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FISCAL IMPACT REPORT

ORIGINAL DATE 02/24/15

SPONSOR Cervantes LAST UPDATED _____ HB _____

SHORT TITLE Drinking Water System Financing SB 552

ANALYST Sanogo/Kehoe

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY15	FY16		
	(\$1,800.0)	Nonrecurring	Public Project Revolving Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17		
	\$1,800.00		Nonrecurring	Drinking Water State Revolving Loan Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
 NM Finance Authority (NMFA)

SUMMARY

Senate Bill 552, endorsed by the New Mexico Finance Authority Oversight Committee, appropriates \$1.8 million from the public project revolving fund to the drinking water state revolving loan fund to provide state matching funds for the federal Safe Drinking Water Act projects and to carry out the purposes of the Drinking Water State Revolving Loan Fund Act. The bill is effective July 1, 2015.

FISCAL IMPLICATIONS

The appropriation contained in the bill is for expenditure in fiscal year 2016 and subsequent fiscal years for the purposes of carrying out 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.

The appropriation contained in this bill is a nonrecurring expense to the public project revolving fund (PPRF). The appropriation will provide the required 20 percent state match for New Mexico's allocation from the federal Environment Protection Agency, approximately \$8 million, for implementation of the federal Safe Drinking Water Act. 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. The DWRLF loans can be leveraged with PPRF loans for projects authorized by the Legislature thereby increasing the dollars available for an eligible project.

The NMFA provides low-cost financial assistance at a base rate of 2 percent for drinking water systems. Disadvantaged communities qualify for up to \$600 thousand in interest-free loans. To date, NMFA has made 78 loans totaling nearly \$156.8 million and has made nine binding commitments totaling \$28.7 million expected to close in FY15. All of the capitalization grants and more than 95 percent of all loan repayments have been committed to loans. The current uncommitted balance is less than \$1 million.

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 NMFA, the drinking water program has seen unprecedented levels of demand in recent years. If the 20 percent funding match is not secured, the state will not be able to receive federal grants necessary to meet projected demand. Community systems could be found to be out of compliance with the federal Safe Drinking Water Act intended to protect public health.