

Guidelines for Funding Local Capital Projects

State aid through capital outlay has been a critical source of funding for local infrastructure projects. However, the process can be cumbersome and lengthy and can result in incomplete projects and unspent proceeds.

In 2016, staff of the Legislative Finance Committee collaborated with the executive directors of the Association of Counties, the New Mexico Municipal League, and the Department of Finance and Administration to develop guidelines for prioritization and management of projects. The goal of the guidelines is to assist legislators and political subdivisions in their decision-making process when determining local project needs while at the same time preserving legislators' options to select and prioritize projects within their districts. The Legislative Council Service assisted in the process by providing technical support and explanation of the bill preparation process.

Proposed Guidelines

- Demonstrate project will reduce potential or actual health and safety hazards and liability issues or will provide sustainable infrastructure for community needs.
- Demonstrate all necessary plans, funds, and resources will be in place to begin a project within a reasonable timeframe (12 to 18 months) following enactment of the capital bill. **Note:** As statutorily required, if projects funded by severance tax bonds are not certified as ready to begin within two years, legislative authorization will automatically expire.
- Require grantees to justify outstanding projects with no activity or expenditures to determine if the projects need additional funding to complete, or if funds should be reauthorized for a different purpose.
- Leverage state funds with local, federal or other sources when possible to fully fund a complete project or usable phase. Consider that even minimal local contribution is known to improve project completion and success.
- Entities receiving capital outlay must be compliant with the State Audit Act and Executive Order 2013-006.
- Combining legislator funding to complete large regional projects is encouraged.
- Fund projects listed in Local Infrastructure Capital Improvement Plans (ICIP). All projects should be planned and prioritized to match demand for funds with supply of funds and to best utilize all funding sources available.
- Before a project is funded, the grantee should be consulted to ensure the project is a local priority and the operational and maintenance costs can be adequately addressed.
- Establish a \$50 thousand minimum level for projects funded from STB, unless a lesser amount is needed to complete a project. Larger projects are more likely to realize savings to state and local governments, reduce future year operating expenditures, provide for

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completion of projects in a timely manner, and streamline state and local administrative efforts.

- Severance tax bond projects, after authorized, must meet expenditure timelines required by the Internal Revenue Service Code of 1986. Confirm that the project will be able to encumber 5 percent of funds within six months of bond issuance and expend 85 percent of funds within three years of bond issuance.
- Water projects should be funded using criteria established by existing state programs such as: Safe Drinking Water Act of 1974, Clean Water Act of 1977, and Water Project Finance Act.
- Funding for economic development purposes pursuant to the Local Economic Development Act (LEDA) requires special project documentation. The Legislative Council Service requires that the project participation agreement accompany the request for drafting.
- Non-Governmental Funding: If a capital request is from a non-governmental entity (non-profit or private), require requestor to obtain prior written confirmation from an eligible political subdivision agreeing they will own the capital asset and are willing and able to enter into a lease or operating agreement to comply with the Anti-Donation Clause of the New Mexico Constitution. The State Board of Finance will not issue bonds until the project demonstrates anti-donation compliance.