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FISCAL IMPACT REPORT

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| SPONSOR <u>Lente</u> | LAST UPDATED <u>3/6/2025</u> | ORIGINAL DATE <u>2/22/2025</u> |
| SHORT TITLE <u>Higher Education Major Projects Fund</u> | BILL NUMBER <u>House Bill 449/aHAFC</u> | ANALYST <u>Jorgensen/Carswell</u> |

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

| Agency/Program | FY25 | FY26 | FY27 | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|----------------|------------------|---------|---------------------------|-------------------|---------------------------|---------------|
| HED | No fiscal impact | \$250.0 | Indeterminate but minimal | \$250.0 | Recurring | General Fund |

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

Sources of Information

LFC Files

Agency Analysis Received From
 Higher Education Department (HED)
 New Mexico Independent Community Colleges (ICC)

SUMMARY

Synopsis of HAFC Amendment to House Bill 449

The House Appropriations and Finance Committee amendment to House Bill 449 makes minor technical and clarifying changes to the bill. The amendments clarify that all tribal colleges are eligible to seek funding for student housing and student life projects, that branch community colleges are considered two-institutions under the bill’s definitions, and that only public institutions are eligible for funding.

Synopsis of House Bill 449

House Bill 449 (HB449) creates the higher education major projects fund to be administered by HED to support certain instruction and general projects (I&G), as well as student housing and student life projects. The bill requires institutions to provide matching funds from non-state sources for design and construction.

Eligible projects to be funded are construction and design for I&G and research projects at four-year institutions costing over \$50 million and student housing and student life projects at four-year, two-year, and tribal colleges with no minimum cost. HB449 requires a 25 percent institutional match for project design for I&G projects at four-year institutions and 10 percent for construction for I&G projects. For student housing and student life projects, the bill requires both four-year and two-year institutions to provide a 50 percent match for project design and requires

two-year institutions to provide a 50 percent match and four-year institutions to provide a 20 percent match for construction. HED may recommend the Legislature waive matching requirements should the department find the institution does not have sufficient funds available.

HB449 requires an institution to complete 50 percent of design prior to receiving funding for construction and further requires student housing and student life projects to adhere to space and design standards to be developed by HED.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or June 20, 2025.

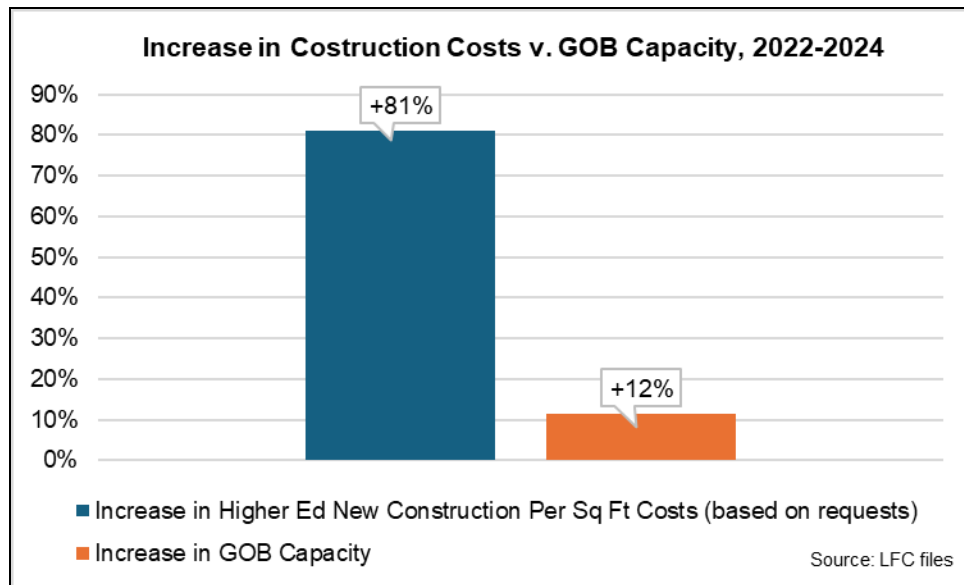
FISCAL IMPLICATIONS

HB449 creates a statutory framework for a fund to support major academic and research projects at higher education institutions as well as student housing and student life projects, which are not currently eligible for funding through the statewide higher education capital outlay process. HB449 does not contain an appropriation and there is no appropriation to the fund in the 2025 General Appropriation Act. Capitalization of the fund would, thus, depend on future legislative appropriations.

Under the provisions of HB449, HED would be required to develop space and design standards for student housing and student life projects. HED notes, “For the department to fulfill the requirements of the act, [HED] would need to secure funding to hire a consultant group in order to assist with the development of space standards.” The statewide capital outlay package includes a \$250 thousand appropriation to the department for this purpose. The appropriation is contingent on passage of HB449. After HED creates the space and design standards, the department will have to amend its process to reflect the newly eligible projects. This cost is likely to be indeterminate but minimal as shown in the estimated additional operating budget impact table for FY27.

SIGNIFICANT ISSUES

I&G projects for higher education institutions are currently funded through the statewide capital outlay process. Historically, funding for major new construction has been appropriated every other year, when voter-approved general obligation bonds (GOB) are available. General obligation bonds are the only dedicated source of state funding for higher education capital projects. While institutions receive capital outlay in non-GOB years, they must compete for those funds with state agencies and typically receive smaller appropriations. Additionally, auxiliary projects, including student housing and amenities, are not eligible for statewide capital outlay.



General obligation bond (GOB) capacity is insufficient to meet demand to replace and repair higher education facilities. Construction costs have risen steeply over the last several years and have far outpaced modest annual increases to general obligation bond capacity. From 2022 to 2024, requests for new construction projects from higher education institutions increased by 81 percent on a per square foot basis. General obligation bond capacity rose only 12 percent over the same period. This has made it increasingly difficult to fully fund new construction in any single year. When the state’s larger institutions pursue major projects, which may now surpass \$100 million in costs, it strains the state’s ability to not only fund those projects but to fund smaller renovations, new construction, and systems replacement projects at other institutions.

In the 2024 general obligation bond cycle, for instance, the University of New Mexico made a \$110 million request for a single project, which if fully funded that year would have consumed roughly half the dollars appropriated to all institutions in the GOB bill. Instead, the project was only partially funded and the institution is seeking additional funds this session, when dollars for higher education are more limited because GOB funds are not available. The problem is likely to become more acute in the 2026 GOB cycle because construction costs have continued to rise.

Though two-year institutions would not be eligible to pursue I&G projects through the new fund, this new funding source for major projects would relieve pressure on GOB funds, providing additional capacity for renovations and more minor new construction at all institutions. Additionally, the bill’s framework for phasing design and construction funding would ensure projects are more fully developed and shovel-ready when institutions request construction funding. This would provide the Legislature with more transparency on cost drivers and reduce the need for supplemental appropriations over multiple years to complete projects.

Student life and housing projects have typically been funded through student fees, but growth in construction costs has reduced fees as an effective revenue source. Expansion of the opportunity scholarship has compounded the problem by creating pressure on institutions to not raise tuition and fees. Additionally, higher education institutions have lost 26 percent of total enrollment since 2011, when enrollment peaked. Reduced student populations have limited higher education institutions’ ability to raise funding necessary to maintain and improve on-campus facilities, which makes it more difficult to recruit and maintain an on-campus population. HB449 would

provide an opportunity to address these challenges. The design and space standards the bill directs the Higher Education Department to develop would provide a safeguard against overbuilding, given enrollment trends, and provide a consistent standard for project costs the state will participate in. State-funded public school construction adheres to such standards in New Mexico but no similar system currently exists for higher education projects.

HED reports, “Because the department does not currently support student housing and student life projects through our current capital outlay funding recommendation process, the deferred maintenance backlog on these facilities may be significant.”

The matching requirements in HB449 reflect the different revenue sources available to four-year and two-year institutions. Four-year institutions do not receive funding through local property taxes. Four-year institutions receive 55 percent of their revenue from state appropriations and 34 percent through tuition and fees. Two-year institutions receive the largest portion of their revenue, 46 percent, through local property taxes, 39 percent through state appropriations, and 12 percent through tuition and fees. The ability of the Legislature to waive match requirements provides flexibility but requires substantial due diligence by the Higher Education Department and the Legislature to determine an institution cannot afford its match.

ADMINISTRATIVE IMPLICATIONS

HED would need to promulgate new rules or amend existing rules as a result of enactment of HB449. Additionally, HED “would need to re-assess our existing [capital outlay review] process to see how to best incorporate the requirements of HB449 to ensure construction phase funding for major instructional and general and research purposes and student housing and student life projects are considered.”

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to Senate Bill 280, which would allow the New Mexico Military Institute to receive public school capital outlay funding.

OTHER SUBSTANTIVE ISSUES

NMICC states HB449 excludes two-year institutions from the instruction and general and research funding. While most capital projects at New Mexico’s public community colleges are under the \$50 million threshold, a few projects do exceed \$50 million. However, those projects could still seek funding through the existing capital outlay process.