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AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

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SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Date Prepared: 03/10/25 *Check all that apply:*
 Original Correction
Bill Number: SB374/aSIRC 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		
(75,200.0)	(75,600.0)	(77,400.0)	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>
35,800.0	36,000.0	36,800.0	Recurring	Tribal Infrastructure Projects (STB capacity)

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

Duplicates HB330; Relates to HB25

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis of SIRC Amendments

The Senate Indian, Rural and Cultural Affairs Committee (SIRC) amendments to SB374 increase the severance tax bonding (STB) capacity for tribal infrastructure projects from 4.5 percent to 6.5 percent, which would add about \$36 million to STB capacity for this purpose. The amendments state that distributions from the Land Grant-Merced and Acequia Infrastructure Trust Fund are to

begin in FY31; however, the trust fund remains unfunded unless it receives a separate appropriation in the General Appropriation Act or some other legislation.

Additionally, the SIRC amendments to Section 5(B) of the bill address the technical issue raised by SIC staff to allow SIC sufficient time to determine the market value of the trust fund before making a distribution, clarifying the distribution is to occur on August 1 (rather than July 1).

The House Rural Development, Land Grants and Cultural Affairs Committee (HRDLC) amendments to HB330 make minor technical changes to references to the Department of Finance and Administration (DFA) and the Internal Revenue Code, and clarifies DFA will “promulgate” rules.

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)						
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
FY26	Jul-25	\$19.70	\$ -	\$ 19.82	\$(19.70)	\$19.82
FY27	Jul-26	\$19.82	\$ -	\$ 20.26	\$(19.82)	\$20.26
FY28	Jul-27	\$20.26	\$ -	\$ 20.78	\$(20.26)	\$20.78
FY29	Jul-28	\$20.78	\$ -	\$ 20.89	\$(20.78)	\$20.89
FY30	Jul-29	\$20.89	\$ -	\$ 20.62	\$(20.89)	\$20.62
FY31	Jul-30	\$20.62	\$ -	\$ 20.08	\$(20.62)	\$20.08
FY32	Jul-31	\$20.08	\$ -	\$ 19.63	\$(20.08)	\$19.63
FY33	Jul-32	\$19.63	\$ -	\$ 19.40	\$(19.63)	\$19.40
FY34	Jul-33	\$19.40	\$ -	\$ 19.67	\$(19.40)	\$19.67
FY35	Jul-34	\$19.67	\$ -	\$ 19.00	\$(19.67)	\$19.00
FY36	Jul-35	\$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
FY39	Jul-38	\$19.00	\$ -	\$ 19.00	\$(19.00)	\$19.00
FY40	Jul-39	\$19.00	\$ -	\$ 19.00	\$(19.00)	\$19.00

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
FY25	Jul-24	\$ -	\$ -	\$19.696	\$ -	\$19.70
FY26	Jul-25	\$19.70	\$ -	\$19.816	\$(19.70)	\$19.82
FY27	Jul-26	\$19.82	\$ -	\$20.260	\$(19.82)	\$20.26
FY28	Jul-27	\$20.26	\$ -	\$20.780	\$(20.26)	\$20.78
FY29	Jul-28	\$20.78	\$ -	\$20.890	\$(20.78)	\$20.89
FY30	Jul-29	\$20.89	\$ -	\$20.623	\$(20.89)	\$20.62
FY31	Jul-30	\$20.62	\$ -	\$20.080	\$(20.62)	\$20.08
FY32	Jul-31	\$20.08	\$ -	\$19.631	\$(20.08)	\$19.63
FY33	Jul-32	\$19.63	\$ -	\$19.395	\$(19.63)	\$19.40
FY34	Jul-33	\$19.40	\$ -	\$19.667	\$(19.40)	\$19.67
FY35	Jul-34	\$19.67	\$ -	\$ 19.00	\$(19.67)	\$19.00
FY36	Jul-35	\$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
FY39	Jul-38	\$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 and created with \$5M initial appropriation from General Fund.
- House Bill 11 creates 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 STO).
- 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.
- House Bill 330 creates a new Land Grant-Merced & Acequia Infrastructure Trust fund to be managed by SIC. Gets funding from STB capacity.
- House Bill 475 creates a new Transportation Trust Fund to be managed by SIC funded with a \$400 million general fund appropriation.
- House Bill 520 creates a Sustain the Families Trust Fund to be managed by SIC in consult with HCA; to be expended by the legislature; no source funding provided
- House Bill 531 creates a new Osteopath Medicine Escrow Fund to be managed by SIC and funded with a \$40 million transfer from the Tobacco Settlement Permanent Fund

- 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 new Tribal Education Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$100 million general fund appropriation.
- Senate Bill 358 creates an Equine Welfare Trust Fund to be managed by SIC and funded with a \$40 million general fund appropriation.
- Senate Bill 374 creates a Land Grant-Merced & Acequia Infrastructure Fund to be managed by SIC; gets funding from STB capacity.
- Senate Bill 380 creates the Physician Graduate Medical Education Trust Fund to be managed by SIC with \$100 million general fund appropriation.
- Senate Bill 397 creates the Next Generation Trust Fund (Baby Bonds) to be funded with \$500,100 general fund appropriation and managed by the SIC in consultation with the Treasurer.

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

Section 5(B) of the bill calls for a distribution from the Trust Fund to the Project Funds on July 1 equal to 3% 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 Section 5(B) 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.