

Planning and Financing of State Facilities

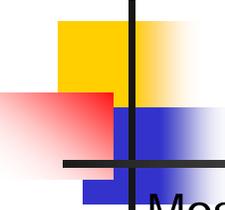
Presented to:

Capitol Buildings Planning Commission

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New Mexico is Facing Need to Make Substantial Facility Investments

- Most of New Mexico's state-owned facilities are well beyond a reasonable useful life:
 - The median age of State Facilities under GSD control is 44 years, according to their inventory records of when facilities were "placed in service".
- The estimated total renewal costs for all state facilities, excluding higher education are \$1.4 billion. High priority or critical renewal projects--which need attention within the next year--total an estimated \$250 million.
- There has been a drop-off in new construction since 1990, as the state has depended more on private leasing to deal with the need for new facilities, including prisons, health facilities and warehouses as well as office space.
- Private leasing may provide a long-term cost-effective solution to facility needs, but needs careful analysis including a careful comparison to the cost of the renewal and use of existing facilities and the purchase or construction of new facilities.

Strategic Facility Planning Process

Step 1

Facility Requirements determined from strategic plan for agency outcomes and operations.

- Service Goals and Objectives
- Resource Requirements
 - Human
 - Financial
 - Information
 - Physical
- Consider alternative mixes of resources to meet goals
- Detail facility mix that comprises best option

Step 2

Evaluation of Existing Facility Inventory condition and ability to meet future facility needs.

- Determine availability of facilities owned or leased by agency or state
- For each facility find:
 - Age/Depreciation
 - Condition
 - Costs of Operation
 - Location
 - Life Cycle Cost/Benefit of Retention
 - Replacement Cost
- Utilize existing facilities first, when cost-effective
- Dispose of facilities no longer useful

Step 3

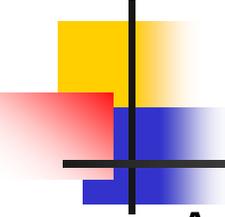
Use Life-Cycle Costing to choose new facility design, construction, acquisition and finance method.

- New Facility Acquisition or Construction
 - Project
 - Timing
 - Method of Acquisition
- Provision for new facility maintenance
- Method of Finance

Step 4

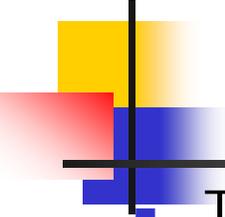
Use Most Cost-Effective Finance Tools for required maintenance, renovation and/or new facility acquisition.

- General Fund Appropriation
- General Obligation or Revenue Bond Financing
- Private or Public Lease-Purchase
- Private Facility Leasing



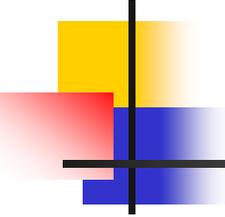
Step 1: Facility Plan Driven by Strategic Plan for Outcomes and Operations

- A comprehensive facility master plan should begin with each agency's strategic plan for agency outcomes and operations.
- The plan typically covers 3 - 5+ years and includes performance measures as well as the one or more alternative mixes of employees, consultant services, information services, equipment, facilities, etc., that would meet the performance goals.



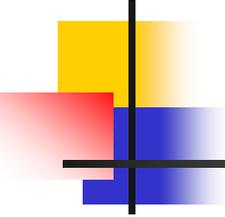
Step 1: State Capital Project Evaluation and Ranking

- The basis for an enhanced state capital improvement program for facilities would be agreed-upon criteria based on strategic objectives on which projects would be evaluated and ranked across agencies.
- Projects in the state capital improvement program for facilities could be scored based on the degree to which they meet strategic objectives, for example:
 - Correct critical life, safety or health deficiencies;
 - Preserve the viability of existing assets by addressing deferred or preventative maintenance needs;
 - Address documented growth in essential programs;
 - Result in future operating cost savings or increased recurring revenue;
 - Complete planned improvements to state facilities that will enhance delivery of client services;
 - Efficient delivery of services to all areas of the state; Etc.



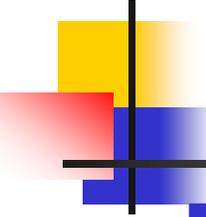
Step 2: Evaluation, Preservation and Utilization of Existing Facilities When Cost-Effective

- To be able to utilize existing facilities agencies first need to conduct regular strategic evaluations of their existing asset mix to determine the condition of existing facilities and the extent to which those facilities can provide service at the same or expanded levels.
- These existing facilities should then receive rehabilitation and renovation sufficient to preserve their usefulness over time, and future up-keep costs should be considered when assessing the feasibility of utilizing the existing facility.
- Aging facilities that have high up-keep costs and the potential for disposal should also be identified and incorporated into the overall plan. A needless delay in disposal, like a delay in construction, is likely to be costly.



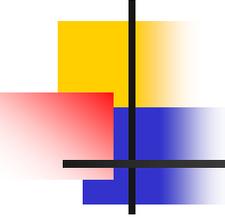
Step 3: Cost-Effective Investment in New Facilities: Life-Cycle Costing

- Once a decision is made that investment in additional facility space is required, a determination is made as to the type of facility and method of acquisition.
- Life-Cycle Costing is an economic evaluation of facility acquisition alternatives that considers all relevant costs associated with each facility alternative during its economic life and provides a comparison in today's dollars to determine the alternative with the lowest total life-cycle cost.
- Life-Cycle Costing of facility investments generally occurs early in the capital planning and budgeting process for a project.



Step 3: Federal Cost Recovery on Renovations and New Building Investment

- Federal regulations allow cost recovery, but through depreciation rather than debt service:
 - Allowable Costs:
 - Depreciation on actual construction and renovation costs;
 - Interest and other financing costs associated with building costs;
 - Actual facility management, operating and maintenance costs.
 - Not Allowable Costs:
 - Principal payments associated with financing building costs;
 - Costs of land and associated interest;
 - Reserve or allowance for capital improvements.
- With careful accounting all cost savings can be realized.
- Selected states that have recovered costs from federal government on bond-financed facilities: Alaska, Arizona, Kansas, Louisiana, Oklahoma, Texas and Washington.



Step 4: Utilize Lowest Cost Financing Tools To Acquire New Facilities

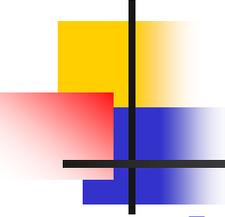
- The final step in the facility planning and finance process is to establish and utilize the most cost-effective financing tools available in the marketplace.
- For a state, this involves determining which public or private entity will provide the financing tool and passing the necessary legislation and executing the necessary contracts to put the tool at the state's disposal.
- New Mexico law authorizes a wide variety of financing options: operating lease, lease-purchase, revenue bonds, general obligation bonds, cash appropriation.
- Different interest rates and transaction costs are associated with each method.

Principal Sources of Capital Project Financing Fiscal Year Ending June 30

(Dollars in Millions)

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>Six Year</u> |
|---|-----------------------|-------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------|
| Proceeds from General Obligation Bonds | | | | | | | |
| General Obligation Bonds | <u>0.0</u> | <u>142.8</u> | <u>0.0</u> | <u>223.4</u> | <u>0.0</u> | <u>19.7</u> | <u>385.9</u> |
| Subtotal | 0.0 | 142.8 | 0.0 | 223.4 | 0.0 | 19.7 | 385.9 |
| | | | | | | | |
| Proceeds from Severance Tax Bonds | | | | | | | |
| Severance Tax Bonds | 136.1 | 136.4 | 153.6 | 0.0 | 315.3 | 0.0 | 741.4 |
| Severance Tax Notes | 102.1 | 193.3 | 150.9 | 188.7 | 178.6 | 27.3 | 840.9 |
| Supplemental Severance Tax Bonds | 0.0 | 0.0 | 0.0 | 0.0 | 112.9 | 0.0 | 112.9 |
| Supplemental Severance Tax Notes | <u>193.6</u> | <u>210.8</u> | <u>222.8</u> | <u>240.8</u> | <u>97.0</u> | <u>206.1</u> | <u>1,171.1</u> |
| Subtotal | 431.8 | 540.5 | 527.3 | 429.5 | 703.8 | 233.4 | 2,866.3 |
| | | | | | | | |
| Proceeds From Other Sources | | | | | | | |
| General Fund | 454.6 | 548.4 | 123.0 | -148.6 | -259.2 | 0.0 | 718.2 |
| Transportation Bonds | 0.0 | 459.4 | 0.0 | 200.0 | 77.4 | 0.0 | 736.8 |
| NMFA State Building GRT Revenue Bonds | 0.0 | 52.4 | 41.7 | 2.5 | 1.0 | 0.0 | 97.6 |
| Lease Appropriation Bonds | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> |
| Subtotal | 454.6 | 1,060.2 | 164.7 | 53.9 | -180.8 | 0.0 | 1,552.6 |
| | | | | | | | |
| Total | <u>\$886.4</u> | <u>\$1,743.5</u> | <u>\$692.0</u> | <u>\$706.8</u> | <u>\$523.0</u> | <u>\$253.1</u> | <u>\$4,804.8</u> |

Source: New Mexico State Board of Finance, the Department of Finance and Administration and the New Mexico Finance Authority

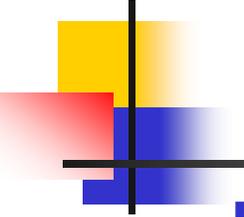


Primary Sources of Capital Finance

■ **Severance Tax Bonds**

- Severance Tax Bonds, including Senior and Supplemental Severance Tax Bonds and Notes, are by far the largest source of capital project funding by the State.
- Severance Tax Bonds are secured primarily by taxes on mineral production in the State.
- Senior Severance Tax Bonds are used to finance various capital projects authorized by the Legislature and approved by the Governor. Supplemental Severance Tax Bonds are used to fund public school projects approved for funding by the Public School Capital Outlay Council.
- Over the last six years the state has issued \$1.6 billion in Senior Severance Tax Bonds and Notes and \$1.3 billion in Supplemental Severance Tax Bonds and Notes.
- With the failure of the Senior Severance Tax Bond authorization bill to pass during the 2011 regular session, \$206 million of the \$233 million in severance tax bonds issued during FY 2011 were Supplemental Severance Tax Bonds. An \$81 million Senior Severance Tax Bond authorization was approved during the 2011 special session to be issued during FY 2012.

Primary Sources of Capital Finance



■ General Fund

- Available general fund cash balances have historically been the second largest source of funds for capital projects statewide, providing \$718 million in capital project financing statewide over the last six years.
- General fund expenditures for capital projects are authorized by the Legislature and approved by the Governor.
- During the recent period of state operating budget shortfalls, there have been no general fund balances for use in funding capital. And in FY 2009 and FY 2010 a total of \$407.8 million in previously appropriated for capital projects was re-appropriated for operating budget purposes.

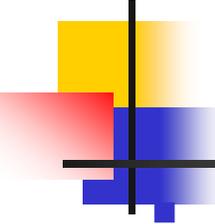
■ General Obligation Bonds

- General Obligation Bonds are secured by the full faith and credit of the State and are repaid from a dedicated statewide property tax.
- In even-numbered years, the New Mexico Legislature authorizes General Obligation Bonds to be voted on in a public referendum at the subsequent November general election.
- Over the last six years general obligation bonds have been used to fund \$386 million in higher-education, library, senior citizen center projects across the State. In the latest election in November 2010 voters failed to approve \$155 million in higher education and approved just \$19.7 million on senior center, library and public education projects.

Core Bonding Programs
Sources and Uses of Funds
Bonding Capacity Available for Authorization
October 2011 Estimate
(Dollars in Millions)

| Sources of Funds (million) | FY 12 | FY 13 | FY 14 | FY15 | FY 16 | Five Year |
|---|----------------|----------------|----------------|----------------|----------------|------------------|
| General Obligation Bonds | 303.3 | - | 193.9 | - | 214.7 | 711.8 |
| Severance Tax Bonds | 189.5 | 189.5 | 189.5 | 189.5 | 189.5 | 947.5 |
| Severance Tax Notes | 74.8 | 83.2 | 76.4 | 66.7 | 50.6 | 351.7 |
| Subtotal Senior STBs | 264.3 | 272.7 | 265.9 | 256.2 | 240.10 | 1,299.20 |
| Supplemental Severance Tax Bonds | - | - | - | - | - | |
| Supplemental Severance Tax Notes | 148.7 | 166.8 | 177.7 | 181.9 | 180.9 | 856.0 |
| Subtotal Supplemental STBs | 148.7 | 166.8 | 177.7 | 181.9 | 180.9 | 856.0 |
| Total Sources of Funds | \$716.3 | \$439.5 | \$637.5 | \$438.0 | \$635.7 | \$2,867.1 |
| Uses of Funds (million) | FY 12 | FY 13 | FY 14 | FY15 | FY 16 | Five Year |
| G.O. Voter-Approved Projects | 303.3 | - | 193.9 | - | 214.7 | 711.8 |
| Legis.-Authorized STB Projects | 130.5 | 218.2 | 212.7 | 204.9 | 192.1 | 958.4 |
| Authorized but Unissued STB Projects | 81.0 | - | - | - | - | 81.0 |
| 10% Water Projects | 26.4 | 27.3 | 26.6 | 25.6 | 24.0 | 129.9 |
| 5% Colonias Projects | 13.2 | 13.6 | 13.3 | 12.8 | 12.0 | 65.0 |
| 5% Tribal Projects | 13.2 | 13.6 | 13.3 | 12.8 | 12.0 | 65.0 |
| Supplemental STB Public School Capital | 148.7 | 166.8 | 177.7 | 181.9 | 180.9 | 856.0 |
| Total Uses of Funds | \$716.3 | \$439.5 | \$637.5 | \$438.0 | \$635.7 | \$2,867.1 |

Source: General Fund Consensus Revenue Outlook and Updated Bond Capacity Estimates, Presentation by Thomas Clifford, Secretary Designate, DFA, and Demesia Padilla, Secretary Designate, TRD, to Legislative Finance Committee,



Funding Requirements for Enhanced State Facility Planning

Condition Assessment of All State Facilities Except Higher Education and Public Schools. Estimated \$2.3 million total, spent in years 1 & 2.

- Assist Agencies in Developing Facilities Master Plans. Estimated \$1.4 million total, spent in years 1 – 3.
- Establish a Reliable Revenue Source to Implement Building Renewal Program. Estimated \$40 million per year, beginning in year 2.
- Management of condition assessment, prioritization of renewal projects and maintenance of required databases. Estimated \$2 million per year, beginning in year 2.