

Policy Spotlight: State- Funded Water Projects



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Summary

State capital outlay subsidies allow many water and wastewater utility systems to ignore financial best practices.

Government entities across New Mexico are reporting \$5.7 billion in future water and wastewater infrastructure needs. Although local governments are primarily responsible for providing safe and adequate water systems for their communities, the state allocates hundreds of millions of dollars from multiple funding sources to support water infrastructure. Capital outlay appropriations from elected officials (the largest source of state water funding) is generally diffused across multiple projects, provides only partial funding, and discourages local governments from seeking alternative sources of low- nor no-cost financing. Consequently, the state’s capital outlay system leads to piecemeal funding that is not necessarily tied to need, unspent balances, and delayed improvements to communities’ most critical infrastructure.

Local water systems, ideally, should operate as self-sustaining enterprises, where rate revenue is sufficient to cover today’s operating expenses and future repair and replacement needs. However, many New Mexico water and wastewater systems are not financially sustainable because New Mexico’s capital outlay system allows the systems to set artificially low rates and defer necessary repairs and replacements, which later get subsidized through requests for state funding provided to communities in an unsystematic and uneven manner. Case studies of just three different water systems show how insufficient water rate revenue, maintenance, and long-term financial planning contributed to roughly \$123 million in requests for state funding.

Many New Mexico water systems are also having issues with basic operating practices, as shown by audit noncompliance and a lack of asset management plans, which limits access to funding and prevents effective long-term repairs and replacements. Despite these issues, new federal regulations addressing water contaminants will soon increase water systems’ responsibilities.

Water systems across the state compete with each other for a limited workforce of water and wastewater operators, which is particularly challenging for small water systems in rural areas. The Legislature recently amended state law to make it easier for small water systems to pool their resources and regionalize. Regionalization gives water systems more capacity to raise revenue, hire certified water operators, achieve audit compliance, and secure increased financing for water infrastructure projects.

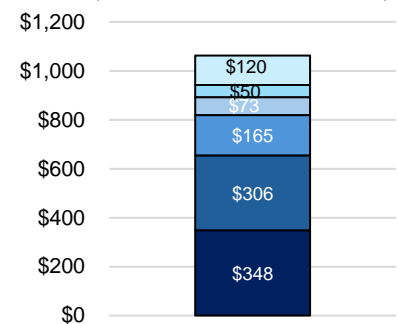
Figure 1. Aging Water Infrastructure in Sunland Park



Source: LFC staff site visit June 4, 2024

Chart 1. State Funding Allocated for Water Projects, FY19 through FY23

(in millions, total = \$1.06 billion)



- Clean Water State Revolving Fund
- Drinking Water State Revolving Loan Fund
- Tribal Infrastructure Fund
- Colonias Infrastructure Fund
- Water Trust Board
- Capital Outlay Appropriations

Source: LFC analysis of capital project management system

Key Findings

- Insufficient local water rates contributed to \$123 million in state funding requests from three communities.
- Many water systems struggle with basic operations, and new federal rules will increase duties.
- Small water systems could increase staffing and financial capacity with regionalization.

Key Recommendations

The Legislature should consider:

- Funding water infrastructure projects solely through the Water Trust Board, the colonias infrastructure fund, the tribal infrastructure fund, and the state revolving funds while directing local entities to leverage these state sources of water infrastructure grants and loans; and
- Providing one-time appropriations to the state water project fund to address water infrastructure needs.

The Environment Department (NMED) should:

- Continue dedicating drinking water state revolving fund set-aside funding in future fiscal years to promote regional partnerships.

Public water and wastewater systems should:

- Set rates that are sufficient to support current operational spending, a minimum operating reserve to cover at least 45 days of operations, and a capital reserve with a minimum balance based on 2 percent of physical assets or a rolling average of planned capital expenditures;
- Provide their completed water service line inventories to NMED before the federal deadline of October 16, 2024; and
- Pursue regionalization options under the state Regional Water System Resiliency Act if their ratepayer populations and rate revenues cannot feasibly and affordably meet their operational and long-term capital needs.

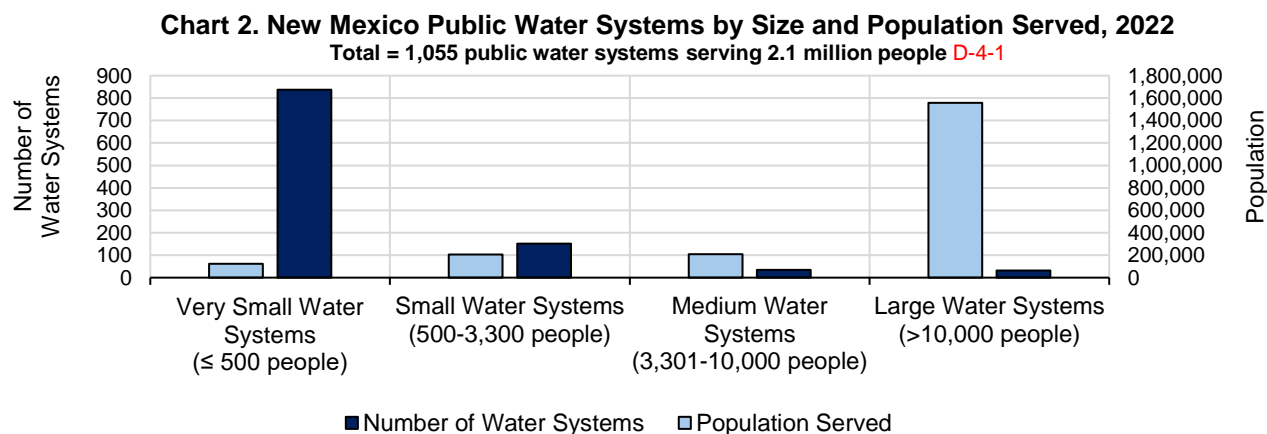
Background

Water is a precious resource and essential to the public health, quality of life, and economic development of communities across the state. New Mexico has significant water infrastructure needs, which will cost billions of dollars and profoundly impact the lives of New Mexicans. These substantial deficiencies in critical infrastructure make it imperative for the state to efficiently allocate its water project dollars where they are most needed and can be effectively used to complete infrastructure projects.

New Mexico government entities report \$5.7 billion in water infrastructure needs, concentrated in smaller and more rural communities.

New Mexico has roughly a thousand public water systems across the state, serving 2.1 million people. These public water systems collectively reported \$5.7 billion in water infrastructure funding needs to the state through their infrastructure and capital improvement plans. Roughly two-thirds of the requested water infrastructure funds were concentrated in smaller and more rural counties outside of the state’s three largest counties.

New Mexico has approximately 1,055 public water systems comprising a few large and hundreds of smaller water systems. The vast majority of the state’s population is served by large community water systems, such as the Albuquerque Bernalillo County Water Authority and the city of Santa Fe. In 2022, 3 percent of the state’s public water systems (or 32 systems) provided drinking water to 74 percent of the state’s population (1.6 million people). Fifty-two percent of the state’s population (or 1.1 million people) receive water from underground reservoirs and other groundwater sources, while 48 percent of the state’s population (or 954 thousand people) receives water from surface water sources like rivers and arroyos.



Source: LFC analysis of New Mexico Environment Department data.

New Mexico government entities reported roughly \$5.7 billion in unfunded capital project needs for drinking water, wastewater, and other water systems over the next five fiscal years. The Department of Finance and Administration (DFA) collects information from state and local entities about each entity’s five-year priority capital outlay needs through infrastructure capital improvement plans (ICIPs). According to ICIP data, New Mexico government entities reported needing roughly \$7 billion for 1,048 water infrastructure projects from FY25 through FY29. Out of this \$7 billion in anticipated water project costs, government entities report 19 percent (or \$1.3 billion) of water project costs have already been funded, which leaves \$5.7 billion in remaining water project costs.

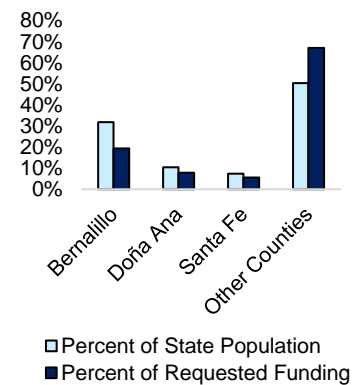
Reported water infrastructure funding needs are more concentrated in smaller and rural counties rather than larger and more urban counties. The three largest New Mexico counties (Bernalillo, Doña Ana, and Santa Fe) represent 50 percent of the state’s population but 33 percent of reported water infrastructure needs reported in ICIPs. By contrast, all other counties in the state represent half of the state’s population but over two-thirds of reported water infrastructure funding needs.

New Mexico needs roughly \$3 billion in infrastructure investment solely related to drinking water, according to estimates from the federal government and the American Society of Civil Engineers. In 2023, the U.S. Environmental Protection Agency (EPA) conducted a drinking water infrastructure needs assessment. The EPA report found New Mexico needs roughly \$3.3 billion in infrastructure improvements to drinking water systems, of which \$2.1 billion, or 64 percent, is needed to replace aging pipes and waterlines. The remaining \$1.2 billion is for drinking water treatment, storage, and other related expenses. Similarly, the American Society of Civil Engineers estimated New Mexico had \$3 billion in drinking water infrastructure needs in 2021.

New Mexico has a fragmented system for funding water projects, leading to piecemeal funding, project delays, and underused funds.

Although local governments are primarily responsible for providing safe and adequate water systems, the state dedicates considerable resources from multiple funding sources for water infrastructure. Legislators and the governor allocate hundreds of millions of dollars through direct capital outlay appropriations for local water projects. Direct capital outlay appropriations have fewer eligibility or administrative requirements for local entities than other funding sources, which encourages local entities to seek direct appropriations instead of applying for other available low- or no-cost financing options. New Mexico’s decentralized approach to distributing capital outlay dollars also leads to partially funded projects, unspent balances, and delayed project completion.

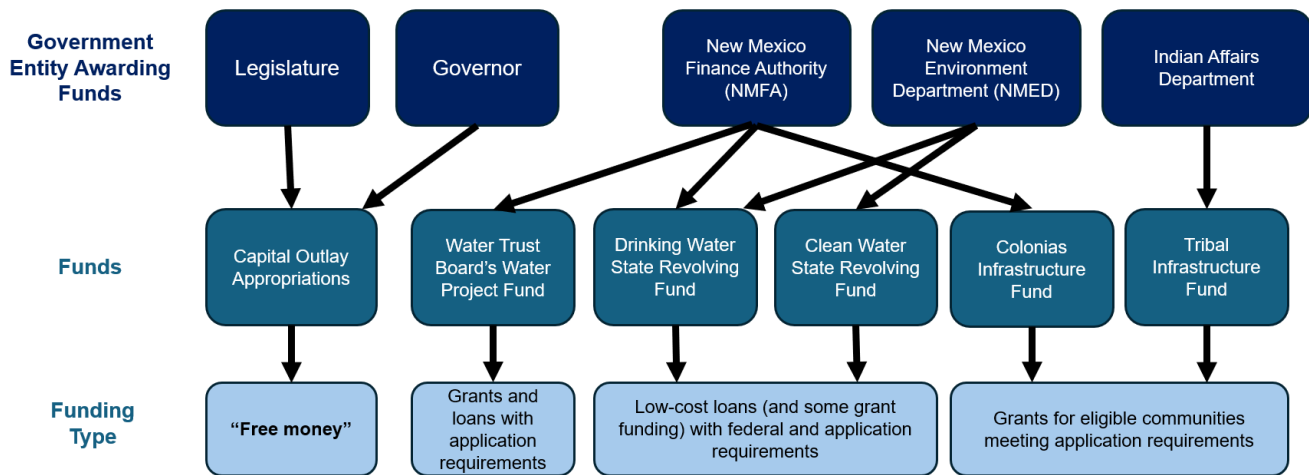
Chart 3. Percent of Requested Water Infrastructure Funding Compared to State Population



Source: LFC analysis of ICIP and U.S. Census data

New Mexico’s water financing system is composed of multiple agencies and funding sources. New Mexico has a variety of programs for financing water infrastructure projects, including the state Water Trust Board, the federally backed drinking water state revolving fund, the federally backed clean water state revolving fund, the state colonias infrastructure fund, the state tribal infrastructure fund, and capital outlay appropriations. Previous LFC reports noted a “pecking order” among the state’s different water financing sources, where local governments prefer discretionary capital outlay appropriations from the governor and legislators instead of applying for grants or low-cost loans from other funds. In other words, the availability of “free money” from capital outlay appropriations disincentivizes local government entities from applying for other available grants and low-cost loans even though those programs can fully fund projects and better support project completion.

Figure 2. New Mexico’s Fragmented Water Finance System



Source: LFC

New Mexico has historically underused its federally backed revolving funds for water projects but these funds are recently being used more. Under federal law, each state has its own clean water state revolving fund and drinking water state revolving fund, federally backed loan programs intended to provide low-cost financing to state and local water and wastewater projects. From 1988 (the inception of the clean water state revolving fund) through 2022, New Mexico’s clean water state revolving fund committed \$524 million (or 86 percent) out of a total \$610 million available for financing water projects. Over the same timeframe, 45 other states committed a higher percentage of their available clean water state revolving fund dollars for financing water projects than New Mexico. New Mexico’s drinking water state revolving fund shows a similar pattern of underused federal funds compared to most other states. From 1997 (the inception of the drinking water state revolving fund) through 2022, New Mexico’s drinking water state revolving fund committed \$272.6 million (or 86.6 percent) out of a total \$314.6 million available for financing water projects. Forty other states committed a larger proportion of their available

The EPA Office of Inspector General reported local capital outlay appropriations are the “primary competitor” of New Mexico state revolving fund dollars.

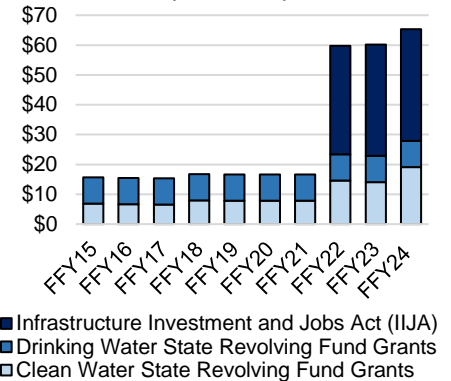
drinking water state revolving fund dollars than New Mexico during the same period. According to a 2024 report from the EPA Office of Inspector General, local capital outlay appropriations are the “primary competitor” of state revolving funds in New Mexico. The New Mexico Environment Department (NMED) reports there has been increased interest in the state revolving funds from applicants because of a lowering of the interest rate for both programs to 0.01 percent and recent increases in available federal funding. As of August 2024, NMED and the New Mexico Finance Authority both report the revolving funds do not have any uncommitted balances. As the revolving funds are used more, it potentially reduces the need or demand for capital outlay appropriations.

New Mexico’s federally backed revolving funds received an influx of roughly \$111 million in federal funds over the past three years. The federal Infrastructure Investment and Jobs Act (IIJA), signed into law in 2021, authorized \$1.2 trillion in federal spending over five years, including \$55 billion to improve water infrastructure nationwide. The IIJA allocated \$36.4 million to New Mexico’s state revolving funds for water projects in federal fiscal year 2021-22 (FFY22), \$37.3 million in FFY23, and \$37.4 million in FFY24, according to available data from the research organization Federal Funds Information for States. Roughly 77 percent of New Mexico’s water-related IIJA allocations went to the state’s drinking water state revolving fund to support lead service line replacement, 20 percent went to the drinking water state revolving fund to support the detection and clean up per- and polyfluoroalkyl substances (PFAS) chemical contamination, and 3 percent went to the state’s clean water state revolving fund to detect and clean up PFAS water contamination.

Direct capital outlay appropriations from elected officials were the largest source of state water project funding in recent years. While federal funding for water infrastructure has recently increased, the state provides more funding for water infrastructure funding than the federal government. From FY19 through FY23, the federal government allocated \$169.9 million for New Mexico water infrastructure, whereas the state allocated \$1.06 billion. Of this state funding, the Legislature and the governor directed \$348 million in capital outlay appropriations to water-related projects. Over the same timeframe, the state Water Trust Board provided \$306 million, the Colonias Infrastructure Board provided \$165 million, and the Tribal Infrastructure Fund Board provided \$73 million for water projects. NMED’s clean water state revolving fund committed \$119.8 million while the state’s drinking water state revolving fund (jointly managed by NMED and the New Mexico Finance Authority) allocated \$49.7 million to low-cost assistance for water projects.

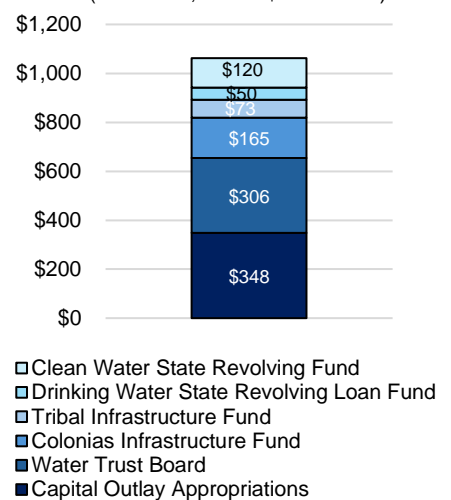
State capital outlay appropriations are often ineffective because many projects are only partially funded. The demand for capital outlay appropriations from elected officials far exceeds the available funding. For example, during the 2024 legislative session, local entities requested \$3.6 billion in total capital outlay appropriations from members of the

Chart 4. Federal Grants to New Mexico for Water-Related Projects
(in millions)



Note: IIJA data for FFY24 are based on the President's budget proposal.
Source: LFC analysis of Federal Funds Information for States (FFIS) data.

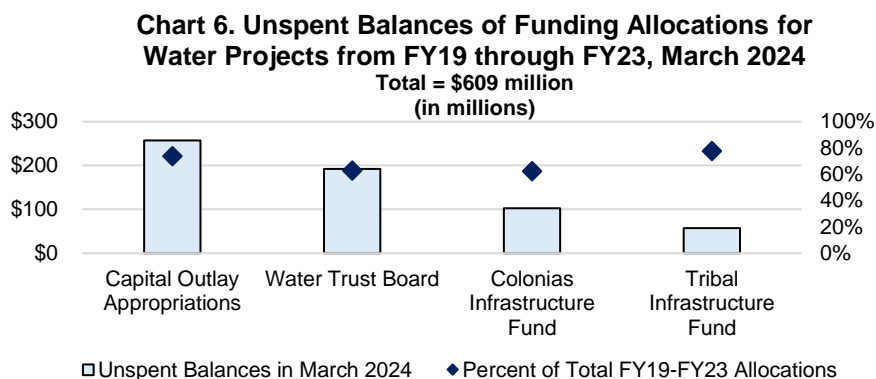
Chart 5. State Funding Allocated for Water Projects, FY19 through FY23
(in millions, total = \$1.06 billion)



Source: LFC analysis of capital project management system

Legislature but available general fund dollars for local capital requests were only \$526 million (or 15 percent) of total requested funds. The huge demand for capital outlay appropriations, relative to the limited funding available, leads to many projects being partially funded. Of the 1,400 projects that received general fund appropriations in the 2024 capital bill, 45 percent received half or less of their requested funding amounts. When local entities receive partial funding for a project from capital outlay appropriations, the success of the capital project depends on leveraging other available funding sources.

Of the over \$1 billion for water projects over the past five years, 57 percent (or \$609 million) was unspent as of March 2024. When projects are only partially funded, allocated funds can remain unspent for years as additional funding is sought and additional project preparation occurs. Direct capital outlay appropriations had 74 percent unspent balances, whereas the Water Trust Board only had 63 percent unspent balances. Multiple LFC reports have documented how New Mexico’s piecemeal approach to funding capital projects leads to partially funded projects, unspent balances, and delayed or incomplete projects.



Source: LFC analysis of capital project management system data.

New Mexico lacks a method for ranking water-related projects for capital outlay while neighboring states systematically vet projects.

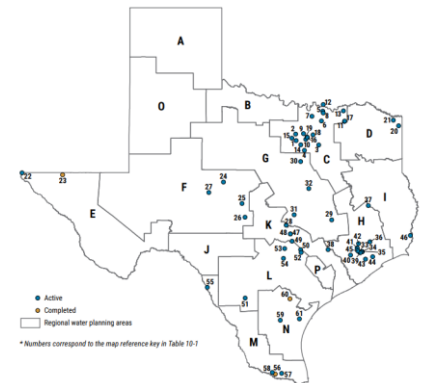
According to recommended best practices, governments should systematically prioritize, vet, and finance infrastructure projects. Recognizing the vital importance of water infrastructure to the health and safety of communities, neighboring states have adopted rigorous vetting processes to prioritize, review, and help fund water infrastructure projects. However, New Mexico’s largest source of water infrastructure funding (direct capital outlay appropriations) has the least rigorous vetting criteria of funding sources for New Mexico water infrastructure projects.

The Government Finance Officers Association recommends governments adopt multi-year capital plans that identify needs and prioritize projects based on technical criteria. Specifically, the Government Finance Officers Association recommends formally prioritizing infrastructure projects based on multiple factors, including public health and safety concerns, the life cycle of capital assets, financial review, and local prioritization. In New Mexico, direct capital outlay appropriations from legislators and the governor (the largest source of water infrastructure funding) does not use a methodology for ranking and prioritizing the water infrastructure projects that are most urgent or “shovel-ready” or ready for work to begin. Instead, the process is determined based on member allocations and political interest. Local entities indicate their own priorities on ICIPs, but the state does not subsequently rank or prioritize projects before allocating direct capital outlay appropriations.

The Texas Water Development Board develops the state water plan, provides \$36 billion in water project financing to local governments, and uses a standardized application and review process. For decades, the Texas Legislature has charged the Texas Water Development Board with developing the state’s water plan, supporting the development of regional water plans from 16 regional groups, recommending water infrastructure projects, and financing local governments for water infrastructure projects. The Texas Water Development Board manages a variety of programs offering low-cost loans and grants for approximately \$36 billion in water infrastructure projects. The Texas Water Development Board uses a standardized application and technical review process for all loan and grant programs that examines the financial, legal, engineering, and environmental aspects of water infrastructure projects. Capital projects recommended and financed by the Texas Water Development Board must align to state and regional water plans. By contrast, each government entity in New Mexico develops its own ICIP and water infrastructure priorities. In short, Texas has a more systematic and centralized approach to vetting, prioritizing, and supporting water infrastructure than New Mexico.

Colorado’s water infrastructure funding generally goes through a well-vetted multi-agency process, rather than discretionary capital outlay appropriations. Colorado’s Department of Public Health and Environment, Water Resources and Power Development Authority, and Department of Local Affairs work together to promote the state’s federally backed state revolving loan funds for drinking water and wastewater infrastructure funding. Together, these state agencies prepare a “project eligibility list” that is then forwarded to the Colorado state legislature for approval via a joint resolution signed by the Governor. Only projects on the approved list are financed by the Water Resources and Power Development Authority, which in 2023 funded 39 loans totaling approximately \$134.8 million and 414 planning grants amounting to \$4.1 million. Since 1981, the Colorado Water Resources and Power Authority has provided \$3.5 billion to support water infrastructure projects. This system ensures a standardized evaluation of potential projects before allocating public resources, promoting efficient use of funds for Colorado’s water infrastructure needs

Figure 3. Capital Projects Financed by the Texas Water Development Board Must be Aligned with State and Regional Water Plans



Source: 2022 Texas Water Plan, p. 149

while keeping the funding process separate from direct legislative appropriations.

New Mexico’s largest source of water infrastructure funding - direct capital outlay appropriations - has the least rigorous vetting criteria.

From FY19 through FY23, the Legislature and the governor directed \$348 million in capital outlay appropriations to support water-related projects. On the one hand, this substantial amount of capital outlay funding for water projects shows a laudable commitment to improving the state’s water infrastructure. On the other hand, previous LFC reports have noted capital outlay funding does not require key best practices used by other state funding sources to effectively target dollars to the most needed and shovel-ready water infrastructure projects. The Legislature should consider funding water infrastructure projects solely through the Water Trust Board, the colonias infrastructure fund, the tribal infrastructure fund, and the state revolving funds while directing local entities to leverage these state sources of water infrastructure grants and loans. The Legislature should also consider providing one-time appropriations to the state water project fund to address water infrastructure needs.

Figure 4. Capital Outlay Appropriations Do Not Follow Key Best Practices Used by Other State Funding Sources

	Capital Outlay	Tribal Infrastructure Fund	Water Trust Board	Colonias Infrastructure Fund	Clean Water State Revolving Fund	Drinking Water State Revolving Fund
Project Planning Evaluated or Required Prior to Construction Funding	✗	✓	✓	✓	✓	✓
Local Cost-Share Required	✗	—*	✓	✓	—**	—**
Funding Process Designed to Fully Fund Projects or Functional Phases	✗	✓	✓	✓	✓	✓

*While local match is not required, projects that leverage other funding sources in excess of the amount requested from TIF receive higher scores.
 **The state revolving funds are primarily loan programs which do not have front match requirements but require repayment.

Source: LFC Analysis

The Water Trust Board sometimes requires water systems to raise rates and improve financial viability as a condition for receiving grant funding and small flexible loans.

For example, the Water Trust Board recently approved funding for six small rural water systems at its May 2024 hearing. The Water Trust Board provided 80 percent to 90 percent grant funding for these projects and flexible loans with an average grant amount of \$3.1 million and an average flexible loan of \$440 thousand. The Water Trust Board’s approval of these grants and small loans were contingent on the systems verifying increased revenues, often through recommended rate increases based on analyses of financial viability and affordability for the community.

Recent policy changes promote regional planning and expand project assistance but do not change how capital outlay funding is vetted

The Legislature recently amended state law to promote regional water planning and also created a division at the Department of Finance and Administration (DFA) to provide technical assistance to local infrastructure projects. A water task force created by the Office of the State Engineer proposed creating a centralized authority for overseeing water projects, but these oversight functions could potentially be accomplished by existing agencies. While recent policy changes could improve project prioritization and administration, these policy changes do not necessarily change the vetting criteria for capital outlay appropriations.

The Legislature recently amended state law requiring the development of water planning regions and allowing for the voluntary creation of regional water planning entities. In 2023, the Legislature passed the Water Security Planning Act, requiring the New Mexico Interstate Stream Commission to set the boundaries of water planning regions and guidelines allowing for the voluntary creation of regional water planning entities. The commission reports that regional water planning will support the regional prioritization of water infrastructure projects. The commission is conducting stakeholder meeting and plans to set its rules and guidelines for regional planning in 2025. In its rulemaking, the commission should establish financial, engineering, safety, and project readiness criteria for regional water planning entities to rank water projects. Additionally, the commission should direct regional water planning entities to pursue Water Trust Board funds, colonias infrastructure funds, state revolving funds, and tribal infrastructure funds for regional projects.

A 2022 water task force proposed creating a Water Infrastructure Projects Authority to oversee water projects statewide, while existing state agencies have expanded technical assistance for water projects. The proposed authority's responsibilities would encompass the vetting, prioritizing, funding, administration, and oversight of projects using a new earmark on severance tax bond proceeds. The proposed authority would function similarly to how the state's Public Schools Facilities Authority vets and oversees projects for public schools. The authority would also connect communities to funding sources and technical assistance providers. Since the task force's report, the Legislature created a new infrastructure division at DFA to assist communities and has appropriated one-time funding to the Water Trust Board to meet high levels of demand for funding, and the Water Trust Board has expanded the scope of its technical assistance to grantees. In August 2024, the board approved a new program to hire contractors to procure and complete planning and design documents for communities rather than just granting funds for these purposes. With the new statewide regional water planning process also in early-stage implementation, the overall goals of the entity proposed by the task force may be able to be accomplished through existing agencies and programs.

During the 2023 legislative session, the Legislature passed the Water Security Planning Act requiring the Interstate Stream Commission to establish the boundaries of water planning regions.

The overall goals for a proposed Water Infrastructure Projects Authority could potentially be accomplished with already existing agencies and programs.

Insufficient Local Water Rates Contributed to \$123 Million in State Funding Requests from Three Communities

According to the American Water Works Association, water utility systems should be “self-sustaining enterprises”, with their operational and long-term capital needs adequately supported by local water rate revenue. Many New Mexico water systems are not meeting this recommended best practice. Case studies of three different water systems show how insufficient water rate revenue, maintenance, and long-term financial planning have led to roughly \$123 million in requests for state funding. New Mexico’s capital outlay system allows local water and wastewater systems to set artificially low rates and defer necessary repairs and replacements, which later get subsidized through requests for state funding and provided back to communities in an unsystematic and uneven manner.

Inadequate water rate revenue and irregular maintenance lead to expensive projects and funding requests.

Many New Mexico public water systems are not setting water rates that adequately meet their operational costs and long-term capital outlay needs, as shown by reviewed financial data and case studies. When water systems set rates artificially low, it is a short-term saving for local ratepayers but a long-term cost in terms of more expensive fixes. When local water systems have deferred maintenance and insufficient savings for major capital projects, water systems often need to request millions from limited state capital outlay funds to address immediate issues such as environmental violations, leaky pipes, and outdated water infrastructure.

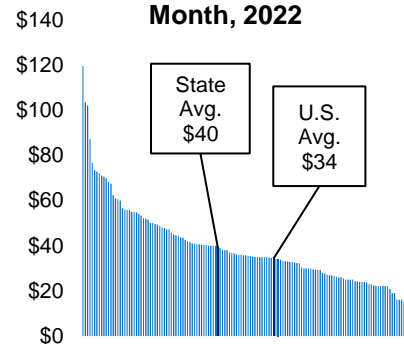
Water systems with both high and low rates in New Mexico face operational budget deficits. According to estimates from the U.S. Environmental Protection Agency (EPA), the average cost for the residential use of 6,000 gallons of water is \$34 per month. In New Mexico, the average residential cost of using 6,000 gallons of water is higher at \$40 per month. Water rates and monthly water costs vary widely across New Mexico, ranging from \$10 per month in Artesia to \$119 per month for customers of the Rosedale Mutual Domestic Water Consumers Association near Silver City, according to 2022 survey data from the New Mexico Environment Department (NMED). The Rosedale and Artesia water systems differ in size, serving 110 water connections and 9,705 water connections respectively. However, both water systems operated at a budget deficit in 2022, supported by cash balances.

Table 1. Requested Funding from Case Study Water Systems

Water System	Request	Amount (millions)
Camino Real Regional Utility Authority	Replacements needed to address environmental noncompliance	\$9
Truth or Consequences	Replacement of 37.8 thousand linear feet of aging and leaking waterpipes.	\$25.4
Santa Fe	Replacement of an aging wastewater treatment plant fined \$2 million for discharging contaminants.	\$88.5
Total Requests		\$122.9

Source: Infrastructure and capital improvement plans and capital outlay request data

Chart 7. Monthly Water Cost for Residents Using 6,000 Gallons per Month, 2022



Source: LFC analysis of NMED and EPA data

Table 2. Small and Large Water Systems Operate at a Deficit Supported by Cash Reserves, 2022

Local Public Water System	Rosedale mutual Domestic Water Consumers Association	City of Artesia Water and Wastewater Funds
Number of Water Connections	110	9,705
Residential Water Utility Rate Charged per 6,000 Gallons	\$119.38	\$10.02
2022 Operating Revenue	\$136,343	\$4,050,997
2022 Operating Expenses	\$159,390	\$5,413,894
Revenue minus Expenses	\$(23,047)	\$(1,362,897)
Ending Cash Balance	\$250,530	\$14,353,974

Source: LFC analysis of 2022 financial audit data and NMED rate data.

Out of a sample of 80 financial audits of public water systems, 40 percent (or 32 audits) showed an operating deficit supplemented by grants, cash balances, or fund transfers. LFC staff reviewed a sample of 80 financial audit reports of New Mexico public water systems from FY23 available as of mid-July 2024. The financial audits were of mutual domestic water consumer associations (55 audits), municipalities (16 audits), water and sanitation districts (five audits), and water utility authorities (four audits). Of these sampled audits, 40 percent (or 32 audits) showed operating budget deficits where operating expenses exceeded operational revenue. Water systems with deficits had a average deficit of 5 percent of operating expenses. The water systems covered these operating deficits with cash balances, grant revenue, fund transfers, or other nonoperational sources of revenue. LFC staff further analyzed the 22 water systems with deficits, available water connection data, and available monthly charge data. The operating losses for these 22 systems could have been covered with increases in residential monthly charges ranging from \$1.54 per month (4 percent) in Albuquerque to \$21 per month (41 percent) at La Union Mutual Domestic Water and Sewer Association, with an average increase of \$9.38 per month or a 21 percent increase across all systems. These data indicate more than a third of reviewed public water systems had water rate revenue that could not cover operating expenses, let alone long-term capital outlay needs.

More than a third of reviewed public water system financials had water rate revenue that could not cover operating expenses let alone long-term capital outlay needs.

The American Water Works Association notes that utilities commonly have a minimum operating reserve to cover at least 45 days of operations and a capital reserve with a minimum balance based on 2 percent of physical assets or a rolling average of planned capital expenditures. Public water systems should set water rates sufficient to support current operational spending, a minimum operating reserve to cover at least 45 days, and a capital reserve with a minimum balance based on 2 percent of physical assets or a rolling average of planned capital expenditures. NMED annually surveys water and wastewater systems for information about their rates, but survey participation is voluntary and inconsistent. NMED’s annual rate survey does not include data regarding operational revenue and expenditures that could be used to assess the adequacy of water and wastewater rates and revenue. To regularly examine the adequacy of water and wastewater rates, the Legislature should consider requiring water

systems to annually provide NMED with annual water and wastewater rate survey data with operational revenue and expenditure data as well.

Case Study: The Camino Real Regional Utility Authority (CRRUA) failed to adequately raise revenue, maintain its infrastructure, treat water for arsenic, and warn people of water contamination. CRRUA is a public water and wastewater authority serving 19.5 thousand people in Doña Ana County, including the city of Sunland Park and the town of Santa Teresa. CRRUA’s water source is groundwater with naturally occurring arsenic that has to be treated. Long-term exposure to arsenic is known to cause health problems, including cancer. In December 2023, NMED found three of CRRUA’s four arsenic treatment plants were offline and intentionally bypassed for over a year, allowing untreated water to reach the public.

Figure 5. Aging Water Infrastructure at CRRUA Sunland Park Arsenic Treatment Facility



Source: LFC staff site visit June 4, 2024

NMED also cited CRRUA for failing to properly notify its customers about elevated pH levels (meaning the water is more alkaline or basic) following a malfunction at an arsenic treatment plant. In December 2023, NMED identified 58 deficiencies in CRRUA’s system that needed to be addressed, including inadequate construction at arsenic plants, insufficiently trained staff, the lack of plant alarms or automatic shutdowns, and inadequate written procedures for general operations, maintenance, recordkeeping, asset management, or emergency response.

As of March 2024, CRRUA has verified all four of its arsenic treatment plants are operational and producing treated water with arsenic levels below federal maximum levels. However, CRRUA still has significant improvements and upgrades to make to its operations and infrastructure. CRRUA recently received a \$4 million loan from the clean water state revolving fund and a \$5 million appropriation from the Legislature for wastewater infrastructure improvements. In 2024, CRRUA also began to use its \$5 million in cash reserves to fund infrastructure improvements. In May 2024, NMED contractor Eastern Research Group completed a

NMED contracted evaluators found CRRUA’s water rates have been too low to properly staff, operate, or maintain its arsenic treatment facilities.

performance evaluation of CRRUA and its arsenic treatment plants.¹ A preliminary copy of the evaluation report found that CRRUA’s water rates have been too low to properly staff, operate, or maintain its arsenic treatment facilities. On July 1, 2024, CRRUA residential water rates increased from \$15 to \$17.83 for their first 3,000 gallons, and wastewater rates increased from \$20.62 to \$27 for the first 7,000 gallons. This case study illustrates how chronically low water rate revenue and deferred maintenance can compromise water safety and public health.

Case Study: Truth or Consequences loses 25 percent of its water because of an aging leaky water pipe system, and the city will receive \$25.4 million in state funds to replace 18 percent of its waterlines. As part of proper operations, local water systems should proactively repair and replace infrastructure assets over time rather than wait for critical breakdowns to be fixed with state funding. However, that has not always happened, as illustrated most recently by the city of Truth or Consequences. Truth or Consequences has an aging waterline system, dating back to the 1960s, well beyond its expected useful life. Over a nine-month timeframe, the city’s waterline system had 376 water pipe leaks or breaks. By comparing metered water to treated water, the city calculated it loses roughly 25 percent (or 39 million gallons) of its water to pipe leaks. Contract engineers for the city estimated a cost of \$20 million (\$3 million for engineering services and \$17 million in construction costs) to replace 37.8 thousand feet, or 18 percent, of the city’s waterlines.

Local water systems need to proactively repair and replace their infrastructure assets over time rather than waiting for critical breakdowns and state funding.

Figure 6. Water Loss in the City of Truth or Consequences Because of Aging Waterline Pipes



Source: LFC staff site visit on June 5, 2024.

In 2024, Truth or Consequences was awarded \$16.6 million from the state Water Trust Board. Of the state funding from the Water Trust Board, \$14.4 million (90 percent) is grant funding and \$1.6 million (10 percent) is a loan. The \$1.6 million loan has a 20-year term and a minimal interest rate of 0.25 percent. The loan also requires a \$1.6 million match, which the city of Truth

¹ Eastern Research Group conducted this performance evaluation as part of a broader \$2.7 million contract to provide NMED with general engineering and professional services.

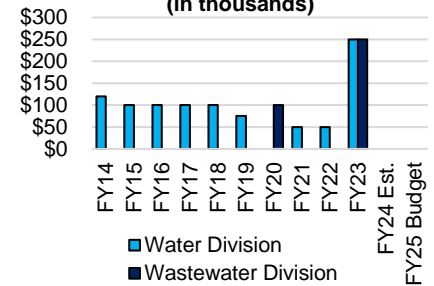
or Consequences received from congressional direct spending funds in 2023. Additionally, the New Mexico Finance Authority's Colonias Infrastructure Board awarded Truth or Consequences \$4.4 million for waterline replacement. Truth or Consequences also received \$4.4 million for waterline replacement from the 2024 capital outlay bill (Laws 2024, Chapter 66; Senate Bill 275).

Truth or Consequences transferred a total of \$1.3 million from its water and wastewater utility funds to its general fund over the past decade, but the city has recently stopped this budgetary practice. The city of Truth or Consequences consistently had a budget deficit in its general fund each year from FY14 through FY22. Truth or Consequences supported deficit spending from its general fund by transferring monies from its utility funds, including its water and wastewater funds, which reduced the city's ability to make needed utility repairs. From FY14 through FY23, Truth or Consequences transferred a total of \$1.3 million from its water and wastewater utility funds to support its general fund. Although transfers between municipal utility funds and general funds is a common practice, credit-rating agencies discourage municipalities from relying on transfers from utility funds to support general government operations. State laws vary on these types of interfund transfers. Utah requires municipal governing boards to approve such interfund transfers at a standalone public hearing whereas West Virginia bans these types of interfund transfers. The Legislature should consider amending the Municipal Code (Section 3-23-4 NMSA 1978) to require municipal governing boards to approve transfers from utility funds to their general funds at a standalone public hearing. Recent Truth or Consequences budget documents indicate the city stopped this practice for FY24 and FY25.

Case Study: Santa Fe plans to raise its rates by 16 percent and borrow over \$100 million at virtually no interest to replace an aging and noncompliant wastewater treatment facility. During the 2024 legislative session, the city of Santa Fe requested, but did not receive, \$88.4 million in state capital outlay funds to replace its wastewater treatment plant. In May 2024, NMED fined Santa Fe \$2.3 million because the city's Paseo Real wastewater treatment facility had discharged treated water into the river with high levels of E. coli bacteria and nitrogen. City officials reported to the press these environmental violations were because of needed repairs. City officials also reported to the press this repair work on the 61-year-old wastewater treatment facility should have begun a decade ago.

Santa Fe estimates it will cost \$120 million to replace the wastewater treatment facility and plans to borrow over \$100 million from the clean water state revolving fund at virtually no interest (0.01 percent interest) over 30 years. Santa Fe's financing scenarios for the replacement wastewater treatment plant also include plans to raise wastewater rates by 4 percent each year over the next four years. The proposed 16 percent increase would raise Santa Fe's monthly residential sewer service fee by \$1.20 to \$8.73 per month and raise monthly usage fees by 74 cents per

Chart 8. Truth or Consequences Transfers From its Water and Wastewater Funds to its General Fund
Total = \$1.3 million
(in thousands)



Source: LFC analysis of city budget reports.

Figure 7. City of Santa Fe Wastewater Treatment Plant



Source: LFC staff site visit on June 20, 2024

1,000 gallons to \$5.38 per 1,000 gallons.² If Santa Fe had gradually raised its rates over time to plan and save for a new wastewater treatment plant, then the city would not need to borrow and request as much state funding or raise its rates by 16 percent in four years. Additionally, the city of Santa Fe could potentially lower wastewater treatment costs by partnering with Santa Fe County which has a wastewater treatment plant 7.7 miles away from the city of Santa Fe's Paseo Real wastewater treatment facility.

Recommendations

The Legislature should consider:

- Amending the Municipal Code (Section 3-23-4 NMSA 1978) to require municipal governing boards to approve transfers from utility funds to their general funds at a standalone public hearing.
- Requiring water systems to annually provide NMED with annual water and wastewater rate survey data with operational revenue and expenditure data as well.

Public water and wastewater systems should:

- Set rates that are sufficient to support current operational spending, a minimum operating reserve to cover at least 45 days of operations, and a capital reserve with a minimum balance based on 2 percent of physical assets or a rolling average of planned capital expenditures.

² Santa fe has tiered drinking water pricing where water rates increase as customers use more water, \$6.06 for the first 7,000 gallons of water and \$21.72 per 1,000 gallons thereafter. Past national drinking water rate surveys indicate Santa Fe has relatively high water rate charges compared to other cities, similar survey data comparing Santa Fe's wastewater rates to cities in other states is unavailable.

Many Water Systems Struggle with Basic Operations, Even as New Federal Rules Will Increase Duties

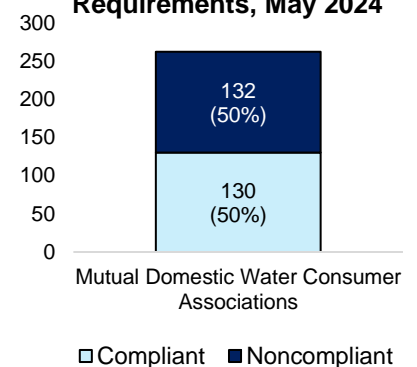
Many New Mexico public water systems lack basic operating practices, as indicated by a lack of completed financial audits, asset management plans, or waterline inventories. Routine NMED inspections most commonly identify issues with inadequate infrastructure, facility upkeep, and plans for operations, maintenance, and emergencies. In addition to these issues, new federal regulations requiring the monitoring of perfluoroalkyl and polyfluoroalkyl substances (PFAS) contaminants and the development of waterline inventories to identify lead pipes will increase the responsibilities of water systems.

Many water systems lack completed audits and asset management plans, which hinders access to funding and effective long-term planning.

A public water system’s fiscal management issues (such as late audits, inadequate asset management, or delayed spending) can lead to lost funding opportunities, increased construction costs, and reverted capital outlay appropriations. Recent data indicate half of New Mexico mutual domestic water associations and almost half of applicants for water project or colonias funding showed fiscal management issues. Case studies also indicate the need for completed waterline inventories.

Half of New Mexico’s registered mutual domestic water consumer associations are not in compliance with audit requirements, limiting their access to state funding. Executive Order 2013-006 requires state and local government entities to be current on their financial audit requirements before they are eligible to receive capital outlay funding. In May 2024, the Office of the State Auditor reported 132 mutual domestic water consumer associations (50 percent) out of 262 mutual domestic consumer associations, were out of compliance with their audit requirements. Noncompliance with audit requirements limits access to capital outlay appropriations and other funding sources from the Water Trust Board, Colonias Infrastructure Board, and the Office of the State Engineer. At the end of June 2024, \$250 thousand in 2022 capital outlay appropriations to water and wastewater systems were voided because of audit noncompliance. Specifically, the voided projects were for water storage tank repairs in Capitan village (\$100 thousand), waterline replacement and repairs for the Sile mutal domestic water consumers association (\$100 thousand), and wastewater system improvements in the village of Willard (\$50 thousand).

Chart 9. Number of New Mexico Entities Compliant with Audit Requirements, May 2024



Source; LFC analysis of Office of the State Auditor data.

In June 2024, \$250 thousand in 2022 capital outlay appropriations to water and wastewater systems were voided because of audit noncompliance.

In FY24, the Office of the State Auditor used a \$500 thousand appropriation to provide technical assistance to small local public bodies and help them achieve audit compliance. The Office of the State Auditor reports it helped 122 local public bodies achieve audit compliance and regain access to \$2.6 million in capital outlay appropriations. The Office of the State Auditor received a \$1 million special appropriation for FY25 to continue this initiative. The Legislature should consider funding the Office of the State Auditor’s audit compliance initiative for small local public bodies through the government opportunity and results (GRO) fund to further pilot the program and then potentially provide recurring funding in the future.

Almost half of applicants for Water Trust Board and Colonias Infrastructure Board funding did not have an asset management plan, showing a lack of long-term infrastructure tracking and planning. An asset management plan inventories an organization’s assets, scores those assets based on their importance and condition, and outlines future repair and replacement needs. Consequently, asset management plans are an essential tool for effective and efficient infrastructure management. Furthermore, the Government Finance Officers Association recommends governments establish a system for assessing their capital needs and appropriately planning and budgeting for maintenance and replacement needs.

Asset management plans are an essential tool for effective and efficient infrastructure management.

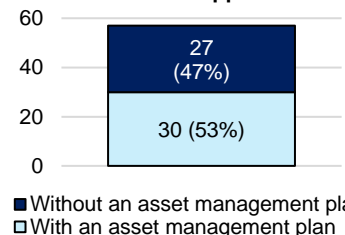
Figure 8. Key Questions Answered by an Asset Management Plan

What is the current state of my assets?	What is my required level of service?	Which assets are critical to sustained performance?	What is my long-term funding strategy?
<ul style="list-style-type: none"> • What do I own? • Where is it? • What condition is it in? • What is its performance? • What is its remaining useful life? • What is its remaining economic value? 	<ul style="list-style-type: none"> • What is the demand for my services by my stakeholders? • What do regulators require? • What is my actual performance? 	<ul style="list-style-type: none"> • How does it fail? How can it fail? • What is the likelihood of failure? • What does it cost to repair? • What are consequences of failure? 	<ul style="list-style-type: none"> • How will I pay for Renewal and Replacement? • Bond Funding? • Sinking Fund?

Source: Capital Region Water 2022 Strategic Asset Management Plan

Despite this recommended best practice, data from the Water Trust Board and the Colonias Infrastructure Board indicates 47 percent of applicants for water project and colonias funding during the 2024 application cycle lacked an asset management plan. The Water Trust Board and the Colonias Infrastructure Board both require entities to either have (or develop) an asset management plan to receive infrastructure project funding. During the 2024 application cycle, 27 applicants (or 47 percent), out of 57 total, did not have an asset management plan and are in the process of developing a plan.

Chart 10. 2024 Water Trust Board and Colonias Funding Applicants
Total = 57 applicants



Source: LFC analysis of NMFA data.

During routine drinking water inspections, NMED most commonly identifies deficiencies of inadequate infrastructure, facility upkeep, and plans for operations and maintenance. NMED conducts drinking water sanitary inspections on every community water system in the state approximately once every three years and has completed 1,387 water system inspections since 2018. During these routine inspections, NMED staff identify facility or operational deficiencies. Over the past five years, NMED most frequently identified instances of inadequate construction at water facilities, failure to conduct internal inspections or to secure water from potential contaminants, and insufficient operations and maintenance plans. The results from these routine inspections indicate many water systems are struggling to comply with the core responsibilities of operating and maintaining water systems, which creates risks to the public.

Table 3. Top Five Deficiencies Identified During NMED Drinking Water Sanitary Inspections Over the Past 5 Years.

Top Five	Deficiency
1	Inadequate Surface Construction or Missing Component at Water Well or Spring Box
2	No Internal Inspection of Water Storage Facility (Recommended Every 3 Years).
3	Water Well Head or Spring Box Not Secured from Elements
4	Inadequate or Lack of an Operations and Maintenance Plan or Necessary Operational Policies
5	Water Storage Facility Not Secured from Elements

Source: NMED

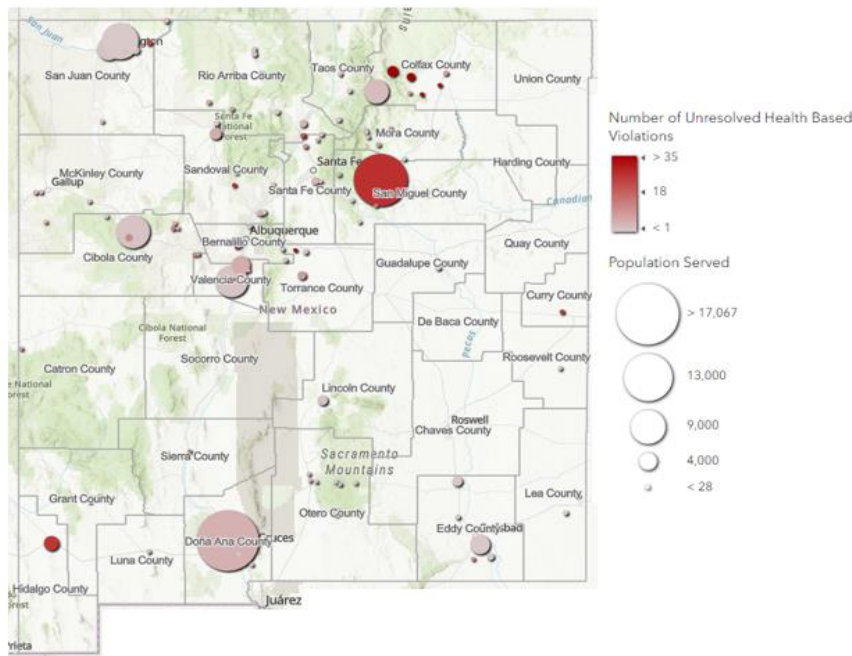
State water systems will soon need to comply with new federal regulations on lead, copper, and PFAS.

The U.S. Environmental Protection Agency (EPA) recently issued new regulations which will expand the responsibilities of water systems to address water contaminants. First, the EPA will require all water systems monitor and treat harmful perfluoroalkyl and polyfluoroalkyl substances (PFAS) by 2029. Second, the EPA will require all water systems to provide state regulators with initial inventories of their water service lines (to monitor for lead and copper) by October 16, 2024. Federal funding will be available to comply with these new requirements, but compliance may still be challenging for the state’s water systems.

Over a third of water systems are noncompliant with federal drinking water requirements, but NMED recently initiated enhanced enforcement. Although 89 percent of New Mexico’s population was served safe drinking water over the past year, NMED reports 36 percent of community drinking water systems (roughly 203 systems) did not meet at

least one federal drinking water requirement at the end of FY24. On July 30, 2024, NMED sent 138 letters to drinking water systems across the state that were out of compliance with required safe drinking water standards, including those on levels of arsenic, uranium, and fluoride. The 138 drinking water systems out of compliance serve 160 thousand customers statewide. The 138 water systems must provide NMED with a plan to resolve their noncompliance or risk a penalty of up to \$1,000 per day after August 13, 2024, as well as other sanctions by NMED or the EPA.

Figure 9. Water Systems with Health-Based Violations Based On Population, July 2024.



Source: NMED

New Mexico water systems will face new responsibilities by 2029 from federal regulations aimed at reducing levels of a group of chemicals known as PFAS. PFAS are man-made chemicals widely used since the 1950s in products like food packaging, cleaning supplies, and firefighting foam. Exposure to PFAS has negative health impacts, including on reproductive health, cancer risk, childhood development, cholesterol levels, the immune system, and hormonal function. In 2024, EPA announced the first-ever national drinking water standards for several PFAS, setting maximum contaminant levels and requiring water systems to monitor and reduce PFAS levels. New Mexico’s public water systems must comply with these new EPA PFAS regulations, with initial monitoring for PFAS chemicals beginning in 2027. Additionally, water systems testing positive for PFAS will be required to include information about PFAS levels in their consumer confidence reports in 2027, and public notifications starting in 2029. Remediation efforts to reduce these contaminants must be initiated starting in 2029. The new EPA regulations represent a significant step in

addressing the potential health risks associated with PFAS exposure through drinking water. In May 2024, EPA awarded \$18.9 million to NMED to spend over the next two years to support PFAS sampling for water systems in small and economically disadvantaged communities, create a statewide database, and provide outreach and technical assistance. EPA provided this funding to NMED through a grant program called the Emerging Contaminants in Small or Disadvantaged Communities. Additional federal funding from the grant program two years from now may be available to support PFAS treatment as well.

NMED estimates 6 percent of water systems in New Mexico (around 63 water systems) may be out of compliance with PFAS regulations, potentially requiring millions in federal funds for water treatment costs. NMED reports initial sampling and analytical costs for the department could be up to \$1.8 million in the first year the new PFAS rule becomes effective. Based on current sampling data, NMED estimates 6 percent of water systems in the state (or 63 water systems) would be noncompliant with the new PFAS rules. NMED estimates the initial cost of treatment for these systems could be several million dollars, and the cost of ongoing yearly operations would be several hundred thousand dollars. Federally backed drinking water state revolving funds can be dedicated to these efforts. Furthermore, EPA recently labeled PFAS as a hazardous substance that opens the door for New Mexico to require the federal government to compel polluters to pay for cleaning up contaminations.

By October 2024, New Mexico water systems will need to develop initial inventories of their water service lines in response to revised federal lead and copper regulations. Exposure to lead and copper may cause health problems ranging from stomach distress to brain damage. In 2021, the EPA promulgated revisions to its lead and copper regulations. The EPA will soon require all community water systems, regardless of size, to develop and maintain water service line inventories to comply with the revised regulations (40 CFR 141.84(a)) and identify lead and copper waterlines. Noncompliance with the deadline could include public notification, increased oversight and fines, and, ultimately, could result in an administrative compliance order from EPA.

New Mexico water systems, particularly small water systems, may have issues complying with the new federal regulations requiring complete waterline inventories. New Mexico's water systems should provide their completed water service line inventories to NMED. Additionally, New Mexico's water systems should apply for drinking water state revolving fund supplemental lead and copper funding (available to New Mexico from the federal Infrastructure Investment and Jobs Act through FY26) to support service line replacement and address water contamination if needed.

Case Study: As of June 2024, Pecos lacked complete documentation for the location of all its waterlines, even though waterline inventories are federally required by mid-October 2024. The village of Pecos

Non-compliance with federal waterline inventory requirements could result in increased oversight, fines, or ultimately an administrative compliance order from the EPA.

Figure 10. Waterline Replacement in the Village of Pecos.



Source: LFC site visit on June 18, 2024.

reported in its most recent infrastructure and capital improvement plan (ICIP) for 2025 through 2029 that the village is “unable to accurately identify [the] location of its water and sewer lines.” Pecos officials reported the same information to LFC staff during a site visit in June 2024. Pecos estimated it would cost \$150 thousand to implement a geographic information system mapping of all its water and sewer lines. Completed maps of water and service lines can eliminate costly interruptions in service because of inaccurate pipeline location information. This information indicates New Mexico water systems, particularly small water systems, may have issues complying with the new federal regulations requiring complete waterline inventories.

Recommendations

The Legislature should consider:

- Funding the Office of the State Auditor’s audit compliance initiative for small local public bodies through the government opportunity and results (GRO) fund to further pilot the program and then potentially provide recurring funding in the future.

Public water systems should:

- Provide their completed water service line inventories to NMED before the federal deadline of October 16, 2024; and
- Apply for drinking water state revolving fund supplemental lead and copper funding (available to New Mexico from the federal Infrastructure Investment and Jobs Act through FY26) to support service line replacement and address water contamination if needed.

water and wastewater treatment plant operators, according to the U.S. Bureau of Labor Statistics. At the same time, New Mexico has roughly 1,055 water systems, which means there are almost as many water systems across the state as there are water and wastewater operators. This workforce situation means there is competition and high demand for certified system operators, particularly in more rural areas with smaller systems.

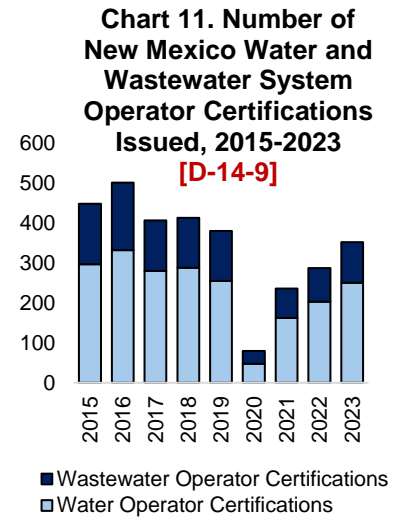
Around 111 job openings are available each year, mostly spread across rural areas of the state. There are around 111 annual job openings for water and wastewater system operator positions, according to state Workforce Solutions Department data, which represents 8 percent of the total New Mexico water and wastewater operator workforce. Most of these job openings (70 percent) occur because system operators transfer to other systems rather than people actually exiting from the water operator workforce (30 percent). As of July 21, 2024, there were 49 online job postings for water and wastewater operators, primarily in rural areas across the state, particularly northern New Mexico.

The number of water and wastewater operator certifications remains below prepandemic levels. Water and wastewater operator certifications dropped by 79 percent (or 300 certifications) in 2020 during the Covid-19 pandemic. Since then, the number of certifications issued by NMED has steadily increased each year but has not yet recovered to prepandemic levels. The total number of certifications issued in 2023 was 7 percent (or 28 certifications) below 2019 levels and 30 percent (or 149 certifications) below peak levels in 2016.

Regionalized systems have shared staff, achieved audit compliance, and secured increased financing for water infrastructure projects.

Small water systems have limited revenue to hire certified staff, meet regulatory requirements, and save for long-term infrastructure needs. As a policy option to help small water systems form regional partnerships, the Legislature passed the Regional Water System Resiliency Act during the 2023 legislative session (Laws 2023, Chapter 4, Senate Bill 1). The act creates a legal framework for smaller water systems to consolidate, pool their resources, and increase their capacity.

Case Study: After regionalizing, the Lower Rio Grande Public Water Works Authority achieved audit compliance, secured over \$89 million in financing, and built capital improvement reserves for its water systems. The Lower Rio Grande Public Water Authority, established in 2009, initially merged five rural water systems and later incorporated seven additional small systems. The authority is now a single entity with 12 certified system operators serving 15 communities with over 5,300 water connections and 500 wastewater connection. Prior to consolidation, the individual systems faced numerous challenges. For example, three out of the five founding entities had not conducted financial audits, four out of



Source: LFC analysis of NMED data

The Legislature recently passed the Regional Water System Resiliency Act during in 2023 to help small water systems pool resources and consolidate.

five were not fully collecting payments on issued invoices, and one system lost \$85 thousand from New Mexico Finance Authority due to a missed deadline.

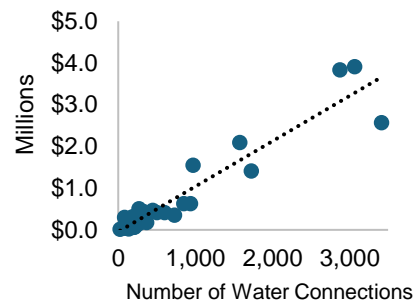
The consolidation enabled the water authority to hire a general manager and a financial manager, leading to improved financial practices, such as the refinancing of multiple loans into a single loan of \$736 thousand from the New Mexico Finance Authority. As a consolidated entity, the authority secured funding from the Water Trust Board, the colonias infrastructure fund, state capital outlay, and the drinking water state revolving loan fund. This allowed the authority to undertake larger infrastructure projects, such as an \$9.8 million upgrade to Mesquite’s wastewater system (completed in 2015), an \$8.8 million project extending the collection system to unserved areas, and a \$3 million investment for critical improvements to the Organ wastewater system. Additional benefits of the regionalization include the establishment of \$326 thousand initial capital improvements reserve, the development of a 40-year water plan approved by the State Engineer’s Office, and the ability to provide operations and maintenance services to other small water systems in the region.

NMED facilitates regional collaboration using federal funds, while some states have statutorily required systems to consolidate.

NMED is using federal funds to encourage regional partnerships and increase capacity. NMED has been partnering with various third-party technical assistance providers to facilitate regional collaboration for small rural water systems. NMED’s technical assistance partners include the Rural Community Assistance Corporation, multiple councils of governments, the Southwest Environmental Finance Center, and the New Mexico Rural Water Association. NMED reports these technical assistance efforts supported regional partnership initiatives in McKinley, Mora, and Rio Arriba counties. NMED is funding these activities with \$171.8 thousand of federal Water Infrastructure Improvements for the Nation Act (WIIN) grant funding and \$200 thousand from drinking water state revolving fund set-aside funding. NMED should continue dedicating drinking water state revolving fund set-aside funding to promote regional partnerships.

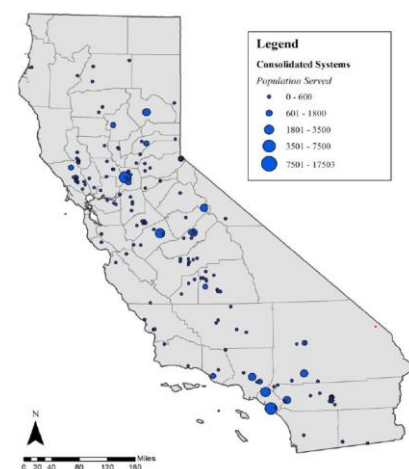
Other states enacted requirements for failing water systems to strengthen system partnerships or consolidate. For example, California amended state law in 2015 enabling the State Water Resources Control Board to require the physical or operational consolidation of failing water systems. From 2015 through 2021, 206 systems were consolidated in California. In 2020, West Virginia directed its Public Service Commission to create an annual list of failing water and wastewater systems and to require consolidation if certain conditions are met. According to the National Conference of State Legislatures, such policy approaches can

Chart 12. Relationship Between Number of Water Connections and FY23 Operating Revenue
(n = 41 New Mexico water systems)



Source: LFC analysis of audit data and NMED data.

Figure 12. California Water System Consolidations, 2015-2021



Source: Berkley University of California.

create workforce efficiencies and help small water systems address the issues that can lead to water quality violations.

Recommendations

NMED should:

- Continue dedicating drinking water state revolving fund set-aside funding in future fiscal years to promote regional partnerships.

Public water and wastewater systems should:

- Pursue regionalization options under the state Regional Water System Resiliency Act if their ratepayer populations and rate revenues cannot feasibly and affordably meet their operational and long-term capital needs.

Appendix A. Progress on the Recommendation from the 2021 LFC Program Evaluation State-Funded Water Projects

Finding

Inconsistent vetting across a fragmented funding system creates risk for incomplete projects.

Recommendation	Status	Comments
The Legislature should create an interagency council to vet water projects prior to funding	No Action	No action has been taken on this recommendation.

Appendix B. Higher Risk Public Water Systems, 2021-2023

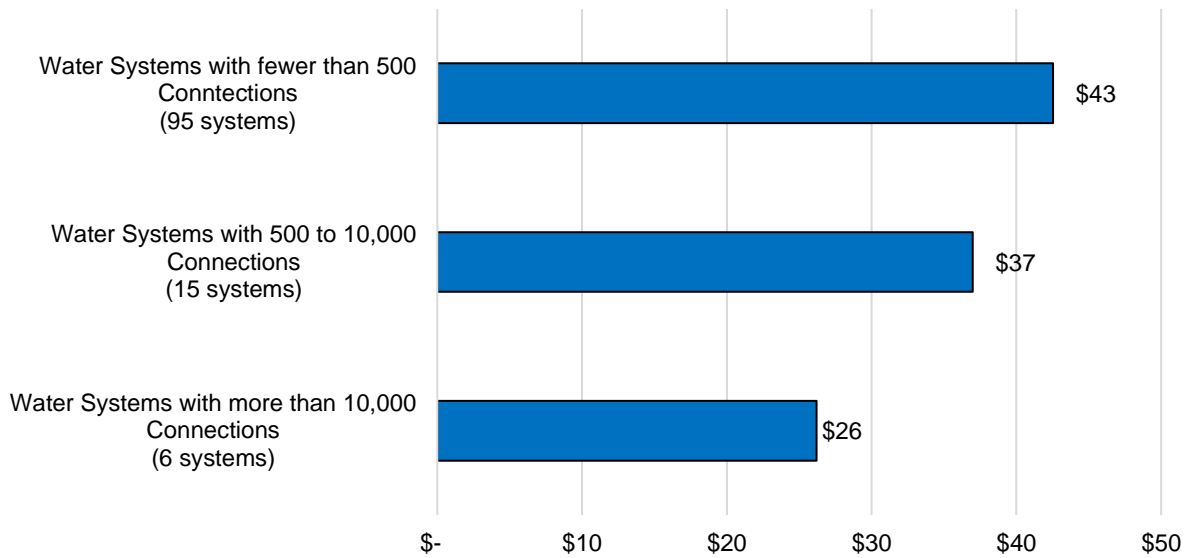
Public Water Systems with Administrative Compliance Orders or Enforcement Targeting Tool Scores Above 11, 2021-2023

Public Water System	County	Number of Connections	Enforcement Targeting Tool (ETT) Score	Administrative Order Status
Coyote Creek Mutual Domestic WUA	Catron	1	13	n/a
Pine River MDCA	San Juan	15	13	n/a
Cassandra Water System	Torrance	34	17	Order issued in 2022
Highland Meadows Estates MDWCA	Valencia	43	21	Order issued in 2016
La Joya MDWCA	Socorro	54	21	n/a
Bibo Mutual Domestic Water Assoc.	Cibola	74	16	n/a
Nara Visa MDWCA	Quay	75	12	n/a
Loma Escondida Water System	Valencia	89	20	Under an EPA Administrative Order
San Ysidro Water Supply System	Sandoval	92	17	Order issued in 2018
Navajo Dam Domestic Water Consumers Inc.	San Juan	167	11	Order issued in 2021
Cordova MDWCA	Rio Arriba	179	15	n/a
Maxwell Water System	Colfax	195	12	n/a
Agua Negra MDWCA	Mora	242	18	n/a
San Rafael Water & Sanitation District	Cibola	300	23	n/a
Santa Cruz Water Association	Santa Fe	343	21	Order issued in 2011
Chama Water System	Rio Arriba	455	14	n/a
Rosa Joint Ventures Water System	San Juan	456	35	n/a
Estancia Water System	Torrance	471	14	n/a
Springer Water System	Colfax	509	15	n/a
Cimarron Water System	Colfax	969	111	Order issued in 2012
Tularosa Water System	Otero	1,268	54	Order issued in 2019
Camino Real Regional Utility Authority	Dona Ana	5,858	19	n/a
Las Vegas (City of)	San Miguel	5,865	52	n/a
Belen Water System	Valencia	8,102	12	n/a

Source: LFC review of NM ED Capacity Development Program Triennial Report 2021-2023, NMED data, EWG Tap Water Database, and New Mexico Rural Water Association data.

Appendix C. Average Water Rates by Water System Size

Average Monthly Residential Cost for 6,000 Gallons of Water, 2022



Source: LFC analysis of NMED data.

Appendix D. Residential Water Rate for 6,000 Gallons of Water, December 2022

Residential Water Rates for 6,000 Gallons of Water Use, December 2022

Publicly Owned- Public Water System	County	Residential Water Rate for 6,000 Gal. of water per month Dec. 2022	Number of Residential Water Connections
1 Rosedale MDWCA @	Grant	\$ 119.38	110
2 La Jara Water Users Association# @	Sandoval	\$ 103.40	159
3 Navajo Dam Domestic Water Consumers Inc	San Juan	\$ 102.00	167
4 Sierra Vista Mutual Domestic Association	Bernalillo	\$ 87.18	134
5 Canon MDWCA	Sandoval	\$ 76.65	133
6 Lamy Mutual Domestic Water Association	Santa Fe	\$ 73.47	51
7 Sun Valley Water And Sanitation District	Lincoln	\$ 72.66	198
8 La Asociacion De Agua De Los Brazos @	Rio Arriba	\$ 72.00	25
9 White Cliffs MDWUA	McKinley	\$ 71.00	70
10 Riveras MDWUA	Guadalupe	\$ 70.54	26
11 Pinos Altos MDWCA	Grant	\$ 69.85	128
12 Chama West Water Users Association #	Rio Arriba	\$ 68.25	32
13 Apple Orchard MDWCA	San Juan	\$ 67.42	145
14 Cloudcroft Water System	Otero	\$ 62.31	1,008
15 Vallecitos MDWCA	Rio Arriba	\$ 60.99	25
16 Yah Ta Hay W & SD	McKinley	\$ 60.56	124
17 Barranco MDWCA	Rio Arriba	\$ 60.00	55
18 Agua Fria Water Association	Santa Fe	\$ 56.52	331
19 El Vadito De Los Cerrillos Water Assoc	Santa Fe	\$ 56.00	188
20 Upper La Plata Water Users Association	San Juan	\$ 55.86	787
21 Fambrough MDWCA	Chaves	\$ 55.65	172
22 Big Mesa Water MDWCA	San Miguel	\$ 55.00	529
23 Orogrande MDWCA	Otero	\$ 55.00	30
24 Santa Fe Water System	Santa Fe	\$ 54.78	33,533
25 Mosquero Water System	Harding	\$ 54.00	70
26 Cottonwood Water MDWCA	Eddy	\$ 53.31	623
27 Santa Fe County South Sector	Santa Fe	\$ 52.16	2,601
28 Las Vegas (City Of)	San Miguel	\$ 51.98	5,865
29 La Union MW & SA	Dona Ana	\$ 51.53	502
30 Bluewater Water And Sanitation District	Cibola	\$ 50.00	246
31 Rio Chiquito MDWCA	Santa Fe	\$ 50.00	54
32 Chippeway Park Water Association	Otero	\$ 49.55	69
33 Ojo Caliente MDWCA	Taos	\$ 49.35	103
34 Llano Quemado MDWCA	Taos	\$ 48.80	269
35 Bluewater Lake MDWCA	McKinley	\$ 48.10	86
36 Ojo Sarco MDWCA	Rio Arriba	\$ 47.75	103
37 Winterhaven MDWC And SWA	Dona Ana	\$ 47.25	53
38 Arenas Valley MDWCA	Grant	\$ 47.22	448
39 Rancharitos De Galisteo WUA	Santa Fe	\$ 45.83	43
40 Dixon MDWCA	Rio Arriba	\$ 45.00	212
41 Aragon MDWCA	Catron	\$ 44.50	17
42 Alto De Las Flores MDWCA	Dona Ana	\$ 44.41	287
43 Cloud Country Estates WUA	Otero	\$ 43.73	131
44 Nogal MDWCA @	Lincoln	\$ 43.50	36
45 La Luz MDWCA	Otero	\$ 42.50	728
46 Los Lunas Water System	Valencia	\$ 41.99	6,754
47 Hurler Town Of	Grant	\$ 41.55	591
48 Tesuque MDWCA	Santa Fe	\$ 41.00	107
49 Tecolotito MDWCA	San Miguel	\$ 40.91	102
50 San Rafael Water & Sanitation District	Cibola	\$ 40.69	300
51 North Hurler MDWCA	Grant	\$ 40.58	139
52 Tyrone Townsite	Grant	\$ 40.38	322
53 Bloomfield Water Supply System	San Juan	\$ 40.27	3,063
54 Texico Water System	Curry	\$ 40.23	321
55 La Ojense MDWCA	Santa Fe	\$ 40.00	138
56 Lybrook MDWCA	Rio Arriba	\$ 40.00	55
57 Reserve Water Works	Catron	\$ 40.00	217
58 Ponderosa MDWCA	Sandoval	\$ 39.78	207
59 NM Average		\$ 39.18	
60 Los Alamos Municipal Water System	Los Alamos	\$ 39.00	7,046
61 Grants Domestic Water System	Cibola	\$ 38.25	2,841
62 Penasco MDWCA	Taos	\$ 38.00	134
63 Ramah Water & Sanitation District	McKinley	\$ 38.00	132
64 Chamberino MDWC & SA	Dona Ana	\$ 37.01	243
65 Alcalde MDWCA	Rio Arriba	\$ 36.75	276
66 Thoreau Water & Sanitation District	McKinley	\$ 36.55	370
67 Anthony W&SD	Dona Ana	\$ 36.10	2,874
68 Coyote MDWCA	Rio Arriba	\$ 36.00	20
69 Galisteo MDWCA	Santa Fe	\$ 36.00	96
70 Tucumanri Water System	Quay	\$ 35.72	2,264
71 Coal Basin DWUA	McKinley	\$ 35.71	28
72 Garfield MDWCA	Dona Ana	\$ 35.50	934
73 Bosque Farms Water Supply System	Valencia	\$ 35.49	1,573
74 House Water System	Quay	\$ 35.18	22
75 Riverside MDWA	Eddy	\$ 35.00	43
76 Valdez MDWCA	Taos	\$ 35.00	35
77 Low er Rio Grande PWWA Valle Del Rio	Dona Ana	\$ 34.84	96
78 Low er Rio Grande PWWA East Mesa	Dona Ana	\$ 34.84	809
79 Low er Rio Grande PWWA High Valley	Dona Ana	\$ 34.84	23
80 Low er Rio Grande PWWA South Valley	Dona Ana	\$ 34.84	4,225
81 Silver City Water System	Grant	\$ 34.79	6,689
82 Lordsburg Water Supply System	Hidalgo	\$ 34.63	921
83 San Pablo MDWCA @	Dona Ana	\$ 34.35	210
84 Rio Embudo MDWCA	Rio Arriba	\$ 34.20	71
85 U.S. Average		\$ 34.06	
86 Greenfield MDWCA	Chaves	\$ 33.75	65
87 Desert Aire MDW & SWA	Dona Ana	\$ 33.25	294
88 Santa Clara Water System	Grant	\$ 33.22	709
89 Clayton Municipal Supply	Union	\$ 33.08	1,136
90 Encino Water System	Torrance	\$ 32.80	52
91 Picacho MDWCA	Dona Ana	\$ 32.70	323
92 Mian Community Water System	Cibola	\$ 32.51	827
93 Bernalillo Water System	Sandoval	\$ 32.40	3,366

Residential Water Rates for 6,000 Gallons of Water Use, December 2022

Publicly Owned- Public Water System	County	Residential Water Rate for 6,000 Gal. of water per month Dec. 2022	Number of Residential Water Connections
91 Picacho MDWCA	Dona Ana	\$ 32.70	323
92 Milan Community Water System	Cibola	\$ 32.51	827
93 Bernillo Water System	Sandoval	\$ 32.40	3,366
94 Corona Water System	Lincoln	\$ 32.19	154
95 Hillsboro MDWCA	Sierra	\$ 30.30	79
96 Chamsal MDWCA	Taos	\$ 30.00	156
97 Chapelle MDWCA	San Miguel	\$ 30.00	564
98 Dora Water System	Roosevelt	\$ 30.00	42
99 Las Acequias De Pacitas #	Sandoval	\$ 30.00	179
100 Lake Arthur Water Department	Chaves	\$ 29.50	186
101 Lower Valley Water Users Association	San Juan	\$ 29.35	2,703
102 Taos Municipal Water System	Taos	\$ 29.35	1,853
103 El Rito Canyon MDWCA	Rio Arriba	\$ 29.25	114
104 Leesburg MDWCA	Dona Ana	\$ 28.00	304
105 San Jon Water Supply	Quay	\$ 27.72	118
106 Liberty MDWCA @	Quay	\$ 27.05	94
107 Fort Sumner Municipal Water System	De Baca	\$ 27.00	488
108 Chama Water System	Rio Arriba	\$ 26.81	455
109 Dexter Municipal Water System	Chaves	\$ 26.54	560
110 Springer Water System	Colfax	\$ 26.25	509
111 Rowe MDWCA	San Miguel	\$ 26.00	41
112 Roswell Municipal Water System	Chaves	\$ 25.94	18,049
113 Logan Water System	Quay	\$ 25.50	965
114 East Pecos MDWCA	San Miguel	\$ 25.00	200
115 Pecan Park MDWCA #	Luna	\$ 25.00	41
116 San Antonio De Cleveland MDWCA	Mora	\$ 25.00	80
117 Wason Mound Water System	Mora	\$ 25.00	129
118 Mountainair Water System	Torrance	\$ 24.30	483
119 Talpa MDWCA	Taos	\$ 24.15	253
120 Causey Water System	Roosevelt	\$ 24.00	20
121 Ledoux MDWCA	Mora	\$ 24.00	58
122 Albuquerque Water System	Bernalillo	\$ 23.94	181,768
123 Hagerman Water System	Chaves	\$ 23.74	473
124 Guadalupe MDWCA	Mora	\$ 23.00	65
125 North Cleveland MDWCA	Mora	\$ 23.00	39
126 Deming Municipal Water System	Luna	\$ 22.40	4,989
127 Hacienda Acres Water System (LCU)*	Dona Ana	\$ 22.15	N/A
128 Las Alturas Estates (LCU)*	Dona Ana	\$ 22.15	N/A
129 Las Cruces Municipal Water System	Dona Ana	\$ 22.15	34,129
130 San Andres Estates Water System (Lcu)*	Dona Ana	\$ 22.15	N/A
131 University Estates Water System (LCU)*	Dona Ana	\$ 22.15	N/A
132 Rio Lucio MDWCA	Taos	\$ 22.00	150
133 Melrose Water System	Curry	\$ 20.90	477
134 Eunice Water Supply System	Lea	\$ 19.00	1,274
135 Estancia Water System	Torrance	\$ 18.98	471
136 Carlsbad Municipal Water System	Eddy	\$ 16.13	11,183
137 Laborcita Water Users Association	Otero	\$ 16.00	26
138 San Acacia MDWCA	Socorro	\$ 16.00	91
139 Cloud Country West Water System	Otero	\$ 15.14	101
140 Hobbs Municipal Water Supply	Lea	\$ 14.21	11,772
141 Artesia Municipal Water System	Eddy	\$ 10.02	4,417
142 Buckman Regional Water Treatment Plant	Santa Fe	\$ -	-
143 Pendaries MDWCA	San Miguel	\$ -	200

Source: NMED 2023 Survey of 2022 Water Rates

Appendix E. New Mexico Water Trust Board Financing for Small Water Systems, May 2024

New Mexico Water Trust Board Financing of Projects for Small Water Systems, May 2024

Applicant	Loan		Grant		Total	Loan Condition for Closing
El Prado WSD (Taos County)	\$500,000	10%	\$4,500,000	90%	\$5,000,000	Revenue increase verification
Enchanted Forest MDWCA (Lincoln County)	\$240,000	10%	\$2,160,000	90%	\$2,400,000	Revenue increase verification
Peñasco MDWC & MSWA (Taos County)	\$132,000	10%	\$1,188,000	90%	\$1,320,000	Revenue increase verification
Pendaries Village MDWCA (San Miguel County)	\$1,400,000	20%	\$5,600,000	80%	\$7,000,000	Revenue increase verification
Sangre De Cristo Regional MDWC & SWA (Guadalupe County)	\$185,712	12%	\$1,361,888	88%	\$1,547,600	Revenue increase verification
Watrous MDWCA (Mora County)	\$80,000	15%	\$1,020,000	85%	\$1,200,000	Revenue increase verification

Source: LFC review of NMED documentation.