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FISCAL IMPACT REPORT

SPONSOR Gonzales LAST UPDATED _____
ORIGINAL DATE 1/26/24
SHORT TITLE Water Project Fund BILL NUMBER Senate Bill 185
ANALYST Carswell

APPROPRIATION* (dollars in thousands)

FY24	FY25	Recurring or Nonrecurring	Fund Affected
	\$150,000.0	Nonrecurring	General Fund

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Duplicates House Bill 201 (HB201)
Relates to Senate Bill 1 (SB1)
Relates to House Bill 148 (HB148)

Sources of Information

LFC Files

Agency Analysis Received From
New Mexico Finance Authority (NMFA)
New Mexico Municipal League (NMML)
Office of the State Engineer (OSE)

SUMMARY

Synopsis of Senate Bill 185

Senate Bill 185 appropriates \$150 million from the general fund to the water project fund for expenditure in fiscal year 2025 and subsequent fiscal years for the purposes of the fund.

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 appropriation of \$150 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY25 shall not revert to the general fund.

The appropriation would allow the Water Trust Board to fund projects for which there is not sufficient funding through dedicated revenue sources. The Water Trust Board awards funding from the water project fund, which receives a 9 percent annual earmark on senior severance tax bond capacity and an annual distribution from the water trust fund of at least \$4 million. A net \$115.7 million will be available for award by the Water Trust Board in FY24.

Severance tax bond earmark distributions to the water project fund have grown dramatically over the last several years with rising oil and gas revenues. Demand for these funds has also increased. For the FY24 funding cycle, the Water Trust Board received 65 applications totaling approximately \$275 million, according to the New Mexico Finance Authority (NMFA), or more than double the available funding. The \$150 million appropriation contained in SB185 would help bridge the roughly \$161 million funding gap, according to the agency.

SIGNIFICANT ISSUES

The water project fund is administered by the NMFA, which makes grants and loans to water projects recommended for funding by the Water Trust Board and authorized by the Legislature. HB148, which is currently before the Legislature for consideration, would authorize the Water Trust Board to award FY24 funding to 65 qualified projects sought by 55 public entities. With the \$115.7 million in available funding absent additional appropriations, NMFA estimated the board would be able to fund roughly 30 of the 65 projects.

The projects sent to the Legislature for authorization are vetted following criteria and policies established by the Water Trust Board. The board requires applicants to have completed relevant planning studies, such as preliminary engineering reports, design analysis reports, or technical memoranda. The board also requires applicants to have met expenditure thresholds for any prior awards before seeking new funding and to provide some level of local match for funding provided from the water project fund. The level of local match as well as the amount of the award that is provided as a loan and as a grant is determined by financial analysis completed by NMFA and other criteria set by the board. Those criteria include consideration of system size.

According to NMFA, the board approved policy revisions in 2022 that allow for waivers of the local match for: water systems serving fewer than 250 connections that have secured previous Water Trust Board funding for the project; for projects that would consolidate systems; or for projects to incorporate unserved customers that are not the result of future development. Loan components of Water Trust Board awards range from 10 percent to 40 percent and loans may be waived for systems serving fewer than 500 connections that have secured previous board funding for the same project or for projects to consolidate with another system.

The average award in FY23 was 83 percent grant and 17 percent loan. Loan terms are up to 20 years at 0 percent interest.

Analysis submitted by the New Mexico Municipal League indicates the league supports investment for water projects in local communities. The league states the projects included in the Water Trust Board's 2024 authorization bill that may not be funded without additional appropriations are critical for community health and safety and include the replacement of leaking waterlines in Ruidoso, construction of a new well in Espanola, and new storage tanks in Eunice.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB185 duplicates HB201.

SB185 relates to HB148, which authorizes the Water Trust Board to award funding to certain projects currently seeking funding from the board.

SB185 relates to SB1, which appropriates \$100 million from the general fund to the water trust fund to increase recurring distributions to the water project fund in the future.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The Water Trust Board will likely award funding to the highest scoring applicants for the next grant cycle and will not be able to fund all eligible applicants.

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