

**MINUTES
of the
FIRST MEETING
of the
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE**

**June 15, 2018
State Capitol, Room 322
Santa Fe**

The first meeting of the New Mexico Finance Authority (NMFA) Oversight Committee was called to order by Senator Jacob R. Candelaria, chair, on June 15, 2018 at 9:34 a.m. in Room 322 of the State Capitol.

Present

Sen. Jacob R. Candelaria, Chair
Rep. Bill McCamley, Vice Chair
Rep. Alonzo Baldonado
Rep. Sharon Clahchischilliage
Rep. George Dodge, Jr.
Rep. Kelly K. Fajardo
Sen. Ron Griggs
Rep. Debbie A. Rodella
Sen. Nancy Rodriguez
Rep. Patricia Roybal Caballero
Rep. Patricio Ruiloba
Sen. William E. Sharer
Rep. Linda M. Trujillo

Advisory Members

Sen. Mary Kay Papen
Sen. John Pinto
Rep. Tomás E. Salazar
Sen. Clemente Sanchez
Sen. Bill Tallman
Sen. Pat Woods

Guest Legislator

Rep. Tim D. Lewis

Staff

Jeff Eaton, Research and Fiscal Policy Analyst, Legislative Council Service (LCS)
Rebecca Griego, Records Officer, LCS
Tessa Ryan, Staff Attorney, LCS

Absent

Sen. Craig W. Brandt
Sen. Joseph Cervantes
Rep. Harry Garcia
Rep. Jimmie C. Hall
Sen. Richard C. Martinez
Sen. Michael Padilla
Rep. Jane E. Powdrell-Culbert

Rep. Rebecca Dow
Rep. Brian Egolf
Rep. Bealquin Bill Gomez
Rep. Patricia A. Lundstrom
Rep. Sheryl Williams Stapleton
Sen. Jeff Steinborn
Rep. Monica Youngblood

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file and posted on the legislature's website.

Friday, June 15

NMFA: Highlights of Fiscal Year (FY) 2018

John E. McDermott, chair, NMFA board, commended the NMFA staff on having helped improve the NMFA's programs in recent years and noted that the NMFA continues to increase its loan volumes.

Robert P. Coalter, chief executive officer, NMFA, remarked that the NMFA has had a good year in terms of many of its programs' performance and having received an upgrade on one of its bond ratings. He mentioned that the NMFA is beginning to develop a strategic plan, for which it will solicit the committee's feedback.

Public Project Revolving Fund (PPRF). Zach Dillenback, chief lending officer, NMFA, gave an update on the NMFA's PPRF program as follows. The NMFA is on track to close in FY 2018 on 103 PPRF loans, the most of any year since the program's inception; that figure denotes the program's accessibility and reach across the state. PPRF loan activity in FY 2018 was highest among public school districts. In contrast, municipalities, more than any other category of borrower, took the most advantage of the program in FY 2017. Due to lack of funding, the disadvantaged funding component of the PPRF program has ceased, but it will resume in FY 2019 under different eligibility criteria.

Water, colonias, local government planning and private lending programs. Marquita D. Russel, chief of programs, NMFA, gave an update on other NMFA programs as follows. For the first time since its inception, the Drinking Water State Revolving Loan Fund program, in which the NMFA partners with the Department of Environment (NMED), has only one open capitalization grant from which to fund construction draws. The pace of spending for projects through the program has increased significantly. Similar progress is observable in the Water Trust Board (WTB) program. In it, for the first time, all prior-year awards have been closed. Much of that progress is attributable to program changes made in recent years. Likewise, the pace of closings and draws continues to increase in the Colonias Infrastructure Board program. Since funding for the Local Government Planning Fund was not sought for FY 2017 and was vetoed for FY 2018, the program is operating only to satisfy urgent needs. Lastly, under the private-lending New Markets Tax Credit Program, all but \$5.5 million of the \$246 million in federal tax credits awarded to the program since 2008 has been allocated.

FY 2018 bond sales. Michael Zavelle, chief financial strategist, NMFA, elaborated on the NMFA's recent bond rating increase and on its FY 2018 bond sales as follows. Standard & Poor's increased the PPRF subordinate lien bond rating to AAA in FY 2018. That action has a positive effect on the program's borrowing capacity and perception. There were eight bond issues in the fiscal year, including one for over \$420 million in Department of Transportation (DOT) bonds sold in early June. The timing of that highly successful sale was made possible by recent changes in law that allow certain delegation authority; without those changes, the sale would have been less advantageous. Furthermore, the sale eliminated the cliff payments the state would have to have made from the State Road Fund in 2025 and 2026.

Mr. Coalter expressed appreciation for the cooperation of Marcos Trujillo, program funding manager, DOT, who was in the audience, and Tom Church, secretary of transportation, in carrying out the bond sale.

Questions and Discussion

DOT bond sale and transportation-related debt. Mr. Zavelle clarified that the DOT bond sale was largely a refinance of Rail Runner debt; Mr. Trujillo explained that the transaction extended the repayment period for that debt. Mr. Trujillo said that between 15% and 18% of the State Road Fund is used each year to service debt. The state uses about 30% of its federal program revenue for debt service, which he said is high compared to other states. He added that most of that money is used to repay Governor Richardson's Investment Partnership bonds and that if no new debt is issued, the debt repaid from federal funds will be satisfied in 2027.

Mr. Zavelle provided the committee a graph showing, over a multi-year period, the proportions of transportation-related, state-based and federal-based revenues to debt service and the changes to those proportions effected by the 2018 transaction.

Water infrastructure need. A member raised a concern about the urgent water infrastructure needs of a community in the Navajo Nation. Ms. Russel noted that, frequently, planning documents are a prerequisite for water program eligibility and told the member that she would follow up with him and the NMED on the matter.

Mutual domestic water associations. Some members expressed concerns about issues common among mutual domestic water associations: high turnover among the mostly volunteer association staff; poor training available to that staff; and lack of financial resources to offset the costs of those associations' loans and infrastructure maintenance and repair. A member recommended that policymakers make a concerted effort to seek solutions to those problems and secure increased funding for infrastructure. Ms. Russel agreed that the lack of training, especially training in budgeting, is common, and she noted that the WTB program includes a loan forgiveness component. She agreed to work with an association that is the subject of one member's concern and, following another member's request, agreed to bring to the committee at a future meeting information on current WTB-authorized projects.

WTB program: Eastern New Mexico Water Utility Authority (ENMWUA) project.

Ms. Russel noted that, despite some slight delays, the WTB funding for the ENMWUA project is being spent. A member commented on the recent situation in which late-in-process authorization for the ENMWUA project resulted in the displacement of authorization for other smaller projects; the member suggested that there be separate processes for funding large projects and small projects and that the topic be incorporated into the committee's work plan.

Mr. Coalter, who indicated that he was speaking in his capacity as a WTB member and not on behalf of the NMFA, said that the WTB program's capacity is insufficient to satisfy the apparent funding needs of the ENMWUA project and those of the Navajo-Gallup project, which is one of the larger projects. He recommended that the legislature give special consideration to those projects.

Ms. Russel cited reasons for the spending delays associated with the WTB's largest projects: over time, there have been decreases in the amounts of money available for WTB project funding, and program rules limit the percentage of the total available in any year for any one project. It then takes longer for the large projects to accumulate enough money to start spending, and the slowdown leads to the false impression that demand for program money is low.

PPRF bond ratings. Mr. Zavelle clarified that AAA is the highest Standard & Poor's bond rating. He added that the bond rating for the PPRF senior lien is Aa1 and that the bond rating for the PPRF subordinate lien is one level below that. He indicated that Moody's decides ratings based on a range of factors, including the quality of the underlying loans. Mr. Coalter noted that Moody's rating methodology is complex and that NMFA staff would later present to the committee on the topic.

PPRF program. Mr. Dillenback named some of the sources of revenue pledged for PPRF projects by borrower type and continued as follows. State projects require legislative authorization, and the state gross receipts tax is one repayment source for state PPRF loans. For tribal entities, the sources of revenue are similar to those pledged by local governments, and in all cases, decisions about funding are driven by risk-averse policies.

2018 Session Legislation Summary

As follows, Mr. Eaton and Mr. Coalter summarized the bills endorsed by the committee and introduced in the 2018 legislative session. Three of them, House Bill (HB) 93, HB 99 and Senate Bill (SB) 170 were signed into law and are being implemented. The fourth, SB 23, which would have appropriated money to the Local Government Planning Fund, was pocket vetoed.

Mr. Coalter noted that the NMFA is working with the New Mexico Association of Counties (NMAC) and the New Mexico Municipal League (NMML) on proposals to streamline the PPRF program. Senator Candelaria invited the association and the league to present to the committee on that topic, and Steve Kopelman, executive director, NMAC, who was in the

audience, said that the NMAC looks forward to working with the NMML and the committee in that regard.

Ms. Russel clarified that the veto of the Local Government Planning Fund bill mostly affects mutual domestic water associations, but it also affects municipalities.

Proposed Interim Work Plan and Meeting Schedule

Mr. Eaton reviewed the committee's proposed work plan and meeting schedule. He elaborated on the tentative agenda for the July 6 meeting. Members made specific suggestions about future meeting topics and plans. In particular, Senator Candelaria asked that the committee address the topic of charter school financing and that committee staff request of the New Mexico Legislative Council, on behalf of the committee, permission for members of the Legislative Education Study Committee and the Legislative Finance Committee to participate in the meeting on the day the committee hears that topic.

The committee adopted the proposed work plan and meeting schedule, with the changes proposed, without objection.

Adjournment

There being no further business before the committee, the committee adjourned at 11:02 a.m.