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## FISCAL IMPACT REPORT

SPONSOR Chandler/Wirth/Ortez ORIGINAL DATE 02/01/21  
LAST UPDATED 03/02/21 HB 30/aHAWC/aHJC  
SHORT TITLE Water Lease & Use Effective Dates SB \_\_\_\_\_  
ANALYST Wan

### **ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)**

	FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>	See Fiscal Implications					

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates Senate Bill 16

### **SOURCES OF INFORMATION**

Legislative Finance Committee Files (LFC)

#### Responses Received From

Office of the State Engineer (OSE)

Department of Transportation (NMDOT)

#### Other Responses

New Mexico Acequia Association (NMAA)

### **SUMMARY**

#### Synopsis of HJC Amendment

The House Judiciary Committee amendment to House Bill 30 makes technical corrections to the bill's title and Section 1-B.

#### Synopsis of HAWC Amendment

The House Agriculture and Water Resources Committee amendment to House Bill 30 removes the bill's emergency clause and sets an effective date of July 1, 2023. The amendment specifies that the provisions of the bill apply to applications for water leases filed on or after the effective date. The amendment also replaces "clarifying" with "providing" in the bill's title.

#### Synopsis of Original Bill

House Bill 30 would amend Section 72-6-3 NMSA 1978 to specify that a lease of water by a

person who owns a water right is not effective until after the lessee files an application with the Office of the State Engineer (OSE), OSE provides public notice of the application and opportunity for a hearing on any protest filed in a timely manner, and the application is approved.

This bill contains an emergency clause and would become effective immediately upon signature by the governor.

### **FISCAL IMPLICATIONS**

The Department of Transportation (NMDOT) reports enactment of HB30 could cause delays in contractors' ability to use leased water on highway improvement projects, potentially resulting in project delays, increased project costs, or even a loss of federal funding if project timelines are significantly affected. The agency did not provide an estimate for the potential operating budget impact. OSE does not anticipate any fiscal impact from HB30.

### **SIGNIFICANT ISSUES**

Currently, OSE exercises the authority provided by existing law to issue "preliminary approvals" of applications to temporarily divert and use water under a water use lease prior to public notice of the application, opportunity to file protests, and final decision by the State Engineer. Despite the requirements under Section 72-6-6 NMSA 1978 for OSE to provide public notice of lease applications and a period of 70 days during which protests may be filed and to hold a hearing on any protested application, OSE argues that Section 72-6-5 NMSA 1978 authorizes the State Engineer to approve water use lease applications before those steps are complete if the applicant has shown the proposed use: (1) is beneficial, (2) will not impair an existing water right to a greater degree than current use would cause, and (3) will not be contrary to the conservation of water within the state or detrimental to the public welfare of the state.

OSE states the ability to issue preliminary application approvals in this manner provides "a flexible and effective mechanism for the State Engineer to regulate temporary changes in the diversion and use of water in non-emergency situations." Examples of such situations the agency says it would be unable to address under the provisions of HB30 include:

- The frequently changing water needs of the oil and gas industry;
- Temporary water needs of major construction projects;
- Highway construction projects;
- Leases that allow irrigators to pay back over-diversions or balance out accounting periods, which are used for quick resolution of OSE enforcement actions in systems that are fully appropriated; and
- Temporary needs for environmental projects, such as stream flow targets related to the federal Endangered Species Act.

Section 72-6-7 NMSA 1978 allows the State Engineer's final ruling on hearings to be appealed. NMDOT raised the question of whether the hearing appeal process, which HB30 does not address, would also need to be complete before a lease becomes effective. NMDOT has concerns about this bill resulting in highway construction project delays.

The New Mexico Acequia Association (NMAA) submitted an analysis in support of HB30, stating the bill will ensure fairness and due process in the way OSE grants approval of water lease applications. NMAA argues that OSE’s practice of preliminary approvals conflicts with Section 76-6-6 NMSA 1978, discussed above, and therefore the language added by HB30 is needed for further clarification of OSE’s authority. NMAA further states the protest and hearing process is crucial for stakeholders who have concerns about water lease applications and want those concerns considered before a lessee begins using water.

OSE, however, maintains that if an application that had been granted preliminary approval is eventually rejected after a hearing, the applicant is required to pay back all water diverted under the preliminary approval. OSE also reports that a portion of the agency’s permit application backlog are applications that have been granted preliminary approval. If HB30 is enacted, applicants for non-emergency, temporary water use leases would need to wait until OSE issues a final decision to approve the application before using water, which may take years.

### **ADMINISTRATIVE IMPLICATIONS**

According to OSE, the delay in the bill’s effective date proposed by the HAWC amendment is likely to generate a surge in applications for water use lease permits in the period leading up to July 1, 2023. This could put an administrative strain on OSE as staff attempt to process additional permit applications, potentially increasing the agency’s backlog of pending applications.

### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

As amended, HB30/aHAWC duplicates Senate Bill 16.

CW/sb/rl/al