

LFC Requester:**David Austin****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:** 2/18/2025*Check all that apply:***Bill Number:** HB 427Original Correction Amendment Substitute **Sponsor:** Rep. Micaela Lara Cadena**Agency Name
and Code****Number:** NMFA (385)**Short** Real-Time Water Quality**Person Writing** Marquita Russel**Title:** Monitoring**Phone:** 505-660-8170 **Email** mrussel@nmfa.net**SECTION II: FISCAL IMPACT****APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		
None	None	Unknown	unknown

(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:

House Bill 206, NMFA Water Project Fund Projects

SECTION III: NARRATIVE

BILL SUMMARY

HB 427 amends the Water Project Finance Act (the “Act”), §72-4A-1 to §72-4A-11, NMSA 1978, to add the monitoring and protection of water quality as a qualified project eligible to receive funding from the Water Project Fund (“Fund”). HB 427 amends Section 72-4A-7 to add new conditions for grants and loans for real-time water quality monitoring projects that are authorized as qualifying water projects, as follows: 1) shall be made by the NMFA to qualifying entities that apply to the NMFA for grant money; 2) shall not include the costs of originating the grants as determined by rules adopted by the NMFA and shall not exceed \$500,000 per grant application; 3) shall require reporting of real-time water quality monitoring data to the department of environment; and 4) shall not exceed a cap of \$31.5 million in total obligations of the fund, plus administrative expenses and a prudent fund balance, as determined by the NMFA. HB 427 provides that grants be made for projects that 1) invest in application programming interfaces or other technology and to develop real-time monitoring systems to obtain data on water and wastewater quality and resources in New Mexico, or 2) for technical assistance with applying for federal and other funding for programs for real-time monitoring of water management and treatment. HB 427 directs the NMFA to evaluate, by June 30, 2027, the appropriateness of the \$31.5 million cap for water quality monitoring projects.

FISCAL IMPLICATIONS

NMFA is responsible for ensuring the funds under its care are expended appropriately and in compliance with the Act. NMFA, however, does not have on staff or on contract individuals with expertise in water quality monitoring projects. HB 427 will require NMFA to hire new contractors, the cost of which is unknown.

SIGNIFICANT ISSUES

The qualifying projects and articulated uses of the Water Project Fund added by HB 427 appear to be costs typically considered operations and maintenance. The Water Project Fund receives the lion’s share of its annual funding from proceeds of tax-exempt Severance Tax Bonds, which fund capital projects, not operations and maintenance expenses. As a result, regardless of its inclusion in the Act, it is possible that the new water quality monitoring projects would not qualify for funding due to restrictions placed on tax-exempt Severance Tax Bonds.

ADMINISTRATIVE IMPLICATIONS

The Water Project Fund was created by the Water Project Finance Act and is administered by the NMFA. The NMFA makes grants and loans for qualified projects recommended by the WTB and authorized by the Legislature. Because the preponderance of the funding that capitalizes the Water Project is derived from Severance Tax Bonds, which does not fund administrative costs, NMFA cannot charge an administrative fee payable from the fund. Instead NMFA is reimbursed for costs of administration, including staffing, engineering and construction oversight contractors, per diem and board meeting expenses, from annual loan repayments. HB 427 requires that the new project type be delivered as grants, which means NMFA cannot recoup its costs of administration from these projects despite adding new costs to the program.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to HB 206.

May conflict with Severance Tax Bond disbursement rules.

OTHER SUBSTANTIVE ISSUES

Projects funded from the Water Project Fund must be recommended by the Water Trust Board and specifically authorized by law. In order for the applications to receive proper vetting prior to being recommended to the legislature for possible funding from the Water Project Fund, the NMFA must operate an annual application cycle that begins each July. The amendments contained in HB 427 would require the Water Trust Board to update its rules under the State Record Act and establish policies for selecting water quality monitoring projects, which cannot happen in time to be included in the FY2026 application cycle opening in July 2025. As a result, the first opportunity to apply for funding would be in July 2026 for the FY2027 application cycle. This would not give NMFA enough experience with these project types by June 30, 2027 to evaluate the appropriateness of the \$31.5 million cap.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Water quality monitoring would continue to be funded from the operating revenues of the water systems.

AMENDMENTS:

On page 4, line 7, delete “Grant projects and loans” and insert in lieu thereof “Financial assistance”

On page 4, line 11, delete “authority” and insert in lieu thereof “board”

On page 5, on lines 3 and 4, insert a comma after “expenses” and delete “and a prudent fund balance,”

On page 5, lines 5 – 7, delete “authority shall evaluate the amount of the cap in an appropriate proceeding to be completed by June 30, 2027 and consider” and insert in lieu thereof “board shall report to the New Mexico finance authority oversight committee by June 30, 2029”

On page 5, line 15, between “project” and “shall”, insert “, except real-time water quality monitoring as specified in Subsection B of this section,”