

MINUTES
Legislative Finance Committee
State Capitol, Room 322 - Santa Fe, NM 87501
June 15 - 17, 2016

Wednesday, June 15th

The following members and designees were present on Wednesday, June 15, 2016: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, Ron Griggs; Carroll H. Leavell, Lee S. Cotter, George K. Muñoz, and Pete Campos; and Representatives Larry A. Larrañaga, Jim R. Trujillo, Roberto “Bobby” J. Gonzales, Paul C. Bandy, Jason C. Harper, and Patricia A. Lundstrom. Guest legislators: Representative Larry R. Scott.

Welcoming Remarks. Phillip Burch, mayor of Artesia, said revenues from the oil and gas industry and agriculture industry in southeastern New Mexico are heavily relied on to conduct city, county, and state operations. For the past 20 years, the Federal Law Enforcement Training Center (FLETC) in Artesia has also played a large role in the city’s economy. The center trains law enforcement personnel for 86 government agencies.

Mayor Burch said the recent economic downturn is negatively impacting the city of Artesia. Gross receipts tax is down about 35 percent from 2014. Mayor Burch is hopeful the price of oil will increase by the end of 2016.

Mayor Burch then talked about capital outlay, which he said is especially important to smaller municipalities to create and finish projects. Mayor Burch said, because projects are often underfunded, communities have to work harder and longer to accumulate the funds to complete a project. Mayor Burch said it would be devastating for communities if unused capital outlay were clawed back. Mayor Burch said the consideration to create a committee to approve and administer capital outlay projects would most likely not improve the process. Mayor Burch said the time given to municipalities to spend capital outlay appropriations should begin when the funds are actually available. Mayor Burch said it would be helpful for communities if projects were fully funded.

Discussing an issue with the Taxation and Revenue Department (TRD), Mayor Burch requested legislator’s help to improve the service TRD provides. Artesia has been unable to resolve why TRD is withholding part of the city’s gross receipts taxes.

Next addressing the committee was Stella Davis, commissioner for Eddy County. Ms. Davis said the roads in Eddy County are in great need of repair. Eddy County has so far received \$43 million of \$80 million from the Federal Emergency Management Agency (FEMA) to repair roads damaged by the floods in 2013 and 2014. However, other roads also need improvement. Ms. Davis said the county is looking for ways to diversify its revenues; however, the oil and gas industry will remain critical to the economy.

Discussing Artesia Public Schools, Superintendent Crit Caton said the district’s \$31 million operating budget serves 10 campuses and employs 448 FTE. Enrollment continues to grow. Using capital outlay dollars, eight classrooms and a gymnasium were constructed at the Early

Childhood Center. An office was built on the second floor of the junior high school and the roofs at two elementary schools have been redone. The district is currently in the process of constructing a new administration building and training center.

Superintendent Caton said a number of organizations are supporting the school district in several ways. For example, the Chase Foundation has been awarding scholarships to students since 2007. Also, the Chase Foundation and Eastern New Mexico University have together established an online master's degree program to support district school teachers.

Superintendent Caton lastly expressed concern that appropriations made for "below-the-line" initiatives is taking away dollars from appropriations made for "above-the-line" initiatives. Superintendent Caton said it needs to be established whether targeted investments, or "below-the-line" funding, is truly beneficial.

Senator Cisneros asked how the Council of Governments (COG) might be used in the capital outlay process. Mayor Burch said the Southwest COG works closely with his office on establishing the infrastructure capital improvement plan (ICIP) list. Mayor Burch explained that the COG understands the needs of its communities.

In response to Representative Lundstrom, David Abbey, director of the LFC, said he would follow up with the committee on the criteria used by the Public Education Department to determine which schools are awarded the Reads to Lead grant money.

Oil and Gas Industry Issues and Outlook. Nick Agopian, government affairs advisor for Devon Energy Corporation, said the Permian Basin is a world class oil basin comprising several component basins, providing more opportunities for oil production. The Permian Basin is among six other key basins in the U.S. that compete for capital investment based on the rate-of-return. Maintaining regulatory consistency is important for the basins, which Mr. Agopian said New Mexico has done a good job of for the Permian Basin.

A chart in the presentation showed that oil production from the Permian Basin continues to exceed production from other key basins in the United States. In 2015, New Mexico produced over 145 million barrels of oil and almost 1.3 million cubic feet of natural gas.

Mr. Agopian said rig count is a good indicator of drilling activity. In December 2012, 102 rigs were operating in New Mexico. In the first quarter of 2016, only 15 rigs were operating, a decline of 85 percent. Mr. Agopian then provided an overview of drilling a short lateral oil well in New Mexico and the costs associated, which can total over \$5.1 million. In addition to drilling the well at a depth of 8,900 feet to the Second Bone Springs formation, and laterally at the length of 4,500 feet, it requires site prep, completion, tie-in, and additional infrastructure. Ending on a chart from a New Mexico Oil and Gas Association (NMOGA) report, Mr. Agopian pointed out that 35 percent of the state's general fund revenue comes from the oil and gas industry.

Gabrielle Gerholt, advisor for Concho Resources Inc., said, Concho supports reasonable regulations. However, Ms. Gerholt said proposed federal rules would inhibit economic growth and could cost companies \$800 million. Ms. Gerholt provided a brief summary on six of 18

proposed rules. A proposed rule by the Environmental Protection Agency (EPA) affecting OOOOa requirements institutes performance standards for new or modified oil and gas sources. The performance standards increase leak detection by requiring an optical gas imaging camera be used for leak detection. The camera costs \$100 thousand and requires certification to use. Ms. Gerholt said the proposed rule will result in burdensome recordkeeping and significantly increase costs to agencies.

In another proposed rule, the EPA is seeking to collect additional information about existing emission controls at oil and gas facilities. Through an information collection request (ICR), data will be collected from operator surveys and detailed facility surveys. Ms. Gerholt said the EPA is underestimating cost to agencies for the new rule.

Affecting venting and flaring requirements, a proposed rule issued by the federal Bureau of Land Management (BLM) requires royalty payment on flared gas, which Ms. Gerholt said is already being paid per NTL-4A approvals, requires agencies to produce a waste minimization plan, and administers leak detection and repair requirements similar to the OOOOa proposed rule. Producers are concerned about the costs of the new rule and the well limit for flaring. NMOGA estimates 10 percent of production will either be shut-in or plugged throughout New Mexico.

Also proposed by the BLM is a rule referred to as site security. Ms. Gerholt said the biggest impacts of the rule are the new commingling requirements. Costs again may be higher than estimated.

A third proposed rule by the BLM changes oil tank measurements, decreases the allowed uncertainty levels, and dictates metering and measurement requirements.

Finally, a gas measurement rule, also proposed by the BLM, would increase operator inspections and require smaller measurement increments. BLM's own anticipated cost for the rule is \$46 million annually. Ms. Gerholt said the rule requirements and costs will lead to less profitable marginal wells and ultimately shutting-in and plugging of wells.

Ms. Gerholt said, overall, the proposed rules negatively impact New Mexico.

Last to address the committee was Blake Barfield, director of Government Affairs with HollyFrontier Corporation. The mission of HollyFrontier is to be the premier U.S. petroleum refining, pipeline, and terminal company as measured by superior financial performance and sustainable growth. HollyFrontier focuses on refining and selling wholesale.

From 2005 to 2015, New Mexico crude oil production increased by 230 percent. HollyFrontier's through-put has increased by 30 million barrels per day in the last 10 years. Talking about demand for gasoline, Mr. Barfield reported that total vehicle-miles traveled in the U.S. has increased by 4.2 percent since March 2015; however, demand for diesel is weak.

Mr. Barfield then discussed issues with the renewable fuel standard. One issue is that refiners are obligated to certify biofuels supplied to transportation fleets, regardless of ability to do so. Another issue is that the EPA has mandated that more than 10 percent ethanol be supplied to the

U.S. gasoline pool. However, most automobiles cannot handle more than 10 percent ethanol. Mr. Barfield also talked about the issues of the tier 3 gasoline requirements.

Representative Bandy said federal regulations meant to address the issue with methane are not solving the real problem. Ms. Gerholt agreed and said the oil and gas industry is being blamed for methane emissions that are actually occurring because of other factors.

In response to Senator Griggs, Ms. Gerholt said 50 percent of oil production and 50 percent of gas production is from federal lands.

Field Trip on Drilling and Completions. Members of the committee toured Elite Well Services' (EWS) Artesia facility and heard about the company's day-to-day operations in drilling and hydraulic fracturing oil wells. Chance Chase, EWS vice president, led the tour with assistance from a number of employees. EWS was formed in January 2012 and provides services in Southeastern New Mexico and parts of West Texas. Members heard about the chemistry involved in the hydraulic fracturing process and saw EWS' extensive fleet of equipment and acid mixing control room which allows precise blending while providing the safety of separating operators from the chemicals.

Environmental, Regulatory, and Budget Issues. First, reporting on current trends in the oil and gas industry, David Catanach, director of the Oil Conservation Division (OCD) of the Energy, Minerals and Natural Resources Department, said the active drilling rig count, which experienced a sharp decline since 2012, was currently at 20. In FY16, 25 state wells and 10 federal wells were plugged, costing over \$1 million. Two-hundred one wells are ready to be plugged. In October 2015, OCD received a \$5 million plugging grant from the federal Bureau of Land Management. Funds are to be used to plug and abandon orphaned oil and gas wells on federal land. The number of wells needing to be plugged is expected to rise due to more bankruptcies in the industry.

Allison Marks, OCD deputy director, said there are currently 10 active bankruptcies across the country. Except for bankruptcies involving state and private land, OCD does not file any claim or track bankruptcies in New Mexico in which an operator only has federal or tribal lease wells. OCD has taken measures to reduce potential liabilities by being proactive in all bankruptcies. Ms. Marks said the increased number of bankruptcies is result of the additional costs to producers from increased federal regulations.

According to a chart in the presentation, reclamation fund monthly deposits have declined since 2012. In early 2014, the monthly deposits were about \$600 thousand. Currently, deposits are about \$166 thousand.

Then, discussing inspections of wells and facilities, Mr. Catanach said, of the 45,365 inspections conducted in FY16, only 788 violations were found, a 98 percent compliance rate. Inspection and violation data is posted to the OCD website. The division currently has six vacant inspector positions.

Reporting on leak and spill data, Mr. Catanach said about 120 leaks or spills are occurring monthly. A chart in the presentation showed the monthly volume of spilled liquids. Mr. Catanach said about 63 percent of the crude oil and 45 percent of the produced water spilled is recovered by the operators. Leak and spill data is also posted on the OCD website.

Mr. Catanach then talked about an issue with the Roswell groundwater basin. After receiving a tip from a rancher, Representative James Townsend reported a possible groundwater contamination issue to OCD. The agency then attended two public meetings with the Pecos Valley Artesian Conservancy District, the state engineer, and various legislative members. It is unclear whether a single casing string set through the basin's two aquifers is providing adequate protection. An emergency order was issued April 25, 2016, suspending all drilling permits in the basin. Drilling is being allowed while OCD works to revise casing programs, which should be established by August 2016.

Ms. Marks lastly went over OCD's new enforcement efforts. The agency is training law enforcement officers on criminal provisions established in the Water Quality Act and the Oil and Gas Conservation Act. Enforcement cases are being prioritized. OCD is working with operators to ensure all inactive wells are in compliance.

Then reporting on the State Land Office (SLO) revenues, State Land Commissioner Aubrey Dunn said earnings totaled \$739 million in FY15, distributing over \$690 million for public education beneficiaries. Ninety-six percent of earnings were from oil and gas. Land maintenance rental income, minus bonuses, increased to \$38 million in FY16. Total earnings for FY16 are projected to be \$500 million. Distributions to beneficiaries are estimated to total \$713 million in FY16. Mr. Dunn proposed federal regulations will negatively impact revenues.

Discussing current issues, Mr. Dunn said SLO has sued Siana Operating, LLC, to obtain funds to clean up a spill at one of the company's facilities. Clean-up may cost \$250 thousand. In Ruidoso, forest restoration efforts curbed damage during the Moon Mountain fire. SLO has since spent \$132 thousand in trust money to do flood control. SLO is also in the process of caliche pit remediation.

Mr. Dunn said legislation will be proposed in the 2017 Session to divert 1 percent of land maintenance fund revenue to a new fund for state trust lands restoration and remediation. Funds over \$5 million would be distributed to state trust land beneficiaries. Mr. Dunn said the fund would provide SLO the ability to resolve issues like the Siana spill, fire and flood damage mitigation, clean-up of caliche pits, and watershed health projects.

Representative Bandy expressed concern that proposed federal regulations will ultimately bankrupt companies. Mr. Catanach said a new program has been established that allows operators to shut-in uneconomic wells during times of low oil and gas prices, with OCD monitoring the wells to ensure their integrity is maintained.

Chairman Smith asked what the status is of the brine well issue in Carlsbad. The brine well is in danger of collapsing. Senator Leavell said the owner of the well and its operator is currently filing for bankruptcy. Mr. Dunn said legislation will be reintroduced in the 2017 Session to

acquire the property. SLO is currently working with the federal Environmental Protection Agency to obtain federal support to address the issue.

Impact of Oil and Gas Industry on Artesia and New Mexico. Using six charts, Peyton Yates updated the committee on the status of the oil and gas industry in Southeastern New Mexico. Before the recession, oil production averaged 60 million barrels a year. To increase production, Mr. Yates said oil producers have been using the process of fracking for several years. New technologies have improved guidance in lateral drilling. Production has since increased to 130 million barrels. Natural gas prices have declined in the past decade.

The number of rigs sharply increased from 2009 to 2015, providing employment for about 200 people for each rig. However, the number of rigs still operating has significantly decreased, ultimately decreasing the number of people contributing to the economy. Mr. Yates said the number of rigs needing to be plugged is bankrupting companies.

Mr. Yates suggested the state consider hedging its oil. Mr. Yates said some companies survive the decline of price by hedging but added that hedging eventually runs out.

In response to Representative Lundstrom, Mr. Yates said the proposed federal regulations are for new wells; however, there are considerations for new regulations on existing wells. Representative Lundstrom requested LFC staff provide the committee an analysis to explore whether the state should consider hedging.

Representative Larrañaga expressed concern that New Mexico's investment in infrastructure has given way to social programs, which he said is not good business. Representative Larrañaga said Arizona's economic growth is attributed to its high investment in infrastructure.

Senator Muñoz made a motion for the committee to send a letter to the Bureau of Land Management discussing concerns of proposed regulations and recommend that the venting and flaring rule not be applied to existing wells. Senator Muñoz also requested a letter be sent to the EPA to recommend that their proposed regulations not be applied to existing wells. The committee voted in favor of sending the letters.

Tour of Main Street. Elisabeth Jackson, Artesia's Mainstreet director, led a tour of Main Street in Artesia. The tour focused on the bronze sculptures displayed on street corners, theater upgrades and public art. The bronze sculptures were created to remember local entrepreneurs and pioneers, including sculptures of Mack Chase and Johnny Gray, representing the rich oil industry in Artesia.

The tour included the renovated Artesia Public library. The renovation focused on rebuilding the roof and walls of the library to house a mural by Peter Hurd of Roswell. The Artesia Public Library saved the mural from a building that was going to be demolished in Houston, Texas. The relocation of the mural from Houston to Artesia took over three years. The process included planning and restructuring of the library and building proper support to move such a large piece of work across states. The Artesia Public Library had its grand opening in 2014.

Thursday, June 16th

The following members and designees were present on Thursday, June 16, 2016: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, Stuart Ingle; Carroll H. Leavell, Lee S. Cotter, and Pete Campos; and Representatives Larry A. Larrañaga, Jim R. Trujillo, Roberto “Bobby” J. Gonzales, Paul C. Bandy, Jason C. Harper, Bill McCamley, and Patricia A. Lundstrom.

Welcoming Remarks. Bob Corn, commissioner of Chaves County, welcomed the committee and provided brief information about the county. There are four school districts in Chaves County. Dennis Kintigh, mayor of Roswell, said, because the city is at the edge of the Permian Basin, the oil and gas industry is contributing to the Roswell’s economy. The city’s economy is also supported by the aviation industry.

Mayor Kintigh said New Mexico’s public safety issues need to be addressed because it is hindering economic development. Mayor Kintigh said people do not invest, establish businesses, or reside in places where they do not feel safe.

A list of outstanding capital outlay projects in Chaves County was distributed to committee members. Chairman Smith expressed concern for the high outstanding balances of the projects. Commissioner Corn briefly updated the committee on the projects and said he will report back to the chairman on the status of the Hagerman project. David Abbey, director of LFC, said, in the future, he will provide the commissioners and mayors a list of outstanding projects in their county in advance. Mr. Abbey said the Association of Counties and the New Mexico Municipal League are encouraged to work with commissions and councils to help move projects along. Mayor Kintigh said communication between the Department of Finance and Administration and LFC on the status of projects needs to be improved.

Department of Public Safety. First reporting on 2014 uniform crime rate data, Scott Weaver, secretary of the Department of Public Safety, said New Mexico is the 3rd most violent state in the nation. Albuquerque is the 25th most violent city of 76 U.S. cities with a population greater than 250 thousand. New Mexico has the highest number of stolen vehicles in the country.

In addition to the high crime rates, DPS faces several other challenges. Local and county law enforcement agencies are increasingly relying on State Police (NMSP). The backlog of forensic cases continues to grow. Recruitment and retention is difficult for critical positions. To address these issues, DPS is changing its business plan by managing obligated time toward outside agencies, increasing capacity of the State Forensic Laboratories, and hiring, training, and retaining technical staff at a competitive salary.

NMSP currently has 745 officer positions. In FY16, 46 officers separated, and 61 new officers were hired, increasing officer strength by 15. Although reduced in FY16, the agency’s vacancy rate continues to be high due to competitive market pay. DPS will request \$7.1 million for FY18 to implement phase four of the officer pay plan. If funded, starting pay for patrol officers will be \$24.70, ranking NMSP 3rd in the state for officer pay.

Secretary Weaver said dispatchers and forensic scientists are also difficult to recruit and retain. In FY17, DPS invested \$425 thousand in a dispatcher pay plan to move the starting pay from the bottom of the market to the middle of the market. Another \$258 thousand was invested to increase forensic scientist pay by 10 percent. According to a 2014 forensic scientist survey, New Mexico ranks 19th in the nation for forensic scientist pay.

Then discussing special and capital outlay projects, Secretary Weaver said DPS received an additional \$1.5 million appropriation to renovate the NMSP office in Roswell. The project is in the planning stage. Pete Kassetas, chief of NMSP, expressed concern with the progress of the projects in Espanola and Chama. The Texico port-of-entry project is pending funding and is anticipated to begin in August.

In 2015, DPS created a workgroup to address the backlog of untested sexual assault kits. The workgroup consisted of police chiefs, sheriffs, district attorneys, advocates, and other stakeholders. DPS surveyed law enforcement agencies throughout the state to find out the number of untested kits. Although the Legislature appropriated \$1.2 million to address part of the backlog, total cost is estimated at \$1.8 million to \$2 million. Secretary Weaver explained that costs include hiring forensic scientists, which are extremely difficult to recruit, overtime for current staff, casework supplies, and modification of the Santa Fe Laboratory to provide sufficient room for the additional scientists. Secretary Weaver detailed how the kits will be processed.

NMSP provides several services throughout the state, which Chief Kassetas said is costly. Chief Kassetas said, to build on NMSP responsibilities, officer and dispatcher pay needs to be competitive in the market.

Tour of the Eastern New Mexico University - Roswell Special Services Program. John Madden, president of Eastern New Mexico University-Roswell (ENMU-Roswell), guided the committee on a tour of the ENMU-Roswell Special Services Program (SSP), designed for students with disabilities who, with occupational training, are able to obtain entry level positions in competitive employment. President Madden explained during the tour that SSP began over 30 years ago and helps students to care for themselves, navigate public transportation, and manage their money. The program also teaches students technical skills in several areas, such as child care, food service, office skills, grounds keeping, and others. President Madden said some of the more recent completers of SSP have gone on to work at local hotels and veterinary hospitals. President Madden also noted that, without this training and education, these students would continue to be largely dependent on public support or their parents, or both. Finally, President Madden emphasized the benefits of training and educating those with disabilities. With a total budget of about \$469.2 thousand, SSP serves about 90 students, or about \$5,213 per student. The Developmental Disability Waiver program, on the other hand, can cost as much as \$80 thousand per student.

Tour of the New Mexico Rehabilitation Center. The committee then toured the rehabilitation center. Brad McGrath, director of center gave an introduction and spoke about the number of beds the facility has, what kinds of beds the facility has, and issues with being able to keep the beds filled. The tour walked through the medical rehabilitation unit where committee members

spoke with staff members about the types of treatment the unit does. The tour walked through the chemical dependency unit.

Accountability Report and Strategic Issues for Eastern New Mexico University - Roswell.

President John Madden, president of Eastern New Mexico University-Roswell (ENMU-Roswell) provided the committee with an overview of ENMU-Roswell's student profile and academic programs. He emphasized the institution prioritizes helping students obtain jobs. As an open admissions community college, President Madden noted enrollment at the institution is dependent on the local economy – when the economy is trending downward, enrollment goes up because recently displaced workers are seeking new skills in preparation of finding another job.

Going over the challenges facing the institution, President Madden reported numerous external factors are at play in examining the institution's success. For example, ENMU-Roswell's aviation mechanics program relies on standards set by the Federal Aviation Administration. For other programs, President Madden said, low high school graduation rates lead to difficulty educating students at the open enrollment institution, and much time is spent remediating students. President Madden also expressed concern over the duplication of effort for several academic programs. He stated some academic programs across the various institutions in the state, particularly private, for-profit institutions, are over-producing certificates and degrees when compared with state need. As an example, President Madden provided data illustrating the state may be over producing certified nursing assistants by a factor of 10.

Also in attendance was former Senator Tim Jennings. Mr. Jennings informed the committee that his daughter had participated in ENMU-Roswell's Special Services Program (SSP) and attested to the program's success in helping those with disabilities.

Representative Larrañaga asked whether those on the Developmental Disability waiver program waiting list are eligible to transfer to the SSP. Mr. Jennings pointed out that the waiver program exists to help people who cannot take care of themselves, whereas SSP exists to help individuals become self sufficient. David Abbey, director, LFC, said the waiver program pays for day habilitation, but the committee and staff should work to find ways in which money used for day habilitation services could be used for educational services provided through SSP.

Representative Lundstrom asked how ENMU-Roswell measures its success, to which President Madden replied that the institution tracks its students as they transfer to other institutions or enter employment; however, he noted ENMU-Roswell can only track its students for a limited time, usually two years. Representative Lundstrom also emphasized that any money from the Developmental Disability waiver program used for SSP should be used for students from New Mexico.

Representative Bandy commented the higher education funding formula should really be three separate formulas, one each for research institutions, comprehensive institutions, and community colleges. Noting ENMU-Roswell has had a 24 percent decline in enrollment between 2011 and 2014, Representative Bandy asked how this decline has affected the institution's budget. President Madden replied that enrollment for an open admissions institution such as ENMU-Roswell is constantly expanding and contracting.

Aviation Industry Recruitment and Development. First providing a brief history, Steve Polasek, city manager of Roswell, said the Roswell International Air Center was once home to the Roswell Army Flying School and the Walker Air Force Base. The RIAC is the largest decommissioned strategic air command base in the United States. On the 5,000 acre site is a 13 thousand foot concrete main runway that is 200 foot wide and a 10 thousand foot crosswind runway. In 2015, there were over 35 thousand landings. Over 1,000 acres are ready for commercial development.

There are five aviation maintenance companies at the air center. Eastern New Mexico University-Roswell (ENMU-Roswell) offers the only FAA Part 147 certified aircraft and power plan program in southeast New Mexico. Other than the Sunport, the air center is the only airport in the state that flies both east and west. Flights are currently booking at 80 percent capacity. The U.S. Navy conducts pilot training at the air center.

Then discussing the challenges and opportunities at the air center, John Mulcahy, president of the Roswell/Chavez County Economic Development Corporation, said, if the air center was bigger, Roswell's economy would be more diverse. Mr. Mulcahy said the air center is a unique asset to New Mexico.

Maintenance, repair and overhaul (MRO) for commercial aircraft is important business for the air center. The industry is currently worth \$67 billion and is forecasted to be worth \$100 billion by 2025. Most of the U.S. growth is being caused by increased new hanger space for wide-body aircraft and consolidated airline carriers outsourcing maintenance to third parties. MRO companies require skilled and FAA certified employees who have no criminal record. Mr. Mulcahy said he is working with the secretary of the Economic Development Department to promote MRO business at the air center through the Local Economic Development Act (LEDA). Currently, the five MRO companies at the air center employ about 500 people at an average wage of \$40 thousand to \$50 thousand a year.

The air center faces infrastructure and workforce challenges in building the MRO industry. At this time, there are no hangars big enough to enclose a wide-body aircraft. To attract skilled workforce, Roswell will need to build desirable housing.

Mr. Polasek said the air center is a statewide asset that should be invested in to grow and diversify New Mexico's economy. Mr. Mulcahy said, to capitalize on the growth of the MRO industry, the state should support ENMU-Roswell's vocational and technical programs, provide funding for new larger hangars or hangar modifications that can accommodate wide-body aircraft, and assist the city in repairing and maintaining the 144 acres of tarmac in front of the major MROs and hangars.

In response to Senator Cisneros, Mr. Polasek said the air center is completely owned by the city of Roswell. Senator Cisneros then asked about the price of hangars, to which Mr. Polasek explained the variance in price.

Representative Lundstrom expressed concern that the 90 to 10 LEDA match is not enough of an investment. Representative Lundstrom said the state needs to look more seriously at economic based employers for investment.

Tour of Aviation Businesses. David Matthew led a tour of Dean Baldwin Painting. Dean Baldwin paints military aircrafts, regional aircrafts, commercial planes and private airplanes. This business has been located at the Roswell International Airspace since 1998 and employs 200 personnel. They are currently booked two years in advance. David Matthew stated that they have potential for more business, especially if they received \$5 million to rebuild a roof hanger, which would allow more space for larger aircrafts they currently cannot house.

The committee then toured Aersale. Aersale has been at the Roswell International Airspace since 2010. Aersale supplies aftermarket aircrafts engines, original equipment material and asset management services. They currently employ 175 people with salaries ranging from \$40 thousand to \$80 thousand per year. They are looking to expand and hope to add 200 jobs in the future.

Tour of Downtown Roswell Re-vitalization “Projects and Progress”. Mayor Dennis Kintigh, of Roswell led a tour of renovations taking place downtown. These renovations included restoring multiple old businesses and converting them into new restaurants and offices. Mayor Kintigh said he is focused on economic development and the downtown area has been a huge success, he has many other renovations in progress. The mayor stated the city no longer charges fees to take trash to the city landfill, which has motivated local businesses to clean up property and improve appearance. Mayor Kintigh also stated that he will be focusing on the aviation industry in Roswell and would like to see more funding from the state to support the industry.

Friday, June 17th

The following members and designees were present on Friday, June 17, 2016: Chairman John Arthur Smith; Vice Chairman Jimmie C. Hall; Senators Carlos R. Cisneros, Stuart Ingle; Carroll H. Leavell, Lee S. Cotter, and Pete Campos; and Representatives Larry A. Larrañaga, Jim R. Trujillo, Roberto “Bobby” J. Gonzales, Paul C. Bandy, James G. Townsend, Bill McCamley, and Patricia A. Lundstrom.

Water Issues in the Pecos Valley. First, providing an overview of the New Mexico Water Trust Board (WTB), Greg Alpers, a member of the board and vice chairman of the Pecos Valley Artesian Conservancy District (PVACD), said the WTB’s application process ensures projects have value and merit. The application process is largely facilitated by the New Mexico Finance Authority (NMFA). The board approves projects based on ratings by NMFA and various state agencies.

Mr. Alpers said watershed restoration in New Mexico is critical and needs more investment. Invading vegetation such as juniper, cedar, and mesquite depletes ground water.

Discussing the PVACD, Superintendent Aron Balok said the district is managed by an elected board of five directors. Mr. Balok talked about the sandstone formation that occurred in the area millions of years ago. Overtime, the sandstone created a karst formation, trapping water, which

eventually was covered with a layer of clay. The karst formation in the area is known as the artesian aquifer. In the early 1900s, hundreds of wells were drilled to tap into the water, leading to excessive water waste and reducing water in the aquifer. Eventually, the state engineer's position was established to manage New Mexico's water resources.

PVACD was established in 1931 to conserve the waters in the Pecos Valley. After its establishment, PVACD worked to reduce the number of irrigated acres, obtained a meter order to monitor water use, and purchased 7,000 acres of irrigation rights to maintain balance of the aquifer.

In 2003, the Pecos water settlement agreement was established to ensure New Mexico is able to meet its delivery obligations to Texas under the Pecos River Compact. When needed, water from the artesian aquifer is pumped into the Pecos River to augment the flow, helping make water available to Texas and other downstream users. However, flow is also dependent on upstream users and precipitation. If delivery obligations are not met, the penalty would be costly for state. Mr. Balok said PVACD doubled its mill levy in 2014 to fund a project that will balance the aquifer and keep water on farms during times of shortage.

Presenting for the Pecos River Basin Bureau of the Interstate Stream Commission (ISC), Hannah Risely-White said ISC is primarily tasked with managing New Mexico's eight interstate compacts. The Pecos River compact was signed in 1948. In 1974, Texas sued New Mexico for under-delivering water. New Mexico was fined \$14 million. The Supreme Court then established a federal river master to oversee all deliveries to Texas.

In the 1990s, New Mexico invested over \$30 million to acquire water rights to ensure the state's ability to meet water obligations. However, dire conditions in the 2000s forced Pecos water interests to do more to ensure water obligations are met. It was then that the Pecos water settlement was established. Ms. Risely-White said the agreement enabled New Mexico to accumulate a significant credit on the 1948 compact. However, Ms. Risely-White cautioned that the credit is not enough to sustain New Mexico's water obligations during a long period of drought. Ms. Risely-White said stakeholders may be working together to amend the water settlement agreement to provide resilience in future times of drought.

Reporting on other issues, Ms. Risely-White said there are a number of threatened and endangered species in the Pecos Basin. ISC is working to prevent more species from becoming threatened or endangered. The Pecos bluntnose shiner is an endangered fish. A conservation pipeline was constructed in Vaughn to augment stream flows when there is not sufficient flow for the fish.

Lastly, discussing federal water management in the Pecos Valley, Michelle Estrada-Lopez, project manager for the U.S. Bureau of Reclamation (USBR), said the Pecos Valley has four storage reservoirs, one flood control dam, and one diversion dam. The Fort Sumner Irrigation District (FSID) and Carlsbad Irrigation District (CID) are the two main surface water users. Ms. Estrada-Lopez provided a historic overview of USBR activities in the Pecos Valley.

USBR has several responsibilities, including land and recreation management, fish and wildlife management, and water operations. USBR contracts with New Mexico State Parks to manage its land and recreation properties. To protect farming in the lower Pecos Valley, USBR enforces four main regulatory laws: National Environmental Policy Act, Endangered Species Act, State Historic Preservation Act, and Clean Water Act.

Ms. Estrada-Lopez talked about drought in New Mexico. According to one chart in the presentation, snow melt from 2011 to 2014 was the lowest four year period in the state's history. According to another chart, Roswell's average temperature has increased since the early 1900s.

Flooding rains in 2013 provided relief for the nearly empty Santa Rosa, Sumner, and Brantley reservoirs. Remnants of Hurricane Odelia brought more floods to the Pecos Valley in 2014. Due to the overwhelming amount of water, Texas requested New Mexico store its water at Brantley Dam.

Discussing coordination and collaboration, Ms. Estrada-Lopez said USBR conducts weekly operations calls during irrigation season. The Pecos hydrology workgroup, formed by USBR, shares technical data, advancements, and peer-review work and developments. The annual Pecos stakeholder meeting is open to the public. USBR has partnered with ISC to conduct a Pecos Basin study. The study will focus on the Fort Sumner underground water basin.

In response to Representative McCamley, Mr. Balok said most of the inflow to the aquifer comes from summer and fall rains, not snowmelt. A considerable amount of study on the effects of pumping is done to ensure water within the aquifer remains at a healthy level at all times.

Representative Lundstrom asked for clarification on costs of the 2003 Pecos settlement. Ms. Risely-White said about \$30 million of the \$88 million spent on water-right purchases and leases was actually spent before the settlement was reached, all of which was state funding.

In response to Representative Bandy, Mr. Balok said PVACD does not manage any surface water. PVACD manages the shallow aquifer and the artesian aquifer. About 90 percent of the acres are irrigated by groundwater.

In response to Representative Townsend, Ms. Estrada-Lopez said water provided for endangered species is replenished from leased water in the lower region. Mr. Alpers said, because the Endangered Species Act impacts New Mexico's water, the state should be the administrator of the act, not the federal government. Mr. Alpers said water sourced in New Mexico should be under the jurisdiction of the state engineer.

Third Quarter Report Cards and LFC Accountability Plan. Charles Sallee, deputy director of the Legislative Finance Committee (LFC), said it is the job of the Legislature to ensure people in New Mexico receive the services and results they want and need at a price taxpayers can afford. To accomplish this, legislators use several tools to facilitate decision-making. One such tool is performance data. This data tells legislators how the state is performing on key metrics across state government. It helps legislators formulate questions for agencies about where the state needs to go and what kind of resources and policy changes are needed to make that happen.

According to the Accountability in Government Act (AGA), key agencies must report performance information quarterly. The information is reported to legislators through the use of report cards. Recently, the Department of Finance and Administration (DFA) expressed some concerns about the report card process. DFA said there were too many agencies having to report too often and too much information. LFC and DFA are working together to improve the process. Mr. Sallee said it is important that the information being reported is relevant and accomplishes what it is meant to do -- facilitate in decision-making.

To assist in determining where changes might need to be made, LFC created a spreadsheet. For each key agency listed, the following information is given: operating budget, number of performance measures, number of measures designated as "key," number of General Appropriation Act (GAA) measures, and number of measures deemed "good" measures. Mr. Sallee mentioned using statewide indicators to also assist in determining what measures should be focused on.

Moving forward, Mr. Sallee said the LFC AGA team will be looking at other states and state agencies for best practices in presenting performance reports and ideas about how LFC might update and improve reports. The goal being to create an innovative performance-based governance here in New Mexico.

Using authority given in the AGA, DFA has proposed 11 of the 20 agencies reporting quarterly instead report either annually or semi-annually. Mr. Sallee said some of those agencies that would no longer be reporting quarterly are key agencies, including the Department of Health, Environment Department, State Engineer's Office, and General Services Department. DFA has already instructed these agencies to reduce the amount of performance data they report. Mr. Sallee said, because these agencies would have less transparency and accountability, they should have less budget flexibility.

Mr. Sallee discussed collaboration with DFA. Web-based performance reporting is being developed. LFC and DFA are working with the Legislative Education Study Committee to improve reporting of public school information. Report cards are being developed for schools. LFC staff will be proposing a restructured budget for the judiciary that would recognize the judiciary's unified budget and allow the branch more internal control and oversight of its finances.

Mr. Sallee then talked about the *State of the State Dashboard*, a one page report developed by LFC staff to give legislators an indication of what the state of state looks like based on latest available information. The report's indicators help formulate questions such as what is being done to make improvements, what is being spent on interventions, and are those interventions working. Improvements have been made in some areas, but New Mexico faces challenges in others. Teen pregnancy remains high. The number of people with health insurance has greatly improved. New Mexico ranks high in the nation for drug overdose deaths.

Mr. Sallee went over the third quarter performance report cards, highlighting key information. The Medicaid program has been experiencing fiscal stress. The program's large deficit from prior years will need to be addressed during the next legislative session. The Department of

Health (DOH) is facing fiscal issues involving its facilities and being able to maximize revenue through third party billing. Mr. Sallee pointed out that DOH's facilities management program needs better performance monitoring. The federal government rates New Mexico's nursing homes poor quality. Mr. Sallee said the Aging and Long-Term Services Department aging network also needs better performance monitoring. Regarding the Children, Youth, and Families Department, New Mexico has one of the worst rates in the nation for children experiencing repeat maltreatment. For Corrections, New Mexico ranks high in increased incarceration. The Economic Development Department is not reaching targets for job creation.

Lastly discussing IT projects, Mr. Sallee said the Motor Vehicle Division is reengineering its tapestry project. The project is on budget and on schedule. The land management information system is not on schedule.

Mr. Sallee said the quarterly report cards will be part of the committee's budget hearing packets in the fall.

Senator Ingle requested LFC inform the committee the status of the Taxation and Revenue Department's implementation of the "Real ID" law.

In response to Representative Larrañaga, Mr. Sallee talked about how the performance data can be used to ensure state dollars are being invested wisely. Mississippi's appropriations committee requires agencies requesting new money to answer seven key questions to determine where investments are made.

In response to Representative Gonzales, Mr. Sallee said LFC staff is available to testify before committee hearings on agency performance data. Mr. Sallee added that committees may want to consider having agencies report directly to them on their performance.

Miscellaneous Business

Action Items.

Approval of LFC Minutes – May 2016. Senator Cisneros moved to adopt May's meeting minutes, seconded by Representative Hall. The motion carried.

Approval of Contracts. Senator Cisneros moved to adopt the contracts, seconded by Representative Hall. The motion carried.

Information Items


Review of Monthly Financial Reports

David Abbey, director, LFC, briefed the committee on information items.

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



John Arthur Smith, Chairman



Jimmie C. Hall, Vice Chairman