MINUTES
Legislative Finance Committee
State Capitol, House Chambers - Santa Fe, NM 87501
April 29 - 30, 2021

Thursday, April 29
The following members and designees were present on Thursday, April 29, 2021: Chairwoman Patricia A. Lundstrom; Vice Chairman George K. Muñoz; Representatives Javier Martinez, Nathan P. Small, Randal S. Crowder, Gail Armstrong, Candie Sweetser, Jack Chatfield, and Harry Garcia; and Senators Nancy Rodriguez, Steven P. Neville, Roberto "Bobby" J. Gonzales, Gay G. Kernan, Pat Woods, Sia Correa Hemphill, and Pete Campos. Guest legislators: Representatives Joy Garratt, Susan K. Herrera, Dayan Hochman-Vigil, Ryan T. Lane, Antonio Maestas, Andres G. Romero, and Sheryl Williams Stapleton.

Tracking Three Rounds of Federal Stimulus Funds. LFC Program Evaluation Manager Micaela Fischer said, since the Covid-19 pandemic began in March 2020, Congress has allocated stimulus funding to states, tribes, local governments, individuals, and businesses through six pieces of stimulus legislation. Combined, these six bills infused $19.1 billion worth of money and services into New Mexico in the form of direct payments to individuals, expanded unemployment benefits, Paycheck Protection Program loans and other business supports, increased federal share of Medicaid costs, payments to healthcare providers, and FEMA support. Funding also included expanded resources for the state's existing federally-funded programs and block grants like SNAP, the Substance Abuse Prevention and Treatment Block Grant, and the Child Care and Development Block Grant. Finally, three of the stimulus bills provided general relief payments to state government, K-12 education, and higher education that could be used broadly for pandemic-related spending.

Ms. Fischer said the Coronavirus Aid, Relief, and Economic Security (CARES) Act provided tribes, states, and larger local governments with allocations of coronavirus relief funds. New Mexico received $1.25 billion in coronavirus relief funds, of which $182 million was directed to the city of Albuquerque and Bernalillo County. The Legislature allocated the remaining $1.07 billion of its coronavirus relief funds in the first 2020 special session: $750 million to the general fund, $130 million for FY20 Covid-related state emergency expenditures, and $188 million to tribes, pueblos, and localities. The governor vetoed all but the $750 million allocation to the general fund, but ended up allocating the remaining funding close to the Legislature's plan - $178 million to tribes and locals and $140 million for FY20 expenditures.

The U.S. Treasury has oversight over the coronavirus relief funds and provided guidance (but not a requirement) to states to use some of the funds to support counties and municipalities, allocating funding to them based on their population. Instead, the Department of Finance and Administration (DFA) asked counties, cities, tribes and pueblos to apply for funding and then allocated $178 million proportionally to the application amounts. The result was significant variation in the proportion of funding that each tribe, pueblo, county and municipality received.

In the second special session in late November, the Legislature further directed the use of the funds: $194 million to provide $1,200 payments to unemployed New Mexicans, $100 million for the New Mexico Finance Authority to provide grants to small businesses, $10 million to the Human Services Department for food banks and additional $750 payments to low-income households, and $15 million for homeless housing support. DFA used the remaining $431 million for personnel costs for public health and safety employees through FY21.

In March 2021, the American Rescue Plan Act (ARPA) included $350 billion in Covid-19 relief aid to states, tribes, and localities, of which New Mexico will receive $1.62 billion that can be used through the end of 2024. The act stipulated allowable uses of the relief funding that was generally broader than the CARES coronavirus relief fund. The funds cannot be used for state pensions, to offset a new tax cut, or to delay a tax increase.

Based on the ARPA language, HB 2, the 2021 General Appropriation Act, directed DFA to transfer the ARPA state fiscal recovery funds to the appropriation contingency fund of the state general fund for $944.9 million of APRA-allowable expenditures in Section 11 of HB2, including $600 million for unemployment insurance. The Legislature also appropriated $200 million of the funds in Section 10 (fund transfers), and directed some general fund appropriations to be contingent on the state fiscal recovery funds being placed into the appropriation contingency fund, including $50 million for Medicaid and $20 million for the early childhood education and care trust fund.

The governor vetoed the entirety of Section 11 and all other appropriations of the ARPA funds, noting in her veto message that she considered these appropriations an impermissible attempt by the Legislature to appropriate or control the allocation of federal funds to a New Mexico governmental entity.

Ms. Fischer said state law dictates the State Treasurer must credit all revenues not otherwise allocated by law to the general fund, and expenditures from the general fund shall be made only in accordance with appropriations authorized by the Legislature. Moreover, Article IV, § 30 of the State Constitution dictates that money shall be paid out of the state treasury only upon appropriations made by the Legislature, and every law making an appropriation shall distinctly specify the sum appropriated and the object to which it is to be applied. Despite the vetoes, in accordance with state law, LFC staff contend that ARPA money will still need to be deposited into the general fund and appropriated by the Legislature before its expenditure.

The U.S. Department of the Treasury will likely release the funding to states in two 50 percent tranches, and will provide additional details to states on allowable expenditures by the time the first half is released, likely in early May 2021.

Unlike the CARES coronavirus relief funds, Congress directly allocated ARPA funds to county and local governments.

In addition to the state and local fiscal recovery funds, ARPA included a $10 billion coronavirus capital projects fund available to states, territories and tribal governments for critical capital projects that directly enable work, education and health monitoring — including remote options — in response to the Covid-19 public health crisis. New Mexico is expected to receive $134 million of the capital fund and the funding will remain available until it is expended. The U.S. Department of Treasury will oversee this funding and has not released official guidance on how states are to apply for it yet. Language from the act only specifies that the money is "to carry out critical capital projects directly enabling work, education, and health monitoring, including remote options, in response to the public health emergency with respect to the Coronavirus Disease."

Ms. Fischer said staff is tracking the receipt and use of federal stimulus funds granted to the state of New Mexico in the largest focus areas: K-12 and higher education, childcare and early education, and housing rental assistance. Evaluators are leaning on data from the federal Pandemic Response Accountability Committee, as well as procurement and expenditure data in SHARE, the state's accounting system. Analysts are working with agencies to track specific uses across all programs. All staff will take particular care to note any abnormal emergency, sole source, or other procurements identified as higher risk.

LFC Staff Report on Federal Funds for Schools and Higher Education. LFC Analyst Sunny Liu said, in response to the Covid-19 pandemic, Congress established the education stabilization fund (ESF) to support emergency needs at schools, colleges, and other educational entities. The Coronavirus Aid, Relief, and Economic Security (CARES); Coronavirus Response and Relief Supplemental Appropriations (CRRSA); and American Rescue Plan (ARP) acts included appropriations to ESF, which were further allocated into three sub-funds for states to distribute to K-12 schools, higher education institutions, and other educational entities.

The state must expend or obligate CARES, CRRSA, and ARP funds by September 30 of 2022, 2023, and 2024, respectively, or any unexpended or unobligated funds will be redistributed to other states. Currently, New Mexico education entities have full access to CARES and CRRSA funds.

The Public Education Department (PED) and local educational agencies (LEAs), or schools, will receive $1.5 billion to address the impacts of Covid-19. LEAs must receive 90 percent of the funds, and PED can withhold up to 9.5 percent for related emergencies and 0.5 percent for administration. LEAs may use the funds for

- Activities authorized by federal education law,
- Covid-19 response systems and procedures,
- School leader support,
- Activities to support at-risk student populations,
- Training on sanitation and minimizing infections,
- Supplies to sanitize and clean facilities,
- Planning during long-term closures,
- Educational technology for students,
- Mental health services and supports,
- Facility improvements and systems to reduce virus transmission,
- Extended learning programs to address learning loss, and
- Other activities that are necessary to maintain LEA operations and continue employment of existing staff.

ARP provisions further require PED and LEAs to spend a portion of funds on evidence-based interventions to address learning loss and implement summer enrichment and comprehensive afterschool programs.

During the second quarter of FY21, LEAs budgeted the majority, or 63 percent, of CARES funds for general supplies, materials, and assets valued less than $5,000. Approximately 76 percent of the funding was for instructional purchases. These expenditures were most likely items like computers, hotspots, and personal protective equipment (PPE). In August 2020, PED reported $60 million, or 66 percent, of the funds were budgeted for educational technology and PPE. Staff salaries and benefits were the second largest budget category at 18 percent. As of December 2020, LEAs had expended $38.2 million, or 47 percent, of the budgeted funds. According to PED's budget system, none of the funds have been budgeted or expended to date.

New Mexico higher education institutions will receive a total of $345.8 million in funding for public colleges and universities. The funds were intended to help defray costs of changing the delivery of instruction due to the pandemic, provide students with emergency financial aid, and offset the student cost of attendance. Generally, institutions were given a base appropriation based on total and Pell grant students. Colleges and universities were given additional funding if they were minority serving institutions or had additional significant needs. Institutions were expected to give half of their funding to students.

The U.S. Department of Education stipulated DACA students, undocumented students, international students, students in-eligible for federal student aid, and 100 percent online students are not eligible for CARES aid. Conversely, there are no restrictions on which students could benefit from CRRSA aid. ARP funding to institutions followed the same allowable uses as CRRSA, but institutions are directed to use "a portion" of their allocation to implement evidence-based practices to monitor and suppress coronavirus in accordance with public health guidelines and conduct direct outreach to financial aid applicants about the opportunity to receive a financial aid adjustment due to the recent unemployment of a family member or independent student, or other circumstances.

Additional grant programs awarded to institutions include grants to tribally controlled colleges and universities and minority serving institutions.

CRRSA funding to New Mexico includes $32 million from the governor's emergency education relief (GEER) fund to help LEAs, higher education institutions, and other education related entities address the impacts of Covid-19. The funds can be used by governors to provide emergency support for educational services and ensure on-going functionality to

- LEAs deemed by PED as most significantly impacted by the pandemic,
- Higher Education Institutions most significantly impacted by the pandemic, and
- Any education-related activity deemed essential, including carrying out emergency educational services and providing childcare and early childhood education.

A portion of GEER funding is reserved for emergency assistance to non-public schools (EANS), with priority toward schools that enroll low-income students and are most impacted by the pandemic. Non-public schools must apply for EANS grants and can receive funding for PPE, sanitation, ventilation systems, staff training, social distancing infrastructure and leased sites, Covid-19 testing, educational technology, instructional planning, transportation, and distance learning. EANS grants must be controlled by a public entity; the funds cannot be used for scholarships or vouchers, and recipients cannot apply for loans from the federal Paycheck Protection Program.

To receive CARES, CRRSA, and ARP appropriations from the education stabilization fund, states must maintain funding support for K-12 and higher education in FY20 and FY21 above the average of the three prior years and ensure the proportional share of state support for K-12 and higher education is maintained for FY22 (based on the same averaged period). For New Mexico, this three-year average is $3.5 billion and the proportional share of the budget is 56.7 percent. The state is on track to meet these requirements, given the FY21 appropriation for K-12 and higher education is $4.1 billion, $559 million above the requirement (i.e. the maximum amount that can be reduced and still comply), and FY22 education appropriations represent 57.4 percent of the state's budget. The requirements can also be waived by the U.S. Department of Education. States must also ensure they do not disproportionately reduce per-pupil funding and staffing at high-poverty schools. Because New Mexico per-pupil funding increased between FY19 and FY22 and many LEAs have fewer than 1,000 students, which are exempt, the state is on track to meet the provisions.

In response to Representative Lane, Mr. Liu said GEER funds are allocated directly to governors for discretionary spending related to education and the pandemic.

In response to Senator Hemphill, Mr. Liu said the list of allowable ESF expenditures is very broad at this time; however, clarification of eligible expenses is expected to be received in the coming months.

LFC Preliminary Post-Session Fiscal Report. LFC Deputy Director Charles Sallee said the 2021 post-session fiscal report is being finalized. Presenting the draft version, Mr. Sallee said state economists revised the revenue estimates upward in the mid-session update, with an improved economic outlook and faster-than-expected recovery in oil prices following the collapse caused by the Covid-19 pandemic. Although FY21 recurring revenues were still projected to fall 8.5 percent below FY20 levels, the projected recovery in FY22 led to a consensus revenue estimate of "new money" – FY22 projected recurring revenue less FY21 recurring appropriations – of $338.6 million, or 4.7 percent growth from the FY21 recurring budget level after accounting for replacement of federal stimulus funds offsets.

Fiscal year 2020 ended with $2.5 billion in general fund reserves, or about 35.4 percent of recurring appropriations, enabling the Legislature to pass broad measures to enhance the state's economic recovery. Lawmakers funded a temporary gross receipts tax deduction for the struggling restaurant industry, provided $200 million in economic recovery grants to small businesses, passed a low-interest small business loan program, and increased tax rebates and credits for low-income households. Additionally, the Legislature provided $318 million in road infrastructure and capital outlay projects, $85 million for statewide broadband, and $100 million to repay federal unemployment trust fund loans.

Lawmakers also passed increased recurring budgets by 5.3 percent to $7.45 billion. Even with enhanced spending measures targeted at economic stimulus and relief, FY22 ending reserve balances are projected to end the fiscal year at 23.6 percent.

Mr. Sallee said the governor signed HB 2, the General Appropriation Act, on Friday April 9th and used her partial veto authority. The Governor did not veto any recurring spending in section 4 or nonrecurring spending in sections 5, 6, and 7, but did exercise partial vetoes that altered and expanded appropriations.

New Mexico courts ruled the power of veto, like all constitutionally conferred powers is not absolute and may not be exercised without any restraint or limitation whatsoever. A number of the governor's partial vetoes may be improper in the context of New Mexico court precedent.

Mr. Sallee said some of partial vetoes are problematic because they improperly destroy only a part and not the whole, leave an incomplete and unworkable act, or distort the legislative intent. The executive is asserting independent spending authority without legislative consent over $1.6 billion from a new federal funding never contemplated in *Sego v. Kirkpatrick* or in cases involving separation of powers questions.

LFC staff may also object to an agency operating budget that seeks to budget funding from a vetoed contingency, and certainly if the contingency was not met, and when an agency seeks to expand spending beyond the purposes authorized by the Legislature. Staff may also object to any budget adjustment requests, such as the Department of Health if it attempts to budget more than the authorized $10 million of unspent carry forward funding in FY22. Finally, LFC staff may also consider recommending reallocation or alter the appropriation for the LFC to consider in its budget decisions.

The Legislature may choose to challenge the partial vetoes and/or spending of ARPA funding in court or may call an extraordinary session to attempt to overturn the vetoes. The state has not received the federal ARPA funds yet, however once it does the issue would be ripe for challenging spending from the treasury without an appropriation. DFA spent hundreds of millions from the state's share of relief funding for state and local governments without submitting a budget adjustment or other notice to the Legislature throughout FY21. The status quo for the past 40 years, never directly questioned or answered in court, has been the Legislature can't appropriate federal funds, making downside risk of losing a case smaller.

Representative Hochman Vigil remarked on the need to have the courts clarify the power of veto.

Chairwoman Lundstrom expressed concern the state budget developed by Legislature according to the General Appropriation Act is being treated more as an informational document. The chairwoman explained some of the executive's vetoes to HB 2 overstep and disregard the work of the Legislature and input from state agencies and the public. Chairwoman Lundstrom said LFC will reach out to executive leadership to discuss the issues.

Policy Spotlight: State Population Trends. Sarah Dinces, Ph.D., and Mitch Latimer, both LFC program evaluators, presented a policy report on state population trends. Over the last decade, New Mexico's population growth stagnated compared with the United States and neighboring states, growing only 2.8 percent while the country's population grew 7.4 percent and the population in neighboring states grew 14.2 percent. New Mexico's population growth was concentrated in the over 65 age group, and regionally, in urban areas and in the Permian Basin – both likely associated with economic activity. Other key demographics are seeing a continuing decline in population due to lower birth rates and more people leaving New Mexico than moving to the state since 2012.

Between 2010 and 2019, New Mexico's birth rate fell 19 percent, and the under-18 population shrank 8.3 percent. At the same time, the working-age population (18 to 64) declined 2 percent, and over 65 population grew 38 percent. While the state's non-Hispanic white population shrunk slightly and the Hispanic population grew slightly, the Native American population grew almost 10 percent from 2010 to 2019, signaling long-term growth in the state's diversity.

In about a decade, New Mexico is projected to start seeing overall declines in population. Projections indicate population declines in younger ages and rural areas will continue and likely be exacerbated by Covid-19. Given the status quo, New Mexico is heading toward having more, older New Mexicans using relatively expensive public services (e.g. Medicaid and Medicare) and fewer, younger New Mexicans in school and working. While birth rates are continuing to fall, 43 percent of children who disenrolled from public schools during Covid-19 are moving out of the state, and the number of high school graduates is projected to decline 22 percent by 2037. The state should be intentional about right sizing capacity or examining alternative strategies to address these trends. For example, LFC reports have repeatedly documented the consequences of overbuilding pre-school capacity for 4-year-olds given the declining birth rate and has documented instances of lost federal dollars due to lack of coordination. Additionally, since 2016 public school enrollment declined at a rate of 3 percent a year and higher education declined at a rate of 5 percent a year. Meanwhile, the state's working age population is shrinking due to net-outmigration.

The pandemic is expected to exacerbate some of the state's population trends. According to the Brookings Institute, Covid-19 will likely further the decline in birth rates. Key economic drivers of the New Mexico economy, including the oil and gas industry associated with some of the state's only population growth over the last decade, are slowly recovering. Given evidence that economic and social factors are drivers of population growth, LFC staff recommend the state focus on higher education and the workforce needs so the state has qualified workers to fill in-demand positions. Also, the state should plan and budget according to population trends.

In response to Representative Lane, Mr. Latimer said he would report back to the committee the average number of children per household in New Mexico. Representative Lane said the Legislature should consider passing legislation that tracks population trends in the state.

In response to Representative Garcia, Mr. Latimer said, in recent years, the U.S. Census Bureau increased its effort to collect accurate census data from the Navajo Nation. Mr. Latimer said it is possible the Native American population growth in the last nine years could be a result of better data collection.

FY21 Second Quarter Performance Reports. LFC Deputy Director Charles Sallee presented the FY21 second quarter performance reports. Mr. Sallee said state agencies continue to work remotely, maintaining the government closures that have been in effect since March 2020. Lower performance or no reported measurement of performance in the second quarter suggests the shutdown has impaired many government functions and oversight. The public health emergency has exacerbated declining enrollments in education, health, and employment; delayed IT and capital projects; and slowed other functions, like MVD services and environmental inspections. Additionally, the governor vetoed multiple performance measures and reporting requirements in the General Appropriations Act of 2021, further reducing accountability for state agencies in FY22.

Highlighting key performance, Mr. Sallee said the Taxation and Revenue Department made marginal improvements in its collection of audit assessments, improving from a 20 percent collection rate to 28 percent collection rate over the past year; the target rate is 60 percent, however. Call center wait times for the Motor Vehicle Division increased significantly.

Leisure and hospitality jobs in the state continue to decline, which the pandemic exacerbated in the second quarter. In January 2021, employment rates in leisure and hospitality decreased 43.4 percent compared with January 2020, a greater decline than in any surrounding state for the same period.

The Energy, Minerals and Natural Resources Department reported state park visitation was 29 percent lower than the second quarter of FY20. Self-generated revenue from camping was down 93 percent relative to the same period last year, and day-use revenue was down 22 percent.

The Human Services Department (HSD) only reported on three Medicaid performance measures in the first and second quarters of FY21. In FY22, the agency is required to report on 18 Medicaid performance measures; however, it is problematic to have a gap.

HSD is not reporting quarterly data on all performance measures identified in the General Appropriation Act of 2020, such as infants' well child visits and emergency room use categorized as nonemergency care.

WSD continues to process a record number of unemployment claims resulting from the Covid-19 public health crisis. As of December 2020, there were over 116 thousand continuing claims, including over 47 thousand standard unemployment claims and 69 thousand pandemic unemployment and extended benefits claims. To reduce fraudulent claims, a 10-day hold on payments and request for identity verification were added to suspicious claims. WSD continues to hire and train additional staff to assist with the workload and clear the backlog.

Intake and capacity of Department of Health facilities, which provide services for mental health, substance abuse, long-term care, and physical rehabilitation, have been impacted by the pandemic. Many of the facilities are experiencing declining occupancy. If facilities are unable to increase occupancy, there will be significant operational funding strains.

The Children, Youth and Families Department improved performance across most divisions; however, the Protective Services and Juvenile Justice Services programs continue to fall short on critical measures related to repeat maltreatment, maltreatment in foster care, and recidivism of youth offenders. The pandemic likely affected repeat maltreatment rates, as families were less likely to access and engage in community services due to fewer available services and the need to juggle multiple stressors related to employment, remote schooling, and reduced availability of child care and family support. In addition, unemployment, unstable housing and transient living have put many system-involved youth and youth transitioning from care at high risk.

Overall recidivism among prisoners released from Corrections Department facilities increased 3 percent, likely driven by increased parole revocations for technical violations. Prisoner reincarcerations due to technical parole violations, which doubled the first quarter, increased even more. Revocations due to new or pending charges, on the other hand, remained steady. Improvements in vacancy rates among public and private correctional officers and in prison violence were sustained in the second quarter.

The Department of Transportation reported that, despite challenges brought on by the pandemic, projects are being completed on time and maintenance activity continues at a pace sufficient to meet performance targets.

The statewide high school graduation rate grew to 76.9 percent, a 2 percent increase over the prior year, with notable gains for African American, Native American, English learners, and economically disadvantaged students.

In response to Senator Kernan, Mr. Sallee said performance measures and targets are determined by the Legislature, based on Department of Finance and Administration and LFC recommendations and agency requests.

Senator Muñoz recommended tracking the productivity and efficiency of state employees continuing to telecommute as the state reopens.

Capital Outlay Quarterly Report. LFC Analyst Stevie Olson said, as of April 2021, approximately $1.8 billion from all funding sources for 2,586 projects remains unexpended, including $111 million of earmarked fund balances for water, colonias, and tribal infrastructure projects. Additionally, $396.4 million remains unexpended from supplemental severance tax bonds for public schools.

Sixty percent of the unexpended balance is for projects that have not started construction. Of the appropriations in the pre-planning stage, 180 grant agreements have been issued but not executed by local entities. An additional 123 grant agreements have not been issued.

Mr. Olson said major capital investments for consecutive years have contributed to large outstanding project balances. With the forecast of strong capital revenues and incoming federal funds, the state will likely experience a growing bottleneck of inefficiencies while allocating more funds to public infrastructure. Both timely expenditures and achieving functional results will be paramount to successful capital investments.

According to a chart in the presentation, state agency and higher education projects have significantly higher expenditure rates than local and earmarked capital projects.

Reporting on capital trends and outlook, Mr. Olson said the RSMeans city cost index from March 2021 indicates construction costs increased two percent statewide since the beginning of the year. Significant price increases in materials include concrete, steel, wood, and electrical conduit.

The federal American Rescue Plan Act (ARPA) includes a $10 billion coronavirus capital projects fund, with New Mexico projected to receive $134 million. The U.S. Department of Treasury has not released official guidance on how states apply for the funds; however, the language within the act specifies the money is to "carry out critical capital projects directly enabling work, education, and health monitoring, including remote options, in response to the public health emergency."

ARPA's coronavirus state and local fiscal recovery fund is projected to allocate an additional $1.6 billion to the state and $702 million to local entities. The funds will likely be used for responding to public health emergencies, negative economic impacts, and public revenue losses. The funds may also be used for investments in water, sewer, and broadband infrastructure.

The February 2021 bonding capacity estimate for FY22 indicates approximately $1 billion will be available for capital projects.

Staff is currently tracking 387 "$1 million or greater" projects, totaling $1.4 billion; $841 million is unexpended. Since the November 2020 report, twenty-seven appropriations were fully expended or reverted, totaling $97.6 million.

Members were provided detailed information on all projects; the status of select projects was highlighted.

Chairwoman Lundstrom expressed concern for stalled projects appropriated in previous years, possibly needing additional funds to complete than initially estimated because of rising construction costs.

Vice Chairman Muñoz requested LFC staff research reauthorized projects and report back to the committee. Vice Chairman Muñoz requested LFC staff provide the committee recommendations for expediting projects.

<u>Miscellaneous Business.</u>

Action Items. Senator Gonzales moved to adopt the LFC January 2021 meeting minutes, seconded by Senator Campos. The motion carried.

Representative Small moved to adopt the LFC contracts, seconded by Vice Chairman Muñoz. The motion carried.

Representative Sweetser moved to adopt the LFC FY22 budget, seconded by Senator Rodriguez. The motion carried.

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

<u>Friday, April 30</u>

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<u>Medicaid Accountability Report.</u> LFC Program Evaluator Jacob Rowberry presented the 2021 Medicaid Accountability Report, which seeks to bolster the program's limited quarterly reporting by presenting annual audited National Committee for Quality Assurance (NCQA) Healthcare Effectiveness Data and Information Set (HEDIS) national and regional averages for Medicaid, along with information on program expenditures, healthcare access, and core program element trends, such as care coordination. According to the report, Medicaid in New Mexico surpassed $7 billion in spending in FY21, providing healthcare coverage to approximately 43 percent of the state's citizens. With so much at stake, LFC, legislators, and the public have an interest in understanding how well the state's Medicaid program is delivering healthcare services to New Mexicans, as well as the associated health outcomes.

The Human Services Department (HSD) faced unprecedented challenges administering the Medicaid program during the Covid-19 pandemic. Medicaid enrollment in 2020 grew by nearly 9 percent, reflecting 82 thousand new beneficiaries. To put this into perspective, prior to the pandemic, HSD projected an enrollment growth rate of just over 1 percent, or 9,700 individuals, in 2020. Despite enrollment growth, the fiscal impact to the state in FY20 and FY21 is offset by increased federal financial support. In January 2021, HSD projected a $46 million general fund surplus for FY21. However, with uncertainty surrounding the length and extent of continued federal support, HSD projected an initial shortfall of $169.7 million in FY22, which assumed a Medicaid general fund appropriation of $996.4 million. The final FY22 Medicaid general fund appropriation was $1.016 billion.

The federal government matches state Medicaid expenditures at various rates depending on the Medicaid population served. Prior to Covid-19, the overall federal match rate for New Mexico was expected to be about 78.5 percent in FY21. However, in response to the pandemic, the federal government increased the federal medical assistance percentage (FMAP) by 6.2 percentage points through the duration of the public health emergency. The overall federal match rate for FY21 is now estimated at 82.5 percent, meaning the federal government contributes $4.72 to the Medicaid program for each $1 paid by the state. The Biden administration signaled in January 2021 it intends to extend the public health emergency through the end of 2021, which will keep the enhanced FMAP in place during the duration and increase federal revenues. The Covid-19 public health emergency was most recently extended on April 21, 2021. Medicaid program changes and trends. The state's Medicaid managed care program, which accounts for around 83 percent of all Medicaid enrollees, began its second iteration, known as Centennial Care 2.0, in January 2019. Two of the previous managed care organizations (MCOs) were not retained and one new MCO was selected. The three MCOs participating in Centennial Care 2.0 are Blue Cross Blue Shield, Presbyterian Health Plan, and Western Sky Community Care. An LFC program evaluation in November 2020, Centennial Care 2.0 – Implementation and Benchmarking, analyzed cost trends, rate setting, care coordination, and health outcome performance of the program. Notably, Medicaid member healthcare utilization decreased, yet capitation payments continue to increase.

Mr. Rowberry provided an overview of current measures.

Dr. David Scrase, secretary of HSD, said the accountability report is another tool the agency uses to determine what improvements need to be made in the state's Medicaid program.

Secretary Scrase provided LFC members HSD's 2021 *Data Book*, a summary of social, economic, and health statistics of New Mexico. The publication presents, in one reference document, a diversity of information and is designed to facilitate comparisons of national, state, and county level data. It contains various sections, representing the types of information most frequently requested by a broad range of stakeholders.

Representative Armstrong expressed concern about the limited availability of home health care and hospice services in rural New Mexico.

In response to Representative Rodriguez, Secretary Scrase said the pandemic put the Medicaid management information system replacement project further behind schedule. The project is now scheduled to be completed in FY23.

LFC Staff Interim Work Plans. Deputy Director Jon Courtney, Ph.D., said LFC's program evaluation unit is currently wrapping up an evaluation on New Mexico's unemployment system. Projects expected to be completed later this year include an evaluation on state water quality and water security projects and an evaluation on Department of Health facilities. Also, staff will present the *2021 Early Childhood Accountability* report in August. Other projects happening this interim include various progress reports and a policy spotlight on the impacts of stacking individual stimulus and income supports.

Chairwoman Lundstrom requested LFC staff provide committee members program evaluation reports before they are presented.

Deputy Director Charles Sallee presented LFC staff work plans for the 2019 interim. The work plans are focused on addressing current issues. Highlighting key assignments, Mr. Sallee said analysts will be

- Monitoring public school federal fund expenditures, particularly items relating to addressing learning loss;
- Monitoring spending of tribal remedy framework requests;
- Researching the ways school districts offer and deliver dual credit instruction and the costs incurred;
- Developing a list of possible revisions to the higher education funding formula that would ensure it treats all institutions fairly, based on quantifiable performance;
- Monitoring the capacity of Department of Health facilities;
- Monitoring childcare assistance spending and provide policy options to ensure revenues are used in ways that support continuity of care and quality services;
- Proposing performance measures for the new recidivism reduction program;

- Reviewing other states' correctional healthcare systems to identify potential opportunities for cost savings and improved outcomes within New Mexico's correctional healthcare system;
- Studying current law enforcement training practices and identify areas of improvement;
- Monitoring southern border conditions and apprehensions to determine future needs;
- Monitoring and reporting the status of ongoing and new IT projects;
- Assessing Motor Vehicle Division performance;
- Proposing potential legislative or internal changes to sunset review;
- Analyzing economic recovery from effects of Covid-19 on state finances and macroeconomic factors;
- Improving accuracy of existing revenue forecasting models; and
- Monitoring and researching market development of the recreational cannabis industry to develop tax policy recommendations.

Representative Martinez said the Legislature should consider more capital investments in state parks.

Senator Gonzales requested LFC staff work with the executive on developing recurring funding stream recommendations for maintaining state roads.

Chairwoman Lundstrom asked LFC staff to schedule a joint meeting with Revenue Stabilization and Tax Policy Committee and LFC leadership to discuss tax issues.

With no further business, the meeting adjourned at 10:38 a.m.

Patricia A. Lundstrom, Chairwoman

George K. Muñoz, Vice Chairman