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FISCAL IMPACT REPORT

ORIGINAL DATE 1-22-07

SPONSOR Taylor LAST UPDATED _____ HB _____

SHORT TITLE DRINKING WATER SYSTEM FINANCING SB 105

ANALYST Aubel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
\$4,000.0		Non-Recurring	Public Project Revolving Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
\$4,000.0			Non-Recurring	Drinking Water State Revolving Loan Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Finance Authority (NMFA)

New Mexico Environment Department (NMED)

SUMMARY

Synopsis of Bill

Senate Bill 105 appropriates \$4.0 million from the Public Project Revolving Fund to the Drinking Water State Revolving Loan Fund to provide state match funds for carrying out the purposes of the federal Safe Drinking Water Act of 1974 in FY07 and subsequent fiscal years.

FISCAL IMPLICATIONS

The appropriation of \$4.0 million contained in this bill is a non-recurring expense to the Public Project Revolving Fund. Any unexpended or unencumbered balance remaining at the end of FY07 and subsequent fiscal years shall not revert to the Public Project Revolving Fund but would remain in the Drinking Water State Revolving Loan Fund.

SIGNIFICANT ISSUES

This funding will provide the required 20 percent state match for the next two allocations from the U.S. Environmental Protection Agency (EPA) capitalization grants totaling \$16.0 million. This funding will be used to carry out provisions of the Drinking Water State Loan Fund Act by providing low-cost loans for water-quality projects from the Drinking Water State Revolving Loan Fund (DWRLF).

The New Mexico Drinking Water State Revolving Loan Fund Act was enacted by the 1997 Legislature in response to the re-authorization of the federal Safe Drinking Water Act (SDWA). The Act charged NMFA with establishing, in cooperation with NMED, a loan program to provide local entities with low-cost financial assistance in constructing necessary drinking water facilities and developing programs that support public water systems in achieving, or remaining in compliance, with primary drinking water regulations (“set-aside” components). The Act created the drinking water state revolving loan fund administered by NMFA.

According to NMFA, up to 31 percent of the annually allotted federal capitalization grant is designated by SDWA for “set-aside” activities, which in New Mexico encompass the following:

- a) develop technical, managerial, and financial capacity for local water systems;
- b) assist entities in qualifying for loans;
- c) provide technical assistance targeted to systems serving 10,000 persons or less;
and
- d) provide loans to community water systems that assist water systems to improve infrastructure and meet SDWA requirements.

NMFA further reported that the federal capitalization grant, less the amount of “set-asides”, is deposited in the DWRLF along with the entire state match. The NMFA can then utilize funds in the DWRLF to make loans to community water systems for eligible water system improvements. For projects with the proper legislative authorization, DWRLF loans can be combined with loans from the NMFA’s PPRF to “leverage” the funds in the DWRLF to create a much greater dollar amount for projects financed. Drinking Water Bureau (DWB) of the NMED uses the “set-asides” to support public water systems, less the 4% utilized for administrative costs by NMFA.

According to the operating agreement between the state of New Mexico and the U.S. EPA, the state agrees to deposit the 20 percent state match into the DWRLF on the date on or before receiving payments under the capitalization grant. To date, NMED noted that New Mexico had received approximately \$75 million in capitalization grants from the EPA and had provided state match grant funds totaling approximately \$15 million.

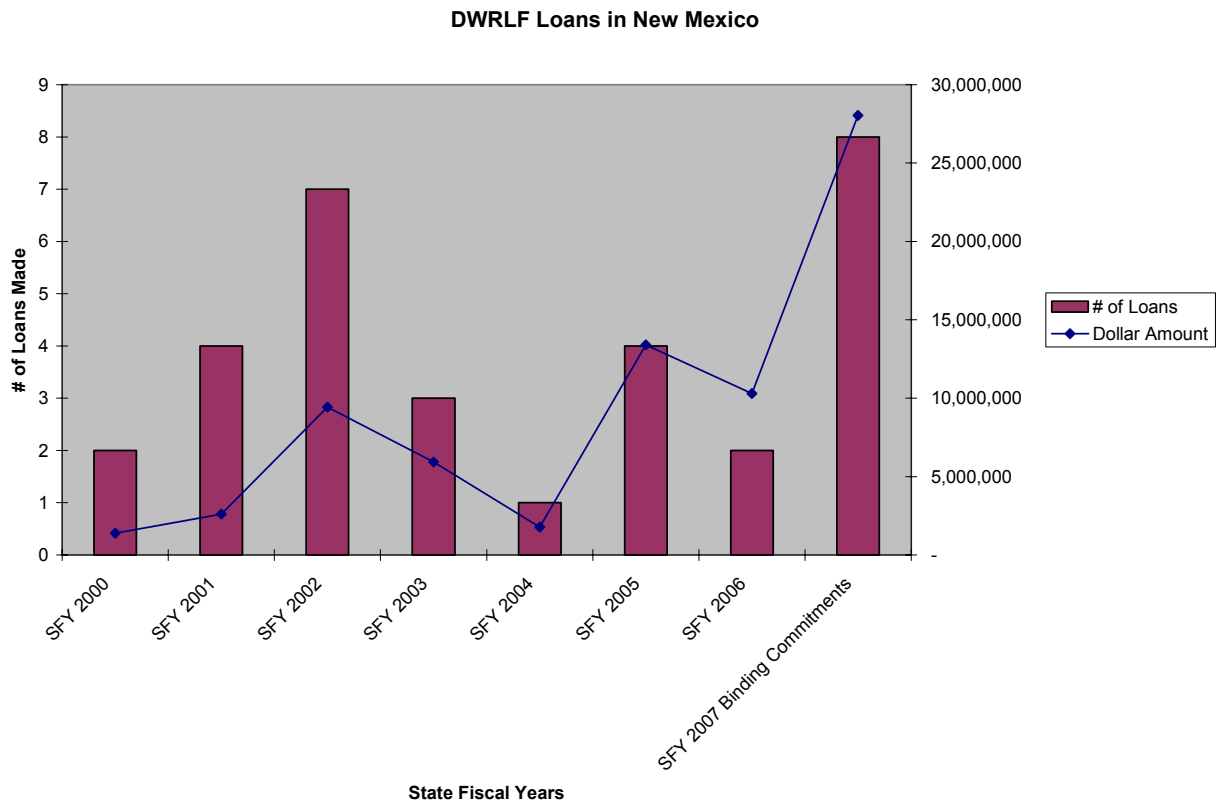
ADMINISTRATIVE IMPLICATIONS

The SDWA allows a 31 percent “set-aside” of the annual federal allocation to be used for administrative activities of both the Drinking Water Bureau (DWB) of the state Environment Department (ED) and NMFA. NMFA utilizes 4 percent of the set-aside to administer the financial aspects of the program including legal support, construction oversight, and technical review. DWB utilizes the funds to provide technical support and capacity development to public water systems

TECHNICAL ISSUES

Section 2 of the bill contains an emergency clause.

OTHER SUBSTANTIVE ISSUES



Source: NMFA

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The primary implication of not passing this bill, as expressed by both NMFA and NMED, is that the state will be unable to receive the federal capitalization grant money if the 20 percent state match is not received.

Both agencies expressed additional concerns, as follows:

- The 31 percent “set aside” portion of the fund that is allocated to the DWB provides revenue to fund local technical assistance, capacity development and the Public Water

Supply Supervision Program pursuant to New Mexico’s “set aside” programs, which are key components of the state’s primacy agreement with EPA. These functions would go unfunded.

- Without this match, NMED’s DWB will lose a critical funding source that pays for the salaries of approximately 28 Full Time Employees (FTEs). Those employees assist in regulatory oversight for all public water systems in New Mexico to ensure the systems meet state and federal regulations to protect public health pursuant to the Safe Drinking Water Act.
- Currently, the fundable priority list has 36 projects, which would be affected. If the funding is unavailable, these 36 projects and future projects may not be able to obtain needed funding. This may cause these systems to be out of compliance with the Safe Drinking Water Act.
- NMFA would lose critical funding for several of its activities, including administering the DWRLF that requires expenditures such as legal counsel, construction oversight, and technical reviews. In addition, NMFA reported that it is responsible for the development and implementation of marketing strategies to promote the DWRLF loan fund, conducting outreach efforts, and providing technical assistance to public entities in the development of qualified project proposals to the NMFA.

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