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## FISCAL IMPACT REPORT

ORIGINAL DATE 1-25-2007

SPONSOR Herrera LAST UPDATED \_\_\_\_\_ HB 309

SHORT TITLE Hanover Mutual Domestic Water Assoc. Debt SB \_\_\_\_\_

ANALYST Aubel

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	\$112.3	Non-Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

New Mexico Environment Department (NMED)  
 New Mexico Finance Authority (NMFA)  
 Depart of Finance – Local Governments (DFA)

### SUMMARY

#### Synopsis of Bill

House Bill 309 appropriates \$112,281.66 from the general fund to the New Mexico Environment Department to repay the outstanding balance of a Rural Infrastructure Program (RIP) loan made to the Hanover Mutual Domestic Water Consumers Association for infrastructure improvements to the Hanover water system.

### FISCAL IMPLICATIONS

The appropriation of \$112,281.66 contained in this bill is a non-recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY08 would revert to the general fund.

NMED would gain \$112,281.66 to add to the RIP revolving loan fund which would then be available to loan to other communities.

## **SIGNIFICANT ISSUES**

NMED stated that the Hanover Mutual Domestic Water Consumers Association (Hanover) obtained a 20 year loan for \$100 thousand in 1985 to make improvements to their water system. The improvements were completed and Hanover began repaying the loan. However, the association fell behind in payments in the 1990s when the local mining industry declined, which led to an economic depression, and has been in default on several occasions. The loan was refinanced in 1996, lowering the interest rate from 5 percent to 3 percent.

NMFA reported that since October 2005, Hanover has been making consistent payments of \$400 a month, which falls below its annual payment requirement of approximately \$9.8 thousand. Thus, Hanover has been unable to catch up” on payments and the loan balance continues to grow as interest is applied.

In addition, according to DFA, Hanover is currently pumping groundwater that is contaminated by an old, problematic septic system. The association is faced with paying possible fines for non-compliance with safe drinking water standards, as well as paying on the outstanding loan. According to NMED, the community has raised user rates, but population declines and water shortages have reduced the positive impact of this action. DFA also noted that the economic base for this community does not support any additional charges for services currently provided.

HB 309 would pay off the current loan.

## **PERFORMANCE IMPLICATIONS**

With loan retired, Hanover would then be able to devote those financial resources toward resolving its ongoing water issues, which would improve both water quality and quantity for its residents.

## **ADMINISTRATIVE IMPLICATIONS**

If enacted, HB 309 would allow NMED to spend less administrative time servicing this delinquent loan.

## **TECHNICAL ISSUES**

NMED’s general counsel, in consultation with the New Mexico Attorney General’s Office, determined that the Legislature may make an appropriation to pay off a loan as long as the purpose is clearly stated in the appropriation. This appropriation contains that language.

## **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

If HB 309 is not enacted, Hanover Mutual Domestic Water Consumers Association will have to continue to pay off the existing loan and may face additional fines placed on them by NMED for their current, contaminated system. Hanover may permanently default on the loan.