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FISCAL IMPACT REPORT

ORIGINAL DATE 02/03/21
 SPONSOR Cervantes LAST UPDATED 02/18/21 HB _____
 SHORT TITLE NMFA Water Projects SB 137/ec
 ANALYST Olson/Kehoe

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY21	FY22		
(\$53,300.0)	(\$53,000.0)	Recurring (See Fiscal Implications)	Senior Severance Tax Bond Capacity
\$53,300.0	\$53,000.0	Recurring	Water Project Fund
(\$4,000.0)	(\$4,000.0)	Recurring (See Fiscal Implications)	Water Trust Permanent Fund
\$4,000.0	\$4,000.0	Recurring	Water Project Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Finance Authority (NMFA)
 Energy, Minerals & Natural Resources (EMNRD)
 New Mexico Environment Department (EDD)

SUMMARY

Synopsis of Bill

Senate Bill 137, endorsed by the New Mexico Finance Authority Oversight Committee, authorizes the New Mexico Finance Authority (NMFA) to make loans or grants for 37 projects from the water project fund. The NMFA and Water Trust Board (WTB) establish the terms and conditions of the loans and grants awarded for qualifying water projects from the water project fund as recommended by the Water Trust Board.

The bill contains an emergency clause.

FISCAL IMPLICATIONS

The water project fund is capitalized through annual distributions of 9 percent of the senior severance tax bond capacity (\$591.8 million in fiscal year 2021) and an annual distribution from

the water trust fund (\$4 million). The 9 percent earmark, \$53.3 million, plus \$4 million from the water trust fund totals \$57.3 million for the water project fund in fiscal year 2022.

Laws 2005, Chapter 293 provides that 10 percent, or nearly \$5.73 million, of all funds in the water project fund may be allocated to the Office of State Engineer (OSE) to be used for adjudication. Of the OSE allocation, 20 percent, or approximately \$1.15 million, will transfer to the Administrative Office of the Courts for adjudication purposes. Approximately \$51.6 million will be available for the projects authorized by SB137.

Regulations and policies established by the WTB require applicants to match the awards with non-severance tax bond funds. The local match is determined on a sliding scale based on the median household income of the applicant, the size of the request, and the type of project. According to NMFA, the policies require that applicants supported by a rate-paying constituency undertake a loan of between 10 percent and 40 percent of the total award. As reported by NMFA, the average award in fiscal year 2020 was approximately 80 percent grant and 20 percent loan. The term of the loans is up to 20 years at a zero percent interest rate.

Following authorization by the Legislature, the NFMA and board will further review the projects for additional project readiness and policy qualifications prior to a final funding recommendation. The NMFA establishes the terms and conditions of the loans and grants awarded from the fund as recommended by the WTB. Applicants are guided by policies and rules that identify minimum application standards which include mandatory planning documents and evidence of additional funding.

SIGNIFICANT ISSUES

The water project fund (WPF) and the Water Trust Board (WTB) were created within the Water Finance Act (the Act). The Act provides a permanent revenue source to provide grants and loans to political subdivisions for eligible long-range planning and financing of regional and statewide water supply projects authorized by the Legislature. Eligible water projects as defined in the Act include: 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.

ADMINISTRATIVE IMPLICATIONS

The eligible entities for qualified projects contained in the bill have been evaluated by a project management team comprised of seven agencies prior to the WTB recommending projects to the Legislature for authorization. The NMED Construction Program Bureau, under a Memorandum of Understanding with the NMFA, provides technical assistance on projects funded by the WPF. The NMFA is responsible for administering the projects and is responsible for monitoring and ensuring proper reversions. The NMFA is reimbursed for administrative costs, including NMED oversight.

SO/LK/al/rl