



NEW MEXICO LEGISLATURE

**NEW MEXICO  
FINANCE AUTHORITY  
OVERSIGHT COMMITTEE**

2017 INTERIM FINAL REPORT

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## INTERIM SUMMARY



# **NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE**

## **2017 Interim Summary**

The New Mexico Finance Authority (NMFA) Oversight Committee met six times in locations throughout the state to carry out its statutory duties and to monitor the activities and programs of the NMFA, the Border Authority, the Spaceport Authority and the funding and program projects of the Water Project Fund, Tribal Infrastructure Project Fund and Colonias Infrastructure Project Fund.

The first meeting of the NMFA Oversight Committee on June 23, 2017 was to review the accomplishments of the 2017 legislative session, establish goals and priorities for the interim and hear a report from the Office of the State Auditor on fund accounting for the NMFA project funds and other state funds.

At the meeting on July 17-18, 2017, the committee heard an update on the state bond rating and local project financing impacts. The committee heard testimony from industry banking executives on community banking partnerships and how small business development centers and business incubators can address small businesses' access to credit issues.

The committee heard an update from the NMFA about the Economic Development Revolving Fund and new market tax credit projects at the meeting on August 11, 2017 in Gallup. The committee heard an update on tribal infrastructure projects and some issues with timely expenditure of funds related to intergovernmental coordination between the state and tribal entities. The committee heard testimony from NMFA financial staff on the details of the Public Project Revolving Fund funding source (governmental gross receipts tax) and the recent sweeps of flow-through funds that assisted the state with fiscal solvency.

On September 19-20, 2017, the committee met in Santa Teresa and Las Cruces. The committee heard the Colonias Infrastructure Board update and an update of the Border Authority and border development initiatives that are diversifying New Mexico's economy. New Mexico exports have increased over 350% in recent years, far outpacing other states. Job creation in the Santa Teresa area has steadily increased from 480 jobs in 1985 to more than 4,200 in 2016.

Economic development was a theme of several meetings, seeking answers to "how the state can do better" in stimulating economic development. Staff from the Economic Development Department presented a Catalyst Fund update with the fund manager, Sun Mountain Capital. Venture capital experts from New Mexico State University, New Mexico Institute of Mining and Technology and the private sector testified regarding encouraging developments at business incubators and accelerators at higher education institutions and statewide. The presenters collectively described encouraging partnerships with private investors/partners and stressed that the job creation and economic returns for venture capital, business incubators and business accelerators have a longer-term return on investment horizon than more traditional investments in capital markets and real estate.

At its meeting in Portales and Clovis on November 1-2, 2017, the committee heard testimony from the New Mexico Renewable Energy Transmission Authority (RETA). It was reported that New Mexico has some of the most valuable wind and solar resources in the United States but has no transmission lines to utilize them. The RETA has several projects in development, including Western Spirit Clean Line, a 140-mile transmission line project; SunZia, a 515-mile transmission line in New Mexico and Arizona; and High Lonesome Mesa, a transmission line project for a 100-megawatt wind farm in Torrance County. Since 2016, the RETA's budget has been exclusively funded from private sources.

Water projects and their importance to communities were again topics during the interim, and the committee heard testimony from both the Office of the State Engineer and the Department of Environment (NMED).

The state engineer, Tom Blaine, presented the 2017 Water Trust Board report. Mr. Blaine described policies aimed at more timely expenditure of funds and project transparency. Since 2006, the Water Trust Fund has allocated over \$364 million to 350 projects statewide. In fiscal year (FY) 2017, revenue for water projects was used for state budget solvency. The NMED presentation focused on providing clean, potable drinking water to communities, and the presenter described encouraging progress in establishing processes and frameworks for communities to seek and find different sources of funding for their community water infrastructure needs.

On November 2, Spaceport America reported that it is optimistic about becoming fully operational but continues to struggle as the anchor tenant has yet to launch manned suborbital flights. In FY 2017, Spaceport America hosted the inaugural Spaceport America Cup, a national collegiate competition, and will host the competition again in FY 2018. The agency will request restoration of funding back to the FY 2012 level of \$1 million.

The Department of Information Technology presented on the status of broadband in the state. The department reported that internet access costs have been falling rapidly and that nearly two-thirds of school districts are paying less for internet in FY 2017 than they were in FY 2016. New Mexico is still behind other states in getting broadband to all rural areas, but several state initiatives are under way, including Connect America, Frontier Communications and collaboration between the University of New Mexico and select tribes and pueblos.

### Endorsements

The committee at its final meeting endorsed the following bills for introduction in the 2018 legislative session:

1. 209087.3SA: Public Project Revolving Fund project authorizations;
2. 209103.1SA: appropriation for drinking water system financing;
3. 209112.1SA: appropriation to the Local Government Planning Fund; and
4. 209083.1SA: Water Project Fund project authorizations.



## WORK PLAN AND MEETING SCHEDULE



**2017 APPROVED  
WORK PLAN AND MEETING SCHEDULE  
for the  
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE**

**Members**

Rep. Bill McCamley, Chair  
Sen. Jacob R. Candelaria, Vice Chair  
Rep. Alonzo Baldonado  
Sen. Craig W. Brandt  
Sen. Joseph Cervantes  
Rep. Sharon Clahchischilliage  
Rep. George Dodge, Jr.  
Rep. Kelly K. Fajardo  
Rep. Harry Garcia  
Sen. Ron Griggs

Rep. Jimmie C. Hall  
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  
Rep. Linda M. Trujillo

**Advisory Members**

Rep. Brian Egolf  
Rep. Bealquin Bill Gomez  
Rep. Patricia A. Lundstrom  
Sen. Mary Kay Papen  
Sen. John Pinto  
Rep. Tomás E. Salazar

Sen. Clemente Sanchez  
Rep. Sheryl Williams Stapleton  
Sen. Jeff Steinborn  
Sen. Bill Tallman  
Sen. Pat Woods  
Rep. Monica Youngblood

**Work Plan**

The New Mexico Finance Authority (NMFA) Oversight Committee was created with the enactment of the New Mexico Finance Authority Act, Sections 6-21-1 through 6-21-31 NMSA 1978, to monitor and oversee the operations of the NMFA. In addition, the legislature assigned oversight of the Border Authority, the Spaceport Authority and the New Mexico Renewable Energy Transmission Authority to the committee.

During the 2017 legislative interim, the NMFA Oversight Committee proposes to:

1. receive testimony on the state's bond rating;
2. receive testimony on green energy financing for public buildings and how the state may facilitate a more successful program;
3. review existing oversight policies and processes for all public capital projects and discuss how the processes might be improved;
4. receive testimony on the Public Project Revolving Fund (PPRF) and discuss ways to partner with banks and other organizations involved in financing;

5. receive testimony on tribal infrastructure and colonias infrastructure capital outlay processes with a focus on existing challenges to timely expenditure of funds and project completion and how the process may be improved;
6. discuss film production financing (e.g., review of former programs allowing for specialized credit for film projects through the NMFA);
7. receive testimony on community banking partnership issues with a focus on bank compliance with the requirements of the federal Community Reinvestment Act of 1977 and how the state might improve the process to better meet local business capital needs;
8. receive testimony on how existing credit issues can be addressed, possibly through better information for businesses (small business development centers/incubators/ other access programs) or modifying the NMFA to allow for more public borrowing options;
9. receive testimony on Border Authority and Spaceport Authority activities;
10. receive testimony on current and past revenue allocations of the governmental gross receipts tax and reauthorizations of PPRF funds for fiscal solvency or other uses;
11. receive testimony on broadband infrastructure statewide, state capital programs and projects and federal and other funding sources for broadband infrastructure;
12. receive testimony on the capital outlay process and resources for state and local transportation projects; and
13. report to the legislature and recommend necessary changes in law or policy.

**New Mexico Finance Authority Oversight Committee  
2017 Approved Meeting Schedule**

<u>Date</u>	<u>Location</u>
June 23	Santa Fe
July 17-18	Santa Fe
August 11	Gallup
September 19-20	Santa Teresa, Las Cruces
November 1-2	Clovis, Portales
December 1	Santa Fe



# AGENDAS AND MINUTES





**TENTATIVE AGENDA  
for the  
FIRST MEETING IN 2017  
of the  
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE**

**June 23, 2017  
State Capitol, Room 322  
Santa Fe**

**Friday, June 23**

- 9:00 a.m.           **Call to Order and Welcome**  
—Representative Bill McCamley, Chair  
—Senator Jacob R. Candelaria, Vice Chair
- 9:15 a.m.       (1)   **Mission and Purpose of the NMFA and Board Report**  
—John E. McDermott, Chair, New Mexico Finance Authority (NMFA)  
Board  
—Robert P. Coalter, Chief Executive Officer (CEO), NMFA
- 10:00 a.m.       (2)   **2017 Session Legislation Summary**  
—Robert P. Coalter, CEO, NMFA  
—Jeff Eaton, Staff Economist, Legislative Council Service (LCS)
- 10:30 a.m.       (3)   **Accounting of NMFA Loan Programs**  
—Sanjay Bhakta, C.P.A., C.G.F.M., C.F.E., C.G.M.A., Deputy State  
Auditor
- 11:30 a.m.       (4)   **Proposed Work Plan and Meeting Schedule**  
—Jeff Eaton, Staff Economist, LCS
- 12:00 noon       **Adjourn**



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

**June 23, 2017  
State Capitol, Room 322  
Santa Fe**

The first meeting of the New Mexico Finance Authority (NMFA) Oversight Committee for the 2017 interim was called to order by Senator Jacob R. Candelaria, vice chair, on Friday, June 23, 2017, at 9:08 a.m. in Room 322 of the State Capitol in Santa Fe.

**Present**

Rep. Bill McCamley, Chair  
Sen. Jacob R. Candelaria, Vice Chair  
Rep. Alonzo Baldonado  
Sen. Craig W. Brandt  
Rep. George Dodge, Jr.  
Rep. Kelly K. Fajardo  
Rep. Harry Garcia  
Rep. Jimmie C. Hall  
Sen. Richard C. Martinez  
Rep. Jane E. Powdrell-Culbert  
Rep. Debbie A. Rodella  
Sen. Nancy Rodriguez  
Rep. Patricia Roybal Caballero  
Sen. William E. Sharer  
Rep. Linda M. Trujillo

**Advisory Members**

Rep. Bealquin Bill Gomez  
Sen. Mary Kay Papen  
Sen. John Pinto  
Rep. Tomás E. Salazar  
Rep. Sheryl Williams Stapleton  
Sen. Bill Tallman  
Sen. Pat Woods

**Absent**

Sen. Joseph Cervantes  
Rep. Sharon Clahchischilliage  
Sen. Ron Griggs  
Sen. Michael Padilla  
Rep. Patricio Ruiloba

Rep. Brian Egolf  
Rep. Patricia A. Lundstrom  
Sen. Clemente Sanchez  
Sen. Jeff Steinborn  
Rep. Monica Youngblood

## **Staff**

Jeff Eaton, Staff Economist, Legislative Council Service (LCS)

Diego Jimenez, Researcher, LCS

Tessa Ryan, Staff Attorney, LCS

## **Guests**

The guest list is in the meeting file.

## **Handouts**

Handouts and other written testimony are in the meeting file.

## **Friday, June 23**

### **Mission and Purpose of the NMFA and Board Report**

John E. McDermott, board chair, NMFA, gave an overview of the NMFA as follows. The NMFA, a highly effective public-sector bank whose model other states conform to, focuses on infrastructure and economic development projects. It serves small communities that would, without it, face high costs and difficulty in reaching the bond markets to finance their public projects. The NMFA has been improving efficiency in public finance in the state since 1992, and its loan volumes continue to grow. At about \$2.2 billion, the NMFA is about the fifth-largest banking institution in the state. Its AAA bond rating allows it to make low-cost loans, and that attribute grows increasingly important as interest rates rise.

Mr. McDermott praised the work of Robert P. Coalter, chief executive officer, NMFA, who introduced members of his staff in the audience: Zach Dillenback, chief lending officer; Michael Vonderheide, director of water resources; John Brooks, director of commercial lending; Oscar Rodriguez, chief financial officer; Michael Zavelle, chief financial strategist; and Bryan Otero, assistant general counsel. Mr. Coalter summarized his professional background, which includes work at the Coca-Cola Company and in Texas state government.

Mr. Coalter continued with an overview of the NMFA as follows. The organization has an 11-member board and focuses on three key project areas: 1) infrastructure and capital equipment; 2) water; and 3) community facilities and economic development. The first category includes the authority's flagship program, the Public Project Revolving Fund (PPRF), and the Local Government Planning Fund and the Colonias Infrastructure Project Fund programs. The second consists of the Drinking Water State Revolving Loan Fund, the Water Project Fund and the Acequia Project Fund programs. The third category includes the Primary Care Capital Fund, the Behavioral Health Capital Fund, the New Markets Tax Credits, the Smart Money Initiative and the Collateral Support Participation programs.

***PPRF loans and bonds.*** As follows, Mr. Dillenback outlined the PPRF program and described the advantages it provides. The program began in 1992. Through it, governmental entities in the state, including municipalities, counties, public schools, special districts, tribes and

state agencies, may take out PPRF loans at preferable rates to pay for public projects. The program also features a disadvantaged funding rate for borrowers whose median household income is comparatively low. Each year, a bill is introduced in the legislature to authorize the making of PPRF loans of \$1 million or more. Several NMFA loan officers work with potential borrowers to determine their credit needs, debt capacity and borrowing opportunities.

A highlight of the program is its strong credit ratings: AAA by Standard & Poor's and Aa1 by Moody's. The advantage provided by those ratings, low interest rates, carries over to borrowers, whose own credit ratings are in some cases low. The program's high credit ratings are growing increasingly significant, as federal scrutiny within the municipal bond market has begun to intensify. The program is considered to have low investment risk in part because its main revenue stream is 75% of the state's governmental gross receipts tax (GGRT) revenues and because it is associated with restricted reserve funds — two features that weigh heavily in the rating agencies' rating methodologies.

As shown by the graph on page nine of the main handout, activity within the PPRF program — as measured by the number and amount of loans — is rising and is expected to continue to grow. The trend is attributable to a lack of funding alternatives. A chart on page 10 of the handout shows the extent to which entities, by category, utilized the program in fiscal year (FY) 2017. The top three categories, in order, are: municipalities; counties; and public schools. An accompanying handout lists the projects funded with PPRF loans and the corresponding borrowers and loan amounts.

For FY 2018, the NMFA anticipates a relatively sharp uptick in PPRF activity involving public schools. The shift is due to a recent downgrade in the state's credit rating, which results in an increase in the pricing of the general obligation bonds school districts may issue. Consequently, school districts opt for PPRF loan financing over going directly to the market, where they would pay more.

Mr. Zavelle continued the presentation by discussing PPRF bonds as follows.

The last of the bond issues listed on page 12 of the handout, the 2017D series, is a subordinate lien issue and is notable for its relationship to a change the board made recently that received positive attention from Standard & Poor's. The NMFA board identified an underutilized resource, the contingent liquidity account, and used it to establish a new reserve that it incorporated into the subordinate lien. The new reserve acts as a bond credit enhancement for loans to entities that do not have enduring revenue sources and depend on appropriations from the state, entities to which the NMFA was previously reluctant to make PPRF loans. Responding to the change, Standard & Poor's has put out an event notice indicating that it intends to raise the subordinate lien rating to AAA. This is significant because it is very unusual for both a senior and subordinate lien — and even more unusual for a pooled loan fund — to both have that top rating. The event notice will be disseminated widely and is positive news for New Mexico.

PPRF bonds are issued for three purposes only: 1) to reimburse PPRF loans of less than \$10 million; 2) to fund PPRF loans of \$10 million or more; and 3) to refinance PPRF bonds for cost savings.

The interest rates for PPRF loans are based on different factors. For loans under \$10 million, rates are based on true interest cost. For those \$10 million and over, rates are based on bond terms, which in turn are based on an index that does not correlate with true interest costs. Each week, the NMFA posts the true interest cost rates.

Many sources are available to repay PPRF bonds. When a bond is closed, revenue from those sources is pledged to repay it, which means that, were there a loan default, the NMFA would have flexibility in managing the default. In any case, the NMFA maintains strong credit standards, and no PPRF loan it has made has ever defaulted.

Though the distribution of GGRT revenue to the program occurs monthly, the NMFA receives the payout only once a year, on June 16. A trustee receives the monthly payments, which lag by two months, and holds them until that date. The lump-sum payout causes a spike in the NMFA's cash holdings; the spike is apparent in the NMFA's end-of-year audit report. Likewise, if the legislature diverts a portion of GGRT revenue to another purpose, as it did recently for FY 2018, the state will not receive the distribution until June 16.

The PPRF bond and loan programs are interlaced, but differ. Disadvantaged funding loans are made with GGRT revenue, not reimbursed by PPRF bonds. Nevertheless, those loans' repayments are pledged to bond repayment. Meanwhile, individual debt service reserve funds, though not pledged to bond repayment, serve as a bond credit enhancement. Given that the program's risk rating would fall below an acceptable level without the GGRT distribution, the GGRT component makes it possible for the NMFA to issue PPRF bonds. Lastly, Internal Revenue Service rules restrict the use of money from PPRF loans, since PPRF bonds are tax-exempt; the NMFA, thus, closely monitors borrowers' uses of loan money.

The bond issuance process is rigorous and extensive. PPRF bonds are sold on both negotiated-sale and competitive-sale bases, and PPRF bond underwriters are selected through a request-for-proposals process. Many external professionals are involved in bond issuance.

***Water programs.*** Mr. Vonderheide gave an overview of the water programs the NMFA administers.

The first, the Local Government Planning Fund program: 1) began in 2002; 2) provides up-front capital for vital water and wastewater project planning; 3) used to have a requirement that the "grant" money be repaid if other funding was received; 4) was broadened by statute twice to allow for more types of plans to qualify; 5) was changed by rule in 2014 to allow for asset management plans to qualify; and 6) includes, for some recipients, a local match requirement.

The second, the Colonias Infrastructure Project Fund program: 1) began in 2010; 2) provides capital for infrastructure in communities designated as colonias; 3) has seen a decrease, to 4.5%, in the allotment of senior severance tax bonding capacity dedicated to it; 4) for the FY 2017 cycle, will receive a \$5.2 million allotment to fund 13 projects selected by the Colonias Infrastructure Board and for which agreements have been approved by the NMFA; 5) has had six funding cycles through which 168 projects have been funded at a total cost of \$75.5 million; 6) since January 2015, has been administered by the same staff as the Water Project Fund program; and 7) has in common with the Water Project Fund program the improvement in many processes, which has resulted in shorter closing times and faster project completion.

The third, the Drinking Water State Revolving Loan Fund program: 1) began in 1998; 2) is a federal loan program that provides low-cost financing for construction of and improvements to drinking water facilities; 3) is capitalized by federal and state money and loan and interest payments; 4) is administered in partnership with the Department of Environment and its Drinking Water Bureau and Construction Programs Bureau; and 5) has provided for 116 loans totaling more than \$182.1 million.

The fourth, the Water Project Fund program: 1) began in 2002; 2) is funded through an annual distribution from the Water Trust Fund and 9% of senior severance tax bonding capacity; 3) provides for grants and low-cost loans for five types of water projects; 4) makes those grants and loans for projects recommended by the Water Trust Board and authorized by the legislature; 5) has recently seen many improvements that reduce the burden on applicants and align it more with the Colonias Infrastructure Project Fund program; and 6) will receive less in funding this year due to the statutory suspension of its severance tax bonding capacity allotment.

The fifth, the Acequia Project Fund program: 1) began in 2004; 2) has been funded with donations from a foundation; 3) provides for planning grants recommended by the Water Trust Board and authorized by the legislature; and 4) has about \$25,000 in available funding.

***Private lending programs.*** Mr. Brooks highlighted the NMFA's private lending programs, which foster public-private partnerships and economic development, as follows.

The first, the Primary Care Capital Fund program: 1) began in 1994; 2) is administered in partnership with the Department of Health; 3) provides for loans at a 3% interest rate to nonprofit primary care clinics in rural and medically underserved communities; 4) has a loan forgiveness component tied to services rendered to indigent patients; 5) was initially capitalized by a \$5 million General Fund appropriation; and 6) has provided for 19 loans totaling more than \$11.5 million.

The second, the Behavioral Health Capital Fund program: 1) is administered in partnership with the Human Services Department; 2) provides for financing for capital needs of certain small, nonprofit behavioral health clinics in rural and medically underserved

communities; 3) was capitalized with \$2.5 million from cigarette tax revenue bonds; and 4) features the same forgiveness component as the Primary Care Capital Fund program.

The third, the New Markets Tax Credit program: 1) began in 2006; 2) is administered in partnership with New Mexico Community Capital, with which the NMFA created Finance New Mexico, LLC; 3) has received federal tax credit allocations of about \$246 million for investment in certain low-income census tracts in non-urban counties; and 4) has an advisory board composed of community leaders from across the state.

Lastly, the Economic Development Revolving Fund: 1) has received state and federal appropriations; 2) provides for loan participation, in which the NMFA buys portions of loans made by local banks through two programs: the Smart Money Initiative and the Collateral Support Participation program; and 3) is intended to stimulate economic development by helping to fill financing gaps and lower borrowers' costs. The Smart Money Initiative began in 2003, has job-creation requirements and provides for loans to for-profit and nonprofit entities. To date, \$5.6 million in loans have been made and one \$1.6 million loan is expected to soon close under the program. Meanwhile, the Collateral Support Participation program began in 2011, is administered in partnership with the Economic Development Department (EDD) and is designed to increase the flow of capital to small businesses in rural areas. Some of that program's funding was recently diverted to the New Mexico Catalyst Fund and to the EDD.

#### Questions and Discussion

***Tribal infrastructure projects.*** Mr. Eaton clarified that the annual senior severance tax bonding capacity allocation for tribal infrastructure projects is being reduced. The reduction is intended to increase distributions to the Severance Tax Permanent Fund.

***State's utilization of the PPRF.*** Mr. Dillenback pointed out that the slide showing only one PPRF state project is a narrow snapshot of program activity, and he gave several examples of other previously funded state projects. Mr. Coalter noted that the NMFA also issues bonds for the Department of Transportation (DOT).

***Economic Development Revolving Fund.*** Mr. Brooks explained that the reversions from the Economic Development Revolving Fund to the state, as mentioned in the handout, resulted in part from the former requirement that loans be legislatively authorized. That requirement made it difficult for the NMFA to make loans and use money in the fund. Moreover, in some years, the authorization bill was not enacted, thereby stifling program activity. Mr. Brooks also clarified that: 1) the Smart Money Initiative does not feature income-related requirements; 2) in the program, banks evaluate loan applicants and forward documents to the NMFA, which then conducts an independent analysis; and 3) program loans may be made for new businesses, business expansion or job retention.

***Clarification on program attributes.*** Mr. Coalter clarified that the Collateral Support Participation program was not coming to a close; rather, the New Mexico Catalyst Fund will use



some of the program money for venture capital investments and the EDD has plans for the portion of money from the fund diverted to it. Mr. Vonderheide clarified that the Drinking Water State Revolving Loan Fund program is a federal-based program, and the Water Project Fund program is a state-based program. Mr. Dillenback indicated that some PPRF borrowers receive only a portion of their project funding through the PPRF and the rest through capital outlay or some other source. He also said that the GGRT distribution for the PPRF program is about \$29 million each year.

***Recommendations for initiatives to stimulate economic development.*** Responding to a committee member's request for suggestions on how the NMFA can help improve efficiency in project completion and economic development in the state, Mr. Coalter named several measures the NMFA has taken to improve its economic development programs, and he indicated that the NMFA is analyzing those programs to identify other barriers to effectiveness and efficiency and areas of potential growth. He said that NMFA staff would bring proposals for program-related improvement to the committee's attention later in the interim. He added that the NMFA, together with the EDD, is exploring innovative economic development initiatives.

Mr. McDermott added to his remarks as follows. The NMFA is focused on ensuring that PPRF loan projects are completed as soon as possible, because that swiftness helps maximize efficiency in resource use. Further, it is important that the NMFA be able to act with the speed and deliberateness that commercial lending requires. The NMFA is exploring opportunities to fill gaps in the capital structure that are not served well by commercial lending in the state, such as it did with the New Mexico Catalyst Fund initiative and will do with the transfer of funding to the EDD, which is intended to boost technology transfer and acceleration. Lastly, an area worth exploring is public-private finance based on ratepayer (versus taxpayer) revenue streams for projects such as broadband, solar power and wind power development.

***Water systems.*** Mr. Coalter agreed with a committee member's comment that the consolidation of small, independent water systems into regional water systems improves efficiency in the delivery of water to users. He also noted that such a model of centralization parallels that of the NMFA, whose work helps satisfy small communities' financing needs.

#### **Accounting of NMFA Loan Programs**

Sanjay Bhakta, deputy state auditor, Office of the State Auditor (OSA), introduced Emily Oster, compliance and quality control director, OSA.

***Auditing terms; NMFA fund balances.*** Ms. Oster gave background information as follows. "Fund balance" and "net position", in the nongovernmental world, are referred to as equity. Equity accumulates when revenues exceed expenditures. For entities such as the NMFA that administer loan programs, funds are referred to as "proprietary funds", of which there are three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted. The NMFA has a minimal net investment in capital assets. In contrast, it has a substantial amount of

money, over \$495 million as of June 30, 2016, considered restricted, or subject to limitations on use. Its unrestricted money, meanwhile, amounts to about \$9.7 million as of that date.

Deputy State Auditor Bhakta continued as follows with a discussion of findings from a report produced by the OSA on the FY 2016 balances of state funds. New Mexico was one of the first states to produce such a report and has been lauded for its effort. The report is available online. Information on fund balances contained in the report was derived from audited financial statements and was assumed correct.

As the report relates to the NMFA: 1) at over \$865 million, infrastructure fund balances represent a large share of total fund balance, and funds in that category consistently carry high balances; 2) the NMFA administers programs whose funds constitute much of that category's fund balance; 3) there might be a good reason for those high balances, but also it might be possible or prudent to increase activity in those funds; 4) the WPF's balance, at over \$512 million, continues to increase; 5) the NMFA has some "stagnant" funds, or those whose attributes suggest low activity; this is a potential issue the committee might wish to explore; and 6) the main issue for the NMFA is the high balances in its infrastructure funds. In general, some best practices for reducing excessive fund balances are: 1) take a realistic, not optimistic, approach to lending; 2) design programs to require local involvement; and 3) fund only projects in which local- and state-level priorities align. As relates to the NMFA, the committee might wish to request an aging analysis of the approximately \$135 million in the agency's undisbursed loans, or loans approved but not drawn on. Likewise, the legislature might wish to: 1) request that information as it pertains to other state agency funds; 2) implement a requirement for project audits; or 3) increase transparency and accountability by creating a centralized project monitoring process. Other best practices to consider are listed on page eight of the presentation handout.

#### Questions and Discussion

***Stagnant NMFA funds.*** Deputy State Auditor Bhakta clarified that the data to identify stagnant funds was taken from 2014 through 2016 and that detail on those funds is listed in the report. Mr. Coalter testified that money in the "Primary Care" fund is currently loaned out and that the fund is active. He added that the NMFA is actively scrutinizing certain NMFA funds listed in the report, including the Water and Wastewater Project Grant Fund, in an effort to revert the money in them. He also said that, in some cases, the law would have to change to allow for reversion, and that the NMFA will propose such legislation for the next legislative session. In the case of the "Local Transportation Program" fund, the NMFA is communicating with DOT legal counsel on the matter of the fund's balance.

***Project audits.*** A member commented that legislation to establish a statutory requirement for project audits has been introduced and that, if enacted, the requirement would increase project cost by about 10%. The member proposed the idea of random audits, which would have less fiscal impact. Deputy State Auditor Bhakta agreed with the soundness of the idea and also proposed the idea of limiting the requirement to projects over a certain size.

***General reaction to report.*** Mr. Coalter briefly explained some of the NMFA fund balances cited in the presentation and assured the committee that NMFA staff would comment at a later meeting on the OSA's findings as they relate to the NMFA. Several members articulated the need for more report-related detail to properly understand the findings and identify reasons that some fund balances are high.

### **2017 Session Legislation Summary**

Mr. Coalter summarized as follows NMFA-related bills that were introduced during the 2017 regular session and enacted into law. They are: 1) House Bill (HB) 256, which appropriates \$1.8 million from the PPRF to the Drinking Water State Revolving Loan Fund to provide state matching funds for projects approved by the Department of Environment and pursued through the federal Safe Drinking Water Act of 1974; 2) HB 268, which lists projects authorized for PPRF financing; 3) Senate Bill (SB) 43, which helps public bodies by allowing them to delegate authority related to the sale of public securities; and 4) SB 44, which authorizes the funding, through the Water Project Fund program, of projects that have been rigorously reviewed for compliance and readiness. As discussed, a subsequent law suspended the allocation of senior severance tax bonding capacity to the program, thereby cutting off much of the funding for the authorized projects.

### **Questions and Discussion**

***Water Project Fund program funding.*** Mr. Coalter indicated that: 1) the Water Trust Board voted to take the fragment of total water project program funding for 2017 that was not suspended, i.e., the distribution from the Water Trust Fund, and hold it over for use in the next year; 2) the NMFA has sent notifications of the funding situation to concerned entities; and 3) the 2018 application cycle is now beginning, and although new applications are required, applicants from the 2017 cycle may use the same information previously submitted. Mr. Coalter agreed to follow up with a committee member on a specific project on which the member requested information.

***Communication of project status to committee.*** A member recommended that the NMFA, in its reporting to the committee, show a broad view, rather than more limited snapshots, of projects' progression over time. Mr. Coalter noted that NMFA staff will continue to provide aging reports and other information related to project progression.

***Water Project Fund and Colonias Infrastructure Project Fund progression.*** Mr. Coalter said that the several policies affecting the Water Project Fund and Colonias Infrastructure Project Fund programs have been instated in recent years that encourage the hastening of project spending and completion.

### **Proposed Work Plan and Meeting Schedule**

Members discussed the committee's proposed work plan and meeting schedule. Some members suggested the addition of topics to the work plan, the addition of specificity to some

topics listed, changes to the meeting locations and visits to particular sites during meetings. The committee adopted the proposed work plan and meeting schedule with the changes suggested.

**Adjournment**

There being no further business before the committee, the committee adjourned at 11:56 a.m.

Revised: July 13, 2017

**TENTATIVE AGENDA  
for the  
SECOND MEETING IN 2017  
of the  
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE**

**July 17-18, 2017  
State Capitol, Room 322  
Santa Fe**

**Monday, July 17**

- 9:00 a.m.           **Call to Order and Welcome**  
—Representative Bill McCamley, Chair  
—Senator Jacob R. Candelaria, Vice Chair
- 9:05 a.m.       (1)   **State Bond Rating — History, Current Status and Outlook**  
—Jon Clark, Chief Economist, Legislative Finance Committee  
—Stephanie Schardin Clarke, Deputy Secretary, Department of Finance  
and Administration  
—David Paul, President, Fiscal Strategies Group; Financial Advisor to the  
State Board of Finance
- 10:35 a.m.       (2)   **State Bond Rating Changes and Local Project Financing Impacts**  
—Mark Valenzuela, First Vice President, New Mexico Public Finance  
Group, George K. Baum & Company  
—Zach Dillenback, Chief Lending Officer, New Mexico Finance Authority  
—Erik Harrigan, Director, RBC Capital Markets
- 11:35 a.m.           **Approval of Minutes from the June Meeting**
- 11:40 a.m.           **Lunch**
- 1:00 p.m.       (3)   **Financing for Green Energy Projects in Public Buildings**  
—Louise Martinez, Director, Energy Conservation and Management  
Division, Energy, Minerals and Natural Resources Department  
(EMNRD)  
—Matthias Sayer, Deputy Secretary, EMNRD

- 2:30 p.m. (4) [Community Banking Partnerships and Requirements of the Federal Community Reinvestment Act of 1977](#)  
—Eric Haar, Vice President, Director of Government and Industry Relations, Federal Home Loan Bank of Dallas  
—Jerry C. Walker, President and Chief Executive Officer, Independent Community Bankers Association of New Mexico  
—Bryan "Chip" Chippeaux, Chairman, Century Bank  
—Terry Brunner, Chief Program Officer and Founder, Grow New Mexico

4:30 p.m. **Recess**

**Tuesday, July 18**

- 9:00 a.m. (5) [Panel Discussion: How Small Business Development Centers and Business Incubators Can Address Small Businesses' Access-to-Credit Issues](#)  
—Russell Wyrick, State Director, New Mexico Small Business Development Center  
—Bette Bradbury, Regional Director, Northern New Mexico, WESST  
—Kathy Keith, Community Programs Director, Los Alamos National Laboratory  
—John M. Garcia, District Director, U.S. Small Business Administration

12:00 noon **Adjourn**

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

**July 17-18, 2017  
State Capitol, Room 322  
Santa Fe**

The second meeting of the New Mexico Finance Authority (NMFA) Oversight Committee for the 2017 interim was called to order by Representative Bill McCamley, chair, on Monday, July 17, 2017, at 9:05 a.m. in Room 322 of the State Capitol in Santa Fe.

**Present**

Rep. Bill McCamley, Chair  
Sen. Jacob R. Candelaria, Vice Chair  
Rep. Alonzo Baldonado  
Sen. Craig W. Brandt  
Rep. Sharon Clahchischilliage  
Rep. Kelly K. Fajardo  
Rep. Harry Garcia  
Sen. Ron Griggs  
Sen. Richard C. Martinez  
Sen. Michael Padilla  
Rep. Jane E. Powdrell-Culbert  
Rep. Patricia Roybal Caballero  
Sen. William E. Sharer (7/17)  
Rep. Linda M. Trujillo (7/17)

**Advisory Members**

Rep. Bealquin Bill Gomez  
Rep. Patricia A. Lundstrom (7/17)  
Sen. Mary Kay Papen  
Sen. John Pinto  
Rep. Tomás E. Salazar (7/17)  
Sen. Clemente Sanchez (7/17)  
Rep. Sheryl Williams Stapleton  
Sen. Bill Tallman (7/18)

**Guest Legislator**

Rep. Miguel P. Garcia (7/18)

**Absent**

Sen. Joseph Cervantes  
Rep. George Dodge, Jr.  
Rep. Jimmie C. Hall  
Rep. Debbie A. Rodella  
Sen. Nancy Rodriguez  
Rep. Patricio Ruiloba

Rep. Brian Egolf  
Sen. Jeff Steinborn  
Sen. Pat Woods  
Rep. Monica Youngblood

(Attendance dates are noted for members who did not attend the entire meeting.)

## **Staff**

Tessa Ryan, Staff Attorney, Legislative Council Service (LCS)

Rebecca Griego, Records Officer, LCS

Kathleen Dexter, Researcher, LCS

Michelle Jaschke, Researcher, LCS

Celia Ludi, Staff Attorney, LCS

## **Guests**

The guest list is in the meeting file.

## **Handouts**

Handouts and other written testimony are in the meeting file.

## **Monday, July 17**

### **State Bond Rating — History, Current Status and Outlook**

Jon Clark, chief economist, Legislative Finance Committee (LFC); David Paul, president, Fiscal Strategies Group, and financial advisor to the State Board of Finance (BOF); and Stephanie Schardin Clarke, deputy secretary, Department of Finance and Administration (DFA), reported to the committee on the state's bond ratings, how the ratings are determined and the impact of recent changes to the ratings.

Bond ratings are credit rating agencies' assessments of New Mexico's ability to repay bonds, based on the state's fiscal strengths and weaknesses. While the ratings are "forward-looking", they are based on historical data and are revised in response to changes in the state's fiscal profile. Moody's Investors Service (Moody's) and Standard & Poor's Financial Services LLC (S&P) are currently the only two agencies that have issued bond ratings for New Mexico, and they use different methodologies for determining those ratings: S&P takes an analyst-driven approach, and Moody's uses a market-driven approach. Despite the difference in methodologies, the two agencies' ratings are essentially the same for New Mexico, with the state's general obligation bonds (GOBs) categorized as "strong with a negative outlook" and severance tax bonds (STBs) categorized as "strong with a stable outlook".

Both agencies downgraded the state's bond ratings in 2016, and there is a possibility that S&P will soon further downgrade its GOB rating. One factor in the downgrades is the state's near-depletion of cash reserves, which have historically served as a critical offset to the state's low "wealth factor" in bond ratings. With reserves projected to be only three percent by the end of fiscal year (FY) 2018, the state will remain on the rating agencies' "negative watch list".

Counties, municipalities and school districts have their own bond ratings, which can be affected by factors that might have less of an impact on a statewide rating. Mr. Paul cited Hartford, Connecticut, as an example: when Aetna announced it would be relocating and tens of thousands of jobs would leave the city, Hartford's municipal bond rating was downgraded.



School district bond ratings in New Mexico are vulnerable in other ways: these ratings are directly affected by changes in the state's bond ratings and are also affected when the state taps school district cash balances, as happened in the 2017 regular legislative session.

There are some positive factors that feed into New Mexico's bond ratings. The state's debt ratio is average when compared with other states that have similar bond ratings and is on a downward trend. Unfunded pension liabilities are also average compared with other states, and New Mexico has recently enacted reforms to its pension systems. In addition to these factors, panelists identified restoration of cash reserve levels and reporting on the Comprehensive Annual Financial Report (CAFR) as issues affecting the state's bond ratings.

In discussion, the presenters and committee members addressed the following topics.

***Bond rating factors.*** The main factors in New Mexico's ratings are its cash reserves, pension liabilities, financial reporting and economic growth. Economic diversification beyond a heavy dependence on the oil and gas industry and government employment could help stabilize the state's economy and its bond ratings. Currently, low cash reserves are the greatest risk factor for the state's GOB rating, and volatile oil and gas prices are the greatest risk factor for the STB rating.

***Pension funds.*** If the state's pension funds are put on an "automatic escalator" system tied to fluctuating state revenue rather than the fixed amount currently required, the state would put more into the funds in years when revenue is high and less when revenue dips. A string of bad years, however, could leave the pension funds shy of what they need. Other risks to the pension funds are decreases in public employment and corrections to the equity market.

Panelists additionally mentioned that recently enacted changes to the state's pension systems affected future employees, not the vested property rights of current employees.

***Poverty and other economic factors.*** Some of the factors that Moody's considers when determining a state's poverty score are the percent of families living below the federal poverty level, the percent of the population enrolled in Medicaid, the impact of the earned income tax credit on the state and the state's cost of providing social services. The BOF has a working group that considers information from multiple state agencies on current economic factors, including poverty, prior to any bond issuance.

***Municipal bankruptcy.*** If a municipality declares bankruptcy, the state becomes the oversight entity. A bankrupt governmental entity enters into an agreement with the state through the state aid intercept program, under which the state covers the entity's financial obligations and repays itself by withholding future state funding to the entity. The Local Government Division of the DFA monitors entities for signs of financial problems that might lead to bankruptcy.

**CAFR qualified opinion.** The qualified opinion that was issued for the state's FY 2016 CAFR concerned the Land Grant Permanent Fund and how its beneficiary distributions are classified: whether they are assets of the State Investment Council (SIC) or assets of each beneficiary. One of the beneficiaries needs to declare its distribution as its own asset and would be harmed if the asset were assigned to the SIC.

**Fitch Ratings.** New Mexico does not have a bond rating from the third ratings agency, Fitch Ratings, because most investment agencies require only two ratings.

**DFA versus LFC revenue outlooks.** Differences between the revenue outlooks presented by the DFA and the LFC reflect the age of the data. The LFC's numbers are based on the December 2016 consensus revenue estimate, while the DFA's numbers include revenue received since that time.

**Rating downgrades.** When a bond rating is downgraded, the cost of borrowing increases. Each percentage point increase in borrowing costs comes to \$10,000 per \$1 million borrowed. To date, higher education institution bond ratings have not been downgraded, but declining enrollment and budget cuts may affect the ratings. A downgrade in bond ratings does not affect the amount of money available for capital outlay projects but does affect the cost of borrowing money for those projects.

**Bond refinancing.** The BOF and the DFA monitor the bonds issued by the state in the past for opportunities to refinance them.

**State permanent funds.** The permanent funds are not considered reserve funds by the rating agencies, and their use is subject to voter approval.

**Oil and gas revenue.** One-third of the state's revenue is tied to the oil and gas industry. The Consensus Revenue Estimating Group projects how much oil and gas revenue the state may receive in the upcoming fiscal year based on research conducted by the University of New Mexico (UNM) Bureau of Business and Economic Research.

### **State Bond Rating Changes and Local Project Financing Impacts**

Mark Valenzuela, first vice president, New Mexico Public Finance Group, George K. Baum and Company; Erik Harrigan, director, RBC Capital Markets; and Zach Dillenback, chief lending officer, NMFA, reported to the committee on the impact to local governments of changes in the state's bond ratings.

The panelists clarified that there are four types of bonds:

- GOBs, which must be approved by voters and are repaid with property taxes;
- revenue bonds, which are issued by local governments and universities and are repaid with traditional revenue to those entities, including gross receipts taxes;

- net system revenue bonds, which are issued by water and wastewater utility systems and are repaid with revenue from the systems; and
- lease-purchase bonds, which are issued for the benefit of charter schools and entities such as Fort Bayard Medical Center and are repaid with state lease assistance payments.

Even after the recent state bond rating downgrades, the state and all cities, counties and school districts that have their own bond ratings remain in the "investment grade" category. However, school district ratings are especially vulnerable because they receive a "credit enhancement" from the state, which exposes the districts' ratings to fluctuations in the state's ratings. To illustrate, the presenters offered a comparison of three recent bond issuances in Grant County: bonds issued by the county and by the Town of Silver City received ratings of A1 and A+, respectively, while bonds issued by the Silver Consolidated School District were rated several levels lower — Baa2 — due to downgrades to the state's bond ratings.

The state is not the only entity that has been downgraded. Ratings have also dropped for nine school districts, New Mexico State University and the New Mexico Military Institute, while UNM and the New Mexico Institute of Mining and Technology have been placed on "negative outlook" status. One result of the ratings revisions is that more entities are going to the NMFA for project financing through the Public Project Revolving Fund (PPRF) rather than issuing their own bonds. The recent lack of capital outlay funding has also driven more entities to seek PPRF funding.

On questioning, the presenters and committee members addressed the following topics.

***PPRF funding.*** The NMFA is required by statute to get legislative authorization for any project financing it provides through the PPRF. The NMFA conducts outreach to school districts to make them aware of the funding process and application schedule; however, some apply too late in the annual cycle and must wait an additional year before they can receive funding. Changes to this process can only be made by amending statute. One possible change to statute would be language that provides blanket eligibility for projects "unless specifically excluded by the legislature".

The legislature has taken cash balances from the PPRF for other purposes, which leaves less for the NMFA to use for project financing.

***School districts.*** The state's tapping of school district cash balances, reductions to state equalization guarantee distributions and state budget conditions were all factors that Moody's considered when downgrading school district bond ratings.

Some school districts prefer to do their own bond issuances, rather than get PPRF financing, as a way of showing public involvement and support for their projects. Some can also get a better rate on their own than would be available through the PPRF program.

School district project costs are affected by multiple factors beyond borrowing costs, including prevailing wage requirements.

At the request of committee members, Mr. Dillenback agreed to provide a list of each school district's bond ratings compared with the ratings for the county or counties in which those school districts are located.

### **Minutes**

On a motion duly made, seconded and unanimously adopted, the minutes from the June 23, 2017 meeting were approved.

### **Financing for Green Energy Projects in Public Buildings**

Matthias Sayer, deputy secretary, Energy, Minerals and Natural Resources Department (EMNRD), presented a summary of the department's efforts in the area of green energy and introduced Louise Martinez, director, Energy Conservation and Management Division, EMNRD. Ms. Martinez provided a handout detailing the EMNRD's programs for funding energy efficiency and renewable energy projects. She described two program options:

- the Energy Efficiency and Renewable Energy Bonding Act that provides a funding mechanism for state agencies and school districts; and
- the Public Facility Energy Efficiency and Water Conservation Act that provides an opportunity for third-party financing for state agencies, universities, cities, counties and public schools.

The process for implementing the projects includes selecting an energy service company, conducting an energy audit of the facility in question, financing the project, implementing the energy conservation measures and verifying the savings. Ms. Martinez also provided information on performance contracts, which are construction projects that use future energy savings to pay for the upfront costs of the facility improvements. She provided an overview of two major projects at higher educational institutions in New Mexico but noted that in comparison to surrounding states, New Mexico's investment in energy savings performance contracts is minimal. She indicated that the number of job years created by investment in these projects in Arizona and Colorado significantly exceeds those created in New Mexico.

Members discussed the following issues related to energy efficiency and renewable energy projects:

- how power purchase agreements (PPAs) differ from performance contracts and the benefits that accrue to municipalities through PPAs as a result of partnering with outside investors;
- the efficacy and life span of solar systems and the importance of looking at warranty and insurance provisions when purchasing those systems; and

- the funding mechanisms that exist or that are otherwise lacking for schools, municipalities and others to access performance contracts and energy audits.

Panelists and members discussed barriers to participation in energy efficiency projects, including:

- limited state investment in the projects;
- needs for staff dedicated to developing projects for school systems and other entities;
- the reluctance of some communities to take on debt despite possible long-term benefits of pursuing the projects;
- the lack of a state mandate, such as that implemented in Colorado, to improve energy efficiency in facilities throughout the state; and
- the need for education regarding the returns on such investments for communities and individuals.

NMFA staff was requested to provide additional information to the committee clarifying the funding mechanisms that exist or that might be developed for energy efficiency and renewable energy programs.

### **Community Banking Partnerships and Requirements of the Federal Community Reinvestment Act of 1977**

Eric Haar, vice president, director of government and industry relations, Federal Home Loan (FHL) Bank of Dallas, presented an overview of the FHL Bank system structure. One of 11 regional FHL banks created by Congress in 1932, the FHL Bank of Dallas serves 835 financial institutions across the region, including 47 institutions in New Mexico. The nationwide FHL Bank system lends money to more than 7,000 banks, credit unions and insurance companies, providing broad liquidity for financial institutions to make home, agricultural and small business loans. In 2015, the system lent \$634 billion to member institutions. The FHL Bank of Dallas funds a private grant program with 10 percent of its earnings that is frequently used to support affordable housing. Mr. Haar described some of the other community investments made by the FHL Bank system in 2016, including grants to assist with down payments on homes, to renovate special-needs homes, for small business development and community organizations and for home modifications for wounded veterans.

Committee and panel members discussed how to market the grants and services available through FHL Bank member institutions more effectively. Panelists noted that funding for such programs is limited and that the burden of accessing those funds for community-based organizations falls to the financial institutions. Many of those institutions choose not to devote their own resources to that effort. Upon questioning, Mr. Haar noted that New Mexico lags behind other states in the region in virtually all areas of lending and grant assistance.

Jerry C. Walker, president and chief executive officer, Independent Community Bankers Association of New Mexico, and Bryan "Chip" Chippeaux, chairman, Century Bank, discussed

the challenges facing community banks in meeting the requirements of the federal Community Reinvestment Act of 1977 (CRA). Mr. Walker reported that the CRA is designed to discourage discriminatory lending practices, also known as "redlining", and that community banks undergo intensive scrutiny from federal bank examiners to ensure safe, sound and nondiscriminatory lending practices. One member noted that the intent of the CRA is also to assist communities and community-based programs in establishing independent financial footing. Mr. Walker further reported that while there have been recommendations and discussions regarding lending practices by community banks in New Mexico, no fair lending violations have been reported.

Mr. Chippeaux reported that Century Bank has roughly \$800 million in assets and considers itself an economic driver for New Mexico, particularly in Albuquerque and Santa Fe, where it has its largest presence. He stated that he believes the bank's success is tied to the community's success, and members and other panelists noted that Century Bank has worked successfully to support community programs and build community relationships. One of the lending challenges enumerated by Mr. Chippeaux is increased regulation, including "hard data" loan requirements under which borrowers must verify their ability to repay loans. Mr. Chippeaux stated that many loans are denied for lack of hard data and that the cash/barter-based economy in many areas of rural New Mexico prevents hard data lending. Mr. Walker reported that a 2015 survey showed that seven percent of United States households are "unbanked", meaning they have no banking services, and that 20 percent of households are "underbanked" and may be subject to predatory lending practices.

Terry Brunner, chief program officer and founder, Grow New Mexico, described his organization's efforts to match impactful projects in the state with the resources needed for successful completion. Mr. Brunner stated that the ideal dealmaking table to find funding and successfully implement proposals to make the state stronger includes government, not-for-profit and private-sector entities, as well as national foundations and donors. In addition, Mr. Brunner reported that there should be a more concerted effort to bring New Mexico banks to the table in this regard. Regarding United States Department of Agriculture (USDA) Rural Development, Mr. Brunner discussed how New Mexico communities may find that low- to no-interest loans offered by the USDA constitute an important financial tool for infrastructure development.

Discussion ensued among the members and panelists on the following topics:

- the need for financial literacy and education at all levels, including schoolchildren, counties, municipalities and other entities;
- the possibility of expanding the role of the NMFA to advise communities on the relative merits of using bonding, low-interest loans or other financial tools to achieve their infrastructure and energy efficiency goals;
- the need to diversify funding sources in the state;
- the changes required to develop cooperative support in smaller communities to address the phenomenon of food deserts;

- the need for adequate staff with the appropriate expertise to perform construction project permitting and inspection in a timely manner at the state level; and
- the need for a definitive report from the state on the gaps in broadband service in order to bring funds to the table to address broadband needs.

Panelists were asked for their recommendations on how to move more capital into the New Mexico economy, and NMFA staff members were requested to prepare specific responses to the panelists' recommendations regarding development in the state.

### **Recess**

The committee recessed at approximately 4:20 p.m.

### **Tuesday, July 18**

### **Reconvene**

The committee reconvened at 9:11 a.m.

### **Panel Discussion: How Small Business Development Centers and Business Incubators Can Address Small Businesses' Access-to-Credit Issues**

Members of a panel provided information on the credit resources that small business development centers and business incubators may provide to small businesses. Panel members included John M. Garcia, district director, United States Small Business Administration (SBA); Russell Wyrick, state director, New Mexico Small Business Development Center (SBDC); Bette Bradbury, regional director, Northern New Mexico, WESST; and Kathy Keith, community programs director, Los Alamos National Laboratory (LANL). Members of the panel explained the various programs offered by the SBA and its partners to support small business development and growth in New Mexico.

Mr. Garcia informed the committee that the SBA's purpose is to assist the 28 million American small business owners, including 152,000 in New Mexico, to start, manage and grow their businesses. The SBA's New Mexico district office provides services and capital to businesses in all 33 counties. It works with other organizations to provide free or low-cost business counseling, technical assistance, training and educational workshops. The SBA's four main partners are SCORE (previously known as the Service Corps of Retired Executives), the SBDC, WESST and the Veterans Business Outreach Center.

Access to capital is offered to small business owners through a statewide network of traditional and alternative lenders that offer SBA-guaranteed loans through two programs. Mr. Garcia stated that since 2009, the SBA has approved 2,479 small business loans valued at nearly \$900 million in New Mexico, which resulted in creating 9,125 new jobs and saving 20,400 existing jobs.

Mr. Garcia noted that the SBA also supports small business growth by providing information and guidance regarding federal contracting opportunities. Since 2009, the federal government has awarded more than \$12 billion in federal contracts to small businesses in New Mexico.

Mr. Wyrick informed the committee that there are 18 SBDC service centers and seven procurement technical assistance programs across the state, in addition to the International Business Accelerator in Santa Teresa. The SBDC is funded by the SBA and the Higher Education Department through Santa Fe Community College. Mr. Wyrick stated that the SBDC is nationally accredited and provides verified economic impact information. He stated that, in 2016, the SBDC assisted in creating 1,019 new jobs and saving 576 existing jobs.

Mr. Wyrick noted that there has been a major shift in small business financing between 2012 through 2014 and 2015 through 2017, particularly due to the increase in the ratio of equity to lending. He attributed this to the introduction of new methods for bringing equity into business financing. He said that often, finding sufficient collateral for a loan is a significant obstacle in starting or growing a small business. He expressed support for:

- inclusion of personal financial literacy in school curricula;
- review of Economic Development Department programs, including identification of barriers to access of programs such as the Job Training Incentive Program;
- continued funding for successful programs;
- collaboration with SBA partners to improve information distribution and leveraging; and
- funding for the one-stop business portal created pursuant to the One-Stop Business Portal Act and improved access for small business owners.

Mr. Wyrick explained that budget cuts affecting higher education will limit the SBDC's ability to support further growth. He said that while higher education institutions may raise tuition to compensate for the cuts, the SBDC does not receive tuition money and is prohibited from charging clients for its services. Thus, he said, the SBDC would have limited means to make up for such a loss of funding. He added that the SBDC has lost staff through attrition and that additional funding cuts could result in reductions in staff and services.

Ms. Bradbury provided an overview of services provided by WESST. She explained that unlike other economic development programs that are entirely publicly funded, WESST is funded with a 50 percent match. WESST must raise a portion of its funds through donations and contributions for services provided. WESST operates six offices around the state, with locations in Albuquerque, Santa Fe, Roswell, Las Cruces, Rio Rancho and Farmington. It also operates three business incubators.

Ms. Bradbury explained that WESST provides business and financial consulting and training to businesses on a one-on-one basis and through workshops. It also serves as a



microlender to start-up and existing entrepreneurs, providing loans from \$250 to \$50,000. WESST provides access to capital through revolving loan programs. Through WESST, a credit-building loan program offers six-month, low-interest loans of \$250 to \$1,000 to businesses. Another loan program, commonly known for its "tech toolkit" loan, offers up to \$5,000 for computers, software and website development. The equipment purchased with the money from this type of loan serves as collateral for the loan. WESST also offers business start-up loans of up to \$10,000 and business expansion loans of up to \$50,000.

Ms. Keith informed the committee that since 2006, the LANL Community Programs Office has made investments in education programs, community giving and economic development initiatives in northern New Mexico. Ms. Keith stated that several economic development initiatives focus on increasing capital access to small businesses. In particular, she mentioned that the Venture Acceleration Fund (VAF) is a local source of seed financing for early-stage technology start-up businesses in northern New Mexico. The fund is established to support technology-based and manufacturing companies that lack collateral for debt financing or are otherwise not able to obtain angel investments or venture capital funding. It is also available to companies seeking a one-time cash infusion to achieve growth goals.

Ms. Keith explained that businesses repay awards made through VAF financing by providing mutually agreed upon support to northern New Mexico's business start-up community. If a business that has received a VAF award is acquired by another company, leaves the state or fails to provide the mutually agreed upon annual support to northern New Mexico's start-up community, the award must be repaid immediately. When the VAF was created in 2006, there were three applicants for funding. Last year, there were over 100 applicants. More than \$9 million has been awarded since the program's inception, with \$450,000 awarded this year. Each award usually ranges from \$40,000 to \$100,000. This year, the maximum award is \$60,000.

Ms. Keith added that since 2006, awards through VAF financing have been used to leverage \$102 million in follow-up financing. Between 2006 and 2015, VAF financing has assisted 53 companies in northern New Mexico, which, in turn, provide 488 jobs with an average salary of \$56,882. Recipients of awards include a beef jerky company in Española that doubled its sales in the first year. Another recipient is Taos Mountain Energy, which received a start-up award six years ago and now distributes its products in 35 states. High-tech companies are also among the recipients. In addition to the VAF, the Native American Venture Acceleration Fund is a new program that makes awards to Native American-owned companies. Another fund will be established to make awards to Hispanic entrepreneurs.

Ms. Keith described other funding sources for new and expanding small businesses, including angel investing, crowdfunding and online lending. For instance, Ms. Keith noted that the New Mexico Angels are collaborating with the Arizona Angels to improve New Mexico entrepreneurs' access to capital. Nationwide, other angel funds are being created. An example is Angel MD, which is being created to provide funding for private medical practices. Other funds

are being established to improve capital access to businesses owned by women. Ms. Keith stated that in 2015, angel investors provided \$20 billion in business funding.

Crowdfunding is also an increasing source of capital for small businesses. In 2015, 2,700 projects in Bernalillo County were funded through Kickstarter. Ms. Keith stated that businesses in Otero County and Eddy County are also among a growing population of businesses successfully raising capital through Kickstarter. In addition, Meow Wolf in Santa Fe has announced that it crowdfunded \$1 million in two days from 660 investors with an average investment of \$1,600. The funding will be used to leverage its expansion. Ms. Keith stated that online lenders are another growing source of capital, and some lenders can turn around a loan application in 24 hours.

In discussion, the presenters and committee members addressed the following topics.

**Online lending.** Each online lender has its own requirements for collateral and repayment. Members and presenters discussed the importance of supporting small business owners in assessing the impact, costs and benefits of any source of capital.

**Public support for private businesses.** Some possible methods for the state to encourage the growth of small business were discussed, including:

- private-sector collaboration with state universities to develop research and technology, with the universities retaining an ownership interest in the work product;
- development by the Economic Development Department of a single venue to provide emerging entrepreneurs with information relevant to starting a business in New Mexico;
- inclusion of financial literacy classes in school curricula; and
- funding for microlending.

**Taxes.** Members discussed that certain aspects of New Mexico's gross receipts tax structure could be reformed to reduce inconsistencies or complications for small businesses.

**Personal financial literacy.** Members and presenters discussed that some small businesses might not qualify for funding because they lack certain skills, such as bookkeeping. They discussed that substitution of a practical math course for college algebra could be considered as an alternative to adding a financial literacy requirement for high school graduation. Another approach might be to support nonprofit organizations that provide financial literacy programs. It was mentioned that the current structure of school curricula might place limitations on that approach.

## **Adjournment**

There being no further business before the committee, the meeting adjourned at 11:36 a.m.

Revised: August 8, 2017

**TENTATIVE AGENDA  
for the  
THIRD MEETING  
of the  
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE**

**August 11, 2017  
El Morro Theatre Conference Room  
207 West Coal Avenue  
Gallup**

**Friday, August 11**

- 9:00 a.m.           **Call to Order and Welcome**  
—Representative Bill McCamley, Chair  
—Senator Jacob R. Candelaria, Vice Chair  
—Jackie McKinney, Mayor, City of Gallup
- 9:15 a.m.           (1)   **Update on Economic Development Revolving Fund and New Market Tax Credit Projects**  
—Marquita D. Russel, Chief of Programs, New Mexico Finance Authority (NMFA)  
—Wade Pynes, Finance Director, Continental Divide Electric Cooperative
- 9:45 a.m.           (2)   **How the NMFA Uses the Public Project Revolving Fund to Issue Bonds**  
—Michael Zavelle, Chief Financial Strategist, NMFA  
—Chip Pierce, Financial Advisor, Public Financial Management, Inc.
- 11:15 a.m.          (3)   **Allocations of the Governmental Gross Receipts Tax (GGRT) and Sweep of Flow-Through of GGRT for Fiscal Solvency**  
—Veronica Gonzales, Secretary, Cultural Affairs Department  
—Matthew Lovato, Director, Administrative Services Division, Energy, Minerals and Natural Resources Department  
—Michael Zavelle, Chief Financial Strategist, NMFA
- 12:30 p.m.          **Lunch**
- 1:30 p.m.           (4)   **Tribal Infrastructure Project Fund Program Update**  
—David Mann, General Counsel, Indian Affairs Department and Tribal Infrastructure Board  
—Evan Williams, Deputy Director, Northwest New Mexico Council of Governments

3:00 p.m. (5) **Capital for Transportation Projects**  
—Larry Maynard, P.E., District 6 Engineer, Department of  
Transportation

4:30 p.m. **Adjourn**

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

**August 11, 2017  
El Morro Theatre Conference Room  
Gallup**

The third meeting of the New Mexico Finance Authority (NMFA) Oversight Committee for the 2017 interim was called to order by Representative Bill McCamley, chair, on Friday, August 11, 2017, at 9:05 a.m. at the El Morro Theatre Conference Room in Gallup.

**Present**

Rep. Bill McCamley, Chair  
Sen. Jacob R. Candelaria, Vice Chair  
Rep. Alonzo Baldonado  
Sen. Craig W. Brandt  
Rep. Sharon Clahchischilliage  
Rep. George Dodge, Jr.  
Rep. Kelly K. Fajardo  
Rep. Harry Garcia  
Rep. Jimmie C. Hall  
Sen. Richard C. Martinez  
Sen. Michael Padilla  
Rep. Jane E. Powdrell-Culbert  
Rep. Debbie A. Rodella  
Rep. Patricia Roybal Caballero  
Sen. William E. Sharer  
Rep. Linda M. Trujillo

**Advisory Members**

Rep. Bealquin Bill Gomez  
Rep. Patricia A. Lundstrom  
Sen. Clemente Sanchez  
Sen. Bill Tallman

**Absent**

Sen. Joseph Cervantes  
Sen. Ron Griggs  
Sen. Nancy Rodriguez  
Rep. Patricio Ruiloba

Rep. Brian Egolf  
Sen. Mary Kay Papen  
Sen. John Pinto  
Rep. Tomás E. Salazar  
Rep. Sheryl Williams Stapleton  
Sen. Jeff Steinborn  
Sen. Pat Woods  
Rep. Monica Youngblood

## **Staff**

Jeff Eaton, Staff Economist, Legislative Council Service (LCS)

Rebecca Griego, Records Officer, LCS

Tessa Ryan, Staff Attorney, LCS

## **Guests**

The guest list is in the meeting file.

## **Handouts**

Handouts and other written testimony are in the meeting file.

## **Friday, August 11**

### **Welcome**

Jackie McKinney, mayor, City of Gallup, welcomed the committee and spoke briefly about Gallup. He noted that the community is preparing to host thousands of out-of-town visitors for the ninety-sixth annual Gallup Inter-Tribal Indian Ceremonial.

Mayor McKinney said that the city is involved in several large-scale infrastructure projects, including a state cemetery, a four-lane highway to Shiprock and, most notably, a complex, massive, nearly \$1 billion water supply system. As follows, he described the water project: it is projected to reach completion in 2024; when finished, the system will convey water from the Animas River to the region; federal, state and local governments are contributing funding for the project; the city has committed to paying 8% of project costs; and the city is working toward imposing a cap on project costs. Mayor McKinney said that a portion of project funding is covered by a one-fourth-percent gross receipts tax increase, that the county is contributing \$1 million each year and that the two governments are paying as they go so as not to accrue interest. He added that the project will serve the region's chapter houses and their surrounding communities.

### **Update on Economic Development Revolving Fund (EDRF) and New Markets Tax Credit Programs**

Marquita Russel, chief of programs, NMFA, and Robert Castillo, chief executive officer, Continental Divide Electric Cooperative, presented on the EDRF-funded programs and on the New Markets Tax Credit Program administered by the NMFA. Ms. Russel gave an overview of the EDRF programs, and Mr. Castillo talked about the cooperative's participation in the New Markets Tax Credit Program, as follows.

***EDRF programs.*** The Statewide Economic Development Finance Act, which created the EDRF, allows the NMFA to lend money to private entities through the Smart Money Loan Participation Program and the Collateral Support Participation Program. The fund has received state and federal appropriations. All of the state-originated money has been lent, and what remains for lending is money provided by the federal government.

The status of the programs and loans made through them is as follows. The first three Smart Money Loan Participation Program loans listed in slide five of the handout represent one-half of all the loans made in the program; they were made when a statutory requirement for legislative authorization was in place. The last three were made when that requirement was suspended. The NMFA is awaiting resolution from a bankruptcy court on the Western Wood Products loan, and it is working with a bank to pursue the guarantees on the Valley National Bank loan. Meanwhile, in the Collateral Support Participation Program, the NMFA had been managing money provided by the federal government to the Economic Development Department (EDD). The department has requested that the money revert to the department for other uses, so program loans are not being made. For program loans that have already been made, borrowers have either repaid in full or are current on their payments.

***Continental Divide Electric Cooperative participation in the New Markets Tax Credit Program.*** The cooperative, which serves four tribal entities and a high percentage of Native Americans, secured \$10 million for broadband infrastructure through the New Markets Tax Credit Program. Although the provision of broadband service originally fell outside the scope of the cooperative's mission, the cooperative's board changed its bylaws to address its members' growing demand for the service. The cooperative is in the first phase of the project. Having poles on which to install fiber is advantageous, though some poles will have to be upgraded to accommodate the added weight of the lines. By the time it is finished, there will be fiber lines throughout the cooperative's service area.

#### Questions and Discussion

***Smart Money Loan Participation Program; program loans.*** Ms. Russel cited some reasons that two loans in the Smart Money Loan Participation Program portfolio are troubled: 1) the loans were made at the bottom of the recession, a time of downturns in the tourism and construction industries; 2) the borrowers had cash flow issues; and 3) Western Wood Products experienced a fire and had too little insurance coverage to recover from the setback.

Concerning the program, Ms. Russel added that: 1) by its design, it lends itself to riskier lending; 2) the NMFA's ability to act adeptly helps it to mitigate that risk; 3) other entities applied, but were not approved, for loans; 4) 12 loans were approved but did not close; 5) the NMFA takes on a shared collateral position with bank lenders, so that when a loan defaults, each recovered dollar is split between the lenders in proportion to its loan contribution; 6) different policies govern the use in the state and federal sub-accounts; 7) federal dollars are more responsive to banks' needs; 8) the NMFA has changed the participation agreement and its program monitoring and staff; 9) to improve, the program could be more responsive to the community's needs; and 10) NMFA analysts concluded that the use of state money comports with the Anti-Donation Clause of the Constitution of New Mexico.

Concerning loans made through the program, Ms. Russel added the following comments. With respect to the Valley National Bank loan: 1) the bank elected to sell the business before pursuing the loan guarantees; 2) the NMFA learned from that experience that it should have

ensured that guarantees would be sought first; 3) the primary guarantor has been cooperative but is highly leveraged; and 4) the NMFA does not expect to fully recover the money it lent. With respect to the Western Wood Products loan: 1) the NMFA expects to eventually recover the money it lent; 2) the lead bank was responsible for reviewing aspects of the borrower's business, such as insurance coverage; and 3) Century Bank, which took over Valley National Bank, did not assume the loan obligation. Lastly, with respect to the Families and Youth, Inc. loan, that entity is acting as a pass-through for payments on a charter school lease because the school's charter does not allow it to secure financing for a building.

A member commented that it appeared inappropriate for the state to both lend money for a charter school and to also repay the loan. Another member expressed an interest in having the committee further review the Smart Money Loan Participation Program.

***Collateral Support Participation Program.*** Concerning the reversion of money from the Collateral Support Participation Program to the EDD, Ms. Russel indicated that: 1) the federal government distributed the money in 2010 to the EDD; 2) the program was operated through a memorandum of understanding between the NMFA and the EDD; 3) \$5 million of the original \$13 million appropriation was invested in a venture capital fund of funds in January; 4) the remaining \$8 million will be used for a department-administered program; 5) the New Markets Tax Credit Program remains an avenue for the NMFA to make capital available for private enterprises; and 6) that program consists of federal-only dollars and has infused about \$246 million in capital to areas throughout the state.

***Loan participation programs.*** When asked for her opinions on whether the NMFA should engage in the business of private lending and whether the NMFA is a public bank, Ms. Russel responded as follows: 1) should the state choose to maintain the program, the NMFA can administer it efficiently; and 2) while the NMFA possesses some attributes commonly associated with public banks, it does not hold money for other entities, as some public banks do. A member expressed the opinion that the state should not engage in the business of private lending.

***Continental Divide Electric Cooperative's broadband project.*** Mr. Castillo summarized the progress of the cooperative's broadband project, indicating that the first fiber lines were installed in Grants to the cooperative's central office and a bank. The cooperative is willing to work with the City of Gallup and area tribal entities on extending the lines at cost to their jurisdictions, he said.

***Recommendations for improving private lending programs.*** Representative McCamley recommended that the committee hear proposals at its December meeting on how the NMFA's private lending programs can be improved, including how the NMFA can be more proactive in promoting the New Markets Tax Credit Program.

## **Minutes**

The committee approved the minutes from the July meeting without objection.



## **How the NMFA Uses the Public Project Revolving Fund (PPRF) to Issue Bonds**

In their presentation, Michael Zavelle, chief financial strategist, NMFA, and Chip Pierce, financial advisor, Public Financial Management, Inc., explained the NMFA's process for issuing PPRF bonds, and they discussed related topics. Mr. Pierce noted that he has worked with the NMFA since the formation of the PPRF — that is, about 23 years. In that time, he said, \$2.6 billion in PPRF debt has been issued. The presenters continued as follows.

***Program overview.*** Through the pooled loan PPRF program, the NMFA makes loans to a variety of public entities and issues PPRF bonds in connection with those loans. For a loan of less than \$10 million, the NMFA uses cash liquidity for funding in advance of bond issues. Loans above that threshold, designated as "simultaneous" loans, are funded directly by bond issues, and their interest rates correspond to bond issue rates. In both cases, borrowers get the best rates available to the NMFA.

***Bond ratings.*** Two bond rating agencies, Standard & Poor's and Moody's, each rate the program's senior and subordinate liens and announce the ratings at the time of a PPRF bond sale. At the previous day's sale, the Standard & Poor's rating for the subordinate lien bonds increased from AA+ to AAA. That upgrade, which immediately improved interest rates, is rare for programs like the PPRF and reflects well on the state. All in all, the program offers borrowers rates they could not secure on their own.

***Loan pools.*** The PPRF program features two loan pools: a senior lien and a subordinate lien. Interest rate pricing does not vary between the two, and the credit structuring of borrowers in each pool is similar. The program uses two pools for several reasons, including to increase overall capacity and to manage risk.

***Bond coverages and bond holder security.*** PPRF bonds are credit enhanced, and bond holder security is ensured through a range of provisions. The program's coverages are strong mainly because of the statutory governmental gross receipts tax (GGRT) distribution to the program. Annual coverage, which is calculated as the sum of all GGRT revenue and all loan revenue divided by bond debt service, is over 1.3 for the senior lien and 2.0 for the subordinate lien. It is projected that those coverage levels will increase over time, and both liens will amortize materially in the next 10 years. To maintain a high level of bondholder security, the program employs very effective credit processes, and it features strong reserves (including the Supplemental Credit Reserve Fund, whose recent establishment prompted the previously mentioned rating upgrade) and backup agreements. Further enhancing bondholders' security: both the types of borrower and the types of bond repayment revenue are diverse; bond issues are structured efficiently and within cash flow constraints; and multiple types of resources are pledged to repay every PPRF bond.

***Bond issuance process.*** Many different professionals and professional entities are involved in bond issuance — financial advisors, underwriters, legal counsel, trustees and rating agencies — and each plays a role important to the process, which includes issue structuring, legal

documentation, disclosure documentation, rating presentations and bond closing. Part of the process involves determining an appropriate bond interest rate, which, ideally, results in a level of demand roughly equal to the amount of the offer. (In the previous day's sale, the two measures approximated one another.)

***Refinancing callable debt.*** The ability to call bonds before maturity is a characteristic of municipal bonds. Exercising that ability has saved the NMFA millions of dollars.

***Bond pricing.*** Broadly speaking, the price of a bond reflects its coupon rate, yield (or the market's assessment of the bond's worth), term and call provisions.

### Questions and Discussion

***Coverage trends.*** Mr. Zavelle clarified points related to PPRF bond coverages and the graphs on slides eight and nine of the handout as follows: 1) annual GGRT revenues are relatively constant, at about \$30 million; 2) annual loan revenues are approximately \$150 million; 3) coverage increases over time because of amortizing, which reduces the denominator of the coverage calculation; 4) the anomaly shown by the fiscal year (FY) 2010 line in the graphs on slide eight is attributable to the period of loan and bond issuance suspension following the discovery of the fraudulent NMFA audit; and 5) in essence, the charts on those slides show that the NMFA has been managing its portfolio to maximize efficiency by securing low rates, increasing capacity and shortening debt terms.

***Reserves.*** Mr. Zavelle stated that the NMFA has not drawn, and does not anticipate drawing on, its reserves; no loan in the program has defaulted; and the establishment of the Supplemental Credit Reserve Fund allows for appropriation-based loans.

***Role of GGRT distribution in program.*** Mr. Zavelle and Mr. Pierce heavily stressed the importance of the GGRT distribution to the PPRF program's success, saying that it promotes higher ratings that in turn enable borrowers to secure better rates.

***Loans to charter schools.*** Mr. Zavelle commented on program activity relating to charter school leases as follows. No charter school is part of the PPRF portfolio, largely because the schools tend to lack sufficient enduring revenues. Nonetheless, the NMFA is willing to lend to a charter school that meets program rules. Zach Dillenback, chief lending officer, NMFA, who was in the audience, clarified that the chief obligor of a particular PPRF loan benefiting a charter school is the Albuquerque Public School District, which made a good-faith statement that if the charter school dissolved, it would continue to use the school facility and make the loan payments. He also added that the arrangement still carries some risk and that, were there an interruption in payments, the NMFA would have to tap its Supplemental Credit Reserve Fund.

***Diversion of GGRT revenue for solvency.*** A member commented on the importance to the state's fiscal solvency of the legislature's recent measure to divert a portion of the PPRF program's GGRT revenue to the General Fund.

## **Allocations of the GGRT and Sweep of Flow-Through of GGRT for Fiscal Solvency**

Mr. Zavelle, Veronica Gonzales, secretary of cultural affairs, Matthew Lovato, director, Administrative Services Division, Energy, Minerals and Natural Resources Department (EMNRD), and others, as named, formed a panel to discuss the allocations of the GGRT to their respective agencies. Mr. Zavelle added comments about the recent diversion of the PPRF program's GGRT revenue to the General Fund.

***GGRT allocation to the NMFA.*** Mr. Zavelle prefaced his portion of the presentation by noting that the NMFA does not make policy, but rather advises the legislature on the implications of its actions that affect NMFA programs and how best to take those actions. He continued by discussing the NMFA's GGRT allocation as follows. By law, the PPRF receives a distribution of 75% of GGRT revenues. That amount is earmarked for paying current-year PPRF bond principal and interest, and the provision is embedded in PPRF bond indentures. Hence, decreasing the 75% allocation would put PPRF bonds in default and would result in a rating downgrade. However, the revenue remaining after the required payments are made in late June can be applied to a different use, such as augmenting the General Fund. What remains after that sweeping — or net GGRT revenue — is used for PPRF program liquidity and for funding PPRF loans not reimbursed by PPRF bond issues, including disadvantaged loans. (Disadvantaged loans, or those offered at below market rates, are made to communities that meet certain median household income criteria.) A table on slide six of the handout shows the historical amounts of the NMFA's GGRT allocation, and a graph on slide seven shows the pattern of GGRT distributions to the PPRF for the past seven years.

As shown in the tables on slide eight, the amounts of net GGRT revenue have been decreasing, and the use of GGRT revenue for disadvantaged lending has been increasing. These trends result in the insufficiency of GGRT revenue available for non-disadvantaged lending purposes and in the amounts available for disadvantaged lending and program liquidity. In FY 2018, the NMFA plans to, for the first time, draw on its Wells Fargo line of credit and plans to reconsider the terms for disadvantaged lending. A change in those terms will lead to higher borrowing costs for disadvantaged communities.

***GGRT allocation to the Cultural Affairs Department (CAD).*** Secretary Gonzales spoke about the CAD's programs, the importance of the state's cultural sector and the CAD's use of its GGRT allocation as follows.

The department is committed to using arts and culture to sustain and transform local communities. It administers a variety of programs toward that end. In a program that especially benefits the Gallup community, the Arts Services Program, the department helps to teach artists business and financial skills. Elsewhere, through its Wonders on Wheels initiative, the department partners with the Public Education Department to bring exhibits and curriculum to schools and libraries throughout the state. Statistics on slide three of the handout show the magnitude of the department's efforts, including that it employs a volunteer staff equivalent to 56

full-time employees. The cultural sector has a strong economic impact, producing billions of dollars in consumer spending each year and one in 10 jobs in the state.

The department owns and is responsible for maintaining 190 buildings and the collections within them, some of which are priceless. Many of those structures and collections are falling into disrepair and degradation. The buildings experience a lot of pedestrian traffic and, thus, pose safety hazards. Meanwhile, many of the collections require special climate controls and security protection.

The CAD-owned buildings and collections are at acute risk. The department lacks a sufficient source of stable revenue to address its critical repair and preservation needs. Unlike most other state agencies, the CAD cannot depend on resources flowing to the General Services Department to manage the situation. Rather, its only stable source of funding for such purposes is the revenue from its annual 1% GGRT allocation, which amounts to about \$350,000. That amount falls drastically short of the department's need for addressing emergencies and health and safety issues, which is an average of \$2.2 million each year. Further exacerbating the problem, the department's capital outlay request is often either unmet (as in this year) or inadequately met.

The department hopes to redress the problem by raising the percentage of its GGRT allocation and by appealing to legislators for their sponsorship of CAD capital outlay projects.

Secretary Gonzales next introduced Rebecca L. Avitia, executive director, National Hispanic Cultural Center, and Dr. Patrick Moore, director, New Mexico Historic Sites, to talk about the capital funding needs of their organizations, both of which fall under the CAD. Ms. Avitia described the center's mission and its campus, and she noted both its distinction as one of the top Latino institutions in the nation and its contribution to the state's tourism and economy. She named the rental of its facilities as one of the center's efforts to contend with recent budget cuts; the rental ability, she noted, is compromised when the facilities go without repair and maintenance. Ms. Avitia then described several safety-related incidents and conditions at the center resulting from its funding inadequacies: the theater's stage lift recently gave way; the heating and cooling system is broken; the pumps controlling underground water are broken; there is a crack along the length of the parking lot; and a sinkhole was recently discovered on a nearby city street. Dr. Moore described similar challenges in the context of the state's historic sites. He stressed the value and richness of those sites and noted that the state, in acquiring them, assumed responsibility for their care.

Secretary Gonzales concluded the CAD portion of the presentation by highlighting the department's need for a sustainable mode of capital operation and by appealing to the committee for help in finding a stable source of funding for the state's cultural assets.

***GGRT allocation to the EMNRD.*** Mr. Lovato gave an overview of the EMNRD and said that the department is allocated a portion of GGRT revenue to support the state parks and the New Mexico Youth Conservation Corps (YCC), both of which fall under its control. The

allocation for state parks is 14%, and the allocation for the YCC is 10%, he said. Mr. Lovato introduced Christy Tafoya, director, State Parks Division, EMNRD, and Wendy Kent, executive director, YCC, to elaborate on their respective entities' use of the earmarked revenue. They spoke as follows.

The State Parks Division operates 34 parks throughout the state that offer recreation, outreach and education and that contribute significantly to the state's economy. Each park has attributes similar to those of a municipality. Outdoor recreation in New Mexico produces about \$6.1 billion in consumer spending and 68,000 jobs. The division employs a staff architect and a staff engineer to work on park projects and a crew to work on park grounds. GGRT revenue has recently helped to fund park facility upgrades, such as those at Navajo Lake, Bluewater Lake, Sugarite Canyon and other state parks. The division rates projects and pursues them according to priority, and it strives to leverage GGRT revenue to secure federal funding for projects.

Meanwhile, the YCC is active in employing youths to work on conservation and enhancement projects whose outcomes are valuable to the state and its natural resources. The New Mexico YCC Commission selects projects based on a range of considerations. Since 1992, the YCC has employed more than 15,400 members in 844 projects throughout the state. The program receives no federal or General Fund funding; it depends entirely on revenue from its GGRT allocation. Ninety percent of that revenue is dedicated to projects, while 5% offsets the costs of personnel and 5% offsets the costs of administration. Money for projects is awarded through a competitive grant process. Overall, the program gives young people a meaningful opportunity to enrich themselves while enriching the state.

#### Questions and Discussion

**GGRT allocations; sufficiency.** Several members commented on the challenges inherent in the following: the dilapidation of the state's cultural resources; having a limited amount of GGRT revenue; the plea by the recipients of that revenue for either the same or a greater share of it; and the governor's stance against raising tax rates. Secretary Gonzales clarified that the department's request is for an increase in its allocation to between 2% and 3%, which would help it pay the \$2.2 million or so needed for high-level, critical emergencies. She added that the department does not wish to hurt the PPRF bond rating, is willing to work with the NMFA on a possible solution and has the executive's support in exploring sustainable options to maintain CAD buildings. Representative McCamley and Senator Candelaria asked the presenters to discuss ideas for addressing the dilemma and to present them to the committee at its December meeting.

**PPRF program.** Concerning the status of the PPRF program and the potential effect of a reduction in the program's GGRT allocation, Mr. Zavelle stated that: 1) the cost of drawing on the Wells Fargo line of credit is relatively low; 2) nonetheless, taking that action would increase PPRF loan interest rates; 3) were there a reduction in the NMFA's GGRT allocation, current bondholders could argue that the bonds were impaired and that the NMFA was in default, and a rating downgrade would almost certainly follow; 4) to minimize such discord and make

alternative use of the NMFA's GGRT revenue, the legislature could instead appropriate money remaining in the PPRF after the distribution of GGRT revenue for the alternative use; 5) reducing the allocation going forward would be complicated but not impossible; and 6) limited flexibility is the cost of having a highly respected, successful bond program.

***State parks.*** A member commented on an issue at Bluewater Lake State Park in which water from the lake is flooding areas downstream from it, and Ms. Tafoya responded that the State Parks Division has limited control over the matter but is addressing it in the ways it can.

### **Tribal Infrastructure Fund (TIF) Program Update**

David Mann, general counsel, Indian Affairs Department (IAD) and Tribal Infrastructure Board, Lawrence John, TIF coordinator, IAD, and Evan Williams, deputy director, Northwest New Mexico Council of Governments (COG), presented an update on the TIF program administered by the IAD and highlighted a recent program-funded project.

***Overview of TIF program.*** Mr. Mann outlined the TIF program as follows. The Tribal Infrastructure Act created the program to enhance funding for infrastructure in tribal communities. That funding, which comes from a senior severance tax bonding capacity allocation, is available for a variety of project types. A subcommittee of the Tribal Infrastructure Board reviews project applications and scores them using established criteria. The subcommittee's recommendations are then presented to the full board, which makes its selections and certifies them to the State Board of Finance for funding. Certain performance requirements ensure that funded projects make sufficient progress. Generally, the amount of severance tax bond revenue flowing to the TIF program has decreased: in FY 2012, more than \$13 million was available, and in FY 2017, the amount available was less than \$5 million. In the most recent legislative session, a proposal was introduced to make changes to the program, but it did not pass.

***Johnson Road project.*** Mr. Williams described the state of many of the local roads in the Navajo Nation and the Northwest New Mexico COG district, saying that their overall poor conditions inhibit travel and interfere with school and work attendance. He said that making improvements to the roads is difficult because of ineligibility for state or federal funding.

Mr. Williams then described a recent, partnership-sponsored, partially TIF-funded project — that to improve Johnson Road — as follows. Johnson Road connects about 600 people to U.S. Route 491, a major interstate corridor from Shiprock to Gallup. The connection is important to helping its users access jobs, education and health care. Additional funding for the project came from the Navajo Nation fuel excise tax, McKinley County and the state capital outlay program.

***Recommendations for the TIF program.*** Mr. Williams recommended that lawmakers strive for the following in relation to the TIF program: 1) ongoing and enhanced support; 2) predictability in funding and time lines; 3) the continuation of planning and design grants (which

are important to project readiness and eligibility); and 4) the incorporation of legislative appointments in the board selection process.

### Questions and Discussion

***Funding for projects on the Navajo Nation.*** The members and presenters discussed issues concerning the funding of infrastructure projects on the Navajo Nation, remarking that the requirement in certain cases that such funding be routed through the Navajo Nation's seat of government is cumbersome and causes project delays. A member pointed out that the Navajo Nation has tried, but failed, to improve efficiency in its financial control system.

***State of infrastructure on tribal lands.*** A member commented on the gross lack of advancement and improvement in much of the infrastructure on tribal lands in the state, citing as examples the facts that many residents of those lands live without electricity, sewers and running water and that many resident children have to get off school buses for the buses to safely cross bridges. The member criticized the general lack of impetus to improve those conditions and argued that tribal infrastructure improvements should become a higher governmental priority.

***Efficiency in project implementation.*** Responding to a member's question about measures to improve efficiency in the progress of capital projects, Mr. Mann said that various "shovel-ready" requirements could be imposed. A member commented that the recent de-authorizations in capital funding for fiscal solvency act as checks on projects that take too long to reach completion.

### **Capital for Transportation Projects**

Larry Maynard, P.E., District 6 engineer, Department of Transportation (DOT), gave an overview on activity and funding for projects in DOT District 6, which serves 22 entities. The district's annual operating budget for FY 2017 was over \$16.4 million. Its ongoing construction contracts total over \$164 million. Much of those resources are dedicated to maintaining I-40 and secondary roads. Resources are also invested heavily in snow removal operations. Gallup, especially, has a high level of transportation-related needs. As shown in a chart in the handout, the condition of bridges in the district is improving, but many still need corrective action. The district distributes its funding equally throughout the district; tables in the handout list ongoing and completed projects; projects in the engineering and development stage; projects identified as critical need; and projects that receive funding from special funding sources.

### Questions and Discussion

Mr. Maynard responded to members' questions as follows: 1) concrete is a longer lasting, but more expensive, road material than asphalt, and the extra expense associated with it often prohibits its use — as a result, the department must direct a lot of resources to preserving asphalt roads; 2) cable barriers placed in some roadway medians are intended to help prevent head-on collisions and reduce fatalities; 3) DOT staff perform a majority of the department's design work, but the DOT also contracts for those services when needed; 4) the district has only about one-half of the money to pay for needed road projects, and it selects projects according to priority level;

and 5) the reason, in part, that many bridges in the state are left unimproved is that the Local Governments Road Fund is inadequate.

**Adjournment**

There being no further business before the committee, the committee adjourned at 3:06 p.m.



**TENTATIVE AGENDA  
for the  
FOURTH MEETING  
of the  
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE**

**September 19, 2017  
War Eagles Air Museum  
8012 Airport Road  
Santa Teresa**

**September 20, 2017  
Barbara Hubbard Room  
Pan American Center, New Mexico State University  
Las Cruces**

**Tuesday, September 19 — War Eagles Air Museum**

- 9:00 a.m.           **Call to Order and Welcome**  
—Representative Bill McCamley, Chair  
—Senator Jacob R. Candelaria, Vice Chair  
—School Board President, Gadsden Independent School District
- 9:15 a.m.           (1) **[Colonias Infrastructure Update: Existing Challenges to Timely Expenditure of Funds Process Improvement](#)**  
—Doug Moore, Chair, Colonias Infrastructure Board
- 10:45 a.m.           (2) **[Border Authority Update](#)**  
—William "Bill" Mattiace, Executive Director, Border Authority
- 12:00 noon           (3) **[Working Lunch: Border Development Initiatives](#)**  
—Jerry Pacheco, Executive Director, The International Business Accelerator
- 1:30 p.m.           (4) **[Statewide Broadband Infrastructure: Capital Programs, Projects, Federal and Other Funding Source Availability](#)**  
—Darryl Ackley, Secretary, Department of Information Technology
- 2:45 p.m.           (5) **[Film Production Financing: Former Programs and Initiatives and Emerging Opportunities](#)**  
—Nick Maniatis, Director, New Mexico Film Office  
—Jon Hendry, Business Agent, IATSE Local 480
- 3:50 p.m.           **Public Comment**

4:00 p.m.           **Recess**

4:15 p.m.           **Optional Bus Tour of Santa Teresa Cattle Yard and Cattle Crossing**

**Wednesday, September 20 — Barbara Hubbard Room**

9:00 a.m.           **Reconvene**

- Representative Bill McCamley, Chair
- Senator Jacob R. Candelaria, Vice Chair
- Garrey Carruthers, Ph.D., Chancellor and President, New Mexico State University (NMSU)

9:15 a.m.       (6)   **Spaceport Authority Update and Outlook**

- Daniel Hicks, Chief Executive Officer, Spaceport Authority
- Jonathan Firth, Executive Vice President, Spaceport and Program Development, Virgin Galactic

10:30 a.m.       (7)   **Economic Development Department Local Economic Development Act and Catalyst Fund Update**

- Barbara Brazil, Deputy Secretary, Economic Development Department
- Juan Torres, Finance Development Director, Economic Development Department
- Brian Birk, Managing Partner, Sun Mountain Capital (Invited)

11:45 a.m.       (8)   **Business Incubators, Accelerators and Venture Capital in New Mexico**

- Kathryn Hansen, Director and Chief Executive Officer, Arrowhead Center, NMSU
- Dr. Peter Anselmo, Executive Director, Center for Leadership in Technology Commercialization, New Mexico Institute of Mining and Technology
- Tom Stephenson, Managing General Partner, Verge Fund

12:50 p.m.       **Public Comment**

1:00 p.m.           **Adjourn**

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

**September 19, 2017  
War Eagles Air Museum  
Santa Teresa**

**September 20, 2017  
Barbara Hubbard Room  
Pan American Center, New Mexico State University  
Las Cruces**

The fourth meeting of the New Mexico Finance Authority (NMFA) Oversight Committee for the 2017 interim was called to order by Representative Bill McCamley, chair, on Tuesday, September 19, 2017, at 9:00 a.m. at the War Eagles Air Museum in Santa Teresa.

**Present**

Rep. Bill McCamley, Chair  
Rep. Alonzo Baldonado (9/19)  
Sen. Craig W. Brandt (9/20)  
Sen. Joseph Cervantes  
Rep. Sharon Clahchischilliage (9/19)  
Rep. Kelly K. Fajardo  
Rep. Harry Garcia (9/19)  
Sen. Ron Griggs (9/20)  
Rep. Jimmie C. Hall  
Sen. Richard C. Martinez  
Rep. Jane E. Powdrell-Culbert  
Rep. Debbie A. Rodella  
Rep. Patricio Ruiloba

**Advisory Members**

Rep. Bealquin Bill Gomez  
Sen. Mary Kay Papen  
Sen. John Pinto  
Rep. Tomás E. Salazar  
Sen. Bill Tallman

**Absent**

Sen. Jacob R. Candelaria, Vice Chair  
Rep. George Dodge, Jr.  
Sen. Michael Padilla  
Sen. Nancy Rodriguez  
Rep. Patricia Roybal Caballero  
Sen. William E. Sharer  
Rep. Linda M. Trujillo

Rep. Brian Egolf  
Rep. Patricia A. Lundstrom  
Sen. Clemente Sanchez  
Rep. Sheryl Williams Stapleton  
Sen. Jeff Steinborn  
Sen. Pat Woods  
Rep. Monica Youngblood

(Attendance dates are noted for members not present for the entire meeting.)

## **Staff**

Jeff Eaton, Staff Economist, Legislative Council Service (LCS)  
Rebecca Griego, Records Officer, LCS  
Tessa Ryan, Staff Attorney, LCS

## **Guests**

The guest list is in the meeting file.

## **Handouts**

Handouts and other written testimony are in the meeting file.

## **Tuesday, September 19**

### **Welcome**

Gilbert Mesa, chair, Border Industrial Association (BIA), welcomed the committee to the area. He noted that the association works to bring more industry to the region, is the primary industrial group in the border area and is growing.

### **Colonias Infrastructure Update: Existing Challenges to Timely Expenditure of Funds and Process Improvement**

Doug Moore, chair, Colonias Infrastructure Board (CIB), presented on the Colonias Infrastructure Program (CIP) administered by the NMFA. Robert P. Coalter, chief executive officer (CEO), NMFA, and secretary, CIB, who was in the audience, recognized another member of the CIB, Priscilla Lucero, also in the audience. They, along with Marquita D. Russel, chief of programs, NMFA, participated in the discussion that followed Mr. Moore's presentation, which he delivered as follows.

The 12-member CIB has worked actively since the program's inception to improve its administration and to make efficient use of its resources. Specifically, the board has been dedicated to ensuring that all projects funded through the program reach completion and to leveraging state money to attract local and federal funding. Moreover, in the last three years, the CIB has worked to: 1) reduce the average time from project award to the receipt of project money; 2) streamline the application process by aligning it more closely with the Water Trust Board program; and 3) respond productively to the executive order requiring that recipients meet certain audit requirements. A graph and table in the presentation handout show the history, by location, of the CIP project awards, which total over \$75 million and which have been used to leverage about \$120 million in non-state funding.

### **Questions and Discussion**

***Challenges to timely expenditure of program funds; efforts to overcome that inefficiency.*** Referring to recent Legislative Finance Committee reports highlighting inefficiency in spending across several of the state's infrastructure programs, committee members and others participating in the discussion offered plausible reasons for spending delays in the CIP.

Members commented that: 1) frequently, the delays occur during the period of Department of Finance and Administration control over the release of program money; and 2) sometimes projects are prolonged by efforts to comply with federal grant requirements. Ms. Lucero and Ms. Russel attributed some of the delay to the involvement, in many cases, of multiple agencies. Ms. Russel suggested that the reports are limited in their presentation of information, in that they do not include data on program money obligated but not yet spent.

Mr. Moore added his remarks about the actions the CIB has taken to speed efficiency in project spending and otherwise improve the CIP: 1) the board annually reviews program policies through the solicitation of feedback from applicants, staff and other agencies; 2) the project review committee of the board places a priority on projects that will progress on track; 3) staff regularly follows up with project sponsors when project progress lags, and at times, funding authorization is revoked when extensive delays are foreseen; and 4) over the program's history, events like the NMFA fraudulent audit and the issuance of the audit-related executive order have contributed to program inefficiency.

Relatedly, Ms. Russel noted that the program's funding process has evolved from one in which funding was awarded before projects were ready to one in which readiness-related obligations must be met before awards are made. Ms. Lucero added that she has observed improvements to the program that help accelerate spending.

***Clarification and additional points about the program.*** Responding to members' questions for clarification about the program, Ms. Russel said that: 1) if a sponsor uses only a portion of project funding for a project, the remainder could be used for an extension of that project, but not for a new project, pursued by the sponsor; 2) only entities with a governing body qualify to participate; 3) since many projects are located within unincorporated parts of counties, often, mutual domestics or counties act as project sponsors; 4) only projects whose useful life matches or exceeds the financing period qualify for funding; and 5) the program features a minimum-leverage requirement, which results in the NMFA's frequent interaction with the U.S. Department of Agriculture. Mr. Moore added that: 1) staff can help applicants secure a fiscal agent, which can be a council of governments (COG); 2) only applicants that are current on their audits and are able to maintain the project are selected for funding; 3) staff members advise participants on achieving self-sufficiency to manage projects into the future; 4) funding is available for new infrastructure or improvements to existing infrastructure and for a range of infrastructure types; and 5) whether to rehabilitate or replace existing infrastructure is decided by the applicant and its engineering staff.

Mr. Moore talked briefly about project completion in the program. He said that no program-funded project has ever not reached completion, largely because the program includes a routine funding plan review up front. In cases where available funding falls short of project cost, he added, consideration is given to funding the project in phases. Mr. Moore noted also that in one instance, an applicant lost its approval for, and never received, project funding because of the discovery of alleged criminal activity within the applicant entity.

**Application rate.** Mr. Moore cited as reasons for the reduction over time in the number of applications that: 1) potential applicants have developed an improved understanding of the program's applicability and restrictions; and 2) the program limits the amount of additional funding that active recipients may seek. Ms. Lucero remarked that, moreover, some participants have reached their borrowing capacity and thus cannot receive more program funding.

**Request for information.** Noting the importance to the program of predictability in funding amounts, a member requested information from the NMFA on recent years' legislatively effected decreases in the severance tax bond capacity earmarked for the program relative to the degree to which market changes affected the program's funding capacity.

**Program improvement: past and future.** Concerning the measures the NMFA board and staff have taken to improve the CIP, Mr. Coalter said that all of the NMFA's infrastructure programs have been centralized under the direction of one staff person, a change that promotes greater efficiency in meeting infrastructure needs, and that the NMFA has aligned the timing of those programs' application cycles.

A member asked those involved in the discussion for their recommendations for: 1) improving spending efficiency and the leveraging of money in the program; and 2) promoting a culture of borrowing, which fosters project completion, versus one of grant-making, which tends toward noncompletion. In response, Ms. Lucero suggested that legislators could be more informed on the status of projects in their districts and noted that COGs can help provide support when needed. One related idea, she said, is designating a staff person in each COG to assist with such project management, billing and meeting planning and otherwise offer practical support. She also remarked on the importance of helping low-capacity communities with planning and asset management through the Local Government Planning Fund program. Mr. Moore suggested offering program participants, perhaps online, training in basic management skills.

Representative McCamley requested that, at a future meeting, NMFA staff give its recommendations for promoting the borrowing culture discussed and for promoting more process unification in the context of multi-source project funding. Mr. Coalter agreed to the request.

### **Border Authority (BA) Update**

William "Bill" Mattiace, executive director, BA, and David Espinoza, budget analyst, BA, updated the committee on the BA. Mr. Mattiace spoke as follows.

**History and overview of the BA.** The BA's development from a local to a regional authority came as business and land development, especially in Sunland Park and Santa Teresa, began to accelerate. In that time, housing, commercial outlets and border crossings have multiplied.

Through its collaboration with other American and Mexican entities, the BA is actively involved in regional planning. The overarching goal of that planning is to enhance the

movement of people and goods throughout North America. To that end, the BA sits on a U.S.-Mexico joint working committee on transportation planning, and it has engaged in projects that include a dual customs clearance at the Foxconn plant in Mexico, an international rail crossing and a project to help clear some of the cargo and visitor traffic congestion at the Columbus and Santa Teresa ports of entry (POEs). The BA also is exploring financing tools for trans-border projects. In other pursuits, the BA has collaborated with the Department of Transportation (DOT), including in an effort to spread awareness of the recent implementation of a tax on commercial vehicles crossing from Mexico.

**Budget.** Mr. Espinoza stated that the BA is submitting a recommendation for a flat budget of \$501,000 for the upcoming fiscal year.

### Questions and Discussion

Mr. Mattiace clarified points made in his presentation as follows.

**Activity at the Santa Teresa POE.** With respect to the activity at the Santa Teresa POE: 1) the hours for southbound traffic were extended from 8:00 p.m. to midnight, and a bill to fund the extension of hours for northbound traffic was vetoed; 2) nearly 500,000 cattle cross each day at the Mexican-owned cattle crossing, at which horses and bulls also cross; 3) more than 60,000 cars cross northbound each month, and the number of cars crossing southbound is not tracked; 4) in the 12-mile border commercial zone, Mexican trucks unload cargo into American trucks, and all such trucks are subject to inspection; 5) the federal government recently disallowed the crossing of used vehicles at the POE, so now those vehicles cross at Tornillo, Texas; and 6) activity at the Foxconn plant in Mexico is high and growing.

**Tax on Mexican trucks crossing into Santa Teresa.** The tax on commercial traffic mentioned in the presentation has been in law, but not implemented, for many years. During the recent period in which it was imposed, many complaints about the delays it caused were raised. The DOT then postponed implementation and is examining alternative methods of implementation. It is expected that more on the matter will be known in October.

**Comparison between the Santa Teresa POE and El Paso POE.** Compared with the El Paso POE, which has a much higher volume of traffic, the wait times for commercial crossings at Santa Teresa are short. The El Paso POE wait times are being studied, as is new technology to reduce them by improving the detection of illicit cargo. A study comparing the two POEs was completed recently and explained at the joint working committee meeting in Phoenix.

**Other POEs.** Funding from American sources for the implementation of a retail- and industrial-development project in Columbus has been secured. The funding from Mexico toward the project is not yet secured. Otherwise, much of the pre-construction work has been completed, and it is not known when construction will begin. A bypass east of the POE facility was completed about six years ago. Meanwhile, a new state-of-the-art facility at Antelope Wells is in operation and has led to an increase in tourism there.

***Other border-related projects.*** The railroad interconnection project, feasibility for which has been established, is still under negotiation between BNSF Railway, Union Pacific and Ferromex.

A member inquired about the status of a plan to build an additional crossing at Anapra, Mexico, funding for which a benefactor provided and is under state control. Mr. Mattiace stated that the BA supports Sunland Park's efforts to develop a POE at Anapra, but some have suggested that Sunland Park's resources might be better spent developing its road infrastructure to attract more tourists. He added that the project has not been received particularly well by the federal government and that much further study on the project, though it is being pursued, is needed. Mr. Mattiace agreed to provide the committee with a copy of the proposal for the road development. The member expressed the importance of putting such a generous donation to timely and good use.

***The BA.*** The BA: 1) has four employees; 2) undergoes a financial audit each year; 3) has the most frequent contact among other state agencies with the NMFA and the Governor's Office; and 4) participates in monthly meetings with federal and local law enforcement agency personnel to discuss border-related federal actions and other matters.

***Changes to the North American Free Trade Agreement (NAFTA).*** To help avert federal NAFTA-related action detrimental to the border economy, the BIA and other leaders in the area have to make the case, using statistics, that NAFTA is worth preserving. The BA has conveyed material supporting that argument to the Borderplex Alliance, but it has not communicated on the subject with federal policymakers.

A member stressed the importance of communicating that information to New Mexico's and other border states' congressional delegations and to other federal officials.

### **Border Industrial Initiatives**

Jerry Pacheco, executive director, The International Business Accelerator (IBA), and president/CEO, BIA, talked about the border area's economy, including initiatives to expand its economy and its effects on the state, as follows.

***Overview of the border-area economy.*** The economy at New Mexico's border with Mexico is growing. The amount of goods the state exports to Mexico has grown by almost 350% in the past 10 years. New Mexico surpasses all other states in that measure. Predominantly, the export of production inputs, such as transportation equipment, electrical equipment and components and computer and electronic products, is driving that growth. The location of out-of-state companies to New Mexico because of its proximity to the border is promoting that growth.

Santa Teresa features four industrial parks that include air and rail infrastructure, Fortune 500 companies, wind-blades staging, the nation's largest picture-frame manufacturing company,



FedEx Ground, a Valley Cold Storage & Transportation distribution center and major logistics firms. Meanwhile, San Jeronimo, just south of Santa Teresa, is home to the Foxconn maquila, the world's largest maquila. A new customs pre-clearance program is set to begin there soon.

***Growth of the border-area economy and opportunities for the state.*** Because of its geographic position, New Mexico has an advantage over other states in promoting economic growth. That is, the movement of goods from Asia is changing. New Mexico can capitalize on that change by shifting the balance of offloaded cargo away from California and toward Santa Teresa. Santa Teresa's proximity to the Mexican maquila industry — which increasingly is migrating north — and its proximity to Chihuahua, which has a large manufacturing sector and is Mexico's largest exporter, are factors strengthening the potential of that shift.

With relatively little effort, the state can diversify its economy by supporting development at the border. Furthermore, the increase of exports from the region can help make up for the decreases in exports attributable to shrinkage at Intel's New Mexico plant.

***Supply the Supplier Program.*** The IBA is expanding the benefit of sharing a border with Mexico to the rest of the state through its Supply the Supplier Program. The program is designed to increase the level of in-state supply flowing to border region enterprises. The program has already experienced successes that include job creation and retention.

***Border-area initiatives.*** Among other completed and in-progress border area initiatives: 1) lawmakers recently extended the overweight cargo zone from six to 12 miles, a move that helped bring in 12 companies and the more than 600 jobs associated with them; 2) funding is being pursued and secured to improve area roads; and 3) plans for a bi-national community, Los Santos, in Santa Teresa, San Jeronimo, Mexico, and San Jose, Mexico, are under way; the community has a board of directors and a master plan.

***Future growth.*** It is estimated that the border area will experience growth of between 200 and 500 industrial jobs each year in the coming years. That estimate is based on certain assumptions related to federal and state government action. Notably, rhetoric from President Trump has had a chilling effect on development in the area.

***Key points.*** In short: 1) Santa Teresa and New Mexico have a strategic economic advantage because of their geographic positions; 2) Santa Teresa is growing; 3) that growth benefits the entire state; 4) Santa Teresa is growing into more than just an industrial center; it will be a world-class, sustainability-focused city; 5) Chihuahua's economy is thriving, and its robustness will help drive New Mexico's growth; and 6) private-sector entities are working to develop a unique community, Los Santos, whose presence will ultimately benefit the entire state.

#### Questions and Discussion

***Tax on Mexican trucks crossing into Santa Teresa.*** Mr. Pacheco elaborated on the issues arising from the DOT's recent implementation of a tax on commercial vehicles crossing at

the Santa Teresa POE (discussed during the previous presentation) and on a recommendation for addressing the issues, as follows. Texas also charges such a tax, but that state's implementation of the tax is considerably less problematic. In Texas, permits may be completed, and the tax may be paid, cumulatively. In New Mexico, those functions are handled trip by trip, an approach that is cumbersome, causes delays and results in excessive costs to affected companies. Furthermore, the change is deterring truck traffic from Mexico into New Mexico. To correct the problem, New Mexico should reconcile inconsistencies in the law establishing the tax — as written, the law is ambiguous — and it should harmonize its system of implementation with that of Texas.

***Union Pacific capital improvement project.*** Mr. Pacheco noted that Union Pacific: 1) is engaged in various projects at its Santa Teresa facility; 2) has room for growth there; and 3) will experience growth, which is currently stagnant, as more companies locate to the area.

***Development of Santa Teresa.*** A member recognized Chris Lyons, who was in the audience, as having been instrumental in the development of Santa Teresa for the past 20 years, and the member invited Mr. Lyons to comment on that development. Mr. Lyons responded that: 1) while the area, with the state's support, has developed considerably, it is still marked by vast untapped potential; 2) infrastructure is critical to achieving further success; 3) the area is close to a tipping point — once passed, growth will accelerate; and 4) the location of a very large business to the area would help it reach that tipping point.

Mr. Pacheco added the following related remarks. While Santa Teresa has many advantages over comparable sites in Texas, more investment in the area is still needed. Leaders in the area have actively worked to improve its conditions for development and have achieved certain related successes, such as the state gross receipts tax exemption for trade support companies and the expansion of the overweight zone. Now, leaders are turning their focus to improving the area's infrastructure, including its broadband infrastructure.

***Business recruitment; comparison with Texas.*** A member commented that El Paso remains substantially more developed than Santa Teresa, despite El Paso's comparative disadvantages. Mr. Lyons responded that despite Texas' higher property taxes, New Mexico's personal income tax (PIT) deters Texans from moving there. Mr. Pacheco mentioned an exemption from New Mexico's PIT on the income of Texas residents who work in a 20-mile border zone. Because the law is poorly written, he continued, it is not implemented. He also noted that: 1) the corporate income tax's single sales factor provision helps attract business to the area; 2) workforce availability factors heavily in many businesses' relocation decisions; and 3) Local Economic Development Act (LEDA) incentives factor less heavily into those decisions.

Concerning the variance in rates on electricity delivered by El Paso Electric in Texas and in New Mexico: 1) Mr. Lyons noted that a New Mexico law providing for a differential economic development rate for electricity helps offset some of that disparity and that, in time, solar energy technologies will allow for the reduced dependence on electricity from its current

source; and 2) Mr. Pacheco explained that the law, which has not yet been acted on, allows companies to enter into agreements with El Paso Electric for phased-in discounts on electricity.

***Recruitment of companies to border area.*** Mr. Pacheco cited, as a local repercussion of President Trump's talk of renegotiating NAFTA, two companies' decisions to back out of deals to locate in Santa Teresa: one is a metal fabrication company and the other is an industrial cable company, both from California. He added that the IBA continues its efforts to recruit them. Mr. Pacheco also noted that New Mexico was in contention for the Foxconn plant that ultimately located in Wisconsin and that New Mexico remains positioned to recruit Foxconn to the state.

***Suggestions for future action.*** Asked to suggest legislative measures for encouraging development at the border: 1) Mr. Pacheco proposed focusing on the area's infrastructure, carving a channel to communicate more freely with border-area leaders and revising the commercial vehicles tax statutes; and 2) Mr. Lyons proposed that the state get more involved with Mexican affairs and improve its relationship with Mexico.

### **Film Production Financing: Former Programs and Initiatives and Emerging Opportunities**

Jon Hendry, business agent, IATSE Local 480, and Nick Maniatis, director, New Mexico Film Office, gave an update on state-sponsored programs to encourage in-state film production.

Mr. Hendry summarized the history and current status of film and television in New Mexico as follows. Films have been shot in the state for almost 120 years. New Mexico started a film loan program administered by the State Investment Council (SIC) in 1999. During the Richardson Administration, state-sponsored film programs expanded, and that expansion spurred substantial industry growth. For its size, New Mexico boasts a fairly strong incentive program, though it is less robust than that of Georgia, Kentucky or Louisiana. The program focuses largely on television production, which is associated with longer-term, permanent employment. Film and television productions deliver a sizable economic benefit to the state.

Mr. Hendry further described a proposal for an NMFA-administered revolving loan fund of about \$10 million. Under the proposal, low-budget pictures that shoot in specified rural areas throughout the state, hire New Mexico residents and meet other legislatively set criteria would qualify for a legislatively set, low-interest loan. In return, the state would own a share of the picture. The program would encourage young people to stay in the state and bolster its economy.

Mr. Maniatis drew members' attention to graphs in a handout showing that for the past four fiscal years, there has been steady, significant growth in the amount of expenditures that qualified for the film credit and in the number of projects with a budget of over \$1 million. A table in the handout shows SIC-administered film investment program projects and data associated with them. That program has not been used in recent years, most likely because conventional loans are comparatively more attractive. Meanwhile, a recently enacted law allows for the assignment of film production tax credits.

## Questions and Discussion

***New Mexicans employed in the industry.*** Mr. Hendry stated that: 1) according to data compiled from tax return filings, there were close to 15,000 New Mexicans employed in the film and television production industry in the state two years ago; 2) the "Breaking Bad" bill heightened the in-state residency standards applicable to the tax credit; and 3) the number of out-of-state residents employed in the industry is not known, and the secondary economic effects on employment of the industry's activity in the state have not been quantified.

***Studio space.*** Mr. Hendry noted that the owner of a production studio off Interstate 25 in Albuquerque was considering demolishing it and building condominiums in its place. He also said that there is a general shortage of studio space in the state.

***Efficacy of incentives.*** Mr. Hendry explained that the state's incentive program mostly attracts television and film (versus other media) companies to the state and that the program's residency requirements and cap suppress in-state industry activity. Nevertheless, he said, the residency requirements are worthwhile and should remain intact.

***Industry activity in the border area.*** Mr. Hendry indicated that there is a lot of industry interest and activity in the border area, including at the spaceport and in Sunland Park, and that many New Mexico backdrops in that area function as proxies for out-of-state locations, such as Afghanistan and Wyoming.

***Proposal for revolving loan fund.*** Mr. Hendry elaborated on the proposal for an NMFA-administered revolving loan fund, noting that: 1) the program would provide capital at below-market rates and attract filmmakers from out of state; and 2) the loans could be repaid in part with money from the film tax credit and assigned to the NMFA. Mr. Coalter said that the NMFA had not explored the details of the proposal but would be willing to consider the feasibility of its implementation. He added that to implement a program like the one described, the NMFA would have to work with another agency that possesses relevant expertise, receive an appropriation to capitalize the fund and promulgate related rules.

***SIC loan program.*** Mr. Maniatis clarified that the figures in the handout relating to the SIC loan program represent direct spending in the state. A member expressed an interest in knowing the secondary economic effects, or the multiplier, of that spending. Mr. Hendry explained that the program's dormancy was due in part to the SIC's inability to reduce its loan rates, an inability that the SIC has said is tied to its duty to seek a minimum return on SIC investments. He reiterated that the proposal is for a new, separate fund.

***Request for recommendations.*** Representative McCamley requested that Mr. Hendry, Mr. Maniatis and Mr. Coalter discuss the proposal and return to the committee with a set of options and recommendations for its realization.

## **Recess**

The committee recessed at 2:52 p.m.

## **Wednesday, September 20**

The committee reconvened at 9:03 a.m. on Wednesday, September 20, with Representative McCamley chairing the meeting.

## **Welcome**

Garrey Carruthers, chancellor and president, New Mexico State University (NMSU), welcomed the committee to NMSU and expressed appreciation for the legislature's efforts to ensure funding in the fiscal year for higher education. He gave an update on NMSU as follows. Since he began as chancellor, \$38 million has been cut from the university's budget. Nevertheless, the school has made progress in that time. For instance, many improvements have been made to the main campus, the university has raised its enrollment standards and it has begun a concerted effort to recruit students from surrounding areas, including El Paso and Arizona. Those efforts have helped increase freshman enrollment. To manage the consequences of the rise in enrollment standards, the university developed a program, now growing, that allows non-qualifying applicants to begin college at one of four community colleges and then transfer to the university when they qualify. Lastly, the university has also worked to improve its distance-learning programs.

## **Questions and Discussion**

Chancellor Carruthers elaborated on his presentation as follows.

***Budget.*** The recent higher education appropriation vetoes sent a negative message and created much undue burden for administrators. Were the situation not resolved, the state's universities would have had to cease operations for the fall semester.

***Future challenges.*** In the next five to 10 years, the state's higher education institutions will face challenges that include the need to develop an internationally competitive workforce and to prepare students for technical careers in companies like those whose location to New Mexico would be beneficial. New Mexico's border area's workforce needs to be at least as good as that of Texas; two-year colleges can play a key role in that workforce development.

***Branch campuses.*** To maintain their viability, NMSU's branch campuses must identify the types of education needed in their local economies and tailor their course offerings accordingly.

***Graduate demographics.*** NMSU tracks outcomes among its graduates, partly through data collected by the Workforce Solutions Department and the university's alumni association. Studies show that NMSU ranks high in a measure of its graduates' mid-term career earnings.

## **Virgin Galactic Update and Outlook**

Jonathan Firth, executive vice president, Spaceport and Program Development, Virgin Galactic, gave an update on Virgin Galactic and its activity at the spaceport as follows. Since the company last reported to the committee, there have been significant developments in, and economic impact from, its activity. Specifically, the company has divided itself into: 1) Virgin Galactic, which is based in New Mexico; and 2) Virgin Orbit, which is based in Long Beach, California. While they both endeavor to provide low-cost, reliable service, each has its own management team, and the offerings of each are unique. Despite having to face many competitors in the space market, Virgin Galactic believes it is on a path to success.

Concerning Virgin Galactic's activity in New Mexico, the company is moving forward. Its relationship with the Spaceport Authority has improved significantly over the past year. Among other spaceport-based activities, the company is preparing to fly more than 600 people from more than 50 nations who are signed up to take flights. The original time line for space flight was interrupted because of a test-flight accident that occurred three years ago, and the company has been working on recovering from the setback and is implementing changes to make planned space trips safer and more reliable. Once testing is complete and Virgin Galactic is assured that the system is safe (approximately one year from now), commercial operations will begin — with Sir Richard Branson, Virgin Galactic's founder, a passenger on the first flight. The flights will give passengers an opportunity to view earth from space and experience weightlessness.

Virgin Galactic's investments and activity have created jobs in and brought revenue to New Mexico. Many of the company's employees live full time in Las Cruces, and many others visit the state frequently on business. Once flights begin, many Virgin Galactic employees will move to New Mexico from Mojave, California. More New Mexico residents will be hired, and economic activity associated with the flights will ramp up. In other ways, the company has helped New Mexico and its economy. It has signed a 20-year lease at the spaceport, paid more than \$7.6 million in rent and fees to the state, patronized many local suppliers, sponsored events at the spaceport and helped enrich the education of local students.

### Questions and Discussion

***Aircraft testing.*** Mr. Firth indicated that the design and testing of the vehicles that will launch from the spaceport are conducted in Mojave but that Virgin Galactic is interested in future development and testing of other vehicles in New Mexico.

***Virgin Galactic's lease and its continued presence in New Mexico.*** Mr. Firth clarified that: 1) Virgin Galactic entered into a 20-year lease with the Spaceport Authority five years ago; 2) that lease agreement, which is public, is based on the premise that the company will remain in the state for at least the duration of the lease term; 3) were the company to break the lease, it would face a penalty; 4) the company is not contemplating breaking the lease; and 5) the lease payment rate of \$1 million per year increases at the end of the fifth year, or next January.

***Southern road to spaceport.*** Mr. Firth articulated his understanding of the status of the plan to construct a southern road to the spaceport. Some members expressed concern about the plan for that construction — namely, whether the planned road will be durable enough to withstand the effects of extreme weather events and the weight of some payload freight.

***Competition in space tourism market.*** Responding to a member's concern about the potential effects to the state of the increasing competition in space market tourism, Mr. Firth highlighted some of Virgin Galactic's major competitors and their locations. He noted the differences between those competitors' and Virgin Galactic's planned and existing offerings and also noted the prospect of future consolidation within the industry. Mr. Firth also highlighted New Mexico's spaceport's advantages: air space, weather and altitude.

***Transparency.*** Commenting on recent commentary in the media that certain matters related to Virgin Galactic that are affecting the state are improperly kept from disclosure, Mr. Firth stated that by virtue of operating in a competitive domain, the company's proprietary information must be kept confidential. A member remarked that the issue primarily concerns the Spaceport Authority, not Virgin Galactic.

***Increasing presence in New Mexico; economic and other benefits of that presence.*** Mr. Firth elaborated on Virgin Galactic's plans for stepping up its presence in the state in preparation for the start of commercial flights. He said that the company is actively planning the transition of staff to the state, which will involve the relocation of some staff members at the beginning of 2018 and then more when the flight test system is ready to move.

Mr. Firth elaborated on Virgin Galactic's other benefits to the state. He cited the spaceport's having been constructed using local contractors and the expectation that the flights will attract much tourism — both by Virgin Galactic customers and by those who accompany them. Mr. Firth also outlined some of the company's science education and professional development endeavors: video chats with middle school students in Las Cruces; work with the universities; a seminar series; and an intern program.

***Commendation.*** Several members expressed appreciation for Virgin Galactic's presence and activity in the state and expressed hope that the decision of the state to pursue the spaceport endeavor will ultimately prove sound.

### **Spaceport Authority Update and Outlook**

Zack De Gregorio, chief financial officer, Spaceport Authority, gave a brief update on the Spaceport Authority's finances as follows. The Spaceport Authority, whose funding comes from several revenue sources, is creating new jobs every year and is deriving revenue from an industry that continues to grow. Some of those sources are the General Fund, grants and, critically, local taxes. Given that its budget is tight, the authority will request an increase in its General Fund appropriation for the upcoming fiscal year.

## Questions and Discussion

***Revenue for operations.*** Responding to a question about an issue that surfaced recently in the media regarding the use of certain revenue for operations, Mr. De Gregorio stated that the Spaceport Authority, the NMFA and the spaceport tax district board carefully considered and, in public forums, made the decision on the use of that revenue.

***Transparency.*** Concerning the issue of transparency discussed during the previous presentation, a member requested that the Spaceport Authority strive both to protect confidentiality, when appropriate, and avoid violating the state's laws on the public's access to government information. Mr. De Gregorio responded that there are many areas of ambiguity concerning the classifications of public and private information, that the authority is taking the issue seriously and that it is working with the attorney general toward a resolution of the matter.

***Southern road.*** Mr. De Gregorio gave an update on the southern road, discussed in the previous presentation, as follows. It appears that the project is moving forward and will be successful. Dona Ana County has issued a request for proposals, and the response to that request should be known soon. The recent drop in oil prices is favorable to the state in that it will spur more bidders and more competitive bids. Money for the road's construction has been earmarked, and it is expected that construction will begin in November. Originally, it was estimated that the construction would last about a year; however, an incentive clause that would accelerate the originally contemplated completion was added to the request for proposals.

### **Economic Development Department (EDD) — LEDA and Catalyst Fund Update**

Juan Torres, finance development director, EDD, Julia Wise, director, Office of Science and Technology, EDD, and Brian Birk, managing partner, Sun Mountain Capital, discussed some of the state's efforts to encourage entrepreneurial and business development pursuits in the state.

***LEDA capital outlay fund; State Small Business Credit Initiative (SSBCI).*** Mr. Torres described the EDD's efforts, through the LEDA capital outlay fund and the federal SSBCI, to create jobs, increase the tax base and provide incentives for business development, as follows. The EDD's finance development team administers the LEDA capital outlay fund, which is used to recruit, expand and relocate businesses. It also helps to administer the SSBCI, which supports the financing of certain small businesses. With money from the initiative, New Mexico implemented a collateral support program, which the NMFA administered from 2012 through 2016. In recent years, the EDD has explored better uses of the earmarked federal money, and the EDD's proposal recently won approval from the U.S. Department of the Treasury. Consequently, \$5 million of the original \$13.2 million allocation has been dedicated to the Catalyst Fund, a fund-of-funds investment vehicle. The balance of money will be used for the Small Business Innovation Research (SBIR) matching grant program and for a credit enhancement program similar to, but simpler than, the collateral support program. As collateral support program loans are repaid, more money will be returned from the NMFA to the EDD.



***SBIR program.*** Ms. Wise described the SBIR program as follows. Its purpose is to accelerate the commercialization of New Mexico ideas and technologies by easing the process for taking innovations to market. The grants, awarded competitively, help small businesses engaged in the research and development of high-potential, commercializable technologies. The program provides the opportunity to partner with the federal government and leverage federal funding. Through it, the EDD is also working with NMSU's FAST grant program.

***Catalyst Fund.*** Mr. Birk elaborated on the Catalyst Fund as follows. The fund was launched in 2016 to address the lack of seed and early-stage investment funding in the state. Its managers are pursuing the goal of committing money from the Catalyst Fund to between six and eight funds. Public and private entities have invested in the Catalyst Fund. It has received \$5 million from the federal government (i.e., the portion redirected recently by the EDD); \$10 million from the SIC through its private equity investment program; and \$5 million from large private institutional investors. The capital multiplier goal is to get 100% of the Catalyst Fund commitment in matching capital, which, when reached, will yield \$40 million. Investment commitments have already been made, and more funds are being considered and evaluated. Through those commitments, two companies have been funded.

#### Questions and Discussion

***Preparation for technology-related careers.*** Concerning the topic of workforce training and business needs: 1) a member commented on the existing disparity between those two; 2) Ms. Wise expressed her belief that creating a stronger business environment would encourage companies to locate to, and stay in, the state; 3) a member stressed the importance of preparing students, beginning at a relatively early age, for careers in technical fields and areas in which there will be workforce demands; 4) the member requested that the EDD collaborate with the Higher Education Department and the Public Education Department to cultivate a program focused on such preparation; 5) Mr. Birk stated that he has observed highly trained workers emerging from the state's universities and deficiencies in workforce training; and 6) Mr. Birk added that, if companies benefiting from the Catalyst Fund cannot find a workforce with the skills the companies need, the companies will be more likely to leave the state.

***SBIR program.*** Ms. Wise elaborated on the SBIR program with the following statements: 1) she is the only employee in the Office of Science and Technology; 2) the program is developing, and members of the technology research community are joining in the collaboration toward that development, both organically and through direct outreach; 3) the program was created by statute; 4) no secondary school district has yet been involved in the program, but some districts have engaged in other project-based, technology education programming; 5) grants through the program, which are capped and require a match, may not be used for research but may be used for prototype development, sales and marketing; 6) in applying for a grant, a company must outline certain milestones and report on its progress toward reaching them, and grant money is released in tranches; and 7) grant awards are tied to clawback provisions, including certain requirements for in-state retention.

***SSBCI program.*** Mr. Torres elaborated on the SSBCI program with the following statements: 1) of the original \$13 million allocated by the federal government to New Mexico for the program, the NMFA collected about \$900,000 in program income and administrative overhead; 2) loans under the collateral support program were executed under NMFA policies and have been repaid on schedule; 3) the EDD is responsible for developing the SSBCI program in the state; 4) part of the impetus for re-purposing the federal allocation was, and the SSBCI program goal is, to improve on the collateral support program's spending-to-job-creation ratio; and 5) when exploring ways to re-purpose that money, the EDD looked at other states' uses of SSBCI money, at best program practices and at New Mexico's needs.

***Catalyst Fund.*** Concerning the Catalyst Fund program, Mr. Birk noted that: 1) goals related to the number of companies and full-time jobs created, tax revenue generated and other program outcomes have been established; 2) quarterly program reports are submitted to the federal government; and 3) future reports will include measures of the aggregate salaries of the jobs created through the program.

***EDD-Sun Mountain Capital collaboration.*** Mr. Birk indicated that Sun Mountain Capital's headquarters in Santa Fe is near the EDD office, and representatives of those entities meet frequently to discuss Catalyst Fund investments and prospects.

### **Business Incubators, Accelerators and Venture Capital in New Mexico**

Kathryn Hansen, director and CEO, Arrowhead Center, NMSU, Estela Hernandez, enterprise advisor, Arrowhead Center, NMSU, Peter Anselmo, executive director, Center for Leadership in Technology Commercialization, New Mexico Institute of Mining and Technology (NM Tech), and Tom Stephenson, managing general partner, Verge Fund, discussed their respective organizations' efforts to promote entrepreneurship and business development.

***Arrowhead Center.*** Ms. Hansen and Ms. Hernandez spoke about the Arrowhead Center's efforts to commercialize technology and help small businesses start and grow as follows. Working with a wide range of people in education, government and the private sector, the center promotes entrepreneurship and innovation. NMSU alumni constitute an especially critical pool of people who help promote the center's innovation mission.

The center's incubation efforts consist of several distinct program areas, namely: courses and workshops; the provision of co-working space; a competition; accelerators; incubators; and a seed fund. Its accelerator program, in turn, consists of: 1) Launch, a five-month technology commercialization accelerator; 2) NSF I-Corps, which gives grants for moving National Science Foundation-related technologies to market; and 3) "sprints" (including TechSprint, BizSprint and AgSprint), which offer mentorship, coaching and financial support. Meanwhile, the center's incubators consist of: 1) Studio G, geared toward students and alumni in a wide range of business types; 2) the Arrowhead Technology Incubator, geared toward businesses in water, energy, agriculture and health information technologies; and 3) Arrowhead Ventures, which provides resources for graduates of accelerator programs.

A wide range of sources — governments, private investors and donors and laboratories — contribute funding to promote the center's mission. Notably, the Catalyst Fund (along with the NMSU Foundation) have invested in the newly launched Arrowhead Innovation Fund, money from which will be used to invest in pre-seed- and seed-stage companies' commercialization of NMSU-based innovations.

The center tracks many metrics applicable to its programs. For some, outputs, i.e., activity levels, are measured; for others, outcomes are measured. A report of the center's programs' impacts — including in job and business creation — will be issued soon.

***Center for Leadership in Technology Commercialization.*** As follows, Mr. Anselmo talked about NM Tech's efforts to: 1) bring money to the university through technology commercialization; 2) develop and implement a structure for the university community to monetize its ideas; and 3) support university-wide entrepreneurship. To those ends, the university is: 1) encouraging students — through its classes, its policies, a workshop and an annual competition — to innovate and develop intellectual property (IP); 2) engaging faculty and staff in its commercialization efforts; 3) incubating new companies that license NM Tech technologies; 4) collaborating with the Arrowhead Center on an internal pre-seed technology fund; and 5) marketing NM Tech-developed technologies through workshops and showcases.

The center measures its performance to the extent that it can, given its relative newness. When it is more mature, it will look at the financial inflows deriving from its commercialization efforts. For now, however, the center's focus is on the numbers of its contacts; audiences with potential investors and partners; and quality IP disclosures.

***Verge Fund.*** Mr. Stephenson stressed the importance of investing locally (for its positive effects on the economy and society), and he continued as follows.

Raising the level of capital available to local entrepreneurs — that is, helping fund companies from their early stages through maturity — would encourage the likelihood that they remain in the state. New Mexico lacks adequate access to that full spectrum of funding. Though the state operates some early-stage investment programs, such as the SIC's contribution to the Catalyst Fund and the angel investment tax credit program, the need for more sources of capital to fill out the spectrum persists.

Many venture-capital-backed companies have become highly successful and have gone on to contribute trillions of dollars to the U.S. economy and produce millions of jobs. New Mexico has a growing number of venture-capital-backed companies, including one called IntelliCyt Corporation, a tech company that started at University of New Mexico and sold recently for \$90 million. The company received local funding for stages A and B, but not for C and D, so much of that \$90 million went out of state. Had those gaps been met, more wealth would have stayed in New Mexico.

To improve access to venture capital and retain more businesses in New Mexico, the state should: 1) expand the angel investment tax credit by increasing the cap and making the credit available to out-of-state investors; 2) exempt from the state's capital gains tax the sale of New Mexico businesses; and 3) increase the state's institutional investments in New Mexico-based companies.

### Questions and Discussion

***Arrowhead Innovation Fund.*** Ms. Hernandez clarified that investments of capital from the Arrowhead Innovation Fund are neither loans nor grants but, rather, exchanges for ownership in companies.

***University collaboration and reporting.*** A member commended the presenters from the two universities for their efforts to collaborate toward strengthening the innovation, entrepreneurship and business development in the state and underscored the importance of actively documenting the numbers of jobs created by those efforts, sharing those reports and taking steps to improve program inefficiency.

***Recommendation for a capital gains tax exemption.*** As follows, Mr. Stephenson elaborated on his proposal for a capital gains exemption. Under it, an entrepreneur whose employees own a share in the company started by the entrepreneur would not pay state income tax on the proceeds from the sale of that company. On its face, the proposal carries a negative fiscal impact, but when considered thoroughly, the impact might be more moderate in that it could deter companies from leaving the state. That is, the proposed measure would negate the incentive for a company to avoid the tax implications of an in-state sale by moving just before the sale to a state that does not tax capital gains. In the case of such a company that moves out of state, the proposal is revenue neutral because New Mexico would not otherwise have received any tax on the capital gains.

Enacting this exemption would send the message that New Mexico values startups and entrepreneurs. It would also help fight the perception within the business community that the state's taxes are high.

A member remarked that evidence is lacking of the current capital gains deduction's efficacy and recommended that lawmakers change the approach to capital gains taxation by increasing the provision's value to the state.

### **Minutes**

The committee approved the minutes from the August meeting without objection.

### **Adjournment**

There being no further business before the committee, the committee adjourned at 12:43 p.m.

Revised: October 25, 2017

**TENTATIVE AGENDA  
for the  
FIFTH MEETING  
of the  
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE**

**November 1, 2017  
Eastern New Mexico University  
Campus Union Building  
1500 S. Avenue K  
Portales**

**November 2, 2017  
Clovis Community College  
Main Building — Board Room (Room 512)  
417 Schepps Boulevard  
Clovis**

**Wednesday, November 1 — Eastern New Mexico University (ENMU)**

- 9:00 a.m.           **Call to Order**  
—Representative Bill McCamley, Chair  
—Senator Jacob R. Candelaria, Vice Chair
- 9:05 a.m.           **Welcome**  
—Sharon King, Mayor, City of Portales  
—Dr. J.S. Elwell, President, ENMU
- 9:15 a.m.           (1) **[Efficiency and Safeguard Provisions in Statute, Rules and Contracts for State Grants, Loans and Tax Incentive Programs](#)**  
—John Monforte, Acting Secretary, Taxation and Revenue Department  
—Marquita D. Russel, Chief of Programs, New Mexico Finance Authority (NMFA)
- 10:45 a.m.           (2) **[New Mexico Renewable Energy Transmission Authority Update: Existing Challenges to Timely Expenditure of Funds Process Improvement](#)**  
—Robert E. Busch, Chair, New Mexico Renewable Energy Transmission Authority  
—Loralee Hunt, Manager, Project Development, Wind Business Development, Pattern Energy Group
- 12:00 noon           **Lunch**

1:30 p.m. (3) [Regional Water Infrastructure Funding and Water Infrastructure Team Update](#)  
—Michaelene Kyrala, Policy and Legislative Director, Department of Environment

3:00 p.m. (4) [Water Trust Board Update: Existing Challenges to Timely Expenditure of Funds Process Improvement](#)  
—Tom Blaine, P.E., State Engineer; Secretary, Interstate Stream Commission  
—Marquita D. Russel, Chief of Programs, NMFA

4:15 p.m. **Public Comment**

4:30 p.m. **Recess**

**Thursday, November 2 — Clovis Community College**

9:00 a.m. **Reconvene**  
—Representative Bill McCamley, Chair  
—Senator Jacob R. Candelaria, Vice Chair

9:05 a.m. **Welcome**  
—David Lansford, Mayor, City of Clovis  
—Dr. Becky Rowley, President, Clovis Community College

9:15 a.m. (5) [Statewide Broadband Infrastructure: Capital Programs and Projects and Federal and Other Funding Source Availability](#)  
—Darryl Ackley, Secretary, Department of Information Technology

10:45 a.m. (6) [Spaceport Authority Update and Outlook](#)  
—Daniel Hicks, Chief Executive Officer, Spaceport America

11:50 a.m. **Public Comment**

12:00 noon **Adjourn**

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

**November 1, 2017  
Campus Union Building  
Eastern New Mexico University  
Portales**

**November 2, 2017  
Main Building — Board Room (Room 512)  
Clovis Community College  
Clovis**

The fifth meeting of the New Mexico Finance Authority (NMFA) Oversight Committee was called to order by Representative Bill McCamley, chair, on Wednesday, November 1, 2017, at 9:21 a.m. in the ballroom of the Eastern New Mexico University (ENMU) Campus Union Building in Portales.

**Present**

Rep. Bill McCamley, Chair  
Sen. Jacob R. Candelaria, Vice Chair (11/1)  
Rep. Alonzo Baldonado (11/1)  
Rep. Sharon Clahchischilliage  
Rep. George Dodge, Jr.  
Rep. Kelly K. Fajardo (11/1)  
Sen. Ron Griggs  
Sen. Richard C. Martinez  
Rep. Jane E. Powdrell-Culbert  
Rep. Debbie A. Rodella  
Sen. Nancy Rodriguez (11/1)  
Rep. Patricia Roybal Caballero

**Advisory Members**

Rep. Bealquin Bill Gomez  
Sen. John Pinto  
Rep. Sheryl Williams Stapleton

**Absent**

Sen. Craig W. Brandt  
Sen. Joseph Cervantes  
Rep. Harry Garcia  
Rep. Jimmie C. Hall  
Sen. Michael Padilla  
Rep. Patricio Ruiloba  
Sen. William E. Sharer  
Rep. Linda M. Trujillo

Rep. Brian Egolf  
Rep. Patricia A. Lundstrom  
Sen. Mary Kay Papan  
Rep. Tomás E. Salazar  
Sen. Clemente Sanchez  
Sen. Jeff Steinborn  
Sen. Bill Tallman  
Sen. Pat Woods  
Rep. Monica Youngblood

**Guests Legislators**

Rep. Randal S. Crowder  
Sen. Stuart Ingle  
Sen. Cisco McSorley (11/1)

(Attendance dates are noted for members not present for the entire meeting.)

**Staff**

Jeff Eaton, Staff Economist, Legislative Council Service (LCS)  
Tessa Ryan, Staff Attorney, LCS

**Guests**

The guest list is in the meeting file.

**Handouts**

Handouts and other written testimony are in the meeting file.

**Wednesday, November 1****Welcome**

Dr. J.S. Elwell, president, ENMU, welcomed the committee to ENMU's main campus and noted that he assumed his role as president four months ago. He said that the campus has changed somewhat recently, in that the school has added some buildings and has improved the energy efficiency of others.

**Questions and Discussion**

In response to members' requests for additional information about ENMU, Dr. Elwell stated that: 1) the student body has grown to more than 6,000; 2) the university has been successful in its efforts to retain and recruit students and foster a culture of student support; 3) about one-third of students graduate within six years of entering, and the university is striving to increase that figure to two-thirds; 4) approximately 37.1% of students are minorities; 5) the university has a very low tuition and fee rate compared to other universities; and 6) the campus can accommodate about 1,000 students in its dorms, the quality and cost of which vary.

Members praised ENMU for recently having had its Portales and Roswell campuses recognized by the Legislative Finance Committee (LFC) as efficiently run higher education institutions.

On the subject of ENMU's Ruidoso branch's relatively low ranking in the LFC analysis and the problem of inefficiency among many of New Mexico's higher education institutions, a member asked about the university's plans to improve that branch. Dr. Elwell described the campus as relatively small and expensive and its student population, which has dropped by about one-half in the past seven years, as predominantly from the Ruidoso area. He noted that the



university is considering options for the school, including that of pursuing academic programs in wind energy, and is embarking on a search for a new president.

### **Efficiency and Safeguard Provisions in Statute, Rules and Contracts for State Grants, Loans and Tax Incentive Programs**

John Monforte, acting secretary, Taxation and Revenue Department (TRD), and Marquita D. Russel, chief of programs, NMFA, spoke on behalf of their respective agencies, as follows, about legal provisions for the safeguarding of public money applicable to the programs their agencies administer.

#### TRD

***Tax policy principles.*** Understanding the principles underlying tax policy is important to developing a strong tax system. The principles — adequacy, equity, efficiency, simplicity and accountability — are sometimes at odds with each other. Notably in this context, a state's revenue adequacy is often compromised by efforts to make the state competitive with other states through tax incentives. Also of note, it is often hard to determine whether a given tax incentive is the most efficient way to produce a desired outcome because of the limitations on information about desired outcomes and on information derivable from tax returns.

***Tax expenditures and incentives.*** A tax expenditure, which can take the form of a tax exemption, deduction or credit, is a deviation from the baseline system of taxation that gives special treatment to qualifying taxpayers. With exemptions, there is no legal obligation to report on amounts exempted, which improves efficiency in tax administration — but also diminishes accountability. Meanwhile, deductions reduce the amount of a taxpayer's total taxable income, and credits function as dollar-for-dollar reductions of tax due.

Since 2012, the TRD has been producing a tax expenditure report, which provides information on and classifies (as expenditure, non-expenditure or "arguable") each "deviation" from the tax base. The 2016 report includes 244 such deviations, 123 of which are classified as expenditure, 98 as non-expenditure (i.e., they serve a purpose other than to provide special tax treatment) and 23 as arguable. A table on page 26 of the handout shows the 10 most expensive expenditures, with the sale of food gross receipts tax deduction, and the hold harmless distribution associated with it, ranking highest — by a wide margin.

***Tax incentive safeguards; considerations for proposed tax incentives.*** Measures and tools can be used to safeguard public money and help ensure that the intent of a tax incentive program is met, including providing for a clear statement of purpose and clear qualification standards in statutes, agency oversight and monitoring, statutorily clear separation of agencies' roles, statutory caps and, especially, the overall simplification of the tax system.

***Highlighted tax credits.*** Some examples of the state's tax credits are the high-wage jobs tax credit, the rural job tax credit and the film production tax credit. The high-wage jobs tax credit has paid over \$215 million in refunds in a recent eight-year period and has been adjusted to

limit the receipt of the credit by unintended recipients. The rural job tax credit, similar to the high-wage jobs tax credit, features a two-tier structure and limits the confidentiality of taxpayers claiming it; the latter feature allows for more comprehensive reporting on the credit. Its cost has fluctuated over the last seven years. Meanwhile, the film production tax credit, which is very complex and requires much work on the part of applicants to claim, involves the participation of the Economic Development Department (EDD), is capped at \$50 million and, among the state's tax credits, has one of the highest rates of claim approval.

### NMFA

The NMFA is a broad-based finance agency that employs many tools to maximize efficiency and safeguard program resources. By law and its own initiative, the NMFA engages in partnerships with other agencies; in many cases, those agencies assist in project selection and program marketing. Several NMFA programs involve third-party lenders that employ their own safeguard mechanisms. In its lending, which is the predominant funding form the NMFA offers, the NMFA considers a potential borrower's organizational management, historic and current cash flows and the conditions of its industry and local economy. All NMFA loans are fully secured, provide a recourse for nonperformance and require performance reporting, including an annual financial review. Moreover, the NMFA often involves its partner agencies in ensuring that projects are progressing appropriately.

### Questions and Discussion

***Proposed tax legislation.*** A member expressed the opinion that there is a general lack of clarity around tax policy and expressed the belief that, given the complexity of much tax legislation, the TRD should be actively involved in drafting tax bills and involved during their course through the legislative process. Acting Secretary Monforte responded that TRD staff respond to tax bills through fiscal impact reports and through direct communications and that the degree of response and involvement depends in large part on the wishes of the bill sponsor. He encouraged legislators to seek drafting guidance from the TRD, which includes about 1,000 employees with expertise in a range of areas, and also to work with other agencies that can provide other types of expertise.

Responding to comments about proposed large-scale tax reform efforts, Acting Secretary Monforte said that policymakers should move forward with such a proposal only if they are confident that its enactment will not have devastating effects on revenue generation.

***Film production tax credit.*** A member commented that the film production tax credit is generating an enormous economic return and expressed hope that it will continue to promote growth in the state's film industry. Acting Secretary Monforte praised the EDD for its role in administering the credit and remarked that its structure is effective.

***State's fiscal health.*** Responding to a member's comment about a recent report citing New Mexico as one of the states most poorly positioned, financially, to face a recession, Acting Secretary Monforte expressed the views that the state is overly dependent on revenue generated

from oil and gas production and that, though it has recently taken steps to reduce that dependency, it needs higher reserves, along with statutory mechanisms to increase those reserves, to buffer against an economic downturn. He further pointed out that less volatility in the distributions to local governments is also needed and suggested that the tax structure should be simplified and the corporate income tax reformed.

A member noted that the state's dependence on federal spending also contributes to its fiscal vulnerability, particularly given the prospect of certain drastic reforms at the federal level and given the state's low reserve levels; the member also remarked that the tax reform measures proposed by Representative Jason C. Harper would probably not overcome the effects of those reforms. Acting Secretary Monforte said that New Mexico would suffer financially from a substantial decrease in revenue from federal spending, regardless of what tax structure were in place in the state. When asked by the member whether tax increases would be needed to overcome an economic downturn, Acting Secretary Monforte responded affirmatively.

A member noted the large amount of money at stake in various tax protests and stated that the TRD should work on resolving those issues. Acting Secretary Monforte replied that the TRD is approaching the issue using its own legal resources and by contracting with a private law firm. He also noted that tax protests are a normal part of a tax system and that the TRD recently changed its tax advocate position from exempt to classified.

A member requested of Acting Secretary Monforte the figure representing the cost of the railroad fuel deduction to the state.

***Tax expenditure reporting.*** A member proposed that the cost of the hold harmless distributions be stated separately from that of the food and health deductions. Acting Secretary Monforte responded that the TRD will consider making that distinction in future tax expenditure reports.

A member stressed the importance of access to information to help improve the state's ability to scrutinize tax incentives and remarked that: 1) though that access has improved over time through the publication of the tax expenditure report, there remains much work needed in this area; and 2) The Pew Charitable Trusts can help the state in that effort. Acting Secretary Monforte stated that a key barrier to knowing more about the effectiveness of tax expenditures is confidentiality laws. The member replied that the past two executive administrations have actively resisted legislative efforts to amend those laws.

## **Minutes**

The committee approved the minutes from the September meeting without objection.

## **New Mexico Renewable Energy Transmission Authority (RETA) Update: Existing Challenges to Timely Expenditure of Funds Process Improvement**

Robert E. Busch, chair, RETA, Lynn Mostoller, general counsel, RETA, and Loralee Hunt, manager, project development, Wind Business Development, Pattern Energy Group, formed a panel to discuss the status of the RETA and various wind energy projects in the state.

### RETA

Mr. Busch summarized his educational and professional background — including that he has a master's degree in electrical engineering, degrees in business and finance and experience working for a major utility company — and continued as follows.

***Background on the RETA and renewable energy development.*** The RETA was established in 2007 to capitalize on the state's renewable energy potential and facilitate the transmission of wind and solar energy to markets. The RETA's mission is to plan, finance, develop and acquire high-voltage transmission lines and storage projects to promote economic development. Given the changes in renewable energy technology, the decrease in the cost of renewable energy generation in the past 20 years and the importance for security of diversifying the nation's energy supply, the RETA's mission and activities are of particular consequence.

***RETA project policies.*** Since its inception, the RETA has developed policies that guide project development. The authority works in partnership with project developers to create financing plans. Its support for a given project increases as the project's viability strengthens. The RETA recently updated its project policies to establish guidelines for developers' contributions, which: 1) the RETA is authorized by law to receive; 2) are neither project-specific nor subject to refund; and 3) the RETA depends on entirely because of the vetoes of its recent state appropriations. The RETA continues to comply with its enabling act's requirements for financial oversight.

***Updates on RETA-sponsored projects.*** The RETA is involved in the Western Spirit Clean Line project, a \$150 million, 140-mile transmission line co-developed and owned by the RETA; the SunZia project, a 515-mile transmission project in New Mexico and Arizona; and the High Lonesome Mesa project, a 100-megawatt wind farm in Torrance County. Concerning the Western Spirit project: 1) many necessary approvals have been secured and others are being sought; 2) Public Service Company of New Mexico has agreed to integrate the line into its grid; and 3) operation could begin in 2019. Concerning the SunZia project: 1) progress, which had been stymied by financial issues, has resumed; 2) federal approval has been given to select Pattern Energy Group as the preferred anchor customer; 3) many other necessary approvals are being sought; and 4) operation could begin by the end of 2020. Concerning the High Lonesome Mesa project, which is in operation: 1) the RETA issued \$50 million in revenue bonds in 2010; and 2) millions of dollars associated with the project are, and will continue, flowing to Torrance County, Estancia schools and local landowners.

All three projects have begun, and will continue, bringing environmental and economic benefits — in the form of state and local tax revenue, job creation and capital investment — to New Mexico. In this sense, the legislature's having established the RETA is proving beneficial.

***RETA funding.*** A table on page 14 of the handout shows the history of RETA funding, including many years in which the RETA received no state money, but relied on private sources for funding. The authority is requesting \$250,000 in appropriations for fiscal year (FY) 2019 because: 1) it is a state entity; 2) it is not yet self-sufficient; 3) it has no staff, only a board; 4) it cannot suitably conduct outreach without a staff; and 5) funding from the state would strengthen the RETA by diversifying its funding sources; that stability, in turn, would improve developers' confidence in the entity.

The RETA's recent audit, which was submitted to the state auditor, resulted in no findings.

#### Pattern Development

Ms. Hunt continued as follows.

***Transmission enabled wind.*** Pattern Development, the largest wind developer in the state, has long-term visions for its projects and strives to develop positive relationships with the public and private communities with which it interacts. The company was recently awarded federal approval to supply renewable energy through the SunZia transmission line, for which the company is currently focusing on the Village of Corona and for which the company has been actively seeking and securing public and private land-lease agreements, permits and financing. The transmission line crosses federal, state trust and private lands in approximately equal proportion.

#### Questions and Discussion

***The RETA — history and status.*** Mr. Busch clarified that the RETA: 1) formerly had two employees on staff; 2) now, has only a board that meets quarterly, a general counsel, part-time administrative support and part-time accounting support; 3) at one time, did not need state money for operations because of private-source funding; 4) receives a different return for each project in which it invests; and 5) will probably be self-sufficient once the Western Spirit project reaches fruition.

***Compensation for private landowners.*** Mr. Busch clarified that landowners associated with the projects receive royalty payments and other payments for the use of their land. Ms. Hunt specified that: 1) Pattern Development treats the landowners it works with equally, and they are compensated at an average of \$7,000 to \$10,000 per turbine; 2) the SunZia project involves approximately 39 private landowners, and of those, only three have yet to reach an agreement on compensation with the company; 3) because New Mexico's prime wind resources tend to be in rural areas, a relatively low number of people are affected by the presence of

turbines; 4) a turbine requires about five acres of land; and 5) compensation for landowners is on a gross royalty basis that provides for minimum payment levels.

***Competition with other states.*** Ms. Hunt explained that California's recent establishment of renewable energy standards has resulted in a push within New Mexico and Wyoming to connect renewable energy transmission lines to deliver power to California. She noted New Mexico's advantage of having wind that, because of the times of day and night it blows, promotes consistency in power supply.

***Broadview Wind project.*** Ms. Hunt explained that the Broadview Wind project, which will connect wind power to a substation for delivery to the California market, is under way. For New Mexico to reach the California market before Wyoming does, the project will have to proceed timely, she said, and added that the recent line-item vetoes of appropriations to the RETA have fostered uncertainty among businesses considering partnering with the RETA in this pursuit.

***Statutory floor for percentage of power from renewable resources.*** Mr. Busch explained that the 30% minimum threshold applicable to projects' renewable resources is reasonable, considering the way the grid works, and he recommended that the number not be changed. Ms. Mostoller noted that the statute as written allows the RETA more flexibility in forming partnerships than it would have if that figure were higher.

***Renewable energy storage.*** Mr. Busch stated that there are no large renewable energy storage facilities in the nation and posited that utility-scale storage technologies probably will not develop within the next decade but possibly will in the five years after that period.

***SunZia project.*** Ms. Hunt updated the committee on the progress of the SunZia project, noting that: 1) a determination of how much firming source is needed is under way; 2) agreements with the federal Department of the Interior and Department of Defense were signed during the Obama Administration; and 3) agreements to bury certain segments of the line where it would otherwise interfere with the White Sands Missile Range have been reached. She also said that all energy generated from the SunZia project will be exported.

***Turbines.*** Ms. Hunt said that the components for Pattern Development's turbines derive from sources around the world and are assembled in the United States and that the company has not explored the possibility of manufacturing turbines in New Mexico.

***Future of the RETA and renewable energy in the state.*** Several members expressed support for the RETA's mission and an interest in ensuring that the authority receive the appropriation it is requesting; members also recognized the benefits that ensue from the authority's work, including financial investments in rural communities and job creation. Ms. Hunt expressed her view that there are many such project-related economic opportunities in the

state, and that New Mexico, should it choose to pursue the course, could be a leader in wind and solar energy development and, perhaps, renewable energy storage.

### **Regional Water Infrastructure Funding and Water Infrastructure Update**

Michaelene Kyrala, policy and legislative director, Department of Environment (NMED), discussed water infrastructure funding challenges, progress and a related partnership as follows.

**Challenges.** The problem of — and discussions around solutions to — inefficiency within the water infrastructure project funding process have persisted for decades. Often, the problem stems from: 1) entities' noncompliance with audit requirements; 2) the slower spending pace inherent in the project planning and design phase; 3) funding inadequacies; 4) entities' lack of managerial, financial and technical expertise; and 5) entities' unwillingness to borrow money. For example, in the Wastewater Facility Construction Loan Fund (WFCLF) program in FY 2015, over \$21 million in loans — \$4 million of which was offered at a 0% interest rate — was declined. To improve efficiency in water infrastructure funding, lawmakers could condition capital outlay awards on the receipt of other, loan-oriented funding; however, it is worth noting that loan offers will not be extended to entities deemed unable to service debt and repay loans.

**Progress.** In efforts to overcome these challenges, the NMED has promoted relevant statutory and rule changes and has instituted a partnership. Namely, in the WFCLF program, eligibility has expanded, and for certain types of projects, loan terms have been extended from 20 to 30 years and the maximum interest rate has been decreased from 3% to 2.375%.

**Partnership.** In 2013, the NMED formed the Water Infrastructure Team, consisting of related state and federal agencies and nongovernmental organizations, to address complaints about funding program deficiencies and to improve interagency collaboration. In 2014 and 2015, the team embarked on several initiatives, including the development of capacity assistance contracts; the creation of a simple, uniform asset management plan, a local government funding source guide and a website for information dissemination; a survey of water infrastructure needs; and a public awareness campaign in conjunction with The Value of Water Campaign. In 2016, the team focused on issues around project funding, including by forming a subgroup to review certain projects (brought to its attention through the needs survey) for program eligibility and provide information about those funding sources. This year, the team has continued that endeavor and has researched best state practices for collaboration among programs. The team plans to continue its work of helping communities access fair funding for their water infrastructure needs.

**Construction Programs Bureau report.** Ms. Kyrala highlighted a July 2017 report on infrastructure development that was prepared by the Construction Programs Bureau of the NMED. The report is prepared twice a year and shows the progress of the water, wastewater and solid waste projects administered by the bureau, she said.

## Questions and Discussion

***Water system emergencies.*** Responding to a member's comment that water systems at times encounter emergencies and those who oversee them are unsure where to turn for help, Ms. Kyrala noted that page five of the report shows a map of the bureau's service areas, the project managers who oversee those areas and the managers' phone numbers. She encouraged committee members to call her or the appropriate manager when such a situation arises.

***Loan acceptance.*** On the topic of entities' willingness to accept loans for water projects, Ms. Kyrala indicated that: 1) some entities, which are capable of repaying them, turn down 0% interest loans; 2) the state's capital outlay system, which offers no-cost funding for such projects, serves as a disincentive to entities to borrow money for the projects; 3) the NMED has not explored other states' measures to encourage entities to accept loans; 4) with the changes recently made to the WFCLF program, more entities might be encouraged to accept program loans; and 5) the legislature can help overcome the challenge by conditioning capital outlay funding on supplemental funding from loans. Ms. Kyrala also clarified that: 1) the NMED works with councils of governments in this area; and 2) the team is working to help make entities aware of the various funding programs' time lines. Responding to a member's request that the NMED strive to develop a uniform application form accepted by all agencies involved in project funding, Ms. Kyrala said that, toward the goal of making the various project application processes more uniform, the NMED has worked with state agencies to accept a single form of asset management plan, which is a key component of funding. Ms. Kyrala elaborated on aspects of the chart on page five of the handout, including that the determination of grant funding is made using a standardized scoring process.

### **Water Trust Board (WTB) Update: Existing Challenges to Timely Expenditure of Funds Process Improvement**

Tom Blaine, P.E., state engineer, and chair, WTB, and Ms. Russel gave an update on the WTB program.

Mr. Blaine prefaced the presentation by noting that the board worked closely with NMFA staff to make improvements to the WTB program in the last few years. He said that, in his role as chair, he has reviewed program policies and procedures in response to concerns voiced by the legislature, including that program money is spent too slowly and that the project authorization list reaches the legislature too late relative to the timing of legislative sessions. He said the board has instituted changes to address those concerns and that, moving forward, the board will continue its efforts at improving program efficiency.

Ms. Russel continued as follows.

***Program history.*** The WTB program has been in effect for 15 years and has spanned three "eras": 1) that in which the program functioned as an extension of the capital outlay program, wherein funding was in the form of grants, and evidence of project readiness was not a condition of funding approval; 2) that in which the WTB embraced policies imposing readiness



standards; and 3) that in which those standards were heightened. Specifically, in 2015, the WTB began requiring that projects be fully evaluated before they could be proposed for legislative authorization, and it made changes that improved transparency and predictability.

***Project evaluation criteria.*** All projects are evaluated using a set of weighted criteria; 50% of project ranking hinges on health and safety factors, 40% on factors established by statute and 10% on a regionalization factor related to the state water plan.

***Project awards and expenditures.*** Since 2007, the WTB has required that an entity spend a certain proportion of program funding received before it receives a new award; in 2016, the policy was changed to exclude a project from inclusion on the project authorization list if the entity had not spent the threshold amount. A table on page six of the handout illustrates how the program improvements have increased spending efficiency over time. A chart on page seven shows a trend shift in 2012. Before then, in each program year, more program money was awarded than expended; after that, the converse was true. As can be seen in the chart on page eight, the proportion of amounts expended to amounts awarded has steadily increased over time.

***2018 application cycle.*** For the current application cycle: 1) 83 notices of intent to file an application were received; 2) 73 applications, for projects totaling over \$72.4 million, were filed; 3) five of those applications were for projects deemed ineligible because of failure to meet spending requirements; 4) 63 of those applications will be evaluated by the seven-agency review team, whose recommendations will be presented to the board at its November 29 meeting; and 5) a final project list will be presented to the committee at its December 1 meeting.

#### Questions and Discussion

***Eastern New Mexico Water Utility Authority (ENMWUA) project funding.*** Responding to a request for clarification of whether the ENMWUA's application for WTB funding was recently denied, Mr. Blaine offered the following: 1) the WTB project review committee determined that the utility authority did not meet expenditure requirements, as outlined in the presentation, and so its application could not be considered without a waiver from the board; 2) at the board's recent meeting, the utility authority requested the waiver, but the board denied the request by a vote of six to three; 3) on the motion to grant the waiver, Mr. Blaine voted affirmatively because of the utility authority's unique position of having access only to ground water, the declines in that area of the Ogallala Aquifer, the importance of the utility authority's decades-long Ute Reservoir project and the broad-based measures for ensuring water security, which involve regionalization and a bottom-up approach, and which consider the region's economy and communities, being pursued by the utility authority; 4) the funding request, for \$2.9 million, is for a small portion of the project, but the funding would help facilitate the project's incremental development; and 5) the utility authority actively seeks out diverse sources of funding, including federal funding, for the project. The member stressed the importance of the project to the region and its communities and of the WTB funding for helping the project move forward.

In response to the question of what can be done at this point to help secure the ENMWUA's funding, Mr. Blaine indicated that: 1) the legislature could add the project to the project authorization bill; or 2) the committee could request that the WTB reevaluate the request for a waiver, though were the board to take that step, it might delay the review of other projects and otherwise interfere with the program's time line. Ms. Russel added that: 1) the value of the projects whose applicants requested waivers constitutes about one-fourth of the funding requested; 2) she believes that the WTB's decision to deny the waiver was grounded in its focus on ensuring that money is timely expended; and 3) staff did not have a basis in program policy for recommending the project for funding, nor for recommending the grant of the waiver.

Responding to a member's questions about options for appealing board decisions, Ms. Russel indicated that: 1) WTB program rules allow an applicant whose request for waiver was denied, as in this case, to petition the board to reconsider its decision, or the applicant could appeal the decision to district court; 2) in the program's history, only two applicants have appealed board decisions to district court; in one of those cases, the parties reached a negotiated settlement, and in the other, the court upheld the decision; 3) to date, the ENMWUA has not requested a reconsideration of the board decision; and 4) the board could reconsider the decision at its next scheduled meeting or at a special meeting called by the chair, notice for which would have to be given about 15 days in advance. She further elaborated on the ENMWUA request, saying that: 1) the utility authority received funding in 2014 that remains unspent; and 2) in the NMFA's estimation, the utility authority lacks authority to generate revenues sufficient to repay the loans in question; the project finance plan establishes that other public entities will generate the revenue.

Ms. Russel clarified that the project authorization bill lists projects in general terms, without dollar amounts and whose total value exceeds the amount projected to be available for funding; that way, it can be ensured that all funding will be used, even if one or more projects become ineligible after the bill is enacted. She added that projects are not listed in order of priority. A member commented on the undesirable possibility that the board's approval for the ENMWUA project would displace another otherwise qualified project.

***Policy for timely expenditure.*** Ms. Russel elaborated on the recent changes in the WTB program's policy to encourage the timely expenditure of program funding, saying that the new policy added a preliminary target — October 3 — for spending a certain amount of program funds. Mr. Blaine added that the policy was enacted to accelerate the pace of spending but that the board left open the possibility of waivers to allow for the accommodation of applicants with special circumstances.

***Program funding.*** Ms. Russel clarified that the program requires that a certain portion — no less than 10% — of funding be in the form of a loan and that the portion level depends in part on whether the applicant has a ratepaying constituency.

***Condition of water systems; water quality.*** Mr. Blaine stated that the Drinking Water Bureau of the NMED does an excellent job of ensuring through testing that drinking water is safe for consumption by the public. Were tests to reveal that the water is unsafe to drink, which might be the case in one or two small systems in the state, the bureau would notify the affected public and recommend that they employ safety-related measures, he said.

***Program appropriation.*** Ms. Russel clarified that funding from the severance tax bonding program otherwise dedicated for the current year's WTB program was swept during the 2017 special legislative session for fiscal solvency. She also said that the measure mostly affected larger-scale water projects like that of the ENMWUA.

### **Recess**

The committee recessed at 3:47 p.m.

### **Thursday, November 2**

The committee reconvened at 9:10 a.m. on Thursday, November 2, with Representative McCamley chairing the meeting.

### **Welcome**

David Lansford, mayor, City of Clovis, and Dr. Becky Rowley, president, Clovis Community College, greeted the committee and gave updates on aspects of their work in their respective roles.

### **Clovis Area Water Supply**

Referring to maps showing water saturation levels in the Clovis region that were distributed to the committee, Mayor Lansford discussed the status of the region's water supply and management as follows. A map from about 1940 shows that the Southern High Plains Aquifer around Cannon Air Force Base and its vicinity had relatively high saturation levels. A map of those measures from 1977 shows declines in those levels. Maps showing projections of those measures in 2025 and 2040 show substantial further declines.

The City of Clovis is involved in a large-scale project to convey water from Ute Reservoir to the region — and in so doing, to connect population centers — but it is also pursuing avenues for accessing ground water reserves and conserving water in the period before that project is complete. For instance, the city recently purchased the water rights of an irrigated farm and took the farm out of production. The saturation levels associated with the property have since risen.

Agriculture is important to the region's economy. For that industry and the entire community to be sustained in the interim period, the industry needs to adopt, and farmers need an incentive to convert to, certain sustainable practices around water use. Maintaining a sustainable water supply is critical for recruiting business to the area and for creating jobs.

Mayor Lansford expressed appreciation for the opportunity for reconsideration of WTB funding of the Ute Reservoir project and noted that: 1) to achieve the desired economy of scale and justify construction on the project, the project needs at least \$25 million; and 2) the city is able and willing to repay the money it borrows for the project.

### Clovis Community College

Dr. Rowley spoke as follows about Clovis Community College. The school, with between 3,400 and 3,800 students, is a medium-sized community college with a focus on health and nursing programs. The college has educated 70% of the nurses in the immediate area. It also has programs to prepare students for careers as physical therapy assistants and radiological technology assistants, careers associated with less job opportunity but for which the college meets all of the area's workforce needs, and as emergency medical technicians.

The college focuses on student retention and on serving the educational needs of the community. It works diligently to retain its students — many of whom are parents, hold down jobs and face other obstacles — from semester to semester.

The college's original facility was built in 1980, and it has not been changed much since then. Rather than pursue elaborate building projects, the college focuses on changes in line with enrollment growth and program need, on maintaining up-to-date facilities and on energy-efficiency, cost-savings projects.

### Questions and Discussion

***Ute Reservoir project.*** A member suggested that the ENMWUA seek possible funding for the Ute Reservoir from private lenders, whose loan rates might be lower than those of the NMFA. Mayor Lansford explained details about the initial WTB denial of funding for the project, including that: 1) the reason given for the denial is that there is insufficient assurance that the communities involved in the project would repay the loan; and 2) the applicant is working on appealing the decision. A member stressed the importance of the project to residents in the eastern part of the state and expressed a willingness to help in the appeal process.

***Regional water supply.*** Mayor Lansford offered the following in response to questions about the region's water supply: 1) Cannon Air Force Base actively practices water conservation; 2) the declines in saturation thicknesses illustrated by the maps are primarily attributed to irrigation farm practices and the production of feed stock for dairy cattle; that is, the use of mined water from sources with minimal recharge rates; 3) the practices referred to in the presentation that are being promoted for adoption by the agricultural industry include dryland farming, or growing feed stock in lower concentration, which would conserve water and allow the aquifer to recharge and rest; 4) employing those practices would require that feed stock — which is mostly corn — be grown over a larger area or imported by rail; and 5) if such practices are not adopted, the region will face a water shortage crisis.

A member suggested that policymakers in the region explore other possibilities for water conservation and expressed support for providing them with the tools they need to contend with the issue.

***Clovis Community College.*** A member suggested that the college explore the possibility of offering programs in the area of water and sewer systems, for which the state faces a workforce shortage.

Dr. Rowley clarified that: 1) about 15% of the college's students are from Texas; 2) the college participates in the border state participation agreement and offers tuition rates attractive to Texas residents; 3) the college employs a full-time recruiter who recruits strategically at high schools in the area, in Albuquerque and in nearby areas of west Texas; 4) the college enrolls as many nursing students as it can accommodate and is limited by the capacity of the opportunity for clinical practice in the area; 5) the college tracks its graduates' job placement, particularly through its alumni association and the ongoing contact between former students and program chairs; and 6) the majority of the college's nursing program graduates stay in the state, in part because the pay for nursing jobs is better than in Texas.

Members praised the success of the college, its work to educate students from the broader community and its early participation in a dual-credit, distance education program.

### **Statewide Broadband Infrastructure: Capital Programs and Projects and Federal and Other Funding Source Availability**

Darryl Ackley, secretary, Department of Information Technology (DoIT), and Maria Sanchez, general counsel and policy director, DoIT, discussed broadband infrastructure in the state. Secretary Ackley spoke as follows.

***Recent accomplishments.*** Many state agencies and other entities have made concerted efforts to expand broadband — i.e., increase the access to fiber optic connectivity — to public schools in the state and to make that access affordable. The effort has paid off; currently, 99% of schools are connected to fiber (the only available technology that will not become obsolete), and the cost of that connectivity has dropped by 52% from a year ago. Further, nearly two-thirds of school districts are paying less for internet this year than they paid last year.

Notably, however, the demand for wireless capabilities grows, and will continue to grow, at a rate that far outpaces the ability to deliver wireless services.

***Publication of information on broadband.*** The DoIT's website contains extensive information related to broadband research and resources. It features the DoIT's statewide final strategic plan from 2014, which contains statewide broadband maps.

***Recent efforts to improve broadband infrastructure in the state.*** In its recent history, the DoIT has pursued the following initiatives: 1) the Broadband Technology Opportunity

Program, begun in 2010 with \$227 million in federal grant funding for fiber, last-mile, wireless and sustainable adoption projects; 2) the Broadband Deficiencies Correction Program, begun in 2014 to use \$50 million over five years to correct broadband infrastructure deficiencies affecting public schools; 3) the Broadband for Education Initiative, begun in 2015 with the goal of providing affordable connections at one megabyte per second (Mbps) per student by 2018; 4) the DoIT's Office of Broadband and Geospatial Initiatives (OBGI), begun in 2016; and 5) legislation enacted in 2017 to improve broadband access and infrastructure.

***Definitions and considerations.*** The following definitions and considerations relate to efforts for improving broadband infrastructure: 1) broadband, whose rate is defined by the DoIT as 25 Mbps down and three Mbps up; 2) fiber, which includes both dark and lit; 3) fiber to the premise, or FTTP, and fiber to the home, or FTTH; 4) point of presence, or POP; 5) distribution, defined by three tiers; and 6) considerations such as infrastructure costs, operation and maintenance costs, regulations, reliability and rights of way.

***Funding models and sources.*** There is a multitude of models for funding for broadband infrastructure but no "one size fits all" model. Often, broadband funding programs are limited to a specific domain, like education or telehealth. Efforts at funding broadband infrastructure can take the form of: 1) laissez faire, the simplest approach; 2) government-owned and -operated networks, the opposite of laissez faire; 3) government-funded projects; 4) government-enabled projects; 5) regional collaboratives; or 6) public-private partnerships. The last four of those are considered hybrid approaches and are common. In New Mexico, the OBGI has taken an "all of the above" approach and engages in: 1) planning, mapping and analysis; 2) technical support; 3) public-private coordination and capacity building; 4) identification and promotion of best practices; 5) maximization of federal fund benefits; and 6) digital literacy and awareness.

Some of the funding sources available to government and private sector entities from the federal government for broadband infrastructure are: 1) the Universal Service Administrative Company, wherein fees applied to cell phone bills generate revenue to subsidize discounted rates for certain public entities and to expand broadband connectivity; and 2) the U.S. Department of Agriculture's Rural Utilities Service program, which offers loans and grants for broadband infrastructure to rural areas. Some of those sources provided by the state are: 1) the recently enacted Public Regulation Commission (PRC) State Rural Universal Service Fund; and 2) the Broadband Deficiencies Correction Program for public schools; the Local Economic Development Act program; NMFA-administered programs; the Tribal Infrastructure Project Fund; and the Colonias Infrastructure Project Fund. Each of these funding programs has a unique set of requirements and restrictions. The DoIT actively seeks out funding opportunities and helps in navigating their complexities.

### Questions and Discussion

***State's efforts to build out broadband in rural areas of the state's northwest region.*** Secretary Ackley indicated that there is no single project or plan to expand broadband in the Acoma-Grants-Milan area of the state, but several initiatives are under way, including: Connect

America Fund program initiatives; Frontier Communications initiatives; a collaboration between the University of New Mexico and the Navajo Nation; Navajo Nation initiatives; collaborations between the DoIT and the Pueblo of Laguna and the DoIT and area school districts served by the state's public school funding formula; and an application by the Continental Divide Electric Cooperative to the NMFA for \$10 million to build out its infrastructure, in partnership with the Kit Carson Electric Cooperative. Robert Coalter, chief executive officer (CEO), NMFA, who was in the audience, added that the application is for the new markets tax credit program, that the applicant wants to use the rights of way of its existing electricity lines and that it is hoped that the loan will close by the end of the year.

Secretary Ackley further explained that the DoIT helps with projects and increases awareness of related funding opportunities, but it is ultimately up to local governments or the private sector to pursue such projects.

Ms. Sanchez noted that the PRC is in the process of promulgating rules for the State Rural Universal Service Fund program, whose enabling law was recently enacted.

***Broadband connections to state agencies.*** Secretary Ackley noted that the state has, overall, improved the broadband connections to state agencies but that those agencies' demand for connectivity has risen.

***State's plan for improvement.*** Responding to a member's comment that New Mexico is still behind other states in connecting its residents to broadband, a member's comment on the importance of those connections to the state's economy and a member's recommendation that the state develop and pursue a specific strategy for improving statewide broadband infrastructure, Secretary Ackley remarked that: 1) such a specific strategy has been developed and, step by step, is being pursued according to the degrees of need and funding availability; 2) New Mexico has not adopted a model like Kentucky's because it would not be financially viable; and 3) in the next year, improvements in broadband infrastructure will most likely accelerate. The member recommended that, in its last year under the current administration, the DoIT strive to develop a statewide solution to the state's broadband infrastructure problems and prepare a step-by-step plan for the next administration. Secretary Ackley indicated that such a plan is being drafted.

A member suggested that states like Kentucky, which are largely rural and mountainous, might attribute their broadband success to the enactment of public-private partnership laws. In response, Secretary Ackley said he believes that those laws might have played a role those states' outcomes but that there is some disagreement about whether those projects can be considered to be successful. He further stated that, for a public-private partnership to be successful, it must overcome local control and regulatory and procurement issues and have certain degrees of cooperation and legwork from the partners.

## **Spaceport Authority (SA) Update and Outlook**

Daniel Hicks, CEO, SA, noted that he has been in his position for 11 months. He gave an update on the spaceport as follows.

**Key points.** Of particular note: 1) the United States has a renewed focus on leading the world in space exploration; 2) the commercial space industry continues to expand worldwide; and 3) Spaceport America is an economic engine, having created an estimated 100 jobs in FY 2018 and generated \$9.2 million in customer revenue to date.

Recognizing that it is in a position to grow, the SA is requesting that the state fund it at its FY 2012 level of \$1 million, up from its FY 2018 level of \$375,000. The SA also asking lawmakers to support legislation protecting commercial space customers.

**Aerospace activity and customers at the spaceport.** Aerospace activity at the spaceport increased markedly in FY 2017; the spike reflects a corresponding uptick in the nationwide activity of the commercial space industry. The spaceport serves five aerospace customers and expects more. One of those customers, Virgin Galactic, recently presented on its aerospace program. The company has an impressive overall portfolio and an entrenchment in New Mexico. There have been many launches of payloads into space and high-visibility space testing — including some involving White Sands Missile Range and the National Aeronautics and Space Administration — at the spaceport, and the future demand for launches from the spaceport is solid.

**Educational outreach; Spaceport America Cup.** Spaceport America also engages in educational outreach and hosts virtual field trips in which spaceport personnel communicate remotely with classroom students. Since the program launched in February, 17 classrooms in New Mexico have participated. Meanwhile, in June, the spaceport hosted its first Spaceport America Cup, an international intercollegiate rocket engineering competition. The event attracted 1,100 students and a total of 1,622 visitors to the spaceport, 82% of whom were from out of state and some of whom represented sponsors interested in recruiting the students to their workforces. Overall, the event had a positive economic impact on the state and provided the opportunity to leave its participants with a favorable perception of New Mexico.

**Current and future growth in the commercial space market.** Spaceport America anticipates growth in its revenues from suborbital launches (for research, astronaut experience and university support purposes) and orbital launches. Spaceport America also sees the prospect of serving as a point-to-point transportation hub. These expectations are supported by information in a report published recently by Bank of America Merrill Lynch in which it was predicted that the commercial space market will grow in value from its 2016 level of \$339 billion to \$2.7 trillion in 2045. Meanwhile, news agencies are reporting that Saudi Arabia is investing heavily in Richard Branson's space companies and that venture capitalists, likewise, are investing billions of dollars in space companies. Like New Mexico did when it established the spaceport, these entities see the promise of commercial space-related investments.



***Comparison with other spaceports.*** Increasingly, other states are seeing the high potential of commercial space investments and pursuing commercial space endeavors. New Mexico, however, has a competitive edge over other states in the spaceport arena. First, as air traffic becomes increasingly congested across the nation, Spaceport America, by virtue of its proximity to, and collaboration with, White Sands Missile Range, will continue to boast 6,000 square miles of restricted airspace. Furthermore, Spaceport America offers favorable weather patterns, a relatively high launch-start elevation, air free of corrosive salt, a low area population density and a remote location with around-the-clock security. A table in the handout shows the relative advantages (in green boxes) of Spaceport America over other spaceports and its relative disadvantages (in orange boxes) to them. A key advantage is that Spaceport America can accommodate new space technologies.

***Inaugural National Space Council; microgravity research; New Mexico's legacy of space exploration.*** Further underscoring the promise of the state's investment in the spaceport: 1) the recently formed National Space Council met recently and discussed the goal of the United States becoming a world leader in publicly and privately sponsored microgravity research, including in such areas as medicine; 2) Spaceport America is in an excellent position to support those research efforts; and 3) in the near- to mid-term, there is considerable opportunity in the launch of low earth orbit satellites and habitats and in point-to-point transportation with spaceplanes. New Mexico, with its rich history of space exploration, continues to occupy a strong position to take advantage of these and other space-related developments.

#### Questions and Discussion

***Microgravity research applications.*** Mr. Hicks affirmed a member's suggestion that microgravity research might help develop ways to contend with water shortage issues on Earth.

***Private investment in the spaceport.*** Mr. Hicks indicated that the SA has looked at the possibility of financing through private investment and through investment pools but that more research in the area and staff are needed before such an initiative can be pursued.

***Support for the spaceport.*** Responding to a member's question about how leaders in the state can help support the spaceport, Mr. Hicks suggested that lawmakers: 1) adopt the mindset that the spaceport, particularly because of its market advantages, is a promising economic engine with the potential to diversify the state's economy; 2) provide for the spaceport's continued financial sustainment and, through words and actions, acknowledge that the spaceport is worthy of state support; and 3) support the proposed legislation protecting commercial space customers. He added that other spaceports enjoy the advantages of their states' generalized support.

***Capital projects.*** Mr. Hicks noted that the SA is pursuing several capital projects, including the construction of a southern road to the spaceport, which is critical to the spaceport's development. He also noted that the locally generated tax revenue, along with all other sources of its funding, are critical to the SA and that, when it becomes more self-sustaining, the SA will work with the local counties to sunset the tax.

***Proposed commercial space customer protection legislation.*** Mr. Hicks elaborated on the proposed legislation he mentioned in his presentation by saying that the act would allow the spaceport's customers to keep shielded from public view information that gives them a competitive edge in their industry. He added that the intent of the legislation is not to protect the SA from the exposure of information related to its use of revenues.

***Budget requests.*** Mr. Hicks clarified that the SA's additional appropriation request would allow it to expand from 20 to 26 full-time employees — some of whom would be aerospace engineers who work with customers and attract business and one of whom would be an aerospace manager — whose work will be critical once commercial flights begin. He added that: 1) having those employees is critical to the SA's ability to grow; 2) the SA currently has 16 employees and four vacancies; 3) many existing employees are highly strained because of the staff shortage; 4) the appropriation would also be used for maintenance and information technology infrastructure; and 5) because of cuts in appropriations, the SA has been operating on less revenue than what a recent study revealed is required for it to operate at a minimum level.

***Commendation.*** Members lauded Mr. Hicks: 1) on the strides the SA has made in his short time with the authority; 2) for having shifted the spaceport's focus away from serving as an entertainment venue and toward one in which other burgeoning opportunities are capitalized on; 3) for the SA's having spearheaded the Spaceport America Cup; and 4) for Spaceport America's work with area students.

### **Adjournment**

There being no further business before the committee, the committee adjourned at 12:38 p.m.

Revised: November 28, 2017

**TENTATIVE AGENDA  
for the  
SIXTH MEETING  
of the  
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE**

**December 1, 2017  
State Capitol, Room 322  
Santa Fe**

**Friday, December 1**

- 8:30 a.m.           **Call to Order and Welcome**  
—Representative Bill McCamley, Chair  
—Senator Jacob R. Candelaria, Vice Chair
- 8:35 a.m.       (1)   **New Mexico Finance Authority (NMFA) Board Report**  
—John E. McDermott, Chair, NMFA Board  
—Robert P. Coalter, Chief Executive Officer (CEO), NMFA
- 8:55 a.m.           **Approval of Minutes**
- 9:00 a.m.       (2)   **Project Infrastructure Financing**  
—Marv Hounjet, Vice President, Director, U.S. Operations, Plenary Group  
—Mike Puelle, CEO, Associated General Contractors of New Mexico  
—Carter Bundy, Political Action Representative, AFSCME International
- 11:00 a.m.       (3)   **Authorization of Projects for Funding from the Public Project Revolving Fund**  
—Robert P. Coalter, CEO, NMFA  
—Zach Dillenback, Chief Lending Officer, NMFA
- 12:00 noon           **Lunch**
- 1:00 p.m.       (4)   **Update on Economic Development Revolving Fund, Drinking Water State Revolving Loan Fund and Local Government Planning Fund**  
—Marquita Russel, Chief of Programs, NMFA
- 1:30 p.m.       (5)   **Water Trust Board (WTB) Presentation of Water Projects for Legislative Approval**  
—Tom Blaine, State Engineer; Chair, WTB (invited)  
—William F. Fulginiti, Executive Director, New Mexico Municipal League;  
Vice Chair, WTB (invited)

- Joy Esparsen, Government Affairs Director, New Mexico Association of Counties (invited)
- Ken McQueen, Secretary, Energy, Minerals and Natural Resources Department (invited)
- Marquita Russel, Chief of Programs, NMFA

2:45 p.m. (6) [NMFA 2017 Interim Summary Recap](#)  
—Jeff Eaton, Research and Fiscal Policy Analyst, Legislative Council Service

3:00 p.m. **Public Comment**

3:15 p.m. **Adjourn**

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

**December 1, 2017  
State Capitol, Room 322  
Santa Fe**

The sixth meeting of the New Mexico Finance Authority (NMFA) Oversight Committee for the 2017 interim was called to order by Representative Bill McCamley, chair, on Friday, December 1, 2017, at 8:32 a.m. in Room 322 of the State Capitol in Santa Fe.

**Present**

Rep. Bill McCamley, Chair  
Sen. Jacob R. Candelaria, Vice Chair  
Rep. Alonzo Baldonado  
Sen. Craig W. Brandt  
Sen. Joseph Cervantes  
Rep. Sharon Clahchischilliage  
Rep. Kelly K. Fajardo  
Rep. Harry Garcia  
Sen. Ron Griggs  
Rep. Jimmie C. Hall  
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

**Advisory Members**

Rep. Bealquin Bill Gomez  
Rep. Patricia A. Lundstrom  
Rep. Tomás E. Salazar

**Absent**

Rep. George Dodge, Jr.  
Rep. Linda M. Trujillo

Rep. Brian Egolf  
Sen. Mary Kay Papen  
Sen. John Pinto  
Sen. Clemente Sanchez  
Rep. Sheryl Williams Stapleton  
Sen. Jeff Steinborn  
Sen. Bill Tallman  
Sen. Pat Woods  
Rep. Monica Youngblood

**Guest Legislator**

Sen. Cisco McSorley

**Staff**

Jeff Eaton, Research and Fiscal Policy Analyst, Legislative Council Service (LCS)

Ric Gaudet, Researcher, LCS

Rebecca Griego, Records Officer, LCS

Tessa Ryan, Staff Attorney, LCS

**Minutes Approval**

Because the committee will not meet again this year, the minutes for this meeting have not been officially approved by the committee.

**Guests**

The guest list is in the meeting file.

**Handouts**

Handouts and other written testimony are in the meeting file.

**Friday, December 1****NMFA Board Update**

Robert P. Coalter, chief executive officer, NMFA, reported to the committee on recent activities of the NMFA. The NMFA issued \$267 million in bonds backed by the Public Project Revolving Fund (PPRF) in fiscal year 2017. This is a drop from the amount issued in fiscal year 2016, in which \$324 million in bonds was issued. However, the amount of bonds issued has generally been steadily increasing since 2012, when only \$24 million in bonds was issued. Of the six bond issuances made in fiscal year 2017, three were senior bonds and three were subordinate. All of the issuances except one were tax exempt. Most of the bonds were new issuances, backed by a variety of revenue sources, including Fire Protection Fund distributions, local and state gross receipts tax (GRT) revenue and general obligation property tax revenue. The NMFA also issued refunding bonds to refinance some 2006 and 2007 bonds.

The NMFA closed 95 PPRF loans in fiscal year 2017 totaling \$380 million. This amount represents a 42 percent increase since fiscal year 2016 in the number of PPRF loans made and a nearly 30 percent increase in the total amount loaned. The rating agency Standard & Poor's increased the subordinate bond rating of the NMFA to AAA, which now matches the senior bond rating. This allows for lower financing costs for local governments.

The NMFA closed on 13 loans from the Drinking Water State Revolving Loan Fund (SRLF) totaling \$11.8 million. This successful program was recently recognized by the federal Environmental Protection Agency for having the second-highest program fund spend-down rate in the nation. The NMFA made 14 loans from the Colonias Infrastructure Project Fund for a

total of \$12.3 million to finance infrastructure projects in many of the state's colonias areas. The NMFA also closed on three new markets tax credit transactions totaling \$19.4 million. Finally, 40 grant agreements totaling \$1.7 million were finalized to fund local government planning activities.

### **Approval of Minutes**

The minutes from the November 1-2 meeting of the committee were approved without changes.

### **Project Infrastructure Financing**

A panel of industry experts and union representatives made a presentation to the committee about the use of public-private partnerships (PPP) for the design, construction and operation of certain public infrastructure. Panelists included Marv Hounjet, senior advisor, Performance Based Building Coalition; Mike Puelle, chief executive officer, Associated General Contractors of New Mexico; Claudio Andreetta, director, business development, PPP Building Technologies, Johnson Controls; Barney Allison, partner, Nossaman, LLP; and Carter Bundy, political action representative, American Federation of State, County and Municipal Employees (AFSCME).

The traditional model for building infrastructure has used a design-bid-build pattern, in which there is normally no connection between the designer of a building and the builder and in which lowest cost is generally the primary factor in awarding a contract. Builders are often only focused on finishing a building and have little incentive to invest in components and building styles that take into account the entire life of the building. The PPP model provides much more accountability for the contractor because payment is conditioned on performance over the entire term of the design, construction and operation of the facility. In this kind of arrangement, the goals of the government client and the private partner are much more aligned than in the traditional model. A modern PPP has several benefits, including holding the developer accountable for performance over the life of the asset, creating competition on the basis of fiscal and facility performance, better management of risk related to implementation and management of the project, addressing future obligations for asset maintenance, incorporating a cost-of-ownership financial plan by taking a life cycle approach, incentivizing innovation and transferring responsibility of cost overruns and schedule delays to the developer.

A PPP project should only be chosen if it yields greater benefits to the governmental entity than using traditional procurement mechanisms. There are many kinds of public-sector projects that could be suitable for a PPP, including schools, prisons, transit facilities, railroads, water and wastewater facilities, highways, university facilities and student housing, public housing, health care facilities and sports facilities. Under a PPP contract, the lenders and equity holders do not get paid unless the project is successful. This provides an incentive for the private partner to build and maintain the asset for the entire term of the contract. In addition, many PPP contracts require the private partner to deliver the asset at the end of the contract to the public partner with a set Facility Condition Index (FCI), essentially providing the asset with a 20- to 40-

year guarantee. Since the asset is financed privately, many projects that the public entity could not otherwise finance immediately can be built.

Other countries have been using the PPP model for decades, but in the United States, tax-exempt bond financing has been seen as a disincentive to using that model. However, financing costs are just one factor in the entire life cycle costs of an asset. More than one-half of the total cost of a building during its life is incurred after construction of the building is complete. Studies have demonstrated that a PPP project can cost between 15 percent to 25 percent less than traditionally procured and maintained buildings. Many kinds of PPP projects can already be built under current New Mexico statutes, but there is no overarching framework regulating the practice. Legislation to set up such a framework is needed to encourage this kind of approach.

Mr. Bundy said that the AFSCME is not necessarily opposed to PPP projects, but the projects should not be used at the expense of public-sector workers. A private partner should not be allowed to take over a public asset and earn a profit by paying its workers less than public employees doing the same work. Many governments around the country have been burned by poorly conceived PPP projects. The privatization of state prisons is just one example for which New Mexico is still paying. Private companies built shoddy prison facilities and hired low-paid correctional officers and are still profiting handsomely. State Highway 550, which was another PPP project, worked fairly well for the state until it attempted to have the contractor perform warranty work on the highway to fix some issues. However, a legal loophole that had been drafted into the contract documents allowed the contractor to avoid fixing the problems on the highway.

Mr. Bundy said that there are some infrastructure needs that suit themselves well to the PPP model, including toll roads. For example, New Mexico needs a new highway from Santa Teresa to Interstate 10 to accommodate the huge increase in trucking in the area. A PPP project could work very well for that infrastructure need, which will otherwise not happen for decades using traditional gasoline tax revenue bonds. Any PPP project needs to include worker, consumer and environmental protections. Finally, Mr. Bundy said that the claim that the private sector can better maintain assets over the life cycle of a building is only true because governments tend not to fund maintenance costs for infrastructure.

Questions and comments from committee members included the following.

- Critics of the PPP model say that private companies are using public money to make a profit. Mr. Allison said that PPP projects can impose requirements on the developer, such as providing construction training in the community so that local people can work on a project. He said that private partners want to earn a profit, but there can also be many social benefits to a partnership. He suggested that a public entity develop contract requirements that all bidders will agree to complete before a request for proposals is issued. Mr. Hounjet said that a governmental entity needs to have



very good advisors to ensure that the entity does not get burned. Mr. Bundy said that PPP legislation should include provisions that any project pay prevailing wages.

- What are some examples of PPP projects that were successful? Mr. Andreetta said that the Long Beach, California, courthouse, completed in 2013, was a successful project for all parties involved. Other projects that are ongoing include the Long Beach Civic Center and the University of California-Merced campus expansion. These projects have 30- to 40-year maintenance agreements, with reversion to the local government at an FCI rating of 85 percent. Mr. Allison said that payments do not begin until the construction is complete, and annual payments are contingent on the private partner completing performance measures. Mr. Bundy said that clawback provisions could be useful in ensuring that a project perform according to the original project specifications. Mr. Puelle said that the Town of Silver City recently signed a power purchase agreement to finance a renewable energy facility, which would otherwise not have happened using traditional financing mechanisms. The General Services Department (GSD) has a long and successful history in entering into PPP agreements to install energy-saving components in state buildings. Secretary of General Services Edwynn L. Burckle said that the GSD and the Energy, Minerals and Natural Resources Department together created a model contract for local governments to use in creating energy-saving agreements.
- Many local governments in New Mexico will not have the expertise to ensure that a PPP project is correctly designed to be beneficial to the public.
- All interested parties should have a say in any future PPP legislation.
- What has been the experience in other states that have PPP authority? Mr. Bundy said that 38 states have some kind of PPP legislation. PPP projects in California have been successful, but many PPP projects around the nation have privatized public-sector workers at a lower rate of pay.
- Some New Mexico contractors are worried that PPP projects will be constructed by large out-of-state companies without any chance for local contractors to participate. Mr. Hounjet said that it is very important for local contractors to be involved in PPP projects. Mr. Allison said that PPP legislation can require that a percentage of work be performed by local contractors, if desired.
- Could the NMFA or the GSD be able to provide the expertise necessary to ensure that PPP projects are beneficial to the public? Mr. Coalter said that the NMFA could only provide assistance with the financial aspects of a PPP project. Secretary Burckle said that proper checks are essential to a good PPP project. He said that the Capitol Buildings Planning Commission could potentially provide oversight of projects.

### **Authorization of Projects for Funding from the PPRF**

Mr. Coalter and Zach Dillenback, chief lending officer, NMFA, presented proposed legislation for the committee's consideration that would grant the NMFA the authority to make more than 100 loans to local governmental entities for needed infrastructure projects. The annual loan authorization legislation is required for projects that cost over \$1 million, and the authorizations last for three years. Mr. Dillenback said that over \$380 million was loaned in fiscal year 2017, and that level may be surpassed in fiscal year 2018. The bond ratings for many government entities have been downgraded recently, which makes financing with the NMFA more attractive.

Questions and comments from committee members included the following.

- Providing funding for charter school facilities has been somewhat controversial. There are 14 charter school authorizations in the legislation. Can these authorizations be used to provide lease payments? Mr. Dillenback said that the charter schools in the legislation are trying to address the challenge of how to acquire their own facilities. The NMFA can only assist charter schools that have a lease-purchase agreement, and regular lease payments are ineligible for financing. In a lease-purchase agreement, the NMFA becomes the lessor of the building while the lease payments are being made. However, the NMFA assumes much more risk under that scenario because there is no guarantee that the school will exist at the end of the contract. Most NMFA projects have a dedicated revenue stream to pledge to the repayment of the loan. Despite the 14 loan authorizations for charter schools in the legislation this year, the NMFA has only provided one loan to a charter school. That loan was completed because the Albuquerque Public School District pledged that it would repay the loan in case the charter school was unable to pay it. Charter schools continue to request loan authorizations in the hope that they will qualify for a loan one day. Many charter schools have nonprofit foundations to support the school, but those entities are not eligible to enter into a lease-purchase agreement with the NMFA. State-chartered charter schools have the additional risk of not being backed by a school district. Thus far, no state-chartered charter school has qualified for a loan from the NMFA.
- Are the cash balances of the PPRF adequate to meet all of its responsibilities? Mr. Coalter said that the recent sweeps of money from the fund created liquidity problems for the fund. However, as long as no more money is removed from the fund, there should be sufficient liquidity in the future. The NMFA has a \$100 million line of credit it can use, but that means borrowing money, which will increase financing costs to governmental entities.

- How does a governmental entity get put on the list of authorized projects? Mr. Dillenback said that the NMFA periodically contacts entities about the funding cycle. Entities can provide the NMFA with a long list of potential projects without being required to know exactly which one will be the top priority. The legislation merely authorizes the NMFA to make loans when a project is ready. He said that refunding of bonds also requires legislative authorization. Mr. Coalter said that listing specific projects in the legislation would cripple the current process. Entity priorities change from year to year, and the general language in the legislation provides for flexibility.
- The legislature should consider raising the baseline cost for projects requiring legislative approval from \$1 million to \$2 million.
- The congressional tax reform legislation being proposed will make it more expensive to refund bonds. The legislation would eliminate the tax-exempt status of public refunding bonds before the original bonds are defeased.

The committee unanimously endorsed the proposed legislation.

### **Update on the Economic Development Revolving Fund (EDRF), Drinking Water SRLF and Local Government Planning Fund (LGPF)**

#### **EDRF**

Marquita Russel, chief of programs, NMFA, and John Brooks, director of commercial lending, NMFA, reported to the committee about activities of the NMFA related to economic development programs. The EDRF was created to carry out the purposes of the Statewide Economic Development Finance Act, which was enacted in 2003 to stimulate economic development in the state by providing financing options for qualifying private businesses. The EDRF contains state and federal money and provides funding for two programs. The Smart Money Program is a state-funded program that provides long-term financing to businesses. Under this program, the NMFA shares equally in the collateral available to a bank. The NMFA has participated in five loans for projects under the Smart Money Program. Banks have expressed limited support for this program because the NMFA's required collateral position does not allow any additional coverage or for additional funds to be extended to a business. Of the five projects funded, one has gone bankrupt and one is in liquidation. There is currently \$1.2 million available in the fund for projects.

The Collateral Support Program is a federally funded loan participation program that provides short-term financing for construction or lines of credit. The Collateral Support Program, which has provided collateralized loans since 2012, is currently being phased out. The money for the program is being transferred to other economic development programs as loan payments are received. So far, the NMFA has transferred more than \$22 million to the Economic Development Department. This program has funded many more businesses and is more flexible than the Smart Money Program. Seven loans have been paid in full, and the rest of the loans are current.

### Drinking Water SRLF

Ms. Russel presented proposed legislation for the committee's consideration that would appropriate \$1.8 million from the PPRF to the Drinking Water SRLF. The appropriation would leverage \$8 million in federal funding and allow the NMFA to provide loans to governmental entities for drinking water systems. This is an annual appropriation bill that the NMFA requests.

The committee unanimously endorsed the proposed legislation.

### LGPF

Ms. Russel presented proposed legislation for the committee's consideration that would appropriate \$1.5 million from the PPRF to the LGPF. The NMFA did not request funding for the LGPF for fiscal year 2018 due to the state government fiscal crisis. The fund can be used for planning by governmental entities for infrastructure planning, water conservation planning, long-term master plans, economic development plans and energy audits. The NMFA will prioritize emergency projects as money is received, and later, it will fund other projects.

Questions and comments from committee members included the following.

- Will asset management plans be funded by the LGPF? Ms. Russel said that the Water Trust Board (WTB) requires entities to complete asset management plans in order to qualify for funding from the Water Project Fund (WPF). She said that asset management plans are eligible for funding, but emergency planning projects will be funded first in fiscal year 2019.
- Is the LGPF primarily intended for small communities? Ms. Russel said that the fund is intended to provide assistance to smaller governmental entities. Projects are eligible to receive up to \$50,000. Smaller entities can receive full funding, and entities located in regions with low median-household income can also. She said that the NMFA typically funds 30 to 40 projects annually.

The committee unanimously endorsed the proposed legislation.

### **NMFA 2017 Interim Summary Recap**

Mr. Eaton presented to the committee a summary of the committee's activities during the 2017 interim. The committee met six times during the interim throughout the state, including in Santa Fe, Gallup, Santa Teresa, Las Cruces, Portales and Clovis. The committee reviewed the activities and programs of the NMFA, Border Authority and Spaceport Authority and the programs of the WPF, Tribal Infrastructure Project Fund and Colonias Infrastructure Project Fund. The committee received presentations and reports on many issues, including the state bond rating, community banking partnerships, small business issues, programs associated with the EDRF, tribal infrastructure projects, PPRF liquidity, border development initiatives, the

Catalyst Fund, venture capital developments, renewable energy transmission projects, water projects, Water Trust Fund solvency, Spaceport America and the development of broadband in the state.

### **WTB Presentation of Water Projects for Legislative Approval**

Tom Blaine, state engineer, and chair, WTB; William Fulginiti, executive director, New Mexico Municipal League, and vice chair, WTB; Joy Esparsen, government affairs director, New Mexico Association of Counties; and Ms. Russel presented proposed legislation for the committee's consideration that would authorize the NMFA to make loans or grants from the WPF for public water projects. Projects are recommended for funding each year by the WTB based on a set of criteria established by the board. For the 2018 funding cycle, 73 applications were submitted for over \$72 million in funding. Several projects were deemed ineligible for funding, and five projects were rejected by the WTB because the projects did not meet policy requirements for expenditures. Two of those rejected projects requested reconsideration by the board and were subsequently granted. The WPF is expected to receive \$20 million in 2018 for projects. The WTB typically recommends 130 percent of the amount available because some projects run into delays and are not funded. For 2018, 22 projects were recommended for flood prevention, water conservation, water storage and watersheds.

Questions and comments from committee members included the following.

- How did the action taken by the WTB to reconsider two rejected projects affect other water projects? Mr. Blaine said that the City of Gallup and the Eastern New Mexico Water Utility Authority requested that the WTB reconsider the rejection of a waiver of policy requirements that money be spent within a certain time frame. The spend-down policy was created by the WTB to ensure that money loaned or granted be spent within a reasonable amount of time. Ms. Russel said that those two projects were ranked high, and once the board granted the waiver, they were recommended for funding, which meant that nine other projects that did not rank as high were not recommended for funding.
- What happens if a governmental entity is not able to repay a loan from the WPF? Ms. Russel said that the WTB prefers that water projects have a loan component as part of their financing. However, those entities that do not have a dedicated revenue stream, such as flood control districts, can instead provide other matching money in lieu of a revenue stream as dedication. Entities that are unable to pay an existing loan can apply for a hardship waiver to defer payment for a period of time.
- The WTB changed its project evaluation process a few years ago because it used to only fund large projects. The new criteria allow for smaller projects to receive funding.

- What is the status of the Navajo-Gallup water supply project? Ms. Russel said that the WTB has provided \$30 million in funding for that project from nine separate awards. Funding from the WPF has a 40 percent loan component. Mr. Blaine said that the money for that project for 2018 will be allocated for infrastructure improvements in Gallup. As part of the Navajo Water Rights Settlement Agreement, the state agreed to contribute \$50 million toward completion of the project, which will deliver water in a pipeline to the eastern portion of the Navajo Nation and to Gallup. The state has already contributed its full commitment to the project.
- Most of the people living in the area between U.S. Highway 491 and State Highway 371 have not benefited from the Navajo-Gallup water supply project. Mr. Blaine said that the WTB is also providing funding for projects ancillary to the main pipeline project, including providing clean water stations to areas that do not have running water into households.

The committee unanimously endorsed the proposed legislation.

#### **Sponsorship of Endorsed Legislation**

The committee selected the following legislators to sponsor legislation endorsed by the committee.

- PPRF Loan Authorizations — .209087.3SA: Representative Lundstrom, to be carried by Senator Candelaria in the senate.
- Drinking Water SRLF Appropriation — .209103.1SA: Representative McCamley, to be carried by Senator Candelaria in the senate.
- LGPF Appropriation — .209112.1SA: Senator Candelaria, to be carried by Representative McCamley in the house of representatives.
- WPF Loan and Grant Authorizations — .209083.1SA: Senator Cervantes, to be carried by Representative McCamley in the house of representatives.

#### **Adjournment**

There being no further business, the committee adjourned at 2:40 p.m.

## ENDORSED LEGISLATION





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HOUSE BILL

**53RD LEGISLATURE - STATE OF NEW MEXICO - SECOND SESSION, 2018**

INTRODUCED BY

ENDORSED BY THE NEW MEXICO  
FINANCE AUTHORITY OVERSIGHT COMMITTEE

AN ACT

RELATING TO FINANCE; AUTHORIZING THE NEW MEXICO FINANCE  
AUTHORITY TO MAKE LOANS FOR PUBLIC PROJECTS FROM THE PUBLIC  
PROJECT REVOLVING FUND; DECLARING AN EMERGENCY.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO:

**SECTION 1. AUTHORIZATION OF PROJECTS.**--Pursuant to  
Section 6-21-6 NMSA 1978, the legislature authorizes the New  
Mexico finance authority to make loans from the public project  
revolving fund for public projects as defined in Section 6-21-3  
NMSA 1978. Pursuant to Section 6-21-6 NMSA 1978, loans of less  
than one million dollars (\$1,000,000) do not require specific  
authorization and need not be identified in this act.  
Authorization is given to the New Mexico finance authority to  
make loans to the following qualified entities on terms and  
conditions established by the authority:

.209087.3SA

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1           1. the Agua Fria mutual domestic water consumer's  
2 association in Santa Fe county for building, equipment,  
3 infrastructure, debt refinance, road, land acquisition, water,  
4 wastewater, water rights and solid waste projects;

5           2. the Albuquerque-Bernalillo county water utility  
6 authority in Bernalillo county for building, equipment,  
7 infrastructure, debt refinance, road, land acquisition, water,  
8 wastewater, water rights and solid waste projects;

9           3. the city of Albuquerque in Bernalillo county for  
10 building, equipment, infrastructure, debt refinance, road, land  
11 acquisition, water, wastewater, water rights, rail spur,  
12 special assessment district and solid waste projects;

13           4. the Alto Lakes water and sanitation district in  
14 Lincoln county for building, equipment, infrastructure, debt  
15 refinance, road, land acquisition, water, wastewater, water  
16 rights and solid waste projects;

17           5. the Angel Fire public improvement district in  
18 Colfax county for building, equipment, infrastructure, debt  
19 refinance, road, land acquisition, water, wastewater, water  
20 rights and solid waste projects;

21           6. the village of Angel Fire in Colfax county for  
22 building, equipment, infrastructure, debt refinance, road, land  
23 acquisition, water, wastewater, water rights, special  
24 assessment district and solid waste projects;

25           7. the Anthony charter school in Dona Ana county

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1 for building, equipment, infrastructure, debt refinance, road,  
2 land acquisition, water, wastewater, water rights, facilities  
3 acquisition and solid waste projects;

4 8. the Anthony water and sanitation district in  
5 Dona Ana county for building, equipment, infrastructure, debt  
6 refinance, road, land acquisition, water, wastewater, water  
7 rights and solid waste projects;

8 9. the ASK academy in Sandoval county for building,  
9 equipment, infrastructure, debt refinance, road, land  
10 acquisition, water, wastewater, water rights, facilities  
11 acquisition and solid waste projects;

12 10. the city of Aztec in San Juan county for  
13 building, equipment, infrastructure, debt refinance, road, land  
14 acquisition, water, wastewater, water rights and solid waste  
15 projects;

16 11. the town of Bernalillo in Sandoval county for  
17 building, equipment, infrastructure, debt refinance, road, land  
18 acquisition, water, wastewater, water rights, special  
19 assessment district and solid waste projects;

20 12. the city of Bloomfield in San Juan county for  
21 building, equipment, infrastructure, debt refinance, road, land  
22 acquisition, water, wastewater, water rights and solid waste  
23 projects;

24 13. the village of Capitan in Lincoln county for  
25 building, equipment, infrastructure, debt refinance, road, land

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1 acquisition, water, wastewater, water rights and solid waste  
2 projects;

3 14. the Carrizozo municipal school district in  
4 Lincoln county for building, equipment, infrastructure, debt  
5 refinance, road, land acquisition, water, wastewater, water  
6 rights and solid waste projects;

7 15. the Cibola general hospital in Cibola county  
8 for building, equipment, infrastructure, debt refinance, road,  
9 land acquisition, water, wastewater, water rights and solid  
10 waste projects;

11 16. the Cimarron municipal school district in  
12 Colfax county for building, equipment, infrastructure, debt  
13 refinance, road, land acquisition, water, wastewater, water  
14 rights, facilities acquisition and solid waste projects;

15 17. the Cottonwood Classical preparatory school in  
16 Bernalillo county for building, equipment, infrastructure, debt  
17 refinance, road, land acquisition, water, wastewater, water  
18 rights, facilities acquisition and solid waste projects;

19 18. the Cottonwood Valley charter school in Socorro  
20 county for building, equipment, infrastructure, debt refinance,  
21 road, land acquisition, water, wastewater, water rights and  
22 solid waste projects;

23 19. the Cuba soil and water conservation district  
24 in Sandoval county for building, equipment, infrastructure,  
25 debt refinance, road, land acquisition, water, wastewater,

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1 water rights and solid waste projects;

2 20. De Baca county for building, equipment,  
3 infrastructure, debt refinance, road, land acquisition, water,  
4 wastewater, water rights and solid waste projects;

5 21. the Des Moines municipal school district in  
6 Union county for building, equipment, infrastructure, debt  
7 refinance, road, land acquisition, water, wastewater, water  
8 rights and solid waste projects;

9 22. the Dexter consolidated school district in  
10 Chaves county for building, equipment, infrastructure, debt  
11 refinance, road, land acquisition, water, wastewater, water  
12 rights and solid waste projects;

13 23. the East Mountain charter high school in  
14 Bernalillo county for building, equipment, infrastructure, debt  
15 refinance, road, land acquisition, water, wastewater, water  
16 rights and solid waste projects;

17 24. the East Torrance soil and water conservation  
18 district in Torrance county for building, equipment,  
19 infrastructure, debt refinance, road, land acquisition, water,  
20 wastewater, water rights, facilities acquisition and solid  
21 waste projects;

22 25. the eastern plains council of governments in  
23 Curry, De Baca, Guadalupe, Harding, Quay and Roosevelt counties  
24 for building, equipment, infrastructure, debt refinance, road,  
25 land acquisition, water, wastewater, water rights, facilities

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1 acquisition and solid waste projects;

2 26. the eastern Sandoval county arroyo flood  
3 control authority in Sandoval county for building, equipment,  
4 infrastructure, debt refinance, road, land acquisition, water,  
5 wastewater, water rights and solid waste projects;

6 27. the town of Edgewood in Santa Fe county for  
7 building, equipment, infrastructure, debt refinance, road, land  
8 acquisition, water, wastewater, water rights and solid waste  
9 projects;

10 28. the Elephant Butte irrigation district in Dona  
11 Ana county for building, equipment, infrastructure, debt  
12 refinance, road, land acquisition, water, wastewater, water  
13 rights and solid waste projects;

14 29. the Estancia Moriarty Willard gas association  
15 in Torrance county for building, equipment, infrastructure,  
16 debt refinance, road, land acquisition, water, wastewater,  
17 water rights and solid waste projects;

18 30. the Estancia municipal school district in  
19 Torrance county for building, equipment, infrastructure, debt  
20 refinance, road, land acquisition, water, wastewater, water  
21 rights and solid waste projects;

22 31. the Estancia Valley Classical academy in  
23 Torrance county for building, equipment, infrastructure, debt  
24 refinance, road, land acquisition, water, wastewater, water  
25 rights, facilities acquisition and solid waste projects;

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1           32. the Estancia Valley solid waste authority in  
2 Torrance county for building, equipment, infrastructure, debt  
3 refinance, road, land acquisition, water, wastewater, water  
4 rights and solid waste projects;

5           33. the city of Eunice in Lea county for building,  
6 equipment, infrastructure, debt refinance, road, land  
7 acquisition, water, wastewater, water rights and solid waste  
8 projects;

9           34. the village of Folsom in Union county for  
10 building, equipment, infrastructure, debt refinance, road, land  
11 acquisition, water, wastewater, water rights and solid waste  
12 projects;

13           35. the Grants-Cibola county school district in  
14 Cibola county for building, equipment, infrastructure, debt  
15 refinance, road, land acquisition, water, wastewater, water  
16 rights and solid waste projects;

17           36. the greater Chimayo mutual domestic water  
18 consumers association in Rio Arriba and Santa Fe counties for  
19 building, equipment, infrastructure, debt refinance, road, land  
20 acquisition, water, wastewater, water rights and solid waste  
21 projects;

22           37. the village of Grenville in Union county for  
23 building, equipment, infrastructure, debt refinance, road, land  
24 acquisition, water, wastewater, water rights and solid waste  
25 projects;

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1           38. Guadalupe county for building, equipment,  
2 infrastructure, debt refinance, road, land acquisition, water,  
3 wastewater, water rights and solid waste projects;

4           39. the Hagerman municipal school district in  
5 Chaves county for building, equipment, infrastructure, debt  
6 refinance, road, land acquisition, water, wastewater, water  
7 rights and solid waste projects;

8           40. Harding county for building, equipment,  
9 infrastructure, debt refinance, road, land acquisition, water,  
10 wastewater, water rights and solid waste projects;

11          41. the Hatch Valley public school district in Dona  
12 Ana county for building, equipment, infrastructure, debt  
13 refinance, road, land acquisition, water, wastewater, water  
14 rights and solid waste projects;

15          42. the village of Hope in Eddy county for  
16 building, equipment, infrastructure, debt refinance, road, land  
17 acquisition, water, wastewater, water rights and solid waste  
18 projects;

19          43. the Jemez Valley public school district in  
20 Sandoval county for building, equipment, infrastructure, debt  
21 refinance, road, land acquisition, water, wastewater, water  
22 rights and solid waste projects;

23          44. la academia de Esperanza in Bernalillo county  
24 for building, equipment, infrastructure, debt refinance, road,  
25 land acquisition, water, wastewater, water rights, facilities

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1 acquisition and solid waste projects;

2 45. La Union mutual domestic sewer and water  
3 association in Dona Ana county for building, equipment,  
4 infrastructure, debt refinance, road, land acquisition, water,  
5 wastewater, water rights and solid waste projects;

6 46. the Lake Arthur municipal school district in  
7 Chaves county for building, equipment, infrastructure, debt  
8 refinance, road, land acquisition, water, wastewater, water  
9 rights and solid waste projects;

10 47. the Las Cruces public school district in Dona  
11 Ana county for building, equipment, infrastructure, debt  
12 refinance, road, land acquisition, water, wastewater, water  
13 rights and solid waste projects;

14 48. the city of Las Cruces in Dona Ana county for  
15 building, equipment, infrastructure, debt refinance, road, land  
16 acquisition, water, wastewater, water rights, special  
17 assessment district and solid waste projects;

18 49. the Las Vegas city public school district in  
19 San Miguel county for building, equipment, infrastructure, debt  
20 refinance, road, land acquisition, water, wastewater, water  
21 rights and solid waste projects;

22 50. the city of Las Vegas in San Miguel county for  
23 building, equipment, infrastructure, debt refinance, road, land  
24 acquisition, water, wastewater, water rights and solid waste  
25 projects;

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1           51. Los Alamos county for building, equipment,  
2 infrastructure, debt refinance, road, land acquisition, water,  
3 wastewater, water rights, public improvement district, special  
4 assessment district and solid waste projects;

5           52. the Los Alamos public school district in Los  
6 Alamos county for building, equipment, infrastructure, debt  
7 refinance, road, land acquisition, water, wastewater, water  
8 rights and solid waste projects;

9           53. the Los Lunas public school district in  
10 Valencia county for building, equipment, infrastructure, debt  
11 refinance, road, land acquisition, water, wastewater, water  
12 rights and solid waste projects;

13           54. the Los Puentes charter school in Bernalillo  
14 county for building, equipment, infrastructure, debt refinance,  
15 road, land acquisition, water, wastewater, water rights,  
16 facilities acquisition and solid waste projects;

17           55. the Lower Rio Grande public water works  
18 authority in Dona Ana county for building, equipment,  
19 infrastructure, debt refinance, road, land acquisition, water,  
20 wastewater, water rights and solid waste projects;

21           56. Luna community college in Guadalupe and San  
22 Miguel counties for building, equipment, infrastructure, debt  
23 refinance, road, land acquisition, water, wastewater, water  
24 rights, facilities acquisition and solid waste projects;

25           57. the Maxwell municipal school district in Colfax

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1 county for building, equipment, infrastructure, debt refinance,  
2 road, land acquisition, water, wastewater, water rights,  
3 facilities acquisition and solid waste projects;

4 58. the Media Arts Collaborative charter school in  
5 Bernalillo county for building, equipment, infrastructure, debt  
6 refinance, road, land acquisition, water, wastewater, water  
7 rights, facilities acquisition and solid waste projects;

8 59. the Middle Rio Grande conservancy district in  
9 Bernalillo county for building, equipment, infrastructure, debt  
10 refinance, road, land acquisition, water, wastewater, water  
11 rights and solid waste projects;

12 60. the mid-region council of governments in  
13 Bernalillo county for building, equipment, infrastructure, debt  
14 refinance, road, land acquisition, water, wastewater, water  
15 rights, rail spur and solid waste projects;

16 61. the village of Milan in Cibola county for  
17 building, equipment, infrastructure, debt refinance, road, land  
18 acquisition, water, wastewater, water rights and solid waste  
19 projects;

20 62. the Monte del Sol charter school in Santa Fe  
21 county for building, equipment, infrastructure, debt refinance,  
22 road, land acquisition, water, wastewater, water rights,  
23 facilities acquisition and solid waste projects;

24 63. Mora county for building, equipment,  
25 infrastructure, debt refinance, road, land acquisition, water,

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1 wastewater, water rights and solid waste projects;

2           64. the Mora independent school district in Mora  
3 county for building, equipment, infrastructure, debt refinance,  
4 road, land acquisition, water, wastewater, water rights, public  
5 improvement district, special assessment district and solid  
6 waste projects;

7           65. the Mosquero municipal school district in  
8 Harding county for building, equipment, infrastructure, debt  
9 refinance, road, land acquisition, water, wastewater, water  
10 rights and solid waste projects;

11           66. the village of Mosquero in Harding county for  
12 building, equipment, infrastructure, debt refinance, road, land  
13 acquisition, water, wastewater, water rights and solid waste  
14 projects;

15           67. the Nambe Pueblo development corporation in  
16 Santa Fe county for building, equipment, infrastructure, debt  
17 refinance, road, land acquisition, water, wastewater, water  
18 rights and solid waste projects;

19           68. the Navajo Nation in San Juan and McKinley  
20 counties for building, equipment, infrastructure, debt  
21 refinance, road, land acquisition, water, wastewater, water  
22 rights and solid waste projects;

23           69. the board of regents of New Mexico highlands  
24 university in San Miguel county for building, equipment,  
25 infrastructure, debt refinance, road, land acquisition, water,

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1 wastewater, water rights and solid waste projects;

2           70. the board of regents of the New Mexico school  
3 for the blind and visually impaired in Otero county for  
4 building, equipment, infrastructure, debt refinance, road, land  
5 acquisition, water, wastewater, water rights and solid waste  
6 projects;

7           71. the Nor-Lea hospital district in Lea county for  
8 building, equipment, infrastructure, debt refinance, road, land  
9 acquisition, water, wastewater, water rights and solid waste  
10 projects;

11           72. the north central New Mexico economic  
12 development district in Colfax, Mora, San Miguel, Santa Fe and  
13 Taos counties for building, equipment, infrastructure, debt  
14 refinance, road, land acquisition, water, wastewater, water  
15 rights, special assessment district and solid waste projects;

16           73. the north central regional transit district in  
17 Rio Arriba and Los Alamos counties for building, equipment,  
18 infrastructure, debt refinance, road, land acquisition, water,  
19 wastewater, water rights, railroad infrastructure and solid  
20 waste projects;

21           74. the northwest New Mexico regional solid waste  
22 authority in Cibola and McKinley counties for building,  
23 equipment, infrastructure, debt refinance, road, land  
24 acquisition, water, wastewater, water rights and solid waste  
25 projects;

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1           75. Ohkay Owingeh in Rio Arriba county for  
2 building, equipment, infrastructure, debt refinance, road, land  
3 acquisition, water, wastewater, water rights and solid waste  
4 projects;

5           76. the village of Pecos in San Miguel county for  
6 building, equipment, infrastructure, debt refinance, road, land  
7 acquisition, water, wastewater, water rights and solid waste  
8 projects;

9           77. the Penasco independent school district in Taos  
10 county for building, equipment, infrastructure, debt refinance,  
11 road, land acquisition, water, wastewater, water rights and  
12 solid waste projects;

13           78. the city of Portales in Roosevelt county for  
14 building, equipment, infrastructure, debt refinance, road, land  
15 acquisition, water, wastewater, water rights and solid waste  
16 projects;

17           79. the Public academy for Performing Arts in  
18 Bernalillo county for building, equipment, infrastructure, debt  
19 refinance, road, land acquisition, water, wastewater, water  
20 rights, facilities acquisition and solid waste projects;

21           80. the Pueblo of Isleta in Bernalillo county for  
22 building, equipment, infrastructure, debt refinance, road, land  
23 acquisition, water, wastewater, water rights and solid waste  
24 projects;

25           81. the Pueblo of Jemez in Sandoval county for

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1 building, equipment, infrastructure, debt refinance, road, land  
2 acquisition, water, wastewater, water rights and solid waste  
3 projects;

4 82. the Pueblo of Nambe in Santa Fe county for  
5 building, equipment, infrastructure, debt refinance, road, land  
6 acquisition, water, wastewater, water rights and solid waste  
7 projects;

8 83. the Pueblo of Pojoaque in Santa Fe county for  
9 building, equipment, infrastructure, debt refinance, road, land  
10 acquisition, water, wastewater, water rights and solid waste  
11 projects;

12 84. the Pueblo of San Ildefonso in Santa Fe county  
13 for building, equipment, infrastructure, debt refinance, road,  
14 land acquisition, water, wastewater, water rights and solid  
15 waste projects;

16 85. the Pueblo of Santo Domingo in Sandoval county  
17 for building, equipment, infrastructure, debt refinance, road,  
18 land acquisition, water, wastewater, water rights and solid  
19 waste projects;

20 86. the Pueblo of Taos in Taos county for building,  
21 equipment, infrastructure, debt refinance, road, land  
22 acquisition, water, wastewater, water rights and solid waste  
23 projects;

24 87. the Pueblo of Zia in Sandoval county for  
25 building, equipment, infrastructure, debt refinance, road, land

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1 acquisition, water, wastewater, water rights and solid waste  
2 projects;

3 88. the Questa independent school district in Taos  
4 county for building, equipment, infrastructure, debt refinance,  
5 road, land acquisition, water, wastewater, water rights,  
6 facilities acquisition and solid waste projects;

7 89. the city of Raton in Colfax county for  
8 building, equipment, infrastructure, debt refinance, road, land  
9 acquisition, water, wastewater, water rights and solid waste  
10 projects;

11 90. the Roy municipal school district in Harding  
12 county for building, equipment, infrastructure, debt refinance,  
13 road, land acquisition, water, wastewater, water rights and  
14 solid waste projects;

15 91. the village of Roy in Harding county for  
16 building, equipment, infrastructure, debt refinance, road, land  
17 acquisition, water, wastewater, water rights and solid waste  
18 projects;

19 92. the governing board of San Juan college in San  
20 Juan county for building, equipment, infrastructure, debt  
21 refinance, road, land acquisition, water, wastewater, water  
22 rights and solid waste projects;

23 93. the San Juan regional medical center in San  
24 Juan county for building, equipment, infrastructure, debt  
25 refinance, road, land acquisition, water, wastewater, water

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1 rights and solid waste projects;

2 94. San Miguel county for building, equipment,  
3 infrastructure, debt refinance, road, land acquisition, water,  
4 wastewater, water rights and solid waste projects;

5 95. the village of San Ysidro in Sandoval county  
6 for building, equipment, infrastructure, debt refinance, road,  
7 land acquisition, water, wastewater, water rights and solid  
8 waste projects;

9 96. the governing board of Santa Fe community  
10 college in Santa Fe county for building, equipment,  
11 infrastructure, debt refinance, road, land acquisition, water,  
12 wastewater, water rights, facilities acquisition and solid  
13 waste projects;

14 97. the Santa Rosa consolidated school district in  
15 Guadalupe county for building, equipment, infrastructure, debt  
16 refinance, road, land acquisition, water, wastewater, water  
17 rights, facilities acquisition and solid waste projects;

18 98. the Sierra Vista hospital in Sierra county for  
19 building, equipment, infrastructure, debt refinance, road, land  
20 acquisition, water, wastewater, water rights and solid waste  
21 projects;

22 99. the south central solid waste authority in Dona  
23 Ana county for building, equipment, infrastructure, debt  
24 refinance, road, land acquisition, water, wastewater, water  
25 rights and solid waste projects;

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1           100. the South Valley academy in Bernalillo county  
2 for building, equipment, infrastructure, debt refinance, road,  
3 land acquisition, water, wastewater, water rights, facilities  
4 acquisition and solid waste projects;

5           101. the southern Sandoval county arroyo flood  
6 control authority in Sandoval county for building, equipment,  
7 infrastructure, debt refinance, road, land acquisition, water,  
8 wastewater, water rights and solid waste projects;

9           102. the spaceport authority in Sierra and Dona Ana  
10 counties for building, equipment, infrastructure, debt  
11 refinance, road, land acquisition, water, wastewater, water  
12 rights and solid waste projects;

13           103. the Springer municipal school district in  
14 Colfax county for building, equipment, infrastructure, debt  
15 refinance, road, land acquisition, water, wastewater, water  
16 rights, facilities acquisition and solid waste projects;

17           104. the village of Taos Ski Valley in Taos county  
18 for building, equipment, infrastructure, debt refinance, road,  
19 land acquisition, water, wastewater, water rights and solid  
20 waste projects;

21           105. the 21st Century public academy in Bernalillo  
22 county for building, equipment, infrastructure, debt refinance,  
23 road, land acquisition, water, wastewater, water rights,  
24 facilities acquisition and solid waste projects;

25           106. the Vaughn municipal school district in

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1 Guadalupe county for building, equipment, infrastructure, debt  
2 refinance, road, land acquisition, water, wastewater, water  
3 rights and solid waste projects;

4 107. the Wagon Mound public school district in Mora  
5 county for building, equipment, infrastructure, debt refinance,  
6 road, land acquisition, water, wastewater, water rights,  
7 facilities acquisition and solid waste projects;

8 108. the board of regents of western New Mexico  
9 university in Grant county for building, equipment,  
10 infrastructure, debt refinance, road, land acquisition, water,  
11 wastewater, water rights, facilities acquisition and solid  
12 waste projects; and

13 109. the Zuni public school district in McKinley  
14 county for building, equipment, infrastructure, debt refinance,  
15 road, land acquisition, water, wastewater, water rights and  
16 solid waste projects.

17 **SECTION 2. VOIDING OF AUTHORIZATION.**--If a qualified  
18 entity listed in Section 1 of this act has not certified to the  
19 New Mexico finance authority by the end of fiscal year 2021 its  
20 desire to continue to pursue a loan from the public project  
21 revolving fund for a public project listed in that section, the  
22 legislative authorization granted to the New Mexico finance  
23 authority by Section 1 of this act to make a loan from the  
24 public project revolving fund to that qualified entity for that  
25 public project is void.

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SECTION 3. EMERGENCY.--It is necessary for the public  
peace, health and safety that this act take effect immediately.

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HOUSE BILL

**53RD LEGISLATURE - STATE OF NEW MEXICO - SECOND SESSION, 2018**

INTRODUCED BY

ENDORSED BY THE NEW MEXICO  
FINANCE AUTHORITY OVERSIGHT COMMITTEE

AN ACT

MAKING AN APPROPRIATION FOR DRINKING WATER SYSTEM FINANCING.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO:

**SECTION 1. APPROPRIATION.**--One million eight hundred thousand dollars (\$1,800,000) is appropriated from the public project revolving fund to the drinking water state revolving loan fund for expenditure in fiscal year 2019 and subsequent fiscal years to provide state matching funds for federal Safe Drinking Water Act projects and to carry out the purposes of the Drinking Water State Revolving Loan Fund Act. Any unexpended or unencumbered balance remaining at the end of a fiscal year shall not revert to the public project revolving fund.

**SECTION 2. EFFECTIVE DATE.**--The effective date of the provisions of this act is July 1, 2018.

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SENATE BILL

**53RD LEGISLATURE - STATE OF NEW MEXICO - SECOND SESSION, 2018**

INTRODUCED BY

ENDORSED BY THE NEW MEXICO  
FINANCE AUTHORITY OVERSIGHT COMMITTEE

AN ACT

MAKING AN APPROPRIATION TO THE LOCAL GOVERNMENT PLANNING FUND.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO:

SECTION 1. APPROPRIATION.--One million five hundred thousand dollars (\$1,500,000) is appropriated from the public project revolving fund to the local government planning fund administered by the New Mexico finance authority for expenditure in fiscal year 2019 and subsequent fiscal years to make grants to qualified entities to evaluate and estimate the costs of implementing the most feasible alternatives for infrastructure, water or wastewater public projects or to develop water conservation plans, long-term master plans, economic development plans or energy audits and to pay the administrative costs of the local government planning program.

Any unexpended or unencumbered balance remaining at the end of

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1 a fiscal year shall not revert to the public project revolving  
2 fund.

3 SECTION 2. EFFECTIVE DATE.--The effective date of the  
4 provisions of this act is July 1, 2018.

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SENATE BILL

**53RD LEGISLATURE - STATE OF NEW MEXICO - SECOND SESSION, 2018**

INTRODUCED BY

ENDORSED BY THE NEW MEXICO  
FINANCE AUTHORITY OVERSIGHT COMMITTEE

AN ACT

RELATING TO FINANCE; AUTHORIZING THE NEW MEXICO FINANCE  
AUTHORITY TO MAKE LOANS OR GRANTS FROM THE WATER PROJECT FUND  
FOR CERTAIN WATER PROJECTS; DECLARING AN EMERGENCY.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO:

**SECTION 1. AUTHORIZATION OF QUALIFYING WATER PROJECTS.--**

Pursuant to Section 72-4A-9 NMSA 1978, the legislature  
authorizes the New Mexico finance authority to make loans or  
grants from the water project fund to the following qualifying  
entities for the following qualifying water projects on terms  
and conditions established by the water trust board and the New  
Mexico finance authority:

1. to the village of Columbus in Luna county for a  
flood prevention project;

2. to the city of Sunland Park in Dona Ana county

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1 for a flood prevention project;

2 3. to the upper Rio Grande watershed district in  
3 Rio Arriba county for a flood prevention project;

4 4. to the city of Carlsbad in Eddy county for a  
5 water conservation or treatment, recycling or reuse project;

6 5. to the village of Chama in Rio Arriba county for  
7 a water conservation or treatment, recycling or reuse project;

8 6. to the city of Clovis in Curry county for a  
9 water conservation or treatment, recycling or reuse project;

10 7. to the city of Jal in Lea county for a water  
11 conservation or treatment, recycling or reuse project;

12 8. to the Trampas mutual domestic water consumers  
13 and mutual sewage works association in Taos county for a water  
14 conservation or treatment, recycling or reuse project;

15 9. to the eastern New Mexico water utility  
16 authority in Curry county for a water storage, conveyance and  
17 delivery project;

18 10. to the city of Portales in Roosevelt county for  
19 a water storage, conveyance and delivery project;

20 11. to the Canoncito at Apache Canyon mutual  
21 domestic water consumers and mutual sewage works association in  
22 Santa Fe county for a water storage, conveyance and delivery  
23 project;

24 12. to the city of Gallup in McKinley county for a  
25 water storage, conveyance and delivery project;

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1           13. to the town of Elida in Roosevelt county for a  
2 water storage, conveyance and delivery project;

3           14. to the Ancones mutual domestic water and  
4 wastewater consumers association in Rio Arriba county for a  
5 water storage, conveyance and delivery project;

6           15. to the Albuquerque-Bernalillo county water  
7 utility authority in Bernalillo county for a water storage,  
8 conveyance and delivery project;

9           16. to the Garfield mutual domestic water consumers  
10 and mutual sewage works association in Dona Ana county for a  
11 water storage, conveyance and delivery project;

12           17. to the Alcalde mutual domestic water consumers  
13 and mutual sewage works association in Rio Arriba county for a  
14 water storage, conveyance and delivery project;

15           18. to the town of Carrizozo in Lincoln county for  
16 a water storage, conveyance and delivery project;

17           19. to the Valley Estates mutual water and sewer  
18 association in Rio Arriba county for a water storage,  
19 conveyance and delivery project;

20           20. to the Sierra soil and water conservation  
21 district in Sierra county for a watershed restoration and  
22 management project;

23           21. to the Claunch-Pinto soil and water  
24 conservation district in Torrance county for a watershed  
25 restoration and management project; and

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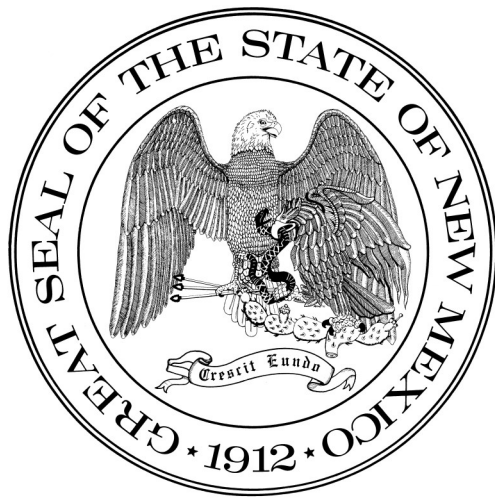
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22. to the East Rio Arriba soil and water  
conservation district in Rio Arriba county for a watershed  
restoration and management project.

SECTION 2. EMERGENCY.--It is necessary for the public  
peace, health and safety that this act take effect immediately.

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LEGISLATIVE COUNCIL SERVICE  
SANTA FE, NEW MEXICO