

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

July 15-16, 2010
Room 307, State Capitol
Santa Fe

The second meeting of the New Mexico Finance Authority (NMFA) Oversight Committee was called to order by Senator Mary Kay Papen, chair, on July 15, 2010 at 10:05 a.m. in Room 307 of the State Capitol.

Present

Sen. Mary Kay Papen, Chair
Rep. Anna M. Crook
Sen. Tim Eichenberg
Sen. Stephen H. Fischmann
Rep. Roberto "Bobby" J. Gonzales
Sen. Clinton D. Harden, Jr.
Rep. Dona G. Irwin
Sen. George K. Munoz (July 16)
Rep. Jane E. Powdrell-Culbert
Rep. Benjamin H. Rodefer
Sen. Nancy Rodriguez
Rep. Henry Kiki Saavedra
Rep. James R.J. Strickler
Sen. David Ulibarri
Rep. James P. White

Advisory Members

Rep. Janice E. Arnold-Jones
Rep. Jose A. Campos
Rep. Ernest H. Chavez
Sen. Dianna J. Duran
Rep. Candy Spence Ezzell
Rep. Mary Helen Garcia
Sen. Mary Jane M. Garcia
Rep. Thomas A. Garcia (July 16)
Sen. Timothy M. Keller (July 16)
Rep. Ben Lujan (July 16)
Rep. Andy Nuñez
Rep. Edward C. Sandoval
Rep. Sheryl Williams Stapleton

Absent

Rep. Patricia A. Lundstrom, Vice Chair
Sen. Sue Wilson Beffort
Sen. Kent L. Cravens
Rep. Brian F. Egolf, Jr.
Rep. Richard D. Vigil

Rep. Elias Barela
Sen. Stuart Ingle
Sen. Richard C. Martinez
Rep. W. Ken Martinez
Sen. John M. Sapien
Rep. Thomas C. Taylor
Rep. Luciano "Lucky" Varela

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

Guest Legislator

Rep. Andrew J. Barreras

Staff

Doris Faust, Legislative Council Service (LCS)

Tom Pollard, LCS

Claudia Armijo, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and written testimony are in the meeting file.

Thursday, July 15

Welcome

Senator Papen called the meeting to order and welcomed the members and guests. She advised the committee members that the meeting was being audio-webcast. Consequently, she asked them to keep sidebar conversations to a minimum and to turn their microphones on and off before and after speaking. She also asked the members to identify themselves before speaking into their microphones.

NMFA General Update

William Sisneros, chief executive officer of the NMFA, greeted the members. He started by discussing the NMFA ratings and explained why they are important. Referring to a handout, he told the members that the ratings started in 1995, and by 2000, the NMFA had achieved an A-rating. He added that the NMFA has been working to improve its rating, and as a consequence, it has thus far reached a AA+ rating but hopes to achieve a AAA rating. He told the members that as a result of the subprime mortgage meltdown, the rating agencies and the criteria they use to set ratings are being reviewed by Congress. He said that one of the most important elements that will be looked at is the management and oversight controls of an agency. He noted that the fact that the New Mexico Legislature oversees the NMFA will undoubtedly help the NMFA maintain and improve its rating. He then told the members that NMFA staff travel to New York three times a year and meet with various rating agencies to update them on the NMFA accounts' performance. He indicated that those meetings continue to be positive in nature.

There was a discussion among the members regarding the ratings system as a whole. Some members questioned Mr. Sisneros about who, if anyone, rates Moody's and Standard & Poor's. This led to talks about investors, such as institutional buyers, who perform their own due diligence prior to purchasing assets. Mr. Sisneros told the members that the NMFA is focusing its efforts on building relationships with institutional buyers. He added that when staff members

travel to New York, they schedule meetings with investment groups specifically to establish relationships so that investors are not solely relying on information provided by the ratings agencies. He added that the investment groups look at the NMFA's performance and management with an emphasis on how things are handled if performance falters. Again, Mr. Sisneros reported that legislative oversight is valuable to potential investors when determining whether to invest.

Mr. Sisneros next spoke to the members about his opinion concerning the NMFA's need to communicate with its clients and working partners. He said that the NMFA is developing a marketing program and that NMFA staff members are attending municipal and county events and working with small and large bankers. He said that the NMFA has policies and internal processes in place that safeguard its assets. He added that the NMFA portfolio gets significant scrutiny, noting that NMFA staff members watch to see how money is going to its clients and how the clients are spending it.

In talking about the various NMFA-sponsored programs, Mr. Sisneros said that the NMFA has 16 programs, including the new colonias infrastructure program, which is still in the process of starting up. He also said that the NMFA has \$64 million remaining in the new market tax credits to allocate, and those projects are reviewed by a policy group on a regular basis. Governor Richardson's Investment Partnership (GRIP) funding remains an issue, and Mr. Sisneros reminded the members that the NMFA is still interested in replacing the GRIP variable-rate bonds with fixed-rate bonds. He said that the process had been stalled because the Department of Transportation (DOT) needs to complete its audit and a memorandum of understanding with the state. He said the DOT occupies an important seat at the table on the refinance issue. He added that the NMFA has a line of credit with Bank of America, but he remains most comfortable with a fixed rate, so he is still working on the swap.

Next, the discussion turned to the Public Project Revolving Fund (PPRF) program. Mr. Sisneros said that over the next five years, the NMFA projects \$1.6 million in activity related to that program. He hopes eventually to have a team of staff members assembled to deal with investment groups that are active in the southwest. Currently, NMFA staff members meet with these groups and educate them regarding the NMFA. He added that the NMFA intends to go to a competitive, as well as a negotiated, bond sales process. He said that the NMFA found that there is generally a savings when there is no middleman. He next spoke about the Water Trust Board, saying that it is allocating close to \$30 million, and that the NMFA has created a technical review team to become part of the process.

Mr. Sisneros next told the members that Congress is evaluating tax-exempt bonds. He said that the NMFA issues tax-exempt bonds, initially issuing Build America Bonds (BAB). There is a 35% rebate program on a BAB, so the NMFA evaluates and determines whether it is more effective to issue a BAB rather than a tax-exempt bond.

According to Mr. Sisneros, in some ways the NMFA currently operates more like a bank than in its earlier years. Previously, it did not have digitized records, but that has changed. The

NMFA is making serious progress in safeguarding and backing up all of its records. Transparency is part of the goal, and more information regarding NMFA transactions will be available on the NMFA web site. Another recent and interesting change is that the governor issued an executive order providing the NMFA with the authority to work with Indian tribes. Governor Richardson wants the NMFA to work with tribes regarding the question of sovereign immunity. In order for the NMFA to get a AAA rating, the NMFA needs the tribes to provide limited waivers, something with which not all the tribes are comfortable. He also noted that, according to statute, the NMFA cannot fund any tribal projects that are tied to gambling money. He noted that the Jicarilla Apache Nation completed a \$24 million water system project with NMFA funds.

There were some questions from members of the committee involving the GRIP and whether there are continuing investigations associated with the program involving additional legal costs for the NMFA. Mr. Sisneros told the members that the investigations and legal costs as they pertain to the NMFA are over. Some members requested that Mr. Sisneros and the NMFA staff provide copies of its 2009 balance sheet. Mr. Sisneros agreed to provide the information.

The committee was next addressed by Matthew Jaramillo, director of government affairs for the NMFA. He directed the members' attention to the NMFA project funding history handout provided for their review. He said that last year, the NMFA provided \$300 million for projects, adding that from 2005 to 2009, 254 of more than 300 projects were disadvantaged projects. He said that disadvantaged entities are defined by household incomes, and such designated entities receive either 0% interest or low-interest loans. He added that financial assistance to disadvantaged-qualified entities is contingent upon the NMFA board determining that the project affects the ability of the entity to provide governmental services necessary to public health, safety or welfare. The reduced-interest financing assistance limitations for such projects are \$75,000 per equipment project and \$200,000 per infrastructure project, and no single disadvantaged-qualified entity can receive reduced-interest rate assistance on more than \$200,000 in financing in any fiscal year.

NMFA Mission and Organizational Review

Mr. Sisneros spoke to the members regarding the NMFA's vision and mission. Taking language from the NMFA's enabling statute, he told the members that it was determined that the NMFA's primary mission is to finance the future of New Mexico. He provided a handout for the members that highlighted the NMFA's values. Under the heading of "customer orientation", the NMFA hopes to deliver innovative, competitive products and services; develop effective relationships with customers and communities; instill confidence by supporting communities through project completion; listen and respond to internal and external customers; and have helpful, solution-oriented attitudes toward its customers.

There was a lengthy discussion regarding the NMFA's funding for disadvantaged entities. It was noted by members that for fiscal year 2010, the actual amount directed to disadvantaged entities is quite small relative to total funding. Mr. Jaramillo explained that the size of a loan is

often tied to the size of the entity. Committee members noted that it would be helpful to have a list of the NMFA projects for review at each committee meeting and that it would also be helpful to have that same information available on the web site. The NMFA staff agreed to provide the project information at future meetings.

Senator Papen asked the NMFA staff to address item number two from the Government Restructuring Task Force request memorandum. Mr. Jaramillo said the NMFA does not receive general fund money and is not an appropriated state agency, but it has nevertheless tried to focus on cost reductions for fiscal years 2010 and 2011. He added that the NMFA has tried not to impair its ability to provide excellent client services, regardless of current economic conditions. He told the members that the NMFA is continuing to increase web-based applications, making its operations more effective and efficient. On the topic of changes to NMFA procurement and contracting services, Mr. Jaramillo said that management is considering a move to a more employee-driven organization, including additional in-house staffing for legal, information technology, investor relations and water expertise. With regard to investor relations, Mr. Jaramillo said that the NMFA reviews programs to determine whether they should be removed or changed to become more efficient. He said that some of the NMFA programs may not be efficient because NMFA staff members rely on other agencies for certification. He mentioned a possible legislative initiative to improve the ability of the NMFA to be responsive to community needs, saying that when an entity operates as a bank, people can come in looking to solve funding problems. In the case of the NMFA, if a potential project has not previously been authorized in a project authorization bill, the entity seeking funding will have to wait until January for the funding to be approved during that next legislative session. He said that because the NMFA meets eight times a year with the NMFA Oversight Committee, perhaps the NMFA staff could come to the members for authorization throughout the year. He opined that this would make the NMFA more timely in its response to clients.

PPRF — Analysis of the Locations and Credit Ratings of Borrowing Entities

The staff of the NMFA provided the members with a lengthy handout breaking down all of the NMFA's transactions by county, from the time of the entities' inception through June 4, 2010. Michael Zavelle, NMFA chief of investor relations, and Greg Campbell, NMFA controller, along with Mr. Jaramillo, continued the discussions. It was noted that a number of the entities to which the NMFA lends funds have AA+ credit ratings, such as the Albuquerque-Bernalillo County Water Utility Authority. There was a brief discussion about whether the NMFA is actually competing with commercial banks and, therefore, taking business away from those private entities. Some members questioned whether municipalities are legally authorized to borrow from private banks, and there were questions about whether or not the NMFA's quest for a higher credit rating should be of paramount value. Many members stressed that the mission of the NMFA should be to fund projects that would not otherwise be funded by private means. Mr. Sisneros assured the members that the primary goal of the NMFA remains the same, but he stressed that part of that mission includes maintaining and raising the NMFA credit rating. He added that the NMFA continues to market its products to targeted borrowers. He said that NMFA staff members work with everyone that contacts the NMFA, and they travel to rural communities. Additionally, the NMFA continually looks to marketing campaigns, and if NMFA

staff members know that community has a need, staff members will talk with members of the community directly. A number of committee members mentioned that the work of the NMFA has been invaluable in their respective districts.

Again, the discussion turned to the possibility of the NMFA providing the members of the committee information regarding the removal of the current legislative oversight approval. There was talk about the general usefulness of the legislative oversight. A number of members voiced concerns for allowing the NMFA to operate without oversight and whether such a move would really change the process for the better.

Economic Development Revolving Fund — Options for Expanding the Program and Increasing Economic Development Opportunities

Marquita Russel, NMFA chief of programs, updated members on the Statewide Economic Development Finance Act (SWEDFA). In her opinion, the SWEDFA puts New Mexico on par with what other states are doing to increase economic development, ultimately making New Mexico more competitive than it would be if the program did not exist. SWEDFA was enacted in 2003 and partners the NMFA with the Economic Development Department. The goal is to help stimulate economic development by providing greater access to capital in rural and underserved areas of the state. The Economic Development Revolving Fund currently has \$7 million remaining.

Ms. Russel talked to the members about the Smart Money Loan Participation Program. She said the program utilizes the relationships and lending expertise of local banks while sharing the risk with those banks. She added that the program provides interest rate buy downs for businesses and focuses on creating greater access to capital in rural and underserved areas. Above all, she said, the priority is to work with businesses that create jobs, especially high-wage jobs. She added that the NMFA is flexible in its participation in Smart Money projects. The NMFA may participate in up to 49% of bank-originated loans. However, the NMFA share will generally not exceed \$2 million, targeting \$50,000 of Smart Money funding for each new job created. She told the members that the Smart Money portfolio has provided a good distribution of funds throughout the state, including projects in Alamogordo, Raton, Silver City and Las Vegas, New Mexico.

Ms. Russel agreed with Mr. Sisneros that Congress is reviewing tax-free bonds. She said that those bonds may ultimately be replaced with BABs and that the NMFA has been approached by local governments that want assistance marketing bear bonds.

There being no further business for the afternoon, the meeting was recessed at 3:38 p.m.

Friday, July 16

The chair reconvened the meeting at 9:07 a.m.

New Mexico Renewable Energy Transmission Authority (RETA) General Update

Jeremy Turner, executive director for the RETA, began by talking to the members about House Bill 98 from the 2010 legislative session. He said that the bill would have authorized the RETA as an eligible entity under the PPRF to provide an alternative avenue for the placement of RETA bonds. It further would have authorized the RETA to issue bonds at, above or below par, to hold certain proprietary information confidential and to clarify the statute by allowing separate accounts. He said that House Bill 98 passed the house floor but failed on the senate floor. Mr. Turner said that the RETA intends to work with the committee on the same legislation for the upcoming session.

Mr. Turner next spoke about two applications currently before the RETA. The first is the Lucky Corridor, a proposed 500-kilovolt transmission line that would be approximately 130 miles long. The second is the Santa Fe Clean Line Energy Partners line project, a proposed 500-kilovolt, high-voltage, direct-current line from New Mexico to Nevada. He said that the projects committee has reviewed both projects and will make its decision as to whether the RETA will give its support at the next scheduled board meeting.

Next, Mr. Turner talked about the RETA budget. He said that staff had put together a two-year budget and submitted it to the Legislative Finance Committee. He noted that the RETA has maintained a flat budget and that the legislature had, on creating the authority, originally provided it with \$2 million and that the RETA would not be seeking additional funding. Mr. Turner added that the RETA has one bond issue pending, but with its \$2 million, it can operate through the fiscal year. If the bond deal is closed, the RETA will have funding through fiscal year 2012.

Mr. Turner talked about the RETA's efforts in trying to identify federal funding for programmatic environmental impact studies that are needed to get transmission lines operating within a couple of years. He talked briefly about the Los Alamos National Laboratory (LANL) economic and technical study focusing on looped versus radio collector systems. The study will look at five-, 10- and 20-year horizons and conduct an economic analysis of varying levels of investments in renewables. The overall strategy is to encourage job creation.

Some of the members asked questions regarding cost recovery related to transmission lines. Mr. Turner said that in the past, utility companies have traditionally built transmission lines, but without assured cost recovery, there is no incentive for them to continue doing so. Nowadays, a developer has to bear 100% of the cost. Because of the capital market and the costs associated with renewables, most developers cannot afford the cost. He said that the LANL study will help determine what the costs are and whether there is any incentive for in-state ratepayers to pick up some of the cost based on enhancements in their reliability and the economic development that would follow. He emphasized that cost recovery is critical. This was followed by a discussion about the fact that New Mexico has renewable energy, but there is frustration over not having transmission lines to get the product to market. Mr. Turner advised the members that part of the LANL study involves how best to use New Mexico's existing infrastructure. He told the members that the study should be completed by the middle of September. He said that a presentation to the oversight committee would then follow. One issue

is that if the state invests in existing infrastructure, what is that opportunity? He noted that New Mexico still has a lot of citizens that are underserved even though transmission lines may be near their communities. Several members expressed concern over whether the RETA is, in fact, looking to focus on service to smaller communities.

There was a brief discussion regarding renewable fuels being costly. Mr. Turner said that renewable energy does cost more, but it is being promoted on a federal level. A discussion ensued regarding the energy produced by New Mexico and the fact that most of it is not used within the state. Mr. Turner advised the members that New Mexico's usage needs are being served by cheaper whole-power plants. New Mexico's renewable energy will be marketed out of state, where there is higher demand and it is more profitable.

There was a discussion involving the RETA's authority to exercise eminent domain. Mr. Turner assured the members that eminent domain measures must be approved by the board.

NMFA Cost of Funds Relative to Other Financing Sources Available to New Mexico Borrowing Entities — A Comparison of Transactions Representing Financing Through the NMFA and Other Sources

The next topic was a discussion regarding the cost of NMFA funds as compared to the cost of funding projects through private lenders. Of particular focus was a loan to the City of Gallup. Eric Harrigan of RBC Capital Markets told the members that RBC started working as an underwriter on the project and put together a plan in October 2009. RBC did an analysis that indicated that the NMFA transaction would represent a lower cost and notified the City of Gallup of that fact, but it did not receive a reply.

Currently, George K. Baum & Company is the financial advisor, and Southwest Securities, Inc., is the project underwriter for the Gallup transaction. Mr. Harrigan discussed the complicated financial environment of today's markets, citing the numerous types of funding mechanisms and the fact that each has benefits and drawbacks. He said that the relationships between types of financing change and an analysis done today could well be worthless next week. He added that there are factors beyond just the interest costs, and those factors could be very important in concluding why the City of Gallup did not work with the NMFA.

There was a discussion about the Albuquerque Metropolitan Arroyo Flood Control Authority and the fact that it has a AAA rating in both Standard & Poor's and Moody's. The authority also sells bonds; last year it sold \$10 million in bonds, and the effective interest rate was about 2%. According to Kevin Powers, director for RBC, in the current financial markets, the credit spreads between a AA and AAA rating have widened immensely.

The discussion returned to the Gallup project. Members discussed the issue of whether the NMFA is actually benefiting parties that could not otherwise get financing or is simply taking business from other competitive businesses. Members said that it seems like a lot of the NMFA money is going to entities that could likely get financing by other means. It was suggested that the oversight committee might take some time to specify policy directions the

NMFA should follow. There was a motion to go into executive session in a future committee meeting to discuss these issues. The motion passed unanimously.

With no further business, the meeting adjourned at 11:45 a.m.