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FISCAL IMPACT REPORT

ORIGINAL DATE 1/27/17
 SPONSOR Ely LAST UPDATED 3/1/17 HJM 4/aHTRC/aHF1#1
 SHORT TITLE Infrastructure Funding Interim Committee SB _____
 ANALYST Kehoe/Leger

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	*Minimal	*Minimal		*See Fiscal Implications		

(Parenthesis () Indicate Expenditure Decreases)

Relates to House Bill 140

SOURCES OF INFORMATION

LFC Files
 Public School Finance Authority (PSFA)

SUMMARY

Synopsis of House Floor Amendment #1

House Floor Amendment #1 add two additional points to the memorial as follows:

- “WHEREAS, the constitution of New Mexico provides that a full and complete report of all state money shall be transmitted to the legislature by the governor; and
- WHEREAS, the state auditor has testified that there is not a full and complete report of funds for infrastructure, and an interim committee should be created to review and make recommendations on those funds; and”.

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment adds the office of the state auditor to join the LCS and LFC in staffing the interim committee and requests a copy of the memorial be transmitted to the state auditor.

Synopsis of Original House Joint Memorial

House Joint Memorial 4 proposes creation of an interim committee of the legislature to study the problems of unspent infrastructure funds and inefficient process in funding and to make recommendation measures to improve the state’s infrastructure process. The interim committee

would consist of members of the New Mexico Legislative Council (LCS) and Legislative Finance Committee (LFC), staffed by the LCS and assisted by staff of the LFC. The interim committee would meet during the biennium of the Fifty-Third Legislature, a period of two years beginning in 2017.

FISCAL IMPLICATIONS

HJM 4 will have a minimal impact on operating budget of the New Mexico LCS and LFC to staff the proposed interim committee.

SIGNIFICANT ISSUES

As of January 2017, approximately \$969.6 million from all funding sources for 2,472 projects remains outstanding including \$127 million of earmarked fund balances for water (\$58.2 million), colonias (\$35.5 million), and tribal (\$33.3 million) infrastructure projects; approximately \$302.5 million remains outstanding from supplemental severance tax bonds for public schools.

The Work Plan approved by the LFC directs its staff to continue making improvements to the process including development of quarterly reports for accountability of all state funds authorized for state and local projects. The reports include separate reports for all projects funded for \$1 million or greater and local projects funded for \$300,000 or greater. The reports are posted on the legislative website.

Legislation introduced in past years proposing to reform the capital outlay process has failed. However, the LFC staff continues to work on making changes not requiring legislation. Since April 2016, legislative and executive staff and the directors of the New Mexico Municipal League (NMML) and the New Mexico Association of Counties (NMAC) referred to as the “work group” have met to review the current state process, surveyed local entities for input, and developed methods to simplify the process administratively. The anticipated results will provide accountability of outstanding state and local funds, reduce the cumbersome paper shuffling, aid in the backlog of uncompleted projects, and lessen the administrative burden for state and local entities. The following are enhancements made to date and next steps the group will address:

Enhancements to Date

- Increased outreach and education regarding the Board of Finance (BOF) paperless, web-based questionnaire system that dramatically streamlines the local government submission and the state’s review prior to issuance of bonds.
- Questionnaires required for bond issuance will be distributed to grantees within the governor’s bill signing period to allow the bonds to be sold more quickly.
- The BOF no longer issues bonds for projects with anti-donation issues or for those grantees not in compliance with audit requirements.
- The list of authorized but unissued projects is published on the board of finance website.
- A summary of guidelines for use by legislators and local entities to assist in ensuring projects are ready to go and are high priorities for communities.
- A checklist of ‘best practices’ to assist grantees in effectively managing and overseeing their projects.

Next Steps

- DFA will survey all grantor agencies regarding their current processes to identify best

practices and prescribe standard approaches at the state level.

- Training at the state level to provide consistency in timelines, required documentation, and improved communication between grantors and grantees.
- Broaden the scope of work to include input from the Councils of Government and to review issues impacting the Navajo Nation and chapter houses, acequias, and other rural entities.
- Continue to identify and implement management changes to improve the local capital outlay process.

RELATIONSHIP

House Bill 140 proposes a special audit be performed upon completion of all capital outlay projects funded with state monies with a value of \$1 million or greater. The purpose of the audit is to ensure funds were expended in accordance with state law or local ordinances. The proposed audit would be performed separate from the fiscal agent's annual audit, the state auditor, or any other special audit.

OTHER SUBSTANTIVE ISSUES

A legislative interim committee was established in 2006 for purposes similar to those proposed in House Joint Memorial 4. The interim committee was composed of members of the Legislative Council and Legislative Finance Committee for the purpose of reviewing issues related to the capital outlay process and for the purpose of making recommendations to the full Legislature for improving the process. The interim committee was not continued in 2008, but the successful outcomes of the committee included revisions to the capital outlay request and reauthorization forms. *The attached Work Plan developed for the interim committee by staff of the LCS and LFC outlines the issues reviewed and discussed by committee.*

Based on a study by the National Association of State Budget Officers, *Capital Budgeting in the States*, good practices for quality capital budgeting require:

- Defining capital expenditures
- Defining maintenance expenditures and identifying funding for maintenance
- Developing a system to prioritize projects and identify criteria used for selection
- Identifying operating costs of each project over a multi-year period
- Effective communication between the legislature and the executive during the capital budget process
- Strengthened review of long-range capital plans
- Integrated planning with debt affordability
- Review of cost-benefit comparisons for private sector participation in capital projects
- Review of long-term leases
- Defining of outcomes for capital investments
- Validating cost estimating methods
- Establishing a tracking system to keep projects on schedule and within budget
- Maintaining an updated inventory system of capital assets
- Maintaining a centralized oversight for capital projects

**Capital Outlay Interim Subcommittee
Discussion Points Based on Work Plan - 2006**

I. Prioritization of Statewide and Local Projects

- establish a means of looking at statewide need and prioritizing statewide project funding by project category (such as water, state buildings, etc);
- invest in deferred maintenance at higher education facilities and other state-owned facilities to minimize the life-cycle cost at these facilities;
- establish criteria to determine the critical need of projects;
- coordinate planning processes for capital projects, including use of the ICIP, planning done by COGs, use of the uniform application and leveraging federal funding;
- fund priority requests from local and tribal entities that are planned and may be leveraged with local and federal funds;
- improve communication between sponsor, administering agency and receiving entity to ensure that projects that receive funding are a priority so that operating or staffing funds are available for the project;
- establish coordination among legislators in a district to fully fund a project to encourage fully funded projects rather than piece-meal and how this could realistically be accomplished;
- complete funding for projects already in progress and for projects with matching funds, federal mandates, deferred/asset management and emergency projects; and
- create an interim committee for capital budget planning and oversight that would be authorized to receive agency requests, conduct hearings and analysis and make recommendations for prioritization and funding.

II. Minimization of Project Requests & Related Funding Issues

- limit amount of requests to more closely match available funding;
- limit the number of capital outlay requests allowed to be introduced by each legislator to streamline the production of project requests (by providing charts to sponsoring legislators rather than introducing so many requests. Towards the end of the introductory period for bills, combine all projects for one legislator into one request so that only 112 requests are actually introduced on the house and senate floors);

- determine available revenue in a timely manner so that funding decisions for both STB and GF can be decided earlier;
- establish criteria for project funding, including:
 - establish a \$50,000 minimum level for funding projects with severance tax and general obligation bonds;
 - project's usable life must be at least equal to the life of the bonds, if funded by STBs or general obligation bonds (10 years);
 - use non-recurring general funds for projects with a life cycle of less than 10 years (e.g. vehicles, furniture, equipment, etc.);
 - project funds must be sufficient to complete one full phase; and
 - enforce the anti-donation clause by not allowing funding requests to be written for private entities.

III. Communication Between the House and Senate and With the Executive

- improve communication between the legislature and the executive during the capital budget process;
- ensure timely submission of the capital outlay budget by the executive branch that includes priorities and recommended funding sources;
- develop legislative timelines and procedures for legislative consideration of the executive's capital requests;
- set priorities in the house and senate in a unified and coherent way; and
- establish a method for clear communication between the House, Senate, executive and legislative staff during the session.

IV. Review of Other Issues

- establish a policy for reauthorizations that limits scope changes and time extensions on projects previously authorized by the legislature;
- establish review and approval of reauthorizations by capital subcommittees ;
- streamline project implementation and monitoring by agencies to ensure consistency, accuracy and communication to legislators on project status;
- train legislative staff before session on capital outlay procedures; and
- require the use of the legislative council service form when making capital requests to ensure proper language.