

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 2/26/07
 LAST UPDATED 3/15/07 HB 780/aHTRC

SPONSOR Begaye

SHORT TITLE Water Project Severance Tax Bonds SB _____

ANALYST Kehoe

APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Non-Rec | Fund Affected |
|---------------|---------------|-------------------------|--|
| FY07 | FY08 | | |
| | Indeterminate | Recurring | Severance Tax Bond Capacity (See Fiscal Impact Narrative) |
| | | | |

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Non-Rec | Fund Affected |
|-------------------|---------------|---------------|-------------------------|-----------------------|
| FY07 | FY08 | FY09 | | |
| | Indeterminate | Indeterminate | Recurring | Water Project Fund |
| | | | | |

(Parenthesis () Indicate Revenue Decreases)

Duplicates, Relates to, Conflicts with, Companion to

SOURCES OF INFORMATION

LFC Files

Responses Received From

- New Mexico Finance Authority (NMFA)
- Energy, Minerals & Natural Resources Department (EMNRD)
- State Engineers Office (SEO)
- New Mexico Environment Department (NMED)

Synopsis of HTRC amendment

The House Taxation and Revenue Committee amendment increases the annual severance tax bond capacity dedicated to the Water Project Fund from the current 10 percent to 12 percent.

Synopsis of Original Bill

House Bill 780 amends the Severance Tax Bonds Proceeds Act to increase the percentage of annual severance tax bond capacity dedicated to the Water Project Fund.

FISCAL IMPLICATIONS

Laws 2003 (Chapter 134) requires the Board of Finance to authorize and issue bonds for 10 percent of the severance tax bonding capacity each year for deposit in the water project fund. The 10 percent set-aside of severance tax bond capacity for FY07-08 will provide approximately \$32.8 million to the water project fund for eligible water projects.

House Bill 780, as amended, proposes to increase the percent of estimated bonding capacity dedicated to the water project fund from 10 percent to 12 percent. The severance tax bond capacity in FY08 is projected to be approximately \$285.7 million. If Senate Bill 780 is passed as amended, approximately \$34.3 million would be deposited into the water project fund in FY08 and approximately \$32.3 million would be deposited into the fund in FY09, or an increase of \$5.7 million in FY08 and \$5.4 million in FY09.

Money from the severance tax bonds may not be used to pay indirect project costs, and any unexpended balance from proceeds of severance tax bonds issued for a water project shall revert to the severance tax bonding fund within six months of completion of the water project. NMFA is responsible for monitoring and ensuring proper reversions.

SIGNIFICANT ISSUES

Eligible water projects as defined in the Water Finance Act are those involving: 1) the storage, conveyance or delivery of water to end-users; 2) the implementation of federal Endangered Species Act collaborative programs; 3) the restoration of watersheds; 4) flood prevention; 5) conservation; or 6) for recycling, treatment or reuse of water. In 2005, the Act was amended to add the category of “water rights adjudication” to provide automatic fund in an amount equal to 10 percent of the annual distribution to the water project fund. In 2005, the Act was amended to add the category of “water rights adjudication” to provide automatic funding in an amount equal to 10 percent of the annual distribution to the water project fund for use by the Office of the State Engineer and the Administrative Office of the Courts.

The Water Trust Board has adopted rules governing the terms and conditions of grants or loans recommended by the board for appropriation by the Legislature from the water project fund. Conforming with statutory obligations, the rules give priority to projects that have urgent needs, that have been identified for implementation of a completed regional water plan that is accepted by the Interstate Stream Commission, and that have matching contributions from federal or local sources. As per the Water Finance Act, NMFA provides staff support for the board, develops application procedures and forms for political subdivisions to apply for grants and loans from the water project fund, and make loans or grants for water projects authorized by the Legislature.

Other actions taken by the water trust board have included adoption of bylaws, approval of an open meeting resolution, and a per diem and mileage policy.

OTHER SUBSTANTIVE ISSUES

According to the New Mexico Finance Authority, in FY06 the Water Trust Board received over \$106 million in requests for water-related projects. Since its inception, the board has recommended \$69 million of grant funding for 74 projects to 43 local entities statewide. The funding has leveraged more than \$50 million of local and/or federal funding.

LMK/mt:nt