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FISCAL IMPACT REPORT

BILL NUMBER: House Bill 21/aHRDLC

SHORT TITLE: Land Grant-Merced Acequia Infrastructure Act

SPONSOR: Reps. Garcia, MP & Serrato/Sen. Jaramillo

LAST ORIGINAL
UPDATE: 1/31/26 **DATE:** 1/26/26 **ANALYST:** Carswell/Torres

REVENUE* (dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
Capacity/ Revenue			(\$44,100.0)	(\$46,000.0)	(\$46,000.0)	Recurring	Member-share capital outlay, statewide capital outlay, Water projects earmark, Colonias earmark, Tribal infrastructure earmark, Housing trust fund Earmark
Capacity/ Revenue			\$22,050.0	\$23,000.0	\$23,000.0	Recurring	Land grant-merced project fund
Capacity/ Revenue			\$22,050.0	\$23,000.0	\$23,000.0	Recurring	Acequia infrastructure project fund

Parentheses indicate revenue decreases.

*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency or Agencies Providing Analysis

State Investment Council

Department of Finance and Administration/Board of Finance

Office of the State Auditor

SUMMARY

Synopsis of HRDLC Amendment to House Bill 21

The House Rural Development, Land Grants and Cultural Affairs Committee (HRDLC) amendment modifies the scope, timing, and administration of infrastructure assistance authorized in HB21 by expanding eligible project types outside of water for land grant-merced infrastructure, delaying effectiveness by one year, revising allowable uses of funds, shifting certain administrative responsibilities from the Department of Finance and Administration to the Land Grant Council, and restructuring the severance tax bonding provisions by removing a standalone bonding section and instead inserting a time-limited allocation of bonding capacity within existing statute.

Synopsis of Original Bill

House Bill 21 (HB21) would enact the Land Grant-Merced and Acequia Infrastructure Act, creating a new statutory framework to provide infrastructure assistance to land grants-mercedes and acequias through a permanent trust fund model and associated project funds. The bill establishes three new funds: the land grant-merced and acequia infrastructure trust fund, the land grant-merced infrastructure project fund, and the acequia infrastructure project fund.

HB21 also amends the Severance Tax Bonding Act to allocate bonding capacity away from other earmarks, local, member-directed capital projects, and statewide capital outlay capacity and redirect it to land grant-merced and acequia infrastructure projects and authorizes the issuance of severance tax bonds for those purposes.

The trust fund is created as a nonreverting fund in the state treasury and is invested by the state investment officer, subject to approval of the state investment council, in accordance with the Uniform Prudent Investor Act. The bill establishes a two-tier distribution mechanism: When the trust fund balance exceeds \$5 million, annual distributions equal either 3 percent of the fund balance or 4.7 percent of the five-year rolling average market value, whichever test applies, with proceeds split evenly between the two project funds.

The bill authorizes the land grant council and the interstate stream commission to develop rules, evaluate applications, and recommend qualified infrastructure projects, including water, wastewater, irrigation, roads, emergency facilities, and other infrastructure supporting economic development and flood protection. Balances in the project funds revert annually to the trust fund, except for severance tax bond proceeds, which revert to the severance tax bonding fund.

The effective date of the act is July 1, 2026, with a delayed repeal of the new bonding-capacity allocation on July 1, 2032.

FISCAL IMPLICATIONS

By delaying the start of bonding allocations until July 1, 2027, the amendment changes the next year fiscal impact relative to the introduced bill. However, the structural shortfall of available funds remains and would require reducing funding from other earmarks, from statewide or local capital outlay, or both.

Expanding eligible project categories for land grant-merced infrastructure will increase demand for funding and increase administrative and capital outlay pressures compared with the introduced version. Shifting administrative responsibility to the land grant council may have fiscal implications if additional staffing, technical assistance, or administrative capacity is required to carry out duties previously assigned to the department of finance and administration.

Once capitalized, the trust fund will generate annual distributions that are effectively earmarked for land grant-merced and acequia infrastructure projects, reducing legislative discretion over the use of those funds for capital outlay in future years. The five-year rolling market-value formula, when triggered, provides a more sustainable distribution structure.

The bill allocates one and one-tenth percent of estimated severance tax bonding capacity for land grant-merced projects and one and one-tenth percent for acequia projects. These allocations

reduce the bonding capacity available for other capital priorities, including traditional capital outlay, member-directed capital outlay, and existing severance tax bond earmarks for water projects, colonias infrastructure, tribal infrastructure, and the housing trust fund. While the delayed repeal in 2032 limits long-term exposure, the allocations represent an opportunity cost during the years they are in effect.

This bill creates another earmark on capital outlay capacity. With the proliferation of earmarks and diversions from this source, there are serious concerns about the risk to maintaining statewide infrastructure, paying long-term debts, and making large investments when needed as the erosion of the revenue base and an increase in revenue volatility converge. Given the current revenue estimates for capital outlay sponge bonding capacity, there is insufficient funding to cover this new earmark and all other existing commitments. The Board of Finance would have to shave all other earmarks, reduce capital outlay available for statewide or local projects, or both.

SIGNIFICANT ISSUES

HB21 represents a notable shift in fiscal policy by moving land grant-merced and acequia infrastructure toward a standing, trust-fund-style financing model, rather than the traditional capital outlay process. While this approach may enhance funding stability and predictability, it also reduces legislative flexibility relative to capital outlay, which allows for multi-year reauthorizations, project extensions, and periodic reassessment of priorities.

In addition, most existing endowment and permanent funds are structured so that revenues generated for a specified purpose remain subject to legislative appropriation. Establishing a sizable trust fund for the benefit of a defined set of constituents without an ongoing appropriation requirement would represent a departure from this norm and could effectively elevate these projects above other statewide priorities. Such a structure limits the Legislature's ability to balance competing needs across sectors and fiscal years and warrants careful consideration in the context of overall budget governance and equity among funding priorities.

The bill requires land grants and acequias to apply for funding through the new project funds before seeking legislative capital outlay, effectively creating a gatekeeping mechanism. While this may improve project vetting and prioritization, it could also slow access to capital for entities with limited administrative capacity.

The equal split of trust fund distributions between land grants-mercedes and acequias does not account for differences in project scale, urgency, or geographic need, potentially leading to inefficiencies in resource allocation.

Although the bill enhances infrastructure support for historically underserved entities, it also creates a parallel infrastructure funding system that operates partly outside the traditional legislative capital planning process. Additionally, the Interstate Stream Commission already administers grant and loan programs for acequias that support projects outside the capital outlay process. Those programs are supported with funding from the irrigation works construction fund.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to House Bill 88 and duplicates Senate Bill 59.

TECHNICAL ISSUES

Section 5, Subsection D, of the bill calls for a distribution from the trust fund to the project funds equal to 3 percent of the fund balance as of the end of a fiscal year. Because the bill does not specify when this distribution should occur, presumably the SIC would make the distribution as soon as practicable after the end of the fiscal year. However, to reduce potential volatility of distributions, and to align distributions with the common structure of other trust funds, SIC staff recommend amending the bill to base the distribution on an average calendar year-end fund balance. Below is sample language for such an amendment:

D. Except as provided in Subsection E of this section, if, as of the end of a fiscal year, the balance in the trust fund is over five million dollars (\$5,000,000), three percent of the average of the year-end market value of the balance in the trust fund for the immediately preceding five calendar years shall be divided into equal distributions to the land grant-merced infrastructure project fund and the acequia infrastructure project fund.

Section 5, Subsection E, of the bill calls for a test to determine whether 4.7 percent of the average fund value over the last five calendar years is greater than \$5 million but then calls for a distribution of 4.7 percent of the balance of the trust fund if that test condition is met. This creates a misalignment, wherein the test is based on a five-year average, but the distribution itself is not. The bill should align the distribution with the test to ensure consistency and that both calculations are measured on the same basis. Below is a sample language for such an amendment:

E. If, on July 1 of any year, four and seven-tenths percent of the average of the year-end market value of the balance in the trust fund for the immediately preceding five calendar years exceeds five million dollars (\$5,000,000), four and seven-tenths percent of the average of the year-end market value of the balance in the trust fund for the immediately preceding five calendar years shall be divided into equal distributions to the land grant-merced infrastructure project fund and the acequia infrastructure project fund.

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