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FISCAL IMPACT REPORT

BILL NUMBER: House Bill 247/aHTRC/aSFC

SHORT TITLE: Capital Outlay Changes

SPONSOR: Lente

LAST ORIGINAL
UPDATE: 2/12/2026 **DATE:** 2/3/2026 **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
Stalled Capital Outlay Appropriations		Up to \$80,000.0	Up to \$80,000.0	Up to \$80,000.0	Up to \$80,000.0	Nonrecurring	Annual Capital Outlay Capacity

Parentheses indicate revenue decreases.

*Amounts reflect most recent analysis of this legislation.

Relates to House Bill 109, capital outlay bills.

Sources of Information

LFC Files

Agency or Agencies Providing Analysis

New Mexico Finance Authority
 Higher Education Department
 Department of Finance and Administration

Agency or Agencies That Were Asked for Analysis but did not Respond

New Mexico Counties
 New Mexico Municipal League

SUMMARY

Summary of SFC Amendment to House Bill 247

The Senate Finance Committee (SFC) amendment to House Bill 247 (HB247) inserted language to ensure the state gathers information on the reason any unspent balances remain on capital

appropriations funded with tax-exempt severance tax bonds before any such balances are reappropriated. The additional language relates to the House Taxation and Revenue Committee (HTRC) amendment providing a framework for freezing and repurposing funding appropriated to projects that have demonstrated no activity within six months of their reversion date. The amendment stipulates that such reappropriations that extend the time for expenditure shall only occur if the State Board of Finance determines the failure to expend the funds within the initial authorization period was unanticipated and that the proceeds will be expended as promptly as possible. The language in the SFC amendment was requested by the State Board of Finance to support the state's continued compliance with federal tax laws governing tax-exempt bond proceeds.

Summary of HTRC Amendment to House Bill 247

The House Taxation and Revenue Committee (HTRC) amendment to House Bill 247 (HB247) strikes Section 2 of the bill, eliminating limitations on capital outlay appropriations for certain water projects proposed in the introduced version of the bill.

The amendment introduces a statutory framework to allow the Legislature to reappropriate funding from capital outlay appropriations that have demonstrated no activity within six months of their reversion date. It directs the Department of Finance and Administration (DFA) to identify projects that have no encumbrances and no expenditures by January 1 of the fiscal year in which unexpended balances will revert and to freeze funds for any such projects. The amendment requires DFA to provide an annual report to the Legislature by January 15 on the capital outlay projects that have been frozen and establishes that balances may be appropriated by the Legislature for other purposes.

Synopsis of House Bill 247

House Bill 247 (HB247) establishes limitations on reauthorizations and new appropriations for capital outlay projects. The limitations apply to appropriations for both state and local projects. The bill limits reauthorizations of capital appropriations from occurring more than once to extend time and limits time extensions to a maximum of two years. The bill allows for reauthorizations to make technical changes to original appropriations but not to entirely change the purpose of the original appropriation. 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. For new capital appropriations, the bill would require projects to appear on an infrastructure capital improvement plan to receive capital appropriations of \$100 thousand or more. This requirement, like the limitations on reauthorization, would apply to both state and local projects.

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 DFA 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.

The HTRC amendment to HB247 would establish a statutory framework for freezing capital appropriations to stalled projects, which could provide additional capacity for annual capital appropriations if the Legislature chose to reappropriate those funds. The estimated \$80 million positive impact to annual capacity is based on balances remaining on inactive projects compiled by LFC and DFA staff in 2025 and 2026. Those estimates are described in further detail in the significant issues section of this fiscal impact report.

In analysis submitted on HB247, the DFA states the bill is likely to reduce financial waste and unspent capital outlay funds.

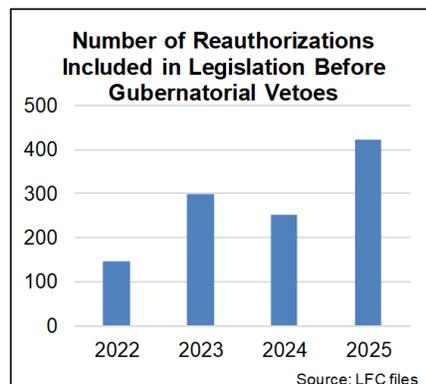
SIGNIFICANT ISSUES

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 limitations on extending time to expend capital appropriations through reauthorization and the ICIP requirement for new appropriations 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. The limitations in the bill apply to both state and local projects.

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.



Stalled Projects. The growth of unspent capital balances has increased legislative interest in identifying stalled projects and repurposing funds. However, both the Legislature and executive branch agencies that administer capital projects lack a formalized process for doing so. In early January 2026, legislative and executive branch staff identified more than 300 general fund and severance tax bond capital appropriations set to revert in June 2026 that had neither encumbered nor expended any funds. Most of these projects were originally authorized in 2022 and nearly 70 of the projects had previously been reauthorized. Balances on these projects totaled \$82.4 million.

In the 2025 session, staff identified a similar list of stalled projects approaching reversion at the request of the Senate Finance Committee. Balances on stalled projects last session were very similar, at \$78.2 million.

Analysis on HB247 submitted by the Board of Finance states that the amendments to the bill dealing with stalled projects “enhance transparency and fiscal responsibility by mandating yearly reports on frozen capital outlay projects and permitting unused funds to be allocated elsewhere. Overall, the amendment strikes a balance between allowing flexibility in reallocating idle funds and maintaining safeguards that uphold the tax-exempt bond status and proper debt management.”

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

its revenues, 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.

Project Planning. The provision in the bill requiring projects to appear on an infrastructure capital improvement plan (ICIP) to receive capital appropriations of \$100 thousand or more would encourage better planning and prioritization of requests made to the Legislature. It could create some additional administrative workload and documentation for entities seeking capital outlay, though it should be noted there is no limit on the number of projects entities may include on an ICIP. DFA has recently improved the ICIP process for local entities and its Infrastructure Planning and Development Division (IPDD) includes staff who provide technical assistance to local entities in developing their ICIP. IPDD may need to provide further support with enhanced ICIP requirements for funding and may experience an increased workload as a result.

The ICIP requirement in HB247, like the bill’s other provisions, would apply to state and local entities. The request processes for state agency and higher education capital outlay for the statewide capital outlay framework are already based on agency and institution ICIPs.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to House Bill 109, which would suspend legislative authorization of Water Trust Board projects through 2028. While the HTRC amendment to HB247 struck proposed limitations on capital outlay for certain water projects, passage of HB109 could be expected to improve the flexibility of the Water Trust Board’s funding process and improve access to its funds, especially for small systems. This may ease pressure on direct capital appropriations from legislators for water projects and should be considered a related effort to modernize the state’s capital project finance system.

Relates to the capital outlay and reauthorization bills.

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