

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current and previously issued FIRs are available on the NM Legislative Website ([www.nmlegis.gov](http://www.nmlegis.gov)) and may also be obtained from the LFC in Suite 101 of the State Capitol Building North.

## FISCAL IMPACT REPORT

SPONSOR Cervantes ORIGINAL DATE 2/5/18  
 LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Legislative Public Works Committee SB 248

ANALYST Armstrong/Kehoe

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

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

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to SB54, SB148, SB149, SJM18

### SOURCES OF INFORMATION

LFC Files

### SUMMARY

#### Synopsis of Bill

Senate Bill 248 creates a permanent interim Legislative Public Works Committee for the purpose of annually hearing and reviewing state-funded capital outlay projects, including the status of capital projects already funded. The interim committee would consist of political proportional representation with nine members of the House appointed by the Speaker and nine members appointed by the Senate Committees' Committee. Senate members may be appointed by the President Pro Tempore, with the consent of the majority of the Committees' Committee if appointment of members is made during the interim. The committee may create subcommittees composed of at least three members, one Senate member and one House member and one member of the minority party from either chamber. The Legislative Council Service (LCS) and Legislative Finance Committee (LFC) would provide staffing for the committee.

### FISCAL IMPLICATIONS

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

### SIGNIFICANT ISSUES

The bill outlines the duties of the committee. Such duties could include engaging with eligible political subdivisions and state agencies, holding hearings to receive testimony and request

information or data from entities to support requests for state capital funding, and evaluate the proposals for funding of capital projects. The committee may also study and review projects to determine project need based on critical health and safety, creation of jobs, other available funding sources, defining a functional phase of a project, the availability of operational and maintenance needs of the project, to ensure project is in the state or local government Infrastructure Capital Improvement Plan, and to determine if state funding is an appropriate source for the project.

Over the years, legislative proposals have taken aim at developing an efficient, objective, and transparent process for planning, prioritizing, and funding capital outlay requests statewide. As reported by the Legislative Finance Committee and numerous legislators, the current process has created a proliferation of projects that are not adequately funded and implemented. This puts an unreasonable strain on state and local government resources. The fractured nature of funding local government capital projects leaves millions of dollars sitting idle, often for many years that could be used for critical infrastructure to protect the health and safety of New Mexico citizens. In addition, due to the difference in the geography of the legislative districts, resources are allocated unevenly between rural and urban districts and construction costs are typically higher in rural New Mexico.

As of December 2017, approximately \$623 million from all funding sources for 1,684 projects remains outstanding including \$80.3 million of earmarked fund balances for water (\$32.6 million), colonias (\$22.4 million), and tribal (\$25.2 million) infrastructure projects; approximately \$260 million remains outstanding from supplemental severance tax bonds for public schools. Of the outstanding funds, \$111.8 million is for 942 “local” projects. The current capital process continues to divert funding from the most critical and basic infrastructure needs for both state and local facilities. Without procedures to ensure projects are adequately funded and completed, communities will continue to have deficient road and water systems, and the conditions at state facilities will continue to amplify the risk to patients and the potential liability to the state.

Recognizing the inadequacies in the state’s capital outlay process, representatives of the Association of Counties, the New Mexico Municipal League, and staff of the executive and legislative branches joined efforts to review and develop “administrative” changes aimed at improving the process. The “Report of the Legislative Finance Committee, Volume I, Public Infrastructure Section” outlines the group’s accomplishments and steps to be taken as the group continues their work to streamline the process at both the local and state level.

## **RELATIONSHIP**

Senate Bill 54 requires LCS to publish a list of all projects included in capital outlay bills passed by the legislature showing the amount of funding provided by each project sponsor, either a legislator or the governor, and the amount of funding, by sponsor, that would have been provided for each vetoed project.

Senate Bill 148, the Capital Outlay Reform Act, creates a Capital Planning and Assistance Division within the Department of Finance and Administration (DFA), creates a Capital Outlay Oversight Task Force, expands the membership of the Capitol Buildings Planning Commission, and requires an Annual Statewide Capital Improvements Plan..

Senate Bill 149 creates the Capital Outlay Planning and Monitoring Act for the purpose of increasing fiscal and programmatic oversight of capital outlay projects and expenditures. The Act creates a Capital Outlay Planning and Monitoring Division within the Department of Finance and Administration (DFA), allows the new division to promulgate rules necessary for the administration of the Act, requires the new division to prepare and annually update a five-year state capital improvement plan, and repeals New Mexico statute that deals with capital programs, preparations and duties.

Senate Joint Memorial 18 requests that the New Mexico Finance Authority Oversight Committee, Legislative Finance Committee (LFC), and governor appoint a working group to study the state's current capital outlay planning, funding, and monitoring processes and to make recommendations for improvements to the Legislature by November 15, 2018.

### **OTHER SUBSTANTIVE ISSUES**

A legislative interim committee was established in 2006. 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.

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