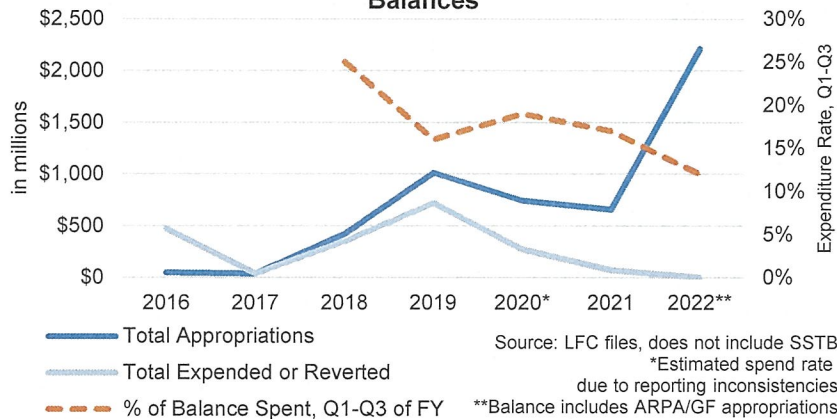


Policy Options to Improve Project Success

Strong state revenues and an influx of federal dollars have created a historic opportunity to make meaningful infrastructure investments in communities across New Mexico, but using these funds effectively will be challenging absent a focused effort to address longstanding barriers to project success. Economic conditions that may or may not be temporary and systemic issues unique to New Mexico’s approach to financing public infrastructure both present hurdles to timely completion of high-priority projects. These factors contributed to outstanding balances of \$3.8 billion across 4,600 active projects at the start of FY23.

Chart 1. Strong Revenues, Construction Bottlenecks, and Decreased Expenditure Rates Contribute to High Balances



Key Points

- At the start of FY23, outstanding capital outlay funds totaled approximately \$3.8 billion, including projects authorized by the Legislature through 2022 (\$2.1 billion), earmark projects (\$295.6 million), supplemental severance tax bonds for public schools (\$539.2 million), and special appropriations to capital projects (\$905.9 million). The last figure represents uncommitted and unspent funds from \$977.4 million in special GAA appropriations during the 2021 special and 2022 regular sessions.
- Common obstacles to timely completion of priority projects include lack of planning prior to funding; lack of consistent vetting of local capital outlay requests for need, feasibility, and readiness; piecemeal funding; a fragmented finance system that is difficult and time consuming to navigate; limited capacity at the local level to manage assets, plan for their replacement, secure funding, and manage projects to completion.
- Staff are working with the LFC Capital Outlay Subcommittee to identify policy options that can improve the outcomes of capital appropriations while preserving legislators’ ability to direct money to local projects in their districts.

LFC is exploring policy options to support three goals:

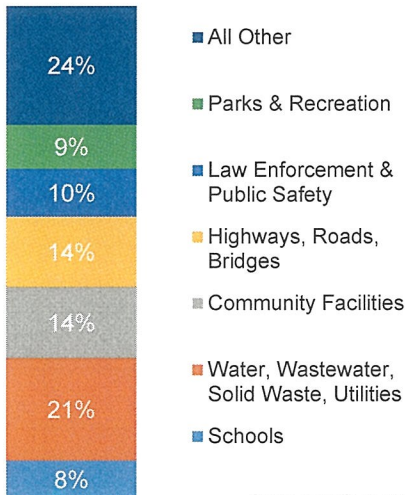
- 1) **Completing existing projects**
- 2) **Prioritizing future capital outlay to high-priority, ready projects**
- 3) **Positioning New Mexico to capitalize on federal funds**

Local Capital Outlay

Local Projects 101

- “Local” capital outlay refers to the appropriations made to local projects by individual legislators and the governor.
- \$823 million in the 2022 capital bill was roughly evenly split between local and statewide projects:
 - \$396.2 million went to 79 statewide projects, and
 - \$394.2 million went to 1,147 local projects.
- From 2018 to 2022, roughly \$1.4 billion was appropriated to 4,500 local projects.
 - 3,472 of those projects remain active (77 percent) and 72 percent of the appropriated funds remain unspent.
- Funds for statewide projects are spent more quickly than local project funds, with 56 percent of statewide appropriations through 2021 expended compared with 39 percent for local projects.

Chart 1. Local Capital Outlay by Category, 2018-2022



Source: LFC analysis

Approximately 40% of projects to receive funding in the 2022 capital outlay bill received 50 percent or less of requested funds, with \$140 million appropriated to projects for which \$1.3 billion was requested.

Common Obstacles to Project Success

LFC capital outlay reports over the last 20 years have identified several common challenges that delay local projects or create risk they will not be completed:

- Lack of planning prior to funding;
- Lack of consistent vetting of local capital outlay requests for need, feasibility, and readiness;
- Piecemeal funding;
- A fragmented finance system that is difficult to navigate, lacks strategic direction, is uncoordinated, undermines the state’s ability to effectively leverage local and federal dollars, and makes it difficult to know what has been accomplished with awarded funds;
- Limited capacity at the local level to manage assets, plan for their replacement, secure funding, and manage projects to completion.

Why Do These Things Matter?

- They limit the power of capital outlay dollars in terms of the ultimate impact on community well-being.
- State investments in local infrastructure are not driven by a comprehensive needs assessment nor by statewide economic or community development goals.
- The need for critical infrastructure improvements is likely high in many New Mexico communities and the state has little idea of how much progress it is making toward meeting those needs, despite significant investment.
 - The 2018 State Water Plan estimated the cost of projects, programs, and policies needed to address New Mexico’s water issues at \$4 billion over three years.
 - From FY16 to FY20, the state provided roughly \$876 million for water projects but it’s very difficult to track the outcomes of that spending.

Policy Options for the 2023 Legislature

Prioritize 2023 capital outlay dollars to complete partially-funded, existing projects

1. Direct staff to create a list of projects meeting criteria for prioritization with amounts needed to complete these projects and roll a group of those projects into the capital outlay bill. Recommended criteria for developing an initial list are below:
 - Projects supporting critical infrastructure to protect public health and safety and provide a foundation for future economic development – for example, water, wastewater, roads, and bridges;
 - Regional projects;
 - Projects in the above priority areas that have already secured at least \$250 thousand in funding; and
 - Projects in the above priority areas that are in construction, have completed design, or have nearly completed design.

Improve vetting of local capital outlay requests

1. Approve recommended vetting criteria, include criteria in capital outlay training for members, and chairs of appropriations committees work with staff to develop a process for utilizing criteria in developing the capital outlay bill.

Future Work for 2024

1. Establish an earlier deadline for local capital outlay requests and create new Legislative staff to assist members with vetting projects.

Improve administrative and technical support for local projects

1. Include in FY24 budget guidelines direction to right-size staffing and compensation within key agencies that manage the majority of local projects: the Indian Affairs Department, Environment Department, and Department of Finance and Administration (DFA).
2. Consider funding a navigation unit within DFA responsible for assisting local entities with capital project development and with identifying and navigating state and federal funding options to fully fund projects or project phases.
3. Create a new pot of money to provide grants to small entities for grant writing, grant administration, and project management **OR** appropriate funding for such capacity support to the Councils of Governments, the New Mexico Municipal League, or New Mexico Counties. Grants could be used to support internal capacity or to hire contractors to provide the services.

Create a centralized infrastructure office

1. Develop an LFC-sponsored bill to create a standalone infrastructure office or department with up to 10 FTEs or an infrastructure division within DFA that would include realignment of DFA's existing capital functions. The entity would be responsible for statewide needs assessment; project development assistance for local governments; coordination and navigation of state and federal funding; coordinating or providing support for grant writing, grant administration, and project management; and otherwise supporting timely project completion. The bill could direct the entity to make recommendations to the 2025 Legislature on the scope of its duties, creation of a new department, and improved alignment of capital functions within other agencies.

Unfinished Business

- The LFC staff director and chief economist will conduct additional research and analysis on the potential for public-private partnerships to accelerate project completion.
- LFC staff will conduct additional analysis on options for addressing non-profit capital outlay requests. Staff are also participating in an anti-donation workgroup that is exploring solutions.
- LFC staff will work with DFA's federal grants bureau to evaluate the immediate need for assistance with nonfederal match for both local and state agency projects. Because the federal infrastructure dollars will be available for several years and the state needs to develop a pipeline of projects, this may be an issue to address in 2024 and beyond.
- LFC staff and a small group of legislators are participating in the water task force convened by the State Engineer, which is expected to make recommendations for addressing water infrastructure needs across the state for the 2023 Legislature. The task force is focused on many of the same needs addressed in these policy recommendations. Its recommendations are expected to be presented to interim committees in October and November.