

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the Legislature. LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

## FISCAL IMPACT REPORT

**BILL NUMBER:** CS/House Bill 371/HAFCS

Public Peace, Health, Safety & Welfare

**SHORT TITLE:** Land Grant-Merced & Acequia Infrastructure

**SPONSOR:** House Appropriations & Finance Committee

**LAST ORIGINAL**  
**UPDATE:** \_\_\_\_\_ **DATE:** 2/14/26 **ANALYST:** Torres

### REVENUE\* (dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
Severance Tax Revenues		Up to (\$40,000.0)	\$0.0	\$0.0	\$0.0	Recurring	Severance Tax Permanent Fund
Severance Tax Bonds		Up to \$40,000.0	\$0.0	\$0.0	\$0.0	Recurring	Land Grant-Merced and Acequia Infrastructure Trust Fund

Parentheses indicate revenue decreases.

\*Amounts reflect most recent analysis of this legislation.

Conflicts with House Bills 21 and 371 and Senate Bill 59  
 Relates to House Bill 88

### Sources of Information

LFC Files

Agency or Agencies Providing Analysis  
 Board of Finance

## SUMMARY

### Synopsis of HAFC Substitute for House Bill 371

The House Appropriations and Finance Committee (HAFC) substitute for House Bill 371 (HB371) enacts the Land Grant-Merced and Acequia Infrastructure Act, creates the land grant-merced and acequia infrastructure trust fund as a new permanent-endowment-style fund in the state treasury, creates two companion project funds, revises severance tax bonding allocations to capitalize the trust fund, and establishes an annual distribution formula from the trust fund to the project funds. The bill also authorizes up to \$175 million per year in severance tax bond capacity, under certain conditions, to be issued for deposit into the trust fund and establishes reporting requirements.

The trust fund is structured as a nonreverting fund invested by the state investment officer subject to the approval of the state investment council and subject to legislative appropriation. Beginning July 1, 2028, the bill provides for annual distributions from the trust fund to the land grant-merced infrastructure project fund and the acequia infrastructure project fund based on a percentage of a five-year rolling average of market value, with a 3 percent distribution when the calculated amount exceeds \$40 million.

The bill also amends Section 7-27-10.1 NMSA 1978 to allocate remaining short-term senior severance tax bonding capacity, after existing allocations, to the trust fund until the fund balance reaches \$175 million.

The effective date of the bill is July 1, 2026.

## FISCAL IMPLICATIONS

The fiscal implications of the committee substitute of HB371 could be substantial. Fiscal impacts are scored against the latest estimate of the Consensus Revenue Estimating Group, which does not expect excess capacity of short-duration senior severance tax bonds (often called sponge notes) in FY27 and beyond. These forecasts are updated frequently, and an increase in oil prices could substantially increase the capacity and create large distributions to this fund. If oil prices remain low or fall lower, the structure of the distribution would not create an over-encumbrance and instead distribute zero. An increase to \$65 per barrel in oil prices in FY27 could result in a transfer of \$157.8 million to the newly created trust fund for this purpose.

The allocation of excess senior note capacity to the proposed trust fund would result in foregone capacity that would otherwise exist for public school capital projects and the severance tax permanent fund. This is because excess senior bonding capacity at the end of any given fiscal year typically flows to a combination of supplemental severance tax bonding capacity, which is utilized by the Public School Capital Outlay Council for capital awards to public school districts, and the severance tax permanent fund, which then provides distributions back into the general fund annually.

**Creation of a New Permanent Trust Fund.** The bill creates a new endowment-style trust fund that will accumulate principal from appropriations, gifts, grants, and, critically, severance tax bond proceeds. Income from investment is retained in the trust fund, and annual distributions are made to the two project funds based on a rolling five-year average market value formula.

This structure mirrors other state permanent funds in that it seeks to create a stable, recurring revenue stream insulated from annual appropriations volatility. However, unlike traditional permanent funds capitalized with cash surpluses or severance tax permanent fund transfers, this trust fund may be capitalized in part with severance tax bonds. Because severance tax bonds are backed by severance tax revenues and represent debt obligations of the state, capitalizing a permanent-style endowment with bond proceeds introduces a structural consideration on using short-term debt to capitalize investment accounts.

**Severance Tax Bonding Allocations.** The bill allocates any remaining sponge notes, after required transfers and existing allocations (including earmarks to water and tribal infrastructure projects and similar uses), to the trust fund until its balance reaches \$175 million.

This allocation reduces bonding capacity otherwise available for investment in the severance tax permanent fund. This strategy redirects investments from one permanent endowment to another. This will decrease earnings in the severance tax permanent fund and instead earmark those investments for specific beneficiaries. The severance tax permanent fund distributes income to the general fund, which can be prioritized each year, while this structure restricts the flexibility of the investments earned on these proceeds to only acequias and land grants.

**Annual Distribution Formula.** Beginning July 1, 2028, annual distributions are triggered when the trust fund balance exceeds \$40 million, based on 3 percent of a five-year rolling average of market value. The use of a five-year rolling average moderates volatility but does not eliminate structural risk if distribution rates exceed long-term real returns net of inflation.

**Reversion and Flow Mechanics.** Balances in each project fund revert annually to the trust fund, except for severance tax bond proceeds that must revert to the severance tax bonding fund.

This design reinforces the endowment model by recycling unused funds back into the corpus rather than allowing balances to accumulate in the project funds. It reduces idle balances but may create timing pressures for project authorization and expenditure within fiscal years.

The bill does not include a recurring appropriation, but diverts or “earmarks” revenue, representing a recurring loss from the general fund. LFC has concerns with including continuing distribution language in the statutory provisions for funds because earmarking reduces the ability of the Legislature to establish spending priorities.

The Department of Finance and Administration adds:

The Department of Finance and Administration (DFA) will incur significant 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 in HB371, it is anticipated that HB371 would create additional administrative costs for DFA, the Land Grants Council, and the Interstate Stream Commission. DFA anticipates administering both the land grant-merced infrastructure project fund and the acequia infrastructure project fund would require approximately 4,124 additional work hours per year.

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**

<b>SALARY</b>	\$ 101,816.00
<b>BENEFITS</b>	\$ 35,292.40
<b>ISD RATE</b>	\$ 950.40
<b>HCM ASSESSMENT FEE</b>	\$ 385.00
<b>TELECOM RATE</b>	\$ 677.60

<b>*ON-BOARDING EQUIPMENT</b>	\$ 3,080.00
<b>TOTAL COST PER</b>	\$ 142,201.40
<b>FTES NEEDED</b>	2
<b>TOTAL FTE COST</b>	\$ 284,402.80

\* Includes cell phone, laptop, monitors, and licensing

Additionally, DFA anticipates 500 work hours (at \$150 per hour, totaling \$75 thousand per fiscal year) for legal drafting and review, along with general indirect costs for fund accounting and administration. DFA also anticipates a one-time \$5,250 cost 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.

## **SIGNIFICANT ISSUES**

The bill establishes a permanent funding stream for land grant-merced and acequia infrastructure projects outside the traditional annual capital outlay and general fund appropriation process. This approach may provide long-term stability and predictability for entities that historically rely on a variety of other funding sources.

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.

Furthermore, the structure reduces the amount of funding from the severance tax permanent fund that is subject to annual legislative prioritization. Once the trust fund is capitalized and distribution formulas are established, annual transfers occur automatically pursuant to statute for specific purposes reducing the Legislature’s flexibility to redirect funding in response to changing statewide infrastructure needs.

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 is in conflict with House Bill 371 and Senate Bill 59.

IT/hg/sgs