

LFC Requester: \_\_\_\_\_

**AGENCY BILL ANALYSIS - 2026 REGULAR SESSION**  
**WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO**  
[AgencyAnalysis.nmlegis.gov](http://AgencyAnalysis.nmlegis.gov) and email to [billanalysis@dfa.nm.gov](mailto:billanalysis@dfa.nm.gov)  
*(Analysis must be uploaded as a PDF)*

**SECTION I: GENERAL INFORMATION**

*{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}*

**Date Prepared:** 2/1/2026 *Check all that apply:*  
**Bill Number:** H247 Original  Correction   
 Amendment  Substitute

**Sponsor:** Rep. Lente **Agency Name and Code Number:** DFA-341  
**Short Title:** CAPITAL OUTLAY CHANGES **Person Writing Analysis:** Wesley Billingsley  
**Phone:** 505-819-1915 **Email:** Wesley.billingsley@dfa.nm.gov

**SECTION II: FISCAL IMPACT**

**APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY26	FY27		

**REVENUE (dollars in thousands)**

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY26	FY27	FY28		

(Parenthesis ( ) indicate revenue decreases)

**ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)**

	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>						

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:  
Duplicates/Relates to Appropriation in the General Appropriation Act

### **SECTION III: NARRATIVE**

#### **BILL SUMMARY**

##### Synopsis:

House Bill 247 (HB247) introduces stricter rules for capital outlay projects to promote accountability, proper use of funds, and the prompt return of unused balances to designated funds. It highlights the significance of infrastructure planning and restricts reauthorizations and appropriations to uphold fiscal discipline. Furthermore, it directs water-related project funding requests to the relevant state agencies rather than to the legislature. These provisions take effect for appropriations made on or after January 1, 2027.

##### Key Provisions:

- Capital Outlay Projects - Reauthorizations and Appropriations:
  - Limitations (Capital outlay projects cannot be reauthorized or reappropriated):
    - More than once.
    - For a period exceeding two years.
    - Unless at least 10% of the initial appropriation is encumbered by January 1 of the year, as determined by the Department of Finance and Administration.
  - Technical Changes: Reauthorizations or reappropriations for technical changes are permitted but must not alter the project's original purpose. These are exempt from the 10% encumbrance requirement.
    - Definitions:
      - Encumbrance: Includes direct project costs but excludes administrative fees charged by fiscal agents.
      - Purpose: Refers to the functionality, use, primary objective, or the type of project or asset.
      - Technical Change: Minor corrections or adjustments that do not change the project's original purpose.
  - Infrastructure Capital Improvement Plan: Projects costing \$100,000 or more must be included in an infrastructure capital improvement plan.
  - Reversions: General fund capital outlay appropriations revert to the Capital Development and Reserve Fund, except for tribal projects, which revert to the Tribal Infrastructure Project Fund.
- Capital Outlay for Water Projects:

- Political subdivisions cannot request funding for drinking water, wastewater, stormwater, or dam projects through the legislature's capital outlay process.
- State agencies may request supplemental capital outlay funding through an infrastructure capital improvement plan.
- Amendments to Prior Laws:
  - Reversions: Unexpended balances of general fund appropriations revert to the general fund or designated funds (Capital Development and Reserve Fund or Tribal Infrastructure Project Fund) based on specific timelines:
    - Projects with less than 5% of funds encumbered revert by September 30 following the fiscal year.
    - Appropriations for vehicles, equipment, or furniture revert by the end of the fiscal year two years after the appropriation.
    - Appropriations for inclusive construction or renovation projects revert by the end of the fiscal year four years after the appropriation.
    - Other projects revert within six months of completion but no later than the end of the fiscal year four years after the appropriation.
    - Agencies must certify the need for appropriations by specific deadlines, or the authorization for the project becomes void.
    - Appropriated funds cannot be subject to binding agreements with third parties without state agency approval.
- Applicability: The provisions of Sections 1 and 2 apply to capital outlay appropriations made on or after January 1, 2027.

## **FISCAL IMPLICATIONS**

Overall, HB247 seeks to enhance fiscal responsibility, improve project planning, and ensure the efficient use of public funds, but it may also require increased administrative effort to comply with its provisions. HB247 does not directly appropriate funds or impose new ongoing costs. The potential fiscal implications of the provisions HB247 include:

- Reduced Financial Waste: By limiting reauthorizations and reappropriations to one instance and requiring at least 10% of the initial appropriation to be encumbered, HB247 will reduce the risk of unused or misallocated funds.
  - By tightening reauthorization limits and encumbrance requirements, HB247 could reduce long-term carryforward of capital outlay funds, potentially increasing year-of appropriation expenditures. This change may encourage more timely project execution but could accelerate cash utilization.

- DFA anticipates these changes will have a positive impact on state fiscal management through improved project delivery and reduced long-term encumbrances.
  - Local entities and tribal governments that receive capital outlay appropriations may experience greater urgency to encumber funds and complete projects within the two-year or four-year window.
- Reversion of Unused Funds: Under HB247, unexpended general fund appropriations will revert to the Capital Development and Reserve Fund or the Tribal Infrastructure Project Fund.
  - This ensures that unused funds are redirected to other critical projects, improving fiscal efficiency.
- Streamlined Funding for Water Projects: By directing political subdivisions to seek funding for water-related projects through state agencies and grant/loan programs, HB247 may reduce administrative costs, increase uptake of state revolving funds' capacity, and improve the allocation of resources for these projects. In addition, this provision of HB247 could create significant new demand for the Water Project Fund, far beyond typical capacity of that fund.
  - This may accelerate local expenditures and coordination costs but could also reduce unpredictability in multi-year capital planning.
- Exclusion of Indirect Costs: Prohibiting the use of general fund appropriations for indirect project costs (except for the capital program fund) ensures that funds are spent directly on project-related expenses, maximizing the impact of public spending.
  - However, this exclusion may prevent smaller and rural local public bodies from accessing capital outlay, as without an allowance for use on indirect costs, entities required to have a fiscal agent under the Public Finance Accountability Act will have to find alternative funding to pay for fiscal agent administrative costs.
- Potential Administrative Costs: HB247 may increase administrative workload for state agencies and political subdivisions, as they will need to comply with stricter requirements for project planning, certification, and reporting.
  - DFA and legislative staff may require additional resources for oversight, reporting, and enforcement of new requirements, though the magnitude is expected to be limited and absorbable within existing budgets.

## **SIGNIFICANT ISSUES**

- Infrastructure Capital Improvement Plan Requirement: While HB247's ICIP requirement is designed to promote better planning and prioritization of large-scale projects, it may lead to increased administrative burdens, potential delays, and challenges for smaller entities in accessing funding.

- Under §6-4-1 NMSA 1978, and N.M.A.C. § 2.110.2.7, only state agencies, municipalities, counties, water associations, and land grants/mercedes are required to develop Infrastructure Capital Improvement Plans (ICIPs), with local entities only required for the purposes of applying for Community Development Block Grants. As such, many local public bodies and other entities traditionally eligible for capital outlay funding would need to have their projects included in a state agency or political subdivision ICIP before becoming eligible for legislative allocations.
  - Agencies and political subdivisions will need to invest more time and resources in developing and maintaining comprehensive ICIP submittal and evaluation procedures to ensure their projects are eligible for funding.
  - Without a comprehensive framework, this process could produce uneven results across the state in capital outlay distribution and project completion.
    - Projects not already included in an ICIP may face delays in receiving funding because they must be added to the plan before legislative consideration.
- Smaller political subdivisions with limited resources may struggle to meet the ICIP requirements, potentially necessitating state assistance or additional funding to support their planning efforts.
  - Without the ability to develop and maintain their own ICIPs, smaller political subdivisions will be required to coordinate with state agencies or other larger political subdivisions to ensure that essential projects are eligible for legislative allocation.
    - This requirement may lead to jurisdictional/agency conflict with respect to prioritization, hurting long-term efficiency.
    - Projects that fail to meet ICIP requirements or conflict with political subdivision priorities may experience delays in receiving funding, which could impact timelines and increase costs for critical infrastructure needs.
- Encumbrance Thresholds and Reversions: Currently, HB247 excludes from projects eligible for reauthorization those with less than 10% of the initial appropriation encumbered by January 1 of the year, as determined by the Department of Finance and Administration.
  - However, these funds are held in suspense until DFA's determination and the statutory reauthorization date. This creates an untenable conundrum for capital outlay recipients: continue a project whose funding will be cut off in six months, find an alternative source to complete the project within six months, or discontinue the project.
  - Because HB247 already requires the DFA to certify whether a project has less than 10% encumbered by January 1 of the year, allowing this certification to

trigger an automatic reversion of the project funds upon calculation prevents this conundrum.

## **PERFORMANCE IMPLICATIONS**

While HB247 aims to enhance fiscal responsibility, accountability, and efficiency in capital outlay projects, it may also pose challenges for projects that require flexibility or are subject to delays.

- **Improved Accountability:** HB247 introduces stricter requirements for capital outlay projects, including a 10% encumbrance threshold and ICIP inclusion for projects over \$100,000. These measures may ensure efficient use of funds and active project management, reducing the risk of unused or misallocated funds.
- **Encourages Planning and Execution:** The requirement that projects be included in an ICIP and the limitation on reauthorizations/reappropriations are designed to incentivize better planning and execution of projects within the specified timelines.
- **Impact on Projects with Delays:** Projects that encounter unforeseen delays or challenges may fail to meet the 10% encumbrance threshold by January 1. This could lead to the premature termination of projects that might otherwise be completed with additional time or support.
  - **Limited Flexibility:** The restriction on reauthorizations and reappropriations (only once and for no more than two years) may limit the ability to adapt to changing circumstances or to address unexpected project needs.
- **Potential for Reduced Funding Access:** The prohibition on political subdivisions from requesting funding for certain water-related projects through the legislative capital outlay process may limit their ability to secure funding, especially if state agencies administering grant and loan programs lack sufficient resources.
  - Additionally, removing political subdivision requests for water projects would reduce the number of stranded water projects but could also impede the legislature and/or the executive's ability to fully fund a much-needed water project.
- **Reduction in General Fund Capacity:** Moving the reversions from 2022 through 2025 from the general fund to the capital development and reserve fund would reduce general fund capacity but increase the capital development and reserve fund capacity, ultimately increasing the capital development program fund capacity

## **ADMINISTRATIVE IMPLICATIONS**

HB247 introduces stricter requirements for project planning, funding requests, and financial management, which will likely increase administrative workload for state agencies and political subdivisions. Enhanced tracking, reporting, and compliance mechanisms may be necessary to meet the bill's provisions.

- **Increased Oversight and Monitoring:** State agencies, particularly DFA, will need to closely monitor capital outlay projects to ensure compliance with HB247's requirements, including encumbrance thresholds, certification of need, and adherence to reauthorization limits.
- **Infrastructure Capital Improvement Plan Compliance:** Projects with appropriations of \$100,000 or more must be included in an infrastructure capital improvement plan, which may require additional planning and documentation by agencies and political subdivisions.
- **Reversion Management:** Agencies will need to track unexpended and unencumbered balances and ensure the timely reversion of unused funds to the appropriate reserve funds (Capital Development and Reserve Fund or Tribal Infrastructure Project Fund). This may require enhanced financial tracking systems and reporting processes.
- **Technical Change Requests:** Reauthorizations or reappropriations for technical changes will require agencies to ensure that these changes do not alter the project's original purpose. This may involve additional review and approval processes.
- **Implementation of New Provisions:** Sections 1 and 2 of the bill will apply to capital outlay appropriations made on or after January 1, 2027. Agencies will need to prepare for these changes and update their processes accordingly.

#### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

N/A.

#### **TECHNICAL ISSUES**

N/A.

#### **OTHER SUBSTANTIVE ISSUES**

N/A.

#### **ALTERNATIVES**

N/A.

#### **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

N/A.

## AMENDMENTS

- DFA recommends, to improve HB247, that the legislature consider a rewrite of Section 1, Subsection C:
  - “C. Capital outlay authorizations and appropriations of one hundred thousand dollars (\$100,000) or more included in an infrastructure capital improvement plan shall be prioritized by the legislative branch. This requirement does not apply to capital outlay funds allocated through other branches of government.”
- DFA recommends, to improve HB247, that the legislature consider a rewrite of Section 1, to include the following Subsection (F):
  - F. If less than ten percent (10%) of the initial appropriation has been encumbered by January 1 of the fiscal year before the appropriation is set to revert, as certified by the Department of Finance and Administration, the unexpended balance of the appropriation shall automatically revert in accordance with the provisions of this act.