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FISCAL IMPACT REPORT

SPONSOR Cervantes/T. Salazar ORIGINAL DATE 1/29/19
 LAST UPDATED _____ HB _____

SHORT TITLE Water Project Fund Projects SB 326/ec

ANALYST Kehoe

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY19	FY20		
(\$28,100.0)	\$31,600.0	Recurring (See Fiscal Implications)	Senior Severance Tax Bond Capacity
\$28,100.0	\$31,600.0	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)

Relates to Senate Bill 369

Relates to Senate Bill 254 and House Bill 333, Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

New Mexico Finance Authority (NMFA)

SUMMARY

Senate Bill 326, endorsed by the New Mexico Finance Authority Legislative Oversight, authorizes the New Mexico Finance Authority (NMFA) to make loans or grants for 30 projects from the water project fund. The NMFA establishes the terms and conditions of the loans and grants awarded from the water project fund as recommended by the Water Trust Board (WTB). 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 (\$312.2 million in fiscal year 2019) and an annual distribution from the water trust fund (\$4 million). The 9 percent earmark plus \$4 million from the water trust fund for the water project fund is \$32.1 million this year. Laws 2005 (Chapter 293) provides that 10 percent, or \$3.2 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 \$642 thousand, will transfer to the Administrative Office of the Courts for adjudication purposes. Approximately \$28.9 million will be available for the projects authorized by SB 326

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 and the applicant's historic capacity to repay debt. As a construction loan, the borrower does not have to begin repaying the loan until the construction is complete, up to two years. The NMFA reports the average award in FY2018 was approximately 85 percent grant and 15 percent loan.

Certain projects such as tribal, watersheds, and endangered species are able to substitute other matching funds in place of the loan component. The interest rate of the loan is zero percent, and the annual principal payment includes a .025 percent administrative fee.

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.

In the 2019 cycle, the NMFA reports the WTB received 55 preliminary applications totaling more than \$55.7 million for review and consideration for financial assistance from the WPF. 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. On November 28, 2018, the WTB approved 30 applications totaling approximately \$27.8 million for financial assistance requiring legislative authorization contained in this bill.

Following authorization by the Legislature, the NMFA 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. When the 2019 application process started, policies capped the amount of a loan to 15 percent of the funds available, estimated at \$3.3 million...

ADMINISTRATIVE IMPLICATIONS

In accordance with the Act, the NMFA administers the annual application cycle on behalf of the WTB. The NMFA contracts with the Construction Programs Bureau of the New Mexico Environment Department to provide engineering and construction oversight of the projects. 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.

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CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 369 changes the appointing authority of certain members of the WTB and changes the membership of the board.

House Bill 333, Section 10, subsection (7) transfers \$15 million from the general fund to the WTB in fiscal year 2019, including \$7.5 million to be awarded to mutual domestic water consumers associations the WTB. Senate Bill 254 duplicates House Bill 333.

LMK/gb