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FISCAL IMPACT REPORT

SPONSOR Martinez/Herrera **ORIGINAL DATE** 1/24/2020
LAST UPDATED 2/14/2020 **HB** _____
SHORT TITLE Drinking Water System Financing **SB** 69
ANALYST Hawker

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY20	FY21		
	\$2,500.0	Nonrecurring	Drinking Water State Revolving Loan Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY20	FY21	FY22		
	(\$2,500.0)		Nonrecurring	Public Project Revolving Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Environment Department (NMED)

New Mexico Finance Authority (NMFA)

SUMMARY

Synopsis of Bill

Senate Bill 69, endorsed by the New Mexico Finance Authority Oversight Committee, appropriates \$2.5 million from the public project revolving fund (PPRF) to the drinking water state revolving loan fund (DWSRLF) to provide matching funds for the federal Safe Drinking Water Act and for the purposes of the Drinking Water State Revolving Loan Fund Act. Funds may be expensed in fiscal year 2021 and subsequent fiscal years. The effective date of the bill is May 20, 2020.

FISCAL IMPLICATIONS

The appropriation of \$2.5 million satisfies New Mexico's 20 percent federal match requirement for the Environmental Protection Agency annual capitalization grant, estimated at \$11.2 million. The appropriation contained in this bill is for expenditure in fiscal year 2020 and subsequent years. Any unexpended or unencumbered balance remaining at the end of a fiscal year shall not revert to the PPRF.

The funding will provide local entities with low-cost financial assistance in the construction of necessary drinking water facilities. The program is administered by the New Mexico Finance Authority (NMFA) in partnership with the New Mexico Environment Department (NMED). As of December 31, 2019, the NMFA reports the DWRLF has been capitalized as follows:

- \$219.6 million in federal awards;
- \$40.9 million in state match; and
- \$193.6 million deposited into DWRLF.

The NMFA reports as of December 31, 2019, the NMFA has made 142 loans totaling \$216.2 million and has approved an additional eight loans totaling \$10.3 million. Of the total capitalization, federal funds totaling \$66.9 million has been used by NMED and NMFA to pay for costs related to administering the program.

SIGNIFICANT ISSUES

The New Mexico Drinking Water State Revolving Loan Fund Act was enacted by the 1997 Legislature in support of the 1996 amendments to the federal Safe Drinking Water Act. The purpose of the Act is to provide local entities low-cost financial assistance for drinking water systems construction, rehabilitation, and compliance of NMED and NMFA primary drinking water regulations intended to protect drinking water quality and public health.

Recent amendments to the Act related to disadvantaged community assistance prompted a review of the DWSRLF loan management policies. In June 2019, the policies were amended to incorporate simplified and broadened affordability criteria and enhanced loan terms, designed to increase access for small and disadvantaged communities.

ADMINISTRATIVE IMPLICATIONS

The NMFA and NMED share the responsibilities of administering the DWRLF. The capitalization grants allow for set-asides to be used in administering the financial aspects by the NMFA (up to 4 percent). Of the amount, NMFA pays contractors, including technical work performed by the NMED Construction Programs Bureau. Federal guidelines allow each state to use up to 27 percent of the annual EPA capitalization grant to carry out the provision of the SDWA.

OTHER SUBSTANTIVE ISSUES

SB69 provides continued funding of an existing public health and safety program. The combination of state and federal funds are made available to local and municipal governments through loans and subsidies. The loans are repaid with interest, allowing the funds to be loaned out again.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If the appropriation of \$2.5 million required for 20 percent state match is not secured, federal funding to support drinking water systems statewide, will not be received. Not providing a match could potentially impact the drinking water system's compliance with the federal Safe Drinking Water Act which is intended to ensure public health and safety. Not receiving the grant would also impact the ability of the state agencies to provide capacity development and technical assistance to water systems statewide, including engineering and construction oversight services required by the federal program.

VKH/sb/al/rl