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

November 15, 2016
Room 307, State Capitol
Santa Fe

The fifth meeting of the New Mexico Finance Authority (NMFA) Oversight Committee was called to order by Senator Joseph Cervantes, chair, on November 15, 2016 at 9:48 a.m. in Room 307 of the State Capitol.

Present
Sen. Joseph Cervantes, Chair
Rep. Jane E. Powdrell-Culbert, Vice Chair
Sen. Lee S. Cotter
Rep. Candy Spence Ezzell
Rep. Bealquin Bill Gomez
Sen. Ron Griggs
Rep. Idalia Lechuga-Tena
Rep. Patricia A. Lundstrom
Sen. Richard C. Martinez
Rep. Andy Nunez
Sen. Nancy Rodriguez
Rep. Patricia Roybal Caballero

Absent
Rep. David E. Adkins
Rep. Sharon Clahchischilliage
Rep. Dona G. Irwin
Sen. Michael Padilla
Rep. Patricio Ruiloba
Sen. William P. Soules
Rep. Monica Youngblood

Advisory Members
Rep. Alonzo Baldonado
Rep. Roberto "Bobby" J. Gonzales
Sen. John Pinto
Rep. Debbie A. Rodella
Rep. Tomás E. Salazar
Rep. Sheryl Williams Stapleton

Sen. Jacob R. Candelaria
Rep. George Dodge, Jr.
Rep. Brian Egolf
Rep. Kelly K. Fajardo
Rep. Harry Garcia
Sen. Stuart Ingle
Rep. Sarah Maestas Barnes
Sen. Bill B. O'Neill
Sen. Mary Kay Papen
Sen. William H. Payne
Sen. Clemente Sanchez
Rep. Don L. Tripp
Sen. James P. White

Staff
Lisa Sullivan, Staff Attorney, Legislative Council Service (LCS)
Amy Chavez-Romero, Deputy Director for Drafting Services, LCS
Jeff Eaton, Research and Fiscal Policy Analyst, LCS

Minutes Approval

Because the committee will not meet again this year, the minutes for this meeting have not been officially approved by the committee.

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file.

Tuesday, November 15

Welcome and Introductions and Comments

Senator Cervantes welcomed everyone and asked members and staff to introduce themselves. Representative Powdrell-Culbert thanked staff members for all of their help during her chairmanship and vice chairmanship.

Report on the NMFA Budget

Robert P. Coalter, chief executive officer (CEO), NMFA, introduced to the committee Oscar Rodriguez, who started his position as the NMFA's new chief financial officer on October 3, 2016. Previously, Mr. Rodriguez was the finance director for the City of Santa Fe. Mr. Rodriguez presented the fiscal year (FY) 2017 operating budget of the NMFA, which is $8,777,735. Overall, the FY 2017 budget is about 3.7% lower than the FY 2016 budget. The handout shows the budget allocations categorized by program, category type and personnel divisions. The largest expenditure in the operating budget is for NMFA staff salaries and benefits, comprising 55%, or $4.9 million. The NMFA is largely a service agency. The NMFA has started working with the University of New Mexico to quantify the impact of the NMFA's services and programs in the state's local communities.

A member asked about a project in Espanola that was denied Public Project Revolving Fund (PPRF) funding in the application cycle last year. Mr. Coalter responded that he recalls the circumstances concerning that project and that the City of Espanola is reapplying this year. Mr. Coalter explained that the issue with Espanola was related to ongoing litigation with Santa Fe County, that both parties are currently in arbitration over the matter and that they appear to be resolving the underlying issues that would allow for reapplication this year. The member thanked Mr. Coalter for the update and asked to be made aware if there are any difficulties that arise concerning the application during this cycle.

In response to a committee member's question about the amount of funding available from the Drinking Water State Revolving Loan Fund, Mr. Coalter replied that approximately $7.7 million was made available for FY 2017. In response to another committee member's questions, Mr. Coalter stated that between $7.1 million and $7.8 million will go to the Colonias Infrastructure Fund this year.

A committee member asked if the last several years' legislative sweeps of governmental gross receipts tax (GGRT) revenues intended for the PPRF have affected the NMFA's functioning. Although the sweeps have not had an impact on agency operations, there was a reduction in the amount of grants and loans that could be made, said Mr. Coalter.

Approval of Minutes

A motion by the chair to approve the minutes of the fourth meeting without changes was seconded and passed unanimously.

Report on Bonds and the GGRT

Michael Zavelle, chief financial strategist, NMFA, informed the committee that, by the end of calendar year 2016, the PPRF will have issued six bonds totaling $325 million. The PPRF has the highest bond rating, i.e., AAA, and was not affected by Moody's downgrade of New Mexico's general obligation bonds from AAA to AA1.

The effect of any bond rating downgrade is compounded by the post-general-election rise in interest rates by 0.5%, or 50 basis points. Unfortunately, rising interest rates reduce the NMFA's capacity to lend, as more of the payment goes to interest and less to principal.

Mr. Zavelle explained that the PPRF bond rating has not yet been downgraded but is subject to the rating agencies "rule of two". The rule of two prohibits a state entity from maintaining a rating that is two grades higher than the state's credit rating. In other words, if the State of New Mexico lost two more rating levels, then the NMFA would slip one spot lower from the current AAA rating.

In response to a committee member's questions, Mr. Zavelle stated that:

- on its website, the NMFA posts local GGRT revenues;
- for an authorized entity under the PPRF program, the NMFA may at any time commence an agreement for a loan under $10 million; for a loan in the amount of $10 million or more, the loan must be processed in the same time frame as a bond issuance; and
- the largest borrower under the PPRF program is the City of Rio Rancho; as a hypothetical, the NMFA has enough reserves to cover for two years an unlikely default by the City of Rio Rancho.

Sweep of Flow-Through GGRT and the Effects on the PPRF Program

Mr. Coalter and David Abbey, director, Legislative Finance Committee, discussed the recent trend of annual sweeps of flow-through GGRT revenues intended for the NMFA and redirected to the General Fund for solvency reasons. The amounts were modest in the first couple of years (2012-2014), but they expanded to over $16 million in each of the last three years (2015-2017). The reduction in reserves brought on by the sweeps of flow-through GGRT revenues has resulted in a diminished capacity to make loans and grants to local communities.

A member asserted that the unimpaired flow-through of GGRT revenues to the NMFA is critical. Mr. Zavelle also informed the committee that while the PPRF bonds still enjoy a AAA rating, both Moody's and Standard & Poor's stated their concern about the recent consecutive annual sweeps of the flow-through of the GGRT revenues, which resulted in a reduction of the NMFA's reserves. The ratings agencies view the reserve funds as necessary to provide a cushion in the event of loan defaults, Mr. Zavelle said.

Mr. Coalter and Zach Dillenback, chief lending officer, NMFA, provided an overview of events affecting demand upon the PPRF. Mr. Dillenback described some of the ripple effects of the recent downgrade in New Mexico's general bond ratings on school districts and local governmental entities. Mr. Dillenback informed the committee that the Bloomfield School District and the Central Consolidated School District came to the NMFA for loan refunding recently. Neither school district had applied to the NMFA in many years. In the case of the Bloomfield School District, the recent drop in Bloomfield property values and consequential reduction in property tax revenues caused it to be in violation of the constitutional requirement that the amount of a general obligation bond issuance cannot be in excess of 6% of an entity's budget or ability to pay.

In addition, the Lovington Municipal School District, which had never before applied for a PPRF loan, recently came to the NMFA. More and more school districts may start looking to the NMFA for loans, said Mr. Zavelle. Mr. Dillenback noted that, previously, these entities had been able to access the public market at terms more favorable than those available though the PPRF. However, he indicated that financing through the PPRF has become more attractive because the AAA bond rating merits lower interest rates passed on to borrowers. Thus, through the PPRF, local entities are able to obtain interest rates more favorable than they would if they were to issue bonds on their own.

A member of the committee asked whether yield control requirements could assist with issues that local governments might experience in exceeding their debt capacities. Mr. Dillenback indicated that in communities that are highly dependent upon oil and gas revenues, nonresidential property comprises a significant portion of the tax base. In those communities, property valuations would depend upon the rebound of the oil and gas industry. The committee member suggested that some safeguards to stabilize property tax revenues could possibly be implemented when property valuations decrease. Mr. Coalter indicated that funding from the PPRF allows some local governmental entities the ability to react quickly to economic downturns, provided that such entities have already been authorized by the legislature.

Prior Legislative Authorization for PPRF Projects

Mr. Dillenback summarized the first bill proposed by the NMFA for committee endorsement. The first bill proposed for committee endorsement would allow the NMFA to make loans from the PPRF in excess of $1 million to qualified entities without prior legislative authorization.

A committee member asked for an estimate of how much money would be paid out of the PPRF in the next year. Mr. Coalter explained that such an estimate would depend upon demands upon the fund, the rate at which existing loans are paid off and other factors. In response to another question, Mr. Coalter stated that qualified projects are not prioritized for funding under the PPRF — it is first come, first served until the money runs out.

In response to a committee member's question, Mr. Dillenback indicated that requests for PPRF financing from local governmental entities are constant. He added that in the face of reduced project financing from the Severance Tax Bonding Fund, increased demands have been placed on the PPRF. In response to a committee member's question, Mr. Dillenback indicated that it is relatively common for the annual legislation containing the list of authorized PPRF projects to be amended during the course of a legislative session.

The PPRF financing authority is distinguishable from a grant program, Mr. Coalter said. He indicated that, even without prior legislative authorization, legislators would continue to play an important role in informing the NMFA of areas in which funding from the PPRF may be needed. A committee member added that inclusion on the list of legislatively authorized projects is only one step in the process that a local entity must follow to receive a loan from the PPRF. For example, a local governmental entity's ability to repay a loan from the PPRF is one of several factors that must be considered before it receives a loan. Mr. Coalter indicated that through the PPRF, the NMFA seeks to strengthen the revenue-building capacity of local governments.

Mr. Dillenback indicated that the NMFA attempts to communicate with entities that seek to be legislatively authorized to receive funding from the PPRF, but responses may vary among them. A committee member sought clarification about the manner in which the NMFA communicates with entities that are identified for possible PPRF financing or that are at risk for having their legislative authorization expire. Mr. Coalter indicated that the NMFA would continue to contact entities with which communication has not been fluid. Another committee member asked about the NMFA's protocol in the event that an entity with a project identified for possible financing does not respond to the NMFA's requests for communication. Mr. Dillenback stated that the NMFA examines the possible financing demands of entities in determining how many more times, above three, to contact an entity whose legislative PPRF authorization will expire. However, he noted that the NMFA's approach in contacting and communicating with these entities is evolving.

Mr. Coalter stated that the NMFA's main focus in creating a proposed list of projects is to identify projects for which financing is most feasible. He added that governmental entities that are interested in obtaining financing from the PPRF should be proactive in communicating their needs to the NMFA. He also stated that the NMFA employs loan officers assigned to each region of the state and aims to hold face-to-face meetings with officials about the demands for those regions.

A committee member expressed reluctance about eliminating the legislature's existing role in authorizing projects eligible for PPRF financing. The committee member stated that the legislature's role in the authorization process is constructive and asked how the legislature could continue to provide oversight of the PPRF financing process if the alternative PPRF bill were passed. Mr. Coalter stated that the committee is charged with approving all rule changes proposed by the NMFA. He added that without increased flexibility to obtain financing from the PPRF, some entities may be forced to obtain financing at interest rates higher than what the NMFA can offer. He stated that the NMFA reviews the financial strength of entities seeking financing from the PPRF and their ability to repay loans from the fund. The committee member asked if the legislature has removed projects from the PPRF financing list, and Mr. Dillenback responded affirmatively.

A committee member asked if the current process for legislative authorization of PPRF-financed projects allows for enough responsiveness to existing financing demands. Mr. Dillenback indicated that responsiveness can be adversely affected by the delay required to obtain legislative authorization. In some cases, it can be an 18-month delay. It can be really difficult for a community to forecast 18 months ahead. In the event of a governmental entity that has exceeded its statutory debt limit, such as the Bloomfield School District, property tax rates could increase due to the inability to secure refinancing in a timely manner.

Proposed Legislation by the NMFA

NMFA staff members presented four additional bills for consideration for endorsement by the committee. In addition to the bill that would remove the requirement that legislative authorization precede PPRF financing, a second bill includes the traditional version of the PPRF that contains the full list of eligible projects and that the committee is used to seeing and endorsing.

A third bill includes an appropriation of $1.8 million from the PPRF to the Drinking Water State Revolving Loan Fund to provide matching funds for federal Safe Drinking Water Act projects and to carry on the purposes of the Drinking Water State Revolving Loan Fund Act.

A fourth bill involves a delegation of bond sale completion authority. NMFA staff stated that the bill could result in increased accountability and provide the ability to complete the bond issuance without the necessity of holding a special meeting and incurring delays and unnecessary additional costs associated with the delays. The bill was endorsed by the committee last interim but did not make it through the legislative process during the session.

A fifth bill for which endorsement was being requested was presented jointly by staff from the NMFA and the Energy Conservation and Management Division of the Energy, Minerals and Natural Resources Department (EMNRD). Mr. Dillenback and Louise Martinez, division director, EMNRD, summarized the provisions of a bill proposed to amend the Energy Efficiency and Renewable Energy Bonding Act. Ms. Martinez indicated that the proposed changes are intended to reduce the time frame during which expenses are fronted from the General Fund. She stated that the bill includes provisions to clarify the manner in which bonds secured by the gross receipts tax are issued. She also indicated that the bill would expand the ability to use funding for higher education institutions. In addition, she stated that the bill would make changes to improve assessments and audits under the Energy Efficiency and Renewable Energy Bonding Act.

In response to a committee member's question, Ms. Martinez clarified that an audit conducted pursuant to the Energy Efficiency and Renewable Energy Bonding Act includes a review of the energy efficiency aspects of a public building. In response to another question, Ms. Martinez stated that school districts, such as the Mountainair Public School District and the Santa Fe Public School District, have benefited from the provisions of the act.

A committee member asked about the manner in which gross receipts tax proceeds are used to finance projects pursuant to the Energy Efficiency and Renewable Energy Bonding Act. Mr. Dillenback explained that a certain amount of gross receipts tax proceeds is earmarked to secure bonds that are issued for energy efficiency measures.

A committee member inquired about how certain guidelines are used to employ energy efficiency measures. Ms. Martinez explained that engineering firms conduct audits to analyze a building's energy usage. Certain factors, including the age of the building and equipment, are considered. An analysis is conducted to determine how energy efficiency improvements can be made. Ms. Martinez stated that different renewable energy sources may be considered to improve energy efficiency, including solar energy, geothermal energy, ground source heat pumps, wind energy and biomass.

Report on Economic Development and Infrastructure in the Border Region

Jerry Pacheco, president and CEO, International Business Accelerator, and president, Border Industrial Association, provided the committee with a report on the status of economic and infrastructure development in the New Mexico/Mexico border region, particularly in the area surrounding Santa Teresa.

Mr. Pacheco stated that Santa Teresa in particular has a strategic advantage in terms of economic development due to its geographical location. He pointed out that it is centrally located on the border between the United States and Mexico and is equidistant between Los Angeles and Houston. He added that the Mexican state of Chihuahua, which neighbors Santa Teresa, is the largest exporter in Mexico, with $45 billion in exports in 2015, and the city of Chihuahua is one of the largest manufacturing hubs in Mexico. Mr. Pacheco said that Santa

Teresa is situated to benefit from changes in global logistics and increased manufacturing growth in the region. He highlighted that New Mexico may be able to benefit from such growth by developing a supply chain for Mexico. Mr. Pacheco indicated that companies such as Union Pacific have taken measures to invest in the Santa Teresa region.

In the Santa Teresa area, there is potential for growth in the manufacturing sector, as several manufacturers in Mexico seek close geographic proximity for production suppliers, said Mr. Pacheco. He described efforts by International Business Accelerator's "Supply the Supplier" program to identify opportunities for New Mexico businesses to act as suppliers for businesses in the border region. He indicated that the automotive and aerospace industries in Mexico could foster additional opportunities for New Mexico businesses.

Mr. Pacheco presented several statistics regarding New Mexico's exports to Mexico. For instance, in 2016, exports to Mexico rose 18%, to $457 billion. He noted that although New Mexico's total exports to Mexico are lower than exports of other border states, the rate of growth of New Mexico's exports is outpacing the rate of export growth in neighboring states. Mr. Pacheco said that since 2007, New Mexico's exports to Mexico have increased by almost 350%.

Mr. Pacheco provided the committee with a categorical list of New Mexico's leading exports to Mexico, with computer and electronic projects at the top of the list. Mr. Pacheco also provided the committee with statistics on the relative percentages of exports to Mexico from Albuquerque and Santa Teresa. He indicated that Albuquerque accounts for 48.3% of New Mexico's total exports to Mexico, while Santa Teresa accounts for 43.7%. He predicted that Santa Teresa has the potential to act as the state's major export base to Mexico by the end of 2016. Mr. Pacheco said that job creation has followed increased export activity and that 4,354 industrial-sector jobs now exist in the Santa Teresa region.

Mr. Pacheco provided the committee with a chart showing the relative funding levels for various ports of entry and statistics on commercial vehicle crossings at those ports of entry. He indicated that the funding levels at the Santa Teresa port of entry are relatively low compared to other ports of entry with fewer commercial vehicle crossings.

Mr. Pacheco described various facilities established by different companies in the Santa Teresa region. He specifically mentioned facilities established by FedEx Ground and by Valley Cold Storage and Transportation and investments by other companies, such as Union Pacific. He mentioned that 12 companies have been recruited to the Santa Teresa region as the result of the expansion of an overweight cargo zone in that area. He also informed the committee that in 2013, the governments of New Mexico and Chihuahua signed a bilateral agreement to facilitate economic development of their respective border states by consolidating a new industrial anchor to boost the regional economy at the Santa Teresa port of entry.

In response to a question from a committee member, Mr. Pacheco indicated that he is working to help obtain additional funding for the Santa Teresa port of entry. In response to another question, Mr. Pacheco described the different types of and requirements for vehicles that cross the border at the overweight-cargo zone near Santa Teresa.

A committee member asked about how many of the industrial jobs created in the Santa Teresa region are attributable to New Mexico. He indicated that about 60% of the jobs created are attributable to Texas, while 40% are attributable to New Mexico. He indicated that efforts are being made to increase the percentage of jobs attributable to New Mexico, but due to the population base and specialized skill set also available in Texas, a significant portion of the job distribution would likely continue to be attributable to Texas.

Mr. Pacheco and committee members subsequently discussed how growth in the Santa Teresa region may provide opportunities for expansion of businesses in other regions of New Mexico. A committee member asked whether violence in the Juarez region has had any impact upon industrial growth in the Santa Teresa region. Mr. Pacheco indicated that it has had almost no effect on industrial growth in that region and, in fact, that the rate of growth increased. Mr. Pacheco and committee members also briefly discussed the progress of a rail bypass project in the Juarez region.

A committee member commented that for the Santa Teresa region, certain financing opportunities for infrastructure, such as use of bonding capacity, could be explored. Mr. Pacheco indicated that options for infrastructure investment are being explored. He suggested that approval by federal government agencies could play a key role in infrastructure development in the region.

Adjournment

The committee adjourned at 3:27 p.m.