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## FISCAL IMPACT REPORT

**LAST UPDATED** \_\_\_\_\_

**SPONSOR** Herrera/Cates/Allison/Zamora/Armstrong     **ORIGINAL DATE** 1/22/24

**SHORT TITLE** Water Project Fund Projects     **BILL NUMBER** House Bill 148/ec

**ANALYST** Carswell

### APPROPRIATION\* (dollars in thousands)

FY24	FY25	Recurring or Nonrecurring	Fund Affected
\$112,140.0		Recurring	Net Water Project Fund
\$3,600.0		Recurring	Net Water Project Fund

Parentheses ( ) indicate expenditure decreases.  
 \*Amounts reflect most recent analysis of this legislation.

### REVENUE\* (dollars in thousands)

Type	FY24	FY25	FY26	FY27	FY28	Recurring or Nonrecurring	Fund Affected
	(\$124,600.0)						Severance Tax Bonding Fund
	(\$4,000.0)						Water Trust Fund

Parentheses ( ) indicate revenue decreases.  
 \*Amounts reflect most recent analysis of this legislation.

Relates to Senate Bill 1

### Sources of Information

LFC Files

Agency Analysis Received From  
 New Mexico Finance Authority (NMFA)

## SUMMARY

### Synopsis of House Bill 148

House Bill 148 authorizes the New Mexico Finance Authority to make loans or grants from the water project fund to qualifying water projects identified in the bill pursuant to the Water Project

Finance Act. Sixty-five qualified projects sought by 55 public entities are authorized for funding in the bill; which projects are ultimately awarded funding, and at what amounts, will be determined by the Water Trust Board after legislative authorization.

This bill contains an emergency clause and would become effective immediately on signature by the governor.

## **FISCAL IMPLICATIONS**

The water project fund receives a 9 percent annual earmark on senior severance tax bond (STB) capacity and an annual distribution from the water trust fund of the greater of \$4 million or 4.7 percent of the average year-end value of the trust fund over the previous five years. The Office of the State Engineer receives 10 percent of the annual distributions from severance tax bond proceeds and the trust fund for water rights adjudication.

According to the Board of Finance, the water project fund's 9 percent STB capacity earmark will yield a \$124.6 million distribution in FY24, with a net \$115.7 million available for award by the Water Trust Board including the water trust fund distribution.

## **SIGNIFICANT ISSUES**

The water project fund is administered by the New Mexico Finance Authority, which makes grants and loans to water projects recommended for funding by the Water Trust Board and authorized by the Legislature. The projects recommended for funding in HB148 were vetted following criteria and policies established by the Water Trust Board. The board requires applicants to have completed relevant planning studies, such as preliminary engineering reports, design analysis reports, or technical memoranda. The board also requires applicants to have met expenditure thresholds for any prior awards before seeking new funding and to provide some level of local match for funding provided from the water project fund. The level of local match as well as the amount of the award that is provided as a loan and as a grant is determined by financial analysis completed by NFMA and other criteria set by the board. Those criteria include consideration of system size.

According to NMFA, the board approved policy revisions in 2022 that allow for waivers of the local match for: water systems serving fewer than 250 connections that have secured previous Water Trust Board funding for the project; for projects that would consolidate systems; or for projects to incorporate unserved customers that are not the result of future development. Loan components of Water Trust Board awards range from 10 percent to 40 percent and loans may be waived for systems serving fewer than 500 connections that have secured previous board funding for the same project or for projects to consolidate with another system.

The average award in FY23 was 83 percent grant and 17 percent loan. Loan terms are up to 20 years at 0 percent interest.

Severance tax bond earmark distributions to the water project fund have grown dramatically over the last several years with rising oil and gas revenues. Demand for these funds has also increased. For the FY24 funding cycle, the Water Trust Board received 65 applications totaling over \$275 million, according to NMFA, or more than double the available funding.

The projects included in HB148 will be required to demonstrate compliance with relevant regulations and laws, such as water rights, drinking water regulations, and state audit rules, before funding is awarded by the board.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

House Bill 148 relates to Senate Bill 1, which appropriates \$100 million to the water trust fund.

## **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

The Water Trust Board will not be authorized to award available water project fund to qualifying projects for FY24.

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