

Escalating Costs of Public Construction

Summary

New Mexico is seeing unprecedented investments in public and private construction at the same time as construction costs are skyrocketing. Workforce shortages, high construction volumes, and high material prices are contributing to these cost increases. Absent significant drops in material prices or construction demand, or rapid increases in the labor force, construction costs will likely remain elevated. Continued cost escalations will limit the state's ability to make needed capital improvements to public schools, higher education institutions, state facilities, and local infrastructure. Rising costs are also likely to exacerbate the problem of unspent funds across approximately 5,000 capital outlay appropriations across the state.

The state can adopt strategies for investing its capital funds in a time of high price volatility, including, for example, by prioritizing funding for project completion, timing awards so that projects are not funded before costs are known, and maintaining close oversight by state construction management professionals of project costs and progress.

Declining enrollments at educational institutions and population demographics suggest the state should prioritize renewal and better utilization of existing facilities and fund the construction of new facilities only when need has been rigorously demonstrated. Changes to state procurement laws would allow all state and public entities to take advantage of alternative construction contracting methods that allow more flexibility in responding to market conditions and more transparency regarding pricing. The state would also benefit from coordinated monitoring and reporting of market conditions through a common construction costs report card.

Construction Costs Fast Facts:

- Total private and public nonresidential construction spending in New Mexico increased by 60 percent between 2021 to 2022 to approximately \$4.9 billion, the second highest percentage increase in the nation.
- National nonresidential construction costs, as measured by national producer price indices, increased by 43 percent between January 2019 and October 2023. New Mexico school construction costs increased by 138 percent during 2023.
- Despite strong employment growth, the state still is experiencing a shortage of construction labor and would have needed at least 2,000 additional workers to meet 2023 construction demand.

This policy spotlight looks at: 1) current New Mexico market conditions for nonresidential construction; 2) oversight of capital construction awards and construction management capability in three state-funded entities: Facilities Management Division, Public School Facilities Authority, and the Higher Education Department Capital Outlay Division; and 3) special considerations for allocations to educational institutions, including cost-sharing. It does not look at local public construction.

Spotlight

Program Evaluation Unit
Legislative Finance Committee
January 15, 2024



NEW MEXICO
LEGISLATIVE
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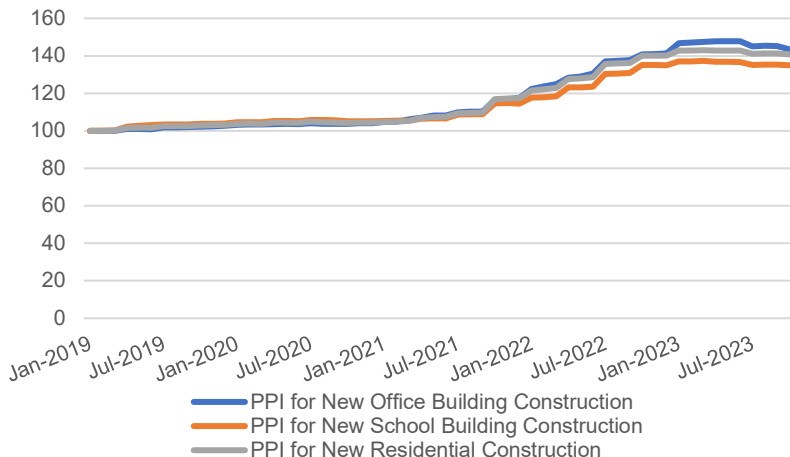
Labor and Material Shortages, Limited Industry Capacity, and Growing Demand are Increasing Construction Costs

Unprecedented revenues have allowed the state to make substantial capital investments in recent years. However, the state's ability to meet its many infrastructure needs is hampered by rising construction costs. The cost increases are primarily attributable to three factors: massively increased construction demand at the state and national level, high material prices, and a shortage of construction labor. National private and public nonresidential construction spending increased by 42 percent between 2019 and 2023. In New Mexico, nonresidential construction spending increased by 50 percent between 2019 and 2022 (the most recent available data). Material prices climbed by 40 percent over the same period. Finally, the state faces a significant shortage of construction labor and needed at least 2,000 additional workers to meet demand in 2023. Absent significant drops in material prices or construction demand or rapid increases in the labor force, construction costs will likely remain elevated.

Costs for new nonresidential construction have increased by up to 43 percent at the national level and by up to 138 percent at the state level since 2019.

At the national level, construction costs increased during the pandemic and have remained high. Between January 2019 and October 2023, the U.S. Bureau of Labor Statistics' producer price index (PPI) for new nonresidential construction increased by 43 percent, with PPIs for new school building and new office building construction showing similarly large increases. This means that a new school building that cost \$300 per square foot in 2019 would be expected to cost \$423 per square foot in 2023.

Chart 1: Construction Bid Prices Have Increased Significantly Since the Pandemic
(percent of January 1, 2019 value)



Source: FRED

Producer price indices (PPIs) are published by the U.S. Bureau of Labor Statistics and measure the change in selling price that domestic producers receive for their products. In the case of PPIs for new construction, these represent changes in bid prices for different construction projects.

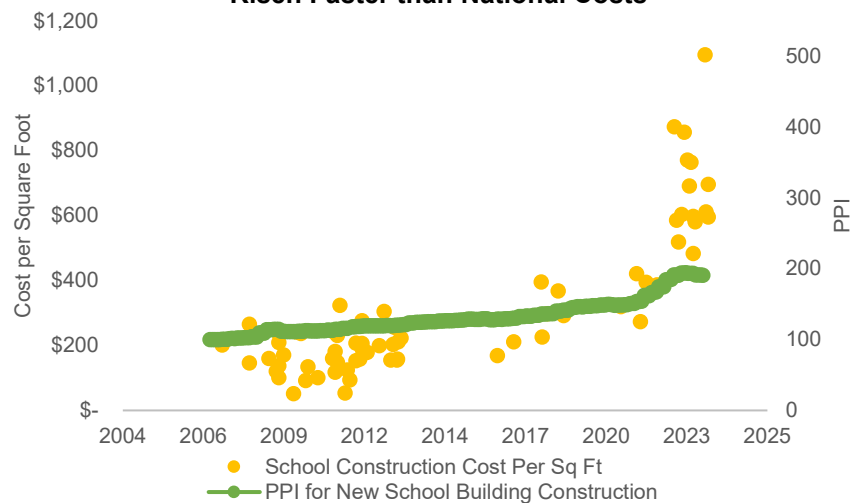
While PPIs measure changes in national prices, they can still provide valuable information about the general trend of prices in New Mexico.

Source: BLS



Construction costs for some types of state-funded projects have risen between 81 and 138 percent. Public school construction costs in New Mexico are significantly higher than in prior years, with the average cost per square foot of a project funded in 2023 (\$695 per square foot) coming in 138 percent higher than in 2019 (\$291 per square foot). School construction costs in New Mexico roughly followed national trends before the pandemic. For example, school construction costs in New Mexico increased by 58 percent between 2007 and 2019, compared with a national increase of 61 percent in the new school building construction PPI. However, the 138 percent increase in New Mexico school construction costs since 2019 is significantly higher than the 35 percent increase in national school construction costs during the same period. Part of the sharp increase in school construction costs in 2023 was driven by geography.¹ School districts in the northwest and northeast quadrants of the state have typically had some of the highest school construction costs (see Appendix A for a map of school construction costs by school district). Roughly half of projects funded by the Public School Capital Outlay Council (PSCOC) in 2023 were in school districts in these areas of the state, such as Gallup-McKinley, Mosquero, and Grants-Cibola. These projects cost an average of \$1,005 per square foot. By comparison, PSCOC projects funded in other areas of the state and projects self-financed by Santa Fe and Albuquerque public schools had an average cost of \$653 per square foot.

Chart 2: Public School Construction Costs in New Mexico Have Risen Faster than National Costs



Source: FRED and PSFA

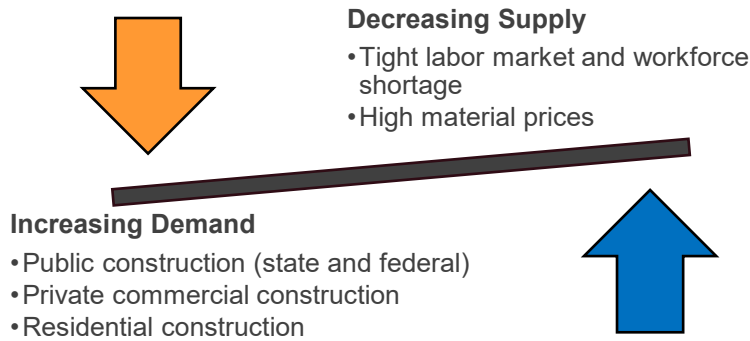
¹Lack of building inspectors and related delays in permitting in rural areas potentially add to costs. The state’s Construction Industry Division has invested in training for its staff and hired new staff for its offices in Santa Fe, Albuquerque, and Las Cruces. The division has a new online permitting portal and reports that as of FY 24 residential and commercial plan reviews are being completed within three to four working days, providing that there are no underlying issues with the plan (see Appendix D for performance in prior years).

Higher education capital projects are experiencing similarly large cost increases. New construction for higher education institutions funded through the 2022 general obligation (GO) bond cycle had an average cost estimate of \$521 per square foot, while projects proposed for the 2024 GO bond cycle have an average cost estimate of \$945 per square foot, an increase of 81 percent in two years. New Mexico higher education costs are on the higher end of costs in the southwest region, but costs may vary depending on the type of building.

Construction activity in New Mexico has increased 47 percent more rapidly than in the nation as a whole.

Rising construction costs are attributable to three different trends. Spending has increased at the state and national level, indicating increased demand. At the same time, material costs spiked during the pandemic and have yet to decline, while the state does not have a large enough construction labor force to meet demand.

Figure 1: High construction costs are the result of demand outstripping supply.



Source: LFC

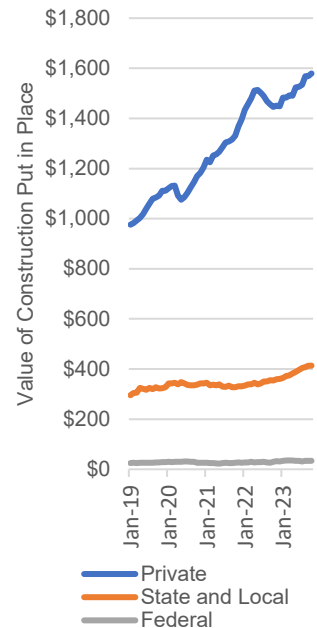
At the national level, combined federal, state, local, and private nonresidential construction spending between January 2023 and October 2023 was 42 percent higher than national nonresidential construction spending between January 2019 and October 2019. In New Mexico, nonresidential construction increased significantly between 2019 and 2022 (the latest year data is available), with private and state and local nonresidential spending increasing by 50 percent, 47 percent higher than the growth in national construction spending (34 percent) and the fifth highest growth rate of any state during that period. Most of this increase occurred between 2021 and 2022, when private spending increased by 87 percent and state and local spending increased by 33 percent. Total state, local, and private nonresidential construction spending in the state increased by 60 percent from 2021 to 2022, the second highest percentage increase of any state behind Arizona.

Table 1: Comparison of New Mexico New Higher Education Construction Costs to Southwest Average

	Low Cost Sq/Ft	Median High Cost Sq/Ft	High Cost Sq/Ft
Cumming Group SW Higher Education Construction Costs Estimates	\$480	\$775	\$1,180
2024 NM New Higher Education Construction Costs	\$444	\$945	\$1,500

Source: Cumming Group and LFC Files

Chart 3: National Nonresidential Construction Spending Has Increased Significantly (in billions)



Source: U.S. Census, Value of Construction Put in Place Reports

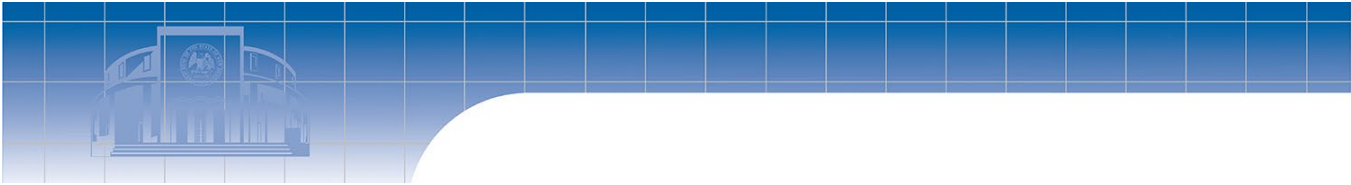


Chart 4: Private and Public Nonresidential Construction in New Mexico Increased Significantly in 2022
(in millions)

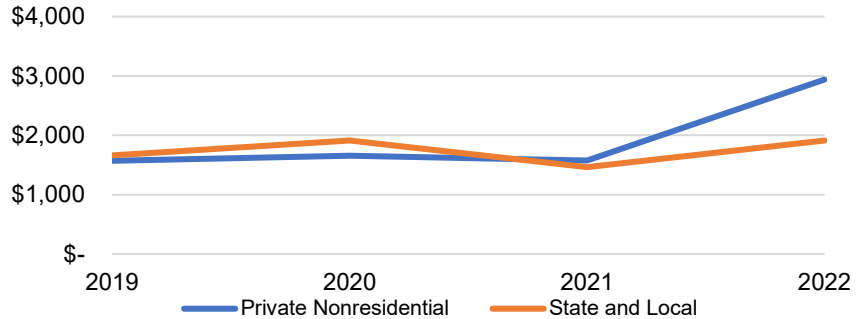
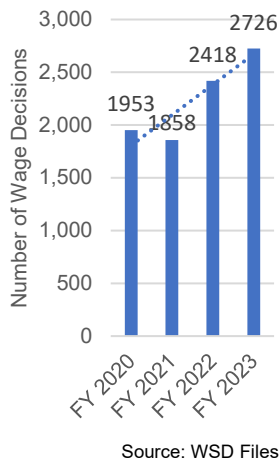


Chart 5: Public Works Wage Decisions Have Increased in Recent Years

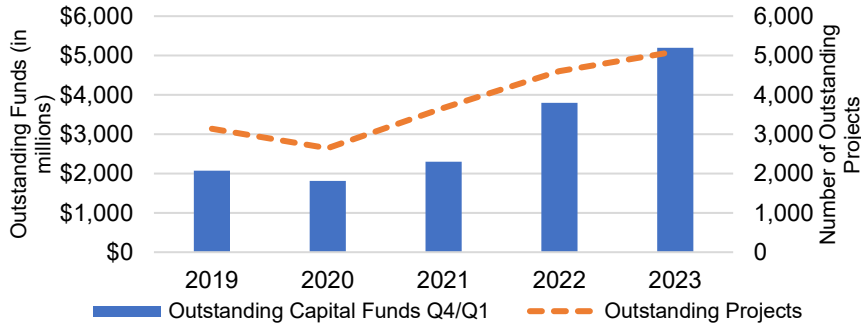


Construction activity continued to rise in 2023 as indicated by a sharp increase in public wage decisions. The public works section of the Labor Relations Division of the Workforce Solutions Department is responsible for enforcing the New Mexico Public Works Minimum Wage Act. Each year, the public works section sets schedules of minimum wage rates for public works projects, which vary depending on whether a project is a street or highway project, general building project, residential construction project, or heavy engineering project. For any public works project, the division issues a “wage decision” determining, which schedule of rates will apply to the workers on that project. For example, a cable splicer working on a public works project in FY23 could have had a minimum wage between \$40.43 and \$51.93 depending on the wage schedule selected in the wage decision. The number of wage decisions climbed from 1,953 to 2,726 between FY20 and FY23, an increase of 40 percent.

Outstanding capital funds totaled almost \$5 billion in FY24. The Legislature passed historically large capital appropriations packages several years in a row. At the end of the first quarter of FY24, outstanding capital funds appropriated by the Legislature, including earmarks, totaled \$2.8 billion. Another \$1.2 billion in unspent balances is available in the public school capital outlay fund. The number of outstanding projects totaled about 5,000 this year, a 63 percent increase over 2019. While state appropriations are contributing to increased construction demand, private actors are responsible for most construction spending. In 2022, private spending on nonresidential construction in New Mexico was 65 percent greater than state and local nonresidential construction spending and comprised 60 percent of total nonresidential construction spending in New Mexico.



Chart 6. Increased Capital Appropriations are Contributing to Construction Demand



Source: LFC files

Supply chain bottlenecks eased during 2022, but prices for construction materials remain relatively high. The pandemic and associated supply chain disruptions resulted in major price increases for several categories of construction materials like concrete and steel products. Overall, the national price of net inputs (excluding capital investment, labor, and imports) to nonresidential construction increased by 40 percent between January 2019 and October 2023. This increase is partly driving construction costs.

Prices for materials have generally leveled off or dropped since mid-to-late-2022 but are still well above their pre-pandemic levels. Lumber, diesel fuel, and steel mill products have declined significantly from their highest price points but are still priced 18 percent, 103 percent, and 38 percent higher than in January 2019. Other materials, like cement and concrete products, have seen prices continue to rise through the end of 2023.

New Mexico needs at least 2,000 more construction workers to meet current demand. Between January 2019 and March 2023, the total number of private construction workers in New Mexico increased by 9.1 percent, from about 47 thousand to 51 thousand. This percentage increase was almost two and a half times higher than the increase in the total number of private workers in the state. The total number of specialty trade contractors, such as electricians and carpenters, increased by 13.8 percent. Nonresidential and highway, street, and bridge construction workers, those typically employed on state building projects, saw total employment grow by 19.1 percent and 11.3 percent, respectively.

Table 2: Pandemic Period and Year-Over-Year Changes in Key Material Prices

Material	Price Change, January 2019-October 2023	Price Change, October 2022-October 2023
All Material Inputs	40.18%	(0.13%)
Concrete Products	40.81%	9.67%
Cement	30.88%	8.50%
Steel Mill Products	37.62%	(9.89%)
Paving Mixtures and Blocks	17.69%	(0.47%)
Lumber and Plywood	21.53%	(11.48%)
Gypsum Building Materials	40.48%	(1.42%)
Copper and Brass Mill Shapes	47.25%	5.66%
Aluminum Mill Shapes	13.25%	(1.65%)
Diesel Fuel	102.77%	(32.67%)

Source: FRED

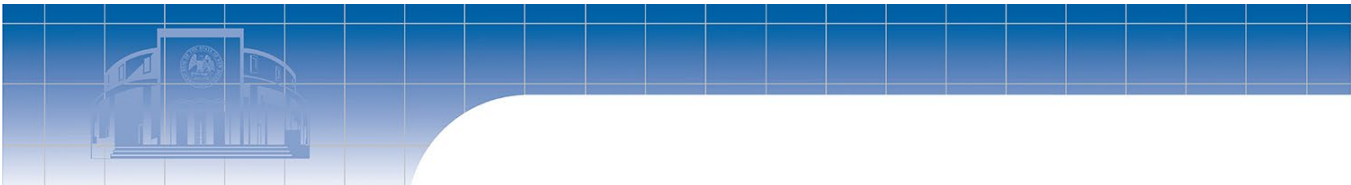
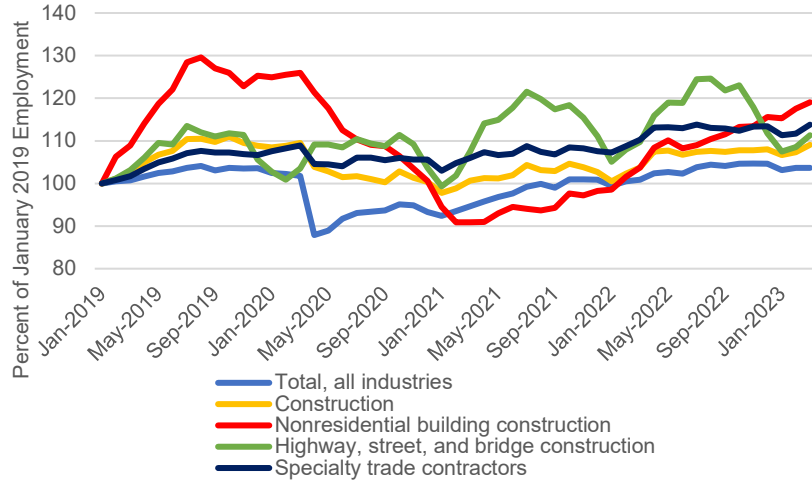


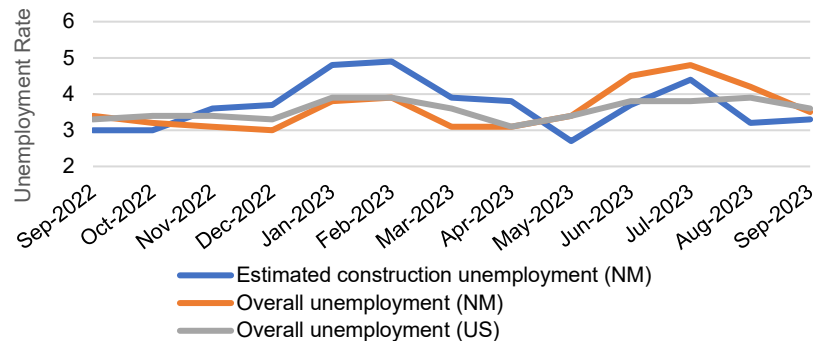
Chart 7: Change in Total Employment for all New Mexico Workers, and New Mexico Construction Workers (percent of January 2019 employment)



Source: BLS QCEWS

The estimated unemployment rate for construction workers has remained low while wages have increased. A low unemployment rate suggests a high demand for workers in a particular field. The national and state labor markets are historically tight and recorded annual 2023 unemployment rates through September 2023 of 3.6 percent. Construction work is experiencing a similarly tight labor market. Between September 2022 and September 2023, the unemployment rate for construction workers in New Mexico averaged 3.7 percent, only 0.1 percentage point greater than the national and state overall unemployment rate.

Chart 8. Comparison Between National Overall, New Mexico Overall, and New Mexico Construction Workers Unemployment Rates (in percent)



Source: Associated Builders and Contractors

High wage growth can indicate a labor shortage in a particular industry or labor market because employers increase wages to compete over a limited pool of workers. After accounting for inflation, weekly wages for the average private sector worker in New Mexico grew by 4.7 percent between January 2019 and March 2023. By comparison, the average weekly wage for private construction workers in New Mexico increased by 4.9 percent, 5 percent more than New Mexico private sector workers overall. Subsets of construction workers saw even larger increases.

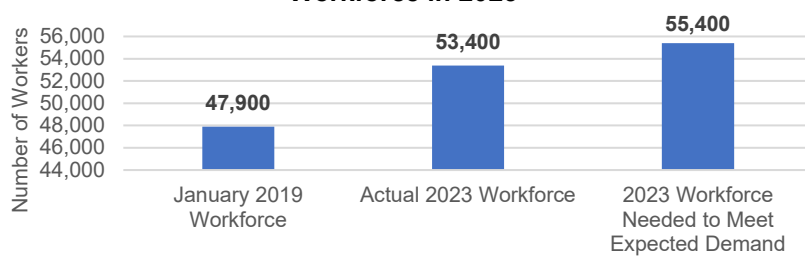
The state likely needs several thousand additional construction workers to meet demand. The Associated Builders and Contractors estimated the United States needed an additional 546 thousand construction workers, on top of normal seasonal hiring, to meet national demand for construction in 2023. Based on New Mexico's share of the national construction labor force in 2023, the state needed approximately 3,600 additional workers in addition to seasonal hiring. The construction labor force in New Mexico typically grows by roughly 1,600 seasonal workers between the winter off-season and peak demand during the summer and early fall. Assuming the state held to normal seasonal hiring patterns, in 2023 the state would have needed about 5,200 workers (1,600 seasonal hires plus 3,600 additional workers). From January to November 2023, the state added 3,200 workers, 2,000 less than the estimated need. Given that New Mexico has seen some of the largest growth in construction spending among states, this rough estimate likely underestimates the scope of the labor shortage in New Mexico. The LFC Program Evaluation Unit is in the early stages of a review of the state's workforce needs and programs and will present its findings in summer 2024.

Table 3: Increases in Wages for Subsets of Construction Workers

Worker Group	Percent Increase in Average Wage (Jan 2019-March 2023)
Specialty trade contractors	5.9%
Nonresidential construction workers	8.6%
Highway, street, and bridge construction workers	8.3%

Source: BLS QCEWS

Chart 9: Comparison of Actual to Estimated Needed Construction Workforce in 2023



Source: BLS CES

Uncertainty in material and labor markets will continue to affect construction costs. General contractors frequently raise bid prices in response to volatility in labor and material prices to reduce the financial impact of sudden price shocks. While material prices have generally stabilized relative to the pandemic period, prices have continued to increase for some building materials. CBRE, a real estate services firm, notes there are still long lag times for some construction products like electrical components. At the same time, wages for construction laborers will continue to rise as contractors compete over a too-small labor supply. The high level of uncertainty in both labor and material prices will continue to drive up contractors' bid prices.



Coordinated Monitoring of Market Conditions and Oversight of Construction Management Can Contain Costs and Ensure Quality

State capital construction funds are appropriated, awarded, and administered by multiple agencies with different jurisdictions, resources, and processes. Some state agencies have adopted construction management best practices, but oversight, consistency, and coordination are lacking for higher education institutions and state agencies not subject to the Property Control Act. Timing of awards before project costs are known can result in bid prices greatly exceeding original project estimates. The state has significant expertise in construction estimating and management and could respond to current market uncertainty and plan for future changes by monitoring the market and sharing information across agencies regarding current costs, procurement and project delivery strategies, and scheduling of large projects.

Statutory oversight for capital construction is focused on the application and award phases but is more limited during the design and construction phases.

Most state funding for public facilities construction flows through three entities: the General Services Department’s Facilities Management Division (FMD), the Public School Capital Outlay Council (PSCOC) and its staff at the Public Schools Facilities Authority (PSFA), and the Higher Education Department’s Capital Outlay Division. These entities administer capital funds, and in the case of FMD and PSFA, provide preconstruction and construction management services. The extent of these services varies according to statutory jurisdiction, staffing levels, and degree of in-house expertise.

Table 4. Funding Sources for State-Funded Construction

Agency	Funding Source
GSD/FMD	Annual capital bill, general fund (GF), severance tax bond (STB), and other state funds (OSF) appropriations from the Legislature; land grant permanent fund distributions to capital buildings repair fund.
HED	General obligation bond in even-numbered years; general fund and severance tax bonds in all years go through annual capital bill. Local match required for two-year institutions only. Institutions also get capital dollars by issuing System Revenue Bonds, Local General Obligation Bonds in the case of two-year institutions or utilizing revenues from the land grant permanent fund. HED has statutory oversight for administering capital funds and has appointed the Capital Outlay Committee to review and recommend funding and project approvals for all capital projects.
PSFA	Annual distributions to dedicated public school capital outlay fund from supplemental STBs. Local bonds and property taxes at the school district level. The Public School Capital Outlay Council (PSCOC) has statutory oversight for the award of funds. The Public School Capital Outlay Oversight Task Force oversees the PSCOC.

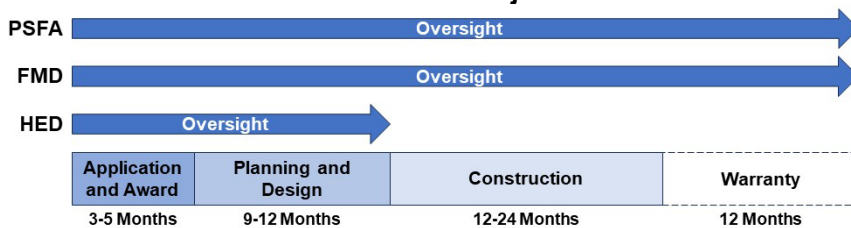
Source: LFC files

Both FMD and PSFA have robust processes for oversight and construction management throughout the entire project lifecycle. HED provides oversight through its Capital Outlay Committee. The committee reviews capital funding requests by higher education institutions and makes recommendations to the

cabinet secretary for funding. After appropriations are made for capital projects, the committee reviews and recommends approval to the cabinet secretary on projects pursued by colleges and universities as outlined in the state administrative code regardless of funding source (Section 5.3.10 NMAC).

Major steps and typical timing for large public construction projects can last from three to five years. FMD and PSFA have statutory authority for project oversight from application to project closeout through the Property Control Act (Section 15-3-B-2 NMSA 1978) and the Public School Capital Outlay Act (Sections 22-24-1 to 22-24-21 NMSA 1978), respectively. All three entities vet and prioritize project funding requests. Both PSFA and HED administer capital funds and oversee the process of awarding state funds to educational institutions and public school districts.

Figure 2: Application and Construction Process for Large Public Construction Projects



Note: PSCOC awards funding in two phases: planning and design and construction, whereas HED awards funding for the entire project at the beginning of the project, with the possibility of requesting supplemental awards for overages for bids before the construction phase.

Source: PSFA, HED, FMD, and LFC Files

FMD and PSFA track projects and provide technical assistance and construction management services from the application phase through project closeout. In addition, they both track and address maintenance needs throughout the life of the facilities they oversee. FMD also currently provides ongoing facilities management services to buildings in Santa Fe and one campus in Albuquerque. FMD is the “owner” for most executive agency projects. PSFA signs a memorandum of understanding with the school district and is a co-owner until the end of the construction phase, then continues oversight until the warranty period is up. HED and its Capital Outlay Committee have a much more limited role, with most of the construction process under the purview of the individual college or university, which is the owner of the project. HED’s statutory responsibilities focus on reviewing and recommending capital outlay funding but there is some HED oversight of projects as they progress to construction, and institutions must go to the HED Capital Outlay Committee for approval before they move forward.

The Public School Capital Outlay Council has greater ability than other state entities to provide funding that reflects current market conditions and actual project costs due to its rolling award cycle. Over the past year, bids for construction of education facilities have greatly exceeded estimates made during earlier stages of design. For example, the maximum allowable construction costs published in the request for proposals for contractors for two Los Alamos elementary schools in spring 2022—before schematic design had been completed—were \$17.5 million for each school, or about \$350 per

Types of Construction Project Estimates

Design phase. Generated for the owner or design professionals, including schematic design and engineer’s estimates based on plans and specifications.

Bid estimates. Generated by contractor for competitive bidding based on completed constructed documents; consists of direct construction costs plus a markup to cover general overhead and profits.

Control Estimates. Generated by contractor during construction for budget estimated for financing, costs after contracting but prior to construction, and estimated cost to completion.

Public construction contracts in New Mexico may include a maximum allowable construction cost or a guaranteed maximum price based on the above estimates. These are agreed prices between facility “owners” and architects or general contractors during the project cycle, depending on the type of delivery method used.

Source: Carnegie Mellon and LFC Files



square foot. By the time the maximum allowable construction cost was finalized with the contractor roughly a year later based on complete construction documents, the costs for both schools had escalated to \$38 million and \$40 million, or \$713 and \$645 per square foot—a doubling and near doubling of the cost per square foot in just over a year.

Funding for these projects was provided through the Public School Capital Outlay Council (PSCOC), which awards funding in two phases—first for design and then for construction, when design is complete and typically after projects have gone out to bid. Awards for both phases are provided by the council on a rolling basis when projects are ready, with funding coming from the public school capital outlay fund and no annual authorization required by the Legislature. This ability to provide “just-in-time” funding for public school projects is unique among state-funded public works projects in New Mexico. It has allowed projects to continue to construction with adequate funding despite rapid and unexpected cost escalation.

Table 5. Cost Progression for Two Los Alamos Public School Replacements (2022-2023)

	Pinon				Chamisa			
	Total Cost (in millions)	Square Footage	Cost/SF	Percent Change from RFP	Total Cost (in millions)	Square Footage	Cost/SF	Percent Change from RFP
Max. Allowable Constr. Costs Published in RFP	\$17.55	50,411	\$348	N/A	\$17.50	50,064	\$350	N/A
Schematic Design Estimate	\$27.73	50,411	\$550	58%	\$27.21	51,649	\$527	51%
Design Development Estimate	\$36.79	61,542	\$598	72%	\$33.17	52,925	\$627	79%
Construction Document Estimate	\$39.96	62,006	\$645	85%	\$37.96	53,255	\$713	104%

Source: PSFA and LAPS

Funding for major higher education projects is often appropriated before costs are fully known, which can result in bid prices greatly exceeding original estimates and authorized funding. Most major new construction for colleges and universities is funded through general obligation (GO) bonds available only on a biannual basis in even-numbered years. The institutions submit the requests the summer before the legislative session. GO bond funding is authorized by the Legislature during the session, roughly six months later, then approved by voters in a statewide election the following fall. The state Board of Finance issues the bonds after voter approval, often the following spring. This means funding actually becomes available for use roughly 18 months after the requests.

If institutions wait to begin design until funding is available, the period between requests for funding and construction is even longer—often, multiple years—and costs and project scope may change. For example, the New Mexico Institute of Mining and Technology first requested funding to renovate Kelly Hall in summer 2019 for the 2020 GO bond cycle. The total project cost was estimated at \$15 million, and the Legislature appropriated \$10 million.



Subsequently, the institution found the cost to renovate the existing facility would exceed the cost of new construction and the project concept shifted. Additional appropriations totaling \$3.6 million were made for the replacement project in 2021 and 2022, and the project was split into phases as costs increased. Phase one was not ready for construction until summer 2023 and even then it was still \$3.5 million short yet had missed the formal request deadline for the 2024 session. The institution had requested funds for phase two totaling \$8.5 million, with total project costs around \$29 million.

For the 2023 and 2024 sessions, HED invited institutions to submit supplemental requests for existing projects. For the 2024 funding cycle, HED recommended a total of \$69.9 million in supplemental awards. Cost increases were also apparent in revisions submitted to HED’s Capital Outlay Committee, with the largest cost increase in a 2023 project revision coming in at more than 160 percent.

FMD has recently seen costs and estimates ranging from \$300 to over \$900 per square foot but has fewer new construction projects underway than the educational entities. The General Services Department’s expenditures for construction remained fairly constant between FY19 and FY23, at around \$30 million per year. The division currently has new construction projects totaling approximately \$300 million, including the Department of Public Safety forensics laboratory in Santa Fe, the Department of Health’s New Mexico Behavioral Health Institute forensic facility in Las Vegas, and the planned Executive Office Building in Santa Fe. LFC staff track FMD performance measures such as on-time completion, with the division receiving a green rating in its most recent report card (see Appendix B).

Procurement and contracting practices that shorten project timelines and eliminate cost uncertainty may be beneficial in times of high price volatility.

Among other considerations, construction contractors set prices based on their perception of risk due to uncertainty in the market regarding input costs and timing of projects. However, a lack of transparency in bidding and contracting processes obscures what precisely is driving costs. Alternative delivery methods may provide more transparency about pricing. The traditional, design-bid-build project delivery method involves three typically distinct roles: The owner, architect, and contractor. The owner contracts with an architect to produce complete and prescriptive documents including drawings and specifications; the owner then selects a contractor from bids based on those documents.

Table 6. FMD Construction Costs for 2023 to 2024

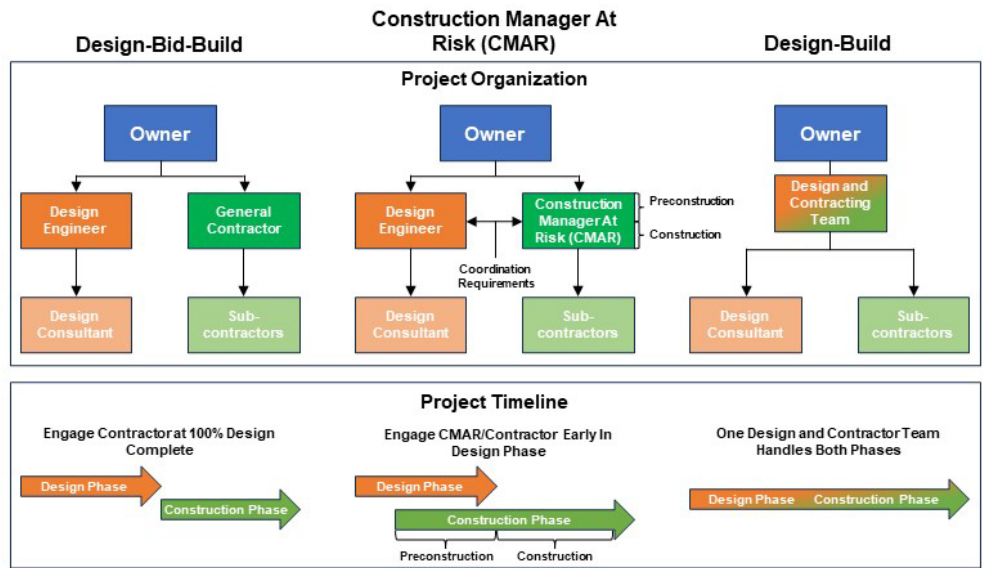
Construction Type	Cost Per Square Foot
General remodel/renovation	\$300-\$500
General new construction (office)	\$600-\$700
Specialty new construction (hospital, corrections)	\$800-\$900

Note: The Executive Office Building is estimated to cost over \$900 per square foot including underground parking and demolition of existing buildings.

Source: FMD



Figure 3: Comparison of Design-Bid-Build, CMAR, and Design-Build



Source: FEMA and Francom, 2016

A meta-analysis of construction research literature published in 2017 found that Construction Manager at Risk (CMAR) and design-build are better than the more common design-bid-build method at controlling the schedule variation of a project. Moreover, design-build was found to be superior in delivery speed. On-time delivery can contain costs by reducing change orders and avoiding market price increases. However, these studies were all conducted prior to the rising costs and supply chain issues initiated by the Covid-19 pandemic.


Source: Sullivan, 2017

New Mexico's higher education institutions use the CMAR method for both new construction and renovation projects. Between 2021 and 2022 the CMAR method was used in projects with the lowest cost per square foot (UNM's College of Nursing and Public Health Excellence, \$459 per square foot) and the highest (WNMU Learning Center construction, \$1,227 per square foot). CMAR is less frequently used in public school construction.

Source: HED and PSFA

Construction manager at risk (CMAR) and design-build are two alternative project delivery methods that involve some overlap between the design and construction phases instead of executing them serially as in the design-bid-build process. The CMAR takes on the financial obligation for construction under a specified cost agreement, generally providing a guaranteed maximum price, and provides input throughout the design process on construction costs. In a design-build process the owner contracts with a single entity, the architect-builder, for both design and construction. Unlike design-bid-build and CMAR, the contract between the owner and the architect-builder is the only contract involved. Although the Procurement Code allows design-build, this method is not much used in educational projects. CMAR is used more by higher education institutions than public schools, but no state entity tracks usage or reports outcomes for the different project delivery methods.

Alternative delivery methods may provide benefits in terms of shortened construction times and more transparency regarding costs. PSFA and HED do not track outcomes associated with alternative delivery methods but better time-to-completion and cost savings resulting from efficiencies would be expected. Recent projects funded by PSFA have provided more transparency in pricing. In October 2023, for example, PSCOC approved construction funding for public schools in Des Moines and Mosquero with total project costs of \$51 million and \$46 million, respectively, or more than \$1,000 per square foot. Each school was value engineered to reduce costs and included few features above state adequacy standards. PSFA staff told council members the remote location of the schools drove the high cost of construction but was unable to provide more specific information about where this inflated the bids and at what amount. According to PSFA staff, public owners typically only see a lump sum on bid day under design-bid-build delivery models with a “schedule of values” from the general contractor that breaks down project



costs provided only after a notice of award is issued. This left the council in the position of approving the project with few details on exactly what the unusually high bid would pay for. In contrast, detailed breakdowns of project costs were available from the CMAR contractor for the high-cost Los Alamos elementary school projects earlier in the year, based on bids from subcontractors provided to owners in an open-book process in the progression toward construction (see Table 5).

On the downside, alternative project delivery methods require considerable expertise in procurement and project management. Design-bid-build is the default method for public construction in the United States and, thus, is well-known and involves a competitive choice of contractors. However, the three-step process can take a lot of time and often constrains choice of contractors to the lowest bid even for projects where cost is not the only consideration. Design-build and CMAR can save time and potentially money compared to the traditional design-bid-build process. Design-build puts more risk on the owners and is rarely used in state procurement. CMAR places more risk on the contractor. In all cases, entities without significant in-house construction management expertise are reliant on their contracted architect or other owner’s representative to ensure appropriate value engineering principles are applied and independent cost estimates are conducted throughout the design, preconstruction, and construction phases.

Flexible procurement and alternative delivery methods are currently restricted to certain entities through state statute. State agencies, local governments, and contractors have asked that these more flexible options, made available through the Procurement Code and Educational Facility Construction Manager At Risk Act (Sections 13-1-124.1 through 13-1-124.5 NMSA 1978), be extended to include them. In 1997, the procurement code was amended to allow public works projects to use the design-build method, but it is little used. In 2007, the Procurement Code was amended to allow CMARs for educational institutions, under the Educational Facility Construction Manager At Risk Act. The Legislature has sought to broaden the use of CMARs, which are currently limited to educational agencies and home rule entities, through bills introduced in 2012, 2015, and 2017, which were supported by GSD but did not pass. State agencies and education entities also can procure construction services through the two state price agreements for construction.

Lack of transparency in pricing and oversight can be reduced through standardized processes for funding, project management, and reporting. The three state entities have standardized many of their funding and construction management services, contributing to transparency in pricing and oversight. FMD has instituted standardized processes for all construction awards and projects greater than \$300 thousand, regardless of whether they are procured via request for proposals (RFPs), invitations to bid (ITBs), or statewide price agreements (SPAs). The resulting contracts carry the same construction and condition terms for FMD project managers to manage. PSFA requires a standard application and review process for all projects it funds and provides districts with contract and ordinance templates and technical assistance in project management. HED also sets a \$300 thousand threshold

According to the U.S. General Services Division, value engineering analyzes designed building features, systems, equipment, and material selections to achieve essential functions and enhance results while reducing the life-cycle cost.

Value engineering practices are formally structured in the design phase and depend on contractor initiative in the construction phase. Value engineering goals for individual projects are often addressed in partnering agreements.

Source: U.S. GSA



for institutions with 1,500 full-time equivalent (FTE) enrollment or less and a \$500 thousand threshold for institutions with more than 1,500 FTE enrollment when award requests must be reviewed by the HED Capital Outlay Committee under state administrative code (5.3.10 NMAC), and the CMAR statutes require a three-stage process with additional review requirements for projects over \$300 thousand rather than two stages.

Table 7. Examples from State Price Agreements for Different Geographies

Vendor Location	Superintendent Wage (hour)	Per Diem (day)
Albuquerque	\$107	\$245
Española	\$ 60	\$200
Las Cruces	\$ 86	\$204
Rio Rancho	\$ 60	\$142
Santa Fe	\$ 88	\$150
Sunland Park	\$ 70	\$120


Source: GSD, SPA for General Construction

The current ceilings for the statewide price agreements for construction may be too high because they allow procurement without appropriate guardrails. There are two current state price agreements for construction available to state agencies and local public bodies, one for architectural and engineering services and one for general construction. The procurement code allows open-source price agreements for multiple vendors and projects with price ceilings set in statute. The ceiling for professional services currently is \$7.5 million over four years with no single purchase order exceeding \$650 thousand; the ceiling for general construction services is \$12.5 million over three years, with no single purchase order exceeding \$4 million (Section 13-1-154.1 NMSA 1978).

Vendors on the price agreement are vetted by an RFP process. However, these purchase orders come with no contract or closeout agreements. Although designed to expedite procurement, given current price volatility these ceilings may be too high. Because of the lack of guardrails, FMD requires quotes and a contract for projects it manages over \$300 thousand. To ensure projects are completed in a timely fashion, the agency reserves 5 percent of costs until closeout and recently added a provision for liquidated damages of \$1,500 per day. FMD also requires vendors to adhere to federal per diem rates, despite the higher rates in the state pricing agreement. Agencies that do not go through FMD may have fewer conditions.

Further, pricing for wages and per diems varies considerably across vendors. Approximately 70 vendors are listed in the current statewide pricing agreement for general construction services, and the range in pricing is large. For example, for six vendors based near Albuquerque and Santa Fe, the wage rate for “superintendent regular hours for projects over \$60 thousand requiring a wage decision” ranges from \$50 to \$130 per hour and the per diem with an overnight stay from \$125 to \$250 per day.

The LFC’s 2021 *Progress Report on Obtaining and Maximizing Value in State Procurement* found evidence GSD was artificially splitting projects to fit under the price agreement ceiling, and the State Purchasing Division was not reporting back to LFC on the use of price agreements. Given concerns about costs and lack of oversight for construction projects in the state, GSD should review use of the past and current state price agreements for professional services and general construction services and assess whether the ceiling is appropriate given current concerns about cost containment and lack of oversight for project delivery. The division should also consider restricting the variability in pricing in the next version of the agreements and limiting mileage and per diems to federal rates for all eligible entities. Because smaller agencies and some local entities may lack construction management expertise, the possibility of extending FMD’s jurisdiction to all state and public entities



should be studied further. With expanded resources, FMD could potentially provide technical assistance in procurement and project management services to nonexecutive agencies and local entities.

The state would benefit from a central reporting function, perhaps in the form of an annual common construction report card. In addition to reporting to their own agency heads and committee members, capital-appropriators and administrators, including GSD, PSFA, and the Department of Transportation², also report some information on construction projects to the LFC. LFC staff track several construction-related performance measures for FMD, including percentage of projects completed on time, through GSD’s quarterly report cards (see Appendix B). FMD also publishes a public-facing web portal that provides some information on state construction projects, such as total budget and project status. PSFA reports numerous General Appropriation Act performance measures, including timing for important milestones, average cost per square foot of new construction, and the statewide public school facility condition index. These measures provide useful information about agency performance but, if reported together, could serve as a barometer for how construction costs are managed across all divisions of state government. Notably, HED does not have any capital construction performance measures. It would also be useful for agencies to report on the outcomes of alternative delivery methods, such as design-build or CMAR.

Recommendations:

- GSD State Purchasing Division (SPD) should review use of the past and current state price agreements for general construction and general construction services and assess whether the ceiling is appropriate given current concerns about cost containment and lack of oversight for project delivery. The division should also consider restricting the variability in pricing in the next version of the agreements and consider limiting mileage and per diems to federal rates for all eligible entities.
- The Legislature could consider amending the Procurement Code to allow all state agencies and public entities to enter into CMAR contracts with appropriate guardrails to ensure the “at-risk” provisions are implemented.
- LFC might consider initiating an annual common construction report card for select agencies with a short list of common performance measures, both those with targets and explanatory measures. These measures could include:
 - Average cost per square foot for new construction, renovation, and demolition projects,
 - Average cost per square foot by delivery method,
 - Average time for project completion, and
 - Number of bidders over the past year for larger projects.

² The Department of Transportation was not included in this spotlight, which focuses on facilities construction not road construction; however, its performance measures should be included in any common report card.



If these measures are to be implemented via the General Appropriation Act, LFC and the Department of Finance and Administration would need to negotiate the common measures, which would be implemented in FY26 at the earliest. In the meantime, agencies could report voluntarily. This report card could also track changes in national price indices and New Mexico specific market trends that included private and federal construction. Tracking the following U.S. Bureau of Labor Statistics' producer price indices (PPI) as a part of the common construction report card would provide context on general changes in construction bid prices and materials:

- PPI for New School Building Construction (WPU801102),
- PPI for New Office Building Construction (WPU801103), and
- PPI for Net Inputs for Nonresidential Construction (WPUIP231200).



Education Capital Funding Should Link Goals to Facility Needs and Demographic Trends, Reward Efficiencies, and Promote Cost-Effectiveness

Given the magnitude of investment in educational capital projects (see Appendix C), the state needs to be strategic about how it invests money in educational facilities and where they are built. Prioritizing renovation, addressing deferred maintenance, and improving utilization of existing facilities are best practices that protect public investments and improve return on existing investments. Further, appropriators and administrators should adopt guidelines for making awards in times of escalating costs and address ongoing issues with cost-sharing between the state and educational and local entities.

Capital allocation processes for public schools and higher education institutions could be improved to reduce total construction costs and state spending.

Despite recent changes at PSFA and HED, shared financial responsibility (cost-sharing) remains problematic with few incentives to contain construction costs at the district or institutional level. Required matches can limit the number of projects and funding requests and incentivize cost containment. The match required for PSCOC-funded projects is determined by a formula that addresses the cost of the project and the district's ability to pay its share. The formula has been adjusted several times, most recently in 2023 to address high costs. New Mexico currently has a price match requirement for capital projects for two-year colleges in which 25 percent of the total cost of a project must be locally matched. Four-year institutions do not have any match requirement. This is due to the ability of two-year schools to generate funds through local general obligation bonds that are unavailable to four-year institutions. In some cases, four-year schools provide a partial local match, and sometimes they self-fund. Often, two-year institutions contribute a higher-than-required match.

The reduction in school match requirements and the implementation of a waiver have increased demand for PSCOC-funded projects at a time of highest costs. Laws 2023, Chapter 98 decreased the local match for projects by 33 percent for most school districts and 50 percent for micro-districts until FY26, with the possibility of a waiver. However, due to increased costs, many districts applying for PSCOC funds cannot afford even their reduced local match and are requesting waivers, which will increase the state's cost burden for school construction. In practice, the new waiver may have exacerbated the situation by increasing demand at a time of highest costs and lack of capacity of the market to meet demand.

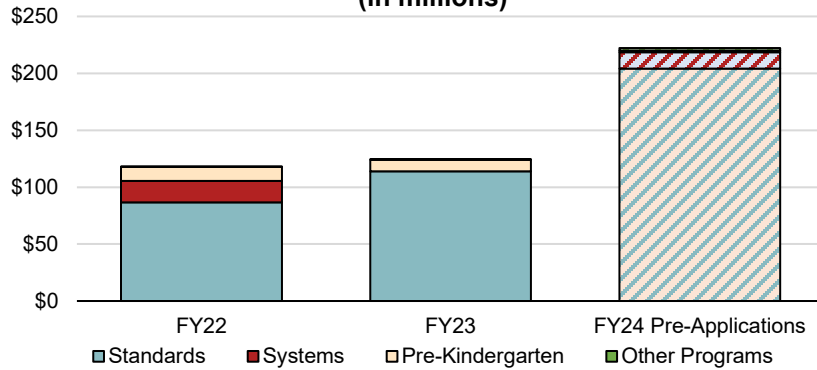
In late 2023, LFC staff made the following recommendations to the Legislature to best allocate capital spending amidst rising construction costs:

- Prioritize or restrict 2024 capital appropriations to complete existing projects,
- Prioritize emergency or critical infrastructure projects,
- Develop cost indices for different types of projects to guide how much the state will contribute,
- Adopt an earlier deadline for local capital outlay requests to vet projects sooner, and
- Consider long-term strategies, such as a permanent fund, to make revenue available for capital projects more predictable every year.

Source: LFC



Chart 10. Annual State Funding Awarded by/Requested from PSCOC (in millions)



Source: LESC and PSCOC Files

A 2019 comparative cost study of construction in Virginia school districts found that systems using prototype school designs generally see a reduction in architectural and engineering (A/E) fees by 10 to 25 percent. Though a small percentage of the total construction cost (0.5 to 1.5 percent), in one district the architectural costs for elementary schools made with a prototype were \$305 thousand to \$450 thousand less than non-prototype schools.

Source: OCMI

LFC and Legislative Education Study Committee analysts are considering whether the match formula should be modified to account for higher costs. Since the *Zuni* lawsuit over the appropriation of capital outlay funds to public schools, the responsibility for financing school construction in New Mexico has been split relatively equally between the state and local school districts. However, recent formula changes had shifted the share of funding to local schools, reaching an average 68 percent local match in FY23. The temporary legislative provisions in 2023 reduce the local share of funding by about one-third until FY26, providing an opportunity for the PSCOC to shoulder a larger share of costs as it decides on any potential adjustments. As the Legislature evaluates potential changes to the local-state match formula, the state should consider formula adjustments that account for market fluctuations and regional differences in construction costs and encourage efficient designs.

School districts could consider lower cost design and construction delivery techniques, as other states have done. California, which has a statutory property tax limitation, developed cost-containment guidelines for public school construction, which include using prototype designs. A comparative cost study of Virginia school districts found cost savings and other efficiencies for districts using prototype and off-the-shelf designs, with fewer change and contingency costs. Clark County School District in Nevada, which includes Las Vegas, has been building schools using design templates (prototypes) for more than 20 years and recently announced it was updating its elementary and middle school templates. The district reports, once they have worked out the issues in the first building, templates allow them to speed up the delivery process and save money. The templates are used for replacement schools and new schools to accommodate growth. The Washoe County School District also built a prototype elementary school, the first elementary school built in Reno in over 10 years, through a CMAR contract.

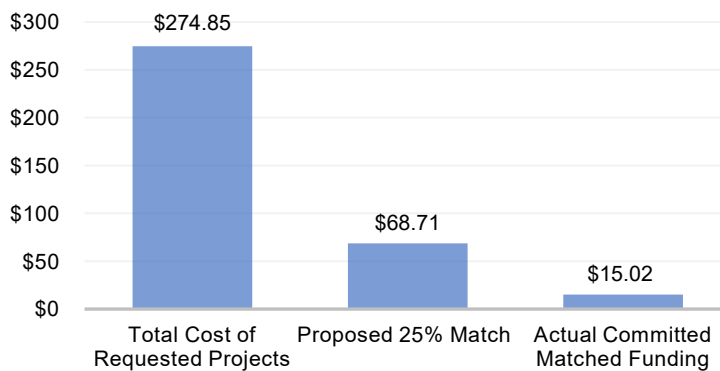
HED does not include match as a scoring criteria in its award rubric as Oregon does, nor does it require a match for four-year colleges and universities as do Missouri, Michigan, and Oregon. If four-year institutions contributed a 25 percent match for 2024 projects, about \$54 million more would be available to fund capital construction. Based on 2024 total project

requests of \$274.9, four-year institutions have committed only \$15 million (5.5 percent) in matching funds. For 2024, the two-year colleges have committed match funding of \$62.8 million, amounting to 58.3 percent of total requested awards. For 2023, a 25 percent match would have provided an additional \$10.1 million over the committed matching funds of \$2.5 million by four-year institutions. 2023, which was not a GO bond year, had a high number of infrastructure projects (23), and only two and six new construction and renovation projects respectively.

Oregon's Higher Education Coordinating Council (HECC) scores match highly. HECC "requires" a minimum match of 2 to 3 percent for the regional institutions but expects 15 to 20 percent of the project total for the flagship institutions. The regional and technical schools receive 10 points for a match of 5 percent or more; the larger institutions must exceed 25 percent to get 10 points.

Source: Oregon HECC

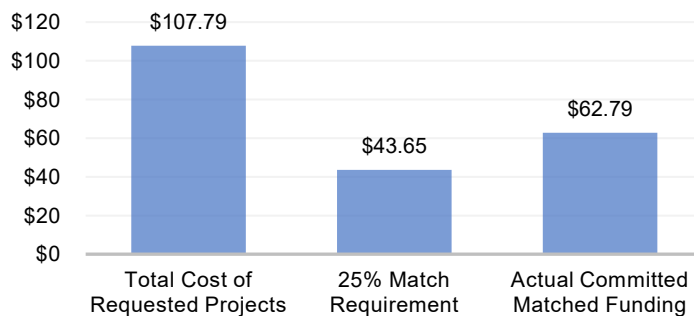
Chart 11: Projected 2024 Cost Matches for Four-Year Institution Projects (in millions)



Note: Does not include supplemental funds, includes all funds listed as committed match funding, regardless of source.

Source: 2023/FY25 LFC Capital Outlay Funding Recommendations

Chart 12: Projected 2024 Cost Matches for Two-Year Institution Capital Projects (in millions)



Note: Does not include supplemental funding

Source: 2023/FY25 LFC Capital Outlay Funding Recommendations

Other states, including Missouri and Michigan, require a price match for all higher education institutions. Missouri requires that universities secure 50 percent of the project's cost through private donations or grants, and Michigan requires community colleges have a 50 percent match and university projects have a 25 percent match. South Dakota incentivizes universities to invest in deferred maintenance or repurpose existing facilities by requiring universities to pay for any additional operating costs associated with increasing their footprint.

Source: LFC Files



The facility condition index (FCI) is a measure of the cost of repairing and maintaining a facility versus replacing it. A lower figure indicates a building in better condition.

$$FCI = \frac{\text{Repair Cost (\$)}}{\text{Replacement Cost (\$)}}$$

PSFA tracks and reports an average statewide FCI, which currently runs around 50 percent. HED does not report a statewide FCI or goal. Oregon’s goal for its statewide average FCI for colleges and universities is 10 percent.

Source: LFC files and HECC

PSFA tracks assets through its facilities assessment database (FAD) and prioritizes capital funding for standards- and systems-based projects, accounting for:

- Facility condition index,
- New Mexico educational adequacy standards,
- Deficiency categories and associated weight factors in the weighted New Mexico condition index,
- Other sources of data

Source: PSFA

Both two- and four-year institutions have enough capital funds to meet match requirements. In FY23, four-year institutions reported \$145 million in unrestricted capital outlay funds, while two-year institutions reported a total of \$428 million. Four-year institutions can also issue bonds against their revenues.

Both PSFA and HED would benefit from setting statewide goals for their facilities condition indices. Capital improvement and renewal are projects that address longstanding maintenance needs, replacement of either buildings or building systems that have served their useful life, and issues of obsolescence or functional suitability. The *Zuni* lawsuit initiated stronger and more equitable state responsibility for financing school construction but left determinations of educational adequacy in the hands of the Public School Capital Outlay Council (PSCOC). While the council has prioritized school replacement and renovations based on available revenues, school district readiness, and condition of educational spaces, PSCOC has never set an explicit goal for statewide facility conditions, although it reports statewide FCI in its General Appropriation Act measures. Setting a measurable target, such as a statewide facility condition index, would allow the state to set an appropriate replacement prioritization goal, pace the rollout of projects in a predictable manner, and track progress across its asset portfolio. Not having an established target increases the risk of inadvertently creating a large number of projects one year and very few the next.

HED’s Capital Outlay Division scores for facilities condition index (FCI) and deferred maintenance as reported in the narrative prepared by institutions for their project funding requests. However, it does not track and report on FCI across institutions. Further, based on LFC’s research, not all institutions determine or report an FCI in their five-year facility master plans.

New Mexico would benefit from a statewide strategic capital development plan for higher education institutions that matches facility needs with educational needs across the state.

Currently, major higher education capital projects in New Mexico are driven by priorities of individual institutions and not by a statewide strategy for educational offerings. Based on population and enrollment projections, future capital needs for educational facilities in New Mexico and many other states will not be driven by a need for more space to accommodate more students. A strategic capital development plan would allow appropriators and administrators to make strategic decisions about where to make investments and encourage institutions to coordinate their efforts.

One area of concern is the proliferation of specialty buildings for specialty educational programs, particularly in trades and professional programs. For example, the state recently funded building trades schools at the New Mexico Junior College in Hobbs and at Southeast New Mexico College, which are only about 70 miles apart. Hobbs Municipal Schools also built a new Career Technical Education Center. Central New Mexico Community College in Albuquerque is building a new trades building on its main campus and another in Rio Rancho in collaboration with the school district. The state currently has



15 construction trades programs, 14 of which are eligible for Workforce Innovation and Opportunity Act (WIOA) training funds, and four of which are registered apprenticeships. Despite this significant capacity statewide, there is no evidence for whether it is sufficient or if new facilities are even required. The Capital Outlay Committee also has received multiple nursing education facility proposals from a variety of institutions, some indicating they would serve very few students and one for a program at a school that does not yet have a program and has high online enrollment. These types of specialty buildings are high cost and difficult to repurpose. LFC Program Evaluation Unit staff are currently reviewing whether federal and state-funded workforce programs are meeting real occupational needs.

Table 8: Recent Higher Education Trade School Projects

Institution	Year	Project	HED Funding Request (in millions)	State Funding Amount or Recommendation (in millions)
CNM	FY25	Applied Technology Programs at Rio Rancho	\$22.6	\$0
CNM	FY24	Trades/Applied Technologies Facilities*	\$58.2	\$22.3
SENM	FY25	Trades x Technologies Building	\$40.0	\$5.0
NMJC	FY23	New Building for Vocational, Training, and Outreach Programs	\$6.0	\$2.1

*Note: The CNM Trades/Applied Technologies Facilities most recently received state funding in FY24 through a supplemental funding request.

Source: HED and LFC files

HED should consider analyzing the data collected over the past three years with its capital and asset tracking software with an eye to developing a strategic capital plan for the state. Although HED’s Capital Outlay Division has limited capacity to take on new duties, with only two FTE, the division has the foundation for a statewide capital development plan in its *2019 New Mexico Higher Education Capital Outlay Process Review*. With additional resources, it can build on the recommendations from that report to address statewide needs and goals. The primary recommendation of the report prepared by GHaubold Consulting was that HED adopt objective scoring criteria in determining project funding for institutions. In 2021, HED’s Capital Outlay Division instituted a scoring rubric for prioritizing capital construction projects based on statewide priorities, following Oregon, Texas, and California. The rubric has three major categories: project rationale and need, energy and sustainability, and stewardship.

HED purchased a software package, the capital funding request and management system (CFRMS), to allow staff and members of the Capital Outlay Committee to score and to track projects. The system generates a ranking of projects based on the rating scale. However, scores and accompanying comments are only shared internally with staff and Capital Outlay Committee members and are not available either to the institutions or the public. The resulting rankings generated by the software appear to be only loosely coupled to actual funding recommendations. The rankings still rely

Oregon developed a strategic capital development plan for its higher education institutions addressing four basic drivers: (a) capacity need; (b) facility quality; (c) campus infrastructure; and (d) special need (e.g., a shared performing arts facility).

The report’s major recommendation is to focus on investments related to improving the quality and suitability of existing facilities statewide due to findings of high inventory of existing buildings, low space utilization, projected enrollment declines, and aging infrastructure.

Source: Oregon HECC

The Capital Funding Request and Management System (CFRMS) serves as the web portal for colleges and universities, special schools, and tribal colleges and universities to submit their annual capital outlay funding requests as well as updates to their five-year capital plans, fall end-of-term student enrollment, and space inventory to HED. The information is stored in the CFRMS and serves as HED’s statewide database on higher education funding and facilities.

Source: HED website



heavily on individual institution rankings of projects in their five-year facilities master plans and funding requests that may not support statewide goals and may result in unnecessary construction to support programs and services that might benefit from collaborative delivery or location.

The Legislature eliminated building repair and renewal as a separate budgetary item for colleges and universities, but they still receive the money in addition to special allocations. In 2011, a rule change removed the building repair and renewal (BRR) line item (then 3 percent of I&G) from HED’s budget and rolled it into the base, allowing schools to use these funds at their discretion, rather than solely to address deferred maintenance. In 2022, HED received a one-time appropriation of \$8 million for BRR and, in 2023, an additional \$20 million in nonrecurring funding, which were divided up among the institutions. This intermingling of funding sources makes it difficult to track how much money schools are receiving for BRR funding. Colleges and universities are responsible for reporting on renewal and replacement spending in their annual report on actual spending, but it is unclear how much of that renewal and replacement spending is from state BRR funds versus internal transfers. According to the 2019 assessment report, BRR funding amounting to 1 percent of the campus replacement cost value is an accepted minimum for campus stewardship. It is unclear whether current state and institutional funding for BRR meets that benchmark.

Central New Mexico Community College’s 2019 master plan notes the average classroom on the main campus was only in use for 18.32 hours per week. Similarly, Oregon’s strategic capital development study found classrooms are scheduled an average of 24 hours per week. Statewide, the average student station was occupied on average 16 hours per week, less than their consultant’s recommended targets of 24 and 20 weekly hours for research and regional universities, respectively.

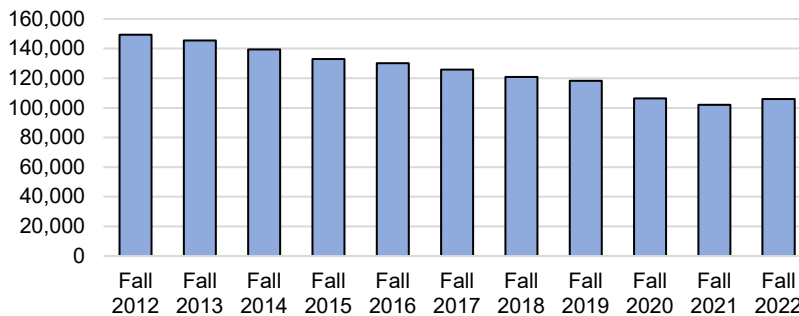
Source: CNM and Oregon HECC

Appropriators and administrators should require and fund facility space inventories and establish uniform utilization standards. Some higher education institutions’ five-year master plans report on classroom utilization both in terms of occupancy and number of hours utilized. Space utilization for colleges and universities is notably low nationwide with recommended targets for occupied student stations of 24 and 20 weekly hours for research and regional universities, respectively. Low utilization rates will be further compounded by the shift toward online learning—45 percent of higher education credit hours taken at New Mexico schools in the 2022-2023 academic year were taken online. The LFC Program Evaluation Unit plans to review the impact of online higher education on higher education building and future capital needs and will present a report on this topic in spring 2024.

Declining enrollments have raised concerns about building new facilities. The University of New Mexico’s Geospatial and Population Studies Program projects, due to declining birth rates and out-migration of young people, enrollments in public schools will remain flat or decline for the foreseeable future. Although in 2022 New Mexico higher education enrollment experienced an uptick after the enactment of the opportunity scholarship, higher education has experienced continuous enrollment declines for several years. Declining enrollment figures will affect space needs at higher education institutions, and HED should incorporate this into its capital outlay planning.



Chart 13. Student Headcount Enrolled at New Mexico HEIs



Note: Only includes state-funded nonspecial HEIs.

Source: LFC Analysis of HED Data

Recommendations:

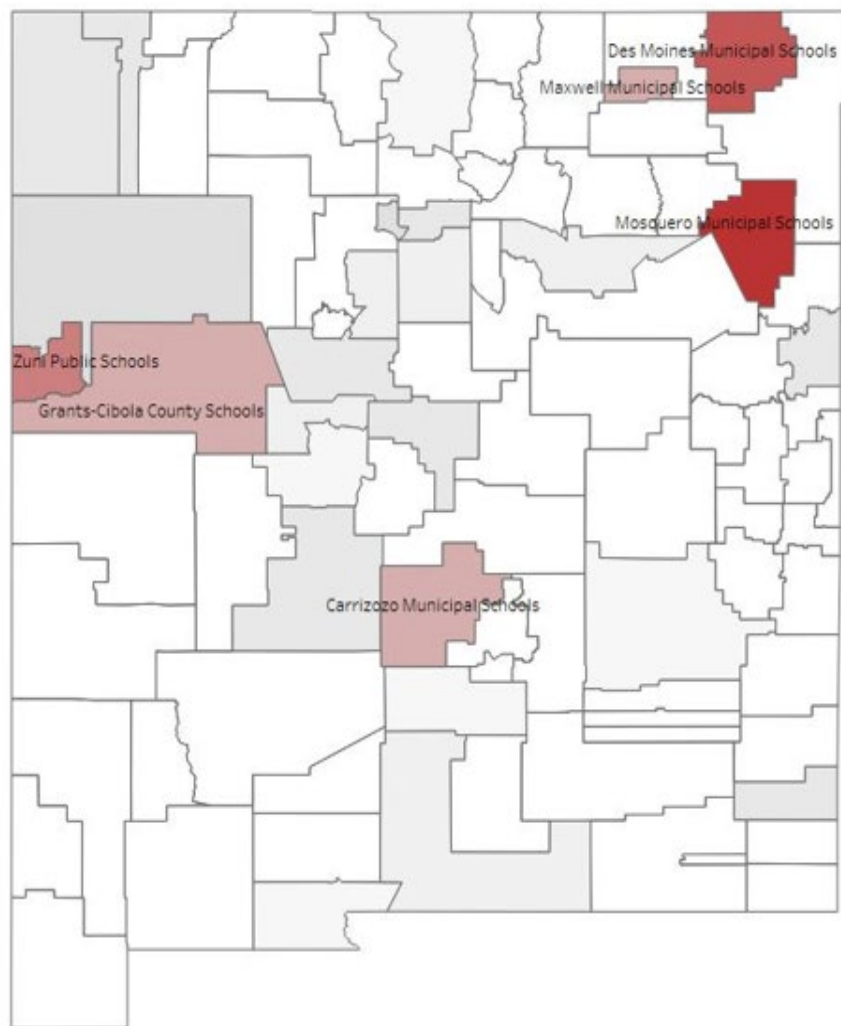
- As the Legislature evaluates potential changes to the local-state match formula for PSCOC awards, the state should consider formula adjustments that account for market fluctuations and regional differences in construction costs and encourage efficient designs.
- HED should include match as a scoring criteria in its award rubric, in addition to setting a minimum for local match amount for both four- and two-year institutions, as other states do.
- HED should consider implementing a phased funding model for major new construction for colleges and universities and require cost-sharing by institutions for both the design and construction phases. Such a change could reduce the time between appropriations and construction and allow the Legislature to consider requests that more realistically reflect the cost of construction.
- HED and PSFA should set a goal for statewide facilities condition indices and report to LFC for the common construction report card discussed in the previous section. LFC can help the agencies consider other performance measures for outcomes, including, for example, total local match or classroom utilization.
- HED should build on its 2019 facilities assessment report and develop a statewide strategic capital development plan for higher education institutions, tying facility needs statewide educational goals, student enrollment, and building maintenance needs.

APPENDICES

Appendix A: Distribution of Public-School Construction Costs

School districts located within the northwest and northeast regions of the state appear to have the highest school construction costs per square foot. Figure A1 shows the estimated total cost per square for recently completed, ongoing and planned school construction projects in 30 districts. Of the districts with the five highest costs per square foot, all five were in the northwest or northeast: Mosquero, Des Moines, Zuni, and Grants-Cibola. Carrizozo, the school district with the sixth highest reported cost per square foot, is not in the northeast or northwest region of the state but is in a rural area. Only 30 of the state's 125 school districts have recently completed, ongoing or planned state-funded school construction projects with PSCOC awards. Two other school districts, Santa Fe and Albuquerque, have self-financed school construction projects.

Figure A1. Rural School Districts Have Higher Construction Costs than Urban Districts



Source: IFC Files

Appendix B: Report Cards and Performance Measures for Capital Outlay Agencies



PERFORMANCE REPORT CARD

General Services Department
First Quarter, Fiscal Year 2024

Facilities Management Division

The Facilities Management Division (FMD) is responsible for maintaining 6.8 million square feet of state-owned and leased space. FMD reports only 70 percent of scheduled preventive maintenance activities were completed on time due to a lack of maintenance staff. On-time completion of capital projects also fell short of target.

The department reports 100 percent of office leases met adopted space standards; however, the department continues to exclude most new leases from this calculation. For example, in the first quarter, the department excluded all six of the new leases from space requirements, effectively rendering the performance metric meaningless. Four of six leases were excluded due to waivers and two leases were exempt from the space requirements. Routine exclusion of leases from the performance data negates the usefulness of this performance measure.

The state has yet to realize projected cost savings from the green energy initiatives, with the department reporting a loss of \$38.2 thousand in FY23. In August 2019, FMD began a \$32 million project to reduce energy use in state facilities, estimated to save at least \$1.4 million per year, with guaranteed savings of \$1.1 million. The department reports year-to-date excess energy costs of \$155 thousand. The state used nearly 1 million more kilowatt-hours (kWh) in the first quarter of FY24 than in the first quarter of FY23, from 3.8 million kWh to 4.8 million kWh.

Budget: \$19,550.7 FTE: 148	FY22 Actual	FY23 Actual	FY24 Target	FY24 Q1	FY24 Q2	FY24 Q3	Rating
Capital projects completed on schedule	93%	87%	90%	92%			G
Preventive maintenance completed on time	59%	70%	90%	59%			R
New office leases meeting space standards		Data Reporting Issues – See Narrative					R
Amount of utility savings resulting from green energy initiatives, in thousands*	\$85	-\$38.2		-\$155			R
Program Rating	R	R					Y

*Measure is classified as explanatory and does not have a target.

P940 PUBLIC SCHOOL FACILITIES

The purpose of the public school facilities oversight program is to oversee public school facilities in all eighty-nine school districts, ensuring correct and prudent planning, building and maintenance using state funds and ensuring adequacy of all facilities in accordance with public education department-approved educational programs.

Performance Measures:		2021-22 Actual	2022-23 Actual	2023-24 Budget	2024-25 Request	2024-25 Recomm
Output	Number of assessments performed on public school facilities year round			New	190	190
Outcome	Average number of months from substantial completion to financial closeout	18	20	18	Discont	Discont
Outcome	Number of current, up-to-date preventive maintenance plans			New	89	89
Explanatory	Average cost per square foot of new construction	\$329.50	\$632.60	N/A	N/A	N/A
Explanatory	Average megabits per second per student	3	1	N/A	Discont	Discont
Explanatory	Average number of months between initial award to occupancy	48	36	N/A	Discont	Discont
Explanatory	Average number of months from initial award to commencement of construction	36	15	N/A	Discont	Discont
Explanatory	Average square foot per student of elementary schools	192	230	N/A	N/A	N/A
Explanatory	Average square foot per student of high schools	264	387	N/A	N/A	N/A
Explanatory	Average square foot per student of middle schools	212	263	N/A	N/A	N/A
Explanatory	Average square foot per student of new construction, elementary schools		N/A	N/A	Discont	Discont
Explanatory	Average square foot per student of new construction, high schools		N/A	N/A	Discont	Discont
Explanatory	Average square foot per student of new construction, middle schools		N/A	N/A	Discont	Discont
Explanatory	Number of applications received for school facility funding throughout the year			N/A	N/A	New
Explanatory	Number of awards made for standards, systems, prekindergarten, facility master plans and lease assistance in the fiscal year		New	N/A	N/A	N/A
Explanatory	Number of change orders in current fiscal year		39	N/A	Discont	Discont
Explanatory	Number of public schools capital outlay council awarded projects managed by public school facilities authority regional project managers		28	N/A	N/A	N/A
Explanatory	Total annual dollar change from initial award state match estimate to actual award state match	\$10,399,888.00	\$41,000,000.00	N/A	N/A	N/A
* Explanatory	Statewide public school facility condition index measured on December 31 of prior calendar year	54	55	N/A	N/A	N/A
* Explanatory	Statewide public school facility maintenance assessment report score measured on December 31 of prior calendar year	72	72	N/A	N/A	N/A
Efficiency	Average number of months from project closeout to financial closeout			New	3	3

* - Recommended for General Appropriation Act

Appendix C: Capital Outlay High Level Recommendations for FY25



Capital Outlay High Level 2024 Appropriation Summary (in millions)

General Fund, General Obligation Bond & Other State Fund Uses			
Agency	Request	LFC Framework	Description
Administrative Office of the Courts	\$ 62.4	\$ 31.0	Magistrate courts construction and improvements
Aging and Long-Term Services Department	\$ 31.5	\$ 31.4	Senior center GOB package and emergency senior center funds
Corrections Department / GSD	\$ 80.2	\$ 10.0	NMCD master plan and statewide repairs, renovation and upgrades
New Mexico Department of Agriculture	\$ 7.0	\$ 7.0	Supplemental funds for final phase of NMDA facility in Las Cruces
Department of Finance and Administration	\$ 40.0	\$ 15.0	Emergency local capital projects statewide and acequia improvements
Department of Health / GSD	\$ 67.5	\$ 40.0	NMBHI forensics unit
Department of Information and Technology	\$ 26.5	\$ 26.5	P25 public safety radio communications systems
Economic Development Department	\$ 10.0	\$ 10.0	Main Street Capital Outlay Fund
Energy, Minerals & Natural Resources Department	\$ 30.0	\$ 10.0	Hotshot crew facilities
Energy, Minerals & Natural Resources Department	\$ 10.0	\$ 13.0	State parks restoration and infrastructure
General Services Department	\$ 34.0	\$ 34.0	Purchase Northeast New Mexico Correctional Facility
New Mexico State Fair	\$ 18.7	\$ 13.5	Infrastructure and facility improvements and site master plan
Central New Mexico Community College	\$ 10.0	\$ 10.0	New FUSE Makerspace on CNM campus - 50% match
Eastern New Mexico University	\$ 12.0	\$ 12.0	Supplemental funds for new Student Academic Services facility
New Mexico Institute of Mining and Technology	\$ 8.5	\$ 8.5	Phase 2 of new Petroleum Recovery Research Center (Kelly Hall)
University of New Mexico	\$ 110.0	\$ 57.0	Humanities and Social Science Complex
New Mexico State University	\$ 20.0	\$ 20.0	Critical electrical and steam infrastructure upgrades
New Mexico State University	\$ 25.0	\$ 15.0	Ag science center and experiment stations improvements
State Agency, Judiciary, Higher Education General Fund Subtotal	\$ 1,088.5	\$ 409.5	See Executive Agency Spreadsheet
Other State Funds Projects Subtotal		\$ 90.0	See Executive Agency Spreadsheet
Higher Education Subtotal	\$ 701.4	\$ 219.4	LFC framework amount is GOB. See Higher Education Spreadsheet
Senior Center General Obligation Bonds Subtotal	\$ 30.5	\$ 30.5	See ALTSD attachment
Libraries General Obligation Bonds Subtotal	\$ 19.0	\$ 19.0	See Higher Education Insitution Spreadsheet
Total LFC Statewide Framework	\$ 1,839.4	\$ 768.4	Includes all funding sources - GF, GOB, OSF
Severance Tax Bond and General Obligation Bond Sources & Uses - Dec. 2023 Estimate			
	Sources	Uses	
Senior Severance Tax Bonds	\$ 666.5		
Senior Severance Tax Notes	\$ 718.2		
Supplemental Severance Tax Notes	\$ 757.0		
General Obligation Bonds	\$ 297.4		
Total Bonding Capacity	\$ 2,439.1		
9% of Senior STB for Water Projects		\$ 124.6	
4.5% of Senior STB for Colonias Projects		\$ 62.3	
4.5% of Senior STB for Tribal Projects		\$ 62.3	
2.5% of Senior STB for Housing		\$ 34.6	
New Senior STB Capacity for Statewide Projects		\$ 1,093.10	General fund capital outlay scenario would allow this funding to flow to the severance tax permanent fund to increase future recurring revenue
PSCOC Public School Capital		\$ 757.0	New capacity available for the Public School Capital Outlay Fund
Other Revenue Sources & Uses			
	Sources	Uses	
Public Project Revolving Fund	\$ 13.0		Up to 35% of FY23 GGRT receipts may be appropriated to certain identified funds by the Legislature after bondholders are paid.
Drinking Water State Revolving Fund		\$ 6.0	
Local Government Planning Fund		\$ 2.0	
Cultural Affairs Facilities Infrastructure Fund		\$ 5.0	
Total Sources	\$ 13.0		
Total Uses		\$ 13.0	

Appendix D: Construction Industries Division FY25 Performance Measures

The purpose of the construction industries program is to provide code compliance oversight; issue licenses, permits and citations; perform inspections; administer exams; process complaints; and enforce laws, rules and regulations relating to general construction standards to industry professionals.

PERFORMANCE MEASURES

		FY22 Actual	FY23 Actual	FY24 Budget	FY25 Request	FY25 Recomm
Output	Time to final action for Criminal complaints.	0.0	NEW	0.0	NEW	0.0
Output	Time to final criminal action, referral or dismissal of complaint, in months	N/A	N/A	N/A	N/A	N/A
Output	Time to final criminal action, referral or dismissal of complaint, in months.	N/A	N/A	N/A	N/A	N/A
Efficiency	Percent of all installation of manufactured home inspections performed within seven days of request	80%	Discontinued	95%	Discontinued	100%
* Outcome	Percent of commercial plans reviewed within ten working days	90%	93%	92%	95%	95%
* Outcome	Percent of residential plans reviewed within five working days	80%	90%	95%	95%	99%
Efficiency	Percent of all construction inspections performed within three days of inspection request	75%	NEW	95%	NEW	99%
* Output	Time to final civil action, referral or dismissal of complaint, in months	8.0	NEW	8.0	NEW	0.0

