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State Agency and Higher Education Capital Outlay

Anna Silva, Acting Secretary, General Services Department
Wesley Billingsley, Director, Infrastructure Planning and Development Division, DFA
Prepared By: Cally Carswell and Connor Jorgensen, Analysts, LFC

Statewide Capital Outlay Process

- State agencies and higher education institutions request capital outlay funding through formal processes in the summer and fall. Agencies and institutions prioritize requests on infrastructure capital improvement plans. Panels that include executive and legislative representation review and vet the requests. LFC staff complete analysis of requests in the fall and make funding recommendations to the committee. LFC adopts a capital outlay framework for state agencies and higher education institutions in December.
- The executive typically releases its own capital budget for state agencies and higher education institutions to LFC staff early in the session. Differences in the frameworks are reconciled as part of negotiations over the total capital outlay package between a bipartisan House and Senate team appointed by legislative leadership and the governor's office.
- Most state agency projects are procured and managed by professional project managers in the Facilities Management Division of the General Services Department, in collaboration with the agencies. FMD assists the agencies in capital planning as well. FMD services are funded with a 3 percent administrative fee on capital appropriations.

State Agency and Higher Education Capital Outlay, All Fund Sources, 2022 - 2025 (in thousands)

	State Agency Projects	Higher Education Projects	Total Statewide
2022	\$ 423,232	\$ 229,660	\$ 652,892
2023	\$ 512,737	\$ 95,803	\$ 608,540
2024	\$ 373,725	\$ 335,572	\$ 709,297
2025	\$ 440,670	\$ 186,080	\$ 626,750
Total	\$ 1,750,364	\$ 847,115	\$ 2,597,479

Source: LFC files

- State agency and higher education projects tend to progress to completion more quickly and with less risk than local projects. Still, the current volatility of the construction landscape has underscored the need to increase project readiness prior to appropriation of major construction dollars.

State Agency Issues

- The governor often requests funding for state-owned projects in the budget framework released during session that were not included on infrastructure capital improvement plans and were not vetted through staff or the committee. Such projects may have recurring budget implications but often lack clear operational plans.

Example State-Owned Projects Funded Outside ICIP Process

Year	Project	Appropriation
2022	CYFD youth intermediate care facility	\$ 3,750,000
2022	CYFD sub-acute residential facility	\$ 3,000,000
2022	CYFD therapeutic group home	\$ 1,000,000
2022	EDD next generation media academy	\$ 20,000,000
2024	DHSEM northern New Mexico fire training academy	\$ 3,000,000
2024	DVS veterans' resource center	\$ 1,200,000
2024	HED literacy institute	\$ 30,000,000
2025	DHSEM northern New Mexico fire training academy	\$ 40,000,000
2025	HED STEM institute	\$ 20,000,000
2025	EXPO NM new state fair site	\$ 14,000,000

Source: LFC files

- LFC often recommends phasing funding for design and construction for new construction for state agencies and FMD is generally open to this approach. The strategy has not been entirely successful in eliminating the need for supplemental appropriations for major projects, however, or maximizing project readiness at the time of appropriations for construction.
- The Legislature has allocated larger sums to flexible appropriations for small projects, building repair and renewal, unexpected needs, and supplemental funding for existing projects to FMD in recent years. Additionally, FMD receives recurring funding from the land grant permanent fund to the capital buildings repair fund (CBRF) on a monthly basis. The fund is available for repair and renewal of state-owned buildings in Santa Fe.

Revenues to the CBRF have increased significantly with oil and gas activity. The uncommitted balance in the CBRF at the end of FY25 was \$34.6 million, suggesting the Legislature could dial back increases in additional flexible appropriations.

Higher Education Issues

- Higher education construction projects faced massive cost increases post-pandemic with the pace of increases significantly exceeding increases faced by public schools.
 - In 2024, public school building projects cost an average of \$681 per square foot while higher education projects costs averaged \$1,081 per square foot.
 - Costs for public school capital projects seemed to stabilize, decreasing 2 percent, between 2023 and 2024 while higher education project requests experienced a 26 percent *increase* on a per square foot basis.
- The disparity in costs between public and higher education led the LFC to conduct an analysis to identify factors driving the cost escalation in higher education. The analysis identified several factors contributing to high construction costs:
 - A lack of pre-planning prior to receiving appropriations leads to a high degree of uncertainty in the project cost estimates. Funding is often requested multiple years before projects are ready for construction. Further, the availability of supplemental funding to pay for project cost overruns may reduce the incentives to keep projects on-budget.
 - Architectural design, site complexity, and project delivery methods are likely contributing to increases, particularly for construction of new facilities. The Legislature has limited transparency into the extent to which these factors are driving costs.
- The LFC report highlighted several areas for improvement of the existing higher education capital outlay process including:
 - Imposing a mandatory design requirement for projects to ensure a minimum level of planning and design is completed prior to appropriations.
 - Requiring institutions to budget for a 3rd party owners' representatives to perform a review of project plans and budget feasibility.
 - Creating a statewide design standard and cost guidelines establishing baseline levels for architectural complexity, an average cost per square foot for construction, and parameters for architectural and engineering fees.

House Bill 449

- Since the creation of the opportunity scholarship, colleges and universities have been under pressure to limit tuition and fee increases. This has deprived many institutions of revenue necessary to keep pace with construction cost increases.
 - Institutional space is divided into two broad categories: instruction and general (I&G) and auxiliary space. I&G space is primarily academic and eligible to receive funding through the existing statewide capital outlay process. Auxiliary space includes things like student housing and athletic facilities and is often either student fee supported or revenue generating. This space has traditionally not been a part of the statewide capital outlay process.
- The limitation on capital outlay funding for auxiliary space has led to significant deferred maintenance issues as existing facilities decay and institutions lack the revenue to replace or repair them.
 - For example, NMSU has housing facilities less than 15 years old with major structural deficiencies which should be replaced, but because the institution is still paying down the debt incurred to build them, they have no revenue source for a replacement.
- Construction cost increases have made it challenging to finance large projects, such as a new medical school, with traditional funding sources.
- The Legislature attempted to address the issues of increasing deferred maintenance at both I&G and auxiliary spaces by passing House Bill 449 during the 2025 session.
 - HB449 created a higher education project fund intended to be capitalized during the 2026 legislative session.
 - The bill created the framework for a new funding source to be available to state and tribal four-year and two-year institutions. Eligible projects included major I&G projects greater than \$50 million and student life and housing projects with no minimum cost threshold.
 - To better contain costs, the bill required all applications for funding to have completed 50 percent of design and included matching requirements for four-year and two-year institutions.
 - HB449 passed the House 61-1 and the senate 37-0, but was pocket vetoed by the governor.

Key Performance Issues (locked header)

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