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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/25/2020

SPONSOR Candelaria/Salazar, T. LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Water Project Fund Authorization SB 19/ec

ANALYST Kehoe

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY20	FY21		
(\$39,800.0)	\$40,300.0	Recurring (See Fiscal Implications)	Senior Severance Tax Bond Capacity
\$39,800.0	\$40,300.0	Recurring	Water Project Fund
(\$4,000.0)	(\$4,000.0)	Recurring (See Fiscal Implications)	Water Trust Permanent Fund
\$4,000.0	\$4,000.0	Recurring	Water Project Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

New Mexico Environment Department (NMED)

New Mexico Finance Authority (NMFA)

Office of State Engineer (OSE)

### SUMMARY

#### Synopsis of Bill

Senate Bill 19, endorsed by the New Mexico Finance Authority Oversight Committee, authorizes the New Mexico Finance Authority (NMFA) to make loans or grants for 36 projects from the water project fund. The NMFA and Water Trust Board (WTB) establish the terms and conditions of the loans and grants awarded for qualifying water projects from the water project fund as recommended by the Water Trust Board (WTB). The bill contains an emergency clause.

### FISCAL IMPLICATIONS

The water project fund is capitalized through annual distributions of 9 percent of the senior severance tax bond capacity (\$442.1 million in fiscal year 2020) and an annual distribution from the water trust fund (\$4 million). The 9 percent earmark plus \$4 million from the water trust fund for the water project fund is \$43.8 million this year.

Laws 2005 (Chapter 293) provides that 10 percent, or nearly \$4.4 million, of all funds in the water project fund may be allocated to the Office of State Engineer (OSE) to be used for adjudication. Of the OSE allocation, 20 percent, or approximately \$880 thousand, will transfer to the Administrative Office of the Courts for adjudication purposes. Approximately \$39.4 million will be available for the projects authorized by SB 19.

Regulations and policies established by the WTB require applicants to match the awards with non-severance tax bond funds. The local match is determined on a sliding scale based on the median household income of the applicant, the size of the request, and the type of project. According to NMFA, the policies require that applicants supported by a rate-paying constituency undertake a loan of between 10 percent and 40 percent of the total award. As reported by NMFA, the average award in fiscal year 2019 was approximately 85 percent grant and 15 percent loan. The term of the loans is up to 20 years at a zero percent interest rate.

Following authorization by the Legislature, the NFMA and board will further review the projects for additional project readiness and policy qualifications prior to a final funding recommendation. The NMFA establishes the terms and conditions of the loans and grants awarded from the fund as recommended by the WTB. Applicants are guided by policies and rules that identify minimum application standards which include mandatory planning documents and evidence of additional funding.

## **SIGNIFICANT ISSUES**

The water project fund (WPF) and the Water Trust Board (WTB) were created within the Water Finance Act (the Act). The Act provides a permanent revenue source to provide grants and loans to political subdivisions for eligible long-range planning and financing of regional and statewide water supply projects authorized by the Legislature. Eligible water projects as defined in the Act include: 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.

## **ADMINISTRATIVE IMPLICATIONS**

The eligible entities for qualified projects contained in the bill have been evaluated by a project management team comprised of seven agencies prior to the WTB recommending projects to the Legislature for authorization. The NMED Construction Program Bureau, under a Memorandum of Understanding with the NMFA, provides technical assistance on projects funded by the WPF. The NMFA is responsible for administering the projects and is responsible for monitoring and ensuring proper reversions. The NMFA is reimbursed for administrative costs, including NMED oversight.

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