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FISCAL IMPACT REPORT

SPONSOR Cervantes/Salazar **ORIGINAL DATE** 2/02/2020
LAST UPDATED 2/14/2020 **HB** _____
SHORT TITLE Water Trust Fund **SB** 148
ANALYST Kehoe, L./Hawker

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY20	FY21		
	\$41,000.0	Nonrecurring	Water Trust Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY20	FY21	FY22		
	(\$41,000.0)		Nonrecurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to House Bill 248, Senate Bill 234

SOURCES OF INFORMATION

LFC Files

Responses Received From

Energy, Minerals & Natural Resources Department (EMNRD)

New Mexico Environment Department (NMED)

New Mexico Finance Authority (NMFA)

Office of State Engineer (OSE)

State Investment Council (SIC)

SUMMARY

Synopsis of Bill

Senate Bill 148, endorsed by the New Mexico Finance Authority Oversight Committee, appropriates \$41 million from the general fund to the Water Trust Fund for the purpose of carrying out the fund.

FISCAL IMPLICATIONS

Senate Bill 148 transfers \$41 million from the general fund to the Water Trust Fund for expenditure in fiscal year 2021 and subsequent fiscal years. The appropriation contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of any fiscal year shall not revert to the general fund.

The Water Project Finance Act, NMSA 1978, created the Water Trust Fund (WTF), water project fund, (WPF) and Water Trust Board (WTB). The WTF is a permanent revenue source held at the state treasury and invested by the State Investment Council (SIC). Earnings in the fund are transferred to the WTF to provide grants and loans to political subdivisions for eligible long-range planning and financing of regional and statewide water supply projects authorized by the Legislature.

To date a total of \$55 million, \$40 million in 2006 and \$15 million in 2008, has been transferred from the general fund to the WTF. Since 2007, the investments by the State Investment Council have generated \$4 million annually, or 10 percent of the total fund, for transfer to the WPF. Given WTF’s valuation as of 12/31/2019 of \$41.7 million and its distribution rate or “spending policy” of \$4 million per year, the SIC states there is a considerable degree of confidence that the WTF is on an inevitably terminal path, likely within the next 10 to 20 years without the infusion of new capital. SIC believes the additional capital contained in this bill should help make the WTF sustainable on a permanent basis.

Water Trust Fund Valuation, Cash Flow, Market Return Since Inception

Date	Beginning Market Value (\$ 000)	Contributions (\$ 000)	Withdrawals (\$ 000)	Gain/Loss (\$ 000)	Ending Market Value (\$ 000)	Annual % Return
August 2006 - June 2007	-	40,000	-	6,214	46,214	15.62
Fiscal Year 2008	46,214	15,000	4,000	-362	56,852	-0.93
Fiscal Year 2009	56,852	-	4,000	-7,526	45,326	-14.22
Fiscal Year 2010	45,326	-	4,000	4,885	46,211	12.02
Fiscal Year 2011	46,211	-	4,000	7,457	49,668	18.39
Fiscal Year 2012	49,668	-	4,000	-782	44,886	-1.71
Fiscal Year 2013	44,886	-	4,000	5,672	46,558	13.87
Fiscal Year 2014	46,558	-	4,000	7,044	49,602	16.57
Fiscal Year 2015	49,602	-	4,000	1,744	47,346	3.84
Fiscal Year 2016	47,346	-	4,000	855	44,201	1.97
Fiscal Year 2017	44,201	-	4,000	4,873	45,073	12.15
Fiscal Year 2018	45,073	-	4,000	3,964	45,037	9.64
Fiscal Year 2019	45,037	-	4,000	2,944	43,981	7.17
Fiscal Year 2020 (YTD)	\$43,981	-	4,000	2,283	41,698	

Source: State Investment Council

Key observations noted by SIC on the above table include:

- The WTF has managed to nearly maintain its value over time despite its aggressive distribution policy of \$4 million per year, in fiscal year 2020 this represented approximately 9.1 percent of the fund.
- Since inception in FY07, the WTF has distributed \$52M the original \$55M appropriated, while managing to substantially – but not completely - maintain the value of the fund corpus.

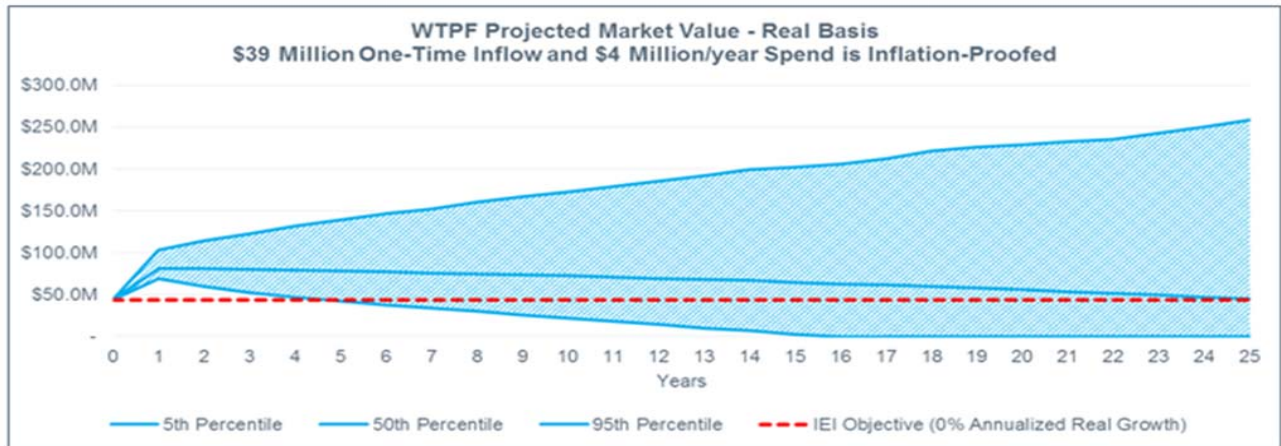
SIGNIFICANT ISSUES

SIC utilized the services of its external advisor, RVK, to run a Monte Carlo simulation on all

expected rates of risk and return and to chart potential outcomes for the WTF. RVK found a one-time \$39 million inflow would provide a 50 percent probability that the fund would be sustainable long-term and protected against inflation, assuming expected average investment performance.

The following chart tracks the life of the WTF with a \$39 million one-time inflow, continuing a \$4 million per year spend.

Water Trust Permanent Fund – Fan Chart (5th and 95th Percentiles + Central Measure)



One-Time Inflow: \$39 million

\$4 million/year Spend: Inflation-Proofed (Keeps Up With Inflation)



The Act defines eligible water projects to include: 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.

ADMINISTRATIVE IMPLICATIONS

The WPF is administered by the NMFA and makes grants and loans to eligible entities for qualifying projects recommended by the WTB and authorized by the Legislature. The NMED, Construction Program Bureau (CPB), under a Memorandum of Understanding with NMFA, provides technical assistance on projects funded by the WPF. The NMED indicates the CPB assistance will continue under current resources and workload demands, but if demand increases in the future, NMED will re-evaluate resource commitments as appropriate.

RELATIONSHIP

SB148 relates to HB248 and SB234, both pertaining to the Water Association Infrastructure Act.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

According to NMFA, the State Investment Council will continue to make distributions pursuant to the Act, but the WTF could likely deplete over the next 10 to 25 years.

LMK/sb/rl