

Challenges in Financing Community Water and Wastewater Infrastructure Projects



Figure 1: Tanks used to store hauled water are a common site in many parts of rural New Mexico that lack infrastructure. Photo by John Fleck

An influx of state and federal dollars has created a historic opportunity for New Mexico's 570 Community Drinking Water Systems and 58 Tribal Drinking Water Systems, as well as for large and small community wastewater treatment facilities and local stormwater management improvements. But obstacles stand in the way of connecting that funding with communities that need it.

The Problem

- At least \$3.5 billion in water infrastructure project needs¹
- Available funding programs and policies cause or exacerbate project delays
- Needs disproportionately concentrated in small communities^{2 7}
- Native Americans homes 19 times more likely than non-Native homes to lack indoor plumbing³
- Inadequate infrastructure is tied to:⁴
 - Groundwater and surface water pollution
 - Public health risks from contaminated drinking water
 - Stunted economic growth at the local level

Known Obstacles

- Programs and funding sources scattered across nine state programs in three agencies
- Structure and process of state grant programs creates disincentive for pursuit of federal money and loan programs and results in piecemeal funding⁵
- Lack of capital outlay project vetting/criteria creates risk of project delay or failure⁵
- Small community lack of capacity to plan projects, apply for money, and see projects through to completion⁶

¹ 2018 New Mexico State Water Plan

² EPA 6th Drinking Water Infrastructure Needs Assessment

³ Universal Access to Clean Water For Tribal Communities Project, 2022

⁴ Things Local Officials Should Know about Sustainable Water Infrastructure, EPA

⁵ State-Funded Water Projects, Legislative Finance Committee Report #21-02

⁶ Infrastructure Funding for Community Water Systems in New Mexico, Including Tribal Community Systems. Southwest Environmental Finance Center, 2022

In large areas of rural New Mexico, from one sixth to one quarter of residents live in communities with substandard water and wastewater infrastructure. The problem is especially acute in Northwest New Mexico, a region that includes large areas of the Navajo Nation.⁷

Connecting funding for water projects in New Mexico to critical needs, and then efficiently spending money that is allocated, has been a chronic problem for decades. In 2014, for example, a legislative finance committee (LFC) review found just 10 percent of the money spent on a sampling of state-funded local water projects resulted in successful outcomes, a report echoing similar findings dating to at least the 1990s.⁸

In a 2021 report, the LFC concluded the state’s water financing system is “fragmented and lacks a consistent strategy or goal, with at least 10 programs across four state agencies plus the Legislature offering grants and loans for water projects.”⁵ The tangle of programs poses a challenge to small communities that lack the human capacity to sort out which programs might be able to meet their needs, and then to do the necessary planning work to develop proposals and manage the process of moving from project need to pipes in the ground, according to an analysis by the University of New Mexico’s Southwest Environmental Finance Center.⁶

New Mexico’s system also creates disincentives for communities to pursue available federal funding, with the result that the state routinely leaves federal money sitting on the table unspent.⁵ This poses an obstacle to accessing an additional \$355 million in water project money slated for New Mexico over the next five years, flowing from the 2021 bipartisan infrastructure law.⁹

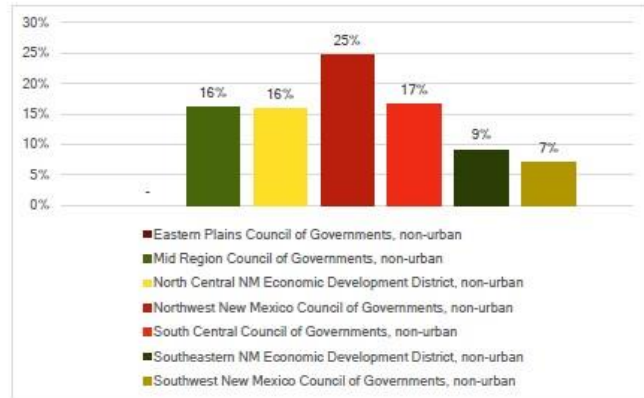


Figure 2: Percent of non-urban households in communities with substandard water infrastructure

⁷ Rural Infrastructure Study, 2021, conducted for New Mexico Legislative Counsel Service

⁸ Capital Outlay: Review of Selected Water Projects, Report #14-12

⁹ “The Infrastructure Investment and Jobs Act will Deliver For New Mexico,” White House fact sheet, undated