

**MINUTES**  
**Legislative Finance Committee**  
**State Capitol, Room 322 - Santa Fe, NM**  
**January 15, 2024**

**Monday, January 15**

The following members and designees were present on Monday, January 15, 2024: Chairman George K. Muñoz; Vice Chairman Nathan P. Small; Senators Nancy Rodriguez, Roberto “Bobby” J. Gonzales, Steven P. Neville, Sia Correa Hemphill, Pat Woods, William E. Sharer, and Pete Campos; and Representatives Harry Garcia, Jack Chatfield, Gail Armstrong, Debra M. Sariñana, Brian G. Baca, and Derrick J. Lente. Guest legislators: Senator William F. Burt and Representatives Cathrynn N. Brown, Joy Garratt, Tara L. Lujan, and Randall T. Pettigrew.

**Progress Report: Cost-Effective Options for Increasing High School Graduation.** LFC Program Evaluators John Valdez, Ph.D., and Nathan Eckberg presented the progress report *Cost-Effective Options for Increasing High School Graduation*. New Mexico made notable progress in boosting graduation rates since LFC last evaluated the issue—increasing the graduation rate 6.9 percent, from 69.3 percent in 2014 to 76.2 percent in 2022. Despite this progress, New Mexico is among the lowest ranking states in the nation in high school graduation, with students tending to drop out in ninth and 10th grades. The 2021 New Mexico graduation rate exceeds only that of Arizona and the District of Columbia and falls well short of the national average of 86.1 percent. As of 2021, New Mexico would need 2,065 additional students to graduate to match the national graduation rate.

Evidence shows chronic absenteeism and low academic proficiency negatively impact graduation rates. Chronic absenteeism has spiked in New Mexico and nationwide since 2020, with ninth and 10th graders becoming the most likely among New Mexican high school students to miss classes. Too few New Mexican students are proficient in language arts, math, and science, with relatively flat assessment scores even while graduation rates have gradually risen.

While New Mexico has invested heavily in career and technical education (CTE) initiatives, including a state-developed “innovation zones” pilot and a variety of other programs in recent years, these programs are relatively new and have not been thoroughly vetted for their impact on New Mexico graduation rates.

LFC staff recommend the Legislature, the Public Education Department (PED), and school districts invest in efforts to improve graduation rates through improving proficiency and addressing chronic absenteeism. In addition, programs meant to support graduation should be evaluated in the context of New Mexico, and their impact on at-risk students, English language learners, and other marginalized students in line with the findings of the *Martinez-Yazzie* education sufficiency case.

In response to Representative Armstrong, Mr. Valdez said data collected under the Attendance for Success Act can be accessed through an online portal.

In response to Representative Lujan, Mr. Valdez said LFC staff did not conduct a formal student survey on the reasons for chronic absenteeism; however, during site visits, many students cited mental illness as a barrier to regular attendance.

In response to Representative Lujan, Mr. Valdez said the majority of schools have attendance teams. During site visits, several team workers said requirements of the Attendance for Success Act has made it difficult to carry out home visits and disciplinary actions.

**Policy Spotlight: Escalating Costs of Public Construction.** Program Evaluators Kathleen Gygi, Ph.D, and Sam Lesemann presented the policy spotlight *Escalating Costs of Public Construction*. New Mexico is seeing unprecedented investments in public and private construction at the same time as construction costs are skyrocketing. Workforce shortages, high construction volumes, and high material prices are contributing to these cost increases. Absent significant drops in material prices or construction demand, or rapid increases in the labor force, construction costs will likely remain elevated. Continued cost escalations will limit the state's ability to make needed capital improvements to public schools, higher education institutions, state facilities, and local infrastructure. Rising costs are also likely to exacerbate the problem of unspent funds across approximately 5,000 capital outlay appropriations across the state.

The state can adopt strategies for investing its capital funds in a time of high price volatility, including, for example, by prioritizing funding for project completion, timing awards so that projects are not funded before costs are known, and maintaining close oversight by state construction management professionals of project costs and progress.

Declining enrollments at educational institutions and population demographics suggest the state should prioritize renewal and better utilization of existing facilities and fund the construction of new facilities only when need has been rigorously demonstrated. Changes to state procurement laws would allow all state and public entities to take advantage of alternative construction contracting methods that allow more flexibility in responding to market conditions and more transparency regarding pricing. The state would also benefit from coordinated monitoring and reporting of market conditions through a common construction costs report card.

Representative Armstrong remarked on the higher cost of doing construction in rural communities and the potential for additional barriers on employers, like paid family and medical leave for all private and governmental employees and other proposed legislation.

In response to Representative Brown, LFC Analyst Sunny Liu said using a template to construct new public schools could save on design costs.

**Status Report: State Personnel Study.** Celina Bussey, client relationship executive of government and public services of Deloitte Consulting, said a comprehensive study on the state's Personnel Act and classification and compensation system is underway, led by the consulting firm in partnership with the Department of Finance and Administration, State Personnel Office, and LFC. The objective is to strengthen the state of New Mexico's overall talent, experience, and total compensation to become an employer of choice and increase recruitment and retention support across all state agencies.

Of the over 200 job classifications, Deloitte has so far benchmarked 10 positions and evaluated market data to complete a review of competitive compensation rates for the state. Ms. Bussey said the 10 positions were chosen for the expedited benchmarking process because of escalating pressure to increase their pay. According to findings, seven of the positions are compensated above the market median, including three with a base salary over 20 percent above the market medium: Child Protective Services (CPS) investigation case worker, CPS placement specialist, and nursing support level 2. The other three positions, however, are compensated well below the market medium: direct care supervisor, environmental specialist operational, and environmental specialist supervisor.

Ms. Bussey said the remaining 215 positions will be benchmarked and analysis concluded by this summer.

Senator Sharer expressed concern about the large number of pay grades in New Mexico state government.

### **Miscellaneous Business.**

**Action Items.** Senator Sharer moved to adopt the LFC November and December 2023 meeting minutes, seconded by Senator Rodriguez. The motion carried.

Senator Sharer moved to adopt the technical adjustments to the LFC December recommendation, seconded by Senator Hemphill. The motion carried.

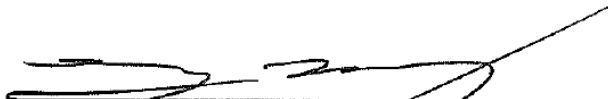
**Review of Monthly Financial Reports and Information Items.** LFC Director Charles Sallee briefed the committee on information items.

**Proposed LFC-Endorsed Legislation.** LFC staff proposed eight bills for the committee to consider endorsing in the 2024 legislative session. Fiscal impact reports on the proposed legislation were provided.

1. *Government Accountability Expendable Trust Fund.* The bill creates a trust and program fund that will be used to create program and reporting requirements for new pilot projects. Pilot projects will be evaluated over a four-year period with appropriations equally distributed each year. Vice Chairman Small moved to adopt endorsement of the bill, seconded by Senator Campos.
2. *Early Childhood Care and Education Fund.* The bill increases the distribution of the early childhood education and care program fund from a projected \$155 million to \$250 million in FY25, or an increase of \$95 million. Appropriations from the fund following FY25 will be based on an amount equal to the greater of 5 percent of the average of the year-end market values of the fund for the immediately preceding three calendar years or \$250 million. The bill also reverts unexpended revenue from the program fund to the trust fund at the end of each fiscal year. Senator Gonzales moved to adopt endorsement of the bill, seconded by Vice Chairman Small.


3. *Higher Education Financial Aid Endowment Fund.* This bill creates an interest-earning fund that will endow financial support for students in higher education. The fund will distribute 5 percent of the end-of-year balance per year. The revenue generated will be sufficient to cover cost increases of the opportunity scholarship and backfill nonrecurring appropriations for the lottery scholarship that will be expended in FY27. Vice Chairman Small moved to adopt endorsement of the bill, seconded by Senator Rodriguez.
4. *Severance Tax Bonding Fund Transfers.* The bill ensures savings from avoided debt transfers to the permanent fund. Vice Chairman Small moved to adopt endorsement of the bill, seconded by Senator Rodriguez.
5. *Tobacco Settlement Permanent Fund.* The bill removes the tobacco settlement fund from general fund reserves. The bill also includes a revenue stabilization mechanism by directing all ongoing revenue to the permanent fund and begins distributions to the program fund by formula. Vice Chairman Small moved to adopt endorsement of the bill, seconded by Senator Hemphill.
6. *LEDA Reforms.* The bill modifies the Local Economic Development Act (LEDA) to add a process for companies applying for state LEDA funding, evaluation for state-funded projects, and process for reporting on use of LEDA funds. Currently, LEDA statute only includes an application process and evaluation for local and regional governments. The act would be modified so companies can apply for LEDA funding via a form on the state's website. The bill adds evaluation language, so the state considers projects' alignment with state economic development, economic impact, the financial and management stability of the qualifying entity, and a cost-benefit analysis of the project among other metrics. Finally, the bill adds language for the state and receiving entities to report on committed and actual jobs, median wages, and capital investments. Senator Campos moved to adopt endorsement of the bill, seconded by Senator Hemphill.
7. *Infrastructure Division.* The bill creates the Infrastructure Planning and Development Division within DFA through a reorganization of the Local Government Division. The goal is to create a central coordinating entity for financing infrastructure projects and to enhance state support available to local communities to fund and complete projects. The bill assigns the new infrastructure division the duty of providing technical assistance to local governments in identifying and accessing funding for infrastructure development and in administering funds to complete capital projects. The division is also tasked with streamlining administration of state capital funds.
8. *Rural Hospital Subsidies.* The bill appropriates \$50 million from the general fund to the Health Care Authority for expenditure in FY25 and FY26 to provide quarterly subsidies to acute care hospitals. The grant subsidy program supports not-for-profit or state or county operated acute care facilities with less than 30 beds experiencing revenue losses due to providing services that may not be fully reimbursed such as emergency medical services, maternal and child health, and in-patient unit care. Other covered losses would include malpractice premiums, Medicare sequestration, and property insurance. Senator Campos moved to adopt endorsement of the bill, seconded by Senator Hemphill.

With no further business, the meeting adjourned at 12:40 p.m.



---

George K. Muñoz, Chairman



---

Nathan P. Small, Vice Chairman