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F I S C A L   I M P A C T   R E P O R T

BILL NUMBER: House Bill 247

SHORT TITLE: Capital Outlay Changes

SPONSOR: Lente

LAST UPDATE: **2/5/2026** **ORIGINAL DATE:** 2/3/26 **ANALYST:** Carswell

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
Capital Outlay Reversions	$750.2 to $3,001.2	$12,110.3 to $48,4412.0	$8,812.8 to $35,251.0	$7,132.6 to $28,530.5	Indeterminate	Nonrecurring	Capital Development and Reserve Fund
Capital Outlay Reversions	Indeterminate but potentially negative, see "Fiscal implications"					Nonrecurring	General Fund

Parentheses indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

Relates to House Bill 109, House Bill 2, capital outlay bills

Sources of Information

LFC Files

<u>Agency or Agencies Providing Analysis</u>
New Mexico Finance Authority
Higher Education Department

<u>Agency or Agencies That Were Asked for Analysis but did not Respond</u>
Department of Finance and Administration
New Mexico Counties
New Mexico Municipal League

SUMMARY

Synopsis of House Bill 247

House Bill 247 (HB247) establishes limitations on reauthorizations and new appropriations for capital outlay projects and provides for unexpended balances from general fund capital outlay appropriations to revert to the capital development and reserve fund. The bill limits reauthorizations of capital appropriations from occurring more than once to extend time, prohibits the time for expenditure from being extended for more than two years, and prohibits reauthorizations that change the purpose of a capital appropriation, while continuing to allow for reauthorizations that make technical changes to original appropriations. The bill further establishes that at least ten percent of the initial appropriation must be encumbered by January 1 of the year in which reauthorization is requested for a capital outlay project to be eligible for reauthorization.

The bill limits eligibility for new capital appropriations, requiring projects to appear on an infrastructure capital improvement plan to receive capital appropriations of $100 thousand or more. Additionally, the bill prohibits political subdivisions from individually requesting funding for certain water and wastewater projects through the Legislature's capital outlay process. Instead, the bill specifies political subdivisions shall submit requests for those projects to state agencies and instrumentalities that administer grant and loan programs to support those projects. The agencies and instrumentalities may request supplemental capital outlay funding for their programs from statewide capital outlay as needed through an infrastructural capital improvement plan.

The bill specifies that unexpended balances of general fund capital outlay appropriations shall revert to the capital development and reserve fund starting in FY26, except for tribal projects, and revises past session laws governing general fund capital outlay reversions accordingly. Existing law already sends general fund reversions from capital outlay appropriations for tribal projects to the tribal infrastructure project fund.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, which is May 20, 2026.

FISCAL IMPLICATIONS

The direct fiscal impacts of HB247 relate to the provision that would send reversions from general fund capital outlay appropriations to the capital development and reserve fund starting in FY26. LFC estimated the potential benefit to the reserve fund using historical reversion rates compiled by the Department of Finance and Administration in fall 2025. DFA found approximately 1 percent of severance tax bond and general obligation bond appropriations reverted between 2019 and 2025 and 4 percent of general fund capital outlay appropriations reverted between 2020 and 2025. This analysis assumes general fund capital outlay appropriations will revert at a rate between 1 percent and 4 percent starting in 2026, increasing revenue to the capital development and reserve fund. Existing law already sends reversions from general fund capital outlay appropriations for projects on tribal land to the tribal infrastructure fund; this bill does not supersede existing law and would thus only impact appropriations to non-tribal communities.

Additionally, while sending capital outlay reversions to the capital development and reserve fund could negatively impact the general fund, where those funds may otherwise revert, the Consensus Revenue Estimating Group expects reversions to the general fund to continue to hit an existing statutory cap and, therefore, does not include potential capital outlay reversions in its long-term revenue estimates. As a result, the change would not have a negative impact on current general fund revenue expectations.

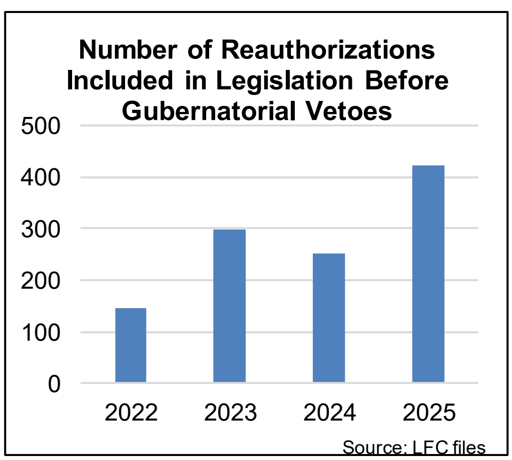
The limitations placed on reauthorizations by the bill could have the effect of increasing reversions, at least temporarily, which may increase revenues to the capital development and reserve fund. However, those effects are uncertain.

SIGNIFICANT ISSUES

The state has invested billions of dollars in recent years in infrastructure projects to deliver essential public services, support economic development, and improve quality of life. However, the scale of financial investment has not necessarily enabled the state to complete high-priority, large projects, particularly at the local level. Instead, funding has been spread thinly across thousands of small projects with more marginal public benefits, and the state continues to face significant challenges in using capital appropriations effectively, including piecemeal funding, insufficient planning, ineffective prioritization, and limited capacity in the public and private sector to take on new projects. These issues have contributed to the growth of unspent capital outlay balances, which topped $7 billion across some 6,000 active projects at the end of FY25.

The eligibility requirements included in the bill to receive capital appropriations and the limitations on extending time to expend those funds through reauthorization are intended to incentivize capital outlay recipients to improve project readiness and prioritization before seeking funding, addressing some of the chronic issues that have inhibited effective use of capital outlay for decades.

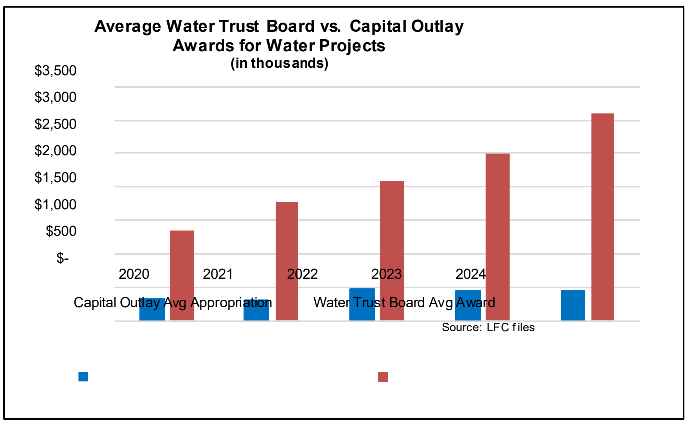
Reauthorizations. Reauthorizations have increased in volume significantly in recent years, with the vast majority reauthorized to extend time beyond the standard two years for equipment purchases and four years for construction. Currently, capital outlay appropriations may be reauthorized to extend the time grantees have to expend funds, to change the purpose of the appropriation, to expand the purpose, or to make technical changes to appropriation language. There are no formal limits on how many time extensions may be granted nor any criteria projects must meet to be eligible for reauthorization. In most circumstances, well-planned projects that are ready to proceed should not require more than four years to expend grants. The lack of limits on reauthorizations provides little incentive to grantees to sufficiently develop projects before requesting funding or to effectively prioritize requests.



Water Projects. The limitations on capital outlay for certain water projects included in the bill build on the Legislature's recent work to incentivize communities to seek funding for these projects through other state programs before seeking capital outlay. The state has numerous grant and loan programs that support the same types of local projects commonly funded through capital outlay. LFC program evaluations consistently demonstrate these programs have better outcomes than capital outlay in terms of supporting project completion, usually due to criteria-based application and vetting systems that verify project readiness and ensure awards levels are sufficient to complete projects or functional phases.

In 2025, an estimated $72 million in local capital outlay was appropriated for water and wastewater systems for projects with total reported costs of roughly $1 billion and for which $225 million was requested. The appropriations represented 32 percent of the requests for those projects and less than 10 percent of the total project costs.

It is particularly important for the state to be strategic about prioritizing its investment in critical infrastructure through programs that demonstrate superior performance. These programs include grant and loan programs for water and wastewater systems, such as the Water Trust Board, which provides significantly larger awards to projects than capital outlay.



For several years, the Legislature has directed large special appropriations to the water trust fund and water project fund to significantly increase the capacity of the Water Trust Board to support projects. The goal of the provisions in the bill relating to water and wastewater projects is to incentivize participation in this and other grant and loan programs and to use capital outlay to supplement rather than to supplant these funds. The bill would allow the agencies that administer grant and loan programs for water projects to request supplemental funding through the statewide capital outlay process when resources fall short of need, providing a formal avenue for the Legislature to continue to direct additional funding to these critical projects.

Analysis submitted by NMFA indicates the authority would expect a significant increase in demand for Water Trust Board funding if capital outlay for these projects were constrained, requiring additional nonrecurring appropriations to close funding gaps. The provision of the bill providing for requests for supplemental funding to occur through the statewide capital outlay process creates a formal mechanism for the Legislature to consider such supplemental funding. HB247 could also increase NMFA's administrative workload for the program by increasing the volume of applications.

Reversions. The provisions in the bill directing reversions from general fund capital outlay appropriations to the capital development and reserve fund would support the Legislature's recent efforts to finance the state's capital program with more cash and less debt and to diversify revenues for the capital program, which is highly dependent on oil and gas. The capital development and reserve fund was created by the Legislature in 2024 to advance those goals. The fund makes annual distributions to the capital development program fund, which provides cash financing for capital projects and, over time, will partially replace severance taxes as a revenue source for capital outlay.

ADMINISTRATIVE IMPLICATIONS

The bill is likely to increase demand for funding from the Water Trust Board, which has already significantly increased the number of projects and total funding it has awarded in recent years due to increases in revenues earmarked from severance tax bonds, as well as large special appropriations from the Legislature. Given that, the Legislature may want to consider measures that could improve the efficiency of the board's process and the quality of its services to communities.

One such measure is House Bill 109, endorsed by the New Mexico Finance Authority Oversight Committee, suspending legislative authorization of Water Trust Board projects. No other earmark program, including the colonias infrastructure fund, which is also administered by NFMA, has such a requirement. Legislative authorization increases the length of the award process by roughly six months, according to NMFA, limits the board's flexibility to address emergent and urgent needs, and limits the agency's ability to tailor its application process for different system types – by providing a separate application track with enhanced technical assistance for small systems, for instance. Suspending legislative authorization would allow NMFA to address these issues and increase access to Water Trust Board funds and would be a significant benefit to communities seeking funding for water and wastewater system improvements.

In analysis submitted for HB109, NMFA noted HB247 does not tie its limitations on capital outlay for water projects to the time period for which HB109 would suspend legislative authorization and suggests it could do so.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to the House Appropriations and Finance Committee substitute for House Bills 2 and 3 (General Appropriation Act), which includes a $100 million fund transfer to the water project fund to increase the capacity of the Water Trust Board to fund additional projects. The fund transfer is contingent on enactment of HB109.

Relates to House Bill 109, which would suspend legislative authorization of Water Trust Board projects through 2028.

Relates to the capital outlay and reauthorization bills.

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