FISCAL IMPACT REPORT

BILL NUMBER: Senate Bill 132/SRCS

SHORT TITLE: DoIT Software Replacement Plan & Funding

SPONSOR: Senate Rules Committee

LAST UPDATE: ______ **ORIGINAL DATE:** 2/5/26 **ANALYST:** Hilla

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
DoIT Rates	No fiscal impact	No fiscal impact	Indeterminate but positive	Indeterminate but positive	Indeterminate but positive	Recurring	Equipment Replacement Revolving Fund
DoIT Rates	No fiscal impact	No fiscal impact	Indeterminate but negative	Indeterminate but negative	Indeterminate but negative	Recurring	General Fund

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

Sources of Information

LFC Files

Agency or Agencies Providing Analysis
Department of Information Technology
Cybersecurity Office

SUMMARY

Synopsis of the Senate Rules Committee Substitute of Senate Bill 132

The Senate Rules Committee Substitute of Senate Bill 132/SRCS (SB132/SRCS) amends the Department of Information Technology (DoIT) Act to add that the department may use its equipment replacement revolving fund for software purchases, in addition to hardware and capital equipment that DoIT currently uses the fund for. The substitute gets rid of Section D. of Section 9-27-11 NMSA 1978, which states that DoIT may make initial transfers from its operating funds to establish the beginning fund balances as of July 1, 2008.

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

Under the DoIT Act, a rate committee establishes the rate and fee schedules that are then billed to state agencies for the use of IT and communication services, as well as the statewide human resource, accounting, and management reporting system (SHARE). The rate committee follows federal guidelines, which bases rates of recovery of its direct and indirect costs, including depreciation and amortization of equipment involved in providing DoIT services. Including depreciation expenses allows the department to replace equipment that is end-of-life.

The revenue generated recovers DoIT's costs and funds the replacement of IT assets. The rate committee meets in July every year, and the rates approved by the rate committee get sent to state agencies for them to prepare their budget requests for the next fiscal year. The rate committee has already established rates for FY27, which do not include software as a service. The impact of SB132, if passed, will not have an impact on DoIT's equipment replacement revolving fund until FY28 when software as a service would be able to be included in the established rates.

It is important to note that while the rate committee establishes rates, not all state agencies request increases to their operating budget to cover the increased rates. If state agencies do request DoIT rate increases, the Legislature does not always increase agency operating budgets to accommodate increased DoIT rates, so the revenue DoIT receives year over year is difficult to calculate. Additionally, certain rates are calculated by the number of users of a service, or the number of employees. Since state agency employment varies through each fiscal year, that is another impact on the revenue. With these considerations, this analysis assumes that despite these varying factors, the impact on the equipment replacement revolving fund will ultimately be positive starting in FY28 as the services DoIT could charge for would expand. DoIT noted in its FY27 budget request concerns with the fund due to a decrease in service utilization as most technological needs are shifting to a subscription-based licensing model, which SB132 address by expanding the use of the fund for software.

However, while SB132 is assumed to have a positive impact on DoIT's fund balance, this analysis assumes an equal proportion of impact on the state's general fund as negative. Because most state agencies' operating budgets are sourced from general fund revenue, expanding DoIT's rates inevitably impacts the general fund as agencies will need to increase their operating budgets using this revenue source to cover the new DoIT software rates.

SIGNIFICANT ISSUES

An example of expanding software to be covered by the fund is Microsoft Office 365. DoIT paid for the state's upgrade of Microsoft Office 365 license, a software as a service (SaaS) product, through the equipment replacement revolving fund. While DoIT currently charges a rate for Microsoft Office 365, SB132 would allow the rate committee to establish additional rates to cover future license and upgrade costs.

As DoIT notes in its analysis, SaaS are applications that are made available to users over the internet, as opposed to installing software on individual computers. SaaS allows for faster updates and security patching and overall reduces IT costs since SaaS is not tied to physical pieces of hardware. Since SaaS is hosted in the cloud and is updated automatically, this provides for a greater level of cybersecurity. Most state systems are moving to the cloud, such as SHARE, which moved January 2026. Should SB132 pass, DoIT would be able to charge state agencies and local public bodies to use Microsoft Office, if approved by the rate committee.

DoIT already provides SaaS, and this bill would allow the department to modernize its business practices and allow for the revenue to continue the levels of service it already provides.

In current statute and maintained by SB132, DoIT establishes and maintains an equipment replacement plan for its enterprise functions, which includes the expenditure of capital investments for goods and services provided to the state, including other state agencies and local public bodies. No later than September 1st each year, DoIT must submit its plans on the use of the fund to the Legislative Finance Committee and the Department of Finance and Administration with a reconciliation report included containing the prior fiscal year financial activity of the fund. If passed, DoIT will include SaaS as part of the plan starting September 2026.

The Cybersecurity Office notes that the inclusion of software subscriptions raises issues related to appropriate accounting standards, projection methodologies, audit and compliance frameworks, including applicable federal cost recovery regulations. The office adds that as most enterprise software acquisitions are migrating to an annual subscription model, it might be more difficult to for the rate committee to accurately anticipate long-term costs and rates.

In its FY27 budget request, DoIT requested an overall 13.4 percent decrease in the use of the equipment replacement revolving fund. Both the LFC and Executive recommendations support the decrease in the use of the fund, which has been adopted by the House Appropriations and Finance Committee. For FY26, the department projected $10.4 million for rates for SHARE, but actual revenue realized was $9.9 million.

ADMINISTRATIVE IMPLICATIONS

DoIT notes that SaaS reduces overall burden on IT teams for maintenance and troubleshooting. Software services eliminate the need for local servers, which can improve overall system efficiency.

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