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AGENCY BILL ANALYSIS - 2025 REGULAR SESSION**WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO****[AgencyAnalysis.nmlegis.gov](https://www.legis.nm.gov/AgencyAnalysis) and email to billanalysis@dfa.nm.gov*****(Analysis must be uploaded as a PDF)*****SECTION I: GENERAL INFORMATION***{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}***Date Prepared:** 3.14.2025*Check all that apply:***Bill Number:** SB374a-341Original ☐ Correction ☐Amendment ☒ Substitute ☐

Sponsor:	Sen. Jaramillo; Sen. Campos; Sen. Gonzales	Agency Name and Code	DFA-341
Short Title:	LAND GRANT-MERCED & ACEQUIA INFRASTRUCTURE	Number:	
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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		
(\$75.203)	(\$75.661)	(\$77.358)	Recurring	Senior STB Revenue for Other Capital Projects
\$35.811	\$36.029	\$40.521	Recurring	Tribal Infrastructure Fund
\$19.696	\$19.816	\$20.260	Recurring	Acequia Infrastructure Trust Fund

\$19.696	\$19.816	\$20.260	Recurring	Land Grant-Merced Project fund
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(Parenthesis () indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$258.55	\$255.75*	\$514.3	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

*On-boarding equipment is not needed in the second year and subsequent years

Duplicates/Conflicts with/Companion to/Relates to: HB 330
 Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

Amendments in Context

- The Senate Indian, Rural and Cultural Affairs Committee (SIRC) amendment to Senate Bill 374 (SB374a):
 - Specifies that distributions from the Land Grant-Merced and Acequia Infrastructure Trust Fund to the Land Grant-Merced Infrastructure Project Fund and Acequia Infrastructure Project Fund shall begin in Fiscal Year 2031.
 - Specifies that distributions from the Trust Fund to the two Project Funds should occur on August 1 each year (beginning in Fiscal Year 2031).
 - Increases the annual allocation of severance tax bonding capacity to tribal infrastructure projects from the current 4.5 percent to 6.5 percent.

ORIGINAL BILL SUMMARY

- Senate Bill 374 (SB 374) enacts the Land Grant-Merced and Acequia Infrastructure Act. The Act creates a land grant-merced infrastructure project fund and an Acequia infrastructure project fund, establishing a Land Grant-Merced and Acequia Infrastructure trust fund that is non-reverting to the state treasury.
- The Act authorizes the State Board of Finance to allocate 1.1% percent of the estimated bonding capacity for land grant-merced infrastructure projects and 1.1% of the estimated bonding capacity for acequia infrastructure projects.

- The Trust Fund would consist of appropriations, severance tax bonds, donations, and income from investment of the trust fund.
- On July 1 of each year in which the balance in the trust fund is over \$5 million, 3% of the balance in the trust fund shall be divided into equal distributions to the land grant-merced infrastructure project fund and the acequia infrastructure project fund. If the balance in the trust fund exceeds \$5 million for the preceding five calendar years, 4.7% of the balance in the trust fund shall be divided into equal distributions to the land grant-merced infrastructure project fund and the acequia infrastructure project fund.
- The land grant-merced infrastructure project fund will be administered by the Department of Finance and Administration (DFA) in consultation with the Land Grant Council (Council).
- DFA will administer the Acequia infrastructure project fund in consultation with the Interstate Stream Commission (Commission).
- DFA will work in concert with the Council and the Commission to adopt rules governing terms and conditions for qualified projects and establish priorities for providing infrastructure assistance for each project fund.
- DFA will develop application and evaluation procedures, qualifications, and forms for applicants and projects. DFA will originate and monitor grant agreements for qualified projects.
- 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.
- Proceeds to each project fund range from \$19.7 million in FY25 to \$20.3 million in FY27 (total \$39.4 million and \$40.5 million). Likewise, the reduction in funding for other capital projects (to be appropriated by the legislature) ranges from \$39.4 million in FY25 and \$41.6 million in FY27.
- Existing FY25 commitments of short-term senior severance tax bond proceeds already exceed FY25 capacity, meaning there is zero capacity remaining for new commitments this fiscal year.
- When combining the proposed programs with existing earmark and reserve fund commitments, short-term senior severance tax bond capacity commitments will represent approximately 70 percent of total short-term senior bond capacity in FY25, an increase from the current 65 percent.

Qualified projects for Land Grant-Merced Infrastructure assistance include:

- Planning, designing, constructing, improving, expanding or equipping water and wastewater facilities, major water systems, electrical power lines, communications infrastructure, roads, health infrastructure, emergency response facilities and

infrastructure needed to encourage economic development.

- Developing engineering feasibility reports for infrastructure projects.
- Providing special engineering services.
- Completing environmental assessments or archaeological clearances and other surveys for infrastructure projects.
- Acquiring land, easements, or rights of way.
- Purchasing durable equipment.

Qualified projects for Acequia Infrastructure assistance include:

- Planning, engineering design, or construction of irrigation works and infrastructure projects, including dams, reservoirs, diversions, ditches, flumes, or other appurtenances for restoration, repair, improvement of irrigation efficiency, and protection from floods.

Disbursements

- Disbursements from each project fund shall be made by warrant of the secretary of finance and administration pursuant to vouchers signed by the chair of the Council for Land Grant-Merced Infrastructure Projects and by the chair of the Commission for Acequia Infrastructure Projects.

Reporting Requirements

The Council shall report to the appropriate legislative interim committee no later than November 1 of each year. The Commission shall report to the appropriate legislative interim committee no later than October 1 of each year. Each report shall include:

- Total expenditures from the project fund for the previous fiscal year.
- The purposes of which expenditures were made.
- An analysis of the progress of the projects funded.
- Recommendations for improvement of the Land Grant-Merced and Acequia Infrastructure Act.

Balances in the Land Grant-Merced or Acequia Infrastructure Project Fund remaining at the end of the fiscal year shall revert to the Trust Fund. Any unexpended balance from proceeds of severance tax bonds issued for a Land Grant-Merced or Acequia Infrastructure Project shall revert to the severance tax bonding fund within six months of the project's completion.

The effective date of this bill is July 1, 2025.

FISCAL IMPLICATIONS

SIRC Amendment to SB 374

- SB374a increases the annual allocation of severance tax bond capacity for the tribal infrastructure fund (TIF) from 4.5 percent to 6.5 percent. This increase decreases the severance tax bonding (STB) capacity that the Legislature can use to appropriate new capital projects on a recurring basis.
- The increase in allocation will result in an FY25 allocation to TIF of \$116.4 million, representing an increase of \$35.8 million, or 44 percent. For FY26, the allocation is estimated to be \$117.1 million, an increase of \$36.0 million. The increase in allocation results in an equal decrease in capacity for allocation to other capital needs.
- SB374a would result in dedicated earmark allocations totaling 24.7 percent each year.
- SB374a would take effect in FY25 and before the final bond sale of the fiscal year. The State Board of Finance (BOF) does not have sufficient capacity in the bonding fund to accommodate the new earmarks in FY25. See Amendments section below.
 - BOF already estimates a shortfall of \$92.7 million in the bonding fund's short-term senior bonding capacity for FY25, which is the funding source for existing earmarks. This is due to appropriations from FY25's short-term capacity made in the 2024 capital outlay bill.
 - The increase in the allocation to TIF further exacerbates this issue (by \$35.8 million).

Original Analysis

DFA will incur administrative costs to manage the Land Grant-Merced Infrastructure Project Fund and Acequia Infrastructure Project Fund. DFA has not included any administrative cost burden within its base budget for FY26.

As detailed below, hiring two project managers at pay band 75 for fiscal year 2025 will cost an estimated \$258,548.

<u>FTE Cost Detail</u>	
Salary	92,560
Benefits	32,084
ISD Rate	864
HCM Assessment Fee	350
Telecom rate	616
On-Boarding Equipment*	2,800
Total Cost per FTE	129,274
FTE's needed	2
Total FTE Cost	258,548

* Includes cell phone, laptop, monitors and licensing

SIGNIFICANT ISSUES

SIRC Amendment to SB 374

- SB374a's 1.1% earmarks and increase in allocation to the TIF from 4.5 percent to 6.5 percent will constrict senior severance tax bond capacity for other general capital appropriations moving forward.
- SB374a would take effect in FY25 and before the final bond sale of the fiscal year. BOF does not have sufficient capacity in the bonding fund to accommodate the new earmarks in FY25.
 - BOF already estimates a shortfall of \$92.7 million in the bonding fund's short-term senior bonding capacity for FY25, which is the funding source for existing earmarks. This is due to appropriations from FY25's short-term capacity made in the 2024 capital outlay bill.
 - The increase in the allocation to TIF further exacerbates this issue (by \$35.8 million). BOF recommends that any new severance tax bond capacity allocations be made before January 15 of the fiscal year the legislature desires the change to take effect. See Amendments section below.

Original Analysis

- The Land Grant Council is administratively attached to the DFA/Local Government Division, while the Interstate Stream Commission is administratively attached to the Office of the State Engineer (OSE).
- OSE has developed Acequia and Community Ditch Infrastructure Fund (ACDIF) guidelines that are used to make recommendations to the Commission for planning, engineering design, and construction of Acequia and community ditch projects under their Acequias Construction Programs.
- It is recommended that OSE consult with the Interstate Stream Commission to implement the Acequia infrastructure project fund.
- The 1.1% earmarks, as provided for in the legislation and estimated at close to \$40 million annually over the next several years, will constrict senior severance tax bond capacity for other general capital appropriations moving forward. Current commitments to existing earmark programs, including water, tribal, and colonies, the housing trust fund, and the capital development reserve fund comprise just over 45 percent of all senior severance tax bond capacity and about 65 percent of senior short-term bond capacity.

- Continued growing commitments of senior short-term bond capacity for annual earmarks/set-asides could eventually use up the entire senior short-term bond capacity in a fiscal year. In fact, legislation passed during the 2024 Session created this scenario. In FY25, commitments of senior short-term bond capacity exceed the funding available. If the legislature does not correct the issue in the 2025 Session, the Board of Finance will be required to delay some funding to earmark programs. While FY25 is a unique example, it is important to be aware of the increasing commitments of senior short-term bond capacity. It further constricts overall flexibility in the use of funds from senior severance tax bonding capacity.

PERFORMANCE IMPLICATIONS

N/A.

ADMINISTRATIVE IMPLICATIONS

N/A.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

- House Bill 330 is a duplicate.
- House Bill 25 is similar in that it enacts the Land Grant-Merced Infrastructure Act and creates a land grant-merced infrastructure trust fund; however, it does not include acequias.

TECHNICAL ISSUES

SIRC Amendment to SB 374

- SB374a's long title references increasing "supplemental" severance tax bond distributions. The allocations to earmark programs do not come from supplemental severance tax bonding capacity. That capacity is reserved for public school capital projects, which need to be certified by the Public School Capital Outlay Council.

Original Analysis

- SB 374 states an appropriation is included; however, the bill authorizes the State Board of Finance to allocate 1.1% percent of the estimated bonding capacity for land grant-merced infrastructure projects and 1.1% of the estimated bonding capacity for acequia infrastructure projects. There is no appropriation.

OTHER SUBSTANTIVE ISSUES

N/A.

ALTERNATIVES

N/A.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

- Without the increased allocation to TIF, Tribes, nations and pueblos will continue to rely more heavily on capital outlay funding for projects.

AMENDMENTS

- Amend the bill such that the new and increased STB allocations take effect in FY26.