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FISCAL IMPACT REPORT

ORIGINAL DATE 01/16/12

SPONSOR White LAST UPDATED _____ HB 39

SHORT TITLE Drinking Water System Financing SB _____

ANALYST Kehoe

APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Nonrecurring | Fund Affected |
|---------------|---------------------------|------------------------------|----------------------------------|
| FY12 | FY13 | | |
| \$2,000.0 | (See Fiscal Implications) | Nonrecurring | Public Project Revolving Fund |

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Nonrecurring | Fund Affected |
|-------------------|------------------------------|------|---------------------------------|------------------------------------------|
| FY12 | FY13 | FY14 | | |
| | (See Fiscal Implications) | | Nonrecurring | Drinking Water Revolving Loan Fund |

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
 New Mexico Finance Authority (NMFA)
 New Mexico Environment Department (NMED)

SUMMARY

Synopsis of Bill

House Bill 39, endorsed by the New Mexico Finance Authority Oversight Committee, appropriates \$2 million from the public project revolving fund to the drinking water state revolving loan fund to provide state matching funds for federal Safe Drinking Water Act projects and to carry out the purposes of the Drinking Water State Revolving Loan Fund Act. The bill contains an emergency clause.

FISCAL IMPLICATIONS

The appropriation of \$2 million contained in House Bill 39 has no impact to the state general fund and is a nonrecurring expense to the public project revolving fund (PPRF). The

appropriation contained in this bill will provide the required 20 percent state match for a federal 2012 allotment approved by the United States Congress for New Mexico's allocation from the federal Environment Protection Agency. According to New Mexico Environment Department (NMED), the federal fiscal year 2012 Omnibus Bill ("Megabus" federal spending bill) currently authorizes nearly \$919 million, of which New Mexico's allocation is an estimated \$9.19 million. Based on current proposed federal funds, approximately \$1.84 million is needed to provide the 20 percent state match.

The funds will be deposited in the drinking water revolving loan fund (DWRLF) to capitalize a low-interest loan program to finance eligible water projects for political subdivisions of the state. DWRLF loans can be leveraged with PPRF loans for projects authorized by the Legislature thereby increasing the dollars available for an eligible project. To date, New Mexico has received \$136.8 million in capitalization grants from the EPA and has provided state match grant funds totaling approximately \$24.4 million. Since the inception of the DWRLF in 1997, the New Mexico Finance (NMFA) has funded 57 projects totaling approximately \$104.7 million (includes 16 projects totaling \$12.1 million funded from federal American Recovery and Reinvestment program funds).

The appropriation contained in the bill is for expenditure in fiscal year 2012 and subsequent fiscal years to carry out the purposes of the Drinking Water State Revolving Loan Fund Act. Any unexpended or unencumbered balances remaining at the end of a fiscal year shall not revert to PPRF.

SIGNIFICANT ISSUES

The New Mexico Drinking Water State Revolving Loan Fund Act was enacted by the 1997 Legislature in response to the reauthorization of the federal Safe Drinking Water Act. The reauthorization requires the Environmental Protection Agency to make capitalization grants to states over the next several years to improve and protect drinking water quality and public health. The fund provides public authorities in New Mexico with low-cost financial assistance, with a base rate of three percent, for construction, rehabilitation, or expansion of drinking water facilities. Disadvantaged communities qualify for interest-free loans.

ADMINISTRATIVE IMPLICATIONS

The responsibilities of administering DWRLF are divided between the New Mexico Finance Authority and the New Mexico Environment Department. NMFA administers the financial aspects of the funds, and NMED administers the technical aspects of the projects. The federal Safe Drinking Water Act allows using up to 31 percent of the funds for set-aside activities. The NMED uses 27 percent to: 1) develop technical, managerial, and financial capacity for local water systems; 2) assist entities in qualifying for loans; 3) provide technical assistance targeted to systems serving 10,000 persons or less; and 4) to provide loans to improve the infrastructure of community water systems and to assure Safe Drinking Water Act requirements. The NMFA uses 4 percent of the set-aside for administrative costs associated with the loans.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

According to the New Mexico Finance Authority (NMFA), the current eligible priority list contains 21 projects totaling approximately \$27.4 million impacted by this bill. Without the

match, the Drinking Water Bureau of the NMED will not have the necessary revenue to fund the key components of the state's agreement with the EPA. If the match funds are not provided, the loss of federal funds could cause the systems in New Mexico to be out of compliance with the federal Safe Drinking Water Act. The SDWA was originally passed by Congress in 1974 to protect public health by regulating the nation's public drinking water supply.

LMK/lj