Report
to
The LEGISLATIVE FINANCE COMMITTEE

Department of Finance and Administration
Review of Selected Capital Outlay Projects
January 12, 2008

Report # 07-09

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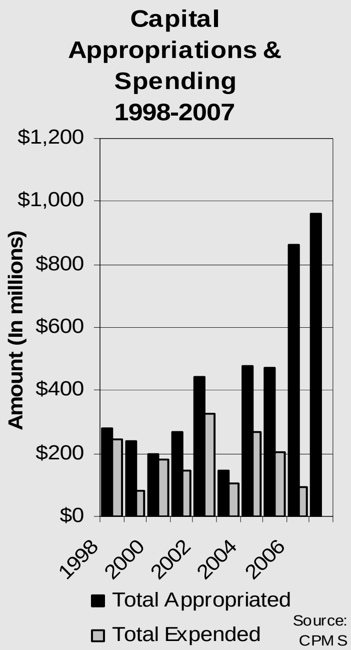
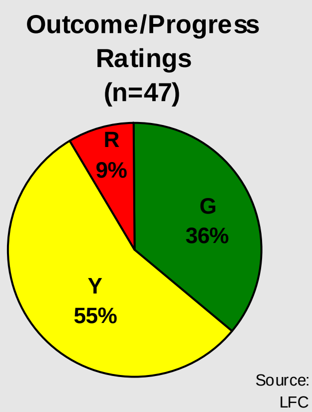
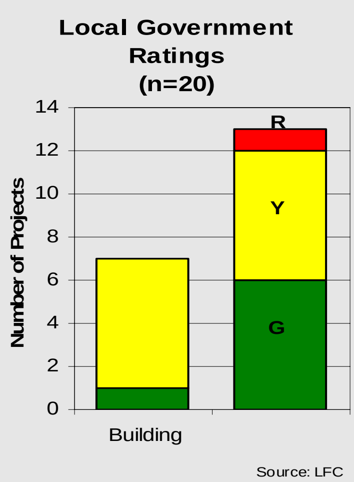
EXECUTIVE SUMMARY







Recent one-time revenue surpluses, and bountiful bonding capacity, have allowed New Mexico to make unprecedented commitments to capital investments to both state and local entities. Since 1998, the Legislature has appropriated about $4.3 billion for capital outlay projects, but only $1.6 billion has been reported as spent by state, local and tribal entities as of June 2007. Concerns have historically been raised by legislators, executive branch officials as well other research and financing organizations about the methods for allocating these resources, in addition to fragmented, and sometimes, inadequate planning, oversight and execution of funded projects.

Legislative Finance Committee (Committee) staff issued two previous reports in 2003 and 2006 on capital outlay planning and oversight. This current review sought to complement previous evaluations, by assessing the planning and implementation of selected capital outlay projects and reviewing any progress made to improve the overall system.

SIGNIFICANT FINDINGS.

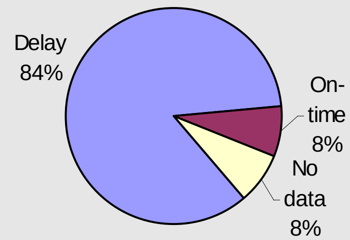
<u>Nearly All Sampled Projects Meet Their Intended Purposes; But Improvements Are Needed To Complete Many On Time And Within Budget.</u>

A sample of 47 capital outlay appropriations, representing about $243 million in state funding, was taken to assess progress, outcomes and performance. Sampled projects received state funding from a variety of sources, but about 68 percent of this funding remains unspent according to CPMS. Most projects reviewed, 42 percent, were pass-through funding to local governments.

More than a third of projects appear successful or on track (green). Project outcomes or progress was evaluated based on whether it was on-time, within budget, meets intended purpose and has planned for operation and maintenance costs. Good planning and sufficient funding appear to contribute to the success of sampled projects. Most projects engaged in pre-appropriation planning and made efforts to estimate project costs, but only 19 projects planned for operation and maintenance costs.

Almost half of sampled projects have mixed results (yellow), with about 84 percent experiencing some type of delay in completing the project. Insufficient funding was the most prevalent factor for projects with less than ideal outcomes/progress ratings (yellow or red). Sixty percent, or 18 projects, rated yellow or red reported receiving insufficient funding.

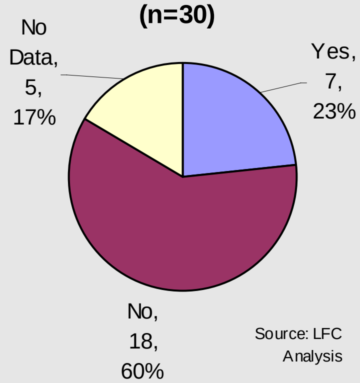
Yellow-rated Projects Experiencing Delays (n=26)



Source: LFC Analysis

Primary planning functions are spread across legislative and executive agencies and involve at least four separate processes.

Yellow-rated Projects Sufficient Funding (n=30)



Source: LFC Analysis

Other factors, in some cases, may frustrate good project planning and outcomes; including different priorities among legislature, executive branch and local governments; reliance on local government entities to implement projects not requested by its governing body; and projects requiring funding or approval from multiple governments, including federal, local or tribal.

New Mexico Has Taken Some Steps To Improve Its Capital Outlay Process, But More Is Needed To Ensure Efficient And Effective Use Of State Resources. Recent changes have attempted to address the need for the legislature to have better information about proposed and active projects before making funding decisions. For example, the Legislative Council Service has continued efforts to provide enhanced capital project request forms; and the Committee, through its staff, has piloted a quarterly report card on projects with appropriations of more than $1 million.

The Legislature, and state, could still benefit from a consolidated master planning process to aid in making capital investment decisions. The state lacks a unified capital planning board/commission to screen and prioritize projects for all types of entities requesting state support, particularly from local government. These functions are spread across legislative and executive agencies and involve at least four separate planning processes.

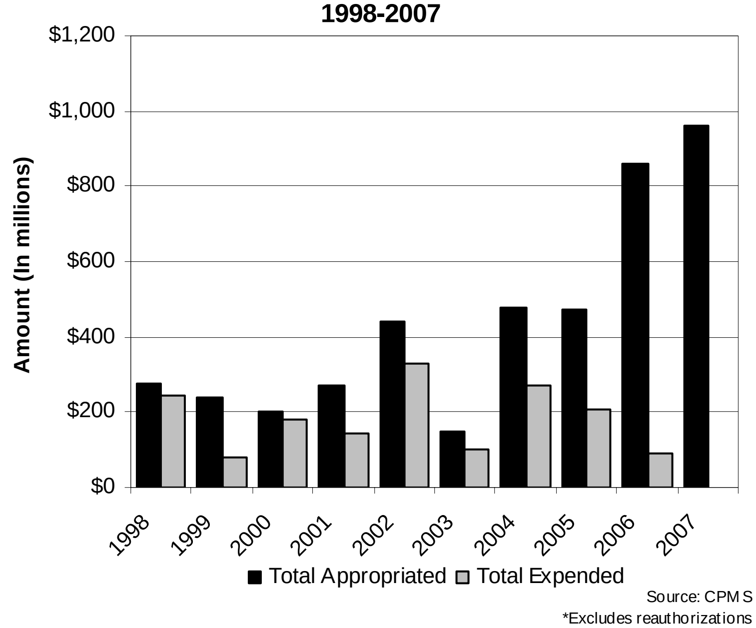
RECOMMENDATIONS

The Legislature could consider studying, through the interim Capital Outlay Subcommittee, creating a permanent capital outlay planning commission made up of legislators, executive officials representing the Board of Finance, State Treasurer's Office and Department of Finance and Administration. The commission could serve as an umbrella advisory committee charged with planning and screening capital projects for consideration before the full legislature convenes. Creation of the commission would result in consolidating the multiple current processes used by the legislative and executive branches into a single process. The commission should have jurisdiction to screen, plan and recommend funding participation requirements for all non-state entities, including local governments or citizen groups, seeking project support from the state. The commission could also be given jurisdiction to review lease-purchase agreements from state or public education agencies seeking approval prior to full legislative review.

Recent one-time revenue surpluses, and bountiful bonding capacity, have allowed New Mexico to make unprecedented commitments to capital investments to both state and local entities. However, concerns have historically been raised by legislators, executive branch officials as well other research and financing organizations about the methods for allocating these resources, in addition to fragmented, and sometimes, inadequate planning, oversight and execution of funded projects.

Update on Capital Outlay Funding. Since 1998, the Legislature has appropriated about $4.3 billion for capital outlay projects. As of June 2007, only about $1.6 billion, or 37 percent, has been reported as spent by state, local and tribal entities. However, excluding appropriations in 2006 and 2007, about 62 percent of appropriations made between 1998-2005 have been spent. Some entities may have expended some or all of their appropriations, but may not have reported the expenditures timely and drawn down funds.

Chart 1. Captial Outlay Appropriations & Spending 1998-2007



The charts below show that non-recurring appropriations from the general fund have exceeded $450 million in 2006 and 2007. The state has also benefited from strong severance tax bonding capacity as well.

Capital Outlay Appropriations by Funding Source
(in millions)

Chart 2. 2006

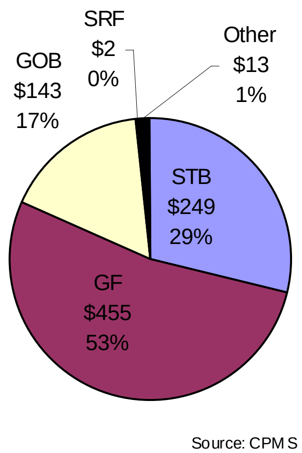
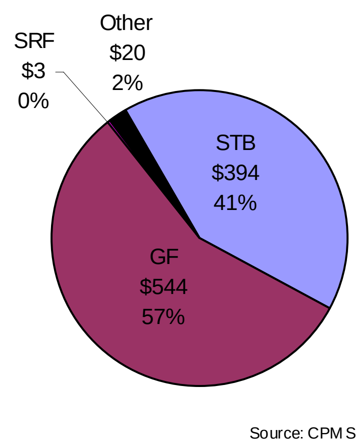


Chart 3. 2007



One project may receive multiple appropriations within and across fiscal years. Language in appropriation bills, and consequently state law, specifies funding amounts and funding purposes. Grants may also provide restrictive language on how grant funds may be used. Any funding remaining at the end of a capital outlay project is to revert. In subsequent legislative sessions, the legislature often reauthorizes or extends the time to use unexpended balances.

Recent Legislative Finance Committee Reports on Capital Outlay. Legislative Finance Committee staff has conducted two previous reviews of the state's capital outlay planning and oversight capacity.

In 2003, the Committee issued a joint report with the Office of the State Auditor highlighting deficiencies in oversight and management practices, in addition to data quality issues related to the state's Capital Planning and Management System (CPMS). As a result of the review, the Legislature appropriated $700 thousand to the Department of Finance and Administration (DFA) for the purpose of improving administration of the state's capital outlay program. DFA established the capital projects unit (unit) in April 2004. The unit monitors capital outlay projects for state agencies, public schools, local governmental entities and higher education and maintains the CPMS database.

In 2006, Committee staff conducted a follow-up review to the 2003 report in addition to assessing the state's overall planning process for capital projects and oversight capabilities. The review found the state used an inadequate and often fragmented planning process and that DFA could improve its administration of the unit's responsibilities.

Review Objectives. This review sought to complement previous evaluations, by assessing the planning and implementation of selected capital outlay projects and reviewing any progress made to improve the overall system.

Scope. The review period included capital funds appropriated from 2004 through 2006. However, for certain projects some information outside this period is provided where relevant, but the random sample was selected only from the period described above.

Procedures. This review included the following procedures.

- Reviewed applicable statutes, rules, regulations and policies.
- Reviewed related audits, LFC briefs and relevant reports.
- Conducted internet research to identify relevant project management attributes and best practices.
- Developed a capital project survey form and list of project management attributes and rating criteria for evaluating projects based on best practices.
- Interviewed DFA, LFC and other agency staff as appropriate.
- Selected capital project appropriation data sample.
    - Forty-five projects were randomly selected from a June 30, 2007, copy of the Capital Projects Monitoring System (CPMS) database provided by DFA as follows: 10 appropriations less than or equal to $500,000; 10 appropriations greater than $500,000 and less than or equal to $1,000,000; and 25 appropriations greater than $1,000,000.
    - Seven projects were judgmentally selected.
- Evaluated and scored each selected project's outcome based on four key attributes. Outcome ratings were supported by five subsidiary project evaluation categories and related attributes. The following table summarizes project evaluation rating criteria.

Table 1. Capital Project Evaluation Matrix

	Subsidiary Categories				
Capital Project Outcome	**Pre-appropriation Planning**	**Post-appropriation Planning**	**Funding**	**Management**	**Accountability**
Attributes					
Completed on time/on schedule	Planning done	Planning done	Sufficient funding appropriated	Request for proposal issued	CPMS updated according to policy
Within budget	Feasibility or other study conducted.	Feasibility or other study conducted	Funding not reauthorized	Project manager assigned to project.	Documented policies and procedures in place.
Meets intended purpose	Cost estimate developed	Cost estimate developed		Reporting structure in place	Appropriated funds used in a timely manner
O&M* costs budgeted/ included in planning	Feasible site identified or acquired	Feasible site identified or acquired		Project timelines used	
	O&M costs identified	O&M costs identified		No delays encountered	
	Stakeholder input was solicited.			Project planned in phases	

Data source: Best practices research conducted during this review.
*Operations and maintenance – This category was included, if applicable.

Survey Limitations. Project outcome scores were judgmentally assessed and are based on agency survey responses and any additional project-related information provided by the agency. In some cases, oversight agencies provided survey responses in addition to the entities and local governments implementing the projects. Agency survey responses and additional information provided varied significantly in terms of both quality and completeness. Inadequate survey responses may impact outcome scores in some cases.

Four projects, listed below, were eliminated from the original sample of 52 because of missing or incomplete data or insufficient LFC staff time availability.

- HED/UNM Albuquerque Institute for Mathematics and Science
- HED/ENMU Multimedia Classrooms
- HED/ATVI Westside Classroom / Student Services Center
- DFA/IAD Tribal Infrastructure Projects

Two randomly selected Higher Education Department projects funding academic libraries resource acquisitions and information technology were dropped as well. Finally, one project was split into two parts, resulting in a final sample size of 47 projects.

Review Authority. The Committee has authority under Section 2-5-3 NMSA 1978 to examine laws governing the finances and operations of departments, agencies, and institutions of New Mexico and all of its political sub-divisions, the effect of laws on the proper functioning of these government units, and the policies and costs of government. Pursuant to its statutory authority, the Committee may conduct performance reviews and inquiries into specific transactions affecting the operating policies and costs of governmental units and their compliance with state law.

Review Team.
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Exit Conference. The Department of Finance and Administration chose not to have a formal exit conference, but did submit a formal response included in the report.

Report Distribution. This report is intended for the information of the Office of the Governor, the Department of Finance and Administration, the Office of the State Auditor, and the Legislative Finance Committee. This restriction is not intended to limit distribution of this report which is a matter of public record.

Manu Patel

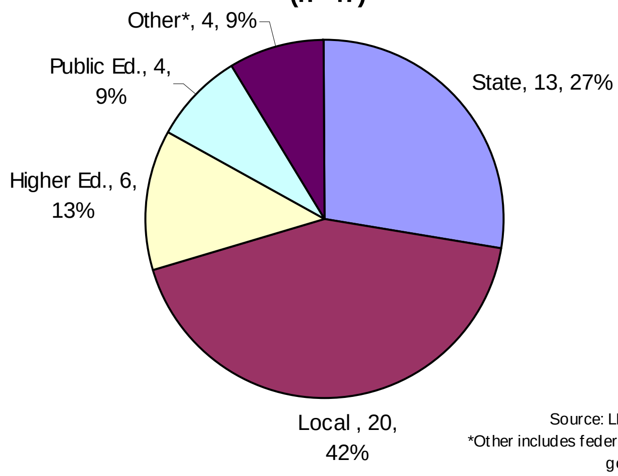
Manu Patel
Deputy Director for Program Evaluation

NEARLY ALL SAMPLED PROJECTS MEET THEIR INTENDED PURPOSES; BUT IMPROVEMENTS ARE NEEDED TO COMPLETE MANY ON TIME AND WITHIN BUDGET.

A sample of 47 capital outlay appropriations, representing about $243 million in state funding, was taken to assess progress, outcomes and performance. Six projects from the original 52 sampled were dropped from in-depth analysis and rating due to insufficient or other data problems. We received additional information on one water project that was added to our judgmental sample, leaving a sample size of 47 projects. The background section of this report details the sample methodology and rating criteria.

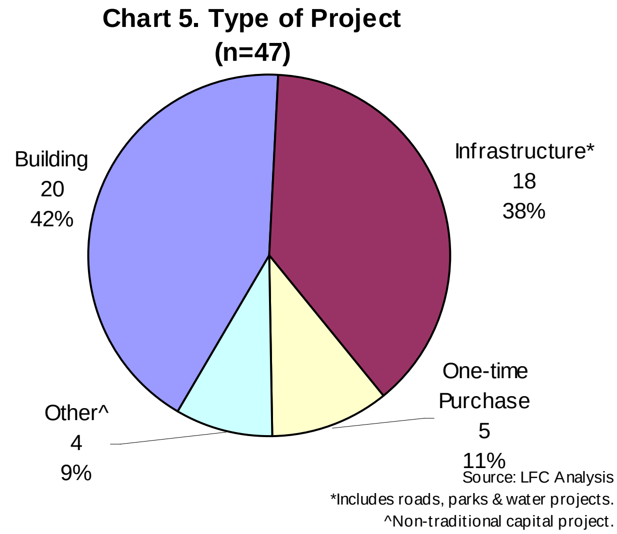
Most projects reviewed, 42 percent, were pass-through funding to local governments. Another 27 percent of the projects represented "state" interests or were intended for state agency use. Nine percent, or four of the projects, were categorized as "other" to represent projects than involve the federal government or projects that are not traditional purchases of capital assets. The remaining 21 percent represent projects benefiting either public or higher education.

Chart 4. Project by Type of Government (n=47)



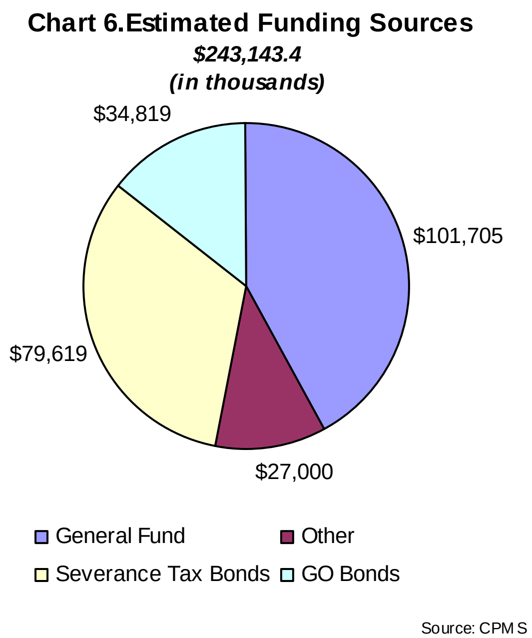
Source: LFC Analysis
*Other includes federal and tribal governments.

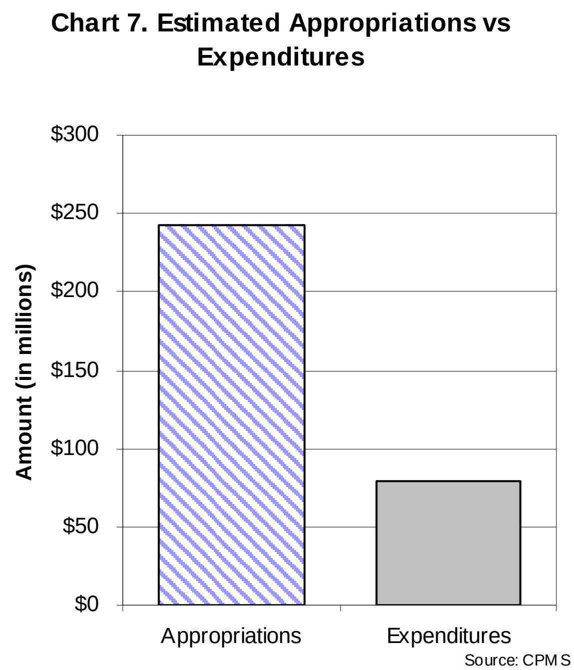
The majority of the projects reviewed were traditional construction/renovation or infrastructure improvements. Projects intending to improve roads, water systems or parks were categorized as infrastructure improvements. About 11 percent of the projects involved the one-time purchase of an asset such as vehicles, or water rights. Finally, four other projects were reviewed that are non-traditional capital projects and involve the appropriation of money to certain funds, payment of fees or subscriptions or contributions to federal programs under inter-state agreements.



Sampled projects received state funding from a variety of sources, but about 68 percent of this funding remains unspent according to CPMS. The following charts detail the sources of estimated state funding and total appropriations versus expenditures. Figures are estimates due to the limitations of CPMS.

Sampled Projects Funding and Spending





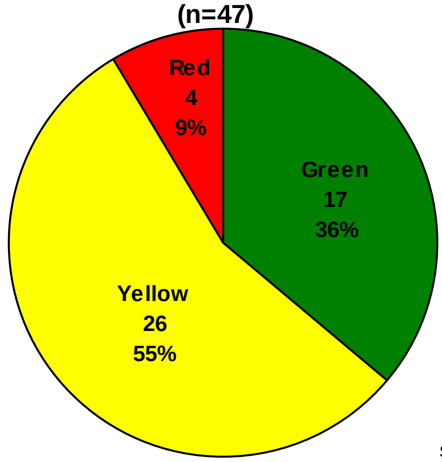
Project outcomes or progress were evaluated based on whether a project was on time, within budget, meets intended purpose and included operation and maintenance costs. Project ratings and scoring criteria are shown in Table 2. The background section of this report provides additional information on how projects were evaluated.

Table 2. Project Rating and Scoring Criteria

Performance/ Outcome Rating	What does this rating mean?	Scoring Criteria
Green	**Successful or on track.**	The project is on-time; within budget; meets intended purpose and included operation & maintenance costs.
Yellow	**Mixed results.**	The project has met some, but not all, of the scoring criteria for a successful project.
Red	**Needs attention.** A red rating does not mean the project is unsuccessful, but it does need more attention to figure out how to complete without more delays or avoidable cost overruns. Projects not supplying necessary data to LFC also may have received a red rating.	The project is not on schedule; has experienced cost overruns and has not planned for O&M. A project may meet its intended purpose and still receive a red rating.

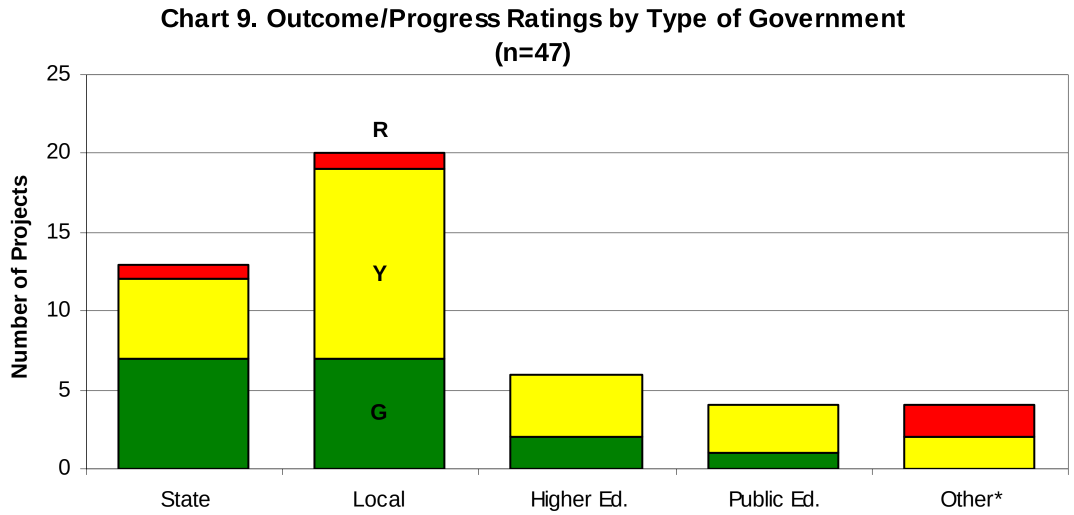
More than a third of projects appear successful or on track (green). Chart 8 shows the breakdown of how the projects were rated. Six projects were not given a performance outcome or any other scoring rating due to insufficient data. More follow-up work may be needed with these projects. Appendix A lists all the sampled projects and outcome ratings.

Chart 8. Outcome/Progress Ratings (n=47)

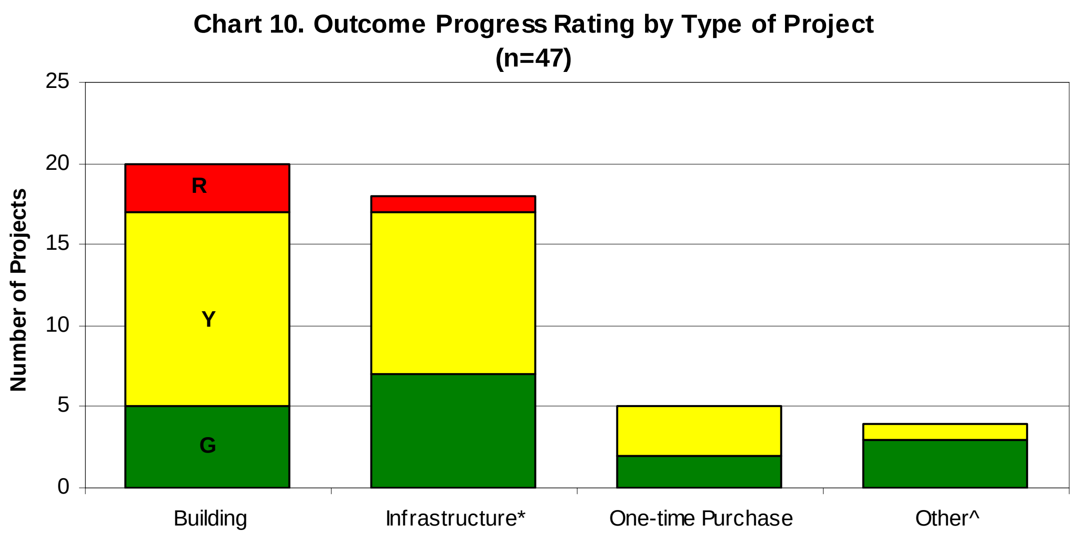


Source: LFC Analysis

Outcome/progress ratings varied by the type of government administering the project and whether it was a traditional building construction project, other infrastructure improvement or asset purchase.

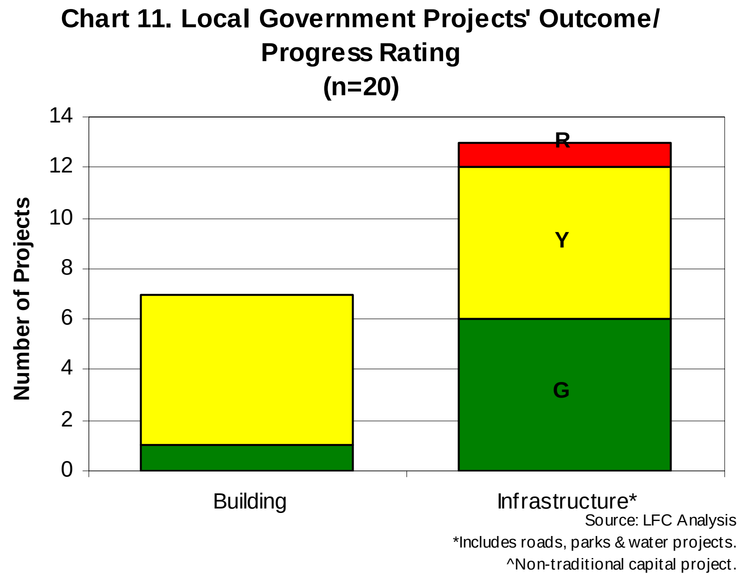


Source: LFC Analysis
*Other includes federal and tribal governments.

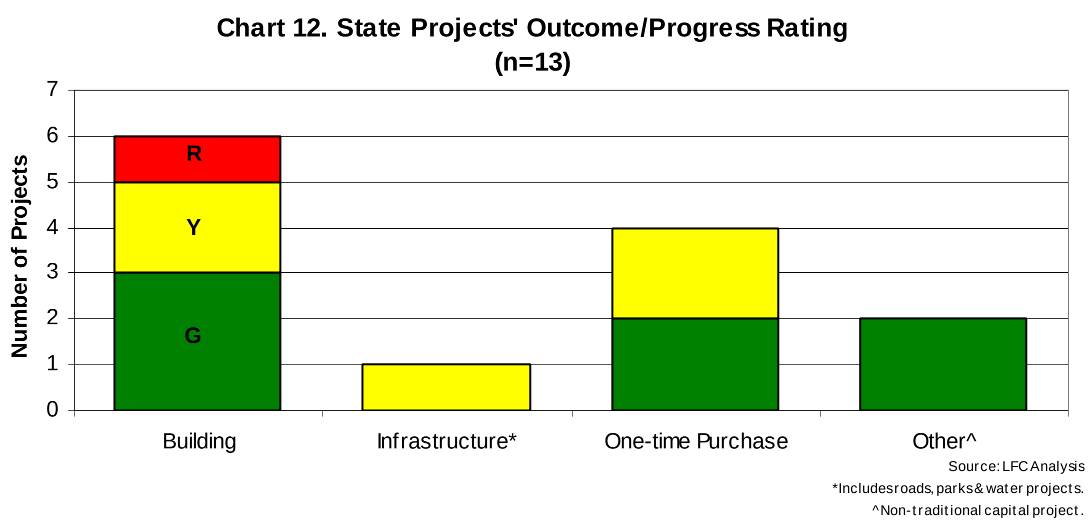


Source: LFC Analysis
*Includes roads, parks & water projects.
^Non-traditional capital project.

Local projects tended to receive more yellow ratings (mixed results) regardless of the project type. Most of the successful (green) local projects were other types of infrastructure such as water projects or parks.

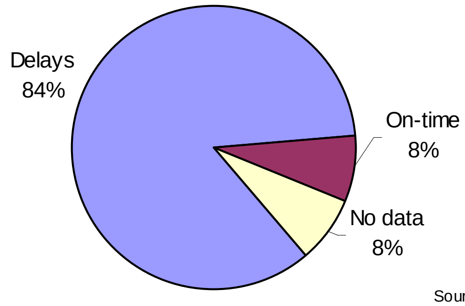


No clear trends emerged when examining outcomes by the type state project. This may be a product of the type of projects ending up in the final sample. For example, the sample includes a variety of state projects, including one-time purchases of assets such as vehicles to non-traditional capital projects such as subscriptions or appropriations to certain grant-making funds.



<u>Almost half of sampled projects have mixed results (yellow), with about 84 percent experiencing some type of delay in completing the project.</u> The review assessed whether a project was progressing or completed on-time based on pre-appropriation planning timelines or original project timelines depending on information available. The outcome rating does not distinguish between the degrees of delays experienced by projects. Projects that may have completed one stage of a multistage project, but lack sufficient identified funding to complete the project tended to also have delays.

Chart 13. Percent of Projects with Mixed Results Experiencing Delays (n=26)



Source: LFC Analysis

Ten projects' estimated costs were not within the original budget or did not provide data. Seven projects did not appear to adequately plan for operations and maintenance or provided insufficient data.

Good planning and sufficient funding appear to contribute to the success of sampled projects. Best practice research suggests project planning and sufficient funding helps lead to good project outcomes, in addition to management practices. This review sought to gather the following information on each project in our sample.

- Planning (Pre-Appropriation and Post-Appropriation)
    - Was the project part of some sort of planning effort by either state or local entities?
    - Did the plan include cost estimates?
    - Was a feasibility study conducted?
    - Were operation and maintenance costs estimated or funding sources identified?
- Sufficient Funding.
    - Did the project receive sufficient funding to complete the project, from all sources?

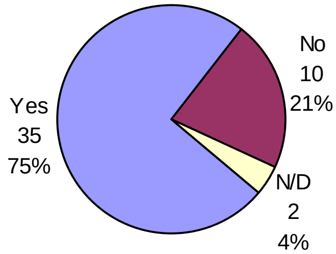
Four projects listed below appeared to exhibit exemplary planning and execution attributes.

- Santa Fe - Canyon Road WWTP Clarifier Modification (Phase II)
- Melrose Water System Improvement
- Aging and Long-Term Services Department - Pojoaque Pueblo Senior Center
- Sierra County Regional Wastewater Treatment Plant

These projects all appeared to conduct good pre-appropriation planning, including feasibility studies, cost estimates and identification of operations and maintenance costs. Both the ALTSD, through its Aging Network, and the Environment Department are well known for good planning and execution of projects – particularly if projects receive adequate funding. Good pre-appropriation planning can also help ensure successful project outcomes even if the project is somewhat under funded. Adjustments and modifications to the original plan can be made more quickly and effectively. Good project management can also help anticipate and overcome minor project delays.

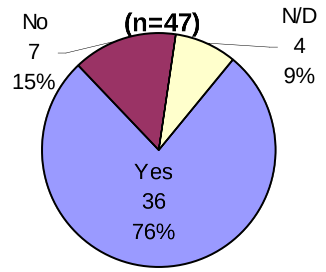
Most projects engaged in pre-appropriation planning and made efforts to estimate project costs, but only 19 projects planned for operation and maintenance costs. Almost 100 percent of projects engaged in good post-appropriation planning and attempted to mitigate lack of pre-planning, particularly if entities did not request funding.

Chart 14. Pre-Appropriation Plan (n=47)



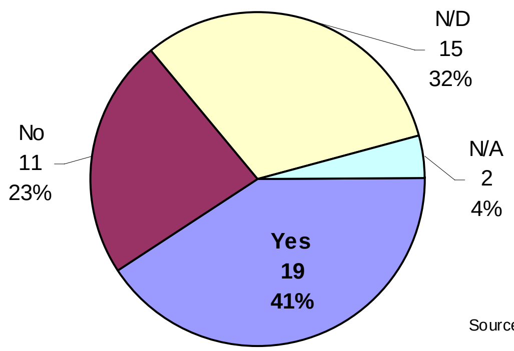
Source: LFC Analysis

Chart. 15. Pre-Appropriation Cost Estimate (n=47)



Source: LFC Analysis

Chart 16. Pre-Appropriation Planning for O&M (n=47)

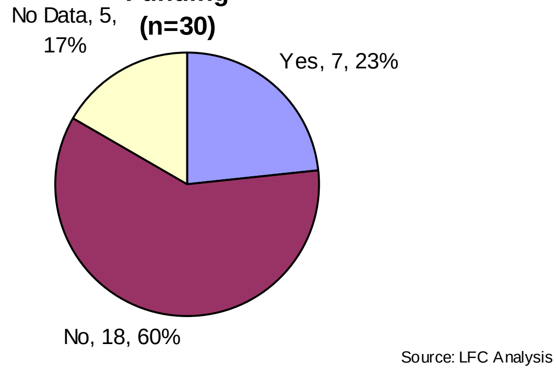


Source: LFC Analysis

<u>Insufficient funding was the most prevalent factor for projects with less than ideal outcomes/progress ratings (yellow or red).</u> Sixty percent, or 18 projects, rated yellow or red reported receiving insufficient funding. However, some projects experienced delays resulting in a less than ideal rating for the following reason or combination of reasons.

- long-term projects with an unknown end-date;
- complex projects involving multiple jurisdictions and funding sources; or
- insufficient pre-appropriation planning or didn't ask for money.

Chart 17. Yellow Rated Projects With Sufficient Funding (n=30)



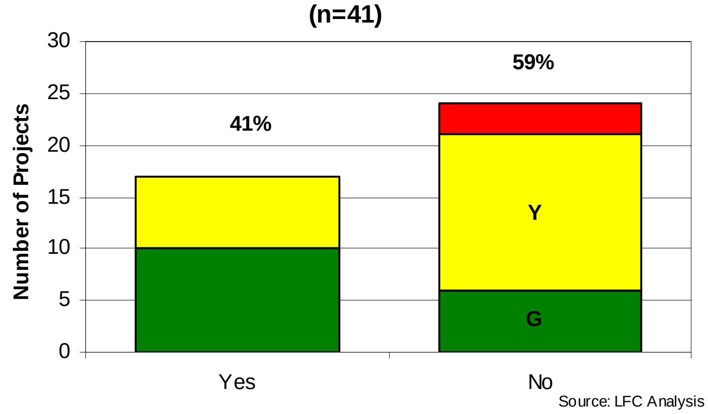
Sufficient funding does not appear linked to good pre-appropriation planning. As a result, in some cases, funding decisions do not appear well linked to whether an entity requests funding for a well planned project. Some entities do not appear to have planned for or requested funding to implement some projects. In some cases, these may be for small appropriations that would not rise to a priority for large government entities, such as library books at a single school. In others, the state may be tying up resources in projects not ready to proceed. For example, over $22 million has been appropriated to build an equestrian facility despite the project having insufficient planning and an unclear purpose.

Out of the 30 projects with yellow or red rating (less than ideal):

- Nine had superior pre-appropriation planning. Of these nine, only three reported receiving sufficient funding.
- Thirteen had some form of pre-appropriation planning, though it was incomplete and only one of these reported receiving sufficient funding.
- Eight reported little or no pre-appropriation planning efforts. Six of these had yellow - or mixed outcome/progress ratings and two were red. Of the eight, three reported receiving sufficient funding.

Sufficient funding alone does not guarantee good project outcomes, though some types of projects can overcome lack of full funding. Only 41 percent, or 17 projects, reported receiving sufficient funding.

Chart 18. Sufficient Funding (n=41)



Small projects (parks), purchases of assets (such as books) can overcome insufficient funding in some cases by scaling back on implementation plans. Many projects however will end up experiencing delays – which ultimately could result in the need for even more funding due to the rapid inflation of construction and materials costs. The textbox below illustrates one such project in our sample.

City of T or C – Water Tank Rehabilitation

In 2004, the City hired an engineer to assess the condition of two existing water tanks. The report indicated a severe need to rehabilitate two tanks at a cost of $350,000 to $400,000. This item was then placed on the ICIP and full funding of $400,000 was requested for appropriation in 2005. The project was ranked as No. 4 on the 2004-2005 ICIP. Per DFA, LGD only considers priorities 1 through 5 on an agency's ICIP for funding. The project was not funded in 2005. In 2006, the City received $200,000 in STB funding to refurbish the tanks, which was insufficient to complete the project.

The cost to refurbish the tanks has now escalated to an estimated $500,000 and the STB funds appropriated remain unspent resulting in non-compliance with STB funding requirements. In addition, project appears to be a public safety issue in that there is a possibility that either of the two tanks may rupture, spilling water on residences located below the tanks, according to local officials. This project did not appear to receive a public safety priority rating from DFA.

While the project was a priority for the local government, it remains unclear what if any local cost sharing could, or even, should go towards this type of local government project.

Source: LFC Analysis, interviews with DFA & local officials.

Other factors may frustrate good project planning and outcomes. The following factors also appear to contribute to poor project outcomes, in some cases.

- Different priorities among legislature, executive branch and local governments.
- Responsiveness to local constituents' needs, without adequate pre-appropriation planning, may result in many projects receiving insufficient funding or dilute available funding for priority projects.
- Reliance on local government entities to implement projects not requested by its governing body.
- Projects requiring multiple governments, including federal, state, local or tribal, funding or approval complicates some projects.

Some of the sampled projects are not traditional capital outlay and may require further evaluation on the best way to fund and oversee these projects.

User fees/subscriptions. The Lambda Rail is a national high-speed fiber-optic network used to link research and other educational institutions. While the Lambda Rail project appears to have met this review's minimum criteria for receiving a successful rating (green), the project raises a series of concerns, both from a planning and funding standpoint. For example, the Lambda Rail appropriations fund a $1 million annual membership fee or "subscription," which is a recurring expense and should be paid as an expense out of the base budget, not as a capital project expense. Per the membership agreement, the initial contribution of $1 million was due on or before July 31, 2004. An additional contribution of $4 million payable in four equal installments in consecutive years beginning July 31, 2005 for a total of $5 million. The fiscal impact report for the project state's that UNM committed the state to pay $5 million in membership fees before it had received any appropriation and without having the resources to meet its obligation. In addition, although it appears from the funding summary that the project has already been funded fully up to the $5 million committed by UNM, according to LFC data, the universities used some of the $4 million appropriated by the state to repay themselves for their $1 million contribution. Therefore, an additional $1 million is required to complete the project. Eventually, this project should be self-sustaining for the universities by 2009 using dues and bandwidth fees.

Long-term state obligations or projects using capital appropriations for operations. Two sampled projects, San Juan River Basin Recovery Implementation Program and the Interstate Stream Commission's Land/Water Rights for Well Fields, are not traditional funding for capital projects and have no clear end date for completion. Appendix B provides more information on the San Juan project.

The state appears to have over funded the San Juan program using bond proceeds by an estimated $600 thousand. The appropriations for the San Juan program constitute a payment by the state to a federal program to fund operations and other projects to rehabilitate habitat on the San Juan River for two endangered fish. Funding is also used to reintroduce the species into the river. The appropriations fulfill an intergovernmental agreement entered into in the early 1990s; however completion of the program is indeterminate.

The other project entails the purchasing of land and water rights, including drilling wells and constructing pipelines, in the Pecos River valley to satisfy requirements of the Pecos River interstate compact.

Both projects are long-term, complex, involve multiple jurisdictions or entities, and successful completion is, in large part, due to circumstances beyond the direct control of the agencies overseeing the appropriations. Both of these projects use funding for traditional capital investments, such as constructing pipelines, as well as operational costs, including litigation and general administration and research.

NEW MEXICO HAS TAKEN SOME STEPS TO IMPROVE ITS CAPITAL OUTLAY PROCESS, BUT MORE IS NEEDED TO ENSURE EFFICIENT AND EFFECTIVE USE OF STATE RESOURCES.

Recent changes have attempted to address the need for the Legislature to have better information about proposed and active projects before making funding decisions. In 2006, the Legislative Council created a Capital Outlay Subcommittee, consisting of members of the Council and the Legislative Finance Committee, to identify improvements to the capital outlay process. The 2007 work plan included the following reform topics.

- Identify successful strategies used in the 2007 session and recommend additional improvements to the request process.
- Assess and prioritize critical statewide project needs and funding.
- Review and improve criteria for identifying and prioritizing local projects and ensure coordination of funding.
- Review the implementation status and monitoring of state and local funded projects.
- Review the reauthorization process and determine whether additional restrictions are needed.

Final recommendations were not available at the time of this publication, but are included in Committee budget documents.

The Legislative Council Service has continued efforts to provide enhanced capital project request forms. These forms require extensive information to help legislators screen requests to ensure projects are planned and ready to proceed upon funding. The form also collects information on projects for non-profits, economic development or that have not gone through a political subdivision's Infrastructure Capital Improvement Plan (ICIP) process. These additional pieces of information to screen for potential problems that have historically cause problems in implementation of funding, including potential anti-donation violations for non-profits; unwillingness of local government to be a fiscal agent for public-private partnerships and the unwillingness of a political subdivision to implement a project it did not request due to the funding burden of operational and maintenance costs.

The Legislative Finance Committee, through its staff, has piloted a quarterly report card on projects with appropriations of more than $1 million. The report card provides a high level rating system, similar to that used in this report, on each project's implementation status. The report card also provides a color coded (red, yellow, green) scoring system to rate the progress of the project and whether it is on schedule or not. The report cards provide legislators and the public with an easy to use format for identifying projects experiencing problems needing attention (red) due to no activity or serves as an early warning (yellow) for projects falling behind. During the winter of 2007, staff was in the process of refining the scoring criteria to ensure reporting entities provide sufficient baseline information on project milestones to better determine a project's outcomes/progress.

The Legislature has continued to expand the duties and jurisdiction of the Capital Buildings Planning Commission. The Commission, a joint legislative-executive board, now is tasked to create a master capital plan for areas of the state outside Santa Fe. In 2007, the Legislature directed the Commission to study and plan for facilities in Las Cruces and create a statewide master plan for state owned facilities (Laws 2007, ch. 64, §1.)

DFA has indicated that improvements to the ICIP process for state agencies have continued over the past two years through a more robust staff hearing process. Furthermore, political subdivisions participating in ICIP are now required to list their top five priorities. This information may prove useful for reconciling state-local priorities or at least provide clear and transparent information about what local priorities actual include.

Comprehensive assessments to rate the condition of state and higher education facilities provides a useful tool to prioritize projects based on objective need standards.

The Legislature, and state, could still benefit from a consolidated master planning process to aid in making capital investment decisions. Previous reports have raised concerns that the state lacks in integrated master plan for capital investments and that existing processes were merely a compilation of funding requests. In addition, the 2006 report noted that "research of other states' capital project-related processes identified the following best practices:

- Establish a single unified state capital outlay and planning board;
- Prioritize state infrastructure needs first, followed by local government needs;
- Include operation and maintenance costs in project estimates.
- Establish legal thresholds that limit capital project appropriations;
- Establish qualitative and quantitative criteria to evaluate capital projects."

The state still lacks a unified capital planning board/commission to screen and even prioritize projects. These functions are split between legislative agencies and executive agencies and involve multiple planning processes and oversight entities (such as Capital Buildings Planning Commission). According to DFA, the state's capital planning includes four distinct processes: 1) State and Local Infrastructure Capital Improvement Plan, 2) Higher Education Capital Outlay and Building Renewal and Replacement, 3) Public School Capital Outlay, and 4) Department of Transportation Statewide Infrastructure Improvement Plan. Some agencies, such as ALTSD, participate in more extensive community or state facility planning processes. DFA reports that it is developing a coordinated planning process for State Agencies and local entities in order to meet "the requirements by the National Rating Agencies to develop a comprehensive plan for infrastructure for the State of New Mexico."

The state has made some progress on implementing these best practices as detailed in this report, particularly as they relate to state agencies capital planning and needs assessments. Only about 25 percent of capital outlay spending goes towards state agency projects, with the balance appropriated to education and local governments. A more robust planning and screening process is needed, particularly for local government projects, to aid in providing better information to the full legislature on the priorities of local governments and how those fit into statewide priorities, such as health and safety, water, etc.

Previously cited issues, such as data problems with CPMS, issuing bonds for projects not ready to proceed, possible insufficient oversight agency staffing and administrative burdens of small appropriations continue to cause concern.

Capital Project Monitoring System Database. The database, which many entities, including the Legislature, rely on for management information, continues to pose challenges in providing accurate and updated information. An analysis was conducted for five agencies in the Capital Project Monitoring System (CPMS) database. The information provided by the agencies for appropriations per year and total number of projects administered from FY05 thru FY07 did not match what was shown in the CPMS database. For example, as shown below in the table below, the CPMS database showed that the Public School Finance Authority (PSFA) administered 1 to 4 projects for these years and that the agency was responsible up to $0 to $62.0 million. Whereas, PSFA provided data showed that they administered from 186 to 274 projects of $164.7 to $279.8 million dollars.

This discrepancy may be attributed to the fact that many capital appropriations for schools are included in appropriations bills other than capital outlay. As a result these appropriations and projects are not included in the CPMS database. The other discrepancies cannot be explained since appropriations should mirror the amounts in the capital bill.

Table 3: CPMS vs. Agency Information

		2005		2006		2007	
Agency	**Description**	**CPMS**	**Agency**	**CPMS**	**Agency**	**CPMS**	**Agency**
341	Total Funding Amount	$127.0	$66.5	$263.6	$185.4	$222.5	$227.8
DFA	Total Project Count	810	405	889	667	1233	1152
350	Total Funding Amount	$35.2	$35.3	$23.1	$23.3	$47.3	$17.0
GSD	Total Project Count	23	189	23	177	36	205
667	Total Funding Amount	$32.9	$31.9	$63.0	$63.2	$72.2	$72.0
NMED	Total Project Count	202	203	272	266	278	237
927	Total Funding Amount	$32.6	$46.1	$138.5	$65.5	$64.8	$84.0
PED	Total Project Count	457	552	348	418	676	741
940	Total Funding Amount	$62.0	$279.8	$0.0	$242.1	$30.8	$164.7
PSFA	Total Project Count	1	274	0	252	4	186

Source: **CPMS Database and Agencies**

Statutory Language. CPMS tracks appropriations, not projects, and as such if appropriation language is different from year to year then tracking project funding is complicated.

Severance Tax Bond Requirements. Eleven of the sampled appropriations showed some projects received all or partial funding from severance tax bonds. An analysis of the sampled appropriations revealed that only five of these projects met the legal requirements to spend at least five percent of the appropriation within six months of the bond issuance. This requirement is to help ensure efficient use of bond proceeds for projects ready to proceed and meet IRS requirements for tax exempt bonds. While, IRS requirements apply to the entire bond sold, which could fund many projects, concerns continue over the apparent lack of preparedness to proceed timely by entities benefiting from bond proceeds.

Table 4. Severance Tax Bond Funding
5% Spending Requirement

Project	Appropriation	Year	5%	Amt. Expended as of June 30, 2007	Difference
Coyote Canyon Chapter House	$50,000	2005	$2,500	$0	($2,500)
Tribal Infrastructure	$5,000,000	2006	$250,000	$0	($250,000)
Water Storage Tank rehabilitaion	$200,000	2006	$10,000	$0	($10,000)
Multimedia Classroon	$50,000	2006	$2,500	$50,000	-
Balloon Fiesta Park Improvement	$3,200,000	2006	$160,000	$52,300	($107,700)
Family School Multipurpose Building	$60,000	2005	$3,000	$0	($3,000)
Clovis Curry Co. Business Enterprise Center	$1,090,000	2005	$54,500	$1,064,413	-
South Valley Multipurpose Center	$1,100,000	2005	$55,000	$0	($55,000)
Wildfire Protection/Equipemnt Statewide	$4,000,000	2006	$200,000	$2,235,537	-
Canyon Road WWTP Clarifier Modification	$2,000,000	2004	$100,000	$2,000,000	-
Isleta Blvd. Reconstruction Phase II	$2,000,000	2004	$100,000	$965,705	-

Source: LFC Analysis of CPMS Data.

Appropriation amounts. The state has not implemented recommendations to create appropriation thresholds. The nearly 14,000 appropriations of less than $100 thousand continue to pose administrative challenges and in some cases burdens.

Table 5. Capital Outlay Appropriations

Number of Appropriations	Range	Total $ amt.
551	$0-$5,000	$2,203,176
12,939	$5,001-$100,000	$611,986,524
3,367	$100,001-$500,000	$775,755,181
483	$500,001-$1,000,000	$383,048,732
568	> $1,000,001	$2,573,573,948
Total - 17,908		Total - $4,346,567,561

Source: CPMS, June 2007

Staffing and Administrative Fees. Insufficient resources continue to hamper effective monitoring and management, in some cases, by oversight agencies. The recommendation for a minimal administrative fee for oversight and monitoring was not implemented as recommended in the 2003 and 2006 reports. State law currently gives GSD/PCD the authority to charge a percentage of the appropriation as a project management fee in order to offset some administrative cost of managing projects (Section 15-3B-10 NMSA 1978).

Insufficient number of staff with appropriate expertise affects the ability to visit sites, verify capital outlay project status, determine the appropriate use of funds, and to confirm the accuracy of reported capital outlay information.

The monitoring capabilities at oversight agencies vary significantly. The New Mexico Environment Department/Construction Program Bureau (NMED/CPB), General Services Division/Property Control Division (GSD/PCD) and Public School Finance Authority (PSFA) have engineers and architects for managing capital outlay projects, whereas Department of Finance and Administration (DFA) and Public Education Department (PED) only have personnel with financial backgrounds who primarily approve invoices for payment and administer contracts.

The ratio of capital projects to FTE substantially impacts the time and quality of managing capital outlay projects. Generally, the number/amount of capital outlay appropriation is increasing; however, the number of personnel to monitor capital outlay projects, administer activity and distribute funds has remained relatively stagnant, as shown in the table below.

As shown in Table 6, appropriations to PED, NMED and DFA have increased between 45 to 71% from FY05 to FY07. However, the number of FTE has stayed the same or increased slightly. While "caseloads" have increased substantially, each of these agencies manages different types of capital outlay projects with varying degrees of complexity and actual "workload" requirements. Generally, NMED and PSFA are recognized for well managed projects. For example, DFA manages lots of small projects that may require less management and more processing of fiscal and other paperwork.

Table 6: FY05 – FY07 Comparison of FTE, Number of Projects and Total Dollar Value of Projects
(in millions)

Year	Description	GSD	PED	NMED	DFA	PSFA
2005	FTE	10	3	10	9	17
	Amount	$35.3	$46.1	$31.9	$66.5	$279.8
	No. of Projects	189	552	203	405	274
2006	FTE	10	3	11	9	17
	Amount	$23.3	$65.5	$63.2	$185.4	$242.1
	No. of Projects	177	418	266	677	252
2007	FTE	11	4	12	9	17
	Amount	$17.0	$84.0	$72.0	$227.8	$164.7
	No. of Projects	205	741	237	1,152	186
	Percent Change in Dollar Value FY05 to FY07	-108%	45%	56%	71%	-70%

Source: Provided by Agency

Utah is considered a model for state capital outlay planning and management. For comparison purposes with New Mexico's agencies, Table 7 shows an un-audited illustration of FTE, the total funding for capital development and capital improvement for fiscal years 2005-2007 and the number of projects authorized.

Table 7: FY05 – FY07 Utah Comparison of FTE, Number of Projects and Total Dollar Value of Projects
(in millions)

Year	Description	Utah
2005	FTE	35
	Amount	$323.3
	No. of Projects	210
2006	FTE	35
	Amount	$389.0
	No. of Projects	246
2007	FTE	35
	Amount	$530.4
	No. of Projects	240.0
	Percent Change in Dollar Value FY05 to FY07	39%

Source: Utah – DFCM

RECOMMENDATIONS

The Legislature could consider studying, through the interim Capital Outlay Subcommittee, creating a permanent capital outlay planning commission made up of legislators, executive officials representing the Board of Finance, State Treasurer's Office and Department of Finance and Administration. The commission could serve as an umbrella advisory committee charged with planning and screening capital projects for consideration before the full legislature convenes. Creation of the commission would result in consolidating the multiple current processes used by the legislative and executive branches into a single process. The commission should have jurisdiction to screen, plan and recommend funding participation requirements for all non-state entities, including local governments or citizen groups, seeking project support from the state. The commission could also be given jurisdiction to review lease-purchase agreements from state or public education agencies seeking approval prior to full legislative review.

Consider establishing a minimum threshold for all capital projects and raise the threshold for STB-funded projects.

Continue to monitor staffing levels at agencies charged with managing capital outlay projects.

DFA should continue efforts to improve CPMS reliability and accuracy.

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BILL RICHARDSON
GOVERNOR

KATHERINE B. MILLER
CABINET SECRETARY

January 8, 2008

David Abbey, Director
Legislative Finance Committee
Santa Fe, NM 87501

Dear Mr. Abbey,

The Legislative Finance Committee (LFC) has performed its third review on the capital outlay program for the State of New Mexico's capital outlay program. This review focused on the planning and implementation of selected capital projects and reviewing progress made to improve the overall system.

The Department of Finance and Administration (DFA) staff has reviewed this report and conclusions and in general, find it to be a fair representation of the status of capital projects sampled. Additionally, DFA agrees with the findings that address the systems or lack there of and the processes utilized by the State of New Mexico in planning and funding strategic investments for infrastructure projects for New Mexico.

Although much progress has been made over the last few years on planning, funding and implementation of capital outlay, much still needs to be done to provide a better quality of life for New Mexicans in education, economic development, water and wastewater, and other basic health and safety issues for New Mexicans.

Some of the general questions or concerns that have surfaced as a result of this review are as follows:

- In meeting with LFC staff, it was very difficult to follow what criterion was utilized in determining the category scores (ie, Green, Yellow or red) reported for the sample projects. In many cases staff decisions seemed to be subjective.

- Additionally, many of the project findings identified in the report seem to be inconsistent when comparing the reports published by LFC audit staff and LFC capital staff. See examples below.

Agency	Project Name	LFC Audit Staff	LFC Capital Staff
PED	Library Books, Equipment and Resources for Public School and Juvenile Detention Libraries Statewide	Yellow	Green
IAD/San Juan Pueblo	Airport Improvement Project	Yellow	Green
NMED/City of Las Vegas	Las Vegas Wastewater Project	Yellow	Green
DOT/Bernalillo County	Isleta Blvd. Reconstruction Phase II	Yellow	Green
DFA	Equestrian Facility	Red	Green

- With regard to insufficient funding and inadequate planning for local legislative projects; In the past, the Executive has stressed the need to fully fund capital projects that are planned and that meet the strategic initiatives of the State. The Executive continues to strengthen and improve the planning processes for state and local governments that address the strategic priorities of the State.

  Executive Order 2007 – 50 also strategically reorganized State Governments to better plan and allocate the limited resources for water and wastewater projects statewide.

- The Capital Outlay Subcommittee has adopted rules for reauthorization of capital outlay projects for the upcoming session. These new rules will play a huge roll in reducing the number of projects that are outstanding in the various communities throughout the state.

Overall, the report was a fair and accurate assessment of the status of capital outlay projects. The Executive branch will continue to work with the legislators towards a more efficient and systematic approach in planning and funding capital infrastructure for the State of New Mexico that better addresses the strategic initiatives of the state.

If you have any questions or need additional information, please feel free to contact me or Robert M. Apodaca of my staff at 827-8053.

Sincerely,

Katherine Miller, Secretary
Department of Finance and Administration

Outcome/Progress Ratings
Sampled Projects

		Outcomes				
Agency	**Project Name**	On Time	Within Budget	Intended Purpose	O&M	**Category Score**
EMNRD	Clean Energy	Y	Y	Y	N/A	G
EMNRD	Wildfire Protection / Equipment Statewide	Y	Y	Y		G
CTSRR	Locomotive and Track Repair	Y	Y	Y	N/D	G
DPS/NMSP	Vehicle Replacement	Y	Y	Y	Y	G
GSD/CD/CYFD	NM Boys' School Conversion	Y	Y	Y	Y	G
NM State Fair	NM State Fair-Expo NM - Palomino - Horse Show	Y	Y	Y	Y	G
ALTSD	Pojoaque Pueblo Senior Center	Y	Y	Y	Y	G
PED	Ernie Pyle Middle School Library Books	Y	Y	Y	N/A	G
DFA/City of Albuquerque	Tower Community Park	Y	Y	Y	Y	G
DFA/City of Albuquerque	Veloport BMX Park & Facility	Y	Y	Y	Y	G
DFA/City of Albuquerque	Jerry Cline Park Equipment	Y	Y	Y	Y	G
NMED/City of Santa Fe	Canyon Road WWTP Clarifier Modification (Phase II)	Y	Y	Y	Y	G
NMED/Village of Melrose	Water System Improvement	Y	Y	Y	ND	G
NMED/City of Elephant Butte	Sierra County Regional Wastewater Treatment Plant	Y	Y	Y	Y	G
DFA/City of Las Cruces	Regional Recreation and Aquatic Center	Y	Y	Y	Y	G
HED/UNM	Lambda Rail Network	Y	Y	Y	ND	G
HED/ENMU	ENMU Health Sciences Center	Y	Y	Y	Y	G
DOH	Telehealth in School-Based Health Centers	N	Y	ND	Y	Y
ISC/SEO	ISC Land/Water Rights for Well Fields	N	N	Y	Y	Y
DGF/SEO	Dam Renovation and Repair - Lake Roberts Dam	N	Y	Y	Y	Y
GSD/CD	Corrections Department Statewide Facility Repairs	N	Y	Y	N/A	Y
GSD/HSD	Human Services Dept. Statewide Repairs & Renovation	N	Y	Y	Y	Y
PED	Library Books, Equipment and Resources for Public School and Juvenile Detention Libraries Statewide	N	Y	Y	N/A	Y
PED	Marie Hughes Elementary	N	Y	Y	N/A	Y
PED	Family School Multipurpose Building	N	Y	Y	N	Y
ISC	San Juan River Recovery Implementation Program	N	Y	Y	Y	Y
IAD/San Juan Pueblo	Airport Improvement Project	ND	N	Y	N	Y
NMED/City of T or C	Water Tank Rehabilitation	N	Y	Y	N/A	Y
NMED/City of Las Vegas	Las Vegas Wastewater Project	N	N	Y	Y	Y
NMED/Village of Melrose	Wastewater System Improvements	N	Y	Y	Y	Y
DFA/City of Albuquerque	Balloon Fiesta Park Improvements	Y	ND	Y	Y	Y
NMED/Regina MDWCA	Water System Improvements	N	Y	Y	N	Y
DOT/Bernalillo County	Isleta Blvd. Reconstruction Phase II	N	Y	Y	ND	Y
DFA/Bernalillo County	Amistad Youth Crisis Shelter Renovation	N	N	Y	Y	Y
DFA/City of Albuquerque	ABQ Small Business Incubator	Y	ND	Y	Y	Y
DFA/City of Albuquerque	International Balloon Museum	N	N	Y	Y	Y
DFA/Bernalillo County	MATS Transitional Housing	N	Y	Y	Y	Y
DFA/Clovis	Clovis Curry County Business Enterprise Center	N	Y	Y	Y	Y
DFA/Bernalillo County	South Valley Multipurpose Center Construction	N	N	Y	N	Y
HED/UNM	Valencia Security/Landscape Improvement	N	Y	Y	N/A	Y
HED/SJC	Outdoor Learning Center	ND	Y	Y	Y	Y
HED/Mesalands CC	Academic Building	N	Y	Y	N	Y
HED/NMJC	Western Heritage Museum & Cowboy Hall of Fame	N	Y	Y	Y	Y
DFA/Governor's Office	Equestrian Facility	N	ND	N	N	R
DFA/IAD	Coyote Canyon Chapter House	N	N	Y	N	R
DFA/Office of Military Base Planning and Support	Cannon AFB	N	N	N	N	R
DOT/City of Alamagordo	First Street Extension	N	ND	N	ND	R

Source: LFC Analysis

ISC – San Juan River Basin Recovery Implementation Program

The purpose of the San Juan River Basin Recovery Implementation Program is to protect and recover endangered fishes in the San Juan River basin while water development proceeds in compliance with all applicable Federal and State laws. It is an interagency/interstate effort comprised of the following: Jicarilla Apache Nation, Navajo Nation, Southern Ute Indian Tribe, Ute Mountain Ute Indian Tribe, State of Colorado, State of New Mexico, U.S. Bureau of Indian Affairs, U.S. Bureau of Land Management, U.S. Bureau of Reclamation, and the U.S. Fish and Wildlife Service.

The original cost estimate, is specified in the enabling legislation (P.L. 106-392), as well as funding requirements. A total of $18 million capital project cost was specified by P.L. 106-392, of which $10.35 million is provided from federal appropriations, $3.825 million is provided from power revenues, and $3.825 million is contributed as cost-share from the states of Colorado and New Mexico. The States of New Mexico and Colorado have agreed to allocations of the states cost share in the proportions of $2.744 million for New Mexico and $1.081 million for Colorado.

In 2002, this project received $3.350 million in general fund, GOB and STB funding, of which $2.48 million remains unexpended (per CPMS – 6/30/07). In addition, the project received a $100,000 contribution provided by Public Service Company of New Mexico, credited as State of NM cost-share contribution.

Excluding the cost share contribution, this project was funded by $606,000 over New Mexico's agreed-upon share. Upon inquiry about the over funding, the State Engineer's Office responded:

"We do not have an answer as to why $3.4 million was appropriated. According to the program manager, only $2.7 was requested. Anyway, even though it is over funded, the feds will bill us only up to our allocated state cost share. We have no control over the expenditures for this program, thus, we just receive a bill from the feds and pay it up to our required share amount. For example, of our total cost share commitment, $242,533 of the $1 million GO bond appropriation will be reverted because the feds did not bill us for the full amount of the encumbrance that we had under that appropriation. I understand there is legislation proposing that there will be additional costs for the program of $12 million which is proposed to come from other sources or revenue rather than from the states. Also, in this legislation, they are proposing to extend the program to 2023."