

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

**July 25-26
International Bank, Raton**

The second meeting of the New Mexico finance authority (NMFA) oversight committee for the 2005 interim was called to order by Representative Daniel P. Silva, chair, on July 25, 2005 at 10:08 a.m. at the International Bank in Raton.

Present

Rep. Daniel P. Silva, chair
Sen. Mary Kay Papen, vice chair
Sen. Joseph. J. Carraro
Sen. Clinton D. Harden, Jr.
Rep. Dona G. Irwin
Rep. Jane E. Powdrell-Culbert
Sen. Shannon Robinson
Rep. Henry Kiki Saavedra
Rep. Joe M Stell
Rep. Don Tripp

Advisory Members

Sen. Vernon D. Asbill
Rep. Jose A. Campos (7/25)
Rep. Ernest H. Chavez
Rep. Anna M. Crook
Sen. Dianna J. Duran
Rep. Mary Helen Garcia
Rep. Roberto "Bobby" J. Gonzales
Rep. Ben Lujan
Sen. Richard C. Martinez
Rep. Harriet I. Ruiz
Rep. Edward C. Sandoval
Rep. Sheryl Williams Stapleton (7/25)
Rep. Luciano "Lucky" Varela

Absent

Rep. Daniel R. Foley
Rep. Patricia A. Lundstrom
Sen. Lidio G. Rainaldi
Sen. Nancy Rodriguez
Sen. H. Diane Snyder
Rep. Richard D. Vigil

Sen. Ben D. Altamirano
Sen. Pete Campos
Sen. Kent L. Cravens
Sen. Joseph A. Fidel
Sen. Mary Jane M. Garcia
Sen. Stuart Ingle
Sen. Steven P. Neville
Sen. Leonard Lee Rawson

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

Staff

Renee Gregorio
Kathleen Dexter
Cleo Griffith

Guests

The guest list is in the meeting file.

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

Monday, July 25

Overview of Capital Needs

Pete Mileta, city manager, thanked the committee for legislative support for projects in Raton, especially funding for the technology and industrial park. He indicated that the city will be looking to the NMFA for financing for infrastructure improvements; the city has instituted a one-fourth percent gross receipts tax that will be dedicated to pay back such loans.

Mike Running, city manager for Clayton, spoke about that city's proposal for a jail, for water needs and for a landfill. He added that the city will be seeking the help of the NMFA in addressing these needs as well as infrastructure improvements to facilitate economic development in the area.

In response to a question regarding economic development, Joe Apache, mayor of Raton, mentioned that the climate and quality of life attract businesses to the area; firearms-related businesses are also drawn to Raton because of the presence of the NRA Whittington center. He added that the educational system is very fine and that the city is in the process of building a new hospital.

Questions ensued concerning the mining population and how the miners' hospital serves that population. Mr. Butler, city commissioner, stated that there are currently 27 miners being served in existing and long-term care facilities, but that there are also many retired miners in the area. In response to questions about the mining operation itself, the mayor replied that although there is a vast tonnage of coal in the environment, there is a problem extracting it, making it difficult to make a profit. The area once had four or five working mines.

As reported, other area projects include the GRIP road expansion project on U.S. highway 64/87 between Raton and Clayton. The committee asked questions concerning education and were informed that about 15 percent of students continue on to college and that there is a reciprocity agreement between Colorado and New Mexico regarding in-state tuition. Distance learning is also an important element in making education possible for many residents of northeastern New Mexico.

Tom Garcia, Colfax county manager, reported that reconstruction of the courthouse is a major project for the county; chip sealing is needed on mountain roads; and three bridges need to be replaced.

Richard Arguello, chair, Union county commission, said there are many mutual concerns between Colfax and Union counties, including advancing vocational and higher learning through distance learning and economic development through forming business incubators.

In response to questions, Mr. Running added that the city of Clayton has been under pressure to close its landfill and has had to deal with poor engineering services as well as other priorities, which have prevented closure. He said that the city is looking at a site 20 miles out of town.

Representative Campos expressed concern that the department of environment (DOE) has been dedicating funds to recycling over the past few years and that the funds now need to be redirected and dedicated for landfill closures.

Shirley Brooks, mayor of Des Moines, testified that its biggest need is water; wells have been shut down due to nitrates or are otherwise non-functioning.

NRA Whittington Center Hosts Outdoor Writers' Convention

Mike Ballew, executive director, NRA Whittington center, gave a history of the NRA and the formation of the center in 1973 when the NRA acquired the property outside of Raton. In 1977, the center was turned over to the board of trustees, making the center tax-exempt and separate from the NRA. Mr. Ballew reported that the center receives 160,000 visitors per year. In June of next year, the center will sponsor the outdoor writers' association of America, which will bring in journalists and industry people from the press, including those from *Field and Stream*, the *Washington Post* and the *San Francisco Chronicle*.

In answer to legislative questions concerning environmental cleanup on the site, Mr. Ballew said that the center has many lead-handling procedures, including cattail marshes and monitoring wells downstream. He added that there has been no increase in the net runoff of lead.

NMFA Operating Budget

Mark Valenzuela, director of intergovernmental relations for NMFA, reported that the operating budget has recently been approved. He assured the committee that its concern for the needs of the smaller communities is being heeded. He added that NMFA tracks the outcome of investments on projects. (See handout for specifics on NMFA's growth in areas such as managed gross assets, managed invested cash, loans receivable and bonds payable.) Mr. Valenzuela stressed the importance of developing a platform for NMFA, an asset liability model and increased data management. He added that NMFA is shifting to a performance-based budget for the first time, which will account for the costs of every program and produce a report of outcomes. He noted that in the newer reporting method, NMFA is now showing contractual services as part of all bond transactions; in the past, costs associated with bond issuances were

reflected in bond activity rather than in the operating budget. Bill Sisneros, executive director of NMFA, added that the organization is conducting a functional analysis internally, and that the allocation of the budget and all related financials will tie to the operating budget from now on. He pointed out that the numbers are not new, but that the disclosure method is new.

In response to questions from committee members about the information technology (IT) administration for NMFA, Mr. Sisneros said NMFA hired a data administrator who works with an IT specialist. He added that NMFA is an entrepreneurial arm that operates on fees charged, which are well below the market rate. NMFA is a \$2 billion bond bank, he said. On questions related to standards used by NMFA regarding IT, Mr. Valenzuela remarked that NMFA does not go through the state process, rather, it works with consultants to determine the best practices; there is no long-term planning as with state agencies. Mr. Sisneros added that NMFA is doing a full profile of its assets, and that an asset liability model is being put into place so that NMFA can report to the legislature with projections. He said that the structure of NMFA's debt is crucial.

Committee members expressed interest in understanding the NMFA's asset liability modeling, which they agreed would be discussed at the next meeting in Ruidoso.

In response to a question about the state's overall credit rating, Mr. Sisneros indicated that NMFA issues AAA rated bonds, has never had a default and that the GGRT collateral keeps its rating high. New Mexico is unique in the nation in this regard, he said.

Representative Stell remarked that the state has many funds, including the permanent fund, the severance tax permanent fund and the educational retirement fund, and that all are managed by professional managers who study how to invest state money. He asked NMFA if it invests in the same way. Mr. Sisneros responded that it does now, but that it has a contract with Ryan labs and the Ettinger city group to manage funds, and has internal investment strategists. Mr. Valenzuela added that NMFA's objectives are different than PERA and the state investment council, saying that they are investors and the NMFA is a "loaner".

NMFA Application Process and Prioritization for Loans and Grants

Kim Massey-Dimsha, financial advisor, NMFA, spoke on the benefits of public project financing, avenues for financing, NMFA's role in public project financing and what entities qualify to receive such financing. (See handout for details.) In response to a question on audits, Mr. Sisneros stressed that the NMFA board is adamant about getting audit statements completed before closing projects. He added that a great deal of assistance is given on-site to local entities seeking funding to expedite the financing process. Mr. Valenzuela indicated that 214 entities applied for funding in the public project revolving fund authorization bill, in answer to a question. Ms. Massey-Dimsha said that between 100 and 130 projects are currently in process for the next authorization bill. She added that this bill shows only requests made by entities; analysis is not done ahead of time on these projects. Because a project appears on the authorization bill does not mean any planning has been done or even that the project will successfully make it through to completion.

Ms. Massey-Dimsha reviewed what borrowers are allowed to pledge, adding that they can pledge whatever fees they have imposed on users. Disadvantaged funding, which is a low-rate financing based on median household income, is also in place, she said, and NMFA does try to assist communities in restructuring debt, if needed.

In conclusion, she added that all projects go through an internal evaluation as well as board approval, which includes terms and amounts of loans and readiness, among other details of the loan and project.

NMFA will get letters out to committee members on a monthly basis to inform them of projects in their districts, she added.

Governmental Gross Receipts Tax (GGRT) Distribution to NMFA

Mr. Valenzuela spoke about the GGRT distribution to the NMFA of 75 percent of the tax, which amounts to about \$18 million per year of the \$25 million in revenue generated by that tax. The GGRT distribution is applied to the public project revolving fund; it is a revenue stream that backs loans and helps in subsidizing low-income communities. He said that the full amount is loaned to communities and provides a loan repayment stream for many years, from which NMFA takes to market and issues debt. In response to a question about whether that original money grows from loans made, Mr. Sisneros indicated that this money is a moving target and that the fund is built up as the capacity grows.

Mr. Valenzuela reviewed how rating agencies look at the portfolio of loans and how categories are discerned. In response to questions, Ms. Massey-Dimsha said that NMFA gives all borrowing entities the same rates, despite what category the loan falls under. Mr. Valenzuela indicated that many loans are category 1 loans, which gives NMFA more capacity. The risk that is involved is in the security of the credit, he added. In response to previous questions about how much debt NMFA can take on, Mr. Valenzuela said that based on the existing portfolio, NMFA has the capacity to assume \$1.2 billion in loans. Mr. Sisneros explained that to rank NMFA's loans, the bond rating institutions look at safeguards that are in place; he added that NMFA needs to look at an asset liability model on a long-term basis, and that a balance between assets and liabilities needs to be determined. He added that NMFA will bring in financial advisors to explain the asset liability model at the next meeting.

The minutes for the first meeting of the NMFA oversight committee were unanimously approved.

Tuesday, July 26

NMFA Financing Programs Review

The meeting reconvened at 9:05 a.m., with Mr. Sisneros and Mr. Valenzuela presenting the financial outlook for NMFA, which includes improving long-term planning and assessment of state and local capital needs and helping smaller communities put together capital improvement programs. They added that NMFA is moving toward a policy-based operation. In

response to questions about hiring a planner with expertise in managing investments to avoid the problems recently experienced with the university of New Mexico cancer treatment center financing, Mr. Sisneros remarked that the problem was one with timing: the amount of money reported by the taxation and revenue department differed from the predicted amount. He added that the department's economic activity does not relate to its reporting; it collects data and then posts it on a cash basis, whereas NMFA works on an accrual basis. Mr. Valenzuela explained that the increase in cigarette taxes began a few years ago but NMFA has yet to receive a full fiscal year's worth of data, so it has been unable to calculate a trend on the revenue. He added that NMFA will now coordinate with the legislative finance committee and the department of finance and administration on this issue.

Committee members expressed concern over ways to look at the handling of state money, and knowing what sort of revenue is being generated with this tax. Mr. Sisneros said that the cigarette tax creates an income stream to pay off debt at the same time that there is a program to stop smoking and that he is uncomfortable with some of the numbers generated. He assured the committee that he will be very conservative in his approach to these problems. Mr. Valenzuela said that if the university of New Mexico went to market alone, its costs would be very high; partnering with NMFA does lead to lower costs.

The committee agreed it needs to continue to look at the issues surrounding cigarette tax revenue and the university of New Mexico's cancer treatment center.

Mr. Sisneros went on to discuss disadvantaged entity funding and assistance for costs of issuance, which has amounted to over \$5.35 million since 1999. He said that the legislature provided \$2 million in funding this year to the drinking water revolving loan fund, to which NMFA added another \$2 million to capitalize on additional federal grant money. Mr. Valenzuela reported that NMFA works with the DOE on which communities to work with for this funding. He added that DOE spends time working with communities to develop their management and technical capacity to handle the funding.

Tom McHugh, NMFA, reported on the water and wastewater grant fund, including criteria for receiving grant awards. He added that there is currently \$8 million in the fund, which will be depleted by the end of this fiscal year. Chairman Silva remarked that the committee needs to hear from DOE on its methods of selecting and prioritizing communities for funding.

Senator Harden suggested that an emergency fund be created for NMFA to assist communities with such needs during the interim. Mr. Valenzuela said there is such a fund, but there is no money in it.

Governor Richardson's Investment Partnership (GRIP) Update

Rhonda Faught, secretary of transportation, reported that \$384 million is currently committed on 25 GRIP projects. She said that 88 percent of these projects have been awarded to New Mexico contractors, with 1,000 New Mexicans at work on these projects. Another bond sale is scheduled for 2006, she added. NMFA has issued \$700 million in bonds for GRIP

projects, she reported. (See handouts for individual project details.) Ms. Faught added that the Raton U.S. highway 64/87 project will begin in October of this year. In response to questions about the use of concrete versus asphalt, she said that it is more cost-effective in New Mexico to use asphalt.

Keith Mellor, chief financial officer, NMFA, summarized financing for the fiscal year that recently ended for GRIP projects, saying that project funds earned 3.1 percent and the total interest earned equalled \$42 million. In response to a question regarding what is done with profits from GRIP financing, Ms. Faught indicated that all profits are put right back into GRIP projects, knowing that costs will increase over time. Mr. Mellor reviewed the actual drawdowns and gave a summary of the accounts. In response to a question on the selection of Ryan labs for asset management, Mr. Mellor said that NMFA did a competitive RFP for this work, looking for which strategy came closest in terms of safety, liquidity and yield. Mr. Sisneros indicated that NMFA receives a 25 basis point fee for support services, while Ryan labs receives 4.5 basis points. Committee members concerned about arbitrage were assured by Mr. Mellor that NMFA tracks earnings on all funds specifically for preventing arbitrage.

Ms. Faught discussed GRIP 2 projects, saying that rating criteria are being developed and workshops have been given in seven locations across the state for identifying needed projects. The amount of money available for GRIP 2 projects has not yet been determined, but will be by the end of August, and financing options will be determined in September, she said. At that time, an update could be presented to the legislature, she added. In response to a question about the use of the ICIP program in determining GRIP projects, Ms. Faught indicated that the department has used this program, but decided that it was too broad and that it needed to look more closely at transportation planning. Senator Carraro asked if forms could be given to legislators for use in their districts, to which Ms. Faught agreed. Representative Tripp expressed concern over the lists of submitted projects for GRIP 2, adding that he feels communities are unprepared to give priorities. Ms. Faught said the department is trying to get a snapshot of needs and that it comes down to local governments and regional planners not doing any real planning. She added that changes can be made to projects until legislation passes. When asked for an update on the rail project, Ms. Faught said that the project is "on track", the trains have been purchased and all should be operational by year's end. She added that the department has been working with the congressional delegation to ensure passage of an appropriation in the federal transit bill.

Renee Gregorio, legislative council service staff, reviewed changes made to the NMFA oversight committee's work plan by the legislative council. These include adding oversight for the New Mexico exposition center authority, which she mentioned has not yet been formed. The committee was also asked to review and oversee GRIP financing.

The committee adjourned at 12:00 noon.