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

June 13, 2019
State Capitol, Room 322
Santa Fe

The first meeting of the New Mexico Finance Authority (NMFA) Oversight Committee was called to order by Representative Tomás E. Salazar, chair, on June 13, 2019 at 9:07 a.m. in Room 322 of the State Capitol in Santa Fe.

Present
Rep. Tomás E. Salazar, Chair
Rep. Alonzo Baldonado
Rep. Micaela Lara Cadena
Sen. Joseph Cervantes
Rep. Jack Chatfield
Rep. Rebecca Dow
Rep. Harry Garcia
Rep. Susan K. Herrera
Rep. Raymundo Lara
Sen. Richard C. Martinez
Sen. Michael Padilla
Rep. Jane E. Powdrell-Culbert
Sen. Nancy Rodriguez
Sen. William E. Sharer
Rep. Linda M. Trujillo

Absent
Sen. Jacob R. Candelaria, Vice Chair
Sen. Craig W. Brandt
Sen. Ron Griggs
Rep. D. Wonda Johnson
Rep. Patricia Roybal Caballero
Rep. Patricio Ruiloba

Advisory Members
Rep. Kelly K. Fajardo
Rep. Natalie Figueroa
Rep. Willie D. Madrid
Sen. Mary Kay Papen
Rep. Sheryl Williams Stapleton
Rep. Doreen Y. Gallegos
Rep. Georgene Louis
Rep. Andrea Romero
Sen. Clemente Sanchez
Rep. Candie G. Sweetser
Sen. Bill Tallman
Sen. Pat Woods

Staff
Jeff Eaton, Research and Fiscal Policy Analyst, Legislative Council Service (LCS)
Andrea Lazarow, Bill Drafter, LCS
Erin Bond, Research Assistant, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file.

Thursday, June 13

Welcome and Introductions

Committee members and staff introduced themselves, and NMFA staff were introduced.

2019 Session Legislation Summary

John Gasparich, interim chief executive officer, NMFA, and Mr. Eaton summarized legislation endorsed by the committee and introduced in the 2019 legislative session. Nine bills were enacted: House Bill (HB) 124, HB 241, Senate Bill (SB) 18, SB 37, SB 43, SB 126, SB 128, SB 165 and SB 326. House Joint Memorial 9 died on adjournment.

Mr. Gasparich noted that HB 534 was not endorsed by the committee but would have created a public-private partnership board attached to the NMFA. However, the bill failed to pass the senate.

Members of the committee expressed concern that, during the 2019 legislative session, the Water Project Fund was used to shore up state agency budgets rather than to fund water projects, which may harm small communities and water systems that consequently cannot receive funding for much-needed water projects. Members expressed hope that the proper use of the budgetary process would prevent budget shortfalls from using the Water Project Fund.

NMFA Board and NMFA Fiscal Year 2019 Highlights

Katherine Ulibarri, chair, NMFA Board, briefed the committee on the NMFA Board's development of a strategic plan based on the belief that small projects can have big impacts on communities. The NMFA Board is primarily composed of cabinet secretaries. Being cognizant of the changing administration, former board members chose to delay goal setting for the incoming board members.

Ms. Ulibarri noted that the board's operation and structure were streamlined by reducing seven standing committees to five. Changes were also made to enable smooth transitions of responsibilities and duties as key staff members retire or move on.

Mr. Gasparich provided updates on the various funds under the NMFA's jurisdiction.

Public Project Revolving Fund (PPRF). The PPRF has seen substantial growth in public project revolving fund loans. Since fiscal year 2013, more than $1 billion has been loaned out across the state. Approximately 11 percent of the total loans have gone to state agencies;

counties in the North Central Council of Governments (COG) received 27.3 percent; and counties in the Southwest COG received 2.4 percent. Mr. Gasparich explained that the counties were organized by COGs to condense the data for presentation. Demand for PPRF loans has continually grown since the program's inception.

Drinking Water State Revolving Loan Fund. The Drinking Water State Revolving Loan Fund provides low-cost financing for construction and improvements to drinking water facilities. The Department of Environment publishes a priority list three times a year, and the NMFA accepts applications from the list. Approximately $217 million across 141 loans has been funded. An additional 13 loans have been approved and are meeting award conditions prior to closing.

Water Project Fund. The Water Project Fund receives funding from an annual $4 million distribution from the Water Trust Fund. It also receives nine percent of senior severance tax bond capacity. In the 2019 legislative session, an additional $6 million was appropriated from the General Fund to the Water Project Fund for mutual domestic water consumers associations. Ten percent of the Water Project Fund is appropriated to the Office of the State Engineer for water rights adjudications.

In May, the Water Trust Board recommended that 17 projects be funded from the regular 2019 funding. The board also recommended that 10 projects be funded from the additional appropriation, three of which are projects that were authorized but not funded in 2017 and 2018. The NMFA Board approved the projects at its May meeting, and the projects are working toward closing.

Primary Care Capital Fund. Jointly administered by the NMFA and the Department of Health, the Primary Care Capital Fund provides loans for nonprofit primary care clinics in rural and medically underserved communities. SB 126 from the 2019 legislative session extended the program to clinics owned by public entities. Since the program's inception, the NMFA has made 19 loans totaling more than $11 million.

Behavioral Health Capital Fund. The Behavioral Health Capital Fund is jointly operated by the NMFA and the Human Services Department. Funds are directed to small nonprofit behavioral health clinics in rural and medically underserved communities. SB 128 eliminated the asset size limit of nonprofit clinics eligible to participate and allowed clinics owned by public bodies to qualify for financing. Since the program's creation, the fund has made four loans totaling $2.8 million.

Economic Development Revolving Fund. The Statewide Economic Development Finance Act (SWEDFA) was enacted in 2003 to stimulate the economy by creating economic development financing tools. Under the SWEDFA, the Economic Development Revolving Fund has been used to operate two loan participation programs, the Smart Money Loan Participation Program and the Collateral Support Participation Program.

Via the Smart Money Loan Participation Program, the NMFA partners with community banks to provide long-term, low-cost financing to businesses in rural New Mexico, and the NMFA shares equally in the collateral available to a bank. The program is capitalized with approximately $5 million in net General Fund appropriations.

The Collateral Support Participation Program was a federally funded program that the NMFA operated from 2011 to 2018 through a memorandum of understanding with the Economic Development Department (EDD). The state completed its reporting in March 2017, and the funds were returned to the EDD. Approximately 20 businesses were funded using $8.2 million from the State Small Business Credit Initiative funding.

Finance New Mexico, LLC. Under the SWEDFA, the NMFA is allowed to participate in the New Markets Tax Credits Program, a federal program that provides a 39 percent tax credit for those who invest in low-income communities. The tax credits are awarded by the United States Department of the Treasury to community development entities (CDEs). The NMFA partnered with New Mexico Community Capital to form Finance New Mexico, LLC, a certified CDE.

Finance New Mexico has received five allocations of new markets tax credits totaling $286 million. An advisory board composed of community leaders from across the state ensures that investments benefit low-income persons and that investments occur in federally designated low-income census tracts.

Mr. Gasparich informed the committee that the NMFA is in the process of changing its bond banking and loan management system. The current system is no longer supported by the vendor and lacks comprehensive reporting and monitoring. Starting July 1, 2019, the NMFA will instead use EnABLE, which is web-based, notifies staff of the next step in a process and provides robust reporting.

In response to questions from the committee, Mr. Gasparich explained that new markets tax credits can be used for investments on tribal lands, while low-income census tracts are designated by the federal government.

Members of the committee expressed concern that rural communities may not receive necessary funding. Michael Vonderheide, director of water resources, NMFA, noted that land grants are not eligible for the water programs. To access NMFA funds, a land grant must go through its county or form a mutual domestic water association. The NMFA would like funds to be accessible to those in need and is researching ways to expand to more low-income areas.

Mr. Gasparich clarified for members that the money appropriated to the Water Project Fund in the 2019 legislative session has been allocated. However, a community could start an application for the next funding cycle.

Proposed Interim Work Plan and Meeting Schedule

Mr. Eaton reviewed the committee's proposed work plan and meeting schedule. Members suggested changes to the work plan, including presentations on bonding capacity, domestic water systems and capital outlay; the possible development of a rural communities infrastructure fund; and updates from the New Mexico Renewable Energy Transmission Authority and the EDD. Suggested meeting locations included Bernalillo County, Las Cruces, Truth or Consequences and Rio Arriba County.

The committee adopted the work plan and meeting schedule as amended, without objection.

NMFA Bonding Overview for Capital Projects and Bond Ratings

Heather Correia, analyst, Public Finance Group, Moody's Investors Service, provided an overview of Moody's rating process. Ms. Correia explained that Moody's ratings are objective assessments of the credit risk to bondholders. Ratings are monitored at least annually and may change over time. Ratings analysts are not financial advisors or investment bankers, and Moody's does not offer counsel or advice.

Moody's rating process begins when a government states its intent to issue debt. Moody's assigns an analyst that will select a methodology to rate the government, gather information and analysis on the issuer and hold discussions with the issuer. The analyst will then meet with a rating committee that will discuss the analyst's findings and decide the rating of the issuer. When the rating is decided, Moody's publishes the rating and the issuer can review the rating. The highest investment grade rating is Aaa, while the lowest investment grade rating is Baa3.

Ms. Correia stated that the methodology chosen depends on the security offered by a bond issuer. The NMFA rating uses the pool program debt methodology because the NMFA's debt is secured by a large pool of borrowers and by a share of New Mexico's governmental gross receipts tax (GGRT) revenue. Moody's pool program debt methodology incorporates four broad rating factors: underlying credit quality and default tolerance; pool size and diversity; debt structure, legal covenants, investments and cash flow; and management and governance.

Through the pool program debt methodology, the NMFA has an Aa1 rating for its senior lien credit and an Aa2 rating for its subordinate lien credit. The main difference between the two pools and thus the difference in ratings is the participant credit quality. Ms. Correia explained that participant credit quality is evaluated using Moody's general obligation methodology and special tax methodology. Moody's must also take into consideration that the NMFA's pools include pueblos and tribes; because Moody's does not have a methodology to rate such issuers, ratings tend to be conservative.

Ms. Correia stated that credit ratings for New Mexico's school districts, cities and counties have different strengths and challenges. However, pension liability is a problem for all three sectors. The majority of cities in New Mexico and the United States do not contribute enough to pension funds to avoid increases to their pension liabilities. This can lower their Moody's rating.

Michael Zavelle, chief financial strategist, NMFA, explained that the NMFA has two major bond programs for infrastructure purposes. The NMFA's flagship program is the PPRF; the NMFA also issues Department of Transportation debt. There are no standalone bonds because multiple revenues and assets are pledged to all bond repayments. All bonds are fixed rate.

All NMFA bonds are issued into the municipal bond market. Bond pricing is dependent upon ratings such as Moody's, and credit enhancements are key to ratings. Mr. Zavelle explained that the GGRT revenue is a unique credit strength and credit enhancement for the PPRF. By statute, the PPRF receives 75 percent of all GGRT revenue in New Mexico. The GGRT revenue is available for debt service shortfalls after all bond principal and interest payments are made. The GGRT revenue generated in one year is only available to make new loans or retire bonds in the next year.

Mr. Zavelle stated that the GGRT is not the NMFA's only credit enhancer. Other credit enhancers include no payment defaults in the PPRF, high credit standards codified in rules and policies and loan revenues in excess of bond debt service. The NMFA also has a $100 million line of credit with Wells Fargo for liquidity.

In response to questions from the committee, Ms. Correia explained that many factors, including lengthening life spans, have contributed to the pension liabilities that many cities and states face. To address the pension problem, states have provided cash infusions or altered benefit rates and contribution rates. A member of the committee suggested using an automatic escalator system to address New Mexico's problems.

Ms. Correia informed members that Moody's pool program debt methodology provides higher ratings when the investment pool has more investors. Many of the NMFA's investors hold less than one percent of the total pool, so the overall risk of default is lower. Moody's has also developed new criteria to measure environmental and cybersecurity risks.

In response to a member's question on acceptable revenue from a borrower, Mr. Zavelle explained that the NMFA requires that borrowers have enduring revenue, such as taxes. The NMFA has never defaulted on a payment because its borrowers must have a stable revenue source.

Adjournment

There being no further business, the meeting adjourned at 12:57 p.m.