

2024 Local Government Training Series

**Understanding the Legislative Process:
An Overview of Capital Outlay**

Cally Carswell

Capital Outlay Analyst, Legislative Finance Committee

cally.carswell@nmlegis.gov

505-986-4569

Today's Agenda

The Legislative Process: Capital Outlay Appropriations & Oversight

- LFC and staff role in capital outlay
- Local capital outlay projects – challenges and opportunities
- Legislative oversight of funded projects

What is the LFC?

- The Legislative Finance Committee is a **16-member** committee of senators and representatives.
- Created in **1957**, the LFC was established as the fiscal management arm of the Legislature.
- The committee makes budgetary recommendations to the full Legislature for funding state government, higher education, and public schools.
- The LFC is staffed with full-time analysts, economists, and evaluators who prepare research, reports, and briefs to inform the Legislature.

LFC staff's role in capital outlay

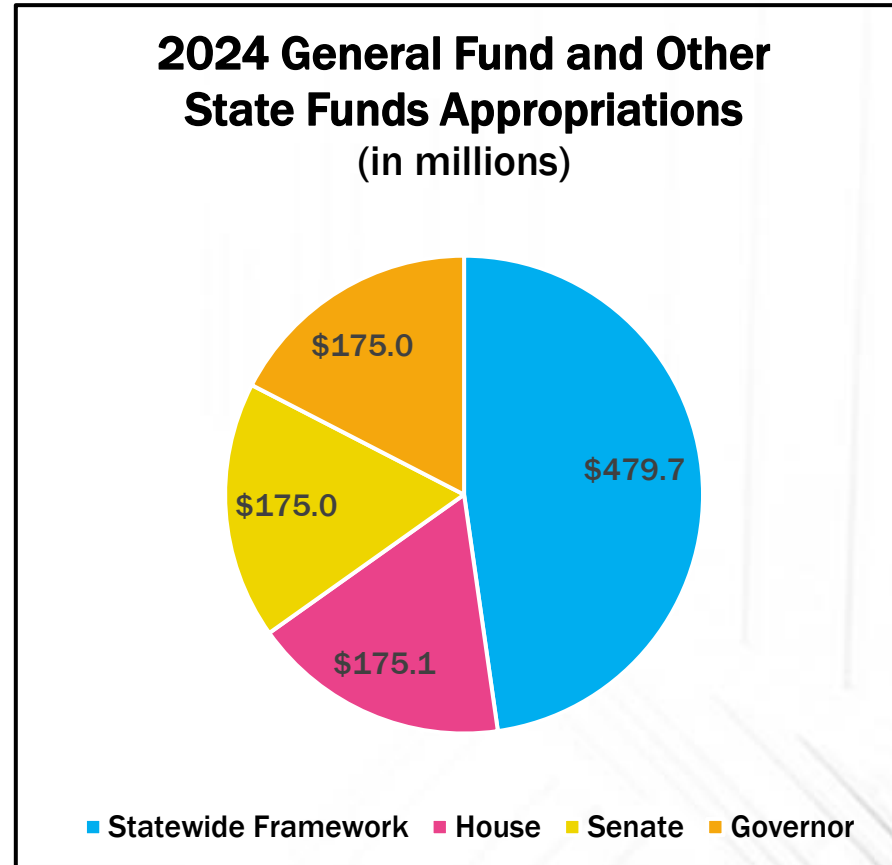
- LFC staff work with the committee to develop a capital outlay budget framework for state-owned facilities, including higher education.
- LFC adopts the “statewide framework” in December and it becomes the foundation for the introduced version of the capital bill.
- Development of the framework is a year-long process that involves extensive collaboration with the Department of Finance and Administration, the Higher Education Department, higher education institutions, and other state agencies.
 - Site visits for major agency requests (prisons, juvenile facilities, hospitals, etc.)
 - Monthly project meetings with state agencies and higher education institutions
 - Review of Infrastructure Capital Improvement Plans (ICIPs) for state agencies and higher education institutions
 - Analysis of requests and outstanding appropriations
 - Serve on the Higher Education Department Capital Outlay Review Committee and ex-officio members of Executive Capital Outlay Review Committee
- Additionally, LFC staff tracks and reports on the progress of state-owned and local projects to legislators and responds to legislator and constituent requests.

“Local” capital outlay

- **“Local” capital outlay appropriations are made at the discretion of individual legislators and the governor.**
- **The amount each legislator and the governor receive varies each year based on bonding capacity, general fund revenues, the size of the statewide framework, 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, etc.**
- **Some legislators in shared districts collaborate in order to make larger appropriations to priority projects – a practice staff encourage.**

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 2024:
 - \$2.5 million for every Representative
 - \$4.2 million for every Senator



Potential benefits of local capital outlay

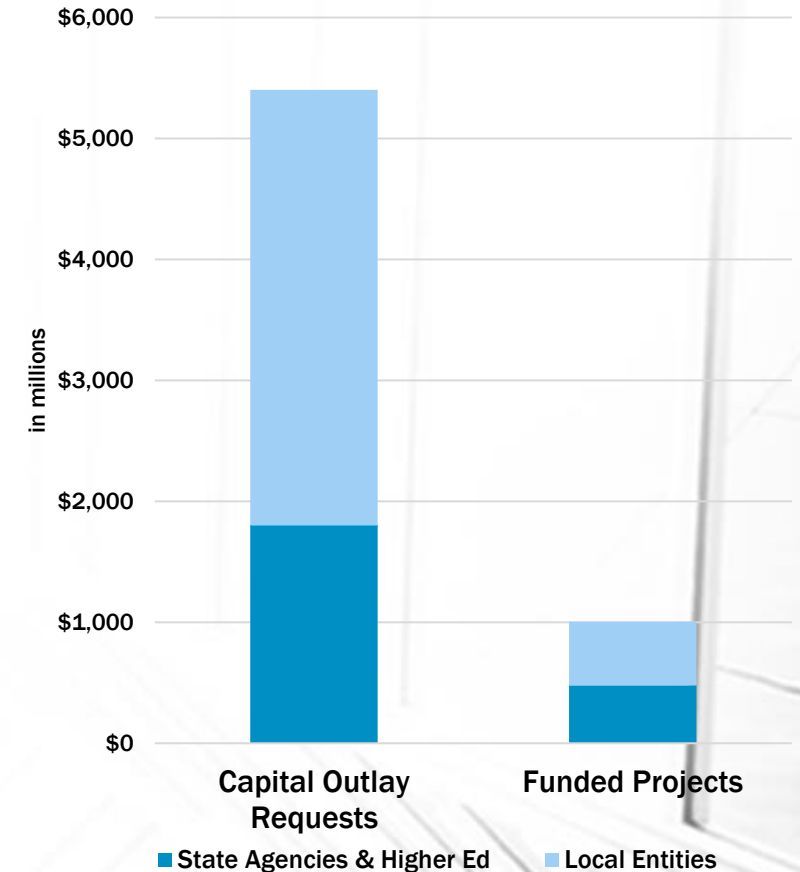
- Long-term investments to improve quality of life for New Mexicans.
- Provides public goods that local entities may not have the capacity to finance otherwise.
- Supports local economies and creates jobs by funding construction activity or providing critical infrastructure.

- ***But ...*** the practice of dividing available funding among individual legislators makes it challenging to broadly realize these benefits because the requests legislators receive *far* exceed the funding they have to appropriate.

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 2024 Session:
 - Local entities requested \$3.6 billion in direct appropriations from House and Senate members.
 - Available funding for local requests from the House, Senate, and Governor was about \$525 million – or just 15 percent of the funding requested.
- The result? Piecemeal funding.
 - Approximately 45 percent of projects in the 2024 capital bill received 50 percent or less of requested funding.

2024 Capital Outlay Requests Far Exceeded Available Funding



How do we address this challenge?

LFC staff encourage legislators to prioritize the requests they receive using the following criteria:

- Request fully funds the project or a functional phase
- Funding requested could not be secured through other sources
- Entity has committed some local revenues to the project and/or secured funding needed to complete project through other sources
- Total project cost is based on estimates provided by a qualified professional
- Project reduces health and safety hazards or provides key infrastructure for economic development
- Project is a top-three priority on a public entity's ICIP
- Land, property, rights or way, or easements required to begin construction have been acquired

Local entities can help by ...

- Using capital outlay as a source of funding not the source of funding for high-priority projects
- Requesting capital outlay to complete funding for functional phases of projects or entire projects
- Contributing local revenues to projects
- Taking advantage of other state and federal funding sources, especially for critical infrastructure like water and wastewater systems and roads

Obstacles for Local Capital Projects

- **Piecemeal funding**
- **Lack of project planning**
- **State requirements (i.e. audit compliance)**
- **Rising construction costs**
- **Administrative capacity**
- **Technical capacity**
- **Financial capacity**
 - **Reluctance to bond or use low-interest loan programs**
- **Limited capacity in state agencies to provide funding navigation and project management support**

Legislative efforts to build capacity

- **Local capacity building grants are available through DFA**
- **Councils of Governments are a key resource**
- **Legislature has provided recurring funding to increase capacity in state agencies to manage capital projects**
- **Appropriations to support other state funding sources**
- **Passage of legislation during 2024 session to create a new infrastructure division within DFA**

Other Sources of Funding

- **New Mexico Finance Authority**
 - **Public Project Revolving Fund**
 - **Water Trust Board**
 - **Drinking Water State Revolving Fund**
 - **Colonias Infrastructure Fund**
 - **Local Government Planning Fund**
- **NM Indian Affairs Department**
 - **Tribal Infrastructure Fund**
- **NM Environment Department**
 - **Clean Water State Revolving Fund**
 - **Rural Infrastructure Program**
- **Economic Development Department**
 - **MainStreet Capital Outlay Program**
 - **Trails+ Outdoor Recreation Grants**
- **Department of Transportation**
 - **Transportation Project Fund**

Legislative oversight of funded projects

- Tracking funded projects provides accountability to tax-payers and policy-makers.
- Tracking funds can support effective use of both state and local resources.
- Tracking allows the Legislature to identify sources of delays in completing projects and to address those issues
- Legislators receive quarterly reports on capital projects from LFC staff
- Grantees are required to submit quarterly updates through the state reporting system

Effective oversight depends on quality of reporting

- High-quality reporting can help the Legislature allocate future money in an effective way to support project completion
- Updates are often difficult to interpret as written, making the status of the project unclear.

Less Helpful Updates

Ex. #1: Notice of obligation 3 processed.

Ex. #2: Project planning underway.

Helpful Updates

Ex. #1: Construction documents 95% complete. Preliminary subcontractor bids being received by contractor. West end of the parking lot demolished at University and Coal.

Ex. #2: Architect updating previous design and cost estimate. Seeking additional funds. Federal funding likely granted. As of March, project is almost fully funded.



Thank you!

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Legislative Finance Committee

Capital Outlay Analyst

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