MINUTES
Legislative Finance Committee
(Virtual Meeting)
June 10, 2020

Wednesday, June 10
The following members and designees participated virtually on Wednesday, June 10, 2020: Chairman John Arthur Smith; Vice Chairwoman Patricia A. Lundstrom; Senators Clemente Sanchez, Steven P. Neville, William F. Burt, George K. Muñoz, Roberto "Bobby" J. Gonzales, James P. White, and Pete Campos; and Representatives Andres Romero, Jason C. Harper, Javier Martinez, Gail Armstrong, Rodolpho "Rudy" Martinez, Candie Sweetser, and Randal S. Crowder. Guest legislators: Senators Gay G. Kernan, Michael Padilla, Peter Wirth, and Pat Woods; and Representatives Abbas Akhil, Cathrynn N. Brown, Rebecca Dow, Natalie Figueroa, Doreen Y. Gallegos, Harry Garcia, Joy Garratt, Susan K. Herrera, Dayan Hochman-Vigil, Angelica Rubio, Debra M. Sariñana, and Nathan P. Small.

General Fund Outlook. Presenting a revised forecast, LFC Chief Economist Dawn Iglesias said the consensus revenue estimating group (CREG) estimates FY20 general fund recurring revenue at $7.338 billion, down $439 million from CREG's December 2019 forecast. Spending adjustments or additional reserve authorization is required to balance the FY20 budget. General fund recurring revenue is projected at $5.892 billion in FY21, down $1.979 billion. Without changes, FY21 revenues and reserves would be insufficient to meet appropriations.

Ms. Iglesias said the United States is officially in a recession. Its depth and length is uncertain, making it a risk to the forecast. Recovery is expected to be long and slow, likely five years for unemployment to return to prepandemic levels, according to Moody's Analytics and the University of New Mexico's Bureau of Business and Economic Research. In New Mexico, the number of new unemployment claims decreased week over week in April and May; however, the number of continued claims remains high.

Ms. Iglesias said a significant portion of New Mexico's revenue is dependent on oil and gas prices and production. Oil is projected to average $31 per barrel (bbl) in FY21, a decrease from the FY19 average of $51.80/bbl and FY20 average of $42.50/bbl. Oil production is projected to decrease from 355 million barrels in FY20 to 255 million barrels in FY21. The stability in prices and recovery in oil markets is dependent on global oil demand and the maintenance of production cuts from OPEC and other producers.

Recognizing the considerable risks to the forecast, CREG performed a stress test of projected revenues. Ms. Iglesias said stress-testing strengthens the state's reserve position and ability to plan for alternate outcomes. Under an optimistic scenario of faster-than-expected recovery in employment and oil prices, FY22 revenues could still be about $930 million below the December 2019 consensus revenue forecast. Under a pessimistic scenario of a prolonged recession and another collapse in oil prices, FY21 and FY22 recurring revenues could both come in about $2.4 billion below the December 2019 forecast.

In response to Senator Neville, Ms. Iglesias said the recent increase in oil price reflects improved optimism in the market due to reopenings and OPEC extending production cuts. CREG's optimistic scenario assumes higher oil prices and production.

In response to Senator Padilla, Ms. Iglesias said staff is working with the State Land Office and Energy, Minerals, and Natural Resources Department to determine the number of wells approved for shut-in.

General Fund Solvency Scenario. LFC Deputy Director Charles Sallee presented a solvency framework for the 2020 special session, outlining two scenarios. The framework

- Draws reserves to 12 percent, ending FY21;
- Cuts a portion of 2020 special appropriations;
- Switches some general fund capital appropriations, including some for transportation, to debt financing;
- Pares back or eliminates new general fund initiatives that are likely unsustainable in FY22;
- Reduces the 4 percent across the board pay increase by 3 percent to 4 percent, perhaps leaving enough to cover higher benefit costs and maintain take-home pay;
- Sands most FY21 general fund appropriations 2 percent to 4 percent with the smaller reduction for schools, health, and Medicaid; and
- Uses federal funds, especially the $1.25 billion stimulus fund, to temporarily reduce general fund spending.

This approach would achieve general fund FY21 recurring savings of approximately 5 percent. The framework assumes passage of federal legislation or regulatory changes to provide flexible use of $1.25 billion stimulus funding; contingent language could allow use of more general fund reserves if this does not materialize. Significant nonrecurring options remain available for FY22, notably capital outlay voids or swaps and use of the early childhood trust fund. The executive and Legislature will use the July to December period to develop additional recurring and nonrecurring spending and revenue options needed for consideration at the 2021 legislative session.

Representative Javier Martinez expressed concern for the proposed capital outlay voids, noting that over $10 million of the $14 million proposed are dollars allocated to projects in Bernalillo County.

In response to Representative Small, Mr. Sallee said the 1 percent pay increase would apply to all state employees, including school employees. The solvency framework includes average language, giving school districts the ability to develop a compensation plan that ensures lower-paid school employees receive a pay raise that offsets the increase in insurance premiums.

Senator Neville said many people are not receiving routine medical care at this time because of the pandemic and asked if insurance premium increases are still needed given the decline in medical claims. Mr. Sallee said the Public School Insurance Authority expects the use of medical services to sharply rebound as the current situation improves. LFC Director David Abbey said the higher insurance premiums are also a result of increased liability claims.

Senator Sanchez remarked on the challenges of online learning in rural areas that have poor Internet connectivity.

Senator Padilla asked whether federal stimulus dollars may be used to help address broadband needs in the state. Vice Chairwoman Lundstrom instructed LFC staff to report back to Senator Padilla and the other legislators unable to have their comments and questions heard during the videoconference.

Senator Roberto "Bobby" Gonzales moved to adopt the solvency framework, seconded by Representative Rodolpho "Rudy" Martinez. Representatives Gail Armstrong, Randal Crowder, Jason Harper, Javier Martinez, and Andres Romero voted in opposition.

Chairman Smith appointed Vice Chairwoman Lundstrom, Representative Armstrong, Senator Neville, and himself to an executive committee tasked with adjusting and advancing the framework to the 2020 special session.

Policy Spotlight: Public School Response to COVID-19 and Opportunities to Mitigate Lost Learning. LFC Deputy Director Jon Courtney, Ph.D., presented *Policy Spotlight: Learning Loss due to COVID-19 Pandemic* on public school response and opportunities to mitigate lost learning. Though necessary to combat the spread of COVID-19, school closures and issues with remote learning will likely lead to New Mexico's children losing the equivalent of three months to an entire year of learning. This loss is expected to impact younger, at-risk children more. On March 13, 2020, the governor ordered schools to close for three weeks, starting on March 16, in response to the COVID-19 pandemic. On March 27, the governor extended school closures through the remainder of the school year. Along with this announcement, the Public Education Department (PED) waived requirements to make up instruction for the three weeks of closures and instead required schools to develop continuous (distance) learning plans for the remainder of the year.

While the move to distance learning was unavoidable, the early closing of schools inherently exacerbated summer learning loss. Further, certain factors like differing access to the Internet, computers, and parental engagement mean that at-risk children will likely start the upcoming school year farther behind than their more affluent peers.

To avoid further widening existing achievement gaps, safely reopening schools and making up lost learning time must be a top priority for New Mexico. Guidelines from the federal Centers for Disease Control and Prevention should make it possible to reopen schools, and some states have already opened their schools for summer school and fall in-person instruction. Although summer and extended learning programs could potentially help address learning loss, PED has canceled K-5 Plus extended school year programs for FY21, which would have added an additional 25 instructional days leading into the new school year for participating districts.

PED recently convened a reentry task force to develop guidelines for reopening in the fall, which must address unique challenges to reopen schools in New Mexico, including accommodating an older teacher workforce and accounting for the second-highest rate of infected children in the nation. However, strong guidance with an emphasis on addressing learning loss will help New Mexico mitigate the effects of lost learning time and ensure a COVID-19 slide does not exacerbate the existing achievement gap highlighted by the *Martinez and Yazzie v. New Mexico* consolidated education sufficiency lawsuits.

Program Evaluation: Prekindergarten Quality and Educational Outcomes. LFC Deputy Director Jon Courtney, Ph.D., presented the report *Prekindergarten Quality and Educational Outcomes*. With the graduation of the inaugural cohort of prekindergarten students tracked by LFC staff through high school graduation, New Mexico now has evidence prekindergarten programs improve student performance throughout the student's public school tenure. Recent findings suggest the 2006 inaugural New Mexico prekindergarten cohort had a four-year high school graduation rate of 80.2 percent, 6.5 percentage points higher than students who did not attend prekindergarten. Gains in graduation rates are even higher – 11 percentage points – for English learners and lower-income children who attended prekindergarten. Additionally, prekindergarten reduces chronic absenteeism and the chance a child will be held back a grade and improves the odds a child will exit special education services. Prekindergarten also provides a positive return on investment for New Mexico taxpayers, with the state earning $6 for every dollar spent through tax revenue on the higher earnings of participants and reduced social costs. When combined with the K-5 Plus extended school year program, outcomes are even better for prekindergarten participants, although those programs are being canceled for 2020 because of coronavirus pandemic concern.

Prekindergarten programs must remain of high quality and use resources efficiently to preserve the positive impact they have on student performance, but measuring program quality is complicated. A primary determinant of prekindergarten quality is whether the children emerge ready for kindergarten or other school, yet New Mexico lacks a definition of school or kindergarten readiness. In addition, while prekindergarten funding of the programs – split between two agencies until July 1, 2020 – is being consolidated under the new Early Childhood Education and Care Department, administration and assessment will remain divided between the early childhood specialists transferred to ECECD from the Children, Youth and Families Department and the Public Education Department. Furthermore, the two agencies use different criteria for assessing programs, with the model used for contracted prekindergarten providers missing key elements. Finally, improving the workforce is key to improving quality; students taught by teachers with bachelor's degrees tend to fare better than those taught by teachers with lower credentials. However, only the Public Education Department requires teachers to have a bachelor's degree.

Similarly, dollars diverted from classrooms can impact the effectiveness of prekindergarten programs, and absent regulatory, statutory, or standardized administrative controls, a growing proportion of funding goes to administration.

Nevertheless, with the gains clearly demonstrated, the state is likely to benefit from expansion of both full-day and early prekindergarten for younger children and from improvements to both the assessment and funding of the programs.

Vice Chairwoman Lundstrom instructed LFC staff to mail out hard copies of the reports to committee members.

Fiscal Analysis of New Mexico's Health Security Plan: Summary of Preliminary Report Findings and Written Stakeholder Feedback. Lane Koenig, Ph.D., president of KNG Health Consulting, said the Legislative Finance Committee engaged KNG Health and its partners, IHS Markit and Reynis Analytics, to conduct a fiscal analysis relating to the first five years of the proposed health security plan (HSP). The study is intended to provide information to the state on the potential costs of the HSP, whether current revenue sources would be sufficient to fund the plan, and its economic impact on the state.

Reporting KNG's preliminary findings, Mr. Koenig said the HSP would have cost-sharing similar to the average employer-based plan. Cost-sharing would be waived for preventive services, Native Americans, and Medicaid-eligible enrollees. Premium costs would be modeled on the average employer plan, with low-income beneficiaries eligible for lower premiums or premium-free enrollment. Provider payments would be established to keep providers "whole" – i.e., keep aggregate payments comparable with what a provider type was paid prior to HSP. Federal contributions to Medicaid and financial assistance on the marketplace would be kept at current aggregate levels. Employers who do not offer a plan would contribute to the cost of HSP coverage, such that total employer contributions would be an amount equal to their contributions in the baseline. Consistent with the Health Security Act, administrative costs under the HSP would fall to 5 percent of total spending by year 5 of the plan, from 9 percent in 2024 to 5 percent in 2028. By 2024, virtually all New Mexicans would gain coverage, with 81 percent covered under the HSP and 18 percent covered under employers.

An additional $7 billion would be needed over the initial five years of implementation. Options for closing the funding shortfall could include increasing employer contributions for firms participating in the HSP, applying a payroll tax to all firms, reducing reimbursements to providers to capture any provider-side administrative savings, offering less generous coverage (higher premiums and cost-sharing) for some HSP beneficiaries.

Miscellaneous Business.

Action Items. Representative Martinez moved to approve the January 2020 meeting minutes, seconded by Senator Gonzales. The motion carried.

Senator Gonzales moved to approve the LFC contracts, seconded by Representative Martinez. The motion carried.

Review of Monthly Financial Reports and Information Items. David Abbey, director of LFC, briefed the committee on information items and summarized public comment. The Public Health Association asked legislators to consider raising tax revenues rather than reducing budget expenditures. Another comment requested legislators consider defunding law enforcement and use funding for education or mental healthcare programs. Teach Plus asked legislators to consider providing additional funding for instructional materials and more funding for playground equipment to ensure children are safe in coming back to school in person. Transform Education New Mexico recommended legislative priorities that would ensure sufficient funding for public education. Finally, the Primary Care Training Consortium asked to ensure its $200 thousand funding from the Human Services Department is not reduced.

With no further business, the meeting adjourned at 4:00 p.m.

John Arthur Smith, Chairman

Patricia A. Lundstrom, Vice Chairwoman