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## FISCAL IMPACT REPORT

**BILL NUMBER:** House Bill 63/ec

**SHORT TITLE:** NMFA Water Project Fund Projects

**SPONSOR:** Cates/Block

**LAST ORIGINAL**  
**UPDATE:** \_\_\_\_\_ **DATE:** 1/26/2026 **ANALYST:** Ortega

### APPROPRIATION\* (dollars in thousands)

FY26	FY27	Recurring or Nonrecurring	Fund Affected
\$178,182.0		Nonrecurring	Net Severance Tax Bond Distributions to Water Project Fund
\$4,312.0		Nonrecurring	Net Water Trust Fund Distributions to Water Project Fund

\*Amounts reflect most recent analysis of this legislation.

### REVENUE\* (dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
	(\$185,900.0)					Nonrecurring	Severance Tax Bonding Fund
	(\$4,312.0)					Nonrecurring	Water Trust Fund

Parentheses indicate revenue decreases.

\*Amounts reflect most recent analysis of this legislation.

Relates to the General Appropriation Act and House Bill 109

### Sources of Information

LFC Files

#### Agency or Agencies Providing Analysis

New Mexico Finance Authority

#### Agency or Agencies That Were Asked for Analysis but did not Respond

New Mexico Municipal League

## SUMMARY

### Synopsis of House Bill 63

House Bill 63 (HB63) authorizes the New Mexico Finance Authority (NMFA) to make loans or grants from the water project fund to qualifying water projects identified in the bill pursuant to

the Water Project Finance Act. The bill authorizes funding for 113 projects sought by 75 public entities. Which projects are ultimately awarded funding, and at what amounts, will be determined by the Water Trust Board after legislative authorization.

This bill contains an emergency clause and would become effective immediately on signature by the governor.

## **FISCAL IMPLICATIONS**

The water project fund receives a 9 percent annual earmark on senior severance tax bond capacity and an annual distribution from the water trust fund of the greater of \$4 million or 4.7 percent of the average year-end value of the trust fund over the previous five years. According to NMFA, the net distribution from the water trust fund to the water project fund is \$4.3 million. The Office of the State Engineer (OSE) has historically received 10 percent of the annual distributions to the water project fund for water rights adjudication, with a portion of the 10 percent allocated to the Administrative Office of the Courts (AOC). Legislation passed in 2024 temporarily reduced the distribution to OSE to the lesser of \$4 million or 8 percent of water project funds, with 2 percent of water project funds continuing to flow to AOC.

Absent additional legislative appropriations, according to NMFA and the Board of Finance's severance tax bonding estimate, approximately \$182.5 million is expected to be available for award by the Water Trust Board to projects authorized by HB63.

## **SIGNIFICANT ISSUES**

The water project fund is administered by NMFA, which makes grants and loans to water projects recommended for funding by the Water Trust Board and authorized by the Legislature. The projects recommended for funding in the bill were vetted following criteria and policies established by the Water Trust Board. The board requires applicants to have completed relevant planning studies, such as preliminary engineering reports, design analysis reports, or technical memoranda. The board also requires applicants to have met expenditure thresholds for any prior awards before seeking new funding and to provide some level of local match for funding provided from the water project fund. The level of local match, as well as the amount of the award that is provided as a loan and as a grant, is determined by financial analysis completed by NMFA and other criteria set by the board. Those criteria include consideration of system size.

According to NMFA, the board approved policy revisions in 2022 that allow for waivers of the local match for water systems serving fewer than 250 connections that have secured previous Water Trust Board funding for the project, for projects that would consolidate systems, or for projects to incorporate unserved customers that are not the result of future development. Loan components of Water Trust Board awards range from 10 percent to 40 percent and loans may be waived for systems serving fewer than 500 connections that have secured previous board funding for the same project or for projects to consolidate with another system.

In FY25, the average award was 87 percent grant and 13 percent loan. The loan terms run up to 20 years and are made at a 0 percent interest rate.

Strong state revenues have significantly increased annual distributions to earmarked funds, including the water project fund. Even so, demand for Water Trust Board funding has far outpaced available funds in the last two cycles. The 113 projects authorized in HB63 requested funds totaling \$522.2 million, leaving a roughly \$187.5 million funding gap for the projects authorized in the bill. The introduced version of the General Appropriation Act, under consideration by the Legislature, includes a \$100 million general fund transfer to the water project fund to address the funding gap in 2026 and an anticipated gap in 2027.

## **PERFORMANCE IMPLICATIONS**

LFC evaluations have found the Water Trust Board is more successful at fully funding and completing community water projects than capital outlay, where piecemeal funding and a lack of consistent vetting contributes to delayed spending and delayed project completion.

NMFA notes that 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 FY26 application and award cycle is the first to include wastewater conveyance and treatment projects. NMFA states they received 33 wastewater conveyance and treatment applications during this cycle totaling over \$218 million, representing a significant increase in program activity.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

HB63 relates to a \$100 million fund transfer from the general fund to the water project fund in the General Appropriation Act.

HB63 relates to House Bill 109, which would remove the requirement for NMFA to receive legislative authorization to fund water projects from the water project fund until December 31, 2028.

AO/sgs/hg/sgs