



**Presentation to the
New Mexico Finance Authority**

Drinking Water State Revolving Loan Fund Program Update

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Drinking Water State Revolving Fund

The federal Drinking Water State Revolving Fund was created in 1996 by the Safe Water Drinking Water Act (“Act”). Through the EPA, the Act provides Capitalization Grants to states to establish revolving loan funds and to fund activities that promote sustainable, safe drinking water systems

NM’s program was created in 1997 and is jointly administered by the NMFA and the New Mexico Environment Department (NMED)

By statute, NMFA is the recipient of the federal capitalization grants and is responsible for the expenditure of the all funds as well as for originating, managing and servicing all loans

To date, New Mexico has received \$181,255,500 in federal grants and NMFA has provided \$33,261,100 in the 20% state match





Program Responsibilities

NMED-DWB administers the technical aspect of the program

- ❑ enforces provisions of the Safe Drinking Water Act
- ❑ prioritizes projects on the Comprehensive & Fundable Priority Lists
- ❑ determines technical and managerial capacity for water systems

NMFA administers the financial aspects of the funds

- ❑ provides low interest loans to projects on the Fundable Priority List
- ❑ through a Memorandum of Understanding with NMED's Construction Programs Bureau, monitors project construction
- ❑ through a contract with an environmental engineering firm, performs environmental reviews and determines compliance





Loan Fund

The NMFA uses the loan funds to provide below-interest financial assistance to water systems prioritized by NMED that:

- ✓ address or prevent violations of health-based drinking water standards
- ✓ are necessary to maintain compliance with drinking water regulations for contaminants with acute and chronic health effects
- ✓ focus on the needs of small and disadvantaged water systems

Federal rules require that at least 15% of the loan fund annually be directed small systems (serving populations of less than 10,000). To date, 29.4% of the total loans have been provided to small systems

Before NMFA can make a loan, NMED must determine that the applicant has adequate technical, managerial and financial capacity to undertake the project





The Loan Fund

Technical Capacity: NMED must determine that a drinking water system's source, treatment, distribution and storage infrastructure are adequate and its personnel have the technical knowledge and documentation to efficiently operate and maintain the system

Financial Capacity: Systems must demonstrate to both NMED and NMFA that they have sufficient revenues to cover necessary costs, adequate fiscal controls, and engage in financial planning and asset monitoring to include savings for emergencies, routine maintenance and long term capital improvements as well as debt service

Managerial Capacity: Systems that receive funding must evidence that management is adequately trained, have written policies and procedures that outline responsibilities in overseeing operations and comply with all applicable regulations and laws





The Loan Fund

Guidelines established for the program defines criteria for Disadvantaged and Severely Disadvantaged Communities based upon the projected average annual user charges and the Median Household Income of the community

Federal guidelines require that the loans be made at or below market interest rates. Interest rates are set by the NMFA:

- Severely Disadvantaged Community: 0% interest rate on the first \$600,000 of the loan, up to 30 years
- Disadvantaged Community: 0% interest rate on the first \$600,000 of the loan, up to 20 years
- Non-Disadvantaged Community – 2%, up to 20 years
- Private Non-profit Water System – 3%, up to 20 years





Additional Subsidy

Since 2010, the Federal grants have required states provide “Additional Subsidy” to its borrowers, which NMFA meets through loans it makes with Principal Forgiveness

For FFY 2016, the Capitalization Grant requires 20% subsidy, and at the state’s discretion, up to 30% to be used for Disadvantaged Entities. New Mexico has opted to provide both pools of subsidy totaling 50% or \$4,156,000. NMFA assigns Principal Forgiveness using the following guidelines:

- ✓ **All projects involving construction are provided 25% principal forgiveness** to help offset the costs involved with Federal requirements such as Davis Bacon and American Steel
- ✓ **Disadvantaged PWSs** are provided an additional 25% principal forgiveness and **Severely Disadvantaged PWSs** are provided 50% principal forgiveness





Increased Pace of New Mexico's SRF

EPA has set a target for states to expend all “Legacy” grants (FFY 2014 grants and earlier) by September 30, 2016

Given the availability of free or low-cost funding for water systems in New Mexico (Capital Outlay, Water Trust Board, PPRF, Colonias Infrastructure, etc), the DWSRLF historically had a slow pace as compared to other states

Ten years ago, New Mexico had the lowest pace of Capitalization Grant expenditures in the nation with 48% of its funds unspent compared to the national average of 14%. Four years ago, New Mexico's unspent funds totaled more than 30% of its total funds.

As of July 1st, that number has dropped to less than 9%

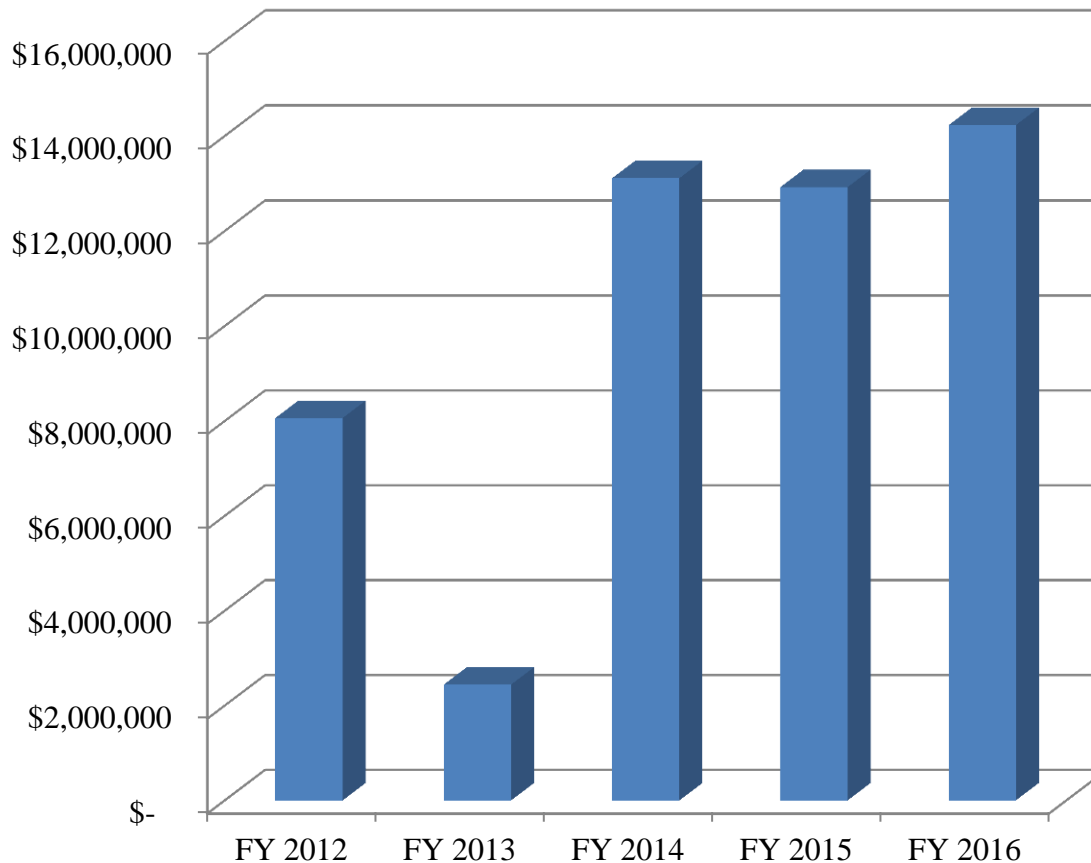
New Mexico is on track to fully expend Legacy loan funds in the next few weeks thereby meeting the Unliquidated Obligation (“ULO”) target set by the EPA





Pace of NM's Expenditure of Federal Funds

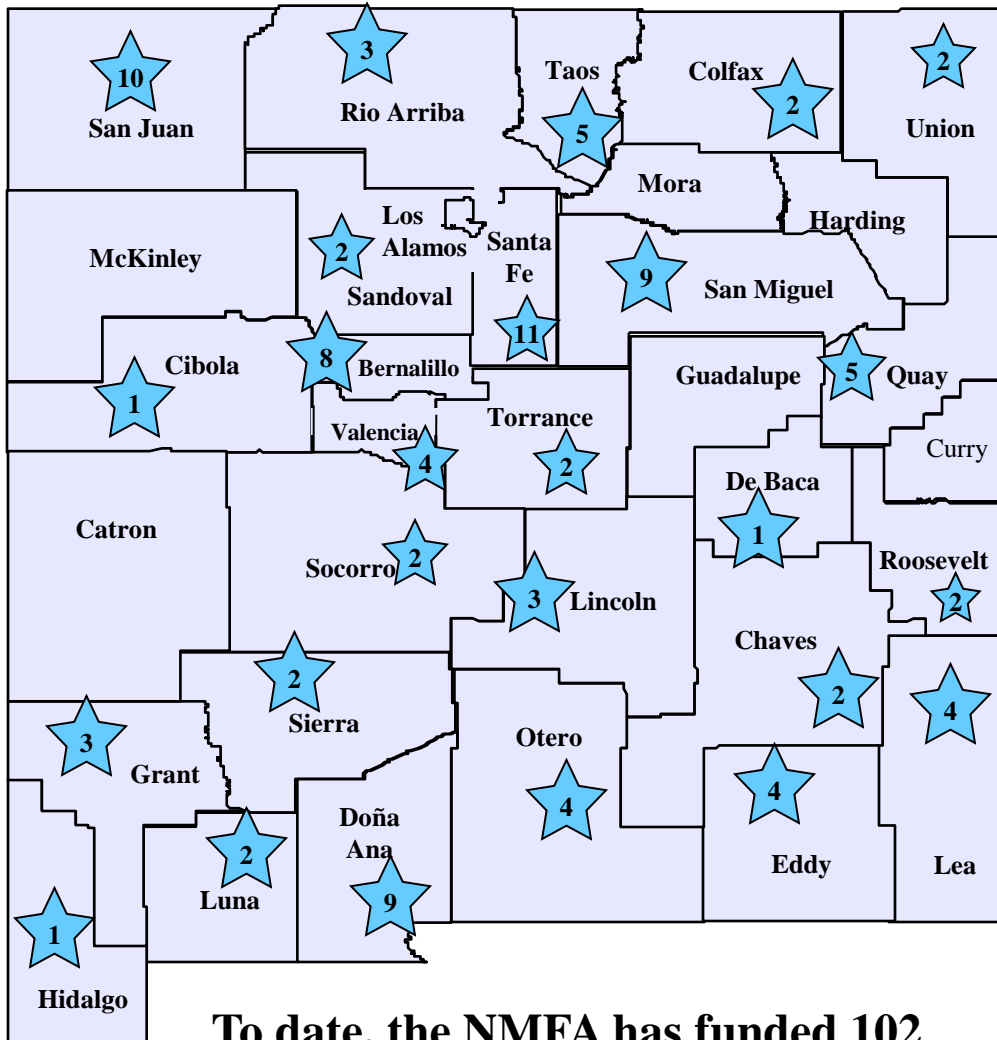
Total Expenditures from DWSLRF



- ◆ In FY 2016, NMFA closed ten loans totaling \$16.4 million
- ◆ NMFA begins FY 2017 with 23 projects in various stages of construction with available funding of approximately \$18.1 million
- ◆ Four loans totaling \$4.2 million have been approved and are in the process of closing
- ◆ NMFA has fully obligated all Federal funds secured to date and expects to utilize repaid principal and interest to fund future projects



DWSRLF Projects



To date, the NMFA has funded 102 projects in 25 counties totaling approximately \$173.5 million



DWSRLF Loans Closed to Date		
County	# of Loans	Amount
Bernalillo	8	\$ 20,318,533
Chaves	2	\$ 4,837,900
Cibola	1	\$ 1,206,979
Colfax	2	\$ 192,655
Dona Ana	9	\$ 16,395,599
Eddy	4	\$ 23,032,374
Grant	3	\$ 2,044,912
Hidalgo	1	\$ 744,472
Lea	4	\$ 13,811,750
Lincoln	3	\$ 7,240,206
Luna	2	\$ 2,594,559
Otero	4	\$ 7,611,122
Quay	5	\$ 4,461,159
Rio Arriba	3	\$ 1,553,650
Roosevelt	2	\$ 547,710
San Juan	10	\$ 17,237,330
San Miguel	9	\$ 7,440,013
Sandoval	2	\$ 2,012,853
Santa Fe	11	\$ 23,957,834
Sierra	2	\$ 2,140,274
Socorro	2	\$ 1,336,230
Taos	5	\$ 1,277,665
Torrance	2	\$ 1,163,000
Union	2	\$ 721,150
Valencia	4	\$ 9,670,617
TOTAL	102	\$ 173,550,546