FISCAL IMPACT REPORT

BILL NUMBER: House Bill 37

SHORT TITLE: Man-Made Water Infrastructure Failure

SPONSOR: Cates

LAST UPDATE: **ORIGINAL DATE:** 1/23/2026 **ANALYST:** Faubion

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
Property Tax	Indeterminate but minimal loss	Indeterminate but minimal loss	Indeterminate but minimal loss	Indeterminate but minimal loss	Indeterminate but minimal loss	Recurring	Local Governments
Property Tax	Indeterminate but minimal loss	Indeterminate but minimal loss	Indeterminate but minimal loss	Indeterminate but minimal loss	Indeterminate but minimal loss	Recurring	State GO Bonding Fund

Parentheses indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency or Agencies Providing Analysis
Taxation and Revenue Department (TRD)

Agency or Agencies That Were Asked for Analysis but did not Respond
Department of Finance and Administration (DFA)
NM Department of Agriculture (NMDA)
NM Acequia Commission
NM Acequia Association
NM Counties

Agency or Agencies That Declined to Respond
Office of the State Engineer/Interstate Stream Commission (OSE)
New Mexico Finance Authority (NMFA)

SUMMARY

Synopsis of House Bill 37

House Bill 37 (HB 37) expands the definition of "agricultural use" for property tax valuation purposes to include land that is rested due to a man-made infrastructure failure in a special water district that results in delivery of 70 percent or less of the water delivered to district users in the prior calendar year, provided the land was used for qualifying agricultural purposes in the applicable prior years. The bill requires a special water district experiencing such an infrastructure failure to certify the reduced water delivery to the appropriate county assessor in each property tax year in which the failure continues.

The provisions of this bill apply to property tax years beginning on or after January 1, 2026.

FISCAL IMPLICATIONS

Land that qualifies as being used primarily for agricultural purposes is valued under a special method of valuation. Instead of market value, the county assessor values the land based on its capacity to produce agricultural products (for example, crop productivity or grazing carrying capacity), using standardized production assumptions and capitalization rates adopted by the Taxation and Revenue Department. Improvements to the land (such as buildings) are valued separately by their appropriate method and added to the land value. This production-capacity approach generally results in a lower taxable value than market-based valuation for comparable land. This bill expands the definition of agricultural properties to include land that is rested due to a man-made water infrastructure failure.

Evaluating the fiscal impact of this bill is difficult due to limited information on both the scope of potentially affected properties and current valuation practices. There is no statewide data identifying how many parcels are served by special water districts that may experience qualifying infrastructure failures, how frequently such failures occur, or the duration of reduced water deliveries. In addition, parcel-level information on current agricultural classification, assessed values under agricultural versus non-agricultural valuation methods, and how assessors across counties interpret and apply existing "resting of land" provisions is not centrally available. Without consistent data on the number of parcels that could newly qualify for agricultural valuation, their underlying market values, and the extent to which the bill would alter existing assessor determinations, the potential impact on property tax revenues cannot be reliably quantified.

This bill will likely reduce property valuations for a small number of parcels across the state. Even when such reduction in value occurs, yield control measures will increase the mill rate applied to all properties resulting in no local operating revenue loss. The yield control statute (7-37-7.1 NMSA 1978) adjusts operating tax rates to offset revenue losses or gains from outsized changes to the aggregate property taxable values within each tax district. For example, when taxable property values grow too much within a district, yield control will reduce the tax rate to maintain "reasonable" revenue growth. If aggregate property values decline, as would be the case with this bill, the tax rate can be increased for the entire tax district to maintain revenue. The magnitude of the offsetting in this case is difficult to calculate without access to very specific tax information for affected properties. Any non-yield-controlled mills, such as those imposed by special districts or for local bonding, could see a loss of revenue. State general obligation bonds are not yield-controlled, so any reduction in property value would impact revenue to the state GO bonding fund.

The Taxation and Revenue Department note that man-made infrastructure failures can vary by type, magnitude, and affect different areas of the state forming a distinct cluster of properties. Predicting the nature of those failures, their location, and the magnitude of their effects makes it challenging to calculate a fiscal impact. Any future fiscal impact on a county and other property taxing districts will depend on the random occurrence of these events and how the county would have valued the land in that case, absent this proposal. In theory, the fiscal impact would be neutral, as the land would retain its "agriculture use" valuation. In addition, if this bill results in lower valuations for some properties, it is likely that total operating revenue collected by any property taxing entity will be unchanged through yield control.

SIGNIFICANT ISSUES

The bill provides a clear statutory mechanism to maintain agricultural valuation for land that is temporarily unable to produce due to a documented man-made infrastructure failure in a special water district. By tying eligibility to certified reductions in water delivery and requiring prior qualifying agricultural use, the legislation offers predictability to landowners and assessors and reduces the risk of abrupt reclassification during events outside the control of the property owner. This approach aligns with existing policy that allows agricultural valuation during drought-related resting of land and may support continuity in land management and local agricultural activity during infrastructure disruptions.

The certification requirement placed on special water districts may also improve administrative clarity by shifting factual determinations about water delivery shortfalls to the entities that manage and measure water distribution. This could reduce disputes at the parcel level and promote more consistent application of agricultural valuation standards across counties when infrastructure failures occur.

The bill could be difficult to administer and potentially subject to uneven application due to limited statewide standards on what constitutes a "man-made infrastructure failure" and how water delivery reductions are measured and reported. Chronic or long-term infrastructure deficiencies in some districts could result in repeated certifications, allowing large numbers of parcels to remain under agricultural valuation for extended periods even if agricultural production is not realistically feasible. This could reduce property tax revenues relative to market valuation and create disparities between similarly situated properties inside and outside affected districts.

There is also a broader policy question about whether land with persistently non-viable water supplies should continue to receive agricultural valuation. In some cases, market valuation may better reflect the land's highest and best use, particularly where agricultural production is no longer practicable due to ongoing infrastructure or water availability constraints. By preserving agricultural valuation in these circumstances, the bill may reduce incentives for land-use transition or infrastructure investment, depending on how frequently and for how long certifications are issued.

TRD notes the bill intends to provide some property tax relief for taxpayers with agricultural land impacted by man-made infrastructure failures that could occur for any number of reasons. Weather disasters, aging infrastructure, and accidents could impact the infrastructure supplying water to land used for agricultural use in different areas of the State. Recently land in certain counties has been impacted by water system failures that have negatively impacted taxpayers' use of the land for agricultural purposes. This bill would provide a consistent statewide policy for county assessors to follow in the event of such an occurrence.

ADMINISTRATIVE IMPLICATIONS

The bill's applicability to property tax years beginning on or after January 1, 2026 could pose implementation challenges for county assessors. Property tax classifications and valuations are typically determined based on use and conditions in the prior tax year, and assessors rely on established annual cycles for receiving applications, verifying eligibility, and issuing notices of valuation. The bill requires assessors to incorporate certifications from special water districts regarding infrastructure failures and reduced water deliveries, but those certifications may occur mid-year or after key valuation deadlines. Aligning the timing of district certifications with existing assessment calendars, determining how to apply the new criteria to parcels already valued or noticed, and ensuring consistent treatment across counties could require additional guidance or rulemaking to avoid inconsistent or retroactive adjustments during the first year of implementation.

TRD's Property Tax Division will review compliance by county assessors during the annual assessor evaluations.

TECHNICAL ISSUES

The Taxation and Revenue Department recommends that in Subsection A on page 7, line 3 the following be added after the word "continues", "and include the taxpayers and properties impacted by the failure." This list of taxpayers and associated properties will assure clarity for the county assessor when reviewing the annual property valuations.

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