

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

**August 28-29, 2006**  
**Mescalero Room D**  
**Inn of the Mountain Gods Resort and Casino**  
**Mescalero**

The fourth meeting of the New Mexico Finance Authority (NMFA) Oversight Committee for the 2006 interim was called to order by Senator Mary Kay Papen, chair, on Monday, August 28, 2006, at 9:35 a.m. in Mescalero Room D of the Inn of the Mountain Gods Resort and Casino in Mescalero.

**Present**

Sen. Mary Kay Papen, chair  
Rep. Daniel P. Silva, vice chair  
Sen. Joseph J. Carraro  
Rep. Daniel R. Foley (August 28)  
Sen. Clinton D. Harden, Jr.  
Rep. Dona G. Irwin  
Rep. Jane E. Powdrell-Culbert  
Sen. Nancy Rodriguez (August 28)  
Sen. H. Diane Snyder  
Rep. Joe M Stell  
Rep. Don L. Tripp  
Rep. Richard D. Vigil (August 28)

**Advisory Members**

Sen. Vernon D. Asbill  
Rep. Hector H. Balderas  
Rep. Jose A. Campos  
Rep. Ernest H. Chavez  
Rep. Anna M. Crook  
Sen. Dianna J. Duran  
Rep. Mary Helen Garcia  
Sen. Mary Jane M. Garcia  
Rep. Roberto "Bobby" J. Gonzales  
Sen. Richard C. Martinez  
Sen. Leonard Lee Rawson (August 28)  
Rep. Sheryl Williams Stapleton  
Sen. James G. Taylor (August 28)  
Rep. Luciano "Lucky" Varela

**Absent**

Rep. Patricia A. Lundstrom  
Sen. Lidio G. Rainaldi  
Sen. Shannon Robinson  
Rep. Henry Kiki Saavedra

Sen. Pete Campos  
Sen. Kent L. Cravens  
Sen. Joseph A. Fidel  
Sen. Stuart Ingle  
Rep. Ben Lujan  
Sen. Steven P. Neville  
Rep. Edward C. Sandoval

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

**Staff**

Cleo Griffith  
Doris Faust  
Lindsey Bilovesky

**Guests**

The guest list is in the meeting file.

Copies of all handouts are in the meeting file.

**Monday, August 28****Welcome and Introductions**

Senator Mary Kay Papen welcomed guests in attendance and introduced officials from the surrounding communities. Brad Treptoe, Ruidoso Valley Chamber of Commerce, and Dr. Mike Elrod, Eastern New Mexico University's provost, welcomed the committee to Ruidoso. Selena Chino, first lady of the Mescalero Apache Tribe, and Brian Parish, CEO of the Inn of the Mountain Gods Resort and Casino, also welcomed the committee.

**Overview of Local Capital Projects and Capital Needs**

Mr. Treptoe gave an overview of upcoming local projects in the town, including the expansion of Highway 532, and discussed plans for further workforce development, noting, however, that Ruidoso has a very low unemployment rate.

Dr. Elrod explained the university's in-depth training program and his goal to recruit a larger workforce from the local area.

Sue Garrett, mayor pro-tem of Ruidoso Downs, and Lorri McKnight, manager and treasurer of Ruidoso, gave a presentation on local water and wastewater systems needs. Ruidoso and Ruidoso Downs have entered into a partial agreement for a wastewater treatment facility, which would serve both communities. Phosphate issues are greatly increasing the cost of this project, which is currently in the design phase. The communities have also partially settled a 2005 lawsuit filed by the Forest Guardians over wastewater treatment deficiencies. Although the federal Environmental Protection Agency (EPA) has not yet imposed monetary sanctions against Ruidoso or Ruidoso Downs, both communities will be in violation of federal standards until the wastewater treatment plant is on line. Ruidoso Downs intends to use its remaining bonding capacity of \$1 million for the project and will request \$5 million in federal assistance. The Mescalero Apache Tribe is a client of the current treatment facility, and it is hoped that the tribe can assist by obtaining federal grant funding for the new facility. The communities will jointly seek \$15 million from the state to complete the \$35 million project. On questioning by the committee, discussion ensued regarding wastewater treatment in relation to federal water quality standards, phosphate standards and New Mexico stream standards.

Ms. Garrett also reported that Ruidoso Downs will be seeking funding for a new fire station, for sewer extensions, for a one million gallon water storage reservoir and for drainage system improvements.

Donald E. Carroll, mayor of Alamogordo, and Pat McCourt, Alamogordo city manager, thanked the NMFA for its past support. They indicated that Alamogordo needs \$7 million to continue work on its desalinization project, which will treat brackish water. Discussion ensued regarding desalinization efforts in Alamogordo, as well as Alamogordo's water rights in Bonita Lake. Mr. Carroll reported that Bonita Lake is now full and that Alamogordo has the majority of water rights to the lake.

Sammy L. Hammons, mayor of Capitan, relayed a prioritized list of funding requests to the committee and asked for a grant assistance for local initiatives, including \$400,000 to complete a water treatment plant. Discussion ensued regarding the initiatives and methods of funding. The committee suggested that Capitan also pursue federal grants as a source of income.

Ray Cordova, mayor of Tularosa, was joined by Tularosa city officials Tom McKeen and Richard Gutierrez. Mayor Cordova said that Tularosa is experiencing residential and commercial growth, describing the large new racehorse breeding and training facility that will be built in the near future. Mayor Cordova reported that Tularosa has the ability to store only three to four days of water and needs to increase its surface water storage capacity. Tularosa is seeking \$2.5 million to repair wells and to build a sedimentation pond to store water. Mayor Cordova also requested \$825,000 in funding for a senior center.

Michael Nivison, administrator of the Village of Cloudcroft, reported that Cloudcroft is also experiencing wastewater treatment problems. Cloudcroft will be requesting \$500,000 to fund water and wastewater improvements. On questioning by the committee, Mr. Nivison discussed Cloudcroft's cost-benefit analysis of storage pond improvements versus storage tank construction.

### **Tax Increment Financing: A New Option to Develop Infrastructure**

David Buchholtz of Brownstein, Hyatt & Farber described tax increment financing (TIF) as a useful financing tool that couples the growth of the tax base in a designated development area with the financing of infrastructure improvements in that area. TIF does not involve a tax increase but is a revenue shift. As an example of how TIF works, Mr. Buchholtz explained that TIF would allow a developer to use the amount that a tax base is expected to rise after completion of the proposed project and to borrow against that amount. In order to qualify, a TIF district must be created by the local government and must be used solely for public improvements in low-income areas. Forty-seven other states have some form of TIF. Mr. Buchholtz reported that Albuquerque, Las Cruces and Farmington already have plans to use TIF.

Norton Francis, chief economist for the Legislative Finance Committee, presented the pros and the cons of TIF. Among the positive points are TIF's ability to painlessly create new tax revenue, to provide needed targeted capital for a district and to be administered locally. However, problems that could arise include interjurisdictional conflicts, overly optimistic borrowing and diminishing local authority over city planning. Mr. Francis also described how a TIF district is formed and terminated, the requirements of a TIF project plan, the findings required by a governing body to set up a TIF district, safeguards in the TIF legislation and how the TIF increment is determined.

On questioning by the committee, Mr. Buchholtz and Mr. Francis discussed the logistics

of TIF, proposed TIF legislation and areas of New Mexico where TIF may be used. It was noted that the TIF bill that passed was only brought before the 2005 interim committee in concept form and that close scrutiny of the TIF statutes might suggest beneficial revisions.

### **The Role of the Department of Environment in Regulating and Financing Community Wastewater Systems**

Rick Martinez, deputy secretary of the Department of Finance and Administration, discussed the process of funding water and wastewater projects around the state. He said the process should be similar to that of the Public School Capital Outlay Council, noting that a uniform application should be used and that NMFA should process the fiscal review for debt analysis. He also emphasized the need for full-cycle planning and that projects should be fully funded, rather than funded by piecemeal appropriations. Mr. Martinez proposed new ideas that could be implemented throughout New Mexico, such as large scale water reuse projects, water demonstration projects and watershed projects. Mr. Martinez suggested that Councils of Government should assist in the process of developing regional water and wastewater infrastructure.

Along with Mr. Martinez, Ron Curry, secretary of environment, addressed committee questions regarding piecemeal appropriations, possible revenue streams, the importance of watershed management, standards for surface water quality and phosphate levels. The committee requested that the Department of Environment work with Ruidoso on its water problems and that the department help Ruidoso work with the EPA. In response to committee questioning, Mr. Curry reported that the state is working on putting together a process plan for use by communities in dealing with wastewater problems. The committee also discussed the merits of setting up a single government entity to handle water and wastewater projects.

### **Water System Financing: Encouraging Regionalization**

Robert Apodaca, director of the Local Government Division of the Department of Finance and Administration, recapped 2005 legislation on water systems and reported on the challenges facing water infrastructure financing. He noted that the state has approximately 650 public water systems, but that 95 percent of them have fewer than 500 customers. The majority of water systems have limited capacity, are aging and have difficulty in complying with federal and state regulations. Mr. Apodaca reported that it would cost approximately \$5 billion to repair the state's aging water system infrastructure. He detailed a number of water-related problems, including the lack of an effective approach for developing new water capacity, lack of strategic prioritization and lack of a clear line of accountability. Mr. Apodaca reported that state surface water is fully appropriated and that ground water is not being sufficiently recharged, and discussed a number of potential projects for the upcoming legislative session.

Heather Himmelberger, director of the Environmental Finance Center at the New Mexico Institute of Mining and Technology, discussed regionalization of water systems, describing the benefits to local communities when they work together and achieve better economies of scale. Ms. Himmelberger discussed and evaluated pilot programs in the state. She also noted that New Mexico does not have a proactive approach for regionalization and has, in fact, created disincentives for regional structures. Ms. Himmelberger compared New Mexico policies to other states' regionalization initiatives, concluding that the New Mexico funding and grant process encourages individual systems.

John D'Antonio, state engineer and chair of the Water Trust Board, stood for questions with Mr. Apodaca and Ms. Himmelberger. Upon questioning by committee members, Ms. Himmelberger agreed that extensive state assistance will be needed to increase regionalization of water systems and that cooperation with the executive branch will be crucial to successful regionalization.

### **Committee Business**

On motion duly made and approved without objection, the minutes from the June 19, 2006 and July 10, 2006 meetings were approved. The committee recessed at 5:45 p.m.

### **Tuesday, August 29**

The committee reconvened at 9:10 a.m. in Mescalero Room D of the Inn of the Mountain Gods Resort and Casino in Mescalero and was welcomed by Mark Chino, president of the Mescalero Apache Tribe.

### **NMFA Participation in the New Markets Tax Credit Program**

Mark Valenzuela, NMFA, introduced the NMFA's chief investment officer, John Duff, along with Finance New Mexico Advisory Board Members C.J. Wieggle, a local insurance agency owner, and Deming Mayor Andres Silva. The presenters discussed efforts and strategies for bringing in high-wage jobs to New Mexico.

Mr. Valenzuela described the federal New Markets Tax Credit Program, which was established in 2000 to bring investment capital to low-income or distressed areas. Investors in community development entities will receive new markets tax credits totaling 39 percent of their investment, paid out over seven years. Thus far, New Mexico and Kansas are the only states that have not been awarded tax credits. The New Markets Tax Credit Program is administered by the federal Department of Treasury's Community Development Financial Institutions Fund. The fund grants community development entity status and allocates the tax credit. Mr. Valenzuela added that the NMFA has established a community development entity called Finance New Mexico, LLC. This community development entity will be applying for the federal tax credit in February 2007 and has identified projects valued at approximately \$500 million for the tax credit program. Projects include an ethanol plant, solar and wind energy projects, a forest projects company and the Albuquerque Studios. The NMFA will generate profits from this program via fees but will put the fees back into the program. Mr. Valenzuela is confident that this year NMFA will have a competitive application and will be successful in its efforts to obtain new markets tax credits from the federal government.

### **New Markets Tax Credit Partners Application**

Nick Smerigan, vice president of Albuquerque Studios, and Jeremy Hariton, director of studio operations and finance for Albuquerque Studios, reported that they are in the process of building the Albuquerque Studios, a film and production studio.

Mr. Smerigan explained that Albuquerque Studios broke ground this summer in Mesa del Sol and is scheduled to open in January 2007. The facility will cover 54 acres, will cost approximately \$160 million and will ultimately employ roughly 2,750 people. Albuquerque Studios is anticipated to be the start of a \$500 million to \$700 million industry in New Mexico.

Albuquerque Studios will be bigger than Sony Studios in Los Angeles and will benefit New Mexico through greater employment, property taxes and gross receipts taxes paid to the state. Mr. Smerigan added that Albuquerque Studios will implement job training programs and that he hopes to see New Mexico residents making up most of the employees. The architects and structural engineers already working on this project are all from New Mexico companies.

Mr. Hariton emphasized that he is anticipating receiving the new markets tax credit next year and explained that the studio plans could not occur without the tax credit. Mr. Hariton is confident that they will secure the credit because a studio of this caliber has not been built in 10 years. He explained that Mesa del Sol was chosen because of its proximity to the airport and the availability of parcels of land.

### **2006 GRIP Finance Plan: Proposed Bond Structure**

Rhonda Faught, secretary of transportation opened her presentation by noting that the RailRunner Project has been even more successful than anticipated, averaging over 5,000 riders per day. The Los Lunas station is scheduled to open in late September and the Belen station should be open by November. Secretary Faught reviewed the GRIP Project schedule, reporting that \$679 million in GRIP projects have been authorized to date. Secretary Faught discussed budget cuts and fears that projects will not be completed.

George Williford, senior vice president of First Southwest Company, discussed the goals and constraints of GRIP. He described the new lien structure and debt policy constraints. He added that the design optimizations combat inflation. One concern expressed is that the state may not be able to afford to complete all GRIP projects without dipping into the general fund.

Upon questioning by committee members, Secretary Faught and Mr. Williford discussed construction cost spikes and the importance of being cautious and forward-thinking in light of possible future funding shortfalls.

### **Adjournment**

Senator Papen adjourned the meeting at 12:10 p.m.