New Mexico Comprehensive Energy Transition Strategy

Policy Memos - Decarbonization of the Building Sector

About CETS

The Comprehensive Energy Transition Strategy (CETS) is an initiative of the Energy, Minerals and Natural Resources Department (EMNRD) to develop New Mexico's first integrated roadmap for delivering reliable, affordable, safe, and sustainable energy. Launched in May 2025, the strategy will provide analysis and recommendations to guide near-, mid-, and long-term policy. These Draft Policy Memos form the CETS baseline analysis, combining research on existing policies and regulations with stakeholder engagement across the state legislature, agencies, industry, and advocacy organizations. Phase 2 (October 2025 - June 2026) will feature more extensive engagement and finalized recommendations.

Where New Mexico Stands Today

This context provides the foundation for the Phase I policy memos that follow.

Strong fiscal foundation
oil and gas revenues (currently about 40% of the general fund) and permanent funds that can support economic diversification.

Exceptional energy resources
including solar, wind, geothermal, and existing infrastructure with potential for regional transmission.

Community and workforce expertise
engaged Tribal and local communities, supportive policies, national laboratories, and skilled energy workforce.

Exposure to more extreme weather
increasing heat, droughts, and storms challenge grid resilience, energy reliability, and communities.

Phase 1: Policy Memos

New Mexico has made substantial progress in advancing its energy transition. Building on strong existing efforts, the policy memos in this phase identify strategic opportunities, implementation gaps, and enforcement challenges across nine critical areas:

1. **Innovation in Clean, Firm Power Generation**
Examines clean, firm power options—geothermal, nuclear, carbon capture, hydrogen, hydropower, and long-duration storage—to ensure reliability, affordability, and durable community support, advancing the energy transition.

2. **Grid Modernization**
Investigates how to align New Mexico's grid with its energy transition and economic growth goals and outlines targeted reforms to accelerate deployment and improve resilience.

3. **Electricity Transmission Capacity Expansion**
Examines the planning and permitting challenges that limit timely transmission deployment and outlines potential solutions to support transmission expansion to accelerate the clean energy transition.

4. **Decarbonization of the Building Sector**
Focuses on targeted reforms to strengthen the Sustainable Buildings Tax Credit, making it more equitable, transparent, and effective in driving building decarbonization statewide.

5. **Workforce Readiness and Equitable Opportunity**
Highlights opportunities to improve alignment between policy design and implementation, ensuring that New Mexico's clean energy investments deliver broad, equitable, and lasting economic benefits for its residents.

6. **Policy Implementation**
Examines how enhancing agency capacity, authority, tools, and resources can strengthen effective implementation of New Mexico's energy transition.

7. **Clear Subsurface Authorities and Definitions**
Explores how greater clarity for geologic hydrogen, geothermal, and methane can reduce uncertainty, attract investment, and advance New Mexico's energy transition.

8. **Energy Systems Data and Emissions Reporting**
Identifies data and governance gaps that limit New Mexico's ability to manage its energy transition effectively and outlines how to achieve close to real-time data visibility, evaluate policy impacts, and measure progress.

9. **Investing in the Future: Revenue Diversification**
Considers diversifying New Mexico's revenue base as the energy transition progresses into growing clean energy industries, reducing fiscal volatility, and stabilizing revenues.

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Memo #4: Decarbonization of the Building Sector

To: Secretary Melanie Kenderdine, New Mexico Energy, Minerals, and Natural Resources Department
From: The Comprehensive Energy Transition Strategy (CETS) team
Date: October 7, 2025
Subject: Decarbonization of the Building Sector

Bottom Line Up Front

Decarbonizing New Mexico's buildings is essential to the state's energy transition. Reducing building energy use lowers emissions, as the sector accounts for approximately 5% of the state's emissions. It also cuts peak electricity and gas demand, which, when done at scale, can reduce or defer the need for expensive energy infrastructure, ultimately reducing New Mexicans' energy costs. The Sustainable Building Tax Credit (SBTC) has delivered measurable savings—70.6 million kBtu of energy saved and 3,178 metric tons of CO_2 avoided in 2022—but design, equity, and fiscal gaps limit its reach and long-term stability. Current rules exclude renters, tie eligibility to broadband and EV-readiness prerequisites, and rely heavily on LEED certification rather than verified energy performance. Limited data transparency weakens accountability, and annual credit rollover compromises fiscal predictability. This memo outlines targeted reforms to strengthen the SBTC: tie credits to measured energy savings and align with state-recognized clean energy definitions; expand eligibility to include renter-occupied buildings and remove non-energy prerequisites; and incorporate credit rollovers into annual caps while improving data reporting. These changes would make SBTC more equitable, transparent, and effective in driving building decarbonization statewide.

Issue Statement

Executive Order 2019-003 "On Addressing Climate Change and Energy Waste Prevention" directed state agencies to develop comprehensive climate policies.[1] In the buildings sector, New Mexico has tightened energy codes and expanded the Sustainable Building Tax Credit (SBTC)[2,3] to spur energy-efficient construction and retrofits.

Decarbonizing buildings is pivotal to New Mexico's energy transition. Even though buildings account for a smaller share of direct emissions than oil and gas or transportation (5% versus 39% and 22%, respectively),[4] cutting building energy use not only reduces its emissions but also lowers system-wide electricity and gas demand, reduces peak loads, helps lower the cost and complexity of grid decarbonization, and lowers energy bills. Building efficiency measures like improved insulation and high-performance heating and cooling systems reduce overall electricity consumption, which directly lowers peak demand during high-use periods—meaning utilities need less generation capacity, can

avoid expensive fossil-fuel peaker plants, and require fewer renewable installations and less grid infrastructure to achieve full decarbonization.

SBTC is already delivering measurable benefits for New Mexico. In 2022, the Energy, Minerals, and Natural Resources Department (EMNRD) staff approved 851 applications totaling $4.88 million for residential and commercial buildings, $305,464 for multi-family projects, and $67,215 for manufactured homes, resulting in 70.6 million kBtu of energy saved, 3,178 metric tons of CO_2 avoided, and an average savings of 40,008 Btu per square foot.[5] To sustain and scale these gains, the program needs design improvements to maximize effectiveness and reach households and projects facing the highest participation barriers.

The SBTC's design leaves significant gaps in accessibility. Because credits flow to the property owner making the qualifying investment, the roughly 30% of New Mexican households who rent[6] cannot benefit from energy efficiency upgrades—even though renters are disproportionately lower-income households who would benefit most from reduced energy bills. Landlords often lack incentives to invest in efficiency improvements when tenants pay the utility bills, creating a split-incentive problem that leaves renter-occupied buildings less efficient and their occupants bearing higher energy costs. The 2021 SBTC update compounded these access barriers by adding prerequisites such as broadband infrastructure and electric vehicle (EV) charging readiness, which add substantial upfront project costs that may be impractical or financially burdensome in rural or underserved areas, further discouraging participation.

Supporting Analysis

This analysis draws on three primary sources: (1) review of relevant statutes, regulations, and policy frameworks; (2) semi-structured interviews with stakeholders across state agencies, industry, and advocacy groups; and (3) survey responses from over 60 stakeholders representing government, industry, community organizations, and research institutions. The triangulation of these methods reveals key gaps in program design and equitable access that must be addressed to accelerate building decarbonization across New Mexico's diverse communities. These findings are described in further detail below.

The state's building tax credit could increase energy savings through performance-based incentives.

SBTC's building efficiency incentives could drive substantial energy reductions, but they rely on LEED certification, which prioritizes non-energy sustainability features over actual performance improvements. LEED certification awards points for various sustainability features not directly related to energy efficiency, such as bike racks, recycling programs, and transit proximity. While these elements support broader sustainability goals,

they do not necessarily improve actual building energy performance and may undermine the program's core energy efficiency objectives.

To address this limitation, the 2021 SBTC update introduced a performance path requiring projects to demonstrate specific energy savings beyond the current building code baseline; meaning, they must use at least 30% less energy than a comparable building built to meet only the minimum requirements. This means projects can no longer qualify solely based on non-energy features; they must achieve measurable energy performance improvements. However, the program's effectiveness still hinges on verification and enforcement: while the performance path ensures that a LEED Gold project must achieve at least 30% energy savings beyond code, those savings are typically based on energy modeling projections rather than actual post-occupancy performance, and the state currently has limited capacity to verify whether buildings meet their projected savings.

Additionally, SBTC's low-carbon definition is tied to LEED certification criteria, which may not align with New Mexico's own state-recognized clean energy sources—such as certain biomass or renewable natural gas technologies that are not eligible for LEED credits. This misalignment can prevent otherwise qualifying high-performance projects from receiving bonus credits simply because they use clean energy sources that LEED doesn't recognize, even when those sources are approved under New Mexico policy. By excluding state-recognized clean energy sources from eligibility, the program misses opportunities to incentivize decarbonization pathways that are both appropriate for New Mexico's energy landscape and consistent with state climate goals.

Potential Solutions

The Legislature could strengthen the SBTC framework by enhancing verification and enforcement of energy performance requirements and aligning eligibility with state-recognized definitions of clean energy, such as those in the Energy Transition Act and the Renewable Energy Act. This proposed revision would ensure public dollars flow to projects that deliver verifiable, measured energy savings and utilize clean energy pathways consistent with New Mexico's climate goals, rather than relying solely on pre-construction modeling and certifications that may not reflect real-world performance. Harmonization could be achieved by adopting a uniform classification of "low zero-carbon resources" across statutes, thereby streamlining regulatory processes and providing clarity and consistency.

Expanding SBTC eligibility to renters and removing prerequisites unrelated to energy efficiency would broaden participation and impact.

New Mexico's building tax credit currently excludes renters, thereby limiting its impact and preventing it from reaching a broader range of residents. Renters are excluded from

the SBTC because the credit is structured to benefit property owners who undertake and finance qualifying construction or renovation. This limits the program's equity impact since 30% of New Mexicans rent their homes, and 62% of New Mexican renters have household incomes under $50,000.[7] Such a design excludes many who would benefit most from lower energy bills, especially in urban, Tribal, and lower-income communities.

The 2021 SBTC update added broadband and EV-readiness requirements, which may limit the program's reach by adding cost and complexity for projects, particularly in rural or underserved areas. While these features advance important long-term goals for connectivity and transportation, they do not directly lower building energy use, which is the core purpose of the SBTC. EV and broadband requirements can raise upfront costs and design complexity, especially for rural projects with limited grid capacity or weak last-mile internet options. These additional features could also crowd out measures that produce immediate, metered savings (e.g., envelope improvements, heat pumps, or controls) under tight budgets.

Potential Solutions

The Legislature could create a renter-focused add-on within SBTC to allow benefits to flow to renters. It could include pass-through arrangements (e.g., on-bill credits or utility-verified bill reductions), targeted landlord incentives conditioned on rent protections and documented tenant savings, and transferable/refundable credits for multifamily projects serving low- and moderate-income renters. This closes a significant equity gap and directs savings to communities most burdened by energy costs.

The Legislature could revise the SBTC framework to unbundle broadband and EV-readiness from base eligibility, treating them as optional bonuses for base eligibility credits rather than prerequisites. EV and broadband access can be funded through dedicated programs instead of the SBTC baseline (e.g., the National Broadband Equity, Access, and Deployment program, National Electric Vehicle Infrastructure (NEVI) funds).[a] In addition, SBTC can require simple documentation that these add-ons do not displace higher-impact efficiency measures. This preserves equity and modernization benefits without diluting SBTC's primary mission: delivering measurable energy savings.

[a] On August 2025, the U.S. Department of Transportation has issued Interim Final Guidance revising the NEVI Formula Program to streamline applications, reduce regulatory requirements, and give states greater flexibility in using federal funds. The update also rescinds many equity, labor, and environmental provisions from the prior guidance. States are required to resubmit their EV Infrastructure Deployment Plans within 30 days of the new guidance's release, which gives New Mexico until early 2026 (U.S. Department of Transportation, press release, August 11, 2025).

Factoring SBTC credit rollover into annual budget caps and improving program data collection would allow New Mexicans to assess the program more effectively.

Factoring SBTC credit rollover into the annual budget cap is essential for revenue stability. Credits awarded but unclaimed within one year are often redeemed in later years. Without counting those carryforwards against the following year's cap, the program's effective revenue impact can exceed legislative intent and create unbudgeted revenue shortfalls that displace funding for other General Fund priorities. Over time, this unpredictability can erode confidence in the program's sustainability, complicate revenue forecasting, and make it harder for both lawmakers and participants to plan future investments.

SBTC lacks sufficient data transparency to assess program equity and effectiveness. Publicly available EMNRD data on utilization and reach of the SBTC are too limited to determine program success. For instance, EMNRD's 2023 annual report lists how many SBTC applications were approved and awards and spending for the Energy-Conserving Products category (covering items like heat pumps, insulation, and efficient windows installed in existing homes). The quarterly EMNRD Performance Report Card to the Legislature also shows how many SBTC applications were received and the share processed within 30 days.[8] Together, these documents track program activity and processing timeliness but do not provide additional detail on which credits are most utilized, whether bonus credits are claimed, or how many beneficiaries are in low-income households.

Potential Solutions

EMNRD could ensure SBTC credit rollover is factored into annual budget caps to maintain fiscal stability. An annual cap that explicitly includes rollovers preserves predictability for both the budget and tax credit recipients. Currently, unused tax credits can roll over to subsequent years, but it's unclear whether these rollovers count against the annual program cap. Including rollovers within the annual cap preserves budget predictability and prevents fiscal surprises for the Legislature and Taxation and Revenue Department, reducing the need for mid-year cuts or abrupt rule changes. It also smooths application activity, avoiding boom-and-bust surges that raise project costs and strain administrative capacity. Further, this approach stabilizes year-to-year spending, ensures consistent credit values that allow applicants to plan investments confidently, and prevents inequitable outcomes where early or well-capitalized applicants capture more generous credits while smaller or later projects receive less. By contrast, removing the cap entirely and adjusting credit amounts based on demand creates fiscal risk—demand can outpace adjustments, driving unpredictable costs and making long-term planning difficult for both the state and participants.

EMNRD could publish more granular data on SBTC credit use, bonus claims, and beneficiary distribution to facilitate assessments of the program's effectiveness. To evaluate whether SBTC is meeting its goals, EMNRD could release a regular, downloadable dataset disaggregated by credit type, bonus claims by type, income band, renter/owner status, and geography (e.g., county/Tribal/urban–rural), with clear metadata and privacy safeguards. This transparency would enable stakeholder to measure progress and target resources.

Summary of Potential Solutions

Key
Solution may be pursued through:
Legislative Action
Administrative/Regulatory Action

Table 1. Feasible and Impactful Solutions

 The state's building tax credit could increase energy savings through performance-based incentives.	**The Legislature could strengthen the SBTC framework by enhancing verification and enforcement of energy performance requirements and aligning eligibility with state-recognized definitions of clean energy, such as those in the Energy Transition Act and the Renewable Energy Act.** This proposed revision would ensure public dollars flow to projects that deliver verifiable, measured energy savings and utilize clean energy pathways consistent with New Mexico's climate goals, rather than relying solely on pre-construction modeling and certifications that may not reflect real-world performance. Harmonization could be achieved by adopting a uniform classification of "low zero-carbon resources" across statutes, thereby streamlining regulatory processes and providing clarity and consistency.
 Expanding SBTC eligibility to renters and removing prerequisites unrelated to energy efficiency would broaden participation and impact.	**The Legislature could create a renter-focused add-on within SBTC to allow benefits to flow to renters.** It could include pass-through arrangements (e.g., on-bill credits or utility-verified bill reductions), targeted landlord incentives conditioned on rent protections and documented tenant savings, and transferable/refundable credits for multifamily projects serving low- and moderate-income renters. This closes a significant equity gap and directs savings to communities most burdened by energy costs.
	The Legislature could revise the SBTC framework to unbundle broadband and EV-readiness from base eligibility, treating them as optional bonuses for base eligibility credits rather than prerequisites. EV and broadband access can be funded through dedicated programs instead of the SBTC baseline (e.g., the National Broadband Equity, Access, and Deployment program, National Electric Vehicle Infrastructure (NEVI) funds). In addition, SBTC can require simple documentation that these add-ons do not displace higher-impact efficiency measures. This preserves equity and modernization benefits without diluting SBTC's primary mission: delivering measurable energy savings.

 Factoring SBTC credit rollover into annual budget caps and improving program data collection would allow New Mexicans to assess the program more effectively.	**EMNRD could ensure SBTC credit rollover is factored into annual budget caps to maintain fiscal stability.** An annual cap that explicitly includes rollovers preserves predictability for both the budget and tax credit recipients. Currently, unused tax credits can roll over to subsequent years, but it's unclear whether these rollovers count against the annual program cap. Including rollovers within the annual cap preserves budget predictability and prevents fiscal surprises for the Legislature and Taxation and Revenue Department, reducing the need for mid-year cuts or abrupt rule changes. It also smooths application activity, avoiding boom-and-bust surges that raise project costs and strain administrative capacity. Further, this approach stabilizes year-to-year spending, ensures consistent credit values that allow applicants to plan investments confidently, and prevents inequitable outcomes where early or well-capitalized applicants capture more generous credits while smaller or later projects receive less. By contrast, removing the cap entirely and adjusting credit amounts based on demand creates fiscal risk—demand can outpace adjustments, driving unpredictable costs and making long-term planning difficult for both the state and participants.
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Stakeholder Overview

The following table and list highlight examples of legislative champions (lawmakers who have sponsored or supported policies addressing building efficiency) and other stakeholders whose roles, expertise, or influence intersect with New Mexico's decarbonization priorities in the buildings sector.

Table 2. Potential Legislative Champions

Role	Lawmaker	District	Justification
Rep	Kristina Ortez	House District 42 (D) (Taos)	Sponsored HB 15 – Sustainable Building Tax Credit: established the 2021 SBTC.
Rep	Tara L. Lujan	House District 48 (D) (Santa Fe)	Sponsored HB 15 – Sustainable Building Tax Credit: established the 2021 SBTC.
Rep	Javier Martinez	House District 11 (D) (Bernalillo)	Sponsored HB 15 – Sustainable Building Tax Credit: established the 2021 SBTC.
Rep	Linda Serrato	House District 45 (D) (Santa Fe)	Sponsored HB 15 – Sustainable Building Tax Credit: established the 2021 SBTC.

Preliminary List of Key Stakeholders

- **State Agencies**: Energy, Minerals and Natural Resources Department (EMNRD); New Mexico Environment Department (NMED); Economic Development Department (EDD)
- **Tribal Governments and Organizations**: Tribal governments; All Pueblo Council of Governors

- **Local Governments**: San Juan County; Lea County; Doña Ana County; Four Corners region municipalities
- **Construction and Building Sector**: High-efficiency and net-zero building firms (ECOTerra, Flow Homes, Pangea Biotecture, Build Green NM); affordable housing developers (Ventana Fund, Sol Housing, Yes Housing Inc.); Apartment Association of New Mexico
- **Community-Based Organizations**: Conservation Voters NM Education Fund; Four Corners Economic Development

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