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FISCAL IMPACT REPORT

SPONSOR	Reps. Dixon and Armstrong/Sens. Woods and Campos	LAST UPDATED	2/3/24
		ORIGINAL DATE	1/22/24
SHORT TITLE	NM Match Fund	BILL NUMBER	House Bill 177/ec/aHAFC
		ANALYST	Hilla

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*

(dollars in thousands)

Agency/Program	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
DFA	\$100.0	\$300.0	\$300.0	\$700.0	Recurring	General Fund

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency Analysis Received From

Energy, Minerals and Natural Resources Department (EMNRD)

Department of Environment (NMED)

Department of Finance and Administration (DFA)

SUMMARY

Synopsis of HAFC Amendment to House Bill 177

The House Appropriations and Finance Committee (HAFC) amendment to House Bill 177 (HB 177) removed the \$100 million appropriation.

Synopsis of Original House Bill 177

House Bill 177 (HB177) creates the New Mexico match fund and appropriates \$100 million from the general fund to the Department of Finance and Administration (DFA). The appropriation would allow DFA to match state funds for federal grants, offset higher project costs incurred to comply with federal requirements, and administer the fund. Eligible entities can request the full amount of state matching funds required by the federal grant, which are contingent on the federal grant award for which matching state funds are needed. DFA shall report to the LFC and any other appropriate interim committee no later than October 1 of each year on grants made from the fund.

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

FISCAL IMPLICATIONS

This bill creates a new fund and provides for continuing appropriations. LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds because it reduces the ability of the Legislature to establish spending priorities.

DFA may use up to 3 percent of the fund to administer the appropriations, but since there is no clear amount in the bill of how much money will be in the fund, this number is unknown. DFA may need to hire FTEs to manage the disbursement of the fund, since it is unclear how much money the department would be able to use to disburse the fund, which would affect their recurring operating budget and is what is included in the fiscal analysis. Since the bill would pass contingent on the signature of the governor and would immediately go into effect, it is assumed that at least 1 FTE would be hired for the remainder of FY24 to help with the disbursement of the new fund. It is assumed 2 additional FTE will be hired in FY25 for the disbursement of the fund for an additional recurring cost to DFA's operating fund of \$300 thousand to compensate for the 3 new FTEs.

SIGNIFICANT ISSUES

It is likely this new responsibility would be assigned to the Local Government Division at DFA for further specificity of the administration of the fund.

The eligible New Mexico entities that qualify for matching funds include: a county, city, town, or village; a drainage, conservancy, irrigation, soil and water conservation, water or sanitation district; a mutual domestic water consumer association; a public water cooperative association; a community ditch association; a public post-secondary education institution; the state of New Mexico, or any branch, state agency, department, board, instrumentality, or institution; any political subdivision of the state; and any federally recognized Indian nation, tribe or pueblo.

DFA says that many federal programs require matching funds, sometimes up to 50 percent of the federal award amount. DFA says, "This bill would ensure that the lack of match funding is not a hindrance to infusing federal dollars into our communities." DFA notes the bill addresses the lack of capacity that, "Too often holds our communities back from making needed investments."

There is no capped amount that each eligible entity can receive from the fund. The absence of a capped amount for the matching fund allows for a flexible, case-by-case approach. This flexibility ensures that each entity applying for the fund can receive needed financial support without being constrained by predetermined limits. However, no capped amount allows for varying funding requests and potential fiscal uncertainty. Without a capped amount, there may be difficulties in allocating resources efficiently and balancing competing needs within the state, especially if entities are seeking funding simultaneously.

Also, the bill does not identify specific criteria or the process that an eligible entity must follow to qualify for funding thus leaving DFA with complete discretion of the funds.

EMNRD notes that this source of funding will provide eligible entities with a reliable source of funding to match federal and other grants rather than miss out on opportunities.

PERFORMANCE IMPLICATIONS

The bill does not contain a claw back provision, in the event funds are misspent, and does not require accountability for funds awarded to eligible entities. The bill does not specify a need-basis for matching funds, rather all that is needed to be eligible for matching funds is the contingency of the awarding of the federal grant. Other than the bill outlining that “disbursements of the fund shall be made by warrant of the secretary of finance and administration,” there is little accountability to keep track of the disbursement of funds. For similar appropriations, there are guardrails to ensure that the money being administered to the eligible entity is phased out and are being used for the awarded purpose. This bill should consider similar guardrails to ensure appropriate use of match fund awarding. The bill is unclear as to what happens to unexpended balances eligible entities may have once their project(s) are complete.

ADMINISTRATIVE IMPLICATIONS

DFA mentions they have been successful in implementing smaller match fund appropriations, such as a leveraged \$81 million federal funds for appropriated \$10 million for matching grant funds in fiscal year 2024. The agency says they will have a “Collaborative process with various stakeholders to ensure broad distribution of funding statewide on a rolling application basis.”

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill relates to Senate Bill 49 to create the Rural Infrastructure Crisis Response Act.

OTHER SUBSTANTIVE ISSUES

The Department of Environment (NMED) notes the following: “NMED has historically obtain required matching funds for the Clean Water State Revolving Fund from New Mexico Finance Authority through the Public Project Revolving Fund when available, or alternatively, through the Infrastructure Capital Improvement Plan process. Due to increases in available federal dollars, the dollars required to match those funds have increased as well.”

EH/al/ne/ss