

LFC Requester:**Cally Carswell****AGENCY BILL ANALYSIS - 2025 REGULAR SESSION****WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO****AgencyAnalysis.nmlegis.gov and email to billanalysis@dfa.nm.gov****(Analysis must be uploaded as a PDF)****SECTION I: GENERAL INFORMATION***{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}***Date Prepared:** 2/4/2025

Check all that apply:

Bill Number: HB 240Original Correction Amendment Substitute **Sponsor:** Susan K. Herrera, Kristina Ortez,
Dayan Hochman-Vigil, Anita
Gonzales, Sarah Silva**Agency Name
and Code****Number:** NMFA (385)**Short
Title:** Drinking Water System Grants
& Loans**Person Writing** Michael Vonderheide**Phone:** 505-992-9653 **Email** mvonderheide@nmfa.net**SECTION II: FISCAL IMPACT****APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		
None	None	N/A	N/A

(Parenthesis () indicate expenditure decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		
None	None	None	N/A	N/A

(Parenthesis () indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	NFI	NFI	NFI	NFI	N/A	N/A

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB 41 Public Project Revolving Fund Appropriations.

SECTION III: NARRATIVE

BILL SUMMARY

House Bill 240 makes revisions to the State’s Drinking Water State Revolving Loan Fund (“DWSRLF”) Act to bring the Act into compliance with the federal Safe Drinking Water Act (“SDWA”) and allows for New Mexico to offer financial assistance and terms consistent with the current SDWA. House Bill 240 provides that, in addition to loans, the New Mexico Finance Authority (“NMFA”) may both loans and grants from the DWSRLF for eligible drinking water projects and extends repayment period requirements for loans made pursuant to the Act. HB 240 clarifies that NMFA, as the grantee, prepares and submits applications for federal capitalization grants to the U.S. Environmental Protection Agency (“EPA”) as required by the SDWA and further clarifies annual reporting requirements for the program. House Bill 240 also removes expiring provisions of the DWSRLF Act to accommodate transfers as allowed by the SDWA between the DWSRLF and Wastewater Facility Construction Loan Fund, aka the Clean Water State Revolving Fund (“CWSRF”), which is administered by the New Mexico Environment Department (“NMED”).

FISCAL IMPLICATIONS

The DWSRLF was established in 1996 by amendments to the federal SDWA and Congress appropriates funding annually for the DWSRLF as part of a national budget for the program. The EPA then awards federal capitalization grants to states which require a 20% match. House Bill 41, this year’s Public Project Revolving Fund (“PPRF”) appropriations bill requests \$6.25 million from the PPRF to the DWSRLF held at NMFA to serve as the State’s required 20% match for the federal fiscal year 2025 EPA base capitalization grant estimated to be \$5.5 million, and supplemental capitalization grant authorized by the federal Bipartisan Infrastructure Law (“BIL”) estimated to be \$25.75 million.

The DWSRLF is jointly administered by NMFA and NMED. NMFA serves as the grantee for the state and administers the DWSRLF, which provides low-cost financial assistance to water systems to finance repair and replacement of drinking water infrastructure as prioritized by NMED. The first federal capitalization grant was received in 1997 and since program inception NMFA has made 203 loans totaling over \$382 million, and as of December 2024 has approved another 4 loans totaling \$30.4 million.

SIGNIFICANT ISSUES

The DWSRLF Act was originally passed in New Mexico in 1997 allowing for receipt of the first federal capitalization grant and minor clarifications to the State Act were passed in 2001, but the Act has not been substantially amended since. At the federal level, amendments to the SDWA in America’s Water Infrastructure Act (“AWAI”) of 2018 and in the BIL passed in 2021 include changes to financial assistance requirements related to the DWSRLF. HB 240 provides the following revisions to bring the DWSRLF Act up into compliance with the current federal SDWA:

- Include grants in the definition of financial assistance under the DWSRLF Act.
- Allow for extended maximum loan repayment terms for DWSRLF borrowers:
 - Maximum loan repayment terms for non-disadvantaged communities

- extended from 20 to 30 years.
- Maximum loan repayment terms for disadvantaged communities extended from 30 to 40 years, as long as the term does not exceed the design life of the project.
 - Allow for DWSRLF borrowers to begin repayment of loans not later than eighteen months after completion of the project, rather than one year.
 - Clarify that NMFA is the grantee and is responsible for preparation and submittal of applications for federal capitalization grants to EPA as required by the SDWA.
 - Clarify that procedures are established by NMFA and federal regulations regarding imposing and collecting cost of issuance fees on DWSRLF loans to cover administrative expenses.
 - Update the State's DWSRLF reporting requirements by changing bi-annual reporting to annual reporting as required by the SDWA.
 - Remove expiring provisions of the DWSRLF Act to accommodate transfers between the DWSRLF and Wastewater Facility Construction Loan Fund aka CWSRF as allowed by the SDWA.
 - Make other minor changes and cleanup language in the original DWSRLF Act.

PERFORMANCE IMPLICATIONS

The more recent amendments to the SDWA require that certain federal funding be provided to eligible recipients on grant-like terms such as loans with 100% principal forgiveness or as grants. Since the DWSRLF Act does not currently allow for financial assistance to be delivered as grants, NMFA offers loans with 100% principal forgiveness in those instances. Grants from the DWSRLF would be made from federal funds only. Grants provide an opportunity to streamline the closing process and allow for quicker access to capital, particularly for small and disadvantaged water systems.

ADMINISTRATIVE IMPLICATIONS

The proposed changes to the DWSRLF Act would facilitate NMFA and NMED updating an outdated Operating Agreement with the EPA and if enacted, NMFA would incorporate the revisions to the State Act into the DWSRLF Program's Loan Management Policies.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The DWSRLF Act will remain inconsistent with the federal SDWA and the DWSRLF will be unable to provide federally funded grants or extended maximum loan repayment terms to community water systems.