

LFC Requester:

Cally Carswell

AGENCY BILL ANALYSIS - 2026 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO

AgencyAnalysis.nmlegis.gov and email to 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:	February 4, 2026	<i>Check all that apply:</i>		
Bill Number:	House Bill 247	Original	<input checked="" type="checkbox"/>	Correction
		Amendment	<input type="checkbox"/>	Substitute

Sponsor:	Rep. Derrick J. Lente	Agency Name and Code Number:	New Mexico Finance Authority 385
Short Title:	Relating to Capital Outlay Appropriations and	Person Writing	Mark Chaiken
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SECTION II: FISCAL IMPACT**APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY26	FY27		

(Parenthesis () indicate expenditure decreases)

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
		Unknown	Unknown	Unknown	recurring	Colonias Infrastructure Project fund

Total		Unknown	Unknown	unknown	recurring	Water Project Fund
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(Parenthesis () indicate expenditure decreases)

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis: The bill makes changes to the process for financing capital outlay projects by limiting the reauthorization of capital projects and the ability to change a capital project’s description or scope. It excludes water-related capital outlay projects from the legislative capital outlay process. And it makes changes and clarifications to the manner in which unexpended funds appropriated for capital outlay projects revert.

[Section 1]: Adds a new section of law. This new statute imposes three conditions on the reauthorization of capital projects. For purposes of this law, “capital projects” are projects funded with the proceeds of state general obligation bonds (“GO Bonds”) and severance tax bonds (“Severance Tax Bonds”). Capital projects may: (1) only be authorized once; (2) for a period of two (2) years; and, (3) if at least ten percent (10%) of the initial appropriation for the project has been encumbered by the first day of January in which the request for reauthorization is made. No reauthorization may alter the original purpose of the project, although technical changes are permitted. Capital outlay authorizations and appropriations for projects in excess of \$100,000 must appear on a capital improvement plan. Capital appropriations from the general fund revert to the capital development and reserve fund in the Department of Finance and Administration (“DFA”), except for appropriations for tribal infrastructure projects which shall revert to the tribal infrastructure fund.

[Section 2]: Adds a new section of law forbidding political subdivisions of the state from submitting capital outlay requests for drinking water, wastewater, stormwater or dam capital projects (collectively, “Water Projects”) through the legislative process, and requires political subdivisions to seek funding for Water Projects from agencies and instrumentalities of the state that specifically administer loan and grant programs for Water Projects.

[Section 3]: Makes changes to Laws 2022, Chapter 53, Section 2, the Fiscal Year 2022 capital project appropriation legislation, by providing that unexpended balances of appropriations made prior to the effective date of SB 247 shall revert to the capital development and reserve fund, except for unexpended appropriations for tribal capital projects, which shall revert to the tribal infrastructure fund. For appropriations made after the effective date of SB 247, unexpended balances shall revert to the general fund.

[Section 4]: Makes similar changes as Section 3, above, but to Laws 2023, Chapter 199, Section 1, which is the Fiscal Year 2023 capital project appropriation legislation.

[Section 5]: Makes similar changes as Section 3, above, but to Laws 2024, Chapter 66, Section 1, which is the Fiscal Year 2024 capital project appropriation legislation.

[Section 6]: Makes similar changes as Section 3, above, but to Laws 2025, Chapter 159, Section 2, which is the Fiscal Year 2025 capital project appropriation legislation.

SIGNIFICANT ISSUES: The bill addresses the issue of unexpended appropriations and the backlog of uncompleted capital projects. Local governments can seek financing for their projects from the proceeds of the state’s GO Bonds and Severance Tax Bonds. In addition, a defined portion of Severance Tax Bond proceeds are appropriated each year to the Water Project Fund for the purpose funding water and wastewater projects throughout the state pursuant to the Water Project Finance Act, Section 72-4A-1 *et seq.*, NMSA 1978, to the Colonias Infrastructure Project Fund to fund infrastructure projects, including water and wastewater projects, in colonias in the southern part of the state pursuant to the Colonias Infrastructure Act, Section 6-30-1 *et seq.*, NMSA 1978, and to the Tribal Infrastructure Fund to fund tribal infrastructure projects pursuant to the Tribal Infrastructure Act, Section 6-29-1 *et seq.*, NMSA 1978. The New Mexico Finance Authority (“NMFA”) administers the Water Project Fund and Colonias Infrastructure Project Fund in cooperation with the Water Trust Board (“WTB”) and the Colonias Infrastructure Board (“CIB”), respectively. The NMFA also administers the Drinking Water State Revolving Loan Fund (“DWSRLF”) pursuant to the Drinking Water State Revolving Loan Fund Act, Section 6-21A-1 *et seq.* NMSA 1978.

When GO Bonds or Severance Tax Bonds are issued on a federally tax-exempt basis (meaning that for most taxpayers interest on the bonds is not included in taxable income), complex rules regarding expenditure of bond proceeds apply. When borrowers fail to meet those rules, negative consequences may result that impact both the issuer of the bonds and the purchasers of the bonds. Furthermore, funding capital projects that are not ready to proceed to construction and completion ties up state money that could otherwise be put to productive use. Section 1 of the bill requires borrowers to conform to the requirements of the Internal Revenue Code regarding tax-exempt bonds, and prevents projects from being rolled over repeatedly, freeing up and reverting funds that are not timely expended for capital projects, encouraging political subdivisions to promptly expend appropriated funds.

Section 2 of the bill significantly impacts the NMFA. The NMFA administers the Water Project Fund, the Colonias Infrastructure Fund, and the Drinking Water State Revolving Loan Fund (the “Funds”), all of which are used by political subdivisions to fund water and wastewater projects. Section 2 of the bill would require political subdivisions to use these Funds, as well as other funds administered by other state agencies and instrumentalities, for the purpose of financing Water Projects rather than seeking financing through the legislative appropriation process.

The NMFA administers an annual application cycle on behalf of the WTB. From July 14 to September 11, 2025, the NMFA received 135 Notices of Intent to submit an application totaling approximately \$685.5 million. On September 11, 2025, 114 applications were filed. On October 29, 2025, the WTB approved for recommendation to the legislature 113 applications totaling approximately \$522.2 million of requests. One project was not recommended due to non-compliance with WTB policies and the timely expenditure of prior awarded funds. The 113 projects are included in HB 63.

There are significant gaps between the dollar amounts of Notices of Intent received, project applications filed, and available funding for this cycle, as actual project needs may have been pared down to meet application requirements. Currently there is an approximate \$187.5 million funding gap between the \$522.2 million in WTB applications received and the \$334.7 million available to water project fund projects in fiscal year 2026 through severance tax bonds, the water trust fund distribution, and remaining balance of a \$200 million transfer provided by House Bill 2, passed in the 2025 Regular Legislative Session.

For Fiscal Year 2026, Senate Bill 187 makes an appropriation from the general fund to the Water Project Fund to make up for this shortfall. If SB 247 passes, and political subdivisions can no longer seek funding for Water Projects through the legislative appropriation process, the Water Project Fund's funding gap can be expected to grow even larger in future fiscal years, and the Water Project Fund would require larger appropriations from the general fund in order to be able to fund all the water and wastewater projects for which funding is sought.

The NMFA administers the Colonias Infrastructure Project Fund ("CIF") to fund infrastructure projects, including water and wastewater projects, in colonias in the southern part of the state pursuant to the Colonias Infrastructure Act. The CIF receives an annual distribution of 4.5 percent of the severance tax bonds issued by the State Board of Finance ("SBOF"). This sum is estimated to be \$92.9 million for FY 2026 based on December 2025 SBOF estimates. The CIF recently began its FY 2026 application cycle and received 25 Notices of Intent (NOI's) to file an application in the amount of \$87.2 million. The FY 2026 Colonias application opened on January 26, 2026, and closes on March 5, 2026. Typically, Colonias water and wastewater projects are smaller in scope, and it remains to be seen if the volume of applications received during this cycle will fully support the available funding of \$92.9 million.

The NMFA also administers the Drinking Water State Revolving Loan Fund "DWSRLF" in partnership with the New Mexico Environment Department ("NMED"). The DWSRLF is federally funded and is used to make low-cost loans for critical drinking water projects throughout the state. In 2026 the state will be applying for the federal fiscal year 2026 Environmental Protection Agency ("EPA") base capitalization grant and supplemental capitalization grant authorized by the federal Infrastructure Investment and Jobs Act ("IIJA") estimated to total \$31.25 million. DWSRLF allotments to states are determined by Congress as part of the national budget. It should be noted that the federal fiscal year 2026 allotments represent the final year of supplemental funding through IIJA, as the law's 5-year funding period ends.

The state will still be able to apply for the base capitalization grant as it has in years past, but the allotments for the base grant are expected to be in the \$5-10 million range beginning in fiscal year 2027. Due to the revolving nature of the DWSRLF, NMFA is able to provide additional funding to drinking water projects from principal and interest repayments as they are returned to the fund. NMFA has currently allocated all of the available returned funds to drinking water projects and given the sunset of supplemental IIJA funding and smaller base capitalization grants awards beginning in FY 2027, the DWSRLF does not have sufficient funding for the volume of water projects that would no longer be able to apply for capital outlay if HB 247 is enacted.

NMFA also notes that under Section 1 all political subdivisions seeking funding for any capital project, not just a Water Project, through the legislative appropriation process must have a "capital improvement plan". Only counties and municipalities are required to have a capital improvement plan – other types of political subdivision are not. Section 5-8-1 *et seq.*, NMSA 1978. To be a proper capital improvement plan, the plan must meet requirements set by DFA. Other political subdivisions may have the general authority to create and implement a capital improvement plan, but smaller political subdivisions may lack the resources to do so.

The NMFA administers the Public Project Revolving Fund ("PPRF") which is used to fund capital projects for many types of political subdivisions who are defined as "qualified entities" pursuant to the New Mexico Finance Authority Act, Section 6-21-1 *et seq.* NMSA 1978. Political subdivisions who lack a capital improvement plan may instead seek funding through the PPRF for non-water or wastewater projects as a result of the bill.

PERFORMANCE IMPLICATIONS

SB 247 is likely to increase the activity in the Colonias Infrastructure Board and Water Trust Board. The increased cost will impact the NMFA's operating budget, which is not state budgeted. The greater the administrative cost, the less money that is available for projects.

ADMINISTRATIVE IMPLICATIONS: SB 247 will greatly expand the demand for funding from the Funds. Because the NMFA administers the Funds, its administrative burden will also increase, likely requiring the addition of at least one more full-time employees to administer the Funds and their related programs.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP: Relates to SB 187, which appropriates money from the general fund to the Water Project Fund for the purpose of funding the difference between the funding demands of borrowers and amounts available in Fiscal Year 2026 to fund projects from the Water Project Fund.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL: Political subdivisions will continue to be able to seek funding for Water Projects through the legislative process. Capital projects may be reauthorized indefinitely.