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FISCAL IMPACT REPORT

ORIGINAL DATE 2/20/15

SPONSOR Ezzell LAST UPDATED _____ HB 578

SHORT TITLE NMFA Water Project Fund Projects SB _____

ANALYST Kehoe

APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Nonrecurring | Fund Affected |
|---------------|--------------|------------------------------|---------------------------------------|
| FY15 | FY16 | | |
| (\$32,000.0) | (\$28,500.0) | Recurring | Senior Severance Tax Bond Capacity |
| \$32,000.0 | \$28,500.0 | Recurring | Water Project Fund |
| (\$4,000.0) | (\$4,000.0) | Recurring | Water Trust Permanent Fund |
| \$4,000.0 | \$4,000.0 | Recurring | Water Project Fund |

(Parenthesis () Indicate Expenditure Decreases)

Relates to Senate Bills 159, 174, 260, and House Bill 157

Duplicates Senate Bill 63, endorsed by the New Mexico Finance Authority Oversight Committee

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Finance Authority (NMFA)

SUMMARY

Synopsis of Original Bill

House Bill 578, authorizes the New Mexico Finance Authority (NMFA) to make loans or grants for 127 projects from the water project fund. The loans or grants are based on terms and conditions established by the Water Trust Board (WTB) and the New Mexico Finance Authority (NMFA) in accordance with the Water Finance Act. The bill contains an emergency clause.

FISCAL IMPLICATIONS

Laws 2003 (Chapter 134) requires the Board of Finance to authorize and issue bonds for 10 percent of the net senior severance tax bond (STB) capacity each year for deposit in the water project fund. The 10 percent set-aside of STB capacity for FY15 will provide \$32 million to the

water project fund for eligible water projects. Revenue estimates indicate approximately \$28.5 million will be available in FY16 and \$25.9 million in FY17. The value of the 10 percent of severance tax bond capacity can change from year to year depending on oil and gas revenues.

Section 72-4A-8 of the Water Finance Act provides that on July 1 of each fiscal year, an annual distribution will be made from the water trust fund to the water project fund in the amount of \$4 million until the amount is less than an amount equal to 4.7 percent of the average of the year-end market values of the water trust fund for the immediate preceding five calendar years. As of August 2014, the corpus of the WTF was \$45.6 million. After deductions for adjudication, nearly \$32.2 million will be deposited in the water project fund in FY 15.

Laws 2005 (Chapter 293) provides that 10 percent of all funds in the water project fund, approximately \$3.6 million in FY15, may be allocated to the Office of State Engineer (OSE) to be used for adjudication. Of the OSE allocation, 20 percent, approximately \$720,000 will transfer to the Administrative Office of the Courts for adjudication purposes.

SIGNIFICANT ISSUES

The water project fund (WPF) and water trust board (WTB) were created by the Water Finance Act. The Water Project Finance Act provides a permanent revenue source to provide grants and loans to political subdivisions for long-range planning and financing of regional and statewide water supply projects authorized by the Legislature.

Following authorization by the Legislature, the WTB reviews all projects and determines qualifying entities and projects for consideration of loans or grants from the WPF. Regulations and policies established by the WTB require a minimum contribution from all applicants in the form of matching funds. The loan component ranges from between 10 percent to a maximum 40 percent. The remainder of the award is in the form of a grant. Certain projects such as tribal, watersheds, and endangered species are able to substitute other matching funds in place of the loan component. The interest rate of the loan is zero percent, and the annual principal payment includes a .025 percent administrative fee.

Eligible water projects pursuant to the Water Finance Act are defined as those involving: 1) the storage, conveyance or delivery of water to end-users; 2) the implementation of federal Endangered Species Act collaborative programs; 3) the restoration of watersheds; 4) flood prevention; 5) conservation; or 6) for recycling, treatment or reuse of water.

According to NMFA, on September 24, 2014, the WTB received 128 preliminary applications for review and consideration by the WTB for financial assistance from the WPF. After reviewing and evaluating the applications, the WTB recommended the 127 prioritized, qualified entities listed in this bill requiring legislative authorization for financial assistance. The amount requested for the projects contained in this bill is approximately \$159.2 million. As of September 2014, \$321.4 million has been awarded from the WPF for 305 water projects statewide.

ADMINISTRATIVE IMPLICATIONS

The staff of the New Mexico Environment Department and the Office of the State Engineer provides technical assistance in reviewing water system projects. The NMFA has entered into a

memorandum of understanding (MOU) with the New Mexico Environment Department to provide technical assistance to the NMFA for engineering and construction oversight of projects. The NMFA is responsible for administering the projects and is responsible for monitoring and ensuring proper reversions.

RELATIONSHIP

Senate Bill 63 duplicates this bill in its entirety, however, this bill was endorsed by the New Mexico Finance Authority Oversight Committee.

SB 159 proposes appropriating \$2 million from the WPF to be used by the Energy, Minerals and Natural Resources Department for watershed restoration improvements statewide.

SB 174 proposes administrative changes that may influence the policies by which funds are invested, managed, and reported on within the WTF. The WTF is a constitutional fund overseen by the State Investment Council and provides a recurring annual appropriation to the WPF.

SB 260 proposes the chair of the Water Trust Board (WTB) be elected from only the public membership of the WTB.

HB 157 requires at least 20% of loans and grants made each year from the Water Project Fund be used to fund water conservation projects, which is one of five eligible types of projects.

LMK/bb