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FISCAL IMPACT REPORT

ORIGINAL DATE 2/2/06

SPONSOR Papen LAST UPDATED _____ HB _____

SHORT TITLE Water Project Act Funds for Original Purpose SB 224

ANALYST Kehoe

APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Non-Rec | Fund Affected |
|---------------|------|-------------------------|------------------|
| FY06 | FY07 | | |
| NFI | NFI | NFI | NFI |
| | | | |

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files
New Mexico Finance Authority (NMF)

SUMMARY

Synopsis of Bill

Senate Bill 224 amends the Water Project Finance Act to provide that expenditures of the money from the water project fund be used for its original purposes.

SIGNIFICANT ISSUES

The Water Finance Act was amended in 2005 to allow 10 percent of all money in the water project fund be dedicated to the State Engineer for water rights adjudications; and 20 percent of the money dedicate for water rights adjudications be allocated to the administrative office of the courts for the courts' costs associated with those adjudications. Following the 2005 Legislative Session, prior to the sale of severance tax bonds, it was determined by bond counsel that the severance tax bonds could not be used for administrative purposes. Therefore, the Office of State Engineer and Administrative Office of the Courts did not receive money for adjudication purposes from the water project fund in 2005.

Eligible water projects funded from the water project fund are defined as those involving: 1) the storage, conveyance or delivery of water to end-users; 2) the implementation of federal Endangered Species Act collaborative programs; 3) the restoration of watersheds; 4) flood prevention; 5) conservation; or 6) for recycling, treatment or reuse of water.

The water project fund is capitalized with 10 percent of the severance tax bonding capacity each year as provided by Laws of 2003, Chapter 134. The 10 percent set-aside of severance tax bond capacity for FY06-07 is approximately \$28.5 million for allocation by the water trust board for eligible water projects authorized by the Legislature. *Money from the severance tax bonds may not be used to pay indirect project costs*, and any unexpended balance from proceeds of severance tax bonds issued for a water project shall revert to the severance tax bonding fund within six months of completion of the water project. NMFA is responsible for monitoring and ensuring proper reversions.

OTHER SUBSTANTIVE ISSUES

According to NMFA, over \$2 billion in water-related needs have been identified throughout the state. The water trust board in FY05 received over \$129 million in requests for water-related projects. To date, the water trust board has recommended \$47 million of grant funding for 47 projects for 29 local entities statewide. The state has leveraged more than \$50 million of local and/or federal funding.

LMK/yr