billion in FY21, a 2.7 percent increase over FY20. The general fund is gaining most significantly from increasing energy-related and gross receipts tax (GRT) revenues generated out-of-state and in Lea, Eddy, and Bernalillo counties. The gains and projected growth, however, are at risk should the price and production of oil decline, production of natural gas

constrain, international oil market change, or a recession occur. Recent stress tests indicate a greater risk of downside than upside.

LFC Chief Economist Dawn Iglesias said New Mexico faces budgetary risks not only if the oil and gas industry experiences significant negative shocks but also if growth simply slows more than projected. A sensitivity analysis of the revenue estimates shows FY21 energy revenues, including severance taxes, federal royalty payments, and gross receipts taxes from Eddy and Lea counties and out of state, could fall at least \$1.4 billion below current estimates if prices were to fall and active rig counts drop.

Chief Economist Iglesias said while the various forecast risks cannot be reasonably accounted for within the revenue estimates, the Legislature can prepare for risks by maintaining adequate reserves. Combined with growing concerns about a possible impending recession, the state should proceed with caution in crafting a budget, and LFC economists recommend retaining a minimum of 20 percent reserves.

Heightened oil and natural gas production recently caused general fund revenues to surge, increasing 15.8 percent in FY18 and another estimated 16.2 percent in FY19. Chief Economist Iglesias said the state experienced similar strong growth in FY05 when revenues increased by 14.6 percent, another year in which direct energy revenues and a few other revenue sources spiked. Very similar to the current forecast for the next several years, FY05 was succeeded by another year of strong revenues but with a slightly lower growth rate and then by two years of modest growth between 3 percent and 4 percent. However, revenues dropped precipitously in FY09 and FY10, declining by 11.6 percent and 9.8 percent, respectively. Unfortunately, recurring budgets were built to incorporate a significant portion of the two-year spike in revenues, with general fund appropriation increases of 8.6 percent in FY07, 11 percent in FY08, and 6.3 percent in FY09. To maintain solvency, the state was forced to slash general fund budgets by 11.2 percent in FY10 and another 2.7 percent in FY11.

Chief Economist Iglesias said New Mexico's oil and natural gas production values are at an all-time high, sending general fund recurring appropriations well above trend. Revenues significantly above trend may not be sustainable over time, and the last time New Mexico saw state revenues this high above trend was just before the Great Recession. This parallel with historical patterns should be considered during discussion of appropriations in the 2020 legislative session as budgets are developed based on the new revenue estimate.

In response to Senator Kernan, Chief Economist Iglesias said oil production could decline if prices dropped. The volume of water and natural gas produced during drilling could also impact production, especially natural gas, because storage and transportation infrastructure is lacking.

In response to Representative Harper, Secretary Schardin Clarke said film tax credits for the two current film partners in the state, Netflix and NBCUniversal, total \$45 million annually.

Representative Maestas requested LFC staff report back to him what is driving the significant GRT increase in Harding and De Baca counties.

Enhancing Fiscal Stability Amid Revenue Growth and Uncertainty. Dan White, director of Fiscal Policy Research at Moody's Analytics, said people often ask him when the next recession will happen. Taking a cue from American financier J.P. Morgan, who once answered "it will fluctuate" when asked what the market is going to do, Mr. White said there will be a recession, because that too is a certainty. Exactly when it will occur, however, is uncertain.

Mr. White said the United States is in its 11th year of expansion, the longest running expansion in modern history. Recessions are inevitable but not sudden, giving states the opportunity to prepare. Moody's Analytics predicts the United States will enter a recession by end of 2020, based on current economic data and historical indicators. Mr. White said recessions are becoming more stressful for states due to longer periods of fiscal drag. Fiscal drag occurs when earnings growth and inflation push more earners into higher tax brackets. Consequently, a government's tax revenue rises without any increases in tax rates. If earners pay a higher percentage of income in tax, their spending declines. Over 40 years ago, rating agencies recommended states keep 5 percent in reserves. During the Great Recession, however, many states found that 5 percent in reserves was not enough to cover the major increase in Medicaid and unemployment benefit spending. Many states are now doing stress testing to determine how much in reserves is needed to get through two years of a recession.

Reporting on the economic challenges facing New Mexico, Mr. White said the state's economy is becoming less volatile, but tax revenues are unstable. Like many states, Medicaid spending in New Mexico is growing at a faster rate than tax revenues. Mr. White recommended the state stress test not only revenues but also state spending to determine the level of reserves needed.

Allen Knudson, fiscal director of the North Dakota Legislative Council, said North Dakota's government operates on a biennium budget, making accurate forecasts especially important to the state. Like New Mexico, North Dakota experiences many of the same financial challenges caused by the highly volatile oil and gas industry. Mr. Knudson said the state plans as best it can for the fluctuations in revenue.

Giving an overview of North Dakota's general fund budget, Mr. Knudson said 43 percent of revenue comes from sales, use, and motor vehicle taxes, 21 percent comes from transfers and other sources, 19 percent comes from personal and corporate income taxes, 9 percent comes from oil and coal taxes, 5 percent comes from other taxes and fee revenues, and 2 percent comes from alcohol and gaming taxes. Thirty-six percent of the budget is spent on public education, 30 percent is spent on human services, and 14 percent is spent on higher education.

Mr. Knudson said after the oil and gas industry tanked in the late 1980s, North Dakota began to limit its reliance on revenue generated by the oil and gas industry and implement financial safety nets, including establishing a legacy fund, budget stabilization fund, tax relief fund, and strategic investment and improvements fund. The state makes efforts to keep recurring spending under control. Unlike most states during the Great Recession, North Dakota's economy strengthened; however, general fund revenues declined 30 percent in 2015 due to a depressed oil and gas industry in the state. To cover shortfalls, agency budgets were cut 7 percent two years in a row and all stabilization funds were used to cover shortfalls. The state's economy and oil and gas industry began to rebound this year.

Olivia Padilla-Jackson, secretary of the Department of Finance and Administration (DFA), said the oil and gas industry is prone to large swings, which are hard to predict and don't always correlate with normal economic cycles. To manage revenue volatility, Secretary Padilla-Jackson recommended the state

- Build adequate general fund reserves to appropriate levels,
- Establish general fund reserve policy,
- Maintain expenditure growth near long-term revenue growth levels,
- Set aside oil and gas revenue windfalls,
- Build on existing tax stabilization reserve policy,
- Create a new permanent fund with oil and gas windfalls,
- Strengthen and diversify tax revenues through tax policy initiatives,
- Grow the economy to increase gross receipts tax and income tax revenue base, and
- Diversify the economy to be less reliant on any one sector.

The rainy day fund went into effect in FY19, expanding use of the tax stabilization reserve fund by calling on annual revenue collected from oil and gas taxes that exceeds a five-year rolling average of such tax collections to go into the reserve fund instead of the state's general fund. Secretary Padilla-Jackson said \$196 million was transferred to the tax stabilization reserve fund in FY19. The consensus revenue estimate projects \$224 million will be transferred in FY20.

Secretary Padilla-Jackson recommended the state expand tax stabilization reserve policy by incorporating additional oil and gas revenues into the fund, then transfer some reserves to a new permanent fund dedicated to support early childhood education. If the Legislature established the permanent fund and grew it to \$1 billion, it would potentially generate \$50 million a year for early childhood purposes.

Jim Peach, Ph.D., emeritus professor of economics, applied statistics and international business at New Mexico State University, said the timing, severity, and duration of the next recession is uncertain. Professor Peach said New Mexico's growth of oil production is unprecedented and cautions the state of possible production declines soon. Texas oil drilling in the Permian Basin decreased this past year.

Professor Peach talked about current and future oil and gas demand issues. The professor projects the number of electric vehicle sales will surpass the number of gas-fueled vehicles by 2030.

In response to Vice Chairwoman Lundstrom, Mr. White said tax credits and abatements influence ups and downs in the economy.

Representative Javier Martinez said he supports creating an early childhood education permanent fund. The representative, however, expressed concern the fund would be used for other purposes during difficult financial times. Representative Martinez said, if created, the fund needs to adequately support early childhood education initiatives. Representative Martinez said the proposed \$50 million annually is not enough.

In response to Senator Burt, Secretary Padilla-Jackson recommended the state secure 25 percent reserves and establish the early childhood permanent fund for FY21.

Legislative Finance Committee Early Childhood Accountability Report. Nathan Eckberg and Sarah Dinces, Ph.D., both LFC program evaluators, presented the *2019 Early Childhood Accountability Report*. LFC's report is intended to provide a systemwide look at key early childhood indicators across state agencies and consolidate information regarding expenditures and outcomes.

According to the report, quality services for at-risk children can impact their future educational and economic success. Recognizing the importance of such services, early childhood initiatives have remained a priority in the state, even as the Legislature confronted difficult funding decisions in recent years.

New Mexico's early childhood care and education system begins prenatally and extends through age 8. Services for improving the health, safety, stability, and education of New Mexico's children span several state agencies, including the Children, Youth and Families Department, Department of Health, Human Services Department, and the Public Education Department. The newly authorized Early Childhood Education and Care Department will consolidate many of these services in FY21. Concerns regarding low or declining performance in key indicators such as the rate of repeat child maltreatment, immunization, and reading proficiency of low-income children have been raised. With this knowledge, the Legislature invested in multiple prevention and intervention strategies over the last several years, such as home visiting and prekindergarten.

2019 analysis found mixed performance related to programs in all agencies. Approximately 30 percent of New Mexico third-grade students demonstrate readiness for the next grade level in reading or math. Health and safety indicators continue to show low performance. Declining birth rates and lack of coordination create competition issues, and quality may be adversely impacted by rapid expansion of programming. Given the state's significant investment in programs to improve early childhood health and educational outcomes, analysis of key indicators is vital to ensure investments are meeting their intended goals.

Alejandra Rebolledo Rea, acting director of Early Childhood Services, said the Children, Youth and Families Department (CYFD) is working to ensure children in New Mexico are safe, healthy, cared for, and ready for school. Reporting on CYFD early childhood services, Ms. Rebolledo Rea said the Childcare Assistance Program is the state's largest early childhood program, serving approximately 21 thousand children. Ms. Rebolledo Rea said quality childcare benefits the children who receive it, their families, and the state. CYFD is using a tiered quality rating system to measure the performance of its early childhood programs. One of CYFD's performance targets this year is to provide quality services to at least 53 percent of children served. Ms. Rebolledo Rea pointed out quality services are more expensive.

Ms. Rebolledo Rea said brain development in a child's first three years of life is a critical time. Unfortunately, many children in New Mexico experience maltreatment during this critical time, which CYFD is working to address through its home-visiting program. The program helps families with children prenatal to 5 years old gain knowledge on child development, connect with community support services, discover ways to support learning through play and interactions, receive emotional support for challenges associated with raising a child, and access support to get

out of dangerous or unhealthy situations. Information on CYFD's other early childhood programs was provided in the handout.

Mariana Padilla, director of the Children's Cabinet, agreed with Vice Chairwoman Lundstrom that there needs to be more coordination among the various early childhood programs. Director Padilla said the Children's Cabinet work plan includes identifying the needs in every community, evaluating existing programs, and determining how many additional program slots need to be established.

In response to Representative Javier Martinez, Ms. Rebolledo Rea said an undocumented child does not qualify for childcare assistance in New Mexico; they must be a U.S. citizen or legal resident.

Representative Herrera recommended home visiting only be administered by the state, saving on high administrative expenses of the various home-visiting programs managed by nonprofit organizations.

Thursday, August 29th

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

The following members and designees were present on Thursday, August 29, 2019: Chairman John Arthur Smith; Vice Chairwoman Patricia A. Lundstrom; Senators Carlos R. Cisneros, Steven P. Neville, William F. Burt, George K. Muñoz, Clemente Sanchez, James P. White, and Pete Campos; and Representatives Roberto "Bobby" J. Gonzales, Jason C. Harper, Javier Martinez, Jack Chatfield, Rodolpho "Rudy" Martinez, Candie Sweetser, and Randal S. Crowder. Guest legislators: Senators Mary Kay Papen, Shannon Pinto, and Mimi Stewart; and Representatives Phelps Anderson, Harry Garcia, Dayan Hochman-Vigil, and Patricio Ruiloba.

RSTP members and designees present: Chairman Carlos R. Cisneros; Vice Chairman Javier Martinez; Senators John Arthur Smith, Peter Wirth, Bill Tallman, Gay G. Kernan, George K. Muñoz, Clemente Sanchez, Nancy Rodriguez, and Pete Campos; and Representatives Roberto "Bobby" J. Gonzales, Rod Montoya, James R.J. Strickler, Jason C. Harper, Antonio Maestas, Susan K. Herrera, Micaela Lara Cadena, Christine Chandler, and Martin Zamora.

Questa Economic Development Plan and Statewide Outdoor Recreation Promotion. Jack Lewis, Questa district ranger of the U.S. Forest Services, said Red River, Questa, and various stakeholders are working together to build a multi-use and sustainable recreation trail that connects the communities of Questa and Red River. The trail will enhance locals' and visitors' quality of life, attract and bolster tourism, and spur economic development. Red River Mayor Linda Calhoun said tourism is the primary economic driver in the enchanted circle, an 83-mile scenic byway encompassing Taos, Red River, Eagle Nest, Arroyo Hondo, and Questa. Lindsay Mapes, director of the Questa Economic Development Fund, said the trail will support Questa's transition from a mining community to an outdoor recreation destination. Chevron's pipeline route, no longer in use, is being converted into a trail. Ms. Mapes said the trail will generate jobs, build river access, improve quality of life, and stimulate economic development.

Dina Coleman, chief procurement officer for Questa, said Chevron donated 29 acres to the village. Questa converted the property into a business park, first constructing a 10,000-square-foot building. The building is currently home to Taos Bakes, a growing national brand. Ms. Coleman said the village secured \$2.6 million in federal, state, and private dollars to continue the business park's development. Questa's strategic economic development plan is working to create partnerships and recruit businesses. Ms. Coleman said Chevron continues to be a steady partner in Questa's initiatives.

Ms. Mapes said the Questa lodging project is an innovative economic development strategy that will work to address the housing surplus in Questa and shortage in Red River. The surplus of vacant homes in Questa is a result of the mine closure. Once the project is funded, a revolving loan fund will be established to provide flexible loans to homeowners of vacant properties to rehabilitate their vacant homes. Acting as the property manager, San Antonio del Rio Colorado Historic Preservation will rent the rehabilitated homes. Collected rent will go toward loan repayment. When a loan is paid off, the rent minus property fees will go to the homeowner. Ms. Mapes said the project will have a tremendous impact on Questa and Red River, especially preserving property ownership.

Representative Gonzales said Questa may want to consider potential agricultural opportunities to expand its economy. Village Councilor Brent Jaramillo said Chevron is partnered with a local nonprofit organization to lease its substantial amount of land and water rights to farmers who return an economic development benefit back to the community. Barley farming is being explored as a potential agricultural opportunity for Questa. Barely farming has great potential because of the growing brewery industry.

In response to Representative Herrera, Ms. Mapes said Questa is working to secure \$120 thousand to pilot the lodging project, rehabilitating four homes. Five hundred thousand dollars is needed to fully fund the project. Ms. Mapes said the project is not eligible for federal funds because the vacant homes are considered second homes.

Early Childhood Department and Capacity Planning. LFC Analyst Kelly Klundt said New Mexico received a \$5.4 million preschool development grant, birth to five (PDG B-5) initial award to conduct a statewide needs assessment for children birth to 5 years old, develop a birth to 5 strategic plan, launch an early learning campaign, expand resources and referrals to families, and implement various workforce development training activities. The grant is being led by the Children, Youth and Families Department (CYFD) in collaboration with the Department of Health (DOH) and Public Education Department (PED).

Eirian Coronado, program manager of Maternal and Child Health Epidemiology of DOH, said the agency is working to increase early care for moms and infants by increasing the links between public health clinics and prenatal practices, providing resources and support to women seeking pregnancy testing and prenatal care, and connecting families to home visiting and nutritional services.

Ms. Coronado said a statewide strategic sudden-unexplained-infant-death (SUID) prevention plan is being developed. SUID is defined as any sudden and unexpected death that occurs during

infancy, whether explained or unexplained. The number of SUIDs in New Mexico has increased since 2017. DOH is partnering with CYFD, hospitals, tribal nations, and the various home-visiting programs to educate parents of appropriate safe sleep practices.

Mariana Padilla, director of the Children’s Cabinet, said children are a top priority in the state. The purpose of the Children’s Cabinet is to study and make recommendations for the design of programs that assist children in New Mexico. It was established in 2003 but has been inactive in recent years. Now revived, the Children’s Cabinet is working to improve New Mexico’s early childhood system.

Reporting on current initiatives, Ms. Padilla said New Mexico ranks 50th in childhood hunger. The agencies that administer food programs in the state, including the Public Education Department and Human Services Department, are working together to increase access to food programs and leverage federal funding. Increasing enrollment in the Women, Infants and Children Program and expanding food assistance during school breaks are among the efforts.

Implementation of the new Early Childhood Education and Care Department is under way (ECECD). The agency will oversee home visiting, childcare assistance, and prekindergarten programs in the state. ECECD is expected to be fully operation by the start of FY20. Ms. Padilla said the new agency will

- Create a seamless continuum of care prenatal to 5-years-old,
- Improve program coordination and efficiencies,
- Streamline referral and enrollment,
- Enhance equity and access to high quality programs,
- Increase family engagement and support,
- Reach more vulnerable families,
- Strengthen language and culture, and
- Support the early childhood workforce.

Alejandra Rebolledo Rea, acting director of Early Childhood Services of the Children, Youth and Families Department, said the goals of the PDG B-5 federal grant initiative are to increase collaboration, coordination, access, and quality of early learning programs. Ms. Rebolledo Rea outlined the implementation of PDG B-5. When complete, the strategic plan and needs assessment, developed under the grant, will provide direction for ECECD. CYFD issued a request for proposals to secure an agency to launch the early learning campaign. The campaign will focus on brain development and promote family support in children’s learning.

Adrián Pedroza, national director of Strategic Partnerships of Abriendo Puertas/Opening Doors, said the national nonprofit organization operates an evidence-based parent education program, serving Latino parents of children from birth to 5 years old. The program, which serves about 15 thousand families in New Mexico, builds parent leadership skills and knowledge to promote family well-being and positive outcomes. Mr. Pedroza said equipping parents and caregivers with the best available information on early childhood development and supporting them with a high-quality system yields the greatest impact for improving outcomes.

In response to Representative Maestas, Ms. Rebolledo Rea said participation in the home visiting is voluntary. CYFD is working with Medicaid managed-care organizations to educate parents about the program and inform them of the benefits.

Senator Kernan commented on the need to involve the head start program in coordinating services. Ms. Rebolledo Rea said CYFD is reaching out to the federal and regional offices of the head start program to improve communication and coordination.

In response to Senator Papen, Ms. Padilla said the Children's Cabinet is in the process of hiring a cabinet secretary and assistant secretary of Native American Early Childhood for ECECD.

Senator Sanchez expressed concern for the lack of Native American representation in the discussion.

Capital Outlay Quarterly Report and Guidance for 2020 Appropriations: Capacity, Cost, and Funding. LFC Analyst Jonas Armstrong said current general obligation bond capacity is \$199 million and severance tax bond capacity is \$368 million. Capital outlay requests include \$35 million requested by the University of New Mexico to construct a new fine arts building, \$25 million requested by New Mexico State University to upgrade agricultural facilities, and \$17 million requested by libraries to purchase materials. Requests are still being received.

Presenting the quarterly report, Mr. Armstrong said, as of June 2019, approximately \$1.4 billion from all funding sources for 3,060 projects remains unexpended, including \$46.3 million of earmarked fund balances for water, colonias, and tribal infrastructure projects. More than half of the unexpended balance is from over 1,500 new 2019 appropriations, totaling \$735 million. These projects were added to the June quarterly report because the general fund and other state fund appropriations in Senate Bill 280 were effective when the bill was signed by the governor. Approximately \$291 million remains unexpended from supplemental severance tax bonds for public schools.

Since the March 2019 quarterly report, 242 projects closed and approximately \$109 million was expended or reverted.

Staff is currently tracking 310 "\$1 million or greater" projects, totaling \$1.5 billion; about \$1 billion is unexpended. Since the March 2019 report, seven appropriations totaling \$58 million were fully expended or reverted.

Members were provided detailed information on all projects; the status of select projects were highlighted.

Senator Kernan said she is concerned the pending purchase of two private properties is stalling remediation of the Carlsbad brine well, a project that will prevent the brine well's collapse. The state has been trying to acquire the properties, which is necessary to move forward with the project, but the owners are holding out for more money.

In response to Senator White, LFC Analyst Theresa Edwards said she will report back to him the status of a project in Torrance County.

RSTP adjourned.

Child Welfare Investments. President Frank Farrow said the Center for the Study of Social Policy is a nonprofit organization working to achieve a racially, economically, and socially just society in which all children and families thrive. President Farrow said now is a good time for advancing prevention and early intervention, which requires a multi-faceted and multi-tiered approach and a focus on positive healthy development and earliest years of life. Also, many sectors need to share the responsibility, communities need to be actively involved, and parents' roles need to be honored. The work of Maine's Community Partnerships for the Protection of Children and New Jersey's Family Success Centers are two examples of advancing prevention and early intervention. President Farrow talked about shifting from evidence-based to evidence-rich practices as a new strategy for prevention and early intervention.

Policy Consultant Anne Heiligenstein said Casey Family Programs is the philanthropic legacy of United Parcel Service founder Jim Casey, dedicated to improving the lives of children in foster care. Ms. Heiligenstein said the number of children in foster care is rising in the United States, largely due to the opioid crisis. In New Mexico, however, the foster care population has declined, decreasing 10 percent since September 2017. Ms. Heiligenstein attributes the decline to state efforts in finding solutions that prevent a child from being removed from his or her home.

New Mexico uses kinship foster care at a lower rate than most states. Ms. Heiligenstein said kinship foster care is a better option, especially for youth. More state investment is needed to support kinship foster care, which New Mexico might be able to leverage with new federal dollars available under the Family First Prevention Services Act.

Compared with the national average, New Mexico has a high number of children who exit the foster care system within 30 days of entering. Ms. Heiligenstein said increased prevention services would allow more children to remain in their homes. Prevention services may also help decrease New Mexico's high number of children who remain in the system two years or longer.

Ms. Heiligenstein said the Family First Prevention Services Act, enacted in 2018, gives New Mexico the opportunity to secure more federal dollars to improve child welfare. The act provides unlimited federal matching funds for evidence-based prevention and treatment services. For children who cannot remain safely at home, the new policy ensures appropriate placements.

State efforts to improve child welfare in New Mexico are focused on making investments early and often in a child's life, which Ms. Heiligenstein said is remarkable; however, recurrence of child maltreatment in the state remains high. Ms. Heiligenstein said the Family First Prevention Services Act is a new tool the state can use to tackle child maltreatment in New Mexico.

Secretary Brian Blalock said the Children, Youth, and Families Department (CYFD) is currently doing statewide strategic planning, focused on prevention, optimization, and staffing. Secretary Blalock said the Family First Prevention Services Act is a great concept but deeply flawed because

the immediate benefits and prevention services are limited. Also, the policy focuses on intervention, not prevention. Secretary Blalock said, for the act to be useable, it needs to

- Clarify the definition of candidates for foster care for prevention services and how it can be distinguished or claimed separately from candidates for foster care for federal “admin IV-E” claiming,
- Eliminate or delay the requirement that 50 percent of funding be spent on well-supported programs,
- Expand eligibility for prevention services to all expectant and parenting youth, not just those in foster care,
- Allow states to use voluntary placement agreements for children placed in the home of a relative while also accessing IV-E prevention services to help children reunify with their parents, and
- Allow states to blend funding for programs that are only partially reimbursed through Medicaid, which allows states to claim IV-E prevention dollars for those portions of a service that are not Medicaid reimbursable, or allow states that do not bill Medicaid for a service to claim IV-E prevention for that service.

Secretary Blalock said, if the act is not amended, the state will move forward in advancing prevention that works for New Mexico. CYFD’s key strategy is increasing community-based supports, particularly kinship care and mental health services.

Katherine Courtney, Ph.D., co-director of the Anna Age Eight Institute, said social adversity impacts recovery from adverse childhood experiences (ACEs). Ms. Courtney explained access to resources and services that address ACEs varies by community. The institute is tackling trauma and social adversity by improving access to 10 services in all communities in the state: food programs, parent supports, housing programs, early childhood learning programs, behavioral health care, family-centered community schools, medical and dental care, youth mentorship, transportation, and job training/higher education. The initiative is underway in Rio Arriba, Socorro, and Dona Ana counties. The institute’s action plan is to assess, plan, implement, evaluate, scale, and sustain.

In response to Representative Herrera, Secretary Blalock said the Child Protective Services’ vacancy rate decreased from 25 percent in January to 11 percent in July. The agency has been conducting hiring events and working with the State Personnel Office.

In response to Representative Garcia, Secretary Blalock said CYFD works with tribal communities throughout the state; the agency lacks, however, good data on tribal demographics and needs.

Bilingual, Multicultural, and Indigenous Education. Kara Bobroff, deputy secretary of the Public Education Department (PED), said the agency’s guiding philosophy for bilingual, multicultural, and indigenous education is every New Mexico school will be a leader in culturally and linguistically responsive and community centered education, integrating personal health, cultural identity, and academic excellence so that every student is academically prepared for college or career, holistically well, secure in their identity, and ready to lead in and contribute to their communities.

Kirsi Laine, deputy director of the Language and Culture Division, said PED works with school districts, educators, communities, and the Office of Civil rights on identifying English learners in the public education system. To strengthen bilingual, multicultural, and indigenous education programs, Ms. Bobroff recommended establishing one statewide Spanish language proficiency assessment and developing an indigenous language assessment in collaboration with pueblos and tribes.

Deputy Secretary Bobroff said PED's multicultural education framework is culturally and linguistically relevant and responsive. Reporting on indigenous education, Deputy Secretary Bobroff said PED is currently accepting applications for Indian Education Act funding.

Edward Tabet-Cubero, executive director of the Learning Alliance, said English learners (ELs) have the right to learn English and access grade level content. According to research, five independent meta-analyses found positive effects of bilingual education on students' reaching achievement on various measures of reading in English. Fifty-eight percent of ELs in New Mexico, however, are not enrolled in a state funded bilingual and multicultural program, despite their right to be in one. Mr. Tabet-Cubero said the achievement gap for EL and Native American students in New Mexico is significant, about a 25-point difference.

Mr. Tabet-Cubero said the state's EL and bilingual education program is deficient in several ways, including the lack of implemented research-based practices, minimal monitoring and accountability for district's use of bilingual funds, and chronic shortage of bilingual endorsed teachers. Also, the state is not meeting basic civil rights compliance for ELs. Mr. Tabet-Cubero recommends the state

- Set a vision for New Mexico to lead the nation in bilingualism and bilingual education,
- Integrate considerations for language and culture into every education program the Legislature funds as a priority,
- Fund PED's Language and Culture Bureau,
- Continue to fund both the EL student as well as the bilingual program,
- Fill the gap of 8,000 teachers who have ELs but lack an endorsement to effectively teach them,
- Increase leadership capacity in EL and bilingual education by integrating language and culture into the educational administration programs,
- Fund a cohort of candidates to pursue doctoral degrees in bilingual education,
- Fully fund House Bill 111 to build regional education cooperative capacity for professional development in culturally and linguistically responsive instruction,
- Amend the Bilingual Multicultural Education Act to establish a state bilingual advisory council, and
- Reconsider the entire slate of bills that attempted to do all the above but were not passed during the legislative session in 2019.

President Diane Torres-Velasquez, Ph.D., said the Latino Education Task Force helped lead the *Yazzie and Martinez v New Mexico* consolidated case. President Torres-Velasquez said the task force pledges to work with legislators and PED as the state moves forward in implementing the court order.

President Torres-Velasquez talked about the importance of bilingual and multicultural education.

In response to Representative Javier Martinez, Mr. Tabet-Cubero said about 59 of the 89 school districts in the state have a state funded bilingual program; however, only 50 percent of schools and 42 percent of ELs participate in the programs.

Friday, August 30th

The following members and designees were present on Friday, August 30, 2019: Chairman John Arthur Smith; Vice Chairwoman Patricia A. Lundstrom; Senators Carlos R. Cisneros, Steven P. Neville, William F. Burt, George K. Muñoz, Clemente Sanchez, James P. White, and Pete Campos; and Representatives Roberto “Bobby” J. Gonzales, Jason C. Harper, Javier Martinez, Jack Chatfield, Rodolpho “Rudy” Martinez, Candie Sweetser, and Randal S. Crowder. Guest legislators: Senators Mary Kay Papen, Shannon Pinto, and Peter Wirth; and Representatives Phelps Anderson, Harry Garcia, and Susan K. Herrera.

Miscellaneous Business.

Action Items. Senator Cisneros moved to adopt the July 2019 meeting minutes, seconded by Representative Anderson. The motion carried.

Representative Martinez moved to adopt LFC’s FY21 budget request, seconded by Vice Chairwoman Lundstrom. The motion carried.

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

Program Evaluation: Northcentral New Mexico School Districts. Clayton Lobaugh and Nathan Eckberg, both LFC program evaluators, presented the report *Northcentral New Mexico School Districts*. Public education is a core state responsibility accounting for \$3.25 billion, or 46 percent, of all general fund appropriations in FY20. Prompted by a district court ruling that New Mexico’s education system was unconstitutionally insufficient, the Legislature increased funding for public education by \$448.2 million, or 16 percent, during the 2019 session. However, funding is only one piece of the puzzle. School districts play a key role in providing a sufficient education through strategic use of these resources inside and outside of the classroom. Evaluation of the Española, Pecos, Pojoaque, Santa Fe, and Taos school districts is one in a series that looks at the efforts and results of an individual district or a group of districts.

Most school districts in New Mexico have experienced declining enrollment due to falling birthrates and increasing charter school enrollment. Four of the five evaluated districts have seen long-term enrollment declines. Declining enrollment will continue in many school districts while the Legislature is adding significant resources to public education, which creates unique challenges for districts. The state has seen faster growth in administrative spending than in instructional spending over the same period. Growth in spending on instruction and administration within the five reviewed districts is mixed but recent data show promising trends.

North Central districts budgeted most of their FY20 increases toward teacher salaries and benefits, and took partial advantage of funding for programs to improve student achievement. Budgeted teacher compensation and benefit increases exceed estimates of the required increases.

According to July 2019 Public Education Department (PED) data, the evaluated school districts are projected to receive \$8.8 million for FY20 K-5 Plus and extended learning time programs, or 36 percent of their possible funding for these programs. The districts could have received up to an additional \$15.7 million if they had implemented both programs districtwide. Española was awarded \$1.7 million in extended learning time program funds for FY20, but recently withdrew its funding application and is developing implementation plans for FY21. The state will need to monitor the local implementation of K-5 Plus and extended learning time programming requirements but should also consider allowing for some temporary program flexibility.

The public education funding formula now provides more funding for at-risk students, but guidance and monitoring are needed to ensure these funds are spent on evidence-based services. New Mexico has a statutory and regulatory framework in place for tracking key inputs and outcomes, which could be used to better inform management and prioritization of funding.

Looking back at previous spending, LFC staff found risk for financial mismanagement and questionable financial planning at some districts. Only one of five districts sets targets for cash balances with one district completely exhausting cash balances in recent years while another carried a 15 percent balance. Instances of districts using funding in ways inconsistent with statute, best practice, or prioritizing funds for classroom instruction include

- Use of Public School Buildings Act funding on administration potentially exceeding statutory limits,
- Use of operational funds to supplement athletic programs,
- Use of nonrecurring revenues from a building sale to fund pilot projects and some recurring operational costs,
- Use of Bilingual Multicultural Education Program (BMEP) funding to cover non-BMEP costs, and
- A lack of budget and program planning with BMEP funding.

PED oversight of financial management led to the takeover of one district's finances and the correction of other issues, such as a \$1 million funding formula correction in another district. However, existing controls to improve financial management also need improvement.

Improving performance also requires implementing best practices at the school board to ensure efficient use of monies. However, LFC staff found school district governance and leadership could benefit from increased planning, stability, and evaluation. One district did not have a published strategic plan.

Although students at the five districts see approximately a year's worth of academic growth, they are generally starting further behind, likely due to poverty and other associated factors commonly referred to as the achievement gap. PED should compare practices in high-performing schools with those in low-performing schools for training and research purposes. Although student performance in the five reviewed districts is below statewide averages, performance has been improving and

the potential to improve performance further exists through the implementation of evidence-based programs and practices.

Responses from all five school districts are included in the report.

Veronica Garcia, Ph.D., superintendent of Santa Fe Public Schools, said the school district budget increases will help recruitment and retention efforts; however, majority of the funding increases went to teacher raises, leaving little or no increase for at-risk programs and materials.

Superintendent Garcia said the school district is making strides despite having great needs. This year, the school district implemented the Read First and Math Matters programs. Also, the next generation science standards were fully implemented. Principal expectations became standardized and a new assessment tool was developed.

Superintendent Bobbie Gutierrez said Española Public Schools withdrew its initial request for K-5 Plus and extending learning funds. Fifty-two of the 237 teachers in the school district are return-to-work teachers, which would make it difficult to staff the programs because most return-to-work teachers do not want to work the additional time for limited additional compensation.

Acting Superintendent Sondra Adams said Pojoaque Valley Schools received funding to implement K-5 Plus and extended early learning. The programs' implementation is a big transition for some parents.

Reporting on current initiatives, Superintendent Adams said the school district is aligning its dash plan with characteristics of high performing schools. The school district partnered with Los Alamos National Labs and New Mexico Highlands University to develop a regional partnership school.

Superintendent Lillian Torrez, Ph.D., said Taos Municipal Schools' mission is to prepare all students academically, socially, physically, and emotionally to succeed as responsible citizens. The school district's goal is to be a premier district in educating students and helping every student achieve their goals and aspirations. Digital inequity is an issue in the school district.

Superintendent Lillian Torrez said the school district is having a hard time securing teachers for its K-5 Plus and extended early learning programs because many of them are exhausted and do not want to work the additional time for limited additional compensation.

Principal Debra Sena-Holton said Pecos Independent Schools is beginning to develop a strategic plan. Principal Sena-Holton said declining enrollment is financially challenging the school district.

In response to Senator Wirth, Superintendent Garcia said school district budget increases included a six percent increase for every teacher, but it took an average 10 percent to meet the minimal salary threshold, leaving only a small increase for programs and materials. Also, vacancies were not added in the calculation to determine each school district's increase for teacher salaries. Santa Fe Public Schools received a \$4.9 million increase for teacher salaries, but the actual cost is \$6.9 million, forcing the school district to cover the shortfall with the increased funding meant for

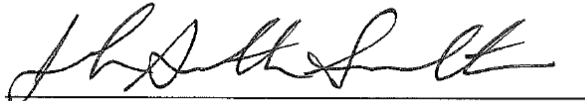
programs and materials. Superintendents Adams and Gutierrez said their school districts experienced the same situation.

Senator Wirth asked about participation in K-5 Plus and extended early learning. Superintendent Gutierrez said the difficulty in securing teachers for the K-5 Plus and extended early learning is also because many teachers have second jobs. The superintendents expressed concern the level of funding a school district receives for the programs in the following year is based on the attendance of a single day the prior year.


Charles Sallee said school funding is through a unit value, based on statewide average costs and data supplied by school districts. The formula used to calculate a school district's budget uses data supplied by the school district. The Department of Finance and Administration, PED, and LFC are committed in working with school districts on determining the factors impacting budgets.

Superintendent Gutierrez said school districts would have enough if they were right sized.

With no further business, the meeting adjourned at 11:31 a.m.



John Arthur Smith, Chairman



Patricia A. Lundström, Vice Chairwoman