MINUTES
of the
SECOND MEETING
of the
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE

July 6, 2018
New Mexico State University-Grants
1500 Third Street
Grants

The second meeting of the New Mexico Finance Authority (NMFA) Oversight Committee was called to order by Senator Jacob R. Candelaria, chair, on July 6, 2018 at 9:00 a.m. at New Mexico State University (NMSU)-Grants in Grants.

Present
Sen. Jacob R. Candelaria, Chair
Rep. Bill McCamley, Vice Chair
Rep. Alonzo Baldonado
Sen. Craig W. Brandt
Rep. Kelly K. Fajardo
Rep. Harry Garcia
Sen. Ron Griggs
Sen. Richard C. Martinez
Sen. Michael Padilla
Rep. Jane E. Powdrell-Culbert
Rep. Debbie A. Rodella
Sen. Nancy Rodriguez
Rep. Patricia Roybal Caballero
Rep. Patricio Ruiloba
Sen. William E. Sharer

Absent
Sen. Joseph Cervantes
Rep. Sharon Clahchischilliage
Rep. George Dodge, Jr.
Rep. Jimmie C. Hall
Rep. Linda M. Trujillo

Advisory Members
Rep. Bealquin Bill Gomez
Rep. Patricia A. Lundstrom
Sen. John Pinto
Rep. Tomás E. Salazar
Sen. Clemente Sanchez
Rep. Sheryl Williams Stapleton
Sen. Bill Tallman
Sen. Pat Woods

Rep. Rebecca Dow
Rep. Brian Egolf
Sen. Mary Kay Papen
Sen. Jeff Steinborn
Rep. Monica Youngblood

Guest Legislator
Rep. Tim D. Lewis

Staff
Tessa Ryan, Staff Attorney, Legislative Council Service (LCS)
Diego Jimenez, Research Assistant, LCS
Rebecca Griego, Records Clerk, LCS

Guests
The guest list is in the meeting file.

Handouts
All handouts and other written testimony are in the meeting file.

Friday, July 6

Welcome and Introductions
Senator Candelaria welcomed the committee and members of the audience and asked committee members and staff to introduce themselves. Mickey Best, president, NMSU-Grants, greeted the committee and provided an update on the state of NMSU-Grants. He discussed its newly constructed Teacher Health Care Education and Child Development Center and curriculum requirements for teaching programs at the campus. The newly constructed building will house a certificate-level nursing program and an emergency medical treatment program, and it can transmit high-quality education off site. President Best told the committee that the building has a Leadership in Energy and Environmental Design, commonly called LEED, silver certification.

In response to a question from the committee, President Best discussed options to address demand for veterans' needs, including a veterans' lounge and a tutoring program in the Teacher Health Care Education and Child Development Center.

Minutes Approval
On a motion made by Representative McCamley and seconded by Senator Martinez, the committee approved the minutes from the first NMFA Oversight Committee meeting in 2018.

NMFA Projects with Tribal Entities
Zach Dillenback, chief lending officer, NMFA, told the committee that NMSU-Grants received funding through an NMFA loan for the Teacher Health Care Education and Child Development Center. Mr. Dillenback said that the loan was approved on general obligation (GO) bond credit and that the NMFA does not exclusively look at net income as a qualifier. Voters in Grants approved a GO bond ballot measure with strong community support.

Mr. Dillenback told the committee that the NMFA has financing relationships with tribal entities through the Economic Development Revolving Fund (EDRF), Water Trust Fund and Public Project Revolving Fund (PPRF). Tribal entities were not initially eligible for PPRF funding, but the relevant law has since been expanded. The first loan made by the NMFA to a tribal entity was to a Jicarilla Apache Tribe-owned financing authority. The NMFA has since made 22 loans to 12 tribes for a total of $215.6 million. Since its inception, the PPRF has made loans totaling $3.3 billion, of which tribal entities have received 6.52%. Requirements for a tribal entity to obtain a loan from the NMFA include a limited waiver of sovereign immunity, consent to jurisdiction of the First Judicial District Court, annual submission of a financial audit and ensuring that the loan not address any infrastructure related to gaming. In response to a member's question, Marquita Russel, chief of programs, NMFA, explained that the NMFA cannot provide loans to land grant communities.

Mr. Dillenback said that a concern of tribal entities is that sensitive financial information of a sovereign entity may become subject to the Inspection of Public Records Act when shared with the NMFA. Many pueblos and tribes have created corporations to manage business interests such as casinos, hotels and travel centers. The loan agreements mandate that financial statements be furnished to the NMFA. These might contain contingency information on revenues that may be more sophisticated. An external auditor certifies that certain items can be covered by tribal dollars pledged for a loan. There is a prohibition for tribes to use matching funds from gaming activities to acquire PPRF loans. Money acquired from the Tribal Infrastructure Project Fund also cannot be used as matching funds. Revenues pledged by tribes to match PPRF loans include taxes, lease and utility revenues, investment accounts and GO bonds. Public projects funded by tribal PPRF loans include water, wastewater and flood prevention system improvements, student housing, law enforcement and first responders' facilities and equipment, roads, Head Start, tribal service facilities and acquisition and improvement and expansion of utilities.

In response to a question, Mr. Dillenback told the committee that the NMFA does not collateralize against tribal assets. Tribes are required to reserve money for occasional upgrades completed through revenues from a debt service reserve that is held at a trustee level rather than by the tribe. Mr. Dillenback explained the reliance on tax attorneys to navigate the federal tax code and the taxing relationship between tribal entities and federal or state governments. He explained that many of the loans are secured by tribes pledging revenues that are not related to the project to be funded.

In response to a question, Ms. Russel explained that some Navajo Nation chapters are able to function with financial autonomy, but most transactions with Navajo chapters are completed through the Navajo Nation government. She explained that one conflict that arises in regard to funding Navajo projects is that state law requires the First Judicial District Court to have jurisdiction for any legal action, but the Navajo Nation requires the same of its courts.

Ms. Russel discussed a project for which the NMFA loaned money to the Pueblo of Acoma for acquisition of an electric utility system. This is the second power infrastructure project for which the NMFA has provided a loan to a tribal entity.

Ms. Russel told the committee that according to statute, a loan financed by the NMFA cannot exceed 30 years. She explained that the size and time limit of a loan are based on a variety of factors, including the borrower, the useful life of the asset, amortization and cost of the loan.

Update on the EDRF

Robert P. Coalter, chief executive officer, NMFA, discussed the Statewide Economic Development Finance Act (SWEDFA), which was established in 2003 to stimulate the economy. He told the committee that New Mexico was the last state in the region to offer this kind of program. Economic development funds were previously dependent on county and city bonds or federal business loans. The SWEDFA created the EDRF, from which the NMFA makes loans. The EDRF is segregated into two subaccounts to track the state-funded Smart Money Loan Participation Program and the federally funded Collateral Support Participation Program. Loans made under the SWEDFA must be determined as eligible by the Economic Development Department (EDD) and must be reported to the NMFA Oversight Committee.

The Smart Money Loan Participation Program allows the NMFA to participate in a business loan by buying a portion of a loan from a local bank. The bank applies to the NMFA for a loan on behalf of businesses and originates and services the loan as usual. The NMFA pays a servicing fee to the bank for the additional work. The NMFA fills financing gaps and lowers borrowing costs for local businesses by offering interest rates that are typically lower than that of banks. The Smart Money Loan Participation program provides long-term, low-cost financing to businesses located predominately in rural New Mexico. The program has $5.1 million in General Fund appropriations. The NMFA shares equally in the collateral available to a bank and does not help increase collateral coverage.

The Collateral Support Participation Program is funded with more than $8 million in federal funds received through the State Small Business Credit Initiative. This program provides short-term, low-cost financing such as construction lines of credit.

Mr. Coalter provided an update on the portfolios for the Smart Money Loan Participation Program and Collateral Support Participation Program. Five loans have been awarded through "Smart Money" for projects in Alamogordo, Raton, Las Vegas, Las Cruces and Hobbs. The loan to Landmark at Desert Gardens in Hobbs was paid off early. Western Wood Products in Raton has been slow to repay the loan since its reorganization plan was approved by the courts. The NMFA is addressing its concerns with the originating banks that have oversight of the Western Wood Products loan. The NMFA has participated in 16 loans with the Collateral Support Participation Program, including loans to expand businesses as well as to start-up businesses. Since the first loan was made in 2012, all collateral support loans have been paid as agreed, seven of which have been paid in full.

In 2011, the NMFA and EDD signed a memorandum of understanding (MOU) to administer federal funds for the Collateral Support Participation Program. The state was allocated more than $13 million in federal funds and met all federal commitments in June 2015. In fiscal year (FY) 2016, the EDD received approval to redirect $5 million in federal funds to establish the Catalyst Fund, which is managed by Sun Mountain Capital. To date, the NMFA has transferred approximately 92% in repaid principal to the EDD. The NMFA is no longer accepting applications under this program, and the revised MOU has effectively ended the program.

Mr. Coalter told the committee that bankers have limited interest in the Collateral Support Participation Program because state funds have limited flexibility in terms of the collateral position they can take. Under current law, after June 30, 2019, legislative authorization will be required for the NMFA to make loans. Previously, when legislative authorization was required, six authorization bills were presented to the legislature; five passed both chambers. The bills authorized 185 projects, only three of which resulted in participators closing on loans.

The program suffered a significant loss in momentum following the failure of the 2007 Smart Money authorization bill. Because of the failure of the authorization bill, the NMFA's outreach work in 2006 was fruitless; several banks lost clients who had been waiting for authorization to proceed, and banks shied away from the program because of the uncertain outcome of authorization bills. The NMFA became known as "difficult". It is unclear how many clients failed to find alternative funding for their projects that year, left the state for better incentives or lost their business opportunities.

Since the passage of a temporary provision in 2011 that substitutes reporting for legislative authorization, the NMFA has successfully closed 18 projects exceeding $10 million. Mr. Coalter told the committee that the momentum in the program increased dramatically with the passage of the temporary provision, and the perception that the NMFA is difficult abated significantly. Loans made without legislative authorization are, on average, higher quality loans. Eight loans have already been paid in full, and three loans were paid early. To date, the NMFA has participated with 13 banks in New Mexico. Two projects financed since the 2011 temporary provision passed were Smart Money loans.

Other concerns that businesses and banks have regarding legislative authorization include protection of proprietary information, the NMFA's inability to sign nondisclosure agreements, access to information in a legislative process that could provide a competitive advantage over a business, perceptions of a business being weak for seeking assistance from the state, competition from banks and a potential marketing disadvantage to community banks.

Mr. Coalter discussed the business implications of legislative authorization. Because businesses do not work on the same calendar as the legislature, waiting for legislative authorization may cause a business opportunity to disappear before financing is received, the cost of financing could increase and the cost of construction may rise. Mr. Coalter told the committee that the NMFA's ability to operate a successful loan participation program would be jeopardized if the legislature did not extend the temporary provision. He cautioned that because surrounding states do not have similar legislative authorization requirements, recruitment and retention rates could suffer as companies decide whether to relocate or remain in New Mexico.

In response to a question, Ms. Russel told the committee that the State Investment Council (SIC) differs from the NMFA in that the SIC is a direct-investment program. She said that concerns about Sun Mountain Capital are being addressed. She discussed the requirements to qualify for the state's loan participation programs, noting that businesses must be New Mexico-based and cannot involved speculative properties. Qualifications for federal funds, on the other hand, have a different set of requirements and certifications. The Credit Enhancement Program, operated by the EDD with funds that used to be designated for the Collateral Support Participation Program, is not subject to legislative authorization. The Collateral Support Participation Program is scheduled to be phased out by the EDD. Ms. Russel discussed the chart on page 14 of her presentation, which is available on the NMFA Oversight Committee web page.

Ms. Russel told the committee that the purpose of the SWEDFA is to make New Mexico less reliant on federal funding, and she recommended that the legislature extend the legislative authorization waiver. A member of the committee proposed that a bill on legislative authorization be presented to the committee.

In response to a question, Ms. Russel explained that when the NMFA makes a loan with equal collateral, it is regarded as a market transaction, not a donation, and it is therefore not subject to the Anti-Donation Clause in New Mexico law. If the recipient is subordinated in the collateral, it is not considered a transaction, and it is therefore a violation of the Anti-Donation Clause. She told the committee that attorneys from the EDD have agreed to write an opinion supporting the position that subordinated collateral be considered a market transaction. In response to a question, Ms. Russel told the committee that to write off debt in Illinois, for example, it must be proven to that state's attorney general that all other loan recovery options have been exhausted.

Tribal Infrastructure Fund (TIF) Program Update

Suzette A. Shije, secretary-designate, Indian Affairs Department (IAD), introduced Lawrence John, TIF administrator, IAD, and Jonas Armstrong, capital outlay fiscal analyst, Legislative Finance Committee. Secretary Shije discussed the Tribal Infrastructure Act, which was passed in 2005 to ensure adequate financial resources for infrastructure development by providing for the planning and development of infrastructure in tribal communities to improve qualify of life and encourage economic development.

On June 11, 2018, nine projects out of 58 submitted applications were awarded funding for FY 2018 for a total exceeding $8.8 million. Project types for the 2018 awards include one for design and eight for construction phases. Seven of the nine projects are water-focused, and the remaining two are road projects. The IAD is awaiting reports on scope of work and budgets to begin the intergovernmental agreement (IGA) process.

Secretary Shije told the committee that for FY 2017, the TIF funded eight projects for a total of $5.2 million. FY 2016 saw 66 applications submitted, 21 of which were funded for a total of $12.1 million.

Secretary Shije told the committee that construction and design projects must be completed within 36 months from the date of execution of the IGA. Planning projects must be completed within 24 months from the date of execution of the IGA.

Secretary Shije told the committee that the process for receiving TIF funds is very competitive. The TIF Review Committee conducts an in-depth review and scores all project applications. This points-based system has 100 total points available: 30 for critical need; 30 for readiness; 25 for entity capacity; and 15 for leveraging ability. Project prioritization places emphasis on addressing specific health, safety, welfare or economic development needs. Projects must be ready to proceed within the time allotted for the grant. Demonstration of past timely expenditure and compliance with the requirements for grant funding is also given consideration. The project is also prioritized if the amount of the TIF funding is supported by a high percentage of funds or in-kind contributions. Secretary Shije told the committee that the IAD does not amend or alter applications. When an entity submits a proposal, it may request funding for a single project stage, or several stages may be combined in a single proposal.

Mr. John discussed past successes and reviewed pictures that can be viewed on the NMFA Oversight Committee web page. His discussion included a water line extension for the Ramah Chapter of the Navajo Nation, a lagoon and sewer project for the Red Rock Chapter, chapter house bathroom additions for the Mariano Lake Chapter and a Pueblo of Zuni teen and wellness center.

Mr. Armstrong told the committee that the legislature appropriated a total of $25.5 million to the TIF for 2005 through 2010. In 2010, legislation passed to earmark 5% of the estimated senior severance tax bonding capacity for the TIF. In 2016, the legislature reduced the earmarked amount in an effort to make the state budget solvent.

Mr. Armstrong told the committee that tribes need a total of $1.7 billion to address quality of life, water and transportation concerns. He told the committee that there are nine voting members on the Tribal Infrastructure Board composed of representatives from the IAD, Department of Finance and Administration, EDD, NMFA and Department of Health. Native representation on the board includes one representative from each pueblo, the Navajo Nation, the Jicarilla Apache Nation and the Mescalero Apache Tribe. There are four nonvoting members who represent the Albuquerque and Navajo area offices of the Bureau of Indian Affairs and the Indian Health Service. In response to a question from the committee, Mr. Armstrong confirmed that the Tribal Infrastructure Board seats for the Navajo Nation, Jicarilla Apache Nation and Mescalero Apache Tribe are currently vacant. Secretary Shije told the committee that each entity with a vacant seat has been notified to fill the seats. The Navajo Nation returned a letter identifying an individual to fill the seat, but the IAD has experienced difficulties ensuring that the individual is vetted properly. The Jicarilla Apache Nation and Mescalero Apache Tribe have not responded to the notifications sent by the IAD.

Mr. Armstrong discussed the TIF application and award process, noting that the process begins each January with the IAD issuing a notice of funding availability that outlines the application process and time line. After applications are submitted, the secretary of Indian affairs selects certain Tribal Infrastructure Board members to serve as the TIF Review Committee, which scores applications and recommends projects to the full board. Final project awards are made based on the review committee's scores. For 2018, the online application portal opened on February 2, and applications were due March 12.

In November 2016, the Tribal Infrastructure Board amended the TIF guidelines and procedures. The changes include: a requirement that projects be in the applying entities' infrastructure capital improvement plan (ICIP) and that entities comply with the Audit Act; revised scoring criteria and metrics; caps on the amount of TIF capacity that can be awarded to a single project (15%); and adjusted project completion time lines to begin with execution of the IGA.

Mr. Armstrong discussed best practices in other state agencies that the TIF could adopt. For example, the Public School Facilities Authority (PSFA) targets capital funds and limits awards based on facility conditions and other standards. He added that the PSFA's operating budget supports long-term master planning and facility condition assessment data. The IAD's budget does not include comparable funding.

Mr. Armstrong told the committee that sorting TIF awards by grantee shows that, in practice, 69% of TIF awards are granted to pueblos, 29.5% go to the Navajo Nation and 1.5% are granted to Jicarilla Apache Nation and Mescalero Apache Tribe. Awards for 2018 include four to Navajo Nation chapters and five to pueblos.

Mr. Armstrong discussed unexpended funds for TIF projects. TIF projects awarded from 2012 through 2016 were nearly all fully expended or reverted within four years. He compared the figures to other severance tax bond earmarks for Water Trust Board (WTB) and Colonias Infrastructure Board (CIB) projects, noting that TIF projects have spent awarded funds more quickly. He told the committee that the length of time it has historically taken to execute IGAs resulted in little spending in the first year after awards were made. Expenditures tended to pick up in the second year, with nearly one-half of the funding spent. TIF project spending surpasses WTB and CIB project spending by years three and four after awards are granted.

In response to a question from the committee, Mr. Armstrong said that the balance of the TIF is about $27 million, including the $8 million awarded in June 2018. He explained that while there is a large sum of money in the TIF, every dollar has been allocated to a project. Secretary Shije told the committee that those balances are as of March 2018; since then, about $3.5 million has been spent. She told the committee that the IAD cannot release funds until all necessary documentation has been received by the department. Mr. Armstrong said that to his knowledge, all of the money put into the TIF for the previous fiscal year has been awarded.

The committee discussed the legislature's constitutional power to appropriate, which has been given to outside entities such as the Tribal Infrastructure Board, the WTB and the CIB. Members discussed administrative differences between the Tribal Infrastructure Board, WTB and CIB funds, despite the fact that all are funded from severance tax bonds. A member of the committee said that there should be more consistency among the different fund processes.

In response to a question, Secretary Shije told the committee that the IAD does not hold educational sessions for tribes and pueblos on the application process for the TIF. If a project does not get funded, it is recommended that the tribe apply again in the following year.

A member of the committee reported that a pueblo governor believes that money for planning projects from the TIF has been limited. Secretary Shije told the committee that TIF funding is for planning, design and construction, and it is not the role of the IAD to limit or revoke any of those terms. She assured the committee that she will reach out to that governor to clear any misunderstanding or confusion.

In response to a question, Secretary Shije told the committee that much like any community in New Mexico, tribes may have substantial trouble raising funds for leveraging. The IAD posts any available funding opportunity that it becomes aware of on its website.

The committee discussed the level of authority carried by the Tribal Infrastructure Board that other boards funded by severance tax bonds do not have. A member of the committee requested that the IAD provide LCS staff with a copy of all 2018 applications in order for committee members to review them at the next NMFA Oversight Committee meeting.

New Markets Tax Credit (NMTC) Projects: Broadband Infrastructure Project

Ms. Russel gave a presentation on NMTC projects. She told the committee that the NMTC Program, created in 2000, is a federal tax credit focused on economic and community development in low-income communities nationwide. The NMFA is able to participate in the NMTC Program through its for-profit limited liability company, Finance New Mexico. Finance New Mexico financed four infrastructure projects for the Pueblo of Laguna and the Continental Divide Electric Cooperative utilizing NMTCs. Finance New Mexico does not use NMFA or state funds for tax credit transactions or for executing a loan or project. The NMFA is reimbursed for time and expenses of staff, however.

Community development entities invest the NMTCs in qualifying projects, such as business creation or expansion. Finance New Mexico takes the tax credits and sells them to investors to make loans more flexible for new market development projects. Loans are granted for projects that will create jobs and that result in significant community development projects.

For seven years following the disbursement of the loan, the principal is not repaid, which allows time for a market to be developed.

Finance New Mexico competes against entities nationwide for tax credits that are awarded through an annual competitive process. The program is administered through the United States Department of the Treasury's Community Development Financial Institutions Fund. NMTCs are income tax credits that provide a 39% return, earned over seven years. The 39% return is received as 5% in each of the first three years and 6% for the remaining four years. NMTCs are sold to investors at a discount, and the cash is invested in qualifying projects in low-income census tracts. NMTCs are typically allocated to areas considered to be highly distressed. A highly distressed area is one with at least 30% of the population living in poverty or, in non-metropolitan counties, with at least 20% of the population living in poverty. Ms. Russel told the committee that investors pay 86 cents per $1.00 of tax credit received.

In today's market, NMTCs fill financing gaps of about 25%. Most NMTCs are financed using a leverage model that runs the borrower's secured capital through a series of special-purpose entities. NMTCs are flexible in that the source of the leveraged loan can come from banks, investors, cities, counties, pueblos and affiliates of the borrowers.

Ms. Russel reviewed a list of NMTC projects on page 6 of her handout. She highlighted one project in Farmington for a medical clinic and several projects in the Pueblo of Laguna for a grocery store, water project and a medical clinic.

John Black, chair, Laguna Development Corporation (LDC), discussed projects the LDC has undertaken with assistance from the NMTC Program. He told the committee that one of the projects is a shopping center with several shops reserved for pueblo members. Pueblo member-owned shops include a bakery and family hair care center that, combined, employ eight individuals. The center also includes a grocery store that provides easy access to fresh food for pueblo members. In the center, pueblo members can learn to cook and learn about ways to live a healthier lifestyle.

Mr. Black discussed a water development project looking for further uses of non-potable water to attract additional businesses.

Robert Castillo, chief executive officer and general manager, Continental Divide Electric Cooperative, discussed the cooperative's NMTC participation with Wells Fargo to expand broadband infrastructure. After hearing complaints about current internet service providers, the cooperative's board decided to expand its services to include broadband. Broadband infrastructure will be added in conjunction with a necessary infrastructure systems update. The cooperative received a $10 million loan for the project. Phase 1 will begin in Grants, and broadband access has been incorporated into the bylaws of the Continental Divide Electric Cooperative.

After the infrastructure is in place, Mr. Castillo told the committee that the cooperative has to find consumers. The goal is to sign up 1,200 new consumers within 12 months. The cooperative is also committed to hiring nine new employees. Mr. Castillo believes that the cooperative will surpass its goal.

Phase 2 of the infrastructure systems update will bring broadband service to Milan. Mr. Castillo told the committee that an engineering firm has been contracted to begin plans for Phase 2. The cooperative hopes to borrow more money to complete this phase. After the Milan phase, Mr. Castillo said, the cooperative will need to build, rather than add to, infrastructure as is the case in Milan and Grants. Mr. Castillo said the direction of expansion will depend on a variety of factors, including community demand and rights of way availability. He also said that the cooperative has been unsuccessful in convincing Grants to fund expansion.

Mr. Castillo told the committee that the cooperative has a competitive advantage in the area because it owns all of the wiring poles. In his role on the local economic board, Mr. Castillo tried to work with CenturyLink to expand broadband. CenturyLink sought a 37% return from consumers to consider broadband expansion, and that rate of return may exceed what consumers are able to pay.

Mr. Castillo told the committee that NMSU-Grants has indicated that it will transfer its internet service provider to the cooperative once its current service contract has expired. Mr. Castillo said that the cooperative has a contractual arrangement with CenturyLink that transports internet signal from Albuquerque to Grants. He explained that the cooperative's role is to supply the last mile of infrastructure. This last mile of infrastructure would be very expensive for consumers if a for-profit entity were to realize a profit by providing infrastructure for the last mile.

He discussed the different packages offered by the cooperative. The basic residential rate is $49.00 per month for speeds up to 50 megabytes to upload and download. Members of the committee were pleased, and several committee members noted that the service is faster and cheaper than their current service at their respective homes.

Mr. Castillo met with the Kit Carson Electric Cooperative, which is also setting up a broadband network to accompany its electric service. The Kit Carson Electric Cooperative model is funded by a $60 million grant, $20 million of which is a loan. The business model requires it to start with the farthest or most rural customer. Mr. Castillo told the committee that the Continental Divide Electric Cooperative operates under a different business model that begins in more dense areas and builds outward toward more rural areas.

In response to a question from the committee, Ms. Russel confirmed that the NMFA did close a NMTC deal with the cooperative the day prior to the committee meeting to fund broadband infrastructure expansion. She expressed hope that this model becomes a template for other communities, but she noted that the model is predicated on a NMTC being granted by the federal Department of the Treasury. In 2015, Congress passed a five-year extension, through which Finance New Mexico has been part of three awards. Finance New Mexico just applied for $75 million in NMTCs. Ms. Russel told the committee that NMTCs are not as enticing to the market as they once were.

David Martinez, treasurer, Pueblo of Laguna, approached the committee to discuss the Pueblo of Laguna's work with the NMFA, particularly with regard to NMTCs. In 2009, the pueblo experienced a water line break that left two of its six villages without water for six days. Additionally, law enforcement, schools, the public library and other public services had no access to water during that time frame. Shortly after that crisis, the pueblo began working with the NMFA, and it was able to produce about $5 million in capital to put toward funding for a NMTC.

The first project using NMTCs replaced the water system. The pueblo now has a consistent and reliable water delivery system composed of 80 miles of pipeline. Using the NMTC, the pueblo was able to ensure that fire hydrants are located within 400 feet of buildings within tribal lands.

The pueblo is now looking to build a new elementary school at a cost of $26.3 million. Mr. Martinez discussed the pueblo's long-term plan to build centralized community infrastructure, including dental and health care, that is accessible to the disabled. The Pueblo of Laguna plans to add a sports complex at the same location.

Mr. Martinez told the committee that the Pueblo of Laguna received a second grant from the NMFA as a result of its leveraging and project-execution abilities. This grant was used to improve water delivery in rural areas. The pueblo is now using NMTCs for wastewater infrastructure.

In response to a question from the committee, Ms. Russel discussed the Pueblo of Acoma's acquisition of the local power grid from the Continental Divide Electric Cooperative by using NMTCs. She anticipates that revenue from broadband service will be the basis for the pueblo's loan repayment. Mr. Dillenback added that the NMFA loan to the Pueblo of Acoma is for a transmission system for future lines and substations, not for the acquisition of the power grid.

The cooperative expects to lose approximately 1,000 of its 24,000 customers in the Pueblo of Acoma's acquisition. Since the cooperative is regulated by the Public Regulation Commission (PRC), it is obligated to account for broadband and electric services separately. The PRC will not allow one service to subsidize the other, Ms. Russel said. Ms. Russel told the committee that at a rate of 39%, the NMFA anticipates a return of $2.9 million in tax credits.

In response to a question, Mr. Dillenback told the committee that the Pueblo of Acoma's acquisition will become effective on January 1, 2020 but will operate under the Continental

Divide Electric Cooperative until then. In the meantime, the Pueblo of Acoma will be seeking a new power provider for the grid on the open market.

Some committee members expressed frustration that, while the committee's role is one of oversight, the committee is just now learning about the Pueblo of Acoma's acquisition after it was approved. The committee was assured that the NMFA will be more proactive regarding communications moving forward.

Several committee members expressed that the broadband expansion through both projects will support economic development in the area.

In response to a question, Ms. Russel told the committee that Finance New Mexico has approximately $5.5 million left in NMTCs that it can sell, although there are deals expected to close soon in Albuquerque and Grants.

In response to a question, Mr. Castillo confirmed that the Continental Divide Electric Cooperative currently has a 65% equity ratio. This ratio will not increase following the Pueblo of Acoma's acquisition. The cooperative is selling the power grid to the Pueblo of Acoma for $1.00 and a 14-year right-of-way agreement to settle a $9 million lawsuit.

In response to a question, Ms. Russel told the committee that, in one instance, an investor put forth $2.9 million and anticipates receiving $3.7 million over seven years in NMTCs.

Adjournment

There being no further business before the committee, the second meeting of the NMFA Oversight Committee for the 2018 interim adjourned at 4:00 p.m.