

LFC Requester:	Davidson
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AGENCY BILL ANALYSIS - 2025 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, amendment, substitute or a correction of a previous bill}

Date Prepared: 02/17/25 *Check all that apply:*
Bill Number: SB374 Original Correction
 Amendment Substitute

Sponsor: Jaramillo, Campos, Gonzales **Agency Name and Code** 337 – State Investment Office
Short Title: Land Grant-Merced & Acequia Infrastructure **Number:** _____
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SECTION II: FISCAL IMPACT

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		
(39,400.0)	(39,600.0)	(40,600.0)	Recurring	Severance Tax Bonding Capacity
\$19,700.0	\$19,800.0	\$20,300.0	Recurring	Land Grant-Merced Infrastructure Project Fund <i>(from severance tax bonding fund)</i>
\$19,700.0	\$19,800.0	\$20,300.0	Recurring	Acequia Infrastructure Project Fund <i>(from severance tax bonding fund)</i>

(Parenthesis () indicate revenue decreases); estimates are rounded to the nearest thousand

Duplicates HB330; Relates to HB25

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

Senate Bill 374 creates two new funds for land grant-merced and acequia infrastructure projects: a Land Grant-Merced Infrastructure Project Fund and an Acequia Infrastructure Project Fund (collectively the “Project Funds”). The Department of Finance and Administration would administer both funds in consultation with the Land Grant Council and the Interstate Stream Commission, respectively. These agencies may establish rules and procedures for administering the fund and originating grants for qualified projects. The Project Funds would each receive an earmarked 1.1 percent of annual STB capacity for qualified projects.

The bill also creates a new Land Grant-Merced and Acequia Infrastructure Trust Fund (the “Trust Fund”), which would provide annual distributions in equal parts to the Project Funds. However, the bill does not make an appropriation to the Trust Fund or provide a funding source.

This bill has no effective date; the assumed effective date is 90 days following the end of the session (June 20, 2025).

FISCAL IMPLICATIONS

The bill creates a Trust Fund with potential to provide a recurring funding source to the Project Funds; however, without an appropriation to the Trust Fund, this provision would have no fiscal impact. Should the Trust Fund receive a future appropriation, then on July 1 each year, the fund would distribute 3 percent of the fund balance to the Project Funds, or 4.7 percent of the fund balance if that amount exceeds \$5 million. The Trust Fund would make no distribution if the market value is less than \$5 million.

As currently constructed, the primary source of funding for the Project Funds would be a 1.1 percent earmark for each fund of annual severance tax bonding (STB) capacity. Since the bill has no effective date (becoming effective on June 20, 2025) the earmark is assumed to apply to the June 30, 2025 bond sale, affecting FY25 STB capacity.

Land Grant-Merced Infrastructure Project Fund (\$millions)							Acequia Infrastructure Project Fund (\$millions)						
Fiscal Year	Distrib Date	Beginning Balance	Contrib. from Trust Fund (July 1)	Contrib. from 1.1% STBs (June 30)	Approp. for Projects	Ending Balance	Fiscal Year	Distrib Date	Beginning Balance	Contrib. from Trust Fund (July 1)	Contrib. from 1.1% STBs (June 30)	Approp. for Projects	Ending Balance
FY25	Jul-24	\$ -	\$ -	\$ 19.70	\$ -	\$19.70	FY25	Jul-24	\$ -	\$ -	\$19.696	\$ -	\$19.70
FY26	Jul-25	\$19.70	\$ -	\$ 19.82	\$(19.70)	\$19.82	FY26	Jul-25	\$ 19.70	\$ -	\$19.816	\$(19.70)	\$19.82
FY27	Jul-26	\$19.82	\$ -	\$ 20.26	\$(19.82)	\$20.26	FY27	Jul-26	\$ 19.82	\$ -	\$20.260	\$(19.82)	\$20.26
FY28	Jul-27	\$20.26	\$ -	\$ 20.78	\$(20.26)	\$20.78	FY28	Jul-27	\$ 20.26	\$ -	\$20.780	\$(20.26)	\$20.78
FY29	Jul-28	\$20.78	\$ -	\$ 20.89	\$(20.78)	\$20.89	FY29	Jul-28	\$ 20.78	\$ -	\$20.890	\$(20.78)	\$20.89
FY30	Jul-29	\$20.89	\$ -	\$ 20.62	\$(20.89)	\$20.62	FY30	Jul-29	\$ 20.89	\$ -	\$20.623	\$(20.89)	\$20.62
FY31	Jul-30	\$20.62	\$ -	\$ 20.08	\$(20.62)	\$20.08	FY31	Jul-30	\$ 20.62	\$ -	\$20.080	\$(20.62)	\$20.08
FY32	Jul-31	\$20.08	\$ -	\$ 19.63	\$(20.08)	\$19.63	FY32	Jul-31	\$ 20.08	\$ -	\$19.631	\$(20.08)	\$19.63
FY33	Jul-32	\$19.63	\$ -	\$ 19.40	\$(19.63)	\$19.40	FY33	Jul-32	\$ 19.63	\$ -	\$19.395	\$(19.63)	\$19.40
FY34	Jul-33	\$19.40	\$ -	\$ 19.67	\$(19.40)	\$19.67	FY34	Jul-33	\$ 19.40	\$ -	\$19.667	\$(19.40)	\$19.67
FY35	Jul-34	\$19.67	\$ -	\$ 19.00	\$(19.67)	\$19.00	FY35	Jul-34	\$ 19.67	\$ -	\$ 19.00	\$(19.67)	\$19.00
FY36	Jul-35	\$19.00	\$ -	\$ 19.00	\$(19.00)	\$19.00	FY36	Jul-35	\$ 19.00	\$ -	\$ 19.00	\$(19.00)	\$19.00
FY37	Jul-36	\$19.00	\$ -	\$ 19.00	\$(19.00)	\$19.00	FY37	Jul-36	\$ 19.00	\$ -	\$ 19.00	\$(19.00)	\$19.00
FY38	Jul-37	\$19.00	\$ -	\$ 19.00	\$(19.00)	\$19.00	FY38	Jul-37	\$ 19.00	\$ -	\$ 19.00	\$(19.00)	\$19.00
FY39	Jul-38	\$19.00	\$ -	\$ 19.00	\$(19.00)	\$19.00	FY39	Jul-38	\$ 19.00	\$ -	\$ 19.00	\$(19.00)	\$19.00
FY40	Jul-39	\$19.00	\$ -	\$ 19.00	\$(19.00)	\$19.00	FY40	Jul-39	\$ 19.00	\$ -	\$ 19.00	\$(19.00)	\$19.00

The table above provides a simplified example of the available funding for each Project Fund, assuming the entire available amount would be spent that year; however, in practice, any unspent funds would be available for use in subsequent years.

Project Fund balances at the end of a fiscal year would revert to the Trust Fund, except for STB proceeds. Six months after completion of project that received STB funding, any unspent STB proceeds for that project would revert to the severance tax bonding fund.

Bond sales generally occur on December 31st and June 30th. For this analysis, we assume the proceeds from the STB earmark are part of the June 30 bond sale each year, making those funds available for projects the following fiscal year.

Under this assumption, approximately \$39.4 million would be available in FY27 for land grant-merced and acequia infrastructure projects (\$19.7 million each), and the Project Funds would each receive an inflow of \$20.3 million in STB proceeds at the end of that fiscal year, which would be available for expenditure in FY28.

PERFORMANCE IMPLICATIONS

The bill's structure for Trust Fund distributions is to send a percentage of the current fund value as of July 1 any given year to the Project Funds, which is not standard and will create more volatile distribution levels year-over-year, especially during times of market volatility. Typically endowments and trusts base distributions on three- or five-year fund valuations, as longer-term averages create smoother distributions, aiding the budgeting and planning process.

The State Investment Officer, with the approval of the State Investment Council would manage the Fund in accordance with the Uniform Prudent Investor Act and would seek to ethically optimize risk-adjusted returns and grow the fund over time. The Council does not currently have a "boilerplate" asset allocation for any fund, including the proposed Fund, but it is a fair assumption that the new fund could/would be constructed in a manner similar to other permanent/trust funds managed by the SIC.

ADMINISTRATIVE IMPLICATIONS

Because the bill does not seek funding for the Trust Fund it places under SIC management, the bill would have no immediate impact on SIC operations.

However, we would note this bill is one of several bills introduced so far this session that seek to create new funds to be placed under SIC management, which collectively would require significant additional staff time and resources:

- House Bill 7 creates a new Children's Future Fund to be managed by the SIC. The bill seeks to seed the fund with an initial \$5 million general fund appropriation.
- House Bill 11 seeks to create a new Paid Family Medical Leave Fund to be managed by the SIC (however, SIC noted in its fiscal impact report that this is an expenditure fund that would be best managed by the State Treasurer's Office).
- House Bill 25 creates a new Land Grant-Merced Infrastructure Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$20 million general fund appropriation.
- House Bill 113 creates a new Animal Welfare Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$10 million general fund appropriation.
- Senate Bill 1 creates a new Behavioral Health Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$1 billion general fund appropriation.
- Senate Bill 88 creates a new Medicaid Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$300 million general fund appropriation.

- Senate Bill 234 creates a Tribal Education Trust to be managed by SIC. The bill seeks to seed the trust with a \$100 million general fund appropriation.
- Senate Bill 358 creates a new Equine Shelter Rescue Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$20 million general fund appropriation.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill largely duplicates House Bill 330 with minimal differences.

Language in the bill runs contrary to the clean-up language around Trust/Program fund functions in Senate Bill 202, which creates standardized language requiring investment of funds to be in accordance with the Uniform Prudent Investor Act and creates more consistent trust fund distribution mechanisms that are based on a percentage of a rolling average calendar-year-end market value.

House Bill 25 also creates a new land grant-merced infrastructure trust fund and project fund. The bill seeks to seed the trust fund with a \$20 million general fund appropriation and provide the project fund with a recurring 1.1 percent earmark of STB capacity.

TECHNICAL ISSUES

The bill calls for a distribution from the Trust Fund to the Project Funds on July 1 equal to 3% or 4.7% of the fund balance as of that date. For accounting and timing reasons, the structure is problematic.

The funds managed by SIC – now 12 reserve, endowment and permanent funds as well as 25 governmental clients – are unitized in investment pools with valuations determined monthly. Therefore, the valuation would need to be as of June 30. However, the reconciliation process for determining monthly valuations for each of those funds takes roughly 21 days each month, so the earliest a June 30 valuation could be determined based on unaudited totals would be roughly July 21, *making a July 1 distribution impossible*.

SIC staff recommend amending the bill to allow SIC sufficient time to determine the market value of the fund and make a distribution as soon as practicable. This would allow for a functional fund structure to be in place should the Trust Fund receive future appropriations.