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FISCAL IMPACT REPORT

SPONSOR <u>Sen. Wirth/Rep. Chatfield</u>	LAST UPDATED _____
	ORIGINAL DATE <u>1/18/24</u>
SHORT TITLE <u>Water Trust Fund</u>	BILL NUMBER <u>Senate Bill 1</u>
	ANALYST <u>Carswell</u>

APPROPRIATION* (dollars in thousands)

FY24	FY25	Recurring or Nonrecurring	Fund Affected
\$100,000.0		Nonrecurring	General Fund

Parentheses () indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

REVENUE* (dollars in thousands)

Type	FY24	FY25	FY26	FY27	FY28	Recurring or Nonrecurring	Fund Affected
	\$100,000.0					Nonrecurring	Water Trust Fund
			\$800.0	\$2,000.0	\$3,100.0	Recurring	Water Project Fund

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

Sources of Information

LFC Files

Agency Analysis Received From
New Mexico Finance Authority (NMFA)
State Investment Council (SIC)

SUMMARY

Synopsis of Senate Bill 1

Senate Bill 1 transfers \$100 million from the general fund to the water trust fund in fiscal year 2024.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or May 15, 2024, if enacted.

FISCAL IMPLICATIONS

The transfer of \$100 million contained in this bill is a nonrecurring expense to the general fund. The water trust fund is a constitutionally protected fund invested by the State Investment Council.

In 2023, the Legislature appropriated \$100 million to the water trust fund to address the fund’s long-term solvency. At the time, the fund was valued at roughly \$41 million and had a 50 percent chance of fully depleting over the next 20 years due to an annual distribution to the water project fund of at least \$4 million that is required by statute. The \$100 million appropriation addressed the fund’s long-term solvency.

According to the State Investment Council, the water trust fund is now valued at \$140.3 million. The trust fund annually distributes \$4 million or 4.7 percent of the five-year average value of the fund – whichever is greater – to the water project fund. Distributions have historically been a flat \$4 million because the value of the fund never grew large enough for 4.7 percent to exceed \$4 million.

The State Investment Council states the \$100 million appropriation in SB1 would allow the trust fund to begin distributing 4.7 percent of its five-year average value to the water project fund sooner than otherwise anticipated, resulting in increased revenue to the project fund from the trust fund. The increased annual distributions relative to what is expected based on the trust fund’s current value would grow significantly over time – from an additional \$800 thousand in FY26 to an additional \$10.5 million in FY51, according to the State Investment Council. The council estimates a cumulative benefit from SB1 to the water project fund of more than \$170 million by 2050.

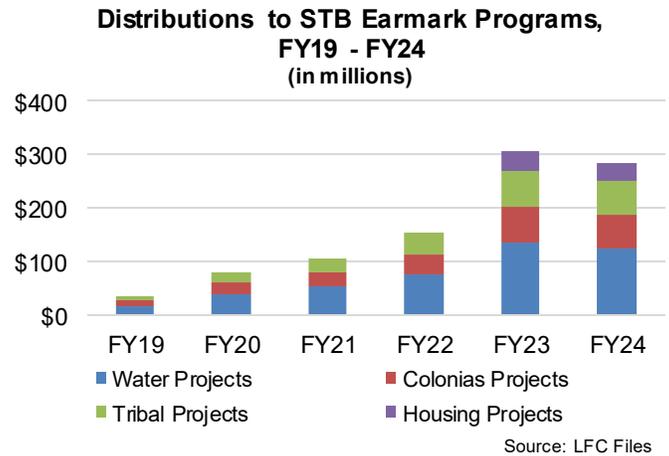
SIGNIFICANT ISSUES

The water project fund is administered by the New Mexico Finance Authority (NMFA), which makes grants and loans to water projects recommended for funding by the Water Trust Board and authorized by the Legislature. In addition to water trust fund distributions, the water project fund receives a 9 percent earmark on annual senior severance tax bond (STB) capacity.

State Investment Council’s Projected Distributions to Water Project Fund (in millions)			
Fiscal Year	Current	Under SB1	SB1 Addt'l Amt
FY18	\$4.0		
FY19	\$4.0		
FY20	\$4.0		
FY21	\$4.0		
FY22	\$4.0		
FY23	\$4.0		
FY24	\$4.0	\$4.0	\$0.0
FY25	\$4.0	\$4.0	\$0.0
FY26	\$4.0	\$4.8	\$0.8
FY27	\$4.9	\$7.0	\$2.0
FY28	\$6.0	\$9.2	\$3.1
FY29	\$7.2	\$11.5	\$4.3
FY30	\$7.5	\$13.0	\$5.5
FY31	\$7.8	\$13.5	\$5.7
FY32	\$8.0	\$14.0	\$6.0
FY33	\$8.3	\$14.5	\$6.2
FY34	\$8.5	\$14.9	\$6.4
FY35	\$8.8	\$15.4	\$6.6
FY36	\$9.1	\$15.8	\$6.8
FY37	\$9.3	\$16.3	\$7.0
FY38	\$9.6	\$16.8	\$7.2
FY39	\$9.9	\$17.3	\$7.4
FY40	\$10.2	\$17.8	\$7.6
FY41	\$10.5	\$18.3	\$7.8
FY42	\$10.8	\$18.9	\$8.1
FY43	\$11.1	\$19.4	\$8.3
FY44	\$11.5	\$20.0	\$8.6
FY45	\$11.8	\$20.6	\$8.8
FY46	\$12.2	\$21.2	\$9.1
FY47	\$12.5	\$21.9	\$9.3
FY48	\$12.9	\$22.5	\$9.6
FY49	\$13.3	\$23.2	\$9.9
FY50	\$13.7	\$23.9	\$10.2
FY51	\$14.1	\$24.6	\$10.5

Source: SIC

Severance tax bond earmark distributions to the water project fund have grown dramatically over the last several years with rising oil and gas revenues. In FY24, the earmark for water projects will distribute nearly \$125 million to the fund. Demand for these funds has also increased. For the FY24 funding cycle, the Water Trust Board received 65 applications totaling over \$275 million, according to NMFA, or more than double the available funding. NMFA expects demand to remain high in the future, though severance tax revenues are expected to decline. The Board of Finance estimates a \$105 million distribution to the water project fund from STB proceeds in FY28.



CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB1 relates to a special appropriation in House Bill 2 of \$100 million from the general fund to the water trust fund.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The water trust fund will continue to make annual distributions to the water project fund but at a lower level than if SB1 were enacted. Less money would be available for award by the Water Trust Board than if SB1 were enacted.

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