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FISCAL IMPACT REPORT

ORIGINAL DATE 02/11/15
 SPONSOR Campos LAST UPDATED 02/25/15 HB _____
 SHORT TITLE Capital Outlay Planning & Monitoring Act SB 430
 ANALYST Kehoe/Snyder

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		Indeterminate	Indeterminate		Recurring	See Fiscal Implications Narrative

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

General Services Department (GSD)
 Indian Affairs Department (IAD)
 Department of Finance and Administration (DFA)
 Higher Education Department (HED)

SUMMARY

Synopsis of Bill

Senate Bill 430 creates the Capital Outlay Planning and Monitoring Act for the purpose of increasing fiscal and programmatic scrutiny of capital outlay projects and expenditures. The Act creates a Capital Outlay Planning and Monitoring Division in 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. The effective date of the bill is July 1, 2015. Provisions of the Act propose the following:

Sections 1 and 2, define the terms used within the Capital Outlay Planning and Monitoring Act.

Section 3, creates the Capital Outlay Planning and Monitoring Division within the DFA and defines the powers and duties of the new division.

Sections 4 and 5, require the Capital Outlay Planning and Monitoring Division to develop and update yearly a five-year state capital improvements plan, define the requirements of capital

improvement plans and guidelines for executive agencies, local governments, other eligible entities and tribes. Further, a local government is only eligible for state capital dollars if the entity is current on its annual audit or has a plan approved by the state auditor for compliance with the Audit Act, and the entity must be current on its budget and quarterly reporting to the local government division of DFA.

Section 6, requires all executive agencies responsible for capital outlay oversight to file quarterly electronic reports on the status of projects, including appropriations and expenditures, with the new division, and every other recipient of state-funded capital outlay is responsible for filing monthly electronic status reports with the new division.

Sections 7 and 8, create a new Capital Outlay Planning and Monitoring Division within DFA and define or delete certain duties of the Secretary of the DFA.

Section 9, provides for the transfer of the functions, money, appropriations and property from the current Capital Projects Bureau of the State Budget Division of the DFA to the new division within DFA.

Section 10, repeals statute requiring joint preparation, amendment, maintenance and submission of a four-year program on July 1 of each year of major state capital improvement projects undertaken by the state, including those projects undertaken with state aid or under state regulation.

FISCAL IMPLICATIONS

Senate Bill 430 does not appropriate state funds. However, creation of a new division within the Department of Finance and Administration could require additional full time equivalent (FTE) and operating expenses.

According to GSD, the bill will require a considerable amount of documentation and a substantial amount of time and money by state agencies and local governments.

SIGNIFICANT ISSUES

Infrastructure needs for both state and local projects continue to grow and require more resources than the state can afford. Over the years, the executive and legislators have discussed the need to fund projects with adequate planning, a method for establishing project priorities and overall management of state funds for state and local projects. Concerns have centered on the ineffective uses of state resources: unspent proceeds, incomplete projects, waste, and misuse.

Over the years, the executive and legislators discussed the need to fund projects with adequate planning, a method for establishing project priorities, and improved overall management of state funds for both state and local projects. While proposed legislation to establish the process has failed to pass the Legislature, the governor issued executive orders intended to provide accountability of state funds for local capital outlay.

In accordance with Section 6-4-1 NMSA 1978 and Executive Order 2012-023, DFA and the General Services Department, Facilities Management Division, were directed to jointly prepare a

process to identify and prioritize all state-owned capital improvement projects. The process requires all state agencies to maintain a five-year facilities master plan consistent with the Capital Buildings Planning Commission master plans and comprehensive principles. Each agency's master plan is required to include a preventive and deferred maintenance plan, space and energy efficiency standards, justification for new construction, and a criteria-based weighted ranking system to determine priorities. According to the order, an updated prioritized five-year program for all capital improvement projects must be submitted to the governor and Legislature by November 1 of each year.

On May 5, 2013, the governor issued Executive Order 2013-006 directing the Department of Finance and Administration to establish uniform funding criteria for a grantee to be eligible for a state capital appropriation. The criteria required grantees to be in compliance with updated audit and financial reporting as required in grant agreements.

ADMINISTRATIVE IMPLICATIONS

The GSD states they are currently implementing use of software that will assist in the planning and management of capital projects and will help to assess the needs of the capital outlay funds taking into account the conditions of the buildings and the program requirements of the agency tenants. GSD has spent a considerable amount of time and money to make sure the software will produce ICIP requests and the status and financial reports currently required by DFA for monitoring of capital projects. The DFA Capital Outlay Bureau has been supportive of and heavily involved in the implementation. Senate Bill 430 states the new Division will develop procedures to ensure current and complete accounting as well as maintaining a central database for projects. GSD is concerned that if these procedures and databases differ from current status, the GSD will incur further costs and additional effort by their staff.

The DFA notes that the first year may be difficult for some agencies because the timeline will only allow two months for planning and prioritizing projects. DFA also anticipates that performance measures will change/increase with the additional responsibilities required for the Division.

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

In addition, components for a good capital management system include:

- Capital planning and budgeting (an analysis of immediate and future needs)
- Project Management (monitoring and evaluating projects through implementation)
- Asset Management (appropriate maintenance of capital assets)

LMK/SGS/bb