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

September 20-21, 2016
New Mexico State University Golf Course Clubhouse
3000 Herb Wimberly Drive
Las Cruces

The fourth meeting of the New Mexico Finance Authority (NMFA) Oversight Committee was called to order by Representative Jane E. Powdrell-Culbert, vice chair, on September 20, 2016 at 9:30 a.m. in the New Mexico State University Golf Course Clubhouse in Las Cruces, New Mexico.

Present
Rep. Jane E. Powdrell-Culbert, Vice Chair
Rep. Sharon Clahchischillage
Sen. Lee S. Cotter
Rep. Candy Spence Ezzell
Rep. Bealquin Bill Gomez
Sen. Ron Griggs
Rep. Dona G. Irwin (9/20)
Rep. Idalia Lechuga-Tena
Sen. Richard C. Martinez
Rep. Andy Nunez (9/21)
Sen. Michael Padilla (9/21)
Rep. Patricio Ruiloba
Rep. Tomás E. Salazar*
Sen. William P. Soules

Absent
Sen. Joseph Cervantes, Chair
Rep. David E. Adkins
Rep. Patricia A. Lundstrom
Sen. Nancy Rodriguez
Rep. Patricia Roybal Caballero
Sen. John C. Ryan
Rep. Monica Youngblood

Advisory Members
Rep. Alonzo Baldonado (9/20)
Rep. Kelly K. Fajardo (9/20)
Sen. Mary Kay Papen
Sen. John Pinto
Rep. Debbie A. Rodella
Rep. Sheryl Williams Stapleton (9/20)

Sen. Jacob R. Candelaria
Rep. George Dodge, Jr.
Rep. Brian Egolf
Rep. Roberto "Bobby" J. Gonzales
Sen. Stuart Ingle
Rep. Sarah Maestas Barnes
Sen. Bill B. O'Neill
Sen. William H. Payne
Sen. Clemente Sanchez
Rep. Don L. Tripp

(Attendance dates are noted for members who did not attend the entire meeting.)

Guest Legislator
Rep. Eliseo Lee Alcon

***Membership Note**

Representative Salazar was appointed a voting member for this meeting.

Staff
Lisa Sullivan, Staff Attorney, Legislative Council Service (LCS)
Jeff Eaton, Research and Fiscal Policy Analyst, LCS
Anna Martin, Intern, LCS

Guests

The guest list is in the meeting file.

Handouts

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

Tuesday, September 20

Welcome and Introductions

Representative Powdrell-Culbert welcomed everyone to Las Cruces and asked members of the committee and staff to introduce themselves.

Garrey Carruthers, chancellor and president, New Mexico State University (NMSU), welcomed the committee and gave a general update on NMSU enrollment and development. After years of decreased enrollment, NMSU freshman student enrollment is up again this year. NMSU has created the "Aggie Pathway", a program that allows students who were not admitted to NMSU to begin their post-secondary education at a local community college and transition to NMSU to finish a four-year degree. Additionally, in an effort to accommodate budget cuts and reorganization, NMSU is focusing on five initiatives: organization and span of control, administrative assistance coverage ratios, information technology service delivery consolidation, centralization of finance service delivery and identifying cost-effective purchasing vendors. Lastly, NMSU is focused on utilizing outside funding to develop real estate projects, such as the development of a new hotel that will serve the Las Cruces Convention Center and students studying hotel management; a potential new retirement community near the NMSU golf course called "Aggie Uptown", which would provide commercial space, medical care and residential services; and a future "Heritage Farm" that would produce pecans, chile and wine grapes and operate a craft brewery and winery.

Diana Murillo Trujillo, mayor, City of Anthony, gave an update on the city's progress since its official incorporation in 2010. Mayor Murillo Trujillo outlined the city's five main development priorities: public services, including street lighting, road improvement and flood control infrastructure; healthy schools and communities, including youth programs and senior center development; public safety, including expansion of the police and fire departments; affordable housing development; and economic development, including business creation and possible annexation of nearby land. The city has received funding for these projects from various sources, including capital outlay funds, the NMFA, colonias funds, a Local Economic Development Act grant and community development block grants.

In response to committee members' comments, Chancellor Carruthers stated the following:

(1) the Aggie Uptown real estate proposal will be a public-private partnership; and

(2) NMSU has reduced its unrestricted expenditures by $32 million in the past three years and has worked at the department and dean level to eliminate 126 employee positions, of which 36 were previously filled. If asked to make additional budget cuts, NMSU likely would have to eliminate programs.

In response to committee members' questions, Mayor Murillo Trujillo discussed the following.

(1) The Town of Anthony, Texas, is an older town across the state line at Antonio Street, with a population of approximately 4,000 people. Anthony, Texas, hosts most of the businesses because it is a longer-established community. Anthony, New Mexico, with approximately 9,400 people living in four square miles, is working on securing funding for further business development.

(2) The schools in Anthony, New Mexico, are highly rated and rank as some of the best schools in the surrounding area.

(3) In addition to the mayor being a woman, all of the city councilors and the local judge are women.

(4) While Anthony, New Mexico, does not have a hospital, there are plans to develop a small urgent care clinic in the future.

Energy Efficiency and Renewable Energy Bonding Act

Robert P. Coalter and Zach Dillenback, chief executive officer and chief lending officer, respectively, NMFA, gave an overview of the Energy Efficiency and Renewable Energy Bonding Act, which makes funds available to public schools and state agencies for energy-savings measures to help control and reduce energy usage. Mr. Dillenback described the energy audit process and the secondary Energy, Minerals and Natural Resources Department energy assessment that will qualify the agency for the bond. He also outlined the framework for which agencies can access this funding to implement these energy-savings measures and eventually use savings to pay for these measures. Since the act was authorized by the New Mexico Legislature in 2005, four bonds to date have been issued under the program for the Cultural Affairs Department, the Socorro Consolidated School District, the Mountainair Public School District and the Santa Fe Public School District.

Mr. Dillenback highlighted the Santa Fe Public School District conservation program, a project aimed at reducing energy and water use, conserving resources and modeling environmental stewardship for students and the community. Now in the fifth year of the program, the school district has reduced its energy usage by 10.5%, natural gas usage by 24% and water usage by 42%. The school district reduced overall consumption patterns while also installing solar panel systems, which will eventually produce 65% of Santa Fe High School's electricity and 31% of the Ramirez Thomas Elementary School's electricity.

Upon a request for improvement recommendations from the NMFA board of directors, staff presented to the committee a working bill draft that suggests changes to the act. Some of these proposed changes include: expanding the program to include higher education institutions; clarifying the energy assessment process and the roles of stakeholders in the bond certification; and shortening the duration of time the General Fund needs to recuperate.

In response to members' questions, Mr. Coalter and Mr. Dillenback noted that:

(1) the future total cost savings for the Santa Fe Public School District will be about $200,000 per year;

(2) under the proposed changes to the act, public universities and state agencies, such as the Corrections Department, would be eligible for this program;

(3) the NMFA works with schools and state agencies to first address building infrastructure updates to prevent energy leakage from the building and then to create an appropriately sized renewable energy system that fits the needs of the agency and takes into account the available land and layout for the energy-saving systems;

(4) often, an agency will not go forward with this project because it lacks the initial capital to pay for the energy audit;

(5) while the renewable energy systems may have long-term warranties, the current act does not address replacement of equipment;

(6) all four bond issuances to date have been made through the Public Project Revolving Fund, and while interest rates are market-driven, once the bond has been issued, the interest rates became fixed; and

(7) while the governmental gross receipts tax is used as the initial jump-start capital for the bonds, bonds are ultimately repaid through funds deducted from the borrowing entity's operational budget.

Minutes

On a motion duly made and seconded and unanimously adopted, the minutes from the July meeting were approved. On a second motion duly made and seconded and unanimously adopted, the minutes from the August meeting were approved.

Water Trust Board (WTB) Update

Marquita D. Russel, chief of programs, NMFA, gave an update on the 2017 WTB project application process. The WTB, responsible for recommending to the legislature and the NMFA water projects to be funded by the Water Project Fund, implemented the application changes and deadlines for the 2016-2017 year. The WTB held training sessions throughout the state on the new online application system and policy changes. New to the application process is the requirement for applicants to fill out a notice of intent (NOI), so that the WTB can begin vetting applications early, determine applicant readiness, identify urgent projects and begin providing early feedback to applicants. As of the August 26 deadline, 80 NOIs were filed for projects related to flood prevention, watershed restoration, water conservation, water treatment and water storage. After the final project application due date in October, the WTB will evaluate the projects to present to the legislature for approval and authorization to move forward with project funding.

In response to members' questions, Ms. Russel responded that:

(1) entities often choose not to apply for WTB funding due to the high level of application requirements and, instead, apply for other funding through the United States Department of Agriculture or the colonias funds, which have simpler application processes;

(2) in order to apply for WTB funding, the applicant needs to be a legal entity of some sort, such as a mutual domestic; if the applicant is an unincorporated area, it would likely need to apply through the county;

(3) with the new online application process, an authorized officer is designated as an official representative of each applicant and can help with application logistics;

(4) the WTB prioritizes project funding by assessing the health and safety of the applicant's community; and

(5) the Water Trust Fund is funded through distributions made from senior severance tax bond proceeds; the Water Trust Fund is subject to having appropriations swept from the fund.

Lower Rio Grande Public Water Works Authority (LRGPWWA) Report

Martin Lopez and Karen Nichols, general manager and projects manager respectively, LRGPWWA, presented to the committee an overview of the LRGPWWA and proposed revisions to Section 73-26-1 NMSA 1978. Enacted in 2009 through House Bill 185, the LRGPWWA now consists of eight mutual domestic associations and has over $40 billion in project funds. Through its regionalization efforts and its formation of a regional authority, the LRGPWWA has seen benefits such as adequate staffing capabilities, lower duplicated expenses, more in-house functions, more efficient use of staff and equipment and the ability for the board to focus on governance rather than management operations.

The LRGPWWA staff members provided the committee with a draft of proposed legislation they prepared. Their draft outlines two proposed changes to the authority's founding legislation. The first proposed change is a modification of the current requirement that water rights be combined and commingled with merging entities in every instance. It would be more beneficial, the LRGPWWA staff reported, if water rights were required to be combined and commingled only when the service area of a merging entity is contiguous with the LRGPWWA's service area. The second proposed change is the addition of a provision to allow the LRGPWWA to implement liens for unpaid water bills. The staff explained that while lien filing is a rare, last resort, it will ensure that the LRGPWWA can collect what is owed if and when the property is sold. Please see the discussion draft handout, posted online at www.nmlegis.gov, for further details on proposed changes to current law.

On questioning, Mr. Lopez, Ms. Nichols and committee members discussed the following:

(1) while the proposed lien provision was copied from the Municipal Code, the language for the LRGPWWA can be made more definitive, such as changing "may" to "shall";
(2) the LRGPWWA participates in statewide discussions about water quality and pollution prevention;
(3) the LRGPWWA's water supply is the lower Rio Grande Basin;
(4) under the statute, the LRGPWWA is not required to have membership meetings, and membership is limited to property owners and people who have received service from the authority;
(5) the authority's board of directors goes through an election process handled by Dona Ana County;
(6) the authority does not have anything currently in place that limits a customer's access to water, although water use is more expensive with higher levels of usage; and
(7) the property owner is ultimately responsible for the water count on the property; the authority works with landowners and renters to determine who will be billed for water use and the deposit.

New Markets Tax Credit (NMTC) Program and La Clinica de Familia Project

Ms. Russel gave an overview of the NMTC Program. Created as part of the federal Community Renewal Tax Relief Act of 2000, this federal tax program allows community development entities (CDEs) to apply for the program and, in turn, invest the NMTCs into qualifying projects that focus on business creation, community facilities development and commercial real estate. The purpose of the NMTC Program is to bring new investment capital to low-income communities, which are defined by the U.S. Census Bureau as having at least 20% of the population living in poverty.

After a 2006 legislative authorization for the NMFA to participate in NMTCs, the NMFA developed Finance New Mexico, LLC (FNM), a limited liability company that is a qualified CDE. The NMFA controls the operation and management of FNM and its subsidiary CDEs. FNM's participation in the NMTC program enables FNM to generate capital that will lend directly to qualified businesses in low-income and underserved areas in New Mexico. FNM's NMTC Program is governed and overseen by the Economic Development Department, the NMFA advisory board and FNM's own advisory board.

The NMTC Program utilizes an economic impact criteria point-system formula to prioritize applications. To qualify for the NMTC Program, the project must demonstrate the following criteria: foreseen community impact and support; financial viability and project readiness; job creation within the community; business location in eligible areas; potential economic exports; and new capital investment. If the project meets a certain percentage of these criteria and is approved by all of FNM's governing and advisory boards, it will qualify to begin the NMTC transaction with FNM. While the NMTC Program is not a grant program, it functions as a flexible debt program. NMTC loans are combined with other sources of funding that are secured by the applicant and managed by FNM. Please see the NMTC handout for more information regarding the basic NMTC structure and the roles of the qualified organization, the investors, the leverage lenders and FNM.

Ms. Russel invited Suzan Martinez de Gonzales and Eileen McKean, chief executive officer and chief financial officer, respectively, La Clinica de Familia (LCDF), to share their experience with LCDF as a qualified business approved to participate in the NMTC Program. Ms. Martinez de Gonzales gave an overview of LCDF's new renovation project for the Las Cruces Central Cervantes Complex, a center funded in part by the NMTC Program, that will provide primary health, dental and behavioral health care services in the community. LCDF, a federally qualified health center and one of the largest providers of medical, dental and behavioral health care in Dona Ana County, expects that this new center will increase service delivery, employ an additional 144 employees, facilitate partnerships with other medical centers and academic institutions and provide comprehensive care to historically medically underserved areas of Las Cruces.

Ms. Martinez de Gonzales and Ms. Russel outlined for the committee how LCDF went through the NMTC process to fund this project, explaining that with a substantial loan from Citizens Bank and a substantial investment by U.S. Bancorp Community Development Corporation, FNM was able to facilitate the NMTC process to secure funding for the new LCDF medical center. Ms. Martinez de Gonzales explained that FNM and its financial advisors have provided significant support and consultation throughout the application, lending and "unwinding" process of the loan program. Ms. Russel concluded the presentation by outlining other current FNM NMTC programs throughout the state.

In response to members' comments and questions, Ms. Russel, Ms. Martinez de Gonzales and Ms. McKean noted that:

(1) businesses that apply for the NMTC Program must score at least a 70% on the economic impact criteria to qualify for FNM assistance;

(2) the NMFA advisory board designates the FNM advisory board members;

(3) while FNM looks at various factors of eligibility for the NMTC Program, such as businesses located in empowerment zones, colonias and other severely distressed areas, the primary factor for credibility is to bring new investment capital to communities with at least 20% of their residents living in poverty;

(4) financial advisors to businesses navigating the NMTC application process do not receive compensation until all tax credits have been received by investors;

(5) going through the NMTC application process is daunting, and LCDF "got a ton of financial advice";

(6) LCDF offers primary care, dental, behavioral health and substance abuse services and plans to partner with local hospitals to provide long-term inpatient behavioral health services;

(7) LCDF is working with NMSU and the Burrell College of Osteopathic Medicine to provide residency programs and internships for students; currently, six or eight psychiatry resident positions are available at LCDF; LCDF is not quite ready yet to provide family practice resident positions but hopes to do so in the future; and

(8) the NMFA NMTC handout provides further details of how businesses, lenders and investors may successfully "unwind" out of the loan process.

Recess

The committee recessed at 2:40 p.m.

Wednesday, September 21

Reconvene

The second day of the meeting was reconvened at 9:30 a.m.

Spaceport Authority (SA) Budget and Funding Request; Economic Development Plans; Current Revenues and Potential Revenues Forecast; Reports on the Welcome Center and Progress on the Southern Access Road

Richard Holdridge, chair, board of directors, SA, introduced the Spaceport America management team and explained that the newly hired Spaceport America director will be announced imminently.

Tammara Anderton, vice president of business development, SA, gave a general update on the status of Spaceport America, explaining that new business in fiscal year (FY) 2016 grew by 135%, with $2.3 million generated in customer revenue and 50 new full-time jobs created. While Spaceport America focuses on both aerospace and non-aerospace business development, its main aerospace activities include participating in the Commercial Spaceflight Federation, working with NMSU and the United States Army's White Sands Missile Range (WSMR) on unmanned aerial vehicle testing, partnering with MARS Scientific to lead work on long-range telescopic tracking and imaging, working with partners on International Space Station projects and continuing to launch events promoting its aerospace endeavors. Furthermore, in partnership with WSMR, Spaceport America offers 6,000 square miles of restricted airspace to its customers — Virgin Galactic, SpaceX, UP Aerospace, EXOS Aerospace, Vanilla Aircraft, Boeing and others — to continuously test and develop new technology.

Ms. Anderton also outlined Spaceport America's non-aerospace segments, such as tourism, merchandise, sponsoring, films, photo shoots, sporting events, corporate events and more. After showing various promotional videos for Spaceport America, Ms. Anderton also showed the committee a movie trailer and commercial recently filmed at the site. Spaceport America offers ongoing educational programs for school groups and will be hosting various upcoming events, including an annual Spaceport America Drone Summit, a relay race, a rocket engineering competition and other events that will be open to the public and Spaceport America customers to encourage visitors to go to Spaceport America. Ms. Anderton wrapped up her presentation by highlighting positive television and social media coverage of Spaceport America, which constitutes free advertising.

Bill Gutman, vice president of aerospace operations, SA, gave an overview of Spaceport America's aerospace accomplishments. Spaceport America is located on 18,000 acres of sparsely populated WSMR land with 6,000 square miles of restricted airspace overhead. Due to the vast amount of space, the private location and the temperate New Mexico weather, Mr. Gutman explained that Spaceport America provides an ideal location for aerospace customers to continuously fly, test and develop new products. Furthermore, Spaceport America is one of the only U.S. commercial spaceports with consistent, ongoing operations and paying customers. Mr. Gutman outlined Spaceport America's customers' recent successful test flights and ongoing progress for offering commercial space flights by FY 2018.

Chris Lopez, vice president of site operations, SA, gave an update on Spaceport America's ground operations, explaining that it operates as a miniature city with its own electrical grid, information technology infrastructure, 24/7 fire and medical teams, customer service and other amenities that make Spaceport America attractive to potential aerospace and non-aerospace customers. With the development of the security and fire emergency team, Spaceport America employs a cross-trained staff that provides emergency ambulatory, safety, fire and medical services on-site and in nearby communities. Mr. Lopez also gave an update on the development of the Southern Road, a 24-mile stretch of dirt road that connects Spaceport America to Las Cruces. Beginning in April 2017, Spaceport America will begin construction to pave and weatherize the Southern Road to allow easier access to the site for commercial customers and nearby residents.

Zach De Gregorio, chief financial officer, SA, provided a financial overview of Spaceport America operations. While in FY 2017 Spaceport America will be 71% self-funded and 29% funded by the General Fund, it anticipates that operations will be 100% self-funded in FY 2019 due to increased customer activities. The projected FY 2017 budget relies on the assumptions that Virgin Galactic will continue to test flights in anticipation of beginning commercial flights, new aerospace tenants will also begin flight operations, SA will continue to host four annual events per year and SA will sign on additional aerospace customers. Furthermore, Spaceport America will utilize $14 million in severance tax bonds to begin funding the Southern Road project.

Mr. De Gregorio concluded the presentation with an overview of Spaceport America's economic development impact for New Mexico. Using a conservative economic development model, Spaceport America calculates that every dollar invested in Spaceport America has a 20-fold return. By the end of FY 2016, aerospace customers will have spent $11 million; film and commercial shoots will have spent $1.1 million; and tour operations will have spent $1 million. Please refer to the Spaceport America handout for further details on the operation's estimated economic development impact.

During a dialogue with members, Mr. Holdridge, Ms. Anderton, Mr. Gutman, Mr. Lopez and Mr. De Gregorio discussed the following.

(1) Spaceport America's budget assumptions rely heavily on development from Virgin Galactic as well as Virgin Galactic's rent increase from $1 million to $3 million beginning in FY 2018.

(2) In response to a member's comment that there is a lot of uncertainty in the revenue projections, SA staff responded that Spaceport America utilizes the Economic Development Department's "conservative economic model" to determine its economic development impact in the state, accounting for a range of investment and earnings scenarios.

(3) The SA staff believes Spaceport America will remain competitive due to its unique location that offers 6,000 square miles of restricted airspace and privacy for development, its ongoing operational missions, its willingness to partner with other spaceports and the overall lack of other operational U.S. spaceports; the SA staff expects some of the other spaceports with low to no activity to consolidate.

(4) The term "restricted airspace" means that all types of airplanes are forbidden to fly in the area except those with U.S. Department of Defense permission, which Spaceport America has.

(5) When SA staff say that Spaceport America will be 100% self-funded in FY 2019, they mean that they will not request a General Fund appropriation for their FY 2019 operational budget.

(6) Spaceport America will continue to need the approximately $6 million per year in gross receipts revenues received from Dona Ana and Sierra counties in order to meet bond debt obligations.

(7) A member noted that the 160 acres of Spaceport America land that was fenced at the cost to taxpayers of $2 million should have cost only $28,000.

(8) In response to a member's concern that the first visitor center opened in Truth or Consequences, despite the Village of Hatch having offered four possible sites on which to locate the visitor center, SA staff members responded that Spaceport America still plans to open a second visitors center in Hatch.

(9) In order to bring in additional revenue from tourism to Spaceport America, it is working on planning pre-events and post-events in nearby counties to bring tourists to other parts of New Mexico.

(10) Spaceport America hosts Ted Turner Expeditions, where guides lead guests on outdoor excursions to observe threatened species and participate in digs and other activities.

(11) There will be four to seven additional vertical launches between now and the end of 2016 and 11 helium balloon launches within the next 18 months.

(12) SA staff foresees being asked to serve as consultants to other spaceports.

(13) The legislature and the public would like to see increased aerospace activities and increased transparency on future budget and activity reports.

Adjournment

Representative Powdrell-Culbert reminded the committee members about the next meeting in two weeks in Santa Fe. There being no further business before the committee, the meeting adjourned at 11:40 a.m.