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FISCAL IMPACT REPORT

SPONSOR McSorely **ORIGINAL DATE** 2/5/2016
LAST UPDATED _____ **HB** _____

SHORT TITLE State Prison Rehab Tax Bonds **SB** 253

ANALYST Rogers

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY16	FY17		
\$0.0	\$200,000.0	Nonrecurring	Severance Tax Bonds

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY16	FY17	FY18		
\$0.0	\$200,000.0	\$0.0	Nonrecurring	General Services Department

(Parenthesis () Indicate Revenue Decreases)

Relates to SB 115, SB 228

SOURCES OF INFORMATION

LFC Files

Responses Received From

General Services Department (GSD)

New Mexico Corrections Department (NMCD)

SUMMARY

Synopsis of Bill

The bill authorizes the State Board of Finance to issue and sell severance tax bonds in compliance with the Severance Tax Bonding Code in an amount not to exceed two hundred million dollars for the repair and rehabilitation of state prisons.

GSD must certify to the State Board of Finance when the money from the proceeds of the severance tax bonds is needed. If GSD has not certified the need for the severance tax bond proceeds for the project by the end of fiscal year 2018, the authorization for the project is void.

Before GSD certifies the need for severance tax bond proceeds, the project must be developed so that it is reasonable to expect to incur a substantial binding obligation to a third party within six months after the proceeds are available and to expend at least five percent of the bond proceeds for the project, and to spend at least eighty-five percent of the proceeds within three years after the applicable bond proceeds are available for the project.

The unexpended balance from the proceeds of the severance tax bonds appropriated must revert to the severance tax bonding fund no later than six months after completion of the project, but no later than the end of fiscal year 2020.

FISCAL IMPLICATIONS

The bill authorizes the sale of \$200 million in severance tax bonds for NMCD facility repairs. However the state does not have the capacity in either net senior tax bonds (FY17 \$14.6 million as of January 2015) nor in total supplemental STB's (\$123 million). Senior bonding capacity has dropped approximately \$13 million.

In addition, bonds for prison facility improvements would compete with other projects through the capital outlay planning process.

NMCD states that the fiscal impact to the department is difficult to quantify because of variables relating to the timing of bond sales and the need for creation of a master plan with GSD to prioritize the repairs that need to be made.

However, NMCD estimates that its deferred maintenance costs are around \$300 million. NMCD has worked on many projects with GSD to replace or repair roofs and HVAC systems in facilities around the state.

As of October 28, 2015, NMCD had requested \$36.2 million in capital outlay to continue ongoing projects or start new projects critical to health and safety.

SIGNIFICANT ISSUES

The appropriation will go to the Capital Program Fund for the General Services Department to certify. The General Services Department (GSD) was not involved in the development of these projects; therefore, GSD will not be able to immediately certify the bonds. \$200 million dollars represents a large amount of work that GSD does not have the resources to accomplish within a period of 4 years. GSD will need to understand, verify and evaluate the individual projects that will be identified to determine if the funding is sufficient.

The projects need to be prioritized so that the immediate needs are met first. Phasing is necessary as the sheer volume and size of the projects will make it impossible for GSD to meet the requirements stated in the bill with regards to obligating at least 5 percent (\$10 million) within 6 months after the bond proceeds are available and to spend at least 85 percent (\$170 million) within 3 years after the funds are received.

GSD has contracted for facility condition assessments to be done on state facilities including the state prisons. This assessment will provide GSD with the data needed to determine the exact repairs and renovations that are needed as well as the associated costs.

PERFORMANCE IMPLICATIONS

GSD explained that projects totaling \$200 million cannot be accomplished by GSD within the 4 years specified with the current resources that are available. Even if enough additional project managers and staff could be hired, the performance on these projects as well as other projects that are currently funded and in progress would suffer.

A project of this magnitude requires planning of not only the project but of the resources available at GSD. An allocation of project management time must be carefully analyzed in order to assure that the project is executed in a manner that provides a product to the State that meets the State's requirements and represents the best value to the State.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB 115 appropriates \$20 million for a prison in Northwest New Mexico.

SB 228 appropriates \$20 million for a prison in North Central New Mexico.

HB 219 appropriates funds for capital outlay projects including state prisons. The bill currently allocates the following amounts for correctional facilities.

- \$1,500,000 for repairs and renovations
- \$4,000,000 for security upgrades
- \$4,000,000 for HVAC systems

ALTERNATIVES

Phase the projects so that the immediate needs are met and the work load for GSD is achievable. This will also result in a smaller amount of bonds being sold so that the State is not incurring costs on bond proceeds that cannot be used for years.

TMR/jle/jo