

# **HIGHLIGHTS OF CAPITAL OUTLAY QUARTERLY UPDATE**

(October 22, 2010)

## **Quarterly Status of Outstanding Capital Funds**

- Since July 2010 report, \$766 million for 1,684 projects remain unexpended -- compared to the \$1 billion for 2,084 projects reported in July.
- Outstanding funding by sources “by percentage” include: GF (7 percent), STB (70 percent), GOB (21 percent), and OSF (2 percent).
- Within the last quarter, 400 projects totaling \$264.3 million were either expended or reverted by June 30, 2010. Of the \$264.3 million, 166 projects totaling \$152 million reverted and \$112.3 million for 234 projects was expended.
- Of \$766 million outstanding, LFC staff currently tracks \$469.5 million for 223 projects funded for \$1 million or greater--nearly 62 percent of all unexpended funds; \$81.5 million for 60 projects was expended or reverted in the last quarter.
- LFC staff will closely monitor all outstanding funding sources for possible reversion or reauthorization for solvency, if needed.

## **Next Steps and Other Issues**

- October revenue projections indicate there will be very limited general fund monies for capital outlay in 2011.
- According to Board of Finance “preliminary” estimates, approximately \$267 million severance tax bond capacity will be available for capital outlay and approximately \$146.3 million supplemental severance tax bond capacity will be available for public school construction in 2011.
- The Local Government Division of the Department of Finance and Administration is implementing three new major management issues effecting state grants for local projects. The initiatives include changes in accounting practices, grant agreement language, and reporting requirements. (Attachment A)

## LFC HEARING BRIEF

**AGENCY:** LFC Staff

**DATE:** October 22, 2010

**PURPOSE OF HEARING:**  
Capital Outlay Quarterly Report

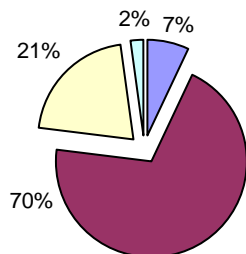
**PREPARED BY:** Linda M. Kehoe, Principal Analyst;  
Jeannae L. Leger, Fiscal Analyst

**EXPECTED OUTCOME:**  
Informational

### GOB Bond Issues

- A) Senior citizen center infrastructure & equipment - \$7.7 million
- B) Academic, public school, public, and tribal libraries statewide - \$7 million
- C) Public school buses and security systems, pre-kindergarten classrooms, and instructional materials - \$5 million
- D) Higher education facilities statewide - \$155.6 million

**Percent of Unexpended Capital Balances by Fund 2007-2010**



General Fund  
 Severance Tax Bond  
 General Obligation Bond  
 Other State Funds

Source: LFC

### BACKGROUND INFORMATION

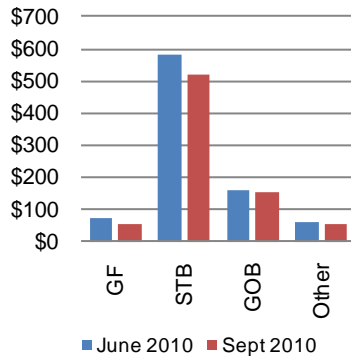
The Capital Outlay Quarterly Report provides the Legislative Finance Committee (LFC) and members of the Legislature with the current fiscal accountability for outstanding capital funding appropriated between 2007 and 2010. The report shows appropriations, expenditures, and balances for all active capital projects. The data, updated as of September 15, 2010, is derived from the Capital Projects Monitoring System (CPMS) operated and maintained by the Department of Finance and Administration.

The report does not include \$175.5 million general obligation bonds (GOB) authorized by the Legislature in 2010. The GOB projects and funds listed in the sidebar will be incorporated into CPMS if the bond issues are ratified by the electorate on November 2, 2010. The status of the bonds will be reported to LFC following the sale of the bonds.

**Quarterly Report Results.** Analysis of data from CPMS for outstanding capital funding authorized between 2007 and 2010 demonstrates the following:

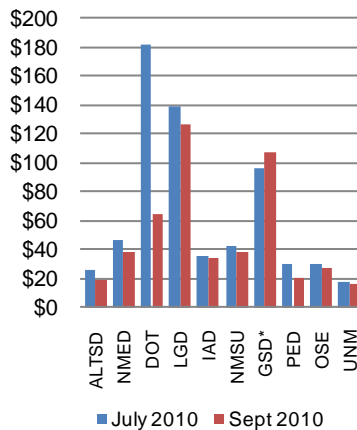
- Compared to the \$1 billion unexpended for 2,084 projects reported in July 2010, current balances are now \$766 million for 1,684 projects (percentage unexpended by fund listed in sidebar).
- Since last quarter, 400 projects totaling \$264.3 million were expended or reverted--\$112.3 million for 234 projects were expended and \$152 million for 166 projects reverted as of June 30, 2010.
- Excluding reversions and reauthorizations, unexpended balances by fund are: general fund (\$52 million), severance tax bonds (\$518.4 million), general obligation bonds (\$154.6 million), and other state funds (\$16.1 million).
- In accordance with LFC FY11 budget guidelines, the status of general fund projects will be closely monitored for potential void or reauthorization for solvency, if needed.

**Balance Differences Between June 2010 and September 2010 by Fund**  
(in millions)



Source: LFC Files

**Balance Differences Between December 2009 and June 2010 for Select Agencies**  
(in millions)



\* balance increase reflects 2010 Legislative appropriations

Source: LFC Files

**2007-2010 Capital Outlay Funding  
"Outstanding" Projects Only**

(in millions)

Year	Number of Projects	Amount Appropriated	Amount Expended	Amount Unexpended	Percent Unexpended by Year
2007	505	\$ 275.6	\$ 138.4	\$ 115.9	42%
2008	610	\$ 399.9	\$ 109.1	\$ 281.0	70%
2009	495	\$ 326.8	\$ 48.2	\$ 268.1	82%
2010	74	\$ 103.1	\$ 2.4	\$ 100.6	98%
<b>Total</b>	<b>1,684</b>	<b>\$ 1,105.4</b>	<b>\$ 298.1</b>	<b>\$ 765.6</b>	

**STATUS OF \$1 MILLION OR GREATER AND HIGHLIGHTS OF SELECT PROJECTS**

- Data for the \$1 million or greater capital outlay report is derived from information provided by agencies. The administering agencies provide expenditures, milestones, and determine color ratings based on the following criteria:

Green – *Project on schedule*: Project is progressing as planned according to budget and timeline.

Yellow – *Behind schedule*: Project is not progressing on schedule, timelines are not being met, or unforeseen issues have delayed project.

Red – *No activity or bonds not sold*: Grant agreements not executed, funds have not been budgeted, no purchase(s) or draw-down(s) have been reported, language or anti-donation issues, scope of work has not been identified, no progress report has been reported by entities involved with the project, projects not ready for bond issuance, or a reauthorization is necessary to address language issues.

Blue – *Appropriation expended or project complete*.

- Of \$766 million outstanding, LFC staff currently tracks \$469.5 million remaining for 223 projects funded for \$1 million or greater--nearly 62 percent of all unexpended funds.
- Since the last report, \$81.5 million for 60 projects was expended or reverted.
- LFC staff will closely monitor yellow- and red-flagged projects for recommended reversion or reauthorization in 2011.

LEGEND		
G	Project on schedule	150
Y	Behind schedule or little activity	60
R	No activity or bonds not sold	13
<b>Total Active Projects</b>		<b>223</b>
<b>Other report information:</b>		
B	Appropriation expended or project complete	60
X	Additional funds needed	9

**Major Projects Completed or Funds Expended**

- State laboratory services building - \$21 million (GF and STB)
- New Mexico School for the Blind and Visually Impaired early childhood facility and Alamogordo infrastructure - \$5.5 million (STB)
- New Mexico State University Gardiner Hall renovation - \$11 million (GOB)
- University of New Mexico Cancer Research and Treatment Center- \$17 million (GOB)
- Cumbres, Toltec and Scenic Railroad track rehabilitation and locomotive upgrades - \$2 million (STB)
- Colonias initiative - \$5 million (GF)
- Las Cruces aquatic and family recreational center - \$9 million (STB)
- Santa Fe Indian School wellness center - \$3 million (GOB)

Highlights of the following projects are based on the color rating, significant progress and expenditures in the last quarter, projects experiencing delays, projects with no expenditures, or stalled projects:

**Projects with Significant Activity Since Last Report.**

**Homeland Security State Emergency Operation Center**

- \$1 million (STB) authorized in 2009 for renovation and expansion of their center: the programmatic design phase is complete and construction documents are in progress with bids being let in October 2010.

**Dine College Library Construction**

- \$5 million (STB) authorized in 2008 for construction of the new library is 45 percent underway and expected to reach 70 percent in October 2010.

**New Mexico Behavioral Health Institute**

- \$21 million (STB, GOB, and cigarette tax revenue bonds) authorized between 2008 and 2010 enabled the commencement of phase 1 of the new Meadows long-term care facility; groundbreaking scheduled for October 19, 2010.

**Statewide Demolition and Decommissioning**

- \$2.7 million (STB) authorized in 2009 completed demolition of hazardous and substandard buildings such as Campbell, Woolston, Mechem and Hunning on Los Lunas campus and an old dormitory building at New Mexico Rehabilitation campus in Roswell.

**New Mexico Institute of Mining and Technology**

- \$8 million (GOB) authorized in 2008 is underway for phase 3 of a six-phase project to address central utility infrastructure.

**Projects Experiencing Delays.**

**Aging and Long-Term Services Department**

- \$1.1 million (GOB) authorized in 2008 for senior center renovation and code compliance: state agency sent grant agreements to entities in April 2010: to date, signed agreements have not been returned from McKinley County, Truth or Consequences, the Navajo Nation, and Laguna Pueblo.
- \$1.5 million (GOB) authorized in 2008 for senior center renovations: state agency sent grant agreements to entities in April 2010; to date, signed agreements have not been returned from Rio Arriba County, the Village of San Jon, the Navajo Nation, and Picuris Pueblo.

**State Projects in Progress**  
(Require Additional Funds)

- Department of Military Affairs Farmington Readiness Center - \$1.6 million
- Southern and Central New Mexico Correctional Facilities phase III HVAC upgrades - \$10 million
- New Mexico State Veterans' Home Alzheimer's and skilled nursing unit - \$5.9 million
- New Mexico Behavioral Health Institute "new" meadows facility phase II - \$1.3 million

**Note:** Other major deferred maintenance needs will be addressed in December brief.

**Department of Cultural Affairs**

- \$1.2 million (STB) authorized in 2007 for design of a new Veterans and Technology Museum: exhibit master plan and much of schematic design is complete and agency has submitted application for land acquisition to the Bureau of Land Management. The project requires \$26 million for land acquisition, construction, and exhibits, and an additional \$2 million annually is required for operational costs.

**Tribal Infrastructure Fund Projects (TIF)**

- \$5 million (STB and GF) authorized in 2007 for TIF projects: Indian Affairs Department (IAD) has not received signed grant agreement from San Ildefonso Pueblo for Mesa Vista affordable housing project; IAD has not received invoices for Mexican Springs Chapter road improvements, Isleta Pueblo Village water main replacement, Shiprock youth home, Crownpoint judicial and public safety complex, Tohatchi Chapter community warehouse, Baahaali Chapter Pinehaven development site, Lake Valley Chapter power line, and Santa Clara Pueblo community master plan; entities have until March 2011 to submit invoices or the funds will revert to TIF.
- \$5 million (STB) authorized in 2008 for TIF projects: IAD has not received invoices for various projects, including Chichiltah Chapter Road 6 improvements, Tsin Ya Nal Kidi bathroom addition, Thoreau Chapter Road 27 project, Coyote Canyon Chapter house renovation, Ojo Encino Chapter power line extension, Alamo Chapter water improvements, Acoma Pueblo planning and assessment project, Kasha Katuwe Tent Rock visitor center, Isleta Pueblo long-term care facility, and Ramah Chapter plan and design of road and water lines; entities must submit invoices for the various project between February and June 30, 2011, or funds will revert to TIF.

**Office of the State Engineer**

- \$5.3 million (STB) authorized between 2008 and 2010 for construction of the Cabresto Dam in Taos County: completion date changed from December 2011 to December 2012; Office of the State Engineer reports too many pre-construction activities require work during summer months and early fall; owners are being informed of new timeline; reauthorization to extend the time for the funds will be requested in 2011 Legislative Session.

**Red Flag Projects “No Activity” Since Last Quarter.**

**Department of Finance & Administration - SHARE Project**

- \$10 million (STB) appropriated in 2004 and swapped to STB during the 2009 1<sup>st</sup> Special Session: no milestones have been provided; Financial Control Division indicates balance will be expended by the end of 2010.

**Economic Development Department (EDD) Capital Fund**

- \$4.5 million (STB) appropriated in 2009 to provide grants to achieve job growth pursuant to the Local Economic Development Act (LEDA): bonds have been sold; according to EDD, no commitments are in place to expend the funding.

**Economic Development Department (Sun Kachina/Signet Solar)**

- \$3 million (STB) appropriated in 2009 for a solar economic development project in Belen: bonds have been sold; according to EDD the project is on hold indefinitely.

**South Valley Multipurpose Health Center**

- \$2.5 million (GF and STB) appropriated in 2006: GF swapped to STB in 2010 Legislative Session; construction of the center is complete; DFA has not released a grant agreement to Bernalillo County for signature to allow purchase of equipment.

**Albuquerque Business Incubator (WESST Corp)**

- \$1.2 million (GF and STB) appropriated in 2007 to construct, furnish, and equip a business incubator: center has been fully operational since January 2009; the City of Albuquerque has agreed to comply with LEDA; city, DFA, and EDD are in the process of approving LEDA participation plan to resolve anti-donation issues.

**Tribal Infrastructure Project Fund**

- \$5 million (STB) appropriated in 2009: 16 projects were selected for funding; the memorandum of understanding (MOU) between IAD and DFA has not been executed; reimbursements to the tribes cannot occur without MOU.
- \$2.5 million (STB) appropriated in 2010: bonds have not been sold; projects have been reviewed and selected; selections will be announced at next TIF Board meeting, but date has not been determined.

**CRITERIA FOR PRIORITIZING CAPITAL OUTLAY NEEDS**

- Project will eliminate potential or actual health and safety hazards and liability issues.
- Project will address backlog of “deferred” maintenance and prevent deterioration of state-owned assets, including projects of cultural or historical significance.
- Project required due to federal, state, or court mandate.
- Project is necessary to comply with state or federal licensing, certification, or regulatory requirements.
- Request is included in state Five-Year Capital Improvement Plan for projects ready to commence or require additional funding for completion.
- Investment provides future operating cost savings with a reasonable expected rate of return.
- Project provides direct services to students, staff, or the general public.

**Indian Water Rights Settlement**

- \$10 million (GF) appropriated in 2007 swapped to STB in 2009 for the Indian water rights settlement fund: bonds have not been sold and timelines have not been established to expend funds; funds are contingent on federal funding, but federal commitments have not materialized.

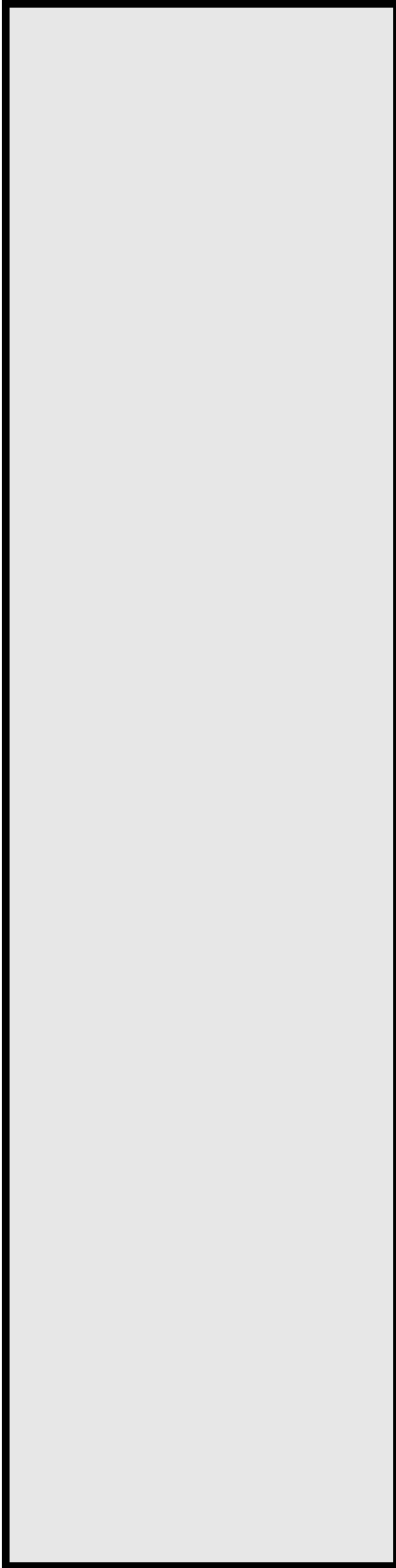
**NEXT STEPS AND OTHER ISSUES**

**2011 Capital Funding Outlook.** Early projections indicate there will be very limited non-recurring general fund monies for capital outlay in 2011. According to the Board of Finance “preliminary” estimates, severance tax bond (STB) net capacity available for capital outlay is \$267 million. The estimated supplemental severance tax bond capacity dedicated for public school construction is approximately \$146.3 million.

Severance tax bond capacity will be further reduced with the passage of legislation in 2010 authorizing five percent for deposit in the tribal infrastructure project fund and five percent for deposit in the colonias infrastructure project fund. The effective date of the legislation for both programs is July 1, 2011. The amount for STB allocation to the funds will be based on total STB capacity on January 15, 2012. The total affect of the new legislation and the previously authorized water project fund obligates 20 percent of each year’s severance tax bonding capacity.

During the interim, LFC staff will follow the same methodology used in the previous year to develop “preliminary” prioritized capital funding recommendations to the committee. Staff will perform site visits, meet with major agencies and higher education officials to discuss critical projects to assess need, review state and local Infrastructure Capital Improvement Plans, apply LFC guidelines for FY11, and apply the criteria previously approved by the committee listed in sidebar. Prioritized project recommendations will be reviewed with the committee in December 2010.

**Management Issues.** The Local Government Division (LGD) of the Department of Finance and Administration are implementing three new major management issues effecting state grants for local projects since the last report. The initiatives include changes in accounting practices, grant agreement language, and reporting requirements. According to LGD, the initiatives will improve the management and accountability for both current and future state appropriations for local project. The accounting process and grant agreements have been implemented. (See Attachment A)



The local project tracking system will be implemented effective December 30, 2010. LGD will require local entities which receive state funds to provide a monthly update to the current Capital Projects Monitoring System (CPMS), a web-based system. Currently, updates are provided by state agencies on a quarterly basis and the Statewide Human Resource Accounting and Reporting Enterprise System (SHARE) are updated into CPMS on a weekly basis. The staff of LGD, Capital Outlay Bureau, will provide training to local entities during the New Mexico Infrastructure Finance Conference held in Las Cruces, New Mexico on October 26-28, 2010. Additional training will be provided upon request.

LMK:JLL/mt



# State Grants to Local Entities for Capital Projects: Process Improvements

---

*New initiative to use standard terms and conditions when making grants for capital projects to local entities, improve state accounting processes, and facilitate timely payment, reporting and monitoring*

## **Benefits**

- Consistent terms and conditions in capital grants to local entities
- Accurate and timely information on project status
- Consistency and clarity regarding deadlines
- Timely billing and payment
- Web-based access to reporting and monitoring information

## **Highlights for State Agencies**

### **Certifications**

- Project certifications will be required for both STB and General Fund projects
- Agencies will be responsible for assessment of grantee certifications
- Certifications will require a project budget and a project timeline
- Periodic reporting will be done at the project level of status relative to certifications

### **Grant Agreements and Notice of State Obligation to Grantee**

- Grant agreements for appropriation amount (adjusted for art-in-public-places) will be issued for all projects that are ready to proceed
- Grantees must submit third party written agreements **before** they are fully executed and budgeted in order to obtain a notice of obligation from the State
- Agencies are responsible for timely issuance of notices of obligation
- Grantees are only entitled to reimbursement of expenditures for which the State has issued a notice of obligation

# State Grants to Local Entities for Capital Projects: Process Improvements (continued)

---

## Accounting Process Changes

- Grantees must ensure separate budgeting and accounting for each project
- A requisition will be established for the full amount of the grant agreement
- State encumbrances will only be made after a notice of obligation is issued
- Accounting for art-in-public-places is modified to provide agencies with more accurate budget information
- A single, pre-assigned fund will be used for each fund source (STB, GOB, General Fund)
- New object code expenditure accounts have been established to separate grants to organizations into additional categories

## Project Suspension or Early Termination

- Provisions allow for suspension of new or further third party obligation
  - ⇒ existing third party agreements with valid notice of obligation will remain in place and expenditures under these agreements may proceed
- Provisions allow for early termination for violation of terms, suspected mishandling of public funds, or non-appropriation
  - ⇒ existing third party agreements may be terminated if the state early terminates the grant agreement

## Timely Requests for Payment and Reversions

- Requests for payment are required 20 days from end of quarter if total expenditures exceed \$25,000
- In addition, requests for payment are required 20 day from reversion date or early termination date
- Balances will be reverted after final report of completed project is accepted or after the reversion date

## Paperless Reporting and Monitoring System

- Monthly reports are required on the last day of each month
- Final reports are required within 20 days of project completion or within 20 days of the reversion date or early termination date
- Web-based system will be rolled out this fall