FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Sen. Muñoz/Rep. Vincent	**ORIGINAL DATE**	2/7/2025
SHORT TITLE	Natural Disaster Loans & Fund	**BILL NUMBER**	Senate Bill 134/ec
		ANALYST	Davidson/Torres

APPROPRIATION*
(dollars in thousands)

FY25	FY26	Recurring or Nonrecurring	Fund Affected
	$100,000.0	Recurring	General Fund

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

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
DHSEM	**No fiscal impact**	**$250.0**	**$250.0**	**$500.0**	Nonrecurring	**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 Homeland Security and Emergency Management (DHSEM)
New Mexico Attorney General (NMAG)

Agency Declined to Respond
State Investment Council (SIC)
Department of Finance Administration (DFA)

SUMMARY

Synopsis of Senate Bill 134

Senate Bill 134 (SB134) appropriates $100 million from the general fund to natural disaster revolving fund, which the bill creates, for the purpose of providing public assistance funding to political subdivisions of the state that have been approved for federal public assistance funding from the Federal Emergency Management Agency (FEMA) for a federally declared natural disaster.

The bill also amends sections of statute related to the appropriation contingency fund, requires transfers from the appropriation contingency fund to the newly created natural disaster revolving fund necessary to reach a balance of $100 million each year, defines state reserve funds, adds the government results and opportunity fund to state reserves, and adds the newly created natural disaster revolving fund to state reserves.

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

FISCAL IMPLICATIONS

The appropriation of $100 million contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY26 shall not revert to the general fund. From FY25 through FY28, the bill directs an appropriation from the appropriation contingency fund to maintain a balance of $100 million in the newly created natural disaster revolving fund. However, the bill also stipulates that any balance exceeding $100 million at the end of a fiscal year must revert to the appropriation contingency fund, while simultaneously requiring a transfer from the appropriation contingency fund to restore the revolving fund's balance to $100 million. This conflicting language should be addressed to ensure clarity and consistency in fund management; see Technical Issues for further details.

This bill establishes a new fund and provides for continuing appropriations. The LFC has concerns regarding the inclusion of earmarks for up to $100 million for the revolving fund and the continuing appropriation language included in the statutory provisions. These provisions limit the Legislature's ability to set spending priorities and allocate resources based on emerging fiscal needs.

Senate Bill 134 amends statutory definitions of state reserve funds, introducing a centralized classification where none previously existed. Currently, state statutes define reserves through individual fund statutes rather than a single, cohesive framework. This bill designates the government results and opportunity expendable trust and the newly created natural disaster revolving loan fund as reserve funds.

Under existing law, the state will count the government results and opportunity expendable trust as a reserve fund only for FY25. This bill makes that designation permanent, increasing reported reserves by at least $500 million in FY26, depending on final revenues and spending decisions made in the 2025 and 2026 legislative sessions. This would increase the total reserve percentage by at least five percent. However, the fiscal impact of adding the natural disaster revolving loan fund to the reserve calculation is uncertain due to conflicting statutory provisions governing fund distributions. If the fund maintains a zero balance, its inclusion in the reserve calculation would be unnecessary and would not contribute to the state's bottom-line reserves.

Analysis from the Department of Homeland Security and Emergency Management (DHSEM) notes in its table for estimated additional operating costs a sum of $250 thousand but does not discuss or provide how the additional operating revenue would be utilized.

SIGNIFICANT ISSUES

DHSEM notes that, currently, political subdivisions affected by natural disasters have to wait for FEMA reimbursements, a process which can last months. Senate Bill 134 has the potential to act as a bridge between recovery and reimbursement. Due to the complex nature of disaster recovery, analysis from DHSEM notes timely access to funds is necessary to provide funding for actions such as debris removal, infrastructure repair, and emergency services; while federal funding is typically available for actions like these, funding is often delayed or difficult to immediately spend.
Analysis from DHSEM notes the state's most recent natural disaster event required up to $70 million in the first five days. While this cost was distributed across multiple entities, the total alone shows how expensive natural disasters can be.

Analysis from the New Mexico Attorney General (NMAG) notes that, while the bill allows for the Department of Finance Administration to work and consult DHSEM regarding loans, it does not require it. This has the potential of requiring the courts to have to interpret the scope of DHSEM and its role regarding awarding loans.

DHSEM analysis notes the bill specifies certain entities eligible for reimbursement but leaves some out:

> SB134 effectively targets communities that qualify for FEMA public assistance, providing a financial bridge while awaiting federal reimbursements. However, its scope does not extend to communities affected by disasters that do not meet federal declaration thresholds, leaving some local governments without access to critical recovery funds. Many incidents—such as wildfires, flash floods, and infrastructure failures—cause significant hardship but will still fall short of FEMA's eligibility requirements. The bill does not establish a mechanism to support these communities.

The New Mexico Constitution mandates a balanced budget, requiring the state to maintain general fund reserves to offset potential shortfalls in revenue or unexpected expenditure increases. These reserves serve as a safeguard to ensure fiscal stability and continuity of government operations.

Best practices outlined by the Pew Charitable Trusts and the Volcker Alliance recommend that reserve funds be highly liquid and subject to controlled obligations to ensure their effectiveness in mitigating fiscal risk. Most of the funds designated as reserves in this bill meet these criteria. However, the government results and opportunity expendable trust and the natural disaster revolving loan fund do not adhere to these standards due to their significant distributions for programmatic uses and appropriations.

Because these funds experience large inflows and outflows, their balances could fluctuate substantially, leading to volatility in the state's reported reserves. This variability may create the appearance of financial instability, potentially affecting the state's creditworthiness as perceived by bond rating agencies, bond buyers, and the public. Given the unpredictability of fund balances and the absence of restrictions ensuring their availability solely for reserve purposes, these funds do not align with national best practices for state reserve management.

TECHNICAL ISSUES

Section 2 subsection D states unexpended and unencumbered balances at the end of the fiscal year shall both revert to the appropriation contingency fund and be included in the calculation of state reserves. If the balance is transferred to the appropriation contingency fund, the balance will be zero and cannot be included in the calculation of reserves. Since there will be no balance and the appropriation contingency fund is a state reserve fund, the sentence "any unexpended or unencumbered balance remaining at the end of a fiscal year shall be included in the calculation of state reserves" should be deleted.

Section 3 requires a transfer from the appropriation contingency fund to the natural disaster revolving fund necessary to reach a balance of $100 million in the natural disaster revolving fund. Because the revolving fund reverts to the appropriation contingency fund, the funds may move back and forth with an unclear ending balance, dependent on when the Department of Finance and Administration makes each transfer. Bill language should be clarified to identify which transfer occurs first.

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