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FISCAL IMPACT REPORT

ORIGINAL DATE 3/15/09

SPONSOR Campos LAST UPDATED _____ HB _____

SHORT TITLE Prioritize and Monitor Capital Outlay Projects SM 93

ANALYST Kehoe

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		Indeterminate			N/A	See Fiscal Impact Narrative

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

SUMMARY

Synopsis of Senate Memorial

Senator Memorial 93 requests the Legislative Finance Committee, the Department of Finance and Administration, and the Legislative Council Service to establish a committee for the purpose of collaborating and developing a process to prioritize, review and monitor capital outlay projects.

FISCAL IMPLICATIONS

It is not readily known if Senate Memorial 93 will create a fiscal impact to the agencies referred to in the memorial. The aforementioned agencies already collaborate to work to improve the process of prioritizing, reviewing, and monitoring state agency capital outlay requests submitted through the Infrastructure Capital Improvement Plan (ICIP) annually. However, utilizing the same process for local projects could necessitate additional funding.

The memorial also authorizes the committee comprised of the Legislative Council, Legislative Finance Committee and the Executive to request an audit by the state auditor or a financial compliance or performance audit of capital projects. The LFC currently has the authority to audit certain capital projects and programs; however, a recent review by the LFC audit staff for nine individual projects entailed approximately 1,000 hours to plan, gather background information, prepare audit tools, conduct field work, conduct site visits, develop the report, and hold meetings to discuss the findings with agencies. Based on four evaluators at \$38 per hour, including time and benefits, the average cost of the audit was approximately \$4,200 per project. There are currently approximately 7,000 projects with outstanding balances.

SIGNIFICANT ISSUES

Senate Memorial 93 requires that by January 1, 2010, the committee recommend to the Legislature, through the appropriate interim committee a framework for:

- A. making priority-setting for capital outlay projects more uniform;
- B. establishing procedures to ensure current and complete accounting and reporting on capital projects; and
- C. analyzing requests in light of the critical needs of the state, the need for the capital project; the ability to phase the capital project, if necessary; the ability of the recipient to provide adequate staffing and funding for future operations; the expedited useful life of the capital project; the available alternatives to the capital project;; the availability of matching funds; and other considerations as determined by the committee.

The committee proposed in this memorial is further directed to invite representatives of federal agencies that provide loans and grants to New Mexico communities to participate in its meetings and invite others who influence the amount and type of funding available for capital outlay projects.

OTHER SUBSTANTIVE ISSUES

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