

LFC Requester: _____

AGENCY BILL ANALYSIS - 2026 REGULAR SESSION

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(Analysis must be uploaded as a PDF)

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, an amendment, a substitute, or a correction of a previous bill}

Date Prepared: 1/23/2026 *Check all that apply:*
Bill Number: H21 Original Correction
 Amendment Substitute

Rep. García;
Sen. Jaramillo

Agency Name and Code Number: DFA-341

Sponsor: _____

Short Title: LAND GRANT-MERCED
ACEQUIA INFRASTRUCTURE
ACT

Person Writing Analysis: George Hypolite

Phone: (505) 490-2840 **Email:** George.Hypolite@dfa.nm.gov

SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		

(Parenthesis () indicate expenditure decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		
\$0	\$0	(\$46,660)	Recurring	Senior STB Revenue for Other Capital Projects
\$0	\$0	\$23,330	Recurring	Land Grant-Merced Project Fund
\$0	\$0	\$23,330	Recurring	Acequia Infrastructure Project Fund

(Parenthesis () indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	\$364.6	\$359.4	*\$359.3	\$1,083.3	RECURRING	GF

(Parenthesis () Indicate Expenditure Decreases)

**EST. REDUCED ONBOARDING COSTS AND ASSUMED 2% SALARY INC*

Duplicates/Conflicts with/Companion to/Relates to: Duplicates SB 59
 Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

Original Bill Summary

- Legislation Overview:
 - Enacts the Land Grant-Merced and Acequia Infrastructure Act to support infrastructure development for land grants-mercedes and acequias.
 - Creates three funds:
 1. Land Grant-Merced and Acequia Infrastructure Trust Fund (non-reverting, investment-based).
 2. Land Grant-Merced Infrastructure Project Fund (administered by the Department of Finance and Administration in consultation with the Land Grant Council).
 3. Acequia Infrastructure Project Fund (administered by the Department of Finance and Administration in consultation with the Interstate Stream Commission).
- Funding Mechanism:
 - Trust fund receives distributions, appropriations, gifts, grants, and donations.
 - Annual distributions from the trust fund to project funds based on specific thresholds.
 - Allocates 1.1% of severance tax bonding capacity for land grant-merced projects and 1.1% for acequia projects.
- Project Scope: The two project funds may be used to provide funding for projects, encompassing planning, construction, environmental assessments, land acquisition, and durable equipment for infrastructure projects.

- Accountability: The bill requires annual reports to legislative interim committees on expenditures, project progress, and recommendations for improvement.
- Delayed Repeal: Section 10 (bonding capacity allocation) is repealed on July 1, 2032.
- Effective Date: July 1, 2026.

House Rural Development, Land Grants, and Cultural Affairs Proposed Amendment

The proposed amendment to the committee on HB21 focuses on clarifying deadlines, modifying language related to infrastructure, expanding project scopes, and specifying funding allocations for certain projects. Below is a description of the proposed amendments.

- Page 1: Removal of specific text on lines 15 and 16.
- Page 2: Addition of a deadline, "by July 1, 2027," before "in" on line 22.
- Page 3: Removal of "water and wastewater" on line 8 and other infrastructure-related terms on lines 9-11. Addition of "and community" after "economic" on line 12. Inclusion of the deadline "by July 1, 2027," before "in" on line 24.
- Page 4: Modification of text on line 8 to include a colon and paragraph designation "(1)". Addition of "disaster response recovery and hazard mitigation" before "improvement" on line 11. Expansion of the scope to include planning, designing, constructing, equipping facilities, acquiring land, easements, or rights of way, and purchasing durable equipment.
- Page 7: Replacement of "department" with "council" on lines 9 and 16.
- Page 11: Insertion of a new subsection (E) specifying allocation of bonding capacity for land grant-merced and acequia infrastructure projects between July 1, 2027, and July 1, 2032.
- Page 15: Removal of Sections 10 and 11.
- General: Relettering and renumbering of subsections and sections as necessary.

FISCAL IMPLICATIONS

DFA Administrative Costs

The Department of Finance and Administration (DFA) will incur high administrative costs to manage the Land Grant-Merced Infrastructure Project Fund and the Acequia Infrastructure Project Fund. Additionally, DFA would be required to promulgate rules for the origination of grants and loans for qualified projects. DFA has not included any administrative cost burden in its base budget for FY27.

Based on the information provided in HB21 and the proposed amendments, it is anticipated that

HB21 will create additional administrative costs for the Department of Finance and Administration, the Land Grants Council, and the Interstate Stream Commission. DFA anticipates that the administration of both the Land Grant-Merced Infrastructure Project Fund and the Acequia Infrastructure Project Fund will require approximately 4,124 additional work hours per year. The administrative costs are likely to include:

- **Fund Management:** Costs associated with DFA managing expenditures as well as the drawdowns of both the Land Grant-Merced Infrastructure Project Fund and the Acequia Infrastructure Project Fund, including staff salaries, office expenses, and financial management systems.
- **Legal Drafting and Review:** Cost associated with DFA drafting and promulgating rules, drafting template agreements for grants and loans, as well as reviewing projects to ensure compliance with bonding and IRS requirements.
- **Project Evaluation and Monitoring:** Expenses related to evaluating project proposals, monitoring funded projects, and ensuring compliance with the requirements, including staff time and resources for site visits and data analysis.
- **Reporting:** Costs associated with preparing/submitting annual reports to the appropriate interim legislative committees, and including staff time and administrative support.

As detailed below, if the bill is passed, DFA would anticipate hiring two project managers to perform administrative services for the funds at pay band 75 for fiscal year 2026, at an estimated cost of \$284,402.80.

FTE COST DETAILS

PAY BAND 75

SALARY	\$ 101,816.00
BENEFITS	\$ 35,292.40
ISD RATE	\$ 950.40
HCM ASSESSMENT FEE	\$ 385.00
TELECOM RATE	\$ 677.60
*ON-BOARDING EQUIPMENT	\$ 3,080.00
TOTAL COST PER	\$ 142,201.40
FTES NEEDED	2
TOTAL FTE COST	\$ 284,402.80

* Includes cell phone, laptop, monitors, and licensing

Additionally, DFA anticipates 500 work hours (at \$150 per hour, totaling \$75,000 per fiscal year) for legal drafting and review, as well as general indirect costs related to fund accounting and administration. DFA also anticipates a one-time cost of \$5,250 to promulgate rules, for a total of \$364,652.80 in FY26 and \$359,402.80 in FY27. DFA has not included these costs in its base budget for FY26 or FY27.

Impacts to Severance Tax Bonding Capacity

HB21 will significantly limit the State Board of Finance's ability to fully fund earmarked projects at the levels approved by the Legislature.

- Currently, earmark projects are anticipated to require \$425.7 million in short term note capacity in FY28. Based on modeling projections, these earmarks will create a \$85.1 million deficit in note capacity for FY28. Annual debt proceeds to each project fund created by HB21 will average \$23.3 million between FY28 and FY30 (total \$46.6 million), on top of the \$425.7 million, for a total of \$472.3 million.
- In FY28, when the allocation to the two funds of severance tax bond proceeds would begin, short-term note capacity will be insufficient to fund all earmark programs, including the two proposed, and the capital development reserve fund.
- The State Board of Finance will not be able to fund all commitments for short-term note proceeds in FY28 or in subsequent years. This will result in earmark programs and/or the capital development reserve fund receiving less funding overall than is statutorily earmarked.
- The allocation of senior severance tax bond capacity to each of the proposed project funds is offset by an equal reduction in capacity for other capital projects to be funded by senior severance tax bond capacity. This equates to an average annual \$46.6 million between FY28 and FY30. This effectively reduces the funding available for general appropriation. This impact to capacity would occur beginning in FY28.
- The 1.1% earmarks, as provided for in the legislation and estimated at \$46 million annually beginning in FY28, will significantly constrict senior severance tax bond capacity for other general capital appropriations moving forward. Current commitments to existing earmark programs, including water, tribal, and colonias, and the housing trust fund, and the capital development reserve fund comprise just over 57 percent of all senior severance tax bond capacity and about 65 percent of senior short-term bond capacity.
- Allocating capacity to the proposed funds will result in "earmarked" commitments of short-term severance tax bonding capacity, comprising 78% of all senior severance tax bond capacity (The Capital Development Reserve Fund plus water, tribal, colonias, housing trust fund, plus land grant-merced and acequias), leading to a projected \$131.3 million capacity deficit in FY28 that will have to be cut from the prior earmarked commitments.

SIGNIFICANT ISSUES

Severance Tax Bonding Capacity and Capital Outlay

HB21 requires funding levels that the State Board of Finance (SBOF) cannot accommodate under existing law. According to the SBOF's most recent capacity estimates, there will be insufficient severance tax note capacity (i.e., unobligated cash) in FY28 and beyond to fund all earmark programs (existing and proposed) and commitments to the capital development reserve fund.

- Earmark programs have historically and necessarily been funded through the state's short-term debt capacity (i.e., cash-funded notes) because these programs do not meet the IRS requirements for issuing tax-exempt bonds. The proposed programs would be no different.

- Insufficient severance tax note capacity will likely prompt the SBOF to reduce funding for all earmark programs to meet its statutory requirements.
- The SBOF is currently estimating a shortfall in note capacity of \$85 million in FY28. Adding the proposed programs to the obligation of note funding would further exacerbate the current shortfall estimate.
- The only other option for the SBOF would be to consider issuing long-term bonds for the earmark programs; however, doing so would be highly detrimental to the State's overall debt portfolio and conditions for earmarked projects because it would have to issue taxable long-term bonds.
 - Federal law creates significant regulatory and compliance differences between taxable and tax-exempt bonds. Taxable bonds offer operational flexibility without federal tax restrictions but entail higher borrowing costs and market segmentation.
 - States generally avoid taxable bonds because they are more expensive, attract additional market scrutiny, and offer no benefit to state taxpayers when tax-exempt financing is legally available.
- For example, the FY26 short-term bonding capacity is only \$59.2 million when accounting for existing earmark programs and the capital development reserve fund.
 - With no short-term debt capacity for other capital purposes, the SBOF has no ability to fund other capital projects that, like the earmark programs, may not strictly meet IRS requirements for tax-exempt bonds.
 - The inability to use short-term notes to fund certain capital projects eliminates critical flexibility within the severance tax bonding program and a critical avenue to fund legislative priorities for capital projects that do not meet strict IRS requirements.
 - If additional tax-exempt financing is employed to fulfill earmarks, it will reduce flexibility for all earmarked capital projects, potentially disqualifying many, since they must adhere to stricter requirements for tax-exempt funding, such as timelines for expenditure, project readiness, and how proceeds are used.
- Not only would issuance costs and interest rates be significantly higher for taxable debt, resulting in millions more in debt service per financing, but taxable bonds are perceived as a riskier investment and subject to additional scrutiny of how they will be used to fund capital projects.
 - Further, as the State's existing issued portfolio consists of tax-exempt structures, New Mexico's investors are only familiar with the issuance of tax-exempt structures by the state. Were the state to consider taxable bonds, it would need to enhance its disclosure systems, educate investors, and consider negotiated sales

(rather than public sales), which would likely be more costly and time-consuming for the state.

Administrative Issues

- The Land Grant Council is administratively attached to the DFA/Local Government Division, whereas the Interstate Stream Commission is attached to the Office of the State Engineer (OSE).
 - OSE has developed guidelines for the Acequia and Community Ditch Infrastructure Fund (ACDIF) that are used to make recommendations to the Commission on the planning, engineering design, and construction of Acequia and community ditch projects under their Acequias Construction Programs.
 - It is recommended that OSE consult with DFA and the Interstate Stream Commission to implement the Acequia infrastructure project fund.
- Under the proposed amendment to HB21, DFA would be required to promulgate rules to fund (through grants or loans) projects selected by the Land Grant Council and Interstate Stream Commission, without any oversight or involvement in the application process or vetting of projects to ensure compliance with bonding requirements.

PERFORMANCE IMPLICATIONS

- Under HB 21, DFA is required to administer two funds in consultation with both the Land Grant Council and the Interstate Stream Commission. DFA will have to work in concert with the Council and the Commission to adopt rules governing the terms and conditions for qualified projects and to establish priorities for providing infrastructure assistance for each project fund.

ADMINISTRATIVE IMPLICATIONS

- DFA will be required to develop rules, an application process, evaluation procedures, qualifications, and a form agreement, in consultation with the Land Grant Council and the Interstate Stream Commission, for applicants and projects overseen under HB 21. Additionally, DFA will have to develop internal controls for the origination, reimbursement, reporting, and monitoring of grant agreements for qualified projects.
 - The State Board of Finance will be required to deny funding to projects that do not meet strict IRS tax requirements for long-term bonds, including funding to existing earmark programs, projects otherwise approved by the Land Grant Council, or Interstate Stream Commission.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

- HB21 of the 2026 regular legislative session is a duplicate of HB330 introduced during the 2025 regular legislative session.

- HB21 of the 2026 regular legislative session is a duplicate of Senate Bill 59 (SB59): Land Grant-Merced & Acequia Trust.

TECHNICAL ISSUES

N/A.

OTHER SUBSTANTIVE ISSUES

N/A.

ALTERNATIVES

N/A.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

N/A.

AMENDMENTS

N/A.