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FISCAL IMPACT REPORT



SPONSOR: Lyons DATE TYPED: 01/29/02 HB _____

SHORT TITLE: Water Trust Fund Appropriation SB 44

ANALYST: Kehoe

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY02	FY03	FY02	FY03		
	\$90,000.0			Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY02	FY03			
	\$90,000.0		Recurring	Water Trust Fund

(Parenthesis () Indicate Revenue Decreases)

Duplicates/Relates to Appropriation in The General Appropriation Act

SOURCES OF INFORMATION

New Mexico Finance Authority (NMFA)
LFC Files

SUMMARY

Synopsis of Bill

Senate Bill 44 appropriates \$90,000.0 in FY03 and subsequent years from the General Fund to the Water Trust Fund for the purpose of carrying out the Water Project Finance Act. The appropriation

is contingent upon the state receiving an equal amount from Indian gaming back-payment receipts pursuant to gaming compacts.

Significant Issues

The 2001 Legislature recognized that New Mexico's water is a scarce resource, that the economy depends on reasonable fair allocation of water for all purposes, and that the public welfare depends on efficient use and conservation of water. The legislature also recognized that the state must comply with its delivery obligations under interstate compacts, and that public confidence and support for water use efficiency and conservation are based on a reasonable balance of investments in water infrastructure and management.

Therefore, the Legislature enacted the Water Project Finance Act (Laws 2001, Chapter 164) establishing a Water Trust Fund Program, a Water Project Fund and a Water Trust Board. The purpose

of the program is to provide grants and loans to political subdivisions and to provide for long-range planning and financing of regional and statewide water supply projects. The 2001 law authorized the NMFA to administer the grant and loan projects, however, the bill did not contain an appropriation for loans, grants or recovery of NMFA administrative costs. A 15-member Water Trust Board with broad representation of water interests and expertise was appointed and charged with prioritizing projects for recommendation to the Legislature. The NMFA Board approved the use of NMFA funds to support the first year of operations of the Water Trust Board. The Water Trust Board identifies water projects for funding that meet the criteria set forth in the legislation such as: storage, conveyance or delivery of water to end users, implementation of the Endangered Species Act collaborative programs, restoration and management of watersheds, and flood prevention.

According to NMFA and the State Engineer's Office, New Mexico relies too heavily on underground aquifers that are not being sufficiently recharged. A substantial portion of this underground water is also being depleted by neighboring states with no limits on ground water pumping. The development of long term surface water supplies is estimated at over \$1.5 billion. Over the next five years, short-term community water and wastewater needs are estimated at approximately \$2.1 billion. Short-term Native American water and wastewater needs are estimated at approximately \$219 million—19 percent of all water projects in the state. In addition, new arsenic standards imposed by the federal government could cost New Mexico communities over \$375 million for new treatment facilities. Projects totaling \$567 million are currently being considered by the Water Trust Board that would benefit Native American communities in New Mexico. The appropriation contained in Senate Bill 44 would provide the initial capitalization for over \$4.1 billion in water projects crucial to the citizens of New Mexico.

FISCAL IMPLICATIONS

The appropriation of \$90,000.0 contained in this bill is a recurring expense to the General Fund. Any unexpended or unencumbered balance remaining at the end of the fiscal year shall not revert to the General Fund.

OTHER SUBSTANTIVE ISSUES

The Water Trust Fund is created in the State Treasury and would initially be funded by the \$90 mil-

lion appropriation contained in Senate Bill 44. The money in the fund would be invested by the State Investment Officer in the same manner that the land grant permanent funds are invested. Earnings from the investment of the funds are to be credited to the Water Trust Fund and shall be used only for an annual distribution to the Water Project Fund. Commencing July 1 of FY2003, a \$4 million distribution will be made to the Water Project Fund until that amount is less than an amount equal to two and four-tenths percent of the average of the year-end market values of the Water Trust Fund for the immediately preceding five calendar years. Thereafter, the amount of the annual distribution shall be two and four-tenths percent of the average of the year-end market values of the Water Trust Fund for the immediately preceding five calendar years. According to the State Investment Council (during the 2001 Session) this distribution is 2.4 percent lower than the 4.7 percent used for the Land Grant Permanent Fund and the Severance Tax Permanent Fund.

LMK/ar:pr