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

September 10-12, 2014
Belen Public Library
Los Lunas Transportation Center

The fourth meeting of the New Mexico Finance Authority (NMFA) Oversight Committee was called to order by Senator Joseph Cervantes, chair, on September 10, 2014 at 10:10 a.m. at the Belen Public Library in Belen, New Mexico.

Present
Sen. Joseph Cervantes, Chair
Rep. Patricia A. Lundstrom, Vice Chair (9/10, 9/11)
Rep. Alonzo Baldonado
Rep. Ernest H. Chavez
Sen. Lee S. Cotter
Rep. Candy Spence Ezzell
Rep. Roberto "Bobby" J. Gonzales
Sen. Phil A. Griego
Sen. Ron Griggs
Rep. Jimmie C. Hall (9/10)
Rep. Yvette Herrell (9/10, 9/11)
Sen. Michael Padilla
Rep. Jane E. Powdrell-Culbert
Rep. Debbie A. Rodella
Sen. Nancy Rodriguez (9/11, 9/12)
Sen. John C. Ryan
Rep. James P. White

Absent
Rep. Dona G. Irwin
Rep. Henry Kiki Saavedra

Advisory Members
Sen. Sue Wilson Beffort (9/10)
Rep. Sharon Clahchischilliage
Rep. Anna M. Crook
Rep. Kelly K. Fajardo
Sen. John Pinto
Sen. Clemente Sanchez (9/11, 9/12)
Rep. Monica Youngblood

Sen. Jacob R. Candelaria
Rep. Brian F. Egolf, Jr.
Rep. Mary Helen Garcia
Sen. Stuart Ingle
Rep. Emily Kane
Sen. Timothy M. Keller
Rep. W. Ken Martinez
Sen. George K. Munoz
Sen. Bill B. O'Neill

Sen. Mary Kay Papen
Sen. William H. Payne
Rep. Edward C. Sandoval
Rep. Sheryl Williams Stapleton
Rep. James R.J. Strickler
Rep. Thomas C. Taylor

Guest Legislators
Sen. Michael S. Sanchez (9/10, 9/11)
Rep. Don L. Tripp (9/10)

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

Staff
Lisa Sullivan, Legislative Council Service (LCS)
Michelle Jaschke, LCS
Tessa Ryan, LCS

Guests

The guest list is in the meeting file.

Handouts

Copies of all handouts are in the meeting file.

Wednesday, September 10

Welcome to Valencia County

Jerah Cordova, mayor, City of Belen, thanked the committee for convening the meeting in Belen and for its continuing support. He provided a brief history of Belen and noted the area's economic growth and its service to the state as a rail hub and as the site of the only municipal airport in the county.

Jeff Condrey, county manager, Valencia County, drew the committee's attention to notable features of the county, including a travertine quarry, agricultural resources and the Luna Mansion. He gave a preview of Thursday's planned tour of the east mesa on the outskirts of Los Lunas, including a visit to the Meadowlake Community Center and its surroundings. Mr. Condrey noted that he had only recently been made aware of the illegal dumping and related environmental hazards that plague the east mesa and asked the committee's help to find resources to address the area's needs.

Board Report

John E. McDermott, board chair, NMFA, impressed upon the committee the importance of compliance with new oversight regulations that the federal Securities and Exchange Commission (SEC) and Internal Revenue Service (IRS) are implementing. He stated that adherence to the new regulations will give the markets confidence that New Mexico can continue to issue debt at affordable rates and maintain an excellent credit rating.

Robert P. Coalter, chief executive officer, NMFA, presented a financial summary and highlights from the NMFA's loan activities in July and August 2014. Mr. Coalter reported that the overall decrease in loan volume experienced last year has rebounded with an increase in loan volume and expenses. He added that lower balances in the escrow funds reflect increased spending of borrowers' loan proceeds and that increased NMFA expenditures reflect hiring to fill vacant positions. Mr. Coalter stated that NMFA expenditures are on track with budget projections and that significant progress has been made toward reviewing and revising NMFA policies and procedures. A request for proposals is in process to secure an internal audit contract, and an external auditor entrance conference for fiscal year (FY) 2014 was held the previous week. A focus for FY 2015 will be automation of NMFA processes, according to Mr. Coalter.

Mr. Coalter explained that the NMFA will hire independent contractors for a risk assessment and to review procedures. Committee members expressed concerns about using outside contractors, due in part to the unique features of a financial institution such as the NMFA. Mr. Coalter agreed that there is a need to ensure that audit requirements are met. In furtherance of that consideration, provisions for special consultations with any contractors will be included in the contract.

The NMFA has become more proactive with borrowers to ensure that funds are being used to move projects forward in accordance with committee and legislative intent, according to Mr. Coalter. Mr. Coalter explained the difference between the taxable and nontaxable bonding mechanisms for some recent loans. Funds drawn from taxable bonds have a much wider test of use. Tax-exempt bonds have a very strict set of rules limiting their expenditure. The new IRS rules impose heavy fines and penalties for inappropriate use of proceeds from tax-exempt bonds. Mr. McDermott added that private usage of nontaxable bond proceeds would move the bond into the taxable category and that bond status changes can take place after the time of issuance.

Some members expressed concern that smaller communities may not have the resources necessary to monitor bond proceeds for tax-exempt bonds. Mr. Coalter suggested that taxable bonds could help those smaller communities because they allow more flexibility in spending. Mr. McDermott observed that it may be more economical to gain flexibility with taxable bonds for local school district purposes but agreed with members that it is important for communities to understand the distinct uses of taxable and tax-exempt bond proceeds.

Mr. Coalter elaborated on the NMFA's support services for borrowers. The NMFA keeps records for the life of the loan, and the NMFA staff is proactive in explaining recordkeeping requirements to the community. The NMFA can fulfill those recordkeeping responsibilities if called upon to do so. The NMFA plans to produce a procedures manual that will include legal information and accounting guidelines to help borrowers comply with new SEC and IRS rules.

The NMFA maintains loan funds in trust under current policy, Mr. Coalter explained. To draw down funds, a borrower must present valid signatures and documentation of expenses. Mr. McDermott added that the process is similar to that of a construction loan with a bank. He further noted that it is critical that the lender validate that funds have been applied to eligible expenses and that, in the case of tax-exempt bonds, the purchases will not trigger a taxable event.

Mr. Coalter then discussed the New Market Tax Credits Program (NMTC). Finance New Mexico (FNM), a certified community development entity, was established in 2007 by the NMFA to effectuate the program. At that time, FNM was awarded $110 million in federal NMTC authority, enabling it to sell tax credits to generate capital to lend directly to qualified businesses in low-income areas. FNM secured an additional $46 million in federal NMTC authority in 2010. The NMTC intends to provide greater access to financing for new, expanding or relocating businesses in underserved areas.

Requested Approval of Local Government Planning Fund Rule Changes

Marquita D. Russel, chief of programs, NMFA, presented proposed rule changes for the Local Government Planning Fund (LGPF). The LGPF was created by the legislature in 2002 to fund preliminary engineering reports necessary to plan water and wastewater projects and to anchor federal funding applications. In 2005, the legislature broadened eligibility to include master plans, conservation plans and economic development plans and amended grant repayment requirements to allow the NMFA to forgo repayment if the grantee finances a project through the NMFA. The last rule change in 2012 removed all planning grant repayment requirements and broadened eligibility to include planning for infrastructure and energy audits.

Ms. Russel outlined three major areas for the proposed revisions: 1) bringing definitions in rule and closing documents into conformance; 2) creating parity for metropolitan redevelopment districts (MRDs) with Local Economic Development Act projects; and 3) providing explicitly for the use of median household income studies in place of census data.

The proposed changes are intended to help smaller communities qualify for assistance through the LGPF. Ms. Russel further explained that public funds are available under the Metropolitan Redevelopment Code (MRC) only if an MRD has a plan addressing land acquisition, public improvements, transportation and other site development issues. Main Street projects, intended to revitalize and strengthen traditional commercial districts, are using the MRC to develop those districts.

Committee members discussed matching requirements, qualifying household income levels, cash-reserve requirements for applicants and how the applicant pool might increase as a result of the rule changes. Ms. Russel observed that the proposed rule changes will likely expand the Main Street and metropolitan redevelopment projects within the communities in question by affording more access to planning grants. Some members expressed concern that eliminating local matching requirements will compromise project completion. Ms. Russel explained that the NMFA has hired one person to oversee local government planning and provide the expertise needed to keep projects on track. A community must now start its planning document within five months of receiving a grant. At present, the NMFA processes applications quarterly but expects to begin a monthly process soon.

Ms. Russel noted that the proposed rule changes allow one other exception for economically distressed communities from small counties. Those areas would be given additional consideration for loans because of their limited tax base. A local planning process has been established specifically for those communities to eliminate inapplicable requirements. Ms. Russel asserted that the NMFA board has approved the proposed rule changes.

On a motion duly made and seconded, the proposed rule changes were approved and adopted. The motion was passed without objection.

Proposed Legislation: Delegation of Duties for Certain Securities Issuances

Michael Zavelle, chief financial strategist, NMFA, and Mr. Coalter reviewed proposed legislation to allow public bodies to delegate approval authority regarding certain aspects of bond issuances. Mr. Zavelle reported that all public bodies that issue bonds in the state, including the NMFA, will enjoy the following benefits of the delegation process:

- increased flexibility to react to market conditions and target optimal sale dates;
- enhanced decision-making as designees more fully monitor the sale process;
- elimination of "rubber stamp" special meetings that can cripple sale processes; and
- removal of pricing premiums on bond issues for risk of delayed approval.

Mr. Coalter reviewed the following safeguards in the legislative proposal summarized by Mr. Zavelle:

- sale parameters to determine what can be approved are set in public meetings;
- bond counsel will not allow closing to take place outside the set parameters;
- designees report sales results in a public meeting;
- entities are not required to delegate authority; and
- borrowers may pool financing to close with reduced risk and lower costs.

Mr. Coalter asserted that the delegation process allows for a much more educated and informed board. For example, after every sale, results are reported back and fully discussed with the board. Everyone could become more knowledgeable about the process, which would strengthen oversight. Members discussed various aspects of the proposal and agreed that if strict guidelines and parameters were established, then the delegation process would enhance the NMFA's services.

The SEC and the Municipal Securities Rulemaking Board: the Public Project Revolving Fund (PPRF) and Your Community

Lawrence "Chip" Pierce, financial advisor, Western Financial Group, LLC, addressed the committee regarding the changing landscape of municipal finance. He presented an overview of the failure of mortgage-lending standards that led to the "Great Recession" and the resultant changes in the municipal bond market. Mr. Pierce characterized these changes as profound and noted that the reforms introduced by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) have added complexity to the bond-issuance process. Among other provisions of Dodd-Frank, the new SEC Office of Credit Ratings is charged with increasing the accuracy of ratings provided by the agencies that evaluate the financial strength of businesses and governments.

According to Mr. Pierce, enforcement actions by the SEC and the IRS are likely to increase as the municipal bond industry, which for decades has been largely unregulated, is scrutinized by federal regulators. Newly defined fiduciary responsibilities for municipal advisors will likely result in higher costs for smaller communities, as smaller firms will now incur disproportionately large professional liability insurance costs to meet disclosure requirements. As a result, Mr. Pierce noted, the role that the NMFA staff plays in working with smaller communities will become increasingly important.

Mr. Pierce stated that disclosure requirements will result in new reporting procedures as well as a need to report any past materially inaccurate statements made by broker-dealers in municipal bond sales under the SEC's Municipalities Continuing Disclosure Cooperation Initiative (MCDC). He added that the IRS is aggressively pursuing post-issuance audits to ensure compliance with federal tax rules for municipal bonds.

Committee members discussed the effect of the new SEC and IRS regulations on the NMFA's ability to lend. Mr. Coalter stated that the practical results of the regulations will be to centralize compliance and to increase oversight, reporting and follow-up. He said that these functions are already in place at the NMFA but must now be refocused to assure compliance and to educate clients regarding the new rules.

Mr. Pierce commended the NMFA for being proactive in increasing compliance review and noted that bond counsel has done an excellent job in limiting potential liability for the NMFA with regard to the MCDC. Mr. Coalter observed that one of the NMFA's goals is to mitigate the higher costs that fall to smaller communities in the municipal bond arena. Moreover, the NMFA will continue to provide that service. Both Mr. Pierce and Mr. Coalter assured the committee that the overall change for the NMFA as a result of the new regulations will be minimal over the coming year. In response to a committee member's question, they said that it is difficult at this point to estimate what additional costs may attend compliance issues in the future.

Minutes of the Meetings of July 1, 2014 and July 17-18, 2014

On a motion made and seconded, the minutes of the joint meeting of the NMFA and the Water and Natural Resources Committee of July 1, 2014 and the minutes of the NMFA meeting of July 17-18, 2014 were approved without objection.

Disclosure of Governmental Gross Receipts Tax (GGRT) Revenue Amounts

Mr. Zavelle proposed that legislation be drafted to collect information on GGRT, a tax of five percent imposed on the receipts of New Mexico state agencies and local governments from the sale of various public services and resources, to provide relevant bond-issuer facts to investors. The request for proposed legislation is due in part to the enhanced focus on compliance and disclosure for municipal bonds. Critical business information for the issuance of PPRF bonds includes particularized data on the GGRT revenue. The NMFA has not been able to collect data from the Taxation and Revenue Department (TRD) at the level of detail needed to explain GGRT revenue trends to investors.

Committee members discussed the Dodd-Frank regulations requiring disclosure postings on the Electronic Municipal Market Access System (EMMA) site and the transparency that the EMMA affords investors for information on municipal bonds. Mr. Zavelle reported that rating agencies do care about the GGRT data because revenue concentrations of over five percent need to be reported. Providing information about the GGRT collected by each entity in New Mexico would enable investors to analyze trends and thereby increase their confidence. At present, the information is provided by the TRD in the aggregate, which provides a limited explanation of increases or decreases in the annual NMFA share of GGRT revenue.

A member observed that the executive branch is apparently entrusted with this information but not the coequal legislature. The member noted the difficulties inherent in analyzing or developing tax policy without such information. The member suggested that the legislature call a cabinet secretary to testify on the matter.

In response to committee discussion about the level of specificity that the NMFA needs with regard to GGRT data, Mr. Coalter stated that the NMFA needs to be able to explain the relative significance of changes in revenue sources to investors. A motion was duly made and seconded to send a letter from the committee to NMFA staff requesting that NMFA staff members work with the TRD to obtain specific information regarding the compelling need for detailed GGRT revenue information. The motion was approved without objection.

PPRF Update

Zach Dillenback, chief lending officer, NMFA, provided an overview and status update on the PPRF. The flagship program of the NMFA, the PPRF was created in 1992 to assist governmental entities in accessing capital markets at a competitive rate. PPRF applicants include municipalities, counties, school districts, institutions of higher education, state agencies and other political subdivisions of the state and Indian nations, tribes and pueblos. Mr. Dillenback added that the PPRF is funded through loan repayments and the NMFA's share of the

GGRT revenue. He also noted that because of its AAA rating, the PPRF is used as a benchmark for comparing public financing alternatives.

Mr. Dillenback said that since its inception, the NMFA has made 1,192 PPRF loans totaling over $2.45 billion. Of those loans, 624 included $73 million targeted to disadvantaged entities. Mr. Dillenback also presented graphic information regarding the size, type and diversity of the loans made as well as their geographic distribution.

Committee members discussed the loans given to volunteer fire departments, a critical need in many rural areas. It was noted that the majority of the loans made to counties are categorized as "disadvantaged" funding. PPRF loans are repaid by the borrower with the exception that some loans made under the state agency category are repaid with cigarette tax funds.

Ms. Russel clarified that GGRT revenue received by the NMFA is deposited in a reserve fund used to secure the loans. Once the loans have been repaid, the GGRT revenue for that year is released and is deposited in the NMFA's loan fund, whereupon "disadvantaged" loans may be made at a lower interest rate. Ms. Russel stated that these are generally smaller loans wherein the first $200,000 is financed at zero percent and any amount over that is financed at three percent under current market conditions.

Mr. Dillenback stated that assets purchased through loans from the NMFA are owned by the public entity and that the responsibility for maintaining the assets resides with those entities. He further noted that the NMFA has made one loan to a charter school that has entered into a lease-purchase agreement for a property in Albuquerque. The NMFA board has not authorized any other lending associated with charter school lease-purchase agreements.

Loan Portfolios in 3D

Ms. Russel reviewed the basic structure of the PPRF and its mission. She provided information on two PPRF loans that are on credit watch. Greentree Solid Waste Authority in Ruidoso Downs is in litigation with Lincoln County but is current on its loan payments. Several special assessment district (SAD) loans were made to Rio Rancho, and some have been restructured to help prevent default. Payments on the loans are current, but SAD loan no. 6 in particular remains on watch.

Ms. Russel reported that no borrowers are in default or on credit watch under the Water Project Fund, the Drinking Water State Revolving Loan Fund, the Colonias Infrastructure Project Fund, the Collateral Support Participation Program or other community services loan programs. She reviewed the status of other NMFA loan programs and borrowers.

- The NMTC has one default to date. The Fuels 4 Less travel center in Deming was forced into bankruptcy by another (primary) lender.

- The Primary Care Capital Fund shows no defaults and has one project on credit watch. The NMFA granted a forbearance of principal payments for one year while the board of the Mesilla Valley Hospice in Las Cruces diversifies its revenues.
- The Smart Money Initiative shows no defaults to date and has two projects on credit watch. The Plaza Hotel in Las Vegas is in default. Western Wood Products, Inc., in Raton is operating under a reorganization plan, and timely payments have resumed. Resources for Children and Youth, Inc., in Las Cruces suffered financial losses as a result of the state's behavioral health audit. A new lessor has taken over the property for which the loan was made and is current on the lease.
- A special appropriation loan is in default. Pathways, Inc., a behavioral health care provider adversely affected by the state's behavioral health audit, is in foreclosure. The NMFA expects to sell the collateral for a full recovery.

Committee members discussed aspects of the projects currently in default or on credit watch. Ms. Russel observed that defaults as a percentage of the NMFA's overall portfolios amount to less than one percent. One member questioned why, with the apparent tremendous need for child care services, no loans were being made from the Child Care Facility Revolving Loan Fund (CCFRLF). Ms. Russel reported that there is no money in the fund and that strict licensing requirements sometimes conflict with project loan eligibility requirements. A member offered to look into funding for the CCFRLF and the eligibility requirements.

Proposed Legislation to Regionalize and Consolidate Small Utility Companies Such As Mutual Domestic Water Associations (MDWAs)

Rick Martinez, director of business development, NMFA, presented information regarding a proposed small utility authority act. He reported that many areas with multiple MDWAs want to organize as small utility authorities. The proposed legislation would create opportunities to consolidate services and improve local planning and coordination. Mr. Martinez reported that this idea has been evolving since 2003 and that there are numerous partners for the project at the state and local levels. The idea will be presented to the Water and Natural Resources Committee.

Mr. Martinez observed that, if the proposed legislation passes, the act would increase audit and reporting requirements for the participating entities. The NMFA would be able to work with the MDWAs to restructure their debt and help them become more effective in water delivery without having to create separate legislation for each entity. Mr. Martinez asserted that the proposed legislation would create regional water and wastewater authority umbrellas for local water systems.

Moreover, Mr. Martinez stated, under the proposed legislation, small utility authorities would be political subdivisions of the state. The NMFA is already working with the U.S. Department of Agriculture to refinance some of the MDWA loans to help save money and equalize rates. He noted that the NMFA loan programs now in use by the Lower Rio Grande Public Water Works Authority would not be accessible to the authority without its designation as a utility authority.

Some committee members described several successful programs in their respective areas wherein water users combined their rights to improve local systems and benefit their communities. It was posited that water rights issues will continue to dominate the legislative agenda. A member observed that the continuing failure to adjudicate water rights is problematic. A member asserted that, despite the many obstacles to cooperative agreements identified by other members, continued efforts to improve water quality and supply will be critical.

Recess

The meeting recessed at 4:45 p.m.

Thursday, September 11

The chair called the meeting to order at 9:34 a.m. at Los Lunas Transportation Center.

Alicia Aguilar, vice chair, Valencia County Commission, reported serious deficiencies in the water table at the southern end of the county and problems with contaminants from excess and poorly maintained septic systems in Los Chavez. In Meadow Lake, a large concentration of mobile homes is contributing to ground water pollution. Many area problems have not been fully identified or addressed. Ms. Aguilar noted that the area meets all of the criteria for designation as a colonia except for its distance of more than 150 miles from the border. She urged the committee to address the need for funding for colonias established at a distance from the border and to address the high cost of flood insurance in the area by working with the Middle Rio Grande Conservancy District and local governments to establish levees on the river.

Charles Griego, mayor, Los Lunas, told the committee that Los Lunas is the second-fastest growing community in the state. He elaborated on the need for a second exit from Interstate 25 (I-25) to Los Lunas as well as a second river crossing. Details of the proposed development will be presented to the Transportation Infrastructure Revenue Subcommittee. Members invited the mayor to bring information on the project to the legislature during the next legislative session.

Department of Environment (NMED): Providing Technical Assistance to Communities and to the NMFA

Ryan C. Flynn, secretary, NMED, spoke to the committee about ground water pollution. He lauded the accomplishments of the NMED's Construction Programs Bureau (CPB) and its chief, Jim Chiasson, in the areas of water and wastewater management. Secretary Flynn reported that many New Mexico communities have failing septic systems that need to be replaced or connected to a municipal system. He asserted that there are ways to solve this costly and difficult problem.

Secretary Flynn observed that, many times, septic system problems are not corrected until property changes ownership, at which point the fund for indigent assistance may be the only resource available to a homeowner to improve the septic system. The secretary noted that Valencia County and other counties are experiencing serious ground water contamination as a result of septic system failures. He indicated that even half a million dollars appropriated to an indigent assistance fund would enable huge progress in addressing this critical infrastructure problem.

Mr. Chiasson elaborated on the CPB's technical services assistance program for New Mexico communities. The CPB's mission is to help communities to develop sustainable and secure water, wastewater and solid waste infrastructure. Mr. Chiasson said that this is accomplished by providing funding for planning, design and construction; technical assistance and project oversight; and resources for system development and operation.

Mr. Chiasson presented an overview of the CPB's organizational structure and outlined the following CPB financial services programs: 1) the Special Appropriations Program, which offers capital outlay grants for water, wastewater and solid waste projects throughout the state; 2) the Rural Infrastructure Program, a state capitalized revolving loan fund; and 3) the Drinking Water State Revolving Loan Fund.

The CPB provides a variety of planning, engineering and construction bidding assistance and review and construction oversight services to communities throughout the state, according to Mr. Chiasson. He explained that these services are particularly valuable to smaller communities that lack the resources to plan and monitor major water and wastewater projects. Many of these services are provided in collaboration with the NMFA. Discussion ensued regarding the need for additional staffing for the CPB. Secretary Flynn again noted how valuable the CPB and its highly qualified and dedicated personnel are to the critical infrastructure programs they support. It was also noted that the CPB staff works under a memorandum of understanding (MOU) with the NMFA to provide oversight and guidance for community projects. Ms. Russel stated that more direct funding for the CPB would be necessary to eliminate MOUs.

A motion was made and seconded to request an appropriation of an additional $200,000 for engineering services to be provided by two new full-time-equivalent positions. The motion passed without objection.

Members and the panel discussed several areas of the state, including Corrales and Ruidoso Downs, where additional funding is needed to assist homeowners in connecting to municipal wastewater systems or to develop such systems. Some members suggested that more stringent development and enforcement of requirements for septic systems be implemented. Mr. Chiasson offered that part of the CPB's role is to come up with viable sustainable solutions. He noted that whenever a community-wide system is installed, there is a cost of connection for homeowners. Frequently, this creates problems that could have been anticipated and addressed in planning such systems. Mr. Chiasson asserted that connection to a municipal system assists the homeowner and the community by preventing further drinking water contamination.

Emergency Water-Needs Case Studies: Magdalena and Hanover

Stephanie Stringer, chief, Drinking Water Bureau (DWB), NMED, reviewed the mission and organizational structure of the DWB. The DWB's mission is to preserve, protect and improve New Mexico's drinking water for present and future generations. Ms. Stringer also provided information on the Sustainable Water Infrastructure Group and its mission of assisting the development of sustainable communities through collaborative planning and training.

Ms. Stringer provided an overview of two recent water emergency incidents, one in Magdalena in Socorro County and one in Hanover in Grant County. The DWB's incident response process seeks to plan the best short- and long-term remedies for emergencies and to assess, develop and implement those plans. Ms. Stringer related two observations from the water supply emergencies in Hanover and Magdalena. The first was that most emergencies are preventable with proper maintenance, planning and infrastructure development. Secondly, according to Ms. Stringer, many communities have reserve funds that can be applied to emergency situations.

Secretary Flynn thanked the legislators for their help in addressing emergency needs. He noted that the NMED can go to the State Board of Finance for emergency funding but emphasized the time-critical nature of being able to access such funding. The previously authorized emergency funding will revert this year, but the secretary urged the members not to underestimate the potential need for such funding as they consider reauthorizing emergency funds.

Secretary Flynn added that water supply and infrastructure problems affect many areas of New Mexico and that the NMED has been working to understand various community needs. He stated that the NMED is also trying to ensure that emergency plans and maintenance systems are up to date. Secretary Flynn described a recently established water infrastructure team (WIT) that includes representatives from mission-critical state agencies, municipal and county associations, rural water interests, the LCS, the Legislative Finance Committee and others.

Secretary Flynn informed the committee that the WIT has already disseminated a water infrastructure survey to begin to assess need, and it intends to pursue long-term planning and asset management on an ongoing basis. Nearly 180 responses to the survey have been received. He added that part of the WIT's intent is to help resolve issues related to multiple requests from the same projects as well as to try to match projects with appropriate funding sources. Ultimately, the WIT intends to produce a resource to share with the legislature and others to better understand the problems and to identify what funding, technical assistance, planning and development resources are available and appropriate to address those problems.

Secretary Flynn and the committee discussed some of the problems that may continue to prevent development of a uniform application process for water projects, including the varying timing and intended uses of different funding streams. The hope is to assess needs and provide the basic level of planning needed to understand local system requirements. At that point, a community may be able to work with the NMFA or other entities to fund its system needs.

Discussion ensued regarding the requirement for asset-management plans for smaller communities. One member questioned whether this requirement is another unfunded mandate that creates an undue burden on smaller communities. Secretary Flynn stated that the requirement is needed to effectively manage capital investments. The secretary promised to get a copy of the WIT infrastructure survey to inquiring legislators, and he noted that the WIT will be correlating responses with the Infrastructure Capital Improvement Plan (ICIP) and other funding sources. It was suggested that some coordination in this regard should be a performance measure for staff. Secretary Flynn complimented Mr. Coalter on moving the NMFA into a much stronger position in the short time he has served as chief executive officer and identified the challenge as an institutional need to maintain efforts to address water issues consistently over time.

Water Trust Board (WTB): New Project Approval Time Line and WTB Policy Committee Project Approval Criteria

Ms. Russel outlined proposed changes in the project approval time line, noting that the only things that can change in the process are the length of time allowed to accept proposals and the length of time included to evaluate proposals. Options for change include accelerating the existing process, reverting to the previous process or implementing a hybrid process.

Tom Clifford, secretary, Department of Finance and Administration (DFA), presented information regarding fixed dates and the amount of time required to complete specific processes that affect the approval time line. Secretary Clifford concluded that, as requested, the committee should receive a vetted list of projects prior to the legislative session. As a result of the approval time line constraints, however, some of the projects will not be ready for approval by the WTB prior to the legislative session. Local projects unable to receive final WTB approval in a given year would remain eligible for funding or could be reauthorized in subsequent years.

A member noted that last year's process became unwieldy when all of the applicant projects were included in the proposed legislation instead of a winnowed list of viable projects likely to receive WTB approval. The member observed that part of the challenge was that a water project list came from the executive branch during the last few days of the session that had not been presented previously to the legislators. Further, the member questioned the WTB's emphasis on funding only large projects. A lengthy review process makes sense for large projects, the member asserted, but small projects may never get funded because of the intensity of that process. Some members suggested establishing different application criteria for large and small projects. Another suggestion was to establish a dollar-amount threshold for categorizing projects with a mandated percentage of funds going to serve smaller projects. It was also noted that some projects are so large that they cannot be completed under the WTB programs.

Committee members asked for a spreadsheet with project comparisons addressing the funding criteria for the next meeting. It was noted that any proposed rule changes adopted for the process would not apply to this year's process. Discussion ensued regarding the need to develop WTB legislation that could be passed during the upcoming session and not be subject to veto.

Tour: Desperate Water Needs at Meadow Lake — Don't Dump on the East Mesa

Valencia County staff, including Mr. Condrey, County Financial Director Nick Telles and Director of Planning, Zoning and Code Enforcement Jacobo Martinez, gave members an overview of what the planned tour of Meadow Lake and the east mesa would encompass. County staff characterized the problem areas as well-intentioned subdivisions gone wrong. Years ago, a developer subdivided a large tract of land on the east mesa, abutting the Manzano Mountains, into quarter-acre lots that were sold worldwide with the promise of wide-open living. The land can never be developed due to lack of water and infrastructure. Illegal dumping of tires and every manner of trash, as would be evident during the tour, is now rampant in the area.

The county has asked for grants to do some cleanup, start an education program and install signage, but little code-enforcement money is available. Officials hope to focus on education to prevent illegal dumping. The area also suffers from large numbers of abandoned trailer homes, exceedingly high foreclosure rates in the subdivisions with permanent housing near the area and a large immigrant population residing in mobile homes where water and electricity are unsafely shared among dwellings. Unsafe road conditions exist with poor lighting near the school complex (elementary, middle and high schools) that was built on the east mesa at a considerable distance from anything.

During the tour, members stopped at the Meadowlake Community Center, now being repurposed as a youth recreation center by a nonprofit organization. Rights to water rights that fed the now-dry lake were sold some time ago, and the lake bed was used as a landfill. Some 90 tons of trash have been removed from the lake bed to date to begin to rehabilitate that area. Members also viewed the mounds of trash and tires being dumped haphazardly on the east mesa; makeshift trailer parks housing a large population of Mexican and Central American immigrants; and Morris Road, the site of the proposed new river crossing and I-25 exit to Los Lunas.

NMFA staff members were asked to follow up on whatever means are found to address the challenges of substandard housing, illegal and hazardous waste dumping, ground water pollution and urban sprawl in the area for use as a case study. Mr. Coalter asked county officials and legislators to keep him apprised of developments in addressing these challenges.

Recess

The meeting recessed for the day at 5:30 p.m. following the tour.

<u>Friday, September 12</u>

The chair called the meeting to order at 8:45 a.m. at Los Lunas Transportation Center. Mr. Condrey followed up on the tour of the east mesa, noting that the purchasing procedure for a county contract for trash removal and pickup had been successfully challenged in court, consuming over a year of time in the process, and that the county was back to "square one" in this regard with no effective system for solid waste disposal. He further described efforts to produce a master plan for solid waste disposal and observed that the biggest objection to the proposed plan was sole-sourcing the service. Mr. Condrey stated that the DFA had dismissed the county's application for community development block grants to address these and related equipment needs. The county is particularly concerned about abandoned mobile homes in the area and how they can be safely removed. It was also reported that if the high number of illegal immigrants residing in the area was included in population estimates, the county would qualify for additional funding as a Class A county.

Jacobo Martinez recapped the difficulties the county is facing as a result of poorly planned development on the "urban rural fringe". Many residents have set up recreational vehicles in the east mesa area as housing and are sharing electricity over exposed power lines. There is no affordable housing plan in the county, and a lot of the mobile homes are dilapidated. At the same time, these residents are making long, costly commutes to work and paying a lot for their substandard housing. School bus conditions are poor due to poor road conditions, and the one existing landfill in the county is not easily accessible. County residents must decide how to proceed with development in the area and how to create the infrastructure needed to achieve that end. In conclusion, Jacobo Martinez stated that the county needs funding to develop the Meadowlake Community Center as a commercial kitchen to enhance and expand small business opportunities.

Committee members discussed options to address solid waste disposal needs. One member observed that this is a challenging problem throughout the state. The member described a successful private enterprise model established in the member's district. A local ordinance imposed a trash-disposal fee on residents that was slightly higher than fees charged by private services. The fee is waived if a resident provides proof that the resident is employing a private disposal service. This model allows multiple providers to operate, although in this instance it would not solve the problem of limited access to the landfill and the lack of transfer stations. Some members characterized the issue as a local government problem that should be addressed through local ordinances.

One member asserted that the legislature had long since passed legislation requiring that developers plan and provide infrastructure for new subdivisions. The committee discussed how to assist the county with the problem of the untenable east mesa subdivision owned by literally hundreds of thousands of absentee property owners. The county incurs costs far in excess of the annual taxes due on the lands just to send out tax notices each year. Mr. Condrey suggested that one option is to designate this truly beautiful area as a regional or county park before it suffers further degradation. He noted that the county receives many offers to donate lots, but at present, it cannot afford the liability associated with accepting individual noncontiguous parcels. It was suggested that recovering contiguous stretches of land through eminent domain for use as open space with the assistance of the legislature may be the only real solution.

The chair reported that much of the upcoming October meeting in Las Cruces will be devoted to updates on the spaceport and how to utilize and maintain this $250 million asset. Plans for a spaceport tourism center will also be discussed.

There being no further business before the committee, the fourth meeting of the NMFA for the 2014 interim adjourned at 10:00 a.m.