

LFC HEARING BRIEF

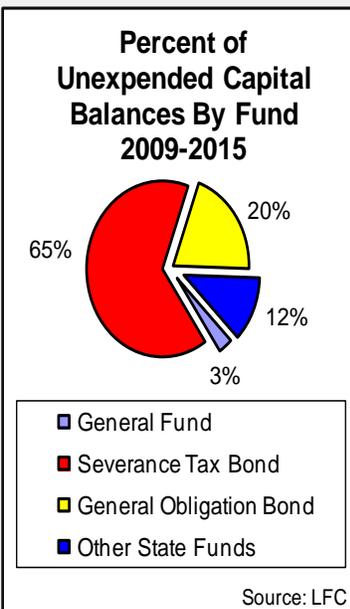
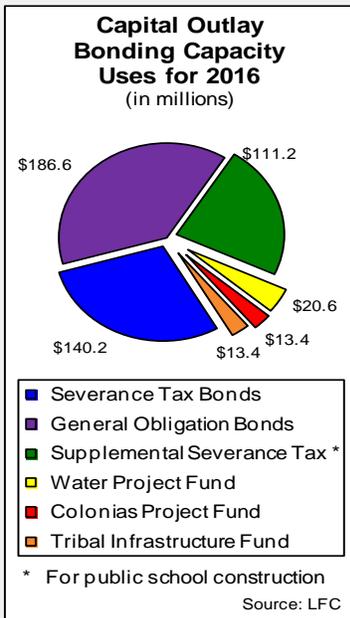
AGENCY: LFC Staff

DATE: December 11, 2015

PURPOSE OF HEARING:
2016 Capacity and Capital Requests

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EXPECTED OUTCOME:
Informational



BACKGROUND INFORMATION

Falling energy-related revenues and other volatile economic factors negatively impact the capacity available for funding state and local infrastructure needs. Investments in infrastructure for roads, water systems, prisons, hospitals, and other public safety facilities continue to be one of the many fiscal challenges facing policymakers. As in past years, capital outlay requests from state and local entities in 2016 are far greater than available funding, \$1.8 billion in requests compared to \$485.4 million in capacity from all sources.

As lawmakers seek an equitable distribution of capital funds among state-owned and local capital needs, they must be attentive to the millions of dollars appropriated in previous years that remain unexpended. As reported to the Legislative Finance Committee, more than \$242 million appropriated for 1,778 local projects from 2012 through 2015 remains unexpended.

Over several administrations, there has been much “talk and failed legislation” intended to improve the capital process. *Think New Mexico*, a nonpartisan organization known for educating the public and policymakers about serious issues facing New Mexico, will propose capital outlay reform legislation in 2016. Perhaps an unbiased approach with the goal of developing a “transparent, merit-based system for funding the state’s public infrastructure” while still maintaining legislative authority may be the solution toward an equitable and accountable distribution of New Mexico’s limited dollars.

Capital Outlay

2016 Capital Funding Outlook. As detailed in the *Volume III*, net senior severance tax bond (STB) capacity is \$140.2 million. Earmarked funds for water infrastructure, colonias, and tribal infrastructure total \$47.4 million, 33.8 percent of the total of net STB capacity. Laws 2015, Chapter 63 (House Bill 236) amended the Severance Tax Bonding Act to increase the amount of revenue transferred to the severance tax permanent fund. To hold beneficiaries of earmarked severance tax bonds harmless, in FY16 the tribal infrastructure and colonias percentage of STB increased from 5 percent to 6.5 percent of senior severance tax bond capacity. In fiscal year 2017 and subsequent years, 5.5 percent will be earmarked for both funds. The allocations of earmarked funds in 2015 totaling \$62 million are listed on the LFC website.

LFC staff expects the supplemental sponge issuance dedicated for public school construction will total approximately \$111.2 million, significantly reduced from previous estimates due to the application of House Bill 236. The final capacity estimates will be released in January 2016. General obligation bond (GOB) capacity is \$186.6 million, or approximately .33 percent of net taxable value of property. Authorizing no more than the stated capacity maintains a flat mill

Senior Severance Tax Bonds Earmarked Funds 2012 - 2015 (in millions)			
Fund	Projects Awarded	Amount	Balance
Water	110	\$101.0	\$87.4
Colonias	142	\$51.4	\$41.8
Tribal	108	\$40.1	\$36.2
Total	360	\$192.5	\$165.4

Source: Capital Projects Monitoring

Status of Projects Greater than \$1 Million		
LEGEND		
G	Project on schedule	146
Y	Behind schedule or little activity	63
R	No activity or bonds not sold	20
Total Active Projects		229
Other report information:		
B	Appropriation expended or project complete	20
X	Additional funds needed	4

Source: LFC

Office of State Auditor Awards to Small Communities for Audits

- 60 awards were granted to 30 entities in 16 counties in FY15.
- 61 awards were granted to 33 entities in 16 counties in FY16.
- \$160 thousand requested by OSA in FY17 to help small political subdivisions fulfill financial reporting requirements.

levy. Consensus revenue estimates indicate no nonrecurring general fund monies will be available for capital outlay in 2016.

Unexpended Funds. The Legislature appropriated or authorized more than \$1.5 billion between 2009 and 2015 for 3,583 capital projects. As of September 2015, approximately \$1 billion from all funding sources for 2,845 projects remains outstanding, including \$87.4 million earmarked for water, \$41.8 million for colonias, and \$36.2 million for tribal infrastructure funds. Of the total amount unexpended, 3 percent was appropriated from the general fund. As of September 2015, balances for projects costing \$1 million or greater total more than \$784.8 million for 229 projects, approximately 78 percent of all unexpended balances.

2009-2015 Capital Outlay All Fund Sources "Outstanding" Projects Only
(in millions)

Year	Number of Projects	Amount Appropriated	Amount Expended	Amount Unexpended	Percent Expended for Year
2009	1	\$10.0	\$8.8	\$1.2	88%
2010	0	\$0.0	\$0.0	\$0.0	100%
2011	31	\$41.7	\$28.6	\$13.1	69%
2012	232	\$176.9	\$115.5	\$61.4	66%
2013	491	\$214.7	\$72.7	\$142.0	34%
2014	934	\$454.6	\$46.1	\$408.5	10%
2015	1,156	\$378.7	\$0.3	\$378.4	0%
Total	2,845	\$1,276.6	\$272.0	\$1,004.6	

Note: Data includes projects for water, colonias and tribal earmarked funds.

Source: Capital Projects Monitoring

Authorized but Unissued Bonds. Severance tax bonds authorized in 2014 and 2015 totaling \$18.6 million for 102 projects remain unissued (\$7.3 million in 2014 and \$11.3 million in 2015). As of September 29, 2015, 33 projects in 15 counties in the amount of \$1.7 million do not comply with audit requirements in accordance with Executive Order 2013-006. The Legislature appropriated \$160 thousand to the Office of the State Auditor (OSA) in FY16 to assist small political subdivisions with meeting financial reporting requirements.

State Debt. According to 2013 data from the U.S. Census Survey of Government Finance, the combined state and local debt per-capita for New Mexico was \$7,828. The per-capita average for all states was higher at \$9,531, indicating New Mexico has not over-leveraged its residents relative to other states.

In New Mexico, state government accounted for 44.3 percent of the total amount of outstanding long-term state and local government debt, while local governments accounted for 55.4 percent. Nationally, state governments account for 38.5 percent of the debt, with local governments accounting for 61.5 percent.

Funding Criteria for Critical Investments in State Assets

- 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 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.

Criteria and Assigned Points for Prioritizing Senior Citizen Projects (100 Points Possible)

- Completeness of application (5 points)
- Compliance with Executive Order 2013-06 (10 points)
- Infrastructure Capital Improvement Plan (10 points)
- Description & need (20 points)
- Planning (10 points)
- Feasibility, readiness to proceed & timeline (25 points)
- Cost benefit (5 points)
- Asset management (15 points)

Criteria for Prioritizing Higher Education Needs

- Student, faculty, and public safety
- Project completion
- Funding from other sources
- Project readiness
- Facility condition index
- Full-time student enrollment trends
- Programmatic use of building
- Energy-efficiency standards
- Space utilization for Instructional & General (I&G)

Funding Requests. State agencies, higher education institutions, and special and tribal schools requested \$647.6 million for capital projects; \$288.4 million from STB capacity, \$331.1 million from general obligation bond (GOB) capacity, and \$28.1 million from other state funds. The LFC staff “framework” for consideration by the full Legislature is based on criteria indicated in the sidebar, as well as site visits (16 during the interim), review of infrastructure capital improvement plans, monthly meetings with major departments, and testimony at hearings held in the interim.

The following summaries reflect the most critical projects impacting public health and safety and ongoing projects requiring additional funds to complete. Other requests, including authorization to expend money for capital from “other state funds,” and LFC staff-proposed dollars for capital from all state funding sources will be released in January 2016.

Aging and Long-Term Services Department. ALTSD received capital outlay requests totaling \$40.5 million for senior centers statewide. ALTSD and area agencies on aging rated and recommended \$24.6 million for 119 projects statewide by applying criteria and allocating points to prioritize projects in five categories including code compliance, meals and other equipment, renovations, vehicles and construction/major additions statewide. The major requests are for senior center construction projects in Rio Rancho (\$11.9 million), Taos (\$1.2 million), City of Albuquerque (\$913 thousand), Village of Tijeras (\$806 thousand), and Mora County (\$550 thousand).

Higher Education Institutions and Special Schools. The Higher Education Department (HED) held hearings in Santa Fe, Albuquerque, Socorro, Las Cruces, and Roswell. All secondary institutions, the three special schools, Dine College, the Institute of American Indian Arts, Navajo Technical College, and Southwestern Indian Polytechnic Institute presented requests totaling \$253.2 million for infrastructure projects statewide. With significant consensus, the staff of LFC, HED, and Department of Finance and Administration developed a framework for the most critical infrastructure needs impacting the health and safety of the students, faculty, and the general public.

New Mexico School for the Deaf. NMSD requested \$2.4 million for renovations to Delgado Hall. The renovations include abatement of hazardous materials and to address code violations.

New Mexico School for the Blind and Visually Impaired. NMSBVI requested nearly \$825,000 for renovations to Garrett Dormitory. Due to a decrease in allocations from the public school capital outlay fund to complete deficiencies, the school used funds budgeted for specialized equipment.

Institutions, especially those contributing matching funds to the projects, are encouraged to proceed with the plan and design phase to

New Mexico State University- Main



Williams Hall



Williams Hall

New Mexico State University-Gallup



McClure Hall Before



McClure Hall After

New Mexico State University-
Carlsbad



Old Boilers- NMSU Carlsbad

allow construction and renovations to move forward as soon as the voters approve the bonds in November 2016.

Library General Obligation Bond Request. The New Mexico Library Association (NMLA) requested \$17.5 million on behalf of public libraries, public school libraries, academic libraries, and tribal public libraries. Public libraries, public school libraries, and tribal libraries will allocate funds based on population and full-time-equivalent student enrollment. New Mexico colleges and universities will continue to use funds toward electronic resources (academic journals, electronic reference books, electronic books, educational films, etc.) to provide resources to students regardless of institution or course work, particularly in rural areas.

Public Education Department. PED requested \$14.5 million to replace aged and high mileage school buses and \$2.5 million for construction or renovation of prekindergarten classrooms. PED owns and operates approximately 900 school buses statewide. In accordance with Section 22-8-27, NMSA 1978, buses are required to be replaced every 12 years.

Children, Youth and Families Department. CYFD requested nearly \$3.6 million for improvements to the Youth Diagnostic and Development Center (YDDC) in Albuquerque, to the John Paul Taylor Juvenile Center in Las Cruces, the Eagle Nest Reintegration Center and Henry Perea Child Advocacy Center in Valencia County. CYFD's priority request is to purchase furniture, fixtures and equipment for a proposed new site for child protective services currently under review by the General Services Department (GSD).

New Mexico Corrections Department. NMCD requested nearly \$41 million for security upgrades, improvements to heating, ventilation and air conditioning (HVAC) and other infrastructure improvements at correctional facilities statewide. The department operates six public prison campuses totaling 2.5 million square feet, ranging in age from 33 to 70 years old, housing over 7,000 inmates, and the facilities have exceeded their 30-year life span. NMCD recently reported more than \$300 million is needed over the next five years to address the backlog of deficiencies at the facilities and described current facility conditions as similar to those that led to the 1980 riot. The Legislature should seriously consider the department's request to fund master planning and a facility condition assessment to determine the short- and long-term prison needs and to examine the merits of building a new facility versus investing more state money into the current poorly designed and aged prisons.

Cultural Affairs Department. The department requested \$21.6 million to preserve and renovate museums and monuments statewide, including exhibit upgrades, equipment, storage expansion, and replacement of high-mileage bookmobiles. The department is responsible for 191 buildings with over 1.3 million square feet valued at \$650 million and the buildings contain irreplaceable art and artifacts valued at more than \$300 million.

New Mexico Corrections Dept



Obsolete Security Monitors



Waterlines

Cultural Affairs Department



Center for Contemporary Art Before



Center for Contemporary Art After

Cultural Affairs Department



Lincoln National Monument

Department of Health. DOH requested \$26 million to address patient health and safety issues impacted by aged infrastructure and a backlog of repairs and to complete the final phase of constructing, furnishing and equipping the Meadows long-term care facility in Las Vegas. DOH facilities have been cited for code violations by the Joint Commission (an independent, not-for-profit accreditation organization), the state Fire Marshal, and the state Health Facility Licensing and Certification Bureau.

Department of Public Safety. DPS requested over \$6 million to purchase easements and to plan, design, and construct the Texico point of entry. The existing port is a public safety hazard and is inadequate for truck entrances. The department also requested funds to plan and design a new evidence center and crime lab in Santa Fe. The evidence and records are currently housed in five different facilities, and the crime laboratory is at a crisis point with a lack of space and at high risk for cross-contamination. DPS also requested funds to plan and design a state police complex in Albuquerque, and to complete the renovations and expansion of the Roswell district office.

General Services Department. The Facilities Management Division (FMD) of GSD is responsible for the repairs and maintenance of 6.8 million square feet of space throughout the state. The FMD requested over \$22.5 million to address major renovations and repairs at facilities statewide, including demolition. A new statewide facility assessment is in the final stages and will provide a facility condition index (FCI) for each building under FMD jurisdiction, including identifying the immediate deficiencies impacting the security and safety of the staff and members of the public.

The initial GSD request included \$20 million to purchase and renovate an existing facility in Albuquerque to relocate CYFD child protective services that are currently housed in a substandard facility. GSD will take a different approach and will issue a request for proposal, for a long-term lease for a building that will adequately meet CYFD needs to consolidate services for the children under their care.

Capitol Buildings Planning Commission. The Capitol Buildings Planning Commission (CBPC), in partnership with GSD, continued to work with state agencies and the courts to implement the *State Master Plan* for Santa Fe, Albuquerque, Las Cruces and Los Lunas metropolitan areas. The five-year Master Plan implementation strategy recommends constructing new facilities in a cost-effective manner, phasing in projects over several years, redirecting lease revenue to fund capital costs, minimizing multiple moves, and relocating agencies from leased space to state-owned space. During the interim, the consultants provided CBPC with an update of office space standards for New Mexico. The consultant recommended the following allocation method:

- Establish maximum square foot allocations for primary office space.
- Provide guidance on the number and type of occupants to

Department of Health



NMBHI Aged Infrastructure



NMBHI Ponderosa



NM Veterans' Home Pool Tunnel Piping

Bernalillo Metro Court



Unfinished 4th floor



Unfinished 4th floor

accommodate present and future requirements.

- Continue to encourage “open office” space layout concepts.
- Encourage private office space only when functionally required.
- Adopt a consistent method to identify, measure and assign space for both owned and leased space.
- Provide user-friendly planning forms.

The consultants met with representatives from GSD, DFA, DOT, and LFC to further discuss the proposed state space standard of 215 square foot of “primary office” space per full time equivalency. DFA reported the consensus was to not pursue statewide implementation of the standards by rule or statute. DFA reported a new standard could create an entitlement issue and the budget needed to conform to the proposed space standard is unknown. In addition, DFA suggested that any state space standard should apply to all branches of government not just the executive branch, and SHARE currently does not have the capacity to capture the numbers, but is close to tying actual employees to a particular space.

The decision was for GSD to proceed with implementing the space standards under its current authority without a new rule. GSD will only apply the standards to buildings under Facilities Management Division’s jurisdiction, apply the standards to new construction, new leases and major renovations and will not apply retroactively to agencies already occupying space. GSD reported using the new standards on a trial basis of 215 square feet per full-time equivalent and the standard appears to be working well.

Local Government and Tribal Entity Requests. According to the Infrastructure Capital Improvement Plan (ICIP) compiled by the Local Government Division of DFA, local, tribal, and other political subdivisions submitted nearly \$3 billion of infrastructure needs. The top five priorities total \$1.2 billion for five major categories: water, transportation, quality of life (libraries, parks, senior centers, community and cultural centers, etc.), environment (utilities, landfills, clean energy, solid waste, etc.), and public safety. A listing of the top five priorities for all governmental entities participating in ICIP is available through LFC or the Local Government Division.

The top priorities range in the millions of dollars placing legislators in the position of funding only a small portion of the amount needed to complete even a phase of a project. According to concerns expressed at a Mayor’s Summit and the New Mexico Association Board of Directors, the piece-meal funding of local projects is increasing the strain of administrative resources on local governments.

New Local Project Tracking. In June 2015, staff of the LFC began developing a report to track state funds appropriated between \$300,000 and less than \$1 million for local capital projects. The data for the report is derived from the Capital Project Monitoring System (CPMS) operated and maintained by the Department of Finance and Administration. LFC staff introduced the new tracking system at the

Local FY17 Requests Top 5 Priorities by Category (estimated project costs)	
Category	Requested Amount
Water	\$416,174,708
Transportation	\$376,446,156
Quality of Life	\$247,145,420
Environment	\$52,584,532
Public Safety	\$47,251,596
Economic Development	\$33,858,337
Housing	\$13,164,010
Health	\$28,262,000
Public Education	\$2,816,305
Other Education	\$1,930,000
Total	\$1,219,633,064

Source: DFA-Local Government Division

recently held Mayor’s Summit in Albuquerque, the Association of Counties Board of Directors meeting, and to the New Mexico Municipal League Association. With the assistance of the Capital Outlay Bureau of DFA, LFC staff emphasized the most important features missing within the preliminary report:

- Updating CPMS monthly as is required in the grant agreements executed between the state and the local entity.
- Compliance with the governor’s executive order requiring updated audits.
- Delay certification of readiness to the Board of Finance for the bond sale if the project is not ready to proceed. All grantees have two years to certify for a bond sale before the authorization is voided.

LFC staff anticipates data entry into CPMS by state and local entities will improve for future quarterly reports.

LMK/BUP