

Local Capital Outlay

Understanding the Legislative Process and Current Issues

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“Local” capital outlay

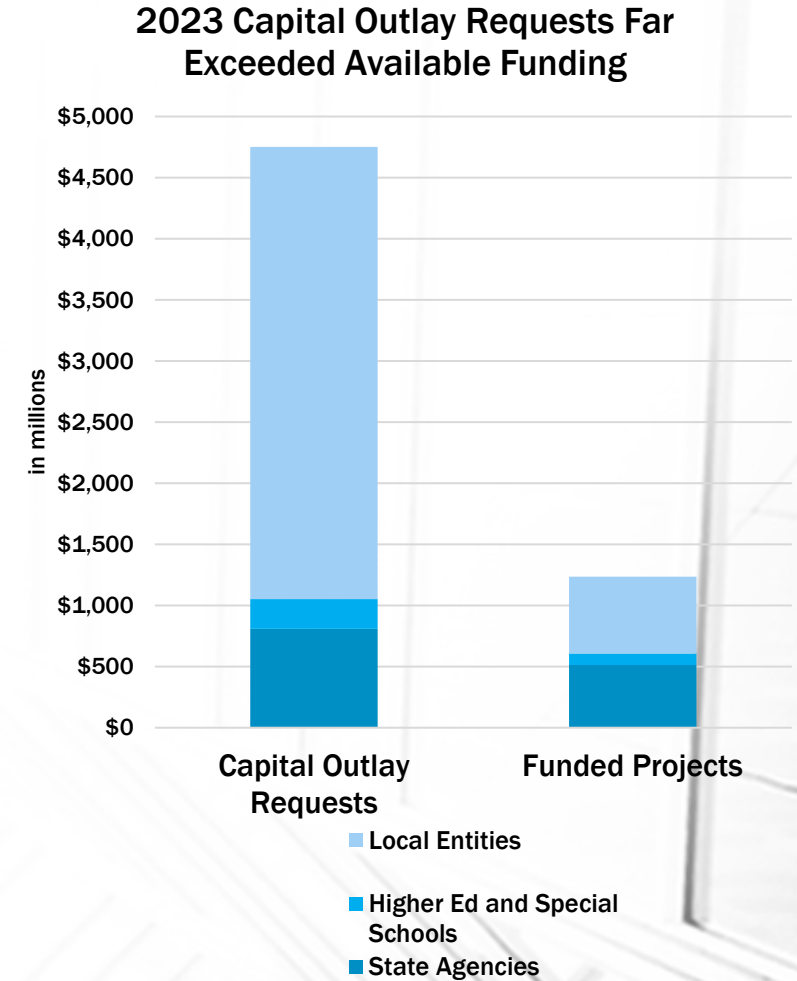
- **“Local” capital outlay appropriations are made at the discretion of individual legislators and the governor.**
- **The amount each legislator and the governor receive varies each year based on bonding capacity, general fund revenues, the size of the statewide framework, and negotiations between legislative leadership and the governor.**
- **Legislators use capital outlay appropriations to improve essential services and quality of life in their districts: roads, community centers, water systems, wastewater systems, recreation facilities, etc.**
- **Some legislators in shared districts collaborate in order to make larger appropriations to priority projects – a practice staff encourage.**

Potential benefits of local capital outlay

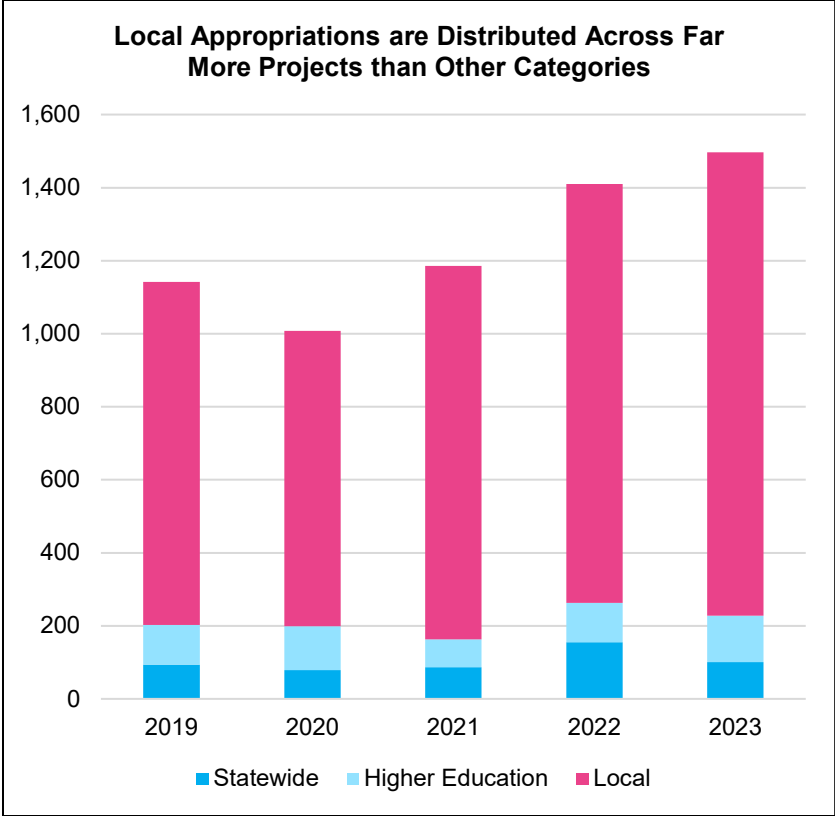
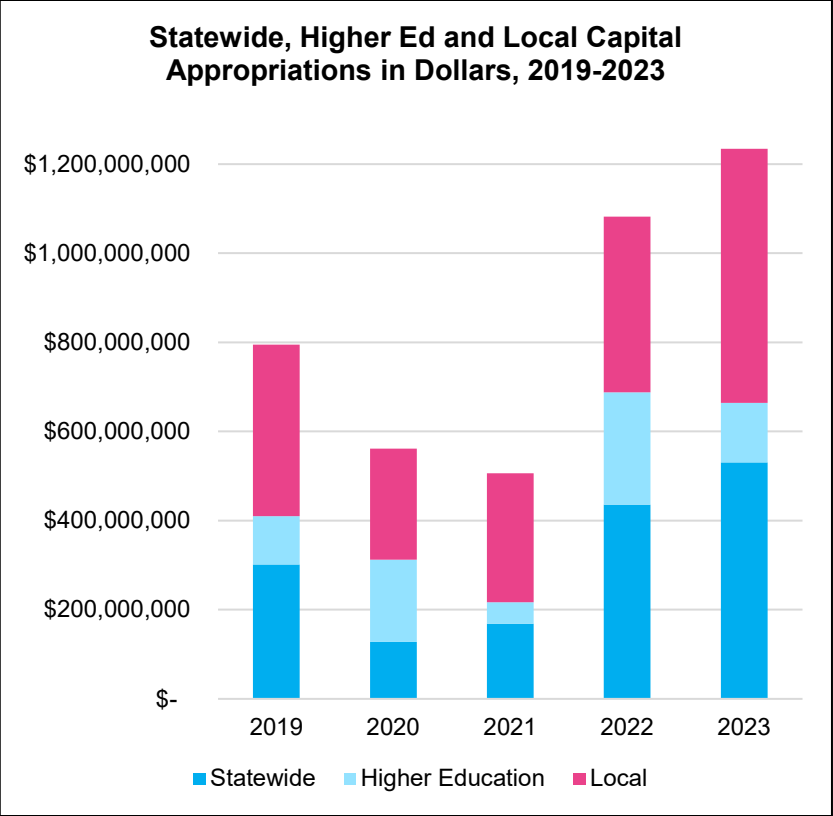
- Long-term investments to improve quality of life for New Mexicans.
- Provides public goods that local entities may not have the capacity to finance otherwise.
- Supports local economies and creates jobs by funding construction activity or providing critical infrastructure.
- ***But ...*** the practice of dividing available funding among individual legislators makes it challenging to broadly realize these benefits because the requests legislators receive far exceeds the funding they each have to appropriate.

The Capital Challenge: Never Enough Funding

- Requests for direct appropriations from legislators and the governor ***far*** exceed available funding
- That has remained true as state revenues have surged
- In the 2023 Session:
 - Local entities requested \$3.7 billion in direct appropriations from House and Senate members.
 - Available funding for local requests from the House, Senate, and Governor was about \$626 million – or just 17 percent of the funding requested.
- The result? Piecemeal funding.
 - Approximately 38 percent of nearly 1,400 local projects funded in the 2023 capital bill received 50 percent or less of requested funding, with \$191.3 million appropriated to 552 projects for which \$1.4 billion was requested.

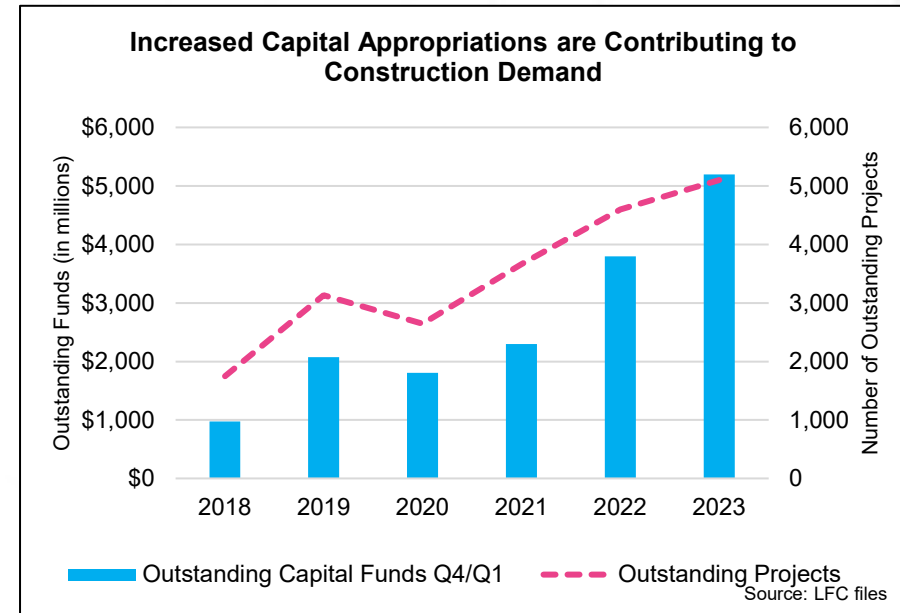


More local projects are funded at much lower amounts than state-owned projects



Obstacles for Local Capital Projects

- Rising construction costs
- Construction labor shortages in rural areas
- Piecemeal funding
- Lack of project planning
- State requirements (i.e. audit compliance)
- Administrative capacity
- Technical capacity
- Financial capacity
 - Reluctance to bond or use low-interest loan programs
- Limited capacity in state agencies to provide funding navigation and project management support



How do we address this challenge?

LFC staff encourage legislators to prioritize the requests they receive using the following criteria:

- Request fully funds the project or a functional phase
- Funding requested could not be secured through other sources
- Entity has committed some local revenues to the project and/or secured funding needed to complete project through other sources
- Total project cost is based on estimates provided by a qualified professional
- Project reduces health and safety hazards or provides key infrastructure for economic development
- Project is a top-three priority on a public entity's ICIP
- Land, property, rights or way, or easements required to begin construction have been acquired

Local entities can help by ...

- Using capital outlay as a source of funding not the source of funding for high-priority projects
- Requesting capital outlay to complete funding for functional phases of projects or entire projects
- Contributing local revenues to projects
- Taking advantage of other state and federal funding sources, especially for critical infrastructure like water and wastewater systems and roads

Legislative efforts to build capacity

- **Local capacity building grants are available through DFA**
- **Councils of Governments are a key resource**
- **Legislature provided recurring funding in 2023 to increase capacity in state agencies to manage capital projects**
- **Appropriations to support other state funding sources**
- **LFC and DFA staff collaborating to propose additional solutions for consideration by the 2024 Legislature, including an infrastructure division at DFA**

LFC recommendations to legislators

- **Prioritize completing funding for existing projects before starting new projects in a single government area**
- **Prioritize projects that are ready for construction and for which funding can be completed with available capital outlay dollars**
- **Appropriate at sufficient levels to fully fund a project phase or entire project, including consideration of other funding sources committed or secured. This could include supporting planning or design phases for projects that are not ready for construction.**
- **Prioritize projects that are top priorities on local entity's ICIP**
- **Prioritize projects that reduce health and safety issues or provide key infrastructure for economic development**

Other Sources of Funding

- **New Mexico Finance Authority**
 - **Public Project Revolving Fund**
 - **Water Trust Board**
 - **Drinking Water State Revolving Fund**
 - **Colonias Infrastructure Fund**
 - **Local Government Planning Fund**
- **NM Indian Affairs Department**
 - **Tribal Infrastructure Fund**
- **NM Environment Department**
 - **Clean Water State Revolving Fund**
 - **Rural Infrastructure Program**
- **Department of Finance**
 - **Outdoor Recreation and Quality of Life Grant**
- **Economic Development Department**
 - **MainStreet Capital Outlay Program**
- **Department of Transportation**
 - **Transportation Project Fund**

Legislative oversight of funded projects

- Tracking funded projects provides accountability to tax-payers and policy-makers.
- Tracking funds can support effective use of both state and local resources.
- Tracking allows the Legislature to identify sources of delays in completing projects and to address those issues
- Legislators receive quarterly reports on capital projects from LFC staff
- Grantees are required to report quarterly on the status of projects through the Budget Formulation and Management System, which recently replaced CPMS.
- Reporting is required as a condition of capital outlay grants.

Effective oversight depends on quality of reporting

- High-quality reporting can help the Legislature allocate future money in an effective way to support project completion
- Updates are often difficult to interpret as written, making the status of the project unclear.
- BFM is a critical tool used in determining the voiding or sweeping of funds, especially at times when the state is facing solvency.
- A new system will soon replace BFM and should make reporting easier and more useful.

Less Helpful Updates

Ex. #1: Notice of obligation 3 processed.

Ex. #2: Project planning underway.

Helpful Updates

Ex. #1: Construction documents 95% complete. Preliminary subcontractor bids being received by contractor. West end of the parking lot demolished at University and Coal.

Ex. #2: Architect updating previous design and cost estimate. Seeking additional funds. Federal funding likely granted. As of March, project is almost fully funded.



Thank you!

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