FISCAL IMPACT REPORT

BILL NUMBER: House Bill 62
SHORT TITLE: Rename & Create Geothermal Tax Credits

SPONSOR: Reps. Roybal Caballero and Murphy/Sen. Woods
LAST UPDATE: **ORIGINAL DATE:** 1/26/2026 **ANALYST:** Graeser/Faubion

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
PIT/CIT	$0.0	**Up to ($3,000.0)**	**Up to ($7,000.0)**	**Up to ($12,000.0)**	**Up to ($50,000.0)**	Recurring	General Fund

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

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	No fiscal impact	$62.2	No fiscal impact	$62.2	Nonrecurring	General Fund
Total	No fiscal impact	$62.2	No fiscal impact	$62.2	Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency or Agencies Providing Analysis
Taxation and Revenue Department
NM Technical Institute of Mining and Technology

Agency or Agencies That Were Asked for Analysis but did not Respond
Department of Finance and Administration
Public Regulation Commission
Energy, Minerals, and Natural Resources Department

SUMMARY

Synopsis of House Bill 62

House Bill 62 (HB62) renames the geothermal electricity generation income tax credit to the geothermal energy production income tax credit. Under current law, eligibility for the credits is limited to facilities that generate electricity. This bill changes eligibility to facilities that produce

and deliver electricity or thermal energy from geothermal resources for industrial, commercial, or residential use and provides that the credit applies only if the facility produces geothermal energy. The bill defines eligible subsurface temperatures and technologies to exclude conventional ground- source heat pumps.

The bill adds a tiered credit amount for each year that the geothermal energy production facility operates and limits the amount of the credit per facility to 200,000 megawatt-hours. The credit has a tiered structure based on an amount per kilowatt-hour: in year one $0.015; year two $0.02; year three $0.025; year four $0.03; year five $0.035; year six $0.04; year seven $0.035; year eight $0.03; year nine $0.025; and year 10 $0.02.

Aggregate limits for all producers for PIT and CIT credits are increased in the bill from the current $5 million annually to $55 million annually with $11 million annually restricted to tribal or small business producers. If the cap is exceeded in any year, the denied credits may be considered in the following year. Credits are transferable and may be carried forward for up to three years but are not refundable.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or May 20, 2026, if enacted. Provisions are applicable to tax year beginning after January 1, 2026. Special provisions apply to existing facilities and facilities that begin construction after January 1, 2025. There is an implicit sunset per facility of 10 years plus three years of tax credit rollover. The credits expire at the end of tax year 2035.

FISCAL IMPLICATIONS

House Bill 62 significantly expands the geothermal energy production income and corporate income tax credits by increasing the annual aggregate cap from $5 million to $55 million, broadening eligible production to include both electricity and thermal energy, and establishing a ten-year, tiered per-kilowatt-hour credit schedule.

The Legislative Finance Committee (LFC) estimate reflects a two-phase approach. Fiscal years FY26 through FY29 are based on realistic assumptions regarding known geothermal development timelines, while FY30 illustrates the maximum potential general fund exposure permitted under the bill's statutory cap. For FY26 through FY29, the estimate assumes credit claims are driven primarily by the single existing eligible geothermal facility, with limited additional capacity coming online. Specifically, LFC assumes the currently operating facility ramps up production as it becomes eligible for the credit, and that one new geothermal facility begins operation in FY28 and another in FY29. These assumptions are consistent with typical development, financing, and construction timelines for deep-rock geothermal projects and result in moderate, gradually increasing revenue impacts during the early years of the forecast.

In FY30, the estimate shifts to an illustrative scenario in which additional geothermal facilities are assumed to come online such that total credit claims reach the $55 million annual aggregate cap. This year does not represent a forecast of likely development, but rather demonstrates the maximum general fund exposure authorized by the bill once multiple facilities are operating simultaneously at various stages of the ten-year credit schedule.

The bill limits the amount of credit that may be claimed for a single geothermal energy production facility in any taxable year to the first 200,000 megawatt-hours of production,

effectively capping creditable output at approximately 25 megawatts per facility assuming a 90 percent capacity factor. As a result, even under the illustrative FY30 scenario, reaching the annual cap would require numerous facilities operating concurrently, each subject to per-facility production limits and a declining credit rate after year six. Accordingly, the LFC estimate should be interpreted as presenting realistic, project-based assumptions through FY29, followed by a high-end exposure case in FY30 intended to show the full fiscal capacity of the credit.

Lightning Dock Geothermal, currently the only operating utility-scale geothermal facility in New Mexico, has approximately 15 megawatts of installed capacity and is assumed to be the sole eligible project contributing to credit claims in the initial years of the forecast. In addition, Governor Lujan Grisham has announced a partnership between XGS Energy and Meta to develop a 150-megawatt deep-rock geothermal project in Doña Ana County, which is expected to come online in phases later in the forecast period.

The Taxation and Revenue Department explain their methodology as follows, noting uncertainty in the estimate as future projects are unknown:

> The estimated revenue impact was developed using publicly available information on geothermal electricity generation in New Mexico, including utility reporting, industry publications, and generator-level data from the U.S. Energy Information Administration. Public sources indicate that Lightning Dock Geothermal is the only utility-scale geothermal power plant operating in New Mexico as of calendar year 2025, with an approximate capacity of 15 megawatts.
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> The credit currently allows existing facilities to be eligible for the credit if the facility doubles its production of geothermal energy on or after January 1, 2025. Public information indicates that a new geothermal production well was drilled and placed into service at the Lightning Dock facility in 2025. For purposes of this analysis, it is assumed that the new well will increase Lightening Dock's geothermal energy production of at least 100% relative to pre-2025 levels, making the facility eligible for the geothermal energy production tax credit beginning in taxable year 2026.
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> Annual geothermal energy production for Lightning Dock was estimated to have a 90 percent capacity factor, resulting in approximately 118,000 megawatt-hours per year. Applying the yield per-kilowatt-hour credit rates yields an estimated annual revenue impact ranging from approximately $1.8 million in the first credit year (FY27) to $3.6 million by the fourth credit year.
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> In addition, a large-scale geothermal project with an announced capacity of approximately 150 megawatts was publicly announced by XGS Energy and Meta in 2025. Public statements describe the project as a phased development targeted to begin commercial operations around calendar year 2030. For purposes of this analysis, TRD assumes the project begins partial operation in calendar year 2030 and affects FY31 which is outside of the revenue outlook range. The bill caps the credits claimed for a single geothermal production facility to the first 200,000 megawatt-hours of geothermal energy. The cap of $200,000 may limit the credits available to be claimed for this facility. Applying the first-year credit rate of 1.5 cents per kilowatt-hour yields an estimated FY2031 revenue impact from this project of approximately $3 million in year one, growing to $8 million in year 6, before phasing out by year 11. This would be on top of

on-going credit claiming from the Lightning Dock facility.

No additional geothermal facilities are assumed to become operational during the forecast period. Due to long development timelines and uncertainty surrounding permitting, financing, and construction, the timing and magnitude of future revenue impacts remain uncertain.

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the substantial risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied.

SIGNIFICANT ISSUES

The bill expands a production-based tax credit intended to encourage geothermal energy development, a dispatchable renewable resource that can operate at high-capacity and complement intermittent wind and solar generation. Geothermal development may support long-term energy diversification, grid reliability, and economic transition objectives, particularly as oil and gas production is expected to decline over time. The credit's per-kilowatt-hour structure and ten-year eligibility period per facility provide a predictable incentive that may improve project financing for an emerging and capital-intensive technology.

Deep-rock geothermal projects require substantial upfront investment, with capital costs commonly estimated in the hundreds of millions of dollars for utility-scale facilities. Relative to those costs, the value of the credit—constrained by per-facility production limits and an annual aggregate cap—may be insufficient to materially alter investment decisions. As a result, the credit may not satisfy a strict "but-for" test, meaning many projects that qualify for the credit may proceed for market, contractual, or strategic reasons regardless of the incentive, particularly where projects are developed to meet large, long-term power purchase agreements or corporate energy demand.

Because the credit is production-based, transferable, and available for up to ten years per facility, it creates a long-term tax expenditure with potential general fund impacts extending beyond the forecast period. While the credit includes a statutory cap and sunset, the extent to which foregone revenue results in incremental geothermal development, rather than subsidizing projects that would have occurred absent the credit, remains uncertain.

TRD notes the following policy issues:

New Mexico has substantial geothermal resources, and geothermal generation offers a reliable, baseload renewable energy source that can complement intermittent renewable resources. To the extent the credit incentivizes new geothermal development that would not otherwise occur, the bill may contribute to long-term economic development, energy diversification, and emissions reduction goals. Tax credits can be an effective tool for encouraging investment in capital-intensive and emerging energy technologies such as geothermal energy.

This bill expands and extends tax credits for geothermal energy production, significantly increasing the annual aggregate cap from prior law and broadening eligibility to include

both electricity produced using geothermal resources and thermal energy production. By increasing the credit cap to $55 million per year and allowing credits to be transferred, the bill materially increases potential general fund revenue exposure relative to current geothermal production levels in New Mexico.

Tax expenditures reduce general fund revenue and narrow the tax base. Because the credit is production-based, transferable, and available for up to 10 years per facility, the long-term fiscal impact may extend well beyond the forecast period.

The bill's eligibility provisions for existing facilities may create uncertainty. Existing geothermal facilities qualify only if production increases by at least 100 percent relative to pre-2025 levels. Determining baseline production levels and verifying qualifying increases may present administrative challenges and could require additional monitoring and coordination between agencies.

The credit does have a defined sunset date. TRD supports sunset dates for policymakers to review the impact of tax expenditures before extending them.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the credit and other information to determine whether the credit is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

TRD will update forms, instructions, and publications and make information system changes that currently exist for this credit. This implementation will be included in the annual tax year changes.
The implementation of this bill will have low impact on TRD's Administrative Services Division (ASD). This will require testing the changes in the GenTax system and will require 40 hours split between two existing FTEs at a pay-band level eight and 10. Pay-band level eight hours are estimated at time and ½ due to extra hours worked with a total cost in staff workload of $2,700. This bill will have a moderate impact on TRD's Information Technology Division (ITD), approximately 860 hours about five months and $59,521 of staff workload costs. This estimate assumes an electronic data exchange from EMNRD.

TECHNICAL ISSUES

Sections 1 and 2. TRD recommends clarifying how the first year is determined to ensure taxpayers receive the full intended benefit. This recommendation is based on issues identified under the renewable energy production tax credit (REPTC), which required a 2021 statutory amendment to correct similar first-year eligibility problems. To provide an additional year of eligibility (consistent with the 2021 REPTC amendment), TRD suggests adding a new subsection (11) to the following Sections 1 and 2, Sub-section B, page 4, line 7 and page 12, line 9: "(11) If the geothermal energy production facility produces geothermal energy for fewer than twelve months in the first taxable year in which production begins, the taxpayer shall be eligible for an additional taxable year of credit equal to the number of months not included in the first

taxable year, at the rate applicable to the first-tier year."
TRD recommends clarifying that eligibility is granted once per facility by adding the following subsection (12) after the proposed amendment above, under Sections 1 and 2, Sub-section B, page 4, line 7 and page 12, line 9: "(12) Eligibility under this section is granted once per facility, and no facility may receive more than ten years of eligibility under the tiered schedule established in this subsection."

Section C outlines the process for Energy, Minerals and Natural Resources Department (EMNRD) to certify eligibility for the credit but does not clearly define how certification should occur, whether certification must be annual, or how ownership changes should be handled. These gaps mirror long-standing administrative challenges under the REPTC, where the absence of explicit statutory direction required TRD to manually track facility ownership, production years, and eligibility outside the tax system. Without clarification, TRD would again need to rely on external spreadsheets to determine which taxpayer is entitled to the credit for each taxable year, increasing the risk of errors and inconsistent administration. Section C also does not require certification to be based on verified production or specify that the certificate must be issued to the taxpayer who owns the facility for the taxable year, creating potential disputes when facilities are sold mid-year.

To ensure accurate, auditable administration and avoid repeating REPTC-related issues, TRD recommends adding the following clarifying language to the end of each Sub-section C, on page 5, line 13 and page 13, line 14.

> "A taxpayer shall submit an initial application for approval of a geothermal energy production facility prior to claiming any credit pursuant to this section. Upon approval of the facility, the energy, minerals and natural resources department shall annually certify geothermal energy production for the taxable year. A taxpayer shall obtain a certificate of eligibility for each taxable year in which geothermal energy is produced. Certification shall be based on verified geothermal energy production for the taxable year, and each certificate of eligibility shall specify the taxable year for which it is issued and the taxpayer that owns the geothermal energy production facility for that taxable year. If ownership of the facility changes, the new owner shall apply for certification for the taxable year in which the change occurs, and the certificate of eligibility for that taxable year shall be issued to the new owner."

Section 2. Page 7, Lines 8-10 – The removal of this language appears to limit the department's ability to administer how the tax credit may be claimed. TRD recommends retaining Subsection H to ensure accurate and auditable administration of the credit.

Section 3. Page 17, Line 10 - Without an effective date, this legislation is effective May 20, 2026. As this credit is administered at another agency and the claim is handled at TRD, it is recommended that this have an effective date of January 1, 2026, to line up with the applicability on when it can be claimed. If not, there may be issues with the first claimable year for these credits and the cap that exists currently.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy**: Revenue should be adequate to fund needed government services.
- **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity**: Different taxpayers should be treated fairly.
- **Simplicity**: Collection should be simple and easily understood.
- **Accountability**: Preferences should be easy to monitor and evaluate

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
Vetted: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.	?	No records of an interim committee hearing could be found.
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals. Clearly stated purpose Long-term goals Measurable targets	✗	There are no stated purposes, goals, or targets.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	The credits must be reported annually in the public Tax Expenditure Report.
Accountable: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date. Public analysis Expiration date	✓	There is a sunset.
Effective: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure. Fulfills stated purpose Passes "but for" test	?	There are no goals or targets by which to measure effectiveness or efficiency.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met ✗ Not Met ? Unclear		

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