

LFC Requester:

Cally Carswell

AGENCY BILL ANALYSIS - 2026 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}

Date Prepared: 1/31/2026 *Check all that apply:*
Bill Number: SB 187 Original Correction
 Amendment Substitute

Sponsor: Senator Pete Campos **Agency Name and Code Number:** NMFA (385)
Short Title: NMFA Water Project Fund **Person Writing:** Michael Vonderheide
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SECTION II: FISCAL IMPACT**APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY26	FY27		
	(\$222,000.00)	Nonrecurring	General Fund
	\$222,000.00	Nonrecurring	Water Project Fund

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY26	FY27	FY28		
None	None	None	N/A	N/A

(Parenthesis () indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis () Indicate Expenditure Decreases)

Relates to: House Bill 63 NMFA Water Project Fund Projects, which authorizes 113 projects to be eligible for funding from the Water Project Fund pursuant to the Water Project Finance Act. HB 63 is endorsed by the New Mexico Finance Authority Oversight Committee and contains an emergency clause.

HB 109 which amends the Water Project Finance Act by revising criteria for prioritizing water projects pursuant to the Act and allows the New Mexico Finance Authority to fund water projects from the water project fund without receiving the approval of the legislature until December 31, 2028.

LFC budget recommendation which transfers \$100 million from the general fund to the water project fund in fiscal year 2027, contingent on enactment of legislation of the second session of the fifty seventh legislature suspending legislative authorization of water trust board projects.

LFC endorsed legislation that provides limitations and requirements for certain capital outlay projects, reauthorizations and appropriations.

SECTION III: NARRATIVE

BILL SUMMARY

SB 187 appropriates \$222 million from the State's general fund to the Department of Finance and Administration for the New Mexico Finance Authority's water project fund for expenditures in fiscal years 2026 and 2027 for water projects authorized by the legislature in the second session of the fifty-seventh legislature. Any unexpended balance remaining at the end of fiscal year 2027 shall revert to the general fund.

FISCAL IMPLICATIONS

Pursuant to the Water Project Finance Act, New Mexico Finance Authority ("NMFA") provides staff support for the WTB and develops application procedures and forms for qualifying entities to apply for grants and loans from the water project fund. NMFA also 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.

Assuming no direct appropriations are made from the Water Project Fund during the 2026 Regular Legislative Session, approximately \$182.494 million, net of adjudication, will be available for projects authorized by House Bill 63. 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 \$185.9 million for FY 2026 based on December 2025 SBOF estimates. Also in FY 2026, the Water Project Fund is expected to receive a \$4.4 million distribution from the Water Trust Fund.

Historically, the Office of the State Engineer ("OSE") receives 10% of the distributions deposited into the Water Project Fund annually for water rights adjudications, and 20% of the money dedicated to water rights adjudications is allocated to the Administrative Office of the Courts ("AOC") for costs associated with water rights adjudications. House Bill 211 passed in the 2024 Regular Legislative Session, provided that from July 1, 2024, through June 30, 2029, the lesser of four million dollars (\$4,000,000) or eight percent of all water project funds shall be dedicated to the State Engineer for water rights adjudications and two percent of all water project funds shall

be dedicated to the Administrative Office of the Courts for the costs associated with water rights adjudications. It is estimated that the OSE will receive \$4 million and the AOC will receive \$3.806 million from the FY 2026 Severance Tax Bonds and FY 2026 Water Trust Fund distribution.

House Bill 2, passed in the 2025 Regular Legislative Session, provided a \$200 million transfer from the general fund to the water project fund in fiscal year 2026 for projects authorized by the legislature in 2025 and 2026. The remaining unawarded balance of the \$200 million transfer after the completion of the FY 2025 application cycle is \$152,181,680. When added to the \$182.494 million available from FY 2026 Severance Tax Bonds and the Water Trust Fund distribution, the estimated total funding available for projects authorized by HB 63 is \$334,675,680.

While SB 187 appropriates \$222 million from the State's general fund to the Department of Finance and Administration for the Water Project Fund for expenditures in fiscal years 2026 and 2027 for water projects authorized by the legislature, the bill reverts any unexpended balance remaining at the end of fiscal year 2027 to the general fund.

SIGNIFICANT ISSUES

The NMFA administers an annual application cycle on behalf of the WTB. From July 14 to September 11, 2025, the NMFA received 135 Notices of Intent to submit an application totaling approximately \$685.5 million. On September 11, 2025, 114 applications were filed. On October 29, 2025, the WTB approved for recommendation to the legislature 113 applications totaling approximately \$522.2 million of requests. One project was not recommended due to non-compliance with WTB policies and the timely expenditure of prior awarded funds. The 113 projects are included in HB 63.

There are significant gaps between the dollar amounts of Notices of Intent received, project applications filed, and available funding for this cycle, as actual project needs may have been pared down to meet application requirements. Currently there is an approximate \$187.5 million funding gap between the \$522.2 million in WTB applications received and the \$334.7 million available to water project fund projects in fiscal year 2026 through severance tax bonds, the water trust fund distribution, and remaining balance of the \$200 million transfer.

While SB 187 bridges the funding gap by appropriating \$222 million from the State's general fund to the Department of Finance and Administration for the Water Project Fund for expenditures in fiscal years 2026 and 2027 for water projects authorized by the legislature, the bill reverts any unexpended balance remaining at the end of fiscal year 2027 to the general fund.

Given the historically high volume of water project fund projects and available funding, and the need for water project fund projects to be authorized by the legislature, it would not be possible to expend the \$222 million appropriation by the end of fiscal year 2027.

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.

House Bill 211 passed in the 2024 Regular Legislative Session, added wastewater conveyance and

treatment as an eligible project category for funding from the water project fund. The FY 2026 application and award cycle is the first to include wastewater conveyance and treatment projects. NMFA received 33 wastewater conveyance and treatment applications during this cycle totaling over \$218 million, representing an increase in program activity. Significant additional appropriations to the water project fund also represent a sizable increase in program activity.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

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OTHER SUBSTANTIVE ISSUES

The 2026 WTB application cycle began on July 14, 2025, and concludes with NMFA approval of the projects on May 28, 2026. The WTB application to award timeline is significantly longer than other programs administered by NMFA due to legislative authorization, which typically begins 2-3 months after the WTB makes its recommendation of projects to the legislature and lasts 30 or 60 days. Applicants recommended for legislative authorization are also required to submit a second application, or readiness application, which updates project information that may have changed since the project application was submitted in the fall. It is estimated that eliminating legislative authorization and the need for a readiness application could shorten the WTB application to award process by 180 days.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL