MINUTES
of the
FIRST MEETING
of the
CAPITAL OUTLAY SUBCOMMITTEE
of the
NEW MEXICO LEGISLATIVE COUNCIL
and the
LEGISLATIVE FINANCE COMMITTEE

June 17, 2008
Room 307, State Capitol
Santa Fe

The first meeting of the Capital Outlay Subcommittee of the New Mexico Legislative Council and the Legislative Finance Committee for 2008 was called to order at 2:10 p.m. by Speaker of the House Ben Lujan in Room 307 of the State Capitol in Santa Fe.

Present
Rep. Ben Lujan, Co-Chair
Sen. Carlos R. Cisneros
Sen. Carroll H. Leavell
Sen. Leonard Lee Rawson
Rep. Henry Kiki Saavedra
Sen. Michael S. Sanchez
Rep. Edward C. Sandoval
Rep. Thomas C. Taylor
Rep. Jeannette O. Wallace
Rep. Teresa A. Zanetti

Absent
Sen. Timothy Z. Jennings, Co-Chair
Sen. Kent L. Cravens
Sen. Dianna J. Duran
Rep. W. Ken Martinez
Rep. Brian K. Moore
Sen. John Arthur Smith

Advisory Members
Rep. Janice E. Arnold-Jones
Sen. Stuart Ingle
Sen. H. Diane Snyder

Staff
David Abbey, Director, Legislative Finance Committee (LFC)
Ric Gaudet, Legislative Council Service (LCS)
Renée Gregorio, Capital Outlay, LCS
Jeannae Leger, LFC
Sarah Lucero, LFC
Tom Pollard, LCS
Paula Tackett, Director, LCS

Guests

The guest list is in the meeting file.

Handouts

Copies of handouts given by meeting presenters are in the meeting file.

<u>Tuesday, June 17</u>

Strategic Planning for State Facilities

Mr. Pollard presented the subcommittee with an overview of the state's strategic facility planning process and potential enhancements to the process. The basic process consists of four steps: determining facility requirements for a state agency based on that agency's strategic plan for agency outcomes and operations; evaluating existing facilities for their current condition and ability to meet future facility needs; using lifecycle costing to choose new facility design, construction, acquisition and financing methods; and using the most cost-effective finance tools for required maintenance, renovation and new facility acquisition.

The first step of the process, which involves state agencies developing a three- to five-year infrastructure capital improvements plan (ICIP), has improved in the past few years. State agencies are now required to submit their ICIPs to the Property Control Division of the General Services Department for review and coordination with other agencies before funding is requested through the Department of Finance and Administration (DFA) and the legislature. One drawback in the process is that there is no standard method to prioritize projects across agencies, which can result in state agencies having to compete with each other for capital project funding, rather than funding being based on statewide priority. Mr. Pollard described how some states have a system in which agencies submit their facility plans to a board or agency that has the responsibility to rank the projects from the agencies based on a standard set of criteria and submit a state facility plan to the governor and legislature for consideration.

The second step of the facilities planning process includes taking an inventory of existing facilities of the agency and then developing a plan for maintaining, replacing and disposing of those facilities, based on the needs developed in the first step. The third step, lifecycle costing of a facility, involves an economic evaluation of facility acquisition alternatives that considers all relevant costs associated with each alternative and provides a comparison to determine the alternative with the lowest lifecycle cost. The final step, providing the most cost-effective financing tools, takes the results of the third step to calculate the best method of financing the facility, including lease, lease-purchase, revenue bonds, general obligation bonds, cash appropriations, etc.

Mr. Pollard also discussed deferred maintenance at state buildings and described how buildings in Santa Fe and Bernalillo counties generally have a lower need for repairs than the rest of the state, which has much larger deferred maintenance problems. He mentioned that state buildings in Santa Fe County have use of the Capitol Buildings Repair Fund, which is funded by distributions from state trust land income. The average facility condition index (FCI) of state buildings in Santa Fe County is 13 percent, which means that the cost to repair those buildings is 13 percent of the buildings' total replacement values. Bernalillo County's FCI is 18 percent, which is still relatively low. The other 31 counties, however, have much higher FCI percentages.

Mr. Pollard led the subcommittee through the lifecycle costing process, using the Human Services Department (HSD) as an example. He compared the total lifecycle cost of housing the department in a new state-owned building versus the current practice of using private leased space. The HSD currently leases all of its 173,000 square feet of office space in Santa Fe at an annual cost of $3.8 million. The current lease space could be consolidated into a single 160,000 square foot building, which would cost approximately $40 million.

The building could be financed entirely by redirecting the current lease payments toward a lease-purchase agreement financed by the New Mexico Finance Authority. The state would also pay $6.00 per square foot annually for maintenance and would spend another $75.00 per square foot after 20 years for renovations in order to enable the building to last at least 40 years. The state would not have to make any new appropriations to finance the building, and it would save approximately $47 million over 30 years in recurring revenue, in addition to the value of the property itself. In this example, the most economical choice for the state would be to own its building, rather than to lease.

Mr. Pollard advocated using such a strategic approach for all of the state's facilities to determine the best option for each facility. He said that, while short-term leasing may be the most flexible option, if an agency anticipates occupying the building for the long term, owning is usually the best financial option.

Representative Sandoval asked about the Bank of the West building in Albuquerque of which the state currently leases 80 percent. Ms. Tackett said that although the building could be purchased for $33 million, it is quite old and will need significant renovation soon. In addition, parking for the building is problematic because there are several entities that own the building's current parking lot. She said the Capitol Buildings Planning Commission is developing a state facility master plan for Albuquerque and is looking closely at that building, as well as other sites, to house state agencies.

Representative Zanetti asked for information on how the FCI rating is compiled. Ms. Tackett explained that the FCI is a nationwide model that reflects the condition of a facility in several different categories, including life, health and safety standards, structural condition, HVAC infrastructure, plumbing, elevators, roofing, etc. It also includes Americans with Disabilities Act of 1990 requirements in one of the categories. Ms. Tackett said that the FCI gives an indication of whether a facility should be repaired or replaced.

Senator Rawson cautioned against using state agency-reported figures in comparing lease versus own analyses because they will often include janitorial services and utilities in a building's lease cost. This could inadvertently skew the results of a comparison unfairly against leasing. He said that his preference in general is for the state to own its own buildings, but only if the state maintains the buildings.

Mr. Pollard agreed, saying that if the state cannot commit to maintaining a building, it is better off financially to lease. He also said that any economic analysis of a state facility needs to use comparable terms in order to make the study fair. Otherwise, the results will not have much meaning.

Capital Outlay Quarterly Update

Ms. Leger and Mr. Abbey presented the status of capital projects having a value of greater than $1 million to the subcommittee. She detailed some of the projects that are having trouble keeping on schedule, including:

- the Albuquerque senior citizen kitchen, which received a $4 million appropriation, but now is estimated to cost $16 million. In addition, that project was given a low rating by the planning service agency in 2008;

- the Department of Information Technology conversion to digital technology project, which has $3.6 million unexpended;

- film initiatives, with $11.7 million uncommitted, and no new activity reported since December 2007;

- equestrian and rodeo initiatives, with $24 million unexpended;

- the Homeland Security and Emergency Management Department warehouse, with $2.5 million unexpended;

- the Tesla project, with $8 million unexpended. Apparently, the funds will not be expended until the company is assured a federal funding source;

- pre-kindergarten classrooms, with $3 million unexpended. The Children, Youth and Families Department will become the recipient of the funding instead of the Public Education Department;

- the Cannon Air Force Base project, with $5 million unexpended. Negotiations with the U.S. Air Force are still ongoing;

- the Sandoval County broadband project, with $200,000 frozen until the State Auditor completes an audit of the project; and

- the Department of Public Safety (DPS) crime laboratory, with $1 million rejected by the department because its location was required to be in Albuquerque, and $1 million appropriated for a planning and feasibility study, without requiring a specific location.

Ms. Leger briefly described additional handouts that summarized all current capital outlay projects, organized by sponsor and by county. Mr. Abbey said that for this quarterly report, the LFC asked agencies to indicate upcoming benchmarks and time lines for each project. He said he hopes to get better compliance from state agencies in the next report.

Representative Saavedra asked how much money Albuquerque is contributing toward the senior kitchen. Ms. Leger said she will investigate that question. Representative Saavedra said that, originally, the project was intended to be in the south valley, but suddenly it was changed to be near Interstate 25, with a $16 million price tag.

Representative Sandoval asked what is the purpose of the Homeland Security and Emergency Management Department warehouse. Ms. Leger said the department has not provided a progress report on that project since 2006.

Senator Sanchez asked when the Tesla project money is slated to revert. Mr. Abbey said that part of the money will revert at the end of fiscal year 2011 and the rest in fiscal year 2012. He said the Economic Development Department and the LFC are monitoring the project closely in case it turns out not to be viable. Speaker Lujan asked if the bonds for that project had been sold. Mr. Abbey said that, as of April, they had not been sold, but he is not sure if the bond sale being approved that day by the State Board of Finance includes the Tesla project.

Senator Rawson said he was surprised to discover that another $1 million was appropriated for the DPS crime laboratory. Ms. Leger said that money is for a feasibility study and plan, but did not specify a location. Senator Leavell said that, regardless of its eventual location, the project needs to be a top priority.

Representative Zanetti asked if tribal infrastructure projects are moving forward. Mr. Abbey said that there is a better process now of moving projects forward, but much more work still needs to be done. Speaker Lujan said that the interim Indian Affairs Committee will examine that issue this summer.

Representative Arnold-Jones asked why New Mexico's SHARE accounting system is not being used online to track capital projects. Mr. Abbey said that the DFA received an appropriation of $250,000 to implement that system. He expects a report on the status of that project soon. Mr. Abbey agreed that it is critical for the state to begin using SHARE for capital outlay monitoring.

Senator Sanchez asked if agencies need more staff to manage capital projects. Mr. Abbey said that the LFC received a staff increase for capital project monitoring this year, but other agencies do need more staff.

Senator Sanchez said that he is frustrated with contractors doing shoddy work on public projects and the state getting stuck with the bill to fix them. In addition, the same contractors and engineers keep getting contracts with the state and local public bodies. He said that state agencies need to do a better job of monitoring projects. Mr. Abbey suggested the idea of not funding any more state agency projects until existing projects are finished or meet benchmarks.

Senator Ingle said that he does not believe that the DFA can be responsible to ensure that all the local projects under its purview are built well. The architects, engineers and builders need to be responsible. The counties and cities also need to monitor their projects closely.

Senator Leavell said that legislators often do not know the status of active projects in their districts. He suggested enlisting help from regional councils of government (COGs) to assist with project monitoring. The COGs could then report the status of projects to the legislature and the overseeing state agency.

Work Plan, Schedule and Budget: Review and Discussion

Ms. Gregorio reviewed the proposed work plan, meeting schedule and budget for the subcommittee. Subcommittee members requested adding items, including:

- studying the idea of creating an interim capital outlay committee that prioritizes local and state projects;

- implementing a system for legislators to share funding information on projects in order to fully fund projects; and

- exploring the idea of systematic auditing of capital projects.

The work plan for the 2008 interim was adopted, including the new items for study.

There being no further business, the subcommittee adjourned at 4:33 p.m.