



Capital Outlay Process

Capital outlay funds, in the context of government, are those used to build, improve, or equip physical property that will be used by the public. Roads, broadband fiber, museums, playgrounds, schools, irrigation ditches, hospitals, lands, and furniture can all be capital outlay projects. In New Mexico, state capital outlay is authorized by the Legislature and generally is nonrecurring – one-time – money. Because of provisions in the New Mexico Constitution, capital outlay can only be used for government-owned facilities.

Sources of Capital Outlay

Much of the state's capital outlay is funded through three sources: general obligation bonds, severance tax bonds, and nonrecurring general fund revenue. Amounts vary from year to year depending on the economy. Nonrecurring general fund monies are particularly unpredictable. The state also issues bonds for state transportation projects, projects funded by the New Mexico Finance Authority, and other projects. Typically, those bonds are repaid with other revenue.

General obligation bonds are repaid through property taxes and must be approved through a general election. As a result, that money is only available in even-numbered years. General obligation bonds typically support projects for higher education, senior citizens, public schools, and libraries.

Severance tax bonds generally are repaid with revenue from taxes on oil, gas, coal and other natural resources “severed” from the land. The amount available through severance tax bonds is largely dependent on the health of the oil and gas industry.

Nonrecurring general fund revenue, the primary repository of state revenue, is typically the money left over after the Legislature has funded state government and public school operations and set money aside for reserves.

Priority Projects

The Department of Finance and Administration and the General Services Department are required by state law to develop a five-year plan for major state capital improvement projects and jointly identify and prioritize all state-owned improvement projects. State agencies develop lists of projects internally and are required by law to enter their priority projects into the Infrastructure Capital Improvement Plan (ICIP) database by July 1. Although local governments are not required to prepare ICIPs, almost all county, municipal, tribal, and special districts participate. The Department of Finance and Administration's Local Government Division collects the ICIPs and posts them online.

Agencies present their priorities to a panel of executive and legislative staff in October of each year, and LFC staff prepares a recommendation, prioritizing regional and state-owned and -operated projects. The recommendation becomes the framework for the capital outlay bill – or bills during even-numbered years – introduced during the legislative session.

Legislative Process

Early in the legislative session, finance committees in both the House and Senate hold hearings on the projects in the introduced legislation but take no action. After those initial hearings, either the House Taxation and Revenue Committee or the Senate Finance Committee, depending on where the bill was introduced, holds hearings on other statewide projects approved by legislative leadership for potential inclusion in the substitute bill that will eventually replace the original legislation. Other statewide projects may include those sought by advocates, constituents, and local governments within their districts.

After funds are allocated to statewide projects, any remaining money is divided between the House and Senate. Each chamber then allots an equal amount to each member for possible projects. However, this process has not been formalized in law or legislative rules.

A substitute bill with member projects and the statewide projects approved by the originating committee is generally developed in the last two weeks of the session.

Finally, the governor acts on the bill, often using line-item veto authority to strike some projects.

For More Information:

- The LFC *Finance Facts* on local capital outlay planning is available at www.nmlegis.gov/Entity/LFC/Documents/Finance_Facts/finance%20facts%20icip.pdf
- The Department of Finance and Administration has an ICIP website: www.nmdfa.state.nm.us/dfa-dashboards/infrastructure-capital-improvement-plan-dashboard/.
- The creation of the Infrastructure Capital Improvement Plan is guided in state law by Section 6-4-1 NMSA 1978 and Executive Order 2012-023.
- LFC reports quarterly on capital outlay status: www.nmlegis.gov/Entity/LFC/Capital_Outlay_Quarterly_Reports.