LFC Requester:	

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}

Check all that apply:

Original x **Amendment** ____
Correction ____ **Substitute** ____

Date 2/5/2025
Bill Number: SENATE BILL 31

Sponsor: Pete Campos, Joseph Sanchez, Anita Gonzales
Short Title: ZERO INTEREST NATURAL DISASTER LOANS

Agency Name and Code Number: DFA-341
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		
(150,000.0)		Nonrecurring	General Fund
150,000.0		Nonrecurring	Natural Disaster Revolving Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to: SB 134
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

Summary of Senate Bill 31 (SB31):

Senate Bill 31 aims to establish a zero-interest loan program for political subdivisions and electric cooperatives in New Mexico that have been approved for federal public assistance funding from FEMA for federally declared natural disasters. The bill includes the following key provisions:

- **Zero-Interest Loans**:
  - The Department of Finance and Administration (DFA), in consultation with the Homeland Security and Emergency Management Department (DHSEM), will provide zero-interest reimbursable loans to eligible political subdivisions and electric cooperatives. A reimbursement contract is required, specifying repayment terms, deadlines for loan expenditure, and penalties for non-compliance.
- **Natural Disaster Revolving Fund**:
  - Creation of the "Natural Disaster Revolving Fund" in the state treasury to support the loan program. The fund will consist of various sources, including distributions, transfers, appropriations, gifts, grants, donations, and investment income.
  - The fund is appropriated to the DFA for loan purposes and program administration, with a cap of $250,000 annually for administrative costs.
  - Funds are appropriated to the DHSEM for compliance management of projects administered by FEMA, with a cap of $150,000 annually.
- **Loan Repayment and Enforcement**:
  - Loan repayments and interest penalties will be deposited back into the revolving

fund. The DFA Secretary is authorized to take legal actions to enforce loan contracts.

- **Reporting Requirements**:
  - The DFA must report to the Legislative Finance Committee and the Governor every six months on the loans, including project details, repayment status, and contract breaches.
- **Annual Fund Transfer**:
  - An annual transfer from the Appropriation Contingency Fund to the Natural Disaster Revolving Fund will be made to maintain a balance of $150 million, subject to fund availability.
- **State Reserves**:
  - The bill amends existing statutes to include the Natural Disaster Revolving Fund as part of the state reserves.
- **Appropriation**:
  - An appropriation of $150 million from the general fund to the Natural Disaster Revolving Fund for fiscal year 2025 and subsequent years.
- **Emergency Clause**:
  - The act is declared an emergency, taking effect immediately upon passage to ensure public peace, health, and safety.

FISCAL IMPLICATIONS

Overall, SB31 represents a substantial financial commitment by the state to support political subdivisions in recovering from federally declared natural disasters. While it provides a mechanism for financial assistance and aims to ensure timely recovery efforts, it also requires careful management of state funds and resources to maintain the fund's balance and sustainability.

- Initial Appropriation: $150 million is appropriated from the general fund to the Natural Disaster Revolving Fund for fiscal year 2025 and subsequent fiscal years.
- Annual Transfers: The bill mandates an annual transfer from the Appropriation Contingency Fund to the Natural Disaster Revolving Fund to maintain a balance of $150 million, subject to the availability of funds.
- Administrative Costs: The bill provides up to $250,000 annually from the Natural Disaster Revolving Fund can be used for the administration of the loan program and enforcement of loan contracts. DFA anticipates the allocation of $250,000 annually may not be sufficient to cover estimated administrative costs.

  - Loan Administration Costs: DFA will be required to develop an application process, develop a compliance review process to ensure compliance with federal public assistance funding requirements, develop a standard loan agreement meeting the requirements of the bill, reporting requirements to flow through reporting data required by the bill, and manage reimbursement requests and reporting requirements.

  - Contract Monitoring/Enforcement Costs: DFA will be required to draft and enforce loan agreements that specify repayment terms, deadlines for expenditures, reporting terms, and penalties for non-compliance.

  - Transfer Calculations and Reporting: DFA will be required to provide bi-annual reports to the LFC and Governor that include details on loan projects, repayment status, contract breaches, and enforcement actions.

    - Additionally, DFA's Secretary must calculate the unexpended and unencumbered balance of the Natural Disaster Revolving Fund annually and, if necessary, transfer funds from the Appropriation Contingency Fund to maintain a balance of $150 million.

- DFA anticipates that it will take approximately 5,736 work hours of staff time to complete the loan administration, contractor monitoring, and reporting requirements.

  - Optimally, this would equate to 3 new FTEs at an average cost of $30.00 per hour for a total of $172,080.00 per fiscal year.

- Additionally, DFA anticipates additional increases to the indirect overhead of its Administrative Services and Financial Controls divisions to process reimbursements and audit submitted documentation (per its statutory oversight duties), and legal departments.

  - DFA anticipates this to require 630 work hours (330 work hours of initial set up and 300 additional hours per year) at a cost of $150.00 per hour for a total of $94,500.

- State Reserves: The Natural Disaster Revolving Fund will be included in the calculation of state reserves, potentially impacting the overall financial health and reserve levels of the state.

- Unexpended or unencumbered balances: Any unexpended or unencumbered balance exceeding $150 million at the end of a fiscal year shall revert to the appropriation contingency fund. Also, any unexpended or unencumbered balance remaining at the end of a fiscal year shall be included in the calculation of state reserves.

SIGNIFICANT ISSUES

- Repayment Risk: The success of the loan program hinges on the timely repayment of loans by political subdivisions. Delays or failures in securing federal public assistance funding could lead to repayment issues, impacting the fund's sustainability and the State's financial exposure.

  - To minimize this risk, utilizing the Fund as an available credit facility, rather than a traditional loan would be optimal. By obligating the funds as a facility rather than a traditional loan, the state will be allowed to keep the funds in the treasury unless and until the political subdivision creates a shovel ready project and submits adequate draw requests in accordance with the loan agreement.

- Interest Penalties and Compliance: The bill imposes interest penalties for non-compliance with loan terms. DFA will be required to create rules or standard terms and conditions that set an appropriate default interest rate and provide disincentives for arbitrage by political subdivisions based on fluctuations in interest rates.

  - Determining and enforcing these penalties could be complex, and political subdivisions may face financial strain if they are unable to meet expenditure and repayment deadlines and requirements.

PERFORMANCE IMPLICATIONS

- Coordination with Federal Agencies: Successful coordination with FEMA and other federal agencies is essential for the timely approval and disbursement of federal public assistance funding. Delays or issues at the federal level could affect the program's performance and the ability of political subdivisions to repay loans.

- Project Planning Funding: DFA recommends allowing political subdivisions to use a certain percentage of loan proceeds to perform project planning services prior to receiving draws to project delivery.

ADMINISTRATIVE IMPLICATIONS

Overall, SB31 imposes administrative duties on the DFA, including loan processing, contract enforcement, fund management, reporting, and coordination with other state departments and the federal government. DFA will be required to perform the following administrative tasks:

- **Provide zero-interest reimbursable loans** to political subdivisions approved for federal public assistance funding.

- **Require reimbursement contracts** specifying repayment terms and deadlines.

- **Monitor compliance** with loan terms, including repayment and expenditure deadlines.

- **Enforce loan contracts** and take legal action if necessary.

- **Administer the natural disaster revolving fund**, including monitoring and accounting for expenses.

- **Report biannually** to the legislative finance committee and the governor on loan activities,

repayments, and contract breaches.
- **Calculate and manage annual transfers** from the appropriation contingency fund to the natural disaster revolving fund to maintain a balance of $150 million.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB134

TECHNICAL ISSUES

- Impact on State Reserves: The inclusion of the Natural Disaster Revolving Fund in state reserves calculations could affect the overall fiscal health of the state. Additionally, per Section 6-4-6 (B), as the fund is not a permanent fund, but may contain reimbursements from the federal government for specific programs, as written, it is unclear whether the fund would be available to pay current expenses and obligations of state government in the event of a fiscal necessity.

OTHER SUBSTANTIVE ISSUES

N/A.

ALTERNATIVES

N/A.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

N/A.

AMENDMENTS

N/A.