

MINUTES
Legislative Finance Committee
Las Vegas, New Mexico
August 22 - 24, 2023

Tuesday, August 22

The following members and designees were present on Tuesday, August 22, 2023: Chairman George K. Muñoz; Vice Chairman Nathan P. Small; Senators Nancy Rodriguez, Roberto “Bobby” J. Gonzales, Steven P. Neville, Sia Correa Hemphill, Pat Woods, William E. Sharer, and Pete Campos; and Representatives Meredith A. Dixon, Harry Garcia, Gail Armstrong, Debra M. Sariñana, Ryan T. Lane, and Joy Garratt. Guest legislators: Senator Bill Tallman and Representatives Art De La Cruz, Pameyla Herndon, Tara Jaramillo, Tara L. Lujan, Randall T. Pettigrew, and Joseph Sanchez.

Welcoming Remarks. Sam Minner, president of New Mexico Highlands University (NMHU), said Americans’ confidence in higher education is at an all time low. Also of concern, New Mexico’s lottery and opportunity scholarships have made it more difficult to navigate the enrollment process.

Mr. Minner provided a brief overview of NMHU programs, noting the Native American Institute and Spanish for Heritage Speakers Program. NMHU’s Forestry Program is accredited by the Society of American Foresters and the only accredited forestry program in the state. Mr. Minner said peer coaches have improved student retention.

Reporting on current activity, Mr. Minner said NMHU is working to diversify revenue sources and address challenges in hiring skilled staff. The university is also working to hire President Minner’s replacement as he nears retirement.

Senator Woods remarked on the opportunities of having an accredited forestry program at NMHU and said more trees need to be planted at high elevation in the state.

Program Evaluation: Higher Education Financial Aid. LFC Program Evaluators Clayton Lobaugh and John Campbell presented the report *Higher Education Financial Aid*. Educational attainment contributes to economic growth, employment, earnings, and health outcomes. New Mexico has a long history of covering college students’ tuition costs, first with the lottery scholarship and now with the opportunity scholarship along with it. These scholarships have increased college-going, access, and enrollment in state colleges, but New Mexico still grapples with low college readiness and outcomes.

New Mexico higher education institutions are performing below expected benchmarks given funding levels. The state’s remediation, retention, and graduation rates also signal a need to focus on college readiness and student success.

Increased investment in core higher education operations, particularly student supports, would have a higher estimated impact on college completion than further expanding state scholarships for undergraduates.

In addition, state financial aid can increase the likelihood college students will stay in the state after graduation, but this effect diminishes over time. Although a majority of New Mexico college graduates stay in the state after graduation, more college graduates leave New Mexico than out-of-state graduates come into the state.

The recent expansion of the opportunity and lottery scholarships shifts a majority of tuition costs from students and parents onto the state. This fiscal year, state financial aid is budgeted to equal 53 percent of all tuition and fee revenue at New Mexico colleges and universities.

If New Mexico's goal is to cover full tuition and fees for the long-term, the state and colleges must agree on predictable and sustainable tuition and fee increases. The state currently lacks a system for ensuring the predictability and sustainability of covering tuition and fee costs. When the lottery scholarship first started, lottery ticket sales could cover full-tuition scholarships. Over time, the tuition cost of lottery scholarships grew at a faster rate than scholarship recipients or inflation. Lottery scholarship costs have outpaced lottery revenue since 2009, prompting the Legislature to periodically shore up lottery scholarships with other funding sources.

Last fiscal year, opportunity scholarship costs were 45 percent (or \$42 million) higher than initial projections because of unanticipated costs. New Mexico tuition and fees have increased at comparatively high rates in recent years while fund balances and transfers out of instruction and general (I&G) funds have grown. The state Higher Education Department (HED) has rules requiring colleges to enter into tuition agreements with the agency before receiving opportunity scholarship funds, yet these tuition agreements are still not in place.

New Mexico college students are also leaving at least \$27 million in federal financial aid each year unclaimed by not completing the Free Application for Federal Student Aid (FAFSA). Other states have significantly boosted their FAFSA completion rates by requiring FAFSA completion either in high school or college.

LFC staff recommend the following:

The Legislature should consider

- Prioritizing higher education funding increases for core instruction and general operations in upcoming fiscal years rather than further expanding undergraduate financial aid;
- Amending state laws to make a college's eligibility for receiving lottery and opportunity scholarship funds contingent on having tuition and fee growth rates (paid for by lottery and opportunity scholarships) below maximum growth rates set by HED, the state Department of Finance and Administration, and LFC;
- Amending Section 21-1-2(C) NMSA 1978 to remove limitations on institutional scholarships and require colleges to pay for the first semester tuition and fees of lottery and opportunity scholarship students;

- Requiring colleges to incorporate retention and graduation improvement goals and strategies within their enrollment management plans; and
- Requiring completion of the FAFSA or an alternative income verification to be eligible for lottery and opportunity scholarships.

HED and colleges should monitor and report on the performance of student support initiatives and scale up successful programs.

HED should

- Implement memoranda of understanding (MOUs) with colleges regarding tuition and fees as required by agency regulations;
- Create rules and MOUs setting allowable tuition and fee growth rates over multi-year cycles in order for colleges to be eligible to receive opportunity and lottery scholarship funds; and
- Monitor I&G fund transfers and fund balances as colleges consider future tuition and fee increases to support I&G operations.

HED Deputy Secretary Patricia Trujillo, Ph.D., said New Mexico is leading the nation in developing higher education policies that consider the needs and real costs of college students. Current enrollment trends across the state demonstrate traditional and nontraditional college students are entering classrooms in higher numbers and seeking credentials that improve economic mobility, provide pathways to sustainable incomes, and strengthen community wealth.

Ms. Trujillo remarked on the accomplishments made in improving college access and outcomes. Highlighting key points in HED's response letter to the report, Ms. Trujillo said the agency will continue to emphasize the whole student experience by supporting financial access to college, student success services, and student basic needs initiatives.

Representative Armstrong said requiring the FAFSA form to be filled out could hinder some people from returning to college because it is lengthy and requests very personal information, specifically from parents. Also, many students do not qualify for federal aid.

In response to Chairman Muñoz, Mr. Lobaugh said enrollment data of the first cohort of opportunity scholarship recipients in FY23 will be available in October and outcome data available later.

Update on Hermits Peak and Calf Canyon Fire Recovery. Ali Rye, deputy secretary of the Department of Homeland Security and Emergency Management (DHSEM), said total cost of the Hermits Peak and Calf Canyon Fire is estimated at \$197.7 million. To date, \$64.4 million in recovery funding is obligated, including \$54 million for 10 large projects.

State disaster case management is funded by a federal grant. Ms. Rye said the goal is to provide individual support to disaster-affected residents through a single point-of-contact who is positioned to alleviate the bureaucratic burden of multiple program processes. In response to the fire, DHSEM directed disaster case managers to Mora, San Miguel, and Lincoln counties, partnering with claims

office navigators to help impacted residents recover from the fire. The state's management program is currently handling 274 cases, with an additional 179 cases anticipated.

Ms. Rye said recovery is most effective when it is locally executed, state managed, and federally supported. DHSEM is executing seven lines of the fire's recovery effort: community outreach, drinking water, economic recovery, health and social services, historical and cultural resources, housing recovery, and watershed mitigation. DHSEM's partners include the U.S Army Corps of Engineers to provide advanced protective measures in Mora and the U.S. Forest Service to support holistic watershed assessments via light detection and ranging.

DHSEM Bureau Chief Jeremy Klass, Ph.D., said preparing for floods will be a critical priority for at least the next five years, noting 350 thousand acres of watersheds were impacted by the fire. DHSEM is facilitating landscape restoration and resilience through a recovery and mitigation approach that enables prioritized projects to be written, approved, and funded. The focus is on the identification of projects that can be communicated and implemented locally.

New Mexico is facing challenges in its recovery efforts, however. Ms. Rye explained DHSEM is lacking quantitative reporting from all agencies, which is needed to track aggregate trends across the burn scar. The agency is having trouble eliciting clear, actionable commitments from partner agencies, even when verbal agreements are coordinated in meetings. Also, each agency continues to focus on amplifying its specific program rather than supporting coordinated messaging on recovery.

Legislation adopted during the 2023 session appropriated \$100 million for the purpose of providing zero-interest reimbursable loans to political subdivisions of the state to replace or repair infrastructure damaged by the fire, flooding, or debris flows. Ms. Rye said the Department of Finance and Administration and DHSEM meet on a weekly basis to coordinate distribution of funding. A total of \$53.3 million has been disbursed through the loan program to date. DHSEM is working closely with applicants to formulate and obligate additional federal funding for other permanent work.

Angela Gladwell, director of the Hermits Peak and Calf Canyon Fire Claims Office for the Federal Emergency Management Agency (FEMA), said the Hermit's Peak Fire Assistance Act appropriated an initial \$2.5 billion to compensate individuals, businesses, tribal entities, and state and local governments impacted by the fire and subsequent flooding. The federal Consolidated Appropriations Act of 2023 is providing an additional \$1.45 billion.

The claims office is providing compensation to those impacted by the fire for personal injury, property losses, business losses and financial losses, which Ms. Gladwell noted is different from traditional FEMA disaster assistance programs. To date, 1,870 notices of loss have been received and \$27 million is obligated. Claims will continue to be accepted through November 2024 at three claims office locations: Mora, Las Vegas, and Santa Fe. The claims office projects an obligation total of \$1 billion by January 2025.

Ms. Gladwell noted the claims office conducted six public comment meetings, three job fairs, and continues to hold monthly public town hall events. Also, the claims office is in regular

communication with the governor's office, New Mexico congressional delegation, and DHSEM. Weekly news releases and updates are available on Facebook: [FEMA.gov/Hermits-Peak](https://www.facebook.com/FEMA.gov/Hermits-Peak).

In partnership with the Natural Resource Conservation Service (NRCS) of the U.S. Department of Agriculture, the claims office is providing claimants with free NRCS conservation restoration plans tailored to recovery from the fire and subsequent flooding. Ms. Gladwell said more than 480 landowners have been connected with NRCS and 227 plans have been completed to date. The claims office has obligated 35 plans so far, totaling \$23 million. An additional 69 plans are currently being processed.

Ms. Gladwell said the claims office is also reimbursing for an existing flood insurance policy or the purchase of a new flood insurance policy for five years of coverage. Those who have a reasonable fear of heightened flood risk due to the fire are eligible. Claimants living in national flood insurance program (NFIP) participating communities in Mora and San Miguel counties are automatically eligible. To date, 461 requests for NFIP policies have been received, of which 62 have been processed.

Ms. Gladwell said the claims office plans to fully compensate for reforestation and revegetation of lands directly impacted by the fire.

Ms. Gladwell said the issuance of final regulations is not holding up the claims process. Some claimants may benefit from the final rule, but none will be harmed and none will lose access to any compensation if made available later through the final rule. Under the act, claimants have 150 days from when the claims office formally acknowledges the notice of loss form to complete the proof of loss form. Any claimant who is unable to collect estimates or receipts for the full scope of loss during this 150-day period for good cause will be granted an extension.

Ronojoy Sen, Pew Charitable Trusts, said work of the independent nonprofit, nongovernmental organization includes examining the impact of state and fiscal policies on natural disaster management.

According to Pew's 2022 report *Wildfires Burning Through State Budgets*, wildfires in the United States have become more catastrophic and expensive in recent years, with the U.S. Department of the Interior and the U.S. Forest Service nearly doubling their combined spending on wildfire management in the last decade. From 2017 to 2021, the average annual acreage burned was 68 percent higher than the average from 1983 to 2016.

Mr. Sen said the increased spending on wildfire management is creating budget stress at all levels of government.

Peter Muller, Pew Fiscal Federalism Initiative, said Pew's examination found

- States lack comprehensive wildfire spending data;
- Growing costs are disrupting state budgets; and
- Barriers exist to implement wildfire mitigation.

Mr. Muller said data on the cost of wildfires is essential for allowing budget planning and stability and informing investments in mitigation. Mr. Muller talked about what other states are doing to address wildfire spending challenges and recommended New Mexico consider a similar approach of appropriating upfront dollars for suppression needs.

In response to Representative Garcia, Ms. Rye and Ms. Gladwell said every effort is being made to reach every affected resident to ensure they receive appropriate compensation. DHSEM Secretary David Dye said the agency is dedicated to helping affected residents and asked legislators to provide his staff contact information of constituents who are having trouble connecting with DHSEM and the claims office. Ms. Gladwell said the claims office is still able to work with claimants who do not have receipts.

In response to Representative Castellano, Ms. Gladwell said claims office navigators are currently handling about 40 claims each.

In response to Representative Lujan, Ms. Gladwell said the claims office is also covering behavioral health and personal injury claims.

Storrie Lake State Park Status and Future. Sarah Cottrell Propst, secretary of the Energy, Minerals and Natural Resources Department (EMNRD), said New Mexico's 35 state parks attract 4.75 million visitors on average per year. Seventy percent of New Mexicans live within 40 miles of a state park. Most state park fees have not changed in 25 years, including day use and campsite fees.

Ms. Propst said 24 percent of the State Parks operating budget comes from the general fund. Typically, Navajo Lake is the only state park in the state to have revenue exceed expenses. For FY23-FY25, EMNRD received \$20 million in federal American Rescue Plan Act (ARPA) funding for state park improvements; \$11.2 million is expended so far. Ms. Propst highlighted key projects.

Ms. Propst said Storrie Dam has its origin in the 1909 application to appropriate waters from the Gallinas River for the construction of what was called the sanguijuela project. The Camfield Development Company started work on the project, which fell through due to financial difficulties. In 1916, contractor Robert Storrie began work on a 1,400-foot-long earth fill dam across the Gallinas River north of Las Vegas to provide irrigation water for neighboring vegetable farms. Financial problems and labor shortages due to wartime conditions plagued the project until its completion in 1921. Farmers also failed to produce the anticipated crops due to harsh and unpredictable weather. The Storrie Lake Water User's Association (SLWUA) assumed management in 1944 and currently manages Storrie Lake's use for irrigation and other agricultural related purposes.

In 1959, the Legislature established Storrie Lake State Park, appropriating \$50 thousand in capital outlay to accomplish surveys, basic improvements, and acquisition of land. The State Park Commission acquired 84.24 acres and formed an agreement with SLWUA for surface rights of the lake for recreational purposes.

Ms. Propst said Storrie Lake had about 250 visitors last year. To access the park, the State Park's Division is operating under a one-year lease agreement with the SLWUA. Also, an inter-department agreement is enabling the New Mexico Forestry Division to have a district office within the park's boundary.

FY24 capital outlay investments include road, electrical, and water line improvements. Ms. Propst said EMNRD is initiating an update to Storrie Lake's management plan

Reporting on water rights in the Gallinas system, New Mexico State Engineer Mike Hamman said final decree of the Gallinas River adjudication is expected by next month. The city of Las Vegas has 1,200 acre-feet per year (afy) of water rights with an 1835 priority date and 2,400/afy with an 1888 priority date. The city also has off-stream storage permits for Peterson Dam for 211/af with an 1881 priority date and Bradner Dam for 294/af with a 1949 priority date. The Rio Gallinas Acequia Association has direct flow rights settled as a result of the Las Vegas remand on June 21, 2022, and a payment of \$1.7 million from the city. SLWUA has a junior diversion right and a storage permit with a 1909 priority date. The city obtained up to 2,300/af of storage rights in Storrie Lake, currently capped at 800/af, through agreement with SLWUA.

Following the Hermits Peak and Calf Canyon Fire, fears of catastrophic post-fire ash, sediment, and debris runoff prompted quick action to preserve what water was available and protect existing infrastructure. State Engineer Hamman said protective measures across multiple agencies were taken in anticipation of burn scar runoff damages, including measures to prevent runoff entering Bradner and Peterson reservoirs and installation of coffer dams and barrier nets at key sites. The Office of State Engineer (OSE) worked closely with water users to first preserve the existing water supplies and SLPWUA water users agreed to limit releases from Storrie Lake to preserve the 3,200/af for fire response and a reserve supply for the Las Vegas water system. State Engineer Order 194 was issued on May 6 restricting releases for agricultural use and the Las Vegas National Wildlife Refuge. The restrictions were lifted last October.

To address flooding concerns and the potential for high ash content water entering Storrie Lake, SLWUA agreed to close the gates at the Storrie Lake canal heading to by-pass poor quality water and re-open if high flood causing flows required diversions to avoid flood damages in the city. State Engineer Hamman said several moderate rain events in the watershed created high ash laden and debris runoff that was by-passed at the dam and only caused minor flooding issues downstream. SLWUA lost approximately 7,000/af of storable water during the summer monsoon period.

State Engineer Hamman said the watershed is expected to produce sediment and debris with high monsoon events for years to come, so proactive measures will require regular maintenance by the city of Las Vegas on top of its normal workload of providing high quality water to its citizens. OSE, will continue to operate and maintain the metering and gate operators going forward. For the long-term water supply, OSE recommends city leadership negotiate with the board of SLWUA and its individual members for additional water leases to fill its storage space in Storrie Lake for an emergency and future growth.

The Water Trust Board recently granted \$13 million to SLWUA to improve the delivery canal below Storrie Lake, which State Engineer Hamman said will help reduce seepage.

The state engineer said OSE has \$33 million in ARPA funding to assist in a short-term emergency supply for an additional 400/af. A two-year draft agreement was just executed between the city and a large shareholder to provide this additional volume for approximately \$1 million per year.

Owen Burney, research director of the Mora Agricultural Experiment Station of New Mexico State University, said a reforestation pipeline consists of four elements: seed, nursery, out-planting, and post-planting.

Mr. Burney said reforestation recovery from the Hermits Peak and Calf Canyon Fire requires between 10 million to 25 million seedlings. To meet all reforestation needs in the state, up to 390 million seedlings are needed. Unfortunately at New Mexico's current nursery capacity, it would take more than 500 years to meet current reforestation needs.

The New Mexico Reforestation Center, however, is being developed to build New Mexico's nursery capacity. A partnership of the University of New Mexico, New Mexico State University, New Mexico Highlands University, and EMNRD, the center will provide comprehensive seed bank, nursery, and planting operations combined with research, education, and outreach activities. This year, Legislature appropriated \$8.5 million for phase one of the center's development: land acquisition and design. Mr. Burney noted requirements of the site.

Chairman Muñoz said if state park fees are increased, the additional revenue should be returned to EMNRD for state park improvements.

Wednesday, August 23

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Preliminary FY23 General Fund Revenues, FY24-FY28 Revenue Outlook, and General Fund Financial Summary. Stephanie Schardin Clarke, secretary of the Taxation and Revenue Department (TRD), said the Consensus Revenue Estimating Group (CREG) comprises staff from TRD, the Department of Finance and Administration (DFA), the Department of Transportation (NMDOT), and LFC. CREG's projections are based on IHS Global Insight, Moody's Analytics, and University of New Mexico's Bureau of Business and Economic Research (BBER) forecasts and data collected from various sources, including state agencies, the Congressional Budget Office, and the extractive industry.

Secretary Schardin Clarke said both national forecasters do not anticipate a recession in their baseline forecast, but rather slower economic growth.

Reporting on the U.S. economy, Secretary Schardin Clarke said real gross domestic product (RGDP) increased 2.4 percent in the second quarter of 2023 and is projected to grow at a quarterly rate of 1.4 percent through 2024. Inflation has moderated across all major areas and the labor market is strong, although competitive and tight.

In New Mexico, RGDP increased 2.85 percent in 2022 and is projected to grow at a quarterly rate of 1.3 percent through 2024. New Mexico employment has returned to prepandemic levels, with the unemployment rate currently on par with the U.S. average at 3.6 percent.

Oil prices averaged \$80.50 per barrel (bbl) in FY23, down \$5.50/bbl from the last estimate. Secretary Schardin Clarke said the downward pressure on oil prices was driven by concerns of worldwide and national economic growth and the Ukraine and Russian conflict. Oil prices for FY24 are estimated at \$74.50/bbl, and out-year prices are expected to average \$70/bbl as supply and demand forces balance and markets continue to stabilize.

Secretary Schardin Clarke said New Mexico oil production in FY23 is estimated to be a record high of 658.7 million barrels. The current rig count is 113, nearly matching the March 2020 record high of 114 rigs. Rystad Energy expects New Mexico oil production to moderate and estimates the number of rigs required for maintenance of production in the state is 90, an increase from the 75 needed in 2022.

Secretary Schardin Clarke said natural gas prices are down significantly from the previous estimate, while production is up. Natural gas production for FY23 is estimated at 3.23 billion cubic feet (bcf), with an average price of \$5.65 per thousand cubic feet (mcf). Prices are expected to moderate in the near term due to supply growth.

Reporting on tax revenues, Secretary Schardin Clarke said wages and salaries and personal income growth have steadily climbed. According to current projections, revenue from personal income tax (PIT) increased 15 percent in FY23. PIT revenue in FY24, however, is expected to contract due to legislative changes.

The inclusion of internet sales and destination-based taxation has grown New Mexico's gross receipts tax (GRT) base, increasing GRT revenue from all industries. Secretary Schardin Clarke said consumer spending is strong but moderating. The 1/8 percent GRT rate reduction is expected to contract GRT revenue by 1 percent in FY24; however, GRT growth is expected to remain steady due to increased wages and salaries, stabilized employment, and continued strength in oil and gas.

Secretary Schardin Clarke said transfer to the early childhood education and care fund is estimated to be \$2.2 billion in FY24 and \$1.3 billion in FY25. Severance tax revenue in FY24 to the general fund is expected to increase from \$838 million to \$1.15 billion. FY24 rents and royalties revenue to the general fund is expected to increase from \$1.12 billion to \$1.6 billion. Both these revenues to the general fund are capped at FY24 levels and will not grow further, benefitting the severance tax permanent fund (STPF).

Reporting on 2023 legislation, DFA Secretary Wayne Propst said House Bill 2 provided a \$475 million transfer from the general fund to STPF in FY24. Senate Bill 378 provided a distribution of

\$92 million each year from 2023 to 2033 from the severance tax bonding fund to STPF. Senate Bill 26 fixed net oil and gas emergency school tax and federal mineral leasing revenue to the general fund at FY24 levels, transferring any growth from these programs in beyond years to the STPF.

Providing additional detail on Senate Bill 26, Secretary Propst said the legislation increased the STPF corpus, future interest earnings, and transfers to the general fund, which will reduce the general fund's reliance on oil and gas overtime.

Secretary Propst said FY23 recurring general fund revenue is estimated at \$11.64 billion, a 20.3 percent increase over FY22. Reserves are estimated at \$4.3 billion, or 51 percent of recurring revenues. Recurring general fund revenue is projected at \$12.61 billion in FY24, an 8.3 percent increase, and \$13.05 billion in FY25, a 3.5 percent increase.

LFC Chief Economist Ismael Torres highlighted key information in CREG's forecast and said recurring revenue for FY24 is estimated at \$12.61 billion, up \$790.7 million from the December estimate. Recurring revenue for FY25 is estimated at \$13.05 billion. "New money," or projected recurring revenue for the coming fiscal year less current year recurring appropriations, is estimated at \$3.482 billion for FY25, or 36.4 percent growth from the FY24 recurring budget.

Recurring revenue for FY23 is estimated at \$11.64 billion, up \$1.966 billion, or 20.3 percent, from FY22. Consumer spending remained strong despite resilient inflation, wage growth was robust, and high oil and gas revenue was supported by supply-side constraints that raised prices and encouraged production expansion. Oil and gas revenue strength pushed severance tax and federal royalty collections to record-breaking levels, resulting in larger transfers to the early childhood trust fund in FY23. However, legislative changes have improved the stability of the general fund by insulating it from swings in oil and gas revenues by distributing windfalls in FY25 and beyond to STPF.

Representative Sariñana said Legislature should consider additional funding for inspections and compliance of the oil and gas industry to ensure safety of the 144 thousand New Mexicans living within 30 miles of an extraction site.

Senator Hemphill asked CREG to provide LFC information on orphaned wells in the state and the progress of legislation to put orphaned wells back into operation.

Early Childhood Accountability Report. LFC Program Evaluator Nathan Eckberg and Analyst Kelly Klundt presented the *2023 Early Childhood Accountability Report*. New Mexico continues to invest heavily in quality services for at-risk children, which can impact their future educational and economic success. However, maximizing the return on investments in such programs poses challenges related to implementation. The state will need to consider how to balance fast growing resources for early childhood given the large balance in the early childhood trust fund and new allocation of permanent school fund dollars. Significant early childhood investments in FY24 include expansion of prekindergarten to improve education outcomes and replacement of nonrecurring federal revenues with state revenues to continue executive policy changes in the Childcare Assistance Program.

When thinking about early childhood program expansion and implementation, the number of children served is a key consideration. However, births in New Mexico have been declining much faster than originally anticipated. The University of New Mexico Geospatial Population Studies Department projected the state would have a 30 percent decline in births from 2010 to 2040. However, in about a third of that time, the state has already seen a decline of 24 percent, averaging a decrease of about 2 percent per year. As births continue to decline, the number of children needing early childhood services will also decline.

While funding may no longer be a main barrier to family access in many areas of the state, implementation may hinder early childhood program outcomes. Home visiting services can lead to some positive benefits for families enrolled in the family supports program, but the full, expected benefits are likely not realized for most families. Only 7 percent of families completed the program in FY23, down from the 11 percent that completed in FY22. When examining population-level health and safety metrics, infant mortality and abuse and neglect deaths have improved; however, substance use and repeat maltreatment remain high.

Oversight of prekindergarten quality can be difficult because both the Early Childhood Education and Care Department (ECECD) and Public Education Department (PED) have different educational requirements for teachers and report different information on classroom quality. ECECD is the lead data reporting agency and policy recommendations are based on analysis of the data.

Head Start quality is partially dependent on teacher quality, with teacher qualification a component of federal high-quality standards for Head Start programs. New Mexico continues to lag the nation on Head Start teacher qualifications, and the number of teachers with at least a bachelor's degree fell between FY19 and FY22. Also, the program continues to face enrollment decreases. The state needs to coordinate effectively so it does not supplant federally funded Head Start with state-funded prekindergarten and childcare.

Finding childcare for infants can be difficult because the state has licensed service slots for just 31 percent of children born in the last two years. During the pandemic, childcare slots decreased, but the dip in slots has recovered and there are about 4 percent more slots than before the pandemic for children over age 2 and 1 percent less for children under age 2. As of June 2023, New Mexico's labor force participation rate was 57 percent, below the nation's participation rate of 62.6 percent. Because most families with young children have at least one parent, and often both parents, in the labor force, stable, adequate childcare is likely necessary to increase workforce participation for these families.

Secretary Elizabeth Groginsky said ECECD's mission is to optimize the health, development, education, and well-being of babies, toddlers, and preschoolers through high-quality, community-based and family-driven early childhood programs and services. To accomplish its five-year strategic plan, agency work is centered on five core values: family driven, organizational excellence, integrity, teamwork and collaboration, and partnership. By 2027, the agency aims to have

- 5,000 additional children enrolled in high-quality prekindergarten,
- 20,000 more families receiving affordable high-quality early care and education,

- 33 counties supported by an active and engaged local early childhood coalition,
- 23 tribes, pueblos, and nations with improved early childhood facilities supported by a dedicated funding source and technical assistance,
- 80 percent of families and babies with plans of care supported,
- 2,000 additional infants and toddlers accessing high-quality, inclusive child care,
- 500 indigenous early childhood educators supported in achieving higher credentials, and
- 5,000 additional families engage in evidence-based home visiting.

Secretary Groginsky highlighted FY23 accomplishments and said the next Early Childhood Education and Care Advisory Council will take place in Sunland Park on October 4.

Senator Gonzales said the Legislature may want to consider establishing a retirement plan for early childhood workers, which could help the system with recruitment.

In response to Representative Armstrong, Secretary Groginsky said New Mexico state statute mandates the Children, Youth and Families Department to administer the federal Comprehensive Addictions and Recovery Act.

Rural Healthcare in New Mexico. Lorelei Kellogg, acting Medicaid director for the Human Services Department (HSD), said the agency has four goals:

- Improve the value and range of services it provides to ensure every qualified New Mexican receives timely and accurate benefits;
- Create effective, transparent communication to enhance public trust;
- Successfully implement technology to give customers and staff the best and most convenient access to services and information; and
- Promote an environment of mutual respect, trust, and open communication to grow and reach its professional goals.

Ms. Kellogg said New Mexico has the highest social vulnerability in the country.

This year, the Legislature appropriated \$80 million to the rural healthcare delivery fund, which is used to provide grants to defray operating losses and start-up costs of rural healthcare providers and facilities that provide new or expanded services. Ms. Kellogg said HSD is accepting applications for the funding until October 6.

Ms. Kellogg said the Legislature also increased Medicaid reimbursement rates and enacted new managed care organization (MCO) oversight and compliance. Medicaid reimbursement rates increased up to 120 percent of Medicare or equivalent for primary care, maternal health services, and behavioral health services. Other service codes increased up to 100 percent of Medicare or equivalent. MCOs must now treat the Medicaid-published fee schedule as the floor and cannot pay providers below the published rate. No reduction is allowed for providers who already have negotiated rates above the published fee schedule. MCOs must adjust claims so that providers do not have to resubmit. HSD will monitor the MCOs' implementation through biweekly status updates and reporting.

Hospital and facility rates also increased up to 100 percent of Medicare.

The Centers for Medicare and Medicaid Services (CMS) established a new hospital classification this year: rural emergency hospital. In response, the Department of Health (DOH) promulgated rules to establish rural emergency hospital licensing in the state, which Ms. Kellogg said is currently being sought by one hospital. The new classification enhances federal healthcare reimbursement.

Ms. Kellogg said community health workers, representatives, and promotoras are now on the list of providers eligible for Medicaid reimbursement. Chiropractors, acupuncturists, doulas, and birth workers could soon be on the list as well.

Other progress was noted, including the expansion of primary care and psychiatry residency in the state.

New Mexico is currently collaborating with CMS to develop a new Medicaid primary care payment model, which Ms. Kellogg said could provide an opportunity for additional investment.

Guadalupe County Hospital (GCH) Administrator Christina Campos said healthcare delivery systems are experiencing a seismic shift in their economics, putting many communities at risk of losing their hospital and ultimately their source of healthcare and economic anchor of quality jobs. New Mexico currently has 27 urban hospitals and 27 rural and underserved hospitals. GCH is currently seeking designation as a rural emergency hospital.

Ms. Campos said the greatest healthcare challenge for rural New Mexicans is access to care. Obstetrical care is almost nonexistent in rural New Mexico. Increased operating costs and the difficulty of recruiting and retaining providers and staff are the primary reasons many hospitals are having to downsize, eliminate services, or close. Remarkable on opportunities to address current challenges, Ms. Campos said expansion of healthcare tele-education could help retain graduates in rural communities.

Troy Clark, president and chief executive officer of the New Mexico Hospital Association, said urban hospitals are facing many of the same challenges as rural hospitals. Currently, over two-thirds of hospitals in the state have expenses that exceed revenues. Many are also exceeding patient capacity.

To address current challenges, Mr. Clark recommended the Legislature

- Establish a healthcare careers scholarship,
- Fund the Help Rural New Mexico Breathe Better career pathway pilot project,
- Develop a healthcare workforce dashboard
- Maximize the Medicaid federal match,
- Address access to care barriers caused by medical malpractice law-related costs,
- Establish an expendable healthcare trust fund,
- Support nurse preceptors,
- Increase loan repayment programs for physicians and nurses,
- Increase funding and reimbursements for paramedic and EMT training.
- Increase trauma system authority funding,
- Improve the hospital hub and spoke model for hospital transfer, and

- Support HSD in developing a new supplemental payment.

John Hummer, president of Burrell College of Osteopathic Medicine at New Mexico State University (NMSU), provided a brief overview of current initiatives, including a partnership with the NMSU College of Agricultural, Consumer, and Environmental Sciences that brings medical students to rural settings and learn directly from physicians.

President Hummer recommended the Legislature consider additional funding for the health professional loan repayment program.

Carrie Robin Brunder, New Mexico Medical Society (NMMS), said New Mexico is competing against every other state in the country to attract and retain physicians and solving the shortage issues is even more challenging due to the social struggles and rural nature of the state. According to the Workforce Solutions Department, the state currently has over 2,000 physician job openings and 6,000 registered nurse job openings.

Ms. Brunder recommended the state focus on stabilizing current medical infrastructure, supporting new and current clinicians, expanding services, and building a future clinician pipeline. Additional detail was provided.

The practice of medicine often looks different in rural settings, which deters some medical residents. Karen Lynn Carson, MD, BCA Pediatrics, explained many rural physicians must provide a broader scope of medicine due to the lack of specialists in their area. Dr. Carson said New Mexico must recognize it needs an entirely different system of support for new or “urban-transitioning” physicians to recruit and retain physicians—New Mexico must support clinicians so they are confident to practice in New Mexico communities despite lack of access to other health care clinicians, equipment, and treatment modalities.

Several states have created state-funded graduate medical education (GME) to prepare physicians for practice in rural communities. Dr. Carson said NMMS recommends the Legislature provide funding for GME programs and fully fund rural rotations for medical school students.

Nancy Rodriguez, executive director of the New Mexico Alliance for School-Based Health Care, said the organization represents school-based health centers (SBHCs) in New Mexico and collaborates with other partners to promote, facilitate, and advocate for comprehensive, integrated, and culturally competent healthcare, including health education, in schools.

SBHCs provide integrated primary and behavioral healthcare to children and youth and special expertise and resources to school communities, a uniquely convenient and helpful access point. Ms. Rodriguez said the Department of Health supported 54 sites in the state last school year, covering between one-third and half of each site’s operating costs.

This year, the Legislature appropriated additional funding for SBHCs, which Ms. Rodriguez said will support an additional 86 sites in the 2023-2024 school year.

Ms. Rodriguez talked about partnerships and highlighted success stories of SBHCs. A recent survey revealed another 30 schools would like to have a SBHC.

In response to Representative Armstrong, Ms. Kellogg said HSD's FY25 budget request will include rate increases for pharmacy reimbursement.

Representative Chatfield said the Legislature should consider lowering the cap on medical malpractice damages paid by hospitals.

Rural Natural Resources Economic Development. Lancing Adams, acting secretary of the Tourism Department, said New Mexico's outdoor recreation and cultural heritage generates over \$7 billion in visitor spending annually. According to a recent study, New Mexico ranks with the best of the western United States for outdoor recreation and nature travel. Sixty percent of trips to New Mexico include an outdoor activity, compared with national average of only 48 percent.

Reporting on current initiatives, Mr. Adams said the Tourism Department introduced 10 campaigns into the national market since spring 2021. Of those campaigns, six prominently feature a variety of outdoor recreation. For FY24, the agency granted \$3.5 million in cooperative marketing program funding. Earned media continues to be a vital marketing strategy.

Mr. Adams said the role of destination development and management is becoming increasingly important for statewide tourism entities. The Tourism Department is expanding its support for investments in tourism infrastructure that allow for sustainable tourism development. Since 2021, agency has worked with local councils of government to identify 111 viable tourism-related infrastructure projects in need of capital outlay funding. So far, nearly \$110 million in funding has been secured for these projects. Roughly 42 percent of the projects are categorized as rural outdoor recreation projects.

In 2022, over \$6.5 million in Trails+ grant funding was awarded to 54 organizations to fund outdoor infrastructure projects.

The Tourism Department recently rolled out its newest program—Destination Forward—dedicated to supporting the development and implementation of tourism infrastructure projects. The program provides eligible entities looking to complete tourism infrastructure projects with technical support for planning, design, programming, renovation and more.

The Tourism Department continues to support the beautification and litter reduction initiatives of local governments through the clean and beautiful grant program. For FY24, The agency awarded over \$900 thousand to 58 partners, a record amount.

Mr. Adams said Keep New Mexico True—an extension of the New Mexico True brand—promotes campaigns that emphasize environmentalism and sustainability to residents.

Sarah Cottrell Propst, secretary of the Energy, Minerals, and Natural Resources Department (EMNRD), said New Mexico's 2020-2030 forest action plan lists the top 500 watersheds at risk. The goal is to restore 300 thousand acres of watershed a year, however, the state is currently

achieving just 15 thousand acres a year. Current funding for forest restoration totals \$30.6 million. Ms. Propst highlighted current key projects and noted 26 jobs are generated for every \$1 million invested in forest restoration.

Ms. Propst said the Forestry Division convened a working group to develop solutions, in collaboration with a variety of stakeholders, to mitigate forest restoration work disruptions.

Legislation adopted during the 2023 session established the conservation legacy permanent and land of enchantment legacy funds. Secretary Propst said the funds are New Mexico's first-ever dedicated sources of recurring funding for conservation, prioritizing land and water stewardship, forest and watershed health, outdoor recreation and infrastructure, agriculture and working lands, historic preservation, and wildlife species protection. The funds each received \$50 million for initiatives in FY23.

Brittany Fallon, Land of Enchantment Legacy Fund Conservation Coalition, said the coalition is working to ensure the land of enchantment legacy fund (LELF) is successful in meeting the needs of communities across the state. To keep LELF funded, the conservation legacy permanent fund (CLPF) needs an additional \$350 million by FY29 because LELF is dependent on the interest earnings of CLPF. Ms. Fallon explained CLPF investment earnings are credited to the fund. CLPF is directed to distribute income in excess of \$5 million to LELF, which can only take place if the balance of CLPF exceeds \$150 million. The distributions are to be the greater of \$12.5 million or 25 percent of the total balance.

Debbie Hughes, executive director of the New Mexico Association of Conservation Districts, provided an overview of legacy fund type projects, many of which require a funding match.

LFC FY24 Draft Budget Guidelines. LFC Director Charles Sallee outlined LFC's proposed budget guidelines for FY25. The guidelines serve as general direction and reflect committee priorities.

Vice Chairman Small moved to adopt the LFC FY25 budget guidelines, seconded by Senator Campos. The motion carried. Representatives Baca, Armstrong, and Chatfield and Senators Sharer and Woods voted in opposition.

Thursday, August 24

The following members and designees were present on Thursday, August 24, 2023: Chairman George K. Muñoz; Vice Chairman Nathan P. Small; Senators Nancy Rodriguez, Roberto "Bobby" J. Gonzales, Steven P. Neville, Sia Correa Hemphill, Pat Woods, William E. Sharer, and Pete Campos; and Representatives Meredith A. Dixon, Harry Garcia, Jack Chatfield, Gail Armstrong, Debra M. Sariñana, Brian G. Baca, and Derrick J. Lente. Guest legislators: Representatives Art De La Cruz, Joy Garratt, Pamelya Herndon, Ryan T. Lane, and Tara L. Lujan.

Miscellaneous Business.

Action Items. Senator Gonzales moved to adopt the LFC July 2023 meeting minutes, seconded by Vice Chairman Small. The motion carried.

Senator Campos moved to adopt the LFC Public Education Subcommittee July report, seconded by Representative Armstrong. The motion carried.

Senator Campos moved to adopt the LFC Higher Education Subcommittee July report, seconded by Senator Rodriguez. The motion carried.

Senator Gonzales moved to adopt the LFC Compensation Study contract, seconded by Vice Chairman Small. The motion carried.

Senator Rodriguez moved to adopt the LFC FY25 budget request, seconded by Senator Campos. The motion carried.

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

Progress Report: Status of Substance Abuse Treatment and Outcomes. LFC Program Evaluators Rachel Mercer-Garcia and Kathleen Gygi reported on the status of substance abuse treatment and outcomes in New Mexico. The state consistently has the highest alcohol-related death rate in the country and ranked sixth nationally for drug overdose deaths in 2021. Substance use disorders (SUD) remain a problem in New Mexico, as alcohol- and drug-related deaths increased rapidly during the pandemic.

Between 2019 and 2021, the state's alcohol-related death rate increased 31 percent and 2,274 New Mexicans died of alcohol-related deaths in 2021. Simultaneously, the state's overdose-death rate increased 68 percent and 1,029 New Mexicans died of a drug overdose in 2021. The state's overdose death rate may have improved slightly in 2022, although current data is preliminary and subject to change.

The state is investing relatively little in upstream interventions and prevention efforts, given the magnitude of the state's high rates of SUD and associated deaths, particularly for alcohol misuse. New Mexico should expand and increase uptake in prevention programs and consider strengthening population-level prevention policies.

New Mexico has made significant investments in treating substance use disorders, however. The state is spending roughly \$800 million on the Medicaid behavioral health program, the primary funding source for substance use treatment in New Mexico, as well as an additional \$246 million annually for behavioral health services, which may include substance use treatment, through other agencies in the Behavioral Health Collaborative.

Previous LFC studies recommended expanding evidence-based forms of treatment, including the use of medications to treat opioid- and alcohol-use disorders, as well as expanding the state's harm reduction efforts. New Mexico implemented several of the recommendations, including statutory changes to the Harm Reduction Act and investments in medications to treat SUD.

Today, LFC staff find that while some forms of evidence-based treatment have expanded within the state's Medicaid behavioral health program, the utilization of medications to treat SUD has not

grown substantially, though the elimination of federal requirements could make treatment for opioid use disorder more accessible. Overall, the state continues to struggle to leverage data in a timely way to better estimate SUD needs and treatment utilization, and New Mexico risks duplicating or underleveraging available resources without coordination.

In response to Senator Sharer, Rachel Wexler, acting bureau chief of injury and behavioral health epidemiology of the Department of Health, said it is unclear why alcohol use disorders have increased in the state. Representative Lujan noted her fellowship on opioid policy with other legislators across the country and said SUD is most often the result of people who self-medicate for mental illness. Representative Lujan said work needs to be done to take away the stigma of mental illness so that people seek behavioral healthcare rather than self-medicate. Also, the state should focus on harm reduction models and tools to address SUD.

In response to Representative Lente, Ms. Mercer-Garcia said some studies have shown reductions in consumption and misuse when alcohol prices are increased.

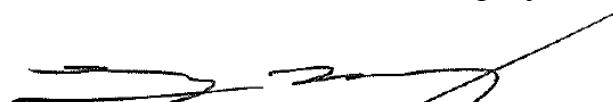
Capital Outlay Quarterly Report. LFC Analyst Cally Carswell said requests for capital project funding from public school districts and higher education institutions indicate a dramatic rise in construction costs over just the past year, despite stabilization of the supply chain and an easing in the increases to materials costs seen during the pandemic. Recent requests for construction funding to the Public School Capital Outlay Council have come in at double estimates made a year ago. Similarly, requests for 2024 higher education projects are based on construction cost estimates that have roughly doubled since the last general obligation bond request cycle.

Ms. Carswell said the steep increases will make it difficult for the state to meet its many infrastructure needs, despite unprecedented sums available for capital projects. Rising costs are also likely to exacerbate the dilemma of unspent funds across some 5,100 capital appropriations that are currently active in the state. At the end of FY23, outstanding capital funds totaled approximately \$5.2 billion.

Ms. Carswell said the Legislature could consider

- Prioritizing or restricting of 2024 capital appropriations to complete funding for existing projects, including projects that have secured other funding but require some additional amount to proceed with construction, phased projects, and projects with previous state appropriations;
- Developing cost indices that guide what the state will contribute toward project costs;
- Adopting an earlier deadline for local capital outlay requests and using any increase in legislative staffing to implement basic vetting of requests; and
- Implementing long-term strategies to stabilize annual revenues available for capital projects to increase the predictability of demand from the public sector.

With no further business, the meeting adjourned at 11:29 a.m.


George K. Muñoz, Chairman


Nathan P. Small, Vice Chairman