



Capital Outlay Structural Obstacles for Rural Projects

Rural Economic Opportunities Task Force

Stevie Olson

Legislative Finance Committee Analyst

July 20, 2021

Overview

- Framing the issue
- Seven obstacles
- Potential remedies

Framing the Issue

- **Expediently turning available funds into successful capital projects is important because:**
 - **Public infrastructure enhances public health and safety**
 - **Idle appropriations increase government liability**
 - **Construction costs are increasing, so, over time, appropriations buy less**
 - **Construction provides a stimulus to local economies**

Framing the Issue

- As of July 2021, the total outstanding capital outlay funds total approximately \$2.5 billion
 - 3,766 outstanding appropriations (\$1.9 billion), including \$203 million of earmarked funds for water (\$96.8 million), colonias (\$51.6 million), and tribal (\$54.6 million) infrastructure projects
 - Supplemental severance tax bonds (SSTB) for public school capital outlay (\$585 million)
 - “Outstanding funds” include encumbered funds for capital projects in process and funds for projects not ready to proceed
- Current bonding capacity estimates indicate approximately \$1 billion will be available for capital projects in 2022

Rural Counties & Outstanding Capital

- Rural counties have more active projects and larger balances than urban counties.

2016-2021 Outstanding Capital Outlay by County Type

	# of Projects	Sum of Outstanding Balance
Rural Communities	2,116	\$865.4 million
Urban Counties	1,430	\$688.1 million
Statewide/Multiple	220	\$330.4 million
Total	3,766	\$1,883.9 million

Sources: Capital Project Monitoring System, New Mexico Finance Authority, Indian Affairs Department

Notes: "Urban Counties" include Bernalillo, Dona Ana, and Santa Fe.

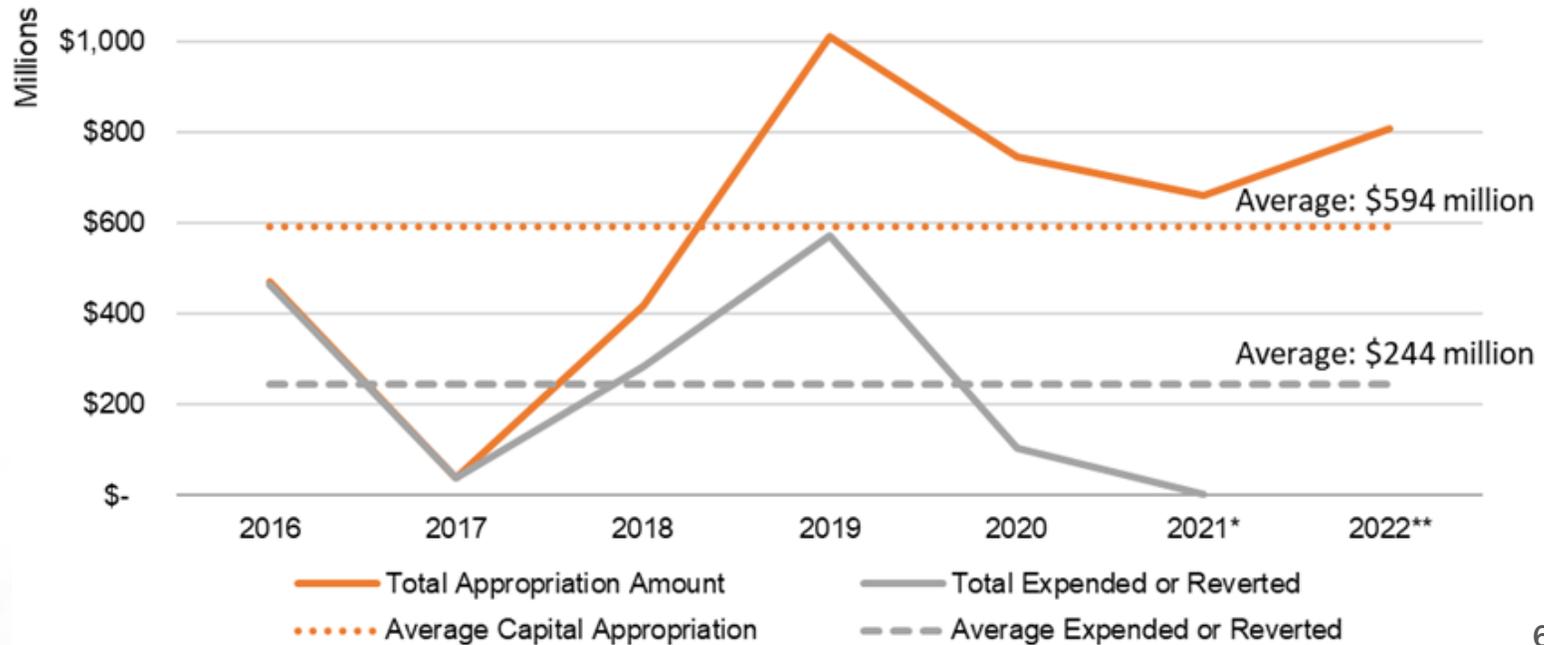
"Statewide/Multiple" may include projects in "Urban Counties."

Table does not include SSTB dedicated for public school capital outlay.

Framing the Issue

With the large outstanding balances and strong revenue forecast, the state will experience growing bottlenecks impacting needed funding for public infrastructure.

2016-2022 Capital Outlay Appropriations and Expenditures



6
*includes federal ARPA capital funds
**projected capacity
Chart does not include SSTB

Seven Obstacles for Capital Projects

- Staff identified seven common issues for backlog of funds to develop capital projects
 - Lack of project planning
 - State requirements
 - Administrative capacity
 - Technical capacity
 - Right-sizing state support
 - Piecemealed funding
 - Raising construction costs

Obstacle 1: Lack of Project Planning

- Local entities report successful use of capital appropriations when:
 - multiple stakeholders determine infrastructure capital improvement plan (ICIP) priorities,
 - project cost estimates are professionally obtained,
 - and pre-session collaboration occurs with legislators.
- Capital appropriations stall when entities use ICIPs as wish lists, planning occurs after funds are appropriated, or a project not requested by an entity receives funding.
- Problem of duplication

Obstacle 2: State Requirements

- In June 2021, the Board of Finance did not issue bonds for 116 authorized projects (\$31.2 million) due to:
 - Executive Order 2013-006: Audit Compliance
 - Projects funded from bonds must certify readiness (at least 5% expended in 6 months & 85% in 3 years)
- Fiscal agent agreements (for non-profits and non-audit compliant entities)

Obstacle 3: Administrative Capacity

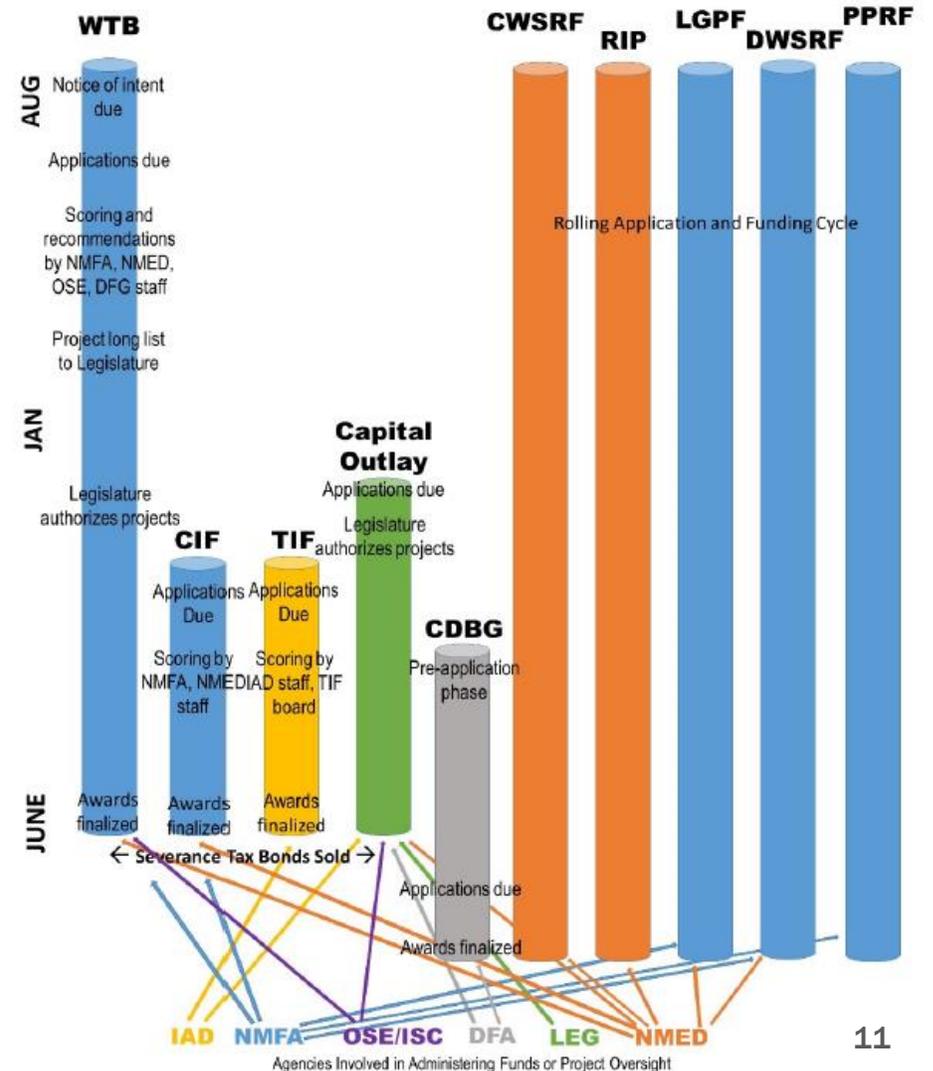
- Limited staff and turnover at both the local and state level hinder completing administrative tasks related to grant agreements, the procurement process, notices of obligations, and reimbursement requests.
 - 3,766 projects outstanding statewide
 - Indian Affairs Department has two FTE overseeing 417 projects (\$193.8 million) including capital appropriations and the Tribal Infrastructure Fund.
 - As an example of a local project, Village of Maxwell's drinking water project was delayed due to a change in administrators.

Obstacle 3: Administrative Capacity (2)

- Entities may struggle to leverage complex funding sources with different requirements
- Staff identified 10 different sources of state-level funding for water projects

- KEY:**
- WTB**
Water Trust Board
 - CIF**
Colonias Infrastructure Fund
 - TIF**
Tribal Infrastructure Fund
 - CDBG**
Community Development Block Grant
 - CWSRF**
Clean Water State Revolving Fund
 - RIP**
Rural Infrastructure Program
 - LGPF**
Local Government Planning Fund
 - DWSRF**
Drinking Water State Revolving Fund
 - PPRF**
Public Project Revolving Fund

Figure 4. New Mexico's Current Water Finance System



Obstacle 4: Technical Capacity

- **Smaller entities struggle to obtain professional services and qualified contractors**
 - **Certain capital projects, such as water systems, require significant design and engineering expertise**
 - **Entities report a shortage of architects, engineers, and project managers**
 - **Smaller entities compete against more desirable projects in urban areas**
 - **Misaligned incentives with contractors can lead to sub-optimal outcomes**

Obstacle 5: Right-Sizing State Support

- State agencies overseeing capital appropriations serve in many capacities, including multiple annual trainings, statutory compliance, budget development, financial reimbursement, and technical support
- Different types of projects and different entities necessitate varying degrees of state support to use appropriations effectively
- Project managers at the NMED's Construction Bureau manage an average of 124 water and wastewater projects. NMED reports project managers should ideally be assigned 70 projects

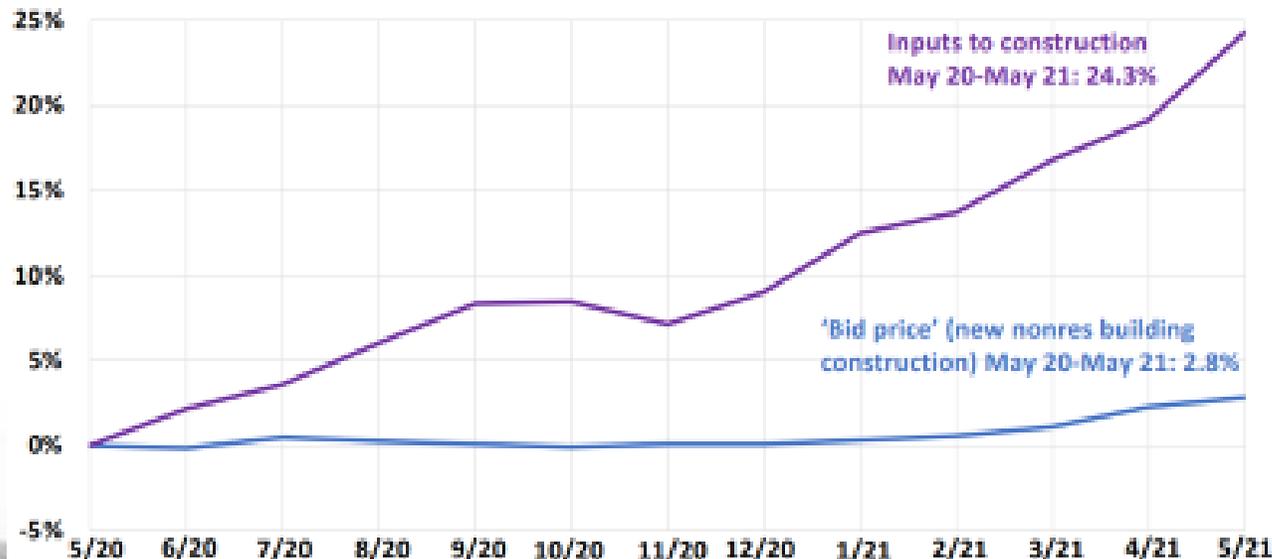
Obstacle 6: Piecemealed Funding

- Capital projects do not advance if available funds cannot complete a functional phase.
- Piecemeal funding occurs when requests underestimate project costs or appropriations underfund requests.
 - Entities with limited planning capacity
 - Large districts with many needs
 - Rural areas often do not benefit from economies of scale
 - Lack of local or federal matching funds

Obstacle 7: Increasing Costs

- Construction costs typically increase ~5% annually. In June 2021, construction inputs are up 24% year-over-year
- Supply-chain disruptions are slowing projects

Construction input and 'bid price' producer price indexes (PPIs)
cumulative change in PPIs, May 2020 -May 2021 (not seasonally adjusted)



What You Can Do As a Legislator

- Confirm your current sponsored projects are progressing and fully funded
- Confirm entities are audit compliant or have fiscal agent agreements in place
- Fund projects that are planned, designed, and shovel-ready
- Fully fund a phased/functional requests. Discourage small projects costing less than \$100,000
- Coordinate priorities with local stakeholders, other legislators, and the executive
- See “Guidelines for Local Capital Projects” for more information

LFC Panelists Other Potential Remedies

- **2021 LFC Water Evaluation:** Create an interagency council to vet water projects for funding
- **DFA Local Government Division:** Provide a small fraction (~1%) of appropriations for project oversight if entities complete project management training
- **County Representative:** Require fiscal agent agreements with non-profit entities be in place before appropriations are made
- **City of Albuquerque:** Allow audit-compliant entities with in-house capacity to bypass capital appropriation administrative requirements

Thank you

Stevie Olson

Legislative Finance Committee Analyst

Steve.Olson@nmlegis.gov

505-986-4550