MINUTES
Legislative Finance Committee
Taos, New Mexico
August 22 - 24, 2018

Wednesday, August 22nd
The following members and designees were present on Wednesday, August 22, 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, Pat Woods, Mary Kay Papen, George K. Muñoz, William F. Burt, and Pete Campos. Guest legislators: Representatives Bill McCamley and Tomas E. Salazar; and Senator James P. White.

Welcoming Remarks. Taos Mayor Dan Barrone said Paseo's infrastructure improvement project is almost complete. The Paseo, an art community, is Americans with Disabilities (ADA) compliant. Mayor Barrone invited legislators to experience Taos, such as listening to the wildlife.

Superintendent Lillian Torres, Ph.D., said Taos Municipal Schools is working to increase the reading and math proficiency rates of its students. Committee members were given the school district's 2018-2019 back to school publication.

Jim Fambro, chair of Taos County Commission, said the 50 cent gross receipts tax (GRT) increase, approved by the Legislature 15 years ago, is greatly benefitting public and higher education in Taos County. Mr. Fambro said the county has a good working relationship with the town of Taos.

James Sanborn, president of the Taos school board, said New Mexico needs to align and simplify the way education in the state is assessed and measured. Mr. Sanborn invited committee members to Taos Ski Valley. The ski valley has several projects in progress, including installation of a new chair lift.

Preliminary FY18 General Fund Revenues, FY19 Revenue Update, FY20 Outlook, and General Fund Financial Summary. Duffy Rodriguez, secretary of the Department of Finance and Administration (DFA), said FY18 general fund revenue is estimated at $6.7 billion, about $500 million above January's projection. Secretary Rodriguez said the consensus revenue estimating group (CREG) expects general fund revenue will continue to increase, projecting $7.3 billion for FY19 and $7.5 billion for FY20. The increasing revenue is largely attributed to a booming oil and gas industry.

Giving an outlook on the U.S. economy, Secretary Rodriguez said real gross domestic product is projected to grow about 3 percent in FY19. Inflation has returned to longer-term averages. The Congressional Budget Office expects recent tax reforms, such as the lowered corporate income tax rate, to have an appreciable effect on the U.S. economy.

The outlook for New Mexico's economy is also positive. Secretary Rodriguez said employment grew 1 percent in FY18, according to Moody's. Continued growth is expected, about 1.4 percent in FY19 and 0.8 percent in FY20. The state's efforts to diversify the economy is producing positive results, particularly in the Rio Grande Corridor; growth in gross receipts tax (GRT) revenue in the corridor in FY18 was that of the prior year. GRT in Southeast New Mexico rebounded sharply and reached new record levels.

Reporting on the oil and gas industry, Secretary Rodriguez said the price of oil is currently averaging $56 per barrel (bbl), an increase from FY17's average of $44.75/bbl and FY18's average of $54.39/bbl. Oil production increased from 156 million barrels produced in FY17 to 202 million barrels produced in FY18. GREG projects oil production will total 245 million barrels in FY19. Price of natural gas is currently averaging $3.10 per thousand cubic feet (mcf), a decrease from $3.25/mcf in FY18. Natural gas production increased from 1,236 billion cubic feet (bcf) in FY17 to 1,300/bcf in FY18. GREG projects natural gas production will total 1,381/bcf in FY19.

Secretary Rodriguez talked about risks to the forecast; revenues stemming from the oil and gas industry are highly volatile. A reserve of at least 20 percent of the state's budget is recommended to mitigate risks and increase the state's bond ratings. Secretary Rodriguez reminded the committee that the 17 percent reserve in 2006 proved inadequate for New Mexico during a major U.S. recession. Also, the 12 percent reserve in 2012 was inadequate to mitigate losses from the state's weakened oil and gas industry at the time.

John Monforte, acting secretary of the Taxation and Revenue Department (TRD), said revenues forecasted are the highest ever, reflecting more risk due to the volatility of oil and gas. General fund collection is up from all streams, except premium taxes, which Mr. Monforte said is due to processing changes at the Office of Superintendent of Insurance. Mr. Monforte talked about the growth of GRT, personal income tax (PIT), and oil and gas production, and recommended treating some revenue as nonrecurring.

Giving an update on the premium tax collection transfer, Mr. Monforte said questions remain for the state's long-term interest of its premium tax collection. Mr. Monforte explained that more personnel and IT support is needed if TRD is tasked with auditing premium tax collections. Chairwoman Lundstrom requested TRD present to the Legislature a scenario of all the functions beyond the collection of revenue.

Mr. Monforte said the Legislature in 2019 may want to consider legislation to address the estimated $54 million increase in PIT due to the federal Tax Cuts and Jobs Act and legislation to address the implications of the *South Dakota v. Wayfair* Supreme Court decision on Internet sales tax.

Directing members to a chart in the LFC hearing brief, Chief Economist Jon Clark said GRT most significantly impacted general fund revenue this past fiscal year, adding $371.5 million to the state general fund in FY18. Also significant was $168.7 million added from rents and royalties, $126.5 million added from severance tax, and $111.3 million added from PIT. Overall, increasing general fund revenue is being driven by the oil and gas industry.

Mr. Clark said New Mexico's oil production value is at an all-time-high and growing rapidly, making forecasts more risky. The 30 percent increase in oil production from January 2018 to April 2018, for example, was significantly higher than economists expected. Mr. Clark provided a chart demonstrating results of possible scenarios for stress testing energy revenues.

CREG's current forecast does not include any recessionary risk in its projections; however, Mr. Clark said the likelihood of a recession occurring within the forecasted period is high, making it important for the state to insure against this risk by securing high reserve levels and other fiscal buffers combined with reasonable growth in recurring budgets.

Mr. Clark asked committee members to review the LFC staff proposed tax expenditure policy principles, included with the hearing brief. The proposed principles will be presented to the committee for possible endorsement later this year.

Lastly, reporting on bonding capacity issues, Secretary Rodriguez said DFA estimates $221.5 million is available for senior severance tax bond (STB) statewide capital projects in FY19; $273.9 million is estimated available in FY20. A chart in the presentation provided additional detail on bonding capacity available for authorization and projected severance tax permanent fund transfers.

Vice Chairman Smith said the state needs to replace the money "swept" from various funds into the state general fund in FY17, including the $323 million swept from the tobacco permanent fund.

In response to Senator White, Mr. Clark said the 17 percent reserve fund level that was recommended by Moody's was backward-looking. Mr. Clark said CREG recommends 20 percent reserves or more based on the rapid growth of general fund revenue forecasted and the volatility of revenues. Mr. Clark recommended the state prioritize new money for building reserves and replenishing the funds used during the last fiscal crisis.

In response to Representative McCamley, Mr. Clark said if the U.S. economy enters a recession, New Mexico will likely see oil prices decrease as a result of reduced demand.

Representative Hall expressed concern that CREG's forecast does not include analysis on the agriculture industry's impact on revenues. Mr. Clark said every industry is part of the forecast but the discussion was focused primarily on the energy industry due to its significant contribution to overall revenues and the recent revenue surge. Chairwoman Lundstrom requested LFC staff report back to the committee in September with analysis on the condition of the agriculture industry.

Program Evaluation: GenTax Upgrades, Maintenance And Security. Brenda Fresquez, program evaluator for LFC, presented the report *GenTax Upgrades, Maintenance and Security*. The Taxation and Revenue Department (TRD) is responsible for collecting and distributing tax revenues for the state and local governments, including gross receipts, personal, corporate, compensating, and payroll withholding taxes. TRD also collects oil and gas royalties and severance taxes. These revenues help fund public education, higher education, Medicaid, road projects, and capital infrastructure needs, so it is vital revenues are collected and distributed correctly. TRD's tax administration software, GenTax, is used to track the collection of $6 billion to $7 billion a year in taxes and other revenues, as well as the distribution of those revenues. Its functions include processing tax returns and generating tax refunds, and data in the system supports audits and other activity.

GenTax recently went through two important system upgrades, improving TRD's ability to collect unpaid tax revenues through process improvements. TRD collected an additional $20.5 million in tax revenues in FY14 due to functionality gained from upgrading GenTax. Maximizing revenue collection and reducing the tax gap provides the state more resources.

However, upgrading and managing GenTax operations has not come without challenges, such as errors in how tax revenues were distributed to local governments and the lack of segregation of duties, a key control to ensure process integrity. In light of the critical function GenTax performs, LFC staff evaluated the impact of software upgrades, the role of the maintenance and support contract in GenTax's day-to-day operations, security access, TRD's level of preparation for disaster recovery, and how effectively TRD incorporated oil and gas revenue collection into GenTax.

The evaluation found that while upgrading GenTax brought many new tools and process improvements leading to increased tax revenue collections, TRD experienced challenges in the development process contributing to incorrect tax revenue distributions to local governments and with the business credit module. TRD is not properly managing system access and does not have a disaster recovery plan in place if GenTax fails. Also, TRD's initiative to expand external data analytics tools may be costly and duplicative.

The report recommends TRD provide status updates to LFC on the tax revenue distribution process through GenTax and plans to expand external data analytic functions, continue to remain current on software upgrades and service packs, create and distribute a disaster recovery plan, and ensure all staff working with GenTax have appropriate security access and have completed all required trainings.

Acting Secretary John Monforte said TRD agrees with most of the findings and recommendations in the report. Mr. Monforte gave an overview of TRD's response to the report and requested that more time be allotted for the agency, during its budget request presentation in December, to give an update on the status of implementing the recommendations.

Program Evaluation: Review of the Higher Education Funding Formula. Micaela Fischer, program evaluator for LFC, presented the report *Review of the Higher Education Funding Formula*. Since FY13, the staff at New Mexico's Higher Education Department (HED) and LFC have used a performance funding formula to allocate a small portion of annual appropriations to each of the state's 24 public, nonspecial, and nontribal higher education institutions. The formula is meant to incentivize credential production (degrees and certificates), with special emphasis on science, technology, engineering, math, and health (STEMH) credentials and credentials conferred to low-income students.

Initial data shows that credential production in New Mexico has increased since formula introduction, but little analysis has been conducted to see what types of degrees were generated, or if they were degrees of value – those with which graduates were satisfied and resulted in adequately paid employment. The objective of LFC's evaluation were threefold: 1) to assess the status of the higher education performance funding formula and the relationship between funding and performance outcomes, 2) to review the data behind recent formula runs and trends driving changes in institutional performance, and 3) to determine if new metrics or other, nonformula methods would be necessary to maintain quality in performance outcomes.

The evaluation found that, without substantial changes in performance, a few schools will lose significant portions of their state revenues because the formula equalizes total funding to be proportional with performance. For some of those schools this equalization is not punitive but simply right-sizing state funding to smaller student bodies, and all but one college would still receive more state appropriations per student than their peers nationally. The analysis also found several two-year schools are overly reliant on state funding because of minimal levels of local tax support. These schools are disproportionally affected by shifts in formula funding and should consider ways to increase local support to offset fluctuations in formula funds.

Additional findings of the evaluation include that, though credential production has increased since formula implementation, most of the growth has been in lower-level certificates and associate's degrees in general studies, indicating the formula may need to be refined to better promote the eventual acquisition of bachelor's degrees and jobs. Other incentives in the formula seem insufficiently effective, likely because incentive levels are set too low. Neither degrees conferred to at-risk students nor STEMH credentials have increased any more than average since formula implementation.

The evaluation found that the higher education funding formula would benefit from new and revised metrics to incentivize colleges to meet broader higher education goals of the state. Because no formal structures currently exist to monitor or amend the formula, the evaluation recommends the Legislature consider using models from other states to codify HED's formula steering and technical committees.

Giving an overview of HED's response to the report, Secretary Damron said HED agrees the state needs to continue to improve access and success of at-risk students and the funding formula should incentivize those accomplishments. HED agrees redistribution of formula funding outcomes should occur; however, HED believes changes should include input from many stakeholders using a collaborative process. Other statements were made.

Joe Shepard, Ph.D., president of Western New Mexico University, and chair of the Council of University Presidents, said changes to the funding formula need to made in a thoughtful manner with stakeholders involved.

Senator Muñoz stated Gallup-McKinley County Schools pays the University of New Mexico tuition for students in the dual-enrollment program, which Secretary Damron said she will look into. President Shepard said students in the dual-enrollment program do not pay tuition. Some school districts cover costs of textbooks and other materials.

Chairwoman Lundstrom requested LFC staff provide her with more information on the report's recommendation for codification.

State Personnel Office Human Resource Consolidation. Director Justin Najaka said issues in New Mexico's state government personnel system compelled the State Personnel Office (SPO) to initiate the human resources (HR) consolidation project. Reporting on the status of the project, Director Najaka said HR functions of 37 agencies have been consolidated. The HR of federal- and restricted-funded agencies cannot be consolidated; for these agencies, SPO created an oversight group to monitor their HR. The purpose of the oversight group is to ensure HR operations of the agencies it's monitoring are in sync with operations of the consolidated HR.

Director Najaka talked about other initiatives, including the recently launched Centers of Excellence Infolink. The site provides state employees access to HR information. The state's SHARE accounting system is now being used for talent acquisition, replacing the NeoGov system. SHARE currently has 557 active job advertisements.

Director Najaka said the HR consolidation reduced HR staffing levels from 348 FTE to 240 FTE. Of the 240 FTE positions, 221 are filled. The 240 FTE target equates to 1 HR:90 FTE.

Reporting on performance, Director Najaka said SPO's leave management program handled 765 cases from January of 2018 to present. The employee relations program handled 415 cases. Consistency of HR operations has improved. SPO is continuing to use the same core HR metrics, in addition to new ones, to measure performance.

Concluding, Director Najaka stated the HR consolidation is working and is right for New Mexico.

LFC Analyst Connor Jorgensen said a billing structure would have to be established by SPO, which would require legislative authorization, to include HR of federal- and restricted-funded agencies in the consolidation. Mr. Jorgensen talked about other considerations the Legislature may want to address before moving forward with the consolidation initiative.

In response to Senator Cisneros, Director Najaka said the length of time it takes to fill a vacancy has decreased but not enough. Mr. Jorgensen said, according to FY18 third-quarter performance data, the average number of days it takes to fill a vacancy is 81, a 16-day increase over FY17's average. Director Najaka said the spike is attributed to the consolidation's implementation in that quarter.

University of New Mexico - Taos. Chief Executive Officer Patrick Valdez, Ph.D., said University of New Mexico-Taos (UNM-Taos) became a branch campus in 2003. Mr. Valdez said branch campuses serve as an access point for individuals seeking a high school equivalency diploma, certificate, or associates degree. The available programs provide a pathway into the workforce or a four-year transfer program.

Reporting on UNM-Taos demographics and performance, Mr. Valdez said about 48 percent of students are degree-seeking students, 17 percent are nondegree-seeking students, and 35 percent are dual-credit students. The average caseload at UNM-Taos is 10 credit hours and the average age of students is 30. Approximately 70 percent of the student population is from Taos County. As with other institutions, enrollment at UNM-Taos has declined steadily since the height of the Great Recession. Eighty associate degrees and 34 certificates were awarded in the 2017-2018 academic year, 18 awards fewer than the previous year.

Mr. Valdez gave an overview of special programs, community enrichment activities, and partnerships at UNM-Taos. The Veterans' Upward Bound Program and Kids Campus Center for Early Learning were mentioned.

UNM-Taos' operating budget was $12.7 million in FY17, a $274 thousand decrease under FY16's budget. Mr. Valdez said about 30 percent of the budget was state general fund dollars and 40 percent was Federal dollars. Mr. Valdez said construction of the STEM center on Klauer campus is complete. The center was paid for with capital outlay. Renovation of Bataan Hall on Klauer campus is also complete. Bataan Hall now serves as UNM-Taos' event center.

Mr. Valdez lastly talked about UNM-Taos' new campaign "Stay Local, Think Global, Go Lobos".

In response to Senator Cisneros, Mr. Valdez said UNM-Taos is working with the Los Alamos National Laboratory (LANL) on a workforce development program that would serve LANL's workforce needs. UNM-Taos is also working to establish a dual-credit program at Questa High School that would offer a certificate in welding. The dual-credit program would also provide a pathway into LANL's workforce.

Miscellaneous Business.

Action Items. Senator Cisneros moved to adopt LFC's July 2018 meeting minutes, seconded by Representative Larrañaga. The motion carried.

Senator Cisneros moved to adopt LFC's FY20 budget guidelines, seconded by Representative Trujillo. The motion carried.

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

Thursday, August 23rd

The following members and designees were present on Thursday, August 23, 2018: Chairwoman Patricia A. Lundstrom; Vice Chairman John Arthur Smith; Representatives Jim R. Trujillo, Larry A. Larrañaga, Jimmie C. Hall, Nick L. Salazar, Paul C. Bandy, George Dodge Jr., and Randal S. Crowder; and Senators Carlos R. Cisneros, Steven P. Neville, James P. White, Mary Kay Papen, George K. Muñoz, William F. Burt, and Pete Campos. Guest legislators: Representative Roberto "Bobby" J. Gonzales and Senator Pat Woods.

Pension Solvency And Investment Performance. Executive Director Jan Goodwin said the Educational Retirement Board (ERB) is solvent and on the path to 100 percent funding, projected to happen in 61 years. ERB is working to achieve 100 percent funding over a shorter period. ERB's funding policy, assumptions and methods, plan design, and risk measures are being evaluated. Ms. Goodwin said improved sustainability would help raise the state's credit rating and less interest would be paid on ERB's unfunded liability. Benefit plan changes, which would improve sustainability, will be proposed to the Legislature in 2019.

A summary of ERB's actuarial assumptions from FY16 to FY17, was given. In FY14, ERB was projected to reach 100 percent funding in 26 years; however, ERB adopted generational mortality, extending the number of years to reach 100 percent funding. In FY16, ERB reduced its inflation assumption, lowering assumptions for investment earnings, wage growth, and payroll growth. These reductions added additional years to the funding period.

Reporting on ERB's FY18 valuation, Ms. Goodwin said the growth of assets has been steady since 2009, and ERB's assets totaled $12.9 billion in FY18. Investment returns continue to exceed actuarial targets, with returns at 8.3 percent, net of fees, in FY18.

Ms. Goodwin said changing demographics of ERB membership are presenting challenges. The number of active members has decreased and the number of retirees has increased. Ms. Goodwin said reducing the state's vacancy rate would increase contributions for the fund and improve the funded ratio. Also impacting the fund is the decreased number of members retiring under the "25 years and out" eligibility and the high numbers retiring under age 65 with five years eligibility. Furthermore, life expectancy has increased. ERB is proposing benefit plan changes to manage its changing membership and improve sustainability. Changes to the pension benefit proposed by ERB staff include increasing the employer contribution rate, establishing a tiered multiplier to reflect cost of short-career retirees, requiring Public Employees Retirement Association (PERA) employees working for ERB employers pay contributions, and raising the minimum retirement age for new employees. Ms. Goodwin said the current employee contribution rate is sufficient.

Executive Director Wayne Propst said PERA's fund balance was $15.4 billion on June 30, 2018. The funded ratio for the public employees benefit plan, PERA's largest plan, is 73.1 percent, and total unfunded actuarial accrued liability (UAAL) is approximately $5.5 billion. Mr. Propst said PERA's efforts to attain 100 percent funding by 2043 is threatened by unfunded benefit enhancements and changing markets. Like ERB, changing demographics of PERA's membership are impacting PERA's fund.

PERA applied an asset liability model to assess the volatility of future investment returns on funding measures. The assessment tool found that PERA has a 37 percent chance of reaching 100 percent funding by 2043 without benefit plan and contribution changes. The tool also showed that potential low-funded ratio scenarios would have a significant impact to cash flow.

Mr. Propst said PERA recently presented to the board six different benefit plan scenarios, demonstrating the impact on the UAAL and future standing status of the major available levers. The purpose of the scenarios is to stimulate discussion and provide direction. An overview for three of the six scenarios was given. Mr. Propst said the most effective package as a whole is the one with the tightest distribution, or smallest difference between the best outcome and the worst outcome.

Executive Director David Archuleta said the Retiree Health Care Authority (RHCA) has an annual operating budget of $340 million. Almost all of it is spent on providing retiree healthcare benefits for over 300 public employer groups in the state; 50 percent are school districts and charter schools, 25 percent are state agencies, and 25 percent are municipalities, counties, and universities. Currently, about 100 thousand active employees are contributing to the plan, providing benefits to over 62 thousand retirees. The average age of beneficiaries is 70. Over 2,300 beneficiaries are under the age of 55. In 2020, the age of state agency retirees eligible to receive benefits will increase. The minimum number of service years required to receive the maximum subsidy will also increase.

Mr. Archuleta said RHCA offers the following medical plans:

- Pre-Medicare PPO Plan,
- Pre-Medicare Value Plan,
- Medicare Supplement Plan, and
- Medicare Advantage Plan.

In 2019, premiums will be increasing for all plans, except for the Medicare Advantage Plan. RHCA also offers dental, vision, and life insurance.

RHCA conducts a solvency study annually to monitor the condition of its program and assist the board in determining where changes need to be made to ensure sustainability of the program. RHCA's trust fund is currently projected to remain solvent through 2037. An overview of RHCA investment performance was given. Mr. Archuleta talked about Government Accounting Standards Board (GASB) valuations. GASB 74, completed in October of 2017, reported RHCA's unfunded liability totals $4.5 billion. GABS 75 is now requiring RHCA report net liabilities of all participating employers.

Mr. Archuleta listed nine elements of RHCA's 5-year strategic plan. The plan includes applying downward pressure on prescription drug costs, reducing pre-Medicare retiree subsidies, developing and implementing value-based purchasing initiatives, and increasing employee and employer contributions. Increasing contributions will require legislative action.

Analyst Connor Jorgensen said the LFC staff hearing brief provides additional insight on the mechanisms of pension plans and potential pension reforms. Mr. Jorgensen highlighted points made in the brief.

In response to Representative Hall, Mr. Jorgensen said LFC staff will look into pension consolidation as a potential reform.

In response to Senator Neville, Mr. Jorgensen said the real issue with double-dipping is that it incentivizes early retirement, resulting in less income invested by the member into the pension plan. Ms. Goodwin said ERB requires double-dippers and their employers pay contributions. Also, double-dippers do not accrue additional service credit. Ms. Goodwin said the return-to-work program was designed to address recruitment issues in rural communities; however, the majority of double-dippers are working in urban areas that do not have recruitment issues. The program sunsets in 2021. If the Legislature decides to renew the program, Ms. Goodwin recommends revising the program.

In response to Representative Gonzales regarding Wisconsin's public employee pension system, Dominic Garcia, chief investment officer for PERA, said Wisconsin's success in achieving and maintaining 100 percent funding for over 30 years is attributed to good governance, good plan design, successful employee recruitment and retainment efforts, and best practices.

Chairwoman Lundstrom requested permission from ERB, PERA, and RHCA to have Mr. Jorgensen attend stakeholder meetings and noted LFC would pursue a pension reform bill in addition to bills that may be proposed by PERA or ERB.

Risk Coverage/Group Benefits Rates. Executive Director Sammy Quintana said NMPSIA provides risk and benefit insurance for 88 school districts, 99 charter schools, and 25 other educational entities, insuring over 53 thousand individuals. Mr. Quintana reported insured assets worth over $25 billion. In FY18, NMPSIA spent $21.7 million on property and liability claims, and $11.4 million on workers' compensation claims. The number of molestation claims have doubled since the 2012-2013 policy period, resulting in large losses.

Mr. Quintana listed NMPSIA's loss prevention efforts, including 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, liability, and property claims, and training on identifying a predator to reduce the number of sexual molestation claims.

Mr. Quintana said NMPSIA's FY20 budget request is $400.9 million; $82.6 million is for the risk management program, a $7.5 million increase over FY19's budget, and $317 million is for the benefit program, a $15.7 million decrease under FY19's budget. The agency's revenues are derived from other state funds.

Reporting on medical benefits, Deputy Director Ernestine Chavez said NMPSIA offers its almost 21 thousand employees and families three different medical coverages, prescription drug coverage, dental coverage, vision coverage, and life and disability coverage. Ms. Chavez talked about the agency's 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.

Risk Management Division Director Lara White Davis gave an overview of the medical benefit program administered by the General Services Department (GSD). State employee's medical, dental, and vision coverage rates increased by 4 percent in FY19. Also, the emergency room copay increased by $25. Total cost of medical claims in FY18 is estimated at $313.5 million, a $17.7 million increase over FY17. Rising prescription drug costs continue to be an issue. In FY18, GSD spent approximately $46.1 million on prescription drugs, a $4.6 million increase over FY17. GSD is working to contain costs in its medical benefit program, including making changes to plans and driving more utilization of the Stay Well Health Center.

Reporting on GSD's risk management program, Ms. Davis provided committee members an FY20 allocation draft that will be used to determine each insured entity's rates for FY18 based on their experience.

One-hundred ninety-four liability claims and 29 property claims in the amount of $250 thousand or more have been paid since 2010. Public liability costs are being driven by civil rights and medical malpractice cases. GSD enhanced its property coverage to mitigate property loss. The enhanced coverage helps state agencies address root causes of property damages.

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

Chief Operations Officer Scott Elder gave an overview of Albuquerque Public Schools (APS) medical benefit program. Mr. Elder said APS is recommending to the Board of Education rate increases and plan changes for 2019 due to rising costs. APS serves approximately 84 thousand students and has over 12 thousand employees.

Reporting on APS's risk management program, Todd Torgerson, associate superintendent of Human Resources and Legal Services Support at APS, said property and general liability claims cost APS $3.2 million in FY18. Total cost of workers' compensation claims was $4.4 million in FY18.

In response to Senator Cisneros, Mr. Quintana said more and more school districts are taking advantage of NMPSIA's threat assessment and active shooter training. NMPSIA contracts Poms and Associates to administer its loss prevention program. President David Poms said the active shooter threat is a complex problem. Poms and Associates is working with school districts on security measures. Perimeter issues on campuses continue to be difficult to address. Poms and Associates is working on implementing an anonymous reporting system.

In response to Senator Burt, Ms. Chavez said NMPSIA did not renew its contract with New Mexico True Health because of several issues, including low membership and management issues. Ms. Chavez said the Interagency Benefits Advisory Committee (IBAC) will be initiating the request for proposal (RFP) process next year to procure new contracts for IBAC agencies, including NMPSIA.

Status of Los Luceros. Veronica Gonzales, secretary of the Department of Cultural Affairs (DCA), said the Los Luceros property is a 148-acre ranch northeast of Alcalde. Giving an historical account of the property, Secretary Gonzales said Mary Cabot Wheelwright, founder of the Wheelwright Museum, purchased the property in 1923, later gifting it to a friend. Throughout the years, Los Luceros had various owners and operators until ownership returned to Ms. Wheelwright's family.

Secretary Gonzales said Los Luceros was listed in the state register of cultural properties in 1970 and added to the national register of historic places in 1983. Los Luceros was recognized with the New Mexico heritage preservation award in 2005.

Los Luceros was purchased by the state in 2008. The state's initial priority for the property was to use it as a film education and job training center, assigning DCA as the administrator. Over $1.7 million of federal stimulus money was invested at the time; however, Secretary Gonzales said DCA's operating budget was never adjusted, dedicating no resources to support the property's operations, maintenance, and preservation needs. The agency has received special appropriations to address conservation and deed restriction issues.

A 2012 study recommended the state either sell the property, manage the property as a state historic site, or share ownership with a private entity. All three recommendations require state investment. Today, the property sits with no direction. Secretary Gonzales said, with proper funding and investment, Los Luceros has the potential to become one of the state's most significant and multi-use cultural sites.

Patrick Moore, Ph.D., director of the New Mexico Historic Sites Division of DCA, talked about the significance of Los Luceros. The property is currently serving several partnerships and programs.

In response to Representative Trujillo, Secretary Gonzales said the adobe home on the property, known as Casa Grande, has the potential to become a museum. Representative Trujillo then asked about Los Luceros' earned revenue from rental fees. Secretary Gonzales said the earned revenue is not enough to cover the property's entire needs.

Senator Cisneros requested DCA make efforts to ascertain Los Luceros' water rights.

Vice Chairman Smith said Los Luceros' appraisal at the time it was sold to the state needs to be made public. Secretary Gonzales said she will report back to the committee how long the property was on the market before it was purchased by the state. Vice Chairman Smith requested DCA develop a plan for Los Luceros and present it to the Legislature in 2019.

Ravi Bhasker, mayor of Socorro, requested DCA loan an exhibit to the El Camino Real Heritage Center. Mayor Bhasker said the city of Socorro will cover all costs of the exhibit. Chairwoman Lundstrom asked Mayor Bhasker to report back to the committee additional information on the city's request.

Medicaid Update. -- Brent Earnest, secretary of the Human Services Department (HSD), said Centennial Care, New Mexico's Medicaid program, was appropriated $915.6 million from the state general fund in FY18. Total general fund cost of the program in FY18 is estimated at $907.8 million. For FY19, $933.6 million was appropriated but HSD projects the total cost will be $944.6 million.

Secretary Earnest gave an overview of the recent provider rate increases; rates were increased for primary care, long-term services and supports, and behavioral healthcare. Centennial Care enrollment growth has flattened out, which Secretary Earnest attributes to the improved economy. Over 847 thousand individuals are currently enrolled in Centennial Care. The average per member per month cost has decreased.

Reporting on FY20 budget issues, Secretary Earnest said the adult expansion population's federal medical assistance percentage (FMAP) match rate decreases to 93 percent January 1, 2019, and decreases to 90 percent January 1, 2020. Regular FMAP rates are expected to improve slightly. Children's Health Insurance Program rates decrease October 1 of this year. Additional general fund dollars will need to be appropriated to make up for lost federal dollars.

Secretary Earnest said Centennial Care is a program that delivers comprehensive services, engages recipients, uses innovative payment methodologies, and simplifies program administration. On January 1, 2019, Centennial Care will be upgraded. The program will be renamed Centennial Care 2.0. Secretary Earnest said Centennial Care 2.0 builds on the successes of the original program. The improvements and reforms will ensure sustainability of the program while preserving comprehensive services.

Secretary Earnest gave the status of the Medicaid management information system replacement project. The $176 million project is being implemented in phases and is scheduled to be completed in 2021. The project is part of the agency's Health and Human Services 2020 initiative. The initiative moves the Medicaid program's focus onto its members.

Chairwoman Lundstrom asked what the status is of the Hatten-Gonzales lawsuit. Secretary Earnest said a revised modified settlement agreement was recently finalized. Expectation and requirements are clear in the agreement, much of which Secretary Earnest is already being executed by HSD. Secretary Earnest said it is possible the litigation will end at the end of this year.

The committee then recessed to visit Southern Methodist University in Taos at Fort Burgwin.

Southern Methodist University in Taos at Fort Burgwin. Associate Provost Peter Moore, Ph.D., and Associate Vice President Michael Molina provided a brief overview of Southern Methodist University (SMU) in Taos (SMU-in-Taos). Mr. Moore said SMU's Taos campus, a former military outpost, encompasses 423 acres and 31 buildings, and serves as an offsite learning and recreational center for students and faculty of its main campus in Dallas. Mr. Moore said the property was discovery by an archeologist who was working for the Department of Transportation in the 1950s, who subsequently discovered and began excavating Pot Creek, a Native American pueblo ruins. The property is used for lodging students during the ski season and for summer academic programs. SMU-in-Taos has been reaching out to UNM-Taos to capitalize on shared programming for local students. The committee took a tour of the property.

Friday, August 24th

The following members and designees were present on Friday, August 24, 2018: Chairwoman Patricia A. Lundstrom; Vice Chairman John Arthur Smith; Representatives Jim R. Trujillo, Larry A. Larrañaga, Jimmie C. Hall, Nick L. Salazar, Paul C. Bandy, George Dodge Jr., and Randal S. Crowder; and Senators Carlos R. Cisneros, Steven P. Neville, James P. White, Mary Kay Papen, William F. Burt, and Pete Campos. Guest legislators: Representative Roberto "Bobby" J. Gonzales and Senator Pat Woods.

Childcare Assistance. LFC Analyst Kelly Klundt said New Mexico investments in early childhood have increased significantly in the last six years. LFC staff developed an annual accountability report to monitor the impact of state investments. Presenting the 2018 report on childcare assistance outcomes, Ms. Klundt said the percent of children attending a high quality childcare assistance program increased from 36 percent in FY17 to 43 percent in FY18. The percent of low-income childcare participants proficient in reading by third grade increased by 1 percent in FY18.

Ms. Klundt said the Childcare Assistance Program, the state's largest early childhood program, is a subsidy program for low-income families (at or below 200 percent of the federal poverty level) that are working or in school and have a need for childcare. In FY19 state general fund will be the largest funder of the program. Total cost of the program in FY19 is $134.2 million; $52.6 million will be paid by the state general fund.

Ms. Klundt said the average monthly cost per child has increased. In FY18, the average monthly cost per child was $550, a $53 increase over FY17. A chart in the LFC staff brief showed how the provider rates are calculated. Costs are expected to continue to increase, significantly impacting the program's budget starting in 2021. Reporting other considerations of the program, Ms. Klundt said LFC staff caution against using childcare assistance as a resource to improve long-term educational and child maltreatment outcomes. The prekindergarten and K-3 Plus programs are producing the best educational outcomes.

According to recent data of key early childhood measures, Ms. Klundt said New Mexico has improved the safety, school readiness, and education of children in the state; however, the health of New Mexico's children has worsened.

Alejandra Rebolledo Rea, acting director of Early Childhood Services of the Children Youth and Families Department (CYFD), said Focus, a third-generation tiered quality rating system, has improved the quality of childcare in the state. Giving an overview of the rating system, Ms. Rebolledo Rea said CYFD applied a rating system for the first time in 1997 to monitor the quality of childcare programs. In 1999, a new rating system, Aim High, was applied to improve access for low-income children. To improve child outcomes, CYFD replaced Aim High with Focus in 2017. Focus' structure is based on experiences, interactions, and curriculum to promote child development and learning using the New Mexico's early learning guidelines. Focus administers four functions: rating early childhood providers, training and consulting early childhood providers, processing accreditation approval, and verifying information. Providers are rated on the implementation of CYFD's five-tier criteria of standards. Ms. Rebolledo Rea talked about Focus' performance and improvements made to the system. A chart in the presentation showed the percentage increase of students in five-star programs, the highest rated programs.

Shannon Rivera, executive director of early childhood programs at Western New Mexico University (WNMU), said early learning occurs prenatally to age 8, making adult influences most critical during this period. Ms. Rivera said early childhood education is a fairly new field. Early childhood education focuses on the development of children in their entirety, including social, cognitive, and physical developments. Ms. Rivera said a child without proper development does not have the foundation to later learn abstract concepts. Ms. Rivera talked about the philosophies of early childhood education.

Ms. Rivera said the development of workforce is not keeping pace with the growth of early childhood programs, resulting in unattained positive outcomes. Ms. Rivera recommends New Mexico put a mechanism in place to develop its workforce for early childhood programs. Ms. Rivera also recommends the state reorganize its management of early childhood programs.

Hailey Heinz, senior policy analyst of the Cradle to Career Policy Institute at the University of New Mexico, presented a study conducted by the institute on the effects of Focus during the years it was piloted. The study examined children who received child care assistance subsidies during the phase-in of Focus, linking their childcare assistance records to their later school performance. Children in the study received care in programs that were early adopters of Focus, as well as those who remained under the Aim High system for longer. The study found statistically significant relationships between children's childcare assistance histories and their dynamic indicators of basic early literacy skills (DIBELS) scores in kindergarten, first, and second grade. Specific findings include

- For four- and five-star childcare, increased months in childcare are related to higher predicted DIBELS scores,
- For four- and five-star childcare, each month in care appears to increase children's odds of reaching grade-level benchmarks on DIBELS,
- Months spent in registered care exert smaller effects on children's odds of reaching the DIBELS benchmark, and
- Two- and three-star licensed care are not associated with early literacy gains in any of the models.

Other findings were listed. Ms. Heinz said further research will be needed to determine whether outcomes look different for full implementation of Focus.

Chairwoman Lundstrom asked if funding should be taken away from two- and three-star licensed care providers because they are not producing educational gains. Ms. Heinz said two- and three-star licensed care still affords parents the ability to work or attend school. They also meet other needs for families, such as meals and stability.

In response to Representative Hall, Ms. Klundt said approximately $3.2 million of CYFD's budget for home visiting was unspent in FY18; $3 million was redirected to the Childcare Assistance Program and $200 thousand reverted back to the state general fund.

In response to Representative Hall, Ms. Klundt said the Early Childhood Funders Group recently conducted a study on New Mexico's early childhood system and developed a business plan to serve as guidance for policymakers. The plan makes recommendations on governance, capacity, and workforce.

In response to Vice Chairman Smith, Ms. Rivera said WNMU has a five-star child development center on campus. The center is nationally accredited.

Capital Outlay Quarterly Report. LFC Analyst Jonas Armstrong said, as of June 2018, approximately $433.4 million from all funding sources for 1,406 projects remains unexpended, including $58.5 million of earmarked fund balances for water, colonias, and tribal infrastructure projects. Additionally, $197 million remains unexpended from supplemental severance tax bonds for public schools.

Since the March 2018 quarterly report, 298 projects closed and approximately $83.8 million was expended or reverted. These figures include 78 projects that were not fully expended but closed due to reauthorization during the 2018 legislative session. The $35.6 million of reauthorized balances will appear on the next quarterly report. Excluding reauthorizations, 220 projects closed and about $48.2 million was spent or reverted.

Staff is currently tracking 180 "$1 million or greater" projects, totaling $918.7 million; $376.7 million is unexpended. Since the March 2018 report, 21 appropriations totaling $67.8 million were fully expended or reauthorized.

Members were provided detailed information on all projects; the status of select projects were highlighted. Mr. Armstrong said the rising cost of construction is being driven by higher prices of materials and labor.

Senator Cisneros requested LFC staff report back to the committee the reason why several of the water projects authorized in the "year of water" are still outstanding.

<u>Miscellaneous Business.</u>

Action Items. Senator Cisneros moved to adopt LFC's FY20 budget request, seconded by Representative Trujillo. The motion carried.

Representative Hall requested the Abiquiu land grant issue be addressed during LFC's upcoming Manhattan Park tour at the Los Alamos National Laboratory.

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

Patricia A. Lundstrom, Chairwoman

John Arthur Smith, Vice Chairman