

Legislative Staff Perspectives on Capital Outlay New Mexico Infrastructure Finance Conference

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October 24, 2019

What We'll Cover Today

- Summary of 2019 session
- Capacity available in 2020 for capital expenditures & requests to date
- Quarterly reports and outstanding capital balances
- Method used by LFC staff to develop preliminary introduced bills and criteria applied to determine projects
- Local entity ICIPs (preliminary)
- Challenges for local governments
- Rising construction costs

2019 Legislative Session

- \$925.1 million in new capital outlay appropriations
- \$381.3 million for state agencies or statewide projects
- \$293.9 million for local projects sponsored by legislators
- \$250 million for projects sponsored by the governor
- Primarily general fund revenue
 - SB535 directed severance tax revenue to the STPF rather than debt-service from FY20 through FY29
 - Projected to increase STPF by \$281.2 million over 10 years
 - Results in increased general fund revenue from STPF in long run
 - General fund should be available sooner than STBs would have

2019 Legislative Session

- Other legislation included nearly \$500 million in capital appropriations
- House Bill 2
 - \$75 million for Local Economic Development Act projects
 - \$2 million for repairs and improvements at the Roundhouse
 - \$400 million for road projects
- The “junior” appropriations bills, Senate Bill 536 and House Bill 548, included \$4.7 million for 42 capital projects
- DFA (as of October 15) reports 730 grant agreements are executed, 187 have been issued but not signed, and 108 have not been issued

Capital Outlay Capacity 2020

- Severance Tax Bonds (STB)
 - \$448.8 million STB capacity available
 - \$80.8 million of STB earmarked:
 - \$40.4 million - Water Project Fund
 - \$20.2 million – Colonias Infrastructure Fund
 - \$20.2 million – Tribal Infrastructure Fund
 - \$300 thousand – Authorized but Unissued
 - **NET CAPACITY - \$367.7 million**
- General obligation Bond (GOB) capacity is \$199.2 million
 - Nearly \$400 million in requests for senior centers, libraries, higher education institutions, special schools, and tribal schools
 - GOB debt service paid by property taxes
 - Capacity estimated on flat mil levy and won't increase taxes
- \$206.9 million of Supplemental STB is earmarked for public school capital outlay
- General Fund or Other State Funds may be authorized by the Legislature

Local Project Requests

- As of October 9th, Infrastructure Capital Improvement Plans (ICIP) submitted to DFA indicate local governments require nearly \$1.6 billion for immediate capital needs in FY21, about \$300 million more than last fiscal year
 - Participants of local ICIP include municipalities, counties, acequias, mutual domestics, land grants, and Native American entities
 - Nearly two-thirds of the requests are for various kinds of new facilities followed by transportation and water infrastructure projects
 - The top five local priorities include:
 - Facilities (\$457.5 million),
 - Transportation (\$580.4 million),
 - Water and Wastewater (\$396.9 million);
 - Equipment (\$38.7 million); and
 - Vehicles (\$14.8 million)

Quarterly Report Balances as of June 2019

- As of June 2019, approximately \$1.4 billion from all funding sources for 3,060 projects remains outstanding
 - \$46.3 million of earmarked funds for water (\$19.2 million), colonias (\$13.2 million), and tribal (\$13.8 million) infrastructure projects.
 - \$291 million remains outstanding from supplemental severance tax bonds for public schools.
- On the LFC website (https://www.nmlegis.gov/Entity/LFC/Capital_Outlay_Quarterly_Reports):
 - \$628 million unspent from appropriations in 2009 through 2018.
 - 2,453 outstanding local projects authorized between 2015 and 2019 are outstanding with balances totaling \$543.2 million, 91 percent of the appropriation total.
- Local entities should
 - Review current balances prior to requesting additional state funds
 - Review Board of Finance website to view projects authorized, but bonds not issued (<http://nmdfa.state.nm.us/authorized-but-unissued-projects.aspx>)
 - Inform sponsors if additional funds are required to complete a project, if change of purpose is needed, or time needs to be extended

LFC Staff Method for Developing Capital Bills

- LFC analysts review agency funding requests and make recommendations to the committee, which uses the recommendations to prepare appropriation bills, including the state's operating budget and capital outlay legislation
- By July 1 of each year, all agencies must submit a statement of all capital projects, or Infrastructure Capital Improvement Plan (ICIP), proposed for the ensuing four years
 - The Higher Education Department is an exception to the July 1 date, and makes a recommendation for projects for colleges, universities, and special schools after holding hearings to review proposals in July or August. This is similar to the Aging and Long-Term Services Department's process for senior center projects
- A 2012 executive order extended ICIPs from four-year to five-year plans; it has not been rescinded
- ICIP includes policy direction, funding time frames, estimated costs, justifications, and the details of proposed capital projects, by year, over the five year period
- Includes an implementation plan and an estimate of operating and maintenance expenses to assure each planned project's viability
- Should be updated annually based on what was previously funded and programmatic changes that impact an agency's capital needs

LFC Staff Method for Developing Capital Bills

- Each agency has its own internal planning and evaluation process for developing its ICIP; process is generally under the direction of the department's Administrative Services Division
- ALTSD and HED have comprehensive planning processes implemented throughout the year to review requests from senior centers and higher education institutions that include an application process, site visits, priority rankings based on public health, safety, and other criteria, and a review of requests by a panel of experts
- While agencies are developing ICIPs, LFC staff performs site visits to check on the progress of active projects and gather context for upcoming requests
- In October, a panel consisting of executive staff holds hearings to review all agency ICIP requests. LFC capital staff participates in the hearings, providing an opportunity to ask questions and get detailed information about each request, and follow up with agencies to better understand requests
- LFC analysts prepare a recommendation, or framework, for the LFC's December hearing. This recommendation is subject to change by the committee. The committee directs staff to work with the Legislative Council Service to draft capital outlay legislation for introduction during session based on the recommendation.

Capital Outlay Bill Criteria

- Good projects will:
 - Eliminate potential or actual health and safety hazards and liability issues;
 - Address backlog of “deferred maintenance” to prevent deterioration of assets, including those of cultural and historic significance;
 - Meet compliance with state or federal licensing, certification, or other regulatory requirements;
 - Will provide future operating cost-savings with a reasonable rate of return;
 - Project is ready to begin and funds will complete a functional phase; and
 - Will provide a direct service to students, staff, and the general public.

Challenges: Planning

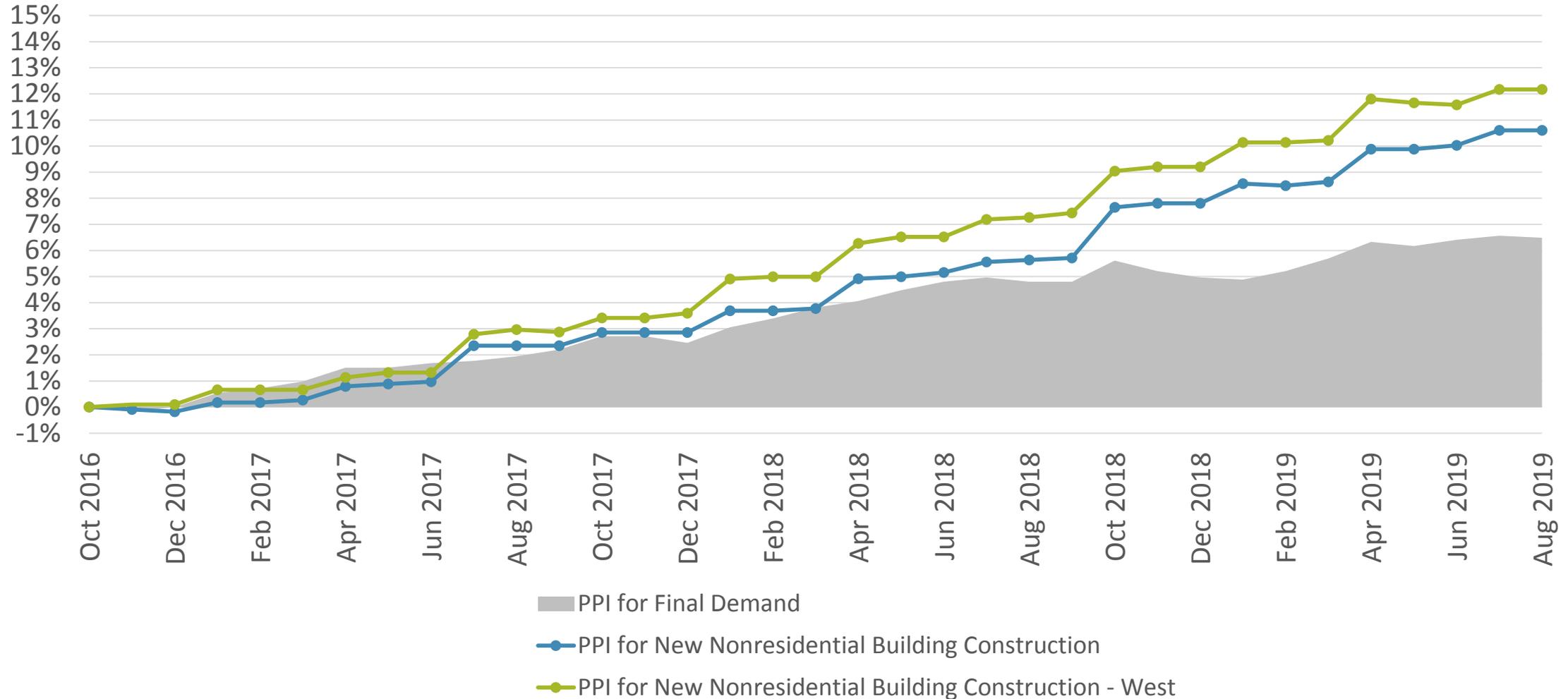
- Is the project “shovel ready” and is all needed land acquired before the appropriation request is made?
- Construction costs rising statewide – up to date cost estimates are key
 - Recommend getting an up-to-date hard quote from a contractor
- Soft costs versus hard costs
 - Soft costs: design work, engineering work, and inspection costs - can up to 30 percent of total project costs.

Challenges: Rising Construction Costs

- Rising materials costs, some driven by tariffs, have inflated construction and renovation project costs in recent years, in some cases doubling project budgets from original estimates
- Last fiscal year's \$925.1 million of capital funding has likely contributed to increased costs for new construction, renovations, and other work as contractors are in high demand
- Since October 2016:
 - PPI for final demand, not seasonally adjusted, has increased 6.5 percent, but construction costs have significantly outpaced this growth.
 - PPI for new nonresidential building construction, which measures the price contractors say they would charge to build a fixed set of buildings, increased by 11 percent
 - PPI for new nonresidential construction in the West increased by 12 percent

Challenges: Rising Construction Costs

Change in Producer Price Index (PPI) since October 2016
(not seasonally adjusted)



Challenges: Communication

- Communication with legislators is key
 - Meet with your local legislators to review ICIPs before the legislative session
 - Make sure the fiscal agent, entity, location, and scope of work are correct on your capital outlay request form
 - Review language in the legislators' capital outlay request lists
 - Available on their sponsored legislation page of the Legislature's website
 - Make sure the language is under the appropriate state agency

In Summary

- For the second year in a row, capital outlay capacity is large
- State agencies and local entities have a requested need for new or renovated facilities and infrastructure
- Method used by LFC staff to develop preliminary introduced bills and criteria applied to determine projects stressing proper planning and accurate project costs
- Projects are challenged by high construction costs and limited contractor availability – stressing properly planning

Questions?