MINUTES
Legislative Finance Committee
Taos Ski Valley, NM
August 16 - 18, 2017

Wednesday, August, 16th
The following members and designees were present on Wednesday, August 16, 2017: Chairwoman Patricia A. Lundstrom; Vice Chairman John Arthur Smith; Representatives Jim R. Trujillo, Larry A. Larrañaga, Jimmie C. Hall, Roberto "Bobby" J. Gonzales, James G. Townsend, Doreen Y. Gallegos, and Randall S. Crowder; and Senators Carlos R. Cisneros, Sander Rue, Carroll H. Leavell, Howie C. Morales, George K. Muñoz, William F. Burt, and Pete Campos. Guest legislators: Senator Gerald Ortiz y Pino.

Preliminary FY17 General Fund Revenues, FY18 Revenue Update, FY19 Outlook, and General Fund Financial Summary. Duffy Rodriguez, 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). Secretary Rodriguez said 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. CREG's projections are also based on data collected from various sources, including state agencies, the Congressional Budget Office, and the extractive industry; though, there are lags for some data reported.

Giving a general overview of current projections, Secretary Rodriguez said moderate growth is expected to continue nationally and in New Mexico. New Mexico employment is expected to grow about 2 percent in the next two years. The state's recurring general fund revenues for FY17 are estimated to beat previous expectations primarily due to larger gains in severance and gross receipts tax (GRT) revenues. Continued growth of general fund revenues is expected for FY18 and FY19, with CREG estimating $6.1 billion in total general fund revenue for FY19. On the outlook for the U.S. economy, Secretary Rodriguez said continued growth is expected for real gross domestic product, and inflation is expected to return to longer term averages. After appreciating by one-third between 2011 and 2016, the value of the U.S. dollar has leveled off, declining just over 5 percent since this past January. Geopolitical uncertainty remains extremely high. According to charts in the presentation, inflation is normalizing at 1.9 percent, but still below historic norms, and interest rates have begun to increase.

The outlook for the oil and gas industry is also improving. The price of oil is currently averaging $46 per barrel (bbl), an increase from $26/bbl in February 2016. The number of rigs operating in New Mexico is increasing. The state averaged 33 active rigs in FY16; more than 60 active rigs are expected for FY18.

Secretary Rodriguez said, while the oil and gas industry will continue to be a major contributor to the state's economy, it is important to diversify state revenue streams. Secretary Rodriguez listed new companies in New Mexico boosting other industries. However, contribution from the food and medical industries is limited because of current gross receipts tax provisions. Of the $5.9 billion in general fund revenue estimated for FY18, $2.1 billion is expected to come from general sales, $1.4 billion from income taxes, $839 million from oil and gas revenues, $571 million from selective sales, $807 million from investment income, and $218 million from other revenues. Total spending in FY18 is estimated to be just over $6 billion, leaving reserves at $214 million. Secretary Rodriguez noted the risks that could impact actual revenue and spending.

John Monforte, acting secretary of the Taxation and Revenue Department (TRD), addressed LFC economists' concern about the accuracy of CREG's August revenue estimates because of an abnormality in data reported by TRD. The abnormality is in a particular line item, a share of GRT revenue called "60-day money and other credits," which historically averaged a $5 million loss to the general fund each month, but starting in June 2016, showed a gain, adding a total of $135 million above trend from June 2016 through May 2017. As reported in LFC's August newsletter, LFC economists asked TRD for an explanation for the abnormality this past February. However, Secretary Monforte said he was not made aware of the abnormality until July 5. Elisa Walker-Moran, chief economist for TRD, attributed the anomaly to several unmatched returns. Ms. Walker-Moran explained that when personal income withholding tax is paid but a return is filed incorrectly, the payment is booked as GRT revenue. The payment is booked appropriately after the return is matched. By this December, TRD economists expect these unmatched returns will be corrected, lowering GRT revenue but increasing personal income tax (PIT) revenue.

Ms. Walker-Moran then reported on general fund revenue sources. Most general fund revenue comes from GRT. Some GRT growth is the result of non-economic factors and policy changes. The phase-out of food and medical hold-harmless distributions and policy changes made to healthcare deductions and the high-wage jobs tax credit are projected to save tens of millions of dollars in FY18. However, the state stands to lose a projected $50 million of GRT revenue starting in FY21 because a federal "grandfather" clause, which allows a few states, including New Mexico, to tax email and internet access, will end.

Matched taxable gross receipts (MTGR) in FY17 are expected to increase by $1.4 billion while GRT revenue booked to the general fund is expected to increase by $53 million in FY17. A diagram in TRD's presentation showed proportions of MTGR by industry for FY16 and FY17; retail trade represents the largest portion.

Ms. Walker-Moran said the volatility of compensating tax revenue is increasing. Preliminary actual compensating tax revenue for FY17 is $48 million, a 2.3 percent increase from FY16; $53 million is estimated for FY18.

CREG's PIT revenue estimate declined 3.2 percent from FY16 to FY17, which Ms. Walker-Moran attributed to unmatched returns and high-wage job losses in the extractive industry.

Corporate income tax (CIT) revenue performance follows that of other major oil and natural gas producing states. CIT revenue is down significantly. Preliminary actual CIT revenue for FY17 is $50 million, a 57.8 percent decrease from the December 2016 estimate. CREG subsequently adjusted estimates downward for FY18 and FY19; $70 million is now estimated for FY18 and $74 million estimated for FY19. Ms. Walker-Moran said overpayments of tax liabilities are the primary reason for the significant decline of CIT revenue.

Tribal revenue is estimated at $61 million for FY17, and revenue from federal mineral leasing royalties is estimated at $435 million. Oil production is estimated at 150 million barrels for FY17, a 2.2 percent increase from FY16. CREG expects oil production to continue to increase through FY22. The average price of oil was $45.10 per barrel in FY17. Slow growth in prices is expected through FY22.

Also noted by Ms. Walker-Moran, Jon Clark, chief economist for LFC, said unpaid tax owed by Pojoaque Pueblo to the state is a growing concern. Pojoaque Pueblo, which operated without a signed compact for the last two fiscal years, recently signed the 2015 tribal compact. No assumptions can be made about the amounts owed for FY16, FY17, and the first quarter of FY18 pending negotiation with the state.

Mr. Clark reported on employment. Preliminary employment data indicate employment growth for FY17 averaged 0.6 percent. The estimate is based on current employment statistics (CES) survey data released by the U.S. Bureau of Labor Statistics, data that is also indicating a 2.3 percent year-over-year growth rate, which LFC economists are cautious about because of potential issues with the data. The healthcare and leisure and hospitality industries are experiencing the most growth, which Mr. Clark noted are the lowest paying sectors. Mr. Clark said economists continue to see depressed economic activity throughout the state; however, economic activity in the mining industry has steadied, and the construction industry is currently surging.

In response to Representative Crowder, Secretary Rodriguez said the different forecasts used by CREG more often than not provide corresponding projections. Mr. Clark said major differences in forecast are analyzed by economists, sometimes seeking the aid of the forecasting agencies.

In response to Senator Cisneros, Mr. Clark said the court determined that Pojoaque Pueblo must sign a compact with the state but no decision was made on how much money held in escrow due to nonpayment is owed to the state. The recently signed 2015 compact with Pojoaque Pueblo will result in approximately $5 million for the state annually, although, what is owed for the previous two fiscal years will be determined through negotiations. Representative Townsend requested the negotiated amount be reported to LFC when determined.

In response to Senator Morales, Mr. Clark said there are no indicators signaling a potential recession in the near future. If the U.S. economy enters FY20 without being in a recession, it will be the longest expansion period in modern U.S. history. Moody’s Analytics currently estimates the probability of a recession in the next year at 10 percent.

Early Childhood Accountability Report. Jon Courtney, manager of program evaluation at LFC, said quality services for at-risk children can greatly impact their future educational and economic success. Despite economic hardship, early childhood investments continue to be a priority for the state. 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.

Mr. Courtney said LFC’s early childhood accountability report is intended to provide a systemwide look at key early childhood indicators across state agencies and consolidate information regarding expenditures and outcomes. The report outlines key data, reflecting the system's performance in ensuring the health, safety, kindergarten readiness, and education of New Mexico's children. Data indicates the health of New Mexico's children is improving. In 2015, the infant mortality rate decreased, the immunization rate increased, and more women accessed prenatal care early. However, there are concerns in safety: the child death rate worsened in 2015 and the child maltreatment rate continues to be double the national average. Data measuring kindergarten readiness is mixed. The percent of children, age 5 and under, living in poverty increased from 32 percent in 2014 to 34 percent in 2015. The percent of 4-year-old children from low-income families in day services increased from 66 percent in FY15 to 70 percent in FY16. Although slightly improved in 2017, the number of kindergarten through third-grade students proficient in reading and math continues to be below standard.

Mr. Courtney, LFC Analyst Kelly Klundt, and LFC Program Evaluator Nathan Eckberg gave an overview of programs serving the system. Administered by the Department of Health (DOH), the Family, Infant, Toddler (FIT) program provides assistance to families with infants and toddlers with developmental delays, an established medical condition, or at risk due to biological, medical or environmental factors. The Women, Infants and Children (WIC) program, also administered by DOH, provides supplemental food, health care referrals, and nutrition education for pregnant, breastfeeding, and postpartum women, as well as children up to age 5 who may be at nutritional risk. Data indicates services provided by FIT and WIC are improving socio-emotional skills among children served and decreasing food insecurity in low-income communities.

The Children, Youth, and Families Department (CYFD) administers a home-visiting program shown to effectively reduce child abuse and improve health. Funding for the program in FY18 will enable CYFD to serve 4,815 families; however, an additional 5,900 families are eligible. CYFD's childcare assistance program is the state's largest early childhood program, serving approximately 20 thousand children each month at a cost of $100 million annually. Childcare assistance helps low-income families work or attend school while providing children a safe and developmentally supportive environment. The number of children served increased from 17 thousand in 2017 to 20 thousand in 2019. Provider services are evaluated using the new quality rating system called Focus, intended to improve long-term educational and developmental outcomes. LFC staff estimate an additional $20 million is needed for FY19 to maintain current enrollment and quality of services.

Prekindergarten is an early education program for 3- and 4-year-olds implemented by CYFD and the Public Education Department (PED). Prekindergarten has been found to improve math and reading proficiencies for 4-year-olds from low-income families and lower special education and retention rates. Prekindergarten delivers a positive return on investment for New Mexico taxpayers based on improvement in test scores. Also improving student performance is the K-3 Plus program. The program extends the kindergarten through third grade school year by 25 days at high-poverty, low-performing schools for students choosing to participate. Data indicates that students participating in K-3 Plus just before entering kindergarten are more likely to be at benchmark in the DIBELS assessment than students who do not participate. Data also indicates a closed achievement gap between children from low-income families and children not from low-income families when children from low-income families participate in both programs, prekindergarten and K-3 Plus, before entering kindergarten. Despite these gains, K-3 Plus students are underperforming in reading and math proficiencies compared with the average public school student, a result of many contributing factors. LFC staff continually examine the implementation and impact of the K-3 Plus program. K-3 plus is most effective when it is implemented just before a new school year and participants stay with the same teacher when they start the regular school year, however, this is often not the case.

Head Start and Early Head Start are federal programs that promote school readiness of children under age 5 from low-income families. Enrollment continues to decrease. In FY16, Head Start served 3,491 children, a decrease from 3,757 in FY15. New Mexico lags behind the national average on Head Start teacher qualifications.

Mr. Courtney said the cost of New Mexico's early childhood programs will continue to increase as quality of services improve, adding that the fidelity and implementation of programs is key to their success.

Commenting on the report, Alejandra Rebolledo-Rea, bureau chief of the Office of Child Development of CYFD, said CYFD is working to ensure programs are aligned and service gaps are eliminated. Ms. Rebolledo-Rea talked about current programming, which targets the most vulnerable and is focused on prevention and intervention.

In response to Representative Gonzales, Ms. Klundt said positive outcomes resulting from the home-visiting program include an increased number of mothers breast feeding at a longer length of time and more children receiving well-child exams. The program also connects families with other programs. Ms. Klundt said that although the positive outcomes are evident, more work needs to be done to improve the program's infrastructure.

Representative Hall asked why funding for prekindergarten and K-3 Plus increased in FY18 but enrollment decreased. Ms. Klundt said prekindergarten administered by CYFD has become more comprehensive, costing more per enrollee.

In response to Senator Rue, Ms. Klundt said the cost of child care assistance per enrollee is increasing because more higher-quality services are being provided.

Representative Townsend requested that a list of services provided by county be provided in future presentations. Representative Townsend then asked about the qualification for services. Ms. Klundt said families with incomes up to 200 percent the federal poverty level are eligible for child care assistance.

Senator Muñoz requested a list of programs available in Gallup.

Medicaid Reform, Controlling Costs, and Improving Quality. Steve McKernan, chief executive officer of the University of New Mexico (UNM), gave his perspective on the direction healthcare delivery is heading. Mr. McKernan talked about evolving the system to be more localized and able to manage the 20 percent of population responsible for 80 percent of total healthcare spending. Mr. McKernan said the system should be based on the "Triple Aim" framework developed by the Institute for Healthcare Improvement to optimize health system performance by improving patients' experience of care, improving health, and reducing the per capita cost of health care.

Mr. McKernan talked about UNM's comprehensive approach in delivering health care. The infrastructure built to deliver this care has been costly, including the 15 community-based clinics, electronic medical records, and specialized software to track population health. UNM is working on implementing new payment methodologies. Mr. McKernan talked about current challenges in the system, including issues with patient attribution.

Chuck Milligan, chief executive officer of United Healthcare Community Plan of New Mexico, and commissioner of the U.S. Medicaid and CHIP Payment and Access Commission (MACPAC), gave brief background information about the commission. MACPAC is a nonpartisan legislative branch agency that provides policy and data analysis and makes recommendations to Congress, the Secretary of the U.S. Department of Health and Human (HHS) Services, and states on a wide array of issues affecting Medicaid and the State Children's Health Insurance Program (CHIP).

Federal legislative proposals for the budget for Medicaid and CHIP include three payment types: block grants, capped allotments, and per capita caps. This past May, the U.S. House of Representatives passed the American Health Care Act (AHCA) to repeal and replace the Affordable Care Act (ACA) and restructure Medicaid. Had it passed the Senate, the bill would have reduced federal outlays for Medicaid by $834 billion over the next nine years and lowered Medicaid enrollment by 14 million, or 17 percent, by 2026. New Mexico would have lost an estimated $11.7 billion in federal funding over 10 years. Mr. Milligan summarized measures of the bills.

Mr. Milligan said design elements of block grants and per capita caps greatly impact state budgets. These elements include base year, growth factors, and carve-outs. A chart in the presentation showed the significant difference in Medicaid spending between two states at different base years. Mr. Milligan further demonstrated impact to state budgets based on different growth factors.

Mr. Milligan said repeal of the ACA will continue to be pursued in Congress. United Health Group developed a comprehensive set of health care modernization solutions that Congress may want to consider. Meanwhile, HHS invited states to pursue Medicaid reform through waivers that HHS can implement.

Brent Earnest, secretary of the Human Service Department (HSD), said Centennial Care, implemented in 2014, reformed the state's Medicaid program into one that delivers comprehensive services, engages recipients, uses innovative payment methodologies, and simplifies program administration.

Secretary Earnest gave an overview of Centennial Care. Centennial Care's comprehensive delivery system currently has 950 care coordinators. Individuals undergo a health-risk assessment when entering the system to identify needs. Over 300 thousand members are receiving services through a patient-centered medical home.

HSD implemented Centennial Rewards, a program aimed to increase healthy behaviors. Members are rewarded when they engage in healthy behaviors, such as a health risk assessment, dental visits, and diabetic screenings. Seventy percent of members are participating in the program, resulting in significant cost-savings to the state because healthy behaviors decrease the need for inpatient visits.

To simplify administration, HSD consolidated 11 different federal waivers into one single global waiver. The Medicaid application and enrollment process has been streamlined.

According to a chart provided, Centennial Care enrollment increased 5 percent from April 2016 to March 2017. The per capita cost decreased 1 percent for the same period, which Secretary Earnest attributed to utilization changes and rate reductions. Total enrollment is currently 915 thousand members. Various other charts were provided, including one that showed the decline of uninsured people in the state.

Secretary Earnest then talked about Centennial Care 2.0. The application process to renew the federal waiver for Centennial Care is underway. The renewal gives HSD the opportunity to upgrade the program. Once the federal waiver is renewed, New Mexico's Medicaid program will be renamed Centennial Care 2.0. Secretary Earnest gave an overview of improvements being made, which builds on the successes achieved during the past four years. Centennial Care 2.0 will become effective January 1, 2019.

Secretary Earnest said it is uncertain whether the federal government will make changes to Medicaid. Potential changes include reduced funding, which Secretary Earnest said would impact the state more in three years to six years. New Mexico's Medicaid budget is already being impacted because of the continued lowering of matching rates for the expansion patients who joined Medicaid when it was expanded. On January 1, 2018, the expansion matching rates will be lowered to 93 percent. However, regular FMAP rates are expected to increase slightly. The reauthorization of CHIP is uncertain.

Representative Lundstrom requested HSD provide the committee a summary of comparisons between Centennial Care and Centennial Care 2.0.

In response to Representative Crowder, Secretary Earnest said it is unclear how telehealth will impact the state's healthcare system as its usage increases. Secretary Earnest said telehealth works well in New Mexico because the state is largely rural.

In response to Senator Rue, Secretary Earnest said Centennial Care 2.0 will improve transitions of care for persons released from jails/prisons. The Medicaid enrollment process will begin for eligible inmates before they are released. The transition of care for prisoners will be comprehensive, with coordination of care established before release.

Miscellaneous Business.

Action Items. Senator Cisneros moved to adopt the July 2017 meeting minutes, contingent on adding "(see attached letter)" to the minutes. The addition refers to a motion made by Chairwoman

Lundstrom requesting that a letter be sent on behalf of LFC and RSTP to PRC requesting information on the station's abandonment case. The motion was seconded by Representative Hall. The motion carried.

Senator Cisneros moved to adopt the LFC FY19 Budget guidelines, contingent on attaching a memo prepared by LFC economists. The motion was seconded by Representative Larrañaga. The motion carried.

Senator Cisneros moved to adopt the LFC FY19 Budget Request, seconded by Senator Burt. The motion carried.

Chairwoman Lundstrom made a motion to create an LFC/LESC joint subcommittee. There were no objections. Chairwoman Lundstrom appointed a few members of LFC to the new subcommittee.

Review of Monthly Financial Reports and Information Items. David Abbey, director of LFC, briefed the committee on information items. Charles Sallee, deputy director of LFC, updated the committee on the progress of program evaluation projects.

Sunny Liu, analyst of LFC, gave a brief report on Taos Municipal School's performance. For the 2015-2016 school year, most schools in the district received D grades, a decrease from Bs the prior school year. The lower grade is primarily because of decreased growth rates. Student enrollment in the school district has been declining for 10 years, which Mr. Liu said is because many students are now attending charter schools. Taos High School's graduation rate was 74 percent, an increase from 60 percent the prior school year.

Lillian Torrez, superintendent of Taos Municipal Schools, provided members the school district's strategic plan, which focuses on student achievement, educator excellence, communications/public relations, and safety and wellness. Ms. Torrez said the school district is working on a number of initiatives, including opening the Taos Early Learning Academy to provide head start and early head start services for 40 children and their families.

In response to Vice Chairman Smith, Ms. Torrez said approximately 200 students are participating in the dual-credit program.

In response to Chairwoman Lundstrom, Ms. Torrez said only one charter school in the district is in a public building. Chairwoman Lundstrom commented that because of lower enrollment, Taos Municipal Schools likely has empty space, providing charter schools the opportunity to use the available space. Ms. Torrez said there is space available at Arroyo Seco Elementary School. Mr. Liu said charter schools are required to be in public buildings but many are not because of exemptions.

Thursday, August 17th
The following members and designees were present on Thursday, August 17, 2017: Chairwoman Patricia A. Lundstrom; Vice Chairman John Arthur Smith; Representatives Jim R. Trujillo, Larry A. Larrañaga, Jimmie C. Hall, Roberto "Bobby" J. Gonzales, James G. Townsend, Elizabeth "Liz"

Thomson, and Randall S. Crowder; and Senators Carlos R. Cisneros, Sander Rue, Carroll H. Leavell, Mary Kay Papen, George K. Muñoz, William F. Burt, and Pete Campos.

<u>Welcoming Remarks.</u> Chris Stagg, vice president of Taos Ski Valley, welcomed the committee. Jim Fambro, chair of Taos County Commission, thanked legislators for their support of projects in Taos. Mr. Fambro said construction of the Taos Veterans' Cemetery is underway. Other ongoing projects include paving of roads.

Dave Norden, chief executive officer of Taos Ski Valley, said the ski valley encompasses part of U.S. Forrest Service (USFS) land. Development on the land requires a master plan approved by USFS. Taos Ski Valley is independently owned, which Mr. Norden said is challenging because the industry has become conglomerate-controlled. To stay competitive, development is focused on revitalizing the ski valley, reinvesting in the infrastructure, and promoting the unique attributes that large resorts cannot provide. Taos Ski Valley expanded to year-round business; weddings, conferences, festivals, and other activities are taking place outside the ski season.

Mr. Fambro said Taos Ski Valley became a certified benefit "B" corporation this past February, making it the only ski resort in the world with the certification. B corporations are for-profit companies certified by the nonprofit B Lab to meet rigorous standards for social and environmental performance, accountability, and transparency. Also this year, Ski Magazine presented Taos Ski Valley with the golden eagle award for environmental excellence. Mr. Fambro said the recognitions are reflective of the collaborative work done with the Nature Conservancy and USFS.

Mr. Fambro said most projects planned for the ski valley will be completed by 2024, including development of house and condo properties and redevelopment on Strawberry Hill. Mr. Fambro noted the positive economic impact Taos Ski Valley is bringing to the area and the state.

Chaz Rockey, board member of the Taos Ski Valley Tax Increment Development District (TIDD) and chief financial officer of Taos Ski Valley, updated the committee on the dollars being invested in Taos Ski Valley. In addition to private funding, development in the ski valley is being funded with incremental gross receipts tax revenue and property tax revenue. Since the start of development, $27 million has been spent on public infrastructure.

Mr. Rockey said total revenue collected so far from taxes is $1 million less than it should be because several businesses in the ski valley are not applying the appropriate tax code in transactions. Letters to local businesses from TIDD and the Taxation and Revenue Department (TRD) has helped but the issue continues. Mr. Rockey said TIDD is seeking TRD's help to resolve the issue.

The committee was then given an update on the University of New Mexico Taos (UNM-Taos). Martinez "Marty" Hewlett, research scholar and former interim executive director of UNM-Taos, said, in addition to being a branch, UNM-Taos is a community college. UNM-Taos, which serves between 1,500 and 1,700 students per semester, provides core curriculum and various program certificates. Also, high school students can obtain an associate degree through the dual-credit program. In partnership with the town of Taos and the ski valley, UNM-Taos is providing hospitality training. Mr. Hewlett talked about other partnerships and invited legislators to visit the campus.

In response to Senator Cisneros, Mr. Fambro said construction of a new runway at the airport is scheduled to begin next week. Mr. Fambro said the new crosswind runway will provide a safety aspect to airport. Mr. Stagg said expanding the airport will lead to more growth in the area.

In response to Senator Rue, Mr. Stagg said the Taos Ski Valley is working with the Tourism Department on its marketing, adding that the New Mexico True brand is being used in its marketing.

In response to Representative Crowder, Mr. Stagg said development projects include building the infrastructure to handle increased wastewater. Representative Crowder mentioned the Environment Department has a program to assist with such projects.

Update on the Taos Mainline Project. La Vonda Jones, representative of the New Mexico Gas Company, said the main natural gas pipeline serving Taos is being relocated. New pipe is being installed in the right-of-way along New Mexico highway 68, between Rinconada and Pilar. The projected is scheduled to be complete by November, costing an estimated $14 million. The relocation of the pipeline will improve reliability of natural gas delivery for Taos County residents.

In response to Representative Thompson, Ms. Jones said the pipeline is being relocated because of earth movement, landslides, and other geological issues.

Pension Solvency and Investment Performance. Jan Goodwin, executive director of the Educational Retirement Board (ERB), began by stating that an actuarial experience study is conducted every two years for ERB. ERB actuaries recommend assumptions based on results of the study. In 2015, the board adopted an assumption based on a “generational” mortality projection. The assumption decreased the funded ratio from 63.1 percent to 62 percent and the projected period to reach 100 percent funded ratio increased from 26 years to 32 years.

Because inflation impacts cost-of-living, rate-of-returns, wages, and payroll growth, the rate of inflation is taken into account when determining assumptions. Based on results of the most recent actuarial experience study, actuaries recommended ERB decrease the inflation assumption from 3 percent to 2.5 percent, decrease the nominal investment return assumption from 7.75 percent to 7.25 percent, decrease the wage inflation assumption from 3.75 percent to 3.25 percent, decrease the payroll growth assumption from 3.5 percent to 3 percent, and decrease the cost-of-living adjustment (COLA) assumption from 2 percent to 1.9 percent. ERB adopted the recommendations this past April and the assumptions are being applied in the current valuation.

Ms. Goodwin said the projected period for ERB fund’s funded ratio to reach 100 percent increased to 84 years. ERB is examining different design elements to the benefit plan that would decrease the length of time to reach 100 percent funded ratio. Increased contribution rates and reduced benefits for new members are among the options that could be proposed.

ERB's fund is being impacted by the decline of active members. Ms. Goodwin reported other impacts, including the decreased number of members retiring under 25 years and out eligibility and the high numbers retiring under age 65 with five years eligibility. Members who retire under age 65 with five years eligibility are often those who entered ERB's workforce as a second career.

Reporting on FY17 investment performance, Bob Jackshaw, chief investment officer of ERB, said investment gains totaled $1.36 billion. After required distributions, assets increased by $967 million and now total $12.3 billion. Investments returned 12 percent net of fees. Investment returns lagged the median return for U.S. pension funds, which Mr. Jackshaw said was expected given the market conditions with ERB's relatively conservative asset allocation. However, for all periods longer than a year, ERB exceeded the median return. Portfolio results slightly lagged the ERB policy index but outperformed in longer periods.

Wayne Propst, executive director of the Public Employees Retirement Association (PERA), introduced PERA's interim chief investment officer, Jude Perez. Mr. Perez reported PERA's FY17 investment performance. The fund balance was $15 billion on June 30, 2017. Investments returned 11.13 percent net of fees. Investment gains totaled $1.54 billion. The Smart Save balance, PERA's deferred compensation program, was $567 million on June 30, 2017. The Smart Save program has almost 25 thousand participants. PERA implemented new strategic asset allocation with the goal of positioning the fund to better meet the actuarial target with a lower amount of risk.

Requested by the board this past January, PERA staff prepared a series of educational sessions focused on liabilities, intended to clarify major drivers of PERA's liabilities. Mr. Propst said the strong returns in FY17 increased the funded ratio projection for 2043 for the total fund from 76.8 percent to 87.6 percent. When looking at each division independently, the municipal fire plan and state general plan continue to significantly lag the total public employees plan.

Mr. Propst said lower than expected future returns could quickly erode gains as a result of pension reform and above expected investment performance experienced in FY17. A chart in the presentation compared funded ratio projections for 2043 from 2012 to 2016. Another chart showed the long-term funded ratio projection for each division of the fund. The State Police funded ratio projection for 2043 is 130 percent.

John Garrett, principal and consulting actuary for Cavanaugh Macdonald Consulting, talked about the funding equation for retirement plans. Mr. Garrett said, to achieve long-term solvency, inflows must equal outflows. Currently, 68 percent of PERA's total actuarial accrued liability is retiree allocated, 30 percent is active member allocated, and 2 percent is inactive member allocated. Mr. Garret gave an overview of variables affecting retirement funds.

Mr. Propst said the PERA fund is facing the same challenges that most other retirement plans are facing. The next experience study, which will be conducted in 2018, should give the board a clearer picture of the effectiveness of the 2013 reforms.

In response to Senator Muñoz, Mr. Propst said PERA submitted a $600 thousand budget adjust request (BAR) at the beginning of this year for IT work and employee pay. Ms. Goodwin said the BAR ERB submitted a week ago includes funding for pay increases the board authorized for some executive staff. Senator Muñoz expressed concern for potential retirement changes while salaries for executive staff increase.

In response to Vice Chairman Smith, Mr. Propst said PERA has 12 board members. The board has no vacancies at this time. Ms. Goodwin said one of the seven board memberships on ERB is vacant. The vacancy, an executive appointed position, has not been filled for two years.

Quarterly Capital Outlay Report. Linda Kehoe, principal analyst for LFC, said a large number of capital outlay projects are outstanding. Many of these projects are local projects that require additional funding to complete. As of June 2017, approximately $762.8 million from all funding sources for 2,030 projects remains unexpended, including $83 million of earmarked fund balances for water, colonias, and tribal infrastructure projects. Additionally, approximately $216 million remains unexpended from supplemental severance tax bonds for public schools.

Ms. Kehoe said the Department of Finance and Administration (DFA), New Mexico Municipal League, New Mexico Association of Counties, and LFC staff are working together to improve the capital outlay process. The collaboration has so far resulted in more streamlined administrative procedures.

Last month, the State Board of Finance redirected 69 local projects, which were stalled, to the authorized unissued list. Funding for the projects, totaling approximately $6.4 million, was redirected to shovel-ready projects. Directing members to the list of projects redirected, Ms. Kehoe noted the limited time before appropriations for several projects will be subject to reversion.

Jonas Armstrong, fiscal analyst for LFC, said “$1 million or greater” projects total $1.3 billion, of which $623.5 million is unexpended. Progress is slow for several projects, including construction of the Atrisco Community Adult Day Care and Respite Facility and implementation of phase three for the Meadows Long-Term Care Facility. LFC staff recommends voiding authorization for construction of an executive office building in Santa Fe until justification for use of funds is submitted. LFC staff also recommends voiding the authorization for renovation of the Miners’ old hospital for behavioral health clients until justification for use of funds is submitted.

Nine $1 million or greater projects were completed last quarter, including a new water line at the Seven Springs Hatchery, HVAC and infrastructure upgrades at two Corrections Department facilities, and construction of several new prekindergartern classrooms.

Reporting on the 2014 water initiative, Mr. Armstrong said $29 million of the $83.5 million appropriated for water projects remains unexpended. A listing of all 191 projects was provided showing the number of projects by county and the status of funds. Members were also updated on earmarked funded projects for water, tribal infrastructure, and colonias. Of the $83 million in earmarked funds currently appropriated, $34 million is for water projects, $24.3 million is for colonias projects, and $24.6 million is for tribal infrastructure projects.

Mr. Armstrong then reported on local projects costing between $300 thousand and $999 thousand. Progress of projects is tracked in the capital project monitoring system. Members were given a list of all local outstanding capital outlay appropriations by county.

In response to Representative Crowder, Ms. Kehoe said administrative procedural changes made to improve the capital outlay process could be eliminated by new administration. Ms. Kehoe said some changes could be put in statute. LFC's 2016 volume 1 budget document lists changes made so far and recommendations for other changes. Ms. Kehoe said she will send Representative Crowder information about the changes.

Quarterly Performance Report on IT Projects and IT Rates. Brenda Fresquez, program evaluator for LFC, first reported IT governance and oversight issues with the Department of Information Technology (DoIT). Ms. Fresquez said there is insufficient statewide IT strategic planning, lack of an enterprise replacement plan, and lack of effective oversight of the state's IT infrastructure and investment.

LFC staff reviews the status of state agency IT projects quarterly as part of the report card process. According to LFC's most recent IT project status report, the Oil and Natural Gas Administration and Revenue Database (ONGARD) system replacement project has several issues. Lack of progress in project planning and limited project resources are impacting the overall schedule and total cost of the royalty administration and revenue processing system, an aspect of ONGARD, is unknown. The SHARE human capital management (HCM) upgrade was completed in April and the financial system upgrade is scheduled for October. Enhancement of the Public Employees Retirement Association's retirement information online system is underway but delays in contract approvals have impacted the schedule. Ms. Fresquez stated the project schedule requires updating based on the known delays. The largest IT project currently in progress is the Human Services Department's replacement of its Medicaid management information system. The $176 million project will be implemented in phases, scheduled to be completed in 2019. The Department of Public Safety is implementing a computer-aided dispatch system and the project continues to be behind schedule. The status of other projects was reported in the report.

Then reporting on IT rates and DoIT appropriations, Ms. Fresquez said a previous LFC program evaluation on enterprise service rates and project management oversight found that DoIT's rate setting process and service delivery needs improvement.

DoIT rates include depreciation to fund equipment replacement. FY18 appropriations to the equipment replacement revolving fund were contingent on DoIT submitting an equipment replacement plan. The governor vetoed the contingency; however, state statute still requires a plan which has not yet been submitted by DoIT. Ms. Fresquez said the Legislature may want to reconsider appropriation made to the equipment replacement revolving fund until DoIT submits a plan.

Ms. Fresquez said the IT rate committee recently approved DoIT's FY19 rates. DoIT estimates $52.8 million of enterprise service revenue will be earned in FY18 and $53 million in FY19. The overall net increase in DoIT's FY19 rates is 0.4 percent. DoIT increased the SHARE rate for FY18 by 10 percent from $350 to $385 per FTE and is maintaining the rate for FY19. Of the amounts DoIT collects, LFC staff estimate 56 percent is general fund revenue, with the remaining from other state funds and federal funds.

Reporting on current activity, Darryl Ackley, secretary of DoIT, said the SHARE HCM upgrade was successful and the system is now stable. The SHARE financials system (FIN) will be upgraded this October. Information and training on SHARE's systems is available online. Secretary Ackley said FY17 closed without any substantial prior-year liabilities for DoIT. The agency achieved various cost-savings, including moving major components of the phone system to a different type of system. DoIT is working on the equipment replacement plan, which Secretary Ackley said will be submitted on its due date, September 1, 2017.

Secretary Ackley talked about the IT rate setting methodology. DoIT rates must be uniform across all customers and must break even. Members were given an informational sheet that provided additional detail on IT rates.

DoIT's Project Portfolio, an online portal, provides the status of state agency projects and project costs. The website currently reports 69 FY17 projects, costing a total of $423 million. Secretary Ackley demonstrated how the portal works. The portal is updated quarterly.

Senator Rue asked if the investment being made in the Medicaid management information system will remain relevant if the federal government makes changes to the Medicaid program. Secretary Ackley said it is unlikely that a change would be significant enough to impact to the new system. Secretary Ackley said he is not worried that state IT investments would become stranded assets due to changes made at the federal level, adding, however, that it is not impossible.

In response to Senator Rue, Ms. Fresquez said funding for a new computer-aided dispatch system for the Department of Public Safety was appropriated in 2013. The project has had two extensions. The project has until the end of FY18 to be completed.

In response to Senator Burt, Secretary Ackley said the state has a number of systems that shares data between state agencies, including SHARE and ONGARD.

Friday, August 18th

The following members and designees were present on Friday, August 18, 2017: Chairwoman Patricia A. Lundstrom; Vice Chairman John Arthur Smith; Representatives Jim R. Trujillo, Larry A. Larrañaga, Jimmie C. Hall, Roberto "Bobby" J. Gonzales, James G. Townsend, Elizabeth "Liz" Thomson, and Randall S. Crowder; and Senators Carlos R. Cisneros, Sander Rue, Carroll H. Leavell, Mary Kay Papen, George K. Muñoz, William F. Burt, and Pete Campos.

Health Notes: Cost and Utilization Trends Among Interagency Benefits Advisory Committee (IBAC) Agencies. Jenny Felmley, Ph.D., and Maria Griego, both program evaluators for LFC, presented the Health Notes brief *Cost and Utilization Trends Among Interagency Benefits Advisory Committee (IBAC) Agencies*. IBAC was created to increase state purchasing power for the procurement of medical, prescription drugs, and pharmacy benefits management. IBAC agencies include Albuquerque Public Schools (APS), the General Services Department (GSD), the New Mexico Public School Insurance Authority (NMPSIA), and the Retiree Health Care Authority (RHCA). Together they provide coverage for over 150 thousand members and are second only to the Medicaid program in terms of state dollars spent on health care.

IBAC's job is becoming increasingly challenging because healthcare costs are rising faster than utilization. IBAC agencies had a total enrollment of 152 thousand members in FY16, a decline from 156 thousand members in FY12. Health care costs of IBAC agencies totaled $838 million in FY16, an increase from $738 million in 2012. A number of cost-saving measures have been implemented, including premium increases and benefit plan design changes, but they haven't been enough to contain costs because of increased expenditures for inpatient services, outpatient services, professional services, and prescription drugs.

The increased expenditures are not only attributed to the rising costs of health care but also because IBAC agencies have a high number of "high-cost" members. A high-cost member is defined as a claimant with greater than $50 thousand in claims in a single year. The percent of people deemed high-cost is significantly higher for IBAC agencies when compared with other large employers and represent a much larger portion of total expenditures.

LFC program evaluators found in their analysis that IBAC agencies are paying higher average rates than Medicare. In 2012, IBAC costs were about 8 percent lower than New Mexico Medicare costs and 15 percent lower than national Medicare costs, while by 2015 they were approximately 4 percent and 2 percent higher, respectively. The Medicare population has different demographic characteristics than IBAC members, including an average age of 70, and Medicare patients may have more acute or multiple reasons for a hospital stay, and may stay longer in the hospital than the average IBAC member. However, there does not seem to be any meaningful economic impact of those differences when comparing average inpatient costs per user. A reasonable conclusion to draw from this information is that the IBAC agencies, despite their younger, generally healthier members, end up with higher cost hospital stays at least in part because they are paying higher rates than Medicare.

Review of IBAC cost and utilization trends from 2012 through 2016 found while IBAC agencies have used an array of techniques at their disposal to contain rising healthcare costs, they have not been able to address one of their key cost drivers: the relatively high payment rates negotiated on their behalf by the commercial carriers with virtually no transparency or accountability. True consolidated purchasing and greater IBAC agency participation in negotiating provider rates are among LFC's recommendations to address the issue.

IBAC agencies provided a joint response to the brief. Ernestine Chavez, deputy director of NMPSIA and chair of IBAC, said a large amount of NMPSIA's healthcare costs is attributed to providing care for newborns born prematurely and diabetics. Also, the agency has one member with hemophilia, whose medication alone are very costly. Ms. Chavez said NMPSIA's high healthcare costs are also attributed to high provider rates in rural communities; however, the high rates help keep providers in the communities. Otherwise they leave, limiting access to care and leading to more people going to the emergency room, which is more expensive.

Ms. Chavez said consolidated purchasing is not the answer for IBAC agencies because such a large program would require significant staffing, including health actuaries, to manage. Ms. Chavez said managing a consolidated program would be very challenging given the diverse sets of data and populations of each IBAC agency. Ms. Chavez said NMPSIA is working with providers on bundle payments to reduce costs. Also, NMPSIA purchased stop-loss insurance to help mitigate costs of high-cost claimants.

Representatives from the other IBAC agencies gave brief statements. Todd Torgerson, associate superintendent of Human Resources and Legal Services Support of APS, said APS's health care costs are not as high as other IBAC agencies; therefore, consolidated purchasing would not work for APS because the issue of high payment rates mainly affects rural communities.

Ms. Griego noted that LFC staff first recommended IBAC consolidation in 2011, with the goal of leveraging economies of scale to increase purchasing power, similar to what the state of Oregon has accomplished with the Oregon Healthcare Authority. Ms. Griego pointed out the unique position the state is in as the entity in charge of the Medicaid program and as the largest group of employer-sponsored health plans in the state to bring balance to healthcare financing through the management of Medicaid rates, which will affect rates in the rest of the healthcare market.

Representative Thompson asked why membership is decreasing. Ms. Chavez said the decline is largely because of Medicaid expansion; many dependents are now covered by the Medicaid program. Ms. Chavez said the decline is also attributed to the many dependents no longer eligible because of their age. Ms. Chavez said more and more members are declining coverage because of the increased premiums, deductibles, and out-of-pockets expenses.

Ms. Chavez said she will provide Representative Thompson the number of members who may be eligible for Medicaid based on their salaries but noted that true Medicaid eligibility is based on total household income.

Senator Burt commented that uninsured people often seek care in emergency rooms because they are obligated to be seen, increasing costs for people who are insured.

Chairwoman Lundstrom requested LFC staff provide the committee a high-level comparison of findings and recommendations from a previous LFC analysis conducted in 2011 and the current analysis, especially looking at recommendations related to IBAC consolidation. Representative Lundstrom requested that the information also be shared with all pertinent committees of the Legislature, including the Legislative Health and Human Services Committee, and the Medicaid Subcommittee of the House Appropriations and Finance Committee.

Risk Coverage/Group Benefits Rates. Lara White Davis, director of the Risk Management Division of General Services Department (GSD), provided members with an FY19 allocation draft that will be used to determine each insured entity's premiums for FY17 based on their experience. Ms. Davis noted that lower losses in workers compensation primarily reflect the shrinking workforce.

Ms. Davis reported the status of GSD funds. In general, the funds have solvency issues that Ms. Davis attributed to funds "swept" this past year into the state general fund, including $17.5 million swept from the public liability fund. The public liability fund, used to pay tort claims and legal defense costs, had a cash balance of $49.3 million at the end of FY17. Legal defense costs totaled $10.2 million in FY17. The public property fund is providing coverage for $8.9 billion worth of state property. The fund also covers $8.6 billion worth of specialty equipment. Ms. Davis recommended legislators carefully consider when passing any new legislation that can greatly impact GSD funds, especially legislation affecting workers' compensation.

Two-hundred and six liability claims in the amount of $250 thousand or more have been paid since 2009. Public liability costs are being driven by uncapped civil rights exposures and whistleblower claims. Ms. Davis said legislation to shorten the length of time to report and resolve whistleblower cases would help lower costs.

To help mitigate property loss, GSD enhanced its property coverage. The enhanced coverage helps state agencies address root causes of property damages. For example, supplemental funding would be provided to fix a roof in addition to fixing the damage caused by the roof leak.

Ms. Davis gave a summary of excess insurance procured for the state. Excess insurance has been purchased for the state's property, specialty equipment, fine arts collection, and the Rail Runner.

Then reporting on state benefits, Ms. Davis said the executive recommends increasing premiums by 4 percent in FY19 for state employee's medical, dental, and vision coverage. The executive also recommends increasing the emergency room copay by $25. GSD is working on a number of initiatives to contain costs, including retooling the wellness plan and driving more utilization of the Stay Well Health Center. Ms. Davis talked about successes of the Health Center. The average cost visit per visit is $266, which includes medications dispensed.

Medical costs totaled $299 million in FY17, a 3 percent increase from FY16. Prescription drug costs totaled $52.3 million, a 6.8 percent from FY16. Approximately 822 members are taking specialty drugs, which are especially expensive. Total prescription drug costs for these 822 members accounts for 44.7 percent of GSD's total prescription drug spend.

Behavioral health services provided by GSD's employee assistance program have been reduced from six visits to three visits. Ms. Davis said the lack of utilization is the reason for the reduction of services.

Then reporting on the New Mexico Public Schools Insurance Authority (NMPSIA), Sammy Quintana, executive director of NMPSIA, gave brief background information about the agency. Established in 1986, NMPSIA today provides risk and benefit insurance for 88 school districts, 100 charter schools, and 25 other educational entities. NMPSIA has 11 staff members and 11 board members.

Mr. Quintana said NMPSIA's FY19 budget request of $416 million includes a 17.18 percent increase for its risk program due to increased premiums and claims reserves. Molestation claims have been especially expensive. NMPSIA recently settled two molestation claims costing $7 million. NMPSIA's risk program is providing property, general liability, and workers' compensation coverage for 44 thousand employees, 300 thousand students, 44 thousand school athletic participants, 9,000 volunteers, 9,000 vehicles, and $23 billion worth of property. Workers' compensation claims cost NMPSIA $12.1 million in FY17. NMPSIA expects workers' compensations costs to increase significantly in FY18 and FY19 because of rising membership.

Mr. Quintana said claim frequency for workers' compensation has been steadily decreasing the last few years, while claim severity has been steadily increasing. Property and general liability claims cost NMPSIA $18.9 million in FY17. Public and general liability claim frequency and severity have exhibited significant volatility the past few years. For all lines of coverage, 55 liability claims in the amount of $250 thousand or more have been paid since 2013.

Mr. Quintana talked about NMPSIA's loss prevention program. NMPSIA's loss prevention efforts include a threat assessment and active shooter training to reduce the probability of an incident of multiple victim school violence, a technical assistance program to help primarily small school districts handle special education claims, an on-site school facility audit program to reduce the frequency of workers' compensation, general liability, and property claims, and training on identifying a predator to reduce the number of sexual molestation claims.

Mr. Quintana gave a general overview of NMPSIA's risk rate setting methodology. NMPSIA has a prospective rating plan that projects future costs and bills members accordingly. All costs, including claims estimates, excess insurance, and support services are calculated using an actuarial formula. NMPSIA operates as a loss sharing pool.

Ernestine Chavez, deputy director of NMPSIA, then reported on benefits. NMPSIA offers its almost 23 thousand employees and families three different medical coverages, prescription drug coverage, dental coverage, vision coverage, and life and disability coverage. Medical costs totaled $227 million in FY17. Prescription drug costs totaled $44.5 million. The agency is making efforts to contain costs, including implementing medical and prescription drug plan design changes, implementing wellness and disease management programs through the medical plans, and procuring stop loss coverage.

Members were provided additional detail about NMPSIA's benefit program to review at their leisure.

Todd Torgerson, associate superintendent of Human Resources and Legal Services Support of the Albuquerque Public Schools (APS), briefly reported on the school district's risk and benefit programs. APS serves approximately 84 thousand students and has over 12 thousand employees. APS insures $2.5 billion worth of property. Property and general liability claims cost APS $13.5 million in FY17, a decrease from $15.6 million in FY16. Workers' compensation claims cost APS $7.6 million in FY17, a decrease from $10.5 million in FY16. APS medical plans require a 4.8 percent increase in overall premiums to offer the same plan design in 2018. The increase will require additional funding of $3.9 million of which APS' share is $2.5 million. APS implemented a wellness incentive program aimed to improve the health of its members. Mr. Torgerson's presentation included information on property and casualty market trends.

In response to Representative Gonzales, Ms. Davis said, according to the Tort Claims Act, the Department of Transportation is immune to liabilities caused by design of the state's transportation system. However, under common law, if there are repeated incidents from a particular design, claims can be pursued as a maintenance issue.

In response to Representative Gonzales, Mr. Quintana said charter schools have a significantly smaller ratio of special education students to non-special education student.

In response to Representative Crowder, Mr. Torgerson said Cannon Cochran Management Services, Inc. is managing the district's property and workers' compensation claims. APS' liability claims are managed in-house.

Senator Papen requested the agencies provide the committee information on providing members coverage for behavioral health and autism.

With no further business, the meeting adjourned at 11:34 a.m.

Patricia A. Lundstrom, Chairwoman

John Arthur Smith, Vice Chairman