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FISCAL IMPACT REPORT

SPONSOR Martinez, R.C. ORIGINAL DATE 1/18/19
LAST UPDATED _____ HB _____

SHORT TITLE Drinking Water System Financing SB 43

ANALYST Kehoe

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY20	FY21		
(\$2,500.0)		Nonrecurring	Public Project Revolving Fund
\$2,500.0		Nonrecurring	Drinking Water State Revolving Loan Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

New Mexico Finance Authority (NMFA)

SUMMARY

Synopsis of Bill

Senate Bill 43, endorsed by the New Mexico Finance Authority Oversight Committee, appropriates \$2.5 million from the public project revolving fund (PPRF) to the drinking water state revolving loan fund (DWSRLF), to provide matching funds for the federal Safe Drinking Water Act and for the purposes of the Drinking Water State Revolving Loan Fund Act. The effective date of the bill is July 1, 2019.

FISCAL IMPLICATIONS

The appropriation of \$2.5 million satisfies New Mexico's 20 percent federal match requirement for the annual capitalization grant from the Environmental Protection Agency, which is estimated at \$11.8 million for the federal fiscal year 2019. The appropriation contained in this bill is for expenditure in fiscal year 2020 and subsequent years. Any unexpended or unencumbered balances remaining at the end of a fiscal year shall not revert to the PPRF.

The funding will capitalize the low-interest loan program, with a base rate of two percent, for drinking water systems through the drinking water revolving loan fund (DWRLF). The program is administered by the New Mexico Finance Authority (NMFA) in partnership with the New

Mexico Environment Department (NMED). The NMFA reports as of December 31, 2018, the DWRLF has been capitalized as follows:

- \$208.9 million in federal awards;
- \$38.8 million in state match; and
- \$180.2 million deposited into DWRLF.

As of December 2018, NMFA has made 130 loans totaling \$200.7 million and approved an additional 14 loans totaling \$19.9 million. Of the total capitalization, federal funds totaling \$67.5 million has been used by NMED and NMFA to pay for costs related to administering the program.

SIGNIFICANT ISSUES

The New Mexico Drinking Water State Revolving Loan fund Act was enacted by the 1997 Legislature in support of the 1996 amendments to the federal Safe Drinking Water Act. The purpose of the Act is to provide local entities low-cost financial assistance for drinking water systems construction, rehabilitation, and compliance of NMED and NMFA primary drinking water regulations intended to protect drinking water quality and public health. The NMFA reports that between fiscal year 2015 and mid fiscal year 2019 New Mexico had the 2nd highest percentage of disbursements of the 51 drinking water state revolving programs nationwide.

ADMINISTRATIVE IMPLICATIONS

The NMFA and NMED share the responsibilities of administering the DWRLF. The capitalization grants allow for set-asides to be used in administering the financial aspects by the NMFA (up to 4 percent). Of the amount, NMFA pays contractors, including technical work performed by the NMED Construction Programs Bureau. Federal guidelines allow each state to use up to 27 percent of the annual EPA capitalization grant to carry out the provision of the SDWA.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If the appropriation of \$2.5 million required for 20 percent state match is not secured, federal funding to support drinking water systems statewide, would not be received. Not providing a match could potentially impact the drinking water system's compliance with the federal Safe Drinking Water Act intended to ensure public health and safety. Not receiving the grant would also impact the ability of the state agencies to provide capacity development and technical assistance to water systems statewide, including engineering and construction oversight services required by the federal program.

LMK/al