

Local Capital Outlay

Strategies to improve outcomes of state investments

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“Local” capital outlay

- “Local” capital outlay appropriations are made to local governments, tribes, and political subdivisions at the discretion of individual legislators and the governor.
- The amount each legislator and the governor receive varies based on bonding capacity, general fund revenues, 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**, public safety infrastructure, etc.
- Local, state and federal governments all play a critical role in building and maintaining public infrastructure.
- **In New Mexico, the state plays an outsized role in funding local infrastructure.**

What are the goals of local capital outlay?

- Empower every legislator to direct funding to priorities in their district as they see fit
- Use state resources to address the most critical and beneficial infrastructure and capital investment priorities in local communities
- Improve quality of life in local communities
- Subsidize capital investments in local communities to support public service delivery
- Facilitate and accelerate economic progress statewide

Is the current system realizing these goals?

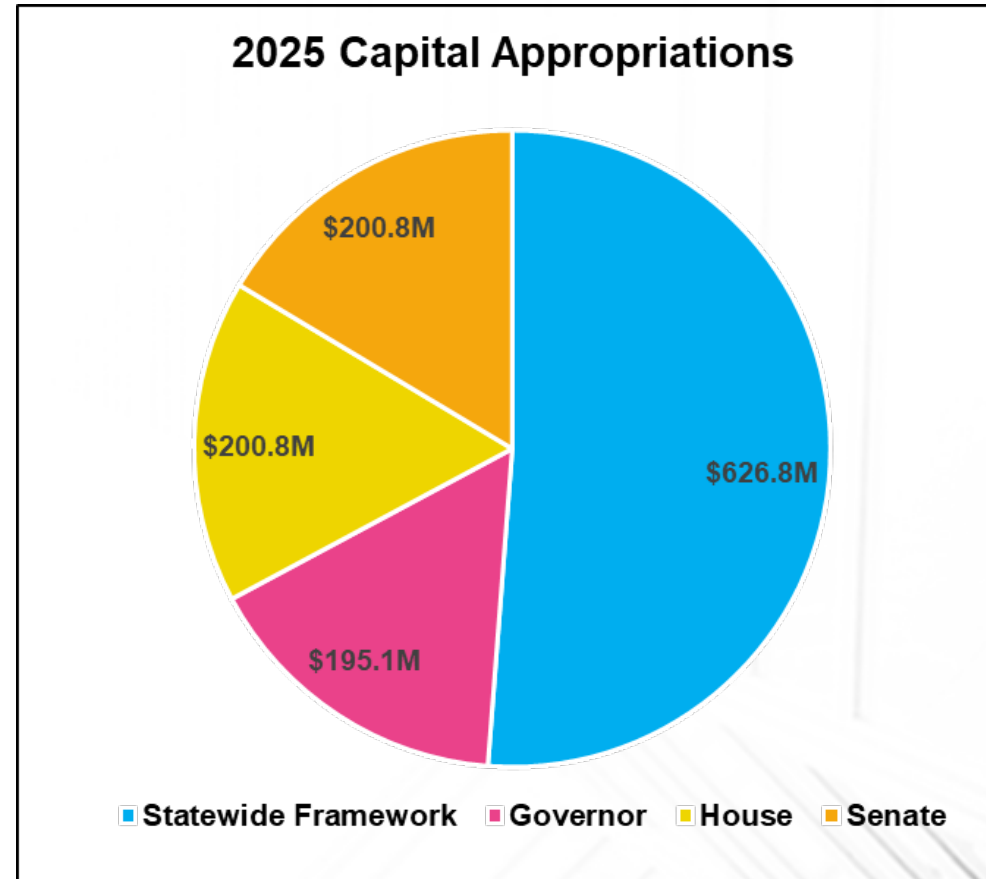
- ✓ Empower every legislator to direct funding to priorities in their district as they see fit
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- Improve quality of life in local communities
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Barriers to realizing benefits

- The practice of dividing available funding among individual legislators makes it challenging to allocate adequate sums to projects because the requests legislators receive *far* exceed the funding each has to appropriate.
- Piecemeal funding.
- Minimal eligibility requirements to request and receive funding.
- Limited and inconsistent vetting.
- Little connection between planning and appropriations processes.
- Limited capacity at local level to use appropriations effectively.

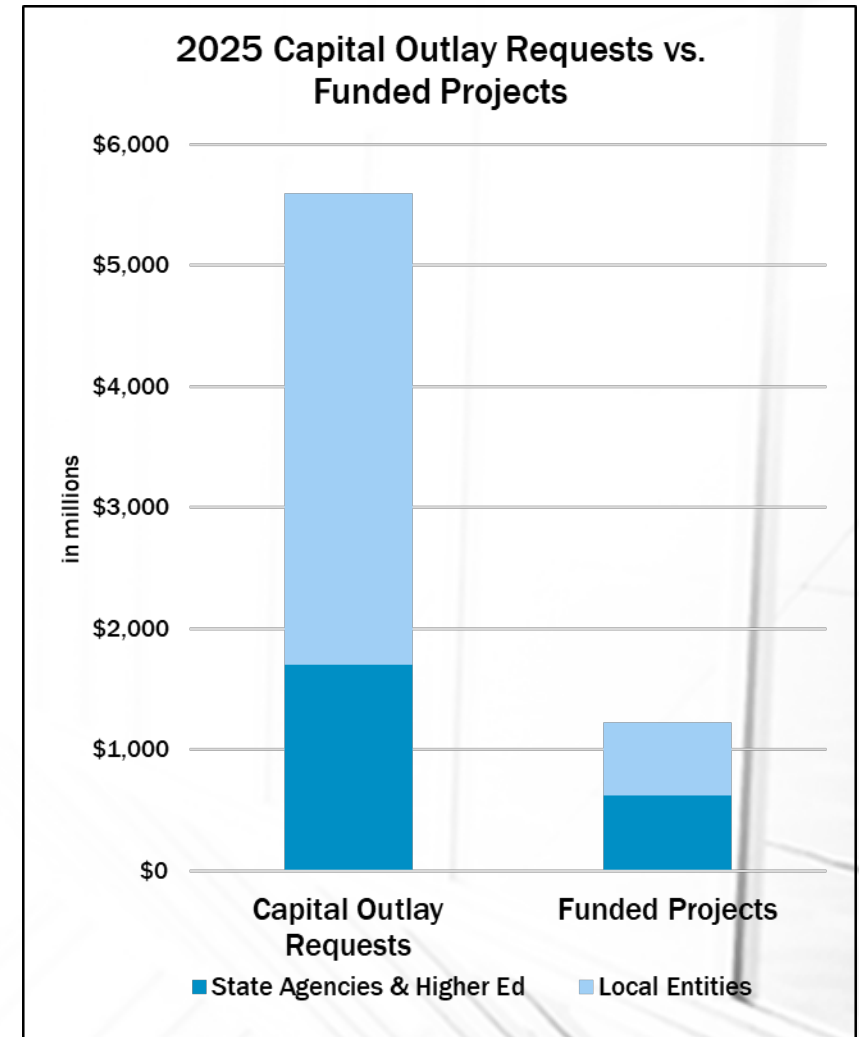
How funding is divided between state and local projects

- Typically, about 50% of appropriations in the capital bill go toward state-owned projects.
- The other 50% is divided between the House, Senate, and Governor for local projects.
- The House and Senate shares are divided evenly among all members.
- In 2025:
 - \$2.5 million for every Representative
 - \$4.2 million for every Senator

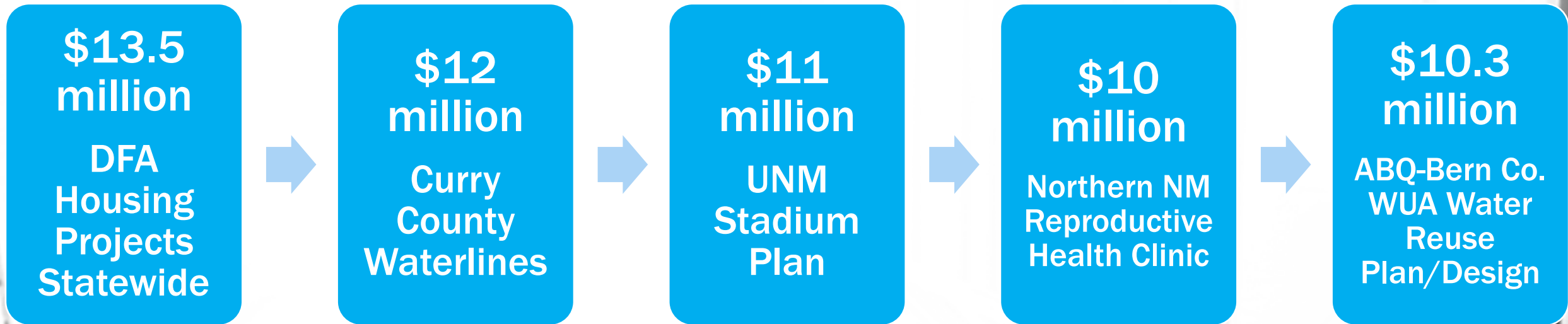


The Capital Challenge: Never Enough Funding

- Requests for direct appropriations from legislators and the governor *far* exceed available funding.
- That has remained true as state revenues have surged.
- In the 2025 Session:
 - Local entities requested \$3.9 billion in direct appropriations from House and Senate members.
 - Available funding for local requests from the House, Senate, and Governor was just under \$600 million – or about 15 percent of the funding requested.
- The result? Piecemeal funding.
 - Approximately 44 percent of nearly 1,400 projects in the 2025 capital bill received 50 percent or less of requested funding.



Large appropriations are rare and usually require substantial support from Governor



Only 5 local projects in 2025 received \$10M+ appropriations

26 local projects received \$3M+ appropriations in 2025

\$7.5 million
Colfax County
Special Hospital
District Long-Term
Care Facility



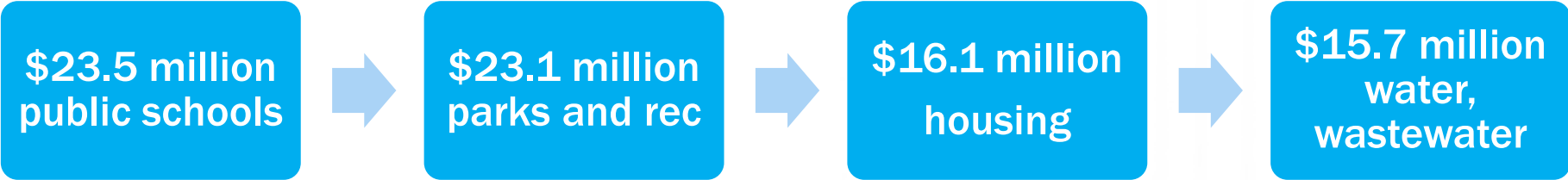
\$4 million
North Domingo Baca
Aquatic Center



\$3.1 million
Otero County Public
Safety Complex

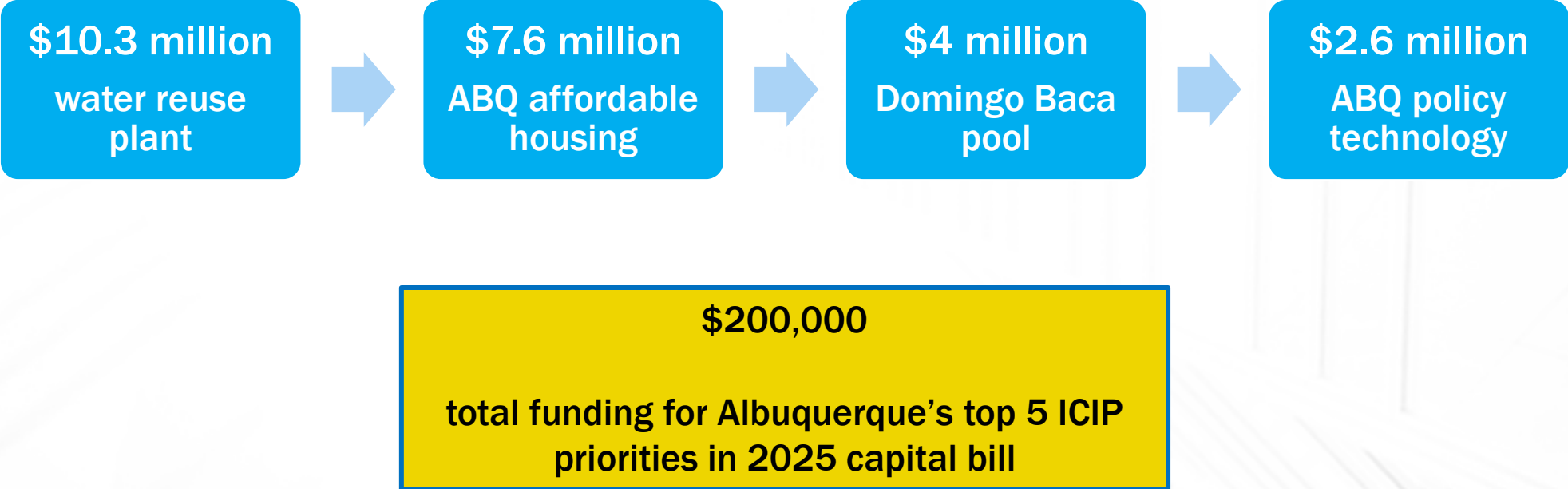
Only 2 of the \$3M+ projects were sponsored by individual legislators without contributions from the Governor. One additional project was sponsored by the House-Senate capital outlay workgroup.

Example: Local capital outlay to Bernalillo County entities in 2025

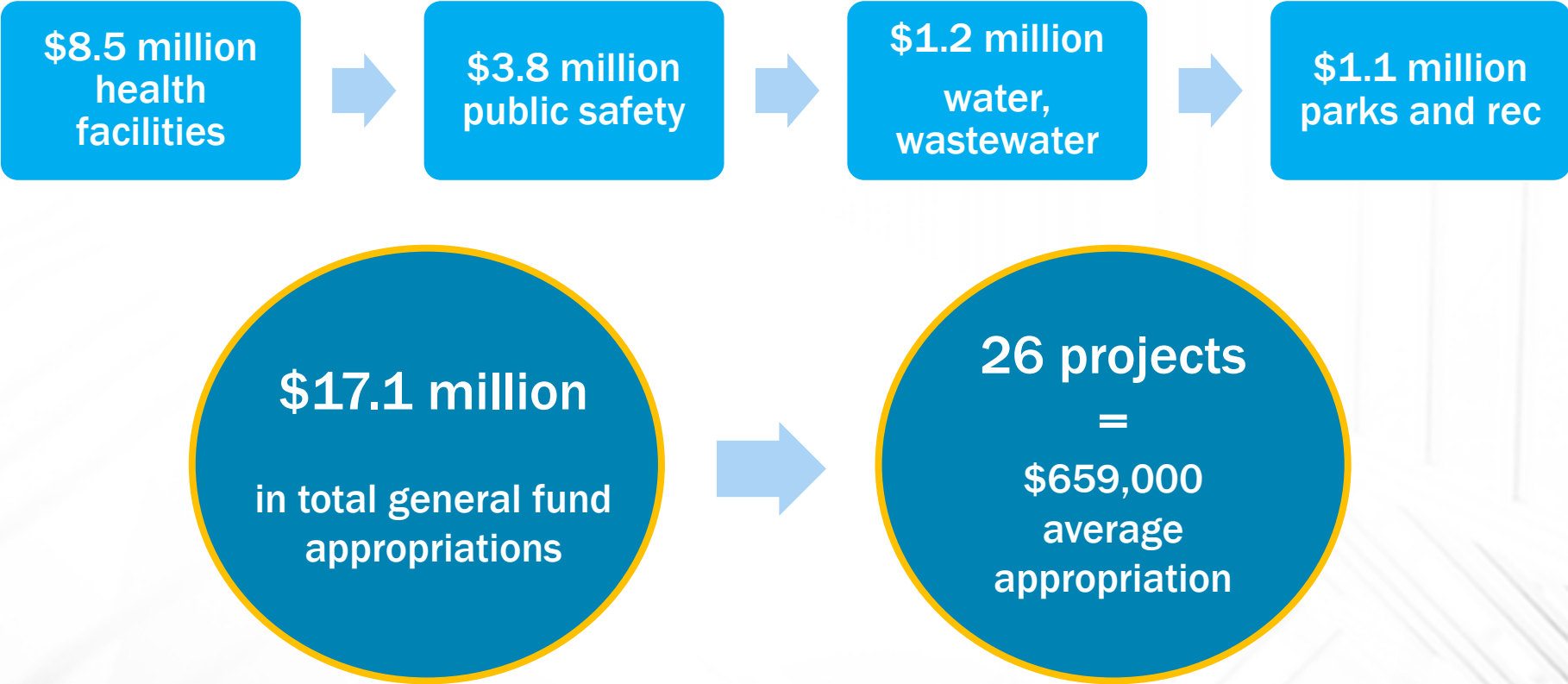


*does not include discretionary appropriations to higher education institutions

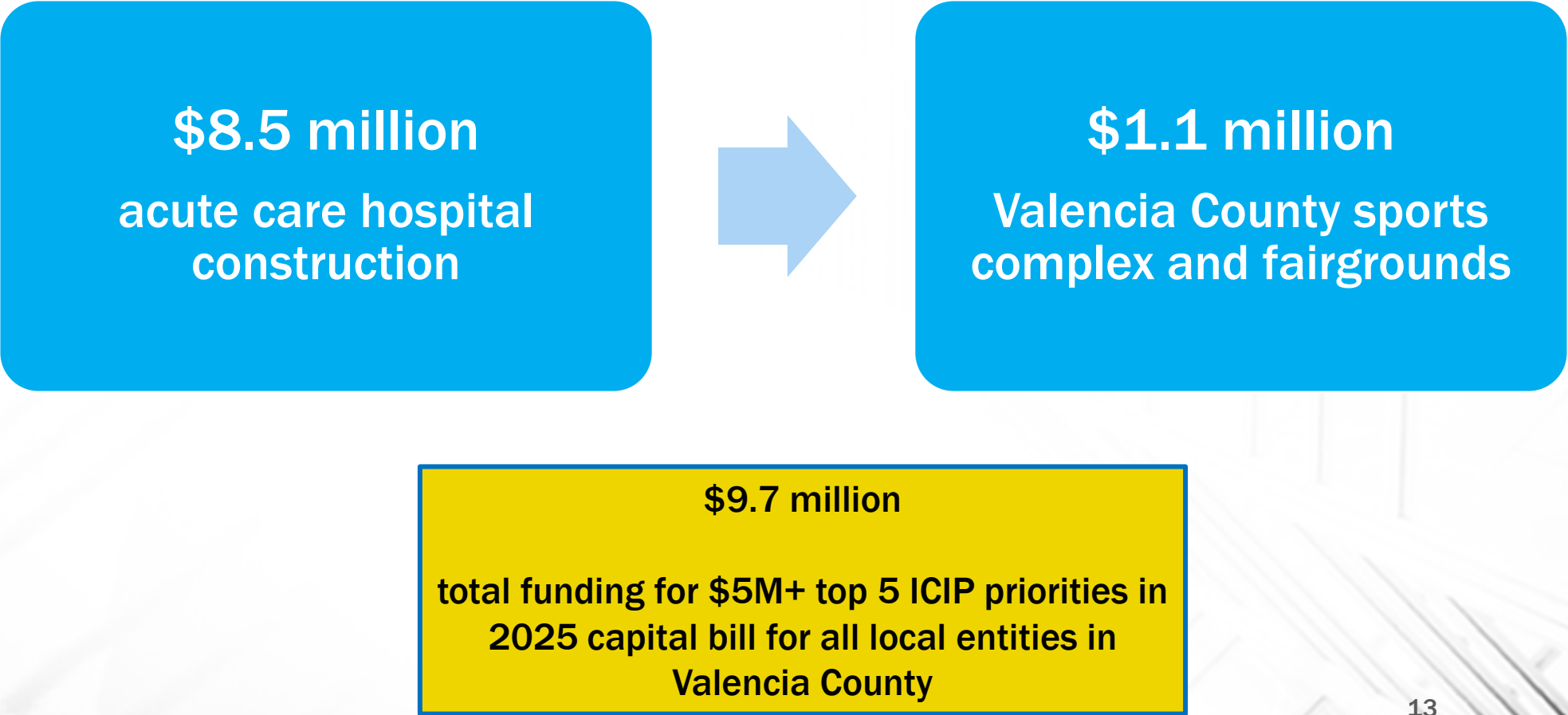
Only 22 of 448 appropriations for \$1 million +



Example: Local capital outlay to Valencia County entities in 2025

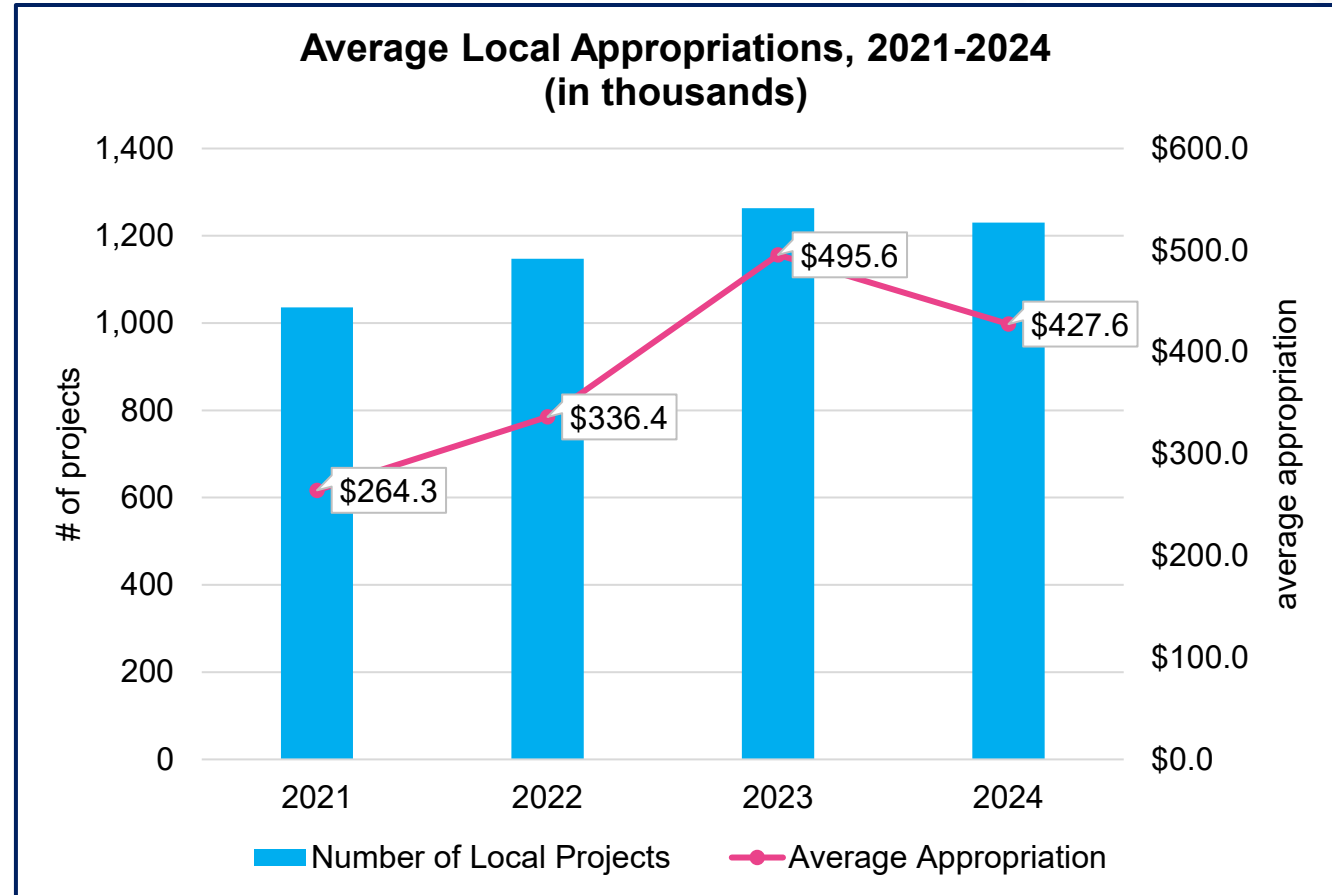


Only 2 of 26 appropriations for \$1 million +



60% of local capital appropriations in 2025 were for \$250K or less

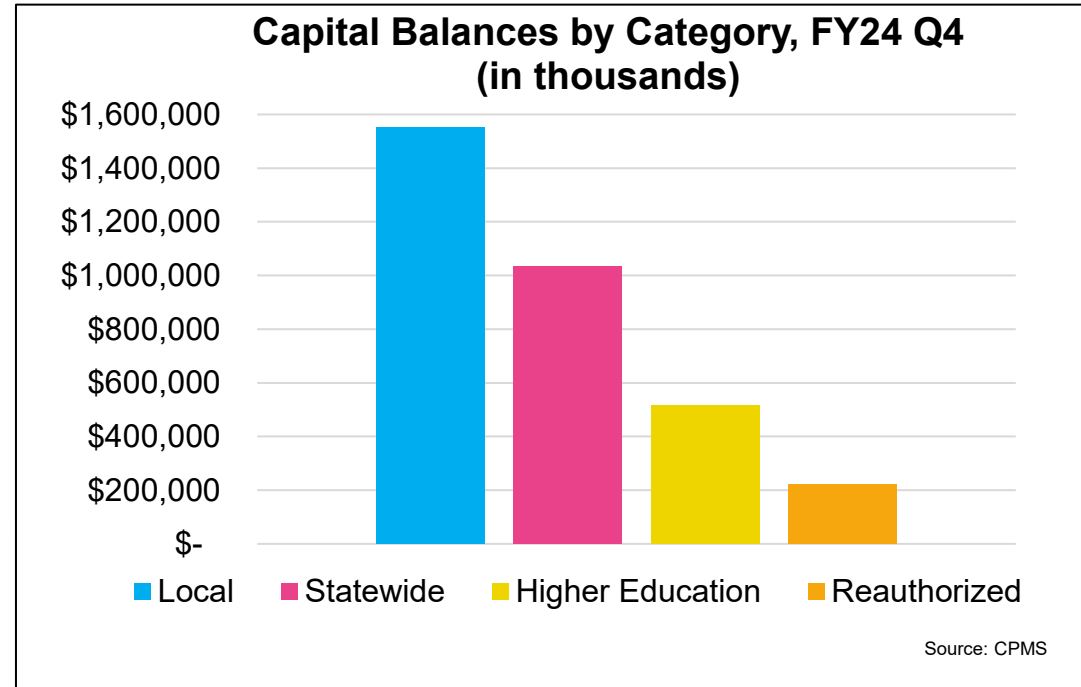
- Only about 130 appropriations in 2025 were for \$1 million or more—less than 10 percent.
- Appropriations above \$5 million were even more rare, with less than 20 or more than 1,300 projects receiving appropriations at that level.
- This suggests a high opportunity cost in current approach to capital outlay.



Outstanding Capital Funds Have Reached Record Highs

At the end of FY24, outstanding capital balances totaled an estimated **\$5.9 billion across roughly 5,600 projects**. The unspent funds include:

- Projects authorized by the Legislature (\$3.4 billion)
- Earmark program projects (\$649 million)
- Funds for public school construction (\$1.6 billion)
- Special appropriations for capital projects (\$247 million)



Local projects have the most outstanding funds, slowest expenditure rates, and highest risk of incompleion

Higher dollar local ICIP priorities are mostly unfunded

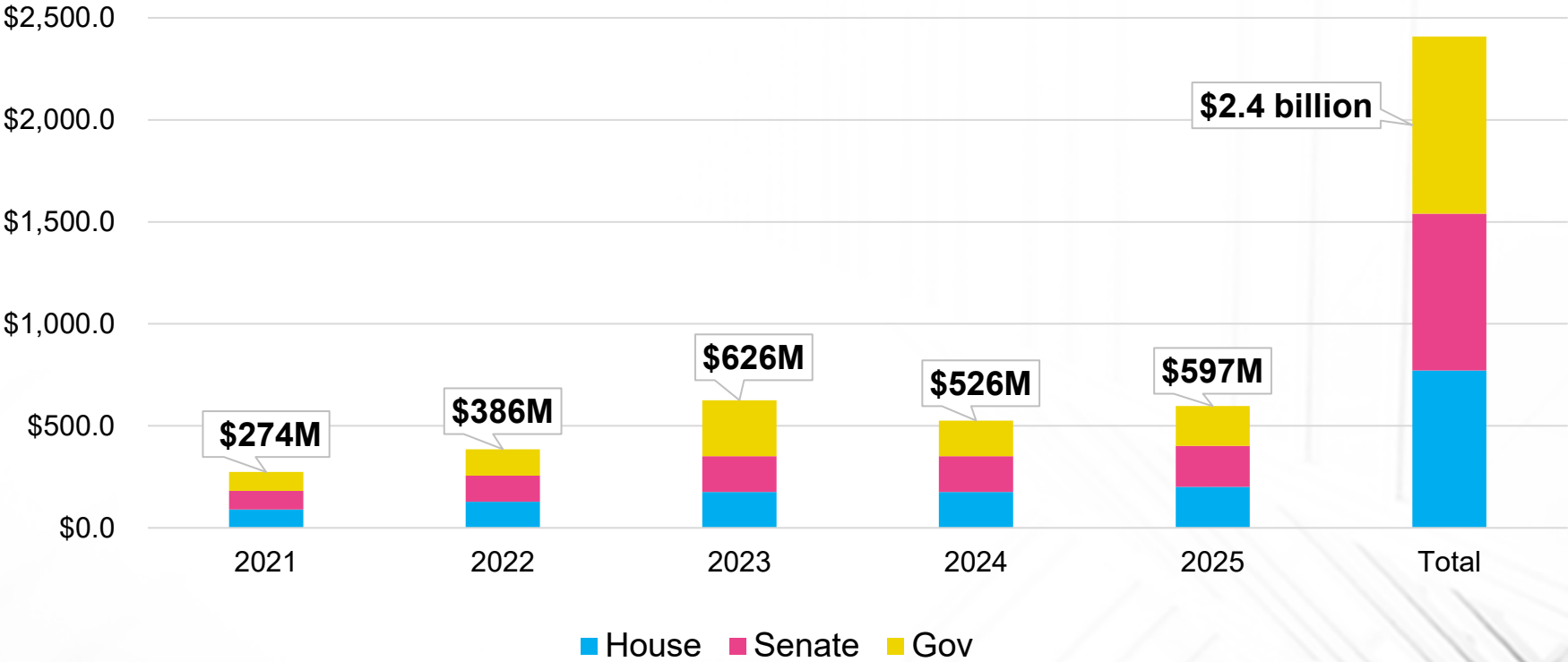
- 564 projects with total costs exceeding \$5 million were listed as top 5 priorities on local ICIPs last cycle
- 350 of those projects—or 62 percent—have received no capital outlay appropriations to date

Project Type	# of Projects	Total Project Cost	Capital Outlay to Date	% Funded with Capital Outlay
Community Services	23	\$ 216,023,440	\$ 14,278,643	7%
Cultural	5	\$ 133,847,348	\$ 3,165,000	2%
Economic Development, Redevelopment	12	\$ 307,331,656	\$ 24,624,750	8%
Education	12	\$ 141,736,358	\$ 12,950,000	9%
Energy, Utilities, Broadband, Technology	17	\$ 145,905,554	\$ 5,800,000	4%
Health	19	\$ 761,510,211	\$ 49,200,000	6%
Housing	18	\$ 386,343,877	\$ 16,523,000	4%
Public Buildings	37	\$ 504,924,200	\$ 16,644,000	3%
Public Safety	61	\$ 1,346,849,143	\$ 50,919,373	4%
Recreation	29	\$ 483,945,902	\$ 14,646,400	3%
Seniors	17	\$ 174,057,999	\$ 1,300,000	1%
Transportation	116	\$ 2,336,639,657	\$ 26,921,000	1%
Vehicles	2	\$ 25,620,000	\$ 1,000,000	4%
Water, Wastewater, Stormwater, Dams, Irrigation	196	\$ 5,194,428,287	\$ 89,083,597	2%

Source: LFC files, DFA

Potential to accomplish bigger, better things exists, however ...

Local Capital Outlay Appropriations, 2021-2025
(in millions)



Focus areas for subcommittee

Uses of Capital Development Program Fund → Potential mechanism for piloting new approaches to prioritizing and funding local projects.

Vetting and Prioritization → Ample opportunity for improvements in 2026 and beyond.

Reauthorizations → Reasonable restrictions on reauthorizations could incentivize better planning and project development prior to funding requests.

Special Grant Programs → Opportunity to further incentivize or require communities to tap grant programs dedicated to things like roads and water before seeking capital outlay for those same projects.

Focus Area #1: Capital Development Program Fund

Goal: Identify preferred short- and long-term uses of capital development funds and incorporate into budget development and legislative priorities for the 2026 session.

Background

- House Bill 253 (2024) created a new capital development and reserve fund and a related program fund with several goals:
 - To stabilize the state's long-term debt
 - To diversify revenues to the capital outlay program and insulate it from oil and gas volatility
 - To shift the state's capital program to a more cash-based system
 - To create a funding mechanism for planning and design
- The reserve fund will grow over time and make annual distributions to the program fund, which are available for appropriation for planning and design and construction projects costing \$5 million or less.
 - **\$26 million available in 2026**
 - **\$50 million available by 2029**

Opportunity for local projects

- **The Legislature could use the annual distributions to pilot new approaches to prioritizing, vetting, and funding local projects without impacting the typical practice of member share.**
- **This could provide an opportunity to:**
 - **Fund projects with potential to advance statewide priorities or address significant local needs at higher levels**
 - **To phase plan/design and construction funding for these projects**
 - **To develop and implement a vetting system to improve prioritization and project completion**

Policy options

- 1) **Direct LFC and DFA Infrastructure Division staff to work together to develop eligibility and prioritization criteria for funds and an application process open to local and tribal governments and political subdivisions.**
 - **A team that could include both executive and legislative representation could score applications and provide a recommendation for funding LFC could consider for inclusion in the 2026 statewide capital outlay framework.**
- 2) **Appropriate funds to Infrastructure Division to stand up an application-based grant program for planning, design and construction for local projects with awards made to projects outside the legislative session. A statutory framework for such a grant program could be developed for consideration by the Legislature in 2026.**
- 3) **Develop an application and vetting process within the Legislature without executive support.**
- 4) **Use capital development funds to cash finance smaller, state-owned projects.**

Focus Area #2: Vetting and Prioritization

Goals: Identify preferred request deadline and desired improvements to information members receive with requests.

Explore opportunities to work with DFA to provide members with pre-vetted lists of projects in different categories of need.

Train district staff to effectively support members in tracking progress of existing projects and identifying priority needs for new funding throughout the interim.

Request deadline and information on requests

- The Legislature implemented an earlier request deadline in 2025 that enabled members to receive a list of requests early in the 60-day session and allowed staff to provide caucuses with a tool to filter requests by vetting criteria.
 - **When do members want requests list in 2026?**
 - During the first week of session? One week or two weeks before the session?
 - **What information on whether projects meet vetting criteria do members want?**
 - Is request related to an existing capital project; is project listed on an ICIP; was cost estimate made by a professional; is support needed for planning and design and, if so, how much, etc.
 - **Do members want to adopt any mandatory eligibility criteria for capital outlay requests?**

DFA Infrastructure Division (IPDD) is a critical partner for system improvements

What IPDD is Doing Now:

- **Collecting meaningful data – better information gathering in the ICIP (new system)**
- **Funding Navigation – provide alternative funding solutions**
- **CDPF – new funding source available for plan/design or project completion**
- **Assist entities with audit compliance to ensure project readiness (Ombud)**
- **Regional capacity building trainings for new staff and small local public bodies**

Future Plans:

- **Formal requests by entities (hearings or videos), top 3 priorities**
- **Provide assistance with cost estimates for funding accuracy**
- **Only provide plan & design funding first**
- **Ensure prior projects are completed before funding new projects**
- **Do not fund new projects if the entity shows more than 50% of funds unspent**
- **Only fund projects needing additional funds for completion (if they did not receive CDPF)**
- **Create lists of projects with specific category types to find alternative funds (water, roads, broadband)**
- **Create & implement criteria to assess entity risk and project risk**

Opportunities for IPDD to provide pre-vetted project lists

Score entities to assess readiness to receive capital funding.

Potential Assessment Categories:

- Financial Management & Controls
- Audit Compliance
- Staffing & Expertise
- Policies & Procedures
- Technology & Systems
- Transparency & Accountability
- Risk Management

Assessment Category	GREEN (Good/Ready)	RED (Concerning/Not Ready)
Financial Management & Controls	<ul style="list-style-type: none"> • Strong segregation of duties • Timely monthly reconciliations • Robust procurement procedures • Effective budget monitoring 	<ul style="list-style-type: none"> • Weak internal controls • Delayed reconciliations • Procurement violations • Poor budget oversight
Audit & Compliance History	<ul style="list-style-type: none"> • Clean audit opinions • No material weaknesses • Timely audit submissions • Resolved prior findings 	<ul style="list-style-type: none"> • Qualified/adverse opinions • Repeat audit findings • Late audit submissions • Unresolved management letters
NM Audit Act Compliance	<ul style="list-style-type: none"> • Consistent compliance • Cooperative with auditors • Meets all deadlines • Proper audit procurement 	<ul style="list-style-type: none"> • Audit Act violations • Resistance to recommendations • Missed deadlines • Improper audit selection
Public Finance Accountability Act	<ul style="list-style-type: none"> • Timely quarterly DFA reports • Proper fund balance reporting • Accurate cash reporting • Investment compliance 	<ul style="list-style-type: none"> • Late/missing quarterly reports • PFAA violations • Improper fund classifications • Investment policy violations
Staffing & Expertise	<ul style="list-style-type: none"> • Qualified finance staff • Low turnover rates • Ongoing professional development • Strong GASB knowledge 	<ul style="list-style-type: none"> • Unqualified staff • High turnover in key positions • Lack of training • Poor GASB understanding
Policies & Procedures	<ul style="list-style-type: none"> • Current written policies • Regular policy updates • Strong board oversight • Clear documentation 	<ul style="list-style-type: none"> • Outdated/missing policies • No regular updates • Weak governance • Poor documentation
Technology & Systems	<ul style="list-style-type: none"> • Adequate financial software • Proper backup systems • Integrated systems • Good security protocols 	<ul style="list-style-type: none"> • Outdated systems • Poor security measures • Manual processes • System integration issues
Transparency & Accountability	<ul style="list-style-type: none"> • Open public meetings • Accessible financial reports • Responsive to public records • Clear budget processes 	<ul style="list-style-type: none"> • Poor transparency practices • Delayed public records • Unclear budget processes • Limited public access
Risk Management	<ul style="list-style-type: none"> • Comprehensive insurance • Fraud prevention measures • Emergency procedures • Regular risk assessments 	<ul style="list-style-type: none"> • Inadequate coverage • No fraud controls • Poor risk assessment • No emergency planning

Opportunities for IPDD to provide pre-vetted project lists

Pre-vetting Capital Projects for the New Mexico Legislature: a systematic process

- 1) Utilize ICIP to identify a focused set of high-priority projects within a narrow geographical region; County, COG district, or Senate/House districts.
- 2) Further assess project value according to:
 - Adherence to compliance landscape;
 - Fiscal responsibility;
 - Comprehensive planning and project readiness;
 - State of economic development; and
 - Other factors, as deemed relative to project desirability and/or likelihood for success.
- 3) Coordinate projects meeting the above criteria for the purposes of:
 - Regionalization;
 - Pseudo-regionalization, by way of coordinating same-sector projects within a given region to develop and maximize economy of scale; and
 - Identifying projects that can be grown and expanded for increased regional benefit.
- 4) Cost-benefit analysis (CBA)
 - Useful support when relevant and positive
 - Downside: Some projects are necessary and important, even when the CBA is negative
 - Understand tangible and intangible costs and benefits, and long-term impact
 - Understand which projects face higher potential risk, and which offer better opportunity for risk mitigation
- 5) Assess and create strategic alignment between local public bodies and state government —
 - Planning
 - Funding
 - Execution

Focus Area #3: Restrict Reauthorizations

Goal: Address structural disincentives to improving planning and adequately developing projects prior to seeking funding from the Legislature.

Background

- Reauthorizations have increased in volume significantly in recent years.
- Vast majority of reauthorization are to extend time beyond the standard two years for equipment purchase and four years for capital improvements.
- In most circumstances, well planned projects that are ready to proceed should not require more than four years to expend grants.
- Limiting reauthorizations could provide a significant incentive to communities to better prioritize requests and do more to develop projects before seeking funding from the Legislature.

Purpose of Reauthorizations in Senate Bill 425 (2025)	
Action	No. of Projects
Change Agency	2
Change or Expand Purpose	37
Change or Expand Purpose and Extend Time	43
Change or Expand Purpose, Change Agency, and Extend Time	8
Extend Time	236
TOTAL	326
Source: LFC files	

Potential limitations

- 1) Allow only one extension of time per appropriation and for only one year.
 - Status quo: no limit on number of time extensions and standard extension is two years. Recent gubernatorial vetoes have reduced the number of old projects that were reauthorized multiple times.
- 2) Allow only one extension of time per appropriation and for two years.
- 3) Allow technical changes to language but not a change of purpose that moves funds to entirely different projects.

Implementation options

- 1) **Adopt an LFC-endorsed proposal and request it be taken up by Legislative Council to provide LCS with direction on acceptance of reauthorization requests and bill drafting.**
- 2) **Adopt joint House and Senate rules limiting reauthorizations.**
- 3) **Pass legislation to limit reauthorizations in statute.**

Focus Area #4: Special Grant Programs

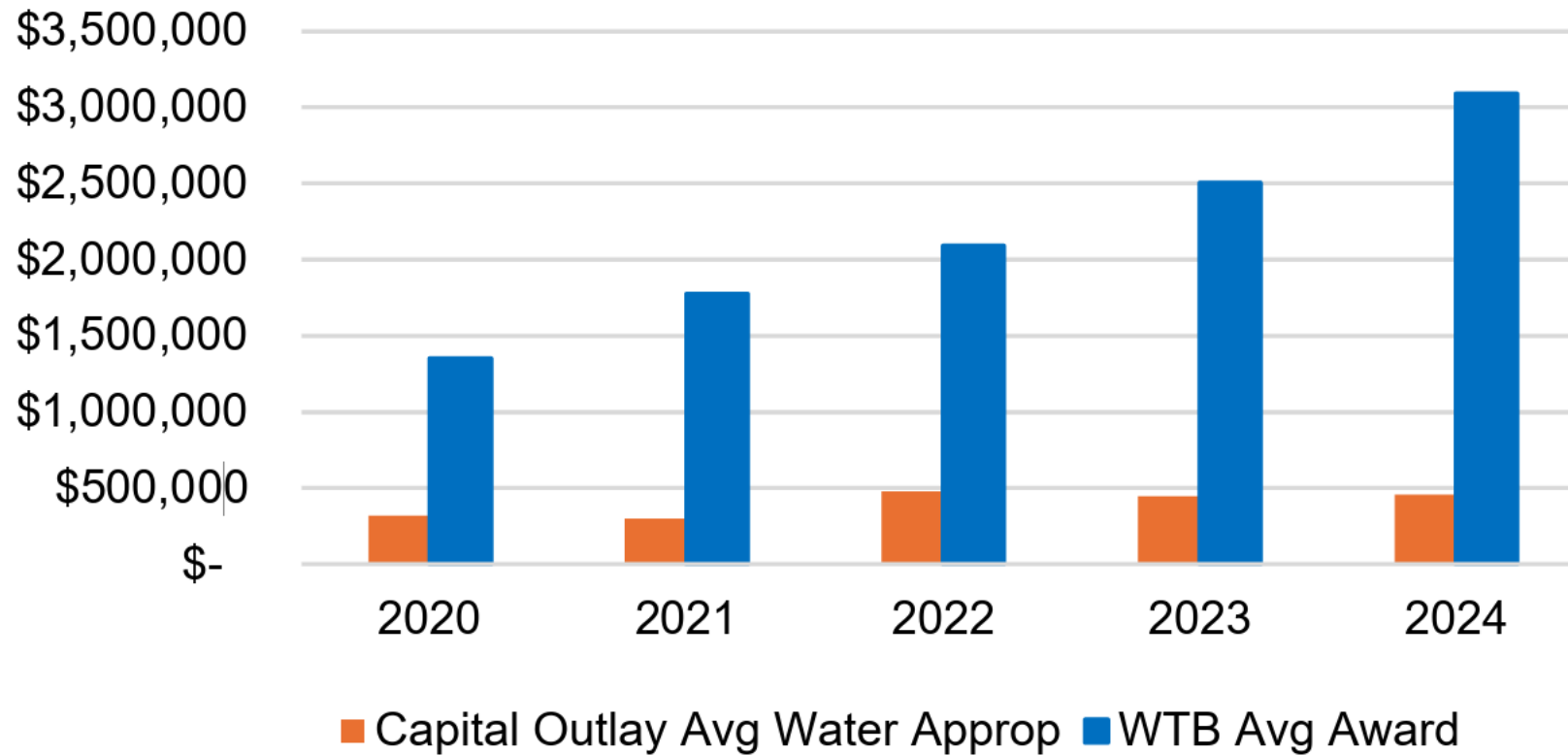
Goal: Further incentivize communities to seek funding from state grant programs that better support project completion and provide higher levels of funding to projects.

Background

- The state has numerous grant and loan programs that support the same types of local projects as capital outlay.
- LFC program evaluations demonstrate many of these programs have better outcomes than capital outlay in terms of supporting project completion.
- Particularly important to tap these programs first for critical infrastructure like roads, water and wastewater systems.

Last year, the committee started to explore the idea of limiting use of capital outlay for things like water systems and roads without reducing support for those projects.

Water Trust Board Awards vs. Capital Outlay for Water Projects



Source: NMFA, CPMS

Policy options

- 1) Do not allow discretionary capital outlay appropriations for water, wastewater and roads *and* provide one-time special appropriations to the water project fund and transportation project fund to increase capacity in those programs.
- 2) Solicit annual lists of qualifying projects from the Water Trust Board and Department of Transportation which would be funded if sufficient capacity existed. Fund these projects, or some portion of these projects, “off the top” of the local capital outlay pot, before member and gubernatorial shares.
- 3) Continue to allow capital outlay for water, wastewater and roads but incentivize use of other programs with one-time appropriations to boost capacity. Encourage legislators to limit capital outlay for these projects.
 - Staff could work with executive and legislative partners to provide additional vetting info on capital outlay requests for these projects.