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**AGENCY BILL ANALYSIS
2024 REGULAR SESSION**

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SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply:

Original **Amendment**
Correction **Substitute**

Date 1/19/2024
Bill No: HB 148

Sponsor: Susan K. Herrera, Kathleen Cates, Anthony Allison, Martin R. Zamora, Gail Armstrong
Short Title: Water Project Fund Projects

Agency Name and Code Number: NMFA (385)
Person Writing Michael Vonderheide
Phone: 505-992-9653 **Email** mvonderheide@nmfa.net

SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY24	FY25		
(\$112,140.00)	(\$112,590.00)	Recurring	Net Severance Tax Bond Capacity
\$112,140.00	\$112,590.00	Recurring	Water Project Fund
(\$3,600.00)	(\$3,600.00)	Recurring	Net Water Trust Fund
\$3,600.00	\$3,600.00	Recurring	Water Project Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY24	FY25	FY26		
None	None	None	N/A	N/A

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	NFI	NFI	NFI	NFI	N/A	N/A

(Parenthesis () Indicate Expenditure Decreases)

Relates to SB1 - Water Trust Fund

SECTION III: NARRATIVE

BILL SUMMARY

HB 148, endorsed by the New Mexico Finance Authority Legislative Oversight Committee, authorizes 65 projects to be eligible for funding from the Water Project Fund pursuant to the Water Project Finance Act, §72-4A-1 to §72-4A-11, NMSA 1978. The New Mexico Finance Authority (“NMFA”) establishes the terms and conditions of the loans and grants awarded from the Water Project Fund as recommended by the Water Trust Board (“WTB”) and authorized by the Legislature. HB 148 contains an emergency clause.

FISCAL IMPLICATIONS

Assuming no direct appropriations are made from the Water Project Fund during the 2024 Regular Legislative Session, approximately \$115.74 million, net of adjudication, will be available for projects authorized by HB 148. The Water Project Fund receives an annual distribution of nine percent of the severance tax bonds issued by the State Board of Finance (“SBOF”). This sum is estimated to be \$124.6 million for FY 2024 based on January 2024 SBOF estimates. Also in FY 2024, the Water Project Fund is expected to receive a \$4 million distribution from the Water Trust Fund.

The Office of the State Engineer (“OSE”) receives 10% of the Severance Tax Bond proceeds and Water Trust Fund distributions deposited into the Water Project Fund annually for adjudication, as enacted by HB 1110, 2005 Legislative Session. It is estimated the OSE will receive a total of \$12.86 million from the FY 2024 Severance Tax Bonds and FY 2024 Water Trust Fund distribution.

SIGNIFICANT ISSUES

The projects authorized in HB 148 were evaluated using criteria and policies established by the WTB which require applications to be accompanied by relevant planning documents, such as preliminary engineering reports, design analysis reports, or technical memoranda. WTB policies also require that applicants timely expend prior awarded funds in order to be recommended for legislative authorization.

The WTB policies require that applicants match the awards with non-Severance Tax Bond funds. The amount of the local match is determined on a sliding scale based upon the median household income of the applicant, the size of the request and the type of project. In 2022 the WTB approved policy revisions which allow for waivers of the local match requirement for water systems when the applicant serves fewer than 250 connections and has previously secured WTB

funding for the proposed project; or the system upgrade is to consolidate with another system; or the system upgrade/expansion is to incorporate previously unserved customers and is not for future development. To qualify for the local match waiver, the applicant must have implemented an Asset Management Plan for the current and future maintenance, replacements, and repair of the system.

Additionally, the policies provide that WTB financial assistance for projects supported by a rate-paying constituency may contain a loan component of between 10% and 40% of the total award, with the remainder delivered as a grant. The recent WTB policy revisions also allow NMFA to waive loan requirements for water projects when the applicant serves fewer than 500 connections and has previously secured WTB funding for the same project; or the project is to consolidate with another system. To qualify for the loan waiver, the applicant must have implemented an Asset Management Plan for the current and future maintenance, replacements, and repair of the system. The average award in FY 2023 was approximately 83% grant and 17% loan. The loans are for terms of up to 20 years and are made at a 0% interest rate.

ADMINISTRATIVE IMPLICATIONS

The Water Project Fund was created by the Water Project Finance Act and is administered by the NMFA. The NMFA makes grants and loans for qualified projects recommended by the WTB and authorized by the Legislature. NMFA is reimbursed for costs of administration, including paying contractors for engineering and construction oversight, from annual loan repayments.

OTHER SUBSTANTIVE ISSUES

The NMFA administers an annual application cycle on behalf of the WTB. On October 24, 2023, the WTB approved for recommendation to the Legislature 65 applications totaling approximately \$275.3 million of requests.

The projects listed on HB 148 were submitted by qualified entities for qualified projects that were fully evaluated by a technical team from seven agencies. The WTB prioritized the projects based upon recommendations from the technical team. Projects appearing on HB 148 will be required to demonstrate compliance with relevant regulations and laws, such as water rights, state drinking water regulations, and state audit rule requirements. Those projects with regulatory deficiencies will be by-passed by the WTB.