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FISCAL IMPACT REPORT

SPONSOR Campos ORIGINAL DATE 01/29/16
 LAST UPDATED _____ HB _____

SHORT TITLE Water Trust Fund Solvency SB 161

ANALYST Amacher

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY16	FY17		
	(\$18,000.0)	Nonrecurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY16	FY17	FY18		
	\$18,000.0		Nonrecurring	Water Trust Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Energy, Minerals, and Natural Resources Department (EMNRD)

Office of the State Engineer (OSE)

New Mexico Finance Authority (NMFA)

State Investment Council (SIC)

SUMMARY

Synopsis of Bill

Senate Bill 161 is a general fund appropriation of \$18 million to the water trust fund for expenditure in fiscal year 2017 and subsequent fiscal years to carry out the purposes of the water trust fund. Any unexpended or unencumbered balance remaining at the end of the fiscal shall not revert to the general fund.

FISCAL IMPLICATIONS

Senate Bill 161 appropriates \$18 million to help make the water trust fund self-sufficient, to maintain or grow its value as an endowment, while providing the \$4 million in annual distributions to the Water Trust Board for approved water infrastructure projects around the state.

According to the state investment council, as managers and fiduciaries to the fund, the council has previously identified that without a change in current spending policy or an infusions either steady or one-time) of capital, the water trust fund is on a terminal path with a projected \$0 balance about 20 years from now. The appropriation of \$18 million is nonrecurring, and any unexpended balance remaining at the end of the fiscal year will remain in the water trust fund and not revert to the general fund.

SIGNIFICANT ISSUES

In 2001, the legislature enacted the Water Project Finance Act establishing the water project fund administered by the New Mexico finance authority and the water trust fund in the state treasurer. The water trust fund, as invested by the state investment council (SIC), became a constitutionally protected permanent fund through the general election in November 2006.

The water project finance act outlined an annual distribution from the water trust fund to the water project fund beginning July 1 of fiscal year 2003 and on July 1 of each fiscal year thereafter, in the amount of \$ 4 million until that amount is less than an amount equal to four and seven-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 four and seven-tenths percent of the average of the year end market values of the water trust fund for the immediately preceding five calendar years.

The water trust fund was first endowed with \$40 million in 2006 and a subsequent appropriation of \$15 million in 2008. The SIC reports the \$18 million figure was a number identified by the Council in 2014 during interim legislative hearings, where the SIC informed the Legislature of the terminal nature of the fund's trajectory. The \$18 million was cited as a minimum amount needed to give the water trust fund the ability to survive and function as a permanent endowment.

The SIC further reports the water trust fund has managed to hold most of its value, shrinking from \$47 million in December 2013 to \$42 million in December 2015 even though fiscal year 15 was a flat year for investment returns. The SIC states that while \$18 million would considerably extend the life of the water trust fund, given somewhat depressed expectations for investment returns in the coming decade, \$18 million may no longer be sufficient to make the water trust fund "permanent".

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

In the event SB 161 is not enacted, the water trust fund will continue to be depleted overtime until there are zero dollars remaining; resulting in a reduction of financial assistance from the water project fund for water projects statewide and water adjudication.