

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

**August 2-3, 2007
UNM Gallup, Gurley Hall, Room 205
Gallup**

The third meeting of the New Mexico Finance Authority (NMFA) Oversight Committee for the 2007 interim was called to order by Senator Mary Kay Papan, chair, on Thursday, August 2, 2007, at 9:10 a.m. in Room 205 of Gurley Hall on the campus of UNM Gallup in Gallup, New Mexico.

Present

Sen. Mary Kay Papan, Vice Chair
Rep. Janice E. Arnold-Jones
Rep. Richard J. Berry
Rep. Patricia A. Lundstrom
Rep. Jane E. Powdrell-Culbert
Sen. Lidio G. Rainaldi
Sen. Nancy Rodriguez (Aug. 3)
Rep. Henry Kiki Saavedra
Sen. David Ulibarri (Aug. 2)

Advisory Members

Rep. Ernest H. Chavez
Rep. Anna M. Crook
Sen. Dianna J. Duran (Aug. 2)
Rep. Daniel R. Foley (Aug. 2)
Rep. Thomas A. Garcia
Rep. Roberto "Bobby" J. Gonzales
Sen. Richard C. Martinez
Rep. Edward C. Sandoval
Sen. James G. Taylor (Aug. 2)
Rep. Thomas C. Taylor

Absent

Rep. Daniel P. Silva, Chair
Rep. Elias Barela
Sen. Joseph J. Carraro
Sen. Clinton D. Harden, Jr.
Rep. Dona G. Irwin
Sen. H. Diane Snyder
Rep. Don L. Tripp
Rep. Richard D. Vigil

Sen. Ben D. Altamirano
Sen. Vernon D. Asbill
Rep. Jose A. Campos
Sen. Pete Campos
Sen. Kent L. Cravens
Rep. Candy Spence Ezzell
Sen. Mary Jane M. Garcia
Sen. Stuart Ingle
Rep. Ben Lujan
Rep. W. Ken Martinez
Sen. Steven P. Neville
Sen. Leonard Lee Rawson
Rep. Sheryl Williams Stapleton
Rep. James R.J. Strickler
Rep. Luciano "Lucky" Varela

Rep. John Pena was in attendance.

(Attendance dates are noted for members not present for both days of the meeting.)

Staff

Doris Faust
Cleo Griffith
Zach Taylor

Guests

The guest list is in the meeting file.

Copies of all handouts and written testimony are in the meeting file.

Thursday, August 2**Call to Order and Welcome**

Dr. Beth Miller, executive director of UNM Gallup, thanked the committee for visiting UNM Gallup. She reported that the university is preparing to celebrate its fortieth anniversary, making it the oldest and largest branch of UNM. Dr. Miller described several programs administered by the university that focus on building the basic skills vital to success in the university and in the community.

UNM Gallup is a comprehensive community college in which approximately half of the courses relate to general education. The university also offers nursing and human services programs, which are thriving. UNM Gallup reports a high percentage of registration by Native American students. Dr. Miller noted that the university is in need of student housing.

Local support of the university is strong, evidenced by the 100% passage rate of community bond initiatives. Representative Lundstrom expressed concern that 90% of the tax base is in the City of Gallup and that city residents may be paying more than their fair share.

Review and Update of Local Capital Projects That Are Funded or Potentially Funded Through the NMFA

Joe Murrietta, mayor of Grants, stated that Grants has three projects currently underway that are funded by the NMFA and that Grants is looking to do further financing through the NMFA. The city needs repair of local sidewalks and roads, renovation of an older building to provide a new library facility and replacement of water and sewer lines. Grants also has approximately 400 derelict and unused buildings that are in need of demolition. The committee discussed how the NMFA can assist small communities such as Grants and noted that the NMFA should prioritize efforts in that regard.

Stan Henderson, Gallup Public Works director, along with Fire Chief Raymond Soto, reported on the new fire station to be constructed on the west side of Gallup. The new station will resemble an existing station in Gallup and will house several bedrooms, stalls for trucks, a conference room, a kitchen and a dining room. The cost of the project is \$1.58 million.

Mr. Henderson also told the committee that rapid growth and development in the area is creating a need for additional train track overpasses. With over 100 trains passing through the city a day, overpasses are needed to decrease vehicular traffic congestion.

Legislation Overview of 2007 Session

Mark Valenzuela, NMFA director of intergovernmental relations, began by noting that the NMFA brings all NMFA-proposed legislation to the committee and does not itself seek introduction of any bill not endorsed by the committee. Mr. Valenzuela then reviewed the bills that were introduced in the 2007 legislative session that impacted the NMFA. The committee discussed the project authorization bills, including bills for the Public Project Revolving Fund and the Water Project Fund. The committee also discussed the NMFA's efforts to educate local government officials on funding options available through the NMFA and the NMFA's work with the New Mexico Municipal League to reach out to the smaller communities.

Mr. Valenzuela reported that the NMFA is hosting the Twelfth Annual New Mexico Infrastructure Finance Conference this year, which will be held at the Sandia Resort on October 23-25. Representative Lundstrom requested that leadership from the NMFA Oversight Committee be part of the conference panel.

The committee discussed funding for county hospitals and related constitutional anti-donation clause issues, with Mr. Valenzuela suggesting further presentation of anti-donation issues at a future meeting.

Local Water Project Financing and the Navajo-Gallup Water Project

John Leeper of the Navajo Nation Water Resources Department described the Navajo-Gallup Water Supply Project, a \$700 million project, involving approximately 130 miles of pipeline, designed to serve a very large area. A number of system components are already in place, including a weir and fish bypass. A portion of the water would come from the Navajo Reservoir. Since the region does have sustainable ground water, the project will also fuel certain areas with ground water, and the Navajo Nation will double its ground water use with this project. Most of the Navajo nation is out of the service area, but any participation by the tribe would require a limited waiver of sovereign immunity.

The project has wide local support, but California, Colorado, Arizona and other non-Navajo entities have expressed opposition. The other states play a role in determining how water is apportioned because of existing rates for depletion.

The committee expressed concern that New Mexico might be putting money into a project that may not be completed if the federal government does not follow through on funding promises. Mr. Leeper reported that the Gallup piece and the Cutter piece of the project are independent and will function regardless of federal money. After providing a brief history of water adjudication in the region, Mr. Leeper noted that, once water is delivered to a regional system, it is a secure delivery in that it cannot be taken away from a municipality.

Paul Cassidy provided information on Gallup's options for financing its share of the water supply project. Mr. Cassidy reported that Gallup is to provide \$25 million to \$30 million to the project. Mr. Cassidy told the committee about Gallup's solid debt rating and relatively low current debt. He presented the three options being considered for the finance of Gallup's portion, with the most favorable centering on the creation of a regional water authority, similar to the one created in Bernalillo/Albuquerque. On questioning from the committee, Mr. Cassidy added that:

- * all plans would require a metering system to monitor water usage along the line;
- * Gallup's cost is based on the portion of water that Gallup is slated to receive; and
- * there are several potential funding sources for Gallup, including assistance from the federal and state governments and bond issuance.

Water Trust Board Project Funding and Water Quality Standards

Secretary of Environment Ron Curry provided an overview of the Department of Environment's (NMED) involvement in Ruidoso's wastewater treatment issues. Secretary Curry reported that the problem goes back to the 1990s and that the department has been working with local officials since 2003 in efforts to resolve the environmental problems faced by the community. He stated that the Rio Ruidoso is polluted by nuisance algae that results from excessive phosphorous in the water. Since the imposition of strict water quality requirements, the city has struggled to come up with a viable plan and to acquire funding for an upgrade of the wastewater treatment plant. Secretary Curry added that the state NMED helped facilitate an agreement between the city and the federal Environmental Protection Agency (EPA) and that enforcement action against Ruidoso, if any, would come from the EPA.

Marcy Leavitt of the Surface Water Quality Bureau, NMED, commented on the status of the river. She reported that the primary source of the nuisance algae is the wastewater treatment facility. The primary pollutants found in the river are nitrogen and phosphorous. Illegal dumping of septage is also a problem. Ms. Leavitt stated that there have been complaints about the aesthetics of the river, as well as the unpleasant smell emanating from the river. She added that the problem exists primarily in the spring and summer months.

Deputy Secretary Cindy Padilla stated that water sampling of the river and other local water sources has been done in response to citizen concerns. She added that the department has hosted a series of town hall meetings to listen to community concerns. Ms. Padilla also stated that the river has been the site of illegal dumping, but legal actions have resulted in a stoppage of the dumping. The department has worked closely with Ruidoso and Ruidoso Downs, assisting those communities in negotiations with the EPA and helping to reduce a potential \$3.2 million fine levied by the EPA to \$28,000.

On general questioning from the committee, the panel added the following statements.

- * Water standards in New Mexico are stringent, but were adopted "in the light of day", after allowing opportunity for comment by any interested person.

* The wastewater standard imposed is for where water comes out of the pipe as it exits the wastewater treatment facility.

* Ruidoso Downs is a lower-income area, but, because it is 50% of the problem, it needs to be 50% of the solution.

* The agreement emerging from the Forest Guardians' litigation does not set the nitrogen and phosphorous standards.

* New Mexico does not have the most stringent wastewater standards in the nation; most states have the same nutrient standards.

The committee requested the department to take a leadership role in coming up with funding sources to allow Ruidoso and Ruidoso Downs to resolve their wastewater problem, now that an agreement is in place. Secretary Curry agreed that the department would take a proactive stance on this issue.

Expenditures of the Governmental Gross Receipts Tax Distribution for the Youth Conservation Corp (YCC)

Larry Winn, Carl Lohman and Wendy Kent provided the committee with information regarding the successes of the local YCC, which is funded with a percentage of the governmental gross receipts tax. Mr. Winn, director of Connections, Incorporated, explained that private entities play a role in administering a YCC program when, as is the case in Gallup, the city does not have a full-time program. Private entities come on as management entities, and the YCC pays the management costs and youth wages. Mr. Lohman informed the committee of the competitive process for funding that requires a community to have a plan and willing partners to create a YCC project. Mr. Lohman stated that the YCC develops trails, cleans nature spaces and provides safe routes to school trails and other community service projects. Members of the YCC told the committee of their various experiences with the YCC. On questioning from the committee, the panel reported that the YCC advertises its programs within schools and on public media, offering 31 programs to young people all over the state.

The panel also reported that the YCC has a standing policy to fund urban and rural communities equally. Ms. Kent anticipates funding shortages in the near future, and the committee discussed how to get additional funding to the YCC.

The committee recessed at 5:00 p.m.

Friday, August 3

The committee reconvened at 8:10 a.m.

Status Update on Water and Wastewater Project Grant Fund

NMFA intern Akohleng M. Akwo provided a brief history of the Water and Wastewater Project Grant Fund, which was created in 1999. The legislative session in 2000 authorized the NMFA to make emergency grants from the Water and Wastewater Project Grant Fund to projects that could not wait until legislative authorization was obtained. In 2001, the legislature

increased the amount of money available in the fund to \$40.9 million. The available funds have since run out. Mr. Akwo reported that only seven projects are still under construction but are nearing completion. Project applications were required to meet readiness criteria before closure of a grant could occur. The NMFA anticipates closing out the Water and Wastewater Project Grant Fund, because there is no money remaining in fund.

The committee expressed concern over a lack of emergency funds available for immediate use by small communities throughout the state and expressed an interest in the creation of a fund that would be unavailable for all uses other than emergencies. Mr. Valenzuela offered to research and recommend possible solutions to the committee.

Local Area Public Project Revolving Fund (PPRF) Projects

NMFA intern Richard Garcia described local projects funded through the PPRF in the local area. The largest of the local projects receiving funding was the McKinley County School District construction of teacherages. The loan was guaranteed with teachers' rent payments, and the agreement specified that the district was required to pledge all funds generated through use of the facilities, as well as federal impact aid revenues. Mr. Garcia noted that PPRF projects under \$1 million do not require legislative approval.

Report on the New Mexico Renewable Energy Transmission Authority (NMRETA)

Joanna Prukop, secretary of energy, minerals and natural resources, reported that the creation of the NMRETA is a huge new undertaking for the state. NMRETA is the nation's first state-level authority whose primary focus is developing renewable energy sources. The concept appears to be catching on, and since the 2007 enactment of House Bill 188, Colorado has modeled its renewable energy legislation on NMRETA. Secretary Prukop has already met with representatives of other states to explore common goals and how the states can work together.

New Mexico is ranked twelfth in the nation in potential wind generation capacity and possesses world-class solar energy potential. Many sites are available for outstanding wind and solar energy production. Energy transmission infrastructure is needed to develop this potential, and no significant transmission construction has occurred in the past 20 years.

Secretary Prukop stated that the legislation creating NMRETA calls for the creation of an eight-member board, but the appointments have not yet been made. The NMRETA Act requires board members with experience and skill in renewable energy, and a list of potential members is being developed.

NMRETA is an economic development tool but may end up in a facilitating role because the act allows private entities to build transmission facilities. Projects affecting state retail rates or reliability must be approved by the Public Regulation Commission. Wind power is currently priced competitively with power generated by natural gas, and New Mexico has several potential markets for renewable energy, including Phoenix, Tucson and California. On questioning from the committee, Secretary Prukop added that:

- * wind energy must be firmed or backed by other energy sources, such as coal or natural gas;
- * by attracting private investors and corporations, landowners may see direct financial benefit, but the state benefits by the revenue generated, as well as by any reduction in energy costs;
- * the biggest problem facing the western energy grid is reliability, as demand can outpace supply, causing blackouts; and
- * construction of wind farm projects is currently very expensive, as global demand for steel is extremely high, causing higher materials pricing.

The committee discussed concerns about NMRETA, including a possible negative return of investment analysis, the possible transmission of nuclear-generated energy and the possibility of benefits under NMRETA going to investors rather than to New Mexico and its smaller communities.

Other Business

Be Sargent, a Gallup artist, told the committee about a local group, Gallup Solar, which has 40 members and is dedicated to bringing a 40-megawatt solar energy project to the Gallup area. The group has had discussions with local landowners and with PNM.

Adjourn

The meeting was adjourned at 11:10 a.m. by Senator Papen, with thanks to the committee and all presenters.