F I S C A L   I M P A C T   R E P O R T

		LAST UPDATED	
SPONSOR	Rep. Garratt/Sen. Rodriguez	**ORIGINAL DATE**	1/19/2024
SHORT TITLE	Public Project Fund Appropriations	**BILL NUMBER**	House Bill 29
		ANALYST	Ortega/Kehoe

APPROPRIATION*
(dollars in thousands)

FY24	FY25	Recurring or Nonrecurring	Fund Affected
	$6,000.0	Nonrecurring	Drinking Water State Revolving Loan Fund
	$2,000.0	Nonrecurring	Local Government Planning Fund
	$5,000.0	Nonrecurring	Cultural Affairs Facilities Infrastructure Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

REVENUE*
(dollars in thousands)

Type	FY24	FY25	FY26	FY27	Recurring or Nonrecurring	Fund Affected
		($13,000.0)			Nonrecurring	Public Project Revolving Loan Fund

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

Relates to House Bill 28

Sources of Information

LFC Files

<u>Agency Analysis Received From</u>
New Mexico Finance Authority (NMFA)
Department of Cultural Affairs (DCA)

SUMMARY

Synopsis of House Bill 29

House Bill 29, endorsed by the New Mexico Finance Authority Oversight Committee, appropriates $13 million from the public project revolving loan fund (PPRF) for expenditure in

FY25 and subsequent fiscal years. Appropriations are made to the following funds: $6 million to the drinking water state revolving loan fund (DWSRLF); $2 million to the local government planning fund (LGPF); and $5 million to the cultural affairs facilities infrastructure fund.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or May 15, 2024, if enacted.

FISCAL IMPLICATIONS

The appropriations totaling $13 million contained in this bill are nonrecurring expenses to the public project revolving loan fund. Any unexpended or unencumbered balance remaining at the end of FY25 shall not revert to the public project revolving loan fund.

At the end of each fiscal year, after all debt service and other obligations are satisfied, the New Mexico Finance Authority Act (Section 6-21-6.1(A) NMSA 1978) allows the Legislature to appropriate an amount not to exceed 35 percent of the prior year's governmental gross receipts tax (GGRT). According to NMFA, the appropriations in HB29 total 36.6 percent of FY23 GGRT and have concluded the appropriations will not materially impact the PPRF for FY25. The appropriation to the DWSRLF serve as the state match for federal funds. Capitalization grants for this federal program are substantially larger than in past years. Additionally, the PPRF received $35.5 million in GGRT in FY23 and GGRT receipts for FY24 are presently 7.58 percent higher than year-over-year collections for the same period in FY23. The appropriations contained in HB29 would be made following the June 15, 2024, bond payment, replenishment of reserves and payment of administrative fees.

According to NMFA the $6 million appropriation to the DWSRLF will be used to leverage up to $30 million in federal funds. NMFA states the funds will help the New Mexico Environment Department (NMED) pay for regulatory oversight and assistance activities to ensure Safe Drinking Water Act compliance and for training and technical assistance to public water systems in New Mexico.

The appropriations contained in HB29 do not impact PPRF bondholders.

SIGNIFICANT ISSUES

Drinking Water State Revolving Loan Fund: NMFA will use the $6 million appropriation to the DWSRLF to fulfill the state match requirements for the annual EPA capitalization grant and the supplemental drinking water grant authorized by the federal Bipartisan Infrastructure Law (BIL). Since the program's establishment in 1997, the state has received $296 million in base and supplemental federal awards, which has been matched by $52.1 million in state match. The DWSRLF is used to make low-cost loans for critical drinking water projects. As of December 2023, NMFA has made 189 DWSRLF loans totaling $338.1 million and has approved another nine loans totaling $54.8 million.

Local Government Planning Fund: NMFA will use the $2 million appropriation to the LGPF to make grants to eligible entities capped at $50 thousand per planning document and $100 thousand per entity in a two-year period. Grants to qualified entities are determined using a sliding scale which is primarily based on the applicants' median household income and relative rates charged for water and wastewater services. Since the inception of the program in 2002 through December 2023, NMFA has closed 395 grants totaling $16 million. At present, NMFA has approved an additional 40 grants totaling nearly $2 million that are awaiting completion of the planning document prior to finalizing the grant agreement.

Cultural Affairs Facilities Infrastructure Fund: DCA will use the $5 million appropriation to plan and complete vital infrastructure repairs to maintain facilities and protect the exhibits, collections, and historic sites in accordance with its statutory mandates. According to DCA, the department maintains 230 structures across 15 divisions, most of which are in rural areas of the state. Historic structures require more specialized and costly repairs. DCA facilities are uniquely equipped to maintain art, artifacts, exhibits, and collections with specialized climate-controlled facilities to ensure the preservation of irreplaceable collections. The cultural affairs facilities infrastructure fund was created in 2020 to provide stable revenue to DCA for maintenance and improvements to its facilities.

PERFORMANCE IMPLICATIONS

According to NMFA, the PPRF has a reputation with national banking firms, investors, rating agencies and other knowledgeable parties as being among the most effective and best structured state infrastructure financing programs in the country. GGRT is a serious focus for both rating agencies and bondholders as they monitor GGRT very closely, both in terms of bond debt service coverage and in terms of subsequent PPRF program liquidity.

ADMINISTRATIVE IMPLICATIONS

Federal guidelines allow NMFA to use up to 4 percent of the annual federal capitalization grant for administrative costs associated with the DWSRLF. NMFA uses these funds to pay contractors, including the NMED Construction Programs Bureau, that assist NMFA in reviewing engineering documents, completing environmental reviews, and monitoring construction activity.

Costs of program administration for the LGPF are reimbursed to NMFA. NMFA currently contracts with NMED's Construction Programs Bureau for the technical review and approval of planning documents related to water and wastewater infrastructure; such costs associated with this technical support are also reimbursed.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Related to HB28, the PPRF projects bill, which currently contains approximately 100 entities seeking legislative authorization for PPRF loans. Unused GGRT flows through to the PPRF, which is used by NMFA to make loans to qualified entities for qualified public projects authorized by the Legislature.

OTHER SUBSTANTIVE ISSUES

NMFA reports,

> The PPRF has achieved an AAA/Aa1 senior lien bond rating and an AAA/Aa1 subordinate lien bond rating by effectively structuring underlying PPRF loans and

utilizing legislative and strategic credit enhancements. The key PPRF credit enhancement is the 75 percent share of GGRT received by the PPRF pursuant to Section 7-1-6.38(A) of the Tax Administration Act. Funded indentured reserve accounts in the form of the NMFA's Senior Lien Common Debt Service Reserve Fund ("CDSRF") and Subordinate Lien Supplemental Credit Reserve Fund ("SCRF") are the visible strategic credit enhancements.

The PPRF has a legal obligation to make all PPRF debt service payments when due in December and June of each year. During the course of each fiscal year, all PPRF loan revenues and all Governmental Gross Receipts Tax ("GGRT") disbursements are legally dedicated to bond debt service of PPRF bonds and held in a trust bank account until all bond debt service payments are made for the fiscal year, concluding on June 15th. After June 15th, any excess loan revenues and available GGRT funds are available to be designated for one of three purposes in ascending level of legal availability: (1) replenishing or enhancing to required levels the PPRF's two indentured reserve funds mentioned above, namely (i) the senior lien CDSRF, and (ii) the subordinate lien SCRF; (2) funding annual legislatively enacted mandates in an amount not to exceed 35 percent of the prior year's GGRT, pursuant to Section 6-21-6.1(A) of the NMFA Act; and (3) paying PPRF operating costs and providing the PPRF with ongoing liquidity and capacity enhancing new money. This mechanism ensures accountability of the use of PPRF funds for other than PPRF purposes and enables the NMFA to manage PPRF appropriations with rating agencies and investors in a manner that is deemed acceptable.

There are long-term consequences with regularly breaching the statutory framework that provides that no more than 35 percent of the GGRT be appropriated from the PPRF. NMFA uses the remaining 65 percent of GGRT to fund loans to disadvantaged communities at either a 0 percent or 2 percent interest rates depending on Median Household Income metrics.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

According to NMFA, if the funding required for the state match for the federal programs is not secured, the state will not receive federal funds totaling an estimated $30 million for DWSRLF projects. If the appropriation to the LGPF is not authorized, funding for local governments to complete planning documents will be limited in FY25. Not enacting the bill would negatively impact DCA's ability to proactively manage facility maintenance and repair.

AO/LK/al/ne