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FISCAL IMPACT REPORT

SPONSOR Roybal Caballero / Candelaria **ORIGINAL DATE** 3/7/19
LAST UPDATED _____ **HJM** 9

SHORT TITLE Use of Tier 2 Funds for Loan Subsidization **SB** _____

ANALYST Armstrong

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY19	FY20		
	NFI	N/A	N/A

(Parenthesis () Indicate Expenditure Decreases)

Relates to SB43

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Environment (NMED)

New Mexico Finance Authority (NMFA)

SUMMARY

Synopsis of Joint Memorial

House Joint Memorial 9, endorsed by the interim NMFA Oversight Committee, requests support from New Mexico’s congressional delegation for NMFA to obtain approval from the Environmental Protection Agency (EPA) to use “tier two funds” of the drinking water state revolving loan fund (DWSRLF) for partial loan subsidization.

FISCAL IMPLICATIONS

In 1997, New Mexico established the DWSRLF in conjunction with the 1996 amendments to the Safe Drinking Water Act (SDWA) to provide local entities with low-cost financial assistance in the construction of necessary drinking water facilities and to develop programs that support public water systems in achieving or remaining in compliance with primary drinking water regulations to both NMED and NMFA.

Through FY18, NMFA has loaned approximately \$196 million from the DWSRLF, including approximately \$63 million to small public water systems that serve populations of 10 thousand

or fewer and \$54 million to disadvantaged public water systems. All of these loans have been financed by the annual EPA grants and required state match. From 2010 through FY18, NMFA has delivered over \$48 million in principal forgiveness to qualifying DWSRLF loan recipients.

SIGNIFICANT ISSUES

The DWSRLF is held at NMFA and used primarily to make low-cost loans for water quality projects. Initial funding comes from annual EPA capitalization grants and a required 20 percent state match; these funds are referred to as “tier one funds.” NMFA offers partial loan subsidization in the form of principal loan forgiveness for small and disadvantaged public water system borrowers using these tier one funds, as allowed by EPA and outlined in the conditions of the annual EPA grants.

Principal and interest amounts received by the DWSRLF as loan repayments from borrowers are referred to as “tier two funds.” To date, EPA has not provided guidance to NMFA permitting the use of tier two funds for partial loan subsidization in the form of principal forgiveness.

Many small and disadvantaged public water systems in need of project funds cannot afford to repay one hundred percent of the principal loan amount and therefore will not utilize financial assistance offered by NMFA through the DWSRLF, unless partial loan subsidization is available. Over the years, principal and interest amounts received as loan repayments (tier two funds) has grown to total over \$60 million, which currently is not available for subsidized loans.

In 2018, the NMFA Oversight Committee transmitted a letter to the members of New Mexico’s congressional delegation, communicating the issue and requesting their support in persuading EPA to allow tier two funds to be used for partial loan subsidization. Allowing use of the uncommitted tier two fund balances for partial loan subsidization would help many small and disadvantaged communities in New Mexico and be consistent with the purpose of the SDWA.

RELATIONSHIP

Senate Bill 43 appropriates \$2.5 million from the public project revolving fund to the DWSRLF and serves as the state’s required 20 percent match for the federal FY19 EPA capitalization grant.

JA/sb/al