

MINUTES
Legislative Finance Committee
Gallup, NM
May 9 - 11, 2018

Wednesday, May 9th

The following members and designees were present on Wednesday, May 9, 2018: Chairwoman Patricia A. Lundstrom; Vice Chairman John Arthur Smith; Representatives Jim R. Trujillo, Larry A. Larrañaga, Jimmie C. Hall, Roberto “Bobby” J. Gonzales, Paul C. Bandy, George Dodge Jr., and Randal S. Crowder; and Senators Carlos R. Cisneros, Steven P. Neville, William E. Sharer, Benny Shendo Jr., George K. Muñoz, Pat Woods, and Pete Campos. Guest legislators: Representatives Harry Garcia and Wonda D. Johnson.

Welcoming Remarks and Economic and Fiscal Overview. Mayor Jackie McKinney said the city of Gallup is proud to be designated the most patriotic small town in America. Mayor McKinney said construction of the state veterans’ cemetery in Gallup is underway.

Mayor McKinney said Gallup has a high population of veterans and Native Americans and a large trade industry. Many of its businesses operate differently than in other cities. Many parts of the area are underdeveloped; some homes do not have running water and electricity. Gallup’s population of 22 thousand people makes it a challenge to serve the entire area’s population of approximately 80 thousand people. Gallup’s school district is significantly larger than school districts in eastern New Mexico.

The state’s behavioral health investment zones include the Gallup area. Increased behavioral health services in Gallup are being funded with liquor excise taxes and federal grant money. Mayor McKinney said the increase of services have significantly helped Gallup address its behavioral health issues, particularly substance abuse. The recently enacted city and county ordinances, prohibiting package liquor sales from 7 a.m. to 10 a.m., is also helping Gallup address substance abuse.

The city’s tourism and marketing manager, Jennifer Lazarz, said Gallup marketing targets outdoorsy people, art lovers, and culture seekers. Gallup hosts several major events annually, including the Gallup Inter-Tribal Indian Ceremonial and the Red Rock Balloon Rally.

County Commissioner Bill Lee said 80 percent of the land mass in McKinley County is not taxable, a financial challenge for Gallup. However, the city and county work collaboratively with the resources they have to provide services for the entire community.

County Manager Anthony Dimas said improving road conditions is a priority for McKinley County. Gallup currently maintains over 500 miles of roadway.

Governor Val Panteah said Zuni Pueblo is one of the largest pueblos in western New Mexico. The pueblo is approximately 40 miles from Gallup. The governor introduced two tribal members: Councilor Virginia Chavez and Director Vanessa Laahty.

In response to Senator Munoz, Governor Panteah said bootlegging is a major problem in Gallup. Governor Panteah said many of the unemployed people in area turn to bootlegging as a way to support their families. The tribe is building a treatment center in the pueblo and is working with law enforcement to address its alcohol issues.

In response to Representative Hall, Dudley Byerley, president of the Gallup Inter-Tribal Ceremonial Board, said planning for the 100th celebration is underway. The board is reaching out to people throughout the state for celebration ideas.

In response to Representative Trujillo, Mayor McKinney said 38 vendors have full service liquor licenses in the city, 11 licenses over the recommended one license per 1,000 people.

Governor Panteah expressed concern about the illegal possession and sale of marijuana in Gallup. Much of the marijuana law enforcement has confiscated was brought over from Colorado. Governor Panteah said, if the state legalizes marijuana for recreation use, Gallup's substance abuse problems will worsen.

Economic Development Update in Northwest New Mexico. Matt Geisel, secretary of the Economic Development Department (EDD), said EDD is steadily building a better business climate in New Mexico. Secretary Geisel said, in the last eight years, EDD's efforts have created over 15 thousand jobs and reduced the state's unemployment rate by 2.5 percent.

Secretary Geisel said Local Economic Development Act (LEDA) and Job Training Incentive Program (JTIP) dollars have funded numerous projects in northwest New Mexico, including projects that supported the business incubators and MainStreet communities. EDD actively visits businesses throughout the state to identify their needs and opportunities and be a resource in helping them succeed.

Concluding, Secretary Geisel talked about the importance of consistency, predictability, and continuity in economic development.

Jeff Kiely, executive director of the Northwest New Mexico Council of Governments, said, for economic development to succeed in the state, the workforce needs to be upskilled, strategic infrastructure needs to be established, and public-private partnerships need to be supported.

Director Kiely talked about diversifying New Mexico's economy. The state has several opportunities to diversify its economy, including revolutionizing its energy industry, investing more in its tourism industry, and supporting rural development.

Reporting on economic development in the Navajo Nation, Executive Staff Assistant Juan Massey said the tribe recently established the Naat' aanii Development Corporation, a Section 17 federally chartered corporation. The corporation will act as a private sector vehicle to drive job creation, economic development projects and generate revenues for the tribe by way of sharing dividends with the Nation's general fund and permanent trust fund. Planned projects for the corporation include remediating uranium sites in the reservation. Mr. Massey said the corporation has the potential to create economic development outside the reservation.

Val Panteah, governor of Zuni Pueblo, said the pueblo 40 miles south of Gallup encompasses 724 square miles and is the largest pueblo in New Mexico. Employers in the pueblo include the Zuni Tribal Government, Zuni Public School District, and Zuni Housing Authority. Unlike most tribes in the state, Zuni does not have a gaming industry. Its economy is strongly supported by tourism. Zuni is the only pueblo that has a MainStreet community.

Zuni recently built a teen health family wellness center, senior center, and airport. Other projects recently completed include renovation of the Christian Reform Mission School, enhancement of the pueblo's sewer system, and construction of a larger cemetery and larger elementary school.

Governor Panteah said the pueblo is administering educational and training programs to support economic development. Economic development projects in progress include construction of a veterans' memorial park, fair building, and a new residential area. Possible projects in the future include construction of a hotel, judicial complex, and fire station.

Deputy Director Michael Sage said the Greater Gallup Economic Development Corporation (GGEDC), established in 2012, is a nonprofit organization whose mission is to drive economic growth through building on local assets and strategic partnering to target attraction and recruitment of business and industrial employers that provide economic base jobs in the Gallup-McKinley County area. GGEDC's board of directors collectively have over 250 years of business experience. State Representative and LFC Chairwoman Patricia Lundstrom is executive director of GGEDC.

GGEDC works to achieve its mission by providing

- Site selection assistance,
- Economic incentive coordination with local, county, and state agencies,
- Business advocacy, permit, and regulatory approval assistance with local, county and state agencies,
- Comprehensive labor market information,
- Custom research and demographic information, and
- Coordination with New Mexico Partnership for nationwide recruitment and marketing.

Mr. Sage said the Gallup-McKinley County trade area has a population of about 200 thousand people; only 11 percent of this population is the city of Gallup. The trade area is vast, reaching far into Arizona.

Mr. Sage talked about the existing infrastructure assets to develop new economic base generators for the area. Interstate 40, U.S. 491, and the Burlington Northern Santa Fe (BNSF) railway are valuable transportation assets for the area. GGEDC is using these assets to develop Gallup into a transportation hub. Projects are already underway to cultivate the hub; subzone designation for foreign trade is being sought, an energy logistics park is being constructed, which will be a BNSF certified site, and a truck stop super center is being planned.

The trucking industry's hours of service rules puts Gallup in the prime location for serving truck drivers. Mr. Sage explained that truck drivers are required to take a 10-hour break after driving up to 11 hours. The high volume of truckers traveling on Interstate 40 from Oklahoma and California will likely stop in Gallup for their break.

Mr. Sage said projects currently in the pipeline will cost an estimated \$127 million and will create almost 900 jobs.

In response to Vice Chairman Smith, Governor Panteah said it is difficult to recruit and retain qualified workers in Zuni because of the pueblo's ruralness and lack of housing.

Vice Chairman Smith asked Director Kiely to recommend to the Legislature projects that would benefit from using unexpended capital outlay from stalled projects.

In response to Senator Cisneros, Secretary Geisel said New Mexico has the opportunity to capitalize more on value-added agriculture. In New Mexico, Southwest Cheese, USA Beef, Tucumcari Mountain Cheese Factory, and Flagship Food Group are leaders in the industry.

In response to Senator Cisneros, Secretary Geisel said LEDA's fund balance is approximately \$42 million. Secretary Geisel said projects in the pipeline are estimated to cost a total of \$120 million.

Strategic Issues for University of New Mexico and Gallup Branch. Giving an overview of the University of New Mexico-Gallup branch (UNM-Gallup), Chief Executive Officer James Malm, Ph.D., said UNM-Gallup's mission is to prepare people to achieve their educational and professional goals in a context of respect for the traditions and values of the many groups it serves. Established in 1968, UNM-Gallup today is the largest of the four UNM branch campuses.

UNM-Gallup enrollment totals approximately 2,000 students, of which 90 percent are first-generation college students. The campus encompasses 87 acres of land and 300 thousand square feet of facility space. In 2018, the Legislature appropriated capital outlay to construct a career and technical education building for workforce development; however, the governor vetoed the funds. UNM-Gallup has 60 faculty and 140 staff members, and offers 18 degree programs and 16 certificates. As with other institutions, enrollment has declined steadily since the height of the Great Recession and is expected to continue on a downward trend as the lower number of New Mexicans born during the recession become college-aged.

UNM-Gallup is a comprehensive public associate degree granting institution. Program groups are organized into three divisions: Business and Applied Technology, Arts and Sciences, and Education, Health, and Human Services. The branch also has a community education and workforce development program, offering a variety of noncredit enrichment courses, industry certifications, and custom-designed workforce development trainings. The Gallup Small Business Development Center, funded by the U.S. Small Business Administration, is on campus and offers business start-up assistance.

UNM-Gallup is more diverse than 90 percent of all two-year associate degree granting institutions in the country; 94 percent of the students identify as multiethnic or a racial minority. Mr. Malm said this diversity provides the opportunity for strong collaborations across all academic disciplines. UNM-Gallup's community also has its challenges, however. Poverty is widespread throughout the predominantly Native American community. Many homes on the tribal land do not have electricity, plumbing, or telecommunication. Many students travel great distances, often on

dirt roads, to campus. UNM-Gallup provides supports to help students succeed, including the TRiO Student Support Services program and Lobo Academy.

Mr. Malm talked about budget and performance funding issues at UNM-Gallup, which he said are resulting in fewer services being provided and fewer students graduating on time.

Concluding, Mr. Malm said UNM-Gallup wants to ensure students are prepared for the workforce or transfer program, have choices that fit their lifestyles, and do not face financial barriers.

Senator Cisneros said the 2018 legislation appropriating UNM-Gallup capital outlay to construct a career and technical education building was unanimously supported by the Legislature but vetoed by the governor with no reason. Senator Cisneros said the legislation will be reintroduced during the 2019 legislative session and will include the capital outlay appropriated for a project at UNM-Los Alamos, also vetoed by the governor.

In response to Representative Bandy, Mr. Malm said \$2 million of UNM-Gallup's \$18 million budget comes from tax levies.

UNM President Garnett Stokes, Ph.D., said she will tour the state this summer, visiting UNM's four branches, communities, and sites. The newly appointed president said the tour will help her understand people's perspectives of the university. The tour will also help her find out what works and what needs improving. Initial priorities of the president are campus safety, veteran-friendly campus, research, and campus climate.

President Stokes said UNM has 191 buildings with an estimated total of 6 million square feet. Key capital outlay projects in progress include renovation of the Farris Engineering building, construction of a health education building for UNM's Health Sciences Center, and renovation and expansion of the Johnson Center. President Stokes said capital outlay is crucial in helping the university address critical needs. UNM's deferred maintenance cost currently totals \$360 million; the overall facility condition index is 30 percent, which is critical condition.

President Stokes said lottery scholarship reductions are negatively impacting new and continuing student enrollment.

Reporting on demographics, President Stokes said UNM's ethnic representation remains consistent; 43 percent of UNM's student population is Hispanic, 36 percent is white, and 5 percent is Native American. Forty-three percent of enrolled students are New Mexico residents.

President Stokes said UNM is committed to helping students graduate. According to a chart in the presentation, student retention has improved steadily since 2010.

In response to Representative Larranaga, President Stokes said athletics play an important role in serving communities and building support for higher education institutions. UNM recently made public its athletics program budget. The president said UNM is currently devising a plan to close the budget gap in its athletics program. UNM is looking for ways to increase revenues.

Gallup Downtown Initiatives. The committee then traveled to El Morro Theater. Jennifer Lazarz, tourism and marketing manager for the city of Gallup, Clyde Strain, planning director for the city of Gallup, Emerald Tanner, president of Gallup MainStreet/Arts and Cultural District, Francis Bee, director of the Gallup Business Improvement District, and Rose Eason, director of Gallup ARTS gave an overview of current initiatives in downtown Gallup. The committee then did a walking tour, visiting local businesses, including Loom Gallery, Sammy C’s Rockin’ Sports Pub and Grille, City Electric Shoe Shop, and Tanners Indian Arts.

Thursday, May 10th

The following members and designees were present on Thursday, May 10, 2018: Chairwoman Patricia A. Lundstrom; Vice Chairman John Arthur Smith; Representatives Jim R. Trujillo, Larry A. Larrañaga, Jimmie C. Hall, Roberto “Bobby” J. Gonzales, Paul C. Bandy, George Dodge Jr., and Randal S. Crowder; and Senators Carlos R. Cisneros, Steven P. Neville, William E. Sharer, Howie C. Morales, George K. Muñoz, Pat Woods, and Pete Campos. Guest legislators: Representatives Harry Garcia, Wonda D. Johnson, and Rod Montoya.

Program Evaluation: Federal Funding in New Mexico Public Schools. Nathan Eckberg and Clayton Lobaugh, both LFC program evaluators, presented the report *Federal Funding in New Mexico Public Schools*. Roughly \$500 million in federal funding is available each year for statewide education initiatives. New Mexico leverages hundreds of millions of dollars for public schools from over 70 categories of federal funding. Federal funding makes up 13 percent of total public school funding. Most federal school funding comes from the Every Student Succeeds Act (ESSA) Title I program, Individuals with Disabilities Education Act (IDEA) program, Elementary and Secondary Education Act (ESEA) Title VII Impact Aid program, and various food service programs. Federal law also shapes states’ public education accountability systems such as standardized testing, district report cards, school improvement plans, and school rating systems. LFC’s evaluation reviewed the role of federal funds in New Mexico’s public education system, the effects on student performance, and administration.

According to findings, federal funds supplement the instructional mission of public schools with additional teachers, support services, and professional development. Federal funding reduces student-to-teacher ratios. ESSA Title I funding provides resources to schools with high proportions of low-income students throughout the state. IDEA provides funding to states to help support the education of children with disabilities. ESEA Impact Aid compensates school districts and charter schools for the loss of property tax revenue and is a vital source of funding for federally impacted school districts and charter schools. The majority of federal funds are spent on instruction and support services. Federal funding for public schools is poised to increase, providing additional dollars for statewide initiatives. According to U.S. Department of Education May estimates, New Mexico’s federal fiscal year 18 (FFY18) allocations for ESSA Title I and IDEA are respectively expected to increase by \$9.4 million and \$1.8 million. According to Public Education Department (PED) May estimates, New Mexico’s FFY18 Impact Aid funding is expected to increase by \$19.4 million.

The evaluation concluded that although federal funding helps school districts and charter schools provide instruction and support services, federal funding by itself does not drive student performance. New Mexico school districts and charter schools with more per-pupil federal funding

do not have higher levels of student academic proficiency. Similarly, states with higher per-pupil federal education funding do not have higher student proficiency or growth in proficiency.

Additionally, school districts and charter schools are not spending millions of dollars from state and federal grants each year. However, school districts report grant funds remain unexpended partially due to administrative delays in award letters, carryover certifications, and reimbursements. LFC staff recommend school districts work to minimize unexpended grant funds and PED improve the timeliness of grant administrative processes.

In response to Representative Bandy, Matt Montano, deputy secretary of PED's Teaching and Learning Program, said the cash balances swept by the Legislature a few years ago did not include unspent federal grant dollars. Mr. Montano said the state receives its federal grant money through a reimbursement process. Martin Romine, finance director of Zuni School District, said some federal grant money is received upfront, such as American Recovery and Reinvestment Act funds; therefore, the funds swept may have included some federal grant dollars. Jane Henzerling, director of PED's Policy, Innovation, and Measurement program, said Mr. Romine is correct that some federal grant dollars are included in cash balances; however, the funds swept came from school districts' operating funds and therefore would not have included federal dollars.

Vice Chairman Smith requested PED provide legislators detailed budget information for each school district to assist them when they work with their districts. Vice Chairman also requested PED provide updated information on unspent federal grant dollars.

Public Education Department Interventions To Improve Student Outcomes. Debbie Rael, deputy secretary of the Public Education Department (PED) School Transformation Program, said school turnaround initiatives are producing positive results. Highlighting progress, Ms. Rael said the number of schools graded A has increased in the Farmington, Gadsden, and Alamogordo school districts. None of the schools in those districts received an F grade in the last grading period. The Principals Pursuing Excellence and Teachers Pursuing Excellence programs are two of the initiatives producing positive results.

Ms. Rael talked about New Mexico DASH (data, accountability, sustainability, and high achievement). Administered by PED, the web-based action-planning tool is used for developing school improvement plans and to ensure evidence-based interventions are being used as required by the Every Student Succeeds Act (ESSA). DASH provides a snapshot of the progress being made.

Ms. Rael said implementing ESSA currently requires a \$19 million state investment. Ms. Rael outlined where the investment needs to be made; currently, 86 schools in the state are identified as comprehensive support and improvement (CSI) schools, 111 schools are identified as targeted support and improvement (TSI) schools, and four schools are identified as more rigorous interventions (MRI) schools. Hawthorne Elementary, Whittier Elementary, Los Padillas Elementary, and Dulce Elementary are identified as MRI schools because they have continuously received F grades since 2012. The schools have four options: close, reopen as a charter school, allow student transfers, or significantly restructure. All four schools have chosen to restructure. The restructuring plan process is underway; two plans are currently under PED's review.

Matt Montano, deputy secretary of the PED Teaching and Learning Program, talked about creating equity and access in public education. To improve teacher effectiveness, PED is developing a culturally and linguistically responsive teacher workforce, enhancing the cultural competence of education professionals, and improving equitable access for Native American students to most effective teachers.

Jane Henzerling, director of PED's Policy, Innovation, and Measurement Program, said education leaders are working tirelessly to ensure every student succeeds, adding that initiatives are being built on the strong foundations already existing to transform educational opportunities and life prospects of students.

Giving an overview of the Native American Community Academy (NACA) and NACA-Inspired Schools Network (NISN), Executive Director Kara Bobroff said NACA was established about 10 years ago to meet the unique needs of Native American students. The academy has six core values: respect, responsibility, community service, culture, responsibility, and perseverance. NACA integrates culture and language into its curriculum. NISN was formed about four years ago to establish additional Native American relevant schools in New Mexico and throughout the country; eight more schools have been built in New Mexico.

According to the student performance information provided by Ms. Bobroff, Native American students attending NACA are overall performing better than Native American students attending regular public education schools in the state. However, overall student performance at NACA is lower than overall student performance at regular public education schools in New Mexico.

New initiatives of NISN include establishing an indigenous education hub and an indigenous education corps.

In response to Vice Chairman Smith, Ms. Rael said she will get him a list of the 10 schools invited to participate in PED's High School Redesign Network program. The program is a new initiative of New Mexico's investment in school turnaround under ESSA. All but one school are participating.

Chairwoman Lundstrom requested PED report, in writing, how the agency is measuring success. Chairwoman Lundstrom requested PED submit its response to the committee by next month.

Gallup-McKinley County Schools. Superintendent Mike Hyatt said Gallup-McKinley County School District (GMCS) covers a large land area, serving seven communities. Seventy-eight percent of students in the school district are Native American, many of which come from low-income families. Superintendent Hyatt said GMCS's uniqueness creates opportunities but also poses challenges. Challenges include the lack of housing for teachers, long distances some students travel from home to school, and the large amount of tax-exempt land in the school district.

Reporting on student performance, Superintendent Hyatt said significant growth was made in the 2016-2017 school year; 712 more students became proficient in reading and math. However, the graduation rate continues to be below the state average, which Superintendent Hyatt said the school

district is working on. As for teacher performance, 73 more teachers were rated highly effective or exemplary.

Superintendent Hyatt said GMCS is working on establishing a curriculum for its electives program. Pauletta White, assistant superintendent of GMCS Student Services, briefly talked about how the school district is incorporating cultural relevance into its curriculum. Other priorities of the school district include recruitment and retention initiatives. Superintendent Hyatt said GMCS is incentivizing teachers and increasing salaries. The school district's turnover rate decreased from 180 teachers lost in 2015 to 110 teachers lost in 2018.

Jvanna Hanks, assistant superintendent of GMCS Business Services, said the increased funds appropriated for teacher salaries have helped the school district significantly. However, as with most rural school districts, GMCS continues to struggle in its recruitment and retention of teachers. Ms. Hanks said teachers on average earn between 20 percent and 30 percent less than people in other careers. Teacher salaries are higher in neighboring states.

Ms. Hanks said the school district is receiving sufficient federal funds. To leverage all resources, GMCS partners with the Navajo Nation, local universities, community organizations and businesses, and various other entities.

Giving an update on the Zuni lawsuit, Superintendent Hyatt said GMCS filed a motion to move the lawsuit from the school district to the governing board. GMCS is waiting for the judge to rule on the motion.

Ms. Hanks talked about the Elementary and Secondary Education Act (ESEA) Title VII Impact Aid program. The federal program assists school districts that have lost property tax revenue due to the presence of tax-exempt federal property. Eligible school districts must apply for the funds yearly.

GMCS is owed \$4.5 million of the total amount awarded for FY17. GMCS will not receive the remaining amount if the federal funds for FY17 are depleted, tasking the school district with making budget adjustments. Ms. Hanks provided a chart of the amounts awarded and the final amounts received in previous fiscal years.

Ms. Hanks mentioned other challenges the school district faces. In response to Representative Gonzales, Superintendent Hyatt said the bridges inaccessible by bus are still an issue for the school district. Superintendent Hyatt said the money received to purchase large vehicles that are able to cross the bridges has helped the situation.

Priscilla Manuelito, board member of GMCS, thanked legislators for their support of education in the state. Ms. Manuelito said GMCS leaders are working hard to serve students in the school district.

Chairwoman Lundstrom requested GMCS provide the committee its current salary schedule.

Tribal Infrastructure Fund Update. Suzette Shije, acting secretary of the Indian Affairs Department (IAD), said the Tribal Infrastructure Act was established in 2005 to support infrastructure projects in tribal communities for the purpose of improving quality of lives and encourage economic development. Ms. Shije gave an overview of the tribal infrastructure funds appropriated from FY14 to FY17. In FY16, \$12.2 million was appropriated for 21 projects. In FY17, \$5.2 million was appropriated for 8 projects. Fifty-eight project applications are currently being reviewed for FY18.

Ms. Shije said the tribal infrastructure fund (TIF) review committee selects projects based on critical need, readiness, entity capacity, and leveraging. Planning projects must be completed within 24 months from the Intergovernmental Agreement (IGA) execution date. All nonplanning projects must be completed within 36 months of the IGA execution date.

Ms. Shije provided photos of IAD's recent project site visits.

Lawrence John, TIF administrator for IAD, said TIF projects are making a significant impact in tribal communities. The level of needs for many in tribal communities is profound; Mr. John described it as third-world conditions.

In response to Representative Crowder, Ms. Shije said some tribal communities do not apply for tribal infrastructure funds.

Mark Freeland, executive staff assistant of the Navajo Nation, briefly addressed the committee. Mr. Freeland said the Navajo Nation has a total of 113 chapters; 55 chapters are in New Mexico. Mr. Freeland said the Navajo Nation will be constructing a wellness center in Crownpoint. Chairwoman Lundstrom requested Mr. Freeland provide the committee information on the status of Navajo Nation projects.

Gross Receipts Taxation of Food and Hold Harmless Distributions. City Manager Maryann Ustick said the city of Gallup is facing budget constraints. Expenditures are growing at a faster rate than revenues. Revenue is also being lost to neighboring cities that have lower tax rates. To compensate for loss revenue, Gallup has reduced its capital investments, workforce, services, and transportation fleet. Ms. Ustick said if Gallup imposes a 3.8 percent increase in GRT, it would generate an additional \$2.4 million annually; however, it would also create a heavy burden on the very poor community and still leave the city with a \$600 thousand shortfall annually.

Mayor Jackie McKinney talked about the need for tax reform in the state. Mayor McKinney asked for the Legislature's help in addressing Gallup's needs.

In response to Representative Crowder, Ms. Ustick said road improvement projects are funded with gas tax revenue.

LFC economist Dawn Iglesias presented a brief on GRT food deduction and hold harmless distributions. The food deduction (and associated hold harmless distributions) is the state's single largest tax expenditure, costing over \$200 million annually and double the cost of the state's next largest tax expenditure. Excluding food consumption from the tax base removes a relatively stable

and predictable revenue stream from state and local government budgets. Ms. Iglesias said this erosion of the taxable base results in high and rising GRT rates and leads to increasingly volatile revenues that are growing in dependency on the sources remaining in the tax base, including GRT revenues related to oil and gas. Additionally, rising GRT rates amplify tax pyramiding, which occurs when GRT is applied to business inputs, creating an extra layer of taxation at each stage of production.

Ms. Iglesias talked about other states' taxation on food. As of January 1, 2018, 13 states impose sales taxes on food items. Of these states, five allow for a rebate or income tax credit to offset the burden on low-income households, and six states tax food at a reduced state rate. Of the states that do not tax food or tax food at reduced rates, five allow food to be taxed at the local level. In about half of all states that do not tax food, items such as candy, confectionery (high sugar items), and soft drinks do not qualify as foods eligible for tax exemption.

Ms. Iglesias said legislative attempts have been made to bring all or some food items back into the taxable base and provide for a full or partial repeal of hold harmless distributions. Some proposals sought to eliminate the food deduction. Other proposals sought to limit the food deduction to only those food items approved by the U.S. Department of Health for the federal special supplemental nutrition program for Women, Infants, and Children (WIC), as well as unprocessed meat, poultry, and fish. In the 2017 legislative session, Senate Bill 416 sought to change the definition of qualifying foods to exclude those with minimal-to-no nutritional value, including sweetened beverages, candy, and certain snack foods.

Ms. Iglesias said, while some proposals to repeal the food deduction and hold harmless distributions are relatively straightforward, others introduce various factors that lawmakers need to consider carefully. One important consideration is the administrative complexity. For example, proposals that seek to tie the food deduction to the WIC program's list of approved foods need to be attentive to the nuances of that program. WIC is a grant program and receives a finite budget each year, which is then allocated to states. Because of its budget constraint, the New Mexico WIC program limits the brands and types of food under the major categories, and approved foods may change each year. Various retailers choose not to accept WIC due to these complexities. Fixing the food deduction to WIC food definitions would impose a considerable compliance cost on retailers and would require consistent coordination between the Taxation and Revenue Department and Department of Health to maintain the definition of food for this deduction.

If the Legislature brings all or some food items back into the taxable base, LFC staff recommend it be done as part of a comprehensive tax reform proposal.

In response to Vice Chairman Smith, Ms. Iglesias said it is not certain if some hold harmless distributions inadvertently include payments on Supplemental Nutrition Assistance Program (SNAP) sales.

In response to Representative Trujillo, Ms. Iglesias said the U.S. Supreme Court will reach a decision by next month on imposing Internet tax.

Burlington Northern Santa Fe Railway Transportation Investment. Giving an overview of Burlington Northern Santa Fe Railway (BNSF), Ean Johnson, economic development regional manager for the railway company, said BNSF's track is class one railroad. The Federal Surface Transportation Board defines class one railroad as having annual carrier operating revenues of \$250 million or more in 1991 dollars, which, when adjusted for inflation, was \$457.9 million in 2017. BNSF has approximately 32 thousand route miles of track in the United States, serving an average of 1,400 trains per day. Parts of the track stretches into three Canadian provinces. BNSF employs 41 thousand people and serves more than 40 ports and 25 intermodal facilities. BNSF's volume growth is leading the rail industry; 10.3 million carloads were shipped in 2017. Federally mandated, BNSF operates a positive train control (PTC) system, an advanced system designed to automatically stop a train before certain accidents occur.

BNSF employs almost 14 thousand New Mexicans, serving 1,640 miles of BNSF track in the state. New Mexico. About 77 carloads originate from New Mexico, primarily for coal. BNSF's capital investments in New Mexico totaled \$50 million in 2017, a \$48 million decrease from 2016.

Since 2014, economic development in the state related to BNSF include over 35 new or expanding facilities and 200 jobs created. Key economic projects underway include the Gallup Logistics Energy Park, Central New Mexico Rail Park, and CIG Logistics sand transload facility. The energy park and rail park are BNSF-certified sites.

Jacob Bracken, manager of Gallup Land Partners, said the Gallup Energy Logistics Park is a 2,500 acre development located 5 miles northwest of Gallup. The development includes 11 thousand feet of track that connects to the BNSF main line and southern transcon line, one of BNSF's busiest and most important transcontinental rail lines. Phase one of the construction project is complete; track and site improvements were done, preparing the park for potential tenants.

Tommy Haws, president of the Greater Gallup Economic Development Corporation, gave brief comments about using existing infrastructure assets for economic development.

Miscellaneous Business.

Action Items. Representative Dodge moved to adopt a revised contract for LFC's staff editor, seconded by Representative Hall. The motion carried.

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

Friday, May 11th

The following members and designees were present on Friday, May 11, 2018: Chairwoman Patricia A. Lundstrom; Vice Chairman John Arthur Smith; Representatives Jim R. Trujillo, Larry A. Larrañaga, Jimmie C. Hall, Roberto "Bobby" J. Gonzales, Paul C. Bandy, Harry Garcia, and Randal S. Crowder; and Senators Steven P. Neville, William E. Sharer, Clemente Sanchez, George K. Muñoz, Pat Woods, and Pete Campos. Guest legislators: Representative Wonda D. Johnson.

Substance Use Disorder Treatment and Services. Following the LFC tour of the Na'Nizhoozhi Center (NCI), Rubyann Esquibel and Eric Chenier, both LFC analysts, presented a brief on substance use disorder services and treatment. Medicaid is a medical-based model and currently

has limited funding for social detoxification and related treatments for alcohol misuse. In 2016, there were 1,456 alcohol-related deaths in New Mexico, equating to an average of four people dying every day.

City Manager Maryann Ustick said the federal Indian Health Service (IHS) recently visited NCI. Ms. Ustick said behavioral health investment zone funding has increased alcohol-related treatment services in Gallup. Debra Martinez, behavioral health program manager for the city, said NCI receives funding from various sources, including IHS and liquor excise tax. Ms. Martinez said the city recently applied for a grant that would allow them to provide services to Arizona residents who present at facilities in Gallup.

Gallup Mayor Jackie McKinney said creating hope for people can help create positive changes in alcohol recovery. Mayor McKinney said the city is working with IHS to address medical and social detox in Gallup.

Senator Sanchez asked about studies on the effects of alcohol on the brain, particularly for Native Americans. Dr. Wayne Lindstrom, director of Behavioral Health Services of the Human Services Department (HSD), said studies indicate that Native Americans do not have the same genetic natural immunities to alcohol possessed by other racial groups.

Director Lindstrom said Centennial Care 2.0 Medicaid waiver is under review by the federal Centers for Medicare and Medicaid Services (CMS). Centennial Care 2.0 includes funding for supportive housing services, screening, brief intervention and referral to treatments, accredited adult residential treatment centers, social detox services, and Medicaid health homes.

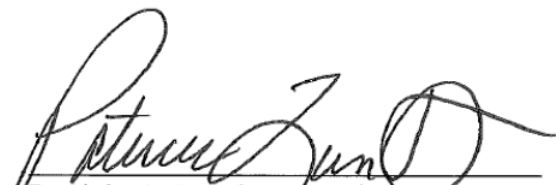
Chairwoman Lundstrom requested Director Lindstrom work with the local Council of Governments in implementing a crisis triage center in Gallup.

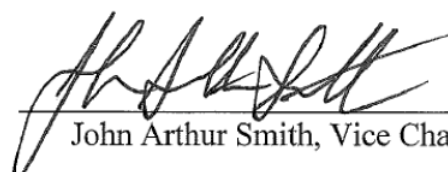
Executive Director Ophelia Reeder and Program Developer Larry Curley gave an overview of Rehoboth McKinley Christian Health Care Services (RMCHCS). RMCHCS requests \$2 million from the general fund for renovation and expansion at RMCHCS.

Mr. Curley talked about the issues due to RMCHCS nonaccreditation status.

Representative Garcia asked about the demographics of clients at RMCHCS and was told the average age of the clients is 18. He asked about veterans being treated for post-traumatic stress disorder (PTSD) and was told this is an issue the center has experienced. When questioned about licensing and accreditation, RMCHCS indicated it has a goal to be accredited by Spring 2019.

With no further business, the meeting adjourned at 10:00 a.m.


Patricia A. Lundstrom, Chairwoman


John Arthur Smith, Vice Chairman