



**Report
to
The LEGISLATIVE FINANCE COMMITTEE**



Water Trust Board
A Review of Planning, Spending, and Outcomes
November 21, 2013

Report #13-12

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State of New Mexico

LEGISLATIVE FINANCE COMMITTEE

325 Don Gaspar, Suite 101 • Santa Fe, NM 87501
Phone: (505) 986-4550 • Fax (505) 986-4545

David Abbey
Director



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November 21, 2013

Mr. John Gasparich, Chief Executive Officer (Interim)
New Mexico Finance Authority
207 Shelby Street
Santa Fe, NM 87501

Dear Mr. Gasparich:

On behalf of the Legislative Finance Committee (Committee), I am pleased to transmit the evaluation, *Water Trust Board, Review of Planning, Spending, and Outcomes*. The program evaluation team assessed compliance with laws and regulations, including collaboration between member agencies to implement the state water plan and achieve cost effectiveness.

The report will be presented to the Committee on November 21, 2013. An exit conference was conducted with the New Mexico Finance Authority on November 12, 2013 to discuss the contents of the report. The Committee would like a plan to address the recommendations within this report within 30 days from the date of the hearing.

I believe this report addresses issues the Committee asked us to review and hope that all participating entities will benefit from our efforts. We very much appreciate the cooperation and assistance we received from your staff.

Sincerely,

A handwritten signature in cursive script that reads "David Abbey".

David Abbey, Director

DA:JC/jl

Cc: Representative Luciano "Lucky" Varela, Chairman, Legislative Finance Committee
Senator John Arthur Smith, Vice-Chairman, Legislative Finance Committee
Mr. Scott Verhines, Chairman, Water Trust Board
Mr. William Fulginiti, Vice-Chairman, Water Trust Board
Dr. Tom Clifford, Secretary, Department of Finance and Administration
Mr. Hector Balderas, State Auditor, Office of the State Auditor

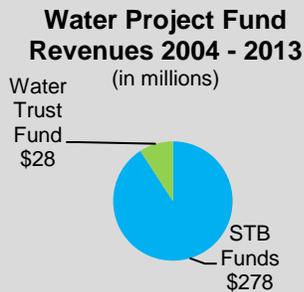
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New Mexico has reported \$933 million in drinking water infrastructure needs over the next 20 years.

Since 2004, the WTB received \$306 million for water projects, 91 percent was provided by severance tax bond revenue.



Severance tax uses nationwide:

- *New Mexico – capital infrastructure including water projects*
- *Alaska – subsidy for no income or sales tax, annual cash dividend*
- *Wyoming – postsecondary education*
- *Texas – higher education*
- *Kentucky – water infrastructure*
- *Utah, West Virginia, and North Dakota are building reserves for future use*

Five types of projects are eligible for WTB funding, listed in order of funding allocated:

- *storage, conveyance or delivery of water;*
- *conservation, recycling, treatment or reuse of water;*
- *the restoration and management of watersheds;*
- *flood prevention; and*
- *federal Endangered Species Act (ESA)*

Water is critical to the economic strength and public welfare of New Mexico. While providing adequate and safe drinking water for citizens is primarily the responsibility of local governments, the state supports communities through the combined efforts of state agencies, including the Water Trust Board (WTB). The largest of seven water infrastructure programs in New Mexico, the WTB has funded \$250 million for projects since 2002.

The WTB was created in 2001 to conserve, protect, and distribute New Mexico’s scarce water resources by providing funding for water infrastructure projects. The 16-member board represents key state agencies and public members to coordinate policies and funding to achieve these goals. Projects are prioritized to support urgent projects that meet the needs of regional and state water plans.

New Mexico provides mostly grant funds for water projects, while the majority of states provide self-sustaining, revolving loan funds. Second only to Kentucky for providing grant funding for water projects, New Mexico uses severance tax bond (STB) revenues as the funding source.

New Mexico has seven water-related infrastructure programs, although they are fragmented and lack coordination. Programs operate independently of each other and no one agency is held accountable for this much-needed coordination. New Mexico law requires the WTB to prioritize the planning and financing of water projects to implement the state water plan. The state water plan names the WTB to coordinate with state agencies to establish a centralized process for funding water projects.

Although challenges exist for the fair administration of the Water Project Fund, the WTB is correctly funding projects according to policy, including more funding for regional projects that increase the delivery of water. These projects include the three largest diversion projects in the state, the San Juan-Chama, the Navajo-Gallup, and the Ute Lake diversion projects.

With many of the state’s community water systems lacking basic utility management tools, the WTB has increased eligibility requirements to improve financial, managerial, and technical capacities.

To comply with these new requirements, communities will be challenged with adopting best management practices and comply with state and federal laws. These best management practices include financial audits and the use of asset management plans. With many rural water utilities managed by volunteer boards, this challenge will require cooperation and support by the state and the WTB.

Top Ten States That Fund Water Grant Programs 1996 – 2012
(in millions)

Rank	State	Total Water Grant Programs	% of Total
1	KY	\$538.7	25%
2	NM	\$352.7	16%
3	NC	\$249.1	11%
4	OR	\$164.5	8%
5	CO	\$110.6	5%
6	AK	\$103.8	5%
7	NV	\$95.0	4%
8	NY	\$90.0	4%
9	WV	\$52.6	2%
10	MT	\$50.5	2%

Source: EPA NIMS Report

Root causes of New Mexico water program fragmentation include:

- programs continue to operate independently of each other;
- programs compete for the same customers;
- funding comes from different sources and have widely different eligibility criteria;
- incentives do not exist for collaboration on projects;
- a long-term statewide capital plan is not centrally coordinated;
- agency and bureau boundaries inhibit communication; and
- no one agency is held accountable for a coordinated and centralized reporting function.

KEY FINDINGS

New Mexico’s high rate of grant awards for water projects adversely impacts the effectiveness of related loan programs. New Mexico provides mostly grant funds for water projects, while the majority of states provide mostly self-sustaining, revolving loan funds. New Mexico ranks second in the U.S. in grant funding for water projects and reported \$353 million in grants, since 1996.

The Water Project Finance Act requires the WTB to prioritize the planning and financing of water projects required to implement the State Water Plan. The State Water Plan names the Office of the State Engineer and the Interstate Stream Commission to coordinate with the WTB to establish a centralized review process for funding water projects statewide.

A lack of coordination and fragmentation exists between funding programs. An August 2007 LFC Hearing Brief identified fragmentation of programs as the fundamental problem for New Mexico’s infrastructure process. With no less than seven separate funding programs for water projects, few share resources or coordinate funding to maximize financing.

Separate grant programs compete with and undermine the effectiveness of existing loan programs such as the State Revolving Loan Funds. The availability of grant funds directly restricts the number and quality of applications to existing state revolving loan fund programs, because the hope of obtaining a grant all but eliminates the desire of most communities to apply for a loan.

The New Mexico Drinking Water State Revolving Fund (DWSRF) has the highest percentage of federal grant balances for unspent water project funds in the nation. The 2013 Unliquidated Obligation report from the EPA, identifies the New Mexico DWSRF as having the highest percentage of unspent amounts in the nation for federal grants intended for project funding. The report shows that \$37 million, or 32 percent of the total grants, remains unspent.

New Mexico has multiple application processes for water project funding. Communities wanting to secure funding for water projects can apply at three separate governmental websites, the NMFA, the New Mexico Environment Department, and the Legislature. Applicants can apply on the NMFA website for WTB funding, the Public Project Revolving Fund, and the Colonias funding program. From the NMED website, applicants can apply for funding from the DWSRF, the Clean Water SRF, the Rural Infrastructure Program, and the Tribal Infrastructure Fund. Legislative capital outlay requests are accessed through the legislative council service website.

Wasteful duplication of effort may exist because funding agencies’ purposes overlap. The WTB, legislative capital outlay process, the Drinking Water State Revolving Fund, and the Rural Infrastructure Program, all serve similar purposes to provide funds to support water infrastructure. Each program has staff that review applications to determine

Statutory Authority for water policy and project funding:

- NM Interstate Stream Commission (ITC)
- Office of the State Engineer (OSE)
- New Mexico Environment Department (NMED)
- Energy, Minerals, and Natural Resources Department (EMNRD)
- Department of Game and Fish (NMDGF)
- NM Acequia Commission
- Water Trust Board (WTB)
- New Mexico Finance Authority (NMFA)
- Water Quality Control Commission (WQCC)

WTB Type of Projects Awarded 2007 - 2013
(in millions)

Project Type	Total \$	Average % of Total
Endangered Species Act Collaborative Program	\$0.8	0.3%
Flood Prevention	\$9.6	4.0%
Water Conservation, Re-Use, Recycling and Treatment	\$66.4	27.6%
Water Storage, Conveyance and Delivery	\$145.4	60.4%
Watershed Restoration and Management	\$18.6	7.7%
Grand Total	\$241	100%

Source: NMFA

eligibility and prioritize requests according to need. The WTB also overlaps funding opportunities for the Tribal Infrastructure Fund (TIF) and Colonias Fund, as all three programs are eligible for water project funding.

Challenges exist for the fair and effective administration of the water project fund.

The WTB does not comply with rule for interest rates to borrowers. The administrative code requires the NMFA to determine interest charged to borrowers based on cost of funds and the ability of a qualified entity to repay a loan. Since 2006, the WTB structured all loans as interest-free regardless of the borrower’s ability to pay, median household income, the user rates charged by the utility, and the NMFA cost of funds.

Loan forgiveness policy does not encourage fiscal responsibility or efficiency. The loan forgiveness policy allows any community to avoid defaulting on a WTB loan because the debt may be waived in the event of hardship.

Increased oversight is needed for the administration of the WTB and projects. The NMFA staff to oversee the WTB consists of one full-time staff in addition to numerous staff that split their time supporting the WTB and other programs. The one full-time staff presents to and supports the various public and non-public meetings held to discuss WTB business. There exists one vacancy identified with dual responsibilities of WTB and the DWSRF.

Many recommendations for funding included errors. In the WTB funding recommendations of 2010, 2011, 2012, and 2013, 22 contained errors regarding the loan proportions. According to policy, the NMFA determines the loan proportion for funding based on the capacity of net system revenues as determined by the NMFA financial review. The remainder is delivered as a grant. The errors in the recommendations suggest a lack of internal control and oversight in the recommendation process.

Although required by law, the WTB has not provided a report to the Legislature since October 2006. The annual report is required by October 1st of each year.

Prior to 2011, \$159 million in state funds were disbursed with no technical oversight to prevent fraud, waste, and abuse of taxpayer dollars. The New Mexico Finance Authority has executed two memorandums of understanding (MOU) with the New Mexico Environment Department (NMED) to provide technical assistance ensuring that projects are completed in accordance with the Water Project Finance Act. Prior to the first contract executed in 2011, no oversight existed for the engineering and construction payments, to ensure funds were used efficiently. Currently, only projects requiring pipe receive oversight from the NMED, with flood, endangered species, and watershed projects receiving no oversight from the state.

WTB Top Ten Projects
(in millions)

\$	Primary Type of Project	Primary Description of Project
\$20	conveyance	Navajo Gallup Water Supply Project
\$16	conveyance	San Juan/Chama Diversion Project/SFe
\$22	conveyance	Ute Dam Water Supply Project
\$8	conveyance	San Juan/Chama Diversion Project/Taos
\$8	watershed	Claunch-Pinto Watershed Restoration & Management
\$7	treatment or reuse	Dona Ana MDWCA Arsenic treatment facility-construct.
\$7	conveyance	Alamogordo Regional Water Supply-Construct
\$6	conveyance and treatment	Bloomfield various projects
\$5	conveyance	Cuatro Villas MDWUA Waterline Infras.-construct.
\$5	conveyance	Lower Rio Grande PWWA Mesquite transmission & distribution line upgrades-construct.

Source: NMFA

The funding cycle for 2014 requires excessive review by four oversight bodies resulting in a ten-month funding cycle from application to approval. The 2014 funding cycle begins with the WTB accepting applications between August and September 2013. The WTB performs a first screening to determine eligibility and prepares the list of fundable projects for recommendation to the Legislature. The NMFA Oversight Committee reviews this list in November, prior to the Legislative authorization in January. The list is twice more reviewed by the WTB and lastly by the NMFA Board, culminating in a final funding recommendation for 2014 in June of 2014. Because grant and loan documents are not signed until after the bond certification in June, it takes additional months to execute agreements and projects may take years to complete. The August 2013 Board of Finance balance for the WTB severance tax bonds was \$94 million.

With few exceptions, the WTB awards more funding to regional water projects that increase the delivery of water. The Water Project Finance Act as well as WTB policies and rule, require priority be given to projects that are identified in regional water plans and have matching federal or local funding sources. Accordingly, the WTB has awarded more funding to regional water conveyance projects. The three largest diversion projects are the Navajo-Gallup, the San Juan-Chama, and the Ute Lake Diversion projects.

In general, the WTB has correctly awarded projects according to type although benefits are not easily measured. Equitable distribution has on average, remained on target over seven years of activity.

The purpose of Ute Lake Reservoir is to increase the water supply for citizens, however two risks remain in achieving that purpose. The Eastern New Mexico Rural Water System pipeline project represents a significant investment by the state of New Mexico and the federal government. The intended use of this water supply will be to supply drinking water for the communities of Clovis, Elida, Grady, Melrose, Portales, Texico and other locations in Curry, Roosevelt, and Quay Counties. Two risks affecting the success of the project include the supply of water provided by the Canadian River and the lack of strong federal funding commitment. Ten WTB grants have been executed for the Ute diversion project, totaling \$30.5 million. This project will span at least 10 years for completion.

The Water Trust Fund is projected to be depleted within 19 years. The State Investment Council (SIC) projects the Water Trust Fund will be depleted by 2033. Total funding for the Water Trust Board comes from two sources, the Water Trust Fund provides 9 percent of the total, and severance tax bond revenues provide 91 percent.

The funding for the Water Trust Fund was appropriated in the Laws of 2006 and 2007 when \$40 million and \$15 million, respectfully, were provided. The Water Project Finance Act requires an annual \$4 million distribution from the Water Trust Fund to the Water Project Fund.

WTB Funding Composition Since 2009

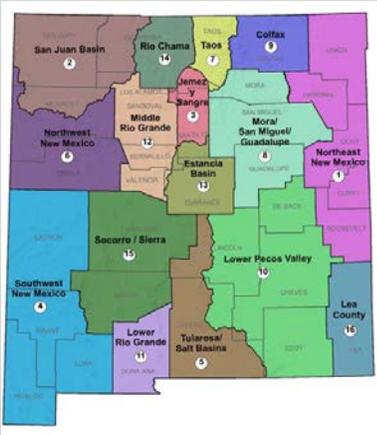
(in millions) ■ Grant ■ Loan



EPA Four Pillars of Water Infrastructure:

- Better Management
- Asset Management
- Full Cost Pricing
- Water Efficiency
- Watershed Approach
- Source water protection

Regional water planning has occurred in 16 regions in NM



The SIC approved a new asset allocation for the fund to improve expected returns and reduce volatility; however, the new asset allocation expected rate of return of 7.5 percent does not make the Water Trust Permanent Fund self-sustaining. The SIC reported a better than 50 percent chance the fund will shrink to \$0 by 2033.

The WTB is implementing new policies to improve water systems planning, management, and compliance, but creating more requirements and review.

WTB policies have evolved and show a stronger commitment to sustainability and best management practices. The WTB project management policies have evolved from numerous amendments since 2007. In 2010 and 2013 policies were revised to increase funding for projects that are ready to proceed, demonstrate previous funding amounts are being used, and require utilities to adopt best business practices such as asset management plans, user rate analysis, and source water protection planning.

Relative to 2011, loan amounts have doubled in 2012 and nearly doubled in 2013, demonstrating a higher commitment to sustaining the corpus of the fund and requiring a higher level of local contribution.

New WTB policies will streamline the application process and provide more time for applicants to comply with policies. The latest amendments to policies were adopted by the WTB at the August 2013 meeting, however these amendments need codification into rule. While some of the changes simply clarified existing language, other significant amendments streamline the application and review process.

New WTB policies will improve financial and environmental accountability of public utilities. The WTB is addressing the fact that many of the state's community water systems do not have basic utility management tools in place and many are not in compliance with state and federal laws. To improve the current situation, the WTB will require, as a condition of funding, compliance with applicable laws and many of the recommendations provided as a result of the 2005 House Joint Memorial 86 (HJM86).

Many smaller utilities will require assistance to comply with the new requirements such as asset management plans and source water protection plans. Capacity development for financial, managerial, and technical capacities will need to improve for applicants to comply with new eligibility requirements. The DWSRF includes capacity development funding in each federal grant awarded. In addition to the DWSRF capacity development funding and staff, non-profit agencies such as the NM Acequia Association, the Rural Water Association, and the Rural Community Assistance Corporation, can be utilized to provide capacity development and assist communities to comply with the new requirements.

The WTB places priority on projects identified in regional water plans. Included as a critical policy within the state water plan is the prioritization and funding of water-related infrastructure. While all 16 regions having submitted a regional water plan, they are not inconsistently produced which

“The state will plan and prioritize water infrastructure improvements to get supplies to where they will serve the greatest good in facilitating economic development and in serving existing and future populations” - the NM State Water Plan 2003

The American Society of Civil Engineers 2013 Infrastructure Report Card grade for New Mexico:

*Drinking Water C-
Flood Control D+*

complicates coordinating the plans. In 2013, the Legislature appropriated \$400 thousand to the Interstate Stream Commission, matched with an additional \$400 thousand from the Local Government Planning Fund, to update the state and regional water plans. The OSE/ISC will provide supply and demand projections, with the 16 regions providing the strategies to match supply with demand.

KEY RECOMMENDATIONS

The WTB should:

- establish a centralized funding process for funding water projects statewide through collaboration by all water funding programs;
- require the use of a single uniform funding application process to serve all taxpayers requesting water-related funding, to be accessed by all water funding agencies;
- provide loans with interest rates consistent with law and rule;
- continue to require technical oversight for projects;
- remove exceptions to policies, such as loan forgiveness;
- hire the vacant WTB staff position to assist with oversight;
- utilize the Local Government Planning Fund to contract with third-party providers to assist with asset management plans, source water protection plans, and user-rate analysis.

The Legislature should:

- require the use of a single application process for all water infrastructure projects through a uniform funding application process to serve all applicants as well as all funding agencies for water programs;
- establish a single, interagency committee responsible for coordinating all water funding programs for water infrastructure projects and require a centralized reporting process to measure effectiveness; and
- prioritize and fund water-related capital outlay infrastructure projects only when existing loan and grant programs cannot.

BACKGROUND INFORMATION

Created by Section 6-21 NMSA 1978 the New Mexico Finance Authority (NMFA) provides infrastructure financing for the state's counties, cities, and certain departments of state government. In the laws of 2001, the Water Project Finance Act created the Water Trust Board (WTB) and named the NMFA as administrator. The purpose of the WTB is to provide funding for water use efficiency, resource conservation and protection, and fair distribution and allocation of water.

Although the WTB provides millions each year to fund local and regional water projects, according to the State Water Plan, the responsibility of providing adequate and safe drinking water for citizens belongs to local governments and communities. The state's role is to support the local agencies through the combined efforts of the State Engineer, Interstate Stream Commission, the Environment Department, and the Water Trust Board.

By statute, the board is made up of sixteen members.

Table 1. Water Trust Board Members as of October 2013

	Name	Representing	Type
1	Scott Verhines, Chairman	State Engineer	State Government
2	Tom Clifford	Department of Finance and Administration	State Government
3	John Gasparich	New Mexico Finance Authority	State Government
4	Ryan Flynn	Department of the Environment	State Government
5	David Martin, Secretary	Department of Energy, Minerals and Natural Resources	State Government
6	James Lane	Department of Game and Fish	State Government
7	Jeff Witte	Department of Agriculture	State Government
8	William Fulginiti, Vice Chairman	New Mexico Municipal League	Non-profit association
9	Steve Kopleman	New Mexico Association of Counties	Non-profit association
10	Vacant	Environmental Community Representative, Irrigation or Conservancy District, Surface Water	Appointed Public Member
11	Trudy Healy	Representative, Irrigation or Conservancy District, Surface Water	Appointed Public Member
12	Vacant	Representative, Irrigation or Conservancy District, Ground Water	Appointed Public Member
13	David Ortiz	Acequia Water Users	Appointed Public Member
14	Brent Van Dyke	Soil and Water Conservation Districts	Appointed Public Member
15	Richard Luarkie	Indian Affairs Commission	Appointed Public Member
16	Ben Shelly	Navajo Nation	Tribal

Source: NMFA

Two vacancies exist at the WTB and these members are appointed by the governor and approved by the senate. In addition, one public member's appointment has expired.

Since the Water Project Finance Act of 2001, legislation affecting the WTB included large appropriations of funds in 2006 and 2007, and one constitutional amendment in 2006.

The Water Project Fund is the fund that supports all projects funded by the WTB and receives revenues from severance tax bond (STB) sales and annual distributions from the Water Trust Fund. Revenues from STB's provide the majority of funds at 91 percent of the total, and the annual \$4 million transfer from the permanent Water Trust

Fund provides 9 percent. The STB revenues are provided based on ten percent of the state's annual senior STB capacity. The first STB distribution began in 2004 and since inception, has totaled \$278 million. Expenditures have totaled \$178 million, with a remaining balance of \$94.2 million held at the Board of Finance as of July 2013.

Table 2. Severance Tax Bond Balance for Water Trust Board

Year Sold	Bond Series	Amount Sold	Amount Expended	Amount Reauthorized	Balance
2004	STB04SA	\$13	\$9		\$4
2005	STB05SA	\$18	\$18		\$0
2006	STB06SA	\$28	\$23	\$2	\$3
2007	STB07SA	\$33	\$30	\$3	\$0
2008	STB08SA	\$32	\$29		\$3
2009	STB09A	\$30	\$20		\$10
2009	STB09SC	\$8	\$8		\$1
2010	STB10SA	\$30	\$23		\$7
2011	STB11SA	\$26	\$14		\$13
2012	STB12SA	\$26	\$5		\$21
2013	STB13SA	\$33	\$0		\$33
	Totals	\$278	\$178	\$5	\$94

Source: Board of Finance July 2013

In 2006, state voters approved a constitutional amendment to convert the existing Water Trust Fund into a permanent fund. Permanent funds are intended to provide investment income to support the beneficiary, in this case, the Water Trust Board and the Water Project Fund.

Table 3. Water Trust Fund Required Distributions vs. Actual
(in millions)

FY	Required Distribution to WPF Section 72-4A-8(B)	Actual Distribution made from State Investment Council
2002	\$4	\$0
2003	\$4	\$0
2004	\$4	\$0
2005	\$4	\$0
2006	\$4	\$0
2007	\$4	\$4
2008	\$4	\$4
2009	\$4	\$4
2010	\$4	\$4
2011	\$4	\$4
2012	\$4	\$4
2013	\$4	\$4
	\$48	\$28

Source: State Investment Council

The STB revenues and the Water Trust Fund distributions are transferred to the Water Project Fund, the active fund used by the WTB for projects and administration. After a required 10 percent distribution to the Office of State Engineer to perform water rights adjudications, the Water Project Fund is the vehicle used to fund nearly \$250 million in water-related projects, consisting of \$216 million in grants or 86 percent, and \$34 million in loans or 14 percent. All WTB loans are interest free, but include an administrative fee charged by the NMFA.

The Water Project Finance Act lists five types of projects eligible for funding:

- the storage, conveyance or delivery of water to end users;
- the implementation of federal Endangered Species Act (ESA) collaborative programs;
- the restoration and management of watersheds;
- flood prevention; and
- conservation, recycling, treatment or reuse of water.

FINDINGS AND RECOMMENDATIONS

NEW MEXICO'S HIGH RATE OF GRANT AWARDS FOR WATER PROJECTS ADVERSELY IMPACTS THE EFFECTIVENESS OF RELATED LOAN PROGRAMS

New Mexico provides mostly grant funds for water projects, while the majority of states provide mostly self-sustaining, revolving loan funds. While the Drinking Water State Revolving Fund (DWSRF) is the primary federal funding source to support drinking water projects to states nationwide, thirty states also offer funding programs separate from the DWSRF. Of these thirty, grant funding for water projects totaled \$2.2 billion since 1996. New Mexico ranks second in the U.S. in grant funding for water projects and reported \$353 million for grants, separate from the DWSRF loan program (**Appendix B**). Second only to Kentucky, funding water-related grant programs from severance taxes derived from coal extraction, New Mexico funds water-related programs from severance taxes derived from oil and gas extraction.

Table 4. Top Ten States That Fund Water-Grant Programs 1996 - 2012
(in millions)

Ranking	State	Total Water Grant Programs	% of Total State Funds
1	Kentucky	\$538.7	25%
2	New Mexico	\$352.7	16%
3	North Carolina	\$249.1	11%
4	Oregon	\$164.5	8%
5	Colorado	\$110.6	5%
6	Alaska	\$103.8	5%
7	Nevada	\$95.0	4%
8	New York	\$90.0	4%
9	West Virginia	\$52.6	2%
10	Montana	\$50.5	2%

Source: EPA NIMS Report

New Mexico spends six times more on water project grants than all neighboring states combined. According to the National Information Management System (NIMS) FY12 report, New Mexico spent \$20 million on water grant projects, while Oklahoma, Colorado, Texas, Arizona and Utah spent \$3 million total. These neighboring states, as well as most states in the U.S., fund water projects from revolving loan programs, which are intended to be self-perpetuating.

The WTB is the largest funding program for water projects in New Mexico, with 43 percent of the total, providing \$250 million in funding since 2002. Capital outlay projects are directly funded by the Legislature and provided 26 percent of the total. The top two funding programs for the state have provided \$401 million for water projects and are primarily grant programs. The DWSRF funded the third highest amount, providing \$133 million, or 23 percent of the total.

Table 5. New Mexico Water Infrastructure Funding
(in thousands)

Program/ Agency	Water Trust Board/ NMFA	State Capital Outlay Grants/ NMED	Drinking Water State Revolving Loan Fund/ NMFA/NMED	State & Tribal Federal Earmarks/ NMED	Tribal Infrastructure Fund/ BIA	Colonias/ NMFA	Rural Infrastructure Loan Program/ NMED	Total
2002	\$0	\$2,855	\$9,434	\$1,793	\$0	\$0	\$0	\$14,082
2003	\$0	\$5,674	\$5,940	\$1,908	\$0	\$0	\$0	\$13,523
2004	\$3,600	\$15,799	\$1,780	\$4,459	\$0	\$0	\$1,229	\$26,867
2005	\$0	\$13,203	\$14,741	\$2,021	\$0	\$0	\$30	\$29,995
2006	\$0	\$36,208	\$6,565	\$910	\$1,273	\$0	\$831	\$45,787
2007	\$700	\$45,888	\$5,757	\$0	\$0	\$0	\$650	\$52,995
2008	\$2,252	\$12,633	\$27,841	\$1,622	\$1,625	\$0	\$260	\$46,233
2009	\$41,467	\$3,217	\$17,050	\$970	\$3,844	\$0	\$2,185	\$68,734
2010	\$66,160	\$663	\$17,189	\$0	\$240	\$0	\$490	\$84,742
2011	\$45,649	\$2,046	\$1,148	\$0	\$0	\$0	\$337	\$49,180
2012	\$53,473	\$3,022	\$0	\$0	\$6,484	\$6,585	\$790	\$70,355
2013	\$36,592	\$9,615	\$25,526	\$0	\$0	\$8,553	\$599	\$80,885
Total	\$249,893	\$150,824	\$132,971	\$13,683	\$13,466	\$15,138	\$7,401	\$583,376

Source: NMFA, NMED, BIA

The Water Project Finance Act requires the WTB to prioritize the planning and financing of water projects required to implement the State Water Plan. The State Water Plan names the Office of the State Engineer and the Interstate Stream Commission to coordinate with the WTB to establish a centralized review process for funding water projects statewide.

A lack of coordination and fragmentation exists between funding programs. An August 2007 LFC Hearing Brief identified fragmentation of programs as the fundamental problem for New Mexico’s infrastructure process. With no less than seven separate funding programs for water projects, few share resources or coordinate funding to maximize financing. Unfortunately, the fragmentation still exists and the root causes include:

- programs (identified in Table 5 above) continue to operate independently of each other;
- programs compete for the same customers;
- funding comes from different sources and have widely different eligibility criteria;
- incentives do not exist for collaboration on projects;
- a long-term statewide capital plan is not centrally coordinated;
- agency and bureau boundaries inhibit communication; and
- no one agency is held accountable for a coordinated and centralized reporting function.

Separate grant programs compete with and undermine the effectiveness of existing loan programs such as the State Revolving Loan Funds. The availability of grant funds directly restricts the number and quality of applications to existing state revolving loan fund programs, because the hope of obtaining a grant all but eliminates the desire of most communities to apply for a loan. For example, the City of Santa Fe recently declined their Clean Water SRF funding offer because they are looking for state and federal grant funds and do not want any loans at this time (**Appendix C**).

The New Mexico Drinking Water State Revolving Fund (DWSRF) has the highest percentage of federal grant balances for unspent water project funds in the nation. The 2013 Unliquidated Obligation report from the EPA, identifies the New Mexico DWSRF as having the highest percentage of unspent amounts in the nation for federal grants intended for project funding. The report shows that \$37 million, or 32 percent of the total grants, remains unspent. The U.S. Environmental Protection Agency Office of Inspector General (OIG) recently began the fieldwork phase of an audit on the pace of state expenditures in New Mexico's DWSRF program. One of the audit objectives is to determine whether state actions to reduce large balances of DWSRF unliquidated obligations have been effective.

New Mexico has multiple application processes for water project funding. Communities wanting to secure funding for water projects can apply at three separate governmental websites, the NMFA, the New Mexico Environment Department, and the Legislature. Applicants can apply on the NMFA website for WTB funding, Public Project Revolving Fund, and the Colonias funding program. Because the DWSRF program is co-administered by the New Mexico Environment Department's (NMED) Drinking Water Bureau, the NMFA website provides a link to the NMED website. The NMED website states that it is New Mexico's 'one-stop-shop' for water and wastewater infrastructure funding solutions. From the NMED website, applicants can apply for funding from the DWSRF, the Clean Water SRF, the Rural Infrastructure Program, and the Tribal Infrastructure Fund. The NMED website also provides a link back to the NMFA website. Legislative capital outlay requests are accessed through the legislative council service website.

Wasteful duplication of effort may exist because funding agencies' purposes overlap. The WTB, legislative capital outlay process, the Drinking Water State Revolving Fund, and the Rural Infrastructure Program, all serve similar purposes to provide funds to support water infrastructure. Each program has staff that review applications to determine eligibility and prioritize requests according to need. In addition to the duplication of time and effort on the part of the programs, the communities that submit multiple applications also duplicate their time and effort. The WTB also overlaps funding opportunities for the Tribal Infrastructure Fund (TIF) and Colonias Fund, as all three programs are eligible for water project funding. Ten WTB grants have been made to tribes totaling \$5.7 million in grant funding. One applicant, for example, recently applied to the legislative capital outlay process, the WTB, and the Tribal Infrastructure Fund, all for the same project.

Recommendations

The WTB should:

- establish a centralized funding process for funding water projects statewide through collaboration by all water funding programs; and
- require the use of a single uniform funding application process to serve all taxpayers requesting water-related funding, to be accessed by all water funding agencies.

The Legislature should:

- require the use of a single application process for all water infrastructure projects through a uniform funding application process to serve all applicants as well as all funding agencies for water programs;
- establish a single, interagency committee responsible for coordinating all water funding programs for water infrastructure projects and require a centralized reporting process to measure effectiveness;
- require a statewide, comprehensive, multi-year capital plan for water projects; and
- prioritize and fund water-related capital outlay infrastructure projects only when existing loan and grant programs cannot.

CHALLENGES EXIST FOR THE FAIR AND EFFECTIVE ADMINISTRATION OF THE WATER PROJECT FUND

The WTB does not comply with rule for interest rates to borrowers. The administrative code requires the NMFA to determine interest charged to borrowers based on cost of funds and the ability of a qualified entity to repay a loan. Since 2006, the WTB structured all loans as interest-free regardless of the borrower’s ability to pay, median household income, the user rates charged by the utility, and the NMFA cost of funds.

The Water Project Finance Act states that the Water Project Fund shall consist of distributions and payments from principal and interest on loans. In 2006 the NMFA staff suggested zero interest loans, a simple formula for all projects that could be easily understood by all stakeholders.

The Clean Water SRF is a similar revolving loan program and uses the communities’ median household income to create a tiered interest rate structure, combined with the user rates charged. The lowest interest rates are offered to communities with a median household income below the statewide average and who charge reasonable user rates based on statewide averages. This rewards utilities that charge consumers reasonable amounts rather than providing water at subsidized rates.

Loan forgiveness policy does not encourage fiscal responsibility or efficiency. The loan forgiveness policy allows any community to avoid defaulting on a WTB loan because the debt may be waived in the event of hardship. For example, in each of the first three annual payments required, the Ciudad Soil and Water Conservation District received loan forgiveness. Likewise, El Prado Water and Sanitation District, with the ability to charge both mil levies and user rates, received a \$20 thousand loan forgiveness in 2010.

Table 6. WTB Loan Principal Forgiveness

Date	WTB Loan #	Community	Total Obligation:	Grant Amount	Loan Amount	Forgiveness Amount
5/31/2010	85	El Prado Water & Sanitation District	\$2,000,000	\$1,600,000	\$400,000	\$19,917
5/25/2011	142	Ciudad Soil & Water District	\$110,000	\$99,000	\$11,000	\$1,088
6/1/2012	142	Ciudad Soil & Water District				\$1,090
5/7/2013	142	Ciudad Soil & Water District				\$1,093

Source: NMFA

Policy waivers are routinely requested and acted upon at WTB meetings. Time extension, project continuation, loan component, and local match requirement are commonly requested for policy waivers from applicants. The WTB has the authority to deviate from policies when necessary and considers the end consequences of requests to act accordingly for the public good. Many of the policy waiver requests could be avoided in the application and recommendation process when financial capacity for local match and debt is determined, as well as compliance with policies. The waivers are considered on a case-by-case basis but are time consuming.

For example, at two meetings, the city of Gallup requested and was denied the grant-loan funding package of \$5.9 million grant and 20 percent loan for \$1.2 million be restructured to a 100 percent grant. The waiver was again requested at the 8/29/09 WTB meeting, when it was again rejected. The waiver was requested a third time, citing NMFA policy 6.3(C) allowing applications from tribes to waive the loan component with local matching funds. The WTB approved the loan waiver request although the city of Gallup is not an Indian Nation.

Increased oversight is needed for the administration of the WTB and projects. The NMFA staff to oversee the WTB consists of one full-time staff in addition to numerous staff that split their time supporting the WTB and other programs. The one full-time staff presents to and supports the various public and non-public meetings held to discuss WTB business. There exists one vacancy identified with dual responsibilities of WTB and the DWSRF.

Many recommendations for funding included errors. In the WTB funding recommendations of 2010, 2011, 2012, and 2013, 22 contained errors regarding the loan proportions. According to policy, the NMFA determines the loan proportion for funding based on the capacity of net system revenues as determined by the NMFA financial review. The remainder is delivered as a grant.

The financial review process is conducted by NMFA staff using the last three years of financial statements, preferably audited, to determine the average net system revenues. Based on this analysis, the financial analyst recommends a loan proportion, between 10 percent to 40 percent. Historically, most of the WTB funds have been awarded as 100 percent grants or 90 percent grants which represent 72 percent of all funding between 2008 - 2012.

Table 7. WTB Grant and Loan Proportions 2008-2012
(dollars in millions)

Grant/Loan %	Count of Funding Agreements	% of Total Count	Sum of Grant Amount	Sum of Loan Amount	Total Grant and Loan
100% Grant	70	30%	\$72	\$0	\$72
90/10	99	42%	\$68	\$8	\$76
80/20	51	22%	\$58	\$15	\$73
60/40	16	7%	\$17	\$11	\$29
Total	236	100%	\$216	\$34	\$250

Source: NMFA

The results of the NMFA financial analysis are not publicly available but have significant consequence for awarding grant and loan proportions for applicants. These recommendations were included in the list for Legislative authorization and also received WTB approval. In eighteen cases, the funding recommendation reported the applicant *could afford* the maximum loan of 40 percent but the community received the minimum 10 percent loan. In three other examples, the funding recommendation reported the applicant *could not afford* the maximum, but instead received the maximum loan of 40 percent. In both FY11 and FY12, the error rate within the recommendations exceeds forty percent. Financial analysis for the resulting loans were corrected at later dates, prior to the grant-loans being executed. The errors in the recommendations suggest a lack of internal control and oversight in the recommendation process.

Although required by law and rule, the WTB has recommended loans to communities without demonstrating the ability to pay. The WTB has recommended loans for communities although negative net revenues are reported on the WTB funding recommendation. Both the law and rule that govern conditions for grants and loans require financial capability to ensure sufficient revenues to operate and maintain water projects and to repay the loan. Santa Fe County received two grants and two 10 percent loans in the 2012 funding cycle while the recommendation reported annual net revenues as negative and debt coverage ratio was reported at zero. In the same funding cycle of 2012, the Claunch-Pinto Soil and Water Conservation District received two \$540 thousand grants and two 10 percent loans, although the recommendation reported negative net revenues and zero debt coverage ratio.

Although required by law, the WTB has not provided a report to the Legislature since October 2006. The annual report is required by October 1st of each year and is to include an accounting of:

- total expenditures from the water project fund;
- purposes;
- analysis of the accomplishments of expenditures; and
- recommendations for legislative action.

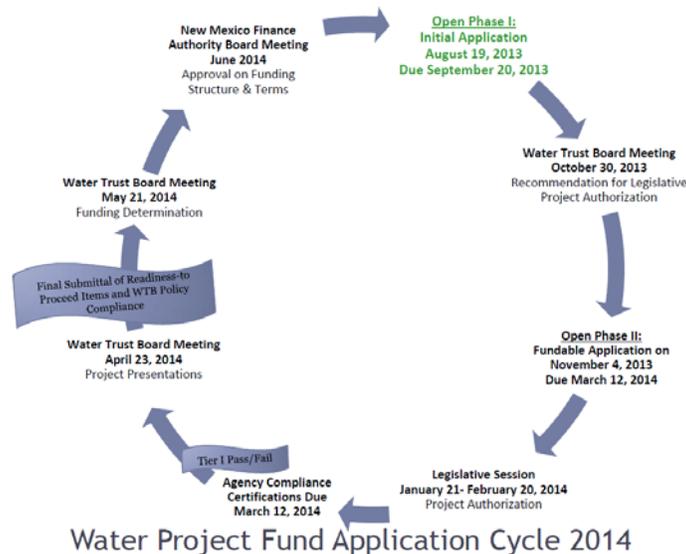
Prior to 2011, \$159 million in state funds were disbursed with no technical oversight to prevent fraud, waste, and abuse of taxpayer dollars. The New Mexico Finance Authority has executed two Memorandums of Understanding (MOU) with the New Mexico Environment Department (NMED) to provide technical assistance ensuring that projects are completed in accordance with the Water Project Finance Act. The first contract was executed August 2011 and expired after ten months, on June 2012. The second contract was signed eight months later, in March of 2013, and the term is more than four years ending June 2017 for an amount not to exceed \$250 thousand. This evaluation did not include a review of the results of the MOU's, however invoices are being reviewed and approved by the NMED before being paid by the WTB. Prior to these contracts, no oversight existed for the engineering and construction payments, to ensure funds were used efficiently. Currently, only projects requiring pipe receive oversight from the NMED, with flood, endangered species, and watershed projects receiving no oversight from the state.

The funding cycle for 2014 requires excessive review by four oversight bodies resulting in a ten-month funding cycle from application to approval. The 2014 funding cycle begins with the WTB accepting applications between August and September 2013. The WTB performs a first screening to determine eligibility and prepares the list of fundable projects for recommendation to the Legislature. The NMFA Oversight Committee reviews this list in November, prior to the Legislative authorization in January. It is not until mid-January that the State Board of Finance provides the estimated STB capacity for the current year, which states how much funding is available for the WTB.

After the legislative authorization of the list, the seven-agency Project Management Team, a sub-committee of the WTB, evaluates the applications and scores them according to readiness to proceed and need. The list is twice more reviewed by the WTB and lastly by the NMFA Board, culminating in a final funding recommendation for 2014 in June of 2014. At the June meeting, the WTB certifies the need for the State Board of Finance to issue bonds.

Because grant and loan documents are not signed until after the bond certification, it takes additional months to execute agreements and projects may take years to complete. The August 2013 Board of Finance balance for the WTB severance tax bonds was \$94 million.

Figure 1. Application Timeline



With few exceptions, the WTB awards more funding to regional water projects that increase the delivery of water. The Water Project Finance Act as well as WTB policies and rule, require priority be given to projects that are identified in regional water plans and have matching federal or local funding sources. Accordingly, the WTB has awarded more funding to regional water conveyance projects.

Table 8. WTB Top Ten Awards to Communities

Count	Community	Total Dollar Allocation	Count of Projects or Awards	Primary Type of Project	Primary Description of Project
1	Gallup, City of	\$19,729,551	6	conveyance	Navajo Gallup Water Supply Project
2	Santa Fe, City of	\$15,680,954	6	conveyance	San Juan/Chama Diversion Project
3	ENMWUA [ENMRWA]	\$22,107,692	8	conveyance	Ute Dam Water Supply Project
4	Taos, Town of	\$7,731,553	6	conveyance	San Juan/Chama Diversion Project
5	Claunch-Pinto SWCD	\$7,688,200	13	watershed	Watershed Restoration & Management
6	Dona Ana MDWCA	\$7,410,000	5	treatment or reuse	Arsenic treatment facility-construct
7	Alamogordo, City of	\$7,335,000	2	conveyance	Regional Water Supply-Construct
8	Bloomfield, City of	\$6,116,583	8	conveyance and treatment	various
9	Cuatro Villas MDWUA	\$5,212,872	2	conveyance	Waterline Infras.-construct
10	Lower Rio Grande PWWA	\$5,121,630	2	conveyance	Mesquite transmission & distribution line upgrades-construct

Source: NMFA

In general, the WTB has correctly awarded projects according to type although benefits are not easily measured. Equitable distribution has on average, remained on target over seven years of activity. Yellow shaded cells identify instances where percentages varied from the targets, the green cells identify the averages are within the targets.

Table 9. Percentage WTB Projects Awarded by Type 2007 - 2013 by Dollar Amount

Project Type	Policy Target July 2013:	2007	2008	2009	2010	2011	2012	2013	Total \$	Average % of Total
Endangered Species Act Collaborative Program	up to 10	0%	2%	0%	0%	0%	0%	0%	\$750,000	0%
Flood Prevention	up to 10%	0%	2%	0%	1%	5%	15%	7%	\$9,562,885	4%
Water Conservation, Re-Use, Recycling and Treatment	15 - 30%	32%	8%	14%	29%	34%	70%	16%	\$66,431,830	28%
Water Storage, Conveyance and Delivery	60 - 75%	64%	84%	78%	62%	52%	5%	67%	\$145,353,056	60%
Watershed Restoration and Management	5 - 15%	5%	5%	8%	8%	9%	11%	9%	\$18,597,846	8%
Grand Total		100%	100%	100%	100%	100%	100%	100%	\$240,695,618	100%

Source: NMFA

Six million dollars in grant funds to the Claunch-Pinto Soil and Water Conservation District is of questionable benefit for water supply. The Water Trust Board funded \$6 million for forest thinning and re-seeding of 200 thousand acres for the Claunch-Pinto Soil and Water Conservation District. The project goal is to retain more rain and snowmelt in the soil, to recharge the aquifer. The NM Environment Department Watershed Protection Section

provides comments relating to the WTB requests for funding for watershed applications. Comments relevant to the Claunch-Pinto grants include:

- increased water yield from piñon-juniper thinning projects has not been established by research;
- references to studies supporting the increase in water yield from thinning piñon-juniper forests are mostly 30 years to 40 years old; and
- more recent research concludes that benefits are negligible where average precipitation is less than 20 inches per year.

The narrative from the applicant states that repeat treatments are likely needed every 7 years to 10 years to meet desired watershed health objectives and increased water yield. The narrative concludes that forest thinning reduces catastrophic wildfire risk that reduces the quantity of ash and sediments going into the waterways, increasing water quality.

The NMED Watershed Protection Section suggests more focus should be directed to address quantifiable measures such as the impaired waters list and total maximum daily loads with non-point source components. There should be a more specific targeting of streams where NMED has identified a problem and consistent with WTB policies to protect and restore water quality.

Cities, towns, villages, and water utility authorities, which include the three largest water diversion projects, have received the most funding. In addition to project type, eligible entities that qualify for WTB funding are identified in the Water Project Finance Act. These include state agencies, political subdivisions of the state, intercommunity water or natural gas supply associations, Indian Nations, Tribes or Pueblos. Consistent with the state water plan and WTB management policies, priority is given to projects that:

- are identified in a regional water plan accepted by the Interstate Stream Commission (ISC);
- demonstrate a local contribution and leveraging of funds;
- demonstrate an urgent need; and
- have been recommended by the WTB to the Legislature.

The three largest diversion projects are the Navajo-Gallup Pipeline, the San Juan-Chama, and the Eastern New Mexico Rural Water Authority (aka the Ute Lake Diversion Project).

Table 10. Entities Applying for WTB Funding 2007-2013
(in thousands)

Applicants	Sum of Requested Amount	Sum of Awarded	Percent Requested vs. Awarded	Percent of Total Awarded
Acequia	\$793	\$579	73%	0%
City*, Town or Village	\$332,044	\$109,824	33%	46%
COG	\$341	\$0	0%	0%
County	\$79,777	\$26,999	34%	11%
Joint City/County (San Juan-Chama)	\$6,000	\$0	0%	0%
State Government	\$2,383	\$1,374	58%	1%
Mutual Domestic	\$145,231	\$31,855	22%	13%
Tribe	\$32,667	\$10,137	31%	4%
Water&San&Soil Districts	\$71,748	\$25,479	36%	11%
Water Utility Authority**	\$65,926	\$34,449	52%	14%
Grand Total	\$736,911	\$240,696	33%	100%

Source: NMFA

*Cities include the three largest diversion projects: Navajo-Gallup, San Juan-Chama, and Ute Lake (ENMRWA)

**Water Utility Authorities include Albq Bernalillo, Camino Real, ENMRWA, El Valle, Enchanted Forest, Lower Rio Grande, Southern Sandoval and El Rito

The purpose of Ute Lake Reservoir is to increase the water supply for citizens, however two risks remain in achieving that purpose. The Eastern New Mexico Rural Water System pipeline project represents a significant investment by the state of New Mexico and the federal government. Ute Dam is located on the Canadian River, originating in Colorado and travels through New Mexico, Oklahoma, and Texas. The water in the Canadian River is apportioned according to the Canadian River Compact between the four states and was approved by Congress in 1952. New Mexico's Canadian River Compact provides for 200 thousand acre feet of water. The Ute Lake Dam was completed in 1963 with an original capacity of 109 thousand acre feet. In 1982, the dam's spillway was increased to allow for up to 246 thousand acre feet. The intended use of this water supply will be to supply drinking water for the communities of Clovis, Elida, Grady, Melrose, Portales, Texico and other locations in Curry, Roosevelt, and Quay Counties.

The supply of water provided by the Canadian River is one risk variable affecting the success of the project. The Interstate Stream Commission (ISC) holds the water rights and administers Ute Dam and Reservoir for its stated beneficial uses, which includes a source of drinking water for Eastern New Mexico communities. The ISC has made available up to 24 thousand acre feet of water per year (af/y) for purchase for this purpose. The 24 thousand af/year is based on ISC's yield study in 1993 and represents the amount of water that the reservoir is estimated to reliably provide 90 percent of the time. This study has been supported by three subsequent studies with the last one completed in 2012.

The lack of strong federal funding commitment is the second risk variable affecting the success of the project. The 111th Congress enacted the Omnibus Public Land Management Act of 2009 and included federal authorization for the Bureau of Reclamation for the Eastern New Mexico Rural Water System project. The project is designed to deliver approximately 16.5 thousand af/year and depends on the Secretary of Interior to provide funding to the Eastern New Mexico Rural Water Authority to plan, design, and construct the project. The federal share of cost shall not be more than 75 percent of the total project cost.

Ten WTB grants have been executed for the Ute diversion project, totaling \$30.5 million. This project will span at least 10 years for completion.



Ute Lake Diversion Project



Intake Structure for Ute Lake Diversion Project

Recommendations

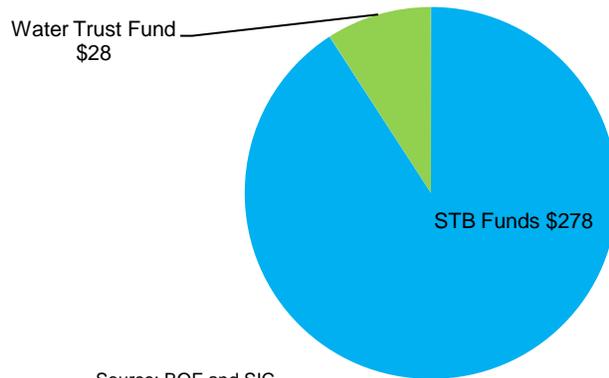
The WTB should:

- provide loans with interest rates consistent with law and rule;
- offer loans only to communities that demonstrate ability to repay them, which may require an increase in user rates to afford the minimum loan;
- continue to require technical oversight for projects;
- remove exceptions to policies, such as loan forgiveness;
- hire the vacant WTB staff position to assist with oversight; and
- continue with NMED Watershed Protection Section review of watershed applications with focus on improving impaired streams and non-point source pollution.

THE WATER TRUST FUND IS PROJECTED TO BE DEPLETED WITHIN 19 YEARS

The Water Trust Fund provides 9 percent of annual revenues to the Water Project Fund, but the balance is expected to be exhausted by FY33. Total funding for the Water Trust Board comes from two sources, the Water Trust Fund provides 9 percent of the total, and severance tax bond revenues provide 91 percent.

Chart 1. Water Project Fund Revenues 2004 - 2013
(in millions)



Source: BOF and SIC

The Water Project Finance Act requires an annual \$4 million distribution from the Water Trust Fund to the Water Project Fund beginning on July 1st of fiscal year 2003 and each fiscal year thereafter. The funding for the Water Trust Fund was finally appropriated in the Laws of 2006 and 2007 when \$40 million and \$15 million, respectively, were provided.

In 2006, the Water Trust Fund was constitutionally established as a permanent fund for the purpose of securing a supply of clean and safe water for New Mexico residents. The Water Trust Fund becomes self-sustaining when investment revenues equal or exceed expenditures. With required minimum Water Trust Fund distributions of \$4 million per year to the Water Project Fund, the average annual return on investment must meet or exceed this amount.

Table 11. Legislation Affecting the Water Trust Board

Laws:	Description:
SB169 Laws of 2001	Created the Water Project Finance Act (Section 72-4A NMSA 1978), the Water Trust Fund, the Water Project Fund
HB2 Laws of 2006	\$40 million in general funds are appropriated to the WTF
HJM6, Laws of 2006	Joint Resolution to amend Article 16 of the State Constitution
11/6/2006 general election approves the constitutional amendment to Article XVI Section 6	included the \$4 million distribution from WTF to WPF and appropriation language for water projects consistent with state water plan and as otherwise provided by law.
HB2 Laws of 2007	\$15 million in general funds are appropriated to the WTF

Source: NMSA

The Water Trust Fund would sustain itself at \$85.1 million assuming a 4.7 percent return on investment. The law requires \$4 million annual distributions from the WTF to the WPF, until the \$4 million is less than or equal to, four and seven-tenths percent (0.047) of the five year average market values of the water trust fund. The law is not specific regarding whether this is fund balance or investment and cash balances. After the 4.7 percent is greater than \$4 million, the distribution is 0.047 of the five-year average.

The State Investment Council projects the WTF will be depleted by 2033. The fund has not received an appropriation since 2007 and has realized an average annual return on investments (ROI) of \$2.2 million, or five percent per year.

At the September 2013 WTB meeting, the State Investment Council (SIC) reported to the board the current value of Water Trust Permanent Fund was \$43.9 million. The SIC approved a new asset allocation for the fund to improve expected returns and reduce volatility; however, the new asset allocation expected rate of return of 7.5 percent does not make the Water Trust Permanent Fund self-sustaining. The SIC reported a better than 50 percent chance the fund will shrink to \$0 by 2033.

The SIC recommended three options to stabilize the fund: 1) a one-time appropriation estimated at \$18 million to adjust for inflation; 2) annual legislative appropriations; or 3) reduction of annual distributions to the Water Project Fund. The current legislation requires the distribution of the greater of \$4 million or 4.7 percent of the 5-year average. The SIC suggested making a change to the statute to reduce the annual distributions to the lesser of these two amounts. An indirect consequence of reducing the distributions from the WTF will reduce the distribution to the Office of State Engineer (OSE) and the Administrative Office of the Courts (AOC) for water rights adjudications.

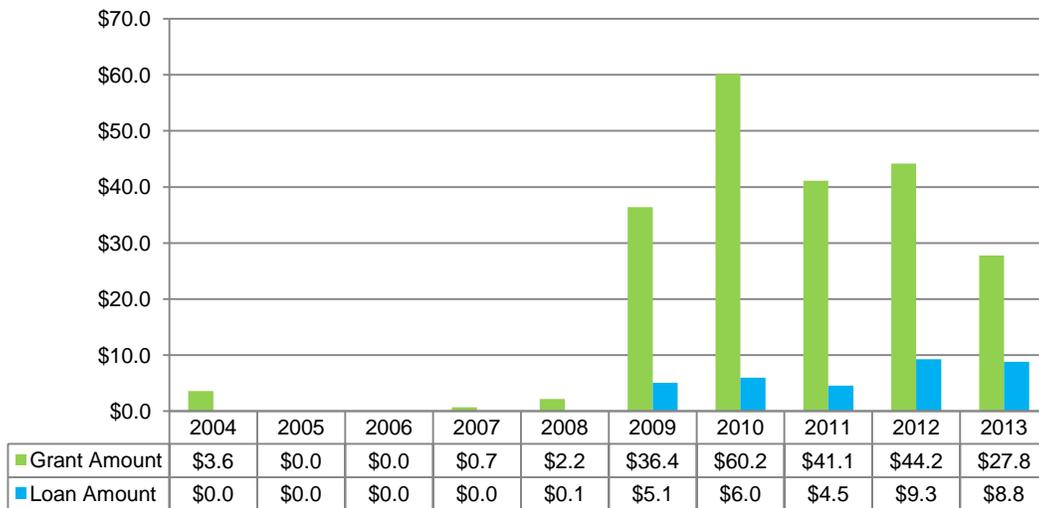
The adjudication processes have far-reaching consequences with the goal of developing a comprehensive inventory of water rights for managing water and enforcing priorities. One adjudication can involve tens of thousands of claims and a decision on one can adversely impact many other claims. A reduction in the WTF transfer amount will reduce the adjudication budget.

THE WTB IS IMPLEMENTING NEW POLICIES TO IMPROVE WATER SYSTEMS PLANNING, MANAGEMENT, AND COMPLIANCE, BUT CREATING MORE REQUIREMENTS AND REVIEW

WTB policies have evolved and show a stronger commitment to sustainability and best management practices. The WTB project management policies have evolved from numerous amendments since 2007. In 2010 and 2013 policies were revised to increase funding for projects that are ready to proceed, demonstrate previous funding amounts are being used, and require utilities to adopt best business practices such as asset management plans, user rate analysis, and source water protection planning. These policies align with the EPA’s four pillars of water utility infrastructure which include asset management, full cost pricing for utility rates, water efficiency and watershed approach.

While the WTB did not achieve much activity until 2009, grants have averaged \$42 million per year since then. Relative to 2011, loan amounts have doubled in 2012 and nearly doubled in 2013, demonstrating a higher commitment to sustaining the corpus of the fund and requiring a higher level of local contribution.

Chart 2. WTB Funding Composition by FY
(in millions)



Source: NMFA

■ Grant Amount ■ Loan Amount

New WTB policies will streamline the application process and provide more time for applicants to comply with policies. The latest amendments to policies were adopted by the WTB at the August 2013 meeting, however these amendments need codification into rule. While some of the changes simply clarified existing language, other significant amendments streamline the application and review process:

- WTB will recommend a fundable list to the Legislature, rather than a prioritized list;
- applications will use an electronic system that is comprised of two phases:
 - an initial, eligible funding list for legislative authorization;
 - a detailed funding application to prioritize projects after legislative authorization; and
- urgent need is redefined requiring certification by a cabinet secretary or governor.

New WTB policies will improve financial and environmental accountability of public utilities. The WTB is addressing the fact that many of the state’s community water systems do not have basic utility management tools in place and many are not in compliance with state and federal laws. To improve the current situation, the WTB will require, as a condition of funding, compliance with applicable laws and many of the recommendations provided as a result of the 2005 House Joint Memorial 86 (HJM86). HJM86 requested collaboration between the OSE and the NMED and other agencies to develop criteria for water system planning, performance, and conservation, as a

condition of state funding. As requested by the HJM86, the 2005 State Engineer report included recommendations to improve basic management of community water systems as a condition for receiving state funds. These recommendations require the community water systems to have:

1. A financial plan
2. A rate structure that covers expenses, builds necessary reserves, and encourages conservation
3. An asset management plan
4. A water accounting system with full metering
5. Full compliance with Office of the State Engineer regulatory requirements
6. Full compliance with the Safe Drinking Water Act (SDWA), the Clean Water Act (CWA), and all N.M. Environment Department regulatory requirements
7. A governance structure adequate for proper direction and oversight, and which meets all applicable state laws
8. Planning to support infrastructure project development and operation
9. Participation in regional efforts to collaborate on “long term” solutions with other community water systems in an appropriate geographic region
10. An energy efficiency strategy

Utilities that plan for the repair and replacement of pipes, pumps, and storage tanks, will be less reliant on future state grants and more sustainable in the long term. New WTB policy amendments require applicants to adopt asset management plans (AMP’s). The AMP’s are recognized as a best business practice for utilities and require that assets such as pumps, pipes and storage tanks be inventoried with plans for the repair and replacement of those assets at the end of their expected lives. AMP’s require utilities charge reasonable rates to water users to support the operation and maintenance of the utility, and the repair and replacement of assets in the future.

The AMP’s for smaller, rural, municipal water consumer associations will not be the same required of large metropolitan utilities, but the concepts are the same. For the 2014, 2015, and 2016 funding cycles, asset management requirements are phased-in to allow adoption of the concepts. The new policy amendments addressing planning and administration of utilities require applicants to provide:

- job descriptions, operating procedures, and emergency response plans;
- in the 2014 funding year, a resolution from the governing body committing to implement asset management plans including a timeline to implement the plan;
- in the 2015 funding year, a progress update on the completion of the asset management plan;
- in the 2016 funding year and every year thereafter, an established asset management plan that is reviewed annually;
- written and implemented cross-connection control program; and
- approved and implemented source water protection plan.

Many smaller utilities will require assistance to comply with the new requirements such as the AMP’s and the source water protection plans. Capacity development for financial, managerial, and technical capacities will need to improve for applicants to comply with new eligibility requirements. The DWSRF includes capacity development set-aside funding in each federal grant awarded. In addition to the DWSRF capacity development set-asides and staff, non-profit agencies such as the NM Acequia Association, the Rural Water Association, and the Rural Community Assistance Corporation, can be utilized to provide capacity development and assist communities to comply with the new requirements. This capacity development is a much-needed step in helping communities achieve sustainability and make better use of WTB funding.

The WTB places priority on projects identified in regional water plans. The State Water Plan was prepared in response to a mandate from the 2003 Legislature and is a blueprint to conserve and to increase the supply of water. Included as a critical policy within the state water plan is the prioritization and funding of water-related infrastructure. While all 16 regions having submitted a regional plan, they are not consistently produced which complicates coordinating the plans. In 2013, the Legislature appropriated \$400 thousand to the Interstate Stream

Commission, matched with an additional \$400 thousand from the Local Government Planning Fund, to update the state and regional water plans. The OSE/ISC will provide supply and demand projections, with the 16 regions providing the strategies to match supply with demand.

Laws referenced in the OSE State Water Plan also affect the administration of the Water Project Fund. For example, WTB management policies require all WTB and NMFA applications for funding to include a copy of its water conservation plan after 2005. The water conservation plan must also reference the regional water plan accepted by the ISC.

Recommendations

The WTB should:

- continue to conduct informational meetings and training regarding the new requirements for funding and opportunities for assistance;
- utilize the resources of member agencies, such as the New Mexico Environment Department Drinking Water Bureau to assist with capacity development for small, rural utilities;
- require compliance with applicable laws and regulations; and
- utilize the Local Government Planning Fund to contract with third-party providers to assist with asset management plans, source water protection plans, and user-rate analysis.



NEW MEXICO
FINANCE AUTHORITY

November 15, 2013

Jeff Canney
Legislative Finance Committee
325 Don Gaspar, Suite 101
Santa Fe, NM 87501

Re: Legislative Finance Committee Program Evaluation of the Water Trust Board

Dear Mr. Canney:

Pursuant to your request, this letter constitutes the New Mexico Finance Authority's ("Finance Authority") response on behalf of the Water Trust Board ("Water Trust Board") to the draft review and recommendations outlined in the Legislative Finance Committee's Program Evaluation of the Water Trust Board (the "Program Evaluation.") The Finance Authority thanks you for the opportunity to provide our comments.

From the outset, it appears that the Program Evaluation assumes that all water project funding sources are the same and can thus be compared fairly. The Finance Authority respectfully disagrees with this assumption. Indeed, each funding source and its governing body are limited by what type of projects may be eligible for funding and not all funding sources can fund the same type of project. For example, the report makes reference to the Clean Water State Revolving Loan Fund ("CWSRF") which is a federally sponsored program to fund wastewater projects. Although the Water Project Fund may provide financial assistance to qualified wastewater projects, the Water Project fund also supports five other types of water projects. Due to the breadth of the Water Project Fund and program, a simple comparison cannot be effectively made against other more limited programs and may, in fact, actually create unwanted confusion.

1. Lack of Coordination and fragmentation.

The Program Evaluation concludes that there exists a lack of coordination and fragmentation among the various water related funding sources and that millions of dollars of infrastructure funding are lost and reverted to the federal government each year as a result.

The Finance Authority concurs with the Program Evaluation's conclusion on this point. Multiple funding entities and sources may result in competition and overlap leading to potential inefficiencies. Notwithstanding those challenges, the program has been able to function effectively while providing critical financial assistance to a broader level of eligible applicants, project types, and a greater diversity of water needs. Indeed, the program is the most successful water funding program in the state. Without any marketing efforts, communities in the state continue to seek out financial assistance from the Water Project Fund at an estimated 3:1 request

207 Shelby Street
Santa Fe, NM 87501
505-984-1454

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in funds to what may be available for award. Looking ahead to the 2014 application cycle, 124 applicants applied seeking over \$142.8M. Conservative estimates for what may be available to award in this cycle represent \$32.4M.

2. The Finance Authority as the source for certain information.

With respect to Tables 5 through 10 the Program Evaluation references the Finance Authority as the source of the information in the tables. This label does not correctly indicate to the reader that the tables were created by the Legislative Finance Committee utilizing and consolidating numerous reports from the WTB's meeting material and working documents from staff of the Finance Authority.

3. Conflicts between Water Trust Board laws, policy and funding.

The comment contained within the Program Evaluation that the Water Trust Board financial awards do not comply with applicable rules for interest rates to borrowers is not accurate. Although the administrative code does outline a method for calculating and applying interest rates, applicable rules does not prohibit a 0% interest rate from being determined and made available to all qualified applicants deemed eligible by the rules and policies supporting the program. The debt capacity is determined, and an appropriate percentage of the loan component is awarded, to those qualified applicants that have the capacity to undertake larger loans, as outlined in existing policies. There is a significant cost that already exists on behalf of the communities when undertaking the competitive application process. The recommendation to increase the costs by raising the interest rate will be presented to both the WTB and the NMFA Board of Directors.

4. Increased oversight is needed for the administration of the WTB and projects.

Under this heading of the Program Evaluation, several statements or conclusions are reached to which the Finance Authority wishes to respond. First, a conclusion is reached that that the financial analysis for project awards are not being made publicly available. This conclusion is incorrect. The analysis is a public document and is provided to the WTB and the Finance Authority Board of Directors and discussed in open meetings. Moreover, the documents are available to the public upon request.

Second, the Program Evaluation states that there is a high error rate and discrepancy between Finance Authority staff loan percentage recommendations and the percentage actually approved or contained in the financial assistance award documents. This perceived error is merely a narrative error that is a carryover from the Water Trust Board funding application. For each recommendation that error is corrected later in the Finance Authority staff write-up. The Finance Authority is aware of this issue and the need to properly update the template reports. However, this glitch does not negate nor impact the proper underwriting of the loan or undermine the sound

207 Shelby Street
Santa Fe, NM 87501
505-984-1454

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FINANCE AUTHORITY

financial analysis provided to the WTB and the Finance Authority Board of Directors, of which we find no errors.

Finally, it is noted that exceptions to the issuance of a loan component in lieu of an increased match component are common. Exceptions are supported by the WTB's rules, policies and are documented in the WTB's and Finance Authority Board's consideration and approval of the award, its terms and structure. To date, there has been no default in the loans issued nor apparent challenges that the terms and structure are inappropriate or not compliant with applicable rules and policies.

In conclusion, the Finance Authority appreciates the efforts of the Legislative Finance Committee and welcomes suggestions to improve the administration of an already successful Water Trust Board program. The Program Evaluation's recommendations will be presented to the Water Trust Board and the Finance Authority Board of Directors for consideration. Due to the limited time provided to respond to the draft Program Evaluation additional comments may be provided at a later date.

Sincerely,

John Gasparich,
Interim NMFA CEO

207 Shelby Street
Santa Fe, NM 87501
505-984-1454

1-877-ASK-NMFA * Main Fax: 505-992-9635
Accounting Fax: 505-992-9640 * www.nmfa.net

MEMORANDUM

New Mexico Office of the State Engineer

Date: November 15, 2013

To: Jeff Canney, Program Evaluator, Legislative Finance Committee

From: Scott A. Verhines, P.E., New Mexico State Engineer

Re: Comments on Water Trust Board Findings and Recommendations

Pursuant to your invitation to provide comment, the Office of the State Engineer offers the following insights on your evaluation of the operation(s) of the Water Trust Board (WTB). In sum, we support and endorse the majority of the Report's Findings and Recommendations (Report) on the operation and activity of the Water Trust Board and, therefore, only provide additional information, contained herein, for inclusion into the report. The information suggested for inclusion into the Report is as follows:

1. On page 21, the Report states, "[t]he lack of strong federal funding commitment is the second risk variable affecting the success of the project." The OSE, however, believes that federal funding commitment remains strong as indicated in its financing of the Eastern New Mexico Rural Water System (the Project). Based on information received from Mr. Don Clifton, Financial Director of the Project, federal contributions to the Project received to date, since October 2003, is \$4,668,440.93. However, more recently, from October 1, 2012, thru June 30, 2013, the Federal Government contributed \$1,854,400.25 and further contributed \$ 2,814,040.68 since July 1, 2013. The upward trend in contributions represents increasing federal support for the Project and the following supports this assertion: 1. Senate Bill 715 (Proposed) - Authorized Rural Water Projects Completion Act, sponsored by Senators Udall and Heinrich, proposes mandatory funding of all currently authorized rural projects, including, but not limited to the Project; 2. Correspondence, dated September 26, 2013, from the New Mexico delegation (Senators Udall and Heinrich, and Representatives Lujan, Lujan-Grisham, and Pierce, to Commissioner Michael Connor, US Department of Interior, Bureau of Reclamation and Ms. Sally Ericsson, Program Associate Director for Natural Resources, Office of Management and Budget, requests a reallocation \$3M of the Bureau of Reclamation's FY13 rural water funding and a higher prioritization of the Project in future budgets; and, 3. Correspondence from Mr. Mike A. Hamman, Area Manager for the Bureau of Reclamation, dated November 7, 2013, to the Project team, indicates a prioritization of federal funding for the Project due to its unique characteristics: it will supply water to a national security facility (Cannon Air Force Base) and will, therefore, be supported by the Department of Defense, and it secures a reliable source of water for the region and its member communities which otherwise heavily rely on a rapidly depleting aquifer (the Ogallala Aquifer).

- On page 25, the Report states, “[t]he WTB is implementing new policies to improve water systems’ planning, management, and compliance, but creates more requirements and review.” The OSE suggests that you include a statement that any additional requirements and review of entities and the respective projects is accomplished in furtherance of supporting improved grant management, oversight of state-funded projects and is done in conformance with the New Mexico Audit Act, NMSA 1978, §§ 12-6-1 to 12-6-14 and Executive Order 2013-006.
- On page 26, the Report states, “[m]any smaller utilities will require assistance to comply with the new requirements such as the AMP’s and the source water protection plans.” The OSE strongly believes that increased assistance from entities, such as, the New Mexico Finance Authority, the New Mexico Acequia Association, the New Mexico Environment Department’s Drinking Water Bureau, the Rural Water Association and the Rural Community Assistance Corporation (RCAC), in the development of Asset Management Plans (AMPs) greatly increases the technical, financial and management capacities of the respective entities and such assistance will continue to pay dividends as entities manage current and future infrastructure projects.
- On page 27, the Report states, “[t]he WTB places priority on projects identified in regional water plans, however, none have been completed.” The OSE suggests that the report indicate that all 16 regional water plans have been updated and as each regional plan is updated, the updates will reflect the region’s unique needs as identified and prioritized by local representatives. A paradigm shift to regionally-driven initiatives will engender greater natural resource management, decrease duplication of efforts and will promote capital-outlay reform.

In conclusion, the OSE supports your Report but requests that it acknowledge and describe the efforts of the WTB to develop and implement policies in furtherance of the New Mexico Audit Act and Executive Order 2013-006, streamline the application process through the use of a singular application portal, provide assistance to entities to develop AMPs and, therefore, improve entities’ technical, financial and managerial capacities, and support state and regional projects based on updates to the State Water Plan and the 16 updated Regional Water Plans which will serve as the blueprint for a cohesive state-wide water development plan.

Please note, however, given the limited time that the OSE had to respond to the Report, the OSE reserves its right to modify or edit any or all of its comments.

State of New Mexico
Energy, Minerals and Natural Resources Department

Susana Martinez

Governor

David Martin

Cabinet Secretary-Designate

Brett F. Woods, Ph.D.

Deputy Cabinet Secretary

Office of the Secretary

November 15, 2013

David Abbey, Director
Legislative Finance Committee
325 Don Gaspar Ave.
Santa Fe, New Mexico 87501

Dear Mr. Abbey,

I am writing to forward the Energy, Minerals and Natural Resources Department, Forestry Division, response to the Legislative Finance Committee draft program evaluation report regarding the Water Trust Board. The draft was forwarded to me by email on November 11, 2013, and the section that we believe requires clarification is entitled "Six Million In Grant Funds to the Claunch-Pinto Soil and Water Conservation District is of Questionable Benefit for Water Supply." While the draft's pages were not numbered, I believe this section can be found on page eleven. Of particular concern are the bulleted items that seemingly fail to recognize the importance of sound watershed management:

- increased water yield from piñon-juniper thinning projects has not been established by research;
- references to studies supporting the increase in water yield from thinning piñon-juniper forests are mostly 30-40 years old; and
- more recent research concludes that benefits are negligible where average precipitation is less than 20 inches per year.

In the most general of terms, fundamental scholarship tends to align with the statements in the draft report reflecting that there are questions relating to the link between forest treatments and water yield, when the treatments are conducted in piñon-juniper forest types (Folliot/Gottfried 2012; RMRS-GTR-271). However, it is imperative to note that current research also clearly indicates that treatments in upper watersheds, which are comprised of different vegetative types, do indeed increase stream flow volumes and groundwater aquifer levels. If done correctly, thinning (even in piñon-juniper forest types,) decreases interception/sublimation (in snowfall zones) and soil moisture depletion. This provides for higher soil moisture content and allows better herbaceous cover which reduces erosion, improves infiltration and increases soil health, all critical factors that are omitted in the draft report.

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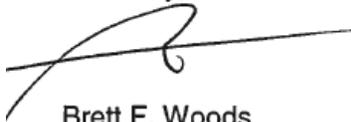
Due to prolonged drought conditions, much of New Mexico's forested watershed conditions are less than optimal. This puts vegetation, in all vegetative types including piñon-juniper, at high risk to forest insects, diseases and catastrophic fires. Large scale, severe fires in upper watersheds can have long lasting negative effects, well beyond the burned area. The negative effects include soil loss, downstream flooding, debris flows and degraded water quality from sediment and ash. Thinning helps decrease the negative effects in treatment areas, which is a fact that, unfortunately, is not reflected in the report, thus leading to the troubling impression that most, if not all, thinning projects have less than measurable value.

The report also recommends that there should be more specific targeting of streams where NMED has already detected a problem. While Forestry Division believes that correcting flooding and sedimentation problems that already exist is important, it should be clear that managing and treating forested watersheds to prevent future issues, such as post fire flooding and degraded water quality, remains a critical concern.

Two thirds of the clean water supply in the Western U.S. comes from water that originates on and has been filtered through forested land. The Rio Grande Basin receives 29 percent of its water from National Forest lands alone (Sedell et al. 2000; USFS-PNW-GTR-812). Headwater catchments in high elevation forests are especially important because they collect large quantities of water as snow during the winter, and then release it gradually through spring and summer, sustaining downstream water supplies during dry seasons, or in some cases storing it over the long term in underground aquifers.

Thank you for your attention to these corrective comments and we request that our response be included in the report's final draft.

Sincerely,



Brett F. Woods
Deputy Cabinet Secretary



Board of Supervisors:

*Felipe Louato, Jr., Chairman
William Carter, Vice-Chairman
Richard Shoulin, Secretary-Treasurer*

Jerry E. Melaragno, Member

*LeRoy Cavaleria, Member
J. Brian Greene, Member
Dan Williams, Member*

Staff:

*Diondre L. Tarr, District Manager
Kaira Jones, Bookkeeper
Verona Koller, Field Technician
Gabriel Ramirez, Technician*

November 20, 2013

Mr. Jeff Canney, Program Evaluator
Legislative Finance Committee
325 Don Gaspar, Suite 101
Santa Fe, NM 87501

Re: Legislative Finance Committee Draft Program Evaluation Report Regarding the Water Trust Board

Dear Mr. Canney,

The Claunch-Pinto Soil and Water Conservation District (CPSWCD) is writing in response to the Legislative Finance Committee Draft Program Evaluation Report Regarding the Water Trust Board. A section of this report entitled "Six Million in Grant Funds to the Claunch-Pinto Soil and Water Conservation District is of Questionable Benefit for Water Supply" was forwarded to our District Manager by email on November 14, 2013. The CPSWCD would like to address the concerns with this portion of the report.

Most importantly, since 2003 the CPSWCD has received and acted as the fiscal agent for \$8,489,200 in Water Trust Board grants and loans. The following projects include: \$5,684,200 - Estancia Basin Watershed Health, Restoration and Monitoring Project; \$1,605,000 - Greater Rio Grande Watershed Project; \$1,200,000 - funding for the Upper Pecos, Taiban, Abo Arroyo and Estancia Basin Watershed Projects. The following is a breakdown of each project.

The Estancia Basin Watershed Health, Restoration and Monitoring Project (Estancia Basin): This project is a regional landscape project which includes areas within the Ciudad, Edgewood, East Tarrant and Claunch-Pinto Soil and Water Conservation Districts. Within the CPSWCD district, \$1,053,313 has been used to complete projects. The remaining funds have been allocated to the other three soil and water conservation districts projects and the monitoring program. A CORE Steering Committee comprised of the four soil and water conservation districts, EMNRD - Forestry Division, NM Environment Department, NM Department of Agriculture, NM Highlands University, NM Forest and Watershed Restoration Institute, US Forest Service, and the Chilibi Land Grant oversee this project. SWCA Environmental Consultants is conducting the monitoring component associated with this project.

The CPSWCD has been involved in habitat restoration effectiveness monitoring on a set of 4-paired watersheds since 2008 to gain an understanding of the effects forest thinning has on ecosystem processes. Detailed information about this habitat restoration effectiveness monitoring project including monitoring plans, annual reports, and data are available online at the New Mexico Forest and Watershed Restoration Institute web site: <http://allaboutwatersheds.org/groups/estancia-basin/monitoring>

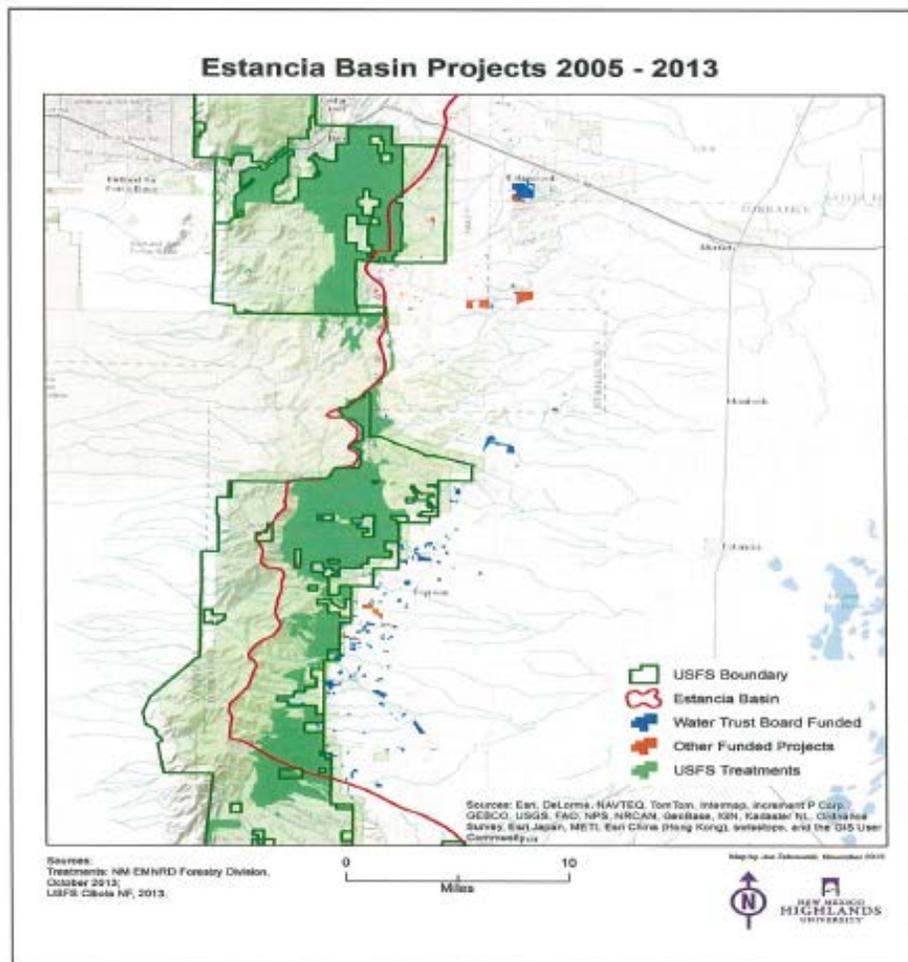
The restoration and monitoring effort is a major program identified in the Estancia Basin Regional Water Plan, the first regional water plan accepted in New Mexico by the New Mexico Interstate Stream Commission in October, 1999.

The following table shows the number of acres completed:

Estancia Basin Water Trust Board Projects leveraging other federal funds:

Piñon/Juniper	1,982
Ponderosa	61
Ponderosa/Piñon/Juniper	754
Ponderosa/Mixed Conifer	183
Total	2,979

Projects leveraged approximately 75,000 acres of USFS treatments within or adjacent to the Estancia Basin.



The Greater Rio Grande Riparian Restoration Project: This project is a landscape project which treated riparian areas within the Taos, East Rio Arriba, Santa Fe – Pojoaque, Cuba, McKinley, Lava, Ciudad, Valencia, Socorro, Edgewood and Claunch-Pinto Soil and Water Conservation Districts. The project has secured funding in the amount of \$1,605,000 which was leveraged with federal and private funding. The funding has been allocated to projects in Alcalde, Cuyamungue, La Cienega, Albuquerque Open Space, Sandia Pueblo, Santo Domingo Pueblo, and Middle Rio Grande Conservancy District in Valencia County.

The monitoring for this project is being conducted by the New Mexico Forest and Watershed Restoration Institute. Information on this project will soon be posted on their website.

The \$1,200,000 was a water infrastructure project approved for funding in Española, NM. Española was not ready to expend this funding so it was returned to the Water Trust Board. Former EMNRD Cabinet Secretary, Joanna Prukop secured this funding for watershed restoration projects that were previously submitted to the Water Trust Board. The funding was allocated as follows: \$450,000 – Estancia Basin Watershed Health, Restoration and Monitoring Project; \$300,000 – Abo Arroyo Watershed Project to restore functional riparian zones along the drainage arms of the watershed; \$400,000 – DeBaca SWCD – the Upper Pecos and Taiban Watershed Project to restore functional riparian zones along the Pecos River. This project was a continuation of the Pecos River Salt Cedar Eradication Project. The Claunch-Pinto Soil and Water Conservation District was asked to act as the fiscal agent for this project by EMNRD and New Mexico Finance Authority.

In reviewing the Water Trust Board Policy we believe the CPSWCD watershed projects meet or exceed all the criteria outlined in the policy for watersheds as follows:

WTB Policy states that projects should "Promote restoration and management of watersheds, including water quality improvements, riparian ecosystem restoration, Endangered Species Act protection and healthy forest initiatives."

These projects meet WTB urgent needs as "Wildfire Public Safety projects including watershed projects that modify or break up fuels in such a way as to lessen catastrophic fire and its threat to public safety, and damage to property."

"Section 1.7 Watershed Projects (Water Policy Statement)

The Water Trust Board seeks to promote watershed and riparian restoration that focuses on protection of water supply, improvements to water quality, compliance with the federal Endangered Species Act of 1973, promoting ecological health and function, healthy forests, and other consequent benefits.

A. The Water Trust Board supports and funds watershed projects with a demonstrated ability to improve water quality or quantity as well as watershed and ecosystem health.

B. The Water Trust Board supports and funds watershed projects such as river riparian restoration, healthy forest initiatives, and other watershed activities for the benefit of humans, aquatic species, and wildlife throughout the state."

CPSWCD would like to address the three bulleted items in your report as follows:

- ***increased water yield from piñon-juniper thinning projects has not been established by research;***

The paper below found on 37 studies conducted worldwide that all of them showed increases in water yield.

Wyatt, C. 2013. How restoration thinning treatments on conifer dominated watersheds affect the water budget. Evidence Based Conservation Systematic Review. Fact Sheet: Restoration Treatments and their impacts on the water budget. June 2013. NAU ERI.

- This paper reviewed 37 studies worldwide, and 31 peer reviewed articles. Results showed water yield can increase 10-35% when 20%-100% of a conifer dominated watershed is treated.
 - All studies showed a positive response of surface water yield to forest treatments, but response varied across climatic types
 - They conclude that additional research and reviews are needed to eliminate the uncertainties and variance found within studies of forest treatment effects on surface water yield and groundwater recharge. They say the development of a more systematic and standardized approach to developing watershed monitoring studies will lead to more structured sets of data that will be useful to compare across studies. This is what the Estancia Basin monitoring project was designed to do.
- **references to studies supporting the increase in water yield from thinning piñon-juniper forests are mostly 30-40 years old;**

The age of studies does not matter as long as the research was conducted appropriately, and the studies references were. When it comes to water yield increases see the second bulleted point above (All Studies). Scale is a large factor to consider when it comes to increases in water yield because the further downstream in a watershed you move the less response you will see from the treatment.

- **more recent research concludes that benefits are negligible where average precipitation is less than 20 inches per year.**

Given variation among watersheds and forest ecosystems, some studies are likely to find different results, that is how science works. The study below talks about all the benefits following the type of thinning treatments CPSWCD and their partners are practicing.

Allen, Craig. 2008. Ecohydrology of Piñon-Juniper Woodlands in the Jemez Mountains, New Mexico: Runoff, Erosion, and Restoration. In:Gottfried, Gerald J.; Shaw, John D.; Ford, Paulette L., compilers. 2008. Ecology, management, and restoration of piñon-juniper and ponderosa pine ecosystems: combined proceedings of the 2005 St. George, Utah and 2006 Albuquerque, New Mexico workshops. Proceedings RMRS-P-51. Fort Collins, CO: U.S. Department of Agriculture, Forest Service, Rocky Mountain Research Station.

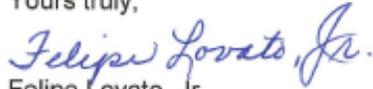
"Since 1990 researchers and land managers have teamed up to experiment with restoration techniques in local PJ woodlands (Jacobs and others 2002). Our primary restoration treatment (thinning and application of slash mulch) is demonstrated to be an effective remediation technique for increasing herbaceous cover, stabilizing soils, and supporting surface fire. Monitoring shows that the restoration treatment also increases the resiliency of vegetation to drought effects."

In conclusion, our founding legislation requires that our efforts be directed to manage soil and water resources. CPSWCD feels strongly and is very serious about our responsibilities.

The CPSWCD has enjoyed a positive, productive relationship with the above referenced federal and state agencies. All have brought an extensive amount of knowledge and expertise to these projects. Our goal is to continue the relationships for the improvement of our watersheds.

If you have any questions, please feel free to contact our District Manager, Dierdre Tarr at 505-847-2243.

Yours truly,



Felipe Lovato, Jr.

Chairman

Claunch-Pinto Soil and Water Conservation District

APPENDIX A: PROJECT INFORMATION

Evaluation Objectives.

- determine cost effectiveness and oversight of selected projects;
- review of selection process, according to criteria; and
- assess compliance with laws and regulations, including collaboration between member agencies to implement the state water plan and achieve cost effectiveness.

Scope and Methodology.

- surveyed funding agencies to determine funding amounts for water and wastewater projects since 2002;
- reviewed selected projects for cost effectiveness;
- researched statutes, rules and policies for compliance; and
- reviewed applications, recommendations, and funding for compliance and accuracy.

Evaluation Team.

Jeff Canney, Program Evaluator

Authority for Evaluation. LFC is authorized under the provisions of Section 2-5-3 NMSA 1978 to examine laws governing the finances and operations of departments, agencies, and institutions of New Mexico and all of its political subdivisions; the effects of laws on the proper functioning of these governmental units; and the policies and costs. LFC is also authorized to make recommendations for change to the Legislature. In furtherance of its statutory responsibility, LFC may conduct inquiries into specific transactions affecting the operating policies and cost of governmental units and their compliance with state laws.

Exit Conferences. The contents of this report were discussed with representatives from the New Mexico Finance Authority and the Office of the State Engineer on 11/12/13.

Report Distribution. This report is intended for the information of the Office of the Governor; the Office of the State Engineer, the New Mexico Finance Authority, the Water Trust Board, the Office of the State Auditor; and the Legislative Finance Committee. This restriction is not intended to limit distribution of this report, which is a matter of public record.



Charles Sallee
Deputy Director for Program Evaluation

APPENDIX B: NATIONAL INFORMATION MANAGEMENT SYSTEM (NIMS)

Assistance Provided Under Other State Funded Drinking Water Loan and Grant Programs

July 1, 1996 through June 30, 2012
(Millions of Dollars)

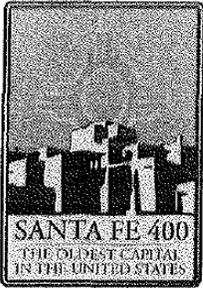
State and EPA Region	Total	Similar Eligibilities			Dissimilar Eligibilities		
		Total	Loans	Grants	Total	Loans	Grants
U.S. Total	7,666.8	3,714.2	2,435.0	1,279.2	3,952.6	3,050.6	902.0
Region 1	94.1	93.3	78.8	14.5	0.8	0.0	0.8
Connecticut	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Maine	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Massachusetts	78.7	78.7	78.7	0.0	0.0	0.0	0.0
New Hampshire	8.5	7.7	0.0	7.7	0.8	0.0	0.8
Rhode Island	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Vermont	6.9	6.9	0.1	6.8	0.0	0.0	0.0
Region 2	295.2	295.2	205.2	90.0	0.0	0.0	0.0
New Jersey	205.2	205.2	205.2	0.0	0.0	0.0	0.0
New York	90.0	90.0	0.0	90.0	0.0	0.0	0.0
Puerto Rico	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Region 3	914.6	878.8	735.0	143.7	35.8	24.2	11.6
Delaware	7.3	6.1	1.4	4.6	1.2	0.0	1.2
Maryland	39.2	39.2	0.0	39.2	0.0	0.0	0.0
Pennsylvania	425.3	400.9	375.8	25.1	24.4	24.2	0.1
Virginia	32.4	22.2	0.0	22.2	10.3	0.0	10.3
West Virginia	410.4	410.4	357.8	52.6	0.0	0.0	0.0
Region 4	1,215.3	693.4	154.2	539.2	521.9	272.7	249.2
Alabama	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Florida	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Georgia	345.9	104.6	104.2	0.4	241.3	241.1	0.2
Kentucky	584.5	584.5	45.7	538.7	0.0	0.0	0.0
Mississippi	4.3	4.3	4.3	0.0	0.0	0.0	0.0
North Carolina	280.7	0.0	0.0	0.0	280.7	31.6	249.1
South Carolina	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tennessee	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Region 5	254.6	234.9	190.2	44.7	19.7	19.7	0.0
Illinois	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indiana	14.3	14.3	7.2	7.2	0.0	0.0	0.0
Michigan	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minnesota	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ohio	240.2	220.5	183.0	37.5	19.7	19.7	0.0
Wisconsin	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Assistance Provided Under Other State Funded Drinking Water Loan and Grant Programs

July 1, 1996 through June 30, 2012
(Millions of Dollars)

State and EPA Region	Total	Similar Eligibilities			Dissimilar Eligibilities		
		Total	Loans	Grants	Total	Loans	Grants
Region 6	2,553.5	381.7	300.3	81.5	2,171.8	1,803.0	368.8
Arkansas	180.7	180.7	142.9	37.8	0.0	0.0	0.0
Louisiana	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New Mexico	785.9	0.0	0.0	0.0	785.9	433.2	352.7
Oklahoma	235.1	201.0	157.4	43.6	34.1	33.9	0.2
Texas	1,351.8	0.0	0.0	0.0	1,351.8	1,335.8	16.0
Region 7	40.8	40.8	4.8	36.0	0.0	0.0	0.0
Iowa	16.8	16.8	0.0	16.8	0.0	0.0	0.0
Kansas	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Missouri	24.1	24.1	4.8	19.2	0.0	0.0	0.0
Nebraska	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Region 8	905.1	279.9	121.1	158.7	625.2	600.2	25.0
Colorado	775.3	163.0	66.0	97.0	612.3	598.7	13.6
Montana	51.9	51.9	1.4	50.4	0.1	0.0	0.1
North Dakota	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South Dakota	11.3	11.3	0.3	11.0	0.0	0.0	0.0
Utah	66.6	53.7	53.4	0.3	12.9	1.5	11.4
Wyoming	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Region 9	139.5	131.8	0.0	131.8	7.6	0.0	7.6
Arizona	1.9	1.9	0.0	1.9	0.0	0.0	0.0
California	42.6	34.9	0.0	34.9	7.6	0.0	7.6
Hawaii	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nevada	95.0	95.0	0.0	95.0	0.0	0.0	0.0
Region 10	1,254.1	684.4	645.3	39.1	569.7	330.8	238.9
Alaska	103.8	0.0	0.0	0.0	103.8	0.0	103.8
Idaho	2.5	2.5	0.0	2.5	0.0	0.0	0.0
Oregon	556.3	90.5	61.1	29.4	465.9	330.8	135.1
Washington	591.5	591.5	584.3	7.2	0.0	0.0	0.0

APPENDIX C: LOAN DECLINED FOR POSSIBLE GRANT FUNDING



City of Santa Fe, New Mexico

200 Lincoln Avenue, P.O. Box 909, Santa Fe, N.M. 87504-0909

David Coss, *Mayor*

Councilors:

Rebecca Wurzbarger, Mayor Pro Tem, Dist. 2

Patti J. Bushee, Dist. 1

Chris Calvert, Dist. 1

Peter Ives, Dist. 2

Christopher Rivera, Dist. 3

Carmichael A. Dominguez, Dist. 3

Bill Dines, Dist. 4

Ronald Trujillo, Dist. 4

Date: September 19, 2013

New Mexico Environment Department
Attention: Mr. Jim Chiasson, P.E.
Construction Program Bureau
P.O. Box 5469
Santa Fe, NM 87502-5469

Re: City of Santa Fe CWSRF Funding for Sewer Replacement and Rehabilitation Project (LOAN)

Dear Mr. Chiasson:

The City is in receipt of the offer letter from the NMED Construction Program Bureau for a loan in the amount of \$3,000,000 at an interest rate of 3% from the Clean Water State revolving Fund (CWSRF). **The main reason for the City desiring to be on the CWSRF Integrated Projects Priority List (IPPL) was to be eligible for State grant(s) as well as Federal grants since the list was used as a qualifier to be eligible for Federal grants** (i.e. The American Recovery and Reinvestment Act of 2009). Once the City received the loan offer, the Wastewater Management Division's Financial Plan was assessed, and at this time internal funds are available to continue sewer rehabilitation without using loans or bonds.

The City is appreciative of this loan offer to replace and rehabilitate sanitary sewers in our collection system but for the above stated reasons is declining this loan offer. This letter shall serve as notice from the City declining the loan offer. Please let me know if there are any grants that the City may be eligible for Wastewater Infrastructure Projects. If you have any questions, please call me at 955-4623.

Sincerely,

Bryan Romero
Interim Wastewater Management Division Director

Cc: Nick Schiavo, Acting Public Utilities Department Director and Water Division Director
File