

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 02/05/10

SPONSOR Maestas LAST UPDATED 02/09/10 HB 223

SHORT TITLE Capital Outlay Project Tracking SB _____

ANALYST Kehoe

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY10	FY11		
	\$300.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Education Department (PED)

Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

House Bill 223 appropriates \$300,000 from the General Fund to the Legislative Council Service for equipment and five full-time-equivalent employees to track the progress toward completion of capital outlay projects.

FISCAL IMPLICATIONS

The appropriation of \$300,000 contained in this bill is a recurring expense to the General Fund for expenditure in fiscal year 2011. Any unexpended or unencumbered balance remaining at the end of fiscal year 2011 shall revert to the general fund.

SIGNIFICANT ISSUES

The Legislature appropriated or authorized over \$3.5 billion between 2004 and 2009 for 14,390 capital projects. As of December 1, 2009, nearly \$1.4 billion for 4,883 projects remains outstanding (including nearly \$140 million authorized in 2009). According to reports derived from the Capital Project Monitoring System (CPMS), operated and maintained by the Department of Finance and Administration, approximately \$455.3 million for 2,428 projects appropriated between 2005 and 2008 reveal no progress. The following chart demonstrates outstanding

projects and unexpended funds for capital outlay projects appropriated by the Legislature between 2004 and 2009:

**2004-2009 Capital Outlay Funding
"Outstanding" Projects Only**
(in millions)

Year	Number of Projects	Amount Appropriated	Amount Expended	Amount Unexpended	Percent Expended by Year
2004	45	\$ 30.2	\$ 23.9	\$ 5.9	79%
2005	489	\$ 183.7	\$ 123.6	\$ 60.0	67%
2006	777	\$ 376.0	\$ 172.1	\$ 191.8	46%
2007	1,443	\$ 484.8	\$ 173.6	\$ 299.7	36%
2008	1,628	\$ 626.3	\$ 72.6	\$ 546.9	12%
2009	501	\$ 255.0	\$ 7.9	\$ 247.0	3%
Total	4,883	\$ 1,956.0	\$ 573.7	\$ 1,351.3	

Note: The chart does not include 2009 reauthorizations not yet budgeted.

As of November 23, 2009, balances for projects \$1 million or greater tracked by staff of the Legislative Finance Committee (LFC) total over \$698 million for 322 projects. The funds account for nearly 50 percent of all unexpended balances. The current status of the projects and fund balances are reported on the LFC website.

ADMINISTRATIVE IMPLICATIONS

Several issues contribute to the progress of major and minor capital projects at both the state and local level. To name a few: 1) the Property Control Division of the General Services Department, the Local Government Division, Public Education Department, and other state agencies responsible for administering capital outlay funding and projects are understaffed and overwhelmed with the large number of projects under their jurisdiction, 2) state agencies lack planning and project management expertise, (i.e. site or land acquisition is not determined prior to requesting funds for new construction), 3) state agencies lack adequate staff for oversight of all local projects, and 4) projects are delayed due to inadequate funding levels.

OTHER SUBSTANTIVE ISSUES

Certain components are important for a good capital management system. The components include:

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

Based on a study by the National Association of State Budget Officers, *Capital Budgeting in the States*, good practices for quality capital budgeting require:

- Defining capital expenditures
- Defining maintenance expenditures and identifying funding for maintenance
- Developing a system to prioritize projects and identify criteria used for selection
- Identifying operating costs of each project over a multi-year period

House Bill 223 – Page 3

- Effective communication between the legislature and the executive during the capital budget process
- Strengthened review of long-range capital plans
- Integrated planning with debt affordability
- Review of cost-benefit comparisons for private sector participation in capital projects
- Review of long-term leases
- Defining of outcomes for capital investments
- Validating cost estimating methods
- Establishing a tracking system to keep projects on schedule and within budget
- Maintaining an updated inventory system of capital assets
- Maintaining a centralized oversight for capital projects

LMK/mew:svb