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FISCAL IMPACT REPORT

SPONSOR Lundstrom/Gonzales/ Sanchez/Padilla **ORIGINAL DATE** 3/04/19 534/aHLVMC/aHF1#1/
LAST UPDATED 3/09/19 **HB** aSJC

SHORT TITLE Public-Private Partnership Act **SB** _____

ANALYST Valenzuela

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21		
	\$1,000.0	\$2,000.0	Recurring	P3 Fund

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		(\$250.0)	(\$250.0)	(\$500.0)	Recurring	P3 Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

FY20 LFC Appropriation Recommendation

Responses Received From

Energy, Minerals and Natural Resources Department (EMNRD)
 New Mexico Municipal League (NMML)
 New Mexico Attorney General (NMAG)
 General Services Division (GSD)

SUMMARY

Synopsis of SJC Amendment

The Senate Judiciary Committee (SJC) Amendment to House Bill 534/aHLVMC/aHF1 strikes two sections from the bill and makes technical corrections. First, the amendment strikes Section 2, Legislative Purpose, and Section 15, Liberal Interpretation, in their entirety. SJC amendment number 3 makes a technical correction, changing approval authority from the NMFA to the Public Private Partnership Board. The final amendments remove the minimum term length of five years for agreements which must receive approval from the P3 Board.

Synopsis of HFI#1 Amendment

The House Floor #1 Amendment to House Bill 534 restricts the ability to consider toll roads as a public-private partnership public project.

Synopsis of HLVMC Amendment

The House Labor, Veterans, and Military Affairs Committee (HLVMC) Amendment to House Bill 534 clarifies the definition of public project to include transportation and broadband facilities and requires a statement of public interest by the governmental entity in pursuing the project. The amendment also includes tribal governments as eligible to participate in the P3 fund.

Synopsis of Original Bill

House Bill 534 creates the Public-Private Partnership Act, providing legal authority for governmental entities to enter into agreements with private entities to develop public projects. Projects are restricted to infrastructure in transportation or broadband telecommunications areas.

The bill creates a Public-Private Partnership (PPP or P3) Board, staffed by the New Mexico Finance Authority (NMFA). The P3 Board would review and approve P3 agreements that meet a minimum threshold, agreements for greater than \$10 million or longer than five years.

The bill provides authority to the NMFA to participate in the financing of the P3 agreements through a P3 Project Fund, established by the bill. The NMFA Board would approve any financing for loans and grants from the fund. The bill includes standard language allowing the NMFA to issue standalone revenue bonds as a form of financing of these projects, and explicitly ensures any bonds issued for these projects are not an obligation of the state. Governmental entities pursuing a P3 agreement may apply for up to \$75 thousand grant to assist in evaluating the feasibility of a proposed project.

HB534 is endorsed by the Legislative Finance Committee.

FISCAL IMPLICATIONS

The bill does not contain an appropriation. The FY20 LFC Appropriation Recommendation includes \$40 million for a public-private partnership fund, which would allow NMFA to participate in the project financing.

Under the bill, the P3 Board and NMFA may use appropriations in the fund to cover any costs from implementation of the program. The estimate is \$250 thousand of operating costs.

Additionally, the bill provides for NMFA's ability to earn a rate of return, commensurate with the risk, on project financing. Assuming a 5 percent annual return and a \$40 million appropriation to the P3 fund, NMFA could earn \$2 million from interest earnings annually.

SIGNIFICANT ISSUES

New Mexico is often overlooked for private-sector investments in public infrastructure. More than 35 states have laws governing the use of public-private partnerships. New Mexico is not one

of them. HB534 provides the statutory framework to ensure the projects develop in the public's interest.

Public-private partnerships have been completed throughout New Mexico on an ad-hoc basis with mixed results. Oversight of projects is left to a governing body that is a party to the agreement, which in some cases may not have the staff or expertise to fully analyze long-term financial obligations of the public-private partnership agreements. P3 agreements are complex. HB534 would provide support to governments to analyze the legal and financial issues of an agreement.

Sections of the Bill. Enactment of the bill would provide governmental entities and private partners with a clear transparent set of guidelines, under which these partnerships can operate to ensure the public's interests are served. The P3 Board will be responsible for promulgating rules to implement the act, which would expound on the definitions, processes, and requirements of an agreement.

Section 2 provides legislative findings and need for a P3 framework in New Mexico. Section 3 provides a list of key definitions for a P3 projects: public partner, private partner, and P3 agreements. The definitions also detail eligible public projects (i.e., transportation and broadband infrastructure) and definitions of revenue or user fees that may generate from a P3 project.

Section 4 outlines guardrails, or protections of the public interest in projects: (1) cost: each project must provide a cost-benefit analysis comparing the proposed project with the project, if developed under conventional government processes; (2) public input: each project must demonstrate support locally by having held public hearings and received support from local governmental bodies; (3) competition: each project must outline the procurement process for the project; and (4) compliance with existing law: each project must have met applicable state and federal laws such as for environmental protection, employment and financing.

Any project over \$10 million or for a term longer than five years, the P3 agreements must be reviewed and approved by the P3 Board. Anything below these thresholds must report the project to the P3 Board.

Section 5 creates a nine-member board, who have expertise in public project development or financing, including four cabinet secretaries (Economic Development Department, the Department of Finance & Administration, the General Services Department, and the Department of Transportation). The NMFA CEO will hold one seat and four public members would be appointed by the New Mexico Legislative Council Service. The public members would have specific expertise in topics relevant to public-private partnerships and the Chair would be selected from the public members.

Sections 6 and 7 establish the respective roles the P3 Board and NMFA and Section 13 requires the NMFA to report activity of the P3 Board to the NMFA Oversight Committee by December 1 of each year. Section 8 creates the P3 fund: (1) may be used for grants up to \$75,000, matched with 25 percent match from the private partner to study the feasibility of a proposed P3 project or (2) may be used to finance a portion of a P3 project. The section allows the P3 Board and NMFA to charge administrative and reimbursable costs to the fund.

Sections 9 and 14 address other federal or state laws for which compliance is necessary in a P3

agreement including statutes on public works construction, the procurement code and confidentiality in public records requests. Section 14 specifically provides an “opt-in” clause for governments that already have existing authority such as home-rule municipalities to undertake the projects, or who pursue a project under an existing statutory authority such as the Tax Increment Development District Act. Section 16 amends the Procurement Code to add a new exemption for projects undertaken pursuant to this Act.

MFV/sb