<u>MINUTES</u>
Legislative Finance Committee
Red River, New Mexico
August 24 - 26, 2016

<u>Wednesday, August 24th</u>
The following members and designees were present on Wednesday, August 24, 2016: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, Stuart Ingle, William F. Burt, Steven P. Neville, Howie C. Morales, George K. Muñoz, and Pete Campos; and Representatives Larry A. Larrañaga, Roberto "Bobby" J. Gonzales, Stephanie Garcia Richard, Paul C. Bandy, Jason C. Harper, George Dodge Jr., and Patricia A. Lundstrom. Guest legislators: Senators Lee S. Cotter and Mary Kay Papen and Representative Jim R. Trujillo.

<u>Preliminary FY16 General Fund Revenues, FY17 Revenue Update, FY18 Outlook, and General Fund Financial Summary.</u> Demesia Padilla, secretary of the Taxation and Revenue Department (TRD), said New Mexico's weakened economy is due to the struggling oil and gas industry. As of August 2016, general fund revenue for FY16 was estimated at $5.7 billion, a decrease of $348 million, or 8.4 percent, since the January 2016 forecast. General fund revenue from gross receipts taxes (GRT) decreased by $133 million, although counties not impacted by the oil and gas industry experienced growth in GRT revenue. GRT collected in Lea, Eddy, and San Juan counties decreased by $230 million, or 25 percent.

The decline in GRT revenue in FY16 was also attributed to one-time amendments allowing taxpayers to claim credits and deductions for multiple years they previously had not claimed. Secretary Padilla pointed out, if not for the amendments, the GRT growth rate in FY16 would have been -3.2 percent rather than -6.6 percent. Combined reporting system (CRS) tax credits claimed through May 2016 totaled $99 million, $18 million higher than total claims in FY15. In FY16, an increased number of hospitals took advantage of the Department of Health licensed hospitals tax credit, claiming three years worth of credits, totaling $32 million. Regarding the high wage jobs tax credit, TRD is clearing the remaining backlog of cases and protests. Amounts of claims are expected to normalize by FY17. The healthcare practitioner tax deduction is now being claimed by hospitals. Though prohibited under TRD regulation, the Administrative Hearing Office (AHO) holds that hospitals are eligible, reasoning the deduction under Section 7-9-93 NMSA 1978 is based on the nature of the payor, not the nature of the providing facility, as long as the services are within the providing facilities' scope of practice.

Then reporting on other tax revenue, Secretary Padilla said the volatility of compensating tax (comp) revenue continues to make it difficult to forecast. Fiscal year 16 comp revenue is estimated at $49 million, a 32 percent decrease from FY15. Personal income tax (PIT) revenue grew 6.8 percent in FY15 but is expected to decline by approximately 2 percent in FY16. Secretary Padilla said PIT growth is an indicator of how well the economy is performing. The loss of many high paying jobs in the extractive industry is negatively impacting PIT's growth. As with other major oil and natural gas producing states, New Mexico's corporate income tax (CIT) revenue has declined. To better forecast CIT revenue, TRD economists are examining the effect of a weak extraction industry, the effect of HB641, lower corporate profit expectations, and the effects of net operating losses, overpayment of estimated taxes, and business credits. Performance information on remaining tax programs was provided.

Referencing a graph in the presentation, Secretary Padilla showed the dramatic decline in oil price in relation to production. Forecasters expect New Mexico oil prices to average $45/bbl in FY17. The number of drilling rigs has increased recently in the Permian basin, signifying potential revenue gains in the near future.

Lastly, Secretary Padilla talked about increased compliance and collection efforts at TRD, which she said has resulted in additional revenues being collected in most of the major tax programs including GRT, compensating tax, and PIT.

Duffy Rodriguez, secretary designee of the Department of Finance and Administration (DFA), gave a brief outlook on the U.S. economy. National and global uncertainty has increased. National job growth has been strong; however, gross domestic product (GDP) data is mixed and productivity is unsatisfactory. Heightened caution from the Federal Reserve indicates the next rate increase will be delayed into the end of 2016 or beyond. Secretary Rodriguez said higher capitalization and liquidity required of the post-crisis banking system will be a monetary drag, impacting investments. According to a chart in the presentation, the U.S. inflation rate is 0.7 percent, a historical low.

Secretary Rodriguez said plummeting commodity process have hit New Mexico's economy and revenues across the board. New Mexico's most impacted industries are oil, natural gas, coal, potash, agriculture, and U.S. dollar priced exports. The impact on severance taxes and royalties has also been significant. Energy production is becoming more high tech and high capital, putting pressure on other revenues, including GRT, CIT, and PIT. Reduced production in the energy sector has resulted in a loss of over 10 thousand mostly high-wage jobs, subsequently dropping PIT and CIT collections.

On the outlook of New Mexico's oil and gas industry, Secretary Rodriguez said prices are rising, oil and gas companies are making investments, and the number of active rigs is increasing. Global production has become stagnant while the Permian basin has become the premier drilling location in the United States. However, excess supply is causing soft price growth and new production might not outpace winding-down operations. Also, tax revenues lag market price changes. Overall though, signs point to a gradual recovery of the oil and gas industry, which may not be felt until FY18.

Secretary Rodriguez lastly talked about New Mexico's job growth. Fourteen thousand jobs were added to the state's economy in June 2016, a growth rate of 1.7 percent, the highest since March 2007. Total employment increased again the following month, adding 9,600 jobs year-over-year. A graph in the presentation showed steady employment growth in the private sector since 2011, with the exception of mining jobs.

David Abbey, director of the Legislative Finance Committee (LFC), said revenue estimates are difficult to forecast, pointing out the significant adjustments made to the general fund revenue estimate presented one year ago. General fund revenue is currently estimated at $5.7 billion for

FY17, a decrease of $820 million, or 12 percent, since August 2015 projections. While budget adjustments need to be made in the current fiscal year to address this decrease, the 2017 Legislature will be tasked with rebuilding reserves and addressing a negative $210.9 million deficit for recurring appropriations in FY18.

Director Abbey said current pricing for West Texas intermediate (WTI) is $47.60/bbl; though, New Mexico prices are assumed to be $4.50/bbl less. Director Abbey said it has become apparent how much gross receipts tax revenues depend on drilling. As a rule of thumb, a $1 change in the price of oil, sustained over the course of a full fiscal year, leads to a $9.5 million change in general fund revenue. For natural gas, a 10 cent/mcf change in price over a fiscal year leads to a $6.5 million change in general fund revenue.

Director Abbey reported on general fund revenues. CIT revenue is estimated at $100 million for FY17, a decrease of $120 million since the January 2016 forecast. Director Abbey said the state is often paying out just as much CIT revenue as it is collecting. Regarding insurance premium tax revenue, Director Abbey said a high number of members have transitioned out of the New Mexico Medical Insurance Pool (NMMIP) and into Medicaid or the exchange; however the amount of time it's taking to transition remaining members is lengthening, further impacting general fund revenue because of NMMIP credits to insurers. The State Auditor's Office is currently studying the effectiveness of insurance premium tax collections. Tobacco Master Settlement Agreement revenues have significantly declined. Although vetoed a few years ago, legislators may want to reconsider passing again legislation that would require payments to escrow of non-participating manufacturers.

Director Abbey said issues with data availability and reliability contribute to revenue risk. TRD, for example, was unable to provide a detailed analysis that would have explained the one month spike in PIT revenue last September. Director Abbey said tax audit and compliance efforts need to also be focused on examining the tax code on a regular basis, providing legislators up-to-date performance data to make better informed decisions on tax policy changes that prevent loopholes.

Other vulnerabilities include the potential of unforeseen significant increased costs of tax expenditures. Tax expenditures for economic development, for example, have had a larger fiscal impact than initially estimated, contributing to revenue estimating error. Director Abbey said there was a nearly $45 million revenue shortfall in FY16 because of underestimating the high-wage jobs tax credit.

Rather than relying solely on historical data, Director Abbey recommended the entire consensus estimating group, not just LFC staff, do monthly revenue tracking, which compares YTD revenue growth with the forecast. With this tracking, estimators are more quickly able to see areas of concern. Director Abbey briefly went over other charts and graphs LFC staff use to analyze and forecast general fund revenues.

Secretary Padilla lastly commented that four firms are actively data-mining, seeking out potential tax credits and submitting refund claims on behalf of those potentially entitled. TRD's Audit and

Compliance Division reviews the claims to determine eligibility. Secretary Padilla said, on average, 46 percent of claims filed are denied.

Senator Cisneros requested TRD present to the Revenue Stabilization and Tax Policy Committee the data-mining issues. Senator Cisneros asked if some tax expenditures can go through a sunset process or be repealed. Secretary Padilla said changes to tax incentives need to be carefully considered. TRD's tax expenditure report provides data that can be used to analyze where changes can be made. Secretary Rodriguez pointed out that many new companies have come to New Mexico because of the incentives. Senator Cisneros said policymakers would need to take a balanced approach in making changes to tax expenditures that is fair to citizens and still promotes economic development.

In response to Senator Morales, Director Abbey said there is no restriction on how states spend Master Settlement Agreement dollars, and Secretary Rodriguez confirmed statute allows the funds to be used for a shortfall.

In response to Representative Larrañaga, Secretary Padilla said, following the $39 million expenditure jump in FY16, TRD economists estimate the healthcare practitioner tax deduction will now cost the state about $13 million in GRT revenue annually. Secretary Padilla said the statute would need to be amended to exclude hospitals from claiming the deduction.

Representative Lundstrom said her office reached out to the Economic Development Department (EDD) on getting rapid response assistance for Cibola County because of the recent job loss in that county; however, the program is still not in place. Secretary Rodriguez said she would follow up with EDD.

Chairman Smith asked Secretary Padilla to submit to him detailed information on refund claims that have occurred in the past 10 years, giving a clearer picture on what might occur in the future.

Status of General Fund Solvency Efforts. David Abbey, director of the Legislative Finance Committee (LFC), said, because appropriations exceeded revenues, a transfer of $617 million in operating reserves to the state general fund account was required for FY16, leaving operating reserves with a balance of negative $131 million. With legislative authorization, tobacco settlement permanent funds can be used to offset the negative balance.

A shortfall in FY17 will require another transfer. Assuming authority to transfer all available general fund reserves, the reserve balance would be negative $326 million. Director Abbey noted that 2016 legislation was vetoed that authorized a contingent 1 percent reduction in appropriations, which amounted to $62 million, in the event of a revenue shortfall and a $14 million sweep of Local Economic Development Act balances.

Director Abbey discussed the statutes defining general funds, permanent funds, and reserves. Section 6-4-6(A), NMSA 1978 prohibits the "payment of or obligations of state government from any fund or accounts unless it may reasonably be expected that at the end of the fiscal year the balances in that fund or account will be fully restored." Section 8-6-7, NMSA 1978 provides a violation if the DFA secretary issues a warrant or the State Treasurer pays a warrant when "he knows or, with the use of available accounting information, should reasonably know there is an insufficient unexpended and unencumbered balance available." These statutes were enacted and amended in 1987 and 1991 following the constitutional crisis in 1986 when oil prices and state revenue collapsed.

Director Abbey said it is important for the state to move expeditiously to recover its general fund and reserve balances. To reach solvency for FY17, the state has four options: sweep surplus fund balance to the general fund, swap severance tax bond capital appropriation for general fund appropriations, reduce appropriations, increase revenues, or all four. Targets for FY17 solvency measures should be at least $330 million to achieve a general fund surplus and $453 million to maintain the FY16 level of reserves.

Duffy Rodriguez, secretary of the Department of Finance and Administration (DFA), LFC and DFA staff are working together to provide legislators guidance and recommendations to achieve solvency.

In response to Senator Cisneros, Secretary Rodriguez said a significant amount of Local Economic Development Act (LEDA) funds remain unexpended; however, the Economic Development Department has dedicated those funds for recruiting companies. By swapping general fund appropriations in LEDA with severance tax bond capital appropriations, money can be kept in the program. Secretary Rodriguez said the bonds swapped would come from unexpended, unencumbered balances of old projects.

Senator Cisneros asked how those agencies already in need of a supplemental for FY17 will be able to handle the 5 percent budget decrease. Secretary Rodriguez said DFA staff is working very closely with those agencies to find ways they can cover their own supplemental needs and also make the 5 percent budget reduction.

In response to Representative Larrañaga, Secretary Rodriguez said Governor Martinez recommended the judicial branch and legislative branch follow a similar approach to the 5 percent reduction in spending. Director Abbey said Legislative Council Service recently said they intend to leave four positions open. LFC will not be filling two vacant positions. Director Abbey said the chief justice spoke to him about some of the efforts being made in the judicial branch to reduce spending. Director Abbey said LFC and DFA staff are working together on scenarios to reduce funding in public and higher education.

In response to Senator Muñoz, Secretary Rodriguez said the cash reconciliation project is complete. Secretary Rodriguez reported that $100 million went back into the general fund and cash reconciliations are now being done on a daily basis. The Comprehensive Annual Financial Report (CAFR) was released last month.

Fourth-Quarter Performance Report Pursuant to the Accountability in Government Act and FY18 Performance Reporting. David Lucero, deputy director of the Legislative Finance Committee (LFC), first talked about the *State of the State Dashboard*, a one-page report providing a snapshot on major issues in New Mexico. The dashboard information is a good indicator of how well agencies are addressing important matters. According to the report, 9 percent of babies born in the New Mexico have low birth weight, 12 percent of New Mexico's children experience incidents of repeated maltreatment, and 76 percent of children received their full required immunization in 2015, an increase from prior years. Regarding education, Mr. Lucero said, although slightly improved, reading and math proficiency remains below target for fourth- and eighth-grade students. In 2014, 42 percent of college students completed a bachelor's degree within six years. Regarding public safety, New Mexico ranked fourth in the nation for violent crime in 2014. The adult recidivism rate within three years of release is currently 46 percent, a slight improvement. Mr. Lucero highlighted other concerns and the progress made in some areas.

AJ Forte, director of the State Budget Division at the Department of Finance and Administration (DFA), talked about the collaboration between LFC staff and DFA staff to revamp performance measures, which he said focused on ensuring measures provide data that will be useful long-term. A memo to the committee from LFC staff provided more detailed information on the changes made. LFC staff had a few remaining concerns; however, consensus was reached for most performance measurement changes. Over 600 less-useful measures were eliminated.

In response to Representative Gonzales, Mr. Lucero said the increase in child immunization is likely because more children are being covered by Medicaid or private insurance. Representative Gonzales said, although improved, the number of children not immunized is still concerning.

Representative Lundstrom expressed concern about performance information for some agencies now being reported annually rather than quarterly.

Program Evaluation: Effectiveness of Juvenile Justice Facilities and Community-Based Services. Brian Hoffmeister, program evaluator, presented the report *Effectiveness of Juvenile Justice Facilities and Community-Based Services*. Since 2008, the Children, Youth, and Families Department (CYFD) has transformed New Mexico's juvenile justice system into one based on rehabilitation rather than punishment through its Cambiar initiative in secure facilities and a range of community-based programs. Fewer youth are entering Juvenile Justice Services (JJS), and those who do are generally less likely to recidivate. These recent changes warrant a closer look at CYFD's use of resources to ensure cost-effective outcomes. The number of youth committed to JJS facilities fell by two-thirds between FY01 and FY15. Meanwhile, spending continues to rise. In FY15, spending on facilities was 30 percent higher than in FY08, although a third of CYFD's bed capacity went unused.

Additionally, costs of probation and field services continue to rise with limited evidence of their effectiveness. The costs of programming through CYFD's own probation field offices, as well as state-funded but locally managed juvenile justice continuum sites, are spread unevenly around the state, and a lack of reliable data and weaknesses in accountability hinder CYFD's ability to gauge the true impact of these programs on recidivism and youth outcomes. Meanwhile, one proven treatment program for youth, multisystemic therapy (MST), has been affected by provider instability and access issues.

The evaluation analyzed costs, capacity, and needs in the juvenile justice system and identified opportunities to improve outcomes and efficiencies, including up to $2.7 million in potential savings. Overall, while costs are rising, JJS is improving performance tracking. However, some key outcomes, such as incidents in facilities and recidivism among probation clients, remain areas of concern. For community-based programs such as juvenile community corrections and continuum sites, oversight and accountability are not sufficient to ensure outcomes are met. Additionally, probation violations are a significant driver of juvenile commitment, especially in areas that lack key community services.

The evaluation recommended the Legislature and CYFD work to capture savings from reduced facility use, optimize capacity, realign field operations, and strengthen accountability and reporting mechanisms in continuum and juvenile community corrections programs. Moreover, CYFD should examine more closely the drivers of commitment and recidivism, including probation violations and "crossover youth" involved with both JJS and Child Protective Services.

Tamera Marcantel, director of Juvenile Justice Services (JJS) at the Children, Youth and Families Department (CYFD), presented CYFD's response to the report. Director Marcantel said JJS is focused on prevention and early intervention for young people at the front end of the system; however, for those who progress within the system into JJS facilities, a therapeutic approach is used for rehabilitation rather than using correctional and punitive practices. CYFD has established data standards and quality assurance measures to monitor compliance with policy and adopted standards to ensure clients are receiving the highest quality services and care. Director Marcantel talked about the successes of the JJS system, which she said was made apparent in the report.

Director Marcantel said several recommendations in the report had already been identified by CYFD and have been incorporated into the agency's strategic plan. Before implementing other recommendations, CYFD wants to work with LFC staff and DFA staff to ensure they align with key performance improvement strategies and ensure resources are sufficient to implement.

The report recommended, as part of the annual appropriations process, the JJS budget be evaluated to identify opportunities to achieve efficiencies and cost reductions by reallocating resources and optimizing unused space. Director Marcantel said, while the agency is open to applying opportunities for efficiencies and cost reductions, CYFD is concerned the system's success could be adversely impacted by reallocation of budget.

Director Marcantel thanked LFC staff for their work on their report. Director Marcantel said LFC's recommendations gives CYFD an opportunity to continue its commitment to improve the JJS system to protect public safety, hold clients accountable, provide treatment and rehabilitative services to youth and their families, and effectively utilize resources to carry out its mission.

In response to Representative Garcia Richard, Mr. Hoffmeister said the evaluation did not report on the education of clients in the system beyond the brief analysis included in the report. Those in facilities, who are between the ages of 15 and 21, receive educational services. Representative Garcia Richard said poor education contributes to kids ending up in the system, indicating that state investments need to be proactive rather reactive.

Representative Garcia Richard suggested LFC staff do an analysis that compares return-on-investment for the juvenile justice continuums, JJS facilities and other programs in the state.

In response to Representative Hall, Frank Cortez, program manager of the Eagle Nest Reintegration Center, introduced Michael Romero, a client at the center. Mr. Romero said the center teaches clients important life skills, many of which were not taught at home. Mr. Romero described his home experience as abusive and neglectful. However, with help from the center and his two jobs there, Mr. Romero said he is learning how to be a productive and involved member of society. Mr. Cortez said the center can accommodate up to 12 clients, requiring a stay of at least three months.

In response to Representative Trujillo, Nick Costales, deputy director of JJS Field Services, said many of the juvenile justice continuums are overseen by a district judge. The total budget for the continuums is $3.1 million, which Director Marcantel said includes federal funds and a 40 percent match from sites. There are currently 21 continuum sites serving 22 counties.

Early Childhood Accountability Report. Jon Courtney, manager of program evaluation, said Legislative Finance Committee (LFC) staff has completed its second annual early childhood accountability report using data compiled from the Children, Youth and Families Department (CYFD), Public Education Department (PED), and Department of Health (DOH). The report is intended to provide a systemwide look at key early childhood indicators across state agencies and consolidate information regarding expenditures and outcomes. The second annual report provided trend data indicating mixed performance on measures reported last year.

A chart in the report showed the growth in funding from FY12 to FY17. Although funding for early childhood programs has continued to increase, the state still struggles to improve health, safety, and educational outcomes for New Mexico children. The child immunization rate declined from 72 percent in 2012 to 66 percent in 2013. New Mexico children are experiencing repeat maltreatment at a rate of 12.3 percent. However, the poverty rate for New Mexico children has improved.

Kelly Klundt, senior fiscal analyst for LFC, then reported on early childhood programs. Home visits by paraprofessionals is an intensive parent education program shown to effectively reduce child abuse and improve health. According to the second annual home-visiting report released last fall, a high number of families are not using the additional services recommended by home visitors, ultimately hindering outcomes. Ms. Klundt said LFC analysis has shown a potential positive return-on-investment for most home-visiting programs; however, continued attention is needed to ensure family engagement and improved performance of funded programs under the standards-based accountability system.

Reporting on gains made in the home-visiting program in FY16, Ms. Klundt said the rate for mothers initiating breast feeding has improved and the number of home visits has increased. Also, 96 percent of children in the program are receiving a well-child exam, which Ms. Klundt said is significant because only 49 percent of children not in the program are receiving a well-child exam.

New Mexico's childcare assistance program, administered by CYFD, is the largest early childhood program in the state both in capacity and funding. Ms. Klundt said quality improvement of child care continues to be the forefront of state early childhood policy. CYFD is currently piloting Focus, a third-generation tiered quality rating system (TQRIS). The new Focus system is education-based and could lead to increased academic success once fully implemented.

New Mexico's childcare assistance program is partly funded by the Child Care and Development Block Grant (CCDBG) Act, recently reauthorized. Ms. Klundt said, in 2014, the reauthorization made significant changes by defining health and safety requirements for childcare providers, outlining family-friendly eligibility policies, and requiring parents and the general public to have transparent information about available childcare services.

Then discussing prekindergarten services, Mr. Courtney said, in FY16, New Mexico's prekindergarten program served 9,394 children, costing $51.8 million. Prekindergarten services are now available for 3-year-olds. The program offers half-day or extended-day services. Consistent evidence shows prekindergarten significantly improves math and reading proficiency for low-income 4-year-olds and lowers special education and retention rates. According to the National Institute for Early Education Research (NIEER), New Mexico met nearly all NIEER prekindergarten quality standards in FY15.

In 2015, the partnership for assessment of readiness for college and careers (PARCC) assessment replaced the standards-based assessment (SBA) for students in third grade and higher. Mr. Courtney said the new assessment differs in a number of ways, including a radically different definition of school readiness or proficiency. The average prekindergarten participant was proficient under the SBA but not the PARCC. However, prekindergarten participants scored significantly higher on the PARCC than non-prekindergarten peers. Mr. Courtney said the PARCC assessment allows New Mexico to benchmark performance against other states.

New Mexico's Head Start program served 4,000 children in FY15, costing $66 million. Head Start and Early Head Start are federal programs that promote school readiness of children under age 5 from low-income families. Mr. Courtney said enrollment into the program has plummeted. Forty percent of teachers in the program have a bachelor's degree, a percentage well below the federal standard. The number of children receiving well-child exams through the program has declined.

A recent Georgetown University study found that Head Start can improve student achievement as long as the program is high quality. To be high quality, the program must have qualified teachers and class assessments must score well. Most head start providers in New Mexico score below the national averages on all class measures.

Mr. Courtney lastly reported on the K-3 Plus program. K-3 Plus is an extended school year program for kindergarten through third-grade students. The program extends the school year for a minimum of 25 instructional days at high-poverty or low-performing elementary schools for students who choose to participate. Since 2007, enrollment and funding for K-3 Plus have generally risen; however, in those years where funding decreased, there was a corresponding drop in enrollment. Proven by an independent study conducted by Utah State University, K-3 Plus has been scientifically shown to improve student performance relative to peers.

Steve Hendrix, director of Early Childhood Services at CYFD, said investments in early childhood services help prevent the long-term issues that many New Mexico children and youth face. Mr. Hendrix said the LFC's report shows where New Mexico stands on key issues that will help guide the state as it continues to improve early childhood services.

Mr. Hendrix briefly reported on new and existing initiatives at CYFD. Due to CCDBG requirement changes, CYFD will soon be recertifying eligibility for childcare assistance every 12 months instead of every six, which Mr. Hendrix said will result in better outcomes for children. CYFD is piloting an at-risk child care program that targets high-risk families. The childcare component in Child Protective Services is being moved to early childhood services for better management. CYFD will now be measuring the prevention of abuse and neglect in its child care assistance program.

In response to Representative Hall, Mr. Hendrix said the Race to Top grant is in its fourth year of implementation. All funds are expected to be expended by the end of the grant period. A large portion of the grant funded the new Focus system.

In response to Representative Garcia Richard, Ms. Klundt said LFC staff estimate that almost all at-risk 4-year-olds have capacity to receive childcare, prekindergarten, and head start services, but not all parents take advantage of enrolling their children in these services. Thirty percent of New Mexico's 4-year-olds are funded for prekindergarten.

In response to Chairman Smith, Mr. Courtney said Head Start data was collected from the Federal Administration for Children and Families website portal. New Mexico is not using all of its allocated federal dollars made available for Head Start. Mr. Courtney said three Head Start schools in New Mexico are having to recompete for federal funding because of poor classroom assessments.

Miscellaneous Business

Action Items.
Approval of the July 2016 Meeting Minutes. Senator Cisneros moved to adopt the July 2016 meeting minutes, seconded by Representative Lundstrom. The motion carried.

Approval of the FY18 Budget Guidelines. Senator Cisneros moved to adopt the FY18 budget guidelines, seconded by Representative Hall. The motion carried.

Approval of the FY18 LFC Budget Request. Senator Cisneros moved to adopt the FY18 LFC budget request, seconded by Representative Lundstrom. The motion carried.

Approval of LFC Contracts. Senator Cisneros moved to adopt the LFC contracts, 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. Charles Sallee, deputy director of LFC, provided a brief update on Medicaid cost-containment efforts. In its August 2016 Medicaid projection, HSD reported a $9.9 million increase in general fund need for FY17, putting the total projected shortfall for the year at $34.3 million. This most recent projection is less than initially estimated. For FY17, the federal government will allow a moratorium on a health insurer fee, a federal tax built into MCO managed-care premiums as a cost of doing business, saving the state about $18 million in general fund revenue, although, the moratorium is a one-time savings and therefore more cost-containments efforts will need to be made. Cost-containment efforts recommended by LFC staff include reducing MCO overhead and eliminating some programs.

Representative Larrañaga suggested LFC staff review recent articles in *Health Care News* that talked about how some states are managing their Medicaid costs. Representative Larrañaga said the articles might offer some ideas for New Mexico.

Thursday, August 25th
The following members and designees were present on Thursday, August 25, 2016: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, Lee S. Cotter, William F. Burt, Steven P. Neville, Howie C. Morales, George K. Muñoz, and Pete Campos; and Representatives Larry A. Larrañaga, Roberto "Bobby" J. Gonzales, Jim R. Trujillo, Paul C. Bandy, Jason C. Harper, George Dodge Jr., and Patricia A. Lundstrom. Guest legislator: Senator Mary Kay Papen.

Update from the University of New Mexico. Robert Frank, president of the University of New Mexico (UNM), began his remarks with an update on campus safety, with an emphasis on UNM's efforts to address sexual assault and harassment. President Frank noted several programs implemented by UNM to combat sexual misconduct, including the LoboRESPECT initiative and the Advocacy Center. UNM also contracted with external experts to provide a review and assessment of UNM's climate for sexual violence. President Frank added that UNM immediately implemented the recommendations from these external experts, including a clarification and consolidation of UNM's policies and procedures and improvement to training and outreach. President Frank explained that these changes were in motion prior to a U.S. Department of Justice (DOJ) report critical of UNM's handling of sexual misconduct cases. UNM recently received a draft agreement from DOJ and is on track to achieve full compliance with the DOJ report, according to President Frank.

President Frank discussed efforts to align main campus and Health Sciences Center (HSC) operations. This includes a university-wide review of information technology departments, communications and marketing, financial and strategic roles, legal counsel, and compliance functions. UNM seeks to consolidate where necessary as well as evaluate various positions to ensure appropriate titling and salary.

President Frank discussed a number of economic development efforts, including participation in a consortium applying to manage Sandia National Laboratories. Under this consortium, UNM would play a role in technology transfer and commercialization. UNM is also breaking ground on Innovate ABQ, intended to provide space and opportunities for students to pursue entrepreneurial efforts. President Frank also commented on the inaugural year of the Innovation Academy, an approach that integrates innovation and creativity into the college curriculum. The academy has a total of 232 "innovation scholars" and over 2,200 students taking Innovation Academy courses, with 150 participating faculty.

David Harris, executive vice president for administration at UNM, discussed the university's efforts to maintain solvency. Since 2009, he said, UNM has experienced significant instruction and general budget reductions but was still able to improve student performance outcomes. To achieve solvency, the university reduced budgets, with a focus on administrative budgets, achieved efficiency savings through shared services and automation of processes, and raised tuition by an average of 4.8 percent. Throughout the budget reduction process, Mr. Harris emphasized, UNM sought to protect the academic mission of the university. Possible future budget reduction strategies include a review of insurance and other employee benefits, evaluation of staffing efforts, and reduction of energy costs.

Dr. Paul Roth, executive vice president and chancellor of UNM HSC, provided an overview of HSC's clinical and academic functions. He provided examples of community-based initiatives to improve the lives of New Mexicans like the Telestroke ACCESS Program, which provides telehealth resources to nine hospitals statewide, with an additional five hospitals slated to join the initiative. Dr. Roth also discussed the Dream Makers Health Careers Program, which works to help middle and high school students pursue careers in health care.

On the academic side of UNM HSC operations, UNM HSC has a total of 1,966 students across the School of Medicine, College of Pharmacy, College of Nursing, and allied health programs. A majority of these students graduated from New Mexico high schools. Dr. Roth noted high licensure exam pass rates among graduates from these programs, and he reported a majority of graduates stay and practice in New Mexico.

Dr. Roth highlighted the growing research enterprise at UNM, with research funding increasing from about $25 million in 1993 to $165 million in FY16. UNM HSC has 900 active awards and research projects. Research is currently being done on neurocognition in post traumatic stress disorder (PTSD), bisphenol A (BPA) and breast cancer risk, and computer-aided drug repurposing. UNM HSC's research is an economic driver. Since 2004, 38 new private companies were either spun off from HSC or used HSC technology to start-up.

UNM's health system is composed of UNM Hospital, UNM Comprehensive Cancer Center, UNM Carrie Tingley Hospital, UNM Children's Hospital, UNM Children's Psychiatric Center, UNM Psychiatric Center, UNM Sandoval Regional Medical Center, and UNM Medical Group. Dr. Roth said UNM's health system provides the same level of regular routine types of care that other hospitals provide in the state, but is best able to provide care for cases that are high-acuity and complex. Dr. Roth provided a brief overview of UNM HSC behavioral health research and programs, much of which is community-based.

For FY17, UNM HSC has budgeted $1.9 billion, of which $643.7 million is budgeted for academics and $1.3 billion for the health system. UNM's health system is facing financial challenges because of Medicaid rate reductions and managed-care organization contracting reductions. UNM Board of Regents approved hospital administration to proceed with planning for an adult replacement hospital.

Chaouki Abdallah, provost of Academic Affairs at UNM, reported on UNM demographics and key performance. UNM's four-year graduation rate in 2013 was 14.6 percent, low compared with peer institutions. If UNM was more selective in accepting students (i.e. raise the ACT score and GPA required for admission), the graduation rate would increase; however, enrollment would decrease. On average, New Mexico graduates 18 thousand high school students a year. About 2,800, or 21 percent, of those students enroll at UNM. In 2015, total enrollment at UNM was 27,353; 84 percent were New Mexico residents and 11,235 were Hispanic. UNM undergraduate students average $22 thousand in student debt upon graduation. UNM awarded 5,674 degrees during the 2015-2016 academic year.

In response to Representative Lundstrom regarding the Sandia Management request for proposals, President Frank said the contract will likely require gross receipts tax be paid to the state. President Frank said the intent of the partnership is to increase opportunities for small business in New Mexico. UNM would be the primary tech transfer agent in the contract. Mr. Abdallah said UNM expects New Mexico's public schools, colleges, and other educational entities will work together to provide the workforce at Sandia.

In response to Representative Lundstrom, Steve McKernan, chief executive officer of UNM Hospital, said United Healthcare is no longer contracting with UNM to provide care for members enrolled in its Medicaid program; however, discussions are ongoing to recontract. Senator Cisneros expressed concern for those members no longer having access to the specialty care UNM provides.

In response to Representative Larrañaga, President Frank said the Innovate ABQ property was purchased with raised money, bond money from the city of Albuquerque, gift money from Nusenda Credit Union, money from the Economic Development Administration, and money from UNM. UNM is partnering with Signet Development to finance the building. Dormitory rent and office leasing will provide some funds.

In response to Representative Larrañaga, Dr. Roth said a completely new adult hospital could cost between $600 million and $800 million; therefore, financial plans may need to include what can be retained from the current facility to minimize costs and the project would have to be implemented in phases. UNM will not seek public funds to finance the replacement hospital.

Quarterly Capital Outlay Report. Brandee Pacheco, analyst for LFC, reported that as of June 2016 approximately $773.2 million from all funding sources for 2,386 projects remains unexpended; this includes $116.5 million in earmarked funds for water, colonias, and tribal infrastructure projects. An additional $374.2 million remains unexpended from supplemental severance tax bonds for public schools. Since the March 2016 quarterly report, 203 projects closed with approximately $82 million expended or reverted. A chart in the presentation showed the number of outstanding projects and status of funds by year.

LFC staff is currently tracking $1 million or greater appropriations for 221 projects, of which $606.2 million is unexpended. Ms. Pacheco reported 16 projects totaling $148 million closed since March 2016.Ms Pacheco further noted the public and tribal libraries have spent over 99 percent of their 2012 general obligation bond allocations. Three projects listed for Miners' Colfax Medical Center have not been updated for three quarters. The projects have been placed on the Office of the State Auditor's at risk list for late reporting.

Ms. Pacheco provided an update on the 2014 water initiative. Of the $83.5 million authorized, $60.4 million remains unexpended for 154 projects. A listing of 191 projects was presented showing the number of projects by county and the status of funds. The authorized but unissued bonds total nearly $21.9 million due to various reasons -- noncompliance with audits, applications missing, or projects not ready.

Linda Kehoe, principal analyst for LFC, reported that $189.8 million for 1,490 local projects remains unexpended. Ms. Kehoe provided a spreadsheet summarizing by county outstanding funds authorized between 2012 and 2015. The spreadsheet noted counties with a high percentage of unexpended funds. Another spreadsheet provided the status on 152 local projects authorized between 2012 and 2015 with $51.2 million unexpended. Projects completed, projects with little or no activity, and projects with no expenditures are included in the report posted on the legislative website.

Ms. Kehoe stated it is evident that bonds continue to be issued for projects that are not ready, there are projects that continue to have anti-donation issues, and there are several entities not in compliance with the required audits.

In response to Representative Gonzales, David Abbey, director of LFC, said the public school capital outlay fund balance is approximately $350 million, all of which is committed for major projects that are already underway.

In response to Representative Harper, Ms. Kehoe said LFC staff, the Department of Finance and Administration, the Association of Counties, and the New Mexico Municipal League are working together to streamline the administrative process so that proposed projects with issues can be identified before legislators authorize them for the final capital outlay bill.

FY18 Risk Insurance Rates for Schools and State Agencies. Established in 1986, the New Mexico Public School Insurance Authority (NMPSIA) today provides risk and benefit insurance for 88 school districts, 99 charter schools, and 25 other educational entities, insuring over 53 thousand individuals. NMPSIA currently has 11 staff members and 11 board members. Sammy Quintana, director of NMPSIA, reported over $22 billion worth in insured assets. Mr. Quintana said insurance premiums for liability and worker compensation are based on variety of factors.

A chart in the presentation showed risk claims by coverage type. Workers' compensation has the highest number of claims; however, claims in general liability and property are more expensive. The chart also showed the volatility in claims from year to year, which Mr. Quintana explained is because weather-related damage is unpredictable. According to another chart from the Workers' Compensation Administration comparing self-funded programs, NMPSIA has a lower average cost per claim among several other public agencies.

Mr. Quintana talked about large losses. A recent molestation claim totaled $3.2 million. Mr. Quintana said some molestation cases can be avoided by conducting stronger background checks. Mr. Quintana talked about the high cost of special education cases and whistleblower cases.

Then discussing loss prevention, Mr. Quintana said New Mexico recently ranked third in the nation for school safety. 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, liability, and property claims, and training on identifying a predator to reduce the number of sexual molestation claims.

Mr. Quintana lastly discussed NMPSIA's risk fund. NMPSIA's budget request for risk management is $76.3 million for FY18, an increase of 4.22 percent over FY17. A company will be contracted in FY17 to reappraise property covered by NMPSIA. The appraisal, which will cost about $500 thousand, is expected to increase liability costs. Mr. Quintana noted that a pending molestation case will likely result in another large loss for NMPSIA.

Albuquerque Public Schools (APS) is the only school district not covered by NMPSIA. Scott Elder, interim chief operations officer for APS, provided an overview of APS's risk management program. APS is self-insured for all workers' compensation, property and casualty exposures. Although self-insured, APS has insurance for large claims in excess of the self-insured limit. Since January 2012, the district's liability and property claims have been self-administered with its own claims staff. Prior to January 2012, claims were handled by third-party administrators, which the district is considering doing again. Mr. Elder noted workers' compensation payments have increased year-over-year since 2012. Mr. Elder provided analysis on property and casualty market trends and said market consolidation and alternative capital are two key drivers affecting insurance pricing.

Carrie Brunder, director of Government Affairs and Policy at APS, said the district's risk fund balance has been drawn down in the last two fiscal years. Ms. Brunder explained that APS's payroll collection rate (a.k.a employer contribution rate), set to cover paid claims and maintain reserves, has not been high enough to cover increased workers' compensation medical costs. APS is, therefore, increasing the collection rate starting in FY17 to meet the increased costs and return reserves to higher levels. The payroll collection rate is a recurring operational expense.

Lastly reporting on risk management for state agencies, AJ Forte, director of the Risk Management Division at the General Services Department (GSD), said premium reductions totaling $9.3 million is anticipated for FY18. Through the request for proposal process, GSD recently contracted with Aon Corporation, an insurance broker with an annual fee of $150 thousand. As the state's insurance broker, Aon has secured the best policies for New Mexico, saving the state 17 percent in premiums on all lines of coverage. Most significant is a 25 percent reduction in property rate with a three-year rate lock. Mr. Forte said this reduction means a significant savings for all insured entities.

Mr. Forte provided financial detail for each risk fund, all reported to be actuarially sound. Annual legal defense expenditures have declined by $1.7 million since FY12.

In response to Representative Larrañaga, Mr. Forte said the state contracted with AJ Gallagher and Company prior to Aon Corporation. Mr. Forte said Aon Corporation was better able to leverage the market in the state's favor. Mr. Quintana said NMPSIA's property rate has been the same since 1991. NMPSIA's increased expense in property insurance is because of property growth. Representative Larrañaga asked Mr. Quintana and LFC staff to follow up with him on information for the last RFP done in contracting an insurance broker.

FY18 Group Health Premiums for Schools and State Agencies. First reporting on Albuquerque Public Schools (APS), Carrie Brunder, director of Government Affairs and Policy at APS, said changes to APS's vision plan in FY17 will result in an 8.1 percent increase in expense. To offset the expense, copays for eye exams and lenses will be increased. There are also changes to APS's prescription drug coverage in FY17. APS is implementing a home-delivery incentive program.

Ms. Brunder said if the district continued on the same course and offered the same health plans in 2017 as it did in 2016, APS would experience a 13.2 percent increase in overall medical costs. To avoid this potential, APS is using its wellness incentive program to keep individuals healthy and encouraging enrollment into the New Mexico Health Connection (NMHC) plan. Ms. Brunder talked about the advantages of the NMHC plan. APS is still offering health insurance plans under Presbyterian and Blue Cross Blue Shield.

Ernestine Chavez, deputy director of New Mexico Public Schools Insurance Authority (NMPSIA), said NMPSIA's fund balance at the end of FY14 was $44.2 million. The fund balance at the end of FY17 is projected to be $11.2 million, less than one month worth of claims. To address NMPSIA's depleting fund balance for benefits, a 14 percent premium increase may be imposed in FY18. Plan design changes in FY17 will result in savings totaling $16.2 million.

NMPSIA's budget request for benefits is $351.9 million for FY18, a 9.7 percent increase over FY17. Ms. Chavez talked about medical and prescription cost drivers. Such drivers include costs associated with the Affordable Care Act, a larger number of high dollar medical claims, and increased specialty drug utilization. Ms. Chavez said, to mitigate costs, NMPSIA is increasing member education on disease management and wellness, working with Express Scripts on strategies to fight for better drug pricing, and ensuring medical plans follow value-based purchasing initiatives. NMPSIA is participating in a number of cost-containment programs administered by Express Scripts.

Then reporting on state employee benefits, AJ Forte, director of the Risk Management Division at the General Services Department (GSD), said only a 1 percent premium increase will be needed in FY17 to keep the state's benefit fund balance actuarially sound. Mr. Forte said health screenings and the Employee Assistance Program (EAP) have proven to be beneficial for the state's benefit program. Mr. Forte said Express Scripts mail-order program has resulted in significant cost-savings.

Mr. Forte talked about the success of the Stay Well Health Center. Since 2015, the health center has been providing access to primary care and urgent care services for all active members in the health plan. The health center does not charge a copay for a visit and prescriptions dispensed from the health center are at no charge. The health center is saving the state additional dollars because of its fixed costs for services. Mr. Forte noted that retaining nurse practitioners has been difficult for the health center because of the work hours.

Mark Tyndall, executive director of the New Mexico Retiree Health Care Authority (NMRHCA), said NMRHCA provides retiree health care benefits for over 300 public employer groups in the state. Fifty percent of total membership comes from New Mexico's 89 school districts, 25 percent from state agencies, and 25 percent from municipalities, counties, and universities. Approximately 100 thousand active employees make contribution into the plan. NMRHCA is currently providing benefits to over 60 thousand retirees.

NMRHCA's trust fund balance is currently $476 million. The fund is projected to remain solvent through 2036. Mr. Tyndall talked about Government Accounting Standards Board (GASB) valuations. In 2014, the fund's unfunded liability was $3.4 billion. Changes in GASB will soon be taking place. Beginning in FY18, net liabilities will be reported for all participating employers. Mr. Tyndall noted that NMRHCA's funding level is not the same as pension plans.

Then discussing benefit plan changes, Mr. Tyndall said the premier plus plan will no longer be available beginning in 2017. Individuals in the plus plan will be moved into the premier plan. No major changes will occur for the Medicare plans; however, Medicare supplement premiums will increase 6 percent.

In response to Representative Larrañaga, Mr. Tyndall said even though individuals under the age of 65 account for only 40 percent of total membership, this same group of individuals represent over 60 percent of total costs to NMRHCA's benefit program. Mr. Tyndall said NMRHCA requires individuals to utilize Medicare benefits if eligible.

Review of State Employee and Teacher Compensation. As the state recovered from the 2008 recession, appropriations made for personnel services and employee benefits increased year-over-year from 2012 to 2016; however, agencies continue to maintain high vacancy rates. David Lucero, deputy director of LFC, said New Mexico's largest agencies are averaging a vacancy rate of 6.2 percent. The average vacancy rate for all statewide agencies is 14.8 percent. Mr. Lucero said, in FY15, a total of $26.5 million was transferred out of personnel services and employee benefits line item, and $50.7 million was reverted. According to the 2013 classified service compensation report, about 50 percent of New Mexico's job classifications have salaries below market value. A chart in LFC's hearing brief showed the state's pay structure has not kept pace with the national market. The state has implemented two across-the-board salary increases since 2012.

Analysis of total compensation, salary plus benefits, shows New Mexico's compensation package is benefit-rich. For the past several years, the State Personnel Office (SPO) annual report noted that "when compared to both public and private sectors, the state contributes significantly more to employees in both medical and retirement benefits." The largest single difference in compensation between state workers in New Mexico and other states is health insurance. State workers receive 20 percent of their total compensation in the form of health insurance, resulting in New Mexico paying 66 percent more, on average, than other state and local governments and more than double the private sector average for health benefits.

Justin Najaka, director of SPO, said to be the employer of choice, the state's pay structures need to be market-driven. SPO's revitalization project is currently in progress. The project aims to establish a classification framework and compensation system that will support agency efforts to attract and retain a qualified workforce, reflect current work performed by classified state employees, and serve as the foundation for all future classification studies and decision. To achieve this, SPO is taking a targeted approach in reforming pay structures. Since 2013, SPO has completed 79 classification studies affecting 4,312 positions. New pay structures have recently been implemented for the Corrections Department and Department of Information Technology.

Director Najaka reported on the current system. SPO has significantly reduced the number of job misclassifications since 2012. Currently, about 9 percent of total non-manager positions and about 17 percent of total manager positions are misclassified. SPO is working with some agencies on improving their organizational structures. Over 30 percent of classifications currently have an alternative pay band assignment (APB); however, as SPO implements new pay structures, the number of classifications with an APB assignment will decrease. The average new hire compa-ratio is 97 percent. Overtime costs in FY16 totaled $32.7 million, a decrease from $41.2 million in FY15. Director Najaka talked about in-band pay adjustment efforts. In FY16, 1,112 in-band pay increases were used to specifically target critical positions.

Joseph Simon, fiscal analyst for the Legislative Education Study Committee (LESC), reported on teacher compensation. Mr. Simon said recent analysis showed teacher compensation in New Mexico is competitive in its region; however, the analysis did not account for cost-of-living differences. Mr. Simon said the average teacher salary in New Mexico was used in the analysis, noting some school districts are able to pay their teachers higher salaries.

Teacher pay is negatively impacting teacher recruitment. According to U.S. Census Bureau data, teachers earn less money than all other college degree professions. Mr. Simon said individuals are less inclined to enter the teaching profession because of increased costs in student debt.

Representative Trujillo said many state employees live in his district and have communicated to him the inadequacy of state employee pay. Representative Trujillo added that the state's high vacancy rates are making it apparent more needs to be invested in state employee pay.

Chairman Smith asked if the increased funding appropriated by the Legislature has helped with recruitment and retention of state police officers and correctional officers. Director Najaka said SPO does not oversee the pay structure for state police officers and more time is needed to assess the effectiveness of the newly implemented pay structure for correctional officers.

Friday, August 26th

The following members and designees were present on Friday, August 26, 2016: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, Lee S. Cotter, William F. Burt, Steven P. Neville, Mary Kay Papen, George K. Muñoz, and Pete Campos; and Representatives Larry A. Larrañaga, Roberto "Bobby" J. Gonzales, Jim R. Trujillo, Paul C. Bandy, Jason C. Harper, Tomas E. Salazar, and Patricia A. Lundstrom.

Update from Local Governments. Linda Calhoun, mayor of Red River, said a number of water and wastewater improvement projects are being planned for the town. Some projects will be funded from recent bonds sold and matched funds. Red River received a $1.5 million grant loan to begin construction of a new water storage tank. Red River received a capital outlay appropriation to replace the roof on its wastewater treatment plant. The treatment plant is on U.S. Forest Service property. Before improvements are made to the treatment plant, a land conveyance issued to Red River through the Columbine Hondo Wilderness Act must first be approved by the U.S. Forest Service. Approval is expected by the end of the year.

Mayor Calhoun reported on other activities, including an upcoming Enchanted Circle emergency medical services conference and firefighter training in September. Mayor Calhoun said there is a shortage of emergency medical technicians and firefighters in Red River. Red River's economy is driven by tourism. Mayor Calhoun said revenue from gross receipts tax (GRT) and lodgers tax continues to increase. GRT collected in FY16 increased by 9.48 percent; lodgers tax increased by 5.4 percent. Red River is using the New Mexico True brand in its advertizing. With increased revenue, Red River will be investing in a number of projects targeting aging infrastructure.

Jim Fambro, chairman of Taos County Commission, said Taos County had a $2.6 million shortfall in FY15, covered by reserves. In 2016, the county combined some services to reduce budget costs, balancing the budget. Mr. Fambro said Taos County works closely with its municipalities. For example, the county is working with the town of Taos on a community development block grant (CDBG) project at the Taos Youth and Family Center.

Reporting on issues in Taos County, Mr. Fambro said costs have significantly increased in providing health care and behavioral health services for inmates at the adult and juvenile detention centers. Taos County needs a detox facility. Mr. Fambro said public safety is a priority for the county. To improve deputy retention, a new salary schedule was implemented for the Taos County sheriff's department. Town and county officials are currently discussing imposing a new quarter cent gross receipts tax to finance 911 services county-wide.

Superintendent Valerie Trujillo reported on Questa Independent School District. The shutdown of Chevron Questa Mine is causing enrollment to decrease, negatively impacting district funding. The district received $352 thousand in emergency supplemental funding in 2015. Budget saving initiatives helped reduce emergency supplemental funding to $211 thousand for 2016. Superintendent Trujillo said the district is having trouble recruiting and retaining staff because of limited housing opportunities in Questa.

Superintendent Trujillo talked about district priorities. First, the district wants to improve reading and math scores. The Project Lead the Way (PLTW) grant program is in its second year of implementation. The program provides science, technology, engineering, and mathematics (STEM) education for kindergarten-12th grade students. Second, the district wants all students and staff to feel safe at school. To achieve this, the district is doing a number of things including putting in place anti-bullying measures, establishing programs for socially vulnerable students, and ensuring staff behavior matches core school values. Third, the district wants to improve student and staff attendance. A grant was recently awarded to the district to implement the Truancy and Dropout Prevention Coaches program. The program establishes a cohort of truancy and dropout prevention coaches placed in middle and high schools across the state whose role is to work with students, families, schools, and districts to improve attendance for habitually truant students, as well as decrease the number of students dropping out of school. Lastly, the district wants to graduate at least 90 percent of their students every year. Home-visiting is one way the district is bringing back students who drop out.

Superintendent Trujillo said the district has set five key objectives to ensure focus is placed on students: student achievement, training and accountability, use of data, active community engagement, and financial stability. The district has a seven-year strategic plan.

In response to Senator Cisneros, Mr. Fambro said about 100 individuals have committed suicide at the Taos Gorge Bridge. Recovering bodies poses a safety risk for rescuers. Mr. Fambro said it has been proven that raising the railing on bridges significantly reduces suicide attempts; noting that the railing at the Taos Gorge Bridge is too low. Representative Gonzales suggested providing security at the bridge.

Representative Larrañaga asked what Red River is doing to have such a successful tourism industry. Mayor Calhoun said many of the tourists in Red River are multigenerational travelers. Red River has increased its advertizing budget and works with a strong advertizing agency. Red River hosts about 15 special events every year.

In response to Chairman Smith, Mr. Fambro said some capital outlay projects in Taos County are stalled because of anti-donation issues. Mayor Calhoun said grant agreements are often delayed, many times issued just before Red River's building season ends, further delaying the project.

Time on Task and Improving Outcomes. Jeannie Oakes, Ph.D, senior fellow at Learning Policy Institute and presidential professor at University of California, Los Angeles, said evidence shows that more time spent learning something, the better you are going to learn it. While how many days or hours a child spends at school matters, the amount of time a child spends being engaged in learning is what is most meaningful. Professor Oaks said learning time matters more than ever because of the changing nature of work, explaining that increasing work uncertainty is requiring more of the type of learners that can be flexible and adapt to changing conditions. Also, graduates need to leave school ready to be an engaged citizen in helping solve the complex issues the world faces.

According to a Legislative Finance Committee (LFC) elementary survey, of the possible 194 available instructional days, students lose an estimated 32 percent of allocated instructional time, or about 62 standard instructional days. Lost instructional time is due to a variety of factors, such as time spent serving breakfast. Professor Oaks said poor children depend on publicly provided learning time far more than advantaged kids. Professor Oaks referenced a book titled "Our Kids" by Robert Putnam that tells about the growing inequality in the amount of learning opportunities that children have because over the span of 30 or more years, well-off parents have invested increasing amounts of dollars and hours in their own children's education. Well-off children are typically in schools with more learning time and live in neighborhoods and communities that provide additional opportunities for learning. Professor Oaks noted that investments made by less fortunate parents have also increased but is not enough close the 6,000 hour learning gap estimated by a research group in New York City.

There are a number of strategies to provide children more and better learning time at school: making every minute count, addressing barriers for poor children, and extending school days and years. Professor Oaks recommended New Mexico expand its K-3 Plus program.

A video was played for the committee that showed how the learning gap between a child from a middle-income family and a child from a low-income family widens because of learning lost during summer break. After school hours is also critical. About 11.3 million kids are alone and unsupervised from 3 p.m. to 6 p.m., providing opportunities to commit crimes or become victims of crimes. Professor Oaks said results from a parent survey indicate there is an unmet need for summer and afterschool learning programs in New Mexico; 91 percent said they support funding for afterschool programs. Professor Oaks said New Mexico's prekindergarten program provides additional learning time and recommended the state increase the number of slots in the program.

Stan Rounds, executive director of the New Mexico Coalition of Educational Leaders, said the video clearly demonstrated what is happening with children in New Mexico. Director Rounds spoke about his experience when he was a superintendent and about issues in the educational system. Director Rounds said K-3 Plus is an effective program.

Representative Hall said educational services need to be tailored for rural communities that best address their unique challenges. Professor Oaks agreed and said the basic principles of a community school can be customized for rural communities.

Professor Oaks said high-quality learning is particularly important for English language learners. Evidence shows the positive impact of year-round schooling for English language learners. Professor Oaks also mentioned the importance of dual language programs in preschool.

Senator Burt commented about changing the attitude and culture of people to accept changes in the educational system that are needed to improve outcomes. Professor Oaks suggested that the work of a professor in Arizona might provide ideas on how to do that. Senator Cisneros asked that Professor Oaks also present the time on task issues to the Legislative Education Study Committee.

With no further business, the meeting adjourned at 11:20 a.m.

John Arthur Smith, Chairman

Jimmie C. Hall, Vice Chairman