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

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

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

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.

<u>Friday, August 11</u>

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.

<u>Questions and Discussion</u>

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.