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## FISCAL IMPACT REPORT

SPONSOR: Lujan DATE TYPED: 03/06/03 HB 882/aHTRC

SHORT TITLE: Severance Tax Bonds for Water Projects SB \_\_\_\_\_

ANALYST: Kehoe

### APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
			See Narrative		

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

### SUMMARY

#### Synopsis of HTRC Amendment

House Taxation and Revenue Committee Amendments to House Bill 882 modify the bill as follows:

- Items 1,5, 6, 7, 12, 13 and 14 are technical corrections to the bill.
- Items 2 and 3 clarify that the State Board of Finance (BOF) shall “authorize” rather than “deduct” ten percent of the estimated bonding capacity each year to be used by the Water Trust Board for the purpose of funding water projects statewide and provides legislative authority to BOF to issue severance tax bonds in the annually deducted amount.
- Item 4 removes language that required the Water Trust Board from having to select water projects from a list provided by NMFA.
- Item 8 enforces BOF’s responsibility to comply with the federal Internal Revenue Code of 1986 when issuing and selling severance tax bonds.
- Item 9 requires that the proceeds of severance tax bonds be deposited in the Water Project Fund administered by NMFA rather than appropriated directly to NMFA.
- Item 10 clarifies that the Water Trust Board is responsible for certifying the use of proceeds from the Water Project Fund.
- Item 11 strikes a provision that required recipients of bond proceeds to have a substantial binding obligation to a third party to expend at least five percent of the bond proceeds; and that at least 85 percent of the bond proceeds be expended within three years after the

bonds have been sold.

- Item 15 expands the definition of “water projects” to include conservation, recycling, treatment or reuse of water.

### Synopsis of Original Bill

House Bill 882 requires a certain percentage of annual severance tax bonding capacity to be used for funding statewide water projects recommended by NMFA to the Water Trust Board.

### Significant Issues

House Bill 882 requires that the Board of Finance (BOF), by January 15 of each year, estimate the amount of bonding capacity available for severance tax bonds to be authorized by the legislature and that BOF deduct ten percent of the estimated bonding capacity for use by the New Mexico Finance Authority (NMFA) to fund water projects statewide.

The Water Trust Board will select the projects from a list of water projects provided by NMFA and will certify to BOF the need for issuance of bonds for the water projects. Proceeds from the sale of the bonds are appropriated to NMFA for funding the approved water projects. House Bill 882 defines water projects as capital outlay for: 1) the storage, conveyance or delivery of water to end-users; 2) the implementation of federal Endangered Species Act of 1973 collaborative programs; 3) the restoration of watersheds; or 4) flood prevention.

House Bill 882 requires NMFA to recommend water projects that are developed sufficiently so the Authority expects that the recipient will: 1) incur a substantial binding obligation to a third party to expend at least five percent of the bond proceeds; and 2) spend at least eighty-five percent of the bond proceeds within three years after the bonds have been sold.

### **FISCAL IMPLICATIONS**

The appropriation contained in this bill is an annual recurring expense to severance tax bond capacity. Any unexpended or unencumbered balances remaining at the completion of a water project shall revert to the severance tax bond fund. House Bill 882 specifically requires that severance tax bond proceeds shall not be used to pay indirect project costs and that the proceeds from bonds issued for a water project will revert to the severance tax bond fund within six months of completion of the water project. The bill requires NMFA to monitor and ensure proper reversions.

### **OTHER SUBSTANTIVE ISSUES**

Water-related funding issues continue to dominate as one of the state’s most pressing needs. The Water Trust Board has identified over \$2.3 billion in regional and statewide water project needs. House Bill 882 would provide much needed resources for the state’s water system needs.

LMK/yr