

Presentation to the
New Mexico Finance Authority
Legislative Oversight Committee
and the
Water and Natural Resources Committee

Overview of Water Project Fund Financing

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Water & Wastewater Funding Programs

Today's overview will include a brief review of:

Major state funding programs for water and wastewater projects;

The Water Project Finance Act and the duties of the Water Trust Board and the NMFA under the Act;

Rules governing the Water Project Fund;

Eligibility and Prioritization Criteria; and

The annual Water Trust Board application cycle.



State Water & Wastewater Funding Programs

Monthly Application Process:

Public Project Revolving Fund* (NMFA)

§6-21-1.0 Loans for equipment and infrastructure. Interest rates are pegged to 'AAA' rated debt at the time the loan is made. Preferential pricing for entities with low median household incomes (MHI). Maximum loan size is determined by borrower's capacity to repay loan. Loans are typically processed and closed within 3-4 months.

Rural Infrastructure Program (NMED)

§75-1-2.1 Low-interest loans (2.375%) to eligible rural communities for the construction or modification of water supply, wastewater, and solid waste facilities. Maximum loan is \$2 million per fiscal year. Loans are typically processed and closed within 6-8 weeks.

*requires prior legislative authorization



State Water & Wastewater Funding Programs

Quarterly Application Process:

Drinking Water State Revolving Fund (NMFA)

§6-21A-1 Federally funded program provides low-interest loans for drinking water projects. Federal funds provide for limited “principal forgiveness.” Must be ranked on NMED’s quarterly Fundable Priority List to apply.

Local Government Planning Fund (NMFA)

§6-21-6.4 Grants for a variety of planning documents for water and wastewater public projects, other infrastructure projects and economic development plans. Grants are made on a sliding scale, based upon the applicant’s MHI and utility rates, up to a maximum of \$50,000 per planning document.



State Water & Wastewater Funding Programs

Annual Application Cycle Process:

Water Project Fund* (NMFA)

§72-4A-9 Grant/loan awards for a variety of water projects. NMFA funds projects authorized by the legislature and recommended by the WTB. Loan/grant funding structures are based upon the system's historic capacity to repay the loan.

Colonias Infrastructure Fund (NMFA)

§6-30-1 Severance Tax Bond funded programs provides grant/loan awards to a variety of infrastructure projects located in designated Colonia communities. NMFA funds projects recommended by the Colonias Infrastructure Board.

*requires prior legislative authorization



State Water & Wastewater Funding Programs

Annual Application Cycle Process:

Clean Water State Revolving Fund (NMED)

§74-6A-4 Federally funded program provides low-interest loans and grants for wastewater projects. Must be ranked on Integrated Project Priority List by July of each year to qualify.

Tribal Infrastructure Fund (IAD)

§6-29-1 Severance Tax Bond funded program provides grants to Pueblos, Tribes and the Navajo Nation for water, wastewater, solid waste, broadband, roads, housing and other infrastructure projects.



The Water Project Finance Act

The 2001 Legislature enacted the Water Project Finance Act (the “Act”) which created the Water Trust Board (“WTB”), a 16-member board representing a diverse set of water interests and staffed by the NMFA.

The statutory purpose of the Act is to provide for water use efficiency, resource conservation and protection and fair distribution and allocation of New Mexico's scarce water resources for beneficial purposes of use within the state.

The Act created the **Water Trust Fund** and the **Water Project Fund** to provide the necessary financial support for the five categories of water projects authorized under the Act.

Water Trust Board Duties

Pursuant to the Act, the WTB shall “adopt rules governing terms and conditions of grants or loans recommended by the board for appropriation by the legislature from the water project fund, giving priority to projects that have been identified as being urgent to meet the needs of a regional water planning area that has a completed regional water plan that has been accepted by the interstate stream commission; that have matching contributions from federal or local funding sources available; and that have obtained all requisite state and federal permits and authorizations necessary to initiate the project”

Water Trust Board Duties

Authorize **qualifying water projects** to the authority that are for:

- (1) storage, conveyance or delivery of water to end users;
- (2) implementation of federal Endangered Species Act of 1973 collaborative programs;
- (3) restoration and management of watersheds;
- (4) flood prevention; or
- (5) water conservation or recycling, treatment or reuse of water as provided by law;

The Act defines a **qualifying water project** as a project recommended by the WTB for funding by the legislature

NMFA Duties

NMFA provides staff support to the WTB and develops application procedures and forms for qualifying entities to apply for grants and loans from the Water Project Fund (the “Fund”)

NMFA is the administrator of the Fund, which is held at the NMFA. Pursuant to the Act, “Money in the Water Project Fund may be used to make loans or grants to qualified entities for any project approved by the Legislature.”

NMFA is also authorized to issue revenue bonds payable from the proceeds of loan repayments made into the Fund to replenish the balance.

Overview of Water Project Fund

The Water Project Fund has received various appropriations since its inception in 2001, including General Fund, Severance Tax Bond Proceeds, Special Appropriations, distributions from the Water Trust Fund and loan repayments

General Fund*	\$ 15,492,051
Severance Tax Bond Proceeds*	270,736,811
Special Severance Tax Bond Proceeds*	50,000
Water Trust Fund Distributions*	28,800,000
Loan Repayments	<u>3,420,218</u>
TOTAL	\$318,499,080

*Net of reversions and adjudication



Rules

The Act directs the WTB to adopt rules governing the terms and conditions of grants or loans recommended by the WTB and made by the NMFA.

Rules first published in 2002 and were replaced in 2008 after the WTB established its broad-based Project Management Policies. Rules were amended in 2010 to clarify that awards may be redirected to other projects made necessary by unanticipated events and to clarify how applicants seek reconsideration of a WTB decision.



Rules

In 2013, the WTB began conversations regarding changing the application procedures to help maximize efficiency and to provide smaller applicants with more time to complete the lengthy application.

Following a briefing of the proposed changes to the NMFA Legislative Oversight Committee in May 2013, the WTB initiated in August its rulemaking process to provide for the WTB to recommend to the Legislature a comprehensive list of projects rather than a prioritized list of projects. These rules were finalized in December 2013.



Eligibility & Prioritization Criteria are Unchanged

The rule changes did not change the WTB's long-standing eligibility and prioritization criteria, which have been in effect for approximately 10 years.

- Cost-Effectiveness of Water Project
- Water Rights Scientific, Hydrologic & Biological Studies
- Comprehensive Solution/Measurable Outcome
- Immediate Threats to Public Health, Safety & Welfare
- Regional Dispersion
- Local Effort
- Ability to Pay
- Ability to Leverage Federal Funds
- Priority
- Readiness to Proceed
- Life of Water Project
- Urgent



Prioritization Policies are Unchanged

Long-standing policies prioritize projects that:

are ready to **put the shovel in the ground** with all water rights, funding and design requirements in place at the time of award

are urgent projects to meet the needs of a regional water planning area that has a completed regional water plan that has been accepted by the Interstate Stream Commission

leverage WTB (state) funding with local and federal funds

are regional projects or that share services to achieve operating efficiencies



Evaluation of Financial Application & Water Project Proposal are Unchanged

The seven–agency Project Management Team still evaluates proposals for technical merit, eligibility and appropriateness of funding. For the 2014 application cycle, this review occurred after the Legislative Session.

NMFA still reviews the funding applications and make recommendations on funding structure (loan/grant combinations), loan terms & conditions (no change)

Applicants still submit remaining readiness items and closing documents are drawn up (no change)



Application Review

The WTB relies on the technical advice from a Project Management Team comprised of staff from:

NM Environment Department

Department of Game & Fish

Department of Agriculture

New Mexico Finance Authority

Department of Finance & Administration

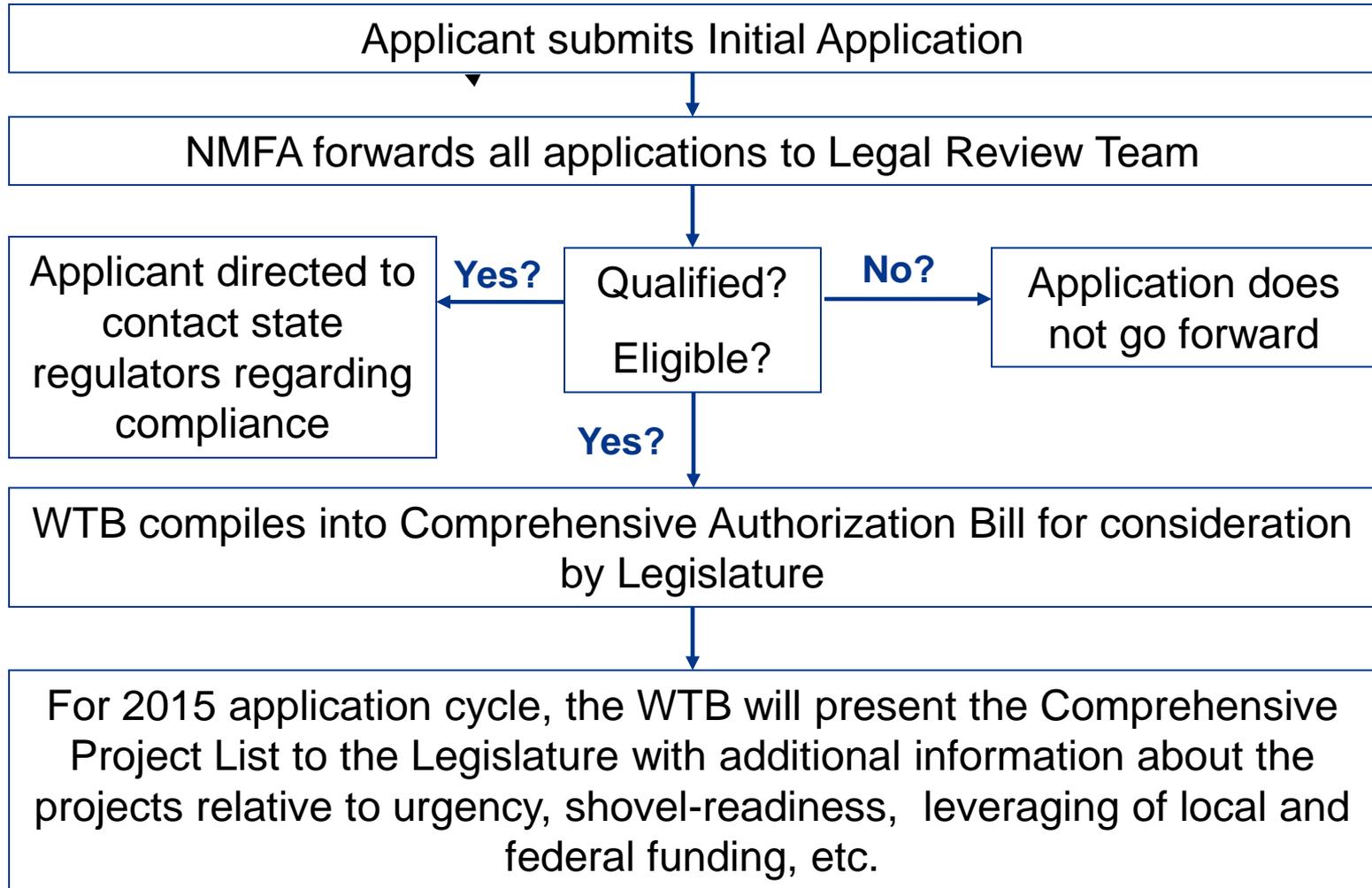
Office of the State Engineer

Energy Minerals & Natural Resources Department

These agencies work in collaboration to ensure all applications submitted receive a comprehensive evaluation.



Application Process



Application Process

Regulators provide WTB with list of compliant applicants. Those deemed non-compliant are given time to demonstrate compliance



Funding applications due after the Governor's deadline for signing legislation passes



Applicants are offered the opportunity to present their projects to WTB



Seven-agency Project Management Team evaluates applications and makes recommendations to the WTB on project priority as well as policy waivers, appropriate scopes of projects and amounts



WTB considers policy waivers



WTB makes final funding decision



Application Process

NMFA Finance & Loan Committee reviews final terms of the financial assistance awards



NMFA Board approves Water Project Fund projects



NMFA works with applicants to gather the last bits of project readiness and finalizes financial assistance award agreements



Funds are disbursed on a reimbursement basis



Applicants make annual loan payments to NMFA. WTB policies provide for a hardship waiver if the borrower demonstrates an unanticipated event prevents them from making the payment. NMFA coordinates with DFA Budget Division to determine whether the event was unanticipated.

